

Newsletter 126a

20 April 2015

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Fonterra has made many mistakes, but charging suppliers \$7.50 per kg of milk solids for shares and not allowing 50% share milkers to own some are their biggest. It makes some owners tell their 50% sharemilkers to dry off their cows in March, because the farmers would have to buy shares at more than they were being paid.

Auctioning dairy products, which I have always said is a disaster (see older Newsletters in www.grazinginfo.com) allows buyers to decide the price and sets the world price.

Many of the 500 GrazingInfo members, and others I speak with about Fonterra, say that they do stupid things of no benefit to New Zealand, which some see as so illogical, that they are wondering if Fonterra managers are getting back handers from buyers and other countries! Asians live on them.

Fonterra managers getting a million dollars a year would spend more time deciding what to do with it, and their next million, than how to help those who pay them.

Fonterra should start the auctions at \$6.50, and promote the masses of pasture-fed milk benefits shown in Dairying, 'Milk Benefits'.

They boast about increasing organic milk supply, but their reducing of the organic premium, and ridiculous organic rules, have halved the number of suppliers.

In marketing we learned and have seen examples of only 5% over-production creating a surplus and causes a drop in prices, especially if you tell the world, and rely on auctions, as NZ wool did for 50 years. Auctioning wool was highly successful before synthetics when the demand was greater than the supply. Now most wool sells so cheaply that it can cost nearly as much to shear as farmers get for it. Figures show dairying going the same way.

Another marketing rule is to never upset local producers, because they'll get their government support and beat you. Fonterra does this with its boasting and low selling prices.

An obvious rule is to keep surpluses secret, not boast about them as done by Fonterra.

Every week we read in papers about astute companies that consider information is "price sensitive" so secret, while meat, wool and now dairy, almost boast proudly about their surpluses. Auctions are 'fire sales' of damaged goods and bankrupt businesses, not the way to sell the best.

Marketing is about relationships. People buy from those they like, trust and respect. Marketing is building up good relationships with discussions, integrity, service, help, quality and reliable supply, which can't end by saying, "Good luck at the auction."

Fonterra can't market what they have, so should not be producing more in Australia, South America, USA and China, where they have a large farm with big problems.

They should go back to where they started and auction their loss-making investments.

Since Fonterra took over marketing our dairy products they deserve a Y for poor trying and a Z for results. They are there to market milk, but I don't see any evidence of them doing so. They spend all their time and efforts on growth and expansion which is the same as the many North American ego seeking companies that fail. CEO's know that the bigger they get, the more staff they employ, the higher their salaries go, under the bureaucratic system of the more staff, the more pay managers get.

Fonterra has tried everything, changed back and forth, had predictable catastrophes, and not got the results they and their suppliers were hoping for. They have not even achieved their own targets in organic milk production, simply because they don't pay producers adequately, based on what they charge for organic milk which is much higher than the extra they pay for it. In Hamilton, with organic producers on our door step, organic milk still often runs out on supermarket shelves.

Fonterra is a marketing board. Who are the marketing directors on the board? Are there any? One of the Waikato's best marketers, and a 300 correctly farming dairy farmer, was not allowed to stand for election to the board. I thought suppliers voted for the board.

A condition of farmers agreeing to what became Fonterra, was 10 dairy farmer directors.

Overseas, Fonterra has become the most criticised in the dairy industry. The NZ Dairy Board was the most admired for 100 years.

For decades (yes, I had to suffer it in the 1980s when consulting overseas even under the NZ Dairy Board) New Zealand has been blamed by dairy farmers in USA, South America and other countries for selling our milk too cheaply at below our cost of production, thus lowering their milk prices, and from what I've seen, I agree. I've been to USA consulting for farmers 20 times and Europe a dozen, and have overseas farmer and university staff members increasing in www.grazinginfo at a higher rate than in New Zealand.

In 1995/6, the payout was \$4.10 and Tatua's was \$4.18. Production costs then were half what they are now and the average farmers didn't have to buy \$400,000 of Fonterra shares for an organisation farmers already owned in the NZ Dairy Board.

Where has the money gone? Is it recorded in their assets. How is that for jacked up financing?

In the 1960s, dairy farmers with a 100 cows on 40 ha could put three children through a private boarding high school. Today farmers can't do that with 400 cows.

Fonterra's Chinese dairy farm is a massive problem - and what for?

Fonterra is teaching China low cost farming, after which China will refuse to pay us more for our milk. Grazing pasture dry matter in New Zealand is about 7 cents per kg plus 23 cents per kg for the value of land, equals 30 cents. In China no one owns land which has no value so they will just have a cost of 7 cents.

China is now buying millions of dollars worth of dairy cows every year to further increase their milk production, which in 2013 increased by 12%, so they didn't have to buy much from us. It was the first increase of any volume since 1901.

The many large milk factories being built by China in New Zealand will buy milk from Fonterra at its cheap auction rates.

If Fonterra had done research they would have found out that doing honest and successful business in China is impossible. They are too hungry.

A New Zealand businessman made a large patented machine and sold it in China. It was copied, made and marketed there. He won a costly court case after which he was asked on the court steps, "What are you going to do now Mr Kiwi, invade us, because we are going to continue making and selling them."

An American soil and pasture analysing laboratory helped the Chinese set up a laboratory, but China was always late paying and always under-paid the bill, so the American company pulled out.

Lion Breweries pulled out of China.

Asians combine, much more than we do. When the Japanese horse buyers first came in numbers to the Karaka horse stud sales, vendors thought, 'good this will increase our sale prices', but they noticed that only one Japanese bid on any one horse, so asked them why and were told, "We don't compete against each other."

What is to stop dairy product buyers getting together and have one bid for them all, then divide it up? Is it happening now? Who would know. I asked the Fonterra auction manager and he assured me that they would know if it happened. Big companies know little, and the bigger the less they know, and big companies are inefficient.

After Toyota became the biggest car manufacturer in the world, the manager said publicly, "The economy of scale doesn't work, because the staff in large companies, don't care."

In recent years -

Toyota, fought back following a number of difficulties in 2008, and multiple recalls in 2009-10.

Toyota recalled more than 10 m cars in 2009-10 after reports of unintended acceleration.

Toyota recalls 19,000 cars over fuel problems 26 Jan 2011.

Toyota has a major recall in Oct 2012.

Oct 2012, Toyota recalls 7.43m cars over power window defect.

Toyota gains crown as world's biggest car maker in 28 Jan 2013.

No accidents or injuries have been linked to the fault, the company said, but the voluntary recall is a blow to Toyota, which has fought back from a series of difficulties since 2008.

Volkswagen became the biggest for one year, and had a recall in 2013.

I apologise for naming these two excellent companies, but it should warn Fonterra to seek why large companies have these problems. Staff dissatisfaction (annoyance, disappointment, discontent, dismay,

displeasure, distress, exasperation, frustration, irritation, unhappiness) are reasons. I know staff working for Fonterra who say that staff moral is low and dissatisfaction is high. I asked for reasons and was told low pay, not relative to other companies, but relative to 17 managers getting \$1 million a year.

The current Fonterra disaster could be caused by dissatisfaction, so possibly one staff member thought, I'm not going to clean that difficult pipe, when I'm already over worked for what I get paid.

Also I've been told that a full water wash system had been discontinued.

Fonterra, the government and others are spending who knows how much, on investigating the pollution. Will they start at the coal face? They won't find it from million dollars a year managers offices.

This investigation should have been done and completed months before.

Fonterra Auctions

Fonterra's USA company run auctions started on the first Tuesday of the month. I asked them what buyers do if they need product urgently and was told, "They have wait for a month!"

Is Fonterra mad? Don't they want to sell.

A reason for feeling sorry for Fonterra suppliers is the USA government rules under which they have to operate, which will mean that eventually Fonterra's milk supply will come only from Raglan, Whitianga and other outlying areas, because intensive areas will continue to break away, form new companies and market their own products. Sadly, most of these companies will not be co-ops, so the suppliers will be kept as peasant suppliers.

The only thing up to be auctioned in the future could be Fonterra. They started with 96% of suppliers and now have only 86%. China setting up massive factories as in Pokeno, will buy milk from Fonterra and saturate the Chinese market, then possibly others.

Then I will feel very sorry for dairy farmers when their many companies compete for sales so that buyers can beat suppliers down in price as has happened with meat for decades.

Fonterra can't market what they have so should not be looking for more, worse still from overseas which must be in their little minds. If not, why help overseas countries produce milk.

Draw a graph of true value payouts and it will show that in 50 years time, the payout will be zero.

Do the same with the average numbers of cows milked. Sixty in 1958 to 320 in 2008 (50 years) 390 in 2015 means 580 cows in another 50 years on an \$8,000,000 farm, on today's figures. A 5% return on that is \$400,000 needed pa after all costs, plus an income to live on.

Fonterra can't continue to get no return from their investment of billions in supplier share value, and millions at 7.75% when people could borrow at 5.75%? Anyway, why are they borrowing at all? Surely not to pay producers only \$4.55 per kg.

The positive side is that Fonterra can save themselves - if they are smart and quick and get back to their core job of marketing our milk instead of building an empire and teaching China, USA and South Americans low cost dairying to compete with us!

Perhaps Fonterra can tell us why they continue to go the wrong ways and have apparently bought a 1,000 cow farm in northern Mississippi, why not Oregon where I tell my clients to buy and they are doing very well. Oregon climate is like New Zealand's, but their soils are far better than ours. China has the same.

The biggest mistake they've made is to sell three quarters of their product at the low prices, rather than hold most until prices increased. Our poor dairy farmers are starving each year until October for the final payment which was the first of August since day one. Our government has spoken about possibly assisting companies that have financial problems. New Zealand dairy farmers have been supplying milk to Fonterra at below the cost of production for ten years. Farmers (not only dairy farmers) employ thousands and keep the rural towns going, but get nothing on their investments, inflated by lifestyle land buying prices.

This government loves controlling things by using bureaucratic committees. It should control Fonterra.

One would think that the dairy farmers on the Fonterra board would control the whole show, but they never will because Fonterra screens those who stand to ensure they are yes-men, not successful business people. I know two good dairy farmer business people who were turned away. Russ Rimmington was one. See page 1.

The first job for the CSAI that won't eventuate, could be to investigate Fonterra.

Fonterra 839-8398 HO London St
Box 459, Hamilton.
Quality milk quality Lindsay Burton
I phoned Roger Andella 31 January 2013 VG. Email him at roger.andela@fonterra.com

Milk Quality done by Louise Takaninni

Sponsorship to Improve milk quality and keep toxins out of milk by testing it for toxins and farming to avoid pollutants which are excessive now except in organic milk which is 70% compatible and with zero Hg, Cd, .

Lower Waikato Sponsorship@fonterra.com

Water
Mn
Algae
e-coli
soluble mineral mixes

Somatic cell count can be reduced by feeding Solminix, Bealey NEA2, and increased after high unpalatable ryegrass like the ARs, especially Commando

LowerWaikatoSponsorship@fonterra.com

<http://www.mpi.govt.nz/agriculture/funding-programmes/sustainable-farming-fund.aspx>

colin@aqnz.org or phone 03 546 2666 or 021 2444157

LowerWaikatoSponsorship@fonterra.com

To Dairying Today of Dairyman

Crafar collapse was Fonterra's fault.

Crafars would not have collapsed under the old NZ Dairy Board's equalisation of payouts, so that they could not rise or fall more than 10% in a season.

Crafar's failure is fully the fault of Fonterra. Their BoP director called on Crafars and encouraged them to expand, so Fonterra should have lent the money to Crafars to pay the banks and proceed, and give them two years to borrow elsewhere.

Crafars should send an account to Fonterra for the amount they lost.

The dairy industry will regret what has happened, because the Chinese can now buy more farms, convert forests they own or lease, to dairying, as has been done by Carter Holt near Tokoroa to 40 dairy farms.

Then the Chinese can build a factory to process milk into baby food, buy milk from other dairy farmers and grow rapidly.

Wanting milk, not wanting profits, their lower costs will produce cheaper milk and then tell Fonterra that their prices are too high.

Fonterra won't regret anything because their egos have made them a 'grow at all cost egotistical giant', going backwards.

Those findings held true even once the researchers took into account heart disease risk factors such as high blood pressure and smoking.

Fonterra has a complete lack of foresight.

What other company would teach the rest of the world (China and South America) how to produce their products - in this case, low-cost pasture fed CLA milk.

Fonterra has cost our dairy farmers at least \$300,000,000 in losses - \$30,000 each.

New Zealand produces the best pasture fed CLA milk in the world, and auctions it!

Have all Fonterra sales staff read 'Grassfed is Best'? 9 million others have.
Also Google for 'Why Grassfed Is Better than Organic By Jo Robinson'

Fonterra teaching the Chinese low cost milk production, will make them to tell us our price for milk is too high because their land is free.

Is Fonterra mad?

'Vaughan Jones

International Agricultural and Marketing Consultant

END

New Zealand's biggest marketing mistake, which has been made for five or more decades, is selling all our farm products so cheaply. It has caused the accusation of 'dumping' which is selling at below the cost of production and upset many countries. At the USA Cornell University in 1992 I was promoting New Zealand's low cost grazing with no subsidies, as apposed to high-cost housing with cutting and carrying feed in and manure out, and was accused of 'lost credibility' because "Little Iddy Bidy" islands in the South Pacific couldn't get their milk and meat products up to USA at their low prices without subsidies". Ten years later Cornell University acknowledged grazing New Zealand style worked well in USA. I've converted hundreds (I not thousands now.) in North America and all produced less milk which suited us, and made more profit, which suited them. Thousands of USA confinement dairy farmers have failed, and thousands have changed to grazing. How can DairyNZ be so ignorant to currently be encouraging buying supplements (NZ Herald 24 November 2014), but they always are, shown by their ridiculously slow cow condition scoring and recommending applying urea in May 2013 after the drought broke, when all dry for a few months soils were already overloaded with nitrogen.

Fonterra, despite their typical boasting about how 'wonderful' they are, and plan to increase organics by 300%, has lost nearly 50% of organic suppliers because they reduced the payment incentive from 20% to 15%, remoteness, crazy rules, etc. In some European countries they pay organic farmers nearly double.

To finish on a positive note, over time dairy farmers build up assets so most farmers retire wealthy, which is more than can be said for many, even successful professional business people running their businesses from leased premises. People can't sell their skills, so ones without assets have to keep working and retire later and a lot worse off than good farmers. So please try to remain positive, despite having most townies against you, but increase the pressure on Fonterra to do a lot better than they have done, animals are still doing. When we sold our second 107 hectare dry-stock farm in 1987 and invested in town, our net income and capital gain both doubled. To build up your assets, avoid over-capitalisation with concrete and buildings, reduce your mortgage, improve your soil and pastures, and increase pasture based profit with the correct number of cows based on the spreadsheet that helps you do this accurately. Six farmers went to USA in the late 1970's and changed to the USA system. All went broke or gave up within a few years and Doug Woolerton wrote in GrazingInfo Testimonials, "We lost our Peacockes Road dairy farm (near Hamilton) because of using the American confinement 'cut and carry' and bought feed. Good on you Vaughan for pointing out its many failings in New Zealand."

Tania and Brendon Fernyhough of Walton went from using a theory consultant to my consulting changed their 400 cow dairy farm from \$244,000 loss on the verge of bankruptcy (bank would lend no more) caused by bought feed, to no loss, then a million profit, then three million profit. Entering their figures into the GrazingInfo 'Dairy Cow Numbers for Max Profit' spreadsheet, convinced Tania to change, which gave them no loss, then a profit of \$200,000 pa, then \$300,000 pa in four years from fewer cows.

Fonterra is New Zealand's worst ever disaster, and the government doesn't have a clue or care about dairy farmers surviving with a milk payout below the cost of production. Politicians tell farmers to budget. What can they budget with when there is not enough to pay the fixed costs of sponsorships to DairyNZ, free milk to children, rates, interest, insurance, etc.

Those buying feed and using any form of confinement must stop and go back to 100% grazing that made New Zealand's high profit dairying. One who changed from using a theory consultant to my consulting changed their 400 cow dairy farm from a \$244,000 loss on the verge of bankruptcy (bank would not lend more) caused by bought feed, to no loss, then a profit of \$200,000 pa, then \$300,000 pa in four years from fewer cows.

Entering their figures into the GrazingInfo 'Dairy Cow Numbers for Max Profit' spreadsheet, convinced them to change, as it has to hundreds of farmers from 1980.

Farmer A in the Milk Profit & Quality chapter changed to \$160,000 more profit after stopping buying all supplements and stopped growing maize silage.

Thousands of USA dairy confinement farmers, even with subsidies, have gone broke or out of dairying and some changed to grazing successfully, as are the Irish after their mistake.

Some buying feed in New Zealand have claimed increased milk production, but I have not seen any show increased net profit.

I hope no GrazingInfo subscribers are doing anything, except pasture grazing, with correct liming and fertilising and no nitrogen except for establishing new pastures. Within a year of applying correct LimeMagPlus, pasture production increases by up to 150% and N is not needed. See Dairying> 'Milk Profit & Quality'.

To see the Fonterra production details go to - www.globaldairytrade.info Click the green box for more results and scroll down for the ten year graph. You'll see that the price frequently goes up in the northern hemisphere's winter when milk production is lower, so we can expect an increase in a few months time, provided Fonterra's ego doesn't tell the world that your production is up again.

The northern hemisphere's higher summer production has a far greater effect on surpluses than increasing your 2% of world production.

Annual milk production figures are, New Zealand 18 billion litres, Australia 9 billion litres, USA 100 billion litres and Europe 150 billion litres.

Thank goodness Fonterra has done a little contract selling. All should be. Milk needs to be marketed with long term purchase agreements as was done by the NZ Dairy Board for a 100 years. Auctions are for fire sales, and things that have to be moved like animals at a sale yard.

Good marketers know that it takes only a 5% surplus for prices to decrease, and a 5% shortage to cause price increases.

It is known that overseas subsidies cause their over-production of milk which makes it tough for New Zealand, but our dairy farmers have to realise that buying supplements that return no net profit is also increasing the problem. Even when the milk was \$8.40, my spreadsheets showed that supplements were unprofitable.

I've helped hundreds of farmers here and in many countries, to decrease their cow numbers to avoid buying supplements, and they made more net profit. In Canada, the world's most milk protected and subsidised country (no milk is allowed to be imported), Smith brothers milking 600 cows were on the verge of bankruptcy. They grew enough feed for 300 cows, so I said sell 300 which paid off all their debts and they thrived. Use the Budgeting spreadsheet to show what is profitable.

In New Zealand, middlemen are fleecing us all. Despite a 48 per cent drop in dairy prices to farmers since February, supermarket prices have not dropped, but increased by 3 per cent in October, according to the latest Statistics New Zealand figures.

Fonterra manages the milk produced by 11,000 dairy farmers, possibly New Zealand's biggest organisation. Their main job is to promote milk and its products and sell them at the best possible price which means finding and keeping markets for it in all countries, with emphasis on the big and high paying countries.

It was announced this weekend – January 31 2015 that Fonterra has lost their entire cheese export rights to America for the coming year because one staff member did not fill out and file the correct form. This has cost them \$11 million dollars. They believe they can sell through other companies' licences – one has to ask why should those other companies help? Presumably they have their own cheese to export?

While this appears to be an administrative fault, not a governance fault, this is one of a number of instances where poor systems and processes have led to catastrophic results for this company. The Board must ensure that all key risks are identified and controlled. The management of those key risks should be reported to the Board in a format that demonstrates that excellent management systems are in place and being managed to the highest level.

In this case heads must roll from the very top. While \$11 million may not be that much to Fonterra, it is one of a number of disasters because of poor quality systems. All these disasters have been of their own making because of lack of oversight. The Board is responsible for that.

ngIf: headlineImage

Mistakes

They must be the organisation that has made the most mistakes, in fact when looking at the facts, they could have made more serious mistakes that all other organisations put together.

The high share value and low payout means that farmers with a 50% sharemilker can have to pay Fonterra for increased production, rather than earn more.

Our 11,000 dairy farmers see Fonterra doing nothing to increase the price of milk. They have promised benefits, but none have eventuated. They write more about the help they have given China, and other competing countries, than about how they plan to market and get a fair price for milk.

Theo Spierings wrote that New Zealand owed it to teach all countries how to produce low-cost milk.

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Fonterra borrowed \$700,000,000 in about 2011 at 7.75% when I could have borrowed at 6%.

Where has the money gone.

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Feel Sorry For Dairy Farmers 5 September 2009

My heart is in dairy farming, which I did from the age of 12 when I bought my first cow. My parents had a town supply dairy farm in South Africa for 35 years, so I have worked within the industry for much longer, and still do. At agricultural college I got honours with 99% in dairying.

I managed the NZ National Fielddays at Mystery Creek and did their marketing on a shoe string budget for the first decade, founded and chaired Waikato Marketers for years, was international marketing manager and director for the Gallagher Group, doubling their sales annually, and have lectured in marketing at universities.

In London, while my wife was shopping, I did a survey of shops selling butter and cheeses. Briefly, all shop keepers said that they liked selling New Zealand dairy produce because it was the best, with no product returns. UK and Danish dairy products on their shelves were at higher prices and sometimes

had quality problems with returns which shop keepers threw away, because the cost of returns didn't warrant doing so.

World-wide, New Zealand dairy produce is recognised as the best, so why auction it? Its price should be set above the rest.

In marketing we learned and have seen examples of it takes only 5% over-production to create a surplus and cause a drop in prices, especially if you tell the world, and rely on auctions, as NZ wool did for 50 years. Auctioning wool was highly successful when the demand was greater than the supply. Now most wool sells so cheaply that it can cost nearly as much to shear as farmers get for it. Figures show dairying going the same way.

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Overseas, Fonterra has become the most criticised in the dairy industry. The NZ Dairy Board was the most admired.

There are three main reasons -

1. They repeatedly boast to the world that their aim is to be the world's biggest dairy supplier. The world's dairy farmers know that New Zealand has low costs and sells on price, so they then fear undercutting and milk price drops in their country.

2. Fonterra is supposed to be a co-operative which is a body with the aim of rewarding its members to the maximum, not one hell-bent on growth by buying factories in Australia and China, and setting up milking systems in China and USA.

3. Their auctioning is a failure, which they start with by selling below competitor prices and each month start at 10% below their own previous auction price. All other auctions start at the highest possible level. Fonterra should start it at the equivalent of \$6.50 per kg of milk solids.

For decades (yes, I had to suffer it in the 1980s when consulting overseas even under the NZ Dairy Board) New Zealand has been blamed by dairy farmers in USA, South America and other countries for selling our milk too cheaply at below our cost of production, thus lowering their milk prices, and from what I've seen, I agree. I've been to USA consulting for farmers 20 times and Europe a dozen, and have overseas farmers in www.grazinginfo. The concern about New Zealand always selling milk cheaply which lowers the world price of milk, is so severe that a Wisconsin (USA's top dairying state) dairy farmer 25 years ago, wrote in the Taranaki Polytech International web site, that USA should nuke New

Zealand.

The 1080 threat to pollute our milk could have come from an overseas dairy farmer or dairying company, or less likely from a 1080 hater.

The following are examples of what Fonterra's allowing the low auction prices causes.

From USA in February 2015. "The USA National Milk Producers Federation said it would seek the full exclusion of New Zealand's dairy products under the newly-announced Transpacific Free Trade agreement, because of the New Zealand dairy industry's unique structure and excessive manipulation of dairy markets globally and in the USA."

Some wonder why America backed off a 'Free Trade' agreement with us a few years ago. It is likely to be because once their farmers heard about free trade they got into gear and stopped it. Anyone who knows anything about USA, knows that their farming lobby controls their income, which was a reason for the 14% lamb tariff on ours a few years ago, a reason for the 50% subsidies to their farmers, and a reason why their rice growers decades ago, got tariffs removed into Haiti, and dumped theirs into that poor little country, breaking their rice growers, poultry farmers, and later their sugar growers and villages, making it the poorest country in the Northern Hemisphere. Haiti supplied Europe until USA ruined them, and opened that market to their more expensive products.

The Boston marketing company, CRA International Inc., does the auctioning world-wide for Fonterra as commission agents, taking a margin. How can CRA claim to be a marketing company when they rely on auctioning, which is price taking, not marketing. Wrightsons Seeds in New Zealand paid for me to fly to USA to The Boston Consulting Group (possibly the same company), to help them market New Zealand pasture seeds in USA. They meant well, but were big, so enough said. When I met two Fonterra managers for an hour, I was surprised by how little they knew about important aspects of marketing dairy products.

In the past, Fonterra has sold out of some products, but still did not increase their (farmer's) milk payout to encourage more production.

Fonterra, if half smart, is big enough in international surplus milk sales to control the market. They commented that they could not store it. Do they not remember how the EU stored their butter berg? In refrigerated ships at sea with no harbour costs.

In 1995/6, the payout was \$4.10 and Tatua's was \$4.18. Production costs then were half what they are now and the average farmers didn't have to buy \$400,000 of Fonterra shares for an organisation they already owned.

Mistakes by Fonterra

Fonterra has made 14 serious mistakes.

They inherited the excellent NZ Co-operative Dairy Board that ran like perfect clockwork for 100 years with \$1 shares.

Fonterra imposed \$7.50 shares. What did they do with the money, other than pay themselves \$4 million to the manager and \$1 million to 17 division managers.

Charging suppliers \$7.50 per kg of milk solids for shares and not allowing 50% sharemilkers to buy half is their biggest mistake. It made some owners tell their 50% sharemilkers to dry off their cows in March, because the farmers would have to buy shares at more than they were earning.

4. Before auctions, they tell the world that they have surplus milk products for sale. Are they stupid? Fonterra's job is marketing, but there appears to be not one of them who has a clue about it.

16. Fined \$192,000 in 2013 for running buttermilk into a waterway near Eltham, Taranaki, and other waste near Edgecumbe, Bay of Plenty.

Where has the money gone? Is it recorded in their assets. How is that for jacked up financing?

In the 1960s dairy farmers with a 100 cows on 40 ha could put three children through a private boarding high school. Today farmers can't do that with 400 cows.

Fonterra's Chinese dairy farm is a massive problem - and what for?

Fonterra is teaching China low cost farming, after which China will refuse to pay us more for our milk. Grazing pasture dry matter in New Zealand is about 7 cents per kg plus 23 cents per kg for the value of land, equals 30 cents. In China no one owns land which has no value so they will just have a cost of 7 cents.

Things that Fonterra should have done by now is to make our own New Zealand's organic rules and not use USA ones that have clauses to make New Zealand organic milk not comply, such as no CCA posts which are unique to New Zealand because we don't have many hardwood posts now, and our vast amount of fencing using posts on dairy farms.

Fonterra has had to recall thousands of products, each of which is a disgrace and decreases the demand for export milk products. Fonterra should have its own laboratory or use the best, before they lose more of dairy farmers money.

My prediction when Fonterra started, was that within 10 years there would be a dozen new companies in New Zealand, all in the high milk producing areas. I also forecasted that Fonterra would end up with only the suppliers in the remote areas.

Does Fonterra realise that their teaching and financing the Chinese our low-cost production systems, is one reason for their increased milk production. China is big enough to produce more milk than we could, by a long way.

Do our dairy farmers and our dairy industry (i.e., all producers and manufacturers) know that some New Zealand dairy farmers are dairying in a big way in USA, and that colossal dairy farms are being planned in their drought areas where effluent disposal is not a problem. They will be fed 100% bought feed with no grazing, so living short lives on concrete.

I don't like criticising and writing about gloomy things without solutions, which in this case are easy.

The world wants top quality dairy produce from pasture fed grazing cows, not PKE or even grain fed, the use of which is increasing in New Zealand and helped increase autumn milk production which helped create the milk production increase that reduced demand and the price to our farmers.

Most who increased cows numbers and bought feed, increased their production, but reduced their profit. The increased production is one of the reasons for the surplus milk, causing the surplus and lower auction prices.

China is now buying millions of dollars worth of dairy cows every year to further increase their milk production, which in 2013 increased by 12%, so they didn't have to buy much from us. It was the first increase of any volume since 1901.

The many large milk factories being built by China in New Zealand will buy milk from Fonterra

If Fonterra had done research they would have found out that doing honest and successful business in China is impossible. They are too hungry.

A New Zealand businessman made a large patented machine and sold it in China. It was copied, made and marketed there. He won a costly court case after which he was asked on the court steps, "What are you going to do now Mr Kiwi, invade us, because we are going to continue making and selling them."

An American soil and pasture analysing laboratory helped the Chinese set up a laboratory, but China was always late paying and always under-paid the bill, so the American company pulled out.

Lion Breweries pulled out of China.

Asians combine, much more than we do. When the Japanese horse buyers first came in numbers to the Karaka horse stud sales, vendors thought, 'good this will increase our sale prices', but they noticed that only one Japanese bid on any one horse, so asked them why and were told, "We don't compete against each other."

What is to stop dairy product buyers getting together and have one bid for them all, then divide it up? Is it happening now? Who would know. I asked the Fonterra auction manager and he assured me that they would know if it happened. Big companies know little, and the bigger the less they know, and big companies are inefficient.

After Toyota became the biggest car manufacturer in the world, the manager said publicly, "The economy of scale doesn't work, because the staff in large companies, don't care."

In recent years -

Toyota, fought back following a number of difficulties in 2008, and multiple recalls in 2009-10.

Toyota recalled more than 10 m cars in 2009-10 after reports of unintended acceleration

Toyota recalls 19,000 cars over fuel problems 26 Jan 2011

Toyota in major recall 10 Oct 2012

Oct 2012, Toyota recalls 7.43m cars over power window defect.

Toyota regains crown as world's biggest car maker 28 Jan 2013

No accidents or injuries have been linked to the fault, the company said, but the voluntary recall is a blow to Toyota, which has fought back from a series of difficulties since 2008.

Volkswagen became the biggest for one year, and had a recall in 2013.

I apologise for naming these two excellent companies, but it should warn Fonterra to seek why large companies have these problems. Staff dissatisfaction (annoyance, disappointment, discontent, dismay, displeasure, distress, exasperation, frustration, irritation, unhappiness) are reasons. I know staff working for Fonterra who say that staff moral is low and dissatisfaction is high. I asked for reasons and was told low pay, not relative to other companies, but to 17 managers getting \$1 million a year.

The current Fonterra disaster could be caused by dissatisfaction, so possibly one staff member thought, I'm not going to clean that difficult pipe, when I'm already over worked for what I get paid.

Also I've been told that a full water wash system has been discontinued.

Fonterra, the government and others are spending who knows how much, on investigating the pollution. Will they start at the coal face? They won't find it from million dollars a year managers offices.

This investigation should have been done and completed months ago.

Fonterra Auctions

Fonterra's on-line auction sessions started on the first Tuesday of the month. I asked them what buyers do if they need product urgently? and was told, "They have wait for a month!"

Is Fonterra mad? Don't they want to sell.

A reason for feeling sorry for Fonterra suppliers is the government rules under which they have to operate, which will mean that eventually Fonterra's milk supply will come only from Raglan, Whitianga and other outlying areas, because intensive areas will continue to break away, form new companies and market their own products. Sadly, most of these companies will not be co-ops, so the suppliers will be kept as peasant suppliers.

The only thing up for auction in the future could be Fonterra. They started with 96% of suppliers and now have only 86%. China setting up massive factories as in Pokeno, will buy milk from Fonterra and saturate the Chinese market, then possibly others.

Then I will feel very sorry for dairy farmers when their many companies compete for sales so that buyers can beat suppliers down in price as has happened with meat for decades.

Fonterra can't market what they have so should not be looking for more, worse still from overseas which must be in their little minds. If not why help overseas countries produce milk.

Draw a graph of true value payouts and it will show that in 50 years time, the payout will be zero.

Do the same with the average numbers of cows milked. Sixty in 1958 to 320 in 2008 (50 years) means 580 cows in another 50 years on an \$8,000,000 farm, on today's figures. A 5% return on that is \$400,000 needed pa after all costs, plus an income to live on.

Fonterra can't continue to get no return from their investment of billions in supplier share value, and millions at 7.75% when people could borrow at 5.75%? Anyway, why are they borrowing at all? Surely not to pay producers only \$4.55 per kg.

The positive side is that Fonterra can save themselves - if they are smart and quick and get back to their core job of marketing our milk instead of building an empire and teaching China, USA and South Americans low cost dairying to compete with us!

Perhaps Fonterra can tell us why they continue to go the wrong ways and have apparently bought a 1,000 cow farm in northern Mississippi, why not Oregon where I tell my clients to buy and they are doing very well. Oregon climate is like New Zealand's, but their soils are far better than ours. China has the same.

The biggest mistake they've made is to sell three quarters of their product at the low prices, rather than hold most until prices increased. Our poor dairy farmers are starve each year until October for the final payment which was the first of August since day one. Our government has spoken about possibly assisting companies that have financial problems. New Zealand dairy farmers have been supplying milk

to Fonterra at below the cost of production for ten years. Farmers (not only dairy farmers) employ thousands and keep the rural towns going, but get nothing on their investments, inflated by lifestyle buying prices.

This government loves controlling things by using bureaucratic committees. It should control Fonterra.

One would think that the dairy farmers on the Fonterra board would control the whole show, but they never will because Fonterra screens those who stand to ensure they are yes-men, not successful business people. I know two good dairy farmer business people who were turned away. Russ Rimmington was one. See page 1.

The first job for the CSAI that won't eventuate, could be to investigate Fonterra.

Fonterra 839-8398 HO London St
Box 459, Hamilton.
Quality milk quality Lindsay Burton
I phoned Roger andella 31 January 2013 VG. Me to email him.
roger.andela@fonterra.com

Milk Quality done by Louise Takaninni

Sponsorship to Improve milk quality and keep toxins out of milk by testing it for toxins and farming to avoid pollutants which are excessive now except in organic milk which is 70% compatible and with zero Hg, Cd, .

Lower Waikato Sponsorship@fonterra.com

Water
Mn
Algae
e-coli
soluble mineral mixes

Somatic cell count can be reduced by feeding Solminix, Bealey NEA2, and increased after high unpalatable ryegrass like the ARs, especially Commando

LowerWaikatoSponsorship@fonterra.com

<http://www.mpi.govt.nz/agriculture/funding-programmes/sustainable-farming-fund.aspx>

colin@aqnz.org or phone 03 546 2666 or 021 2444157

LowerWaikatoSponsorship@fonterra.com

The dairy industry will regret what has happened, because the Chinese can now buy more farms, convert forests they own or lease, to dairying, as has been done by Carter Holt near Tokoroa to 40 dairy farms.

Then the Chinese can build a factory to process milk into baby food, buy milk from other dairy farmers and grow rapidly.

Wanting milk, not wanting profits, their lower costs will produce cheaper milk and then tell Fonterra that their prices are too high.

Fonterra won't regret anything because they have become a 'grow at all cost egotistical giant' going backwards.

Those findings held true even once the researchers took into account heart disease risk factors such

as high blood pressure and smoking.

Fonterra lacks accurate foresight.

What other company would teach the rest of the world (China and South America) how to produce their products - in this case, low-cost pasture fed CLA milk.

Fonterra has cost our dairy farmers \$300,000,000 in losses - \$30,000 each.

New Zealand produces the best pasture fed CLA milk in the world, and auctions it!

Have Fonterra sales staff read 'Grassfed is Best'?

Fonterra teaching the Chinese low cost milk production, will make them to tell us our price for milk is too high.

Is Fonterra mad?

New Zealand's biggest marketing mistake, which has been made for five or more decades, is selling all our farm products too cheaply. It has caused the blame of 'dumping' which is selling at below the cost of production and upset many countries. At the USA Cornell University in 1982 I was promoting New Zealand's low cost grazing with no subsidies, as apposed to high cost housing with cutting and carrying feed in and manure out, and was accused of 'losing credibility' because "New Zealand couldn't get their milk and meat products up to USA at their low prices without subsidies". Later Cornell acknowledged grazing worked well in USA. I've converted hundreds in North America and all produced less milk which suited us, and made more profit, which suited them. Thousands of USA confinement dairy farmers have failed, and thousands have changed to grazing. How can DairyNZ be so ignorant to currently be encouraging buying supplements (NZ Herald 24 November 2014), but they always are, shown by their slow cow condition scoring system and recommending applying urea in May 2013 after the drought broke, when the soils were already overloaded with nitrogen.

Fonterra, despite their typical boasting about how 'wonderful' they are, and plan to increase organics by 300%, has lost nearly 50% of organic suppliers because they reduced the payment incentive from 20% to 15%, remoteness, crazy rules, etc. In some European countries they pay nearly double.

To finish on a positive note, over time dairy farmers build up assets so most farmers retire wealthy, which is more than can be said for many, even successful professional business people running their businesses from leased premises. People can't sell their skills, so ones without assets have to keep working and retire later and a lot worse off than good farmers. So please try to remain positive, despite having most townies against you, but increase the pressure on Fonterra to do a lot better than they have done, animals are still doing. When we sold our second 107 hectare dry-stock farm in 1987 and invested in town, our net income and capital gain both doubled. To build up your assets, avoid over-capitalisation with concrete and buildings, reduce your mortgage, improve your soil and pastures, and increase pasture based profit with the correct number of cows based on the spreadsheet that helps you do this accurately. Six farmers went to USA in the late 1970's and changed to the USA system. All went broke or gave up within a few years and Doug Woolerton wrote in GrazingInfo Testimonials, "We lost our Peacockes Road dairy farm (near Hamilton) because of using the American confinement 'cut and carry' and bought feed. Good on you Vaughan for pointing out its many failings in New Zealand."

Tania and Brendon Fernyhough of Walton went from using a USA trained theory consultant to my consulting which changed their 400 cow dairy farm from \$244,000 loss and on the verge of bankruptcy (bank would lend no more) caused by bought PKE, junk food and other feed, to no loss, then profits. Entering their figures into the GrazingInfo 'Dairy Cow Numbers for Max Profit' spreadsheet, convinced Tania to change, which gave them no loss, then a profit of \$200,000 pa, then \$300,000 pa in four years from fewer cows.

Fonterra is New Zealand's worst ever disaster caused by the weak Labour government giving in the USA dairy farmers twisting their government with untruths. The National government doesn't have a clue or care about dairy farmers surviving with a milk payout a long way below the cost of production. Politicians tell farmers to budget. What can they budget with when there is not enough to pay the fixed costs of sponsorships to DairyNZ, free milk to children, rates, interest, insurance, etc.

Those buying feed and using any form of confinement must stop and go back to 100% grazing that made New Zealand's high profit dairying. One who changed from using a theory consultant to my consulting changed their 400 cow dairy farm from a \$244,000 loss on the verge of bankruptcy (bank would not lend more) caused by bought feed, to no loss, then a profit of \$200,000 pa, then \$300,000 pa

in four years from fewer cows.

Entering their figures into the GrazingInfo 'Dairy Cow Numbers for Max Profit' spreadsheet, convinced them to change, as it has to hundreds of farmers from 1980.

Annual milk production figures are, New Zealand 18 billion litres, Australia 9 billion litres, USA 100 billion litres and Europe 150 billion litres.

Thank goodness Fonterra has done a little contract selling. All should be. Milk needs to be marketed with long term purchase agreements as was done by the NZ Dairy Board for a 100 years. Auctions are for fire sales, and things that have to be moved like animals at a sale yard.

There is hope

Leonie Guiney, the new Fonterra director, I believe will be a saviour of Fonterra. You would have read the good reports on her ideas and successes and on Irish dairying going back to grazing, when DairyNZ is encouraging our farmers to feed large amounts of supplements to increase production, which is the last thing we need. The sensible pasture feeding ones should rise up, but I'm asking the impossible because NZ farmers don't do this.

Fonterra took years to be formed because of the difficulty in getting farmers from Northland to Southland to agree, but agreement occurred soon after the groups recommended that ten farmer directors would be setup to run it. Then there were no suggestions of outside commercial, professional directors being on the board, now there are six on it, with only six dairy farmers. The result is wrong decisions galore from the auctioning the world's best milk, teaching the Chinese how to produce low cost milk, and investing funds into disasters like buying an Australian milk factory.

An astute very successful dairy farmer and businessman was not allowed to stand for the Fonterra board because, he and I both presume, was because they want soft 'yes men'. Another similar person was turned down.

Million dollar a year salaries paid to some managers must cause them to spend more time thinking about how they are going to invest or spend it, than on how to best manage their divisions. The many mistakes we have all read about show they are not well managed.

Their expensive 'light proof' milk packaging containing milk many don't like, is made from reconstituted plastic, so has traces of elements from the many items in the old containers such as cadmium, mercury, manganese, lead, glyphosate and petroleum.

Fonterra promised an increase in organic milk production, but the opposite has occurred.

Fonterra's only jobs are to process and add value to milk and sell it into the best and most profitable markets at the best prices. They are doing neither satisfactorily, instead, they are more interested in empire building, playing monopoly and teaching our competitors low-cost dairying in China and South America, for reasons only they seem able to see. No farmer I've asked can see why - I have 300 dairy farmer clients.

Fonterra is partly to blame for telling farmers (Crafers personally, by Fonterra's BoP director.) to buy more cows and farms, and telling all to increase milk production, causing surpluses and then lower prices, creating increased losses for farmers.

Do your part for New Zealand, the dairy industry and yourself, by entering your dairy farm figures into the spreadsheet called 'Dairy cow numbers for max profit kg'. It will take five minutes and if you apply it, could make you tens of thousands of dollars better off and a much happier farmer. If all New Zealand dairy farmers applied it, the payout would increase.

I had hoped that the new CEO Theo Spierings would keep his feet on the ground, but the Friday 30th May NZ Herald interview has flattened that. You can Google - NZ Herald Spierings.

Fonterra's recent 10% drop in the ridiculous auction system prices, follows months of drops. As I've written before, the best dairy products in the world should not be auctioned, which allows buyers to set how much they will pay. They should be sold at top prices and locked in for months ahead.

Every news release that Fonterra does, boasts, while some tell the world trade what should be secrets about increased (surplus) production that successful companies would never divulge.

Remember that the corrected milk solids payout 60 years ago was \$14, based on cows fetching 20 pounds and today \$2,000 (a hundred times up), with farm machinery up by more. An even better comparison for dairy farmers is that we bought a three bedroom Lockwood house in 1958 out of income

from 60 cows (no borrowing - we already had a 90% mortgage), which was the average herd size then. Today the average is 380 cows, but a thousand cows could not buy the equivalent. In 1962, milking 160 cows we bought a Keith Hay two bedroom house for a 29% sharemilker - out of income, without borrowing.