

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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EU-28

Livestock and Products Semi-Annual

EU Meat Sector Withstands Russian Ban

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Report Highlights:

Despite the Russian ban on pork and beef, the EU meat sector is forecast to retain production and export levels. The sector further improved its efficiency and benefitted from low feed prices. The competitiveness of the sector is, however, combined with record low prices and tight or negative profit margins. Supported by the limited global supply of beef and pork, exports have been re-directed to alternative markets. Based on the favorable exchange rate of the Euro, EU exports of beef and pork are forecast to expand in 2015.

Executive Summary

Cattle & Beef – *Liberalization of the dairy sector is driving beef production.*

The abolishment of the milk quotas in April 2015 is driving beef production. Based on the expansion of the dairy herd, the calf crop, slaughter and beef production are forecast to increase through 2015. But this trend is adjusted to a lower level than was anticipated in the Annual Report. The tight global beef supply is restricting EU imports but has inspired EU exporters to find alternative markets for Russia.

Swine & Pork – *The swine sector withstands the Russian ban.*

EU piglet production and slaughter for 2015 is forecast at a significant higher level than the official USDA estimates. The specialized breeding farms in Western Europe are anticipated to retain their production levels. But a lower demand for the heavier animals is pressing the average slaughter weight. Like the beef sector also the swine sector has been able to find alternative export markets for their product. In 2015, EU pork exports are expected to further expand to the Asian and African markets.

Policy

-On February 1, 2014, Russia banned pork imports from all 28 Member States as a result of African Swine Fever (ASF) findings on the eastern borders of Lithuania, Latvia and Poland. The EU has been unable to negotiate a resolution with the Russian veterinary services.

-On August 7, 2014, the Russian Government implemented sanctions on a wide range of agricultural and food products from the United States, the EU, Canada, Australia and Norway. The ban includes fresh and frozen beef and pork, poultry meat, prepared meat and sausages.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Animal Numbers, Swine

Meat, Swine

Cattle

| Country | EU-28 | | | | | |
|---------------------------|-------------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| Commodity | Animal Numbers, Cattle (1,000 Head) | | | | | |
| | USDA Official [EU-28] | Posts estimates [EU-28] | USDA Official [EU-28] | Posts estimates [EU-28] | USDA Official [EU-28] | Posts estimates [EU-28] |
| Market Year | 2013 | | 2014 | | 2015 | |
| Total Cattle Beg. Stocks | 87,106 | 87,106 | 87,645 | 87,619 | 88,050 | 88,150 |
| Dairy Cows Beg. Stocks | 23,193 | 23,193 | 23,482 | 23,475 | 23,650 | 23,600 |
| Beef Cows Beg. Stocks | 12,043 | 12,034 | 11,900 | 11,916 | 11,850 | 12,000 |
| Production (Calf Crop) | 29,050 | 29,050 | 29,150 | 29,150 | 29,250 | 29,300 |
| Extra EU28 imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 116,156 | 116,156 | 116,795 | 116,769 | 117,300 | 117,450 |
| Extra EU28 exports | 505 | 505 | 450 | 499 | 460 | 510 |
| Cow Slaughter | 10,837 | 10,810 | 10,750 | 10,900 | 10,690 | 10,800 |
| Calf Slaughter | 6,619 | 6,713 | 6,645 | 6,600 | 6,665 | 6,650 |
| Total Slaughter | 26,195 | 26,229 | 26,400 | 26,250 | 26,450 | 26,350 |
| Loss | 1,811 | 1,803 | 1,895 | 1,870 | 1,890 | 1,890 |
| Ending Inventories | 87,645 | 87,619 | 88,050 | 88,150 | 88,500 | 88,700 |
| TOTAL DISTRIBUTION | 116,156 | 116,156 | 116,795 | 116,769 | 117,300 | 117,450 |

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

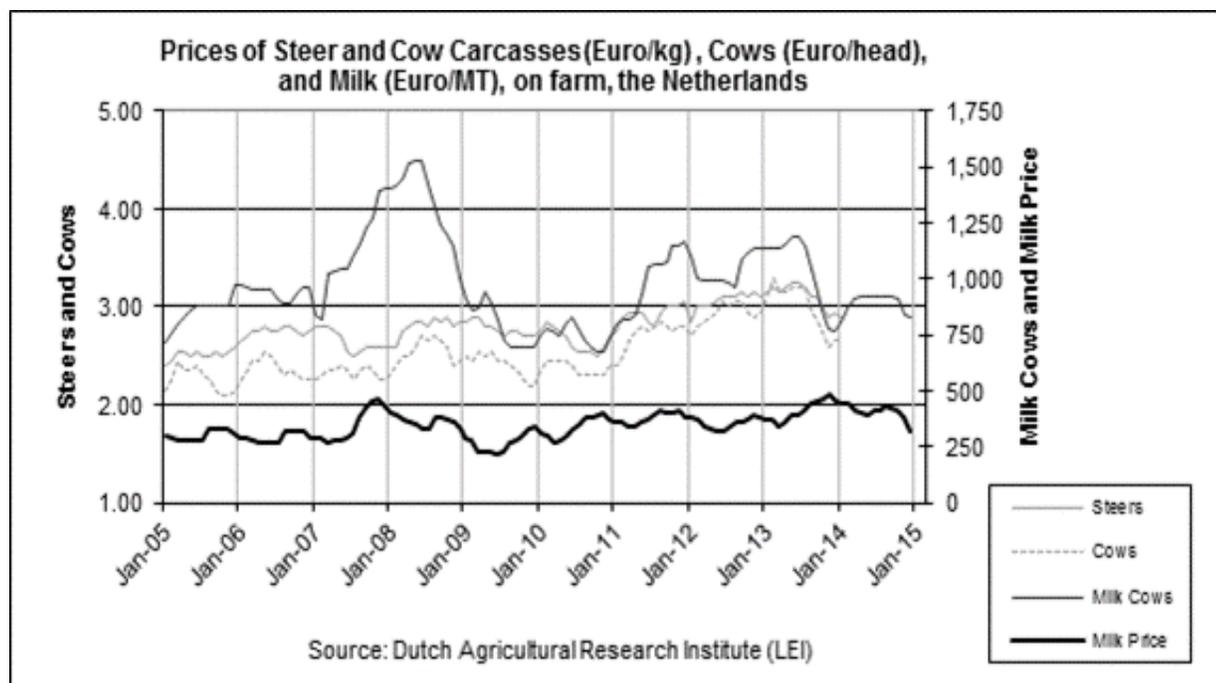
Liberalization of the dairy sector is driving beef production.

The anticipation of an increased calf crop through 2014 and 2015 remains intact but is adjusted to a slightly higher level in 2015. The increased production of calves is a result of the abolishment of the milk quotas in April 2015. Expansion of the dairy herd is expected to take mainly place in Northern Europe: the United Kingdom, Ireland, Germany, the Benelux, the Nordic Countries, Poland and France. In most other EU Member States, the dairy herd is shrinking mainly due to the phasing out of government support programs and increased competition on the EU domestic market. Based on the December census statistics of twenty-four Member States (representing 85 percent of the total herd), the EU beef cow herd has increased during 2014. The main expansion is reported in Spain and France.

The increased availability of animals will raise slaughter in 2015.

In 2014, higher than expected exports to Lebanon and Russia balanced lower exports to other destinations in the Middle East and Northern Africa. As forecast in the Livestock Annual Report, live exports are projected to recover in 2015. Expansion is anticipated for exports of breeding cattle to Russia and exports of both breeding cattle and animals for halal slaughter to Turkey. While cow slaughter is adjusted to a higher level, slaughter of calves is revised to a lower level than forecast in the Annual Report. With the nearing abolishment of the milk quotas, dairy farmers continued to renew their herd, which supported the slaughter of older dairy cows. The slaughter of calves for veal continues to decline due to the suppressed demand in the main markets, France and Italy. The slaughter of cows is expected to fall after April, with the liberalization of the dairy market in effect, but could be sustained at

a high level if the milk prices drop further. As a result of the lower than anticipated slaughter of bulls in Italy and France in 2014, total slaughter is revised downwards. Based on this increased availability of animals, EU slaughter is estimated to increase during 2015.



Beef

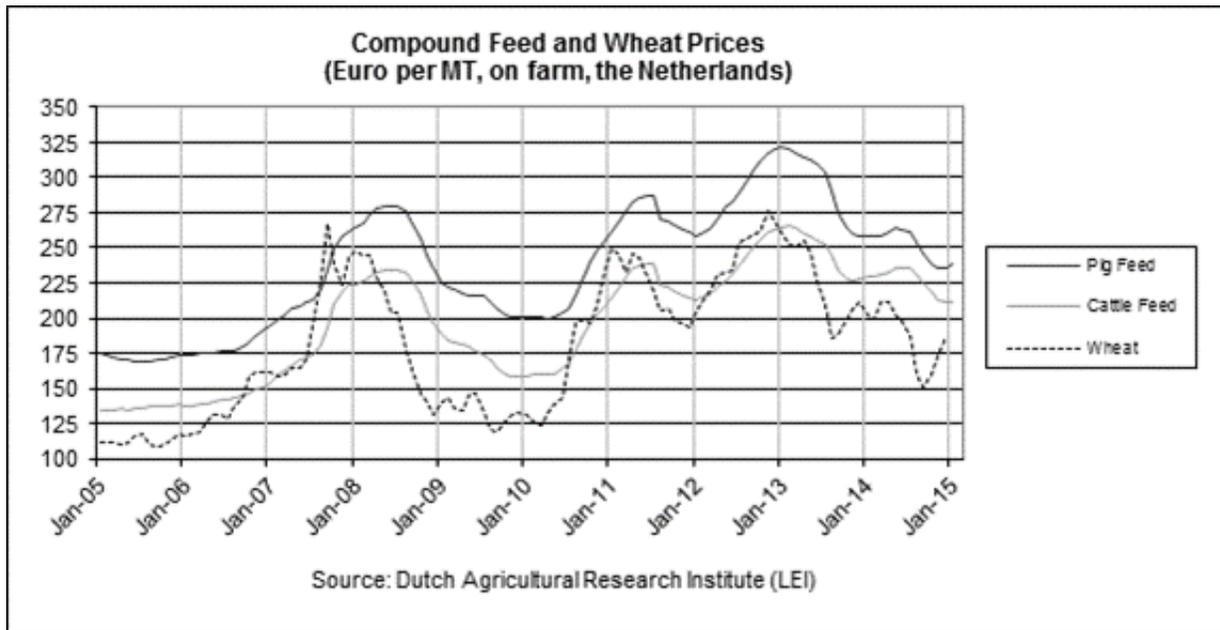
| Country | EU-28 | | | | | |
|---------------------------|--|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Meat, Beef and Veal (1,000 Head)(1,000MT CW) | | | | | |
| Commodity | USDA Official [EU-28] | Posts estimates [EU-28] | USDA Official [EU-28] | Posts estimates [EU-28] | USDA Official [EU-28] | Posts estimates [EU-28] |
| | 2013 | | 2014 | | 2015 | |
| Slaughter (Reference) | 26,195 | 26,229 | 26,400 | 26,250 | 26,450 | 26,350 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 7,384 | 7,388 | 7,475 | 7,410 | 7,475 | 7,440 |
| Extra EU28 imports | 376 | 376 | 360 | 371 | 355 | 365 |
| TOTAL SUPPLY | 7,760 | 7,764 | 7,835 | 7,781 | 7,830 | 7,805 |
| Extra EU28 Exports | 244 | 244 | 255 | 301 | 245 | 325 |
| TOTAL Domestic Use | 7,516 | 7,520 | 7,580 | 7,480 | 7,585 | 7,480 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 7,760 | 7,764 | 7,835 | 7,781 | 7,830 | 7,805 |

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

EU beef production is rising but at a slower pace than was anticipated.

As anticipated in the Annual Report, beef production is trending upwards. But in line with the revision of slaughter numbers, production in 2014 and 2015 is adjusted to a lower level. During the first eleven

months of 2014, beef production in the official slaughterhouses rose by 0.23 percent, while also backyard production of beef shows an increasing trend. Elevated beef production is reported in Poland, Ireland, the United Kingdom and Germany. Beef production is also supported by higher slaughter weights due to the good availability of fodders and low prices of compound feed. EU beef imports continue to shrink from the main suppliers, Brazil, Uruguay and Argentina, but imports through the High Quality Beef (HQB) quota from Australia are gearing up.



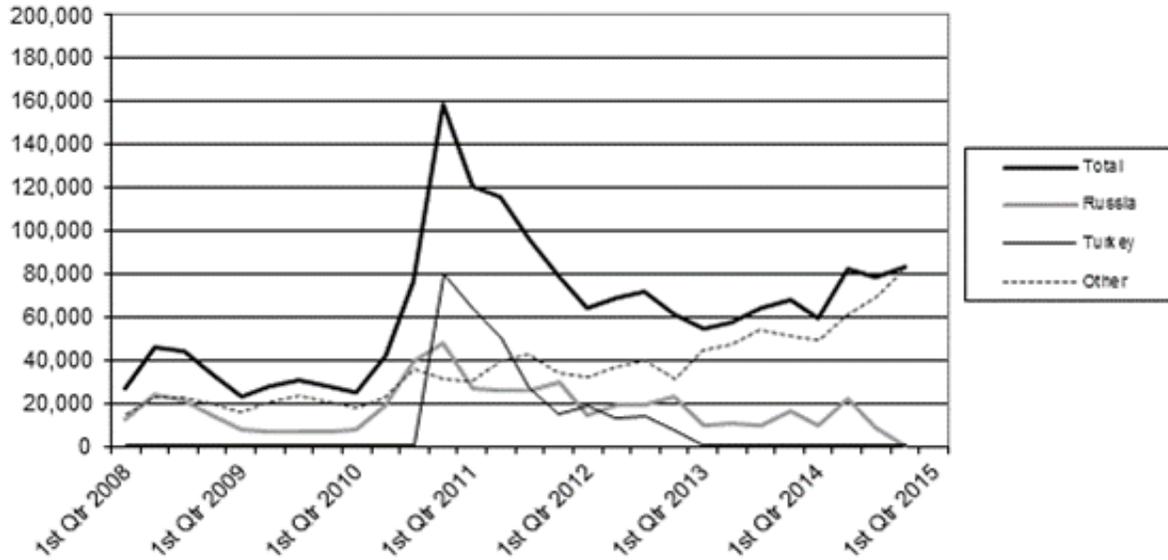
EU beef exports are forecast to increase further in 2015.

On August 7, 2014, Russia banned EU fresh and frozen beef as part of sanctions on a wide range of agricultural and food products. But as foreseen in the Annual Report, the EU found easily alternatives for the Russian market. This can be explained by the tight global beef supply. Beef exports to Russia were mainly redirected to the Balkan. Also Hong Kong increased their beef imports from the EU, mainly from the United Kingdom and Ireland. The outlook for EU beef exports looks promising. On December 30, 2014, Ireland became the first EU Member State to achieve USDA approved equivalence status for their beef inspection system. This opens the way for beef exports to the United States to recommence after nearly 20 years. The United States will likely be a high value, low volume, niche market for Irish beef. Access to the United States beef market is also important from a reputational perspective and could lead to increased market access for Irish beef in other third country markets.

Limited availability of non-dairy beef suppresses domestic consumption.

Despite the increased availability, EU beef consumption is forecast to stagnate. With the revision of production and trade figures, it must be concluded that EU beef consumption was overestimated in the Annual Report. Consumption of beef in the highest quality segment is constrained by the limited availability, while the use of the lower qualities is also stagnating due to the dwindling consumption of processed beef and snacks.

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



Source: Global Trade Atlas

Swine

| Country | EU-28 | | | | | |
|---------------------------|------------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| | Animal Numbers, Swine (1,000 Head) | | | | | |
| Commodity | USDA official [EU-28] | Posts estimates [EU-28] | USDA official [EU-28] | Posts estimates [EU-28] | USDA official [EU-28] | Posts estimates [EU-28] |
| Market Year Begin | 2013 | | 2014 | | 2015 | |
| TOTAL Beginning Stocks | 146,982 | 146,982 | 146,129 | 146,172 | 145,500 | 146,400 |
| Sow Beginning Stocks | 12,737 | 12,737 | 12,529 | 12,507 | 12,100 | 12,500 |
| Production (Pig Crop) | 256,750 | 257,000 | 256,000 | 259,000 | 250,000 | 260,000 |
| Extra EU28 imports | 1 | 1 | 1 | 1 | 1 | 1 |
| TOTAL SUPPLY | 403,733 | 403,983 | 402,130 | 405,173 | 395,501 | 406,401 |
| Extra EU28 exports | 572 | 569 | 450 | 556 | 475 | 550 |
| Sow Slaughter | 4,081 | 4,104 | 4,200 | 4,100 | 4,045 | 4,050 |
| Total Slaughter | 250,735 | 250,978 | 250,000 | 252,000 | 245,900 | 253,000 |
| Loss | 6,297 | 6,264 | 6,180 | 6,217 | 6,126 | 5,851 |
| Ending Inventories | 146,129 | 146,172 | 145,500 | 146,400 | 143,000 | 147,000 |
| TOTAL DISTRIBUTION | 403,733 | 403,983 | 402,130 | 405,173 | 395,501 | 406,401 |

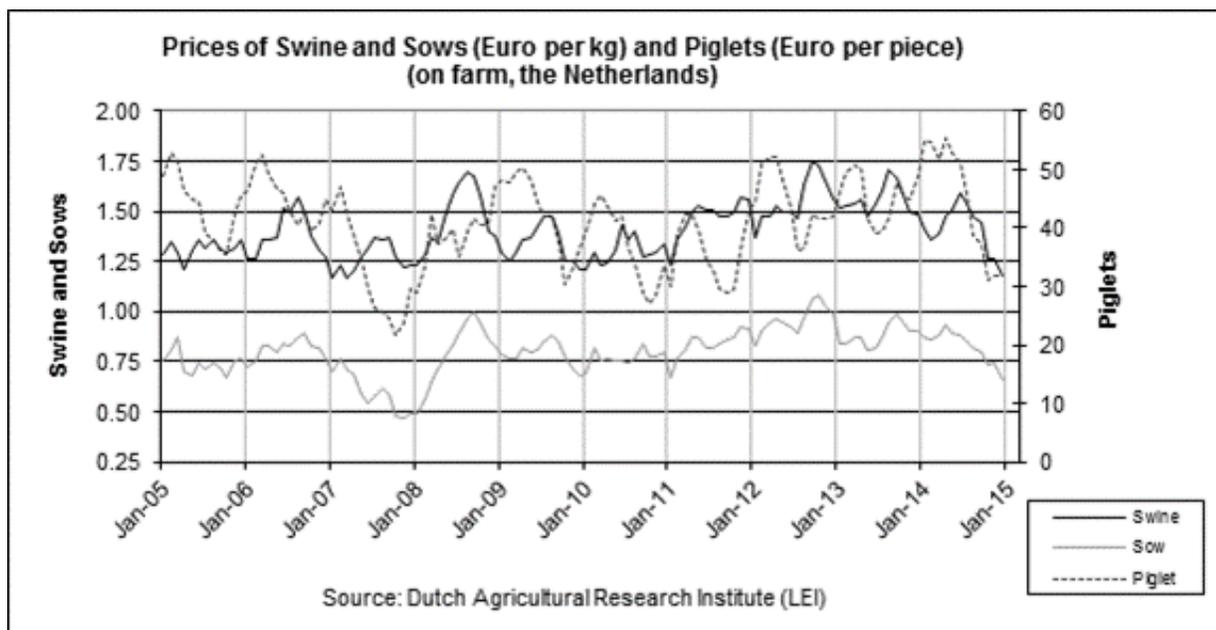
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

The dim market outlook accelerated slaughter during the autumn of 2014.

During the first eleven months of 2014, official slaughter increased by 0.3 percent, while also preliminary backyard slaughter statistics shows an increasing trend. During September and October slaughter accelerated after the second Russian ban deteriorated the market outlook. As a consequence of the higher than expected efficiency ending inventories of 2014 are adjusted to a higher level. Based on the December census statistics of twenty-three Member States (representing 90 percent of the total herd), the EU swine herd has increased during 2014. The main expansion is reported in Spain, Denmark and Poland.

The EU swine sector is anticipated to keep up production in 2015.

Despite the low prices for piglets, the sow stock stabilized at 12.5 million head during 2014. This estimate is based on the Eurostat census figures of twenty-three Member States, representing 90 percent of the herd. While the sow herd slightly declined or stabilized in most Member States, an increase of 100,000 head is reported in Spain. Also in Poland the sow stock is expected to have increased during 2014. Despite of the outbreak of African Swine Fever (ASF) in North-Eastern Poland in early 2014, drop of feed prices had a primary influence on the hog inventories in the second half of 2014. However, inefficient structure of the industry as well as continuing strong competition from Dutch, Danish and German suppliers of pork and piglets inhibits a faster recovery of the Polish swine industry. The breeding herd is increasingly held by specialized farms in Western Europe, which high investments force the farmers to retain production. Due to the increased efficiency, this year’s pig crop is forecast to increase above the production level of 2014. This is a significant revision from the official USDA forecast. The Posts’ forecast assumes the closure of the Russian market for the full year. The EU swine sector has proven to be able to find alternative markets, and is expected further expand exports to these destinations (see Pork Chapter). In line with the adjustment of the official USDA production figures, the Posts’ forecast of 2015 slaughter is increased significantly to slightly higher levels than reported for 2013 and 2014.



Pork

| Country | EU-28 | | | | | |
|---------------------------|-----------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Commodity | Pigmeat (1,000 Head)(1,000 MT CW) | | | | | |
| | USDA Official [EU-28] | Posts estimates [EU-28] | USDA Official [EU-28] | Posts estimates [EU-28] | USDA Official [EU-28] | Posts estimates [EU-28] |
| Market Year Begin | 2013 | | 2014 | | 2015 | |
| Slaughter (Reference) | 250,735 | 250,978 | 250,000 | 252,000 | 245,900 | 253,000 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 22,342 | 22,359 | 22,400 | 22,400 | 22,365 | 22,450 |
| Extra EU28 imports | 15 | 15 | 12 | 14 | 10 | 10 |
| TOTAL SUPPLY | 22,357 | 22,374 | 22,412 | 22,414 | 22,375 | 22,460 |
| Extra EU28 exports | 2,232 | 2,227 | 2,150 | 2,177 | 2,200 | 2,250 |
| TOTAL Domestic Use | 20,125 | 20,147 | 20,262 | 20,237 | 20,175 | 20,210 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 22,357 | 22,374 | 22,412 | 22,414 | 22,375 | 22,460 |

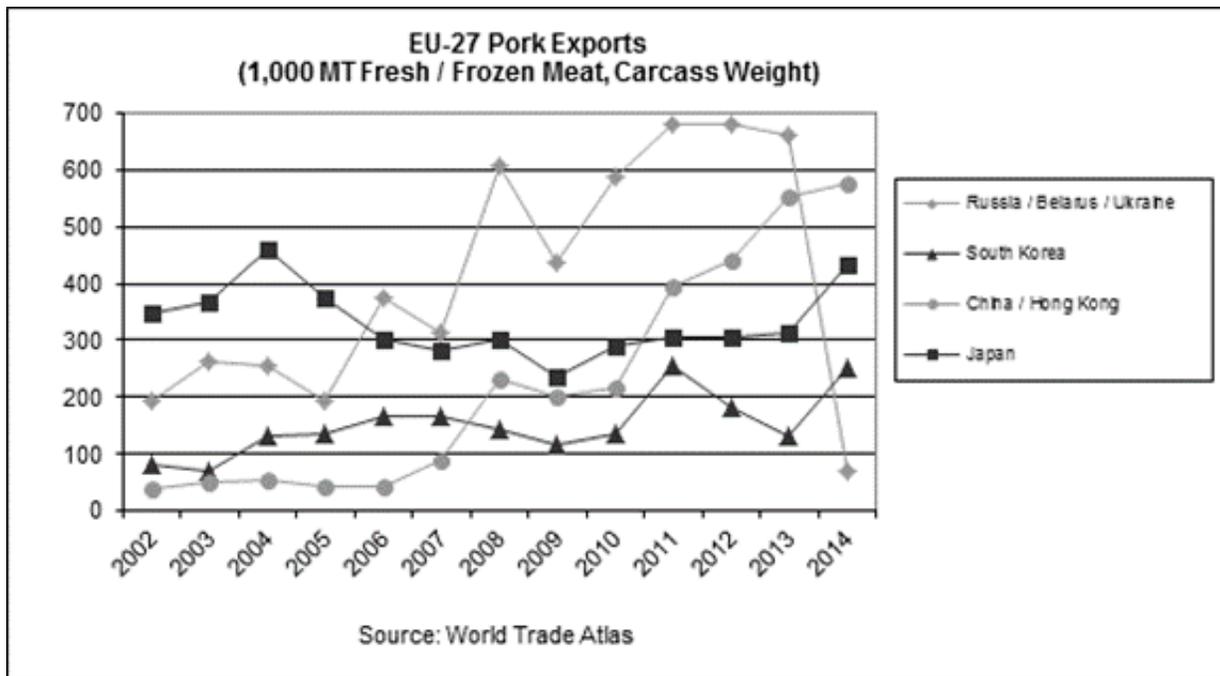
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Lower demand for heavier animals is suppressing total pork production.

Despite the revision of slaughter, pork production is not changed for 2014. During the first eleven months of 2014, average slaughter weights declined, mainly due to lighter carcasses in Italy, from average 126 kg in 2013 to 120 kg in 2014. This is caused by the lower demand for the high value pork delicacies made from the typical heavy Italian hogs. As the outlook for the feed supply for this year is not expected to change significantly, the average EU slaughter weight is forecast to decline only slightly in 2015. With the anticipated increased piglet production and slaughter, EU pork production is expected to increase to nearly 22.5 MMT.

The sector is expanding trade to Asia.

Because of outbreaks of African Swine Fever (ASF) in Poland, Lithuania and Latvia, Russia has banned EU fresh and frozen pork since February 1 and Belarus since February 20, 2014. The outbreaks of ASF also negatively affected exports to the Ukraine. In addition, on August 7, 2014, the Russian Government implemented sanctions on a wide range of agricultural and food products from the United States, the EU, Canada, Australia and Norway. Reportedly the ban will last for one year. The ban includes pork (HS0203), prepared meat (HS0210) and sausages (HS160100). In practice this effected an annual trade of 663,000 MT carcass weight (CW) of pork, to Russia (500,000 MT CW in 2013), Belarus (94,000 MT CW) and the Ukraine (69,000 MT CW). On an annual basis only about 45,000 MT CW of prepared pork (HS160249) to Russia and 20,000 MT CW of frozen pork were shipped last year. As anticipated in the Annual Report this market loss of 600,000 MT CW was for the most part compensated by exports to alternative third country markets. The remainder has been stored and is expected to come available during 2015. Exports rose most significantly to South Korea and Japan. Spain increased exports to third country destinations with about 90,000 MT CW, which includes a doubling of exports to Japan. This foreign demand is expected to further boost the Spanish production of pork. In most other Member States, however, fatteners face negative or tight profit margins. The competitiveness of the EU pork on the world market is based on the lowest carcass prices recorded since 2007.



Supported by a weak Euro, the sector is expected to further expand exports.

The general Russian ban is currently in place until August 2015. It is however questionable if the ASF related ban on pork will be lifted, and the EU can restart exporting to Russia. Reportedly six EU Member States, France, Hungary, Italy, Germany, Denmark and the Netherlands, unsuccessfully attempted to negotiate the lifting the ASF ban on their products which are not covered by the general ban; live pigs, breeding material, offal and fats. The historic trade of pork offal and fats is only about 15,000 MT, mainly imported from Spain, Hungary and Poland, and would therefore have little influence on the total EU balance. In 2015, EU pork exports are expected to further expand to the Asian and African markets. The Euro has not weakened against the currencies in the main Asian markets, but has lost its value against the US\$. This is expected to further support the competitiveness of EU pork on the world market.

Policy

Update on U.S. beef exports into the HQB quota

The EU High Quality Beef (HQB) quota is a result of the 2009 Memorandum of Understanding on the WTO Hormone Dispute between the EU and the United States. The EU Customs database TARIC indicates that 41,358 MT of beef was imported during the July/June 2014 quota year, compared to 33,572 MT in the previous quota year. This left 6,862 MT of the quota unfilled. Australia and Uruguay accounted for the majority of the quota fill. In August, the EC allowed Argentina to join the group of countries which are eligible to export under the quota.

As EU beef imports into the HQB quota continued to increase, the quota ceiling was almost reached in the first and second quarter for quota year 2014/2015. This increased uncertainty for the trade, as EU quota management rules demand that when the quota reaches its 90 percent “critical” fill rate importers must pay the full import duty for all shipments overshooting the quota ceiling.

Majority of EU MS decide to continue coupled support

Of the 28 Member States (MS), 24 have decided to maintain at least some form of coupled support for their beef producers under the new Common Agricultural Policy (CAP), which will be implemented from 2015 on. Of the important beef producers, only Germany and Ireland decided against the continuation of coupled support for beef production. It is forecast that EU specialized beef production will continue to decline as coupled aid will be substantially lowered from past support levels in most MS. The end of the EU dairy production quota system as of April 1, 2015 is expected to lead more farmers to reconvert cattle herds away from beef production.

Russian ban on EU pork imports as a result of ASF outbreaks

As previously mentioned, Russia banned pork imports from all 28 Member States as a result of African Swine Fever (ASF) findings on the eastern borders of Lithuania, Latvia and Poland. Until now, the EU has been unable to find a negotiated solution with Russia for regionalization, which would have allowed exports from unaffected areas to resume. On June 30, the EU requested the establishment of a panel from the WTO Dispute Settlement Body (DSB). Russia was able to block the EU’s request under WTO rules. However, on July 22, 2014, the EU finally secured a panel from the DSB.

Russian extensive ban on agricultural and food products

On August 7, 2014, the Russian Government implemented sanctions on a wide range of agricultural and food products from the United States, the EU, Canada, Australia and Norway. Reportedly the ban will last for one year. The ban includes fresh beef (HS0201), frozen beef (HS0202), pork (HS0203), poultry meat (HS0207), prepared meat (HS0210) and sausages (HS160100). An overview of the export volumes for beef, pork and poultry to Russia in 2013 is given in the Livestock Annual Report.

EU MS continue to plead for EU support for pork producers

At the January 26, 2015, Management Committee meeting, Belgium, Denmark and France, Finland and Ireland, requested the EC to open a Private Storage Aid (PSA) scheme for pork producers hardest hit by the Russian import ban. However, the Agricultural Commissioner again refused the request, stating such a measure could slow down market responses and prolong the perceived crisis situation.

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:

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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
 Benelux countries: Belgium, the Netherlands and Luxembourg
 Nordic countries: Denmark, Sweden and Finland

Related reports from FAS Post in the European Union:

| Country | Title | Date |
|----------------|--------------|-------------|
|----------------|--------------|-------------|

| | | |
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| Poland | Polish Dairy Farmers without Compensation for the Russian Embargo | 12/16/14 |
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