



International Agricultural Trade Report

Weekly Market Report: Dairy, Livestock, & Poultry

December 8, 2000

Agriculture Council Measures Respond to BSE Situation

On December 4, 2000, the EU Agriculture Council adopted several BSE-related measures proposed by the European Commission the previous week. The intent is to restore consumer confidence and support the market following a drop in consumer beef demand and fall in cattle and beef prices due to the increased diagnosis of BSE-infected cattle in the EU. The new measures include:

Temporary ban on feeding meat-and-bone meal (MBM) to farmed animals: Beginning January 1, member states shall prohibit the feeding of “processed animal proteins” to farmed animals. The ban will be reviewed in 6 months. The import and export of these products is also prohibited. The definition of processed animal proteins includes MBM, poultry offal meat, feather meal, and fishmeal. However, fishmeal may be fed to animals other than ruminants.

Ban on meat from cattle over 30 months old unless tested: Under the “Purchase for Destruction” scheme, cattle over 30 months old presented for slaughter will be destroyed to keep the meat and by-products out of the food and feed chain unless tested for BSE. Meat from cattle older than 30 months with negative BSE tests will be allowed to enter commercial channels. The Council decided to make BSE tests mandatory for all bovines over 30 months which enter the food chain. However, the Council left it to the Standing Veterinary Committee to decide on the timing of the tests. For animals that must be destroyed, the Council agreed in principle that the EU will compensate cattle producers for 70 percent of the animal’s market value. The next EU beef management committee meeting, scheduled for December 12, will review details of the testing program and the purchase for destruction scheme.

Beef premia advances increased: Advances paid for the beef premia will be raised from 60 percent to 80 percent.

Member states are responsible for implementing the MBM ban, carrying out the testing program, and managing the purchase for destruction scheme. Among the key cattle-producing EU member states, France and Germany have already banned the use of MBM in all animal feeds. France has been testing at levels above those prescribed by the EU, while in Germany, testing of all cattle over 30 months was required as of December 6. Other countries, such as Sweden, Finland, Austria, and the Netherlands, are seeking exemptions from some of the Council’s measures, particularly the MBM ban, claiming BSE-free status and/or the presence of national measures that prevent cross-contamination of feed.

Although the EU will provide some support for implementing the measures, such as funding 70 percent of the compensation for cattle destroyed through the Purchase for Destruction scheme,

much of the financial burden will be borne by member states. France, for example, plans to add 750 million francs (\$102 million) to its 2001 agriculture budget for the compensation package alone.

In addition to the cost of the measures, there are a number of practical concerns related to their implementation that need to be addressed. One is the capability to test large numbers of animals. For example, Denmark is currently testing about 300 animals per week, but will need to test 5,000 per week. Slaughterhouse storage capacity and ability to segregate product will become a critical factor as beef must be held until tests are complete. Some member states are concerned about the capacity of their rendering industry to dispose of animals and their products through the purchase for destruction scheme. Probably the most critical capacity factor is that there is insufficient storage for the MBM that will not be allowed to enter the market for at least 6 months, and possibly longer.

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December 1, 2000

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Resurgence of BSE in the EU

Summary

The European Union (EU) is in the midst of another Bovine Spongiform Encephalopathy (BSE) crisis following the rapid increase this year in the reported incidences of BSE-infected cattle in France and the first reported finding of BSE infections in native-born cattle in Germany and Spain. With beef demand and cattle prices dropping precipitously and a number of drastic control measures likely to be put in place, the current crisis is likely to have a deeper impact on a wider variety of agricultural products than occurred in 1996 when the UK was the locus of BSE concerns. While the situation is, at present, unsettled, several factors highlight the potential impact of this crisis on U.S. and global meat trade.

As the incidence of BSE-infected cattle rises in the EU...

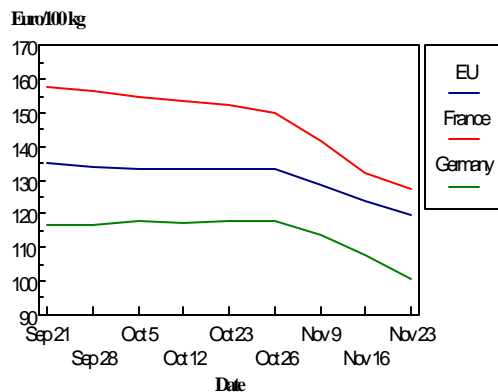
More than 100 cases of BSE have been recorded so far this year in France, compared to 31 cases in 1999. The increase is at least partly attributable to the introduction of a more rigorous testing regime than was mandated by the European Commission. France introduced this testing before the required date of January 1, 2001, and is conducting more tests than mandated. It is possible that other member states will show a similar increase in reported BSE cases once they begin the new testing program in the coming year.

The increased identification of BSE-infected cattle and recent deaths of two individuals in France from the human form of the disease, new variant Creutzfeld-Jakob (nvCJD), sparked widespread consumer concern, initially within France, but quickly spread to other EU member states and beyond. These concerns intensified with the confirmed finding of BSE-infected cattle in Spain and in Germany, two countries that had not previously seen BSE in native-born animals. This was a particular problem in Germany, which had prided itself publicly on being BSE-free.

... consumers and governments respond

Consumer response throughout the EU has been immediate and significant. Approximately 3 weeks after the onset of the crisis, the European Commission reported that beef consumption in France has fallen by up to 40 percent, while a private survey pegs the decline at closer to 50 percent as of mid-November. Consumer reaction in Germany has been similar following its own BSE finding. Throughout the EU, and particularly in

Representative Cattle Price
(Euro/100 kilograms)



those member states that purchase cattle or beef from France and Germany, consumers are turning away from beef. As a result, there has been a precipitous decline in EU cattle and beef prices, particularly in France and Germany.

The current crisis is yet another blow to EU consumer confidence in the public institutions that monitor and regulate food safety. In response, a number of EU member state governments initiated unilateral actions to restrict or ban the purchase of French beef and cattle and to remove beef, or certain cuts of beef, from consumer channels by banning, for example, beef from school lunches or prohibiting the sale of T-bone steaks. Pressure has mounted, especially since Germany can no longer claim BSE-free status, for the European Commission to institute broad measures to monitor and control the spread of BSE and to support cattle and beef prices. On November 29, the Commission issued proposals to both enhance consumer confidence and support the market. The following proposals will be reviewed at a special meeting of the Agricultural Council on December 4:

Temporary ban on feeding meat-and-bone meal (MBM) to all farm animals: Extends the current ban on using MBM in ruminant feed to all farm animals beginning January 1 and lasting at least 6 months. The ban addresses the concern that animal by-products in feed is the primary source of transmission for BSE.

“Purchase for Destruction” scheme: Purchase and destroy all cattle over 30 months old unless they have been tested for BSE. Animals with negative tests could be sold commercially. There is also a requirement that all at-risk animals must be tested beginning January 1 and that all animals older than thirty months will be tested as of July 1, 2001.

Flexible handling of public intervention: If EU and member state beef prices fall below a stated threshold, the intervention system opens with an obligation for the EU to buy every quantity offered. Public intervention is the traditional answer to a supply problem, but is costly, and, as with private storage, there is still the problem of eventually releasing these stocks into the market.

Beef premia advances increased: Advances paid for the beef premia will be raised from 60 percent to 80 percent. The intent is to ease some of the financial burden beef producers are facing.

In addition to these proposals, the following measures have already been adopted:

Private storage aid scheme: On November 17, the EU’s Beef Management Committee approved a plan to finance private storage of French beef. Participants will receive a subsidy to store fresh or chilled half-carasses of beef for 3 months, with an extension of 3 months possible. The application period is from November 27 to February 2, 2001. This is a supply-control effort to mitigate the price effect of excess French beef supplies.

Export Refunds Increased: On November 24, the European Commission increased export refunds by 15 percent for live cattle, beef from male animals, and processed meat products. Export refunds for beef from cows was raised 130 percent. The effect will be to lower even further the export price of EU beef.

Impact on Meat Trade

A number of variables are in play that will affect the supply, price, and export of EU beef. The EU exports beef to more than 100 countries, but over the last 3 years, Egypt and Russia accounted for approximately 60-70 percent of EU beef exports. In 1999, other key markets include the Philippines, Saudi Arabia, Algeria, and South Africa. The EU also exported approximately 24,000 tons of beef variety meats in 1999, with Russia, Egypt, Liechtenstein, and Japan accounting for 45 percent of the trade. Several countries have banned the import of beef from most, if not all, EU member states. On November 29, Egypt temporarily suspended the import of EU beef, awaiting further EU actions. Ireland is the member state hardest hit by Egypt's temporary suspension. Russia currently bans beef from nine French regions.

EU Beef Exports by Major Market (Metric Tons)

Destination	1997	1998	1999
Russia	339,835	211,224	349,127
Egypt	119,253	106,643	147,191
Philippines	2,649	4,136	16,964
Saudi Arabia	29,767	27,839	23,002
Algeria	7,103	15,675	12,919
South Africa	31,625	9,388	10,769
Other	210,233	146,884	133,442
Total	740,465	521,789	693,415

Source: Eurostat

The price and supply effects of the EU measures, reaction by consumers, and actions by other nations will, taken together, affect EU beef exports in coming months as well as create cross-commodity effects on other meats. A number of challenges and opportunities are likely to arise for U.S. meat exporters. Several key factors are identified below:

EU cattle numbers and beef supply: The overall effect of the purchase for destruction scheme, private storage aid, flexible intervention, and increased export refunds will, at least temporarily, reduce cattle numbers and reduce the supply of beef on the EU market. Intervention and private storage beef will eventually have to be released, perhaps at a time when consumer beef demand remains uncertain.

EU consumer response: At least initially, consumer reaction appears to be more negative, more widespread, and less likely to respond to government assurances than was the case in 1996. This suggests that export markets will become outlets for beef stored under the supply control measures. The extent to which EU consumers switch to other meat proteins, especially pork and poultry will also be important.

Cross-commodity effects: In the earlier BSE crisis, EU consumers' increased demand for pork reduced the volume of EU pork available for export, creating additional opportunities for U.S. exporters in third-country markets. There are already indications that intra-EU pork trade is picking up, perhaps foreshadowing a similar situation. The price effect of the additional demand may stimulate pork production gains in countries like Spain, Germany, and Denmark and there may be a similar effect on poultry. However, the potential for production expansion will be tempered by rising feed costs that will likely result from the proposed ban on MBM in animal feed.

Reactions by third-country markets: While some countries have implemented import bans or import suspensions, the attraction of low EU beef prices, aided by export refunds, may override sanitary concerns in countries short of meat. In addition, there is the possibility that the EU may have less pork and poultry to export as EU consumers substitute these products for beef, and countries that rely on EU pork and poultry may have to seek other suppliers, such as the United States.

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