

AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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#### Organisations referenced in this week's Field Notes include:

A2 Corporation	New Zealand King Salmon
AgResearch	New Zealand Wool Services International
ASB Bank	Northland Dairy Development Trust
Bank of New Zealand	Open Country Dairy
Chinese Ministry of Environmental Protection	Rabobank New Zealand
DairyNZ	Rakon Limited
Environmental Defence Society	Reserve Bank of New Zealand
Farm Forestry Association	Save our Sounds
Federated Farmers	Silver Fern Farms Cooperative
Fonterra Cooperative	South Otago A&P Show
Global Food Safety Forum	Statistics New Zealand
High Court of New Zealand	Supreme Court of New Zealand
Invercargill City Council	Tsinghua University's School of Environment
Massey University	Windermere Alpacas

#### This week's headlines

<b>Fishing and aquaculture</b>	<b>Salmon farm fight hits Supreme Court</b> [19 November/ Business Day]
<b>Meat</b>	<b>Meat co-ops see obstacles to merger</b> [18 November/ Radio New Zealand Rural]
<b>Rural infrastructure</b>	<b>NZ retains food safety reputation - campaigner</b> [14 November/ Radio New Zealand Rural]
<b>Water</b>	<b>Freshwater rules 'will require sacrifice'</b> [18 November/ NZX Agri News Group]
<b>Biosecurity</b>	<b>HortNZ sees gaps in regional biosecurity</b> [16 November/ Radio New Zealand Rural]

## Horticulture

**Cheaper veges push down October food prices** [13 November/ New Zealand Herald] Statistics New Zealand has reported that food prices fell 1 per cent in October while increasing 0.8 per cent on a year earlier. Statistics New Zealand Prices Manager, Chris Pike, said that the fall in food prices was largely influenced by lower prices for seasonal fruit and vegetables such as tomatoes, lettuce and cucumber. Average prices fell further from \$11.39 per kilogram in September to \$7.11 in October. Grocery food prices fell 0.3 per cent while meat, poultry, and fish prices rose 2 per cent. Lamb prices increased 15 per cent which put them at their highest level since December 2011, chicken prices increased 4.9 per cent and beef prices increased 1.4 per cent.

## Forestry

**Still too early for full assessment of lost trees** [19 November/ Radio New Zealand Rural] It is too early to know just how many of the trees lost in the spring storms in Canterbury will be able to be replaced, the Farm Forestry Association has said. Approximately 1 million tonnes of timber was left lying on the ground throughout Canterbury and surrounding areas during September and October. In some cases, entire shelter belts were knocked down and some commercial plantations and woodlots were badly damaged. Farm Forestry Association National President, Ian Jackson, said that the main priority at the moment was to complete the clean-up. He indicated a difficulty existed in finding the right contractors available to harvest the trees.

## Fishing and aquaculture

**Salmon farm fight hits Supreme Court** [19 November/ Business Day] New Zealand King Salmon's application to expand the number of salmon farms it operates in the Marlborough Sounds has reached the Supreme Court in a precedent-setting hearing. Lawyers for Save our Sounds (SOS), a group opposed to salmon farm expansion, argued the farming practices would significantly pollute the surrounding water because of the increased levels of feed discharge. In October, both SOS and the Environmental Defence Society were granted the right to appeal a High Court decision that gave New Zealand King Salmon approval to build four new fish farms in the Marlborough Sounds. Earlier in February this year, New Zealand King Salmon was granted permission to build the farms in scenic and recreational areas where aquaculture was prohibited. Almost all of the 1300 submissions received were in opposition to the build mainly due to pollution from fish waste, loss of recreational space and the impact on landscape and tourism. The supporting groups cited increased job creation and economic growth.

## Wool

**Wool prices ease** [16 November/ Radio New Zealand Rural] This week's North Island sale saw wool prices decrease relative to prior sales, ending a sustained lift in prices over recent months. New Zealand Wool Services International reports that more than 90 per cent of the 6500 bales sold at the sale. Prices for all types of wool were up to 5 per cent lower than last week's South Island sale. General Manager for Wool Services John Dawson said that the drop in New Zealand carpet wool prices was necessary because the organisation was beginning to see inconsistent supply links with associated demand. Mr Dawson said that New Zealand wool was becoming uncompetitive against product from the UK and Europe. He added that the main question many were asking now was how long the downward movement in prices would last for.

**Alpacas produce fabulous fibre** [18 November/ Otago Daily Times] Windermere Alpacas, owned by husband and wife team Stewart and Brenda McLean, are receiving large amounts of attention as they get set to showcase their alpaca products at the South Otago A&P show. The region is the only one that has a class for alpacas and more than 50 entries are normally submitted from Otago and Southland, Fiordland and Canterbury. While alpaca's used to be sold as pets, they were now recognised to be economically viable livestock. She said that the A&P shows provided a good opportunity for people to learn more about the breed.

## Dairy

**Dairy sector highly indebted, vulnerable – Reserve Bank** [13 November/ New Zealand Herald] The Reserve Bank of New Zealand has warned that the dairy industry is still highly indebted and very vulnerable to a fall in commodity prices in addition to increasing interest rates. Deputy Governor of the Reserve Bank Grant Spencer highlighted the high levels of agricultural debt as posing a risk to the stability of the financial system. The results are highlighted in the Bank's recent six-monthly financial stability report which emphasises that many farmers are taking on more debt under the assumption that they will continue to receive consistently high commodity prices. The report also indicates the elevated level of debt as being attributable to high milk prices and the strong growth in farm land prices.

**No worries over dominance of China** [18 November/ NZX Agri News Group] Fonterra Chairman, John Wilson, has said that the co-operative is not concerned that the market in China is taking too large share of New Zealand's dairy production. In the twelve months to 30 September, China took 25 per cent of New Zealand dairy exports and 40 per cent of Fonterra's milk powder. The country bought, in total, \$3.2 billion worth of dairy from New Zealand during the same period. Bank of New Zealand Economist Doug Steele told the annual meeting of the Northland Dairy Development Trust in Whangarei that China's purchasing of New Zealand merchandise exports had increased from 6 per cent to 18 per cent of total exports in five years. He also highlighted the presence of the large concentration risk that exists for New Zealand from Fonterra's significant amount of export capacity. Mr Wilson said that China had fallen short by around 20 per cent in their forecast milk production for the 2013 year which Fonterra and other suppliers were filling.

**Dairy factory's expansion reaches next stage** [18 November/ Business Day] Construction has commenced on the third stage of the multimillion dollar expansion of Open Country Dairy's Awarua plant in the South Island. A new dryer will be operational upon completion of the project, which is taking place in four stages. Building consents at Invercargill City Council are now set to include a dry store extension and powder bin tower structure. Building consent has been granted for the concrete and steel elements. This stage is set to include a warehouse, packing area, silo slabs and a tanker reception. Work is scheduled to be completed by September next year.

**Hopes scare a 'turning point'** [18 November/ Otago Daily Times] The recent botulism contamination scare that hit Fonterra earlier in the year is hoped to act as a turning point for New Zealand, Federated Farmers Chief Executive Conor English has said. Mr English indicated that it was important for Fonterra to address the issues that caused the incident in order for no repeat incidents to occur in the future. Minister for Primary Industries Nathan Guy said that the recent scare highlighted the critical importance of supply-chain management and ensuring traceability at all points through the supply chain. He added that the New Zealand Government took food safety and security very seriously and that future food related pursuits would be followed very closely.

**A2 Corp makes changes to UK JV** [19 November/ Business Day] A2 Corporation, the Auckland-based niche milk company is buying out its joint venture partner in Britain to accelerate development in the market. A2 and Muller Wiseman Dairies (MWD) have agreed to change the structure of the A2 Milk (United Kingdom) joint venture to take advantage of the significant opportunity for A2-branded milk products there and in Europe. This was revealed at an announcement ahead of its annual shareholders' meeting earlier this week. The company said that A2 would acquire MWD's shareholding in A2 Milk (UK) for a nominal amount and that the new arrangement would suit the strategic priorities of both parties. A2 Managing Director Geoff Babidge said that initial consumer reaction to the proposition had been favourable and confirmed the company's view that a viable premium niche position could be created for A2 branded products.

### Meat

**Export figures show rising dominance of China** [15 November/ Radio New Zealand Rural] The rising dominance of China on the export/import market for meat has been confirmed by newly release statistics from Beef + Lamb New Zealand. Results highlighted meat exports to China as growing rapidly from less than 1 per cent of the total volume to 10 per cent in just three years. In the past year, China became New Zealand's single largest sheepmeat market, importing 131,000 tonnes of lamb and mutton, displacing the United Kingdom which took 74,000 tonnes. China was recorded as accounting for 28 per cent of lamb and more than half of the mutton quantity. Beef + Lamb New Zealand Chief Economist Andrew Burt said that the average value of lamb exports to China still trails well behind the returns obtained in large and more established markets. He said that the average value that New Zealand was receiving from China was a bit over half of what it was getting for lamb exported to the European Union.

**Van der Heyden shares ideas with MIE** [18 November/ NZX Agri News Group] Former Fonterra Chairman Sir Henry van der Heyden has been taken on board by the Meat Industry Excellence Group to share his ideas and experience in the agriculture industry. Sir van der Heyden said that many red meat sector participants had contacted him over the past years and that he was open to sharing his experiences in the dairy industry. He said that while the global marketplace was his area of expertise, everything came back to big-picture principles, size and scale, cooperation, and ensuring that the business was relevant to the developing world.

**Angus farmers get lesson from NZ** [18 November/ Business Day] Scottish angus cattle breeder James Playfair-Hannay is keen to take New Zealand bloodlines back home with him, after judging the angus fields in the cattle ring at the Canterbury A&P show. Mr Playfair-Hannay said that New Zealand angus farmers could not afford to ignore consumer tastes and preference signals and that the realisation of their demands could be seen by the development of brands such as Angus Pure in New Zealand, Certified Angus Beef in the United States, and Certified Aberdeen Angus in Britain. He emphasised that angus meat was recognised as a global brand and that these top-shelf products were recognised as relative luxury items for consumers. He highlighted Britain's current issue where some farmers were continuing to breed cattle as they had always done without developing their production to benefit from branded meat markets, such as angus beef, which were delivering stronger returns and better able to respond to demand fluctuations.

**Meat co-ops see obstacles to merger** [18 November/ Radio New Zealand Rural] Further consolidation is needed in the meat industry according to Silver Fern Farms and the Alliance Group. While this feature is something that both organisations agree on, both see different obstacles in the way of the farmer campaign to merge the two co-ops together. The Meat Industry Excellence Group is frustrated with the failure of the major meat processors and exporters to agree on any reform measures after months of discussions. Alliance Group Chair Murray Taggart of Canterbury said that he does not support the view that the co-operatives should bear the costs involved in consolidation. He said that the merger did make sense on a commercial basis. Silver Fern Farms Chair Eoin Garden said that he thought it was inevitable that the two cooperatives would join forces eventually, but that it was not possible to occur yet. He highlighted the need for a succinct strategy to be created first which extracts more wealth and creates more value from the market place.

**Border bungle costs Silver Fern Farms dearly** [18 November/ Silver Fern Farms] Silver Fern Farms managed to reduce its net loss to \$28.6 million for the 12 months to September from \$31.1 million recorded in the previous year. The organisation said that the on-going impact of a collapse in sheepmeat prices and demand at the beginning of the year did not help the company financially. A spokesperson for Silver Fern Farms said that the organisation was forced to carry over unsold lamb and mutton stocks and write down inventory values. Silver Fern Farms Chief Executive Keith Cooper said that the blockage of New Zealand sheepmeat shipments at Chinese ports several times earlier in the year did not help the company's cash flows either.

**Silver Fern Farms investing in the future** [19 November/ Radio New Zealand Rural] The meat co-operative, Silver Fern Farms, is continuing to invest in research and development despite receiving its second large loss in two years. Despite these results, Chairman Eoin Garden said that the organisation remained committed to its research and marketing programmes because in the longer term, that was what would improve returns for the company and its farmer suppliers. Mr Garden highlighted the fact that it was important to consider investing in the company's future. Silver Fern Farms Chief Executive Keith Cooper said that the factors which have contributed to the meltdown during the past two years had largely disappeared. He added that the organisation had identified what the issues were over the last two years and that they related to market write downs and inventory write downs that had occurred. He said that the forecast for the coming year was more positive.

**China TV stardom for NZ lamb** [19 November/ Business Day] A mainstream television appearance in China could provide a large number of opportunities for New Zealand Southland lamb. Venture Southland enterprises and strategic projects group manager Steve Canny said that a mainstream television appearance was a large deal. Chinese winners of an Alliance consumer research programme held at its Lorneville plant will be recorded for a Chinese television and radio station based in Heilongjiang, a North East part of China. The Chinese winners will tour the Lorneville plant to see how sheepmeat is processed and will take part in a cooking demonstration. Chinese consumers were surveyed about the taste and quality of New Zealand lamb compared to that of Chinese and Inner Mongolian lamb. Survey findings from the Alliance Group research are set to be released next year.

### Rural infrastructure

**NZ retains food safety reputation - campaigner** [14 November/ Radio New Zealand Rural] Despite a year of incidents involving agricultural exporters, New Zealand has managed to retain its reputation as being a world leader and model of food safety, the Global Food Safety Forum has said. Chairperson for the organisation Rick Gilmore said that despite the disruptions, New Zealand has made impressive progress on food safety controls, monitoring and certification. Mr Gilmore said that the world's detection systems, when it comes to monitoring food are more advanced than ever and global food trade is increasingly complex. He added that 47 per cent of world trade in agricultural products is intra-trade among multinational subsidiaries which emphasised the need for stringent risk-mitigation strategies within the food trade sector.

**Rural lender warns of fast debt build-up** [18 November/ Radio New Zealand Rural] New Zealand's dedicated rural lender, Rabobank, has warned that all of the features are currently present for another quick build up of agricultural debt. Although the Reserve Bank highlighted that it was not too concerned currently with the increase in debt in the dairy sector, left unchecked, it could lead to potentially damaging results on New Zealand's financial sector. The Reserve Bank of New Zealand recorded agricultural debt at approximately \$50.5 billion in June which was an increase of 5.5 per cent from a year previously. It was also indicated that dairy farming accounted for much more than half of this amount. Record milk payouts have been indicated as one of the main reasons driving the high levels of debt, with feelings of increased wealth among farmers acting as justification for larger borrowing amounts being committed to.

**NZ's GM debate needs 'to grow up'** [19 November/ Business Day] Federated Farmers President Bruce Wills has said that both sides of the genetic modification debate need to grow up and make their points maturely after strong emotions were drawn from opposing groups. Mr Wills said that he hopes that one day New Zealand can have a less emotive debate about the science of Genetic Modification (GM). He said that while the science, benefits or otherwise of GM were regularly and openly discussed at international farming meetings, this feature was not always the case in New Zealand. He said it was very important that New Zealand began to debate such new technology and scientific practices openly.

### Rural education

**New university course looks at farming sustainability** [18 November/ NZX Agri News Group] A new two-day agricultural course called Taking the Lead has been developed by ASB Bank and Massey and Lincoln Universities' joint venture, Agri One. Designed to increase farmers' knowledge of balancing productivity and sustainability, the course has seen twenty-five people sign up for it. It will give farmers and rural professionals information to allow them to participate in the debate about sustainability in the primary sector. ASB General Manager of Rural, Mark Heer said that the main goal of the project was to make sure that participants feel more confident to be able to lead when discussing issues of sustainability, food safety, and technological innovation.

### Water

**Freshwater rules 'will require sacrifice'** [18 November/ NZX Agri News Group] In order to implement the proposed amendments to the National Policy Statement for Freshwater Management, sacrifice from both the agricultural and urban communities will be required to be adopted. Proposed amendments released by Environment Minister Amy Adams and Primary Industries Minister Nathan Guy were welcomed by Federated Farmers board member and water spokesman Ian Mackenzie. He said that the proposals were developed as a collaborative response to a collaborative process. He added that the proposals provided a framework which provides an accounting system for measuring water quality and quantity. The Environment Defence Society (EDS) said that in some cases the values reported were too low and considerably below those of current water quality. EDS Chairman said that the bottom lines proposed are incomplete and that they would require strengthening.

**Field trials begin in NZ-China water project** [18 November/ Radio New Zealand Rural] One of Fonterra's dairy farms in China has had a series of field trials commence with a joint New Zealand-China environmental science project investigating new ways to improve water quality. The project commenced as a result of the bilateral New Zealand-China Environment Co-operation Agreement, which was agreed to and signed in 2008. A key priority of the venture is to reduce rural water pollution. The New Zealand Ministry for the Environment and Fonterra are funding the trials with technical support from AgResearch. Further partners are the Chinese Ministry of Environmental Protection and Tsinghua University's School of Environment. Nutrient discharge issues are one part that the investigation will study in addition to using stock effluent as fertiliser and how it affects plant growth, nutrient uptake, greenhouse gas emissions and the quality and quantity of runoff.

**Strong feelings aired as Ruataniwha dam hearing starts** [18 November/ Radio New Zealand Rural] Strong, mixed feelings on all sides of the proposed Ruataniwha Dam scheme have been acknowledged by the head of the board of inquiry into the project. Retired High Court Judge Lester Chisholm is chairing the Hastings based hearings to listen to submissions on the \$600 million water storage project. He said that a large amount of effort had been put in by submitters regardless of the position they had with regards to the 83 metre high dam. Justice Chisholm said that the board is entirely independent and is not associated with anyone who has an interest in the Ruataniwha water storage scheme. The proposed development would eventually irrigate 25,000 hectares of land in central Hawke's Bay.

**Water report not expected to be kind to farming** [19 November/ Radio New Zealand Rural] Federated Farmers has said that a report into the impact of agriculture on fresh water in New Zealand is not likely to be kind to farming. President Bruce Wills said that he thinks that the report by the Parliamentary Commissioner for the Environment, Water Quality in New Zealand: land use and nutrient pollution, which is set to be released on Thursday, is going to put the spotlight on farmers and the impact that they have on the environment.

### Research and development

**Rakon predicts huge growth in precision agriculture market** [15 November/ Radio New Zealand Rural] Specialist crystal and oscillator technology company Rakon indicates that the global precision agriculture market will be worth \$3.7 billion within five years. Rakon Managing Director Brent Robinson highlighted this view along with stating that precision agriculture was a rapidly growing field and GPS devices were now being put to use in tractors and other agricultural equipment. Mr Robinson added that the market was emerging and that one of Rakon's customers, John Deere, believes that the area is so important that they have their own GPS division to which Rakon is an important partner.

**Researchers get in behind working dogs** [15 November/ Otago Daily Times] A research project has been launched by a University team which is set to analyse farm dogs' health, welfare and survival. The project named TeamMate is being led by Dr Lori Linney, from Vetlife Alexandra, who will work alongside Dr Naomi Cogger, from the EpiCentre at Massey University, the largest veterinary epidemiology training and research centre in Australasia. Dr Linney is a Canadian emigrant who has special interest in both soft tissue and orthopaedic surgery in working farm dogs. She said that many of the working dogs had excellent farm skills and they were now actively recruiting animals for the research project. Spanning a period of three to five years, more than 250 dogs will be involved in the project.

### Biosecurity

**HortNZ sees gaps in regional biosecurity** [16 November/ Radio New Zealand Rural] The fruit and vegetable sector in New Zealand is at risk from a lack of stringent biosecurity controls, Horticulture New Zealand has emphasised. Chief Executive Peter Silcock said that regional biosecurity is woeful and that he believes a lack of coordination among councils had led to a poor record of preventing pests and diseases from spreading once they arrive in the country. He highlighted a few examples of the movement of pests including the guava moth making its way South out of Northland, the PSA bacteria which had recently been discovered in kiwifruit orchards in Whanganui, and the lettuce aphid abundant in the country. Mr Silcock indicated that once a pest gets into New Zealand, it is largely left up to Regional Councils to respond. It would be better for the horticulture industry to analyse the movements of rootstocks and plant material, he said.

### Farmers and producers

**DairyNZ encourages farmers to help typhoon appeal** [14 November/ Radio New Zealand Rural] Following one of the worst typhoons to hit the Philippines in years, the Red Cross is appealing to farmers to help contribute to the organisations' emergency response appeal. DairyNZ Chairman John Luxton said that about 8 per cent of workers on dairy farms are Filipino, with many being located in Canterbury and Southland. Mr Luxton said that the dairy industry wanted to show its support and sympathy to those affected by encouraging both farmers and the wider public to help the Red Cross in its efforts. He predicted that the majority of wages from Filipino workers in New Zealand would go to help storm victims and their families but he also encouraged farmers to help contribute.

**Man who broke cows' tails heading to jail** [18 November/ New Zealand Herald] Former farmer Saul Beaumont who broke the tails of 46 cows, is heading to jail after breaching the terms of his home detention. Mr Beaumont was sentenced in September to four months home detention and disqualified from working with dairy cows for five years. He recently admitted in the Hamilton District Court that he breached certain conditions by drinking alcohol and is set to be re-sentenced to a jail term in December.

**Over 1600 NZ farms sold in 12 months** [18 November/ Business Day] Farm sales have managed to break 1,600 for the first time in more than four and a half years although the \$24,590 median hectare price remains significantly below its peak. The Real Estate Institute of New Zealand figures indicated 93 more farms were sold in the three months ended October this year when compared to the same period in 2012. An increase of 36.3 per cent was recorded in farm sales with 349 being sold this year. REINZ spokesman Brian Peacocke said that the New Zealand market was still variable with volatility in prices being recorded in North Island areas. Early spring sales reflected a healthy trend but it was set to be nearer the end of November before significant sales evidence emerged. The report indicated loans by registered banks to dairy farmers this year totalled \$32.37 billion with total agriculture on-farm loans amounting to \$49.2 billion (compared to total indebtedness of the agriculture sector to banks of \$50.5 billion).

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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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