NZIAHS Forum
"Where do we want our dairy industry to be in 20 years time?"
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Can farmers afford to think beyond earning their keep tomorrow to think about the long-term future?

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My goal when I left Massey University in 1980 was to have the ability to retire at 40. I choose those words carefully - "have the ability". I looked around various industries. I didn't think I had enough brains to build enough money to enable me to retire and do nothing. I therefore looked for an industry that would allow me to have choices at that stage and I opted for the dairy industry.

When asked "are farmers too busy to think about the future?", therefore, I can say that when I was a varsity student I certainly had time to look at the future. But things have changed a bit since then as I try to answer that question today.

My grandfather made about 3% return on his capital, my father made about 3% and farmers today are making about 3%, but between 1955 and 2007 farm land prices have increased by 3% above inflation.

But payouts have become volatile. Three years ago the payout would vary by about $1 but now it can vary $2 from the opening to the end of the season, making cash flows uncertain. There is increased pressure on debt repayment and a focus on production and feed rather than profit.

Milk production grew 6% in the 1990s and about 2% over the 2000s and we are looking at around 1.8% over the next few years, then probably 1% growth per year. But this is still spectacular growth over that period. When I started farming New Zealand was producing about 600m kg milk solids a year. Now we are producing about 1.3b kg.

Herd sizes have grown. In my second year I was farming 160 cows and I was an average farmer. Now I milk 380 cows to be an average farmer. Production per hectare over the first 10 years increased 200kg of milk solids but over the second decade the increase was only 135kg. Growth in milk solids per cow similarly has tailed off.

But McKinsey got it wrong when he said milk prices were falling. We have had a real increase on the milk price over that period of time.

The bad news is the bottom line. In 2007/08 it was $1.34; the next year it was -83c and the estimate for this year is about 60c. This uncertainty and volatility means we are going to have to adapt and try to work out how we can ensure profitability in our systems.

One of the items we want you scientists to help us focus on is feed costs. Their rise is a real concern if we want to stay profitable. But the trend is that all costs are increasing.

Bank debt is an issue that everyone is saying has landed the dairy industry in strife, because farmers tripled their bank borrowing from 2003 to 2009, lifting it from $11.2b to $28b. That was an average annual growth rate of about 16%.

But the sheep and beef sector in the same period lifted its borrowing from $5.2b to $10.8b, a 60% increase in a declining industry. Sheep numbers have declined 50% in the past two decades.
The dairy industry has built infrastructure - cow sheds and, in Canterbury, irrigation systems. When was the last time you saw a sheep and beef farmer build a new wool shed?

Another way of looking at the issue is that during the period when farm debt surged, 20% of farms finished up with had 80% of the debt, which means 80% of farmers have no significant debt.

The debt-to-asset ratio tells another story. In the past two years land values and stock values have decreased. I predict that over the next few years the debt-to-asset ratio will come down to around 40% again and probably stabilize.

So what best facilitates farmers' ability to look towards the future? I put it down to profit. Profit gives me time to sit in the rocking chair and look out over the farm at somebody else – my sharemilker – bringing in my cows and milking them for me. Profit allows me to innovate and to experiment.

An important role for scientists is in helping we farmers to reduce environmental and production costs and maintain productivity gains. And they can help us better understand our farm systems. I am given lots of information but need help in translating it so I can get my sharemilker to understand it and implement it. I am the one who must try and incorporate new science and technologies in my farm system. We are missing the boat in terms of assimilation and understanding the science.

In the future, we are going to have to be the most efficient pasture managers rather than the second cheapest producers of goods. We will want to sell our goods at the

most expensive price we can get and minimize our costs on the way through to bring back as much profit as we can which will then be spread through the economy.

The end result is that in 20 years we are still going to be turning sunlight into dollar bills. I am fortunate that I am farming in an area that has had a meter of rain in the past month and will get another two meters probably in the next 11 months. A vast amount of dairying area in New Zealand has sufficient water to fully grow grass, so we have to capture the sun's energy, mix it with a bit of water and soil and export what is grown at the maximum number of dollars we can get.

If we enable and allow farmers to have enough time to look over the horizon, the best of the farmers will still look there. What we have to do is make sure farmers can focus on farming instead of silly rules. We have to ensure that this leads to sustainability through sensible regulations and a regulatory regime that trusts farmers rather than tries to second guess what they might do. This with good management practices that everybody in community trusts will help ensure a prosperous future.