

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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Organisations referenced in this week's Field Notes include:

ANZ Bank	Ministry of Economic Development
Beef+ Lamb New Zealand	Ministry for Primary Industries
Dairy New Zealand	National Agricultural Fielddays
Elders Ltd	New Zealand Pork Industry Board
Federated Farmers	New Zealand Supreme Court
Fletcher Building	New Zealand Winegrowers
Fonterra Cooperative	OSPRI New Zealand Ltd
Future Fruit Cooperative	Serious Fraud Office
Google New Zealand	Sutton Group
Horticulture New Zealand	TB Free New Zealand Ltd
ITM	Turners & Growers New Zealand
KPMG	Waikato University
Lincoln University	Wools of New Zealand
Meat Industry Excellence Group	

This week's headlines

Agribusiness Strategy	Sector must engage with wider community [17 June/ FW Plus]
Dairy	Registration plan for infant formula brands [13 June/ NZ Herald]
Viticulture	Record harvest buoys wine industry [12 June/ Business Day]
Pork	Supreme Court blocks raw pork imports during hearing [13 June/ Radio NZ Rural]
Biosecurity	Farmer pleased MPI addressing palm kernel issues [13 June/ Radio NZ Rural]

KPMG Agribusiness Agenda 2013

You're invited to take a seat at the discussion table with New Zealand's primary sector leaders. KPMG's Agribusiness Agenda is a leading source of independent analysis for the New Zealand primary sector. This year we bring you a fresh new format - with a series of five volumes to be rolled out through the year. Volume 1: "The state of the nation" is hot off the press and now available to you.

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Agribusiness strategy

World food production leadership 'next step' [13 June/ Otago Daily Times] In order to maximise the large opportunities that exist in the decades ahead, New Zealand must become a world leader in the business of food production, ANZ Managing Director of Commercial and Agribusiness Graham Turley has said. Mr Turley said that New Zealand has the potential to capture \$1.3 trillion more in agricultural exports between now and 2050. He said that to simply be an efficient producer was not enough, adding that New Zealand needs to develop cutting-edge follow on industries that enables everyone involved in the process to capture value at every step of the process. The Ministry for Primary Industries has released a recent report which showed the goal of doubling the value of New Zealand's annual primary sector exports to \$64 billion by 2025 was achievable. The goal would involve realising the full potential of existing opportunities and identifying and acting on new ideas and innovations.

Sector must engage with wider community [17 June/ FW Plus] Building a stronger accord between urban and rural New Zealand is a key platform in the sector's future success. That was the message delivered to industry leaders by KPMG's global head of agribusiness, Ian Proudfoot, at Fieldays' opening breakfast function. He said the time had come to answer the fundamental question of 'why we do agriculture in New Zealand'. Getting to the heart of the 'why' question would be a step towards developing an accord with all New Zealanders around how the primary sector fits into and exists within our society. It is important for all New Zealanders to discuss and understand the benefits that agriculture brings to their lifestyle – and gaining this understanding would ultimately lead to better outcomes for both the sector and wider society. Speaking at the same breakfast function, Minister Nathan Guy reinforced a similar message during his speech. Mr Guy said the recent drought had highlighted to our urban cousins that the economy relied on the rural sector. The challenge now was to build on this understanding and goodwill.

Idea for new agricultural advisor to Govt [18 June/ Radio New Zealand] The idea of having an agricultural advisor to the Government has been mooted. The idea arose from discussions with industry leaders in preparing the 2013 KPMG Agribusiness Agenda. It was envisaged the role could be the agricultural equivalent of the Government's chief science adviser.

Animal Health

New company for TB management [18 June/ Rural News] TBfree New Zealand Ltd is the new agency responsible for the National Bovine TB Pest Management plan. The company has been appointed to the role, effective from July 1 2013. The limited liability company is taking over from the former agency, the Animal Health Board. Both TBfree New Zealand and the National Animal Identification and Tracing (NAIT) Ltd will become wholly-owned subsidiaries of Operational Solutions for Primary Industries (OSPRI) New Zealand Ltd. According to MPI Director of preparedness and partnerships, David Hayes, bringing the two agencies together will enhance the delivery of the Bovine TB management plan and the NAIT scheme.

Dairy

Guaranteed milk price set for pilot scheme [12 June/ Radio NZ Rural] Fonterra has confirmed that its opening price of \$7 per kilogram of milk solids for the 2013/14 season will be offered to farmers interested in signing fixed supply contracts with the co-operative. Earlier this year a pilot programme was announced that will allow farmers to lock in a fixed milk price for the season for up to three-quarters of their milk supply. Fonterra is looking for approximately 200 farms to take part in the trial and the company's Commodity Risk and Trading Director Bruce Turner said that the guaranteed price will help farmers who want more certainty in planning for the oncoming farming year, through telling farmers exactly how much money they will receive for a set portion of their milk supply and when they will receive the payments.

Dairy company victim of 'sophisticated fraud' [13 June/ NZ Herald] Sentences for dishonesty and theft charges have been given to two former employees of dairy processing company Sutton. Paul Normington pleaded guilty last year to 16 charges and Jin Weifeng to 11 charges of theft, dishonestly using a document and taking secret commission. A single charge was also given to Normington of accessing a computer system for a dishonest purpose. The case was brought against the men by the Serious Fraud Office. The Office said that the pair had combined to defraud their former employer, Auckland dairy processing company Sutton. The fraudulent activities either included creation of false invoices, theft of product or by receiving secret commission from a Chinese-based company that supplied product to Sutton. Earlier last week, Normington was sentenced to 15 months in prison in the Auckland District Court and Weifeng was sentenced to 5 months' home detention and ordered to pay \$25,000 in reparations.

Registration plan for infant formula brands [13 June/ NZ Herald] The Ministry for Primary Industries is set to require all companies exporting infant formula products that are manufactured in New Zealand to China to register the brands they use to improve certainty around the integrity of New Zealand sourced products. The announcement of a registration scheme with the Ministry comes soon after a series of critical news stories about New Zealand's baby milk manufacturing industry by the state-run CCTV news network in China last month. The brand registration requirement will take effect on June 20, with the Ministry stating that the approval process will allow greater knowledge to be obtained as to how many brands are being produced for export in New Zealand.

Dairy sector must show 'human side' [13 June/ Business Day] Improving the dairy industry's image with urban dwellers is an issue which needs to be taken seriously, an industry leader has said. DairyNZ Chief Executive, Tim Mackle, told a seminar at Fieldays that good results from pan-industry initiatives that are being taken, such as the Sustainable Dairy Water Accord, are important to achieving this. He said that improving on-farm environmental performance did not mean bringing in rules that would make farming unprofitable, adding that it was about continuing to be profitable and competitive. He also said that the industry needed to show evidence and results that the public would appreciate, and more work would be needed to be done on making the public understand better and show the 'human side' of the dairy industry. Mr Mackle said that these important ideas need to be centred on highlighting farming as being competitive and strategic.

Further investment at Whareroa [17 June/ Radio NZ Rural] Fonterra is investing a further \$30 million into its Whareroa site in Taranaki. The funds will go towards expanding its Dry Distribution Centre – and will bring the total capital investment in the logistics infrastructure on site to \$50 million since 2011.

Half of dairy debt carried by 10% of farmers [17 June/ NZ Herald] About half of the dairy sector's debt is held by just 10 per cent of farmers, it was reported by the Ministry for Primary Industries in its latest Situation and Outlook report. New Zealand's dairy sector debt nearly tripled over the past decade to \$30.5 billion last year. A significant portion of this debt could be attributed to price inflation for dairy land, which averaged 12 per cent a year. The Ministry said this has left many dairy farmers vulnerable in the face of market fluctuations. The recent drought had worsened the situation for most North Island dairy farmers – and Dairy NZ estimates that nearly 40 per cent of North Island dairy farmers will be unable to meet their working expenses and interest costs.

Fieldays

Fieldays 2013 hailed as success [17 June/ Business Day] This year's Fieldays attracted more than 125,000 people – and is being hailed as a success by organisers and exhibitors. NZ National Fieldays chief executive Jon Calder said the 45th event saw a large number of businesses making record sales and leads, reflecting a confident and buoyant mood across the agricultural and primary sector.

Outgoing president celebrates 36-year anniversary [18 June/ Business Day] This year's event marked the end of an era for outgoing New Zealand Fieldays Society president, Lloyd Downing. The self-confessed Fieldays junkie has been attending the show for 36 years, and he jokingly describes his new title of immediate past president as the 'methadone programme'. Prior to his three-year term as president, he served five years as Fieldays chairman. Downing will continue on the Fieldays board for another year.

Water

Irrigation projects head Wills' wishlist [14 June/ Business Day] The Government's plan to double agriculture's value to \$60 billion by 2025 will need significant focus to be placed on the role that water will need to play if the plan is to be successful, Federated Farmers President Bruce Wills has said. He said that while New Zealand did generally have a lot of water, there were still areas that were not receiving enough water at the right time of the year. To solve this issue, the building of water storage facilities must be encouraged, he said. Mr Wills spoke at the National Fieldays event at Mystery Creek last week. The Ruataniwha water storage proposal in the Hawke's Bay was encouraging, he said. However, his main concern was directed at the fact that it was the first large water storage project constructed in New Zealand in the last 30 years. Mr Wills highlighted the last major project as being the Opuha dam built in South Canterbury and he said that it was important that efforts were made by the Government to ensure that it was not another 30 years before the next project after Ruataniwha was constructed. Strict cost-benefit analysis and environmental requirements will come with an investment from the \$80 million Irrigation investment fund that the government set aside in the last budget, Mr Wills said. While the Hawke's Bay scheme will come with associated environmental requirements, Mr Wills said that the Ruataniwha proposal will bring a significant boost for the Hawke's Bay community.

Horticulture

Bumper crop of feijoas from unpredictable season [11 June/ Business Day] This season has been labelled by most feijoa growers as one of their best ever. About 200 tonnes of feijoa fruit are expected to be picked by the 20 growers in Nelson and Marlborough who make up the Future Fruit Cooperative for the season, a record level. Most of the crop is sold for processing into cider, wine and juice in addition to puree for flavouring food. Only 130 tonnes were picked during last year's weather-affected season however, the recent drought had its own associated impacts on the current season followed with heavy autumn rain which made for an unpredictable season. Future Fruit Communications Director Rachel Rodger said that picking of late varieties would continue for another week or two or until the frosts arrived.

Turners and Growers' Alastair Hulbert new chief executive [14 June/ National Business Review] New Zealand's largest integrated fruit and vegetable marketer Turners & Growers' has named Alastair Hulbert as the company's new Chief Executive. Mr Hulbert has been the company's International Markets General Manager in recent times. He replaces Geoff Hipkins who left the company in March after media reports of a breakdown in his working relationship with the parent company. Mr Hulbert has spent nine years as General Manager of the company's export subsidiary Delica Global and has had a main focus on grower and customer relationships. Turners and Growers' Deputy Chairman Sir John Anderson said in a statement that Mr Hulbert's unique background enabled him to bring a wide range of relevant experience to the executive position.

The squeeze goes on smaller operators [17 June/ Radio New Zealand] Rising costs and other market forces are putting the squeeze on smaller operators in the fresh fruit sector. A new Coriolis Research report highlighted trends towards the increasing size of orchards and post-harvest operations, along with a declining number of growers. Horticulture New Zealand chief executive Peter Silcock said the industry players are getting bigger, as consolidation and vertical integration are leading to the emergence of grower/packer/coolstore/exporter operations.

Viticulture

Record harvest buoys wine industry [12 June/ Business Day] A new record has been set for the Marlborough region's 2013 vintage. More than 250,000 tonnes of grapes were harvested in the province this year, which was the highest total yet on record and was just ahead of the previous record in 2011. About 250 people received the figures at a Winegrowers Grape Days seminar at the Marlborough Convention Centre in Central Blenheim earlier last week. Winegrowers New Zealand Chief Executive Philip Gregan said the Marlborough region harvested a 2.7 per cent increase over the 2011 record, at 251,680 tonnes. He added that this was a large increase from last year's low yielding 188,649 tonne crop, amounting to a year-on-year increase of 33 per cent. Mr Gregan said that he was confident that there would not be a risk of oversupply. He also said that prices should hold because of unfilled orders for last year, expanding markets and the beginning of a weakening in the New Zealand dollar. Sauvignon Blanc topped the Marlborough crop at 210,000 tonnes – 92 per cent of the national production for the varietal. This was followed by Pinot Noir at 17,300 tonnes and Chardonnay at 10,100 tonnes. Spy Valley Wines General Manager Blair Gibbs said that growers were feeling the benefit of the more buoyant market with growers being paid, on average, \$300 more a tonne for the vintage.

Wool

New CEO appointed [14 June/ Rural News] Wools of New Zealand has appointed a new CEO – Waikato sheep farmer and Tatua director, Ross Townshend. The appointment follows the capitalisation of Wools of NZ in March. In addition to his farming credentials, Mr Townshend holds a Bachelor of Technology from Massey University and an Advanced Management programme (AMP) from Harvard Business School. His background includes than 10 years of senior operational roles with companies Goodman Fielder, Bluebird Foods, Evergreen Packaging, Carter Holt Harvey and New Zealand Dairy Foods. He will take up the new role on August 1.

Forestry

Export demand pushing up NZ timber prices [12 June/ NZ Herald] Pressure is being put on the local supply and prices of New Zealand timber as overseas demand continues to grow strongly. The Ministry for Primary Industries has stated that New Zealand exporters have experienced strong demand from China for log exports in recent years and this is expected to continue into the future. Paul Taylor, ITM's General Manager of Marketing and Operations, said that timber prices on the yard had generally increased by about 5 to 10 per cent this year. Mr Taylor said that the current increase was mainly due to the increasing costs of logs to sawmills, with demand primarily being driven from Asia. He also said that log supply to China from North American sources had fallen in recent years. Mr Taylor said that the flow on effects in New Zealand would mean that local consumers would notice a hit on their wallets. The approximate timber value in a 230 – 250m² house was around \$12,000, which meant that the timber price increase would be about \$600 - \$1200, Mr Taylor said. Fletcher Building General Manager of Investor Relations Philip King said that he believed that the increase in log prices had largely been driven by improved demand in the United States. The Ministry for Primary Industries predicts log exports to rise to \$4.29 billion in the year from \$4.27 billion a year earlier.

Pork

Supreme Court blocks raw pork imports during hearing [13 June/ Radio NZ Rural] Imports of consumer-ready cuts of raw pork have been blocked by a Supreme Court order until the Court hears an appeal from the Pork Industry Board. The board is attempting to stop the Ministry for Primary Industries from allowing raw pork imports from countries with the pig disease Porcine Reproductive and Respiratory Syndrome (PRRS). The board lost a Court of Appeal case which was then followed by the Ministry issuing a long-delayed new import health standard to allow consumer ready cuts from the European Union, United States, Canada and Mexico into the country in March. The board's final appeal is to be heard by the Supreme Court on the 26 June and until then imports are on hold.

Meat

Volatility farming's new normal [13 June/ Business Day] The marketplace volatility encountered by dairy farmers is also said to have been encountered by sheep and beef farmers although the perception is that these farmers are worse off. Beef + Lamb New Zealand Chairman Mike Peterson said that volatility seemed to be highlighted more in sheep and beef farming than in dairying, however it was being experienced in both sectors and more could be expected. Mr Peterson said at the National Fieldays in Mystery Creek earlier last week that the largest issue many farmers are grappling with at the moment was the volatility in commodity returns. He also highlighted the uncertainty that existed in the meat sector due to the bottlenecks that had formed around supply lines recently. Mr Peterson added that concerns around volatility had increased to the point where confidence in sheep and beef farming was being eroded and this made it difficult to undertake comprehensive business planning and was discouraging young people from entering the sector.

Meat group 'shifting gears' [13 June/ Otago Daily Times] The Meat Industry Excellence (MIE) Group has said that they are changing their pace as they work to achieve reform of the red meat sector following recent meetings with industry leaders. Beef and Lamb New Zealand Chairman Mike Peterson, Federated Farmers' Meat and Fibre Executive, Primary Industries Minister Nathan Guy and Labour Primary Industries Spokesman Damien O'Connor all met with the MIE Group recently. MIE Chairman Richard Young said that there was a recognition and support among farmers for a truly sustainable red meat sector. He said that it was great to know that Federated Farmers and Beef and Lamb New Zealand wanted to work with the MIE Group. At the recent gathering, the Group provided Mr Guy with an update on its progress since the completion last month of five MIE Group meetings throughout the country. The Group has also refined its six objectives and developed a new mission statement which stemmed directly from the meetings. The meetings involved more than 3000 farmers and Mr Young said that it allowed the Group and associated stakeholders as a whole gain a stronger understanding of the biggest challenges faced by farmers in the industry.

Rural infrastructure

High-speed rural broadband on the horizon [17 June/ FW Plus] High-speed broadband coverage could be available to all rural New Zealanders – if Google's Project Loon is successful. Announced in Christchurch last weekend, the project will launch balloons high in the stratosphere to offer wide-area broadband coverage. This could ensure near total broadband coverage for rural NZ, at speeds associated with 3G mobile. Currently, NZ's Rural Broadband Initiative still leaves around 25% of rural NZ without reliable or fast access to the internet. Federated Farmers vice-president Dr William Rolleston described the Google Loon project as a radical but inspiring solution. He said the project has the potential to supercharge New Zealand's primary industries – by putting rural businesses, services and communities on an even footing with our cities.

Research and development

Interest in agribusiness funding possibilities [12 June/ Business Day] The Government is exploring issues around investing government managed funds in agribusiness innovation, according to Economic Development Minister Steven Joyce. Mr Joyce spoke via satellite from Wellington at a recent meeting of agribusiness leaders at Waikato University. He answered questions posed by the audience around investing a percentage of the New Zealand Superannuation Fund into more innovative, high-risk agribusiness developments. He said that other opportunities existed, which needed to be discussed by the country as a whole. The country's agribusiness leaders and stakeholders were meeting in Hamilton to discuss agribusiness innovation and how to lift export performance. The session was attended by approximately 200 agribusinesses, Crown research institutions and university delegates.

Biosecurity

Farmer pleased MPI addressing palm kernel issues [13 June/ Radio NZ Rural] David Clark was one of the farmers who raised concerns about the relaxed biosecurity that existed at some overseas palm kernel processing sites and he is now applauding moves by the companies concerned to address such issues. Mr Clark was one of the two Federated Farmers grain representatives who filed a critical report after visiting several palm oil processing sites in Malaysia. It was soon identified that the potential existed at these sites for foot and mouth and other pests and diseases to contaminate palm kernel expeller (PKE). The expeller is imported by New Zealand in large quantities in order to utilise it as stock feed for dairy cows. In response to these concerns raised by the visiting party, Primary Industries Minister Nathan Guy sent Ministry Officials to check the integrity of safeguards at palm kernel manufacturing and storage facilities in Malaysia and Indonesia. While the officials concluded that the biosecurity risk was low, they identified two areas for improvement, including the need for tighter controls to prevent contamination from birds and rodents. Mr Clark highlighted the need for proper storage of PKE noting that the opportunity for contamination exists, even for heat treated product, if it is not stored in a secure manner.

International

ANZ chief calls for FTA between Australia and China [16 June/ Business Day] ANZ Banking Group's chief executive, Mike Smith, wants Australia to follow New Zealand's lead and sign a free trade agreement with China. This would help Australian farmers benefit from the increasing demand for agricultural goods, particularly among China's growing middle classes. Although Smith described New Zealand's free trade agreement as 'quite narrow', he said it has been very effective in creating the impetus for trade and investment. He also said countries like Australia and New Zealand are at an 'extraordinary advantage' due to the lower logistical costs of supplying China.

Elders rejects bid for its rural services business [18 June/ FW Plus] ASX-listed Elders has rejected an offer from Ruralco Holdings to buy its rural services business. The Australian company put its Rural Services division – which includes a half stake in New Zealand's Elders Rural Holdings - up for sale last October. In a statement to the ASX, the board said it had reviewed various proposals over the weekend for both the rural business and its Futuris Automotive unit. The offer made was 'inadequate' with regard to value, execution risk and other factors.

Farmers and producers

Research into handing over family farms [14 June/ Business Day] Around 2,500 New Zealand farmers will be surveyed on they pass on the farm to family members. Lincoln University's commerce faculty is conducting the research, and Dr Kevin Old said it was both timely and relevant. The traditional ways of passing on the farm to the eldest son seem to be less popular – and the changing face of farming operations is likely to be resulting in new methods of succession. Dr Old hopes the survey will provide helpful information and new ideas. All farmers surveyed will remain anonymous.

Impact of floods continue to be felt in Otago [18 June/ Radio NZ Rural] Commentators are predicting that Otago's floods will take a while to drain. Although river levels are falling in the worst-hit areas of northern and eastern Otago, wet conditions are forecast to continue into the week. Northern Otago Federated Farmers president Richard Strowger said farmers have been coping fairly well, and had received adequate warnings to move stock. However he added that farmers and their stock will have to cope with cold southerly conditions predicted for later in the week.

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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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