

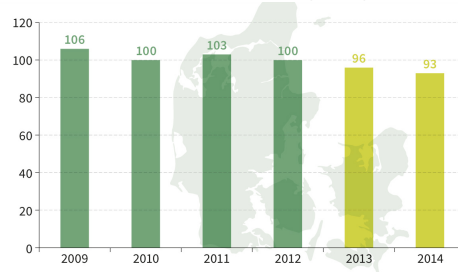
2014
MILK PRODUCTION COSTS
Denmark
Brief comments on the current cost trend in Denmark

The milk production costs calculated for Denmark for the whole of 2014 were – after deducting 4.33 cents in subsidies – 38.99 cents per kilo of milk. The income rate of 4.82 cents per kilo of milk included in the milk production costs represents the minimum value that should be imputed to the dairy farmers’ work depending on their professional qualifications (according to the standards of collective bargaining provisions). Compared to the base year 2010, altogether milk production costs fell by 7% (2010 index of 100, 2014 index of 93). There is hardly any difference in the expenditure required for the actual production of milk between medium-sized farms and large farms, despite the almost threefold stock of cattle. It is even lower on farms with an average of 89 dairy cows than on farms with 226 dairy cattle. So, in a tight market situation like the present one, the farms have no other option than to further reduce their labour costs.

Year	Paid costs	+ Income parameter	= Total costs	- Subsidies	= Production costs
2014	38.50 ct/ kg	4.82 ct/ kg	43.32 ct/ kg	4.33 ct/ kg	38.99 ct/ kg

Farm size	Dairy cows	Paid costs	+ Income base	= Total costs	- Subsidies	= Production costs
5	89	37.50 ct/ kg	8.25 ct/ kg	45.75 ct/ kg	4.70 ct/ kg	41.05 ct/ kg
6	226	38.93 ct/ kg	3.33 ct/ kg	42.26 ct/ kg	4.17 ct/ kg	38.09 ct/ kg

The Milk Marker Index (MMI) is calculated on the basis of the results of the cost study in Denmark. It shows the average trends in milk production costs since 2009. Milk production costs were 3% lower in Denmark in 2014 than in the previous year. The drop in costs is due to the cheaper prices of major means of agricultural production since 2013. The cost trend is substantially determined by lower costs for bought-in feed. Expenditure on fertiliser, energy and maintenance of machinery and buildings also went down slightly. The cost for crop protection, however, was markedly higher than in the previous year owing to taxation.

Milk Marker Index (MMI)

Key to the graph:

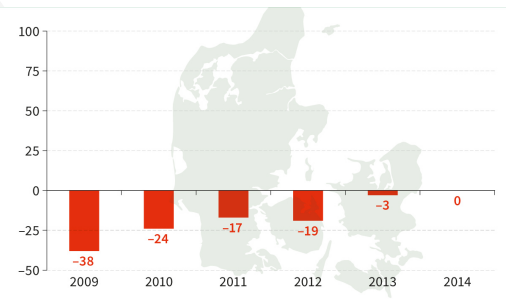
Dark green: Change in milk production costs in Denmark in relation to previous year, base 2010=100
Light green: Projected interim result for the years 2013 and 2014

2014 MILK PRODUCTION COSTS Denmark

The price-cost ratio demonstrates to what extent the “farm-gate price” covers production costs. As opposed to other approaches, the ratio relates not just to feed costs but to all cost-effective components of milk production, including labour costs. To calculate the ratio, milk production costs calculated by the BAL are based on the officially ascertained farm-gate prices for milk.

The trend in the price-cost ratio in Denmark makes it clear that the downward trend in milk production costs has not entailed any economic relief for dairy farmers. The strong cost pressure and simultaneous low-point of the farm-gate milk price (27,53 cents) meant that in 2009 dairy farms experienced a cost shortfall of 38 per cent. It was not until 2014 that falling costs together with a rise in farm-gate prices to 39,67 cents per kilogramme resulted in costs being covered.

Price-cost ratio



However, in 2014, too, the farms lacked sufficient profits for investments and reserves required for longer-term development. In addition, farm-gate prices have again fallen markedly since the end of 2014.



Brief comment from a scientific point of view

The calculations of milk production costs in Denmark in 2014 are based on the EU’s FADN for 2012 as well as the profit and loss accounts of specialised dairy farms in the Danish test farm network in 2013. The indices of prices of means of agricultural production and cattle breeding from 2005 to 2014 published by Eurostat were also used. The Danish cost calculation is representative of medium-sized and large full-time dairy farms (with 89 and 226 dairy cows respectively). To relate the costs only to the milk supplied to the dairies, 2 per cent of the volume of milk produced was regarded as the farms’ own use. The collective bargaining value of the working hours of farm managers or simple workers is taken as the basis for the labour costs for non-remunerated, self-employed dairy farmers and family co-workers. The income parameter calculated on one kilo of milk equates to *the labour costs of the farm for milk production* in the amount of 63,051 euros gross (including social security contributions) for 1.25 family workers. Only the components of the farms’ costs and revenue relevant to milk production were taken into account in the calculations.

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