EDITORIAL

COST STRUCTURE OF THE DAIRY INDUSTRY.

The existing widespread uncertainty over the future of the Australian dairying industry arises largely from the industry's high cost structure. There can be little doubt that the domestic market for most dairy products will continue to expand as the level of population increases and living standards improve. Nor is the export potential for butter and processed milk products by any means unsatisfactory, provided the high level of production costs, now characteristic of the industry, can be reduced to more reasonable levels. This is a task which, while by no means easy, should not be impossible of achievement.

The dairying industry is, in terms of persons employed and value of output, Australia's third most important rural industry; and, in spite of a marked decline in the quantity of dairy products exported during the last decade, the industry remains one of Australia's more important sources of export income. It is vital, therefore, that everything possible be done to assist the industry to reduce its present high cost structure. If costs can be reduced there will be scope for a considerable expansion in the output of dairy products.

The high level of costs per unit of output which characterizes the industry has arisen largely as the result of two distinct factors. Firstly, there is the fact that dairying has developed very largely in areas which present material difficulties to efficient production. Secondly, it is apparent that many dairy farmers do not fully utilize the resources at their disposal by adopting the most efficient forms of farm management. This in turn has the effect of magnifying the impact of the unfavourable environment in which much of our dairying is carried on.

About 90 per cent. of the dairying industry in New South Wales is located in the coastal districts, particularly in the upper-central and northern sectors. Relatively high rainfalls and the occurrence of numerous pockets of arable soil in the coastal zone encouraged dairying as a suitable form of pioneering development in areas which required a fairly high return per acre because of the clearing and establishment costs involved. Nearness to markets and the comparative unsuitability of the fertile sections of the coastal zone to more extensive forms of land use also contributed towards the development of dairying. In recent decades dairying has extended into many so-called "marginal" areas of the coast—areas which are relatively poorly endowed for the type of pasture improvement and crop production essential for low-cost dairying.

The majority of coastal dairy farms are extremely prone to the vagaries of climate. The irregular and markedly seasonal character of coastal rainfall tends to frustrate the coastal dairy farmer who relies on natural climatic conditions, and attempts to stabilize or expand his output from permanent pastures and crop production. Hence, although most coastal dairy farms have a potential for a considerable expansion in output there will always be natural barriers to be overcome. Except in areas where permanent supplies of water are available for irrigation, production costs are always likely to be relatively high on most coastal dairy farms. From a national standpoint the long-run stability and maximum efficiency of the dairy industry will be attained only when the industry

concentrates its attention on those areas which present the most attractive soil and water supply conditions. Of necessity these conditions must be such as to enable the low-cost production of permanent pastures (the cheapest source of dairy feed) on an all-year-round basis, as distinct from the markedly seasonal and erratic pattern now characteristic of many farming districts.

In this regard it is imperative that a full examination be made of the potentialities for low-cost dairying under irrigation in areas away from the sub-tropical coastal lands, particularly along the valleys of the Lachlan, Murrumbidgee and Murray rivers. With this in mind, a comprehensive survey has recently been undertaken by the Division of Marketing and Agricultural Economics of about 50 irrigated dairy farms in the Finley-Deniliquin districts (mostly in the Berriquin Irrigation District) of the Riverina. A reconnaissance survey has also been made of the neighbouring areas west along the Murray Valley and in Victoria. It is proposed to discuss the results of this survey in the two succeeding issues of this journal.

Experience gained in the survey has forcibly demonstrated the attractive opportunities for dairying in inland irrigation districts. At this early stage it appears that the development of these areas for dairying would prove economically sound. There is ample evidence that under irrigation conditions in the Riverina, farmers of average managerial capacity can achieve an annual production per cow ranging from 250-350 lb. of commercial butter. In recent years the average attained on coastal farms has been in the vicinity of 160 lb.

However, whether dairying will become established on a substantial scale in the inland irrigation districts will depend not merely upon whether dairying itself is profitable in those districts, but upon the comparative economic advantage it enjoys relative to other forms of production. Further investigations will be necessary before the likely profitability of dairying, fat lamb production and other possible irrigation enterprises can be ascertained and compared with any degree of certainty.

While the development of dairying under irrigation on inland rivers may provide a partial solution to the problem of reducing costs in the industry, it is nevertheless essential that action be taken to reduce the cost structure of the industry in existing coastal districts.

Published elsewhere in this issue are some results of detailed studies made on selected dairy farms on which comprehensive demonstrations have been in progress over a period of some years as part of the Dairy Industry Efficiency Grant. These demonstrations provide conclusive evidence that sound management practices coupled with a moderate capital investment in farm improvements can yield extraordinary results in the form of increased production and, at the same time, reduce unit production costs.

It is probable that much of the poorer "marginal" coastal country is never likely to produce dairy products at a reasonable cost. However, it is evident that with the necessary assistance and encouragement a very significant portion of the State's coastal dairy farms can greatly expand their level of productivity and at the same time reduce production costs per unit of output. But it is abundantly clear that these results cannot be achieved without a great deal more attention to efficient managerial methods than has commonly characterized coastal dairy farming in the past.