

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 9/6/2016

GAIN Report Number: NL6028

EU-28

Livestock and Products Annual

Sustained EU pork supply through 2017

Approved By:

Susan Philips

Prepared By:

Bob Flach

Report Highlights:

The liberalization of the dairy market led to a strong increase of the slaughter of dairy cows. While the dairy cow herd is shrinking, the beef cow herd is slightly growing. The elevated beef supply is anticipated to be absorbed by the domestic market. EU pork prices recovered from record lows to average levels solely due to the hike in Chinese demand for pork. Improved profitability is expected to sustain EU pork supplies through 2017. Given the saturated domestic market, and the strong dependence on the Chinese market, EU producers are active in opening new markets.

Executive Summary

Cattle & Beef – Ample supplies will be absorbed by the domestic market.

The liberalization of the dairy market in 2015 led to a renewal of the dairy cow herd and caused milk prices to plummet. Both factors are anticipated to elevate cow slaughter through 2017. In contrast to the dairy cow herd, the beef cow herd is forecast to grow during 2016 and 2017. Confronted with low milk prices, and attracted by coupled payments, dairy farmers are switching to beef production. EU beef production will increase to 7.85 million metric tons in 2016 and 2017, the highest level reported since 2011. Due to the relatively low price and versatility, and lack of export channels, most of this surplus of beef will be absorbed by the domestic market. The consumption of high quality beef is restricted mainly due to limited domestic production and import quotas.

Swine & Pork – Sustained exportable supplies expected through 2017.

During the past twelve months, carcass and piglet prices have gone from record lows during December 2015-April 2016 back to the five-year average. This price recovery is solely caused by the surge of Chinese import demand for pork. During the first half of 2016, EU pork exports totaled 1,637,000 metric tons, which is 584,000 metric tons more than shipped during the first half of 2015. Exports to China and Hong Kong alone rose by 517,000 metric tons, to a total of 823,000 metric tons. These volumes underline the dependency of the EU pork sector on the Chinese market. This is amplified by the saturated domestic market. Chinese demand for EU pork is expected to weaken and carcass prices are forecast to remain at about the current level during the remainder of 2016. This will affect the uptake of piglets, and reduce slaughter during the second half of next year. However, significant cuts are not expected. Furthermore, abundant feed supplies will counterbalance the lower slaughter and will result in sustained pork production levels and exportable supplies through 2017.

Policy

Animal Disease Situation – Outbreaks of Blue Tongue Disease (BTD) in Western and Southern Europe and Lumpy Skin Disease (LSD) in the Southeastern part of Europe are limiting production and cattle trade. Also the continued threat of African Swine Fever (ASF) outbreaks in Poland and the Baltic countries keeps current pork trade restrictions on hold.

Russia Import Ban - On August 7, 2014, the Russian Government implemented sanctions on a wide range of agricultural and food products from the EU. Recently, the Russian government has announced that it would keep the import ban in place through 2018.

Impact from Brexit - The most important factor is the devaluation of the British Pound which is supporting exports to third countries as well as to other EU Member States.

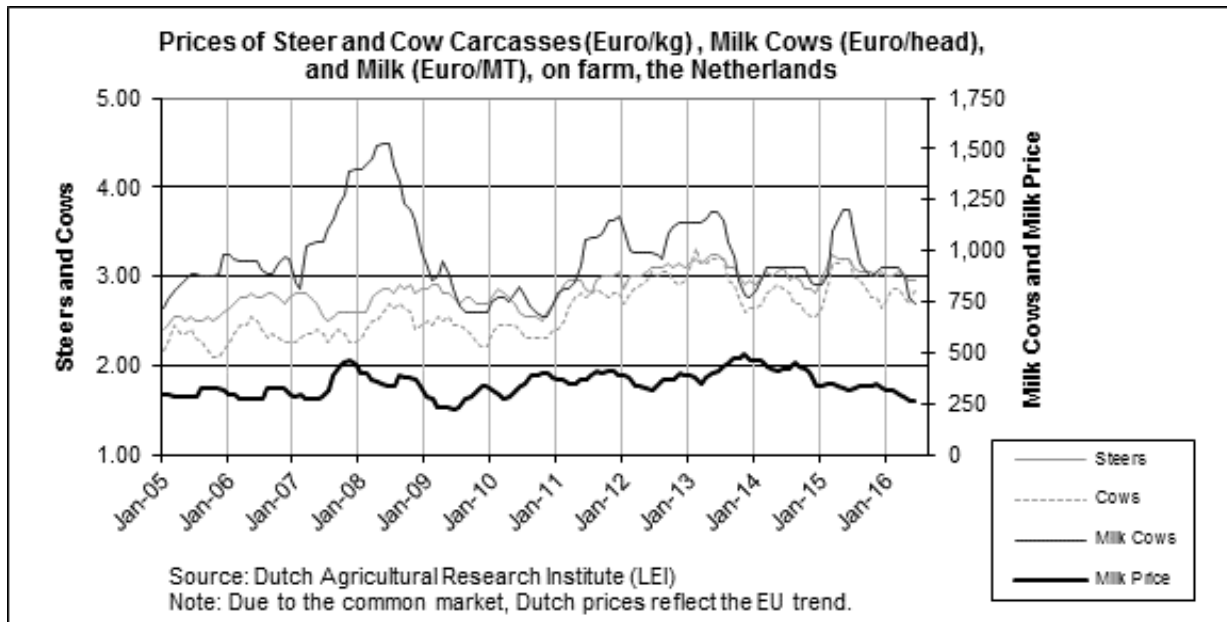
Cattle

Animal Numbers, Cattle	2015		2016		2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Total Cattle Beg. Stocks	88,406	88,406	88,750	89,152	0	89,250
Dairy Cows Beg. Stocks	23,559	23,559	23,600	23,595	0	23,475
Beef Cows Beg. Stocks	12,036	12,037	12,150	12,312	0	12,375
Production (Calf Crop)	29,550	29,900	29,600	30,150	0	30,100
Total Imports	0	0	0	0	0	0
Total Supply	117,956	118,306	118,350	119,302	0	119,350
Total Exports	700	810	750	1,000	0	1,100
Cow Slaughter	11,350	11,361	11,250	11,680	0	11,720
Calf Slaughter	6,450	6,370	6,600	6,500	0	6,550
Other Slaughter	8,900	8,825	8,950	9,020	0	9,030
Total Slaughter	26,700	26,556	26,800	27,200	0	27,300
Loss	1,806	1,788	1,850	1,852	0	1,850
Ending Inventories	88,750	89,152	88,950	89,250	0	89,100
Total Distribution	117,956	118,306	118,350	119,302	0	119,350
(1000 HEAD)						

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

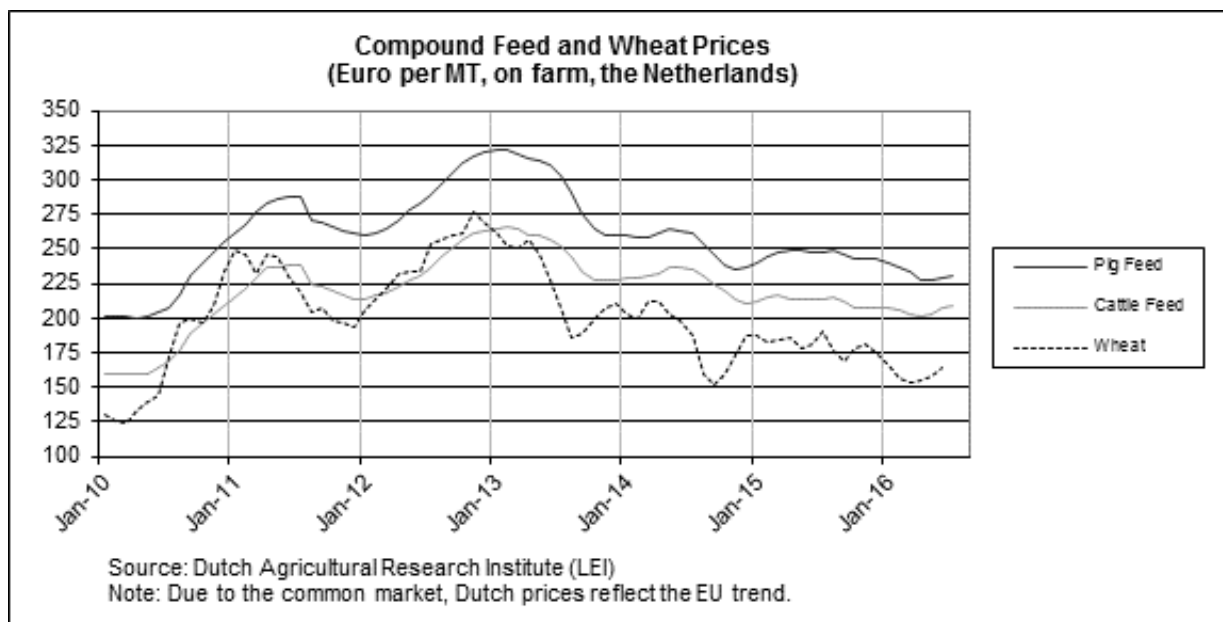
The dairy market liberalization and low milk prices accelerate cow slaughter.

The elimination of the dairy quota had no significant effect on the size of the dairy herd after the implementation in April 2015. The herd had already expanded since 2012, supported by rising milk prices. Only a slight increase is reported for 2015, mainly due to further expansion in Ireland and the Netherlands. Significant reductions were reported in Poland, France, Greece and Bulgaria. A masked but more important development is that as a result of the liberalization of the dairy market, milk production shifted to the most productive regions, farms and animals (for more information see the FAS Dairy Semi-Annual). This led to an overall renewal of the EU dairy herd with an increased slaughter of the least productive dairy cows. Falling milk prices in 2016 (see graph below) are expected to further accelerate cow slaughter, resulting in a smaller dairy cow herd at the beginning of 2017. Official slaughter numbers of the first six months of 2016, reflect this trend. During this period official slaughter of cows and heifers increased by 7.1 percent, total slaughter increased by 3.5 percent. The most significant cuts are again expected in Poland and France, but this year also in Germany. It should be noted that with the restructuring, back yard slaughter (slaughter other than in slaughterhouses) is falling from about 950,000 animals in 2014, to 800,000 animals in 2016, and an anticipated 700,000 animals in 2016. This trend is mainly reported in Romania. In contrast to the dairy cow herd, the beef cow herd is expected to expand this year. During 2015 and 2016, the beef cow herd is forecast to increase most significantly in Spain, France, Germany, Poland, Hungary and Bulgaria as unprofitable dairy farms switch to beef production. In addition, farmers in France, Hungary, and Bulgaria are subsidized by coupled payments for specifically beef cows.



Lower supplies and elevated slaughter are expected to cut the cattle herd.

Next year, slaughter is forecast to further increase to 27.3 million animals. This forecast is based on the elevated calf crop this year and the continuous renewal and cut of the dairy herd. While cattle feed prices are relatively low (see graph below), on farm feed availability is expected to be lower than last year, which also could induce farmers to slaughter their animals. The spread of Bluetongue Disease (BTD) and Lumpy Skin Disease (LSD) is complicating export procedures and restraining trade. Despite this export limitation exports of live animals are anticipated to increase in 2016 and 2017. During the first half year of 2016, EU exports rose to over 500,000 animals compared to 350,000 animals during the first half 2015. Exports increased most significantly to Turkey, predominantly animals for breeding and fattening weighing between 160 and 300 kg, with the Czech Republic, Slovak Republic, Hungary and France as the main suppliers. Turkey also opened their market for Irish live cattle, for breeding, fattening and slaughter, but exports are not officially reported yet. Overall, the lower supply of new animals, the higher slaughter rates, and the expansion of exports are forecast to result in a reduction of inventories at the end of 2017.



Beef

Meat, Beef and Veal	2015		2016		2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Slaughter (Reference)	26,700	26,556	26,800	27,200	0	27,300
Beginning Stocks	0	0	0	0	0	0
Production	7,670	7,691	7,680	7,850	0	7,850
Total Imports	363	363	360	370	0	375
Total Supply	8,033	8,054	8,040	8,220	0	8,225
Total Exports	303	303	320	330	0	350
Human Dom. Consumption	7,730	7,751	7,720	7,890	0	7,875
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	7,730	7,751	7,720	7,890	0	7,875
Ending Stocks	0	0	0	0	0	0
Total Distribution	8,033	8,054	8,040	8,220	0	8,225

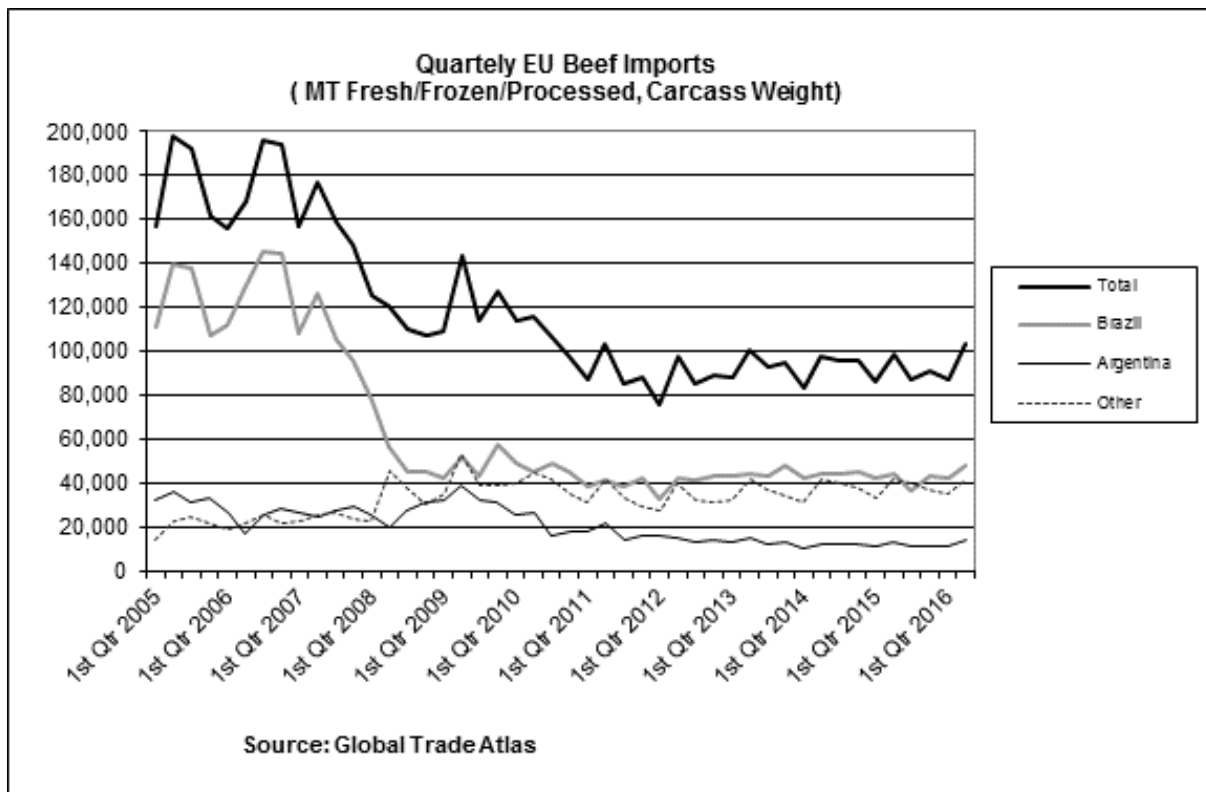
(1000 HEAD), (1000 MT CWE)

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

Domestic supply as well as imports are forecast to rise this year.

In 2015, despite a downward revision of slaughter, a higher volume of beef was produced than was previously forecast. This can be explained by a higher share of adult animals being slaughtered, mainly dairy cows. This year, slaughter of both young as well as adult animals is expected to increase and at about the same extent. Official Eurostat figures reflect a minor reduction of the slaughter weight by about one kg during the first half year of 2016. Extending this trend through the year, this will result in beef production of 7.85 million metric tons, an increase of about 160,000 metric tons. Next year, increased slaughter, but a higher share of younger animals is expected to result in an equivalent volume

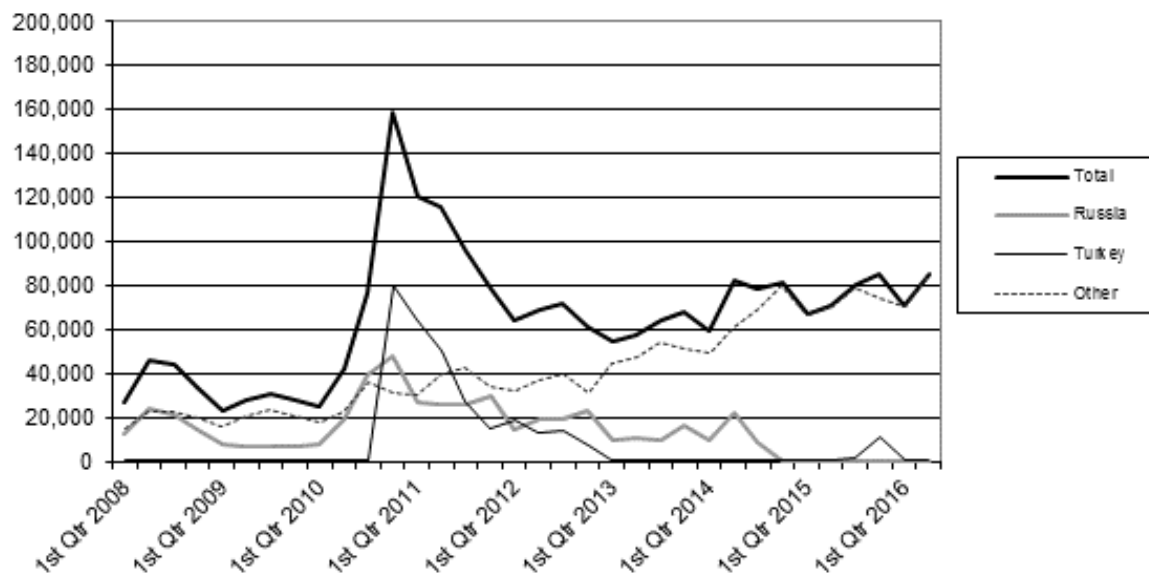
of beef. This year, also import supplies increased, of fresh as well as frozen beef (see graph below). Imports of fresh beef increased mainly from Paraguay, Argentina, and Australia, while frozen imports rose from Brazil and Botswana. As the import of high quality beef under the zero duty quota is restricted to 48,200 metric tons, expansion of imports is reported for the Hilton quota which has a 20 percent duty. A continuous strong demand for high quality beef is reported in Germany mainly driven by steak restaurants. In France the demand for higher quality beef is under pressure due to a reduction of the number of butcher shops.



The increased beef supply is expected to be absorbed by the domestic market.

On August 7, 2014, Russia banned EU beef as part of sanctions on a wide range of agricultural and food products. But as foreseen in the previous reports, the EU diverted their exports to a wide range of other markets in Africa, Middle East and Asia, mainly Israel, Cote d'Ivoire, Angola and Vietnam (see graph below). Up to now, the EU has been able to divert exports to other markets but this expansion is expected to level off. During the first half year of 2016, exports increased only by about 18,000 metric tons. But although limited, exports will likely further expand as a result of market openings. Spanish and Polish beef received access to the Saudi Arabian market, while Poland will also be able to ship to Morocco. In July 2016, the U.S. authorities recently recognized the veterinary control system in Ireland, which will open the market for processed beef such as for hamburgers. Compared to 2015, in 2016 and 2017 an additional volume of 125,000 - 150,000 metric tons is expected to remain in the domestic market. Most of this is lower quality cow meat, which will mainly be processed. It should be noted that with 7.9 million metric tons, beef consumption is well below the record level of nearly 8.8 million metric tons reported in 2007. This consumption level is not expected to be reached any time soon.

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



Source: Global Trade Atlas

Swine

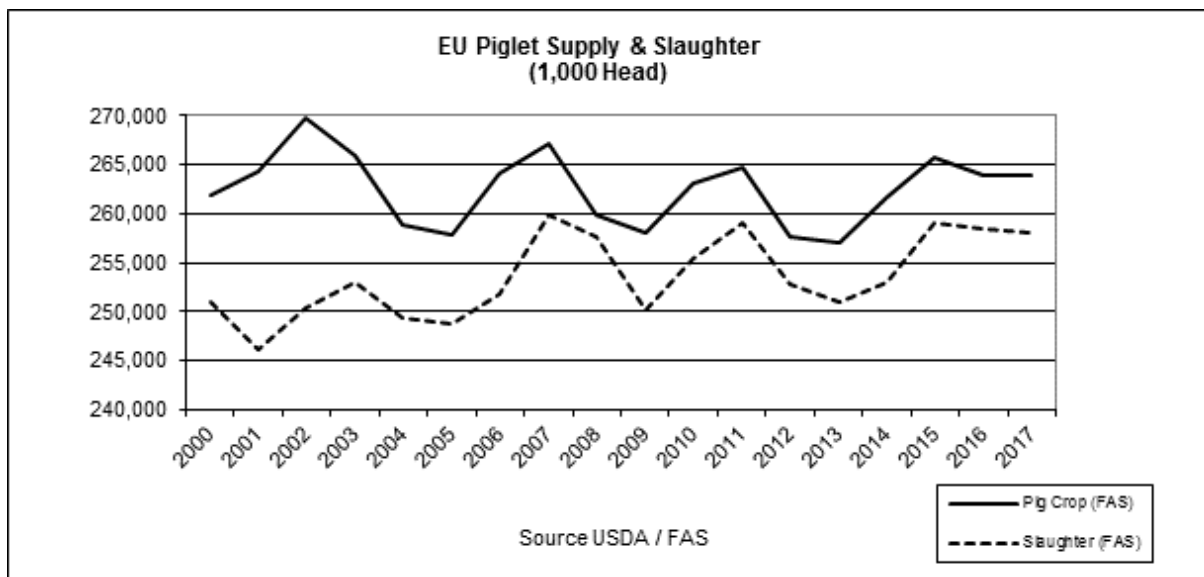
Animal Numbers, Swine	2015		2016		2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Total Beginning Stocks	148,341	148,341	148,500	148,724	0	147,900
Sow Beginning Stocks	12,541	12,542	12,300	12,302	0	12,170
Production (Pig Crop)	266,500	265,800	26,3000	264,000	0	264,000
Total Imports	3	3	2	3	0	3
Total Supply	414,844	414,144	411,502	412,727	0	411,903
Total Exports	436	436	500	400	0	400
Sow Slaughter	3,900	4,156	4,000	4,200	0	4,150
Other Slaughter	256,050	254,811	254,500	254,300	0	253,850
Total Slaughter	259,950	258,967	258,500	258,500	0	258,000
Loss	5,958	6,017	5,802	5,927	0	5,903
Ending Inventories	148,500	148,724	146,700	147,900	0	147,600
Total Distribution	414,844	414,144	411,502	412,727	0	411,903

(1000 HEAD)

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

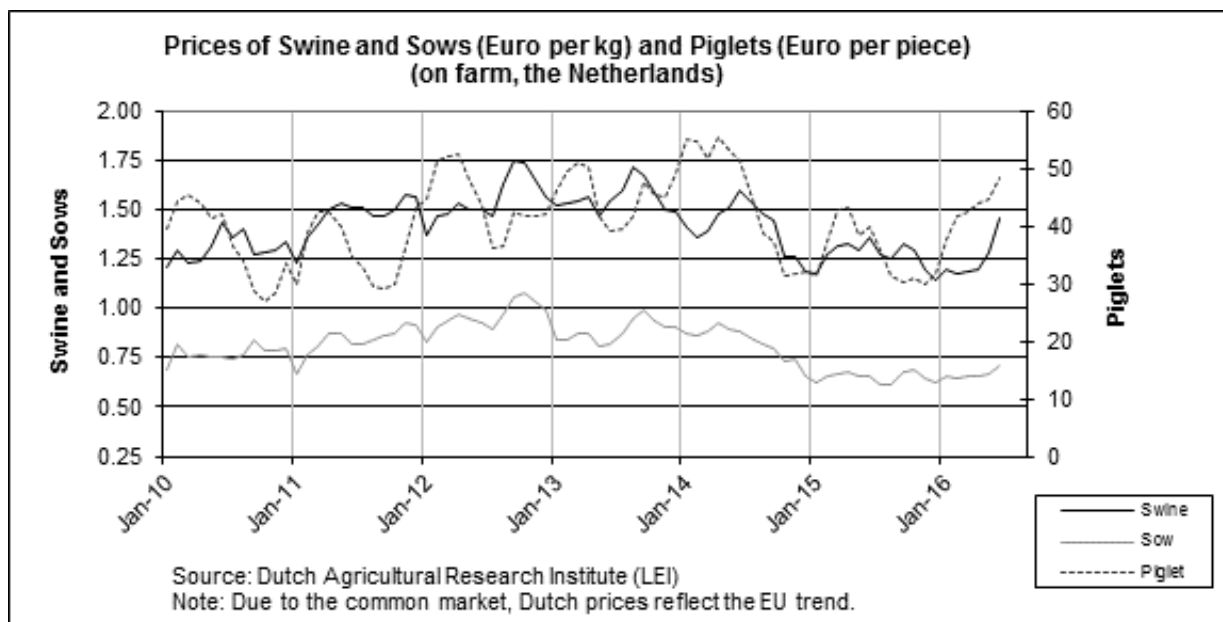
The supply of piglets remains high.

Annual slaughter in 2015 is adjusted downwards by one million animals, due to a lower number of backyard slaughter (slaughter other than in slaughterhouses), a trend which is mainly reported by the Central European countries. As anticipated in the previous report the sow herd shrunk by about 240,000 animals. At the beginning of 2017, the sow herd is expected to be another 130,000 animals smaller. During 2015 and 2016 the most significant cuts are forecast to be in Germany, Poland, the Netherlands and France. The German sector is mainly affected by competitive piglet imports and the depressed domestic market for pork. Polish fatteners increasingly prefer Danish above Polish and Dutch piglets, which is a factor for the lower sow herd in Poland as well as in the Netherlands. The French sector appears to be uncompetitive with the many small to medium-sized pig farms, high labor costs and environmental constraints which are stricter than EU standards. The Spanish sow herd is forecast to expand by over 100,000 animals during 2015 and 2016. Spain successfully integrated its sector, and supported by the low cost price expanded to the second largest piglet and pork producer in the EU, next to Germany. As only the most efficient breeders continued, the piglet supply is anticipated to fall only a little. As strict animal welfare regulations required high investments, swine breeders became increasingly large, specialized operations in Western Europe. With an annual production of 264 million animals in 2016 and 2017, the piglet supply remains at a relatively high level (see graph below).



Slaughter will decline during the second half of 2016.

During the first half of 2016, official slaughter figures rose by 1.8 million animals compared to the first half of 2015, an increase of 1.4 percent. During the second half, however, official slaughter is expected to fall due to lower uptake of piglets during December 2015-April 2016. During this period the average EU carcass price fell below 1.3 Euro per kg, which is the lowest level reported since 2007 (see graph below). Another factor is the lower backyard slaughter during 2016, a reduction of at least 500,000 to about 2.9 million animals is anticipated. Total annual slaughter, official and backyard combined, is expected to decline by about 500,000 animals in 2016.



The recovery of prices will support slaughter during the beginning 2017.

Since May, the average EU price of carcasses increased to about euro 1.65 per kg, and also prices of piglets rose significantly. The elevated carcass prices are anticipated to be an incentive for fattening, and are forecast to sustain slaughter at a relatively high level during in particular the first quarter of next year. Though, increased global pork supplies are expected to limit exports and press prices and ultimately reduce annual slaughter at a slightly lower level then this year. During 2016 and 2017, German slaughter is expected to be cut the most, counterbalanced by increases of Spanish slaughter in 2016. But in 2017, also the booming Spanish sector is forecast to stop expanding.

Pork

Meat, Swine	2015		2016		2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
European Union						
Slaughter (Reference)	259,950	258,967	258,500	258,500	0	258,000
Beginning Stocks	0	0	0	0	0	0
Production	23,350	23,290	23,230	23,350	0	23,350
Total Imports	12	12	12	12	0	12
Total Supply	23,362	23,302	23,242	23,362	0	23,362
Total Exports	2,388	2,389	2,600	2,900	0	2,900
Human Dom. Consumption	20,974	20,913	20,642	20,462	0	20,462
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	20,974	20,913	20,642	20,462	0	20,462
Ending Stocks	0	0	0	0	0	0
Total Distribution	23,362	23,302	23,242	23,362	0	23,362

(1000 HEAD), (1000 MT CWE)

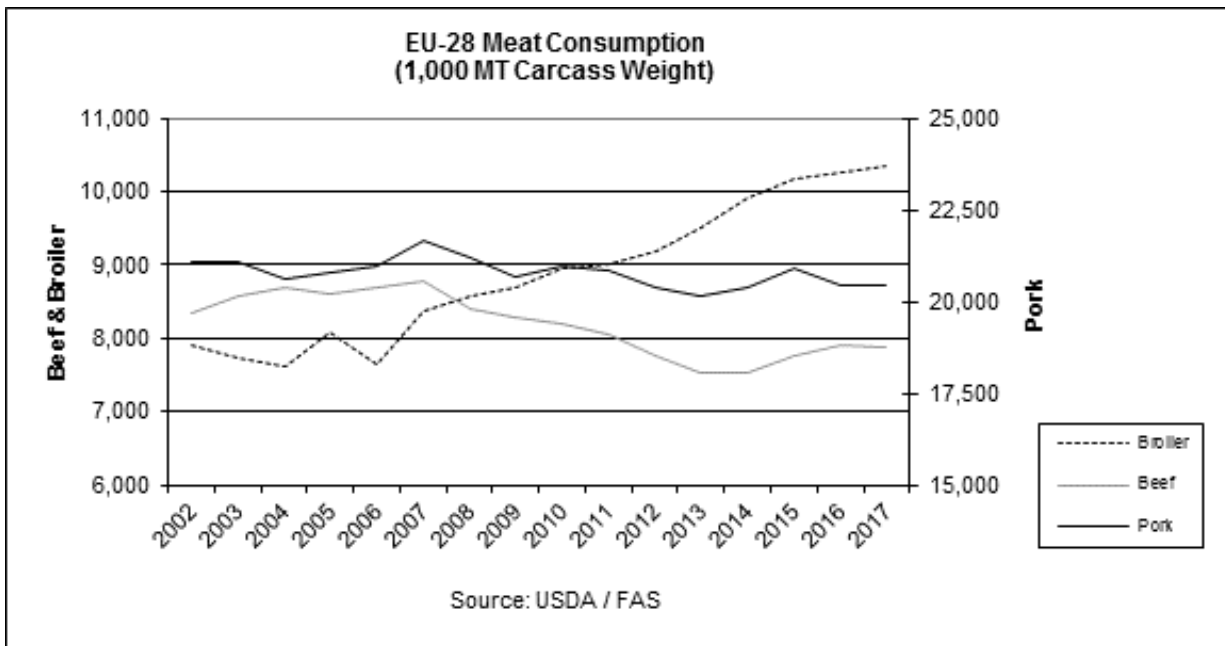
Not Official USDA data. Source: Eurostat and FAS Offices in the EU.

Lower feed costs and higher slaughter will result in a new pork production record.

Despite the fact that slaughter rates are forecast to decline during 2016 and 2017, pork production is expected to reach a new record level of 23.35 million metric tons. Official Eurostat statistics report an increase of the slaughter weight of more than 0.5 kg to 90.9 kg during the first half of this year. Increases of about one kg or over are reported in Spain, France, United Kingdom, Poland, Hungary and Romania. Considering the statistical correlation between low feed prices and high slaughter weights, forecasts of continuous abundant feed availability support a sustained increase of slaughter weights.

The domestic market for pork is saturated.

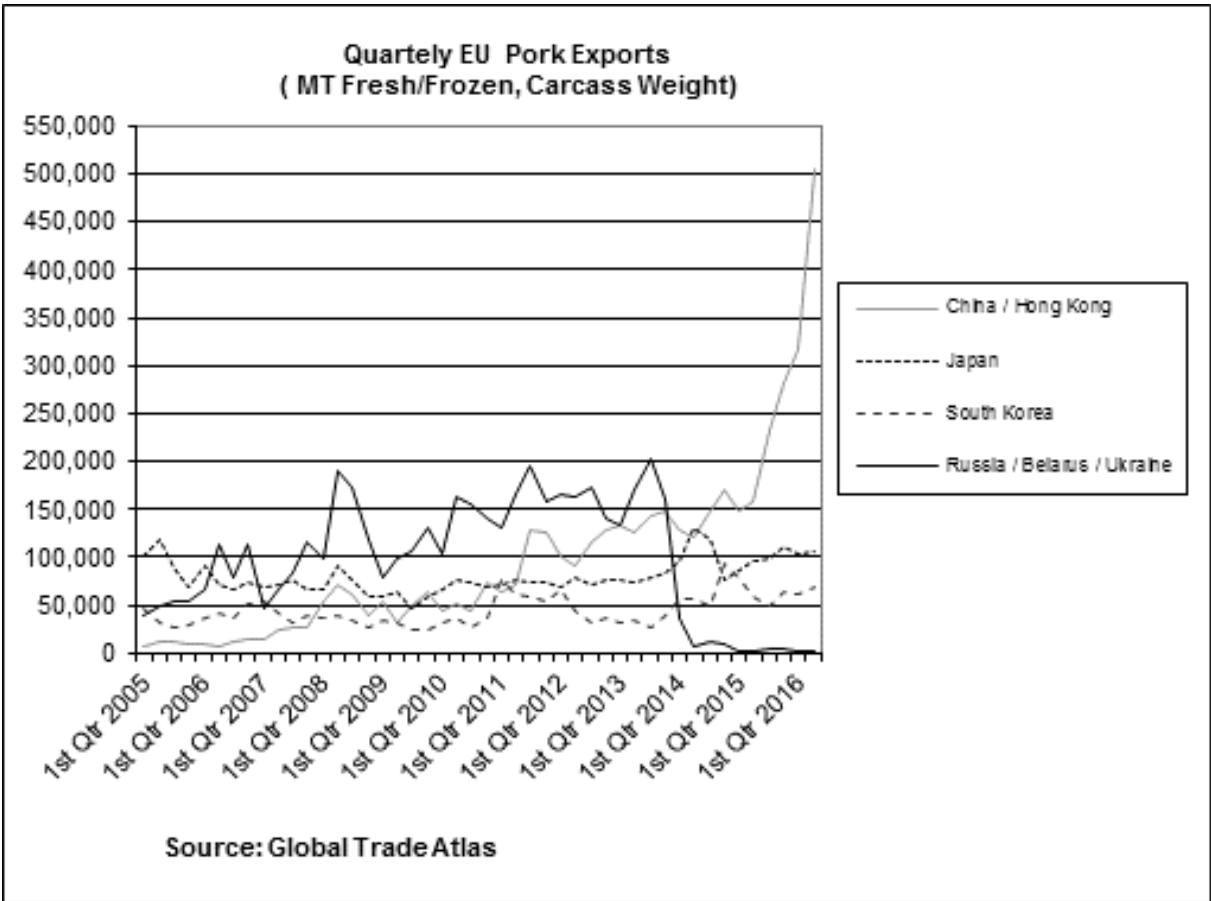
Domestic consumption is slackening (see graph below), most noteworthy in the largest market namely Germany. An important reason for the slackening consumption is health considerations affecting in particular the fatty cuts and products. This perception is not universal throughout the EU. Italian consumers reportedly perceive pork as healthy as poultry. Low carcass prices and increased internal competition has led to the formation of labeling and marketing initiatives, such as the country of origin labeling (COOL). Italy, France and Portugal are reportedly preparing to implement a COOL system for their pork products. If consumers in these countries begin to prefer domestic product, competitive producers such as Spain will have to increase their focus on third country markets or else advocate for less labeling. Another approach to regain margins is to adopt perceived improved standards, such as animal welfare standards. Organic pork producers in the Netherlands and Austria are reportedly achieving better financial results than conventional farmers because higher prices paid by the consumer.



Weak domestic demand will force the sector to export.

As the domestic market is saturated, increased production and profitability can only be achieved by increasing exports to non-EU destinations. During the first half of 2016, EU pork exports rose by more than fifty percent (see graph below). Most of this increase is due to elevated shipments to China, and to a lesser extent to Hong Kong, the Philippines and the United States. When production in China fell, the

EU had sufficient stock available to fulfill the Chinese import demand. Furthermore, exports are supported by low domestic carcass prices and, during the past two years, a weakening Euro compared to the US Dollar and the currencies in the main Asian markets, such as China, Japan, South Korea and Vietnam. Recovery of Chinese production and gradually stronger competition from the United States is forecast to level off the export expansion to China. Exporters already note increased difficulty to fix contracts with Chinese buyers. With the absence of the Russian market, and a potential weakening of Chinese demand for EU pork, EU Member States are eager to open new markets elsewhere. Since August 2016, Spain can start exporting fresh, frozen and chilled pork to Mexico. A total of twelve establishments are approved to export fresh Spanish pork to the Mexican market. However, given the transportation costs and import duties, significant volumes are not expected to be shipped to this new market. New strategic and more important markets for Spanish pork export could be Angola, Nigeria and India.



Policy

Animal Disease Situation

Blue Tongue Disease (BTD) outbreaks continue in Italy and France, limiting live cattle exports. BTD continues its North-bound expansion with the French protection zone bordering and intruding into Belgium. Another cattle disease, Lumpy Skin Disease (LSD) is making inroads into South-Eastern EU member states. LSD outbreaks have been identified in Greece, Bulgaria and Serbia. Following the disease occurrence in Serbia, preventive vaccination of cattle against LSD began in Croatia on August 8. This makes Croatia the first EU member state that opted for preventive vaccination as opposed to vaccination after the outbreak. The vaccination will hinder Croatian farmer's ability to export beef and dairy products to neighboring countries as well as to other EU member states. Nevertheless, Croatian veterinary authorities believe vaccination to be the only way to stop the spread of the disease and minimize potential damage to Croatian beef and dairy sector.

The continued threat of African Swine Fever (ASF) outbreaks in Poland and the Baltic countries keeps current pork trade restrictions on hold. Reportedly, a new outbreak in a major commercial pig farm in the protection zone in Poland was found in the first half of August 2016, leading to a further extension of the protection zone. In July 2016, ASF outbreaks were also found in Italy.

Russian Import Ban

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. European farm organizations have been pressing Member State governments, as well as the European Commission, to find a solution with Russia, which would allow Russia to end its import ban on European food products on a bilateral basis or for the whole EU. However, these efforts have been in vain so far. On the contrary, as the political rift with Russia is deepening, the Russian government has announced that it would keep the import ban in place through 2018.

Impact from Brexit

While it is commonly recognized that the decision by the United Kingdom to leave the European Union will have a significant impact on the British and EU food markets, it is premature to speculate on what this impact may entail. At present, the most important factor is the devaluation of the British Pound which is supporting exports to third countries as well as to other EU Member States.

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 021020, 160250	PW X 1.40 = CW 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 Post in the European Union:

Country	Title	Date
Romania	Farmers' list of demands debated with the Romanian Prime Minister	08/25/16
Czech Rep.	Livestock and Products Annual 2016 – Czech Republic	08/25/16
EU	Grain Crop Update	07/26/16
EU	Dairy Semi Annual 2016	05/18/16
EU	Grain and Feed Annual 2016	04/07/16

Czech Rep.	New CVO and DG of the State Veterinary Administration	03/04/16
EU	Livestock Semi Annual 2016	02/24/16
Spain	Spain reaches in 2015 record levels on production and export	02/10/16
Germany	Germany wants to be trendsetter in animal welfare	01/22/16
Romania	Romania Livestock Annual Report 2015	01/07/16

The GAIN Reports can be downloaded from the following FAS website:

<http://gain.fas.usda.gov/Pages/Default.aspx>

-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