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Report Highlights:

As a result of elevated beef and milk prices, EU beef production is expected to increase in 2008. This upturn in production will only partly relieve the tight supply in the EU. The EU enlargement cut off beef imports by Romania and Bulgaria, while the European Commission tightened the import requirements for Brazilian beef. This tight supply is expected to reduce exports as well as domestic consumption, but might stimulate beef cattle farming in the New Member States (NMS), and revive production in France and Ireland. In 2007, increased supply of pork and rising feed costs induced a "return of the pig cycle". The dim market conditions intensified the restructuring of the EU pork sector, with the most significant cuts in the NMS. The resulting tight supply is expected to have a downward effect on pork exports as well as on domestic consumption.

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DISCLAIMER

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NOTE

In this report the following HS codes and conversion factors are used:

	HS codes	Conversion factors
Beef	0201, 0202 021020, 160250	PWE X 1.40 = CWE PWE X 1.79 = CWE
Pork	0203, 021011, 021012, 021019, 160241, 160242, 160249	PWE X 1.30 = CWE

PWE = Product Weight, CWE = Carcass Weight

ABBREVIATIONS

EU: All twenty-seven Member States of the European Union.
 EU-25: All Member States of the European Union, except NMS-2.
 NMS: The twelve New Member States which joined the EU in May 2004 and January 2007.
 NMS-2: Romania and Bulgaria, which joined the EU in January 2007.

Executive Summary

Cattle & Beef: The tight EU beef supply reduces exports and consumption.

During 2007, 2008 and 2009, the cattle herd is expected to contract, but at a relatively slow pace compared to the rate before 2007. As a result of elevated beef and milk prices, EU beef production is even expected to increase in 2008. This upturn in production will only partly relieve the tight supply in the EU. First of all, the EU enlargement in 2007 cut off beef imports into Bulgaria and Romania. In 2008, the supply was further tightened due to restrictions laid down by the European Commission (EC) on beef imports from Brazil. During the first five months of 2008, total beef imports declined by about twenty-five percent. European importers believe that purchases of Brazilian beef will decline further during the remainder of the year. The main reason on which traders base their opinion is that Brazilian producers lost interest to regain eligibility to export to the EU. Furthermore, a drop in demand for imported beef is reported, as Brazilian beef prices surged during the first half of 2008. Due to the tight supply, the high Euro/US\$ exchange rate, and cuts of export refunds, EU beef exports decreased by a third during 2007, and are expected to decline about another third during 2008. The elevated beef prices are expected to significantly reduce beef consumption throughout the entire EU. A third anticipated effect of the tight supply is that it will stimulate domestic beef production. This revival is expected to mainly take place in the New Member States (NMS), France and Ireland.

Swine & Pork: Restructuring of the pig sector is expected to continue.

In 2007, EU pork production increased by nearly five percent to a record production of 22.9 MMT. Because carcass prices fell to the five-year average and feed costs surged, profitability in pork production became gradually depressed during the end of 2007. These unfavorable market conditions were most pronounced in Central Europe. In order to support the EU pork sector, the European Commission (EC) opened a Private Storage Aid (PSA) scheme, and increased export refunds. As feed prices are anticipated not to fall to the level of before 2007, margins on fattening will not recover significantly. Due to persistent tight profit margins, restructuring of the intensive pig sector is expected to continue. Restructuring implies termination of the most inefficient farms and thus a further cutback of the pig crop. Due to reduced slaughtering, EU pork production is expected to decline from 22.9 MMT in 2007 to 22.3 MMT in 2008, and to 22.1 MMT in 2009. The tight supply is expected to have a downward effect on pork exports during the second half of 2008. As the competition on the world market intensifies, the main net pork exporting countries are increasingly focusing on the domestic market, in particular Central Europe. Due to the limited domestic supply and increasing popularity of poultry meat, however, EU pork consumption is expected to decline.

Cattle

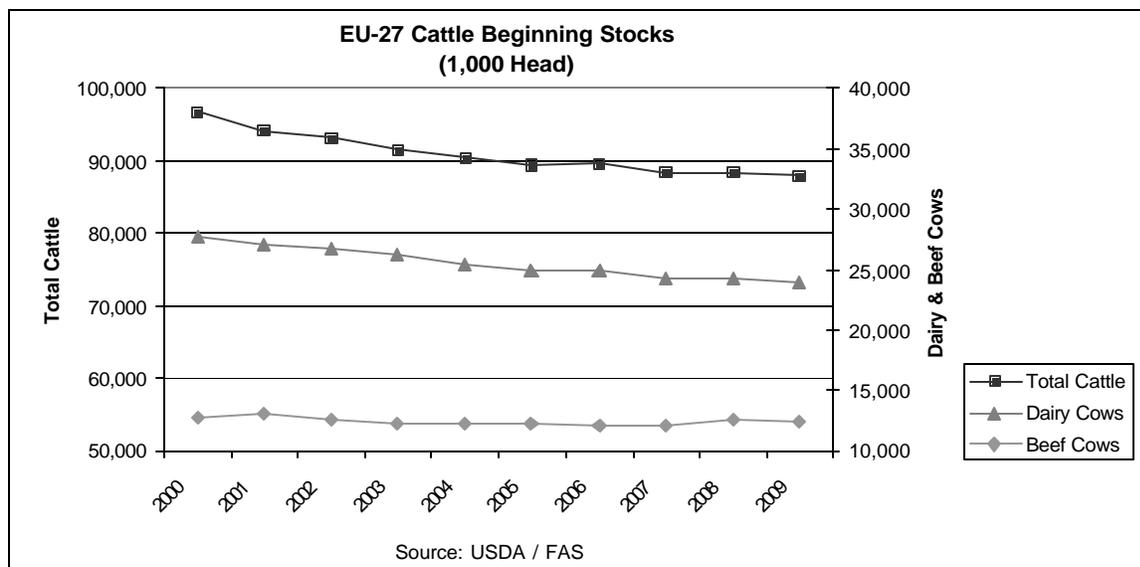
Country	EU-27					
	Animal Numbers, Cattle (1,000 Head)					
Commodity	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
Market Year	2007		2008		2009	
Total Cattle Beg. Stocks	88,463	88,463	87,650	88,300	0	88,000
Dairy Cows Beg. Stocks	24,312	24,305	24,160	24,176	0	24,000
Beef Cows Beg. Stocks	12,074	12,075	12,100	12,488	0	12,400
Production (Calf Crop)	30,500	30,927	30,400	30,700	0	30,500
Extra EU27 imports	4	4	4	3	0	3
TOTAL SUPPLY	118,967	119,394	118,054	119,003	0	118,503
Extra EU27 exports	338	423	300	300	0	300
Cow Slaughter	7,520	7,554	7,345	7,550	0	7,550
Calf Slaughter	6,130	5,985	6,130	5,900	0	5,900
Total Slaughter	29,050	28,871	29,000	28,950	0	28,800
Loss	1,929	1,800	1,754	1,753	0	1,703
Ending Inventories	87,650	88,300	87,000	88,000	0	87,700
TOTAL DISTRIBUTION	118,967	119,394	118,054	119,003	0	118,503

Source: FAS EU Offices

2007 Cattle herd contraction is slowed down by elevated beef and milk prices.

Three factors had a distinct effect on the cattle sector in 2007; the high beef and milk prices, the reduced profitability of veal production, and the spread of Blue Tongue Disease (BTD). As a result of the elevated beef prices during 2006 and 2007, the EU calf crop recovered by one percent. The effect of BTD on fertility is believed to have been limited. The high milk prices during 2007 induced farmers to hold to their cattle, mostly dairy cows, but also young calves and heifers destined for dairy production. As a consequence, the contraction of the dairy herd slowed down (see graph below). Expansion of the dairy herd is reported in Germany, the Benelux, and Poland. As farmers were holding to their cattle, cow slaughter as well as calf slaughter declined. Calf slaughter also declined as veal production became less profitable than beef production due to the high milk and milk replacer prices. BTD had also a negative effect on calf slaughter as it hampered intra-EU trade of veal calves. During 2007, total slaughter declined by 1.4 percent compared to 2006. In Romania and Bulgaria (NMS-2), the situation was different from the general trend in the EU. In the NMS-2, restructuring of the dairy sector was accelerated by the dry summer period and high feed costs. This increased slaughtering by 60,000 head, and reduced the dairy herd by 90,000 head.

The EU beef cow herd is expected to have recovered during 2007 (see graph below). During the end of 2007, producer sentiment changed as the increase in cattle and beef prices offset the high feed prices. The beef cow herd expanded in France, the Iberian Peninsula and the NMS, in particular in the Czech Republic. An important factor for the expansion in France is that the sector kept the coupled payment for suckling cows. The reduction in cattle loss results from the end of the removal of older cattle under the Older Cattle Disposal Scheme (OCDS) in the UK (see GAIN Report E47060).



2008 & 2009 In the NMS, the dairy and beef sector is forecast to revive.

During 2008 and 2009, shrinking of the cattle herd is expected to continue, but at a relatively slow pace compared to the rate of contraction before 2007. After the temporary peak in 2007, the EU calf crop is expected to decline but the reduction is tempered by an expected recovery in the NMS and Ireland. This upturn is most prominent in Poland, where enlarged dairy quotas and the strong EU demand for beef is expected to revive the dairy and beef sector. Also, unprofitable hog production is forcing pig farmers to switch to cattle fattening. The anticipated good grain crop in the NMS is also expected to have a positive effect on the calf crop in 2009, in particular in Romania. The spread of BTB and the high domestic milk and carcass prices will have a continuous negative effect on cattle exports throughout 2008 between EU Member States as well as to non-EU trading partners. Different from the trend seen since 2002, slaughtering is expected to increase during 2008. Increased slaughtering is anticipated in mainly Germany, the Iberian Peninsula, and Greece. The farmers' consideration to slaughter is supported by the high carcass prices in combination with a significant reduction of the milk prices during 2008. Also the slaughter of young bulls, which were not slaughtered in 2007 due to trade restrictions related to BTB, is expected to increase during this year.

Calf crop production (Top 5 EU member states) 1,000 Head

	2007	2008	2009
France	6,360	6,320	6,300
Germany	4,380	4,370	4,340
United Kingdom	2,961	2,861	2,800
Italy	2,774	2,780	2,780
Benelux	2,213	2,240	2,240

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

Cattle slaughter (Top 5 EU member states) 1,000 Head

	2007	2008	2009
France	5,024	4,900	5,020
Italy	3,997	4,000	4,000
Germany	3,713	3,790	3,750
Benelux	2,744	2,755	2,750
United Kingdom	2,615	2,591	2,590

Cattle exports (Top 5 EU member states) 1,000 Head

	2007	2008	2009
Romania	157	90	70
Germany	46	50	60
Poland	62	59	55
Bulgaria	66	66	40
Hungary	45	38	40

Beef

Country	EU-27					
	Meat, Beef and Veal (1,000 Head) (1,000MT CW)					
Commodity	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
	2007		2008		2009	
Slaughter (Reference)	29,050	28,871	29,000	28,950	0	28,800
Beginning Stocks	0	0	0	0	0	0
Production	8,175	8,203	8,125	8,220	0	8,170
Extra EU27 imports	638	640	550	400	0	400
TOTAL SUPPLY	8,813	8,843	8,675	8,620	0	8,570
Extra EU27 Exports	139	140	100	100	0	100
TOTAL Domestic Use	8,674	8,703	8,575	8,520	0	8,470
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,813	8,843	8,675	8,620	0	8,570

Source: FAS EU Offices

2007 The EU enlargement cut out 140,000 MT of beef imports in the NMS-2.

While slaughtering was reduced by 1.4 percent beef production increased by 0.7 percent during 2007. This recovery is a consequence of increased slaughter weight in mainly France, Germany, the UK, and Ireland. In France, heavier beef cows were slaughtered and fewer calves and dairy cows. In Germany, the share of calf slaughter decreased compared to the share of adult cattle. In the UK, cattle slaughter weight increased because slaughtering was hampered by Foot and Mouth Disease (FMD) related transport restrictions. Another factor for the increased beef production is the increased slaughtering in the NMS, in particular in Romania and Bulgaria. The upturn in production only partly relieved the tight supply in the EU. EU-25 beef imports increased by about 70,000 MT, but this was offset by the cutback of about 140,000 MT of beef imports into Bulgaria and Romania, as these NMS enforced the EU import regime. As a result, Brazilian beef exports to the EU-27 were reduced from 561,000 MT in 2006 to 472,000 MT in 2007 (see table below). Total EU-27 beef imports declined

from 717,000 MT in 2006 to 640,000 MT in 2007. Due to the tight supply combined with the high Euro/US\$ exchange rate and cuts of export refunds, EU beef exports decreased by a third to 140,000 MT. EU beef exports to Russia were reduced by more than half, and were replaced by Brazilian beef. Ireland, in 2006 with Germany the main beef exporter in the EU, stopped nearly all third-country beef exports in 2007. Irish traders reportedly have been maintaining their supply chains in non-EU markets with supplies of South American beef. Beef consumption rose slightly in those European markets that experienced an increased availability and moderate domestic prices, mainly in Germany and France. Due to the elevated prices beef consumption declined by about fifteen percent in the NMS.

**EU Imports of Brazilian Beef
(1,000 MT Carcass Weight)**

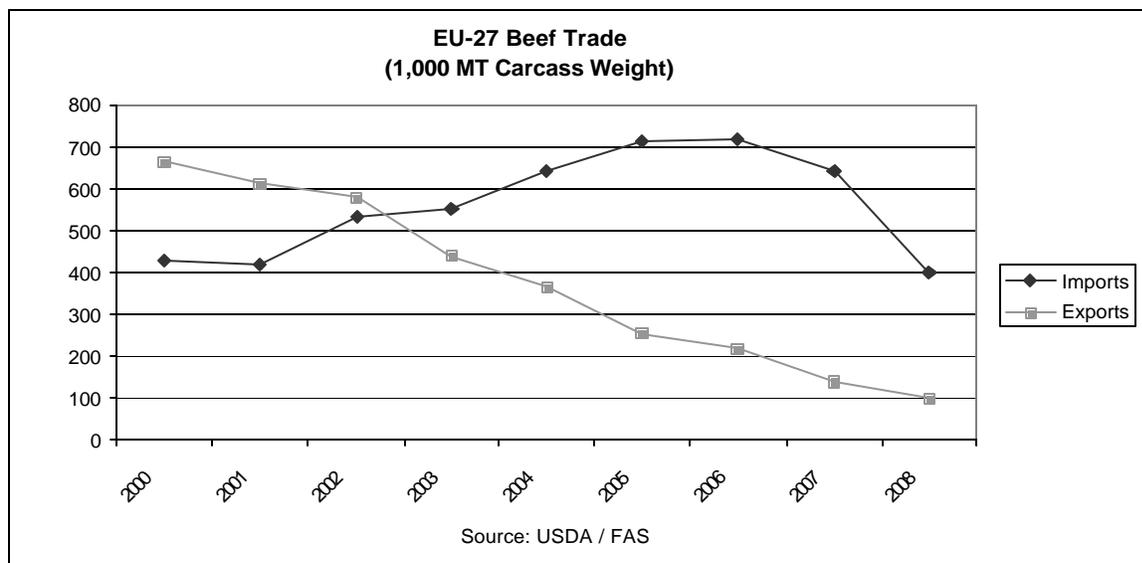
	2005	2006	2007	2008 Jan-May
Fresh Beef	109	102	112	11
Frozen Beef	232	266	140	32
Processed Beef	199	193	220	86
Total Beef Imports	540	561	472	129

2008 & 2009 Unsecure import supply further tightens domestic availability of beef.

In line with increased slaughtering, EU beef production is expected to peak in 2008. As a result of reduced imports, however, the total EU beef supply is expected to fall by about 220,000 MT in 2008 and 50,000 MT in 2009. This tight supply is due to restrictions laid down by the European Commission (EC) on EU beef imports from Brazil. On January 31, 2008, the EC imposed stricter traceability requirements for Brazilian beef imports, which in practice banned Brazilian beef from the EU market (see GAIN Report E48016). On February 27, 2008, the Food and Veterinary Office (FVO) relisted 95 farms as being eligible to produce for the EU market. In the meantime this number increased to 140 cattle farms. This is, however, only a fraction of the 6,780 Brazilian farms which had been certified during 2007. As a consequence, EU fresh beef imports declined by about forty percent, frozen beef imports by about thirty percent, and processed beef imports by about ten percent during the first five months of 2008 (see table above). Total beef imports declined by about twenty-five percent during this period.

European importers believe that Brazilian beef exports to the EU in 2008 will not pick up during the remainder of the year, but will decline even further. The main reason on which traders base their opinion is that Brazilian producers lost interest to regain eligibility to export to the EU. Brazilian suppliers reportedly changed focus due to the limited supply of Brazilian beef, higher domestic prices, and increased demand in other export markets. Furthermore, European importers report a drop in demand for imported beef, as prices of Brazilian beef surged during the first half of 2008. A drop in demand is in particular reported in the restaurant and the food service sector. Due to the elevated prices importers believe that Brazilian beef will not be as competitive as before. Importers also report that none of these beef products can be supplied by another producer in a sufficient volume.

Considering a further reduction of Brazilian beef imports, and replacement with about 20,000 MT of Argentinean and Uruguayan beef, total 2008 beef imports are expected to decline to about 400,000 MT (see graph below). Due to the limited availability of beef, and thus high domestic prices, EU beef exports are forecast to decline further, from 140,000 MT in 2007 to 100,000 MT in 2008. In addition, the elevated beef prices are expected to significantly reduce beef consumption throughout the entire EU. A third anticipated effect of the tight supply is that it will stimulate domestic beef production. This revival is expected to mainly take place in the NMS, France, and Ireland.



Beef production (Top 5 EU member states) 1,000 MT

	2007	2008	2009
France	1,496	1,465	1,500
Germany	1,185	1,195	1,180
Italy	1,127	1,130	1,130
United Kingdom	882	874	870
Spain	647	665	660

Beef consumption (Top 5 EU member states) 1,000 MT

	2007	2008	2009
France	1,629	1,594	1,610
Italy	1,585	1,585	1,585
United Kingdom	1,371	1,329	1,330
Germany	1,033	970	955
Spain	670	680	650

Beef exports (Top 5 EU member states) 1,000 MT

	2007	2008	2009
Germany	52	35	35
France	31	33	34
Italy	25	30	30
Ireland	41	10	15
Benelux	18	12	11

Swine

Country	EU-27					
Commodity	Animal Numbers, Swine (1,000 Head)					
	USDA official [EU-27]	Posts estimates [EU-27]	USDA official [EU-27]	Posts estimates [EU-27]	USDA official [EU-27]	Posts estimates [EU-27]
Market Year Begin	2007		2008		2009	
TOTAL Beginning Stocks	161,526	161,526	160,000	160,006	0	158,000
Sow Beginning Stocks	15,525	15,570	15,100	14,947	0	14,600
Production (Pig Crop)	262,000	266,000	260,000	259,000	0	257,000
Extra EU27 imports	2	2	1	1	0	1
TOTAL SUPPLY	423,528	427,528	420,001	419,007	0	415,001
Extra EU27 exports	972	976	1,000	950	0	900
Total Slaughter	254,000	257,971	251,900	251,900	0	248,500
Loss	8,556	8,575	8,601	8,157	0	8,051
Ending Inventories	160,000	160,006	158,500	158,000	0	157,550
TOTAL DISTRIBUTION	423,528	427,528	420,001	419,007	0	415,001

Source: EU FAS Offices

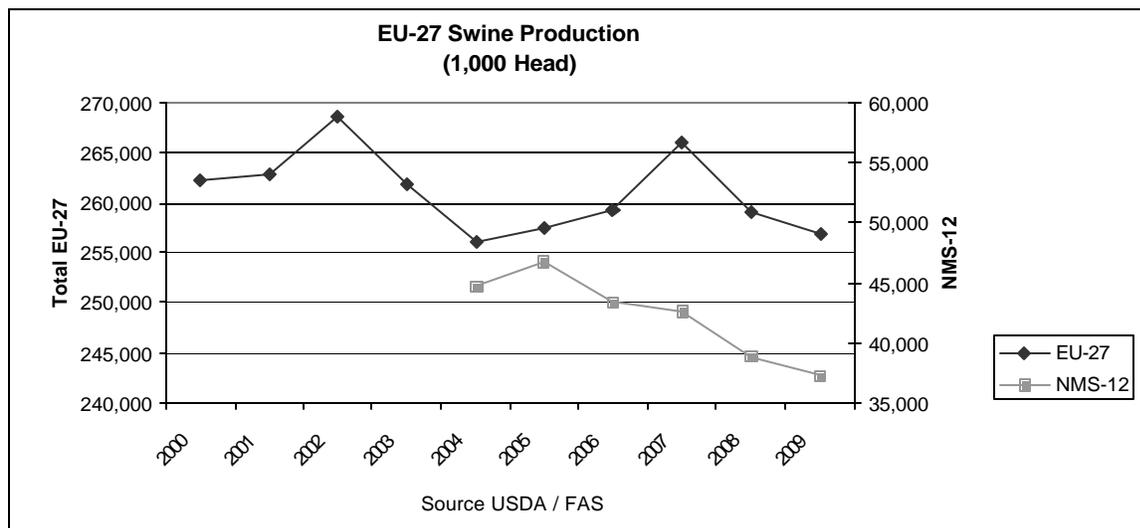
2007 Return of the pig cycle induced by high feed prices.

As anticipated in the previous Annual Report (E47060), profitable pig market conditions in 2006 were stimulating further pig production increases in 2007. During the course of 2007, the EU pig crop increased by 2.6 percent to 266 million, the highest production since 2002 (see graph below). This increase is attributable to growth of the crop in the EU-15, in particular Spain, Germany, Denmark and the Benelux countries. While pig production increased by 2.6 percent, slaughtering increased by 4.4 percent. This can be explained by the fact that piglet production peaked during the last quarter of 2006 and the first quarter of 2007. Because of rising feed costs and carcass prices falling to the five-year average, profitability in pork production became gradually depressed during the end of 2007. These unfavorable market conditions were most pronounced in Central Europe where feed costs make up a larger portion of the total costs and the scarcity of feed stocks could not be relieved by imports from other continents. Lack of demand for piglets in Central Europe reduced the market price for piglets far below the 5-year average. As a consequence, EU sow numbers fell from 15.6 million to 14.9 million head, a reduction by four percent. The total EU swine stock fell from 161.5 million head to 160 million head, still above the average 2000-2006 stock of 159 million. The swine stock shrunk most significantly in Poland namely with nearly 1.2 million head, a reduction by more than six percent.

2008 Margins on swine fattening are expected to improve during 2008.

During 2008, the EU pig crop is expected to decline by 2.6 percent, to about the level of 2006 (see graph below). A reduction is anticipated in the EU-15, in particular in Spain and Denmark, as well as in the NMS. The negative margins force the most inefficient farmers to quit throughout the entire EU. Another trend is that small and medium-size farms find it more profitable to concentrate on fattening piglets rather than maintaining an integrated farm. In Poland, swine inventories are expected to continue to trend downward after the already significant reduction in 2007. As a result of the shrinking production and thus increased import demand of pork in mainly the NMS, the price for slaughter hogs increased to the highest level in two years. However, feed prices are expected to remain at a high level mainly due to the high price level of soya. Considering a prolongation of the high carcass prices, and a moderate reduction of feed prices, profitability of fattening is expected to

improve in most EU Member States during 2008. Due to the reduced supply, swine slaughter is expected to decline by 2.4 percent. Swine ending inventories in 2008 are forecast at 158 million head.



2009 EU pig production is not expected to recover due to high feed prices.

As feed prices are anticipated not to return to the lower level of before 2007, margins on fattening will not increase significantly. Due to these tight profit margins, the restructuring of the intensive pig sector is expected to continue in the NMS. To a lesser extent, this process will also take place in the EU-15. Restructuring will imply termination of the most inefficient farms, and thus an increase in the number of piglets per sow, but overall a cutback of the EU pig crop. As a result, EU pig production and slaughter will decline further (see graph above). Possible exceptions to this trend are the sectors in Romania, Bulgaria, Germany, and the Benelux region. In the NMS-2, farmers could be stimulated to rebuild their pig stocks as a result of a good corn crop in 2008. German, and to a lesser extent Dutch, farmers are forecast to increase their supply of pork as well as piglets for fattening to the NMS. In Denmark, the most efficient farmers strive for expansion but are hampered by environmental regulations. Only after 2009 is Danish production expected to increase.

Pig crop production (Top 5 EU member states) 1,000 Head

	2007	2008	2009
Germany	46,400	47,000	47,400
Spain	41,913	40,000	40,000
Benelux	33,785	33,550	33,450
Denmark	28,879	27,800	27,000
Poland	25,400	22,700	21,300

Swine slaughter (Top 5 EU member states) 1,000 Head

	2007	2008	2009
Germany	53,311	54,100	53,600
Spain	41,634	39,500	40,500
France	25,260	25,250	25,220
Benelux	25,557	25,650	25,550
Poland	25,400	22,850	20,500

Swine exports (Top 5 EU member states) 1,000 Head

	2007	2008	2009
Benelux	384	400	500
Germany	157	140	130
Poland	227	60	100
Lithuania	44	120	80
Austria	69	74	73

Pork

Country	EU-27					
	Pigmeat (1,000 Head) (1,000 MT CW)					
Commodity	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
Market Year Begin	2007		2008		2009	
Slaughter (Reference)	254,000	257,971	251,900	251,900	0	248,500
Beginning Stocks	0	0	95	99	0	0
Production	22,600	22,858	22,500	22,300	0	22,100
Extra EU27 imports	34	34	20	50	0	55
TOTAL SUPPLY	22,634	22,892	22,615	22,449	0	22,155
Extra EU27 exports	1,282	1,283	1,300	1,300	0	1,280
TOTAL Domestic Use	21,257	21,510	21,315	21,149	0	20,875
Ending Stocks	95	99	0	0	0	0
TOTAL DISTRIBUTION	22,634	22,892	22,615	22,449	0	22,155

Source: EU FAS Offices

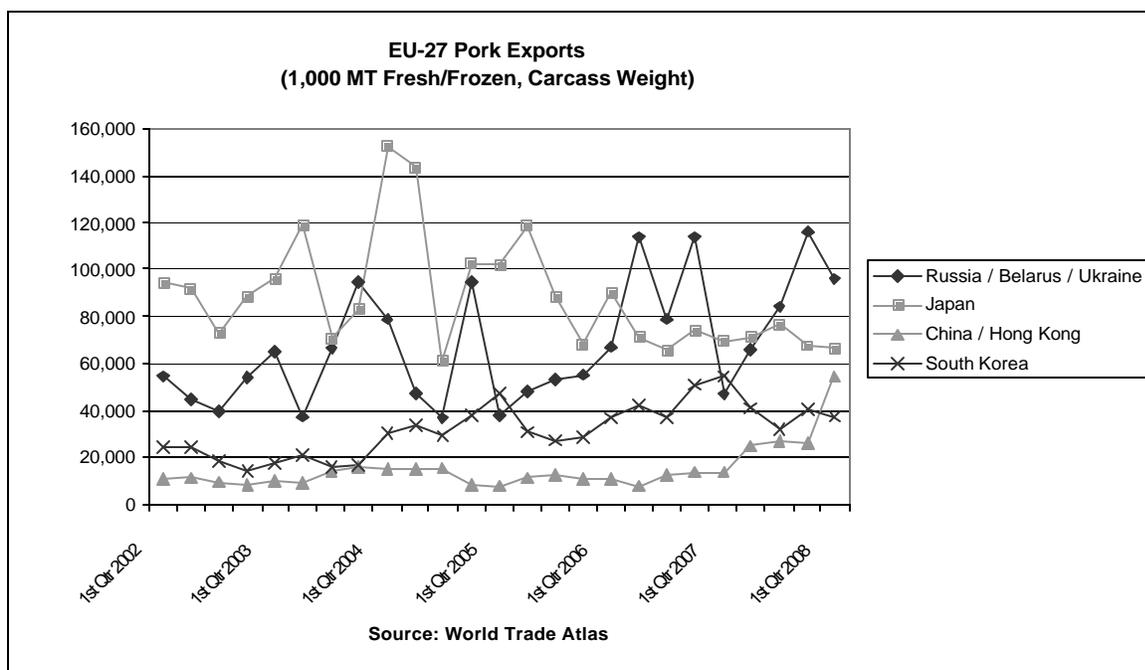
2007 EU exports lost market share on the Russian and Japanese market.

In 2007, EU pork production increased by nearly five percent to a record production of 22.9 MMT. This significant rise is a result of increased slaughtering and an increase in slaughter weight. The higher slaughter weight is partly a trend but is also a result of restricted slaughtering in the UK due to FMD related measures, and in Denmark the burning down of two slaughter plants and strikes. The increased supply of pork was tempered by the EU enlargement, which terminated about 100,000 MT of pork imports by Romania and Bulgaria. During 2007, EU pork exports experienced strong competition from Brazilian pork on the Russian market and from U.S. and Canadian pork on the Japanese market (see graph below). In order to support the EU pork sector, the European Commission (EC) opened a Private Storage Aid (PSA) scheme, and increased export refunds (see GAIN Report E47104). The stocks in the PSA scheme reached 99,000 MT, before the EC stopped this measure in December 2007. The pork consumption figure in this report is inflated due to increased commercial stocks.

2008 & 2009 EU pork exports are expected to decline during the second half of 2008.

Due to reduced slaughtering, EU pork production is expected to decline from 22.9 MMT in 2007 to 22.3 MMT in 2008, and to 22.1 MMT in 2009, which is still well above the average 2000-2006 level. Significant reductions are anticipated in Spain, Poland and Denmark. Germany is one of the few member states in which production is expected to increase. Driven by the elevated carcass prices and high Euro/US\$ exchange rate, EU pork imports are expected to increase to 50,000 MT. During the first five months of 2008, imports mainly increased from the U.S. and Chile, taking advantage of quotas with reduced tariffs. Despite

the fact that EU pork exports increased by nearly fifty percent during the first five months of 2008, the annual export volume is not expected to increase significantly. The export refunds, for most fresh/frozen products 100 Euro/MT, were terminated on August 8. In addition, with the lower slaughter and diminished PSA stocks, EU pork supply is tightening. Some pork producers have also been affected by a recent Russian ban reportedly related to incidences with antibiotic residues and Salmonella. As the competition on the world market intensifies, the main net pork exporting countries, mainly the Benelux countries, Denmark and Germany, are increasingly focusing on the European market, in particular Central Europe. Due to increased domestic prices, pork consumption is, however, expected to decline, mainly in the NMS. In Northwestern Europe an important factor for the stagnating pork consumption is the increasing popularity of poultry meat for its leanness and convenience.



Pig meat production (Top 5 EU member states) 1,000 MT

	2007	2008	2009
Germany	4,985	5,040	5,000
Spain	3,501	3,250	3,250
Benelux	2,363	2,375	2,365
France	2,031	2,030	2,035
Poland	1,850	1,650	1,520

Pig meat consumption (Top 5 EU member states) 1,000 MT

	2007	2008	2009
Germany	4,708	4,760	4,780
Italy	2,690	2,690	2,690
Spain	2,650	2,680	2,650
France	1,928	1,925	1,930
Poland	1,827	1,700	1,700

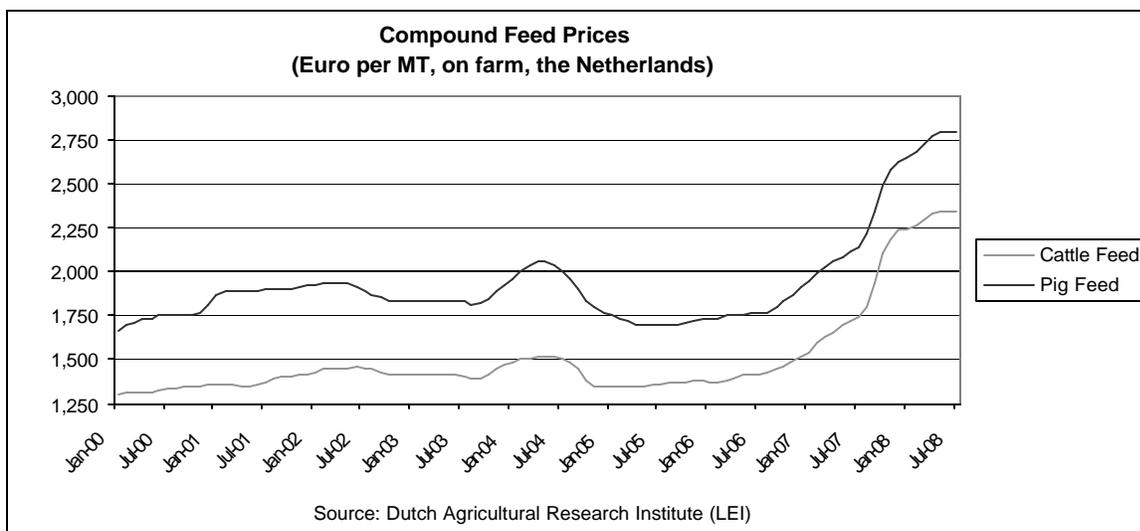
Pig meat exports (Top 5 EU member states) 1,000 MT

	2007	2008	2009
Denmark	571	549	550
Benelux	149	167	157
France	109	114	120
Germany	107	115	115
Poland	92	51	80

Policy

The EU's high cost structure

The high cost of production results from European legislation for food safety and “societal” demands on food production. The most notorious are the restrictions on GMOs, strict production methods, environmental restrictions and animal welfare measures. While each of these policies individually only has a limited impact on the production cost structure, their incremental combination has led to a serious cost gap with other world producers. This gap was only enhanced by recent increases in costs of production factors like feed (see graph below), energy and transportation. EU decision makers are increasingly becoming aware of this problem and several mitigation strategies are being considered. A proven approach is through lobbying in international institutions to increase international food (production) standards. Another potential approach that might come to the forefront again was mentioned by the French government at the end of June 2008, as it was preparing for its stint at the helm of the EU: that Europe should invest more in favoring community preference. The alternative is forcing “reciprocity” of European food production standards upon exporting countries. It is, however, difficult to understand how this rhymes with recent Common Agricultural Policy reforms, including the upcoming Health Check, and negotiations in the WTO Doha round.



Health Check

The upcoming Health Check can be seen as the final phase of the 2003 CAP Reform. The proposal suggests decoupling most of the remaining coupled farm supports as well as further dismantling of market restriction tools like set-aside and intervention storage. Increased production of arable crops, especially grains, as a result of farmer responses to price signals, should lead to decreased feeding costs for animal producers, although this might be accompanied by increased price volatility. It is unclear yet whether the Health Check will also lead to relocations in animal production. The European Commission (EC) has at least indicated its intention in the proposal to limit this relocation through special measures for Least Favored Areas (LFAs) by means of a redrafted Article 68 (formerly Article 69), at least for dairy production.

Animal welfare

EU animal welfare legislation has become a standard part of EU animal production legislation and part of cross-compliance demands for obtaining decoupled payments. More and larger parts of EU animal productions are switching to production methods that are perceived to be more animal friendly, because of consumer preferences, even if it increases biosafety risks. It is, however, one of the non-SPS concerns that EU producers are blaming for their competitive disadvantage vis-a-vis third country exporters.

Environmental restrictions and climate change

Environmental restrictions under the Nitrate Directive, especially groundwater quality protection from excessive manure spreading, have already put serious brakes on mainly pig production in several MS of the EU-15. New concerns about greenhouse gas (GHG) emissions from concentrated animal production are emerging, especially methane emission from ruminants, because of its high greenhouse gas coefficient compared to carbon dioxide. In more general terms, the impact of animal production on climate change has become a topic of debate. EU policy makers have already pointed out that animal farming will need to do its share in the reduction of GHG emissions to achieve the target of a post-Kyoto agreement. Another voice in the debate calls for decreased consumption of animal products in the developed world, including Europe, as the only way this will be achievable. The debate on climate change might well evolve in a way that would only further increase the European production costs for animal products.

Animal Health Situation

After its emergence in 2006 in Belgium and the Netherlands, Bluetongue serotype 8 disease rapidly spread in all directions to Denmark, the Czech Republic, Italy and the United Kingdom (UK) by 2008. The economic damage has not been fully assessed yet but is considered to amount to hundreds of millions of Euros. Mortality and reductions in birth/fertility in cattle and sheep from the second year infection wave have been reported to be up to 15-20 and 50 percent, respectively. Affected Member States hope that comprehensive vaccination of cattle and sheep herds will contain the disease. This should prevent even bigger losses in France, Germany and the UK. See also GAIN E48076.

As BSE numbers continue to decrease in the EU, the EC is taking further steps in its TSE Roadmap. It is expected that the age for systematic BSE testing will be increased to 30 months of age, while some MS, like Belgium, are already calling for a risk-based testing system rather than systematic testing (see GAIN E48074). Slowly, consensus is also building about lifting the absolute ban on MBM in feed. That would at the same time offer a chance of lowering the feed cost in the EU.

Classical Swine Fever (CSF) still poses serious concern in certain EU MS, as there are still pockets, mainly in mountainous areas, where the disease is endemic in feral pigs. As a result, from time to time CSF outbreaks still occur, mainly in backyard pig herds, but major outbreaks in large pig farms in newly acceded Romania during 2007 prove that continued vigilance from farmers and veterinary services is not luxury.

Related reports from FAS Post in the European Union:

Country	Title	Date	Report Number
EU-27	Review of the animal cloning situation in the EU	07/30/08	E48084
Bulgaria	Removal of pork export ban	07/18/08	BU8009
EU-27	EU Council asked to consider vectors of Bluetongue disease transmission	07/14/08	E48076
EU-27	European Council further relaxes BSE rules	07/14/08	E48074
Poland	Biotechnology Feed Ban Consequences for Pork and Poultry	06/19/08	PL8020
Poland	Poland May Benefit from Pork Import Quota offered by Ukraine	04/24/08	PL8015
Slovakia	Classical Swine Fever Outbreak	04/23/08	LO8001
EU-27	Semi-Annual Livestock Report	02/29/08	E48025
Germany	China about to lift import restrictions for German pork	02/13/08	GM8010
EU-27	EU suspends Brazil beef imports; at least temporary	02/06/08	E48016
Finland	First Case of PMWS in Finland	01/30/08	FI8001
EU-27	EFSA releases Draft Opinion on Animal Cloning	01/18/08	E48006
EU-27	Update on the European animal disease situation	01/16/08	E48004
EU-27	EC Standing Committee approves restrictions on beef imports from Brazil	12/25/07	E47112
EU-27	European Commission approves €187 million to fight animal diseases in 2008	12/24/07	E47110
Netherlands	Opportunities on the EU Meat Market	12/21/07	NL7032
EU-27	Export subsidies for raw pork reinstated	12/07/07	E47104
EU-27	U.S. pork exports to the EU increasing despite EU oversupply situation	12/04/07	E47102
Hungary	Soaring Feed Prices Cause Swine Farm Crisis	11/30/07	HU7011
Germany	Bluetongue Update: Disease continues to Spread in Germany	10/19/07	GM7045
UK	Bluetongue outbreak adds to the UK's FMD woes	10/08/07	UK7028
UK	Latest FMD situation in the UK	10/01/07	UK7027
UK	First ever case of bluetongue confirmed in the UK	09/28/07	UK7026
UK	Update on UK outbreak of FMD	09/24/07	UK7024
UK	UK Confirms New Case of FMD on Cattle Farm	09/17/07	UK7023
EU-27	EU Midyear 2007 BSE update	09/14/07	E47079
Germany	Germany's Reaction to CSF in Romania	08/14/07	GM7037
UK	UK Foot and Mouth Update 2	08/10/07	UK7019
UK	UK Foot & Mouth Disease update	08/13/07	UK7018
Germany	Germany's Reaction to FMD in the U.K.	08/07/07	GM7035
UK	UK confirms case of FMD on cattle farm	08/09/07	UK7017
EU-27	Annual Livestock Report	07/24/07	E47060
Sweden	Sweden Reports its First PRRS Case	07/24/07	SW7011
Germany	Update on Bluetongue Disease in Germany	07/10/07	GM7028
Netherlands	The Benelux Beef Market	04/23/07	NL7008
Bulgaria	Classical Swine Fever Outbreak and Pork Market Effect	04/16/07	BU6006
Norway	Animal Welfare Legislation in Norway	04/03/07	NO7003
EU-27	Semi-Annual Livestock Report	02/01/07	E47008

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