

Beef Conference 2014

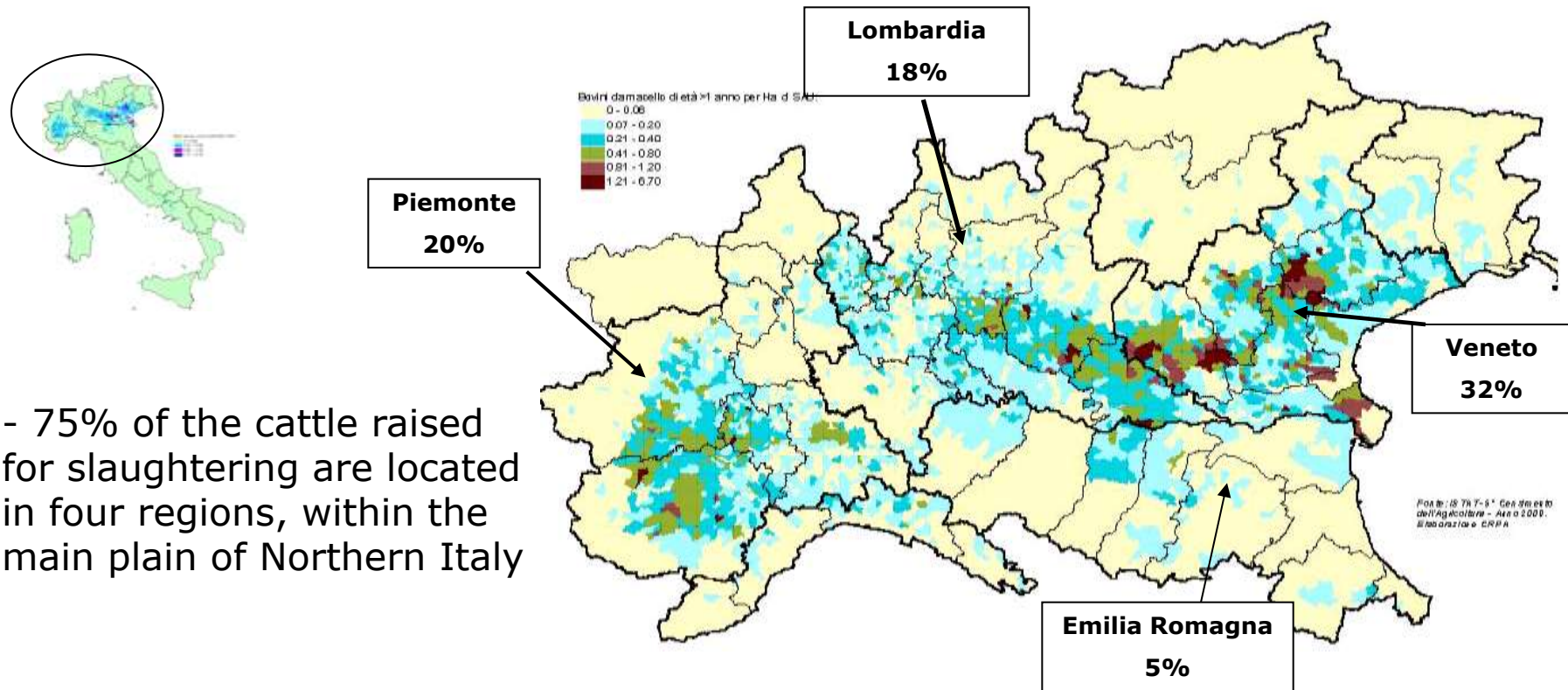
*Torino*

*11th June 2014*

# Impact of CAP reform after 2014 on beef profitability in Italy

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# Geographical distribution of males and females from 1 to 2 years (840,000 heads)



- 75% of the cattle raised for slaughtering are located in four regions, within the main plain of Northern Italy

- In the area beef farms are mostly specialized in finishing French "broutards" (backgrounders) and weaned calves, **with the exception of the region Piemonte** that counts for the highest share of the beef cows herd .

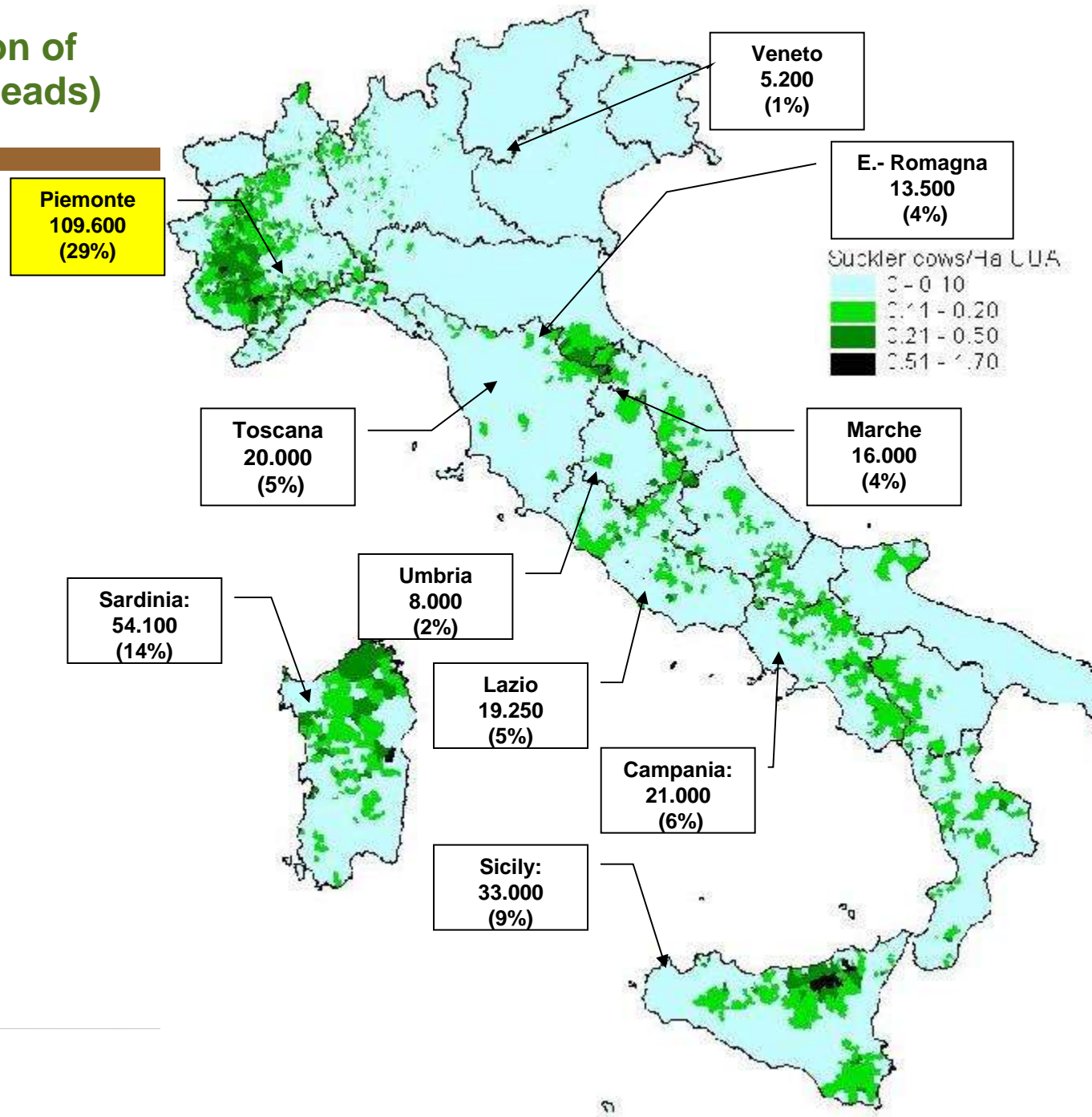
Source: Agriculture census 2012

# Geographical distribution of suckler cows (380,000 heads)

- highest share of beef cows population (30%) Piemonte, making it peculiar compared to the other northern regions

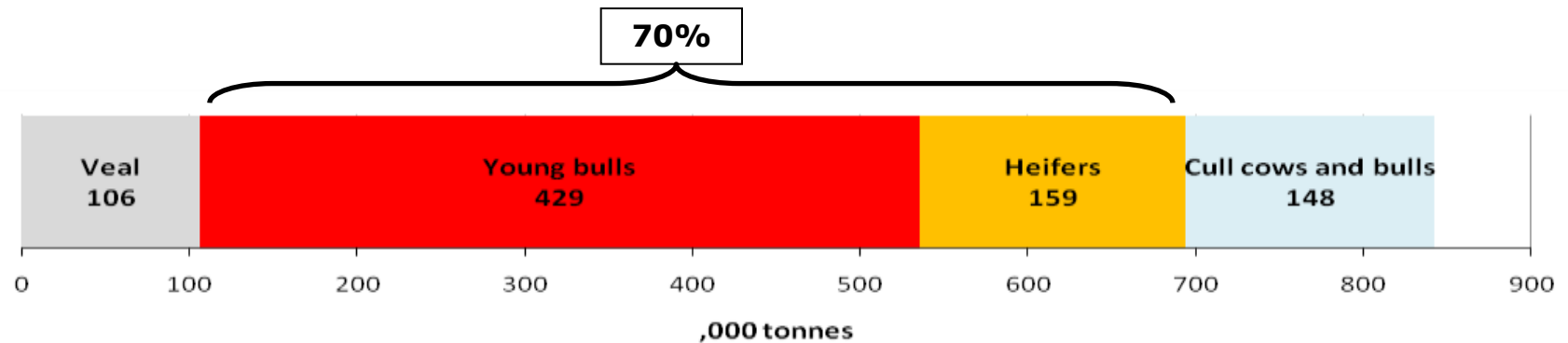
-The rest of the suckler cows is distributed in the areas surrounding the "Appenini" hill chain, which crosses Italy from North to South

-South+ Sardinia and Sicily counts for 40% of the herd, BUT HAVE THE LOWEST nr. of heads registered in beef breeds herdbooks



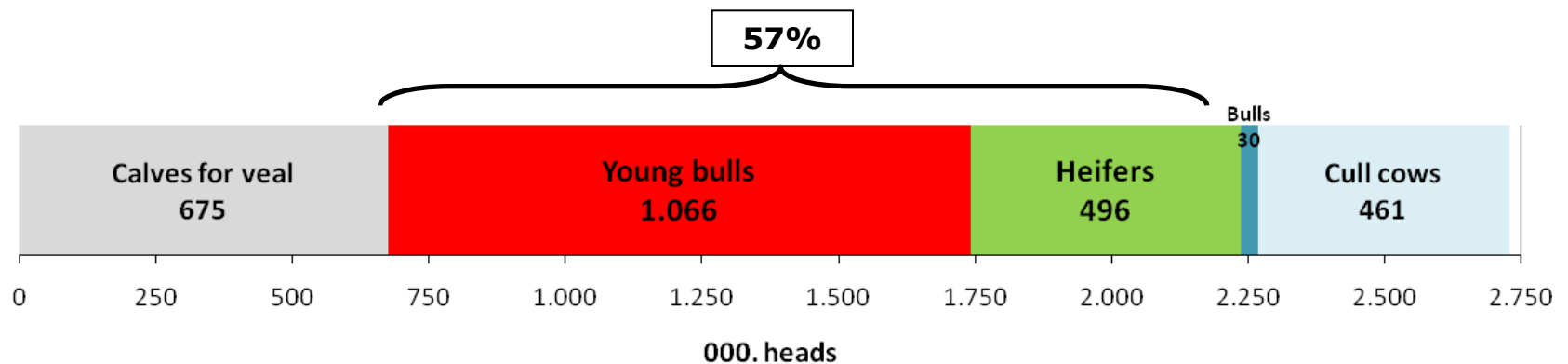
# A production based on young bulls and heifers (1-2 years)

**-Total beef production in 2013: 855,000 tonnes (3rd<sup>o</sup> producer in the EU)**

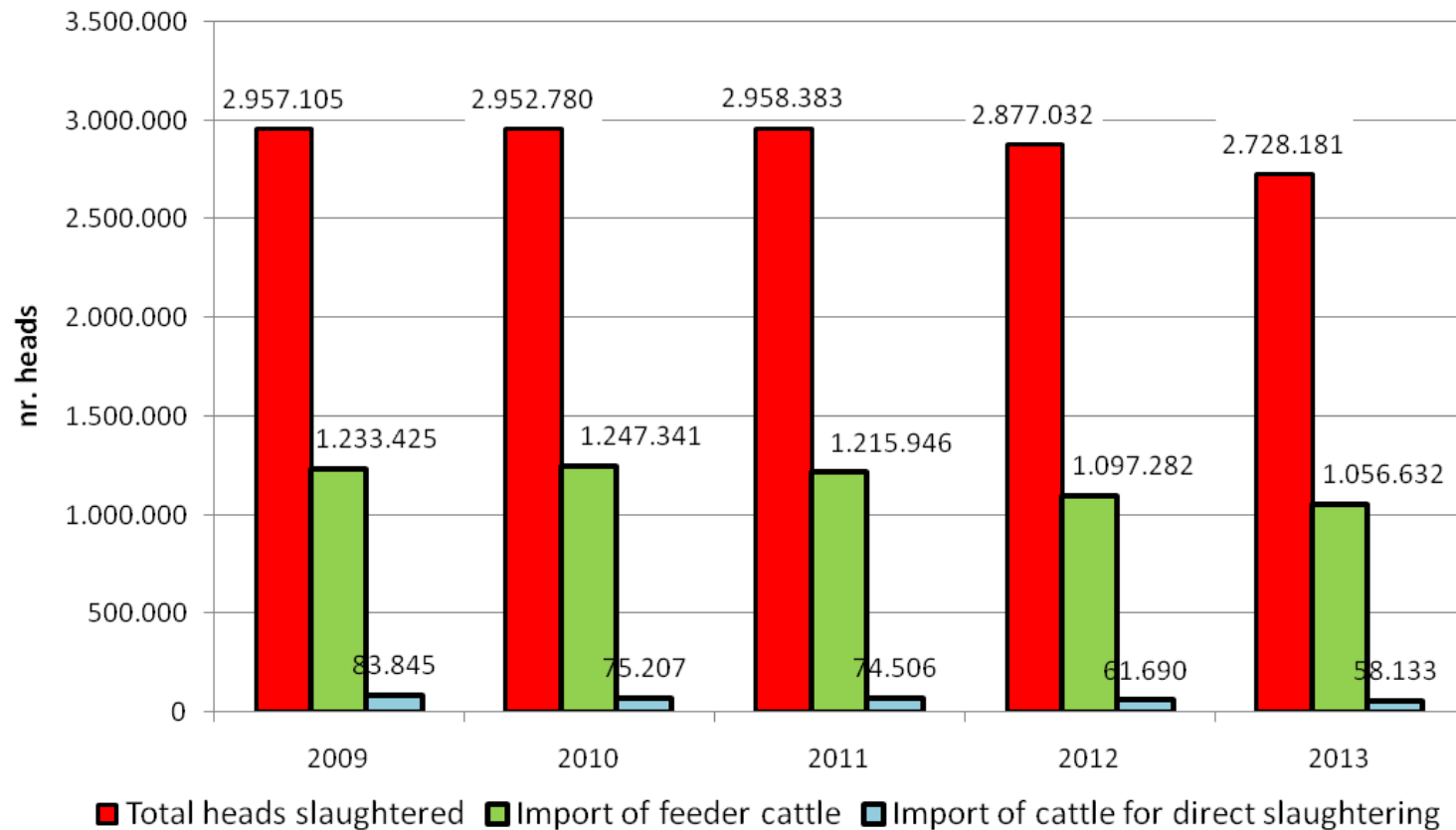


**-Total cattle: 2,73 mln heads**

**Young bulls and heifers: 1,56 mln heads**



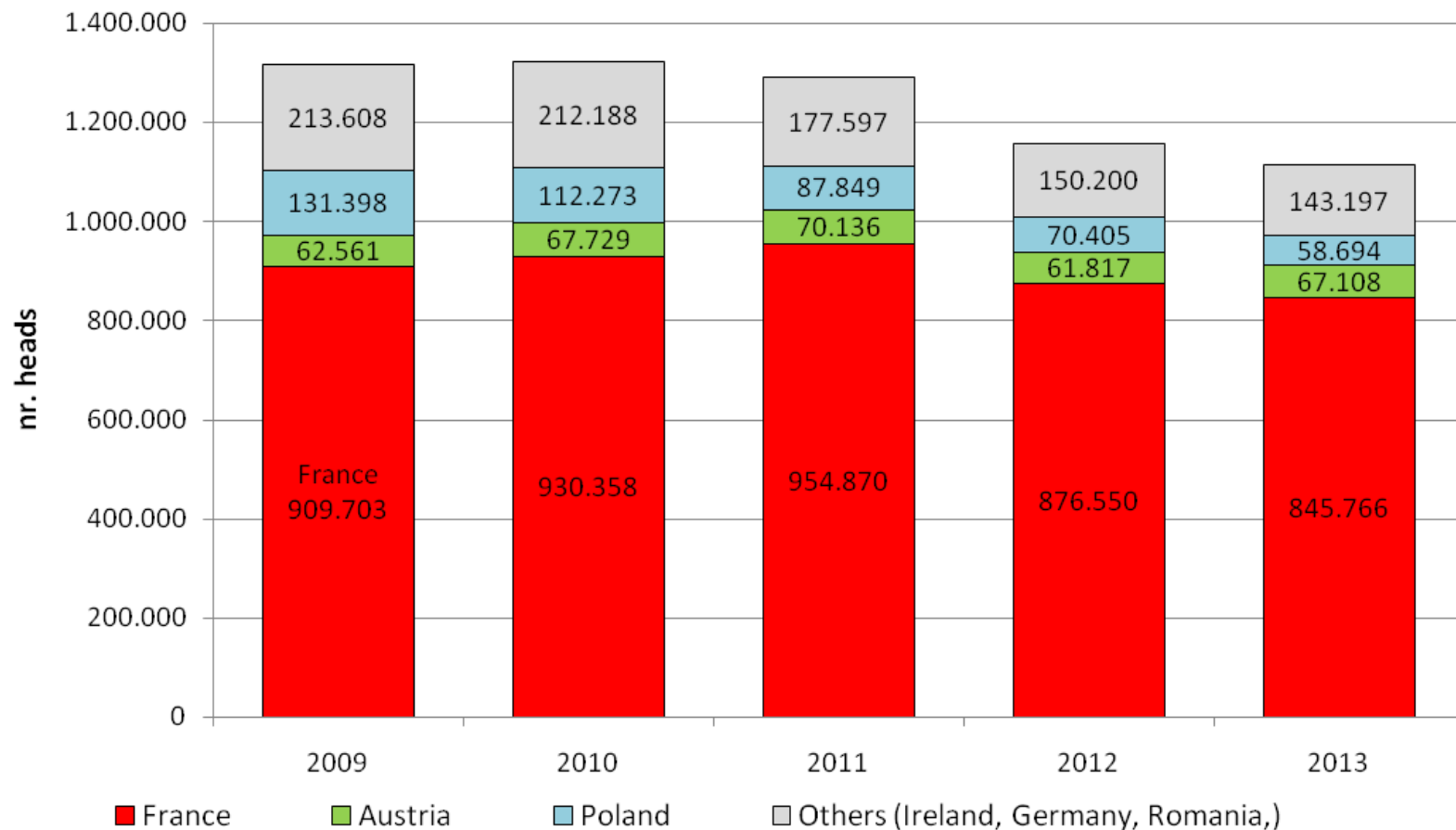
# Total slaughterings and livestock import



**The increase of the prices of feedstuffs and livestock + the reduction of domestic consumption were the main factors explaining the decrease of the imports in 2012-2013, that translated in a 7% production fall**

Source: CRPA data processing on ISTAT and BDN data

# France is the main supplier of feeder cattle for Italy (75% of livestock import)



Source: BDN data

# How will change the profitability with the CAP after 2014?

Analysis of the consequences for beef finishing farms of the new system of direct payments after 2014 and comparison with the previous situation.

- 1) Influence of historical basis support on the profitability during the last period of application of the MTR (2012-2014)
- 2) The implementation of the CAP Reform in Italy (agreement of the 27th May between regional agriculture departments and the Ministry of Agriculture)
- 3) Simulation of the impact on profitability of beef finishing farms

# Methodology

Starting from the average cost per live weight produced by a sample **beef finishing farms** the cost and income have been calculated:

- For the period **2012** data are already available on the basis of the monitoring carried out by CRPA-ISMEA
- For **2013** reference was made to actual prices of productive factors and livestock
- **For 2014 onwards** reference is the OECD-FAO projections related to the **prices of raw materials** included in the last Agricultural Outlook. Annual % changes are applied to corn, soybean and meat prices



# Characteristics of the beef farms sample

Capacity (heads)	420
Live weight produced (100 kg)	1.820
Heads sold	615
Final weight (kg l.w.)	654
Starting weight (kg)	372
Sale price (€/kg l.w.)	2,66
Calves price (€/kg)	3,03
Mortality rate	0,9%
Finishing period (days)	220
Daily weight gain (kg)	1,30
Labour productivity (kg/hour)	63

# Profitability net and gross of payments (2012-2014)



# Break even price (2012-2014)

€/100 kg l.w.	2012	2013	2014
<b>Break even price</b>	<b>291,01</b>	<b>285,71</b>	<b>287,72</b>
Sale price	265,94	263,28	267,02
- Decoupled payments	23,20	22,31	22,31
- Coupled payments	5,13	4,97	4,97
<b>Total income</b>	<b>294,28</b>	<b>290,56</b>	<b>294,30</b>
<b>Loss excluded d. payments</b>	<b>-25,06</b>	<b>-22,43</b>	<b>-20,70</b>
<b>Profit included d. payments</b>	<b>3,27</b>	<b>4,85</b>	<b>6,58</b>

# The reform of direct payments system: compulsory decoupled payments

Three **compulsory decoupled components** on a per hectare-basis :

- 1. Basic payment:** it will replace the single farm payment with historical reference. Possibility of reducing the impact of a complete flat-rate (partial convergence).
- 2. Greening:** It involves the adoption of agricultural practices beneficial for the climate and the environment. Calculated on per-hectare basis or as % of the basic payment. Financed with 30% of national ceiling.
- 3. Payment for young farmers:** entitled to farmers of < 40 years who start agricultural activities. Financed with a maximum of 2% of the national ceiling.



# The reform of direct payments system: voluntary payments

Three **voluntary components** :

- 1. Redistributive payment:** granted to the first 30 hectares of farms. Financed with a maximum of 30% of the national ceiling.
- 2. Less favoured areas:** granted to farmers in areas with natural constraints. Max 5% of ceiling.
- 3. Coupled payments:** support granted to those sectors that undergo certain difficulties (production decline, risk of abandon). Financed with a maximum of 15% of the national ceiling.

# The Reform implementation in Italy

1. Adoption of **partial convergence model** for the **basic payment**, that will avoid a flat-rate payment at national level (equal payment per hectare).
2. **Green payment** calculated **as % of basic payment**.
3. Payment for young farmers financed with 1% of the ceiling.
4. Coupled payment financed with 11% of the ceiling (dairy; beef, sheep, olive oil, protein crops, sugar beet, rice, durum wheat, processing tomatoes).
5. No other voluntary components will be introduced.

# National direct payments ceiling

mln. euro		2015	2016	2017	2018	2019-20
National ceiling	100%	3.902	3.851	3.800	3.752	3.704
Basic payment	58%	2.263	2.233	2.204	2.176	2.149
Green payment	30%	1.171	1.155	1.140	1.126	1.111
Young farmers	1%	39	39	38	38	37
Decoupled payments	11%	429	424	418	413	407

# The sectors that will benefit from new coupled payments

	%	ceiling (mln euro)	average payment*
Suckler cows (calves born)	9%	40,5	75€/head
Beef cattle (slaughtered at the age of 12-24 months)	16%	66,4	46€/head
Dairy farms (calves born, with additional payment for beef crosses)	20%	84,6	55€/head
Sheep and goat	4%	15,0	12€/head
Buffalo	1%	4,0	45€/head
<b>Livestock sectors</b>	<b>49%</b>	<b>210,5</b>	
Protein crops	8%	35,7	
Other crops (rice, sugar beet, tomato; durum wheat)	26%	110,6	
Olive oil	16%	70,0	
<b>Arable and permanent crops</b>	<b>51%</b>	<b>216,3</b>	

\* Agricultural Ministry. Estimations

Compared to the current coupled payments for beef sector:

- resources will rise from 51,5 to 107 mln €
- eligibility criteria will be less selective= payments granted to each head slaughtered or to each calf born.
- Only additional amount for calves registered in breed herdbooks or for compliance with quality scheme (to be determined)

The nr. of eligible cattle will increase and the payments per head are likely to remain unchanged



# How coupled payments will change

## Current coupled payments for beef sector (art. 68 Reg73/2009)

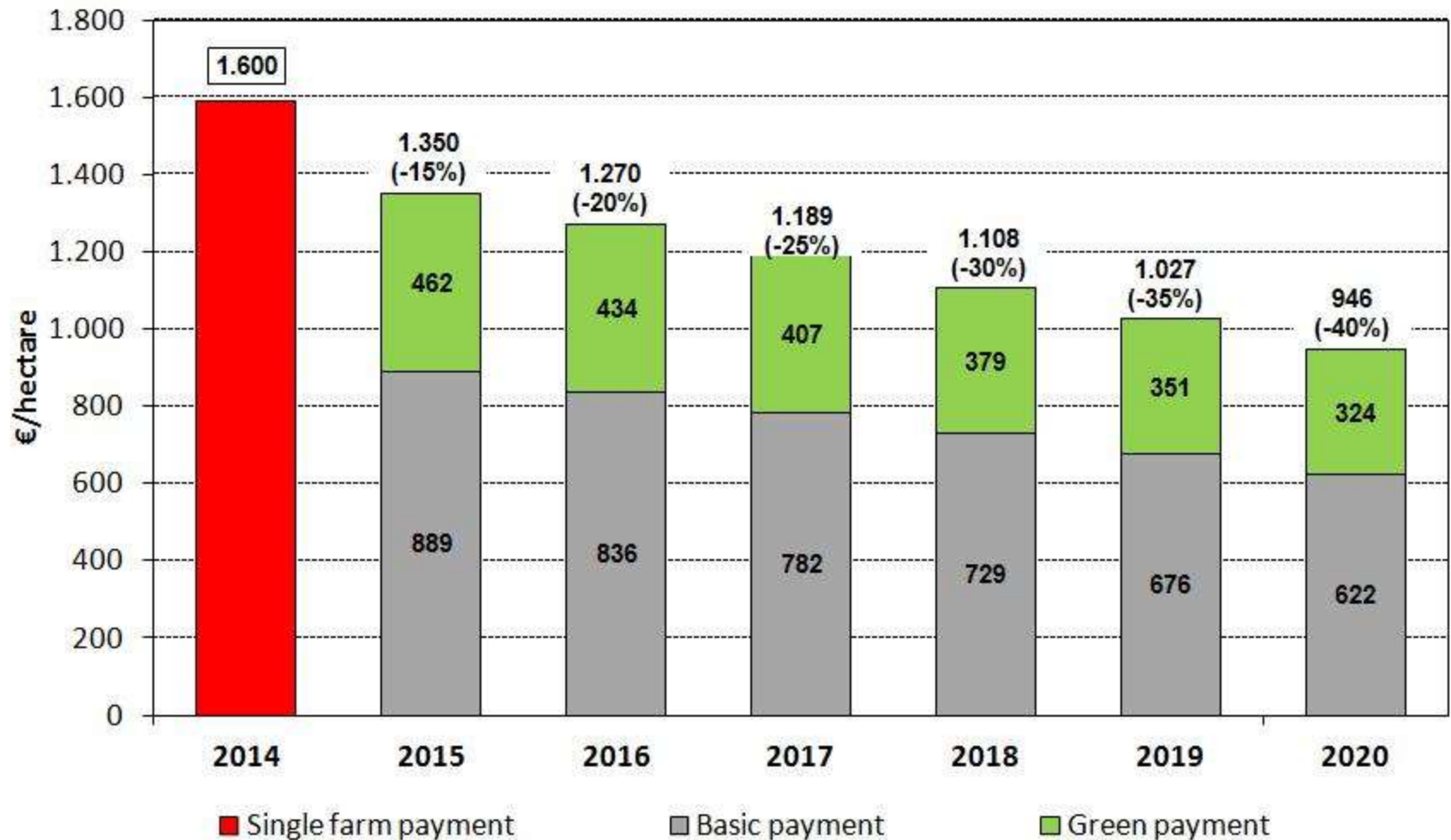
	National ceiling	Eligibility criteria	Average payment	n° of heads
Slaughtering Cattle	27,5 mln €	- aged 12-24 years and reared in farms for at least 7 months - Compliance with voluntary labelling system	40 €/head	645,000
		- age 12-24 years and reared in farms for at last 7 months - PGI or National Quality System Scheme certification	73 €/head	15,900
Sucler cows	24 mln €	Calves registered in beef breed herdbooks or beef/double aptitude cattle registries	123 €/head	195,000

## The new coupled payment (agreement of May, 27th)

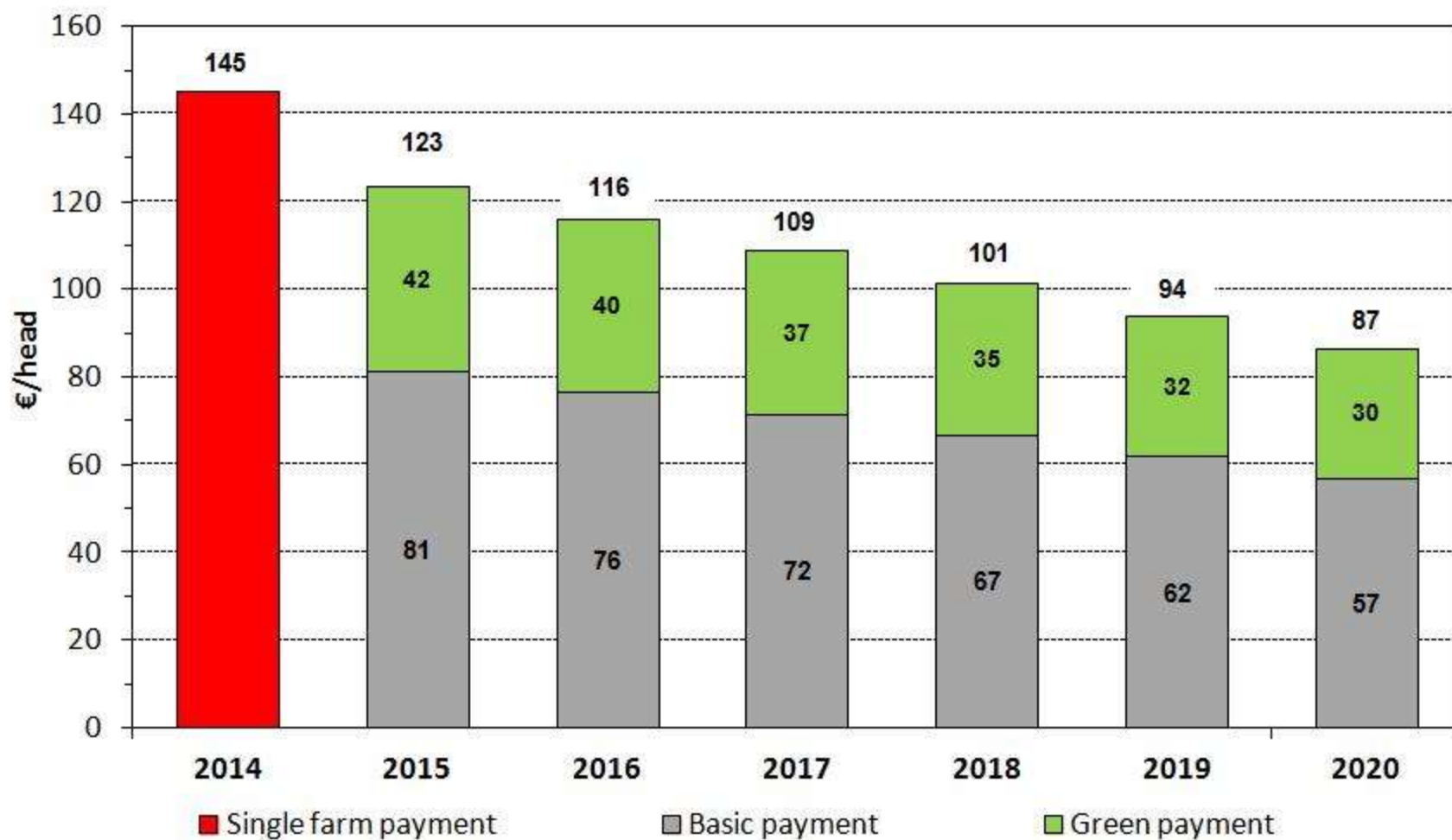
	National ceiling	Eligibility criteria	Average payment*	n° of heads*
Slaughtering Cattle	66,4 mln €	aged 12-24 years and reared in farms for at least 7 months. Higher payment (max +50%) for cattle born in Italy	46 €/head	1,120,000
Sucler cows	40,5 mln €	Each calf born. Higher payment (max + 50%) for calves registered in beef herboks or beef cattle registries	75 €/head	400,000

\* Agricultural Ministry. Estimations

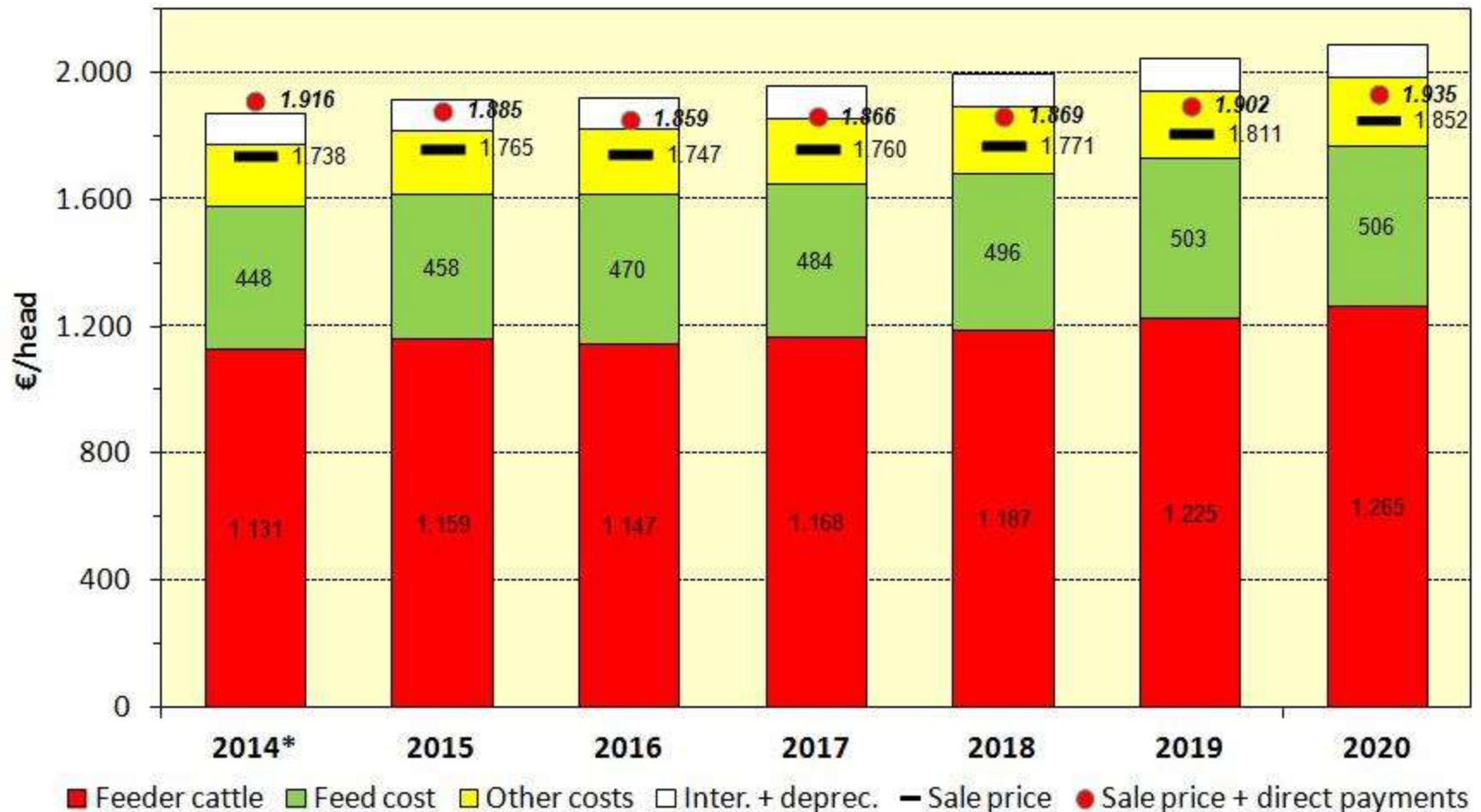
# How decoupled payment per hectare will change after 2014



# Decoupled payment per head sold



# Profitability, net and gross of decoupled payments (2014-2020)



# Break even price and profit/loss per head sold (2015-2020)

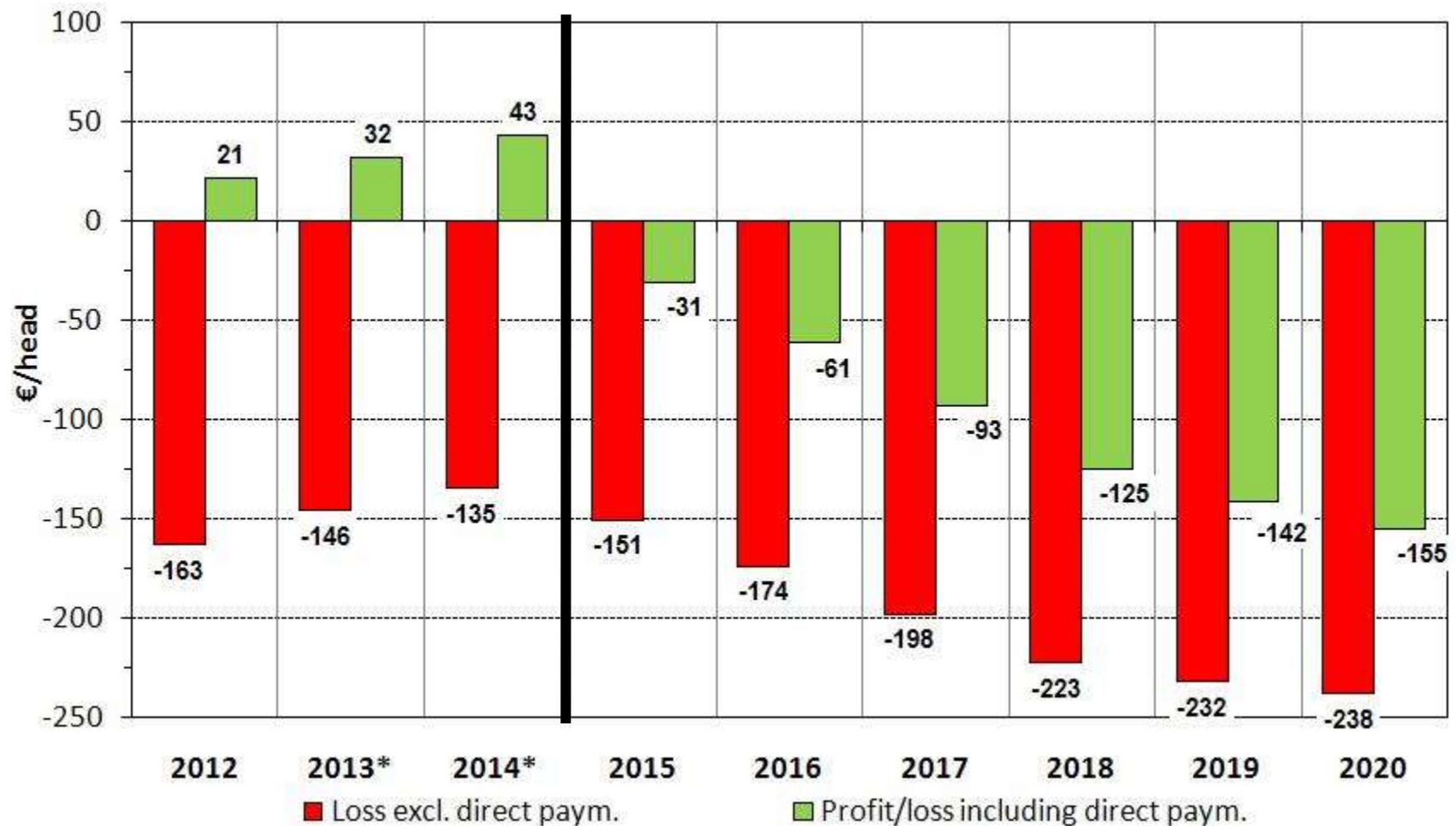
€/head	2015	2016	2017	2018	2019	2020
<b>Total cost</b>	<b>1.915</b>	<b>1.920</b>	<b>1.959</b>	<b>1.994</b>	<b>2.044</b>	<b>2.090</b>
Sale price	1.765	1.747	1.760	1.771	1.811	1.852
- Basic payment	81	76	72	67	62	57
- Green payment	42	40	37	35	32	30
<i>Cost of greening*</i>	-3,6	-3,6	-3,6	-3,6	-3,6	-3,6
<b>Total income</b>	<b>1.885</b>	<b>1.859</b>	<b>1.866</b>	<b>1.869</b>	<b>1.902</b>	<b>1.935</b>
<b>Loss excluded d. payments</b>	<b>-151</b>	<b>-174</b>	<b>-198</b>	<b>-223</b>	<b>-232</b>	<b>-238</b>
<b>Profit included d. payments</b>	<b>-31</b>	<b>-61</b>	<b>-93</b>	<b>-125</b>	<b>-142</b>	<b>-155</b>



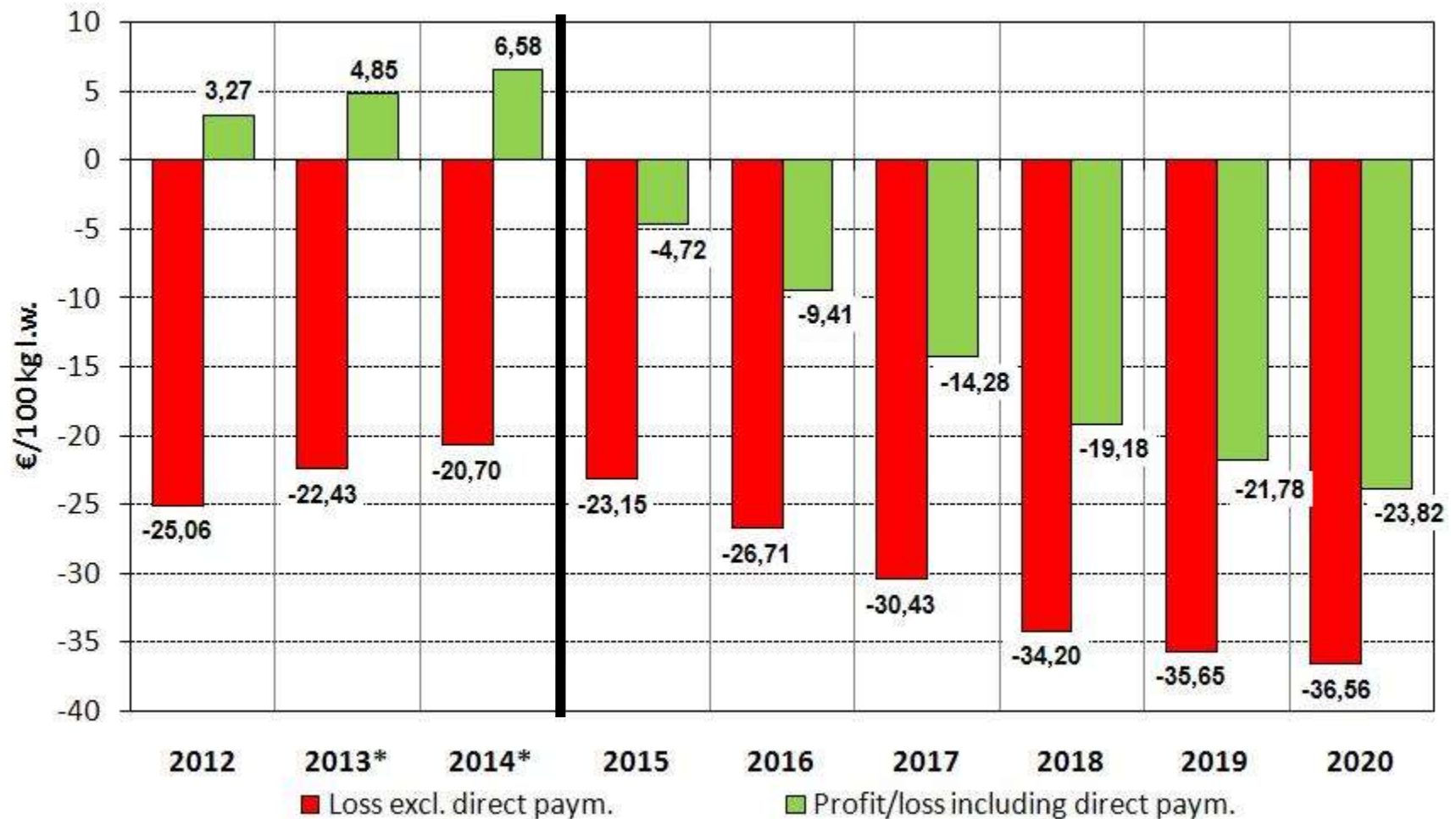
# Break even price and profit/loss per 100kg l.w. sold (2015-2020)

€/100 kg live weight	2015	2016	2017	2018	2019	2020
<b>Break even price</b>	<b>294,20</b>	<b>294,99</b>	<b>300,86</b>	<b>306,30</b>	<b>313,91</b>	<b>321,07</b>
Sale price	271,05	268,28	270,43	272,11	278,26	284,51
- Basic payment	12,49	11,74	10,99	10,25	9,50	8,75
- Green payment	6,50	6,11	5,72	5,33	4,94	4,55
<i>Cost of greening*</i>	-0,56	-0,56	-0,56	-0,56	-0,56	-0,56
<b>Total income</b>	<b>289,48</b>	<b>285,58</b>	<b>286,58</b>	<b>287,12</b>	<b>292,13</b>	<b>297,25</b>
<b>Loss excluded d. payments</b>	<b>-23,15</b>	<b>-26,71</b>	<b>-30,43</b>	<b>-34,20</b>	<b>-35,65</b>	<b>-36,56</b>
<b>Profit included d. payments</b>	<b>-4,72</b>	<b>-9,41</b>	<b>-14,28</b>	<b>-19,18</b>	<b>-21,78</b>	<b>-23,82</b>

# Profit/loss per head, net and gross of decoupled payments (2015-2020)



# Profit/loss per 100kg sold, net and gross of decoupled payments (2015-2020)





# Final considerations

- The reform of the PAC implies a strong reduction of direct payments, although mitigated by the partial convergence model and the calculation of greening as a % of basic payments
- The beef cattle farms will receive more than the national average but will be cut by 48% with respect to 2014
- The risk is that the reduction of support will accelerate the decline of the sector or its reconversion also considering the increase of production costs.
- Actually to the fatteners is destined 27,25 mil € following art 68 Reg 73/2009 (40 €/head in 2012). Unlike the increase of resources the amount per head will not increase much as the selection criteria are less strict than in the past.
- As public support is declining, a much stronger emphasis should be placed on marketing initiatives

