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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	Manassen Foods
AQSIQ	Meat Industry Association of New Zealand
Australian Dairy Council	Meat Industry Excellence Group
Beef + Lamb New Zealand	Ministry for Primary Industries
BNZ Bank	National Dairy Farmers
Bright Dairy	New Zealand Dairy Companies Association
Chinese National Development and Reform Commission	New Zealand Institute of Agricultural and Horticultural Scientists
Citrus New Zealand	Reserve Bank of New Zealand
DairyNZ	Synlait Milk
Environment Canterbury	Waikato University
Fonterra Cooperative	Wall Street Journal
Federated Farmers	Westland Milk
GlobalDairyTrade	Whangarei District Council
Lincoln University	World Trade Organisation

This week's headlines	
Dairy	**World dairy prices lift overnight** [3 July/ New Zealand Herald]
Dairy	**China investigating Fonterra pricing** [6 July/ Business Day]
Water	**More crop per drop** [3 July/ New Zealand Herald]
Meat	**'Bold action' needed for beef, lamb industry** [5 July/ Business Day
International	**Agriculture debt hits record high** [8 July/ Radio New Zealand Rural]

KPMG Agribusiness Agenda 2013

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Dairy

World dairy prices lift overnight [3 July/ New Zealand Herald] Results from Fonterra's latest GlobalDairyTrade auction saw prices for dairy products rise for the second time in a row. The overall volume sold was also recorded as the highest level traded in six months. An increase of 0.7 per cent was seen by the GDT-TWI Price Index compared to the last sale two weeks ago. The average winning price rose to US$4,643 a tonne, the highest since the April 16 sale, from US$4,598 a tonne. Market commentators have suggested that the prices of New Zealand dairy products may bounce back this month after the ANZ Commodity Price Index fell 3.7 per cent in June, led by a 9 per cent slump in whole milk powder and an 8 per cent fall in skim milk powder. From the whole auction there were 109 winning bidders over 12 rounds with 182 participating bidders out of a total number of qualified bidders of 844. Whole milk powder was the largest product traded by volume and gained 0.1 per cent to US$4,757 a tonne and skim milk powder rose 3.1 per cent to $4,441 a tonne.

Synlait poised to expand [3 July/ New Zealand Herald] Bright Dairy's Vice President Ke Li said that Synlait Milk was the "perfect match" when Bright Dairy started its search for an offshore target to expand its international ambitions. Ke said that Bright Dairy chose Synlait as its final target out of candidates from North America and elsewhere in Oceania after it considered both the national relationship and the entity qualifications. The company also verified Synlait Milk as matching Bright Dairy's business criteria at the time in addition to the contribution the prospering relationship that exists between New Zealand and China gave to the deal. Ke said that the first condition was that their core business matched Bright Dairy's core business and the second concerned future business developments bringing in a high level of synergy, communication and cooperation that has the opportunity to expand. Synlait was the first overseas acquisition Bright Dairy made as part of a considered effort to expand internationally. Bright Dairy has since gone on to acquire Australian food producer Manassen Foods for A$530 million in 2011 and British cereal maker Weetabix in a deal that valued the company at £1.2 billion.

NZ disappointed at US export subsidy increase [5 July/ Radio New Zealand Rural] An American move to increase dairy export subsidies has disappointed many New Zealand dairy industry participants. Dairy farmers in the United States pay a voluntary levy under the Cooperatives Working Together programme to support dairy processors who are exporting. Recent developments has meant that this has now been increased by two times from 2 to 4 per cent per hundredweight in order to provide $US60 million extra to subsidise exports, which could undermine international dairy prices. A complaint is being proposed by the Australian Dairy Industry Council to the World Trade Organisation and New Zealand Dairy Companies Association Chair Malcolm Bailey responded by saying that a decision is yet to be made regarding New Zealand's response. National Dairy Farmers Chairman Willy Leferink said that the US subsidy increase is a misdirection of farmer levies. He added that the move will hurt rather than benefit American farmers in the long term.

Westland Milk Products took more milk despite drought [5 July/ Radio New Zealand Rural] An increase of more than 5 per cent in milk production has been recorded by Westland Milk Products for its end of season trading records. These results came despite the serious drought that affected its main supply area. The drought has been attributed to cutting approximately 2 per cent of national milk production for the 2012 – 13 season. Westland Milk Chief Executive Rod Quin said that West Coast farmers produced approximately the same amount of milk as the previous season with help being drawn from the milk supply from irrigated Canterbury farms which were largely unaffected by the drought.

China investigating Fonterra pricing [6 July/ Business Day] An investigation has been launched by Chinese regulators into Fonterra Cooperative and the pricing of baby formula products according to a Wall Street Journal report. The report said that the Chinese National Development and Reform Commission had begun reviewing a wide range of consumer businesses in the Chinese dairy industry and that Fonterra wasn't being singled out. It was not clear whether the formula probe and the Fonterra investigation were part of the same investigation. China is an important growth market for dairy companies and one of the world's largest for infant formula. A 66 per cent increase from 2011 is expected for sales of dairy products in China, climbing to US$46.5 billion (NZ$60.3 billion) by 2016. The importation of foreign infant formula brands has gained increased preference after the 2008 scandal in which the industrial chemical melamine was added to milk powder, killing six infants and making 300,000 ill. The Wall Street Journal report highlight the fact that dairy prices, especially for foreign products, are a sensitive issue in China, where consumer inflation is a persistent problem.

New dairy water accord set to be launched [9 July/ Radio New Zealand Rural] A new water accord and sustainability strategy aimed at the dairy industry will be launched at Parliament next Tuesday night. The Sustainable Dairying Water Accord is aimed at improving the environmental performance of dairy farms throughout New Zealand and will replace the old Clean Streams Accord signed between Fonterra and the Government a decade ago. John Luxton, DairyNZ Chairman, said that the new accord is about the dairy industry honouring its environmental obligations, setting targets and meeting those targets. He emphasised the requirement for competition to be increased in addition to responsible farming to be highlighted. He said he believed this was important for the industry to recognise. In addition to the main accord's release, the industry's strategy for sustainable dairy farming from 2013 to 2025 will also be unveiled.

Water

More crop per drop [3 July/ New Zealand Herald] Plans to increase the efficiency and utilisation of New Zealand's water resources are at the front of the Government's objectives. The Government's goal is for exports to increase from 30 to 40 per cent of GDP by 2025. Water management is set to play an important role in reaching this goal. Investment in regional water projects could mean 340,000 hectares of new irrigation will come online within the next several years. These figures would be enough to boost exports by $1.4 billion a year by 2018, rising to $4 billion a year by 2026. The commodities that will be most impacted from these increases are dairy, livestock, crops, dairy support and horticulture. Minister for Primary Industries Nathan Guy has announced plans to invest up to a further $400 million in irrigation schemes with the goal of encouraging further third-party investments. BNZ Rural Water Infrastructure Business Manager Guy Ensor highlights the point that water infrastructure is expensive to build. He drew on the irrigation developments seen in Canterbury of the past years, which have amounted to a combined spend of $2 billion. Mr Ensor said that although this is a large sum, the return on investment is significant. Ensor also said that irrigation schemes can increase farm output by as much as two or two and a half times. Delivering this water means getting four to four and a half times as much production out of each kilogram of nitrogen used. Such amounts will results in significant large savings for farmers, Mr Ensor said.

Storage pond gets consent [5 July/ Business Day] Building consent has been given from Environment Canterbury (ECan) to the planned 8.2 million cubic metre storage pond for the Waimakariri Irrigation Scheme. Construction is set to start as early as November this year. The news is welcome after Waimakariri farmers lost an estimated $30 million of production last summer because of interruptions to irrigation water supply. Opponents are likely to continue to fight the plan. ECan has given consent for a high potential impact category (PIC) pond, an upgrade on the medium PIC pond originally proposed, to future proof it as population in the area close to the Wrights Rd site near Burnt Hill grows. The facility is set to include two ponds on a 120-hectare site with a combined footprint of 1 square kilometre. They will hold enough water for nine days of full irrigation flow to 18,000 hectares of farmland.

Horticulture

Support grows for new generation GM [3 July/ New Zealand Herald] Two Councils in Northland have announced their intention to impose tighter controls on technology utilised in the Genetically Modified food industry. The Far North and Whangarei District Councils have said that they propose changes that would force the users of genetically modified organisms to apply for resource consents, publicly notify their projects and post sizeable bonds to cover any necessary clean-ups. However the New Zealand Government has other ideas such as establishing regionally-specific rules for new organisms. Environment Minister Amy Adams has said that she has not ruled out dealing with the issue in changes to the Resource Management Act this year however she emphasised the need to consider these issues sooner rather than later. Head of KPMG New Zealand Agribusiness, Ian Proudfoot, said that the GM discussion is important for the country's primary industries. He also said that if New Zealand chooses not to adopt the GM technologies then the country has to be very clear on why it is choosing not to adopt the technology. David Lewis, President of the NZ Institute of Agricultural and Horticultural Scientists believes that there is no need to further tighten the regulatory regime towards GM technologies. He added that the country already has detailed and comprehensive legislation in place around the use of GM technology.

Citrus growers support compulsory levy [5 July/ Radio New Zealand Rural] Strong support has been given for a compulsory levy for all New Zealand grown citrus fruit. Citrus growers cast votes which accounted for an estimated 70 per cent representation of the country's total citrus growers. More than 80 per cent of those supported the levy. Commodity levies currently exist which cover navel oranges and Satsuma mandarins however levies on other citrus fruit, including lemons, limes and grapefruit varieties are voluntary. Under a compulsory levy, lemon growers will be able to halve their levy rate to 1 cent per kilogram and levy rates for other fruits will remain the same. Mandarins will keep their current levy rate of 0.5 cents and the orange and tangelo levy remains at 1 cent. Fruit processing levies will remain at their 0.3 cent level. The Government is expecting Citrus New Zealand to apply for the new commodity levels to be put in place by April next year in order to help fund research and development.

Meat

Meat companies look for industry solutions [4 July/ Radio New Zealand Rural] The country's four largest meat companies met last Thursday under an independent chair to see if they can come up with a better way to run the meat industry. Beef + Lamb New Zealand Chairman Mike Petersen told Federated Farmers at a national conference in Ashburton that the companies will be seeing if they can come up with a proposal to run the meat industry in a more collaborative way. Beef + Lamb New Zealand is also set to fund any required analysis required of the various proposals that may be put forward by the meat industry.

'Bold action' needed for beef, lamb industry [5 July/ Business Day] ANZ Bank has said that the beef and lamb industry is at risk of being an insignificant player in the country's economic recovery. Graham Turley, Managing Director of the Bank said that the red-meat sector was currently stuck in its ways and would not benefit unless bold action was taken. He said that businesses developing primary production into desirable products were the new stars of the economy and sheep and beef businesses had to link to an improving soft commodity outlook and thriving food and beverage sector. Starting last Sunday, the Red Meat Sector Conference was said to have come at a critical time in the industry's history, with Mr Turley saying that beef and lamb exports are an important foundation stone in New Zealand's economic development. He also said that as a result of increased investments in the industry in recent years, the dairy industry has done very well which now requires the red meat industry to follow suit. ANZ Bank, New Zealand's largest rural lender, said that the top of the agenda for people attending the conference should be how to inject new thinking and leadership into the industry. A spokesperson for the Bank said that this will require reinvestment across the whole industry and closer integration of the supply chain for farmers to benefit from greater rewards. The conference was hosted by the Meat Industry Association of New Zealand and Beef + Lamb New Zealand with ANZ as the main sponsor.

Reform group strategy nears [5 July/ Business Day] The Meat Industry Excellence (MIE) Group, which is the largest farmer-driven meat group in the country, has said that they remain willing to bring meat companies into its red meat reforms even though the Group is working on its own approach. Meat Industry Excellence Chairman Richard Young said that the Group would like to work with the meat companies to draw up a strategy to return sheep farming to profit and to generate substantial growth. He said that the Group has voiced their requirement for an inclusive approach to all stakeholders and that the Group is keeping the pressure on the meat companies for a dateline when they hope to have the most important directions for the future planned. Mr Young said that the meat companies were due to make an announcement in the next three weeks and this would provide MIE with a stronger idea if collaborative reform was possible. Alliance Group Chairman Owen Poole said last April that the plan was to release developments with talks between them over the next few months. The MIE Group has highlighted their collaborated approach as including consultation from groups such as Federated Farmers and Beef + Lamb New Zealand.

New rules for meat exports to China [6 July/ Business Day] The meat export saga that resulted from new changes to Chinese import rules has been attributed to the New Zealand Government having delayed information regarding the import changes. Earlier in the week Primary Industries Minister Nathan Guy and Food Safety Minister Nikki Kaye said that officials would begin enforcing the new export rules for meat into China from this Monday. A statement released by the Ministry highlighted the delay, with news of the changes to the Chinese rules only emerging almost a month after they came into effect. Mr Guy, who was recently in China leading a trade mission, described the relationship between New Zealand and China as warm and professional. He also said that the issue was resolved quickly due to both sides willing to work quickly and efficiently together. The Ministry also said that the rule changes will have little practical effect. Since June 1, 1323 consignments were sent which corresponds to approximately 30,000 tonnes of meat. All of these consignments are set to have letters of assurance and corrected scanned certificates sent by Ministry in the coming days. Officials have said that only approximately a quarter of the shipments would be delayed a few days.

Meat exports to China hit another customs snag [8 July/ Radio New Zealand Rural] Containers of meat have yet again not been able to clear customs in China during a recent delivery of New Zealand meat. The Ministry for Primary Industries (MPI) said that about 1300 containers of meat have been caught out by a change of rules. Under China's new import requirements, a veterinarian in New Zealand must sign export documentation at the last site meat is stored before being sent to China. This location could either be at a slaughterhouse, cool store or other processor. The Ministry in New Zealand is now rushing to get vets from these sites to sign new documentation and send it to China where it will be distributed among Customs officials at the wharves, so that the containers can get in. Such new rules took effect on Monday 8 July.

International

China relationship is still strong – MPI boss [3 July/ New Zealand Herald] Director-General of the Ministry for Primary Industries Wayne McNee has admitted that the last few years has been a true test of the relationship that exists between New Zealand and trading partner China. Examples are the failure of the country to front up straight away after finding the toxic substance dicyandiamide (DCD) in milk products last year in addition to New Zealand meat being blocked from Chinese ports due to confusion over accompanying documentation. New Zealand meat companies also continue to face delays in getting licenses for plants to export to China from the Beijing-based regulator, AQSIQ. Mr McNee said that the country's first priority was to assess whether the DCD residues posed a risk to human health and only then did the Ministry believe it was in a position to inform customers and foreign regulators several months later. He highlighted the main learning that could be drawn from this event was that the risk associated with the release of information needs to be fully understood and obtained in a timely manner. He also acknowledges the role of regulators and how these roles are being reshaped after the discovery of horsemeat in Europe's beef supply chains earlier this year. At about the same time hundreds were being arrested in China for "meat-related offences" including one criminal gang making vast profits passing off fox and even rat meat as mutton. Mr McNee said that the largest quality that needs to be considered in the meat export industry and any industry for that matter is integrity. He added that there is definitely more risk on how governments and industries communicate with consumers in those sorts of situations.

Farmers and producers

Federated Farmers says new High Country rents fairer [5 July/ Radio New Zealand Rural] The Government's new way of calculating the way High Country pastoral leases are set has been labelled as being simpler and fairer by Federated Farmers. Under the new system,which came into effect last week, rents for the 221 High Country properties owned by the Crown will be based on the land's earning capacity, rather than land value. Federated Farmers Vice President and High Country Spokesperson William Rolleston said that rents will generally be higher than they were before, however they will also be fairer. He added that with the rents now being based on the productive capacity of the land this will take away the distortion of the amenity value of rents which the previous Government had put in place and which was distorting and prohibitively expensive for some farmers who perhaps lived in a sought after location.

Drying winds ease stock worries [5 July/ Business Day] Drying North Westerly winds are bringing positive weather patterns for dairy farmers and making their previously saturated paddocks accessible again. The winds are advantageous for both farm staff and stock. South Canterbury farmer Ben Januay was last week coping with "mud up to your waist" and feed utilisation falling to below 50 per cent, however this week he is happier. Mr Januay said that his fields have dried right out and his production is back on track now with stock getting full feed utilisation. He is wintering his heard at Waihao Forks, near Waimate, and before the paddocks there started to dry out he was worried his heard was losing condition because much of the feed was being trampled into the ground. Most of the drying wind is being experienced throughout the Southland area.

Agriculture debt hits record high [8 July/ Radio New Zealand Rural] The agricultural sector has been hit with record levels of high debt with the Reserve Bank's monthly sector statistics for May showing the sector's debt climbing $422 million to $50.7 billion in just a month. Bruce Wills, Federated Farmers President, said that the debt levels were concerning. He also indicated the interest rate levels and this year's drought as common features that contributed to much of the debt levels. Mr Wills said that approximately 80 per cent of farmers should be managing the debt comfortably, however 10 to 20 per cent were at an extreme risk. Lincoln University Professor of Farm Management and Agribusiness, Keith Woodford, agrees and says that some farmers will be forced to restructure their businesses in order to satisfy their debt obligations. Although the debt levels were significant, Mr Woodford said that they would not be putting the national economy at risk.

Warm and wet conditions in many areas [8 July/ Radio New Zealand Rural] This week has seen many New Zealand areas experiencing warm wet weather. Lake Hawera has had 70mm of rain already in July and coastal Southland has recorded 50mm of rain, half of what is expected to the whole month. Unusual temperatures have been recorded in inland South Canterbury with nearly 20 degrees being recorded this week which is unusual as it's only a couple of weeks past the winter solstice. The Motueka/Nelson region also had a warm week with temperatures reaching 18 degrees. Farmers have reported the ground in this area as finally drying out enough for orchard planting to commence. A few light frosts were reported in Marlborough and little rain. The North Island recorded consistent rainfall with one farmer questioning the presence of the drought, stating that rainfall rates are probably about 50 per cent higher than what he would have expected for this time of the year. The warm weather has also spurred grass growth in Taranaki which was previously struggling according to market commentators in the area. Pukekohe, just South of Auckland, recorded mild and sunny periods for most of the winter so far. The region also recorded higher than average rainfall which has produced a noticeable burst in vegetable crop growth.

Farmers just not earning enough to climb out of debt - Rowarth [9 July/ Radio New Zealand Rural] Farming's record debt is due to poor returns and demands for compliance, according to a leading agribusiness specialist, Jacqueline Rowarth of Waikato University. The Latest Reserve Bank monthly data report on the agricultural sector showed debt climbing to $422 million in May to $50.7 billion, 5 per cent higher than in May 2012. On average, dairy farmers owe $20 for every kilogram of milk solids they produce according to Federated Farmers. Fonterra Cooperative is forecasting a return during the current season of $7 a kilogram of milk solids. Professor Rowarth said that in order to afford farming improvements to keep up with today's demands farmers are required to take on more debt which is not sustainable in the long run.

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