

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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AGENDA 2013 VOLUME 3**

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23 October 2013

Organisations referenced in this week's Field Notes include:

Alliance Group	Rangitata South Irrigation Scheme
Australian Competition and Consumer Commission	Real Estate Institute of New Zealand
Campaign Against Foreign Control of Aotearoa	Ruataniwha Water Storage Scheme
Federated Farmers	Serious Fraud Office
Fonterra Co-operative Group	Shanghai Pengxin
Foundation for Arable Research	Silver Ferns Farms
Hawkes Bay Regional Council	Synlait Farms
KiwiMilk Nutrition	United States Federal Reserve uses
Lowe Corporation	Upper Taieri Water Resource Management Trust
Meat Industry Excellence	Village Milk
Meatworkers Union New Zealand	Waikato Regional council
Ministry for Primary Industries	Warrnambool Cheese & Butter
Murray Goulburn Cooperative	World Angus Forum
New Zealand Infant Formula Exporters Association	Zespri International
PGG Wrightson	

This week's headlines

Horticulture	Serious Fraud Office investigating Zespri [22 October/ NZX Agri News Group]
Farmers and producers	Crafar buyer bids for South Island farms [18 October/ New Zealand Herald]
Meat	Shrinking sheep flock erodes fellmonger [22 October/ Radio New Zealand Rural]
Water	Story of irrigation told in book [21 October/ Otago Daily Times]
Animal Welfare	Concerns raised over animal welfare bill [18 October/ Radio New Zealand Rural]

KPMG Agribusiness Agenda 2013

New Zealand's primary sector needs to develop a customer-centric approach to its marketing – by creating products with unique attributes that are sought after by global consumers.

That was a key theme of the recently released Volume 3 of the KPMG *Agribusiness Agenda*, titled "Evolving a truly customer-centric industry".

KPMG's Global Head of Agribusiness, Ian Proudfoot, says the sector needs to replace its traditional 'trading mentality' with a more targeted approach.

"Those customers who see the most value in what we produce – and are consequently willing to pay a higher price for the attributes they value – must be at the centre of everything we do."

"During our Roundtable discussions, it was widely recognised our producers need to be more selective about the opportunities we pursue."

Another key theme was the need to increase the contribution the primary sector makes to New Zealand's economy. In order to meet the Government's goal to double exports from the primary sector to \$60 billion by 2025, the sector will need to find ways to increase scale – through mergers, joint ventures, or pan-industry initiatives.

Proudfoot says while the market potential for our products is "almost frightening" in size – New Zealand will not capture the benefits if we compete on price alone. Instead, we need to create unique products for the premium end of the market.

As part of this, the *Agenda* recommends that the sector explores the development of an over-arching brand to tell the provenance story of our products.

"Although the 100% Pure tourism brand has been successful in building New Zealand's profile globally, it does not tell the full story of our food, fibre and timber products. The safety and quality of our products needs to be at the core of New Zealand's primary provenance story."

Another view expressed by industry leaders, and reported in the *Agenda*, was that New Zealand exporters should take a fresh look at their to-market business model. Instead of working through intermediaries or distributors when entering offshore markets, New Zealand companies would benefit from 'owning' the customer relationship directly and explore opportunities to gain greater exposure to consumer trends in the market niches with the greatest potential.

Volume 3 of the Agribusiness Agenda explores these issues – and more – in further depth.

Download the KPMG Agribusiness Agenda 2013- Volume 3

Horticulture

Serious Fraud Office investigating Zespri [22 October/ NZX Agri News Group] The Serious Fraud Office is beginning investigations into Kiwifruit Exporter Zespri however the motivation behind the move has not been fully disclosed. The Serious Fraud Office has confirmed that it is looking at legislated export marketing monopolist Zespri International although it is being very silent over further details. Zespri has highlighted that it has not yet been contacted by the Serious Fraud Office and has no details on the scope or substance of the investigation. It has been a difficult year for Zespri as well, with a Zespri subsidiary found guilty of being an accessory to under-declaring customs duties by a Chinese court. The unit was fined \$960,000, an employee sentenced to five years in jail, and an instruction that gains of some \$11.6 million be repaid. The New Zealand Kiwifruit Growers Association launched the second part of an inquiry assessing the impact of the Chinese legal action on Zespri's brand with results are expected to be obtained later this year.

Animal Health

Theileria parasite cases double in a month [21 October/ Radio New Zealand Rural] Confirmations of a new strain of the parasite theileria on farms around the country has doubled in the last month and it is now very widely spread throughout the middle-and-upper North Island. 213 farms have recorded infection cases of the theileria orientalis ikeda parasite. The fatality rate from infection is approximately 1.6 per cent, the Ministry for Primary Industries has said. The Ministry has said that affected cattle require blood transfusions and treatment with a powerful drug which means withholding periods of 35 days for milk and 140 days for meat applications. Steffan Browning agricultural spokesperson for the Green Party, highlighted his concern regarding the limited resources that the Ministry has in order to cope with the infection cases.

Wool

Bale of wool may fetch \$17,300 [22 October/ Business Day] Ultra-fine merino wool produced from naturally raised hoggets are set to reach selling levels unseen for some time at the Christchurch wool auction this Thursday. The merino wool is laser-scanned at 12.9 microns and ensures that the wool is very fine and delicate. Such careful processes to produce very high quality wool have attracted much demand from Japan, Korea and Europe. Buyer demand has also come from top fashion houses in Italy. Bidding is set to increase to about \$100 a kilogram for a similar 173 kilogram bale with the level of buyer interest. PGG Wrightson Wool South Island sales manager Dave BurrIDGE said the ultra fine wool had generated strong interest from potential buyers internationally. He said the exclusiveness of a bale produced from hoggets grown in "free range" conditions had been a large attraction and the wool would probably be made into ultra fine hand-made suits. Mr BurrIDGE said that his company has valued the wool at \$100 per kilogram however the bids received from various buyers could range from \$30 per kilogram to \$230 per kilogram.

Dairy

World dairy prices fall 1.9pc [16 October/ New Zealand Herald] Dairy product prices fell for the first time in three sales in the most recent GlobalDairyTrade auction held last week. A fall of 1.9 per cent was recorded with the average winning price decreasing from US\$4,980 a tonne to US\$4,888 a tonne. The biggest product by volume was whole milk powder and this fell 2.9 per cent to US\$5,058 a tonne while butter products fell 3.5 per cent to US\$3,780 a tonne. The auction is the second since Fonterra published results last month for the 2012-2013 financial year and announced a large profit in forecast milk prices for 2013/14. Overall there were 114 winning bidders over 14 rounds with 170 participating bidders out of a total number of 888 qualified bidders for the auction.

Formula exporter slams Govt help for China trip [17 October/ New Zealand Herald] A delegation of New Zealand companies recently received advice from a New Zealand taxpayer-funded business support centre in Shanghai, with the service being slammed by one infant formula exporter. The New Zealand Infant Formula Exporters Association sent members to China last month in an attempt to meet retailers, distributors and Chinese media in an attempt to repair brand damage caused by Fonterra's recent botulism contamination scare. KiwiMilk Nutrition founder Marco Marinkovich addressed China's Business Summit in Auckland last week, saying that New Zealand's Trade and Enterprise's New Zealand Central business centre had failed to provide an adequate service to the delegation in Shanghai. Mr Marinkovich said that he along with many other New Zealand milk powder businesses in the region were not welcomed or offered any support by the service. Theo Spierings, Chief Executive of Fonterra Cooperative highlighted earlier in the day that the classic "she'll be right" attitude that dominates some New Zealand organisations was not acceptable for an export business such as Fonterra.

Buttermilk lake investigation under way [21 October/ Business Day] The Waikato Regional Council is investigating the circumstances that have resulted in Fonterra disposing of milk by-products on a Atiamuri farm, near Taupo. The buttermilk has been trucked from Fonterra plants to the farm over the last few weeks as the company grapples with processing the spring's record milk production. Neither the council or Fonterra are able to say exactly how much product is now in the lake but Council Compliance and Education Division Manager, Rob Dragten, said that Fonterra has contingency plans to deal with milk and by-products that cannot be manufactured in a timely manner. The product disposals at Atiamuri are being conducted under a resource consent, however Mr Dragten said that the council was looking into the circumstances of how it came to be there and ensuring there is no immediate threat to the environment. He added that his staff were working with the landowner and Fonterra to ensure the lake was disposed of as quickly as possible. A spokesperson for Fonterra said the company checked disposal sites and ensure that it sighted copies of resource consents, adding that the company's responsibility did not stop when the excess left the factory and that Fonterra would be working with the regional council and landowner to ensure the buttermilk was disposed off in a safe manner.

Meat

Huge red meat taste test set to pay off [18 October/ Business Day] Silver Ferns Farms is about to see the pay off from New Zealand largest science investigation in the eating quality of red meat which saw 13,700 taste testers analyse hundreds of cuts of meat. A new eating quality grading system has been developed as a result of the investigation. Silver Ferns Farms Chief Executive Keith Cooper said that the SFF Eating Quality System started with consumers and worked back to farm pastures so that the cooperative could deliver what they wanted to eat. Mr Cooper highlighted the importance that New Zealand placed on red meat and emphasised the need for a high-quality rating system. He also emphasised the EQ system as fitting with the cooperative's model which seeks to offer premium ranges of beef to the high value food service and hotel, restaurant and catering sector. Mr Cooper said that the system will serve the cooperative very well into the future.

Merger on agenda [19 October/ NZX Agri News Group] Meat Industry Excellence (MIW) Group Chairman Richard Young and Executive member Dan Jex-Blake have both stood down from their respective roles to contest the two seats available at the Silver Fern Farms annual meeting. Both candidates have highlighted that they are standing on a platform of seeking a merger between Silver Fern Farms and Alliance Group to start a process of meat industry consolidation. Meat Industry Excellence Group is also planning to stand two candidates in the Alliance director elections. Silver Fern Farms Chairman Eoin Garden is retiring from the company at the annual meeting on December 18 while director David Shaw is seeking re-election with nominations closing on November 8.

Grass-fed meat promises to revive health benefits [22 October/ Business Day] The World Angus Forum held in Rotorua this month heard much about how grass-fed red meat farming can be sustainable. Nutritional Therapist Nora Gedgudas highlighted the sustainability benefits of such farming to attendees at the conference and said that grass-fed meat may just be the most healthy and sustainable food source on the planet. Grass-fed beef was vastly nutritionally superior to grain-fed beef. It had a higher omega-3 content and was also loaded with minerals and vitamins, antioxidants and conjugated linoleic acids, which reduce the risks of cancer, obesity and diabetics. Ms Gedgudas is an expert in Paleolithic nutrition and she is based in the United States where her private practice is run.

Shrinking sheep flock erodes fellmonger [22 October/ Radio New Zealand Rural] Silver Fern Farms has confirmed that it will close its Shannon skin processing plant by the end of this week. The announcement comes as falling sheep numbers in the North Island have contributed to very low processing numbers in the region. With the plant's closure, 80 jobs are set to be lost, with skins being sent to Lowe Corporation's more modern facility in Hastings for processing in future. The Shannon fellmongery opened in 1982 and has been processing skins from Silver Fern Farm's three North Island sheepmeat farms. Roger Middlemass, Meatworkers Union New Zealand Official, said that Silver Fern Farms was one of the better employers in the meat industry and the company had handled their worker redundancies well.

Ministry re-jigs rules for some meat inspections [22 October/ Radio New Zealand Rural] Rules around how meat companies carry out some of their meat inspections has been fine-tuned according to the Ministry for Primary Industries. A post mortem inspection option was introduced by the Ministry in August 2012 and this allowed export meat industry companies to choose whether they would use independent government inspectors or their own company inspectors on safety issues relating to non-food areas. Judi Lee, the Ministry's principal risk advisor for its standards branch, said that the Ministry has now made a few changes to the regulatory rules around certain performance standards.

Water

Farmers closer to knowing cost of Ruataniwha water [18 October/ Radio New Zealand Rural] A firmer indication of the cost of tapping into the highly debated Ruataniwha water storage scheme will be provided to Central Hawke's Bay farmers later next month. The Hawke's Bay Regional Council's investment company promoting the scheme has received close to 100 expressions of interest from farmers for water to irrigate at least 12,000 hectares. The Council said that this number was made up of a mix of sheep and beef farmers as well as cropping and dairy farming properties. A potential area between 25,000 to 30,000 hectares is estimated to be able to be irrigated by the scheme. While a decision on whether the scheme will proceed will be made in April next year, Hawke's Bay Federated Farmers President Will Foley said that the price indication for farmers will be somewhere within the initial estimate region of 22-25 cents per cubic metres of water.

Story of irrigation told in book [21 October/ Otago Daily Times] Local farmer and specialist irrigation veteran Geoff Crutchley has highlighted the shift from state to community ownership of the Maniototo irrigation scheme as being a great gift for the local farming community to receive. Mr Crutchley spoke at the launch of "Irrigation Scheming", a publication outlining the history of Government irrigation in New Zealand. He spoke at the Patearoa Bowling Club last Friday for the launch of the book which was written by retired civil engineer Peter Farley. The book includes a history of Government involvement in the development, ownership and sale of the 48 irrigation schemes throughout the country from 1916 to 1990 with a particular emphasis given to the difficulties the schemes faced financially while under Government control and how these were improved through innovations and achievements in the irrigation environment. Mr Crutchley said the book outline as an extraordinary sequence of events and describes political influence, gross incompetence, heroes and villains, and provides an excellent summation of events. Mr Crutchley is also Chairman of the Upper Taieri Water Resource Management Trust and he highlighted the sale of the Maniototo scheme as putting the community in charge of its most important natural resource.

KPMG is a proud sponsor of Peter Farley's new book, Irrigation Scheming. Please contact Troy Newton (tnewton@kpmg.co.nz) for more information, should you wish to purchase a copy of the book.

Hawke's Bay Federated Farmers rejects referendum idea [21 October/ Radio New Zealand Rural] A referendum proposal on the much debated Ruataniwha Water Storage Scheme is not being backed by Federated Farmers. Newly elected Councillor on the Hawke's Bay Regional Council, Peter Beaven, raised the referendum idea. He is also one of four members of the Grower Action Group, which campaigned on the way the Council handled water restrictions during the recent New Zealand drought. Will Foley is Federated Farmers Hawke's Bay President and said that he does not see the need for a referendum. Orchardists in the Hastings district in Heretaunga said that it was very important for water to be accessible. They said that it was contradictory to say that the storage of water was not a good approach. Hawke's Bay Fish and Game Council Manager Pete McIntosh said that pricing for water was to be at 20 – 25 cents per cubic metre, however there have been many dairy farmers stating that the price needs to be about 10 cents per cubic metre.

\$90m scheme filling ponds with liquid gold [22 October/ Business Day] The large Rangitata South Irrigation Scheme at Arundel, South Canterbury is at the commissioning stage with two of the seven ponds that it operates being filled with water. As natural silt is being used to waterproof the ponds, the process is very slow. Waimate businessman Gary Rooney is bankrolling the \$90 million scheme and the scheme is New Zealand's largest purpose-built storage facility for irrigation. More than 4 million cubic metres of fill on the south bank is being shifted by Rooney Earthmoving. The scheme is based on 300 hectares and when completed, it will irrigate 16,000 hectares of land between the Rangitata and Orari rivers. The scheme will be operated by state-of-the-art control systems with 20 hydraulic gates and 70 kilometres of open races in four separate strands.

Rural infrastructure

Fewer farms sold last month [18 October/ Otago Daily Times] The Real Estate Institute of New Zealand has reported that fewer farms were sold in New Zealand last month as farmers focused on getting through one of the busiest times of the year. In the three months ended September 2013, 342 farms were sold in total which was down from the previous 369 sold in the prior three months. The Institute reported that the REINZ All Farm Price Index increased by 7.2 per cent compared to the three months to August from 2,980.9 to 3,194.8. The Index adjusts for differences in farm scale, location and farming type. The Index was also up from the same time last year with September 2013 figures increasing 17.9 per cent. A drop in sales volume was recorded in Nelson, Canterbury and Gisborne. A 39.8 per cent share of sales related to grazing properties, followed by finishing properties accounting for 27.2 per cent, horticulture properties taking up 10.8 per cent and dairy properties recording 8.2 per cent of all sales.

Research and development

Raw milk venture renews enthusiasm [19 October/ Business Day] Canterbury farmer Geoff Rountree and his wife Sandra have gone back to basics with producing raw milk products for Takaka-based Village Milk. Their 14 cow herd is milked once a day which helps to keep the stress at low levels for both the herd and Mr and Mrs Rountree. With the milk being non-pasteurised, a large emphasis is placed on hygiene and both producers had to be trained to a very high standard. The herd is teat sprayed before milking and their udders are individually cleaned with any cautions about somatic cell counts being taken very seriously. The cows are paddle-tested before any cups are placed on the animals. To continue the business operating year-round, the Rountrees are also building up another autumn-calving herd.

Biosecurity

Spraying to destroy black grass begins [18 October/ Otago Daily Times] Roadside spraying on State Highway 77 between Ashburton and Methven is due to begin this month as intervention measures are carried out regarding the black grass plant pest. The Ministry for Primary Industries, Federated Farmers and the Foundation for Arable Research developed the plan and it will involve spraying at-risk areas at least three times during the first year. The area will be sprayed five times in the second year and three times in the third year. It is estimated that at least 2100 black grass seeds were lost along the 40.2 kilometre route when the spill occurred earlier in the year.

International

Diary giant poses as a national farm saviour [19 October/ Business Day] An eleventh hour takeover offer directed at Warrnambool Cheese & Butter has just recently been made by Murray Goulburn Cooperative. In an attempt to satisfy the detractors to the deal, dairy cooperative Murray Goulburn made an offer of \$7.50 cash to Warrnambool shareholders. The cooperative is also appealing for significant support from farmers and those in the rural community. Commentators believe this is primarily to prevent rejection from the Australian competition regulator. The cooperative has also decided to exploit legislative changes made in 2007 that created a merger carve-out in the Australian Competition and Consumer Commission for mergers that might otherwise be prohibited under certain sections of the Competition Act. From the new changes, a company may follow the "authorisation route", by which it can go straight to the Australian Competition Tribunal, which allows the parties to argue that the merger has substantial public benefits even if it lessens competition. If Murray Goulburn is successful in obtaining approval for its merger, the move will place it as a top 20 dairy company globally.

Animal Welfare

Farmers fighting proposed animal welfare changes [18 October/ Business Day] Proposed new animal welfare legislation could be used to discredit New Zealand or give away commercially sensitive information, farmers have highlighted. A new clause in the proposed Animal Welfare Amendment Bill is being sought to be removed by industry representatives. The clause allows inspectors to gather photo and video evidence of animal abuse in order to aid in prosecutions. Concerns were raised at the primary production committee hearing in Parliament last week over new inspector powers which means that farmers could be sanctioned if they were breaking the law or suspected to likely break the law without having being directly convicted. National MP, Eric Roy, said that the Government would be unlikely to remove the clause but would look very carefully at protections and the evidence required for prosecution to take place.

Concerns raised over animal welfare bill [18 October/ Radio New Zealand Rural] A proposed amendment to the Animal Welfare Bill has resulted in two agricultural organisations voice their concerns. The Meat Industry Association and Beef + Lamb New Zealand share concerns over who should be making the decisions over animal welfare. Chief Executive of the Meat Industry Association Tim Ritchie said that the animal welfare standards body responsible for determining such issues is the National Animal Welfare Advisory Committee (NAWAC) and not a Minister. Mr Ritchie said that leaving animal welfare under the supervision of NAWAC would reduce the possibility of political or ministerial interference. This line of thought was also shared by Beef + Lamb New Zealand, and General Manager Ben O'Brien said that NAWAC was an important and highly competent committee that was capable of working through all sides of the animal welfare debate.

Farmers and producers

Crafar buyer bids for South Island farms [18 October/ New Zealand Herald] An offer of \$85.7 million is being submitted by Crafar Farms buyer Shanghai Pengxin to buy Synlait Farms. Synlait is the large New Zealand South Island dairy farmer and if the takeover is successful, it is anticipated that a further \$20 million in fresh capital will be injected into the company to aid debt reduction and accelerate investment. SFL Holdings is a joint venture between Pengxin and Synlait Farms Chief Executive Juliet Maclean and the company's Director John Penno. The joint venture is offering \$2.10 a share to Synlait Farms investors in a full takeover bid for the company which operates 13 dairy farms and a total herd of almost 13,000 cows. This would record a 31 per cent premium to the \$1.60 price the shares were last traded at on the Unlisted New Zealand platform. The company Synlait Farms supplies about 10 per cent of listed dairy processor Synlait Milk's requirements.

Synlait talks up Chinese takeover offer [19 October/ Business Day] It is too early for an \$87.5 million takeover bid for dairy farming company Synlait Farms by a Chinese corporate to be analysed and responded to by the 100 shareholders of the company, according to Synlait Farms Chairman Barry Brooks. He added one of the larger Synlait Farms Shareholders, Ben Dingle, has already indicated that he will be selling his holdings. He also said that investment in New Zealand by Chinese interests should be welcomed. This contrasts with the Campaign Against Foreign Control of Aotearoa (CAFCA) spokesman Murray Horton's view who is firmly against ownership rights of New Zealand land moving into foreign hands. His response came after the Chinese company Shanghai Pengxin Group announced their takeover bid for Synlait farms. The bid comes in association with two of Synlait's founders John Penno and Juliet Maclean. The joint venture vehicle SFL Holdings intends to make a takeover offer of \$85.7 million or \$2.10 a share for Synlait whose shares trade on the Unlisted New Zealand market.

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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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