This brief provides an overview of production costs, margins and incomes of EU farms specialised in dairy production based on the latest available data from the Farm Accountancy Data Network (FADN) until 2013. Trends from 2008 to 2013 are provided at EU level. This work summarises a report presenting more detailed information, including tables.

After the 2009 milk crisis, milk prices and margins recovered over 2010-2013. At EU level, 2013 saw milk prices reach a seven-year peak (380 EUR/t), however, operating costs per tonne increased in parallel, and while the 2013 gross margin¹ improved compared to 2012, it did not attain its 2007 level. In 2014, prices decreased but operating costs decreased at a higher level, so that a slight increase in gross margin is expected. In the following years, milk prices fell more than production increase, therefore milk margins were expected to fall significantly.

2013: increase in milk gross margin in relation to 2012

The operating costs of production include: specific costs for milk production (including purchased feed, specific forage costs, milk herd renewal costs, milk levy and other specific livestock costs) and non-specific costs (including upkeep of machinery and buildings, energy, contact work, taxes excluding milk levy, other direct costs...)

The non-operating costs of production include: depreciation, external factors (i.e. wages, rent and interest) and imputed family factors (family labour cost and own capital cost).

Source: model for estimating milk production costs and margins on the basis of FADN data.

¹ Gross margin = (milk price + coupled payments) - (feed, veterinary, energy costs and other operating costs). Decoupled payments, progressively introduced from 2005, are not included in margins, but they are part of income.
With the highest milk price in seven years, 2013 has been quite a good year in terms of gross margin despite the simultaneous rise in production costs. Milk prices are expected to decrease and operating costs are expected to decrease at a proportionally higher level, therefore a slight increase in gross margin is expected in 2014.

At EU-28 level, the operating costs for milk production consist mainly of feed costs (around 40% of operating costs, 70% of which are for purchased feed and 30% for home-grown feed), together with energy, machinery and building upkeep and contract work, each representing about 15% of operating costs. Since the decoupling of direct support, revenues from milk have depended mostly on the price and the quantity produced. In the short term, gross margin is therefore mainly influenced by the milk price and feed costs.

Between 2007 and 2009, the average price for milk fell by 17% while operating costs per tonne remained stable. As a consequence, the average milk gross margin fell. Milk prices subsequently recovered, reaching their highest level in seven years in 2013. This more than compensated for the continuous increase in operating costs (mostly feed and energy), which also hit their highest point in five years in 2013. As a consequence, there was a recovery in gross margin, which reached 138 EUR/t with coupled payments in 2013. However, in 2014 slightly lower but still high milk prices and even lower operating costs will have as a consequence a slightly better gross margin that is expected to rise by 10 EUR/t that year to 148 EUR/t with coupled payments. While 95% of milk specialised farms had a positive gross margin in 2013, this percentage is expected to rise to 97% in 2014.

Increase in income and the role of direct payments

The farm net value added (FNVA) per annual work unit (AWU) is an indicator of income calculated as the sum of total production value plus direct payments minus intermediate consumption and depreciation. It represents the amount available to remunerate all fixed production factors (work, land, capital), be they owned by the farm or external.

The farm net income per AWU is obtained by subtracting external factors (wages, rent, interests) from the FNVA and adding the balance of subsidies and taxes on investments.

The remuneration of family labour is obtained by adding to FNVA the balance of subsidies and taxes and by subtracting the wages and rent paid and the estimate of costs for own land and capital.

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2 The decoupling also means that the link between milk margins and income of dairy producers is somewhat less obvious than in the past.

3 Since the margins are presented per tonne of milk, the impact of the quantity produced is mostly visible in the income indicators.
In line with the positive trend in the margin indicators, not only have the income indicators for milk specialised farms in the EU-28 recovered since 2009, they have also reached a peak compared to 2007 and 2011 performances. The increase in the milk price as well as in average milk production (+29% since 2007) has resulted in a rise in the milk output and subsequently in total output. This increase (+48%), together with the increase in subsidies (mostly the phasing-in of direct payments), has been significant enough to outweigh the rise in intermediate consumption (+51%). As a result, farm net value added has increased by 36% since 2007.

The increase in milk revenues (both milk price and milk production) means that the share of direct payments and subsidies (first and second pillars, EU and national) in the FNVA/AWU has decreased. In 2013 it was, on average, 40% in the EU-15, 43% in the EU-N13, with some Member States where direct support is still being phased in.

Results are not only affected by differences between Member States but also by differences within Member States, as illustrated in Graph 6. The biggest spreads in terms of inter-quartile range for FNVA/AWU are in the EU-15 Member States, in particular in Denmark and the Netherlands (around 50,000 EUR/AWU). EU-N13 Member States have lower average values than EU-15.

The allocation of costs to the dairy sector

In the FADN, costs are collected for the farm as a whole. Therefore, in order to calculate dairy production costs and margins, it is necessary to allocate part of the farm costs. The EU FADN unit has created several models to estimate costs and margins for the various products: arable crops, milk and beef, and permanent crops. These models allocate farm costs to a particular product using different ratios.

4 Such as Romania and Bulgaria
**Conclusion**

After the dairy crisis in 2009, the period 2010-2013 allowed the sector to recover with higher milk prices, margins and incomes. At EU-level and compared to 2012, milk margins increased in 2013, due in particular to the increase in the milk price and a lower increase in the costs of production. Consequently, income for dairy holdings was higher than in 2012. Yet the income increased in relation to the baseline year 2008. Higher milk production in farms explains this income development in the 5-year period. The direct payments remained significant and stable over the period, and thus played an important role in supporting the level of income.

In 2014, prices decreased but operating costs decreased at a proportionally higher level, so that a slight increase in gross margin is expected to have occurred in 2014. In the following years, milk prices fell more than production increase, therefore gross margins were expected to fall significantly.

Looking for more information (including at Member State level) and trends in costs of production and margins 2013 and 2014? Check the FADN website for the "EU dairy farms report based on 2013 FADN data".

**Methodology**

To obtain reliable estimates of production costs and margins, it is necessary to focus on specialised farms. In FADN 2013, over 15 000 sample farms fulfilled these criteria, representing more than 700 000 dairy specialists throughout the EU. See the [EU dairy farms reports](http://ec.europa.eu/agriculture/rica) for more explanation of the methodology.

**The FADN**

The Farm Accountancy Data Network (FADN) is a European system of sample surveys that take place each year and collect structural and accountancy data relating to the farms (see: [http://ec.europa.eu/agriculture/rica](http://ec.europa.eu/agriculture/rica)). Its main role is to support the Common Agricultural Policy (CAP) by determining income of European agricultural holdings and providing farm level analyses based on harmonised micro-economic data collected annually from around 80 000 farms. The set of statistics presented hereby is produced by the European Commission from the FADN survey. The variables represent average values per farm.