



AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

3 April 2013

Organisations referenced in this week's Field Notes include:

ANZ	Meat Industry Association
Alliance Group	Meat Industry Excellence Group
Bayer CropScience	Ministry for Primary Industries
Bayleys Real Estate	Mission Estate Wineries
Beef + Lamb New Zealand	New Zealand King Salmon
Canopy Camping Escapes	New Zealand Vineyard Estates
Dairy New Zealand	NIWA
Federated Farmers	O-I Glass
Fonterra Co-operative Group	Sanford
Forest Enterprises	Statistics New Zealand
Global Aquaculture Alliance	Syngenta
Hero Group	Waikato University
Kono Seafood	Wool Services International
Lincoln University	Yashili International Holdings

This week's headlines

Forestry	Surge in log exports gives forestry investors hope [2 April/ Taranaki Daily News]
Fishing and aquaculture	NZ King Salmon deemed sustainable [26 March/ Marlborough Express]
Dairy	Profit soars at Fonterra [28 March/ NZ Herald]
Dairy	Yashili gets approval for \$212m Pekeno plant [2 April/ NZ Herald]
Meat	True cost sought for consolidation [2 April/ FW Plus]

Drought and dry weather spreads across New Zealand

Forecast rain won't break drought [31 March/ Radio NZ Rural] The Minister for Primary Industries, Nathan Guy, has said that rain forecasted for this week is unlikely to be enough to break the current drought in the North Island. He said that although rain had been forecasted for a few days this week, it would not be enough to help grass to grow before colder, winter weather starts to set in. Mr Guy highlighted the effectiveness of Federated Farmers' field days presentation advising farmers on how to farm in drought conditions. He also said that Fonterra has brought forward its payout to dairy farmers which will equate to around \$100,000 for the average farmer.

Viticulture

New glass bottles lighten the load [28 March/ Marlborough Express] New Zealand Vineyard Estates (NZVE) have partnered with O-I Glass to pursue a venture that will see the winemaker sell its wine in new lightweight 407-gram glass bottles. NZVE are the producers of Mud House and Waipara Hills wines and plan to release their 2012 Mud House Chardonnay in the new bottles. Not only are the new bottles a good way to help reduce the amount of weight that recycling bins carry, but they will also serve as a benefit to the end consumer through health and safety benefits. NZVE plans to reduce its environmental impact through reducing overall glass use, with the new bottle being about 10 per cent lighter than the previous design which also contributes to an overall weight reduction of up to half a tonne per container of wine exported. The new bottles are expected to reach store shelves within the next few weeks.

New vineyard offerings in recovering market [2 April/ National Business Review] Valuers and Real Estate agents have noted that the market for wineries and vineyards is starting to improve as values become easier to determine after a long period of mortgagee and stressed sales. Tim Crawford of Bayleys Real Estate's Marlborough country team says that the market in the region during the past couple of years saw forced sales of vineyards as lenders called in receivers or initiated mortgagee sales. Several large deals have recently been witnessed with large industry players providing benchmarks as the industry emerged from oversupply problems. Mr Crawford highlighted Mission Estate's purchase of Marlborough's Cable Station vineyard as a positive sign as buyers started to claim large holdings without significant dwellings and without locked-in supply contracts. He said that the majority of buyers were often seeking lifestyle changes and were attracted to the recent supply of several quality vineyard properties on the market.

Forestry

Surge in log exports gives forestry investors hope [2 April/ Taranaki Daily News] Growth has been recorded in the forestry industry with the latest gross domestic product figures showing forestry production up 9 per cent in the December quarter, one of the highest levels since Statistics New Zealand began forestry value measurements in 1987. With the forestry industry worth more than \$3 billion a year in exports, New Zealand forests are predicted to increase log production by 5 million cubic metres. This will come in addition to the 26 million cubic metres of logs already produced each year. Forest Enterprises Managing Director Steve Wilton said that although the quarter so far has been relatively positive, the cyclical nature of log prices meant that there was still relative uncertainty. He also said that it was difficult to exactly anticipate where the market would move, with the present surge coming from an increased number of housing starts in the United States, which had slowed the flow of timber exports from the USA to China. Mr Wilton added that the current challenge for the forestry industry was to cope with the current volume while still finding suitable new markets to supply New Zealand lumber.

Fishing and aquaculture

NZ King Salmon deemed sustainable [26 March/ Marlborough Express] New Zealand King Salmon has been awarded the Global Aquaculture Alliance's Best Aquaculture Practices (BAP) certification. The New Zealand company said the certification covers all NZ King Salmon's operations which include five fish farms and three production units in Marlborough and Nelson. NZ King Salmon Chief Executive, Grant Rosewarne, said that attaining the internationally accepted aquaculture sustainability certification confirmed King Salmon's world-class environmental standards. The certification examines farm compliance issues such as community property rights and relations, worker relations, the environment, fish management and welfare, wildlife interactions and supply storage and disposal. Mr Rosewarne said that the company sets high standards for itself and that receiving compliance was achievable without significant changes to their current business processes. The process cost tens of thousands of dollars in fees and required considerable time commitments from senior management, farm managers and processing staff, he said.

Hot summer a fishing boon for Sanford [30 March/ Otago Daily Times] This year's hot and dry weather that accompanied one of New Zealand's worst droughts on record has proven to be advantageous to New Zealand fishermen. Record numbers of migratory skipjack tuna have been attracted into New Zealand waters with demand for the fish pushing prices up to a record high \$2700 a tonne. Eric Barratt, Managing Director of Sanford, said that the company was on track to claim about \$25 million worth of the fish in this New Zealand season which doubles the value obtained last season. The past couple of years have been difficult for Sanford after the company was convicted in the United States on a number of charges including discharging waste water from a vessel into America Samoa's Pago Pago harbour without using an oily water separator. In addition to this, one of Sanford's vessels' Chief Engineer James Pogue was also found guilty on two charges relating to the upkeep of oil record books. Sentencing resulted in Sanford being fined \$US1.9 million (\$NZ2.27 million) and the company was ordered to pay a further \$US500,000 to a United States fishing foundation. Since these charges, Mr Barratt said that the boats under review have gained ISO 14001 accreditation, which means that all of their waste management systems and recording systems have been upgraded to meet certification.

Weather blamed for mussel misery [1 April/ Marlborough Express] Mussel production for the current season is at lower levels than those recorded in previous years. Dry weather conditions have been attributed to the reduced haul, said Marlborough Mussel Farmers and Processors. Kono Seafood On-Water Manager Dean Higgins said that many mussel producers' bottom lines were being impacted from the season's smaller-sized mussels and high New Zealand Dollar. He said that the whole industry was facing troubles. Kono sources their mussels from around the country to keep up with demand and it said that the slow growth was not isolated to Marlborough Sound mussels. 10,000 tonnes of mussels are processed every year at the Kono Riverlands mussel processing plant, which employs 160 people. Mr Higgins said that the company was now restricted to processing 20 tonnes per shift instead of letting staff go through as many mussels as they can. This has resulted in labour hours being reduced to six hours rather than their standard eight. He also said that the factory volume was reduced for about four weeks in January and February because they were having difficulty in sourcing sufficient amounts of quality mussels. Although it was normal for yields to vary from year to year, Mr Higgins said that this was the worst yield he had seen in 20 years. A study carried out by NIWA found that the ideal mussel growing conditions were generated from El Nino weather patterns normally seen during New Zealand summer periods. However, this season's neutral conditions and above average temperatures has meant that no El Nino patterns have existed. The current dry conditions are expected to continue into Autumn.

Dairy

Profit soars at Fonterra [28 March/ NZ Herald] Fonterra Co-operative Group has reported net profit for the first half of its financial year to January 31 at \$459 million, an increase of 33 per cent compared with the previous corresponding period. Executives say that although this is a pleasing result, the second half will be hit by the drought that is gripping much of the country. Fonterra also raised its forecast cash payout for the 2012/13 season to \$6.12 a kilogram of milk solids for a fully share committed farmer. These forecasts are based on a higher forecasted farmgate milk price of \$5.80 a kilogram and a forecast dividend of 32 cents per share. Previous payout forecasts were issued in February and were set at \$5.90 to \$6 a kilogram. Interim dividends were increased from 12 cents to 16 cents. Fonterra Chief Executive Theo Spierings said that there was heavy competition at the milk supply end of the Australian market, with retailers fighting each other and to grow their private label business. He said that it was up to Fonterra to alter their business model in order to compete in the current Australian market. Mr Spierings also highlighted the new period of volatility that the market was entering. He said that the company was aiming to produce product with higher efficiency and at lower cost.

Extra milk payout should help with extra feed – Dairy NZ [29 March/ Radio New Zealand Rural] Some of the costs incurred by farmers buying extra supplies of feed because of the drought should be covered by Fonterra's forecast increased dairy payout, says Dairy NZ. Fonterra raised its forecast farmgate milk price for the current season by 30 cents to \$5.80 a kilogram of milk solids, adding a dividend of 32 cents a share on top of this. Approximately 30 per cent less milk has been produced by the majority of North Island regions because of the dry weather. Dairy NZ Chief Executive Tim Mackle said that scientists are predicting a significant increase in droughts into the future and dairy farmers will be required to factor this fact into their forward planning.

Yashili gets approval for \$212m Pekeno plant [2 April/ NZ Herald] Yashili International Holdings has got Overseas Investment Office approval for its proposed 1.1 billion yuan (NZ\$212 million) plant to process 52,000 tonnes of finished and semi-finished milk products annually. The company has three years to build the plant before the consent lapses. Yashili International chairman, Zhang Lidian, said that the company is still waiting to receive land use and resource consents and it is holding a tender for the dryer component of the facility. Yashili already sources milk from New Zealand which it uses in the marketing of its own branded milk products. Yashili was set up in 1983 by the Zhang family but is now listed on the Hong Kong Stock Exchange and reported a profit of 487 million yuan in the 2012 calendar year.

Meat

Meat merger no easy move [28 March/ Business Day] Lincoln University Agribusiness Professor Keith Woodford has said a restructuring of the red-meat industry will take longer than expected despite calls from farmers for quick progress. He highlighted the fundamentals of the industry as being classified by complicated business structures and supply chains. In addition, losses recorded by the industry, totalling \$150 million between the major industry participants last season meant that the red meat sector lacked the financial strength to drive consolidation at the current time. Mr Woodford also noted the struggle that the meat industry was facing with regards to expanding into China. China has quickly become New Zealand's largest market by volume, however New Zealand could claim little in developing this market because the Chinese were buying red meat dockside for commodity prices and the value was being created in China. Although New Zealand meat suppliers were getting the benefits of increased sales, he said that they are not getting the value-added business. Mr Woodford said that the red-meat industry was in decline with excessive processing capacity becoming increasingly difficult because everyone wanted their animals processed at the same time. He stressed that the industry needs to plan for the future carefully and undertake any restructuring in a step-by-step manner.

Long shifts take toll on meatworkers [2 April/ Southland Times] The numbers of livestock that are currently being sent to meatworks around the country are at high levels as farmers seek to take some pressure off their pastures. Beef + Lamb New Zealand Economics Service Director Rob Davison said the number of sheep and beef slaughtered at plants in the South Island were up on last year. The pressure is being widely felt throughout the industry as an increasing number of meatworkers call in sick, with one Southland meat company saying about 100 of its 2000 workers call in sick on any given day. Mr Davison said that the number of lambs that had been killed as of last week was 6.1 million compared to 5.5 million recorded at the same time last year. Beef kill numbers also increased from 250,000 to 273,000. John Brader, Alliance Group General Manager said that staff absenteeism was one of the largest issues currently facing the country, however due to the increased labour hours worked by the staff, the high rate of absenteeism was not unusual. New Zealand Meat Industry Association Chief Executive Tim Ritchie said that most meatworkers throughout the country were working longer shifts and weekends as a result of the dry conditions.

True cost sought for consolidation [2 April/ FW Plus] The Meat Industry Excellence Group is pushing for 80% of New Zealand's red meat to be sold through a single company in an effort to boost recent poor returns. The Group is farmer-led and is emphasising the need for major meat producers to state how much restructuring costs would actually be. Alliance Group chairman, Owen Poole, has valued the cost of such a plan at \$600 million. He said that the company recognises that some of the costs of restructuring would have to be met by farmers, along with the industry's banks. West Otago farmer Allan Richardson, said that farmers would not be forced into writing an open cheque to fund any restructure, noting that the funding has to be appropriate for farmers who have suffered several years of poor profitability. Costs for consolidating the meat industry have been assessed as ranging from as low as \$300 million to as high as \$1.2 billion. Mr Richardson said that this figure had to be more precise if certainty was to be achieved. Silver Fern Farms and Alliance have been continuing talks with rivals to explore options to restore profitability to the industry.

Wool

Drought likely to clip wool haul [1 April/ Business Day] Beef + Lamb New Zealand Economic Service Executive Director Rob Davison said that wool production for next year was likely to be down by about 5 per cent or 9000 tonnes on this year to about 159,000 to 160,000 tonnes based on clip per head. Most of this decrease has been attributable to the drought conditions that have impacted the country. However, Mr Davison said that the value of the wool could easily increase depending on how much longer the drought persists for. Wool production in 2012 had been boosted by very favourable grass growing conditions and a 5 per cent drop in production did not necessarily mean less cash in hand for farmers, as it depended on what happened to wool prices. Mr Davison said that it was expected that fluctuations in price of more than five per cent do occur between years and this year's wool price had come back by about 25 per cent on last year. Wool Services International Marketing Executive, Malcolm Ching, said that the earlier-than-normal cull of livestock forced by the drought would create an immediate bubble in wool supply and a corresponding fall-off in a few months. He expected farmers to continue to cull their capital stock for a while yet.

Research and development

Top soil scientists gather [27 March/ Rural News Group] Queenstown is set to welcome more than 150 soil scientists from around 30 countries this month at a symposium held to discuss developments in soil and plant analysis. The symposium is held every two years at different locations around the world and this year's will mark the first time such an event has been hosted by New Zealand in the event's 26-year history. Managing Director of Hill Laboratories, Dr Roger Hill, said that the symposium is unique because of it being focused solely on the role of soil and plant analysis, a tool which underpins fertiliser use. He also said that recent years have witnessed production levels increasing at rates never before recorded. Hence, the role of soil testing as a means of monitoring soil health is becoming increasingly important, especially in understanding the risks intensive farming systems may pose to the environment. Professor of Agribusiness at the University of Waikato's Waikato Management School, Jacqueline Rowarth will give the opening address explaining the role that science has played in developing New Zealand's economy. She said that soil and plant testing analyses generate a vast quantity of data and processes relating to analysing this data will be discussed at the symposium.

Water

Forum debates setting limits for nation's waterways [2 April/ Waikato Times] A forum on water quality in the Waikato region was recently hosted by the Waikato branch of the New Zealand Institute of Agricultural and Horticultural Science where Chairman Dr Doug Edmeades asked local water experts to weigh in on the major water issues confronting the region. Issues around water qualities such as catchment specific regulation levels, impact on local farming communities and proposed changes to the Resource Management Act were discussed. Last month the Government released a document outlining the proposed plan of action for improving water quality and freshwater management. The Government highlighted this document as helping set a national objectives framework that provides a standard list of possible values that freshwater bodies would need to meet for uses such as swimming, fishing or irrigation. Concentration values set out for each freshwater body would be a local decision for local catchments but minimum values would be set at a national level through the framework. Competing views were expressed at the meeting, with members of the public highlighting the economic tradeoffs that would exist with implementing the new framework. Concerns were raised with regards to the likely costs that would be placed on farmers. The proposed amendments to the Resource Management Act were also discussed. The forum outlined the point that the Government is planning to place more emphasis on environmental considerations when they consider the changes to the Act.

Farmers and producers

New voice out to rival act [2 April/ New Zealand Herald] A new party devoted to representing New Zealand farmers may be seen at next year's election. Kerikeri farmer and businessman Ken Rintoul is the head of the Focus NZ party and formed the group in 2012. Today, the party has over 400 members, approaching the 500 members required to be eligible to register with the Electoral Commission. Mr Rintoul highlighted the formation of the party as being attributable to a group of farmers who were opposed to big rate increases proposed by the Far North District Council. Focus NZ plans to contest the 2014 election on a list-only basis. Mr Rintoul said that the party shared similarities to the Act party with its plans to cut taxes to an extent while introducing a new tax on international financial transactions. Focus NZ also hopes to promote the ability for farmers and producers alike to be able to compete efficiently on the international market. The party's board includes Mr Rintoul and co-founder Joe Carr, former Federated Farmers Dairy Chairman and Primary Industries Commentator, Lachlan McKenzie, and Ross Meurant.

'Glamping' opens the farm gates [2 April/ Business Day] Glamorous camping or "Glamping" is a recent fad that Kapiti Coast company Canopy Camping Escapes hopes will take off. Farmers wanting to diversify their income have been targeted as interested parties who are likely to respond well to the tourism fad. "Glamping" has been popular in Britain, North America and Australia where people set up temporary, well equipped camp sites on private pieces of land, with the owner's consent. Co-founders of Canopy Camping Escapes, Liz Henderson and Sonia Minnaar, say that the venture will allow the company to deliver a ready-made, cost-effective and novel tourism concept that farmers and rural landowners can set up quickly and run with minimal hassle. They highlighted that the plan provides tourists with an opportunity to experience the New Zealand's outdoors first hand.

Economics and trade

Dairy leading export price charge [2 April/ Business Day] Dairy products and animal pelt prices led a 7.4% surge in the ANZ Commodity Price Index in March. The March result was the third strongest monthly jump in the index since the series began in 1986 and leaves the index just 6% below its all time high, recorded in April 2012. Whole milk powder prices gained 23% in the past month in world price terms, partly due to the drought reducing supply, with pelt prices recording a 16% increase, butter a 15% increase and skim milk powder an 11% increase. Aluminium and lamb prices recorded falls in the month. As a result of a slight fall in the NZ Dollar against the major trading currencies, the index in New Zealand dollar terms increased 8.7%, but remains 16% below its March 2011 peak level.

International

New milk powder scandal in China [29 March/ NZ Herald] Chinese authorities in Suzhou, eastern China, have accused the Chinese partner of major Swiss baby formula manufacturer Hero Group of deliberately mislabelling milk powder. Officials also stated that a senior employee of the company had been detained. Almost 25 tonnes of baby formula have been detained by Chinese officials as news broke that the firm had altered its product by mixing expired formula with supplies imported under its partnership agreements with Hero. This incident again highlights the risks for foreign companies entering China's rapidly growing food market through joint ventures with local Chinese companies. In 2008 at least six babies died and another 300,000 became ill after they consumed tainted milk tainted with the toxic chemical compound melamine. Hero Group is headquartered in Lenzburg in the Swiss canton of Aargau. The company is privately owned and has a turnover of almost US\$1.5 billion.

Bayer and Syngenta propose bee health action plan [30 March/ Farmers Guardian] Bayer CropScience and Syngenta have published a five point action plan that they hope will unlock the EU stalemate on bee health. The plan proposed by the two major manufacturers of neonicotinoid pesticides includes significantly scaling up the creation of pollen rich, flowering field margins across the EU, establishment of a comprehensive field monitoring programme for bee health, the mandatory implementation of measures that are currently voluntary (such as allowing seed treatment only at quality assured sites) and further investment in R&D into the major factors impacting bee health. The plan is intended to provide support to the continued use of the seed treatment products across the EU and avoid a European Commission ban of three neonicotinoid products. Chief Operating Officer of Syngenta, John Atkin, said that simply banning the products would not help to save a single hive, while the plan is intended to place the focus on addressing the real causes of declining bee populations. While a spokesperson for Bayer CropScience said the bold plan will enable European farmers to continue to produce high quality, affordable food in a way that promotes the health of bees and other pollinators.

Hard times for farmers means losses for banks, analyst predicts [2 April/ Sydney Morning Herald] A new analyst report says that banks could face more loan losses from their exposure to agribusiness as weak conditions and heavy debts take a growing toll on farmers. As listed agribusinesses Elders and Nufarm have recently issued profit downgrades, CLSA banking analyst, Brian Johnson, says the banks could end up bearing the brunt of a slump affecting several agricultural areas, specifically wheat and live cattle. Borrowers are likely to be impacted by high debt levels and falling land prices which will result in banks taking losses as a result of 'euphoric' lending in the good times. The report notes that the National Australia Bank is Australia's largest agribusiness lender with ANZ also having a higher exposure. The prediction comes as Rabobank Australia had reported a 10.5% increase in after tax profits in 2012 amid challenging conditions and a rush by borrowers to pay down debt.

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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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