



AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

24 April 2013

Organisations referenced in this week's Field Notes include:

Agrifax New Zealand	New Zealand Green Party
ANZCO Foods New Zealand	New Zealand Merino Company
Commerce Commission	New Zealand Pork Board
Federated Farmers New Zealand	New Zealand Wool Services International
Fonterra Co-operative	Supreme Court of New Zealand
Food Standards Australia and New Zealand	Synlait Farms
Horticulture Export Authority	Synlait Milk
Loro Piana Challenge	Trans Pacific Partnership
Ministry for Primary Industries	Victoria University
MO2 Milk Products	Waikato University
New Zealand Citrus Growers Organisation	Westpac Bank
New Zealand Food Innovation Network	World Farmers Organisation

This week's headlines

Water	Dusty paddocks need more rain [16 April/ New Zealand Herald]
Meat	Dairying meat farmers' big rival [19 April/ Business Day]
Pork	NZ pork wants to take raw pork case to Supreme Court [22 April/ Radio New Zealand Rural]
Wool	World record for Canterbury merino farmer [18 April/ Business Day]
Farmers and Producers	NZ given voice on world farming body [18 April/ New Zealand Herald]

Animal Health and welfare

Hydatids rules changes proposed [23 April/ Radio New Zealand Rural] The Hydatids disease is one that can infect humans, sheep and other animals, and is contracted from dogs which carry the hydatid tapeworm. Changes to controls covering the disease are being proposed by the Ministry for Primary Industries, with the disease not being located in New Zealand since the 1990s. The disease killed more than 140 people in a decade between 1946 to 1956 with many more requiring surgery to remove hydatids cysts. New Zealand has been declared provisionally free of hydatids since 2002 which was the result from approximately 50 years of control efforts including regular dog dosing. Among the regulations that have been put in place to prevent the reoccurrence of the disease in New Zealand include the requirement of offal to be cooked before it is fed to dogs. The Ministry for Primary Industries is now proposing changes to remove unnecessary restrictions on the pet food industry and to finetune a few other regulations. Restrictions will also exist in the form of prohibiting any material from imported animals from going into pet food. Reasons for the changes have been outlined on the Ministry's website and are open to submissions until the 17 May.

Horticulture

Greens concerned at approval of GE soybean [19 April/ Radio New Zealand Rural] The approval of another genetically-engineered food product for use in New Zealand has been met with protest from the Green Party while there has been no official response on a recent foods risks study. The party's GE spokesperson, Steffan Browning says that Food Standards Australia and New Zealand has announced it's third approval this year of a genetically-engineered soy bean. This brings the list of approvals to a count of 59, which is concerning said Mr Browning. He said that the authority has never declined any of these products despite evidence existing of their associated health risks. The soy bean in question is resistant to three different herbicides and, Mr Browning said, that the Authority had still not reached a conclusion about the latest study.

Compulsory levies proposed for all citrus fruit growers [23 April/ Radio New Zealand Rural] Growers who are failing to contribute to research and other projects in the citrus fruit industry may find themselves under pressure from new levies proposed by the New Zealand Citrus Growers Organisation. The organisation has currently placed commodity levies covering Navel oranges and Satsuma mandarins, however levies on other citrus fruit, including lemons, limes, and grapefruit are voluntary and not all growers are contributing. The Organisation's Executive Manager Nikki Johnson said that it's proposing to rectify this issue by introducing compulsory levies for all citrus fruit. She said that it was estimated that currently there is about 30 per cent of citrus fruit which the organisation is not collecting levies on. An estimated \$60,000 increase in the Organisation's levy intake is estimated to result from the inception of the proposed levies Nikki Johnson said. She said that the majority of the levy intake would come from the lemon, lime and grapefruit product group. She also said that at present, approximately only 40 per cent of all growers in the particular group were paying. The New Zealand Citrus Growers Organisation is proposing levy rates ranging from 0.5 cents per kilo for mandarins to 1 cent for oranges, lemons, limes and grapefruit. Ms Johnson indicated that the proposed changes had been circulated to approximately 500 growers to date.

Forestry

Log prices up on Chinese and US demand [23 April/ Radio New Zealand Rural] Demand from sawmills both in the United States and in China have been the main drivers between log prices that are at their highest levels in nearly two years. NZX Agrifax Primary Industry Analyst Ivan Luketina said this demand has pushed up log prices by 5 per cent on average in the past month. There has been a \$6 to \$7 per tonne rise in log prices in China, although this had been slightly reduced for New Zealand returns due to an increase in shipping costs and the appreciation of the New Zealand dollar. He said that prices were continuing to increase upwards based on the stronger data available on housing in the US which has been driving up lumber prices, causing many sawmills in the United States to increase production in anticipation of a rapid rise in the demand for timber inputs. Sawmills in China were also increasing imports of lumber as they attempted to secure volume which was lifting import prices, although it has not flowed through to China's domestic market which means that prices may not continue to rise at the same pace, Mr Luketina said. New Zealand domestic log prices have risen to match the strong prices for export logs.

Dairy

Peak tipped for soaring dairy prices [18 April/ New Zealand Herald] After an impressive 12 month run of increasing international dairy prices, economists have indicated that these prices may be close to their peak. On a trade-weighted basis at last week's GlobalDairyTrade auction, international dairy prices rose 0.6 per cent and at the current level, these prices represent an 86 per cent gain on where they were last year. The global marketplace is set to continue to feel the effects on supply from the price consolidation being brought about by New Zealand's drought, said Westpac economists. The index's rise last week was its ninth straight gain with the average winning price of the auction rising to US\$4968 (\$5864) a tonne. These price levels are the highest on record since the global auction was established in July 2008. For New Zealand dairy producers whole milk powder is their biggest product by volume, and prices for this were up to US\$5245 a tonne, rising by 2.4 per cent on levels recorded a fortnight prior. Economists from Westpac said that overall world dairy supply remains relatively tight which is associated with strong Asian demand, particularly from China. It is these Asian influences on dairy prices which would help to lower the risk of supply from being constrained in the next season.

Dairy price boost for Synlait Farms [22 April/ Business Day] The earnings forecast for Canterbury dairy company Synlait Farms has been increased by approximately \$2 million as global dairy prices are set to increase. Synlait Farms owns and operates 13 South Canterbury Dairy Farms, selling related milk processor Synlait Milk. The company is 51 per cent owned by China's Bright Dairy. About 5.4 million kilograms of milk solids are set to be processed this season by Synlait Farms which is an increase on the previous year. The final milk prices for Synlait's milk solids was expected to be \$5.80 a kilogram, up 40 cents on the original forecast, as the Global Dairy Trade prices rose 40 per cent over the past month. This price is set to increase revenue to approximately \$31 million which is an impressive level considering that the dry summer had many issues for a lot of milk processors in the North Island. However because Synlait has extensive irrigation systems in place, the processor was largely unaffected by the drought. The processor took in \$34.8 million in revenue for the year to May 2012, making a \$3.12 million profit. The company's balance sheet is set to be strengthened by rising dairy-land prices in Canterbury in addition to controlled expenses.

Milk drink creating real fizz [23 April/ Business Day] Plans for construction of a milk processing factory in the Waikato for carbonated-milk-drink maker MO2 has the potential to create half a dozen jobs. The plant is planned to produce 9500 250-millilitre bottles an hour said MO2 founder Richard Revell. He released six flavours of carbonated milk drink to market last month and the company calls it a milk soda. Flavours will include iced coffee, lime, mango, pina-colada, vanilla bean and wildberry and the company will be targeting outlets in and outside of Te Aroha town. Mr Revell said that he spent nine years developing the drink, first in his dairy shed and then through the New Zealand Food Innovation Network. He said that the market had been missing carbonated milk drinks for people who did not want to consume cola, lemonade or other carbonated soft drinks. The hardest thing according to Mr Revell was in developing flavours that worked because nobody had done anything quite the same before. MO2's supporters have been highlighted by Mr Revell as including Fonterra's new chairman, Te Awamutu-based dairy farmer John Wilson, who was delighted that the product was developed by a Fonterra supplier.

Fonterra's \$126 million Waitoa site visited by Prime Minister [23 April/ Waikato Times] A blessing of Fonterra's \$126 million UHT milk construction site at Waitoa in the Waikato was attended by Prime Minister John Key earlier this week. The plant is set to enable Fonterra to increase its longlife milk production by 100 per cent over the next few years and will be operational from April next year. Mr Key discussed the construction project and farmer supplier levels with Fonterra Chairman John Wilson. Fonterra Chief Executive Theo Spierings also attended in addition to a large media contingent. The new Fonterra UHT plant will create 50 more jobs and have five UHT lines producing a range of products including UHT white milk and cream for the foodservice sector. The majority of the final product produced at the plant will be exported to Asia.

Meat

Dairying meat farmers' big rival [19 April/ Business Day] ANZCO Foods Chairman Sir Graeme Harrison has said that farmers blaming meat companies over poor returns are pointing the finger at the wrong people. An event in Christchurch this week resulted in farmers agreeing to a five-step plan to get farmers to commit the stock to a company and to investigate industry rationalisation. Next week, the North Island will be in the spotlight with a meeting planned to be held in Feilding on Friday. Mr Harrison said that the farmers were not looking at the long-term trend and the large impact on prices was because of poor returns from wool while meat returns had actually grown. The United States prices for beef were close to record levels, only let down by the exchange rate. Mr Harrison highlighted that lamb was a luxury product, reaching a level closer to the top of its retail market than any other New Zealand product. While lamb prices had increased, Mr Harrison said that sheep farming would continue to struggle until wool returns improved. ANZCO earlier reported a \$19 million after-tax loss for the latest September year, less than rivals Silver Fern Farms and Alliance. Mr Harrison emphasised the importance of cashflow, pointing out that Alliance and Silver Fern had negative cashflows of \$163 million and \$105 million respectively while ANZCO was in the black by \$35 million. He said that ANZCO had predicted last season's lamb price crash coming well before anyone else so the company managed their cash in a way none of the other managers had.

Pork

NZ pork wants to take raw pork case to Supreme Court [22 April/ Radio New Zealand Rural] The New Zealand Pork Board has made an application to the Supreme Court after losing its Court Appeal case against the Ministry for Primary Industries' (MPI) decision to let in uncooked pork from countries with the pig disease Porcine Reproductive and Respiratory Syndrome. The main concern with farmers is that the decision, if allowed, could allow the disease to break out in New Zealand. New Zealand Pork Chairman Ian Carter expects to know in six weeks whether the case will be accepted by the country's highest Court. The industry has spent \$1.6 million on the legal battle so far, but they were convinced that the MPI had got it wrong and hadn't followed the correct procedure relating to Section 22A of the Biosecurity Act, Mr Carter said. He said that they enacted Section 22A which effectively means that there's an independent review panel brought in to look at the situation and the differences proposed between the parties. He said that the organisation had 29 recommendations that they didn't believe the MPI had addressed which led on to them to reach the conclusion that they have not followed the requirement for due process and the intent of 22A. He said that he didn't believe the MPI understood the risk that raw pork poses to New Zealand.

Wool

World record for Canterbury merino farmer [18 April/ Business Day] The Loro Piana Challenge Cup held in Hong Kong has been won by Canterbury merino farmer Anna Emmerson with a world record bale of the finest merino wool. She broke her own record of 10.9 microns set in 2010 with an ultra-fine bale in the competition held in Paris with winning bales making around \$200,000, paid by *the* family owned clothing and fabric maker Loro Piana, although the business does not disclose the amount paid, it said that a premium was offered above its market value if it breaks a record. The finest 100 kilogram bale of 10.6 microns was produced by Emmerson last week and is the best quality entry produced in the 16-year long competition between Australian and New Zealand wool farmers. Only the late Donald Burnett from Mt Cook Station has won before, while Canterbury couple Barrie and Yvonne Payne from Visulea Farm in Maungati, South Canterbury have been serious contenders. Emmerson's win was said to be a fine achievement for the merino wool industry against strong competition from a much larger Australian merino flock, said New Zealand Merino Company (NZM) Marketing Manager Gretchen Foster. She also said that Emmerson needed to be commended for bringing the bale down to such a fine 10.6 microns. Foster said the product produced is finer than vicuna and cashmere and is the finest natural fibre, which was fantastic achievement for the event held in Hong Kong. Loro Piana is a contract partner with NZM and is set to make 40 bespoke suits from the single bale, which can be priced at US\$35,000 (NZ\$41,405).

North Island wool eases on currency instability [23 April/ Business Day] Despite a weakening of the US dollar, last week's North Island wool offering of 7615 bales saw a softening of price, despite a weakening in the US dollar. New Zealand Wool Services International's General Manager, John Dawson, said that the main trading currencies were at lower levels from those of the previous week on April 11, with the exception being the Australian dollar. Uncertainty had been placed in the local market which slowed demand, mainly due to continued depreciation of the currencies, which had outweighed any advantages locally resulting from the dollar's movement. It was highlighted that limited competition existed, with China being the principal, supported by Australasia, Western Europe, Middle East, India and the United Kingdom.

Research and development

End of 20th century hottest for 1400 years - study [22 April/ Radio New Zealand Rural] The past 2000 years indicates that the last century produced the hottest temperatures seen in 1400 years, according to a recent global research study. Victoria University Climate Scientist James Renwick said that the period from the 1970s until 2000 really stood out, as no other similar period was as consistently warm in as many places. His study revealed that the rise in the average temperatures reverses more than a millennium of gradual cooling and that the suggested rate of warming would continue to increase.

Water

Dusty paddocks need more rain [16 April/ New Zealand Herald] Although patchy rain has fallen over most of the North Island over the past week, Primary Industries Minister Nathan Guy said that the drought that he declared in Northland at the end of February was unlikely to be lifted before next month. He said that even if the drought was officially declared over, the extra funding for Rural Support Trusts and for Rural Assistance Payments aimed directly at drought affected farmers would continue until September this year. Mr Guy also indicated the country as almost being in a state of "green drought" where the land looks green, however new growth still isn't growing fast enough. The North Island region of Whangarei had only received 46mm of rain so far this year – about 12 per cent of the 410mm it should have received since January 1 this year. Dargaville received approximately 15 per cent of the 300mm normally expected, with the township recording only 45mm of rain so far this year. Rain fall improved relatively as measurements moved further North, with Kaitiā receiving 74mm of rain which was 23 per cent of the 316mm expected, Kerikeri receiving 112mm or 25 per cent of the 441mm expected, and Kaikohe receiving 166mm or 42 per cent if the 393mm expected.

Government consulting on lifting drought status [22 April/ Radio New Zealand Rural] The drought status declared over the North Island is the main topic being discussed at a recent government consultation. Farmers in the Bay of Plenty, Taranaki, and parts of the Waikato region say rainfall over the past week has been a drought breaker. Both the North Island and the West Coast of the South Island have been in a state of drought as a result of a very dry summer. Primary Industries Minister Nathan Guy said that the official drought status would not be reversed until at least May.

Wet front a boost for some farmers [22 April/ Business Day] Parts of New Zealand are facing some respite from the drought conditions that have been present in New Zealand for the past several months. However many areas around the country are still in need of significant rainfall and farmers are still dealing with a feed shortage. Federated Farmers Adverse-Events Spokeswoman Katie Milne said that farmers would have met with a seasonal change over several days but would be reluctant to talk too loosely about the drought being broken in New Zealand. In some areas it was evident that a seasonal change had occurred and that consistent rainfall was resuming. Many farmers would be seeing more rain than they had received since before Christmas. The rain that had fallen in places around the North Island would mean that the recovery process of many farms could begin. Ms Milne said that the West Coast was in good shape from ongoing rain the last few days and hard rain of 30 millimetres an hour had fallen in the Lake Brunner area last week. The recent thunderstorms that hit the Waikato and the upper North Island left farmlands flooded, and this rain was seen to be detrimental. Gentle rain is needed to slowly raise soil moisture deficits out of their dry state.

Farmers and Producers

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NZ given voice on world farming body [18 April/ New Zealand Herald] The World Farmers' Organisation (WFO) has appointed New Zealand's Federated Farmers President Bruce Wills as its Oceania representative. Mr Wills will replace Australia's Jock Laurie and take position on the board of a group which represents farmers from more than 50 countries. The organisation has been coined as something similar to the United Nations of Farmers and Mr Wills said that his appointment will help ensure that New Zealand has a key voice on the important global body. The WFO's third general assembly is currently being held in Japan of which Mr Wills is attending. It was revealed last week that Federated Farmers has helped to raise a breakthrough trade agreement. New Zealand and Australia had been working with other member nations of the WFO for nearly a year to attempt to push through the free trade policy. Mr Wills highlighted the assembly's talks as being ones about attempting to dismantle significant Government barriers to trade. He also said that traditionally, Japan was relatively protectionist towards farming as the average farm size is 2.2 hectares and the average farmer age is 67

Rural developments not meeting consents, study shows [22 April/ Radio New Zealand Rural] Waikato University Researcher Marie Brown has undertaken a study which has resulted in the finding that 35 per cent of agricultural property developments are not meeting environmental consent requirements. The study found that dairy conversions were the largest issue, with developers not meeting requirements including protecting existing habitat, stream planting and wetland conservation. Marie Brown said that New Zealand Councils were not monitoring some of the consent process but once consent had been granted, the work was not consistently monitored.

Wairarapa farmers win environment award [22 April/ Radio New Zealand Rural] The top farm environment award for the greater Wellington region has been won by Central Wairarapa farmers Michael and Karen Williams. The couple's 224 hectare arable, lamb finishing and beef unit was declared by judges as a very well organised business run by an inspirational young couple. A cross-slot drilling system is employed by the couple in order to grow a wide range of crops, with them putting in considerable effort into protecting and enhancing two hectares of bush and have preserved non-cultivable flood channels by planting riparian zones. The Ruamahanga River runs 2.9 kilometres along the farm's boundary and has been fenced off in order for work to continue on smaller waterways.

Commission urges swaps farmers to come forward [17 April/ Business Day] Farmers who entered into a financial derivative interest rate swaps are being urged by the Commerce Commission to come forward as the Commission seeks additional information from farmers. Allegations have been made from the farming community that such swaps were mis-sold by certain banks in a way that was seen as being misleading. The Commission has been assessing the information available and has requested and received preliminary information from banks and more detailed information is being sought. Commerce Commission Chairman Dr Mark Berry said that the situation was very complex to investigate and that the organisation was at an early stage of the assessment. He said that the Commission has not yet reached a view that may indicate whether the Fair Trading Act has been breached, however the Commission did have sufficient concern that they wanted to pursue further. Many farmers have claimed to have suffered significant financial loss as a result of entering into the interest rate swaps and approximately 60 complaints were received so far. Dr Berry said that the Commission required more people to come forward in order for a complete picture of the issue to be ascertained.

Economics and trade

Prospect of tariff removals welcomed [23 April/ Radio New Zealand Rural] If Japan joins the Trans Pacific Partnership trade negotiations, then this could be the best chance of getting rid of the costly tariffs that Japan imposes on fruit and vegetable imports, the Horticulture Export Authority has said. Japan is New Zealand's most valuable export market for horticulture products, delivering 23 per cent of the sector's total export earnings last year with a value of \$518 million. However, these exports were hit with tariffs of about \$34 million, ranging from 3 per cent for squash and capsicums, and more than 6 per cent for kiwifruit to as high as 23 per cent for apple juice. A quick phase out of these charges would be expected if a TPP deal succeeds, Horticulture Export Authority Chief Executive Simon Hegarty said. He said that the deal would be a great opportunity for international trade and relations because it has been difficult to engage with Japan on a bi-lateral, one-to-one basis with New Zealand. He said that New Zealand had not been their highest priority to do free trade deals with, so the move creates the potential for the country to reduce the barriers that New Zealand otherwise wouldn't have had, indicating that the deal would be very timely.

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