

Closed to Risk: How One Pig Farmer is Managing Price Volatility

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GERMANY - Creating a closed system has helped one German pig producer reduce costs and limit risks to his farm, making sure his business is sustainable for the next generation.

Like many pig producers across the globe, managing price volatility is one of Ralf Hickman's top concerns.

Spiraling input costs, coupled with poor commodity prices, meant that when he bought his first pig herd in 2008, he knew he needed to do something different if the family's 60 ha (1 hectare = 2.47 acres) farm in Koblenz, West Germany, was to survive.

"I started working on the farm with my parents and wife in 1989, and at the time we were just growing potatoes which we sold in our own shop," Mr Hickman says. "We couldn't sell to supermarkets because they were only interested in large-scale volumes."

When the time came to take over the farm eight years ago, Mr Hickman decided to look at options to diversify the business to increase productivity and profits.

Given the farm's location in the pig production basin of Europe, which stretches from northwest Germany to Belgium and is home to 30 per cent of the EU's sows, he decided to take advantage of the area's established links by developing a 1,000-head fattening unit.

However, to make sure his business was truly sustainable, he took a less conventional approach to develop the enterprise.

"There are lots of pig farms in Germany, and most of them don't have huge amounts of land," he says. "I started to think about how we could make best use of the land we did have, whilst finding a way to limit our exposure to price volatility."

Reducing risk

The answer for Mr Hickman was to create a closed system, where he can produce everything he needs himself, reducing the risks his operation faces.

He bought a neighbouring 364 ha arable unit — taking his overall farm size to 424 ha — so he could increase his maize and grain production to produce his own feed.

More radically, he decided to protect himself from crippling energy prices by producing his own electricity, too, becoming the first farmer in Germany to invest in his own biogas units.

Totaling €1.2 million (\$1.34 million), the 550- and 900-kilowatt systems run mostly on farm-produced corn and manure, but he also has a contract with a local herbal-medicine factory, where he is paid to dispose of herbs and garlic which he can use in the biogas plants.

Electricity produced on-farm is either used to run the pig sheds — which he has since expanded to house 2,000 pigs across the two farm sites — or sold for €0.10 to €0.20 cents per kilowatt hour (kWh).

“The biogas plant offers lots of benefits to the business,” Mr Hickman explains. “As well as producing our own energy, the subsidies give us a constant income.

“We sell around 4 million kWh per year, so we expect to get a payback on investment over 10 years. It also gives us a way of getting rid of pig manure, which is a major problem for pig farmers in this region who don’t have the space to put it on their own fields.”

Trial and error

While the investment has been positive for the business, it wasn’t entirely without teething problems, Mr Hickman admits.

“The first five years were a catastrophe,” he says. “This was one of the first biogas plants in Germany, and no one really knew how to run them. There was no information on how to build it for our purpose, so it was completely trial and error.

“The biggest problem was in the technique. The system was made for limited operation of about 100 hours per year, but we were using it for 24 hours, seven days a week.

“After a month I was having to replace parts and get it fixed, but things are better now that the fittings are being built to be more robust.”

Two years ago, as part of his continued drive to spread risk and limit costs, Mr Hickman entered into a cooperative with two other local farmers — farming a total of 650 ha — and last year he joined a second cooperative with his cousin, who farms nearby.

“Being in cooperatives means that I can focus on the pigs while the others concentrate on the arable operations,” Mr Hickman says.

“Between the two cooperatives, I’m involved with 900 ha of arable land — 450 ha of that is sugar beet and potatoes, and the rest is grain.

“The crops are mainly used to feed the pigs. It was always very important to me from the very beginning that we produced our own feed so that the farm is a closed system. We don’t have to rely on other farmers or outside inputs — we produce everything ourselves.”

Planning for the future

Mr Hickman’s approach means that if pig prices fall, the business can still make a profit. The security that brings means that Mr Hickman is better able to plan for the future, in the hope that his three children, aged 14, 16 and 18, will take over the business.

“Each of the three parts — the biogas, arable land and the pigs — are designed to be economical by themselves, but they can help each other,” he says.

“Some years the pigs are the most profitable; other years it’s the biogas, but the energy is the one constant income, so that helps remove the volatility.

“For me, closed systems like this are the future if farmers are going to be able to manage their costs more effectively and make a profit. This is the best way I can think of to create a sustainable business that I can hand on to my children.”

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