

IN THE MATTER of the Resource Management Act
1991

AND

IN THE MATTER of the Proposed Canterbury Land
and Water Regional Plan

**STATEMENT OF EVIDENCE OF PHILIP GRIFFITHS
FOR THE GROUP TWO HEARING**

1. INTRODUCTION

- 1.1 My name is Philip Arthur Griffiths. I am a Business Development Manager for Fonterra. My responsibilities cover the Canterbury Region.
- 1.2 My qualifications and experience consist of 23 years of hands on dairying including ownership of a small dairy farm. In addition I have 6 years' rural sales experience plus a short stint in rural banking. I have been a Fonterra employee for 10 years and in my current role am charged with growth of milk supply and milk retention.
- 1.3 In this role I work alongside farmers looking to convert to dairy and assist with Fonterra information requirements to supply, supply options and ensure they meet their food safety and environmental obligations from both a practical and consents perspective. Our sustainability advisors are a key part of this. Having been involved in over 500 conversions I am also a source of general information on the process and work closely with the farms' consultants and bankers in the early stages of the conversion of a farm to dairying.
- 1.4 I fulfil my role in many ways. Farmers call me directly from referrals, via our service centre or I get a request from a farm consultant or banker to visit a client of theirs to discuss conversion. I also present at seminars run by banks and hold events myself on converting to dairy inviting in other guest speakers.

2. SCOPE OF EVIDENCE

- 2.1 I have been asked by Dairy New Zealand and Fonterra to outline the following:
- (a) the number of farms in the Red Zone that were in the process of converting to dairying prior to the Proposed Canterbury Land and Water Regional Plan being notified; and
 - (b) an illustration of the costs already incurred by these farms in the conversion process.

3. FARMS IN PROCESS OF CONVERSION

- 3.1 I am aware of 51 farms in Canterbury that commenced conversion to dairy farming activities prior to the Proposed Canterbury Land and Water Regional Plan being notified. Not all of these farms will supply milk to Fonterra. While a number have concluded contracts to supply milk to Fonterra, others are still in negotiation to conclude a contract with a dairy processing company. Others have signed contracts to supply Synlait and Westland Milk Products.
- 3.2 I normally get to visit around 95% of people considering conversion to dairy as Fonterra is the largest player and people at the very least want to know what the supply options are that we have to offer. At these visits people are normally very open and share the details of their project, the size of the farm, number of cows and production envisaged.
- 3.3 Appendix 1 to this evidence records the circumstances of these farms on a no-names basis. I have intentionally not included the name of the farmers or other identifying information.
- 3.4 The Appendix shows whether the farm held a resource consent for the disposal of dairy shed effluent prior to notification of the Proposed Land and Water Plan on 11 August 2012. Similarly, I have set out in the following column whether a building consent was held for the farm dairy shed prior to notification of the Proposed Land and Water Plan. The next column sets out whether the conversion of the farm to dairying will amount to a change of use in terms of the definition in the Proposed Land and Water Plan. In the following column I have recorded the zone in which the farm is located. 30 of these farms are located in

the Red Zone. The second to last column sets out the amount of capital expenditure required to convert the farm from its previous use to dairying and the final column sets out whether the farm holds a land use consent in terms of the Regional Plan. All of these columns record simply what farmers have told me. I have not independently verified any of the information, but I have no reason to doubt it, and all of the figures appear reasonable to me based on my experience with other conversions.

3.5 In total, the 51 farms in the process of being converted to dairy farming cover a total of 13,277 hectares. This land will support a total of 54,660 cows and result in 14,108,000 kg of milk solids being produced in the 2013/2014 year. Overall, these farmers have committed \$236 million of capital expenditure to convert their farms to dairying.

3.6 I estimate the combined capital cost of converting the Red Zone farms to dairying as being \$153.8 million. As set out above, my estimate is based on figures provided to me by the farmers, or my own knowledge of the cost of the various items of plant being installed. I would allow a margin of +/- 10% for accuracy. I am aware that a considerable part of this cost was incurred prior to the Proposed Canterbury Land and Water Regional Plan being notified.

4. COSTS ALREADY INCURRED BY FARMS IN CONVERSION PROCESS

4.1 This section of my evidence sets out by way of example information sourced from actual conversion activities underway prior to the Proposed Canterbury Land and Water Plan being notified. They are located within the Red Zone.

Conversion 1

4.2 Property 1 is currently running a sheep operation with no irrigation. The farmer has:

- (a) three years ago, made a commitment to being part of a local irrigation scheme . This scheme has set a water charge of \$650 ha/yr meaning the farm has no option other than to dairy as the soil type does not lend itself to cropping or other alternative farm practices that might result in a profit sufficient to fund this amount of payment for water;

- (b) applied to Canterbury Regional Council for an effluent discharge consent. This consent was granted prior to the Proposed Canterbury Land and Water Regional Plan being notified;
- (c) sought and obtained bank funding for the conversion to the value of \$8m (excluding Fonterra shares);
- (d) made orders for centre pivot irrigators and paid deposits for these items of plant, which need to be imported from the United States;
- (e) forward contracts in US currency were also committed to at this point;
- (f) let contracts to build the dairy shed, and to purchase and install a milking plant;
- (g) booked builders to construct staff housing including a manager's home plus a further dwelling for the person second in charge as well as a single person's quarters;
- (h) made consent applications for the various new buildings required;
- (i) contacted livestock agents for the purchase of 950 cows with a view to milking 900 in the spring of 2013 - expected purchase price of \$2200 per cow.

4.3 In addition, land cultivation for total regressing of the farm to support a dairy herd began in October 2013. Regrassing is necessary because the pasture species for dairy and irrigation are different and are also bred for response to irrigation. A consequence of this is that there has been no income from the former sheep operations from last October. Dairying income will not commence until August 2013 after the new dairy cows have calved.

4.4 The overall budget for this conversion is \$7.75 million with a contingency of \$275,000.

Conversion 2

4.5 Property 2 is currently running a mixed sheep and crop regime on border dyke irrigation, has to date taken the following steps towards converting to dairying:

- (a) seeking and securing bank funding for the conversion to the value of \$3.5m (excluding Fonterra shares);
- (b) like the farm above, plans developed with orders; for centre pivot irrigation, a water storage pond, another house and a dairy shed;
- (c) consents to discharge effluent to land applied for and granted prior to Proposed Canterbury Land and Water Regional Plan being notified;
- (d) irrigation water gets short in summer so provision has been made on this farm for converting to centre pivot irrigation with a storage pond;
- (e) there will be a gradual increase in stocking to allow time to develop more land into dairy pasture and improve the irrigation with their own labours;
- (f) all lambs sold early to allow re-grassing to proceed;
- (g) some crops are continuing to be grown for sale with other crops grown for wintering the cows on farm;
- (h) an initial stock purchase of 470 cows has been made (milking 450 cows at year one) with a cost of \$2200 per cow, totalling a little over \$1 million;

2011/2012 Conversion

- 4.6 Table 1 below summarises the conversion costs for a farm that started supplying milk to Fonterra in the 2011/12 season. This equates to a conversion cost of just over \$19,000 per ha, not including the cost of Fonterra shares or dairy stock.

Table 1. Illustration of farm conversion costs

| | | | | |
|---|---|--------|------------------|--------------|
| Development | | | | |
| Clearing | | | | \$ 20,000 |
| Regrassing | | 155/ha | | \$ 65,000 |
| Capital Fertiliser & urea | | 155/ha | | \$ 50,000 |
| Fencing - entrance, shed area, two wire lanes & internals | | | | \$ 55,000 |
| Races - including tanker track | | | | \$ 65,000 |
| Stock Water - ring main with dosatron | | | | \$ 110,000 |
| Drainage | | | | \$ - |
| Cowshed | 54 bail rotary + effluent, includes ACR, meal & grain feeding | | | \$ 1,200,000 |
| Power | | | | \$ 65,000 |
| Irrigation: | Overhead gear - pumped, laterals to corner | | | \$ 415,000 |
| | Pond | | | \$ 105,000 |
| | Purchase ECI shares (ordinary shares held) | | | \$ 180,000 |
| Housing | Manager's house - 3 b ^{rm} + office | | | \$ 300,000 |
| Housing | 21/C (re-decorating required to existing) | | | \$ 20,000 |
| Housing | | | | \$ - |
| Ancillary Buildings | | | | \$ 40,000 |
| Supplementary feed purchased & made on farm | | | | \$ 60,000 |
| Administration (Legal/Accounting/Advisory/Consents) | | | | \$ 15,000 |
| Capitalised interest | | | | \$ 16,500 |
| Contingency | 4% | | | \$ 104,100 |
| Project Management Fee | | | | \$ 85,000 |
| Sub total | | | \$ 19,165 per ha | \$ 2,970,600 |

APPENDIX 1

| pre 11/8/12 | pre 11/8/12 | Trigger within notified plan | | \$Million | |
|---------------------------------------|------------------------------|------------------------------|-------------|----------------|------------------------------|
| EFFLUENT DISPOSAL CONSENT HELD | BUILDING CONSENT HELD | CHANGE OF USE | ZONE | CAPITAL | LAND USE CONSENT HELD |
| Y | Y | N | Red | \$3 | N |
| N | N | Y | Blue | \$5 | N |
| Y | Y | N | Blue | \$4 | N |
| Y | Y | N | Blue | \$3 | N |
| Y | Y | Y | Blue | \$6.5 | N |
| Y | Y | Y | Blue | \$3 | N |
| Y | Y | N | Red | \$6 | N |
| Y | Y | N | Red | \$4 | N |
| Y | Y | Y | Blue | \$5 | N |
| N | N | Y | Blue | \$5 | N |
| Y | Y | N | Blue | \$6 | N |
| Y | Y | Y | Red | \$6 | Y? |
| Y | Y | Y | Red | \$3 | N |
| N | N | Y | Orange | \$1.5 | Y |
| Y | Y | N | Red | \$5.5 | Y |
| Y | Y | Y | Orange | \$3.5 | Y |
| N | N | N | Red | \$3.5 | N |
| N | N | Y | Red | \$12 | N |
| Y | Y | Y | Red | \$2.5 | N |
| Y | Y | Y | Red | \$2 | N |
| Y | Y | N | Green | \$4 | N |
| Y | Y | Y | Red | \$4 | N |
| Y | Y | Y | Red | \$3 | N |
| Y | Y | N | Red | \$5.5 | N |
| Y | N | Y | Red | \$6 | N |
| N | N | Y | Orange | \$4 | N |
| N | N | Y | Orange | \$2 | N |
| N | N | Y | Orange | \$3 | Y |
| Y | Y | Y | Orange | \$6 | N |
| Y | Y | Y | Orange | \$5 | Y |
| Y | Y | N | Orange | \$3.5 | N |
| N | N | y | Orange | \$6 | N |
| Y | Y | Y | Orange | \$2.5 | N |
| Y | Y | Y | Orange | \$4 | N |
| Y | N | N | Red | \$6 | N |
| Y | Y | Y | Red | \$4.5 | N |
| N | N | Y | Red | \$5.5 | Y |
| Y | Y | N | Red | \$5 | N |
| Y | Y | N | Red | \$3 | N |
| Y | Y | N | Red | \$3.5 | N |
| Y | Y | Y | Yellow | \$7 | N |

| pre 11/8/12 | pre 11/8/12 | Trigger within notified plan | | \$Million | |
|--------------------------------|-----------------------|------------------------------|------|-----------|-----------------------|
| EFFLUENT DISPOSAL CONSENT HELD | BUILDING CONSENT HELD | CHANGE OF USE | ZONE | CAPITAL | LAND USE CONSENT HELD |
| Y | Y | N | Red | \$5.5 | N |
| Y | N | Y | Red | \$5.5 | N |
| Y | N | Y | Red | \$2 | N |
| N | N | N | Red | \$6 | N |
| Y | N | N | Red | \$6 | N |
| N | N | Y | Red | \$7 | N |
| Y | Y | N | Red | \$7 | N |
| Y | Y | Y | Red | \$5 | N |
| Y | Y | Y | Red | \$4 | N |
| Y | N | Y | Red | \$5 | N |