



Client newsletter
January 2014

Wairere

Well done.

The stats are in: despite the drought the average lamb carcass weight last season was 18kg, second best ever. The drought has been followed by a national lambing percentage is 120.8%, only 3.8% below last year's record. And average carcass weight is predicted to be 18.4kg, seven to eight percent above the norm of five to ten years ago.

You are achieving this with significantly reduced fertiliser inputs.

There is a mood of low self-esteem among sheep farmers, exacerbated by a comparison to dairy farming returns across the fence. **But the average dairy farmer made a loss last year.** The sharp lift in farmgate price of milk solids was sorely needed, with increasing costs. A recent survey of large herds showed that the people running those operations averaged just 48 days off for the entire year. Failed marriages are a heavy cost in that industry.



Mid March 2013. Typical North Island conditions at Wairere, but sheep farmers' performance held up well.

Show me the money.

Our lift in returns is going to happen more slowly, partially because processors have to compensate for recent financial losses. But a steady rebuild is preferable to boom/bust. Losing "one half of the double", wool, has put a lot of pressure on the meat industry.

Some of the calls for reform use selective statistics. In fact, the percentage of retail price returned to the farm gate and our farm gate price of lamb relative to British farmers have both improved radically over the past twenty-five years.

But there is always something to learn from studying other sectors. The dairy industry has become very clever at splitting the raw product. Whole Milk Powder is only 55% of the original milk solids, which makes you wonder where the name came from. The balance is used to manufacture more profitable ingredients. The milk you buy in the shop is also

transformed. In the U.K., one form of liquid milk is known as "white water", but sells at a similar price to milk with higher milk solids content.

What can we do to transform our raw material? Perhaps we need to add to it rather than split it? Think chicken nuggets, fish fingers, patties, sausages ...

It is also relevant to note that the dairy industry has a lot more financial room beyond the farm gate. In 2012-13, Fonterra suppliers were paid \$5-84/kgMS, but the company had top line revenue of \$12-71/kg, a gap of \$6-87/kg.

Similarly, Zespri paid growers around \$5/tray last season and received \$10/tray from the market, a gap equal to the farm gate price.

Meat processors break even at around \$1-50/kg, and make "good" profits at \$2/kg.

With a gap of \$5/kg, it would be worth investing in meat processing!

0800 Wairere (0800 924 7373)

Industry consolidation.

I'm not against the move to some industry consolidation, but don't hold your breath for an instant jump in schedule prices. Customers don't appreciate being held to ransom. They can move to competitors or substitutes. Twice over the past ten years our multiple exporters have succeeded in pushing up prices to the point of consumer resistance. So where is the increase in farm gate price going to come from?

- **Increased demand.** The best thing that has happened for the sheep meat (and now beef) industry is the emergence of China as a major consumer. And Chinese consumers have different preferences to Europeans. They prefer the cheaper cuts, and are not so concerned about the age gap between lambs and adult sheep. We will continue to see a strengthening of mutton prices, and perhaps the introduction of a hogget schedule. Alliance has put substantial effort into opening up the market for New Zealand lamb in Brazil and India. Broadening demand, having alternative customers, is one of the best ways to increase price.
- **Improved quality.** Does all our frozen lamb eat well? Our biggest competitor, Australia, kills chills and ships ... And for years has been undercutting New Zealand product in markets outside the EU, until this year. That is a welcome sign for improved pricing in 2014.
- **Reduce the retailers' margin.** The margin ebbs and flows, depending on supply and demand, and retailers' options. In the UK market shelf space for lamb in some of the supermarkets is controlled by Irish company Dunbia, as category manager. To what extent could a consolidated New Zealand industry take over the role of middle man?

- **Develop an alternate channel to consumer.** Is it possible to bypass retailers and courier product directly to consumers?
- **Transform the product.** Ready-made meals offer the opportunity to get close to the consumer. A woman friend told me recently, "I don't want to deal with slabs of meat. I want meal ready items, already cooked, or with sauce in the retail pack and straight into a pan for just a few minutes".

Predicting the future.

The processing game is hazardous, because of the large fixed investment in plant. Spare a thought for the investors in Open Country Cheese. The recent demand for milk powder has caused cheese factories to bleed money, a market change which has also disrupted Fonterra's position on pay out to its suppliers, relative to competing manufacturers specialised in milk powder.

Picking winners is no easy task.

Farmer decision.

A shrinking industry forces tougher decisions than an expanding one. It is obvious that "filling the hooks" is the best way to make processing factories profitable, except when export prices squeeze margins. Do you want to own the value chain as close to the end consumer as possible? It will be your decision as to whether you think that a private or farmer owned company will best look after your welfare in the long term.

Nothing's ever easy.

Just recently Chinese customs took a dislike to the term "green runners", and closed the border. As China was our biggest market for casings, that caused disruption to the



Hoggets and lambs at Wairere, early January.

world market, and a drop in value of around four dollars per lamb, or over 20c/kg. Some things come out of the left field and create havoc, no matter how well prepared you think you are. Bernard Matthews was caught out by bird flu in 2004. Television images of dead turkeys reduced the Bernard Matthews turkey brand to sixty percent of previous sales, and a fifty million pounds profit turned into a fifty million pounds loss. It took seven years to recover brand value, and the sale of non-core assets such as the lamb processing plants in Feilding and Gisborne to release capital to aid recovery.

Small can be beautiful.

There are industry critics who suggest that sheep farming will lose relevance if it continues to shrink. How does that argument stack up against the deer industry, or the annual harvest from the sea?

The New Zealand crayfish industry exports around 2,700t/year, a small percentage of the global lobster catch of 200,000t. But local fishermen wait for the market to lift to \$70/kg before putting out to sea. New Zealand crayfish have superior taste from the cold water environment, and achieve a premium. Timing of sale is important for best prices. Locals wait until their counterparts in southern Australia have filled quota. Top operators “farm” their local reefs. Careful handling can reduce the percentage of damaged crayfish from a national average of seven to just half a percent. In recent years the market destination has swung from Japan to China. China takes around 98% of New Zealand’s catch; the industry is dependent on one market. Wedding feasts in China may involve up to five hundred guests. Each table is decorated with two lobsters, a symbol of family wealth and hospitality.

Doing more with less.

One of the major issues facing hill country sheep farmers is dealing with pastures that are fifty to one hundred and fifty years old. Yield progress with maize has compounded to give improvements of up to forty percent in a ten year period. By comparison, yield improvements with grasses and clovers have been small. And those small improvements have only been available on steeper hills through spray and pray methodology.

The easiest way to increase pasture production has been capital fertiliser. And farmers are willing to use that route, if terms of trade allow. The cost/price squeeze has worked against the application of lime in particular. Andrew de Lautour of Waipukurau has developed technology to mill limestone to below five micron particles, then uses a wetting agent to form prills which are suitable for aerial spreading. Andrew quotes a large, independent Australian research trial which shows that fine lime is 100% available whereas “Aglime” has a high percentage of larger particles which contributed little to changing carbonate and pH. Andrew asserts that 250kg of his lime prills have the same effect as 2.5t of Aglime, but at one third of the applied cost on hill country, given freight and flying charges.

A farm within a farm.

Many hill country farmers are establishing finishing pasture on the pocket handkerchief sized flats and plateaus around their farms. Particularly popular are plantain/clover mixes, with the crop designed to last three to four years. These areas will allow store farmers to finish some or all of their lambs, and make breeders more self-sufficient.

Breeders still need to know when to pull the pin on finishing lambs. There is a better long term return on investment by growing replacement ewe hoggets to 50kg or higher by 1st May than finishing slaughter lambs.

Getting up on the foils ...

John Lindsay, farming near Dipton in Southland, has been using Wairere or Wairere South (now Peters Romneys) rams for fourteen years. He runs a flock of 2,000 straight Romneys which lamb around 160%. Half of these are mated to Inverdale Poll Dorset/Texel sires. The better ewe lambs provide replacements for the 4,000 ewes in the terminal flock. These ½ Wairere ¼ Poll Dorset ¼ Texel ewes were mated to SuffTex rams. With a mating weight of around 80kg a high conception rate is achieved – the ewes have only been scanned once, 188% without triplets, and a guesstimated 240% with triplets counted.

In 2012 the flock weaned 187%, with 84% of the lambs going POM at 18.1kg average, before Christmas.

Skim drafts are done once or twice before weaning.

John credits long term stock manager, Lindsay Dawson, with developing the system. Lindsay Dawson is confident that these big ewes are more efficient than smaller ewes. “Our area dries up in early summer, and we don’t want to be caught with a large number of lambs below the ideal slaughter weight. Bigger ewes give us a higher lambing percentage/more prime lambs at weaning/higher value early in the season/better match of feed supply and demand in the spring/reduced workload/and the opportunity to use the extra feed after weaning for store lamb trading or other options”.

Note: There are numerous examples of high fecundity flocks, including Inverdales, which fail to realise the high scanning percentage into weaning percentage.

Yield.

As farmers we have focused on the yield from liveweight to dead weight, and from carcass weight to lean meat yield. Craig Hickson, of Progressive Meats and Ovation, has built a cutting room in his Hastings plant which measures “saleable meat yield” after the carcasses have been cut to specification.

This is not an estimate, this is actual. Most New Zealand lamb cuts are sold bone in. The net effect is that, given an average line of lambs at 100, ninety five percent of lines of lamb fall between 98 and 102 on relative yield of saleable cuts. The difference between lines is not nearly as pronounced as comparisons of lean meat yield (without fat or bone).

Taste testing has also demonstrated that going too lean reduces eating quality. Eating quality is the “ultimate yield” for premium pricing.

Aiming higher?

The general sentiment is that wastage of both ewes and lambs is higher with triplets than twins, and that the lambs are usually smaller at weaning. That sentiment would change if wastage, survival and growth rate were improved to a target of 250% survival at weaning. Within the Wairere Romney flock we have a number of ewes which frequently have triplets, and rear them. We have a

number one ranked two tooth ram, a triplet weaned at 40kg, and his brothers at 38 and 35.

From 2014 we will experiment with a tripling sub flock, to explore the potential to establish maternal performance consistently weaning over 90kg on old pasture hill country.

Short of Rams?



The Wairere two tooth Romney team, January 2014.

From February 12 Wairere will have “the latest and best” ram lamb sires available. The selection includes Romney, Multiplier ($\frac{3}{8}$ Romney, $\frac{3}{8}$ Texel, $\frac{1}{8}$ East Friesian, $\frac{1}{8}$ Finn), TefRom ($\frac{1}{2}$ Romney, $\frac{1}{4}$ Texel, $\frac{1}{4}$ East Friesian), Tufguy ($\frac{1}{2}$ Texel, $\frac{1}{2}$ Romney), Challenger (FE resilient, tested at .35 sporidesmin), Dominator (terminal composite).

Here's wishing you a good second half to the season.

Derek and the Wairere team.



Contact Details:

Lynette/Office:
Phone: (06) 372 5757
Fax: (06) 372 5755
Email: derek@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:
(06) 3725 970

Ph: Design and print
by Printcraft,
Masterton
0800 774 683