



AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

1 May 2013

Organisations referenced in this week's Field Notes include:

AgResearch New Zealand	Meat Industry Excellence Group
Animal Health Board	Ministry for Primary Industries
Ballance Agri-nutrients	New Image Dairy
Capitaland Real Estate	New Zealand Infant Formula Exporters Association
DairyNZ Limited	Pharmac Pharmaceuticals
Danone Dairy Group	Ravensdown Cooperative
European Commission	Silver Fern Farms
Fonterra Cooperative	Synlait Dairy Processor
Hawke's Bay Regional Council	Tatua Cooperative
Lincoln University	Westland Milk
Livestock Improvement Corporation	World Trade Organisation
Macfarlane Rural Business	

This week's headlines

Animal health and welfare	Bovine TB spreads in Taranaki [30 April/ Business Day]
Honey	EU eyes insecticide ban [29 April/ New Zealand Herald]
Red Meat	North Island farmers back call for red meat industry reform [29 April/ Radio New Zealand Rural]
Rural infrastructure	MPI boss quits to lead Livestock Improvement [29 April/ Business Day]
International	Groser's bid to head WTO withdrawn [26 April/ New Zealand Herald]



KPMG are proud to be supporting the Auckland City Young Farmers Club in their fundraising efforts around the ANZ Young Farmer Contest Grand Final.

Animal Health and welfare

Bovine TB spreads in Taranaki [30 April/ Business Day] Bovine tuberculosis (TB) has spread in the Taranaki region and threatens to infect many more dairy herds. The Animal Health Board (AHB) is waiting to hear back from tests taken from a potentially infected herd in the Inglewood area in addition to the disease being found in a dairy herd near Opunake, which brings the number of infected herds in the province to six. The new infection and the potential infection were identified by tracing movements of animals from the infected herds as part of the investigation into the outbreak. AHB Regional Co-ordinator Frank Pavitt is hoping no more infected herds will be found during the investigation, which is now close to completion. He said that testing of a significant number of herds would continue until the Board had two clear tests six months apart. Farmers concerned have come under strict instruction to restrict animal movement whereas neighbouring farms were subject to an intensive regime of annual testing, but not to movement restrictions. Mr Pavitt said that the investigation has shown no wrongdoing by the herds' owners and that to their knowledge, farmers have followed all due process and have been compliant with regulations.

Scientists find gene behind cow abnormalities [30 April/ Business Day] The gene responsible for a small number of unusually small calves appearing in dairy cow herds over the last four decades has said to have been found by scientists at the Livestock Improvement Cooperative (LIC). Dairy farms commonly lose between two and four per cent of calves each year for a variety of reasons and this discovery was made as part of the LIC's ongoing research to understand whether there is a genetic basis to these losses. For at least 40 years, scientists have believed that such a gene may have existed, and LIC has said that the frequency of the gene variation is 10-15 per cent in Holstein Friesian cows. This value is estimated to be approximately half in crossbred populations. The ongoing investment LIC has undertaken in research and development technology, especially investments in DNA sequencing technology, are said to have accelerated the study. LIC has said that this finding will help enable the variation to be managed out of the population over time.

Honey

EU eyes insecticide ban [29 April/ New Zealand Herald] The use of some of the world's most common insecticides may soon come to an end as Europe is set to implement a ban on these insecticides, which have been increasingly linked to large declines in bee numbers. A vote will be held in Brussels this week which is expected to lead to the suspension of the nerve agents which have negative impacts on Bees. Three quarters of all crops are pollinated by bees and other insects and their declining numbers seen in recent years are being blamed on the increasing use of neonicotinoid pesticides as well as disease, and loss of habitat. Britain's Environment Secretary, Owen Paterson, has said that he was very disappointed by the European Commission's proposed ban. In contrast, British Ministers have expressed their concern for bees, with British Prime Minister David Cameron saying last week that if they do not look after the bee populations, then very serious consequences could be expected to follow. The first European Commission vote in March this year saw 13 countries support the ban, nine opposing it and five, including the United Kingdom and Germany abstaining. From these results, it was concluded that there was not a sufficient majority for or against a ban under the EU's voting rules. The Commission is expected to step in tomorrow and determine whether or not a ban should be put in place.

Dairy

Fonterra appoints Singaporean Simon Israel to board [18 April/ New Zealand Herald] Singaporean Director Simon Israel has been appointed by Fonterra Cooperative Group to its Board of Directors, replacing the retiring Ralph Waters. Simon Israel is to join the board on May 1 and comes as Fonterra looks to gain significant market share in emerging markets with growing appetites for protein-rich foods to grow its international revenue. Fonterra Chairman John Wilson said that Mr Israel will offer the board invaluable knowledge and insights as the company pursues its business strategy with a particular emphasis on emerging markets. Mr Israel is currently the chair of Singapore Telecommunications and a Director of Asian Real Estate firm Capitaland. He previously spent ten years with French dairy group and Fonterra rival Danone.

Dairy industry protocols needed [30 April/ Radio New Zealand Rural] A meeting is set to be held next Tuesday in order to discuss the establishment of industry protocols to prevent dairy companies from being left out of the loop during incidents such as the recent milk contamination scare. Fonterra discovered traces of the chemical dicyandiamide (DCD) in its milk products late last year. The public, international markets and other New Zealand dairy companies only found out about the issue in late January this year even after Fonterra alerted the Ministry for Primary Industries shortly after it had found the contamination last September. Both the Ministry for Primary Industries and the Dairy Companies Association of New Zealand are meeting for an update on the presence of DCD next month. The Chief Executive of Westland Milk Products Rod Quin said that while New Zealand may be a small milk producer on a world scale, it is a very big exporter and it is important that all companies are on the same page. Mr Quin added that protocols are required in order to help prevent the delay in information from occurring again.

Smallest dairy co-op survives drought [30 April/ Radio New Zealand Rural] Very little negative impact is expected to be reflected in the results of Waikato-based dairy company Tatua Cooperative as the company and its producers have coped relatively well with the effects of this year's drought. A small impact is expected on its milk production and current year milk supply is expected to be 7% down on last year's record flow. Tatua is New Zealand's smallest dairy co-operative and Chief Executive, Paul McGilvary, said that the expected marginal fall of supply was close to what the company had budgeted. A range of Tatua suppliers had to stop milking earlier than usual because of the negative impact of the drought and Mr McGilvary said that about half of the 109 suppliers had dried off their herds now for the season.

Chinese buyers demand quality baby milk [30 April/ Business Day] With the earnings potential in the Chinese baby milk market estimated to be worth NZ\$8.2 billion, calls have been made for New Zealand companies to tighten standards in the manufacture of infant formula. The New Zealand Infant Formula Exporters Association was formed last year to protect and enhance the reputation of New Zealand produced infant formula. It has a large role in protecting the New Zealand-made brands from counterfeiting. Chinese parents are also becoming very sensitive about milk product quality after the 2008 melamine baby milk powder scandal in China, which resulted in the deaths of babies and long term kidney problems. The New Zealand Infant Formula Exporters Association currently has 13 company members representing about 20 brands. Infant Nutrition Council member, Westland Milk Products Chief Executive Officer, Rod Quin, has called for a closer focus on standards following his recent return from China as part of a trade and political mission led by Prime Minister John Key. Mr Quin said that the organisation was very interested in involving itself in the Chinese market. Westland Milk has just completed an investment of \$30 million in a new nutritional processing plant and nutritional production has been identified by the company as a growing area. Fonterra Chairman John Wilson has said that Chinese dairy consumption will reach 70 billion litres within seven years. He said that although China is growing rapidly and confidently, the newest challenge was to ensure that people are well and safely fed and that agricultural land is protected in order to ensure food security.

Meat

North Island farmers back call for red meat industry reform [29 April/ Radio New Zealand Rural] Support has been given to the Meat Industry Excellence Group campaign that was launched in the South Island last month as approximately 600 to 700 farmers met in Fielding on Friday. Discussions were held directed at a five step plan to overhaul the red meat sector in order to improve profitability for companies and farmers through more coordinated processing and marketing. A strong commitment from farmers to see meat industry reforms put in place have been seen said the Group's spokesman John McCarthy. He said that the Group was seeking farmer support in order to get a mandate to take reforms to the next level and that he viewed consolidation as the correct direction to take. Further meetings are planned for Gisborne and Te Kuiti.

Silver Fern Farms retail packs prove popular [29 April/ Radio New Zealand Rural] Consumer ready packs of premium meat cuts were introduced to the market by meat co-operative Silver Fern Farms three years ago and since then, they have proven to be increasingly popular. Silver Fern Farms Marketing Manager Sharon Angus said that sales have grown by 30% a year since then and that regular buyers of the retail packs are consumers earning more than \$80,000 a year who are generally pushed for time.

Alliance may struggle to meet Chinese demand [30 April/ Business Day] With the current growth of China's population, Southland meat company Alliance Group has said that they may not be able to meet demand for low-value meat cuts in the foreseeable future. The Group's Chairman Owen Poole was part of the Prime Minister's delegation to China this month; a trip which marked 40 years' recognition of China as a New Zealand trading partner and five years commitment to the Free Trade Agreement. Mr Poole indicated that if China's growth continues to increase, then their demand will be extremely large. He also said that low-value products will, in the foreseeable future, tap out New Zealand's ability to supply. Consumer preferences in China are moving towards higher-protein diets and demand for healthy and safer food, Mr Poole said. He said that the demand for beef products has also increased rapidly this year and China's demand for such products has continually gained momentum. The increasing size of the population as well as associated wealth levels of certain segments in the Chinese economy meant that there was also an increased ability for the Chinese to pay for world-competitive prices for meat, Mr Poole said.

Rural infrastructure

MPI boss quits to lead Livestock Improvement [29 April/ Business Day] Chief Executive of the Ministry for Primary Industries, Wayne McNee has resigned from his position to fill the role of Chief Executive of Livestock Improvement Corporation (LIC). He succeeds Mark Dewdney who leaves the genetics co-operative at the end of next month. Mr McNee will move into the new role on July 29 with David Hemara as acting Chief Executive until then. LIC Chairman Murray King said that Mr McNee had a comprehensive knowledge of agriculture and the cooperative was pleased to appoint a Chief Executive with the passion and expertise. Mr McNee is originally from North Otago and was a former general manager and Chief Executive of Pharmac, the Government drug buying agency. He moved on to become Chief Executive of the Ministry of Fisheries in 2008 and later the Ministry of Agriculture and Forestry in 2010.

Drought hits Ravensdown profit [29 April/ Business Day] Bottom-line results for the year to May 2013 are expected to be lower than recorded previously, Christchurch-based fertiliser cooperative Ravensdown has said. The company reported a \$1.07 billion turnover for the year to May 31, 2012 and an operating profit before rebates to owners and tax of \$51.8 million, down from \$71.6 million in the 2011 financial year. Chief Executive, Greg Campbell, said that he could not give actual guidance on numbers expected for the 2013 full year result, but results would be affected by the worst drought in 30 years and a poor performance by its Australian business. He said that a stronger 2014 outlook was expected as the effects of the drought eased off. Fertiliser sales during the start of the calendar year had been relatively sluggish, with orders in March down 30 per cent, from the same month a year earlier. Farmers were facing feed deficits and stock issues however sales had picked up significantly in the last week or so given the significant rain across New Zealand, with farmers wanting to use urea and superphosphate to help turn the moisture into fresh pasture growth while there was still some heat. Mr Campbell said that it was important for fertiliser companies like Ravensdown and Ballance to operate as efficiently as possible as the carry through effects into agricultural efficiency would drop by more than 25 to 30 per cent if management was not efficient.

Research and development

Work on Lincoln hub may begin in late 2014 [30 April/ Radio NZ Rural] New Zealand agricultural research and development is set to benefit from an education hub that is planned for construction at Lincoln, near Christchurch, in late 2014. Lincoln University, DairyNZ and Crown Research Institutes AgResearch, Plant & Food and Landcare have formed a partnership to develop the hub to provide New Zealand agriculture with a one-stop-shop for sharing information and ideas. 900 combined staff will be based at the Lincoln Hub with the Crown Research Institutes existing bases at Lincoln moving into the hub. They have highlighted the new complex as helping to provide a more cost-effective research and educational facility. Construction of the facility is set to commence next year, AgResearch Chief Executive Tom Richardson said.

Water

Plants make ideal filters [25 April/ The Northern Advocate] A planted margin on farms has been said to help improve water quality as well as preventing stock from moving into waterways. Long dense grass, flax, sedges and rushes serve as a filter to help remove sediment, bacteria and nutrients (mostly phosphorous) from surface run-off. Shade is also supplied in waterways less than 2m wide and improves the habitat for aquatic life. The advice will help farmers who face difficulties with significant run-off on their farms in the autumn and winter months. Areas that are located beside vegetated drains and have poor soil drainage or pugging and moderate slopes are also other targeted planting areas. Steeper areas are required to be more widely planted and gently rolling land is recommended to have a margin width of 1 metre to 3 metres per 100 metres of slope feeding into the waterway. The advice comes from a series of nine DairyNZ Farmfacts on managing waterways and farms and further information is available on the DairyNZ website.

Water scheme gives farmers confidence [26 April/ Hawke's Bay Today] Confidence to invest in infrastructure for farming futures is set to be increased for Central Hawke's Bay farmers as the Ruataniwha Water Storage Scheme promises to bring many positives for the region. The Hawke's Bay Regional Council, through its investment company, Hawke's Bay Regional Investment Company Ltd (HBRIC Ltd) is currently in the consenting phase of the Ruataniwha Water Storage Scheme (RWS) in Central Hawke's Bay. The Scheme has the potential to open up 25,000 hectares of land for farming, while improving water quality and flows in the Tukituki River. Extensive research into the on-farm economics of the proposed Scheme have been undertaken and an assessment of the land uses, including dairy, sheep and beef, and arable has been produced for the Council and its research branch. Farm Management Consultant for Macfarlane Rural Business (MRB) Andy Macfarlane said that the current key issue facing many farmers was that of confidence. He said that if the farmers in the region had access to a reliable water supply for irrigation, then this would provide them with the confidence to borrow money to invest in infrastructure and to make better informed decisions. He said that findings in the past have shown that farmers who have a readily available supply of irrigated water are more aggressive decision makers and hence, more profitable. He added that the key economics of the whole scheme was to provide irrigators with water at an economic price. Dairy farmer Campbell Chard, who currently runs a dairy farm on the Ruataniwha Plains, says that there are benefits for farmers and the community from the scheme however this was highly reliant on whether water prices were at relatively affordable prices. Central Hawke's Bay arable farmer Richard Dakins said that farmers looking at the scheme need to have all the information in front of them and to do their numbers before committing and he said that he believed that the majority of those who signed up for inclusion in the irrigation Scheme would be new to irrigation. Mr Macfarlane said that while the RWS Scheme will lead to land intensification in the Central Hawke's Bay, other considerations had to be made and not just those directed at dairying. He said that irrigation schemes needed to be spread over multiple land uses and not just directed purely at one use. Approximately 38 per cent of the scheme was to be directed at dairying followed by intensive arable and intensive finishing, Mr Macfarlane said.

Farmers and producers

Ben Dalton: Maori land bursting with farm potential [24 April/ New Zealand Herald] Agriculture commentators have voiced their concern that Maori land is not delivering its potential and supporting this is a report that estimates that close to one million hectares of Maori land were under-productive. An approximate \$8 billion increase in total output over ten years could be realised if the production levels on Maori land is increased to meet regional benchmarks. This would be associated with an additional 3600 new jobs on-farm, and an expansion in the service and processing sectors, said a Primary Industries spokesperson. The report involves Maori Freehold Land, land owned by Maori and administered under the Te Ture Whenua Act, often by trust and incorporations. Maori freehold land has many challenges attributable to retaining ownership and for many blocks that have multiple owners these are often faced with challenges in forming effective governance entities. The report indicated that Maori owners would be required to overcome these challenges if they were to access the \$3 billion investment potential the report calculates would be required to realise the production potential of the land. While many market commentators highlight the fact that releasing the potential of Maori freehold land can only be done by the owners themselves, many have also noted that many of these owners do genuinely want to aim to overcome these challenges and begin to turn this land into profitable ventures.

Economics and trade

China baby food story upsets NZ exporters [24 April/ New Zealand Herald] New Zealand producers of infant milk formula who have significant export channels to China have shown their concern over published articles from Chinese media outlets. Articles published in China stated that only genuine New Zealand-made formula brands were those belonging to a newly formed export association, classing the New Zealand brands into one group which wasn't necessarily true. The articles said that out of the 200 infant formula brands sold in China that claimed to be made in New Zealand, only 20 brands from six firms were genuine. However, many New Zealand infant formula manufacturers, including Auckland's New Image, Canterbury dairy processor Synlait and Fonterra are not member of the group. General Manager of New Image Guy Wills, said that the company was dismayed that a small private association thought it could go to China and speak for the entire industry. He said that the action of the association caused confusion among the Chinese media and led some to believing that a few authentic New Zealand brands should be removed from Chinese retail shelves. He also said that it was not only damaging to the non-association members, but also to New Zealand's dairy reputation. The export association membership is made up of 13 companies and the claim that only six of these were genuine brands was incorrect, Mr Wills said. Deputy Director-General for the Ministry for Primary Industries, Carol Barrow said that the ministry had been in contact with its Chinese counterparts and Chinese media in order to help them clear up any confusion that may have existed.

Deal promotes cooperation with China [27 April/ New Zealand Herald] A new plan between New Zealand and China is set to boost agricultural cooperation between the two countries. Federated Farmers has said that the plan will set out areas in which both countries can learn from each other, such as animal welfare, science and building skills. The New Zealand-China Free Trade Agreement has set the basis for this cooperation said Federated Farmers President Bruce Wills, adding that the plan will deepen New Zealand's involvement with China. He said that China has recently overtaken Australia as New Zealand's largest export destination. Mr Wills added that New Zealand's increased trade growth with China was impressive and that the more the country can understand China the better New Zealand's trade relationship will become.

International

Groser's bid to head WTO withdrawn [26 April/ New Zealand Herald] A bid to head the World Trade Organisation by New Zealand Trade Minister Tim Groser has been unsuccessful. A spokesperson for the Trade Minister confirmed last week that he had withdrawn his bid. It was announced by news agency Reuters last week that Mr Groser had been encouraged to withdraw his bid to become WTO director-general after he did not gain enough support from the Organisation's 159 members. Mr Groser's travel expenses have become significant over the past year as the New Zealand Government spent a lot of money supporting Mr Groser's bid. It was highlighted by news agencies last week that Mr Groser spent almost \$260,000 in the first three months of the year as he lobbied for the high level job at the WTO. Diplomatic sources have said that the leading candidates for the spot Mr Groser was aiming for have come down to either Mexico's Herminio Blanco or Brazil's Roberto Azevedo.

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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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