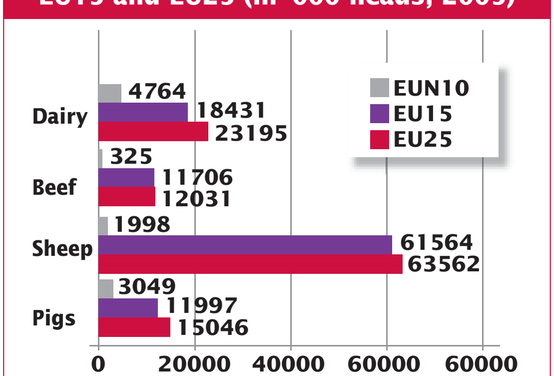
More meat, more consumers in new EU

With the latest addition of ten countries to the EU, the number of EU consumers increased considerably. What does this mean for the trade of agricultural products, and in particular for meat imports and exports?

By Emmy Koeleman

The European Union (EU) was originally created by six founding states in 1952, but has since grown to its current size of 25 member states. There were five successive enlargements during this period, with the largest occurring on May 1, 2004, when ten new member states joined (*see map*). The EU will have 27 member states when further enlargement takes place in 2007 with the addition of Romania and Bulgaria and probably Turkey. These additions mean more EU consumers and more trade possibilities for livestock products.

Figure 1-Breeding numbers in the EU10, EU15 and EU25 (in '000 heads, 2005)



The global picture

Before having a glimpse on how the new EU members affect meat trade, let's look at the global picture. There are a few important factors that affect global meat trade. In the case of pig meat, Brazil and Mexico are increasing exports to sustain their production boom. Their targets are Asia and Russia, but there are still issues over Foot and Mouth Disease (FMD) that affect export to these markets. The EU is the second largest producer of pig meat after China, with Denmark dominating export trade. However, the Danes are losing their strong export position to North and South America due to exchange rates (in disfavour of the Euro), costs of legislation and relative feed prices.

In the beef sector, South America is the dominant global exporter, but Brazil and Argentina were hit by FMD, which reduced exports to EU and Russia. Australia replaced US exports to Japan in 2005 due to BSE. The US came back into the market in 2006, but Australia now has a major foothold. EU beef import quota is unlikely to be filled due to South America restrictions.

Looking at the global sheep meat sector, we see that the Australian flock is moving from wool to meat production. Australia is targeting US to replace the drop in its domestic flock. Also the increase in demand in the Middle East is supplied by Australia. The New Zealand flock is static, but productivity is increasing.

Prospects for the new EU

The ten new EU members are not known for their beef producers. Poland and Czech Republic are on top with 319,000 mt and 84,000 mt per year respectively. The remaining members produce less than 30,000 mt. These countries put their focus mainly on pork production and in particular meat for

The new EU members (in red)

processing and the more fatty parts of the carcass. The beef consumption in these countries is around 10.4 kg per person per year, on average. In the old EU member states, the consumption of beef was around 20 kilos per person per year.

Beef production is expected to be down 5% by 2013. Lower customer preference in the new EU10 will offset increased incomes. There will be a steady EU supply and tight demand, therefore steady increase in imports at full duty. Longer term cow beef supplies will reduce due to the reduced dairy herd. Suckler herd size is not increasing sufficiently to counter balance reduced cow beef supply. There are some initiatives for new beef production sites in the new EU. From Germany, for example, beef producers are trying to set up new farms in the Czech Republic and Hungary. The Netherlands exports some Blondes d'Aquitaine and Limousins to Polish producers. In 2005, around 400 Blondes and 300 Limousins were transported to Poland.

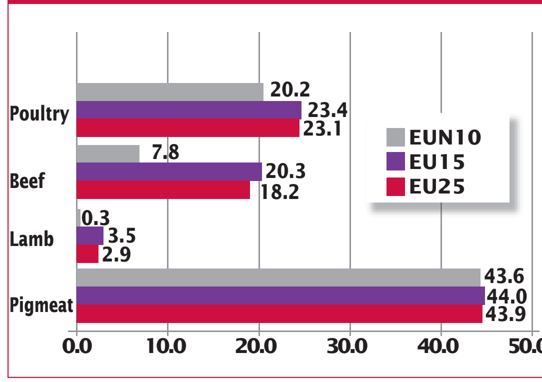
Sheep meat production will decline in medium term, continuing the historic trend and as a result of decoupling of ewe premium. The prices in the EU will be firmed, and most of the EU production will be substituted by imports. It is forecasted that the consumption of sheep meat is slowly dropping in the future.

In the pig sector, a steady increase in production is forecasted as pig meat remains favoured meat in the EU. The consumption per capita will rise from 42.8 to 44.1 kg per capital per year by 2013. Exports will be held in check by increased competition in the Far East from North and South America. There will be large restructuring of new EU 10 industries, especially Poland and Hungary, driven by foreign investment.

The reality

The impact of the new EU member states will depend on several factors. Poland already has 1.7 million sows on 1.5 million farms. The incredible growth in Poland will definitely have an effect on the pork production in Western Europe. Smithfield Foods, the world's largest pig meat processor invested over 120,000 sows in Poland. The expansion of Smithfield, that aims at an annual slaughter of 2 million pigs in Poland at its daughter company Animex, takes place at the farms. The farms of the

Figure 2-Consumption in the EU10, EU15 and EU25 (kg per capita per year)



Prima Farms Group, the main partner of Animex, will grow from 60,000 to 120,000 sows. Furthermore, Animex has contracted 1,600 Polish farmers to sell their pigs to Smithfield. A bonus system is implemented to assure the production of pigs with a high fat percentage (aim is 55%). The growing pork export of Animex to the British market, primarily to Tesco, is pressuring. At the moment, Poland is still dealing with a decreasing meat export to Russia. It is projected that 2006 will show an increase in growth with 7%, after a year with a growth of 13 %. Big retailer chains such as Tesco, Carrefour, Alberts, Lidl and Metro already have 700 stores in Poland and Western countries are worried that cheap Polish pork will dominate the EU market.

Consumer issues, together with food safety and quality issues will also play an important role in the future trade in the EU. Many of the new member status do not comply with the EU hygiene legislation, even though they belong to the EU for some years now. In Poland, some meat companies get quality recognition, without complying with the rules, according to EU inspections. Other important factors that influence trade considerably are disease outbreaks and exchange rate changes

We should also not forget China—a country that is expanding its meat processing plants very rapidly. In 2005, the number of meat processing operations increases with 12%, to 2,544. Their turnover jumped with 38% to € 22 billion. **MI**