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Denmark

Livestock and Products

Further Consolidation In Danish Pork Industry 2001

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Report Highlights:

Danish pork giant, Danish Crown has merged with Denmark's second largest slaughterhouse, Steff-Houlberg. This improves the competitive position of Danish pork producers.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
The Hague [NL1], DA

On November 2, 2001 the boards of the two largest Danish slaughterhouses, Danish Crown and Steff-Houlberg announced that their plans to merge. The proposed merger is anticipated to be approved by a majority of the cooperative's farmers later this month. Danish Crown produces 75 percent and Steff-Houlberg 15.7 percent of total domestic pork. Together with a third slaughterhouse TiCan, these three cooperative slaughterhouses have a market share of 96,3 percent. The balance of the 3.7 percent of Danish slaughterings are made at 11 small, privately owned slaughterhouses, servicing the domestic market only. After the merger, the joint Danish Crown/Steff Houlberg will be slaughtering almost 20 million pigs per year and exporting 85 percent of the production, or about 1.2 million tons of pork for a total value of about \$3.5 billion. The merged company will account for 8 percent of total Danish exports.

The two firms cover specific regions in Denmark. Steff-Houlberg, by far the most modern Danish slaughterhouse, has never been able to fully utilize its capacity as pig production has mainly been expanding in regions covered by Danish Crown. Danish Crown was formed in 1990 as a result of a merger of three slaughterhouses. In 1994 another two slaughterhouses added to the cooperative. In 1998 the last slaughterhouse in the region, Vestjyske, merged with Danish Crown.

The consolidation is reportedly dictated by the precarious financial situation of Steff-Houlberg. If they hadn't decided to merge with Danish Crown, their suppliers would probably have changed their deliveries to Danish Crown to receive higher payments. Steff Houlberg, with a strong position in the low priced Russian market, has not been able to gain significant market share in the high priced Japanese market. They lost that market when they were forced out by the Vestjyske - Danish Crown merger.

Another reason for the reportedly poor economic performance of Steff Houlberg is its size. They have not been able to offer high volume at competitive prices to the larger retail chains. They are not small enough, as TiCan is, to adjust their production to niche markets. Danish Crown claims that they have the size for large scale production advantages.

The smaller slaughterhouse, TiCan with a market share of 5.5 percent, is the lowest-cost producer and the one which pays the farmers most. It is operating at full capacity and has no plans for expansion. With this situation there will essentially be no competition between slaughterhouses in Denmark. However, if prices paid to farmers are higher in Northern Germany, farmers may choose to send some of their production to slaughterhouses there. This can at present only be done to a limited extent, as the farmers are committed to their cooperatives. However, such commitments have been relaxed by the government and the EU Commission since the last merger in 1998 in order to increase competition. The proposed merger will also be subject to EU approval and most likely, the commission will permit looser ties between farmers and their slaughterhouses to increase competition. This is unlikely to create more competition. The EU approval of Danish Crown's last merger was dependant on the sale of one of its slaughterhouses to increase competition. The slaughterhouse was sold, but discontinued slaughtering operations.

Press reports speculate that the next Danish Crown target will be Swedish Meats. The two are already cooperates on research projects. Danish Crown is growing fast on the Swedish market making a firm

in Sweden a logical progression. The director for Swedish Meats is a former director of Tulip International, owned by Danish Crown.

In spite of the reduction to two members, this merger is not expected to affect the Danske Slagterier (Danish Bacon and Meat Council), which represents Danish slaughterhouses in Copenhagen.