Gira

Consultancy & Research
Prospective et Stratégie

Competitività della filiera bovina europea rispetto ai grandi produttori mondiali

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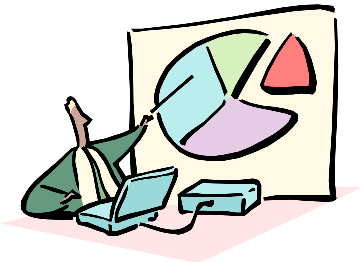
What GIRA does

- Consulting
- Individual market research
- Strategic multiclient research
- Market due diligence



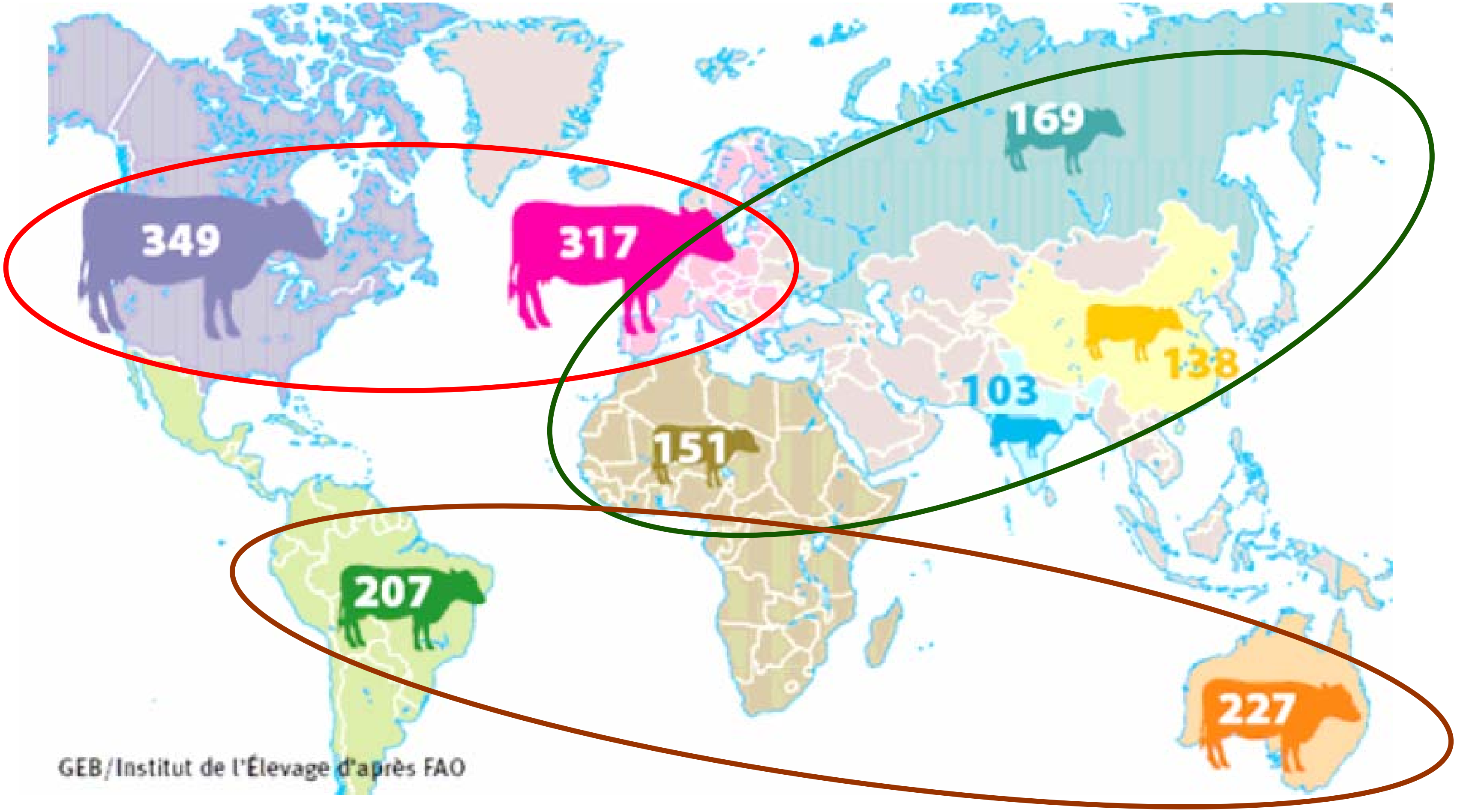
all along the food & drink and distribution chain - throughout the world

MENU

1. Competitiveness = cost of production?
2. Price-makers
3. Europe and Italy
4. Conclusion

Are we really talking about the same thing?
For the same purpose - Mercedes vs. Lada?

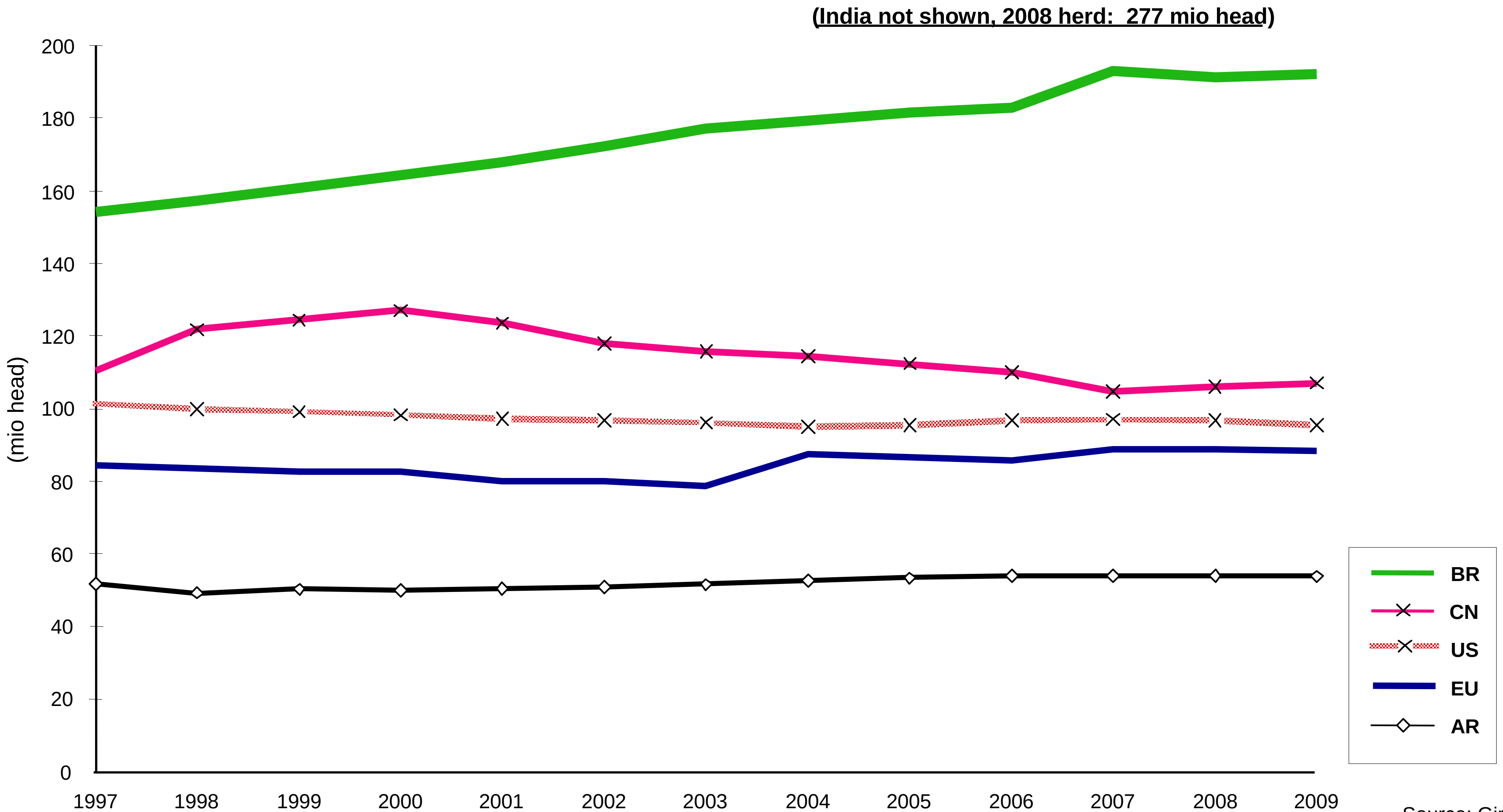
Average weights of cattle slaughtered in 2006



Very different animals: local / improved; dairy / meat; grazed / finished; etc.

Cattle numbers: *the key global exporter Brazil has a national herd 2.2 x the combined EU herd!*

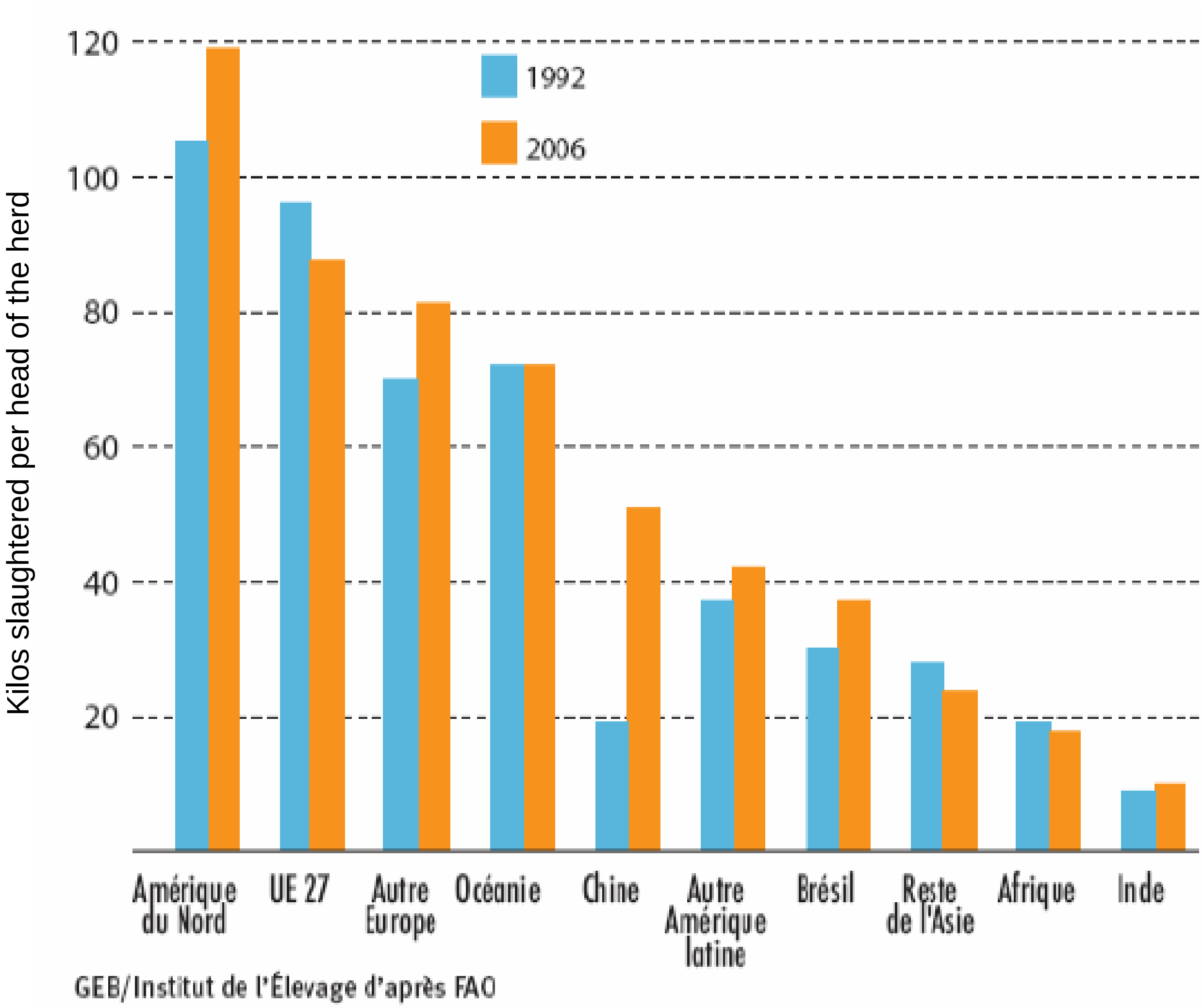
Global Cattle Herds: 1997-2009



Source: Gira Meat Club

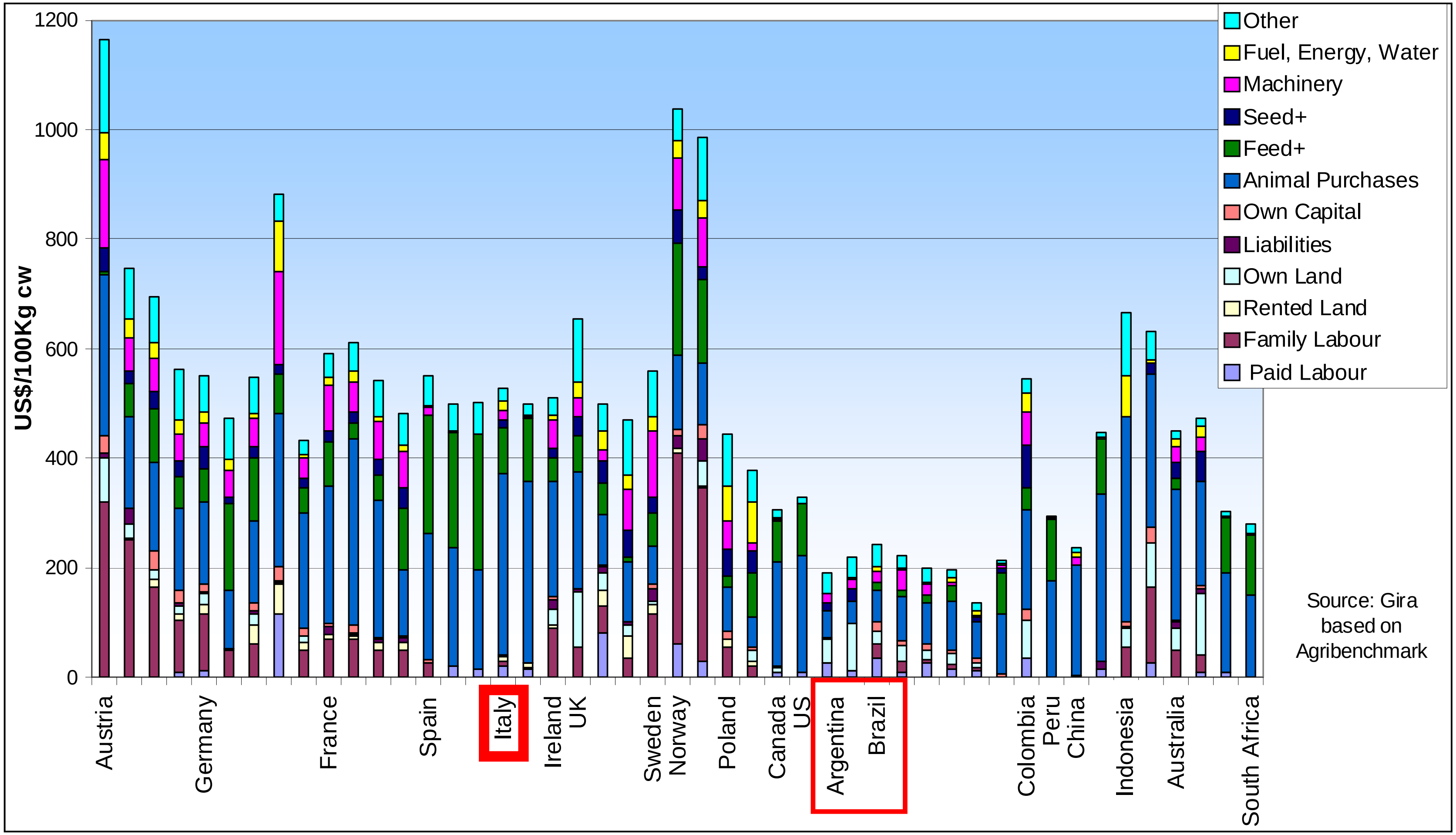
- EU combined herd smaller than the Brazilian, Chinese or US national herds

Herd productivity varies enormously:
but China is clearly getting much better at the job



EU is uncompetitive for feed, livestock costs & labour.
But are we really all in the same world as everyone else?

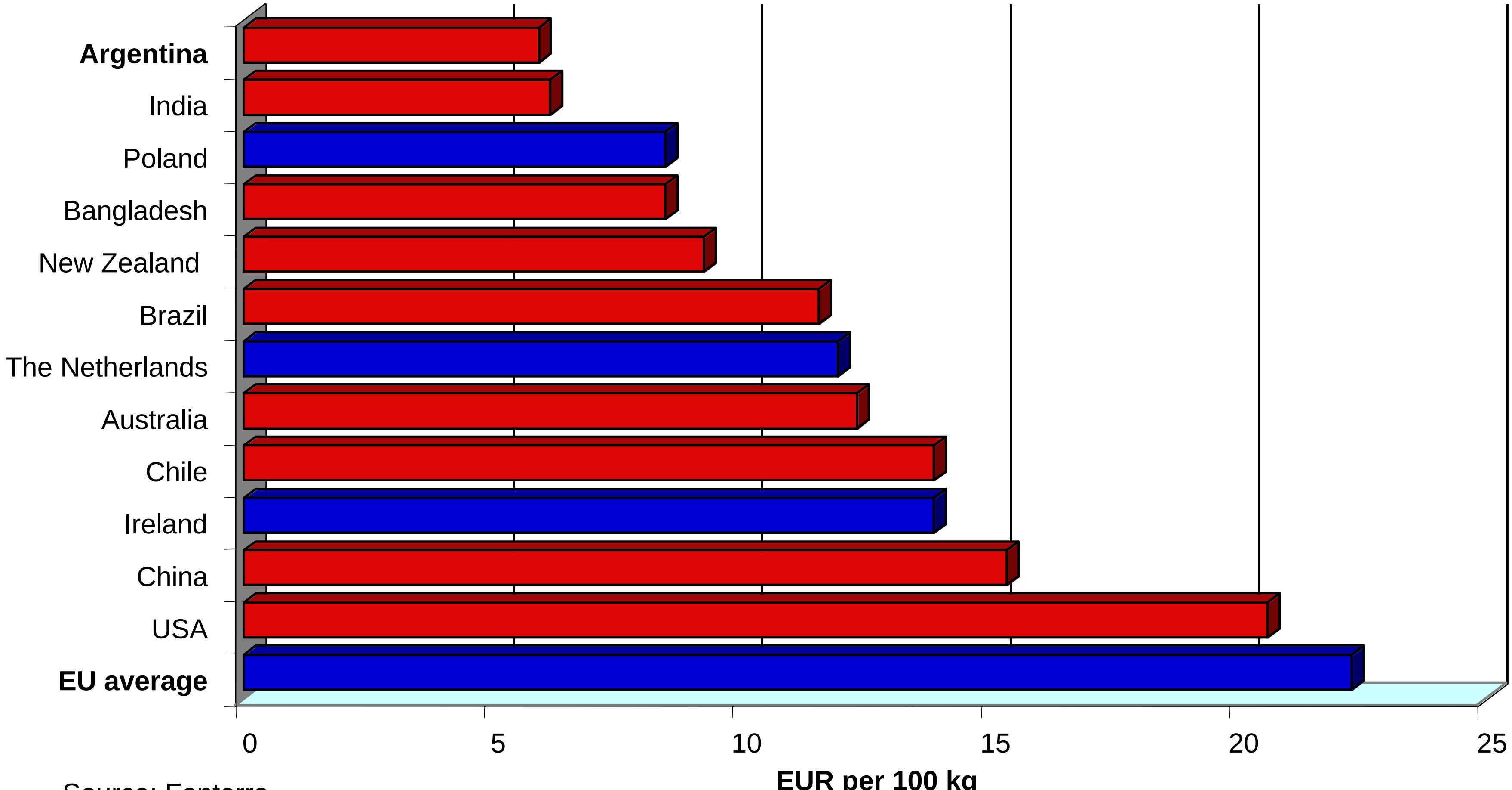
Global *Feedlot* cost comparison 2008 ($ per 100kg of beef)



- Brazilian production costs ~2/3rds of US or Canada - 2/5ths to 1/3rd of the EU!

Milk production cost differentials are indicative also for beef costs in many countries

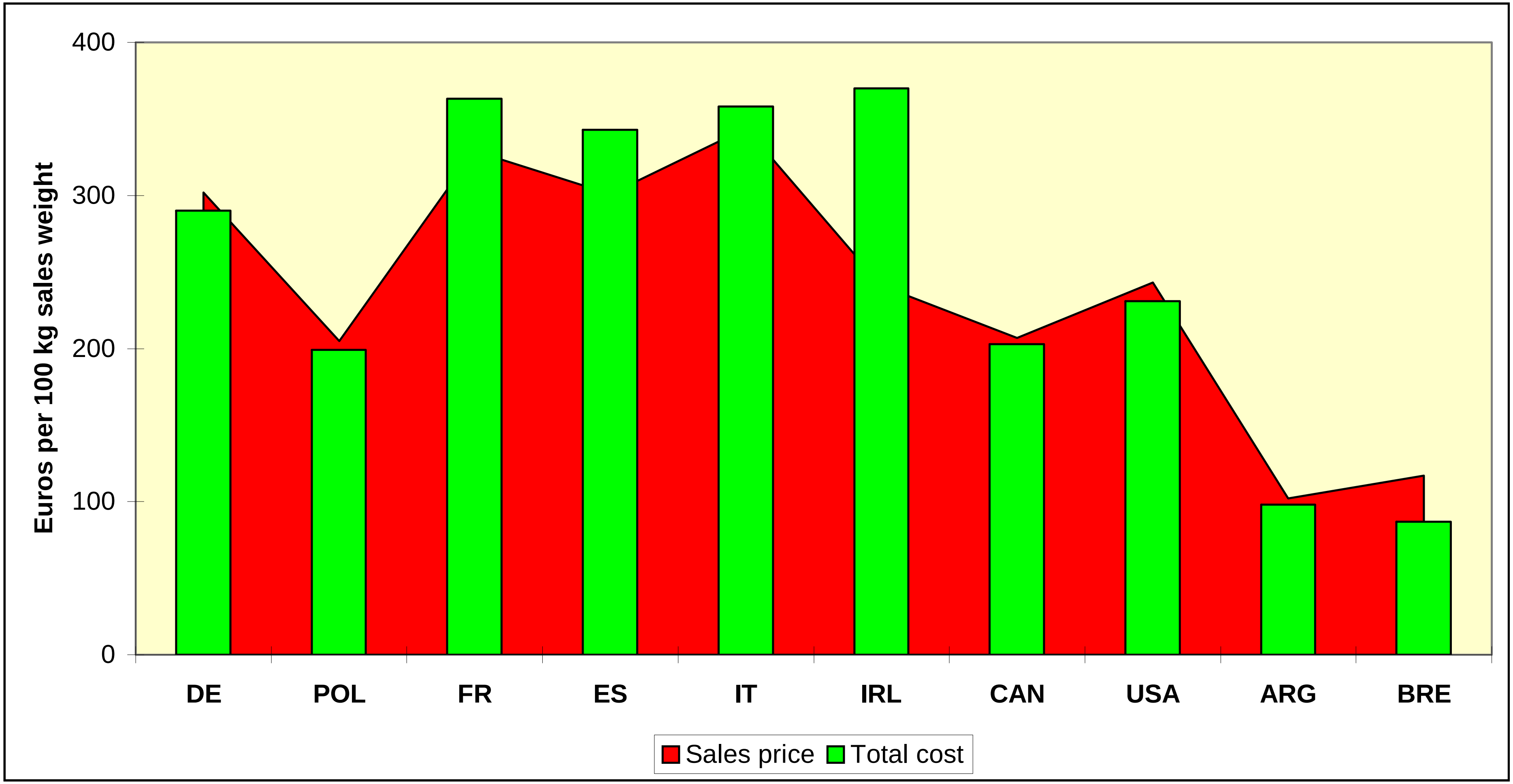
Comparison of the cost of milk production



Source: Fonterra

Exchange rate used:
1.26 $/EUR

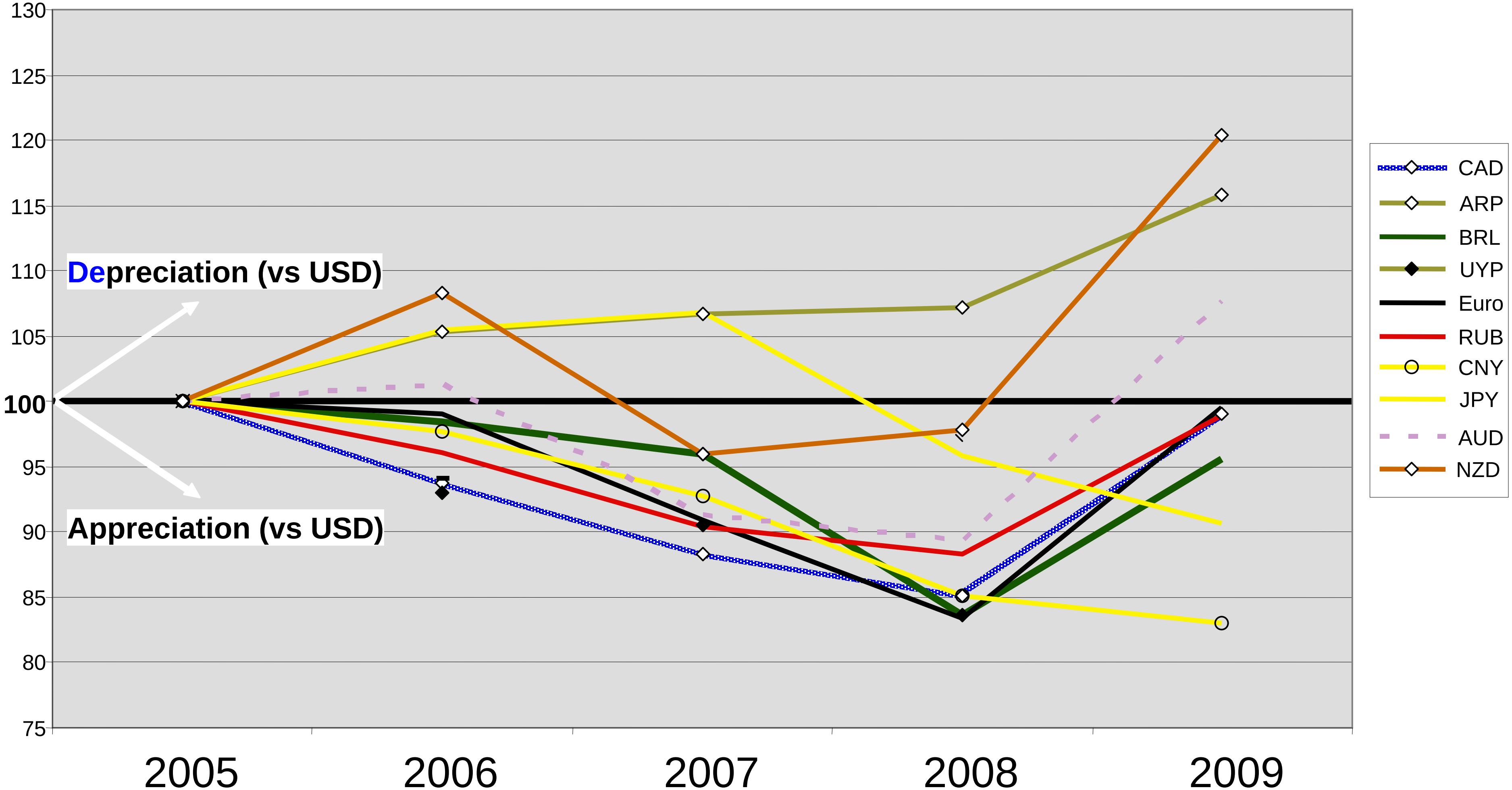
Total cost of production compared to sales price, 2005



Wildly fluctuating exchange rates -

they can make inefficient producers into exporters, & vice versa ...

Major Exchange Rates Index, Foreign Currencies vs. USD, 2005-2009

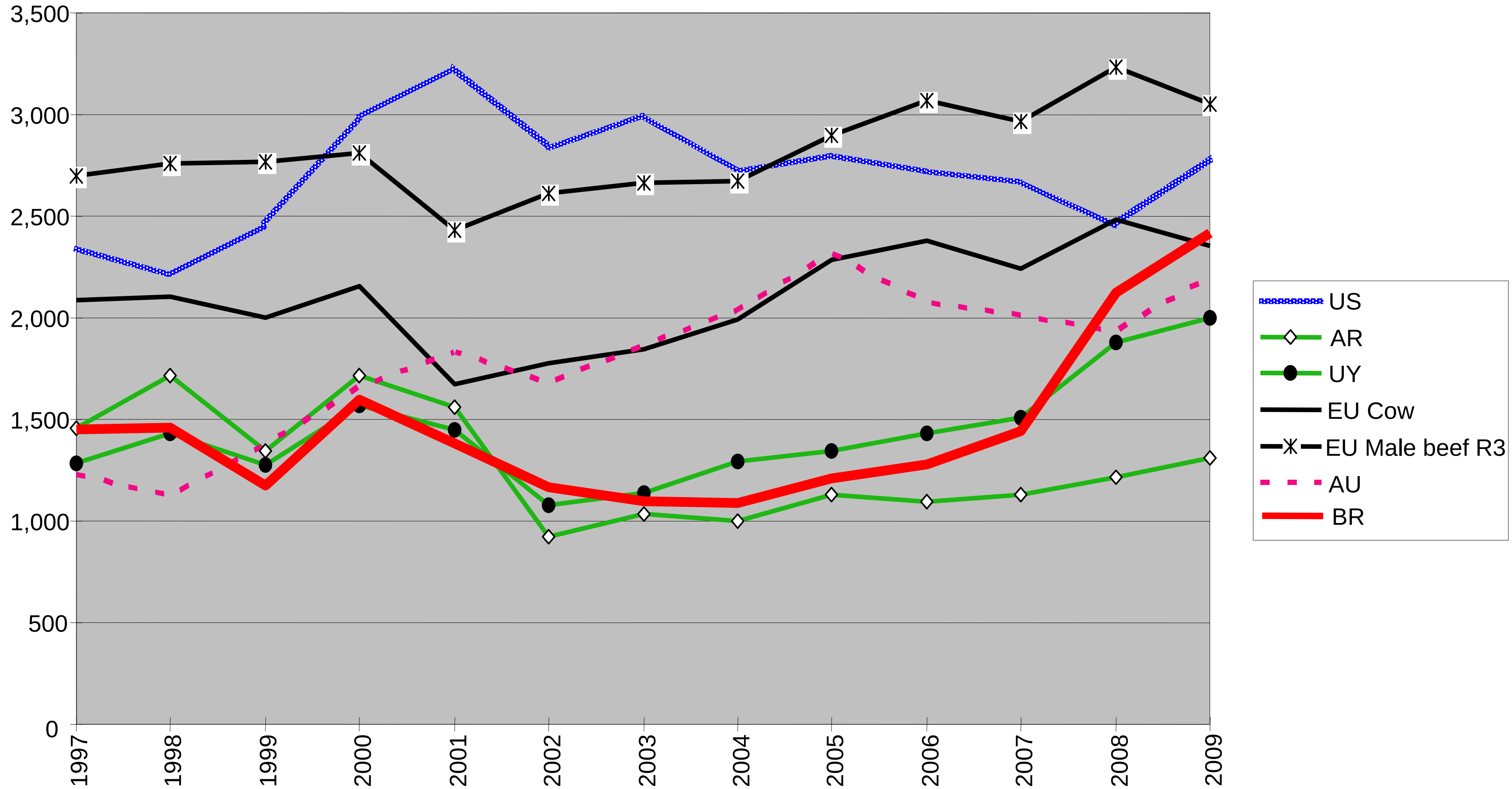


Source: Gira Meat Club 2008/2009

Beef producer prices

Look what the Real's revaluation did to Brazil's competitiveness!

Cattle Producer Prices, 1997-2009 (Current EUR/t cwe)



Source: Gira Meat Club 2008/9

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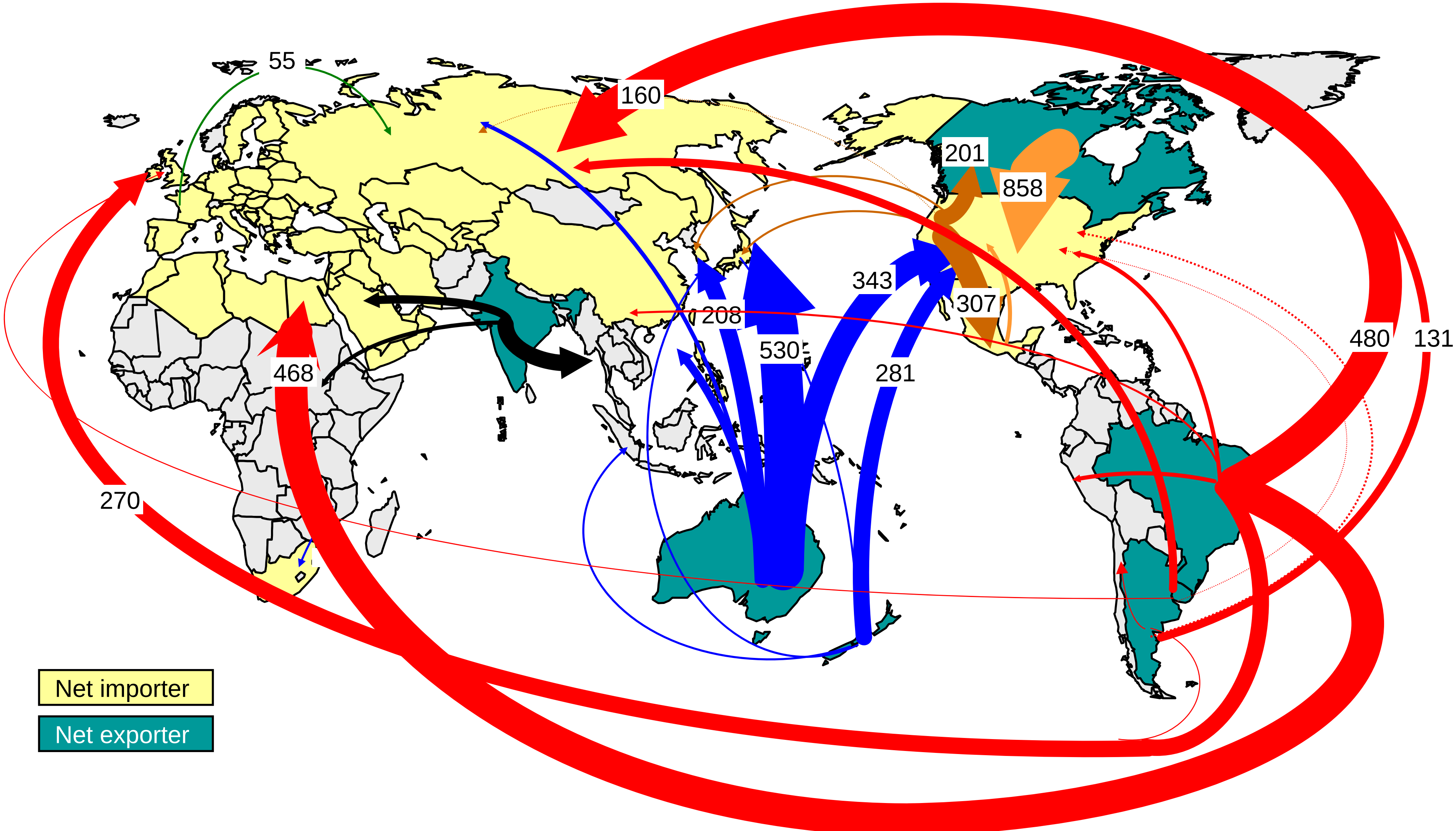
Beef Trade Flows, 2008

Making the world's base price is essentially a two-man show

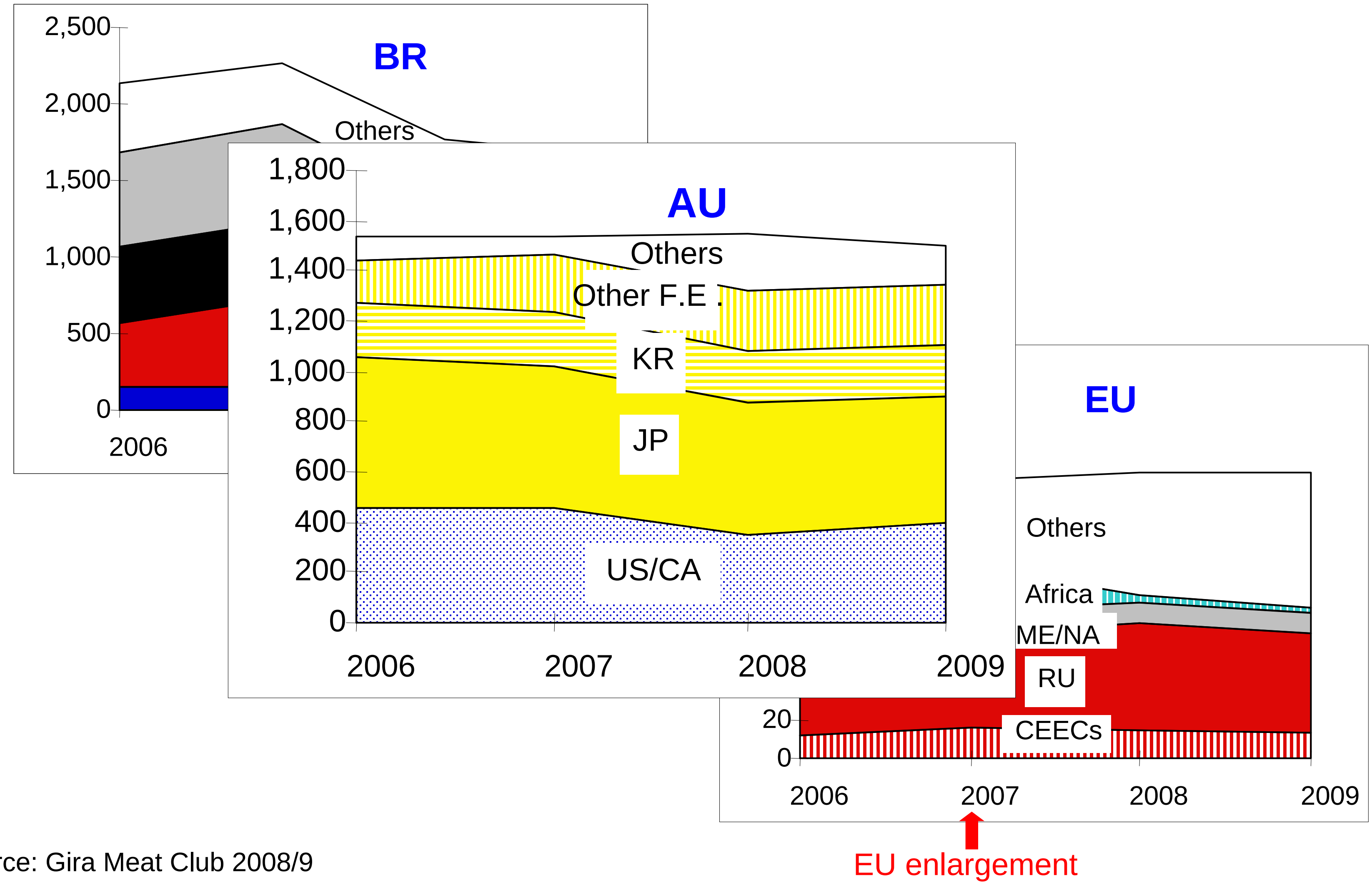


Source: Gira Meat Club 2008/9

Beef & Veal Exports: What counts is who you sell to

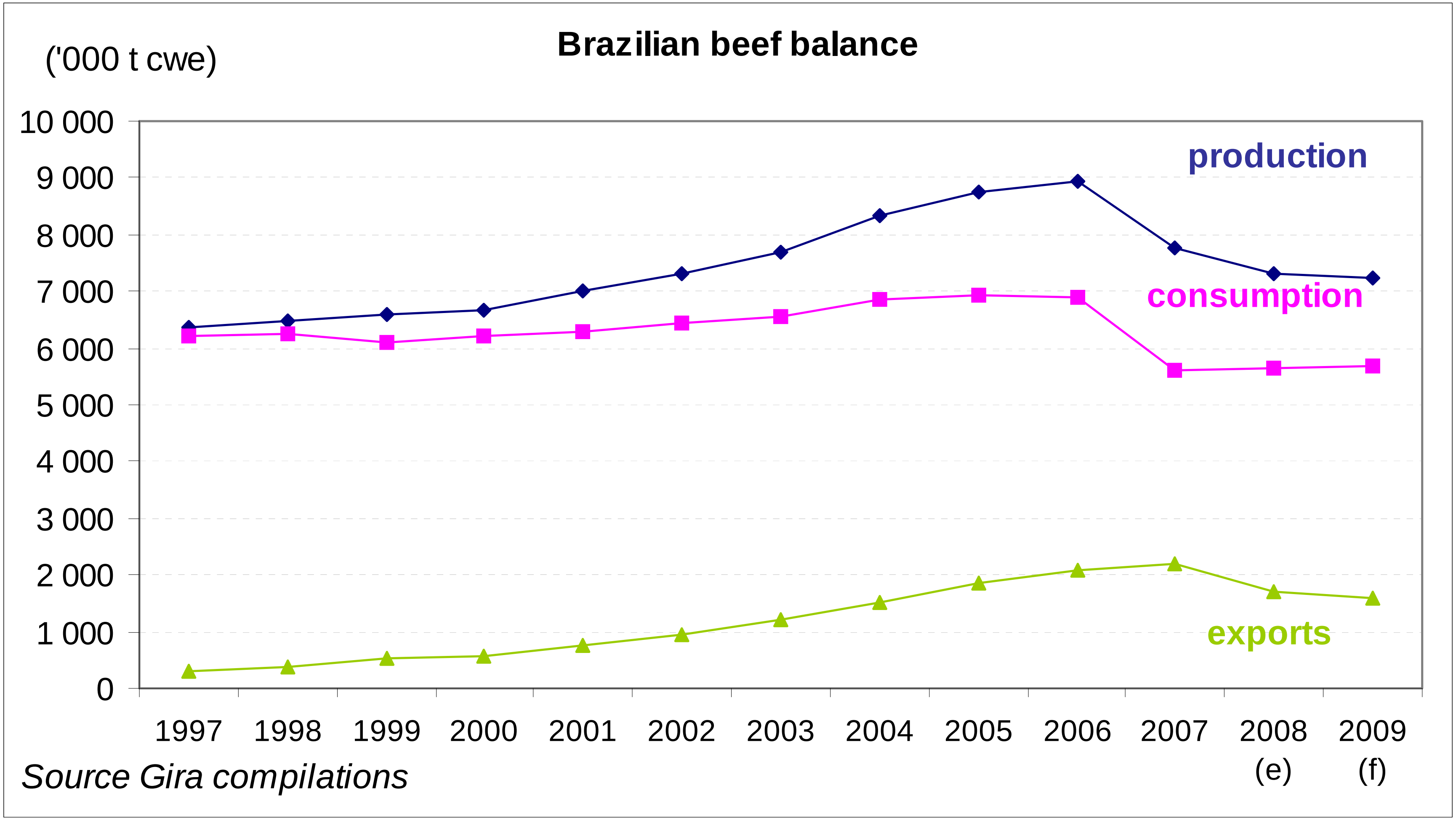
A sophisticated offer for a sophisticated clientele?

Destination of Exports (in KT cwe)



Source: Gira Meat Club 2008/9

Brazil: a strong domestic market has provided the base for an extraordinary growth in exports

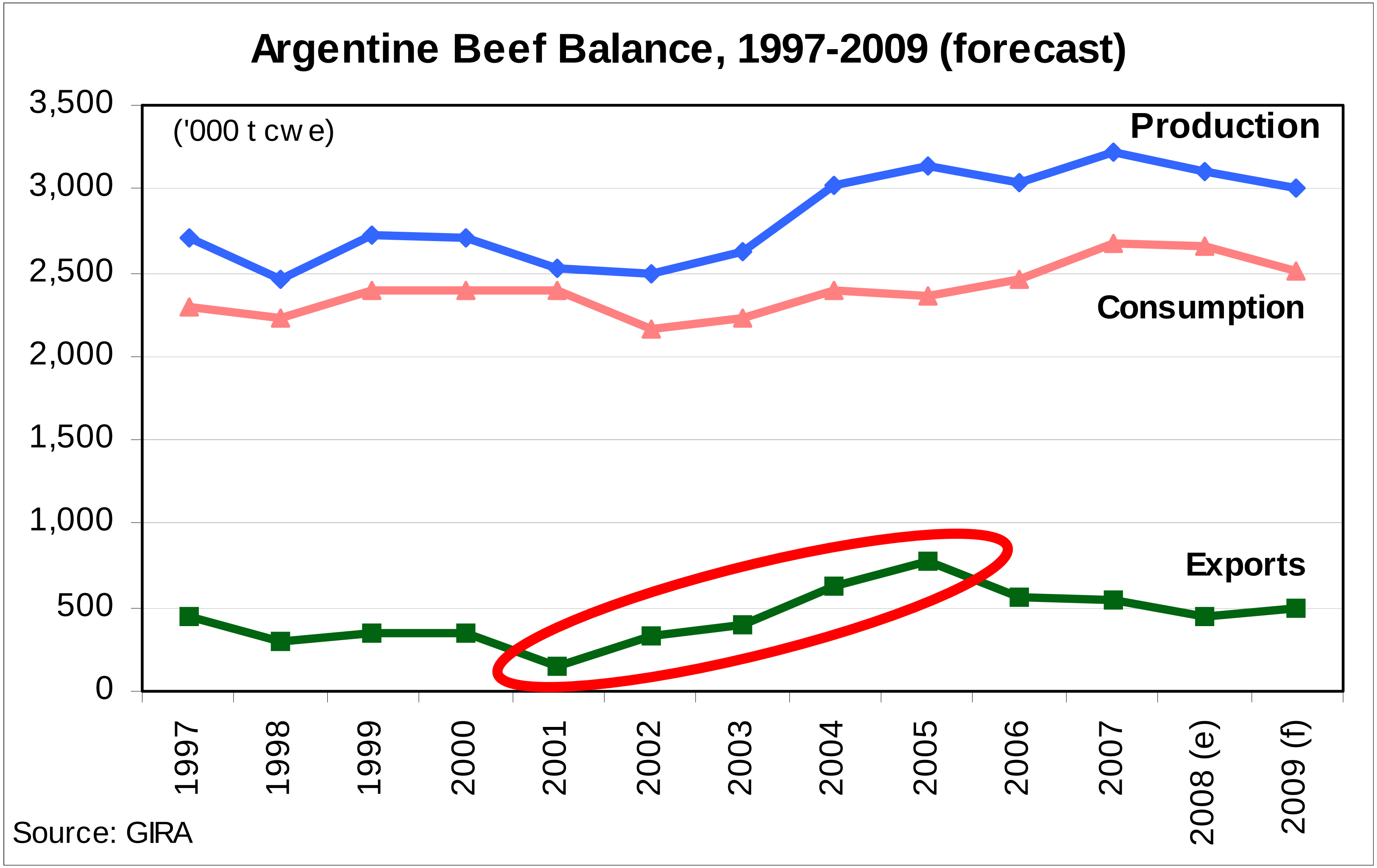


Source: Gira Meat Club 2008/9

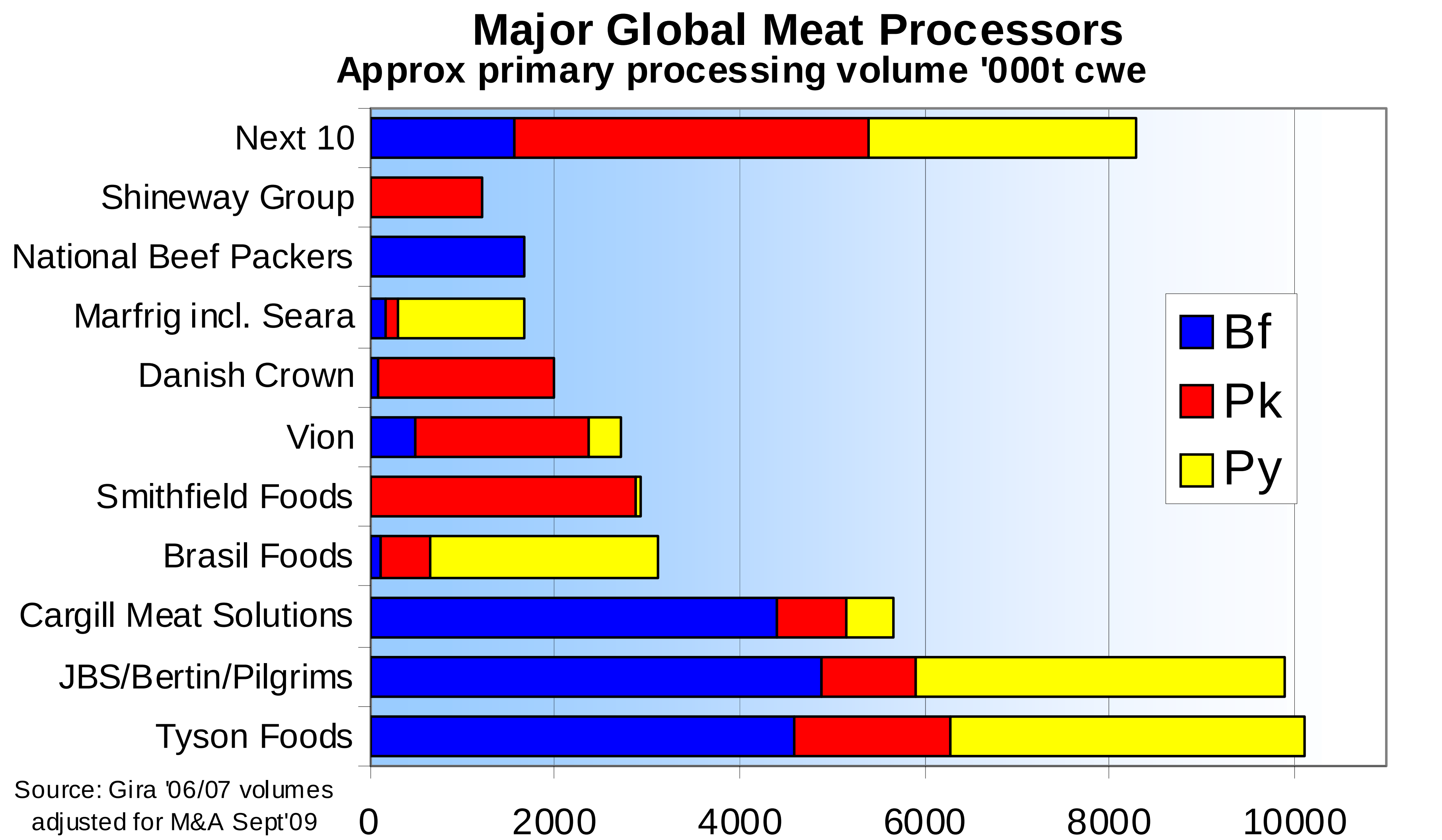
Current problems are probably just a temporary hiccough

They haven't stopped corporate position-building in major consumer markets

Argentina: Government restrictions still demotivating an otherwise dynamic export sector



Enormous potential, (temporarily) squashed by domestic political concerns.



Source: Gira '06/07 volumes adjusted for M&A Sept'09

Price formation

World trade makes the world reference price

- since imports are always available to play the role of the "lid" on domestic prices.

But at national level - and in the absence of major imports - domestic supply still generally sets at least the reference point for price

- in the context of increasingly cyclical production ...
- and ever-larger primary processor groups ...
- and allowing for the effects of (direct) subsidies

But as markets are increasingly opened - with beef production basically stagnant - and in the absence of any real product differentiation - it is the lowest cost producer who will increasingly set the price...

Unless it's the guy that can get his hands on enough of the world's (and the EU's) meat who imposes *his* price!

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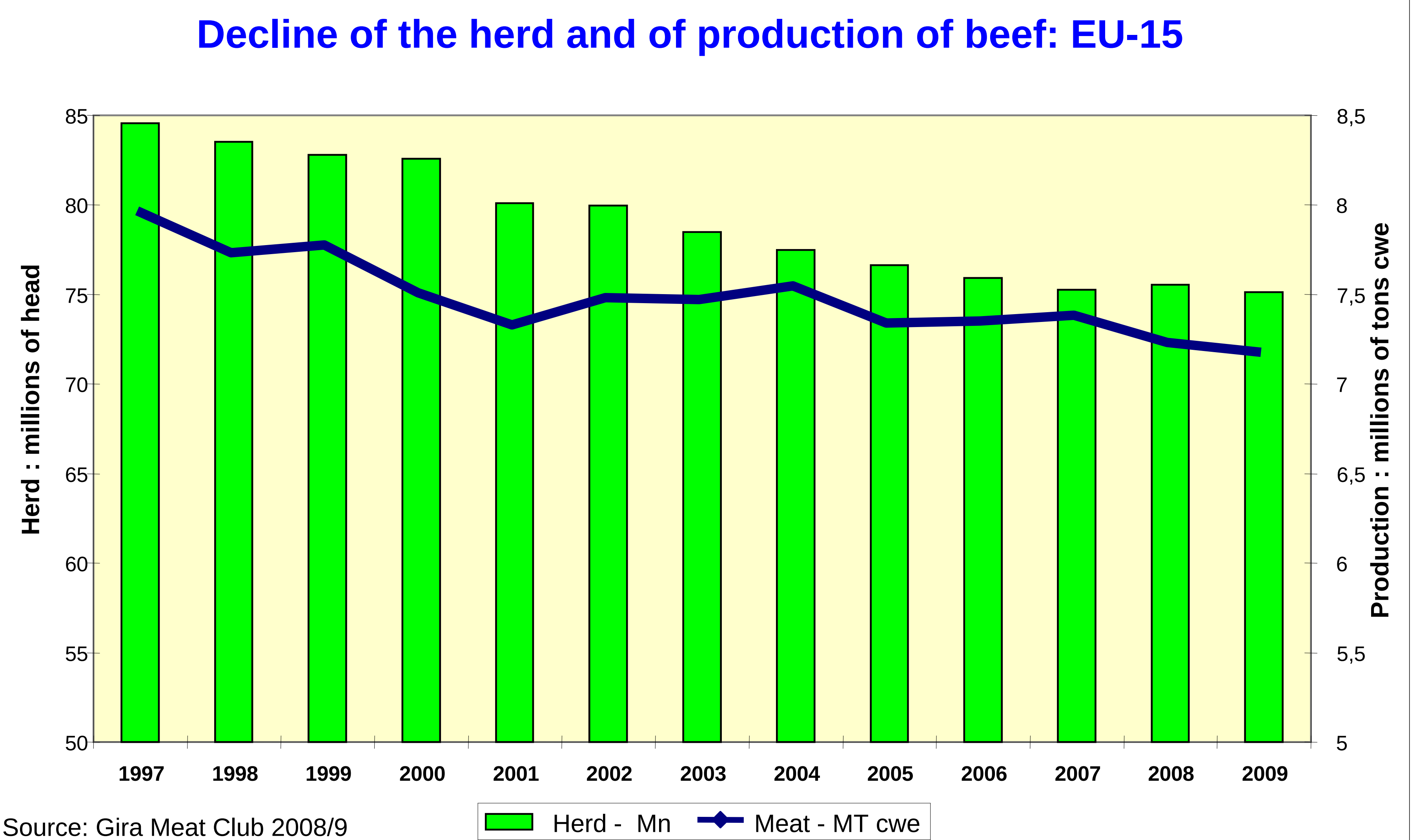
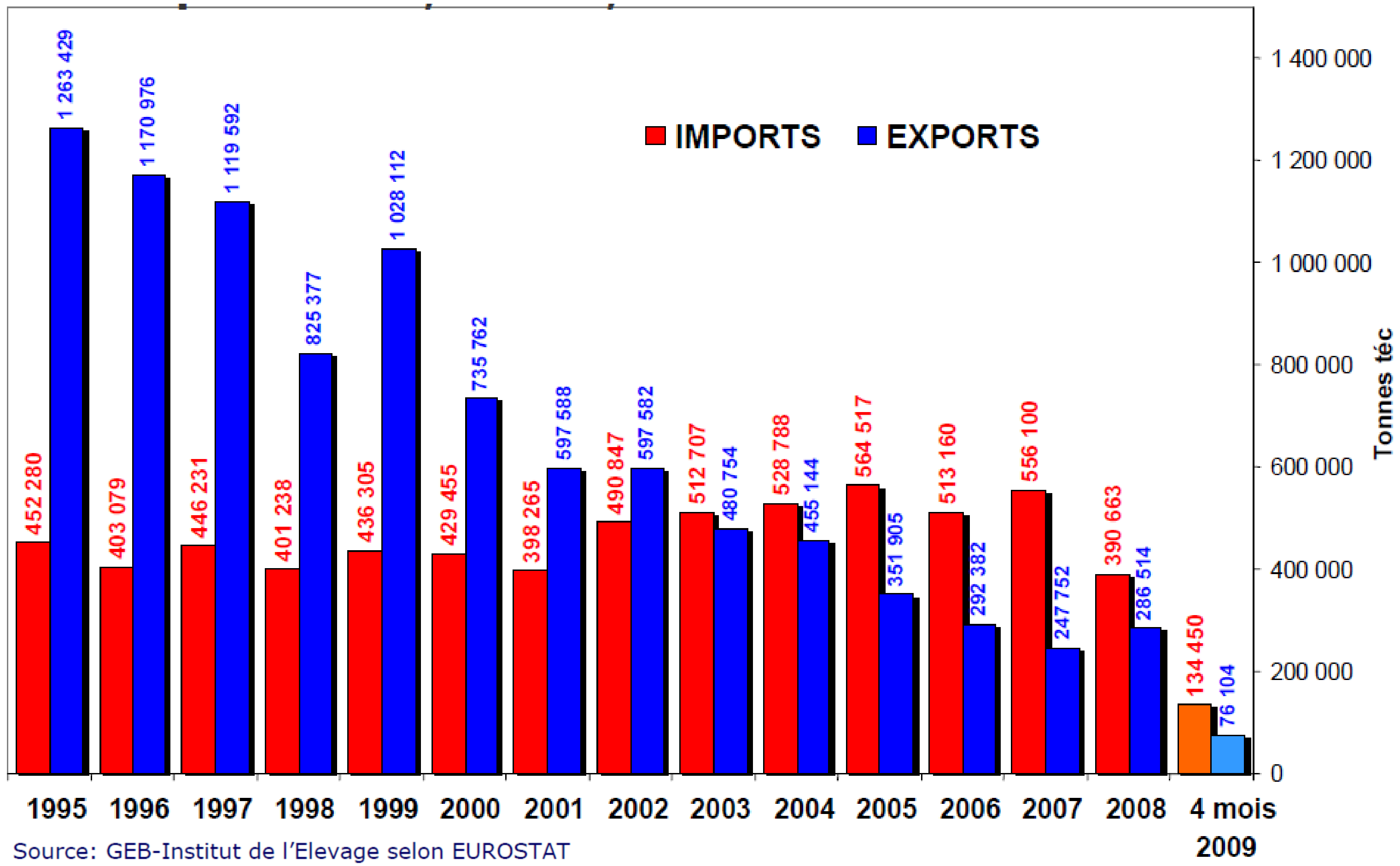
EU-15 an inexorably self-destructing production base:
Down 8% (600K tec) in 10 years



Source: Gira Meat Club 2008/9

From an 800KT trade surplus to a -100KT deficit in 12 years - *No wonder the EU industry is still in shock*

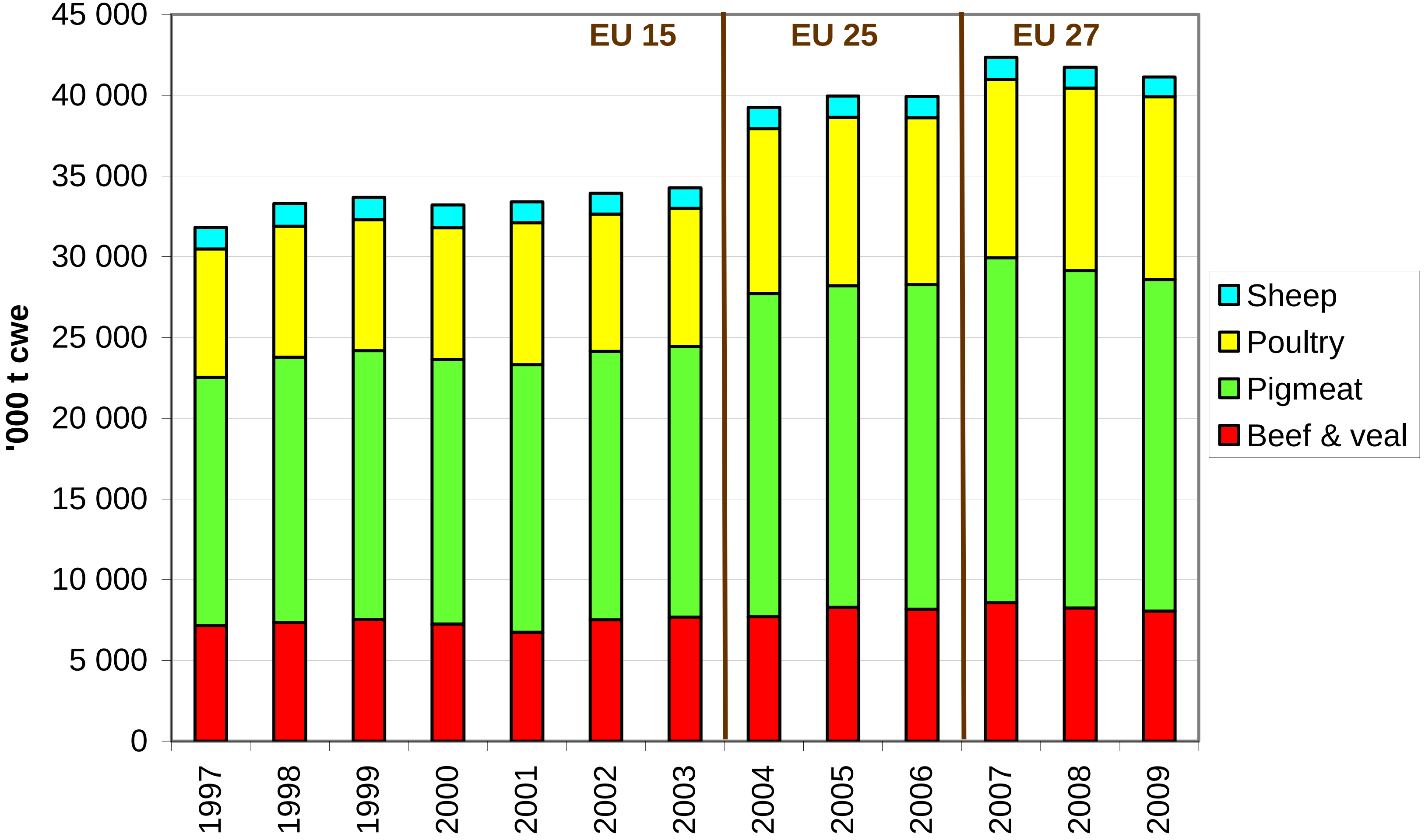


Nearly a million tons have "disappeared"!

How can this NOT have an effect on productivity?

Declining beef consumption as high price sees EU consumers move to cheaper meats

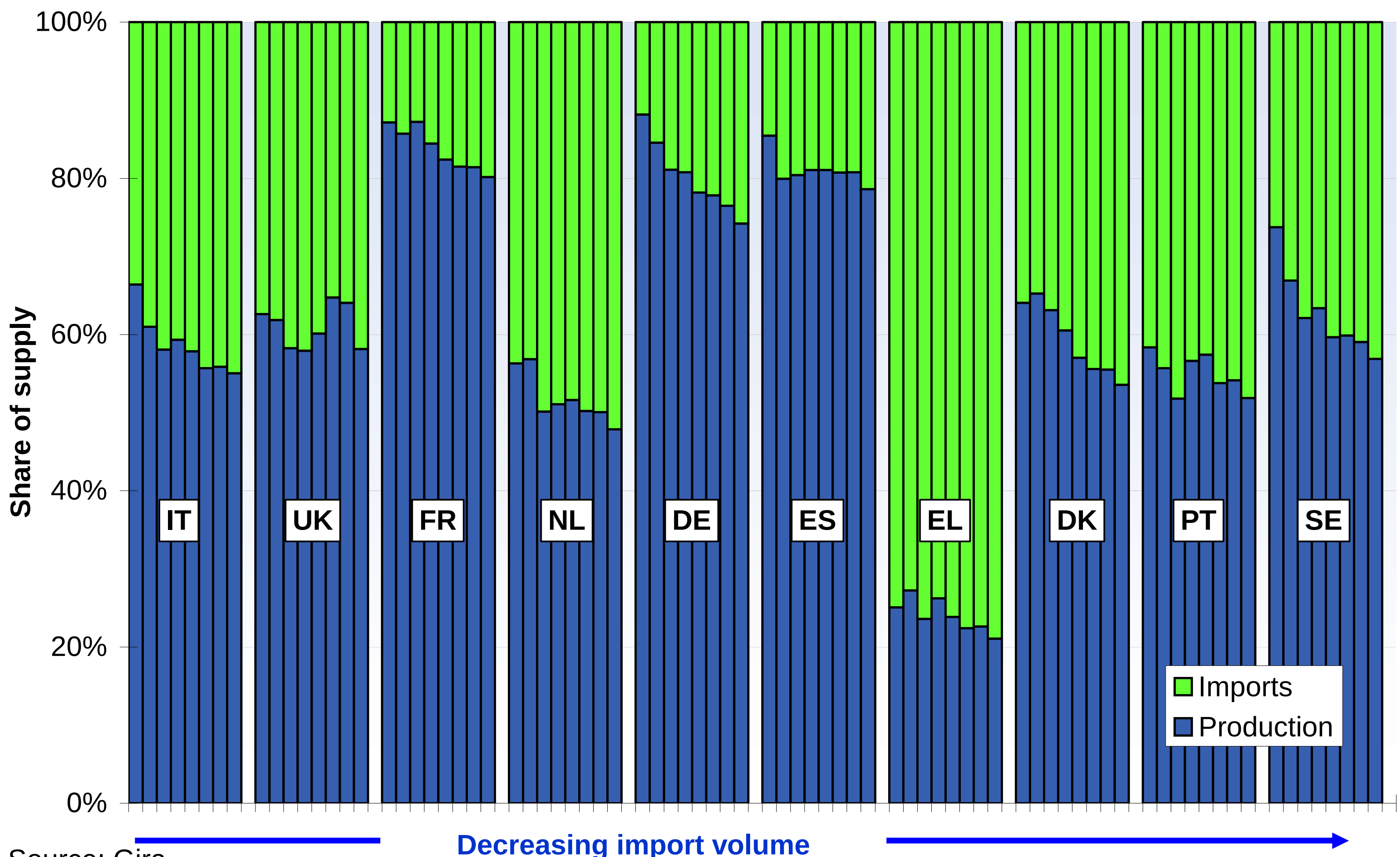
EU Meat Consumption, 1997-09f



Source: Gira Meat Club 2008/9

... with some very high & growing import dependence:
increasingly inter-linked, but still very different structures

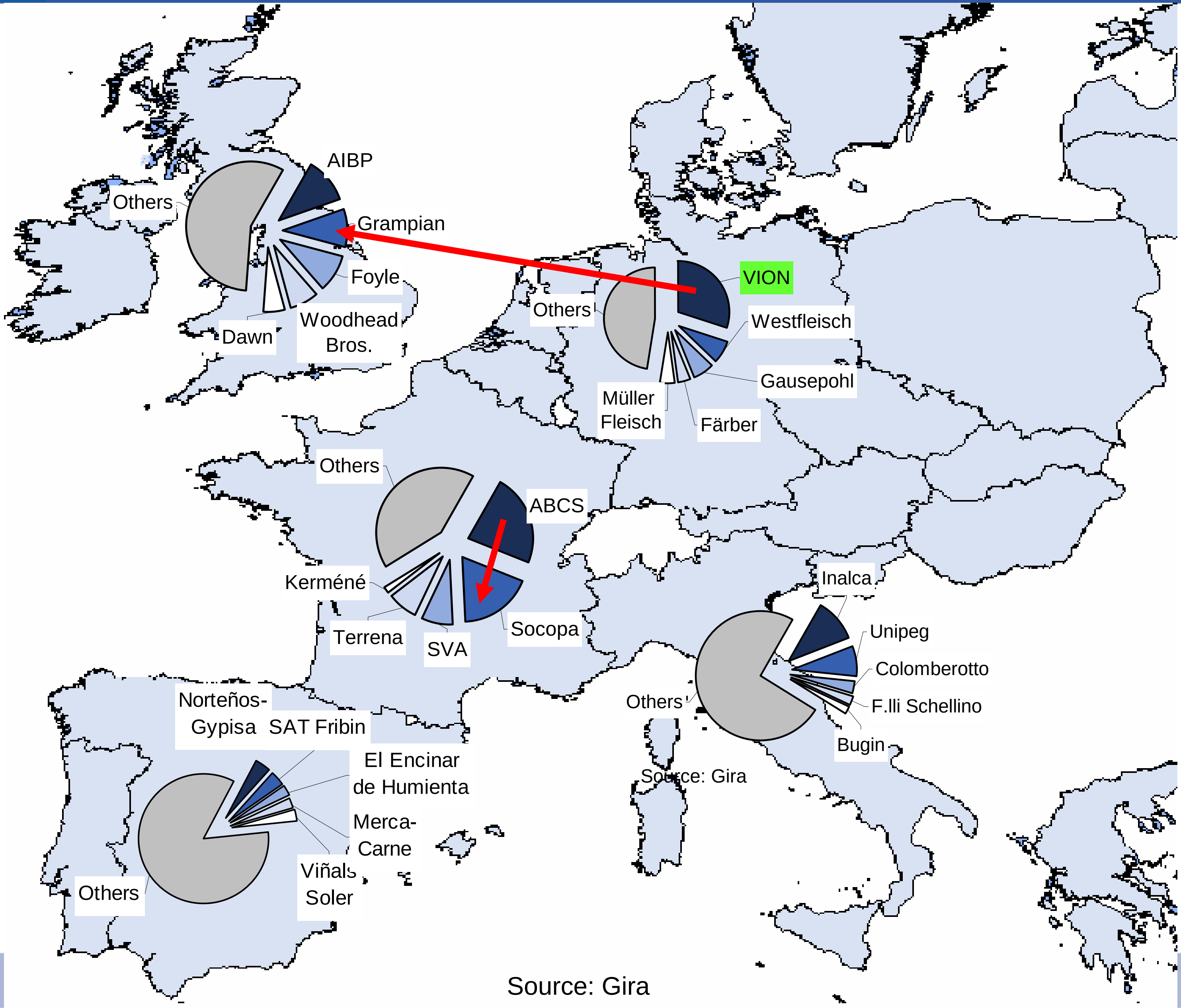
Supply Structure amongst Top 10 Beef & Veal Importers – 2001-2006 & 2007(e) / 2011(f)



Source: Gira

NOTE: each column represents a year - 2001 to 2007, & 2011

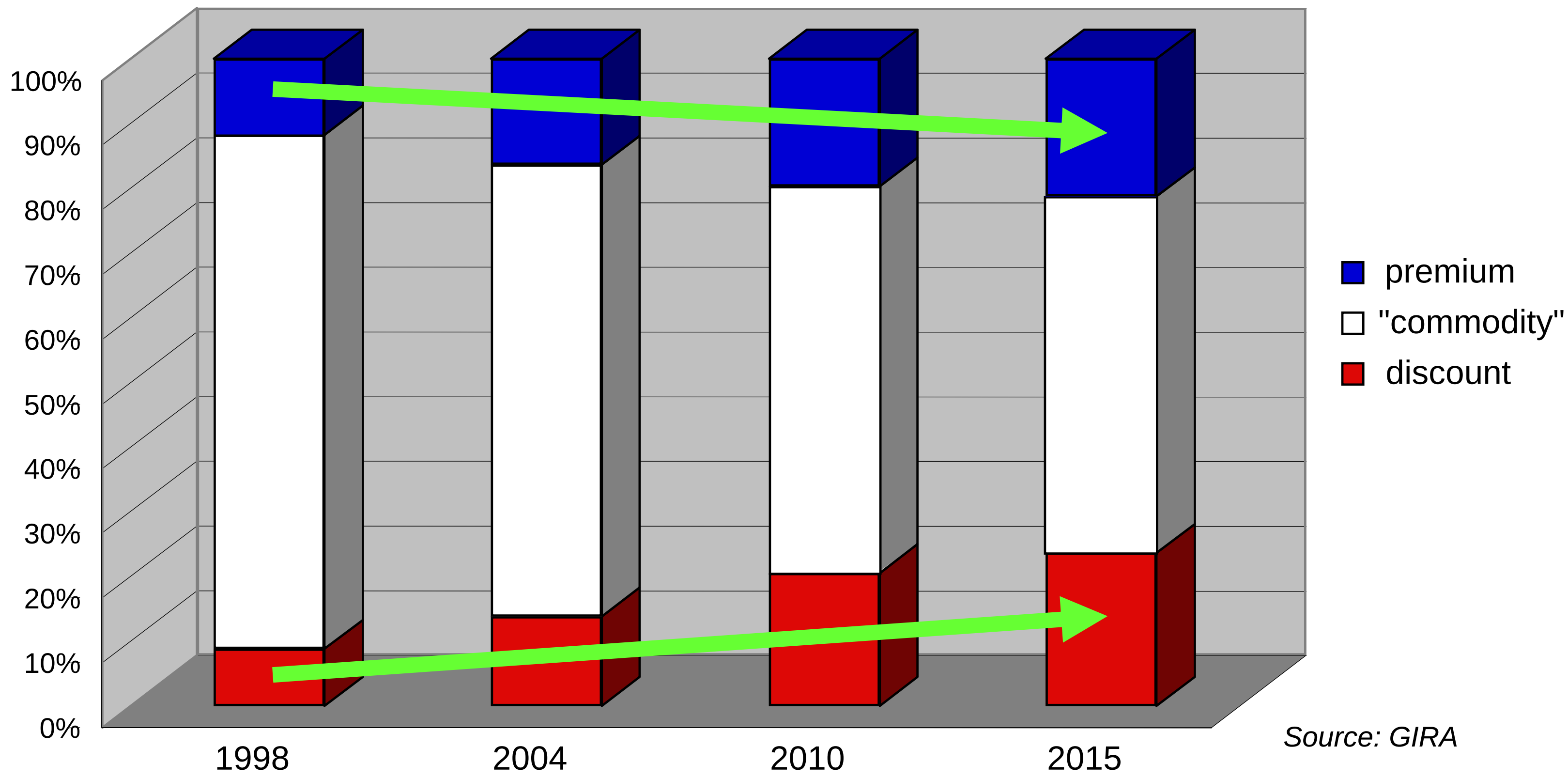
High concentration in the top 2 BF&V producing countries - around 55% share for the top 5



Source: Gira

There's nothing contradictory in a "premium" AND a "discount" offer - *even to the same consumer*

A polarising value-for-money structure in beef & veal supply

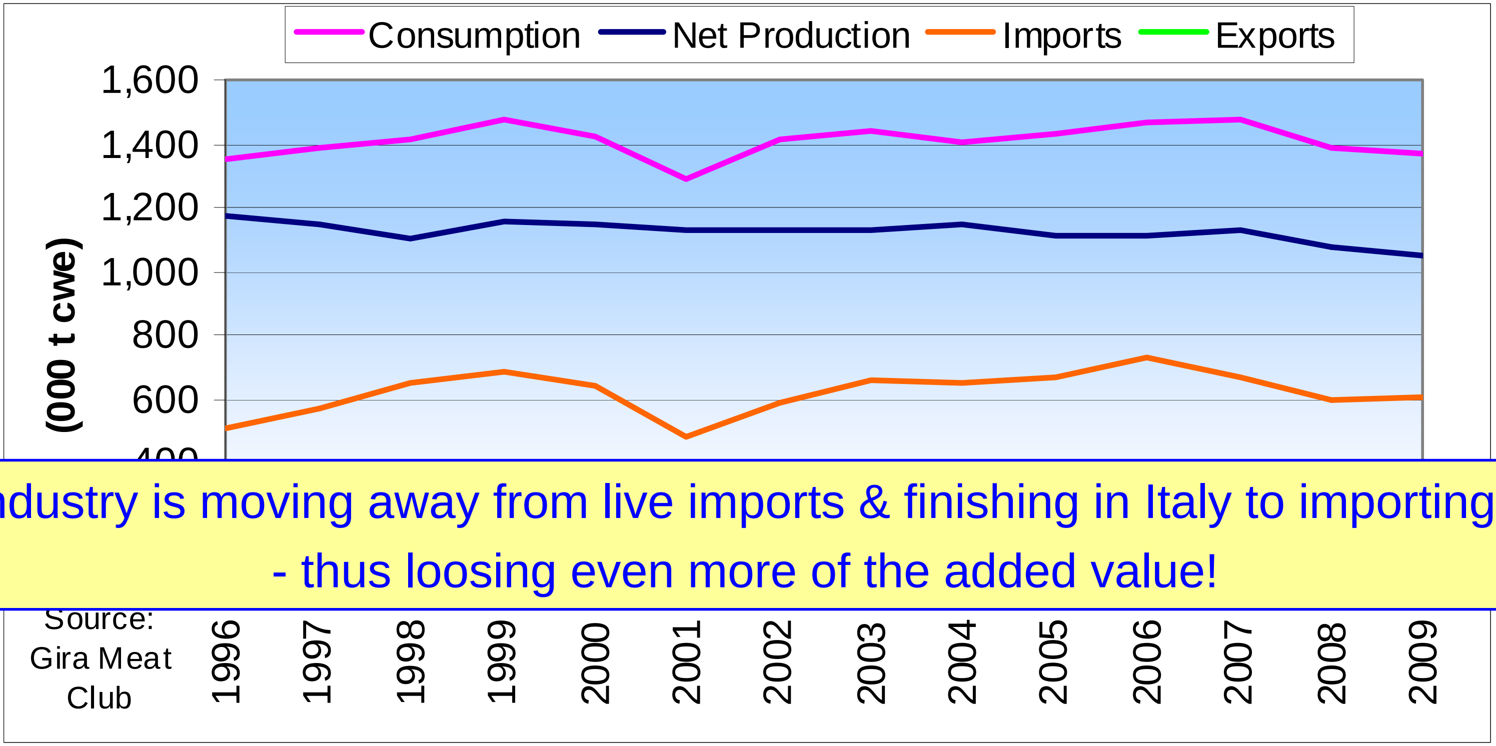


Source: GIRA

"Horses for courses"

Italian beef: a steady production decline in a tough market - with nearly 50% import dependence

Italian Beef Balance ('000 t cwe)



The industry is moving away from live imports & finishing in Italy to importing meat - thus loosing even more of the added value!

- Static domestic consumption
  - down in last 2 years due to economy + high prices in 2008
  - Modern consumer trends away from beef
- Strong imports are competitive on price & quality
  - Italian grain finishing is expensive, lacks scale

EU beef production competitiveness issues

Positive factors

- Good demand for national beef at a premium price point
  - Seen as more reliable
  - Better quality
  - Safer
  - More ethical…
- Strong grass based cattle herd, avoids grain cost issues
- National nuances in flavour support local finishing / cutting
- "Food miles" issue is building… but is not so strong in beef
- Intra EU trade – free access to the richest markets.

Negative factors

- High cost of production due to:
  - Higher feed and labour costs
  - Higher welfare costs
  - Lack of real scale at finishing
- Declining dairy herd, which dominates beef production
- Struggle to valorise carcases
  - by exporting cuts to better markets, since EU prices often uncompetitive
  - Increasing threats from imports
- Climate is not generally conducive to *intensive* cattle production
- EU population are historically pig eaters… and now cheap poultry.

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Conclusions: the competitiveness of EU beef must above all be looked for in the mind of the consumer

"Protection" can only come from clear market demand segmentation

- *This means fully developing meaningful premium, convenience and origin niches*
- *While, at the same time, encouraging increasing farmer and processor efficiency by all means for the production and delivery of everyday beef - mitigating the EU's natural cost dis-advantages*
- *And constantly pressuring consumers, retailers and caterers to " buy EU".*

But beef is and will remain essentially a "commodity"

- *That means it will continue to have a high degree of price elasticity*
- *So the freer the market, the more important lowest production cost (for a given product) will become.*

The temptation to simply "milk" the market - a possibility for the new mega-groups in the EU - must be resisted at all costs

- *"Abusing" the market thus must ultimately boomerang*
- *It will remove retailers', caterer's and processors' "moral" obligations to domestic producers and slaughterers*

... And, of course, by continually explaining that it is not by becoming dependent on the Americas that EU consumers' best interests will be served in the long - or even medium - term!

Thank you for your attention