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AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

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Organisations referenced in this week's Field Notes include:	
Alliance Group	New Zealand Trade and Enterprise
ANZ	New Zealand Veterinary Association
Beef + Lamb New Zealand	New Zealand Wool Services International
Bega Cheese	NIWA
BioVittoria	NZ Infant Formula Exporters Association
Blue Sky Meats	Olam International
Canterbury University	Onions New Zealand
Dairy New Zealand	Open Country Diary
Danone	Parmalat
Dow Agro Science	Pipfruit New Zealand
Environment Canterbury	Pork Industry Board
Farmlands	Rabobank
Federated Farmers	Saputo
Fonterra Co-operative Group	Shanghai Pengxin
Global Dairy Trade	Synlait Farms
Harvey Fresh	Talley's Group
JBS	Taranaki By-Products
Lean Meats	Tate and Lyle
LignoTech Developments	The Formary
Ministry for Primary Industries	UN Food and Agriculture Organisation
Monsanto	Warrnambool Cheese
Motueka Fruit Growers	Zevia

Horticulture

Pipfruit bonanza harvests $150m [3 January/ Stuff.co.nz] Pipfruit exports have reached $500 million nationally this year, with $150 million export receipts going to Nelson growers (up from $50 million last year) and $350 million to Hawke's Bay (up from $100 million). Pipfruit New Zealand chief executive Allan Pollard believes that both the bad weather experienced by Chilean and US growers, with British and European crops also down, coupled with international recognition for New Zealand apples and pears as a niche product was responsible for the high export earnings. Pollard stated that population growth and increased disposable incomes in Asia supported the high returns. He says the Recognised Seasonal Employer Scheme, providing availability of temporary Pacific Island RSE workers also contributed positively. Motueka Fruit Growers chairman Simon Easton said that although growers will be planting a little more, it is not expected to rival what was seen 5 to 7 years ago. Easton says growers are optimistic and the current focus of the growers is to maintain fruit quality.

Relief for onion growers as dollar tipped to fall [7 January/ NZ Herald] Expectations that the New Zealand dollar may weaken in the first quarter of 2014 could benefit seasonal commodity exporters such as onion growers. The onion industry exports around $90 million of product a year, NZ's third largest horticultural export crop, and it has found life difficult over the last 10 years due to the over valuation of the dollar according to Michael Ahern of Onions New Zealand. Mr Ahern said that a movement in the dollar in the growers favour would all go straight to the bottom line. The main packing and exporting period starts in early February with sales continuing through to the end of July. Analysts expectations are that the kiwi dollar will decline during the first quarter, as local interest rates rise and stimulus programmes, particularly in the US, are wound back.

Viticulture

Wine app aims to serve perfect match [23 December/ NZ Herald] Marketing assistant, Alex Harper, has created a smartphone App to bridge the gap between winemakers and consumers, allowing consumers to find their ideal wine. Users are able to retrieve information about the particular wine by scanning the barcode on the bottle using their smartphone. The App will display information such as wine maker notes, tasting notes, food matches, awards and wine writer reviews. Harper says more than 60 New Zealand wineries are currently on board, and he estimates that 75% of wines at a Countdown supermarket would be covered by the App. The App is free for users, while the wineries pay a subscription free after the initial 6 month trial.

Dead vines based on mislabelling [10 January/ Business Day] Two North Canterbury Winegrowers claim that a labelling error on a common moth insecticide has resulted in their vineyards being all but wiped out. The winegrowers said, in a statement issued by their lawyers, the product, manufactured by Dow AgroSciences and supplied by Farmlands, has created a major problem not of their making as the grape spray had been mislabelled. Dow AgroScience has commenced an investigation according to Managing Director, Pete Dryden, and is working with the growers involved to determine what the cause of the problem is. Farmlands CEO, Brent Esler, confirmed that the company had supplied the insecticide but noted the company did not have systems in place for confirming the products supplied matched the labels on the packaging, something he said was the responsibility of the supplier. The growers involved noted that both Dow and Farmlands have so far been open and communicative.

Forestry

Researcher claims she can select young trees for stiffness [8 January/ University of Canterbury Media Release] Research from the University of Canterbury could revolutionise New Zealand's forest industry by screening radiate pines for strength and stability at a young age. This would enable growers to minimise the wastage of resources on trees that are destined to end up in low value products according to researcher, Monika Sharma. Ms Sharma's research has developed techniques that can quickly and reliably screen young trees for stiffness and dimensional stability in a project funded by the forestry industry and the Ministry of Business, Innovation and Employment. The industry focus has historically been on improving volume and the speed of growth, but 50% of the merchantable wood grown falls below the stiffness threshold for structural timber, reducing its market value by almost 50%. The research will allow trees to be selected based on an ability to attain stiffness thresholds early in their life (around 8 to 10 years) with the goal of increasing the merchantable volume of high grade timber. The research has also looked at early stage screening process for wood quality.

Dairy

Dairy Fund Challenged [22 December/ Herald on Sunday] Canterbury University sociologist, Dr David Small, says that New Zealand Trade and Enterprise should not have used any of the Government's $2 million Market Connections Fund to support infant formula producers in China. In total $500,000 from the fund, established to assist dairy exporters to rebuild the industries reputation after the botulism scare, has to date been allocated to 39 companies including $350,000 to 27 infant formula export companies according to NZTE. Dr Small argues Infant formula exporters do not fall into the target category as formula usage is already entrenched in China. A spokesperson for the NZ Infant Formula Exporters Association said Dr Small had a right to voice his opinion.

MPI investigates dairy antibiotic use [23 December/ Radio New Zealand Rural] The Ministry for Primary Industries will be investigating the increased use of the antibiotic tylosin to treat mastitis, in order to identify the emergence of a potential trend. The Ministry highlighted the importance of the investigation in limiting the potential risk of antibiotic resistance emerging. New Zealand Veterinary Association president, Steve Merchant, says that the increase may be related to the expansion of the dairy industry and the increase in dairy cow numbers, while also expressing the need to identify if antibiotics are used appropriately. Dairy New Zealand's chief scientist Eric Hillerton states that the evidence relating to mastitis treatment and antibiotic resistance is vague, contentious and debatable. Hillerton refers to a report of the US National Mastitis Council saying there is no evidence that use of antibiotics in mastitis treatment affected antibiotic resistance the bacteria.

Talley's to lift stake in Open Country Dairy [24 December/ NZ Herald] Talley's Group, the family owned producer and processor of a wide range of primary products, has announced that it has agreed to buy up to 14.99% of Open Country Dairy from Singapore's Olam International for as much as $46.5 million. The deal could lift the Group's interest in OCD to as much as 70.5%, increasing its control of the business. It would also see Olam's stake reduce to as low as 10%. Talley's is required to make a partial takeover offer under the terms of the Takeovers Code and its transaction with Olam will be a combination of direct sale of shares and acceptance of the offer. Olam said that the transaction releases cash while maintaining product off-take arrangements from Open Country which are strategically important for Olam's dairy supply chain business.

Slight drop in global dairy auction prices [8 January/ Business Day] The GlobalDairyTrade's trade-weighted price index fell 0.8 per cent following the latest fortnightly global dairy auction. The average winning price was down, with skim milk powder leading the decline. Maximum supply also declined by approximately 1400 tonnes. Butter, lactose and milk protein concentrate all posted gains the NZ dollar gained against the Australian dollar following the slight drop in dairy price. Prices on the dairy commodity price index were still up 50 per cent on this time last year.

Opinion: Farmers show resilience to adapt to changing world [8 January/ Business Day] In an opinion piece, Tim Mackle, CEO of Dairy New Zealand, says that he is pleased a new year has arrived as it is time to move on from 2013. He notes that Fonterra and the dairy industry spent much time in the news in 2013, which he suggests may have helped New Zealanders to understand the sector better and that the challenges faced farmers, including the drought, may have helped people in the industry to get to know each other better. The year has ended well weather wise and with a positive milk price but it has demonstrated that dairy farmers can farm through adverse events of any kind. 2013 was a clear signal that farmers are adapting, changing and farming better through challenges – demonstrating the willingness farmers have to adopt and adapt new innovations and technology. It is this face, the face of an early technology adopter, an internationally competitive business person, a positive contributor to communities and country, a custodian of the environment, the industry needs to put forward to public rather than some sort of Fred Dagg stereotype. Mr Mackle concludes by arguing that it is time to move the public debate on from the endless discussions of the dairy industry in 2013 to the complexities of succeeding in the business in today's world – how can we be the best?

Fonterra legal scrap risk to NZ: Expert [9 January/ NZ Herald] Danone has announced that it has commenced a claim in the Auckland High Court to obtain compensation from Fonterra in relation to the recall Danoemade of infant formula products in eight countries as a result of the botulism scare. Danone has estimated the cost of the recall at EUR350 million and is looking for compensation for both the losses suffered and the harm to its reputation. Danone has also commenced arbitration proceedings in Singapore. A spokesperson for Danone said the recall had caused serious damage to the Group's business. Fonterra said that it was disappointed by the action and will vigorously defend any proceedings. Fonterra made a provision for losses associated with the scare of $14 million in its 2012/13 financial year, a provision that ANZ Rural Economist, Con Williams, notes many people considered inadequate given the extent of the losses that Danone are claiming, although he noted that Fonterra had reached commercial settlements with the other seven customers that had received the recalled product. One analyst noted the court action was not unexpected but the negative press would not be good for the company or New Zealand's reputation. Danone also said it would be terminating its existing supply contract with Fonterra and making any further collaboration contingent on a commitment by its supplier to full transparency and compliance with cutting edge food safety procedures.

Is Fonterra chasing Australian expansion [9 January/ Australian Financial Review] Sources say that Fonterra has been quite candid about its desire to own New South Wales based Bega Cheese in conversations with investors. Fonterra has built a 9% interest in the company have acquired an initial 6% interest in October. It has justified the purchase as protecting commercial arrangements it has with Bega, including a 25 year licensing agreement to use the Bega brand in Australia, in light of the consolidation occurring in the Australian dairy industry. Acquiring Bega would add 650 million litres of milk to Fonterra's 1.6 billion litre milk pool and prevent another competitor from entering the market. There is currently a 10% holding cap on shares in Bega without approval but this is due to fall away which could bring the company into play, as has been seen with the recent shedding of the holding cap at Warrnambool Cheese. Canadian dairy company, Saputo, is expected to extend its offer for Warrnambool Cheese this week, while family owned dairy and juice group, Harvey Fresh in Western Australia, is expected to be acquired by Italian owned Parmalat for around A$100 million.

Fonterra cream recall sparks illness concerns [14 January/ NZ Herald] Fonterra has said it has been contacted by three people to report symptoms following its voluntary recall of nearly 9,000 bottles of Anchor and Pams brand fresh cream following tests on the batches showing signs of the E.coli bacteria. The affected bottles had been on sale in the upper North Island from Turangi across to Gisborne and further north from about Wednesday of last week according Fonterra Brands NZ Managing Director, Peter McClure. He said Fonterra had received 70 calls about the recall, most being inquiries about the dates. Mr McClure said that E.coli had been confirmed but the exact type remained unknown and added that investigations were continuing into the cause of the contamination. Federated Farmers said the recall showed that the co-operative put food safety first, the New Zealand Food and Grocery Council noted that recalls are a fact of life, while Labour Primary Industries Spokesperson, Damien O'Connor, said the recall once again tests the credibility of our food safety systems.

Red meat

Alliance look at Blue Sky revealed [23 December/ Otago Daily Times] Alliance Group has confirmed in a recent email to suppliers that it entered into negotiations over a potential purchase of Blue Sky Meats and that the negotiations ended amicably without any agreement. Alliance CEO, Grant Cuff, said that Alliance frequently considered potential business opportunities and the company had no plans to further elaborate on the discussions. Blue Sky Meats reported an after tax loss of $3.8 million for the year to March 2013. Meanwhile, Lean Meats has announced a bonus payment to farmer supplier shareholders after stronger company performance from procurement efficiencies enabling it deliver more value added products to customers, in particular in China, which the company received export status to during 2013. The bonus amounts to 31 cents per kilogram ($5.74 per average lamb).

Beef+Lamb directors appointed [27 December/ Radio NZ Rural] Two new farmer Directors will join the board of Beef+Lamb New Zealand after the annual meeting in March. Andrew Morrison from Southland and George Tatham from the Wairarapa are the successful candidates both being elected unopposed. Mr Morrison and Mr Tatham will fill vacancies left by the retirement of existing chairman, Mike Petersen, and the Southern Electorates representative, Leon Black.

Falling beef production in US could benefit NZ [8 January/ Business Day] A new report from Rabobank suggests a decline in beef production in the US could have a positive spinoff for New Zealand beef producers. The decline in production will increase demand for New Zealand production, although in other markets were cost is the primary determinant our producers can expect more competition from new producers, particularly India which is becoming an increasingly significant exporter. New Zealand producers will be hoping for increased returns in 2014 as supply tightens although Rabobank expect New Zealand production to be lower compared with the drought affected production of 2013. Analyst, Matt Costello, said the urgency to rebuild the US herd is becoming ever more pressing due to the ongoing liquidation occurring over the past three years or so.

Large animal by-products plant gutted by fire [13 January/ Business Day] Fire has severely damaged the Taranaki By-Products rendering plant in South Taranaki, with 45 firefighters and 12 fire engines being called to the scene of the fire. The plant, believed to be one of the largest by-product processing facilities in the country, is family owned. No one was hurt in the fire and one of the co-owners, Amanda Smith, said it was still too early to say what effect the fire would have on the business and its employees. The affected area of the factory employs 50 workers. It was not yet clear what had caused the fire.

Paper highlights foreign threat to meat industry [13 January/ NZ Farmers Weekly] Federated Farmers has released an options paper prepared by its policy advisor, Sarah Crofoot, on solutions to address the complex problems facing the meat industry. The paper provides a pick and mix of solutions, covering solutions that have been discussed over the decades in New Zealand and possible solutions from overseas. It also identifies the threat of increased foreign ownership of the industry, with JBS of Brazil singled out as a potential buyer of New Zealand processing capacity, to address the relatively weak market position it has in the sheep meat category in comparison to other categories in its global meat portfolio. The paper notes that JBS would bring almost everything considered desirable to the industry (economies of scale, efficiencies, direct route to market, large customers, bargaining power) but would not secure farmer ownership. The paper also highlights the benefits Uruguay is obtaining from its meat industry information systems across the whole supply chain and suggests that maybe legislation is required to improve the transparency and sharing of information across the supply chain to help move the industry forward with a shared vision.

Environment and emissions

Nitrates rules will hit farmers in the pocket [23 December/ Business Day] Changes to the Canterbury Land and Water Regional Plan, recently approved by Environment Canterbury commissioners, will cost farmers thousands according to one Mid Canterbury farmer. Chris Allen said he was uncertain if all farmers would be able to withstand the impact of the implementation of plan which will place controls on the leaching of nutrients across the region. All farms will need to create a nutrient baseline, being the average nitrogen losses from 1 July 2009 to 30 June 2013 and will be allocated to a nutrient allocation zone which will have its own specific rules. The rules may require farmers to obtain resource consents and complete a farm environment plan. Mr Allen said that he expected over time most farmers would have to apply for consents at a significant cost to their business. He added that many farmers were in a holding pattern to see exactly what rules would govern their areas.

Research and development

Wool, rice product developed [24 December/ Radio New Zealand Rural] The Formary, a textile design and development company, has developed a new upholstery fabric consisting of 70% New Zealand mid-micron wool and 30% rice straw. The Formary co-founder Bernadette Casey expects full production to commence in China, in 2014. She has been in discussion with US furniture manufacturers and textile distributors, where there has been a lot of interest in the fabric. Casey says that she hopes the anticipation created in the market and the samples produced in early 2014 will reduce the lead time between launch and first orders. There has also been interest in Europe for The Formary introduced upholstery fabric created with recycled jute fibre from coffee sacks blended with New Zealand wool.

Organic ingredient for plastic shows potential [13 January/ Business Day] Ashburton-based LignoTech Developments has created a process to turn organic waste material into a lightweight filler for plastic. The raw material that is currently used, corn residue, is worth 12 cents a pound as stock food. However after running through LignoTech's process the material is worth over 70 cents a pound. LignoTech looks well positioned with the corn-ethanol industry in the US responsible for a significant amount of bio-waste and new regulations in the US and Europe requiring car and truck manufacturers to build more energy-efficient vehicles. The company has patented the lightweight filler that is capable of producing products over 100 per cent lighter than the calcium carbonate it can replace in composite plastic, thus enabling vehicle manufacturers to produce lighter, more energy efficient vehicles. The company is in the midst of shifting to Nebraska alongside the ethanol industry pending further funding for their first US factory.

International

A sweet Asian fruit tempts the troubled soft drink industry A sweet Asian fruit tempts the troubled soft drink industry [23 December/ Yahoo Business – Reuters] Monk Fruit, a melon that has been used in China for centuries to sweeten drinks, has presented US diet soft drink manufacturers with an opportunity to win back consumers concerned about artificial ingredients. The diet soda market, once a booming sector, has seen consumption fall 7% this year with sales expected to continue to fall without a new natural product that delivers great taste and zero calories. Consumers are ditching diet sodas for juices, teas and naturally sweetened lemonades according to analysts as concerns over the safety of aspartame continue. Stevia, a low calorie sweetener made from the leaves of a Paraguayan plant has been used by manufacturers in some countries but consumers have complained about a bitter aftertaste. Zevia, a Californian soft drink manufacturer, has recently released a new product usingg a stevia/ monk fruit blend which delivers high levels of sweetness without the bitterness. One gram of monk fruit replaces eight teaspoons of sugar and it is a New Zealand company, BioVittoria, that has taken the product through the FDA approval process making it available for mass consumption, although it is still to be approved in Europe. Production is also confined to China due to Chinese law restricting the movement of seeds and genetic material. BioVittoria has stabilised the supply position, controlling around 60% of production, and has entered into a global distribution agreement with Tate and Lyle. Ultimately to respond to consumer preferences the big soda companies may have to swallow higher prices to hold onto diet soda drinkers.

US organic food market to grow 14% from 2013 to 2018 [3 January/ Food Navigator USA.com] Solid growth is expected to continue in the US Organic food market over the next five years according to a new report. The report "United States Organic Food Market Forecast & Opportunities 2018" forecasts a compound annual growth rate of 14% over the period to 2018 driven by strong growth in the western US states on the back of production growth and increasing awareness. The organic food sector is now estimated to account for around 4% of the total US food market with demand growing consistently. It is estimated that about 81% of American families are buying organic food at least sometimes. However, other research has indicated that the market is dominated by two consumer group's – true believers and enlightened environmentalists, who account for 46% of purchasers meaning that there is still much work to be done to attract shoppers in other segments to expand their knowledge and stimulate buying behaviours.

Monsanto 1Q profit climbs on biotech soybeans [9 January/ NZ Herald –AP] Monsanto beat analyst expectations in reporting its first quarter earnings driven by an increase in sales of its Intacta soybean seeds to farmers in Argentina and Brazil. The biotech engineered soybean, the company's first product designed for a non US market, repels caterpillars and withstands the Roundup herbicide. The company announced an 8.6% increase in earnings amounting to US$368 million for the three months to 30 November. Monsanto said that it expects earnings growth in the "mid-to-high teens" for the fiscal 2014, based largely on international seed sales in Latin America, Asia and other emerging markets.

Pork

Pig battle costs farmers $1.8 million [24 December/ Radio NZ Rural] The Pork Industry Board says that the battle to prevent the importation of uncooked pork products has cost levy paying pig farmers about $1.8 million. The board has challenged the Ministry for Primary Industries decision to allow imports of uncooked products from countries with Porcine Reproductive and Respiratory Syndrome. The board believes that there is a risk uncooked products could bring the disease to New Zealand and took these concerns to the Supreme Court. Chair, Ian Carter, said the new standard is now in place and the industry has to work with MPI to make the best of it and ensure that the potential risks are managed. Mr Carter said discussions would focus on waste food regulations. He added consumers could help reduce the risk by buying only NZ produced pig meat products.

Economics and trade

NZ commodity prices up, led by cheese and butter [9 January/ NZ Herald] The ANZ Commodity Price Index reached its second highest level on record in December, up 1 per cent from November, and up about 22 per cent on December 2012. This was due to increased international prices for 10 of New Zealand's main commodities over the month, with only 3 falling and 4 holding idle. In NZ dollar terms, the index lifted 1.7 per cent to its fourth-highest level on record.

Food cheaper despite pricey meat and dairy [10 January/ Business Day] Recent figures from the United Nations Food and Agriculture Organisation show that global food prices were 1.6% lower in December 2013 than a year earlier (although marginally higher than November). The FAO said that lifts in supply of oils, sugars and cereals had pushed down market prices although this was partly offset by price increases in meat and dairy products which reached record price levels in 2013. An FAO Economist, Abdolreza Abbassian, said the outlook was for continuing strong supply of cereal products, creating good opportunities to rebuild inventories and continuing downward pressure on prices. It was also suggested that demand driven increases in meat and dairy prices could taper given the current prices levels.

Bill key to Obama's TPP push faces stiff opposition [10 January/ NZ Herald] A bill to grant President Obama fast track authority for negotiating trade deals has been introduced into Congress with both Democrat and Republican co-sponsors. The legislation allows the administration to negotiate trade deals that Congress can accept or reject but cannot change and is considered key to the adoption of the Trans Pacific Partnership agreement by the US legislature. TPP is central to the administration's policy shift towards Asia and its efforts to drum up exports to the region's fast-growing economies. The bill will also apply to a trade pact under negotiation with the 28 member European Union. The President will be hoping for strong support from Republicans with the leading Democrat on the House committee overseeing trade quickly announcing his opposition to the fast track legislation. One of the bill's sponsors said it gave Congress the opportunity to clarify its negotiating priorities to the Administration and the US's trading partners. Trade negotiators are working to wrap up the TPP deal in the coming months, perhaps before President Obama visits Asia in April.

Wool

Wool supply uncertainties puzzle buyers and exporters [23 December/ Radio NZ Rural] A shortage of wool supply has resulted in the first South Island auction of 2014 being cancelled, which resulted in prices picking up at the most recent sale after weeks of falls. Malcolm Ching of New Zealand Wool Services International said the cancellation of the sale is disruptive but said the normal rules do not seem to be applying this season making it difficult to forecast supply. Mr Ching said the wool flow will pick up during the first quarter of 2014 although there are already indications of some quality issues with high seed contamination in the wool and colour deterioration.

New Years Honours

New Years Honours: Alison Patterson [31 December/ NZ Herald] Alison Paterson has been appointed dame companion of the New Zealand Order of Merit. Dame Alison was the first female director of a publicly listed company in New Zealand and has had a long involvement with the Primary Sector. She is currently a director of Stevenson Agriculture, Crown Irrigation Investments and Farm IQ. Dame Alison was brought up in the King Country, setting up her own farm accounting practice in 1971 before being appointed to the Apple and Pear Marketing Board about five years later.

Farmers and producers

Rain brings big smiles for farmers [10 January/ Business Day] Farmers around the country have been treated to a good run of wet weather over the past fortnight. NIWA's early to mid summer outlook has been on target with normal to near normal rainfall for most parts of New Zealand. The absence of strong drying winds around the country has also helped immensely, especially in Canterbury. NIWA's outlook to February is for relatively average temperatures around the country, with forecasted rainfall and soil moisture levels to remain near normal also. The equatorial Pacific Ocean continued in a neutral state – neither El Nino nor La Nina.

Overwhelming acceptance of Shanghai Pengxin offer [13 January/ NZ Farmers Weekly] Owners of more than 99% of the shares in Synlait Farms have accepted the offer from SFL Holdings, representing the Shanghai Pengxin led consortium, however the deal is still awaiting regulatory approval. The offer has been extended to 29 January by the consortium partners, which also include Synlait Farms MD, Juliet Maclean, and Synlait Milk MD, John Penno, as they await approval from the NZ Overseas Investment Office and Chinese regulatory authorities. Under the terms of the offer a price escalation clause applies from 1 January, so the offer prices rises by 0.1957 cents per day until the offer is made unconditional.

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