Farmers Guardian
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Andrew Hawkins

Closer management of grazing can help improve dairy margins and there is clear potential for many farmers to produce more milk from grazed grass, according to Andrew Hawkins, Promar consultant in Cheshire.

Targets key to producing more milk from grazing

Grazed grass remains the cheapest feed for dairy cows. A litre produced from concentrate costs twice as much as a litre produced from grazing. Andrew Hawkins says: "Each litre from grazing will deliver at least 5p higher margin per litre. Dairy costings highlight the opportunity to exploit the potential of grazing to boost margins."

Mr Hawkins says the average farmer on Promar Milkminder selling 7,800 litres per cow produced just over 1,200 litres from grazed grass last year, an average of six litres per day of the grazing season.

"The average farmer is producing just 16 per cent of production from grazed grass, yet we hear the UK is a great place to grow quality grass. The question is why is grazed grass failing to deliver?"

Andrew Hawkins.

Timings

He says there are two things farmers should do to realise the potential in grazed grass. The first is to set targets. He says too few farmers have a clear expectation of what they want to produce from grazing and cows are turned out with no realistic view of the yield which should be achieved.

He proposes a good benchmark is a minimum of 20 per cent of production should come from grazed grass in grazing-based dairy systems.

"We are not talking about extreme situations and high yields from grazing. Most farmers would accept the target figures should be achievable, yet they add up to a reduction in purchased feed use of nearly £55 per cow, or about £9,000 for the average herd.

"On most farms this can be achieved by putting resources into grazing management and having faith in grass to deliver," he says.

The second requirement is to measure growth. He says throughout winter feeding, silage will have been carefully weighed

Tight management of covers will maintain quality and reduce waste.

out and intakes monitored to make sure the diet and cows are performing.

"Yet as soon as the gates are opened, measurement of forage availability and intakes ceases on many farms. If you do not know how much is in front of the cows and how much they are eating, how can you be sure you are getting the most from forage and not leaving litres out in the field?"

Mr Hawkins says cows will happily eat 15kg DM per day of grazed grass if you present it properly and give them the opportunity to do so. Farmers achieving the maximum from forage, irrespective of yield level will be giving cows the opportunity to achieve high intakes.

He stresses these targets do not require extreme intakes from grazing and the intakes required are well below those being achieved by the most successful grazing farmers.

"In many cases cows simply are not given the chance to eat as much grazed grass as they can. Farmers seem reluctant to let cows work at grazing and instead buffer feed when not necessary and delay reducing concentrate feeding, substituting more expensive feeds for comparatively cheap grass.

"Efficient management of grazing covers is central to maximising yield from forage and reducing grazing waste and this means measurement. It does not take long to walk grazing to assess grazing covers and calculate the grazing intakes being achieved.

Platemeter

"Investing in a platemeter will be a low-cost and effective way to get more from grazing. Tight management of covers will also help maintain quality and reduce waste.

"Keeping grass at the three leaf stage, looking to turn cows in when covers are between 2,500-3,000kg DM/ha and bringing them out of daily paddocks when covers are about 1,500-1,700kg DM/ha will help deliver the best quality grazing.

"There is still time to set targets and review grazing management to target more milk from grazing this summer and in so doing make an extra £55 margin per cow a real possibility."

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Andrew Suddes

UK Milk Prices – The Twenty Years War

By Bruce Jobson
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The old maxim, "Divide and conquer" has been the successful strategy of war lords over the centuries. The same applies today in business and a prime example of how to devalue a national business model; destroy an industry and put thousands of small business "to the sword" was the result of the abolition of the UK Milk Marketing Boards in October 1994.

Almost twenty years ago, UK producers were receiving the same price as today, 24pence-per-litre (ppl) and the industry was on an upward trend. Farmers were making a profit and this in turn allowed reinvestment, expansion and modernisation of plant and equipment. Over the past year, milk prices have dropped from 34ppl to 24ppl and below. Costs have increased for feed, labour and equipment and loans were secured on the premise of a viable return on investment.

As every dairy producer knows, stability is the key to a business model that depends on a long-term investment, requiring a three year lead-in before a unit of production (a cow) starts to repay the investment on her semen and rearing costs. The old adage that it takes three lactations for an animal to pay for her replacement (under "normal" business financial situations it takes all the profit from two lactations – that is why genetics is important) takes a "hit" as milk prices tumble due to market volatility.

Milk Marketing Board

UK dairy farming in the 1930s was extremely volatile as producers loaded milk churns on to trains without the assurance of being paid. Many producers did not receive payment, due to an unscrupulous system and if the milk was not needed, it was sent back. Farmers were at the mercy of the individual dairies. In order to establish a fair and coherent system, the British Government established the Milk Marketing Board (MMB) system for England and Wales as well as, separate Boards for Scotland and Northern Ireland.

The 1933 government statute changed the fortunes of dairy farming. The MMB effectively became the first buyer of milk; but most importantly, became the buyer of last resort. The establishment of the Board guaranteed a minimum price for the dairy farmer, based on agreed price formulae. The system provided stability – in an unstable world – and the Board was heralded as the greatest commercial enterprise ever launched by British farmers.

The system proved successful and capable of withstanding the instability of the markets. The collective strength (remember: divide and conquer) provided a negotiation position and a pricing system that secured the liquid market price – from the instability of milk sold for manufacture. And the Board therefore provided a system of dealing with an extremely perishable product; especially in the days before refrigeration.

Parliamentary Business: House of Commons report. "The MMBs were established to resist downward pressure on producer incomes resulting from the increasing power of the dairy companies."

The power of the MMB increased over the decades and employed over 7,000 people across its various sections including the establishment of an AI industry off-shoot, which subsequently evolved into Genus. However, the Board system had its detractors and although far from perfect, was seen by its critics at the time, as being monolithic, out of touch with the modern business world and the MMB being self-sustaining in terms of its own interests.

The Thatcher Years

There is an old saying, "If it isn't broke- don't fix it." However, EU dogma and political ideology reared its ugly head as Thatcher doctrine decided that the system that had served the industry well for 60 years; should be abolished. The mantra of "deregulation" and privatisation was part of the Thatcher Government ideology.

Milk producers did not agreed with the political ideology and voted 99.9% to maintain the MMB system. Despite the overwhelming vote, Thatcher abolished the MMB in October 1994 in England, Wales and Scotland and in Northern Ireland in February 1995. As a result, thousands of dairy farmers were subsequently ruined and this in turn created the rise of division; and supermarket power.

At the time of the abolition of the MMB, there was an estimated 30,000 producers in England and Wales. Fast forward 20 years, and that figure is 10,000 or less. In December 2014, an estimated 16 dairy farmers per week were leaving the industry. For some, enough was enough.

UK PRICE CUTS

Farmers supplying Arla, one of the UK and Europe's largest food retailers, suffered a reduction of 1.63ppl for December 2014 milk production. Arla suppliers subsequently received a generous early Christmas present on December 23rd with the further announcement of a 2.03ppl reduction effective, 5th January 2015. The timing was perfect and some cynics would consider deliberate, with the announcement aimed at limiting producer hostility and adverse press reaction over the Christmas recess.

Another UK and European retail giant, Muller, cut its price by 1.2ppl from 10th January and Dairy Crest, the UK milk processor, announced a 1.2ppl reduction from 1st February. In a game of milk price-cut poker, First Milk, a 100% UK farmer-owned cooperative played its New Year double-hand, by announcing a milk price of 20p-per-litre from February 2015; cutting 1.6ppl to 20.1ppl for liquid pool supply, and 2.43p reduction to 20.47ppl for manufacturing.

A few days later, First Milk declared it was delaying milk cheque payments to producers by a further two weeks – the delay expecting to cause further producer chaos. The company cited a cash-flow problem for the delay albeit farmers suffering more financial pain. First Milk suppliers have incurred a minimum 12ppl drop in ten months from April 2014.

After 80 years, UK dairy farmers are once again at the mercy of dairies, processors and the supermarkets; the latter discounting milk as a "loss-leader" in order to entice consumers into their shopping aisles. The ongoing supermarket price war continues to undermine the dairy industry rather than underpin its stability, structure and long-term future.

The MMB pricing structure provided a simple solution to milk pricing and included increases for milk quality and hygiene. The dilemma facing farmers today is confounded by having approximately 50 different milk price payment structures and tied-in contracts to their buyers. Furthermore, if a farmer leaves his current buyer; there is no guarantee another buyer will purchase the milk.

According to official UK Government sources (Defra) post deregulation: "There are 130 milk purchasers and 100 processors. 65% of household consumption of liquid milk and 80% of dairy products are sold primarily through the major supermarkets."

RETURN TO THE "BAD OLD DAYS"

Many farmers considered the "bad old days" of the 1930s had long surpassed but that has not been the case. Volatility returned in 2012, when Rock Dairies went into administration leaving 22 regional milk producers without an outlet for their future daily production. The business had supplied thousands of shops, super-markets and businesses throughout the north of England.

Rock Dairies financial collapse caused a furore amongst its former suppliers that were left without payment for milk produced in January and February 2012. Today, the furore extends to thousands of milk producers who are suffering a collapse in prices without a positive end in sight.

Michael Howie from the award winning Morwick herd in Northumberland, England

Like many, Michael Howie from the award winning Morwick herd in Northumberland, England, is currently receiving a January milk price of 24.9ppl – well below the cost of winter production. Twenty years on from deregulation he says, “None of this would have happened if the MMB had remained functional. We no longer have a safety-net. There is too much milk being produced – and quotas are set to be abolished in April 2015.”

The UK has produced 10% more milk over the past year and this has not helped the situation. Although the UK remains 80% self-sufficient in milk production, the dairies blame the global-market for the price decline. The old “supply and demand” rule of economics has reared its ugly head with devastating consequences. China, the world’s largest importer of milk reduced imports by over 50% in the first six months of 2014.

Russia, the third largest importer banned dairy imports from the EU in August 2014 in retaliation for the sanctions imposed by the EU following Russian involvement in the Ukraine and Crimea. UK dairy farmers

are clearly facing tough challenges according to Andrew Suddes, Senior Consultant with Promar International.

In an exclusive interview for The Bullvine, he said: "Promar expect this trend to continue into autumn 2015. In addition, the Russian ban on imported dairy products is due to end in August 2015 and this may release some of the pressure in the market. Dairy farmers currently face prices that are below the cost of production and long-term, this is unsustainable. The situation will have an inevitable impact on farm businesses and associated supply industries."

However, Mr Suddes advises farmers to plan ahead. "Farm businesses need to plan carefully to manage in the short and medium term. This will involve a detailed understanding of their cost structure and potentially, a proposal to their business bankers. So far, banks have expressed sympathy with businesses in the dairy sector, but producers will require a detailed and coherent plan to get through what will inevitably be a testing period," he states.

ECONOMIES OF SCALE

During the past 20 years, due to quotas and the MMB being abolished, the number of milk producers in England and Wales has declined by over two-thirds; although due to herd expansion, cow numbers have remained fairly stable. This global trend is set to continue – although those dairy farmers that have recently increased herd size and invested in the long-term future, face severe challenges.

Businesses will encounter, possibly for the first time in a generation, increasing losses due to economies of scale. Huge investment and large-scale expansion coupled with calls for greater levels of efficiency; have therefore perpetuated small profits on a pence-per-litre basis multiplied by volume production; and became the de-facto business model. The reverse has happened with ever increasing pence-per-litre losses multiplied by large volumes of production.

Several UK producers, who voluntarily terminated their supply contracts during 2014 with their existing dairies, at a time when the milk price dropped from 34ppl to 28ppl, have subsequently not found a new "home" for their milk with alternate dairy companies. These farmers are currently receiving 20ppl on the "spot" market with some producers rumoured to be receiving spot prices of 16ppl.

Political ideology is legitimised by actions of the state; and in a democratic world the wishes of 99.9% of UK farmers not to abolish the MMB system would, and should have, prevailed. Canada currently provides domestic food security, consumer price affordability and milk production business investment, through its provincial Milk Boards and Federal Regulation supply management system.

Inevitably, one day – calls and policies will be aired regarding the dismantling of a system, considered by some within the production community as well as, international exporters of dairy products, as being far from perfect, but a system that provides – and balances, price stability and market supply – within an unstable global marketplace.

There are many lessons to be learned for milk producers around the world from what is occurring in the UK. Within Canada, such dissension will lead to yet another "Divide and conquer" scenario. Beware: "The enemy is at the farm gate" as well as, from within.