



AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

13 March 2013

Organisations referenced in this week's Field Notes include:

Alliance Group	Marlborough District Council
ANZ Bank	Massey University
Beef + Lamb New Zealand	Ministry for Primary Industries
Cargill	Ministry of Social Development
CHS	New Zealand Meatworkers Union
ConAgra	Proliant
Coriolis Research Group	South East Shipping
Dairy New Zealand	Taranaki Regional Council
Department of Conservation	TPG
Federated Farmers	Turners and Growers
Fonterra Co-operative Group	WeatherWatch.co.nz
Ingham Enterprises	Westland Milk Products
Inland Revenue Department	Westpac
Horticulture New Zealand	

This week's headlines

Drought	Drought extended across North Island [6 March/ NZ Herald]
Fishing and aquaculture	Brownlee backs salmon farms [11 March/ Business Day]
Dairy	Global dairy prices surge 10.4pc [6 March/ NZ Herald]
Meat	Processing plants close to capacity [11 March/ Straight Furrow]
Environment	Fonterra, DOC announce \$20 million waterway plan [7 March/ NZ Herald]

Drought and dry weather spreads across New Zealand

Drought extended across North Island [6 March/ NZ Herald] The Auckland region, Waikato, Bay of Plenty and Hawke's Bay have all been declared in a state of drought. The Auckland region area covered by drought includes the Auckland area south of the Harbour Bridge and all of the Waikato, Bay of Plenty and Hawke's Bay regions, including Coromandel and Taupo. Primary Industries Minister, Nathan Guy said, that the entire North Island area was very dry and the Ministry was keeping a close eye on other parts of the East Coast, as well as Wairarapa, Manawatu and Taranaki. Rural Support Trusts in the area now had access to extra Government funding in all of the regions declared in a state of drought. Mr Guy also said that payments were available for assistance to farmers from Work and Income, through the Ministry of Social Development. These payments were said to be equivalent to the unemployment benefit and are available to those in extreme hardship. Farmers are also advised to contact the IRD in order to set up flexibility with regards to tax payments.

Apple growers dodge worst of drought [7 March/ Business Day] Harvesting of New Zealand apple orchards began in mid-February this year and has set the industry up to avoid the negative economic impact of the drought and allow it to enjoy a bumper season. Forecasts for the export crop are 16.9 million cartons, up 6 per cent on prior year. Chief Executive of Horticulture New Zealand, Peter Silcock, said that the apple industry was going to get a relatively good quality crop with this summer's weather. Other positive factors that will contribute to the success of this season are global shortages of apples, and greater demand for New Zealand apples in Asia and the Middle East. About 60 per cent of the export crop of apples comes from the Hawke's Bay, which was recently declared a drought zone. Mr Silcock also highlighted the impacts that irrigation restrictions could have on crops next season. He said that impacts of the drought on young trees could have some critical effects next season.

Big dry torments farmers [8 March/ Business Day] Key agricultural officials gathered to discuss New Zealand's current drought crisis at a meeting in Hawera earlier last week. The event was organised by Federated Farmers and the Rural Support Trust. Representatives attending were from Dairy NZ, Beef + Lamb NZ, Taranaki Veterinary Centre, Fonterra, South Taranaki District Council, banks, the Ministry for Primary Industries, the Ministry of Social Development and the Inland Revenue Department. South Taranaki Mayor Ross Dunlop said a drought declaration would acknowledge that farmers needed support and that help would be ensured to farmers who needed it. Farmers in high-altitude areas could be more severely affected than coastal farmers because their grass did not grow during the cooler winter months. It was also said that rural towns were also affected as less money was being distributed around these smaller communities. Taranaki Regional Council Director of Resource Management Fred McLay said that rainfall in Taranaki was below average for the past six months. Advice was to focus on ensuring that herds are in good condition at the end of May to protect next season's production. Fonterra said that farmers should contact the company if they changed their milking times in order for tanker collection times to be changed.

Wooping Americas more important than drought – minster [12 March/ Business Day] Primary Industries Minister, Nathan Guy, has defended his decision not to return from Brazil as the country faces its worst drought in 70 years. As part of a ten day trade mission, Mr Guy and Minister for Primary Industries Director General Wayne McNee are touring Latin American countries at the same time as multiple regions in New Zealand have been declared in a state of drought. Mr Guy said he was receiving regular updates on conditions and that he was seeking advice from climate industry Niwa and the Ministry for Primary Industries. He also said that Officials and Federated Farmers have allowed surplus feed for stock to be brought up from the South Island. In order to aid the hardship faced by many of the farmers, the Government has noted its intentions to see more irrigation projects set up and it was in the process of setting up a crown-controlled company to invest \$80 million.

Irrigation systems shut down [12 March/ Business Day] The Marlborough District Council has been forced to shut off irrigation to farms and vineyards along the Wairau and Waihopai rivers due to limited rainfall throughout the region. About 5000 hectares of farms and vineyards along the Wairau River were forced to stop receiving irrigation water. The Southern Valleys irrigation scheme has also been turned off, affecting over 4500 hectares of mostly vineyard land. Rai Valley farmers are being warned they may have to stop irrigation if the current restricted rainfall continues. The irrigation ban affected Rai Valley users every three or four years but had never lasted more than two weeks. The last rain in the Rai was 84 millimetres on February 5.

Feed aid for dry NI regions [12 March/ Business Day] South Island farmers are providing support to those struggling with drought conditions in the North Island. Kelyvn Leslie, of South East Shipping, loaded 425 large barrels of meadow straw aboard the Rangatira, which set sail for Whanganui last week to help drought-stricken farmers. He said that he was unsure if there would be other shipments. The shipment has been called a positive initiative logistically by Federated Farmers Waimate Branch Chairman Colin Hurst. He also said that the initiative had the potential to grow, with some farmers contacting the organisation asking what they could contribute to help.

Drought raises fear of return to recession [12 March/ Business Day] The Government's tax take is likely to be affected from the country's current drought, however it is unlikely to push it back into recession, Finance Minister Bill English has said. Although he said that the drought would hold the country back to an extent, the general outlook was more positive. Estimates from banks were stating that the drought could knock \$500 million to \$1 billion off New Zealand's gross domestic product. Mr English said that the drought would be considered when this May's budget is prepared, however the impact was not likely to be dramatic. The government has signalled that this year's budget could include \$800 million of new spending.

Drought struck Wairarapa farmers also turn to Govt [12 March/ Radio NZ Rural] Farmers in the Wairarapa region are the latest to vote to ask the Government to declare a state of drought in the region. Rainfall statistics indicate that the region has had around 60% less rain than average over the last six months and Federated Farmers leaders say it is now impossible to find space for grazing anywhere in the North Island, which is forcing some farmers to start to sell capital stock. It is expected that all of the North Island's main farming regions are expected to be in a state of drought by the end of this week.

Arable

Wheat yield good, but not enough for record [8 March/ Business Day] A Southland crop farmer has been prevented from beating his world record for wheat yield near Gore last week; a result that may be able to be blamed on the recent dry weather. Otama crop farmer Mike Solari attempted to beat his current record which stands at 15.63 tonnes per hectare, set in 2010 for his Einstein Wheat Crop. This year's resulting crop was 14 tonnes per hectare. He said that each year it is a challenge to try and grow a better crop than the year before, with Solari first setting the world record in 2007, when he harvested 15.36 tonnes per hectare. Solari harvested Savannah Wheat last week, the same variety that won him the first world record six years ago. Farm consultant Peter Hook said the recent dry weather prevented the grains from filling properly which had affected the yield.

Horticulture

Turners and Growers' boss staying put [8 March/ Business Day] Reports from the media that listed fruit exporter Turners and Growers Chief Executive officer Geoff Hipkins, was to leave the company have been rejected by the company. In a statement to the stock exchange by deputy chairman Sir John Anderson, it was outlined that Mr Hipkins was to remain his position and should that change in the future it would be announced to the market. Mr Hipkins joined the company last year and has since set about a major restructuring programme at the company, making several senior managers redundant and announcing a major revaluation of Turners and Growers' kiwifruit and apple orchards.

Avocado growers seek consistency [11 March/ Business Day] The avocado industry in New Zealand is looking to capitalise on what it sees as a massive export opportunity in Asia. Pressures already exist from South American producers as they currently hold large market share in the avocado export market to Asian regions. Each year, close to US\$40 million (NZ\$48.4 million) worth of avocados are exported from New Zealand. This level is anticipated to increase by US\$9 million over the next five years according to a report by the Coriolis Research Group released late last year. Jen Scoular is the head of the New Zealand Avocado Growers Association and said that the main issue faced by the industry was irregular crop bearings. She said that without consistent volumes of the fruit, it was hard to develop strong export markets. However, research released by the Group highlighted the increasing popularity of avocados in markets such as Korea, Malaysia and China. Central and South American avocado producers' exports are 22 times bigger than that of New Zealand. Although most Central and South American avocados are sold to the US market, Asian exports of their product were steadily increasing. Demand for Central and South American avocados had expanded at a 10 per cent pace for the past ten years. Ms Scoular said that the New Zealand avocado industry was hoping to address consistency problems by strengthening orchard management practices of growers.

Viticulture

Baking summer sparks warning of wine glut [12 March/ NZ Herald] This summer's dry spell has provided the wine industry with one of the best growing seasons on record. This year's vintage is expected to be one of the larger productions, building on the 269,000 tonne harvest in 2012, a harvest which was smaller than the 2011 crop by 18 per cent. However, both crops helped to rebalance each other. 2008 also saw the vintage result in a 27-million-litre surplus which eroded the value of wine, land and grape prices, leading to an increase in exports of cheaper bulk wine. An industry commentator, said that the summer's hot and dry weather meant that there was a risk of a return to oversupply. Adding that there was a fine balance that the industry needed to manage. New Zealand Winegrowers Chief Executive Philip Gregan said that the industry group was expecting the current vintage to be larger; however variable crops in many areas were making it difficult to forecast.

Fishing and aquaculture

Brownlee backs salmon farms [11 March/ Business Day] New Zealand King Salmon's plans to expand farming in the Marlborough Sounds has been well received by Government Minister Gerry Brownlee. The Marlborough District Council held a recent special meeting to decide its stance on the Environmental Protection Authority's Board of Inquiry. Mr Brownlee said that he didn't understand why people were so adverse to New Zealand King Salmon's plan. He said that it was not reassuring that King Salmon only received half of the approvals they originally had anticipated to receive.

Dairy

Global dairy prices surge 10.4pc [6 March/ NZ Herald] Dairy prices reached the highest levels they have been at since June 2011 in Fonterra's latest GlobalDairyTrade auction. However, New Zealand production is at risk of being affected by drought in the North Island. An increase of 10.4 per cent was recorded on the GDT-TWI Price Index compared with the last sale over two weeks ago. The average dairy auction winning price increased to US\$4,216 a metric tonne, the highest level in almost two years. Whole milk powder was the largest product demanded by volume, rising 18 per cent to US\$4,298 a tonne.

Prices rise as drought bites [7 March/ NZ Herald] The impact of the drought that has been declared throughout many farming regions of New Zealand has been estimated by ANZ Bank as costing the economy 0.5 per cent of GDP or more than 1 billion. About 46 per cent of the country's dairy production is at risk. Droughts have been declared in South Auckland, Waikato, Bay of Plenty and Hawke's Bay. ANZ rural economist Con Williams said that higher prices would only partly offset the effects of drought on production. Federated Farmers Dairy Chairman Willy Leferink said that farmers could at least face the possibility of higher payouts if the current price trend continued.

Lift in milk returns forecast [7 March/ Business Day] Westpac yesterday increased its forecast dairy payout for this season from \$6 to \$6.10 per kilogram of milk solids, with economists forecasting higher payouts for dairy farmers. The bank's outlook for the 2013-14 season is \$6.40 and the primary forecast is on the back of drought in parts of the North Island, a tightening supply, and a spike in commodity prices at the past week's online GlobalDairyTrade auction. Southland farmers have also been doing better, on average, than Northland farmers for reasons primarily attributable to the drought. ANZ rural economist Con Williams said dry conditions in the North Island and parts of Australia were driving up international dairy prices. The prices would flow on to milk prices this season, and potentially create a higher price for next season, Mr Williams said. He also said that farmers could see another 10 cents to 20 cents per kilogram of milksolids by the end of the year. Southland Federated Farmers Dairy Chairman Allan Baird said some central and northern Southland farmers were also affected by a dry spell and were restricting milking. This cut back on milking also meant that production was also dropping. About 30 millimetres to 40 millimetres of rain was needed to achieve better grass growth and to aid increasing production, Mr Baird added.

Milk supply to Westland co-op drops [12 March/ Radio NZ Rural] Milk supply to West Coast based dairy co-operative, Westland Milk Products, has dropped by more than 10% on a two-day average as farmers respond to rapidly drying conditions. Chief Executive Officer, Rod Quin, said that the co-op was expecting a further drop off in production and a season that had been forecast to see milk production 3 to 5% ahead of last year, will now likely result in total production below the levels achieved last year. Mr Quin said the impact of this was that the co-op would have less product to sell and will not be contracted up to the extent it had planned to as recently as two weeks ago. Farmers on the West Coast are saying that they will also be pushing for a drought declaration if they don't get rain this week.

Meat

Mating heifers quick way to lift calving percentage [5 March/ Business Day] Massey University lecturer Rebecca Hickson has outlined the financial gains from putting heifers to the bull at a recent field day event near Wanganui. The event, held at Cranstones' Riverton property, was sponsored by New Zealand Herefords with support from Beef + Lamb New Zealand. The University's research outlined the prospect of increasing profitability by farmers allowing their 15-month-old heifers to mate. Ms Hickson said that the national calving percentage hadn't changed much over the years and that farmers could rapidly increase it by mating heifers. A survey conducted of 331 farmers showed 80 per cent of them thought there would be increased profit. Of those who didn't mate heifers, 60 per cent thought heifers would not be able to get in calf. Research undertaken on Massey University's farm showed 86 per cent of heifers joined with the bull were in calf and, of those heifers that were joined, 78 per cent of the calves were marked.

Farmers' profits forecast to halve [11 March/ NZ Herald] Farm profits in the sheep and beef sector are forecasted to halve this season as the full impact of current lamb prices and drought kick in. A fall of 54 per cent is expected for farm profits before tax for the 2012-13 season. This will bring average farm profits in New Zealand to \$73,000. Beef and Lamb NZ's economic service said that the fall was largely due to sharply lower lamb prices and a consequent 27 per cent decrease in sheep revenue. Lamb numbers were up according to the Executive director, Rob Davison, attributable to a 123 per cent lambing last spring and more hoggets producing lambs. The forecast average lamb price of \$85 a head is down 25 per cent from last season's \$113.60, the second highest on record. Mr Davison said that this effect had flowed down to farmers' bottom lines, with profit levels effectively halving for the season ending 30 September. He also said that cattle returns are predicted to drop 8.8 per cent, however the outlook is relatively positive, thanks to the supply situation in the United States.

Silver Fern Farms link up with US company [11 March/ Otago Daily Times] A partnership with a United States-based biotechnology company has been signed by Silver Fern Farms. The partnership is to make bovine blood plasma products with Proliant Incorporated, which produces bovine serum albumin (BSA) used in the production of diagnostic/medical kit manufacturing, biopharmaceuticals, veterinary medicines, vaccines and antibodies, nutraceuticals and life-science research. Silver Fern Farms' meat processing plants in the North and South Islands are to have automated facilities to process much of the closed-circuit capture of blood. The company's Chief Executive, Keith Cooper, said that Proliant is an ideal partner, offering high technology, processing and global marketing expertise.

China consumers to be surveyed on lamb preferences [11 March/ Otago Daily Times] Chinese consumers are to participate in a consumer research programme, to be launched by Alliance Group. This will highlight the tastes and preferences towards New Zealand lamb, in comparison with Chinese and Inner Mongolian lamb. A Chinese delegation recently visited Alliance Group before the launch of the programme, which is funded by Alliance Group, Beef + Lamb New Zealand and Grand Farm, Alliance Group's in-market partner. Processing plants were visited near Invercargill, the Maitua beef-processing plant and the venison plant at Makarewa. The two companies would discuss the possibility of Alliance Group exporting New Zealand venison to China.

Processing plants close to capacity [11 March/ Straight Furrow] Meat processing plants in both the North and South Islands were close to full capacity processing lambs, sheep and cattle last week as drought or dry conditions spread their extent across the whole country. National lamb kill for the season up until February 23 was 9.3 million, just under 10 per cent ahead of the same period last year. This was largely because of the drier conditions forcing farmers to shed stock earlier than usual. New Zealand Meatworks Union general secretary Graham Cooke said it was a worry for the industry when the North Island mutton kill had increased between 37 and 39 per cent in two consecutive years. He said the industry was hoping the kill will taper off as farmers hold on to ewes with another couple of years in them. In comparison, the mutton kill in the South Island looks relatively stable for the year to date with 1.2 million sheep processed in the past two seasons. Mr Cooke said that overall he believed this season is better than last season.

Rural infrastructure

'Perfect merger' for rural suppliers [8 March/ Business Day] CRT is to be renamed Farmlands Co-operative Society Limited after it merged with North Island-based Farmlands last week. The South Island-based company's merger has been described as the perfect merger by Farmlands Chief Executive Designate, Brent Esler. The co-operative would be valued at \$2 billion and would deliver benefits of \$36 million in the first three years. 85 percent voted in favour of the merger in Christchurch three weeks ago after shareholders were asked to participate in a ballot. Mr Esler said that farmers would notice a few changes under Farmlands as the shops and the people they work with would remain the same.

Research and development

Can NZ afford to ignore GM? [6 March/ Business Day] The opportunities available from genetic modification technology are things that Nuffield Scholar Michael Tayler is questioning for how much longer New Zealand can afford to ignore. Mr Tayler is a Temuka cropping farmer and spent last year travelling the world as part of his studies into the new technology. He said that opportunities spawning from the GM technology came up again and again. He said that New Zealand should at least keep an open mind to the benefits that GM technology offered. He said that he accepted the argument for New Zealand becoming a niche producer, targeting high-end export markets but questions the viability of New Zealand positioning itself as a non-GM country long-term. He also said that world food problems around the world would be able to be overcome when countries more closely consider GM.

Callaghan begins handing out innovation grants [7 March/ NZ Herald] Callaghan Innovation has announced its first round of innovation grants. Minister for Science and Innovation, Steven Joyce, said that the grants were decided by an independent board which is working on Callaghan Innovation's behalf while the organisation continues its establishment process. The aims of the \$25 million funding, shared among eight firms during this round, are aimed at boosting business research and development. Businesses receiving grants in 2013 include AFT Pharmaceuticals, CWF Hamilton, Greentree International, Livestock Improvement, Methven, Teknatool International, Tru-Test, and Fusion Transactive.

Environment

Fonterra, DOC announce \$20 million waterway plan [7 March/ NZ Herald] An investment of \$20 million in a conservation project to restore waterways in Northland, Waikato, Canterbury and Southland is being undertaken by Fonterra. The project was signed between the Department of Conservation and Fonterra and secures a ten year partnership. The project has been described by Conservation Minister Nick Smith as a major breakthrough. He said that Fonterra's investment was the largest ever corporate contribution to conservation work. The project will first involve significant dairy areas including Kaipara Harbour in Northland, Firth of Thames and the Areare, Ruatuna and Rotomanuka Peat Lakes in Waikato, Lake Ellesmere in Canterbury and Waituna Lagoon in Southland.

Farmers and producers

Rural forces rally to change meat industry [11 March/ Straight Furrow] A meeting held in Gore next week is the first of what could be a nationwide series of meetings to try and change the way the meat industry does business. The meeting was directed at analysing the cohesive initiatives, real actions schemes and leadership initiatives planned in the meat industry. Former Act MP Gerry Eckhoff, of Alexander, believes two articles he wrote for the media on the competitive destruction of the meat industry and a follow-up to that may have been the catalyst for the meeting. He said that he has had a large response from people asking what they could do to help. He also said that the red meat industry now just needs to get their strategy correct and strengthen the structure.

Economics and trade

NZ dairy farming to Chile has potential to grow, says PM [11 March / Radio NZ Rural] Potential growth in Chile has been identified by Prime Minister John Key through New Zealand's dairy industry. A 150 hectare demonstration farm in Chile was visited by the Prime Minister as part of his 10-day trip to Latin America. The demonstration farm is one of two run by the dairy processing and company Soprole, which is 99% owned by Fonterra. About one fifth of the milk supplied in Chile is provided by Soprole and Mr Key said that this has the capacity to expand.

International

Flour power: ConAgra, Cargill, CHS to create mega-miller [5 March/ Globe and Mail] US grain handling giants, Cargill, ConAgra and CHS, have announced plans to combine their North American flour-milling businesses into a new venture that would combine more than a third of US capacity. The new entity, currently named Ardent Mills, would encompass 44 flour mills across the US with additional operations in Canada and Puerto Rico. The plans, which have been in development for over a year, have prompted speculation that the merger might run into US antitrust concerns as the entity will control roughly 34% of US milling capacity and could be forced to divest mills. The merger brings together the Cargill/ CHS owned Horizon Milling (the number one miller by capacity in the US) with the ConAgra mills (currently ranked number three in the market). A spokesman for Cargill highlighted the mill footprint was one of the key rationales for the deal and to provide customers with the options and solutions they require, they had no plans to close or divest any of the mills. One antitrust expert said he expected the deal to go forward as nobody has a large share of the market and it is not clear how the merger will have a detrimental effect on customers. Some farmers have expressed concern that the reduced number of companies bidding for supply will result in lower grain prices, however the partner companies noted that a broader base will better enable the company to manage through volatile swings in wheat prices, adding it will also provide better opportunities for farmers to benefit from connecting the wheat they grow to the consumers in the market place.

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TPG buys Inghams with A\$880m bid [11 March/ Sydney Morning Herald] Private equity group, TPG Capital, has purchased Australia's largest poultry maker, Ingham Enterprises, from the family that has owned the company since it was founded 94 years ago. The deal for around A\$880 million sees TPG take 100% control of Ingham's with the family retaining a property portfolio and a small racing business. Bob Ingham, who was the sole shareholder of the company, said that he excited to see the business embarking on its next stage of growth under the ownership of TPG, while TPG Capital's Asian head, Ben Gray, said they were privileged to be buying a great Australian business from a great Australian businessman. The management team in place will continue to run the business on a day to day basis. The Ingham family and the company has managed to maintain a low profile and little is known about the company, but it is understood it has annual sales of around A\$2.2 billion and employs more than 8,000 staff in Australia and New Zealand.

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Field Notes presents a summary of some of the media comment on the Agribusiness sector in the last week. The views expressed do not necessarily represent the views of KPMG but are summaries of the articles published.

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