THE FUTURE OF THE SHEEP AND GOAT SECTOR IN EUROPE

STUDY
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THE FUTURE OF THE SHEEP AND GOAT SECTOR IN EUROPE

STUDY

Contents:

Following a reminder of the current rules governing sheep and goat production in the European Union, this study presents the main features and challenges of the sheep and goat sector in the EU.

It analyses the impact of greater liberalisation through the WTO and draws up recommendations.

Finally, it sets out detailed proposals for the possible development of public policy in the light of the main issues addressed. Some of the proposals comply with the Community rules in force and others will require adjustments to be made.
Executive summary

Ernst & Young Government Services, together with the French Livestock Institute, has been commissioned to carry out a study into the future of the sheep and goat sector in Europe. The study seeks to analyse the characteristics of the sector and its prospects and, bearing in mind what is principally at issue here, to formulate specific proposals with a view to the adoption of a future regulation on this matter.

The study was carried out between December 2007 and February 2008. National experts from the major producer Member States (France, Greece, Hungary, Italy, Ireland, Romania, Spain and the United Kingdom) were asked to conduct interviews with some stakeholders in their countries, to draft a discussion paper and to attend a one-day workshop. Additional interviews were conducted with MEPs, DG AGRI, DG SANCO and EU representatives from the sector in order to ascertain their points of view and test the proposals.

Weaknesses and strengths of the sector

Although the sheep and goat sector enjoys a good public image, and although the EU is self-sufficient for no more than about 79% of its consumption, farmers are currently being discouraged and are quitting the business.

This study highlights the specific difficulties that the sheep and goat sector is currently facing:

— sheep and goat farming is very labour-intensive, and it requires specific skills. The sector is being hampered by a lack of technical services and training, and that results in very varied levels of productivity;
— incomes are among the lowest in the agricultural industry and depend heavily on public support, with inadequate farm-gate prices and poor monetisation of by-products (wool, pelts, offal, etc.);
— increasing costs, particularly for fuel, electricity and feed, together with the electronic identification system to be introduced in 2010, which constitutes an additional cost perceived as being too high in the current situation;
— sheep and goat farmers are older than farmers in other sectors, and young people are not interested in the business;
— stiff competition for land, in particular given the high prices being paid for cereals;
— poor organisation of the industry, making it difficult to control economic and environmental costs, with particular regard to transport;
— decreasing flock sizes and a level of production getting close to a critical mass below which the industry could not be maintained;
— processing undertakings currently challenged, facing investment problems and the lack of a skilled workforce;
— drop in lamb consumption and a need for product innovation;
— competition with lamb imported from third countries at rock-bottom prices.

Nevertheless, the sheep and goat sector offers many advantages and specific strengths:

— a strong link with the land and the environment, with a recognised role in biodiversity and landscape conservation and in measures to combat forest fires;
— ability to adapt and resilience in often mixed farming systems, with an ability to use a wide range of grasslands, even poor ones;
— requirement of fewer capital goods (accommodation, machinery, etc.) than other agricultural sectors with a quicker rotation of live animals because ewes mate earlier and are more prolific in their progeny;
— high-quality products in both the meat and dairy sectors;
— possible revival in consumption, with good results in some Member States already;
— high genetic diversity, with almost 50 breeds in France, for example;
— economically viable systems when rational production conditions are fulfilled.

Proposals

These facts led the groups of experts to formulate the following recommendations. Most of the proposals secured a consensus among the experts. Some are already in line with the current Regulation, while others would require some amendments or, at least, a review of the main issues. They take into account the report on the CAP health check adopted by the Agricultural Committee on 26 February 2008.

The sector is at a critical stage and therefore requires a strong signal to halt its decline.

A progressive scheme for enhanced technical, economic and environmental efficiency in farms, including:

— in response to the increasing decline in the sector and its great need for economic and technical progress, a ewe premium granted subject to commitments to increased efficiency (non-exhaustive list);
— commitment to training, peer group review and monitoring of technical and economic performance on farms;
— better use of genetic resources (artificial insemination or use of rams registered as improvers, participation in performance-recording and audit systems);
— improvement of flock health management (use of genotypes resistant to scrapie, animal health prevention plans, specific training, etc.);
— voluntary implementation of individual electronic tagging (before 2010);
— participation in the collective organisation of supplies (producer group, etc.).

Ewe premium

This would be a flat-rate premium paid per ewe lambing during the year and a supplementary payment made subject to the commitments implemented. Young farmers and farmers in less-favoured areas might be granted additional support.

• Possible additional support to grasslands depending on the first pillar of the CAP, with rates varying in accordance with the type of grassland involved (rough pasture, temporary or permanent meadows).
Promotion of EU standards of lamb production and a quality label for European lamb

- Introduction of mandatory labelling for all the various types of supplies in both the sheep and goat sectors which would draw a distinction between sheep or goat from animals born and reared in the EU (with a possible indication of the country of origin) and meat from third countries.

- PGI/PDO common advertising campaigns for various European countries in a number of target countries in Europe.

- A multiannual generic advertising campaign for sheep and goat produced in the EU emphasising both its production standards — the highest in the world — and the intrinsic qualities of this meat and its production systems in the EU.

- Local promotion of farm products (including sheep’s cheese and goat’s cheese). A European resource centre might be set up and specifically devoted to support for local projects and to promoting exchanges of experience between producers.

- The budget available for the promotion of sheep’s cheese and goat’s cheese in third countries could be increased.

Support for innovation

- A European Agency for Innovation in the ‘small ruminant’ industry could be established with a staff and a centre for documentation and the exchange of experience. It would work on both technical innovation for farms and product innovation with regard to meat and cheese and emphasise the need for modernisation and the fifth quarter (animal by-products).

- Support should be provided for research into genetic-improvement schemes and performance-recording and audit systems.

Improve information about jobs in the industry

Advertising campaigns should be devised to provide information about jobs in the industry as sheep farmers and butchers (in meat processing plants and the retail trade) aimed at young people and emphasising the prospects for growth and income.

Support for organisation of the industry and rationalisation of its processes in order to reduce costs

- Legal support for and simplification of the process for merging commercial structures.
• Support for the creation of lamb-fattening centres in areas where fattening costs are highest.

**Greater efficiency in the management of health risks**

• Assistance for the Europe-wide establishment of regional peer observatories for small ruminants’ diseases (early-warning systems and priority for health risks).

• Encouragement for the establishment of health-defence associations specialising in the training of producers and in prevention.

• A working party, including the national veterinary authorities, the veterinary industry (IFAH) and European experts in the sector, could rapidly determine the procedures which would allow for simplified marketing authorisations at European level in respect of medicinal products for small ruminants.

• Mobilisation of R&D funds via the European Technology Platform for Global Animal Health (ETPGAH) for the design and supply of kits for the rapid detection of pathogens in raw milk, thereby reducing health risks and the cost of milk rejected as not conforming to the legislation in force.

• Efforts to secure the reopening of markets closed to EU exports on health grounds (with particular regard to white offal).
## Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEM</td>
<td>agri-environmental measure</td>
</tr>
<tr>
<td>BT</td>
<td>bluetongue</td>
</tr>
<tr>
<td>CAD</td>
<td><em>Contrat d’Agriculture Durable</em> (Sustainable Agriculture Contract)</td>
</tr>
<tr>
<td>CAP</td>
<td>common agricultural policy</td>
</tr>
<tr>
<td>CEECs</td>
<td>countries of Central and Eastern Europe</td>
</tr>
<tr>
<td>COM</td>
<td>common organisation of the market</td>
</tr>
<tr>
<td>CPS</td>
<td>compensatory premium for sheep</td>
</tr>
<tr>
<td>CTE</td>
<td><em>Contrat Territorial d’Exploitation</em> (Land Management Contract)</td>
</tr>
<tr>
<td>DG AGRI</td>
<td>Directorate-General for Agriculture and Rural Development of the European Commission</td>
</tr>
<tr>
<td>DG SANCO</td>
<td>Directorate-General for Health and Consumer Protection</td>
</tr>
<tr>
<td>EAFRD</td>
<td>European Agricultural Fund for Rural Development</td>
</tr>
<tr>
<td>EAGF</td>
<td>European Agricultural Guarantee Fund</td>
</tr>
<tr>
<td>EEC</td>
<td>European Economic Community</td>
</tr>
<tr>
<td>EGP</td>
<td>ewe and goat premium</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>ICSU</td>
<td>individual consumption sales unit</td>
</tr>
<tr>
<td>LFA</td>
<td>less-favoured areas</td>
</tr>
<tr>
<td>LMS</td>
<td>large- and middle-scale producers</td>
</tr>
<tr>
<td>MAP</td>
<td>French Ministry of Agriculture and Fisheries</td>
</tr>
<tr>
<td>MFN</td>
<td>most favoured nation</td>
</tr>
<tr>
<td>MLC</td>
<td>Meat and Livestock Commission, United Kingdom</td>
</tr>
<tr>
<td>NRDP</td>
<td>National Rural Development Plan</td>
</tr>
<tr>
<td>OTEX</td>
<td>economic size and type of farming of agricultural holdings</td>
</tr>
<tr>
<td>PDO</td>
<td>protected designation of origin</td>
</tr>
<tr>
<td>PGI</td>
<td>protected geographical indication</td>
</tr>
<tr>
<td>PHAE</td>
<td><em>prime herbagère agro-environnementale</em> (agri-environmental grassland premium)</td>
</tr>
<tr>
<td>SPE</td>
<td>single payment entitlement</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>T ewe</td>
<td>tonne carcass weight equivalent</td>
</tr>
<tr>
<td>TSG</td>
<td>traditional speciality guaranteed</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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The future of the sheep and goat sector in Europe
1 Objectives and approach

This study was carried out by Ernst & Young France in cooperation with the French Livestock Institute and with the participation of a team of experts from a number of EU Member States for the European Parliament (DG Internal Policies, Structural and Cohesion Policy Unit) between November 2007 and March 2008.

1.1 Objectives and scope of the study

The objective of the study is to predict the future shape of the sheep and goat sector in Europe, whilst taking into account the diversity of existing production systems and products.

- **Scope of the study**
  - Geographical coverage: the study covers the whole of the European Union of 27 but focuses on the major producer countries for an analysis of the current situation of the sector: the United Kingdom, Greece, Italy, Spain, Romania, Hungary, France and Ireland.
  - Temporal coverage: the recapitulation of the characteristics of the sector goes partly back to the 1980s, whilst the analysis of the impact of Community rules on the sector covers the period from 1999 to 2007.
  - Sectoral coverage: the study will endeavour to make recommendations for the sheep and goat sector regarding both meat and milk products.

1.2 Approach and tools

A three-step approach was implemented for carrying out this study:

- an initial stage to ascertain the current situation of and the issues involved in the sector, in particular by canvassing the opinions of:

  - national experts who conducted an analysis of the current situation of the sheep and goat sector in each of their countries, whilst seeking to identify problem areas experienced by the various stakeholders in the industry and to propose recommendations in order to bring about some change in the situation

  - professional organisations at European level who shared their concerns and set out the measures that they would recommend implementing in support of the sector

- a second stage consisting of an exchange of views between senior officials of the European Commission’s DG AGRI and DG SANCO responsible for issues relating to sheep and goat and Members of the European Parliament made it possible to analyse the technical and statutory feasibility of the proposals put forward by the sectoral experts encountered during stage 1;

- these two stages led to the formulation of proposals on the future shape of the sheep and goat sector.

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1 See annex: list of persons consulted.
1.3 Limits and difficulties

Given the amount of time allowed and the means made available for carrying out this study, exact details of the arrangements for implementing the recommendations, especially regarding the cost that these measures represent in terms of the advantages they would bring (the economic value being difficult to determine), shall not be given.

Consequently, these proposals must be seen as guidelines for further discussion rather than recommendations that can be implemented as they are.
2 Regulatory framework

2.1 Presentation of the regulatory framework for the COM

The common organisation of the market (COM) in sheep and goat was established in 1980. It was substantially revised in 1989, 1992 (CAP reform) and 2001.

Products covered by the COM include live animals, fresh, chilled and frozen meat, processed products (smoked, dried or salted meat and offal, canned meat products) and offal.

2.1.1 COM measures

Since 1990 support for the market in sheep has primarily been provided in the form of direct aid. The Regulation in force prior to the 2001 reform was Regulation (EC) No 2467/1998.

- Before 2002

Price and intervention system

- **Basic price:** Until 1 January 2002, a basic price for fresh or chilled sheep carcasses was fixed by the Council and was the same throughout the European Union. This price is set in line with market conditions, production and consumption levels and market conditions in other sectors, particularly the beef and veal sector. It serves as a point of reference at which intervention measures may come into operation and upon which premiums may be calculated.

- **Private storage:** The possibility of using public storage established by Commission Regulation (EEC) 2659/80 was removed by the 1990 COM reform and replaced by private storage aid. Private storage therefore acts as a safety net in the event of a sharp fall in prices.

The Commission may authorise private storage in a given quotation area\(^2\) when the Community price and the market price of the quotation area are lower than 70% of the seasonally adjusted basic price, but only by way of a tendering procedure. The trigger level for the granting of aid is decided after an assessment has been made of the situation, whilst the trigger level for the automatic granting of aid provided for by the Regulation has never been applied. Only four countries granted aid for private storage between 1999 and 2005 — the United Kingdom, Ireland (predominantly), Finland and Sweden.

Direct aid

From 1980 the COM was based on a scheme of different premiums depending on the country. The 1992 reform standardised the amount of premiums at Community level.

The COM in sheep and goat comprises two types of direct aid:

- **Compensatory premium for sheep (CPS):** this premium, established in 1980 and calculated per ewe held by the producer, was dependent on the price of sheep recorded on the European markets, the size of flocks and whether they were located in less-favoured areas. It was intended to compensate for any loss of income sustained by producers,

\(^2\) Quotation areas distinguish the Great Britain and Northern Ireland from the other Member States.
assessed at the end of the marketing year by calculating the difference between the basic price (modified by a stabiliser) and the arithmetic average of the market prices recorded in the EU during the marketing year. It was granted for flocks of more than 10 ewes, differentiating between ewes producing heavy lambs and those producing light lambs (milk ewes). The CPS was paid in three instalments.

**Figure 1 — Annual amount of the CPS (in ecus per ewe)**

Key: Heavy lambs - Light lambs

A significant decrease in the annual amount of the CPS can be seen for 2000 and especially for 2001. This reduction may be explained by the increase in the price of beef and veal following a fall in production, particularly in Great Britain, due to outbreaks of foot-and-mouth disease (FMD). Accordingly, this shortfall in production led to an increase in the price of beef and veal of almost 30% in France during the second quarter of 2001.

- **‘Rural world premium’ (RWP):** this premium was a flat-rate supplement paid to producers in less-favoured areas on the basis of the size of the flock or herd kept. Governed by Regulation (EEC) No 1323/90 of 14 May 1990, it was granted under actions taken in rural areas in support of LFA holdings.

**Other measures:**
National plans have been implemented to give a boost to the sheep farming industry. In France, a national ‘sheep plan’ was put in place in 2000, for a period of 6 years and with the backing of the European Commission, with a view to giving a new boost to the sheep farming industry, which was showing a continuing decline in the number of farmers.

The goat sector has often been the subject of national rural development programmes implemented from 2000 onwards. Further steps might therefore be taken in support of the sector through rural development measures (such as the Contrats Territoriaux d’Exploitation, or Land Management Contracts, for sheep farmers in France).

- The 2002 reform
  Council Regulation No 2529/2001 of 19 December 2001 amended the COM in the sheep and goat sector. The purpose of this Regulation, applicable from 1 January 2002, was to simplify the aid scheme in force, whilst ensuring a stable income for producers by replacing the system of variable premiums with a system of flat-rate premiums per animal that would not be linked to
the market and would enable farmers to know in advance the precise level of aid that they would receive, thus making the system more visible.

The basic price was also abolished.

As a result of this reform, the COM comprises two types of direct aid:

- **The ewe and/or goat premium (EGP):** this is a flat-rate premium of €21 per suckler sheep and €16.80 per dairy sheep and per she-goat bred for meat production or farmed in mountainous areas. This premium replaces the CPS. It remains constant over the period. A minimum number of between 10 and 50 animals (determined by the Member State) must be kept on the holding. A ceiling is set for the number of animals eligible for premiums per holding. However, it may be adjusted to cope with any developments affecting holdings with the use of funds from the national reserve established by the Member States.

- **A supplementary premium** of €7 per animal is granted to holdings where 50% of the utilised agricultural area (UAA) is situated in less-favoured areas (less-favoured rural areas, foothills, mountain or high mountain areas) or which practise summer transhumance in those areas. This premium replaces the former RWP.

<table>
<thead>
<tr>
<th>Premium</th>
<th>Amount of premium (in € per animal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EGP meat sheep</td>
<td>21</td>
</tr>
<tr>
<td>dairy sheep</td>
<td>16.80</td>
</tr>
<tr>
<td>she-goat</td>
<td>16.80</td>
</tr>
<tr>
<td>Supplementary premium — less-favoured areas</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Council Regulation 2529/2001

Furthermore, each Member State has a national envelope which enables it to allocate aid according to national guidelines, below a specific national ceiling, to farmers who are taking steps to improve the quality, the environmental impact or the structure of their holdings. The Member States may decide to add to this amount by reducing the amounts of the EGP payments. This is known as an **additional payment**.

This reform also introduced a scheme for the payment of annual premiums in the form of a single payment instead of the previous system of three instalments. The premiums deriving from the national envelope are set by each Member State.

The following market measures remain in place:

- **Private storage** (Article 12 of the Regulation) remains in force and is brought into effect in the event of particularly difficult market conditions in a quotation area (Northern Ireland, Great Britain and all the other Member States). Only Ireland, Finland and Great Britain were granted this aid in 1999, 2000 and 2001.
• **Arrangements for trade with third countries** remain those concluded in Marrakech at the end of the Uruguay Round multilateral trade negotiations (customs duties, tariff quotas, special safeguard clause, etc.).

Furthermore, in the event of a serious disturbance of the market that may impair compliance with the objectives of Article 33 of the Treaty of Rome, an amendment to the arrangements for trade may be introduced temporarily.

### 2.1.2 The 2003 reform: a new regulatory framework

The Luxembourg Agreements of 26 June 2003 introduced a new reform of the CAP with the twofold aim of maintaining the level of income for farmers whilst bringing the European market into line with the world market and with environmental protection.

The three key aspects of this reform are: **decoupling, modulation and cross-compliance of aid.**

**Decoupling: principle of ‘single payment entitlement’ (SPE):** the decoupling of the EGP may be applied in full or in part depending on the country; it applies to farmers who received aid between 2000 and 2002. The SPE replaces part of the direct aid paid to date by a single farm payment that is not tied to the volume or factors of production.

Decoupled aid is linked to the area of the holding. It is calculated as a single payment entitlement per hectare: for holdings having a similar surface area and type of production, the SPEs may vary depending on the amount of aid received by them during the reference years (2000 to 2002).

\[ SPE = \frac{\text{average of claimed entitlements in 2000, 2001 and 2002}}{\text{reference amount} \times \text{unit value (per hectare or per animal)} \times \text{decoupling percentage}} \]

<table>
<thead>
<tr>
<th>Country</th>
<th>Year of entry into force</th>
<th>Decoupling rate (sheep)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Austria</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Belgium</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Denmark</td>
<td>2005</td>
<td>50% decoupled</td>
</tr>
<tr>
<td>Spain</td>
<td>2006</td>
<td>50% decoupled</td>
</tr>
<tr>
<td>Finland</td>
<td>2006</td>
<td>50% decoupled</td>
</tr>
<tr>
<td>France (excl. overseas)</td>
<td>2006</td>
<td>50% decoupled</td>
</tr>
<tr>
<td>Greece</td>
<td>2006</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Ireland</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Italy</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2006</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Portugal</td>
<td>2005</td>
<td>50% decoupled</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
<tr>
<td>Sweden</td>
<td>2005</td>
<td>100 % decoupled</td>
</tr>
</tbody>
</table>

Source: European Commission (DG Agriculture)

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3 Article 33 of the Treaty of Rome lays down the objectives of the common agricultural policy (CAP) among which are mentioned the availability of supplies and market stability.
The payment of aid is conditional on compliance with requirements associated with, *inter alia*, maintaining land in good agricultural and environmental condition.

The outermost regions are excluded from decoupling.

**Modulation**

A mandatory modulation system allows funds from direct aid payments under the first pillar of the CAP (EAGF) to be shifted to the budget for rural development (EAFRD, ‘second pillar’) and to aid for crisis management in the agricultural sector.

This modulation system is applied to holdings which receive more than €5 000 in direct aid payments per year.

The modulation percentage was set at 3% for 2005, 4% for 2006 and 5% from 2007 to 2013.

**Cross-compliance of aid subject to compliance with the main provisions of European law, particularly regarding the environment and animal welfare:**

- This principle was introduced by the 1992 CAP reform, for instance in connection with irrigation measures.

- The 1999 Berlin Agreement had already introduced the principle of cross-compliance of aid. The 2003 Luxembourg Agreement widened the scope of the principle of cross-compliance of direct aid. It made the allocation of the single farm payment and other direct payments (coupled payments) conditional on compliance with 19 European directives on the environment, food safety, animal and plant health and animal welfare.

- Accordingly, the 2003 mid-term review of the CAP strengthened the role played by agro-environmental measures: from then on, all premiums were conditional on the respect of statutory requirements (Annex III of Regulation 1782/2003: statutory management requirements referred to in Articles 3 and 4) and on compliance with good farming practice (Article 5 of the Regulation).

However, Member States are responsible for defining, at local and regional level, the minimum requirements for maintaining land in good agricultural and environmental condition (GAEC) on the basis of the situations described in the 1999 Regulation.

The Council provided for the gradual establishment of cross-compliance over a period of three years.
2.2 Physical and financial assessment

2.2.1 Allocation of aid by country

Figure 3 — Allocation of EAGGF Guarantee Section aid by country between 1999 and 2005 (accumulated amounts)

Spain and the United Kingdom represent more than 50% of EAGGF Guarantee Section financial commitments for the sheep and goat sector. With the addition of Greece, Italy and France, the ceiling of 87% of EAGGF Guarantee Section expenditure for the sheep and goat sector is reached. The allocation of commitments is consistent with production levels in each of the countries.

The allocation of expenditure remained stable between 1999 and 2005.

Figure 4 — Changes in the amount of aid per country between 1999 and 2005 (€M)

Changes in expenditure over the period point to a significant decrease in 2002: this is explained by the FMD epidemic that had caused the destruction of many flocks and herds in 2001 and led to an increase in prices in 2001 that produced an inevitable fall in the amount of aid per animal
in 2002. Moreover, the size of the European herd had decreased substantially, mainly due to the widespread slaughter of animals in the United Kingdom.

2.2.2 Allocation of aid by measure

Figure 5 — Changes in the amount of EAGGF appropriations per type of aid between 1999 and 2005 (€M)

Key: Ewe and goat premiums - Flat-rate premium in less-favoured areas (supplementary premium)
Additional payments in the sheep and goat sector
Assistance in the form of storage of sheep and goat - Others

Source: Annual financial reports of the EAGGF

The bulk of EAGGF appropriations fund direct aid (CPS before 2002, then EGP after 2002). The flat-rate premium allocated for farming activities in less-favoured areas represents a significant portion of the budget owing to the fact that sheep and goat farming are of great importance in these areas.

2.2.3 Physical assessment

Figure 6 — Distribution of production per country (average 1995–2002)

Source: National Office for Meat and Dairy Products and Eurostat

Key: Italie = Italy - Irlande = Ireland - Grèce = Greece - Espagne = Spain
Royaume-Uni = United Kingdom - Pays-Bas = Netherlands - All. = Germany

Figure 7 — Distribution of animals subsidised per country (average 2001–2005)
The United Kingdom and Spain account for more than 50% of subsidised animals (Figure 7). The figures are fairly similar to those given for the distribution of production per country (Figure 6) in the EU-15.

Figure 8 — Percentage of animals subsidised in the European sheep population

Source: Derived from National Office for Meat and Dairy Products and Eurostat
The figures for 2005 are available only in those countries where the EGP was not 100% decoupled.

Key: Irlande = Ireland - Allemagne = Germany - Italie = Italy - Grèce = Greece- Espagne = Spain
Royaume-Uni = United Kingdom - UE 15 = EU 15 - Autriche = Austria - Finande = Finland
Belgique-Luxembourg = Belgium/Luxembourg - Pays-Bas = Netherlands - Suède = Sweden
Moyenne 01-05 = Average for 2001-2005

The percentage of animals subsidised in the total sheep population is almost 70% in the EU-15, whilst only ewes are eligible. The main producer countries show a percentage of subsidised animals that is higher or equal to the average recorded in the EU-15.

However, the northern European countries (apart from Denmark) show a percentage of subsidised animals that is lower than 50%. These countries are less dependent on aid to maintain production levels.

2.3 Health measures relating to sheep and goats

For several decades the European Union has been developing a set of rules relating to food safety and to animal health and welfare.

These rules aim to:
- facilitate the free movement of goods;
- secure and maintain a high level of health protection.
Veterinary measures
— foot-and-mouth disease


This Directive was adopted following the 2001 crisis that decimated the British livestock industry, whose numbers still have not been restored to their former level seven years later. It lays down measures for the prevention, control and eradication of the disease. It sets out the steps needed to recover foot-and-mouth disease and infection-free status without vaccination. The principle of regionalisation and emergency vaccination are at the heart of the strategy.


— bluetongue


Suspected or confirmed cases of bluetongue must be notified to the competent authority of the Member State concerned. Where the presence of the disease is suspected in a flock, the official veterinarian is to place the holding(s) concerned under surveillance and undertake a certain number of investigative measures (inventory of the animals and the premises, epidemiological survey) and protective measures (ban on movements of animals, treatment of animals with insecticide, destruction and disposal of animal carcasses pursuant to Regulation (EC) No 1774/2002).

If the presence of the disease is confirmed, the official veterinarian will extend the measures to all holdings located within a 20-km radius around the infected holding(s). He will also carry out an epidemiological survey and may launch a vaccination programme around the outbreaks.

Where the presence of the disease is confirmed, the competent authority must establish a protection zone and a surveillance zone around the holdings.

- The protection zone will extend over a radius of at least 100 kilometres around the infected holding(s). Within that zone, all holdings with animals must be identified and the animals may not leave the zone. A vaccination programme may also be set up.
- The surveillance zone will extend for at least 50 kilometres beyond the protection zone. Within that zone, the measures for identification, restriction of movement and epidemiological surveillance applicable within the protection zone must be implemented.

Identification of animals


This Directive requires any keeper of sheep or goats to keep a register including at least the total number of sheep and goats present on the holding each year.
This register must also include:

- an up-to-date statement of the number of live female sheep and goats which are over 12 months of age or which have given birth present on the holding;

- the movements (numbers of animals concerned by each entering or leaving operation) of sheep and goats on at least the basis of aggregate movements stating as appropriate their origin or destination, their mark and the date of such movements.

Animals must be marked as soon as possible, and in any case before they leave the holding.

As from 31 December 2009, the electronic identification of livestock will be compulsory.

Council Regulation (EC) No 21/2004 of 17 December 2003 establishes a system for the identification and registration of ovine and caprine animals and provides that each Member State is to establish a system for the identification and registration of ovine and caprine animals.

According to Article 9(3) of Regulation No 21/2004, electronic identification is to become obligatory for sheep and goats. However, in European countries whose population of ovine and caprine animals is no more than 600 000 or whose population of caprine animals is no more than 160 000, such electronic identification may be made optional.

In addition, Article 9(4) of this Regulation provides that the Commission was to submit, by 30 June 2006, a report on the implementation of the electronic identification system, accompanied by appropriate proposals, on which the Council was to vote with a view to confirming or amending the date of the introduction of the obligatory use of that system.

As a result of this report submitted by the Commission, indicating that more time was more time was needed in order to consult stakeholders, it was proposed that Regulation (EC) No 21/2004 be amended. This amendment also provides that Member States may introduce the obligatory use of electronic identification for animals born on their territory before the date to be established, as provided for in paragraph 3.

The European Parliament therefore decided on 13 December 2007 to postpone the entry into force of electronic tagging of sheep and goats from 1 January 2008, the date originally set, to 31 December 2009.

- **Livestock health regulations: antiparasitic agents / antibiotics**


  - This Regulation, which amends Council Regulation No 2377/90 that was lacking in clarity and precision as a result of a number of amendments and additions, provides a list that includes the animal species in which it is permitted to find residues of veterinary medicinal products and the maximum residue limits that have been fixed for each type of animal tissue intended for human consumption, as well as the type of marker residue, and that will have a key role to play in the monitoring of residues.

2.4 Rural development policies

As from 1972, a rural development policy was established under the CAP in order to support agrarian activities in rural areas. These measures focused on vocational training for farmers, investment aid, improvement of the efficiency of agricultural structures and so on. They were funded by the EAGGF Guarantee Section and, from 1988\(^4\), by the Structural Funds for the development of rural areas.

The 1999 reform (Agenda 2000) radically changed the support system for agro-environmental measures funded by an average annual allocation of €4.3 billion between 2000 and 2006: a set of measures aimed at promoting good farming practice and environmental protection was established.

The 2003 mid-term review of the CAP further strengthened the role played by agro-environmental measures: all premiums are now conditional on statutory requirements\(^5\) and compliance with good farming practice\(^6\) regarding:

- public health and animal and plant health;
- the environment;
- animal welfare.

The Member States are responsible for defining, at national, regional or local level, the minimum requirements for maintaining land in good agricultural and environmental condition (GAEC) on the basis of the situations described in the 1999 Regulation.

A few examples of such measures are outlined in the boxes below. These rural development measures have a significant impact on the sheep and goat sector, at least as much as aid allocated under the first pillar. Of all the different types of farming, sheep and goat farming is undoubtedly the one most affected by such rural development measures.

**PHAE (France)**

In France, the grass premium or *prime au maintien des systèmes d’élevage extensifs* (premium for the maintenance of extensive livestock farming systems — PMSEE), introduced by Decree No 93-738 of 29 March 1993 as a flanking measure to the CAP reform, was acknowledged as being one of the elements of the agri-environmental scheme.

The grass premium applied to farms whose stocking density did not exceed the equivalent of 1 livestock

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\(^6\) Article 5 of Regulation No 1782/2003.
unit (LU) per hectare or 1.4 LU in cases where grassland represented more than 75% of the utilised agricultural area (UAA).

In the context of the realignment of support towards agri-environmental measures (AEMs), the EU refused to extend the PMSEE for a third five-year period owing to its being too national in scope and not environmentally protective enough. It ceased to exist on 1 April 2003.

The prime herbagère agro-environnementale (agri-environmental grassland premium — PHAE) replaced the PMSEE in 2003. Between 2003 and 2004, it was made available as a priority to former beneficiaries of the PMSEE whose Land Management Contract (CTE) was due to end before 31 December 2007, as well as to young farmers who had been in the industry for less than five years. The PHAE2 has replaced the PHAE for the period 2007–2013.

**Objectives:** to stabilise grassland and maintain environmentally friendly farming practices; to ensure the preservation of grassland and the maintenance of extensive management areas; to encourage the greatest possible number of farmers to maintain their land as grassland, particularly in areas that are in danger of abandonment of land use.

**Conditions:** the PHAE2 is a five-year contract concerning all or part of the grassland kept by the farmer.

A number of conditions apply:

- a level of specialisation in grass production of between 50% and 75% (depending on the département);
- a stocking density of between 0.35 and 1.4 LU per ha of grassland;
- maintenance of committed parcels of land as permanent grassland for at least five years;
- maintenance of the committed land as temporary grassland for at least five years;
- fulfilment of cross-compliance obligations;
- limited use of mineral and organic fertiliser;
- the equivalent of 20% of the committed land must be set aside for the preservation of biodiversity elements;
- the rotation or displacement of temporary grassland is authorised for up to 20% of committed temporary grassland.

**Funding:** The PHAE2 amounts to €76/ha for the whole of France and has a ceiling of €7 600/year per holding. It forms part of the national package of measures introduced under the Programme de développement rural hexagonal (French Rural Development Programme — PDRH) and is mainly funded by appropriations from the French Ministry of Agriculture and Fisheries amounting to some €2 billion over the period.
Compensatory allowance for natural handicaps (France)

Objectives:
Less-favoured agricultural areas are regions that are affected by particular agricultural, physical and demographic economic disadvantages, and it is therefore necessary to support agricultural activity in these areas by granting appropriate aid.

This policy acknowledges the important role played by farmers in the management of the natural heritage and holds that society must bear part of the cost of maintaining agriculture in these areas. It is mainly based on three types of leverage:

- investment aid;
- vocational training
- compensatory allowance for permanent natural handicaps (ICHN), which constitutes the main specific income support measure in mountain areas and other less-favoured areas.

The policy to promote less-favoured areas is defined by Regulation 950/97. This Regulation was repealed by Regulation 1257/99 on support for rural development from the EAGGF. The less-favoured areas are defined in stricter terms. Support for areas with a natural handicap is maintained, subject to the following objectives:

- to ensure continued agricultural land use and thereby contribute to the maintenance of a viable rural community;
- to maintain the countryside;
- to maintain and promote sustainable farming systems which in particular take account of environmental protection requirements.

Conditions:
Compensatory allowances are granted per hectare (and no longer per animal). In addition to the less-favoured zones defined by the individual Member States on the basis of economic criteria (Objective 1) and structural difficulties (permanent handicaps, Objective 2), the Member States may define other areas affected by specific handicaps with a total area of no more than 10% of their territory (e.g. region of particular tourist value, coastal protection area, etc.).

Funding:
Compensatory payments may amount to between €25 and €250/ha (Annex 1), including national contributions, depending on the severity of any handicap under consideration, the particular environmental problems to be solved or the type of production and the economic structure of the holding. Beneficiaries must comply with the standards required for sound environmental management and good farming practice, subject to suspension of compensatory aid.
Mixed grazing, Ireland

Under the Rural Environmental Protection Scheme (REPS) established in 1994, Ireland introduced a set of agri-environmental measures, one of which promotes the practice of mixed grazing.

**Objectives**: to maintain and enhance the biodiversity of grassland by promoting mixed grazing.

**Conditions**: measure made available to farmers who practice mixed grazing systems (sheep and cattle). To be eligible, the farmer must keep at least 3 LU of cattle. Cattle and sheep must be turned out to graze on the same pasture, either at the same time or consecutively.

The amount of aid is calculated on the basis of the area of pasture grazed by sheep. The minimum stocking density per hectare is four ewes.

**Funding**: €50/ha to a maximum of 20 ha, i.e. no more than €1 000/year. Total cost estimated to be €28 million/year.

CTE for sheep farming (France)

Established by the Agricultural Guidance Law of 9 June 1999, the *Contrat Territorial d’Exploitation* (Land Management Contract — CTE) was based on contractual arrangements between the farmer and the state. The farmer would undertake to develop a multifunctional agricultural system, thereby contributing both to agricultural production and to the production and management of natural landscapes and resources.

A CTE for sheep farming had to include at least one agri-environmental measure (AEM) from the National Rural Development Plan:

- AEM 19.03: maintenance of extensive management areas (summer pasture, high mountain pasture, common grazing land, moorland, pasture that is never turned over, etc.);
- AEM 20.01: extensive management of pasture by mowing (then possibly pasturing);
- AEM 20.02: extensive management of pasture by mandatory pasturing.

With a view to staying within the limits of the amount of funding available, the *préfet* of the *département* concerned also had the possibility of limiting the scope of such measures on the basis of other criteria, such as zoning, that were defined at the level of the *département*.

This contract provided for aid accounting for up to 40% of the total amount of investment and expenditure in less-favoured areas for all subscribers. The possibility of subscribing to such a contract was discontinued in August 2002. Nevertheless, those contracts that had already been signed as at this date remained in effect for the duration of the agreed term.
**CAD (France)**

The *Contrat d’Agriculture Durable* (Sustainable Agriculture Contract — CAD) replaced the CTE. Established in October 2003, this type of five-year contract concluded between the state and the farmer focuses on the contribution made by farming activities, the conservation of natural resources and the use and management of agricultural land.

**Objectives:** The aim of the CAD is to combat erosion and promote water conservation, the preservation of biological diversity and the protection of the rural landscape. The CAD may also take on a more economic role through the development of good agricultural practices or the diversification of farming activities.

**Conditions:**

The CAD is founded on an overall scheme devised on the basis of an assessment of farming activities and agri-environmental and potentially socio-economic management objectives. The objectives and types of contract are defined by the *préfet* at the level of the *département*.

**Funding:** There are two possibilities for funding:

- tangible or intangible forms of assistance linked to investment (maximum amount of €15 000 for the duration of the contract);
- aid per hectare or per LU.

The maximum amount of aid is €27 000. Measures are funded by the state under the NRDP or by the EAFRD.

**Sheep Welfare Scheme (United Kingdom)**

In use during the 2007 outbreak of foot-and-mouth disease, the Sheep Welfare Scheme was implemented on a voluntary basis.

The Scheme was introduced in Scotland and Wales following the outbreaks of foot-and-mouth disease in summer 2007. As a result of export restrictions on live sheep and sheep, Scottish and Welsh farmers were faced with both a market surplus and the imminent starvation of their flocks.

Given that the pasture in these difficult areas was insufficient to feed the flocks and farmers were in no position to deplete feed rations to be used for the flocks in the coming year, a genuine threat of famine hung over the 250 000 lambs that could not be exported. This situation prompted the Scottish and Welsh Governments to launch the Sheep Welfare Scheme, designed to facilitate the slaughter of these surplus lambs.

**Objectives:** to encourage farmers to sell their light lambs (those under 25 kg live weight) to collection centres. The collection centres then transported the lambs to abattoirs. Participation in the Scheme was entirely voluntary: farmers could choose to keep their lambs if they so wished.

**Funding:** The operators of the collection centres paid farmers £15 per head for eligible animals. In addition to reimbursing the centres for the £15 per animal, the Scottish Government covered all costs related to the transport, slaughter, incineration, etc. of the lambs. This Scheme, which was in operation for ten weeks, represented an estimated cost of some £5 million for the Scottish administration and £6 million for the Welsh administration. Half of the budget initially earmarked for this Scheme was ultimately used.
2.5 Information and communication measures

At present, the labelling of sheep and goat or European small ruminant dairy products is not compulsory other than for health information (health stamp) and official quality marks.

Unit D4 of the European Commission’s DG Agriculture is responsible for the promotion of agricultural products. There are two programmes led by Unit D4 that aim to promote quality European agricultural products.

One of these programmes is specifically aimed at products whose quality is superior to usual standards in order to encourage the production and consumption of quality products (e.g. national quality marks, France’s *Label Rouge*, etc.). The other programme is aimed at products bearing official quality marks (protected designation of origin, protected geographical indication and traditional specialities guaranteed).

2.5.1 Programme to promote quality products

Unit D4 cofinances campaigns to promote quality products. Efforts made to encourage such promotional activities for quality products have paid off, for the budget was under-executed in the past; now, however, the annual budget amounts to €38 million and the actual level of expenditure is €49 million.

- **Cofinancing arrangements**
  
  The promotion campaign must be instigated by an interbranch organisation that must draw up a detailed programme of the proposed campaign and a budget based on precise estimates.

  The proposal must be submitted before 30 November to the competent national authority, which must validate and forward it by 15 February to the European Commission; the Commission then takes the final decision and notifies the applicant of that decision on 30 June of the year following submission of the proposal.

  The levels of cofinancing are as follows:
  
  - 50% by the Community budget;
  - 30% by the Member State; and
  - 20% by the interbranch organisation.

- **Products covered by the programme:**
  
  Products whose quality is superior to usual standards, which bear national official quality marks (e.g. the *Label Rouge*) and which target a market which is at least of national dimensions. The production of the product covered by the campaign must show consistency.

  For products of regional or local importance, the European Agricultural Fund for Rural Development (EAFRD) may take over the funding.
Amount of the budget for meat: €4 million
The budget earmarked solely for the promotion of quality meat products amounts to €4 million per year. At present, this budget is not fully executed: the funds are therefore available to cofinance new programmes.

2.5.2 Promotion of products bearing European official quality marks
Operates in the same way as that described above.

Cofinancing arrangements:
See above.

Products covered by the programme:
Products bearing European official quality marks (PDO, PGI, TSG). These marks are not eligible for funding.

Amount of the budget for products bearing official quality marks (any sector): €3 million

Regulations regarding the promotion of agricultural products
Promotion of high quality products: Article 24(b) of Council Regulation (EC) No 1257/1999
Promotion of products in third countries: Commission Regulation (EC) No 1346/2005

2.5.3 Example of a campaign to promote beef and veal

‘Carnes únicas de tierras únicas’ in Spain, by INOVACARNE
National programme to promote beef and veal and sheep in Spain based on official quality marks (PGI).
Cost of the campaign: €2.5 million, cofinanced at 50% by the European Commission.
Website: http://www.carnesunicas.eu/
3. The European sheep and goat sector: advantages and difficulties

3.1 Declining livestock populations predominantly kept on pastureland

The sheep population, mainly reared on pastureland, plays an important role in adding economic value to disadvantaged agricultural areas. Some 83% of the flock of the EU-27 is concentrated in the six leading sheep-producing countries: Spain, the United Kingdom, Italy, Greece, Romania and France.

Dairy sheep are predominantly found in the southern EU countries (Spain, Portugal, Greece, Romania and Italy), whilst suckler sheep tend to be found in more northern locations (the Netherlands, the United Kingdom and Ireland). The situation in France is somewhere between the two owing to the presence of two distinct populations: 78% suckler sheep and 22% dairy sheep.

The European (EU-15) sheep population decreased by 18% between 1990 and 2006. This decline in numbers has been observed in the majority of producer countries. The European flock grew steadily during the 1980s following the establishment of the COM in sheep, and then broadly stabilised in the early 1990s with the implementation of cereal premiums. Its numbers then started to decline, and this tendency has increased over the past few years.

The UK’s flock, in particular, saw a substantial fall in numbers during the 2001 foot-and-mouth crisis. Spain, which country now has more head of sheep than the United Kingdom (16.5 million head in 2006 compared with 15.0 million), presents a slightly different picture. Its flock continued to grow until 2000 and then went into a sharp decline, notably as a result of the bluetongue outbreaks after 2003.

The French flock, the sixth largest in the EU (with 6.5 million sheep in 2006), has seen its numbers reduced by 30% since 1980, at a fairly constant rate of approximately 1% per year. The continued growth of the dairy population (+11% in 15 years) has done little to compensate for the significant drop in the number of suckler sheep.

3.1.1 The recent accelerated decline in the sheep population

More recently, the implementation of the decoupling of the ewe premium, albeit partial decoupling as in France and Spain, has had the effect of accelerating the decline in the sheep population. Many farmers decided to cut back on the size of their flocks, given that they no longer needed so many ewes to be eligible for the premium. Following the relatively good market conditions for sheep in 2006, it may be ventured that the effect of decoupling has been felt in a number of Member States and that the results of the December 2007 survey of the sheep population are certain to show a substantial decline in the light of the poor prices of last year.

The annual rate of decline of the Irish sheep population increased from −1.2% for the period 1990–2000 to −3% between 2000 and 2004 and −7.7% from 2004. While the British sheep population decreased substantially in 2001 as a result of the outbreaks of foot-and-mouth
disease, there was no recovery in numbers in subsequent years, and the fall in numbers simply continued after the principle of decoupling was introduced.

### Accelerated annual decline in sheep breeding stock since the 1990s

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<thead>
<tr>
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<tbody>
<tr>
<td>Spain</td>
<td>0.7%</td>
<td>−2.2%</td>
<td>−2.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>−1.1%</td>
<td>−3.2%</td>
<td>−3.7%</td>
</tr>
<tr>
<td>France</td>
<td>−1.4%</td>
<td>−1.9%</td>
<td>−2.1%</td>
</tr>
<tr>
<td>Greece</td>
<td>−0.3%</td>
<td>+1.1%</td>
<td>−2.7%</td>
</tr>
<tr>
<td>Ireland</td>
<td>−1.2%</td>
<td>−3.0%</td>
<td>−7.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>−2.1%</td>
<td>−0.2%</td>
<td>−4.0%</td>
</tr>
</tbody>
</table>

Source: French Livestock Institute, derived from Eurostat

In the United Kingdom recent developments have impacted more heavily in some areas than others, especially in Ulster (Northern Ireland), where the sheep population fell by more than 10% between 2003 and 2006. In Scotland and Wales, which opted for the principle of full decoupling based on historical references, a decline of 6% can be seen. In England, this decline amounts to 4%. These differences are rather due to there being a more substantial decline in mountain areas than a result of the different degrees of decoupling.

The goat population is mainly located in four Mediterranean countries (Greece, Spain, Italy and Portugal), in the Netherlands and in France.

Between 1987 and 2005, the goat herd in the EU-15 grew by +7%. This growth is predominantly due to the situation in France (+20%) and the Netherlands (+400%), where dairy producers have encouraged the establishment and development of major specialist breeders. These two countries, plus Spain, are responsible for nearly 40% of the European dairy goat herd and most of the European milk supply.
However, the situation is very different in the south. Greece, which has a similar share of the goat population to that of these three countries, also turned towards meat production (driven by the persistence of specific dietary habits). Over the period studied, the Greek goat herd saw a fall in numbers of –10% compared with –18% in Italy and –37% in Portugal.

### 3.1.2 Livestock populations of less-favoured areas

Sheep are predominantly reared in less-favoured areas, as is generally the case for small ruminants. This is particularly true for the major European livestock populations such as the Spanish flock (82% in less-favoured areas), the British flock (69%), the Italian flock (70%), the Greek flock (78%) and the French flock (82%). This distinctive feature must be seen as a direct consequence of the tremendous capacity of small ruminants to adapt to the most disadvantaged regions, adding value to areas where no other kind of agricultural activity would be possible. Without small ruminants, huge areas of agricultural land in Europe would become fallow.
Impact of greater WTO liberalisation on the market

**Location of sheep in the EU-27 in 2003**

- > 75
- de 25 à 75
- de 10 à 25
- < 10

**Location of goats in the EU-27 in 2003**

Number of sheep/goats per km² of total area

(the utilised agricultural area is insufficiently reliable for a comparison between Member States)

Source: GEB-French Livestock Institute, Map and Data Processing 5.0
### Small ruminant population in the EU Member States (x 1 000 head)

<table>
<thead>
<tr>
<th></th>
<th>Sheep</th>
<th>of which dairy</th>
<th>Goats</th>
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<tbody>
<tr>
<td><strong>EU-27</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>70 254</td>
<td>– 7.6%</td>
<td>25 275</td>
<td>9 674</td>
</tr>
<tr>
<td><strong>EU-25</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>62 342</td>
<td>– 9.3%</td>
<td>17 466</td>
<td>8 579</td>
</tr>
<tr>
<td><strong>EU-15</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60 416</td>
<td>– 9.8%</td>
<td>17 212</td>
<td>8 146</td>
</tr>
<tr>
<td>Spain</td>
<td>16 462</td>
<td>– 12.6%</td>
<td>3 155</td>
<td>2 112</td>
</tr>
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<td>United Kingdom</td>
<td>14 964</td>
<td>– 19.2%</td>
<td>—</td>
<td>48</td>
</tr>
<tr>
<td>Italy</td>
<td>7 305</td>
<td>19.8%</td>
<td>5 674</td>
<td>808</td>
</tr>
<tr>
<td>Greece</td>
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<td>– 1.4%</td>
<td>6 207</td>
<td>3 672</td>
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<tr>
<td>Romania</td>
<td>6 526</td>
<td>11.2%</td>
<td>6 526</td>
<td>616</td>
</tr>
<tr>
<td>France</td>
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<td>1 605</td>
<td>1 069</td>
</tr>
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<td>2 932</td>
<td>– 25.5%</td>
<td>—</td>
<td>0</td>
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<tr>
<td>Portugal</td>
<td>2 253</td>
<td>– 7.5%</td>
<td>571</td>
<td>379</td>
</tr>
<tr>
<td>Germany</td>
<td>1 466</td>
<td>– 8.9%</td>
<td>—</td>
<td>0</td>
</tr>
<tr>
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<td>1 387</td>
<td>– 3.3%</td>
<td>1 283</td>
<td>480</td>
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<td>Netherlands</td>
<td>1 320</td>
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<td>—</td>
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<tr>
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<td>14.7%</td>
<td>—</td>
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<tr>
<td>Slovakia</td>
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<td>7.7%</td>
<td>175</td>
<td>36</td>
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<td>Sweden</td>
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<td>16.5%</td>
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<tr>
<td>Poland</td>
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<td>– 9.7%</td>
<td>64</td>
<td>50</td>
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<tr>
<td>Austria</td>
<td>204</td>
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<tr>
<td>Cyprus</td>
<td>181</td>
<td>4.7%</td>
<td>—</td>
<td>244</td>
</tr>
<tr>
<td>Belgium</td>
<td>92</td>
<td>– 15.3%</td>
<td>—</td>
<td>14</td>
</tr>
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<td>188.0%</td>
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<td>Malta</td>
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<td>– 11.0%</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5</td>
<td>– 14.3%</td>
<td>—</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Eurostat and GEB-French Livestock Institute (estimates: information unavailable)
The different categories of less-favoured areas in the EU-15

Source: Europa — Gateway to the European Union
### Proportion of sheep and goats in less-favoured areas

<table>
<thead>
<tr>
<th></th>
<th>Sheep in less-favoured areas</th>
<th>Sheep in mountain areas</th>
<th>Goats in less-favoured areas</th>
<th>Goats in mountain areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovakia</td>
<td>96%</td>
<td>63%</td>
<td>84%</td>
<td>36%</td>
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<tr>
<td>Slovenia</td>
<td>91%</td>
<td>78%</td>
<td>90%</td>
<td>74%</td>
</tr>
<tr>
<td>Portugal</td>
<td>90%</td>
<td>33%</td>
<td>87%</td>
<td>58%</td>
</tr>
<tr>
<td>Austria</td>
<td>88%</td>
<td>78%</td>
<td>79%</td>
<td>69%</td>
</tr>
<tr>
<td>France</td>
<td>84%</td>
<td>44%</td>
<td>64%</td>
<td>22%</td>
</tr>
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<td>Czech Republic</td>
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<td>35%</td>
<td>76%</td>
<td>22%</td>
</tr>
<tr>
<td>Spain</td>
<td>82%</td>
<td>30%</td>
<td>76%</td>
<td>43%</td>
</tr>
<tr>
<td>Ireland</td>
<td>80%</td>
<td>:</td>
<td>69%</td>
<td>:</td>
</tr>
<tr>
<td>Greece</td>
<td>78%</td>
<td>53%</td>
<td>90%</td>
<td>69%</td>
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<tr>
<td>Sweden</td>
<td>72%</td>
<td>13%</td>
<td>:</td>
<td>:</td>
</tr>
<tr>
<td>Italy</td>
<td>70%</td>
<td>34%</td>
<td>80%</td>
<td>59%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>69%</td>
<td>:</td>
<td>18%</td>
<td>:</td>
</tr>
<tr>
<td>Lithuania</td>
<td>67%</td>
<td>:</td>
<td>46%</td>
<td>:</td>
</tr>
<tr>
<td>Poland</td>
<td>63%</td>
<td>25%</td>
<td>46%</td>
<td>4%</td>
</tr>
<tr>
<td>Estonia</td>
<td>60%</td>
<td>:</td>
<td>55%</td>
<td>:</td>
</tr>
<tr>
<td>Germany</td>
<td>56%</td>
<td>2%</td>
<td>:</td>
<td>:</td>
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<tr>
<td>Hungary</td>
<td>53%</td>
<td>:</td>
<td>42%</td>
<td>:</td>
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<tr>
<td>Belgium</td>
<td>16%</td>
<td>:</td>
<td>19%</td>
<td>:</td>
</tr>
<tr>
<td>Finland</td>
<td>:</td>
<td>60%</td>
<td>:</td>
<td>46%</td>
</tr>
</tbody>
</table>

**Source:** French Livestock Institute derived from Eurostat

### Proportion of land in LFA and proportion of breeding sheep in LFA

<table>
<thead>
<tr>
<th></th>
<th>Proportion of land in LFA</th>
<th>Proportion of breeding sheep in LFA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per cent</td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td>86</td>
<td>91</td>
</tr>
<tr>
<td>England</td>
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</tr>
<tr>
<td>Wales</td>
<td>78</td>
<td>90</td>
</tr>
<tr>
<td>N Ireland</td>
<td>70</td>
<td>80</td>
</tr>
</tbody>
</table>

**Source:** S. Ashworth, derived from the Departments of Agriculture for England, Scotland, Wales and Northern Ireland
3.2 Widely differing structures but common challenges and opportunities

3.2.1 Size and type of holding vary from one region to the next

European sheep and goat holdings differ greatly. The first indicator of such diversity is the average flock size, which can vary from more than 180 head in Spain to less than 50 in most of the new Member States, but also in Portugal, Germany and Belgium.

At EU level the range of sizes and structures is very wide. In Ireland, for instance, more than three quarters of sheep belong to flocks of 50 to 500 head, whilst in Spain or the United Kingdom, 62% and 75% of sheep respectively belong to flocks of over 500 head.

The average size of flocks has been calculated on the basis of the total number of animals and holdings, including the smallest farms (of less than 10 sheep). In France, and also in Greece and Spain, there are a large number of very small holdings (almost a third of holdings in some countries), although they account for only a minor portion of the national population and have a tendency to fall by the wayside.

This restructuring may have a positive effect on the development of larger holdings, such as in Spain, where the number of flocks of more than 500 sheep almost doubled between 1990 and 2005. However, this is far from being the case in other Member States such as Italy, for example, or in Ireland or the United Kingdom, where a fall in the number of large flocks can be observed: the number of holdings with more than 500 sheep fell by 40% in Ireland and by 23% in the United Kingdom between 1990 and 2005.

Sheep and goat production systems are also based on different types of farming. The dairy sheep systems are located in the southern EU countries, such as Greece, Italy, Spain, Bulgaria, Romania and some parts of southern France. These milk sheep systems also produce meat from light lambs (less than 13 kg carcass weight).

The dairy goat systems, distinctly fewer in number, are mostly located in the same regions, albeit with greater concentrations in the flood plain regions. Some are specialist systems, but many are mixed systems with both sheep and goats, especially in Greece, Bulgaria and Romania.

Finally, suckler sheep systems can be found throughout the European Union, but they tend to be more characteristic of northern Europe (in particular, the United Kingdom, Ireland, the Netherlands, Belgium and northern France). These are often more substantial livestock structures, producing heavier carcasses (between 16 and 21 kg for lambs). There are also suckler systems in Spain, accounting for approximately half of the country’s sheep population, which produce lighter lambs.

Feeding systems in northern Europe also vary: mainly pasture-based in Ireland and mixed with varying amounts of grass or grain in the United Kingdom and in France, depending on the production area.
Average size of small ruminant flocks in the EU Member States in 2006

Source: GEB-French Livestock Institute, Map and Data Processing 5.0

Key: - brebis = sheep - de = from - à = to
### Average size of small ruminant flocks in the EU Member States in 2006

These data take into account all livestock farmers and animals

<table>
<thead>
<tr>
<th></th>
<th>Average size of sheep flocks</th>
<th>Average size of goat herds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU-27</strong></td>
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<td>13</td>
</tr>
<tr>
<td><strong>EU-25</strong></td>
<td>91</td>
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</tr>
<tr>
<td><strong>EU-15</strong></td>
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<td>Spain</td>
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</tr>
<tr>
<td>France</td>
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<tr>
<td>Italy</td>
<td>83</td>
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<tr>
<td>Ireland</td>
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<td>Greece</td>
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<td>Finland</td>
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</tr>
<tr>
<td>Lithuania</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Eurostat and GEB-French Livestock Institute (estimates)
Changes in the structure of sheep farms since 1990

(Graphs respectively refer to distribution of sheep/sheep holdings according to flock size in Ireland, Greece, Spain, France, Italy and the United Kingdom)

European sheep and goat holdings also have a number of features in common.

3.2.2 The average ages of farmers is increasing

Firstly, the average age of farmers is often higher in the sheep sector than in other agricultural sectors. In Ireland and the United Kingdom, half of sheep farmers are over the age of 55. A third of farmers are over 65 in Spain and over 60 in France. In both the old and the new
Member States, the change of generations is a long way off, and the average age of farmers is increasing. This situation reflects young farmers’ lack of interest in this type of production.

3.2.3 Insufficient income

Another common feature is that sheep farmers’ income is consistently among the lowest. Without production aid, the majority of these farms would not be viable today, given the high price of animal feed and energy and the stagnant price of lamb. As a direct consequence of this income disparity, sheep farming has even less appeal than before. In areas where mixed sheep/cattle or sheep/cereal systems prevail, an abandonment of sheep production can currently be seen.

There are three main reasons for this farm income problem. Firstly, public support for small ruminants is less than that for other forms of production. Furthermore, product prices (meat, milk, wool) are not high enough to provide remuneration for the tremendous amount of work involved in this type of production. Finally, production costs — including those for fuel, electricity and animal feed — are constantly on the increase. The prospect of the implementation of an individual electronic identification system by 2010 has heightened concerns in some Member States about the resulting additional costs.

The following graphs illustrate effectively these revenue problems, whether they be in France, where the average annual income is expressed in terms of agricultural value added per agricultural work unit (AWU), in Ireland, where revenue is defined in terms of gross margins per hectare, or in the United Kingdom, where net margins for sheep production systems are declining, as much for the systems of the Scottish highlands as for those of the English lowlands.

**Average income in France per OTEX in 2006 (€/AWU)**

Revenu moyen en France par OTEX en 2006 (€/AWU)

<table>
<thead>
<tr>
<th>Category</th>
<th>Average Income (€/AWU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grandes cultures</td>
<td>18,000</td>
</tr>
<tr>
<td>Mixtes bovins allaitants</td>
<td>16,000</td>
</tr>
<tr>
<td>Spécialisés bovins lait</td>
<td>14,000</td>
</tr>
<tr>
<td>Ovins lait</td>
<td>12,000</td>
</tr>
<tr>
<td>Caprins</td>
<td>10,000</td>
</tr>
<tr>
<td>Spécialisés ovins</td>
<td>8,000</td>
</tr>
</tbody>
</table>

Source: French Livestock Institute, derived from RICA

Key: Grandes cultures = Large-scale arable crops - Mixtes bovins allaitants = Mixed suckler cows - Spécialisés bovins lait = Specialist in dairy cows - Ovins lait = Dairy sheep - Caprins = Goats - Spécialisés ovins = Specialist in sheep
One of the major components of revenue for farmers is the price of the lamb. The average prices for lamb have not shown any significant increase for several years now, neither for heavy nor for light lambs (less than 13 kg carcass weight).
Impact of greater WTO liberalisation on the market

Average prices for heavy lamb in Europe

Average prices for light lamb in Europe

Source: French Livestock Institute, derived from Eurostat

Key: Carcasse = carcass - Jt = Jul

In addition, the sharing out of the retail price/producer price margin among the various stakeholders in the industry does not fall in the producers’ favour: although the price of lamb increases for the consumer, it stagnates for the producer, as can be seen for France, the United Kingdom and Italy in the figures below. In France, a producers’ organisation in the south-west has recently demonstrated that, on average, they were being paid €5/kg for lamb (carcass weight of 17 kg), whereas slaughterers were selling it on at €7/kg (for the same carcass) and the supermarkets for €16/kg (for 14 kg of meat sold). The analysis of the situation for ‘pecorino’ sheep’s cheese in Italy shows a similar increase in gross price and consumer price, whilst the price paid to the farmer for the milk is in decline.

Price at production of heavy lamb (€/kg carc. weight)  

Price at distribution of lamb in France (100 index in 1970)

Source: French Livestock Institute, derived from Eurostat and INSEE
3.2.4 A major health crisis

One need hardly mention that European sheep farms are currently facing major challenges in terms of animal health. Veterinary costs are high in comparison with the value of the animal. Furthermore, farmers often resort to administering drugs intended for large ruminants by adjusting the dosage, owing to the lack of adequate licensing of drugs specifically for use in small ruminants. Finally, bluetongue is gradually spreading its way across Europe, with several different serotypes of the virus having been recorded. Repercussions of the disease in terms of deaths and reduced fertility are extremely serious. It does appear that, as the example of Spain has shown, vaccination campaigns are effective in combating the disease.
3.2.5 Improvements in the economic size and type of farming of agricultural holdings

Although some countries are in a better position than others in this area, our study has shown that European sheep and goat holdings still have tremendous potential for improving their economic size and type of farming. However, sheep and goat farming demands a high level of technical expertise, despite the far too widely held view that this is not the case.

The level of cost reduction, but also numerical productivity, use of genetics, lamb selection, management of grassland and animal feed, and infrastructure are all areas in which holdings have made little or no progress both through lack of funding and lack of effective support measures.

3.2.6 Very high quality products

Products originating from European sheep and goat farms are of a very high quality, both for lamb, the production standards for which are the highest in the world, and for sheep’s cheese or goat’s cheese, which are world renowned and are partly exported to third countries. This is reflected in the large number of certifications of origin issued both in the meat sector (32 geographical indications have been recorded for sheep and goat in the EU, that is one third of the geographical indications existing for all types of meat) and in the cheese sector (see below).

3.2.7 Mixed farming systems

Another advantage shared by all European small ruminant farms is that they are often associated with other types of production on the same holding. In the United Kingdom, 40% of sheep holdings also keep a small herd of suckler cows. In Spain, only a quarter of sheep holdings are specialist producers. This distinctive feature affords the farmer greater flexibility and greater security of income, whilst allowing him to reduce the level of sheep production or abandon it entirely should it become less competitive than other types of farming.
3.2.8 High environmental quality standards of farming

It is not the least of the distinctive features of small ruminant farms that they are founded on a grass-based (the most widely used) or cereal-based feeding system, and they therefore generally consume very little plant protection, fertiliser or energy products and demonstrate greater use of extensive methods than other types of agricultural production. Put more simply, sheep and goat production is one of the most environmentally friendly forms of farming. To an even greater extent, it is often responsible for ensuring the protection of rural areas, the maintenance of landscapes and the conservation of biodiversity and is instrumental in the fight against forest fires that break out in dry areas.

3.3 A growing shortfall in sheep

Some 80% of sheep production is concentrated in just five countries: the United Kingdom (31%), Spain (22%), France (12%), Greece (7%) and Ireland (7%). Similarly, 94% of goat’s milk production and 77% of sheep’s milk production comes from the south of France, southern Spain, Italy and Greece.

| Contribution of the main producer countries to EU-27 milk and meat production (in 2006) |
|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|
| Sheep                                      | Goat’s milk production                      | Sheep’s milk production                     |
| United Kingdom                             | France                                     | Greece                                     |
| 31 %                                       | 29 %                                       | 28 %                                       |
| Spain                                      | Spain                                      | Italy                                      |
| 22 %                                       | 24 %                                       | 27 %                                       |
| France                                     | Greece                                     | Spain                                      |
| 12 %                                       | 22 %                                       | 23 %                                       |
| Greece                                     | Netherlands                                | France                                     |
| 7 %                                        | 7 %                                        | 16 %                                       |
| Ireland                                    | Romania                                    | Bulgaria                                   |
| 7 %                                        | 8 %                                        | 1 %                                        |
| Italy                                      | Bulgaria                                   | Romania                                    |
| 6 %                                        | 5 %                                        | 1 %                                        |
| Romania                                    | Italy                                      |                                             |
| 5 %                                        | 2 %                                        |                                             |
| Germany                                    |                                             |                                             |                                           |
| 4 %                                        |                                             |                                             |                                           |
| Netherlands                                |                                             |                                             |                                           |
| 1 %                                        |                                             |                                             |                                           |
| % of EU-27                                 | % of EU-27                                 | % of EU-27                                 |
| 95 %                                       | 98 %                                       | 96 %                                       |
| (1.1 million t cwe)                        | (2.1 billion t)                            | (1.7 billion t)                            |

Source: French Livestock Institute, derived from Eurostat

**NB:** In Romania and in some southern EU countries, farmhouse cheese production is more important than milk production.

European sheep production has naturally increased as successive enlargements have taken place, but also thanks to the growth of the sheep population and production in the main producer countries, especially during the 1980s. The United Kingdom increased its level of production by 60% in the 1980s and Ireland doubled its production as a result of substantial growth in the sheep population of these two countries but also greater productivity per ewe. During this
period, the Community shortfall in sheep was reduced from 300 000 tonnes carcass weight equivalent to less than 240 000 t cwe.

Since the early 1990s, production in the EU has been in decline, despite the two successive enlargements in 1995 and 2004, involving countries with very small sheep populations. Over a period of 15 years, European production has decreased by 15%. It was heavily affected by the UK’s foot-and-mouth crisis in 2001, and never recovered from the resulting decline.

3.3.1 Decoupling has accelerated the decline in production

More recently the implementation of the decoupling of the ewe premium has had the effect of accelerating the decline in the sheep population. Large cut-backs in the number of ewes made it possible to maintain production levels initially, but the decline was only more pronounced as a result. In Ireland, production fell by 4% in 2006 and was projected to decline further by at least 6% in 2007. In France and the United Kingdom, the reduction for 2007 was projected to amount to at least 2%.

The Community shortfall is increasing every year, and it reached more than 280 000 t cwe in 2006, representing a self-sufficiency rate of just 79%.

![Production and consumption of sheep and goat in the EU](image)

Source: French Livestock Institute, derived from Eurostat

Key: t cwe = t cwe - Consommation = consumption - Déficit = shortfall - UE = EU

This rate varies greatly from one Member State to the next.

Ireland is an exporting country and consumes only about 30% of its production. France, Germany and Italy, on the other hand, depend on imports for more than 50% of their needs. The United Kingdom, the biggest European producer of sheep, imports more than 100 000 t cwe every year, nine tenths of which originate from third countries, in particular New Zealand (approximately 75%) and Australia (15%). These imports have been on the increase since the 2001 foot-and-mouth crisis in order to counterbalance not only the decline in UK production but also the growth in exports, mostly to France.
3.3.2 Strong trade in sheep

Trade within the EU far exceeds the quantitative imbalances measured by the gap between supply and demand in each country. It also covers qualitative imbalances and disparities in inter-regional competitiveness within the EU. Health issues that have emerged over the past decade have nevertheless had a tendency to curb this trade in favour of national supplies.
Intra-Community trade in live animals is fairly limited: the main countries involved are Spain and Italy, which are net importers of French and Hungarian or Romanian lambs respectively. Trade in sheep is on a much larger scale. Ireland and the United Kingdom are major exporters of sheep to France, their main customer. In southern Europe, the market in light lambs is very strong and keeps pace with the seasonal nature of sheep production and consumption. The Italian market provides a substantial outlet for the French and Spanish cull ewes.

Source: French Livestock Institute, derived from Eurostat

Key: Trade within the EU in sheep - Trade within the EU in live sheep - Imports of sheep from third countries
3.4 The downstream meat sectors must face up to a large number of challenges

3.4.1 Depending on the country, sectors are either concentrated together or widely dispersed

Downstream market structures are extremely diverse in the sheep sector. In Ireland, which is a net exporting country, the activity is highly concentrated and 85% of the volume is handled by the four largest specialist retailers of sheep.

In Spain, on the other hand, the activity is widely dispersed. It is divided among some 100 cooperatives (only one quarter of which have a significant volume of activity) and approximately 40 commercial law firms (the 12 largest of which account for 40% of total volumes). This does not include the farm-based slaughterhouses that account for approximately 20% of the animals slaughtered and are not subject to inspection, a situation which causes problems further down the line. The sector is further structured around 348 collection centres (where lambs are held for a minimum of 3 days) or fattening centres (where lambs are held for between 7 and 30 days); this has resulted in a higher level of professionalism, an improvement in quality and a more effective means of reducing the costs of sheep production in Spain.

In Italy only a third of abattoirs slaughter sheep, and there are very few specialist undertakings.

The proportion of sheep production structured in producer groups varies widely from one country to another. In France, where producer groups are greater in number than elsewhere, they account for 53% of the national production. The industry is divided up into small specialist firms, major meat industry groups and importers and meat cutters, these being located in the north of the country.

In Bulgaria, which traditionally imports live lambs from Romania to make up the shortfall in national production, the slaughtering of animals accounts for only 40% of production, almost all of which is sold for export to the EU, thanks to a few large abattoirs that have received authorisation to do so. National consumption is supplied by farm-based slaughterhouses, accounting for 60% of total volume.

In Romania, on the other hand, very few abattoirs were granted such authorisation prior to 2006. Romanian exporters are therefore currently seeking to develop tools authorised by the EU and practices involving the fattening of lambs and their slaughter in Romania in order to increase the amount of added value by exporting carcasses or meat cuts rather than live animals. The situation is the same in Hungary, where live lambs continue to be exported owing to restrictions on the export of carcasses and the insufficient capacity of its fattening farms.

3.4.2 Skilled labour shortages

Abattoirs and businesses operating in the meat sector are currently experiencing difficulties in finding skilled workers. This problem is one which is shared by the majority of producer countries. The occupation of slaughterhouse butcher does not hold much appeal for young people: it is seen as being highly demanding, with inconvenient working hours and a cold working environment, despite the fact that rates of pay are often higher compared with those for jobs in other sectors requiring a similar level of qualifications. In the United Kingdom, for
instance, abattoirs are being forced to recruit heavily from Poland, or even farther afield (such as Pakistan), occasionally more than half of their workforce being non-English-speaking and attracted by the high wages on offer.

3.4.3 Businesses failing to survive through lack of investment

The downstream sectors are currently experiencing the effects of the decline in the sheep population which has led to a reduction in their activities. Small and medium-sized structures have had to shut down, such as in Scotland, where 16% of its abattoirs have closed since 2000, or in England, where the figure is 20%. As a consequence of such closures, local farmers are forced to transport their lambs to other abattoirs, thereby seeing their transport costs rise. In mountain areas, this creates even more problems given that holdings are more isolated and distances travelled are far greater.

In Ireland, the United Kingdom and France, there is currently a critical volume of production below which it is essential not to fall to avoid running the risk of excessively weakening the downstream sectors and unravelling the fabric of affected businesses.

3.4.4 From the carcass to ready-to-cut portions

Although the whole carcass is the most marketed product, especially in the countries of southern Europe which produce light lambs and consequently small carcasses, the quarters and ready-to-cut portions such as boned cuts are growing in demand. This is the case in Ireland and the United Kingdom, whose ‘sectoral’ share of exports has increased from 5% in the late 1990s to 15% in 2007, and also for some French undertakings. This makes it possible to increase the added value per carcass.

However, the establishment of a meat-cutting production line is a major investment for small specialist enterprises, which often work with small volumes and consequently find the cost of setting up such a line prohibitive. In the major meat industry groups which have greater investment capacity, lamb, which is not very profitable and the cutting of which requires specific skills, is often secondary to beef and pork. The slaughter and cutting costs are actually fairly similar for lamb and beef, but the carcasses differ in size and the amount of meat produced from a carcass is much smaller for lamb.

3.5 Distribution methods are changing

3.5.1 A meat still tied to traditional distribution channels, despite the dominance of the supermarkets and hypermarkets

Lamb is one of the types of meat that rely most heavily on traditional distribution channels, despite the fact that the supermarkets and hypermarkets corner the lion’s share of this sector, just as they do in others.

In the countries of northern Europe, the market share held by butchers varies from 15 to 20%, whilst the supermarket and hypermarkets command a market share of between 73 and 80%. The butchers’ share has decreased substantially over the past 20 or 30 years with the development of large-scale distribution. However, in France, this tendency has recently been reversed: the reduction in consumption has had a greater impact on the supermarkets and hypermarkets than on more traditional channels, and these have therefore gained several points of market share. However, they, too, have been affected by the decline in consumption, albeit to a lesser extent.
In the countries of southern Europe, traditional distribution channels are more in evidence: they supply 28% of household purchases in Italy, half of those in Spain, and probably a similar number in Greece.

### The various marketing channels’ share of household purchases in 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Bouchers</th>
<th>GMS</th>
<th>RU</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italie</td>
<td>10%</td>
<td>45%</td>
<td>35%</td>
<td>5%</td>
</tr>
<tr>
<td>Espagne</td>
<td>15%</td>
<td>40%</td>
<td>40%</td>
<td>5%</td>
</tr>
<tr>
<td>Irlande</td>
<td>25%</td>
<td>30%</td>
<td>40%</td>
<td>5%</td>
</tr>
<tr>
<td>France</td>
<td>30%</td>
<td>50%</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: group of experts

Key:
- Other - Supermarkets & hypermarkets - Butchers
- RU = UK, Irlande = Ireland, Espagne = Spain, Italie = Italy

#### 3.5.2 Market segmentation in importing countries based on designation of origin

In all countries, butchers are the preferred supplier of quality meat (‘Label Rouge’ lamb in France, PGI or PDO everywhere).

The supermarkets and hypermarkets are also keen to sell quality products, but the extent to which they do this differs from one country to the next. It is in France that the major distributors set greatest store by quality systems which they seek to promote, even though, recently, they have not been pursuing the policy quite so strictly. Accordingly, certified lamb (Label Rouge, Certified Quality or Carrefour Quality Line) can be found in one in five shops in France (AC Nielsen, 2006). However, retail brands also draw on local quality initiatives that, although they are not certified, are associated with product specifications that promote a particular breed or geographical origin. All in all, it is possible to find ‘superior’ quality lamb sold in 40% of supermarkets and hypermarkets.

In British and Irish hypermarkets superior lamb is less widely available.

The use of imported meat in France (half of national consumption) varies from one retail brand to another. Meat of Irish or British origin is often used to supply the ‘normal’ market segment for standard lamb, whereas New Zealand lamb is sold mainly in connection with sales promotions (special offers) that run five to ten times a year. This method of operating on the basis of special offers is used in the countries of southern Europe.

#### 3.5.3 Changes in products that cause problems for the various sectors

In the countries of northern Europe the supermarkets and hypermarkets increasingly operate with Industrial Consumer Sales Units (ICSU), pre-packaged trays prepared in-store. Distributors are having to cope with the same difficulty as the producers in finding enough skilled workers,
and, as a result of the shortage of butchers in the shops, they end up having to hand over the task of cutting up the carcass to their suppliers. This is especially the case for the dressing of lamb, a costly process for the trader owing to its involving more time-consuming and painstaking work than for beef or pork, as well as producing a greater amount of waste. One French retail brand claims that the **dressing of lamb accounts for 12% of its meat-cutting payroll in return for only 2% of profit margins and 10% of meat volumes.** It is therefore little wonder that some retail brands stop cutting lamb altogether.

However, ICSUs do have some disadvantages. As has been observed, investment costs are often very high for the industry. Furthermore, the transition to ICSU transfers the management of the carcass product balance onto the industry, which then has to cope with increased costs. It is mainly the quality cuts that are sold as pre-packaged ICSUs (chops, leg or shoulder of lamb, stewing lamb, etc.), whilst cuts intended for braising or boiling need to find other outlets. Therefore, despite this being a range of products that is becoming increasingly diverse, there tends to be very little flexibility in the supply of ICSUs.

Although carcasses remain the main form of supply for Spanish distributors, some producers have started producing lamb-based ready meals in order to obtain the optimum value from the carcass. These producers enjoy a large enough volume of activity to be able to fund this type of investment, which is far from being the general case in European industries.

It is important to note that lamb is considered by distributors to be a thorn in the side when it comes to the issue of meat cutting. The steady decrease in volumes, the high costs of processing the carcass, the blatant lack of innovation in the industry, the difficult imposed changes in the allocation of work among producers and distributors are all factors that help portray lamb as a problem. As a result, a large number of small French retail outlets in large towns and cities have already stopped offering lamb for sale in order to simplify the work involved and reduce costs. There is a genuine danger of marginalising lamb in the world of red meats if this practice spreads to the hypermarkets.

### 3.6 Consumption of lamb is falling

#### 3.6.1 A market that responds first and foremost to availability of supplies

Some 80% of lamb consumption in the EU is concentrated in five Member States: the United Kingdom, France, Spain, Greece and Italy. The new Member States which joined in 2004 and 2007 are not large consumers, with the exception of Romania.

Patterns of consumption vary widely and often change with the season. Consumption in the countries of southern Europe focuses more on light lambs of around 10 kg carcass weight, for the most part originating from dairy flocks. In northern Europe, however, carcasses tend to be heavier (between 18 and 22 kg carcass weight) and the process of cutting up the carcass is more advanced.
The market in sheep has the distinctive feature of being largely dependent on local supply. The consumption of lamb is tied less to market rates than to domestic availability. The sector is very slow to recover from any fall in consumption.

### Contribution of the main consumer countries to EU-27 consumption of sheep (in 2006)

<table>
<thead>
<tr>
<th>% EU-27</th>
<th>(total of 1.4 million t cwe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>27%</td>
</tr>
<tr>
<td>France</td>
<td>19%</td>
</tr>
<tr>
<td>Spain</td>
<td>17%</td>
</tr>
<tr>
<td>Greece</td>
<td>10%</td>
</tr>
<tr>
<td>Italy</td>
<td>7%</td>
</tr>
<tr>
<td>Germany</td>
<td>6%</td>
</tr>
<tr>
<td>Romania</td>
<td>4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2%</td>
</tr>
<tr>
<td>Portugal</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: French Livestock Institute, derived from Eurostat

### Per capita consumption of sheep and goat

Source: French Livestock Institute, derived from Eurostat
3.6.2 Consumers are turning their backs on lamb

Apart from the problem of availability, the consumption of lamb in Europe, particularly in northern Europe, is beset by a poor image and high prices.

Sheep is perceived to be a traditional meat that is difficult to cook and has a taste that’s not to everyone’s liking. It is eaten during religious festivals, whether it be the Catholic and Orthodox Easters, Christmas or Eid. This means that consumption is seasonal, as is the case in Spain, Greece, Bulgaria and Romania in particular, but also to a lesser extent in the majority of the other Member States.

Young consumers in particular are increasingly turning their backs on lamb. Products such as leg of lamb or stewing lamb have no appeal to single people or young couples, as they are often family-sized portions and cuts that are complicated to prepare or need to be cooked for a long time. It is interesting to note that when new products are introduced to the market that are specially aimed at young consumers, such as ground lamb in the United Kingdom or émincé of lamb in Ireland, sales increase rapidly.

In addition, lamb is often one of the most expensive meats at the meat counter, both as a result of the high costs involved in the dressing of the carcass compared with other animal species and also of the low volumes processed, often preventing economies of scale in the sector. European lamb is faced with fierce competition from products originating from third countries — New Zealand in particular — whose prices are highly competitive, especially for fresh meat, competing directly with European meat. Depending on the country, price differences can vary from 50% to 100% compared with the price of local lamb. In some Member States, moreover, it is sometimes difficult to distinguish New Zealand lamb at first glance owing to the labelling occasionally being vague and distributors displaying a mix of products of different origin at the counter.

The consumption of halal lamb is on the increase, especially in the United Kingdom, with the growth of the Pakistani community, and in France, in the Muslim communities. Lamb figures far more prominently among Muslim household purchases, such as in the United Kingdom, where it accounts for 40% of meat purchases compared to 10% for non-Muslim households. However, sales of halal lamb are difficult to quantify as there are very few statistics available in this area.

The lamb predominantly consists of ewe meat, such as in the United Kingdom, where, according to the Meat and Livestock Commission (MLC), 80% of cull ewes were destined for the halal market. Another common feature of the various countries concerned is that the consumption of halal meat lies beyond the reach of the supermarkets and hypermarkets and remains the preserve of specialist butchers. The supermarkets that do sell halal lamb only have a very limited range and so do not attract customers in this segment of the market. Broadly speaking, the major distributors might do well to focus more on this segment.

3.7 Milk production, especially goat’s milk, is on the increase

A total of 99% of sheep’s milk production is supplied by only seven countries. Levels seem to have remained fairly stable since 2000. The most recent enlargement of the EU led to a one-quarter increase in the EU’s sheep’s milk production. However, a much smaller amount of growth was seen in the area of industrial processing, which remains insignificant in both Bulgaria and Romania: here, sheep’s milk is used mainly in farmhouse cheese processing,
whilst own consumption is still very important in these countries where structures continue to be fragmentary. Recently, production rates have been increasing in all countries. However, these still differ widely from one country to the next. The highest rate is in France (some 95%), it has reached 89% in Spain, 84% in Italy and 70% in Greece, but only 26% in Portugal, where farmhouse processing remains predominant. Overall, some two thirds of the whole of the EU’s sheep’s milk production is produced and processed industrially, with the remaining third being exploited directly on the farm. Meanwhile, production levels are gradually increasing year on year.

Over recent times, the production of goat’s milk has been constantly increasing. The addition of Romania and Bulgaria to the EU contributed a much more marginal proportion of overall production and, by extension, collection of goat’s milk, the rate of which is likewise very low in these two countries (estimated at approximately 2% in Romania). Overall, the rate of goat’s milk collection appears, at all events, to be lower than that for sheep’s milk. Accordingly, in 2006, it reached in the region of 50% in Greece, 71% in Spain, 77% in France and 98% in the Netherlands. Together with Romania, these five countries alone supply some 86% of goat’s milk production in the EU-27.
3.7.1 Nearly half of cheeses with a protected geographical indication are made from sheep’s milk or goat’s milk

Almost all milk produced from small ruminants in the EU is used in cheese-making. The cheeses, whether made on the farm or in industrial dairies following collection, are often given a designation of origin or other official quality mark. Accordingly, out of 164 cheeses with a PDO (protected designation of origin) or a PGI (protected geographical indication) listed on the website of the European Commission, as many as 76 are made at least in part from sheep’s milk or goat’s milk.

The countries of southern Europe, the biggest producers, are quite naturally market leaders in terms of the number of speciality cheeses they produce bearing official labels. Accordingly, Greece as many as than 19, Italy 17, Spain 14, France 15 and Portugal 11. However, some countries of northern Europe are also starting to bring their traditional specialities onto the market, such as Germany (Altenburger Ziegenkäse) and the United Kingdom (Swaledale Ewe’s Cheese). The new Member States are not quite so advanced in this area, apart from Poland which has already registered two speciality cheeses (Bryndza Podhalańska and Oscypek).

These speciality cheeses may be made exclusively using milk from one species of animal: this is notably the case in France, with its 3 sheep’s cheeses and 12 goat’s cheeses. However, they are also made from processed milk blends, especially in Greece, Spain or Italy.

Among these PDO and PGI cheeses, some are produced in extremely large volumes (especially the Greek Feta, the French Roquefort, the Spanish Manchego, the Pecorino Romano in Italy, etc.), but many are produced only in small volumes.

Accordingly, to provide some examples from France:

— in 2006, 83% of dairy sheep holdings participated in a PDO initiative; however, only 40% of the cheeses made were actually PDO cheeses;
— In 2006, 6% of goat’s cheeses made were given a PDO, with one third being farmhouse produced.

The relative weight of the PDO for all cheeses produced therefore varies from one type of production and from one region to the next. This is often of vital importance for sheep’s milk, especially in the area of Roquefort in France, in Sardinia, on the Greek islands, etc. It is often less important for goat’s cheese.

It is noteworthy that the volumes produced are more or less at a standstill for the major PDO, which seem to consist of mature markets. This is certainly the case for the Pecorino in Italy and the Roquefort in France, the Roquefort being the oldest of the recognised cheese RDO (registered designation of origin) and the second largest in volume for France, all cheeses taken into account. In France, this slight decrease in the production of Roquefort is compensated by the growth of other RDO, both sheep’s cheese (such as the Ossau-Iraty or the Brocciu) and goat’s cheese (12 PDO in 2007, the three most significant of which are the Ste Maure de Touraine, the Crottin de Chavignol and the Rocamadour, with 1 000 tonnes of each produced annually).
This therefore demonstrates that the strategy of focusing the image of sheep’s and goat’s cheese on the indications of origin has paid off. Consumer surveys have shown that these products have a very strong brand image. For example, a BVA-ONILAIT study carried out in France and published in January 2006 found that:

— sheep’s cheeses are associated with ‘an entirely coherent concept, centred purely on naturalness and authenticity’, whilst demonstrating that their supply is seen as being limited in terms of volume and variety;

— goat’s cheeses are associated with ‘a slightly vague concept, governed by the importance of authenticity, together with the emergence of a perception that it is manufactured industrially’, as well as with a supply that is both clearly identified and varied.

Whilst sheep’s milk sectors have almost always relied on traditional cheeses to enhance the value of their products, a number of goat’s cheese sectors (particularly in France and the Netherlands, but also in Greece) have long depended on product innovation (numerous highly marketed specialities, ultra-fresh products, etc.) and the restaurant and food service sector (cheese accompaniments, individual portions, pizza cheese, etc.).

Nevertheless, the sheep’s milk sectors are increasingly faced with the need to diversify. This is particularly the case for one of the EU’s largest regional sectors, the Roquefort industry. Although Roquefort cheese was still using two thirds of sheep’s milk production in the early 1990s, this amounted to no more than half of production in 2006 owing to continued growth in milk collection. A major problem facing the industry has therefore been the need for industrial diversification. At present, ‘salad cheeses’ such as feta, although no longer actually called such since feta was designated a specifically Greek PDO (October 2007), account for no less than 28% of collected milk sold at the counter, whilst other industrial products (apart from milk powder and milk exported in bulk) account for 16%.
3.7.2 Sectors that need to promote their traditional image ... and adopt a more innovative approach

In Europe, cheeses produced from small ruminant milk are often farmhouse-made. With the exception of the specific case of Roquefort (with seven industrial firms being responsible for almost the entire production of the cheese), the product’s image depends largely on its being produced on a farm or in very small-scale cottage-industry units. Direct sales, particularly to passing tourists, contribute substantially to the popularity of small ruminant cheeses and of the PDO cheeses in particular. It is therefore essential to promote the development of these farm and cottage industry products, the producers of which have furthermore made the effort over recent years to improve standards of hygiene. This development will have a positive impact on all PDO/PGI cheeses.

In a much broader sense, the image of cheeses bearing an official quality mark produces a positive knock-on effect for product images in general. It therefore appears to justify giving preference at European level, in the area of public cofinancing, to the promotion of products bearing this type of mark. This is especially so, since, unlike sheep consumption, European demand for sheep’s or goat’s milk products continues to grow due to an increased supply. Trade between European countries, and even exports to third countries, continues to increase. For instance, exports of Roquefort have risen by 50% in 10 years to reach a level of some 3 800 tonnes (18% of which was exported to third countries in 2006), representing 20% of production.

Nevertheless, in order to maintain their position faced with a highly innovative sector for cow’s milk cheese and in response to changing lifestyles, the sector also needs to diversify its products and adopt a more innovative approach. The cost of developing innovative products and processes is the main stumbling block for what are generally small-scale enterprises. The need to provide support to these enterprises by introducing appropriate schemes and promoting cooperation through the EU is one of the recommendations outlined below.

3.7.3 Sheep and goat’s milk: alternatives to cow’s milk

<p>| Comparative analysis of the chemical composition of sheep’s, goat’s and cow’s milk |
|---------------------------------|--------|-------|-------|</p>
<table>
<thead>
<tr>
<th></th>
<th>Calories</th>
<th>Protéines</th>
<th>Lactose</th>
<th>Lipides</th>
<th>Calcium</th>
<th>Autres éléments minéraux</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brebis</td>
<td>1090</td>
<td>65</td>
<td>49</td>
<td>69</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Chèvre</td>
<td>760</td>
<td>37</td>
<td>45</td>
<td>48</td>
<td>1,2</td>
<td>8</td>
</tr>
<tr>
<td>Vache</td>
<td>660</td>
<td>35</td>
<td>50</td>
<td>35</td>
<td>1,2</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: CIHEAM

Key: Kilocalories, Proteins, Lactose, Fats, Calcium, Other minerals
Brebis = Sheep, Chèvre = Goat, Vache = Cow

Sheep’s milk is recognised for its nutritional qualities. It is a particularly rich food, providing approximately 50% more calorific value than cow’s milk. One litre of sheep’s milk contains twice as much protein and fat as a litre of cow’s milk. Moreover, sheep’s milk has a considerably higher content of minerals (such as calcium), as shown in the table above. The nutritional value of sheep’s milk is therefore far greater than that of cow’s milk.
Goat’s milk is similar to cow’s milk but is much easier to digest and is less likely to cause allergic reactions. It is an excellent source of high-quality protein. It contains all the amino acids that the body needs in all the right amounts. Its content in phosphorus, potassium, magnesium and especially calcium is very high. Goat’s milk is particularly rich in group B vitamins that help promote healthy cellular function.

Goat’s milk is often given to babies as an alternative to cow’s milk as it is easier to digest. Although the chemical composition of goat’s milk is very similar to that of cow’s milk, cow’s milk does have proven benefits. One of the reasons given for goat’s milk being so easily digestible concerns the nature of the fatty acids that it contains (short-chain fatty acids, present in much larger quantities in goat’s milk than in cow’s milk, are much easier to digest).

A study carried out in 1998 in a children’s centre in São Paulo, Brazil, by researchers from the University of São Marcos showed that the children (aged 1 to 6 years) drank the goat’s milk willingly and demonstrated greater tolerance than that observed for the control group who had been given cow’s milk. The levels of haemoglobin in the children who drank goat’s milk increased significantly during the study.

A further study submitted in 2000 confirmed the anti-hypertensive effect of the proteins derived from goat whey.

3.7.4 Sheep’s milk prices and revenues are stagnating

The prices of sheep’s milk have increased very little over the past few years, except in Greece. Moreover, the differential between one country and another remains fairly stable. The most expensive milk on average is Greek milk (which reached the price level for Portuguese milk, not shown on the graph, as from 2006). Conversely, sheep’s milk is much less expensive in Romania and in Hungary, as well as in Bulgaria. Between the two extremes, the major producers Spain, France and Italy show fairly similar price levels. By contrast, the price of goat’s milk shows a constant rise in the main producer countries. This increase is less pronounced in France.

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8 7th International Conference on Goats — 2000, M. Fisberg, Ama. Ferreira, M. Nogueira, R. M. Fisberg. Acceptance and tolerability of goat milk in preschool children. Study carried out on 170 children, divided into three groups: one group given powdered goat’s milk, a second group given UHT goat’s milk and a third control group given cow’s milk.
9 7th International Conference on Goats — 2000, S. Bordenave, F. Sannier, J. M. Piot., Goat whey and anti-hypertensive activities.
Increases in value therefore differ greatly from one country to the next, or even from one sector to the next (whether PDO or not). However, something which is common to all sectors is the difficulty in meeting production costs (operating costs) that have been on the increase for several years now, rising even more dramatically in 2007.

The example of sheep’s milk producers from the *Rayon de Roquefort* in France, for which area several years’ worth of data are available, is particularly enlightening. Overall, gross margins show a decline per head. The increase in milk production per sheep is not particularly high owing to the fact that breeders are seeking to develop their production within the reference volume: this volume corresponds to the best available price (for the manufacture of PDO *Roquefort*), with any additional volumes being significantly less well paid.

Furthermore, in this region, structural costs account for 65% of total costs, a level that has increased as a result of recent investment in the sector aimed, in particular, at bringing the industry up to standard. These costs have increased to such an extent that the revenue per
producer is stagnating. According to the OPTISUD network, in 2005, income worked out at an average of €11 000 per full-time worker with a flock of 250 sheep, each producing 240 litres of milk per year and just over one lamb. This income is higher than that for sheep producers in the region, but it is still significantly lower than for other production systems, with severe working constraints.

**Gross margins of sheep holdings in the Rayon de Roquefort area**

Key: Index 100 in 2000,
Graph labels: Milk yield, Operational costs/sheep, Gross margin/sheep)

![Gross margins of sheep holdings in the Rayon de Roquefort area](image)

Source: French Livestock Institute, according to OPTISUD network

A further example is given by the present study’s Italian expert: according to ISMEA, in Sardinia in 2006, an average-sized holding kept 187 sheep per full-time worker, with a productivity of 200 litres/sheep. The total production cost was equivalent to €55/sheep when products (milk and lamb sales) stood at €109/sheep plus €23.40/sheep in direct aid per head or per hectare. This represents an income of €14 500/worker as remuneration for the work, 30% of which amount is provided through aid.

Aid is likewise important in the sheep’s milk sectors in order to maintain the level of income for farmers. **A strong and clear message must be sent to these sectors, in particular with a view to addressing the recent sharp rise in feed and energy costs, while the price of sheep’s milk increases only slightly.**

The recent dramatic increase in costs may be illustrated by a price index measured monthly in France: the IPAMPA (agricultural input price index), which is weighted to reflect the technical characteristics of the various farming systems. Although the graph below was devised to evaluate the situation of French goat holdings, the profile illustrated is very similar for dairy sheep holdings. Costs (both operational and structural) rose from an index of 117 in mid-2006 to an index of 135 in late 2007, representing an increase of 15% in 18 months.
Key: the x axis is marked with the months of the year.

Moreover, in dairy farming as in meat farming, the disparity in the level of productivity and hence income remains wide. The graph below shows the distribution of gross margins per sheep according to the productivity of the ewes in French farms of the reference network covering the Rayon de Roquefort area (the more productive Lacaune breed) and Atlantic Pyrenees region (Manech and Basco-Béarnaise local breeds).

Key: y axis: Gross margins (excluding premiums) per sheep in €, x axis: Milk per sheep in litres in green font: Atlantic Pyrenees: suppliers using local breeds

Therefore, an **incentive to increase productivity would also be welcome** in the small ruminant dairy sectors, even if increased productivity might be limited objectively by restrictions of reference volumes in those sectors practising such a system (especially the PDO sectors).
3.8 The EU’s position in the world for sheep and goat production

The FAOSTAT database makes it possible to extrapolate backwards over a very long period — from 1961 onwards — the proportion of sheep production of each of the current 27 EU Member States in the world. The fall in both production and the proportion of each of the 27 countries is quite striking since the early 1990s (fall of the Berlin Wall and 1992 CAP reform), becoming more pronounced in 2001 (foot-and-mouth disease in the EU-15).

In 2006, the EU-27 were responsible for little more than 12% of world production of sheep, compared with 19% in 1990.

![Proportion of EU sheep production in the world](image)

Source: French Livestock Institute, derived from FAOSTAT

Key:
y axis: 1 000 t cwe, Blue graph: EU as a proportion of the world - Red: production in EU-27

### 3.8.1 A tariff quota for imports of sheep after 1980

The first common organisation of the market in sheep and goat became operational from 1980. It incorporated the ‘voluntary restraint agreements’ on imports of sheep in the EEC (which back then consisted of 10 Member States) negotiated under GATT.

A tariff quota of 320 000 tonnes carcass weight equivalent\(^\text{10}\) was, at that time, allocated to those countries which were historically exporters, mainly New Zealand (three quarters of total volumes) and Australia. The in-quota customs duty was set and reduced by 10% \textit{ad valorem}.

A ceiling was even placed on the composition of the volumes according to product type:

- 293 000 t cwe frozen;
- 9 000 t cwe vacuum-chilled;
- 19 000 t cwe live animals.

\(^{10}\) Imports of goat are very low (in the order of a few dozen tonnes). Exports of sheep and goat from the EU likewise remain negligible.
As the tariff quota was, at that time, negotiated for a large volume (some 30% of EEC consumption in 1980), with a very low customs duty compared with the most-favoured-nation (MFN) duty\(^{11}\) (a levy that varies according to domestic and world market levels), almost all of EEC sheep imports were carried out under that quota until the entry into force of the GATT Uruguay Round Agreement in 1995.

These third-country imports accounted for 25% of the consumption of the EEC of 10, and later, following the accession of two major sheep-producing countries in 1986 (Spain and Portugal), 18 to 20% of the consumption of the EEC of 12. The 1994 enlargement to include Austria, Finland and Sweden did not alter this overview, as these three countries do not produce or consume significant amounts of sheep.

**Overview of sheep in the EEC and EU**

\[\text{Source: French Livestock Institute, derived from Eurostat and others}\]

\[^{11}\text{Most-favoured nation (MFN) customs duty: duty applicable to all signatory nations to the GATT and subsequently to the WTO, tariff quota-free.}\]
3.8.2 The Uruguay Round Agreement modified tariff quotas

The 1994 Agreement did not introduce any major changes to imports of sheep in terms of total volume. New Zealand still holds the lion’s share (with 226.7 kt cwe), ahead of Argentina (23 kt cwe), Australia (18.65 kt cwe), Uruguay (5.8 kt cwe), Chile (3 kt cwe), and so on. In total, the GATT quota is set, since 1996, at 303.1 kt cwe. Bilateral quotas, particularly for the benefit of the countries of the former Yugoslavia and of the CEECs that have now joined the EU, in the region of 25 kt cwe had to be added to this.

The main changes introduced by this Agreement affecting sheep were:

- the levying of (quota-free) MFN customs duties in the form of an *ad valorem* duty + a specific duty (live animals being exempt from customs duties, with the exception of goat breeding stock);
- the reduction of in-quota duty to zero;
- but above all the elimination of subquotas concerning the various products, leaving the way open for a gradual increase in imports of chilled meats within the quota in place of frozen meats.

The other two pillars of the agricultural negotiations have had very little to do with sheep. The granting of export refunds certainly does not apply. Moreover, aid had already been paid per head, that is included in the blue box of internal support measures.

With MFN customs duties remaining high (see section on the possible impact of the Doha Round), all imports of sheep were carried out under the tariff quota.

For New Zealand and Australia, tariff quota fill rates have invariably exceeded 95% since 1996. Fill rates are not much lower for Uruguay and Chile. Argentina is the only one of the main EU tariff quota recipients that seems to be having difficulty filling its quota. Since the implementation of the Uruguay Agreement, its exports to the EU are on the increase, but they are still far from reaching the quota. In 2005 and 2006, they peaked at around 8 kt cwe, equivalent to a third of the allocated quota.

Imports of sheep in the EU-15 and subsequently the EU-25

Key: y axis: 1 000 t cwe, Frozen meat, Chilled meat, Live animals

Source: French Livestock Institute, derived from Eurostat
The most significant change was the increasing share of imports of vacuum-chilled meat. Whereas such imports were low before the Uruguay Round (approximately 15 kt cwe in 1993), they reached a level of nearly 70 kt cwe in 2006, close to one quarter of total imports. The value of these imports is much greater than that of traditional frozen meat. For example, meat originating from New Zealand in 2006 and declared to customs had the following values:

- €8.89/kg for chilled boned meat compared with €4.28/kg for frozen boned meat;
- €5.18/kg for chilled bone-in meat compared with €3.95/kg for frozen bone-in meat;

Values therefore differ by a ratio of 1:2 for boned cuts, whilst the difference amounts to 31% for bone-in cuts.

Furthermore, high-quality cuts (such as leg, best end and chine) are increasingly gaining in importance to the detriment of whole carcasses.

Emphasis should be placed on the seasonal nature of imports from the countries of the southern hemisphere which preferentially take place during the first half of the year (there is a six-month time differential for the production of grass-fed lambs), influencing European prices at a time when the markets are relying most heavily on imports, particularly at Easter (Catholic and Orthodox).

In 2007, the effect of the enlargement of the EU to include Bulgaria and Romania was the almost complete cessation of imports of live animals in the EU and the emergence of small-scale exports from those countries to the Middle East and the former Yugoslavia: the EU’s external trade balance sheet consequently ended up looking marginally less worse off with 27 Member States than was previously the case with 25.

3.8.3 The EU is polarising the world market in sheep

The EU’s share of world imports of sheep (including live animals) remained remarkably stable until 2004 (28 to 29% of registered trade). Following the two enlargements to include the countries of Eastern Europe, this share slipped slightly but still amounted to 26% in 2007. It is mainly the Middle East/North Africa region that has gained ground in global imports and is now set to outstrip the EU as the main area of destination for world trade.

Nevertheless, imports in the two areas are not the same: the EU imports mainly lamb (on average, approximately 83% of total volumes in 2005/2007), whilst the countries of the Middle East and North Africa mostly import mutton, in reverse proportions (approximately 20% lamb).
This situation is such that, were the analysis to be limited to lamb alone, the position of the EU in international affairs would appear much stronger. Nevertheless, the market in lamb seems to be much more dynamic than that for mutton, particularly with Australia, a traditional supplier of sheep originating from what is essentially a wool flock, gaining ground year by year on the lamb market. In 10 years, the market in lamb is expected to increase in tonnage by some 33% compared to only 14% for all sheep (mutton and live animals). The share held by the EU, whose imports are limited by tariff quotas, decreased from 45% to 38% in 10 years. However, as the graph shows, the EU remains by far the leading purchaser of lamb on the international market. The second biggest purchaser, the USA/Canada, trails far behind with an estimated share of less than 15% in 2007.

Among the suppliers, New Zealand and Australia remain the undisputed leaders, both for sheep (more than 80% for both of them) and for lambs (approximately 90% of world exports).
3.8.4 The wool and lambskin markets, deregulated since the 1970s, are highly volatile

As wool and pelt were no longer considered to be agricultural products since the 1970s, this led to the complete opening-up of their markets under GATT. Following the fall of the Berlin Wall, the protection of the markets through Comecon also ceased. This completely liberalised market, exposed to competition from other raw materials (especially petroleum-based synthetic fabrics), was characterised by extreme volatility, as shown by the graph below relating to the annual averages of reported trade prices.

Over more recent years, this volatility has not diminished. It affects both wool and lambskin.
This is happening to such an extent that it appears to be very difficult to develop sustainable industries with prices being so volatile, and that the European industries tend gradually to lose interest in promoting wool and pelts. Even Australian production, despite being the most developed and competitive in the world, now seems to be in decline.

Accordingly, it appears that, when relying on world trade in commodities, it is extremely difficult to establish sustainable industries. As a result, a number of countries are concerning themselves with finding innovative local uses for these raw materials, the promotion of which forms an integral part of the profitability of the sheep sector.

### 3.8.5 The EU remains world leader in the sheep's cheese markets

Unlike what has occurred in the beef and veal sector, the 27 Member States of the current EU have increased their sheep’s milk production over a long period. According to FAO statistics, the slight decrease in the EU-27’s share can be explained by a sharper increase in world production than in European production. Nevertheless, with it share at 32% in 2006, the EU is by far the leading area for this production.
In practice, international trade applies only to cheese: at all events, all other forms of trade are impossible to define, given that there is no tariff line distinguishing between milk powder or yoghurts made from cow’s milk and those made from sheep’s milk or goat’s milk, etc.

Even trade in cheese is not all that easy to monitor. For instance, the European list of cheeses (code 0406, Commission Regulation No 1719/2005) identifies 45 eight-digit tariff headings. Seven headings apply explicitly to sheep’s cheese (potentially combined with goat’s milk or buffalo milk):

- 04064010: Roquefort;
- 04069029: Kashkaval (also made from cow’s milk or goat’s milk);
- 04069031: Feta made from sheep’s milk or buffalo milk;
- 04069035: Kefalotyri;
- 04069050: cheese made from sheep’s milk or buffalo milk in brine;
- 04069063: Fiore Sardo and Pecorino;
- 04069085: Kefalograviera and Kasseri.

Nevertheless, trade in a number of sheep’s cheeses is not covered by the abovementioned headings, particularly all types of fresh cheese (notably in the case of intra-European trade).

Customs statistics recently published by Eurostat make it possible to extrapolate backwards levels of trade in the EU-27 since 1999. For the seven headings mentioned above, trade between the 27 Member States and third countries appears to be very much in surplus and remarkably stable between 1999 and 2006. Imports from non-EU countries remain in the region of 1 000 tonnes and have decreased somewhat during the most recent period. In comparison, exports to non-EU countries are almost 30 times higher than imports. They appear to be relatively stable compared with the sharp increase in intra-EU trade during this period. Customs unit values appear to be the same for intra-EU trade and for exports to third countries (between €4.2 and 5.1/kg), suggesting a tendency to show a preference towards ‘rich’ markets.

![EU-27 external trade in sheep’s cheese](chart.png)

**Source:** French Livestock Institute, derived from Eurostat — Comext
The FAO statistics show an increase in trade in sheep’s cheese between 1999 and 2005 from 50 to 60 000 tonnes, half of which were supplied by the EU-27 alone!

3.8.6 Goat’s cheese tends to be consumed locally

According to the FAO statistics, the production of goat’s milk in the 27 EU Member States grew until 2003, but more slowly than elsewhere. As a result, the EU’s share of world production has declined over a long period, amounting to approximately 13% in 2006. However, the majority of this world production is produced in developing countries, more often than not for self-sufficiency or for the very local market. EU production amounts to approximately three quarters of goat’s milk production in developing countries, a share which has remained relatively stable for 15 years. The FAO figures show very little international trade in goat’s cheese (less than 1 000 tonnes). At all events, trade in goat’s cheese is not recorded independently by customs codification systems.

![Share of EU goat’s milk production in the world](image)

**Source:** French Livestock Institute, derived from FAOSTAT

3.9 Conclusion: challenges facing the sector

Although European sheep and goat farming enjoys a very good public image, and although the EU is self-sufficient for no more than about 79% of its consumption of sheep, sheep and goat farmers are currently being discouraged and are quitting the business.

This study highlights the specific difficulties that the European sheep and goat sector is currently facing:

- sheep and goat farming is very labour-intensive, and it requires specific skills. The sector is being hampered by a lack of technical services and training;
- incomes are among the lowest in the agricultural industry and depend heavily on public support, with inadequate farm-gate prices, for both meat and milk, and poor monetisation of by-products (wool, pelts, offal, etc.).
production costs continually on the increase, particularly for fuel, electricity and animal feed, together with the electronic identification system to be introduced in 2010 which represents an additional cost perceived as being too high in the current situation;

stiff competition for land, which often works to the disadvantage of sheep farming, in particular given the high prices being paid for land;

poor organisation of the industry, making it difficult to control economic and environmental costs, with particular regard to transport;

decreasing flock sizes and a level of production getting close to a critical mass below which the industry could not be maintained;

processing undertakings currently challenged, facing investment problems and the lack of a skilled workforce;

drop in lamb consumption and a need for product innovation;

competition with lamb imported from third countries at rock-bottom prices.

However, although the picture looks fairly bleak, it is important to remember that these sectors possess definite strengths:

a very strong link with the land and the environment, a recognised role in biodiversity and landscape conservation and in measures to combat forest fires;

ability to adapt and resilience in often mixed farming systems, with an ability to use a wide range of grasslands, even poor ones;

requirement of fewer capital goods than other agricultural sectors with a quicker rotation of live animals because ewes mate earlier and are more prolific in their progeny;

very high organoleptic and hygiene quality of products in both the meat and dairy sectors;

possible revival in consumption, with good results in some Member States already;

high genetic diversity, with as many as 250 breeds in the 27 EU Member States;

economically viable systems when rational production conditions are fulfilled.
4. Impact of greater WTO liberalisation

The current Doha Round negotiations concern the sheep and goat sector in several respects: the main agricultural negotiations, negotiations on designations of origin and intellectual property rights (TRIPS), and the possible revision of the SPS (Sanitary and Phytosanitary) and TBT (Technical Barriers to Trade) Agreements.

As at mid-February 2008 it looks as though the negotiations have reached deadlock on these last three aspects, particularly with regard to international recognition and mandatory protection by the Member States of geographical indications (GI) for products other than those listed on the register for wines and spirits.

On the other hand, the main agricultural negotiations seem to have made enough headway for Crawford Falconer, Chairman of the WTO Committee on Agriculture, to publish, on 8 February 2008, a blueprint for the ‘modalities’ of an agricultural agreement which would ultimately take the shape of a fully-fledged legal agreement. A large number of items are naturally still on the agenda and are therefore enclosed in square brackets. One conscientious negotiator counted no less than 235 unresolved issues in the 59-page document (see TN/AG/W/4/Rev.1 at www.wto.org).

The agricultural negotiations are based on three pillars:

1. international trade-distorting domestic support;
2. export subsidies;
3. market access.

4.1 Impact of a possible agreement on direct aid

Negotiations under the first pillar are concerned mainly with general issues and focus on all the available forms of support. The objective is to reduce the orange box (aid for production) and the blue box (support coupled with a fixed reference amount of the number of livestock or hectares of farmland) by between 75 and 85% in relation to the initial reference (orange box negotiated in Marrakech + maximum paid under the blue box + 10% of the production value over the period 1995–2000). Decoupled subsidies that have minimal trade-distorting effects qualify for the green box and are therefore exempt from WTO reduction commitments.

It is inherently difficult to discern the actual impact such a reduction might have on the sheep and goat sector, already considered to be a marginal activity in terms of the total budgets allocated to agriculture in the EU. We nevertheless feel that it is important to retain a sufficient degree of flexibility to allow for a partial recoupment of the ewe and goat premium (EGP) in the countries that have chosen this option and for the implementation of the temporary coupled premiums that we strongly recommend (which, at least in part, would probably be classified as blue box measures).

However, this draft agreement also provides for a ceiling to be applied per sector for blue box measures, equivalent to the average amount paid per sector over the period 1995–2000. This could limit the amounts paid per head or require the decoupling of some of the EGP that are currently still coupled. Since this period, the reference sheep population has decreased substantially in the EU-15, falling from 70 million head to 60 million in late 2007. Nevertheless,
this decrease has been compensated by the enlargement to include 12 new Member States, representing approximately a further 10 million head at the end of 2007.

4.2 Impact of a possible agreement on export subsidies

At present refunds do not apply to the sheep sector, at all events a marginal exporter. There is likewise no specific refund payable for exports of sheep’s cheese and/or goat’s cheese. The timely reduction to zero of export subsidies therefore does not have a direct impact on the sheep and goat sector. The spill-over effects of the abolition of export refunds in related sectors (other dairy products and other types of meat) also do not appear to pose any real threat.

4.3 Impact of a possible agreement on market access

4.3.1 The case of cheese

In the case of sheep’s cheese identified as such, imports from third countries remain at a low level: between 785 tonnes and 1 320 tonnes per year over the period 1999 to 2006. These mainly relate to cheese in brine (of the Feta type) and, to a lesser extent, Kashkaval. There are no doubt other imports of sheep’s and goat’s cheese, but the customs nomenclature does not distinguish them from the bulk of cheese made from cow’s milk.

<table>
<thead>
<tr>
<th>Eight-digit customs code</th>
<th>Name</th>
<th>Customs duty</th>
<th>Ad valorem equivalent</th>
<th>Tariff band</th>
<th>Reduction proposed by the draft of 08/02/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>04064010</td>
<td>Roquefort</td>
<td>140,9 €/100 kg/net</td>
<td>20,47%</td>
<td>20-50%</td>
<td>-55% à -60%</td>
</tr>
<tr>
<td>04069029</td>
<td>Kashkava</td>
<td>151,0 €/100 kg/net</td>
<td>47,71%</td>
<td>20-50%</td>
<td>-55% à -60%</td>
</tr>
<tr>
<td>04069031</td>
<td>Feta made from sheep’s milk or buffalo milk</td>
<td>151,0 €/100 kg/net</td>
<td>47,33%</td>
<td>20-50%</td>
<td>-55% à -60%</td>
</tr>
<tr>
<td>04069035</td>
<td>Kefalotyi</td>
<td>151,0 €/100 kg/net</td>
<td>41,66%</td>
<td>20-50%</td>
<td>-55% à -60%</td>
</tr>
<tr>
<td>04069050</td>
<td>Other cheese made from sheep’s milk or buffalo milk, in containers containing brine, or in sheepskin or goatskin bottles (not including Feta)</td>
<td>151,0 €/100 kg/net</td>
<td>40,86%</td>
<td>20-50%</td>
<td>-55% à -60%</td>
</tr>
<tr>
<td>04069063</td>
<td>Fiore sardo, Pecorino</td>
<td>188,2 €/100 kg/net</td>
<td>59,09%</td>
<td>50-75%</td>
<td>-62% à -65%</td>
</tr>
<tr>
<td>04069085</td>
<td>Kefalograviera, kasseri</td>
<td>151,0 €/100 kg/net</td>
<td>55,65%</td>
<td>50-75%</td>
<td>-62% à -65%</td>
</tr>
</tbody>
</table>

Source: French Livestock Institute, derived from various sources

The customs duties for these different types of cheese are applied exclusively in the form of ‘specific duty’ expressed in euros per 100 kg of product. Their *ad valorem* equivalents calculated in 2005 by the services of the WTO (on the basis of the average customs values of previous years) range from 20.47% to 59.09%; these would therefore be subject to reductions of 55 to 65% on the basis of the tiered formula proposed in Mr Falconer’s document.

Another restriction influencing duties on these types of cheese (as do a large number of other tariff lines) is the proposed conversion of all customs duties of the WTO member countries (or at least 90% of a given country’s budget lines) into pure *ad valorem* duties. Such conversion
could further diminish the residual customs protection, particularly in the event of the rapid
devaluation of the currencies of exporting countries, as happens very often.

Nevertheless, there is not really a strong case for seeking to classify these tariff headings as
sensitive products in order to limit the reduction in customs duty following such an agreement.
On the one hand, this classification can only be achieved by opening tariff quotas (in the order
of 3 to 6% of EU-27 domestic consumption), possibly entailing the establishment, purely for
convenience, of entirely new trade patterns. On the other, apart from two headings, all of these
different cheeses should in theory be protected by the official quality marks for which the EU is
seeking recognition at international level within the TRIPS negotiations.

4.3.2 The case of sheep and goat

The case of sheep and goat appears to be much more complex than the last. On the one hand,
this is because of the sheer number of tariff lines involved: no less than 36 at the lowest level
(eight-digit codes). On the other, almost all current imports are zero-duty rated within tariff
quotas on grounds which are difficult to identify: what level of protection do customs duties
actually provide?

An initial analysis of current duties and trade since 1999, both intra-EU trade and trade with
third countries, makes it possible to single out those tariff lines likely to pose problems in the
event of a reduction in customs protection (see table on next page). Such analysis helps identify
12 headings for which a fairly significant amount of trade takes place with third countries and
likewise between the Member States of the EU.

All of these headings relate to lamb.
Mutton from cull ewes (identified as such in the form of carcasses or frozen bone-in cuts) is
traded at much lower prices within the EU, so the amounts involved seem much less significant.

There seems to be very little trade in goat, both within the EU and with third countries.

Live animals are practically no longer imported from third countries since the accession of
Bulgaria and Romania to the EU, and animal health and welfare regulations (relating to the
transport of live animals) appear, at all events, to represent a major restriction on trade, much
more so than customs duties.

Sheep and goat preparations are currently protected only by very low duties and are traded only
in extremely small volumes.

The tariff lines relating to lamb, the most sensitive to a reduction in customs duties, may be
divided into three subsets:

• chilled or frozen carcasses;
• chilled cuts, bone-in or boned;
• frozen cuts, bone-in or boned.

Lamb carcasses:
Sheep is most commonly traded in the form of chilled carcasses within the EU. For technical
reasons, carcasses are never imported chilled from Australia and New Zealand. Imports of
frozen carcasses from third countries, which were still significant a decade or two ago, have
been in decline for several years, with the exception of those from South America. The future
does not look too promising for trade in lamb in this form: transport costs are tending to increase
and it is therefore preferable to transport only those cuts with the highest added value.
Moreover, third countries often have a comparative advantage in terms of butchery costs,
whereas imported whole carcasses have to be cut up in the EU before being placed on the
market.

Accordingly, these tariff lines do not appear to be particularly sensitive to the reduction in
customs duties planned by the WTO.
The table below, devised by the French Livestock Institute after analysis of the amount of trade for each individual tariff line over the period 1999–2006, shows the *ad valorem* equivalents calculated by the WTO services in 2005:

<table>
<thead>
<tr>
<th>Eight-digit customs code</th>
<th>Name</th>
<th>Customs duty</th>
<th>Ad valorem equivalent</th>
<th>Tariff band</th>
<th>Reduction proposed by the draft dated 08/02/08</th>
<th>Intra-EU-27 trade 1999-2006 (in kt cwe)</th>
<th>Extra-EU-27 trade 1999-2006 (in kt cwe)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01041010</td>
<td>Live sheep — pure-bred breeding animals</td>
<td>0.00%</td>
<td>N/A</td>
<td>N/A</td>
<td>0 to 1</td>
<td>#0</td>
<td></td>
</tr>
<tr>
<td>01041030</td>
<td>Lambs up to a year old (excl. pure-bred breeding animals)</td>
<td>€80.5/100 kg/net</td>
<td>35.06%</td>
<td>20–50%</td>
<td>-55% to –60%</td>
<td>20 to 40</td>
<td>#0</td>
</tr>
<tr>
<td>01041080</td>
<td>Live sheep (excl. lambs and pure-bred breeding animals)</td>
<td>€80.5/100 kg/net</td>
<td>76.07%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>5 to 20</td>
<td>#0</td>
</tr>
<tr>
<td>01042010</td>
<td>Live goats — pure-bred breeding animals</td>
<td>3.20%</td>
<td>3.20%</td>
<td>&lt;20%</td>
<td>–48% to –52%</td>
<td>#0</td>
<td>#0</td>
</tr>
<tr>
<td>01042090</td>
<td>Live goats (excl. pure-bred breeding animals)</td>
<td>€80.5/100 kg/net</td>
<td>76.07%</td>
<td>75%</td>
<td>&gt;75%</td>
<td>0 to 20</td>
<td>0 to 20</td>
</tr>
<tr>
<td>02041000</td>
<td>Carcasses and half-carcasses of lamb, fresh or chilled</td>
<td>12.8% + €171.3/100 kg/net</td>
<td>57.94%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>100 to 160</td>
<td>1 to 4</td>
</tr>
<tr>
<td>02042100</td>
<td>Carcasses and half-carcasses of sheep, fresh or chilled (excl. carcasses and half-carcasses of lamb)</td>
<td>12.8% + €171.3/100 kg/net</td>
<td>85.10%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>14 to 19</td>
<td>0 to 1</td>
</tr>
<tr>
<td>02042210</td>
<td>Forequarters and short forequarters of sheep, fresh or chilled</td>
<td>12.8% + €119.9/100 kg/net</td>
<td>60.17%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>1 to 5</td>
<td>1 to 2</td>
</tr>
<tr>
<td>02042230</td>
<td>Chines and/or best ends of sheep, fresh or refrigerated</td>
<td>12.8% + €168.5/100 kg/net</td>
<td>51.94%</td>
<td>20–30%</td>
<td>-55% to –60%</td>
<td>2 to 4</td>
<td>3 to 5</td>
</tr>
<tr>
<td>02042250</td>
<td>Legs of sheep, fresh or chilled</td>
<td>12.8% + €222.7/100 kg/net</td>
<td>75.61%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>12 to 16</td>
<td>12 to 23</td>
</tr>
<tr>
<td>02042290</td>
<td>Unboned cuts of sheep, fresh or chilled (excl. those listed above)</td>
<td>12.8% + €222.7/100 kg/net</td>
<td>61.23%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>12 to 16</td>
<td>12 to 23</td>
</tr>
<tr>
<td>02042300</td>
<td>Boneless cuts of sheep, fresh or chilled</td>
<td>12.8% + €311.8/100 kg/net</td>
<td>71.06%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>12 to 16</td>
<td>12 to 23</td>
</tr>
<tr>
<td>02043000</td>
<td>Carcasses and half-carcasses of lamb, frozen</td>
<td>12.8% + €128.8/100 kg/net</td>
<td>57.61%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>12 to 16</td>
<td>12 to 23</td>
</tr>
<tr>
<td>02044100</td>
<td>Carcasses and half-carcasses of sheep, frozen (excl. carcasses and half-carcasses of lamb)</td>
<td>12.8% + €128.8/100 kg/net</td>
<td>104.86%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>0 to 1</td>
<td>0 to 1</td>
</tr>
<tr>
<td>02044210</td>
<td>Forequarters and short forequarters of sheep, frozen</td>
<td>12.8% + €90.2/100 kg/net</td>
<td>60.92%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>8 to 11</td>
<td>8 to 11</td>
</tr>
<tr>
<td>02044230</td>
<td>Chines and/or best ends of sheep, frozen</td>
<td>12.8% + €141.7/100 kg/net</td>
<td>66.29%</td>
<td>50–75%</td>
<td>-62% to –65%</td>
<td>9 to 14</td>
<td>9 to 14</td>
</tr>
<tr>
<td>02044250</td>
<td>Legs of sheep, frozen</td>
<td>12.8% + €167.5/100 kg/net</td>
<td>83.18%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>1 to 2</td>
<td>33 to 40</td>
</tr>
<tr>
<td>02044290</td>
<td>Unboned cuts of sheep, frozen (excl. those listed above)</td>
<td>12.8% + €167.5/100 kg/net</td>
<td>82.74%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>6 to 11</td>
<td>43 to 53</td>
</tr>
<tr>
<td>02044310</td>
<td>Boneless cuts of lamb, frozen</td>
<td>12.8% + €234.5/100 kg/net</td>
<td>92.04%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>10 to 18</td>
<td>41 to 44</td>
</tr>
<tr>
<td>02044390</td>
<td>Boneless cuts of sheep, frozen (excl. cuts of lamb)</td>
<td>12.8% + €234.5/100 kg/net</td>
<td>98.08%</td>
<td>&gt;75%</td>
<td>-66% to –73%</td>
<td>10 to 14</td>
<td>43 to 53</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
<td>Price</td>
<td>Grade</td>
<td>Price Range</td>
<td>Quantity</td>
<td>Value</td>
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<td>----------</td>
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<td>02045011</td>
<td>Carcasses and half-carcasses of goat, fresh or chilled</td>
<td>12.8% + €171.3/100 kg/net</td>
<td>79.77%</td>
<td>&gt;75%</td>
<td>2 to 3</td>
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<tr>
<td>02045013</td>
<td>Forequarters and short forequarters of goat, fresh or chilled</td>
<td>12.8% + €119.9/100 kg/net</td>
<td>59.67%</td>
<td>50–75%</td>
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<tr>
<td>02045015</td>
<td>Chines and/or best ends of goat, fresh or chilled</td>
<td>12.8% + €188.5/100 kg/net</td>
<td>86.49%</td>
<td>&gt;75%</td>
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<td>02045019</td>
<td>Legs of goat, fresh or chilled</td>
<td>12.8% + €222.7/100 kg/net</td>
<td>99.86%</td>
<td>&gt;75%</td>
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<tr>
<td>02045031</td>
<td>Unboned cuts of goat, fresh or chilled (excl. those listed above)</td>
<td>12.8% + €222.7/100 kg/net</td>
<td>99.86%</td>
<td>&gt;75%</td>
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<td>#0</td>
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<tr>
<td>02045039</td>
<td>Boned cuts of goat, fresh or chilled</td>
<td>12.8% + €311.8/100 kg/net</td>
<td>51.94%</td>
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<tr>
<td>02045051</td>
<td>Carcasses and half-carcasses of goat, frozen</td>
<td>12.8% + €128.8/100 kg/net</td>
<td>54.10%</td>
<td>50–75%</td>
<td>0 to 1</td>
<td>0 to 1</td>
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<tr>
<td>02045053</td>
<td>Forequarters and short forequarters of goat, frozen</td>
<td>12.8% + €90.2/100 kg/net</td>
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<td>02045059</td>
<td>Legs of goat, frozen</td>
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<td>02045071</td>
<td>Unboned cuts of goat, frozen (excl. those listed above)</td>
<td>12.8% + €167.5/100 kg/net</td>
<td>79.10%</td>
<td>&gt;75%</td>
<td>0 to 1</td>
<td>0 to 1</td>
<td></td>
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<td>02045079</td>
<td>Boned cuts of goat, frozen</td>
<td>12.8% + €234.5/100 kg/net</td>
<td>104.00%</td>
<td>&gt;75%</td>
<td>0 to 1</td>
<td>0 to 1</td>
<td></td>
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<td>16029072</td>
<td>Preparations or preserved meat or offal of sheep, uncooked, incl. mixtures of cooked meat or offal</td>
<td>12.80%</td>
<td>12.80%</td>
<td>&lt;20%</td>
<td>1 to 2</td>
<td>#0</td>
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<tr>
<td>16029074</td>
<td>Preparations or preserved meat or offal of goat, uncooked, incl. mixtures of cooked meat or offal</td>
<td>16.60%</td>
<td>16.60%</td>
<td>&lt;20%</td>
<td>#0</td>
<td>#0</td>
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<tr>
<td>16029076</td>
<td>Preparations or preserved meat of sheep, cooked</td>
<td>12.80%</td>
<td>12.80%</td>
<td>&lt;20%</td>
<td>1 to 4</td>
<td>0 to 2</td>
<td></td>
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<tr>
<td>16029078</td>
<td>Preparations or preserved meat of goats, cooked</td>
<td>16.60%</td>
<td>16.60%</td>
<td>&lt;20%</td>
<td>#0</td>
<td>#0</td>
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</tbody>
</table>
Chilled cuts:

Trade in chilled cuts has increased sharply over the past few years on the EU internal market and especially for imports from third countries. Accordingly, intra-EU trade increased by a factor of 2.4 between 1999 and 2006, and imports from third countries went up by 2.1 times (some 58 000 t cwe in 2006).

This relates to all presentations, whether bone-in morphological cuts (forequarter, best end, chine or leg) or bone-in or boned cuts that are not specifically named. The majority of cuts currently being imported from third countries are of the second kind, whilst bone-in leg of lamb, still a traditional import item until only a few years ago, accounts for no more than one quarter of total imports (16.3 kt cwe in 2006).

Average import prices for each of these lines are essentially the same, whether the products originate from another EU country or from a third country, as shown by the figures below.

The trade prices derived from the customs service’s figures for all bone-in lamb cuts (six-digit codes, CIF value of declared imports divided by the gross volume) do not seem to have had a depressive effect on imports from third countries on the European markets. Nevertheless, there is clearly a distortion due to the undifferentiated treatment of all the lines.

The most heavily imported bone-in cuts in the EU are legs (code 02042250) and chines and best ends (code 02042230). In the case of morphological cuts, these are imported into the EU from Australia and New Zealand at prices significantly lower than those for intra-EU trade.
Impact of greater WTO liberalisation on the market

Accordingly, the price disparity (prices given are annual averages) has tended to widen over the past few years. For 2006, the last complete year for which full data are available, chines and best ends originating from New Zealand and Australia were imported at prices 13% lower than trade prices within the EU (including Bulgaria and Romania). Legs were imported 14% cheaper from Australia and New Zealand than from the various EU Member States.

Moreover, these annual averages conceal seasonal disparities that are sometimes much higher, especially in the spring, and which have grown somewhat over the past few years. Accordingly, import prices from New Zealand (main country of origin in terms of volume) had a particularly depressive effect on EU prices during the first six months of 2006 and 2007 for best ends and chines and bone-in cuts. The depressive effect on chilled legs has been known for a long time.

In the case of chilled boned cuts, unlike bone-in anatomical cuts, import prices from third countries are somewhat higher than those for intra-European trade. In addition, prices for imports destined for the United Kingdom appear to be higher. This is undoubtedly due to
differences in product quality that cannot be distinguished by tariff headings. Imports of this kind destined for France remain limited (approximately 600 t cwe in 2007), whereas those destined for the United Kingdom are rising sharply (more than 5 000 t cwe/year).

A comparison of import prices alone is not sufficient to be able to draw conclusions as to whether the reduction in customs duties negotiated at the WTO poses a threat. This is not least the case since all third country imports enter the EU within the tariff quota, that is with zero-rated customs duty.

On the other hand, a comparison of export prices from the two main exporting countries, Australia and New Zealand, to destinations other than the EU can provide additional information. Chilled bone-in lamb is most typically exported to destinations other than the EU from Australia, whereas chilled boned cuts usually originate from New Zealand. The following two graphs show the relationship between average export prices (FOB) in national currencies.
In the first case (chilled bone-in meat), Australian export prices to the United Kingdom (the largest European export destination) appear to be lower than those to the USA, and yet much higher than those to China (in all likelihood not the same pieces).

In the second case (chilled boned meat), the export prices from New Zealand to the United Kingdom appear, conversely, to be higher than those to the USA.

Assumptions can be made about the impact of customs duties.
Impact of greater WTO liberalisation on the market

Method: to simplify the presentation of the data, calculations are based on annual average prices.

The world price is the lowest, corresponding to significant trade figures in terms of volume for one of the two major exporters for the tariff line under consideration. This FOB price is converted using the annual exchange rate of the currency under consideration for the euro, and insurance and freight costs, regarded as being stable at €0.2/kg, are added. These prices are then modified by the current customs duties or the customs duties derived from the formulae proposed by the draft ‘Modalities for Agriculture’ published by Crawford Falconer on 8 February 2008 (midpoint of the current phase of negotiations).

These prices are compared with the average European price for the line under consideration: the import price to France from the EU-15.

For chilled bone-in meat, the world reference price is the export price from Australia to the People’s Republic of China. This represents significant volumes, between 1 000 and 2 000 t cwe per year (1 440 in 2007), almost as much as the amount exported to France. However, these export patterns are at a level that is approximately 10 times lower than that for exports to the USA. In this case, the lowest price was selected for export flows from Australia and New Zealand taken together. As the above graph shows, this price is approximately one third of that for exports to the United Kingdom.

This ‘lowest world’ price modified by transport costs and current customs duties is in line with the EU domestic price, considered as being the French import price for bone-in cuts of European lamb.

On the other hand, if customs duties are modified using the formula proposed by Mr Falconer’s document, French import prices are significantly lower. The difference would be less if a formula using the current calculation method of part ad valorem amount and part fixed amount were to continue to be used as opposed to tariff conversion using only the ad valorem method.

To conclude, the reduction in customs duties proposed in Mr Falconer’s draft ‘Modalities’ might cause a fall in domestic prices, mainly with regard to low-end cuts. If the same analytical simulations were carried out with other export prices, Australian or New Zealand, to other

Source: French Livestock Institute, derived from the Australian Customs Service, the ECB and Eurostat
destinations, no significant effect would be seen, with theoretical world prices remaining at a higher level than for European domestic trade prices.

**Chilled boned cuts**

*(code 0204230)*

Comparison of the various assumptions made with regard to customs duties

For chilled boned meat, the only significant flows in terms of volume are those to the EU and to the USA. The world reference price is the export price from New Zealand to the USA, slightly lower than Australian trade flows to the same destination.

The graph shows that the intra-European trade price is in line with the export price from New Zealand to the USA, even before allocation of customs duties. The reduction in customs duties will therefore have no measurable effect using this type of simulation. Just to confirm, the residual composite duty (*ad valorem* + fixed) following application of the reductions in customs duties proposed by Mr Falconer maintains a duty-inclusive price that is higher than the residual pure *ad valorem* duty.
Frozen cuts:

Trade in frozen cuts originating from third countries has declined somewhat over the past few years. This is consistent with the rise in imports of chilled meat within a tariff quota that, overall, has not changed in terms of volume.

As the following figures show, import prices to the United Kingdom for frozen bone-in cuts from Australia and New Zealand are more often than not less expensive than intra-EU trade prices. The same does not quite hold for French imports. Nevertheless, overall and despite the analysis being carried out at a six-digit-code precision level, the deflationary tendencies of frozen cuts from third countries can be seen.

**Import prices for frozen bone-in lamb**

![Graph showing import prices for frozen bone-in lamb](image-url)
The prices for frozen cuts exported from Australia or New Zealand to the EU are not the highest. Just as the following graphs relating to New Zealand show, FOB export prices tend to be higher to the USA and even to Hong Kong for frozen bone-in cuts, compared to those for meat destined for the United Kingdom. For frozen boned meat, export prices to the United Kingdom or the USA are the same, even though they do vary more to the USA. In principle, the types of cuts exported to these three destinations should be completely similar. This is undoubtedly the case with cuts destined for the People’s Republic of China, exported from New Zealand at approximately three times the price. This consists of the ‘lowest world price’ that we will use as a reference for simulation of the reduction in customs duties.
Impact of greater WTO liberalisation on the market

Export prices from New Zealand for frozen bone-in lamb

Prix à l'export de Nouvelle-Zélande de l'agneau avec os congelé

Export prices from New Zealand for frozen boned lamb

Prix à l'export de Nouvelle-Zélande de l'agneau désossé congelé

Source: French Livestock Institute, derived from the New Zealand Customs Service
These analytical simulations illustrate that current customs duties are not always to bring the lowest world prices (export price from New Zealand to the People’s Republic of China) up to the level of EU domestic trade prices. Naturally, the reduction in customs duties allocated to these lowest world prices would substantially strengthen the price differential. However, this would occur to a lesser degree if a composite duty were retained (part ad valorem + part fixed) than if it were to become a pure ad valorem duty.

These simulations can also be carried out with the highest world prices, such as the New Zealand or Australian export prices to the USA or Hong Kong. The reduction in customs duties proposed by Mr Falconer’s document would not make the prices for these frozen lamb cuts, originating from third countries and liable for payment of full duties in order to enter the EU, more competitive than EU domestic trade prices.
4.4 Conclusion: priorities for the sheep and goat sector in the international trade negotiations

At the level of the WTO negotiations, it is as a matter of priority to:

- reject the excessive simplification of customs duties, i.e. maintain a maximum number of duties in their current form, either fixed or composite with a fixed element, even after the reduction which is still being negotiated. The idea is to adopt a form of duty that is even more transparent than the *ad valorem* form for exporters, one that provides greater protection in the event of currency devaluation in the exporting country (the Special Safeguard Clause which partly served this purpose is about to be abolished for developed countries). At all events, priority must be given to the tariff lines for sheep’s cheese and sheep in particular in order to maintain these fixed duties in the EU’s lists of detailed arrangements;

- move forward on the issue of recognition of designations of origin and other geographical indications by EU partners, other than for products listed on the register for wines and spirits, for all types of cheese and meat.

There remains a great deal of uncertainty surrounding the long-term effects of the reduction in MFN customs duties proposed by Mr Falconer’s draft ‘Modalities’. The result could be the introduction of price reductions into the EU, particularly for specific cuts such as those currently exported by Australia and New Zealand to the People’s Republic of China.

Nevertheless, if it were necessary to classify tariff headings as sensitive products subject to lower reductions in customs duties, this would apply only to chilled or frozen lamb cuts, and not to whole carcasses or meat preparations. This would involve the application of additional tariff quotas in the order of 3 to 4% of EU-27 consumption on imports of such products (if, for example, the reduction in duties amounted to half of the normal rate). As the situation stands, the rules for calculating additional quotas have not yet been clearly laid down: there are no statistics on the level of consumption for each individual tariff heading. One method would be to take the share of EU domestic trade for each tariff heading over a given period. Given that the large majority of trade is in carcasses (see detailed table), protection of the tariff lines for meat cuts alone would not ‘cost’ too much in terms of new quotas to be opened.

There is ultimately a choice between two risks:

- either a level of customs protection is applied that might prove to be inadequate for the less expensive lamb cuts, the international trade flows for which are currently very limited;

- or a higher level of customs protection is maintained, but with the option of opening a zero-rated additional quota that will most certainly be filled by cuts with high added value. Such cuts will be sure to lead to an increase in supply which would encourage EU consumption, albeit at the expense of the increasing domination of Australia and New Zealand and greater competition with European production.
Impact of greater WTO liberalisation on the market
5. Proposals: a future for the sheep and goat sector in the EU

The following proposals are the result of consultation with national experts. A consensus was reached among the stakeholders consulted on the majority of these proposals. They consist of a number of possible options for the development of public policies in the light of the main issues highlighted in this report. Some of the proposals are already in line with the current Regulation, while others will require some amendments, or, at least, a review of the main issues.

However, our study shows that the sheep and goat sector is currently at a critical stage in its development, and it is of utmost urgency to halt its decline, even if this means that some forms of support have to be re-evaluated. If no action is taken, the future of this sector is certain to be marked by a more severe decline. A drop in meat production of between –8 and –10% may be expected by 2015, reducing the EU self-sufficiency rate to almost 76% and further marginalising the sheep and goat sector in the European agri-food economy. With a view to the imminent ‘health check’ of the CAP, it is an appropriate time to raise the issues highlighted by the many discussions that we have held on the subject.

It is worth remembering that the sheep and goat sector consumes only a ‘small’ proportion of the Community agricultural budget if we compare it to the major crops or beef and veal sectors.

5.1 Better support for production with a view to greater technical, economic and environmental efficiency in farms

5.1.1 Issues identified: a need both for support and improvements in farms

European livestock farming is currently in a state of crisis, with incomes on the decrease compared with other sectors, especially crops, and ever-increasing costs. Sheep and goat farming is currently seen as being particularly challenged from an economic point of view. Despite national or European aid, small ruminant farmers generally have the lowest income in the agricultural industry. The successive CAP reforms have widened the gap between the small ruminant sector and the other agricultural sectors in terms of support. This has worsened the economic difficulties that this sector is currently facing. The most recent reform which introduced decoupling has led to the accelerated decline of livestock numbers in Europe.

At all levels of the industry there is a general consensus on the need to send a strong signal to farmers to encourage them not to quit the business. The question that now needs to be asked is not ‘How can we support the sector?’ but ‘How can we halt the accelerated decline?’ It is essential that public authorities recognise the need to restore the balance of incomes between the various sectors of the European agricultural industry. In France, for example, an analysis of the agricultural accounts has shown that the income for cereal growers has doubled between 2006 and 2007, whilst that for sheep and goat farmers has fallen by 28%.

At the same time, our study highlights the need to encourage producers to undertake to make improvements and increase their economic, technical and environmental efficiency. The level of cost reduction, which varies greatly from one holding to another, is all the more challenging in the present economic situation for raw materials and energy. Moreover, in the majority of EU Member States, there is significant room for improvement in the technical performance of holdings, particularly in terms of lambing rates, farming practices and the quality of the
carcasses: a large number of carcasses produced still do not meet the requirements imposed by producers and distributors. Sheep farming, often an extensive system of farming that is generally low in energy consumption and implemented in areas where other agricultural activities are less viable, has a genuine role in the conservation of the rural heritage and in environmental protection. It is important that we support and encourage these practices.

Such improvements are absolutely vital if there is to be a long-term reduction in the amount of European aid provided to the agricultural industry. In the current state of affairs, with no tangible improvement in the sheep and goat sector, the only possible scenario is an even greater decline year on year. The sector needs support in seeking improved technical and economic efficiency with a view to acquiring greater independence from public support.

5.1.2 Proposed solution: an improvement plan

- **Instrument and justification**

  A ewe premium, granted partly subject to commitments made by farmers to measures aimed at increased efficiency, would make it possible to restore the balance of incomes vis-à-vis other sectors and support the efforts made to introduce improvements. The proposed areas for improvement are as follows (non-exhaustive list):

  - commitment to training, peer group review and monitoring of technical and economic performance on farms;
  - better use of genetic resources (artificial insemination or use of rams registered as improvers, participation in performance-recording and audit systems);
  - improvement of flock health management (use of genotypes resistant to scrapie, animal health prevention plans, specific training, etc.);
  - voluntary implementation of individual electronic tagging (before 2010);
  - participation in the collective organisation of supplies (producer group, etc.).

  The aid would provide for a fixed portion of compensation for the increase in production costs per ewe lambing during the year and would allocate an additional portion per type of commitment, so that those farmers who are the most strongly committed to moving forward would be better supported. The commitment would take the form of a contract over a period of five years starting from 2009 and continuing until 2013. The level of support may possibly depend on a distinction being made between milking and non-milking ewes (or she-goats), in the same way as the previous compensatory premium for sheep scheme.

  It is noteworthy that the group of experts were all strongly in favour of the allocation of aid per ewe, on the grounds that aid per hectare would provide no guarantees in terms of ewe maintenance and increased productivity. Moreover, in some of the new Member States, such as in Hungary or Bulgaria, for instance, a large amount of the SPE per hectare is paid to the landowners and not the farmers, which would therefore also be the case for a ewe premium allocated per hectare.

  The aid could provide for an additional amount to be allocated to young farmers in order to encourage them to set up in the sector, but also to holdings in less-favoured areas, where sheep are often the last bulwark against desertification and where traditional farming practices suited to these difficult environments are gradually disappearing along with the farmers. In pastoral
Proposals: a future for the sheep and goat sector in the EU

areas, specific additional support should be made available to encourage shepherding and pastureland management, particularly where the reintroduction of large predators poses an increased risk.

In connection with training, peer group review and monitoring of technical and economic performance, greater support should be given to the provision of farm-relief services during the absence of the farmer. Moreover, in the new Member States, technical services provided by producer organisations or private consultancies are fairly new and could benefit from additional support.

It is particularly important that additional time be allowed for the implementation of electronic identification in those Member States, especially the new ones, which are still a long way from achieving the designated objectives. This additional time would allow cost and feasibility studies to be carried out in order to assess properly the advantages of such a measure.

Established regulatory framework and implementing conditions

This improvement plan must fall within the scope of the first pillar. Its purpose is to acknowledge the increase in production costs and the significant difference in income vis-à-vis all other agricultural sectors. This therefore calls for the reallocation of the budget for the first pillar. Moreover, all the experts consulted in the various Member States were opposed to the extremely harmful effect of the reduction in public support in this sector.

It is interesting to observe that several Member States have considered Article 69 to be a promising way forward. However, as it now stands, Article 69 is not a solution to the problem that we are raising in this report. All that it does is allow for the establishment of a levy at intra-sector level within a given Member State. Furthermore, the maximum levy rate is 10%. Were there to be a redistribution of support in favour of small ruminants alone, this rate would be adequate (approximately €3 billion levied on direct aid). However, if the intention is to include other sectors, assuming, for instance, that grassland support is introduced (see below), it is essential to raise the rate to at least 15 or 20%. The report on the CAP health check adopted by the European Parliament’s Agriculture Committee on 26 February 2008, which proposes, in particular, a revision of Article 69, is a step in this direction: extend to all sectors and levy up to a limit of 15%.

It would be interesting to highlight the numerous environmental advantages of small ruminant farming, particularly in terms of the upkeep of the countryside and rural landscapes. A revision of Article 69 would provide for the redistribution of levied amounts to those farming systems that ensure the maintenance of the countryside.

A major stumbling block with Article 69 as it stands is that its implementation is agreed upon at Member State level, in accordance with the principle of subsidiarity. Given the balance of power between the agricultural lobbyists in the various sectors, a balance of power that never works to the advantage of the small ruminant sector, it is highly unlikely that the national governments will succeed in enforcing it. We believe that it is essential for support to be the result of a Community decision. A revised Article 69, which would allow a levy of 15 or 20% on a base extended to all sectors and whose implementation would be, if not compulsory, at least a powerful European incentive, seems to us to be an interesting prospect. All that remains is to give particular consideration to the criteria governing the allocation of such support (currently, these are quality, environment and marketing).
Financial estimate
According to studies carried out in various countries, the increase in costs, including those for animal feed and energy, and the price erosion have together resulted in a decrease of 15 to 25% in the gross margin over the past four to five years. We feel that a minimum support of €20 per ewe is needed both to cover this decrease and to encourage farmers to commit to performance-improving measures. The following table shows the financial estimate\(^\text{12}\) for this improvement plan according to different assumptions: a minimum threshold of 10 or 20 ewes in order to be eligible for participation in the programme, a commitment rate of 50% or 75% (i.e. 75% of ewes are allocated €20 and 25% are allocated only €10) and a payment of 80% for dairy sheep and goats, as was the case with the EGP.

<table>
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<th>threshold 10 ewes</th>
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<tbody>
<tr>
<td>75% commitment</td>
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</tr>
<tr>
<td>50% commitment</td>
<td>0.93</td>
<td>0.84</td>
</tr>
</tbody>
</table>

\(^{12}\) Estimate based on the December 2006 census: approximately 60 million sheep for the EU-27.

5.1.3 Expected effects, associated risks
As we have already emphasised, there are two expected effects of this improvement plan. The first is to stop the rot that is currently eating away at the sector by encouraging farmers to stay in the business. The second is to support farmers in seeking improved technical and economic efficiency. At the end of the five-year plan, the objective would be to have stabilised livestock numbers in Europe, with restructured holdings showing sustainable performance and less dependence on Community aid.

The main risk associated with this plan appears to be its complexity from an administrative point of view. Any commitment must be monitored. It is therefore advisable to ensure that forms of monitoring are sought that are simple to implement, such as provision of supporting documents (for training, health management, genetics, etc.).

5.1.4 A further possibility, but not one specific to small ruminants: grassland support
Like cattle, small ruminants help maintain grasslands that have recognised environmental value. Grassland is an asset in terms of water quality conservation, protection against erosion, floods, fire or avalanches, carbon storage, maintenance of biodiversity and the quality of landscapes and products, not to mention the well-being of animals at pasture.

In some areas, mowing and grazing makes it possible to increase the value of land where no other agricultural activity is possible and which would otherwise be abandoned. In these areas, land abandonment and farmland turning to fallow lead to increased risks of forest fire, landscapes becoming closed off and consequently a reduction in the value of the area in terms of the natural heritage and tourism, and the loss of biodiversity owing to the natural forestation that subsequently occurs being less rich in plant and animal species than the grasslands that were there before.

The issue of forest fires, in particular, has become an increasing concern. In France, according to the Ministry of the Interior, the budget earmarked to combat forest fires has increased from...
€123 million in 2005 to €190 million in 2007. The French Government’s Strategic Analysis Centre (Centre d’analyse stratégique) has estimated that the cost of the measures implemented amounted to €450/ha, a figure that could be invested in public support for the upkeep of the land through farming. In other regions, given the current market in cereals and the development of biofuels, grassland is being turned over to single-crop agriculture, the income differential per hectare working against their maintenance as grassland areas.

These grassland areas must be maintained in their present form and associated agricultural practices encouraged. Accordingly, they do not fall within the scope of the second pillar which seeks to compensate for loss of income associated with changes in farming practices. Grassland areas should therefore be supported under the first pillar, since it is clearly a problem that requires agricultural guidance to regulate the establishment of crop production and ruminant farming systems.

Although we cannot expect the same rate to be paid for extensive farming systems which have available large areas of grassland, it is appropriate to include those grassland areas where no alternative to ruminant farming exists and which consequently depend directly on such agricultural activity. Conversely, temporary grassland must also not be overlooked, for it often has to compete with cereal crops. The base of this support would therefore be all types of grassland, both permanent and temporary, with an amount paid per hectare at several levels in order not to overrate extensive systems.

The implementation of this support may fall within the scope of a revised Article 69, as explained above. However, the levy rate would need to be increased to at least 15% in order to cover all grassland surfaces to be preserved.

As there appears to be a genuine need for such action, several Member States have already implemented a system of premiums aimed at promoting grassland, indirectly helping to support farming, in the form of agri-environmental measures. Such measures require national contributions, which are not always possible for the state to provide.

The establishment of a premium at Community level would make it possible to standardise schemes in place in the various Member States and improve the integration of all the EU countries. However, it will be necessary to ensure that this new premium is consistent with existing arrangements, notably to avoid the duplication of payments. The table below provides examples of schemes likely to interact with the establishment of a ‘grassland premium’.
Proposals: a future for the sheep and goat sector in the EU

<table>
<thead>
<tr>
<th>Country</th>
<th>Existing scheme</th>
<th>Amount</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>France</td>
<td>PHAE: <em>prime herbagère agro-environnementale</em> (agri-environmental grassland premium)</td>
<td>€76/ha, from national budget</td>
<td>The farmer undertakes, for a period of five years, to keep his land under grass; the loading rate must be between 0.35 and 1.4 LU/ha</td>
</tr>
<tr>
<td>Ireland</td>
<td><em>Mixed grazing</em> (under the Rural Environmental Protection Scheme — REPS)</td>
<td>€50/ha in cofinancing</td>
<td>The farmer undertakes to keep at least 3 cows for every 70 sheep (for a 20-ha holding) on his holding.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Ecological farm maintenance measures</td>
<td>€18.82/head under the NRDP</td>
<td>Programme has not yet begun.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Grassland economy development programme</td>
<td>N/A</td>
<td>No conditions governing loading rates. This programme promotes the development and renewal of grassland.</td>
</tr>
<tr>
<td>Greece</td>
<td>Extensification initiative</td>
<td>Between €30.5 and €66.5/head (NRDP)</td>
<td>The farmer undertakes to reduce the loading rate on his farm.</td>
</tr>
</tbody>
</table>

The French example of the agri-environmental grassland premium (approximately €75/ha, from the national budget only) has shown that the amount of payment is inadequate to encourage farmers to participate in the five-year contract-based plan. The European grassland support will have to be higher, paid annually and without any further commitment.

### 5.2 Support for product promotion and the marketing of European lamb

#### 5.2.1 Meat labelling

At present, in the absence of any EU legislation on origin marking, the labelling of sheep and goat differs widely depending on the country and the geographical distribution. The general feeling, drawn particularly from the experience of beef and veal, is that any information on the origin is welcomed by the European consumer. Moreover, it seems absurd that, at a time when the European Commission is seeking to clarify and harmonise the labelling of foodstuffs, sheep and goat continue to be sold mainly as standard products with no information concerning the origin. It is true that a substantial amount is sold bearing an official quality mark (national label, TSG, PGI or PDO), but this still represents a very minor share of the supply (e.g. 15% in France). For the remainder, indication of the meat’s origin is optional.

European sheep and/or goat does, however, have a very strong identity in a number of respects: efficient production systems that comply with health requirements and are environmentally friendly, a factor for biodiversity (many different breeds and exploitation of natural grassland), a vital part of the rural fabric in geographically challenged areas, and so on. This traditional image of farming systems still has great resonance for consumers who are no strangers to agricultural areas, be it in northern or southern Europe. European lamb might also gain by its closeness to the consumer against the background of increasingly greater emphasis being placed on the distance foodstuffs have to travel and the resulting greenhouse gas emissions.

This is why, in addition to the efforts needed towards product innovation in terms of market supply (see below), better segmentation of the market in sheep and goat in the EU according to origin would be required.
• We therefore propose the introduction of **mandatory labelling in all the various distribution channels displaying the origin of sheep and goat** which would draw a distinction between:
  — sheep or goat from animals born and reared in the EU with a possible indication of the country of origin (in addition to or instead of the EU indication, but this would not be compulsory);
  — sheep or goat from third countries.

For dairy products, the situation seems to be more standardised: the mandatory labelling of the processing establishment (oval health stamp) also bears, in the large majority of cases, an indication of the country and the region of origin in clear. This is because the majority of these cheeses are regional specialities and so are much more frequently sold bearing the official quality mark. Moreover, imports of sheep’s cheese and/or goat’s cheese from third countries are extremely insignificant since the enlargement of the EU.

5.2.2 **Promotion of products from the sheep and goat sector in the EU**

The development of European industries is a corollary of product innovation and marketing strategies. Marketing measures must mainly target EU markets but also the markets of third countries in the case of cheese.

The support of the public authorities is crucial in these sectors, which are characterised by small and medium-sized processing enterprises for both meat and cheese.

At present, there are a number of European promotion programmes managed in accordance with various regulations (No 1257/1999 for superior quality products labelled at national level; No 1171/2005 for all products bearing the European official quality mark; No 1346/2005 for the promotion of products originating from third countries).

  — **Sheep sector**

It turns out that very little use is currently made of the first two options opened up by Regulations 1257/99 and 1171/05 for sheep and goat, other than a campaign to promote beef and veal and sheep bearing Spain’s PGI (‘Carnes únicas de tierras únicas’). Appropriations do actually exist that are currently underused, and priority would be given to projects that involve several countries.

• We therefore recommend that the sectors concerned combine forces in order to organise promotional campaigns for various PGI/PDO sheep products in the main EU consumer countries. Nevertheless, the difficulty lies in designating a representative interbranch organisation from among those that manage the various PGI/PDO. It would undoubtedly be necessary to set up an ad hoc organisation to oversee the promotion project.

However, such a campaign, targeting a number of PGIs/PDOs representing several associated characteristic regions and products, will not be enough to improve the image of all sheep and goat produced in the EU, nor to enhance perceptions of the ‘sheep or goat’ product in those countries where its consumption is currently very low. In addition, meat bearing PGIs/PDOs are often sold at price levels that are among the highest in the meat industry, limiting the target customer base.
We believe that it is necessary to implement, by way of derogation from the regulations in force, a multiannual generic advertising campaign for sheep and goat produced in the EU, emphasising both its production standards — the highest in the world — and the intrinsic qualities of this meat and its production systems in the EU.

A generic campaign to promote lamb was launched in France in 2008, financed by French, Irish and British interbranch organisations. It was based on a new perception of lamb, supported by a more varied supply and a greater number of finished products. The total budget amounted to €4 million over three years. This group initiative demonstrates well a desire to go beyond the historical conflicts between the industrial sectors in order to seek a solution to a common problem: consumption. The public authorities would seriously need to consider the possibility of supporting such measures.

Sector for cheese made from sheep’s milk and goat’s milk
The image of sheep’s cheese and goat’s cheese among European consumers seems to be less elitist than that for meat. The market is growing year by year as a result of strong innovative efforts and a large number of regional specialities that have found their place on cheeseboards and/or in the food service sector. Moreover, the nutritional qualities of sheep’s milk and goat’s milk are widely recognised, and they are often offered as an alternative to cow’s milk, which is less easily digestible and more likely to cause allergic reactions. The issues involved are therefore entirely different than those for meat. We feel that priority should be given:

- on the one hand, to the **local promotion of farm products**, which provide an extremely interesting showcase for the whole cheese sector. These promotional activities could be introduced to tourist areas or attractions (farm visits, seasonal farm markets, etc.), but they could also help establish specific points of sale (shops selling only locally made farm products can be found, for example, in the Rhône-Alpes region of France). This will, of course, involve local initiatives, whose budgets may be cofinanced by rural development funds under axes 1 and 3, or even Leader. However, we propose that a **European Resource Centre** be set up and specifically devoted to support for local projects and to promoting exchanges of experience between producers;

- on the other, to the **international promotion of goat’s cheese and sheep’s cheese**. The co-branding project for *Roquefort*, *Comté* and *Parmigiano Reggiano* cheeses that is currently being organised for Japan is an extremely interesting example of such an initiative. We therefore recommend **increasing the budget available for the promotion of sheep’s cheese and goat’s cheese intended for export to third countries** (all the more so since some cheeses are currently being affected by excessive taxation in the USA following the WTO panel ruling on the Beef Hormone Dispute). Also in this instance, a **European project support service** would not be without its advantages, particularly with a view to promoting joint ventures between the official quality marks of the various countries and allowing the participation of SMEs.
5.3 Helping innovation

5.3.1 Identified issues: a need for innovation in downstream enterprises and in farming

Lamb consumption in Europe is currently in decline, as we have already shown in this report. One of the current challenges associated with consumption that the sector must overcome is the need to improve and expand the range of products on offer. Studies have revealed that the consumer of lamb is generally older and that young consumers are turning their backs on the meat. Current presentations of sheep do, indeed, seem to offer large family-sized portions, such as leg of lamb or rack, or cuts that are perceived as being difficult to prepare, such as stewing lamb. It has therefore become a major challenge to develop new presentations for sheep that highlight criteria relating to ease of use (individual portions, easy preparation), nutritional value, modern lifestyle, and so on. In some Member States, such developments have already emerged, for instance, with the introduction of émincé of lamb for stir frying in Ireland, or minced lamb in England. The national experts concluded that these innovative measures help maintain the level of national consumption.

Innovation in the processing of sheep’s milk and goat’s milk (cheese, ultra-fresh products, etc.) is also an absolute necessity in the face of the rapid development of competing products at the dairy counter (cow’s milk, similar non-dairy protein-based products, etc.).

Furthermore, sheep and goat holdings have tremendous potential for technical improvements. This type of farming is extremely labour-intensive. The development of specific techniques or technologies could help lessen the load (e.g. powerful mowers, management of buildings or pastureland, milking robots, etc.). Furthermore, in seeking improved work productivity, the industry is turning to the use of genetics and the development of available genetic resources.

The markets in wool and pelts are international in character and fluctuate enormously. At present, the amount of return on this fifth quarter is almost negligible. By seeking and developing new uses (e.g. as highly efficient and ecological thermal insulating material), its value could be increased. Industrial sectors of this type already exist, such as Natur’Laine, marketed by France Laine, resulting in the farmer getting paid up to twice as much for his wool. These sectors need support for research and development. In the same way, more diverse uses for pelts could also be found.

5.3.2 Proposed solution: increased cofinancing of research & development projects

In several EU Member States, support for research projects has already been implemented in the form of contributions at regional level (through the EAFRD, axes 1 and 2). Undertakings in these countries may apply for funding in connection with individual or collective research and development projects. Experience has found such financing operations to be extremely useful and highly motivating in the field of research and development. The amount of funding should therefore be increased and made available in all regions. This is a simple and cost-effective way of helping resolve problems relating to consumption.

A European Agency for Innovation in the small ruminant industry could be established with a staff and a centre for documentation and the exchange of experience. This Agency could
work together with the Resource Centre proposed to promote farm products, even if the scope of activities is not quite the same.

The issue of genetics is particularly important for holdings. In France, for example, regional appropriations in support of genetics and participation in a scheme for monitoring performance levels diminished substantially in 2006. The repercussions in terms of a slowdown in the rate of technical progress could be extremely negative.

5.4 Improving information about jobs in the industry

5.4.1 Identified issues

Sheep farming provides rather a mixed picture for young people likely to set up in the industry. Positive aspects, especially in terms of flexible working arrangements and possibilities for development or diversification, tend to be overshadowed by harsh working conditions and a low level of income. Sheep and goat farming is not an attractive prospect for young people, and so the average age of farmers is high. In this sector, the change in generations poses a greater problem than elsewhere. There is a genuine need to provide information about working as a sheep or goat farmer.

The downstream sectors are also struggling to find skilled workers. Both in the abattoirs and at distribution level, butchers are becoming few and far between. Once more, harsh working conditions are putting off potential candidates, who are, to a certain extent, unaware of the high level of pay in this sector and the promotion prospects, especially in supermarkets and hypermarkets.

5.4.2 Proposed solutions

Training courses do exist, especially in the countries of northern Europe. However, it is vital to provide information on jobs in the industry in order to attract young people. Firstly, sheep and goat farming must be better promoted in agricultural training: the wide disparities in income between the various types of farming need to be explained and emphasis must be placed on the most efficient farming systems. Training must focus, in particular, on the development of technical and economic performance so that new farmers entering the business do so with a view to improving efficiency and their ability to reduce costs.

Training courses for butchers likewise exist, but fewer and fewer students are signing up, owing to a lack of information being provided to young people. The presence of industry professionals at student fairs and in careers advice centres must be increased. Open days could be held in both the distribution and processing sectors. For instance, the French initiative ‘A day at my local butcher’s’ could be extended to the supermarkets and hypermarkets. Also in France, a portion of the taxe d’apprentissage (apprenticeship tax) paid by all French companies could be allocated to these information campaigns on jobs in the meat sectors. However, specific budgets in support of such initiatives will also be necessary.
5.5 Support for organisation of the industry and rationalisation of its processes

5.5.1 Identified issues

The proportion of organised sheep production varies from one country to the next. In France or in Spain, for example, where the organisation of the sector is more advanced than elsewhere, it accounts for around 50% and 60% respectively.

However, it is a fact that, while some abattoirs are occasionally underused and are responsible for burdening the sectors with excessive structural costs, in other regions, lambs are transported over great distances (sometimes 200 km) to be slaughtered. There is a very great need, on both economic and ecological grounds, to rationalise this essential link in the sector. Moreover, combining supply and collective analysis would enable often isolated trade structures to have greater influence in negotiations with distributors.

In the dairy sector, notably in Greece and Italy, it would appear that farmers’ incomes could be increased on a long-term basis through improved organisation among the stakeholders of the industry, especially regarding specific types of contract-based agreements on criteria relating to quality, price and promotion.

5.5.2 Proposed solutions

The rationalisation of the supply in lamb must be tackled differently depending on the region under consideration, but it is always going to lead to reduced costs for the industry. In some areas, support should be given to the merging of existing commercial structures so that the use of common tools, for example, will allow them to make economies of scale. In this instance, projects would need support in terms of leadership and legal advice.

In other regions, existing organisations would need encouragement for the creation of lamb-fattening centres in areas where fattening costs are highest in order to reduce overall costs in the sector and improve the quality of the lambs originating from these areas. In this instance, the public authorities could support these projects by providing them with start-up aid for such activities over a period of five years.

In the dairy sectors of southern Europe, the establishment of agreements or contract-based plans should be encouraged between producers, processors and distributors based on criteria relating to the quality and price of milk in order to secure contributions and the incomes for farmers.

5.6 Greater efficiency in the management of health risks

5.6.1 Identified issues

Sheep and goat populations are certainly among the most exposed to health risks, as experts at the Animal Health Unit of the DG SANCO confirm. Accordingly, bluetongue disease (BTV or bluetongue virus, also called catarrhal fever, serotypes 1, 2, 4, 8, 9 and 16) has major health and economic repercussions, most especially for the sheep and goat sector. Small ruminants are also susceptible to much older and recognised diseases such as foot-and-mouth, the most recent outbreaks of which occurred in 2001 and again in 2007.
Substantial Community budgets are currently being deployed on two main fronts:

- **transmissible subacute spongiform encephalopathies (TSSE)**, of which scrapie is the most well-known form and is widespread in practically all Member States. Legislation has recently been introduced eliminating the need for total slaughter and allowing infected animals to be kept for several years subject to movement restrictions;

- **brucellosis**, still endemic in some areas of southern Europe.

**Bluetongue** is in the process of being added to the list of priority operations to combat these diseases with the financing of widespread vaccination programmes scheduled for spring 2008.

Health risks seem to be ever greater and, on the whole, increasingly difficult to predict. Other bluetongue serotypes are rife in the South Mediterranean countries and are threatening eastern Europe. Similarly, the *peste des petits ruminants* virus (PPRV, also known as pseudorinderpest of small ruminants), foot-and-mouth disease (FMD) and the Rift Valley fever virus (RVFV) are, among others, endemic in countries bordering the EU. Only the EU as a whole, with the help of international organisations such as the World Organisation for Animal Health (OIE), the Food and Agriculture Organisation (FAO) or the World Bank, can carry out cooperation operations with affected countries to tackle the problem at the root.

Moreover, very little consideration is currently given to a number of animal diseases endemic in the EU that affect the productivity of small ruminants, such as mycoplasmoses (M. agalactiae, M. capricolum, M. mycoides subsp. mycoides, etc.), CAEV (Caprine Arthritis Encephalitis Virus), paratuberculosis (no more vaccine available in France) or Q fever.

Some markets, such as China, are currently closed to export from the EU on health grounds, although they represent potential customers, particularly for cuts that have very little value in Western markets, such as some types of white offal. Some restrictions are no longer justifiable in the light of the current health situation.

### 5.6.2 Proposed solutions

- Accordingly, both for the rapid detection of possible outbreaks of major epizootics (early-warning systems) and to combat diseases affecting productivity (studies to prioritise health risks), **support is needed to establish, at European level, a network of regional peer observatories for small ruminants’ diseases.** This is entirely in line with the ‘new Animal Health Strategy for the European Union (2007–2013)’ where ‘Prevention is better than cure’. These observatories must be linked to local, national and European veterinary authorities, public laboratory networks, veterinary practitioners and breeders’ associations alike.

- Sheep and goat farmers should be **encouraged to establish health-defence associations at local and national level.** Similar to those which already exist in France, Belgium, Germany, the Netherlands, Luxembourg and Italy, these would be ad hoc or more general associations whose activity would be purely linked to health issues and which would be established at European level under the aegis of the FESASS (European Federation for Animal Health and Sanitary Security). These associations would be the ideal place for implementing preventive actions and training farmers. The Member States and the regions should be encouraged to introduce training and preventive measures through the EAFRD (axis 1: human resources and quality of agricultural products), where necessary making
available a specific incentive budget. This training should primarily focus on the detection of diseases and common treatments, on the training methods carried out in France by the GTV\textsuperscript{13} and GDS\textsuperscript{14}, ‘the farmer, as nurse to his livestock’, and on good hygiene practices, particularly for dairy and farmhouse production.

- Small ruminants are increasingly lacking in veterinary medicines specifically intended for their use, especially for dairy sheep and goats. EU marketing authorisation (MA) measures often seem to be too stringent for the veterinary industry, confronted by the narrowness of the market. The French system of temporary authorisation (\textit{autorisations temporaires d’utilisation ou d’importation}) can do little to fill this gap alone. Accordingly, veterinary practitioners often have to resort to using off-label medicines (prescribing ‘cascade’) from a range of veterinary medicinal products designed primarily for use in other species (mainly cattle) or for other disease symptoms, without their effects having been researched and with all of the responsibility being placed on the veterinary surgeon as regards insurance. With ‘cascade’ prescribing, waiting times which cannot be reduced are longer and put the production of small ruminants at a disadvantage (minimum of 8 days for milk and 28 days for meat), whereas they can sometimes be shorter for medicines with an MA (especially treatments for parasites in the case of goats). Accordingly, a working party should be set up, including the national veterinary authorities, the veterinary industry (IFAH), European experts in the sector, veterinary organisations and breeders’ associations, in order rapidly to determine the procedures which would allow for simplified marketing authorisations at European level in respect of medicinal products for small ruminants, whilst naturally maintaining a high level of animal and consumer health protection. This working party could draw on work already done in the area, such as the ‘Report on the availability of veterinary medicinal products in France’ published by the French Food Safety Agency (AFSSA) in January 2004.

- Especially in the dairy sectors, research and development funds should be mobilised via the European Technology Platform for Global Animal Health (ETPGAH) for the design and supply of kits for the rapid detection of pathogens in raw milk, thereby reducing health risks and the cost of milk rejected as not conforming to the legislation in force. Many types of quality cheese with a PGI or PDO are made from raw milk in the sheep and goat sector using technology that must be supported, even though it involves additional costs compared with pasteurisation.

- The competent services of the European Commission must make efforts to secure the reopening of a number of export markets that represent significant outlets for European products originating from the sheep and goat sector (with particular regard to white offal) and that, in some cases, have been unfairly closed on health grounds.

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\textsuperscript{13} Groupements Techniques Vétérinaires, technical organisation of veterinary practitioners established at the level of the \textit{départements}, regions and nationally.

\textsuperscript{14} Groupements de Défense Sanitaire (Health Protection Groups), federated departmental organisations established in France at the level of the \textit{départements}, regions and nationally, founded in the 1950s to combat major contagious diseases and now responsible for the official management of specific plans to combat and reduce health risks, especially with regard to zoonoses.