Delegations will find attached the information documents from the Enlarged Advisory Group on Pig Meat, as transmitted by the Commission, to be dealt with under "Any other business" at the meeting of the Council (Agriculture and Fisheries) on 17 May 2011.
1. INTRODUCTION

In the AGRI Council on 24 January 2011, in light of the difficult economic situation in the pig sector, the Commissioner for Agriculture and Rural Development decided to establish an Enlarged Advisory Group on Pigmeat. The purpose of this group was to analyse the situation in the pig sector in the light of the current crisis but also discussing the mid-term and long-term perspectives of a competitive EU pig industry.

The Enlarged Advisory Group, composed by representatives of all EU the Member States and major European stakeholder groups in the pigmeat sector, has been chaired by the Commission. Observers from the Council, the European Parliament, the European Economic and Social Committee and the Hungarian Presidency also participated at the meetings.

Three working sessions were held (8 February, 4 March and 1 April 2011) and a final meeting on 6 May 2011. The Enlarged Advisory Group received valuable contributions from invited academic experts and different Commission services (DG AGRI, DG SANCO) regarding the specific issues discussed.

The following issues were addressed by the group during the four working sessions:

8 February 2011

- the pigmeat market (EU and global)
  - current market situation
  - long term outlook
- measure sunder Article 68 of Regulation 73/2009
  - mutual funds
  - income insurance schemes
4 March 2011

- **dynamics of the pigmeat sector**
  - analysis of by two external academic experts on past, present and future of pig production in the EU
- **pigmeat and ongoing trade negotiations**
  - bilateral negotiations on a free trade agreement with MERCOSUR
  - multilateral negotiations within the Doha Development Agenda (WTO)

- **food safety and consumer issues**
  - GMO approval and low level presence of unapproved GMO in feed
  - Processed Animal Proteins in feed
  - Animal Welfare Policy

1 April 2011

- **cereals and grain's policy**
  - market outlook for feed (EU and world)
  - market measures
  - impact of bio fuel production on the animal sector
- **food chain and commodities' market**
  - functioning of the food chain in the pig sector
  - commodities' markets, speculation and feed prices

- **promotion policy**
  - available measures in the pigmeat sector

- **market management tools in the pig sector**
  - price monitoring and livestock statistics
  - private storage and export refunds
  - exceptional market support measures

6 May 2011

- update on market situation
- Belgian reflection on a mechanism for tempering price fluctuations
- presentation and discussion of the summary report
2. SUMMARY OF THE DISCUSSION

2.1 The market for pigmeat and its market management tools

Market outlook for cereals

Cereals represent about 65% of the cost of production of pigmeat – consequently this is an essential factor. The analysis of the current market situation for cereals and the long term outlook showed that the critical economic situation for pigmeat producers is primarily due to the sharp increase in feed costs which are not covered by the market price for pigmeat. Amongst international organisations like the FAO, World Bank, OECD, IMF, as well as amongst independent observers, there is a general consensus that cereal prices will be at a higher level in the future compared to the past. Thus the outlook is for a continuation of higher cereal prices for the immediate future. Consequently, the cost-price squeeze, in which pig producers find themselves, may continue for some time, unless there is an upward adjustment of market prices for pigmeat. In the long run market prices for pigmeat need to reflect the cost structure in order to ensure continuation of supply of EU pigmeat to consumers and export markets.

Market outlook for pigmeat

The outlook for pigmeat shows some encouraging signs, indicating an increase of global demand for meat, including pigmeat, in particular due to the demand in emerging economies in Asia and South America.

Two presentations of independent academic experts showed the global pig market as further growing. In turn the EU domestic market has a very limited potential to grow. Therefore, the experts see the development of the EU pig sector very much depending on the possibility to supply export markets (in particular Russia and China). In order to supply export markets the whole chain (from piglet production to meat processing) would need competitive structures meaning more integration of the sector. From the experts' position internationalisation and export orientation was perceived as a chance.
This view was not fully shared by some stakeholders, in particular ECVC (European Coordination Via Campesina), who favour family farm structures, less intensive systems and basically limiting production to supplying the EU market. It was underlined that efficient pig production systems that provide a reasonable income to farmers were essential to maintain economically viable rural areas. A clear trend to large scale production was favoured by CLITRAVI (Centre de Liaison des Industries Transformatrices de Viandes de l'Union Européenne) but could not be supported by ECVC following their model of farming.

**Market management**

The existing market management tools for the pig sector in the Single CMO (Regulation (EC) 1234/2007) were presented by the Commission. The pigmeat sector is historically less regulated than other agricultural products. The differences between pigmeat and other meats in relation to exceptional market support measures were presented. It was suggested by COPA that future amendments of the Single CMO within the frame of the CAP reform should streamline pigmeat with the other meats to include pigmeat under Art. 45 (loss of consumer confidence) and in Art186a (disturbance clause). The Commission took note of this suggestion referring to the ongoing reflection on the upcoming CAP reform.

The recent Commissions' initiative to launch Private Storage of pigmeat was generally acknowledged by the sector as having substantially contributed to a recovery of pig prices. COPA called for maintaining the export refund instrument until trading partners agree to eliminate their own export support mechanisms. The trigger for launching private storage is the relationship between market price and the reference price (103%), which does not take into account that margins may be low even when market prices are above the reference price. COPA consequently suggested substituting the price as trigger point with the margins as reference. COPA also highlighted the need for more frequent price forecast mechanisms with the purpose of ensuring a higher degree of predictability for pig producers. COPA suggested that a European Observatory of Cost and Margins for the Pigmeat Sector should be established. This instrument would help improve the functioning of the food chain and allow the distribution of margins to be compared between the different livestock food chains. The Commission referred to the 2009 Communication on a better functioning food chain, which included actions to enhance transparency along the food chain. A European price monitoring tool by Eurostat has been set up and was to be extended to a greater number of food products and chains.
The BE delegation presented a specific proposal to complement the existing instruments (export refunds, private storage) with a compensation mechanism for falling margins. Short-term margins should be compared with a longer term trend in margins as reference. Whenever the short-term margin would be below the certain reference, compensation should be paid to pig producers. Such a system should be agreed by inter-branch agreements and be applicable to all EU pig producers to make sure that there were no "free riders". This proposal was supported by some whilst rejected by most of the participants. Certain problematic aspects of this idea were pointed out in the discussion. In particular such a system would run against the basic features of the pigmeat market organisation as being a market oriented sector based on cereal price developments. The mechanism would lead to, other things equal, a higher level of production, prolonging the crisis, and could be burdensome to administer. Such a system based on obligatory Inter-branch agreements and applicable to all pig producers in the EU, would not be in conformity with the EU competition rules in Article 101 in the Treaty. Intra EU trade would be affected even if the measure was only of short term nature, with consequences for the Single Market.

International aspects - trade negotiations and health and safety standards

In relation to international trade negotiations (Mercosur, WTO-Doha) the discussion showed the sensitive character of pigmeat. COPA generally opposed the bilateral negotiations on a free trade agreement with Mercosur as it would have negative impact on the EU farming sector in general and meat in particular. Negotiations with Mercosur are still at a very early stage and no offers have yet been presented. Standards in Animal Welfare and Food Safety in competing third countries were not seen as equivalent to the ones in the EU and producers in the EU would be disadvantaged, so COPA. On the other hand bilateral trade agreements were seen as positive in the case of third countries where the EU has an offensive interest in the meat sector. The offensive interest of the pig sector as export oriented was in particular highlighted by CELCAA.
2.2. Feed costs, cereal market and price volatility

Particular attention was given to the cereal market as leading cost component for pig feed (65%). Presentations given by DG AGRI gave an overview about current situation and future trends. Global demand for cereals and protein crops is rising so that feed prices are likely to stay high. The group discussed the current market management tools in the cereal sector. Several stakeholders (ECVC, EEB (European Environmental Bureau)) favoured the establishment of strategic stocks to stabilise supply in cereals. A higher self sufficiency in protein crops was requested, in particular by EEB and ECVC. COPA favoured an EU protein plan and the creation of a stabilisation mechanism in order to limit extreme price volatility.

It was shown that price volatility has increased during the last decade. The impact of speculative practices in the futures market was discussed. Different stakeholders asked repeatedly for measures to reduce price volatility. CELCAA (European Liaison Committee for the Agricultural and AgriFood Trade) pointed out that certain price volatility is necessary for functioning markets. COPA asked for EU measures to combat extreme price volatility in the futures markets. It requested the definition of floor and ceiling values for financial markets and setting a "position limit" provision on operators' open positions. The Commission has already presented some proposals to ensure a higher degree of transparency regarding Over the Counter (OTC) trade in derivatives including in commodities. Further the Commission is undertaking an impact assessment regarding the introduction of an obligation to report positions by categories of traders. The Commission is also assessing the possibility of introducing position limits to counter disproportionate price movements or concentration of speculative positions.
**Bio fuels**

The impact of renewable energy in general and bio fuels in particular on feed prices was presented by the Commission on the basis of a study of the Joint Research Centre – IPTS: “Impacts of the EU bio fuel target on agricultural markets and land use: a comparative modelling assessment”. Limited to the EU the study does not confirm an obvious negative effect on cereal prices for animal production since only a small share of EU cereal production (about 3%) is used as raw material for bio ethanol. As regards bio diesel, a more important share of EU oilseeds goes into the production of bio diesel with a corresponding effect on prices. However, on a global scale, the big increase in the use of maize for the production of bio ethanol, in particular in the US, has definitely led to an increase in the price of coarse grains. At the same time it should be recalled that there is an important feed supply source connected with the production of bio ethanol by way of the high protein contained in the by-product (dried distillers' grain). The issue of bio fuel and animal production is thus not a question of supply of feed, but a question of increase in the price of production. Several stakeholders expressed a critical opinion on the issue of use of agricultural raw materials for the production of bio fuel, asking the Commission to review the policy. In reply the Commission pointed out that there was a constant monitoring of the policy, in particular regarding the impact on other biomass using sectors and on agricultural commodity prices”. However, others pointed out that even though the first generation bio fuels could be looked at critically, it was a necessary step to create the infrastructure preparing for the more sustainable second generation of bio fuels with a marginal effect on cereal prices.

**GMOs**

Following the a presentation from DG SANCO on GMO policy COPA, CELCAA and CIAA (Confederation of the Food and Drink Industries) particularly welcomed the Commissions way forward to find a technical solution for low level presence (LLP's) of non approved GMOs in feed. EVCV strongly opposed. Most of the stakeholders with the exception of EVCV and EEB supported a more open and strictly science based approach towards the approval of GMOs for cultivation and use in the EU. COPA highlighted the share of responsibility of the Member States in the authorisation of GMOs that had received a favourable EFSA opinion.
**Processed Animal Proteins**

Furthermore, the problematic of Processed Animal Proteins (PAP) as high value feed protein source was discussed by the group. Several stakeholders demanded to re-authorise non ruminant PAPs in feed for monogastrides. COPA highlighted the competitive disadvantage of EU producers that cannot use PAPs whereas the EU imports products that have been produced with PAP in third countries. DG SANCO presented the perspectives to re-authorise PAP in feed for pigs and poultry while avoiding intra species recycling.

### 2.3. Measures under Article 68

The Commission presented the measures which can be implemented under Article 68 of Regulation (EC) 73/2009. This article provides for a list of measures of specific support for specific types of farming, including insurance premiums and mutual funds. However, support measures for "economically vulnerable types of farming" explicitly exclude the pig sector. The vulnerability measure covers only certain sectors where, in the past, direct payments existed. Pigmeat is thus not included. COPA suggested including the pig sector within paragraph 1 b) to help economically vulnerable pig farms.

Article 68 measures have been applied in several Member States but in fact only used to a very limited extent in the livestock sector. The discussion also clarified that insurance schemes are risk management tools, which do not intervene in the market. Such measures do not the eliminate risk, but help the farmer to better manage the risk.
2.4. Animal Welfare Policy

Aspects of Animal Welfare were identified as serious consumer demands. The Commission presented the state of play of the ongoing work of its Animal Welfare Strategy. DG SANCO informed about an impact assessment being in internal procedures comparing different policy options. The strategy will not necessarily involve new legislation; also the possibility for voluntary industry agreements, like recently in the case of pig castration, is perceived as part of the options. The Commission also highlighted the 1 January 2013, as date from which pregnant sows must be kept in groups (Directive 120/2008/EC). Several representatives of the farming sector suggested providing economic incentives to encourage pig producers who do not comply with the new standards to cease production. COPA pointed out that Member States should give higher priority to investments in the pig sector within the framework of their rural development programs.

In the discussion it also became clear that sometimes consumer expectations are far from reality and it is impossible for producers to fulfil it. Therefore, the need for more efficient communication on modern ways of farming towards the consumer was identified. CELCAAI highlighted the conflict between the consumer request for highest production standards in animal production and low consumer prices. COPA stressed in the discussion that animal welfare rules can cause substantial costs and investments at farm level. European producers would be put in a disadvantageous position towards competitors in third countries. COPA also highlighted the need to continue the work on science based Animal Welfare indicators, in particular within the EU funded project "Welfare Quality".
2.5. **Organisation of the food chain – increased transparency**

Based on presentations from the Commission the group had a detailed look to the organisation of the food chain. A certain asymmetry was identified as regards the bargaining power in the market for pigmeat. Various stakeholders (COPA, CIAA, CELCAA) highlighted the strong market position of the retail sector. There is a diminishing share of the producer price on the consumer price. The role of producer organisations to strengthen the power of the farming sector was highlighted by COPA as well as inter branch organisations. Similar provisions as proposed by the Commission for the dairy sector would also be appropriate for pig producers. The Commission pointed out that the proposal on milk provided provisions specifically related to this sector. Further the proposal should be seen as a step in the direction of a more sustainable organisation of the producers. Better organisation of producers was the most effective way of increasing the bargaining power of pig producers.

COPA and CLITRAVI (Centre de Liaison des Industries Transformatrices de Viandes de l'Union Européene) called for increased transparency and the ban of unfair commercial practices. Existing legislation (e.g. Art. 103 TFEU) must be enforced to prevent the abuse dominant market positions. The discussion focussed very much on the difficulty to transmit high production costs to product prices. Even if pigmeat is still seen as a "mass product", quality policy must be a basic element of competitiveness. Labelling of origin of pigmeat was seen critical by CIAA. Invited academic experts and CLITRAVI stressed the need for further integration of production systems.

2.6. **Promotion measures**

As regards promotion measures, the Commission presented the frame of Regulation (EC) No 3/2008. Also pigmeat products can benefit from EU co-financing under this scheme. Advice was given from the Commission to successfully apply for promotion measures. COPA highlighted the need for generic promotion of pigmeat. CELCAA pointed out that on export markets the potential of lifting animal health and food safety related trade barriers have a higher impact than promotion. CIAA (CLITRAVI) stressed that –in the context of the CAP reform - it would be essential that the EU pigmeat and processed pigmeat products get a dedicated and appropriate financing (along the lines of what has been done for the wine sector in Italy for example) for communication and promotion both on the internal market and in Third Countries.
3. FINAL REMARKS

The Chair informed the Committee that Commissioner Ciolos would report to the Council on 17 May on the conclusion that the Commission draws from the discussion.
CONCLUSIONS FROM CELCAA (UECBV), CIAA (CLITRAVI and FEFAC) and COPA-COGECA ON THE ENLARGED ADVISORY GROUP ON PIGMEAT

This document reflects the views of representatives of CELCAA (UECBV), CIAA (CLITRAVI and FEFAC) and Copa-Cogeca in the context of the Enlarged Pigmeat Advisory Group. The ECVC and EEB agreed on some statements but could not endorse the entire document. The Member State’s representatives took note of the proposals presented in the document.

The stakeholders of the Enlarged Advisory Group on Pigmeat welcome the initiative of the European Commission to swiftly set up an Enlarged Advisory Group on Pigmeat. The stakeholders acknowledge the crisis the EU pigmeat sector has been suffering over the past three years. The main factor endangering the viability of the sector is the high price of feed as a consequence of the extreme volatility of the price of feed raw materials. We consider that this extreme volatility will continue in the future. For this reason we call for both short term and long term set of measures.

The stakeholders of the pigmeat advisory group urge the Commission to take action on the following:

1. Reduction in the production costs whose major factor is the animal feed price. To achieve a reduction, we recommend:

An improvement of the access to competitive raw material through:

An alignment of the EU GMO policy with the one of the major producers and exporters in the world i.e. Brazil, Canada, and the USA.

Therefore, it is essential that:
° The GMO authorization procedure be speeded up,
° The Commission sets a technical threshold for detecting non authorized GMOs so that imports will not be impeded by a trivial and accidental contamination.
The authorization of processed animal proteins of non-ruminants in feed under practical conditions for non-ruminants. Intra-species recycling is to be banned without however over-compromising the conditions and the controls. Indeed, the stakes are more ethical than sanitary.

- Facilitating livestock producers’ access to intervention (i.e. credit facilities, stricter rules to limit access for traders, etc.);
- The definition of floor and ceiling values for financial markets and the setting of "position limit" provision on operators' open positions.

A reflection on the impact of any agro-fuel policy on the cost of feed and food. Awaiting the Second Generation Agro-fuels, the most vigilant eye must be kept on this impact.

Encourage the Commission to put in place a EU protein plan in order to reduce the EU dependency on imports from third countries.

A break in policies giving rise to extra costs such as the animal welfare policy. This is a well-rounded policy. So priority should be given to the harmonized application of this policy and the control of this application and not to its extension or review. Moreover, Member States shall allocate more resources to pigmeat producers as part of rural development programmes and should put in place accompanying measures for those farmers who are forced to cease their activity due to the economic impossibility of compliance with Directive 120/2008.

2. Competitiveness of pig meat on the international market

Given that about 10% of the Gross Indigenous Production are exported, exports are directly conducive to the balance of the market, hence to the farmer’s income. Therefore, it is essential to consolidate even to improve the competitiveness of the pigmeat sector. Besides policies to improve competitiveness, we recommend a dynamic trade policy based upon:

- Free-Trade bilateral agreements with countries where the EU has chiefly offensive interests in the agricultural sector. The recent agreement concluded with South Korea is the model. Japan and Mexico should be the next partners;

- A strategy designed to remove non-tariff barriers to trade;
- An ambitious promotion fund for both generic information campaigns and corporate branding information campaigns;

- The continuation of the export refunds until trading partners agree to eliminate their own export support mechanisms;
  - The possibility to develop new WTO-compatible ways of encouraging EU exports (e.g. export credits, export guarantees, export insurance...)

3. Functioning of the Common Market Organisation (CMO)

We welcome the following crisis management tools:
- Storage aid;
- Export refunds;
- Extension of the Articles 45 (with 100% EU financing) and 186 a) of Reg. 1234/2007 to pig meat.

We encourage any measure improving market knowledge and the economic operators’ faculty to anticipate.
Among these measures, let us note:

- In the short run, the convening of the Forecast Working Group of the Pig Meat Advisory Group on a quarterly basis (instead of the current half-yearly basis), and a broad publication of the conclusions arrived at by the Forecast Working Group;

- In the medium term, two pig surveys per year (instead of one survey).

The purpose is to enhance the visibility of the pig meat market.

4. Functioning of the food chain

During the meetings of the Enlarged Advisory Group, reference was recurrently made to the imbalance of the power relationships to the benefit of the large-scale retail sector. This imbalance prevents that a variation in production costs is fully reflected in the final price.
The Commission should allow pigmeat producers to group together into producer organisations. They should also be allowed to form inter-branch organisations on a voluntary basis.

The stakeholders call for increasing transparency along the pigmeat chain and in particular for the ban of unfair commercial practices. The European Commission and the Members States shall take action in order to prevent large retail companies from abusing their dominant position.