

NZ GRASSLAND ASSOCIATION

Fuelled by Science, Tempered by Experience

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Thoughts from the President

Warwick Lissaman

Welcome to our last Grassland News of 2014. Time to reflect on another year, and for the family that is NZGA, a very successful Alexandra conference. Thanks go to Vanesa Hore and the LOC. NZGA is so fortunate that people like Vanessa are part of our network. Their vision, skill set, organisation and attention to detail mean it all comes together. Harnessing the passion and the professional capacities of the LOC team is never easy but is so worthwhile and we, the membership, benefit greatly.

What next for 2015? Your executive is working on 2015 and 2016 events presently, and as always welcomes membership contributions to direction and content that is NZGA.

NZGA Presidents Annual Report for 2013/14

It gives me great pleasure to present my annual report for the year 2013-14. A year of significant changes for our industry, but isn't that always the case for Agriculture.

Sadly I note the passing during the year of Mike O'Connor, an honorary life member of the Association.

It has been another successful year for NZGA on several fronts, and challenging on others. The delivery of both the Proceedings and the R&P 8 Pasture and Forage Plants for New Zealand was problematic, and led to the termination of a long standing relationship with our previous printer. However the final product was worth the wait and a credit to NZGA. I am pleased to report that our new printer has delivered a first class product on time for this Conference. Thank you to authors Alan Stewart, Graham Kerr and Jacqueline Rowarth, and the editorial efforts of Kathy Davis and Marie Casey on this project.

It is fair to say that, a year with a symposia or extra event tends to deliver a positive cashflow, whereas a year with a publication tends to draw down finances, certainly extra expense was incurred with R&P 8. Whilst I am not opposed to that per-se, in this instance lessons had to be learnt.

Meeting with AgResearch's management team representatives earlier this year on your behalf, the executive was able to convey members concerns and this was reported on in Grassland News.

Our editors commitment (David Swain, living in Sydney) to NZGA has been and continues to be first class; 12 months ago his availability for this year was down to NZGA implementing some changes in the editorial process. We have endeavoured to do this through the online submission process; our debrief at the first meeting post conference will shed light on areas we need to address.

Conference 2013, held in Tauranga, 'Bay of diversity' was a very successful event thanks in no small part to the efforts of the local organising committee chaired by Warwick Catto and supported by several of the Ballance team. Excellent venue, well run event all round, with excellent field days thanks to DairyNZ and Beef & Lamb staff from the region.

Here in Alexandra in 2014, Vanessa Hore and her team have delivered us a big conference true to the values of Central Otago region. Truly a land of extremes.

Once again NZGA has supported students to attend, 20 students are registered and NZGA supported 7 with travel awards. I hope you all get an opportunity to meet with them as the future of our research community.

Our family of sponsors have recommitted for 2014; Premium sponsors AgResearch and DairyNZ; Level one sponsors Agricom, Ballance Agri-nutrients, Beef & Lamb NZ, DLF Seeds, Dominion Salt; Farmlands, Grasslanz, Hill Laboratories, NZ Agriseeds, PGGWrightson Seeds, Ravensdown and Silver Fern Farms and their continued support is key to the success of our conference.

The NZGT came to NZGA this year to advance the building of a stronger and active working relationship; progress is real on this front, and I look forward to this relationship being visible in 2014/15 activities.

NZGA continues to rely heavily on member Marie Casey as the Executive Officer, and is served beyond the call in this role; Glenis Thomas continues to provide the accounting expertise in support of the EO role. We are fortunate to have the services of this team as our contractor. A timely review is in process for this role and the remuneration to reflect that role.

It has been a privilege to work with one and all on this Executive, VP David Stevens, a constant supporter of



NZGA for over 80 years

SPONSORED BY AGRESEARCH

NZGA's cause, has scheduled another excellent conference programme, Laurie Copland has chaired the Audit and risk committee ensuring good process followed, while Graham Kerr has been the liaison member to the Alexandra LOC. Along with David Chapman; Derrick Moot, Warren King, Jacqueline Rowarth, and Vanessa Hore, the executive has worked to bring the conference to fruition as well as ensuring all other issues have been appropriately discussed, debated and addressed during the year. A

special personal thank you to Immediate past President Jacqueline Rowarth for her timely updates, and support throughout the year.

NZGA is well served by several members who are high profile communicators, long may that continue. It is important that the real issues are brought to the NZ public attention and debated by people who know what they are talking about; our challenge as a membership is to ensure that our issues are debated in the public arena.

Capital Constraints in the Red Meat Industry

Karl Williams, Agribusiness at The University of Waikato

(Working with Jacqueline Rowarth and Frank Scrimgeour)

Introduction

As the industry moves forward the cost of innovation and development of products means a higher requirement for capital and investment in the supply chain. The opportunity to increase production and increase the value of New Zealand exports before 2025 is apparent and achievable if the capital expenditure is focused on fundamental growth areas. Restructuring will be critical to allow the pursuit of infrastructure investment and adoption of new technologies to allow the industry to take advantage of the increasing returns in the market.

Issues identified:

- The beef and sheep industry is under pressure due to alternative land use, which is impacting supply for processors and lowering capacity utilization. This then reduces revenues generated down the supply chain. With a lack of returns the industry is aging and there is a lack of capital investment into operations.
- The beef and sheep industry processing structure means that there is little revenue being generated due to over capacity. The industry is losing opportunities to gain returns due to both poor supply chain management and processing inefficiencies. Industry observers suggest that returns in the red meat processing sector could be increased by \$400 million yearly if the operations were efficient (I. Proudfoot, personal communication, May 19, 2014).

Lack of domestic capital holds back New Zealand entrepreneurs, particularly in times where there is an international economic recession, since they cannot take advantage of opportunities globally (Nixon, 2011). This is based upon New Zealand's companies' inability to retain earnings for growth while also providing shareholders with the required return. The factors holding back foreign direct investment currently include the political costs involved and also public perception. If these factors can be changed, opportunities for future foreign investment with New Zealand's key trading partners will appear.

The capital constraints which hold back New Zealand agriculture differ across the sectors. Debt levels have been rising throughout the industry (Wilson, 2014), particularly in dairy, and this leveraging has enabled New Zealand farmers to expand and improve production systems. Although the ability for farmers to take on new debt and fuel the agricul-

tural sector is a positive sign for growth, this will have to be followed by an equity investment to combat the risks involved in future interest rates increasing (Rabobank, 2014). Lack of investment capital has been noted as an important factor affecting the competitiveness of the New Zealand sheep meat sector (Rabobank, 2014). The beef and sheep industry together faces a challenge, with growing debts in the processing sector and the inability to produce return on equity which has led to a lack for funding for research and development. After a sustained period of low returns the industry has a real capital constraints issue. The lack of investment can also be credited to the structural issues and constant evaluation providing little incentive for the meat companies to make progress over this period. "Access to capital has been a limiting factor in the process of rationalising and upgrading assets to maintain the competitiveness of the industry" (Rabobank, 2014). Overall the capital constraints on the industry have lowered the returns to a point where the supplier base is shrinking and creating a downward spiral on efficiency in the industry.

"Investment, whether local and/or foreign, is clearly required to improve efficiencies and productivity downstream in the supply chain. With the sheep flock halving since 1990, the adjustment of both processing capacity and capability has not kept pace and is consequently impacting returns."(Rabobank, 2014)

The New Zealand red meat industry has similarities with the Australian sugar cane industry, which struggled with processing facilities, the majority of which were farmer owned co-operatives (Rabobank, 2014). The injection of capital by foreign investment allowed returns to increase and also created easier access into international markets. Although this lowered the farmers' reach up the supply chain it ignited the profit in the industry and encouraged future development.

From a farmer's perspective, industry capital constraints have become a matter of concern. Although there have been significant increases in the demand for lamb in China, and beef in America, there have been limited gains in the pricing returns for farmers due to the structural issues in the industry. Farmers are suffering a flow on effect from the inefficiencies of the processors.

Overall there is the opportunity to capture the \$400 million dollar opportunity that is available if the meat industry restructures, and then begins to provide reinvestment back to

the farmers. The key importance is not to ride the current returns without pushing for innovation, because as the industry matures it becomes more difficult to generate profits.

The overarching question regarding New Zealand's capital constraints is: should New Zealand be accepting international investment, to improve local returns. This was discussed for the meat industry in Sarah Crofoot's policy paper for Federated Farmers (Crofoot, 2014). The Australian sugar cane case identified both the positive aspects to foreign investment, and the negatives; discussion should not have stopped.

The capital constraints from a farmer's perspective in beef and lamb will be solved once the processors can improve their structure. One viable option would be to operate with a single co-operative across the industry (see Lewis & Meade 2006 for a discussion on benefits of co-operatives). Although a single co-operative would remove competition in the industry, it will reduce the supply chain inefficiencies created. Furthermore the co-operative should have a dual share structure. This structure would be similar to the one in place by LIC, which means that farmers would have to be a registered trader with LIC to purchase the shares. This would allow the co-operative to gain market value for their shares, but also keep the returns in New Zealand. This would reduce capital constraints through the new equity invested, while also providing the processors the opportunity to leverage which in turn would reduce inefficiencies and improve returns.

The increased value in the red meat industry, and the increase in investment and returns from the suppliers, will provide a healthy contribution to doubling the export goal by 2025. Furthermore the foreign direct investment into the dairy co-operatives expansion allows entrance into new markets. This creates greater demand for product and in-

crease the export value of the dairy industry. If this strategy was implemented in the red meat sector it would create value across New Zealand's agricultural industry and, through market establishment, drive future exports.

Conclusion

It remains to be seen whether farmers and the industry can provide the necessary capital to retain control further downstream in the supply chain; a more passive and delayed response might risk farmers losing control of the future shape and control of the value chain. The benefit of foreign investment is that it provides needed capital. It is evident that in the red meat sector a structural change and equity injection is required to improve processing efficiency. The increasing profits will benefit the farmers and resolve many of the capital constraints faced at the production level. International investment into a co-operative, although resulting in the loss of some direct New Zealand farmer control, will benefit New Zealand's economy and create better access into international markets.

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When the Farm Gates Opened - A book review

Jacqueline Rowarth

A Government census officer questioning Fred Dagg on the whereabouts of his 2 million sheep was directed to look down the gully. Pointing to a white lump that turned out to be a rock, Dagg turned back to the Official and asked expectantly... 'They don't have a rock retention scheme, do they, the Government?'

When the Farm Gates Opened, Wallace (2014), P139

Neal Wallace's book, *When the Farm Gates Opened*, is a testament to the resilience of New Zealand farmers and growers. For those who were not here to experience the changes that occurred during the 1980s, and who are interested in primary production, it is compulsory reading. For those who were here, it will provide more information and examples: why New Zealand is missing a generation of people on the land, the reason for general resentment towards bank profits, and the driver for 70 million sheep and land development become clear, as does the existence of the Rural Support Network. Mr Wallace has created a gripping

balance of hard facts with personal stories.

The experiences of the 80s scarred many people. Interest rates of 22% with second mortgages at double the 'basic rate' plus punitive default clauses explains the attitude of many farmers to bank profits as well as their reluctance to invest in big schemes. A comment made in the 80s by a visiting extension officer was that 'Farmers are vulnerable and exposed to government's policy changes - rules can be changed at the stroke of a pen'. This comment was made with reference to investment in irrigation projects.... Similar reluctance has been noted recently, and now there are local and national government regulations with which to contend.

The big lesson from the 80s is that Rogernomics changed some things but not all. Farmers were exposed to free market costs, but restrictions on the labour market were not removed and nor were import duties; manufacturing, for instance, continued to be subsidised.

As well as outlining the experiences of the 80s from different perspectives (unions, farmers, rural women, for instance) Mr Wallace has included the stories of people from Northland to South Otago. He describes their history of becoming farmers, and the financial difficulties they faced when subsidies were removed, the bank interest rates skyrocketed, and the rain didn't fall. He also describes where they are now - still farming, retired, or in a new type of career. Of note is that most people interviewed, including those who left farming, acknowledged that the economy did need revamping after the Muldoon era, but poignantly: "we were the sacrifice generation. I can see in hindsight that NZ farming is much stronger - but I would never want to repeat the experience".

And no other country has.

Politicians and unions from many countries have visited New Zealand to find out more about how complete and rapid removal of support was achieved, with a view to reducing subsidies but no country has followed suit; the average agricultural support for OECD countries is still 18% of gross farm receipts (OECD 2014). In fact, concerns about food security tend to result in increased support and protection for domestic producers. New Zealand continues to be the outlier.

When the Farm Gates Opened was supported by AGMARDT (the Agricultural and Marketing Research and Development Trust). Jeff Grant, who was then Chair of the Board of Trustees, is author of the foreword. 'New Zealand's political scene between 1984 and 1990 was marked by the most

ambitious and far-reaching economic reforms since European settlement.... The result is that farming in 2014 is very different from that in 1984...Such was the importance of the period, the book is a perfect fit for the AGMARDT brief of fostering a positive contribution to the industry.'

Neal Wallace, Regional Chief Reporter for the Otago Daily Times and one time farmhand, was raised on a sheep and beef farm. He has created an important record for the future based on his knowledge, experience and research. His empathy and sympathy for what the farmers and growers of New Zealand endured during the Rogernomics era, is apparent throughout his book. The stories are gruelling, and though the final chapter discusses the good things that have been achieved by the removal of subsidies, one isn't left with a saccharine 'happy ending story' feeling. By sticking with the gritty truth, Neal Wallace has added strength to his book. It is compelling reading and a remarkable story of survival of the remarkable group of people that continue to provide the export economy.

Jacqueline Rowarth, Professor of Agribusiness at The University of Waikato, was an AGMARDT trustee when the book was funded. Criteria for funding are at www.agmardt.org.nz

When the Farm Gates Opened: the impact of Rogernomics on Rural New Zealand.

Neal Wallace.

Otago University Press, 2014. 160p. \$40.00

NZGA Update

This year's conference in Alexandra was full to capacity yet the Local Organising team, led by Vanessa Hore, didn't blink. True to the theme, farming in a land of extremes, Central Otago gave us a cold field day followed by a warm one. The conference proceedings are now available on line at <http://grassland.org.nz/viewpublication.php?pubID=388>.

In addition there is an extensive field day handout (over 40 pages) with detailed analysis of both lucerne and irrigated systems. Well worth checking out at <http://grassland.org.nz/newsdetails.php?newsnum=78>.

Planning for next year's conference in **Masterton 2015** is underway (3-5 Nov). The theme is 'Farming into the future - Innovation, technology and efficiency'. The call for papers is available online <http://grassland.org.nz/eventdetails.php?eventnum=22> with abstracts due to the editor, davidjswain@gmail.com by Feb 13, 2015.

2015 will be the inaugural publication of the new **Journal of New Zealand Grasslands** after approval for the name change was given at the AGM. This will be a great help to members who support NZGA by publishing their research at our conference, for our NZ farmers.

NZGT winners 2014

The **Ray Brougham Trophy** was awarded to Dr Stewart Ledgard, AgResearch, for his work in soils and nutrient

management.

The **Regional Award** went to Aaron Meikle, Beef+Lamb for his work in the region over many years.

The **farmer awards**: Jane and Denis Fastier Owners of Simons Hill Station. <http://www.odt.co.nz/news/farming/322823/recognised-grasslands-skill> and the Paterson family of Ida Valley Station.

In addition the NZ Farmer profiled regular conference attendee, Daniel Delorenzo, who travels a long way to join us. <http://www.stuff.co.nz/business/farming/sheep/63509107/nz-farming-lessons-pay-dividends.html>

Hill Country Symposium

Planning is underway for this symposium, proposed for April 2016, in conjunction with the NZ Society of Animal Production and NZGT. This will provide the basis for Research and Practice 16 and will likely be held in the North Island.

The call for papers for this symposium will be mid next year. Topics to consider when planning papers - soil nutrients; climate; spp and establishment, persistence; beef, sheep and deer systems; and whole farm systems.