

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



LAUNCH OF:
FIELDNOTES.CO.NZ

HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
AGENDA 2013 VOLUME 4**

12 February 2014

Organisations referenced in this week's Field Notes include:

Alliance Group	National Farmers Federation, Australia
Alltech	New Zealand Avocados
ANZ	New Zealand Grain and Seed Trade Association
ANZCO Foods Ltd	New Zealand Pork
Apollo Applies	NZ Kiwifruit Growers Inc
ASB	Primary Wool Co-operative
Bay Wa	Rabobank
Beef + Lamb New Zealand	Rural General Practice Network
Bright Food	Saputo
Crown Sheetmetal	Scion
Elders Primary Wool	Serious Fraud Office
Environmental Protection Agency, US	Silver Fern Farms
FIRST Union	Snowball Effect
Fonterra Co-operative Group	Syngenta
Foodstuffs	Taylor's Engineering
GE Free New Zealand	Timber Industry Federation
Goodman Fielder	Toepfer
Horticulture New Zealand	Turners & Growers
International Wool and Textile Organisation	Wood Processors' Association
Kiwifruit Vine Health	Wool Equities
Massey University	Yealands Estate
Ministry for Primary Industries	ZESPRI

This week's headlines

Horticulture	Turners & Growers fancies Apollo Apples [7 February/ Business Day]
Dairy	Saputo eyeing 'growth opportunities' in Brazil, NZ [10 February/ The Dairy Reporter]
Red meat	'Consolidation good for meat industry' [7 February/ stuff.co.nz]
Research and development	University trials huge cow barn [6 February/ Business Day]
Agribusiness strategy	New way of raising funding for agri-business [10 February/ The NZ Farmers Weekly]

New from KPMG International – Consumer Currents – Issue 16



This issue of **ConsumerCurrents: Issues driving consumer organisations** explores how big data can make a big difference to an organization's performance, what manufacturers should consider before bring production home, and what lessons retailers can learn from the music business. In exclusive interviews, P&G's Global VP of Sustainability, Len Sauer discusses the consumer goods giant's green strategy; and Matt Shay, President and CEO of the US National Retail Federation reveals how he see technology transforming. [Please click here to download the report.](#)

Horticulture

Kiwifruit pest found on Italian imports [10 February/ Radio New Zealand Rural] The Ministry for Primary Industries (MPI) has inspected imported kiwifruit at a Tauranga supermarket and declared that the pest found on the Italian kiwifruit does not pose a threat to the local industry. Kiwifruit Vine Health CEO, Barry O'Neil asked for increased vigilance and said that they will be working with the MPI to ensure that the risks are managed. Mr O'Neil said that Kiwifruit Vine Health has asked the Ministry to request more caution from the Italian authorities and said that MPI has also asked border staff to inspect Italian kiwifruits more closely.

Turners & Growers fancies Apollo Apples [7 February/ Business Day] Turners & Growers has confirmed that it is in talks over the purchase Apollo Apples, but stressed that an agreement has not been made, and it is possible that a deal may not eventuate. Company secretary, Doug Bygrave, stated that a potential agreement is likely to be conditional on "various matters". Turners & Growers', majority owner, German Bay Wa highlighted its new growth strategy which focuses on international expansion outside the traditional pipfruits, kiwifruits and grapes as well as a refocus on the New Zealand market primarily via hothouse and citrus fruit products. Turners & Growers CEO, Alastair Hulbert said it will be continuing its partnership with New Zealand Trade and Enterprise through its "Better by Design" programme, whereby the company has collected feedback and insights from growers, customers, consumers and employees. Mr Hulbert said that Better by Design has helped the company identify what it does well and more importantly, areas for improvement.

Computers, files searched in Zespri probe [9 February/ Sunday Star Times] Convictions against a Zespri subsidiary for smuggling in China has caused the Serious Fraud Office (SFO) to investigate the company's dealings in China which includes the examination of a large quantity of documents, a large number of e-mails and other electronic data as well as many laptops and computers. The Star-Times revealed that senior managers at Zespri in New Zealand knew that a double invoicing system for kiwifruit shipments to China targeted at reducing duty payments would likely be illegal. The Star-Times has learned that the Zespri board has commissioned forensic investigators, Beattie Varley to internally investigate the documents relating to Chinese exports. Some growers have expressed concerns that the examination of the New Zealand counterpart on its own is insufficient to uncover the truth. A Zespri spokesperson stated that the SFO has made two very broad requests for information from across the organisation and that the company was co-operating. In December, NZ Kiwifruit Growers Inc said that Zespri had refused to release information to an industry inquiry due to the ongoing SFO inquiry.

Good avocado season [11 February/ Radio New Zealand Rural] Approaching the end of the export season, the avocado industry has benefited from strong demand and better supply compared to the previous year. New Zealand Avocados is forecasting three million trays of export fruit with around 1.5 million trays being supplied to the domestic market. While production has been at average levels according to Jen Scoular, CEO of NZ Avocados, the supply is well ahead of the 2.6 million trays produced last year. Ms Scoular noted that the Australian market has been very strong throughout the summer and prices have held up very well. New Zealand avocados are also exported to Japan, Singapore, Korea and Thailand, with particularly strong growth in Thailand after it stopped accepting Australian avocado.

Viticulture

Bumper wine harvest tipped to rival last year's [8 February/ NZ Herald] Agricultural lending specialist Rabobank's quarterly international wine report stated that the upcoming New Zealand wine harvest could surpass last year's, and said that, wine exports are back in growth, with an export growth of 10.3% and a value growth of 2.9% in the first 10 months of 2013. The report said that strong growth was seen in exports to the Northern Hemisphere in 2013, with the US being the best performing of the major New Zealand markets. Rabobank said that expectation of the harvest in Australia (New Zealand's biggest market with 30% of exports) was for a marginally smaller crop. Rabobank highlighted that the UK wine consumption is only just starting to show small signs of recovery from the 2008 decline and mentioned the strong correlation between real wage decline in 2008 and the proceeding decline in wine sales. It said that the Northern Hemisphere harvests having rebounded to some extent last year, and this year's strong Southern Hemisphere harvests, have eased concerns over the a potential for tightening of global wine supplies.

Wineries rapped in consent breaches report [10 February/ stuff.co.nz] A council report stated that 39 wineries in Marlborough (up 11 from last year) breached their waste water resource consent conditions during last year's harvest, requiring remedial action to prevent ponding, potential soil damage and aquifer contamination. Eight wineries were considered to have had minor breaches, with two wineries having several breaches. Eleven wineries were assessed to be non-compliant due to breaches in annual and daily discharge volumes and rates, inadequate soil sampling and lack of freshwater sample results being provided. Most of winery waste water is seasonal and is from cleaning floors, equipment and fermentation tanks and barrels. The report stated that these breaches were not significant enough to justify enforcement actions. It also stated that winery staff had agreed to take corrective actions and indicated a willingness to improve operations and records. The report indicated that the council staff will continue to place an emphasis on education on consent criteria and plan rule standards. The compliance group's expectations for the 2013-2014 year are that wineries will provide the required information for consent conditions and plan rule standards. Where wineries have failed to provide information for three consecutive years, enforcement action may follow.

Wine tank fixers under time pressure [7 February/ stuff.co.nz] Wine tank manufacturers are under pressure to complete earthquake repairs and deliver replacement tanks in time for the harvest. Crown Sheetmetal general manager, Andrew Horton said that the company's Blenheim and Invercargill workshops have produced 375 tanks compared with the 112 last season, and had to employ extra staff and contractors to meet demands. Taylor's Engineering marketing manager Conway Taylor echoed similar pressures on the company, with staff working overtime to meet demands. Owner of Yealands Estate, Peter Yealands said he had to drop a significant amount of the wineries group, spending approximately \$500,000 on manual labour to ensure quality and issue-free processing. The estate expects to crush 20,000 tonnes this year, compared to the 4,000 tonnes in 2008. Vineyards around the region are expecting a productive harvest, and are dropping excess fruit to maintain good fruit flavour and assist ripening, as well as expecting an early harvest brought on by good weather.

Forestry

Sawmills in 'vicious cycle' as long prices soar [7 February/ Business Day] The Timber Industry Federation director, Kevin Hing said that the strong demand for New Zealand logs from China, and the resulting log shortage and price, which is at a two decade high is affecting local sawmillers. Last year New Zealand processed 7 million cubic meters of logs, while 16 million were exported, of which 70% was to China. Labour party leader, David Cunliffe and other party MP's are expected to meet with Northland forestry representatives this week to "road-test" the party's forestry policy. Labour party forestry spokesman, Shane Jones, said that after being processed in China, the same logs are often imported back to New Zealand, and highlighted its recklessness when local sawmillers mostly pay the same price for the logs. Both Mr Jones and Mr Hing agreed that the blame was not on local forestry owners for taking advantage of export prices. Mr Hing indicated that although regulation of exports was not a solution, forest owners needed to support the local processing industry. Wood Processors' Association CEO, Jon Tanner indicated that forest owners were entitled to sell to the highest bidder, but said that the fact the local industry was only getting short term contracts mean that the industry is not getting the investment it needs in order to become more competitive. He said that despite the high log prices, the cost of timber had stayed roughly stable for two decades.

Ruling pleases Scion [11 February/ Radio New Zealand Rural] Scion, the Crown Research Institute, is happy with the results of an Environment Court action it took against the Bay of Plenty Regional Council over references to GMO's in its regional policy statement. Scion was seeking to prevent the regional council from advising caution when considering the use of GMO's. The court has found that the Council is able to keep the reference in its policy statement but the rewording it has required has satisfied Scion as it has removed the possibility of having to go through two levels of compliance to carry out genetic modification research or trials. Elspeth MacRae, the Manufacturing and Bioproducts General Manager for Scion, said that it was pleasing that the Environment Court had endorsed the fact that the national legislation was sufficient. GE Free New Zealand saw the outcome differently, with a spokesperson suggesting that the ruling would help other local bodies and communities also seeking to limit the use of GMO's.

Dairy

World dairy prices up 0.5pc overnight [5 February/ NZ Herald] The GlobalDairyTrade price Index increased 0.5% in last Wednesday's auction, with the average winning price at USD5,042 per tonne (from USD5,025) compared to the previous sale. Product volume was the lowest since June 2013, with approximately 35,399 tonnes of product sold (down from 41,024 tonnes the previous sale). Butter increased to USD4,745 per tonne (up 2.6%), highest in at least a year, with whole milk powder (the biggest produce sold by volume) increasing to USD5,005 per tonne (up 1.4%). Other products at the GlobalDairyTrade auction included cheddar at USD4,935 per tonne (down 4.3%), milk protein concentrate at USD9,335 per tonne (down 3.3%), rennet casein at USD11,876 per tonne (down 3.7%), butter milk powder at USD4,775 per tonne (down 1.2%), anhydrous milk fat at USD5,569 per tonne (down 1.2%) and skim milk powder at USD4,746 per tonne (unchanged). The auction consisted of 124 winning bidders, with 185 out of 788 qualified bidders participating.

View cheese, casein rise may be waning [8 February/ Otago Daily Times] ASB rural economist, Nathan Penny said that Fonterra's cheese (up 12% since November for cheddar) and casein (up 34% since November) stream prices slowed their gains at this week's GlobalDairyTrade (GDT) auction, which was not surprising given the recent increases. He said that with the key markets (US, Japan and Europe) improving at varying degrees, it will be interesting to see if cheese and casein prices receive further support, and based on that whether there is potential for movement on Fonterra's milk price. Fonterra maintained its milk price forecast at \$8.30. ANZ economist stated that China's record domestic farm-gate prices and milk flow stabilisation from prior lower production volumes does not seem to have impacted on China's import demand for whole milk powder. A small downward price adjustment in milk powder prices is expected in the second quarter of the year, due to higher milk production by New Zealand and the Northern Hemisphere. The latest ANZ Agri Focus report stated that an opening milk price around the low \$7kg/milk solids was possible, and this combined with this year's record of \$8.30kg/milk solids would result in a strong farm-gate cash flow into 2015.

Saputo eyeing 'growth opportunities' in Brazil, NZ [10 February/ The Dairy Reporter] Saputo, with operations in Canada, US, Argentina and Australia, has recently secured the acquisition of a majority stake in Australian Warnambool Cheese and Butter and US based Morningstar. Saputo CEO, Lino Saputo expressed that the company plans to build on the acquisitions. The company is focused on expanding its presence in Canada, US and Australia as well as expanding into Brazil and New Zealand. Mr Saputo, who is confident on the company's place on the world dairy stage said that it plans to have manufacturing infrastructure in Brazil, and indicated an interest in New Zealand. He also mentioned that the competitive nature of the Canadian market may mean that Saputo will be looking for more acquisitions in Canada.

Red Meat

Concerns about over-reliance on China [5 February/ Rural News] The Beef + Lamb NZ chief economist, Andrew Burttt warned of the heavy reliance by meat export companies on one market, in light of the continued growth in sales to China highlighted in the export figures for 2013-2014. He said that the overall lamb and mutton exports to China have been growing steadily over the last few years, supported by the FTA. Mutton exports to China are double the comparative period last year. Mr Burttt said that the traditional markets which are politically and economically stable and wealthy are still important to New Zealand. His warning echoes a similar statement made by agribusiness expert Jacqueline Rowarth on the dairy industry, who said that the heavy reliance on one market runs the risk of it dictating prices, and clarified that the issue is not with China, but on the single market reliance. Mr Burttt said that New Zealand's meat export volumes to China are relatively small, indicating that as far as meat exports are concerned, the focus is at a micro level, and macro changes in economies continue to be less relevant. He said that although there has not been similar strong growth, the US continues to be the biggest beef market and EU and UK the biggest lamb markets for New Zealand, with the European market starting to look more optimistic.

'Consolidation good for meat industry' [7 February/ stuff.co.nz] Alliance Group chairman, Murray Taggart said that the Meat Industry Excellence (MIE) reform group's objectives to have a consolidated and more prosperous red meat industry is not far from the co-operatives own principles. Mr Taggart said that Alliance supported the farmers supplying to farmer-owned co-operatives, as well as meat company collaboration in marketing and other viable areas. In order to facilitate reform, the MIE has encouraged former leaders of the group to stand as farmer-elected directors on the boards of Alliance and rival Silver Fern Farms (SFF), with three having gained seats on these boards last year (with Don Morrison elected on Alliance board, and Richard Young and Dan Jex-Blake on SFF board). Although Mr Taggart indicated his approval of this, he mentioned the need for stability, nothing there had been five changes to the nine directors on the Alliance board in the last three years. Mr Taggart said the meat returns and plant overcapacity issues have to be solved, but these difficult issues will require more than a few new directors. He said that despite Alliance's strong position, it would not be able to deliver the \$8.30/kg price for lamb required to make sheep and beef farming more competitive than dairying. But Mr Taggart said that the profitability gap could be closing result of dairy's water needs as well as its environmental and nutrient obligations. The demand for red meat from a developing Chinese middle class could increase over the next few years, while Middle Eastern markets paying higher prices for some meat cuts than its Chinese counterpart is an encouraging sign, and a more financially stable US and Europe would see more profitable meat returns.

China demand sees NZ lamb go to pot [10 February/ stuff.co.nz] There has been a fivefold growth in demand for secondary cuts of lamb in China to between in 2010 and 2013. The previously much cheaper secondary cuts are used by the Chinese for the traditional hot pot dishes, taken up by China's more price conscious consumers in its \$174 billion fast food market. ANZCO Foods marketing executive, Kate Eglinton, expressed concerns over the price increases of the secondary cuts. Some suppliers have expressed concern that Chinese buyers could show a resistance to high prices. China is the world's largest sheepmeat producer but production has seen a decline due to shrinking farmable land caused by urbanisation. A growing middle class and food safety concerns make meat imports from New Zealand and Australia an attractive options for consumers. Rabobank animal proteins analyst, Matt Costello stated the importance for New Zealand and Australia to guarantee the supply chain to China. Alliance Group's plant manager at the meat plant in Levin, Phillip Hansen said that although New Zealand caters for 60% of the global sheepmeat market, it is having difficulty meeting Chinese demand, with New Zealand and Australia only supplying 3-5% of the Chinese goat and sheepmeat consumption. Meat processors say that China is paying \$5.60 to \$5.80 per kg for lamb flaps, compared with the previous \$1/kg paid by the South Pacific islands. Alliance Group's marketing manager, Murray Brown said that they aim to market more prime lamb to China's high-end hotels and food shops. Australian processors have indicated a willingness to cater for the supply-demand gap left by New Zealand, with Australia already having profited from the increased sale of mutton to China at 4,736 tonnes (up 1266%) seen last year.

Pork

Goodman Fielder confirms 120 jobs to go in Hamilton closure [10 February/ NZ Herald] FIRST Union said that the loss of more than 120 jobs at the Huttons/Kiwi Bacon factory in Frankton were confirmed by Goodman Fielder. FIRST Union secretary Robert Reid said that the union representing 96 of the staff affected will work with the company and Government agencies to ensure workers receive full support during the closure and redundancy period.

Pork sector assurance [11 February/ Radio New Zealand Rural] New Zealand Pork Chair, Ian Carter, says that the closure and job losses at the Kiwi bacon and Huttons factory in Hamilton are unfortunate, but for the pork sector the positive news is that Heller's will be retaining the key brands, production in New Zealand and there should be new employment opportunities as their business grows. Mr Carter said that demand for New Zealand produced pork was static although production had fallen recently on moves to allow more pork to be imported. He added that this has put pressure on local production, thus the industry was continuing to focus on promoting its 100 Percent New Zealand brand and working to generate loyalty from customers for what the brand stands for – better welfare standards, better production bases, guaranteed supply chain credibility and freshness.

Arable

Seed exports rise in value [7 February/ stuff.co.nz] With exports to more than 60 markets, seed exports including radish, carrots, ryegrass and white and red clover rose by \$24 million to \$192 million (up 14% from previous year), with herbage seeds accounting for 53% and vegetable seeds consisting 47% of the total. New Zealand's largest market for pasture grown seed is Australia (16% of total shipment), with Netherland being the the top export market for vegetable seeds. New Zealand Grain and Seed Trade Association general manager, Thomas Chin said the positive results are helping New Zealand agriculture to move beyond the traditional meat and dairy products. Mr Chin said that the industry is working with Government trade officials to regain brassica seed access to China (which was worth \$4 million annually), following the import ban from the blackleg pest. He said the future growth will be driven through new crops, speciality seeds and by accessing new markets. He also said that the strong export position is in line with the Government's business growth agenda to increase the ratio of exports to GDP from 30% to 40% by 2025. Mr Chin said the trade agreements with Taiwan, talks with South Korea and Colombia and the Trans Pacific Partnership agreements have increased the sector's confidence in future growth.

Wool

Wool man believes fibre is on bounce-back [5 February/ Rural News] International Wool and Textile Organisation (IWTO) President and the Campaign for Wool COO, Peter Ackroyd, on his visit to New Zealand said that it is more viable to be a wool grower now than it was four-five years ago. Mr Ackroyd, particularly mentioning the UK and Germany, the top two wool consuming nations, said that the general economic outlook is much better in the Northern Hemisphere. He strongly emphasised that new trends, both casual and formal are wool heavy in the 2014-2015 seasons. Mr Ackroyd said that the IWTO was working globally with government and non-governmental organisations to promote the environmental credentials of wool and to ensure that the message is understood by rule makers. He said he will ask New Zealand to support the Campaign for Wool, which is very strong in the higher-end markets that New Zealand targets, such as the US and Northern Europe.

Fagan steps up for Just Shorn [10 February/ The NZ Farmers Weekly] Elders Primary Wool Managing Director, Stu Chapman said that Champion shearer, David Fagan's promotional live shearing lesson on Fox News follows a steady growth in sales of Just Shorn carpets over the past year, with sales in the US growing at 8% per annum. Mr Chapman said that over the last 10 months, EPW has sent carpets to the US with a wholesale value of over USD3 million. He said that Just Shorn is sold through about 500 CCA-affiliated stores in the US and Canada, and was also starting to get access to the 140 Pro Source chains. The brand will also be introduced to the Australian market through approximately 50 Carpet One affiliated stores, with plans to also sell in New Zealand before the end of 2015.

Rural infrastructure

Voluntary bonding scheme expanded [6 February/ Radio New Zealand Rural] A scheme introduced several years ago to encourage medical professionals to work in remote and challenging areas has been revised by the Government to include more areas and specialities for doctors, nurses and midwives. The Rural General Practice Network said that including primary care nurses in a voluntary bonding scheme will be a big step in improving rural health services. The Rural General Practice Network chairperson Jo Scott-Jones said that hopefully the bonding scheme will attract young nurses into the career. Dr Scott-Jones said that 2012 graduates looking to practice nursing on the West Coast of the South Island and in South Canterbury district health board areas are able to apply for voluntary bonding this year. He said, of over 50 rural practices surveyed, a quarter were looking for registered nurses and some were also looking for doctors.

New player enters PKE market [10 February/ The NZ Farmers Weekly] The international company, Toepfer's, New Zealand general manager, Ross Bowmar said that the company is preparing to start trading in the New Zealand market this month by supplying palm kernel to farmers. Mr Bowmar is confident that the new entrant to the market can provide farmers value in terms of pricing and reliability of supply. The USD17 billion company manages 40% of the global palm kernel export market, and Mr Bowmar said that having control of such a large volume means that the company is capable of meeting demand during difficult times including droughts, with the company focus being the ability to always deliver to the customer. He also highlighted future opportunities to bring more of the 100+ products Toepfer traded, into New Zealand. Toepfer emphasised that it will also be able to provide extensive global data to help farmers make informed decisions. Sales managers Kevin Mayall and Sid Russel have been appointed to communicate directly with farmers.

Wool merger possible [11 February/ Radio New Zealand Rural] The boards of Primary Wool Co-operative and Wool Equities have agreed to continue discussions on a possible merger. Primary Wool is a farmer owned co-operative with around 1100 farmer members while Wool Equities operates the Bruce Woollen Mill in Milton and a small weaving plant in Palmerston North. Wool Equities chair, Cliff Heath, said the boards had agreed that it was worth taking a look at the detail of the proposal – how does it work, what's going to happen and what would a proposition to shareholders look like – to assess whether it is worth progressing. Primary Wool Co-operative has just announced the biggest profit in its history while Wool Equities is still trying to reach profitability after investing in the Bruce Woollen Mill around two years ago. Mr Heath said the business had made a conscious effort to focus on developing offshore markets as it could not survive on New Zealand manufacturing alone but as a consequence it had to look for additional capital.

Research and development

University trials huge cow barn [6 February/ Business Day] A \$1.4 million Massey University barn, No 4 dairy unit, housing 200 cows for part of the day is part of a Pastoral 21 (a collaborative venture between DairyNZ, Fonterra, the Dairy Companies Association of New Zealand, Beef + Lamb NZ and the Ministry of Business, Innovation and Employment) research effort targeted at reducing the dairying's environmental footprint and to improving productivity. The ends of the stalls are open, enabling feed to be brought in and effluent to be managed. The research efforts are looking at increase the amount of pasture grown and enhance effluent management. The barn will help reduce wet soil and treading damage during winter and spring months and to reduce nitrate leaching during autumn. The project manager and agricultural research officer, Christine Christensen said that the barn is state-of-the-art and meets high animal welfare standards. Dr Christensen said the No 4 dairy unit was a commercial farm and an objective of the research was to recover the investment.

Biosecurity

Origin of fruit fly remains a mystery [10 February/ Radio New Zealand Rural] The ban restricting movement of produce out of Whangarei caused by the discovery of a male fruit fly about two weeks ago has been lifted by the Ministry for Primary Industries. The Ministry's deputy director general of compliance and response, Andrew Coleman said that the discovery of a single fruit fly was not unexpected, and mentioned that the last four times the surveillance system detected a fruit fly had also been a single male fly. He said that more importantly, New Zealand was maintaining the fruit fly free image to its international trading partners. The Horticulture New Zealand president, Julian Raine expressed concern about that fact that the Ministry did not know how the fruit fly got into the country. Mr Raine said that the most likely entry of the fly would have been via a passenger, or a visiting yacht. He expressed the need for the Ministry to review whether the current border regulations for pests are adequate.

Food Safety

Faulty pump behind cream recall [7 February/ Radio New Zealand] The Fonterra Brands Managing Director, Peter McClure said that the likely cause of the E.Coli contamination last month resulting in a 8,700 fresh cream bottle recall is thought to be a faulty cleaning fluid pump which had dropped the flow rate from 8,000L/min to approximately 5,000L/min. Mr McClure said that the flow rate issue has been fixed, and in addition an alarm has been fixed on the pump which will warn of any future drop in flow rate. He said the company also checked similar equipment in other parts of the processing system. Fonterra is still waiting on the final results from the detailed testing.

International

Farmers look to Canberra as drought crisis worsens [7 February/ NZ Herald] 2013 was declared the hottest year on record and the driest for certain parts of the country. With over 60% of Queensland drought-declared and a much of central northern New South Wales at well-below average rainfall over the past two years, some farmers are looking to Canberra for assistance. The 1992 National Drought Policy introduced grants, interest rate subsidies and relief payments. Although climate change was factored in under the Rudd and Gillard Governments, the current drought policy excludes exceptional circumstances payment and the transitional farm family payment. The Prime Minister Tony Abbott has promised to implement fortnightly income support up to three years, from July 1 to the first half of this year. The National Farmers Federation are calling for a package focused on helping farmers prepare for drought, including a review of asset tests, a higher finance package and helping farmers with labour assistance. Others have also requested debt assistance. Linda Botterill, an academic from the University of Canberra believes that a taxpayer-funded assistance programme needs to be thought through in advance, and not rushed through at a time of drought. The Minister of Agriculture, Barnaby Joyce, who is drafting up assistance proposals, faces a tough resistance with the current Government's disinclination to provide industry assistance. However, the Abbot Government has made assurances that drought relief is different and that mum and dad farmers will not be categorised along with businesses backed by multinational companies. This view was reinforced by Treasurer Joe Hockey. Mr Hockey plans to emphasis the human aspect of the drought to rally Cabinet support, but stated that he has not worked out a solution to the crisis yet. The National Farmers Federation president Brent Finlay warned that there will be a long period of recovery, and also emphasised the human aspect of the crisis.

Alltech close to two acquisitions that will 'triple' annual sales [6 February/ The Irish Times] Founder of Alltech, an Irish family owned animal nutrition business, Dr Pearse Lyons said the company will be completing two "game-changing" acquisitions in southeast Asia and North America which could triple its annual sales to in excess of USD3 billion (2013: USD1 billion) by year end. Dr Lyons said that both acquisitions will be for "hundreds of millions of dollars", and that the company has the ability to complete the acquisitions without fundraising. The company with operations in US, Asia, Europe and South America has heavily invested in China, and is mainly focused on producing animal feed and related products. Alltech employs 2600 staff globally and recently announced a 100 staff addition to its bioscience facility in Dunboyne. Dr Lyons mentioned that the company plans to sell its smaller, three year old life science division, which was launched to develop products that could potentially be used to treat Alzheimer's disease. Dr Lyons said he was considering an independent investment in Dunboyne focusing on the craft brewing side of the business.

Syngenta plans cost cuts as profit drops [5 February/ The Irish Times] The Swiss-based crop chemicals producer, Syngenta is to implement cost-cutting to save USD1 billion a year by 2018, in light of its 2013 profits falling below expectations at USD1.64 billion (down 11%). In October, the company warned that earnings would be lower due to a USD170 million write-down on seed stocks and unfavourable exchange rates. Syngenta CEO, Mike Mack said that although the decline was mainly due to non-recurring costs, the company is focused on intensifying cost and capital efficiency, while maintaining growth objectives. Syngenta reported an EBITDA margin of 19.7% (down from 21.9% the previous year), but the company expects the cost savings to help raise the margin to 24% to 26%. It expects the cost savings to offset investments in research and development. Syngenta maintained a long-term goal to increase sales to USD25 billion by 2020, supported by innovation and an integrated business model that supplies farmers a range of products from seeds and pesticides to fertilisers and support services.

White House Announces 7 Regional Climate Hubs [5 February/ The New York Times] As part of a wider campaign to advance climate policy and build political support for more substantial climate policy change, such as regulations on coal-fired power plants. The Obama administration announced the creation of seven regional “climate hubs” by means of an executive order, to help farmers and rural communities with climate change, drought, floods, fires and pests. The hubs are to be set up at current federal facilities, without extra funding. The US Government puts the loss to the US economy of the 2011 to 2013 drought at around USD50 Million, much of which is attributed to the agricultural sector. The administration hopes the programme will help farmers better adapt to climate change as well as aligning support for broader climate regulations. The Environmental Protection Agency is in the process of drafting regulations limiting carbon pollution from coal-fired power plants. The Obama administration is expecting resistance from the coal industry and many states.

China’s Bright Food eyes Europe acquisition [10 February/ The Financial Times] One of China’s biggest food groups, the state owned Bright Food is planning purchases in Europe in order to fulfil its target of doubling its international presence within the next three years to a targeted 25% international asset base. The vice-president of the group owning majority stakes in the UK’s Weetabix cereal and French wine merchant Diva Bordeaux, Ge Junjie said that Bright Food was seeking joint ventures, acquisitions and strategic partnerships. In a move to access advanced technologies and management to secure a competitive advantage domestically, Chinese companies are focusing on increased international mergers and acquisitions. Mr Ge, speaking at the London School of Economics emphasised the advantages this brings to western companies in the form of access to the Chinese market of 1.3 billion people. He said that Bright Food was mainly focusing on dairy, sugar and sweeteners, modern agriculture and spirits and wine. He said that Bright Food will also be looking for more takeovers in Australasia. Mr Ge mentioned that the company has been in talks with Israeli Tnuva and may enter discussions with British United Biscuits. Mr Ge stated that they are currently working on cultural, management and business model synergies.

China’s catering growth at 21-year low [10 February/ China Daily] An industry report stated that the Chinese catering industry only had a 9% year on year growth in 2013 (lowest seen in 21 years), under the Communist Party’s new campaign to cut down extravagance, bureaucracy and fight corruption. The report indicated that restaurants nationally earned USD420 billion in 2013, with the high-end catering suffering the bigger losses. As a result, high-end restaurants are changing their approach, targeting bigger volumes, offering breakfast and fair-priced dishes. The tourism, luxury goods, including liquor and cigarette sales have also been affected.

Agribusiness strategy

New way of raising funding for agri-business [10 February/ The NZ Farmers Weekly] The new Financial Markets Conduct Act, which comes into effect in April will allow businesses to crowd-fund and offer equity with lower costs and without the need for issuing a prospectus. The act aims to provide investors more protection at the same time removing barriers and costs associated with raising capital. Fonterra executives Richard Allen, Simeon Burnett and Francis Reid’s agribusiness focused crowd-funding platform, Snowball Effect, the first of its kind in New Zealand aims to give small to medium sized businesses access to funding through its website.

Economics and trade

Labour: Key must assert NZ exporter rights [6 February/ NZ Herald] The Labour party stated that at his meeting with Australian Prime Minister Tony Abbot, the Prime Minister, John Key needs to stress the rights of Kiwi exporters who are faced with Coles and Woolworths’ decision to source Australian only produce. Mr Key has mentioned his concerns with the matter and said he will raise the issue with Mr Abbott. Labour’s trade spokesman Phil Goff has accused Australia of breaching the Closer Economic Relations (CER) free trade agreement. Mr Goff said that with the two retailers holding 80% of the Australian market, the decision to contract domestically affects \$400 million worth of New Zealand exports a year, and expressed concerns of its spread to other goods. Mr Key, in a statement said that the joint meeting of cabinet ministers is a good opportunity to set the agenda for the trans-Tasman relationship and build on the close relationship between the countries. He emphasised the importance of the two-way trade and investment between the two countries and the integrated nature of the economies under the CER agreement.

Foodstuffs committed to NZ supply [11 February/ Otago Daily Times] Foodstuffs New Zealand managing director, Steve Anderson said that Foodstuffs will continue to support and promote local suppliers without banning foreign products, and expressed the need to provide customers with choice. He said he was closely watching the Australian Woolworths and Coles’ decision to use Australian only produce. Mr Anderson highlighted the week old campaign supporting local suppliers in the 41 South Island New World stores, emphasising its relationship with local suppliers and their produce quality. He also said that where possible, New World sources meat locally. Prime Minister John Key has raised the issue with Australian Prime Minister, Tony Abbott, who indicated that affected suppliers have the potential to lodge a complaint with the Australian Consumer and Competition Authority. Morningstar analyst, Tim Montague Jones said that he had not heard about the “ban”, and emphasised that consumers simply expect best quality products at a good price and that it would be unwise to ban foreign products.

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Weekly news update from the KPMG Agribusiness Network – 12 February 2014

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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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