Brockett's Ag Advice

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Those who may be considering participating in the "Dairy Buyout" program should proceed with caution. There are a few potential trap areas. One is the payment period. It is evidently not what some people thought it would be. Participants will sign up for five (5) years.

This means they will agree to stay out of dairy farming or ownership of dairy cows for the entire five year period. However, the payments will be figured on a 12 month base then spread over 60 months in one of the three approved methods of payout. Example: A one million pound base with a bid price of $5 per cwt will evidently mean the payment will be $50,000 spread over 5 years at $10,000 per year, or $10 in year 1 with $12,500 per year for the next 4 years, or up to $40,000 in the first year with $2500 per year for the next 4 years.

The second trap is the sale of the animals. According to preliminary information, all dairy animals must be sold for export or slaughter. Evidently both buyer and seller will have to sign a statement as to where they go. There can be a penalty of up to $5000 per animal for a false statement.

The third trap is the base period. Unless someone changes the initially set period, it will be the lower of the 12 month periods starting July 1, 1984 or January 1, 1985.

And finally, is ownership of animals. Preliminary reports say all animals in which a participant has an interest must be sold for export or for slaughter.

Effect on Other Enterprises

So far all of the publicity and talk has been on the effects of the buyout on the dairy industry. I feel the negative effects on the grain and livestock industries will be a problem that will continue long after the end of the buyout period. There will be additional grain acres available.

There will be a lot of buyout dairymen who will go to beef as an alternative. What are some of the strategies a non dairy farmer can take to offset the potential pressures on his or her market?

One is to retire as much marginal land as possible. Marginal land requires a sizable profit margin to make it worthwhile to operate. Unfortunately that much profit margin is not here today.

A second is to operate as economically as possible. No – if you do not keep detailed operating records on your crops, there is no way you have sliced everything as close as you can. If there is more than one crop grown, there must be more cost control practiced on a crop by crop basis.

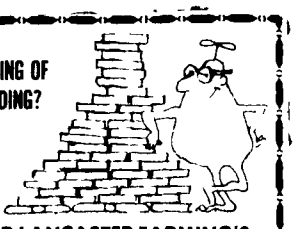
Those in Crop Management Associations have an opportunity to do this if they use the CMA records program (which at this time has no cost except for time). Livestock people for years have been very sloppy about their record keeping. Very few pork producers really know what it costs to produce a pound of pork.

It is no wonder that most of them shy away from any kind of forward contracting or futures hedging. If you as a farmer have very little idea how much it costs to produce that animal, you as a marketer have no idea what price you need to provide a profit or just break even.

Without records, it is next to impossible to determine whether you should continue to grow or raise a particular crop or type of livestock, or whether a change in the operation would be profitable or not. Example: A farmer says he produces 120,000 pounds of corn and feeds it all to his pigs. His income records show that he sells 5000 pounds of hogs. Does this mean that it took 24 pounds of corn to produce a pound of [illegible] does it mean a lot of corn was wasted? Or does it mean there are a lot of non-market pigs still on the farm? Or does it mean he really did not produce that much corn?

Most farmers could cut down on costs if they knew (1) what their [illegible] pest problem was, (2) when their optimum market maturity or weight was, (3) when the optimum time to market a commodity was, (4) what their costs were and why, and (5) their own plans and goals.

THINKING OF BUILDING?



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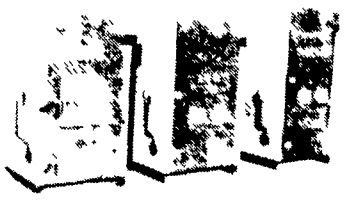

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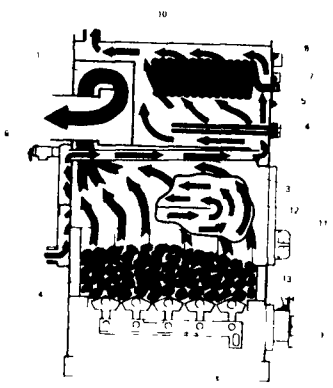

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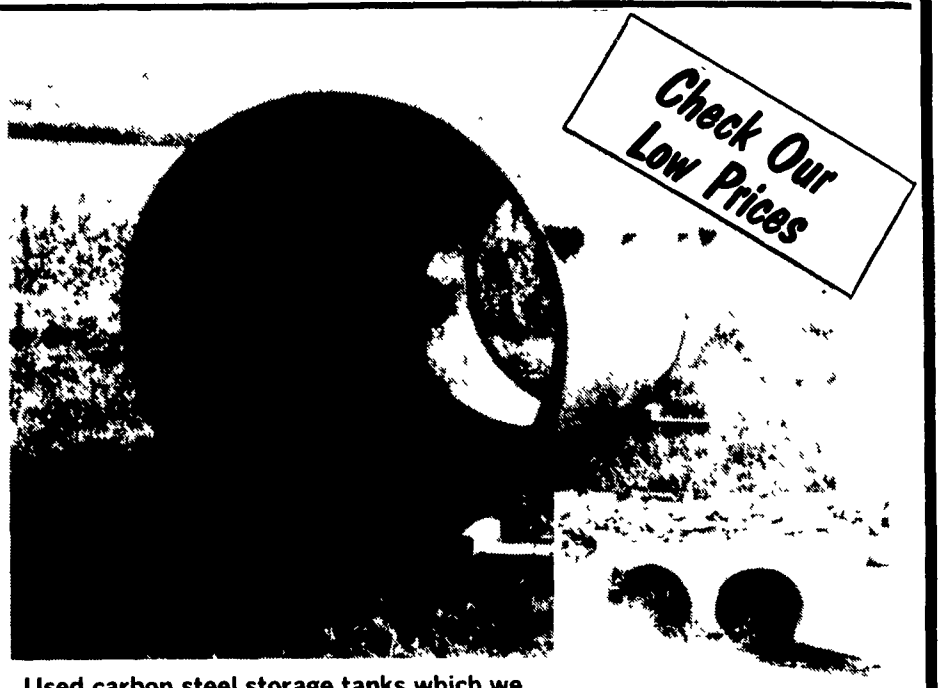

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