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Required Report - public distribution

Date: 05/09/2018

GAIN Report Number: FR1817

EU-28

Poultry and Products Annual

Further Growth for EU-28 Chicken Meat Production in 2018 and 2019

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Report Highlights:

The EU-28 chicken sector is expected to grow in 2018 and 2019, driven by a slow but steady increase in domestic demand. Thailand will become the largest supplier of chicken meat to the EU-28, superseding Brazil which had 20 plants delisted for salmonella issues, with Ukraine becoming the third largest supplier after being granted a TRQ for chicken meat. EU-28 chicken meat exports are expected to increase in 2018 and 2019 driven by a large increase in exports of low-priced dark meat cuts, bone-in cuts and mechanically deboned meat (MDM) to Sub-Saharan Africa and parts of Asia.

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.

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Executive Summary:

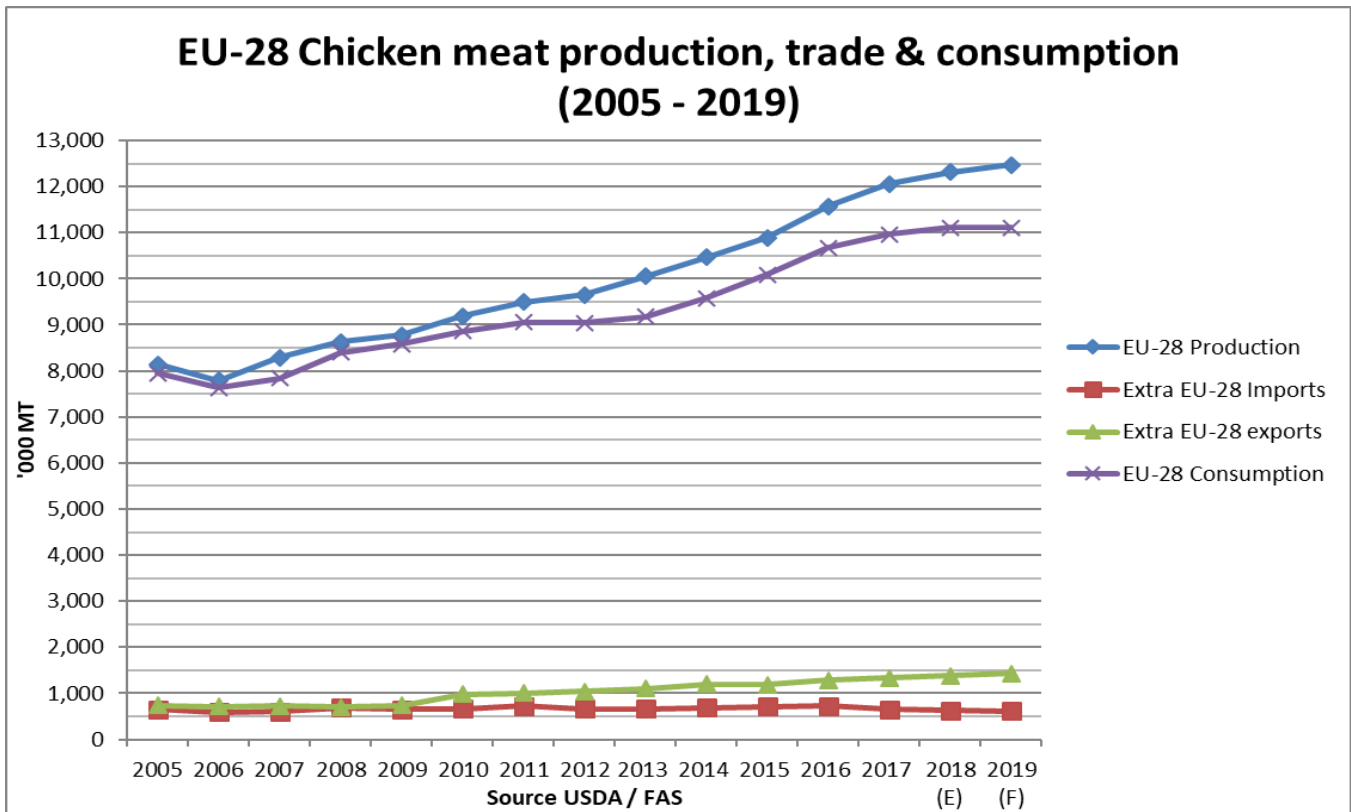
The EU-28 chicken meat sector is expected to continue to grow in 2018 and 2019 due to slowly increasing domestic demand and increased exports. The economic downturn in Europe has not impacted sales, and in fact makes the product more attractive to consumers than other meats because it is cheaper and more convenient to prepare. Overall, EU-28 production in 2018 varies in different regions, but **chicken meat production is foreseen to increase from 2017 in most major EU producing countries** especially in Poland, now the leading EU-28 chicken meat producing country.

Highly Pathogenic Avian Influenza (HPAI) cases had no impact on EU-28 chicken production in 2018. The significant decline in grain and protein prices from 2014 to summer of 2018 boosted chicken meat competitiveness and increased operating margins, even as retail prices decreased. This trend is anticipated to continue in 2018 and 2019 even with the slight increase in grain prices since July 2018.

The EU-28 chicken imports are expected to decrease in 2018. Thailand and Brazil remain the largest suppliers of chicken meat to the EU-28, but Brazilian exports are predicted to decline due to sanitary concerns that led to the delisting of 20 Brazilian poultry processors from the list of plants eligible to export to the EU-28. With completion of the Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU-28 and Ukraine in 2014, Ukrainian chicken meat exports to the EU-28 surged. Ukraine's exports are expected to reach 125,000 MT in 2018 due to a loophole allowing Ukraine to export at zero rate bone-in breasts that are further processed (deboned) in the Netherlands and Slovakia.

EU-28 chicken meat exports are anticipated to increase sharply in 2018 fuelled by exports of low-priced dark meat cuts, bone-in cuts and mechanically deboned meat (MDM) to Sub-Saharan Africa (SSA) and Asia. These exports to SSA and Asia are increasing dramatically, and are growing faster because of the lifting of HPAI-related embargoes. Exports to Saudi Arabia remained stagnant while exports to South Africa dropped sharply due to tariffs.

While all sources show that total meat consumption in the EU-28 has been negatively impacted by the economic downturn in Europe, poultry meat, which is the cheapest source of animal protein, was generally unaffected. Its consumption per capita is stable or slightly increasing. In the EU-28, sales of cheaper chicken cuts also increased faster than sales of more expensive parts, such as breasts or whole birds.



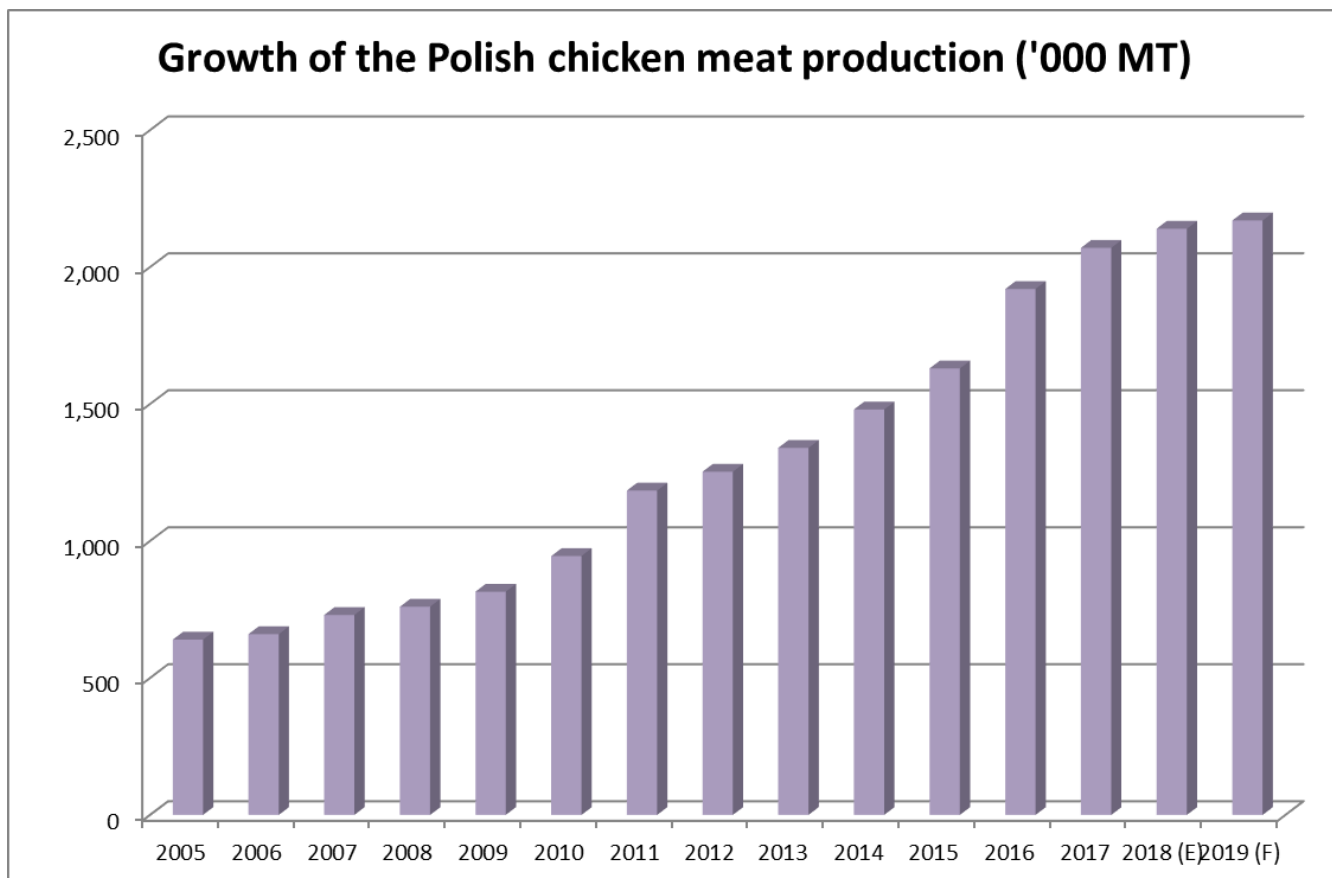
Commodities:

Poultry, Meat, Chicken

Production:

The EU-28 chicken sector is expected to continue to grow in 2018 and 2019, benefiting from growing domestic demand and because it is cheaper than most other meats and convenient for consumers. Export demand also contributed to the increase in production. About 98 percent of the production is made up of broiler meat, the rest (less than 2 percent) being meat from hens, primarily laying hens and cocks.

There were no major cases of HPAI reported in 2017 and 2018 and all EU-28 countries have recovered their HPAI free status by the summer of 2018. A few isolated cases of Newcastle Disease (NCD) reported in Belgium in 2018 mainly affected exhibition (pet) birds with no impact on commercial chicken production and trade. The development of free-range chicken production in several EU-28 MS that is driven by consumers’ demand for free range and/or organic chicken meat is concerning for veterinary authorities because this method of production is more vulnerable to HPAI epidemics.



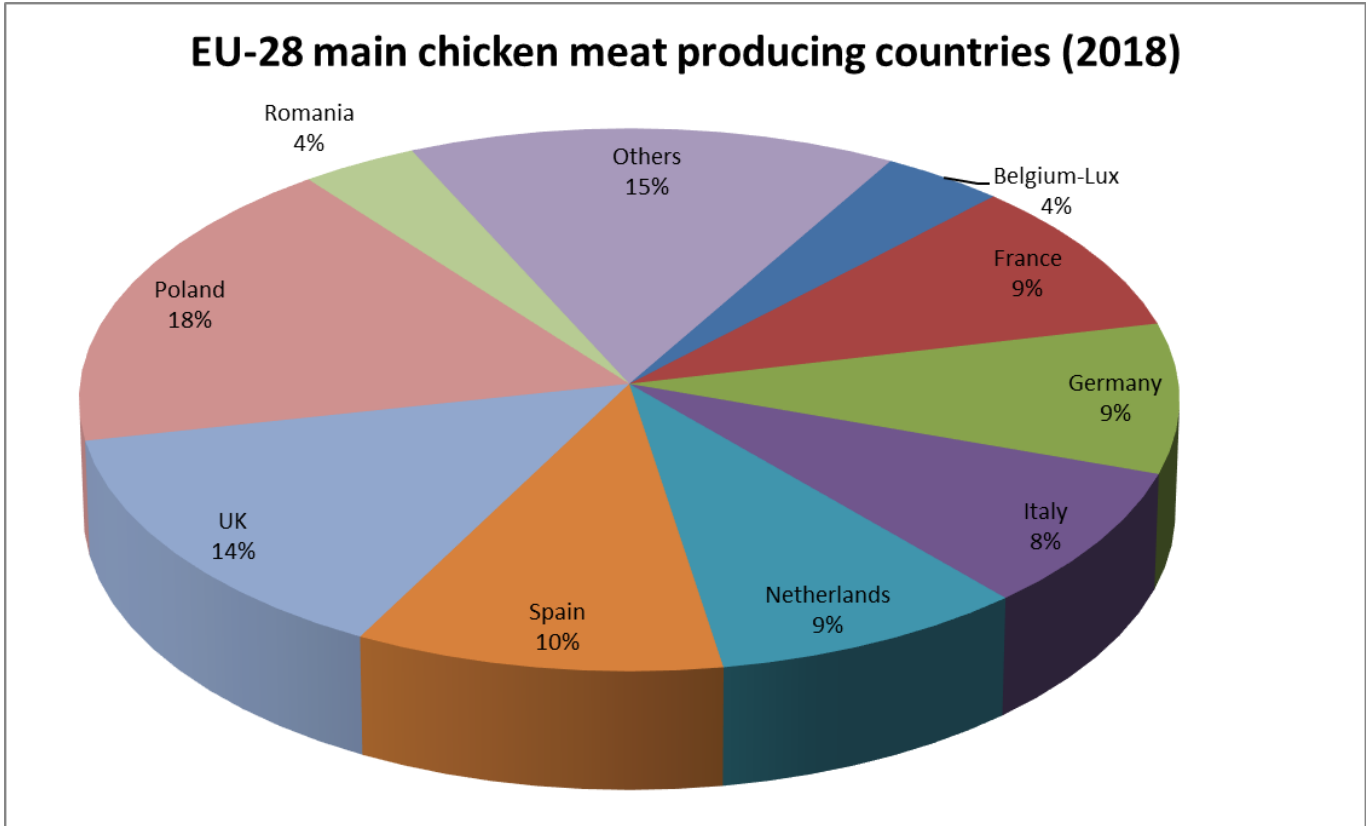
(source: FAS Warsaw)

The overall EU-28 production in 2018 varies by location, but chicken meat production is expected to increase from 2017. Poland shows the largest increase, and it is now the largest EU-28 chicken producer with close to 20 percent of all EU-28 chicken production. The growth in Polish chicken production is mainly export driven with close to 50 percent of the production exported. Interesting, far from being a polluting waste, the poultry manure is recycled to produce mushrooms, with Poland becoming one of the largest EU producers of mushrooms.

France's chicken meat production has stalled because of declining exports and competition from other EU-28 suppliers; the limited growth in production is now driven exclusively by the increase in domestic consumption. In Germany, growth in production benefited from a reopened modern slaughter facility in Western Lower Saxony but production remains under pressure due to welfare and environmental issues that hamper the installment of new poultry farms and the enlargement of existing ones. In Spain, chicken production grew in the past years but will likely stabilize in 2018 and 2019 due to the downward Spanish retail sector pressure on poultry prices for consumers lowering producer margins. It also led to the closure of uncompetitive chicken farms and the switch to alternate poultry productions such as duck, turkey, partridge and quail. Chicken meat production in Italy is expected to raise in 2018 driven by profitable margins that could lead to overproduction. These lower prices may lead to decreased production in 2019.

The growth of chicken meat production in Hungary will be stronger in 2018 after the decrease in 2017 due to the HPAI outbreaks. After a slowdown of the Dutch production in 2017 after the findings of HPAI in 2016 and 2017, chicken meat production in the Netherlands is forecast to recover and increase to a new production record in 2018. Increase of production is also reported in UK, Czech Republic, Sweden and Finland.

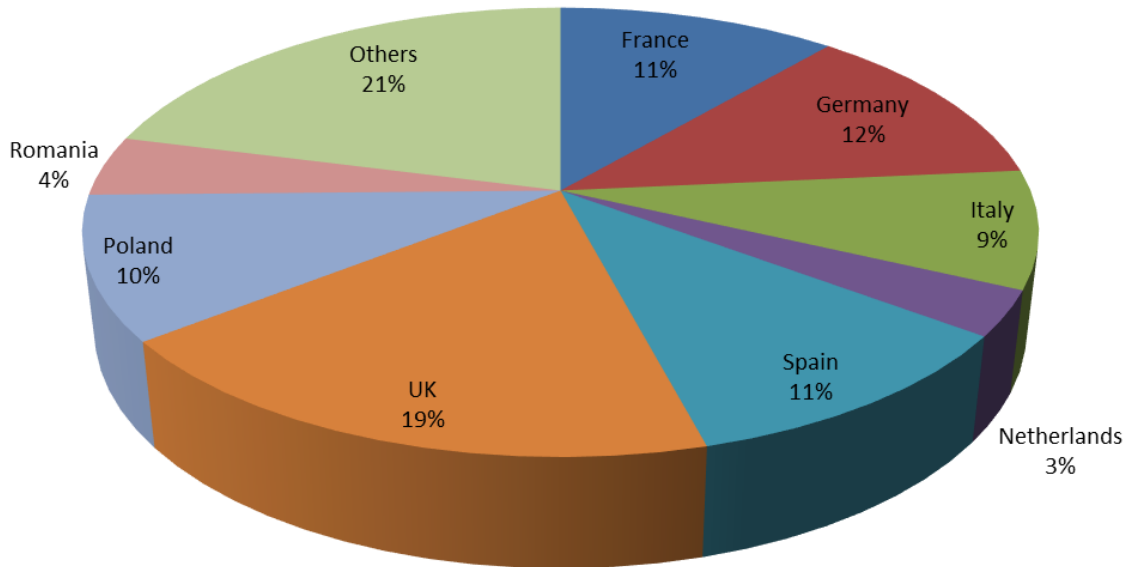
EU-28 chicken production is predicted to grow again in 2019 because of continued strong domestic demand for poultry meat given the slow economic growth predicted for the EU-28 in 2019 that favors cheap protein sources, combined with continued export demand. The increase in grain prices in the second half of 2018 that will raise production costs at the end of 2018 and in early 2019 could slow the growth. However, the short two-month production cycle of the chicken industry makes it very reactive to outside events, both on the upside and downside, making accurate forecasts difficult.



(Source FAS Posts)

Consumption:

EU-28 main chicken meat consuming countries (2018)



(Source FAS Posts)

While all sources show that total meat consumption in the EU-28 has been negatively impacted by the economic downturn, chicken meat as a less-expensive alternative protein was less affected by the sluggish economy. However, consumption growth is slightly less than demographic growth, which means that per capita consumption is fairly stable. Several market analyses showed that, while EU-28 consumers generally switched from beef or pork meat to chicken meat, the low-income consumers reduced their protein purchases, switching to carbohydrate products such as bread and pasta. The exception is in Spain, where pork meat is still preferred over chicken meat. In the EU-28, sales of cheaper cuts such as legs and wings also increased faster than sales of more expensive parts, such as breasts or whole birds. This trend is expected to extend into 2018 and 2019 in the absence of a robust economic recovery.

In several EU-28 countries, such as Germany, France and Poland, the shift to chicken meat consumption has also increased by the perception that it is a healthier and leaner meat and because it is more convenient to prepare. It is also considered easier to prepare for catering and restaurant use than other meats. The consumption of organic, GMO-Free and free-range chickens is also on the increase in most EU-28 countries and especially in Austria, Germany and the Netherlands.

Trade:

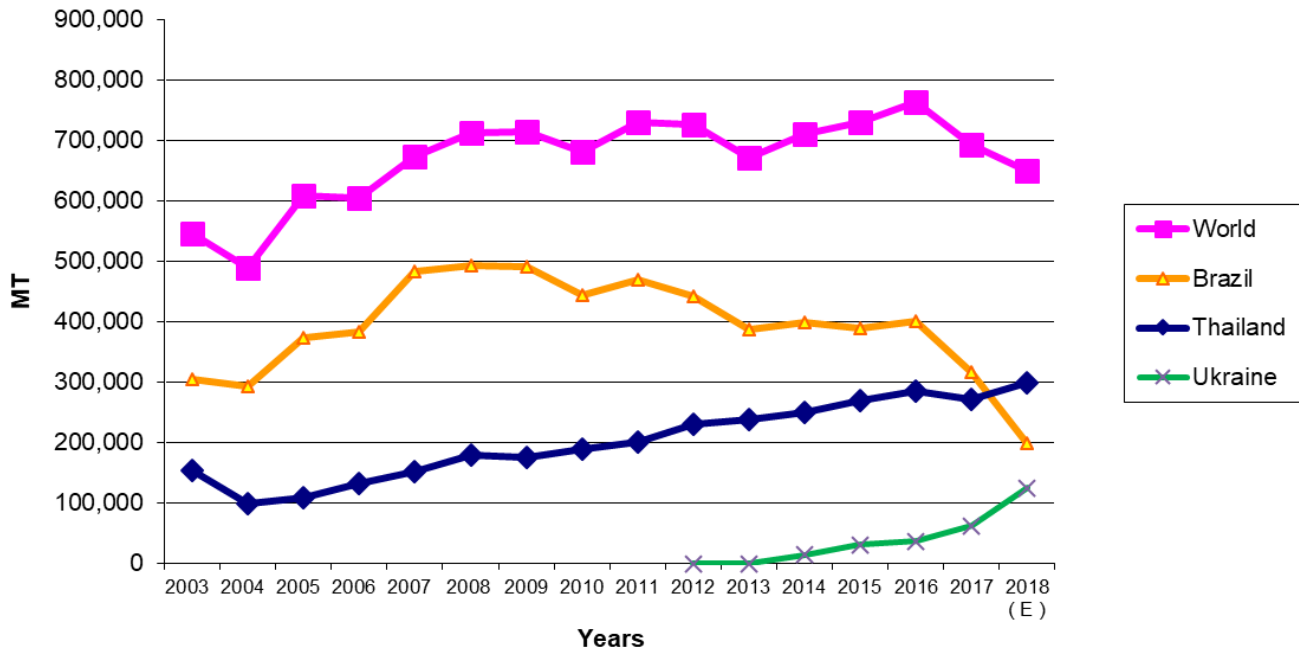
The EU-28 chicken meat trade surplus is expected to increase in 2018 and 2019 in light of decreasing imports due to the delisting of 20 poultry plants in Brazil that is not fully replaced by higher imports from Thailand and Ukraine. Exports are foreseen to extend their growth in 2018 and 2019.

Extra EU-28 Imports

'000 MT	Quota years (July- June)	201 1/ 201 2	201 2/ 201 3	2013/20 14	201 4/ 201 5	2015/20 16	2016/20 17	2017/20 18	Quota reg. (EC) No 616/20 07 (July- June MY)
020712	Frozen whole	12	10	11	11	15	14	18	
020714	Frozen cuts	137	144	117	121	127	100	107	-
160232 19	Preparatio ns of chicken meat	360	326	324	304	327	343	316	251
021099 39	Salted, or in brine	205	240	218	268	278	249	170	264
Total		724	723	672	709	757	730	655	-

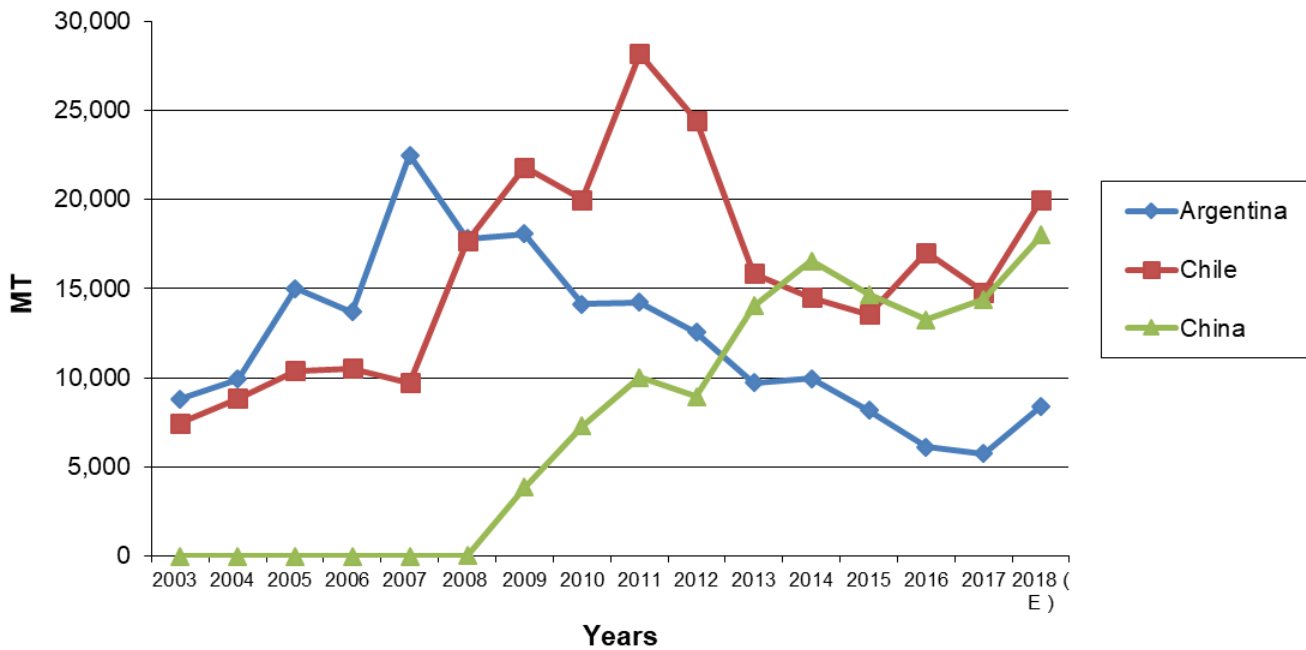
(Source World Trade Atlas)

EU-28 Imports of Chicken Meat - Major Suppliers



(Source World Trade Atlas)

EU-28 Imports of chicken meat - Minor Suppliers



(Source World Trade Atlas)

Thailand is forecast to become the largest supplier of chicken meat to the EU-28 in 2018, followed by Brazil.

In early May 2018, following an unsatisfactory oversight audit, the EU-28 de-listed 20 Brazilian meat and poultry processing plants from its list of approved plants eligible to export to the EU due to salmonella contamination risks. This delisting effectively halted imports into the EU from the affected meat company facilities. The ban was a blow to Brazil’s largest chicken processor, BRF SA, which had 12 plants delisted by the EU. The impacted companies need now to “comply with EU standards and build a track record of compliance,” after which approval for export to the EU may once again be granted following EU inspections.

The EU-28 market has been reopened to Thai poultry since July 1, 2012, after an eight year closure due to avian influenza outbreaks. Exports of Thai salted and frozen chicken cuts and parts to the EU-28 have been steadily increasing. This increase of imports from Thailand has negatively impacted imports from Brazil. Analysts report that many EU-28 importers prefer Thai to Brazilian chicken meat because of a perceived better quality of the Thai product.

Ukraine has become the third largest supplier of chicken meat to the EU-28 because of the Deep and Comprehensive Free Trade Agreement (DCFTA) signed in 2014 between Ukraine and the EU-28. The agreement sets up Tariff Rate Quotas (TRQs) for chicken parts and whole birds for imports by both parties.

Import Ukraine’s and EU’s TRQs for Poultry and Poultry Products

Product	HS Code	EU-28 Imports from Ukraine	Ukraine imports from EU-28
		MT in CWE	MT in CWE
Poultry: Whole Birds and Poultry Cuts	0207.11.(30-90)	MT/year	MT/year
	0207.12.(10-90)		
	0207.13.(10-20-30-50-60-99)	2014=16,000 1/	2014=8,000 2/
	0207.14.(10-20-30-50-60-99)	2015=16,800 1/	2015=8,400 2/
	0207.24.(10-90)	2016=17,600	2016=8,800
	0207.25.(10-90)	2017=18,400	2017=9,200
	0207.26.(10-20-30-50-60-70-80-99)	2018=19,200	2018=9,600
	0207.27.(10-20-30-50-60-70-80-99)	2019=20,000	2019=10,000
	0207.32.(15-19-51-59-90)		
	0207.33.(11-19-59-90)		
	0207.35.(11-15-21-23-25-31-41-51-53-61-63-71-79-99)		
	0207.36.(11-15-21-23-31-41-51-53- 61-63-79-90)		
	0210.99.(39)		

	1602.31.(11-19-30-90)		
	1602.32.(11-19-30-90)		
	1602.39.(21)		
Poultry: Whole Birds	0207.12.(10-90)	MT/year until 2019	MT/year until 2019
		Annual=20,000 1/	Annual=10,000 3/

Source: [Annex I-A](#) to Title IV of the Association Agreement.

Note: TRQs are administered on a first-come, first-served basis.

1/ Unilaterally implemented by the EU-28.

2/ Not implemented by Ukraine, to be opened by 01/01/2016.

3/ Not implemented by Ukraine in 2014 and 2015, to be opened by 01/01/2016

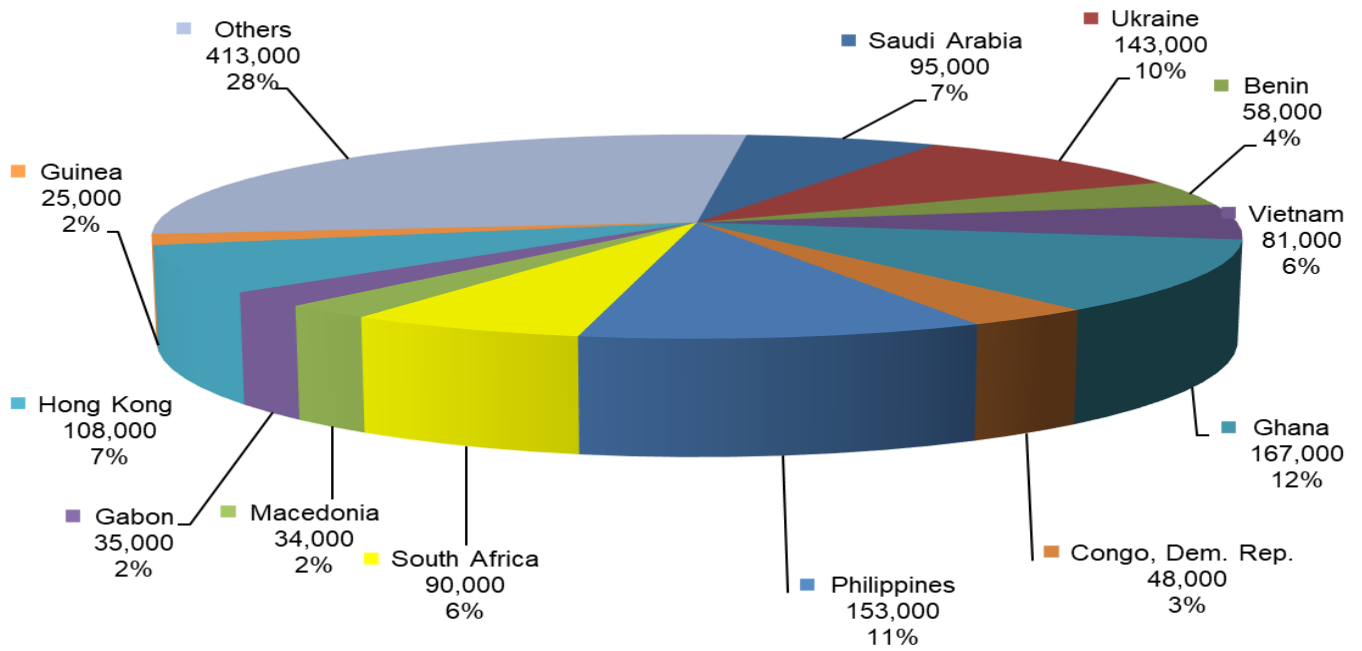
Bone-in cuts (HS code 02071310) imports from Ukraine are not subject to EU-28 import quotas nor tariffs. Such cuts require further processing in the EU to make the boneless chicken meat product that is sought by EU food processors. Dutch and German chicken meat processors used it as raw material for added value-product such as sausage and deli products. Using this loophole, the major Ukrainian producer (MHP) exports to the EU-28 chicken breast cuts with a little bone attached. MHP acquired poultry processing facilities in the Netherlands and in 2017 in Slovakia where the bone is removed from those chicken cuts. The closeness of the Slovakian facility to the Ukrainian Border means that those products can be trucked chilled, not frozen, from the Ukrainian slaughterhouses in a matter of hours. The final product (boneless breast) can then be sold as processed in the Netherlands or Slovakia, removing the Ukrainian origin of the meat to the final consumer. This situation explains why Ukraine is exporting much more chicken meat to the EU-28 than what is authorized by the DCFTA.

Several AI cases did not impact Ukrainian exports as EU quickly granted a regionalization status.

The United States, which exported as much as 92,000 MT of chicken meat in 2005 to Romania and Bulgaria, is no longer a supplier to the EU-28, because the EU does not accept Pathogen Reduction Treatments (PRTs) that are used by U.S. poultry processors.

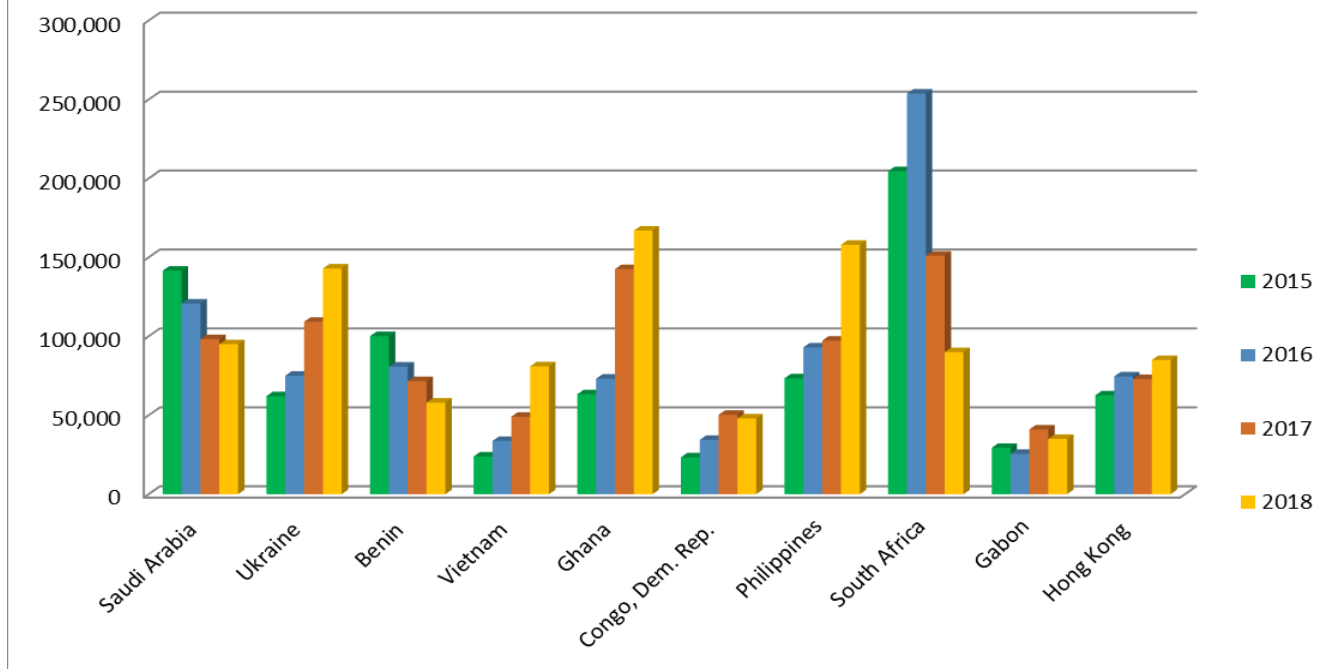
EU-28 Exports

**EU-28 exports of chicken meat
Major markets in 2018 (E) (MT, % of total)**



(Source World Trade Atlas, FAS Posts estimates)

Changes in main EU-28 chicken meat exports : 2015 - 2018(E) (MT)



(Source World Trade Atlas)

EU-28 chicken meat exports are expected to increase in 2018, due to the growing appetite worldwide for EU-28 sourced chicken meat parts. This growth is particularly strong in the Sub-Saharan African countries of Ghana, Benin, Congo and Gabon. It is also very strong in Asia where exports are surging to the Philippines and Vietnam. Exports are also growing to Malaysia and Ukraine. This growth is mainly due to the increasing export of price competitive bone-in parts (legs, wings) and mechanically deboned chicken meat from the EU-28. European exporters are able to lower the prices for those dark meat cuts as they get a better price in domestic EU-28 markets for more expensive breast cuts and white meat.

EU-28 exports of frozen cuts to Hong Kong are expected to increase in 2018, fueled by consumer demand in Hong Kong despite the competition from other sources, primarily Thailand and Brazil. Note that more than 20 percent of EU-28 total chicken meat exports to Hong Kong are made up of frozen chicken feet and were removed from FAS calculated trade data.

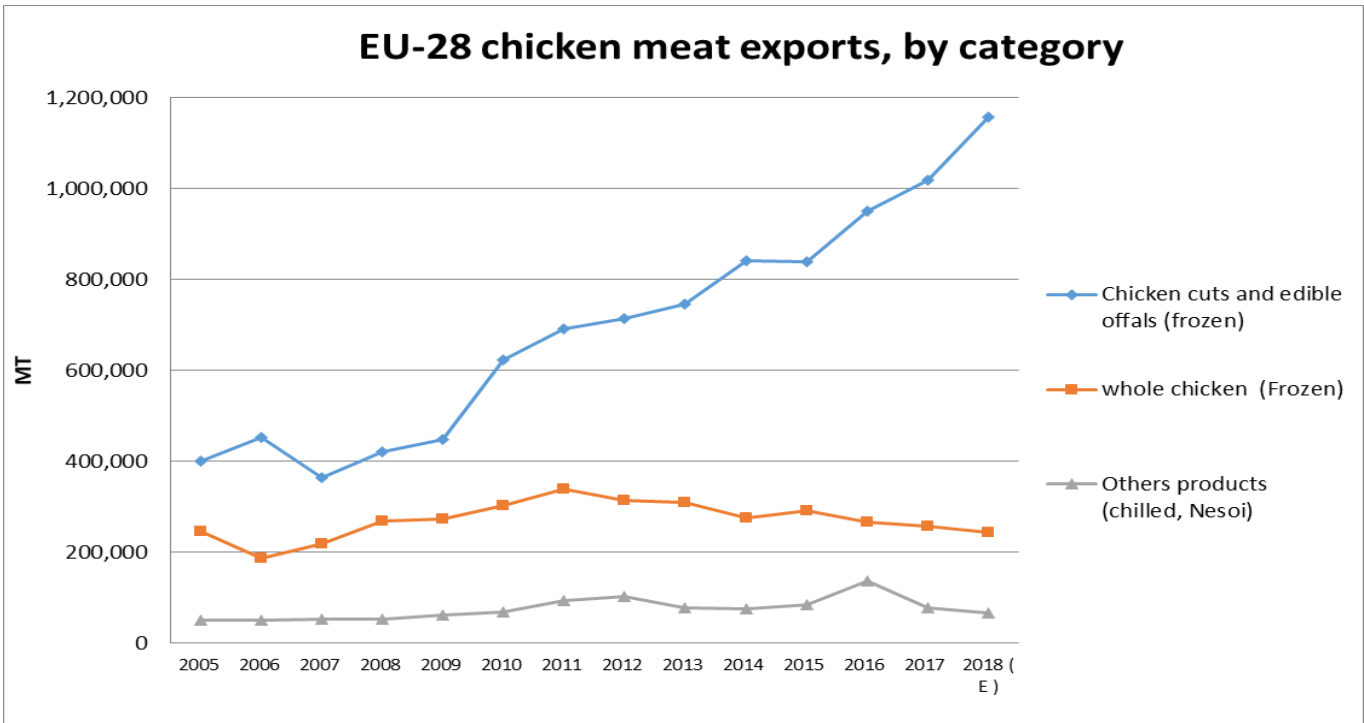
While initially the Saudi market seemed to be more resilient to the end of the EU-28 export subsidies and more capable of absorbing higher prices, this is not the case anymore. Trade data show that Saudi imports of EU-28 chicken meat are now decreasing, dramatically impacting French exports of frozen whole chickens which had previously benefitted from this less price-sensitive market. The decrease seems to be linked to lower oil prices since 2015, decreasing Saudi poultry demand, and competition from Brazil and Ukraine. However, Saudi Arabia delisted several Brazilian poultry exporters in 2017 due to Salmonella concerns and implemented in June 2018 stricter halal slaughter standards (slaughtering without stunning). This will affect Brazil chicken meat exports to Saudi Arabia in 2018 and slow the decline in EU-28 exports.

Exports to South Africa rose to a record level of 259,000 MT in CY 2016 when South Africa was the largest customer of EU-28 chicken meat. The 2004 EU-South African Trade and Development Cooperation Agreement (TDCA) had stated that no tariffs could be applied by South Africa to goods originating from the EU. Since 2012, EU chicken meat exports entered South Africa duty free. Nevertheless, in 2015 South Africa set anti-dumping import duties up to 73 percent on imports of frozen bone-in chicken meat from certain German, Dutch and British poultry exporters. In addition, in December 2016, a 13.9 percent import temporary tariff on bone-in chicken imports was implemented on imports of chicken meat from the EU. These tariffs and import duties, combined with a temporary sanitary embargo on EU-28 chicken meat from several Member States due to HPAI in 2017 caused a sharp decline of EU-28 export of chicken meat to South Africa in 2017 and 2018. Those EU-28 exports were also impacted in 2017 by the resumption of U.S. chicken meat exports to South Africa following the passing of the U.S. Africa Growth and Opportunity Act (AGOA) and an agreement to open the market to the United States, allowing a TRQ of 65,000 MT of U.S. poultry meat exports. However, in the summer of 2018 the South African Poultry Association (SAPA) filed a legal action to force the South African government to suspend this TRQ in response to the U.S. decision to include South Africa in the countries impacted by the Section 232 trade action on steel and aluminum.

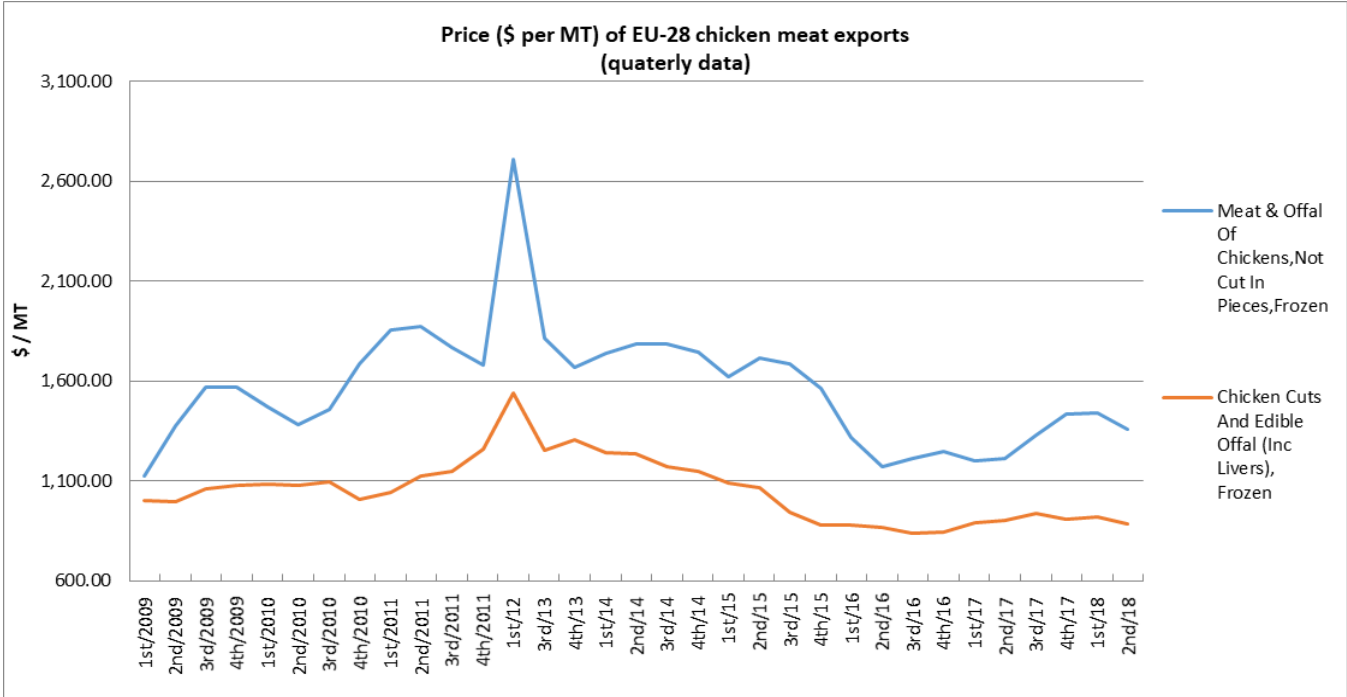
EU-28 exports of chicken meat to Russia are now zero due to the Russian embargo on many EU-28 food and agricultural products.

All the sanitary embargoes set by several customers of EU-28 chicken meat such as South Africa, Malaysia and the Philippines due to HPAI cases set in 2016 and early 2017 were lifted by 2018.

Exports of frozen low-priced chicken meat cuts and mechanically deboned chicken meat (MDM) to Sub-Saharan Africa, especially Ghana, Congo and Benin, to Ukraine and to Asian customers are expected to continue to grow in 2019.



(Source World Trade Atlas)



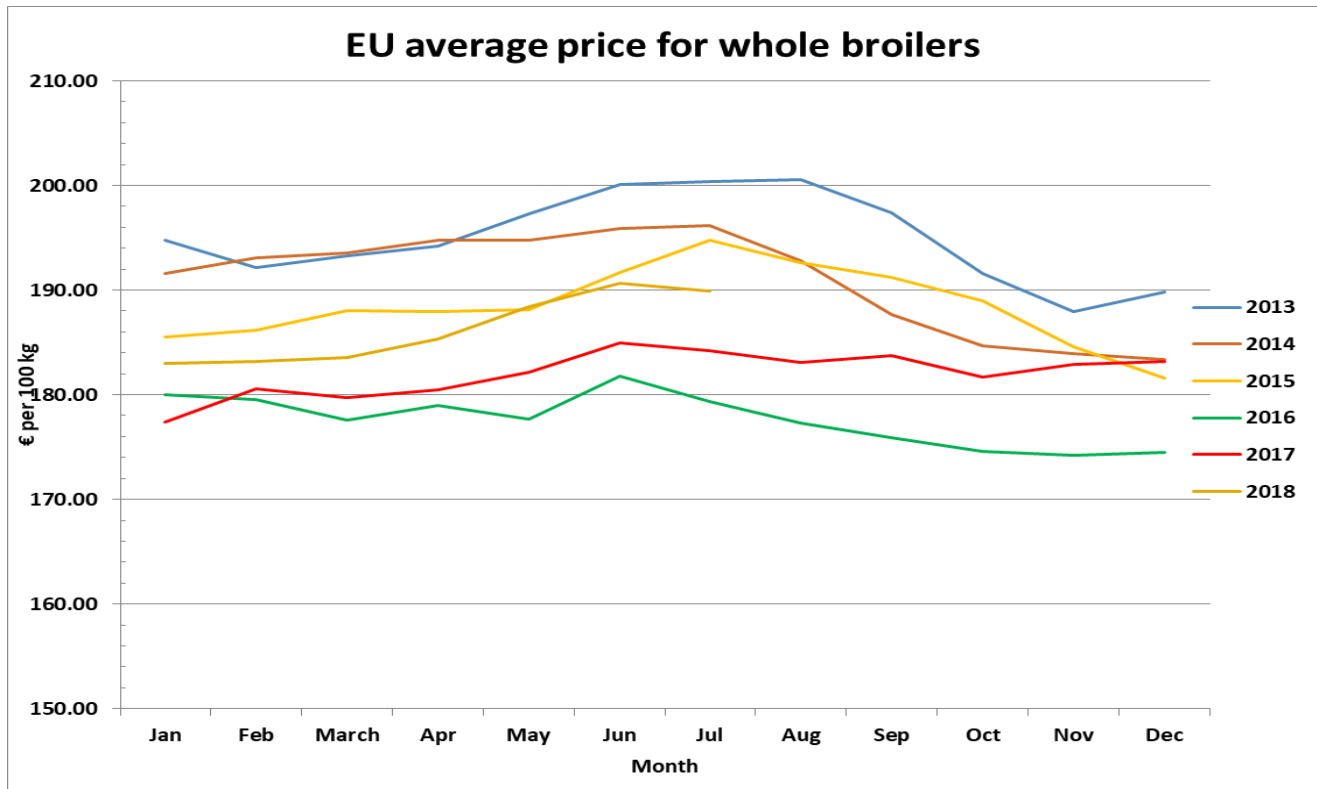
(Source World Trade Atlas, data for Jan- June 2018)

Production, Supply and Demand Data Statistics:

Meat, Chicken	2017	2018	2019
Market Begin Year	Jan 2017	Jan 2018	Jan 2019
EU-28	New Post	New Post	New Post
Beginning Stocks	0	0	0
Production	12,060	12,315	12,470
Total Imports	693	650	680
Total Supply	12,753	12,695	13,150
Total Exports	1,335	1,450	1,520
Human Consumption	11,418	11,515	11,630
Other Use, Losses	0	0	0
Total Dom. Consumption	11,418	11,515	11,630
Total Use	12,753	12,695	13,150
Ending Stocks	0	0	0
Total Distribution	12,753	12,695	13,150
(1000 MT)			

Prices:

The significant and continuous decrease of grain and protein prices in the EU-28 from 2013 (particularly 2015 -2016) to early 2018 has led to a significant decrease in chicken prices making the meat more competitive both in the domestic and export markets. However, the steady domestic demand for chicken meat explained the slight increase seen since the beginning of 2017 as chicken meat processors increased their operating margins. It is yet to be seen if the grain price hike seen since the mid 2018 will lead to a further increase in chicken meat prices or if the producers will absorb the hike in their margin. On the other hand, EU-28 chicken meat production will benefit from the lower price of soybean meals imported from the United States.



(source: European Commission, data for broilers only)

Several studies indicate that within the EU-28, significant price differences remain among Member States (MS) for chicken, particularly broiler meat. On average, chicken prices in Germany are 1.4€ per kilo (\$0.72 per lb.) more expensive than in Poland. The average price differential with France is 1 € per kilo (\$0.5 per lb.). UK prices regained some competitiveness due to the currency devaluation of the British pound versus the Euro. This situation explains why Polish chicken meat shipments to other MS are increasing sharply, even displacing imported Brazilian chicken meat in Western Europe.

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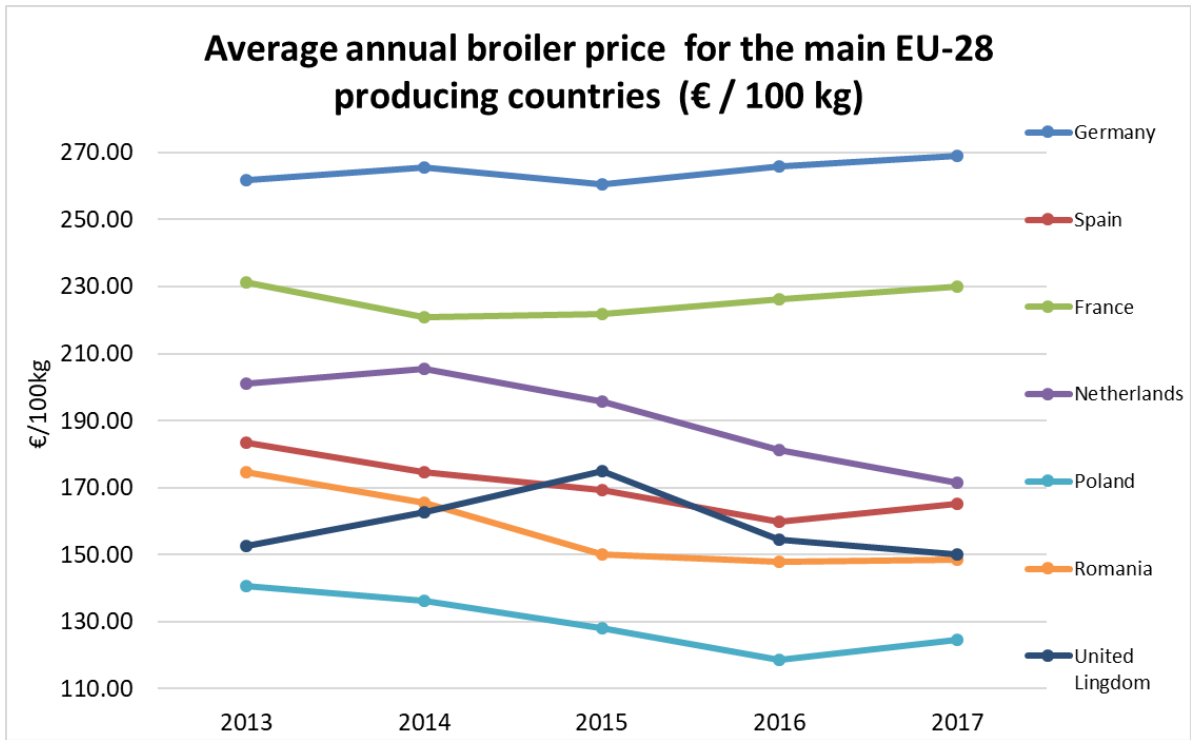
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(source: European Commission, data for broilers only)