

Dear dairy farmers, dear interested parties,

What is the cost of producing milk?

In our sector, numerous spokespersons have the bad habit of taking the milk price as a starting point for looking at the dairy market. A short-sighted vision, because for dairy farmers the cost of production is as important as farm gate prices. In economic terms, it is impossible to consider the dairy market without knowing about the development of the cost of production.

Given the lack of reliable, up-to-date and representative information about cost developments, since 2013 a number of EMB members has therefore commissioned the *Büro für Agrarsoziologie und Landwirtschaft* (BAL, Office for agricultural sociology and agriculture) to calculate the cost of production for milk, including a fair income. The cost calculations are based on the only representative database in the EU: the EU's Farm Accountancy Data Network (FADN). This has provided a lot of insight into the developments not only in the farm gate prices and the production costs, but also in the gaps in existing so-called "cost calculations".

Since last year, six EMB member organisations from several important EU milk producing countries (Belgium, Denmark, France, Germany, Luxembourg and the Netherlands) have combined their results in one report. This report on the development of milk production costs has recently been updated with the 2017 figures.

A cost item that is not even seriously included in the EU's cost analysis is the income of the dairy farmer and the family members working on the farm. This means that at the highest political and agricultural level, unrealistic and economically even irresponsible statements are made about the supposed "earnings" in dairy farming – while five years of cost calculations show that only "shortfalls" can be spoken of. The milk price has not covered the costs in any year since 2013!

In 2013 and 2014, the costs for milk production rose sharply – costs that were not compensated by the short increase in milk prices in 2014. The milk price crises of 2015 and 2016 forced dairy farmers to postpone necessary investments intended to keep their farms healthy and future-oriented. The cost study makes this painfully clear by a significant reduction in depreciation and interest as well as a sharp fall in wages. A situation that did not improve in 2017.

What the cost study also shows is the development of milk prices over the past five years. In spite of all the statutory requirements imposed on farmers by the dairy industry for terms such as "sustainability" or "image", farm gate milk prices have not seen a considerable increase and have always been much lower than the cost of production. "Added value" – another slogan used by dairy managers – does certainly not apply to dairy farmers.

With the knowledge of production cost and price developments over the past five years, and the reform of the Common Agricultural Policy (CAP) in prospect, it is absolutely necessary to implement market instruments that guarantee producers that farm gate milk prices on average cover the costs. This is the only way to make our sector attractive again for successors and to maintain family farms, as desired by EU citizens. If we do not want industrial food production, a substantial reform of the current system, which is devastating for milk producers, is needed. We are being supported by more and more social groups in our demand that farmers should be paid the cost of production. If milk production does not become economically sustainable very soon, there will certainly be no social sustainability neither.

EMB Newsletter October 2018

Milk cost study shows: There is a gap between production costs and producer prices

- Milk production costs still not covered in Germany

"We cannot go on like this"

- A dairy system in Switzerland that continues to defy all logic!

- New fair milk products in Luxembourg

Nine years and counting!

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A first step to gaining real knowledge of the cost of producing milk is to take note of this [study](#)

Sieta van Keimpema, EMB Vice President and President of the Dutch Dairymen Board (DDB)

Milk cost study shows: There is a gap between production costs and producer prices

Overview published with the latest figures from France, Germany, Denmark, Belgium, Luxembourg and the Netherlands

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The results of the latest milk production cost calculations in six European countries show in objective economic terms – black on white – that daily business for milk producers is grim: Milk production costs and farm-gate prices are moving further apart! Even in so-called 'good years' i.e. between dairy crises, prices are permanently below production costs.

According to the latest study by the Bureau for Rural Sociology and Agriculture (BAL) – *What is the cost of producing milk?* – the average milk production cost over 5 years in six European countries was between 41 and 46 cents per kilogram of milk. However, producer prices during the same period were on an average between 32 and a maximum 35 cents per kilogram of milk. "European milk producers are squarely in the red every month," says study author Dr. Karin Jürgens, hitting the nail on the head. "If this dilemma is not solved, it will become increasingly difficult for dairy farmers – both large and smaller ones – to continue to produce milk in Europe."

In 2017, production costs in all six countries inclusive of remuneration and average net investments were significantly higher than milk prices and were between 43.39 cents/kg (Germany) and 48.89 cents/kg (Luxembourg). And even without taking into account the necessary net investments, the average cost shortfall over 5 years is significant and between 14% (Denmark) and 27% (Belgium and France).

Milk production costs (in blue) and net investments (in grey) compared to farm gate milk prices (in red): prices never cover the farmers' cost of production

For Erwin Schöpges, dairy farmer from Amel in eastern Belgium and President of the European Milk Board (EMB), the figures confirm the chronic tense situation on farms. "We dairy farmers do not even recover our incurred production costs – forget about remuneration for our work." In principle, milk producers are paid whatever dairies are willing to spare, explains Schöpges. "We can only keep our farms alive thanks to complementary income from activities outside of farming!" European milk producers also expect costs to rise in the coming winter due to drought-induced feed shortages. "Tough times are ahead of us as milk prices remain at a low level", says the President of the European milk producers' association about the prospects for milk producers.

The production costs study was also recently presented to the experts of the European Commission's Milk Market Observatory (MMO). "They took note of the red figures on our milk production balance sheets, but there was no outcry regarding the imbalance within the food supply chain," says the EMB President, disappointed by the participants' reactions (or lack thereof). "It is now up to EU policy-makers to have the will to include an effective crisis mechanism in the future Common Agricultural Policy!"

Calculation on the basis of EU data and approach for fair remuneration of labour

The BAL study is based on recognised, EU-wide comparable and representative data compiled by the European Commission (data from the Farm Accountancy Data Network – FADN and agricultural price indices). Labour costs are calculated on the basis of agreed standards for the respective country. They also consider the worker's level of training and qualifications as well as country-specific wage agreements for farm managers. In the cost calculations, subsidies are deducted from total costs and net investments (10-year average) are also shown.

Please find the cost study here

[Discover the cost study in the form of a short video](#)

EMB press release of 10.10.2018

Milk production costs still not covered in Germany

The quarterly cost figures for Germany show that only 80% of production costs were covered in July 2018, while in April it was 78% and 88% in January. Production costs in July amounted to 43.28 cents; however, producers only received 34.56 cents for their product.

Milk prices and production costs are still far apart. These figures come from the German quarterly cost studies published by the Farm Economics and Rural Studies Office (BAL).

Johannes Pfaller, dairy farmer from southern Germany and European Milk Board (EMB) Executive Committee member, does not see any convergence of farm-gate milk prices and production costs in the medium term either. "Milk prices are far from covering our production costs. In addition, the costs of animal feed will rise in the coming winter due to drought-induced crop failures." It is therefore now even more important to lay down the conditions for a stable milk market as part of the Reform of the Common Agricultural Policy, Pfaller said.

Evolution of milk production costs in Germany

[Here](#) you have the evolution of milk production costs in Germany from 2009 to July 2018.

Price-cost ratio (shortfall)

The price-cost ratio illustrates to which degree milk prices cover production costs. In July 2018, producers only recovered 80% of their production costs from the milk price; the shortfall was thus 20%. Here you see the cost shortfall since 2009.

Milk Marker Index (MMI)

The Milk Marker Index represents the evolution of milk production costs. In July 2018, the MMI was at 104, i.e. production costs for German dairy farmers had risen by 4% as compared to the base year 2010 (2010=100). Here you see the evolution of the Milk Marker Index over time.

New:

The calculations of milk production costs in Belgium, Denmark, France, Germany, Luxembourg and the Netherlands for 2017 are now available. You can find the study [here](#) as well as the figures at a glance in a short [video](#).

There is a chronic shortfall in milk production cost coverage – how can this be solved?

The European Milk Board promotes a legally-anchored crisis instrument to counteract the chronic cost shortfall. The Market Responsibility Programme (MRP) observes and reacts to market signals by aligning production.

[Here](#) you have a short description of the EMB Market Responsibility Programme.

Background:

Commissioned by the European Milk Board and Germany's MEG Milch Board, the Farm Economics and Rural Studies Office (BAL) started compiling comprehensive data on milk production costs in Germany in 2012 for the study entitled "What is the cost of producing milk?". The calculation is based on data from the EU Farm Accountancy Data Network (FADN) as well as the Federal Statistical Office (Destatis), and has been updated every quarter since 2014.

[Download the data sheet here](#)

EMB press release of 15.10.2018

"We cannot go on like this"

Milk producers must sell milk at a price lower than their actual production costs. On 28 September, they tried to make this heard with the loud honking of tractors in Luxembourg City. With twelve tractors and protesters, their aim was to draw attention to the situation of farmers in Luxembourg and Europe, and to the need to find a solution that would prevent the disappearance of an entire profession.

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"We are here to present the results of our milk production cost study to the Ministry of Agriculture and to the government representatives in Council, as well as to provide some ideas that could possibly solve the problems plaguing milk production," says Guy Diderich, president of the Luxembourg Dairy Board (LDB).

The study shows that in 2017, like in previous years, milk producers could not break even on production costs. "We cannot go on like this," warns the president of the dairy farmers' organisation. In fact, an increasing amount of external funds in the form of subsidies are being injected into farms to allow them to stay in business. This situation has become the norm since the expiry of rules determining milk quotas.

The cost of production inputs is constantly on the rise and farmers cannot reflect these increases in the price of their product if they wish to continue to sell. "This year was marked by the drought and we still do not have figures, but in recent years, for example, the price of fodder has sky-rocketed," explains Guy Diderich. "The milk price, however, has remained the same. Too low, but the same. We are ten cents per litre short of covering our costs."

Producing one kilogram of milk costs farmers 42.62 cents, after subtracting 7.31 cents in subsidies. It is sold at 31 or 32 cents. Thus, according to Luxembourg's dairy farmers, a fourth of costs are not covered. Even worse, farmers must

cover this shortfall from their own pocket. Fodder prices have increased more than 20% since 2010. The price of cereals, fertilizers, energy and even the cost of maintaining agricultural equipment have all steadily increased.

"All of this in addition to falling milk prices, which means that we are no longer making enough profit to be able to invest in our farms and thus comply with food quality, environmental and animal welfare requirements," continues the president.

Producers want "a stable price that covers production costs. We demand a crisis instrument that guarantees a decent income for farmers in Luxembourg and across Europe. This instrument should be part of the European Union's Common Agricultural Policy," says Guy Diderich.

According to figures from 2016, Luxembourg is home to 530 dairy farms, with an average 69 dairy cows and run by an average 1.75 persons. The dairy farmers' grievances were heard by Minister for Agriculture Fernand Etgen. They would like to earn their daily bread with the butter they produce...

Extract from the article «[Nous ne pouvons continuer ainsi](#)» by Sophie Kieffer, *Le Quotidien* (29.9.2018)

A dairy system in Switzerland that continues to defy all logic!

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Considering this summer's drought and the subsequent fodder shortage for dairy cows, a price increase for segment A* milk would have been more than welcome. But no! The Swiss dairy sector organisation (BOM) decided to do nothing about the indicative price for segment A milk at their meeting on 22 August, which means that prices will remain at 68 centimes/kg in the fourth

quarter of 2018.

It was impossible for dairy farmers to accept this decision and they demanded a second meeting with the BOM, which, however, also ended in a stalemate. The BOM has indicated that they want to *"let supply and demand balance out"* and that *"if milk volumes and fat content decreases this autumn and a shortage does become apparent, market prices would consequently increase of their own accord."* The Swiss Farmers' Union (SFU), on the other hand, appealed to retailers at the beginning of August to pay an extra 5 centimes/kg

up to 30 April 2019 as a gesture of solidarity.

This decision is a disgrace considering the extenuating circumstances Swiss farmers have had to deal with this summer – a situation that has affected

producers across Europe!

Keeping in line with their absolute disregard for the country's milk producers, the BOM has announced a new sectoral standard for "sustainable milk" in Switzerland, which shall be introduced on 1 July 2019. What does this include?

Additional requirements regarding feed, animal welfare and other areas, over and above the existing legal requirements that are already quite stringent. A few examples of the additional requirements:

- Keeping calves on the farm for at least 21 days,
- If soya meal is used, it must come from proven sustainable sources,
- Every cow must be named at birth, and this name must be registered in the Trade in Livestock Database (BDTA).

Complying with these requirements will qualify farmers for a sustainability premium of 2 centimes/kg. Though some of these additional requirements are good in and of themselves, we cannot believe that milk producers are being asked to fulfil even more requirements for a ridiculous premium, while it is clear that producers today are really struggling to make ends meet... Let's not forget that producing a litre of milk in Switzerland costs 1 franc. However, milk producers supplying

to the dairy industry are paid an average 50 centimes per litre – just half! Do you really think that these paltry 2 centimes will turn things around for our milk producers??

The additional requirement in the list of specifications "Every cow must be named at birth, and this name must be registered in the BDTA" has really made some milk producers laugh out loud! Are we sure this isn't some kind of joke?

Berthe Darras, Uniterre

** In Switzerland, milk price is divided into three segments (Source: milk price report, PSL, March 2018):*

- *Segment A = milk for the Swiss market = indicative price: 68 centimes/l (but in reality, around 60 centimes/l are usually paid)*
- *Segment B = milk for the European market = 38.05 centimes/l*
- *Segment C = milk for the world market (mainly to make milk powder) = 30.79 centimes/l*

New fair milk products in Luxembourg

In the aftermath of the dairy crisis in 2008, 48 producers in Luxembourg decided to launch their own brand on the local market. The objective was to empower agricultural producers and to link decent farmer income to consumer confidence. At the Ettelbruck agricultural fair, Mett Roeder, milk producer and president of D'fair Mëllech, presented three new products that are now available in almost all supermarkets in the country.

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Brie du pays

This is the first Luxembourg brie to be put on the market and everyone knows that good quality raw materials are a guarantee for delicious cheese. That is why the Brie dairy cows are raised on meadows in the north of the country, at the Lamberty farm in Heinerscheid. Mett Roeder explains that "the cows graze on grass in the fields and they are also milked there." The milk is then cured in an artisanal cheese dairy near Batice in Belgium, and is then distributed to supermarkets in the Grand Duchy. "Cheese-making is a delicate process requiring specific know-how, which is still not found in Luxembourg," explains the president.

Many D'fair Mëllech producers are already toying with the idea of introducing a second cheese, but they are hesitating between a number of options. Nonetheless, in order to decide, they need to do what they have done for every new idea – find out what consumers want. After all, direct contact is the key to a successful cooperative.

Smaller packs

Many parents have also asked for small milk cartons they can slip into their children's school bags as part of their mid-day snack. Smaller 330ml packs are also ideal for singles and for the many childcare centres supplied by D'fair Mëllech. Therefore, another two products have been introduced in time for the new school year – 1.5% UHT semi-skimmed milk in 330ml packs and UHT chocolate milk in 330ml packs, which is, in fact, labelled "transfair" and ensures fair trading conditions for local cocoa and sugar producers.

The cooperative

D'fair Mëllech has no employees – together with their families, farmers themselves mind stands at agricultural fairs, negotiate with wholesalers and debate with policy-makers. The idea is to sell locally-produced products made for the local market, while ensuring fairness for producers as well as consumers. The objective is to reinstate a balance between production and consumption.

In fact, this sentiment remains firmly anchored in the minds of the milk producers negotiating reasonable prices and margins with supermarkets. The brie is sold for 2.98 euros, of which 10 cents are directly redistributed to the cooperative. "For products to be 'fair' for all, producers and consumers should not just have to bow down to conditions laid down by industry, but in fact industry must also shoulder their share of the responsibility. This is the only way to ensure fairness," concludes dairy farmer Roeder.

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Nine years and counting!

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cooperatives.

Milk strikes were and continue to be the only radical solution to obtain cost-covering milk prices (45 cents per litre). This was a way for us to show our solidarity in the face of technocrats, politicians, the dairy industry and

We saw it as an investment in a better future for milk production. The strike did not work because too many farmers expected their neighbours to do what was needed or even to give up. I participated with my associate from beginning to end (27,500 litres of milk poured away) and I have no regrets, except for the fact that I am part of an agricultural sector that does not think, that does not reflect. Most of us consider them the elites, the crème de la crème. Being a farmer is a poor man's profession. We should be the kings (though that is not what I am asking for) and instead, we are the serfs!

Fortunately, over the last almost ten years, we have been able to create a number of amazing things that could invert this foul system that we have had to deal with for many years now. Unfortunately, it's like during the milk strike – we still need soldiers ready to take on the fight.

In any case, I would like to sincerely thank everyone who has been a part of this movement and those who continue to support it! Shame on the former trade unionists and all those who have never stopped putting obstacles in our path.

Boris Gondouin, Board member at APLI and Executive Committee member at EMB

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