KPMG

AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

15 May 2013

Organisations referenced in this week's Field Notes include:	
Airborne Honey	Overseas Investment Office
ANZ Young Farmer Contest	PGG Wrightson
Bright Dairy	Plant and Food Research
Fonterra Cooperative Group	Proliant Pharmaceuticals
Greenpeace International	Shanghai People's Higher Court
Kiwifruit Growers Incorporated	Silver Fern Farms
Kiwifruit Vine Health	Southland Meatworkers' Union
Massey University	Synlait Milk
McDonald's Restaurants New Zealand	Tectra Training New Zealand
Ministry for Primary Industries	Wanganui Veterinary Services
New Zealand King Salmon	Work and Income New Zealand
NIWA	Zespri

This week's headlines	
Horticulture	**National Psa plan approved** [14 May/ Rural News]
Dairy	**Fonterra milk collection drops 0.5pc** [8 May/ New Zealand Herald]
Dairy	**Bright Dairy to cede control of Synlait Milk in NZX listing** [14 May/ New Zealand Herald]
Meat	**McDonalds drops lamb burgers from menu after slow sales** [8 May/ New Zealand Herald]
Education	**Massey University agricultural programme ranked 21st** [10 May/ Radio New Zealand Rural]

AUCKLAND CITY YOUNG FARMERS CLUB

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

ANZ Young Farmer Contest

Plenty on during the young farmer grand final [13 May/ Voxy Business] A host of entertaining and informative events are to be held in the coming week as the 2013 ANZ Young Farmer Contest Grand Final takes place in Auckland. Starting the event is the annual Bus Trip which departs from Ellerslie Racecourse on the morning of Thursday May 16, visiting a variety of Auckland land marks to end at Aotea Square for the Official Opening of the ANZ Young Farmer Contest. The CRV Ambreed Chairman's Awards Dinner is to be held at Ellerslie Racecourse on Thursday evening, followed by the AGMARDT Agri-Business Breakfast on May 17 at 7.00am at Soljans Winery in Kumeu. The main aspect of the event is to stimulate open discussion on important issues facing New Zealand's primary industries including a structured forum being run at the Agri-Business Breakfast where industry representatives will present and explore key issues in order to advance understanding and broaden the knowledge base of the agriculture industry. Saturday evening will see contestants involved in a quick-fire question round which is to be televised and makes up the Grand Final as the Contestants make their final effort to claim the 2013 Champion title and impressive prizes worth over $60,000 provided by the contests sponsors; ANZ, AGMARDT, Lincoln University, Ravensdown, Silver Fern Farms, Honda, Husqvarna and Vodafone. The 2013 Champion is announced at the Celebration Ball which is to commence at Sky City in Auckland. The Evening Show is to be televised on TV One at 10.15pm on Saturday. Initial estimations are that there will be 300,000 viewers for the 33rd televised Grand Final Show of the ANZ Young Farmer Contest 2013.

Animal Health and welfare

Heifer deaths highlight need for vigilance [14 May/ Business Day] Wanganui Veterinary Services Vet John Pickering has highlighted the need for extra precautions after nineteen young heifers died in Marton after eating yew cuttings. Yew cuttings are highly poisonous to horses, cattle, sheep and goats if they ingest the needles and seeds. Mr Pickering highlighted a case where the heifers were brought down from the Hawke's Bay late at night and were left in a paddock near the farmer's house. Unbeknown to the farmer, his wife had put yew cuttings on a macrocarpa pile which were ingested by a few of the heifers. Nineteen out of the 55 kept in the paddock died and it has been indicated that there is currently no antidote to yew poisoning. The poison is also fast acting that heifers can fall to the ground and die within 60 seconds. Mr Pickering said that a difficult aspect was that farmers in situations such as these generally don't know how many may have eaten the plant. He added that it acts as a lesson to farmers not to grow poisonous trees, such as oleander, ngaio, karaka or tutu, and not to put such trees, shrubs or garden cuttings where stock could eat them. Vetcare Grazing is run by Wanganui Veterinary Services and has been matching dairy farmers up with graziers for 20 years. The company now has 35 graziers from Taranaki to Rangitikei and is now expanding to include the Hawke's Bay. Veterinary care is also looked after by the company, with no cost to either the grazier or owner, so graziers were not apprehensive to phone through if they believed a health issue existed.

Horticulture

Importers defence points finger at Zespri [14 May/ New Zealand Herald] A Shanghai Court has heard evidence that Zespri stood to gain more than its China importer by understating the value of kiwifruit for customs duty purposes. Liu Xiongsie, Zespri's former importer in China, has appealed a 13-year prison sentence and $7 million fine in relation to an import duty avoidance scam for which Zespri's China subsidiary, Zespri Management Consulting Corporation, was later found guilty as an accessory. $10 million in reimbursement is being sought by China Customs from Zespri and its appeal is yet to be heard. The issuant of pro-forma invoices for tax and customs purposes by Zespri was central to enabling the importer to understate the value if kiwifruit shipments into China. Zespri later invoiced the importer for the final sales value and this was paid in full. Mr Liu's lawyers highlighted in the Shanghai People's Higher Court that his company, Shanghai Neuhof Trade Limited, enjoyed no direct benefit by having the amount of tax reduced. They have also claimed that the original Court mistook the importing arrangement between Neuhof and Zespri to be a "buy-sell" transaction whereas the true relationship was that of an agent receiving a commission on sales volume. This would mean that Neuhof would benefit only if the declared price was higher and it had no motivation to lower the price. The company also attempted to verify that such agreements could exist but may not be committed in writing. The Chinese Appeal Court has reserved its decision.

Kiwifruit harvest forecast well down [14 May/ Radio New Zealand Rural] Forecasts show that the recent Psa bacterial disease is having a large negative impact on the New Zealand kiwifruit industry. It is currently halfway through the harvest period for Hort 16A gold kiwifruit and only four million trays have been picked. In 2012 Zespri sold 24 million trays of the traditional gold kiwifruit variety and 29 million trays the season previously. Many growers have abandoned the variety, which is very susceptible to the Psa bacteria and have planted new Gold 3 vines instead, President of Kiwifruit Growers Incorporated (KGI) Neil Trebilco has said. He said that this season is expected to see between two and three million trays of Gold 3 fruit. Earlier forecasts estimated the green kiwifruit variety crop to be about 73 million trays, however, with more than a quarter picked so far, KGI forecasts suggests the harvest will fall below 70 million trays. This would be the smallest crop in more than five years.

National Psa plan approved [14 May/ Rural News] Minister for Primary Industries, Nathan Guy, has announced a national management plan for the Psa virus has been formally approved by the government. The plan means the primary responsibility for managing Psa now lies with the industry with the costs being covered by a new targeted levy on exported kiwifruit of 1 cent a tray of green fruit and 2 cents per tray of gold fruit. Due to the fall in yields as growers switch to new varieties of fruit there will be a shortfall in levy receipts against the expected costs of the management plan for the next few years and Mr Guy said that cabinet had approved the remaining $3.5 million of the government's initial contribution to the incursion response be passed to Kiwifruit Vine Health to cover revenue shortfalls on implementing the plan. Mr Guy praised the high level of support that growers had provided to the establishment of a national management plan.

Honey

Scientist disputes claims honey bees in good shape [14 May/ Radio New Zealand Rural] Claims by a New Zealand honey processor that say that all is well with the world's honey bees are being challenged by a Bee Scientist with Plant and Food Research, Dr Mark Goodwin. He said that global hive numbers and world honey production figures that show increases only indicate that beekeepers are replacing their hives faster than they are losing them and nothing about bee health. He added that it was clear that not all is well with bees overseas and the United States is reporting 33% losses every year. In contrast, Managing Director of Airborne Honey, Peter Bray says that there is too much negativity when it comes to the health of the world's bees. Dr Goodwin says that he does agree however with Peter Bray when he says that bee keeping in New Zealand is in better shape than before, with a greater proportion of hives and good returns being generated for its honey.

Fishing and aquaculture

King Salmon boss defends feeding regime [9 May/ Marlborough Express] Grant Rosewarne, CEO of New Zealand King Salmon has challenged Marlborough District Council's decision to get advice on whether it needed to serve an abatement notice on the company after 2012 monitoring reports showed some of the company's farms did not meet standards. The report showed that company fed 300 tonnes more feed at the Clay Point Farm than permitted by consents and reported high copper residues under some farms. Mr Rosewarne said the results are open to interpretation and reflected the uncertainties around growing salmon in high-flow conditions when the consents were granted. He added that the report showed that thresholds were met beneath the farm and at the outer limits of monitoring which could suggest the issues reported were irrelevant. Mr Rosewarne said the company would be applying to increase the feeding limits for the Clay Point Farm and in response to the copper issue a decision had been made to stop treating nets with anti-fouling chemicals and had employed additional staff to do the job.

Dairy

Synlait spends $15m to keep up with China demand [8 May/ New Zealand Herald] Strong Chinese demand for infant milk formula has resulted in Canterbury's Synlait Milk comissioning a $15 million upgrade to its special milk drier at Dunsandel. Once the investment is completed, this will make Synlait Milk one of the only two manufacturers in the world to produce lactoferrin as a spray dried powder, and will allow the company to make dairy ingredients to a pharmaceutical standard, the company said in a recent statement. This upgrade by Synlait Milk will add to the list of capital projects currently underway or on the drawing board as the New Zealand dairy industry responds to increased demand from Asia for milk powder, cheese, UHT milk and baby formula. The estimated value of projects currently under way are estimated to be worth more than $1 billion. Resource consents have been given for Synlait's construction of a packaging plant to produce consumer packs for customers and an additional warehouse facility.

Fonterra milk collection drops 0.5pc [8 May/ New Zealand Herald] Earlier anticipation of the actual effect of the drought has been greater than Fonterra anticipated with February, March and April seeing milk collection fall 0.5 per cent in the first 11 months of the season. Fonterra collected 1.414 million kilograms of milk solids in the latest 11 months, down from 1.421 million kgMS in the same period a year earlier, the company announced in its Global Dairy Update. Collection fell 5.2 per cent in the North Island while the South Island saw collection grow by 8.2 per cent. A spokesperson for Fonterra said that consistent rainfall across the country in April helped to improve on-farm conditions however this rainfall has been too late to prevent milk production from falling below last season's record levels. Fonterra attributed this to the fact that many suppliers have already stopped production for the season. Last month's milk collection results saw April figures fall 34 per cent compared to the same month in 2012 and prices of dairy products reached a record on the GlobalDairyTrade platform last month. So far, units in the Fonterra Shareholders Fund have fallen 0.6 per cent to $7.85 after having gained 13 per cent during the 2013 year.

Bright Dairy to cede control of Synlait Milk in NZX listing [14 May/ New Zealand Herald] Dairy Processor Synlait Milk's listing on the New Zealand Stock Exchange has given rise to Chinese company Bright Dairy & Food announcing that they are to give up their controlling stake in the company. Bright Dairy is based in Shanghai and the company is expected to keep its investment in Synlait Milk but at a level in the 40 per cent range as opposed to its initial 51 per cent share. Other shareholders will have the opportunity to sell some or all of their shares into the initial public offer, with any remaining stake subject to escrow arrangements, a spokesperson for Synlait Milk said. Bright Dairy spent $82 million in 2010 for a 51% stake in the dairy processor. This came amid a lukewarm response to the $150 million listing in what were still nervous times for capital markets in the wake of the global financial crisis. First NZ Capital and Goldman Sachs have been appointed as joint lead managers for the proposed listing on the NZX main board, with the offer price to be set in a book build process. The potential size of the Initial Public Offering is currently being kept confidential. Synlait Milk said in a statement that it was intended that the proceeds of any offer will be used to support various growth initiatives including the construction of a new packaging plant, and to facilitate Synlait Milk refinancing its debt position to support these growth initiatives. More than 500 million litres of milk is processed by Synlait Milk every year and the most recent reporting period revealed a $6.3 million profit for the year to July 31, 2012.

Meat

McDonalds drops lamb burgers from menu after slow sales [8 May/ New Zealand Herald] Lamb burgers have been taken off the menus at all McDonalds' Restaurants in New Zealand. The move comes as the lamb products have seen sales fall away after the initial successful launch. The New Zealand subsidiary of the fast-food giant was the first country to add lamb to its permanent menu last August at 160 restaurants following two years of product development. McDonald's New Zealand reduced the size and price of its initial lamb burger in January in response to customer demand and took lamb off the permanent menu last month, spokeswoman Kim Bartlett said in a statement. Federated Farmers Meat and Fibre spokesperson, Jeanette Maxwell, said that the decision by McDonalds NZ was disappointing; however the Federation understood the drop in local sales. Rival companies Burger Fuel and Burger Wisconsin feature lamb on permanent menus and Subway is also utilising the product, Maxwell said. She also said that McDonalds which bought 210 tonnes of lamb last year, may export the meat to its units around the world in the future. New Zealand lamb exports fell 11 percent to $2.3 billion in 2012 from 2011, even as the volume of lamb sold climbed 9 per cent a recent report from the Ministry for Primary Industries showed.

Meatworkers get chance to train for dairy work [14 May/ Business Day] Work-seeking meatworkers who may find a lull in their off-season will have the opportunity to work at Southland dairy farms through a free training programme starting next month. The Southland's Meat Workers' Union, training organisation Tectra, and Southern Work and Income have developed a short course to help meatworkers get jobs on dairy farms during the off-season. The meat season will begin to quieten down at the end of this month. The opportunity will also be present for meatworkers to work towards a National Certificate in Agriculture (Introductory Skills) Level 2. Noel Handley, Tectra's National Operations Manager, said that the training would help to fill a gap for meatworkers and dairy farmers and the course is set to include a week of theory and a week doing on-farm work experience. Mr Handley said that the course would include learning topics such as health and safety, how to operate various farming machinery and vehicles, animal handling and welfare, water-supply connection, and repair and pasture management. Successful trainees would be assessed by Tectra after four months in farm-based scenarios in order to complete the qualification. Meat Workers' Union General Secretary Gary Davis said that training meatworkers to work on dairy farms during the off-season seemed like a good option. Each year approximately 2,000 Southland meatworkers are laid off for four to six months, starting at the end of May, and up to 150 workers in the South Island headed overseas for work, Mr Davis said.

Rural infrastructure

Pharmaceutical firm says new plant just the beginning [9 May/ Radio New Zealand Rural] Proliant, the United States pharmaceutical company has stated that bovine serum albumin will be the first of many products it expects to make at a new plant to be built in New Zealand. The $24 million premises are expected to be opened in 2016. Proliant supplies approximately half of the world market for bovine serum albumin (BSA) and the company said that it choose to build in New Zealand in case anything happened to its Iowa processing plant. Steve Welch, the companies Chief Executive Officer, said that the BSA serum is used in diagnostic test kits, vaccines and life science research including stem cell research. He said that the company's customers are seeking business continuity and want to know that if anything happened to the Iowa plant, they could get the product from a second plant. New Zealand was highlighted as the preferred location for that second plant. Mr Welch said that the pharmaceutical industry is very interested in coming to New Zealand because of the country's good disease status and also cattle traceability schemes. He outlined the close relationship his company, Proliant, will have with Massey University in terms or new business opportunities for the company.

PGG Wrightson expects big fall in annual earnings [14 May/ New Zealand Herald] Rural service company, PGG Wrightson, has announced that it expects annual earnings to fall by as much as 27 per cent for its financial year that ends in June. This comes as dry conditions on both sides of the Tasman and lower livestock values erode revenue and earnings for the company. PGG Wrightson said that it expects earnings before interest, tax, depreciation and amortisation of between $40 million and $48 million in the 12 months ended June 30, down from the $55 million reported in 2012. The dry climate in Australia and New Zealand, lower livestock values and falling earnings from its Agri-feeds unit after disposing of it 4Seasons Feeds joint venture, are all contributing to the fall in earnings the company said. Managing Director George Gould said that while volumes and market share remained solid, the fall in prices had a material impact on the Group's earnings. He added that it had been a difficult trading year for the company. Net profit for the first half of the year has been improved, with net profit being lifted 55 per cent to $4.8 million and an interim dividend of 2.2 cents per share being declared. Earlier this week, PGG Wrightson shares increased 2.6 cents per share to 39 cents and have decreased 14 per cent this year.

Water

Big increase in irrigated farmland recorded [14 May/ Radio New Zealand Rural] The area of irrigated farmland has increased significantly over the past five years, with much of the increase area being located in Canterbury. Data released by Statistics New Zealand shows that more than 100,000 new hectares have been brought under irrigation between 2007 and 2012. Manager of business, infrastructure and performance Hamish Hill says that more than half of newly-irrigated land is in Canterbury with an area the size of Lake Taupo being developed. He says that an increase in dairying in the South Island was a main factor for this demand for irrigation. Approximately 700,000 hectares of New Zealand farmland is irrigated.

Education

Massey University agricultural programme ranked 21st [10 May/ Radio New Zealand Rural] The 2013 QS University World Rankings released this week have ranked Massey University's agricultural programme among the top universities in the world. It came as good news for Massey and good news for New Zealand given the importance of agriculture to the country, Massey University Vice Chancellor Steve Maharey said. He added that a highlight was the five star ranking Massey received for its research in agriculture. Massey's strength was founded on its world recognised research. Mr Maharey said that one example is that Massey University is very active in China, along with many other universities. He said that Massey's agriculture programme also received the maximum five stars in the teaching and innovation categories but only two stars for the employability potential of its graduates.

Farmers and producers

Cash profit static as on-farm expenses bite [14 May/ Business Day] The Waikato 2011-2012 dairying season has been labelled outstanding by accountancy firm CooperAitken, despite this year's drought negatively impacting on the previous season's good performance. Average production in the Waikato for this period was up nearly 10 per cent without an increase in cow numbers, the firm said. CooperAitken partner Peter Hexter said that the firm's share-milker clients achieved an average increase of just under 8 per cent. Statistics compiled by the rural accountancy firm provide a good overview of the situation currently faced by the Waikato dairy farming businesses. They are compiled annually in association with DairyBase, which has a national dairy farm business database. The statistics are used by farmers to benchmark their farms' performance, to highlight expense areas and to help drive down costs, Mr Hexter said. On-farm expenses have been highlighted as continuing to lift, dominantly shown in the 2011-2012 season where they increased by 6 per cent across the board, with expenses for repairs and maintenance in particular rising by between 14-31 per cent per hectare. Mr Hexter added that at first indication, reports show that farmers seemed to manage their costs well as all indicated lower costs per kilo of milk solids produced, however this perception is skewed with the strong production achieved during the year. He also said that a better measure was to look at what happened to the expenses per hectare and then it is indicative that expenses have increased, except for owners with share-milkers. Actual profit across all of the groups was relatively static according to the results obtained.

Fieldays to get top forecasts [14 May/ Business Day] New Zealand weather authority NIWA has announced that it will provide state-of-the-art weather forecasting services for the Fieldays Agricultural Event being held at Mystery Creek next month. NIWA is the current official weather forecaster for the Fieldays Events and for all major Mystery Creek events taking place during the next three years. Sophisticated computer forecasting models would generate weather forecasts for Mystery Creek up to six days ahead, Chief Atmosphere Scientist Murray Poulter said. NIWA will also feature a live weather station at Mystery Creek which will supply a feed of live observations of temperatures, wind speeds and direction, and rainfall to display screens across the complex and to NIWA's Fieldays exhibition site. Mr Poulter said that once NIWA has received six weeks' of observational data from the weather station set up in the area, they will know more about the microclimate that exists at the site. This will aid the provision of much more accurate two-day weather forecasts.

Environment

Fonterra bringing in Greenpeace ex-boss [13 May/ New Zealand Herald] An international business adviser, author, speaker, and former head of Greenpeace has been invited by Fonterra to help its farmers understand the value that can be found in sustainable practices. Paul Gilding is an Australian environmentalist and is set to headline a series of seminars being held around New Zealand this month. The seminars are titled "Grow Your Minds" and are designed to allow farmers to gain a better understanding of current sustainability and commercial issues. Fonterra Shareholders' Council Chairman Ian Brown said that it was important for farmers to understand the value found in sustainable practices. He added that it was also important for farmers to hear views from outside the Fonterra Co-Operative. Mr Gilding served as Executive Director for Greenpeace International in the early 1990s and has highlighted how Kiwi Dairy Farmers must embrace sustainable farming practices in order for them to keep a strong foot in the market. He said that demand from both general customers and major corporate, like Unilever, was heading in one direction and that was towards sustainably produced dairy products. 2003 saw Fonterra sign a joint agreement called The Dairying and Clean Streams Accord which ran for a ten-year period ending on December 31 2012. A major aim of the Accord was to promote sustainable dairy farming by reducing the impacts of dairying on the quality of New Zealand streams, rivers, lakes, ground water and wetlands. A target set out was for farmers to exclude 90 per cent of stock from waterways by 2012 however a Ministry for Primary Industries Report released in February showed that this target had not been met and Fonterra farms were reaching an 87 per cent exclusion rate. These types of issues are what this year's Grow Your Minds seminars are set to focus on as well as issues surrounding the Accord's successor, the Sustainable Dairying: Water Accord.

International

A Chinese appetite to invest [8 May/ New Zealand Herald] Current tourism assets, food production, property development and infrastructure are all highlighted as areas where Chinese appetite for investing is growing. This is according to leading Auckland lawyers Martin Thomson and Terence Ng who are currently both lawyers at DLA Phillips Fox and say that there is an appetite to live in New Zealand and an increasing number of affluent Chinese groups are looking to invest in the country in advance of relocating themselves and potential family members. Mr Thomson said that pollution in China is very serious creating strong incentives for Chinese people to bring their children to New Zealand in addition to the investment incentives available in the country. Mr Ng adds that New Zealand business people should not assume that the average Chinese investor knows a lot about the country. He highlighted that New Zealander's needed to be prepared to sell New Zealand and all it has to offer. He said that the selling points found in New Zealand products were the quality of the products and the competence in New Zealand's business culture, legal and financial system. Mr Thomson said that one of the challenges is matching New Zealand investment opportunities a the particular Chinese appetite. He said that the two business cultures are very different and New Zealand companies have a significant amount to learn about their counterparts and that Chinese businesses are likely to consider partnering. New Zealand recently saw Chinese firm Pengxin acquire 16 dairy farms that were formerly owned by Allan Crafar and this resulted in significant changes to the overseas investment regime. A major indication of the stringent regulation faced by overseas investors is the fact that they must be able to show the Overseas Investment Office how their ownership will add more value to a prospective asset than if it simply changed hands within New Zealand. This rule is applicable to situations where the asset size is above a certain threshold or where it exists on sensitive land. Mr Thomson highlighted this and said that the Pengxin case ramped up the amount of preparation needed for the Overseas Investment Office to allow such investments. He added that current regulations mean that investors cannot underestimate the thorough process required and that a large amount of detail on all investments proposed by offshore investors is required.

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