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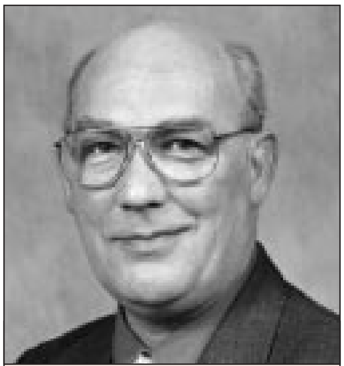
EU MOVES FROM 15 TO 25 IN MAY

Reforms will make Europe more open to global trade



MARK HORVATH, a specialist in EU policy with Barker Gotelee Solicitors, one of the UK's leading agricultural law firms, looks at the implications of the major enlargement of the European Union in May.

The enlargement takes place at a time of turmoil in global markets caused by several factors including the impact of avian influenza, national trade quotas and concerns about intensive farming - see page 3.

The objectives of the European Economic Community - now the European Union/EU - included the spreading of prosperity and democracy throughout Western Europe so that it would never again be in any country's interest to go to war. Enlargement can now bring those benefits to a wider Europe through enlargement of the EU - whose motto is "United in Diversity."

From May 1 the 10 Accession States (the Ten) will join the present Member States (the Fifteen) to become full members of the EU. With 25 members the EU's population, approaching half a billion, will be 56% greater than the USA's, thus making it an even greater economic force to be reckoned with.

Although the Ten will have a few transitional exemptions from EU laws, none relate to food production, processing and marketing. Food products from the Ten will therefore have free access to the Fifteen, and vice versa.

Future Influences

Predicting developments over the next decade in the enlarged EU is bound to produce results with low confidence levels. When considering how domestic producers and consumers will react to enlargement and how production will shift between the member states, account must be taken of production and consumption trends outside the EU which will be affected by the outcome of the present World Trade Organization (WTO) Round.

The EU came to the WTO Uruguay Round ill prepared and in April 1994 signed agreements that had largely been dictated by the USA. The EU learnt its lesson.

In the early post-war years of shortages the motto was 'The more the merrier' and therefore the Common Agricultural Policy/CAP (Europe's only common policy) was based largely on production subsidy policies.

This worked well but led to beef and cereal mountains, massive trade distortions on the world market - particularly for the developing countries, and environmental damage. Consumers and taxpayers gradually lost confidence and the WTO Uruguay Round made it clear that change was inescapable. Over the past 10 years the EU moved away from production support towards a market orientated, environmentally-friendly CAP.

The 1992 McSharry Reforms were followed by Agenda 2000 which extended direct payments, cut guaranteed prices further and boosted rural development from a miniscule budget to the Second Pillar of the CAP.

The Ten new Accession States, Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Cyprus and Malta who join the EU on May 1 are shown highlighted.

continued on page 2

Continued from page 1

Under the Mid Term Reform now being implemented support is no longer coupled to output but to farmers themselves and the services they perform for society, thus making more of the budget available for the environment, animal welfare, organic farming and quality production.

Today's CAP bears little resemblance to that before Uruguay:-

- 30+ production payments have been reduced to a Single Farm Payment, giving farmers a direct payment for the non-food services they provide, so their production is geared to the market – not production subsidies.
- Cereal prices are now fixed by the market – not politicians.
- The beef intervention stores are now empty.
- The CAP budget (of which the Second Pillar now annually accounts for €70 billion) has been cut from more than two-thirds to 45% of the total EU budget.
- Over 15 years trade distorting export refunds have been cut from 25% to 9% of the CAP budget.

Demands of consumers and taxpayers

According to opinion polls, 91% of EU citizens think a core activity of the CAP is to guarantee safe food, while 89% also consider environmental protection to be a key function.

Today's CAP takes account of these taxpayer demands.

The BSE crisis reinforced the public's opinions and has made farmers and administrators realise that blindly maximising production and farming contrary to the laws of nature and to human and animal health, does not work. The EU realises that it cannot continue farming as though we are the last generation on earth - hence the concept of "sustainability" that now runs throughout the CAP.

Sustainability is the concept that the generations to come should inherit the same environment, or an improved version of it, that we inherited and be able to enjoy it as we have done.

Mid Term Reform

The conversion of production payments to a direct Single Farm Payment brings farmers closer to the market and forces them to make commercial production decisions.

Because the Ten have cost advantages (cheaper land and labour), the Single Farm Payment will be introduced at a lower level (25%) and increased incrementally so that by 2013 they will equal the decoupled payments in the Fifteen.

The EU's intention is to achieve the smooth integration of the Ten with minimum distortion to established production and trade patterns.

Because of factors difficult for economists to take account of, this is unlikely to be entirely successful.

Compared to the Ten, farmers in the Fifteen generally have a poorer public image and are fewer in number and political influence. Farmers in the Ten may not be popular but their fellow citizens want them to survive and believe farming is an important part of their nations. They are therefore less beset by public pressure groups and operate in a more tolerant society and, being more numerous, have greater political power.

Although the hard and soft infrastructure in the Ten is not as good as in the Fifteen, those states are still attractive to western investors - particularly frustrated entrepreneurs from the existing member states and elsewhere.

As technology, genetic material and skills can be quickly transferred, I expect a significant movement of production from the Fifteen to the Ten over the next decade. Farming in the Fifteen will seek to compensate by diversifying both within and without agriculture, by adding value to produce and by increasing unit size and efficiency.

The Ten may develop primary/commodity production at a faster rate than their processing capacity and thus be more susceptible than the Fifteen to fluctuations in world commodity markets and unforeseen events such as BSE or Avian Influenza.

The Internal Market: Poultry growth set to continue

Meat consumption declined by 10-20% in the former communist members of the Ten during the 90s compared to the late 80s. This was due to higher prices resulting from the collapse of the Communist farming system and, until the mid-90s, a fall in consumer incomes. Incomes then started to rise, and will continue to do so.

The decline primarily affected red meats as consumers switched to white meats (with shorter and cheaper production cycles) with poultry meat consumption increasing strongly.

Forecasts from the European Commission indicate that while meat consumption overall will rise slowly over the next five years, beef and veal will decline, pork remain stable and poultry meat continue its leading growth rate.

As incomes increase demand for quality cuts, especially of pork and poultry breast meat, will increase. This means that white meat quality cuts and products can maintain a price premium, but low quality meat will have to be discounted.

Despite strong demand forecasts for poultry meat, prices are likely to fall. This will not necessarily mean a fall in profitability.

As poultry production in the Ten can improve its efficiency, the cost savings can be used to reduce consumer prices in what will now be an open and competitive market. For example, in the Ten the current poultry feed conversion ratio of 2.8:1 is expected to improve by 15% to 2.4:1 by 2010, according to the European Commission.

The move to white meat production is expected to result in a higher use of feed wheat and coarse grains of about 23% and a strong increase in protein feed usage.

The above overview hides differences between individual member states. For example, Hungary is predicting a virtually stable consumption of poultry meat and products, while Estonia expects a decline. Ultimately consumption patterns in the Ten can be expected to move towards those in the Fifteen.

Meat consumption in the Ten (kg/capita/annum)

	1999	2004	2008	Change 2008 *cf* 1999
Beef & Veal	9.6	9.3	9.2	-4.2%
Pork	41.4	40.8	42.1	+1.7%
Poultry Meat	**15.4**	**17.6**	**19.0**	**+23.4%**
Ovine Meat	1.1	0.9	0.8	-27.3%
Total	**67.5**	**68.6**	**71.1**	**+5.3%**

Source: European Commission

The External Market: Focus on reviewing trade obstacles

The MTR's further changes to a market orientated CAP, with internal prices close to world prices, means that the EU will be more open to international trade. However, in the current WTO Round the EU has made it clear that it will not surrender to mindless propaganda that seeks the removal of even 'Green Box' rural/farming support.

The EU already imports more from the Third World than the United States, Canada, Australia, Japan and New Zealand together. The EU will continue to focus on removing trade obstacles to those commodities that affect the developing countries - as it has already done with the Everything But Arms (EBA) agreement.

In return the EU expects the other developed nations to do likewise and discontinue their hidden (WTO illegal) market-distorting aids.

The EU also insists on its right to maintain animal health and welfare and the rural environment its citizens demand so that they get the safe, honest food they expect.

Given, for example, recent EU surveys showing more than 90% of consumers don't want GM food, and the supermarkets' refusal to sell it, producers selling in/into the EU are well advised to avoid GM production and the use of GM livestock feeds.

The views here expressed are those of the author, are not legal advice and are not necessarily those of Barker Gotelee Solicitors.

Brazil loses out on Russian market

BRAZIL is still struggling to win back its lost chicken export business to Russia after the introduction of import quotas last year.

It does not expect to ship more than 50-60,000 tonnes to Russia in 2004, compared with 300,000 tonnes in 2002, the year before the quota system was introduced.

The Brazilian authorities feel they have been unfairly treated by the new Russian quota system, which is estimated to be costing them up to $500 million a year when all meats are taken into account.

Last year, Russia set a total poultry meat import quota from all its suppliers at nearly 750,000 tonnes, most of which was allocated to the USA, which received 553,000 tonnes. The EU was awarded 140,000 tonnes, and Brazil just 33,000. Brazilian exporters believed they had been given assurances early in 2003 that this year's quota would be based on export levels in 2000-02.

Instead, Brazil has been given no set quota at all. While the US gets 770,000 tonnes out of a larger total of 1.05 million tonnes for this year, and the EU (including the new members from May) is allocated 200,000, Brazil will have to compete on price with any other would-be contenders for the remaining 70,000 tonnes.

The Brazilian industry is in little doubt that political favouritism is behind these allocations, with Brazil being penalised for its substantial trade imbalance with Russia.

The loss of exports to Russia, however, did not prevent Brazil from raising its total exports worldwide by 20% in the first 10 months of last year.

Exporters there are now hoping that 2004 will see another good performance in the wake of both BSE in the USA (which could reduce availability of US beef on world markets and prompt increased demand for poultry) and the avian flu in Asia.

Meanwhile in the US itself, despite being allocated a high percentage of the total quota on offer, the industry there has only just resolved a long-running dispute with the Russian authorities over veterinary standards.

As recently as June the Russian government made a further cut in the number of its approved US suppliers. Only 266 companies were granted permits to export to Russia, out of 341 requests submitted. Before the issue arose in 2002, and the introduction of quotas this year, there had been over 450 US companies exporting to Russia, supplying a total of well over a million tonnes of poultry.

The US is now said to have accepted the veterinary standards imposed by the Russians.

In the long run, the Russian market may disappear altogether. Agriculture minister Sergei Dankvert announced last summer that Russia intends to end its status as a net poultry meat importer in the medium term. Russia was looking for the active involvement of breeding stock suppliers, the manufacturers of growing and processing equipment, and investors to help expand its industry.

Dutch ministry still committed to sustainable agriculture

THE DUTCH Government still believes that the country needs to move away from intensive poultry farming, almost a year after such sentiments were first expressed at the end of the avian influenza outbreak.

The agriculture minister Cees Veerman re-entered the debate on the future of Dutch agriculture with a warning that producers will not be able to compete when import tariffs are removed (as a likely outcome of future world trade agreements). He believed there should be more emphasis on animal welfare and the environment, and much less on price.

He would have been dismayed, perhaps, by official figures for Dutch broiler placings that show a strong recovery by the industry in the latter part of the year (Fig 1). After suspending figures for nine months, the Dutch authorities have now published complete data that shows placings falling by two-thirds for three months, and then steadily recovering so that by September they had almost returned to the year earlier level.

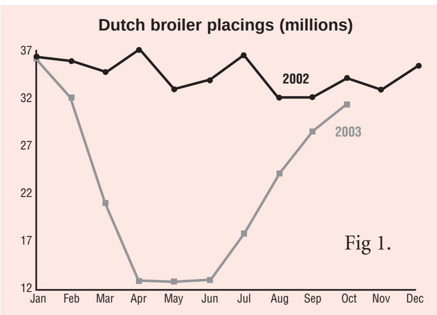


Fig 1.

The after-effects of the outbreak nevertheless rumble on, with Pingo Poultry one of the latest casualties. At the end of the year the company announced more than a hundred job losses with the closure of the Cuyk plant, one of three in the Netherlands. This follows the earlier closure of one of its two Belgian plants, at Steenvoorde.

The final tally for the Dutch outbreak was 31 million birds slaughtered from all sectors of the poultry and egg industry, amounting to a quarter of the national flock.

Among the early casualties had been the country's largest poultry processor, Storteboom, which handled 2.2m broilers a week - around 20% of Dutch production.

The company was a primary poultry producer and was already in trouble after years of growing competition from cheaper third country imports.

Avian flu puts trade in a spin

WORLD poultry markets have been thrown into chaos in recent weeks by the outbreaks of avian influenza in Asia and the USA.

No sooner has many leading importing countries - including Japan and the EU - slapped a ban on imports from Thailand, than the outbreak in Texas prompted a similar action on US products.

That effectively left Brazil as the only major low-cost producer filling the export gap, but the situation is daunting. Julio Cardoso, president of Brazil's poultry exporters, said that making up for the absence of Thailand was one thing; making up for US exports was another proposition altogether.

The US outbreak of the H7 strain in Texas was not in the commercial flock and is not considered to have anything like the degree of seriousness as its Asian counterpart, where several strains are involved but the highly dangerous H5N1 presents the biggest threat. It is this that has caused the growing death toll among people.

The effect on the EU is not likely to be critical to supplies. Although the EU expects to enforce its ban on Thai poultry for six months in the first instance (which would take it through to August), the ban does not include 'heat-treated' (ie cooked) chicken and a significant amount of the EU imports from Thailand are in cooked form. In the case of the US, the EU already had a hygiene ban in place on US poultry meat and this has now been extended to cover live birds and hatching eggs.

With world prices rising for poultry meat, producers in the EU may gain a competitive advantage on both home and export markets. Unfortunately, the sharp rises in feed costs this year are working against them.

Some experts believe it could take up to two years to eradicate the disease from all 10 of the Asian countries involved - Thailand, Vietnam, China, Japan, Pakistan, South Korea, Indonesia, Taiwan, Cambodia, and Laos, if this actually proves possible. In some countries the disease is thought to be effectively endemic in the large smallholder sector.

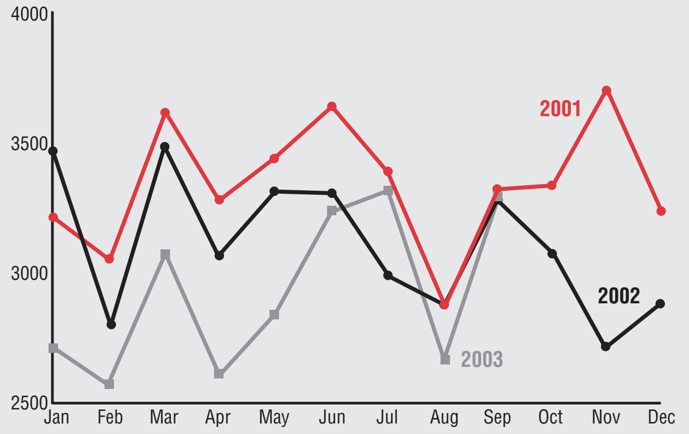
MARKET TRENDS

Feed ingredient prices

National currency/tonne	Current (Dec)	3 months ago (Sept)	6 months ago (June)	9 months ago (Mar)	Year ago (Dec)
US wheat ($) soft red winter	163	140	118	129	149
US maize ($) No 3 yellow corn	115	101	109	107	108
US soya ($) No 2 yellowbeans	297	260	239	226	225
EU feed wheat (£) UK - national average	108	84	72	61	58
EU feed wheat (€) Rotterdam	172	140	119	114	117
EU feed wheat (€) Hamburg	160	134	110	104	105
EU maize (€) Bologna	180	169	129	134	138
S American soya ($) Argentina/Brazil	292	268	218	207	223

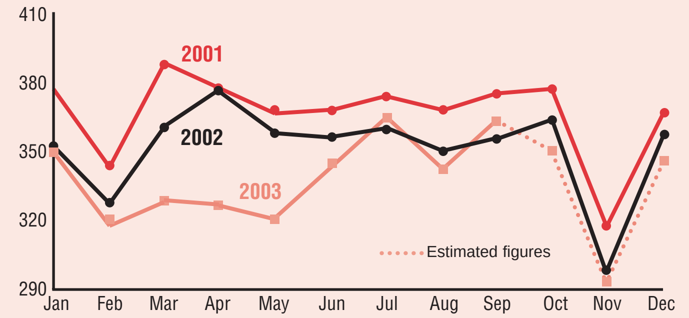
EU female parent chick placings

11 states, thousands



EU chick placings, 11 states

commercial broilers, millions



Strong expansion in Poland

POULTRY production has been buoyant over the past year in Poland, the largest of the 10 new members due to accede to the EU on 1st May.

Output was expected to be up by nearly 10% in 2003, supported by a strong growth in export trade, chiefly with its future EU partners.

However, the first four months of this year are proving more difficult, because by the end of 2003 Poland had virtually used up all the duty-free quota awarded by the EU to see it through to accession. From May, it will have unfettered access to the EU, so a sudden surge is likely.

EU broiler prices

€/kg liveweight (except UK & Denmark)

	Current (Dec)	3 months ago (Sept)	6 months ago (June)	9 months ago (Mar)	Year ago (Dec)
Belgium	0.53	0.72	0.87	0.83	0.51
France	0.84	0.82	0.83	0.84	0.84
Germany	0.73	0.74	0.72	0.70	0.70
Italy	0.95	1.27	0.91	0.82	0.88
Netherlands	0.70	0.68	0.65	0.66	0.67
Spain	0.55	1.44	0.95	1.16	0.74
Denmark (DKr)	4.11	4.11	4.11	4.11	4.11
UK (£)	0.50	0.50	0.49	0.47	0.48

EU average wholesale prices

per/kg, whole oven-ready chicken

	UK (€)	Germany (€)	Italy (€)	France (€)
Jan '03	1.24	1.43	1.46	1.50
Feb	1.19	1.44	1.35	1.49
Mar	1.17	1.40	1.37	1.46
Apr	1.19	1.45	1.43	1.53
May	1.21	1.56	1.46	1.74
Jun	1.29	1.63	1.54	1.82
Jul	1.30	1.67	1.67	1.95
Aug	1.32	1.67	1.81	1.94
Sep	1.34	1.66	1.97	2.03
Oct	1.28	1.64	1.88	2.03
Nov	1.24	1.62	1.74	1.86
Dec	1.18	1.61	1.61	1.55

Exchange rates

	Current (Dec)	3 months ago (Sept)	6 months ago (June)	9 months ago (Mar)	Year ago (Dec)
£ / €	1.47	1.44	1.43	1.46	1.54
$ / €	1.25	1.13	1.18	1.06	1.03
£ / $	1.85	1.62	1.69	1.55	1.58

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