Advice for those drifting south

Bank of New Zealand and *SouthFert* were on the road in the North Island during September/October promoting Southland, and Canterbury, as dairy investment destinations with a future.

A range of speakers dealt with the 'Southern Drift', covering topics from purchase of drystock land through conversion to dairy units, staffing, and further prospects.

But it all depends on whether *NZ Dairy Group* will lift its moratorium on new supply.

NZDG chief executive **John Spencer** says the company's peak milk rights proposal should be decided by the end of the year 'to allow us to lift the moratorium on new supply and allow our farmers to gear up for next season'.

Under the proposal, new suppliers accepted by NZDG will have to buy peak rights at \$30 per standardised litre of production in addition to the standard \$2/kg milksolids for entry to the co-operative.

Existing suppliers wanting to expand production and exceeding their peak rights will have to buy additional peak rights at \$30/standardised litre of production.

NZDG proposes that existing suppliers will be allocated peak rights based on their highest production figure in the last 3 seasons, including this season.

TABLE 1: South Island and North Island average dairyfarm statistics compared.

	Size	Cows	MS/ha	MS/farm
North	84ha	212	678kg	55,655kg
South	130ha	330	725kg	95,659kg

Mike Skilling

Take chance

This is the year when most people contemplating a move south will take their chances, according to **Mike Skilling**, BNZ general manager, agribusiness financial services.

South Island's 14% share of New Zealand dairyfarms could double in the next 5 years, he said.

Where will the 'new Waikato' be? Some say Canterbury, with 27% of the south's dairying, and others say Southland, with 23%. Wherever, the South Island offers farmers opportunities to set and achieve new goals, Mr Skilling told the 'Southern Drift' seminars.

South Island and North Island average farm statistics are compared in *Table 1*.

The soils

South Island dairy area soils are sedimentaries high in potash and requiring less capital phosphate than North Island volcanic and peat soils.

Sedimentary soils retain phosphate better than volcanics; nearly all of the P applied as fertiliser will be used by the pasture plant, according to **Garth Dawson**, SouthFert technical adviser for southern Southland.

The ground there requires 5 to 7kg phosphate/ha to lift soil test by one unit, he said.

Maintenance requirements for a farm producing at 1000kg MS/ha are 50kg of phosphate/ha, 80 to 100kg of potassium, 60kg of sulphur, and 20kg to 30kg of magnesium. On-ground cost of fertiliser at these recommendations is about \$204/tonne plus GST.

Climate is a big factor in 'risk profile' of a dairying enterprise. Southland is cool, dry in winter and has good summer rainfall. Winter needs thought. The options here are wintering-off at a run-off, grazing the cows away with beef farmers, and winter greenfeed at home including brassicas.

Scale, staff

Return on capital, scale and opportunity are drawcards to South Island dairying, according to Putaruru accountant, dairyfarmer and columnist **David Graham**.

The south has more reliable production and lower cost of capital than North Island dairyfarms, he told the 'Southern Drift' seminars. But wintering costs are higher in the south. Where it is used, irrigation is an extra cost.

Scale of dairyfarming is vital for commercial returns. But while it might appear that there is land as far as the eye can see, there is a shortage of quality staff in the south. Not everyone is successful.

Sharemilkers must be watchful: cows cost the same if not more than in the north and the return on capital will be similar or lower.

Equity partnerships offer 'portability' and a way of building assets and equity.

Development

Get your ducks all in a row if you want to develop a new dairyfarm in Canterbury, says **John Donkers**, a major shareholder in *Camden Dairyfarms* and dairyfarm business consultant.

He had previously managed *Apple Fields Dairy Co.* (now *Dairy Brands*) and worked for *Sealord Shellfish.*

Absolute attention to detail in planning is essential, he told the 'Southern Drift' seminars.

When and if Canterbury opens the gate to new supply, successful new farms will be those with the most thought behind them.

John Donkers

Go for farm size and quality for the money, remembering that when everything goes well, economies of scale work well for the owner. When things don't go well, size means that 'everything spirals down pretty quick'.

First, find the best prospective farm. Apply to supply a dairy company. Ensure that plenty of irrigation water will be available; and apply for the necessary resource consents to put bores down, take water for irrigation, and to dispose of farm dairy effluent.

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Prepare an indicative budget and apply for funding.

The development programme must identify milestone dates; e.g., farm dairy completion August 1; new pastures sown March 1.

Canterbury has sufficient infrastructure to develop a maximum 50 to 60 dairy units a year, so identify the resources required and contact consultants, contractors and suppliers.

Write detailed specifications for suppliers and contractors and get fixed price contracts and timeline commitments. Arrange livestock and transport. Employ the sharemilker or staff for the farm. Look around your home district for a sharemilker before you move.

Mr Donkers said managing a reasonably sized dairy development project is a fulltime job – 'there is little or no time to do the work as well'.

Maintain close communication with suppliers and contractors; be available to them at all times to discuss issues as they arise. Encourage these people to ask questions if they are unsure of your requirements. Write down all variations that are agreed during the development.

When the farm is up and running, keep in mind that managers take a positive approach to the employment and management of staff; the business is about people, then cows to a lesser extent. A strong 'people' culture is developing among successful large herd managers in Canterbury.

Camden owns *Willsden Farm Ltd*, established in 1998 to purchase land and develop a dairyfarm at Te Pirita, 50km south-west of Christchurch. Development was on time, on budget and to a high standard.

Year 1 performance on 212ha of light shingle soils was 1344kg MS/ha and 453kg MS/cow without grain and with limited silage. Net farm profit was $306,108 compared with the budget of $18,000. Earnings before interest and tax were $2122/ha.

Total developed cost of the dairyfarm including dairy company shares was $11.34/kg MS, based on year 1 production of 285,000kg MS.

This season's target is 1480kg MS/ha, 400kg MS/cow stocked at 3.5/ha or 1730kg liveweight/ha.

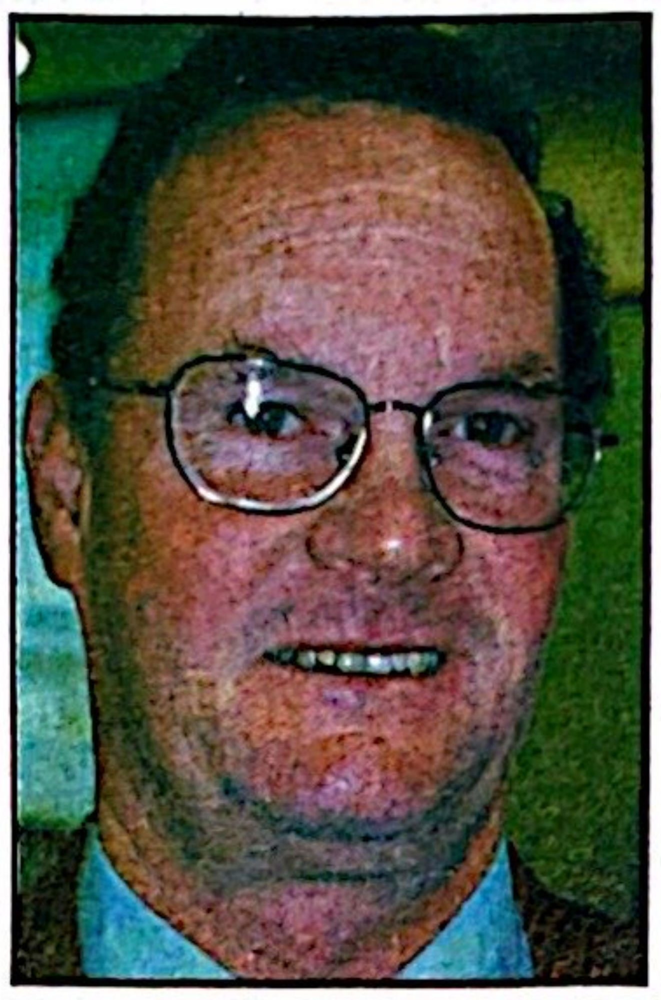
The farm will expand to 1100 cows with the recent purchase of 120ha of neighbouring land.

Clear duties

A golden rule of any farm ownership or management structure is 'communication', says **Derek Hopkins**, managing director of rural investment specialists, *Franklin Group*.

Ownership structures include partnerships, trusts, companies. Management structure options include sharemilker, manager, or equity managers.

An equity manager may be seen as the best option in that the property under management becomes



Derek Hopkins

'their' farm, in which they have a significant investment. There is a clear demarcation of duties: directors direct, managers manage.

Don't start any structure without the rules of operation. Rules will include: constitution; partners' agreement; business plan; employment contracts; *Occupational Safety & Health* policy.

Constitution: Every company has one. They can be personalised, and must contain exit strategies.

Partners' agreement: This sets out the rules for shareholders; their goals and expectations, commitments/obligations, rewards, and entry/exit strategies.

Business plan: Sets out the aims and strategies of the company, monthly cashflows for each 2-year period, 5-year projections, dividend policy, debt:equity ratios, production targets. Vital in the plan are the decision-making process and reporting requirements.

Mr Hopkins told the 'Southern Drift' seminars that in summary, participants must: know their aims, plan the business, set the rules, communicate at all times, and enjoy their role. Ð