Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 3/9/2001

GAIN Report #FR1016

France

Livestock and Products

BSE Update

2001

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Report Highlights:
Four months after the outbreak of the BSE crisis in Europe, French beef consumption is still 24 percent lower than one year ago and cattle prices are down 10 to 25 percent. Also, export demand for live cattle and beef continues to be hurt by import restrictions and consumption decline in major French markets. France is implementing EU and domestic measures to reduce beef supply, such as the purchase for destruction scheme and intervention, which are expected to reduce significantly French cattle and beef production in 2001. The French pork sector is benefitting from the beef crisis, and producer prices are as much as 45 percent over February 2000 prices. The recent outbreak of foot and mouth disease is paralyzing the French and European livestock sector, since all livestock markets are closed to prevent the disease from spreading.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Paris [FR1], FR

1. Beef Market Analysis

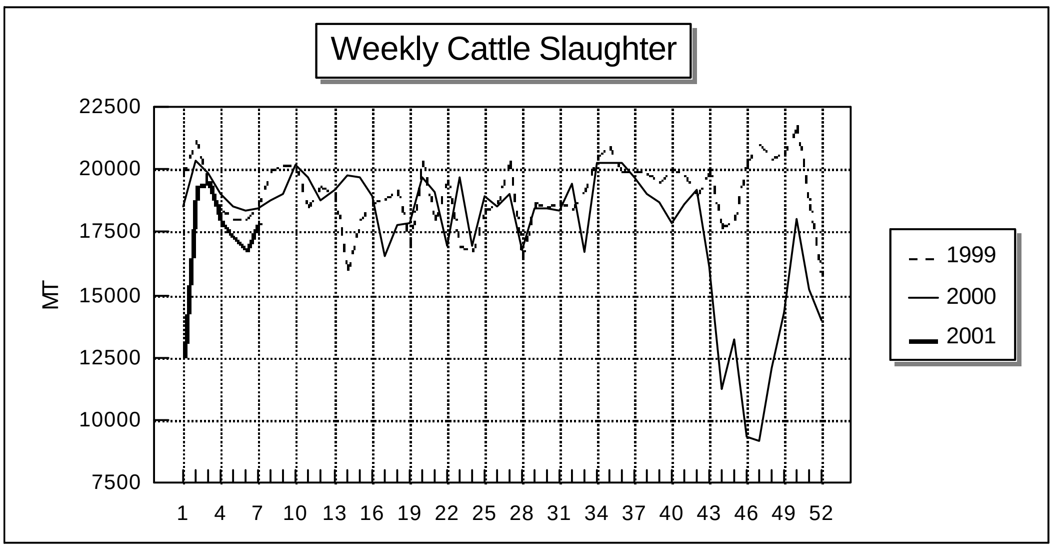
Production

The French Meat and Livestock Board (OFIVAL) and the Breeding Institute (IE) recently published a survey on the perspectives for the French cattle herd in 2001. They estimated that there were 125,000 cows, 70,000 young bulls and 20,000 steers "stored" in farms in January 2001, representing 60,000 MT beef meat, i.e., 6 percent of the annual French beef production. These animals were kept by farmers in the farms because they could not sell them in late 2000 in the first weeks of the BSE crisis, with low consumer demand and declining prices.

French cattle and beef production in 2001 will be significantly hurt by the policy measures taken at the national and EU levels to reduce beef supply (see part 2 on beef policy). During the first two months of 2001, 12,000 MT of beef have been sold to intervention and 101,000 head of cattle over 30 months have been purchased for destruction. Some sources indicate that 500,000 cows (principally from the dairy herd) may be taken off the beef market through the "purchase for destruction" scheme set by the EU. This would correspond to 150,000 MT of beef meat, i.e., as much as 40 percent of the meat generally produced by cows during that period of time.

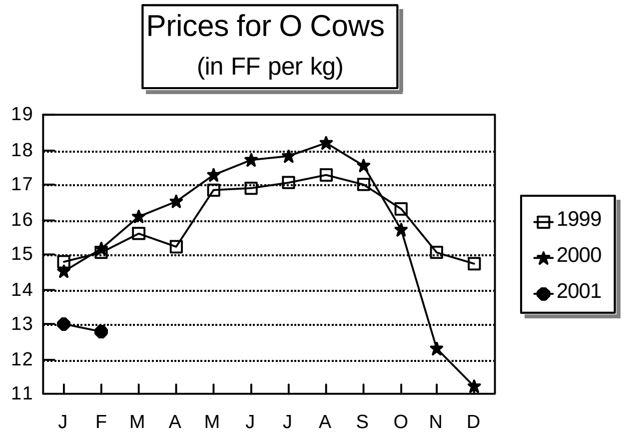
To date, there has been no large scale slaughter of cattle for Foot and Mount Disease (FMD), as no cases have been found in the French cattle herd, as of this writing.

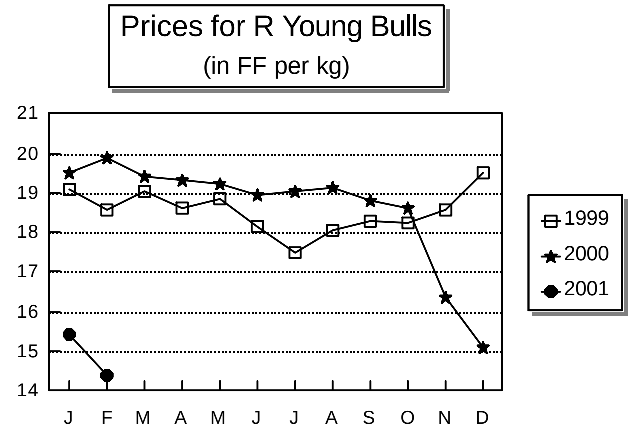
Slaughter



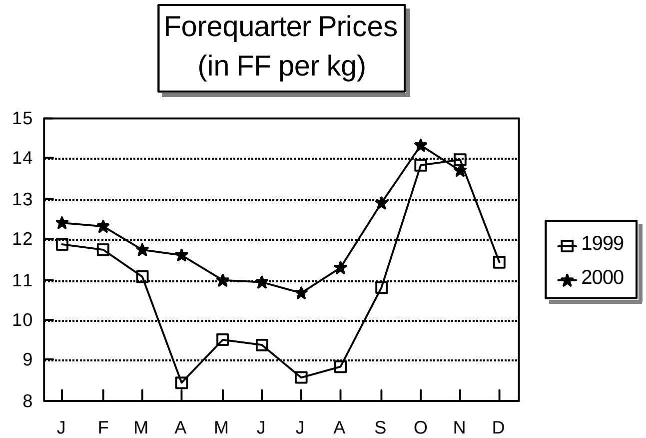
The above graph illustrates the weekly cattle slaughter (including all animals except calves) in metric tons. It shows that slaughter rates have recovered neither to pre-crisis levels nor to previous year levels. However, while cattle slaughter fell by half in November 2000, it has been only slightly lower in January and February 2001.

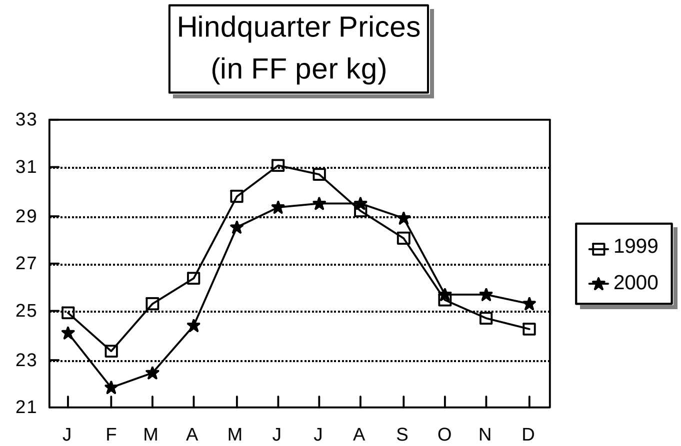
Prices





The two graphs above show the significant decline in producer prices for both cows and young bulls during the last quarter of 2000. In December, cow prices were 26 percent lower than one year earlier, while the decline in young bull prices was 23 percent. Prices continued to decline in 2001. In February 2001, prices for cows were 13 percent lower than in February 2000, while prices for young bulls were 24 percent lower. However, prices seem to have stabilized in the second half of February 2001 and are stable into March.





The two graphs above illustrate wholesale prices for beef recorded in the Rungis wholesale market close to Paris. They clearly show that the price decline recorded at the producer level did not lead to any decline at the wholesale level, and consequently, retail prices remained stable. This distortion between producer price trends and wholesale price trends is likely to be due to the middlemen, i.e., live cattle traders and slaughterhouses. Live cattle traders may have purchased animals at low prices to farmers and sold them at higher prices to slaughterhouses in order to compensate the lower number of animals traded. Similarly, slaughter rate has declined significantly, and slaughterhouses may have tried to preserve a minimal financial margin by purchasing animals at lower prices than normal and selling their final products, i.e., beef cuts, at prices close to those of the previous year. Some slaughterhouses had to reduce their production to the extent that some of their employees had to stop working.

Note: all markets for live cattle, swine, sheep and goats have been closed for at least two weeks in the second week of March 2001 to prevent FMD from spreading across France. No prices will be therefore recorded during that period.

Consumption

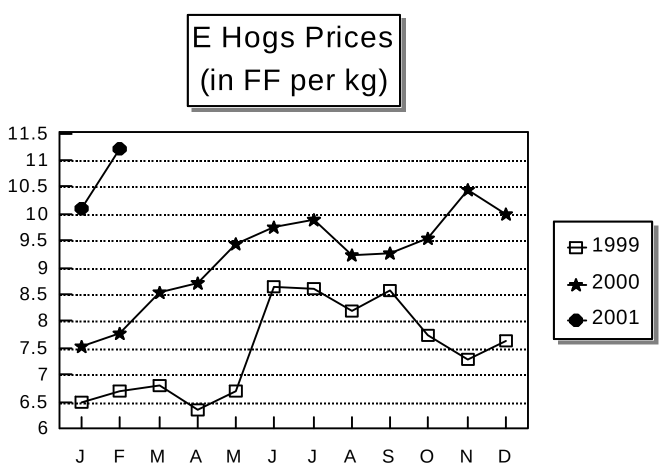
It is too early to estimate the impact of FMD on French beef, pork, lamb and pork consumption. However, this impact is not likely to be significant, since the disease essentially cannot be transmitted to humans, unlike BSE.

In January and February 2001, French beef consumption had only partially recovered. The last data available are for mid February (week #7, Feb 12-18), when French consumers purchased 24 percent less beef than during the same period of 2000, compared to a 47 percent decline in December 2000.

According to a poll conducted during the first half of January 2001 by the poll institute CREDOC, 45 percent of French consumers have reduced their beef purchases (the percentage was similar in November 2000), including 12 percent who simply stopped eating beef (down from 18 percent in November 2000). Ground beef is the product for which consumption drop is the strongest (38 percent decline in January 2001 from January 2000). As a result, the French beef industry is expected to launch a "100 percent muscle" logo on ground beef steaks in March 2001 to stimulate sales of this product. In addition, sales of prepared meals containing beef, such as ravioli and bologna sauce, have dropped significantly. According to the CREDOC poll, 20 percent of the regular customers of fast food restaurants go to these restaurants less often than before the BSE crisis. Finally, many of those who continue to eat beef have stopped giving beef to their children.

CREDOC concluded in January that French households partially replaced beef with veal, lamb, pork, poultry and horse meat. In addition, the poll showed that specialized butcher shops (where beef sales have declined by 10 percent) are less affected that supermarket chains, where beef sales are down by as much as 30 percent. A significant number of French consumers have switched from supermarkets to butcher shops for their beef purchases, because these specialized retail outlets mainly sell beef from the beef herd. Meat from the dairy herd is primarily sold in supermarkets.

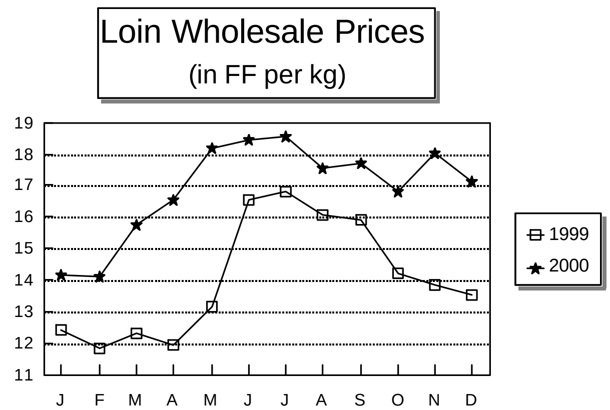
Impact on Pork

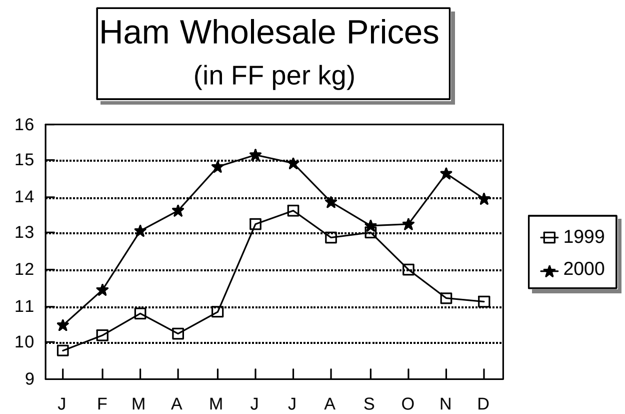


The French pork sector has benefitted from the chaos in the beef sector since November 2000, in terms of prices paid to hog farmers. This was due to increased consumer demand for pork, which has partially replaced beef.

The opposite graph shows the fluctuations in hog producer prices for CY 1999 and CY 2000. Prices were 25 percent higher in November and December 2000 compared to the same period in 1999. They continued to increase in 2001, and were up 45 percent in February 2001 relative to February 2000.

Pork wholesale prices in the Rungis wholesale market have followed the same trend, as illustrated in the graphs below.





Trade

French cattle and beef exports have been hurt since the beginning of the crisis by the official or de facto bans on French beef in France's traditional export markets. Although Italy stopped banning boned beef on February 17, French shipments to Italy continue to be low, especially for live cattle for fattening ("broutards"). A similar trend exists in Spain. Greece is boycotting French beef, German beef consumption has declined by 50 percent and import demand has therefore declined. Russia bans beef produced in 9 French "Départements" (regions) where BSE cases have been numerous. Finally, Lebanon bans animals over 24 months.

On the import side, France faces increased imports of beef and veal from Germany and the Netherlands, whose meat prices are lower than French prices, and are therefore putting downward pressure on domestic prices.

2. Beef Policy

French Policy Measures:

Since the beginning of 2001, French beef ranchers have pressed the GOF (through street demonstrations and meetings with the MinAg) for compensation. The French MinAg announced on February 15 two categories of measures aimed at reducing the French beef supply. First, 50,000 head of young cattle to be fattened will be taken off the market, slaughtered and the meat produced will be frozen and stored, while ranchers will receive payments. Second, 10,000 young bulls (which represent the second leading beef meat supply on the French market, after cows) per week are expected to be slaughtered and the meat frozen under similar conditions.

On February 28, after the European Agricultural Council refused to take extraordinary measures supporting beef producers hurt by the BSE crisis under the CAP budget, and authorized EU Member States to provide direct support at the national level, the French MinAg announced national measures of direct support to French farmers that are expected to be approved soon by the EU Commission:

. Extraordinary support amounting to FF 1 billion (USD 137 million) will be distributed to French ranchers specializing in beef production: to be eligible for the subsidies, beef production has to account for more than 30 percent of their business. Approximately 100,000 farmers are expected to benefit from this support, limited to FF 30,000 (USD 4,100) per farmer.
. FF 500 million (USD 68.5 million) were allocated to the consolidation of loans at a 1.5 percent rate.
. FF 200 million (USD 27.4 million) were allocated to recent and young investors
. FF 100 million (USD 13.7 million) will be provided as direct support to the French veal industry
. FF 400 million (USD 54.8 million) were allocated to Territorial Farming Contracts specializing in grass ranching.

In addition to these national subsidies, several French regions (such as Auvergne, Limousin, Nomandy, Brittany, Midi-Pyrenees, and Languedoc-Roussillon) have set up schemes supporting local beef production. For example, these include promotions for beef in school meals, advertizing the geographic location of the herd breed, modernizing slaughterhouses, incentives to produce substitutes for meat and bone meals, and loans at special rates for beef producers.

<u>EU Policy Measures</u>

- *Public intervention* for beef is opened in the EU if the average EU price for young bull or steer carcasses is lower than 84 percent of the EU intervention price, and if the price in a Member State is lower than 80 percent of the intervention price. The most recent data available are for the week #8 (February 21-27) of 2001. The following table shows percentages of carcass prices in France and the EU compared to intervention prices.

Market Price / Intervention Price	France	EU
U Young Bull	68.98 %	69.08 %
R Young Bull	67.56 %	66.65 %
O Young Bull	66.98 %	69.04 %
U Steer	95.38 %	86.73 %
R Steer	90.35 %	82.18 %
O Steer	76.77 %	76.46 %

On February 17, the EU approved 34,602 MT of beef under intervention stocks, including 34,057 MT young bulls, 130 MT steers, and 415 MT "broutards," EU-wide. France's share was 4,566 MT young bulls (13 percent), 0 MT steers, and 134 MT "broutards" (32 percent). The maximal price for young bulls was set at 226 i per 100 kg (normal regime) and 188.6 i per 100 kg (safety net) and for "broutards" at 381 i per 100 kg.

There have been 12,050 MT of beef actually sold in France at intervention prices since the beginning of the year, including mostly young bulls (99 percent), as shown in the following table (in MT):

MT Sold to Intervention	week #1	week #2	week #3	week #4	week #5	week #6	week #7	week #8
Young bull	1,743.3	1,899.2	1,100.4	802.0	545.8	491.4	329.9	4,994.4
Steer	7.0	61.0	0.0	0.0	0.0	0.0	0.0	0.0
Broutard	0.0	0.0	0.0	27.3	0.0	14.9	13.5	19.7

- *Purchase for destruction scheme*: Since January 1, 2001, France has implemented the EU measure to destroy cattle over 30 months old and not tested for BSE. The following table compares prices paid to farmers for animals over 30 months to be destroyed, with market prices at which these animals can be sold if tested negative for BSE in week #8, 2001. It shows that, for most categories, market prices are higher than purchase for destruction prices. This price differential is an incentive to select BSE testing rather than the purchase for destruction scheme for their animals over 30 months.

Prices in FF per kg		Purchase for Destruction Price (A)	Market Price week #8 (B)	B/A (in %)
Cows	U	18.80	21.13	112
	R	16.00	17.95	112
	O	13.60	12.81	94
	P	12.30	11.37	92
Heifers	U	21.80	23.96	110
	R	17.99	20.30	113
	O	13.80	14.03	102
Steers	U	19.53	21.15	108
	R	17.15	19.12	111
	O	14.29	15.21	106

Since January 1, 2001, 100,835 animals over 30 months have been destroyed under the purchase for destruction scheme in France. Cows represented 89 percent of this total. These figures are detailed in the following table (in head):

Number of Animals over 30 Months Destroyed (head)	week #1	week #2	week #3	week #4	week #5	week #6	week #7	week #8
Cows								
U	0	29	55	73	62	24	68	33
R	43	439	826	457	453	396	452	563
O	465	4,858	7,809	4,628	4,145	3,081	3,950	3,964
P	830	6,577	10,205	7,635	7,213	5,796	7,475	7,243
Total	1,338	11,903	18,895	12,793	11,873	9,297	11,945	11,803
Other	26	504	1,982	2,105	1,489	1,247	1,787	1,848
Total	1,364	12,407	20,877	14,898	13,362	10,544	13,732	13,651

- *BSE Testing*: During the same period, 268,845 animals over 30 months have been tested for BSE. As shown in the table below, the testing rate quickly increased in the first 3 weeks and has been stable since then at approximately 36,000 tests per week.

	week #1	week #2	week #3	week #4	week #5	week #6	week #7	week #8
Number of Animals Tested	16,133	32,362	37,572	36,543	37,072	37,852	35,847	35,464

3. Exploring Animal Feed without MBM

The Office of Statistics (SCEES) of the French MinAg recently published a survey concluding that the French and European trade deficit in vegetable proteins will increase because of the ban of meat and bone meals (MBM) in animal feed. France produced 60 percent of its needs in vegetable proteins in 1998/99, i.e., almost twice as much as the EU's production relative to consumption in the same year (31 percent). This difference between the French supply and the EU supply in vegetable proteins relative to their respective domestic demand is due to the fact that EU oilseed and pulses production is significantly higher in France than in other EU Member States. Although the leading EU producer of oilseeds and pulses, France is a major importer of soybeans and soybean meal. Overall, France imports soybean meal (mainly from Brazil and Argentina) more than soybeans (mainly from the United States), while the EU imports more soybeans than soybean meal.

France was a major consumer of MBM, since 23 percent of the EU MBM consumption was used by the French feed industry in 1998/99, a total of 460,000 MT MBM . SCEES estimated the EU would have to increase its imports by 2.5 to 3 million MT soybean meal equivalent, or increase by 40 percent the area planted to oilseeds, to replace MBM in animal feed. Either solution is difficult: increasing soybeans and soybean meal imports would mean that growing quantities of GMOs are imported into the EU, while increasing significantly EU oilseed plantings is impossible because the oilseed area in the EU is limited by the Blair House Agreement.

Consequently, the French industry is exploring protein sources other than oilseeds and meals to replace MBM: pulses (including peas, lupin, and field beans) and alfalfa production may be increased, as they are not limited by the Blair House Agreement. The French Syndicate of Alfalfa Dehydrators (SNDF) recently proposed (1) to increase by 30 percent the maximum guaranteed quantity for dehydrated alfalfa from 4.41 million MT to 5.74 million MT; and (2) to increase direct EU support to alfalfa producers from 68.83 ì/MT to 76.83 ì/MT. SDNF thinks such measures would not increase the EU budget for agriculture significantly, since the budget for dehydrated forage accounts for 0.5 percent of the total EU farm budget.

Banning MBM from feed rations is a complex process and involves substitutions with other sources of proteins, amino-acids and minerals. First, replacing MBM with soybean meal in animal feed rations has significantly increased the demand for phosphates, therefore boosting phosphate prices, which are currently up to FF 1,850 (USD 253) per MT from FF 1,600 (USD 219) per MT one year ago. Second, prices for other minerals like iron, zinc and magnesia have also increased by 5 to 25 percent, partly due to the strong dollar and high fuel prices. Finally, prices for amino-acids have gone up significantly: lysine prices doubled from FF 11 per kg in July 2000 to FF 22 per kg in January 2001, while threonine prices have increased sharply.