

4. MEAT

EU beef market feels pressure from the slaughter of dairy cows

In 2016, EU beef gross production is expected to further increase by 3.3%, driven by higher slaughterings of mostly dairy cows, as the dairy sector faced market difficulties, and good export demand.

EU beef net production increased in the first half of 2016 by 3.2% year-on-year, both in the EU-15 (+2.2% or 70 000 tonnes) and the EU-N13 (+12% or 45 000 tonnes). The surge in the EU-N13 mainly comes from Poland, which produced already 28 000 tonnes more in the first half of 2016 than in the same period last year, mainly coming from cow and heifer slaughterings.

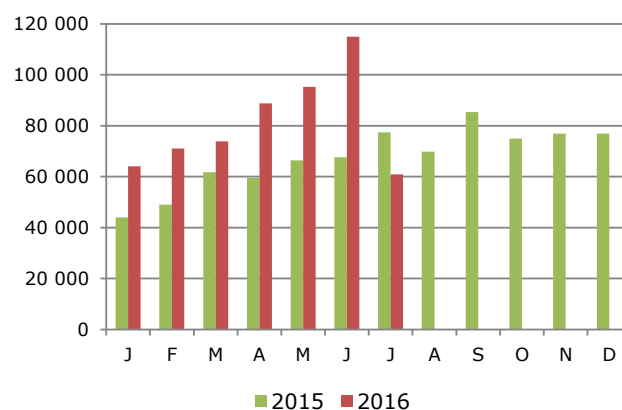
In the EU-15, the second quarter of 2016 was marked by an acceleration of cow (+9%) and heifer (+5%) slaughterings compared to the first quarter, while bull slaughterings stabilised. Except for Italy and Sweden, all EU countries were increasing cow and heifer slaughterings in the second quarter of 2016 compared to the same period last year. Restructuring of milk production systems and culling of surplus cows and heifers seem to have started in all Member States, as well in Member States where a recapitalisation of the dairy herd was observed previously. This will result in extra slaughterings in many Member States during the second half of 2016. Some additional beef might be expected on the market due to the culling of suckler cows in France, while the aid schemes for milk production reduction adopted in September 2016 give an additional incentive to farmers to cull cows in the short-run. On the other hand, the consequences of the strong 2015 increase in the suckler cow herd, by 270 000 heads, is not expected to lead to significantly higher slaughterings before the end of 2016. Overall, an increase of 2.6% in EU beef net production is foreseen in 2016, followed by a stabilisation in 2017.

EU live bovine exports continue rising

EU exports of live bovine animals continue to increase because of sustained demand in the Mediterranean region. From January to July 2016, live exports increased by 34% compared to already high 2015 levels. Live trade is focussed on countries around the Mediterranean. Turkey (186 000 heads), Israel (95 000 heads) and Lebanon (90 000 heads) were the three most important destinations of live bovine animals and represented together 65% of total live trade. Israel took over Lebanon's position as EU's second destination, confirming its importance as a solid destination for live exports. The biggest EU supplier to Turkey in 2016 so far was Hungary, which exported already 52 000 heads over the same period, but Slovakia is catching up by exporting more than 14 000 heads in July only.

Live exports to Turkey are also facing increased competition from Uruguay and Brazil. Beef prices in Turkey are still relatively high, because the development of Turkish production capacity takes time and demand is strong. Therefore, EU live bovine exports are expected to further increase by more than 30% in 2016 and to stabilise at this high level in 2017, reaching 235 000 tonnes c.w.e. (twice the 2013-2014 levels).

Graph 19 Monthly EU exports of live cattle (heads)



Source: DG Agriculture and Rural Development, based on Eurostat

To July, beef meat exports increased by 17%, compared to 10% in the first quarter of 2016. Tight supply on the world market and firm demand at relatively high prices opens opportunities to the EU. This summer, Turkey finally opened a TRQ for the EU for the imports of 5 000 tonnes of meat (except from Poland) compared to 20 000 tonnes last year, limiting the meat exports to Turkey. On the other hand, a large portfolio of other destinations showed marked increases, such as Israel (+400%, or 5 300 tonnes), Ivory Coast (+175% or 2 600 tonnes) and Vietnam (+300% or 3 000 tonnes). Many bilateral initiatives to open up (new) export markets undertaken by Commissioner Hogan could further promote EU exports in the near future. Therefore, the increase in meat exports is estimated at 10% for 2016.

Since the beginning of 2016 up to July EU beef meat imports showed an increase of 2% year-on-year. Imports from Brazil increased the most, a confirmation of their improved competitiveness and lower internal demand, leaving more beef available for exports. Imports from the US declined compared to last year, probably due to their shift to more remunerative Asian markets (Japan) and the less favourable exchange rate dollar/euro. The overall beef exports of Australia or the world market are 150 000 tonnes down since the beginning of this year compared to last year, a clear sign that the recapitalisation of the beef herd has started, also thanks to the favourable pasture conditions. Nevertheless, Australian exports to the EU are still increasing by 8% compared to last year. Despite the recapitalisation of the beef herd in Argentina after years of decline, imports of this country have

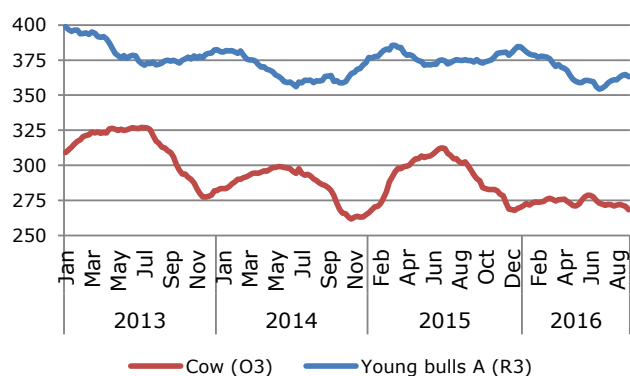
increased by 4% in the first half of 2016, meaning that the EU remains a lucrative export market for many countries. Overall, EU imports are expected to increase by 3% in 2016 and a further 3% in 2017.

Dairy sector restructuring affects beef price

Cow prices (O3) follow normally a characteristic seasonal path, with a peak around summer. Since the beginning of 2016, cow prices remained at a relatively low level between 270 and 275 EUR/t, up to 12% below last year and 6% below the 5 year average (2011-2015). No summer peak was reached this year. Continued low cow prices and restructuring in the dairy sector start to have an impact on prices of all categories, standing also 4 to 10% below last year. However, male prices have followed a slightly upward trend since beginning of July, supported by the strong world demand, driven by US and Asian consumers, regardless of China's economic slowdown, in a context of supply shortage in Australia. However, supply uncertainty in Brazil and Argentina might strongly affect future prices. Prices development in the meat sector has led the Commission to create the meat market observatory.¹¹

In 2014 and 2015, per capita beef consumption in the EU recovered yearly by 1.3 and 1.7%. A further 2.1% growth is expected in 2016 thanks to ample availabilities on the market.

Graph 20 EU price for certain bovine categories (EUR/100 kg)



Source: DG Agriculture and Rural Development

Exports (to China) support EU pork market

Due to the export surge of pig meat to China total pigmeat slaughtering in the EU increased by 3.2% in the second quarter of 2016, compared to +0.7% in the first quarter year-on-year. Almost all EU Member States showed an increase in the production or a slowdown in the decline of pig production in the second quarter of 2016. Denmark, Austria and Belgium see their production still dropping, while the decrease in Germany started to slow down.

¹¹ http://ec.europa.eu/agriculture/market-observatory/meat/index_en.htm

According to the May-June 2016 livestock survey, the sow herd in the main pork producing countries went down by 420 000 heads, adding to the 300 000 decline registered in December 2015. The largest reductions were recorded in Poland (-150 000 heads), Germany (-107 000 heads), the Netherlands (-53 000 heads) and France (-29 000 heads). Even the sow herd in Spain declined (-34 000 heads).

Despite the sow herd reduction in the Netherlands, France and Poland, these countries still record an increase in production in the first half of 2016. Changes in the intra-trade of live pigs and piglets may explain some of the contradictory observations between the development of the national sow herd and production statistics. Live trade of pigs and piglets became more and more important in recent years, representing more than 10% of slaughterings. However, during the first half of 2016, the trade of live animals within the EU was reduced by 14% (in heads). Trade of live animals coming from the Netherlands and Germany showed an important decline, favouring local fattening and slaughterings over live exports. The live trade between Denmark and the surrounding countries is less affected by this development.

The increase in EU production in the second quarter of 2016 came solely from an increase in the number of slaughtered animals, not from an increase in carcass weight, although slightly different developments between Member States exist. On the other hand, EU pig production is expected to slow down in the second half of the year because of the continuing decrease in sow herd and the lack of piglets' availability. As a result, EU pigmeat production in 2016 is expected to increase slightly at around 23.6 million tonnes (+1%), thanks to the positive feedback from export markets and a strong price recovery.

EU pork exports at record level

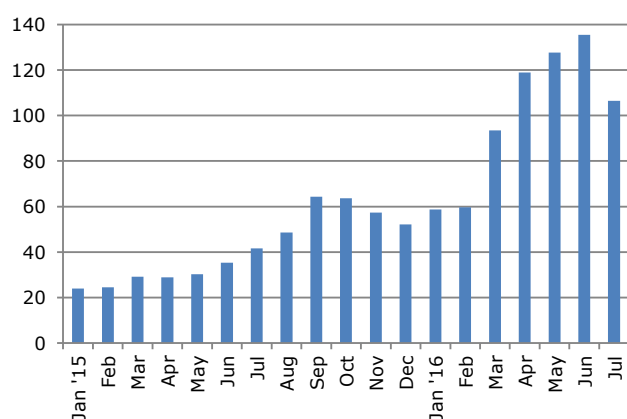
In 2016, EU pigmeat exports are expected to reach a record level at 2.7 million tonnes (+24% on annual basis) thanks to the boost in exports to China (Graph 20). The current negotiations for access to other markets closed due to SPS reasons could even further improve the export situation.

Strong import demand from China due to the restructuring of its domestic pigmeat sector explains the 44% increase in EU total pigmeat exports over the January-July 2016 period. EU pigmeat exports to China reached more than 100 000 tonnes in April, May and June and represented now more than 40% of total EU pigmeat exports or almost 600 000 tonnes in the first half of 2016. If Hong Kong is included in the exports, another 30 000 tonnes should be added. In the first half of 2016 China imported already as much pig meat from the world as in the whole year 2015 (i.e. 780 000 tonnes). All EU countries exporting to China saw their exports doubling or tripling since the beginning of 2015. Germany, Spain and Denmark

took the biggest share of the cake with respectively 31%, 19% and 17% of EU meat exports to China. Poland cannot take advantage of this opportunity as direct exports to China are banned due to several cases of African Swine Fever (ASF).

However, the euro/yuan exchange rate, the EU pigmeat production capacity and the consequences of the economic slowdown on Chinese consumer demand and its meat sector could influence downwards EU exports in the coming months. According to the Chinese Agricultural Outlook, a significant yearly import demand for pigmeat is projected to continue over the medium-term but at a lower level (close to 900 000 tonnes by 2025). Having this in mind, the current level of EU exports to China should be considered as a short term opportunity rather than a medium term fact. Other important exporters to China are the US and Canada, representing 14% and 11% of total Chinese pigmeat imports in the period January–July 2016.

Graph 21 EU pigmeat exports to China (1000 t)



Source: DG Agriculture and Rural Development, based on Eurostat

Other notable increases in the first half of 2016 were noted in EU shipments to Japan (+16%), Taiwan (+15%), Ukraine (9%) and the US (+40%). The dispute about the tariffs on certain pigmeat exports to the Philippines has been settled and reflected in an increase of 33% in the first half of 2016 (+17 000 tonnes). The recovery of the US market share on the international scene after the 2014 PEDv¹² crisis seems to come along slowly as US pig exports reached the same level as last year in the first half of 2016. This probably explains why the EU exports to Japan were better than expected. In addition, exports to South Korea were dropping slightly, while those to Australia were stabilising.

In this outlook, the Russian sanitary import ban introduced in March 2014 is expected to be maintained. The official WTO ruling on the sanitary ban has been made public on 19 August 2016. The Russian government has launched a notice of appeal on the 23 September. The WTO decision on the appeal is to be expected within three months. In the

meantime, the assumption that the import ban will remain in place for 2016 and 2017 is retained, blocking almost all exports to Russia.

EU pigmeat prices on the rise

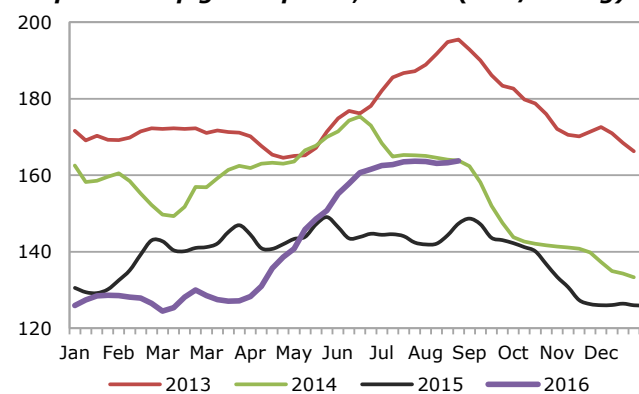
Contrary to 2015, EU pigmeat prices in 2016 seem to follow again their seasonal price increase during summer (Graph 21). After a flat start at the beginning of 2016, prices have been going up steadily since the end of April 2016. From the beginning of July the EU pigmeat prices went above the 160 EUR/100kg and stabilised around 165 EUR/100kg. This price increase is mainly due to the surge in exports to China and the tighter balance between EU supply and demand.

After some recovery of its average weekly level in the beginning of January 2016, the piglet price stabilised around 40 EUR between February and the end of May, followed by a slight rise beginning of June and stabilising again during summer. The EU average price in August was around 43 EUR/head, which is 30% higher than the same period last year. In Spain, on the contrary, piglet prices started already decreasing since half of July, earlier than the seasonal trend, although still largely above prices of last year.

Despite a brief surge, feed prices, especially soya, came down again, reducing the feed cost and improving the profitability of pigmeat production. Moreover, the quality of the cereal harvest might be such that a larger share of wheat will go to feed production.

EU consumption of pigmeat reached 32.4 kg *per capita* in 2015 (retail weight), almost 1 kg up compared to 2014. Due to the very favourable prospects of EU exports to China, there could be a temporary shortage on the EU market as operators favour exports. Therefore, the level of *per capita* consumption is expected to decrease in 2016 by 1.6% (32 kg per capita) and stabilise in 2017, more or less in line with the trend over the last ten years.

Graph 22 EU pigmeat prices, class E (EUR/100 kg)



Source: DG Agriculture and Rural Development

¹² Porcine Epidemic Diarrhea Virus.

Expansion of EU poultry meat production pushes domestic prices downward

Despite lower broiler prices at the beginning of 2016, EU poultry production expanded further during the first half of 2016 by 6%. Except for France, all other main producing Member States have reported an increase: Poland (+15%), Spain (+8%), Italy (+6%), the Netherlands (+5%) and the UK (+4%). Bird restocking in France after the outbreak of avian influenza is not yet showing up in the slaughterings, but will probably be noticeable in the second half of the year. At EU level, growth is expected to continue in the second half of 2016 as placings of chicks are staying at the same high level as previous months. Overall, EU poultry production is expected to grow by 4% in 2016, because the lower EU prices might lead to a slowdown in the production increase in the remaining months of the year. However, this production rise follows two consecutive years of 4% growth already. As consumption in the EU is reaching a more mature level and competition on the world market from Brazil and the US limits further development of exports, prices might continue to experience downward pressure.

Lower EU prices allow for increased poultry exports in a highly competitive market

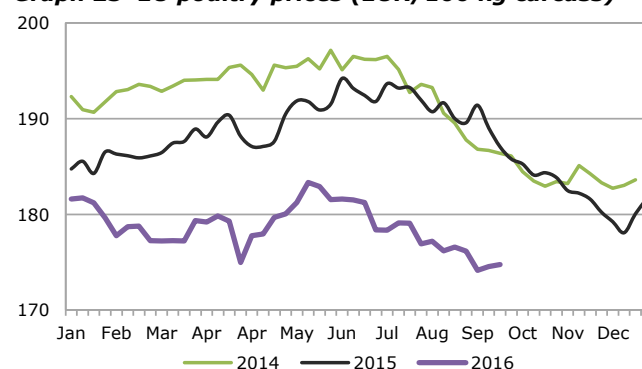
Poultry prices in the EU have stayed below 185 EUR/100kg since October 2015. Starting from May 2016, poultry prices followed a downward path to reach 175 EUR/100kg due to the abundant supply, 8% below last year's price level. These lower prices give the opportunity to increase exports, which are expected to reach 10% in 2016 compared to 2015, and to stagnate in 2017, despite the strong international competition. As mentioned before, feed prices are to stay relatively low despite the small recent rise in cereal and soy meal prices, and this thanks to a good world harvest and a reclassification of EU cereals from food to feed use.

Over the first 7 months of the year, EU poultry meat exports increased by 8% year-on-year. The bigger export increases were recorded for South Africa (+44%), the Philippines (+28%), Hong Kong (+33%) and Ukraine (+48%). The sudden surge in exports to South Africa may be explained by the possibility of an introduction of safeguard measures in the short-run as announced by the South African authorities (ITAC). The introduction of such measure may push EU exports downward, especially since the EU might be also losing market share in South Africa to the benefit of the US, which started to use its new annual TRQ of 65 000 tonnes of bone-in chicken pieces since the beginning of 2016. Exports to Benin declined drastically (-17%) due to concerns regarding the re-exports of EU commodities to Nigeria through Benin, while competition with Brazil makes the EU exports to Saudi Arabia decrease by 12%.

The Chinese market may be a game changer for 2016 as domestic production is decreasing due to a lack of breeding stock. Therefore, Chinese imports are likely to increase, giving opportunities mainly to Brazilian poultry meat exports as they are already currently the largest supplier. Nevertheless, some EU countries with direct access to the Chinese market such as Poland might also benefit from this situation, while US poultry exports are not yet back on track compared to last year (-5%), also due to the strong US dollar.

EU poultry meat imports increased by 6% in the first half of 2016, mainly due to an increase in imports from Brazil and Chile, which doubled its exports to the EU. Thailand and Ukraine complete the poultry import picture. Imports from Thailand are currently stabilising. Some of Thailand's exports might be diverted to China in the second half of 2016 if import demand would increase in that market. Even though EU production is relatively abundant and exports are increasing, imports can increase as well because the EU typically exports low value cuts while importing higher value cuts.

Graph 23 EU poultry prices (EUR/100 kg carcass)



Source: DG Agriculture and Rural Development

EU *per capita* consumption is expected to increase in 2016 by 3.1% and in 2017 as well but at a slower pace, replacing part of pork consumption.

EU sheep meat production continues its surge in 2016...

EU gross sheep and goat meat production is expected to increase by 2.4% in 2016, mainly because of an increasing demand for live animals (+35%), while domestic slaughterings follow a modest 1% increase.

During the first half of 2016, sheep and goat meat net production went up 1.6% despite an important increase in the flock size registered in December 2015. Official numbers for the UK indicate a decrease of net production by 4.5% in the first half of the year. This was quite unexpected as the sheep flock in the UK increased by 1.8% and the numbers of ewes put to the ram stabilised according to the updated December livestock survey 2015. Moreover, pasture quality in the UK was slightly down during spring but

this was compensated in summer. Currently an increase of production by 1% in 2016 for the UK is still expected, similar to last year. Slaughtering in Spain, France, Ireland and Romania went up significantly in the first half of 2016 by 5%, 6%, 7% and 15% respectively.

In the first half of 2016, sheep meat imports increased by almost 8% year-on-year. New Zealand represented almost 90% of these imports, increasing its exports to the EU by 10%. Second exporter to the EU is Australia, lowering its exports by 20%. Since the lamb crop in New Zealand was less than expected, EU imports could slowdown in the second half of the year. Currently, New Zealand has used its TRQ up to 63% or 144 000 tonnes but it is expected not to be filled by the end of 2016. Overall, this would lead to 2016 total imports 2% above last year. EU meat exports went down another 12%. Hong Kong noted a further 45% decline while Switzerland is one of the only export destination with a positive development (+12%). A further 2% drop is projected in 2016 compared to last year.

EU live exports on the contrary are doing very well, increasing by 42% in the first half of 2016. Four export partners, all located around the Mediterranean, represent almost 95% of trade. Libya and Jordan are

the main destinations, increasing by 17% and more than doubling respectively. Since the end of 2015, live exports started as well to Israel, and this flow is confirmed by more than doubling its volume compared to last year. Overall, live exports are expected to grow by 35%, reaching the highest levels ever.

... despite lowering prices

While heavy lamb carcass prices were still between their 2014 and 2015 level from January until March 2016, they started to decline even below the 2011-2015 average price during April-June. Starting from July, prices regained their average level of previous years, currently at 490 EUR/100 kg. A similar movement can be observed for light lamb carcass prices in the beginning of 2016. From half March, the light lamb prices started to drop till a level of 540 EUR/100 kg. Since May, the seasonal upward trend can be observed again but at a level 20 EUR below the average of the five years.

Consumption of sheep meat in the EU accounts for only 2.5% of total meat consumption or 1.9 kg *per capita*, and is expected to increase slightly in 2016 and to stabilise in 2017.

Table 5.20 EU-28 pigmeat market balance (1000 tonnes carcass weight equivalent)

	EU-28						% variation				
	2012	2013	2014	2015e	2016f	2017f	13/12	14/13	15/14	16/15	17/16
Gross Indigenous Production	22 554	22 385	22 569	23 384	23 629	23 547	-0.8	0.8	3.6	1.0	-0.3
Live Imports	.08	.05	.11	.25	.3	.3					
Live Exports	36	26	36	21	13	13	-27.3	36.2	-42.0	-35.0	0.0
Net Production	22 519	22 359	22 534	23 364	23 616	23 534	-0.7	0.8	3.7	1.1	-0.3
<i>EU-15</i>	19 127	19 055	19 075	19 756	19 953	19 853	-0.4	0.1	3.6	1.0	-0.5
<i>EU-N13</i>	3 391	3 304	3 459	3 608	3 662	3 681	-2.6	4.7	4.3	1.5	0.5
Meat Imports	19	15	14	11	13	13	-20.6	-8.3	-19.7	12.0	-1.0
Meat Exports	2 151	2 198	1 939	2 189	2 714	2 578	2.1	-11.8	12.9	24.0	-5.0
Consumption	20 387	20 177	20 609	21 186	20 914	20 968	-1.0	2.1	2.8	-1.3	0.3
Per Capita Consumption¹ (kg)	31.4	31.0	31.6	32.4	31.9	31.9	-1.2	1.9	2.5	-1.6	0.0
<i>Share in total meat cons. (%)</i>	49.2	49.2	49.0	48.8	47.8	47.7					
Self-sufficiency rate (%)	111	111	110	110	113	112					

¹ In retail weight. Coefficient to transform carcass weight into retail weight is 0.78 for pigmeat.

Table 5.21 EU-28 poultry meat market balance (1000 tonnes carcass weight equivalent)

	EU-28						% variation				
	2012	2013	2014	2015e	2016f	2017f	13/12	14/13	15/14	16/15	17/16
Gross Indigenous Production	12 703	12 792	13 280	13 780	14 324	14 502	0.7	3.8	3.8	3.9	1.2
Live Imports	1	1	1	1	2	2					
Live Exports	10	10	11	10	10	10	2.4	5.7	-3.3	-5.0	0.0
Net Production	12 694	12 783	13 270	13 771	14 315	14 494	0.7	3.8	3.8	4.0	1.2
<i>EU-15</i>	9 833	9 829	10 092	10 299	10 569	10 654	0.0	2.7	2.0	2.6	0.8
<i>EU-N13</i>	2 862	2 954	3 178	3 472	3 746	3 840	3.2	7.6	9.3	7.9	2.5
Meat Imports	841	791	821	852	895	912	-5.9	3.8	3.8	5.0	2.0
Meat Exports	1 306	1 293	1 331	1 346	1 480	1 510	-1.0	2.9	1.1	10.0	2.0
Consumption	12 229	12 282	12 761	13 277	13 730	13 896	0.4	3.9	4.0	3.4	1.2
Per Capita Consumption¹ (kg)	21.2	21.3	22.1	22.9	23.6	23.8	0.3	3.6	3.7	3.1	0.9
<i>Share in total meat cons. (%)</i>	29.5	29.9	30.3	30.6	31.4	31.6					
Self-sufficiency rate (%)	104	104	104	104	104	104					

¹ In retail weight. Coefficient to transform carcass weight into retail weight is 0.88 for poultry meat.

Table 5.22 EU-28 sheep and goat meat market balance (1000 tonnes carcass weight equivalent)

	EU-28						% variation				
	2012	2013	2014	2015e	2016f	2017f	13/12	14/13	15/14	16/15	17/16
Gross Indigenous Production	928	918	917	957	979	986	-1.2	-0.1	4.4	2.4	0.7
Live Imports	0	0	0	0	0	0					
Live Exports	27	34	36	38	51	53	26.1	7.7	3.4	35.0	5.0
Net Production	902	884	881	919	929	933	-2.0	-0.4	4.4	1.0	0.4
<i>of which on-farm slaughterings</i>	141	124	128	150	148	147	-11.9	3.3	17.0	-1.0	-1.0
<i>EU-15</i>	815	803	796	806	805	807	-1.5	-0.8	1.2	-0.1	0.2
<i>EU-N13</i>	86	81	84	113	123	126	-6.4	4.4	34.5	8.8	2.0
Meat Imports	190	200	189	202	206	209	5.0	-5.6	7.3	2.0	1.0
Meat Exports	24	36	32	20	19	20	48.3	-11.2	-37.7	-2.0	3.0
Consumption	1 068	1 048	1 037	1 102	1 116	1 121	-1.9	-1.0	6.2	1.3	0.5
Per Capita Consumption¹ (kg)	1.9	1.8	1.8	1.9	1.9	1.9	-2.0	-1.2	5.9	0.9	0.2
<i>Share in total meat cons. (%)</i>	2.6	2.6	2.5	2.5	2.5	2.5					
Self-sufficiency rate (%)	87	88	88	87	88	88					

¹ In retail weight. Coefficient to transform carcass weight into retail weight is 0.88 for sheep and goat meat.