AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

30 January 2013

Organisations referenced in this week's Field Notes include:	
Alliance Group	Green Party
ANZ Bank	Landmark Global Exports
Ballance Agri-Nutrients	Matariki Group
Beef+Lamb New Zealand	Ministry for Primary Industries (MPI)
Blue Sky Meats	New Zealand Bloodstock
Comvita	New Zealand Campaign for Wool
Delegats Group	Pasture Renewal Charitable Trust
Federated Farmers	Pinot Noir 2013
Focus Genetics	Ravensdown Fertiliser Co-operative
Fonterra Co-operative Group	Scion
Forest and Rural Fire Association	Silver Fern Farms

This week's headlines	
Agri Chemicals	**Fears of tainted image for NZ Milk** [25 January/ stuff.co.nz]
Viticulture	**Matariki assets snapped up by Delegat's** [25 January/ The New Zealand Herald]
Honey	**Comvita buys Aussie groves to expand olive extract output** [23 January/ National Business Review]
Meat	**$65 million meat project** [29 January/ stuff.co.nz]
Water	**Govt expects money back from investment** [28 January/ NZ Farmers Weekly]

Agri chemicals

Fears of tainted image for NZ Milk [25 January/ stuff.co.nz] A product used to reduce nitrogen leaching into waterways has been withdrawn from the market after traces of it were found in New Zealand milk. The Ministry for Primary Industries (MPI) says that the presence of traces of dicyandiamide (DCD) have no food safety or health risks but could have a significant impact on exports. DCD is the active ingredient in products like Eco-N and DCN marketed by Ravensdown and Ballance Agri-Nutrients respectively. While MPI state there is no safety risk, food regulators around the world are tightening testing in line with more demanding markets, in response to incidents such as the melamine contaminated milk scandal in China in 2008. There has never been a set of international standards around the maximum residue level of DCD acceptable in food products despite the product having been used safely in food production for over 30 years, however it was added to a list of substances to be tested for by the US Food and Drug Administration last year and it now presents a trade risk to New Zealand as without a threshold only no detectable presence is acceptable. Ravensdown CEO, Greg Campbell, said that the co-operative had taken the precaution of suspending its Eco-N product for the rest of the year to retain New Zealand's dairy export reputation.

Fonterra CEO plays down milk worries [27 January/ stuff.co.nz] Theo Spierings, CEO of Fonterra, has described the response to the discovery of trace findings of DCD in milk as way out of proportion to the issue and he assured consumers across the world that Fonterra products were safe to consume. Mr Spierings acknowledged that customers and regulators had questions and Fonterra was working to answer the questions, but highlighted that the traces found in some New Zealand milk products were 100 times lower than acceptable levels under European food safety limits. Fonterra has supported moves by the two major fertiliser co-operatives to voluntarily suspend sales of DCD while the issue is worked through. Most countries did not have standards for DCD traces which did create the opportunity for countries to use the issue to create barriers to Fonterra's exports and the issue had the potential to increase as more farmers looked to use DCD as a tool to mitigate farm environmental impacts. Mr Spierings added that the issue was a New Zealand issue and that they had a 100% open line to the government every day and were keeping them fully informed.

NZ works on agreement on residue in milk [28 January/ Radio NZ Rural] Outgoing Primary Industries Minister, David Carter, says that the New Zealand government is working closely with its trading partners to try and determine an acceptable level of DCD residue in milk products. Mr Carter said the issue was definitely not a food safety issue, thus the challenge was now to work with the world to get them to accept a very minor level of DCD residue in milk products so that farmers can get back to using the products on their land, given the environmental benefits they have in reducing nitrogen leaching. Two key export markets for New Zealand milk products, Taiwan and China, have announced that they will begin testing Fonterra's milk products for DCD. An expert on the China market, David Mahon, says consumer reaction in China so far has been moderate but noted that Fonterra needs to be translating its safety assurances into Chinese languages so its messages get picked up across the country.

NZ moves to restore trust [29 January/ China Daily] The New Zealand ambassador to China, Carl Worker, has held a news conference in Beijing to insist that all dairy products exported from New Zealand to China are safe, against a background of China's quality watchdog asking New Zealand authorities to hand in a detailed risk assessment report on the traces of DCD chemical detected in products originating from the country. Mr Worker apologised for the confusion surrounding the suspension of use of DCD on New Zealand farmlands and stressed the detection of small residues of DCD posed no food safety risk. At the press conference, Kelvin Wickham, Fonterra's president of Greater China and India said the company had first discovered DCD traces in products in September but had not disclosed this at the time as it did not believe that there was a food safety risk. Also at the conference, the Director General of the Ministry for Primary Industries, Wayne McNee, said that a consumer would need to drink 130 litres of milk a day to be above the European Commission's acceptable daily intake of DCD and have drunk "considerably" more to have any adverse health benefits. Mr Worker said the suspension of the use of DCD had occurred because New Zealand's customers expect our products to be residue free and the move was taken to avoid uncertainty or confusion, but he regretted a lack of forewarning to Chinese authorities.

Animal Health and welfare

Boom in live cattle exports to China [23 January/ NZ Herald] Demand for New Zealand's dairy livestock in China appears to be booming with more than 38,000 live animals being exported to China over the last year. It is expected that one of the largest shipments to date will leave the country this week taking more than 7,200 heifers on a three week journey from Timaru to Asia. The shipment which is being undertaken by Australian based Landmark Global Exports, is valued at upwards of $12 million. In total around 43,500 cattle were exported live from New Zealand in the year to November 2012, worth $112 million with the majority heading to China as the country aims to build its dairy sector to meet growing demand from its expanding middle classes. Many farmers are finding the exporting of dairy cattle to be a lucrative enterprise, however the cattle have to meet strict criteria, including passing a number of disease tests, proof of breeding and physical inspection of the animals. Cows are generally exported between one and two years old and are put in calf only once they reach their destination. Fonterra is one of the major exporters of dairy heifers and has developed its own supply chain of cattle for its farms in China, as the company works towards producing 1 billion litres of milk in China every year by 2018. The exporting of live animals has met strong opposition from the Green Party who have labelled the practice as cruel, and said that the lack of regulation means that the government is allowing thousands of animals to be put through suffering by allowing their shipping overseas. The party's spokesperson, Julie Anne Genter, said the Animal Welfare Act must include stronger restrictions and a focus on minimising the exports of live animals.

Arable

Lower volume likely for harvest [28 January/ NZ Farmers Weekly] As the grain harvest gets under way in Canterbury, industry leaders are expecting a harvest that will be 'just average' at best with volumes down on last season. The recent strong north-west winds have caused some crop damage and the soaring temperatures of recent weeks have taken the cream off the harvest before it has started. The real concern however for Federated Farmers North Canterbury Grain and Seed Chair, Murray Rowlands, was the impact a lack of cropping farmers are having on the total volumes produced. The picture is more positive in South Canterbury, were the early harvests of barley and ryegrass had come off quite well in terms of yield and quality and while weeds had been a problem, the situation was looking more positive. Fed's arable chair for the region, Colin Hurst, said that prices are a little lower than ideal, while his counterpart in Mid Canterbury, David Clark, said the dry weather had taken the top off dry-land yields, but early signs were for an average season if the weather played its part.

Viticulture

Matariki assets snapped up by Delegat's [25 January/ The New Zealand Herald] Delegat's Group has recently acquired the assets of troubled wine maker Matariki Group and associated company Stony Bay Wines for $8.5 million. Matariki Group was placed into receivership last year owing over $11 million. Following Delegat's 61-hectare purchase of the vineyards, the Group now has 500 hectares of vineyards in the Hawke's Bay region. Delegat's managing Director, Jim Delegat, said the deal made sense given the company already had holdings in the area that were adjacent to the "high quality, valuable" vineyards bought. Mr Delegat also said that the situation now existed where these acquisitions now had to be attached to the Group's existing operations which would give them additional scale and exposure. The company has not bought the Matariki and Stony Bay Wines brand and the grapes from the vineyard will be bottled under Delegat's existing brands. Delegat's sell over 2 million cases of wine a year and recorded revenue of $221.5 million for the 12 months' ending June 30 2012.

Pinot noir top tipple, say experts and exports [29 January/ stuff.co.nz] The wine industry gathered in Wellington on Monday of this week for the start of Pinot Noir 2013, a four day event dedicated to one of New Zealand's stand-out wine varieties on the global stage. The three yearly event is being attended by 500 people, with more than a third of attendees being professional wine experts from the international media and representatives of major trade buyers. Pinot Noir is the second most popular variety produced in New Zealand, after Sauvignon Blanc, with exports last year amounting to $122 million (up from under $20 million a decade ago). The event this year includes separate venues for the separate regions that produce the wine, reflecting the unique characteristics of the wine depending on the conditions that the grapes are grown in, and across the venues almost 300 wines will be showcased to the attendees. Wine makers are convinced that buyers are taking note of the quality of pinot noir that comes from New Zealand as a cool climate region for growing the grapes and the potential this creates to produce really amazing wines.

Honey

Comvita buys Aussie groves to expand olive extract output [23 January/ National Business Review] An 85ha organic olive estate has been bought by health products manufacturer Comvita providing the group with the potential to expand its olive leaf extracts business by 130 percent over the next five years. The sum paid for Organic Olives (Aust) by Comvita's Australian subsidiary was undisclosed with the site comprising of some 7000 certified organic olive trees and room for further expansions into the olive trees. The estate is located on the shore of Lake Wivenhoe in south-eastern Queensland in Australia. Auckland University's Liggins Institute recently found a beneficial impact from olive leaf extracts on secretion of insulin and the action of insulin in overweight men in a study reported by the company. This research is yet to receive peer review, however, those involved are anticipating global interest to rise in the area of olive leaf extracts. Comvita chief executive Brett Hewlett said that the company is also reviewing the possibility to build on this science, with further clinical trials. With Comvita shares last trading at $3.65 on the NZX, Mr Hewlett said that the acquisition effectively future proofs this rapidly growing part of the business.

Forestry

Forestry sector awaits biofuel report [28 January/ Business Day] The viability of generating biofuels from trees have been presented in a recent report by Crown-owned forest researcher Scion. The report highlights various positives which could greatly aid the financial stability of the already struggling sector. Converting tree waste in biofuels and bioplastics has long been a closely researched topic for many in the forestry industries and has important implications for forestry dependent nations such as Canada and Sweden. However, the technology utilised in such processes has raised many questions relating to the commercial viability of such processes that use this technology. This is something that Scion hopes to overcome with its Woodscape report which follows a techno-economic approach or put more simply, ensuring that the numbers better relate to the science. Scion head of sustainable design, Trevor Stuthridge, is the main driver of this approach. The report is funded by Woodco, the Ministry for Primary Industries, New Zealand Trade and Enterprise and Scion. It will look at ways of generating the greatest return for the forestry and timber sector, with a heavy focus on biofuels. Stuthridge said that biofuels had a huge economic upside potential for the country. If forest plantings doubled, about $5.5 billion worth of biofuels could be produced annually, effectively replacing costly imported oil, said Stuthridge. That would be on top of the $4.2 billion currently earned by the export of forestry and timber goods.

Dairy

Barn dairying reaches South Canterbury [29 January/ stuff.co.nz] A farmer behind the development of a barn based farming system being built near Cave in South Canterbury says the approach is taking high input farming to the next level. Alex Ulrich who manages the farm, says the system which will milk 300 cows year round using robots is taking dairying farming to the next level. Mr Ulrich highlighted that the animal welfare and environmental outcomes from the farm are as good as you can get, but recognised that public perceptions of such systems as factory farming are a concern. The cows spend most of the year inside the barn, apart from the six to eight weeks that they dry off. The pastures around the barn will be used to grow a variety of crops (including maize, lucerne and grass silage) which are then fed to the cows, together with purchased supplementary high energy, high protein feeds, in a controlled way that maximises the milk production of the animals. The use of a barn based system enables Mr Ulrich to maximise production from the small farm and the investment in developing the business made economic sense for the family.

Meat

Drop in lamb prices has farmers worried [25 January/ stuff.co.nz] Some Southland farmers are calling the current season a write off already, while industry commentators say the drop in schedule prices for lamb is making sheep farming unsustainable and is putting the future of the industry at risk. While Beef+Lamb New Zealand is forecasting a price of $90 per head for a prime lamb (well down on the $150 a head paid in 2011) current prices have dropped below this level and an update is due in the next few weeks according to the organisations chief economist, Andrew Burtt. Farming leaders however note that if the price of a mid season, mid range lamb cannot compete with dairy prices, farmers will actively look for other land uses. Meat company executives, such as Blue Sky Meats chairman, Graham Cooney, said the prices should not come as a surprise to that company suppliers as they were in line with predictions the company made last year. Grant Cuff, the CEO of Alliance Group, said that he expected prices to improve but it would be beyond this season, noting that they were seeing a pickup in demand, but it had not yet flowed through to prices

Meat industry should restructure in good times - CEO [28 January/ Radio NZ Rural] Silver Fern Farms CEO, Keith Cooper, says that it is wrong time to call for rationalisation of the meat industry suggesting that the right time for a rational debate is not when the industry is under pressure – as it is now – but when things are going well. Mr Cooper was responding to comments by Federated Farmers President, Bruce Wills, who suggested that plunging lamb prices and heavy financial losses would force meat companies into much talked about restructuring measures this year. Mr Cooper noted that the meat companies paid too much for lamb last season and the current prices were a better reflection of the market and demand, and added that the level of competition for stock was behind the high prices last year, something that many farmers like and is consequently an obstacle to achieving any industry consolidation. Mr Cooper added that the current procurement model was not sustainable but it is one that many famers support. The key theme underlying calls for consolidation in the meat sector was a desire to achieve efficiencies and economies of scale and Mr Cooper said it was a moot point about how much would be saved by having fewer processors. He also suggested that the debate should have taken place over the last two years when values were higher and the debate could have been more rational and non-emotive, adding restructuring is more likely in the good times when people have got a clear head.

$65 million meat project [29 January/ stuff.co.nz] A range of meat industry companies have agreed to put aside their differences and work together on the latest Primary Growth Partnership project. Ministry for Primary Industries Director General, Wayne McNee, said the aim of $65 million project (to which the PGP scheme is contributing $32.4 million) was to ensure that red meat producers consistently have access to and are able to effectively use the best-available farm and business management practices. The project is intended to address gaps in technology transfer and ensuring stronger co-ordination between organisations and individuals working with farmers. The seven year programme currently has 10 partners including all the major meat processors, Beef+Lamb New Zealand and the ANZ Bank, with an open invitation for other interested participants to become involved. Mr McNee said the project was the most comprehensive collaboration of its type ever seen in the red meat sector and as a consequence it generates some very exciting opportunities. The programme is intended to build on 2010's Red Meat Strategy and included investigating how farmers preferred to receive and use new information, what factors drive their profitability as well as benchmarking and integrating relevant databases.

Wool

NZ committed to wool campaign [29 January/ Straight Furrow] Leaders of the New Zealand Campaign for Wool are urging doubters to think again about the effectiveness of the campaign, which in the UK alone is believed to have generated media value in excess of GBP 5 million. The New Zealand Campaign for Wool is part of a global initiative and it has just committed to a further two year term to remain involved in the global activities. Stephen Fookes, the chairman of the New Zealand Campaign for Wool, said that the Campaign had committed to 22 projects for 2013, the largest being a 'Wool House' at Somerset House in London, which will showcase the uses of wool from interiors to textiles. There are also plans to develop a movie about the history and uses of wool. In New Zealand, the Campaign is planning a Love NZ Wool programme and is working with Textiles New Zealand to set up a more comprehensive social media component to the campaign. Mr Fookes said feedback received is that the campaign is going well; noting the industry needs to ensure it can deliver the supply if the campaign does what it is designed to do.

Bloodstock

Karaka beckons rich and famous [28 January/ The New Zealand Herald] The biggest event on New Zealand's bloodstock calendar, the National Yearling Sales at Karaka, is set to attract the influential and famous but not in quite the same numbers as before the onset of the global financial crisis. People such as Eduardo Cojuangc, who is ranked by Forbes magazine as the Philippines' 10th richest person and Arab sheikhs are amongst the types of people that the event attracts. New Zealand Bloodstock's co-managing director, Andrew Seabrook, said that the event attracts people from all walks of life but certainly the wealthy. Like many industries at the luxury end of the market, racing felt a substantial drop as a result of the financial crisis. During 2008, sale at Karaka reached $111 million before the financial crisis struck, but since then sales have struggled to break $100 million. 2012 sales totalled just $70 million compared to highs witnessed during previous years. Although the industry has faced a hard past few years, there are positive expectations to come, Seabrook said. With this month's event underway, about 1500 horses will go through the ring with prices starting from $2000 to $1.5 million.

Water

Govt expects money back from investment [28 January/ NZ Farmers Weekly] The promise of $400 million of taxpayer money being directed towards regional irrigation schemes comes with a crucial caveat – the government expects to get its money back. The government has announced this week, that the first $80 million will be made available in this year's budget. The money will provide bridging finance for irrigation schemes to encourage private investors to take the plunge of investing in schemes. The investments will be made through the creation of a Crown company which will take a hands on investment role in the schemes. The government expects to review at least one proposal this year, with the intention of taking minority, short term investment positions in schemes. Prime Minister, John Key, stressed that the scheme was not a subsidy but a facilitation mechanism to get investment under way, while generating an economic return for the government. Mr Key added as irrigation schemes were a new class of investment it may take time for private investors (such as superfunds) to become engaged and government involvement may give others more confidence to invest. The initiative has been widely welcomed by agriculture sector however the Green Party criticised the spending, saying it would further pollute waterways.

Farmers and producers

'Free paddock' offered [28 January/ Otago Daily Times] A competition is being run by Federated Farmers which is aimed at encouraging more activity in pasture renewal. The Pasture Renewal Charitable Trust's "Win a Free Paddock" competition runs until February 28 and is open to all farmers from both the dairy and sheep/beef/deer sectors. Prizes valued at $8000 are to be drawn on March 5 and will include products and technical advice used in the area of pasture renewal. Federated Farmers has said that pasture renewal is a core part of farming activity and New Zealand farmers have fallen well behind the trust's 10%-12% recommended annual total percentage of pasture renewal. It was also said that only 6%-7% was renewed annually by dairy farmers with the sheep and beef sector only renewing 2%-3% annually. A recent survey released by Cinta showed that more than 80% of dairy farmers intended to renew run-out pastures this season. Pasture renewal has been shown to be a core part of farming activities and improves pasture quality, increases productivity and returns, enhances animal health and increases farm management options.

Fire season 'worst in a decade' [28 January/ Radio NZ Rural] The Forrest and Rural Fire Association chairman Doug Ashford says that while widespread fires do not happen that often, this year has been one of the rare years that come around every ten years. It has been a lot warmer, drier and humid all of which have all contributed to the higher proportion of fires Mr Ashford said. Warmer weather has been forecasted for the next few weeks which will mean that fire crews remain on high alert. Auckland, parts of the Hawke's Bay and Canterbury, and many other regions have high fire restrictions in place. In addition to the fire warnings that have been issued, many more water restrictions have been put in place. Hawke's Bay Regional Council has advised that irrigation restrictions are likely to be triggered this week on some rivers because they were expected to reach their minimum levels.

Economics and trade

Forestry, dairy top price gains [25 January/ Otago Daily Times] Rising log prices have been evident in the past month as increased demand from China has influenced the upward rise, the latest ASB New Zealand Commodity Weekly highlights and Agrifax shows. A recent report from Agrifax has shown low Chinese inventories as a result of the run down in 2012 and limited imports as being large drivers of the price increase. The expected reacceleration of the Chinese economy as well as the Christchurch rebuild would also be positive factors. The ASB New Zealand commodity price index moved 0.4% higher in the week ended January 18, with price gains led by forestry and dairy commodities. At the end of October of last year lamb prices had fallen by more than 18% in New Zealand dollar terms and have weakened again over the past week. A recent report released by the US Department of Agriculture's bi-weekly update shows levels for most dairy products as increasing on previous levels, although cheese and whey powder levels remained unchanged. Professor William Bailey of the Western Illinois University's Department of Agriculture said that while the price increases were modest, they did reflect rising production concerns for Australia and New Zealand. Low moisture levels were expected for New Zealand for the next several weeks, keeping pasture conditions less than ideal for a long tail at the end of the production season.

Weaker dairy trade dents exports [29 January/ stuff.co.nz] Dairy products took a tumble in the December quarter with volumes falling 15% and values falling 12% on the strong results achieved in the September quarter. The latest figures from Statistics New Zealand show that the fall in dairy exports led to a 3.3% drop in the value of all exports in the December quarter, reversing the gain of 4.4% reported for the September quarter (both on a seasonally adjusted basis). The September quarter saw a 36% lift in the volume of dairy products exported on the back of the bumper grass growing season the country experienced in 2011/12. The seasonally adjusted value of imports dipped 1.5% for the second consecutive quarter, leaving a seasonally adjusted trade deficit for the final quarter of 2012 of $87 million. The trade balance for the December month was a surplus of $486 million, as imports such as crude oil fell much more than exports.

International

UK farmers get wider choice of NZ sheep genetics [28 January/ Rural News Group] Focus Genetics, New Zealand's largest red meat genetics company, has merged its resources with one of the United Kingdom's largest supplier of sheep technologies, providing UK farmers with a wider range of improved sheep genetics. Focus Genetics UK general manager, Bayden Wilson said that the collaboration with Innovis after signing a collaboration deal with Focus Genetics will enable them to improve the supply of genetics to UK based breeders and allow them to increase investment in ground-breaking research and development technologies for the benefit of farmers. Resources, skills, technologies and equipment are set to become more readily available to share with the benefits that will steam from the genetics gain. Innovis chief executive Dewi Jones says that he was impressed with what he has seen so far with collaboration between New Zealand farmers and the UK. Mr Jones said that the move will give UK breeders access to a wider range of genetics lines that have been developed to improve on-farm productivity and efficiency. Innovis have said that they are excited to be involved with Focus Genetics and believe that their customers will be able to share in the significant benefits that will come from the venture.

Majority of member states still flouting sow stall ban [29 January/ Farmers Guardian] The latest figures released by the European Commission show that 17 out of 27 EU members states had not fully complied with the partial sow stalls ban nearly a month after it came into force on 1 January. The National Pig Association in the UK believes that around 25% of the EU's 13 million sows are still being kept for most of their productive lives in outlawed sow stalls, with Germany, France and Ireland amongst the least compliant countries. It was also noted that the two largest exporters of pork products to the UK (Denmark and the Netherlands) were not fully compliant, although did have compliance levels over 90%. Sow stalls have been banned in the UK since 1999 and the latest figures have sparked further concern that UK producers are being undermined by cheaper 'illegal' pigmeat being marketed across the EU. The Commission has confirmed its intention to launch infringement proceedings against non-complying member states and urged Agriculture Ministers to apply 'dissuasive sanctions' to non-compliant farms. The British secretary for the environment, farming and rural affairs, Owen Paterson, said that the level of compliance given countries had been given a 12 year period to implement the ban was inexcusable and encouraged consumers that care about the welfare of the animal their pork or bacon comes from to buy British. The Commission however have refused to impose trading bans on non-compliant countries.

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