

The Beef Industry Trifecta

Bob Shepherd

Principal Extension Officer, DAF Charters Towers,
Ph: 0467 802 430 , bob.shepherd@daf.qld.gov.au

Introduction

With the current low interest rates and record cattle prices (Rowley 2021), graziers in regions that have had a good season have hit the beef industry trifecta. As the eastern states and the Northern Territory breeder herds rebuild and global demand for beef remains high, market forecasts indicate that high cattle prices may be here for at least another year (Burns 2021). Additionally, the seasonal outlook for the 2021-22 summer is promising (Dept of Environment & Science 2021).

There are many options available to take advantage of this rare trifecta. While the three business needs of technical soundness, profitability and affordability as outlined by Kerrigan and Kellier (1992) should be considered for most options, there are serious environmental problems that could be deemed as essential that may not meet all three. The following options will allow graziers to take advantage of the beef industry trifecta.

1. Business as usual

For graziers that are comfortable, why do anything different? However, there may be opportunities that graziers later regret not taking. So assessing options is worthwhile.

2. Pay down debt

This will be the chosen option for many beef businesses. However, with interest rates being so low, it may not be the best use of increased cash flow, unless debt reduction is essential to the immediate survival of the business. Instead, highlighting the improved cash flow and higher equity levels to the bank manager will support the case for reduced margins on interest rates. Explaining plans in detail to a current or prospective banker during a property visit is the best environment for this discussion.

3. Training

Training needs in the beef industry are high. There is a wide range of training opportunities available to owners, managers and other staff. These are both formal courses and practical on-the-job training covering all aspects of the beef business.

4. Increase carrying capacity

Assuming there are no water distribution limitations to cattle accessing all parts of the property that the grazier wishes to stock, improving land condition based on several basic principles of grazing land management is the best way of lifting carrying capacity.

Matching stocking rates to carrying capacity is the most important management practice. Forage budgets address this challenge in an objective and effective manner.

Wet season spelling within any grazing system will allow new pasture plants to establish and increase the health and vigour of existing plants. Timing and duration of the spell must be tailored to the needs of specific paddocks. Ensuring that underlying stocking rates at the whole of property scale allow for paddocks to be locked up for a wet season without putting undue pressure on other paddocks is crucial.

Management burns can address several needs; manipulating pasture composition in favour of some of the preferable species, controlling fire-sensitive exotic woody weeds, managing the early stages of native woodland thickening, creating a seedbed and reduce pasture competition when sowing improved pasture species, changing grazing behaviour in areas that are under-grazed by cattle and creating early dry season fire breaks at the time of year when fires self-extinguish overnight.

These changes in management entail little or no cash outlay, and will accrue a significant improvement in carrying capacity, albeit more slowly on low fertility land types and more quickly on high fertility land types.

Controlling exotic woody weeds by developing and implementing a pest management plan using integrated pest management principles will help to maintain land condition. The costs of weed control can be high, but the ramifications of ignoring weeds is a dramatic and long-term decline in carrying capacity.

The establishment of dense, vigorous and stable pastures is also costly, however sown pastures are one of the most economically favourable options on northern cattle runs. Selecting the highest fertility soils and the most suitable pasture species will give the highest and quickest returns. Either over-sowing legumes into native pastures in larger paddocks or establishing exotic grasses/legumes as a replacement pasture in smaller, special use paddocks, are the two extremes on most northern stations. Being realistic about the final carrying capacity and the rate at which it will be reached is essential. Sown pastures are neither a silver bullet, nor are they bullet-proof; however, if well managed the rewards are substantial and long lived.

5. Upgrade capital infrastructure

Capital infrastructure represents a huge investment usually over several generations on all cattle properties. This includes fences, stock waters (& water sources), stock yards, roads, sheds, airstrips, quarters and the main house. The quality/functionality varies immensely depending on design, age and state of repair. An inventory based on functionality and a whole-of-property infrastructure plan that suits the chosen grazing system is a good starting point before upgrading infrastructure.

The beef industry trifecta presents an opportunity for the accelerated maintenance of serviceable infrastructure. Remove infrastructure that is unserviceable or abandoned rather than allowing it to decay into the ground, but be aware of contamination issues such as asbestos from old buildings and chemical residues from old stockyards/dips.

Fences - Fencing to separate land types with different grazing preferences will allow for better management of land condition. Fences located on ridges (where possible) will minimise erosion risk and reduce the number of flood crossings required.

Waters - There is a sweet spot for distance between stock-waters which is based on the carrying capacity of the land and the cost of additional watering points. Generally, the lower the carrying capacity of the land, the higher the cost per head of extra waters. Waters located on non-preferred land types will help to spread grazing pressure. A

maximum walking distance of 2.0 km is more than adequate for cattle (topography permitting) and locating waters closer than this may be over-capitalisation. Critically assess the reliability and yield of new water sources (dams or bores) during severe drought before commencing work. Many well-built and well-located dams have been drained by poorly constructed, undersized and eroding bywashes. Therefore, enlist the services of soil conservation professionals to design dam bywashes and provide tips on constructing stable dams and bywashes.

Stockyards - Well-designed and constructed stockyards are essential for OH&S and animal welfare. Other considerations include accessibility, site suitability (soil type and compatibility with the existing/proposed paddock layout), legacy chemical residues (at old yards/dips), availability of water and dust problems if close to residences and quarters.

Roads/tracks – Good roads save time and reduce maintenance costs on vehicles and machinery. Roads located either on ridgetops or directly downslope are preferable to those that are diagonally cross-slope. Properly surveyed and constructed whoa-boys at the time of installation prevent roads from becoming gullies, particularly at watercourse crossings.

Housing – High standard accommodation and facilities is one of the keys to retaining staff on-property. Well-spread accommodation will give the owners/managers and staff room for privacy and a “patch of their own”. It is essential that modern quarters are in keeping with current community expectations by including good beds, Wi-Fi, washing machines and TV. Higher ground with a northerly aspect is essential when considering location. Avoid steep ridges/hilltops as they are high risk sites during bushfires.

Airstrips – A well-constructed and maintained landing ground is an essential asset in an emergency. There is also the added opportunity to cut hay if the soils/climate are suitable for sown pasture species and area is kept free of woody plants.

6. Go on agistment

Agistment is used primarily during drought, but it can be a useful management option to finish or background cattle where the agisted country is superior to that at home, or to improve land condition at home by destocking several paddocks during good seasons when agistment cost are lower. A business approach to agistment is important; therefore, confirm the agreed details in writing and pay agistment a month in advance to develop lifelong business relationships. Seeking agistment late in a drought is very fraught, with the land available being of very poor quality and/or in very poor land condition.

On most properties that breed and finish cattle, the breeder paddock is almost invariably the poorest quality land and is in the most degraded condition. So, destocking the breeder paddock is the best option. However, sending breeders on agistment is the least desirable class of cattle to have away; growing cattle are far easier to manage and cheaper per head to truck to agistment. Assess the feasibility of spelling breeder paddocks by sending growing cattle on agistment and moving the breeders to grower paddocks at home. Graziers that have taken this option during good seasons have been very pleased with the results. If the benefits are there, most graziers will make this option work, but do the sums first.

7. Exit the industry

For producers of advanced years and no family members interested in remaining in the beef industry, this is a smart option as land values are at or near an all-time record. However, it is crucial to have firm retirement plans in place before exiting.

8. Reduce equity in the property

Also, for producers of advanced years who have no family members interested in remaining in the beef industry, but do not wish to exit immediately, one option is to sell some equity in the business. A plan to terminate any agreement is important in case things do not work out as anticipated. This can be achieved via “Cultivate Farms” where ‘aspiring farmers’ are matched up with ‘retiring farmers’ (Anon 2021). There may be other organisations that provide a similar service. Accountants and legal advisors may be able to assist.

9. Purchase more land

Increasing the area of land in the business may satisfy some personal goals including succession planning. Often the borrowings to purchase additional land cannot be serviced by the earnings from that land. However, consider how much debt the whole enterprise (existing and new assets) can service (interest & principal) particularly when one or more legs of the trifecta fails. But be aware that cashflow and profits service debt; equity does not.

10. Genetic improvement of the herd

Genetic improvement in a wide range of animal performance attributes is available for commercial beef producers. The claims of stud producers can be objectively assessed by using Estimated Breeding Values (EBVs) as an aid to selecting bulls with the required attributes. There are more than 20 EBVs covering fertility/calving, weight gain, carcass characteristics and a range of other attributes including pollness (Anon 2015). However, understand that low fertility land types may not have the capability to support high breeder performance rates, so use culled cows to improve cash flow rather than leaving them as freeloaders in the herd.

Also be aware that production related genes are expressed only if nutrition is adequate and animal health/welfare standards are high. This means having good land condition, allowing the pastures to provide the highest quality diet possible by running light stocking rates, controlling a range of livestock diseases and adopting the latest animal husbandry practices.

11. Buy more cattle

With the current record cattle prices, beef producers are less inclined to purchase additional cattle to rebuild herds. Purchasing weaners or PTIC breeders may be a more palatable option. Most producers will elect to breed back at home which has the advantage of allowing pastures and land condition to recover while cattle numbers are low after a drought.

12. Tackle serious environmental problems

A range of problems can be termed as environmentally serious. They are usually on land in condition D although they may be small in area. Addressing these problems often has large long-term production benefits for the balance of the property. Commence with the smallest areas with the biggest potential production benefits and progress to the largest areas with the lowest potential production benefits last. Some examples include, exotic weed management, feral animal control, dryland salinity outbreaks, degraded stream frontages, gullied and scalded lands and legacy mine sites (Australian Government 2016) where heavy metal contamination of livestock is a high risk.

13. Off-property investment

If, after meeting immediate commitments, the beef business is generating surplus income, investing off-property is worth considering. Off property investments are extremely helpful and important for succession planning and can supplement income during industry downturns. If the parents/retirees have the capacity for a separate income, it simplifies the transition to the next generation rather than using the property as superannuation or putting more pressure on cashflow by continuing to draw an income from the property after retirement.

Conclusions

The interest rate, commodity price, favourable season, trifecta is a rare occurrence for all agricultural industries. When it comes along, opportunities arise that may occur only once or twice in a producer's lifetime on the land. Seldom are the best options clear-cut; therefore, seek advice from people with the relevant technical, economic, financial, legal and personal information. Consult mentors (if you have them), and other producers that have successfully managed environmentally sustainable and economically viable beef businesses. Make the most of the situation to improve the beef business.

Acknowledgements

Comments and suggestions on early drafts of this paper from Tom Mann formerly "Hillgrove" and Roger Landsberg "Trafalgar", both successful Upper Burdekin beef producers are gratefully acknowledged and much appreciated.

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