

# Pig production in Eastern Europe – to go or not to go?



Investing in Eastern Europe sounds like an ideal solution to escape from the difficulties many pig producers face in the pig-dense areas in e.g. Western Europe. To find out what investing over there really means, market analysis scientists from Wageningen University and Research Centre in the Netherlands tried to find all the pros and cons.

By Vincent ter Beek

Farms in Hungary, like this one, are modernising rapidly, so there are relatively few opportunities to find old-fashioned pig farms that can completely be remodelled by investors.



**Robert Hoste, researcher at Wageningen University and Research Centre: “It would be rewarding rather rapidly to have a western-oriented manager on the spot to manage the farm.”**

**M**any Western European producers nowadays think of starting up their business in Eastern Europe – at least outside the dense and crowded areas of Western Europe. Regulations become ever stricter and it is clear that survival is only possible in areas where feed seems to be abundant, and where there is no pressure from tight manure laws, small margins and high extra costs due to welfare problems.

Four scientists, linked to the Agricultural Economics Research Institute (LEI) at the Dutch University of Wageningen and Research Centre in the Netherlands, set out to discover whether they could arrive at a sound set of criteria upon which pig producers can decide where to go to if they

want to try their luck abroad.<sup>1</sup> Robert Hoste, Coen van Wagenberg, Ron Bergevoet and Liesbeth de Schutter, compared the situation for investment in four Eastern European countries: Hungary, Romania, Russia and Ukraine. All four of them appeared to have their pros and cons, as will be shown in this article, based on their report *Investments in the pork industry in Hungary, Romania, Ukraine and Russia*.

In their recommendations, the scientists looked at the prospects for investments in three different sectors in the feed-to-meat chain. They looked at chances for investing in the feed chain, in the pig production sector and in the meat industry. For each section, the yielded results varied significantly. For

obvious reasons, the results for the pig production industry will be highlighted and emphasised here.

### Common features

Generally speaking, all countries under scrutiny have several elements in common, which can influence the results of any investment. In all states, to a greater or lesser extent, the researchers found that:

- agriculture plays a major role;
- the population is decreasing;
- there are relatively large risks related to exchange rate;
- corruption is relatively abundant;
- infrastructure quality is poor, mainly on secondary roads;
- salary levels are comparatively low;
- the demand for pork is on the rise;
- labour productivity is low.

### Comparison

In order to make a good comparison, the researchers aimed to find as many specific qualities of the local pig producing market as they possibly could. The results of that can be found on page 8, in which all four countries are discussed in more detail. The results of specified characteristics such as e.g. infrastructure, corruption, legislation, political stability and prices can be found in *Table 1*.

Knowing countries is one thing, but knowing the effects of investing in them is another. Hence, the next step was to researchers aimed to use this information to construct a cost consequence of investing in these four Eastern European countries. Producing 1 kg of pork (slaughterweight) costs €1.11 when done in the Netherlands, a country which is highly effective, but also has many environmental and tax requirements. What is necessary to know is what the same kg would cost when produced after investing in one of these countries. A clear distinction could be made with using local farm managers or bringing in 'own', Dutch managers on the ground. These results can be found in *Table 2*.

To make sure that all data were actually comparable, the team chose to base their review on a 500-sow farm with piglets and fattening units, using professional management. The size of

500 sows was chosen as it meant it would be a farm that can survive well in Western Europe. The several feed prices were provided by Dutch feed cooperative Cehave-Landbouwbang.

Going to Russia or Ukraine when bringing an 'own' manager, yields the best prices, according to this schedule, as that would cut down production costs to €0.80 and €0.82 per kg slaughterweight respectively.

In addition, in all countries, it pays off to have a western-style management, Hoste c.s. write, up to even about 20 to 30 eurocent per kg. "So, it would be rewarding rather rapidly to have a Dutchman or another western-oriented manager on the spot to manage the farm."

### Investment opportunities

Naming countries of preference for investment is difficult, Hoste explained. "I would personally not want to give advice," he said. "It simply depends too much on your own attitude as a pig producer. Are you prepared to take any risks? Can you deal with a long period of time without any social contacts? Can you find a Western-style manager on the ground? Do you want to do everything on your own – or together with your compatriots? In what period of time do you want to make money – within three years or is 5-10 years also

**Table 1. Comparison of a number of external factors influencing investment opportunities in pig production.**

Country	Hungary	Romania	Ukraine	Russia
Economic growth	+ / ++	++	++	++
Purchasing power	+	0 / +	+ / ++	++
Political stability	++	+	-	0
Exchange rate risk	0	-	--	- / --
Agricultural subsidies	+	+	+	+
Salary level	+	++	++	+
Notion of responsibility	-	--	--	--
Physical infrastructure	+	0 / +	0	0
Corruption	0	0 / -	-	--
Transparency of legislation	++	0	-	--
Retail development	+	+	++	++
Foreigners acquiring land	-	+	-	-
Development meat production	0 / -	+	+ / ++	++
Consumption growth	0 / +	++	++	+
Retail pork price	-	-	-	0 / -
Importance of family business	0	0	0	0 / +
Capital availability	-	-	--	+ / --
Importance of integrations	-	+	+	++

+ = positive for investors  
- = negative for investors  
0 = neutral

ok? And even questions like these play an important role, whether it would be possible to build a good relationship with existing demand and/ or supply structures, like for instance the feed and meat industry."

Apart from considerations of working with western-style management and

**Table 2. Cost price as calculated for pig production including some of the main starting points, using both management from the Netherlands and local management.**

Country	Netherlands		Hungary		Romania		Ukraine		Russia	
	NL	local	NL	local	NL	local	NL	local	NL	local
Management										
Cost price A	1.11		1.05	1.37	0.97	1.26	0.82	1.05	0.80	1.05
Production B	24.5		21.0	15.0	21.0	15.0	21.0	15.0	21.0	15.0
Slaughterweight C	113.7		110	110	110	110	110	110	110	110
Feed conversion D	2.50		3.0	4.0	3.25	4.25	3.5	4.5	3.5	4.5
Price feed package E	15.9		16.5	16.5	14.6	14.6	11.1	11.1	10.8	10.8
Investments in pig housing F	4,600		3,100	3,100	2,900	2,900	2,800	2,800	3,000	3,000
Labour G	14.3		27.6	36.8	27.6	36.8	27.6	36.8	27.6	36.8
Labour tariff H	19.0		1.7	1.7	0.7	0.7	0.5	0.5	1.0	1.0

A Cost price in € per kg slaughterweight, excluding VAT  
B Produced number of finisher pigs per sow per year  
C Kg live slaughterweight per finisher pig  
D Feed conversion from weaning to slaughter  
E Average of the feed package for the whole production site in € per 100 kg  
F € per sow including piglets and finishers based on a new building  
G Hours per sow per year, including piglets and finishers  
H € per hour for local employees.

## Hungary

Annual pork consumption per capita: 27 kg



### ► Pork production

Despite a lack of confidence, the country is considered to be a good place for pig production. Hungary is not often infected by many pig diseases, it has a long pork production tradition and it is located centrally in Eastern Europe. Moreover, being a member of the EU, the country has access to that open market. Still, the researchers expect there will not be many investments in new piggeries, since there has recently been a wave of subsidies aimed at that. It is relatively easy to start individual production sites as it is not necessary to invest in integrations. However, foreign investors are only allowed to rent the area needed for building a piggery. In addition, (veterinary) consulting is scarce and payments usually take a long time.

### ► Feed production

Raw materials for feed production are widely available. However, one of the country's major disadvantages is the lack of a sea port, which makes e.g. soybean transports rather difficult. Many producers use own raw materials in combination with premixes or concentrates to cut down on feed costs.

### ► Meat industry

Investments are needed to build up brands and export possibilities. This, however, is difficult with a strong retail, fragmented meat industry and competition from abroad. Traditionally, the meat processing industry focuses on high quality processing of well finished pigs. This industry is hardly rewarding as the plants are underused and operate at high costs a lot due to inefficiency. In addition, supplies are not consistent.

## Russia

Annual pork consumption per capita: 18 kg, expected to rise to 20



### ► Pork production

Investing means bringing in lot of money, as investments are better made together with local investors. Being self-sufficient is very important for Russia. The country now caters for about 75% of its own pork, equalling about 1,950,000 tonnes of pork. Russia has an independent stance in negotiations and aims to uphold import barriers. Since corruption is widespread and laws are not transparent, investing requires patience and time. The country counts 16 million pigs, half of them being produced at commercial farms and half at smaller sites. Russia has about 30 large pig producing companies with over 50,000 animals, but having poor housing, outdated breeding materials and low production results. Imports of modern breeding materials will not be charged with VAT in the next couple of years to encourage modernisation. Retail in Russia is expanding rapidly and supermarkets can be found in most of the cities. The retail market cannot dominate pork prices as yet.

### ► Feed production

Russia is known as a big grain producer and exporter – so the development of ever increasing grain prices on the world market is welcomed there. This will also mean that grain prices in Russia itself will increase too. The Russian government aims to increase rape seed production for biodiesel purposes. Total compound feed production sales to \$3.7 billion, production is 14.5 million tonnes.

### ► Meat industry

Meat processing is usually not connected to pork production. However, in the new agro-industrial projects, integrations are constructed. The seven biggest meat processing companies own 38% of the market – and possess proper machines and technologies. Often, these expansions are financed by companies active in oil and gas production.

## Romania

Annual pork consumption per capita: 30 kg



### ► Pork production

The total number of pigs in Romania is 5 million, of which only a quarter is produced commercially in vertical integrations – the rest is backyard production. It is expected that this percentage of commercially produced pork will rise in the next few years. As the retail sector is growing, a tendency is expected to keep production prices low. EU and local subsidies help to develop the country's (agricultural) infrastructure. Investment opportunities are considered to be good as Romania does not have many regulations and good costs of production, like cheap labour, low environmental costs and low feed costs. There is a larger risk on animal diseases, as Classical Swine Fever (CSF) is endemic in many areas in Romania.

### ► Feed production

Total mix feed production for pigs is 0.7 million tonnes in Romania. The rest of the pigs receive feed produced locally, in combination with concentrates and premixes, all imported, like soy. Romania is self-sufficient when it comes down to wheat, maize and sunflowers. The scientists estimate that there is space for large companies with high-quality compound feed products.

### ► Meat industry

A large number of small and middle-size companies will need to cease trading as they will not be able to comply with EU regulations. Hence, there is a demand for money, knowledge and management, the researchers say, which paves the way for acquisitions or partnerships. This offers opportunities for exports to Romania. Exports from Romania, are hitherto not allowed due to vaccination programmes against CSF.

## Ukraine

Annual pork consumption per capita: 12 kg – expected to rise to 16



### ► Pork production

The agricultural sector in Ukraine is about half the size it used to be in 1990 as exports to Russia ceased to exist. It is expected, that the country's economy will grow rapidly. There is insufficient support for governmental programmes to encourage developments in the pig industry. Bureaucracy and the lack of both policies and an independent magistrature make the situation rather unpredictable. Ukraine counts about 13,000 pig production sites, having altogether 8 million pigs. Only 36 of these production sites are large and commercial-sized. In addition, the country has about 3 million micro sites with only several animals. In general, the country has cheap labour, but also low-level breeding material, management, housing and knowledge. Especially high-quality housing materials are wanted. Local production sites usually use low-quality breeding materials.

### ► Feed production

Ukraine has a large potential for cultivating crops for feed. As the animal husbandry is on the increase, so is feed production. In 2005, compound feed production amounted to 2.8 million tonnes – of which 0.8 million was destined for the pig industry. At smaller pig farms, compound feed is not well-known. Some use premixes or concentrates.

### ► Meat industry

Opportunities are plentiful. There is a stable demand for pork and in the underdeveloped market there are only a few strong competitors. Many slaughterhouses and processors have a technology backlog. The opportunities are joined by a lot of uncertainties, as the industry is suffering from e.g. the consequences of bird flu, price politics, illegal imports and exports and the instable export situation. The existence of economical preference zones gives domestic companies an advantage as they can import cheaper meat.



High-quality housing materials are needed in Ukraine.

production costs, the researchers had a couple of other guidelines for investments in the field of pig production, pointing in the direction of a positive balance for Hungary, Romania and Ukraine:

- For **family businesses**, the best opportunities can be found in Ukraine and Hungary, as a large part of the commercial pork production in Romania is already quite integrated.
- When looking for older facilities which can be completely **restyled and modernised**, Hungary might not be the best option as modernisation is well on the way there.
- If **low feed prices** are what you are looking for, then cheap raw materials can be found in Romania and Ukraine. Be sure to have some capital money to deal with price fluctuations.
- **Buying own land** is only possible in Romania.
- **Breeders** could do well investing in Romania and Hungary, to serve a market with large companies.
- When **health** is important, be aware that CSF is endemic in Romania. Most probably, the scientists write, also PRRS and PRCV are present in

all countries, but not recognised as such.

As investing in Russia means bringing in large sums of money, the researchers suggested either to invest huge sums and be assisted by local investors who know the legislation and the connections or to choose for other ways to deal with the country. A better way of doing business with Russia, they said, is to export knowledge, management and sophisticated breeding, housing and feeding materials.

For investors, other than Dutch, Hoste did not see any restrictions. “The recommendations apply for virtually anyone who’d like to think outside the box, who dares to take risks, is looking for a low cost price and would like to make money with western management.” Joking he said, “I would not mind telling this story to e.g. Americans – except of course perhaps for reasons of competition.” **PP**

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