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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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

Active Members

VFÖ	Austria	1995 (1964)
APFACA/BEMEFA	Belgium	1959
CFA	Cyprus	2004 (2003)
CMSOZZN	Czech Republic	2004 (2000)
DAKOFO	Denmark	1973
FFDIF	Finland	1995 (1993)
SNIA	France	1959
DVT	Germany	1959
SEVIZ	Greece	1989
HGFA	Hungary	2012
ASSALZOO	Italy	1959
IGFA	Ireland	1973
LGPA	Lithuania	2005
NEVEDI	The Netherlands	1959
IZP	Poland	2004 (2001)
IACA	Portugal	1986 (1976)
AFPWTC	Slovakia	2004 (2003)
GZS	Slovenia	2004
CESFAC	Spain	1986
FS	Sweden	1995
LANTMÄNNEN	Sweden	1995
AIC	United Kingdom	1973
		(observer as from ...)

Observer Members

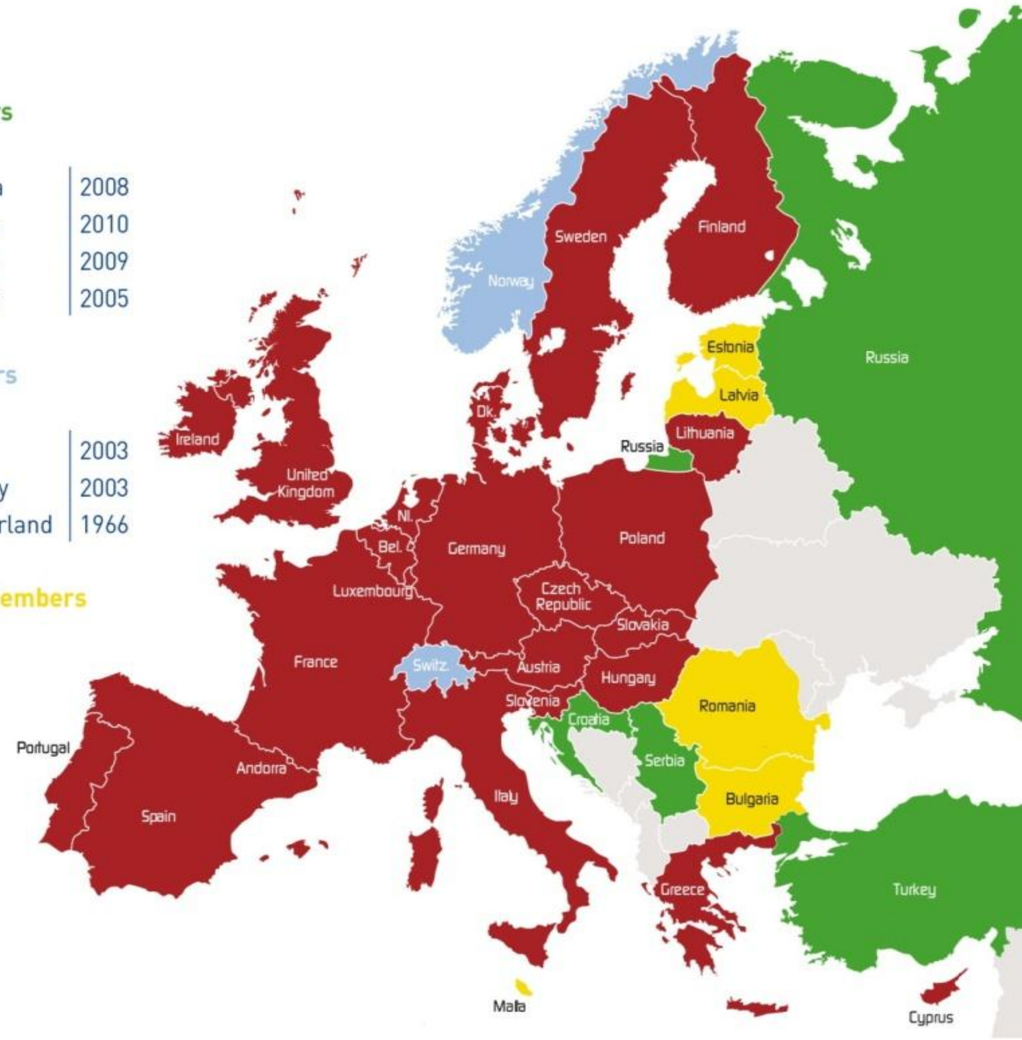
CFIA	Croatia	2008
RUFM	Russia	2010
SFMA	Serbia	2009
TURKIYEM	Turkey	2005

Associate Members

EMFEMA		2003
FHL	Norway	2003
VSF	Switzerland	1966

Potential Active Members

- Bulgaria
- Estonia
- Latvia
- Malta
- Romania



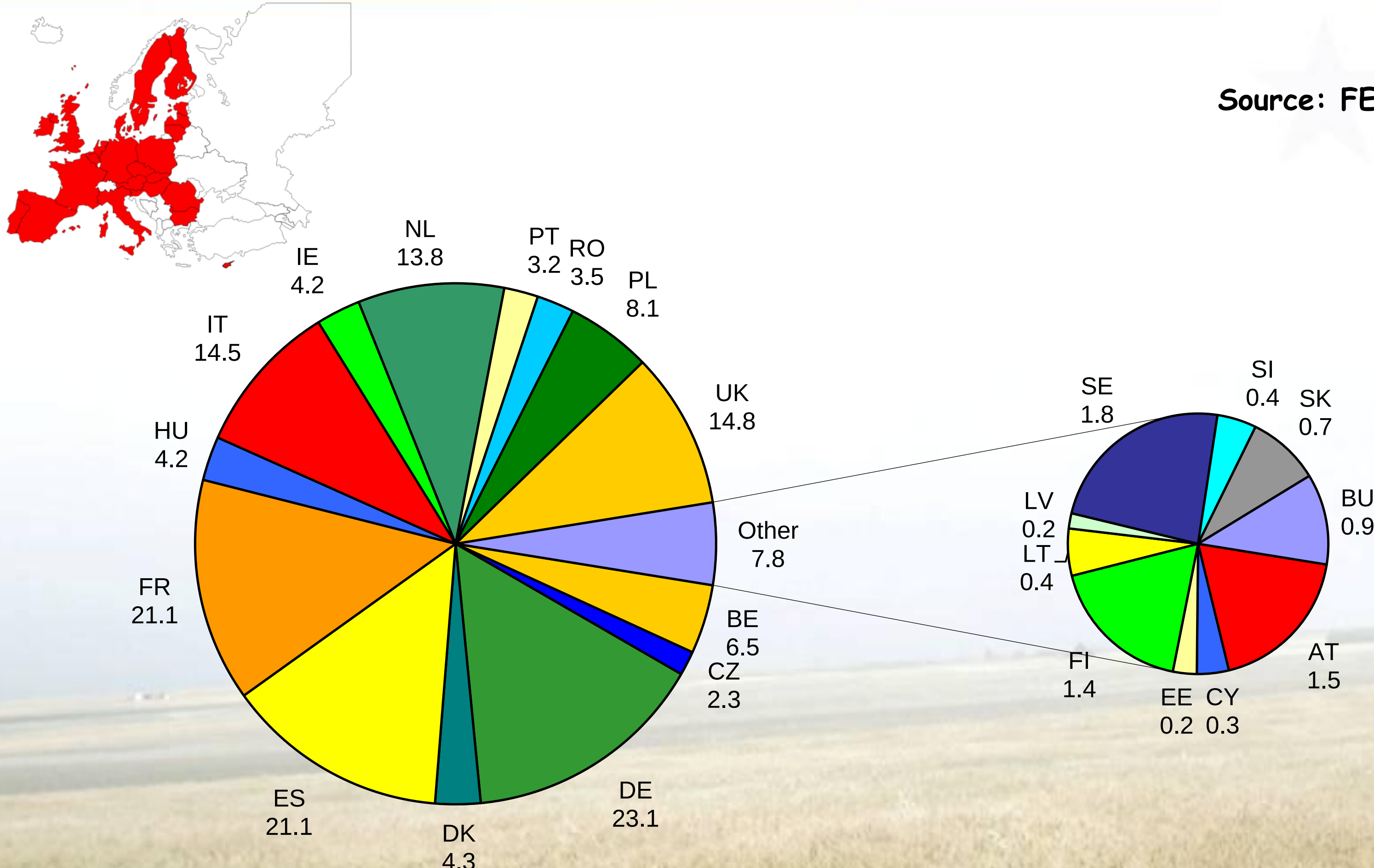
The FEFAC mission

- **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**.

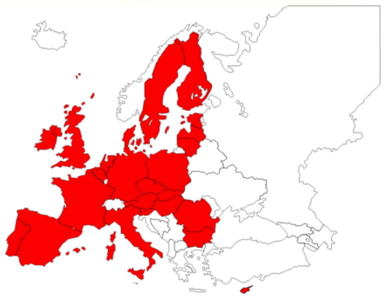
Key figures 2012

Industrial compound feed production per country
152.7 mio. t in 2012 in the EU-27

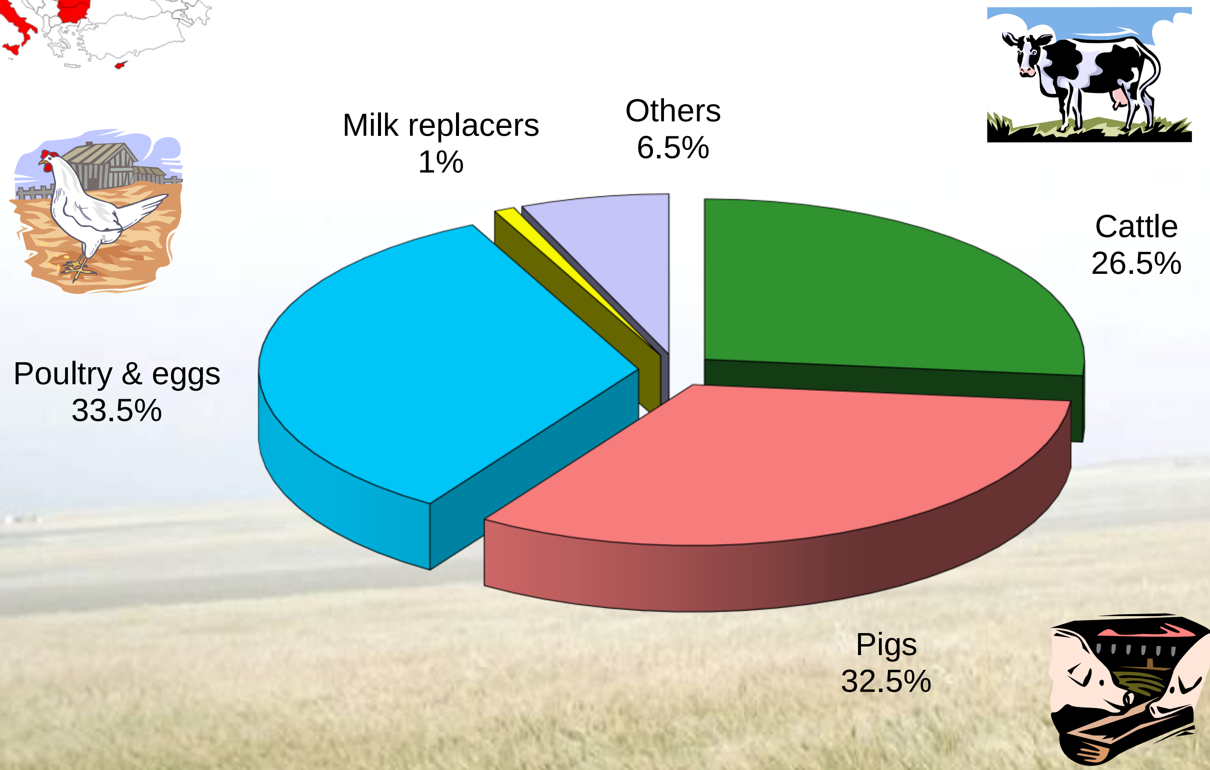
Source: FEFAC



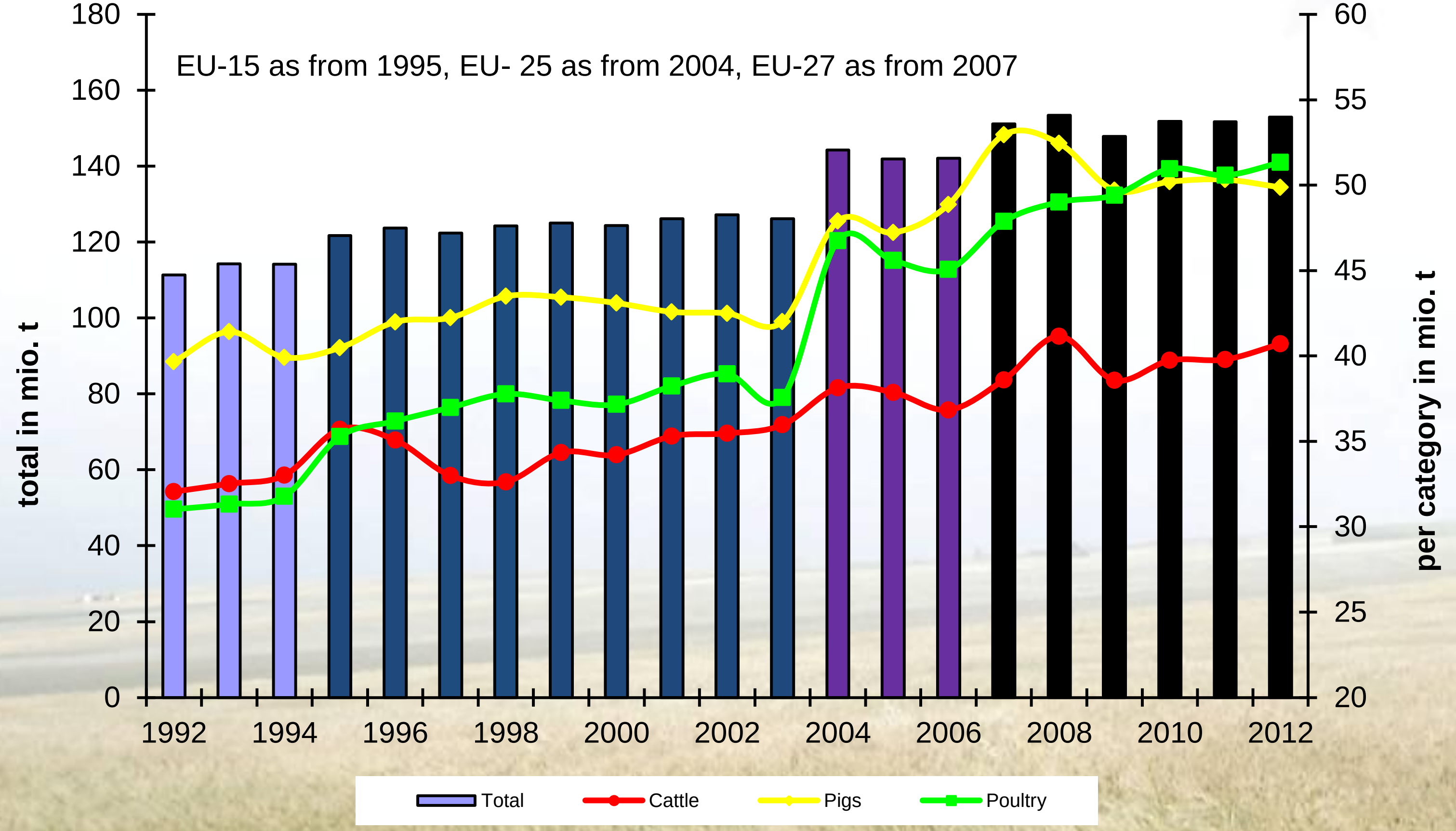
Industrial compound feed production in the EU-27 in 2012
152.7 mio. t (per category)



Source: FEFAC

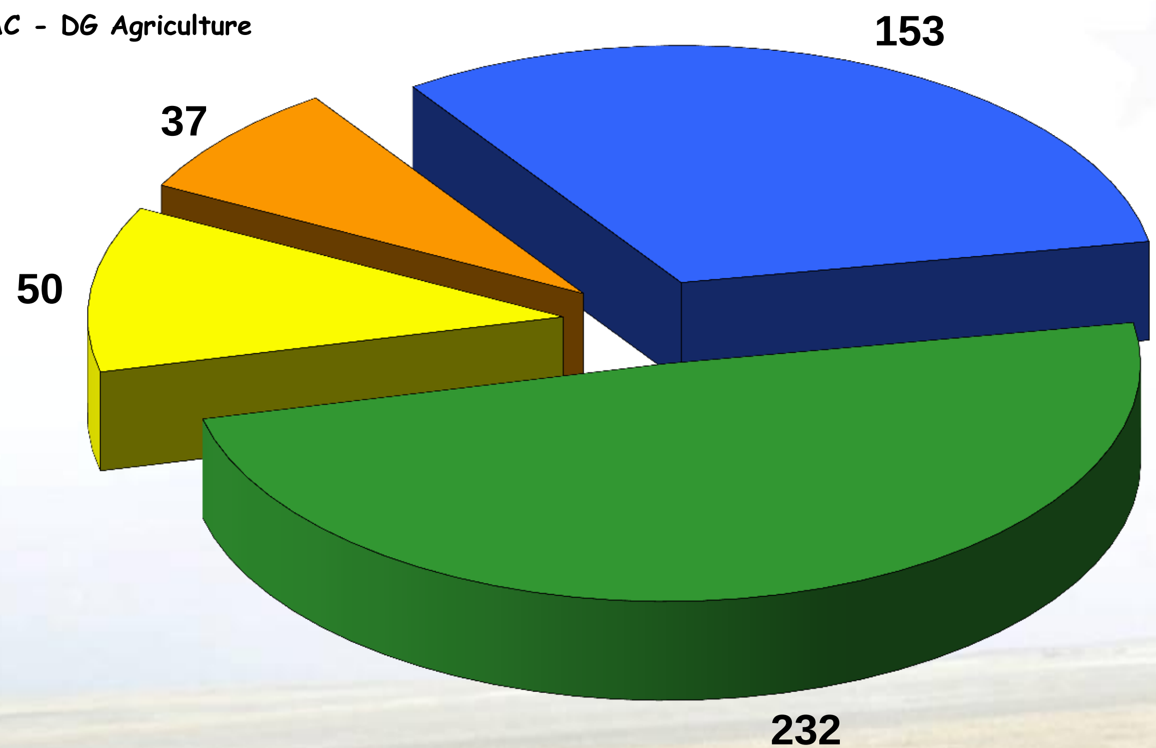


EU-27 compound feed production development per category (+0.7% in 2012 vs 2011)



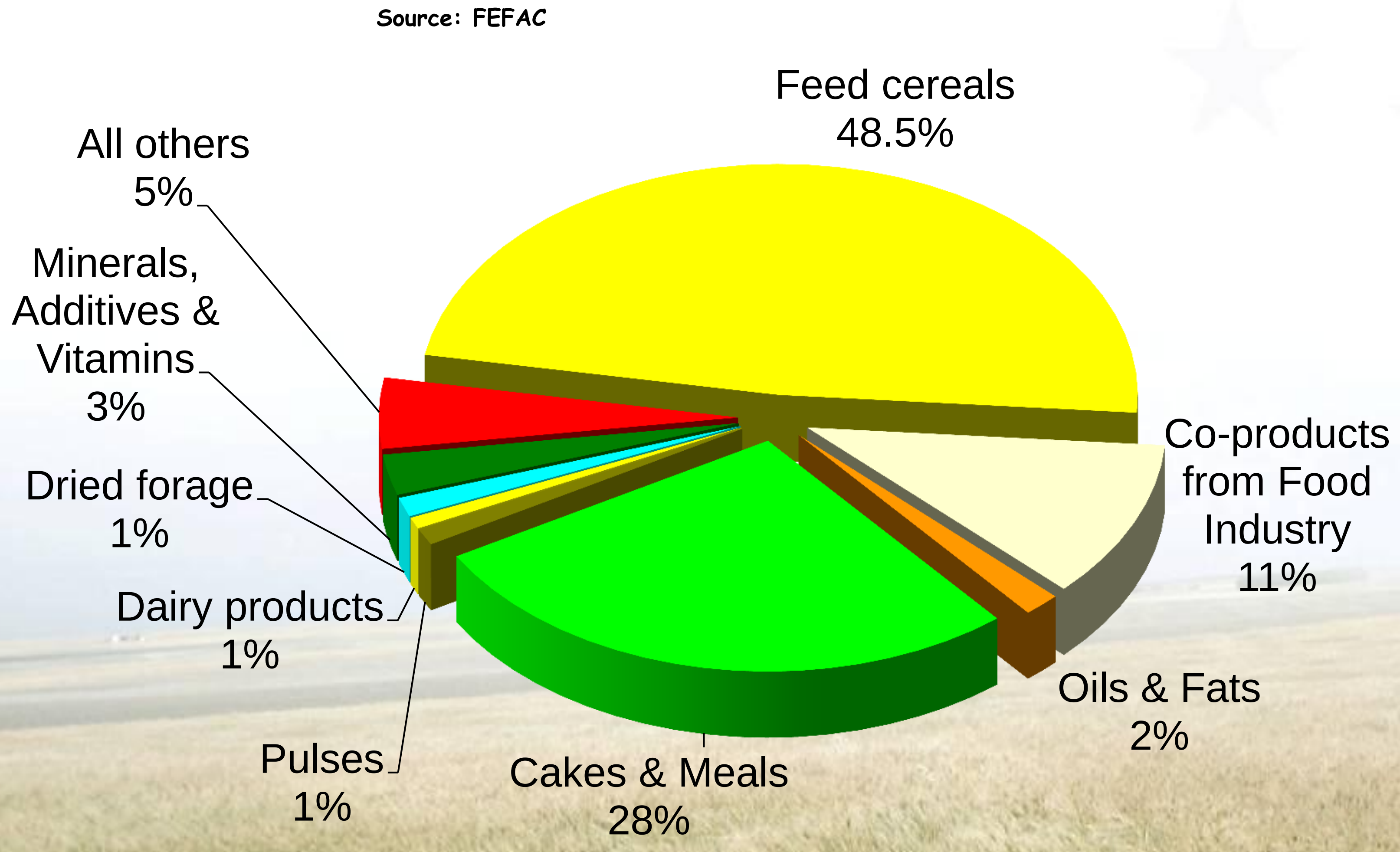
Livestock sourcing in feed in the EU-27 (472 mio. T in 2012)

Source: FEFAC - DG Agriculture



- Forages
- Home-grown cereals
- Purchased straight feedingstuffs
- Industrial compound feed

Feed material consumption by the compound feed industry in 2012 in the EU-27



Main role of the feed industry

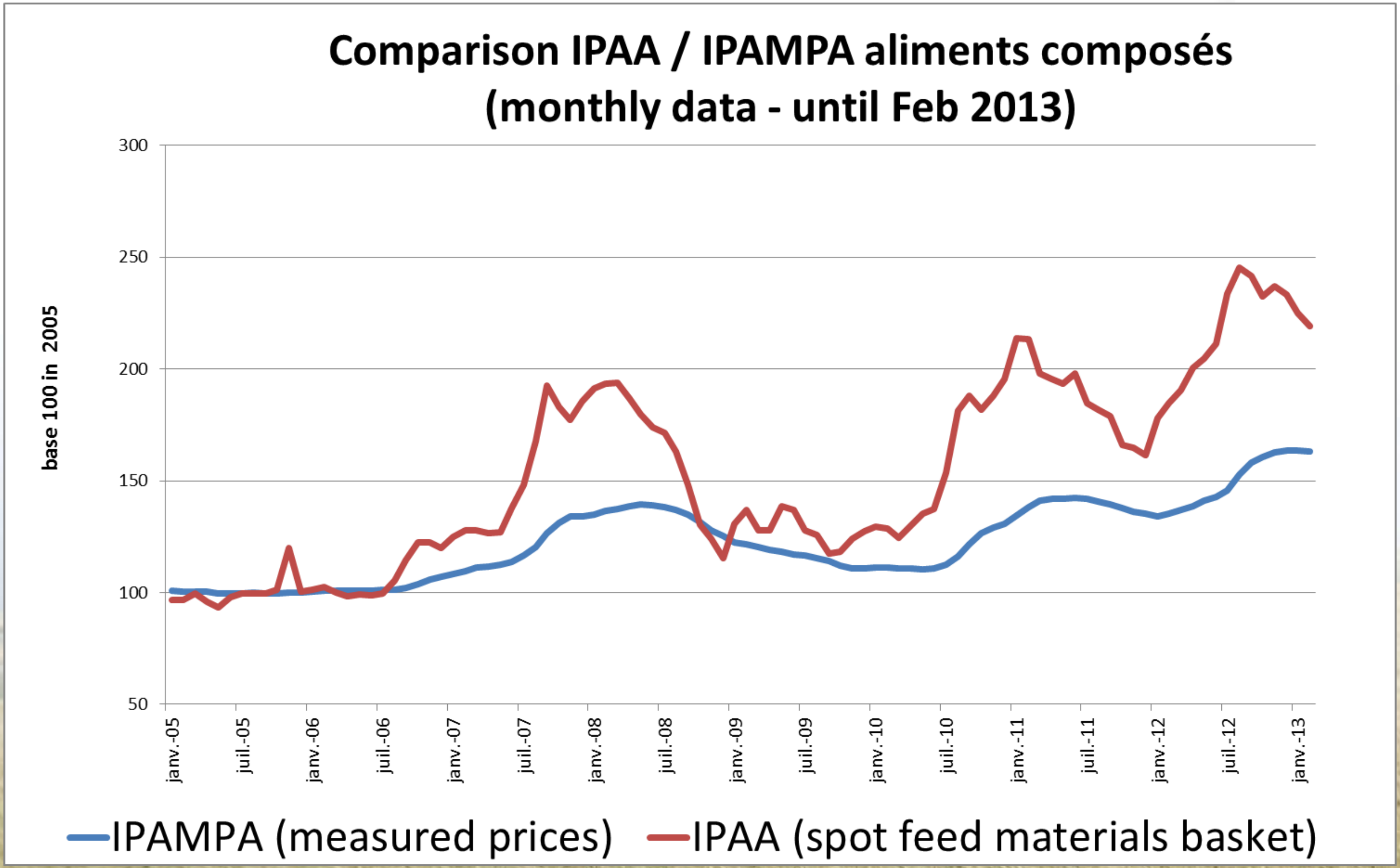
- Sustainable competitiveness of the livestock sector through safe competitive and sustainable feed
- Nutritional know-how to achieve a sustainable diet for animals
  - Comprehensive knowledge of nutritional characteristics of feed ingredients
  - Accurate assessment of animals nutritional needs

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



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 instrumets
- 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 hegding 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