An Overview of Danish Pork Industry Integration and Structure

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Introduction to the Danish Pork Industry

Facts and figures

In the beginning of the 1970's there were 40-50 cooperative slaughterhouses in Denmark, and in 2005 the number has decreased to 2, as seen below. Today, Denmark processes 22 million pigs equalling a production of 1.9 million tons of pork.

Table 1. Slaughterhouses in Denmark, 2005

Slaughterhouse	Turnover, \$Millions, CAD	% of pigs processed
Danish Crown	8,300	90%
Tican	500	7%

Danish Crown is the largest pig processor in the European Union accounting for 8% of the pigs slaughtered.

The Danish Pork Industry

Denmark has a strong tradition for producing pigs. The pig industry includes breeding material, extension services and training of farmers, housing and feed for pigs, meat processing companies, and production of processing equipment and production technology.

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The Danish pork industry is highly export oriented, as 85% of the production enters the world market. Denmark is one of the largest exporters of pork in the World. Denmark accounts for 17% of world exports of pork, and 22% of world exports of bacon and ham.

Competitive Advantages of the Danish Pork Industry

Despite the relatively high costs Danish pork is still competitive in the world market. Why?

Company Structure

The cooperative structure of the Danish pork industry is considered a very important factor in the success of the industry on a global basis.

This is due to the fact that the cooperative structure has been the basis for developing a very high level of food safety and traceability covering the whole value chain. Furthermore, the integrated structure of the chain has made it possible to develop and produce special products "made to order". Examples of such special products are:

- pigs for the British market for bacon production
- welfare-pigs for the British market (loose sows etc.)
- heavy pigs for the German market
- pork cuts with outstanding high levels of food safety for the high-priced Japanese market

The core competences of the Danish pork industry are found within the first levels of the production chain: slaughtering and cutting. The Danish pork industry has built its reputation on the capabilities of supplying requested volumes and quality of pork to processors all over the world.

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Therefore, much emphasis has been put into strengthening the competitiveness of this part of the value chain.

Traceability

Suppliers of pigs to Danish slaughterhouses are obliged to comply with guidelines on production methods and regulations on traceability. The

guidelines include rules on documentation, use of inputs in livestock production and guidelines on welfare issues such as housing, medication and transportation. Denmark has implemented a system for full traceability of the individual animal from farm to slaughterhouse.

Branding

The brand "Danish" is used for Danish pork in export markets. The brand has originally been marketed towards industry customers, but it is now also used in consumer marketing. This is certainly the case in Japan and the United Kingdom, where consumers consider "Danish" as the preferred pork. The brand is displayed on retail packs, and in Japan also on menus in restaurants.

Research and Development

Denmark has strong research capacities within primary production and processing of pigs. Much research has been carried out to develop the efficiency in pig production and the breeding material. This research has made Danish pig production competitive despite the relatively higher level of costs.

Research has made Danish pig production competitive

The Danish Meat Research Institute (DMRI) carries out research on processing technologies for the meat industry including automisation. Cooperation between slaughterhouses, the DMRI and producers of equipment has brought Danish meat technology at the forefront of the industry in an international comparison.

Outlook for the Danish Pork Industry

Pig Production

The possibilities for increasing pig production in Denmark are limited due to environmental regulations and scarcity of land. This is expected to lead to an increasing number of Danish farmers starting pig producing operations in other countries. In this context, particularly Poland, the Baltic States and Ukraine are regarded as possible locations.

These countries hold large potentials for increasing the production of pigs and are certainly cost-competitive to Danish pig production. Today, Danish farmers have built up large pig production units in Poland and some have expanded into Ukraine and the Baltic States, too. The meat industry has followed by acquiring slaughterhouses and meat processing facilities there.

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Changing Trade Patterns

The trade structures in the world market for pork will change in the future, and trade with pork will overall increase. The growing consumer markets in Japan, China and South East Asia will increase their shares of world imports of pork. Denmark exports pork, offal and processed meat products to these markets today.

Other countries such as Brazil, the United States and Canada, are expected to increase their exports of pork. These countries are cost-competitive to Danish pork. Denmark exports 1.7 million tons of pork. In comparison, exports from Brazil amount to 621,000 tons, and from Canada and the United States each 1 million tons.

Internationalisation

Retailers' consolidation – across borders - is expected to put more pressure on the Danish pork industry to become even more competitive. Retailers are moving towards "preferred suppliers" and thus reducing their number of suppliers. This makes it even more important for the pork industry to meet retailers' demands on larger volumes and quality, including private label products.

As the Danish pork industry is already very concentrated, increased competitiveness must come from economies of scale, flexibility, proximity to the market, and increased internationalisation. This is regarded as an important strategy for future growth for

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Danish slaughterhouses. An example of this strategy is the moving of the deboning and cutting operations from Denmark to a plant in Germany. These cuts are destined for the German market and produced under agreements with German retail chains.

Other examples of increased internationalisation are the acquisitions of meat processors in Poland and the United Kingdom - a strategy both Danish cooperatives have followed. These acquisitions have placed both Tican and Danish Crown in more favourable positions in the Polish and British market for processed meat products. There are several reasons for this:

- Closer relationships with the retail chains in the UK
- Access to the growing Polish market for processed meat
- Consumers in both markets prefer locally produced meat products

Conclusion

The outlook for the Danish pork industry in a global view seems bright. Denmark will continue to be a major exporter of pork and processed meat products, particularly bacon and ham. Production structures in the primary production and the processing industry may be expected to change towards increased internationalisation and more flexible production structures. Food safety will continue to be a very important competitive parameter in the global trade with pork and Denmark is very strong in this aspect. The cooperative structure, production methods and the legal framework will support this position.

Evolving new capabilities to meet market demands in the best way will be an important asset to the Danish pork industry in the future.

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