



Client newsletter
January 2017

Wairere

Resilience



Waking up to a changed landscape. The Milton's Waipapa, see story, p4.

Many farmers have been battered and bruised by the climate and lower prices in recent times. But despite the doom merchants around drought effects and FE, the national lambing percentage at 123 is close to the best ever. Many of our North Canterbury clients achieved a record lambing, quite remarkable. They didn't deserve earthquake damage on top of the difficulties of the past two years. But at least no farming lives were lost, and good insurance policies will assist a rapid recovery in infrastructure for most. In the big picture, those sheep farmers throughout New Zealand who have been resilient to the roller coaster ride of the past thirty years have made substantial gains along the way.

The future of hill country

I was tasked recently with writing an article about The Future of Hill Country.

I harked back to 1991, the year of my Nuffield farming scholarship. At that time 16kg lambs were fetching \$25-30 at the farm gate, and the NZ dollar was worth 28 pence. Today we are receiving FIVE times that farm gate value in Sterling, yet processor/marketers get little credit for this big improvement. By contrast, wheat growers in the UK were then receiving £105/tonne. Last year they were receiving £100.

Where has all that extra money from the market place gone? Our costs are around three times higher than 25 years ago.

And the price of land has risen 6-10 fold for hill country, and multiplied up to 40 fold for dairy convertible Southland flats at the peak of the land boom. Land owners have become multi millionaires, a status that many people around the world aspire to, but most never reach.

The big picture

In early November I was privileged to be one of 35 farmers from 12 countries in a ten day Rabobank Global Master Class, five days in Australia, and five days in Canterbury. Here are some reflections from that time:

- Producers of commodity crops like wheat and maize are struggling for profitability, except the large scale farmers in places like South America, where low exchange rates make exporting attractive.
- There is a fine line between supply and demand. I learned more about the health food chia, which is a niche 20,000 tonne world market. Strong demand had pushed the price to \$US8,000/tonne. Growers in Peru saw the opportunity, and produced 100,000 tonnes in one year, resulting in the price tumbling to \$800/tonne! Another example is pistachio nuts, a lucrative crop over the past five years. A Californian farmer told me that 70 percent of the planted area in pistachios in California is young and yet to produce nuts....Similarly, his almonds sold for \$US12,000/tonne in 2014, but the price halved in nine months when it looked as though the Californian drought had broken.

0800 Wairere (0800 924 7373)

- Colin Glass, CEO of Dairy Holdings was a participant. Dairy Holdings has 76 farms in the South Island, and 48,000 milking cows. Colin told us how the company enjoyed a high price year in 2002, with the payout at \$5.35. The next year, even though the payout dropped to \$3.63, the company pared costs and made a bigger profit than the year before. Dairy Holdings has a flat management structure, with no HR manager, no irrigation manager, no pasture assessment specialist. Full utilisation of pasture is the low cost approach taken. The company structure allows steady progression; at the top end, a third of the sharemilkers leave every year to buy their own farms. "No one gets up early in the morning to do a bad job." "And water storage will be a game changer."



Two tooth Rams at Wairere, November 2016

- The Netherlands is the most intensively farmed country in the world. With an area smaller than Canterbury, and feeding 17 million people, it is incredibly the second biggest exporter of agricultural produce in the world! But profits have shrunk. One participant had fifty hectares of glasshouses producing 25 million Euros of peppers and cucumbers per year, but had run at a loss three years out of the past four. Despite that, a three km deep bore had been drilled, at a cost of 50 million Euros, to tap into geothermal heat, with a ten year payback period.
- Cotton has lost subsidy support from the US government, so is less appealing to grow there than it used to be.
- The average life of a tractor in Africa is 8 months!
- We had a great presentation from John Moloney of Pacific Reef Fisheries, about his fifteen year development of the successful farming of prawns in ponds. However, five weeks later there was a news item about disease causing havoc in prawn ponds in Queensland. Intensive farming methods are more prone to such disasters. If humans adopt an entirely vegetarian diet, as some campaigners wish, the global population will become even more dependent on a small number of staple crops, and reliant on the hygiene in vegetable burger and dairy imitation factories. The worst cases of food poisoning in recent years have come from sprouts, chicken and feedlot beef, not meat from grass fed animals.
- A visit to Steven Sterne's outdoor pig farm in North Canterbury was a highlight. Steven started with three pigs

as a hobby, but now has 5,500 sows, and provides around twenty percent of NZ's pork requirements. The major supermarket chains provide strong contracts for the punctual and high quality supply from Patoa Farms, creating mutual dependence and good profitability. Steven has steadily grown this business in the face of competition from imported pork. Six years as an architectural draftsman, and twelve years with BHP (some of that time in strategic planning) may seem a strange pathway into pig farming, but Steven's ability to observe and innovate has been the key to success.

- Duncan MacFarlane represented the wine industry. He had thirteen years in the mussel industry before realising that his personal prospects there were poor. So in 2003 he started the Indevin Group with three other investors, building a winery for the fast growing wine business in Marlborough. The Group has grown with the industry, and now processes fifteen percent of NZ's wine, plus owns vineyards and land with potential.
- Graham Harrison of Anzco talked about the need for both a value creation model, and a relationship model. Anzco has four R and D food hubs, all focused on creating new ways of presenting meat. The Waitrose Supply Group is an example of their long term relationship strategy.
- Jeremy Moon of Icebreaker graphed the steady growth of the company from very small beginnings, the first seven years being "all about survival." He told us how the company promotes product by giving garments to shop assistants and ski instructors, a low cost approach, and creating a fan base for Icebreaker's USP (unique selling point)...stylish clothing, warm, low body odour, natural. In his business, the interest in traceability has faded from seven to one percent of purchasers.

Conclusion

All farming is subject to cycles, but the most profitable enterprises have some control over supply and demand. New Zealand examples include:

1. Kiwifruit. The industry has done an Houdini act since PSA struck in 2011. Thanks to Zespri and the horticulture CRI having a significant R and D budget, there was an experimental variety called Sungold which tested resistant to PSA. Not only that, it grows a bigger tonnage than the green variety, AND sells at nearly double the price...a triple whammy! Zespri licenses the growing of Sungold for a substantial access fee, \$140,000 per hectare, both in NZ and offshore. Production volumes are constrained to fit market demand, with around one third of sale fruit being grown in the northern hemisphere. It helps that a government Act puts all sales outside Australasia under one umbrella.
2. Wine. The NZ industry is very fortunate to have MSB. Marlborough Sauvignon Blanc has become recognised as a global brand, with a \$2/litre premium over other bulk varieties. There is only around one third of the potential area for wine grapes in Marlborough not yet planted, so world supply is restricted, and the USA market has grown rapidly to recently become the dominant destination.
3. Apples. NZ exports have doubled over the past four years, on the back of licensing varieties with a USP: "Envy" has a sweet and crisp taste suited to Asian palates, and "Jazz" appeals to European taste buds. Licensing prevents copycats from planting these varieties.

4. Milking goats. The goat milking industry looked set to fail, until four producers pooled funds by mortgaging houses and farms in 1990 to build a processing plant in Hamilton, and took no payout for their milk for four years. This sacrifice has paid off handsomely, with the Cooperative paying out \$17-18/kgMS in recent years. A cut and carry system takes care of internal parasites, and does can produce 120-140kgMS/year. The Cooperative controls new entrants, with total production kept in line with market demand.
5. Manuka honey is available only from New Zealand. Medical grade Manuka honey has the power to kill "golden staph", a bacteria which has become resistant to penicillins. In 2012 it was estimated that 5,000 people had died in Australian hospitals that year, because of runaway bacterial infections. People will pay whatever you ask to save their own lives. Food grade Manuka honey has a distinctive taste which persuades the consumer that it is good for his/her health.
6. Crayfish. Why does NZ crayfish sell for \$100/kg off the boat? Around 99 percent goes to China, where it is the status centrepiece of dishes at wedding feasts. Southern ocean cold water crayfish has superior taste to its warm water cousins. Though NZ produces only 2,500 tonnes per year, lack of size and scale doesn't matter when the price is high.
7. Abalone. Our paua, black abalone, is also a prestige dish. For example, there is a restaurant in Hong Kong specialising in abalone, with a main course costing \$US200.

Where to for us?

Can we develop Unique Selling Points around our sheep and beef produce?

- The latest issue of The Stockman Grass Farmer, a monthly magazine from the USA, reports that "grass fed beef sales, though only \$US2 billion/year, are growing at 40 percent a year, versus 6.5 percent for grain fed, and shoppers are willing to pay 30 to 80 percent more for grass fed, according to the Wall Street Journal." The article goes on to say that Class One land would gross \$US7,820/hectare, finishing 4.7 cattle per year. That puts the value per animal at \$NZ2,327.
- Over the past fifteen years, Lean Meats has had around 60-80 farmer suppliers, often couples, spend 5-6 days doing cooking demos with various lamb products in Whole Foods stores through the USA and Canada. Consumers there are always surprised that our sheep and cattle live outdoors all year round. This healthy lifestyle resonates with customers wanting a healthy diet and lifestyle. This "100 percent pure New Zealand" pasture(or range land?) message needs to become widely known and appreciated.
- A high end supermarket chain in the USA advertises "gluten free milk". There is no gluten in milk anyway! What seems obvious to us may not be obvious to a consumer.....what are we missing?
- Masterton's Lonestar restaurant currently has "Stand by your Lamb" on the menu. It is boneless shoulder, slow cooked, and absolutely delicious! A dish that is consistently good will be stored in the memory bank. Here is an example of restaurateur Al Brown's opinion that all parts of the lamb carcass will be valued equally in the future.



Wairere ewe hogget with twins. "Too much grass, not enough cattle." Note the seventy year old Manuka across the Wairere boundary. This Waimapu property sold in November, the value set by annual honey yield. The helicopter flies in pallets with four hives. Each pallet has weigh bars. Weight gain or loss can be checked remotely at any time by mobile phone!

- Silver Fern Farms is enjoying a rapid increase in sales of packaged lamb, venison and beef in Germany. The packaging is a USP to present meat to potential customers, and is proving very popular.
- Technology to measure the tenderness of carcasses on the chain is becoming available. Several processors are about to install hyperspectral imaging on the processing line, to measure IMF; intramuscular fat is closely correlated with eating quality. This will be coupled with the measurement of pH to differentiate carcasses for taste/tenderness. The final product will be a function of multiple variables, with genetics, forage, age, time of year, sex, and handling all playing a part. Its all very well to promote grass fed and finished, but a consumer who has a poor first experience with a premium priced product is very reluctant to try it again. We must get this right first time. The profit comes the second time a customer buys, when there are minimal marketing costs, and word of mouth starts to work for you.
- When our lamb sells at the farm gate for just \$5/kg(or \$7.70/kg for the edible meat and fat, assuming 65 percent of the carcass is edible), it is obvious that it doesn't fit into the luxury category alongside crayfish at \$100/kg. For any big lift in price, It is critical that a great eating experience is guaranteed. And any lift in price always has relativity to lamb from other brands/countries, and alternative meats. Our product has to be consistently BETTER.
- The project to deconstruct wool to a powder, then manufacturing films, filaments, non-woven products, high protein drinks, cosmetics, etc. from that powder, is a five to ten year project targeting a lift in the value of the New Zealand wool clip to a minimum of \$8/kg. We urgently need the "dual purpose" attribute of sheep reinvented.

Climate change

I heard recently that when the "global warming" debate became a big story in the 1980s, New Zealand scientists wanted to be part of the research team around the world. It was our own scientists who dreamed up the theme of wicked herbivores....we were shafted by our own people! Were these ruminants created by a Christian or Muslim God? Or by the devil himself?

I've spent a lot of time in the mountains, both climbing and skiing. I know that the permanent snow line is receding, but it has been receding for a long time. At the visitor centre beside Lake Pukaki, there is an explanation about the ice being over 300m deep right where you are standing, just 14,000 years ago. There was no lake, just a glacier stretching back to the Southern Alps, and east towards the coast. Question: what percentage of that ice had melted up to one hundred years ago, before mankind had any significant effect on the climate? My guess would be 99 percent, or more.

Success, but at a cost

Ben and Jane Millton

farm Waipapa in the Clarence Valley, recently hit by the magnitude 7.8 earthquake. "The two year drought has been the worst in the last 100 years. The hills were still brown on June 1, so ewe hoggets were grazed away, and we were down to 50% of normal winter stocking rate. We also sent cattle away grazing and killed trade cattle earlier and at lighter weights. With about 80ha currently out of production due to the earthquake, weaning has been brought forward two weeks with both store and prime lambs being sold. A lot of the lambs went prime from the earlier weaning, contra to the slow season in most parts of NZ. Water supply, fencing and access have been affected but are getting back on track with generous help from all over the country. Some of the slipped land will be able to be developed using heavy machinery.

Waipapa Limestone quarry is operational again despite a 6 meter uplift on site where the fault ruptured.

Our Waireres stood up well, lambing just under 150 percent in a difficult year. We will have lost ewes and lambs under the massive land slump, but we won't know how many until we finish weaning. However we did start with good numbers.

And we've had some great help along the way. A team of dairy farmers from the Waikato came down for a few days and a group from Blenheim and central Canterbury have also been helping with fencing repairs to get paddocks stock proof again. In a few years time, hopefully, we'll look back on this whole episode and realized that we've recovered well."



Ben Millton, Kaikoura

Matt Iremonger, Mt Bengier, North Canterbury.

"We were lucky to escape earthquake damage, but the past three years of drought have hit hard. I'm an equity share manager, with two overseas investors, and two New Zealand investors. The off farm investors have been challenged in understanding the impact of the physical and financial pressures caused by both the big reduction in feed supply and lower product prices, with direct drought costs amounting to around \$20 per stock unit, on top of a reduction in income of another \$10 per stock unit in lamb and wool income this year. We were comfortably profitable before the drought, but are now back to the financial position of four years ago, due to cost and destocking.



Matt, weaning 2016

And this is in spite of the stock performing well. Weaning this year will work out to 163 percent to 9,800 ewes mated, and the 3,500 hoggets tailed 3,000 lambs from three weeks with the ram. That will give us 19,000 lambs in total. We will get up to 50 percent of sale lambs POM from the ewes. But we won't get anywhere near last year's average price of \$105.

A strong lambing percentage allows us to mate around 45 percent of the ewes to terminal sires. We split the self replacing mating between Wairere and Composite sires. We used to draft on visual appearance, but now mate each age group of ewes to either a Romney or a Composite.

This autumn coming will define whether we get back on track with normal seasons or not. We have some rebuilding of numbers in front of us. On the 3,700 effective hectares, we normally run 11,000 ewes and a thirty percent cattle ratio. We will have to see how the season unfolds."

AUTUMN RAM LAMB SALES. In February and early March we will be selling Wairere Multipliers, Tufguys, Challengers (FE tolerant, sires tested last year at .4 sporidesmin, this year at .45), Dominators and Romneys. All ram lambs will have been weighed for post weaning growth, and measured for eye muscle area and fat depth.

THANK YOU for your support in difficult times. Our buzz in breeding rams comes from your success.


Derek and the Wairere team.

Contact Details:

Lynette/Office:
Phone: (06) 3771271
Fax: (06) 3771264
Email: lynette@wairererams.co.nz

0800 Wairere (0800 924 7373)

Andrew: Ph: (06) 377 0660
Mob: 021 222 5100
Derek: Ph: (06) 377 2077
Mob: 021 751 163

Simon: Ph: (06) 372 5560
Jacques: Ph: (06) 3725 970
Visit us on Facebook 
at Wairere

Design and print
by Printcraft,
Masterton
0800 774 683