

Farming issues

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“Population, Pasture, Production and Profit” is our theme. In seeking a definition for “population” I found one for “population explosion.” It was described as a condition that converts spots of beauty into amusement parks. Take heart though, a “city” was defined as “The abiding place of wealth and luxury.” So if the city gobbles up our land, perhaps we have something to look forward to.

But seriously, what are the farming issues? They are the factors that are going to determine our survival and prosperity as grassland farmers.

Firstly, competition in its many forms.

Secondly, the global economy.

These issues are inextricably linked. We must have them in mind as we determine our own destiny.

How can government help us? Locally, regionally and centrally they must understand our position, and we must be prepared to tell them. Mike Moore once said that if GATT succeeded we would be milking cows on Mt Eden.

That was wishful thinking in fairly euphoric times. The reality is that as our competitors world wide become more efficient we have to more than match them. Cows will not be milked on small pockets of land on mountain sides.

I have concern that locally and regionally there is a belief that if 100-acre parcels of farmland are protected, that will retain the green belt. It possibly will, but there needs to be scope to allow grassland farmers who have several titles to move those titles elsewhere, to generate the cash to grow the farm to a scale that is internationally competitive. If this does not happen we will see increasing examples of 30, 50, 70 and 100-acre lifestyle blocks.

This year our Grasslands logo is very appropriate. The blades of grass, the furrows, the hill and the city skyline.

Our farming is influenced greatly by the city. It provides a market and it provides some of our resources. Increasingly it puts pressure on us. It influences our costs, it affects our environment, it competes with us for resources. If we are to prosper, though, we must be aware of our *total* environment. The city must not

dominate us. We must respect it, we must co-exist with it, we may even enjoy and exploit it, but we must be aware of the changes taking place in the wider world.

Perhaps in our logo we should have had a globe: the world encompassing all those other things, because even though we are influenced by the city, since deregulation of our economy current world prices affect us more. Whether we like it or not we are farming in the global economy. The bulk of what is produced from grassland in Auckland and Counties is destined for export.

Auckland had a large population even in pre-European times.

Like elsewhere around the world where the land meets the sea, where there are harbours and inlets and river valleys, the abundance of food sustains the population. Around Auckland the moderate climate sustains growth all year around.

In Maori and early European times the waterways were very important. Those areas close to the harbours and the navigable rivers were the areas first settled. Upon arrival in New Zealand, my own great grandparents first settled in Onehunga in 1863. A year later they moved to Waiuku. Waiuku was a busy port, being on the portage from the Manukau to the Waikato.

Several of us on the local committee of this conference have family links going back several generations, farming the land here. We are keen to continue. There is a resolve, though, to farm profitably and we must constantly monitor the pros and cons of farming here.

There are advantages in farming around Auckland. But the early settlement left us with a legacy of smaller-than-average farms.

So onto the farming issues. The ones that will determine our survival and prosperity.

The competition: who are our competitors?

We tend to think of those selling products in competition with ours in the market place. But competitors exist right through the value chain.

The competition starts when we decide to farm on the doorstep of a major city. We’ve heard about changing land use and we face competition from those seeking a lifestyle.

The cost of land not only affects input costs, it also affects output returns, so we need to appreciate that as we compete for prosperity, we are in fact in a competition

* This address replaces the one scheduled to be given by Graeme Calvert.

with farmers further south who have access to much cheaper land.

Certainly, it is a reality that in the dairy industry in recent years the extra production from relatively cheap land has had a depressing effect on product prices.

In the beef sector exactly the same can be said of our overseas competitors. Their land is certainly cheaper than the land around Auckland.

There is competition for all our farming inputs. Capital and labour spring to mind. But fuel, machinery, chemicals, electricity and even veterinary services are used by others. The owners of pampered household pets are prepared to pay more to save their animal than what we would to save a cow.

We have been slow to recognise the competition for resources. We have often been too accepting of government protection for other sectors. It used to be difficult to pay wages that would match the neighbouring "Think Big" project. Here we had the steel mill and other examples in industrial South Auckland. Nowhere in New Zealand was farming immune to that sort of competition.

The remarkable thing is that as other sectors have had their protection stripped away, the resourcefulness of New Zealanders has come to the fore. While there is still a degree of tariff protection for some of our secondary industry, there are numerous examples of niche industries proving to be truly internationally competitive.

Farmers need to be aware of this and recognise that these enterprises need to be matched in the competition for resources.

The drop in the New Zealand dollar, if sustained, will bring relief to exporters. The primary sector must understand though that amongst the resources that we are competing for is the New Zealand dollar.

There may be artificial factors holding up the dollar. But a significant and perhaps the ultimate factor is the success that other industries and earners of foreign exchange may be having.

A very important message that I have for grassland farmers is this: to survive and prosper in an increasingly competitive economy, our sector must improve its efficiency faster than the average improvement in other sectors.

In the dairy industry we have recently had what became known as the IEIS – the Industry Efficiency Improvement Study.

It identified that there were about NZ\$200 to 300 million worth of savings to be had in the interface between the dairy companies and the NZ Dairy Board.

We talk about the cow to customer value chain. Maybe we should talk about the grass, or even soil, to customer value chain. Because the dairy industry is

owned and controlled by dairy farmers, we are well placed to make improvements right through that chain.

The business development project within the industry should see progress. It is the responsibility of people such as myself, a director of a dairy company, to ensure that our shareholders understand and know what can and must be done.

If our communications are good I have no doubt that dairy farmers will insist that their industry takes the steps that are necessary.

We must handle the competition by continuous improvement.

In looking at the global economy, I'll relate my experience in Germany in 1988. I saw the Berlin Wall and I sensed the tremendous will in Europe to see that and the Iron Curtain come down.

I was privileged to attend a dinner hosted by the Tetra Pak company and its President, Bertil Hagman. At that time Tetra was putting together contracts in various East European Countries. I was amongst 500 guests from 50 countries. Two tables from where I was sitting was a senior Soviet Government minister.

The Tetra Pak President gave a speech entitled "A world with no borders – peace through trade." He said he saw a world with no barriers, no East – no West, no black – no white, no rich – no poor. It was all pretty idealistic stuff, but the Russian minister listened very intently to his interpreter and nodded in approval throughout the speech.

I was not at all surprised when one year later the Berlin Wall came down. That was but one step towards a global economy.

If you are at all sceptical about the realities of freer trade in the world I urge you to think again. Note that I said freer trade not free trade.

Without the benefits of the GATT round, the Dairy Board would have found it much more difficult to sell everything that it sold last year.

Since the GATT commenced in 1947, world trade has increased enormously and living standards have risen beyond what was believed possible then. As long as people are prepared to fight for freedom, they will be prepared to fight for trade and the benefits that it brings.

Living standards world wide have enormous potential to rise yet. That progress will be dependent on continuing trade liberalisation.

As producers of primary products it is important that we understand that there are not too many people around the world interested in our welfare. It is consumers and taxpayers who have increasing influence and they will gain the most.

In New Zealand, we are relatively efficient producers so we do stand to gain.

I have a concern that each round of international trade talks is so far apart that it is giving our competitors time to adjust. They are taking advantage of the time they have. They realise their farms are too small. They are seeking economies of scale.

There is certainly major restructuring of the dairy industry taking place around the world. Hardly a week goes by without some sort of merger of dairy companies being announced in Europe or North America.

There is potential for New Zealand to gain an advantage through the regional APEC arrangements or even a possible bilateral agreement with the US. This would put us one jump ahead of having to wait for the next round under the World Trade Organisation.

To survive and prosper as farmers we must make decisions for ourselves using as much knowledge as we can muster and considering our own strengths and weaknesses.

As the economy we operate in becomes increasingly global, most commodity prices in today's dollar terms will trend downwards, as they have done since trade began. In the dairy industry at least, there is a strategy to move more product into value-added categories. This provides the opportunity of reversing that downward price spiral.

Adding value comes at a cost and most of our competitors are trying to do it. I'm not sure what

incentive there is for processors or other commodities to pass any added value onto producers.

At the present time, in the traditional dairying areas of New Zealand small farms are under financial pressure. Step by step we must do everything possible to improve farmer returns. Right through the value chain, we cannot afford to ignore any step we can take to go forward.

But the reality is that farms will continue to get larger.

We must update the belief that it is our grasslands which give us our competitive advantage. It is the way we use our grasslands that is important.

There are grasslands all over the world, waiting to be utilised. In the information age we cannot keep our present skills to ourselves for very long.

Those of us who are prepared to adapt and change, who are prepared to modify our thinking and rise to the challenges, can face the future with confidence. But we must ensure that we are working from a sound base. Our own farming operation must be sound, our finances must be well structured.

Where we own and control our processors and marketers we must set in place the mechanisms so that they can react effectively to the signals of the global market.

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