

NZ's new cash cows



AUSTRALIANS might need to find new ways to poke fun at New Zealand. Once famed for its 10 sheep for every citizen, there has been a big shift in New Zealand's agriculture industry that could create opportunities and challenges for local farmers.

A surge in dairy production is worrying New Zealanders that their economy is becoming too reliant on a single commodity.

Milk exports make up 27 per cent of the nation's exports, driven by soaring demand for milk powder from China.

Combined with the rebuilding of earthquake-wracked Christchurch, the dairy industry is driving one of the fastest economic expansions among developed nations this year.

But there are predictions dairy's stellar growth is about to plateau.

The success of New Zealand's dairy sector – where milk volumes have more than doubled since 2000 to 20 billion litres – has come at the expense of red meat.

New Zealand farmers have been making far better returns from dairy farming so have, en masse, ditched sheep and beef cattle for milking cows.

The number of sheep has fallen almost 60 per cent since the 1980s to about 30 million. Analysts expect numbers to continue falling. Forget 10 sheep per Kiwi. There are now 6.7 sheep for each of the New Zealand's 4.5 million inhabitants.

Dairy cows have surged 27 per cent since 2006 to 6.6 million or 1.5 cow per person. It has prompted a rethink in New Zealand and driven investment into initiatives to help boost profitability for sheep and beef farmers in a bid to stem the decline. If successful, it could create fresh competition for Australian meat producers.

Peter Walsh, who owns Western Australia's biggest meat processor with his brother Greg, said Australian producers would have to get "smarter" if New Zealand boosted sheep and beef production.

V&V Walsh have struck a deal with China's Grand Farms, the largest importer of New Zealand lamb to China. The two companies plan to spend up to \$200 million buying farmland to boost beef and sheep processing at the company's abattoir south of Perth.

Walsh says New Zealand farmers will be aided by a lower currency and cheaper labour.

"We have to get smarter here," he says.

One of New Zealand's most senior bankers, ANZ Banking Group commercial and agri managing director Graham Turley, said the bank was working with local New Zealand farmers and industry groups to improve returns for the red meat sector to prevent New Zealand's agriculture sector becoming too reliant on one commodity, which is increasingly being exported to one country: China.

"You don't want to be selling everything to one customer and one environment," Turley says. "We need to get much more profitability and sustainability in the sheep industry. It's in decline because it has trouble competing."

Turley said meat exports generated \$8 billion compared with almost \$18 billion delivered by dairy.

"We don't want that gap to widen," he says. "We need to get much more sustainable and much more profitability in the sheep meat industry."

"It's in decline but we need that industry to be able to compete with land use with dairy. Not everyone wants to be a dairy farmer and milk cows twice a day."

Rabobank analyst Hayley Moynihan says the decline in sheep numbers has created over capacity in the meat processing market, which must be rationalised. Fierce competition among processors is cutting prices.

"[Sheep numbers are] going to keep falling," he says.

One of New Zealand's most successful businessmen, Sir William Gallagher, whose company Gallagher was built on the success of selling electric fencing to farmers, is much more frank.

"You need to get the red meat industry talking to each other so they don't go out and cut each other's throat in the marketplace," he says.

The red meat sector lacks the scale that has benefited dairy, where co-operative Fonterra markets

about 80 per cent of New Zealand's milk production.

"Having all the eggs in one basket – that expression is still true," he warns. "We have all the primary eggs in half a basket at the moment."

The shift from sheep meat to dairy, which has also included converting forestry land, accelerated during the 2007 global economic crisis.

New Zealand's traditional European and UK markets contracted. While sheep exports to China have been growing, the country typically buys cheaper cuts for stews rather than prime cuts from pasture-raised New Zealand lamb.

This month at the southern hemisphere's biggest agricultural show, New Zealand's Fieldays, one food retailer complained to a passing customer that the strong shift to dairy could hurt his business.

"Everyone is doing dairy. No one is making the lamb any more," the trader quipped.

ANZ, through the industry's \$65 million Red Meat Partnership, is encouraging more farmers to adopt better farm management practices, planning and benchmarking.

It hopes better and more sustainable profits will stimulate farmers to build up their flocks and dampen enthusiasm to convert their farms to dairy.

It's becoming critical.

After a decade of spectacular success New Zealand's dairy sector is tipped to start slowing.

There may be productivity improvements through clever technology but dwindling arable land and environment regulations are likely to curb growth.

Regional governments across New Zealand are clamping down on the dairy sector waste to help protect the environment, especially in waterways.

Moynihn estimates the growth rate will more than halve to around 1.8 per cent.

"Expectations are that growth in milk production will slow down because of the limitations on land and the environment protections," he says.

Wellington-based ANZ rural economist Con Williams thinks Australian dairy farmers could benefit from New Zealand's slowing dairy production.

On the sidelines of the Fieldays conference, Williams said it was unlikely New Zealand would maintain its market share in the growing Chinese market.

Dairy exports to China has grown from less than 10 per cent in 2008 to more than 30 per cent, helped by a trade agreement between the two nations.

New Zealand's market share in China will be tested in the coming years, says Williams.

"That will be eroded by Australia, the United States and Europe," he says.

Australia's biggest dairy exporter, co-operative Murray Goulburn, is aggressively trying to increase local milk production.

Murray Goulburn managing director Gary Helou wants to boost the company's exports from 50 per cent of production to 75 per cent.

He wants to be processing 5 billion litres within five years, up from a forecast 3.4 billion litres this year. He is hopeful Australian farmers can take a leaf out of the Kiwi playbook and increase productivity.

Williams puts half of New Zealand's milk production growth to increased farm productivity and the other to farm conversion and expansion.

"There's definitely latent capacity to increase productivity," Helou says.

"But productivity comes with sustainable prices. People are not going to invest in an efficiency dividend if they don't have the dividend. It's a chicken and egg situation. When you push the price up they will do the right things and invest on farm."

New Zealand farmers are being forced to find better farming practices that are boosting productivity while improving environmental standards.

Waikato dairy farmer Rex Butterworth has spent nearly \$1 million investing in semi-enclosed houses from New Zealand's HerdHomes, where his cows spend part of the day under cover feeding.

With capacity for 500 dairy cows, the homes shelter the dairy herd from wind and rain, while tanks below the ground collect effluent, which is stored and later used as a fertiliser for pasture.

The system reduces heat stress and cuts down fertiliser costs.

"We have seen a significant increase in milk production in the summer months," Butterworth says.

He says his cows produce about 20 per cent more milk solids and estimates the system, which cost about \$1900 per cow, will pay for itself within seven years.

He says more farmers need to invest in technology and change the way they farmed in order to boost returns.

"We have been farming in New Zealand the same way for the last 30 to 40 years," Butterworth says.

"Effluent was a hassle – now it's a valuable commodity."

The reporter attended Fieldays in New Zealand as a guest of ANZ Bank.