

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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EU-27

Livestock and Products Semi-annual

Supply tightens, prices surge

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Report Highlights:

The limited number of animals available for slaughter returned the EU to being a net beef importer in 2012. This tight situation is expected to continue in 2013. EU pork production is also forecast to decline during 2012 and 2013. The new animal welfare regulations for sows have cut the breeding herd more significant than anticipated. In 2013, efficient swine production is expected to remain and forecast to benefit from elevated carcass prices and falling feed prices.

Executive Summary

Cattle & Beef - Beef supply remains tight as anticipated

The 2012 cattle slaughter is revised downward 400,000 head from the forecast in the Annual Report. The lower slaughter is mainly a result of the scarcity of animals, which effect has been underestimated in the Annual Report. In line with the revised slaughter numbers, beef production is expected to have been lower in 2012 than previously forecast. The continuing contraction of the cattle herd and limited domestic supply of beef on the market made the EU a net importer of beef in 2012, as it was in 2003 - 2010. In 2013, EU beef supply is expected to remain tight, which could further attract imports from primarily Brazil and the United States.

Swine & Pork - Stronger effect of husbandry regulations

Slaughter in 2011 and 2012 is revised downward based on updates of official statistics. The 2011, 2012 and 2013 pig crop is adjusted to a lower level accordingly. The 2013 pig crop is further revised downward as the effect of the new sow husbandry requirements were underestimated in the Annual Report. Regardless of the cut, the projection of a pig crop recovery in 2013 remains intact. The pig crop is forecast to pick up as a result of a higher breeding efficiency and improved margins for breeding and fattening. Slaughter is not expected to recover before 2014. The tight supply of pork will hamper a further expansion of exports in 2013.

Policy - Opportunities for beef exports to the EU

On February 25, 2013, the EC approved lactic acid as a pathogen reduction treatment (PRT) for beef. This measure will facilitate U.S. beef exports under the High Quality Beef (HQB) quota. In August 2012, the HQB quota increased from 20,000 MT to 48,200 MT.

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	2011		2012		2013	
Total Cattle Beg. Stocks	87,437	87,437	86,209	86,196	85,320	85,750
Dairy Cows Beg. Stocks	23,122	23,113	22,878	22,844	22,850	22,700
Beef Cows Beg. Stocks	12,306	12,348	12,180	12,161	12,040	11,975
Production (Calf Crop)	29,600	29,600	29,200	29,250	29,150	29,000
Extra EU27 imports	1	1	0	0	0	0
TOTAL SUPPLY	117,038	117,038	115,409	115,446	114,470	114,750
Extra EU27 exports	811	812	800	769	800	750
Cow Slaughter	11,872	11,785	11,675	11,600	11,600	11,550

Calf Slaughter	7,064	7,061	7,050	6,900	7,050	6,850
Total Slaughter	28,397	28,352	27,700	27,300	27,300	27,200
Loss	1,621	1,678	1,589	1,627	1,570	1,550
Ending Inventories	86,209	86,196	85,320	85,750	84,800	85,250
TOTAL DISTRIBUTION	117,038	117,038	115,409	115,446	114,470	114,750

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Scarcity of animals has affected slaughter; 2012 slaughter is revised downward

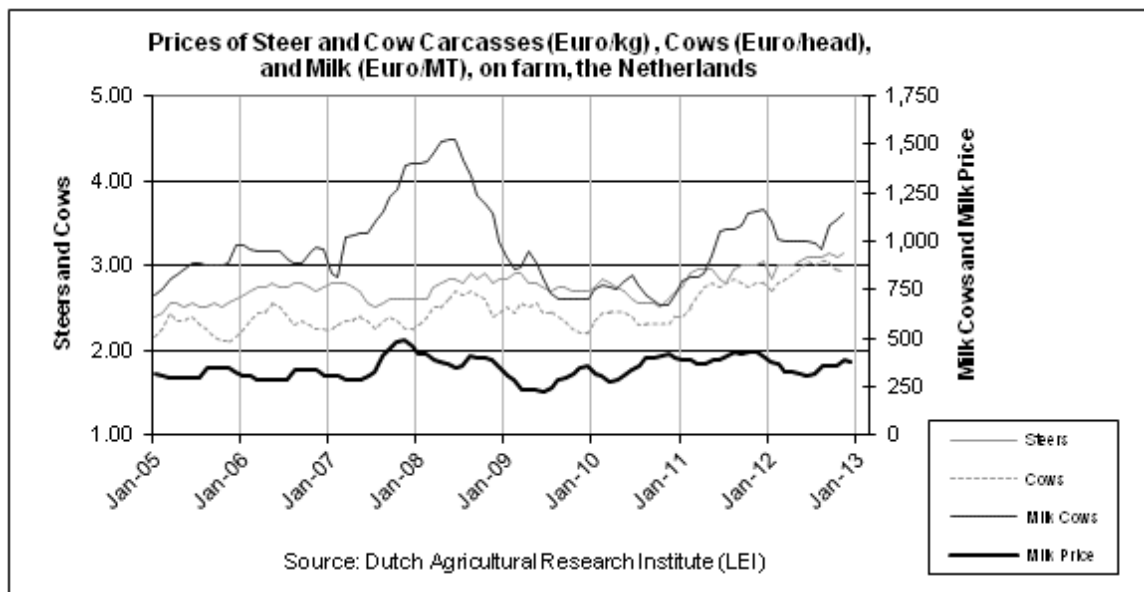
The 2011 cattle census and slaughter numbers are adjusted subsequent to updates of official Eurostat statistics. The most significant change with the forecast in the Annual Report is the lower than anticipated slaughter in 2012, and as a consequence higher ending inventories. During the first eleven months of 2012, official slaughter, not including backyard slaughter, was reduced by 4.2 percent. The lower slaughter is mainly a result of the scarcity of animals, which effect was underestimated in the Annual Report. The EU cattle herd is shrinking due to phasing out of government support programs. The herd has further been reduced by the surge in exports of cattle and beef to Turkey in 2011. The lower availability of animals has also limited exports in 2012 and is expected to further reduce trade in 2013. The limited number of animals is expressed in the steer and cow carcass prices, which have reached record levels (see graph below).

Ireland is rebuilding its herd, while some New Member States improve efficiency

The most significant reduction in slaughter is reported in France and Ireland. In Ireland, the slaughter of heifers has been reduced. This is not caused by a limited supply of animals, but by the sector’s intention to rebuild the herd. The Irish dairy and beef sector is optimistic due to higher dairy and meat prices and anticipated opportunities from the liberalization of the dairy sector. The dairy sector has seen a large increase in cattle under 1 year and between 1-2 years as well as reduced slaughter. In some New Member States, such as Romania, the reduction of slaughter is most prevalent in the backyard sector. The commercial segment, however, has a more positive outlook, with considerable investments in genetics, housing, and herd management.

No major revisions for 2013; calf crop and slaughter are expected to decline further

The outlook for the situation in 2013 is similar as forecast in the Annual Report. The herd, calf crop and slaughter are expected to decline further. The calf crop in 2013 is adjusted lower than anticipated in the Annual Report based on a lower availability of cows. Slaughter is forecast to further decline, mainly based on lower French and German slaughter.



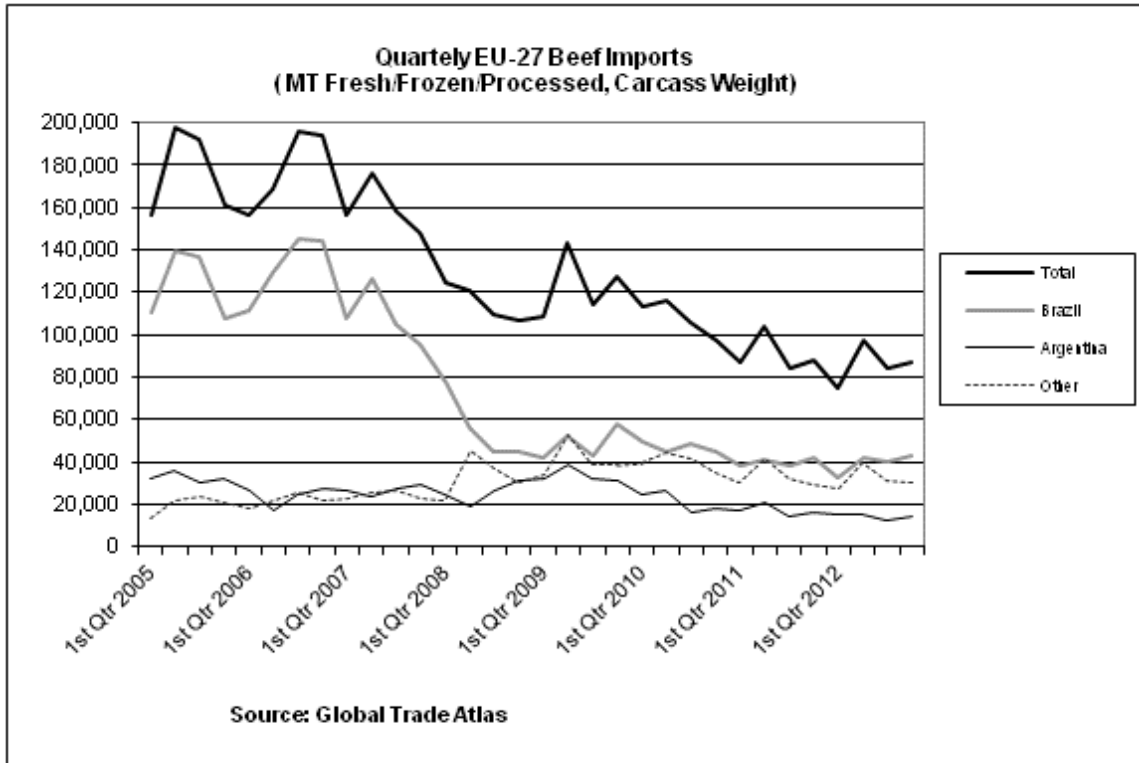
Beef

Country	EU-27					
Commodity	Meat, Beef and Veal (1,000 Head)(1,000MT CW)					
	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]	USDA Official [EU-27]	Posts estimates [EU-27]
	2011		2012		2013	
Slaughter (Reference)	28,397	28,352	27,700	27,300	27,300	27,200
Beginning Stocks	0	0	0	0	0	0
Production	8,023	8,057	7,815	7,765	7,700	7,735
Extra EU27 imports	367	367	350	347	350	350
TOTAL SUPPLY	8,390	8,424	8,165	8,112	8,050	8,085
Extra EU27 Exports	449	451	310	307	300	300
TOTAL Domestic Use	7,941	7,973	7,855	7,805	7,750	7,785
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	8,390	8,424	8,165	8,112	8,050	8,085

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Beef supply remains tight as anticipated

Beef production in 2011 is adjusted 34,000 MT higher based on new Eurostat statistics of Romanian backyard slaughter. The updated figures reveal that cows were slaughtered at a higher weight than previously reported. EU beef consumption in 2011 is adjusted higher accordingly. In line with the slaughter numbers, beef production is expected to have fallen in 2012 and is forecast to be further reduced in 2013. This trend is also reflected in dwindling consumption and export figures. These developments are in conformity with the expectations in the Annual Report.



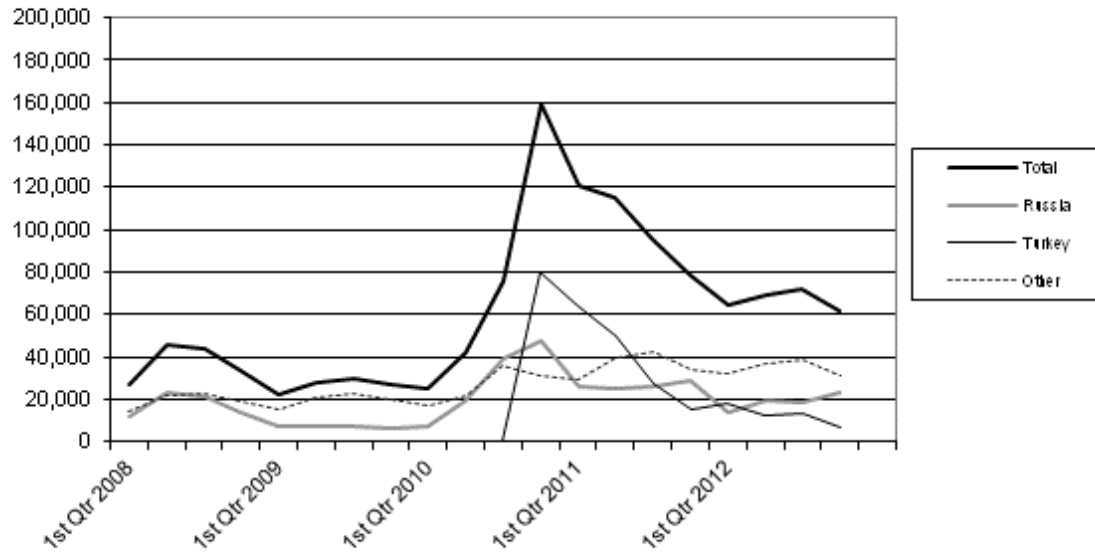
Limited domestic production could boost imports

Exceptions to the trend are the market in Germany and the United Kingdom. In Germany, consumption has increased since 2009 despite high beef prices. German beef production from beef cattle is slowly losing ground which opens market opportunities in the premium beef segment for foreign suppliers. Some of this market will be supplied by Irish beef. The Irish beef sector is anticipated to increase production in 2013, and to recapture part of its lost market share in EU as well as in third countries. Besides in the premium segment also opportunities exist for imports of beef destined for processing, most likely to be supplied by Brazil. Overall, EU beef imports are forecast to increase slightly this year based on the strong demand in Germany and the United Kingdom and limited domestic supply.

New opportunities for EU beef and veal exports

On February 11, Russia banned the import of finished meat products, mainly pork sausages, from three German states due to concerns about the traceability of the ingredients. The volume of this trade however is limited. In 2013 and beyond, EU beef exports to Japan are expected to grow. As from February, Japan lifted the ban on beef from the Netherlands and France, which has been in place since 2001. The Dutch sector sees the most opportunities for the export of veal, and estimates the Japanese market for Dutch veal at about US\$ 40 million, roughly about 4,000 MT.

**Quarterly EU-27 Beef Exports
(MT Fresh/Frozen/Processed, Carcass Weight)**



Source: Global Trade Atlas

Swine

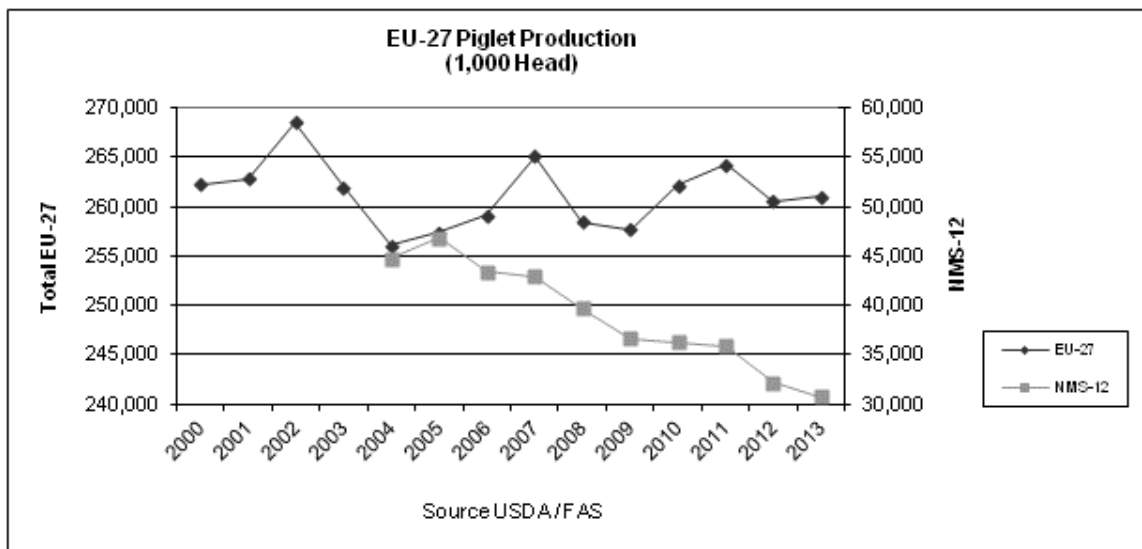
Country	EU-27					
	Animal Numbers, Swine (1,000 Head)					
Commodity	USDA official [EU-27]	Posts estimates [EU-27]	USDA official [EU-27]	Posts estimates [EU-27]	USDA official [EU-27]	Posts estimates [EU-27]
Market Year Begin	2011		2012		2013	
TOTAL Beginning Stocks	150,773	150,773	148,545	148,545	148,450	147,000
Sow Beginning Stocks	13,534	13,569	13,092	13,085	13,100	12,700
Production (Pig Crop)	265,870	264,250	265,000	260,500	268,000	261,000
Extra EU27 imports	1	1	2	2	2	2

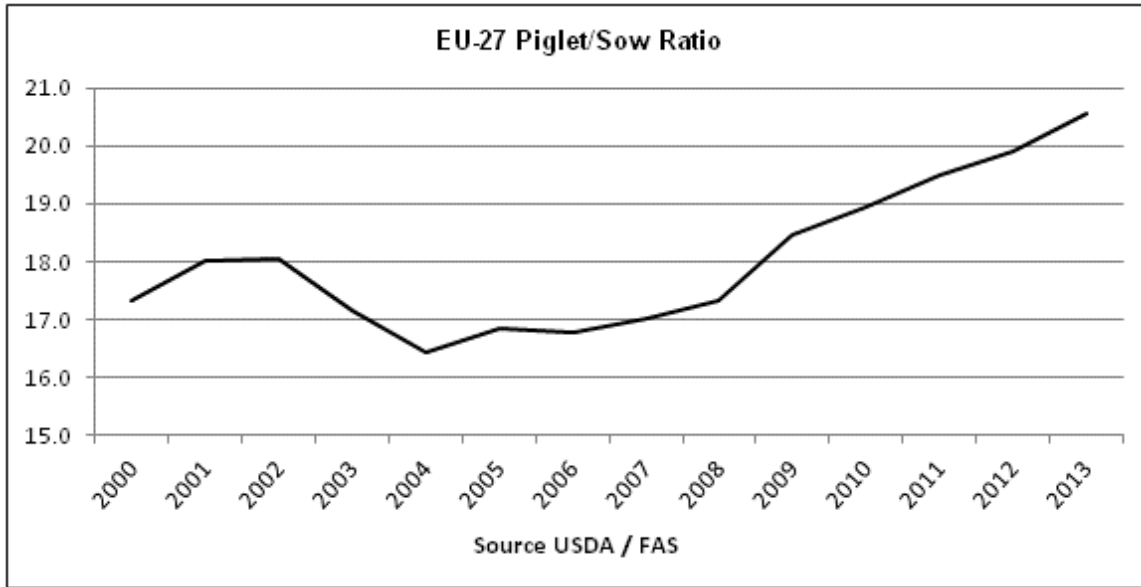
TOTAL SUPPLY	416,644	415,024	413,547	409,047	416,452	408,002
Extra EU27 exports	1,583	1,586	1,400	1,240	1,400	1,200
Sow Slaughter	4,331	4,331	4,150	4,250	4,170	4,000
Total Slaughter	259,477	257,834	257,000	254,000	257,000	253,000
Loss	7,039	7,059	6,697	6,807	6,402	6,402
Ending Inventories	148,545	148,545	148,450	147,000	151,650	147,400
TOTAL DISTRIBUTION	416,644	415,024	413,547	409,047	416,452	408,002

Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Slaughter in 2012 is revised downward based on updates of official statistics

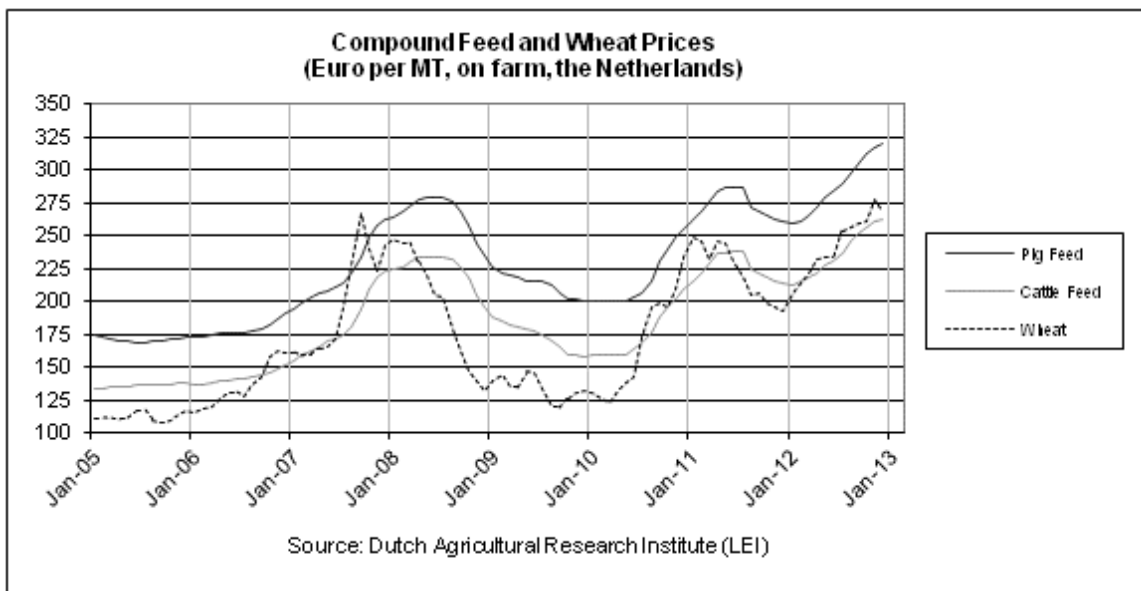
The 2011 slaughter numbers are revised downward as a result of publication of new Italian and Romanian Eurostat backyard slaughter numbers. The 2011 pig crop is adjusted to a lower level accordingly, as well as the production and slaughter figures in 2012 and 2013. During the first eleven months of 2012, official slaughter was reduced by 1.9 percent. Slaughter has been reduced in Poland, Germany and Denmark, and this trend is expected to continue in these member states. An exception is Spain, where slaughter is forecast to increase in 2012 driven by a surge of imports of live swine for slaughter from France. Slaughter has also increased in the UK and Ireland.





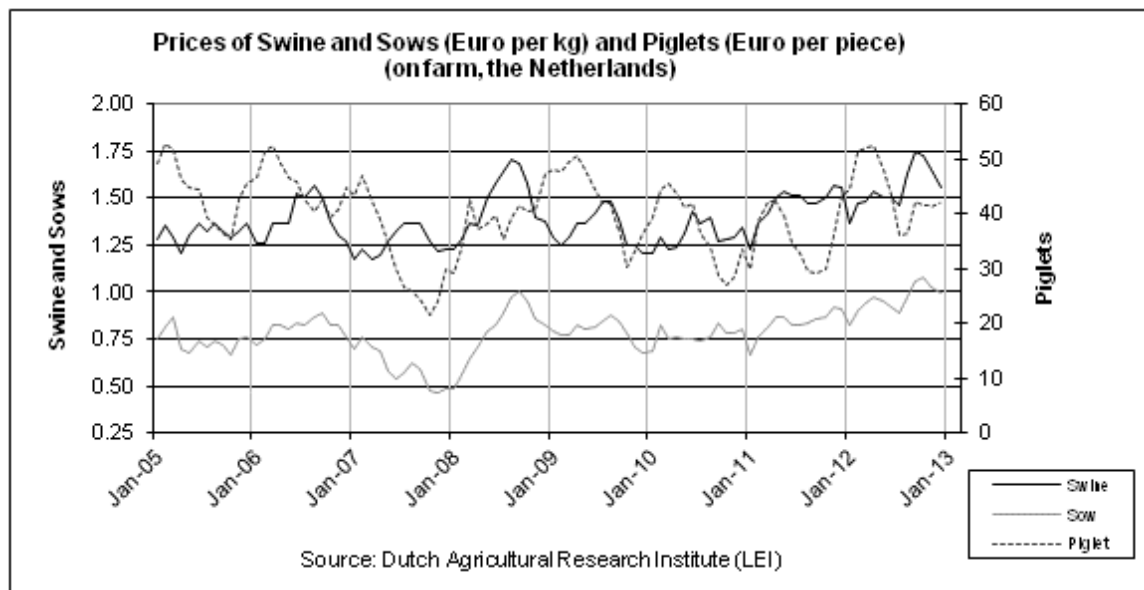
In 2013, the pig crop will recover driven by low feed and high carcass prices

The projected trend of a lower production of piglets in 2012 and a recovery in 2013 remains intact (see graph above). As from January 1, 2013, the new animal welfare regulations for sows have been enforced. These regulations, together with the high feed prices (see graph below) have forced many breeders to stop production. As a result, the EU sow stock is expected to have shrunk by about 3 percent in 2012. Despite the lower sow stock, the pig crop is forecast to pick up in 2013 based on increased efficiency of the sector (see graph above). In addition to a higher piglet sow ratio, the upturn will also be supported by elevated carcass prices and lower compound feed prices. Feed prices are expected to decline slightly or at least stagnate until the summer and forecast to decline significantly after the new harvest. The projected upturn of the pig crop will increase slaughter and pork production in 2014.



The recovery is slowed down due to a continuing crisis in the Polish sector

The recovery of the pig crop is not as strong as anticipated in the Annual Report because of downward revisions of the sow stock in Poland, Germany and Spain. In Poland, the new sow husbandry requirements and elevated feed prices cut the sow stock more than expected. The crisis in the Polish swine sector is projected to continue in 2013 due to mainly an inefficient structure of the industry as well as continuing strong competition from Dutch, Danish and German suppliers of pork and piglets. In order to address the difficult situation in Polish swine and pork industry, the Ministry of Agriculture in cooperation with the Polish Association of Swine Producers (POLSUS) prepares a program of re-vitalization of the swine industry. The program will be partly financed from the EU rural development program during 2014-2020 and it is expected to result in an increase of swine inventories from current 11 million head to 18 million head within next ten years. See for more information the GAIN Report - Poland's Swine Sector Under Stress.



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	2011		2012		2013	
Slaughter (Reference)	259,477	257,834	257,000	254,000	257,000	253,000
Beginning Stocks	0	0	0	0	0	0
Production	22,938	22,866	22,750	22,630	22,625	22,550
Extra EU27 imports	19	19	20	18	20	15
TOTAL SUPPLY	22,957	22,885	22,770	22,648	22,645	22,565
Extra EU27 exports	2,204	2,204	2,280	2,228	2,375	2,230
TOTAL Domestic Use	20,753	20,681	20,490	20,420	20,270	20,335
Ending Stocks	0	0	0	0	0	0

TOTAL DISTRIBUTION	22,957	22,885	22,770	22,648	22,645	22,565
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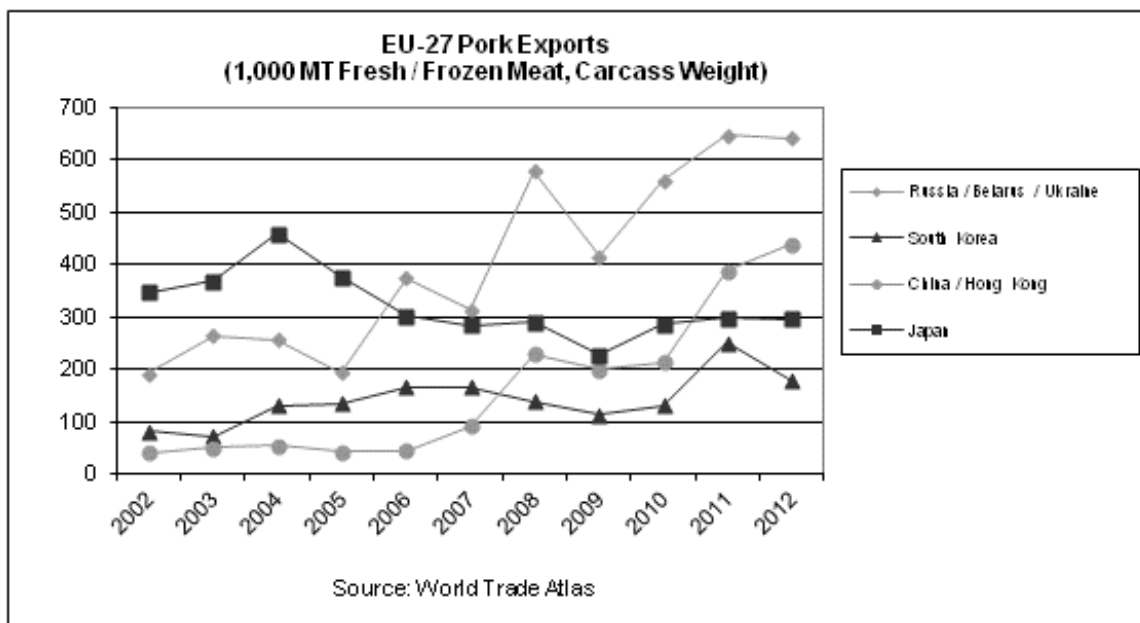
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Following revised slaughter figures, production and consumption levels are reduced

Pork production and consumption levels in 2011 are adjusted downwards based on new official statistics revealing lower Italian and Romanian pork production from backyard slaughter. In the following two years, production and consumption figures are adjusted to a lower level accordingly.

EU pork exports in 2013 are revised downwards from previous forecast

As anticipated in the Annual Report, pork production and consumption are expected to decline during 2012 and 2013. Both supply and demand are expected to fall most significantly in Germany and Poland. As forecast in the Annual Report, third country exports are expected to have increased in 2012. During 2012, pork exports increased thirteen percent to China, while exports to Eastern Europe and Japan stagnated, and exports to South Korea fell by nearly thirty percent (see graph below). In 2013, opportunities for export remain as more plants are eligible to export directly to China, and Russia has imposed bans on pork from the United States, Canada and Brazil. However, next year EU pork exports are forecast to stagnate as a result of the lower domestic supply. Spanish exports are projected to keep growing in 2013 both within and outside the EU. This forecast is based on the results of the efforts in opening new channels, especially in Asia.



Policy

High Quality Beef (HQB) quota update

In the first half of quota year 2012/2013, EU HQB imports were 15,703 MT and are expected to increase to over 30,000 MT during the whole quota year, compared to 18,638 MT during the previous quota year. This increase follows the enlargement of the HQB quota from 20,000 MT to 48,200 MT in August 2012.

Commission Regulation (EU) No 101/2013, approving lactic acid as a pathogen reduction treatment (PRT) for beef went into effect on February 25, 2013. While beef treated with lactic acid can now be shipped, it is expected that the impact on U.S. high quality beef exports will come gradually as additional exporters using PRTs need to develop the necessary hormone-free cattle supply. See for more information the GAIN Report - Two Breakthroughs in U.S. exports to Europe.

Origin	1st Quarter (July-Sept)	2nd Quarter (Oct-Dec)
United States	4,231	4,397
Australia	1,783	2,229
Uruguay	919	1,954
Canada	102.9	85
New Zealand	1.3	0
	7,038 MT of 9,825MT (71.6% fill rate)	8,665MT of 12,050MT (71.9% fill rate)

Source: European Commission

Common Agricultural Policy (CAP) reform 2014

Under the next CAP, direct payments to farmers are planned to be harmonized across EU member states. Eventually all direct payments will become flat rate payments. Because this will hurt beef producers, some coupled payments are considered to remain for suckling cows. Another concern of the sector are the new environmental requirements, also called “greening” measures, which will increase the cost of production for feed and fodder, thus negatively impacting livestock farmers’ margins.

Animal welfare at the time of slaughter

On January 1, 2013, Council Regulation (EC) 1099/2009, regulating conditions for animal welfare at the time of slaughter was implemented. While this new regulation sets stricter rules, it is not expected to have any impact on European meat markets.

Pig housing directive

Council Directive 2001/88/EC on pig housing reached its final implementation date on January 1, 2013. Apart from housing requirements for pig fattening, this directive also includes welfare regulations for pregnant sows. The European Commission will reportedly not grant any subsidies or transition programs for the implementation of the animal welfare regulations as the directive provided more than a decade for transition. A Commission inquiry with member states indicated that only 10 out of the 27 member states met the implementation deadline with a 90 percent compliance rate.

Croatia

Croatia is set to become the 28th member of the European Union on July 1 of 2013. Because Croatia is a net meat importer, its EU accession will not significantly impact the EU market. Meat exports are almost exclusively towards neighboring fellow former Yugoslavian countries.

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.

This report is the result of active collaboration with the following EU FAS colleagues in the following member states:

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NOTE

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

	HS codes	Conversion factors
Beef	0201, 0202	PWE X 1.40 = CWE
	021020, 160250	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

EC European Commission
EU: All twenty-seven Member States of the European Union.
EU-15: All twenty-seven Member States of the EU minus the NMS.
MS: An EU Member State
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.
Benelux: Belgium, the Netherlands and Luxembourg

Related reports from FAS Post in the European Union:

Country	Title	Date
Poland	Poland's Swine Sector Under Stress	02/13/13
EU-27	Two Breakthroughs in U.S. exports to Europe	02/11/13
Poland	Poland Bans Ritual Slaughter of Animals	01/10/13
Czech Republic	Czech Agricultural Minister Approved Rates for Specific Support	12/05/12
Slovakia	Anthrax Occurrence in Slovakia	11/23/12
Germany	New Animal Welfare Standards Can Impact Trade	10/30/12
Germany	Germany plans to reduce the use of antibiotics in animal husbandry	10/17/12
Norway	Norway Plans to Change Import Tariffs	10/12/12
EU-27	EFSA confirms opinion on safety of animal cloning	09/21/12
EU-27	Livestock and Products Annual	09/03/12
Germany	Anthrax outbreak in cattle herd in Germany	07/24/12
EU-27	EU Launches Animal Welfare Strategy 2012-2015	06/28/12
EU-27	Changes to the EU High Quality Beef Quota Published	06/19/12
France	Ritual Slaughtering and Presidential Elections	04/13/12
EU-27	Update of the Schmallenberg Virus Outbreak in the EU	04/05/12
EU-27	Update on Schmallenberg virus (SBV)	03/08/12
EU-27	Update of the Schmallenberg Virus Outbreak in the EU	03/01/12
EU-27	EU-27 Livestock Semi-annual 2012	03/01/12
EU-27	Update of the Schmallenberg virus outbreak in the EU	02/27/12
EU-27	Sustainability in the EU Commodity Markets	02/03/12
EU-27	Schmallenberg virus found in cattle	02/03/12
Italy	Italian Livestock and Products Outlook 2012	01/30/12

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