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Analysis of the Competitiveness of Irish Dairy Farming



Key external stakeholders:

Dairy Farmers, Milk Processors, Policy Makers

Practical implications for stakeholders:

This study examines the competitiveness of the Irish milk sector at farm level compared to that of a number of EU and non-EU countries.

Main results:

This study has found that the competitive position of the Irish dairy sector at farm level remains favourable in cash costs terms. However, when full economic costs are considered the competitive position of the current average size Irish dairy farm is likely to become an increasing cause for concern.

Opportunity / Benefit:

This study will be of benefit to farmers, dairy processors and policy makers interested in planning for milk production in Ireland in the era after milk quota removal.

Collaborating Institutions:

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The researchers would like to acknowledge the advisory committee which was involved in the study

1. Project background:

World trade in dairy products remains a small share of global production. Global dairy trade continues to grow, but the EU's share of that trade is in decline.

The gap between world and EU dairy prices has been closing over time due to changes in EU policy and rising world prices. As a result, world (New Zealand) milk prices are converging on EU and US milk prices. Several EU Member States have a growing gap between their milk production and their milk quota. The elimination of milk quotas is unlikely to bring about a sizable increase in EU milk production.

The increase in average US and NZ farm size is much greater than in Ireland. Ireland still has few herds of over 100 cows. In NZ the proportion of herds of less than 200 cows has declined considerably, as the proportion of larger herds increases. In the US, the proportion of herds of over 2,000 cows has increased considerably. Milk prices and input prices have exhibited considerable volatility in recent years with fertiliser prices exhibiting greater volatility than feed.

In this context the assessment of the international competitiveness of the Irish dairy sector at farm level is warranted.

2. Questions addressed by the project:

The study asked:

What is the current international competitive position of the Irish dairy sector at farm level in both an EU and global context?

What would be the implications for future competitiveness of the Irish dairy sector under scenarios involving changes in milk and input prices?

3. The experimental studies:

Costs were measured on a total cash costs and total economic cost basis.

For the dairy sector in countries of the EU the Farm Accountancy Data Network (FADN) was the primary source of data used in this analysis. Derived from national surveys, the FADN is the only source of micro-economic data that is harmonised, i.e. the bookkeeping principles are the same in all the countries.

For the dairy sector in countries outside the EU data was obtained from the International Farm Comparison Network (IFCN). The IFCN network is a world-wide partnership that links agricultural researchers, advisors and farmers to create a better understanding the costs and returns of agricultural production world wide. The cost calculations within the IFCN network are based on individual representative farms, rather than on the results from stratified random samples of the population as is the case with FADN data. None the less, IFCN provides a data source which can be used to examine the relative competitiveness of 'representative' Irish milk producers in a global context. IFCN data is assembled and analysed using a common methodological framework. Like the methods outlined previously for FADN data, IFCN data also presents costs as total 'cash' costs, which consists of expenses from the profit and loss account and total 'economic' costs with opportunity costs calculated for farm-owned factors of production (family labour, own land, own capital).

4. Main results:

The results of this study indicate that the competitive position of the Irish dairy sector in a EU15 context has been relatively unchanged over the last five years. On a cash cost basis the sector compares favourably with its main competitors in the EU. However, consideration of imputed costs allow for an evaluation of competitiveness based on total economic costs. In this context the Irish dairy sector would appear to be at about the average among the competitor EU15 Member States dairy sectors examined.

While the Irish dairy sector has low cash costs of production, it is also characterised by relatively low productivity in terms of labour, milk yields and constituents. Land costs, as measured by land rental values are high in Ireland and are a key reason why the competitive position of the Irish dairy sector is less favourable on a total economic cost basis.

Taking Eastern Europe and countries outside the EU into consideration, the position in relation to cash costs is similar to that identified within the EU15, with Ireland appearing as a relatively competitive dairy producer. On a total economic cost basis, the average size Irish dairy farm in contrast had costs well in excess of some of the major dairy exporting regions of the world. However, the relative competitiveness of the larger size Irish dairy farm was more positive on a total economic cost basis. While the larger size Irish dairy farm may not have the lowest economic costs in the world, a considerable proportion of the typical farms examined internationally had economic costs well in excess of the Irish farms examined.

In conclusion, as Irish dairy farming transforms to larger scale production in a no quota situation, the competitive position of Irish dairy farms will be strengthened and better able to cope with a cost/price squeeze in the future.

5. Opportunity/Benefit:

Stakeholders who would benefit from examining this study include dairy farmers, dairy processors and policy makers interested in planning for milk production in Ireland in the era after milk quota removal

6. Dissemination:

The results of the study were presented to stakeholders at a launch which took place at AIB Bank Centre, Dublin on 23rd July 2011.

Main publications:

Donnellan T., Hennessy, T., Keane, M. and Thorne, F.S. (2012) *Competitiveness of the dairy sector at farm level in the EU* Grassland Science in Europe 17: 679-692

Donnellan T., Hennessy, T., Keane, M. and Thorne, F.S. (2011) 'Study of the International Competitiveness of the Irish Dairy Sector at Farm Level' *Rural Economy Research Centre Teagasc*.

Popular publications:

Keeping and Eye on the Competition, Agri Matters Allied Irish Banks August, 2011

<http://www.aib.ie/business/business-banking/agri/agri-matters/agri-matters-spring-2011-welcome> [accessed 05th March 2012]

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