

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



LAUNCH OF:
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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
AGENDA 2013 VOLUME 1**

17 July 2013

Organisations referenced in this week's Field Notes include:

AgResearch New Zealand	Nestle New Zealand
Air New Zealand	New Zealand Trade and Enterprise
ANZ Rural Bank	Niwa Meteorological Service
ASB Bank	Primor Product Limited
Avoco Cooperative	RaboBank New Zealand
Beef + Lamb New Zealand	Ravensdown
Dairy Goat Cooperative	Real Estate institute of New Zealand
Dairy Women's Network	Royal FrieslandCampina
DairyNZ	Sealord Fisheries
Federated Farmers	Shanghai Pengxiu
Fonterra Cooperative	Simcro Agri-Tech
Horticulture New Zealand	Southern Produce Limited
Landcorp New Zealand	Statistics New Zealand
Livestock Improvement New Zealand	Synlait Milk
Meat Industry Excellence Group	The Riverside Company
Met Service New Zealand	Yili Industrial Group
Ministry for Primary Industries	Zespri

This week's headlines

Dairy	Synlait welcomes Dutch swoop [12 July/ New Zealand Herald]
International	Landcorp and Massey sign deal in China [10 July/ Rural News Group]
Economics and trade	Sheep and beef industry welcome NZ deal with Taiwan [12 July/ Radio New Zealand Rural]
Horticulture	Zespri company's smuggling appeal fails [16 July/ Business Day]
Farmers and producers	Big lift in farmer confidence [15 July/ Rural News Group]

New Zealand food awards

Are you innovating in the New Zealand food industry? So why haven't you entered the New Zealand Food Awards?

The New Zealand Food Awards, is an annual event designed to celebrate new initiatives in New Zealand food and beverage production and manufacturing, recognising not only company leaders who inspire others to meet their standards of excellence, but the creative work of product innovators in the areas of packaging design, nutrition, enterprise, food safety and products.

[Entries are now open thru the New Zealand food Awards website](#)

Agriculture Education

Bid to improve financial literacy of women farmers [15 July/ Radio New Zealand Rural] ASB Bank is set to accommodate the demand for financial literacy skills enhancement from New Zealand's dairying women. DairyNZ has calculated that the industry's profitability could increase by \$1 billion a year, or about \$1000 a hectare, if financial literacy and management capabilities were improved. The Dairy Women's Network has said that its members are primarily directors, managers and in many cases, owners of multi-million dollar businesses that require people to have a certain level of financial acumen. Michelle Wilson, the organisation's Executive Chair, has said that the network has grown very rapidly over the past few years which reflected the large role New Zealand women have in the country's dairy industry. The structure of the workshops to be offered are yet to be confirmed, however, ASB Bank has said that they may include understanding and interpreting financial accounts, budgeting, cash flow planning and use of technology.

Biosecurity

Air NZ trial aims to boost biosecurity [11 July/ New Zealand Herald] Air New Zealand flights from Melbourne to Auckland are set to be involved in a world-first trial involving security scans at the border. Passengers traveling on Air New Zealand flights from Melbourne to Auckland will have their bags screened by new x-ray technology before taking off, Primary Industries Minister Nathan Guy said last week. The images will be sent to Auckland while the aircraft is in flight in order to allow biosecurity staff to identify potential threats. Baggage of interest will then be flagged and passengers will subject to further checks when they reach their destination. The three month long trial is set to commence on July 22.

Scientist warns biosecurity at risk from new trade deals [12 July/ New Zealand Herald] New Zealand has been labelled as only deserving a half-mark for its biosecurity efforts after a prominent agricultural scientist has warned that new free-trade agreements and increased tourism could pose increased threats at the border. John Lancashire, a former AgResearch Manager has told a national forum that the Government had much room for improvement in safeguarding New Zealand's precious primary sector against major incursions. Overall, Mr Lancashire gave the country an overall score of just 55 per cent and he cited the "tremendous pressure" that existed from the Government for more free-trade agreements. He also said that the country had experienced a "peak" of incursions, among them Psa and fruit fly. Horticulture New Zealand Chief Executive Peter Silcock said that he would value the horticulture industry at \$6.6 billion and said that incursions such as tomato-potato psyllid which caused some \$50 million damage to the potato industry in the 2008/09 season alone, would prevent it from reaching its growth goal of \$10 billion by 2020. Minister for Primary Industries Nathan Guy said that the challenge for the country was to grow trade but protect the country from foreign pests.

Dairy

Job cuts 'unnecessary management' says Fonterra [10 July/ Radio New Zealand Rural] Approximately 300 jobs are set to be cut at Fonterra as the co-operative moves to get rid of what it says are unnecessary management positions. Both the Auckland and Hamilton Corporate offices that Fonterra operates are set to see cuts. Fonterra said that about 50 of the 300 roles are vacant because of a hiring freeze imposed in February. Approximately \$65 million is set to be saved per year according to Chief Executive Officer Theo Spierings. Mr Spierings said that such reviews are never easy and he hopes that the process can be undertaken efficiently and with everyone's best interests at heart. In addition to the job-cut announcement, Fonterra also announced that more than 300 farmers have signed up to its fixed milk price pilot scheme being run this season. Under the scheme, the successfully signed-on farmers have locked in about 10 per cent of their milk this season at the agreed price of \$7 a kilo of milk solids.

Synlait welcomes Dutch swoop [12 July/ New Zealand Herald] Subsidiary company of Holland's Royal FrieslandCampina, FrieslandCampina Investments, is set to hold about 7.5 per cent of Synlait Milk after a surprise jump on this week's initial public offering. FrieslandCampina is one of the largest dairy cooperatives in the world and is an existing customer of Synlait Milk. FrieslandCampina sells products in more than 100 countries. The company's annual revenue is around EUR 10.3 billion. Approximately 155 farms in Canterbury have milk collected by Synlait Milk and produces the company a range of value-added ingredient products including infant formula and nutritional products. The final issue price was set by Synlait Milk at \$2.20 pre ordinary share which was towards the lower end of its initial \$2.05 to \$2.65 range.

Nestle man gets top Fonterra finance job [10 July/ New Zealand Herald] Nestle Executive Lukas Paravicini has been appointed to the role of Chief Financial Officer for Fonterra Co-operative Group. The company also said that Jacqueline Chow had been appointed Managing Director Global Brands & Nutrition, a newly created role. Mr Paravicini is a Swiss national and spent 22 years with Nestle with the last two served as General Manager for Nestle Professional Europe. He has also held a number of senior finance positions in different parts of the Nestle business including running Nestle's global business services and spent 10 years living in Latin America. Theo Spierings, Fonterra's Chief Executive, said that Mr Paravicini's appointment reflected well on the cooperative's ability to attract high calibre, internationally experienced people for senior management roles.

Progress on Glenavy factory [10 July/ Business Day] Following Chinese company Inner Mongolia Yili Industrial Group's go-ahead to purchase Oceania Dairy in April this year, construction has started on its dairy factory near Glenavy. Construction of the new milk powder plant is estimated to be worth \$214 million and is situated on the corner of Cooneys Road and State Highway One, just north of Glenavy. On completion, the plant will employ approximately 100 people and have a full capacity of 47,000 tonnes per year. Babbage Consultant and Site Manager, Murray Gifford, said that construction work commenced in April and since then approximately 70 per cent of the earthworks had been completed. Mr Gifford said that approximately 35 construction staff are on site at any one time and the project was due for completion in July 2014.

Red meat

Praise for red meat sector [15 July/ Agri HQ News] Meat Industry Excellence (MIE) Group Deputy Chairman John McCarthy has said that recognition from Prime Minister John Key of the performance of farmers in maintaining sheep meat production highlights the importance of sheep farming to the New Zealand economy. The Group is currently in discussions with the main meat processors that exist in New Zealand in order to formulate a strategy to promote long-term structural change in the sector. This comes as endorsement was received from thousands of farmers who have pushed for reform in the meat sector. ANZ Rural Economist Con Williams said that he favoured an industry composition along the lines of 80 % of production being handled by one entity.

International

Landcorp and Massey sign deal in China [10 July/ Rural News Group] A large sheep farm is set to be developed in a deal that Landcorp has signed with Chinese company Shanghai Pengxin. The Government-owned farming organisation and Massey University have signed a memorandum of understanding with a Shanghai Pengxin subsidiary company, with Anhui Agricultural University, Anhui Anxin Husbandry Development Limited, and the local provincial Government. The deal came at the end of a recent agricultural trade mission to China that Minister for Primary Industries, Nathan Guy led. Landcorp's Chair Bill Bayliss and Chief Executive Chris Kelly said that Shanghai Pengxin was performing a capital raise in order to grow their agricultural aspirations in Australia, New Zealand and South Africa. Both men also indicated the intentions of Landcorp to provide the foreign company with their expertise in large scale farming and genetics.

NZ agri push at big expo in Colombia [11 July/ New Zealand Herald] Colombia's largest agricultural fair will have seven New Zealand businesses showcase their products this week. This is a New Zealand first and the AgroExpo event has already started and is set to run until July 21. The expo gives opportunities to firms around the world to showcase their technology to Colombian farmers. Many such farmers struggle for efficiency and seek further advice and technical knowledge at the event every year. Approximately a half of all Colombian milk never makes it to a dairy factory, despite the country being South America's third-largest milk producer. According to New Zealand Trade and Enterprise, a major part of this problem is attributable to poor infrastructure with inferior equipment. Livestock Improvement NZ (LICNZ) General Manager Jock Richardson said that this was a particular strong area where New Zealand producers can help. LICNZ works with cattle genetics to ensure that a farmer's herd is as productive as possible. The company is using the fair in a bid to expand its operations into Colombia.

Australian farmers facing tough times [11 July/ Radio New Zealand Rural] Australian farmers are becoming increasingly frustrated with the loss of their earning power and competitiveness as Australia's Dollar continues to fall against the US Dollar. Australian farmers say that their plight continues to be ignored by both the Government and the opposition despite the general election set to be held in September this year. Hundreds of jobs have reportedly gone from the Australian production regions as food processing factories close or production. A new farm finance package including low interest loans announced in April has yet to deliver a single cent to farmers although the new Agriculture Minister Joel Fitzgibbon has promised to make this a priority.

House Republicans Push Through Farm Bill, Without Food Stamps [11 July/ New York Times] The food stamp program that has long been a feature of Farm Bills in the United States after the Republicans successfully forced a pared-back bill through the House last Thursday. This satisfies conservative support, however it loses what little Democratic support the bill had when it failed last month. This is the first time food stamps have not been part of the farm bill since 1973. A 216-208 vote saved House Republican leaders from an embarrassing reprisal of the unexpected defeat of a broader version of the bill in June. However, many agriculture commentators have said that the future of agriculture policy remains uncertain. The 608-page bill keeps the changes that were in the version that failed last month, and amendments were not allowed. It has been highlighted that the bill would save approximately USD 20 billion by consolidating or cutting numerous farm subsidy programs, including USD 5 billion paid annually to farmers and landowners whether they plant crops or not. The early 1970s saw rural members of Congress begin to fall, which later saw a deal struck to include food stamps in the farm bill so that lawmakers would be able to gain enough support to pass it. Both nutrition programs and farm subsidies have grown in the past 20 years and commentators now say that a new breed of legislators are more concerned with federal spending than with building coalitions in-order to pass a farm bill.

Economics and trade

Food price rises biggest since GST hike in October 2010 [11 July/ National Business Review] Food prices in New Zealand recorded their largest gain since goods and services tax was lifted to 15 per cent in October 2010. The gain was led by a seasonal jump in prices of vegetables such as tomatoes and lettuce. An increase of 2.1 per cent was recorded in June from May, the largest increase since a 2.2 per cent gain in October 2010. Food prices rose 0.6 per cent in June from the same month of 2012, led by a 4.9 per cent increase in fruit and vegetables. Grocery food prices fell 1.5 per cent, the only annual decline among the five groups.

Sheep and beef industry welcome NZ deal with Taiwan [12 July/ Radio New Zealand Rural] A trade agreement set to be signed between New Zealand and Taiwan is being greeted with much excitement by the red meat sector. Many market commentators have said that the agreement is a significant development for the beef and sheep industry. The agreement will see Taiwanese tariffs slowly reduced until they are no longer present over the next few years. During 2012, New Zealand exported \$208 million worth of red meat products to Taiwan, however there were \$18 million worth of tariffs applied to them. Beef tariffs are set to be removed within two years and sheep-meat tariffs will be gone within four years. Mike Peterson, Beef + Lamb New Zealand Chairman, said that the free trade agreement was just the start of exciting new opportunities for New Zealand meat exporters to extend their trade into Asia. He noted that for trade to reach its true potential in Asia, other important economies also needed to free up their trade more as well.

Environment

Jim Salinger: Weather teams wasting resources [11 July/ New Zealand Herald] Commentator, Jim Salinger, has highlighted the duplicated work that is being performed by two different entities when it comes to forecasting New Zealand's weather. He said that regional councils have to pick up the heavy rainfall forecasts, with a time delay and then plug these into their own hydrological models. In addition to these forecasts, New Zealand's weather and climate research services are increasingly duplicating the same work, at the expense of the taxpayer. The start of July marked 21 years since the introduction of New Zealand's science reforms, and Mr Salinger has highlighted the fact that the New Zealand Met Service has been kept separate from meteorological provider Niwa for some time. Following this and despite subsequent reviews recommending the two Crown-owned companies to merge, they haven't done so. Mr Salinger also highlighted the cost that is being borne by the taxpayer because of this arrangement and emphasized the competing nature that currently exists between the providers.

Angry birds at large in Auckland [12 July/ New Zealand Herald] A large number of angry birds are reported to be on the loose in Auckland city. The Ministry for Primary Industries (MPI) confirmed that red-vented bulbul have been spotted in Mangere, Devonport and possibly on the Whangaparaoa Peninsula. Biosecurity officials are now appealing to the public to help them track down a large number of the birds. Concerns have been raised over the ability for the birds to damage Auckland's horticultural industry, native vegetation, birdlife and private gardens. MPI Response Manager Jaap Knegtman said that the particular type of birds are aggressive pests that have developed a reputation as one of the world's most invasive birds.

Horticultural

Fierce rivals' joint venture boosts exports 20% [11 July/ Rural News Group] A New Zealand first in the avocado exporting industry has signaled a positive move for the industry. Southern Produce Limited, Bay of Plenty, and Primor Product Limited, Auckland, have both put aside their long-standing commercial competitiveness to form the joint venture company to export to Australia. Australia has traditionally been the largest export market for avocados and the combined venture sees both companies make up about 75 per cent of the exports to this market. Avoco is the new collaborative venture that has been formed and the forecast for Australia earnings this season have increased 20 per cent, from \$40 million to \$50 million.

Zespri company's smuggling appeal fails [16 July/ Business Day] Zespri Chief Executive, Lain Jager, said that the decision of a Shanghai court to uphold the smuggling charges against the Group's Chinese subsidiary and one of its employees was disappointing. The charges, which relate to under-reporting of duties on kiwifruit imported into China, resulted in the subsidiary being fined RMB 5 million and an employee being sentenced to five years in prison. Mr Jager said the company would continue to work with the workers family and legal representation to explore how they can support him personally and legally. He added that Zespri had failed to ensure that the importer was working within the law and was now working with Chinese Customs to minimise the risk of that happening again.

Fishing and aquaculture

Sealord to face angry reception over slump [15 July/ Business Day] Sealord Group, the Nelson-based fishing company, will face its Maori shareholders this month to explain why it is facing difficulties. Sealord would not make its latest financials available to media, however, data suggests that the company's gearing (debt-to-equity) ratio increased from 26 per cent in 2007 to 40 per cent last year, and may now be nearing 50 per cent.

Goat

Dairy goat boss steps down [15 July/ Business Day] Chief Executive of the Dairy Goat Co-operative, Dave Stanley, is stepping down and will be succeeded in March next year by his deputy, Tony Giles. Mr Stanley started 20 years ago as the co-operatives sole staffer and oversaw the Waikato company's growth from a cottage industry to a \$130 million a year export business. He said that he no longer wanted to work full-time as a Chief Executive and would pursue directorship and consulting opportunities. The Co-operative started with 22 farmer shareholders and now has 60 supplying farmers with many having substantial goat milking operations. The organisation is set to begin building its second milk-powder drier next week which will accumulate to a \$67 million investment

Honey

Late Comvita founder praised [12 July/ Radio New Zealand Rural] Claude Stratford died last Wednesday at the age of 102. He founded Comvita honey products and led the way in creating a worldwide demand for New Zealand honey products. In 1974, Mr Stratford founded the company at the age of 64 and since then it has grown to be a \$100 million company. He received the Queens Service Medal in 1999 for services to the community and won the Ernst & Young 2005 Entrepreneur of the Year at the age of 95. Barry Hantz, North Canterbury Federated Farmers Bee Section Chair, said that beekeepers throughout New Zealand owe a debt of thanks to Mr Stratford's pioneering energy and resourcefulness.

Rural infrastructure

Aussie dream is over for Ravensdown [12 July/ Agri HQ News] Farmer-owned cooperative, Ravensdown, has begun talks to sell its fertiliser business in Western Australia after deciding to sell out of its joint-venture stake in the Direct Farm Inputs (DFI) business in south-east Australia. The \$9 million trading loss and a difficult three-years operating climate has been attributable to the sell-down. Ravensdown's published annual accounts have not separated the Western Australia, Queensland, and DFI business figures but show the combined businesses have operated with low equity levels. The company also previously exited a struggling agri-chemicals sales business in Western Australia.

Profits reflected in \$2m headquarters [12 July/ Business Day] A \$2 million headquarters has been opened by the Waikato's Power Farming Group in Morrinsville for its New Zealand operations. Revenue growth of more than 75 per cent in the past decade to almost \$400 million was said to be reflected in the new building, the largest independently owned farm machinery supplier in Australasia said. Power Farming Chief Executive Bruce Nixon said the new building was a landmark for a company achieving success despite some difficult economic times. From 2001 when the company's Australian sales were virtually nothing to today where they are more than \$180 million a year, Mr Nixon said that the results were pleasing. Australia now accounts for half of its overall business

Research and development

Researchers to get quicker access to seed bank [15 July/ Radio New Zealand Rural] A new agreement between the Government and its research institute AgResearch, is set to eventually benefit farmers from less expensive access to the national seed bank. Regulation changes will mean that imported seeds of new pasture cultivars such as ryegrass and fescues will not need a post-entry growth period in a quarantine glasshouse. Zane Webber, AgResearch Margot Ford Forage Seed Bank Manager, said that the new rules will allow researchers faster access to new technology. The new arrangements will mean that it is easier to deliver required seeds in a timely and cost effective manner.

Agri-technology

US firm buys big stake in Simcro [15 July/ Business Day] Global private equity firm The Riverside Company has bought a controlling interest in Waikato agri-tech company Simcro. The undisclosed transaction comes as Hamilton-based Simcro has been operating for 20 years in business as an animal health delivery system company employing 80 staff nationally. In last year's TIN100 report, which measures the performance of New Zealand's top hi-tech export companies, Simcro ranked as the 75th most successful by revenue. The company's annual revenue has been recorded at \$21.4 million and outgoing Simcro shareholder and Board Chairman John Dennehy said that the deal had been in the works for six months. He also said that there had been many inquires, interested in buying a stake in the company after he and Chief Executive Will Rouse did a roadshow showcasing Simcro 18 months ago. The Riverside Company is a generalised investor with over US\$3.5 billion (NZ\$4.5b) in assets and currently has investments in more than 75 companies. A nondisclosure agreement signed prevents any sale price or size of the stake bought from being revealed. The Wall Street Journal was given a "tongue-in-cheek" figure by Riverside, with them saying that the acquisition sum was less than \$150 million.

Farmers and producers

Winter farm sales better than usual [July 15/ New Zealand Herald] Farm sales and prices are still at higher levels than they were a year ago. During the three months to the end of June there were 474 farms sold across the country which was 68 more than during the same period last year according to figures from the Real Estate Institute of New Zealand. The median price per hectare for all farms was up 12.3 per cent at \$19,716 which was above the \$17,565 amount recorded last year. The Institute's All Farm Price Index - which adjusts for differences in farm size, location and farming type, fell by 0.8 per cent compared to last year and 2.6 per cent compared to May. Spokesman for the Institute Brian Peacocke said that winter was generally a difficult time for the rural property market but sales were still going to be better than usual. He said that demand in New Zealand was strong and there existed a perception in the current market the rural industry was a positive investment. An increased dairy payout, lower New Zealand dollar and continuing low interest rates were labelled as the main key drivers of increasing farm confidence across the country. Mr Peacocke said that the Waikato region had the strongest performance in farm sales with 29 more sales than last year, followed by Auckland with 26 sales and Northland with 11 sales. For the three months ended June, the median sale price per hectare for dairy farms was \$29,555 compared to \$34,850 in May and \$27,919 last year.

Big lift in farmer confidence [15 July/ Rural News Group] A large improvement in farmer confidence has been recorded in the latest quarterly Rabobank Rural Confidence Survey. More than half of the country's farmers (54 per cent) expect the rural economy to improve over the next 12 months which contrasts with the 28 per cent figure reported by the previous survey. Only 8 per cent of respondents expected conditions to worsen. The new results will no doubt lift farmer's spirits, Rabobank New Zealand Chief Executive Ben Russell said. He said that higher dairy commodity prices as well as a looming supply shortage in lamb and beef following the recent drought will also contribute positively. He also said that the lower New Zealand dollar has also been another cause for optimism, with 27 per cent of farmers who expect conditions to improve nominating the falling dollar as the reason. Sheep and beef producers and mixed production farmers had a more positive outlook. Approximately 52 per cent of sheep and beef farmers expected an improvement in the agricultural economy which was an increase on the 24 per cent amount who had the same expectation in the previous survey. A total of 55 per cent of farmers surveyed expected improved performance of their own farming enterprises in the next year, compared with 42 per cent who had that expectation three months earlier in the previous survey. Only 10 per cent expected their business performance to worsen, a decrease on the previous 21 per cent amount.

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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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