

Middle East Breeder Market Review

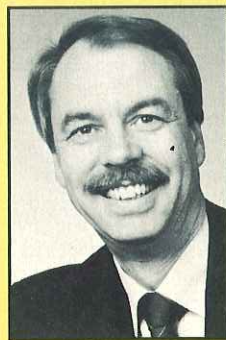
Is the story of the boom in poultrymeat production in the Middle East already history; does it stagnate; is it on the threshold of renewed growth or going through a period of consolidation and structural concentration?

Many open-ended questions, all with different answers because the Middle East is a complex market which cannot be regarded as one uniform region but rather as a collection of widely differing individual countries; not all like Iran, nor all like Egypt.

When the expansion began, western countries saw the opportunity as a united area: they had their oil, we had the broiler. The way of business was clear. The poultry industry discovered a blank space on the map; countries with booming economies, increasing population numbers as well as improving living standards, a religion which forbids the consumption of pork and climate restricting beef production to a minimum. An ideal constellation for poultry growth. And it grew; in farms, processing plants, hatcheries and feed-mills. Turn-key projects mushroomed out of the desert. An armada of aircraft shuttled day-olds to the land of petrodollars.

And today, ten years or more after all that started? There is still a lot of business being done, but the conditions have changed dramatically. The purchasers have become highly experience technocrats, seeking independence or at least joint ventures in which they have the controlling interest. Nowadays there are more deals in spare parts than turn-key projects.

The Middle East industry is passing through the same evolutionary process that we have seen before in N. America or Europe: industry concentration, poultry health problems, bad experience with some products or suppliers, changing consumer habits plus some



HEINRICH

Christian Heinrich, the author of this review of the Middle East market for poultry breeders is the former marketing director of an international poultry breeding company. He has wide experience of marketing both meat and egg stain stock throughout the region.

specific special situations like the Iran/Iraq war, government nationalisation and shortage of hard currency.

This review looks at the situation in the various countries as it is today and considers likely future trends.

Iran

One of the biggest potential markets for the future, but when will it happen? The country was one of the first to start to build a modern poultry industry "before the revolution". Plants and offices still exist but many private owners have left the country and many enterprises are nationalised. Technical spare parts are a rarity and today the industry runs at about a third of its normal capacity.

It is completely closed for the importation of breeding stock by private industry, the same applies for feed and technical equipment.

Only the Ministry of Agriculture has the permission to import poultry breeding stock in form of pure lines, grandparents and parents for final broiler production.

Government owned GPS-hatcheries distribute parents to private enterprises according to a yearly fixed quota-system, and according to the numbers of stock allowed they receive their quantity of feed.

Selection of breeding stock is done by a government poultry committee, the private industry has, in fact no vote.

And as there is always a shortage of broilers, nobody worries about quality, at least does not make a claim to the government!

More and more private companies are taken over by government or quasi-government organisations, forced by money problems and the practised Islamic rule not to borrow money against interest but in the form of share splitting.

The final goal of Iran is breeding independency by having their own pure lines, which are already contracted. This will inevitably mean a decrease in parent breeder sales for western companies.

Egypt

Ranking in production volume next to Iran, today the government General Poultry Company dominates the market, purchasing in 1986 around 2 million parent meat breeders, roughly two thirds of all housed in Egypt.

The country's increasing problem is a shortage of hard currency due to reduced revenue from:

- Egyptians working in other Arabian countries;
- Suez canal income;
- Oil exports, and
- Less tourism, especially Americans and younger people.

The decrease in US dollar-value has resulted in higher purchase prices for all imported goods, compared with former years.

The shortage of 'official' hard currency has already caused temporary parent stock importation stop for the government companies and breeding companies are kept waiting for their money for more than six months. The private sector can still help themselves via the 'free' market, if they can afford the enormous price increases resulting from falling exchange rates.

Dr Walli, Minister of Agriculture and Deputy Prime Minister gives priority to all kinds of 'made in Egypt' companies. For the breeding sector this means establishing grandparent plants in Egypt to have their own source of supply for breeders and broilers.

Two American breeder companies have already obtained general permission and import licence.

Project location is settled for one and construction is expected to start soon. Completion and first production is scheduled in 87/88.

The most probable government aim is to stop all parent and later broiler imports as soon as possible resulting in the loss in volume of parent stock sales from breeder companies own production.

Iraq

The entire meat breeder business is in the hands of the Government State Establishment for poultry.

Like Iran today and probably Egypt tomorrow, Iraq is going over to having its own grandparents. Negotiations have been settled and the plants are built. In a short time no more imported parents will be purchased.

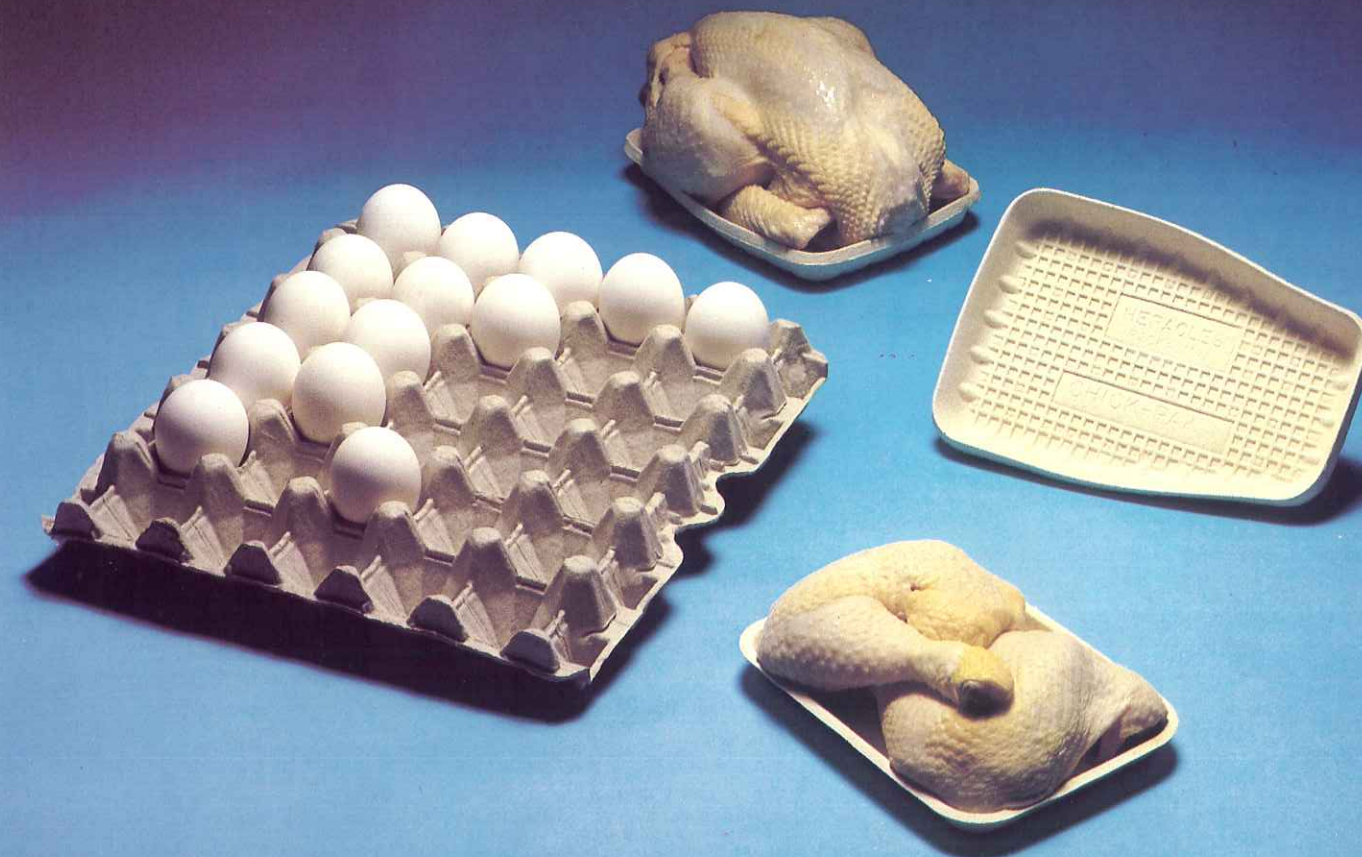
Additionally, there is a yearly planned importation of broiler hatching eggs, most of them under bi-lateral agreements on government level in compensation for oil supplies. In this context not only Turkey and Cyprus but also Bulgaria are the partners.

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Jordan

Jordan has a colourful up and down past in poultry production and all the indications show, that it will continue this way, as there is no change in thinking.

Periodically almost the entire industry has breakdowns due to a too relaxed handling of health and hygiene questions. With severe counter-measures, restrictions and actions, the situation is improved and builds back up again to high production figures. Then the controls are relaxed again with similar consequences.

However, Jordan is an open country for all poultry imports. They buy hatching eggs from Cyprus and other countries, and they buy parents from all parts of Europe. ACOLID again is involved with a GPS-project.

The industry has doubts about the likely success of this approach as Jordanians like to have their own 'overseas links' and for reasons explained before, Jordan has discredited itself as possible source for livestock importation for surrounding countries.

Certainly Cyprus has an excellent chance to obtain a big share in parent sales. It is conveniently near for transport, and is well known for its hygiene standards.

Again the future for stock suppliers can only be the loss of

sales volume in the face of their own grandparent breeder production.

Saudi Arabia

From the very beginning, the main part of the industry was more concentrated in a few hands than in any other of the big Middle East poultry countries. Remarkable investments not only in the latest technology but also in human resources for management kept bad experiences down to a reasonable scale and avoided the drastic breakdowns which regularly appear in some surrounding countries.

However Saudi Arabia is playing a central role in planning for an Arabic breeding centre. First step is to house and distribute parents from a central Arabic plant to all Middle East countries.

ACOLID (Arabian Company for Livestock Development) is the leader in planning this project. The company's centre is Damascus/Syria, but for the poultry division the centre is in Riyadh.

Recently ACOLID is even thinking about pure lines and is approaching breeder companies for proposals and offers including genetical and technical assistance. Similar plans are being made by Libya, but they seem to be less well researched.

This is contrary to what is happening in Egypt, Iran and Iraq. Moreover don't believe, that all the involved countries and parties can be brought together in a common operable project.

Saudi Arabia will certainly continue with parent stock

imports, perhaps not only from Europe. Grandparents produced in Egypt could be an eventual new supply source, provided they meet Saudi health and quality standards.

Gulf States and Emirates

The poultry production of all these countries together does not even represent a high potential for breeders. Compared with other Arab countries some relatively small units will continue with importation of stock and no shortage of hard currency is expected.

Nevertheless these States are a good prospective market for ready processed poultrymeat, chilled as well as deep-frozen. For example, the YUPI Company from turkey, a geographically close poultrymeat processor, is expanding remarkably in this area, and of course, others will follow.

Yemen

Yemen represents a good potential market but parent housing suffers very much from the unfavourable climate. Most of the broilers produced are hatched from imported hatching eggs. No immediate changes are likely.

Jordan is likely to continue with parent imports, but not all from breeding companies own hatcheries in Europe. For them prospects in Jordan means also a decrease in business or lower prices to compete with lower transportation costs out of Cyprus.

Syria

Here everything depends purely on the availability of hard currency, not only for the

private sector but also for Government and Army purchase of poultry and feed. The commercial banks are asking for conditions with at least 12 months credit terms and dated practically open-ended when finally it has to be paid. Even official letters of credit are worthless, as foreign banks have no Syrian credit accounts. The only possible way of trading is cash in advance.

There are no signs of improvement, Syria depending on gifts from neighbours, who are now also tightening their budgets due to the oil price situation. Only strong political reasons force them still not to drop financial support for Syria.

The parent breeder market potential remains, but with restricted quantities and a high risk for payment if not in the suppliers hands before delivery.

The government is extending its own poultry sector involvement and from time to time restricts the private sector by rationing the supply of feed, the government exercising a controlling monopoly for imports.

Lebanon

This country's situation becomes worse and worse. The previously booming poultry industry works today with a greatly restricted volume, and faces enormous practical difficulties for importation.

To forecast what will happen in future is practically impossible. Certainly they will continue with parent imports in low numbers. The poultry industry is asking more and

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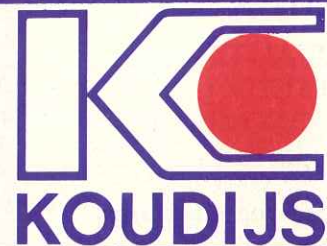
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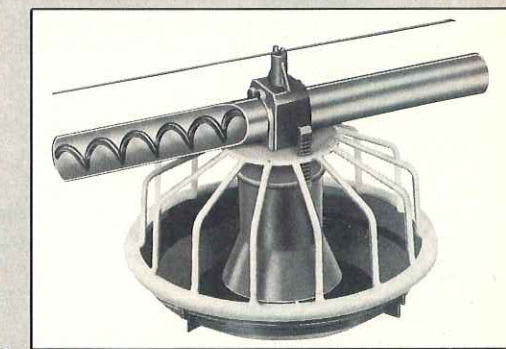
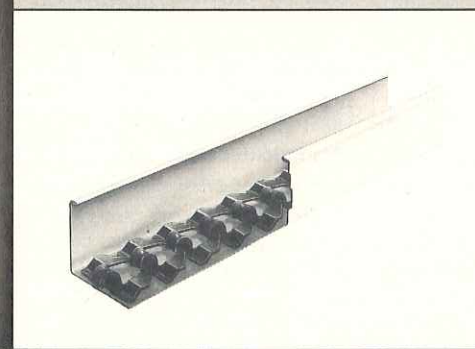
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more for longer credit terms, as the war and the drastic devaluation of the currency causes monetary difficulties.

Small numbers of parent businesses will continue but with attendance high risk of being unable to execute shipment on the day of hatch.

Turkey

Turkey normally cannot be considered to be a Middle East country, but for a number of reasons is included in this survey. It borders on the Islamic countries and it is partly involved in their political problems, e.g. the Iran/Iraq and Kurdistan conflict. It is half way between being European and pure Oriental, in terms of habits, climate and religion.

Turkey has gone its own political way under its famous States founder Kemal Ataturk, who looked far in advance at his country's future.

The Turkish poultry industry has similar influencing and direction-giving leaders of the YUPI Company, which absolutely dominates the Turkish poultry industry. This company, together with its affiliates, is fully integrated vertically as well as horizontally being organised with GPS parents, processing plants, domestic distribution network, strong export activities and feed mills.

Recently a joint Danish-Turkish project of similar design and structure started to work, but it is not at all comparable in terms of production volume and has yet to prove successful in such a country and environment.

Combination Killed IB/ND Vaccine Licenced

Conditional licensing from the USDA has been granted for a combination killed vaccine for standard and variant bursal and Newcastle diseases.

The Licence was granted to meet current emergencies. Farmers in the Delmarva (Delaware, Maryland, Virginia) region lost \$38 to \$40 million last year in mortality and condemnations and the variant strain of bursal disease was responsible for a substantial portion of that.

There is a vaccine available for bursal

The dominant market-share will continue to be covered by GPS with few parent sales opportunities although the business is stable and solid.

The industry is high-minded in modern technology and hygiene standards and is the main hatching egg contractor with Iraq, while having a still expanding domestic market.

Pakistan

Last in the survey, but not least, Pakistan, is for the classic poultry breeder a very interesting place to export. It is one of the few countries offering promising increasing sales potential of meat breeders for the future. Payment conditions and procedures are correctly followed. Until now hard currency is no problem for parent imports.

Rapid expansion has increased every year the number of meat parents housed. The industry is split between many small to medium sized companies, only three of which can be called big in terms of parent numbers, but even these only compared to the general Pakistan market, not internationally. Certainly the industry will pass through an intense rationalisation process in the near future.

The larger companies apply modern western technical standards combined with a high level of manual labour as it is much cheaper. Hygiene standards are high, and they pay scientific attention to feed formulations, record on computers, and participate in international seminars and exchange of information.

The rest of the industry

operates at an altogether lower technical standard.

As usual in many Islamic countries poultry is marketed live in rural market-places. Only a few are processed in professional plants, with a small number packed for wholesale business.

Two big poultry companies are undertaking market research on future trends in demand and plan to start soon with modern processing plants on a small-scale pilot project.

The same companies are also considering the import of GPS. Certainly this will not be realised in the near future since to build up an efficient GPS yearly-production is now almost impossible due to a strong seasonal parent demand pattern.

A difficult problem for the country is the climate. The Karachi (South) area suffers from extreme high humidity and temperatures during most months of the year. Controlled environment cooled houses are too expensive for broilers, and can be only afforded—if at all—for breeders, as it drastically increases the product costs.

The Punjab (North) area is much more favourable but both areas are 700-1000 km from each other and no real cold-store network or sufficient fast and cheap transportation system exists.

Parent sales are expected to continue certainly for the next three years at least. But it is necessary for breeding companies to have a man on the spot for technical, practical advice and the breeder must select customers carefully to secure

his breed's reputation.

For a variety of reasons, outlined here, the numbers of breeders sold to the Middle East from European and other hatcheries will sharply decline in future due to the switch to grandparent stock.

The revenue required to sustain breeding companies' own R&D and grandparent farm and hatchery operations will decrease accordingly and the alternative income sources from grandparent sales will be greatly reduced as this area of business is already the battleground for intense competition.

More extensive burdens to suppliers will come in quality and product performance guarantees now being included in supply contracts. This is producing a highly explosive, dangerous and not always precalculable risk for the breeding company.

The more the concentration process develops within the industry through central government purchase committees or limited numbers of GPS buyers, the more the purchase will be made through the mechanism of tenders. Prices will be further screwed down beyond levels which are, in some cases, already below costs of production and these will not be subsidised to the same extent by large volumes of parent breeder sales. Breeders are also facing increased costs for veterinary and technical service personnel.

As a result, breeders are packing their bags and following the turn-key companies to the Far East where the markets hold out new hopes. □

disease, but a new strain of the virus which triggers the disease which attacks a chicken's immune system has evolved that is resistant to it.

Newcastle disease is an upper respiratory affliction also caused by a virus and the new vaccine was designed to work against both diseases.

In developing the new vaccine, Vineland Laboratories scientists worked closely with Dr Jack Rosenburger of the University of Delaware, the researcher who first identified the variant strain of the bursal disease virus in the Delmarva region, a major source of US broiler production. The variant strain has also been identified in other areas, including

Alabama and Mississippi.

Many of the chicken's immune cells originate in the bursal organ, which atrophies from 3 CM to .5 CM while exhibiting gross pathology once a bird contracts the disease, leaving it unable to naturally defend itself from infection and to respond to most vaccinations.

The disease—also known as Gumboro for the town where the virus was first identified—has hit poultry producers in Delmarva especially hard.

Delmarva farmers produce nearly 500 million of the 4.5 billion broilers raised in the US each year and lost \$38 to \$40 million of the \$1 billion market to mortality and condemnation in 1984.

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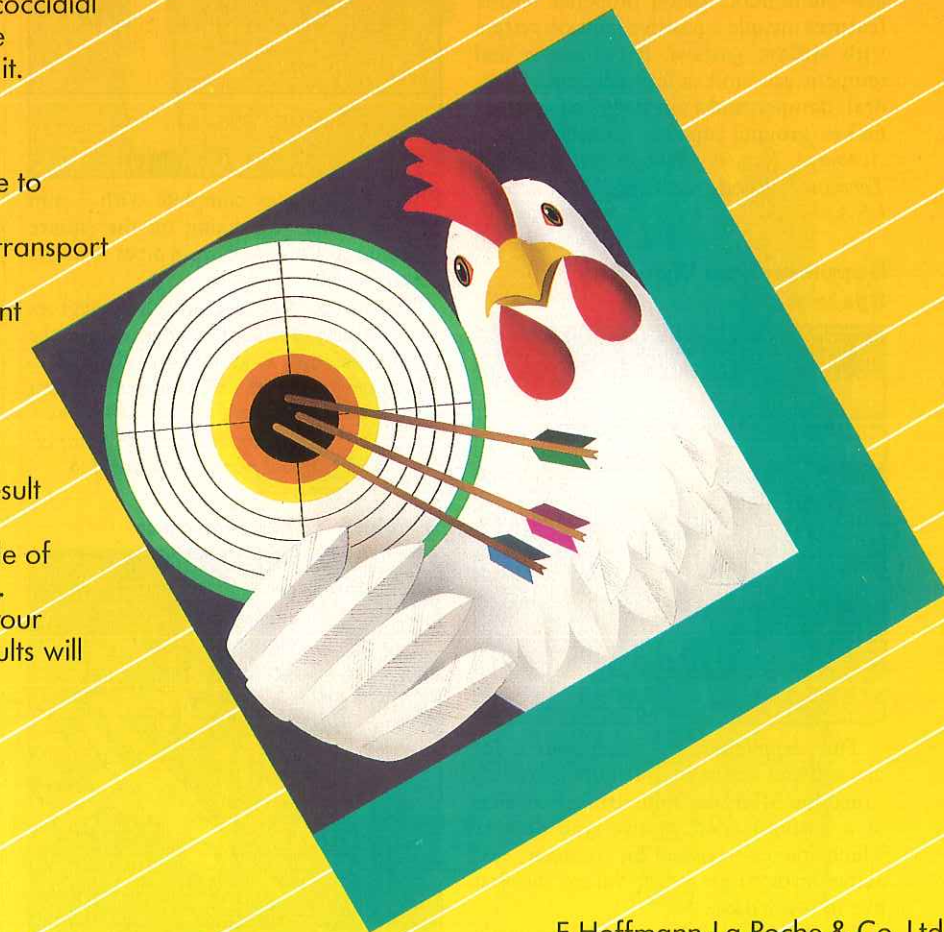
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