The place of wheat growing in the New Zealand economy

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Introduction

My topic today is the place of wheat production in the New Zealand economy. My talk will cover this work in three main areas: the importance of wheat to arable farmers, trends in production, and research and development

Importance of Wheat

New Zealand wheat production does play a significant part in our economy. It provides a staple raw material, that although available from overseas, is subject to fluctuating world prices. This can, as happened in New Zealand this last summer, make imports very expensive. We need to grow as much wheat as possible for our domestic market. The market is under-supplied and offers an opportunity for our growers. Since deregulation we have improved our production quality to such an extent that this year in the major production areas of New Zealand, the quality was good enough for imports not to be required.

A more open market has deprived us of production opportunities because of transport costs. However, it has made us focus on consistency of product, year-round supply, and the need to address quality to meet market requirements.

We have a domestic milling industry that has expanded, even with Australian imports and CER very much a reality. This domestic industry is exporting manufactured product. A small business at present, but one that will grow if the extensive subsidisation of world grain production is broken down. Our mills now acknowledge that we have the techniques to produce what the market requires and there is support among them for local wheat production.

The wheat industry plan, a strategic alliance established last year, has achieved significant results and broken down barriers, both real and imaginary, by encouraging millers to get alongside growers. Production management packages, seminars such as this one, and mill sponsored competitions have all helped growers and mills achieve their objectives, i.e., maximise quality and secure a product that is competitive in the market.

The past season has been difficult. Cool, damp harvest conditions made securing the crop difficult and extra nitrogen was required on account of a cooler than normal growing season prior to harvest. Additional ground moisture meant higher yield potential with the consequent requirement for nitrogen to ensure grain quality was maintained. Even though such monitoring and treatment of crops meant added cost the results did mean a better pay out. GFW and Defiance have indicated that the average score of lines tested and recorded to date are close to 100 index points.

Wheat production is still a vital part of an arable farmer's crop rotation. With coarse grain production and prices at historically low levels, New Zealand domestic wheat producers can make valid comparisons and choose crop options. If you have an under-supplied domestic market for wheat you do have a secure base for at least a part of your cost structure, that is of course, provided you as a grower consider the price offered is attractive. For me it is good sense to have some staple crops (cash/cows) as a hedge to other more speculative options. I suggest evening primrose, squash and some herbage species could be in this category.

Arable farming today is not an industry for those who do not relish the exposure to risk. There is still the potential to grow feed grain crops, barley, wheat, and oats under a pasture replacement system. However, as quality and contractual arrangements become more demanding, it is my opinion that the arable farmer who fully investigates his farm potential will become even more specialised. There is a cost to this: will the industry overall become so small that economy of scale no longer exists; and can farmers afford the machinery that is required to meet the quality specifications? There is also the potential to become locked into a system.

The advantage of course, is that there are a number of crop options. Flexibility is very important in assessing risk management and most of us who practice this "state of the art" farming consider both stable and speculative crops. Some crops with high potential are just as quickly turned into dogs. Balance is a critical ingredient. Sustainable agriculture, land management and land usage will be critical areas we arable farmers need to address. Our one big advantage is our year round growing season

which allows most arable farmers the opportunity to have an alternative land use as support to their operation once the harvest is finished. If we look at wheat production as a part of an arable farmers' rotation and compare it with alternative land use figures, then it is quite easy to see that it is a profitable option (see Table 1).

Table 1. Gross Margin Comparison

	$/ha
Dairy	1243
Wheat (5.0 t/ha)	682
Bull Beef	574
Barley (5.25 t/ha)	570
Beef	404
Peas (3.5 t/ha)	355
Merino ewe	315
Deer	300
Crossbred ewe	286
Merino wethers	270

Prepared by Westpac - 15.11.91

Assumptions:
1. For crop - heavy soil type
2. Spraying and harvesting done by contractor
3. Machinery opportunity cost assumes $140,000 invested in plant at an opportunity cost of 10%; with a property size estimated at 200 ha.

Achievements and Future Prospects

"The hurdles which the New Zealand wheat and flour industries need to clear for a sustainable future are significant. Likewise the benefits to the New Zealand economy are also significant. If wheatgrowers are able to substitute 80% of the current wheat imports with New Zealand production, expenditure of approximately NZ$40 million (1991) could be reduced. Similarly if the millers are able to increase flour production by 20% over the next 10 years and engage in profitable niche market exporting activities with this extra production, additional gross for receipts of NZ$20-30 million would be realised".

I use this direct quotation from the Strategic plan because we are moving quite positively in the direction suggested. The good quality achieved last harvest has meant the millers have relaxed their contracts for this coming season. The contract with the growers throughout the year, the willingness to further review the index, and the price increases demonstrate the millers' support for the industry. Growers likewise have responded by taking up the contracts offered.

It is also my understanding that contract tonnages required by the mills are similar to last year and a positive move has been made to offer contracts for tonnage to the North Island. Growers may challenge the price for these contracts, but realistically, it does cost money to move the product north and growers must do their costing against other crop options.

In terms of achievement, the industry plan has worked well and, as I have said, we can claim some successes. There is however, one issue I feel very strongly about. That is the size of our wheat industry. The industry plan indicated there was a need for growth and the industry must work towards an integrated approach to its development and not revert to polarised positions. Eventually, the freight cost will be tested by shipping wheat from south to north. Certainly the legislative and union labour practices have now been removed. What is now required is an industry commitment to supply product to compete with imported product.

If growers desire growth in this industry then we need to move tonnage production up to and past 200,000 tonnes per annum. My own view is that this will be possible if we talk about a consolidated South Island wheat price, particularly within the enlarged Canterbury region. There are advantages and disadvantages with such a scenario. If the relative pricing between South Island mill contracts and South Island export price was to move even more closely together than at present, then only the overall price would determine whether we, as growers, chose to grow or not. This assumes that quality is no longer an issue, as we now know how to meet quality specifications.

If this were to happen, it would also put pressure on North Island markets for North Island producers. Before I started this discussion, I made the point that we are talking about an industry plan that considers growth as a desired objective.

Since deregulation in 1987, we have seen a substantial lowering of the freight cost differential. A South Island grower can now compete in the Auckland market with a price discount of around $15 per tonne. Last year it was $30. One could say the South Island mill contract price is too low and the mills are subsidising the northern flow of flour. If your production is constrained just by local market demands, then the local mills, if they wish to be competitive and grow, will start to export flour. It can be argued quite validly that increased production at lower than international prices, might be better for growers than

higher prices and lower production. Lower production could ultimately lead to a further decline as our mills look off-shore to meet their growth objectives.

You, as growers, must choose on this issue. However, with the importation of all grains, "anywhere in New Zealand", to fill grain shortages, it would seem that we must seize any growth opportunities with both hands. We have storage, blending and handling facilities to handle a national production of over 300,000 tonnes. Under the plan there is industry commitment to use our product and even Government has helped with transport deregulation, "see the Straitsman". We also have total industry support to prevent heavily subsidised grain being imported.

Research and Development

My final point relates to research and development, and again it is a personal view. At present, and until 1996, the wheat industry has statutory levy authority for research. Having recently sat as a member of the Step Panel, it is quite apparent to me that research for any industry must be well focused, quantified and reviewed frequently. The government will play its part, providing the private sector is making an adequate contribution. The contribution is not specified, but industry does need to be seen as part of the research commitment. If this is the case, then the research achieved will be more accountable back to industry.

When it comes to research levies our industry is too small, both in terms of fund potential and for research maintenance. At the moment, wheat growers fund wheat breeding. This will continue to be a vital area for wheat-growers involvement. Right now our ability to supply the market is threatened as we do not have enough new varieties coming through. Wheat breeding can however, be funded by Plant Variety Rights and it is acknowledged that the PGSF should not play a large part in breeding. Therefore it is essential to attract a reasonable share of public money into research needs for the overall arable industry and that a much more co-ordinated approach needs to be evident. This co-ordination should come from the market-place to produce and should also involve sector co-ordination across crops. This would take into account production swings that do occur from year to year, depending on gross margin analysis between crops. These swings can be as much as 30% by product volume.

The research effort that will be required is in market access, market preference and taste, quality demands, mycotoxin research, disease control, the place of organic crops, technology transfer, management practices, crop husbandry and fertiliser usage, to name a few. These need to be specific to arable farmers, not broad brush as some are at present.

Conclusion

My ten years as a Director of United Wheatgrowers have been interesting. In that period of time we have seen massive change. Consultation and discussion are the reality now, rather than polarised action and confrontation. I believe in the industry plan as a concept, which is now working well in practice.

There are some minor matters that still need tidying up, but overall I feel there is much better understanding and co-operation between wheat growers and the millers who wish to purchase our product. It is also essential for our industry to see quite substantial growth through the next 5 years. The 200,000 tonne objective is realistic, and as growers we have the will and drive to achieve it. A secure market is available, which will depend on adequate research and our ability to meet the market needs.