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Spain and Portugal Feed and Livestock Update

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Report Highlights:
Despite an overall increase in grain production in MY2010/11, approximately 11 million metric tons of grains will need to be imported to the Iberian Peninsula to meet its structural grain shortfall. As domestic barley stocks are being consumed, feed compounders will need to re-elaborate their feed formulas and corn appears to be the preferred option. In the livestock sector, as a consequence of the ongoing economic crisis and the reduction in consumption, animal growers are unable to fully pass on their increased costs on their products' final prices. As a result, some consolidation in the livestock sector appears inevitable.

Disclaimer: This report is intended to provide current data and analysis of the Spain and Portugal cereal, feed and livestock sectors. The data presented in this report does not reflect USDA data, and is intended to supplement data compiled in the EU-27 grain and livestock reports, also available at www.fas.usda.gov.

General Information:

Acreage and Production

Winter sowings in market year 2010/11 in the Iberian Peninsula were delayed due to dry conditions. The drought ended in November 2009 and farmers started planting grains only when soil conditions were adequate. Precipitation from December 2009 increased soil water reservoirs. Although sources agreed on the fact that the effects of rains on cereals were beneficial in general for winter grains, some southern areas suffered flood damage.

The total decoupling of subsidies led to the set aside of the least productive areas, while in terms of production, the acreage decline was compensated by higher yields. The acreage decline is driven by the decline in barley, which was partially offset by increased area planted to soft wheat.

As a result of climate conditions and economic decisions, according to recently published data, area planted to grains in MY 2010/11 added up to about 2 percent below previous season sowings in Spain and about 5 percent in Portugal.

In terms of production, unlike in EU neighboring countries, production in Spain in MY 2010/11 was above last year's crop. Portugal total grain production declined some 7 percent compared to MY 2009/10. Latest estimates forecast Spain's MY 2010/11 total grain production at 17.2 MMT, some 11 percent over MY2009/10 final output, whereas in Portugal area planted to grains added up to 270,000 ha and production of grains amounted to 853,000 MT.

Table I. Spain's acreage planted to grain crops according to official statistics (1,000 ha)

Crop	MY2008/09	MY2009/10	MY2010/11
Wheat	2,057.9	1,772.5	1,933.9
Barley	3,486.9	3,024.2	2,877.3
Oats	505.5	561.1	540.5
Rye	111.5	131.8	136.6
Mixed grains	54.4	60.9	63.9
Corn	371.9	347.6	321.7
Sorghum	6.8	7.5	6.5
Total	6,594.90	5,905.60	5,880.40

Source: Avance de Superficies. Ministry of Environment and Rural and Marine Affairs.

Table II. Spain's grain production according to official statistics (1,000 MT)

Crop	MY2008/09	MY2009/10	MY2010/11
Wheat	6,831.5	4,772.7	5,833.7
Barley	11,269.7	7,291.8	8,156.8
Oats	1,188.3	922.8	1,017.2
Rye	283.2	180.3	274.6
Mixed grains	136.2	138.3	138.2
Corn	3,718.0	3,498.2	3,201.0
Sorghum	22.4	32.3	24.8
Total	23,449.30	16,836.40	18,646.30

Source: Avance de Superficies. Ministry of Environment and Rural and Marine Affairs.

Table III. Portugal's acreage planted to grain crops according to official statistics (1,000 ha)

Crop	MY2008/09	MY2009/10	MY2010/11
Wheat	88	59	48
Barley	43	41	33
Oats	55	52	57
Rye	21	19	19
Mixed grains	20	20	17
Corn	109	96	96
Sorghum	-	-	-
Total	336	287	270

Source: Boletim Mensal da Agricultura e Pescas. Instituto Nacional de Estatistica.

Table IV. Portugal's grain production according to official statistics (1,000 MT)

Crop	MY2008/09	MY2009/10	MY2010/11
Wheat	203	102	78
Barley	100	73	55
Oats	92	57	51
Rye	22	19	18
Mixed grains	42	28	21
Corn	698	630	630
Sorghum	-	-	-
Total	1,157	909	853

Source: Boletim Mensal da Agricultura e Pescas. Instituto Nacional de Estatistica.

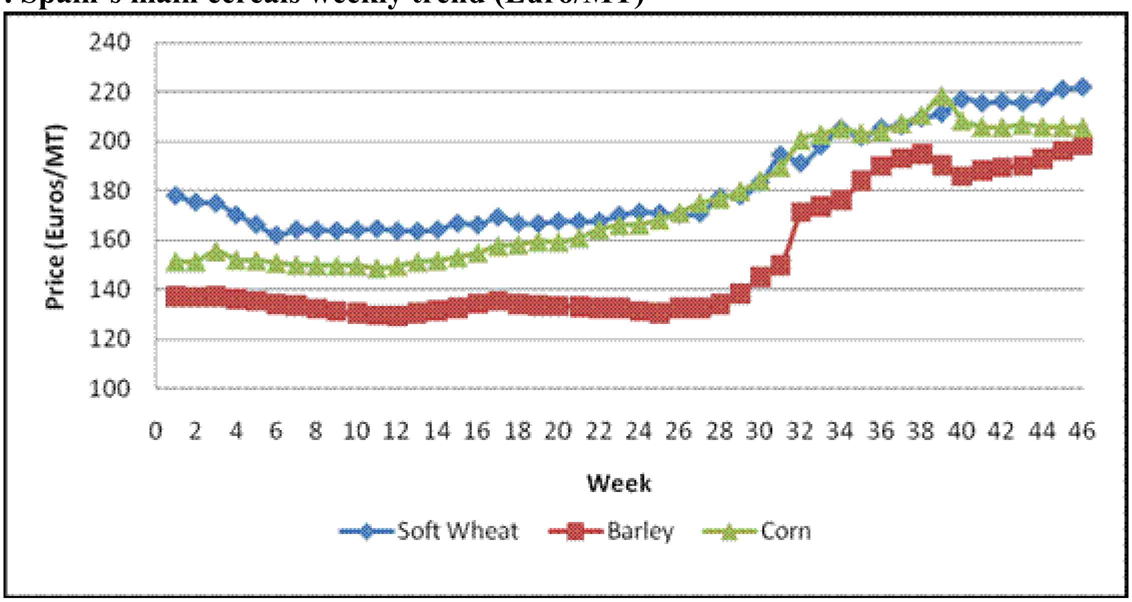
Market Situation and Trade

Main grain prices started their upward trend by the end of July. While corn prices peaked at the end of September and then stabilized, according to published prices, barley and wheat reached their highs at the end of November.

The recent release of EU intervention barley stocks had no effect on Spain's barley market. In the last tender, no intervention barley was allocated to Spain, nor were domestic barley prices affected by the release in neighboring countries. The reason might be that the barley stocks are located in Northern European countries, and the transportation costs would provide disincentives for their use by Iberian feed companies. The effect of low barley domestic stocks prevailed by placing continued pressure on prices.

Wheat use in feed will likely decline in the second half of current market year. High prices, consequence of the export bans enforced by Russia and Ukraine, would leave wheat at minimum rates in the feed formula. Spanish traders have also resumed U.S. sorghum imports.

Table V. Spain's main cereals weekly trend (Euro/MT)



Source: Ministry of Environment and Rural and Marine Affairs

Feed Consumption

Although grains have the largest area cultivated in Spain, the large livestock sector and the low and variable yields make Spain a net importer of grains and oilseeds. Spain has a structural deficit that varies every year depending on the demand of the feed sector, the domestic supply of grains and the availability of pastures. On average, about 9 million tons of grains are needed to meet Spain's grains structural shortfall and about 3 millions to meet the Portuguese demand.

FEFAC, the European Feed Manufacturers' Federation, estimates Spain's feed production in 2009 at 21.5 million metric tons, whereas Portuguese feed production is estimated at 3.4 million metric tons.

Table VI. Feed production in the Iberian Peninsula (1,000 MT)

Country	2006	2007	2008	2009
Spain	19,218	21,203	22,117	21,549
Portugal	3,450	3,620	3,510	3,410
Iberian Peninsula TOTAL	22,668	24,823	25,627	24,959

Source: FEFAC

At current market prices, feed compounders are reluctant to cover their needs for more than two months. This situation has resulted in uncertainty for traders and feed millers, who are postponing their operations. The big question mark is whether the livestock industry will be able to pay increased feed prices or otherwise adjust production levels. (See Livestock Sector Situation below)

According to FAS Madrid estimates, since the feed crisis that took place in MY 2007/08, feed consumption has declined over 18 percent. Although the largest percent of the decline took place in MY 2008/09 (11 percent), additional marginal reductions in feed use occurred in MY 2009/10 (5 percent) and MY2010/11 (2 percent). High feed prices in MY 2007/08 which resulted in lower animal inventories and the stagnation of the domestic meat demand since the beginning of the economic crisis were seen as the main causes for the feed consumption decline.

For MY2010/11 energy content rather than protein content seems to be the driver for feed grains use. Corn has become very competitive since it has the lowest ratio price per energy content, followed by sorghum and barley.

According to traders most of the barley consumed in the Iberian Peninsula came from local sources, and has been consumed during the first half of the marketing year. For the second half we could see more corn, and some sorghum, replacing barley in the feed formula.

Bioethanol

There are four bioethanol plants operating in Spain, but only three of them produce bioethanol out of grains. Spain's bioethanol plants can easily adapt to different feedstocks, depending on grains' prices, logistic costs and DDGs market value, as a consequence, the type of grain consumed can vary tremendously. During Q3 the bioethanol plants in Spain have been processing wheat (ports plants) and barley (inland plant); they shifted to corn and wheat in for Q4. The preferred feedstock for Q1 of 2011 remains uncertain.

Livestock Sector Situation:

In response to high feed prices combined with a significant economic downturn, FAS/Madrid has contacted the main livestock, dairy, swine and poultry representatives to understand the consequences for animal production in the Iberian Peninsula. The following is a summary of the information provided by the industry.

<u>Beef</u>

In Spain the main reaction to the high feed prices is expected to be a decrease in the replacement rate as animals are being slaughtered at a younger age to save on feed costs. Growers recall the 2007/08 campaign when high prices led to a decrease of over 10% in production. This time the production slowdown is expected to be just below 10%, which still is a very high number for a sector characterized by its long production cycle. A positive factor affecting the Spanish market is the recently reopened trade with the Middle East. In a period of three to four months this year 30,000 live animals have been exported to Lebanon and this trade is continuing. New commercial relations are expected in the short to middle term also with Algeria, Egypt and Turkey.

In Portugal, prices of meat are increasing but this is not reflected at the producer level due to price inertia along the marketing chain. As a consequence, growers are sending animals to slaughter at a younger age and the supply is not keeping up with demand. Traditionally cattle are 300kg at slaughter but now they are slaughtering veal with 140kg live weight. While this problem is horizontal and it affects all growers, bigger farmers have the capacity to better negotiate prices. As a norm Spain sends cattle to Portugal but now it is trying to source from Portugal according to trade sources. The federation of the growers' associations expects a 30-40% reduction in supply towards January-February 2011 when animals that should have been raised to four month old would have been slaughtered. So far slaughter numbers are the same as in 2009 but of lighter animals.

<u>Dairy</u>

The current dire economic situation in Portugal and Spain is not allowing consumer prices to be increased without a fall in consumption. Distribution will be even less open to increase consumer prices with the consumer purchasing power declining as a consequence of lower employment, decreased wages, and the overall worsening economic conditions. The dairy industry in Portugal has decided to unilaterally raise prices at the production level so that producers can be compensated in some way for their higher feed costs. Consumption is expected to switch to lower value products such as the highly commoditized UHT milk. During the last year the same volume of dairy products were sold but industry margins decreased by 7-8%, according to industry officials. Feed producers link feed prices to milk prices so this adds another caveat for increasing milk prices.

Swine

Industry representatives in Spain expect the breeding stock to decrease as a consequence of high feed prices and low producer prices. Exports have been stable and are not enough to raise prices at production. The decrease in meat production will not be noted this year but is expected in 2011. Currently the margins are negative according to the industry. The Portuguese growers note that the increase in feed prices ranges from 35 to 60 percent when compared to last year. They expect this to cause an increase of 10 to 15 percent in final consumer prices. The industry should continue restructuring with hundreds of small producers to quit business due to higher feed and animal welfare costs. However production is expected to remain stable as bigger producers fill the supply gap.

Poultry

In Spain the sector is highly integrated but the decision to decrease production is taken solely by the producer. It is a very difficult decision to decrease production and one that is being resisted by the growers. However, industry officials still consider that it is easier to decrease production than to transmit prices to the consumer due to the high concentration and market power of distribution. There are very few distribution chains and each of which maintains a strong market (price) influence over contract producers. For the time being there are no clear indications that production will decline. These decisions usually have a 3-6 months lag before production is affected. Producers are aware that feed prices may still increase in the beginning of next year but they are mostly holding on in a “wait and see” mode.

In Portugal, industry reports that prices have risen first in the raw materials and then in feed due to the existence of carryover stocks. Producers are squeezed between higher production costs and the effects of the current economic crisis on demand. Distribution chains are worried not to increase consumer prices and so the higher costs are being absorbed by the industry. This applies to meat and eggs. There is currently no indication of a decrease in production. On the contrary, due to new investments being made for higher animal welfare standards, there is a situation in which production units due to close will be running in parallel with new units that already abide by the new animal welfare rules set by Council Directive 1999/74/EC coming into force in 2012.