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Italy and EU Commission Discuss Poultry Sector Compensation for Avian Influenza

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Report Highlights: The Italian government, and the EU Commissioner for Agriculture reported separately on the EU Council of Farm Ministers meeting that discussed authorizing compensation for poultry industry losses suffered due to AI-induced consumer fears. The reports differ slightly in emphasis.

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Text

As anticipated in GAIN IT6010, on February 20 Italy presented the EU Council of Farm Ministers a request for EU authorization to introduce measures to compensate the poultry industry and farmers for losses suffered due to H5N1 avian influenza. The Italian request follows the confirmation of 16 cases of H5N1 high path AI in wild migratory birds in Italy (the most recent was a wild duck in Umbria on Saturday 18). According to government and industry sources, Italian poultry companies are suffering heavy losses as consumer demand for poultry products has fallen irrationally by as much as 70% on this news.

Italian Ministers of Agriculture, Alemanno, and of Health, Storace, held a bilateral meeting with EU Commissioner Fischer-Boel on Monday February 20 on the margins of the EU Farm Ministers' Council. An official press release of the Ministry of Agriculture of the same day reads as follows:

"The measures authorized informally by the EU Commissioner Fischer-Boel after the bilateral meeting with Ministers Alemanno and Storace, as well as after technical dialogue with the Italian permanent representatives in Brussels, are:

- 1. suspension of tax payments and social security payments by poultry farms until December 31, 2006;*
- 2. creation an emergency fund, with budget made available by Italy, for those suffering economic loss due to avian influenza. The fund would amount to about € 100 million and would be used to compensate for economic and social losses caused by interruption of farming activities, as well as to fund conversion of activities;*
- 3. for the fund to also pay compensation for lost revenue and increased costs incurred due to reduced production, including compensation for the market value of over-production.*

Based on requests from Italy and Greece – and supported by Germany, France, Spain, Portugal, Malta, Hungary, Cyprus and Poland – member states presented the Commission with a request for agreement on an EU economic plan to compensate the poultry sector for the effects of avian influenza said Alemanno".

The Italian Ministry of Agriculture quote can be found on www.politicheagricole.it

The EU farm ministers' meeting has also been reported by EU Council press release 6083/06 of February 20, 2006. The press release (page 17) reads as follows:

"The Greek and the Italian delegations, supported by the French, Spanish, Portuguese, Maltese, Cypriot, Hungarian, Polish, Irish, Slovenian, Dutch and German delegations, raised their concerns about the economic impact of avian influenza on the poultry industry in the EU, and asked that the Commission take appropriate measures to support businesses severely affected by dropping prices of poultry meat. The measures envisaged in particular by the Greek delegation may include:

- Market withdrawal of existing stocks and finding additional outlets for their disposal, with the payment of equivalent compensation to producers.*
- Expansion of the export destinations (including the Balkan Countries) with the payment of export refunds*
- Funding of an information campaign on the safety of poultry industry products for the benefit of the European consumers*
- General economic and other support measures for those affected by the crisis.*

Commissioner Fischer-Boel said her institution was already well aware of the serious market disturbances in the poultry sector and of the situation created by the outbreak of avian

influenza in wild birds. She reiterated that the Commission will continue to use export refunds within the common market organization (CMO) for poultry as the main management tool. She reminded the delegations that export refunds had been increased by € 6/100 kilos of chicken in two stages during the past meetings of the management committee, in January (€ 2/100 kilos) and February (€4/100 kilos) from € 24/100 kilos to € 30/100 kilos.

As for the other measures envisaged by the delegations, she pointed out that an information campaign might also be counter-productive. She made clear that exceptional market measures could not be triggered unless there is a major restriction to the free circulation of chicken and eggs, which could justify such measures. However, she noted that if a change occurs concerning the avian influenza outbreak, a review of the situation could be envisaged. She emphasized that usual market tools such as private storage or public intervention did not exist in the CMO on poultry.

As for the possible withdrawal of existing stocks, she pointed out that the industry should be able to reduce the output of poultry more rapidly than in other sectors (beef) due to the short cycle of production in the poultry sector.

As regards the possibility for Member States to grant state aid to producers, she indicated that the Commission will examine the request made by Member States in the light of their respective situation and with a positive approach. Finally, she concluded that the possibility of taking additional measures would take a longer period as a Commission proposal is required, as is consultation with the European Parliament. The Presidency concluded that the Council will come back on this issue at its next meeting."

Comments

The two press statements by the Italian Ministry of Agriculture and the EU Commission seem to slightly out of sync on what can, and cannot, be done at this stage to address economic losses suffered by the Italian poultry sector. In the event the Italian government decides to implement the measures described by Minister Alemanno, they will have to be reported (before or after implementation depending on the action) to the EU Commission as state aid to the sector. As described, the suspension of tax and social security payments, as well as any other payments of a social nature, probably won't face much resistance from the Commission. The Commission will question much more closely other market-related measures not specifically foreseen by the EU poultry common market organization as the disease has not affected any commercial flocks. The picture would change completely were the disease to be transmitted to commercial flocks and as a consequence they had to be culled. At this juncture, however, the sector's only losses are caused by domestic demand drying up, and while real, measuring these losses is not easy. There does exist considerable flexibility in the sector to adjust production if the current lack of demand persists.

The Italian consumer's extreme response to the discovery of AI in wild birds by eschewing poultry products is something of a mystery. While there is no doubt that demand has fallen considerably, Ag Office remains skeptical that the 70 percent figure mentioned in the press and repeated by farmer groups represents the true situation. Repeating it has been advantageous for an industry very concerned about its immediate future and willing to be vocal during a general election. Additionally, Italians are particularly wedded to their food, which has, more than history, or music, or literature, come to identify their own culture for themselves. Thus, unhappy discoveries, or fears, about the food supply can quickly translate into something volatile.