

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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Organisations referenced in this week's Field Notes include:

AResearch	Ministry for Primary Industries
Elders Primary Wool	Northland Rural Support Trust
Featherstone Resources	Primary Wool Co-operative
Federated Farmers	SAFE
Fertiliser Association of New Zealand	Sealord
Fiji Fish Marketing	Silver Fern Farms
Fonterra Co-operative Group	Summerfruit New Zealand
Foundation for Arable Research	The Council of Trade Unions
Greenlea Premier Meats	UN Food and Agricultural Organisation
Hurinui Water Project	Wal-Mart Stores
International Nutritionals	WorkSafe NZ
Livestock Shipping Service	

This week's headlines

Forestry	Another forestry death shows need for change – regulator [16 January/ The New Zealand Herald]
Dairy	Market takes Fonterra recall in its stride [15 January/ NZ Herald]
Farmers and producers	Rustling costs estimated at \$120m [15 January/ stuff.co.nz]
Farmers and producers	International Year of Family Farming in 2014 [20 January/ Radio New Zealand]
Farmers and producers	Northland areas facing new drought [20 January/ NZ Farmers Weekly]

Horticulture

Wet weather hits Central Otago cherry harvest [20 January / Radio NZ] In spite of an unusually early start to the cherry harvest in Central Otago this year, exports are tracking well below the previous season. Growers in the region, which provides 95% of New Zealand's cherry exports, are blaming the highly variable weather. Summerfruit New Zealand chairman Gary Bennetts says that the biggest losses have been caused by the heavy rain in the period around the end of December and the beginning of the new year, which split the fruit and disrupted picking. He puts the early start of the season down to the unusually mild winter, and stated that he expected this year's crop to be down on last years already light harvest. The positive news for farmers is shortages from both New Zealand and other key cherry producing regions is helping to keep prices strong in Asian markets.

Pork

Pork group keen to keep factory [21 January/ Business Day] Following Goodman Fielder's announcement it had accepted an offer to sell its meat business to Hellers, resulting in the closure of its Frankton processing factory, it has emerged that there is a coalition of investors from the pig farming industry with an interest in buying the business and keeping the Frankton factory open. The plant closure will result in the loss of 125 jobs. Union officials say they have put the potential bidders into contact with Goodman Fielder but it was up to the company to decide whether to look at the bid seriously. Labour MP, Sue Moroney, said that herself together with representatives of Waikato Regional Council, Hamilton City Council and National MP, Tim Macindoe, would be seeking a meeting with Goodman Fielder to discuss the bid and seek their assurance that they would consider it seriously and with urgency. Mr Macindoe said he was open to being part of the group if there was a realistic chance it would keep the factory open and said more detail was needed around the new bid. Hamilton City Councillors are also urging the Commerce Commission to look at the bid, suggesting it provides Hellers with a high degree of market influence.

Wool

Limited wool supplies keep auction prices up [20 January/ Radio New Zealand] A combination of renewed interest from wool buyers and the restricted supplies coming through for auction helped to keep auction prices on the boil at last week's combined North and South Island sale. This week's sale will be another light one, with a bit over 14,000 bales of North and South Island wool rostered for auction.

Record gains for Primary Wool [20 January/ NZ Farmers Weekly] Improving performance of the Just Shorn floor covering brand in the United States has assisted Primary Wool Co-operative in reporting a record profit of \$1.9 million after a 3 cent per kilogram rebate to suppliers who sold wool through auction. Shareholders have also received a dividend return on their shares for the second year in a row. The co-operative's profit comes from its half share in Elders Primary Wool which has launched the Just Shorn brand in the US and Canada, with the brand to be launched into 50 Australian retailers next month. Chairman, Bay de Lautour, said the co-operative's equity was growing nicely and it was also actively supporting industry good programmes, including providing significant funding to the NZ Campaign for Wool programme. Mr de Lautour also noted the co-op had been busy trying to get more shareholder unity within farmer entities and would continue work towards that goal and had seen a net gain in membership of 75 shareholders over the last year.

Forestry

Another forestry death shows need for change – regulator [16 January/ The New Zealand Herald] In light of the death last week of a another forestry worker and a separate incident where a further worker suffered serious injuries, the WorkSafe NZ General Manager, Ona de Rooy, said that there were "deeply ingrained systematic issues" in the industry, and that there is a need for drastic change. Recently, Complete Logging Ltd. was fined \$60,000 and ordered to pay \$75,000 in reparation costs in relation to the death of worker, Robert Eapara, caused by health and safety failings. De Rooy said that WorkSafe NZ will be meeting with individual forest owners to emphasize their responsibilities under the Health and Safety in Employment Act. The Council for Trade Unions, which has repeatedly criticised the Government for their approach to regulation of the industry, has renewed its calls for the Government to take part in the independent review of the industry, but said that the Minister of Labour is still refusing to participate. The Council's Helen Kelly highlighted the need for regulation by saying that at least 150 work places visited by WorkSafe NZ were noncompliant.

Fishing and aquaculture

Sealord to market high-tech 'fish cam' [18 January/ Stuff.co.nz] Sealord could be revolutionising the commercial fishing business with their new camera and sonar array. Chief Executive of Sealord, Graham Stuart, said the new software allows the skipper to observe the fish, identify the species and analyse what direction they are swimming in 30-40m ahead of the trawling net, the software can reach depths of 1,000m. The fishermen have been gaining valuable knowledge on how the different species behave and react when confronted by a trawler. The software was developed last year at a cost of \$700,000 Sealord expects to use this technology within its business and to sell it to other fishing companies. Mr Stuart said the new software could cause the growth of trawling efficiency to reach the double digits; it also has environmental spin-offs such as helping trawlers avoid scraping the seabed with their nets. Also the footage shows more fish in the sea than measured by sonar surveys and could lead to higher quotas in the future. Sealord reported a \$44m loss last year; this was a result of a poor performance and sale of its Yuken subsidiary in Argentina, however, Mr Stuart noted Sealord will make a profit next year as a result of the sale and will pay a dividend.

Fiji tuna industry collapsing – report [21 January/ Business Day] Reports suggest that overfishing from Chinese flagged vessels has resulted in a collapse in Fiji's tuna fishing industry with local fishing companies closing their operations, resulting in significant job losses. Fiji Fish Marketing CEO, Graeme Southwick, said that local trawlers had been catching less than 50% of their break even volume over the last four or five years, with catches falling from around 200 albacore tuna a day to averages of 15 to 20 per day per boat this season. Mr Southwick added that only five of the 35 domestically owned boats were still fishing. Chinese companies have deployed sophisticated longline tuna fishing boats in the South Pacific, with figures showing that there has been a 125% jump in the size of China's South Pacific tuna fleet in the last year. It is believed that Chinese boats receive operating subsidies from the government, as well as construction support and additional subsidies if they send their catch to China for processing. The boats also enjoy duty free access to the Chinese market. International agencies have expressed concern that without broad and affirmative support of Pacific Island governments, the prospects of survival for the domestic non-Chinese flagged fishing fleets in the western and central Pacific are extremely challenging.

Dairy

Market takes Fonterra recall in its stride [15 January/ NZ Herald] It appears that the market has taken Fonterra's latest food scare in its stride according to an analyst. The co-operative announced last week that it had recalled 9,000 bottles of Anchor and Pams branded cream which had shown indications of E.coli contamination in testing. James Smalley, a director with Hamilton, Hindin Greene, said the market response reflected that the recall was restricted to New Zealand and did not involve an export product, however he noted that the scare could still cause reputational damage depending on how it was reported internationally. Federated Farmers dairy chairman, Willy Leferink, said that Fonterra's recall showed that its quality assurance systems worked and should demonstrate to consumers that a company owned by thousands of kiwi farmers does put food safety first. He added that it should also tell consumers that when a Fonterra owned brand is on the shelf, someone back at Fonterra is testing it to ensure it remains safe to consume.

Fonterra raises 1.25billion renminbi in second 'dim sum' bond [21 January/ NZ Herald] Fonterra has recently raised 1.25billion renminbi (NZ\$247 million) in the co-op's second Chinese currency denominated bond issue. The five year bonds have been issued to global investors at an annual rate of 3.6% according to Group CFO, Lucas Paravicini. Mr Paravicini said that the bond was significantly oversubscribed and the co-operative was very pleased with the level of support, particularly from Asian investors. The funds will be used to refinance existing Chinese operations, support growth in China through expansion of the Group's consumer, foodservice and farming businesses. Fonterra's initial dim sum bond issued in 2011 is due to mature in June this year.

Fonterra diverts milk after quake damage [21 January/ Business Day] Fonterra has said it is diverting milk away from its Pahiatua distribution storage centre after it was damaged in the Eketahuna earthquake earlier this week. A spokesperson for Fonterra said that cracks appeared in the building and the sprinkler system gave way following the quake. It was noted that this was normal procedure to allow time to confirm the site was safe to resume operations, however the closure was not expected to affect the wider supply chain. It is expected that Fonterra will continue to be able to collect all milk without any interruption. The Pahiatua site is currently undergoing an expansion to add a further milk powder dryer and storage area to the factory and it is not yet known if the quake damage will impact these works.

Meat

Silver Ferns' Shanghai move [16 January/ Otago Daily Times] Silver Fern Farms announced yesterday that they would be launching a branded retail range of lamb into Shanghai. The company would target the high-end retail category with this new product. The retail range would be sold online through distribution and marketing partner NZFocus. It is hoped that the product will be sold in high-end supermarkets in Shanghai in the future.

Fed Farmers repeats meat industry myths [21 January/ Business Day] The Managing Director of Greenlea Premier Meats, Tony Egan, has noted that the recent paper from Federated Farmers on the future of the meat industry has taken a one size fits all approach to the industry failing to recognise that some companies are thriving and profitable. Mr Egan said there has to be room in the debate for innovation and for the different perspectives of farmers – a dairy and beef farmer in the North Island may well have a different view to a sheep farmer in the South Island. Mr Egan acknowledges that some companies still have big decisions to take on plant utilisation and profitability others have innovated and are operating very successfully under the current competitive environment. Adding that competition is not all bad – it drives premiums and drives innovation, and can shape a company, such as Greenlea, that has been consistently profitable over the last 20 years. He noted that to achieve this, the company has invested heavily in R&D and technology (over \$45 million the last five years) and has grown revenues to more than \$280 million per year. Mr Egan said that there were other meat companies that were equally as profitable particularly in the small to medium sector, as a consequence stereotyping the industry as totally dysfunctional and in need of structural change was not necessarily the right thing to be saying. He also noted that there was already a lot of collaboration in the industry both commercial partnership and through the industry good organisations.

Rural infrastructure

Fertiliser processor placed into receivership [18 January / Otago Daily Times] Australian owned fertiliser manufacturer Featherston Resources has been placed in receivership, just three years after launching its multi million dollar fertiliser export plant on the Taieri Plain. The plant was targeting annual processing of 10,000 tonnes of dolomite worth more than \$9 million at 2011 prices. However during the company's 2012 and 2013 financial years, revenues totalled just \$307,000, of which just \$106,000 was product sales, \$186,000 in foreign currency gains also recognised as revenue, while operating expenses totalled \$6.35 million. In the past financial year, Featherston was reported to be in negotiation with two investors whose investment could improve liquidity by the end of 2013. Concerns were first flagged over Featherston's long-term viability by auditors Crowe Howarth in the company's full-year report to March 2012, which noted the imminent need for the company to secure additional capital financing. The receivership covers Featherston Resources and two subsidiaries, Envirofocus and Australian incorporated company Advenco Fertilisers Pty. Ltd. In late 2008, Companies Office records showed Featherston had 57.1 million shares outstanding and more than 140 separate shareholders. At time of receivership in December it had 96.9 million ordinary shares on issue and 217 share allocations, with shareholders based in New Zealand, Australia, and one in the Cayman Islands.

Animal Welfare

PKE feed backed despite dead cows [16 January/ Stuff.co.nz] Careton dairy farmer, Chris Engel went to the Masterton District court disputes tribunal after finding his two cows dead and attempted to recover the \$12,522 value of the cows. The cows died from ingesting metal debris according to a Disputes Tribunal finding. Mr Engel alleged Palm Kernel Expeller supplier International Nutritionals, supplied his cows with imported feed containing metal. Mike Borrie of International Nutritionals said, the company remained firm in it's belief the PKE we supplied did not cause the death of the two cows. Mr Engel ended up settling for \$5760 to cover the cows value, because of a restricted liability clause set out in the fine print in the supply contract.

MPI "too lenient" with neglectful farmers [21 January/ Business Day] Figures obtained under the Official Information Act show that dozens of people are caught abusing or neglecting animals every year, but many are let off with just a warning. The information shows that most mistreatment uncovered by government inspectors happens on cattle farms and that the Ministry for Primary Industries takes less than half of the people responsible to court. Many receive only a written warning or education letter. Federated Farmers support the approach taken by MPI, noting that there is no point punishing good farmers who have found themselves in bad situations. A spokesperson for animal rights group, SAFE, said that MPI only ever prosecute the biggest and worst cases, adding that abuse of household pets tended to attract more attention and uproar than abuse of farming stock, despite the support available to farmers when they are facing challenges. Of the 140 confirmed cases of animal cruelty or neglect in the past three years, only 47 resulted in prosecutions.

Water

Irrigation scheme gets chief [16 January/ Stuff.co.nz] Hurinui Water Project Limited announced Alex Adams would assume the role of chief executive on March 10. This comes on the back of the company being awarded a crucial consent, enabling them to take water from the Waitohi River. The project proposes to develop four water storage dams on the Waitohi River to irrigate just under 60,000 hectares in the Hurunui, Waipara, and Kowai areas. Adams believes his job will be to pull the different strands of the project together, working with a large number of stakeholders. The preliminary estimate of the total cost is about \$400million.

International

US dairy industry wants price protections in the farm bill [16 January/ Washington Post] An editorial notes that the passage of a new package of Federal subsidies for agricultural and nutrition aid for low income families is being delayed by a dispute over the support provided to dairy farmers. The Democrat majority Senate is proposing a safety net program for all dairy farmers (including the largest farm operators who have historically had limited support from the program) that will make payments to farmers when the difference between operating income and operating costs falls below a certain level. The Republican House is proposing a market stabilisation programme to sit alongside margin insurance, which would require farmers to agree to curtail production at times of low margins to receive full benefits (reducing supply, forcing up prices and reducing the cost to the government – something House leader John Boehner decries as Soviet economics). Dairy farmers' returns have been under pressure as previous government initiatives have driven up operating costs, particularly grain through the mandates to increase the use of corn-based ethanol in the nation's fuel supply. The editorial suggests neither plan provides a convincing explanation of why the industry deserves support. Its greatest issue is that it has become phenomenally efficient at producing huge quantities of milk as consumption has continually declined over the last 30 plus years. Congress can write all the farm bills it wants but it can't repeal the law of supply and demand.

Wal-Mart joins initiative on farmworker pay [17 January/ NZ Herald – AP] Wal-Mart stores, one of the world's largest retailers, has joined a Florida based an initiative that will require its tomato growers to increase the pay of farm workers and protect them from forced labour and sexual assault. The initiative, the Fair Food Program, is promoted by a coalition of farm worker activists and Wal-Mart is the largest company to join the scheme in its 10 year history. Other participants include McDonalds, Burger King, Whole Foods Market and Yum Brands. A spokesperson for Wal-Mart said that company had joined the scheme, run by the Coalition of Immokalee Workers, as a result of its companywide commitment on social issues. Growers have to offer a pay increase to workers, offer them protections and have a transparent mechanism for solving labour disputes to obtain a participating grower designation. If a grower loses the designation through violations they are then unable to sell produce to participating buyers. An industry commentator suggested that Wal-Mart's influence with suppliers could see the standards pushed for by the coalition adopted as industry standards beyond Florida grown tomatoes.

More than 4000 sheep perish on live export ship [17 January/ Stuff.co.nz] Searing heat and cramped conditions are being blamed for the recent death of over 4000 sheep onboard a ship travelling from Fremantle to Qatar. Jordanian -owned Livestock Shipping Service (LSS) lost 4179 sheep onboard in reportedly horrific conditions travelling through the Middle Eastern summer. Greens Senator Lee Rhiannon is leading a vocal campaign against the conditions animals are facing in the live export trade. Ms Rhiannon is planning to reintroduce a prohibition bill to parliament to put an immediate end to live animal export. The Federal Government's Department of Agriculture believes prohibition of live animal export fails to take into account the demand for freshly slaughtered meat in the Middle Eastern countries. However, the Department of Agriculture has increased minimum space requirements for sheep by 10 per cent which resulted in a far lower mortality rate of 0.02 per cent on the next consignment transported by LSS.

Farmers and producers

Rustling costs estimated at \$120m [15 January/ stuff.co.nz] Federated Farmers say that stock rustling is costing the farming community \$120 million annually. Federated Farmers rural security spokeswoman Katie Milne commented that as well as the general loss of animals, the loss of specifically bread animals has a heavier toll. Milne said that the farmers were encountering the "perfect rural crime storm", with hidden cannabis plantings among crops, rustling and the expected equipment and fuel theft. Police are building up intelligence on when, where and what stock are taken through anonymous reporting. Milne is encouraging farmers to report all crime and suspicions.

International Year of Family Farming in 2014 [20 January/ Radio New Zealand] With the aim of promoting family farmers and smallholders worldwide, the United Nation's Food and Agriculture Organisation is running the International Year of Family Farming in 2014. There are an estimated 400 million family farms, that predominately rely on family members for labour and management. One of New Zealand ambassadors for the year, Doug Avery commented that family farms are responsible for most of the world's food production. The UN says that family farms are crucial for food security and sustainability. The Organisation's NZ counterpart will be promoting family farming through the year, with special activities planned for the National Agricultural Fielddays at Mystery Creek this year, with international speakers expected to take part.

Northland areas facing new drought [20 January/ NZ Farmers Weekly] A corner of Northland around Dargaville is facing a drought as much of the rest of the country enjoys a summer of good pasture growing conditions. Farmers on the west coast of Northland have watched showers pass over and around them without benefit over the last few months leaving soil moisture and pasture cover potentially worse than the same time last year. This has resulted in milk production falling and dairy farmers having to turn to supplemental feeds, while some sheep and beef farmers in the region have already started to destock. However, the drought being experienced in the region is currently localised which means the prices being achieved by farmers selling store stock are remaining at good levels. The Northland Rural Support Trust team are collating information on conditions in localised areas of the west coast of Northland and supplying information to the Ministry for Primary Industries so they can assess whether an official drought should be declared in the region.

Environment

Overseer nutrient software becoming essential [19 January/ Business Day] Overseer, initially conceived as a software based nutrient budgeting tool, is quickly evolving from being a farming aid to an integral part of land and water regulation in New Zealand. The growing importance of the programme has seen its owners, AgResearch, the Ministry for Primary Industries and the Fertiliser Association of New Zealand, appoint a General Manager, Caroline Read, who recognises the tool and its uses are becoming increasingly visible to farmers. The tool is able to calculate the loss of nitrates to water, phosphate runoff and greenhouse gas emissions from nine different farming systems and use this to calculate a farms nutrient budget. The Canterbury Land and Water Regional Plan will require farmers to calculate how much nitrogen will leach from their farms into groundwater, most likely using Overseer, with farming practices having to be changed if levels exceed specified thresholds. Despite its complexity, Overseer is available free for farmers to download, although they will need to invest time to gain the expertise to use it effectively, Ms Read notes, as it requires a lot of farm specific information to be provided. Roger Williams from the Foundation for Arable Research, noted that Overseer has moved from being a useful nutrient budgeting tool to a model of national significance in a regulatory context. Given its rapid change in role, which Mr Williams suggests has happened inside the last two years, a new communication strategy is being developed and best practice data standards have now been released.

Trade and export

Goff holds TPP talks in US [20 January/ Rural News Group] During Labour Trade and Defence spokesperson, Phil Goff's, visit to the US, he held discussions with US TPP chief negotiator, Barbara Weisel. Goff said the visit was an opportunity to promote NZ's interests and to be briefed on the state of the TPP negotiations. The visit also consisted of discussions with Congress, NZ exporters, US businesses and independent trade experts. Goff says that NZ's key objective is to remove barriers to NZ trade in agriculture and other goods and services in key markets such as Japan, Canada, US and Mexico, where previous bilateral free trade agreements have failed due the size of New Zealand market. Goff says that the view in Washington is that the TPP will be concluded, but says that this is by no means a guarantee. He says that NZ has crucial issues to be protected during the final stages of negotiations, but also has huge gains to make in export income and access to jobs.

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6

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