

Cattle production in a changing  
policy environment in Europe  
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# The impact of the CAP reform on the profitability of beef and dairy farms in Italy until PAC?

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# Objective: how does the profitability of beef and dairy change after 2013?

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

- Profitability in the period 2010 – 2014 and effects of Health Check: maintenance of historic reference, modulation and art.68 (2010-2014)
- Impact of the CAP after 2014 according to the agreement of the 26th of June 2013 concerning the direct payments. Different scenarios considered:

# Analysis impact of PAC until 2014

Starting point of analysis is the production cost per head and per 100 kg of beef in two specialised beef farms (large and medium sized) in the Veneto region (North-East of Italy):

- For the period **2010 e 2011** data are available from the annual monitoring of production costs of beef farms of CRPA
- For **2012 e il 2013** the production costs are estimated based on the actual evolution of prices and tariffs of inputs
- For the period **2014 - 2020** the forecasts of OECD-FAO have been used concerning prices of raw material for feedstuffs and the prices of meat. Annual price variations of maize, soybean meal and beef have been applied from 2014 onwards

# Methodology: comparison of costs and revenues per head

**kg l.w. produced per head** (= kg l.w. sold - kg l.w. purchased)

$$\begin{array}{r} \text{Weaner cost (€/head)} \\ + \\ \text{Other costs per head} = (\text{kg l.w. produced} * \text{cost per kg l.w.}) \\ = \\ \text{Total cost per head} \end{array}$$

$$\begin{array}{r} \text{Sale price (€/head)} \\ + \\ \text{Single farm payments/heads sold} \\ + \\ \text{Coupled payments (art.69 - 68)/heads sold} \\ = \\ \text{Revenue included and excluded direct payments (€/head)} \end{array}$$

For the calculation only the beef farm has been considered as centre of costs

Concentrates and roughage produced on the farms have been calculated at market prices

**The comparison between costs and revenues allows the calculation of:**

- profit/ loss per head with and without direct payments
- minimum sales price in order to reach parity with production costs

# Production costs beef cattle

## VE – 1200 (2010-2014)

€/head	VE-1200				
	2010	2011	2012	2013	2014
Animal purchase	1.124	1.138	1.290	1.296	1.297
Feed cost	418	495	530	519	544
Other costs	135	158	173	173	188
Inter.+deprec.	49	50	51	51	52
<b>Total</b>	<b>1.727</b>	<b>1.840</b>	<b>2.044</b>	<b>2.040</b>	<b>2.081</b>

Fonte : CRPA

# Profitability beef cattle

## VE -1200 (2010-2014)

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€/head	VE - 1200				
	2010	2011	2012	2013	2014
Total cost	1.727	1.840	2.044	2.040	2.081
Sale price	1.631	1.734	1.890	1.894	1.924
- Single farm paym.	148	146	145	144	138
- Coupled payment (art. 68)	18	18	18	18	17
Total revenue	1.797	1.898	2.053	2.056	2.078
Profit excl. direct paym.	-96	-106	-154	-146	-157
Profit incl. direct paym.	70	58	9	16	-3

Fonte : CRPA

# Production costs beef cattle

## VE – 550 (2010-2014)

€/head	VE-550				
	2010	2011	2012	2013	2014
Animal purchase	1.110	1.114	1.262	1.269	1.270
Feed cost	388	454	499	489	499
Other costs	164	215	237	237	237
Inter.+deprec.	87	88	89	90	92
<b>Total</b>	<b>1.749</b>	<b>1.871</b>	<b>2.087</b>	<b>2.085</b>	<b>2.098</b>

Fonte : CRPA

# Profitability beef cattle

## VE -550 (2010-2014)

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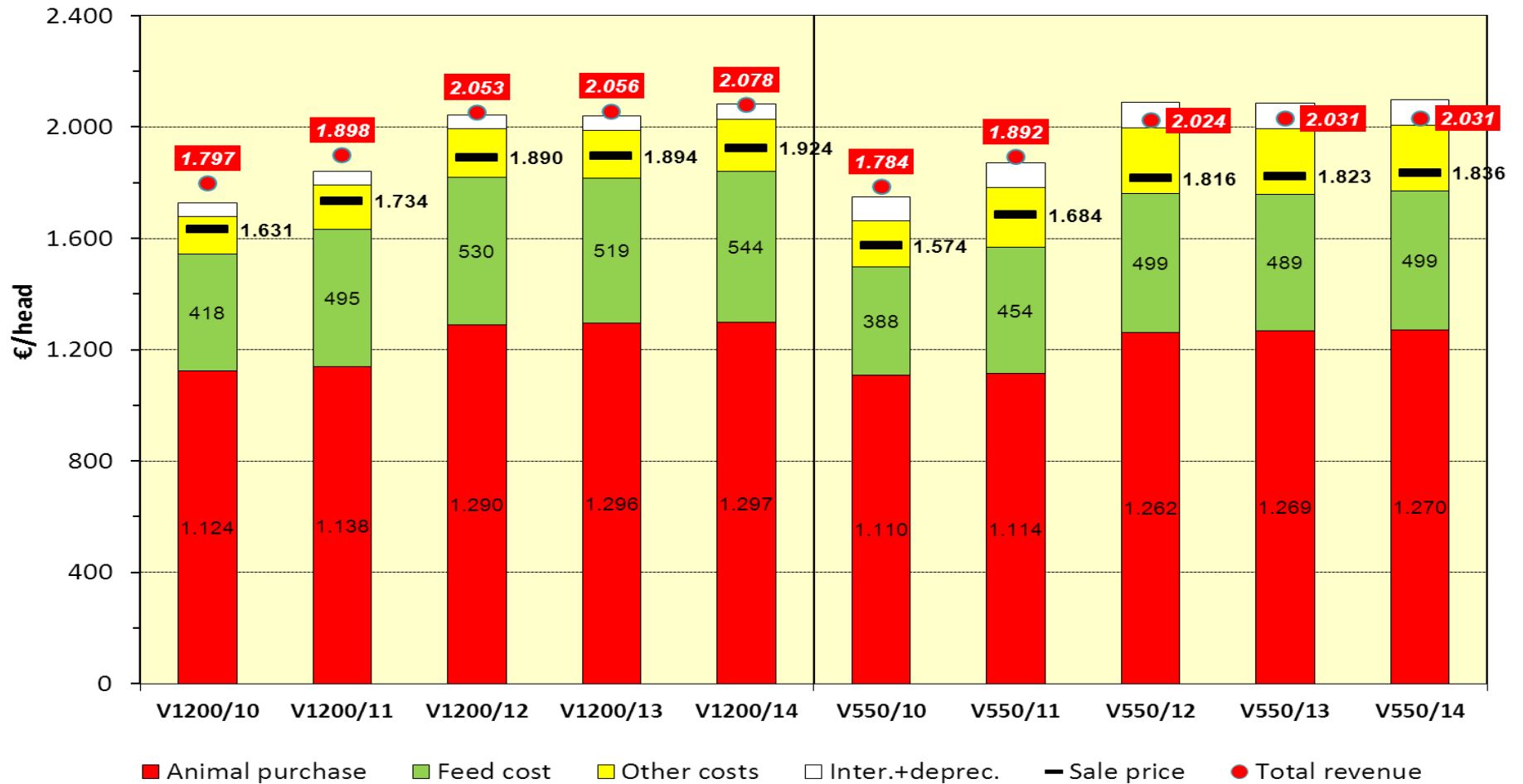
€/head	VE - 550				
	2010	2011	2012	2013	2014
Total cost	1.749	1.871	2.087	2.085	2.098
Sale price	1.574	1.684	1.816	1.823	1.836
- Single farm paym.	188	186	186	186	175
- Coupled payment (art. 68)	22	22	22	22	21
Total revenue	1.784	1.892	2.024	2.031	2.031
Profit excl. direct paym.	-175	-187	-272	-263	-263
Profit incl. dircet paym.	35	21	-64	-55	-67

Fonte : CRPA



# Profitability beef cattle 2010 - 2014

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after 2013



# «Parity price» to cover production costs

€/100 kg l.w. sold	VE-1200				
	2010	2011	2012	2013	2014
"Parity price"	233,3	248,7	276,2	275,7	281,3
Sale price	220,4	234,3	255,4	256,0	260,0
Profit excl. direct paym.	-12,9	-14,4	-20,8	-19,7	-21,3
Total revenue	242,8	256,5	277,4	277,9	280,9
Profit incl. direct paym.	9,5	7,8	1,2	2,2	-0,4

Fonte : CRPA

# «Parity price» to cover production costs

€/100 kg l.w. sold	VE-550				
	2010	2011	2012	2013	2014
"Parity price"	249,5	266,9	297,8	297,5	299,3
Sale price	224,5	240,3	259,0	260,0	261,9
Profit excl. direct paym.	-25,0	-26,6	-38,8	-37,5	-37,5
Total revenue	254,5	270,0	288,7	289,7	289,8
Profit incl. direct paym.	5,0	3,0	-9,1	-7,8	-9,6

Fonte : CRPA

# Policy options for CAP reform after 2013

From historic references Italy will move to payments per hectare

As the convergence is concerned three options are open:

1. Apply a uniform hectare payment from 2015
2. Reach an full internal convergence of premia by 2019
3. Move towards a partial convergence of premia by 2019

Either the national or regional approach may be chosen

# National ceilings for direct payments (first pillar) for Italy 2014 - 2020

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after 2013

mIn. euro

	2014	2015	2016	2017	2018	2019	2020
<b>IT direct payment ceiling</b>	4.004	3.954	3.904	3.853	3.803	3.757	3.711
Greening (30%)	1.201	1.186	1.171	1.156	1.141	1.127	1.113
Young farmers (2%)	80	79	78	77	76	75	74
Less favoured areas (5%- <b>facultative</b> )	200	198	195	193	190	188	186
Coupled payments (15% - <b>facoltative</b> )	601	593	586	578	570	564	557
<b>Basic payment ceiling</b>	1.922	1.898	1.874	1.849	1.825	1.803	1.781

# Basic payment and greening for Italy 2014 - 2020

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<b>mln. euro</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Basic payment ceiling</b>	1.922	1.898	1.874	1.849	1.825	1.803	1.781
<b>Greening (30%)</b>	1.201	1.186	1.171	1.156	1.141	1.127	1.113
<b>UAA (.000 ha)</b>	12.850	12.722	12.594	12.468	12.344	12.220	12.098
<b>Basic payment per hectare (€/ha)</b>	150	149	149	148	148	148	147
<b>Greening per Ha ITALIA</b>	93	93	93	93	92	92	92

# Calculation of value of initial basic payment for 2015

**Coefficient for initial value:** (Basic payment ceiling 2015)/(Direct payment ceiling 2014)

Basic payment scheme ceiling 2015 = 1.898 mil euro

Total direct payment ceiling 2014 = 4.004 mil euro

**Coefficient for calculating initial value of basic payment per hectare = 46%**

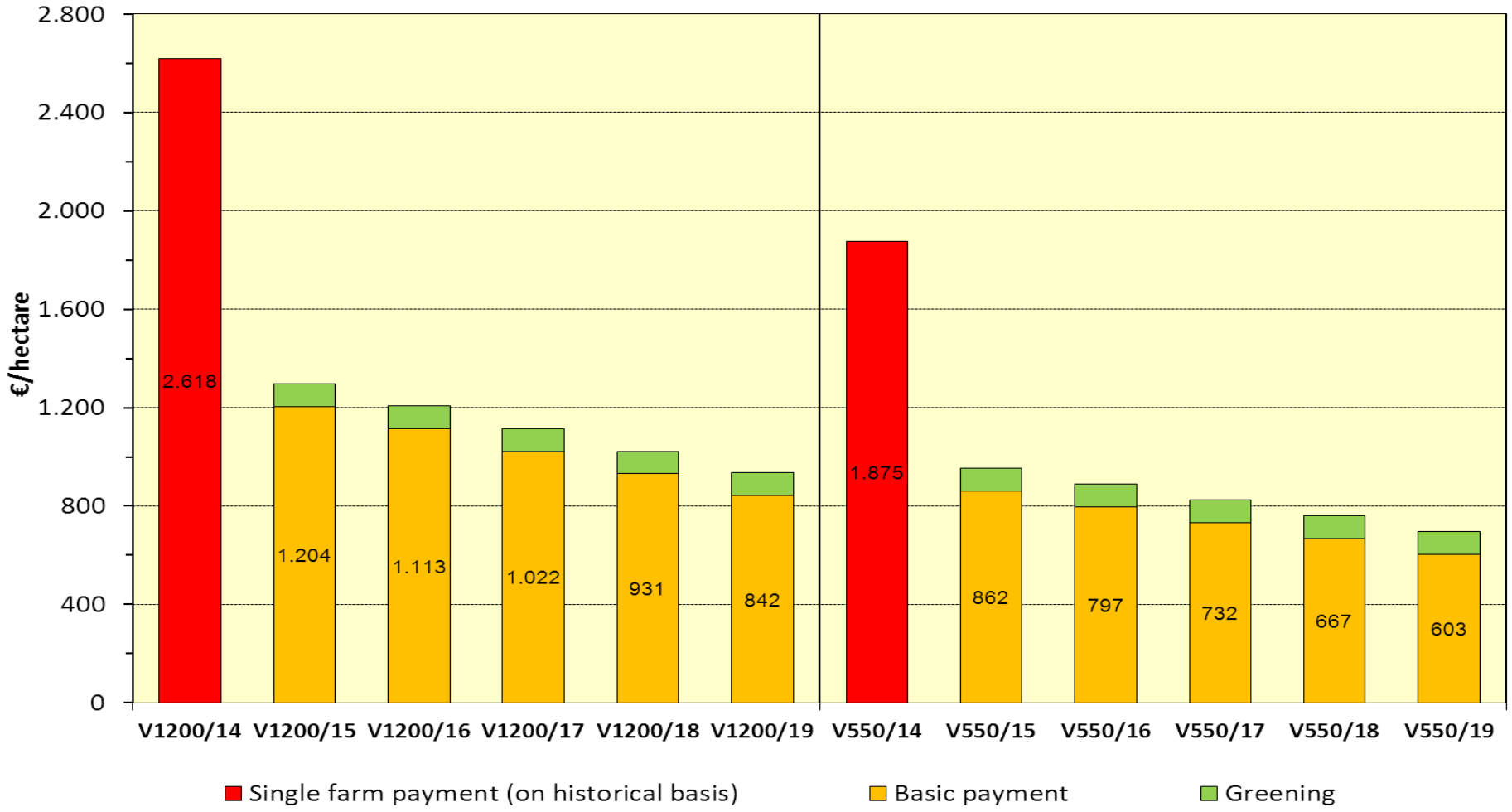
example:

Single farm payment received in 2014= 1.875 euro/hectare

Initial value of the basic payment per hectare in 2015 =  $1.875 * 46\% = 862$  euro/hectare

N.B. Member States applying single farm payment on historical basis may decide that the basic payment is not reduced more than 30% of its initial value

# Evolution of basic payment for the two beef farms 2014 - 2019





# Profitability beef farm

## VE -1200 (2014-2019)

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€/head	VE-1200					
	2014	2015	2016	2017	2018	2019
Total cost	2.081	2.118	2.151	2.143	2.146	2.129
Sale price	1.924	1.947	1.988	1.973	1.976	1.952
- Basic+greening	138	68	63	59	54	49
- Coupled pay (ex art. 68)	17	17	17	17	17	17
Total revenue	2.078	2.032	2.068	2.048	2.047	2.018
Profit excl. direct paym.	-157	-171	-163	-170	-169	-177
Profit incl. direct paym.	-3	-86	-83	-95	-99	-111

# Profitability beef farm VE -550 (2014-2019)

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after 2013

€/head	VE-550					
	2014	2015	2016	2017	2018	2019
Total cost	2.098	2.119	2.152	2.145	2.149	2.134
Sale price	1.836	1.854	1.892	1.878	1.882	1.859
- Basic+greening	175	89	83	77	71	65
- Coupled pay (ex art. 68)	21	21	21	21	21	21
Total revenue	2.031	1.963	1.996	1.976	1.973	1.944
Profit excl. direct paym.	-263	-266	-260	-267	-267	-275
Profit incl. direct paym.	-67	-156	-156	-170	-176	-189

# «Parity price» to cover production costs VE -1200 (2014-2019)

Impact CAP in Italy  
after 2013

€/100 kg l.w. sold	VE-1200					
	2014	2015	2016	2017	2018	2019
"Parity price"	281,3	286,2	290,7	289,6	290,0	287,7
Sale price	260,0	263,1	268,6	266,6	267,1	263,8
Profit excl. direct paym.	-21,3	-23,1	-22,0	-23,0	-22,9	-23,9
Total revenue	280,9	274,6	279,4	276,8	276,6	272,7
Profit incl. direct paym.	-0,4	-11,6	-11,2	-12,8	-13,4	-15,0

Fonte : CRPA

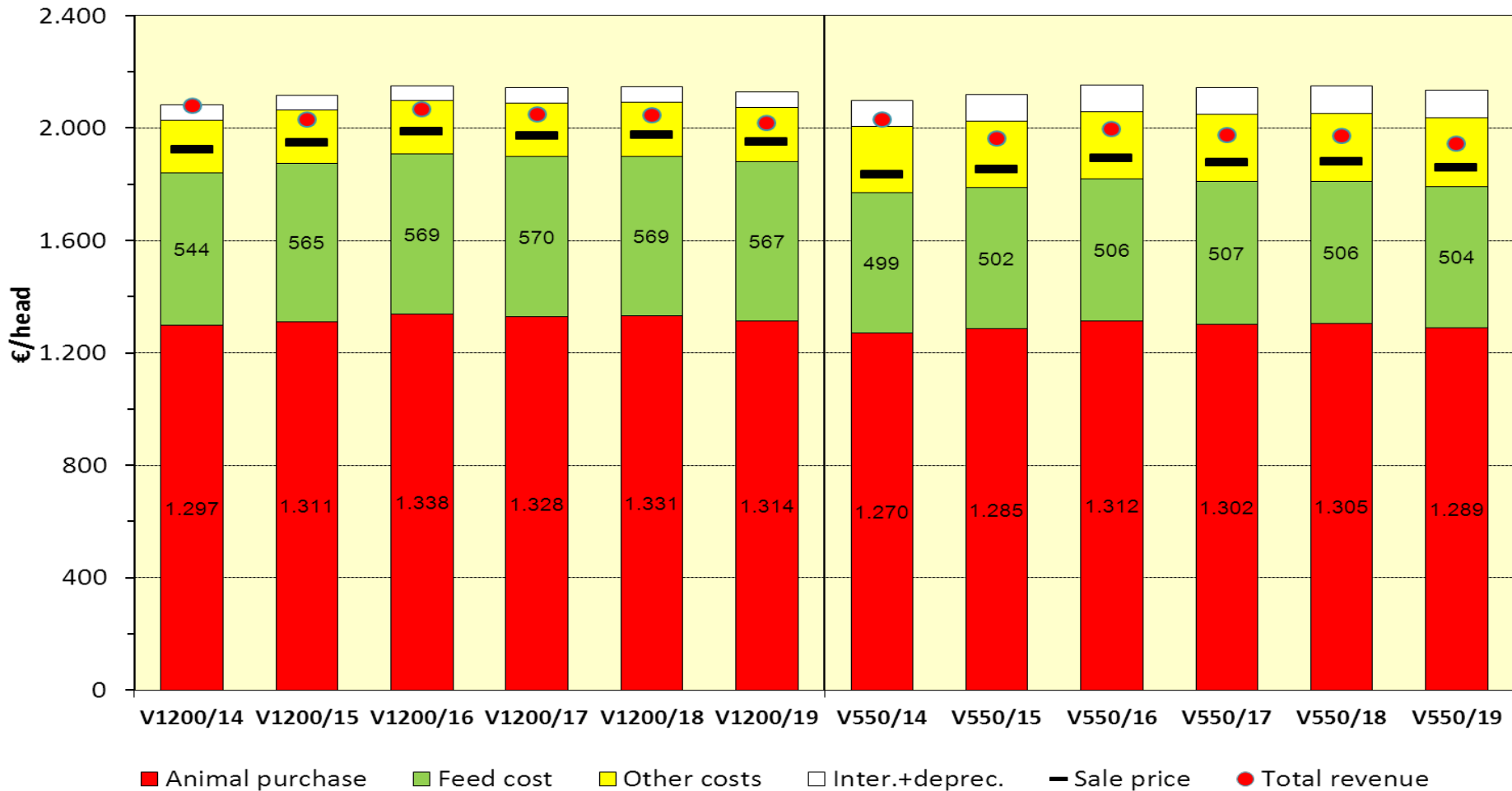
# «Parity price» to cover production costs VE -550 (2014-2019)

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after 2013

€/100 kg l.w. sold	VE-550					
	2014	2015	2016	2017	2018	2019
"Parity price"	299,3	302,3	307,1	306,0	306,6	304,4
Sale price	261,9	264,4	270,0	267,9	268,4	265,1
Profit excl. direct paym.	-37,5	-37,9	-37,1	-38,1	-38,2	-39,2
Total revenue	289,8	280,1	284,8	281,9	281,5	277,4
Profit incl. direct paym.	-9,6	-22,2	-22,3	-24,2	-25,1	-27,0

Fonte : CRPA

# Profitability of beef farms (2014 – 2019)



# Conclusions beef farms

- Reduction of profitability of specialised beef farms
- Important to stipulate agreements with French suckler cow farms in order to stabilise «broutard» prices
- Cost increase will be mitigated through further (limited) increase of labour productivity and feed efficiency
- Price increase would reduce consumption levels furthermore
- Competition with South America remains significant, but in these countries the increase of production costs is even stronger

# Technical data four dairy farms

	P 1	P 2	M 1	M 2
<b>Milking cows</b>	<b>158</b>	<b>205</b>	<b>50</b>	<b>60</b>
<b>Milk yield per cow (kg/head)</b>	<b>8.777</b>	<b>7.334</b>	<b>6.241</b>	<b>5.992</b>
<b>Cows per hectare</b>	<b>2,1</b>	<b>1,8</b>	<b>2,5</b>	<b>1,8</b>
<b>Labour productivity (milk/hour)</b>	<b>100</b>	<b>126</b>	<b>42</b>	<b>42</b>
<b>Land productivity (kg milk/ha)</b>	<b>18.425</b>	<b>13.246</b>	<b>15.657</b>	<b>10.691</b>
<b>Returns to labour (€/hour)</b>	<b>24,05</b>	<b>30,25</b>	<b>13,40</b>	<b>11,30</b>

# CAP Premia per hectare (Region ITALY)

	2014	2015	2016	2017	2018	2019
<b>CAP Premia</b>	<b>283</b>	<b>280</b>	<b>279</b>	<b>277</b>	<b>275</b>	<b>274</b>
<b>Basic payment</b>	<b>150</b>	<b>149</b>	<b>149</b>	<b>148</b>	<b>148</b>	<b>148</b>
<b>Greening</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>92</b>	<b>92</b>
<b>Less favoured areas</b>	<b>40</b>	<b>38</b>	<b>37</b>	<b>36</b>	<b>35</b>	<b>34</b>

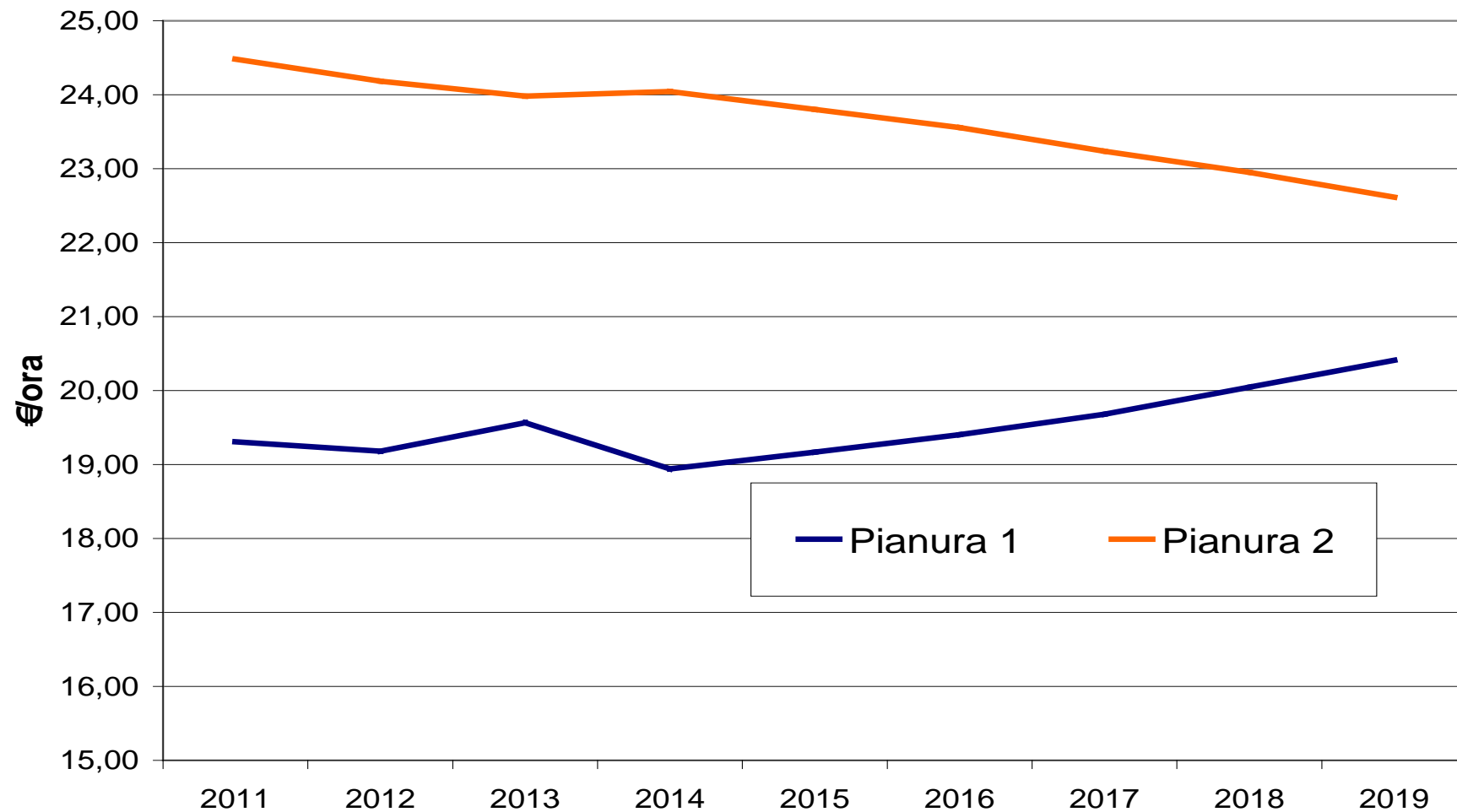


# Payments (€/ha) before and after CAP reform

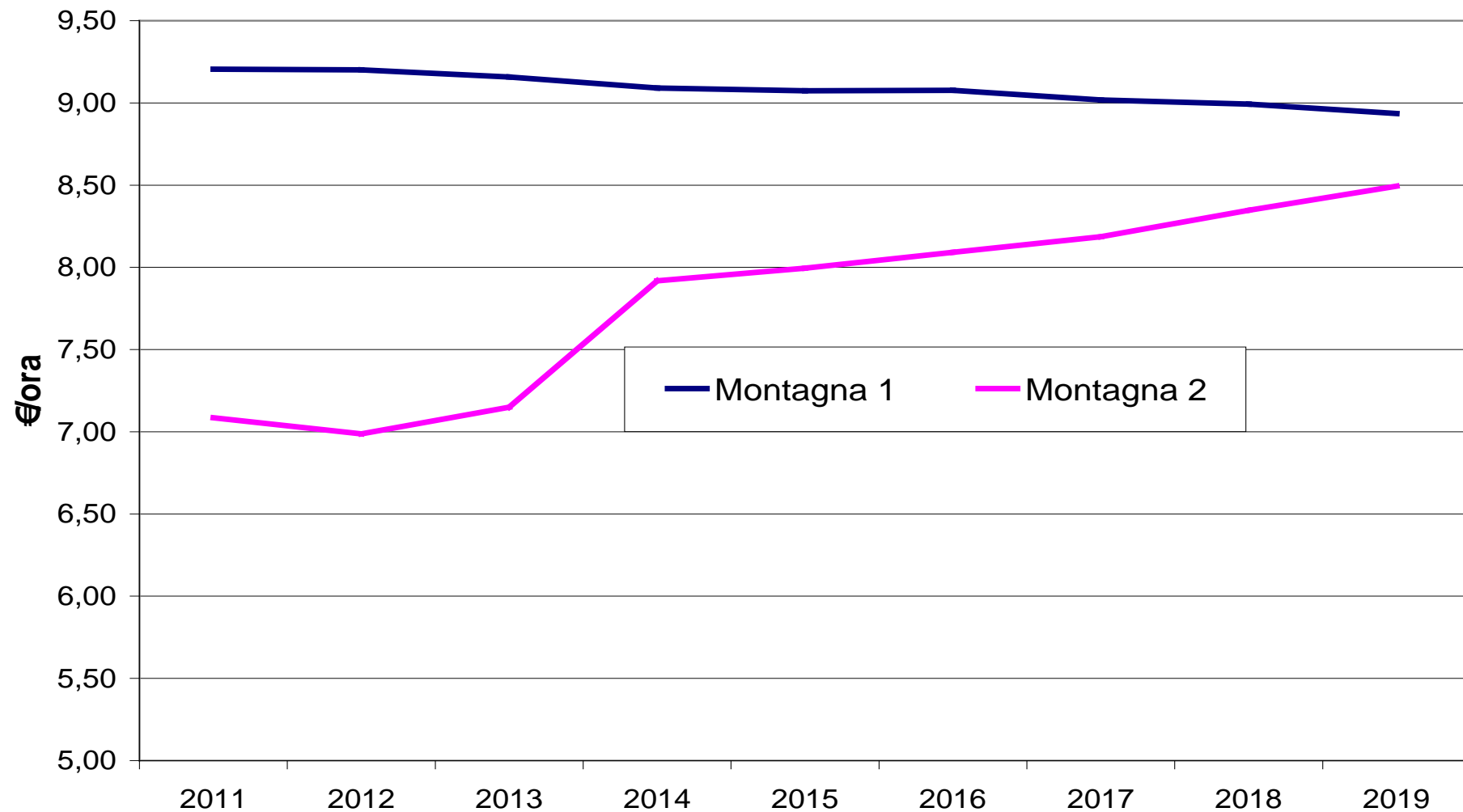
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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Plains 1	499	452	442	437	433	429	408	242	242	241	240	240
Plains 2	322	289	250	247	245	242	230	242	242	241	240	240
Mountains 1	285	294	366	362	355	344	327	280	279	277	275	274
Mountains 2	221	214	199	197	193	187	178	280	279	277	275	274

# Returns to labour 2011 – 2019 (Plains)

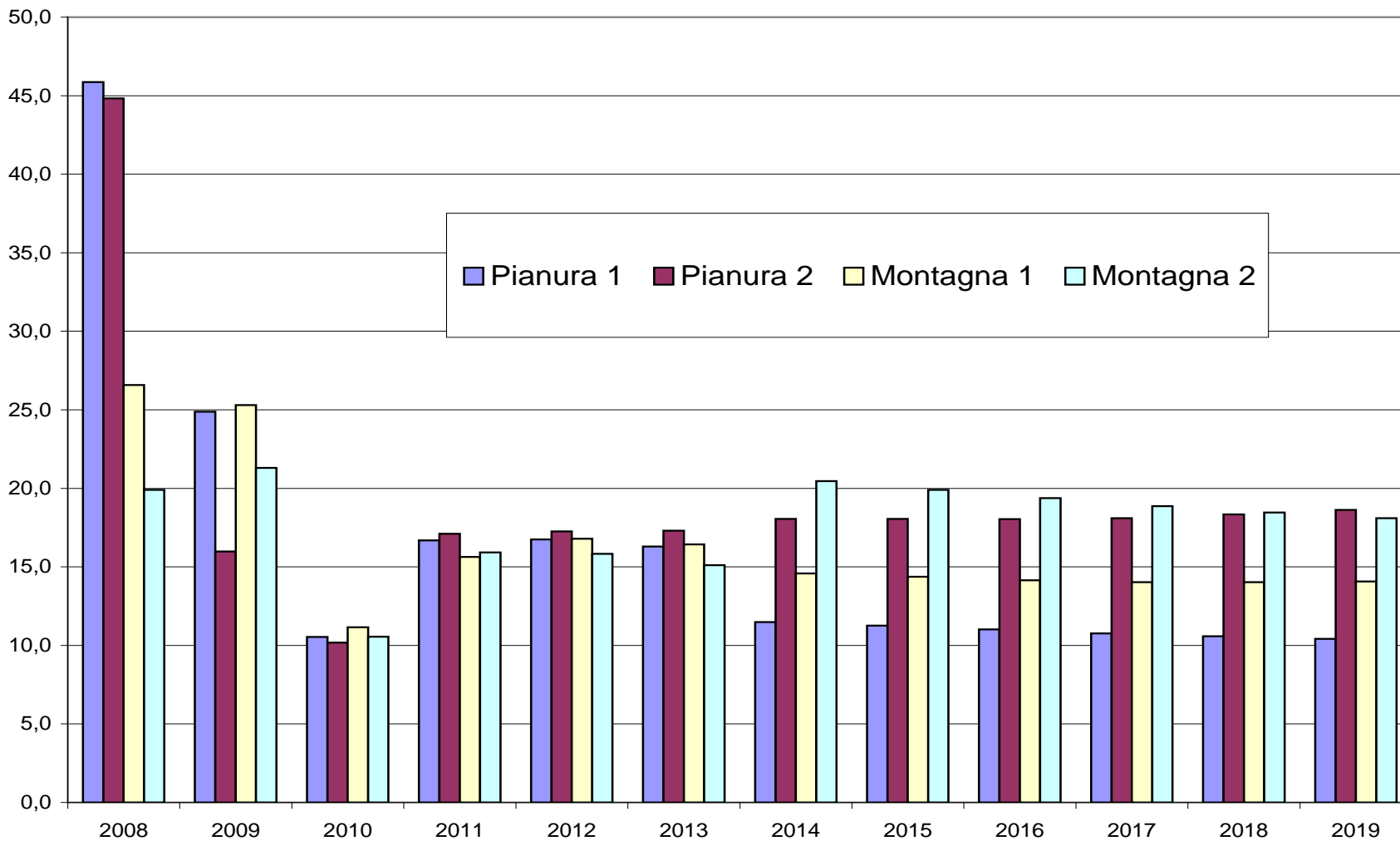


# Returns to labour 2011 – 2019 (Mountains)



# Percentage share of CAP premia in farm income (%)

Impact CAP in Italy after 2013



# Conclusions dairy farms

- Dairy farms have significantly less payments per hectare than specialised beef fattening farms, change will be less incisive
- The CAP reform will sustain in particular extensive dairy farms in less favoured areas of the EU