Key Things Farmers Need to Put in Place for 2015

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Presentation to Irish Grassland Association
Annual Dairy Conference, January 2014
Newpark Hotel, Kilkenny
Overview of Presentation

1. Milk policy - international prospective

2. Lessons from expansion

3. Building a Resilient Dairy Farming System
Evolution of the Irish Dairying mid-70’s

• Joined EU in 1973 – access to large EU market; milk production increased 3.2 to 5.5 billion litres between 1975 to 1985

• Milk quotas introduced in 1984- capped milk production

• 1990-2013 dominated by a series of CAP reforms- the most

Source: FAPRI-Ireland Dairy Model 2006
Graph: Standard Milk Price 1999-2012

Comparison of milk prices from 1999 to 2012 for Glanbia and Fonterra. The graph shows the fluctuations in milk prices over the years, with a significant increase in 2010 and 2011, reaching a peak of 95%.

Legend:
- Glanbia: Blue line
- Fonterra: Red line

Data Source:
LTO - International Milk Price Comparison 2012

The Irish Agriculture and Food Development Authority
### Projected Trends in Consumption of Milk (Mt) equivalent

<table>
<thead>
<tr>
<th>Year</th>
<th>Developed</th>
<th>Developing</th>
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<tbody>
<tr>
<td>1990</td>
<td>251</td>
<td>152</td>
</tr>
<tr>
<td>2015</td>
<td>273</td>
<td>323</td>
</tr>
<tr>
<td>2030</td>
<td>284</td>
<td>452</td>
</tr>
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Steinfield et al., (2006)
World Exports of Milk 2011/12 Vs. 2022

~10% of Global Milk Production Traded Internationally

Keane, personal communication - OECD-FAO 2013
Optimistic Outlook for Dairying

- Volatility in Milk Price-Supply/Demand
- Demand Driven by Developing Countries
- Milk price influenced by World Markets
- EU competitors- NZ and USA
2. Lessons from Expansion

• New Zealand

• Northern Ireland

• Kilkenny Greenfield Farm
Changes in Physical Characteristics in New Zealand 2002/03 to 2011/12

1. Herd size increases from 285 to 393 cows
2. Cow numbers increase by approximately 0.9 million
3. Farm size increase from 111 to 139 hectares
4. Stocking rate increases from 2.57 to 2.83 cows/ha
5. Milk solids per cow increase from 315 to 364 kg
6. Milk solids per hectare increase from 828 to 1,028 kg
7. Milk production increase from ~14 to 19 billion litres
Changes in Expenditure on New Zealand Dairy Farms 2002-2011

1. Milk price increase by $3.8/kg MS
2. FWE increased by $2.0/kg MS
3. Other costs increased by $1.0/kg MS
4. Surplus cash increased ~$1.0/kg MS
### Structural Differences between Northern and Southern Ireland Dairy Farms - 2008

<table>
<thead>
<tr>
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<th>Southern Ireland</th>
<th>Northern Ireland</th>
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<tbody>
<tr>
<td>Dairy cows/farm</td>
<td>58</td>
<td>87</td>
</tr>
<tr>
<td>Other cattle (LU/farm)</td>
<td>40</td>
<td>51</td>
</tr>
<tr>
<td>Farm size (ha)</td>
<td>53</td>
<td>69</td>
</tr>
<tr>
<td>Stocking rate (LU/ha)</td>
<td>1.87</td>
<td>1.99</td>
</tr>
<tr>
<td>Labour (hours/dairy LU)</td>
<td>80</td>
<td>79</td>
</tr>
<tr>
<td>Milk Yield (litres/cow)</td>
<td>5,072</td>
<td>6,208</td>
</tr>
</tbody>
</table>

*Source: Gillespie et al., 2013*
Differences in Family Farm Income, Output and Costs between Northern and Southern Dairy Farms

Source: Gillespie et al., 2013
Key Lessons from the Kilkenny Greenfield

✓ Dairy farm expansion is time consuming & adds severe workload - seek help & advice

✓ In the short term prioritise investment towards areas of maximum return - cows, grazing infrastructure, fertilizer

✓ Cash flow management during conversion & during the initial years of production is critical to the success

✓ Herd performance can be sub-optimal in the initial years;

✓ Watch out for ‘project creep’ - can causes cash flow problems

✓ Seek healthy high EBI dairy stock from herds with a proven herd health history
3. Building a Resilient Farming System

- Exploit comparative advantage - Grass based
- Low cost - Grass based - competitive
- Tactical management - a good farmer

Components:

1. Resources - High productivity grassland
2. Animals - High EBI livestock
3. Business - Profit focused
4. People - Highly trained/life style
1: Resources - High Productivity grassland

<table>
<thead>
<tr>
<th>Grass production (t DM/ha)</th>
<th>9</th>
<th>15</th>
</tr>
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<tbody>
<tr>
<td>Grass Utilisation (%)</td>
<td>75</td>
<td>85</td>
</tr>
<tr>
<td>Grass utilized (t DM/ha)</td>
<td>6.8</td>
<td>7.7</td>
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1. Adequate soil fertility - P, K & Lime
2. Apply best grazing management
3. Reseed underperforming swards
4. Invest in grazing infrastructure - including drainage

40 ha farm; full costs; 34.5c/l
<table>
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<tr>
<th>Replacement rate (%)</th>
<th>18</th>
<th>28</th>
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1. Optimise calving pattern
2. Minimise replacement rate
3. Maintain high herd health status
4. High EBI herd- crossbreeding

40 ha farm; 100 cows; full costs; 34.5c/l
3. Profit Focus: Business Planning & Budgeting

- Efficiency comes before expansion:
  - Additional profit is required for expansion
  - Av dairy farmer has no additional cash for expansion

- Successful expansion will require:
  - Skill in financial planning and budgeting to provide a basis for investment & support loan applications
  - Don’t over capitalize in the development stage
  - Development must be tested for both for profitability and cash flow implications particularly during the initial expansion years
4. People- Highly trained/life style

- Profitable labour efficient systems are required;
- Attractive career choice for new entrants
- Provide training opportunities- business management
- Future successful expansion will require new thinking:
  - Collaboration: to facilitate land leasing, contract rearing of young stock, contractors etc.
  - Relationships: share milking, equity partnerships,
1. Efficiency before expansion
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2. Increase pasture production & utilisation
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3. Choose high EBI stock
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4. Improve your financial skills
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5. Choose a system - delivers consistent profit at volatile milk price - Grass-based
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5. Choose a system - delivers consistent profit at volatile milk price - Grassbased
6. Don’t overcapitalise in development