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Norgate's view - Milk it for all it's worth

By Stephen Ward

Craig Norgate believes the time is right for meat producers to take advantage of the market.

Craig Norgate has never been a conformist cardboard-cutout corporate executive. The former Fonterra CEO and current PGG Wrightson deputy chairman has his share of critics: Too much big picture, not enough detail, they mutter.

But four years after leaving Fonterra, when the 41-year-old Norgate talks, the primary production sector still listens.

And, while never shy of voicing an opinion, he seems to have ended a self-imposed moratorium on commenting on the co-op.

He urges Fonterra shareholders not to get bogged down in a debate on capital structure changes that could dilute the focus on selling milk products. He's also wagging a finger of warning at the meat companies, saying they need to get their act together or risk failing to maximise export returns when global prices are on the rise. Bringing elements of a Fonterra-style model to the sector could help, he suggests.

The Government has been another target. Norgate argues it is better to fund scientific solutions to the issues New Zealand faces rather than impose bureaucratic ones.

Norgate is clearly fired up - not that there was ever any doubt about his passion - about a sector he sees as being on the cusp of major change.

Just this week, PGG Wrightson offshoot NZ Farming Systems Uruguay announced it had arranged for a $40 million capital injection to help speed up the purchase of farms in Uruguay to use for NZ-style dairying.

Part of the reason for picking up the pace, says Norgate, is the emergence of a "mega-trend" towards consolidation, with larger investors accumulating global farming land and agribusinesses. Having more cash now will help beat off competition, particularly from US and European investors.

The race for farming-related assets is being fuelled by supply constraints caused by the drought in Australia, water shortages in China and the increasing use of land to grow corn for ethanol production.

Traditionally, says Norgate, up to 3 per cent of the US corn crop has gone into ethanol production but this year it's expected to be about 20 per cent. When all the ethanol plants commissioned are built it could be about 50 per cent, he says. That has pushed up the costs of production for milk and meat, and their prices.

"That translates into good returns for farmers everywhere around the world and a renewed interest in agriculture and agribusiness assets.

"There's plenty of capital around looking for a home."

He says some people may have criticised Fonterra for quickly selling last season's record production, given current skyrocketing prices.

"But by being sold up they've created the market conditions for the roof to go off. And it increasingly looks sustainable because there's just nowhere that can turn on [extra] milk supply overnight."

On whether this was a deliberate ploy, he says: "I'm sure they didn't join all the dots straight away but I'm sure they got things 90 per cent right and certainly do deserve credit for what's happened."

He is concerned that unless most milk products are exported by a single player, commodity prices will be materially lower.

He also warns that having the co-op too focused on debating capital structure - or worrying too much about emerging domestic competition - could be counterproductive.

"Frankly, I think Fonterra needs to focus on the international marketplace and driving its own business as hard and as fast as possible."

If the co-op is producing the results, farmers will support it, he says.

"Things like capital structure and competition tend to be things that are in your rear-view mirror. And if you spend too much time looking at those you tend to wander off the road a bit."

He says "there was no stone left unturned" when Fonterra's capital structure was put together and there's no new information suggesting substantial change is needed, although he agrees the model can be tinkered with.

Norgate points out that Dairy Equity's swaps scheme - allowing farmers to get cash for giving up a beneficial interest in their Fonterra shares - and other capital management tools are available if people want to access cash.

But he also believes that for the capital structure to remain "robust" there must be a "relentless focus" on improving the performance of the co-op's consumer goods business.

Norgate believes Fonterra's recent contribution to rising commodity prices, by influencing supply, offers lessons to the meat sector, which has been hit by falling lamb prices.

Shelf prices for meat have been rising in the US thanks to various global supply constraints. This has flowed through to beef returns, yet lamb prices are still suffering with no one telling sheep farmers there could be light at the end of the tunnel, he says.

The time has come for the meat industry "to bloody well get its act together".

"You wouldn't call for a Fonterra-type model but you do want elements of that. You don't have to have all the meat going through one marketing channel to create a dynamic that could take advantage of the current supply [situation]."

There are too many people to buy meat off in New Zealand "so buyers are still dividing and ruling New Zealand's meat marketers".

Merging meat co-ops Alliance and PPCS has been talked about in times of adversity. "But it's when market dynamics are like they are now that a combination of the two has the ability to make progress in the international marketplace because they can stare down buyers in a market that's short."

He believes that if poor sheep meat returns continue there will be a dramatic escalation in conversions to dairying. "It is time sheep farmers demanded more from the leaders of their industry."

Since leaving Fonterra, Norgate has learned to take time out from business but he has no plans to give it up.

What keeps him engaged in business rather than turning his regular January holidays in the Coromandel into a year-round exercise?

Norgate says he needs a sense of momentum in his life and is always looking for new opportunities "because you get bored pretty quickly otherwise".

Another motivation is that he wants to do his bit to make New Zealand a place where his children and grandchildren have a secure future.

With the strong outlook for commodity prices, the next decade could be good to farmers, he says.

"So to the extent I can make that [agricultural] sector more productive and more globally connected, then I guess I see myself as doing my bit for both the country and for my kids."

Asked what the longer-term future might hold for a man with strong views and an ability to articulate them, he doesn't take the bait: he's not planning a political career.

"I feel as though I spent enough time doing that in the dairy industry."

Craig Norgate

* Age: 41.

* Family: Married to Jane, three children.

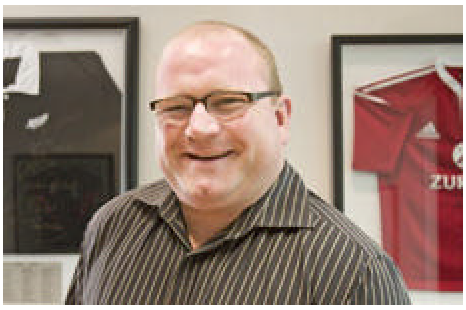
* Home: Auckland.

* Current roles include: Deputy chairman PGG Wrightson, managing director Rural Portfolio Investments, and director of Aotearoa Fisheries, Sealord, Dexcel and Westgate Port Taranaki.

* Also involved with: The Government's Growth and Innovation Advisory Board, the Foundation for Research, Science and Technology, and the Auckland Regional Council's economic development unit.

* Former jobs include: First chief executive officer of Fonterra, Kiwi Co-operative Dairies chief executive, and roles with Lactose NZ, Lowe Walker and the Department of Maori Affairs.

* Enjoys: Rugby, beach holidays in Coromandel.



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