IFCN Beef

Farm-level adjustment strategies of typical beef finishing and suckler-cow farms after decoupling of direct payments

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Braunschweig, March 2006

Understanding Beef Farming
Around the World

Background

In the **implementation of the mid-term review of the EU agricultural reform** (referred to in the following as MTR), the EU Member States could choose between different decoupling variations and different payment models. In Germany, a general decoupling of payments from production was chosen. With regard to the payment of payments, a "Dynamic Combi-Model" was selected. Here, a part of the decoupled direct payments are distributed via an individual farm payment, other parts are area-linked. Beginning in 2009, a farm payments will be melted down to zero in favour of area payments by the year 2013. In 2013, payment levels will have only very slight differences per hectares between the federal states. Estimates and the current analysis show that in particular beef finishers and suckler-cow farmers could experience serious **drops in income** from direct payments if no farm adjustments are made.

Objective and scope

The objective of this paper is thus, in cooperation with farmers and consultants, to develop **realistic adaptation strategies** to the changed framework conditions and to analyse their impact on the future viability of selected farms in Germany.

Data Basis

Six **typical farms** from the German section of the International Farm Comparison Network (IFCN) serve as the data basis. These can be characterized as follows:

- four specialised beef finishers in west Germany; 190-280 animals sold annually; 68-93 ha land; mainly family workers.
- one farm with beef finishing and suckler-cow husbandry in east Germany; 360 animals sold annually; 600 suckler-cows; 1420 ha land; 15.2 hired workers.
- one farm with arable crop farming and suckler-cow husbandry in east Germany; 500 suckler-cows; 2100 ha land; 14 hired workers.

Results of the policy analysis

In the **first step, a policy analysis** was made for these six typical farms in which the impact of the agricultural reform was simulated for the ten year period between 2004-2013. The reference here is the continued implementation of the Agenda 2000. For both the reference and the policy analysis, **constant beef and calf prices** were assumed on the basis of the price level of 2004.

The results of this analysis show that the four **west German farms** will suffer more through the agricultural reform than they would through a continuation of the Agenda 2000. In the course of the ten year period considered, they have income losses in the direct payments of between 48% and 65%. The largest cuts in the yields take place after the year 2009, when the melting of the Farm Individual Payments (FIP) begins. In any case, beef finishing is no longer viable in any of the specialised farms due to the decoupling of the payments under the above mentioned price assumptions.

Neither typical farm in **east Germany** was as hard hit by the agricultural reform as colleagues in the west. In the year 2013, they receive about the same payment sums as before the introduction of the agricultural reform,. They profit from the fact that they have so much land. Furthermore the possess a high percentage of grassland, so that they can compensate the loss of the FIP beginning in 2009. But due to the decoupling of payments beef finishing as well as cow-calf production becomes unprofitable even in these farms.

Farm adjustment strategies

Due to the mainly negative effects of the agricultural reform, the question emerges about appropriate adaptations with which the profit cuts of the farms can be counteracted. In the next step the following **five adaptation strategies** were developed with the help of four special consultants from the beef sector and farmers, the effect of which will be analysed for the six typical farms:

Strategy 1: = Reference: MTR -> unchanged continuation of the farm under the framework conditions of the agricultural reform

Strategy 2: MTR + Exit from Farming -> agricultural reform and exit from animal production; Mulching of the liberated land (fulfilment of Cross Compliance regulations)

Strategy 3: MTR + Strong Growth -> agricultural reform and strong growth in animal production (approx. doubling of herd size) with newly constructed stable

Strategy 4: MTR + Moderate Growth -> Agricultural reform and moderate growth in animal production (about 10-20%) with minimal investments

Strategy 5: MTR + strong growth and performance increase -> Strategy 3 + increase of the final weights through improvement of daily weight gain

Results of the farm adjustment strategies

Under the price assumptions chosen here, from an individual farm perspective the most favourable scenario for the two **east German** farms will be an **exit** from animal husbandry. On the one hand, both farms benefit strongly from the introduction of the **regional hectare payment**. In this way they can compensate the melting of the FIP well. Both farms will receive the same payment sum in the year 2013 as in the year 2004. On the other hand, if both farms exit beef finishing and suckler-cow husbandry, they will **save** a large amount of **salary**. The opportunities open to the workers leaving the farm could not be studied further in the framework of this study. The other farm strategies, in comparison to the reference, either have no or a very low positive effect on the profit of the two east German farms.

For the four **west German** farms, **none** of the adaptation strategies presented here have **advantages** to the reference. An **economic decline** due to the melting of the FIP can not be counteracted in any scenario (including the reference scenario): Most adaptations are linked to high profit losses for these farms. This also holds for Scenario 2 (exit from animal husbandry), since a) just as for the east German salaried farms, an exit from production is not without cost and b) the west German family farm, in contrast to the salary farm in East

Germany, has **no cost savings** due to the release of (family) workers. The work hours set free needed to earn a gross salary of between 12 and 15 EUR per hour in order to reach the income realised in 2004.

The only possibility for the four west German farms to maintain economically viable after 2013 is if more advantageous calf and beef prices exist. For the farms studied, this means that the beef prices must rise to a level of approx. **three Euros** per Kilogram slaughter weight (R 3 classification). At the same time, the price for Simmental calves (80 kilos) may not exceed 300 Euros/animal. For Holstein calves, a maximum of 120 Euros/animal can be paid. If these factors come into effect, then the farms which had successful bull finishing before the agricultural reform could also make adequate profits in the future. This statement holds true particularly for Scenario 5, in which a leverage effect on the meat proceeds is implemented through the increase in productivity and the large herd size with high beef prices.

Perspectives

The price relations between beef and calves in 2005 were already in the above-described favourable range, so that in specialised farms, beef finishing had a relatively high viability. Whether and how long this situation will be maintained depends in particular on the development of the calf supply in the EU, the demand for beef, the number of farms which cease beef finishing and from decisions in the framework of the WTO as well as on the EURO-US$ exchange rate.