

EVALUATION OF THE COMMON MARKET ORGANISATIONS (CMOs) FOR PIGMEAT, POULTRYMEAT AND EGGS

DG Agriculture
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Executive Summary

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Poultrymeat sector

Price reporting system

The evaluation assessed the extent to which prices reported to the Commission, which form the EU reference price for poultrymeat, *correspond* to the prices obtained by slaughterhouses, the extent to which the reference price reflects market developments and the extent to which this information is comparable across Member States.

The industry interviews undertaken indicated that for most member States¹ the prices reported to the Commission *correspond* to the prices obtained by slaughterhouses, in terms of the extent to which the markets and quotation centres on which the reported prices are based can be considered *representative*, as well as *corresponding* closely to the prices obtained by slaughterhouses in *absolute* terms. Accordingly, the interviews supported the view that there is *correspondence* in that there is generally a high degree of *concordance* between the reported price and the price obtained by producers.

In terms of the comparability of prices between Member States stakeholders in a number of Member States took the view that the prices were useful for comparison with neighbouring markets suggesting comparability across borders. On the other hand, it was noted in one Member State that due to the structure of retailing as well as the differing nature of production prices reported would not be directly comparable with those in other Member States. This leads to the conclusion that the prices reported are not fully comparable across all Member States.

In spite of this caveat, the information gathered by the price reporting system under the CMO for poultrymeat can generally be regarded as adequate for use by the Management Committee as a basis to assess general trends in the sector. It was, however, noted that:

- In light of the changing structure of the sector and the increasing use of contracts in the sector it is important to ensure that the market *representativeness* of the data collected is regularly reviewed and maintained by ensuring that the market sample on which the price reporting system is based is sufficiently high.
- To possibly improve the timing of the application of market instruments such as export refunds/private storage some consideration might be given as to how it might be possible to establish an 'early warning' system for price developments.

¹ The only exception reported was the one Member State where 90% of broilers sold are sold as chicken parts. Therefore the market for whole birds is not considered representative and thus the price of whole birds would not correspond to the price that slaughterhouses receive.

- Greater efforts need to be made to ensure comparability of price data between Member States by reducing the variability between Member States by making adjustments to the calculations, which would reduce the differences, in terms of what is measured in each country.

Export refunds

The evidence from the historical analysis of the application of this instrument indicated that it was now primarily focused on maintaining the position of the segment of frozen chicken, mainly from one Member State. Looked at in aggregate across the EU and across the sector as a whole the evaluation has shown that the contribution of the measure to meeting the objectives of the CMO in terms of ensuring greater market stability and contributing to a fair income to producers is therefore relatively limited². It was concluded that while the targeting of the measure had improved following the URAA the deadweight effect³ associated with this measure remained relatively high.

Import tariffs

Analysis of historical data suggested that the Community policy with respect to imports has played a significant role in supporting Community preference. The modelling results suggest that as would be expected *a priori*, the import protection provided first by variable levies and subsequently by fixed tariffs is estimated to have led to lower volumes of total annual imports than would otherwise have taken place and that in the absence of border protection, the EU would likely shift from a net export to a net import position. Nevertheless, it is evident that third country imports have occurred with the full tariff duty paid, indicating that the level of protection has decreased as envisaged under the URAA, and for this reason *inter alia*, the competitiveness of third country production has increased. The continuing significance of the import protection in place is highlighted by the fact that increasing volumes of poultry enter the EU market under tariff lines with low ad valorem duties. In particular, imports of salted, frozen, boneless chicken cuts posed a significant problem for maintaining Community preference for poultrymeat during the evaluation period.

Overall market impacts

In contrast to the results obtained for the other sectors forming part of this evaluation, there is only a weak inverse relationship between export refunds and price (correlation coefficient – 0.28) indicating that the use of refunds in the poultrymeat sector has not been countercyclical in the sense of the intervention taking place to counteract the price effects of market imbalances. In this context it should, however, be noted that poultrymeat production is in any case less cyclical.

The modelling results⁴ suggest that in all three periods, as would be expected *a priori*, the impact of import tariffs (and export refunds) has been to significantly increase aggregate domestic production (supply) over what would have occurred in their absence (by 13.3%,

² If income is measured as gross value added at basic prices the modelling results indicate that for the period 2000-2002 export refunds increased the sector's contribution to the Economic Accounts for Agriculture adjusted for feed costs from €8,494 bn to €8,594 bn or more precisely by €100.2 million

³ See Footnote **Error! Bookmark not defined.** and Box A1 in Appendix 4.

⁴ See Footnote **Error! Bookmark not defined.** and Appendix 3.

8.7% and 7.0% respectively). This suggests that there was at least the potential for feedback loops (i.e. the use of the instrument in itself generates further support requirements) to occur but given that the refund instrument is not used countercyclically this cannot be said to apply in aggregate terms at least after 1995 when the use of the export refund instrument was curtailed.

The historical analysis and the stakeholder interviews do, however, indicate that the use of the refund instrument has been particularly targeted on a specific product segment, namely frozen whole birds and that indeed the use of this instrument was considered by stakeholders to have been instrumental in helping to establish the export market position for this product in the 1980s. Given that there is considered to be limited scope for this product to be disposed of on the internal market the conclusion that there is a significant feedback loop in this particular market segment is inescapable.

Finally it was noted that the analysis undertaken indicates that both demand and supply in the sector are more strongly influenced by factors such as the evolution of consumer demand patterns and preferences and production costs rather than the CMO instruments themselves.

Income level and development

The evidence suggests that the CMO measures have been effective in contributing to the objective of ensuring a fair standard of living for poultrymeat producers. The modelling results⁵ suggest that border protection measures have maintained prices and production, and thus income, at levels significantly higher than would otherwise have been the case, although the evidence suggests that in the broiler sector, export refunds have largely benefited conventional barn producers only, as there is virtually no demand for, and no differentiation in, refunds for higher cost birds produced in free range, organic or other types of production system. This having been said, the production sector in all Member States took the view that the prime drivers for income evolution in the sector were factors not directly linked to the CMO, notably demand conditions (including levels of retailer concentration) as well as export marketing strategies and branding.

Production costs

The primary component of poultrymeat production costs is the feed. Over the evaluation period, the cost of feed has fallen, primarily because of the CAP reform induced reduction in cereal intervention prices, rather than the CMO for poultrymeat itself. As a result, the cost of poultry feed as a proportion of total poultrymeat production costs has decreased. Moreover, this decrease in the cost of poultry feed due to the reduction in intervention prices has more than offset observed increases in the cost of feed as a result of developments in Community feed legislation.

Compared to the positive impact of the CAP reform induced reduction in cereal intervention prices on the cost of poultry feed, the individual impact of changes in policies on manure disposal and emission reduction, animal welfare and animal health, although resulting in costs to farmers, have *in general* been relatively small. That said, evidence from the case studies would suggest that the impact of these policies on costs differed *considerably* both between and within Member States.

⁵ See Footnote **Error! Bookmark not defined.** and Appendix 3.

Although, as is evident from the intervention logic, it is not the direct objective of the CMO to address the issue of production costs which are incurred as a result of other regulatory action it is clear that the CMO has helped raise incomes above the level they would have been in the CMO's absence and have therefore helped the sector to absorb these costs.

Rural development and the environment

There is little evidence of any direct impact of the CMO on rural development and the environment in the main poultry producing regions, with the special exception of poultry production in certain regions, where it can be argued that an export oriented industry serving Middle-East markets has effectively been opened and maintained by the CMO. However, the CMO has contributed to the creation of advantageous market conditions through the primary border protection measures (import tariffs and export refunds). As such, the CMO has provided a small⁶ incentive to production and thus it can be concluded that any impact of the CMO is likely to have been small and largely indirect.

As was found in the pigmeat sector, the current patterns of *regional distribution*⁷ and *concentration*⁸ of production in the poultry sector are mainly due to the interplay of a number of economic, geographical and historical factors, such as proximity to centres of feed production, maritime ports and main market outlets. Any impact of the CMO is likely to have been both small (due to the estimated impact on production) and indirect, since the observed trends were found to have been occurring since before the introduction of the CMO and little evidence was found to strongly link the continuation of these trends directly to the CMO itself.

The poultry sector has also undergone considerable structural change in terms of the *number and size of holdings* over the evaluation period, experiencing a decrease in poultry farm numbers, an increase in the numbers of poultry per holding and also an increase in the number of poultry per hectare. The primary factor driving this structural change was found to be producers taking advantage of economies of scale in order to maintain or increase competitiveness. Again, any impact of the CMO is likely to have been small (due to the estimated impact on production) and largely indirect, since decisions to expand production in order to take advantage of scale-economies are influenced by market trends and competitiveness and thus influenced by the advantageous market conditions that the CMO helped to create.

Any impact of the CMO impact on the *specialisation of holdings*, the sector's *relationships with the upstream and downstream industries* (the poultry sector was found to be much more vertically integrated than the pigmeat sector) and the *economic importance* of the sector in terms of value added and employment generated is also likely to have been small (due to the estimated impact on production) and indirect, in as much as vertical integration and the expansion of production to take advantage of scale-economies are influenced by market trends and competitiveness and thus influenced by the advantageous conditions created by the CMO.

⁶ The direct impact of the CMO on both price and production was small, resulting in prices that were around 10.8% higher and production that was around 8.8 % higher as a result of the CMO measures, according to the CAPSIM simulation.

⁷ The number of poultrymeat farms by specific geographic region.

⁸ The spatial distribution of poultrymeat farms within a specific geographic region.

Consequently, while the expansion of intensive poultry production systems have had a significant negative impact on the *quality of water, air, land and landscape* over the evaluation period, any impact of the CMO is also likely to have been small (due to the estimated impact on production) and largely indirect.

Overall impacts

More generally some of the overall impacts of the CMO were found to be as follows:

Export refunds and import tariffs have improved the competitive position of the EU poultrymeat sector on the world market. The modelling results⁹ suggested that the presence of import tariffs and export refunds has boosted the net trade position of the EU, resulting in the EU becoming a net exporter of poultrymeat. In contrast, the results of the CAPSIM analysis suggests that the removal of export refunds and import tariffs would weaken the EU's aggregate competitive position with the EU becoming a net importer as a result of a surge in imports.

In terms of satisfying consumer demand in terms of price and quality the analysis indicates that basic quality standards have played a useful role in guiding production in terms of better meeting consumer requirements, but more generally the findings of the industry interviews suggested that the sector's own efforts to meet internal and external consumers' demands in terms of price and quality are probably equally or more significant than the role of the CMO in this regard.

The modelling results¹⁰ suggest that further liberalisation would result in economic losses to producers but possible welfare gains to consumers through lower prices.

The evidence collected in this evaluation suggests that, with the notable exception of the poultrymeat sector in certain regions, the measures of the poultrymeat CMO have not been the major drivers for intensification and concentration and the resulting adverse environmental impacts since this has been part of a longer term trend driven *inter alia* by the interplay of a number of economic, geographical and historical factors. However, as a component of the wider EU agricultural policy environment, the CMO has created a favourable economic environment for the continued growth and development of the sector and can thus be said to have had an indirect impact.

This evaluation has not found any evidence on the issue of whether the CMO contributes to the Community objective of achieving greater regional cohesion by reducing economic imbalances between the regions. A priori it can, however, be stated that CAP Pillar 1 market support policies based on supporting production which operate horizontally across all regions will tend not to be in harmony with Pillar 2 and other Structural Fund measures which may be seeking to focus support on particular regions. Thus in the case of poultrymeat the bulk of support will tend to be directed towards regions with the highest concentration of production which will not necessarily coincide with those in greatest need of regional support measures.

⁹ See Footnote **Error! Bookmark not defined.** and Appendix 3.

¹⁰ See Footnote **Error! Bookmark not defined.** and Appendix 3.