



EAAP 2014

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Competitiveness of Italian beef production

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Overview of presentation

- **Characteristics of beef production in Italy**
- **Development of supply and demand**
- **Implementation and impact of the CAP reform 2015 - 2020**

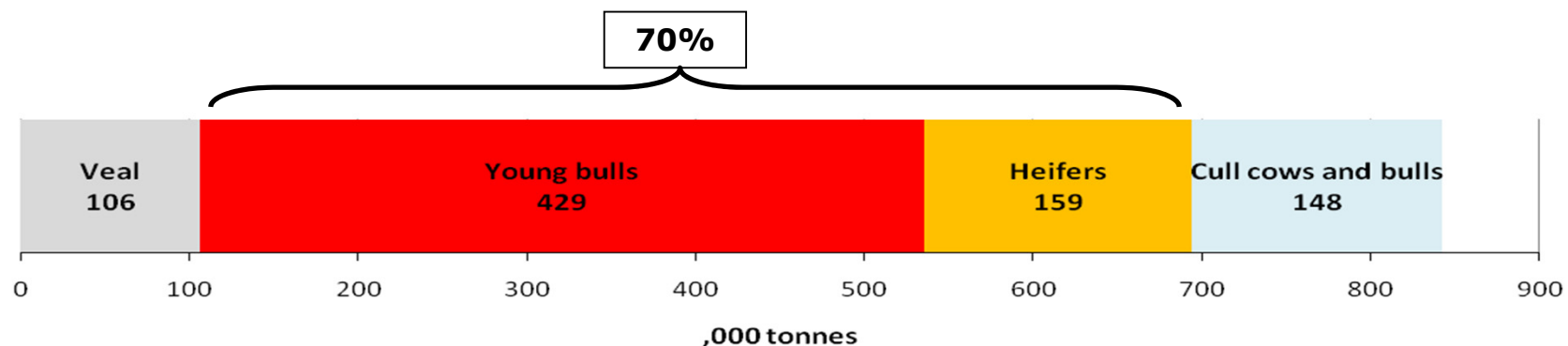
The key numbers of beef sector in Italy (2013)

- **Production = 855,000 tonnes (3rd producer in EU)/2,73 mil heads**
- **Import = 398,000 tonnes (chilled/froz. bovine meat)**
- **Export = 117,000 tonnes (chilled/froz. bovine meat)**
- **Self-sufficiency rate (production/consumption)=59%**
- **Consumption = 20,8 kg per inhabitant**

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

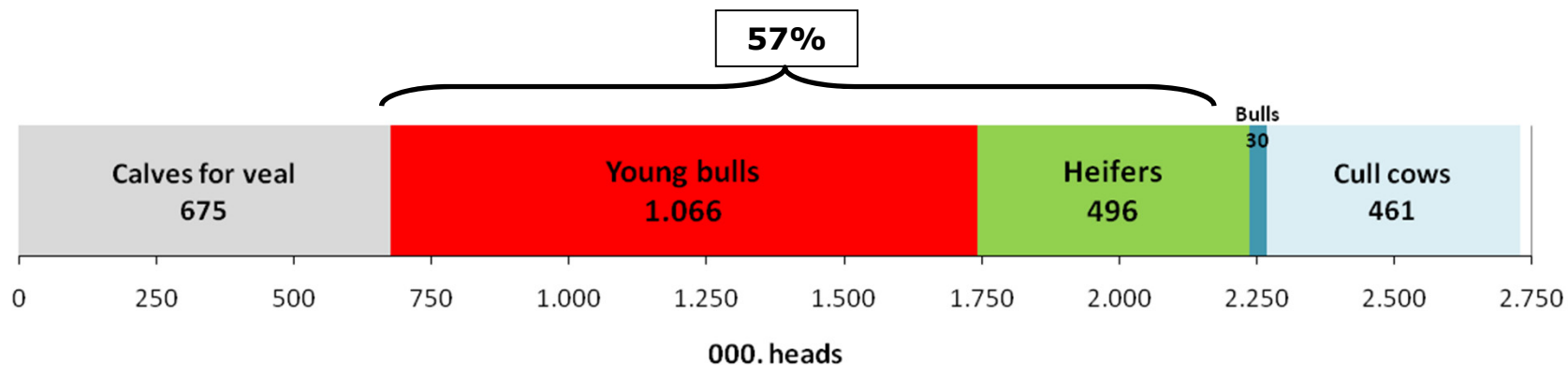
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-Total beef production in 2013: 855,000 tonnes (3rd^o producer in the EU)



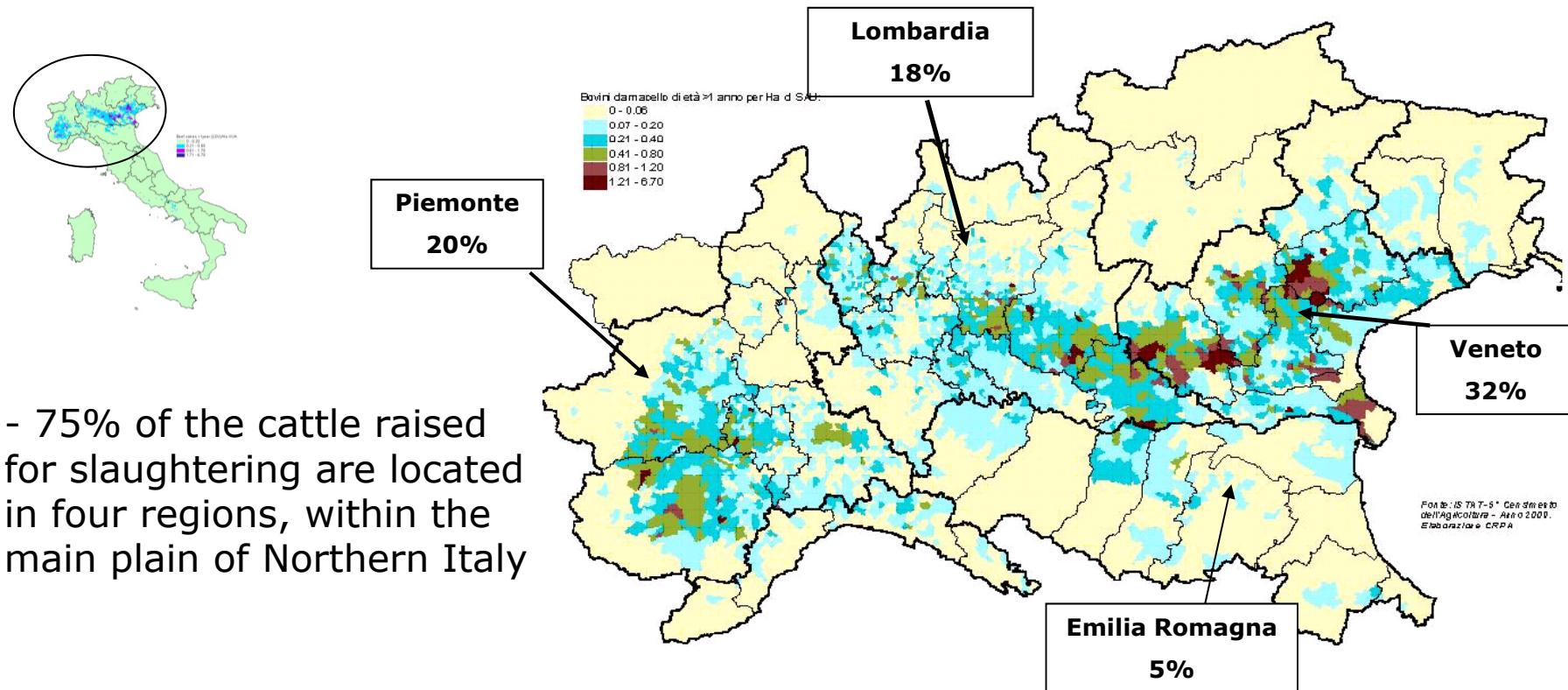
-Total cattle: 2,73 mln heads

Young bulls and heifers: 1,56 mln heads



Geographical distribution of young bulls and heifers from 1 to 2 years (840,000 heads)

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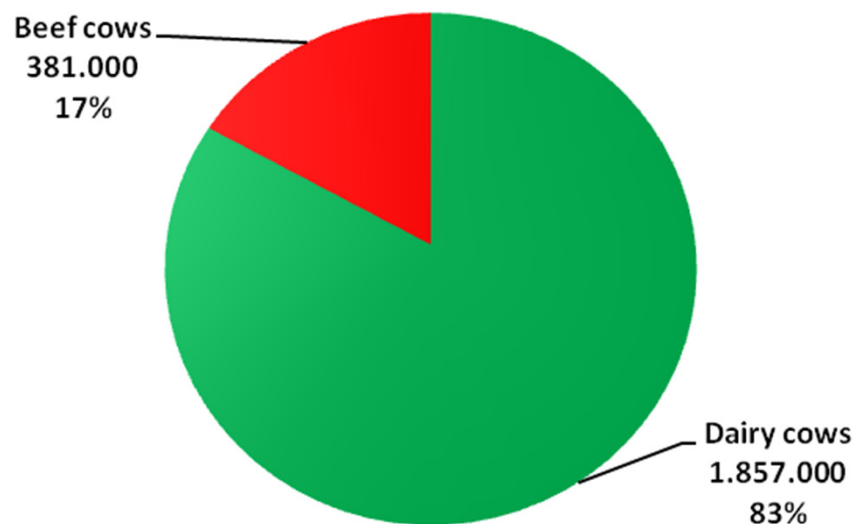


- 75% of the cattle raised for slaughtering are located in four regions, within the main plain of Northern Italy

- 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: elaborated by CRPA on ISTAT data

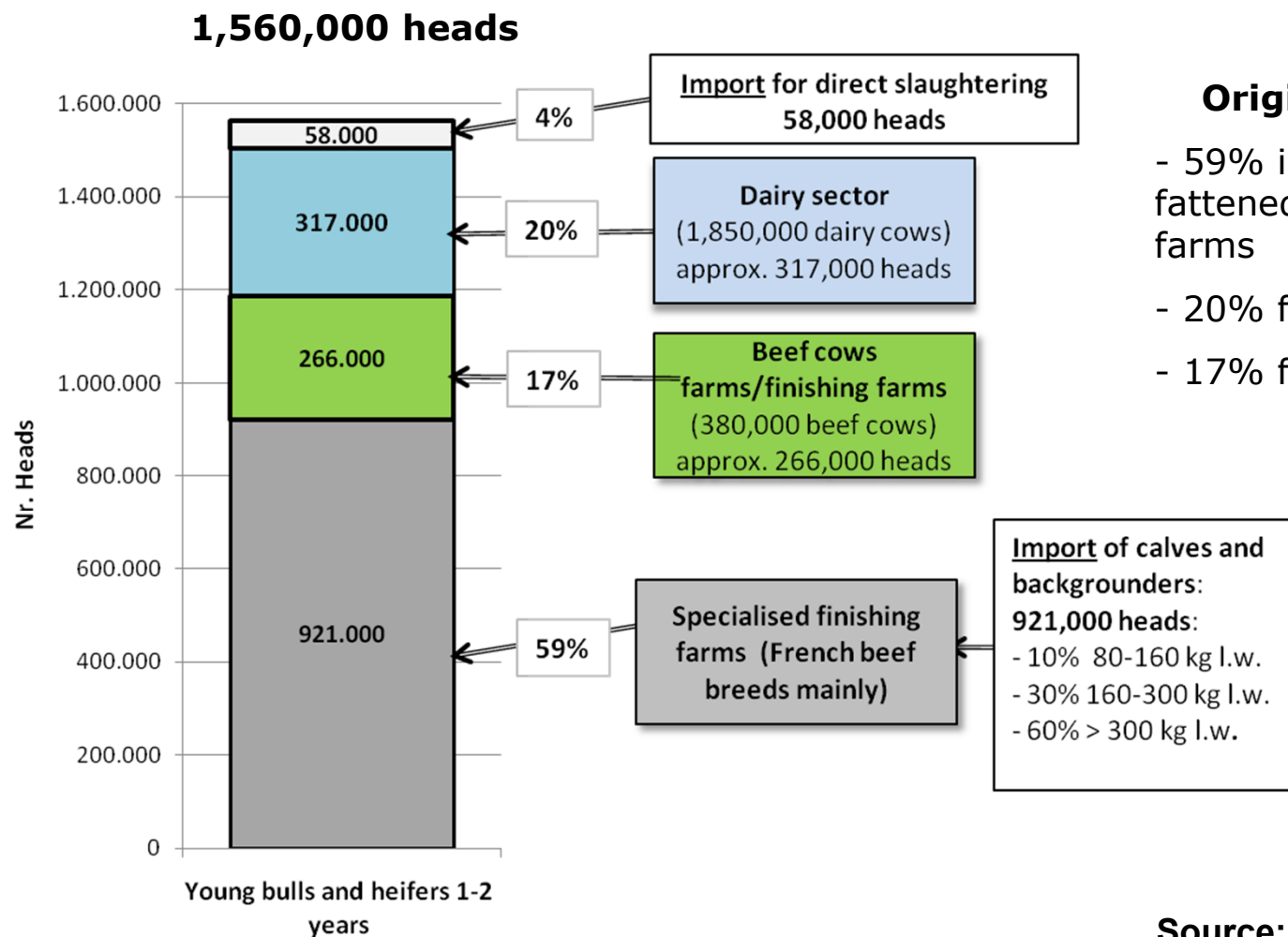
A suckler cows herd not large enough to satisfy domestic beef demand



- prevailing specialization of cows population in milk production (only 17% of beef cows on total population)
- Moreover, not all beef cows herd have been submitted to genetic selection (breed herdbooks) that would improve their productive potential
- Largest part of the calves from dairy farms (not used for cows replacement) are destined to veal production = link between bulls production and dairy is relatively weak

The major part of the supply of young bulls and heifers are provided by the import of beef calves (broutards) fattened in specialised beef finishing farms

Young bulls and heifers by farm type and origin



Source: elaborated by CRPA

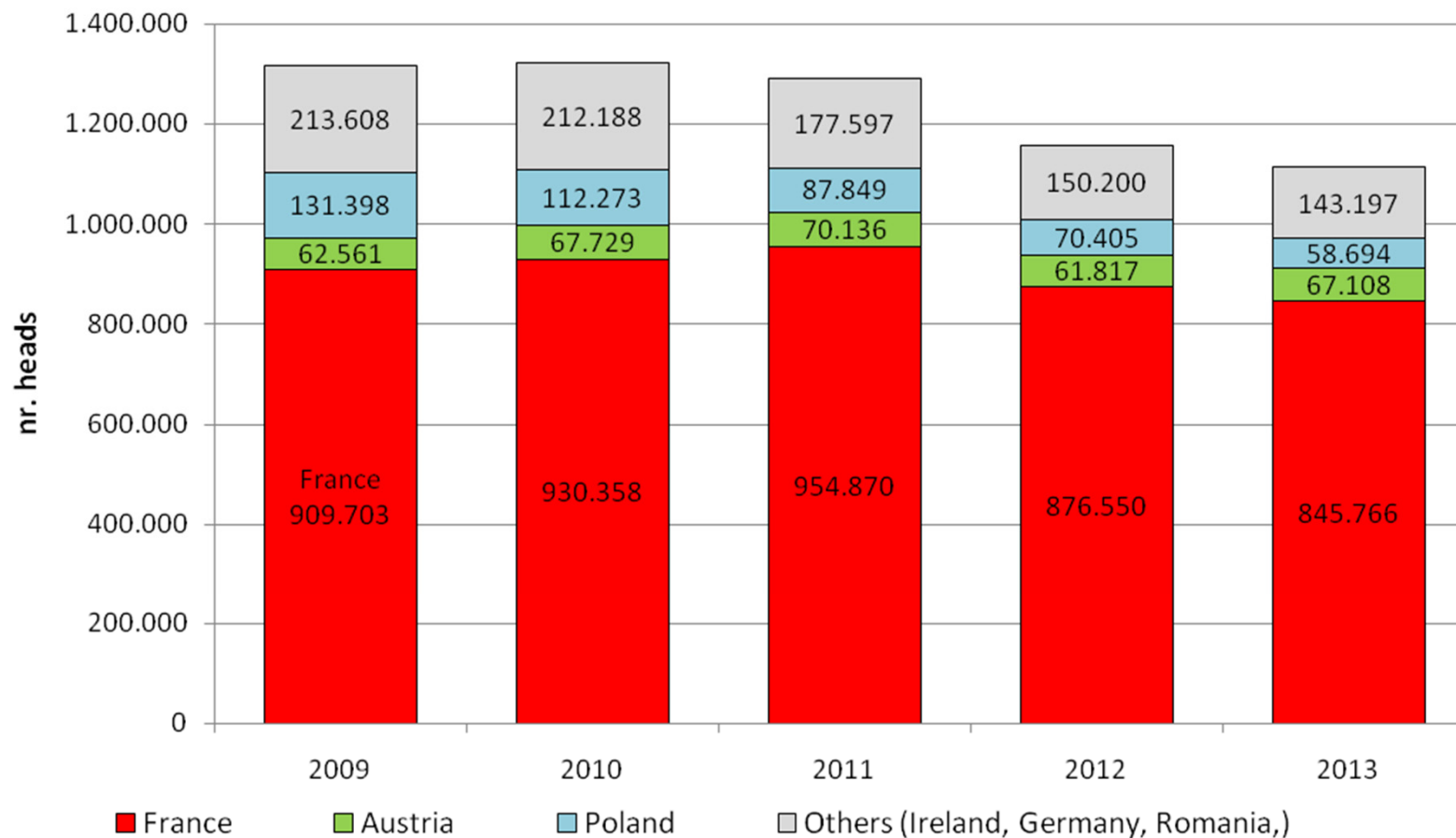
Italian beef supply balance sheet

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.000 tonnes	2008	2009	2010	2011	2012	2013	Var13/08
National cattle	861	840	842	752	730	660	-23,3%
Imported cattle	196	209	227	249	228	195	-0,4%
Production	1.057	1.049	1.069	1.000	958	855	-19,1%
Beef import	431	449	458	426	403	398	-7,6%
Availability	1.488	1.498	1.527	1.426	1.361	1.254	-15,8%
Beef export	117	106	134	134	124	117	-0,2%
Consumption	1.371	1.392	1.393	1.292	1.237	1.136	-17,1%
Self sufficiency	62,8%	60,3%	60,4%	58,2%	59,0%	58,1%	-4,7%

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

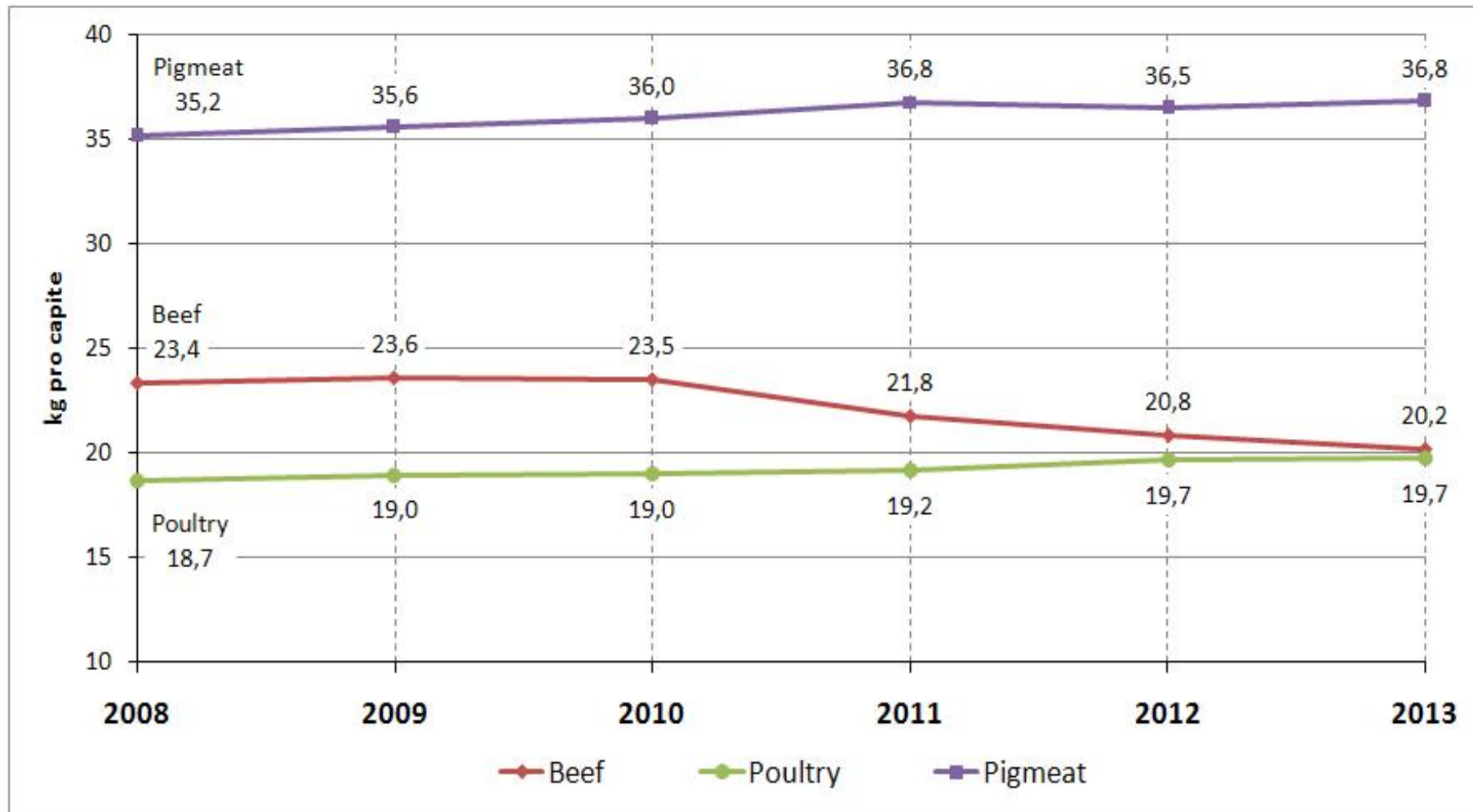
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Source: BDN data

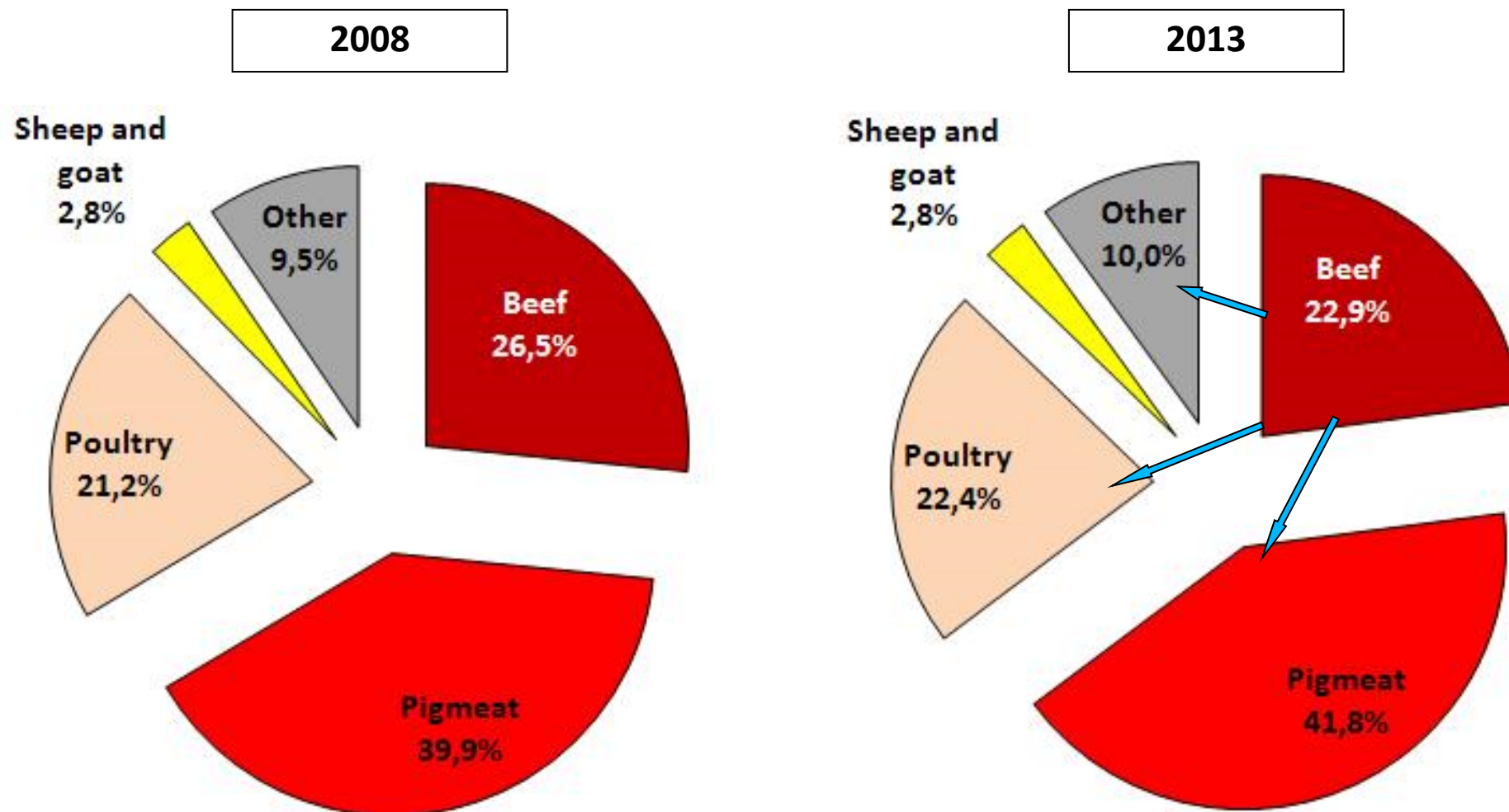
The reduction of domestic demand for beef (kg pro capita)

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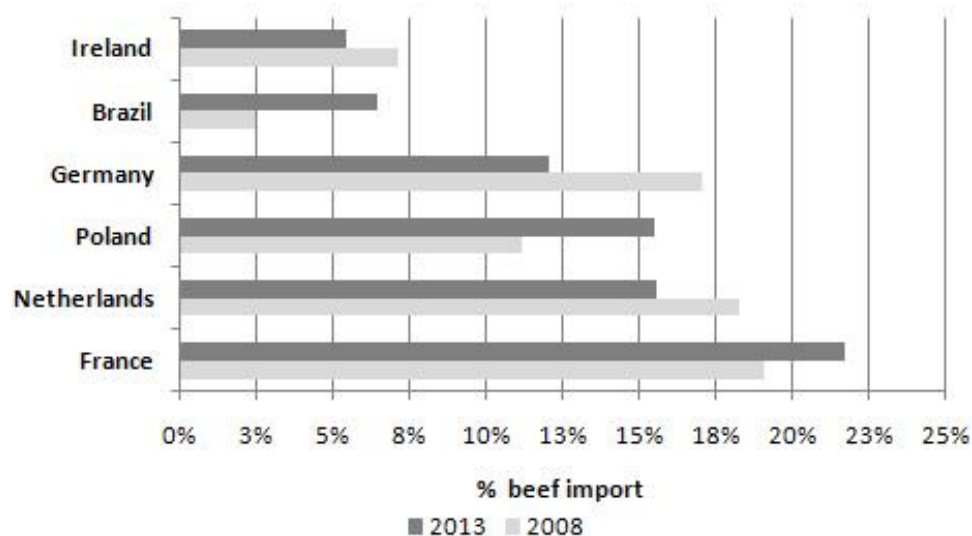
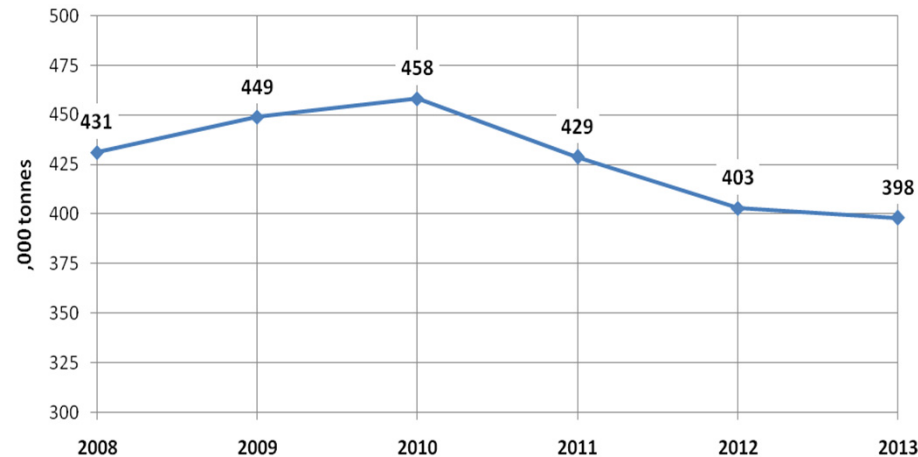
Source: elaborated by CRPA

The change in the share of households expenditure for meat 2008-2013 (volumes)



Source: elaborated by CRPA on Ismea and Istat data

Import of chilled and frozen meat



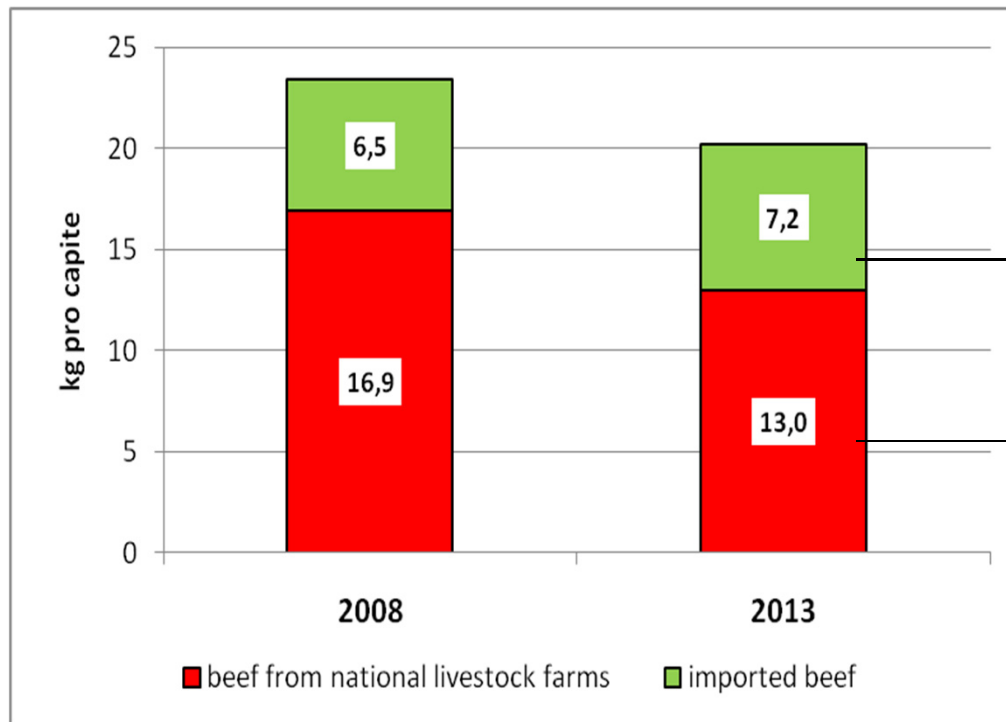
A reduction of beef import in the last three years due to consumption decrease. But the share of import on total consumption has increased

- France main supplier of beef, gaining quota on Germany and Netherlands
- Poland has been increasing its share on the Italian beef market (from 9% in 2008 up to 16% in 2013) due to the cheaper prices
- Continuous increase of imports from Brazil after the drop in 2008 (from 11% to 2%) due to the ban of EU on non-traced beef,

Domestic consumption and import

Despite declining consumption, the consumption of imported meat is growing.

Beef import increases especially from countries able to provide better logistics and distribution services (France) and/or lower prices (Poland and Brazil)



Pro capite consumption decreased by 14%

Consumption of imported beef increased by 10%

Consumption of beef from national livestock farms decreased by 23%

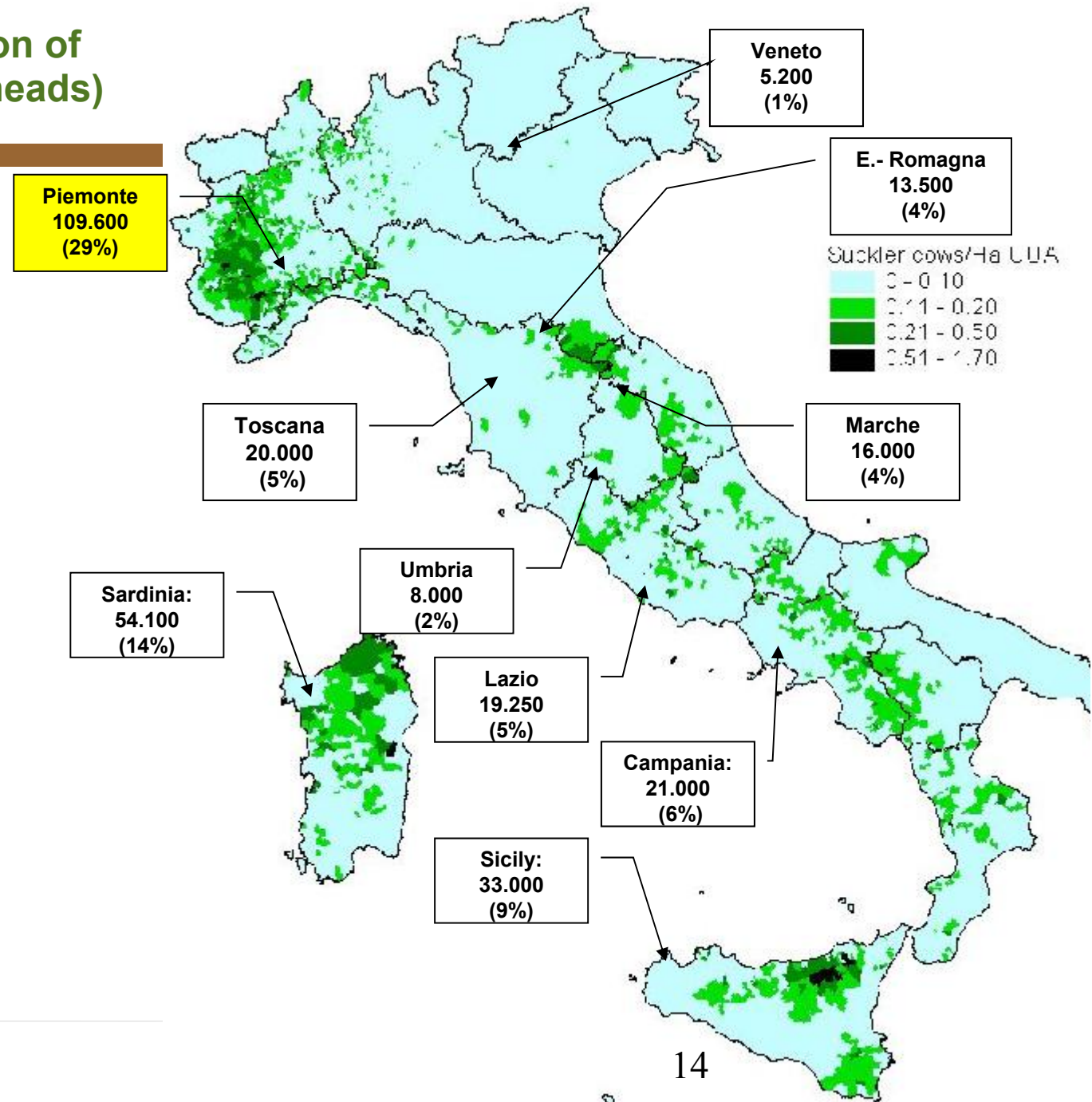
Source: Ismea

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

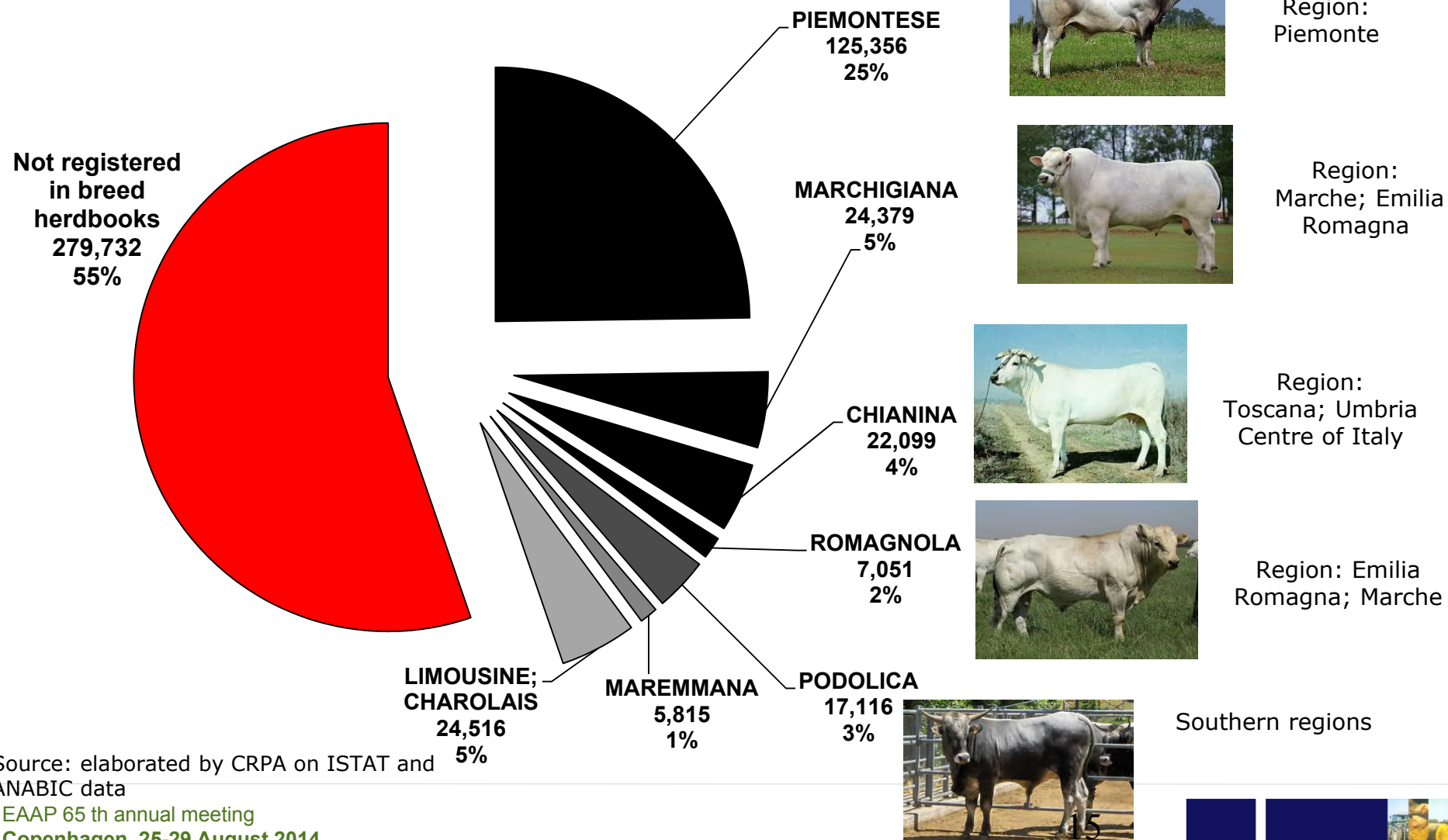
-The rest of the suckler cows is distributed in the areas surrounding the "Appenini" hill chain, which crosses Italy from North to South

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



A small breeding stock not fully exploited: suckler cows herd by registered breed

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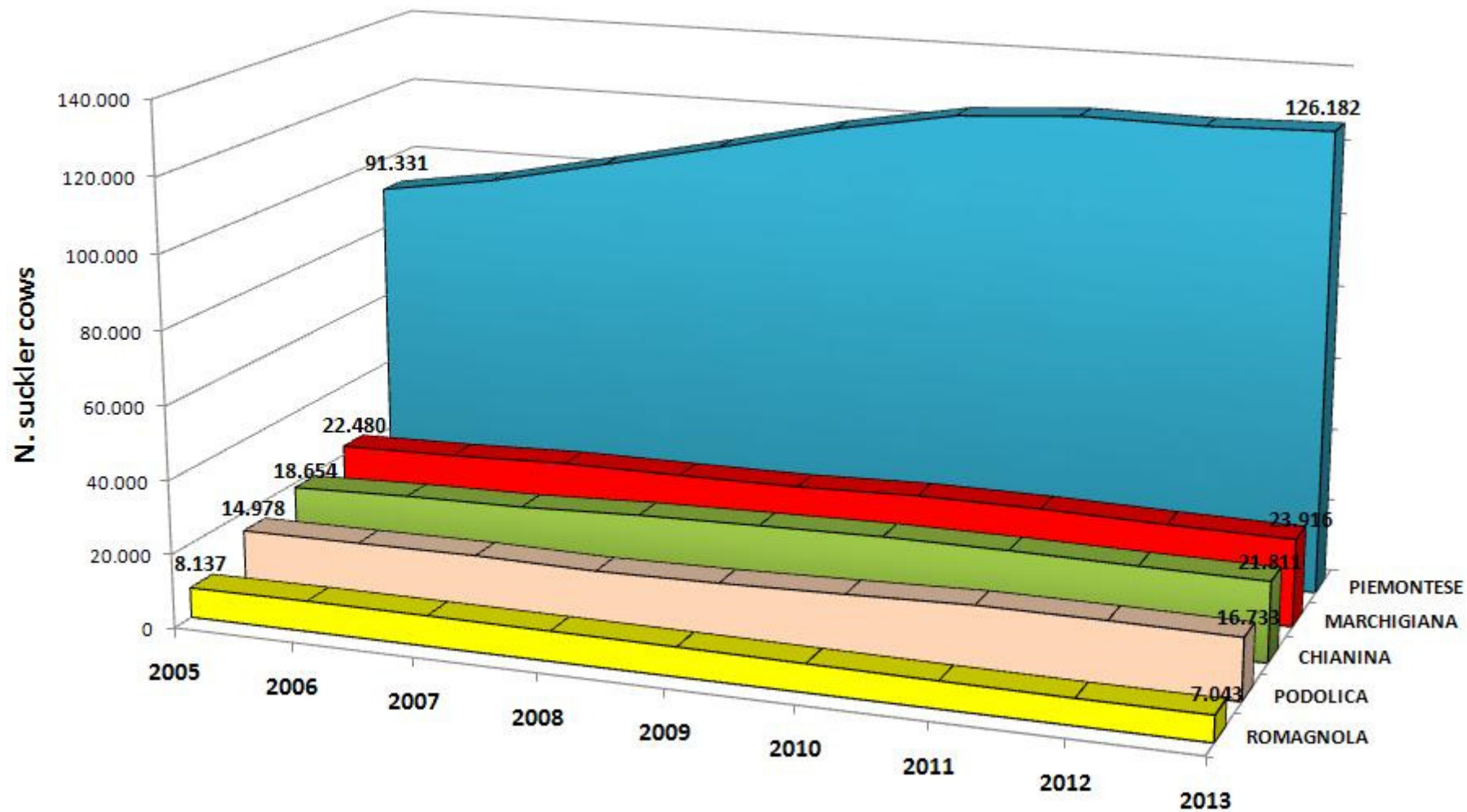


Source: elaborated by CRPA on ISTAT and ANABIC data

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The development of the suckler cows herd

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First considerations concerning competitiveness

- Lack of genetic selection of the majority of the suckler cows, for which breed herdbooks have not been established
- Weak synergies between finishing farms and dairy farms for the diversification of calves supply: importance of veal production and lack of coordination between the two sectors (provision of beef bull semen, insemination plannings, ..)
- Weak role of producers associations (marketing and trading activity)
- Profitability of the farms strongly depends on the direct CAP payments
- Competitiveness of beef imports (low cost or perceived as high quality beef)
- Local breeds able to serve niche markets with high retail prices (+30%) but difficulties in differentiating other meat produced by italian finishing farms
- Industrial sector still highly fragmentated

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

Break even price (2012-2014)

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

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.

The sectors that will benefit from new coupled payments

	%	ceiling (mln euro)	average payment*
Suckler cows registered in beef breeds herbooks	9%	40,5	202 €/head
Beef cattle (slaughtered at the age of 12-24 months)	16%	66,4	47 €/head
Dairy farms (calves born)	20%	84,6	56 €/head
Sheep and goat	4%	15,0	12 €/head
Buffalo	1%	4,0	20 €/head
Livestock sectors	49%	210,5	
Soybean (North Italy)	2%	10,0	
Rapeseed, sunflower, proteic crops and durum wheat	20%	85,4	
Other crops (rice, sugar beet, tomato)	12%	50,9	
Olive tree	16%	70,0	
Arable and permanent crops	51%	216,3	

Source: MIPAAF

Compared to the current coupled payments for beef sector resources will rise from 51,5 to 107 mln €:

- payment for suckler cows will increase by around 25% due to the more selective eligibility criteria (registration in breeds herdbooks)
- but in finishing farms coupled payment are likely to remain unchanged because more cattle will be eligible under the new art. 52

How coupled payments will change

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

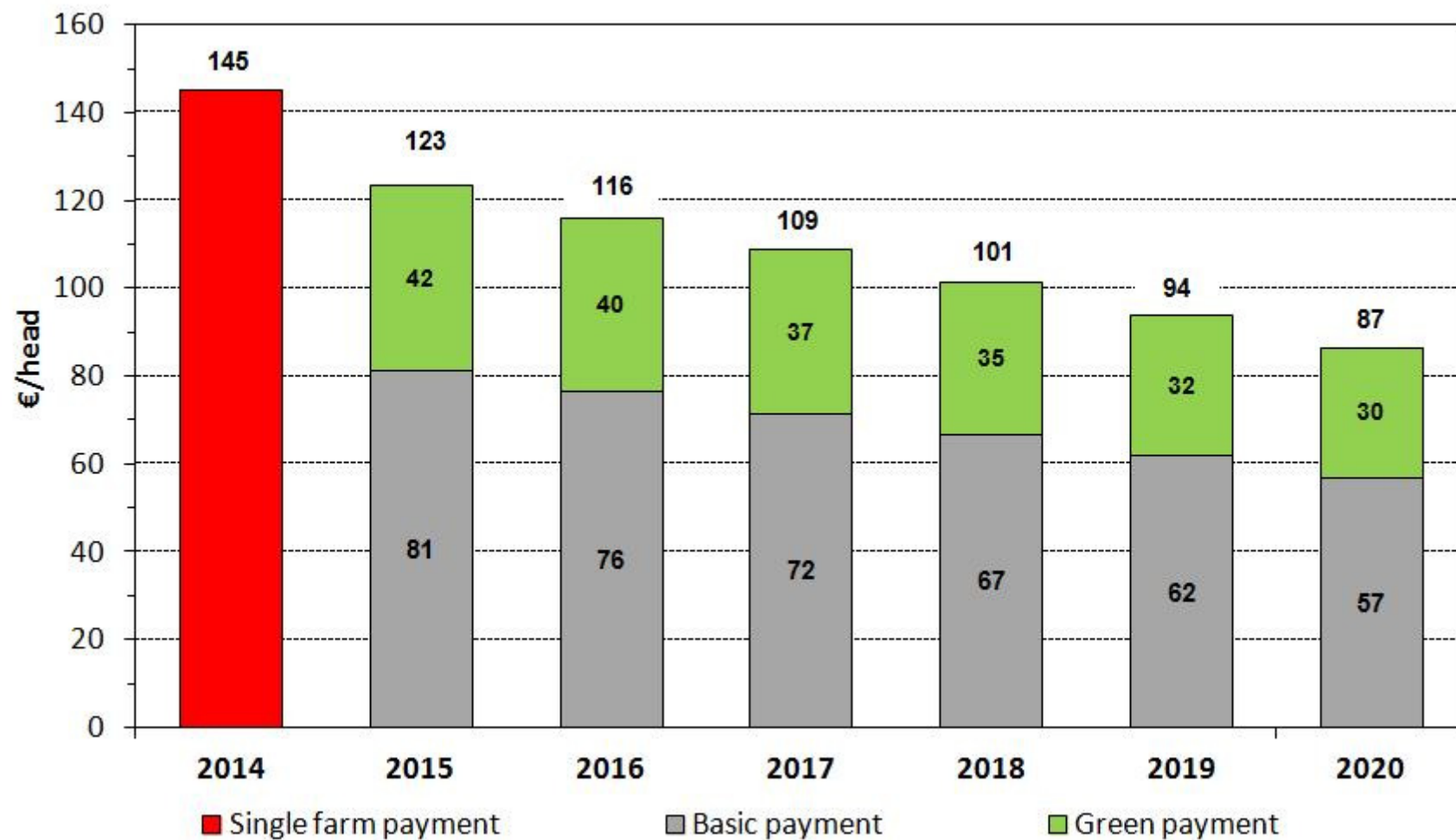
	National ceiling	Eligibility criteria	Average payment	n° of eligible heads
Slaughtering Cattle	27,5 mln €	- aged 12-24 years and reared in farms for at least 7 months - Compliance with voluntary labelling system	40 €/head	645,000
		- age 12-24 years and reared in farms for at last 7 months - PGI or National 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 expected to be eligible*
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	47 €/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	202 €/head	200,000

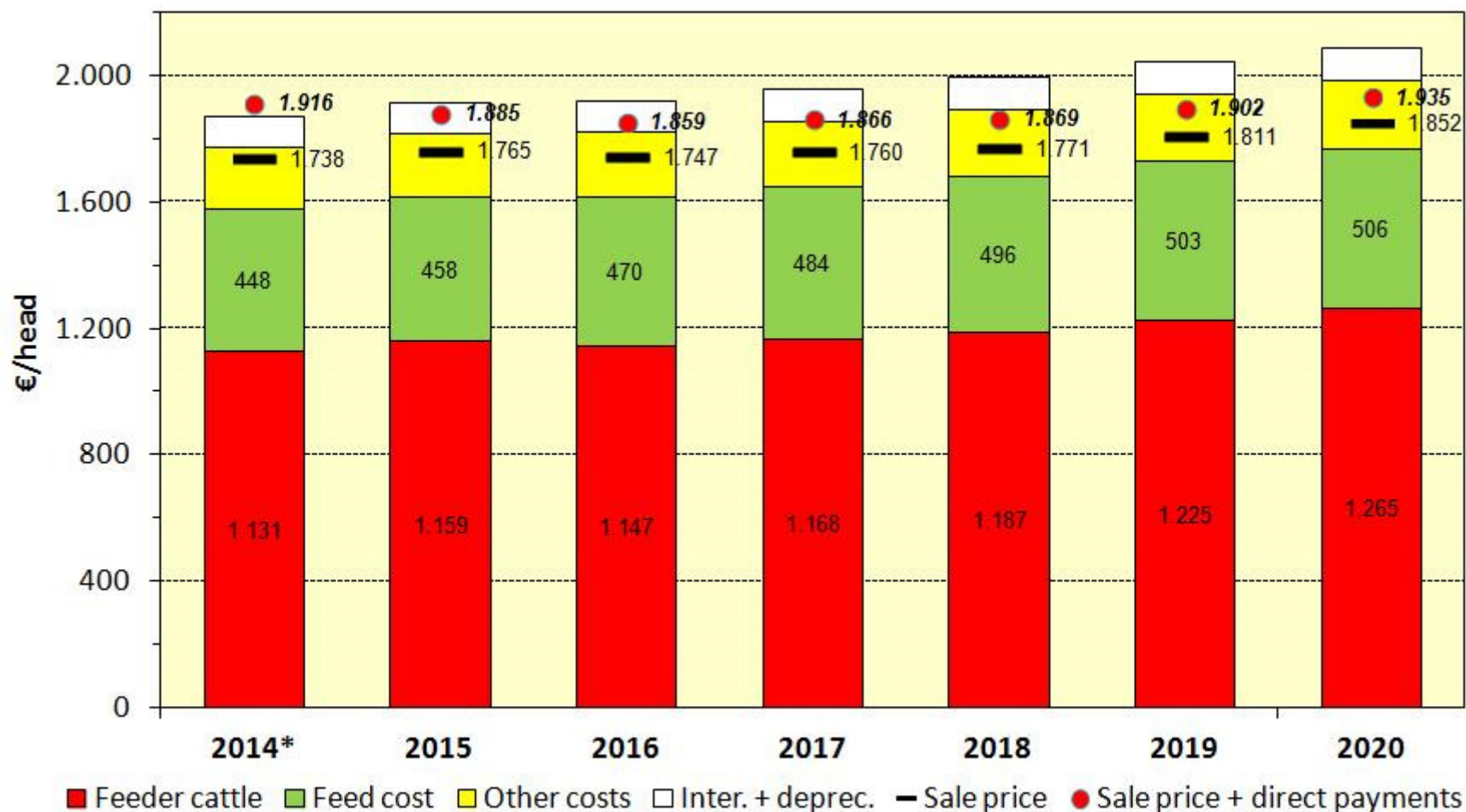
Decoupled payment per head sold

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

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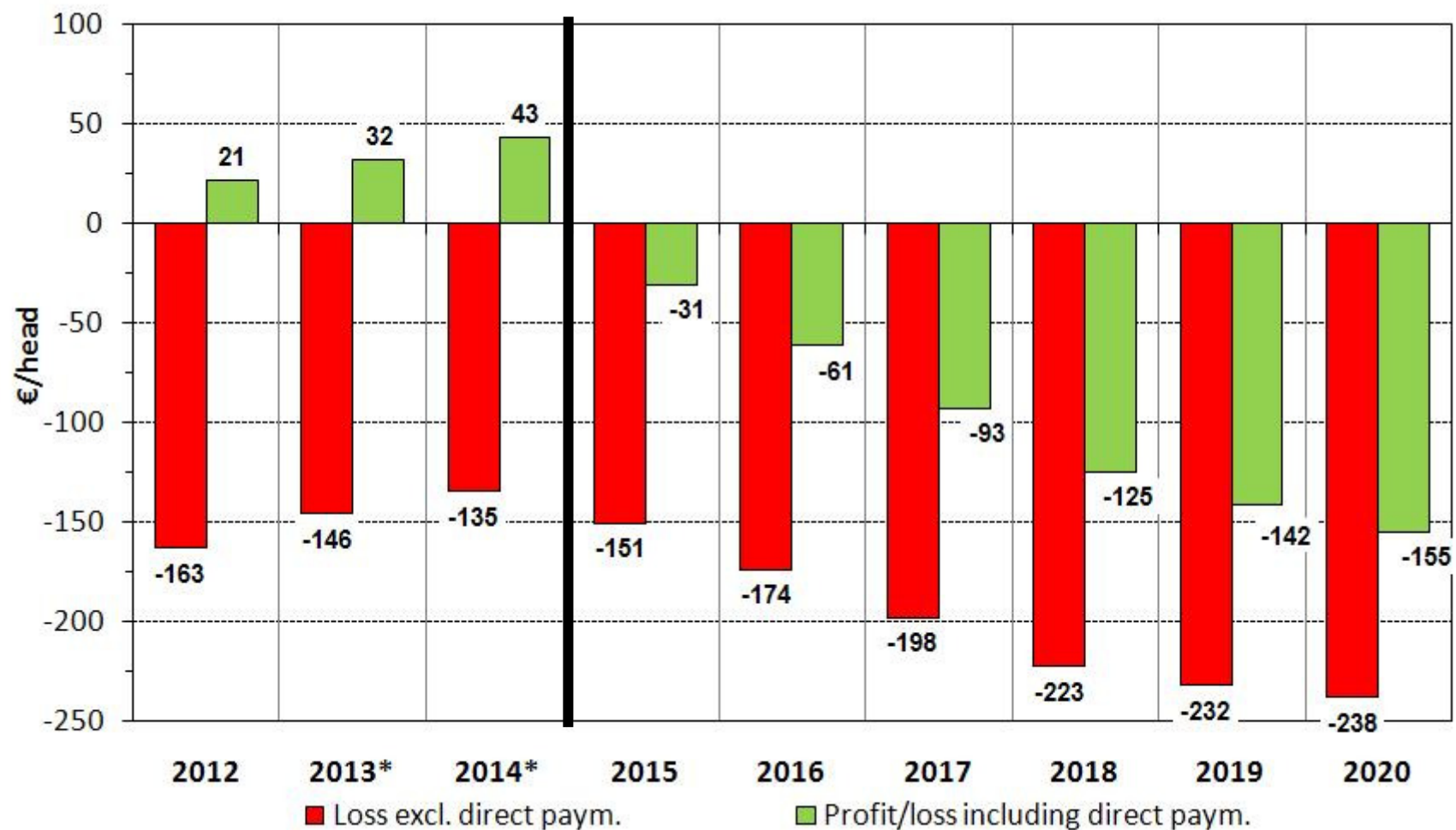
Break even price and profit/loss per head sold (2015-2020)

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€/head	2015	2016	2017	2018	2019	2020
Total cost	1.915	1.920	1.959	1.994	2.044	2.090
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
Total income	1.885	1.859	1.866	1.869	1.902	1.935
Loss excluded d. payments	-151	-174	-198	-223	-232	-238
Profit included d. payments	-31	-61	-93	-125	-142	-155

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

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Conclusions

- The CAP reform involves a severe cut of the decoupled payments for intensive beef farms, although mitigated by the model of partial convergence and by greening granted as % of basic payment and coupled payments
- Despite the increase of the ceiling for art.52 the amount per head is expected to increase only slightly because 63% more cattle head are eligible under art.52 Reg. 1307/2013

Two important changes are necessary to maintain competitiveness:

1. Further increase of efficiency on farms and in slaughterhouses
2. Strong increase of eating quality of beef in Italy which is highly priced but not sufficiently appreciated by consumers