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Implemenation of the CAP-reform in Germany and Consequences for German Beef Production

Perspectives of Beef Production in Europe
EAAP Workshop, Uppsala, Sweden

3rd June 2005

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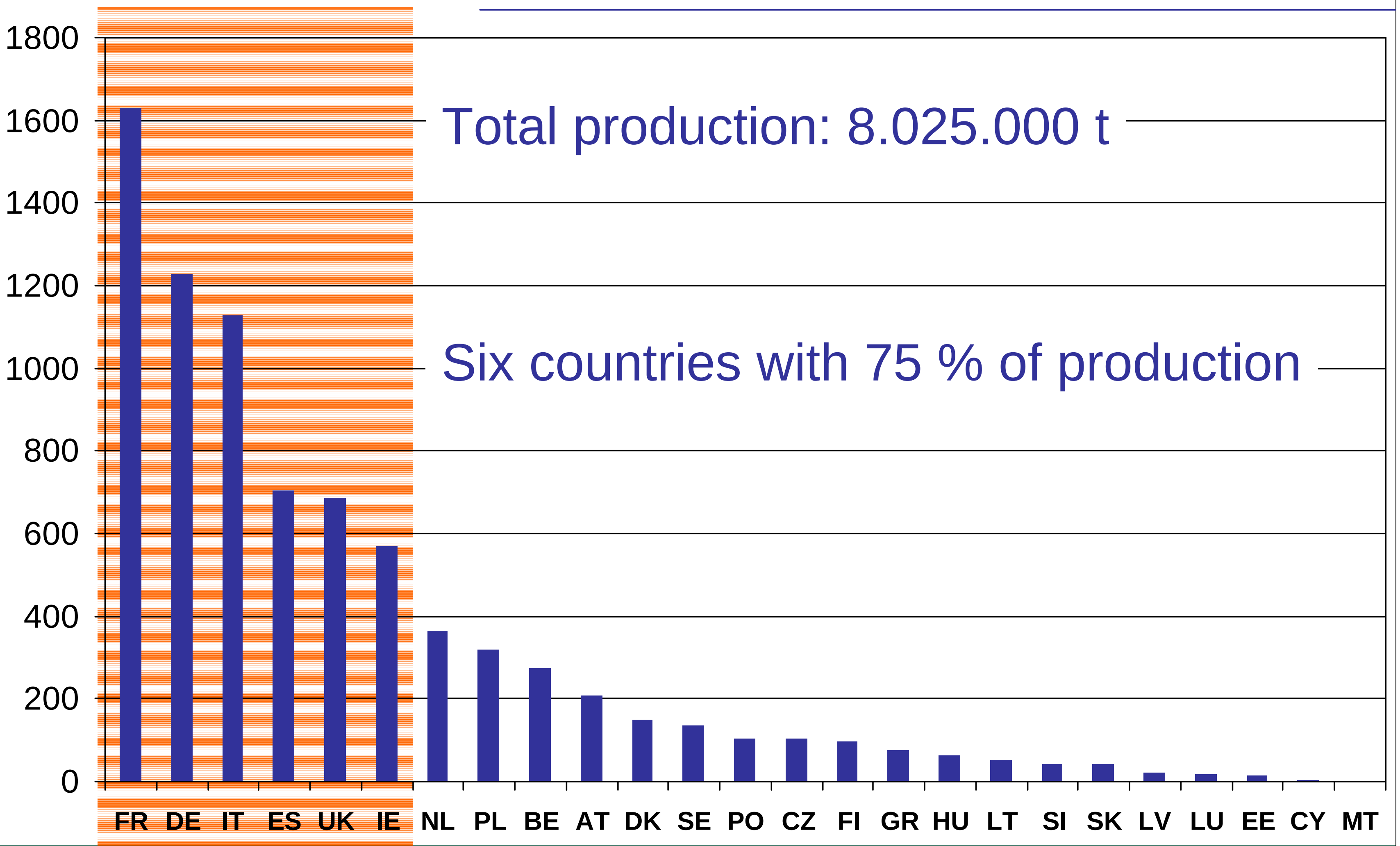
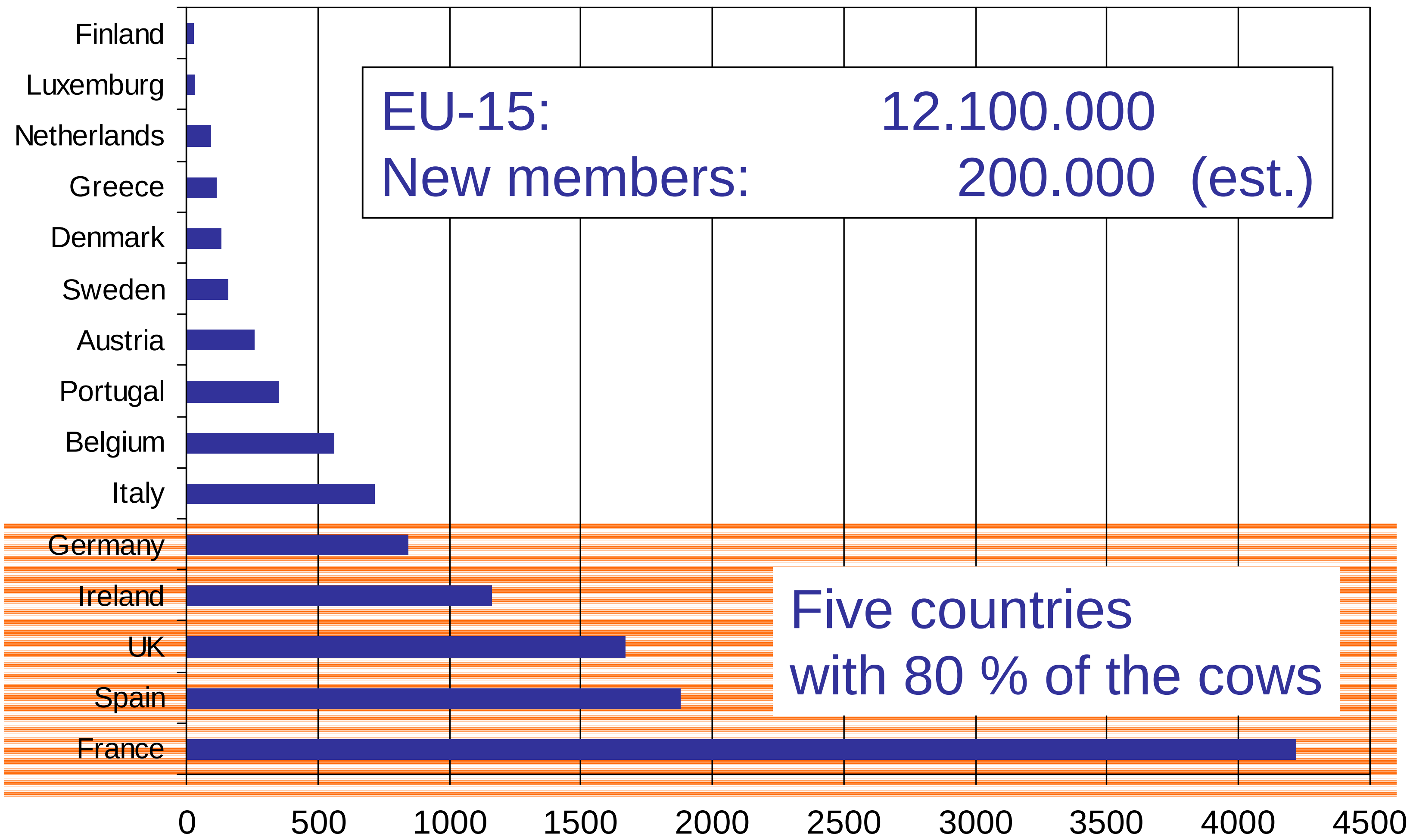
Beef production in the EU-25
– 1,000 Tons 2003

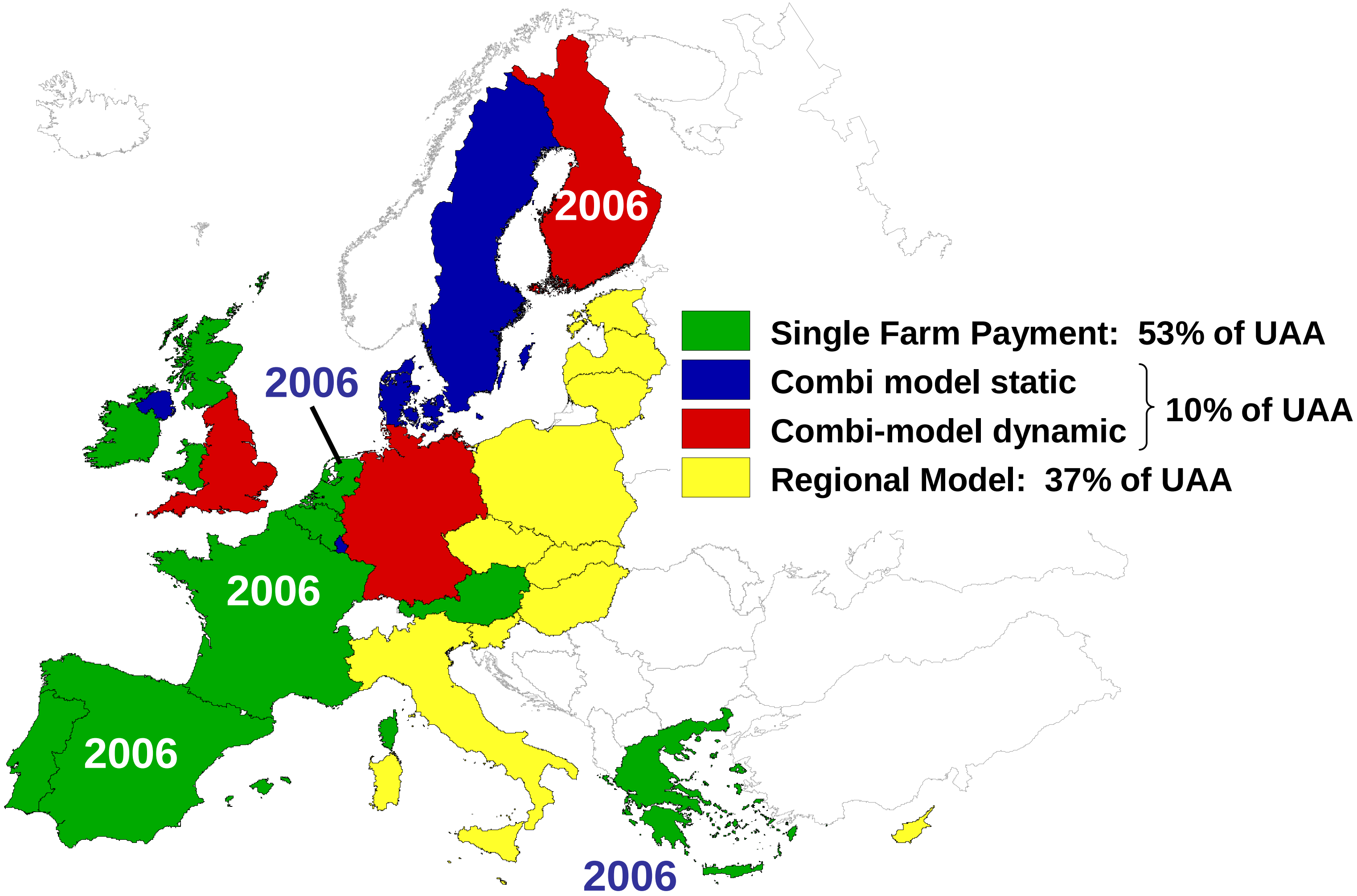


Source: FAO-STAT

Number of suckler cows in the EU-15
– 1,000 Head in 2003



Payment models in the EU-25



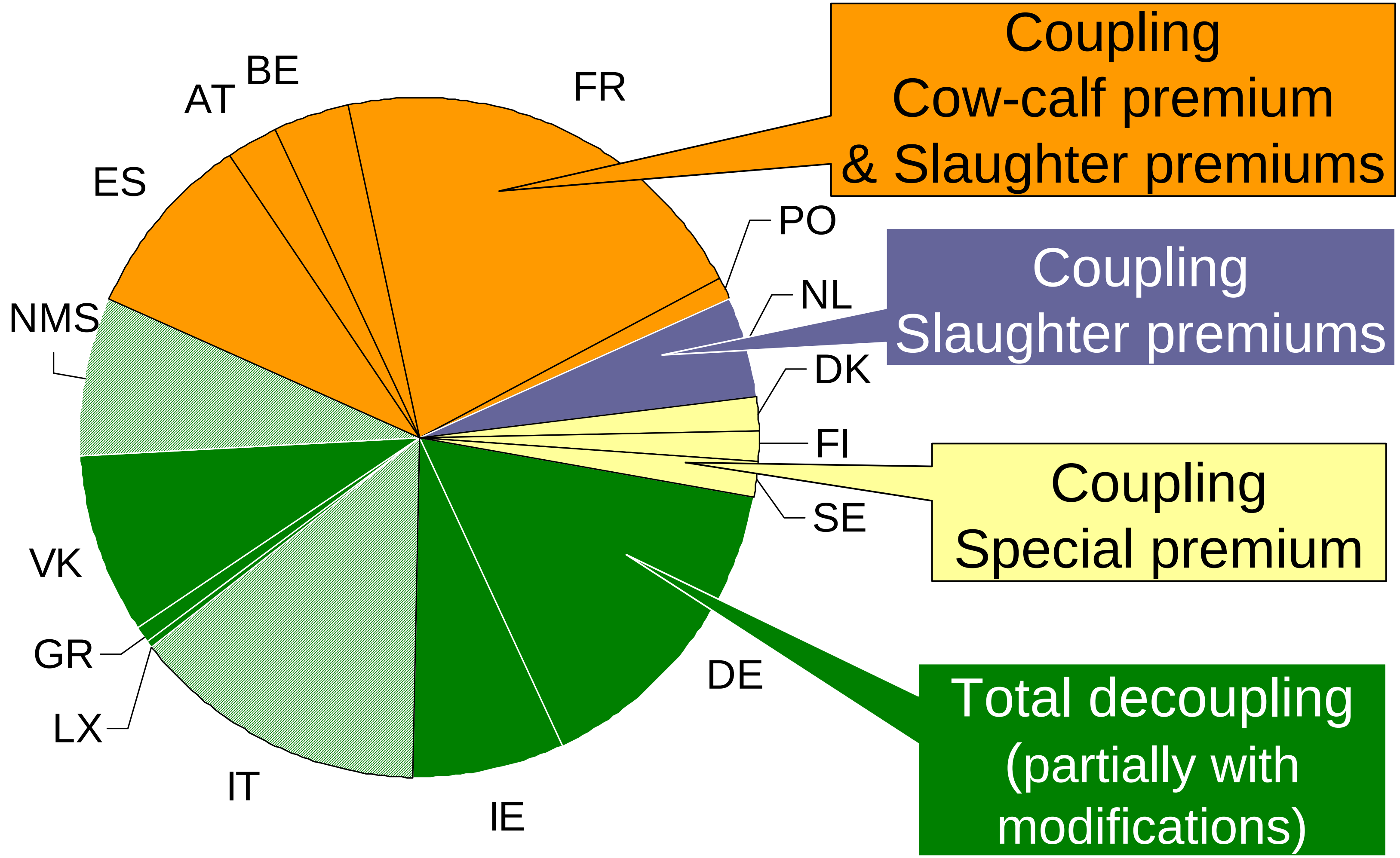
Source: Agra-Europe 11/04, EN 12-14; AE 35/04, EN 1-3; Agra-Europe AgraFacts 30.01.04

Options for coupling beef premiums
– Percentages indicate the level of coupling

Payment	Option I	Option II	Option III
Slaughter premium calves	up to 100 %	up to 100 %	up to 100 %
Suckler-cow Premium	up to 100 %	0 %	0 %
Slaughter-premium adult cattle	up to 40 %	up to 100 %	0 %
Special premium for male cattle	0 %	0 %	up to 75 %

Source: EU-COM REG 1782/2003; Articles 66-68, 29. September 2003

Share in total beef production 2003 and (de)coupling options in the beef sector



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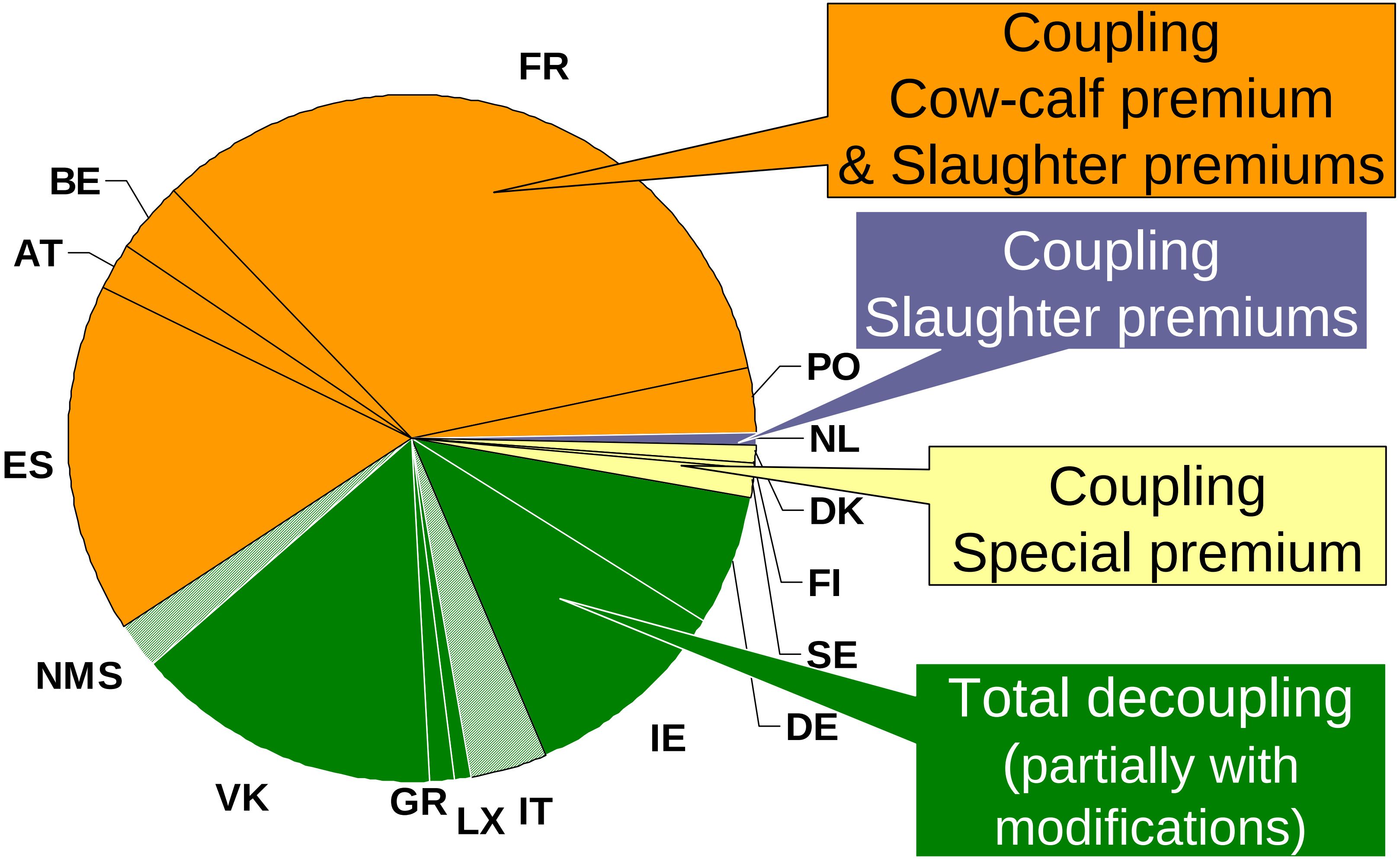
Share in total beef cow numbers 2003 and (de)coupling options in the beef sector



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Source: EUROSTAT; NMS: 2001; ES+PO: 2002; Other countries 2003

Implementation of the CAP-reform in Germany

- Full decoupling of per-head-payments from 2005 onwards
- Dairy quota system is maintained until 2014 but milk intervention prices are reduced by 15 % in 2005-2007 and a decoupled milk premium is introduced
- Combination model with a regional hectare premium and a single farm payment (SFP) until 2009
- Initial hectare payments depend on number of application as by May 2005
- From 2009 to 2013 the SFP is converted into a hectare payment
- In 2013 SFP = zero and
  hectare payment with an average of 328 EUR/ha in Germany for both arable land and grass land

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Allocation of coupled premiums to SFP and hectare payments in Germany 2005-2009

Hectare payment

Cropland

Grand Cultures p/

Seed production p/

75 % dec. starch payments p/

Decoupled hop p/

Grassland

Slaughter p/ adults

National p/ cattle

50% extensification p/ cattle

Single farm payment

Dairy p/

Suckler cow p/

Special p/ male cattle

Slaughter p/ calves

50% extensific. p/cattle

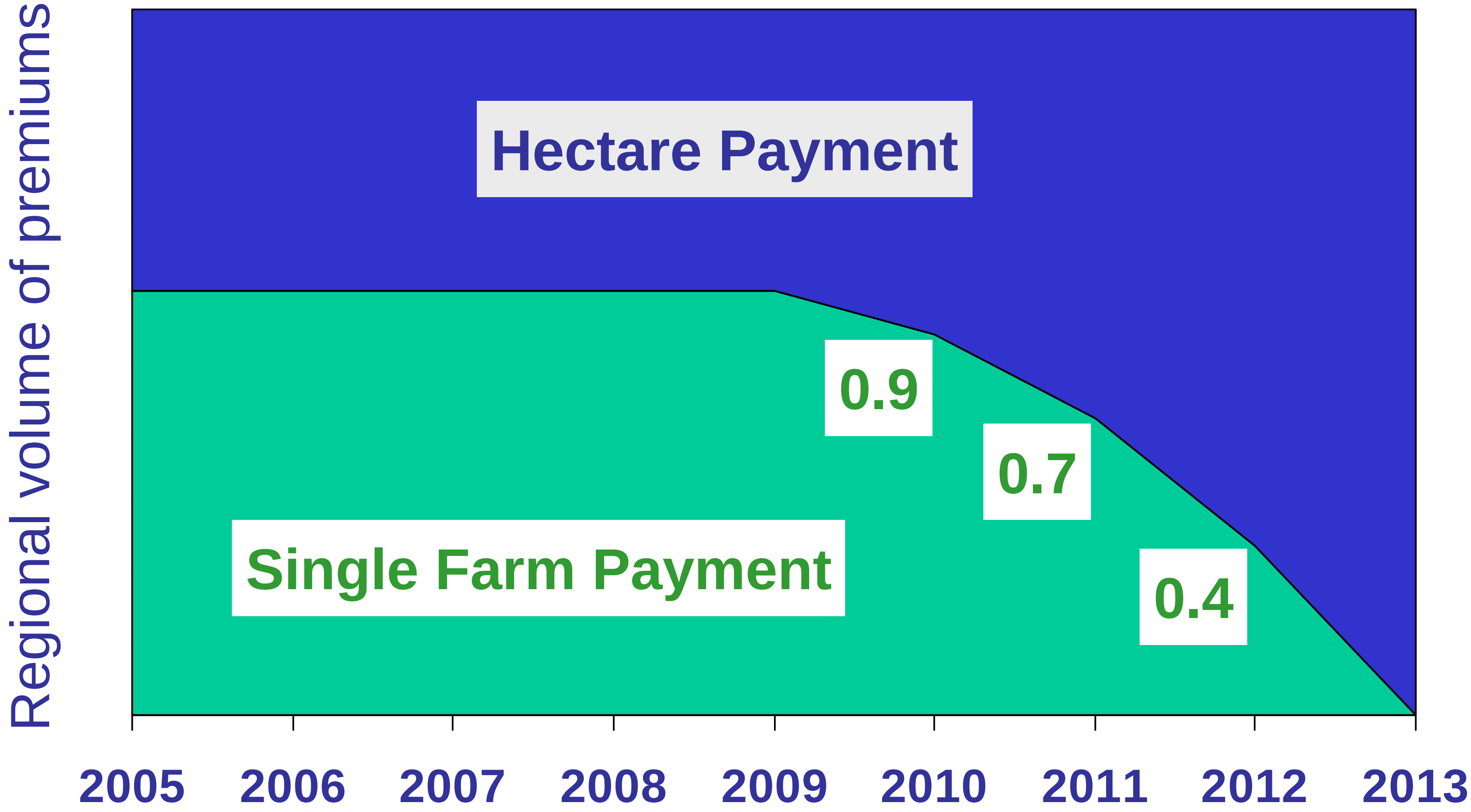
Ewe p/

25 % dec. starch payments

Decoupled part tobacco and dry feed

Source: DBV (German Farmers Association)

Dynamisation of the combi-model
– evolution towards a hectare payment in 2013



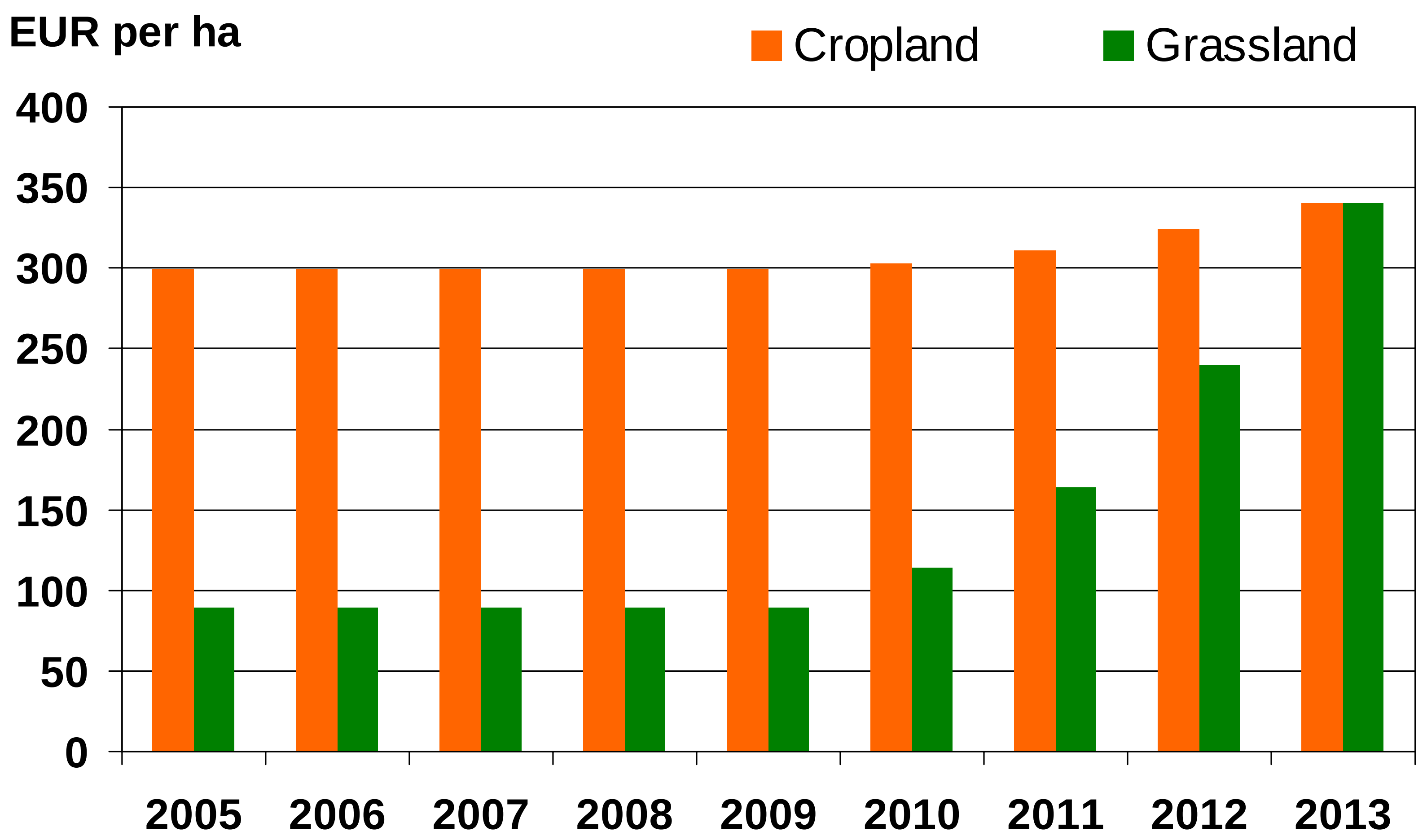
Source: DBV (German Farmers Association)

Start and end values of acreage payments by Bundesländer (estimation)

Bundesland	2005 Grassland	2005 Cropland	2013 Homogeneous Acreage payment	2013 vs. 2005 Direction crop payments
Baden Wurttemberg	56	317	302	-
Bavaria	89	299	340	++
Brandenburg	70	274	293	++
Hesse	47	327	302	--
Mecklenburg-Pomerania	61	316	322	+
Lower Saxony	102	259	326	+++
Northrhine-Westphalia	111	283	347	+++
Rheinland-Palatina	50	288	280	-
Saarland	57	296	265	---
Saxony	67	321	349	++
Saxony-Anhalt	53	337	341	+
Schleswig-Holstein	85	324	360	++
Thuringia	61	338	345	+
Germany	**79**	**301**	**328**	**++**

Source: BMVEL 2004

Evolution of acreage payments 2005-2013 in Germany – example Bavaria



Source: BMVEL 2004

Implications

- Full decoupling: **no obligation to produce** anymore
- The SFP until 2009 reduces the liquidity problems for intensive (dairy and beef finishing) farms
- To receive payments the land must be maintained in a defined status (cross compliance), basically kept ‘open’
- This can be done mechanically by mulching once a year at cost of approx. 50 EUR/ha
- If the loss from beef production is below –50 EUR/ha, mechanical maintenance is the better alternative

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Policy analysis for Germany 2013 vs. 2002
– Assumptions

	MTR * vs. 2002
Beef price	constant
Calf price	constant
Milk price	- 17 %
Milk yield (p.a.)	+ 2,1 %

* Combi-model: Single Farm Payment + acreage payment 2005-2009
2010-2013 phasing out of SFP to zero and average payments 328 EUR/ha

Source: FARMIS-calculations with additional price scenarios based on Kleinhanß, Hüttel, Offermann 2004

Policy analysis for Germany 2013 vs. 2002
– Impact on production

	MTR compared to 2002	
Number of beef cows	- 23 %	> decoupling and low calf prices
Number of dairy cows	- 19 %	> Milk yield increase, quota constant
No. of finishing bulls	- 16 %	> less competitive due to decoupling > compensation by beef price increase and calf price decrease insufficient > mainly in less intensive farms > mainly in small farms
Beef production	- 17 %	> less cow numbers > less bulls

Source: FARMIS-calculations with additional price scenarios based on Kleinhanß, Hüttel, Offermann 2004

Policy analysis for Germany 2012 vs. 1999
– Impact on incomes

MTR compared to 2002

Bull finishers

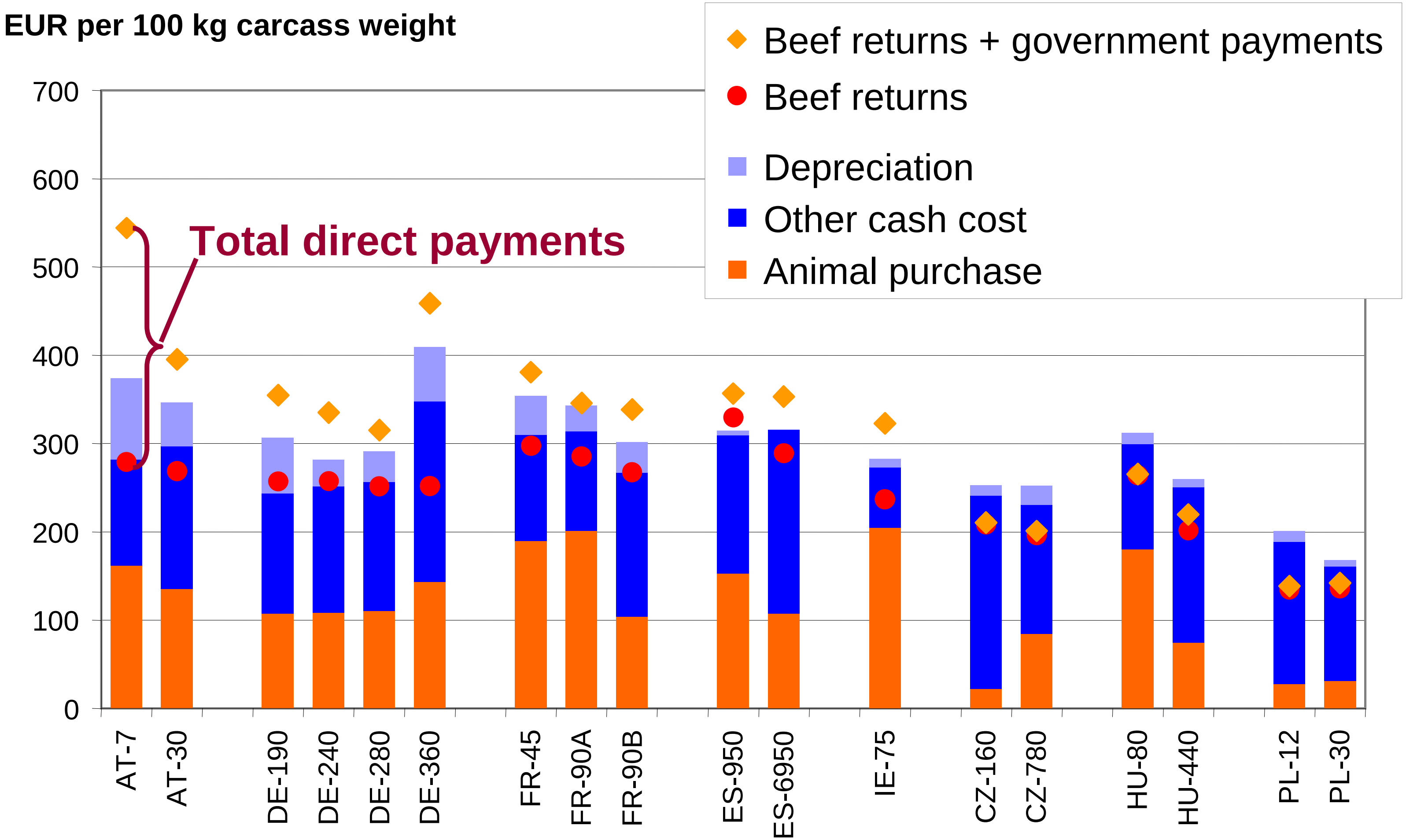
- Lower incomes mainly in intensive farms with high stocking rates
- Average losses 50 EUR/ha
- Farms with more than 2.5 bulls per ha forage area 200 EUR/ha (higher than 200 in MTRvar due to higher calf prices)

Cow-calf operations: heterogeneous

North and Centre:	gains of 40-65 EUR/ha
South:	losses less than 20 EUR/ha
East:	from gains + 20 to losses – 40 EUR/ha

Source: FARMIS-calculations with additional price scenarios based on Kleinhanß, Hüttel, Offermann 2004

Cost, returns & profitability of beef production
– Coupled situation until 2004/2005



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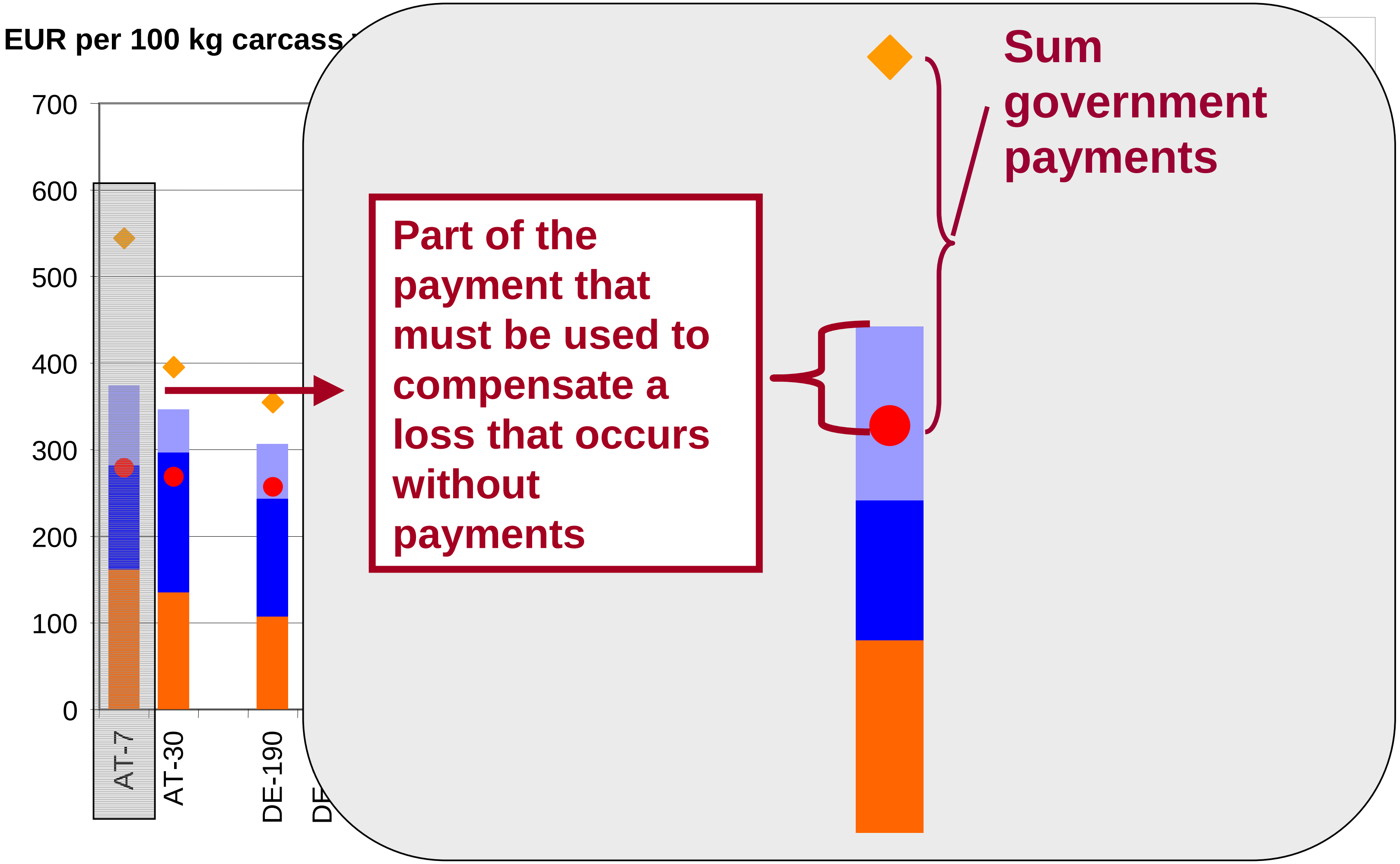
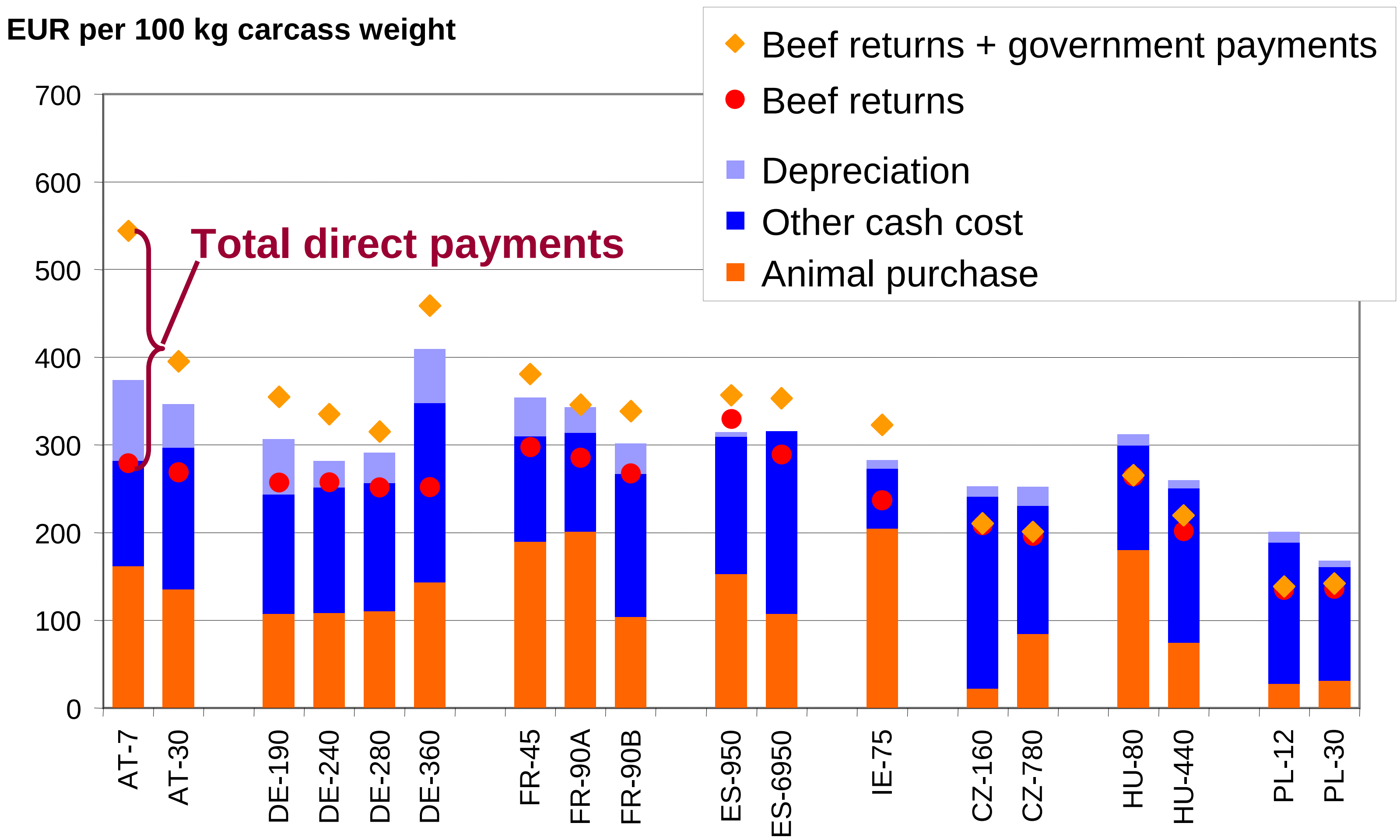
Source: IFCN Beef Report 2004

Coupled situation until 2004 / 2005
– Beef finishing



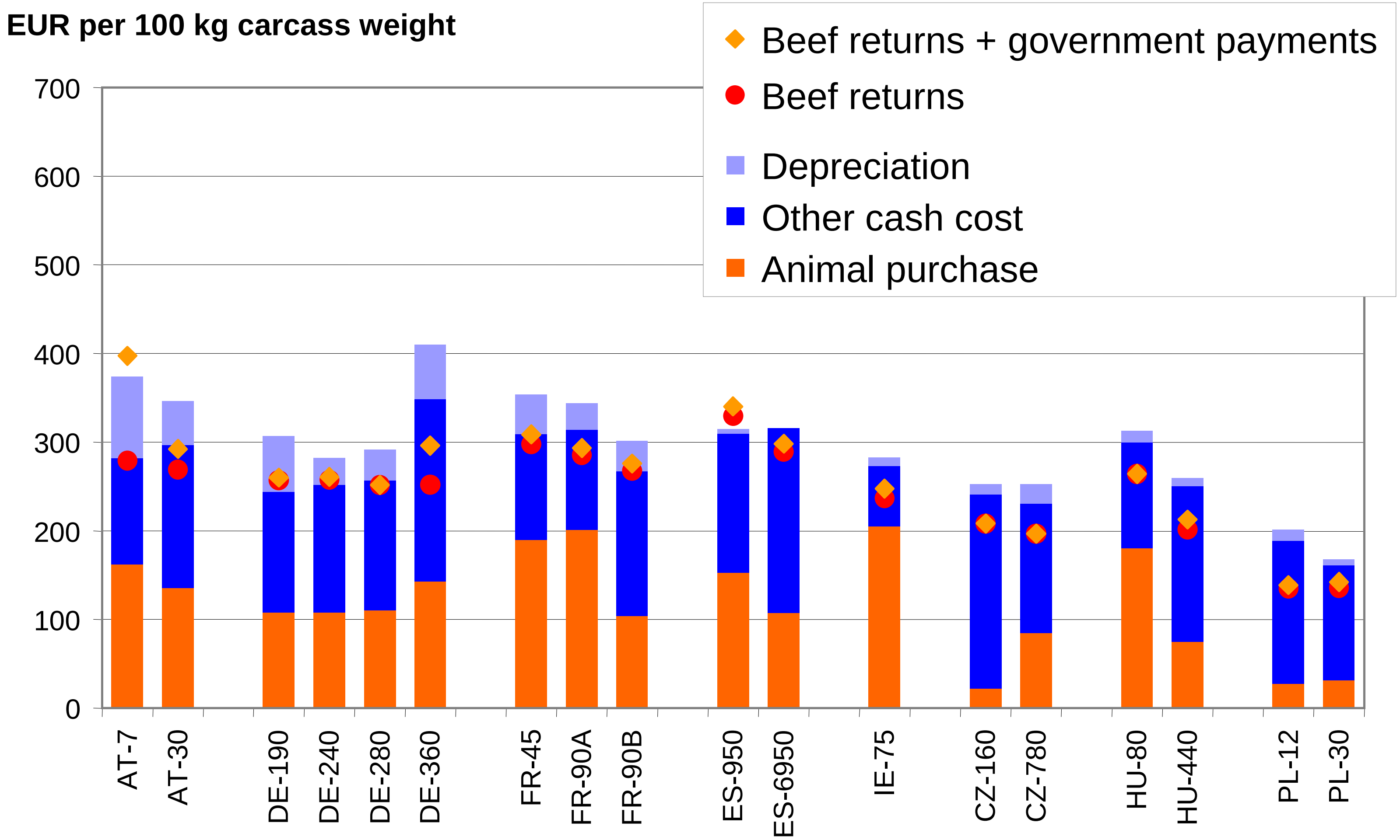
Source: Own calculations after IFCN Beef Report 2004

Cost, returns & profitability of beef production
– Coupled situation until 2004/2005



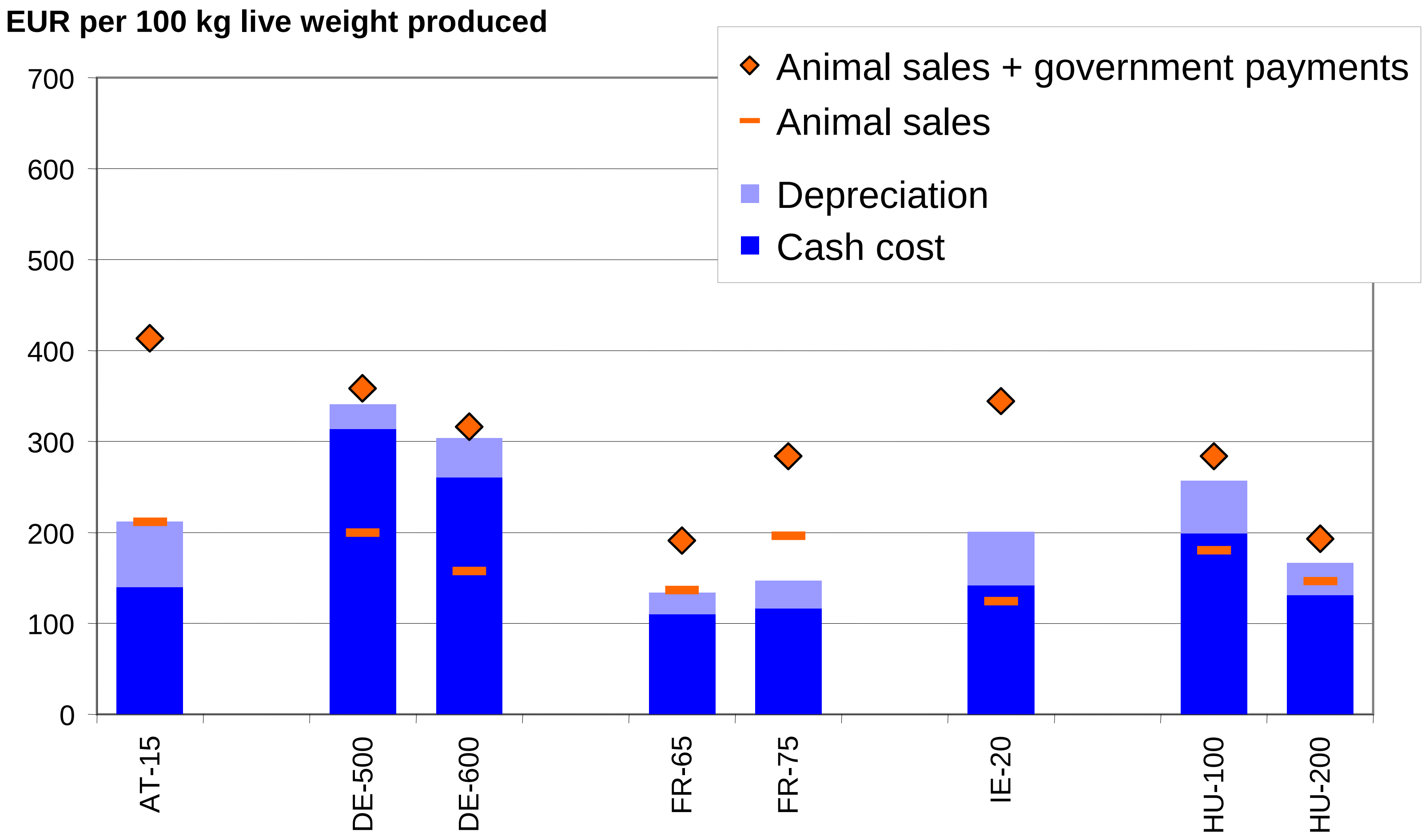
Source: IFCN Beef Report 2004

Cost, returns & profitability of beef production
– (Partially) decoupled situation from 2005/2006 onwards



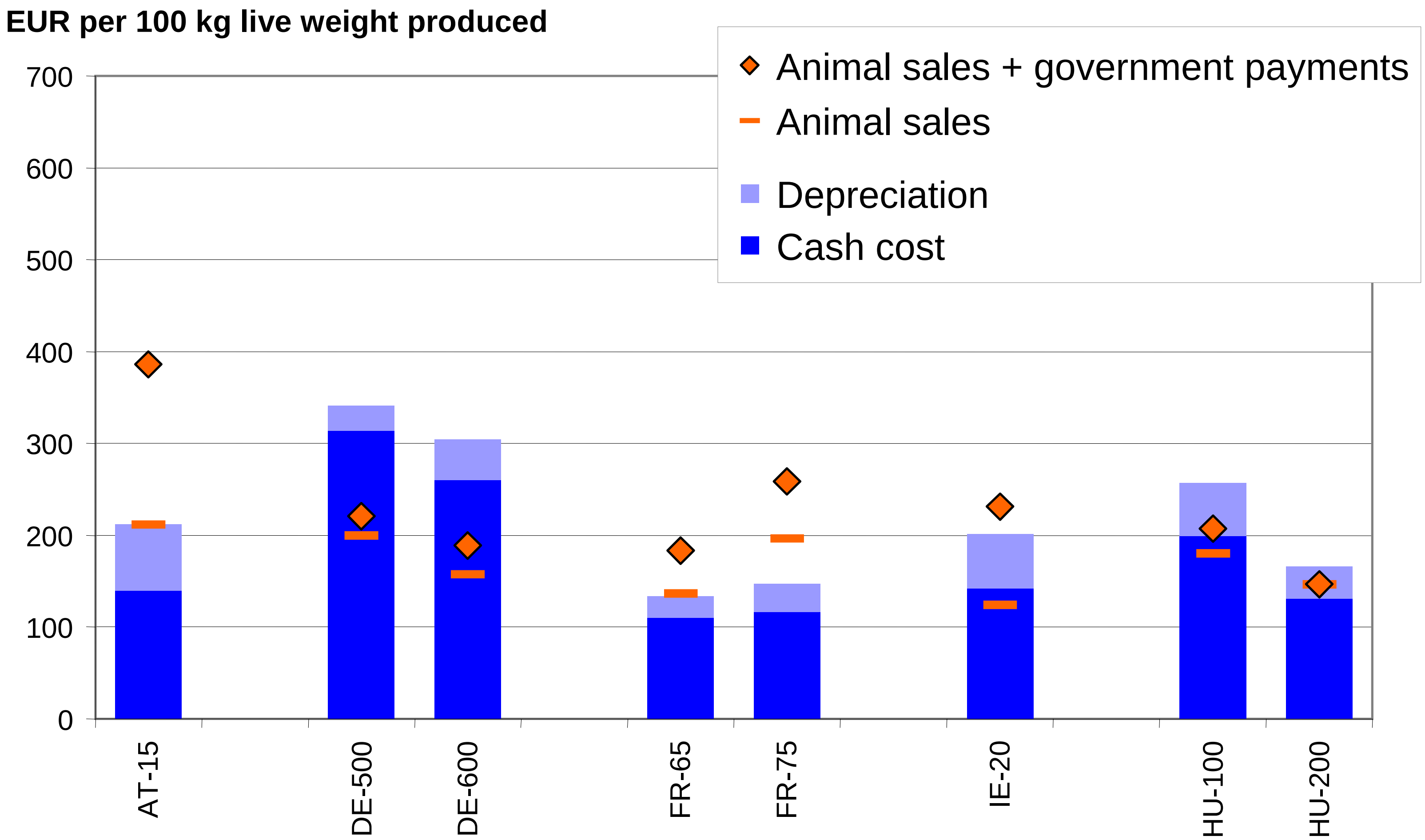
Source: Own calculations based on IFCN Beef Report 2004

Cost, returns & profitability of cow-calf
– Coupled situation until 2004/2005



Source: IFCN Beef Report 2004

Cost, returns & profitability of cow-calf
– (Partially) decoupled situation from 2005/2006 onwards



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Source: Own calculations based on IFCN Beef Report 2004

Determinants of the price developments for beef and calves

Beef price

Demand ↑ not realistic
Supply ↑ not realistic

Supply ↓ Prices ↑

Less animals
- Exit of finishers
- Less dairy cows
- Less suckler cows

Lower slaughter weights?
- Calves instead of adults
- Earlier slaughter
- Small breeds

Calf price

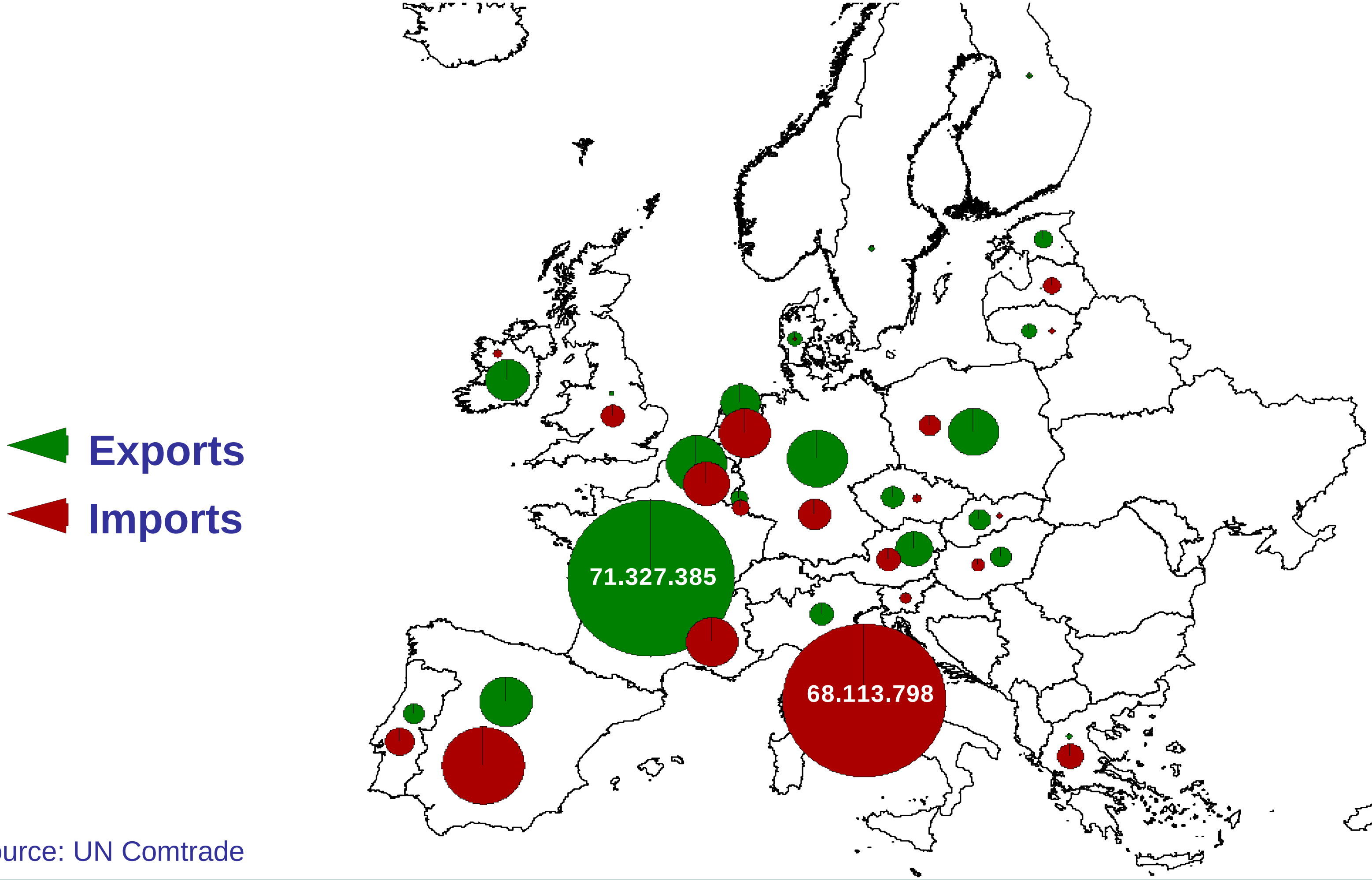
Demand ↑ not realistic
Re-transmission prem.: Price ↓

Supply ↓ Prices ↓ ↑

Dairy cows
- Higher milk yields
- More structural change?
- Technical progress

Suckler cows
- Less cows
- Second pillar?
- Land prices?

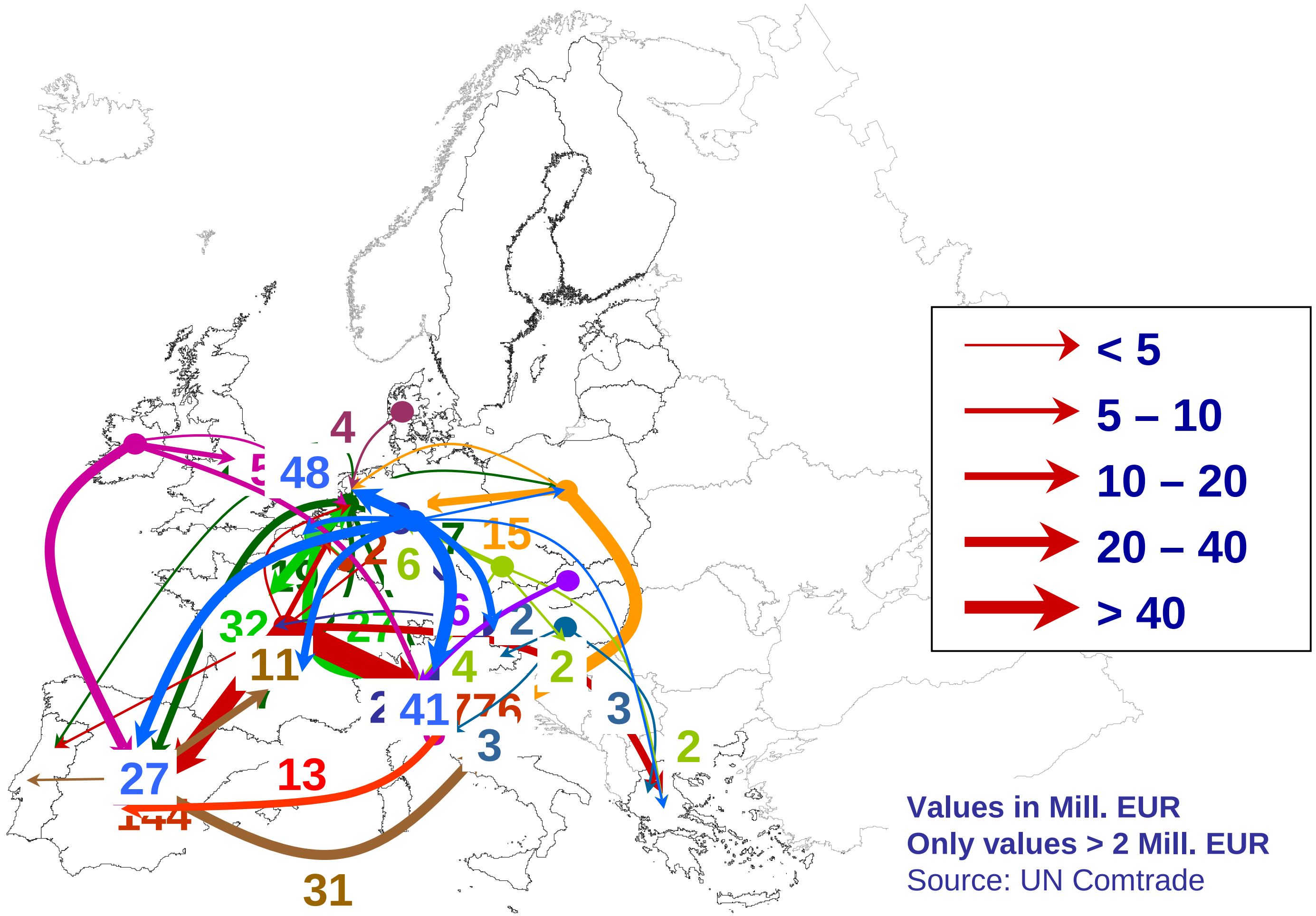
Cattle live trade values in the EU-25
– Average of the years 2001-2003, mill. EUR



Source: UN Comtrade

Destinations of live cattle in the EU-25

– Average of the years 2001-2003, mill. EUR



Values in Mill. EUR
Only values > 2 Mill. EUR
Source: UN Comtrade

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Development of the calf numbers from dairy cows in the EU-25 (2003-2013)

Initial values in 2004

Number dairy cows	**23.500.000**	Head
Milk yield per cow	**5,875**	kg/cow/year
Milk quota 2004	**138.074**	Mio. kg
Milk quota 2013	**141.307**	Mio. kg
No. calves per cow	**0,9**	calves/cow/year
Replacement rate	**30%**	annual

2013 vs. 2004

Annual development of milk yield in %	**Male calves Number**	**Female calves Number**	**Total Number**	**%**
1,0%	-805.680	-268.560	-1.074.240	-8%
1,5%	-1.230.366	-410.122	-1.640.487	-12%
2,0%	-1.634.637	-544.879	-2.179.516	-15%
2,5%	-2.019.569	-673.190	-2.692.758	-19%
3,0%	-2.386.173	-795.391	-3.181.564	-23%

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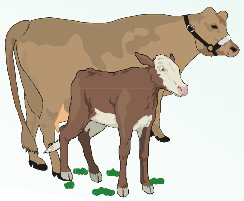
Development of suckler cow numbers in the EU-25 (2003-2013)

France (100 % coupled)	+/– 0 % suckler cows
Spain (100 % coupled)	+/– 0 % suckler cows
UK (0 % coupled) *	– 10 % suckler cows – 1,5 % in EU
Ireland (0 % coupled)	– 15 % suckler cows – 1,5 % in EU
Germany (0 % coupled)	– 30 % bis – 40 % suckler cows – 2-3 % in EU

Total EU:
Less than – 10 %

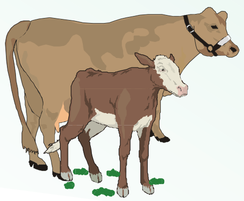


* 10 % of payments re-coupled in ‚Scottish Beef Calf Scheme‘

Development of the calf numbers from suckler cows in the EU-25 (2003-2013)

Initial-values 2004

Number suckler cows	**12.300.000**	Head
Calves per cow	**0,85**	Calves/cow/year
Replacement rate	**15%**	annual

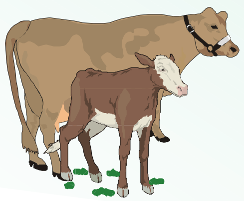


2013 vs. 2004

Annual development of suckler cows	Male calves Number	Female calves Number	Total Number	%
-5,0%	-234.630	-164.241	-398.871	-5%
-10,0%	-467.962	-327.573	-795.535	-9%
-15,0%	-699.855	-489.898	-1.189.753	-14%
-20,0%	-930.144	-651.100	-1.581.244	-18%
-25,0%	-1.158.632	-811.042	-1.969.674	-23%

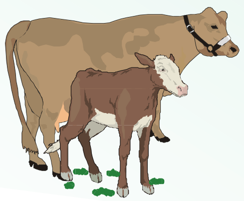
Development of calf numbers in Germany (2003-2013)

Total calf supply	From ...		... to	
	Number	%	Number	%
Dairy calves				
Male	-136.084		-412.108	
Female	-45.361		-137.369	
Total	-181.446	-7%	-549.478	-22%
Suckler calves				
Male	-13.842		-69.211	
Female	-9.690		-48.448	
Total	-23.532	-5%	-117.659	-25%



Consequences

- The decrease in calf numbers from the dairy herd is for sure as long as the quota system exists.
- Options to maintain beef production stable:



More calves from suckler cow herd

More suckler-cows only without payments (Plafond)

Sufficient calf price = sufficient beef price

Productivity increase

Production of adult animals instead of calves

Where does the veal come from?

Max. 20 % substitution effect

Import of beef or live calves from Extra-EU

Further uncertainties

- How will the next WTO-agreement look like?
  More competition from non-EU states
- Will there be a MERCOSUR-EU agreement?
  More competition from Argentina and Brazil
- How promising are the market opportunities in the New Member States? Increased export possible
- Will there be more quality awareness among German customers? Willingness to pay would increase

Conclusions for Germany

- Beef production and suckler cow numbers to drop
- Significantly less beef producers
- More structural change, more specialisation
- Remaining beef producers more competitive
- Germany looses market shares against countries with partial (de)coupling, mainly in cow-calf
- Consumption unchanged
- More pressure from imports
- Quality improvements and vertical integration necessary

We love eating beef!

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