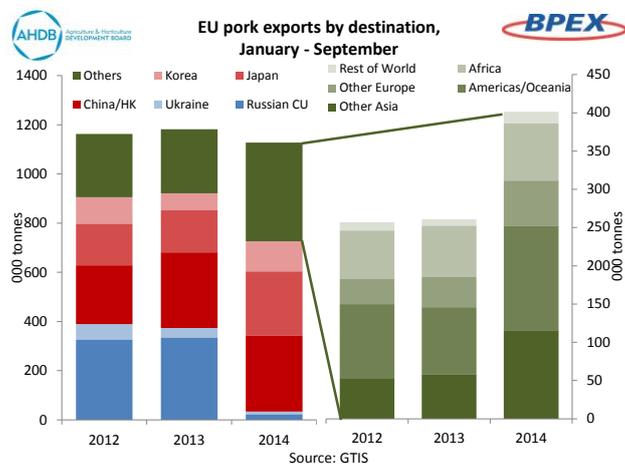


Emerging markets support EU exports but for how long?

Russia's ban on imports of EU pork has undoubtedly had a major impact on the pig market. However, EU pork exports have held up relatively well, with volumes down only 5% during the first nine months of the year and prices down less than 1%. Given that the Russian Customs Union accounted for 28% of EU pork exports (335,000 tonnes, equivalent to 2% of EU production) in January-September 2013, this shows the adaptability of EU exporters.

Much of the excess pork was diverted to the established markets in Asia, China/Hong Kong, Japan and Korea. The last two were suffering supply shortages due to PEDv outbreaks, as was the US, traditionally their main supplier. These three markets took 145,000 tonnes more EU pork between January and September this year. However, that still left nearly 200,000 tonnes of EU pork requiring a new home.

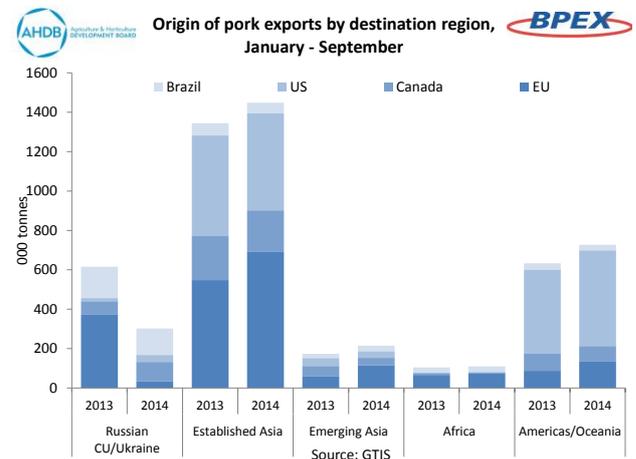


Nearly two-thirds of this product found another market somewhere outside the EU. At least for most of the period, this gave support to prices. So where are these new markets and how sustainable are they?

The biggest growth came from smaller Asian markets. The most important were the Philippines, Singapore and Taiwan. Like their more established neighbours, some of these countries have been affected by PEDv, which contributed to an increase in demand. With EU pork more price-competitive this year against US and Canadian product, its market share rose. Last year, of pork supplies to these countries from the world's major exporters, only around a third came from the EU. This year, the EU share was over half.

Although relatively small at the moment, imports to these countries are projected to grow. Philippine imports are set to rise by 50% over the next decade, for example, and possibly even more if its economy grows faster than expected. However, they are likely to remain price sensitive, for now, at least. Therefore, the EU may struggle to maintain volumes once North American prices fall back, as they are sure to do.

The other major growth markets this year have been in the Americas and Oceania. Australia, the US and New Zealand have all taken at least 50% more EU pork this year. However, with the possible exception of Australia, these increases have been driven by the tight supply and high prices in the US. This is unlikely to continue for much longer and the EU will struggle to sustain higher sales in these regions. Even this year, it accounted for less than 20% of imports, even when cross-border trade between the US and Canada is excluded.



Some growth has also come from elsewhere in Europe, mostly in the former Yugoslavia, and Africa. Although relatively small, the EU has a geographical advantage over other exporters here. Future growth in Europe is likely to be limited. However, Africa may offer opportunities. Growth this year has been modest - EU shipments are up just 12%. However, the FAO projects a doubling of African pork imports over the next decade. The EU is well placed to meet this demand, with Brazil the main competition.

Russia was also a significant importer of pig offal and fats. EU offal exports have actually been higher this year as Asian markets, including emerging ones such as the Philippines, Taiwan and, in this case, Thailand, have increased purchases. However, fats have proved more problematic. Russia was the dominant buyer of EU pig fat. While other markets have taken much higher volumes this year, they are well short of the amount which Russia bought in the past. This amounts to a loss of around €200 million to the EU industry, contributing to the pig price falls this year.

The tight global supply situation this year has helped EU exporters to find new markets. However, many of these markets can't be relied upon in the longer term unless the EU can continue to compete with supplies from the Americas once prices there fall back. With Russia likely to require less pork, even once it reopens to EU imports, a more challenging trading environment in the future remains a distinct possibility. This suggests that EU pork production may struggle to recover from its decline of recent years and could fall further if domestic demand doesn't pick up.