

AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

AgriOne	NZ Meat Workers & Related Trade Union Inc
Beef + Lamb New Zealand	NZX Agrifax
Danone	Real Estate Institute of New Zealand
Environment Southland	Rural Contractors New Zealand
Federated Farmers	Saputo
Fonterra Co-operative	Silver Fern Farm
Green Party	Synlait Milk
Honeycrisp New Zealand Limited	Tararua District Council
Horticulture NZ	Unique Manuka Factor Association (UMF Association)
Kiwifruit Vinehealth	US Department of Agriculture
KPMG	Waipopo Orchards Limited
Manuka	Warrnambool Cheese + Butter
Ministry for Primary Industries	Westpac
Murray Goulburn	Whitestone Cheese Company
National Beekeepers Association	Wood Processors Association

#### This week's headlines

<b>Biosecurity</b>	<b>Quarantine imposed after fruit fly find in Whangarei</b> [23 January/ NZ Herald]
<b>Forestry</b>	<b>Forestry 'at the crossroads'</b> [26 January, Business Day]
<b>Dairy</b>	<b>Synlait Milk hikes profit forecast</b> [28 January/ NZ Herald]
<b>Rural infrastructure</b>	<b>Rural contracting almost a billion dollar industry</b> [22 January/ stuff.co.nz]
<b>International</b>	<b>Murray Goulburn sells out of Warrnambool Cheese &amp; Butter battle and accepts Saputo's offer</b> [23 January/ Sydney Morning Herald]

## Horticulture

**Apple exports a sweet success** [23 January/ stuff.co.nz] Honeycrisp apples have seen consistent growth in American demand (20% - 30% annually) since they were first exported in 2011 by Waipopo Orchards. The growing demand has encouraged Waipopo to source supply from other local growers to contribute to the export market. Honeycrisp fetches the highest price of any NZ apple variety (approximately USD 50 a box compared with USD 20 for other varieties). Waipopo co-director, Peter Bennet expects to export 85% of the 1300 tonnes of this year's production volume, double that of 2013. Waipopo expects to employ another 60 – 100 staff over the next few years. Bennet describes the apple as juicy, crisp and flavoursome, and is reputed not to oxidise when cut. The product is bigger than average (200 – 300g) and can reach up to 500g each. The Bennet brothers are two of the four directors of Honeycrisp New Zealand Ltd, which controls and administers the production of the apples in NZ. Danny Bennet hopes that at least another 12 growers will join the market and they expect to increase plantation size by 25ha to a total of 52ha. Danny Bennet believes that the biggest impact to the local economy came from the auxiliary industries developed as a result of the orchard's expansion.

## Honey

**Bee deaths may stem from virus, study says** [21 January, New York Times] A new study suggest that the mysterious colony collapse disease that has wiped out commercial bee colonies around the world may be linked to a rapidly mutating virus that has jumped from tobacco plants to soy plants to bees. The research suggests that increases in honeybee deaths generally starts in the autumn and peaks in the winter and correlates with increasing infections by a variant of the tobacco ringspot virus. The virus is present in pollen that the bees pick up and use to feed larvae. The research, published in mBio, has been undertaken by researchers from the US Departments of Agriculture as well as academics from universities in the US and China. The researchers offer one solution for the colony collapse disorder, but suspect that a host of viruses, parasites and, potentially, pesticides are working in combination to weaken colonies and increase the death rate. The identification of infection by the tobacco ringspot virus is the first known instance of a virus jumping from pollen to bees.

**Manuka authentication project** [22 January/ Radio New Zealand Rural] The Unique Manuka Factor Association represents most of NZ's manuka honey producers. UMFA is collecting samples of manuka honey from around the country in order to establish a chemical profile for the honey. UMFA general manager, John Rawcliffe says Rowse Honey, UK's largest importer and distributor is backing the project. Rawcliffe says the manuka ID project fits in with the Ministry for Primary Industries' work on the label guidelines for manuka honey, aimed at tackling overseas concerns regarding false labelling of the honey.

**Honey prices tipped to rise** [28 January/ Radio New Zealand Rural] Cool temperature and wind are significantly slowing down honey production. The lack of a lengthy stretch of settled weather is impacting the bees' ability to build up momentum, and the lack of constant heat is hindering the availability of nectar, says National Beekeepers Association president Ricki Leahy. Federated Farmers Bee Industry Group chairman John Hartnell says that a lot of beekeepers may be unable to break even this year, especially those who invested in low income generating products. He predicts a 40% decline in honey production from last year. Production in Australia is also facing a similar outlook due to the heatwaves and bushfires.

## Forestry

**Forestry 'at the crossroads'** [26 January, Business Day] Forestry industry leaders are to begin lobbying for a national 'wood first' Government procurement policy to stimulate investment in the industry. The move follows an industry leader, Brian Stanley, Chair of the Wood Processors Association delivering the sector a broadside at a recent conference, where he suggested the sector hardly even features on the Government's radar and that its mediocrity was threatening it with a slow, lingering death. Something Mr Stanley said was the fault of the industry. Mr Stanley said the industry is at a crossroads, it can either continue down its current track fading to irrelevance or it can make a turn and drive forward to become a real economic powerhouse, similar to the dairy industry. Mr Stanley said without milling the future of the pulp and paper industry would also be threatened, thus there was a need for investment in a modern, low cost, large scale mill similar to those operating in Brazil and Chile. Mr Stanley also challenged the Government – to break down trade and tariff barriers and implement a 'wood first' procurement preference for government buildings which could expand investment in wood processing at the stroke of a regulatory pen. One business owner suggested a wood first policy would support development of a world scale mill in New Zealand, which would also grow the value of exported wood products.

**Log exports continue to boom** [28 January/ Radio New Zealand Rural] NZX Agrifax market analyst, Ivan Luketina said that Agrifax log price indicator had hit a record level, with some logs also setting new record price levels. Mr Luketina says the price rises are a result of Chinese demand stimulated by year-on-year price rises (9.9%) of newly built houses in China, further supplemented by steady supply decline from Russia and China. Additionally the Auckland housing boom and the Christchurch rebuild has contributed to the rise in prices of construction timber.

## Dairy

**World dairy prices up 1.4pc overnight** [22 January/ NZ Herald] Dairy product prices rose at the GlobalDairyTrade auction. The GDT price index increased 1.4% on the January 8 sale. The average winning price was USD 5,025 per tonne (from USD 4,953) and 41,024 tonnes of product was sold (from 46,418) for USD 206.1 million. Leading gains were butter (10.8% to USD 4,657 per tonne), cheddar (10.4% to USD 5,133) and milk protein concentrate (7.2% to USD 9,657). Some other increases were seen in rennet casein (4.2%), butter milk powder (3%) and anhydrous milk fat (2.2%). The gains seen in value-added products will be favourable for Fonterra, in comparison to its last year production mismatch where lower value product prices rushed ahead of its higher value products. An ASB statement indicated that the strong prices and the apparent convergence may be more favourable to Fonterra. The production and price signals indicate a "solid" dairy sector income for 2014.

**Nutricia recalls \$25.7m of infant formula.** [24 January/ New Zealand Herald] According to Danone's Nutricia unit financial statements for 31 December 2012, the company announced a "precautionary recall in the New Zealand domestic market" of certain batches of Karicare and Karicare gold brands valued at \$25.7 million, as a result of Fonterra's whey protein concentrate recall last year. Danone, the only customer not to agree to a commercial settlement with Fonterra has terminated the supply contract and served a notice of arbitration seated in Singapore and filed suit in Auckland seeking compensation for the recall. The cost of the recall for Danone is stated at €350 million, while Fonterra recognised a contingent liability of \$14 million. The Nutricia NZ's 2012 year end accounts show; profit of \$61.1 million (up 69%), revenue of \$373 million (up 59%), inventory of \$60.6 million (from \$27.3 million) and dividends \$34.1 million (from almost \$8 million). In addition there was a post-balance date dividend of \$72.3 million.

**Synlait Milk hikes profit forecast** [28 January/ NZ Herald] Synlait Milk has announced that it expects to beat its annual profit forecast by as much as 77% with net profit expected to be between \$30 million and \$35 million compared to a forecast in the prospectus issued for the company's IPO last year of \$19.7 million. Synlait expects to pay between \$8.30 and \$8.40 per kilo of milk solids it is supplied but is reaping earnings growth from its value add products and a favourable product mix according to Chairman, Graeme Milne. The company may not meet its target of selling 10,000 tonnes of infant formula and nutritional products into China due to stricter regulations which have disrupted the market according to CEO, John Penno. Mr Penno said the company was confident that the changes will validate the strategy of the Synlait Milk business over time and underpin an ability to meet long term targets. Mr Penno also noted that company expects to start production of milk powders for two large multinational companies in the second half of the year and will begin commercial production from its lactoferrin plant in early March.

### Deer

**Deer milk cheese trial under way** [23 January/ Radio New Zealand Rural] Award winning, Whitestone Cheese Company has produced trial batches of what it believes to be a world's first cheese from elk's milk. Whitestone's CEO, Simon Berry stated that they plan on ramping up production next year, following the pilot this year. Berry says that they have been getting a 30% to 50% yield from elk milk compared to the 10% to 12% yield from cow milk. Berry hopes to be in commercial production by next summer, and mentioned that Otago University is involved in researching the properties of deer milk.

### Meat

**Mutton exports to China increase** [27 January/ Otago Daily Times] Beef + Lamb New Zealand statistics show, the total volume of mutton exports increased by 16% and value by 22% compared to the prior year. The receipts for mutton increased to \$5,200 per tonne FOB (4.9%). The largest market continues to be China with exports doubling in the first three months of 2013/2014 season, compared with last season's first quarter. Value of lamb exports rose by 3.2% (volume drop of 5.3%, offset by value increase of 8.9%). The receipts for lamb exports increased to \$8,400 per tonne FOB. Total volume of beef and veal exports dropped by 0.5% (13% export decline to North America), but total value of exports increased by 0.5% in the first quarter comparison. Receipts for beef and veal increased to \$5,900 per tonne FOB (1.0%). The average beef and veal return from China was \$300 per tonne higher than that from the US (\$5,500 and \$5,200 FOB per tonne respectively). Westpac senior economist Anne Boniface is optimistic for beef prices this year due to tight global supplies. Ms Boniface expects a sharp reduction in cattle available for slaughter due to favourable conditions for dairy producers. She says growing demand from emerging markets are likely to be beneficial to New Zealand, which can be seen from the 8% increase in beef export value to China from early 2012 to November 2013.

**Meat workers may seek redundancy** [28 January/ Otago Daily Times] Lamb production this season across the country is down approximately 1.8 million head from last year, with production down approximately 700,000 at Silver Fern Farm which has meant the Silverstream plant is yet to start up this season. NZ Meatworkers and Related Trade Union has given formal notice to SFF that it believes that there may be a legal claim for redundancy for 140 workers. However, Otago Southland branch president, Daryl Carran said that the Union will wait through February and possibly March, as it is still possible that the plant may commence production. Carran says the Silverstream situation highlights a problem of falling lamb numbers and change to processing requirements where customers are requiring larger meat cuts or whole carcasses.

### Rural infrastructure

**Rural contracting almost a billion dollar industry** [22 January/ stuff.co.nz] Rural contractors added \$947 million to NZ's GDP, says a report prepared by research company Infometrics for Rural Contractors New Zealand (RCNZ). The contribution came from 5255 registered rural contracting businesses, which employ close to 18,000 staff. RCNZ CEO Roger Parton said that the industry had rapid growth of 4.1% per annum (compared to national economy growth of 2.7%) between 2000 and 2008. He further stated that due to higher farmer confidence and sustained period of high commodity prices, Infometrics expects rural contracting to regain its momentum since activity slowed at the start of the global financial crisis. Parton said that the high employment in this sector demonstrates the growing influence and importance of rural contracting in agriculture.

## Environment and emissions

**Fed Farmers praises new attitude** [22 January/ Otago Daily Times] Federated Farmers have welcomed a “new attitude” from Environment Southland and have suggested the approach is paying off, with the annual compliance monitoring report from the council showing full compliance has increased. Fed Farmers Provincial President, Russell MacPherson, said the willingness of the council to work alongside dairy farmers was obvious with greater understanding between the parties and the council and farmers working in partnership to address issues that have been identified on farm. Mr MacPherson added that farmers no longer feel that they will be “belted for anything” which the hardline, no excuses approach the Council had taken previously had engendered. Mr MacPherson believed that the same scrutiny that farmers are placed under should be extended to councils, highlighting a number of human sewage spills into Lake Wakatipu recently, which do not gain the same reaction as on farm issues.

**Ban stock from waterways - Greens** [22 January/ Radio New Zealand Rural] High levels of e-coli, which is an indicator of faecal contamination has caused the Otago Regional Council to warn people against swimming in popular spots of the Taieri River. The Green Party has called for regulation requiring farmers to keep stock away from country's waterways. The Party's water spokesperson, Eugenie Sage, said that rivers must be fit for swimming highlighting the tourist industry's reliance on the 100% Pure New Zealand brand.

## Biosecurity

**Quarantine imposed after fruit fly find in Whangarei** [23 January/ NZ Herald] The Ministry for Primary Industries (MPI) imposed a restriction on movement of fruit and vegetables from an area of Whangarei after finding a highly destructive male Queensland fruit fly. Horticulture New Zealand president Julian Raine said that they were watching MPI's response efforts very closely and are providing support and advice to the Ministry where possible. The destruction the fly can cause and the cost of controlling the threat is a two-fold risk to NZ's \$4 billion horticulture industry. Kiwifruit Vine Health chairman Peter Omblor said that it is too early to speculate on trade implications, but said that a discovery of a breeding population could have trade implications for some countries whereas it may not be an issue for others. Omblor said that the situation indicates that the MPI's surveillance programme and the systems are working. An MPI statement said that the Ministry is working to minimise the risk to NZ growers and exporters.

**No fruit flies caught in traps after quarantine** [26 January, Herald on Sunday] No Queensland fruit flies have been found in any of the 173 traps that have been checked for the horticultural pest since a single male fly was found in Whangarei earlier in the week. Ministry for Primary Industries Deputy Director General Compliance and Response, Andrew Coleman, said it was a good early result but there remains a number of days to go before MPI can know for sure whether there is breeding population or not. Mr Coleman said the Whangarei community had been supportive of the controlled zone, although it remained critical that all fruit and some vegetables are not taken out of the zone in case a breeding population exists. Horticulture NZ President, Julian Raine, said he was pleased that no fruit flies had been found so far although he noted the anxious wait for growers would continue until the extensive trapping programme has been completed.

**Government will pay for Queensland fruit fly response** [27 January/ NZ Radio Rural News] The Government has confirmed that the horticulture sector will not be receiving a bill for the current Queensland fruit fly response. The Cabinet approved Government Industry Agreements in December, which will increase the collaboration between industry groups and Government in responding to biosecurity incursions as well as introducing a cost sharing regime. However as formal agreements between the Government and primary industry sectors have not yet been signed, the Ministry for Primary Industries has said it will pick up the full costs for the Whangarei incursion.

## International

**NZ dairy company investigated for slaughter – reports** [22 January/ NZ Herald] A New Zealand owned farming company, Manuka, is reportedly being investigated by Chilean authorities over allegations of inhumane slaughter of recently born calves. A spokesperson for Manuka said that the company had strict euthanasia protocols for calves and it was investigating whether one of its farm managers had not followed the correct procedures. One politician in Chile has raised the issue in parliament referring to the slaughter as animal abuse and suggesting it was “a criminal act on the part of those who run...the company”. The penalties for animal abuse in Chile range from a fine to three years in prison. Manuka Director, Mark Townsend, denied the dramatic and emotive headlines in the Chilean press and described the routine slaughter of bobby calves as the commercial reality for dairy farming, and highlighted that the investigation related to only one of the company's 37 farms in Chile. Mr Townsend said that if it was established that somebody in the company had not followed protocols appropriate action would be taken to respond to the findings. He also added the company had taken the allegations seriously and noted that the company was in discussions with an NZ bobby calf slaughter service to open a Chilean-based facility to work their farms there.

**Murray Goulburn sells out of Warrnambool Cheese & Butter battle and accepts Saputo's offer** [23 January/ Sydney Morning Herald] Murray Goulburn has announced that it will sell its 17.7% stake in Warrnambool Cheese & Butter, netting around A\$93 million and officially marking the end of its bid to take control of the dairy producer. The decision takes Canadian dairy company, Saputo's stake in Warrnambool, the small Victorian processing company to more than 75%, cementing its takeover. CEO of Murray Goulburn said that the sale represented an excellent financial outcome for the co-operative and although disappointed to miss out on the acquisition opportunity, the co-op had ensure that there had been a genuine auction which has benefited all shareholders. Murray Goulburn is expected to record a gain before tax and costs of A\$51 million. The funds from the sale would be used to reinvest in the business to support growth in Australia and internationally. The company in its statement highlighted the uneven playing field it had been given to compete with Saputo – highlighting that the Canadian company had received faster approval from the Foreign Investment Review Board while it was still waiting for approval from the Competition Tribunal.

**Purple tomato juice from Canadian GM crop heads for trial in UK** [24 January, Financial Times] Juice made from purple tomatoes, developed by UK researchers but grown and processed in Canada, is heading to Britain to be tested for its health promoting properties. The genetically modified tomatoes are the latest in a new generation of plants designed to take GM into consumer applications. The promoters hope that the new cultivar will be more acceptable to environmental campaigners than the herbicide resistant and insecticidal crops that have dominated the GM market to date. The tomatoes have been grown in Canada as GM regulations in Europe would have made the research prohibitively expensive. The purple tomatoes have a high level of anthocyanin pigments which provide health benefits (including anti inflammatory and anti cancer effects) and a longer shelf life allowing the fruit to stay on the vine for longer and develop a better flavour. If the tests are successful a product could be brought to market within two years in the US while it will take much longer in Europe. The cost of the research has been met mainly by EU research grants, as one researcher noted somewhat of an irony in light of the European regulations that threaten to make commercialisation difficult and expensive.

**Nutricia quite on Indian doctor bribery claim** [25 January/ Business Day] French dairy company, Danone, has become embroiled in claims that its Nutricia India baby nutrition business has approved its sales representatives to make illegal payments to doctors. The Indian Infant Milk Act prohibits anyone involved in the baby nutrition industry from offering financial inducements or gifts to health workers. A spokesperson for Nutricia New Zealand referred all questions regarding the Indian allegations to Danone's headquarters in Paris and the company did not respond to requests for comments. Fonterra also refused to comment on whether the allegations would impact on pending legal proceedings brought by Danone.

### Agribusiness education

**Agri One appoints a new director to board** [23 January/ Massey University Press Release] KPMG Executive Chairman, Ross Buckley, has been appointed to the board of the Massey University and Lincoln University joint venture, Agri One. Agri One promotes collaborative opportunities for both universities to engage in and to date has developed and run a series of short courses. Agri One Chairman, Chris Kelly, said the company appreciates the need to align its business imperatives to industry strategy and looks forward to benefiting from the wealth of industry experience that Mr Buckley brings with his appointment. Mr Buckley has championed the need to recognise organisation capability development as a key driver to public and private sector success and said he is looking forward to contributing to New Zealand's prosperity through the opportunities the board presents.

### Farmers and producers

**Craigmore buys three farms** [22 January/ Business Day] The Overseas Investment Office has given approval for Craigmore Farming Partnership to acquire three substantial dairy farms near Oamaru. Craigmore Sustainables, which acts as the fund manager for the Partnership and the Craigmore Forestry Fund, manages more than \$150 million of capital invested in a mix of dairy, grazing, horticulture and forestry land across New Zealand. Mark Cox, the CEO, was excited about the purchases and highlighted the sustainability programme the company runs to strike a balance between running an environmentally sustainable operation and a profitable operation, stressing the company was a hands on operator of the land not an absentee landlord. Mr Cox also noted that the purchases formed the basis of a cluster of farms the group hopes to buy in the locality in the near future. The company has commenced a significant redevelopment programme to refurbish the farms to make better use of the available water and improve nutrient management and also has a strong belief that the best farmer of the land is the owner-operator, thus will reward high performing managers well (including offering equity partnerships).

**Jump in farm sales** [24 January/ Radio New Zealand Rural] According to Real Estate Institute of New Zealand (REINZ) figures, 1746 farms were sold in 2013 (up 20% from 2012), reaching the highest annual level since 2009. The price rise is yet to be determined, but figures show a 5% increase from 2011 to 2012. REINZ Rural spokesperson, Brian Peacocke attributes the rise in sales to increase in confidence resultant from improved production, high dairy payouts and strong beef and lamb prices. Peacocke says that farm values have almost recovered from their 20% to 30% fall of 2007 and 2008.

**Quake aftermath isolates farming districts** [25 January/ stuff.co.nz] Farmers east of Eketahuna (Pongaroa, Makuri and Tiraumea) are feeling the effects of the earthquake damage from restricted access and damaged buildings. Farmers are left either unable or having to make detours to wean lambs and have stock delivered. Access to Makuri is heavily restricted due to the earthquake damage. Tararua District Council engineering manager, Ray Cannon plans to remove the cluster of boulders perched above the Makuri Gorge using explosives or levers. Tararua mayor, Roly Ellis stated that the Council was taking every effort to restore access to Makuri and elsewhere.

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