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Current milk production costs for Germany: 42 cents/kilo of milk

Price not covering costs: should high-quality work really be remunerated with deficits?

(Brussels, 17/07/2017) Since 2012 there has been a realistic method for calculating milk production costs in the dairy sector. The German Office for Agriculture and Agricultural Sociology (Büro für Agrarsoziologie, BAL) takes official EU data to work out the costs of producing a kilo of milk and puts them in proportion to the farm-gate price at the time. Here are the latest figures for Germany:

As the calculation shows, work input is also included in the production costs of 42.00 cents/ kilo of milk in the shape of an income rate. “Unfortunately there are also other methods of calculation that either only partially include or do not include at all the work input of the farm manager and of his family members in the costing”, Romuald Schaber, President of the European Milk Board (EMB), points out. “It’s as if the labour is worth little or nothing at all.” He says this often creates a distorted picture of what the production of milk costs. “Unfortunately this means dairy farmers often feel forced to put very little value on their own work”, is Schaber’s criticism. But this is misguided. “Because a lot of work goes into producing milk, and operating a dairy farm requires a wide range of know-how – from arable farming and animal husbandry, through using and servicing sensitive machinery, to the business management of the farm.” The BAL costing is based on collective bargaining agreements in the agricultural sector and considers this rating of the worth of a farm manager’s work as 20 - 22 euros/hour (gross) to be realistic.

The price/cost ratio, which indicates the extent to which the milk price covers the production costs, shows a figure of 0.81 for April. This means that only 81 percent of costs are covered. Schaber says that is extremely problematical for the milk sector. “Let me ask this question: dairy farmers produce a vital staple of the highest quality, they are constantly developing, run a relatively high risk of professional injury, and keep the countryside alive with their work. Should there really be a figure of minus 19 per cent on their payslip?”, Schaber ponders.

This situation is not restricted to just Germany. In other EU countries, too, prices remain well below the cost level. It is true that a EU-wide reduction in production has eased the market slightly compared to the previous year. But with prices of, say, 32 cents in France and 35 cents in Denmark, the milk production costs of above 40 cents are not covered in those countries either. The EMB proposes stabilising the market through a crisis instrument and thus ending the undercoverage of costs. Schaber: “This crisis instrument called the Market Responsibility Programme (MVP) can help us become a sector with a future – a sector in which young people can



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carry on running dairy farms instead of having to leave them in droves, as they now are.”

Background:

The cost study, jointly commissioned by the European Milk Board (EMB) and the MEG Milch Board from BAL (German Office for Agriculture and Agricultural Sociology) calculates the costs of producing milk throughout Germany. It is based firstly on data from the European Commission’s Farm Accountancy Data Network (FADN), and secondly, to update those data, on the German Federal Statistical Office’s price indices for agricultural means of production like feed, fertilisers, seed and energy, and uses an income rate that calculates the performance of farm managers and family members.

Building on this study, the MEG Milch Board developed the Milk Marker Index (MMI), which documents the trend in production costs (base year 2010 = 100). The MMI for April 2017 is 101 points. It is published quarterly along with a price/cost ratio. This shows the ratio between the officially recorded raw milk prices paid to the farmers and the milk production costs.

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