

2014

MILK PRODUCTION COSTS The Netherlands



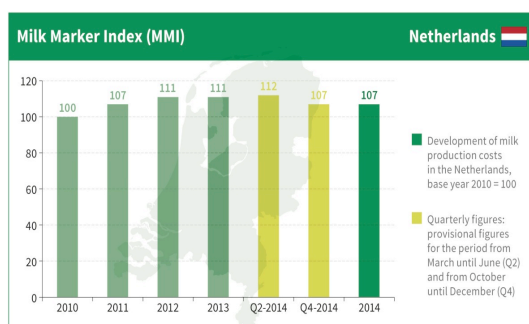
Latest cost development in the Netherlands

The cost of producing milk in the Netherlands calculated for the whole of 2014 was 42.24 eurocents per kilo of milk after deducting 3.03 cents/kg in subsidies. With the price being 38.90 cents/kilo of milk, the cost under-absorption was therefore 8 percent. The cost calculation is representative of smaller, medium-sized and large specialised, full-time dairy farms (with 24, 80 and 223 dairy cows respectively).

The milk production costs were still 5 percent higher in 2013, whilst farm-gate prices of milk averaging 37.40 cents/kg were 1.5 cents/kg milk lower.

Year	Paid costs	+ Income rate	= Total costs	- Subsidies	= Production costs
2014	35.14	10.13	45.27	3.03	42.24
2013	37.16	10.69	47.85	3.33	44.52

Farm size	Dairy cows	Paid costs	+ Income rate	= Total costs	- Subsidies	= Production costs
4	24	30.73	20.03	50.76	2.61	48.15
5	80	34.96	10.59	45.55	3.08	42.47
6	223	36.80	6.08	42.88	2.79	40.09



The Milk Marker Index (MMI) documents the latest trend in production costs (base year 2010 = 100). It is updated every six months. The MMI for 2014 is 107 points.

Averaging 42.24 cents a kilo of milk, production costs in the Netherlands in 2014 were 5 percent lower than in 2013. The MMI then was 111 points. The last time there was a similarly moderate cost level to that of 2014 was in 2011. Then from 2012 to mid-2014 costs in the Netherlands rose two years in succession. It was not until the fourth quarter of 2014 that they fell. These reductions are due in particular to the dairy farmers' lower expenditure on bought-in feed (this includes seasonal effects).



	2010	2011	2012	2013	2014, 2 nd quarter**	2014, 4 th quarter	2014
Production costs in ct/kg	39,96	42,93	44,29	44,52	44,74	42,20	42,24
Farmgate milk prices in ct/kg***	30,75	34,22	32,38	37,40	38,90	35,70	38,90
Price/cost ratio	0,77	0,80	0,73	0,84	0,87	0,85	0,92
Shortfall in %	23	20	27	16	13	15	8
MMI (index)	100	107	111	111	112	107	107

Trend calculations by BAL (Büro für Agrarsoziologie und Landwirtschaft) on the basis of LEI and FADN (EU) data. | ** provisional quarterly figures, extrapolations until 2nd quarter on the basis of FADN 2010 data, afterwards on the basis of FADN 2012 data | *** all milk prices for 3,7% fat, source: Price Information Desk (LEI).

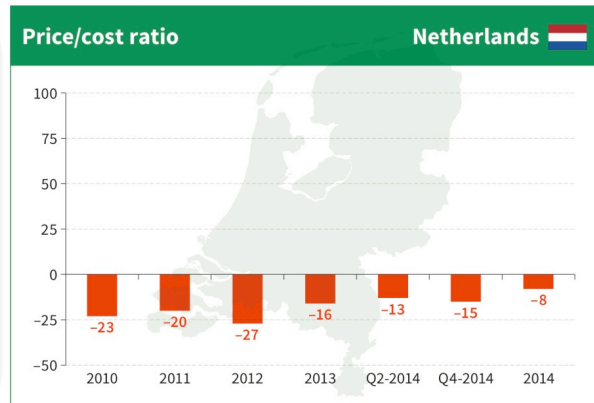
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It is only by taking the Milk Marker Index together with the price-cost-ratio that it becomes clear to what extent the costs of milk production were covered by farm-gate milk prices. Despite relatively weak cost pressure compared to subsequent years, already back in 2010 and 2011 Dutch dairy farmers faced a tough economic situation owing to low farm-gate milk prices: in terms of the average of all farms it was not possible to cover milk production costs. In 2012 the cost-price gap became even greater, as costs had risen by 11 percent since 2010 and farm-gate prices remained low. Measured by the ratio, this cost under-absorption averaged 27% in 2012. In 2014, too, despite lower milk production costs with concurrent higher farm-gate milk prices it was not possible to cover the costs of producing milk (ratio of 0.92).



BAL on the study

When calculating milk production costs for 2014 the database was switched from EU FADN 2010 to FADN 2012. For the extrapolation, besides the price index for agricultural input and cattle breeding from 2005 to 2014 (Eurostat), the study uses scientific data on the specialised dairy farms of the Dutch network of test farms of 2013 (source: Landbouw economisch instituut, LEI Wageningen). Two per cent of the total milk volume produced was considered used on the farms and not included in costs. To enable the labour costs of the self-employed to be calculated by their professional qualifications and their work, the DDB had an external expert opinion drawn up. Based on a recognised system of evaluating the remuneration of work in the dairy sector, the study calculated the figure for the work of self-employed dairy farmers. Only the components of costs, revenue and subsidies relevant to milk production are considered in the final results.



DDB on the study

This cost study commissioned by the DDB is an analysis representative of more than 17,250 specialised dairy farms in the Netherlands. It is based on EU accounting data recognised by every EU member state. To preserve an economically sustainable dairy sector in the Netherlands, the dairy farmers must be able to earn a fair living. That is only possible with a cost-covering milk price. This study gives a scientifically substantiated and objective answer to the question of the real costs of milk production.

Colophon

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