

# Drought strategies for the livestock producer

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The overriding objective of drought strategies, while always taking into account the welfare of stock, should be to ensure that the farm business survives and that the productive resources of the farm – the soil, the capital, and the genetic merit of the livestock – is managed in such a manner as to allow production to recommence after the drought.

Objectives should be clearly defined both for the drought period and for the post-drought (recovery) period. Recovery from a significant drought may take several years, particularly if debt levels rise substantially or if pastures are depleted and require re-sowing.

Your objectives should be clear and, wherever possible, stated in terms of numbers, dates or dollars.

Write down your objectives and review them regularly. Modify objectives as the situation dictates. It is important that your objectives not be 'set in concrete' – they are a guideline, not a boundary, and if the situation requires that you alter them, provided you have examined the options thoroughly, then they have served their purpose and can be replaced.

Unless you do this, there is a danger that the strategies you adopt to survive the drought may make recovery after the drought impossible. In this situation you may have to make a trade-off between short-term and long-term objectives. You may elect to incur greater costs during the drought so as to reduce your costs or increase your enterprise's chances of survival during the post-drought recovery stage.

## Developing your strategies

Once you have clarified your objectives, you can then select various strategies and determine how each would contribute to meeting these objectives. To do this properly, you need to cost these strategies for droughts of various lengths; that is, you need to develop a 'model' of the drought so that you can estimate the effectiveness of various strategies. You will find that as the assumed period of drought varies, so does the likely cost of the different strategies. Similarly, varying the assumptions about the cost of restocking, or the current sale value of stock, dramatically affects the cost of various strategies.

No single strategy will be sufficient in most cases, and each situation will require a unique set of strategies according to the physical, financial and managerial resources available to the individual producer.

The six most common options are discussed below. Each producer must choose which options to employ, to what degree, and under what circumstances.

## Tax treatment of forced livestock sales due to pasture and fodder loss

### The five years following a forced livestock sale

If you are obliged to sell livestock because of the destruction of pastures or fodder through fire, drought or flood, you can elect to spread over five years the profit on the livestock sale. This means that one-fifth of the profit would be included in your gross income for the year of the sale of the livestock, and one-fifth would be included in the gross income for each of the following four years.

To take advantage of this concession, you are required to declare that the sale was genuinely occasioned by the loss or destruction of pastures or fodder because of fire, drought or flood. In addition, you must demonstrate that the main part



of the proceeds of the sale will be used to purchase replacement livestock or will be used in the maintenance of breeding stock for the purpose of restocking.

Alternatively, you may elect to have the profit on a forced livestock sale excluded from your assessable income for the year in which it was derived, and applied to reduce the cost of stock acquired during that year (or any of the five years following the sale) to replace the stock disposed of. Where replacement stock are bred instead of purchased, you may elect to include in your assessable income, over the same period, appropriate instalments of the profit on the forced sale (as described above).

If, at the end of the fifth year from the year in which the forced sale occurred, any part of the profit on the disposal has not been applied in reducing the cost of new stock purchased, or has not otherwise been included in assessable income, the amount that has not been applied will be included in your assessable income for that fifth year.

## The six most common options

### 1. Selling stock

The timing of selling stock, and the condition of the stock at sale, are critical.

Selective reduction of stock numbers early in a drought is nearly always an attractive proposition, especially with cattle. If stock are sold early in the drought, prices received are likely to be better because the stock should be in reasonable condition and the market firm. Also, feeding costs are avoided.

The question of which stock to sell revolves around which types are easier to handle during drought, and which are going to be most productive or give the best returns after the drought.

Sheep, for example, have consistently given a higher percentage return to livestock capital invested than have cattle. The longer the drought lasts, the more effective this strategy will prove.

If the drought is short and a small percentage of stock have been sold, the remaining stock will probably compensate through increased performance per animal as a result of reduced stocking rate. It may not even be necessary to re-purchase stock.

With a longer drought and a higher percentage of stock sold, the critical factor becomes the ability to purchase restocker animals at reasonable prices when conditions improve. Livestock prices in the post-drought phase do not always rise dramatically, because the financial reserves of graziers are depleted.

Early sale of stock will generate liquidity to bolster the farm's equity position or generate interest, which will assist in the longer-term survival of the business.

This option should almost always be the first measure taken in the early period of drought. As the drought progresses, stock should be sold class by class, starting with finished young stock, then castrate stock, replacement stock, aged stock and older breeders, until you are left with a nucleus of young, sound, breeding females, which represent the class of stock likely to be most valuable when the drought breaks, and most capable of the best production at that stage.

### 2. Production feeding

This strategy includes a couple of options which seek to maintain a level of production either by ensuring turn-off of finished stock at a time when quality slaughter stock are at a premium, or by the maintenance of the breeding flock/herd in a hope that conditions will improve to allow progeny to be finished normally.

#### *Option A – farm lot-feeding*

The first option is best referred to as 'farm lot-feeding'. It is an attractive option if there is a large gap between the price of store animals and that of finished animals. You need to pay attention to the feeding technology, marketing, and particularly the economics of such an undertaking, as results can be highly variable according to the market relativities and physical performance.

#### *Option B – maintaining performance of the breeding unit*

The second option of maintaining performance of the breeding unit is subject to many variables which will have an impact on its success or otherwise. This approach assumes a short-term drought period and a market demand for the offspring at some time in the future. This practice is more common in the cattle industry because the longer gestation period for cattle gives a greater chance of encountering a break in the drought than is the case for sheep, and, even if drought conditions do not break, bobby calves can be sold, unlike young lambs.

The cost involved in the production feeding of breeding females is very high, and undertaking this option at a time when markets and seasonal conditions are erratic carries considerable risk.

### 3. Maintenance feeding

Maintenance feeding is widely practised, especially with sheep, because the wool they will grow generates income to help offset costs. Decisions to feed are often based on factors such as the

availability of fodder stored on the farm and the level of cash reserves, rather than on a rational examination of costs and returns.

In a short drought, maintenance feeding is likely to be a low-cost strategy. However, if the drought is prolonged, maintenance feeding can be very expensive, particularly if continued to the point where resources are exhausted.

Generally, the wider the expected gap between drought sale revenues and repurchase costs, the greater the incentive to feed.

Before commencing feeding, numbers should be reduced to some extent, as related in '1. Selling stock'. Also, animals should be allowed to use some of their own body reserves before feeding commences. This reduces the length of the feeding period and ensures more efficient utilisation of the feed provided.

#### 4. Agistment

Agistment is widely used in regional droughts, and tends to be more widely practised with cattle than with sheep.

If you choose agistment, it is in your interest, as well as that of the other party, to have a written agreement. You should also inspect the facilities and the quality and quantity of feed at the agistment property before sending your stock.

You should also ascertain the disease status of the agistment property, particularly concerning ovine/bovine Johne's disease and footrot.

#### 5. Trading in livestock

Trading in livestock is not acceptable to many producers because of the loss of the genetic base built up over many years of a breeding program, and the risk of introducing disease. However, the market for livestock during a drought can fluctuate widely, and the opportunity often exists to buy one class of stock which is cheaper than another class. Using this strategy it may be possible to retain the same number of stock in terms of dry sheep equivalents and have considerably less capital tied up in livestock. The cash thus generated could be used to pay for feeding costs.

#### 6. Humane destruction

Humane destruction of livestock is another strategy which may be applicable in times of very low livestock prices, when animals are unfit to be transported.

It is not acceptable to allow domestic animals to starve to death or die of thirst. Under the

*Prevention of Cruelty to Animals Act 1979*, penalties can be imposed on a person who fails to provide an animal with appropriate and sufficient food and drink.

Humane destruction should be carried out when animals are approaching such poor condition that survival would be unlikely. In making this assessment, producers need to consider both animal and non-animal indicators that can affect survival. Animal indicators include emaciated body condition, depression, loss of appetite, inability to rise, and the presence of disease. Non-animal indicators include availability of feed and water, and extremely hot or cold weather.

In some situations it may be preferable to humanely destroy groups of animals before this 'point of no return' is reached. Decreasing competition for feed will help the remaining animals to stay in better condition and be more productive following the drought. It will also reduce the costs of feeding. In making the decision as to which groups of animals need to be humanely destroyed, the producer should consider the genetics that are required after the drought and also the underlying vulnerability of different classes of animals.

If it is necessary to keep the same gene pool, then it is preferable to keep females and remove castrates. With regard to vulnerability to drought, aged or unweaned animals are more vulnerable, as are pregnant or lactating animals.

In some situations it may be advisable to remove all stock from the property, for example if sheep are infected with footrot. If animals with similar or better breeding are likely to be available after the drought, then all animals could be either sold to the abattoirs or humanely destroyed.

For more detailed information on the humane destruction of stock, see Primefact 310 *Humane destruction of stock*.

### Summary

By approaching the problem of drought in a logical manner you can increase your chances of success. To summarise, the recommended steps are as follows:

- Start early in a dry period to establish your short-term and long-term objectives.
- Assemble facts and figures on all aspects of alternative strategies: feed costs, rainfall records (official records and local experience), stock prices, agistment, support and subsidies.
- Cost out strategies for various lengths of drought

## Advantages and disadvantages of the various options

Strategy	Advantages	Disadvantages
<b>Selling some or all stock</b>	No cash outlay is required (unless values are minimal). Interest on proceeds of sale can be earned. Good prices are likely if stock are sold early. Risk of damage to pastures is reduced. Improved performance of remaining stock post-drought may compensate for reduced numbers. Reduces labour input—time is available to pursue other activities. Freight rebate may be available. Can select culls to improve flock genetics.	Stock may need to be repurchased after drought (prices could be high). Income is lost because of no production. Breeding cycle may be disrupted. Stock may have to be sold at a substantial discount if held for too long. Taxation may be affected. Genetic material is lost if culling does not discriminate.
<b>Production feeding</b>	Throughput of stock is maintained. Livestock inventory can be maintained at high levels by purchasing additional stock for feeding, hence reducing restocking problems. Futures can be used to guarantee prices. With breeding stock, the breeding cycle, natural increase and cash flow in the post-drought recovery phase are maintained. Lot-feeding protects pastures.	Costs are high, while market prices are uncertain. High labour input is required. If this strategy is used with breeding stock, stock numbers may increase, with consequent extra feeding costs.
<b>Maintenance feeding</b>	Income may be earned from production of progeny and/or wool. Restocking costs are avoided. Maintenance of breeding cycle may be possible.	Costs are directly related to length of drought. Large financial reserves may be required for practical periods. High labour input is required. Performance levels are affected. Young stock do not perform well. Weeds may be introduced. Losses can be high when break comes.
<b>Agistment</b>	Generally, agistment is much cheaper than is maintenance feeding per unit of food provided. If good agistment is available, full production may continue. Damage to pastures is minimised. Breeding program can continue.	Drought may affect agistment property. Stock must adapt to new area. Stock thefts may occur. Handling facilities and managerial control may be inadequate. Stock may be lost during transport. When stock are returned to original property, weeds, diseases etc. may be introduced.
<b>Trading in livestock</b>	Cash flow is provided for feeding and running costs so that total livestock numbers can be maintained. Can allow enterprise shift.	Weeds, diseases etc. may be introduced. Breeding cycle may be disrupted. Genetic base is lost.
<b>Humane destruction</b>	Prevents unacceptable suffering. Reduces stocking rates, enhancing chances for the remaining stock. Helps reduce further pasture and land degradation. Reduces hand feeding costs. May reduce the impact of, or eliminate, a disease, e.g. footrot.	Financial loss of stock value. Costs of slaughter and disposal. Unpleasant task. Some risk to operator. Loss of genetics can occur if there is no selection.

- Select the mix of strategies which best fits your projections and situation.
- Write down your objectives and strategies, and whenever possible set down numbers, dates or dollar figures as benchmarks or triggers for particular actions.
- Review your strategies continually and adapt them if necessary.

### Further information

The NSW Department of Primary Industries website has a wealth of information available at

[www.dpi.nsw.gov.au/drought](http://www.dpi.nsw.gov.au/drought)

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Check for updates of this Primefact at:

[www.dpi.nsw.gov.au/primefacts](http://www.dpi.nsw.gov.au/primefacts)

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