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# DAIRYTECH NUTRITION

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## The New World Order

What I'm referring to here is the economics dairy farming. The last two years have seen us in possibly the lowest returns in dairy farming, perhaps with the exception of those of us who got caught up in high debt during the eighties interest rate atrocity, certainly in my time.

Yes we have had a brilliant late spring with excellent rainfall and good silage harvests, at least in volume. Businesses servicing the dairy industry know only too well how difficult dairy farms are struggling to survive. I am of the opinion that many farms are not trading profitably, and worse, cannot endure further overdraft or borrowings to meet trading debts. I am aware of several creditor instigated foreclosures to retrieve long outstanding debts.

What is most disturbing, that these foreclosures have not been confined to "high risk/low equity" dairy businesses, but to some who have been in the dairy business for many years and are near freehold: but cannot trade profitably.

Media reports highlighting the excellent spring rains infer prosperity has returned to our industry. Nothing could be further from the truth! Milk price is still very low and when I do Milk income Over Feed Cost (MOFC) calculations for my clients each month this fact is startlingly highlighted. An average ration producing 25 litres at 28c/lt produces a MOFC of \$2.06/cow/day. At 36c/lt this MOFC (profit) doubles. Nothing impacts like milk price.

Why are milk prices so low? The UN's Food & Agriculture Organisation (FAO) reports food prices rising, and commenting on the international dairy market, FAO said:

"Strong import demand from Asian countries and the Russian Federation has driven dairy product trade to historically high levels in 2010....."

"International dairy prices have stayed firm. Prices were 57% higher in the first 10 months of this year." The full report is available at [www.fao.org/qiews](http://www.fao.org/qiews).

Arguments such as flow-through time and the strong Australian dollar are the problems, prompts me to ask, what would be our farm gate price if the Australian dollar was at 70 cents? Tragically, history tends to suggest, only supply shortages drives milk price at the farm gate.

Despite current milk price and the vagaries of milk, grain and fertilizer prices, I believe the long term outlook for dairy farming is very positive. Certainly things must change to meet the “New World Order” under which we are now; and even more so in the future, going to have to operate in. The technologies and farm business management options are there to prosper.

The Australian dairy farming industry, generally speaking, is an “aged” industry. I say this with deep respect because I’m one of the “aged” members. The resistance I encounter in trying to introduce more productive and profitable management strategies on farms bears strong testimony to our failure to adjust to a radically changed industry.

The economics of dairy farming have not suddenly altered dramatically over the last two years of low milk price. This period has only brought it to a head; it has uncovered what has been happening gradually for the past twenty years. As a friend commented recently; “when the tide goes out we find out who has been skinny dipping”.

When I started share farming thirty five something years ago, farm operating costs were 30% of farm income. Today they are more like 80+%! (Some even 100+% as foreclosures are revealing). The problem arises when productivity has not matched cost increases. If our costs have risen 50% and our production (milk income) has not, we are clearly in trouble.

I believe the next five plus years are going to see perhaps the biggest changes in our industry since the invention of the milking machine. Those who will not change will leave the industry due to financial incapacity to continue. Age is going to take its toll on a large portion of the existing farmers producing a significant number to retirement. Both these facts are going to create a void in our industry and provide significant opportunities for a young generation.

Our industry, generally, is missing a whole generation who through education/alternative opportunities and reluctance of fathers to retire or relinquish control while machinery could take up the former heavy manual work of dairy farming. For those who genuinely have the passion for dairy farming, the future is very positive and exciting.

I implore those considering retirement, to look seriously at assisting young people into dairy farming. There is no better investment of your capital than in food producing land. It may not pay the highest dividends, but nor does it evaporate in an economic downturn like we’ve seen worldwide in recent times.

There are numerous schemes operating in the USA for the purpose of transferring initially, the farm business, and then the assets to a keen and educated younger generation; frequently not from immediate family. I have raised this matter with both Rural Finance and milk processors believing they have the structures and capacity to facilitate such programs.

A young and eager generation with the provocation of debt will lift Australian dairy farm productivity dramatically through technologies and management strategies that are already currently available, but mostly unutilized. Growth in technologies is far out-pacing uptake.