



## IRRIGATION RESEARCH & EXTENSION COMMITTEE

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FOR IRRIGATION CROPPERS

### **Reducing input costs – alternative sources for N & P**

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“2008 looked like being a Good year so I conned the bank into lending me more money – but when I look ahead to 2009 the huge extra cost of fuel, fertilizer and other inputs is clearly going to reduce my profitability potential (but) with increased risk. There is no doubt the price of soft commodities is overdone and may be soon back at historical levels. In this new price world do I have an increased chance of going broke?”

### **On top of this**

Grain and livestock producers in this country have been stricken by drought, increases in what seems everything and (now) increasing market volatility. Whilst volatility is not new this time it is the extremes that are the major discriminator.

### **Guess what?**

Next year most of us will still be here and the land will be farmed- but by whom? Who will you be working for? Yourself, the bank or a corporation?

There is no doubt many producers are facing financial difficulty and some will be forced to sell. On the other hand there is a realization that these uncertain times are becoming normal and people are adapting to them. World grain shortages, expansion of demand for biofuels, high crude oil prices and speculative soft-commodity investors are taking their toll. The “real risk” is trying to operate on limited capital or beyond when equity is not recoverable. Work out equity as a value not a percentage.

Some, including Profarmer, say the volatility and inflation is here to stay and something people need to learn to live with. The present inflation effect could actually be a change in the global economy and businesses need to adjust their capital capacity.

Given all this people will adapt and survive. Opportunities will present themselves and there are things producers can do to protect themselves. The biggest change will be the corporate \$ and investors not direct ownership. This brings with it a whole set of new rules. Shareholders, corporate governance increased control etc.

From where we (MS&A) sit this is not necessarily a bad thing. Many surviving family farms need financial corporate governance where it presently does not exist. Run the business as a business and not a traditional family farm.

So in this new world where there are increased chances for increased losses how do you run a business?

### **Agronomics**

Detailed planning and crop choice and stop:go triggers.

- More fallowing
- Canola earlier in the rotation
- Tactical N & S
- Increased \$ on monitoring
- Manures?
- Alternative fertilisers
- Understand your COP on an overall and parametric basis.
- Understand crop sequence effects with regards N and disease
- Contracts. After the last two seasons farmers understand their true cost of a swap or contract. Make everyday a buying day – but don't buy very often. Be prepared to “wash” more readily and do not budget on miracle rainfall events.

## Finances

Never forget the Golden Rules of commodity production

- Do not spend more than you make – Losses accumulate and profits evaporate
  - You cannot sell it if you do not have it
  - He who makes the most sausages for the least cost wins
  - Farmers will always match the cost of production – they do not know how to make and take a profit.
  - Remember Scrivenor's law "The level of expenditure will always increase to the level of money in your pocket".
  - Can you successfully Hedge in a market where inflationary pressure is boosting input prices?
    - This is a valid point. You can if you purchased your inputs in the old market and are selling your produce in the new market.
    - Sober up if you are operating at 100% costs in the new market. At full cost wheat will cost approximately \$300/t to produce this season at Harden. What happens when this is only worth \$250 at harvest?
    - You ensure that you have the financial resources to ignore short-term market forces or if it looks like being a long-term-dog make drastic changes.
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