

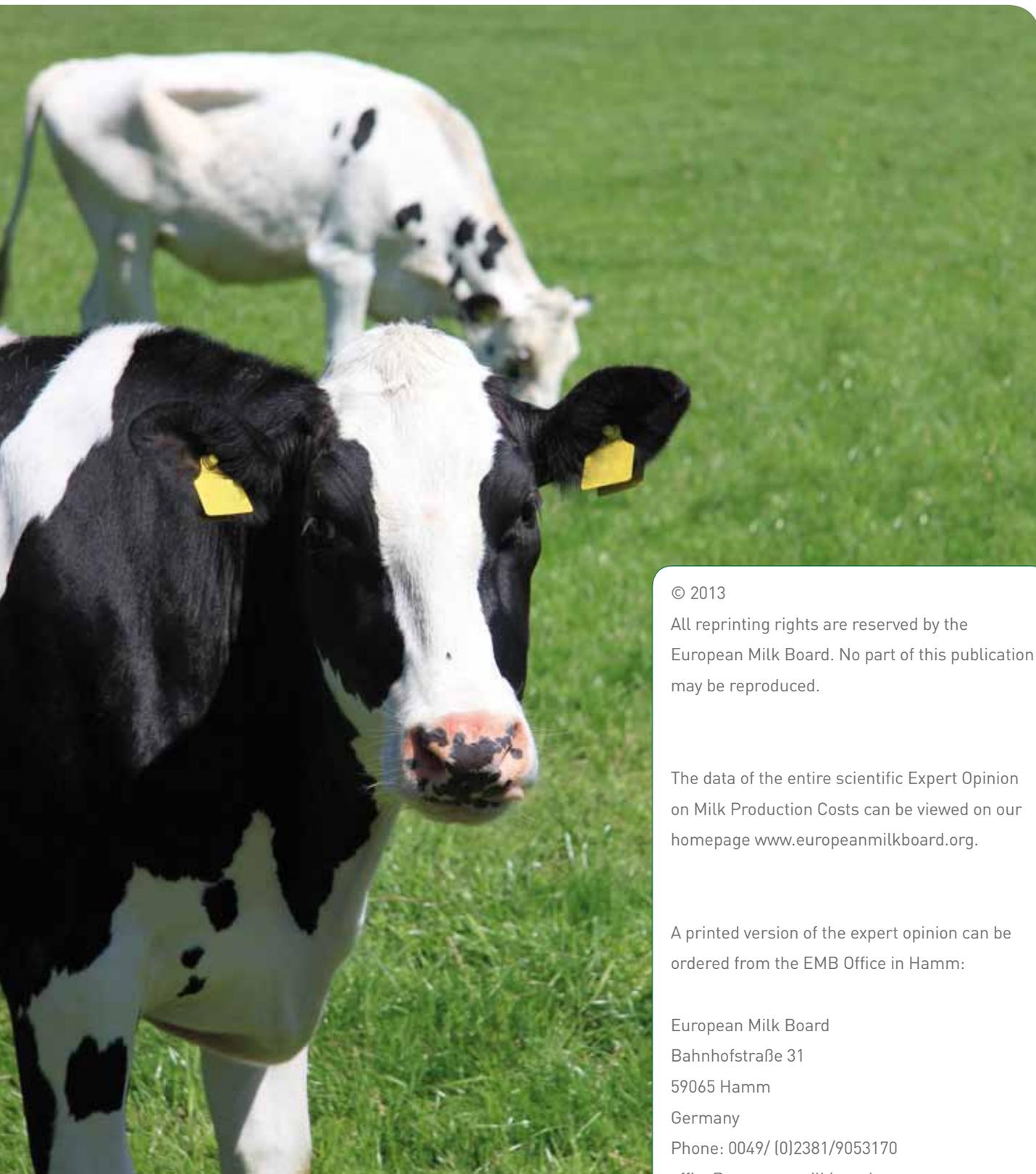
MILK PRODUCTION HAS ITS PRICE!



FAIR MILK PRICES

based on the production costs of dairy farms





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The data of the entire scientific Expert Opinion on Milk Production Costs can be viewed on our homepage www.europeanmilkboard.org.

A printed version of the expert opinion can be ordered from the EMB Office in Hamm:

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Increase earnings in agriculture – a European Union Treaty objective

AGRICULTURE AND SPECIFICALLY MILK PRODUCTION ARE ISSUES OF IMPORTANCE IN POLITICS AND IN PUBLIC DEBATE

Art. 39 of the 2009 consolidated version of the Treaty on the Functioning of the European Union states: The objective of the common agricultural policy shall be [...] to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; to stabilise markets; to assure the availability of supplies [...].



That this objective has so far not been achieved, especially in the milk market, is evident in the successive milk crises with extremely low farm-gate prices that drive the dairy farmers to take to the streets time and again to protest. In general the farm-gate price of milk does not cover production costs. The losses this entails threaten the milk producers' livelihood. Since 2008, the number of dairy farms in Germany alone has decreased by 16 per cent. It is a similar story in other countries. In France the number

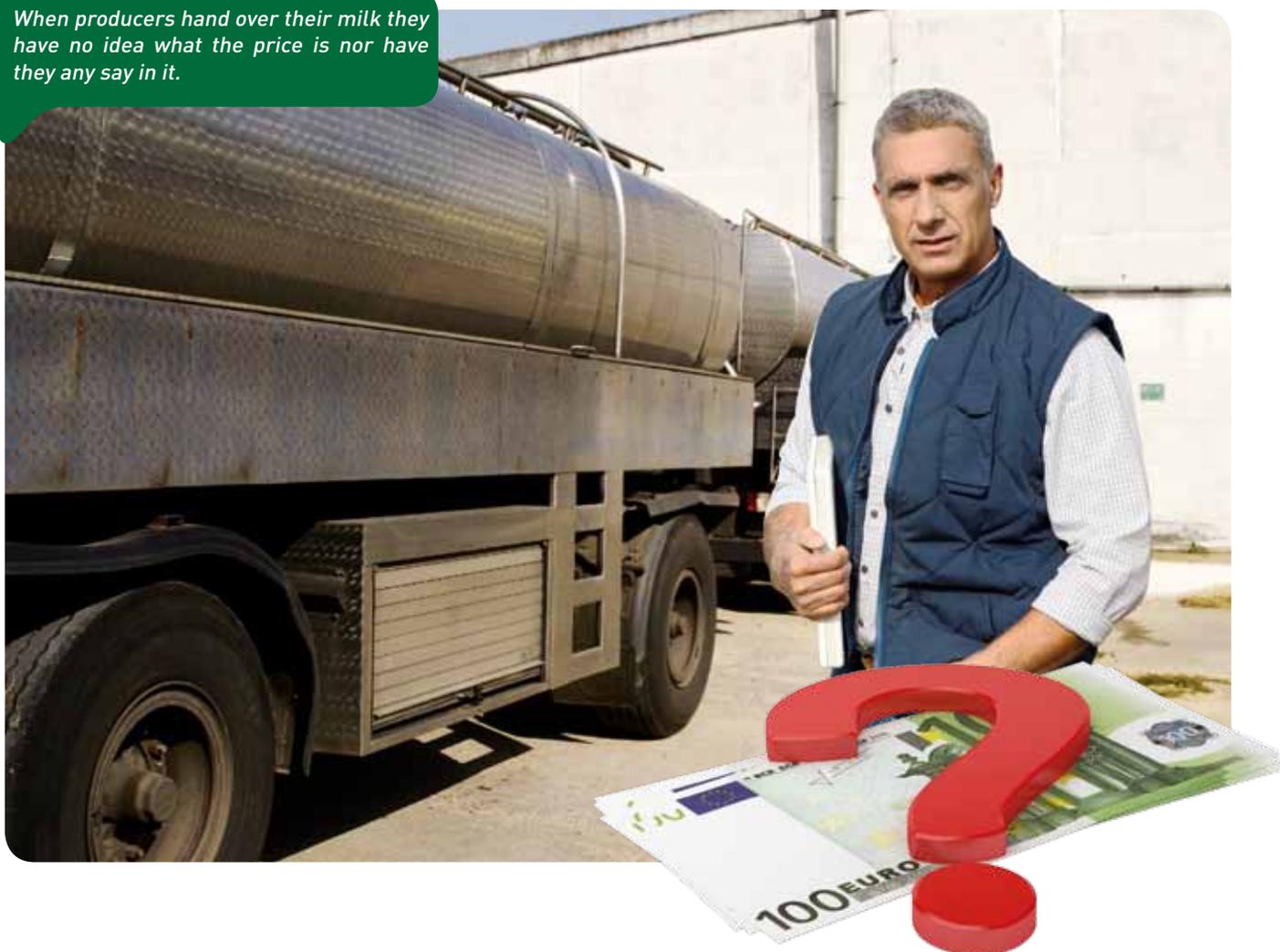
of dairy farmers fell by 8 per cent between 2008 and 2010. In the Netherlands, more than a third of farms have given up producing milk since 2000.

A European Parliament Report on earnings in agriculture drawn up in 2010 describes the problem of the unfair distribution of profits along the food supply chain. The report indicates that, as the last link in the chain, producers end up with far too little. As a consequence, the Parliament calls on the Commission and the member states to take active steps against the imbalance.

And in 2010 the European Commission's Group of Experts on Milk confirmed the poor position of the producers in the market and advocated strengthening the producers' position.



When producers hand over their milk they have no idea what the price is nor have they any say in it.



LITTLE BARGAINING POWER SO FAR

The dairy farmers have little bargaining power in the market. When the producers, especially co-operative members, hand over their milk they have no idea what the price is nor have they any say in it. In Germany, generally speaking milk producers are paid by their dairy

about four weeks after their milk has been collected.

This farm-gate price is made up:

minus of the retail price achieved
minus the retailer's profit margin
minus the dairy's profit margin and all
transport and production costs.

What is left over goes to the milk producer.

This "top-down" principle puts severe downward pressure on prices paid to the producer as the last link in the chain. This applies in particular to producers who supply co-operatives, and to a limited extent to those who supply private dairies.

WHAT WE SAY:

- ➔ Fair pay for farmers is an EU Treaty objective.
- ➔ At present the earnings of many farmers – especially dairy farmers – are inadequate.
- ➔ Dairy farmers have too little bargaining power in the market, and the "top-down" model is not conducive to their being able to negotiate better prices.

Hence strengthening producers is a pan-European objective.



SECURITY FOR FARMERS AND CONSUMER COMMUNITIES

What must now be earned in the marketing of milk to ensure that all the farmer's production costs are covered – a fair income for him including his working family?



As the umbrella organisation of European milk producers, the European Milk Board's objective is for farm-gate prices to cover the costs of production.

- ➔ What must now be earned in the marketing of milk to ensure that all the farmer's production costs are covered – a fair income for him including his working family?
- ➔ What are the costs of producing milk in Germany?

For the product that is milk to be sold at a fair price and for the farmer to still achieve an income, the price of a litre of milk must be high enough to cover the costs not only of feed and equipment.

Fair earnings for the self-employed farmer and wages for his workers/family members helping out on the farm must also be factored in.



For the very first time, the latter was incorporated in the calculations of the Expert Opinion, the results of which are summarised here. This expert opinion on costs has an EU-wide dimension. In future the costs of producing milk in different EU countries are to be compared. The figures for Germany were worked out initially as a pilot project. Figures for other countries will follow in the months and years to come.





EXPERT OPINION ON MILK PRODUCTION COSTS IN GERMANY

The results of the Expert Opinion on Milk Production Costs in Germany, which the European Milk Board in conjunction with the MEG Milch Board commissioned from the Farm Economics and Rural Studies Office (Büro für Agrarsoziologie und Landwirtschaft, BAL), are presented in brief below.

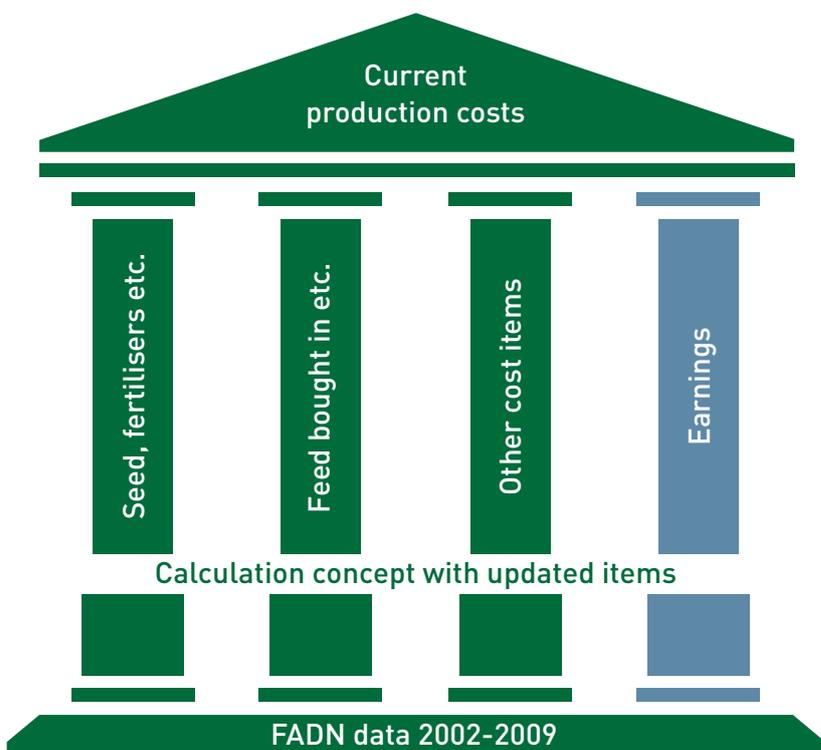
THE DATA

For this expert opinion a concept was specifically drawn up for calculating the current costs of milk production.

The data are based on the European Commission's Farm Accounting Data Network (FADN¹). The FADN is a farm accounting network officially and legally recognised by

the member states of the European Union. Every year the network collects detailed data on the structure, income, production and production costs of farms in the European Union. The FADN data for Germany are based on surveys for the test farm accounting of the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV). The production cost calculations from the FADN accountancy data relate to the period from 2002 to 2009 (as the FADN data are accounting data, they are always about three years behind).

The Federal Statistical Office's price indices for agricultural means of production such as feed, fertilisers, seed and energy are used to update production costs. It was possible to update the costs in these calculations for October 2012. Another key



¹ The FADN surveys are based on a layered selection that covers solely main activity farms and partnerships, in addition the random sample includes farms upwards of a defined economic minimum size differentiated by European Size Units (ESU).

component in the calculation concept is the work performed by the farmers' and their family members. This is calculated using an earnings rate.

The reference rates taken for the earnings rate were the collective wages negotiated in the federal state of Saxony for self-employed farmers working as farm managers.

The farm selection includes only specialised dairy farms. For statistical reasons only the two largest categories of farm size (categories 5 and 6 as defined by the FADN) were incorporated in the calculation, for only these are to be found in every region in a statistically significant number. In Germany comparable dairy farms in size category 5 have at least 40 cows on average, in size category 6 at least 80 cows.

THE FOLLOWING REGIONS ARE DIFFERENTIATED FOR GERMANY IN THE FADN DATA NETWORK:

1. Schleswig-Holstein
2. Lower Saxony
3. North Rhine-Westphalia
4. Hesse
5. Rhineland-Palatinate
6. Baden-Württemberg
7. Bavaria
8. Saarland
9. Brandenburg
10. Mecklenburg-Vorpommern
11. Saxony
12. Saxony-Anhalt
13. Thuringia

RESULTS

Three regions were formed for Germany because of the natural geographical conditions that necessitate, for instance, different feed concepts, and because of different

farm concepts (family farm or contract farming). The milk production costs within a region are of similar dimensions and differ from those of the other two regions.

■ NORTH REGION:

North Rhine-Westphalia, Lower Saxony, Schleswig-Holstein

➔ Here the milk production costs (minus subsidies) amount to 43.06 cents per kilo of milk.

■ SOUTH REGION:

Saarland, Bavaria, Baden-Württemberg, Rhineland-Palatinate, Hesse

➔ Here the milk production costs (minus subsidies) amount to 51.03 cents per kilo of milk.

■ EAST REGION:

Thuringia, Saxony, Saxony-Anhalt, Brandenburg, Mecklenburg-Vorpommern

➔ Here the milk production costs (minus subsidies) amount to 45.07 cents per kilo of milk.

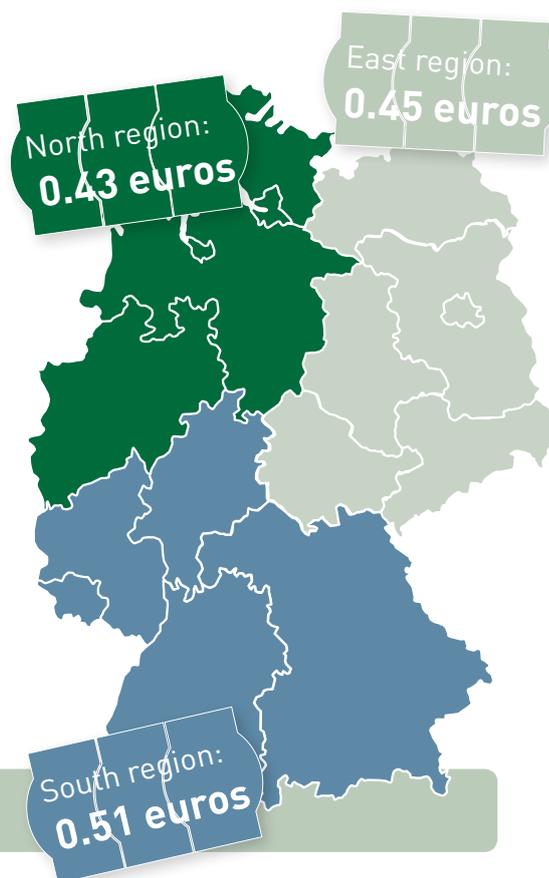


Table 1: Regional production costs
(as per extrapolation October 2012)

Region	Production costs (total; but excl. imputed costs)	Subsidies	Costs (production costs minus subsidies)
North	48.02 ct/kg milk	4.96 ct/kg milk	43.06 ct/kg milk
East	52.22 ct/kg milk	7.15 ct/kg milk	45.07 ct/kg milk
South	57.70 ct/kg milk	6.67 ct/kg milk	51.03 ct/kg milk

Table 2: Imputed costs
(as per extrapolation October 2012)

Region	Imputed costs
North	2.87 ct/kg milk
East	2.41 ct/kg milk
South	3.16 ct/kg milk

The figures quoted relate to 3.3 per cent protein and 4.0 per cent fat, and do not include VAT.

The costs were worked out for one kilo of milk taking subsidies such as direct payments into account. These were already deducted from the total costs. They average about 6 cents a kilo of milk. (See Table 1).

Costs not included in the figures quoted are the imputed costs for equity capital invested in the farm („interest rate“) and for the farmers' own land („lease rate“). These costs are about 3 cents a kilo of milk. (See Table 2).

In 2012 German milk producers were paid 31.5 cents a kilo of milk² on average over the year. In October 2012 the average milk price in Germany was 32.6 cents³.

This means that with this milk price dairy farmers in Germany add between 10.5 and 18.5 cents, depending on the region, to every kilo of milk they produce instead of earning money from it. That is tantamount to you paying your employer something an hour for the privilege of working for him.

To cover the costs of production, the price paid to the farmer has to be 0.50 euros per kilo of milk.

You can find more data from the study online:

<http://www.europeanmilkboard.org>



² with 4.0 per cent fat and 3.4 per cent protein; source: Deutscher Raiffeisenverband

³ with 4.0 per cent fat and 3.4 per cent protein; source: AMI



New prospects for dairy farmers



SUMMARY

We have to know the costs of production to be able to assess farm-gate prices realistically. This study based on EU data shows how big the gap is between production costs incurred and prices paid to the producers. These figures put the many farms going out of production in recent years into perspective.

Taken together with upstream and downstream sectors, agriculture accounts for some 6.5 per cent of German value creation; with a total of 5 million jobs, one in eight employees works in these sectors.⁴ The disappearance of jobs in and around agriculture is a burden on rural regions and weakens them. The economy as a whole suffers under these developments.

The figures ascertained in the study demonstrate the distortion in the pricing of milk. Producers, politicians and consumers now have to assume collective responsibility and come up with an agricultural policy that produces a fair income. Not through subsidies, but by creating the right general conditions.

These general conditions must ensure that a milk producer receives a price from the market that covers the costs of production.

For the producers themselves it also means pooling to acquire enough market clout to negotiate prices with milk processors.

⁴ source: BMELV



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