Since the financial and food price crises of 2007, market instability has been a topic of major concern to agricultural economists and policy professionals. This volume provides an overview of the key issues surrounding food prices volatility, focusing primarily on drivers, long-term implications of volatility and its impacts on food chains and consumers.

The book explores which factors and drivers are volatility-increasing and which others are price level-increasing, and whether these two distinctive effects can be identified and measured. It considers the extent to which increasing instability affects agents in the value chain, as well as the actual impacts on the most vulnerable households in the EU and in selected developing countries. It also analyses which policies are more effective to avert and mitigate the effects of instability.

Developed from the work of the European-based ULYSSES project, the book synthesises the most recent literature on the topic and presents the views of practitioners, businesses, NGOs and farmers’ organisations. It draws policy responses and recommendations for policy makers at both European and international levels.

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Revisiting the recent food crises

Agricultural Markets Instability

Earthscan Food and Agriculture
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Chapter 9
The view of farmers
German pig producers

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Recommended citation:
1 Introduction: the interest group of pig farmers in Germany (ISN)\(^1\)

The ISN represents the economic and political interests of German pig farmers. The objective of our organization, which has about 11,000 members in Germany, is to strengthen the competitiveness of German pig farmers. Hence, market conditions and public relations play a central role in our work. Besides that, we execute project work in order to provide effective and economically viable solutions to crucial questions, especially those concerning the animal welfare discussion. This also includes forward-looking issues and current societal debates. The ISN has extensive experience in the field of public relations, as well as in teaching the context and reality of pig farming.

2 Pig farming in Germany – still a story of success?

Pig farming has written a phenomenal success story over the last ten years in Germany. The German pork sector shifted from being a net-importing country with a self-sufficiency degree of 80 percent to a powerful exporter with a self-sufficiency degree of 115 percent within the last decade. Pig meat is in demand all over the world, but German products are best known for high quality. This is because of strict production standards comprising hygienic and quality regulations throughout the whole supply chain.

In 2014, approximately 42 million piglets were produced in Germany. Moreover, we import about 11 million piglets, predominantly from Denmark and The Netherlands. Hence, about 53 million fattening pigs were merchandised in 2014 from German farmers to domestic slaughterers. In addition to the living imports of fattening pigs, 58 million pigs were slaughtered in 2014.

Considering the last 25 years, the number of pig farmers in Germany has decreased by 90 percent. At the same time, the amount of pigs has increased by about 8 percent. This means that in 1999, 141,000 pig farmers kept approximately 26 million pigs; today, in 2014, only 27,000 pig farmers manage a
population of 28 million pigs. In relation to this, the average number of pigs per farm has increased from 185 pigs to 1,000 pigs.

Nevertheless, in some regions of intense processing of animals, one can identify the development during the last years of a particular farm structure. For instance, the region known as Oldenburger Münsterland (in northern Germany, federal state of Lower Saxony) has the largest density of livestock in Germany. In most cases, an enlargement of a typical family farm in this region has been marked by a gradual construction of new stables with a size between 1,000–2,000 finishing pig places during the last 10 or 20 years. Until today, the majority of farms increased to an average livestock of more than 5,000 pigs. Against the background of economic assumptions at the same time, such a development is extremely remarkable. In 2013, the fluctuation of the average pig price varied from 1.3 to 1.45 euro per kg carcass weight.

The fact that a typical family farm took the step forward to increase the farm structure is a clear indication of the adaptation capacity of pig farmers to volatile prices. In addition, the concentration of the up- and downstream sector (for instance, animal feed companies or food-processing companies) contributes significantly to the prosperity of livestock farms in this region. Furthermore, policymakers too have paid heed to an agricultural development in dialogue with the business community.

3 Great adaptability of the pig farmers concerning price volatility

Discussing the critical topic of price volatility in the pig market by view of the national association for pig producers, it should be emphasized that a large proportion of pig farmers can cope very well with price fluctuations. The current pig market is characterized by a very dignified system of commercialization opportunities. Thus, ISN’s point of view is that the success of the pig farmers highly depends on their trading skills. It leads to the fact that both piglet producers as well as fattening farmers deal continuously with the optimal conditions to sell their animals.

The price for piglets, as well as the price for the slaughtered pigs, complies with weekly price announcements of more than 30 producer associations within Germany. A uniform price mask provides a fixed weekly rate that applies to all members. It is even estimated that this basis price applies to more than 80 percent of the weekly marketed quantity of meat. The differences between the farms are caused by some allowances and deductions to the weekly basis price according to the corridor of the price mask of each slaughterhouse (e.g., slaughter weight, indications of liver, pneumonia). Assuming a gross margin of 25 euro per fattening pig, a rise of 2 cents per kg improves the profitability by almost 10 percent.
4 The key to success – free market without any political subsidies

During the last few years, the pork industry has barely received any political subsidies. Furthermore, there are no quotas or similar listing regulations that affect price supports. An instrument to mitigate price volatility would be the hedge of purchase and sale on the commodity exchange. An exchange board for pigs and piglets exists in Germany. The so-called EUREX has a registered office in Frankfurt on the Main. Farmers can ensure their marginal returns when they house the animal. However, the acceptance is very low on both the sellers and buyers for various reasons. Predominantly, the market position of the big slaughter companies plays a great role. The oligopolistic structure (the largest four slaughterers hold 60 percent of the market share) does not incentivize the slaughterhouse firm to hedge purchase prices.

In order to eliminate any impacts of volatile prices, most pig farmers pursue a strategy of risk anticipation. In particular, animal feed, as one of the major expense factors, is predominantly being hedged or purchased together with larger associations to cope with the price. Similarly, fixed contracts between the piglet producers and takers are commonly used. In this way, a fixed link to the fattening farm can be managed.

5 Period of structural change due to social expectations

Currently, German pig farmers undergo a period of consolidation. Particularly in the region with a great livestock density, the competition for land is disproportionally high. Livestock farmers have to pay extreme lease prices in order to handle their manure corresponding to sustainable agriculture and husbandry. In addition, the new building legislation clearly complicates the creation of larger stables, because this is only possible with the consent of the local community. Especially in regions where the population of livestock has reached a critical status, the development of farms is almost impossible.

The pressures of society in relation to animal welfare have also increased. Many people have become detached from agriculture and rural life and no longer know about the modes of production. This leads to excessive and unrealistic expectations for farmers, which they cannot satisfy anymore. The political answer to this social development leads mostly into legal regulations. For instance, every stable with more than 1,500 pigs or, respectively, 560 sows needs to have a filter. The investment for a filter is projected to an average of 5 euro per fattening pig. Moreover, the time period for the transport of the animals should be limited. Consequently, the amount of different political restrictions hinders the structural change of farms. Bureaucracy is a major driver forcing smaller farms to give up production. Low production numbers just cannot compensate the cost for the administrative effort every farmer has to make, be it in accounting or audits for quality assurance (e.g., a new database for the consumption of antibiotics). Regardless of the size of the farm, there are costs that have to be compensated.
6 Conclusion and requests

In the ISN’s opinion, the pig market can consequently regulate itself best – therefore ISN makes the following requests of European agricultural policy:

1. **Free market** without any trade barriers: In the EU, this is the key to success for European pig farmers. Politics should distance itself from any market interventions (e.g., quotas, export subsidies). ISN regrets that the EU’s Commissioner of Agriculture Mr. Hogan has deviated from his original opinion of refusing the storage of pig meat. Public stock keeping is counterproductive and will lead to greater problems in the future.

2. When transposing a European law, it must be ensured that **legal bills are transferred equally and chronologically in national law** in all Member States, in order to avoid competitive disadvantages for certain farmers within Europe. For instance, by means of the regulation of group housing for sows, we have experienced a dramatic distortion of competition of sow farms in Germany. Whereas almost 99 percent of the sows in Germany were kept in the group, this figure was 80 percent in Spain as of 1 January 2014.

3. The ISN asks policymakers to **exploit new export markets**. Germany became a net exporter of pig meat in 2007 and depends on international trade. There are about 2,500 different products made from pigs, but there surely is no market for every specialty everywhere due to the various habits in nutrition. The European Union traditionally exports trotters or tails to Asia, but Europeans consume the finer parts themselves, a successful complete exploitation of the whole carcass. Especially with the current problems of marketing in goods to regions with political issues such as Russia, it is essential that the European Union move negotiations forward with potential markets (e.g., South Asia, Indonesia, Taiwan, Mexico).

4. **Access for third country markets**: For many meat products, the EU has a great competitiveness in global markets (high quality and food safety, labor and cost efficiency, structure in modern farms, access to global feed markets, modern slaughter capacities).

5. **Protection of high EU standards**: The requirements for keeping pigs in the EU are described as significantly higher than in most other regions in the world. In particular, the requirements of the local population have led to these standards. Thus, policymakers have to take care to demand the same standards for imports (especially trade agreements). This includes, for example, the ban on the import of meat from animals treated with growth hormones.

6. The **transparency of the market** should be a priority. Where fewer and growing companies influence or even determine the market, the distribution channels disappear. That has a negative effect on competition. Market transparency is the key factor for active participation of pig farmers in market activities.
Not only is price volatility one of the dominant issues that farmers have to cope with, but also the absence of planning reliability concerning political decisions. ISN requests policies that support farmers with as little intervention as possible and as much as necessary. The ISN stands against any political interventions such as export refund or subsidized private storage. Due to the short-term orientation of the pork industry, the quantity will remain in the market. Some political interventions are important, though, to solve animal welfare issues, such as the prohibition of castration and tail docking. The pork industry itself makes great efforts to achieve a better level of animal welfare. Sustainability and animal welfare should be gatekeepers to the market in the future. However, this development needs to be driven very carefully and from a scientific point of view. The economic aspects have to be considered as well.

Note

1 Interessengemeinschaft der Schweinehalter Deutschlands e.V. https://www.schweine.net/