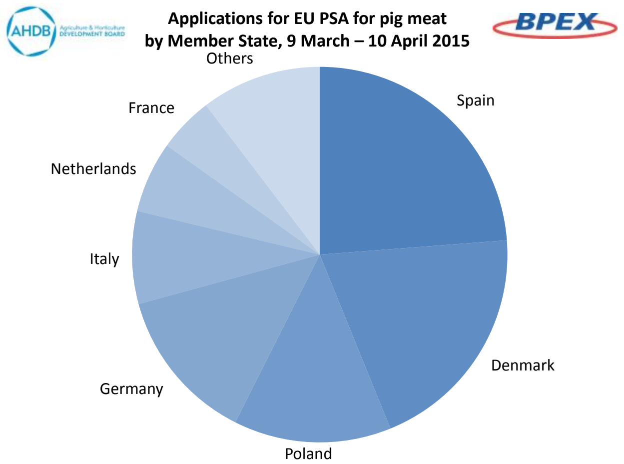
EU Private Storage Aid having limited impact

The current Private Storage Aid (PSA) scheme for EU pig meat came into force on 9 March. So far, the scheme appears to have had little impact on the EU pig market. This contrasts with some previous PSA schemes, although these were implemented in somewhat different market conditions.

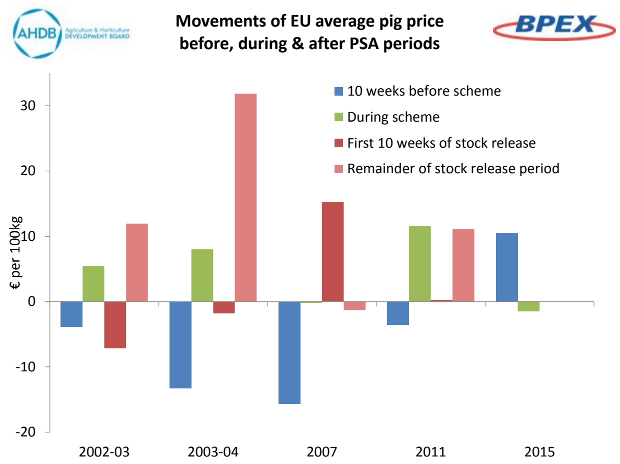
By mid-April, requests for PSA had reached over 50,000 tonnes but new applications were down to around 5,000 tonnes each week. To put this into context, EU production during March and April 2014 totalled around 3.6 million tonnes. Even allowing for some extra applications in the remainder of April, the quantity covered by the scheme therefore represents only around 2% of production. Perhaps more significantly, the total in storage is equivalent to about 20% of EU exports in March-April 2014.

Over 60% of the stored product is boned legs, with a further 20% made up of boned bellies or middles, with most stored for the minimum period of 90 days. The main countries involved are Spain, Denmark, Germany and Poland, with over 70% of applications between them. All are major exporters, which suggests that the PSA scheme is mainly being used for product intended for export, which will be released in the summer, when export demand is usually somewhat better.



So what impact has the PSA scheme had on the EU pig market? Having reached a near 8-year low in January, prices had actually started to recover before the scheme opened. The average price in the week ended 8 March, just before the scheme started, was just under €143 per 100kg, over €13 above the low point. Since then, prices have stabilised, actually falling back in the early weeks of the PSA scheme but since recovering somewhat. This doesn’t suggest that the introduction of PSA has had much impact on the market.

To understand why this is, it is worth looking at previous periods of aid for private storage. There have been four previous PSA schemes for pig meat since the turn of the century, in 2002-03, 2003-04, 2007 and 2011. The volumes entered into each of these schemes were higher than in the current one, at between 100,000 and 150,000 tonnes. In all four cases, pig prices were falling in the weeks before the schemes came into effect, unlike the current case. During the period when the schemes were open, prices stabilised and in most cases started to rise again. Again, this has not been the case during the current scheme, so far at least.



In most cases, the price gains were temporarily reversed, at least in part, when product started to be released from storage, increasing supply levels on the market. However, this was typically relatively short-lived with all four previous schemes recording higher prices by the end of the release period than at the start of it.

So why has the impact been less apparent this time round? In most previous cases, PSA schemes were introduced to deal with temporary disruptions, which were expected to be resolved within the storage period. In some cases this related to trade tariffs, in others to health issues. In these cases, there was a clear expectation that market conditions would be better by the time product was released from storage.

The present scheme was brought in due to persistent low pig prices following the Russian import ban. However, there appears to be little prospect that the ban will be lifted, or even eased, during the storage period. Therefore, barring some seasonal improvement, market conditions may not have improved when product is released. This has limited the volumes stored, which have been only around half of those in previous schemes. Rates of aid are also reported to barely cover costs and so are not providing any financial incentive to store product. In addition, the products included are not the ones most affected by the Russian ban, limiting the benefit of removing excess supply from the market.

With product due to be released from storage from June, there is a possibility of some disruption to the market in that period. However, with the volumes relatively limited and probably intended for export anyway, the impact may again be limited. Therefore, the EU market will probably continue to be driven by the fundamental supply & demand balance, with much depending on export market developments.