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Poultry and Products

Avian Influenza: Impact on EU Poultry Trade and Prices

2006

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Report Highlights:

Avian Influenza (AI) H5N1 outbreaks continue in Europe with confirmed cases in wild birds in 12 member states. The impact on the EU poultry market varies between regions. The impact in Southern Europe is mainly the result of decreases in domestic consumption, leading to important price falls and build-up of poultry stocks. In Western Europe, the AI impact is mainly from reduced export possibilities, especially France facing export bans because of an outbreak in a turkey farm and a Southern European style reaction from French consumers. In Central Europe, the initial decrease in consumption is fading as consumers react favorably to low poultry prices. In Northern Europe hardly any reaction has been reported. The biggest price impacts are recorded in Italy, France, Poland and the U.K.

Includes PSD Changes: No
Includes Trade Matrix: No
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[E3]

Report Highlights: The goal of this report is to estimate the impact of the Avian Influenza (AI) H5N1 outbreaks on the European poultry market, with special attention on EU intra and extra trade in poultry meat.

This report is the result of collaboration with the following FAS colleagues:

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Summary

The impact of the Avian Influenza (AI) H5N1 outbreaks on European poultry market is summarized in the following table:

	Poultry Consumption	Poultry Production	Stocks	Trade
Southern Europe	-Consumption temporarily more than halved in most countries. -For all of 2006, consumption is expected to decline about 7 percent.	-In 2006, production is expected to decline only about 5 percent.	-Due to reduced consumption high stocks are reported in Italy and Greece.	-Most of the excess stocks are expected to remain in Southern Europe as the region is not an important exporter to the EU or world market.
Western Europe	-Consumers did not react as strongly as in Southern Europe.	-Production is likely to fall by about 10 percent, mainly due to lost export markets.	-Due to reduced exports high stocks are reported in France and The Netherlands. -It is expected that stocks will be consumed within half a year.	-A large part of the stocks will need to be exported, in particular chicken leg quarters and MDM*.
Central Europe	-Consumption initially declined by 10 to 30 percent but is likely to recover due to low price.	-Smaller producers are affected by the oversupply of poultry in the EU.	-Stocks are estimated lower than in Southern and Western Europe.	-Central Europe absorbed some of the oversupply in Southern and Western Europe.

*Mechanically De-boned Meat

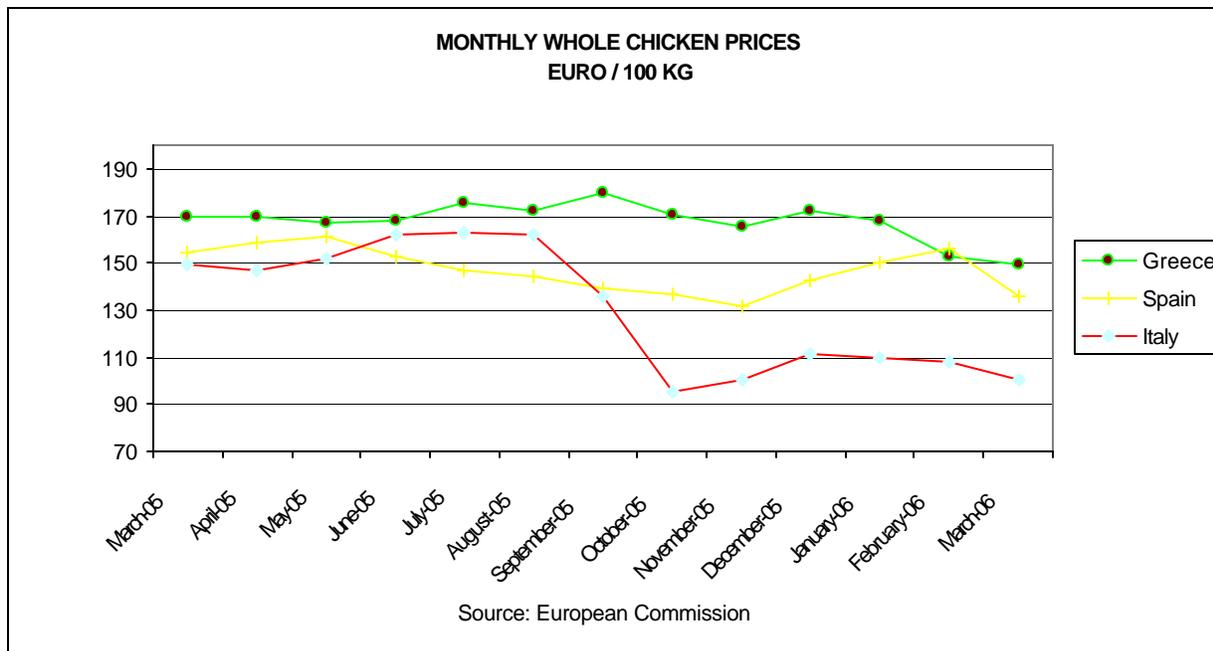
Avian Influenza H5N1 in the EU

	AI in wild birds		AI in poultry	
	Number of outbreaks	Last date of confirmation	Number of outbreaks	Last date of confirmation
Austria	20	03/30/06		
Czech Republic	1	03/29/06		
Germany	120	03/30/06		
Denmark	14	03/30/06		
France	18	03/28/06	1	02/25/06
Greece	25	03/22/06		
Hungary	12	03/13/06		
Italy	14	02/19/06		
Poland	20	03/30/06		
Slovenia	7	03/10/06		
Slovakia	2	02/24/06		
Sweden	6	03/20/06	1	03/17/06
Total EU-25	259	03/30/06	2	03/17/06
Switzerland	4	03/11/06		
Bulgaria	4	02/27/06		

Source: Animal Disease Notification System of the European Commission
http://europa.eu.int/comm/food/animal/diseases/adns/index_en.htm#

AI impact on European poultry meat intra trade

Southern Europe



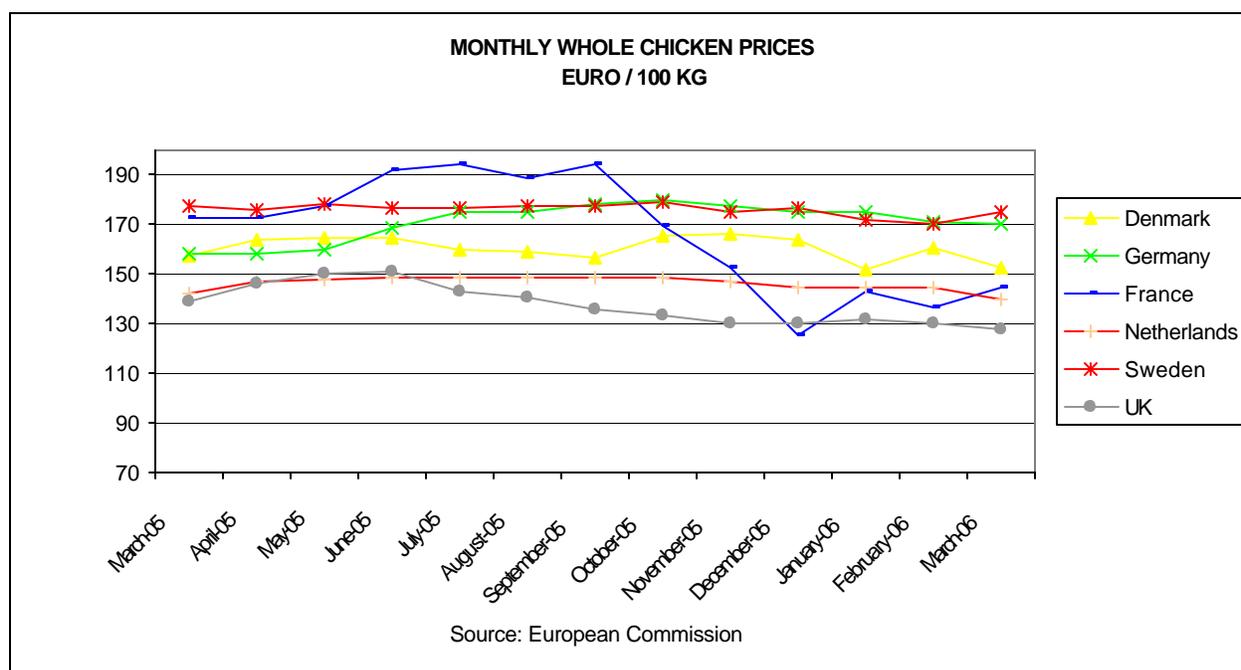
Beginning September 2005, AI outbreaks in South East Asia resulted in consumer scares in a number of EU countries. A significant drop in poultry consumption was first noticed in Italy. Consumer reaction was further escalated by the outbreaks in Turkey, Romania and Croatia during October that year. Official sources of the Italian Ministry of Agriculture estimated that the AI scare has resulted in a 15 percent drop in volume in poultry meat demand during the

month of September, and in a 35 percent drop in the month of October 2005 (see also GAIN Report IT5039). From August to November 2005, prices for whole chicken plummeted more than 40 percent and are still far below prices reported in Spain and Greece (see graph). The lower prices noticeably affected poultry imports. During the last quarter of 2005, Italian poultry meat imports declined to about 3,500 MT which is about half, compared to the level of the first three quarters of 2005. French and Hungarian poultry meat exports to Italy were most affected. Italian poultry exports reportedly increased to Greece, the UK, Germany, and the Benelux countries. It should, however be noted that the trade volumes affected are relatively small, and that the majority of the poultry meat oversupply probably did not leave the Italian market. FAS Rome anticipates annual production will decrease 5 percent, and consumption by 7 percent in 2006. The Italian Government will stock up to 45,000 MT of frozen meat starting March 31, which they plan to dispose of as food aid.

In October 2005, Greek domestic consumption dropped by almost 55 percent (GAIN Report GR6001). Reports have continued to note large declines in sales of poultry in Greece, possibly as high as 70 percent in January, recovering to about 50 percent in March 2006. Prices did not fall as dramatically as in Italy (see graph). Reportedly there are now approximately 30,000 to 40,000 MT of poultry meat in deep-freeze facilities in Greece. According FAS Athens, poultry meat producers anticipate that consumption will recover during the tourist season.

In Iberia, broiler meat consumption and prices plummeted as of mid February 2006 (see graph). Industry sources estimate Spanish first quarter 2006 broiler meat consumption to be 7 to 8 percent under first quarter 2005 levels. In Portugal, consumption losses were proportionally greater. Local industry sources report a 15 to 20 percent reduction in consumption during the first quarter 2006 relative to first quarter 2005 levels. FAS Lisbon reports that the Iberian industry expects consumption rates will pick up shortly, if there continues to be no more reporting on AI. Over 2006, FAS Lisbon forecast a reduction of Iberian consumption and production of respectively, 7 and 5 percent.

Western Europe



The French poultry industry reports that after the disclosure of the first AI cases in France, in particular the AI case in a commercial farm, poultry consumption declined by up to 30 percent (GAIN Report FR6013). However, as the social and political situation in France overshadows the AI threat in the mainstream media, it appears that poultry meat consumption has now resumed to levels close to the pre-AI situation. Aggressive advertising and promotional campaigns by retailers and poultry industry supported this recovery. However, the drop in consumption combined with lower exports to Southern Europe, mainly Greece and Italy, had a downward pressure on prices in the domestic French market (see graph). In response, French poultry exporters are aggressively pricing their products in some EU markets, such as the UK. According to the French Poultry Technical Institute (ITAVI), commercial stocks of poultry meat at the end of 2005 were 76 percent higher (at 21,200 MT) than in 2004. At the moment, there is possibly 80,000 MT frozen poultry meat in stock. In order to avoid further stock building, French hatching eggs producers and hatcheries are currently voluntarily destroying about one-fifth of their production (GAIN Report FR6017).

Broiler prices in other Western European markets are apparently more stable than in France, and declined only gradually over the past nine months (see graph). FAS Posts report that poultry consumption in these markets did not decline as significant as in Italy, Greece and France. Consumer panel data for German household purchases show a reduction of about 18 percent during January and February 2006, compared to the same period previous year. Beef and pork only marginally benefit from the reduced poultry consumption. The majority of people increased their consumption of fish, fruit and vegetables instead. The price level of poultry at the supermarket level has not decreased since the detection of AI. FAS Berlin reports that the German industry hopes that once the supermarkets lower their prices and/or increase special promotions, those consumers who still eat poultry will increase their consumption. Also, the upcoming soccer championship in Germany is expected to push consumption upward again.

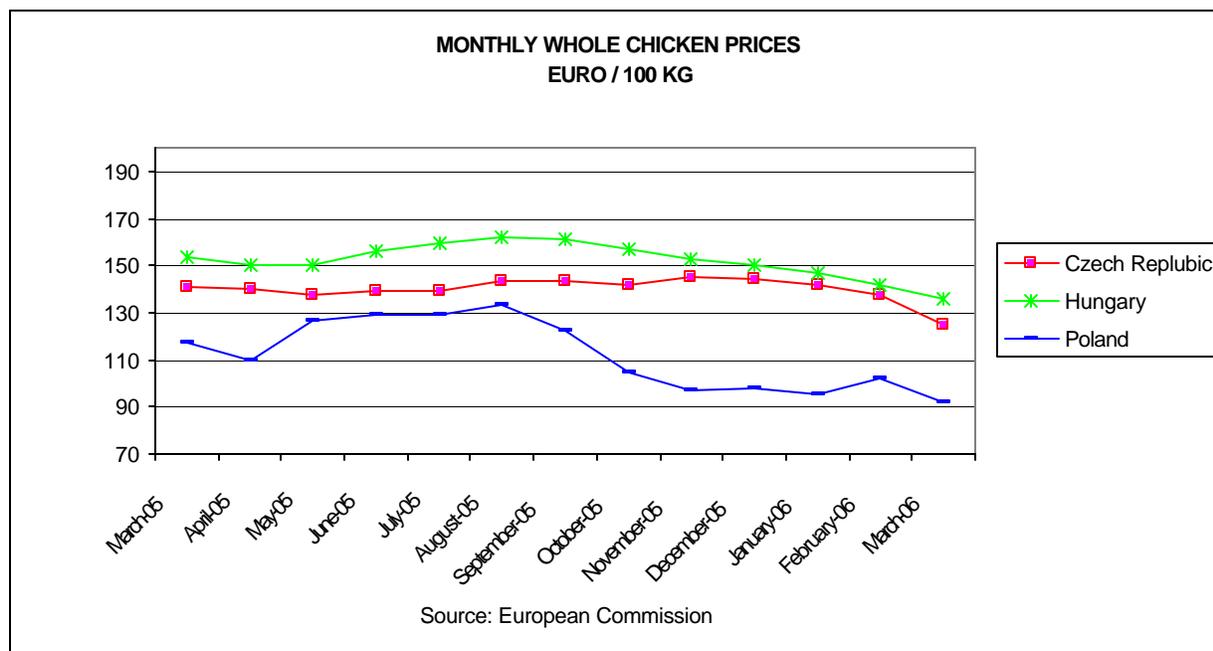
In the Benelux region, consumption is only down about 5 to 10 percent during the first months of 2006. Poultry producers are, however, affected by the lower consumption in their export markets. Because of the limited domestic market, Dutch and Belgian producers have a strong dependence on exports markets, in particular Germany. In The Netherlands, slaughtering declined by 10 to 15 percent, and in Belgium by 20 to 30 percent during February and March 2006. Sector sources estimate the current stock of poultry meat at about 50,000 MT and anticipate that slaughtering will need to be cut by about 40 percent in order to balance production with sales.

In the UK, the largest chicken meat market in the EU, only a marginal decline of poultry consumption is reported (GAIN Report UK6008). FAS London believes, however, that the consumer's faith in poultry meat, and the assurances of both Government and industry, will not be fully tested until AI is confirmed in the UK. In Ireland, a similar situation is reported by FAS Dublin. According to UK market sources, the demand in the wholesale sector, which accounts for about 20 percent of the total UK market, is increasingly being met by a rise in intra-EU supplies available in the UK at about half the cost of domestic production. The majority of these imports are from Italy but there have also been reported increases in imports from France, Hungary and Poland. This has directly impacted many smaller producers, rather than the larger producers who are generally under contract to the retail sector, and it is expected that domestic production will decline in the long term.

As in Germany, the UK and the Benelux, broiler prices have been relatively stable in Scandinavia. In Denmark, AI had so far no impact on production, consumption, prices and trade. However, there is substantial impact on poultry exports due to the boycott against Danish products in reaction to the cartoons published by Danish newspapers. According FAS

Copenhagen, a major Danish slaughterhouse and exporter are urging their suppliers to reduce poultry meat production by 10 percent. Although the aggressive form of AI has also appeared in wild birds in Sweden, FAS Stockholm reports that domestic consumption is only slightly affected. The lower consumption is reflected in decreased imports, as Swedish consumers seem to have higher confidence in domestic poultry than imported.

Central Europe



According to a large poultry processor, Polish demand for poultry meat dropped by about 30 percent within the last six months. The drop comprises 10 percent decrease as a result of October/November 2005 outbreak of AI in Southern Europe, 10 percent drop after February 2006 outbreak in Central Europe and 10 percent drop after the first outbreak of AI in Poland. FAS Warsaw reports, however, that there are signs that consumption of poultry meat is recovering. According to a Polish distributor there is more poultry meat available on the domestic market as exports to France, Germany and Italy dropped significantly. Due to the reduced price for poultry in Poland (see graph), it is likely consumers regain their poultry purchases.

In the Czech Republic, consumption of poultry has dropped by about 10 percent in the last two months. While in Slovakia, sales of poultry meat went down by 15 to 20 percent. Production is expected to drop by 10 percent in both countries. The FAS Posts report that imports of low priced poultry is reportedly putting pressure on domestic prices, which in particular affects smaller poultry farmers.

Since the appearance of AI in Hungary in February 2006, processors increased their sales of chicken parts by 10 to 17 percent compared to January. A possible reason is the restricted exports of hatching eggs and chicks, which resulted in higher placing on the domestic market. Another reason could be the reduced prices for poultry meat. During February and March 2006, whole chicken and parts prices were 5 to 10 percent lower than a year ago. FAS Budapest believes that, as long as AI cases remain sporadic and among wild fowl, domestic consumers will not abandon low priced poultry meat. Despite the increased sales, processor and commercial stocks are about 40 to 50 percent above the normal stock levels

according to trade sources. In Slovenia there hasn't been any major changes in poultry consumption until the date of the first AI case among domestic poultry.

Analyzing the data of the FAS Posts it is estimated that in Southern Europe the poultry meat oversupply approaches 50,000 MT. In Central Europe the oversupply is estimated at about 25,000 MT. In Western Europe, the oversupply is estimated at about 50,000 MT partly due to lower consumption and due to lower exports to third countries. Stocks could be possibly higher due to the lag time between reduced consumption and voluntary cuts in production by the poultry sector. Sector sources estimate the stocks in Italy at about 55,000 MT, in Greece at about 35,000 MT, in France at about 80,000 MT and in The Netherlands at about 50,000 MT. It is expected that the oversupply in Southern and Central Europe could largely decline if consumption recovers. However, if media attention on AI will pick up, poultry meat consumption could further deteriorate, leading to higher stocks. If the AI outbreaks will also affect the poultry flock, production as well as consumption will be affected, which could finally result in lower supply of poultry meat in the EU. The situation in Western Europe highly depends on the ability to regain exports to third countries.

AI impact on European poultry meat extra trade

The main EU exporters of poultry meat to destinations outside the EU are in order of importance: France, the Benelux and Germany. French exports are probably affected the most. French third country exports are 10 to 30 percent lower due to bans by 49 countries. Some countries have also imposed selective import bans for poultry from Germany and for The Netherlands. However, Germany does not export major quantities to these countries, such as Azerbaijan, Indonesia, and Thailand. Japan imposed a ban on Dutch poultry products as a result of the vaccination policy in The Netherlands (see GAIN Report NL6012). But the Dutch sector predominantly exports egg products to Japan.

Beside bans, EU exports are also hurt by the lower demand and increased competition in the export markets. Important exports markets for EU poultry meat are in order of importance: Russia, Saudi Arabia, the Ukraine and Africa. FAS Moscow reports a reduction of poultry consumption of 10 to 15 percent (GAIN Report RS6005). In the Ukraine, short-term consumption decreased by 20 percent since the AI outbreaks in the country, but reportedly rebounded to normal levels (GAIN Report UP6003). FAS Kiev reports, however, that poultry imports were not affected by the AI outbreaks, as most of the imports are not destined for the retailer market but for the food processing industry and deprived consumers in rural areas. FAS Posts in the Middle East report reductions of consumption between 10 and 50 percent (GAIN Report TC5024). FAS Riyadh indicates a reduction of more than 15 percent in poultry meat consumption during February and March 2006. In Saudi Arabia, importers reportedly try to sell their large poultry stocks at discount prices.

In The Netherlands, sector sources estimate that Dutch third country exports are down about 5 to 10 percent. Dutch sector sources report that because of low prices, slaughterhouses postpone their sales. Some slaughterhouses even brought a complete stop to exporting to third countries. The German poultry sector reports difficulties in exporting to Russia. EU poultry exporters were reportedly temporarily able to export to Eastern Europe, in particular Romania, but suffer now from competition from the U.S. and Brazil. Also exports to Africa suffer from low priced poultry meat from these competitors.

Considering the variety of the EU poultry exports to third countries, it is expected the poultry meat stocks stored in the cold stores predominantly consists of, in order of importance, whole chickens (HS 020712), mechanically de-boned meat (MDM), chicken leg quarters, wings, halves and legs (HS 020714). Dutch trade sources report that the stocks in Western Europe mostly consist of MDM, chicken leg quarters and breast meat. While in Southern

Europe also whole birds are stored, and a large part of the stock consists of turkey products. The trade expects that the stocks will be consumed by the end of the summer. Chicken leg quarters are difficult to market at the domestic market, and will need to be exported. It is anticipated that most of the MDM will be exported but a part could be sold to the domestic food processing industry. MDM will need to be sold within about three months considering the limited shelf life. Breast meat will need to be marketed on the domestic market because of the strong competition on the world market.

The ability to regain exports partly depends on the level of the EC export restitutions (see table). Member State sector organizations are lobbying the EC for higher restitutions applicable for more destinations, and subsidies for poultry meat storage. The EC acknowledged, however, that the effect of higher export refunds is limited, as importing countries have put import restrictions on EU poultry imports. Sector sources opined that postponement of lowering the import tariffs on EU imports from Brazil will also relieve the market. The EC is obligated to lower the tariffs on July 27, 2006. The EC believes a more effective way to reduce the oversupply of poultry meat is to cut back production. EC Commissioner Mariann Fischer Boel announced that the Commission will come up with proposals in early April, to support curtailing domestic production. One of the ways to limit production could be intervention of hatching eggs.

Export Restitutions (EURO / 100 kg)								
HS Code	05/19/06	06/27/06	07/15/06	10/20/06	11/25/06	01/19/06	02/15/06	03/09/06
20712 Chicken whole	36	31.5	29	24	24	26	30	40
20714 Chicken cuts	0	0	0	0	10	10	10	20

Source: European Commission

EU Poultry meat PSDs

The PSDs were updated on March 7, 2006 (GAIN Report E36038). Because since that date, no major changes in the available data of the FAS Posts were reported, these PSDs are being kept unchanged in this report.

Country:	EU25					
	Meat, Broiler (1000MT CWE)					
Commodity:	2004		2005		2006	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]
Beginning Stocks	0	0	0	0	0	0
Production	7,656	7,627	7,670	7,625	7,690	7,540
Imports	441	466	440	485	460	450
TOTAL SUPPLY	8,097	8,093	8,110	8,110	8,150	7,990
Exports	789	813	780	740	780	720
TOTAL Dom. Consumption	7,308	7,280	7,330	7,370	7,370	7,270
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,097	8,093	8,110	8,110	8,150	7,990

Source: EU FAS Offices

Country:	EU25					
Commodity:	Meat, Turkey (1000MT CWE)					
Year	2004		2005		2006	
	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]
Beginning Stocks	0	0	0	0	0	0
Production	2,038	2,030	2,030	1,945	2,035	1,865
Imports	84	88	105	100	115	80
TOTAL SUPPLY	2,122	2,118	2,135	2,045	2,150	1,945
Exports	191	205	210	185	210	170
TOTAL Dom. Consumption	1,931	1,913	1,925	1,860	1,940	1,775
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2,122	2,118	2,135	2,045	2,150	1,945

Source: EU FAS Offices

Related reports from FAS EU

Report number	Country	Title	Date
SW6009	Sweden	Avian Influenza Update	03/31/2006
EZ6003	Czech Republic	Czech Republic Confirms 2nd Case of H5 Avian Influenza in a Dead Swan	03/30/2006
SR6003	Serbia and Montenegro	An Avian Influenza Case in Domestic Poultry is Confirmed in Serbia	03/29/2006
EZ6002	Czech Republic	Czech Republic confirms 1st case of H5 avian influenza in a dead swan	03/27/2006
NL6012	Netherlands	Dutch vaccination against AI started	03/16/2006
FR6017	France	French Response to Discovery of AI in a Commercial Farm	03/10/2006
SR6002	Serbia and Montenegro	Serbia Confirms 1st Case of Avian Influenza in Dead Swan	03/10/2006
GM6011	Germany	AI Update: AI Confirmed in Cats and Suspected in a Beech Marten	03/10/2006
AU6007	Austria	Avian Flu Update	03/08/2006
AU6006	Austria	H5N1 Found in Three Cats in the Southern Region of Styria	03/07/2006
E36038	EU-25	EU-25 Poultry and Products Avian Influenza: Impact of Outbreaks on European Poultry and Meat Markets	03/07/2006
PL6010	Poland	First Case of H5N1 Strain of Avian Influenza in Poland	03/06/2006
GM6010	Germany	Germany Reports a Hog Cholera Outbreak	03/03/2006
GM6008	Germany	AI update: 127 cases in wild birds none in domestic poultry	03/03/2006
GR6001	Greece	Update on Avian Influenza	03/01/2006
IT6011	Italy	Italy and EU Commission Discuss Poultry Sector Compensation for Avian Influenza	02/23/2006
IT6010	Italy	Avian Influenza Update - Italian Demand for Poultry Drops and Industry Seek	02/21/2006
GM6007	Germany	AI among wild birds reaches German mainland	02/21/2006

GM6005	Germany	AI Confirmed in Two Dead Swans in Northern Germany	02/16/2006
E36015	EU-25	Poultry and Products – Semi-annual 2006	01/31/2006
E36014	EU-25	Livestock and Products – Semi-annual 2006	01/31/2006
IT6002	Italy	EU Commission questions Italian measures for Avian Influenza recovery and chocolate labeling	01/17/2006
UK6001	UK	AI - UK poultry meat consumption remains resilient	01/12/2006
SP5043	Spain	Bird Flu and its effects in Spain	12/15/2005
PL5035	Poland	Polish Poultry Meat Market Reaction to the Eventual Outbreak of the AI	11/27/2005
HU5015	Hungary	Avian Influenza Threat Hurts Poultry Sales	11/23/2005
UK5031	UK	Update on HPAI H5N1 in quarantine in the UK	11/17/2005
FR5080	France	A Brief Overview of the French Poultry Sector	11/08/2005
AU5023	Austria	Austria Requires Mandatory Housing of Poultry and Domestic Birds	10/25/2005
E35166	EU-25	Analysis of US poultry meat trade with the EU: Past, present, future	08/29/2005
E35190	EU-25	Avian Influenza: EU continues preparedness work	09/28/2005
E35185	EU-25	WTO Appellate Body rejects EU appeal in chicken cuts classification dispute	09/16/2005
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