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## EU-27

## Livestock and Products

## Annual

## 2008

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### Report Highlights:

Elevated beef and milk prices slowed down the contraction of the European Union (EU) cattle herd. The elevated beef prices are partly a result of restricted beef imports. During 2008, EU beef imports are even expected to decline further as the European Commission (EC) strengthened the import requirements for Brazilian beef. The limited supply of beef on the EU market is forecast to revive cattle farming in the New Member States (NMS). Increased supply of pork and rising feed costs induced a "return of the pig cycle". Despite government support, the EU pork sector lost market share in its two most important markets, Russia and Japan. Due to these dim market conditions, EU pig and pork production is anticipated to fall during 2008. The most significant cuts are anticipated in the NMS. Competitive producers in Northwestern Europe are expected to maintain or even increase their production.

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Includes PSD Changes: Yes  
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[E4]

Table of Contents

Executive Summary ..... 4

Cattle ..... 4

Beef..... 6

Swine ..... 9

Pork ..... 11

Policy ..... 13

**DISCLAIMER**

The numbers in the PSDs in this report are not official USDA numbers, but they result from a collaborative effort by FAS EU offices to consolidate PSDs from all 27 EU member states.

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**NOTE**

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

|             | <b>HS codes</b>                                      | <b>Conversion factors</b> |
|-------------|------------------------------------------------------|---------------------------|
| <b>Beef</b> | 0201, 0202                                           | PWE X 1.40 = CWE          |
|             | 021020, 160250                                       | PWE X 1.79 = CWE          |
| <b>Pork</b> | 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 since May 2004.  
 NMS-2: Romania and Bulgaria, which joined the EU since January 2007.

## Executive Summary

### Cattle & Beef: limited supply is forecast to revive cattle farming in the NMS

In 2007, elevated beef and milk prices slowed down the contraction of the EU cattle herd. The elevated beef prices are partly a result of restricted beef imports. The EU-25 increased imports by about 80,000 MT, but this was offset by the cutback of about 120,000 MT of beef imports into Bulgaria and Romania. During 2008, total EU imports are even expected to decline further as the European Commission (EC) strengthened the import requirements for Brazilian beef. The limited supply of beef on the European market is expected to reduce EU beef consumption as well as exports. A third anticipated effect is a revival of cattle farming in some of the NMS.

### Swine & Pork: production recovery anticipated in Northwestern Europe

During the second half of 2007, increased supply of pork and rising feed costs induced a "return of the pig cycle". In order to support the EU pork sector, the EC opened a Private Storage Aid scheme and increased export refunds. Despite the refunds, the EU pork sector lost market share in its two most important markets, Russia and Japan. Due to low or even negative margins, EU pig and pork production is anticipated to fall during 2008. The most significant cuts are anticipated in the NMS, where the restructuring of the intensive pig sector has not been finalized yet. Competitive producers in Northwestern Europe are expected to maintain or even increase their production as they expect market conditions to improve during the end of 2008.

## Cattle

| Country                   | EU-27                               |                               |                             |                               |                             |                               |
|---------------------------|-------------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| Commodity                 | Animal Numbers, Cattle (1,000 Head) |                               |                             |                               |                             |                               |
|                           | USDA<br>Official<br>[EU-27]         | Posts<br>estimates<br>[EU-27] | USDA<br>Official<br>[EU-27] | Posts<br>estimates<br>[EU-27] | USDA<br>Official<br>[EU-27] | Posts<br>estimates<br>[EU-27] |
| Market Year               | 2006                                |                               | 2007                        |                               | 2008                        |                               |
| Total Cattle Beg. Stocks  | 89,345                              | 89,672                        | 88,334                      | 88,463                        | 87,810                      | 87,650                        |
| Dairy Cows Beg. Stocks    | 24,944                              | 24,893                        | 24,344                      | 24,312                        | 24,100                      | 24,160                        |
| Beef Cows Beg. Stocks     | 12,073                              | 12,155                        | 12,020                      | 12,074                        | 12,000                      | 12,100                        |
| Production (Calf Crop)    | 30,350                              | 30,625                        | 30,470                      | 30,500                        | 30,135                      | 30,400                        |
| Extra EU27 imports        | 4                                   | 4                             | 4                           | 4                             | 5                           | 4                             |
| <b>TOTAL SUPPLY</b>       | <b>119,699</b>                      | <b>120,301</b>                | <b>118,808</b>              | <b>118,967</b>                | <b>117,950</b>              | <b>118,054</b>                |
| Extra EU27 exports        | 469                                 | 469                           | 420                         | 430                           | 420                         | 380                           |
| Cow Slaughter             | 7,075                               | 7,640                         | 6,930                       | 7,520                         | 6,870                       | 7,345                         |
| Calf Slaughter            | 5,590                               | 6,390                         | 5,470                       | 6,130                         | 5,425                       | 6,130                         |
| Total Slaughter           | 28,897                              | 29,270                        | 28,700                      | 29,050                        | 28,350                      | 29,000                        |
| Loss                      | 1,999                               | 2,099                         | 1,878                       | 1,837                         | 1,750                       | 1,674                         |
| Ending Inventories        | 88,334                              | 88,463                        | 87,810                      | 87,650                        | 87,430                      | 87,000                        |
| <b>TOTAL DISTRIBUTION</b> | <b>119,699</b>                      | <b>120,301</b>                | <b>118,808</b>              | <b>118,967</b>                | <b>117,950</b>              | <b>118,054</b>                |

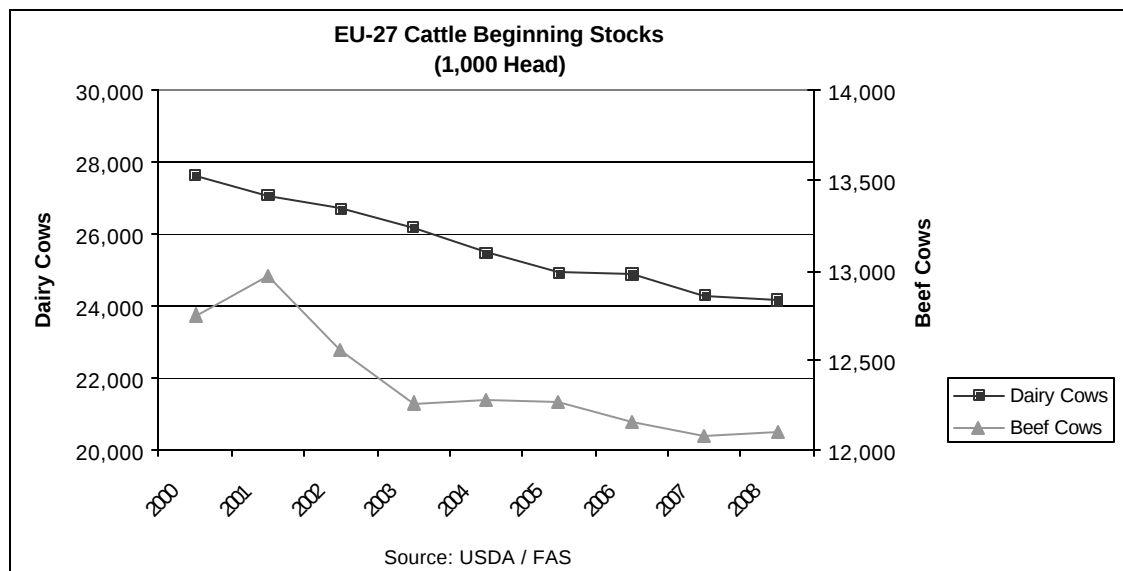
Source: EU FAS Offices

### 2006 Dairy herd contracted due to increased milk productivity

Stock, calf crop and slaughter numbers are updated with official Eurostat census figures. During 2006, the total EU cattle herd shrunk by 1.3 percent. The reduction was most prominent for the dairy cow herd, which decreased by more than half a million head. This trend is a result of increased milk productivity. The reduction of the beef herd was less significant, and not throughout all MS. The beef herd increased in France, Germany, the Benelux and most of the twelve New Member States (NMS).

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

Based on Eurostat figures, the EU cattle herd is expected to have declined by 0.9 percent during 2007. The reduction of the dairy herd is slowed down by the high milk prices and the anticipated enlargement of milk quotas (see graph below). Expansion of the dairy herd is expected in Germany, the Benelux, the Iberian Peninsula and Poland. The effect of Blue Tongue Disease (BTD) on cow fertility, and thus on rebuilding the EU cattle stock is yet unclear. Expansion of the herd is mainly a result of farmers holding to their cattle, mostly dairy cows, but also young calves and heifers destined for dairy production. In Romania and Bulgaria (NMS-2), restructuring of the dairy sector was accelerated by the dry summer period and high feed costs. This increased slaughtering in the NMS-2 by 100,000 head, and reduced the dairy herd by 50,000 head. The total EU beef cattle herd is expected to have recovered slightly 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 is expected to expand in France, the Benelux and the NMS. Cattle exports were hampered by BTD and the high domestic milk and carcass prices. The reduction in cattle loss results from the end of the removal of older cattle under the Over Thirty Month Scheme in the UK (see GAIN Report E47060).



### 2008 In the NMS, the dairy and beef sector is forecast to revive

During 2008, shrinking of the cattle herd is expected to continue. But the pace of contraction is anticipated to slow down further. Calf production is forecast to recover in the NMS. This recovery 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 will force some Polish farmers to switch to cattle fattening. BTD and the high domestic cattle and milk prices are anticipated to have a continuous negative effect on cattle exports throughout 2008.

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

|                | 2006  | 2007  | 2008  |
|----------------|-------|-------|-------|
| France         | 6,355 | 6,392 | 6,370 |
| Germany        | 4,304 | 4,280 | 4,270 |
| United Kingdom | 2,893 | 2,847 | 2,817 |
| Italy          | 2,650 | 2,550 | 2,520 |
| Benelux        | 2,286 | 2,260 | 2,260 |

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

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

|                | 2006  | 2007  | 2008  |
|----------------|-------|-------|-------|
| France         | 5,106 | 5,070 | 5,100 |
| Italy          | 4,054 | 3,900 | 3,850 |
| Germany        | 3,807 | 3,750 | 3,690 |
| Benelux        | 2,768 | 2,770 | 2,770 |
| United Kingdom | 2,593 | 2,614 | 2,630 |

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

|          | 2006 | 2007 | 2008 |
|----------|------|------|------|
| Romania  | 157  | 90   | 70   |
| Germany  | 46   | 50   | 60   |
| Poland   | 62   | 59   | 55   |
| Bulgaria | 66   | 66   | 40   |
| Hungary  | 45   | 38   | 40   |

## Beef

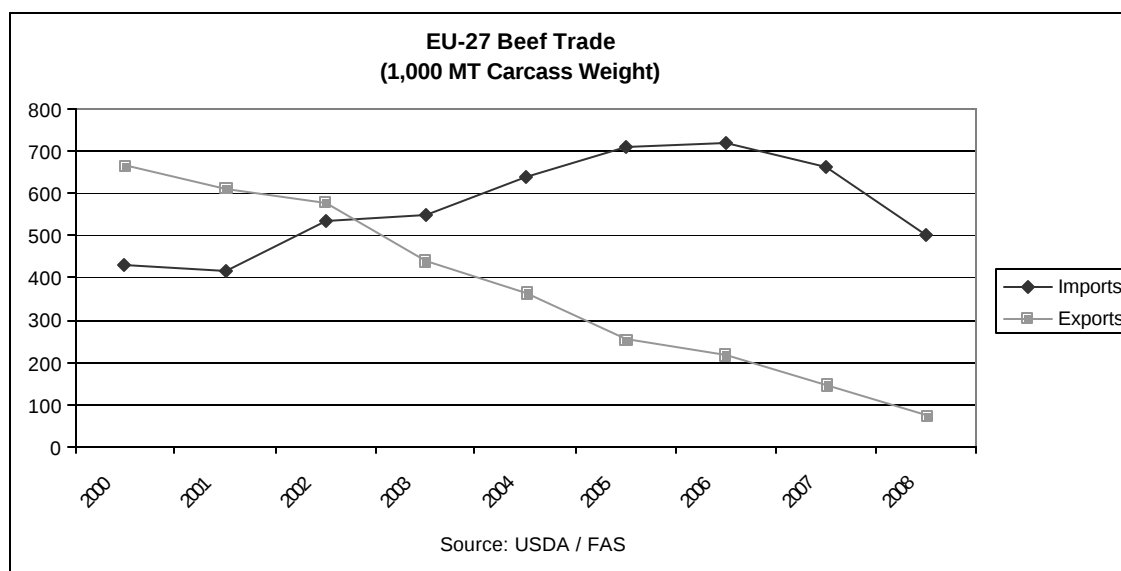
| Country               | EU-27                                          |                         |                       |                         |                       |                         |
|-----------------------|------------------------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Commodity             | Meat, Beef and Veal (1,000 Head) (1,000 MT CW) |                         |                       |                         |                       |                         |
|                       | 2006                                           |                         | 2007                  |                         | 2008                  |                         |
|                       | USDA Official [EU-27]                          | Posts estimates [EU-27] | USDA Official [EU-27] | Posts estimates [EU-27] | USDA Official [EU-27] | Posts estimates [EU-27] |
| Slaughter (Reference) | 28,897                                         | 29,270                  | 28,700                | 29,050                  | 28,350                | 29,000                  |
| Beginning Stocks      | 0                                              | 0                       | 0                     | 0                       | 0                     | 0                       |
| Production            | 8,060                                          | 8,150                   | 8,000                 | 8,175                   | 7,900                 | 8,125                   |
| Extra EU27 imports    | 717                                            | 717                     | 725                   | 660                     | 750                   | 500                     |
| TOTAL SUPPLY          | 8,777                                          | 8,867                   | 8,725                 | 8,835                   | 8,650                 | 8,625                   |
| Extra EU27 Exports    | 216                                            | 219                     | 175                   | 145                     | 175                   | 75                      |
| TOTAL Domestic Use    | 8,561                                          | 8,648                   | 8,550                 | 8,690                   | 8,475                 | 8,550                   |
| Ending Stocks         | 0                                              | 0                       | 0                     | 0                       | 0                     | 0                       |
| TOTAL DISTRIBUTION    | 8,777                                          | 8,867                   | 8,725                 | 8,835                   | 8,650                 | 8,625                   |

Source: EU FAS Offices

2007 The EU enlargement cut out 120,000 MT of beef imports in the NMS-2

In 2007, EU beef production is expected to have increased marginally. This temporary recovery is a consequence of increased slaughter weight in 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 addition, German farmers held cattle longer in expectation of better prices. 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 temporary upturn in production only partly relieved the tight supply in the EU. The EU-25 increased imports by about 80,000 MT, but this was offset by the cutback of about 120,000 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 were reduced from 533,000 MT in 2006 to about 445,000 MT in 2007 (see table below). 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. EU beef exports to Russia were reduced by more than half, and were replaced by Brazilian beef. Beef consumption rose slightly in those European markets that experienced an increased availability and moderate domestic prices, mainly in France and the UK.



#### 2008 Unsecure import supply could further tighten domestic availability of beef

In line with reduced slaughtering, EU beef production is expected to decline after the temporary recovery in 2007. In the Annual Report (E47060), imports of mainly South-American beef were forecast to further increase, despite ongoing EC traceability and FMD concerns in the Brazilian beef export sector. At the moment, however, the Food and Veterinary Office (FVO) and the Government of Brazil (GOB) are in dialogue about the number of farms, that produce conform to EU requirements (see Policy Section of the report). In 2007, about 6,780 Brazilian farms were eligible to produce beef for the EU market. If in 2008, only about 100 to 700 farms regain their eligibility to produce for the EU market, European importers believe that Brazilian beef exports to the EU in 2008 will only be a fraction of the trade volume reached in 2007. But even if the FVO will relist all farms, importers expect the trade will not catch up with the volume reached in 2007. This assumption is partly based on the drop off in demand, which importers experienced as prices surged during the first two months of 2008. Following both scenarios, imports of fresh and frozen products, representing predominantly prime boneless cuts will be restricted. Imports of processed Brazilian beef are anticipated to increase only marginally (see also GAIN Report BR8605). Importers report that none of these beef products can be supplied by another producer in a sufficient volume. In anticipation of the decision of the FVO, importers roughly tripled their monthly import volume of frozen beef during January 2008. They reportedly sell this beef with good margins. Due to the limited availability of beef, and thus high domestic

prices, EU beef exports are forecast to decline further (see also GAIN Report NL7032). In addition, the elevated 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.

| <b>EU imports of Brazilian beef<br/>(1,000 MT Carcass Weight)</b> |               |               |               |
|-------------------------------------------------------------------|---------------|---------------|---------------|
|                                                                   | <b>2005 *</b> | <b>2006 *</b> | <b>2007 *</b> |
| Fresh Beef                                                        | 109           | 104           | 115           |
| Frozen Beef                                                       | 232           | 266           | 144           |
| Processed Beef                                                    | 154           | 163           | 186           |
| <b>Total Beef Imports</b>                                         | <b>495</b>    | <b>533</b>    | <b>445</b>    |

\*Including Romania and Bulgaria

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

|                | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|----------------|-------------|-------------|-------------|
| France         | 1,475       | 1,510       | 1,520       |
| Germany        | 1,193       | 1,190       | 1,170       |
| Italy          | 1,111       | 1,065       | 1,050       |
| United Kingdom | 847         | 882         | 870         |
| Spain          | 670         | 665         | 665         |

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

|                | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|----------------|-------------|-------------|-------------|
| France         | 1,606       | 1,639       | 1,646       |
| Italy          | 1,598       | 1,585       | 1,600       |
| United Kingdom | 1,367       | 1,369       | 1,345       |
| Germany        | 923         | 935         | 935         |
| Spain          | 650         | 670         | 680         |

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

|         | <b>2006</b> | <b>2007</b> | <b>2008</b> |
|---------|-------------|-------------|-------------|
| 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<br>official<br>[EU-27]        | Posts<br>estimates<br>[EU-27] | USDA<br>official<br>[EU-27] | Posts<br>estimates<br>[EU-27] | USDA<br>official<br>[EU-27] | Posts<br>estimates<br>[EU-27] |
| Market Year Begin         | 2006                               |                               | 2007                        |                               | 2008                        |                               |
| TOTAL Beginning Stocks    | 157,364                            | 159,115                       | 159,887                     | 161,526                       | 159,900                     | 160,000                       |
| Sow Beginning Stocks      | 15,302                             | 15,452                        | 15,411                      | 15,525                        | 15,300                      | 15,100                        |
| Production (Pig Crop)     | 258,740                            | 259,158                       | 260,500                     | 262,000                       | 258,850                     | 260,000                       |
| Extra EU27 imports        | 6                                  | 6                             | 1                           | 1                             | 1                           | 1                             |
| <b>TOTAL SUPPLY</b>       | <b>416,110</b>                     | <b>418,279</b>                | <b>420,388</b>              | <b>423,527</b>                | <b>418,751</b>              | <b>420,001</b>                |
| Extra EU27 exports        | 968                                | 968                           | 1,100                       | 1,000                         | 1,100                       | 1,000                         |
| Sow Slaughter             | 3,463                              | 3,463                         | 3,540                       | 3,580                         | 3,520                       | 3,520                         |
| Total Slaughter           | 246,620                            | 247,203                       | 250,745                     | 254,000                       | 249,250                     | 251,900                       |
| Loss                      | 8,635                              | 8,582                         | 8,643                       | 8,527                         | 8,601                       | 8,601                         |
| Ending Inventories        | 159,887                            | 161,526                       | 159,900                     | 160,000                       | 159,800                     | 158,500                       |
| <b>TOTAL DISTRIBUTION</b> | <b>416,110</b>                     | <b>418,279</b>                | <b>420,388</b>              | <b>423,527</b>                | <b>418,751</b>              | <b>420,001</b>                |

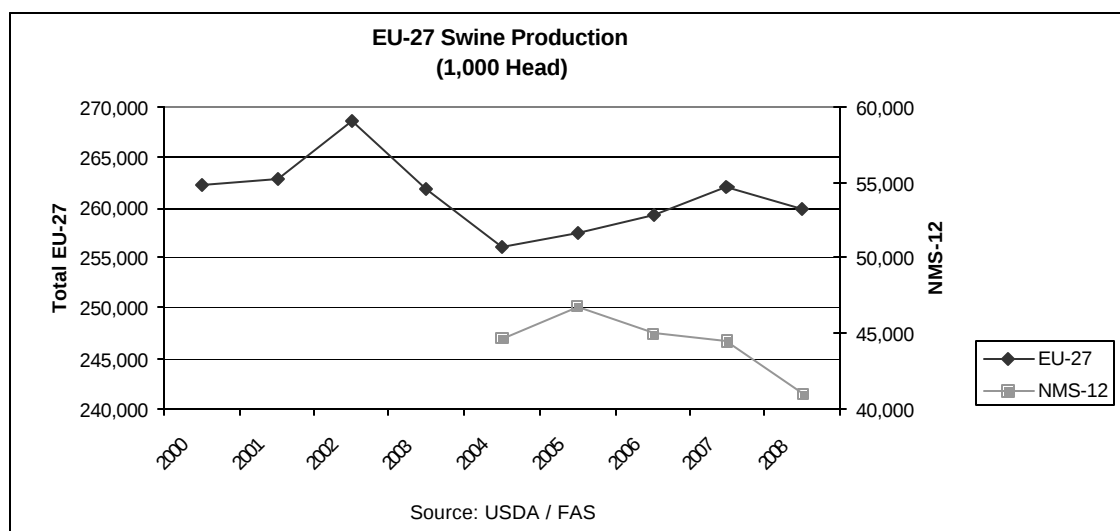
Source: EU FAS Offices. 2006 Stock and slaughter numbers were updated with official Eurostat census figures.

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

As anticipated in the Annual Report (E47060), profitable pig market conditions in 2006 were stimulating further pig production increases in 2007. Increased production was reported throughout the EU, with the most significant increases in Denmark and Germany. While pig production increased by one percent, slaughtering increased by nearly three 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. Margins on breeding were also cut down due to the oversupply of piglets, which reduced the market price for piglets far below the 5-year average. As a consequence, sow numbers fell from 15.5 million to 15.1 million head. Total swine ending inventories are estimated to be cut down by 1.5 million head to about 160 million head.

### 2008 Production recovery anticipated in Northwestern Europe

As forecast in the Annual Report, EU pig production is anticipated to fall during 2008 due to small or even negative margins on pig farming (see graph below). Production cuts will be less significant in Northwestern Europe. German and Benelux pig farmers who have invested in new facilities have to continue producing in order to ensure cash flow. Danish farmers even plan to produce more in the hope to outcompete other farmers in the EU. This is possible as the EU internal pork market is still protected from producers outside the EU by quotas and tariffs. The most significant cut in production is anticipated in the NMS (see graph below), where the restructuring of the intensive pig sector has not been finalized yet, and has thus not reached the level of competitiveness of the pig farms in Northwestern Europe. The sector in Northwestern Europe considers the NMS as a growth market for both pork and piglets.



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

|         | 2006   | 2007   | 2008   |
|---------|--------|--------|--------|
| Germany | 44,217 | 45,670 | 45,300 |
| Spain   | 39,515 | 39,574 | 40,692 |
| Benelux | 33,450 | 33,800 | 32,700 |
| Denmark | 26,926 | 28,880 | 29,500 |
| Poland  | 26,200 | 25,400 | 22,700 |

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

|         | 2006   | 2007   | 2008   |
|---------|--------|--------|--------|
| Germany | 50,113 | 53,000 | 52,900 |
| Spain   | 43,292 | 41,290 | 39,500 |
| France  | 24,960 | 25,250 | 24,900 |
| Benelux | 24,768 | 25,150 | 24,800 |
| Poland  | 24,686 | 25,300 | 22,200 |

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

|           | 2006 | 2007 | 2008 |
|-----------|------|------|------|
| Benelux   | 384  | 400  | 500  |
| Germany   | 157  | 140  | 130  |
| Poland    | 227  | 60   | 100  |
| Lithuania | 44   | 120  | 80   |
| Austria   | 69   | 74   | 73   |

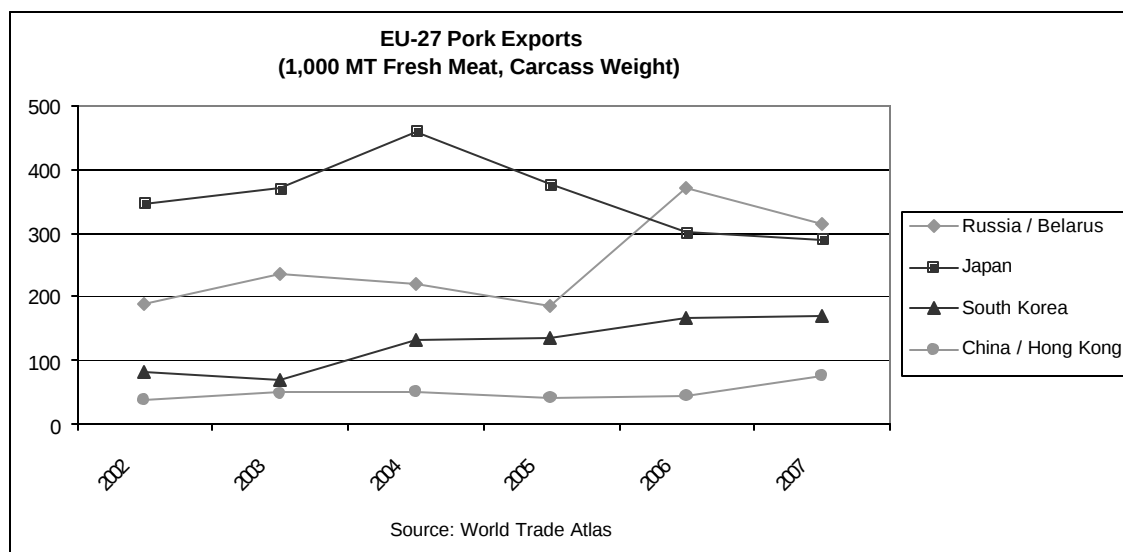
## Pork

| Country                   | EU-27                              |                            |                          |                            |                          |                            |
|---------------------------|------------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| Commodity                 | Pigmeat (1,000 MT CWE)(1,000 Head) |                            |                          |                            |                          |                            |
|                           | USDA Official<br>[EU-27]           | Posts estimates<br>[EU-27] | USDA Official<br>[EU-27] | Posts estimates<br>[EU-27] | USDA Official<br>[EU-27] | Posts estimates<br>[EU-27] |
| Market Year Begin         | 2006                               |                            | 2007                     |                            | 2008                     |                            |
| Slaughter (Reference)     | 246,620                            | 247,203                    | 250,745                  | 254,000                    | 249,250                  | 251,900                    |
| Beginning Stocks          | 0                                  | 0                          | 0                        | 0                          | 0                        | 95                         |
| Production                | 21,677                             | 21,791                     | 22,040                   | 22,600                     | 21,910                   | 22,500                     |
| Extra EU27 imports        | 124                                | 124                        | 20                       | 35                         | 20                       | 20                         |
| <b>TOTAL SUPPLY</b>       | <b>21,801</b>                      | <b>21,915</b>              | <b>22,060</b>            | <b>22,635</b>              | <b>21,930</b>            | <b>22,615</b>              |
| Extra EU27 exports        | 1,283                              | 1,283                      | 1,270                    | 1,300                      | 1,130                    | 1,320                      |
| TOTAL Domestic Use        | 20,518                             | 20,632                     | 20,790                   | 21,240                     | 20,800                   | 21,295                     |
| Ending Stocks             | 0                                  | 0                          | 0                        | 95                         | 0                        | 0                          |
| <b>TOTAL DISTRIBUTION</b> | <b>21,801</b>                      | <b>21,915</b>              | <b>22,060</b>            | <b>22,635</b>              | <b>1,130</b>             | <b>22,615</b>              |

Source: EU FAS Offices. 2006 Pork production number was updated with official Eurostat census figure.

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

In 2007, pork production increased due to increased slaughtering and an increase in slaughter weight. This increase in slaughter weight is partly a trend but is also a result of restricted slaughtering in the UK due to FMD related measures, and the burn down of two slaughter plants and strikes in Denmark. The increased supply of pork was somewhat 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). EU pork exports to other Asian markets increased, in particular to China. In order to support the EU pork sector, the European Commission (EC) opened a Private Storage Aid (PSA) scheme, and increased export refunds for pork in November 2007 (see GAIN Report E47104). The pork consumption figure in this report is inflated due to increased commercial stocks.



2008 EU pork exports to Russia are expected to recover

In 2008, pork production is anticipated to decline in line with lower slaughter numbers. EU pork exports to Russia are expected to recover as Russia lifted the ban on Polish meat on December 19, 2007, which had been in place since November 2005. EU pork exports to other markets are not expected to grow significantly. The Chinese government announced plans to lift the import ban on German pork that was installed in response to a currently eradicated classical swine fever outbreak (see GAIN Report GM8010). Danish producers signed export agreements with Chinese buyers; Danish producers regard China as a growth market for by-products as well as for regular cuts. But it is anticipated that EU pork exports will benefit from these agreements at the earliest during the last quarter of 2008. EU producers are increasingly focusing on the domestic market, in particular the market in the NMS, where pork production is expected to fall. The PSA stocks are expected to be released during the summer, when pork prices seasonally increase. Despite the release of these stocks, pork prices are expected to increase above the average level of 2007 as total pork supply will be limited on the EU market.

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

|         | 2006  | 2007  | 2008  |
|---------|-------|-------|-------|
| Germany | 4,662 | 4,950 | 4,940 |
| Spain   | 3,230 | 3,327 | 3,200 |
| Benelux | 2,281 | 2,336 | 2,290 |
| France  | 2,010 | 2,035 | 2,015 |
| Poland  | 1,800 | 1,850 | 1,650 |

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

|         | 2006  | 2007  | 2008  |
|---------|-------|-------|-------|
| Germany | 4,633 | 4,690 | 4,700 |
| Italy   | 2,603 | 2,690 | 2,725 |
| Spain   | 2,535 | 2,582 | 2,625 |
| France  | 1,881 | 1,917 | 1,891 |
| Poland  | 1,710 | 1,802 | 1,650 |

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

|         | 2006 | 2007 | 2008 |
|---------|------|------|------|
| Denmark | 571  | 549  | 550  |
| Benelux | 149  | 167  | 157  |
| France  | 109  | 114  | 120  |
| Germany | 107  | 115  | 115  |
| Poland  | 92   | 51   | 80   |

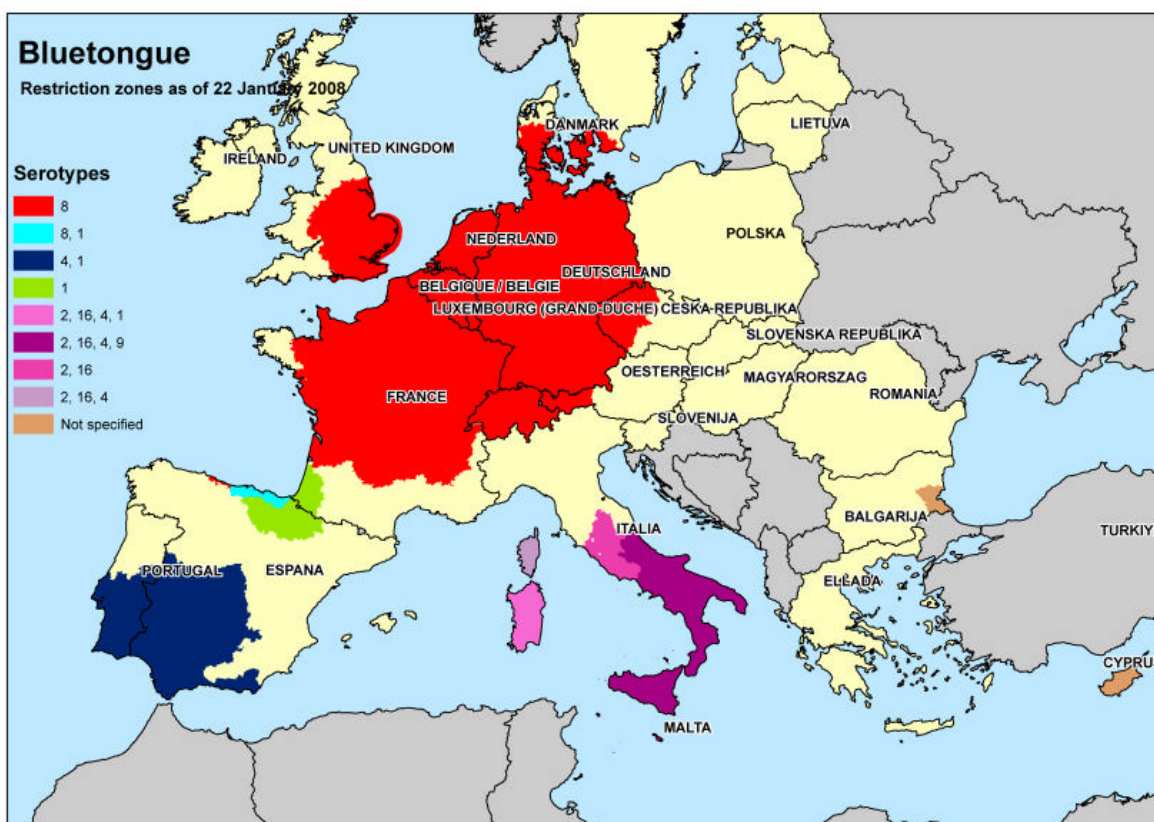
## Policy

### Cattle and Beef

#### Trade dispute between Brazil and the EC

On December 19, 2007, the Standing Committee on the Food Chain and Animal Health (SCFCAH) approved a Commission Decision that imposes stricter traceability requirements for Brazilian beef exports to the EU (see GAIN Report E47112). On January 31, 2008, the EC imposed these requirements, which in practice banned Brazilian beef from the EU market (see GAIN Report E48016). At the moment, the European Food and Veterinary Office (FVO) and the Government of Brazil (GOB) are in negotiation about the number of farms that produce in conformance to the new EU requirements. On February 27, 2008, the FVO reportedly relisted about 100 farms as being eligible to produce for the EU market. This is only a fraction of the 6,780 Brazilian farms which were certified during 2007. The general expectation of the trade is that the FVO will relist in total about 700 farms during 2007.

#### Bluetongue situation and impacts



Source: DGSANCO<sup>1</sup>

Blue Tongue Disease (BTD) serotype 8 (see red zone in map above) has rapidly expanded in all directions during 2007. The EU sector hopes that vaccination of all susceptible animals in all infected Member States (MS) will allow bringing the disease under control in 2008. However, it seems that this strategy is questioned in some MS, even if the European Commission (EC) would agree to refund the purchase of the vaccine. The fear is that, if vaccination is not comprehensive, the disease will spread further. Experts also fear that the

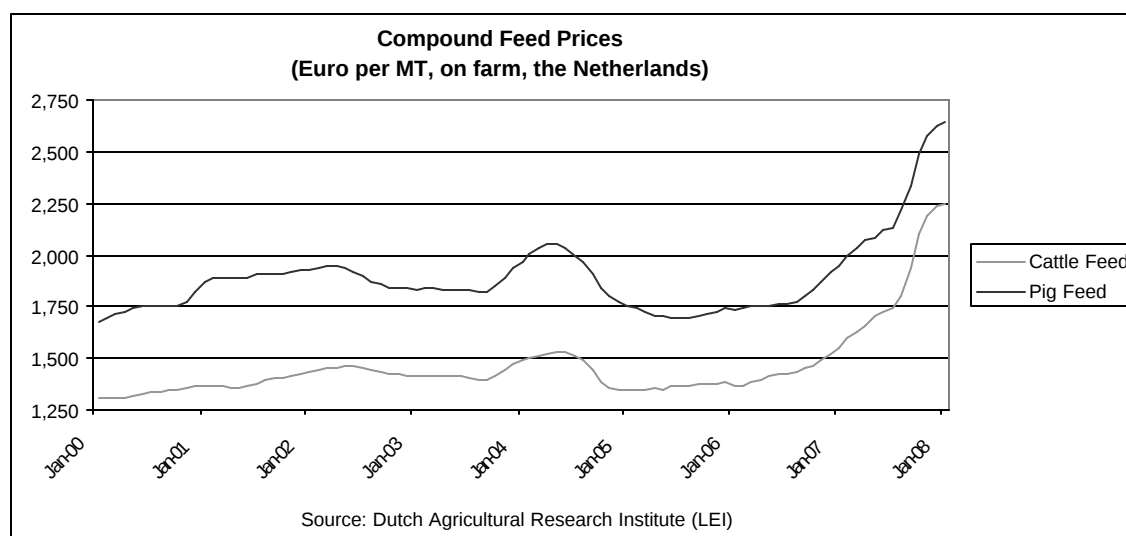
virus might mutate as it starts to commingle with other virus types, as is occurring in the northern part of Spain. Opinions on the actual impact of BTB on cattle fertility and mortality rates, and hence beef and milk production, vary as little statistics are available yet. The damage consists of reduced growth, milk production and cow fertility, increased mortality, and cattle trade impediments. It is generally judged that on the longer term, decreased cow fertility will have a stronger impact on beef and milk production than increased cow mortality rates.

## Swine and Pork

### Market intervention decisions of the European Commission (EC)

In 2007, the EC decided to intervene in the market to support EU pork producers, although it was especially pig breeders who were hardest hit by decreasing piglet prices. At the start of November 2007, a Private Storage Aid (PSA) scheme for 100,000 MT of pork was opened. Within one month, this amount was filled without any notable impact on EU pork prices. At the end of November, the EC decided to replace the PSA by providing export subsidies as a temporary support measure (see GAIN Report E47104). By the end of January, 2008, about 100,000 MT of pork left the EU market with the help of export subsidies. This led to a slight increase in EU pork prices in December 2007. The PSA stocks are expected to be released during the spring of 2008. If the release of the PSA stocks will add further downward pressure on EU pork prices, the EC may be forced to continue the export subsidies much longer than originally intended.

### Impact of GMO policy on feed costs and pig farming



During 2007, feed costs for pig and cattle farming increased by a third (see graph above). This occurred after EU grain intervention stocks ran empty at the end of the marketing year of 2006 and new harvests remained below average yields in large parts of the world. As a result, this situation is bound to continue at least until the 2008 harvest in the Northern hemisphere. However, another factor is increasingly putting the EU pig and poultry farming at a competitive disadvantage. As the world acreage planted with genetically modified (GM) crops expands and the discrepancy between GM crops approved in the EU and in other countries increases, the EU intensive-livestock sector encounters more problems to source adequate levels of EU approved or GM-free feedstock. The premium for these commodities over GM-based commodities is hence increasing.

## Animal Health situation

The EU pork sector has been mostly spared from major disease outbreaks in 2007, except for Romania where Classical Swine Fever (CSF) led to closures of major pig farms. Pig and pork exports from Bulgaria and Romania were already banned before their accession at the beginning of 2007. Regular outbreaks of CSF in wild boar populations in several EU MS, one of which is Germany, prove that the EU has every reason to remain vigilant concerning this highly infectious disease. The incident with Foot and Mouth Disease (FMD) in the UK also shows that this disease should still be considered a threat for EU pig production as well. Recent outbreaks of Postweaning Multisystemic Wasting Syndrome (PMWS) in Scandinavian countries may also create new difficulties for EU pig farmers and veterinarians (see GAIN FI8001).

Related reports from FAS Post in the European Union:

| Country     | Title                                                                      | Date     | Report Number |
|-------------|----------------------------------------------------------------------------|----------|---------------|
| 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       | 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 reinstituted                                 | 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        |
| 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        |
| UK          | UK Foot and Mouth Update 2                                                 | 08/10/07 | UK7019        |
| UK          | UK Foot & Mouth Disease update                                             | 08/13/07 | UK7018        |
| 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        |
| 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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<http://www.fas.usda.gov/scripts/attacherep/default.asp>

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