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Livestock and Products Annual

EU Pork Supply Faces Export Plunge

Approved By:

Susan Phillips

Prepared By:

Bob Flach

Report Highlights:

For the first time since 2002, the EU is expected to become a net exporter of beef for two successive years as less efficient dairy producers continue to switch to beef cattle. Good market conditions for the swine sector in 2016 and first half of 2017 has geared up the production of piglets, which is forecast to result in an increase in slaughter during the second half of this year. However, demand from China is forecast to be significantly lower pushing the European Commission and individual Member States to open alternative export markets for the anticipated oversupply of pork.

Executive Summary

Cattle & Beef

During 2017 and 2018, EU cattle inventories are forecast to steadily decline. While the dairy cow herd is anticipated to shrink, the beef cow herd is expected to continue its growth started in 2015. Due to continuous restructuring of the dairy sector, the least efficient farmers are switching from dairy to beef cattle. The Dutch government's decision to cap phosphate emissions has resulted in a significant cut in the dairy sector. Other factors supporting the beef cow herd expansion are local demand for high quality beef, the available subsidies and demand for cattle from third countries. During both 2017 and 2018, slaughter is forecast to increase due to restructuring of the dairy herd and increasing availability of suckling calves. Most of the additional beef supply is directed to foreign markets making the EU a net producer of beef for two successive years for the first time since 2002.

Swine & Pork

During 2016 and the first half of 2017, the EU swine sector benefited from low feed prices and high hog prices. Supported by these positive market conditions the sector geared up for a record production of piglets and hogs, in particular Central Europe is expected to increase their piglet supply based on their import of breeding animals. However, during the second quarter of this year, Chinese demand for pork fell drastically. As a consequence, the elevated slaughter and pork production during the second half of this year will face a plunge in pork exports. Domestic demand for pork continues to be lackluster. As a result, the European Commission (EC) and individual Member States (MS) are anxiously seeking alternative markets. The trade deal with Japan is anticipated to open another market for EU pork but SPS issues still have to be decided upon, and the ratification procedure for such an agreement generally takes two years. One of the most likely markets to take up the additional supply is the Ukraine. The deteriorating market conditions for the swine sector are expected to reduce the sow herd, piglet supply and slaughter in 2018.

Cattle

Animal Numbers, Cattle	2016		2017		2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Total Cattle Beg. Stks	89,152	89,152	89,250	89,078	0	89,030
Dairy Cows Beg. Stocks	23,595	23,595	23,545	23,507	0	23,485
Beef Cows Beg. Stocks	12,312	12,312	12,390	12,346	0	12,400
Production (Calf Crop)	30,100	30,050	30,080	30,030	0	30,080
Total Imports	0	0	0	0	0	0
Total Supply	119,252	119,202	119,330	119,108	0	119,110
Total Exports	998	998	1,025	980	0	990
Cow Slaughter	11,900	11,913	11,950	11,950	0	11,850
Calf Slaughter	6,500	6,697	6,550	6,730	0	6,780
Other Slaughter	8,750	8,658	8,850	8,600	0	8,700
Total Slaughter	27,150	27,268	27,350	27,280	0	27,330
Loss	1,854	1,858	1,800	1,818	0	1,820
Ending Inventories	89,250	89,078	89,155	89,030	0	88,970
Total Distribution	119,252	119,202	119,330	119,108	0	119,110
(1000 HEAD)						

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

Taking advantage of subsidies, farmers switch from dairy to beef production.

Based on the Eurostat census of December 2016, the European Union (EU) starts the year 2017 with a slightly smaller cow herd. While the beef cow herd is expected to continue its growth, the dairy cow herd followed the opposite trend and is anticipated to shrink further this year. The beef cow herd is forecast to expand in Spain, Ireland, and in most Central European countries, in particular in Hungary, Bulgaria and Poland. Farmers are switching from dairy to beef cows due to the increased commercialization and thus competition on the dairy market since the milk quotas have been abandoned in April 2015. Other factors are the available EU and Member State (MS) subsidies, and locally increased demand for high quality beef. Farmers in Belgium, France, Hungary, and Bulgaria are subsidized by coupled payments specifically for beef cows. In France, holding over a third of the EU beef cow herd, a hike in beef cow inventories is expected to plateau in 2017 and start to decline in 2018 as the beef cow subsidies were capped and ranchers feel the pinch of low cattle prices and their income plummet.

Another factor supporting the beef sector is the export demand for cattle.

Another factor supporting the expansion of the beef cow herd is the demand for cattle from non-EU markets. Hungary, Romania, Spain and France each export annually more than 100,000 head of cattle to third country destinations. The most important destination was Turkey. The recovery of the Hungarian cattle sector in 2016 was mainly due to the persistent and strong import demand from Turkey. The Hungarian Ministry of Agriculture encouraged the sector to invest in livestock farming, live cattle exports, and joint ventures with companies in Turkey. In 2017, Romania also started to export to Turkey and currently competes with Hungary in this market. The Romanian Government is

negotiating the opening of more third markets. In June 2017, Turkey agreed to open their market to cattle from Spain and reportedly 10,000 animals were already exported in the subsequent three weeks. Furthermore strong demand is reported from Lebanon, Libya and Egypt. This indicates that Spain's live cattle exports may continue to grow.

A range of factors are hindering the further expansion of live cattle exports.

The Turkish Government extended their subsidy program for young farmers to 2017 and 2018. This program provides grants for about 51,000 head of beef breeding and feeder cattle. The Turkish Ministry of Agriculture announced that half of the animals will be provided from the domestic market, as opposed to exclusively being imported as they were in 2016 (for more information see GAIN Report TR7018). This precondition is expected to temper imports from the EU. Another factor hindering exports is the presence of the Bluetongue (BT) virus in the southern parts of Europe. However, the most problematic BT presence for cattle in the EU is the presence of BT-8 in France as several countries in Northern Africa, including Turkey don't allow imports of vaccinated animals (for more information see the policy section). A surge in imports of live cattle into Israel, which accepts vaccinated animals, is reportedly a relief for French cattle exports. Another factor, which could play a role on the long term, is the criticism by NGOs on animal welfare conditions during the long distance transport of live animals. The trading of live animals is an important issue addressed by the Animal Welfare Platform, installed by the European Commission (EC) in January 2017.

The Dutch dairy herd declines due to enforcement of the Dutch Phosphate Plan.

This year, the most significant dairy herd reduction was in the Netherlands. On February 1, 2017, the Dutch Government enforced the Phosphate Plan by which total phosphate emissions from the dairy sector must be cut back to the maximum permitted level (for more information see GAIN report NL7006). The government calculated that as a result of the plan the dairy herd, including heifers, will need to be reduced by about 160,000 head. The Dutch Phosphate Plan caused a surge of cow slaughter in 2017. During the first half of this year Dutch slaughter of cows and heifers rose with about 70,000 animals, an increase of 30 percent compared to the same period last year. Next year, Dutch slaughter is expected to decline to the average level. Countering this EU trend, dairy cow herds in Ireland, Italy, Austria, Poland and Hungary are expected to grow as they take advantage of recovering milk prices.

Slaughter will increase due to the renewal of the dairy herd and rising calf crop.

During the first half of 2017 EU slaughter declined by 0.25 percent. But due to the renewal of the dairy herd and the increased availability of suckling calves, EU slaughter is expected to pick up during the second half of the year. This trend is forecast to continue in 2018. Further restructuring and commercialization of the beef and dairy sector in the Central European countries reduced backyard slaughter from 841,000 head in 2015 to 686,000 head last year. In 2017, backyard slaughter is anticipated to drop to 500,000 head.

Beef

Meat, Beef and Veal	2016		2017		2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Slaughter (Reference)	27,150	27,268	27,350	27,280	0	27,330
Beginning Stocks	0	0	0	0	0	0
Production	7,830	7,881	7,875	7,890	0	7,900
Total Imports	369	369	375	350	0	360
Total Supply	8,199	8,250	8,250	8,240	0	8,260
Total Exports	345	344	355	380	0	420
Human Dom. Consumption	7,854	7,906	7,895	7,860	0	7,840
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7,854	7,906	7,895	7,860	0	7,840
Ending Stocks	0	0	0	0	0	0
Total Distribution	8,199	8,250	8,250	8,240	0	8,260

(1000 HEAD) ,(1000 MT CWE)

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

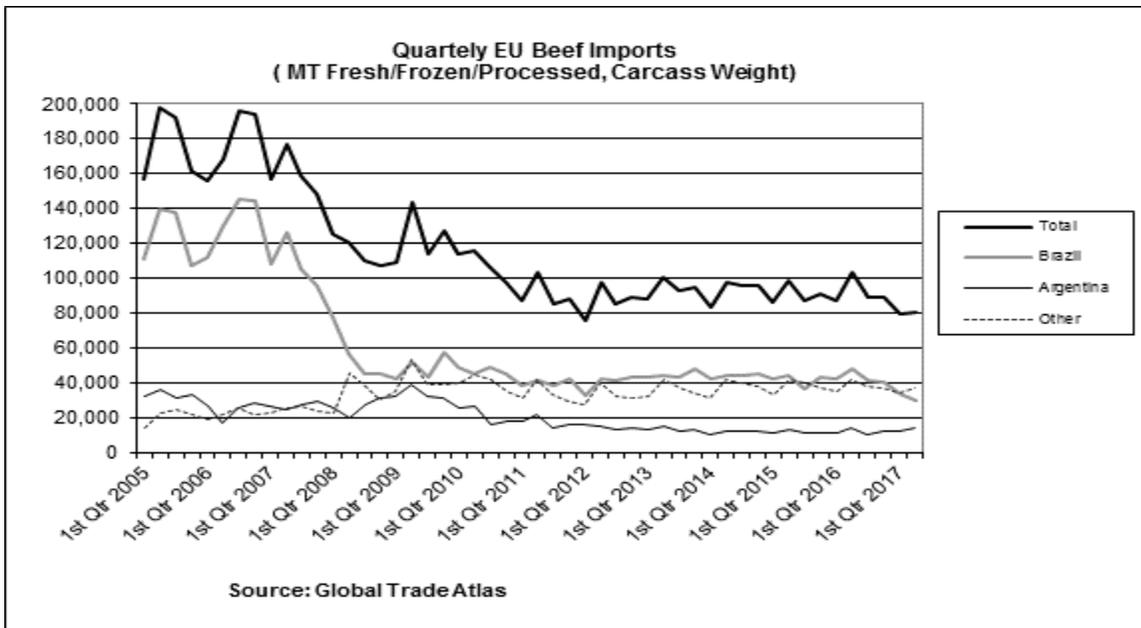
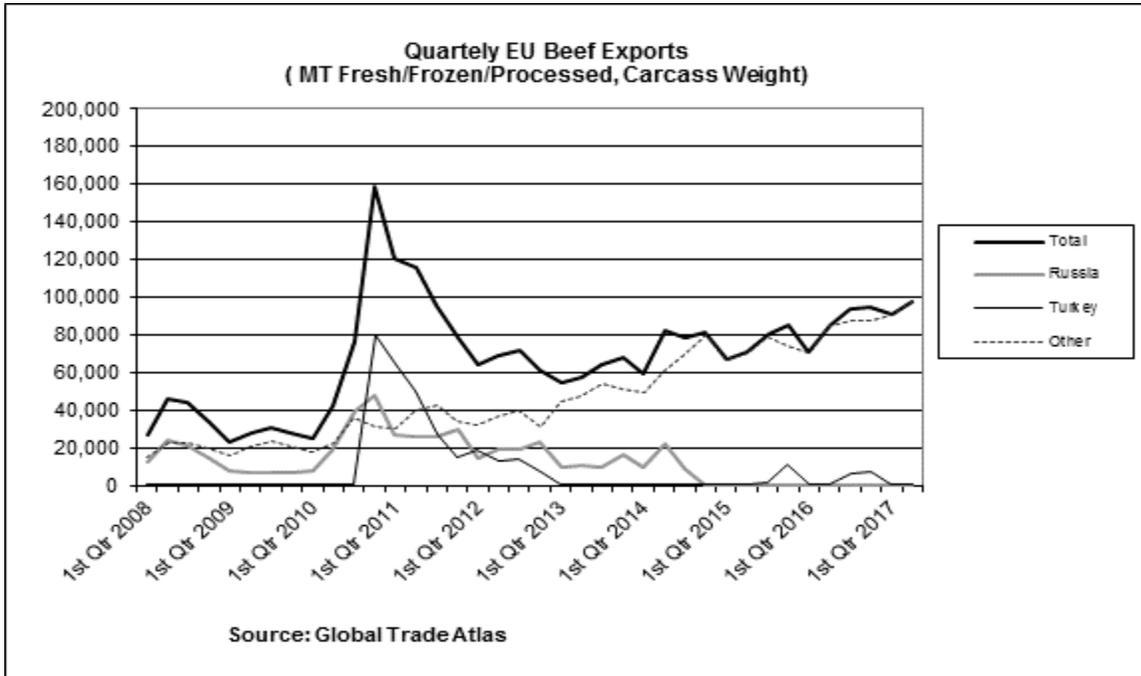
Additional production and stockpiled volumes of beef are exported to third countries.

In line with rising slaughter, beef production is anticipated to continue its upward trend started in 2014. During 2015 and 2016, most of the additional supply of cow meat was absorbed by the domestic market, elevating consumption to its highest level since 2011. For 2017 and 2018 beef consumption is expected to remain flat or decline in most MS and only significantly increase in Germany and Poland. As a consequence, the additional supply and stockpiled volumes are being directed to foreign markets (see graph below). During the first half of 2017, EU beef exports picked up by 21 percent, most notably to Hong Kong, the Philippines and Algeria. As a result the EU is currently a net producer of beef. Exports will likely further expand in 2018 as a result of increased demand from other third country markets. In October 2017, Taiwan will reportedly lift the ban on beef imports from the Netherlands and Sweden, imposed in 2003 as a result of BSE findings. Implementation of the EU-Vietnam Free Trade Agreement is planned for the beginning of 2018 (for more information see the policy section). Vietnam could be another growth market for EU beef and veal exports.

Beef imports are expected to pick during the second half of this year.

While the EU is expanding exports, imports are being capped by quotas. The import tariffs and fixed quotas have created a shortage of higher quality beef. In 2009, the EU reached a Memorandum of Understanding with the United States, by which a zero duty quota for 48,200 MT high quality grain fed beef was implemented. Currently, the quota is fully used but less than 40 percent is supplied by the United States, as other producers became eligible. During the first half of 2017, EU beef imports fell by 31,000 MT (see graph below). Shipments were most significantly cut from Brazil (minus 36,000 MT) and Australia (minus 6,000 MT). In March 2017, a meat scandal broke out allegedly involving rotten meat from Brazil. The EC introduced a 100 percent physical check and 20 percent microbiological testing regime on all meat and poultry imports from Brazil. An audit by the Food and Veterinary Office (FVO) was conducted in the first half of May 2017. Based on the first findings of the FVO, imports from Brazil will likely pick up during the second half of the year. Based on increased domestic supply, also imports from Australia are anticipated to recover during the second half of this year and 2018.

Another origin from which beef imports are forecast to increase is Canada. The provisional implementation of the Canada – EU Trade Agreement (CETA) is scheduled for September 21, 2017 (for more information see the policy section).



Swine

Animal Numbers,	2016	2017	2018
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Swine						
European Union	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	148716	148,716	147248	147,240	0	147,200
Sow Beginning Stocks	12293	12,293	12090	12,046	0	12,040
Production (Pig Crop)	263950	265,000	264500	265,200	0	265,000
Total Imports	3	3	3	4	0	4
Total Supply	412669	413,719	411751	412,444	0	412,204
Total Exports	281	281	285	250	0	250
Sow Slaughter	4200	4,124	4150	4,030	0	4,100
Other Slaughter	255000	256,104	255400	254,970	0	254,700
Total Slaughter	259200	260,228	259550	259,000	0	258,800
Loss	5940	5,970	5901	5,994	0	6,114
Ending Inventories	147248	147,240	146015	147,200	0	147,040
Total Distribution	412669	413,719	411751	412,444	0	412,204
(1000 HEAD)						

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

Elevated piglet prices are an incentive to retain the breeding herd.

In 2016, and the first half of 2017, the EU swine sector benefitted from low feed and high hog prices. These profitable market conditions increased the demand for piglets, which lifted their prices to a record level (see graphs below). The Eurostat census of December 2016 reports a 44,000 head smaller sow herd than forecast in the Semi-Annual Livestock Report. Despite the smaller breeding herd, 2017 production of piglets is expected to increase based on a steady sow herd size during the year. The high prices for piglets are a strong incentive for breeders to continue their operation, or even expand their breeding herd. The continuous improvement of sow fertility is forecast to set the piglet crop at a relatively high level (see graph below).

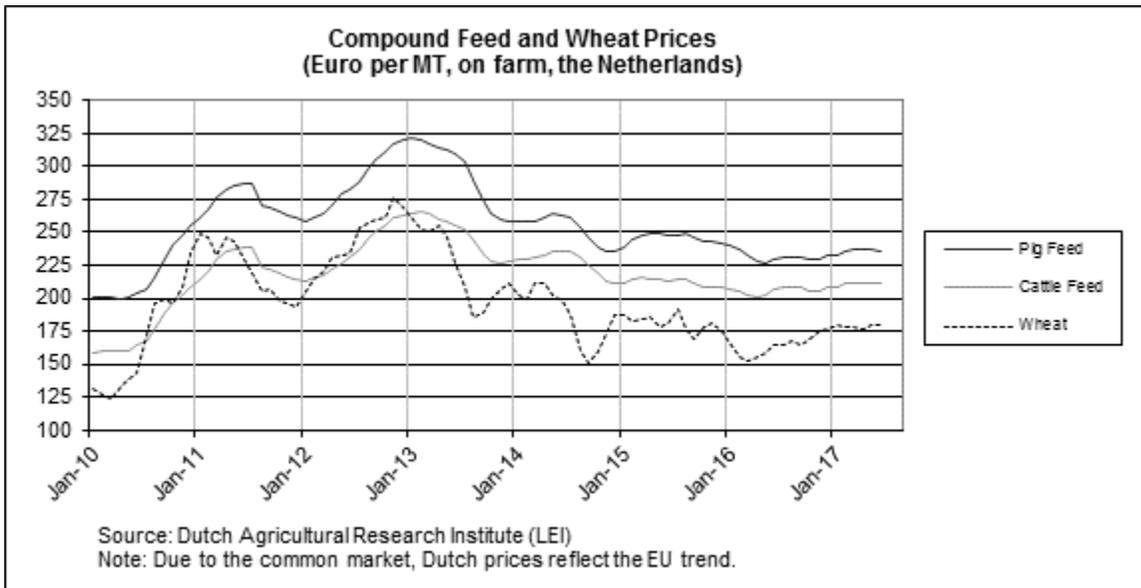
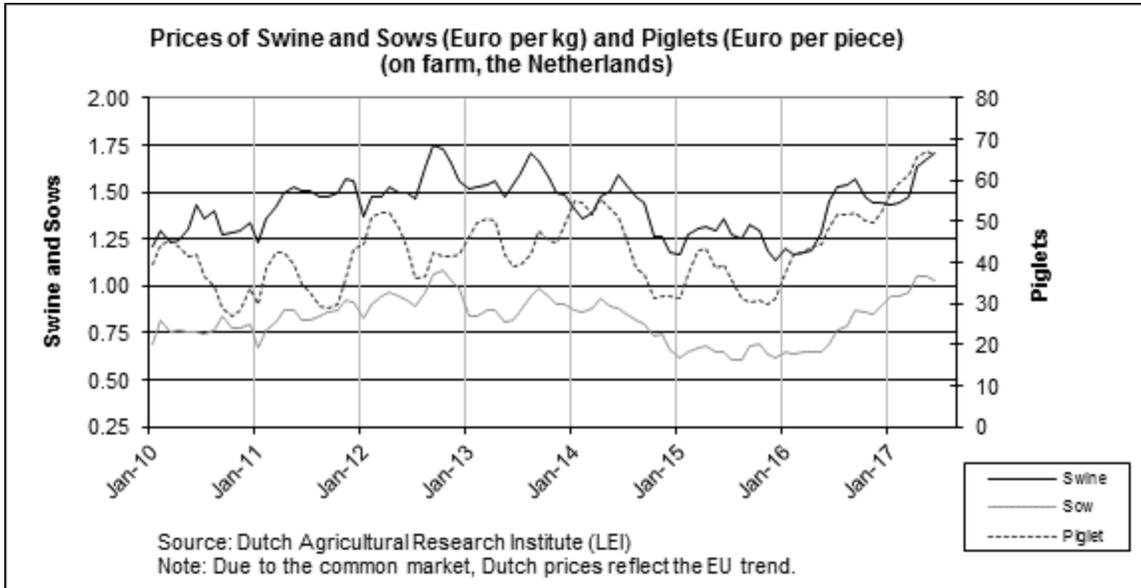
The expansion of the piglet crop will be realized in Central Europe.

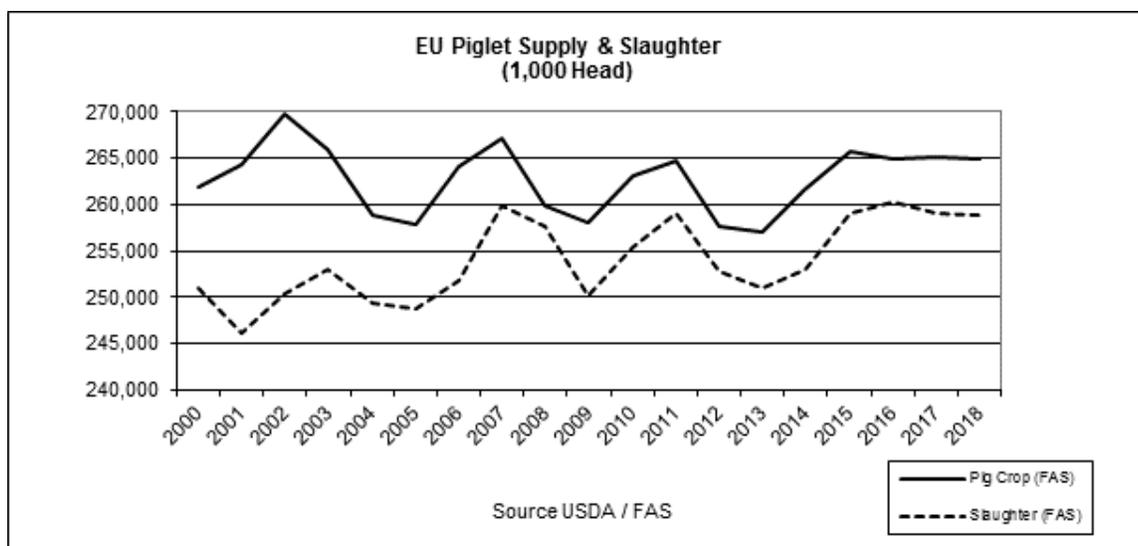
Spain and the United Kingdom are expected to significantly increase the supply of piglets. But as whole, Western Europe will reduce its production. Through 2016 and 2017, the most significant cut is expected in France. The French sector failed to invest and lacks competitiveness on the EU market. In contrast to Western Europe, supply in Central Europe is forecast to increase due to expansion in Poland, Hungary, Romania, Bulgaria, and the Czech Republic. The piglet production in Central Europe is supported by the import of gilts and sows, in particular from Denmark, drastically improving the fertility of the breeding herd. However, continuing outbreaks of African Swine Fever (ASF) in Eastern Poland hamper a faster increase of swine production because of import bans imposed on Polish pork by several countries. Due to the risk of further spreading westwards, the presence of ASF creates a fragile situation for the entire EU swine sector (for more information see the policy section).

Following a reduction, slaughter will partly recover during the second half of 2017.

During the first half of 2017, swine slaughter declined by 2.1 percent. Over the entire year, the reduction is expected to narrow to about 0.5 percent. As piglet production peaked during the summer, slaughter is forecast to recover during the last quarter of this year and the first quarter of 2018. The temporary elevated supply of pork will likely suppress prices for slaughter hogs and piglets, eliminating the incentive for the sector to maintain the high production level in 2018. It should be noted that the

existing EU slaughter overcapacity is causing a strong competition for hogs, which is delaying the downward effect on prices. Due to continuous restructuring of the sector in Central Europe, EU backyard slaughter declined with 269,000 animals to 3.15 million head in 2016, and is estimated at about 2.80 million head this year.





Pork

Meat, Swine	2016		2017		2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Slaughter (Reference)	259200	260,228	259550	259,000	0	258,800
Beginning Stocks	0	0	0	0	0	0
Production	23400	23,523	23450	23,400	0	23,350
Total Imports	12	12	12	13	0	13
Total Supply	23412	23,535	23462	23,413	0	23,363
Total Exports	3126	3,125	3300	2,800	0	2,800
Human Dom. Consumption	20286	20,410	20162	20,613	0	20,563
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	20286	20,410	20162	20,613	0	20,563
Ending Stocks	0	0	0	0	0	0
Total Distribution	23412	23,535	23462	23,413	0	23,363

(1000 HEAD) ,(1000 MT CWE)

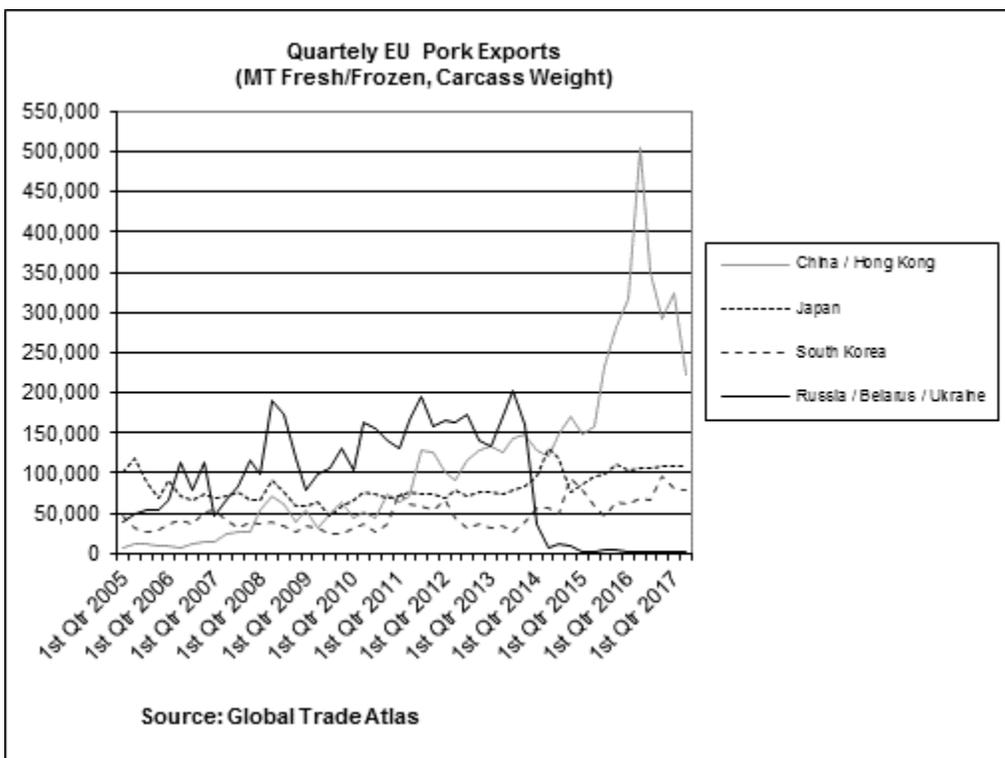
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Production and exports reached a record level in 2016.

Combined Eurostat official slaughterhouse and Eurostat backyard slaughter statistics report a pork production of over 23.5 MMT in 2016, which is a record volume, never earlier reported. Spain, Poland and Italy increased their pork production most significantly. Exports also reached a record level buoyed by sales to China, which increased with 593,000 MT to in total 1,284,000 MT of pork exports in 2016 (see graph below). Other major growth markets were Hong Kong (plus 52,000 MT), South Korea (plus 43,000 MT) and Japan (plus 33,000 MT).

Lower Chinese import demand will create an oversupply of pork on the EU market.

While in 2016, EU record pork production matched a surge in Chinese import demand, an oversupply of pork on the EU market is likely to develop this year. During the first half of 2017, pork exports to China plummeted by 37 percent, a reduction of almost 273,000 MT. Exports to the other markets did not make up for this loss, and grew only by about 62,000 MT, mainly to South Korea, Japan, the Philippines and the United States. If exports to China will remain at the same level during the year, and exports to other markets will expand at the same pace, annual exports will fall to about 2.7 MMT. This is a reduction 425,000 MT compared to 2016. This scenario is likely to develop as Chinese pork production is reportedly recovering and also supply from the United States is building. Furthermore, EU suppliers are slowly losing their favorable exchange rate of the Euro against the US\$. As a slight improvement of the sales to China is anticipated, total EU exports are estimated at 2.8 MMT for this year.



The EC and individual MS are looking for new export markets.

With the absence of the Russian market, and weakening of Chinese demand for EU pork, the EC and individual EU MS are eager to open new markets elsewhere. In May, 2017, the Danish Government announced that China agreed to allow Danish heat treated pork products, such as sausages and ham. On July 5, 2017, the EC and Japan announced that they had come to a political agreement. The trade deal with Japan will reportedly open the market for the lower value parts and higher-end processed products. But SPS issues still have to be decided upon, and the ratification procedure for such an agreement generally last two years. The Vietnamese market may lift restrictions earlier but the market impact is expected to be limited. A more likely market able to take up the EU pork surplus is the Ukraine. The Ukraine has a zero duty quota with the EU, and is reportedly short of about 100,000 MT of pork. EU and Ukrainian pork prices could possibly level during the autumn of this year after which exports could start.

The projected oversupply will reduce the supply of piglets and slaughter in 2018.

As domestic consumption of pork is on the decline a significant volume of pork is likely to end up in cold storage. Some increased consumption is expected in Spain, supported by tourism, and in France and Austria due to a rising population. But in the main market, namely Germany, consumption is under pressure. Domestic demand is decreasing and the ongoing animal welfare discussions further depress the market. In this scenario of limited exports sales, and an oversupply of pork on the domestic market, prices for hogs and piglets will fall. This will not only reduce the piglet supply and slaughter, but also the slaughter weights next year.

Policy

Implementation of the EU-Canada Trade Agreement (CETA)

The CETA, signed by the European Council on October 26, 2016, will provisionally apply from September 21, 2017 as the agreement's ratification procedure is being finalized.

The agreement will incrementally allow EU duty-free access for *fresh* and *chilled* Canadian beef starting with 5,140 MT in year one increasing to 30,840 MT in carcass weight equivalent (CWE) from year six onwards. An additional 4,160 MT CW from the EU-Canada MOU on hormone beef will be added from the start. A second quota for *frozen* beef will open incrementally starting at 2,500 MT CWE and reaching 15,000 MT CWE from year six onwards. Furthermore, Canada will receive a waiver for the 20 percent duty for the 11,500 MT Hilton beef quota that it shares with the United States. For bison, Canada receives a new 3,000 MT quota, while it will also be able to ship bison duty-free under the Hilton quota.

For pork, Canada gained a duty-free quota with 12,500 MT CWE annual increments totaling 75,000 MT CWE from year six. This comes on top of Canada's existing country-specific quota of 5,549 MT CWE.

Implementation of the EU-Vietnam Free Trade Agreement (FTA)

The EU and Vietnam concluded their FTA negotiations in December 2015. Both parties hope to finalize the ratification procedure for the agreement by the end of 2017 allowing the agreement to be implemented from the beginning of 2018. The EU will receive reduced duty access for beef and pork after varying grace periods depending on the cuts.

Implementation of the EU-Japan Free Trade Agreement (FTA)

On July 5, 2017, the EU and Japan announced that they had come to a political agreement on a FTA. However, negotiations will continue on practical and technical details for such an FTA. The formal U.S. withdrawal from the Trans Pacific Partnership (TPP) in January 2017 seems to have allowed the EU to reverse its backlog on trade with Japan and get on par with Australia after this agreement comes online. European farm industry leaders cheer this agreement with this second largest and most affluent export destination in the growing Asian market.

Presence and Impact of African Swine Fever (ASF)

After the first ASF outbreak occurred in Lithuania and Poland in early 2014, the disease spread to the North also infecting Latvia and Estonia. At the end of June 2017, ASF was detected in the wild boar population in the Czech Republic and early August it was found in backyard pigs in Romania close to the Ukrainian border. Before the latest outbreaks, the impact of ASF on EU pork exports was limited to Poland. But because many importing countries, especially China, do not accept EU regionalization, the spread of ASF to could have a devastating effect on EU pork exports.

Presence and Impact of Bluetongue (BT) Disease

Various strains of the BT virus continue to be present in the southern parts of Europe. Italy has long been affected by different serotypes. The Balkan countries including Slovakia, Hungary, Romania, Bulgaria and Greece have serotype 4, while Spain and Portugal have both serotypes 1 and 4. However, the most problematic BT presence for the cattle in the EU is the presence of BT-8 in most of France as several countries in Northern Africa, including Turkey don't allow imports of vaccinated animals.

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 28 EU member states.

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

Xavier Audran from FAS Paris covering France
Ornella Bettini from FAS Rome covering Italy
Mila Boshnakova from FAS Sofia covering Bulgaria
Monica Dobrescu from FAS Bucharest covering Romania
Dimosthenis Faniadis from FAS Rome covering Greece
Bob Flach from FAS The Hague covering the Netherlands and Nordic countries
Gellert Golya from FAS Budapest covering Hungary and Slovenia
Steve Knight from FAS London covering the United Kingdom and Ireland
Roswitha Krautgartner from FAS Vienna covering Austria
Jana Mikulasova from FAS Prague covering the Czech Republic and Slovak Republic
Andreja Misir from FAS Zagreb covering Croatia
Yvan Polet from FAS Brussels covering EU Policies, Belgium and Luxembourg
Leif Rehder from FAS Berlin covering Germany
Piotr Rucinski from FAS Warsaw covering Poland, Estonia, Latvia and Lithuania
Carmen Valverde from FAS Madrid covering Portugal and Spain

NOTE

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

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

PW = Product Weight CW = Carcass Weight

ABBREVIATIONS

EC: European Commission

EU: All twenty-eight Member States of the European Union.

MS: An EU Member State

NMS: The thirteen new Member States which joined the EU in May 2004, January 2007 and July 2012

Related reports from FAS Posts in Europe:

Country	Title	Date
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Turkey	Turkish Subsidy Program for Beef Breeding and Livestock Continues	04/28/17
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Spain	Pork Production and Exports Continue Reaching Record Levels	10/20/16
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-For additional livestock market related information, please contact:

Bob Flach (FAS The Hague)

Phone: ++31 70 310 2303

E-mail: bob.flach@fas.usda.gov

-For additional livestock policy related information, please contact:

Yvan Polet (FAS Brussels U.S. Mission to the EU)

Phone: ++32 2 811 4095

E-mail: yvan.polet@fas.usda.gov