



AGRIBUSINESS

# Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

13 February 2013

## Organisations referenced in this week's Field Notes include:

Agri-Women's Development Trust	GlaxoSmithKline
Alliance Group	Landbased Training Centre
ANZ	Lempriere
Beef+Lamb New Zealand	Ministry for Primary Industries
BNZ	Miraka
Bunge	Northland Natural Food Co-operative
Cavalier Corporation	NZ Blackcurrant Co-operative
Central Plains Water Trust	NZ Grain and Seed Association
Combined Rural Traders (CRT)	Opuha Dam Company
Craigs Investment Partners	Sainsburys
European Commission	Te Rua O Te Moko
Farmlands Co-operative	Trustpower
Federated Farmers	Wool Services International
Fonterra Co-operative Group	

## This week's headlines

<b>Seeds</b>	<b>Seed exports of \$168m up 22pc</b> [5 February / Business Day]
<b>Meat</b>	<b>Meat scare 'highly unlikely' in NZ</b> [12 February/ NZ Herald]
<b>Wool</b>	<b>Wool shake-up needed: report</b> [8 February/ Otago Daily Times]
<b>Rural Infrastructure</b>	<b>Mega rural merger a step closer</b> [12 February/ Business Day]
<b>Farms &amp; Farmers</b>	<b>Dry weather hurting North Island farms</b> [12 February/ Business Day]

### Animal Health and welfare

**Farmer jailed in animal cruelty case appeal** [8 February / Business Day] A home detention sentence has been upped to imprisonment after a Waikato farmer's sentence was appealed to the High Court in Rotorua. Lourens Barend Erasmus was originally sentenced to home detention by the Waihi District Court last October, which has now been substituted for a jail term of two years and a month. Erasmus' home detention was appealed by the Ministry for Primary Industries. Erasmus had pleaded guilty to three charges of wilfully ill treating more than 100 cows in his dairy herd. Treatment ranged from breaking the tails of 115 cattle and the bones of others with milking cups and steel pipes. His lawyer, Harry Edward, said that Erasmus suffered from a psychological condition and associated mental health problems. Crown prosecutor Fletcher Pilditch described the farmer's actions as being some of the worst type of animal cruelty dealt with by any of New Zealand's courts.

### Seeds

**Seed exports of \$168m up 22pc** [5 February / Business Day] \$168 million in seed-export sales have been pumped into the New Zealand economy as rising expectations and forecasted growth patterns pave the future. The 2012-2013 season provides a promising outlook indicating gains on prior year statistics: seed exports were up \$31 million or 22% last year. Developments in key international markets have helped to bring the value of New Zealand seed exports higher, according to New Zealand Grain and Seed Trade Association manager Thomas Chin. He indicated the bullish outlook he has on the future of seed exports with the \$168 million figure being higher than initial expectations. He said that he was pleased with the \$30 million increase. Traders have been forecasting \$15 million in growth. Radish, carrots, ryegrass and white and red clover are just a few of the high-value seed exports produced by New Zealand. European markets as well as Japan and Australia were highlighted by Mr Chin as being some of the most valuable. He also said how growth opportunities have been extended with deals such as the China Free Trade Agreement and other stronger Pacific ties with New Zealand.

### Horticulture

**Food co-op goes to source** [7 February/ Northern Advocate] Utilising a model experienced in Canada, Whangarei resident, Sean Stanley, has established the Northland Natural Food Co-operative. The not for profit co-op creates a new way for small producers and consumer to connect via a web portal. Producers are able to post the products that they have available on the website for sell and members then have one week to place orders. The producers deliver product to a central base in Whangarei where volunteers sort the produce into customer orders and arrange for delivery. There are no scale restrictions on producers however they are required to use natural growing techniques and provide verification of this. Consumers and producers will pay a onetime membership fee, which will help to cover the start-up and operational costs, with producers being charged a percentage of sales to cover on-going operating costs.

**Australia PM has bite of bet-losing NZ apple** [9 February / Radio NZ Rural] Australian Prime Minister, Julia Gillard, made a bet with John Key on the outcome of the 2011 New Zealand Rugby World Cup. The deal made the point centred around the leader of the losing country eating an apple from the winning country. Fortunately for Mr Key, the New Zealand All Blacks remained supreme. The bet highlighted the recent lift of the ban on imports of New Zealand apples into Australia, a ban which had been in place for at least 90-years. Ms Gillard honoured the bet during a dinner with Mr Key and, his wife Bronagh, and Ms Gillard's partner Tim Mathieson in Queenstown on Friday night. Ms Gillard finished by saying, "I'd have to say, of course, Australian apples are better."

**Dark eddies for blackcurrants** [12 February/ Business Day] New Zealand's blackcurrant growers face another year of disappointing returns as prices have fallen away this season, on the back of a couple of years with weather impacted harvests. With the exception of farmers supplying GlaxoSmithKline for its Ribena drink, farmers are facing high exchange rates and soft demand, particularly from Europe, which is impacting returns. Miles Kearney, General Manager of the NZ Blackcurrant Co-operative, an organisation that markets fruit for more than 40 growers based mainly in Nelson and Canterbury, said increases in the exchange rate with Japan had a major impact for New Zealand growers as had the recession in Europe. Mr Kearney indicated this was likely to reduce returns to between 85 cents and \$1 a kilogram compared with the \$1.10 growers received last year, covering grower costs and a 'bit more' but not a sustainable long term return. He also noted that while the crop had improved on last year the dry weather and frost damage had constrained the harvest to about 8,500 tonnes. One grower noted that without GlaxoSmithKline, which takes up to half the national crop, there would be no industry, adding that they are the cornerstone of the industry and have been generous in their dealings with growers.

### Dairy

**Fonterra rejigs public relations arrangements** [7 February/ stuff.co.nz] Fonterra has completed a review of its public relations and communication functions, which will see the creation of new role within the co-operative, Director of Public Affairs. Former Baldwin Boyle Group Director, Louise Nicholson, will be appointed into the role, having been embedded in Fonterra's Princes Street headquarters for the last year. The restructure will see Baldwin Boyle Group's outsourced communications contract renewed for a further five years. Fonterra has come under scrutiny in recent weeks after its perceived tardiness over disclosures around DCD taints identified in milk powder.

**Miraka owners determined to capitalise on profit** [11 February / Radio NZ Rural] First year operations are set to be built on for independently owned dairy company, Miraka Limited. The company's first year produced a profit after operations began at its milk processing plant in late July 2011 in Mokai, northwest of Taupo. Kingi Smiler, the chairman of the only Maori majority-owned and controlled dairy company, said that he was pleased with the first year's profit. He said it was attributable to the surplus milk intake that was received during the first year. Mr Smiler also highlighted how successful planning with regards to foreign exchange hedging and customer management has helped the company compensate for global economic volatility.

## Meat

**Alliance opens doors to Sainsbury farmers** [10 February / Rural News] A two week exchange is under way as four farmers supplying the UK retail leader Sainsbury's visit New Zealand. The farmers are to be accompanied by representatives from Sainsbury's UK processors Randall Parker Foods and Dunbia Group. Visits are set for supplier farms in Southland and Balclutha as well as the NZ Central Progeny Test hub in the Woodlands Research Centre. These tests are funded by Beef + Lamb New Zealand and are used to test the genetics of a ram by comparing how his progeny performs relative to progeny in rams kept under the same conditions. Alliance Group is the major supplier of New Zealand lamb to Sainsbury's through its UK marketing company, New Zealand Farmers Limited. Up to 70% of Sainsbury's lamb is supplied by the cooperative. General manager of marketing at Alliance Group, said the visit was a good opportunity for Sainsbury's suppliers to receive a first-hand experience of the company's lamb production process before it is shipped overseas.

**Meat scare 'highly unlikely' in NZ** [12 February/ NZ Herald] Beef + Lamb New Zealand chairman, Mike Petersen, says that the processes in New Zealand to ensure safe, high quality meat products in this country would make it highly unlikely horse-flesh had been introduced into beef products illegally in this country. Mr Petersen said that the processes in New Zealand are certainly world leading, but then maybe they would have said that in Europe as well, prior to the widening contamination scandal. The UK Government has found a number of 'beef' products on sale in supermarkets that contain 100% horse meat. A Ministry for Primary Industries spokesperson said that 300 samples of meat were tested for possible contamination by another species annually and any use of another type of meat would breach both food and fair trading legislation. Last year, New Zealand exported 392,000kg's of horse, ass, mule and hinnie meat with an export value of \$1.8 million, with only one company, Clover Export, being licensed to process horse meat for human consumption.

## Wool

**Aussie wool merchant close to NZ takeover** [7 February / Business Day] New Zealand's largest wool exporter, Wool Services International is almost set for a successful takeover from Australian wool merchant Lempriere. The company only requires a fraction more of the 90% shareholding that it needs to take over the New Zealand company. In an announcement made earlier in the week, WSI Holdings, an associate of Melbourne-based, family-run Lempriere, stated in an announcement to the New Zealand Stock Exchange that it had acceptances for 89.87% of shares in Wool Services International. Wool Services International would be delisted if WSI Holdings secures 90% of the shares, setting the company up to compulsorily acquire the remaining shares. Wool Services shareholders received a formal offer in October of last year by WSI Holdings. The offer WSI Holdings made was for \$31 million or 45 cents per share to the shareholders of Wool Services. 75% of Wool Services International shares had already been secured through lock-up agreements brought about with the receivers of Allan Hubbard-associated companies, Plum Duff and Woolpak Holdings, Wool Services managing director Michael Dwyer, and some senior employees, for 45 cents a share. With these agreements signed off, this would see the receivers of Plum Duff and Woolpak Holdings receive \$19,974,726 for their 64% stake in Wool Services. Lempriere has indicated that it intends to run Wool Services International as is, and does not intend on selling its wool scouring operations. Shares for Wool Services traded at around 42 cents earlier in the week, with the offer closing on February 24.

**Wool shake-up needed: report** [8 February/ Otago Daily Times] The latest ANZ Agri Focus report says that dramatic structural change is required beyond the farm-gate in the wool industry if the economics of sheep farming are to improve. The report noted that with a declining sheep flock, a poor return on equity, excess capacity in the processing sector and recession in major European markets the economics for sheep farming do not stack up. The bank, while supportive of the spirit of the red meat sector strategy, questioned whether some of the initiatives went far enough and suggested progress to date on initiatives was slow. The report notes that continuing to muddle through is not a strategy with the wool sector being in need of rationalisation and consolidation. The plans that have been suggested to promote rationalisation, new thinking and investment in product development and marketing are by and large not fully functioning at the current time according to the report.

**Rebuilding positive news for Cavalier** [12 February/ Otago Daily Times] An analyst has suggested that the rebuilding of Christchurch coupled with lower wool prices should prove 'quite a positive' for carpet manufacturer, Cavalier Corporation. Peter McIntyre of Craigs Investment Partners said he believed the next 12 months would be more positive for Cavalier, but he expected the Group's half year results to be reported next week to be an improvement on the second half of 2012. Mr McIntyre said any housing recovery globally was positive for Cavalier, although added that subdued carpet demand, particularly in the Australian commercial segment, continued to dampen Cavalier's revenue performance. He also noted that margins would benefit from lower wool input costs. At the same time, Federated Farmers Meat and Fibre Chairwomen, Jeanette Maxwell, has advocated for strong wool to be given a "leading" role in the Christchurch rebuild. With CERA estimating that two million square metres of floor coverings will be required, she urged the Ministry for Primary Industries to work within government to get wool "fully into the rebuild" both a floor covering and an insulation.

## Rural infrastructure

**Mega rural merger a step closer** [12 February/ Business Day] The merger of Combined Rural Traders (CRT) and Farmlands into a \$2 billion plus rural services business took a big step forward with shareholders giving their approval in the first leg of voting. The percentage of members voting in favour of the merger at the CRT meeting in Christchurch was 85.5% while 82% of Farmlands shareholders voted in favour at a meeting in the North Island. For the merger proposal to progress the votes of both group's of shareholders had to exceed 75%. CRT Chairman, Don McFarlane, said he was pleased with the outcome and considerable effort had been put into preparing the proposals and presenting them to shareholders. Mr McFarlane said less than 3% of the total shareholder base had voted against the proposal, providing a strong mandate to proceed. The merged entity will have 54,000 members throughout New Zealand and more than 1,000 staff. He added that subject to a confirmatory vote by shareholders on February 27, a merger would proceed on 1 March 2013.

## Water

**Water release to flush rivers** [8 February / Business Day] A large proportion of water has been set to be released by the Opuha Dam Company on Wednesday in a bid to combat some of the concerns around algal and didymo growth. About four times the average rate of flow of water, or 40 cubic metres per second of water will be released for several hours on the day. Opuha Water chief executive Tony McCormick said that the company had worked closely with Environment Canterbury and the National Institute of Water and Atmospheric Research over the past few months in order to organise the release. He also said that the release was to assess their ability to effectively remove and control the algae growth which peppered the area. If the release proved to be successful, then the company planned to use the same method in the future. A major project is also scheduled for the dam in spring and is planned to be completed at the end of this year. These upgrades are set to cost more than \$1.5 million and Mr McCormick highlighted the release as also contributing to various tests of the over dam system.

**Govt irrigation scheme decision applauded** [8 February / Radio NZ Rural] Benefits to both farmers and the environment are being emphasised by a Canterbury irrigation scheme's chief executive as the government approves the drawing of water from Lake Coleridge into irrigation schemes during drier periods. Electricity supplier TrustPower received approval from the government after the change to the Rakaia Water Conservation Order was announced on Monday. Head of the Central Plains Water Trust, Derek Crombie, says that with this announcement comes the prospect of greater water reliability in the region which is fundamental to crop growth and development. If there are more than 14 days where crops do not receive water, then crop growth stops and in some cases growers can lose crops entirely. Mr Crombie noted that people were more likely to use less water when a reliable water supply existed because they do not have to put a lot more water on when it is available in order to cover for the times that the supply was restricted. Water reliability is expected to be increased from 70% to 95%. Water from the Rakaia and Waimakariri Rivers will irrigate up to 60,000ha of farm land with consents being granted to the Central Plains Water Trust. Mr Crombie said that the way that TrustPower stores and releases water will vary over time with the company collecting and storing water during the winter and early spring and then releasing this stock of water during summer through existing penstocks on the hydro station at Coleridge. Existing irrigation schemes will also be able to access the stored water.

## Farms and Farmers

**Second year of graduates** [9 February / Bay of Plenty Times] Fourteen new graduates are being celebrated by the Agri-Women's Development Trust (AWDT). This comes at the conclusion of another successful year for the Trust audits its 2012 Escalator agricultural leadership programme. The program is taught over ten months and is aimed at creating prospective future leaders with various skills developed to govern and lead agricultural communities and organisations. Topics include leadership, governance, strategy, finance, communication, critical thinking and human resources.

**Trusts put young Maori back on the land** [12 February / Radio NZ Rural] Educational programs aimed at providing young people with the required skills to pursue a career in agriculture have been started in Taranaki. Both written and practical courses are being offered by the Landbased Training Centre in collaboration with Maori Trust, Te Rua o Te Moko, the owner of a large Taranaki-based dairy farm. Director Doug Brooks said that Maori land owners want to create more than just wealth for themselves, indicating the desire many Maori have in getting as many young people as possible back on the land in order to contribute to the benefits that can be provided for future Maori communities.

**Dry weather hurting North Island farms** [12 February/ Business Day] BNZ economist, Doug Steel, says New Zealand is shaping up as a "country of two halves" in the rural sector due to weather extremes. While the dry weather is hurting pastoral farming in the North Island, Mr Steel said the bank viewed it as negative but not an economic game changer at a national level, noting however it would impact farmers discretionary spending in the most impacted areas, including Northland and Waikato. BNZ suggests that the impact is likely to be most pronounced in sheep concentrated areas as farm profitability was already under pressure from lower lamb and wool prices. Mr Steel said large negative growth rates could be expected in North Island milk production over the coming months, but the South Island production continues to show strong growth even compared to last season's high levels, with overall growth anticipated to be 2 to 3%. The report noted that the long term weather forecast does show some promise, with rainfall expected to be near to normal across the country during February to April, although a return to near normal soil moisture levels will take some time for those parts of the North Island much drier than usual.

## International

**Weisser to retire as Bunge chief** [February 7/ Financial Times] The CEO of listed agribusiness commodity trading house, Bunge, Albert Weisser has announced he will retire after 14 years in the role. Mr Weisser will be replaced by Soren Schroder, the head of Bunge's North American division in June. The announcement came as Bunge posted its lowest earnings in more than a decade with annual profits of USD28 million, down 97% on the reported result in 2011, driven by write downs in sugar assets in Brazil. Mr Weisser made it clear his retirement was not connected to the poor results in the 2012 year, and said that the company is in very good shape, with its strongest balance sheet in decades, strong market positions and good performance in agribusiness and food. Mr Weisser has been CEO of Bunge since 1999 and led the company through an IPO in 2001 which opened the capital of the trading house to outsiders for the first time since it was founded in Amsterdam in 1818. Mr Weisser departs Bunge amid a wave of consolidation in the agricultural trading sector with the historically dominant group of trading houses (Archers Daniel Midland, Bunge, Cargill and Louis Dreyfus) being challenged by new entrants to the sector including Wilmar and Glencore. While Bunge has not yet joined the wave of consolidation, Mr Schroder said the company could seek acquisitions in the future, when they fit the Group's network.

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**Leaders agree cut to EU spending** [8 February/ Financial Times] European Union leaders have agreed to the first ever budget cut to the organisation after a bruising battle between countries, led by Britain, calling for large cuts and austerity measures and countries rallying in defence of EU spending to help recession hit economies, led by France. The deal includes a EUR 1 billion cut in spending on the Commission's Brussels based bureaucracy and reductions in spending on cross-border infrastructure projects, however EUR 6 billion has been set aside to help address youth unemployment. The seven year budget is a 3% cut on the current budget and well below the first budget proposed by the European Commission of EUR 1,033 billion. The President of the European Parliament warned that his institution may still reject the deal, the further its steps away from the commission's proposed figures. The budget for agriculture was spared further cuts, although the 7 year spending figure is down more than 10% on current spending levels.

**French hunting fraudsters in horsemeat scandal** [11 February/ NZ Herald] The horsemeat scandal is spreading across Europe and creating cross border tensions as it is discovered that horsemeat disguised as beef is being sold in frozen lasagne across the continent. The French government has claimed a supply chain running from Romanian butchers through Cypriot and Dutch traders underlies the "disgusting" trade. The accusations have left the Romanian President scrambling to protect his country's reputation and a Swedish manufacturer, Findus, suing a French supplier central to the affair. The French government says that the rationale for the trade appeared to be financial and has vowed it will pursue anyone guilty of fraud in the affair and impose tough punishments. While horsemeat is largely taboo in Britain and other European countries, in France it is sold through speciality butchers and is prized by connoisseurs, but the government is concerned about the fact that the public have been misled. Governments in Sweden, Romania, Britain, Ireland and the Netherlands are also carrying out investigations into the failures in the beef supply chains in their respective countries.

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