



Financial problems in the Hungarian broiler sector

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ABSTRACT

On the eve of the accession to the European Union, the broiler sector is not in an easy situation in Hungary as regards competitiveness. Though the conditions of the sector meet the requirements the capital shortage intensifying year by year hinders the development of the entire sector. The buildings and machines are obsolete, most of them would need to be replaced or upgraded, the sector is at a serious disadvantage compared the EU countries also in the field of the specific utilisation of fodder, not to mention the backlogs in respect of the other factors affecting profitability. Under these circumstances the chance that the Hungarian broiler sector can preserve its competitiveness is narrowing.

(Keywords: financial problems, Hungarian broiler sector)

INTRODUCTION

In Hungary, poultry consumption per capita reached 25 kg in 1998 which is outstanding also in European relations. Poultry was the only meat type the consumption of which continued to increase in the '90ies and today it represents 40% of the total meat consumption. Further increase in consumption can be expected with the growing incomes.

From the aspect of competitiveness however the situation of the Hungarian broiler sector is not easy. Poultry is purchased at a relatively high price from the breeders and the cost advantage further decreases in the processing industry. The internal consumer price is low compared to the EU countries. This is positive from the aspect of maintaining the demand but it is rather negative as concerns the development sources, generation of innovation funds especially when the world broiler market is characterised by quick development and globalisation. The financial situation of the sector is weak, the buildings and machines are obsolete, the processing capacity is unutilised, the funds necessary to development are not available or are scarce.

MATERIALS AND METHODS

In this study we try to give a picture of the negative characteristics of the broiler sector using the KSH (Central Statistical Institute) and AKII data furthermore with the help of the representatives of the Broiler Product Council and of the experts working in the sector.

RESULTS AND DISCUSSION

The broiler sector made up 13.6 per cent of the gross production value of agriculture in 1997 with products of market price of HUF 142 billion. In 1995 and in 1996 the sector had a similar weight.

554 tons of *meat poultry* were produced in Hungary in 1998 (KSH preliminary data), approximately 100-120 tons of which were produced for own consumption thus did not make part of the circulation of commodities. According to the data of the Broiler Product Council the volume of poultry purchases amounted to 424 thousand tons in 1998 that is 77 per cent of the total production. The remaining 50-60 thousand tons for sale were distributed in 50-50 per cent between the small local manufacturers and the black slaughter houses evading taxation.

The broiler sector generated an *annual export income of US \$420-440 million* between 1995 and 1998. Though the value of the export slightly - by 3% - decreased in 1998 this sector was the only one among the other meat exporting sectors (pork, beef, lamb, rabbit) which managed to maintain the level of export. Foreign markets represent 36-37 per cent of the total broiler sales meaning that the majority of the products is sold in Hungary.

Following the peak in 1988 (almost 400 thousand tons) broiler production reached the lowest point in 1993 (188 thousand tons). In 1998 the industry purchases amounted to 424 thousand tons on the basis of the data of the factories operating under the product councils. This is 15.6% higher than the meat poultry production in the previous year. The factories operating under the product councils sold 142 thousand tons of poultry at the domestic markets (that is 21 thousand tons more than in 1997). This is partly due to the fact that domestic poultry consumption grows and partly to the fact that because of the export market delivery problems the importance of the domestic market increased. By 1999, 35 thousand meat and processed poultry remained, a huge quantity compared to former years. (*Magyar Baromfi, April 1999*).

Trends of and issues regarding poultry consumption

Forecasts from benchmark sources say that the demand for poultry products will continue to grow all over the world in the 21st century as well. This can basically be explained by nutrition biology reasons as consumption is shifting in the direction of healthier, lean meats. Poultry is not a festive meal any more, it has become an indispensable product for the citizens of many developing and developed countries. Poultry consumption is an important element of the life style aiming at improving the quality of life at an affordable price (*Horn, 2000*). To what extent the sector is able to meet the consumers' requirements has an important role in the further growth of consumption.

Development - for the time being - seems to be smooth because the world poultry consumption amounted to approximately 72 million tons in 2000. This means a growth of 6% between 1990 and 2000. The distribution of growth by continents is however uneven. Asia shows the most dynamic growth of production (8%) while it is smaller, about 2.5% in Europe and Africa (*FAOSTAT, 1999*). The prognosis forecasts further growth to this however it is necessary to meet the market demands to the maximum extent.

Situation of the broiler industry in Hungary

The prognoses forecast further growth and this is feasible as the Hungarian broiler industry offers many advantages: the meat is tasty, the animal health situation is well organised and sound, there is expertise and world quality biological basis. All these advantages can be utilised only in case the basis necessary to production is also of high quality. Here we mean the basis that constitutes the weak points of production in Hungary.

As regards the competitiveness of the Hungarian broiler industry, the technical condition of the buildings and machines of poultry breeding leaves much to be desired. The average age of the buildings is 25 years, the ones owned by economic organisations are usually older than that (26 years) compared to the buildings owned by private entrepreneurs (23 years). Three fourth of the buildings were built in the '80ies. Almost 2/3 of these buildings was renovated or reconstructed. This means that 1/3 of the pens are too old and in need of urgent renovation, repair or replacement.

Of the building technological equipment, *ventilation* seems to be in the worst condition. Except for the renovated horse stalls, ventilation is provided by 15-20 year old equipment which can function for several more years - with gradually increasing costs - if maintained carefully. The air inlet and outlet ducts and profiles are strongly corroded, technically obsolete and should be replaced by all means. The surveys say that the equipment should be urgently renovated and replaced in every fifth building.

The technical condition of *heating systems* is better, the equipment should be replaced only in every eighth building.

Feeding systems are considered to be satisfactory in case of half of the places and should be urgently renovated or replaced only in every sixth plant. The *drinking systems* are in a better shape, they should be replaced only at every seventh plant.

It is a critical environment protection related problem that the *handling of manure* is considered to be inadequate in 68 per cent of the buildings.

The technological projects concerning these buildings would require several million forints. The average one time investment cost of the technological equipment for a broiler hen-house for about 20 thousand broilers (about 1200 m²) is approximately HUF 8.5 million provided the buildings are at disposal.

There are small, medium and big companies in the Hungarian broiler sector but there is no international size giant company. The problem is that the concentration processes the leading broiler producing countries went through have not taken place in Hungary as yet though the most important issue from the aspect of competitiveness is to create units of optimal size and operating at full capacity. The majority of the companies being present at foreign markets manufacture their products using state-of-art technology and size economic abattoir lines- This can't be said about small enterprises. The total slaughtering capacity of the sector is more than what the solvent market demand.

The fact that the proportion of poultry taken away from the hatcheries and slaughtered black is large and part of this poultry - through black channels - goes to the market. A consumption of 15 kg/person/year can be calculated on the basis of the production of plants being members of the product councils. Though the members of the Broiler Product Council give 95% of the legal domestic production capacity, the statistics calculates with 25 kg consumption per person.

Profit generating capacity of the sector

There is a substantial difference in the profitability of production by years and farms. There differences in natural efficiency between the individual producers are huge and this greatly affects the profitability of production. At the same time, lots of local factors can change profitability (e.g. the prime cost of fodder depending on the local conditions, yields sometimes showing very exorbitant values, etc.). As regards the costs, it can be underlined that the specific fodder consumption is very high. In 1998, fodder consumption was 0.2 kg higher and the breeding period was 3 days longer while the slaughtering weight was 120 grams less and mortality 15-30 per cent higher than in the EU countries or in the USA.

The loss of income in the livestock breeding sectors in 1999 can be traced back to the decreasing selling prices - as a result of the oversupply due to loss of markets - and to the more expensive inputs. The growing fodder prices "swallowed" a part of the income generated at low prices or resulted in losses. The efficiency reserve is not enough to reverse this process, the "prodigal" fodder consumption could nevertheless be reduced if the appropriate interestedness was created. In order to reduce the fodder consumption the quality thereof should by all means be improved. On the basis of the laboratory tests the fodder often lacks nourishing substance and the (microbiological) conditions thereof is not appropriate.

The proportion of alien funds (bank loans) plays a more important role than desirable in financing the agricultural production. The relatively high interest rates consume a disproportionately large part of the profit - sometimes all of it. To make the situation worse, the consideration for the goods is often paid with - 60-90 days - delay to the producers which means that the producer not only has to finance processing but often the current asset requirement of commerce, too.

Shortage of funds affects adversely the competitiveness of this slice of agriculture and puts raw material production in especially unfavourable situation and consequently preserves the weak technical condition thereof. The integration and globalisation which has taken place in the leading poultry producing countries could be a good solution for these negative impacts as well. If these fusions and mergers fail to take place the situation of the sector may further deteriorate.

The role of state subsidies

The disadvantage of state subsidies is that they usually are announced late and it hampers the necessary foresight and preliminary calculations. Another disadvantage of subsidies is that they do not take into consideration the cyclic character of poultry production (the different cost requirement in the different phases) either. The unforeseeable state interventions often disturb the market and have adverse influence on the sector.

Vision

The international poultry industry is forced to intensify efficiency. In addition to improve the parameters, it is unavoidable to increase utilisation and decrease the input costs. Concentration is a method to achieve this, consequently fusions of companies can be expected. The former revaluation of areas of favourable characteristics and producing at low prime cost is expected. In these areas the quantity of the poultry meat production will significantly increase. Cheap and safe fodder and labour is mandatory for the broiler industry. Only biological limits and deliver costs can set limits to this.

Integrations dominating countries and regions focus their forces on further processing, commerce and marketing after the realisation of the integration of production and processing. Direct presence at the market makes possible to control profits, to reach and maintain the economic size and optimise capital investments. The development of logistics made possible the introduction of direct deliveries to consumers as a result of which only companies delivering fresh products can remain on the market.

Swot analysis of the broiler sector

Here follows the SWOT analysis of the Hungarian broiler sector on the basis of the above.

Strong points

- Increasing production and internal market,
- Tax free quota in the EU,
- Favourable market conditions for export after the various animal disease epidemics,
- Excellent genetic basis,
- No scandals, good reputation at export markets,
- Traditionally high grade of integration,
- Large number of universal processing lines,
- Relatively cheap labour,
- Developed technology, high technical level,
- High concentration,
- Well-organised representation of interests,

Possibilities

- Appearance of new, capital-strong owners,
- Entering new market segments in the EU,
- Growing world market,
- Growing proportion of processed goods in the export,
- Advantage because of the closeness of the western and eastern European markets,
- Favourable changes in the preferences of consumers,
- The room of "black economy" is decreasing,
- Growing consumption,
- Well-known western markets,
- Improving bargaining position due to the high concentration

Weak points

- High fodder prices,
- Need for fodder import,
- Unstable fodder prices,
- Low efficiency in poultry production,
- High proportion of small-scale poultry production,
- Low profitability,
- Low level of capital supply,
- Presence of the "black economy",
- Unstable subsidy systems,
- Obsolete breeding technology,
- Unutilised capacities in the processing industry,

Dangers

- Invasion of overseas poultry,
- Disappearing export subsidies,
- Lots of small and medium size processing companies,
- Lack of brand products,
- Tightening competition on the world market,
- Fluctuating and low profitability,
- Increasing import to the Hungarian market from western European countries,
- Efforts of the surrounding countries to protect their markets,
- Inappropriate international competitiveness,
- Extensive need for investments in the fodder production sector

CONCLUSIONS

The broiler sector has a long past in Hungary as well as in the European Union but its situation is not good. The sector is fighting several serious problems the most important of which is capital shortage which has been affecting the industry for long years and forms at the same time the basis for the other problems as well. In addition to this the obsolete condition of buildings and machinery should be mentioned - which could be improved only by projects- as well as the prodigal use of the low quality fodder. In 1998, fodder consumption was 0.2 kg higher and the breeding period was 3 days longer while

the slaughtering weight was 120 grams less and mortality 15-30 per cent higher than in the EU countries or in the USA.

It is absolutely necessary to solve these problems so that the Hungarian broiler sector could be well-prepared for the accession to the European Union and could successfully face the challenges.

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