Role and importance of financial instruments for the economic viability of the EU livestock chain: the perspective of the EU feed industry

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Chairman of FEFAC Industrial Compound Feed Production Committee
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Outline

• FEFAC in a nutshell
• EU feed industry: key figures
• Why using financial instruments?
• What for?
• Way forward
FEFAC in a nutshell

- Created in 1959 – 50th Anniversary in 2009
- Represents industrial compound feed and premixtures manufacturers
- 28 Members:
  - 22 Member Associations from 21 EU Member States
  - 4 Observer Members (Turkey, Croatia, Serbia, Russia)
  - 3 Associate Members (Switzerland, FHL, EMFEMA)
- 153 mio. t of industrial compound feed in EU-27 in 2012
- 6 Technical Committees to assist the FEFAC Council
  - Animal Nutrition
  - Industrial Compound Feed Production
  - Premix & Mineral Feed
  - European Feed Manufacturers Guide (EFMC)
  - Fish Feed
  - Milk Replacers
<table>
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<tr>
<th>Active Members</th>
<th>Observer Members</th>
<th>Associate Members</th>
<th>Potential Active Members</th>
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Active Members and their dates of membership:
- Austria: 1995 (1964)
- Belgium: 1959
- Denmark: 1973
- France: 1959
- Germany: 1959
- Greece: 1989
- Hungary: 2012
- Italy: 1959
- Ireland: 1973
- Lithuania: 2005
- The Netherlands: 1959
- Poland: 2004 (2001)
- Portugal: 1986 (1976)
- Slovenia: 2004
- Spain: 1986
- Sweden: 1995
- Sweden: 1995
- United Kingdom: 1973

Observer Members and their dates of membership:
- Croatia: 2008
- Russia: 2010
- Serbia: 2009
- Turkey: 2005
- Norway: 2003
- Switzerland: 1966

Associate Members and their dates of membership:
- EMFEMA: 2003
- FHL: 2003
- VSF: 1966

Potential Active Members:
- Bulgaria
- Estonia
- Latvia
- Malta
- Romania
The FEFAC mission

- represent, defend and promote the interests of the European compound feed industry to the European Institutions;
- lobby for a legislative framework and its implementation, without discrimination in EU Member States so as to maximise market opportunities for EU compound feed companies;
- safeguard conditions of free access to raw materials, the proper functioning of their markets and the definition of their quality;
- develop professional rules and good manufacturing practices including the sourcing of feed materials that ensure the quality and the safety of compound feed;
- encourage the sustainable development of livestock production responding to the market requirements, so as to maximise market opportunities for EU compound feed companies;
- encourage the development of precompetitive European feed-related Research & Development projects seeking to enhance the EU feed & livestock sectors competitiveness and capacity to innovate in and/or transfer science and technology based solutions to improve the sustainability of resource efficient livestock production systems.
Key figures 2012
Industrial compound feed production per country
152.7 mio. t in 2012 in the EU-27

Source: FEFAC
Industrial compound feed production in the EU-27 in 2012
152.7 mio. t (per category)

<table>
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<th>Category</th>
<th>Percentage</th>
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<td>Cattle</td>
<td>26.5%</td>
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<tr>
<td>Pigs</td>
<td>32.5%</td>
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<tr>
<td>Poultry &amp; eggs</td>
<td>33.5%</td>
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<tr>
<td>Milk replacers</td>
<td>1%</td>
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<tr>
<td>Others</td>
<td>6.5%</td>
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Source: FEFAC
EU-27 compound feed production development per category (+0.7% in 2012 vs 2011)

EU-15 as from 1995, EU-25 as from 2004, EU-27 as from 2007
Livestock sourcing in feed in the EU-27 (472 mio. T in 2012)

Source: FEFAC - DG Agriculture

- Forages: 232
- Home-grown cereals: 153
- Purchased straight feedingstuffs: 50
- Industrial compound feed: 37

Legend:
- Green: Forages
- Orange: Home-grown cereals
- Yellow: Purchased straight feedingstuffs
- Blue: Industrial compound feed
Feed material consumption by the compound feed industry in 2012 in the EU-27

Source: FEFAC

- Feed cereals: 48.5%
- Cakes & Meals: 28%
- Co-products from Food Industry: 11%
- Oils & Fats: 2%
- Pulses: 1%
- Dairy products: 1%
- Dried forage: 1%
- Minerals, Additives & Vitamins: 3%
- All others: 5%
Main role of the feed industry

- Sustainable competitiveness of the livestock sector through safe competitive and sustainable feed
- Nutritional know-how to achieve a sustainable diet for animals
  - Comprehensive knowledge of nutritional characteristics of feed ingredients
  - Accurate assessment of animals' nutritional needs
Added value of the feed industry

- Buying capacities
- Access to a wide range of feed materials
- Nutritional know-how

► price buffer for the livestock farmer, remains however limited in time
Price buffer effect

Comparison IPAA / IPAMPA aliments composés
(monthly data - until Feb 2013)
Why does the feed industry use derivative markets?

- To deal with price risks
- To protect margins
- For price discovery
Why does the feed industry need to deal with price risks and protect margins?

• Increasing volatility
• Magnitude of market fluctuations
• Deregulated markets: influence of previous CAP reform
Could we reduce the need to use derivative markets?

• Increasing global demand and tight supplies create volatility
  – Need to improve agricultural productivity
  – Role of new CAP

• Unpredictability also creates volatility
  – Need to avoid unpredictable trade disruptions
  – Need to reduce unpredictable market intervention
Financial instruments: what is available?

ENERGY
- Wheat (Euronext)
- Maize (Euronext)

PROTEIN
- Soybean meal (Chicago)

What is the share of the formula that is potentially covered?
- Broiler: 40-50 %
- Fattening pig: 40-50%
- Dairy cow: 10-50%
Do the financial instruments work well?

- **Wheat**: ++++
  - Good convergence
  - Enough liquidity

- **Maize**: ++
  - Not enough liquidity

- **Soybean meal (Chicago)**: +++
  - Enough liquidity
  - Correlation between CBOT and delivered EU can cause difficulties (freight + € vs $)
FEFAC position regarding regulation of financial instruments

- Convergence between futures and cash markets is the most important criterion to assess the functioning of financial instruments.
- The setting up of position limits could reduce the risk of market abuse.
- Trade transparency:
  - weekly reporting of positions taken by categories of operators, aligned with Chicago.
  - For OTC market: disclosure of volumes and prices (OTC market should not be standardized).
Main barriers to the use of financial instruments by feed companies

- Costs
- Treasury needs
- Accounting standards
- Expertise required
- Correlation difficulties
Conclusions

• Regulation of financial instruments should protect hedgers
• Being able to use well-functioning hedging tools is a key element for price risk management of feed companies.
• However there are still many feed materials for which no hedging tools are available.
Way forward

• Capacity to deal with price risk along the food chain?
• The possibility to use hedging tools should be further developed for the downstream parts of the livestock chain.
• Today the EU livestock farmers do not have the possibility to arbitrate risk on livestock products
• Lessons to be learnt from the US experience?
Thank you for your attention