

Three Reasons Why the ASF Recovery in China Will be Slower than You Think

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The African Swine Fever outbreak in China is over a year old now and the dramatic price increases that have been predicted all along have finally materialized. Pork prices exploded past record highs and have reached territories that few would have imagined were even possible even a year ago. I returned from China about three weeks ago and my most recent trip had a decidedly different flavor. Until very recently, the hot topic has been how to keep ASF out of farms and now it's shifted to how to re-stock farms that have been affected. Enormous price incentives have producers clamoring to get farms back into operation and the government is doing everything it can to encourage those efforts.

It would be easy to assume that producers will get back into production quickly. With massive profits, there's huge incentive for them to do so, but I suggest caution to anyone that thinks this recovery will be rapid and efficient. There are major headwinds affecting the Chinese re-building effort that should dampen that optimism. Here are three examples:

1: Poor Re-Stocking Results

The best example we have of an industry that has successfully completed re-stocking efforts following an ASF outbreak is Russia. The Russians have been quite successful in completing re-stocking efforts with a success rate that probably exceeds 90%. They have achieved such success due to a very strict (and quite conservative) set of procedures required to get back into production. The details of those procedures are beyond the scope of this article, but it takes close to a year from the time an outbreak has been confirmed until the farm is approved for a complete re-stock. Euthanasia and disposal of carcasses, a complete cleanup and disinfection of the farm and surrounding areas and a period of downtime followed by testing and sentinel animal phase is required. The process is very structured, thorough and...time consuming.

By contrast, the typical expectation of Chinese producers is that they will be back up and running within 30-45 days and, as you might expect, the results have been less than impressive. Obviously, in order to achieve those time frames, significant short cuts must be taken and those shortcuts are resulting in a very high failure rate in early efforts. The more extreme short cuts are, the more substantial the impact on failure rates. So, if you start out with a 12-month plan to re-stock and you reduce that to 11 months, you've probably only very modestly reduced your likelihood of success especially if you carefully chose where to make cuts. If you go from 6 months to 5 months though, that impact is going to be much greater. In both cases, you've "saved" 30 days but the impact is substantially different.

One final point. In Russia, farms are very quickly emptied upon the first positive test for ASF. All animals on the farm are euthanized and disposed of properly. In China, the most common procedure is to try to remove the sick animals and leave the "healthy" animals on the farm. This results in a slower process of removal where you remove sick animals until there's so few animals left that nothing except a complete

depopulation makes sense. In these cases because of the extra time and the increased percentage of pigs on the farm that contracted the disease, the sheer amount of virus that has been produced on the farm is remarkably higher than the Russian farm example. So, not only are the farms in China using far less rigorous procedures to clean up the farm, the farm is likely much dirtier to start with. In this context, the low success rates of re-stocking efforts are hardly surprising.

I should mention that a strong case can be made for a more aggressive re-stocking strategy in China compared to Russia. Hog prices weren't substantially higher than normal during the Russian outbreaks so the risk/reward balance is much different compared to the current situation in China with massive profit potential. This is a compelling case for more aggressive strategies, but those strategies still must be reasonable, not reckless and irresponsible gambling which is what I'm often seeing now in China.

2: The Virus is Everywhere

The ASF virus is endemic in China. Not only is the virus present in a very high percentage of the farms, it has also infected a large percentage of the industry infrastructure. The virus is commonly present in slaughter facilities, meat markets and processing centers. Most experts agree that the presence of ASF in meat has been a major factor in the transmission of the disease. While efforts have been undertaken to reduce the chances that pigs are exposed to meat or meat products, it remains a significant ongoing threat of infection to unaffected herds and re-stocked herds.

ASF is certainly in and around the feed supply as well. While the role of feed and feed ingredients in the transmission of the virus in China is not fully known, it is certainly a risk especially in facilities that have not been properly managed and have not implemented heightened biosecurity procedures to protect against the disease.

Transportation infrastructure is believed to have been a major source of disease transfer as well. While some producers are making great progress in reducing this risk, many animals are being moved in much the same way as they were before ASF. It will simply take time for the industry to more completely address this issue by building truck washes, implementing new biosecurity procedures and acquiring trucks that can be more easily and readily cleaned and disinfected.

Finally, it is widely believed that many animals were improperly disposed of. It is well documented that the virus can survive for very long periods in carcasses and even in infected soil and manure. These improperly disposed of animals represent a significant and ongoing threat to farms where the disposal occurred and surrounding farms.

3: There are No Replacement Gilts

Availability of breeding stock was tight in China even before the ASF outbreak last year. African Swine Fever has obviously not been kind to commercial farms but genetic nucleus and multiplication herds have been dramatically affected as well. Already tight supplies have become extraordinarily thin so even if producers are ready to take the risk of re-stocking, they are finding it very difficult to find gilts to re-stock with. Genetic suppliers in China are very short and while international suppliers are eager to help, few producers are willing to invest large amounts of money to import genetics from abroad when there's still such a significant risk of re-infections. Even if international suppliers were given the opportunity to fully participate in the re-supply effort, there's simply not enough gilts in the global

supply pipeline to meet the need and those in the genetics business are keenly aware that turning that supply spigot on and off is not easy and it's certainly not fast.

In response to these shortages, many producers are simply taking gilts off finishing floors to use as replacement gilts. While an obvious temporary solution, it comes with significant downsides. First, these animals are genetically designed to produce meat, not to be breeding gilts. Productivity (litter size, milking ability etc) of those animals will be much lower than normal expectations. It's also not an insignificant issue that by diverting gilts intended for market and using them for breeding animals, they're further exacerbating the shortage of pork.

These are issues that will take a significant amount of time to resolve. Ultimately, we'll see major imports of nucleus animals into China, but the process of rebuilding the genetic herd is time consuming. From the time a 50 kg GGP gilt arrives in China, it can be nearly 3 years until the first market hogs will be ready to go to market. There are certainly strategies that can be implemented to speed up that process, but even under the most optimistic scenarios, it will be 3-5 years before the industry is able to begin rebuilding the breeding herd in a meaningful way.

There are other reasons to expect a slower recovery and there are precious few reasons to be more optimistic. Certainly, the government will be allocating resources which is always useful and new technological advancements could be game-changers, but there are no indications that new tools will be available to producers in the near future and the government's efforts to reverse the trend will be met with strong resistance from the factors I've described here and others. The most impactful factor will be pig/pork prices, but, ironically, one can use that factor to argue for both sides of discussion. On one hand, high prices provide a huge incentive for producers to ramp up production, even in a risky environment. On the other hand, prices also incentivize many of the same bad behaviors and circumstances that created this difficult situation in the first place.

Both the Chinese pork industry and the global protein industry should, at a minimum, begin to consider building models that show a much flatter recovery over the next 3-5 years. I also advise people to start thinking about this as possibly a decade-long recovery. It could take that long before the industry fully gets back on its feet and a lot can change in that period of time.

About the Author:

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SwineTex Consulting Services has a variety of services to support producers who are threatened by or have been affected by African Swine Fever. SwineTex has developed a one-day training program that focuses on strategies to prevent ASF from entering the farm and to re-stock farms that have been affected. SwineTex also works with specific farms to develop customized strategies for ASF prevention and elimination.

SwineTex has also developed educational programs for allied industry, investors and other groups with interest in or exposure to global protein markets. These programs range from a one-hour webinar covering the basics of ASF and its impact on the protein industry to a full day onsite deep-dive on the same issues. Custom programs can also be developed to meet specific client needs.

For more information on these or other services, send us an e-mail to info@swinetex.com or visit our website at www.swinetex.com