



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 9/8/2005

GAIN Report Number: E35178

EU-25

Livestock and Products

U.S. beef faces strong competition on the European market.

2005

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Report Highlights:

The EU became a net beef importer in 2003. U.S. interests in increasing beef exports to this large market are growing. However, there are important hurdles that U.S. beef exports must overcome to be competitive. Market access for U.S. beef is highly restricted by the EU hormone ban and only beef from the Non-Hormone Treated Cattle (NHTC) program is eligible. U.S. beef is also facing strong competition from South-American beef exports.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

Introduction

Since 2003, the European Union (EU) has become a net importer of beef. This beef deficit is expected to increase in the coming years, as European beef production is declining and consumption expected to remain stable. This report analyzes the major parameters of these beef imports, with the aim to offer insight into the competitive edges for U.S. beef.

The European beef market

Country	EU-25					
	Meat, Beef and Veal (1000 Head; 1000MT CWE)					
	2004		2005		2006	
	USDA official [old]	Posts Estimates [new]	USDA official [old]	Posts Estimates [new]	USDA official [old]	Posts Estimates [new]
Slaughter (Reference)	29,720	29,249	29,040	28,750	0	28,650
Beginning Stocks	59	59	0	0	0	0
Production	8,077	7,941	7,950	7,825	0	7,800
Extra EU25 imports	485	583	550	625	0	650
TOTAL SUPPLY	8,621	8,583	8,500	8,450	0	8,450
Extra EU25 Exports	350	358	300	250	0	225
TOTAL Domestic Use	8,271	8,225	8,200	8,200	0	8,225
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,621	8,583	8,500	8,450	0	8,450

Source: [GAIN report E35141 - EU25 Livestock Annual 2005](#)

In 2004, the EU imported over 580 thousand MT CWE of beef, about 70 percent from Brazil and about 20 percent from Argentina. Main importers were the United Kingdom, The Netherlands and Italy, followed by Germany and Spain.

Structure of European beef imports – quota and other imports

- GATT: Hilton beef quota (2004-2005) – 20% Ad valorem

Origin	Available quota		Quota fill
Argentina	28,000	MT	(100%)
US/Canada	11,500	MT	(9%)
Australia	7,000	MT	(86%)
Uruguay	6,300	MT	(99%)
Brazil	5,000	MT	(100%)
New Zealand	300	MT	(100%)
Paraguay	1,000	MT	(0%)
TOTAL	59,100	MT	

- GATT: Frozen Beef quota - 20% Ad valorem
Third countries 53,000 MT - 100% fill rate almost exclusively by Brazil
- Quota A en B: Frozen beef for further processing, predominantly from Brazil
- 20% Ad valorem, duty depends on product
A: Third countries 40,000 MT (100%) for processing into beef products
B: Third countries 10,700 MT (100%) for processing into other meat products
TOTAL 50,700 MT

- Africa, Caribbean and Pacific (ACP), (Calendar Year 2004)
-Lifting of 92% of the duty

Origin	Available quota		Quota fill
Kenya	142	MT	(0%)
Zimbabwe	9,100	MT	(0%)
Swaziland	3,363	MT	(5%)
Botswana	18,916	MT	(47%)
Madagascar	7,579	MT	(0%)
Namibia	13,000	MT	(67%)
TOTAL	52,100	MT	

- Association Beef (Romania/Bulgaria) - Without duties

Origin	Available quota		Quota fill
Romania	4,600	MT	(3%)
Bulgaria	250	MT	(6%)
TOTAL	4,850	MT	

- Baby Beef (Calendar Year 2004) - Lifting of 80% ad valorem and duty

Origin	Available quota		Quota fill
Bosnia/Herzegovina	1,500	MT	(0%)
Croatia	9,400	MT	(7%)
Macedonia	1,650	MT	(0%)
Serbia-Montenegro	9,975	MT	(14%)
TOTAL	22,525	MT	

- Switzerland: dried beef - Without duties (in 2004 15.4% Ad valorem)
Switzerland 1,200 MT (100%), (in 2004 700 MT)

While Brazil beef exports filled about 70 percent of various beef import quotas (almost all of them with a 20% ad valorem duty), a majority of Brazil beef exports to the EU are at full tariff rates (12.8% + €303.4/100kg for fresh deboned and 12.8% + €221.1/100kg for frozen deboned beef). In 2004, Brazil beef exports to the EU at full tariff amounted to about 330 thousand MT CWE. Differences in imports of Brazil beef exist between member states. Some countries, like The Netherlands and the UK, import a lot of fresh beef, while others, like Italy and Spain, import mainly frozen beef. The UK also imports a large quantity of beef offal (HS 160250).

Competitiveness of different beef origins – Beef price comparison

Wholesale prices:

Brazilian Rib-eye:	about EURO 7 per kg
Argentinean Rib-eye:	about EURO 9 per kg
Dutch Limousin Rib-eye:	about EURO 10 per kg
Irish Rib-eye:	about EURO 13 per kg

Australian grain-fed beef is about two times more expensive, and U.S. grain-fed beef is about three times (about EURO 25/kg) more expensive than Brazilian Rib-eye. These price relations are the about same for all cuts. Most of these ratios are also expressed in the prices of the carcasses from the different origins.

U.S. beef at the high-end of European consumer markets

Current marketing of U.S. beef:

- U.S. beef, predominantly prime cuts, is currently sold in a number of high-end restaurants and by direct mail order (i.e., U.K. and the Benelux countries)
- Until recently, it was also available in the high-end department store but it have been replaced by Australian grain-fed beef
- One importer (U.K.) ships whole carcasses via the Netherlands, another ships just muscle meat directly from U.S.
- Niche market with slowly growing demand and high incomes

Perception of U.S. beef by European importers

- U.S. beef can't compete with Brazilian and Argentinean beef on price.
- U.S. beef will have to be positioned as the preferred, highest quality product among targeted consumers.
- Competition comes from Australian grain-fed beef, and also Irish beef.
- Grain fed beef is predominantly sold at the higher-end HRI market. In supermarkets, consumers will pick grass-fed beef, because it is leaner.
- U.S. beef could be imported as tailor-made products.

Obstacles and challenges for U.S. beef

EU beef import requirements

Market access is limited due to the EU hormone ban, which severely restricts U.S. beef exports. As a result, only U.S. beef from farms, which implement the Non-Hormone Treated Cattle (NHTC) Program, can be exported to the EU.

Non-Hormone Treated Cattle (NHTC) Program:

- All bovine meat exported to EU must originate from animals that have never been treated with hormonal growth promoters.
- Each phase of the production, from birth through slaughter, must receive third party verification prior to FSIS certifying NHTC to the EU.
- A copy of a signed producer affidavit certifying that the animals have never been treated with hormonal growth promoters must accompany each lot of cattle presented to the slaughter establishment.

All cattle must be slaughtered and processed in a federally inspected establishment approved for production of products destined for the EU. There are currently only three U.S. plants approved for export to the EU.

Source FSIS Website:

http://www.fsis.usda.gov/Regulations_&Policies/Union_Requirements/index.asp

Challenges for U.S. NHTC-beef

- ❑ Competitive advantage of Brazilian beef:

- the low price as a result of low production costs, scale of production, and currency exchanges rates
- the large supply of products with identical specifications; parts are often cut in the country of origin and nicely packed and labeled (which is highly appreciated in high-end market)
- regulations in South America quickly adjust to EU requirements
- ❑ Other Competition for U.S. grain-fed beef:
 - Australia and Ireland
- ❑ Import quota – Hilton beef quota¹
 - the U.S. only has access to about 20 percent of this quota
 - the quota for Brazil and other South-American beef exporters is likely to increase as part of an EU-Mercosur FTA
- ❑ Other factors impacting NHTC-beef competitiveness
 - how to achieve a premium price for the non-prime cuts.
 - how to ensure that the price achieved on the under utilized part of the carcass justified the expense of producing a "Hormone Free" animal.
 - the size of the NHTC program. There are simply not enough animals coming through the Hormone Free Program.

Conclusion

U.S. beef exports to the EU are slowly increasing and more U.S. beef exporters are taking interest in it. As the EU has become a net beef importer, U.S. beef is gaining market share at the high-end of the market. However, there are many hurdles to overcome. The EU hormone ban, which is currently being challenged at the WTO, remains a major constraint. Expansion of the NHTC program can only offer a limited solution to the problem. U.S. beef also faces strong competition from mainly South-American beef producers.

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DA5001	Livestock Semi-Annual	01/10/05

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¹ See USEU website: [High Quality Beef Quota](#)