



Client newsletter
April 2015

Wairere

The Bad and The Good

The Bad

It has been a tough season for many sheep farmers, with both weather and prices. The spring got off to a good start, with kind weather for those lambing in September. Many of our clients scored personal best lambing percentages. But a cold and dry spring across much of New Zealand, followed by a sizzling seven weeks in December and January, enabled processors to ratchet farm gate prices down fast. The farmers with earlier country, and good genetics for growth rate, sold early when prices were acceptable.

Having flown over Otago and Canterbury recently, and the southern Wairarapa, I feel for the farmers battling away in those areas. Let's hope the early winter is kind, and a feed wedge can be developed with nitrogen fertiliser, or by some other means of supplementation.

Einstein's Theory of Relativity is universally known, and we apply our own relativity to every situation. Pierre Syben from Wairere was in Victoria, Australia, in the middle of the major 2006 drought. He called in at one of the huge saleyards to catch up with prices for sheep. The auctioneer was going strong, with bids ramping up from 40 to 85, before the pen was knocked down. "That's a good price for old ewes in a drought," Pierre said to one of the crowd. There was a pause, then "That was cents mate, not dollars."

The Good.

The Economist magazine recently had an analysis of investment returns over the past 25 years. The graph showed bonds, gold, the New York Stock Exchange, commercial property....farmland topped them all! You may also have noticed articles about young Englishman



Ian McDougall with two toothies at Wairere, March 2015.
Ian is doing our embryo program in late April.

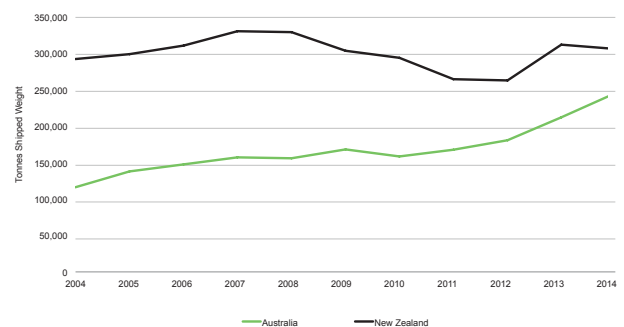
Stephen Diggle, a billionaire who made his fortune as a hedge fund manager. He believes that farmland ownership is a compelling proposition, "the ultimate store of value." He does add that he will diversify his portfolio by geography, products, weather, and government interference. In New Zealand, "We have great access to water, a conducive climate and skilled workforce, unique access to Australia and proximity to Asian markets as well as first world legal and financial infrastructure."

Changing the Industry.

For 21 years I was a director of a small processor/exporter, Lean Meats, which has a plant at Oamaru, and contract kills at Progressive Meats in Hastings. I learned some key lessons while sitting on the other side of the table from farmers:

- In February 2012, that period of sky high lamb prices, I remember the marketing manager reporting, "The telephone has stopped ringing. No one wants any product. There's an eerie silence in the office." Every product finds a supply/demand balance relative to price.
- Despite Lean Meats having a substantial sales and processing operation in the San Francisco area, the biggest obstacle to getting new clients was the low price of Australian lamb (not competing New Zealand lamb). Their wholesale quotes were typically \$NZ2.80/kg below ours.
- Australia is pushing more and more lamb out into world markets, while New Zealand supply is shrinking. Supermarkets are like farmers. They like to get a few

Australian and New Zealand lamb exports
Tonnes Shipped Weight – Year ending September



Source: Beef + Lamb New Zealand Economic Service | Global Trade Atlas

Some good news: Australian lamb exports are expected to decline by 15 percent in 2015.

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quotes before buying. One upmarket supermarket which we sold to enjoys ten weeks supply of lamb from Iceland, a promotion helped every year by a bevy of blue eyed blondes from that exotic island. More recently there has been a challenge from "organic lamb" grown in New South Wales. Competitors and substitutes are global.

- When your business makes a loss in two years out of three, the bank is no longer your friend. Lean Meats had to be recapitalised, and the farmer group which started the business in 1989 is now a minority shareholder.
- Processing is about doing the disassembly job at the lowest cost. It is a low margin industry. Monitoring is critical. The best operators know daily whether their kill for that day has made a profit or loss.
- During these years when processors have struggled, farmers have been the winners in the margin game. This peak season has allowed processors to make a profit. The other key factor in a low farm gate price is the sharply reduced volume going to China....the demand/supply curve at work.
- There is a significant risk in reducing killing capacity. Farmers would have to farm more conservatively, so there would be fewer stock to kill. The dairy industry looked hard at spreading production more evenly through the year, but quickly came to the conclusion that it was cheaper to build more stainless steel and accept a seasonal peak.

The Lucky Country?

Did you look across the Tasman last spring and wonder why beef price was around \$NZ3.90 when price here reached \$6.40? Meat processing in Australia is in private ownership, and the long running drought has enabled processor margins of \$A550 per cattle beast for many months. This is despite the many feedlots in Australia, chasing premium prices in Japan and other high end markets. And when the rains come and the supply slows to a trickle, the processors will probably get their heads together to maintain a margin of \$300. The average margin in New Zealand, where there is substantial farmer ownership of processing, is closer to \$100.

Foreign Ownership.

Over the past five years New Zealand farmers have had a golden run at the expense of processors. But that might be about to change. The Chinese are coming, with ownership stakes now in a number of smaller abattoirs, two of those being majority shares. And a chunk of equity in our biggest cooperative might be up for grabs. Will we just hand over control?

What is the Chinese track record in other sectors? One example is the smelting of aluminium. Fifteen years ago China had around 20 percent of global smelting capacity, but has steadily increased that to 45 percent. Over the past several years their smelters have been selling aluminium at a price low enough (partly from use of more modern technology) to put facilities in other countries out of business. Some private ownership is to be welcomed, but dominance is not in our best interests. I'm more concerned about losing all control of our channel to market than of foreigners owning 3 percent of our farmland.

To create farmer owned businesses beyond the farm gate is a huge commitment of time, money, and sacrifice. Trying to rebuild a large enterprise like Silver Fern Farms or Alliance from scratch would be well nigh impossible. What is at stake here is not just income, but the value of our farms in the long term. The leverage on land values is huge. Or will we join the vegetable growers and peasants in other countries and have multinationals dole out a price just above the cost of production?

Your feedback.

On the Wairere booking form in September, there was space to comment on the "most important attribute which needs improving in your sheep."

72% no comment. We hope you are happy with all attributes.

8% weaning %/mothering ability

8% feet

4% lamb survival

4% lambs away earlier/growth rate

3% constitution

2% yield

1.5% teeth/jaws

1% longevity

1% internal parasite resistance

1% making more money

The figures add to more than 100%, because some clients named several attributes.

It is intriguing to see the changes over the past fifteen years. Five years ago there was a lot of concern about parasite resistance to drenches, but two new drenches on the market have lulled us into a sense of security.

It is interesting to contrast this feedback with the valuations on various sheep productivity traits calculated by an expert committee which is currently working on changing the relative economic values for SIL indexes. The committee is considering 43 traits, 14 for disease resistance, 12 for ewe maternal, 4 for efficiency, 7 for carcase traits, 4 for live weight and growth, 2 for the new traits of body condition score and stayability (similar to longevity). That's a lot of traits, but two thirds of them are of little economic importance.

What are the biggies?

Trait

Economic value of a 10% increase nationally

- | | |
|--|--------|
| 1. Feed efficiency
(10% increase in stocking rate) | \$305m |
| 2. Adult liveweight
10% decrease in ewe liveweight with productivity maintained (theoretical ?) | \$231m |
| 3. Meat yield
10% increase from 53 to 58.3% red meat yield | \$185m |
| 4. Weaning weight maternal | \$77m |
| 5. Parasites | \$69m |
| 6. Body condition score | \$55m |

7. Lamb survival direct	\$55m
8. Lamb survival maternal	\$50m
9. Twinning (more twins rather than triplets)	\$50m
10. Stayability (longevity)	\$44m
11. Number of lambs born	\$30m
12. More than one mating/year (theoretical?)	\$30m
13. Carcase weight terminal	\$28m
14. Carcase weight maternal minus (the theory boys don't like big sheep; this value would indicate that they think NZ sheep are already too big]	\$20m
15. Methane emission (theoretical?)	\$28m
16. Facial eczema	\$26m
17. Hardiness	\$25m
18. Footrot/other lameness	\$14m
19. Hogget lambing	\$14m
20. Easy lambing	\$13m
21. Udder/teats	\$10m

The top two in dollar terms are mirror images of each other, feed efficiency and adult live weight. Although per head production of New Zealand breeding ewes has improved dramatically over the past twenty years, stocking rate per hectare has fallen significantly over large areas, so production per hectare is largely unchanged. By contrast, the dairy industry has substantially increased production per hectare, but irrigation and favourable economics around imported feed and nitrogen fertiliser have played a big part.

Wairere breeding direction?

Robust, resilient rambos sums it up; twins which grow fast. We run a high stocking rate, eye muscle measure around 6 - 7,000 ram lambs each year, space out drenches for lambs, don't drench adult sheep unless welfare dictates, analyse lamb survival maternal and select sires accordingly, and actively prefer sires from old ewes which have a long history of high productivity. Hogget lambing for early maturity and easycare has been practised since 1966.

Each year we check out structural soundness on 21,000 ewes and two tooth, and 9,000 ram lambs.

At two tooth ram selling in November 2014, there were more who joined the many in the 150% lambing club. Having achieved a level which suits farm type and climate, attention tends to be directed to nuisance attributes which demand some time, in a world where every sheep farmer is looking after more animals than a decade ago. We cull sheep with excessive dags, wool problems and feet/pastern faults. A twin with a high weaning weight is the number one target. Big mobs of ram and ewe lambs after weaning sort out those individuals which grow well into thrifty hoggets... the foundation of our flock and yours.

What I take out of the Wairere survey is that a lot of clients are now generally satisfied with productivity levels in terms of lambing percentage, growth rate and constitution.

Action at Wairere this year.

- Ewes and lambs weaned well at Wairere in December, averaging 73kg and 31kg at 92 days from 148 percent. By early April average ewe weight was 66kg and two tooth 62kg. But the platform had been set. As with cows, lactating ewes gain condition better while lactating (nearly 50% more energy is required by the dry ewe, such is the change in metabolic efficiency.)
- Apart from selling and some leasing of 800 ram lamb sires, and dealing with the heat wave by unloading stock fast, we have analysed the Sheep Improvement Ltd dam summary records of around 10,000 ewes and twinning hoggets. Having done the paper check for tags staying in or being cut out, we then do an individual visual analysis of those ewes. The visual inspection extends to incoming two tooth, ram lambs and ewe lambs, and multiplier flocks on other farms.
- The dam summaries contain a lot of information. With older ewes we know how many ram lamb progeny were sold as rams, and to whom; and the lambing performance of ewe lamb progeny is laid out too. Using this information we have isolated the best 60 from the four year and older ewes, and plan a multiple ovulation embryo transfer program for late April.
- We tested 49 ram lambs for FE resilience in February, with 37 passing the test of 0.4 sporidesmin.
- We have just purchased 268 hectares in western Victoria, and will have 190 Wairere two tooth ewes involved in a multiple ovulation transfer program there this month. This will be much easier than the expensive and tedious quarantine program required to air freight flock rams to Melbourne.

What Works in Australia?

Talking to Australian clients of Wairere, there is a strong opinion that Lambplan has taken sheep genetics in the wrong direction. Growth rate has been favoured at the expense of doing ability. To quote a farmer in Victoria who trades 500,000 lambs per year: "There are big lines of lambs that I just won't touch. They won't finish unless you feed them grain."



Chris Mulvaney inspecting a mob of 2,500 ewe lambs at Wairere, March 2015

What Works in New Zealand?

This “doing ability” is such a big part of what we are breeding at Wairere. Here are comments during November ram sales from several clients who recently changed to Wairere. These comments confirm the importance of doing ability, which we tend to take for granted at Wairere.



Josh Williamson, Northland.

Josh Williamson, Paua Station, Northland. “I was so impressed that I purchased forty more rams this spring, so the whole flock can be mated to Waireres. The first lot of twenty Wairere Romney rams went over the two tooth. We drafted 55% POM, never done that before!” Paua Station is in the final three of the Maori Farmer of the Year competition.



John McOviney, Manawatu



Lindsay Johnstone, Wanganui

Lindsay Johnstone, Wanganui. “I drafted 800 lambs POM this spring, from 141% lambing. I’ve never drafted at weaning before. And that was after my best lamb finishing year in 2013-14. I can thank Wairere and Stockcare for this huge change.”

Tip: One comment I’ve heard from a number of top farmers is the payback from paying more attention to body condition score of ewes. To quote one supervisor, “It’s been the single biggest change in lifting the productivity of the flocks on all our properties. And it doesn’t cost money, only time.”

Better condition score is becoming the game changer for productivity in the dairy industry too.



Brent Gowler, Manawatu

John McOviney (owner), Brent Gowler (manager), Potaka Station, Manawatu. “Our Romney lambs used to have good frame, but wouldn’t finish until late autumn/winter. We used to wether them to try to improve the ability to finish. One cross with Wairere has produced a transformation.”

The Wairere brand often achieves a premium for store lambs and ewe lambs for breeding. This is all part of our goal of “making your sheep farming easier and more profitable.”

I hope the autumn and winter works out better than expected. I can recommend the age old strategy of applying extra fertiliser, and nitrogen, before it rains.... the least cost supplement, and you don’t need a tractor to feed it out.

Derek

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