



February/March 2008

Manawatu/Rangitikei Federated Farmers NEWSLETTER

Dear Members

I began my last newsletter by saying it has been a very difficult season—well it certainly has continued with widespread dry over large areas of New Zealand. All sectors are struggling and even those lucky enough to have irrigation, many have had their allocations cut back. The sheep and beef sector were already struggling with depressed returns and the dairy industry may not fare a whole lot better than last year despite a 50% increase in payout. Prices are holding up for grain farmers but the prediction is that yields will be down. It is extremely disappointing all round.

I am hoping that by the time you get this newsletter we will have had some decent rain. However in the meantime the Rural Family Support Trust is doing an assessment across the region to determine the extent of the drought and possible needs. MaF have offered funding to support the drought region with the possibility of employing facilitators to work in the area. Meat and Wool and Dairy NZ are holding seminars offering advice and technical assistance and I would urge you to attend one of these, even if only to enjoy the socialising at the end! Please keep an eye on your neighbours and if you have any real concerns about anyone please ring the confidential Rural Support line 0508 376 844.

Federated Farmers also have a 0800 number (0800 335 663) co-ordinating feed. Farmers can either register feed availability or their need for feed.

Matters on our agenda this year will see us continuing with dialogue and submissions on the Horizons One Plan. The Pest Management Strategy is also out for discussion and comment. Please feel free to either contact myself or Julie Ireland in the local PN office if you wish to contribute.

Our AGM will be in the first week of May.

Andrew Hoggard, our Dairy Section chair, will be organising meetings to discuss the Fonterra Capital Structure proposal and share float in late Autumn. Changes appear to be in the wind within the meat industry too and we will organize meetings for information transfer and discussion should the need arise.

The Provincial committee meets bimonthly, our next meeting being 17th April, 7.30pm in the Federated Farmers building, 105 Queen Street Palmerston North. Anyone is welcome to attend.

We will have a stand at the Central District Field Days so feel free to drop in for a chat, cup of tea or to deliver brickback or bouquets!

We were very saddened by the death of John Bowler, a long standing member of the Manawatu/Rangitikei Executive. He has been a valuable and enlightened

Federated Farmers member and represented farmers in this region on many committees and in particular issues involving the Regional Council and river schemes. His contribution is very much missed. Our thoughts and sympathies to Marcia and the family.

May the next few weeks bring adequate rain, grass growth and not too many animal health issues.

Ruth Rainey—President—Phone 06 382 5507



Rural Family Support Trust

“Farmers helping Farmers”

Feeling under pressure with the ongoing dry conditions?

Worried about your financial situation?

Concerned about a family member or neighbour?

**For advice and support please phone
0508 376 844**

Central Districts Field Days Manfield Park—Feilding

13th 14th 15th March 2008

Come and join us at site

No. F7

Federated Farmers





Andrew Hoggard
Chairman
Phone 06 328 9677

Well I guess most are rather unimpressed about the current weather. A good payout year and a good weather year in the same was a bit too much to ask for.

Fonterra

In regards to the Fonterra Capital Restructure debate, while the vote has been postponed the debate will certainly go on, so I would like to address a number of the statements that have been made about it.

Farmer Control

Many bring up the question of farmer control, and say that under what is proposed, farmers will lose control. With the proposal as it will be initially I don't believe that this is the case. Let us face the facts in any vote the majority rules, a 10% shareholder can't tell a 65% shareholder what to do. The reality is that if the 35% public shareholders say to the board we want you to pay next to nothing for milk and improve our dividend, the board will ignore them, and listen to us. Why is that? Because for the simple reason we decide who is on the board via the Co-op Board. Every year two of those Fonterra (plc) directors will stand in front of us asking to be voted onto the Fonterra Co-op Board. If we reject them, then they also don't get to be on the Fonterra (plc) Board. If a director isn't going to listen to us in the proposed structure then it's likely they probably wouldn't listen to us in the current structure either. So it's a case of not the structure being the issue, but the person.

Certainly if you use the RPI takeover of Wrightsons as an example, once RPI had 50.1% then there was no doubting that Craig Norgate was calling the shots in that company. I doubt it was a co-incidence that the old Board and CEO all decided at the same time to quit.

Shareholding

However once we fall below 50.1% shareholding, then that all goes out the window. The Fonterra Co-op no longer has the majority say in the Fonterra (plc). Most co-ops that have partially listed have in the end lost majority control. So it is a very real possibility that this could occur down the road. Once the co-op loses majority shareholding it then relies on individual public shareholders to help it get over the 50% threshold for any vote. Now if it drops to 35%, there is a good chance that we can still persuade 15% out of the remaining 65% of shareholders to vote our way. But it is not certain. Thus it is certainly not deserving of a fully coloured-in circle, for the retaining Farmer Control column.

Raising Capital

The next big comment I have heard is that Fonterra hasn't properly looked at all its options for raising capital. From a perception basis, I agree with that statement. The reason for that is that it appears they have decided that the only way to raise capital is by going to the Stockmarket. I say that because one of their requirements for the various options was to 'maximise listing value'. So obviously any option that didn't involve going on the stock market wasn't to be considered because it didn't 'maximise listing value'. Now maybe the directors have already considered all the other non stock market options out there. But we don't know this or have any idea as to why those options didn't stack up.

Other Options

A lot of comment gets made that we could just retain earnings like we did in the past to raise capital. I don't believe that this is a viable option. The reason for that is because we now have a Fair Value Share as opposed to the nominal value share we had in the past. This means that if earnings are retained, then that is going to drive up the value of the fair value share, increasing our redemption risk, and also making it extremely hard for the next generation to get into the industry. They not only will have to borrow even more to purchase shares they will then not have as much cashflow to pay the interest on those borrowings.

Also with retained earnings it in no way allows any shareholder choice. We all have different goals and ambitions for our farms. Some will be wanting Fonterra to deliver cashflow to make improvements or innovations on their farms. Or they may have quite simply have come through a bad patch weather wise and again need the cashflow. Others could well either be content with what their farm system is like and would be happy to grow their equity in Fonterra, why buy more over priced cows and over priced land and thus employ more 18 year olds and thus lose more hair, when you can grow your equity through your co-operative, by some mechanism where we can invest more in Fonterra. Retained earnings make us all invest whether we want to (or can afford to) or not. Several months ago (when we last had decent rain) many farmers at the directors meetings were saying they would be happy to give up 50 cents of payout in retained earnings. Well with most of us buying in extra feed, and drying off cows, I dare say most would now be keen to keep all \$6.90!

I have heard the opinion occasionally expressed that we could just borrow the capital. Well I would have to say that the obvious downfall of that option, is that in tough times you can scale back the dividend you pay, but not change the interest rate you pay. Also if you don't believe banks don't take away control, think again. Just start performing poorly and see how long it is before your are forced to sell the holiday home, the speed boat, or my brothers favourite (he is a bank manager) cancel the SKY TV subscription.

What about the Status Quo option, or why we couldn't even go back a step and just concentrate on processing and selling NZ milk products around the world

This option doesn't require any extra capital, in fact our FVS would only need to be half the value of what it currently is (reducing redemption risk) if we just concentrate on NZ milk. Now in times of high commodity prices this option is great, because your market share, etc. doesn't really matter as everyone creams it so to speak. But as we all know those high prices can't always be guaranteed. So that's where Fonterra's Strategy comes into play. My understanding of it is that at present we are the biggest player in the international tradable product game. As a result we have these core customers (like Nestle). Because they can source huge quantities from us we can then contract up large volumes to them, and we are not so reliant on dropping product on the spot market or holding onto product. Thus we are able to achieve a premium if you like.



Now the international market for Dairy products is growing as more and more people around the globe are being lifted out of poverty (around 100 million a year) they suddenly want to have a first world diet. If Fonterra doesn't grow with the market, then we may lose that number 1 spot with those big customers, and then someone else will then be attracting that premium. Now this is my understanding of the strategy in simple terms. That is another criticism of Fonterra I feel has some merit, they haven't really made a good clear explanation of how the strategy benefits us or what the costs of not pursuing it are. We know what it is, but not the benefits of it, or the costs of not pursuing it, just that we will "lose relevance". Attach a dollar figure to relevance please! That is in my opinion anyway.

Two other options that I believe haven't been thought of or could be looked at are expanding the Co-op (trans global) or/and a "non listed" non-voting B share.

For expanding the Co-op, what I mean there is allowing farmers overseas who supply milk to Fonterra, to become part of the Co-op. For example we are already a big player in Australia, what if we offered Australian Dairy Farmers the opportunity to be part of Fonterra. The defining thing about a Co-op is the homogeneity of purpose between its members. Whilst we may have different goals for our farming operations, I'm sure our aim for Fonterra is roughly the same, to achieve the best possible return for our milk, in terms of its raw value and processed value. Now ask yourself who would share that view more so?

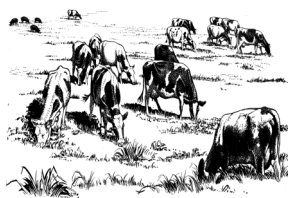
An investor from Auckland?
or an Aussie Dairy Farmer?

Having had Aussie and Chilean Dairy Farmers stay on my farm, I believe the fellow farmers would be a better fit for us. Also if you look at Australia and South America, increasingly a number of farmers there are New Zealanders anyway, with many continuing to be based in NZ. The Arla Co-operative in Europe extends across 5 countries, so this approach wouldn't be a first.

I think you could set some limits as to what sort of shareholding may be held outside of New Zealand, so that Kiwi farmers never lose control. But I would allow kiwis who own farms off shore but remain in NZ and maintain NZ citizenship to be exempt from those limits. One big thing the Chilean farmers said was how hard it was to grow your business in Chile, because the banks were unwillingly to lend large amounts of money, because they had no guarantee of pick up for that highly perishable milk from one season to the next. So I think you would find those farmers would be keen to belong, and I have heard Aussie farmers ask directors if and when they could be shareholders.

To make this work, then the milk pricing plan that is being developed would still have to be implemented.

This is because each country will have its own demands for raw milk, and thus different pricing levels for that raw milk. Then the dividend on top of that is split equally, with maybe a differential for those countries where major infrastructure development is needed.



where major infrastructure development is needed.

However this option still leaves us with redemption risk, although I dare say not as much as before because we have increased the shareholder base. A way around this maybe a Non-Voting/Non Listed Fair Value Share (B Share), which could also raise more capital (or we just look at this option for raising capital). This share would be a Fair Value Share that doesn't get listed on the market, they will be valued exactly the same way as the production based FVS, just there are no voting rights. So same dividend amount, same value. They would be available only to current shareholders. You could also put on them a 5 year buy back clause to permantise the capital in the company to a degree to reduce redemption risk, or allow trading between shareholders. This would, maybe, solve redemption risk.

A number of farmers have asked at director meetings if we can get first option at the shares being offered for public sale. We have seen the value of the FVS appreciate over the years. If that trend continues that would be an investment that's much more preferable to Kiwisaver. But then maybe when push comes to shove most of us wouldn't buy these shares, and the only reason we want first crack at any publicly listed shares is so that those 'damn Townies' can't buy any. Anyway this was just an idea I had when milking once, and I am not sure if it's really an option. However I feel it's worth examining, and expansion of the co-op is well worth debating.

Finally one last comment I would like to make is that a lot of the debate and letters to date have been very nasty and personal. Given the outside pressures our industry faces (climate change, water quality) is it wise for us to be ripping one another to pieces. It is possible to be critical of a person's viewpoint whilst at the same time still being respectful towards the person. I would urge you all to do that. Well I think I have just about put myself offside with about everyone in the dairy industry so best I leave it at that.

One Plan—There have been no new developments here from Horizons. Their trial work seems to have disappeared. This was the work that was expected to be completed back in October last year but we haven't heard any more about it. I guess its all slightly more difficult than what they thought. Fonterra is going to do some modelling work on it with DairyNZ funding, they will be looking for some farms to trail this on, so any volunteers please give me a call.

Environmental Issues—We seem to be the nations favourite punching bag in this regard. With potentially more regulation on the way, the Agricultural Emissions Trading Scheme which comes into effect in 2013 could potentially cost us up to 40 cents per KG MS. The real problem we have of course is cows' urine spots, but the media and public seem to think its all about cows in rivers and effluent disposal systems. We really do need to make sure we work hard on those last two, because we can actually do something in that regard. But we need science to fix the main problem.

If you have any comments please either get in touch with me prior to March 6th or after April 3rd. In between time I will be having my first holiday in five years, so my concerns will not be the One Plan or Fonterra, but smelly camels, getting a good photo of the Pyramids, and hopefully not running into lots of screaming people with turbans and AK-47's

Quote

"It is not hard to learn more.
What is hard is to unlearn when you discover yourself wrong"

- Martin H Fischer



Federated Farmers Employment & Workplace Seminar

Venue/Date/Time:

- Palmerston North: 12th March; 10am; Palmerston North RSA, 200 Broadway Avenue

Topics: Employment law experts from the Federated Farmers support team will deliver a 2 hour informative Q&A style seminar. Using real examples farmer employers will receive a practical set of guidelines for dealing with a range of employee and workplace issues. Farmers will see that the employee & workplace challenges can be readily managed.

Contact: Limited spaces available so to register call 0800 327 646

Cost \$50/member
\$150/non-member.



Horizons One Plan Update 2008

Cross submissions on the One Plan closed December 2007

Pre-hearing preparation

Horizons have indicated they will be starting hearings at the beginning of July this year. Each hearing will be heard by a mix of independent commissioners and councillors. They expect the hearings in total will go for at least 6 months.

There will be a number of pre-hearing meetings and discussion with Horizons to work through key points in our submission. Particular focus will be on setting of minimum flows, nitrogen targets, water allocation, and biodiversity.

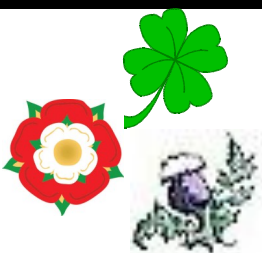
In preparation for the hearings Wanganui, Tararua, and Manawatu-Rangitikei provinces will be joining forces with Forest and Bird on common submission points and ways to influence Council decisions.

Forest and Bird and Fish and Game representatives have been invited to visit a couple of local farms to work through common areas of interest.

Other work will continue to gather evidence in support of our submission ready for hearings.

For further information contact....

Julie Ireland
Policy Analyst—Phone 0800 327 646

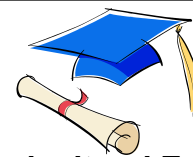


Scottish Scientists English Scientist Irish Scientists

After having dug to a depth of 10 meters last year, Scottish scientists found traces of copper wire dating back 100 years and came to the conclusion that their ancestors already had a telephone network more than 100 years ago.

Not to be outdone by the Scots, in the weeks that followed, British scientists dug to a depth of 20 meters, and shortly after, headlines in the UK newspapers read: "British archaeologists have found traces of 200 year old copper wire and have concluded that their ancestors already had an advanced high-tech communications network a hundred years earlier than the Scots."

One week later, "The Kerryman," a southwest Irish newsletter, reported the following: "After digging as deep as 30 meters in peat bog near Trelee, Paddy O'Droll, a self taught archaeologist, reported that he found absolutely nothing. Paddy has therefore concluded that 300 years ago Ireland had already gone wireless."



Don Scott Agricultural Education Trust

2008 Scholarship awarded to

Tom Grogan

Donations from Trust also made to:-

**Horowhenua A.P & I. Home Industries Section
The Square Trust Rescue Helicopter
Levin Boy's and Girl's Agricultural Club**



Disclaimer

The information contained in this publication is of a general nature only. You should seek professional advice before taking any action in relation to matters dealt with in this publication

Meat and Fibre Report—Tony Gray
Chairman—Phone 06 328 4575

After having a very wet June, July and August, we have now had a very dry November, December & January – is this climate change? Some areas had no recorded rainfall in January and many areas had very little, coupled with very hot temperatures and strong winds, it was a recipe for a drought. Although our area was not classified as being in a drought, we were severely dry. I'm not sure what the difference is.

Throw in a depressed sheep and beef industry and many of us must be wondering where the future lies. At a recent Meat and Fibre Conference, the word "despair" was often quoted on how farmers were coping with the weather and the price of lamb. Unfortunately, the drought has been in most areas and consequently the value of store stock had hit rock bottom. The meat industry is pretty much in a crisis with most meat companies making only a small profit or a large loss. The meat plants are pretty well running at full capacity at present and there is still a back log of lambs and no ewes being killed at present either – this has exacerbated the conditions on farm. The slaughter of ewes on farms in Canterbury describes how bad the drought is in some parts of the country and how desperate farmers are.

Is there a glimmer of hope for our industry? Hayley Moynahan, Rabobank says the future is bright for the red meat industry in the short to medium term so we have to hang in there and hope that she is correct.

The Alliance plan of a mega-meat company that consists of Alliance, PPCS and possibly AFFCO sounds interesting. Not being an Alliance shareholder, I have not yet seen a copy, but it must be given a lot of thought as it has stated that it could add another \$10-\$15 per lamb by rationalization (right sizing!) in meat processing and marketing. The big supermarkets in the UK & Europe are making very healthy margins on red meat and a company marketing 80% of New Zealand lamb may achieve better prices knowing that it was not going to be undercut in the market. I believe poor market management has got us into this position, so we need very good market management to get us back to profitability.

Compared to the sheep industry, the wool industry is equally depressed but there is some sign of price improvement with China re-entering the market place.

WIN has released its Model for Change and will be calling for comment. I agree in principal with the Model report but there are a few issues that are critical if the plan is to be implemented and be successful.

- Support from strong wool growers to supply wool
- Buy in by the whole wool industry
- Proposed co-operative structure with 2 entities – Wool Grower Holdings and The New Wool Company. My belief is that there should be only one company (co-operative) as there will inevitably be some duplication Ownership structure of the company with some supplier shareholders and industry investment – how are they to be treated?

There has already been a lot of negative comment about how they plan to improve the value of wool. What was sent out to farmers had the skeleton of the plan and as

always the devil is in the detail and some of that should come out with the prospectus and the meetings across the country.

The Wool Action Group recently had a meeting in the South Island and I intend to make contact with them to find out what their plans are for the industry. If they can achieve what the Meat Industry Action Group has achieved thus far then there could be some positive things happen?

Back to the drought, although we have had good rain here, there is still plenty of summer left for it to be dry again. So make sure that your breeding animals are not neglected as next year's lambs may be worth \$65!! We also need to be aware of the other challenges that will come including Barbers Pole worm, facial eczema, and rye grass staggers so please be vigilant especially with young stock.

If anyone has any concerns, please do not hesitate to contact me.



Deer Report—Mike Holdaway
Phone 06 328 4899

The big dry is what is occupying the minds of most of us who grow grass to feed to animals. This is particularly the case if you have hinds. Hinds with fawns sucking on them will turn to a bag of bones over night if the feed runs out and then you're faced with weaning a small skinny fawn and a hind that won't get pregnant in the autumn and if you're not very careful will die at the first hint of winter. Oh the joys of farming.

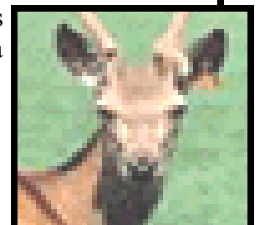
I'm not going to bleat too much though because at least the prices have remained remarkably strong. We are still at \$6.50/kg for venison and though space is tight in another month there will probably be a shortage. So for many finishers their weights will be back a little but they will still be ahead of last year because of price.

There are some minimum price contracts being offered for next spring at \$7.40 so that will keep the value of weaners up and further strengthen the confidence in the industry.

Velvet hasn't had such an easy time of it this season. The pool operators, PPG Wrightson, were not happy with the early tenders offered and so tried to get more by withdrawing the product. This displeased the Korean buyers immensely and so they pulled out of the market too. It was then a matter of who would blink first and there are no prizes for guessing who did. The moral of the story is if you're going to withhold product to try and increase price, be prepared to do it for a long time, like a year.

It has finally settled somewhat at quite a bit less than last year for most grades. A grade is going for around \$100 / kg. with spiker 1 is not far behind at \$94 and down to spiker 3 at \$68. Korea takes most of the A,B,&C grades and China buys the spiker and D&E grades.

In the main there is plenty of optimism out there we just have to get through the next few months.



Geoff Burton – Farm Business Management

Minimising Losses from Possible (probable?) Drought

Likely effects:

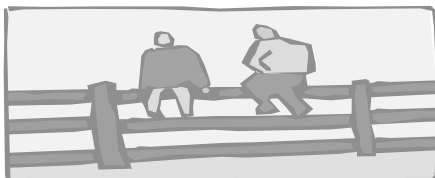
- Reduced pasture levels and quality, particularly pasture length for cattle.
- Patchy establishment of summer and winter brassica crops and spring-sown grasses. This can be quite severe.
- Reduced silage harvesting.
- Reduced stock condition of capital stock and progeny, slower finishing.
- Reduced cow conception.
- Stress on pastures, animals and people.
- Reduced production and profit.

Options:

- The most critical point is to make decisions and take action early. There will be losses: it's a matter of minimising them. Better to drop feed demand early, even if conditions improve, than end up in summer with falling feed levels, stock condition and prices.
- Reduce feed demand ASAP. Most important is to wean lambs which do surprisingly well on short feed plus water at this time of the year. Take deep picks into early lambs and cattle. However hard, sell store lambs and cattle down to what you know you can carry satisfactorily through the summer.
- Prioritise stock so that the best growing stock, which are not sold, will grow fastest and be off the property quickest. Female and smaller stock are generally easiest to carry through a hot summer – to what could be quite a good autumn market?
- As farm as practical, spread stock rather than box them. Important to keep cover on the pastures – surprising how much moisture a little bit of rough grass holds in the soil.
- Increase feed supply – grazing, supplementary feed. Use it to hold pasture levels rather than once pasture has run out.
- Protect longer feed with good water for cattle in mid/late summer.
- Don't flush cows/heifers, but try to avoid falling live-weights. Leave bulls out longer.
- Accept lower condition and reduced future production from your capital stock.
- Secure supplementary feed for summer/autumn and next winter. May be some wraps in the east coast? Budget for more N next autumn.
- Reduce or eliminate all non-essential expenditure, including principal.
- Redo feed and financial budgets. Reassess tax.
- Keep in touch with the bank and others – most important as a problem shared is a problem halved and better to have a plan that looks bad than no plan at all.

Future drought protection

- Ensure flexibility in your system (stocking rate, breeding to trading ratios, sheep to cattle ratio, lambing/weaning date, robustness of capital stock, fertiliser).
- Manage your feed flow and your cash flow months ahead.



- Maintain loyal relationships with stock processors. Unless we get good rain soon, there may be difficult times ahead. Again, it is critical to make decisions and take action early and have a plan until things get better – which they always do.

All the best for some steady rain and a much improved 2008.

Grains

David Lee-Jones

Chairman—Phone 06 327 8144

Harvest 2008

Barley yields throughout the area have been generally good with a lot of growers averaging 5.5 to 6.5 T/ha. Yields in the 7 to 7.5 T/ha range are not uncommon. Later planted barley has suffered from lack of moisture so yields later in the harvest are likely to tail off. Lloyd Wapp Integrain, the agent for ADM Malting report that malting barley yields are up and grain quality is very good. By the end of the week of the 18th Feb they think they will have received approximately two thirds of the contracted grain.

Wheat yields are more variable with some very good yields and some fairly ordinary yields. There have been some very good winter wheat yields especially where the latest management packages from the South Island have been implemented. One paddock of feed wheat reported on yielded over 12T/ha. A FAR trial at Bulls for winter wheat cultivars had trial yields of 10 to nearly 13T/ha, with paddock yields at 9 to 10T/ha

Maize harvesting for silage has not really got under way yet apart from some really drought stressed paddocks which have stopped growing.

Prices

ADM Malting stuck firm to their contracted price of \$365/T. However ex harvest prices for feed barley are now around \$385/T and once harvest has been completed and all the grain stored (which has been something of a problem for uncontracted crop) it is likely that prices will increase again.

Maize grain prices (for 2008 harvest grain) have reached \$370 to \$385/T depending on drying costs. Note that remnants of last years crop have been changing hands for \$500-\$550/T. Silage prices are now 20c/kg DM or better,

International prices for grains and soya beans have basically carried on increasing since our spring 2007 with a small hiccup around New Year. Analysis of international grain pricing quotes and shipping prices shows that New Zealand grain end-users now couldn't land maize grain for example for any less than approximately \$425 to \$450/T.

Farmers with uncontracted feed grain shouldn't accept any less than \$400/T which is roughly comparable to world prices.

Supplementary Feed

Prices for all supplementary feeds such as hay, hayledge, silage, etc. has been increasing as the summer has got drier. While one contractor thinks there is plenty of saved feed still stored on farms that is not the experience of another participant who thinks generally supplies of feed are low.

