

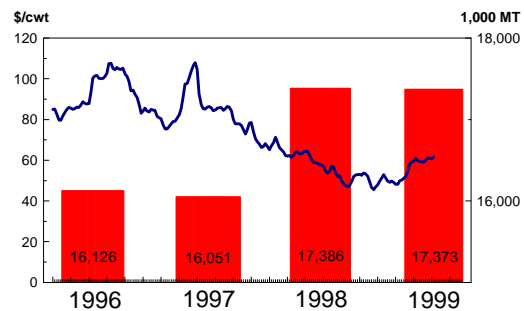


EU Release of Private Storage Aid Pork Adds to Export Pressure

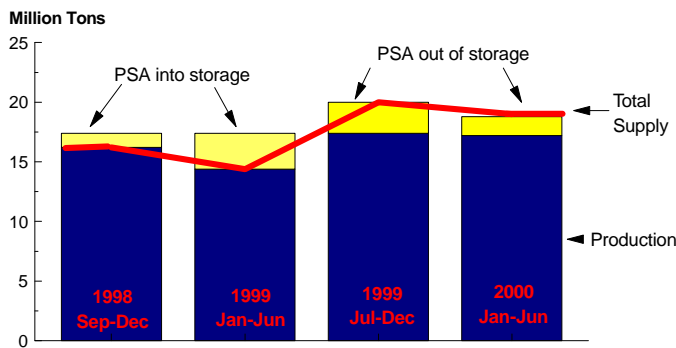
The European Union (EU) Pigmear Management Committee met on September 14 and terminated Private Storage Aid (PSA). The Private Storage Aid scheme, which was initially introduced in September 1998, temporarily lifted surplus pork from the domestic market and offered financial assistance to EU producers during the 1998/1999 price collapse. According to post reports, financial outlays for the PSA scheme mounted to more than twice the amount of initial EU budgetary allocations, thus creating pressure to bring an end to the program. Internal EU prices have also stabilized, thereby relieving some pressure on the Commission to press forward with further PSA funding.

Unlike intervention stocks, PSA pork is limited to a maximum of 6 months storage, after which the product must either be released into the domestic market or exported. FAS calculates that the EU currently has 180,000 tons of pork in private storage aid stocks. Total stocks having already moved through PSA are calculated at 240,000 tons, bringing the cumulative total of PSA stocks to 420,000 tons.

EU Pork Prices Drop as Production Increases



Movement of Private Storage Aid 1998-2000

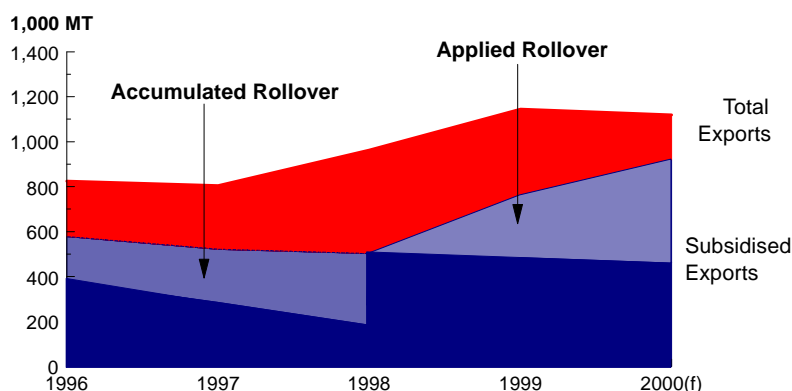


The release of an additional 180,000 tons of PSA pork over the next 6 months is expected to negatively impact the EU pork industry by adding to already high levels of EU pork production. Similar to the situation in late 1998, when large supplies of EU pork and the collapse of the Russian market resulted in the Commission's heavy reliance on export subsidies to stabilize the domestic market, tremendous pressure to liquidate pork surpluses through exports is expected in late 1999 and into early 2000. The EU produced 17.386 million

EU Cuts Private Storage Aid to Pork Producers; Use of Export Subsidies High

metric tons of pork in 1998. High WTO commitment levels and ample rollover allowed the EU to subsidize more than 740,000 tons of pork exports in 1998/1999. In 1999, the EU is projected to produce 17.373 million metric tons, roughly 50,000 tons less than last year. The 1999/2000 EU export subsidy potential is estimated at slightly more than 900,000 tons, which includes roughly 450,000 tons of rollover.

EU Subsidized Pork Exports 1996-2000(f)



Already, the EU's use of 1999/2000 WTO export subsidies is well ahead of last year's pace, with the EU already having used 35 percent of this year's commitment level within the first 11 weeks of the year. Reportedly, 55 percent of these export subsidies have been used to support exports to Russia. Resulting trade distortions have directly impacted U.S. pork producers and exporters through losses in price competitiveness, market share, and potential export growth. Given expectations for increased U.S. pork production in the 3rd and 4th quarters of 1999, the large 1999/2000 EU export subsidy potential projects an ominous picture for U.S. pork export competition and domestic prices.

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