

Poultry trade prospects for 2006 jeopardized by escalating AI outbreaks

As outbreaks of avian influenza in wild swans in Europe are reported, global poultry markets have witnessed immediate and dramatic consumer responses, an increased number of trade bans and sharp reductions in prices. Unlike in 2004 and most of 2005 when the AI consumption impact was largely restricted to the Asian region, new AI detections in February 2006 in more than 12 nations in Africa, the Near East and Europe have resulted in immediate and pronounced consumption declines in importing countries in Europe, the Middle East and Central Asia.

At the onset of avian influenza outbreaks in 2004, lagging consumption in Asia and the loss of export markets for regional supplies led to an 8 percent decline in international trade. Over two years, as countries spared from the disease moved to fill the gap in supplies, poultry prices in international markets rose by over 30 percent. In contrast, early year developments in 2006 indicate a very different market environment. Irrespective of whether the outbreaks are identified in wild birds or in commercial flocks, the plummeting of consumption is progressively lowering global import demand for broiler parts. This sharp change in demand in a context of adequate supplies has put poultry prices under considerable downward pressure in the short term. This will affect industry profitability negatively and erode household livelihood and rural employment opportunities around the world.

FAO poultry consumption projections for 2006 lowered by 3 million tonnes

Revised FAO projections for 2006 assume a continuation of the current AI crisis, which implies extended poultry consumption shocks in many affected countries in Europe, Middle East and Africa. Declining international and domestic poultry prices are expected to restrict production growth as eroding average per capita poultry consumption will push down global poultry consumption in 2006. This projection is currently estimated nearly 3 million tonnes lower than the previous 2006 estimate of 84.6 million tonnes¹, to a level lower than that of 2005.

Revision of the FAO 2006 Poultry Meat Outlook in light of developments of Avian Influenza Projected change from previous 2006 estimate

Consumption	2003	2004	2005	2006 p	2006r	Change from 2006p	% Change
	<i>(1000 metric tonne)</i>						
World	76,734	78,643	82,024	84,632	81,819	-2813	-3%
Africa	3,939	4,034	4,147	4,269	4,067	-202	-5%
North America	15,960	16,563	17,034	17,447	17,291	-156	-1%
Central America/Carr	3,998	4,101	4,342	4,548	4,548	0	0%
South America	9,576	10,084	10,837	11,507	11,227	-280	-2%
Asia	27,904	27,909	28,953	29,513	28,896	-617	-2%
Europe	11,292	11,629	11,851	12,067	10,727	-1340	-11%
Oceania	895	911	950	991	991	0	0%
CIS	3,166	3,410	3,906	4,291	4,068	-223	-5%

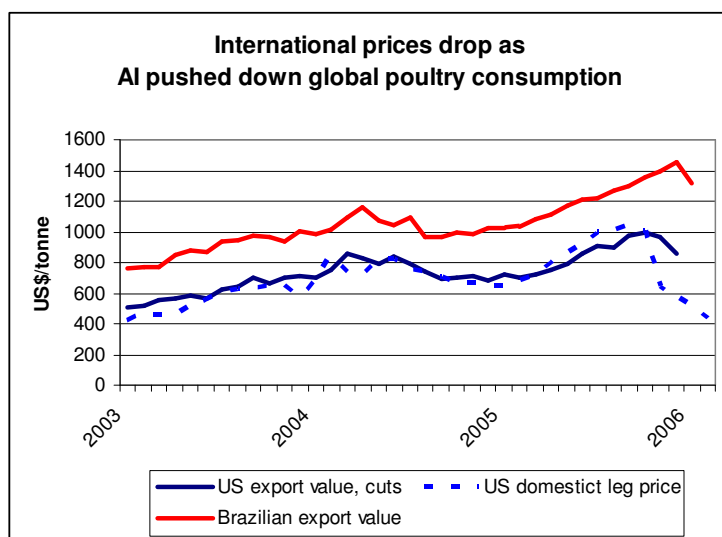
¹ The consumption projections are provisional based on market developments in early 2006 and depend heavily on the location and frequency of outbreaks in the short term.

Responses among European consumers to H5N1 avian influenza found in wild bird flocks has been variable, with consumption shocks ranging from a dramatic 70 percent decline in Italy in mid-February to 20 percent in France to a more subdued 10 percent response in northern Europe. These responses are similar to those observed in Europe in late 2005 when consumer concern about AI outbreaks moving progressively westward from Asia contributed to an annual one percent drop in demand in the EU-15 in 2005.

Meanwhile, outbreaks have prompted European governments to implement wide-ranging containment measures that included establishing security zones, increased surveillance plans and requirements that outdoor poultry be kept indoors. Policy responses from third countries to the EU discovery of AI in wild birds have ranged from bans on imports from the Union while some infected countries, such as Romania, have increased tariffs to support local prices as consumption drops. In Africa, consumers in the affected countries such as Egypt and Nigeria are moving away from poultry and egg products as are consumers in surrounding non-affected countries. Meanwhile, in India reports of consumption drops of 25 percent have caused a 12-13 percent fall in domestic prices, depressing production prospects.

Poultry prices plummet on the heels of consumption declines

Sharp reductions in international poultry prices, as consumption lags, are raising uncertainty among exporters about trade prospects in 2006, previously estimated by FAO at 8.6 million metric tonnes. In both Brazil and the United States, suppliers of approximately 70 percent of global poultry trade, market indicators reveal the short term impact of consumption shocks around the world. In the United States, export prices for broiler cuts, after rising to record levels in October, dropped 13 percent over the remainder of the year as a result of weakening export demand, evidenced in declining shipments to countries in Eastern Europe and Central



Asia in November and December. Meanwhile, recent market reports of plummeting domestic prices for US leg quarters² portend further reduction in export prices. While the US exports increased in 2005, sluggish international consumer demand later during the year in the context of most pervasive outbreaks of AI in Europe has led to a surge in US poultry stocks (with exportable chicken cuts in cold storage estimated up three fold from this time last year). Meanwhile

in Brazil, where approximately 30 percent of total poultry output are exported, the price of day-old chicks, an early warning indicator of potential production changes, is reported to be down 50 percent.

² US leg quarter prices are down 50 percent from near record highs in early October 2005 of \$.49/pound to a three year low of \$. 23/pound in mid-February

Poultry trade shocks likely

As consumers look for alternatives to poultry, global trade prospects are expected to worsen from the 10 percent gains witnessed in 2005. FAO global poultry trade projection has been revised down 500 000 tonnes from the previous estimate of 8.6 million tonnes and below shipments in 2005. The newly affected regions to-date, Europe, some areas of Central Asia and the former Soviet Union, as well as parts of Africa represent approximately one-third of the global poultry import market³. These projections, however, are largely dependent on the geographic spread of AI and the pervasiveness of consumer concerns, in particular their perspectives on the safety of imported meat compared to domestically available product.

Imports	2003	2004	2005	2006 p	2006r	Change from 2006p	% Change
<i>(1000 metric tonne)</i>							
World	8,225	7,224	8,086	8,598	8,029	-569	-7%
Africa	576	621	675	756	726	-30	-4%
North America	171	201	190	198	198	0	0%
Central America/Carr	853	777	866	901	901	0	0%
South America	83	124	220	263	263	0	0%
Asia	3,645	2,922	3,285	3,373	3,228	-145	-4%
Europe	1,284	890	939	1,101	777	-324	-29%
Oceania	39	37	43	44	44	0	0%
CIS	1,572	1,649	1,864	1,958	1,888	-70	-4%
<i>(1000 metric tonne)</i>							
Exports	2003	2004	2005	2006 p	2006r	Change from 2006p	% Change
World	8,163	7,480	8,054	8,626	8,128	-498	-6%
Africa	13	11	16	17	16	-1	-5%
North America	2,889	2,755	2,870	2,940	2,890	-50	-2%
Central America/Carr	6	16	17	2,800	16	-2784	-99%
South America	2,170	2,772	3,216	3,477	3,257	-220	-6%
Asia	1,751	894	1,039	1,238	1,211	-27	-2%
Europe	1,279	977	837	878	678	-200	-23%
Oceania	25	26	26	27	27	0	1%
CIS	30	30	33	33	33	0	0%

P=previous projection; r=revised projection

Sharp poultry price declines around the world are leading to lower chicken placements in many affected countries, pushing FAO's production projection down to 8.2 million tonnes, marginally higher than in 2005. In countries such as Iraq and Turkey where AI have caused human victims, production losses are reported to be massive. For example, it is reported in Iraq that only 10 percent of the nearly 500 semi-commercial farms continue to be operational. Even in countries where the disease has not been detected, such as Brazil, market uncertainties and lower prices have prompted the industry's main producers to reduce production by 15 percent this year. Loss of income by backyard producers in many developing countries is escalating livelihood and food security risks while lower production prospects are also leading to some curtailing of contracts for temporary poultry workers. In Nigeria, the recent outbreak of AI in northern States has led not only to some producers losing

³ In 2005, Europe, Africa, and CIS countries accounted for a respective 12%, 8% and 23 % of poultry imports.

their means of livelihood, as birds are culled and prices drop, but employees on farms are losing their jobs.

Meanwhile, the impact of the crisis is not limited to the poultry sector but has ripple effects into other sectors, with the \$42 billion dollar feed sector in Europe citing demand losses of up to 40 percent in some countries.

The duration and overall extent of the market impact of recent AI detections will heavily depend on currently erratic consumer perceptions about human health risks. These concerns will be heavily influenced and shaped by government risk communication strategies and media coverage which should emphasize the safety of eating poultry products when properly cooked.