



Information on the results of the EDF Cost of Production Comparison 2016, 26/07/2016

Strength can also arise out of a crisis

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Times are tough for dairy farmers. Low milk prices are challenging farmers for months now - in Europe but also in other parts of the world. A share of dairy farms have distinctly increased their production volumes to mitigate the loss of income, but also to take advantage of their full production potential after the abolishment of the milk quota. Good conditions for feed production (in key dairy regions) and moderate feed prices also fostered this development.

This is also reflected in the economic results of the European Dairy Farmers member farms, which are analyzed annually for the *EDF Cost of Production Comparison*. It has to be kept in mind that these results are **not representative** for countries or regions but they give insights into the situation on farms.

As in previous years the individual farm results vary greatly – especially the cost of production (see figure 1). This shows how differently farmers are impacted by the poor development on the milk market. The end of the milk quota and the pressure on the milk price lead to significant improvements on individual farm level: EDF farms in Sweden, Denmark, Belgium and Ireland managed to decrease their median Break-Even-Point II (for the financial year 2015), the milk price necessary to cover full production cost, in comparison to the previous year.



Figure 1: Change in Break-Even-Point II (in Euro Cent/kg ECM) in selected national EDF branches: BEP II = milk price necessary to cover full production cost= total costs in the dairy enterprise minus dairy-related non-milk revenues; excluding milk quota costs, excluding decoupled farm payments; not representative

More cows, best conditions for grass growth and thereby increased milk yields (Ø 5,600 → 6,300 kg ECM/cow) on Irish EDF-farms have led to a noticeable decrease in (already low) production cost and BEP II (see figure 1). Danish EDF farms were also able to clearly improve their production cost and decrease their BEP II by further increasing their (already high) milk yield (10,450 to 10,970 kg ECM/cow) and expanding their herd. The same also applies for EDF farms in Belgium and Sweden, even though on a comparably high cost level. Swedish farms also “benefited” from exchange rate fluctuations and improved additional (= dairy-related, non-milk) revenue.

While the end of the milk quota in 2015 opened up “space” for farm individual improvements in Belgium, Denmark and Ireland. It was the enormous milk price pressure in Sweden that initiated improvements, as the milk quota hasn’t been a limiting factor in Sweden during the previous years.

During the recent EDF Congress in *La Baule* (France, in June 2016) *ERIK ENGELBREKTS* (Växa Sverige, EDF partner organization) named core aspects that lead to the improvements in the Swedish EDF group:

- **Strategic changes in management and livestock to maximize capacity use:** Increase in herd size without the additional use of capital; changes in herd management (e.g. cow traffic) and stock management (e.g. selection and sale of lower yielding cows)
- **Improvement of efficiency AND productivity:** Increase in milk yield (EDF SE: 10.107 to 10.458 kg ECM) and concurrent improvement of feed efficiency and labor productivity
- **Market situation in Sweden with positive effects on additional revenue & costs:** very good prices for cattle at the sale yards; declined prices for feed, fertilizer and energy; additional head bonus
- **Personal mind set of the farmer:** dealing with farm economics and comparison with others; analysis of farm-individual potentials and the strategy; active negotiation with stock agents and suppliers for better prices and discounts

Such great farm individual changes couldn’t be observed for all EDF branches, having different reasons:

The data basis for EDF farms in DE, NL, UK and most of FR is the financial year Spring/Summer 2014 to Spring/Summer 2015 where the end of the quota isn’t fully reflected yet. The full potential for cost reductions will only be visible during the next CoP analysis. For farms in the UK the exchange rate fluctuations worked out as a disadvantage: They were able to decrease their production cost in local currency (£). But because of a weak Pound during the analyzed period this advantage was more than used up once the economic results were converted into Euro.

Especially UK farms suffer currently from very low payout prices of 20 cents or less. During the EDF Congress, dairy farmers from the UK reported what is key for them in order to survive such difficult times:

- It is more important than ever to **invest time** into **planning, controlling** and **budgeting**: “You can hope and pray that the worst case doesn’t come true. But it is actually better to be prepared for it!”
- **Communication** is also crucial: with the **bank**, with the **suppliers** and (most important of all) with the **family**: „A problem shared is a problem halved”.

According to the assessment by the farmers for this year’s EDF Snapshot survey, the potential for efficiency improvement and cost reduction on many farms are in particular in the areas of feed production and feeding, but also in the area of herd health and reproduction. This was also underlined by the farm visits and discussions during this year’s EDF Congress and the analysis of French EDF farms:

In the French EDF branch family farms with 70 to 140 cows are dominating. Therewith they belong to the “smaller” ones within the EDF network (similar to the Belgium EDF branch) - but have relatively many family labor units and some employees. They often pursue cropping as a second farming branch next to

dairy farming – which makes them less specialized. This can be an advantage because of the second income but due to a smaller farm size also be a disadvantage: No single focus on dairy production, divided attention of the farm manager.

Production cost of the French EDF farms range widely (see figure 1): 50% of the farms produce milk at costs of 39.5 Euro Cent per kg or more. The top 33% produce on average for 32.7 Euro Cent per kg ECM. Farms that **consequently implement** their **strategy** (from Low-Input to High-Output or even Organic) are the successful ones.

Remarkable is the (in EDF comparison) high number of replacement animals (9.7 animals per 10 dairy cows with a high age at first calving and average culling rates and moderate milk yields) and also a low land productivity (8,961 kg ECM per ha) is eye catching (figure 2).

EDF Branch	FR	BE	DE	NL
Milk yield (kg ECM/cow and year)	8,425	9,430	9,020	8,170
Replacement animals/10 dairy cows	9.7	7.9	7.7	7.0
First calving age, month	27.5	25.1	26.6	25.5
Culling rate, %	29.3	26.3	29.6	26.0
Land productivity, kg ECM/ha	8,961	19,292	15,076	16,331
Forage area rented, %	84	68	67	25
Rent price, arable land, €/ha	159	638	426	921
Rent price, grassland, €/ha	124	371	283	914
Labour input, labour hours/cow	50	43	40	30
Labour price (paid), €/labour hour	17.5	.	14.4	20.3

Figure 2: Key performance indicators of selected national EDF branches (group averages, not representative)

These are some of the reasons for higher production cost in the French EDF branch. Farm economics could be improved on a medium-term through an adaption of management (fewer replacement heifers that need to be cared for and lower area for homegrown feed production = lower cost or higher returns, if animals are sold and land can be used differently). **Improvement in management is the key** for cost reduction on French dairy farms. Because a strong “thinning effect” of the production cost through a substantial increase in milk production (as seen in other EDF branches like Denmark, Ireland) is unlikely to happen in France: Since the expiry of the EU milk quota system, many French farms are limited in their supply growth by a processor supply quota. □