PRICE – STRATEGIC INSTRUMENT OF EU MARKET INTERVENTION. CASE STUDY SEUROP SYSTEM

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Abstract: In 29 October 1975 Council Regulation of European Economic Community (EEC) provided the common organization of the pig meat market. In 1984, EEC considered it necessary to lay down general rules ensuring uniform grading of pig carcasses. The main objective of this paper is to describe how pig carcass classification implemented by EU legislation has become a core strategic competition between manufacturers. In the European Commission the carcass classification system is assimilated as an instrument of intervention. This guarantees the agricultural community a decent life. The classification and payment system promoted by EU producers ensure greater transparency of the market, providing to the economic agents involved in the sector quick access to information on evolution of prices in different markets.

Keywords: EU intervention mechanism, prices, grading, SEUROP, pig carcass classification.

INTRODUCTION

The concept of quality of a commercial pig has different shades of meaning depending on the operator of the meat chain to which we refer. Thus, the manufacturer often means by "quality" a correlation between weight and the lean meat content of the carcass, while for the slaughterer, "quality" is reflected in the degree of recovery of the carcass. The manufacturer takes into account both the content of the muscle tissue and technological characteristics and the organoleptic characteristics of meat, while the

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consumer is interested strictly in these latter characteristics (Rotaru, Savescu, 2014). To meet the growing requirements of consumers, processors and systems manufacturers for pig carcasses with high meat quality, the European Union (EU) institutions required the creation of economic stimulus and measures. Those concerns led to the development of the classification system so that producers have to address these requirements. To facilitate the adjustment of supply to market requirements, the European Economic Community (EEC) decided to create intervention measures. In 29 October 1975, a Council Regulation provided the common organization of the pig meat market. The lack of clarity, the great number of basic provisions and their dispersal among various Official Journals led to the adoption of Council Regulation 2759/1975 concerning the organization of the pig meat market and ensuring uniform grading of pig carcasses. The main objective was to guarantee producers fair payment based on the weight and composition of the pigs they had delivered to slaughterhouses and to implement a grading system to make the market more transparent as regards trade in pig carcasses. Grading instrument is an instrument that has been evolving for over 40 years and started in 1974 when the Danish pork industry introduced automated backfat and loin thickness measurement (Sorenson, 1989).

In accordance with Council Regulation (EC) 3220/1984, as of January 1, 1985, EUROP pig carcass classification system became mandatory in all European Union (EU) member states. All slaughterhouses in EU countries were required to weigh the pigs and to divide the carcasses into quality classes according to their estimated lean-meat content. From its implementation in 1985, until today, the classification system passed through a process of transformation and adaptation to the market conditions. The system encouraged more and more producers to breed animals according to the needs of the industrial and consumers market (Savescu, 2014). At present, all slaughterhouses in EU countries apply the following Community scale summarised in Table 1.

Grading and classification are terms that are used interchangeably in discussing carcass appearance, cuts, estimated yield and consumer eating quality. AHDB Industry Consulting proposed in 2008 definitions that are presented by Polkinghorne & Thompson (2010) in their paper relating to meat standards and grading that are applied globally. "*Classification* is a set of descriptive terms describing features of the carcass that are useful to those involved in the trading of carcasses." Thus, by "classification system" they understand the identification of the animal as weigh, the dressing specification, the SEUROP assessment of lean meat as percentage of carcass weight, the price reported for quotation centers (ADHB, 2008).

Table 1. European Union scale for pig carcass classification system (EU Regulation No. 1308/2013)

Class	S	E	U	R	O	P
Lean meat as percentage of carcass weight (%)	60 or more	55 or more but less than 60	50 or more but less than 55	45 or more but less than 50	40 or more but less than 45	less than 40

 "*Grading* is the placing of different values on carcasses for pricing purposes, depending on the market and requirements of traders."
While classification defines all breads of carcasses traded across the EU a grading system implies the concept of "better" and "worse" related to different carcass prices according to the buyers' and customers' needs.
"*Consumer grading* is a grading systems that seeks to define or predict consumer satisfaction with a cooked meal."
The bonuses and penalties practice by the EU grading (S)EUROP system stimulate producers to modify their production to match the market demand of lean pig meat. Many studies confirm that consumers assessed palatability and assign different values to alternate levels. The consumers' lack of knowledge to produce a desired cooked result led to the idea that classification and grading system cannot deliver consumers value or increase return (Cross and Savel, 1992), (Watson, et. al., 2008), (Farmer, et. al., 2009). The scope of this paper is to describe the EU intervention mechanisms on the pig meat market.

MATERIALS AND METHODS

The research methodology applied in this study consisted in: 1/ reviewing the normative acts regulating the pig carcass classification activity in EU and the rules for applying the pig carcass grading scheme and 2/ investigating secondary data available in different scientific studies or reports issued by professional organizations.

RESULTS AND DISCUSSIONS

Classification practices on the EU market
On 1st November 1975, the Council of the European Communities implemented the Regulation (EEC) No 2759/75 on the common organization of the pig meat market which comprised a price and a trading system.

This regulation established some measures taken to encourage action trade and joint trade organization measures to promote better organization of production, processing and marketing, measures to improve quality, short and long term forecasts.

Pig carcass classification system is based on an estimating the lean meat content of the carcass. Council Regulation (EEC) No. 3320/84 and Commission Regulation (EEC) No. 2967/85 amended by Commission Regulation (EEC) No. 3127/94 contain some requirements on how to ensure that the assessment results are comparable, that carcass dressing, weight and the lean meat content of the carcass are accurately defined.

The carcass was defined in 1993 by Commission Regulation (EEC) No. 3513. Commission Regulation (EEC) No. 1249/2008 amended by (EEC) No. 148/2014 implemented the Community scales for the classification of pig carcasses and the price reporting.

The EU Commission Regulation are considered to play an important role to define support measures for pig carcass classification system. The officials identified benefits in three main areas: marketing monitoring, market management and trading usage/ transparency.

The price component of EU pig market reporting can give real information on what is happening on the market. This can help organisations involved in planning short and long term strategies.

In order to manage the market, the classifications based on price reports are seen as „a safety net trigger for the market" (ADHB, 2008). In Romania for example, this market reports are rarely consulted by producers or slaughterhouses. The responses confirm that the business sector utilizes the EU harmonised classification and related price reporting system as an important aid in undertaking day-to-day business in the commercial markets.

EU Pricing Grid for Commercial Pig Carcasses

Until the introduction of the SEUROP classification system, price negotiations between producers and slaughterers were made upon two relative criteria, based on the weight of the living animal and the approximate evaluation of the quality of pigs before slaughter. To ensure a fair payment of producers, EU introduced a grading scale creating the possibility of "binding" the concept of carcass price to two essential factors: body weight and carcass composition delivered to slaughterhouses, reflected on the animal classification scale. Thus, by direct negotiation, producer and slaughterhouse establish a reference price for 1 kg of carcass or 1 kg of live weight, relative to a reference level of the percentage of muscle tissue in the body. To the reference price a bonus or penalty is added according to certain carcass price

grids taking into account the carcass quality (expressed as the percentage of muscle tissue in the carcass) and its weight.

Note that the reference price and grid concepts are not covered by EU legislation (although Romania imposed by law mandating the use of a price grid). The reference price and grid concept are different from country to country (e.g. in France it is 56%, in Germany 57%, in Romania 56%, etc.), or sometimes even within countries, depending on the slaughterhouse. The classifiers record on classification report the price per kg of animal carcass regardless of the method of negotiation between the producer and the slaughterhouse. It is the price of entry into the slaughterhouse, excluding VAT paid to suppliers of animals. These daily prices per kg of animal carcass are then reported to the representative markets or national quotation centers by classifiers.

Council Regulation (EU) 1308/2013 requires each EU member state to report weekly to the European Commission the market price for pig carcasses weighing 60-120 kg class E and S and pig carcasses weighing 120-180 kg class R. Market price of each Member State shall be calculated as a weighted average of prices paid to pig suppliers by the slaughterhouses. Based on weekly market prices reported by Member States, the Pork Management Committee for the Common Organisation of the Agricultural Market calculates the Community average price for pig carcasses in EUR / 100 kg of cold pig carcass.

In order to calculate the EU average price, market prices recorded by each Member State are weighted by using coefficients that express the relative size of the pig population of each Member State (Figure 1). These coefficients are determined annually based on the number of pigs registered in each Member States in early December.

So, what is the purpose of the whole price mechanism mentioned above? First, as it has been said, the main objective is considered to be fair payment to livestock producers, depending on the quality of the product they sell to the slaughterhouse. Secondly, the price mechanism is an intervention tool of the European Commission to prevent or mitigate a substantial fall in prices at EU level and thus guarantee the agricultural community a decent life. With regard to this aspect, the European Commission has set a reference threshold of 1509.39 EUR / tone for standard quality pig carcasses (carcasses weighing between 60-120 kg E class; carcasses weighing between 120-180 kg R class). The reference threshold is constantly reviewed by the European Commission. It takes into account the production trend, production costs, and market trends. After reporting the average price to reference threshold price and

considering production costs, the European Commission supports the pig meat market in form of grant aid for private operators to store products.
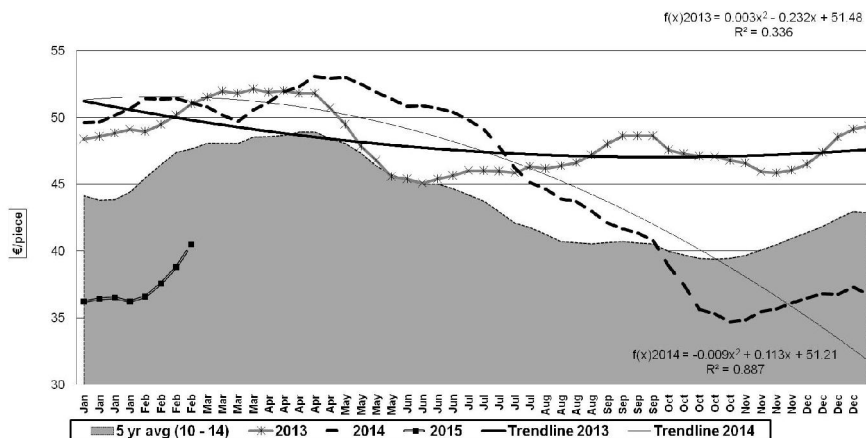

Figure 1: Evolution of EU average pig prices from 2010 to 2015. Source: Report of Committee for the Common Organisation of the Agricultural Market 22 Jan. 2015

Thirdly, the classification system linked to the producer payment system based on a grid of prices is related to quality improvement measures, stimulating class E animal carcass weight, because it means more meat for the population, on the one hand, and maximum recovery efficiency feed for farmers., on the other hand. This can be achieved either through direct reimbursable financial incentives to farmers (for a limited time) or by the inclusion into the price grid of different percentages of bonus or penalty according to quality classes. Fourth, the classification and payment system promoted by EU producers ensure greater transparency of the market, providing to economic agents involved in the sector quick access to information on the evolution of prices in different markets.

CONCLUSIONS

The pig carcass classification imposed by the EU has become a core strategic competition between manufacturers. EU implemented two new elements in the concept of carcass price by ensuring fair payments to producers. These elements are body weight and carcass composition delivered to slaughterhouses reflected in carcass classification grids.
We can also say that the carcass classification system is an important strategic tool. In the European Commission, it is assimilated as an instrument

of intervention to prevent or mitigate a substantial fall in prices at EU level and thus to guarantee the agricultural community a decent life.

The implementation of this strategic instrument leads to medium and long term increase in yield by improving the quality of farm animals, on the one hand and maximasing recovery efficiency of feed for farmers, on the other hand. The classification and payment system promoted by EU producers ensure greater transparency of the market, providing to the economic agents involved in the sector quick access to information on evolution of prices in different markets.

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