

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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30 October 2013

Organisations referenced in this week's Field Notes include:

AgResearch	New Zealand Post
Alliance Group	Nufarm Agri-Chemicals
Aquaculture New Zealand	Potatoes New Zealand
Beef and Lamb New Zealand	Pure Oil New Zealand
Cawthron Institute	Royal Agricultural University
Central Plains Irrigation Scheme	Rural GPs Network
Countdown Supermarkets	Serious Fraud Office
Dairy Technology Services	Simplot Australia
Federated Farmers	Statistics New Zealand
Fonterra Co-operative Group	Summerfruit New Zealand
Independent Kiwifruit Growers Association	Tesco PLC
Manawatu-Whanganui Regional Council	Tru-Test
Massey University	Walmart
Meat Industry Excellence Group	Westpac Bank
Ministry for Primary Industries	Zespri
Nevis Fruit Company	

This week's headlines

Fishing and aquaculture	Fish farming must grow – former PM [26 October/ Nelson Mail]
Dairy	Fonterra failed to see 'explosive reputational risk' [29 October/ NZ Herald]
Meat	Fonterra director blocked from Alliance candidacy [23 October/ Radio New Zealand Rural]
Rural infrastructure	NZ Post changes deliver for farmers [29 October/ Taranaki Daily News]
Economics and trade	NZ must have scale to prosper in emerging food markets - analyst [22 October/ Radio New Zealand Rural]

Horticulture

Nathan Guy fuzzy on SFO Zespri probe [23 October/ Radio New Zealand Rural] Minister for Primary Industries, Nathan Guy, has said that he is not completely certain on why the country's largest horticultural exporter, Zespri, is being investigated by the Serious Fraud Office. Last week, the SFO confirmed that it had launched an investigation into the kiwi fruit marketer but refused to supply any further details. Zespri said that it has not yet been contacted by the SFO and that it was not certain on what grounds it was being investigated. The Independent Kiwifruit Growers Association has been calling for an inquiry into Zespri following the company's conviction and large fine this year for its role in a duty avoidance scheme in China between 2008 and 2010.

Support sought for levy [24 October/ Rural News] Summerfruit NZ will hold a ballot of growers in November to seek support for the continuation of the organisations levy funding for the next six years. Consultations over the levy have been ongoing since May with chairman, Gary Bennetts, vice chair, Tim Jones, and CEO, Marie Dawkins, touring the country to meet growers on their orchards. Ms Dawkins said that it had been an interesting and rewarding process and had resulted in lively discussion about the organisations projects. Ms Dawkins added that there had been almost no negative feedback about the levy itself, noting that the organisation was hopeful of a positive outcome.

Orchardists trying new varieties with exporting in mind [25 October/ Otago Daily Times] New fruit varieties are being trialed by Central Otago orchardists as part of two breeding programs to develop higher value apricots. Director of Summerfruit New Zealand Earnsley Weaver said that the organisation has produced several new varieties which were being evaluated for commercial use. The company is also in partnership with Plant and Food Research and John McLaren's private Nevis Fruit Company program. Mr McLaren said that his varieties of fruit were harvested later in the season. He said that they also had improved eating quality and brix levels. It was indicated that the first plantings were going in the ground and that the first commercial-sized crops would appear in three to five years.

Training trees for better crop, easier harvest [25 October/ Otago Daily Times] Cherry hedges are being grown by Roxburgh orchardist Glen Manderson as opposed to cheery trees. He has bought 500 early fruiting Samba cherry trees from a Cambridge nursery to replace a block of 90-year-old trees, spending the past few weeks planting them. He said that the Samba is an early Christmas cherry and the low-growing hedge of cherries would allow more light to get to the fruit in order to provide a larger fruit crop. He estimates 80 per cent of the crop will be picked under 7 foot high.

New export prospect for NZ potatoes [29 October/ Radio New Zealand Rural] A new market is rapidly opening up for New Zealand's potato growers while they wait for clearance to export fresh product to Australia. Potatoes New Zealand CEO, Champak Mehta, says that industry has high hopes for a new market in Vietnam which could be opened before the end of the year, following discussions in Wellington last week. Mr Mehta noted that the French influence on Vietnamese cuisine means potatoes have traditionally been eaten in the country. He added that progress with a proposal to export fresh potatoes to Australia remains slow with growers their continuing to block the move, still leaving Fiji as the biggest export market for fresh potatoes. Australia is a significant market for frozen processed potatoes, with 50,000 tonnes exported their this year.

Arable

Cereals gain from good oil [27 October/ Business Day] Rapeseed crops are in full flower in South Canterbury fields, thriving on the high rainfall and the ability to withstand cold winters and hot summers. Farmers are increasingly adding the crop to their inventory as finished products such as canola oil are in high demand. A case in point can be drawn from farmer Warren Darling's pursuit of the crop. Mr Darling has planted 90 hectares of rapeseed on his 300 hectare Kingsdown farm in South Canterbury. The rest of his farm is planted with wheat and barley. Managing Director of Pure Oil New Zealand, Nick Murney said that rapeseed oil leaves soils in good condition for the following cereal crop and effectively provides a break between consecutive cereal crop plantings. Mr Darling said that when harvested in January, one hectare of rapeseed plant will give Mr Darling 5000 kilograms of seed which can then be taken to Rolleston to be cold-pressed and filtered by Pure Oil New Zealand.

Fishing and aquaculture

Fish farming must grow – former PM [26 October/ Nelson Mail] Former Prime Minister, Jim Bolger, was the final speaker at last week's Aquaculture New Zealand conference in Nelson, and highlighted the inconsistency of people's views around scientific issues. He noted that the same people who support the scientific consensus on climate change don't accept the scientific conclusions on genetically modified crops or aquaculture despite the huge challenge of providing sufficient food for a world population expected to grow to 9 billion by 2050. Mr Bolger said that fresh water was the world's most precious resource and as a consequence the majority of space for aquaculture growth around the world would be in salt water and he suggested that there was a need to break through some of the fixed attitudes people hold about developing suitable sites. New Zealand has the ninth longest coastline in the world (15,134 kilometres), yet Mr Bolger noted that you would think from the attitudes of some that New Zealand's shoreline and its bays were wall to wall with fish farms despite nothing being further from the truth. He said a significant increase in NZ aquaculture production could be achieved in a few selected areas of the country that would take up the smallest fraction of the coastline. In a world where water and access to it is a strategic challenge, New Zealand has a strategic advantage, something Mr Bolger said we must use wisely in both agriculture and aquaculture.

Workshop valuable for NZ, UK [28 October/ Nelson Mail] The Cawthron Institute in Nelson hosted a workshop for British aquaculture experts which has created potential new collaborations between New Zealand and UK based scientists, researchers, educators and consultants. The British group were in Nelson for the Aquaculture New Zealand conference and spent the Saturday after the conference at the Cawthron Institute. Steve Thompson of the British High Commission, said the highlight of the day had been "watching the magic happen" as specialists from New Zealand and Britain connected professionally and he expects to see a whole bunch of collaborations spawned over the next few months. Cawthron aquaculture group manger, Jacquie Reed, said both parties were keen to keep the British connection going with much interest expressed in Cawthron's high intensity shellfish rearing set-up.

Animal health and welfare

Leptospirosis cases on farms rising [24 October/ Radio New Zealand Rural] Scientists from Massey University are encouraging farmers to vaccinate their animals against the leptospirosis disease as they investigate its effects of livestock. The disease is highly infectious and debilitating and can be passed on to humans through handling farm stock on farms or in processing plants. The disease is being analysed by a team from Massey University and results have indicated that as well as the human risk, leptospirosis is also causing production and reproduction losses in livestock. She said that the results showed up in their work on deer herds. She added that currently about 95 per cent of dairy herds are vaccinated against leptospirosis but only about 10 per cent of beef herds are vaccinated. She also noted that there was an increase in the number of reports of the disease among farmers.

Dairy

Lift in dairy exports to China narrows NZ trade gap [25 October/ New Zealand Herald] A resurgence in dairy exports to China narrowed the trade gap considerably last month as demand for New Zealand exports steadily increases. While imports of \$4 billion exceeded exports by \$200 million, this compared with the average deficit of \$769 million over the previous five years. Annual trade deficit figures fell to \$1.5 billion from \$2.1 billion in the year ended August. Statistics New Zealand reported that while August and September generally represent lower seasons for dairy exports, last month's values were particularly high and primarily led by increases in exports to China. Westpac Bank Economist Anne Boniface said that the country has probably seen the worst of the drought's impact and volumes should probably pick themselves up further for the remainder of the year. Export of forest products were also up on previous figures.

Tests show milk clear of Roundup used for silage [26 October/ Business Day] Using glyphosate to increase silage metabolisable energy has resulted in research findings highlighting that it is not turning up as residue in milk. AgResearch specialist, Trevor James, said that the herbicide commonly known as Roundup has no affect on animals, even when used on silage materials. Concerns about the practice have been raised in Europe, with the Austrian parliament voting to ban its use as a pre-harvest desiccation tool for crops used in food and animal feed as a precautionary measure until it is further analysed by 2015. Nufarm, the agri-chemical company recommends spraying silage pastures before harvesting with Roundup Transorb in order to increase metabolisable energy (ME) values. These ME values generally peak four days after spraying and an extra 0.1 to 0.6 megajoules per kilogram of dry matter can be expected from treated crops. Dairy farmers can expect increased milk solids and profits from the treatment. Federated Farmers South Canterbury and North Otago grain and seed spokesman Colin Hurst said that while he was aware of the concerns that pre-harvest spraying with Roundup/glyphosate would increase the build-up of weed resistant crops, the labels on the products were very informative so information was available regarding application and effects.

Fonterra failed to see 'explosive reputational risk' [29 October/ NZ Herald] An independent inquiry into the Fonterra botulism scare has found the co-operative failed to recognise the reputational risk associated with the scare. The board inquiry includes a list of things that went wrong, including the belated recognition and delayed escalation to senior management and the board of the issue. The report says the company failed to join the dots between botulism, infant food products, consumer sensitivities and Fonterra's global reputation. It highlights that crisis management planning (including external communications) was inadequate for a crisis of this kind and scale, particularly in the critical early period. It also suggests that there was a lack of alignment between the Government and Fonterra during the first weeks of the scare. The overall conclusion is that there were shortcomings in a number of areas which converged to create a significant issue, however there is no indication of a fundamental problem within Fonterra. The report contains 33 improvement recommendations for Fonterra to assist it in becoming an even better company, changes which the inquiry chairman and Fonterra Director, Sir Ralph Norris, described as not optional but vital. Fonterra Chairman, John Wilson, said that much of the recommended change is already underway or the changes needed have been identified, while Shareholders Council chair, Ian Brown, said the Council would review the report thoroughly and discuss it with the board before sharing its view with shareholders. The results of a government inquiry into the scare are yet to be released.

Meat

Steaks high in trans-Tasman beef battle [26 October/ Business Day] Australian red meat is traveling across the Tasman and into New Zealand supermarkets as New Zealand beef farmers continue to recover from last summer's drought conditions. Results obtained from recent supermarket surveys have also highlighted Australian beef as coming out as cheaper than New Zealand substitutes. Beef and Lamb New Zealand Chief Executive Rod Slater said that the Australian movement of meat to New Zealand was not by any means permanent and that it was simply a matter of satisfying demand where it is needed. This was verified by Countdown Supermarkets Spokeswoman Kate Porter who said that when demand outstripped supply, they would look elsewhere to fill this gap. She added that last year 98 per cent of beef sold in their stores was from New Zealand sources and the remaining 2 per cent was from Australia which is clearly labeled for New Zealand customers.

Fonterra director blocked from Alliance candidacy [23 October/ Radio New Zealand Rural] The meat industry reform farmer group is disappointed that the Alliance meat cooperative board has rejected the nomination of one of the four candidates put forward for two directors seats in upcoming elections. Sitting Directors, Alliance Chairman Murray Taggart and Southland Farmer Jason Miller, and one challenger Donald Morrison were all accepted however dairy and beef farmer John Monaghan was rejected. The cooperative highlighted the reason for the decision as being attributable to Mr Monaghan's shareholding in the cooperative as being too small. He is also a Director of the Fonterra Co-operative Group and a former Chairman of its Shareholders' Council. Meat Industry Excellence Group Chairman John McCarthy said that he found it to be astonishing that someone with Mr Monaghan's background was rejected.

Alliance defends rejected director decision [29 October/ Business Day] Following its rejection of John Monaghan's nomination to stand in its upcoming board elections, Alliance Group's company secretary, Danny Hailes, has said that all nominations receive the same scrutiny. He rejected claims from Meat Industry Excellence Group advisor, Ross Hyland, that the board had a "last man standing mentality" and that the company was running scared of the MIE. Mr Hyland said that MIE had nominated Mr Monaghan to try and break the Alliance board's status quo and that it should be the shareholders rather than the sitting directors of the company that decide who sits on the board. However, Mr Hailes said the board has no discretion on acceptance of a nomination, a person either meets the criteria or they don't and the board considered each nomination against the eligibility criteria in the constitution. Mr Hailes said that Mr Monaghan met three of the four criteria in clause 17.9 of Alliance's constitution, but not 17.9B which requires a candidate to have a direct or indirect beneficial interest in 5,000 or more Alliance Group shares. Mr Hailes said the statements from the MIE were inconsistent, as recognised that the decision is both technically and constitutionally correct, yet somehow suggests the company should have done something else.

Rural infrastructure

Tru-Test sales up 12pc- assets double in a year [22 October/ New Zealand Herald] A 12 per cent increase in full year sales has been reported by Tru-Test Group, who specialise in electric fence systems, livestock scales and electronic identification products. The organisation also reported a tripling in profit as a result of a gain from the sale of a UK based subsidiary. An increase in profit to \$6.6 million in the twelve months ended March 31 2013, from \$2.3 million a year included earnings of \$5.6 million from the sale of its UK livestock weighing and tagging business Ritchey and Fearing and sales increased 12 per cent to \$97.6 million. The company made a "transformational acquisition" earlier this year when it bought Dairy Technology Services in January for some \$73 million. The business acquisition allows Tru-Test to extend its reach in the dairy industry through gaining valuable experience in milk storage and refrigeration technologies. Chairman of Tru-Test, John Loughlin, said that Dairy Technologies helps deliver a significant change in scale that has been required for some time. He added that Tru-Test continues to actively look for further acquisition opportunities. The company has announced its intentions in not paying dividends for this financial year as it focuses on repaying bank debt after making the acquisition.

Extra funding surprises rural general practices [25 October/ Radio New Zealand Rural] An increase in support funding for rural general practices by the Government has surprised the organisation representing rural General Practitioners. Next July the country's 200 rural practices will receive an extra \$9 million over the following four years on top of the \$13 million a year that has already been allocated to help maintain staff and various rural services. Rural GPs Network Chair Jo Scott-Jones said that the extra funding has come out of the blue, however it is a positive message for those in the rural health area. Dr Scott-Jones added that it appeared that many would use the extra funding to help recruit and retain the workforce in rural communities.

NZ Post changes deliver for farmers [29 October/ Taranaki Daily News] In an editorial, the decision to retain rural delivery services at their current levels is welcomed as it is the postal delivery that keeps many farmers in touch with the rest of the world. New Zealand Post has announced a plan to cut metropolitan deliveries to three times a week in an attempt to maintain the viability of the postal service as communication habits evolve and the decision to retain rural services has been challenged by urban commentators who claim that nobody can be isolated in the modern connected world. However, it needs to be recognised that the contractors that bring the mail bring much more – a prescription from the chemist, groceries the farmer could not pick up. The rural mail also keeps elderly rural people in connect, many of whom are unable to connect to a high speed broadband connection or lack the skills to use a computer. Rural people do feel more isolated and seek opportunities to meet and connect with 'real' people. As rural schools have closed, the heart of many communities, the feeling of isolation increased in many communities. Rural areas have significant mental health issues which can be attributed to isolation and higher incidence of suicide than the urban population. This the decision by New Zealand to continue rural delivery services for now, is important to sustaining rural communities.

Wool

Shortage keeps strong wool prices high [25 October/ Radio New Zealand Rural] Strong wool prices increased further at the most recent South Island wool sale, with the continuing shortfall in wool coming forward for auction pushing prices upwards. Recent results highlighted an 88 per cent clearance of the 7500 bales on offer and compared to last week's North Island sale, crossbred prices increased by up to 6 per cent. However, this contrasted with merino prices with a fall recorded of between 1 per cent and 5 per cent compared with the fine wool's previous sale.

Water

Causes of nitrate in water supply complex say farmers [24 October/ Radio New Zealand Rural] Increased levels of nitrate in Canterbury water supplies need more analysis, before claims that farming is to blame can be accepted according to Canterbury farming representatives. A report into the quality of groundwater in Canterbury shows that 33 of 289 wells tested contain unacceptable levels of nitrate for drinking water. Nitrate is typically absorbed in the blood and increased levels in humans can have detrimental impacts on the body's ability to carry oxygen around the body. Medical Officer of Health in Canterbury Dr Alistair Humphrey said that health risks have been associated with such high levels of nitrates. He said that most of the cause could be attributed to the increase in the levels of intensive farming in the region and associated irrigation. He added that while the issues are complex and have been developing for a long period of time, nitrate pollution could be attributed to other factors as well and not just from intensive farming practices.

Deadline loom for irrigation buy-in [25 October/ Radio New Zealand Rural] The deadline for buying into the Central Plains Irrigation Scheme is drawing closer with less than a week available for farmers to decide whether or not they will buy into the project. Once completed, the irrigation project will see up to 60,000 hectares of land irrigated. Communications and consents manager for the project Susan Goodfellow said that it needs farmers to invest around \$43 million by the end of the month in order for the plan to be successfully implemented.

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International

Australian vegetable processor cuts jobs [29 October/ Radio New Zealand Rural] Simplot Australia, the last of Australia's big vegetable processing companies, has slashed its workforce in New South Wales and Tasmania after automating processing lines. However, the company says it will not survive unless Australians start buying more home grown produce. Managing Director, Terry O'Brien, says that 110 of the 170 permanent jobs at the Bathurst plant will be cut along with significant cuts to employee numbers at the Devonport plant in Tasmania. It was noted that growers will not be directly affected with both plants remaining open and quotas stable for three years.

Economics and Trade

NZ must have scale to prosper in emerging food markets - analyst [22 October/ Radio New Zealand Rural] Visiting Professor from the Royal Agricultural University in Britain, David Hughes has said that New Zealand is well positioned to benefit from the rising population and incomes in some key emerging markets however there are many challenges to be overcome. Professor Hughes said that the company structure and operation of New Zealand farming organisations need to become better adapted to the changing agricultural business environment. He added that New Zealand companies need to be of sufficient scale and configured in a way that was easiest to do business. The Professor indicated New Zealand companies as needing to be horizontally integrated as they are with Fonterra and Zespri in order to do business with giant retailers such as Tesco and WalMart which are setting up in China and working with local partners.

Farm trade given a small boost - minister [23 October/ Radio New Zealand Rural] Minister for Primary Industries Nathan Guy has revealed that an Agricultural Counselor is to be appointed to the New Zealand Embassy in Jakarta. He highlighted the posting as recognising the growing importance of the trade relationship with Indonesia and part of the Ministry's efforts to increase its presence in Asian markets. Mr Guy also said that the Ministry was doubling its market access team in Wellington from eight to 16 people.

Farmers and producers

Regional council offers help to flood hit Whanganui farmers [24 October/ Radio New Zealand Rural] Help is being offered by the Manawatu-Whanganui Regional Council to farmers who are stuck with the clean-up process on their farms from last week's flooding. The Ministry for Primary Industries is assessing crop losses in the lower Turakina and Whangaehu areas where widespread damage occurred to farm roads, bridges and culverts extending into the upper Whanganui River. Richard Munneke, the Council's regulatory manager said that the organisation aimed to leave farmers as free as possible to continue the cleanup work without a lot of bureaucracy and paper work. He said that farmers should approach land management officers in order to see whether their cleanup work needed resource consent.

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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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