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Report Highlights:

Continued imports of salted poultrymeat from Brazil and Thailand could turn the EU into a net poultrymeat importer over the next few years.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Introduction	1
Executive Summary	2
CHICKEN	3
TURKEY	5
POLICY	7
EU Budget	7
Export Refunds	7
Double Profit Agreements	7
Imports of Salted Poultry	7
Medroxyprogesteron Acetate (MPA)	8
Animal By-products (legislative proposal)	8
Zoonoses (legislative proposal)	8
Food Hygiene (legislative proposal)	9
Feed	10

Introduction

This report reflects activities and issues for the entire EU-15. Actively contributing to this report:

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Executive Summary

EU chicken and turkey production diminished in 2002 as the effect of the BSE crisis on poultry consumption faded. Production of chicken and turkey is expected to stabilize in 2003.

Imports of salted poultrymeat continue to grow in 2002 and it is expected that the Commission's decision to reclassify this product as frozen poultrymeat (see policy) will only have a limited impact on import levels as of September 2002. Furthermore, imports from CEECs (Poland, Hungary, the Czech Republic, Romania, Bulgaria, Slovenia, Slovakia, Estonia, Latvia and Lithuania) will be boosted by double zero agreements in 2003.

Exports of chicken and turkey resumed in 2002 after most third countries lifted their FMD-related bans on EU poultry. However, Saudi Arabia is still blocking imports of mainly French poultry because of suspicions of MPA residues (see policy). The European Commission increased export refunds several times in 2002 in order to compete in world markets. Exports are expected to stagnate in 2003.

Total use increased in 2003 due to slightly growing consumption. However, the increase is mainly due to large commercial storage in the hope of better prices and resumed exports. Total use is forecast to stabilize in 2003.

On the policy front, the EU poultry sector has been affected by continued imports of salted poultrymeat and by the MPA (medroxyprogesteron acetate) crisis. Several legislative proposals could modify the future of the sector: the animal by-products proposal could help lift the MBM ban for poultry but also hinder imports of U.S. petfood, as fallen poultry stock would no longer be authorized as a petfood ingredient. The zoonoses proposal is aiming to reduce salmonella and, along with the food hygiene proposals, could open the door to poultry decontamination.

CHICKEN

PSD Table						
Country	European Union					
Commodity	Poultry, Meat, Total	Meat, Chicken-16wks			(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	48	0	48
Slaughter (Reference)	0	0	0	570	0	580
Beginning Stocks	0	0	0	0	0	0
Production	6822	6822	6970	6750	0	6760
Whole, Imports	350	350	380	0	0	0
Parts, Imports	0	0	0	783	0	800
Total extra-EU imports	350	350	380	783	0	800
TOTAL SUPPLY	7172	7172	7350	7533	0	7560
Whole, Exports	200	200	675	160	0	180
Parts, Exports	499	499	0	510	0	520
Total extra-EU exports	699	699	675	670	0	700
TOTAL Use	6473	6473	6675	6863	0	6860
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	7172	7172	7350	7533	0	7560

Source: EU FAS offices

Beginning and ending stocks exclude commercial storage. In 2002, imports and exports include salted poultrymeat (CN/HS code 0210) which are essential in reflecting a realistic picture of the EU chicken sector. In 2003, salted poultrymeat will be reclassified by the European Commission as CN/HS code 0207 14.

After a considerable poultry consumption boost in 2001 following the BSE crisis, EU chicken production is slowing down in 2002, as most EU consumers return to beef. Many EU chicken producers probably overestimated the length of the BSE crisis. This led to oversupplies resulting in low prices in the first half of 2002. Furthermore, export prospects seem shaky, in particular for whole birds, and imports continue to surge. Production levels are likely to stabilize in 2003, in line with stable exports, stable imports and stable consumption. The overall stagnation in production hides marginal increases in the UK and Germany which are due to higher consumption and good export opportunities.

Imports of salted poultrymeat from Brazil and Thailand continued to grow in 2002, taking advantage of a duty discrepancy in import regulations between salted and frozen product. In June 2002, the Commission reclassified some of the salted poultrymeat as frozen poultrymeat, thereby imposing higher import duties. It is however assumed that the reclassification will probably stabilize imports, but will be insufficient to reduce them. Furthermore, double zero agreements should contribute to increasing imports from the ten Central and Eastern European countries (CEECs: Poland, Hungary, the Czech Republic, Romania, Bulgaria, Slovakia, Slovenia, Estonia, Latvia and Lithuania).

Exports of EU chicken decreased slightly in 2002, in spite of sky-high export refunds on whole chickens. Saudi Arabia, the main destination for French whole birds, banned imports as of August 1, because of the MPA crisis (see policy). As a result, trade was quickly overtaken by Brazilian exporters. EU chicken (mostly from Germany) only took over a small degree of U.S. exports when entry of U.S. poultry products was restricted in Russia. Exports are forecast to increase slightly in 2003, as the Saudi ban on EU chicken is likely to be lifted, although large shares of this market will be lost to world competitors. In the European Commission's long-term forecasts published in July 2002, the EU sees itself becoming a net importer of poultrymeat over the next few years.

Total chicken use increased in 2002, partly because of consumption which returns to its traditional slow growth pattern. Increased use is attributed to higher commercial stocks due to export difficulties and massive imports. Total use is likely to stabilize in 2003, as consumption increases slightly. Commercial stocks will benefit from expected better prices and improved export opportunities.

TURKEY

PSD Table						
Country	European Union					
Commodity	Poultry, Meat, Total	Turkey			(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	1.4	0	1.4
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	1777	1777	1780	1750	0	1755
Whole, Imports	65	65	65	2	0	2
Parts, Imports	0	0	0	119	0	118
Total extra-EU imports	65	65	65	121	0	120
TOTAL SUPPLY	1842	1842	1845	1871	0	1875
Whole, Exports	326	326	315	5	0	5
Parts, Exports	0	0	0	345	0	350
Total extra-EU exports	326	326	315	350	0	355
TOTAL Use	1516	1516	1530	1521	0	1520
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1842	1842	1845	1871	0	1875

Source: EU FAS offices

Beginning and ending stocks exclude commercial storage. In 2002, imports and exports include salted poultrymeat (CN/HS code 0210) which are essential in reflecting a realistic picture of the EU turkey sector. In 2003, salted poultrymeat will be reclassified by the European Commission as CN/HS code 0207 14.

Overall EU turkey production decreased in 2002, following overproduction in 2001 in France and Italy. This is a result of the effects of the BSE crisis. The loss in head is even larger, as slaughter weights increased due to sluggish demand. However, Germany pursued its traditional expansion trend in 2002. EU turkey production is expected to increase slightly in 2003, due to good consumption levels forecast in Germany.

As with chicken, turkey imports are surging, due to massive entries of salted products from Brazil and Thailand. Both countries are taking advantage of a duty discrepancy in import regulations between salted and frozen product. In June 2002, the Commission reclassified some of this salted poultrymeat as frozen poultrymeat, thereby imposing higher import duties. It is, however assumed that the reclassification will probably stabilize imports, but will be insufficient to reduce them. Furthermore, double zero agreements should contribute to increasing imports from the ten Central and Eastern European countries (CEECs).

Exports from Germany and France, mainly to Russia and sub-Saharan African countries, grew in 2002 and are expected to stabilize in 2003. Exports are, for the most part, made up of mechanically recovered meat at very low prices.

After the big consumption boost of 2001 due to the BSE crisis, consumption grew slightly in 2002, in line with population growth, and is expected to stagnate in 2003.

POLICY

U.S.-EU Trade

Until April 1, 1997, U.S. poultry exports to the EU were valued at \$50 million annually. In 1997, the European Union harmonized its legislation of hygiene requirements for meat imports and extended its domestic ban on antimicrobial treatments to poultry imports. Subsequently, FSIS suspended the issuance of export certificates for U.S. poultry because the U.S. use of chlorine did not comply with EU requirements. As a result, U.S. exports of poultry to the EU fell to zero, however small quantities of poultry are still imported from the U.S. for processing into petfood.

In July 1999 the Veterinary Equivalency Agreement between the European Union and the United States was signed and entered into force in August 1999. The Agreement includes equivalence on sanitary measures regarding poultry inspection and production, with the aim of narrowing the gap between the two sets of regulations. However, EU restrictions on use of anti-microbial treatments for poultry remain a problem.

It is feared that the EU restrictions on anti-microbial treatment will soon affect U.S. exports to Eastern Europe once they become EU member states, possibly as early as 2004.

EU Budget

The poultry sector budget has increased to 80 million euros in the 2003 draft preliminary budget, compared to 55 million euro in 2002. The poultry regime consists of export refunds exclusively. Although the volume of subsidized poultry exports remains unchanged (as it is restricted by GATT commitments), the restitutions level is increased given fierce pricing competition with world suppliers in Brazil and Thailand.

Export Refunds

For the 2001/02 GATT year, EU subsidized exports of poultry are expected to cover about 80 pct of the allowed quantities, or 230,380mt out of the 286,000mt allowed ceiling. Export refunds on whole birds were augmented several times from the end of 2001 and in September 2002 amounted to 44 euro/100kg to the Middle East and 59 euro/100kg to Russia. These successive increases are meant to improve EU poultry competitiveness towards large suppliers (such as Brazil and Thailand) in traditional EU markets (particularly the Middle East and Russia). However, this strategy

jeopardizes the basic rule which states that restitutions should never exceed import duties for the same product, in order to avoid a trade carousel.

Double Profit Agreements

In 2000, the European Union concluded double zero agreements with ten Central and Eastern European countries (Poland, Slovenia, Slovakia, Bulgaria, Romania, the Czech Republic, Hungary, Latvia, Lithuania, Estonia), which have applied for EU membership. Under these arrangements, about 75 pct of EU agricultural imports from these countries were able to enter the EU at zero duty while EU export possibilities to these countries at zero duty (and without export refunds) doubled. In January 2002, the European Commission started a new round of negotiations with a view to finalizing the liberalization of agricultural trade started with the double zero agreements before final accession. The "double profit agreements" with Hungary, Estonia, Latvia and Lithuania entered into force as of July 1, 2002. The double profit approach, i.e. the removal of all export refunds and import duties, affects cereals, dairy products (except non-Annex I products) and beef. The initiative foresees duty-free tariff quotas for EU exports, based on 2 pct of each candidate's consumption of the product concerned. Similarly, for CEECs' exports to the EU, candidates would be given a weighted share of 2 pct of the EU's consumption, on the basis of export history and current production. Pig and poultry trade was already largely liberalized under double zero agreements.

Imports of Salted Poultry

EU imports of lightly salted frozen poultrymeat from Brazil and Thailand soared in 2001 and continued to increase this year. Import levels for that product category went from 3,000mt in 1996 to around 400,000mt in 2001. The surge is due to the lower import duty for salted product (15 pct) relative to non-salted (30 pct). In order to fight booming imports of poultrymeat, the European Commission decided to reclassify the product into a different CN (Combined Nomenclature) category, arguing that the specific product was primarily a frozen product before being a salted product. The reclassification was notified in July 2002 through Commission Regulation 1223/2002. Binding tariff information issued by member states remained valid for 3 months so a decrease in imports following this reclassification is unlikely to take place before 2003.

Medroxyprogesteron Acetate (MPA)

In May 2002, abnormalities in the reproductive behavior of pigs were detected at a Dutch breeding farm. In June, the Dutch Ministry of Agriculture stated that traces of MPA, a hormone replacement drug, had been found in a number of sows. This MPA was traced back to the fraudulent manufacture of feed and soft drinks using glucose syrup from pharmaceutical waste. The contaminated syrup was made in Belgium and exported to at least 11 countries in feed. EU authorities have mandated all member states to trace, recall and destroy all potentially contaminated feed. All establishments which received potentially contaminated feed are to be put under surveillance and increase testing to ensure that products placed on the market do not constitute a public health risk. Farms are allowed to begin exports seven days after the last tainted feed has been detected and destroyed, but producers are faced with a lot of reluctance from their usual customers inside and outside the EU. For instance, Saudi Arabia has decided in August 2002 to ban all imports of EU poultry.

Animal By-products (legislative proposal)

The proposed regulation on animal by-products laying down health rules concerning animal by-products not intended for human consumption was released in November 2000. The proposal, based on several opinions from the Scientific Steering Committee, establishes which animal by-products can be used as ingredients in feed. The only raw material allowed to be used for the production of animal feed would then be material derived from animals declared fit for human consumption following inspection. To achieve this, rules are laid down to collect, transport, store, handle, process and use or dispose of animal by-products in order to prevent these products from presenting a risk to animal or public health. The placing on the market, trade and import of animal by-products is also defined. It institutes the basic requirements that all animal by-products, whatever their final use may be, must be fit for human consumption.

This proposal was adopted through the co-decision procedure. Reconciliation between the Council and the European Parliament versions revolved around the ban on catering waste, which the European Parliament wanted to soften for environmental reasons. It was finally decided to give catering waste processors a four-year derogation from the ban on strict traceability and processing conditions. The animal by-products regulation was formally adopted by the European Parliament in September 2002 and will enter into force in 6 months.

U.S. authorities have serious concerns about the current proposal and its potential impact on imports from third countries. This proposal does not appear to identify hazards requiring these measures, which would make standards equivalence hard to establish. The exclusion of fallen stock from feed could affect U.S. exports of petfood to the EU, as the prohibition of cannibalism could make the four-year derogation on catering waste (which includes yellow grease), very difficult to implement.

Zoonoses (legislative proposal)

In August 2000 the Commission issued two proposals on zoonoses: (1) a Directive which would improve the prevention and control of zoonoses and (2) a Regulation on the control of salmonella and other food-borne zoonotic agents. These two proposals went through first reading at the European Parliament in May 2001. Contentious issues seem to revolve around the financial costs of the envisaged measures, the length of transition phases before implementation and the ambition of zoonoses reduction objectives.

The proposed Directive will lay down a system for monitoring certain zoonotic agents throughout the human food and animal feed chain. Member states and third countries exporting to the EU will be required to set up coordinated monitoring programs in order to establish baseline values for the level of most important zoonotic infections in each member state (including salmonella and campylobacter). These programs will be co-financed by the European Commission. Data will have to be collected on the incidence of zoonotic diseases in humans, on the occurrence of food-borne outbreaks and the monitoring of antimicrobial resistance in certain zoonotic agents.

The proposed Regulation sets up a framework for a salmonella reduction policy, especially in animal populations. Further extension to cover other pathogens would be possible, as well as control activities at the subsequent stages of the food chain. The proposal aims to reduce the public health burden caused by this specific agent, as over 150,000 human cases of salmonellosis are reported every year in the European Union. In its first reading, the EP tried to broaden the mandatory two serotypes of salmonella which should be tested for, to include all types of salmonella. It also strengthens the involvement of feed business operators in the salmonella control programs.

The original Commission proposal foresees that equivalent measures for the control of zoonoses must be implemented

in third countries exporting to the EU, without defining what equivalent measures could be.

Paradoxically enough, the fairly remote and still hypothetical establishment of stricter target levels for salmonella could open the door to processes now prohibited by the EU. Specifically, lower tolerance levels for salmonella could make decontamination of poultry products necessary. Currently the restriction on decontamination prevents U.S. poultry from being shipped to Europe. The extent and timing of a third country zoonoses monitoring plan is still undetermined.

Food Hygiene (legislative proposal)

In the summer of 2000, the EU Commission released new proposals to consolidate and standardize EU food safety legislation spread over 17 directives. After the first reading in May 2002, the two proposals will now be reviewed by the Council, who will issue a common position. The European Parliament will then re-examine the proposals in second reading. The proposals have been notified to the WTO in 2000 and the United States provided comments in November 2000 and additional comments in March 2001. Implementation of the legislation is expected in 2004 at the earliest.

Those regulations are introducing a "farm to fork" approach to food safety. The responsibility for producing safe food is now shared between all players in the food chain and government authorities. The hygiene legislation requires traceability of food and food ingredients and introduces Hazard Analysis Critical Control Point (HACCP) principles. Imports are required to comply with Community provisions, while exports have to meet at least Community standards and any other standards imposed by the receiving country.

In order to bring Community legislation into line with the principles of food hygiene laid down by the Codex Alimentarius, the hygiene proposals introduce HACCP principles. These principles, which would be mandatory for all operators of food establishments, prescribe a number of logical steps in order to allow, through hazard analysis, the identification of points where control is critical with regard to food safety. The principles contain an obligation to keep records of the checks carried out. Operators will have to design a specific monitoring program. All possible hazards must be identified and proper control procedures for every food establishment individually approved by member states and European regulatory authorities. Corrective action must be taken when controls show that problems may occur. This self-checking system is already applied in some parts of the food industry but is new to others. However, "flexibility", in other words derogations, is called for in both the Commission and the Parliament version and would be granted to traditional foods, foods produced in remote areas and small businesses by member states.

The food operator is now responsible for food hygiene. As with all recent legislation related to food, traceability is emphasized, including the mandatory registration of all food establishments, and the creation of adequate procedures to withdraw food from the market.

The possibility of decontaminating poultry carcasses in order to reduce hazards is envisaged in the proposal, even if Commission officials qualify the article not as a potential authorization of decontamination but more as a way to include hypothetical future developments. The provision foresees the procedure (Standing Committee on the Food Chain and Animal Health after consultation of the European Food Safety Authority) whereby decontaminants would be approved.

Feed

Feed and feed industry practices have been repeatedly pointed out after the dioxin, CSF and BSE crises, which resulted in a flurry of feed legislation proposals by the Commission within the framework of the food and feed law adopted in 2002 (Council Regulation 178/2002), which emphasizes traceability and safety of food and feed. In a nutshell, controls on feed were strengthened and contingency plans for feed emergencies were set up. Safeguard measures with respect to third countries exporting feed to the EU were initiated. Approval and reapproval procedures for feed additives were streamlined and a proposal was released to ban the four remaining antibiotics used as growth promoters. Dilution of contaminated feed with other feed materials was prohibited. Rules were established for maximum limits of undesirable substances in feed additives, and thresholds on the presence of undesirable substances that must trigger intervention by competent authorities. Catering waste was banned in pigswill and in the future in all feed (see animal by-products). GMO feed will have to be labeled even though meat from animals fed on GMO feed will not. The animal by-products legislation (see above) aims to prevent feed-borne food crises by prohibiting the recycling of fallen stock and condemned animal material in feed.

In the fall of 2002, the Commission should release a proposal imposing financial penalties or export restrictions on member states failing to enforce new controls on food and feed including automatic closure of plants in some cases and coordination of swift product recall systems. All feed producing establishments would have to be registered. The proposal also addresses the issue of the cost of import controls, proposing that the checks on all plant and animal product imports be paid by the exporter but that in the event of violations, the cost of destruction, storage or re-dispatching be met by the importer.

Beyond the obvious need to avoid future animal disease outbreaks, stricter feed requirements are presented by EU authorities as part and parcel of a general "quality" and ethics strategy to boost EU consumption and exports. They also have the potential to increase production costs for EU producers.

For more information please visit our website at <http://www.useu.be/agri/usda.html>.

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