



AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

27 March 2013

Organisations referenced in this week's Field Notes include:

AbacusBio	New Zealand Pork
AgResearch	New Zealand Winegrowers
Bank of New Zealand	New Zealand Wool Services International
Beef+Lamb New Zealand	Ngai Tahu Holdings Corporation
Environmental Defence Society	PGG Wrightson
Environmental Protection Agency	Real Estate Institute of New Zealand
New Zealand Farm Forestry Association	Scion
Federated Farmers	Sustain Our Sounds
Fonterra Co-operative Group	Synlait Farms
Forest Owners Association	Tatua Dairy Cooperative
Foundation for Arable Research	Unique Manuka Factor Honey Association
Grasslanz	World Wine Trade Group
Khane	Westpac New Zealand
Massey University	Zespri
Ministry for Primary Industries	
New Zealand King Salmon	
New Zealand Kiwifruit Growers	

This week's headlines

Drought	Drought dries up appetite for Waikato dairy farms [19 March/ Business Day]
Agribusiness strategy	NZ seen as agribusiness 'beacon' [25 March/ Otago Daily Times]
Horticulture	Ex-Zespri company fined for smuggling [22 March/ Business Day]
Meat	Industry board meets EU farmers on low lamb prices [22 March/ Radio New Zealand Rural]
Farms and farmers	Ngai Tahu trials dairy conversions [25 March/ Business Day]

Drought and dry weather spreads across New Zealand

Rain relief for drought-weary farmers [19 March/ Business Day] The dry summer that has brought many issues for drought-stricken farmers broke for a short spell of rain over the past week. Many farmers received enough rain to be useful; however, forecasts indicate that the dry summer is not over just yet. Fewer lambs and calves are now expected during the spring months as a direct result of the dry summer period. The first rain that has fallen since before Waitangi Day for much of the country fell two weeks ago. Weather officials say that the difficult dry weather has not gone away just yet and the Minister for Primary Industries, Nathan Guy, still has the North Island-wide drought declaration in place. Other issues that farmers are highlighting as a direct result of the drought include the limited availability of supplementary feed and places to graze stock due to the overall scale of the drought. In addition, farmers were culling stock as a means to cope with the drought and expected lack of winter feed. Kiwitea farmer David Meads said he was selling lambs for slaughter that were 4 kilograms lighter than normal and many farmers were facing troubles in off-loading stock from farms due to meatworks being at full capacity. Federated Farmers meat and fibre chairman Fraser Gordon, said that the situation was the worst he had seen in the 40 years he has been farming. 400 lambs he had recently sold fetched around \$40, this was well back on the \$100 he received for them last year. Kirsten Bryant, a Beef + Lamb New Zealand Director said that her concerns spread to the well being of farmers in the hill country. She said that many farmers in these areas were facing dams and streams drying up and limiting the stock of water. Although there was some feed available in the hill country, Ms Bryant said the lack of stock water was very concerning.

Drought dries up appetite for Waikato dairy farms [19 March/ Business Day] Three sales in total were recorded for Waikato dairy farms last month compared to 13 in January and 14 in December. Brian Peacocke, REINZ rural market spokesman said that this contrasted with grazing property sales, of which there were 10 for the month of February, compared to five in January and two in December. Demand for well located and contoured dairy farms was far greater than supply, Mr Peacocke said. He also expected the drought to reduce traditional January to early April surges in dairy farm sales. Seven regions recorded increases in farm sales for the three months ended February compared to the same period ended February last year. Results included Auckland posting the largest increase at 17 more sales, Nelson at 16, and Waikato recording 11 more sales. There were seven New Zealand regions that posted decreases in sale numbers, including Canterbury at the top of the list down -16 farms. Median price per hectare of all farms sold in the three months to end February was \$21,951. This was 1.4 per cent up on the same period the previous year. The national median for lifestyle blocks rose by \$30,000 from \$465,000 to \$495,000 for the comparative three month periods.

Farmers need catastrophe insurance, says academic [22 March/ Radio NZ Rural] Massey University Senior Lecturer in Finance, Dr Mike Naylor, says that farmers should be more readily able to access private sector insurance for drought related farming impacts and not have to rely so heavily on Government funding. He said that in order to protect against drought and other adverse events, farmers should have more accessibility to private insurance for when the weather has severe impacts such as droughts. He highlighted the fact that farmers in the United States are often offered insurance against weather events and the insurance companies are not at risk because they reinsure or offer private investors weather-linked catastrophe bonds. He also indicated the preference of farmers to not accept Government assistance when it was perceived as a handout and instead may be more inclined to use insurance.

Agribusiness Strategy

NZ seen as agribusiness 'beacon' [25 March/ Otago Daily Times] Professor Damien McLoughlin had a simple message to the Queenstown Agribusiness Symposium last week – New Zealand's agricultural sector needs a pat on the back. The symposium, organised by AbacusBio, attracted around 50 people and heard from Prof McLoughlin from UCD Michael Smurfit Graduate Business School in Ireland, Mary Shelman (the Director of the Harvard Business School agribusiness programme) and Raj Vardhan of Olam International. Prof McLoughlin noted that the world regarded New Zealand as having achieved sustainability, with top of mind references to the country including remoteness, cleanliness and sustainability. He also added that Fonterra was regarded as an outstanding organisation internationally and it sometimes needed people coming from outside to remind the country how well it was doing. Prof McLoughlin added that global agriculture was at a serious crossroads as 2 billion more mouths come on stream and populations become more affluent. The Symposium discussed a series of case studies, with attendees being encouraged to take the time to think about what the future looked like and how their countries and organisations fitted into that. Mary Shelman added that provenancing of products was becoming a big deal and New Zealand had a competitive advantage in that space.

Arable

Bird-repelling grass on offer [25 March/ Business Day] Tests support that a new bird-repelling grass can help to reduce bird numbers that harm new grass growth by 95 per cent. The grass was developed in Canterbury and is branded as Avanex. It has been designed to lower the amounts of insects it harbours while repelling birds that eat it through a symbiotic fungus that grow within the grass. Trials funded by PGG Wrightson, the Foundation for Arable Research, Christchurch International Airport and Crown-owned AgResearch through its subsidiary Grasslanz, were all carried out over and extended period of time and have been successful enough for the new bird-repelling grass to be marketed to the world. PGG Wrightson has the rights to market and sell the grass in New Zealand and around the globe. David Green, PGG Wrightson Seed and Grain General Manager said that a roving technical conference had toured New Zealand in order to show the grass in a variety of environments. Feedback from international visitors who took part in the conference had shown a genuine interest in using the grass overseas, especially at airports. Mr Green also said that the key was to get this core group of international people immersed in the technology which could act as a catalyst towards developing the technology further overseas.

Biosecurity

MPI moves swiftly to deal with discovery of GM fungus at Lincoln [25 March/ Radio NZ Rural] A genetically modified fungus has been found outside of approved containment facilities at the Lincoln University Campus recently. The discovery of the “*Beauveria Bassiana*” strain of fungus has concerned the Ministry for Primary Industries as wild strains are already found in the environment and being commonly found in plants. The Ministry for Primary Industries and Environmental Protection Authority were both informed in early March that Lincoln University had evidence to suggest that the fungus was potentially a Genetically Modified strain. This was followed by MPI stepping in and beginning investigation into the issue. It has been said that the Ministry is treating the situation seriously and are still in response mode. They have said that in the meantime, they are implementing controls to prevent further potential breaches. Inspectors for the Ministry have visited the Lincoln Campus. Both the University and AgResearch are also involved in the investigation. While it has been said that no GM organisms have been approved for release into New Zealand there have been GM breaches in the past which have been met with quick address from authorities. Previous investigations have been carried out in New Zealand with relation to GM organisms, protocols and breaches. The Ministry have said they will treat this situation very cautiously.

Horticulture

Ex-Zespri company fined for smuggling [22 March/ Business Day] A former Chinese subsidiary company of kiwifruit marketer Zespri has been found guilty of smuggling and fined almost \$1 million. The New Zealand inquiry that has been launched is to follow the effects that the finding will have on the Zespri brand and the long-term effects on continuing trade in China. The independent investigation is to be carried out by NZ Kiwifruit Growers Incorporated and focus will be towards the circumstances that gave rise to the Chinese prosecutions. Under-declared customs duties were highlighted in a Shanghai Court’s ruling against Zespri’s China-based former subsidiary, as well as an American citizen’s involvement in the false customs declarations between 2008 and 2010. Zespri Management Consulting Company (ZMCC) was convicted of smuggling general cargo and told to repay “illegal gains”, as well as a NZ\$960,000 fine. In January this year, Zespri pleaded not guilty to the charges on the basis that the legal obligation to meet all customs requirements sat with its former importer. A Zespri spokesman said that the company was cooperating fully with the inquiry and emphasised to growers that they can have full confidence in Zespri’s operating activities. He said that to-date the investigation and subsequent trial had not impacted the company’s China sales with 2011 figures increasing by 26.3 per cent and market returns growing by 45.2 per cent. He also said that Zespri’s responsibility was to work effectively in the current challenging environment and to ensure the integrity of import and distribution arrangements were robust.

Viticulture

Wine industry pleased with new labelling agreement [25 March/ Radio NZ Rural] A new labelling scheme being put in place by the World Wine Trade Group is set to make trade between member countries much easier. The Group is made up of eight countries that do not belong to the European Union and include New Zealand. Member countries account for almost a third of all global wine exports. New Zealand Winegrowers Chief Executive Philip Gregan believes that the new labelling protocol will effectively replace the old one which lacked the ability to address issues such as multi-varietal labelling, multi-region labelling and vintage declarations. Mr Gregan said that it was important for a benchmark such as this to be established across all countries in order to help foster greater integration of wines from across the globe. He hopes that other markets not included in the World Wine Trade Group will follow similar approaches to labelling.

China wine market soars [25 March/ NZ Herald] New Zealand Trade and Enterprise is set to run a pavilion at the Chengdu Wine Fair this week; an event which is one of China’s largest international trade shows. Eight New Zealand wineries including Babich Wines, Giesen Wines, Ngatarawa, Invivo Wines, Trinity Hill and Villa Maria are all going to be showcased at the event which runs from this Thursday to Sunday. Invivo Co-Founder Tim Lightbourne will attend the show with a Chinese distributor, being a first for him and his company. Mr Lightbourne said that approximately 150,000 visitors are expected to attend the show which is exciting considering China was becoming one of Invivo’s most important international markets. He also said that one of the main challenges to overcome in China was enticing Chinese consumers to break away from French red wines and to try varieties from other countries. The market was also highly fragmented, said Mr Lightbourne, indicating the large cost of having to appoint multiple sales agents across China. Similarly, Babich Wines Brand Manager John Lang said that the company recently appointed a China-based sales manager who is in charge of liaising with several distributors across China. Babich Wine’s General Manager, David Babich, is expected to travel to China for the show. Wine exports to China from New Zealand increased from \$209,000 in 2003 to \$25.2 million in 2012 and New Zealand now exports around 2.2 million litres annually.

Honey

Fake manuka honey growers costing Kiwi manufacturers [24 March/ Business Day] A foolproof chemical marker test that could help regulators around the world prevent companies producing counterfeit manuka honey is being developed by a group of manuka honey producers. The development is being paid for by the producers and could be less than a year away from commercial production. The total amount and value of fake manuka honey sold every year is unknown, however legitimate honey makers based in New Zealand are concerned about the passing off of non-active manuka honey which is being labelled as active. Manuka honey exports are worth about \$120 million a year and benefited from the formation of the Unique Manuka Factor (UMF) Honey Association about ten years ago. The establishment of a trademarked consumer confidence badge has been helping to reassure the public that their particular manuka honey products were real, active manuka honey. This month saw scientists from Germany and Australia travel to New Zealand in order to discuss the progress of the project. The UMF Honey Association General Manager John Rawcliffe said that the project offers the New Zealand industry the opportunity to increase the value of its exports by as much as half a billion dollars. In theory the project would see more fake products be removed from shop shelves as well as seeing an increase in the true products' shelf prices.

Forestry

Forest growers to vote on \$7m industry research levy [20 March/ NZ Herald] A levy intended to raise around \$7 million a year for industry research has until March 29 for forestry growers to vote on. The levy will be compulsory if more than half of the hectares held by those voting voted in favour and the majority of growers voting approve the levy. Those forests planted before March 2003 and at least 4 hectares in area will be subject to the levy. Initially the levy will be set at 27c a tonne and capped at 30c a tonne for the six years in which the levy, unless renewed, will be in force. Both the Forest Owners Association and the Farm Forestry Association back the levy. The New Zealand Government currently spends around \$25 million a year on forest research, primarily through the Crown research institute Scion. NZFFA President Ian Jackson has said that the Government has made it clear that future funding for research will be much reduced and highly contestable, increasing the need for the industry to focus its efforts.

Fishing and aquaculture

Salmon farming consent appealed [21 March/ Business Day] The Environmental Protection Agency's Board of Enquiry decision to grant consent to NZ King Salmon's proposal to expand fishing operations has been met with disdain from two groups who have filed High Court appeals. NZ King Salmon is to expand its fishing operations in the Marlborough Sounds, a decision which both the Environmental Defence Society and Sustain Our Sounds have appealed against. Chief Executive of NZ King Salmon, Grant Rosewarne, said yesterday that the decision from both opposing parties was unhelpful considering the exhaustive nature of the legal proceedings. Sustain Our Sounds Chairman Danny Boulton said that the group was seriously concerned for the future of the Marlborough Sounds. He drew on aspects of the Resource Management Act in addition to Environment Defence Society Chairman Gary Taylor saying the Group believed the Board's decision had many inconsistencies with the New Zealand Coastal Policy Statement. He drew on aspects of the statement requiring adverse effects of activities carried out on the land to be avoided, drawing parallels with NZ King Salmon's plans. Mr Rosewarne of NZ King Salmon said that his company understood the need for the Council to file a notice of intention to appear and be heard. He said that his company was dedicated to work alongside the Council to ensure that all relevant information required was provided by the company.

Super trawler in Cook Strait [26 March/ Business Day] The second largest factory trawler, Margiris, visited Nelson quietly last week before continuing on through the Cook Strait. The trawler, which has been banned in Australia, was not attempting to fish in New Zealand waters according to officials from the Ministry for Primary Industries. The Australian Federal Government banned the use of the trawler in Australian waters following environmental and fishing industry protests when it was used to catch jack mackerel in the Tasman Sea and the South Australian Bight. An MPI official said the ship, which is owned by a Lithuanian company, had not applied to be registered to fish in New Zealand. The ship has also been banned from fishing in waters of West Africa due to the impact it had on the sustainability of food stocks. A Green Party spokesperson, said that New Zealand should follow Australia's lead and introduce legislation to prevent the operation of super trawlers in our waters to protect the fisheries.

Dairy

Tatua advance raises the bar [19 March/ Business Day] Advanced milk payments earlier than scheduled are on the minds of many dairy farmers as Fonterra directors are pressured to match the plans of Waikato's Tatua Dairy Co-operative's advance payment of 30c/kg milksolids a month until September. It is believed that Tatua is set to pay its farmers \$6.70/kg before retentions for the 2012-2013 season. This will be \$1.40/kg more than Fonterra is currently forecasting. Fonterra had an increase in their advance milk payment to \$4.25/kg in January and the next advance is not due until June this year. Criticism of Fonterra has come from farmers as they say the much smaller Tatua Dairy Co-operative is behaving like a "real co-operative" and looking after its farmers as many struggled through the drought. Such remarks have been met with Fonterra Chairman John Wilson saying that the criticism was "highly unfair", and that directors and managers were very concerned about the impact the drought was having on farmers. Fonterra's half-year financial results are set to be released this week, with the board meeting then as well. Mr Wilson said that while he was not willing to pre-judge what the board might decide, as the company got nearer to the end of the 2012-2013 season, then it might have the opportunity to reassess the advance rates. Chairman of Tatua, Steve Allen, confirmed the 30c/kg advance each month for the next five months.

New milk bottles on the way [21 March/ Business Day] New matt white bottles are set to be introduced to the market by Fonterra from April 8, changing the look of its entire Anchor-branded range of milk and cream. Labelled by the dairy giant as the company's greatest ever milk innovation, the light-proof plastic bottles will help to extend the life of dairy products to keep them fresher for longer. Research showed that exposure to light of a variety of forms, whether sunlight or fluorescent light, could lead to chemical reactions that could change the proteins and fats, creating a range of tainted flavours in the milk products. Fonterra Managing Director Peter McClure said that, while the changes to the packaging might not look like much, it would be a real game-changer and one of the first ventures of its kind globally. The new bottles will be constructed from the same HDPE recyclable plastic as the existing bottle. Fonterra has also claimed that the milk stored in the new bottles was often more nutritious, as vitamins were often diminished after just two days of light exposure. The company's Innovation Manager for Beverages Olaf Van Daalen explained that light damaged vitamin B2, for example, which could lead to changing the taste of the milk once it reacted with proteins and fats. He also said that Anchor was not planning to change its recommended retail price for the newly packaged milk products and supermarkets would be responsible for final product pricing.

Farmers gain export relief [21 March/ NZ Herald] High export prices are expected to partially offset lost production due to the drought. At Fonterra's latest GlobalDairyTrade auction, milk product prices increased by 14.8 per cent as many buyers sought to make the most of the dwindling supplies before the end of the season. Wholemilk powder reached its highest level ever recorded at US\$5116 a tonne; an increase of 21.2 per cent. The auction highlighted the seventh consecutive fortnightly gain as prices rose 38 per cent above December levels and 77 per cent above the lows faced midway through 2012. Westpac Economists are predicting milk production for the 2012-2013 season as being 2 per cent lower than that seen in the previous year. Doug Steel, Bank of New Zealand Agricultural Economist said that he didn't think the higher price gains would be enough to offset the decline in production volumes. He said that analysing the latest auction highlighted volumes declining 20 per cent on what was anticipated while prices only rose 15 per cent, resulting in a net negative. This was not enough to stop incomes from falling, Mr Steel said. Westpac Agribusiness Head David Jones said that the full financial effects of the drought might still be several months away and he urged farmers to keep their communication with banks strong.

Meat

Industry board meets EU farmers on low lamb prices [22 March/ Radio NZ Rural] Mike Peterson, Chairman of Beef and Lamb New Zealand, is setting out to visit Europe in order to meet sheep farmers who share New Zealand farmer frustration over the current low lamb prices. Unsustainable returns on lamb products produced in both New Zealand and Europe was becoming a large issue for farmers in both regions. British farmers were also met with recent disease outbreaks and bad weather which increased costs and delayed lamb production. Over the coming week, Mr Peterson is set to meet representatives of the UK-based Beef and Lamb Executive, the National Farmers Union, British Meat Importers, France's Meat and Livestock Association and Agricultural Officials in Brussels. One of the larger topics Mr Peterson said he would be addressing with the various international officials was the widely held belief that imported lamb was the reason for the current depressed market prices – a belief that he believes is incorrect.

Pork

MPI says education key to disease prevention [21 March/ Radio NZ Rural] An unsuccessful challenge by the pork industry to block the importation of certain raw pork products has resulted in the green light being given by the Ministry for Primary Industries allowing to import into New Zealand from countries which have been at risk of raw pork-related diseases. The Ministry has said that it will be relying on education and co-operation to counter any risk of the pig disease PRRS spreading through New Zealand piggeries. The Court of Appeal decision to dismiss the legal challenge was met with the ruling that a new importation health standard should be introduced. This would directly influence the scale of importation of uncooked pork products from countries which have the disease Porcine Reproductive and Respiratory Syndrome or PRRS. Countries included are those in the European Union, Canada, US and Mexico. Although regulations exist which prohibit non-commercial piggeries from feeding their animals infected pork scraps in waste food from restaurants, pig industry advocates believe the disease could still become established in New Zealand. Ministry for Primary Industries Director General Wayne McNee says that the risk of an outbreak occurring in New Zealand is very small, with the odds at 1200 to one. The Ministry has said that the imports would be confined to trimmed cuts that are free from lymphatic tissue and are chilled, which also reduces the potency of any infection. Ian Carter, Chairman of New Zealand Pork, says that he is not reassured by the information put forward by the Ministry, however, he will work with them to mitigate risk area. Federated Farmers has also certain concerns about the decision reached, saying that there is a lot of scientific uncertainty with regards to an outbreak.

Poultry

What's happened to white eggs? [24 March/ Business Day] Commercial white eggs were removed from supermarket shelves in the mid-2000s primarily due to a lack of overall demand. In replacement for the white eggs was the wide belief that brown eggs were a healthier alternative, however this long-held belief is incorrect. Mainland Eggs Head of Sales and Marketing Hamish Sutherland said that there was not strong scientific evidence supporting the belief that brown eggs were healthier over their white counterparts. He said that it was more of a consumer preference aspect where people believed brown eggs were less processed and more natural like brown sugar, brown bread and paper bags. Now the whole industry has switched its entire breeder supply from white hens to brown shavers and hy-lines. Markets for white eggs had been indicated as being historically more efficient, Bromley Park Hatcheries General Manager Brent Williams said. Now the genetic make up for brown layers have improved through breeding in New Zealand, and Mr Williams indicated that there is no internal difference in either brown or white eggs.

Wool

Increased supply puts pressure on wool prices [22 March/ Radio NZ Rural] Last week's combined North and South Island sales saw increased pressure on wool prices as increased supply and a slightly higher New Zealand dollar helped to push sales upwards. More than 22,500 bales were offered for auction and at least 90 per cent were sold in one of the industry's larger sales periods. Price for fine cross-bred fleece and shears lifted slightly, however most coarse crossbred wools and some lamb's wool lost ground said exporter New Zealand Wool Services International. General Manager John Dawson said that wool prices overall are holding their ground in contrast to predictions that prices this season would be 20 per cent less than the previous year. He said that prices had held up well in the industry's last major double sale of the season and he expects this trend to continue into the future. Implications drawn from the drought could be that prices rise further near the end of June this year.

Rural infrastructure

Million dollar boost for wireless cow sensory study [25 March/ NZ Herald] Callaghan Innovation has helped fund research into developments of wireless devices to track the health and fertility of cattle through a \$1 million grant. A monitoring system has been developed by Auckland-based company Kahne, which helps to analyse information about livestock and report this during certain important points in time. A sensor is inserted into the animal to help measure temperature and pH levels among other things, which will then send different alerts and reports to farmers via an in-shed tablet or through emails. Although there was a global market for the technology, Kahne's immediate priority was to help local farmers solve livestock issues and become more efficient says Chief Executive Susanne Clay. Approximately 500 prototype systems had been sold to researchers around the world with 1500 units pre-ordered by New Zealand farmers. Each device costs about \$100 with the in-shed transponder costing \$2000. Devices are designed to be inserted into the rumen, one of the stomach chambers in ruminant animals such as cows. Callaghan Innovation funded eight companies through grants this month totalling \$25 million. \$2.4 million invested in Kahne by Wellington venture fund Movac last year and the company is privately owned.

Farmers and producers

Bank pressure leads to suicides - trust [14 March/ Business Day] Every year, 20 rural people in Nelson and Marlborough kill themselves, says Top of the South Rural Support Trust Co-ordinator Ian Blair of Blenheim. Most vulnerable were men aged from 35 to 45 with pressure from banks being a main contributing factor for rural business people in the top of the south Mr Blair said. He said that in good times banks had been willing to lend 90 to 95 per cent of equity, especially to grapegrowers and dairy farmers wanting to source land. With land prices falling, banks pressured landowners to sell. In one case, Mr Blair said that the bank forced a farmer to sell his home property because it was more developed than his newly purchased block. In another case, an owner signed up for a bank loan swap product when interest rates were rising. This was soon faced with difficulties when rates went down and the owner was doubly disadvantaged by being pegged at the high rate plus penalties because their business had become high risk. His overall advice is to sit down with a banking representative and work through solutions when people faced equity issues. The support offered by the Top of the South Rural Support Trust is part of a nationwide network that helps rural individuals and communities dealing with challenging situations. They also provide confidential services to those needing to ask for help.

Stricter rules likely for dairy farms [22 March/ Business Day] New dairy farms being set up in the Marlborough area will soon face stricter rules as the Marlborough District Council becomes one of the first local bodies in New Zealand to require resource consents for new dairy farms. Policy Portfolio manager Rachel Anderson said that dairy farming was not being more regulated because the Council wanted to limit farming, instead, the new policy rules are to ensure that new farms meet environmental standards. She said that because the Council's requirements are to set limits on water quality, the change was justified by 2011 freshwater monitoring results. The Council is forecasting an expansion in dairy farming in the area given the potentials for high returns. Currently there are around 61 dairy farms milk about 17,300 cows in Marlborough. The Southland Regional Council has said that they are also going through the same process of requiring resource consents to be filed for the construction of new dairy farms. Marlborough Environmental Policy Manager Pere Hawes said that the proposed new Council standards for new farms matched Fonterra requirements under its new Sustainable Dairying Water Accord.

Ngai Tahu trials dairy conversions [25 March/ Business Day] The Ngai Tahu Holdings Corporation has taken an interest in dairy farming as a way to utilise its rural land portfolio. Chief Executive of the Ngai Tahu Holdings Corporation Mike Sang said that they are using pilot venture schemes as a way of testing the Iwi's ability to operate dairy farms. If these land tests are successful, Mr Sang said that conversions will take place with the majority of its holdings of old forestry land being turned into dairy farms. Ngai Tahu Holdings Corp is the commercial arm of the South Island tribe Ngai Tahu. Mr Sang has highlighted the Corporation as being "cautiously optimistic" about rebuild opportunities in Christchurch. Three pilot dairy farms have been set up as part of Ngai Tahu Iwi's testing of their development on former forestry land. The farms total 1216 hectares and are located at Eyrewell Forest north of the Waimakariri River. If these pilot tests were successful, Mr Sang said that the Iwi had 16,000 extra hectares it could convert to dairy. In addition to the current testing farms in Eyrewell, a further 6764 hectares could be developed in the area north of the Waimakariri River with water piped in for irrigation. Currently 60 per cent of this land is in forestry state in addition to the Iwi's land holdings in a Balmoral forest site near the Hurunui River where 70 per cent of this land could be converted to dairy use. At June 30 2012, the company had drawn down debt of about \$117 million with total debt facilities of \$320 million giving the company room to move in terms of new infrastructure investments, Mr Sang outlined.

Synlait Farms look to improve returns [26 March/ Business Day] Corporate dairy farmer, Synlait Farms, has told its investors that it plans to raise equity to enable the company to invest in new farms and reduce debt. Synlait Farms currently manage 13 farms in Mid Canterbury, milking 12,970 cows on 3,942 irrigated hectares, producing milk that its supplies to its sister company, Synlait Milk. In an investor presentation, the company said the focus was on improving returns from the existing farm portfolio and to maximise utilisation of water access rights. The company has sufficient water to irrigate a further 3,000 hectares of land in the Te Pirita region and it is looking at the acquisition of complimentary farms in this area. Synlait Farms reported net profits before tax of \$3.6 million for the 12 months to 31 May 2012.

Economics and trade

Economic surge in 2012 – GDP up 1.5pc [21 March/ NZ Herald] The New Zealand dollar has reflected the expansion of the country's economy as reports indicate the fastest quarterly growth the economy has seen in three years. Demand for forestry exports underpinned gains in the primary sector as Gross Domestic Product grew 1.5 per cent to \$36.81 billion in the three months ended December 31. This contrasts with the 0.2 per cent pace seen in the September period, according to Statistics New Zealand. The Reserve Bank of New Zealand had predicted an expansion pace of 0.8 per cent in its latest released publication. These latest results for New Zealand's expansion are almost twice those predicted by the Reserve Bank and result in figures that haven't been recorded since March 2008. These recent growth rates mean that the economy is growing at an annual pace of 2.5 per cent. Immediately before these figures were released, the New Zealand Dollar increased to 82.58 US cents from 82.23 cents; the trade-weighted index rose to 76.08 from 75.79 and the New Zealand Dollar appreciated to 79.57 Australian cents from 79.18 cents. Forestry was labelled as a large driver of the growth seen in Primary Industries, rising 9 per cent and lifting the overall sector 3.2 per cent. The value for forestry was its highest level since the series began in June 1987. A decline in dairy product exports meant that overall dairy production fell. The summer's drought conditions have meant that dairy prices have risen dramatically amid very limited supply. Estimation figures now place the cost of the drought to GDP at \$2 billion. The Reserve Bank has accounted for the economic effects of the drought by reducing first half GDP forecasts 0.2 to 0.3 percentage points. Retail, trade and accommodation grew 2.3 per cent and the construction sector grew 1.8 per cent in the quarter, the sector's fifth straight gain, an increase attributable to the strength of heavy and civil engineering. Expenditure measures of GDP, which relates to the final purchases of locally produced goods and services grew 1.4 per cent in the quarter. This was up 3 per cent annually.

Drought saps regional economic confidence [25 March/ Business Day] Around New Zealand economic confidence in many rural industries is falling rapidly. The drought-attributable drop in confidence is being recorded in Northland, Waikato, Gisborne and Hawke's Bay with a Westpac Bank survey highlighting the drop. Although regional economic confidence has also dropped in Taranaki, Manawatu and Whanganui, an expanding energy sector in Taranaki may help to offset this. Confidence in Wellington grew for the third survey in a row to almost neutral at a net-negative 1 per cent. Westpac economists say that Wellington is most likely beginning to adjust to years of public sector cutbacks and a slowly improving housing market. Leading New Zealand as the most optimistic region was Canterbury, gaining a net 35 per cent positive. Moving up to the North Island saw Auckland record a net 16 per cent positive which was mainly attributable to a surge in house prices. Westpac said that the recent drought eroded much confidence in many rural parts of the country, with Northland moving from a net 28 per cent negative position in December to a net 49 per cent negative today. It was also recorded that these economic confidence ratings were at similar levels to those seen during the 2010 and 2008 droughts, however today's levels were falling to lows last recorded 20 years ago during the recession seen in the early 1990s.

International

New entrants asked to help shape farming's future [25 March/ Farmers Guardian] The UK Government has launched a major review to unearth the barriers facing new entrants to agriculture and first time farmers are being asked to share their experiences and ideas as to how young people could be helped to get into agriculture. The Future of Farming review is looking to identify tangible ways to improve the access for talented, entrepreneurial young people to farming. The review will address the issue from the perspective of potential entrants (ideas to help identify jobs and opportunities), from the perspective of employers (more easily identifying talent pools) and look at longer term barriers (such as access to finance and land). The review is a result of the Green Food Project which recognised the need to ensure the agricultural industry attracts the right numbers and calibre of enthusiastic people with the right skills in order to deliver a sustainable food system.

Subscribe

To subscribe to future editions of Field Notes please [click here](#).

Field Notes

Weekly news update from the KPMG Agribusiness Network – 27 March 2013

8

Contact Us

Auckland/ Audit

Ian Proudfoot

09 367 5882

021 656 815

iproudfoot@kpmg.co.nz

Hamilton/ Taxation

Rob Braithwaite

07 858 6517

021 586 517

rbraithwaite@kpmg.co.nz

Tauranga

Robert Lee

07 571 1773

027 451 1035

relee@kpmg.co.nz

Wellington

Michael Day

04 816 4599

027 293 8338

michaelday@kpmg.co.nz

Christchurch

Paul Kiesanowski

03 371 4832

021 272 7087

pkiesanowski@kpmg.co.nz

Financial Advisory Services

Gary Ivory

09 367 5943

021 932 890

givory@kpmg.co.nz

Risk Advisory Services

Jamie Sinclair

09 363 3460

021 475 735

jpsinclair@kpmg.co.nz

Business Advisory Services

Hamish McDonald

07 858 6519

021 586 519

hamishmcdonald@kpmg.co.nz

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.

The information provided herein is of a general nature and is not intended to address the circumstances of any individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received nor that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2012 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.