

GrazingInfo Newsletter 122

24 November 2014

To NZ Dairy Farmers

The Fonterra auction price now is the same as in 2004 - ten years ago. That would not be so bad, if costs and inflation had not increased so much.

Why is the New Zealand milk selling price so low?

Because -

1. Over production, mostly by feeding supplements. Obviously they produce more milk, but definitely less profit, for them and the rest, because there is already a world surplus.
2. More milk is being produced world-wide because of subsidies in most other countries. Our increase is nothing compared with the worlds' production.
3. Fonterra's stupid auction system allows buyers to set the price they will pay. It then influences world prices which has upset dairying in other countries. Bidding should start at the cost of production of at least \$7. No pay, no sell. Dairy products can be stored which won't be for long, because people have to have milk and with the northern winter coming production will decrease, as long as supplement feeders behave sensibly.
4. The egotistical Spierings's boasting that our milk production being up again, reduces bidding because buyers think the dairy products have to be sold. Production and surpluses should be confidential. Anyone with any marketing skills would never boast about production and surpluses. Communications today allow all interested can read what people say.
5. Farmers paying for costly non-profit milk produced with PKE and other supplements, have increased the surplus so lowered your payout. PKE is a waste product that was worth nothing, and was burned, until New Zealand and a few others started buying so much that its price increased, mostly by middlemen, who have high margins. Look at what you get for your milk and what townies pay, because of high margins.
6. Milk promotion is still almost non-existent. If milk was promoted as much as Coca-Cola is, NZ would not be able to produce enough milk. Coca-Cola is a harming drink of no food value.
7. Fonterra has wasted* millions of your dollars overseas buying factories, including resurrecting failed ones in Australia, so Fonterra markets Australian milk against yours, and is not just teaching, but also helping China and others. *I based the word 'wasted' on the lack of results after Fonterra's 12 years. Spierings has said that we should help other countries learn the New Zealand low cost way. Who pays him? He should be replaced.
8. Fonterra has helped China and others with your money, to produce more milk to an oversupplied market without promotion. Are they mad? They promised that it would benefit you, but when. Fonterra is ruining your industry, which as the NZ Dairy Board was the envy of the dairy industries in most countries.
9. In the 1955 when we bought our farm the NZ Dairy Board payout was about \$14/kg of MS, adjusted to today's currency. Our 60 hectare farm was poor 2 to 10 metre deep peat, milking 28, 45 then 60 cows by 1958. Income bought a new 3 bedroom Lockwood home for cash with no borrowing. In 1960 when milking 120 cows, we bought 29 neighbouring hectares and in 1962 a Keith Hay house for a 29% sharemilker, both from income. I was doing a little consulting and making some farm machinery. The above shows the profitability of milk then.
10. Fonterra gives your milk to children. The government used to do it. Why didn't Fonterra offer say a 10% discount on milk to the government to do what is their responsibility for all schools?
11. Fonterra has not been able to keep up with processing your slightly increased production, nor with selling what you already produce, at a profit for you. The two most successful New Zealand dairy companies, Tatua and the Dairy Goat Co-operative NZ Ltd, Hamilton, use quota systems based on sales, which increase, so their suppliers are doing extremely well. Tatua's payout has been the highest every year for 100 years, except one, when they installed additions, out of income, and they paid \$10 for milk last season. They've taken on 10 new suppliers (about 9%) this year,

- proving their increased sales. Dairy farms in their area, sell for nearly double Waikato ones. They supply only a minute fraction of the world. The rest is waiting for Fonterra to wake up.
12. In 50 years NZ dairy farmers have increased cow average numbers per farm from 60 to 390 and doubled pasture production per hectare, and doubled milk production per cow. No other organisation in the world has achieved anywhere near this increased productivity in any business, but the increased milk produced has been sold as bulk, rather than added as value products, so has lowered the payout.
 13. To sum up about Fonterra - they plan an open day at Te Rapa on 6 December. Register at www.fonterra.com/terapaopenday which I've tried five times over four days, and each time got 'Page not found'! Maybe their managers are not paid enough, so need more of your money than a million dollars a year each, to operate or supervise things as simple as web connections.
 14. For 25 years I've advised small farmers (about 100 cows) to invest off the farm, not in commercial office space and now not in flats. Read 'Investing' to see why. Many have lost money in bad investments and wished they had read 'Investing' when written years ago. All small farmers, when possible, should budget to save and invest off their farm for double the net return.
 15. The Trans-Pacific Partnership is another worry we all have. USA will incorporate systems to benefit from, at the expense of others, as they have done in the past. USA farmers control their government, so our farmers, who have no government control or sympathy, could learn from them. USA keeps the prices of some farm products like rice, cotton and maize up by paying land owners millions for not growing them, and they subsidise growers of maize by 50%, which keeps our maize growers' price down, because cheaper subsidised USA maize can be imported. There are many bad things that USA has done to weaker countries. It forced our government to close the NZ Dairy Board in about 2002, saying wrongly that it was a monopoly, so was trading illegally and not complying with the world trade rules. The Dairy Board was a co-operative run by farmer owner suppliers, but our weak governments gave in to USA who set the new rules under which Fonterra had to supply anyone with milk, which means competition in the market place, which benefits the buyers and penalises the producers. The ACT Party with Labour in 1984 was USA capitalism policies which caused the depression and the rich getting richer under their 25% interest rates. We had just bought a larger bankrupt farm close to Hamilton with a \$250,000 mortgage, so borrowed in Switzerland at 5% and sold one hectare blocks. When we sold that farm and invested in town, our income and capital gain double that of farming.
 16. In about a week I hope to have finished how 'USA Free Trade' wrecked Haiti in the 'Trade' chapter, so look at it then.
 17. 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.
 18. To finish on a positive note, over time dairying builds 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. They can't sell their skills, so have to keep working and retire later and a lot worse off than good farmers. So please remain positive, but keep the pressure on Fonterra to do a lot better than they have done. 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 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 changed 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. 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 out of dairying and some changed to grazing successfully, as are the Irish after their mistake. Some here claim increased milk production, but I have not seen any show increased 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.

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.

Thank you to those who sent donations to help keep GrazingInfo going, and best wishes to you all.

Vaughan Jones
Agricultural Journalist
GrazingInfo Ltd.