Research for Agri Committee

The EU Cattle Sector: Challenges and Opportunities – Milk and Meat

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Acknowledgements:
Unit E.3 Economic analysis of EU agriculture of DG Agri
Structure of the Presentation

Map 1: Regional distribution of EU cattle-keeping farms

1. Background
2. Opportunities
3. Challenges
4. Policy Options

Source: Authors based on European Commission (2016j)
1. Background of the Study

Aims:
- Current situation of the EU cattle sector
  - Characteristics
  - Interlinkages between the meat and dairy sectors
  - Challenges
  - Opportunities
- Policy options for
  - CAP measures supporting the EU cattle sector
  - Assessment of the role of current CAP measures
  - Potential alternative measures of support for the sector

Dimensions
- Macro-level vs. regionally disaggregated micro-level
  - Diverse structures of the EU cattle sector
  - Regional disparities
  - Effects of potential future policy choices
1. Background of the Study

**Analysis perspectives:**

<table>
<thead>
<tr>
<th>Analysis dimensions</th>
<th>Macro-level vs. micro-level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply chain level</strong></td>
<td>Primary production: commercial vs. non-commercial farms</td>
</tr>
<tr>
<td></td>
<td>Processing chain: structure vs. conduct vs. performance</td>
</tr>
<tr>
<td><strong>MS</strong></td>
<td>EU15 vs. EU13, EU-N vs. EU-S</td>
</tr>
<tr>
<td><strong>Production intensity</strong></td>
<td>Intensively vs. extensively operated commercial farms</td>
</tr>
<tr>
<td><strong>Farm income</strong></td>
<td>Income quintiles</td>
</tr>
<tr>
<td><strong>Farm type</strong></td>
<td>Specialist dairying</td>
</tr>
<tr>
<td></td>
<td>Specialist cattle — rearing and fattening</td>
</tr>
<tr>
<td></td>
<td>Cattle — dairying, rearing and fattening combined</td>
</tr>
<tr>
<td></td>
<td>Mixed livestock, mainly grazing livestock</td>
</tr>
<tr>
<td></td>
<td>Field crops — grazing livestock combined</td>
</tr>
</tbody>
</table>

Source: Authors.
1. Background of the Study

Key drivers of the EU cattle sector:

- Global market-relevant developments
- EU cattle sector characteristics
- Externalities of primary production
- Demand trends
- Societal demands
- Internal policies

Source: Authors.
1. Background of the Study

Data & Limitations:

- **FSS**
  - Collection every three years & processing
  - Latest data available is from 2013 (the data from the 2015 FSS have not yet been published),

- **FADN data**
  - Annually collected & processing
  - Latest dataset available is from 2013 too,

- **Farm type classification of the FADN dataset**
  - Last available FSS: 2013 FADN is based on the 2010 FSS

- **Comtrade dataset**
  - Missing observations & incomplete panel observations
1. Background of the Study

Bird’s Eye Perspectives:

Shares in the Total Standard Output of specialized dairy farms

.. of mixed farms with cattle

... of specialized cattle farms

Source: Authors.
2. Opportunities of the EU Cattle Sector

**Competitive position: Global trade heavyweight**

*Figure 42: Trade balances in global dairy commodity trade*

*Source: Authors based on Comtrade (2016)*
### 2. Opportunities of the EU Cattle Sector

**Benefit from major dairy importing regions:**

<table>
<thead>
<tr>
<th>(A) PARTNER</th>
<th>(B) CHANGE MEAT</th>
<th>(C) REGION</th>
<th>(D) PARTNER</th>
<th>(E) CHANGE DAIRY</th>
<th>(F) REGION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>+2947%</td>
<td>Asia</td>
<td>Belarus</td>
<td>+1711%</td>
<td>Europe</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>+1138%</td>
<td>Europe</td>
<td>China</td>
<td>+977%</td>
<td>Asia</td>
</tr>
<tr>
<td>Israel</td>
<td>+970%</td>
<td>MENA</td>
<td>Pakistan</td>
<td>+824%</td>
<td>Asia</td>
</tr>
<tr>
<td>Switzerland</td>
<td>+701%</td>
<td>Europe</td>
<td>Serbia</td>
<td>+822%</td>
<td>Europe</td>
</tr>
<tr>
<td>Egypt</td>
<td>+649%</td>
<td>MENA</td>
<td>New Zealand</td>
<td>+680%</td>
<td>Oceania</td>
</tr>
</tbody>
</table>

- Quality image vs. nutrition transition vs. growing middle class
- Export portfolio diversification: goods & destinations

*Source: Authors.*
2. Opportunities of the EU Cattle Sector

Stable and rising price levels:

Figure 37: Development of annual EU cattle and pig slaughter prices in percent of yearly average prices (left axis) and in euros/100 kg (right axis)

Source: Authors based on European Commission (2016n) and European Commission (2016o)
2. Opportunities of the EU Cattle Sector

Growth of extensive farming:

Figure 36: Development of EU bovine meat production since 2000

Source: Authors based on European Commission (2016i)
2. Opportunities of the EU Cattle Sector

Further opportunities for EU cattle farms:
- Continued fast technology adoption & productivity gains
- Marketing of high-quality and high-value dairy products
- Increased resilience via income diversification
  - Mixed farms as natural hedge in EU13
  - Landscape management and preservation
- Effects of scale due to regional concentration of dairy farming
- Awareness of unfair trading practices (UTPs)

Source: Authors.
3. Challenges of the EU Cattle Sector

**Structural change in milk price formation:**

*Figure 27: Development of the maximum annual price ranges of dairy products*  

Source: Authors based on MMO (2016), European Commission (2016n) and European Commission (2016o)
3. Challenges of the EU Cattle Sector

Continuing structural change in production:

Figure 24: Development of EU milk production since 2000

Source: Authors based on European Commission (2016i)
3. Challenges of the EU Cattle Sector

Income dependence due to specialization:

<table>
<thead>
<tr>
<th>(A) General farm type</th>
<th>(B) Total</th>
<th>(C) Milk &amp; milk products</th>
<th>(D) Beef &amp; veal</th>
<th>(E) Bovine products</th>
<th>(F) Share bovine prod.</th>
<th>(G) Bovine prod. in 2013 total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(15) Specialist COP</td>
<td>41.2</td>
<td>0.1</td>
<td>0.5</td>
<td>0.5</td>
<td>1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>(16) Specialist other field crops</td>
<td>31.8</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
<td>2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>(20) Specialist horticulture</td>
<td>29.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>(35) Specialist wine</td>
<td>19.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>(36) Specialist orchards fruits</td>
<td>13.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>(37) Specialist olives</td>
<td>4.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>(38) Permanent crops combined</td>
<td>3.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>(45) Specialist milk</td>
<td>68.1</td>
<td>48.2</td>
<td>7.4</td>
<td>55.5</td>
<td>81%</td>
<td>15.8%</td>
</tr>
<tr>
<td>(48) Specialist sheep and goats</td>
<td>15.4</td>
<td>0.3</td>
<td>1.2</td>
<td>1.5</td>
<td>10%</td>
<td>0.4%</td>
</tr>
<tr>
<td>(49) Specialist cattle</td>
<td>22.1</td>
<td>2.9</td>
<td>11.9</td>
<td>14.7</td>
<td>67%</td>
<td>4.2%</td>
</tr>
<tr>
<td>(50) Specialist granivores</td>
<td>47.4</td>
<td>0.4</td>
<td>0.3</td>
<td>0.7</td>
<td>1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>(60) Mixed crops</td>
<td>8.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>(70) Mixed livestock</td>
<td>12.2</td>
<td>3.0</td>
<td>1.4</td>
<td>4.4</td>
<td>36%</td>
<td>1.3%</td>
</tr>
<tr>
<td>(80) Mixed crops and livestock</td>
<td>34.7</td>
<td>5.2</td>
<td>3.7</td>
<td>8.8</td>
<td>25%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

EU cattle sector: 137 59 24 84 61% 24%
All commercial farms: 351 60 27 87 25% 25%
EU cattle sector in all comm. farms: 39% 98% 91% 96%

Source: Authors based on European Commission (2016c)
3. Challenges of the EU Cattle Sector

Small economic size of cattle farms in EU13:

Map 6: Regional distribution of economic size of specific (measured in 1,000 euros standard output per FADN)

Source: Authors based on European Commission (2016j)
3. Challenges of the EU Cattle Sector

Regionally heterogeneous effects:

Figure 4: Farm numbers of the EU cattle sector by production type and region

Source: Authors based on European Commission (2016j)
3. Challenges of the EU Cattle Sector

Change of societal preferences:

Map 19: Stocking density (in LSU/ha UAA) of specialist fattening farms

Figure 31: Evolution of per capita consumption of different meat types in the EU

Source: Authors based on European Commission (2016m)
3. Challenges of the EU Cattle Sector

Further challenges of EU cattle farms:
- Pronounced regional differences in economic farm size
  - Regional dependence of farming on specialist dairying farms
  - Cattle fattening almost exclusively in EU15
  - Cattle sector of EU13
    - Increased vulnerability
    - Structural change
- Domestic demand largely saturated
- International demand: continuity & stability of macro-economic and political frameworks of major importers
- Environmental, food safety and animal health regulations

Source: Authors.
Summary: Stakeholders’ Views

Key future determinants of the EU cattle sector:
- Cattle sector: Technology gains vs. growth limits resulting from environmental regulations

EU dairy sector
- Entrepreneurship
- Marketing opportunities & channels:
  - EU vs. rest of world
  - Consumer demands
- Awareness of market challenges

EU bovine meat sector
- Adaptation to changing consumer demands (premium)
- Extra-EU export growth
- Feed prices

Source: Authors.
4. Policy Options for the EU Cattle Sector

**CAP 2014-2020**
- CAP measures targeted at the EU Cattle sector
- Selected expected impacts
- Conclusions and limitations

**Policy options**
- Short term: uncertainty, volatility related policy option suggestions
- Medium term: productivity, competitiveness, market access-oriented policy option suggestions
4. Policy Options: Wide Range of CAP Measures Applicable

- CAP 2014-2020
- A large set of CAP measures is applicable to the EU cattle sector
  - Direct payments (decoupled and voluntary coupled)
  - CMO (safety net, trade, calamities)
  - RDP (measures M2, M3, M4, M6, M9, M10, M13, M16 and M17)
- The EU has a wide range of instruments applicable to the dairy-beef sector (incl. exceptional measures)
4. Policy Options: Direct Payments
Important for Viability

- Direct Payment instrument plays an important role for viable food production
  - Evidence from the “old” CAP
  - Simulation results CAP 2014-2020

- Findings obtained:
  - DPs under “old” CAP make up large (dairy) to very large (beef) shares in farm income
  - Simulated results for “new” CAP confirm the important role of DPs with respect to farm income improvement

- Conclusion
  - DPs are relevant and effective
  - Dependency on DPs may create problem in medium to long run
4. Policy Options: Direct Payments
Important for Viability

New CAP: Distribution of labour income (€ /AWU) of specialist fattening farms vs. benchmark income (GDP/capita)

New CAP: Share of cattle-related CAP payments in farm income of specialist dairying farms

Source: Authors.
4. Policy Options: Stakeholder Views

- Stakeholders confirm importance of DPs
- Stakeholders argued for measures that:
  - Improve competitiveness of the sector through innovation
  - Are more predictable and take a long-term perspective
  - Create a level playing field within the EU as well as vis-à-vis international competitors

- Conclusion
  - Stakeholders welcome short-run policy support (DPs)
  - Stakeholders express concerns with respect to medium to long run “viability” issues
4. Policy Options: Consultant Perspective

- The current CAP provides already a rich framework of policy measures applicable to the cattle sector

- Three considered specific policy measure options
  - Grazing premium for beef and suckler cows
  - Market transparency and market information initiatives
  - Product differentiation and institutional export promotion
Figure 41: Distribution of the numbers of cattle-keeping farms across MS in 2013
1,819,310 holdings in total

Source: Authors based on Eurostat dataset ef_kvftreg
Thank you for your attention!

Figure A1.4: Distribution of area used by cattle-keeping farms across MS in 2013

63,405,860 ha in total

Source: Authors based on Eurostat dataset [ef_kyftreg](#)
## Appendix

### Data – stakeholders’ views:

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Main expertise</th>
<th>Main supply chain level of expertise</th>
<th>MS of expertise</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1</td>
<td>Cattle sector</td>
<td>Primary production</td>
<td>Italy</td>
</tr>
<tr>
<td>R2</td>
<td>Dairy sector</td>
<td>Major international processing company</td>
<td>Netherlands</td>
</tr>
<tr>
<td>R3</td>
<td>Dairy sector</td>
<td>Major international processing company</td>
<td>Poland</td>
</tr>
<tr>
<td>R4</td>
<td>Dairy sector</td>
<td>Primary production</td>
<td>UK</td>
</tr>
<tr>
<td>R5</td>
<td>Bovine meat sector</td>
<td>Primary production</td>
<td>UK</td>
</tr>
<tr>
<td>R6</td>
<td>Bovine meat sector</td>
<td>Primary production</td>
<td>Germany</td>
</tr>
<tr>
<td>R7</td>
<td>Bovine meat sector</td>
<td>Major national processing company</td>
<td>Germany</td>
</tr>
</tbody>
</table>

Source: Authors.
## Appendix

### Table 7: CAP Subsidies in the EU cattle sector

<table>
<thead>
<tr>
<th>(A) Region or subsector</th>
<th>(B) Milk cows</th>
<th>(C) Other cattle</th>
<th>(D) DPs</th>
<th>(E) Other</th>
<th>(F) Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU cattle sector (m €)</td>
<td>480</td>
<td>1,201</td>
<td>13,867</td>
<td>6,698</td>
<td>22,246</td>
</tr>
<tr>
<td>Share of EU dairy sector</td>
<td>99%</td>
<td>26%</td>
<td>75%</td>
<td>72%</td>
<td>72%</td>
</tr>
<tr>
<td>Share of EU bovine meat sector</td>
<td>1%</td>
<td>74%</td>
<td>25%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Share of EU15</td>
<td>64%</td>
<td>95%</td>
<td>81%</td>
<td>70%</td>
<td>78%</td>
</tr>
<tr>
<td>Share of EU13</td>
<td>36%</td>
<td>5%</td>
<td>19%</td>
<td>30%</td>
<td>22%</td>
</tr>
<tr>
<td>Share of EU-N</td>
<td>67%</td>
<td>31%</td>
<td>64%</td>
<td>75%</td>
<td>65%</td>
</tr>
<tr>
<td>Share of EU-S</td>
<td>33%</td>
<td>69%</td>
<td>36%</td>
<td>25%</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Source:** Authors based on European Commission (2016j)
Figure 44: Effect of DPs on farm income under the old and the new CAP

Source: Authors based on European Commission (2013a)