If African Swine Fever spreads to Germany, how might markets react?

Back in September 2018, we produced a report highlighting **the potential market impact if ASF were to spread to German wild boar**. With a recent case in Polish wild boar just 12km from the German border, and further spread into Greece in recent days, this analysis has renewed relevance.

Many aspects of this report still stand. However, the EU trading situation with China has changed significantly over the past 18 months. Here, we address how this might affect our original analysis.

Reminder: why is the situation in Germany significant?

ASF's progression into Germany would be significant; Germany is the largest European pork producer and exporter. Many key importers outside the EU tend to place a total ban on pork imports from ASF infected countries, even if the disease is just in wild boar. The EU approach is both regional and graded:

- Unaffected regions can continue to trade with other EU countries
- If the disease is only present in wild boar, farms within affected areas may also still be able to trade with other member states, provided appropriate biosecurity measures are followed
- An up-to-date map of ASF-affected zones within the EU **can be found here.** Further explanation is provided in the **original report**

This means **German pork previously exported to most third countries would effectively be trapped on the EU market**, boosting EU supplies. **This would depress pig prices across the EU**.

Note that although the UK has officially left the EU, our trading relationship remains the same during the transition period. So, we will continue to follow the EU's regional approach to trading with ASF-infected countries during this period. This means we would still be able to import German pork.

How have German exports changed in recent months?

Over the past year, like most EU exporters, Germany has sent an increasing portion of its pork production to China. **China is one of the countries that typically imposes a total ban on pork from ASF-infected countries**.

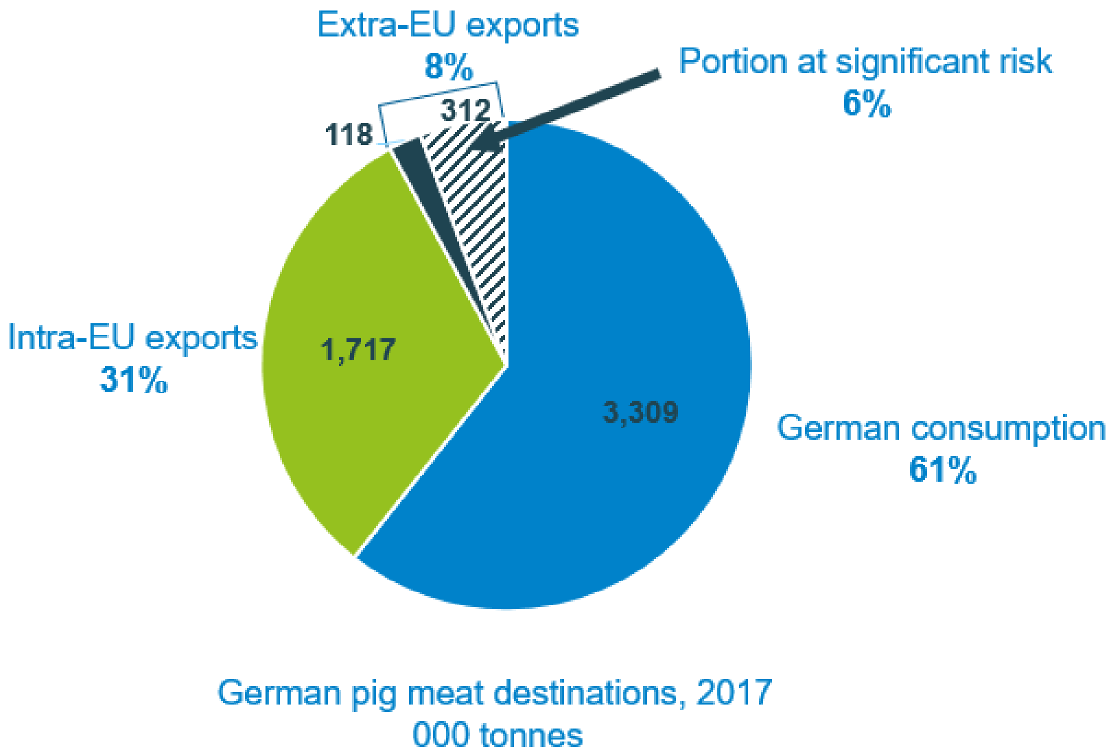
Of course, over the past 18 months ASF within China itself has generated a **serious pork shortage**. With an increased reliance on imports, we might question whether China would continue with its current policy of not accepting a regional approach to trading with ASF affected countries. Germany supplied 16% of Chinese pork and offal imports last year, though this is still less than 1% of Chinese consumption. The government will need to weigh up the potential biosecurity risks against the importance of German pork to a market that is seriously undersupplied.

Here, we have assumed that China continues not to accept regionalisation.

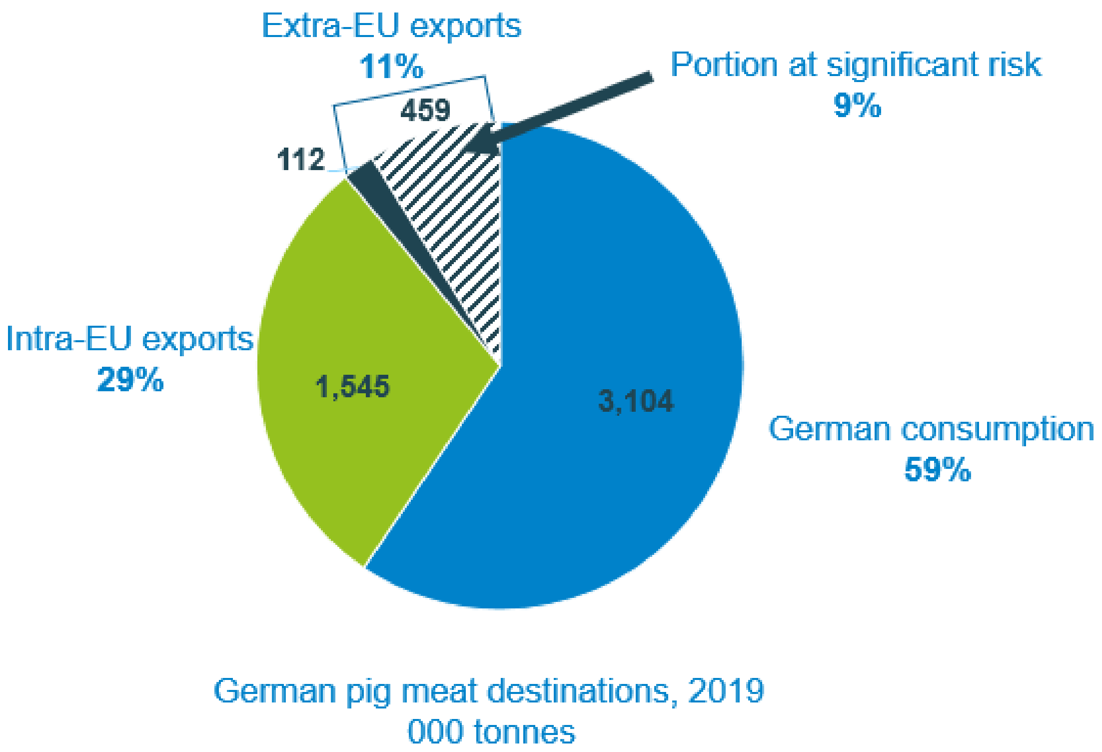
In 2017, we estimated approximately 300,000 tonnes of pork could be displaced if ASF entered Germany, due to import bans from third countries. **Using 2019 volumes, this figure would be closer to 500,000 tonnes. This is about 9% of annual German production, or 2% of total EU production.**

This trade was worth an estimated €1.1 billion, rising to €1.6 billion if offal is included.

German pig meat destinations, 2017:



German pig meat destinations, 2019*:



*estimate based on Jan-Nov data

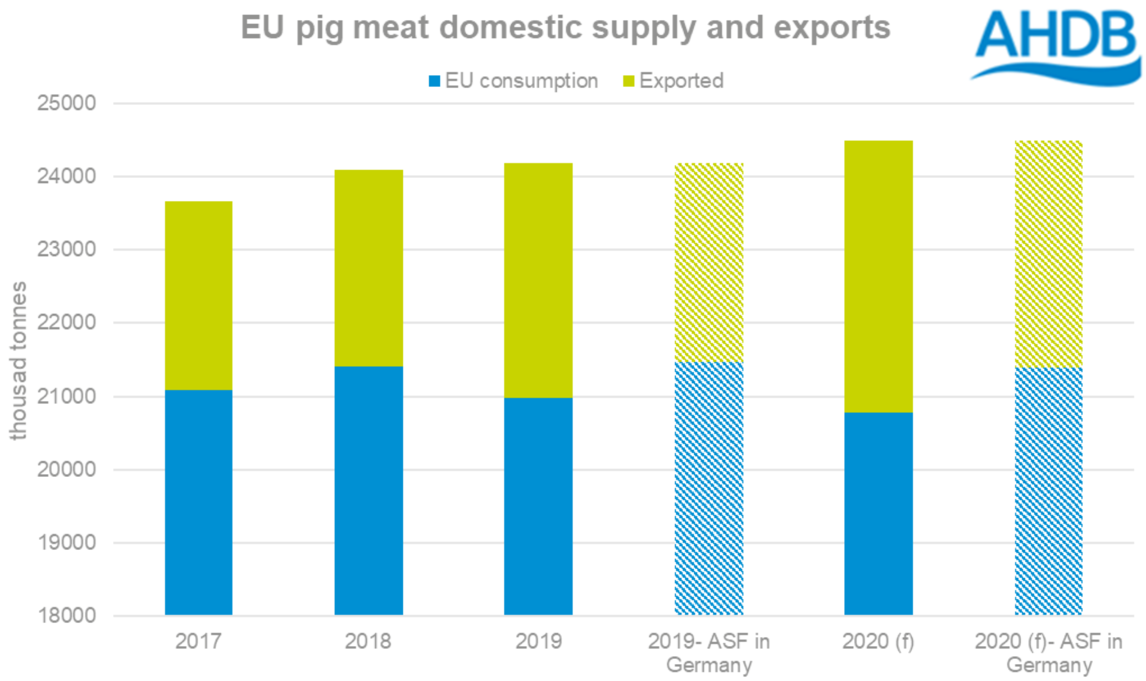
Source: AHDB analysis using data from Eurostat, IHS Maritime & Trade- Global Trade Atlas®, Statistics Germany

What might happen to the displaced pork?

In 2018, we concluded that other EU exporters, particularly Denmark, Spain and the Netherlands, would increase shipments to the markets Germany loses access to. This would help minimise the increase in pig meat supplies on the EU market. At the time, EU production was increasing, but domestic demand falling. The ability of other exporters to pick up on the lost trade would have been important for EU pig price developments.

The situation now is a little different. In 2019, **more pork was redirected from the EU market to China**. This meant **supplies for consumption in the EU declined significantly**.

Because of this, the potential loss of German export markets is perhaps less concerning than in the past. If 500,000 tonnes more pork had been retained on the EU market in 2019, **domestic supply availability would have been similar to 2018**. We would expect a similar situation this year. Export demand is expected to increase again, due to the ongoing ASF situation in Asia.



Source: AHDB analysis based on EU medium-term outlook and German customs data

The above chart includes some growth in exports from other EU exporters this year, as expected in the EU medium term outlook.

We have not assumed any further production growth occurs from the countries above because of the loss of German exports. This is because reports suggest exporters were already running into logistical difficulties in supplying additional volumes to China at the end of last year. Therefore, a further increase in exports beyond current expectations, may not be a reasonable assumption. Meanwhile, the US market, with increasing supply availability and supposedly improving market access, is perhaps better placed to capture the lost market share.

Nonetheless, as price dynamics change on the EU market, there may well be an increasing pull towards exporting product where possible. This means the above chart represents a reasonable “worst case scenario” regarding pork volumes retained within the EU.

What might this mean for EU pig prices?

EU pig prices are currently at historically high levels. This is driven by strong export demand and tightening domestic supplies. Under an ASF-in-Germany scenario, although strong export demand remains, supplies to the domestic market would become plentiful. However, demand for pig meat in the EU has been falling, and this will accentuate any necessary adjustment.

If domestic supply availability becomes similar to 2018, prices on the domestic market might also return to levels similar to 2018. Prices on the export market however, would be expected to remain elevated. **This creates a two-tier market, with sharp price differentials between those who can and cannot access the Asian export markets**.

By October, the price of pork traded within the EU was typically between 20-40% higher than in 2018. So, we might expect the decline in price for pork traded within the EU fall within this range. At farmgate level, the EU average pig price would probably fall a little less than this, as over 10% of pork production is still being exported to Asia. International export prices could feasibly rise further this year, helping to mitigate a depressed domestic market.

We would expect to see a more significant impact on the German market, but less effect on countries that are still more export-oriented, like Denmark and Spain. During the past year, some product has been withdrawn from Europe to serve the Chinese market, but much of this trade still consists of products less desirable to the EU market. Offal in particular has limited alternative outlets. Restricted outlets for this product will particularly drag on German carcase values.

What about live trade?

Although there has been some decline in the past 18 months, Germany remains a large importer of live pigs, particularly from Denmark and the Netherlands. Over 10 million weaners and 3 million pigs for slaughter are received each year.

As **highlighted in the original report**, we would expect the demand for these weaners to contract, as opportunities to market German pork are limited. Weaners have limited alternative markets, with a lack of finishing space in Denmark and the Netherlands making it difficult to finish these pigs domestically. So, **weaner prices may be hit harder than finished pig prices in the short term**. Ultimately, this is likely to signal a reduction in weaner production.

What about the effect on British prices?

Here in the UK, we **would also expect a noticeable decline in prices**. As a net importer, the UK production is likely to face **competition from the increased availability of low-priced German pork**. Nonetheless, we would remain in a better position than the German market itself, due to our ability to access the Chinese market.

Another factor to bear in mind will be the cull sow trade. The UK currently exports 30,000 tonnes of pork to Germany every year, which is predominantly cull sow carcases. There is a lack of capacity to process these carcases in the UK, so export will need to continue, albeit at a reduced price. However, cull sow meat is commonly used for manufacturing and processed pig meat products, not products generally exported outside the EU. As a more internal market, this trade and these prices may be less affected than the finished pig market.

Conclusions:

Despite the fact Germany has become more reliant on ASF-sensitive countries over the past 18-months, it seems that **the spread of ASF into Germany may have less severe consequences than it would have 18 months ago**. The sharp rise in Chinese import demand has drawn enough product from the EU market that if German pork is retained, the market is unlikely to be swamped. **Prices are still likely to fall, but probably not to the historic lows we might have seen otherwise**.

Much of this analysis is **dependent on the assumption that Chinese import demand holds**, and even increases this year. The pork supply gap is expected to be even larger than in 2019, so this seems likely, but international relations and the current coronavirus situation do bring some uncertainty.