

INSIGHT: African Swine Fever - Looking at New-Look Chinese Industry Recovery Path

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12 December 2019 – If we are to believe some industry forecasts, more than 50% of the hogs in China have been wiped out (representing approximately 25% of world supply) due to African swine fever. And Chinese pork consumption seems like it will never recover to pre-2014 peak levels.

Rabobank recently forecasted that Chinese pig feed consumption will decline 40% this year. But in 2020, due to industry consolidation and a re-stocking of the pig herd, it could rebound by 5%.

The impact of ASF is massive and unprecedented, but a very slow and gradual shift in mentalities is starting to be perceived. Feedinfo News Service turned to senior executives of leading global animal nutrition companies (compound feed businesses, premixers, and feed additive firms) and asked them if the word 'recovery' is applicable to the Chinese feed and animal protein sector in 2020.

Though not a black and white issue, we see mainly two schools of thought; the first being that due to the difficulty to predict the impacts of ASF, it is still too early to really speak about recovery; and the second: those who are seeing signs that may lead to a rebound. Of course, both schools of thought are in agreement that opportunities in China will open up in the longer-term.

"What has happened, and is still ongoing with ASF, is totally unprecedented. As a result, it is difficult to predict the pace and extent of pig industry recovery in Asia, or whether other geographies, although better prepared, will also be significantly impacted," explained Laurent Genet, Chief Strategy Officer, Nutreco.

Erring on the side of caution, Steven Read, Chief Operating Officer, ForFarmers UK, stressed: "We do not, and cannot, anticipate on whether the worst of the impact of ASF in China, or wider even in Asia, has been. Nor would we want to guesstimate that Chinese pork consumption will never recover."

"Actually, there is still no clear picture available about the future development in China's pig production sector," added Dr. Stefan Mack, Head of Know-how Development & Technical Services Marketing, Evonik.

Aart Mateboer, Business Unit Director, DuPont Animal Nutrition, went on to say: "Unfortunately, ASF is here to stay. It is the single largest driver for change in the swine industry today. In the absence of a vaccine, the only option is to avoid infection through strict biosecurity. Furthermore, restocking is only viable after thorough disinfection of the production facility. Small swine operations typically cannot afford to take this action and will likely go out of business in increasing numbers. This is not just the case in China, but in many of the swine producing countries hit by ASF, such as Vietnam and the Philippines."

The views are also shared by David Dowell, Executive Vice President and COO, Novus International: "I believe it is too early to make a comment about recovery – especially if we look at the view from a global perspective. ASF appears to be expanding in parts of Southeast Asia and, of course, there are valid concerns about it spreading to farms outside of Asia. It is critical that regulators, and more generally producers and feed mill operations, take into account the ability of the disease to spread to new areas and develop strong biosecurity and feed hygiene protocols and programs to mitigate this outcome."

Johan De Schepper, Member of Executive Committee & Business Development Group Director, Royal Agrifirm Group, stressed the differences he is seeing in China and the other Asian countries where there have been ASF outbreaks.

"In China, yes we have seen the worst. The pig sector is now re-stocking and rebuilding its herd and the larger swine integrators will prevail, but 2020 overall will not be a good year for the Chinese swine industry," he said. "But we have not seen the worst yet in Southeast Asia. So that is something to monitor."

Other firms paint a more optimistic picture and are seeing encouraging signs.

"It is almost impossible to get absolute certainty on the scale of decline and restocking of the Chinese pig herd. But at the same time the number of new contaminations seems to be slowing down a bit in some countries," said Co de Heus, CEO, De Heus. "In addition, China is a very big country. In Western China for instance, ASF did not hit as hard and the market has already grown in this area. Because of high prices the restocking process in North East China, which was hit first, has already started. We also notice that feed suppliers with the highest quality in the market are gaining market share."

Adriano Marcon, President, Cargill Animal Nutrition, added: "China is certainly taking positive steps; for example, imposing stricter controls on animal flows. Recovery from ASF will take time, but the industry will eventually recover as biosecurity measures take hold, new mega farms start producing and reproductive herds grow. Already, price signals are encouraging farmers to grow heavier pigs and accelerate re-stocking."

Yet caution is advised.

Geert Wielsma, Vice President Business Development, Perstorp pointed out: "The market in China is likely to start to recover in 2020, but the threat is not over, especially globally. There have been many new markets affected by ASF in Asia, and also in Europe more cases of ASF in wild boar are reported. ASF is expected to spread further in 2020 in South East Asia. This highlights the importance to continuously work on improving biosecurity on farms and throughout the value chain."

Bernhard Putz, Vice President Global Marketing, DSM Animal Nutrition & Health, also believes that the industry will start recovering next year. "We expect the bottom to be reached in the first half of 2020," he said.

And one mustn't underestimate the psychological component.

"People, globally, are becoming more optimistic, partly due to the high hog prices in China," said Stefaan Van Dyck, President of Kemin Animal Nutrition and Health, EMENA.

"China has turned a corner and is learning to live with ASF. Improving biosecurity systems and restocking have definitely been the main focus as farms have learned their lessons and putting in new processes," added Patrick Charlton, Vice President, Alltech. "The industry in China will recover and we will witness consolidation among the larger farming groups. We can expect prices for hogs to stay elevated and there will be opportunities for the domestic pig industry to come out of this in a stronger position."

A More Professional Chinese Industry

Whatever the scenario, it is expected that moving forward there will be a remarkable shift in China with product coming from a more industrialised farm sector and a re-organised feed industry.

ASF is seen here as an accelerator of this ongoing trend already witnessed by the industry executives. But it will be interesting to see how feed mills and farms adapt to this fast pace of modernisation and to consolidation in the Chinese swine production industry, leading to an increase in the size of farms and shift in technology.

The continued trend towards a further professionalisation and industrialisation of China's feed industry started more many years ago.

"In the early 2000s, the number of feed mills in China was around 15,000. Nowadays, this figure is down to around 8,000. During that period incidences like avian influenza (HPAI) outbreaks and the current ASF situation might have further accelerated this trend. In any case, China's feed industry is on a strong path to catch up with the globally leading feed producers," argued Dr. Stefan Mack, Head of Know-how Development & Technical Services Marketing, Evonik.

"It is reasonable to expect some changes in the farm and feed sector in the coming years—but change has been a permanent feature of agriculture over the past decades. Of course, phenomena such as ASF accelerate the pace of change. Our customers in China include some of the largest feed and farm operations in the country. At that scale, we see a level of professionalism and embrace of modernisation that matches that of our customers in many other large agricultural markets," added Franz Waxenecker, Managing Director, Biomim.

"This shift towards greater professionalisation and industrialisation is already happening in China. Producers in Asia can see that it will take another 2-3 years for the swine industry to potentially recover and have become more professionalised as a result. To stay competitive, producers need to adopt the latest nutritional health technologies, such as those typically offered by leading suppliers in The Netherlands and Denmark. Interestingly, we have experienced rapid growth in demand from our Chinese customers and believe that swine producers in the region will soon be the largest driving force for innovation in this area. In fact, China's continued high investment in technology is likely to exceed that of exporting countries in the long term - perhaps in a move to replicate the Dutch model which succeeded by following a similar strategy," added Aart Mateboer, Business Unit Director, DuPont Animal Nutrition.

Be it Co de Heus, CEO, De Heus; Johan De Schepper, Member of Executive Committee & Business Development Group Director, Royal Agrifirm Group; Stefaan Van Dyck, President of Kemin Animal Nutrition and Health, EMENA; David Dowell, Executive Vice President and COO, Novus International; or Bernhard Putz, Vice President Global Marketing, DSM Animal Nutrition & Health - all concur.

"The breakout of ASF in China and other countries in Southeast Asia will most likely work as a catalyst for further professionalisation in the agricultural sector in the countries. We already see more and more attention for biosecurity, farm management and animal health in these countries. Which is a good thing considering that the production of safe and healthy food needs to increase, especially in those regions where we see population growth and increased prosperity," said Co De Heus.

"This trend is already happening and will continue. We are seeing increased professionalisation of Chinese livestock integrators which are now very similar to western companies in terms of food safety standards. Backyard farming will never disappear but the government is urging farms to scale up in a professional manner with promise of support to rebuild. There's an opening here for functional feed ingredients and additives. There is also a lot of room for increased market penetration for premix and additives in China," also said De Schepper.

"ASF is indeed speeding up feed industry professionalisation and industrialisation in China, with big progress made from a biosecurity and feed safety standpoint. And the pace at which companies are professionalising is very fast. More and more integrated producers are appearing. And we will see more attention brought to poultry and ruminant markets too," added Van Dyck.

Dowell of Novus went on to say: "We have seen this trend develop in 2019 and expect it to continue through and beyond 2020. We are prepared to participate in this move with the strong solutions and research. We see Chinese producers eager to perform trials and adopt the latest technologies in feed supplements such as better enzyme solutions, eubiotics, and organic trace minerals."

"In the mid-term, we expect a professionalisation as well as an upgrade of farming practices. We anticipate the rise of industry standards positively impacting the value chain through an upgraded supply chain and improved biosecurity. As a consequence of these strong driving forces affecting the swine industry, we observe the conversion of some feed mills – this demonstrates the agility of this market," added Putz. "The feed sector will need to upgrade in line with the general professionalisation and rise of standards. Using food residues will be reduced. The used feed ingredients will be of higher quality and nutritional density. In this environment we see opportunities to deeply engage with our customers to discuss solutions which still can grow, being part of our customer's nutritional tool box."

Laurent Genet, Chief Strategy Officer, Nutreco, and Adriano Marcon, President, Cargill Animal Nutrition wished to highlight a few background dynamics that the industry will be seeing.

"Interestingly at the same time the Chinese feed industry will be reinventing itself, access to capital for local entrepreneurs could be more constrained than in the past. Unrelated to African swine fever, this is because Chinese policies on how companies are financed are likely to become more stringent, with companies having to show a more solid business case to the bank than in the past. As a consequence, the Chinese feed industry will have to pay more attention to the overall profitability of their activities to be able to afford better quality assets, better educated staff and so on. Feed manufacturers will also have to do their part in the biosecurity chain," said Genet.

"At the moment, reorganisation comes together with consolidation and downsizing. Many local feed companies are being forced out of business or diversifying – not always successfully – to poultry, aquaculture feed, for example, while the few foreign feed players present in China are reconsidering their footprint. At pig sector level, we can expect the vertical integrators wanting to own assets and using less contract farmers," he added.

Cargill's Marcon went on to say: "Our view is that the consolidation of the Chinese farm sector will continue, with larger players gaining share. However, in the medium term, we also expect to see a rebound in production on small and commercial family farms. There are places in China where people say, 'with the production of 10 sows, you can buy a BMW in one year.' This may be hyperbole, but it is true that the current production margins are extremely high – which will inspire producers, small, medium and large alike, to increase production. And record farm profits on surviving farms should help spur necessary investment across the value chain to accelerate modernisation."

"In the long term, we project the shortage of sows will lead to market consolidation. Larger groups have a financial capital advantage, enabling them to address biosecurity, support accelerated investment in areas like farm infrastructure, genetics and acquisitions, and have a longer investment horizon with more tolerance for risk," Marcon added.

Looking again at the overall picture, Patrick Charlton, Vice President, Alltech highlighted that the Chinese animal protein sector will be an easier industry to work with and will provide Alltech and the animal nutrition industry with good opportunities.

"Compound feed mills are becoming more professionalised and are at very similar levels to those in Western countries, and improvements noticed along the whole supply chain will help too. But this is an ongoing process and will likely continue in 2020, 2021 and beyond. After the next 12-18 months the outlook for the Chinese for the pig sector is looking positive," he said. "It ought to be a fantastic few years for China's pig sector."

