



Make Australia Dairy Farming GREAT Again

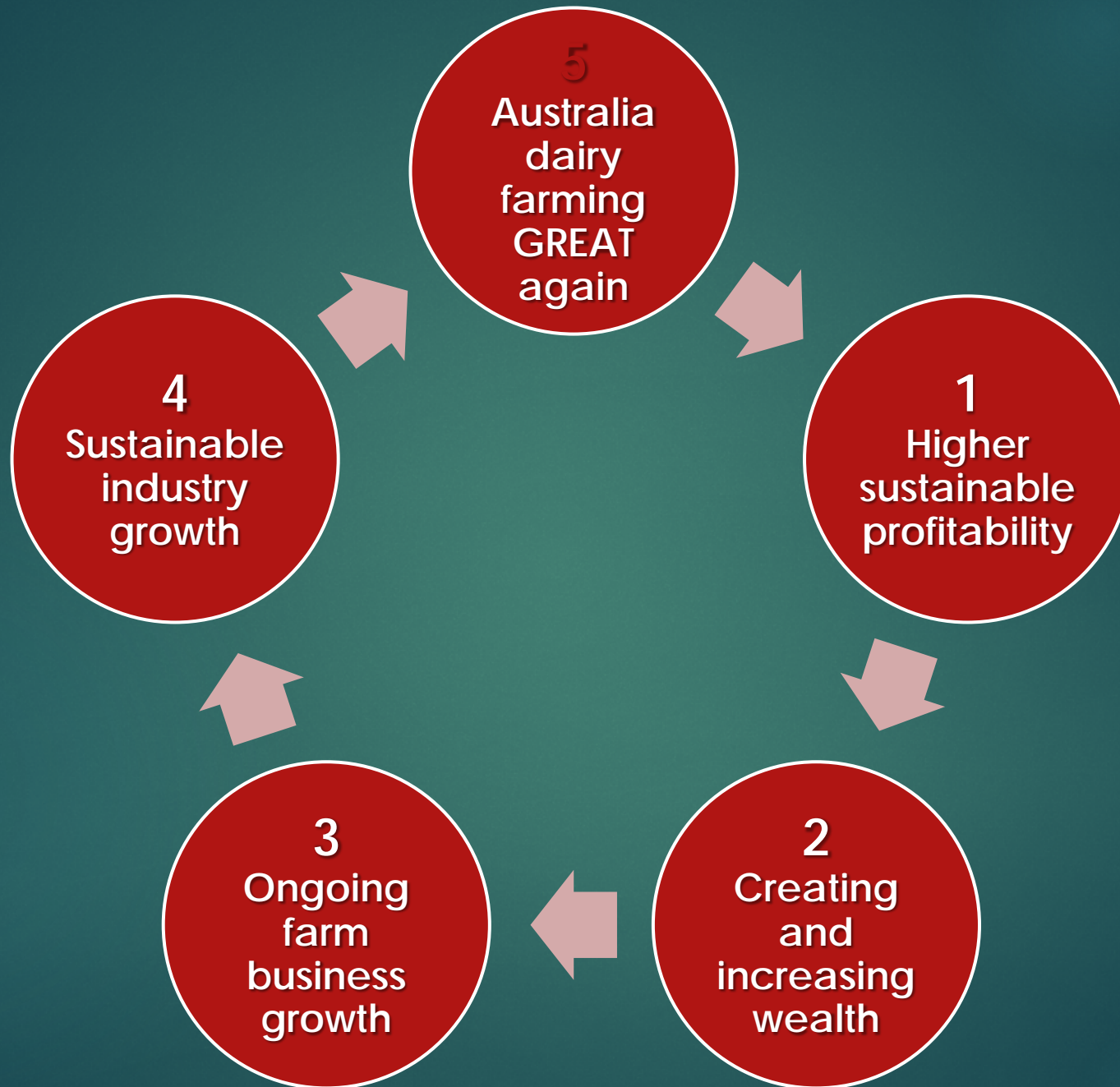
or

The challenges and opportunities facing Australia dairy farming to delivering reliable profitability and growth

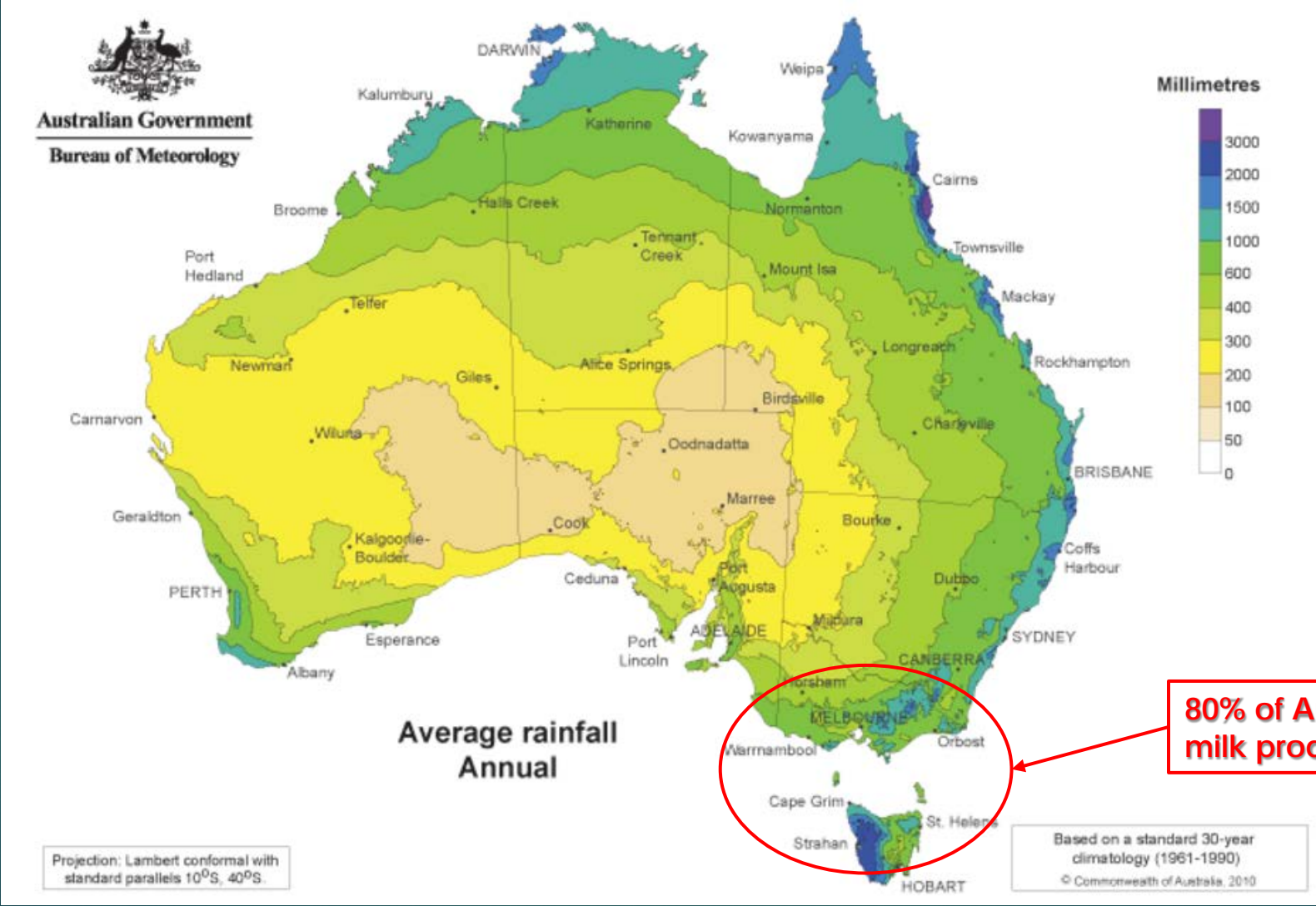
David Beca

June 2018

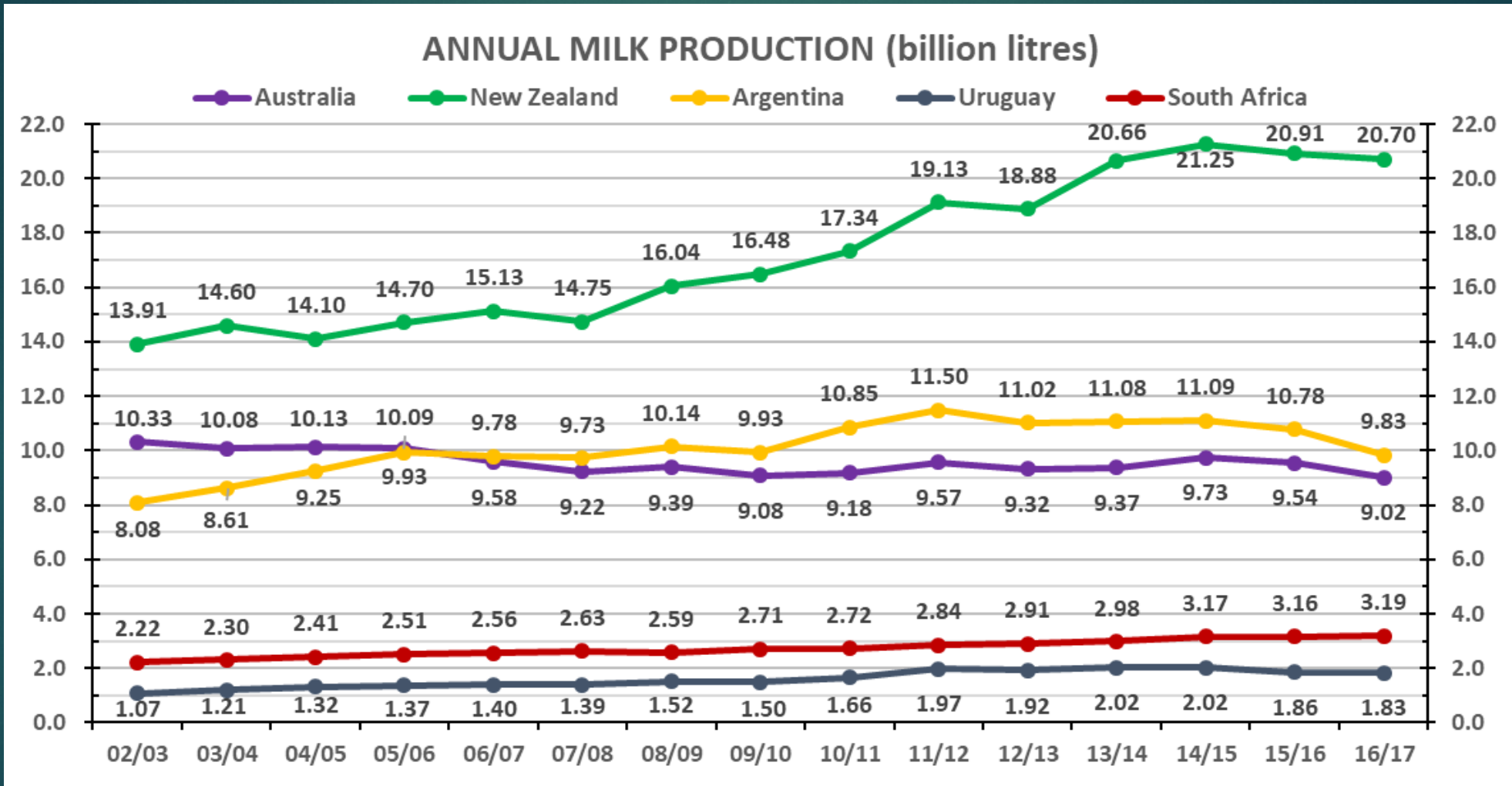
Presentation to Launceston Seminar 'Delivering Sustainable Profitability to the Australian Dairy Industry'



Profit and growth required in south-east Australia

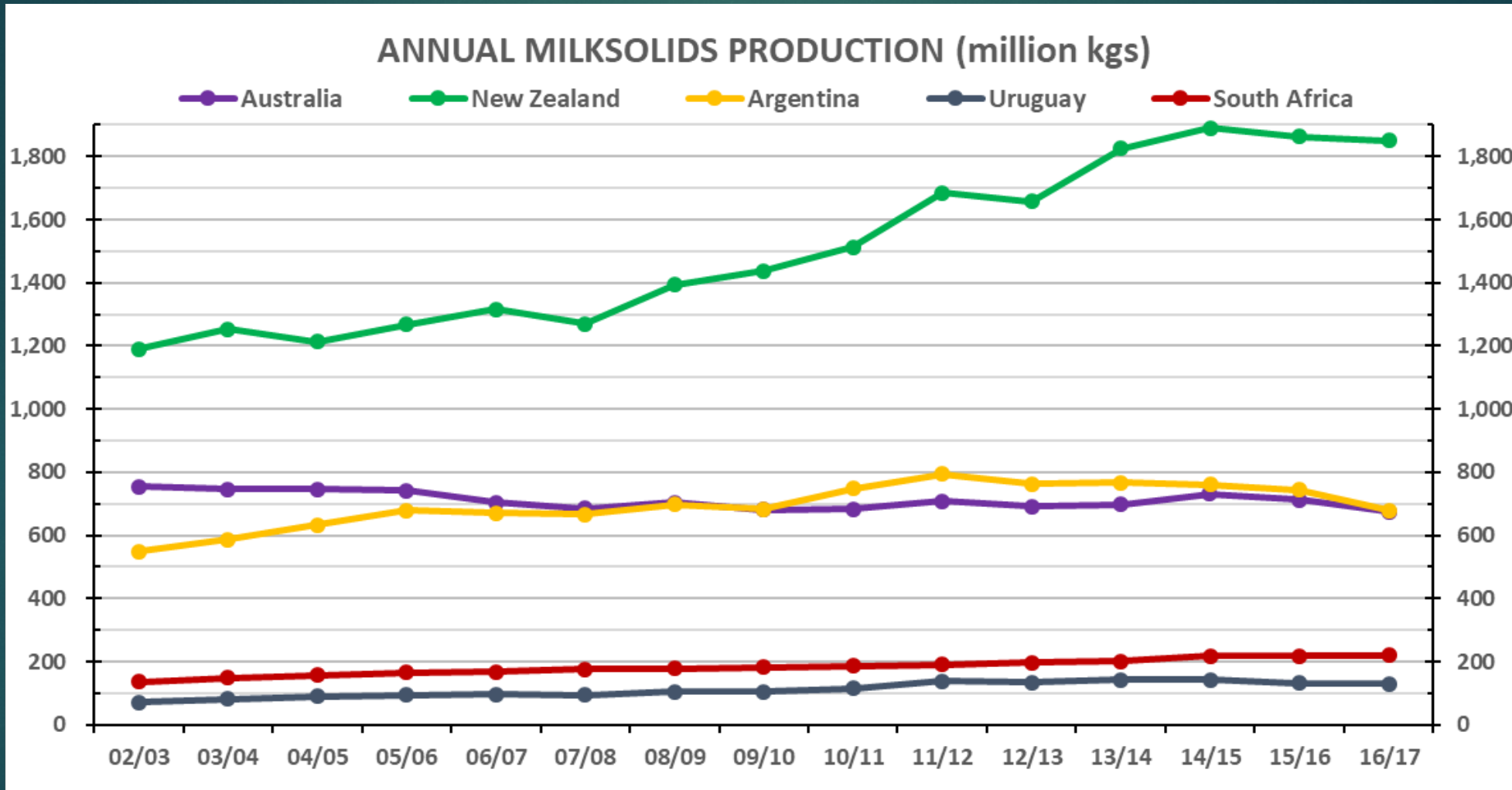


Southern Hemisphere – Annual milk production



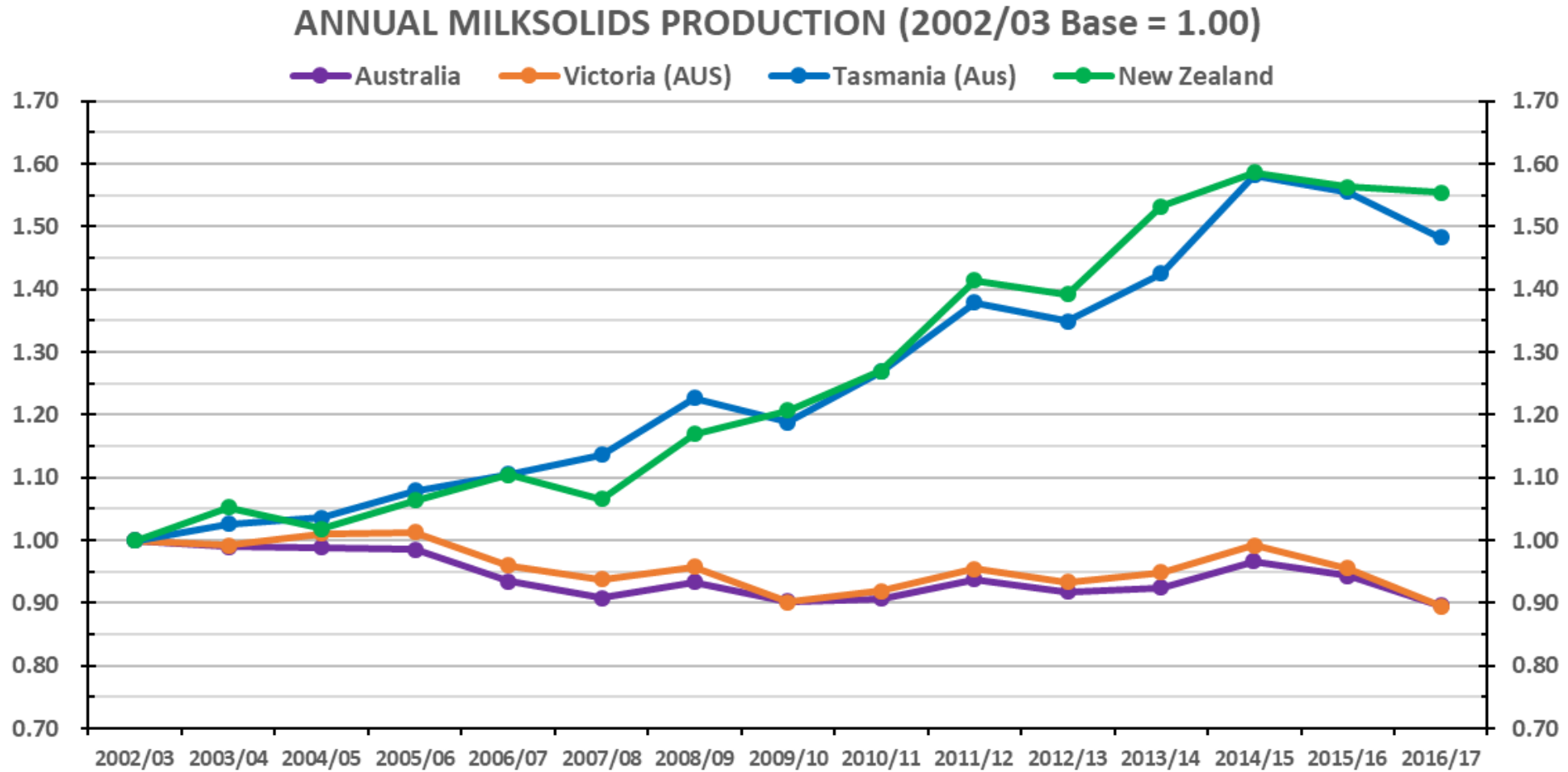
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Southern Hemisphere – Annual milk production



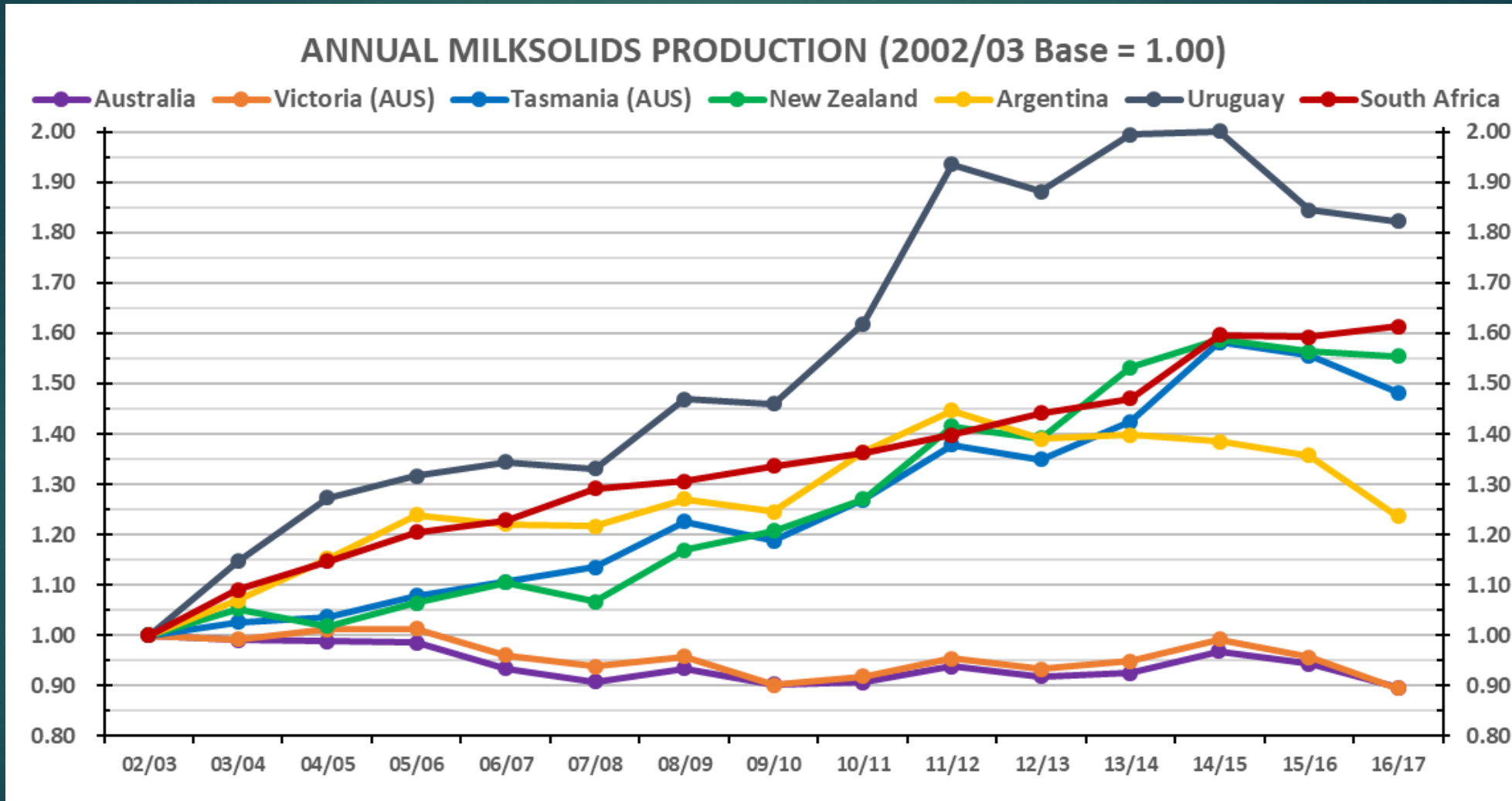
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

AUS vs NZ – Annual milksolids production



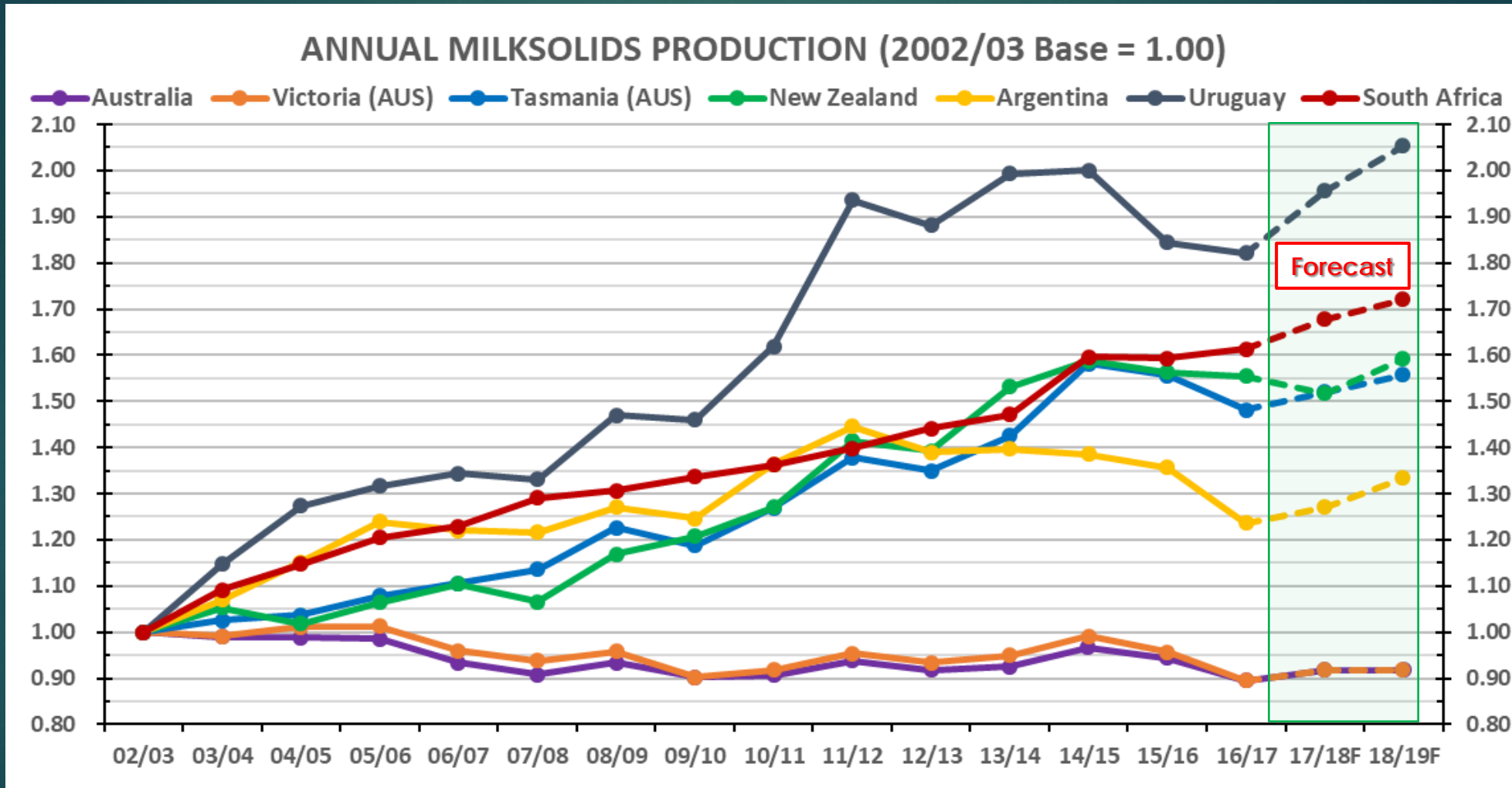
Source: Dairy Australia, DairyNZ

Southern Hemisphere – Annual milk production



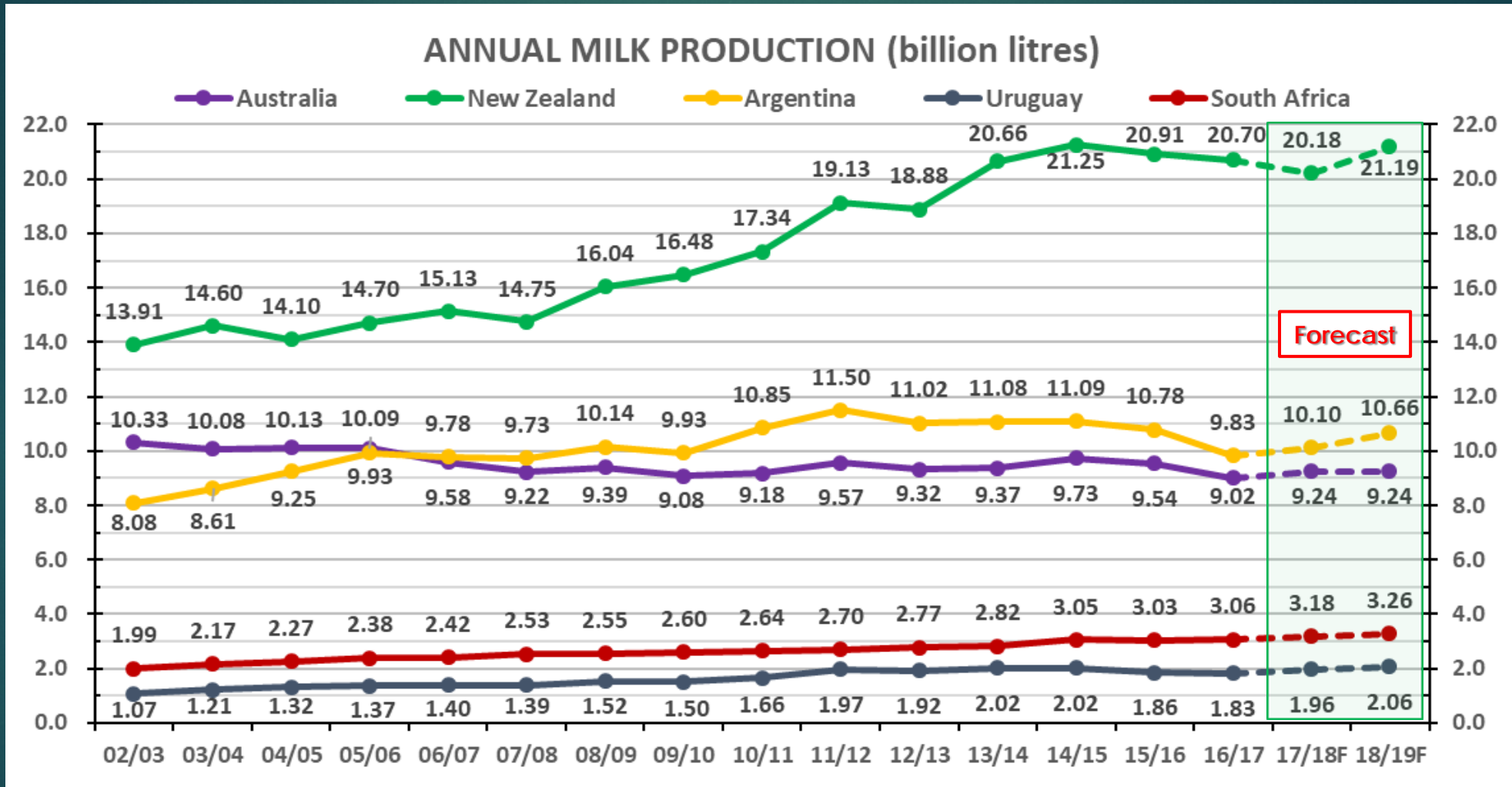
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Southern Hemisphere – Annual milk production



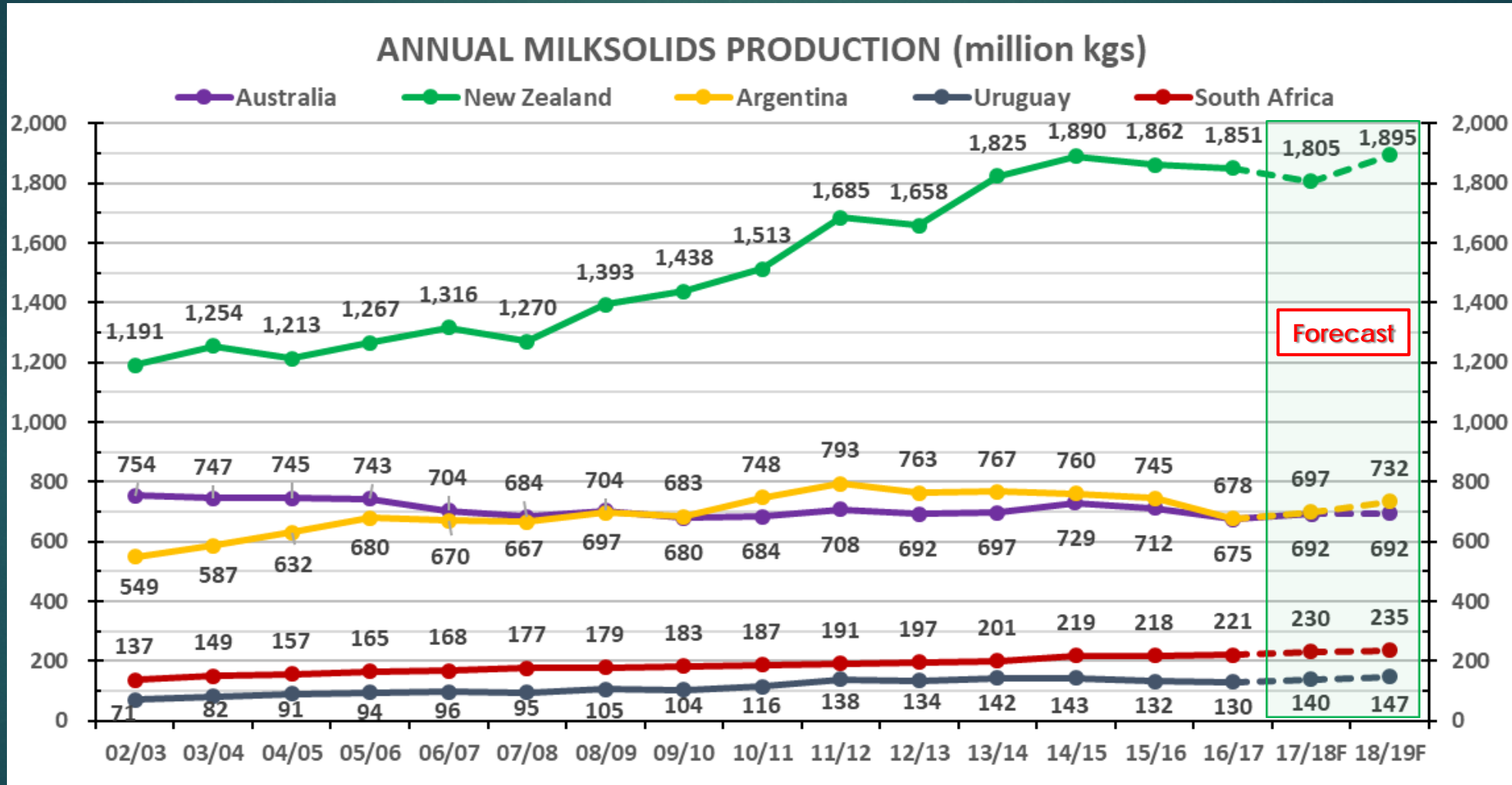
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Southern Hemisphere – Annual milk production



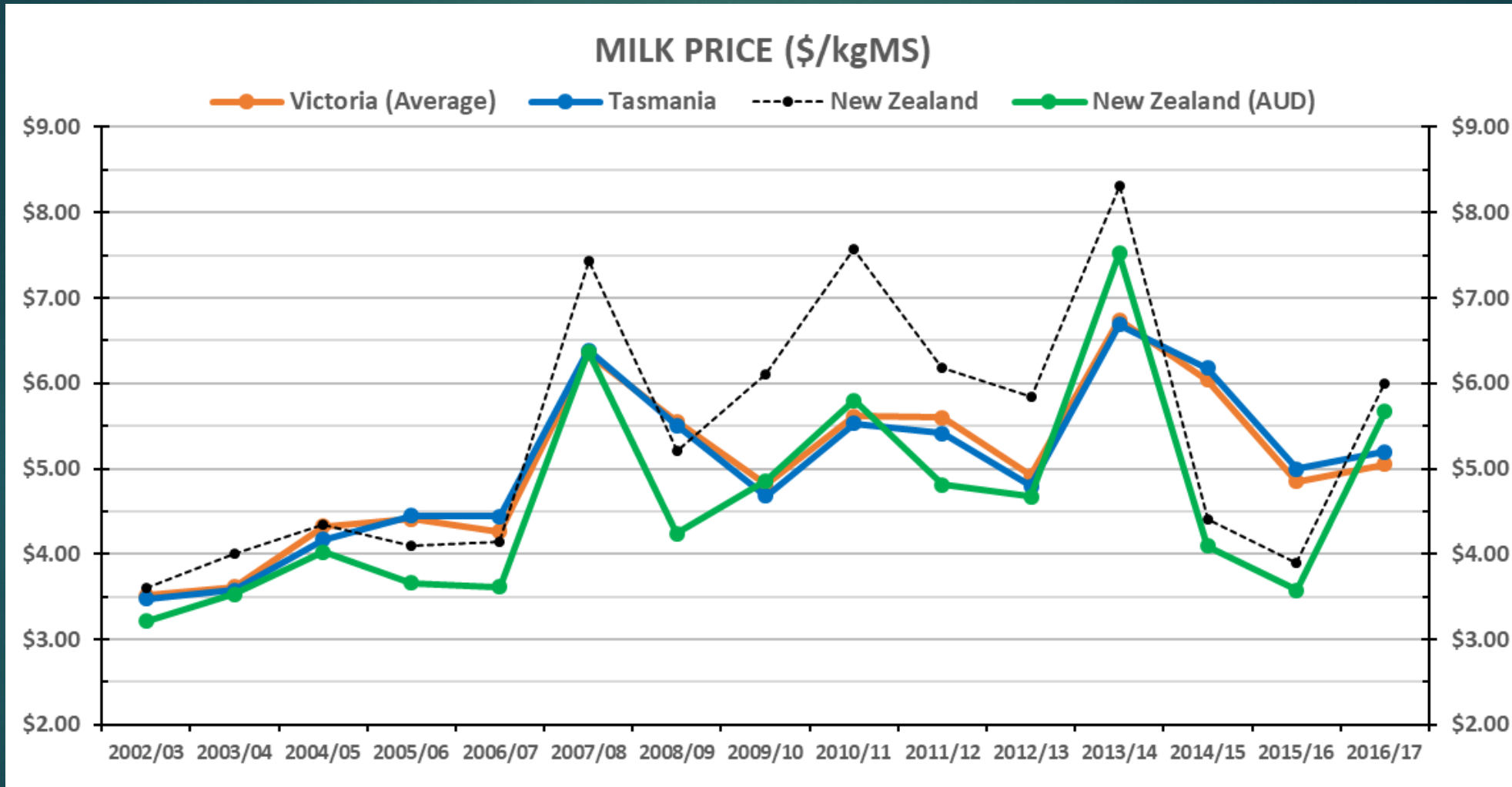
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Southern Hemisphere – Annual milk production



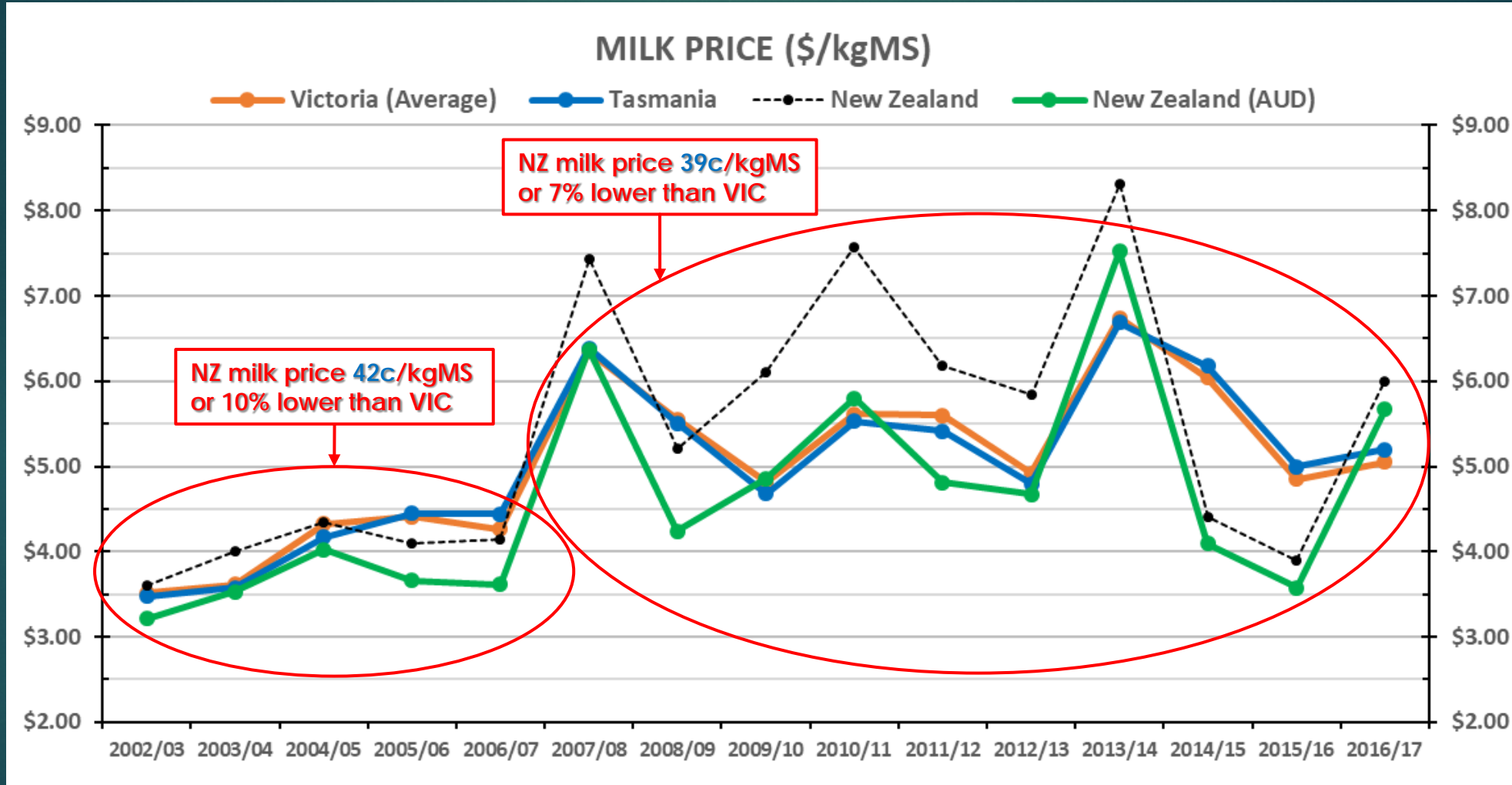
Source: Dairy Australia, DairyNZ, MAGYP (Argentina), INALE (Uruguay), MPO (South Africa)

Impact of milk price...?

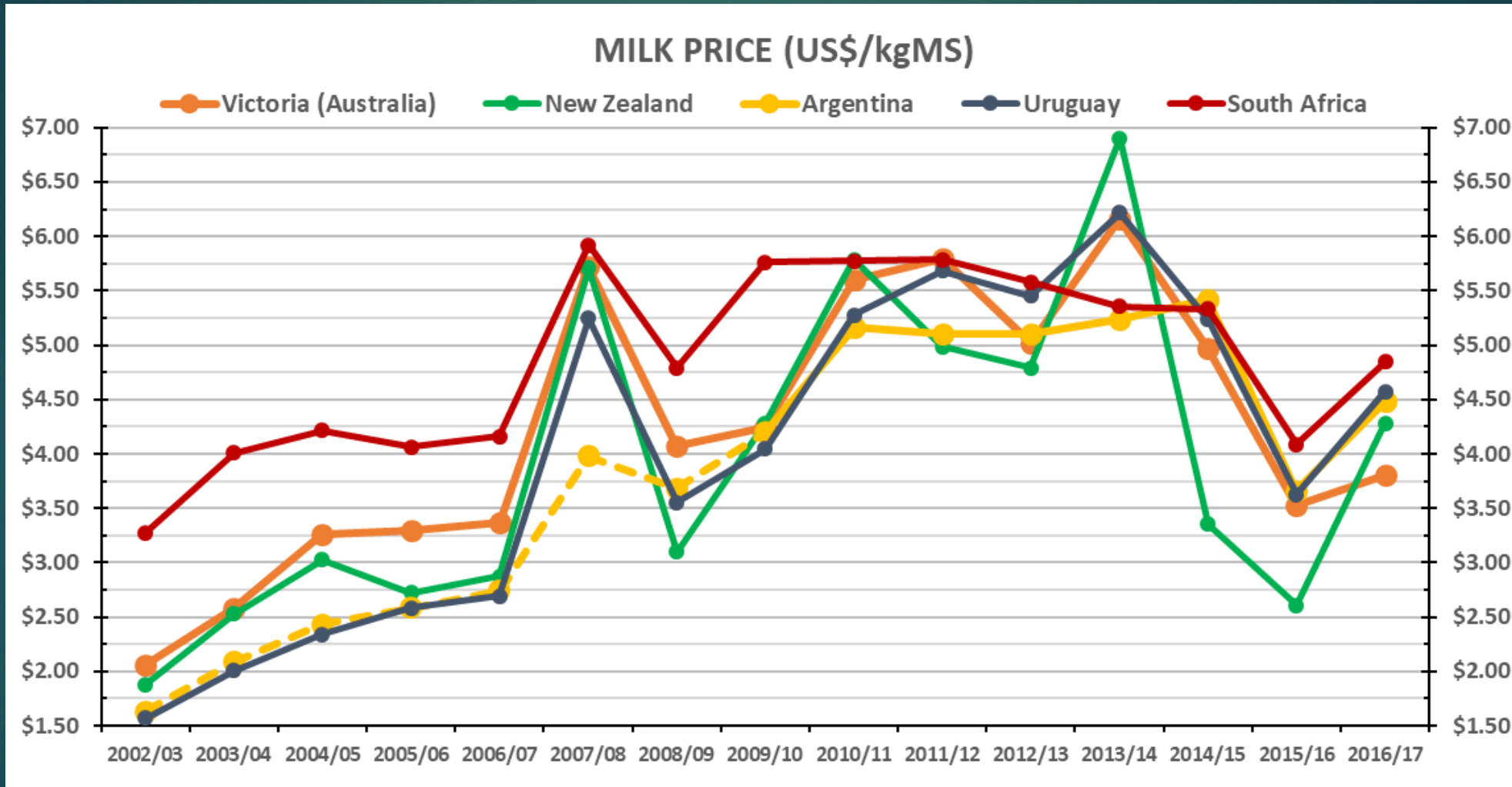


Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

Impact of milk price...?

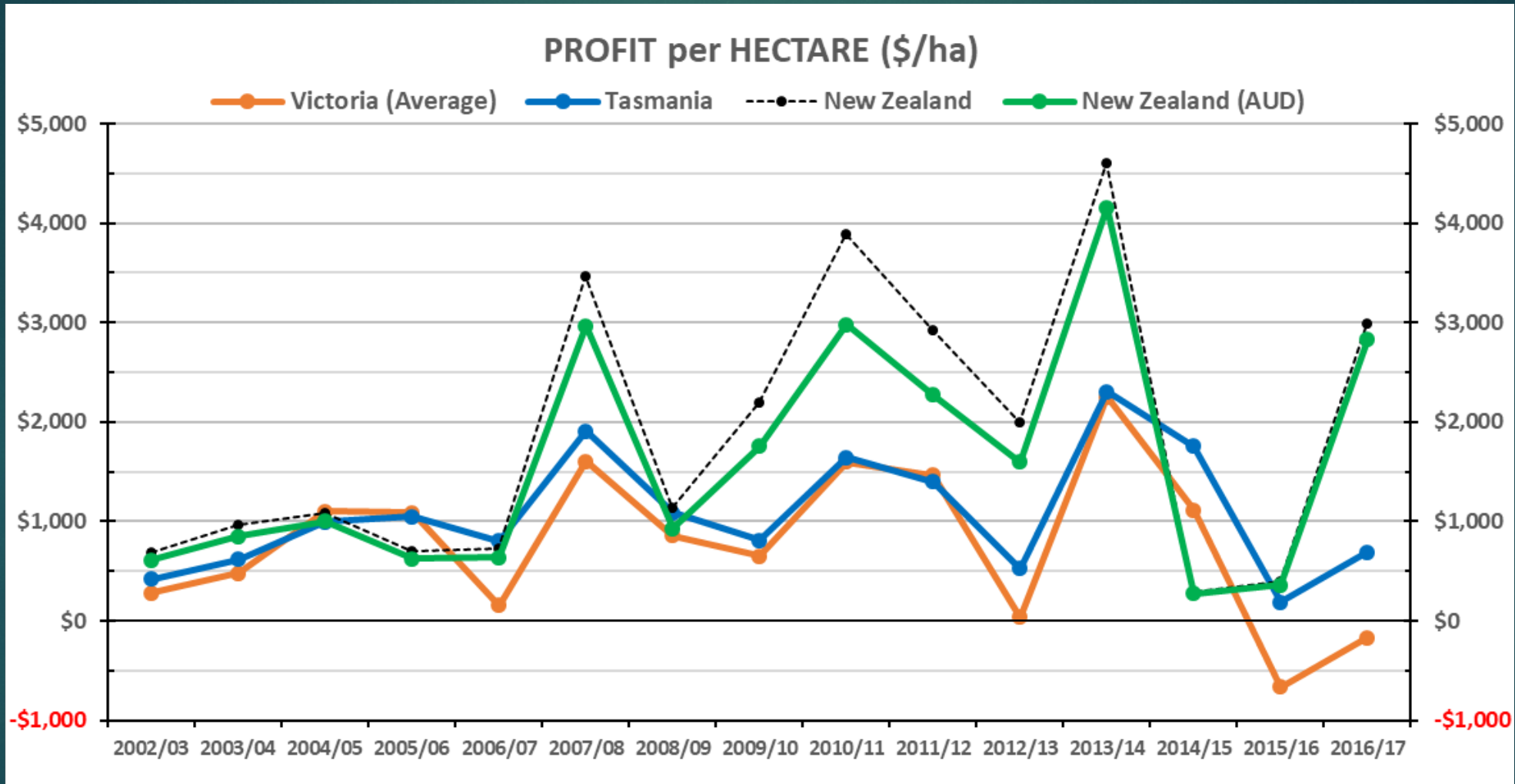


Southern Hemisphere milk prices



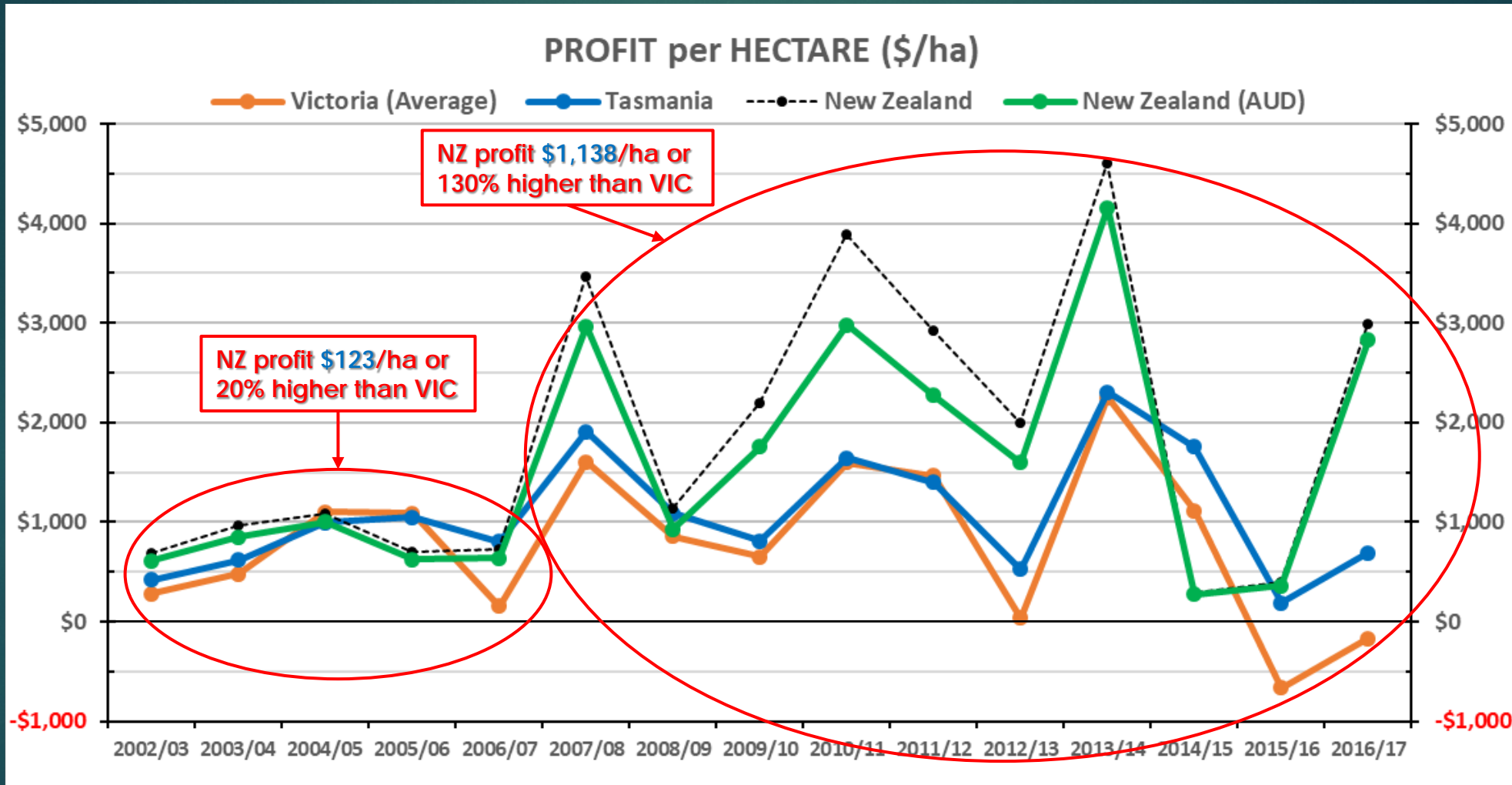
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase, MAGYP (Argentina), AACREA, INALE (Uruguay), MPO (South Africa)

AUS vs NZ – Profit per hectare



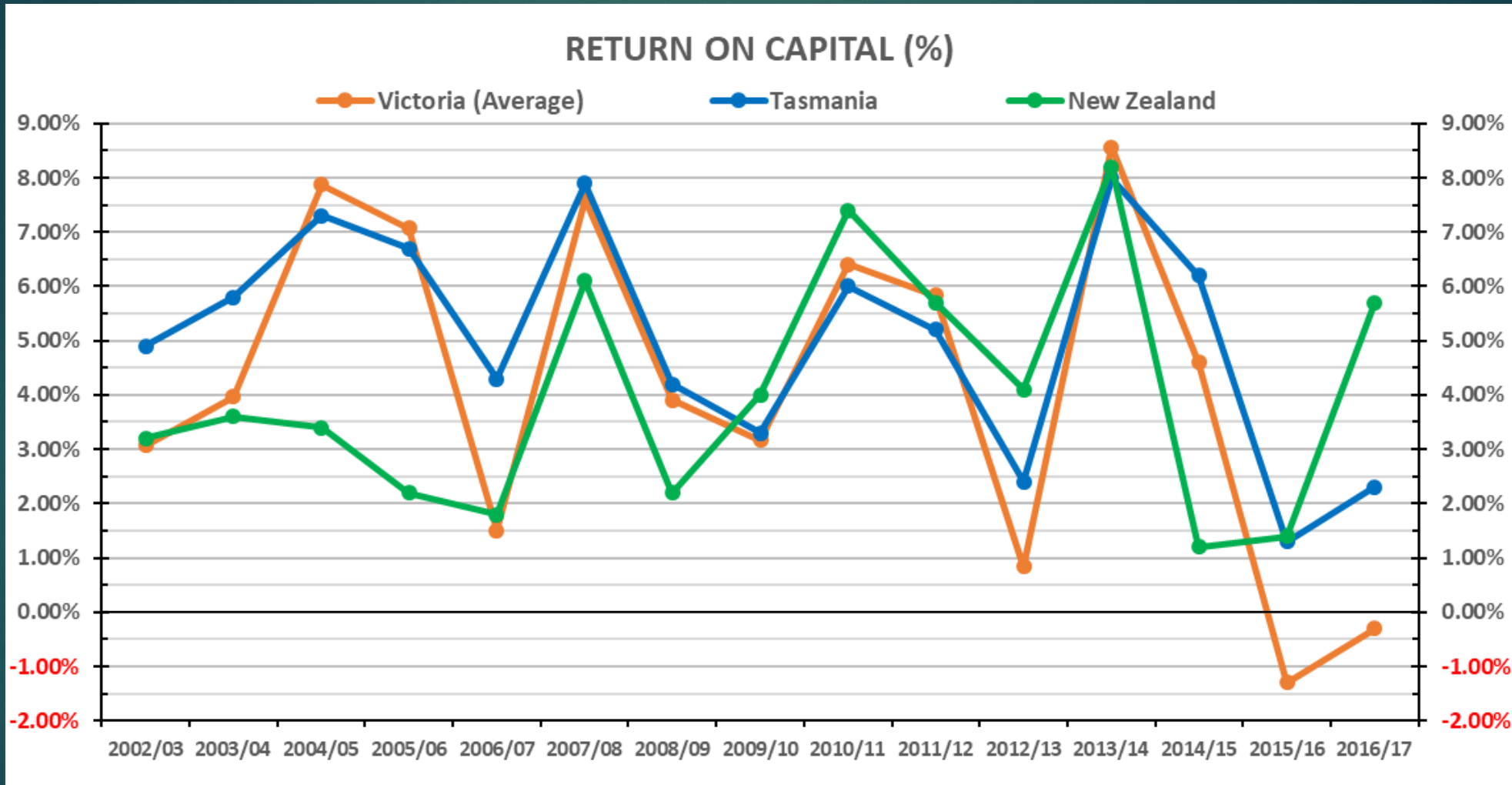
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Profit per hectare



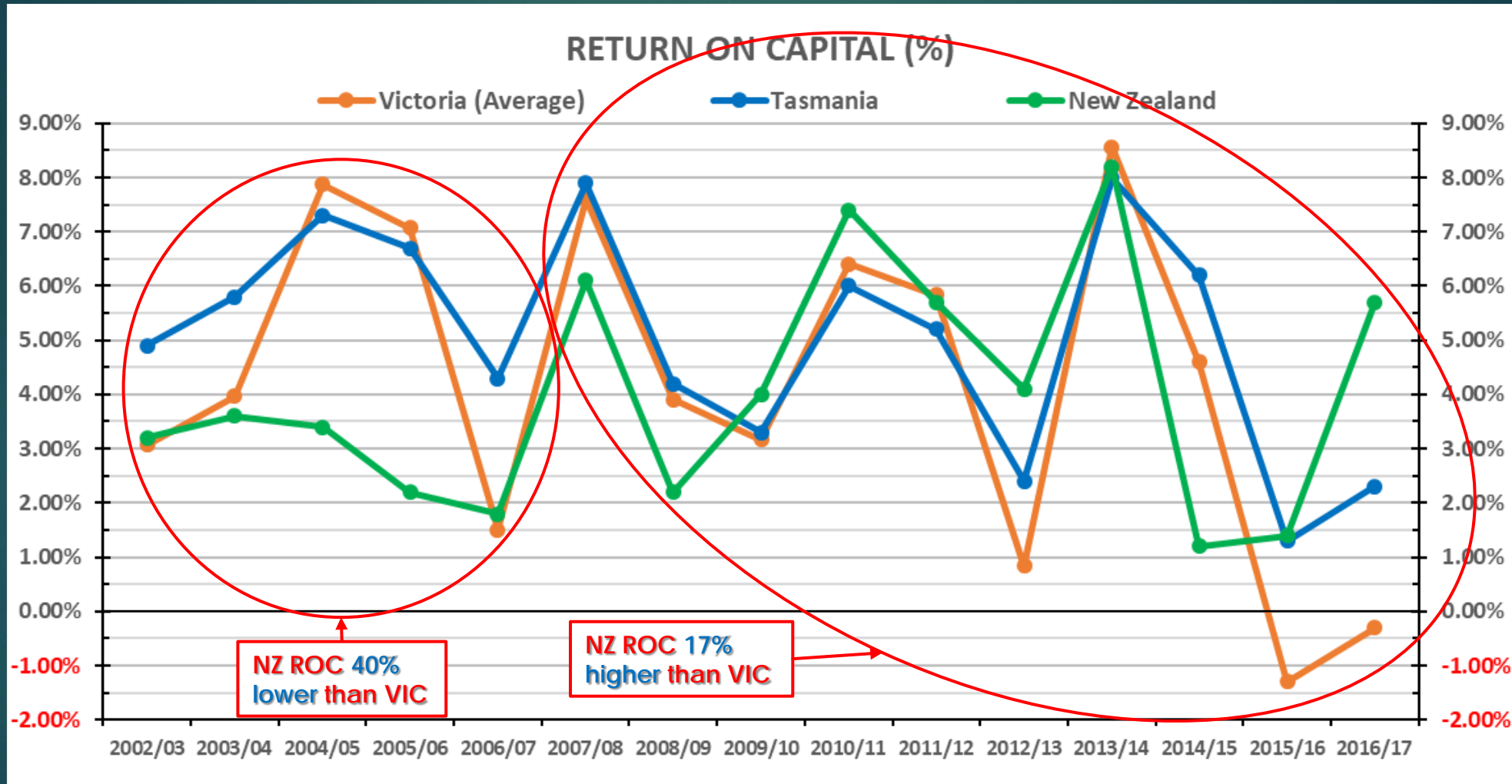
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Return on capital

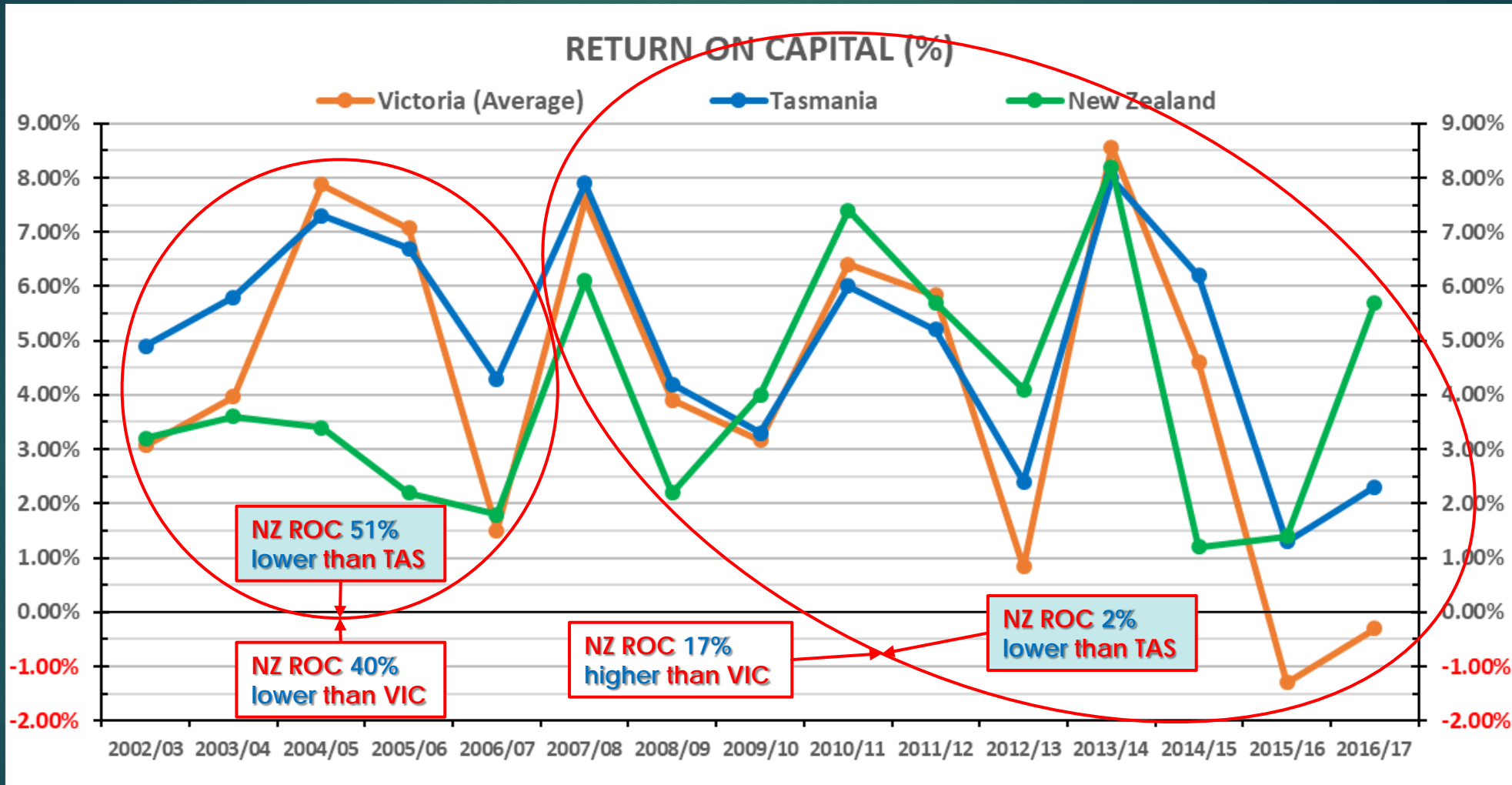


Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

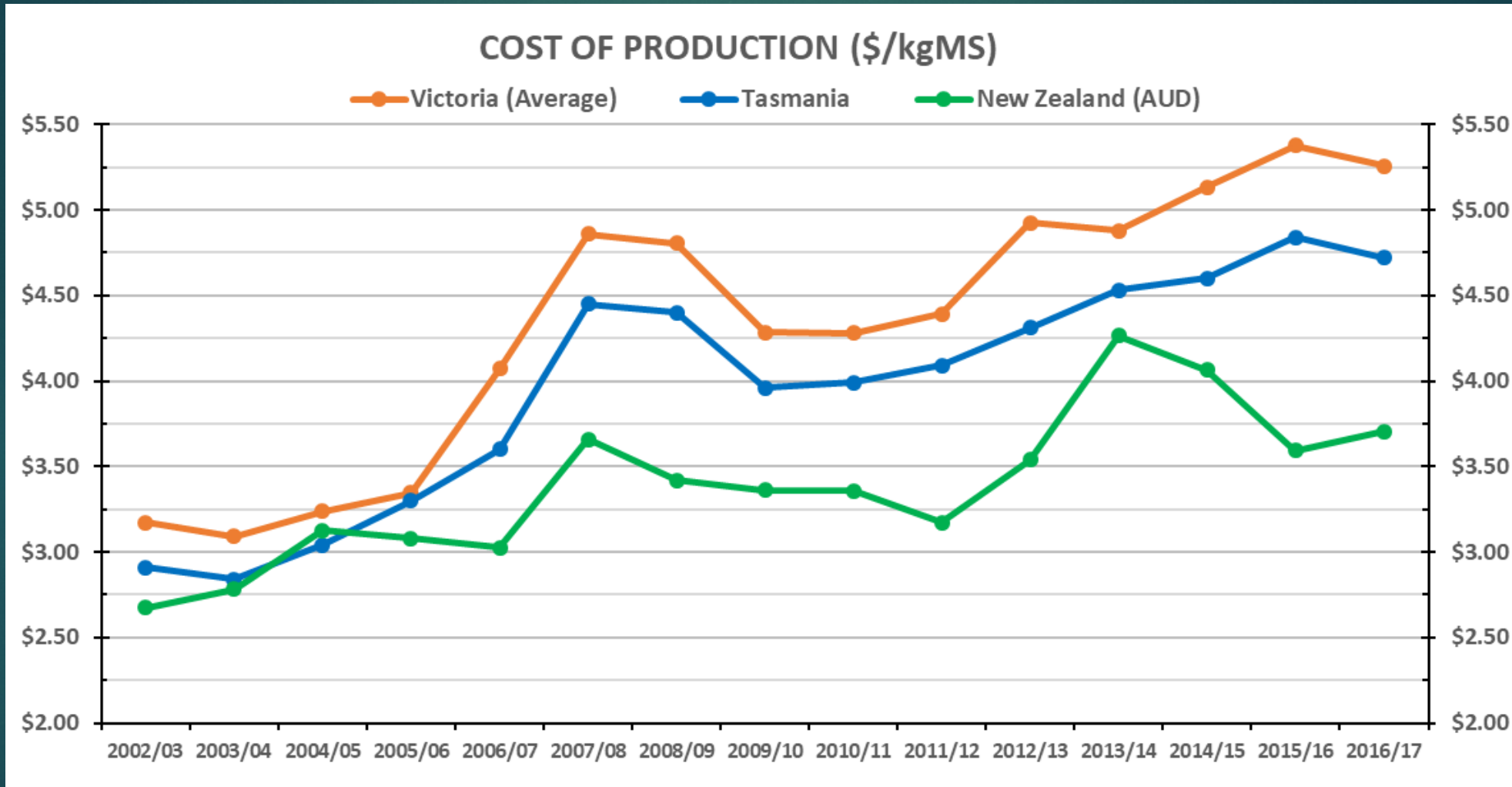
AUS vs NZ – Return on capital (ROC)



AUS vs NZ – Return on capital (ROC)



AUS vs NZ – Cost of production (COP)

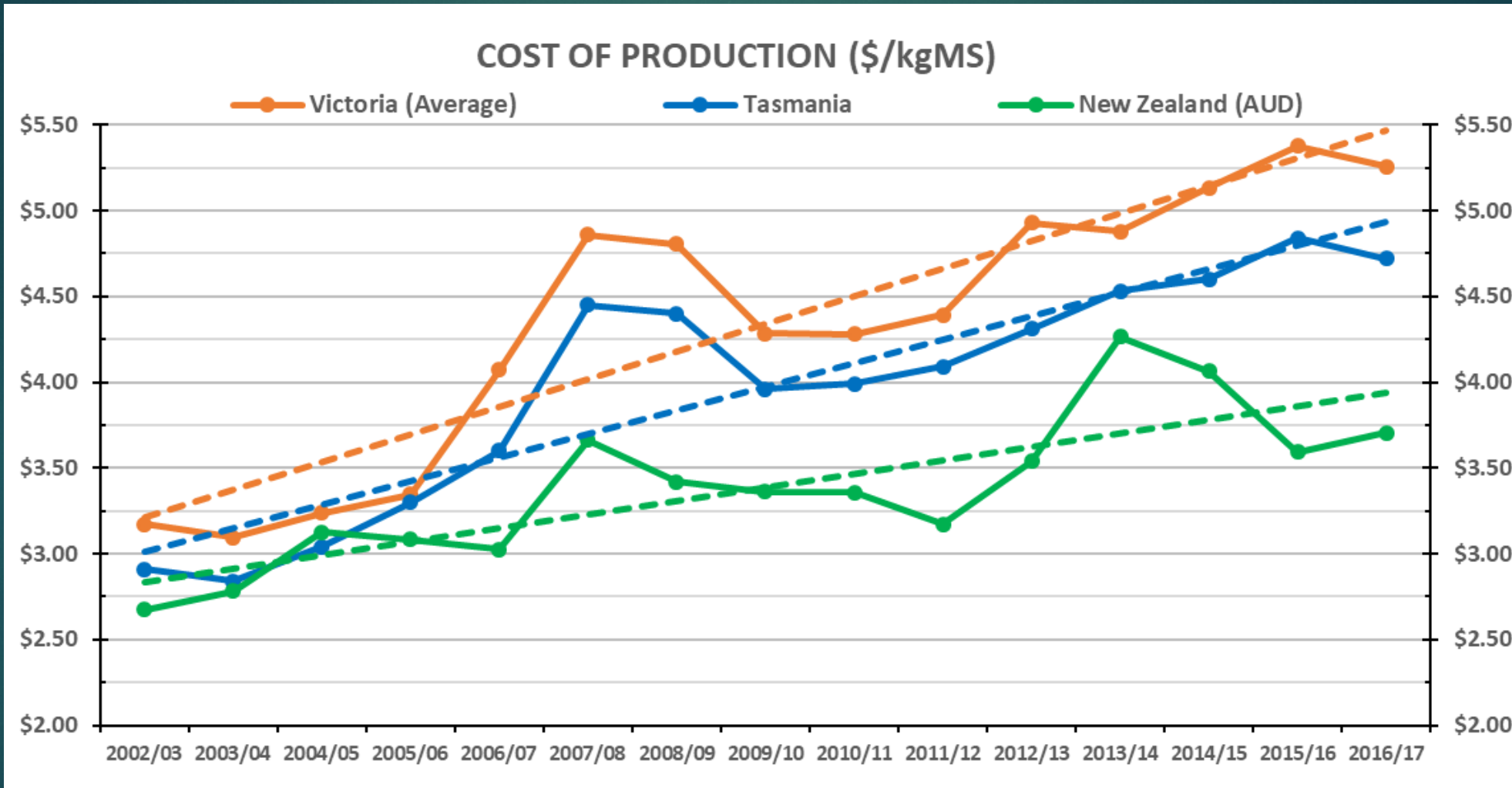


Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

Cost of Production (COP) Calculation

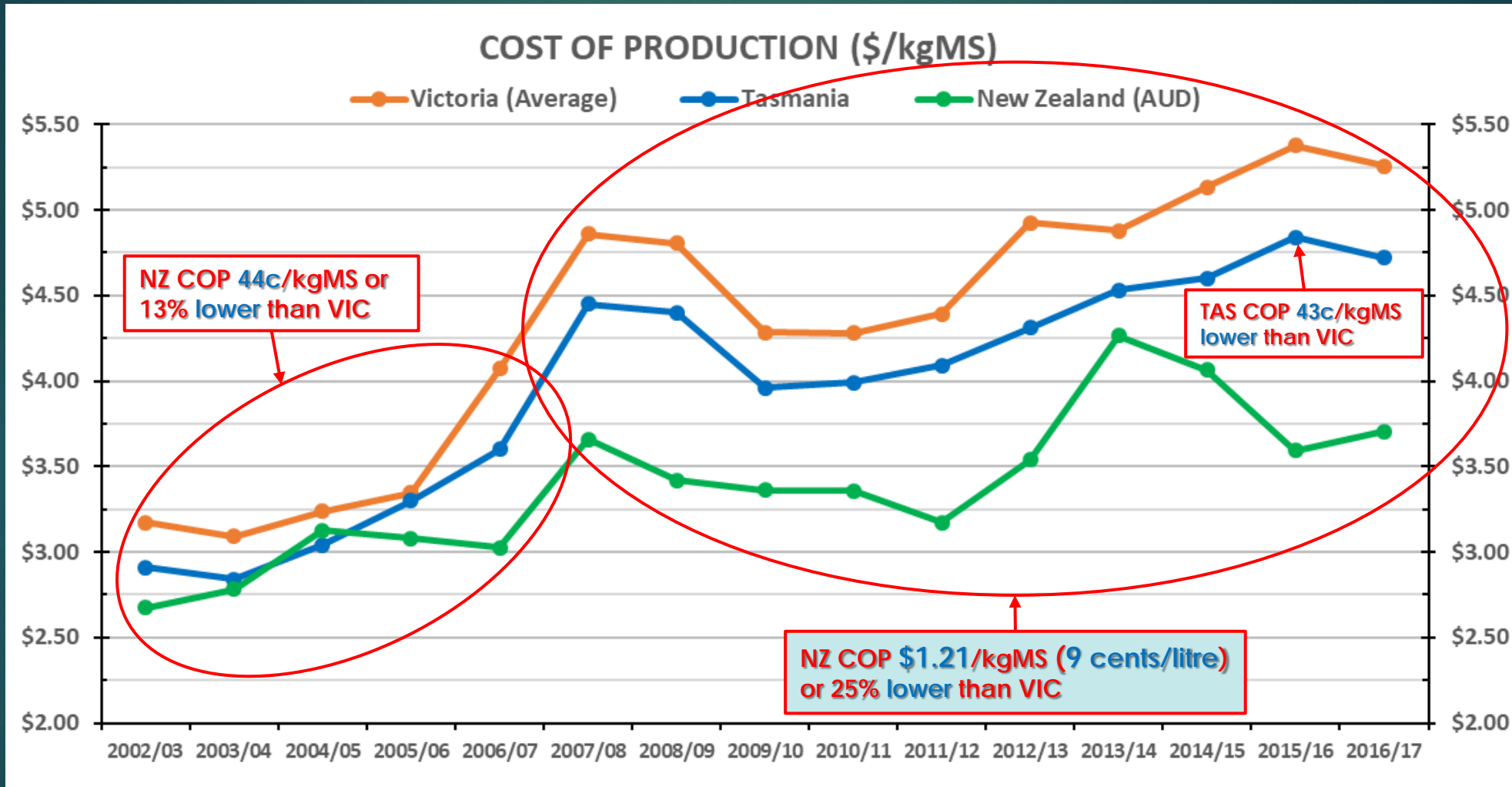
CALCULATION OF COST OF PRODUCTION		
Operating Profit Calculation	\$ / kgMS	Cents / Litre
Milk Revenue (= Milk Price)	\$ 4.71	33.0
Livestock Revenue	\$ 0.39	2.7
Other Revenue	\$ 0.04	0.3
Total Revenue	\$ 5.14	36.0
Direct Operating Expenses	\$ 3.71	26.0
Indirect Operating Expenses	\$ 0.50	3.5
Depreciation	\$ 0.21	1.5
Total Expenses (excl. leases/interest)	\$ 4.43	31.0
OPERATING PROFIT (LOSS)	\$ 0.71	5.0
Cost of Production Calculation	\$ / kgMS	Cents / Litre
Total Expenses	\$ 4.43	31.0
<i>Minus</i> Livestock Revenue	\$ 0.39	2.7
<i>Minus</i> Other Revenue	\$ 0.04	0.3
<i>Equals</i> COST of PRODUCTION	\$ 4.00	28.0
Compare with Milk Price	\$ 4.71	33.0
Variance	\$ 0.71	5.0

AUS vs NZ – Cost of production (COP)

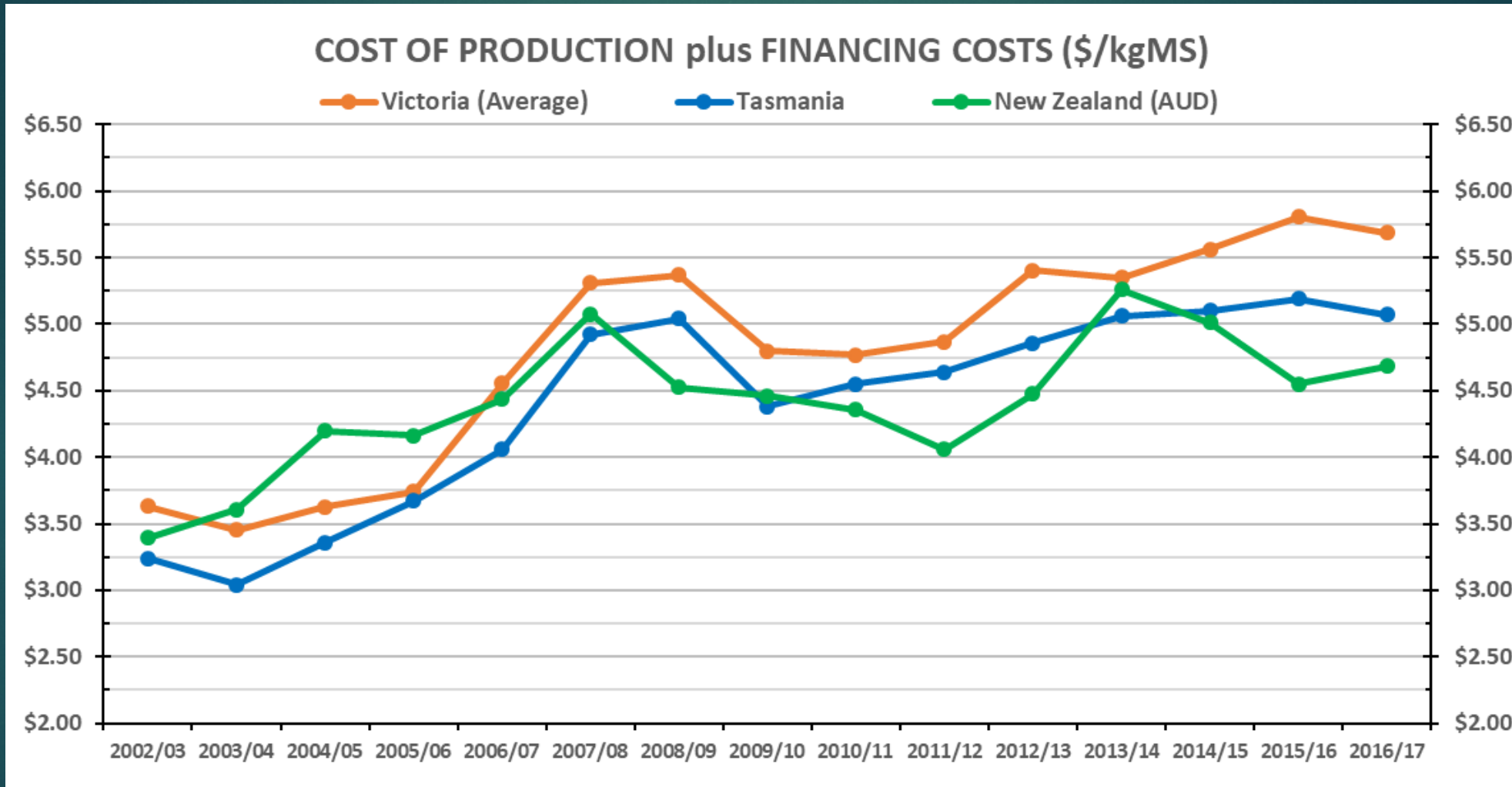


Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS us vs NZ – Cost of production (COP)

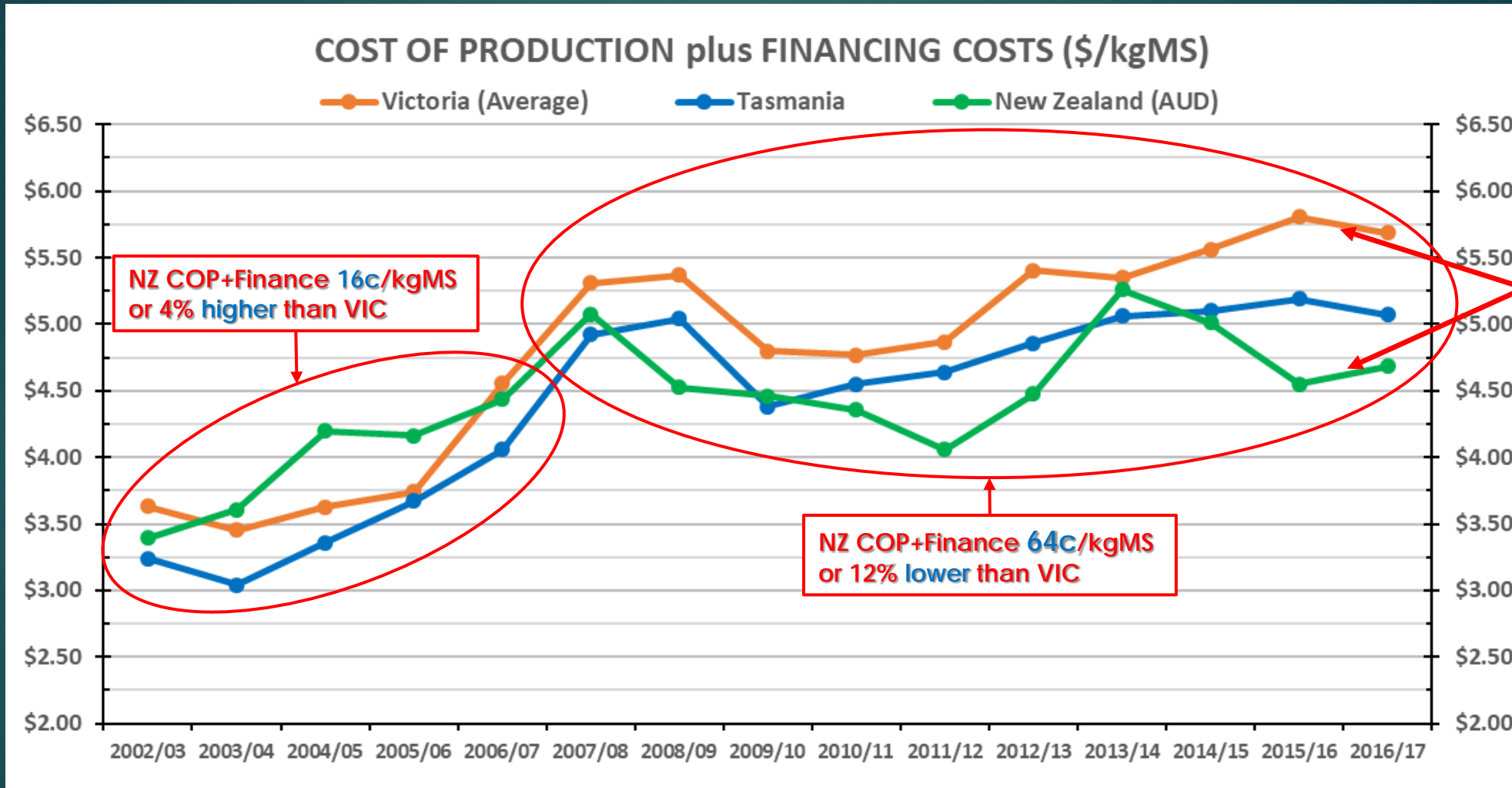


AUS vs NZ – COP plus financing costs



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – COP plus financing costs



VIC break even milk price now \$1.00 per kgMS (7-8 cents/litre) higher than NZ

So if increasing COP is the problem...

How has NZ performed so well?

What has changed in Victoria (and the rest of Australia) that has hurt business performance?

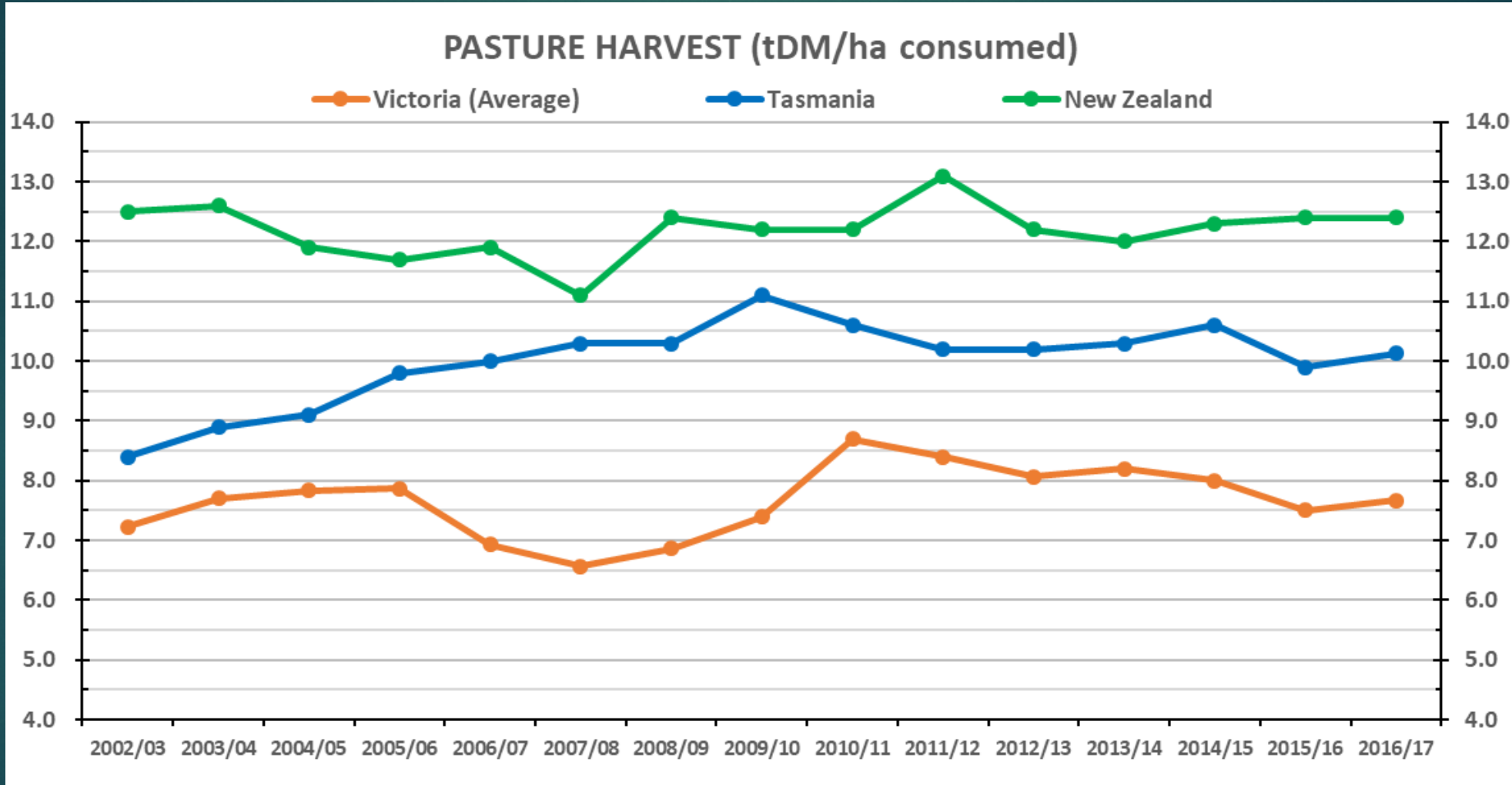
Where to look for the reasons...?

Pasture production and/or consumption is likely to be a contributing factor?

Farm system choices may be another contributing factor?

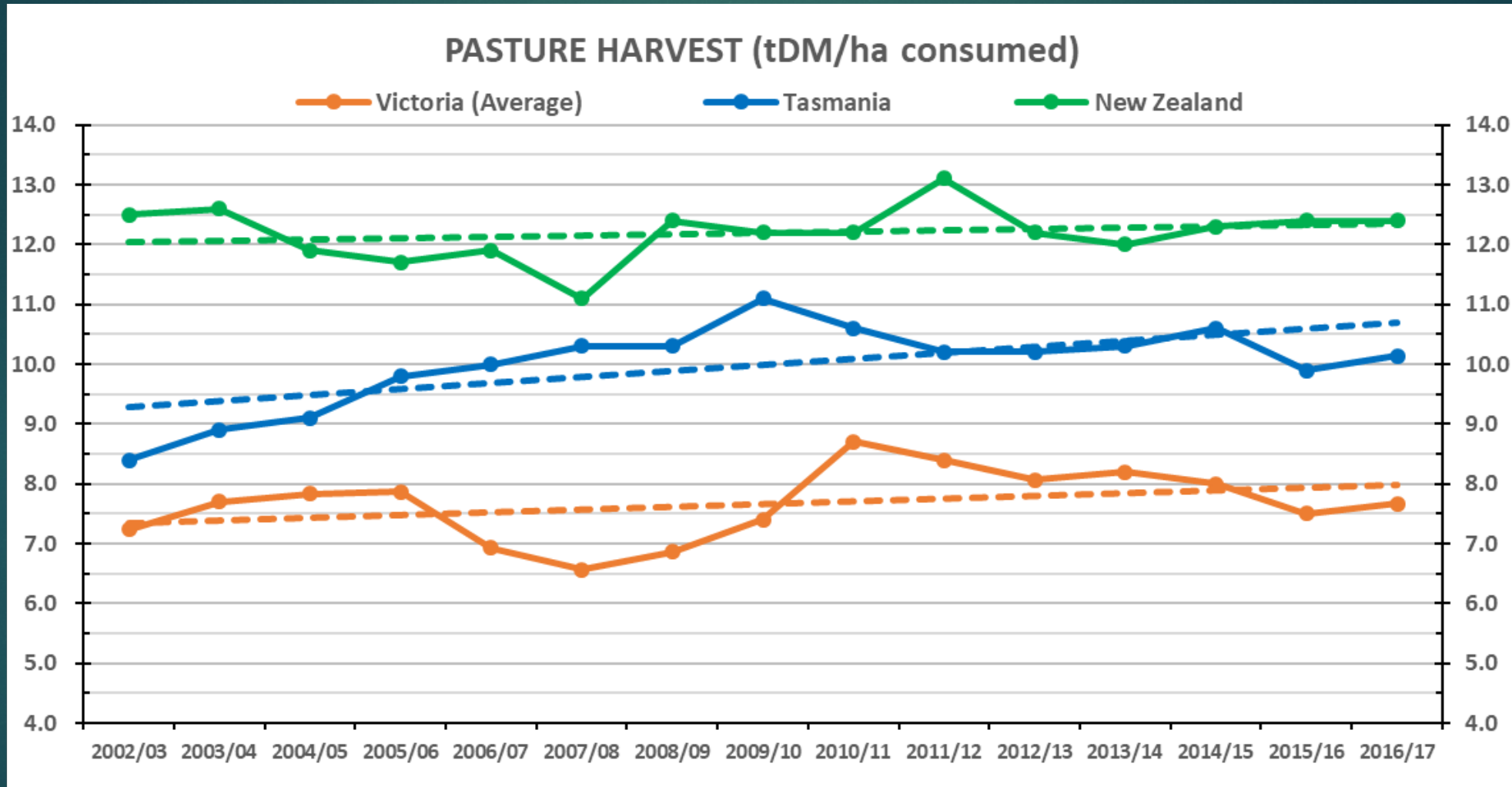
What other factors could contribute to such a significant loss in international competitiveness?

AUS vs NZ – Pasture harvest



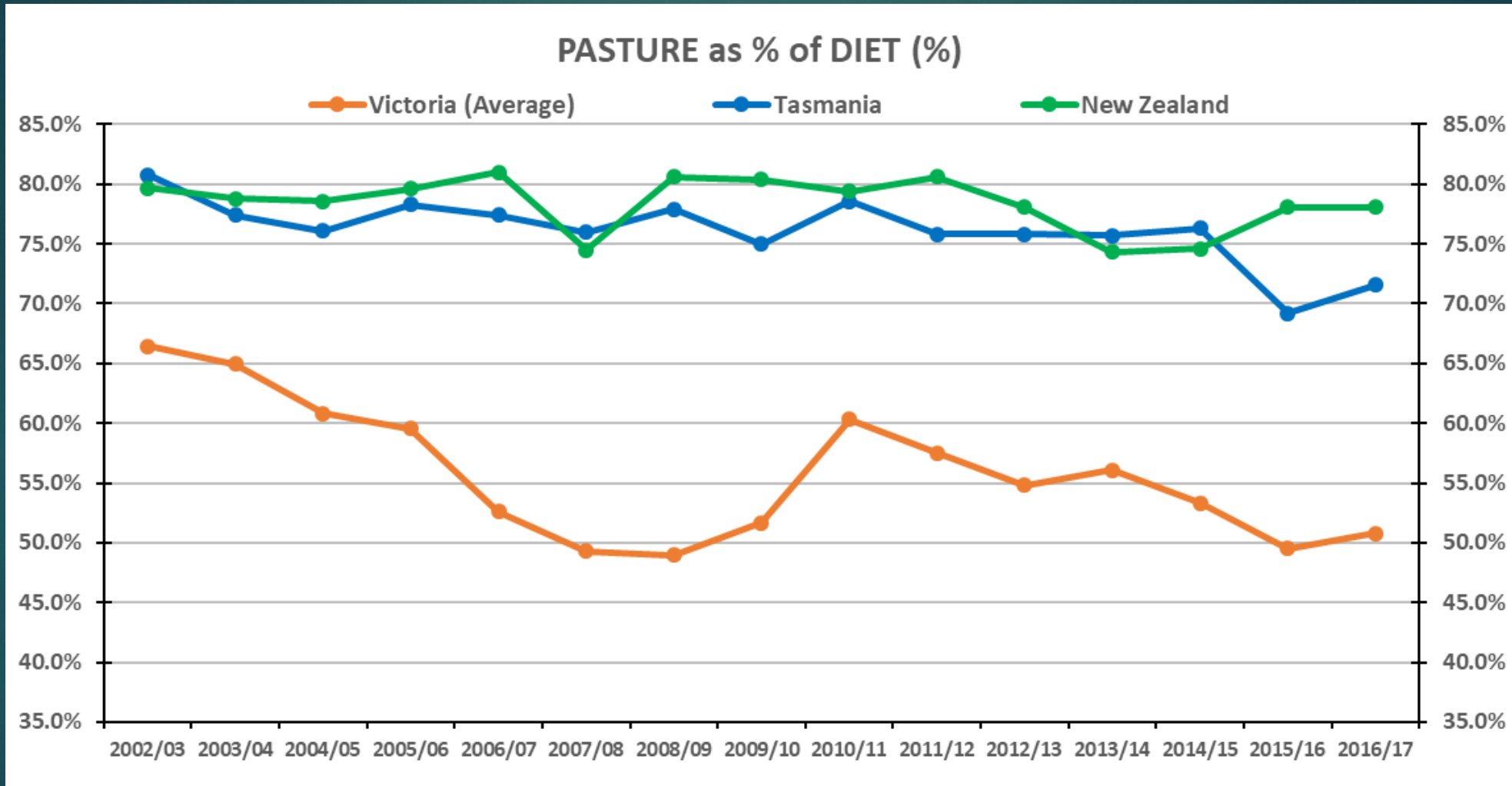
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS pasture harvest improving more than NZ



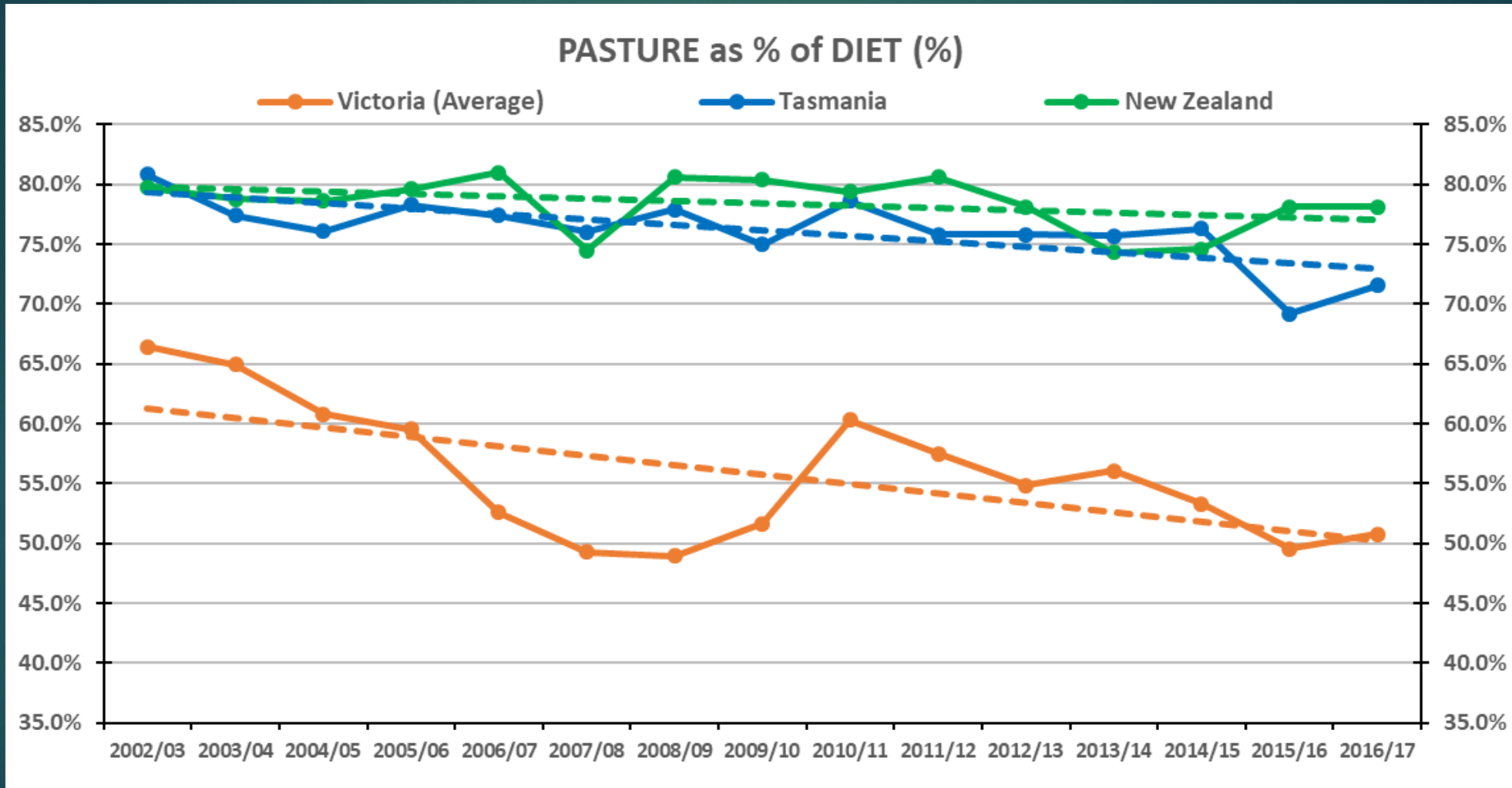
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Pasture as percent of diet



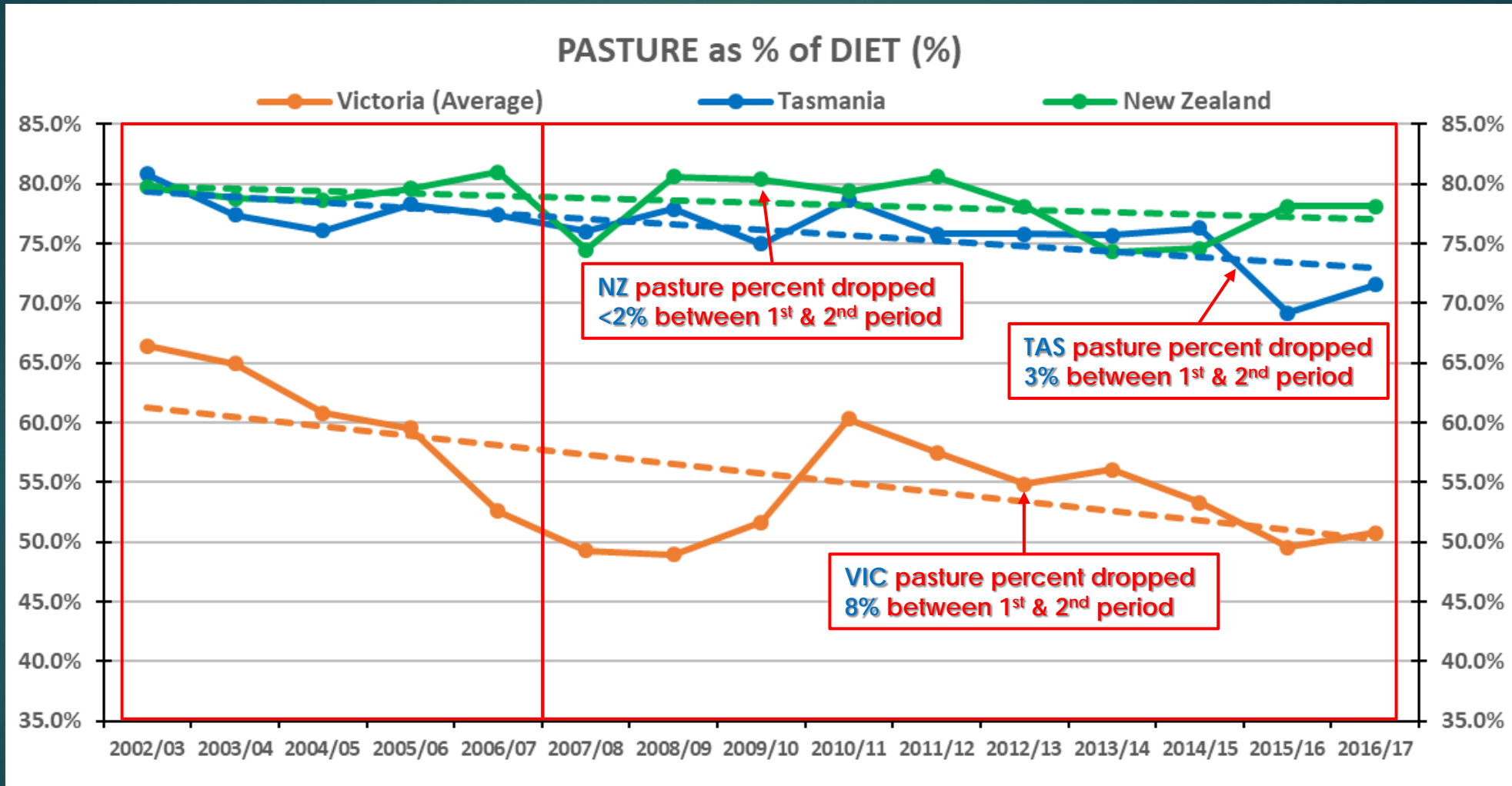
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Pasture as percent of diet



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Pasture as percent of diet



So does the farm system matter?

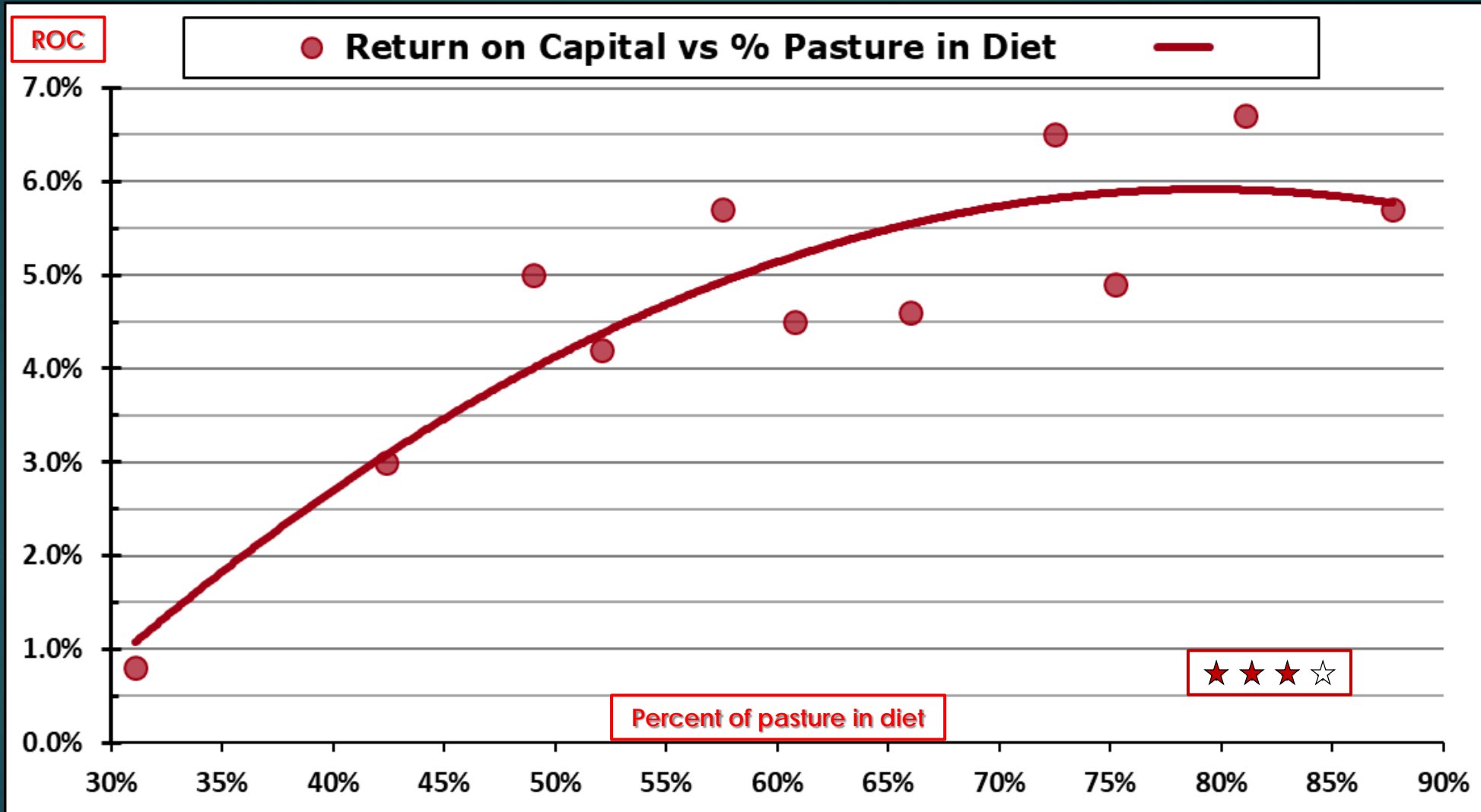
Don't we hear it's not important...it's only important how well a farmer manages the system that determines profit?

BUT there is lots of data that confirms farm system selection is an essential component in determining cost of production!

So what does drive profitability on pasture-based dairy farms?

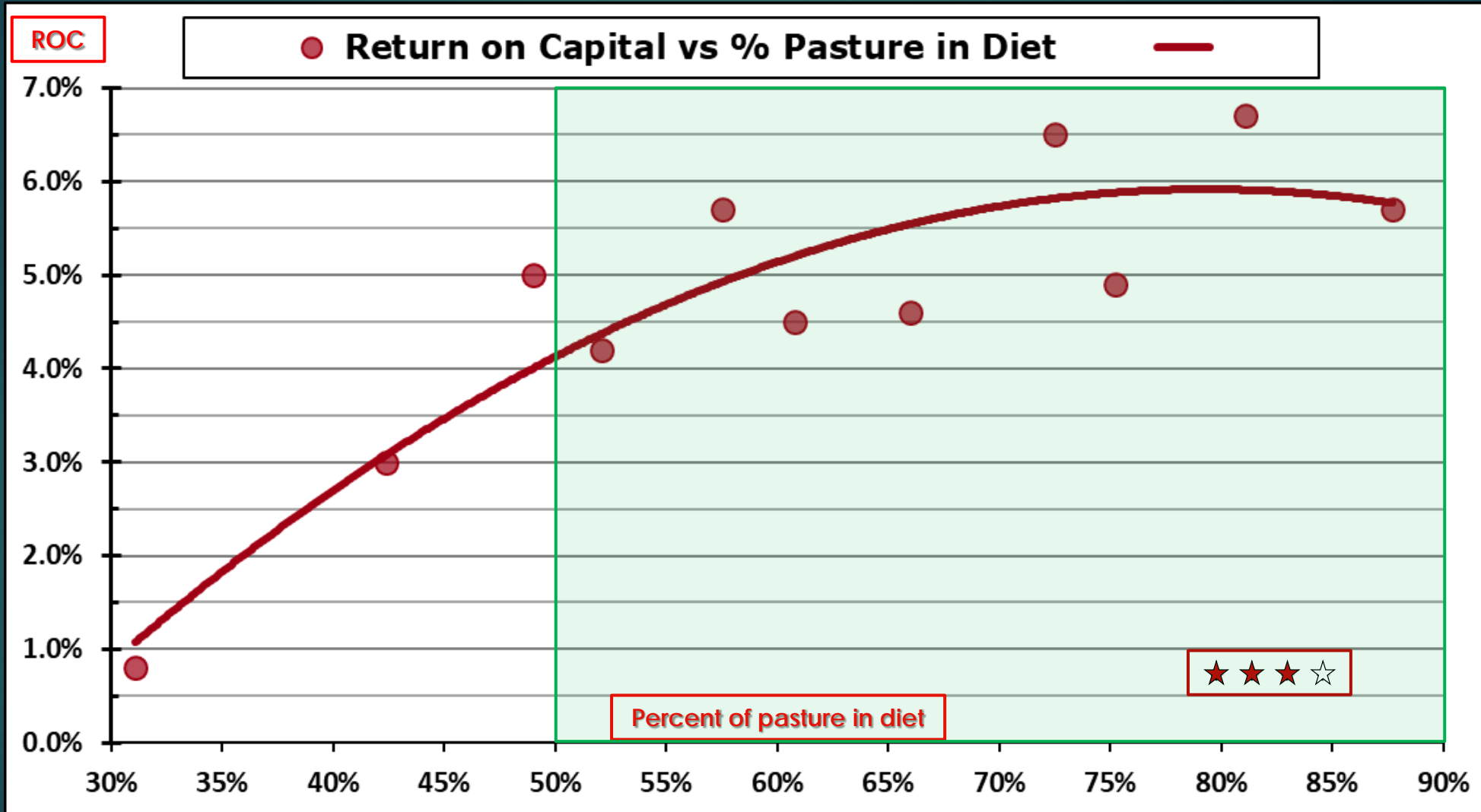
Can we see where Australian dairy farming has 'gone wrong'?

Relationship between profit (ROC) and pasture percent in diet



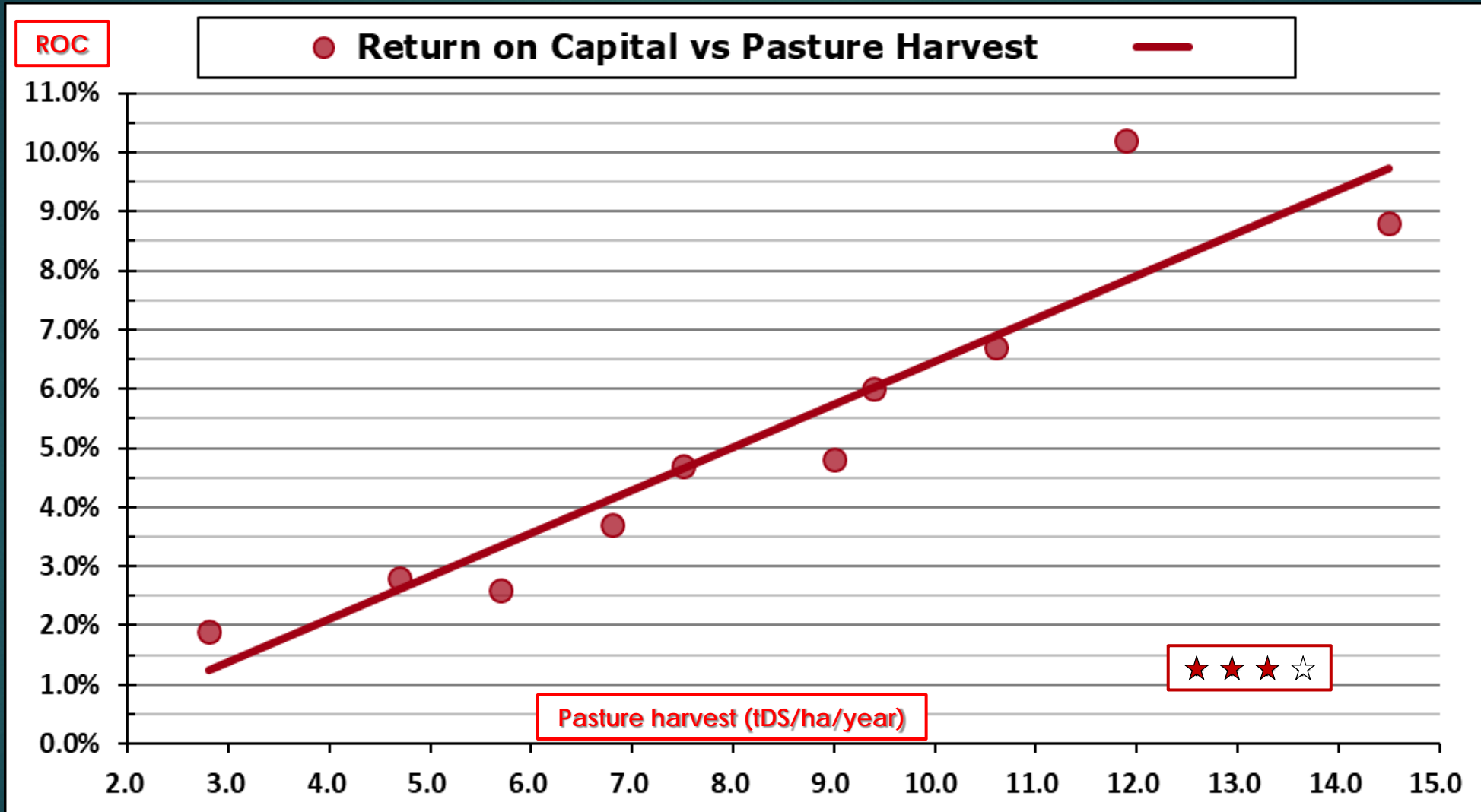
Source: Red Sky, DPIWE (Tasmania), PIRSA (South Australia), DAFWA (Western Australia)

Relationship between profit (ROC) and pasture percent in diet



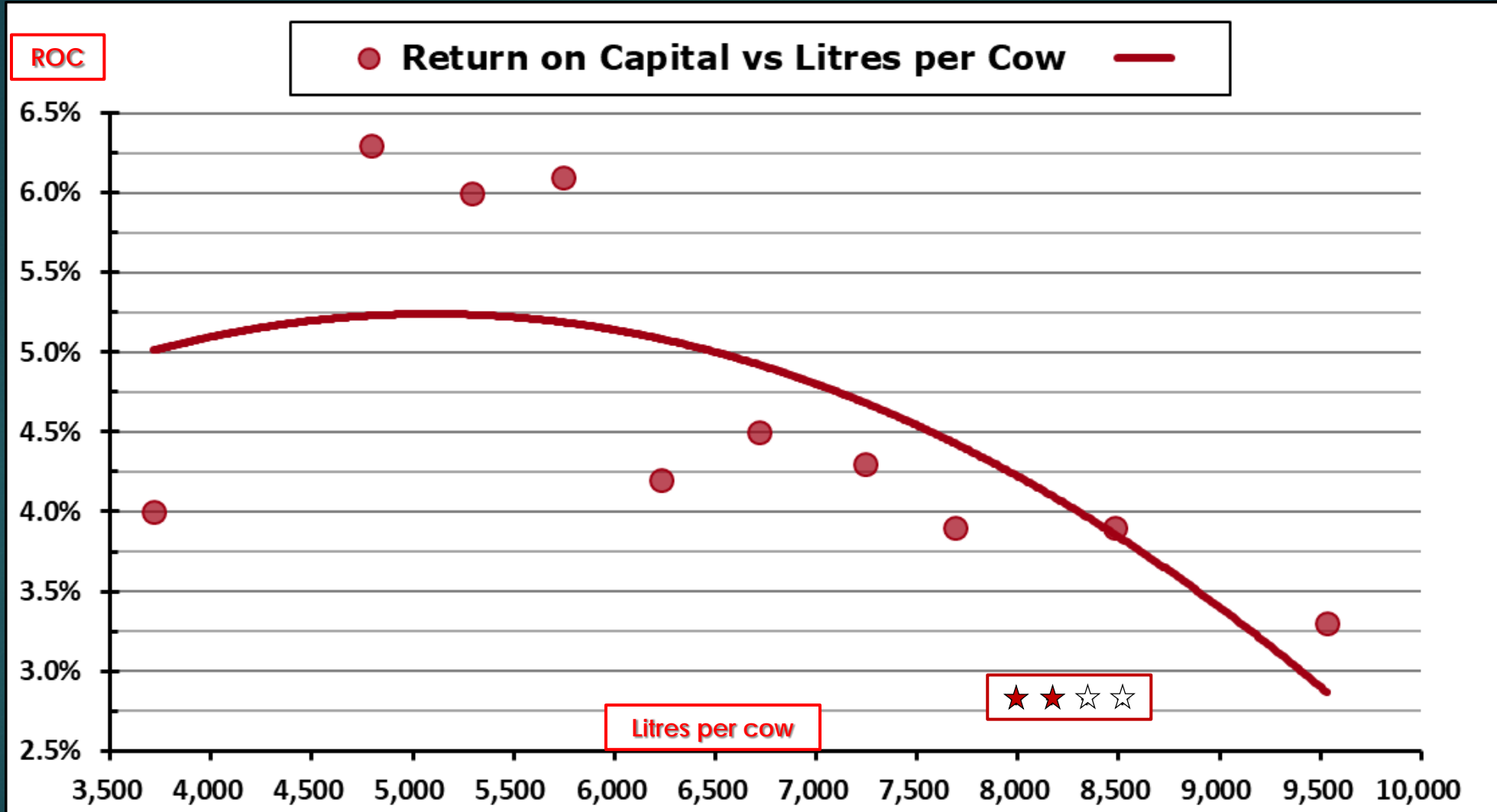
Source: Red Sky, DPIWE (Tasmania), PIRSA (South Australia), DAFWA (Western Australia)

Relationship between profit (ROC) and pasture harvest (tDM/ha)



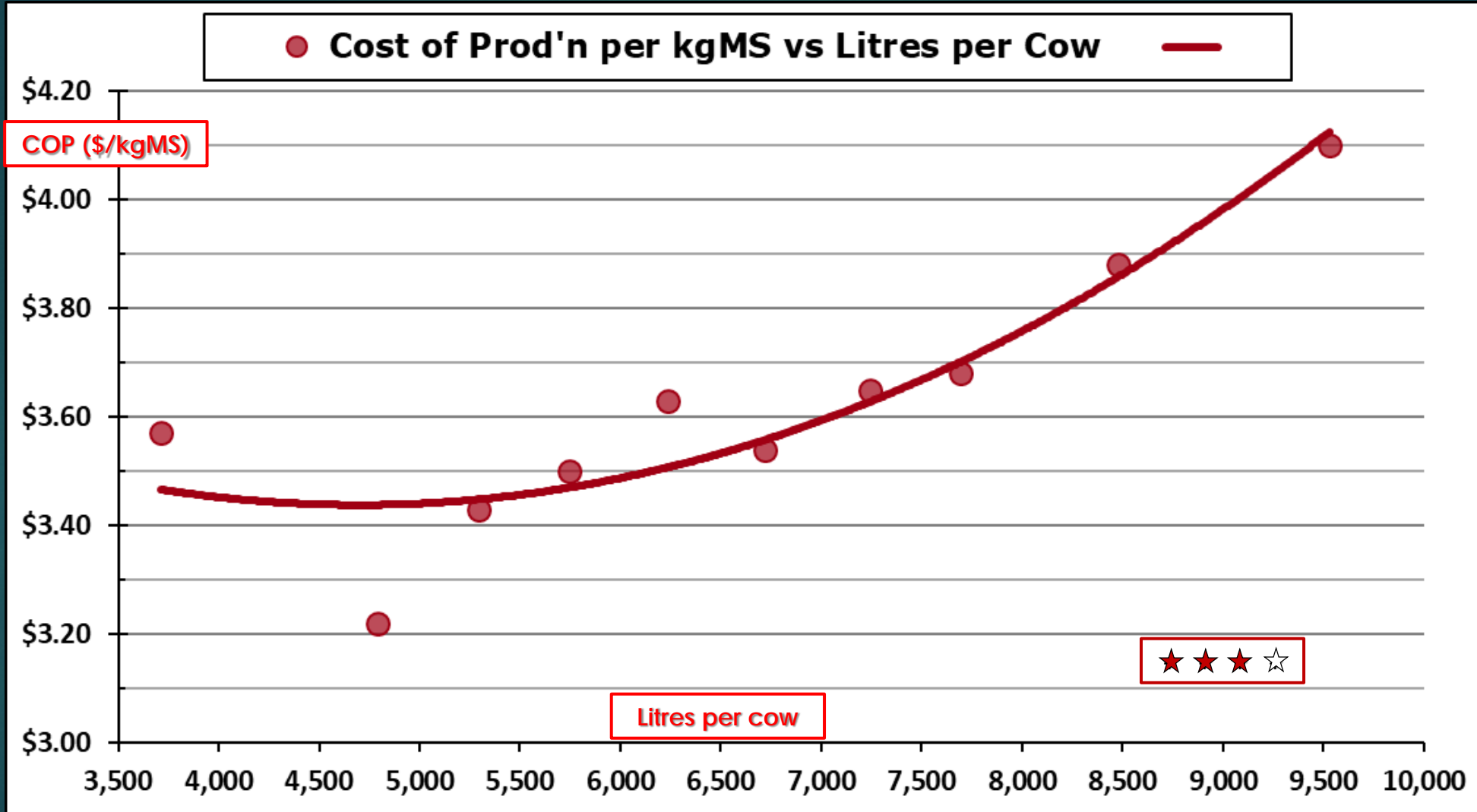
Source: Red Sky, DPIWE (Tasmania), PIRSA (South Australia), DAFWA (Western Australia)

Relationship between profit (ROC) and milk production per cow



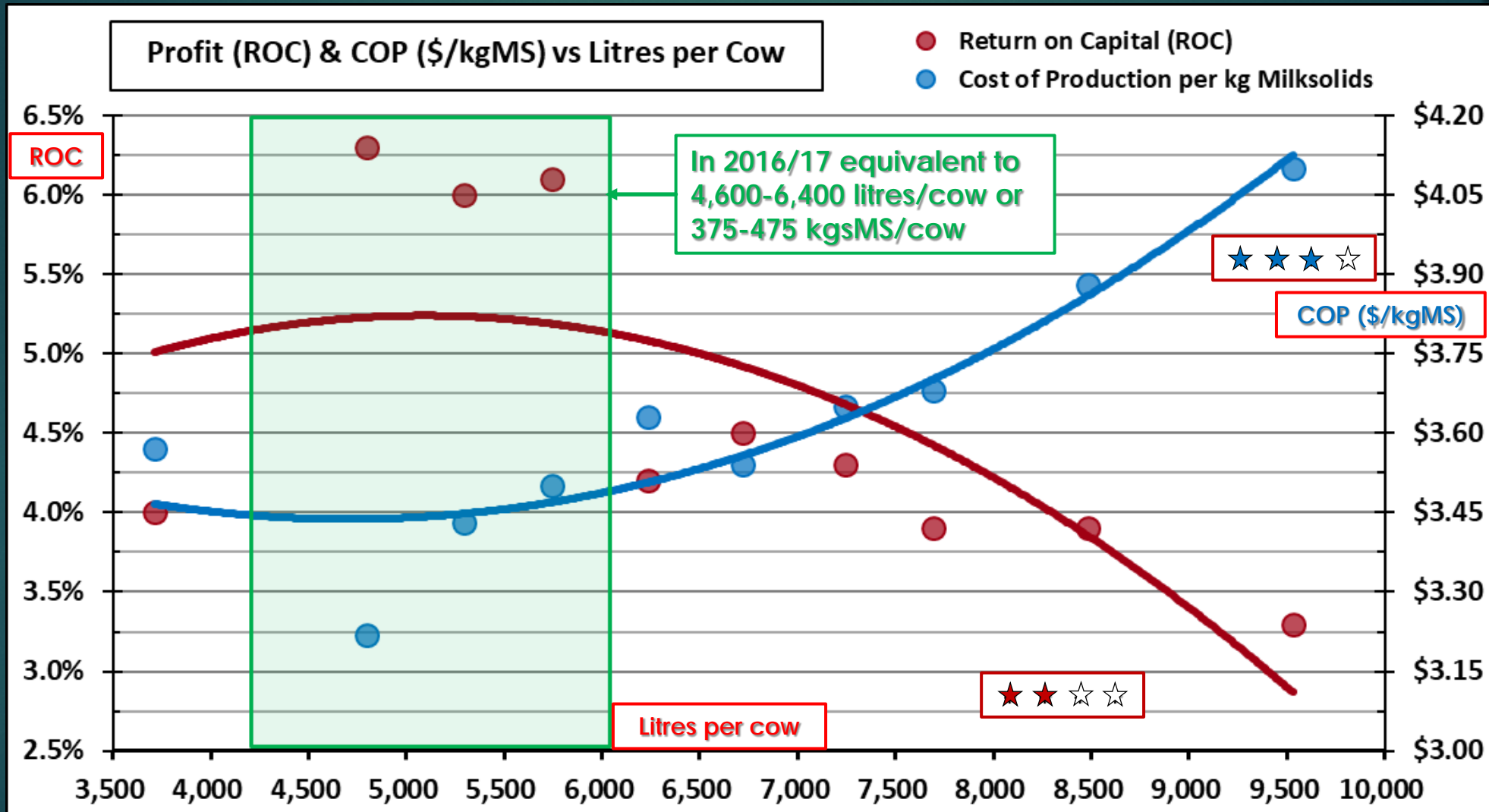
Source: Red Sky, DPIWE (Tasmania), PIRSA (South Australia), DAFWA (Western Australia)

Relationship between COP and milk production per cow



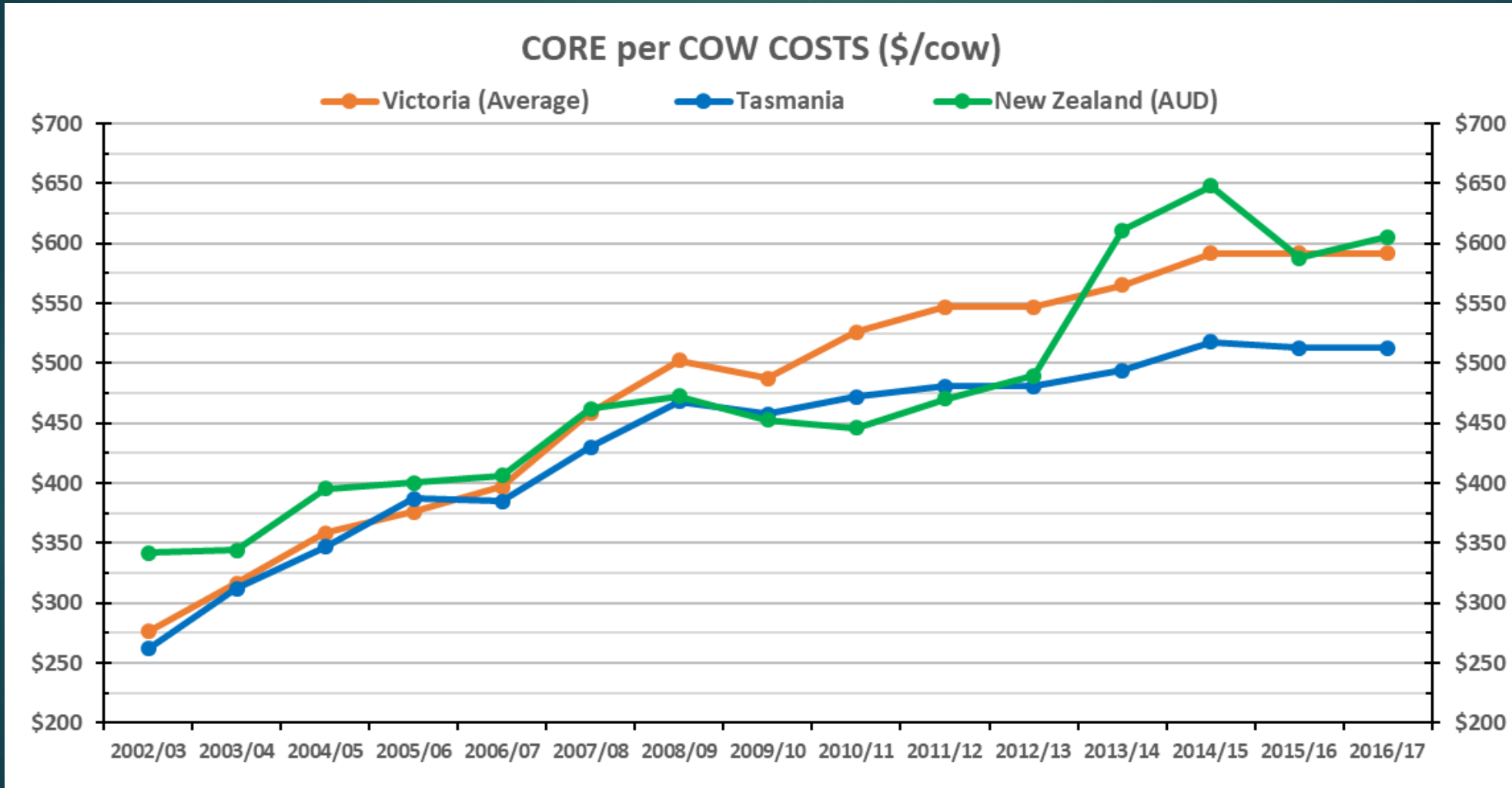
Source: Red Sky, DPIWE (Tasmania), PIRSA (South Australia), DAFWA (Western Australia)

Relationship between profit (ROC) & COP and milk production per cow



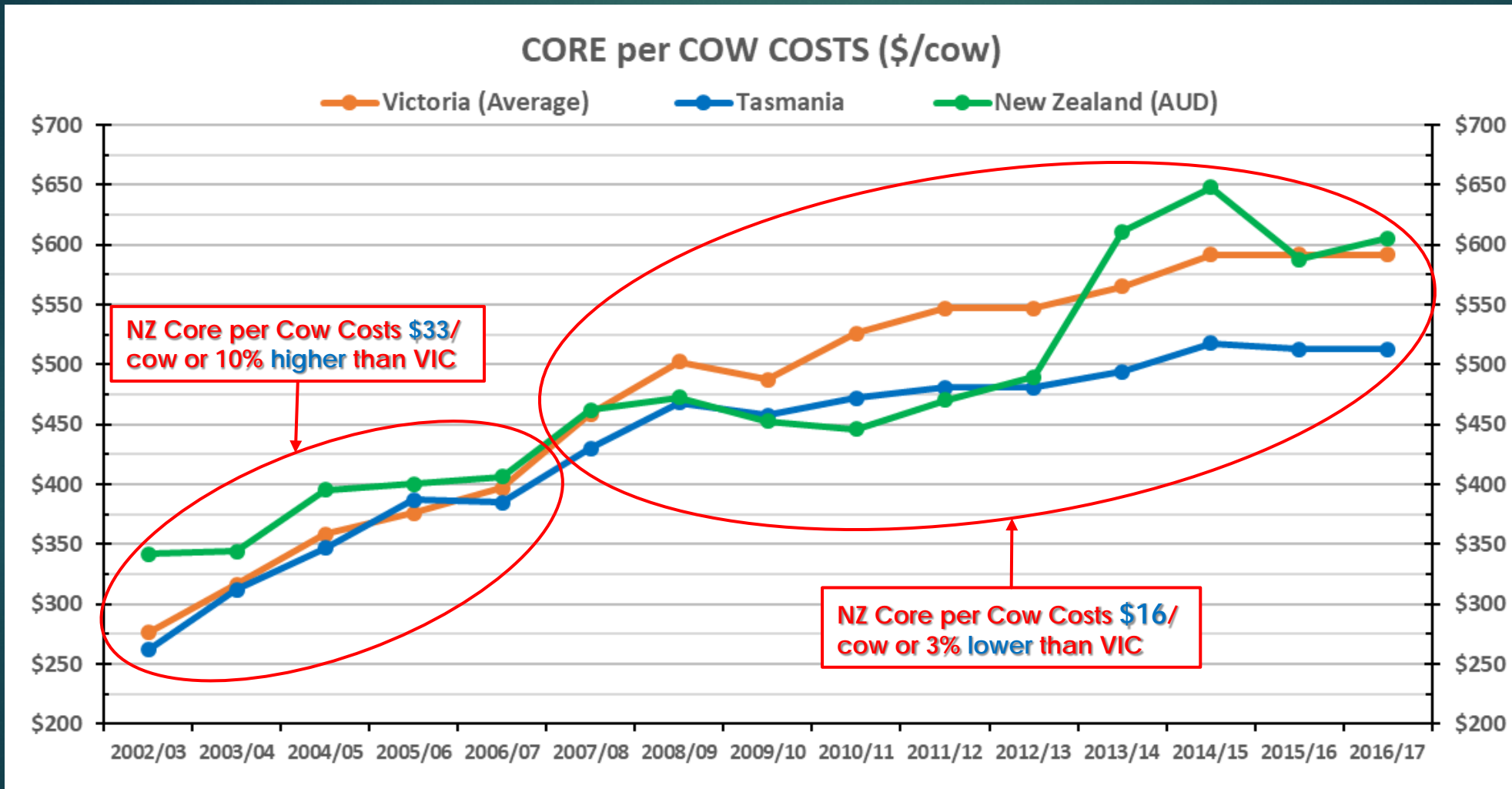
Source: Red Sky, DPIWE (Tasmania), PIRSA (South Australia), DAFWA (Western Australia)

AUS vs NZ – Core per cow costs *



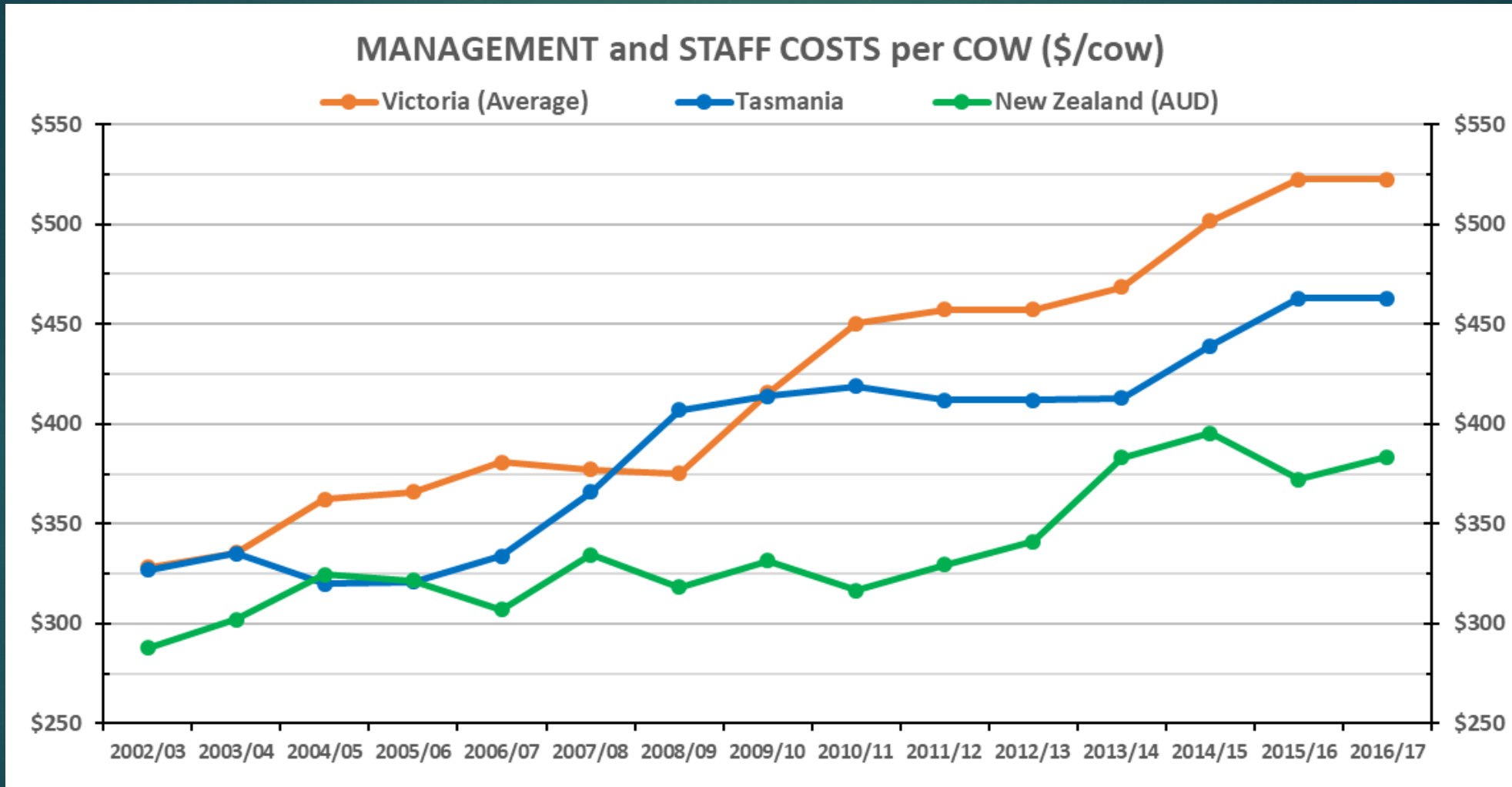
* Core per Cow Costs = (Animal Health + Breeding + Dairy Shed Exp. + Electricity + Grazing/Agistment + Freight + 50% Repairs&Maint. + 70% Vehicles + 30% Standing Chgs. + 50% Depreciation) / Milking Cows

AUS vs NZ – Core per cow costs *



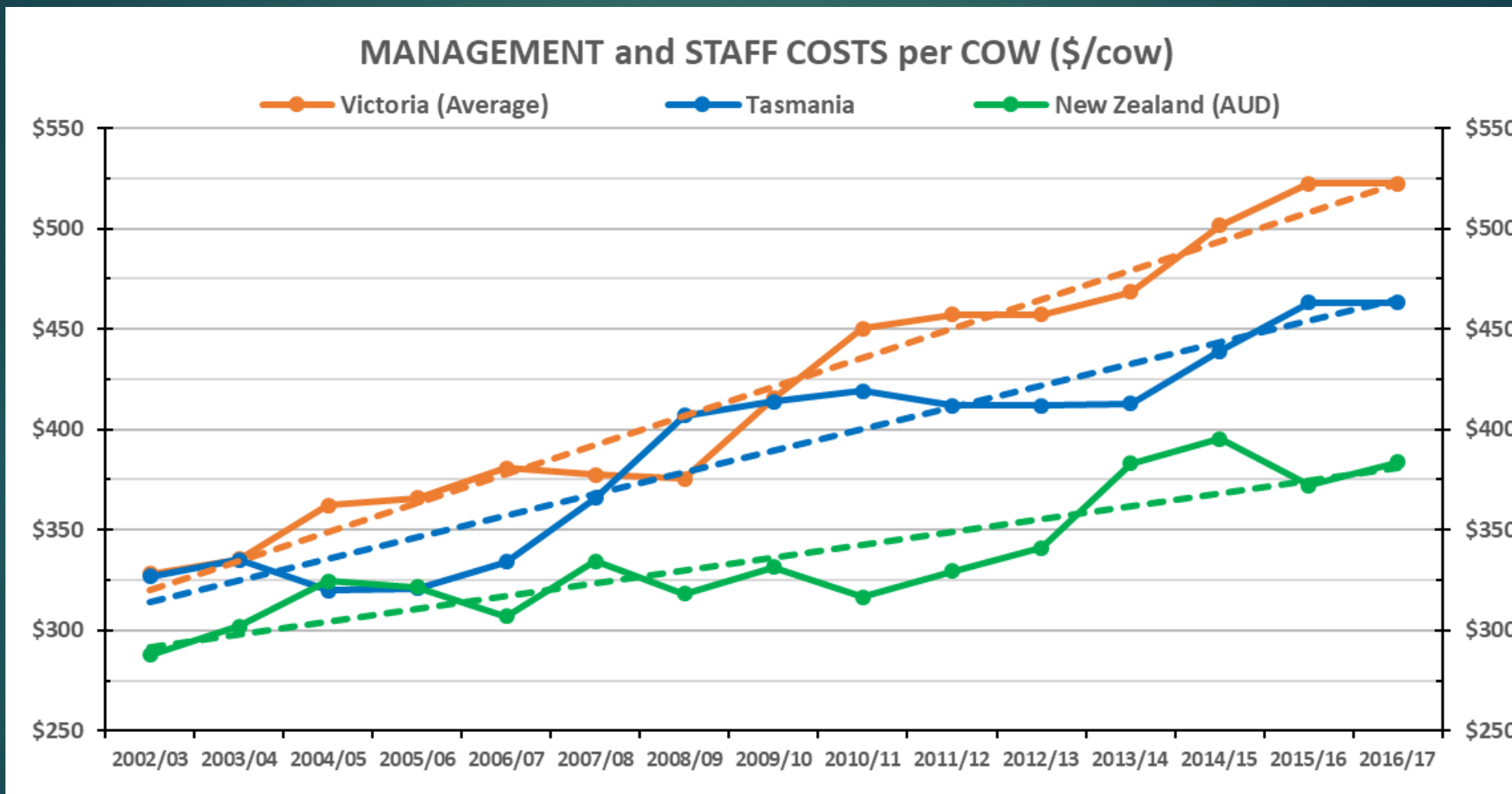
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AUS vs NZ – Management and staff costs per cow



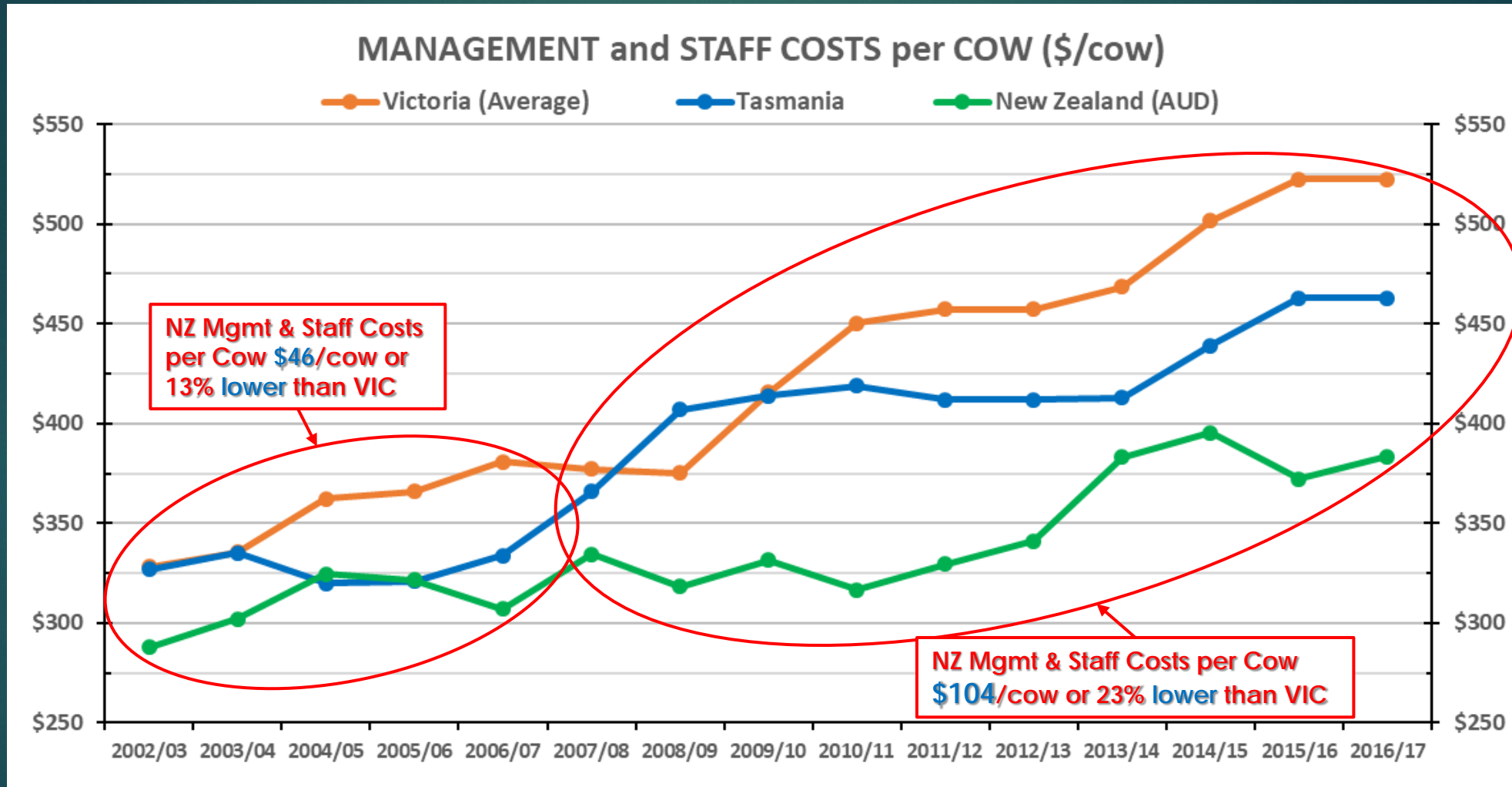
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Management and staff costs per cow



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ – Management and staff costs per cow



What else is in the background?

International competition increased from US (exporting), Europe (quota removal), South America/South Africa (improving performance / use of technology)

Impact of mining boom on exchange rates and labour costs

Higher irrigation water costs as water removed for environment and with competition from horticulture

Deregulation and competition effects in dairying locally post 2010 once 11c/litre deregulation subsidy ceased

Productivity improvements poor across Australian dairying

Comparative advantage within Australia reduced/lost when compared to alternative agricultural enterprises

What needs to be done?

Think of the “noise” around dairy farming today

...milk prices, supermarkets, Murray Goulburn (and Fonterra),
changing weather patterns...

BUT the industry needs to urgently start addressing the high cost of
production and its loss of international competitiveness

Is it possible to turn this situation around?

The South African dairy industry

An example of what can be achieved!

Pasture-based regions are primarily KwaZulu-Natal and Eastern Cape

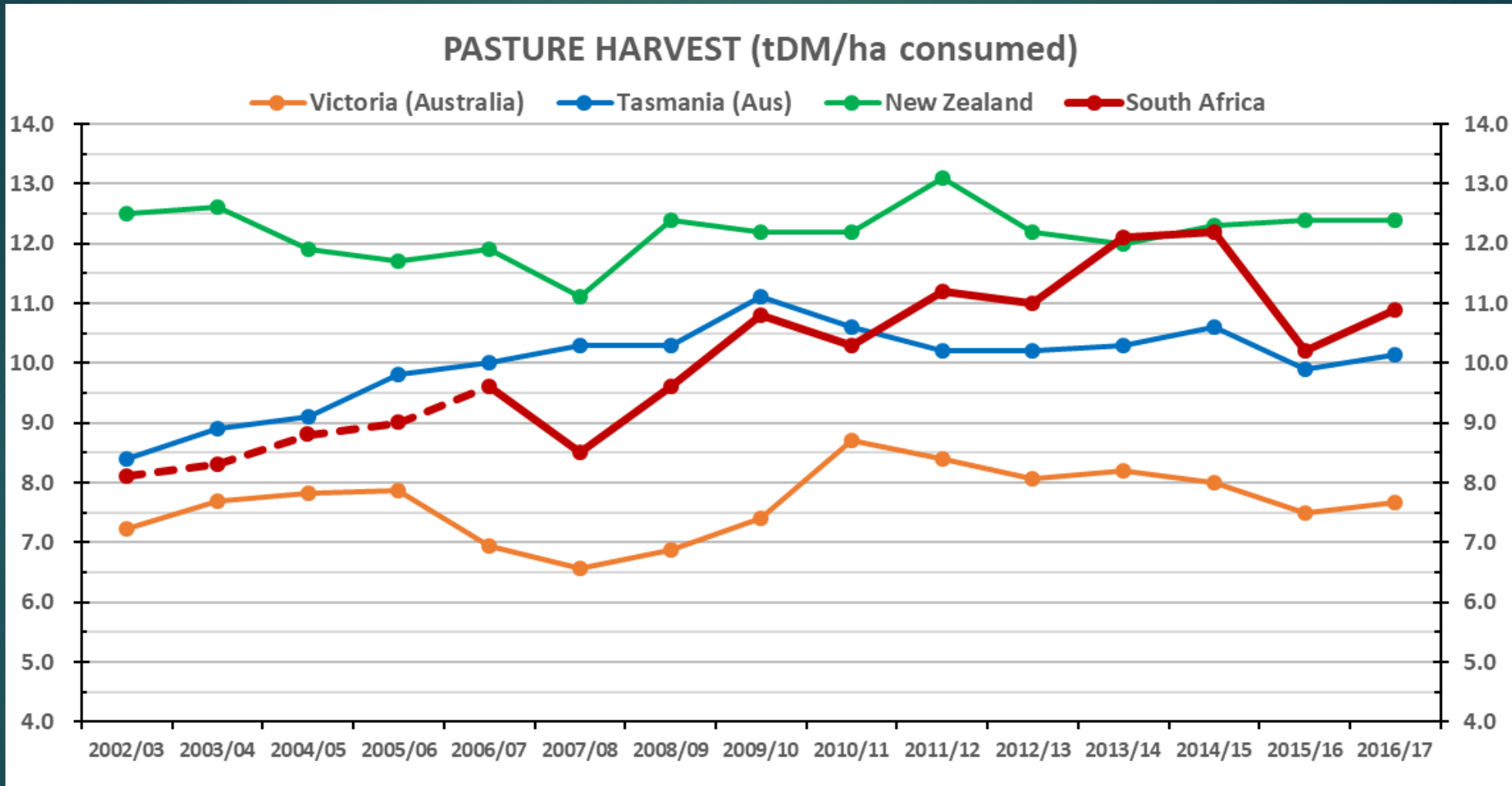
Same latitude as Sydney to Queensland border

The dairy industry had been moving 'down' the larger (US) cow 'slide' with higher grain feeding and a focus on per cow performance

Result was decreasing profitability, lack of business growth, reduced sustainability of industry

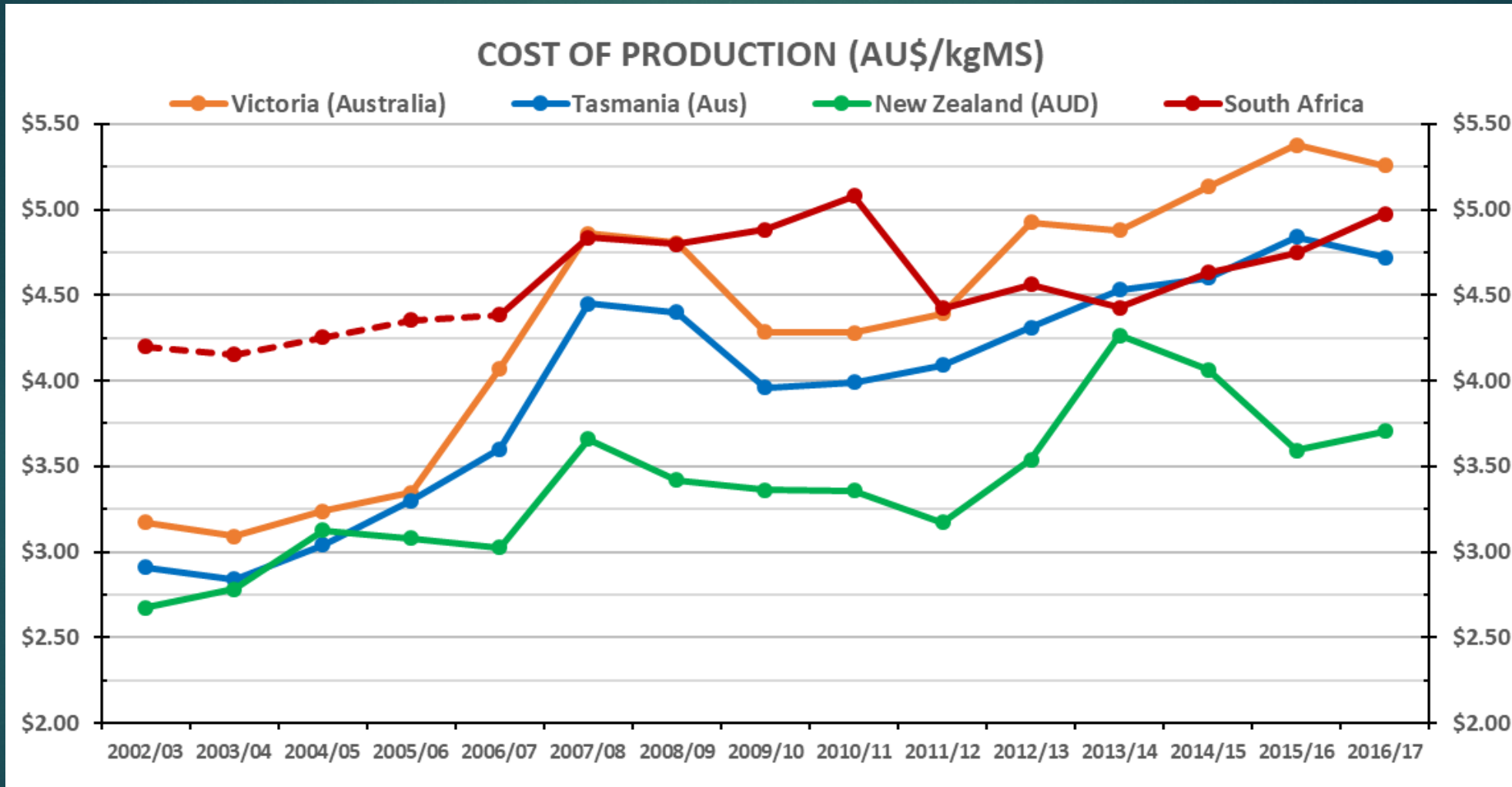
Future of dairy farming was in crisis BUT then...

AUS vs NZ vs South Africa – Pasture harvest



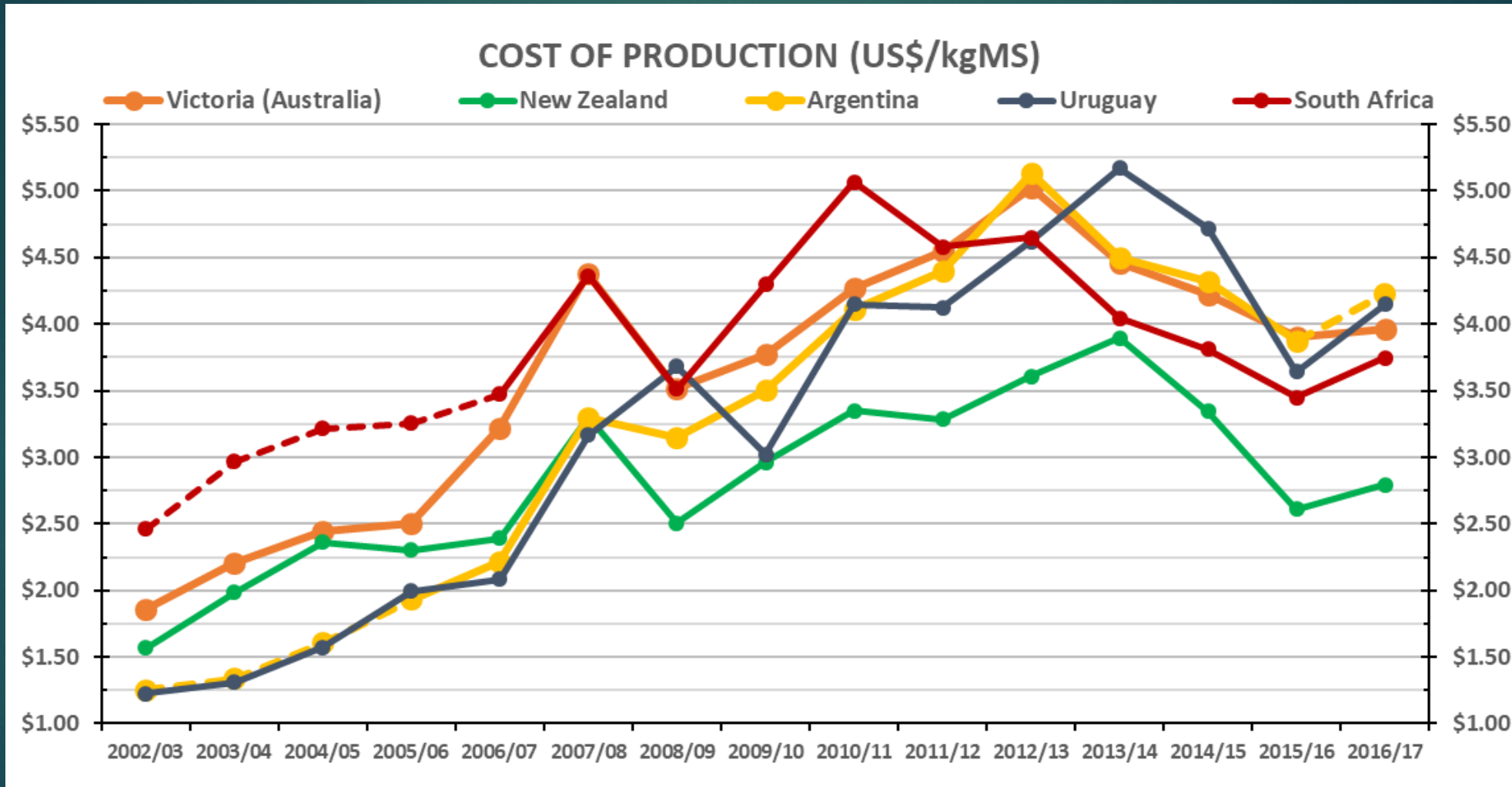
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

AUS vs NZ vs South Africa – COP



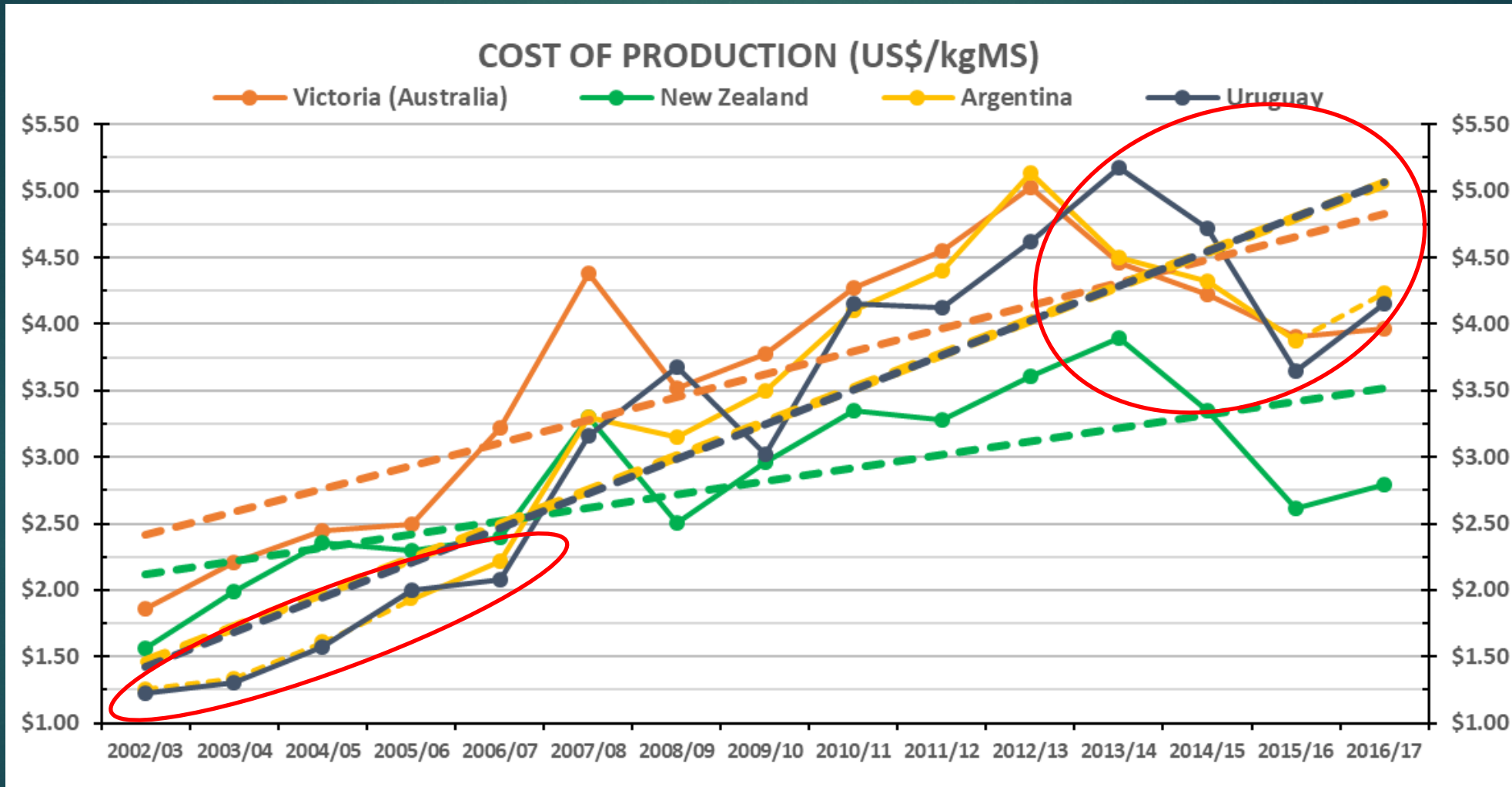
Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

Now adding Argentina & Uruguay – COP



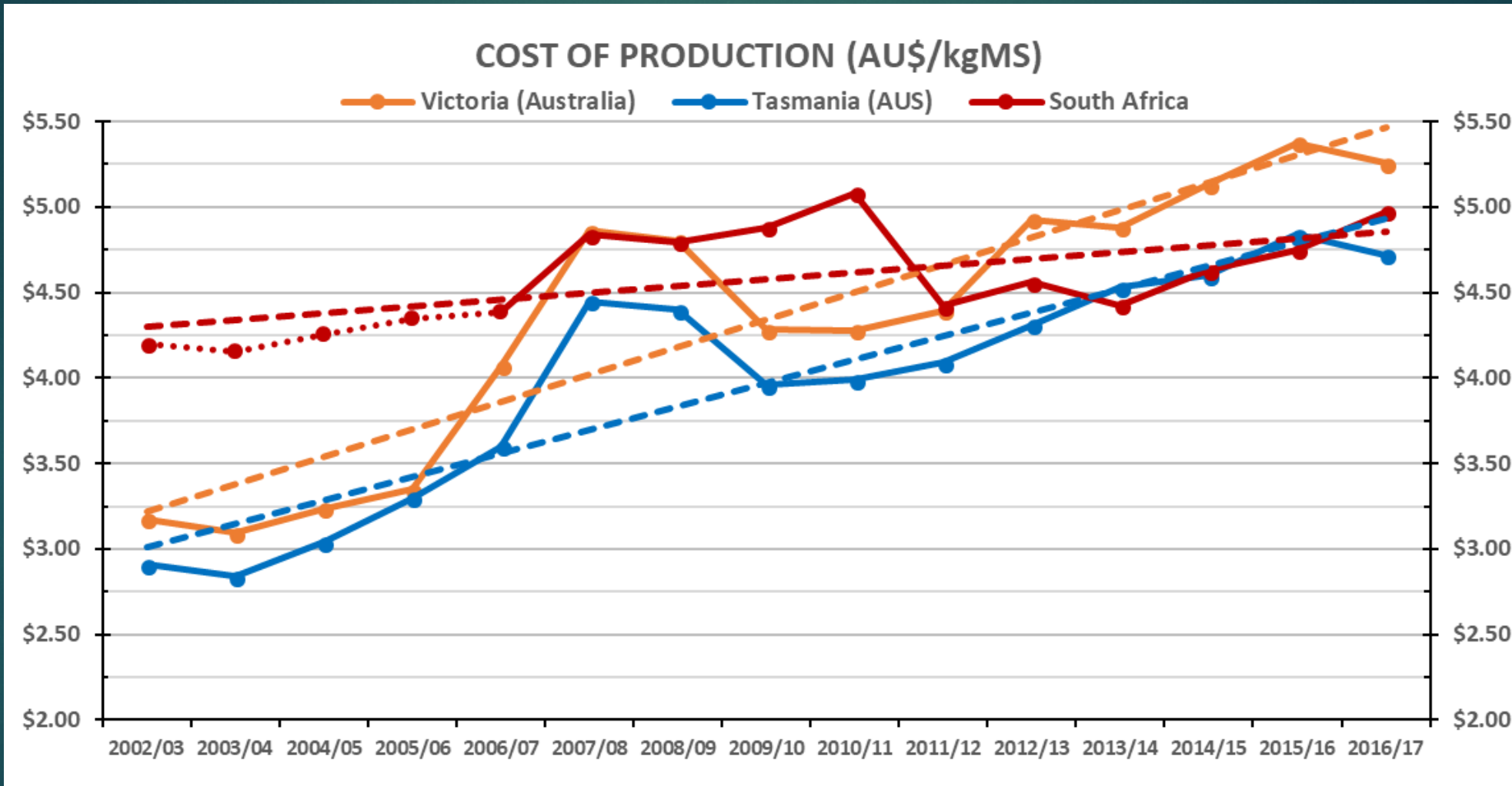
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Now adding Argentina & Uruguay – COP



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase, AACREA, FUCREA

AUS vs South Africa – COP



Source: Red Sky Agricultural, Dairy Australia, Dairy Farm Monitor Project, DairyNZ, DairyBase

What did South African dairy farmers do

Some leading farmers determined that:

1. Cost of production must be driven down
2. Farming system must match the conditions (financial and environmental)
3. Pasture harvest must be increased
4. Operating costs must be decreased

Total focus required on these issues to change farmers pattern of behaviour

Over a 10-12 year period the industry was transformed

Can Australian dairy farming become great again?

Will the Australian dairy industry identify and agree on the issues causing low profitability?

Are there the leaders in Australian dairying to provide the focus on these issues?

Challenges and “incentives”

Is there a farmers group (or will one form) to lead change?

Might any industry organisation or business provide leadership?

Could Tasmanians provide the ‘spark’ needed to ignite some change?

Let's make
Australia
dairy
farming
GREAT again!

