



New perspectives

EU Pork Industry on
Threshold of Changes

14 December 2011

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Rabobank International

What is Rabobank International?



- **Rabobank** is the largest financial services provider in the Netherlands
- **Rabobank** is the world's safest bank outside government ownership, awarded by rating agencies Moody's, Standard & Poor's, Fitch and DBRS
- **Rabobank** has an exclusive and unique food & agri business focus outside the Netherlands
- **Rabobank** has a global network of dedicated research professionals specialising in food and agri business



Food & Agribusiness Research

Global network, local F&A expertise



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Challenging Times in Processed Food
 Dealing with Agricultural Commodity Price Inflation

North American Food & Agribusiness Outlook
 2009

Outlook 2012—Down, But Not Out
 Agri Commodity Markets Research

Feeding the Dragon
 Opportunities for Australian Meat in China

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- 3 Opportunities for Australian Meat Exports
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Introduction

With its massive population, surging income and rapid urbanization, China has grown to become one of the world's largest markets for food, including beef and sheepmeat. Demand for both is set to continue rising over the upcoming decade at the same time, food producers are facing pressure on production growth, leading to an increase in opportunities for exports to the market. However, while the Chinese market offers opportunities, it can also be volatile. Australian exporters will not only face competition from a range of supplying countries, but also the possibility of changes in Chinese government policy, changes which can make or break markets almost overnight.

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Animal Protein



Beverages



Clean Tech



Dairy



Farm Inputs



Food



Fruit, Veg & Flowers



Grains & Oilseeds



Non-food



Sugar, Cotton, Coffee & Cocoa

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Global pork developments

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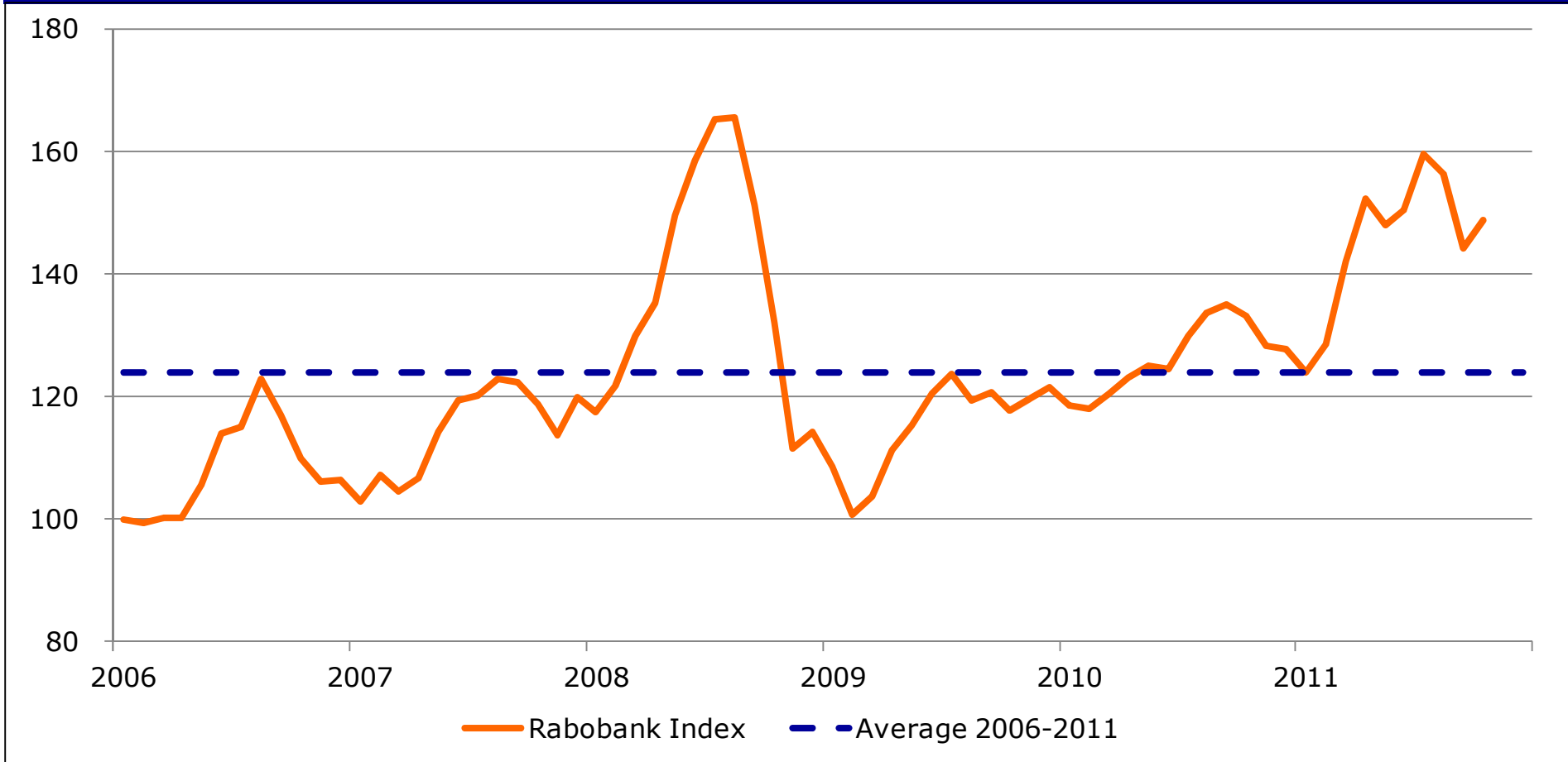
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Implications for the European meat industry

The global pork industry has followed a rollercoaster ride in the last years

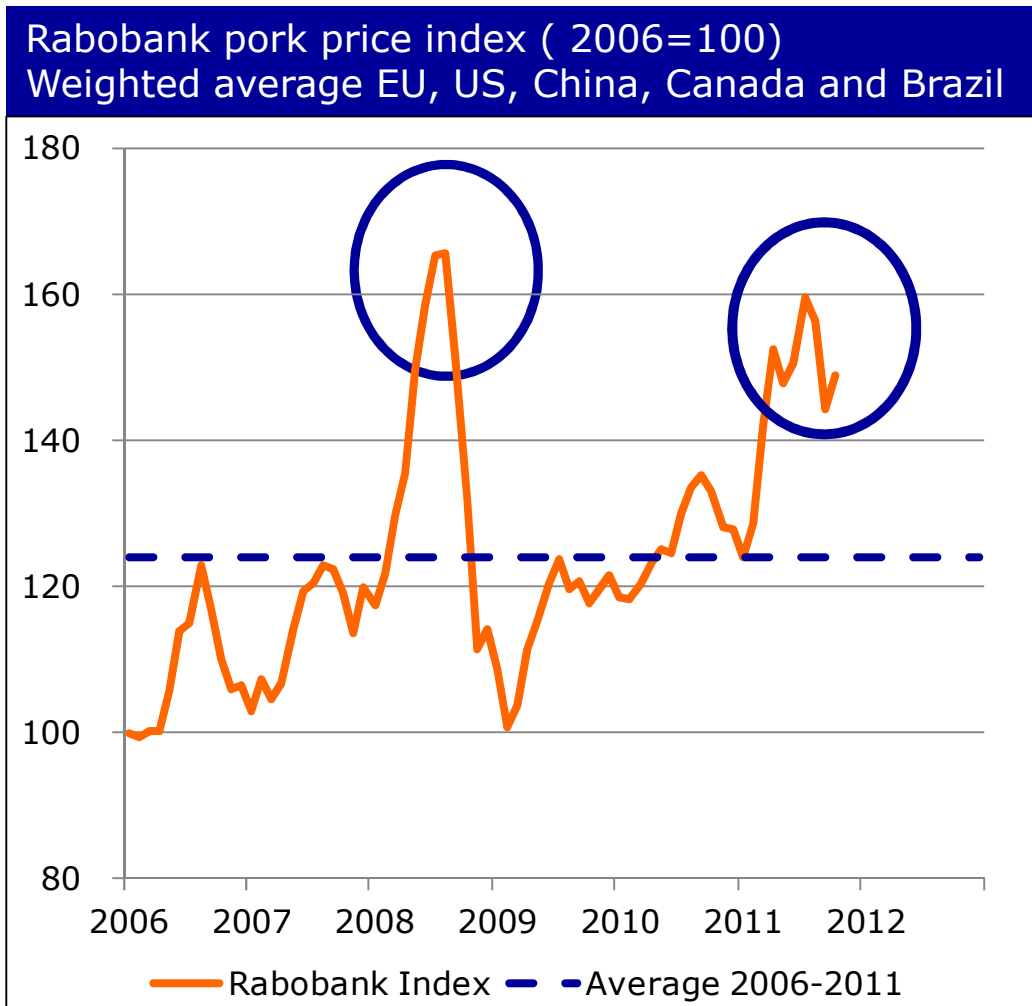


Rabobank pork price index (2006=100; Average slaughtered pork prices (CWE) weighed by share of global exports US, EU, Brazil, Canada and China)



Source: Rabobank, European Commission, USDA, Abipecs, CAAA, 2011

Currently the main question is: Will 2009 be repeated in 2012?



2008, 2011

- Chinese pork prices, imports surged
- China implementing subsidies
- Economic crisis looming

2009

- Imports China declined (-62%)
- Economic crisis pressured pork demand
- Pork prices and export plummeted

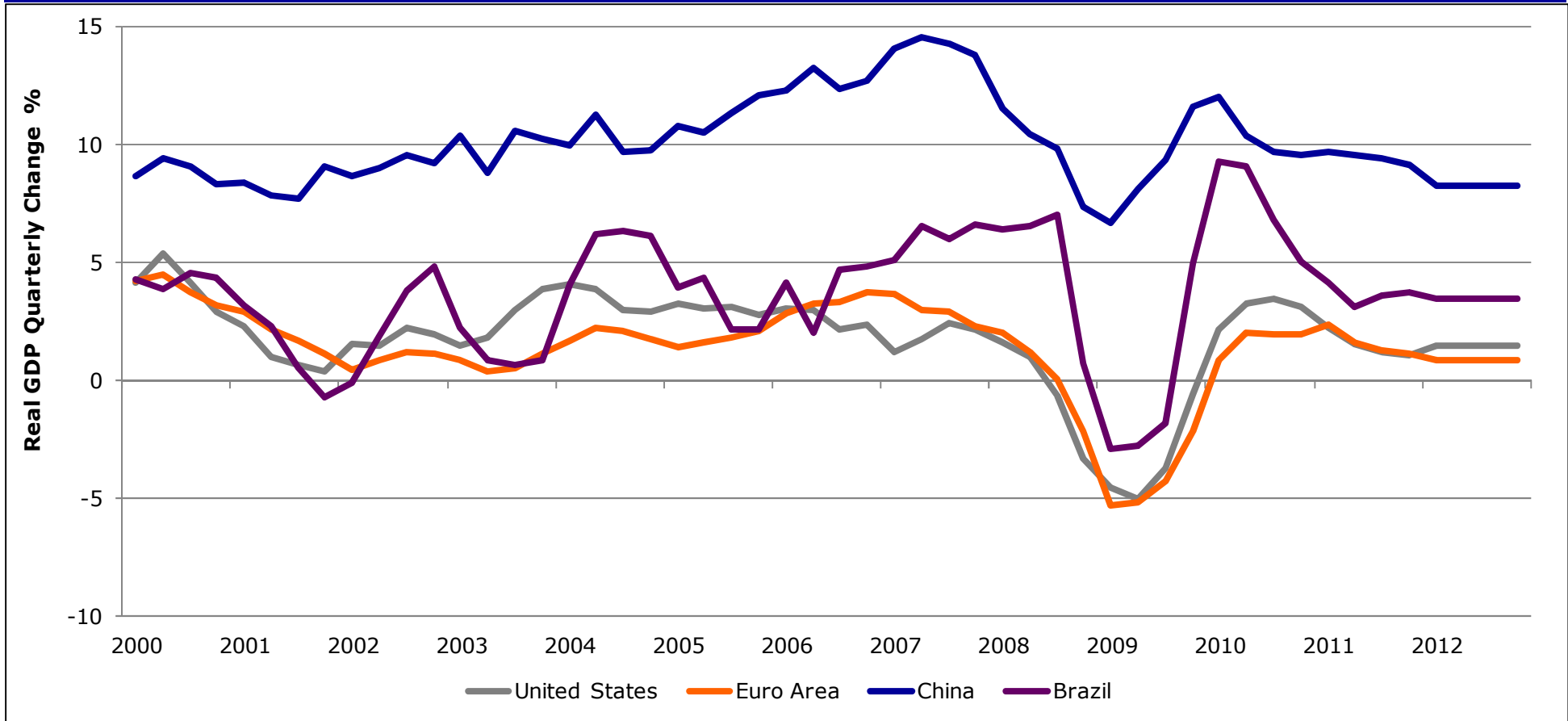
2012?

Slowing economy will impact meat demand

- EU and US: Stagnant growth prospects
- Emerging markets: resilient but weaker



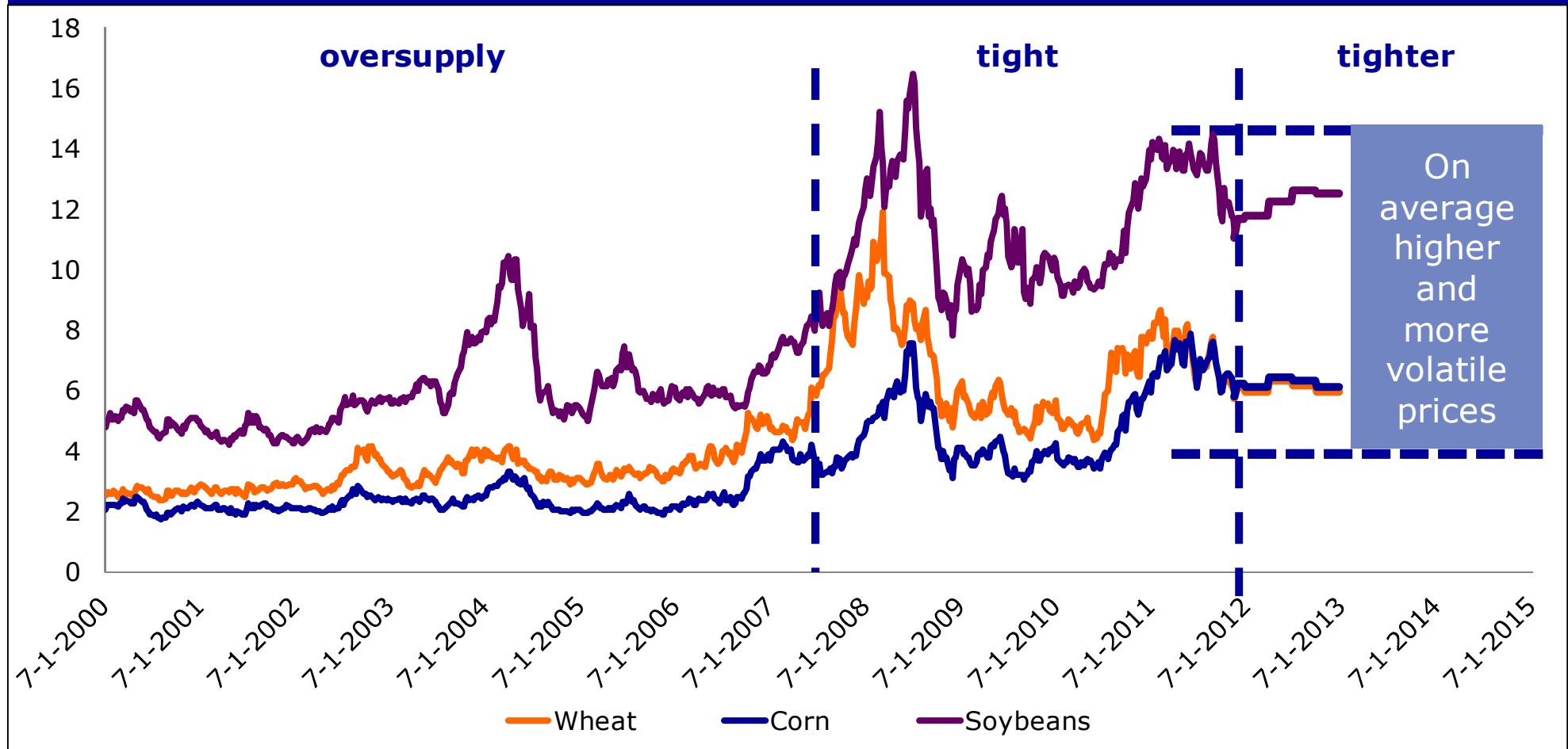
Rabobank's GDP quarterly growth estimates and forecasts, Q1 2000-Q3-2012



Feed costs remain high and volatile



Rabobank's soft commodities price development and forecast Q1 2000-Q4-2012 (USD/bu)



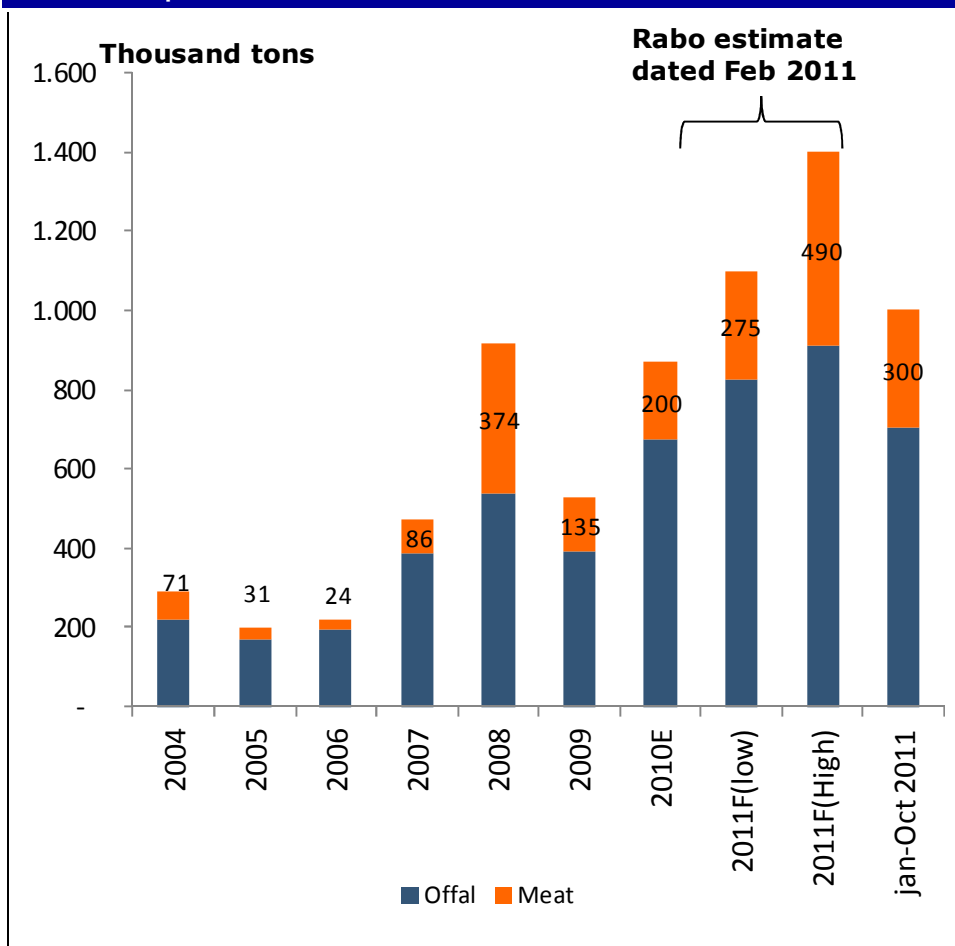
Source: Bloomberg, 2011



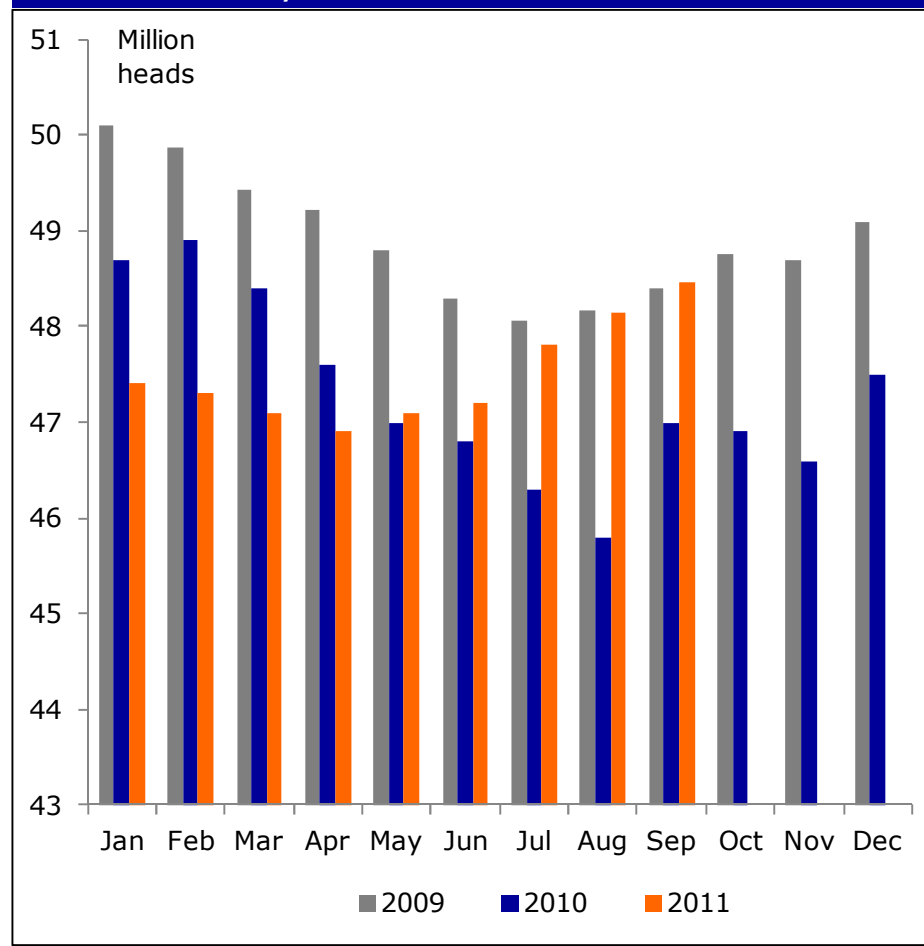
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Pork industry China starting up the next expansion phase

Pork imports China

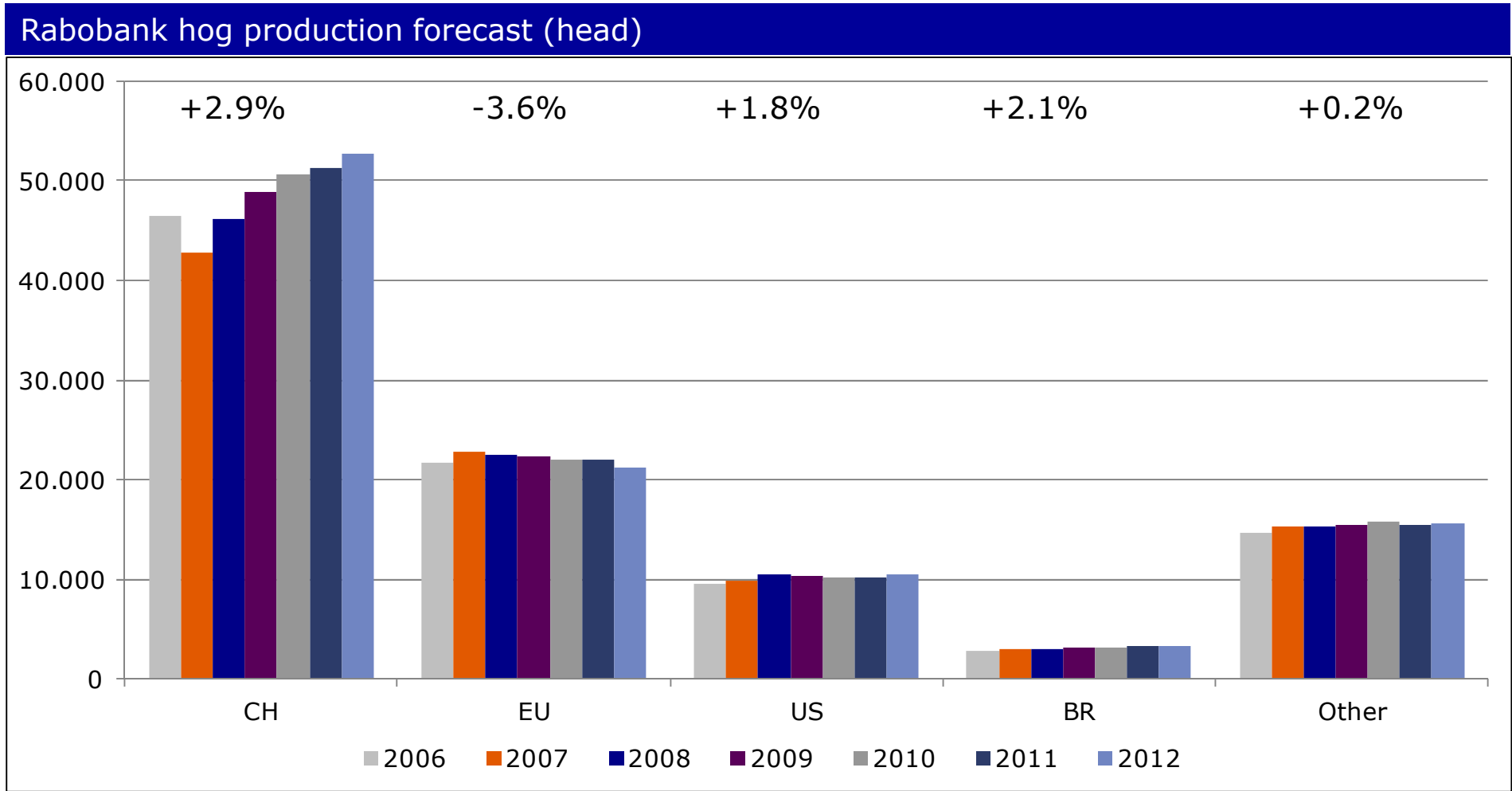


Sow inventory China



Source: UN Comtrade, BOABC, MOA, 2011

Rabobank 2012 production forecast: +1.0%



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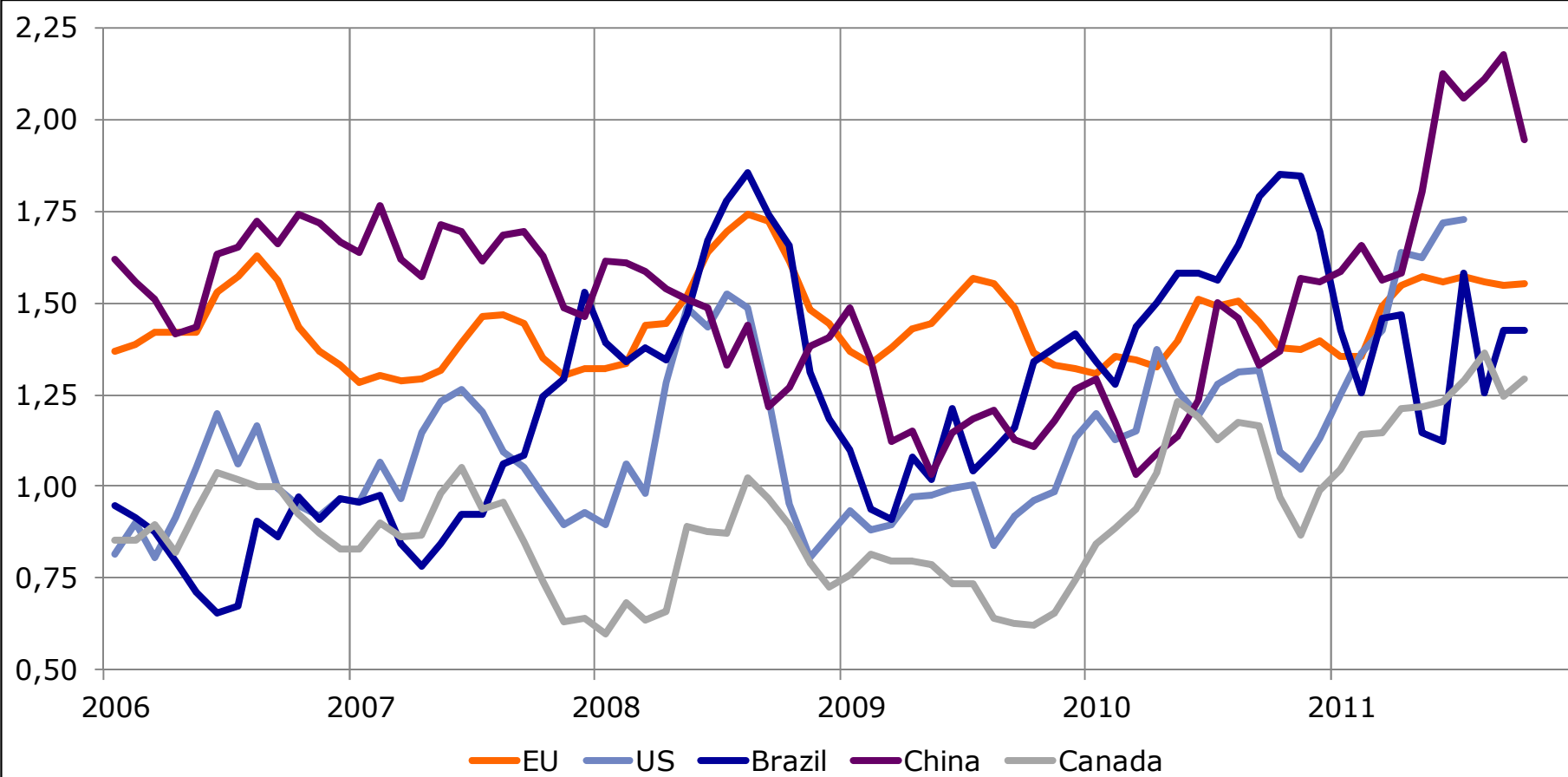
Implications for the European meat industry

EU not able to profit from the better profitability globally



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Pork prices selected countries (EUR per kg)



Source: Rabobank based on USDA, Bloomberg, Eurostat, Cepa, Agri Food Canada, 2011

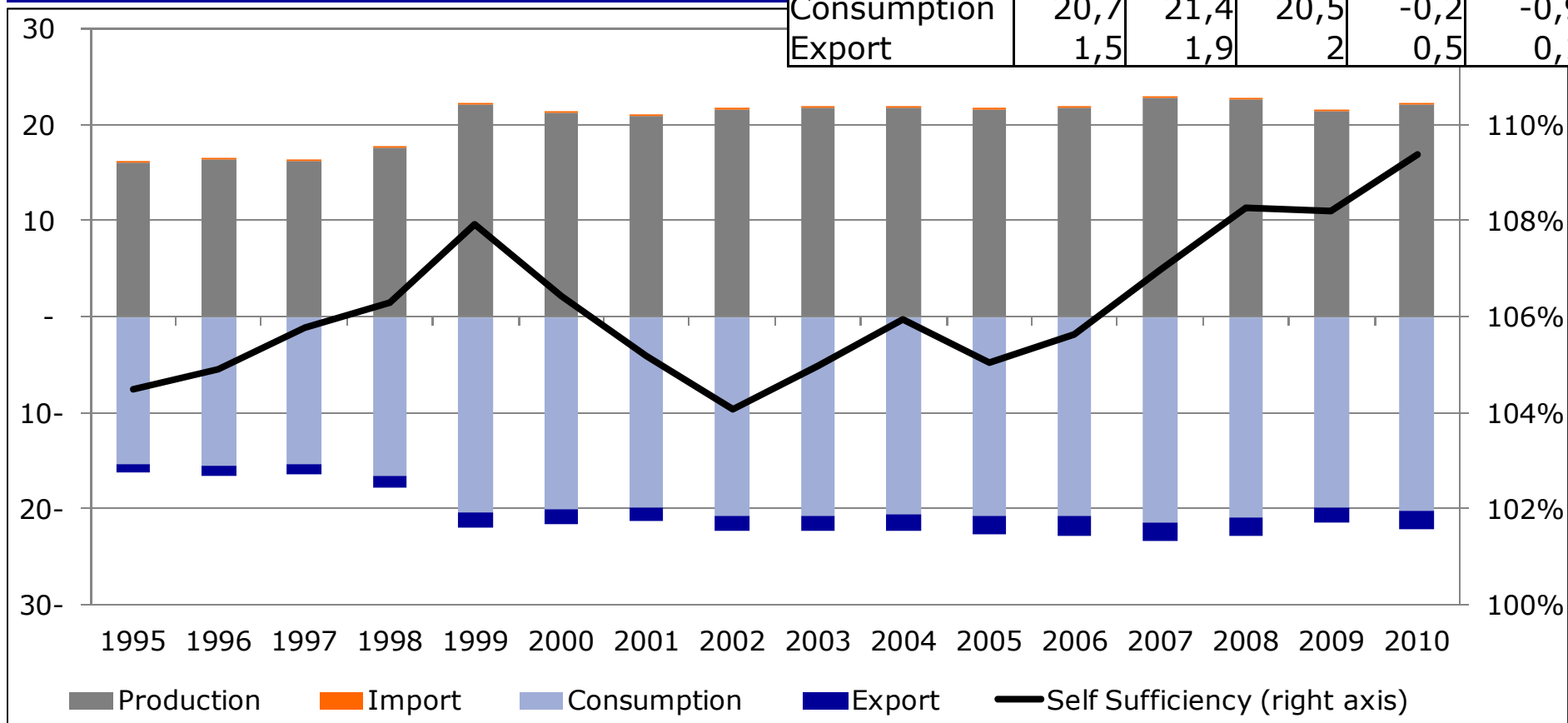


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Main reason is the increase of self sufficiency

EU Pork balance (1,000 ton, self sufficiency %)

	2002	2007	2011f	11-02	11-07
Production	21,5	22,9	22,5	1,0	-0,4
Import	0,1	0,3	0,2	0,1	-0,1
Consumption	20,7	21,4	20,5	-0,2	-0,9
Export	1,5	1,9	2	0,5	0,1



Bron: Eurostat, 2011

European pork industry at crossroads for protection international position



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Threats

- Cost price increase 2013
- Russia self-sufficient at around 2020
- Pork import (Mercosur, WTO)

Opportunities

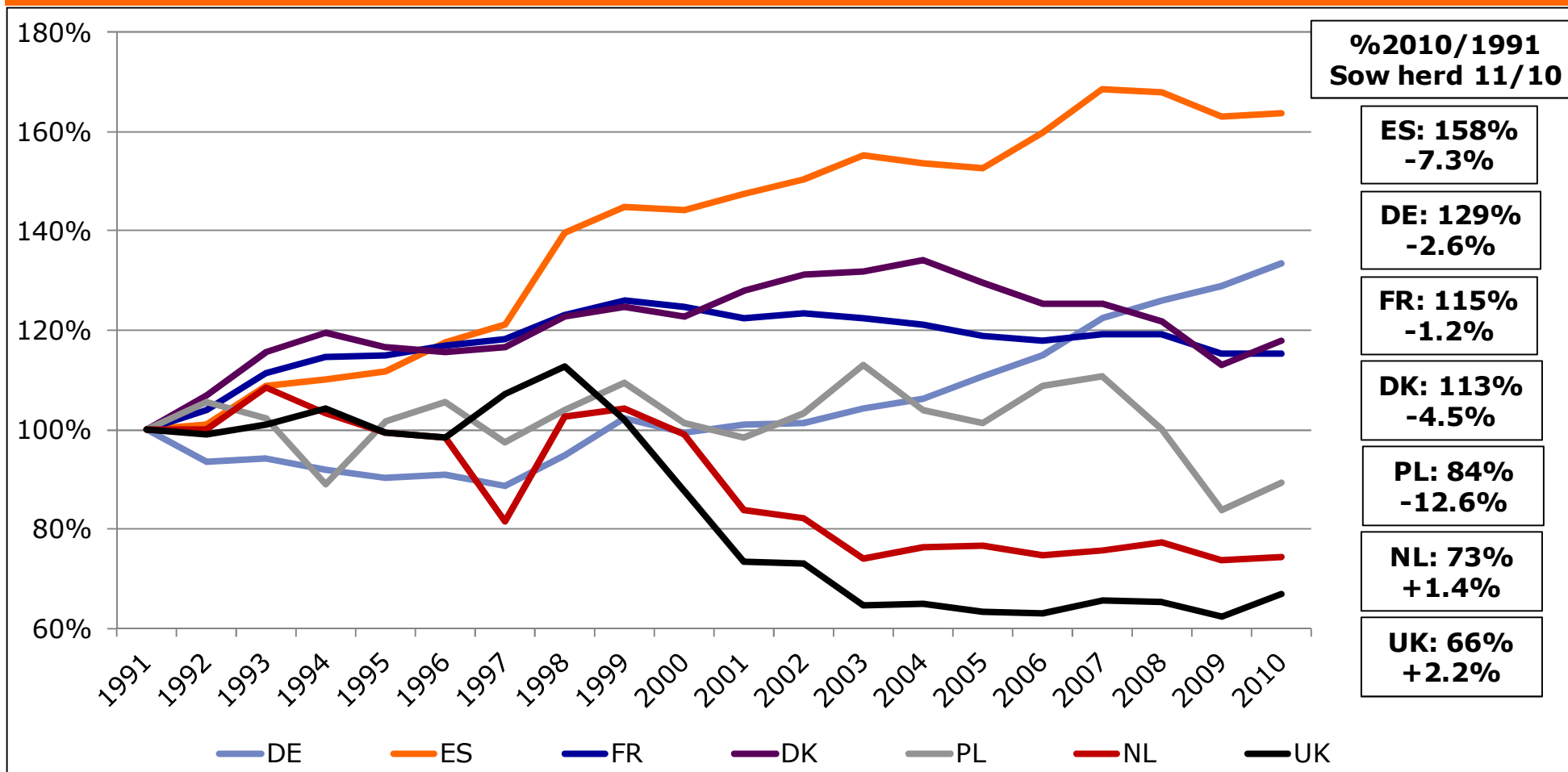
- Global growth of welfare
- Import demand from China
- Allowance of GMO Soy and removal of Meat & Bone Meal ban
- Growing importance of concepts



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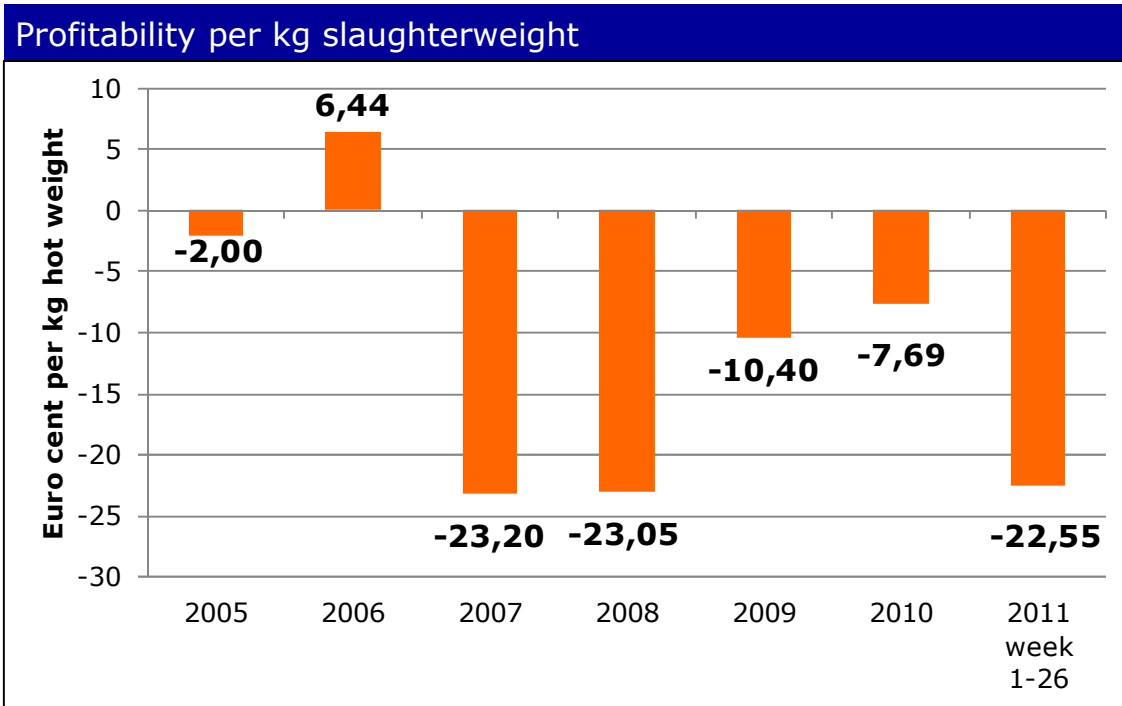
Winners and losers at country level

Index EU pork production selected countries (1991=100, in %)



Source: Rabobank based on Eurostat, 2011

2012 EU pork production will decline with 3.6% after fifth year with negative margins



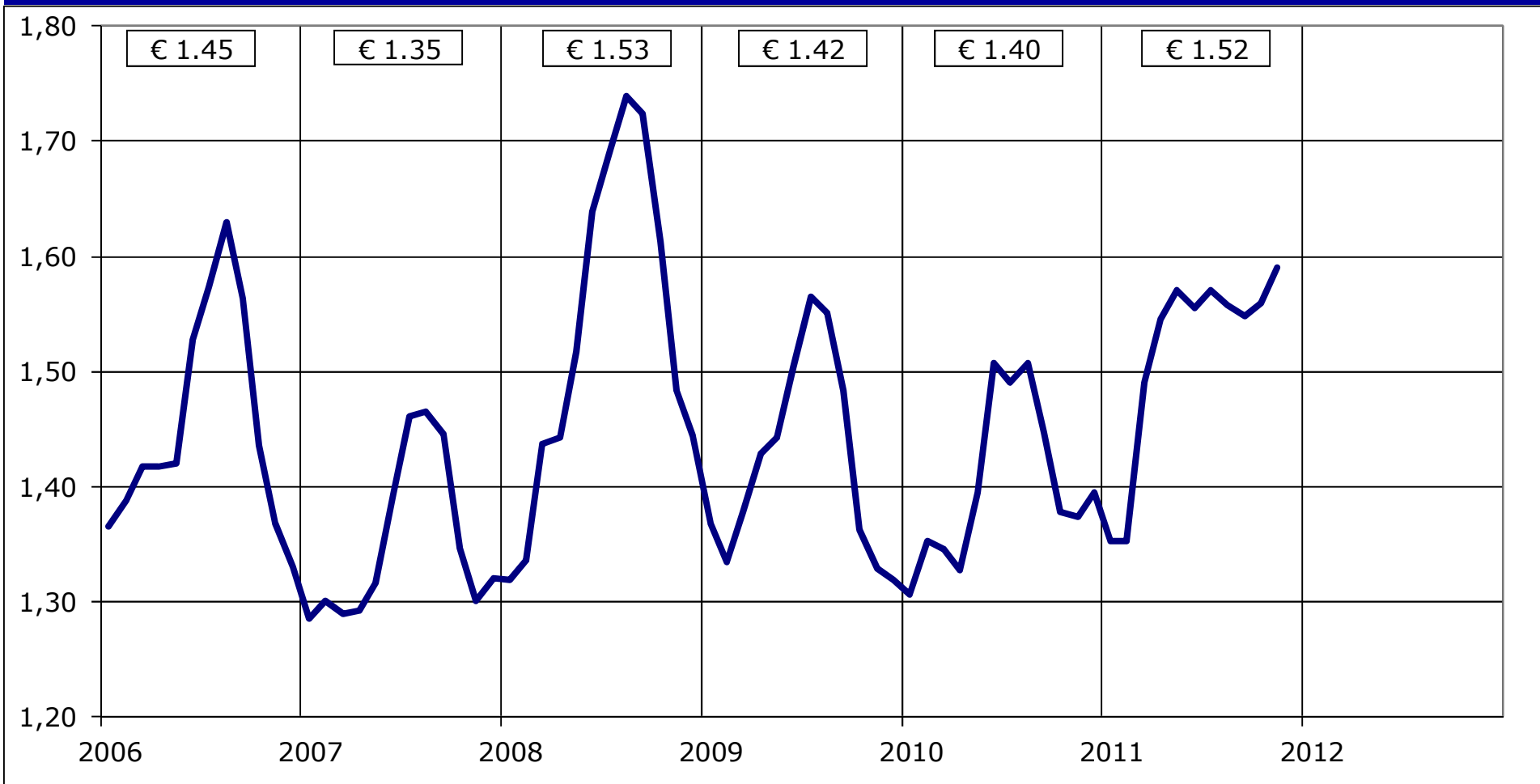
EU sow herd May-June (1,000 head)

	2009	2010	2011	11/10%
ES	2.498	2.521	2.336	-7,3%
DE	2.307	2.243	2.185	-2,6%
DK	1.345	1.323	1.264	-4,5%
PL	1.370	1.393	1.214	-12,8%
FR	1.184	1.158	1.144	-1,2%
NL	1.120	1.094	1.114	1,8%
IT	743	728	673	-7,6%
UK	490	502	513	2,2%
BE	537	524	486	-7,3%
RO	367	361	350	-3,0%
HU	317	321	300	-6,5%
AT	292	286	276	-3,5%
IE	147	160	156	-2,5%
SE	158	167	151	-9,6%
CZ		133	112	-15,4%
Total	12.875	12.914	12.274	-5,0%

Forecasted production decline should support elevated price levels

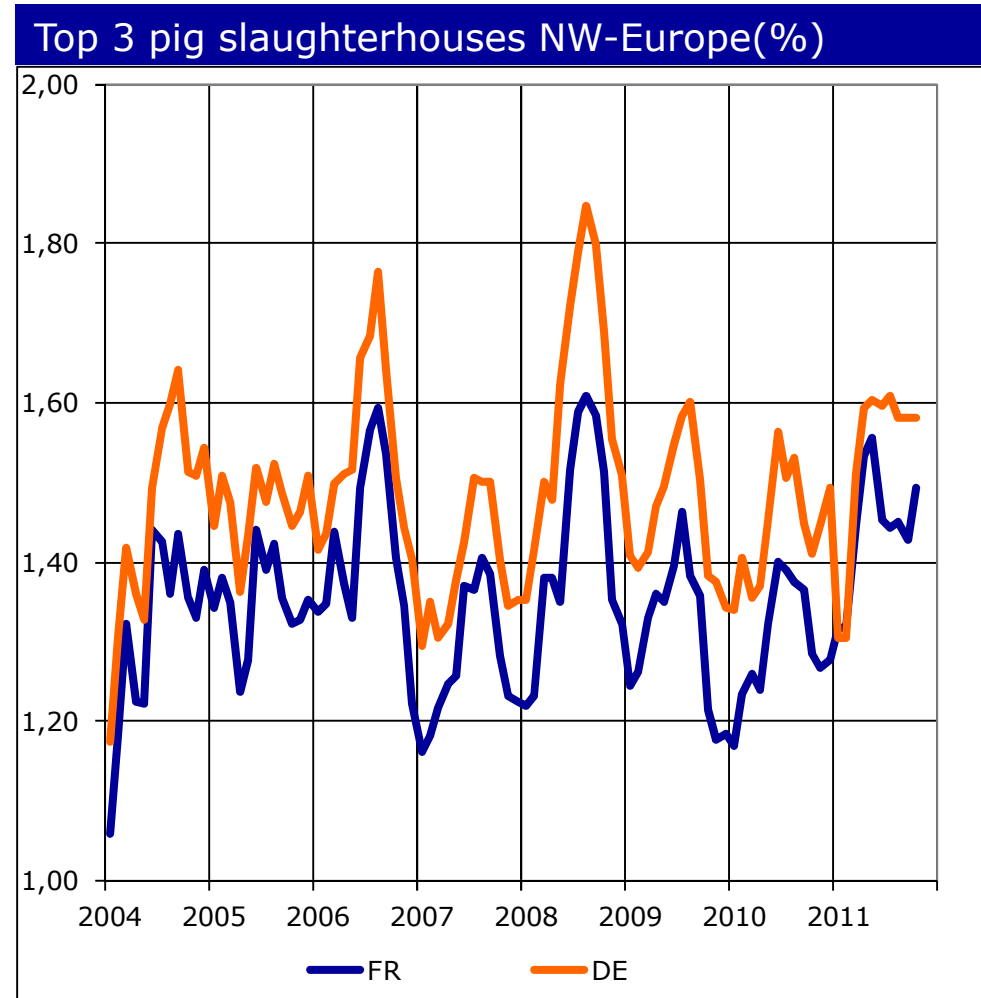
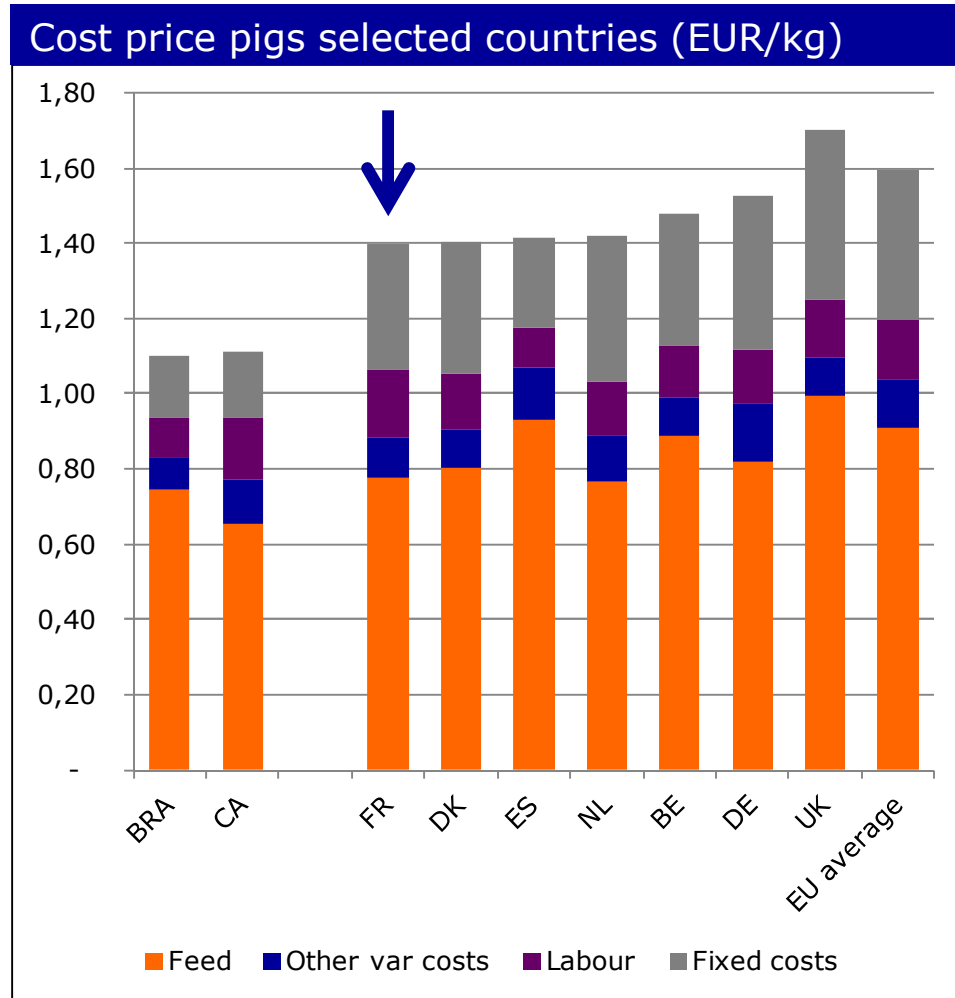


Development EU pig price (EU reference price EUR/kg carcass weight equivalent)



Source: European Commission, 2011

French well positioned to play a more important role in the EU pork industry



Source: Interpig, 2011

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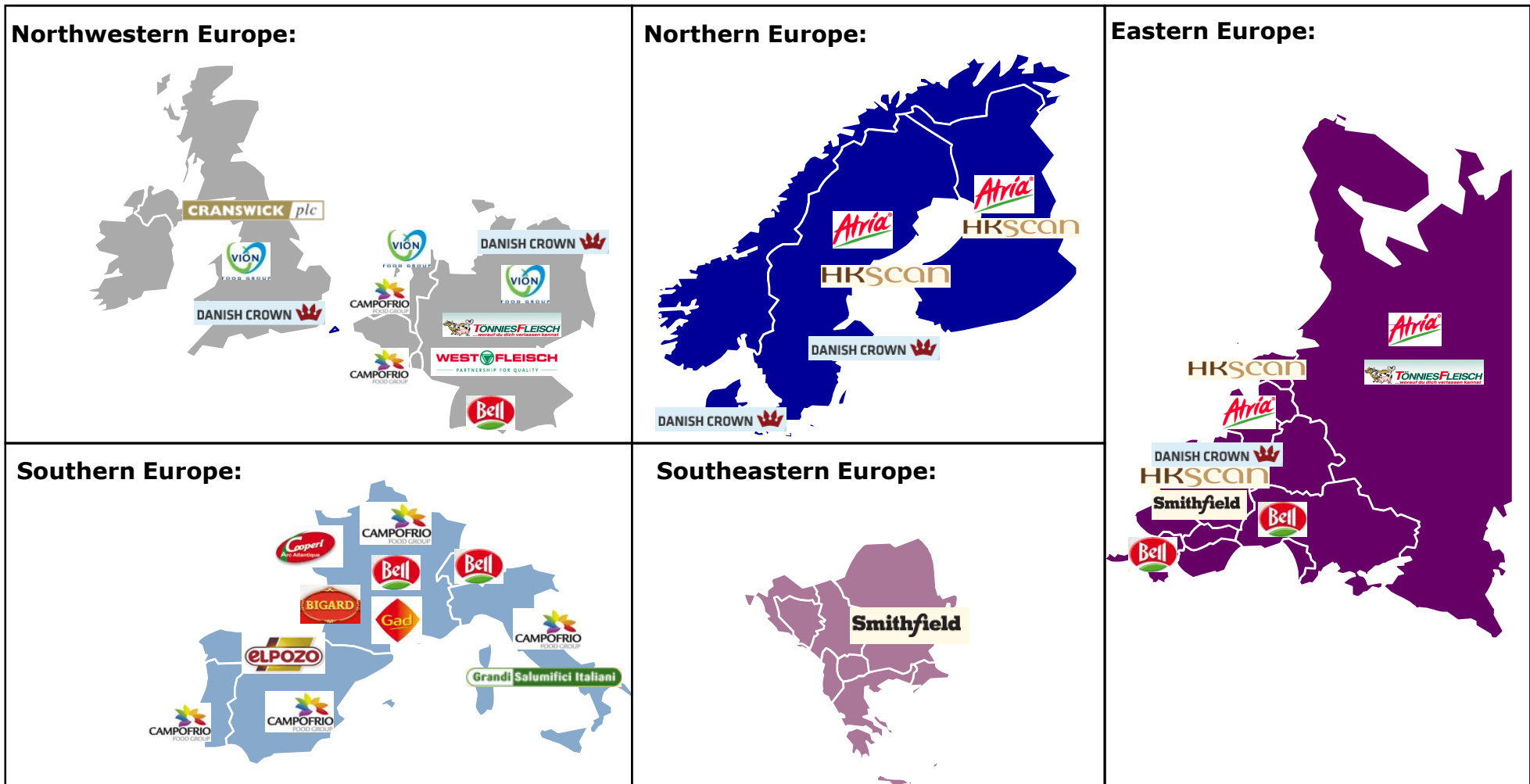
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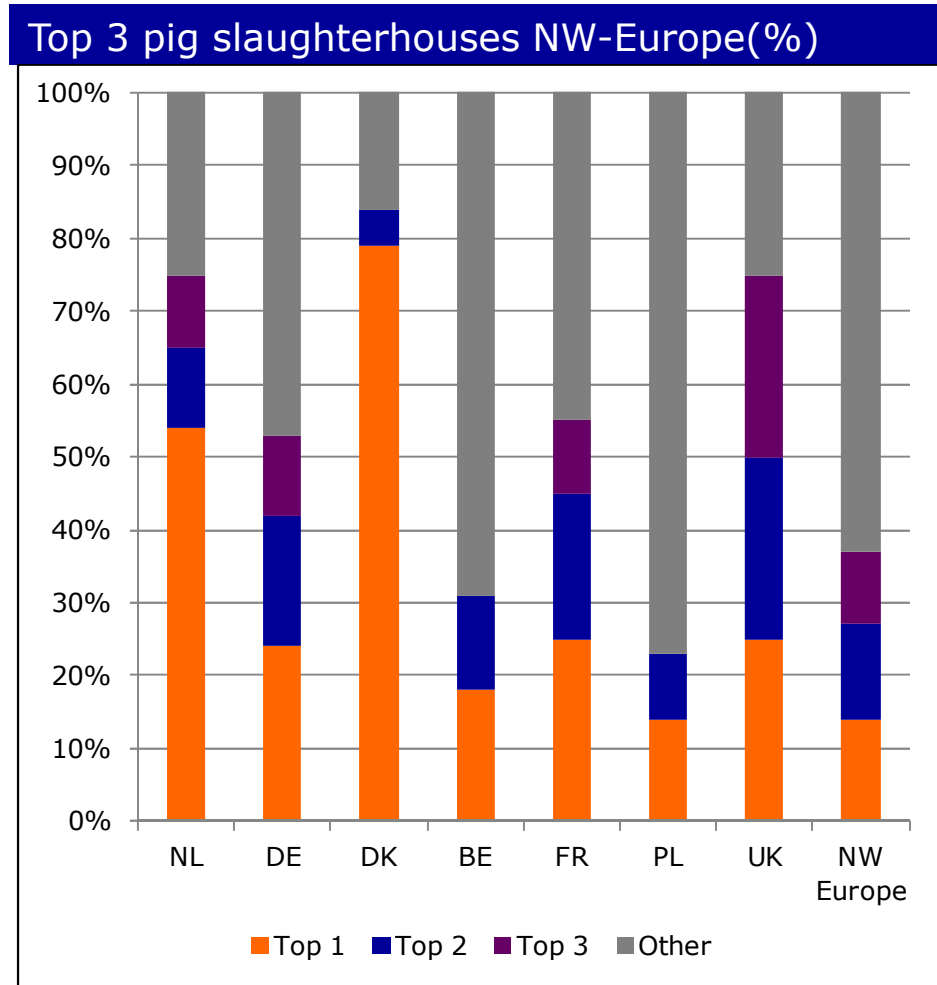
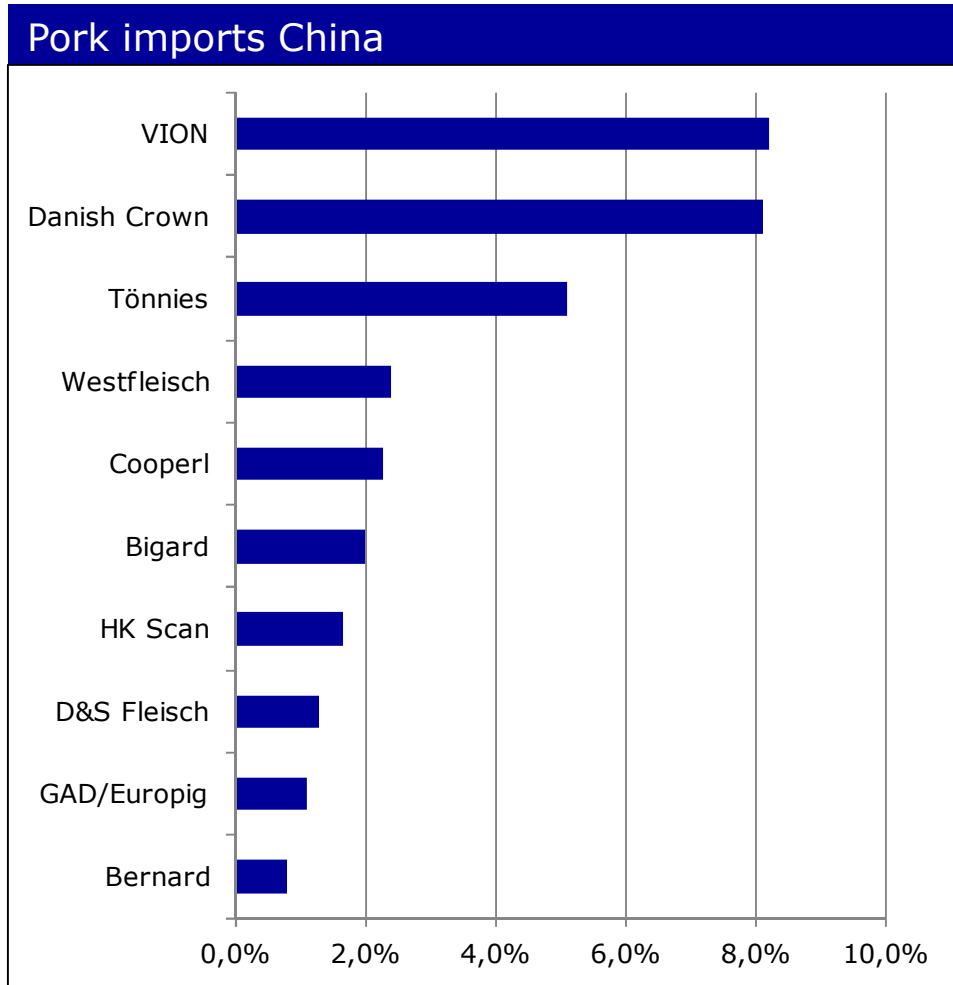
Economies of scale: European meat industry shifts from national to regional to European



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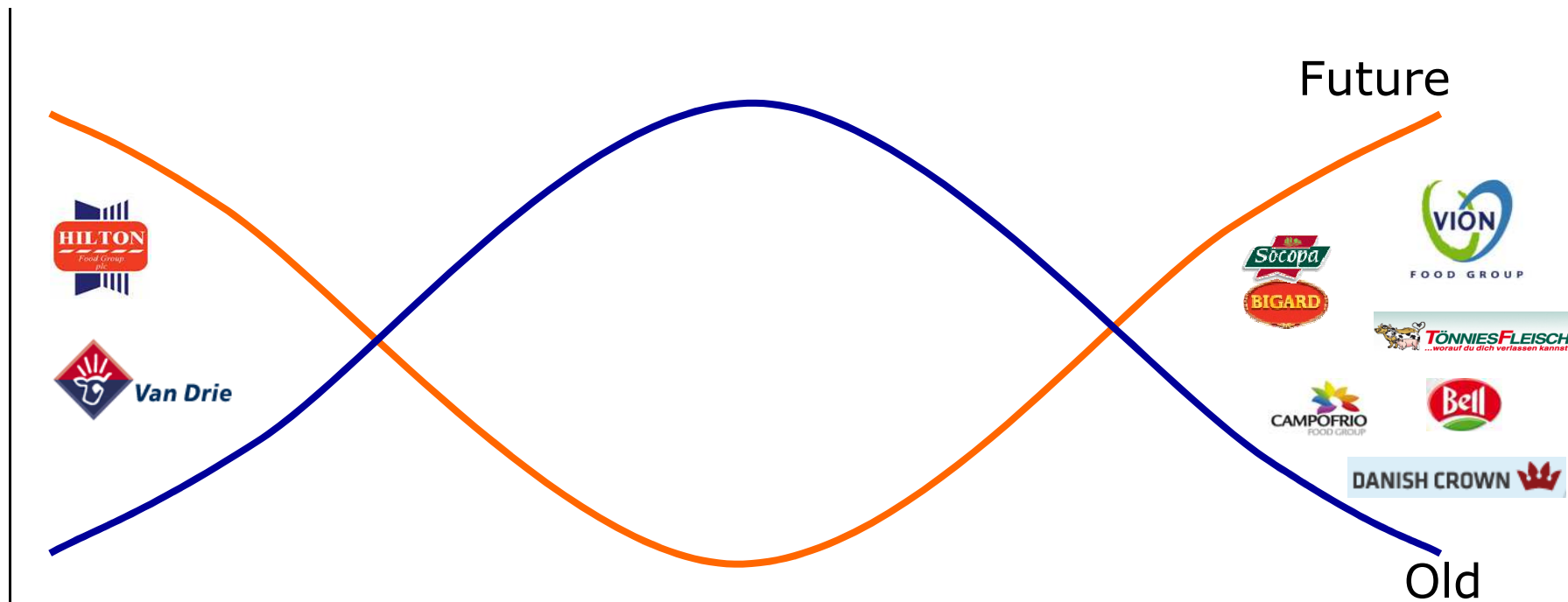
A few clear consolidators are appearing in the EU pork industry



The middle segment need to choose: Scale or speciality focus



Number of
companies



Speciality products

- Small volumes
- Differences
- Specialisation

Commodity

- Basic products
- Large volumes
- International



Main questions for European companies are:

- Sourcing
 - Where and from whom?
 - Contract/spot
 - Own production?

- Processing

What is your distinguishing factor?

- Sales
 - Product market combination
 - Carcass valuation
 - Service provider or Chain captain

- Future?
 - Autonomous growth, Acquisitions, Mergers, Partnerships
 - Niche or commodity
 - Financing

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the global food chain”™***



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