Client newsletter
June 2014

Wairere

How do we compete?

I have just returned from a three week tour of farms in South America. Our group of twenty- four, two farm discussion groups from the southern North Island, was fortunate to have good contacts in Chile, Uruguay and Brazil. We visited dairy farms, including Manuka Ltd in Chile and Farming Systems Uruguay. We saw extensive sheep and cattle farming in Patagonia (700 km south of Stewart Island), horticulture and sheep farming in central Chile. Uruguay provided a fascinating visit to expat Kiwi Ronan Ryan and his Argentine wife Mariana, who specialise in soya beans and beef cattle.

Brazil is one of the giants of global agriculture. It is easy to see why… flat to easy contour slopes roll on and on, and on and on. A subtropical to tropical climate, and a well spread rainfall in some regions, allows up to three crops per year. Brazil is the leading world exporter of beef, soya beans, coffee, chicken and sugar.

Soya beans have been a huge growth industry in southern South America. The price of soya beans in U.S. dollars has tripled in the past fifteen years. Most exports are to China, to help feed half the global pig population. Soya beans are easy farming, sown with a direct drill, provide their own nitrogen, and a short term crop which can fit around a beef cattle operation. We also visited cut and carry dairying operations in Brazil, including one with the first robotic milking machines in South America. It was intriguing to bus through two hundred kilometres of sugar cane plantations, and visit a beef feedlot which uses sugar cane residue for sixty percent of the feed ration. Half the vehicle fleet in Brazil runs on sugar cane ethanol.

We also visited a tropical grasslands and beef cattle "Embrapa" research station. Simply changing the grass species on more of the range lands of inland Brazil could prompt a fifty percent increase in the current 200 million beef cattle population. There are enclaves of Dutch people who have developed large cooperatives on the back of members with high productivity farming operations. It was a reminder that the Netherlands, a country which would fit inside Hawkes Bay or Canterbury, is the second largest agricultural exporting country in the world!

There were a number of top Wairere ram clients and their wives in the group. But after eighteen flights and a few 4am starts in 21 days, the two days of R and R in Rio de Janiero provided too much distraction for an intensive debrief. However my personal conclusions were:

- The contour, soils, climate, direct drilling technology, and cultural attitude suit arable and beef cattle farming. The cab of an air-conditioned tractor is more comfortable than the pit of a herringbone cowshed at 4am.

The scenery is awesome in South America – Copacabana beach, Rio de Janiero.

- Argentina is ten times the size of New Zealand with rich soils to die for. But it provides a contrast to New Zealand in the quality of infrastructure. Farms generally have dirt roads, no mail, limited internet, limited power and poor schooling, so the owners live in town. Political interference is a major disincentive in Argentina. A tax on exports is a huge brake on production. This country could easily produce 50% more.
- More stable political regimes in Chile, Brazil and Uruguay have paved the way for steady productivity progress. Agriculture is definitely the engine room of these economies though horticulture is dominant in Chile.
- Another gap is that between the wealthy and tertiary educated, and the rest of the population. The reluctance of the educated to get their hands dirty is a handbrake on economic progress.
- Bureaucracy and corruption are major impediments to change. It is estimated that 42% of GDP is channelled through the "grey economy" in Latin America, compared to 18% in OECD countries.
- Sheep farming generally falls into the "too hard" basket. There are easier alternatives. With the demise of the wool market the sheep population in South America has fallen away. It is unlikely to revive in a hurry.

The global scene

When you look around the world, the sheep population is farmed in marginal areas, often semi-arid or hilly, which preclude other enterprises. More than half the world's sheep are run in small mobs, daily accompanied by thousands of shepherds on common grazing land, in countries such as China, India, and Iran. Sheep farming's biggest constraint is the low price of wool, and the low weight of production per hectare. In 1960 wool earned 71% of combined wool and sheep meat export value from New Zealand, in 2010 only 16%.

New Zealand's Kiwifruit industry is under severe challenge from PSA, but a temporary shortage of fruit has seen an AVERAGE return for the green variety of over $42,000 per hectare! And a new variety of Gold has the ability to deliver high-yielding crops of 20-30,000 trays per hectare, which could allow the industry to "TRIPLE its $1billion export value within ten years!" …….This demonstrates the power of high weight per hectare, AND high price per kilo.

Breaking out

So, how do we break out of this low return scenario? Our gross revenue has two components

- Kilos of product per hectare.
- Price per kilo, across lamb/mutton/wool/beef.

There are Southland farmers who produce 500-600kg product per hectare. The recipe involves almost 100% sheep at around 15 stock units/hectare, 150-160% lambing and fast growing lambs to 18-20kg, allowing a second crop of bought in lambs, in a favourable summer, to add to the kilos per hectare. But the class of property which can produce at this level is ripe for dairy conversion.

Sheep farming is increasingly restricted to hill country, where current production per hectare ranges from 100 to 300kg carcase weight and wool/hectare. In 2012-13 sheep and beef production was calculated to average 187kg/hectare, 91 from lamb, 66 from beef, 30 from wool. (This was a drought year, and these figures include specialist beef producers). Multiply 200kg by average price received for lamb/mutton/wool/beef of say $4.20, then gross revenue is $840/hectare. How could we target $1,500 to $1,7 00 per hectare and an Economic Farm Surplus of $1,000/hectare? At a current basket price of $4.30, we would need to produce 350kg/hectare. If we could lift average price to $5/kilo, then we need to produce 300kg/hectare.

First, price:

- Lamb. Can we expect better than $6/kg? Processor margin is too tight currently, but that should improve. The exchange rate will surely ease with the decline in the value of dairy exports.
- Mutton. Chinese customers are far less concerned about the age of the sheep they eat. Seventy percent of mutton exports are going to China now. As the Chinese economy continues to strengthen, mutton price should benefit.
- Wool. Recent price increases are encouraging. There are end uses being developed outside the fibre market, which have the potential to increase demand.
- Beef. The global supply/demand balance is pushing international prices up.

Leaving aside beef, sheep farming income is spread around 70% from lamb, 15% wool, 15% mutton or sale ewes. Assuming average seasonal prices of:

$5.70 for lamb x 70%	$3.99
$3.70 for wool x 15%	55.5
$3.50 for mutton x 15%	52.5
	$5.07kg

How likely is a ten per cent increase in produce price? That would take lamb to $6.27, wool to $4.07, mutton to $3.85. Given some depreciation of the Kiwi dollar, and current momentum of product demand, a ten percent increase is on the cards.

However, the area where we do have control is behind the farm gate, with better performance from plants and animals.

- Growing more dry matter per hectare, and higher quality. The levers are fertiliser/grazing management/new pasture species/supplement. The recent trend has been to lower stocking rate. To lift output per hectare we need to combine per hectare and per head performance. Current momentum is to reduce fertiliser input and invest in specialist finishing pasture. The plant breeding cycle takes around twelve years. What were plant breeders working on in the early years of this century? For example, there is a white clover cultivar being multiplied currently; it is deep rooting, useful for survival in droughts, and has a lower requirement for phosphate. When will it be available?
- And animal performance? Current sheep genetics show a marked response to better feeding, both in lambing percentage and growth rate of lambs. One of the conundrums for a ram breeder is what quality feeding regime to breed and select within? There is still strong farmer demand for good constitution to handle adverse conditions. And where is the cross over with "animal health"? Internal parasites are still the biggest drag on lamb growth rate.
- Can we take costs out of the system? The biggest help would be the removal of dags. Sheep farming would be simplified if some treatment at docking was capable of creating a non-stick "Teflon" surface for a lifetime.

Pushing the boundaries

Matt and Lynley Wyeth, Wairarapa, farm up against the Tararua ranges. Cows graze up to 950 metres above sea level. "The steep greywacke hills are healthy though, always dry underfoot, and we can run eight ewes and lambs to the hectare there. We don't get lambs away before Christmas, because the climate is too cold. Instead, we focus on the strengths of this property. In the valley floor we have transformed every hectare into plantain or other greenfeed crops for finishing lambs. We use another property as a "holding paddock" for our own store lambs".

All of the ewe hoggets are contract grazed elsewhere, to allow room for the highly productive ewe flock, which averaged 151% survival to sale over the past four years. "We send 3,000 hoggets away for grazing, January to January. They are all mated. We need 1,500 two tooths, and want only those which get in lamb. The ewes hit a peak weight of around 70kg at mating, and will scan 200% at that weight.

By mid winter they'll be down to 65kg. We chase number of lambs per hectare, rather than maximum weaning weight, because the flats allow summer/autumn finishing.

Matt and Lynnley Wyeth, Spring Valley Enterprises – "where efficiency meets farming – putting the pride and passion back into farming".

OF the 800 hectares effective, 500 are steeper hill, 200 are cullable, and 100 are rolling but broken terrain."

Cows are calved late, in November, and weaned early, in February. You may also have read of their lambing of tripleting ewes indoors, achieving 287% and nil ewe deaths.

The net result of these efficiencies, and the flexible farm boundary, is an output of over 320kg meat and wool, and an EFS of $685/hectare in 2013-14. Not content with being the youngest winners ever of the Wairarapa Farm Business of the Year in 2005, Matt and Lynley have just won the Ballance Farm Environment award for Greater Wellington, and go forward to the national finals this month. Matt has estimated that the nitrogen leakage from Spring Valley is 14-15kg/hectare per year. They monitor this by frequent water testing, to ensure that their farm policy aligns with the environment. Wairarapa farmers are lucky indeed to have one of their own challenging the status quo on every level.

Good luck for the Ballance national finals!

The Parasite Challenge

Our area received a lot of autumn rain this year, and, unusually, it was all warm rain. This has led to a tsunami of internal parasites. It was first noticeable in hoggets. Wairere has close to 5,000 hoggets on at 1st June, on 1070 hectares; requiring ewe hoggets to be pregnant to be retained has a price, and there are 2,000 ram hoggets.

Another ram breeder, who has worked hard for years on improving resilience to parasites, commented that his ewe hoggets had lost eight kilos in April.

The challenge has affected two tooths and mixed age ewes too. After culling a number of ewes, a decision was made to drench two tooths at the end of May.

The situation prompted a comment from Chris Mulvaney, founder of Sheep for Profit, now Stockcare, "I don't think the answer to parasites lies in breeding for resilience/resistance".

Looking around the world at all the crops humans grow to feed themselves, almost all are reliant on control of plant or animal disease.

Research and Development

The rapid recovery of the kiwifruit industry is a tribute to the knowledge base and quick response of scientists and growers. Researchers had new "champions in waiting", notably Gold 3, which is largely resistant to PSA. Zespri spends $130m per year on marketing and R and D.

Contrast that to our wool industry, where farmers voted in 2009 to abandon any combined funding of the sector. No investment will take us ….nowhere. That is why I have backed the reintroduction of a wool levy for industry good activities.

There has been consternation about the withdrawal of AgResearch from Invermay. But AgResearch has to balance its books. And it is notable that both the Netherlands and Denmark have concentrated into one major agricultural research centre each, of critical mass and excellence. How did Denmark quadruple food exports between 2001 and 2011??

Client Success Stories.

Ken and Sharon McRae, South Otago. It is always a sad day when a top client has to sell up, in this case because of ill health in the family. Ken and Sharon's performance record didn't go unnoticed though. Lambing percentage hovered around 160 from the 2,000 Romney ewes. Even in the horror year of 2010, lambing was 146%, a result also attributable to a lot of hard work in moving ewes with newly born lambs into shelter.

Ken and Sharon McRae

The clearing sale on March 14th produced prices for all the two tooths of $179, $152 across all ewes, including two tooths and $119 for the replacement ewe lambs, well above average prices at that time. Ken: "There were 142 registered buyers at the sale, and strong competition for the rams too. I could have bought two tooth rams in November, brought them home, and made a profit in March!"

"The biggest plus with the Wairere ewes is that they could absorb a tough season, and it didn't affect them. They just bounced back".

Don McCreary and Anna Johnston. Don and Anna won the 2014 Wairarapa Farm Business of the Year. The return on capital of 9.3% over the past four years is an enviable result. The system is set up to enable a trading component for both sheep and cattle as well as breeding.

That flexibility, plus average survival to sale of 141% and finishing most lambs to good weights, is the key to success. The April edition of Countrywide ran an extensive coverage of Don's management system, so I won't repeat it here.

Don has been putting Wairere Romneys over base flock composites for the past seven years.

Don and Anna join nineteen other winners of Wairarapa Farmer of the Year who have used Wairere rams.

Don McCreary and Anna Johnston with a view over their hill country property, 20 minutes east of Martinborough.
Photograph by Mark Coote, Countrywide April 2014

Hamish and Andrea Reid, Darfield, Canterbury. " I can promise that I have never hit a Wairere ewe over the head with a 4" x 2", but I fielded a few phone calls after that advertisement!" It was one way of expressing my appreciation for the constitution of the Wairere TefRoms in my breeding program. The 2,000 ewes lambed 171% survival to sale last year. Lambs kill out at an average of 18.5kg, starting mid October".

The property is 500 hectares, some stony and some better soils, with 100 hectares irrigated. "We crop around 125 hectares for South Pacific Seeds …… carrots, radishes, Chinese mustard, freezer peas, barley. We'll finish 6,500 to 7,000 lambs this year, with good rainfall helping. Of those, 4,500 – 5,000 went to Kumanu, a brand which is focused on gentle handling of lambs before trucking for slaughter. The reduced pH in the meat guarantees a pleasant eating experience, well above the normal 70% "most favourable" response from taste panels to New Zealand lamb".

Hamish Reid with ewes on fodder beet. "We've been using fodder beet for five years. This crop is mediocre, at 29.6t/hectare. The important thing is to supply plenty of fibre too with baleage being more like haylage."

"We also graze ewe hoggets for several farmers on Banks Peninsula. Dairy grazing isn't as lucrative as it looks, given extra tractor work and feeding out, and pugging problems. We have been with Stockcare for twelve years. Even though we achieve good sheep performance, Stockcare still provides valuable insights for our sheep business."

Will and Sarah Banks, Wairarapa." I reckon I'm farming in the sweet spot for what I want from my business and lifestyle. I used to run 4,000 ewes, but cut that back to 3,400; and finish 300 bulls on our 680 effective hectares. I find a lambing of 128-130% takes out the risk of small lambs from a high percentage, if the spring gets tight. A medium lambing percentage means that most of the ewes wean in good condition and I don't have to lift them through the summer. Even though we farm in the summer dry zone, 120 hectares of cultivated country allows us to finish all lambs to 18kg. Bulls are very flexible. I can make as much money in six months, from July to December/January, as I could in twelve.

I'm very happy with the Wairere Multipliers over Perendale Finn/Texels. The progeny have better bone and produce higher kill weights. The ewe lambs this season are the best that my father Hamish has seen on the property.

Will Banks with his tailend mixed age ewes.

The wool sells well, averaging $6.67/kg two years ago. The ewes clip 31 micron. Although wool weights are only 3 to 4kg/sheep stock unit, we shear only once per year, and the natural mulesing of the Multiplier is great for avoiding dags."

"We lamb our ewe hoggets, and buy in 1,000 to 1,500 store lambs to finish in the winter with the last 200 homebred. We made a reasonable profit last year, to our accountant's surprise. But it was through not fertilising the hills. I can see the effects of missing fertilising for two seasons, and we need to get back into it".

Will bought the farm from his parents in 2007, and increased the overdraft in year one, the 2008 drought. "We had five droughts in our first five years. It was a baptism by fire. But that's why we have evolved a management system which is very flexible."

Here's wishing you a cruisey winter. Global warming has to have some pluses!

Derek and the Wairere team.

Derek

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