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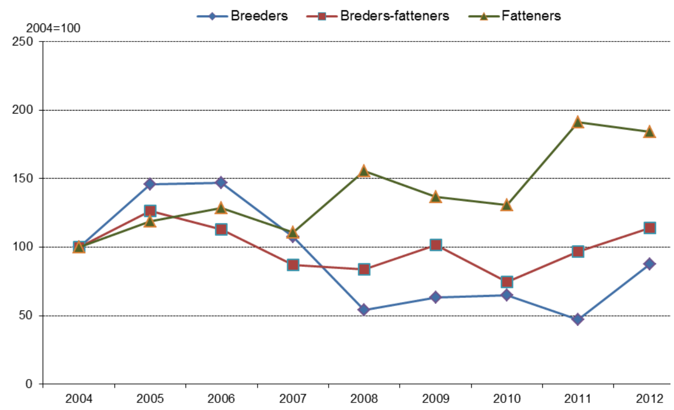
# FARM ECONOMY PREVIEW: BEEF SECTOR

*Information based on FADN data 2012*

This brief provides **a first overview of production costs, margins and incomes of EU farms specialised in beef production** based on the latest available data from the Farm Accountancy Data Network (FADN) until **2012.** Trends from 2004 to 2012 are provided for breeders, breeders-fatteners and fatteners[1] at EU level. This work is of preliminary nature and will be followed by a **detailed report**, including tables at Member State level and forecasts.

Since 2004 there has been a **rising trend in costs of beef production.** Although it was not always matched by a corresponding increase in beef output value, in particular for breeders, an **improvement in gross margins without coupled payments** can be observed in all groups towards 2011-2012. This is especially true for fatteners, whose incomes increased accordingly. **Income** of breeders and breeders-fatteners is much lower and roughly the same in 2012 as it was in 2004, with **direct payments playing an essential role**.

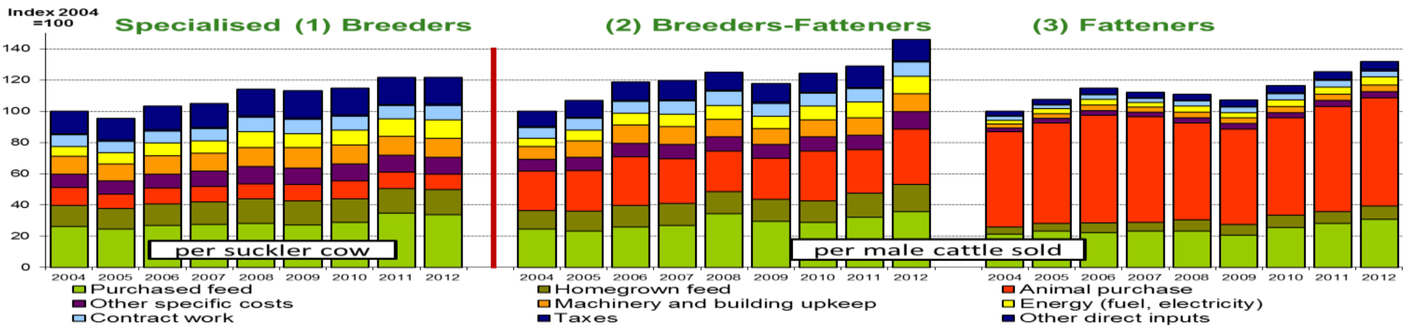
CHART 1: TREND IN BEEF GROSS MARGIN PER ANIMAL WITHOUT COUPLED PAYMENTS–EU-ALL[2]




## Operating costs of production keep increasing

In all three groups of beef farmers, **operating costs of production**[3] have been increasing over the past decade. The charts below show average operating costs per animal in index form (2004=100). In 2012, average operating costs per suckler cow stabilised for breeders at a level that was 20 % higher than in 2004. For breeders-fatteners and fatteners, average operating costs per male cattle sold kept rising in 2012, reaching respectively +46 % and +31 % as compared with 2004. Feed costs in particular increased significantly. However, their share in total operating costs remained constant for the first two groups, while it increased for fatteners (30 % in 2012 against 25 % in 2004).

CHART 2: TREND IN OPERATING COSTS OF PRODUCTION PER ANIMAL (NOMINAL TERMS) – EU-ALL

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1 See box on Specialised Beef Producers, p.4 for more explanations on these categories.

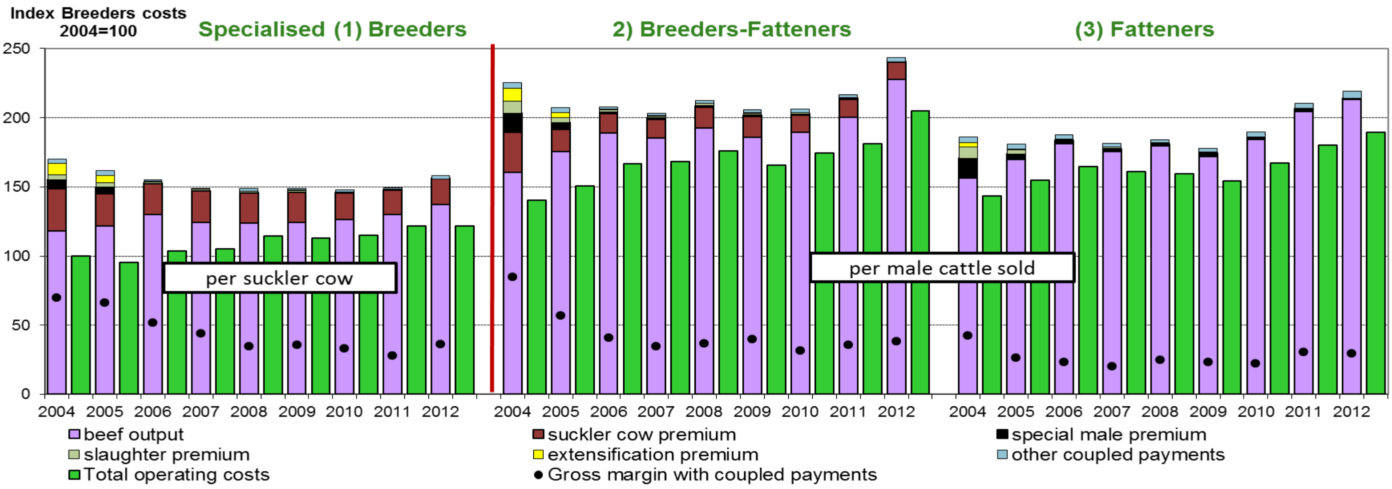
2 The EU-all aggregate refers to EU-25 until 2006; to EU-27 from 2007 onwards. Since most of the EU beef is anyway produced in EU-15 Member States, this change has a minor impact on time series. Data for Croatia will be available in the FADN from the 2013 accounting year.

3 Operating costs include feed, veterinary costs, upkeep of machinery, energy, contract work, taxes on land and buildings. They do not include depreciation, wages, rent and interests paid, nor opportunity costs for family labour and assets.

## 2012: an improvement in producers' margins

**Revenues** taken into account in the margin calculation include on the one hand the total beef output – that is the value of sales of bovine animals and the growth of animals staying for more than one year on the holding – and on the other hand [unless otherwise stated] the subsidies coupled to production. The chart below shows the trend in revenues (left bar) and in operating costs (green bar) as well as the trend in the gross margins with coupled payments resulting of the balance (dot) as an index of breeders' operating costs of production in 2004. Breeders results refer to EUR/suckler cow, while they refer to EUR/male cattle sold for breeders-fatteners and fatteners.

### CHART 3: TREND AND COMPONENTS OF GROSS MARGIN WITH COUPLED PAYMENTS - EU-ALL




**Beef output** is on a rising trend since 2004, although its growth may at times have been limited compared with the increase in costs. On breeders' farms, after years of stagnation, beef output per suckler cow started increasing in 2011, to reach +17 % of its 2004 level in 2012 following the trend in live cattle prices. For breeders-fatteners, the increase has been almost continuous since 2004, with beef output per male cattle sold reaching +42 % of its 2004 level in 2012, still lower than the increase in costs. Fatteners also experienced a significant increase in the average beef output per male cattle sold, especially in 2011, to achieve +36 % in 2012 compared with 2004.

Yet given that margins in all analysed groups are relatively thin (around 200-250 EUR per suckler cow or male cattle sold in the past 2 years, including coupled payments), any difference of pace between costs and revenues has a significant impact on **gross margins**. Overall, when looking at the gross margin without coupled payments (see chart 1 on the previous page), the situation for all three groups was much better on average in 2012 than in the previous 5 years. In 2012, in the EU-15, breeders' gross margin reached 92 % of its 2004 level after years between 50 % and 70 %. For fatteners, improvement was particularly striking in 2011, when the gross margin almost doubled its 2004 level. Breeders-fatteners also saw their situation significantly improved in 2011 with a gross margin at 95 % of its 2004 level, reaching 112 % of it in 2012.

As far as coupled payments are concerned, one of the distinctive features of the period 2004-2012 lies in the decoupling introduced by the successive reforms of the common agricultural policy. In the beef sector however, some payments remained coupled. From 2007 onwards, they consist mainly in the **suckler cow premium**. The elimination of selected premiums and the decrease in the suckler cow aid contribute to the sharp decline observed in gross margins with coupled payments for breeders and breeders-fatteners from 2004 to 2007 (chart 3).

Since the decoupling, breeders haven't been able to cover costs incurred by external factors and depreciation: in other words, their **net margins** have been negative from 2007 onward, the trend in net margin following the trend in gross margin (chart 5). The same holds true for breeders-fatteners. Fatteners managed to keep positive net margins throughout the 2004-2012 period, a significant improvement being observed in 2011 and 2012.

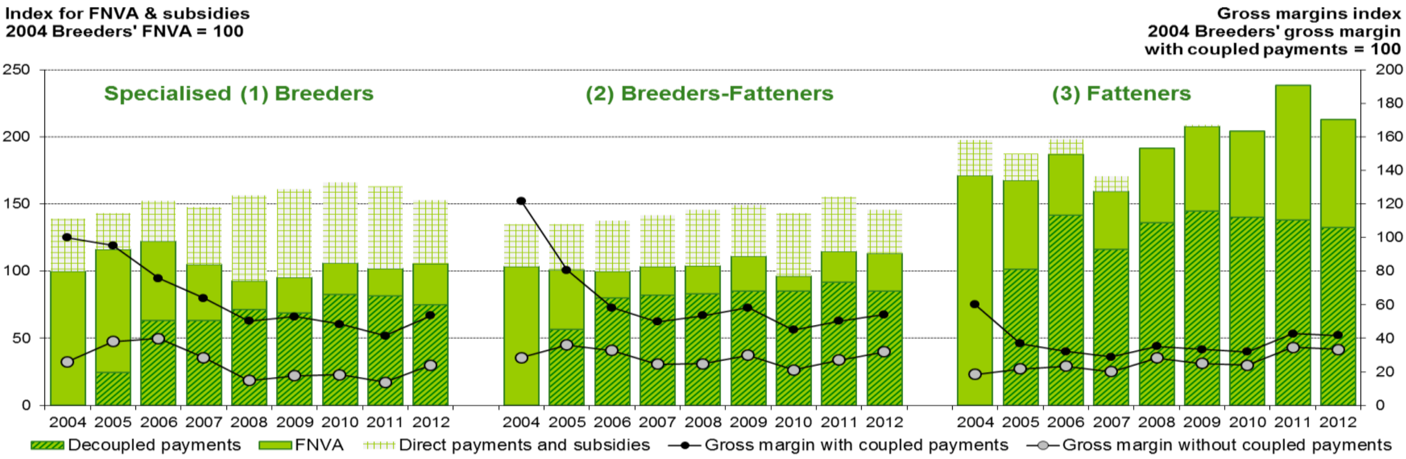
**The allocation of costs to the beef enterprise**

In the FADN, costs are collected for the farm as a whole, not by enterprise. Therefore, in order to estimate beef production costs and margins, it is necessary to allocate part of the farm costs to the beef enterprise. To this end, the EU FADN unit has created several models for the various products: arable crops, milk and beef, and permanent crops. These models allocate farm costs to a particular product using different ratios.

## Low incomes for breeders and the essential role of direct payments

Chart 4 illustrates the trend in farm net value added per annual work unit (FNVA/AWU) as an index of breeders FNVA/AWU in 2004 (full green bar). Decoupled payments (dark green dashes) and total direct payments and subsidies (light green check) are also presented, as well as gross margin with (black dots) and without (grey dot) direct payments. For the sake of explanations, this graph and related comments focus on EU-15. Most of the EU beef being produced in EU-15 Member States, the overall picture is roughly the same at EU-27 level (chart 5).

### CHART 4: TREND IN INCOME (FNVA/AWU) AND SOME DRIVERS – EU-15




From 2004 to 2012, EU-15 **breeders** increased their total production value by 30 % on average, thanks to increases both in live cattle price and in the number of animals sold. Yet, as seen before, costs of production rose more (+33 % for intermediate consumption), leading to an increase in the ratio of intermediate consumption to output. For breeders, this ratio is very high (84 % in 2012, still lower than in the preceding 5 years). Depreciation increased moderately. However, given that the proportion of intermediate consumption to total output is high and the total output modest, the balance is not enough to cover depreciation costs. In other words, if there were no direct payments, the FNVA would be negative. On average, in 2012 direct payments represented around 52 % of breeders' total output. It is worth noting that less favoured area and environmental payments represented around 25 % of the direct payments and subsidies received by breeders and decoupled payments around 50 % of this amount. In the beef sector, the introduction of decoupled payments roughly offset the reduction in coupled payments so the ratio of direct payments to total output is fairly stable. At EU-15 level, breeders' FNVA/AWU increased only moderately (+6 % in 2012 as compared with 2004, in nominal terms) and remains around 14 000 EUR/AWU on average annually (EU-All: +2 %, 13 000 EUR/AWU).

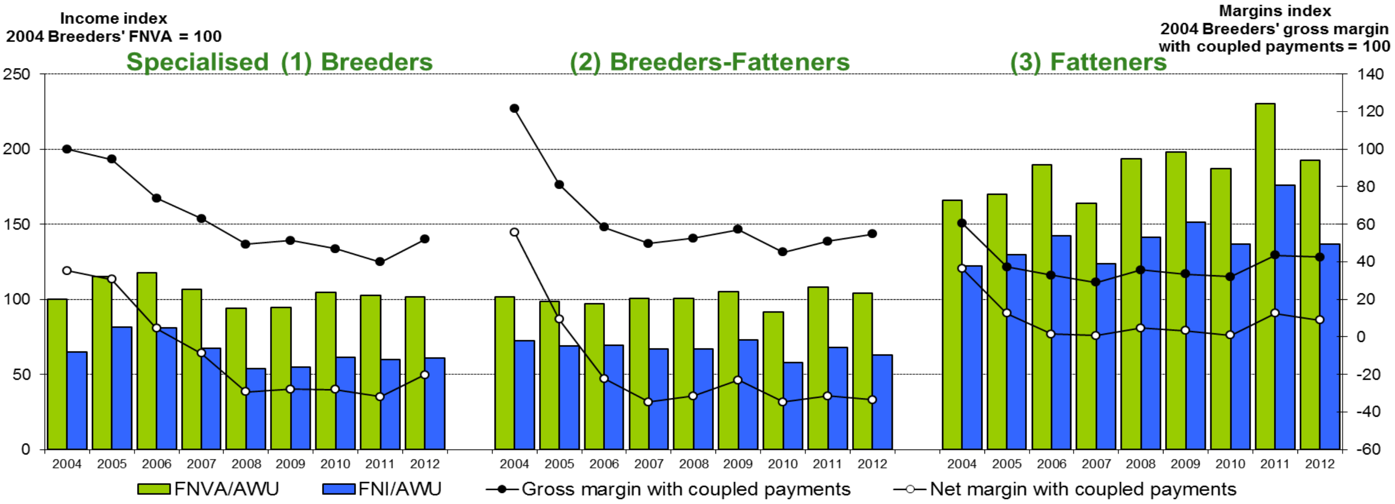
For EU-15 **breeders-fatteners**, both the increase in FNVA/AWU and its absolute level are slightly higher than for breeders, the picture being less clear-cut at EU-27 level. Thanks to the fattening of calves, this group depends less on direct payments. Due to the substantial increase in output (+57 % in 2012 as compared with 2004 for the EU-15), direct payments and subsidies represented on average 40 % of the output in 2012 (58 % in 2004).

Income of specialised **fatteners** is the only one which significantly improved over the period, although it was lower in 2012 than in 2011. It was also much higher than in the other two groups: actually fatteners are the only group of beef producers whose income was above the average for EU-27 agricultural holdings (19 000 EUR/AWU). The ratio of intermediate consumption to total output was high for them too (77 % on average in 2012), but their total output was much higher than that of breeders. Direct payments represented only 26 % of their total output in 2012 (46 % in 2004).

The **farm net value added (FNVA) per annual work unit (AWU)** is an indicator of income calculated as the sum of total production value plus direct payments minus intermediate consumption and depreciation. It represents the amount available to remunerate all fixed production factors (work, land, capital), be they owned by the farm or external.

The **farm net income (FNI) per AWU** is obtained by subtracting external factors (wages, rent, interests) from the FNVA and adding the balance of subsidies and taxes on investments.

## CHART 5: TREND IN INCOME AND MARGINS - EU-ALL




From 2004 to 2012, rent and interest costs increased moderately for the average breeder, which was not the case for wages (+43% in 2012 as compared with 2004). As a result, breeders' farm net income is lower in 2012 than it was in 2004 (less than 8 000 EUR per AWU). The same holds true for breeders-fatteners: due to the increase in paid labour on these farms, wage payments also increased. Fatteners are the only group whose farm net income increased between 2004 and 2012, following the increase in FNVA. For this latter group, rent and interest increased more than wages over the period. In 2012, the average farm net income of a fattener was about 17 000 EUR/AWU.

### Conclusion

After a series of difficult years, 2012 marks an improvement in the margins of specialised breeders. For breeders-fatteners, this improvement could already be observed in 2011, which was also a peak for fatteners. Except for breeders, at EU level, gross margins without coupled payments were higher in 2012 than what they were back in 2004, despite the increase in costs of production. Income patterns in the three beef producers groups are diverse and the result of various factors. Breeders and breeders-fatteners achieved the same level of FNVA/AWU in 2012. This level was quite low, and it would even be negative in the absence of direct payments, out of which less-favoured area and environment related payments represent a significant share. Although their income decreased in 2012 (mostly due to feed costs), fatteners appear better off, their average income being about twice as high as that of the other two groups.

Looking for more information (including at Member State level) and trends in costs of production and margins in more recent years? Check the FADN website for the "EU Beef Farm Report" coming soon.

**Specialised beef producers**

To obtain reliable estimates of production costs and margins, it is necessary to focus on specialised farms. To qualify as such, a farm has to dedicate more than 60 % of its production to beef production. In FADN 2012, 15 028 sample farms fulfilled these criteria. Three groups of farms are then distinguished, based on their main activity: breeders, breeders-fatteners and fatteners. 'Breeders' (B) are farmers with suckler cows, selling young cattle. 'Breeders & Fatteners' (BF) fatten the calves born on their farms while 'Fatteners' (F) purchase young male animals and then finish fattening them. (see the beef report for more explanation)

## THE FADN

The Farm Accountancy Data Network (FADN) is a European system of sample surveys that take place each year and collect structural and accountancy data relating to the farms (see: http://ec.europa.eu/agriculture/rica). Its main role is to support the Common Agricultural Policy (CAP) by determining income of European agricultural holdings and providing farm level analyses based on harmonised micro- economic data collected annually from around 80 000 farms. The set of statistics presented hereby is produced by the European Commission from the FADN survey. The variables represent average values at the level of the holding.



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