

# The Dairy Group

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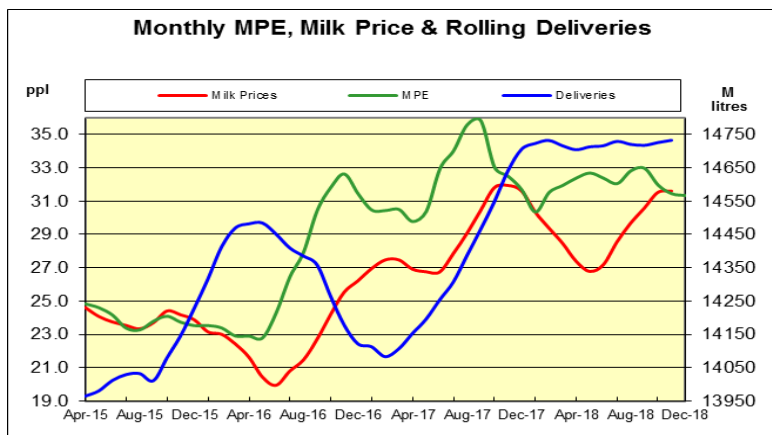


## Managing risk in a volatile dairy market

Ian Powell, Managing Director

Whilst we describe dairy costs as being variable and fixed, for the majority of dairy farmers all the costs are effectively fixed by the system which is operated, whether that be a low cost spring calving system or a fully housed high yielding system. The cost base can be altered by changing systems, but this is normally done infrequently. The overall aim should be to ensure that whatever system is pursued to achieve optimal efficiency, which invariably means producing the level of milk sales that the system is capable of delivering.

The graph below covers the period from April 2015 to October 2018, which includes the price crash to 20ppl in June 2016 and the drought in 2018. Despite the drought UK milk production has been relatively stable at 14.7 billion litres since January 2018. The real challenge continues to be milk price volatility which is highlighted in the graph, so whilst the rolling 5 year milk price is 27.4ppl, the range is from 20ppl to 32ppl.



Source: The Dairy Group and Defra

So what is available to help with milk price volatility? So far very little. Muller has offered their fixed volume at an unknown price since October 2017 and for the period ending September 2018 it paid 2ppl less than the price that would have been achieved on the normal monthly pricing. There have been some fixed price offers by some regional milk buyers, but nothing like the fixed price, fixed volume schemes offered in Ireland. There may be a new option available in the near future called 'Stable', which will offer volatility insurance. Stable uses independent UK price indices from the AHDB and Defra to calculate the premium and settle claims. Using indices instead of assessing the risk for each individual farm enables Stable to reduce the cost and automate the claims process. Dairy farmers will be able to insure as little as 10,000 litres of milk for up to 12 months ahead, with monthly premiums and flexibility to cancel

## EDITORIAL

Welcome to the first edition of the Dairy Group newsletter for 2019.

We all know how volatile milk prices have been and are likely to continue to be. The first article looks at the options producers have to manage volatility including a new one, likely to be available in the near future called 'Stable', which will offer volatility insurance.

The other articles in this edition cover Nutrient-Wise (a new nutrient planning service), grazing strategy and forage planning. The 'In-Brief' articles cover a range of relevant and timely topics.

We are planning to demonstrate 'Stable' volatility insurance and Nutrient-Wise, our nutrient planning software at DairyTech on 6th February, so please join us on stand B32 in exhibition hall 2 to find out more.

Christine Pedersen

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and create new contracts as the market changes. Whilst volatility insurance will add a cost, it does mean that dairy farmers can effectively fix a proportion of their milk sales at a known cost.

***Ian has a qualification in dairy lean management and is responsible for our dairy cost database and MCI and works with clients across southern England. He can be contacted on 07831 617952.***



## **Nutrient-Wise – boosting productivity, efficiency and profitability**

**Becky Tavernor, Senior Dairy Business Consultant**

Nutrient-Wise is a new service available to clients of The Dairy Group. Using our bespoke software, we can provide the most up to date and cost-effective advice on manure and fertiliser applications to crops, thus allowing productivity and efficiency to be maximised. The web-based software incorporates new fertiliser recommendations and is fully compliant with NVZ legislation.

How up to date are your soil analyses? Ideally soil should be tested every 3 – 4 years (water quality rules require soil analysis at least every 5 years) to update current level of Phosphorus (P), Potash (K) and soil pH. Correct soil pH is vital for efficient use of nutrients including nutrients applied through manures and fertiliser. Soil pH is the basis of all soil chemistry and lime should be applied when recommended. Arable soils should be kept over pH 6.5 and grassland soils should be pH 6.0 - 6.2.

Do you know your P and K indices across the farm? These are vital questions that need to be asked when planning fertiliser applications. NRM laboratories report that only 30% of soil samples they received were at the target index of 2 for phosphorus (P), 28% were at the target 2- for potash (K) and grassland soil pH has been dropping since 1994. Slurry and solid manures may be targeted to crops to meet P and K requirements, thus allowing significant artificial fertiliser savings to be made.

At the time of writing, Ammonium Nitrate costs around £275/t (80p/kg N) with Urea around £290/t (63p/kg N) making urea an attractive choice for the early season. Urea can be safely applied until mid-May on cool, damp days. If applied later than this or on hot, windy days there is the risk of significant volatilisation losing nitrogen to the air harming both the environment and crop performance.

Sulphur (S) is a macro nutrient vital for yield and quality. As atmospheric deposition of sulphur continues to decline, there is an increasing risk of sulphur deficiency in a wide range of crops including grass - 80% of grassland in the UK is sulphur deficient. Grass grown for silage is particularly sensitive to sulphur deficiency. Soil testing for sulphur is not reliable, the best method is to use fresh tissue analysis (grass sample) in mid-summer. A sulphur ratio of less than 1:13 shows a deficiency which can be addressed by applying bagged Sulphur.

All of these issues can be effectively addressed with Nutrient-Wise. The Dairy Group's FACTS registered and experienced advisors are using this new software to provide fertiliser recommendations, nutrient plans and records to help clients use fertiliser inputs more efficiently and to meet the requirements of rules and regulations. Speak to your consultant for more information.

***Based in Shropshire, Becky provides environmental, business and husbandry advice to clients. She can be contacted on 07774 120412.***



## **Preparing a grazing strategy for 2019**

**Naomi Lee, Dairy Business Consultant**

Grazed grass continues to be the cheapest feed available on most dairy units at £55 – 60/t DM. This couldn't be more poignant following a period of increased concentrate costs and in many cases, high forage costs too. Maximising grass growth and utilisation rates are key to maximising milk from grazed grass. Grass productivity should be maximised through the targeted use of nutrients - ensure you have up-to-date soil analyses for all fields/paddocks and review lime, N, P, K and Mg requirements and complete a full nutrient plan for the season.

A rotational or paddock system is the most effective way of utilising grass as it ensures a consistent supply of quality grazing, with the aim of achieving energy levels of 12 MJ/kg DM. The principles of the system are to ensure fresh grazing is available after each milking and to shut off paddocks once grazed to allow recovery and



subsequent growth. To set up a new paddock system, semi-permanent or electric fencing can be utilised and other factors to consider are access and water (i.e. tracks, gateways and water troughs). If you haven't done so already, now is the perfect time to plan your grazing strategy. Careful management of the grazing platform and attention to detail, similar to the disciplines applied to winter feeding strategies, will increase grazing intakes. An additional 1 tonne of utilised DM/cow is worth at least £80/cow/year.

As I write this article, the dry weather has allowed some herds to turn out where ground conditions permit. Whilst grass covers and quality may be good, grass growth rates are low (3 – 7 kg DM/ha/day depending on location).

Many producers are hoping for an early turnout to alleviate concerns over forage stocks. Turn cows out onto opening covers of 2,300 – 2,400 kg DM/ha for the first round of grazing. Subsequent grazing targets include opening covers of 2,800 kg DM/ha, closing residuals of 1,500 kg DM/ha or when the sward is 4 – 5cm high, a total yield of 14 – 15 t DM/ha and 75 – 80% sward utilisation efficiency.

All of these can be achieved by adequate planning and measuring. Plate meters were included in the last Countryside Productivity Small Grant Scheme so we are hopeful they should be included in the second round this Spring. Plate metering and associated software will allow you to measure and plan your grazing effectively.

***Naomi is a dairy business management consultant based in Somerset. She can be contacted on 07768 701135.***



## Forage planning

**Christine Pedersen, Senior Dairy Business Consultant**

Many producers are nervously reviewing forage stocks and hoping for a favourable spring to allow for an early turnout. Our advice is to base calculations on a realistic turnout date. Where a shortfall in forage is identified, consider sourcing alternative feeds or by-products or locally available forages (take account of potential transport and re-clamping losses) to make up the deficit. When reviewing these options, assess them on the basis of Relative Feed Value (RFV) and compare on a dry matter basis. 40% - 45% DM moist feeds are currently trading around £260/t DM (depending on location and availability). You can use your own prices to assess the 'value' of locally available forages. For herds achieving high daily forage dry matter intakes, using concentrates to replace some forage, e.g. rolled wheat at £190/t (including processing charge) = £220/t DM. As always, it is essential to ensure that rations are formulated with sufficient forage to maintain optimum rumen health and meet the nutrient requirements of the stock they are being fed to.

Looking forward, a comprehensive forage plan to assess grazing and conserved forage requirements for the next 15 - 18 months is advised. This should take into account forecast livestock numbers, their grazing, buffer feeding and full feeding requirements compared to the potential harvest and conservation of grass, maize and whole crop and/or other forages if applicable - be realistic with yield expectations. This process may identify areas that require further review, for example where crop yields have been low historically or actual yields are below target, a soil or nutrient review may be appropriate.

If there is likely to be a significant forage shortfall it is better to know that now so you can start planning and considering other options. You might be able to increase your forage cropped area by utilising your own cereal crops for whole-crop or purchasing cereal crops from other local farmers. Contract growing forage crops, for example, maize is another option. These decisions require careful financial and practical consideration – growing, harvesting, storage and feeding should be thought-through as well as the financial implications in terms of cashflow and profit.

Maximising output in terms of both forage quantity and quality from your own land are as important as ever in terms of maximising profitability; one of the easiest ways to influence both is through correct nutrient applications to crops to ensure that crop growth rates and subsequent yields reach full potential.

***Christine provides dairy technical and business management advice to clients across southern England. She can be contacted on 07831 172940.***

## News in Brief.....

**Further reasons to control the herd SCC** - it has long been recognised that animals with an elevated SCC are more likely to develop clinical mastitis, have reduced milk quality and milk yield. However, whilst the significant cost of clinical mastitis is clearly understood, the financial implications of an elevated SCC can often be overlooked.

Cornell University recently published a review examining the relationship between individual cow SCC, dry matter intakes (DMI) and milk yield. The review concluded that an animal with a high SCC (considered to be 250,000 cells/ml), produced on average 1.6kg less milk/day than an animal with a SCC of 50,000 cells/ml. The high cell count animals had a reduced daily DMI but still produced 0.04kg less milk / kg DMI compared with the low SCC animals.

Unfortunately, the review did not then extrapolate the reduction in milk yield as the SCC of the animals increased beyond 250,000 cells/ml. However, what is clear is that the reduced yield and reduced feed efficiency are yet more reasons that SCC control within a dairy herd should be considered a financial priority.

**Countryside Stewardship** - it may be time for clients to compile their capital grant claims under their Countryside Stewardship (CS) agreements. The timings of the capital grant claim depend upon the agreement start date; you have 2 years from the start of the agreement to complete the agreed capital works and the capital claim has to be submitted within 3 months of the capital works being completed. Therefore, the claim window will vary from business to business. **Check your final CS agreements for details**; you may also have received reminder messages from the RPA, so check your RPA online account. All claims can be made online via your RPA online account but you will also need to check whether other evidence such as photographs and invoices for the work needs to be submitted with your claim. This information can be found in your final CS agreement or from the CS options manual. Please ask your consultant for their help with this.

**Clean Air Strategy** - The Government has published a report this month which outlines how it proposes to tackle all sources of air pollution. It sets out proposals to reduce emissions from farming, specifically ammonia emissions. The proposals concern manure and slurry storage and spreading, spreading of urea-based fertilisers, nutrient planning including organic and inorganic fertiliser use and building design. Investments in infrastructure and equipment that will reduce emissions may be necessary (and may be grant funded). However, if producers are planning capital investment in livestock buildings and/or slurry or manure storage or spreading equipment now, they are advised to seek further advice before committing to investment which may not meet the requirements of future legislation.

**Countryside Productivity Small Grants Scheme** – we are still waiting for details of the 2<sup>nd</sup> round of the scheme, but understand that they will be released shortly. Producers are advised to consider whether they might want to apply now, and what they might want to apply for as there may be a short application window. Reviewing the eligible items from the 1<sup>st</sup> round of the scheme is a good place to start, although we won't know what items will definitely be eligible in the 2<sup>nd</sup> round until details are announced.

**Making Tax Digital** - VAT registered businesses with a taxable turnover above the VAT threshold are required to keep records digitally and use software to submit their VAT returns from 1 April 2019. The exception to this is a small minority of VAT registered businesses with more complex requirements. Check that you are able to comply with these rules – please discuss with your consultant.

**DairyTech 6<sup>th</sup> February 2019** - On behalf of The Dairy Group I would like to extend a warm welcome to our stand at DairyTech 2019. You will find us at B32 in Exhibition Hall 2. The UK dairy industry is facing a number of major challenges over the next few years and we are here to help your business to make the right decisions. There is a great deal of uncertainty with Brexit and agricultural reforms announced in the Agriculture Bill. Please take the opportunity to come and have an informal discussion with us about the latest issues and how we can help your business move forward.



**The Dairy Group consultants work across the UK providing a wide range of dairy business advice. Please contact our Head Office at Taunton or visit our website for further information or to contact our consultants:-**

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**Dairy Herd Costings: [www.dairy-mci.com](http://www.dairy-mci.com)**

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