

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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26 June 2013

Animal Health Board	Otago Regional Council
Bright Dairies	Real Estate Institute of New Zealand
Fonterra Co-operative Group	Synlait Milk
Heinz	Tarras Water
Horticulture New Zealand	UN Food and Agriculture Organisation
Meat Industry Excellence Group	Waimakariri Irrigation
Mengniu Dairy	Westpac New Zealand
Ministry for Primary Industries	Yashili International
National Animal Welfare Advisory Committee	Zespri

This week's headlines

Biosecurity	Minister addresses PKE risk [21 June/ Radio New Zealand Rural]
Dairy	Dairy prices halt slide, up 1.1% [19 June/ New Zealand Herald]
Dairy	Synlait receives NZX dispensation [25 June/ New Zealand Herald]
Horticulture	Zespri boosts new gold release [21 June/ Rural News]
International	Chinese Government backs consolidation of infant formula industry [21 June/ New Zealand Herald]

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KPMG Agribusiness Agenda 2013

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Agribusiness strategy

Realising potential of Maori agribusiness [19 June/ Business Day] Realising the unique potential of Maori land was the subject of a Fieldays seminar hosted by the Ministry for Primary Industries. A central challenge was the need to balance productivity with Maori cultural imperatives to care for the land. The panel spoke of the need for hapu and iwi to work together first and foremost; and for Maoridom to collectively interface with wider industry groups, as well as international markets. The seminar was hosted by MPI's Ben Dalton. The panel of leaders and entrepreneurs included Traci Houpapa, Hemi Rau, Jamie Tuuta, Kingi Smiler and Hinerangi Raumati.

Animal Health

TB fears from wild pigs [21 June/ Business Day] Hunters have risked a potential outbreak of tuberculosis, by illegally releasing a group of wild pigs in bush around Raglan. The Animal Health Board has warned that wild pigs can infect wildlife, and spread the disease to surrounding farm animals. The Waikato Department of Conservation is working to prevent the pigs getting established in the area. They also warned that humans can contract TB from infected animals.

Biosecurity

Minister addresses PKE risk [21 June/ Radio New Zealand Rural] The Minister for Primary Industries, Nathan Guy, is looking to strengthen PKE import rules, in the wake of a recent discovery of a contaminant in a consignment received by a Bay of Plenty farm. The unidentified leg of a goat or deer from overseas was found in a delivery of palm kernel expeller (PKE). News reports by biosecurity officials have since confirmed the PKE supply chain in Indonesia and Malaysia has a number of flaws. Mr Guy has warned a number of foreign PKE processors to improve their bird and rodent control; and has made changes to the Import Health Standard to prevent PKE arriving here from unapproved plants.

Dairy

Dairy prices halt slide, up 1.1% [19 June/ New Zealand Herald] The latest GlobalDairyTrade auction has seen the average price for products sold rise 1.1 per cent – reversing price slides recorded in the previous three auctions. The average winning price rose from US\$4,443 a tonne to US\$4,598 a tonne. Whole milk powder and skim milk powder lead the charge; gaining 2.2% and 3.2% respectively. Butter rose 4.7% to US\$3,295 a tonne. Total volumes sold were down, from 24,252 to 23,674 tonnes. This latest auction is the second since Fonterra set the guaranteed price for next season at \$7 per kilogram of milk solids. Other price movements saw increases in winning prices for Anhydrous Milk Fat while the prices for butter milk powder and cheddar fell. No results were given for lactose and milk powder concentrate was not offered.

Fonterra picks up Heinz infant formula contract [24 June/ New Zealand Herald] Fonterra is emerging the winner from the decision of Heinz to scale back production of its infant formula in Britain. Citing rising shipping costs between Britain and China, the global food giant has revealed plans to cut jobs at a Heinz plant in northern England – and give the work to Fonterra to manufacture its infant formula products under contract. Production will shift to the Canpac plant in Hamilton, where Fonterra provides contract infant formula manufacturing services.

Update on infant formula brand register [24 June/ Radio New Zealand] The Ministry for Primary Industries (MPI's) new brand register for China-bound infant formula is now up and running. Exporters had until last Thursday to register, and the Ministry's Tim Knox said 30 companies have done so. From now on, MPI will not be able to issue export certificates for any unregistered brands of infant formula going to China. This is in response to a request from Chinese authorities, so they can identify legitimate brands entering the country. Mr Knox said the registered companies have been asked to supply more detailed information by 6 July.

Synlait receives NZX dispensation [25 June/ New Zealand Herald] Canterbury-based Synlait Milk has received NZX dispensation to retain its current Board composition, in the light of likely changes to the company's majority ownership status due to its imminent sharemarket float. China's Bright Dairy will retain four seats on the eight-member Board following Synlait Milk's IPO and listing next month - despite the likelihood of its ownership interest falling from 51% to around 40%. The company plans to list on the NZX on July 23, and has indicated it will seek to raise \$75 million in new capital by issuing shares in a range of \$2.05 - \$2.65. The sharemarket listing will also provide a number of existing shareholders with the opportunity to realise some of their interest in the company. As chief executive John Penno explained, it was agreed that Bright Dairy would continue to consolidate Synlait Milk into its financial statements. After the float, Bright Dairy can continue to appoint four directors, one of which must be a New Zealand resident. Former government minister Ruth Richardson is currently on the Board, along with former Fletcher Building executive Bill Roest. Bright Dairy is a Shanghai-listed company, with a market capitalisation of approx US\$3.5 billion.

Water

Waimakariri irrigation cuts cost \$30m [21 June/ Business Day] A 55-day loss of water supply on the Waimakariri Irrigation Scheme cost farmer shareholders an estimated \$30m. The scheme - which supplies 212 North Canterbury farmers from the Waimakariri River - ran into trouble due to low river flows. The farmers lost water supply from mid-February until mid-March, then again for the first half of April. General Manager of Waimakariri Irrigation, Brent Walton, said that despite autumn being kind to farmers, the water issues had cost farmers conservatively \$30 million which is not recoverable. One shareholder, dairy farmer Harry Meijer, said that his production had fallen 9% at a cost of around \$180,000, although the farms production loss could have been greater had they not had more feed on hand than required for short term needs. Shareholders in company are currently awaiting consent for an 8.2million cubic metre storage pond for the scheme to increase water reliability but farmers are getting on with developing their own facilities as they cannot wait for the approvals to be granted.

Call to reject scheme [25 June/ Otago Daily Times] Otago Regional Councillors are being asked to make a final decision on whether to go ahead with an investment in the proposed Tarras Water irrigation scheme. The decision will end a six-month debate around whether the Council should make an investment in \$36. 5 scheme, having already spent about \$250,000 on preliminary work around the proposal. The council had sought independent advice on expected shareholder returns and other matters. It is understood that the Council staff has suggested that the scheme is too risky having struggled to get the information it needed to make an investment decision. A report to council said that it was disappointing that Tarras Water had made fundamental changes to the scheme without any contact from the council, with staff suggesting the reissued prospectus had moved the two parties further from common ground. The council is considering investing over \$3 million in dry shares, which one adviser has suggested may not receive a commercial return. If the Regional Council accepts its staff recommendation not to invest, it could put the Central Otago District Council's bank loan agreement with Tarras Water into question as it was conditional on ORC support. It would also mean a significantly lower rates increase for regional ratepayers this year.

Poultry

Proposed slowing of battery cage phase-out [21 June/ Radio New Zealand] The National Animal Welfare Advisory Committee (NAWAC) is proposing changes to the battery hen cage phase-out, in response to objections from farmers. NAWAC chairman John Hellstrom says it is proposing to delay the starting date of the phase-out by two years – although the use of the much-criticised battery cages is still to end by 2022. The industry has argued the delay is necessary to prevent problems with egg supply and price increases. It would mean starting the phase-out in 2018 instead of 2016. The NAWAC proposal is now open for public submissions.

Horticulture

Fenton steps down [21 June/ Rural News] Andrew Fenton has indicated he will not seek re-appointment at Horticulture New Zealand's AGM in July. He has been President and Chair since HortNZ was established in 2005, and said he was "very proud" of what the organisation had achieved in its first eight years. Fenton will continue to serve as a Board member.

Zespri boosts new gold release [21 June/ Rural News] Zespri chairman Peter McBride said the industry is showing confidence in the new Psa-tolerant gold kiwifruit cultivar, Gold3. The group has announced it will allocate 1130ha of licences to its growers in 2013, which is 288ha more than originally planned. Mr McBride said the over-subscription demonstrates the industry's belief in the recently-licensed cultivar, and the fact growers are increasingly looking to diversify their orchard portfolios. He added that Zespri believe that it is important to allow growers to diversify into gold, but also need to take the total supply picture into account, noting that with the new licenses, gold production will almost reach the target of 60 million trays a year. This may mean that the company has to change the rules around future allocations to ensure all growers get a full opportunity to participate in growing gold fruit, however this will depend on the results of a management review of medium and long term planning and consideration of this work by the board. The Gold 3 variety has demonstrated higher orchard yields, better handling and storage characteristics and greater tolerance to Psa, which has seen it grow to represent around 20% of Zespri's gold volume this year.

Viticulture

NZ wine industry woos young Chinese drinkers [24 June/ New Zealand Herald] New Zealand wine exports to China continue to grow – and are now worth more than \$25 million a year. Chris Yorke of NZ Winegrowers says China is on track to overtake Canada and claim the place of our fourth-biggest export market. In the past six years, our wine exports to China have increased from 204,000 litres to 2.5 million litres. Younger Chinese drinkers, particularly women aged between 25–35, are a prime target group. Wine commentator Bob Campbell adds that young Chinese believe white wines are more fashionable than reds, the traditional Chinese favourite. A contingent from New Zealand Winegrowers was recently in China, educating drinkers about New Zealand white varieties.

Meat

Key appointment to MIE [24 June/ Otago Daily Times] The new lobby group for the red meat sector, Meat Industry Excellence (MIE), has made its first key appointment. Ross Hyland said he is looking forward to working with MIE to "re-energise" the sector. He described the current red-meat model as capital-constrained, and failing at both ends of procurement and marketing. The potential for positive change was huge.

International

Chinese Government backs consolidation of infant formula industry [21 June/ New Zealand Herald] As part of efforts to rebuild its domestic infant formula industry, the Chinese Government is overseeing moves to consolidate the market players. Analysts say the Government wants to see the larger players consolidate the industry, in order to better monitor food quality. As a consequence, the Chinese government is backing dairy giant Mengniu Dairy in its bid to buy Hong Kong-listed Yashili International, for an offered price of US\$1.6 billion. Yashili currently imports all its milk from New Zealand, and has received OIO approval to build a formula factory in Pokeno.

Chinese demand drives up seafood prices [19 June/ Financial Times] China's growing appetite for expensive fish species is seeing global fish prices reach new highs. The UN Food and Agriculture Organisation's global fish price index hit a record high in May 2013, up 15% from a year ago and above the peak set in mid 2011, the FAO speculates that supply constraints for several key species will see prices continuing to rise in coming months. Changes in the Chinese palate – which is driving demand for species such as tuna, mussels and oysters – will see the total value of the seafood trade reaching \$130 billion this year, reflecting what has happen in other sectors of the global agricultural system as Chinese demand has grown. A spokesperson for the FAO said that product developments, including ready meals and cleaned fish fillets, were readily facilitating a growth in fish consumption around the world.

Economics and Trade

Trade envoy's opinion on US-EU talks [21 June/ Radio New Zealand] New Zealand's agricultural trade envoy, Alistair Polson, is unfazed by the launch of free-trade talks between the US and European Union. He has downplayed the concerns of some trade commentators that the talks might negatively affect the Trans-Pacific Partnership negotiations, which involve the US. But Mr Polson doesn't see it causing too many complications for New Zealand – and also pointed out that New Zealand is much less trade-dependent on Europe and the US now.

Farmers and producers

Upbeat mood in rural property market [19 June/ New Zealand Herald] Both farm prices and number of sales have shown positive movement recently. The Real Estate Institute of New Zealand (REINZ) reports that in the year to May, the total number of farms sold lifted 6.6% to 1,490. The median price per hectare has also risen 20.4% compared to last year – from \$17,031 to \$20,499. The median price per hectare for dairy farms rose to \$34,819. Westpac economist Nathan Penny said this reflects a rising confidence in the agricultural sector. According to REINZ spokesman Brian Peacocke, keen interest from the lifestyle sector was contributed to sales levels in Auckland, Christchurch and the Waikato.

Birds-eye view shows rough conditions [25 June/ Radio New Zealand] A helicopter pilot working in Otago reports conditions are the worst he's seen in 18 years. Graeme Gale from Helicopters Otago has delivered about 200 people on to farms to help snow-bound stock. He reports the flying has been "difficult and dangerous"; and he has seen snow up to 2 metres deep in places, and number of snow-flattened woolsheds.

Rural confidence on a high [25 June/ Business Day] There's been an upward swing in economic confidence in most rural regions, according to the latest Westpac McDermott Miller survey. Nationwide confidence rose to 25% by the end of the June quarter, compared to 5% at the end of March. The Waikato region showed the biggest surge, moving from a pessimistic -29% three months ago to a buoyant 49%. Senior Westpac economist Felix Delbrucker said this was due to both easing of drought worries, and the high dairy pay-out forecasts. Canterbury was even more confident at 51%, with rebuild activity keeping them upbeat. Northland was the only region to record a negative reading, at -23%, although that was still an improvement on the first quarter.

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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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