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Report Highlights:

EU beef production increased in 2006, from the additional slaughter of quarter million older cattle in the UK. As a result of the decrease in beef imports from Brazil and Argentina, this increase in EU beef production had no impact on EU beef markets. On the contrary, the increase in beef consumption, mainly veal in Italy and Greece, in response to the Avian Flu scare in early 2006, resulted in record high EU beef prices. As beef production is forecast to decrease again, the EU enlargement with Bulgaria and Romania in 2007 is forecast to tighten the market further, unless Brazil can resume beef exports fully again as a result of the end of FMD. Increased pork consumption drove EU pork prices up in 2006. EU pork production is forecast to further increase in 2007. Despite a stagnating EU pork consumption, pork markets are expected to be strong as pork exports to Romania and Russia are forecast to further increase.

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The numbers in PS&D's in this report are not official USDA numbers, but they result from a group effort by FAS EU offices to consolidate PS&D's from all 25 EU member states into an EU-25 PS&D.

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NOTE

For this report, trade with Bulgaria and Romania is still considered extra-EU trade because this report is covering the EU-25 market, even if Bulgaria and Romania have joined the EU on January 1, 2007 to form the EU-27. However, even if trade with these latest two new EU member states is still considered extra-EU trade, this report will describe expected impacts on the EU-25 market from this latest EU enlargement.

Executive Summary

Cattle numbers in Europe have been decreasing for years as a result of the increase in milk production per cow and fixed milk production quotas. The decoupling of beef premiums as a result of recent CAP reforms has also removed incentives for inefficient cattle farmers to remain in cattle farming. As a result, Europe's beef supplies decreased into a beef deficit in 2003, which is gradually widening in time.

The partial ban on Brazil beef exports because of Foot and Mouth Disease (FMD) and the export restrictions imposed by Argentina have significantly affected already tight EU beef supplies in 2006. As a result, the increased slaughter of some quarter million older cattle in the United Kingdom as a result of the end of the Over Thirty Month Scheme has not disturbed EU beef markets and European continental markets readily absorbed the displaced Irish beef from the UK market. Outbreaks of Avian Influenza (AI) in the south of Europe in the winter of 2005 also increased demand for beef and veal as consumers in Greece and Italy departed poultry consumption. As a consequence, EU beef prices increased to all time record levels.

The latest EU enlargement with Romania and Bulgaria on January 1, 2007 is forecast to further increase demand for beef in the EU market. While this report concentrates on the EU-25 market, ignoring Romanian and Bulgarian markets, expected competition for European beef import TRQ's, as well as increased beef imports from the EU-25, will impact the EU beef balance in 2007. Although beef imports from South America are forecast to increase in 2007, much will depend on the evolution of the FMD situation in Brazil.

European pig production has been gradually increasing in the past years. After the 2004 enlargement, the ten New Member States (NMS) became net importers of pork from the EU-15. In 2006, pork consumption further increased, because consumers in Greece and Italy also increased pork consumption in reaction to the AI scare. Increases in pork exports to Russia and South Korea in 2006 more than compensated for decreasing pork exports to Japan. As a result, pork demand outstripped pork supplies and pig and pork prices increased to high levels during the first eight months of 2006.

A stagnating pork consumption in 2007, as consumption in Greece and Italy decreases again in the post AI era, combined with increasing exports to Russia and Romania, are expected to push EU pig and pork prices up again, albeit not to 2006 levels. Pork production is however forecast to increase only marginally because increased feeding costs are expected to shave off profitability.

Cattle

Country	EU-25					
	Animal Numbers, Cattle (1000 Head)					
Commodity	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]	USDA Official [old]	Posts estimates [new]
Market Year	2005		2006		2007	
Total Cattle Beg. Stks	86,412	86,412	85,806	85,804	85,150	85,150
Dairy Cows Beg. Stocks	23,400	23,400	22,974	22,981	22,460	22,550
Beef Cows Beg. Stocks	12,073	12,073	12,031	12,051	12,100	12,050
Production (Calf Crop)	30,242	30,436	29,900	29,900	29,600	29,700
Extra EU25 imports	63	63	65	68	70	50
TOTAL SUPPLY	116,717	116,911	115,771	115,772	114,820	114,900
Extra EU25 exports	322	323	270	290	260	200
Cow Slaughter	6,940	6,943	7,200	7,030	7,250	7,000
Calf Slaughter	5,897	5,907	5,630	5,475	5,620	5,450
Total Slaughter	28,058	28,072	28,250	28,150	28,200	27,900
Loss	2,531	2,712	2,101	2,182	1,610	2,000
Ending Inventories	85,806	85,804	85,150	85,150	84,750	84,800
TOTAL DISTRIBUTION	116,717	116,911	115,771	115,772	114,820	114,900
Source: FAS EU Offices						

2005

No significant changes were made from the previous annual report.

2006

Cattle herds continued to shrink as increased milk production efficiency leads to lower dairy cow numbers in the EU-15, while dairy herds in the New Member States (NMS) are still slightly increasing to fill increased milk quota. As a result of the decline in BSE incidence, the Over Thirty Month Scheme (OTMS) in the United Kingdom was ended, which led to an additional slaughter in the UK of some 250,000 head of older cattle, mainly cows, compared to 2005. This increase in slaughter in the UK more than offset decreasing slaughter in other MS. This has also led to a decrease in EU cattle loss numbers in 2006. Cattle slaughter also increased again in Ireland, Germany and Poland, compared to 2005. Slaughter in these MS had decreased in 2005 in reaction to the decoupling of slaughter premiums at the end of 2004 and the 2004 EU enlargement. EU calf slaughter in 2006 decreased as a result of a decrease in profitability from veal production in The Netherlands, despite increased veal consumption in France and Italy as a result of the Avian Influenza scare in early 2006. The reasons for this loss in profitability were increased feeding costs as a result of increased Non-Fat Dry Milk (NFDM) powder prices and market satiation. Despite the temporary increase in cattle slaughter, EU cattle prices in 2006 increased to record levels in response to strong beef demands. As a result of these high cattle prices, increased numbers of cattle and calves from the NMS were exported to the EU-15; while exports of live cattle outside the EU have decreased because of the abolition of export restitutions for live cattle. Exports of live cattle from France to Lebanon also decreased due to the war in the summer of 2006. Increased numbers of calves from Ireland and the United Kingdom were also exported to The Netherlands for veal production. The Avian Flu scare also temporarily triggered increased French exports of young bulls for fattening to Italy in 2006. The autumnal outbreak of an

epidemic of Bluetongue disease (BT) in the Benelux, Germany and the North of France in 2006 only temporarily disrupted local trade, as no significant out-of-Europe exports of live cattle originate from this area.

2007

Decreasing dairy herds are forecast to further reduce cattle inventories in 2007 in the EU-15, while cattle inventories from both dairy herds and beef cattle in the NMS are forecast to increase further. Imports of live cattle into the EU-25 are forecast to decrease as sales of cattle from Romania and Bulgaria to the EU-25 should decrease again after remaining farmers in Bulgaria and Romania have adopted EU veterinary standards. The requirement for dairy producers in Romania and Bulgaria to improve sanitary conditions of milk production to meet European standards before accession forced many farmers to halt milk production and sell their cows. Exports of live cattle from the EU are forecast to further decrease as cattle exports to Lebanon and North Africa further dry up. Intra-EU exports of Danish calves to the Netherlands for veal production are forecast to decrease as record high beef prices offer good profitability perspectives for Danish farmers to fatten these cattle domestically. If the 2006 Bluetongue epidemic in North-West Europe were to spread southwards into the center of France in 2007, this could have more significant consequences for the intra-EU cattle trade with Italy. EU cattle slaughter numbers are forecast to decrease again as UK stocks of older cattle are gradually getting exhausted. Cattle slaughter is also forecast to decrease in Germany, France and Italy, while slaughter is forecast to increase in Poland and also marginally in Scandinavia.

Cattle calf crop production (Top 5 EU-25 member states) 1000Head

	2005	2006	2007
France	6,602	6,594	6,520
Germany	4,466	4,200	4,145
United Kingdom	3,155	2,896	2,840
Italy	2,750	2,650	2,675
Benelux	2,200	2,350	2,350

Benelux: Belgium, The Netherlands and Luxembourg are treated as one market

The Benelux is closely followed by Poland and Spain

Cattle slaughter (Top 5 EU-25 member states) 1000Head

	2005	2006	2007
France	5270	5150	5100
Italy	4134	4056	4000
Germany	3769	3760	3650
Benelux	2809	2780	2755
Spain	2766	2740	2750

Cattle exports (Top 5 EU-25 member states) 1000Head

	2005	2006	2007
Poland	94	70	50
Germany	64	40	40
Hungary	43	37	35
Benelux	21	25	25
France	36	20	10

Beef

Country	EU-25					
	Meat, Beef and Veal (1000 Head; 1000MT CWE)					
Commodity	2005		2006		2007	
	USDA official [old]	Posts Estimates [new]	USDA official [old]	Posts Estimates [new]	USDA official [old]	Posts Estimates [new]
Slaughter (Reference)	28,058	28,072	28,250	28,150	28,200	27,900
Beginning Stocks	0	0	0	0	0	0
Production	7,770	7,848	7,880	7,930	7,880	7,860
Extra EU25 imports	599	600	540	560	560	600
TOTAL SUPPLY	8,369	8,448	8,420	8,490	8,440	8,460
Extra EU25 Exports	255	254	200	220	200	200
TOTAL Domestic Use	8,114	8,194	8,220	8,270	8,240	8,260
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,369	8,448	8,420	8,490	8,440	8,460

Source: FAS EU Offices

Note: "Ending stocks" refer to EU intervention stocks only. Commercial stocks are included in "Total domestic use".

2005

EU beef production in 2005 was updated upwards as a result of an update in slaughter numbers and carcass weight from the previous annual report. This resulted in an increase in EU domestic beef use.

2006

EU beef production in 2006 is expected to be slightly higher than previously anticipated because adult cattle made up a higher percentage of total slaughter than in previous years. This resulted in an increase in the average slaughter weight. Beef imports from South America decreased as a result of the Foot and Mouth Disease (FMD) in Brazil and export restrictions from Argentina. Almost doubled beef imports from Uruguay could only partly offset this decrease. The temporary increase in beef production in the UK also partly supplanted beef imports from South America to continental Europe, as well as deviating Irish beef exports from the UK to the rest of Europe. Beef and veal consumption increased in Greece and Italy in reaction to the AI scare, so did beef consumption in the United Kingdom because of the increased domestic supplies. The high beef prices led to a decrease in beef consumption in the NMS, mainly Poland and the Baltic states. High beef prices also led to a decrease in beef exports, especially from Germany and Poland.

2007

EU 2007 beef production is forecast to decrease again as a result of lower slaughter in Germany, France, Italy and the UK. Beef imports into the EU from South America are forecast to increase again. However, much will depend on the outcome of the European Food and Veterinary Office (FVO) audits in the spring of 2007 of the residue and FMD situation in Brazil. If favorable, FMD restrictions on Brazil beef exports could be lifted before the summer of 2007 and beef exports could increase more significantly. In the meantime, EU beef exports, mainly to Russia, are forecast to further decrease in 2007 due to short supplies and high beef prices. Further increases in EU beef prices are forecast to aggravate the erosion in

EU beef consumption, which is also caused by beef consumption in Greece and Italy returning to lower pre-AI levels and beef consumption in the UK adapting to decreasing supplies again.

Upward pressure on EU beef prices in 2007 will also be fueled by expected increases in beef exports from the EU to Romania and Bulgaria. The reason for this is that after EU accession, beef imports from outside the EU into Romania and Bulgaria face the higher EU import tariffs. EU-25 beef importers fear competition from Romania and Bulgaria for EU beef import quota, as their previous beef imports might give them disproportionately large rights for the beef import TRQ's under current eligibility rules.

Beef production (Top 5 EU-25 member states) 1000MT

	2005	2006	2007
France	1,517	1,485	1,470
Germany	1,166	1,170	1,130
Italy	1,114	1,100	1,080
United Kingdom	762	875	850
Spain	724	710	712

Beef consumption (Top 5 EU-25 member states) 1000MT

	2005	2006	2007
France	1,638	1,624	1,615
Italy	1,551	1,623	1,580
United Kingdom	1,348	1,393	1,375
Germany	958	960	960
Spain	649	670	680

Beef exports (Top 5 EU-25 member states) 1000MT

	2005	2006	2007
Germany	52	45	35
Ireland	39	40	40
Italy	33	27	30
France	23	21	15
Benelux	18	18	18

Beef exports from Poland and Spain closely follow Benelux

Swine

Country Commodity	EU-25					
	Animal Numbers, Swine (1000 Head)					
	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]
Market Year Begin	2005		2006		2007	
TOTAL Beginning Stocks	151,143	151,143	151,673	151,673	152,000	152,000
Sow Beginning Stocks	14,880	14,880	14,899	14,899	14,850	14,850
Production (Pig Crop)	250,486	250,486	253,350	253,700	252,800	254,300
Extra EU25 imports	1	1	1	3	1	1
TOTAL SUPPLY	401,630	401,630	405,024	405,376	404,801	406,301
Extra EU25 exports	765	763	850	1,250	800	1,400
Sow Slaughter	3,682	3,660	3,670	3,630	3,730	3,700
Total Slaughter	239,128	238,943	243,000	243,000	243,600	243,600
Loss	10,064	10,251	9,174	9,126	9,201	9,201
Ending Inventories	151,673	151,673	152,000	152,000	151,200	152,100
TOTAL DISTRIBUTION	401,630	401,630	405,024	405,376	404,801	406,301

Source: EU FAS Offices

2005

Final 2005 pig slaughter numbers appeared to be slightly below previously reported numbers. This resulted in a slight increase in pig loss numbers.

2006

Pig production in the EU is expected to end one and half percent higher in 2006 than in 2005, as a result of a slight increase in sow fertility. Increases in pig production are expected in Germany, Italy, the United Kingdom, the Czech Republic and Poland, while decreases are expected in Denmark, Sweden and Hungary mainly. An outbreak of Classical Swine Fever (CSF) in the west of Germany in March 2006 did not significantly impact German pig production. EU exports of live hogs, predominantly piglets from the Benelux, Germany, Hungary and Poland to Croatia, Serbia and Russia, have increased more significantly than previously anticipated. Increased exports of piglets to Balkan countries was the result of a mix of AI induced increase in demand for pork, decreased domestic pig production as a result of Classical Swine Fever (CSF) outbreaks and the end of the pig production cycle. Hog slaughter in 2006 is also expected to have increased by one and half percent compared to 2005. Hog slaughter in Germany increased by four percent. However, much of this increase is due to higher imports of piglets for fattening or hogs for slaughter. For example, Danish farmers benefit from higher German pig prices by exporting slaughter pigs to Germany. Pig slaughter also increased in Italy, Spain, the Czech Republic and Poland. Pig slaughter decreased compared to 2005 in the Benelux, Denmark, France and Hungary. EU swine inventories at the end of the year 2006 are expected to increase slightly again compared to 2005. Increasing swine numbers are anticipated in Denmark, the Benelux and Spain, while swine populations are shrinking in Poland, France and Sweden.

2007

EU pig production in 2007 is forecast to increase by another quarter percent as a result of better sow fertility. In Germany, applications for building permits for hog facilities have

drastically increased in 2006, some of which go into production in 2007. Also, some former cattle farmers are converting to pig production after the decoupling of cattle premiums. Pig production is also forecast to further increase in the Benelux and Denmark for the export of piglets, while production in Italy and the UK is forecast to increase for domestic slaughter. The fattening of pigs is stagnating in Denmark and the Benelux as environmental constraints are impeding new permits for hog barns. Pig production is expected to somewhat decrease in 2007 in France, Spain and Poland as a result of increased feeding cost and hence reduced profitability. Exports of live pigs are forecast to further expand to the Balkan states and Russia. EU pig slaughter is forecast to further increase by a quarter percent, mainly in Germany, Italy, the UK and the Czech Republic. Pig slaughter is forecast to further decrease in the Benelux, France, Sweden and Hungary. Swine numbers are forecast to further expand at the end of 2007.

Pig crop production (Top 5 EU-25 member states) 1000Head

	2005	2006	2007
Germany	44,833	45,402	44,800
Spain	38,993	40,100	39,780
Benelux	32,800	32,850	33,100
Denmark	26,857	26,000	26,900
Poland	25,500	26,000	25,500

Production in France closely follows Poland

Swine slaughter (Top 5 EU-25 member states) 1000Head

	2005	2006	2007
Germany	48,225	50,200	50,500
Spain	37,616	39,500	39,600
Benelux	25,377	25,000	24,900
France	25,115	24,950	24,700
Poland	23,100	24,586	24,700

Swine exports (Top 5 EU-25 member states) 1000Head

	2005	2006	2007
Benelux	157	306	506
Poland	198	240	250
Germany	127	170	170
Hungary	142	113	120
Austria	53	69	60

Pork

Country	EU-25					
	Pigmeat		(1000 MT CWE)(1000 HEAD)			
Commodity	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]	USDA official [old]	Posts estimates [new]
Market Year Begin	2005		2006		2007	
Slaughter (Reference)	239,128	238,943	243,000	243,000	243,600	243,600
Beginning Stocks	0	0	0	0	0	0
Production	21102	21101	21450	21400	21500	21450
Extra EU25 imports	21	21	22	25	22	20
TOTAL SUPPLY	21123	21122	21472	21425	21522	21470
Extra EU25 exports	1357	1354	1400	1410	1400	1470
TOTAL Domestic Use	19766	19768	20072	20015	20122	20000
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	21123	21122	21472	21425	21522	21470

Source: EU FAS Offices

Note: "Ending stocks" refer to EU intervention stocks only. Commercial stocks are included in "Total domestic use".

2005

An update of previously reported pork numbers incurred only minor changes.

2006

EU pork production in 2006 is expected to have increased by one and a half percent compared to 2005, marginally lower than previously anticipated as a result of slightly lower carcass weights. As a result, EU pork consumption is expected to have increased by 1.2 percent compared to 2005, also marginally less than previously projected. Pork consumption in 2006 has also benefited from the AI scare in Greece and Italy. The European pork market has been performing very strongly in 2006 with high pork prices, which started to falter in the fall of 2006. Large imports of slaughter pigs into Germany from Denmark and the Netherlands have turned Germany into a net pork exporter for the first time in 2006. EU pork exports increased compared to 2005, despite the fact that Danish exports to Japan suffered from shrinking Japanese pork consumption and strong competition from the United States. The reason for that is the diversion of Danish pork exports from Japan to Russia and South Korea. Danish exporters reportedly increased pork sales to Russia because they received better margins on their products. The higher profitability of the Russian market above the Japanese market can be explained by the growing demand for pork in Russia in combination with the restrictions laid on Brazilian pork imports.

2007

EU pork production is forecast to increase by a further quarter percent compared to 2005. The most significant increase is forecast in the United Kingdom, as the pig sector further recovers from years of problems with Post-Weaning Multisystemic Wasting Syndrome (PMWS). EU pork exports are forecast to further increase, mainly to Romania, which for this report is still considered extra-EU trade. Pork exports to Japan are not expected to recover much in 2007 because of increased competition from Canadian and U.S. pork exports. In

response to the finding of CSF in wild boar in Hungary on January 18, Japan banned imports of pork from Hungary. EU pork consumption in 2007 is not forecast to further increase as a whole, because increases in consumption in some MS is expected to be offset by a decrease in Greece and Italy in the post AI era. EU pork prices are forecast to increase again in 2007, albeit not to the 2006 level.

Pork exports to Romania have increased to 200,000 MT in past years and are forecast to reach 250,000 MT in 2007. The reason for this increase is the expected decrease in Romanian pork imports from Canada and the United States because of the increased import tariffs as a consequence of EU accession in January of 2007. Romania and Bulgaria can also apply for EU pork TRQ's as of 2007, but this is not expected to have a significant impact on EU pork markets.

Pig meat production (Top 5 EU-25 member states) 1000MT

	2005	2006	2007
Germany	4,499	4,680	4,710
Spain	3,164	3,200	3,220
Benelux	2,312	2,300	2,295
France	2,018	2,005	1,985
Poland*	1,680	1,790	1,800

* Poland slightly surpasses Denmark

Pig meat consumption (Top 5 EU-25 member states) 1000MT

	2005	2006	2007
Germany	4,514	4,520	4,510
Spain	2,580	2,480	2,500
Italy	2,425	2,521	2,489
France	1,858	1,856	1,836
Poland	1,648	1,671	1,681

Pig meat exports (Top 5 EU-25 member states) 1000MT

	2005	2006	2007
Denmark	546	540	560
Germany	112	125	135
France	118	125	130
Benelux	106	125	125
Poland	107	110	110

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