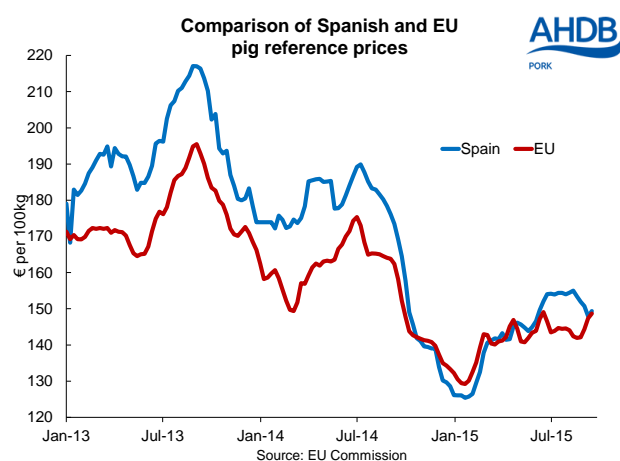


Spanish pig sector continues to grow

Spain has long had one of the EU's largest pig sectors and the latest census results show that its share of the EU herd is increasing. Its sow herd has been the biggest in Europe for many years and has increased further over the last two years. At 2.4 million head in June 2015, Spain had over 170,000 more sows than two years before. During the same period, the total pig herd increased by nearly 10% and is now only 4% smaller than the German herd, the EU's largest.

One of the reasons for the strong growth of the Spanish industry is that pig prices were well above the EU average for most of 2013 and the first half of 2014. They did fall even more sharply than in the rest of Europe during late 2014 and by the turn of the year were below average. However, over the summer, prices have again been above average. This is a regular seasonal development, as the holiday season shifts demand from north to south, following the flow of tourists. Since the end of the holiday season, Spanish prices have fallen back again to be close to the EU average.



In addition to having high prices, figures from InterPIG, a group of pig economists, show that production costs are low. In 2013, the latest year for which figures are available, Spanish production costs were the lowest among the major EU producers, averaging €1.64 per kg. Although this is partly because of lower building and labour costs, the vertically integrated nature of much of Spanish production also helps to control costs. The relatively high prices and low costs mean that Spanish producers have been profitable more often than their counterparts in many other EU countries, encouraging them to expand.

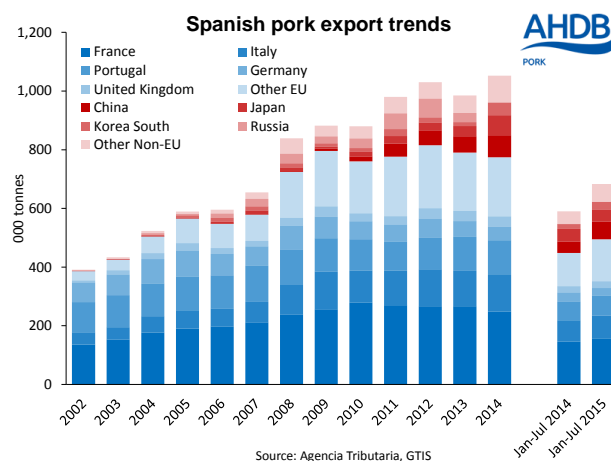
The growth of the Spanish pig herd is reflected in pig meat production figures. During 2014, Spain produced 3.6 million tonnes of pig meat, 6% more than in 2013. In the first half of this year, output has risen by a further 9%, suggesting full year production may be close to 4 million tonnes. A decade ago, Spain produced little over 3 million tonnes of pig meat and volumes are now double those of the early 1990s.

Only a small proportion of the extra pork is destined for the domestic market. According to the Spanish agriculture ministry, fresh pork sales fell 1% in 2014, while 7% less processed meat, mainly pig meat, was purchased that year. Frozen meat sales were also sharply lower. Having said that, pork fared better than other meats as Spanish consumers are still feeling the effect of the recent economic problems.

So far this year, the picture is slightly more positive, with fresh pork sales up 3% year on year between January and July, when it was the only major meat category showing growth. Processed and frozen meat sales were still subdued, however, falling a further 6% and 10% respectively.

With the domestic market still subdued, most of the extra production has been destined for export. Spanish pork exports have risen for more than a decade, although tighter supplies in 2013 meant a slight fall that year. Having been under 400,000 tonnes in 2002, they have more than doubled to top 1 million tonnes last year. This was 7% (or 68,000 tonnes) higher than the previous year and a new record.

Export growth in recent years has been driven by non-EU markets, as volumes sent to other EU countries have been broadly stable since 2009. At that point, third country exports made up only 10% of Spanish shipments; by 2014 that proportion had risen to over a quarter. All this has come despite the loss of the Russian market, which was the biggest non-EU buyer of Spanish pork until 2012. Asian markets such as China, Japan and Korea have more than filled the gap.



The successful growth and diversification of the Spanish export trade has continued, perhaps even accelerated, this year. Exports were up 16% on a year earlier in January to July 2015, overtaking Denmark as the world's third largest pork exporter. Nearly a third was destined for non-EU markets. The Spanish industry's ability to grow its exports goes a long way to explain how it has been able to keep prices at or above the EU average despite production growth. With the census results suggesting output will increase further, it will be crucial that Spain can maintain its export success.