Unstable milk prices not dairy farmers' main problem

By John O'Brien

BEFORE RECENT PRICE announcements it was common belief that the Australian dairy industry was very profitable. The Australian Dairy Industry In Focus 2008 Report states estimates from ABARE indicate 44% of farms had a negative business profit in 2007-08 – down from 76% in 2006-07.

The aforementioned report states that in 1999-2000 the national average production per cow was 4996 litres. In 2006-07 the average production was 5182 litres. The average price received (per litre) over that period was $0.30. An increase of 186 litres at $0.30/litre equals a gross increase over a seven-year period of $55.80/cow.

In 2006-07 farmers (on average) would have fed 0.5 tonne of grain/cow/year more than in 1999-2000.

When one considers that grain is priced at $250/tonne this amounts to $125/cow in extra feed costs for only an additional $55.80/cow (gross) return.

The report also states 93% of herds are now feeding on 1.7 tonnes/cow/year of grain, grain mixes or feed concentrates. 1.7 tonne at $250/tonne equals $425. Let's say farmers received an average of $0.35/litre over the past 10 years – this feed is 'costing' 1215 litres. According to the report, in the past 10 years the average milk supply has increased by 554 litres/cow/year.

Where is the genetic gain and increased productivity farmers are continually investing hard-earned dollars in? Statistics verify no gain, only financial pain. Why?

The greater majority of dairy farmers' systems and genetics are focused on gross income (production). This system can only be profitable when returns are high and input costs low. This is a rare combination and the timespans when this is achieved are becoming shorter.

Purchasing higher levels of inputs and creating higher levels of production in the hope of higher profit levels is a recipe for (financially) unsustainable farming. All focus is on production (at any cost) and very little focus is on cost of production (COP). COP is the ONLY major component of the profit equation a farmer can have ANY control over.

All 'revolutionary' genetics and farming aids are 'sold' as the solution to increasing profits. In fact, they may supply the potential

What we used to have (left) compared with what we have now (right).

to increase gross income (totally different to profit). The actual real direct and indirect associated costs are never accurately identified, quantified or allocated.

These new genetics and technologies are modelled on a (United States) system supported by heavily subsidised grain prices and cheap labour. We have neither and have become saturated in the genetics which evolved from this system. At great expense, farmers are attempting to create a production system around an incorrectly designed cow. Profitable farming can only be possible when farming an efficient cow in a profitable system.

What is the major problem? Accurate observation reveals that when selection is production-based – using computer-generated breeding values – the individuals rising to the top are taller, narrower and leaner than our traditional efficiently performing individuals.

For example, take a look at our modern beef cattle. The body type brings to the fore a problem which is very expensive to cater for (in any species): frailty. Frailty means high maintenance, poor fertility, poor longevity, low resistance to disease and great reliance on supplements. This all adds to a high COP which equals low profit levels. Add to the picture years of selecting (and marketing) promotable genetics versus profitable genetics (required by farmers) and the financial results tell the story.

Despite the obvious, everything is being looked at as a possible cause for lack of profit – except incorrect cow design. The escalating frailty of the national cow herd has farmers on a very slippery financial slope with no buffer for reduced income.

The modern dairy or beef cow has only to hear the mention of dry weather and it starts losing weight. Articles report that commercial Angus herds generations deep in the (supposedly) latest and greatest genetics are now weaning their calves (onto grain) at 10 weeks of age. The producers are reported to be excited at how well their cows rebreed when calves are weaned. Where were these people (and their seedstock suppliers) when we had beef cows which reared a calf to 10 months (if required), held their body weight through most seasons and calved every year around the same time? Yet this is reported as a "groundbreaking" discovery and is seen as progress.

Meanwhile, the business of supplying supplements and aids for modern cattle has developed and exploded. The modern bovine's frailty makes it a great consumer, playing perfectly into the hands of suppliers. These products are great in theory. The only problem is that they cost.

As biological farming consultant Jerry Brunetti said, "Everyone is making money out of the modern dairy cow except the farmer." Sadly, it's so true.

Up until recent years the black-and-white (BW) cow was the universal dairy cow. How many billions of dollars have commercial farmers spent worldwide (in good faith) on supposed superior genetics? Now the best of the experts are suggesting the use of Jersey or Red breeds to correct faults inadvertently inherited when investing in supposedly superior BW genetics. This is the latest advice from the same experts who incorrectly selected the BW cow, leading to its current non-functional state. There are too many individuals contributing to major genetic decisions from behind a desk. These individuals do not understand what is required for a cow to be economically functional.

For years genetic selection has ignored the greatest indicator of natural disease resistance: longevity. Considering older genetics as surpassed and selecting bulls from (early) high-producing, young, high-profile, paper-bred females, probably bred from the same, has stripped our dairy cows of any natural longevity or disease resistance. This has made them very susceptible to every illness going. Vets and supplement suppliers must love the modern dairy cows. And why is fertility a large problem in the breed? If one ignores its importance and continually introduces bulls to the AB industry from high-profile, high-production sub-fertile cows, what more can you expect?

The modern black-and-white cow has the propensity to produce 12,000 litres in a perfect environment. The industry is producing around 6000-7000 litres. Costs associated with the 'big engine' do not disappear because production is below potential.

The situation can be likened to having a five-litre V8 as a courier vehicle in the city. On the odd long run you will win but the constant cost of the big engine sitting at the lights will make you financially uncompetitive.

Farmers are continually working for their cows. They require genetics which work for them. It's time to look at your choices and why. Are you focused on production or profit? Are you purchasing promotable paper or profitable paddock genetics? If an animal does not look good it is no good, regardless of what the papers say. Efficiency of production is the key to sustainable profit generation. Correct genetic design is the key to efficient production.

With more than 40 years experience in different areas of the cattle industry, John O'Brien is now consulting to cattle breeders (both beef and dairy) in Australia, New Zealand and the US through his consultancy business, Profitable Cattle Pty Ltd.