cutting through complexity

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

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Organisations referenced in this week's Field Notes include:	
Delegat's Group	Alliance Group
Comvita	PGG Wrightson
Hawke's Bay Honey	NIWA
Kakano Investment Limited Partnership	Manuka
Kaingaroa Timberlands	Nidera
Southern Cross Forest Products	COFCO
KordaMentha	US Department of Agriculture
Tio Point Oysters	Ministry for Primary Industries
Fonterra Co-operative Group	KPMG
A2 Corporation	Focus New Zealand
Tainui Group Holdings	Shanghai Pengxin
Ngai Tahu Capital	Synlait Farms
Pioneer Capital	Livestock Improvement Corporation
Waikato Milking Systems	Oxfam
Ballance Agri-Nutrients	New Zealand Deer Farmers Association
Marine Farming Association	Deer Industry New Zealand
National Animal Welfare Advisory Committee	China Agricultural University

This week's headlines	
Honey	**Comvita buys sixth regional apiary** [4 March/ Radio New Zealand Rural]
Dairy	**Farmgate milk price hits record level** [28 February/ NZ Herald]
Rural infrastructure	**Strong result for PGG** [28 February/ Radio New Zealand]
Animal Health	**Minister orders review of calf euthanasia practice** [27 February/ The National Business Review]
Economics	**TPP talks snag over Japan-US impasse on farm protection** [26 February/ The National Business Review]

KPMG's Financial Institutions Performance Survey – Review of 2013

KPMG's 27th Financial Institutions Performance survey (FIPS) finds that New Zealand's banking sector had a solid 2013, with the slow economic recovery picking up the pace and beginning to flow through into the results. More details about the key findings of the survey and details of how to obtain a copy can be obtained by **clicking here**.

The FIPS report includes an article written by Ian Proudfoot, our Global Agribusiness Leader, on the capital challenges facing the primary sector in New Zealand and the factors that the industry needs to manage to secure sufficient capital to facilitate the succession of farm ownership and take advantage of the growth opportunities facing the sector. We have made this article available to Field Notes readers, and can be obtained by **clicking here**.

Call for primary sector to meet investment challenge [4 March/ Otago Daily Times] KPMG agribusiness partner, Ian Proudfoot, said that the New Zealand economy cannot afford for the primary sector to under-invest in its future. The Government has challenged the industry to increase its contribution to the economy by doubling export returns over the next decade, which requires increasing production, increasing value generated from production and establishing new intellectual property export markets. Mr Proudfoot said that this requires significant investment, not only at the farmgate level, but throughout the value chain into the market, which means the industry require alternative sources of capital, as banks are unlikely to provide both succession and growth capital due to Reserve Bank's regulation of the supply of credit to the sector. The industry is expected to require in excess of $210 billion of additional capital on farms and across the supply chain to meet growth targets. Mr Proudfoot highlighted the importance of Maori and iwi organisations and foreign investment in raising the next generation of capital. He warned against selling processing and marketing assets to foreign investors without retaining a fair share of the value creation potential. With many investors seeking to include primary sector exposure in their portfolios, the industry had to create a sufficient number of propositions to satisfy varying investor requirements. The changes in foreign direct investment in regards to agricultural land have made investment less attractive to foreign investors. The Government is committed in providing more than $300 million of investment in market-facing research and development projects and foundation investment in irrigation schemes. Mr Proudfoot said that the industry needed to work hard to meet the expectations of the next generation investors.

Viticulture

Delegat's half-year profit slides [27 February/ Business Day] Listed winemaker Delegat's Group reported a sales revenue of $121.2 million (down 1.8% on prior year), with a profit of $17.2 million (down 7.6%). The volume of wine sold remained almost unchanged at 1083 million cases. Sales, administration costs and finance charges increased total expenses to $50 million from $46.1 million. The company said the lower sales revenue was largely due to unfavourable exchange rates, whereas average case revenue was $119.90 per case compared with $113.20 the previous year. Case sales to Britain and Europe decreased 14%, case sales to the US increased 15%, while sales to Australia, Asia and the domestic market remained unchanged. While inventory was recorded at $74.1 million (up 49.75%), property, plant and equipment was revalued to $241.8 million from $201.9 million, and grape vines were revalued to $63.13 million from $57 million. Net tangibles assets increased to $2.22 per share from $1.94 the previous year. The company reassured in its ability to delivery sustainable earnings, and mentioned that it was planning on achieving the consensus forecast $29 million in operating profit for the 2014 full year.

Honey

Comvita buys sixth regional apiary [4 March/ Radio New Zealand Rural] Honey and natural health products company Comvita has bought the apiary business of Hastings' Hawke's Bay Honey, as part of its goal of owning half of its own honey supply. Comvita CEO, Brett Hewlett said that the company had six regional apiary operations throughout the North Island and has doubled its hives to 23,000 over the last two years. Mr Hewlett said that the advantage of owning supply was to have more control over the increasing costs of obtaining manuka honey, which has increased between 20% to 50% compounded year on year, due to the high demand and the supply shortage. He stated that Comvita expects to obtain approximately 40% of its honey internally next season.

Forestry

Iwi buy into Kaingaroa Timberlands [3 March/ Business Day] The Holding company Kakano Investment Limited Partnership formed by six North Island iwi organisations, (Ngati Rangitihi, Ngati Whakaue Assets and Te Arawa River Iwi Limited Partnership, Ngati Whare Raukawa, Te Arawa Group Holdings and Tuwharetoa) has bought a 2.5% state in New Zealand's largest forestry business, Kaingaroa Timberlands from the New Zealand Superannuation Fund for an undisclosed sum, reducing the Fund's holding to 38.75% from 41.25%. Ninety per cent of Kaingaroa Timberlands' tree crops are on 176,000ha of land, which was returned to eight central North Island iwi in 2008. Kakano Investment Limited Partnership chairwoman Vanessa Eparaima said its investment can further enhance iwi participation at all levels of the forestry business. Superannuation Fund CEO, Adrian Orr said the Kakano involvement is consistent with the fund's strategy to co-invest with partners with similar objectives and long time horizons, and indicated that he hopes the investment will give rise to further domestic co-investment opportunities with iwi and iwi collectives. The sale comes at a time when Maori are expressing concern over falling carbon prices. The Iwi Leadership Forum threatened to lodge a $600 million Treaty claim unless the government addressed the drop in carbon prices, which saw a 14% drop in January. A spokesman for the iwi leadership group on climate change, Chris Karamea Insley said 1 million ha of Maori land could be planted over the next decade if the Government could push up carbon prices.

Dunedin sawmill in receivership [3 March/ Business Day] Sawmill company, Southern Cross Forest Products, with approximately 400 employees and approximately $100 million in sales, with sites in Mosgiel, Milton, Balclutha, Milburn and Thames has gone into receivership. Receivers Brendan Gibson and Michael Stiassny of KordaMentha assured staff that they will be paid until a buyer is sought. Mr Gibson said that he hopes to sell the company as a going concern and mentioned that they were in discussions with customers to get their support and had the support of bankers, ANZ, to find a buyer. This comes at a time when sawmillers elsewhere have been complaining that forest owners are directly exporting logs overseas due to the pressure of a strong NZ dollar. Labour economic development spokesperson, Shane Jones also highlighted a recent major sawmill closure in Rotorua and warnings of likely restructure of milling operations in Nelson and Marlborough. Mr Jones said the National Government's forestry policy is a "chainsaw massacre", and that the Government needed to establish a "wood first" policy to favour local firms in the Christchurch rebuild.

Fishing and aquaculture

Shellfish farms keep close watch on toxin [27 February/ Business Day] Marine Farming Association Executive Officer, Graeme Coates, stated that despite the paralytic shellfish (PSP) poisoning occurring regularly, marine farmers did not harvest shellfish when it was present. The mussel industry had not seen a major impact from the toxin as there were not many mussel farms inside the Queen Charlotte Sound. Tio Point Oysters co-owner, Bruce Hearn said that although his farm has not yet been affected, the farm was being closely monitored for the toxin, and that its products are still very safe. Nelson Marlborough District Health Board medical officer, Dr Jill Sherwood has issued a warning to the public not to consume shellfish from Queen Charlotte Sound, including the Tory Channel out to East Head and West Head, due to PSP-causing toxins. Symptoms of poisoning, which usually occur within 12 hours of consumption were numbness and tightening around the mouth, face or extremities, difficulty swallowing or breathing, dizziness and double vision, with paralysis and respiratory failure in severe cases.

Dairy

A2 sets sights on the USA [26 February/ NZ Herald] NZX-listed alternative dairy company, A2 Corporation Managing Director, Geoffrey Babidge thinks that the US has the potential to become a bigger market that Australia. A2 sources its milk from cows producing A2 beta-casein protein, which is claimed to have superior health benefits. Mr Babidge said that they have indentified A2 cows to source milk from in the US, and are close to establishing a subsidiary. He said that the company is in talks with farmers as well as seeking potential contacts for contract manufacturing and distribution, and are starting to engage with US retailers. A2 is expected to promote its milk at a major food show in California in March. A2 Corporation said that the Platinum infant formula launch is doing well with distribution arrangements made with 13 Chinese provinces, and has secured state-owned China Estate Farm as its Chinese distributor. Mr Babidge said that the company was monitoring and responding to China's regulatory environment, where China is tightening requirements in light of the previous safety scares. Mr Babidge indicated that the main focus for the infant formula was the Chinese market, but growth is also being seen in both the Australian and UK business. The Platinum formula had achieved stronger sales performance in Australia than New Zealand, due to distribution challenges domestically. A2 sales were at $54 million (up 22%) while EBITDA before share of associated earnings fell to $2.6 million from $3.4 million the previous year. Marketing costs in the six months to December 31 rose by $.3.2 million, mainly contributed by launch costs of infant formula in China, NZ and Australia. A2 shares have gained nearly 80% in the past year, and were at 97c.

Ngai Tahu, Tainui, Pioneer Capital buy Waikato Milking Systems for undisclosed sum [27 February/ The National Business Review] Tainui Group Holdings and Ngai Tahu Capital have joined with private investor Pioneer Capital to buy the dairy technology manufacturer Waikato Milking Systems for an undisclosed sum, with the parties aiming to hold a third of the equity each and management to take a minority stake. Waikato Milking Systems designs, manufactures and supplies products which include rotary systems, herringbone systems and other components for dairy farmers. Waikato Milking Systems CEO, Dean Bell mentioned that the new partners will aid the next phase of growth, and said the company plans to leverage the new partners' industry knowledge, investment capacity and their experience with New Zealand exporters. Pioneer Capital received $40 million from the New Zealand Superannuation Fund venture capital fund to finance fast-growing small to medium sized businesses with global potential. The deal is expected to be completed on 31 March.

Farmgate milk price hits record level [28 February/ NZ Herald] Fonterra increased its 2013/2014 season forecast to $8.65 per kilo of milk solids, backed by strong global dairy demand, mainly from China. With the earlier announced 10 cent per share dividend, farmers will be receiving a forecasted total cash payout of $8.75. Westpac senior economist, Anne Boniface indicated that the increasing global milk production, particularly in the Northern Hemisphere is expected to have a negative impact on dairy prices from the middle of the year, with Westpac forecasts for milk prices for next season at $7.10.

Deer

Venison collective considered for marketing purposes [27 February/ Business Day] Five major venison marketing groups are considering a collective agreement in order to move away from traditional markets and explore new options. New Zealand Deer Farmers Association chairman, Chris Orange stated that they were working with the Government to enter into agreements with China and Asia, with the aim of creating competition with other suppliers. Deer Industry New Zealand's venison marketing manager, Innes Moffat said that there were opportunities to sell to Mainland China, but exporters will need to identify appropriate cuts and treat each district as an independent market. Mr Orange said the Alliance Group Timaru's $50 million deer slaughter plant is receiving supply from several suppliers outside the catchment area due to its short turnarounds. The plant is processing 210 animals a shift and working to capacity, with most of the venison exported to Europe. The deer industry is aiming to get producers to increase output through bigger carcasses and earlier fawning. Two farmer driven initiative groups established in South Canterbury, which receive Deer Industry New Zealand funding and support are aiming to increase productivity and on-farm profit, with projects which could include growth rates for orphaned young deer, animal health plans around conception, feeding regimes, genetics and overall farm systems. The results from the projects are expected to be shared with deer farmers. Mr Moffat said that although venison prices have eased in the past 12 months due to supply from Europe, they are still on par with historical figures. Export figures for last season were 15,000 tonnes, with a record 1,800 tonnes exported to the US. He also stated that there is a renewed interest for venison from local restaurants.

Rural infrastructure

Strong result for PGG [28 February/ Radio New Zealand] PGG Wrightson reported an increase in revenue of 8% with net profits after tax increasing to $13.4 million from $4.8 million, and net operating profits up by 23.8% for the six months to December. PGG Wrightson CEO, Mark Dewdney said that earnings for most of its core business improved with the exception of wool. Mr Dewdney said that the drop in capital stock is a result of the 2013 drought and the growing shift towards dairy and dairy support which has resulted in there being a lower volume of wool coming through the logistics operation and auction facilities. Although there is a decline in sheep numbers, the overall earnings for livestock operations are up slightly.

Zeroing in on weather information [28 February/ Business Day] NIWA, the crown-owned research and consultancy company, with a global reputation in water and atmospheric research has launched a service providing farmers with tailored information about weather conditions on their farm. NIWA chief scientist, Dr Murray Poulter said the new NIWA Forecast can create forecasts for properties as small as 12km apart. The system which uses one of the most powerful supercomputers in the Southern Hemisphere can deliver forecasts, which include information about rainfall, temperature, wind, soil temperature and frost 15 days ahead directly to farmers' computers. The system allows alerts to be set up to issue warnings to farmers. The acting spokesperson for grains, Federated Farmers, North Canterbury highlighted the benefit of the system to farmers, and outlined the problems farmers have had due to extreme weather, including the loss of barley due to high winds. NIWA has also launched a free urban weather forecasting service, NIWA Weather.

Ballance Agri-Nutrients CEO retires [4 March/ Business Day] Ballance Agri-Nutrients the fertiliser co-operative CEO, Larry Bilodeau, has announced that he will retire at the end of September. Mr Bilodeau has been CEO for fourteen years and Chairman, David Peacocke, said the co-op had evolved from a fertiliser business to a full spectrum farm nutrient business under Mr Bilodeau's leadership. Mr Peacocke added that the company will undertake a global search for a replacement to ensure that a successor is found that continues Ballance's track record of staying one step ahead of the needs of shareholders and customers. Mr Bilodeau said he was looking forward over the next six months to ensuring that the co-operative stayed on track with its growth strategy and performance goals. He added that he plans to retire from business at the conclusion of his tenure as CEO.

Environment and emissions

NZ's dairying expansion 'has to be stopped' [4 March/ Business Day] Freshwater scientist, Dr Mike Joy, said that the dairy industry's expansion has to be stopped in order to have a chance of reducing the industry's environmental footprint. Dr Joy said that the expansion has to be stopped in order for the mitigation programmes used by the industry to have an effect. He highlighted that New Zealand needs to consider more than just the balance sheet when considering dairy as the country's economic backbone. He said that New Zealand was no longer the lowest-cost dairy producer, which makes the clean-green image even more important. Dr Joy said that the idea that irrigation and dams improve water quality is unfounded, and that easing up the Resource Management Act and the nutrient limits will only make things easier in the short term, but will have worsening consequences for the long run. He expressed his disagreement with Parliamentary Commissioner for the Environment, Dr Jan Wright's recent statement that the public will have to choose between the economy and the environment, as he believes a strong economy is not possible if the environment has deteriorated. Dr Joy insisted that Waikato farmers soil-test their paddocks for cadmium, as 50% of Waikato soils exceed the one-part-per-million contamination limit for cadmium, with 160,000ha exceeded the limit and 30 to 40 tonnes of cadmium added every year via fertiliser.

Animal health

Minister orders review of calf euthanasia practice [27 February/ The National Business Review] Primary Industries Minister, Nathan Guy said that he has asked the National Animal Welfare Advisory Committee to consider an amendment to the Animal Welfare Code to prohibit the use of blunt force to euthanize bobby calves on dairy farms. A final decision is expected to be reached by midyear. The Animal Welfare Act 1999 makes it an offence to kill an animal in a manner that it suffers unreasonable or unnecessary pain or distress. Earlier this year, National Business Review revealed that Chilean authorities are investigating the New Zealand dairy company Manuka for an alleged slaughter of 6000 calves using potentially unethical methods. Video footage was also aired by the New Zealand media earlier in February of Zach Ward, reported to be Manuka's production manager at the time, killing a bobby calf to death with a hammer. Industry bodies DairyNZ and the Dairy Companies Association of New Zealand have indicated their support for Mr Guy's initiative.

International

Fonterra calls for penalty rate review for dairy workers [26 February/ Sydney Morning Herald] Fonterra has backed a review of penalty rates and greater access to 457 visas aiming to make Australian food makers more competitive and farmers more profitable. Fonterra Australia managing director, Judith Swales wants more flexibility in employee work hours, where employees will be able to work longer hours during the peak period and receive time off during the off peak. She said the aim was not to disadvantage employees but to make Fonterra Australia more globally competitive, and workplace reform was a starting point to achieving her biggest priority of making dairy farming more appealing. Australian Dairy Farmers president, Noel Campbell said that penalty rates need not be removed completely, but there needs to be more flexibility, and certain services such as milking should be paid at time and a half rather than double time. Australian Council for Trade Unions president, Ged Kearney warned that this may impact productivity due to a disenfranchised and a demotivated workforce, and warned that foreign labour that were not motivated and did not understand the industry could decrease milk production. The Government will be introducing legislation that will allow employees to waive entitlements such as penalty rates on the condition that they are better off overall. Milk supply has dropped almost 20% to 9 billion litres per annum, with Australian milk processors running on average at 70-75% of capacity. Whereas the supply has almost doubled in New Zealand to 17 billion litres per annum, contributed by favourable exchange rate and the free trade agreement with China. New Zealand exported AUD 1.94 billion worth of dairy products to China, compared with the AUD 389 million from Australia.

Smog could spell disaster for farmers [26 February/ South China Morning Post, Hong Kong] Experts say that the worsening smog in Mainland China could spell disaster for agriculture as the atmospheric conditions slowdown the photosynthesis process that allows plants to thrive. It is suggested that farm output is expected to be lowered by serious air pollution in winter and spring, which would force up prices of agricultural products. Research conducted by China Agricultural University suggested that pollutants sticking to the surface of greenhouses cut the amount of light available to plants by half, leaving seedlings as weak or sick and impacting agricultural consequences. Associate Professor He Dongxian said that if the smog persisted or intensified the country's food supply would face devastating consequences, with greenhouse farms, which occupy more than four million hectares and supply most of the mainland's vegetables, the first to be hit. Growers are looking for alternative solutions, which include installing expensive and electricity intensive artificial lighting and using plant hormones to stimulate growth.

Australia pledges relief for farmers [27 February/ The Wall Street Journal Asia] Drought stricken farmers will receive support from the Australian government in an AUD320 million support package announced by Prime Minister, Tony Abbot. The majority of the support will be allocated to providing loans to farmers, many of whom are still recovering from the effects of an eight year long dry spell which ended in 2009. Other money will be used to go to emergency water infrastructure programmes, pest management and social and mental health services to assist farmers to cope with the drought. An area the size of France and Germany has been classified as drought impacted, and government forecaster, the Australian Bureau of Agricultural and Resource Economics and Science, has suggested that the summer grain crop could fall by 25%. Farmers have also been reducing stock holdings, which have seen prices collapse for prime stock. The package reflects the split between the government collation, with Agriculture Minister, Barnaby Joyce, the deputy leader of the minor collation party, National, being far more supportive of assisting farmers than Mr Abbot's Liberal party.

Oxfam's Behind the Brands report looks at ethics of world's biggest food companies [28 February/ CNN, USA] As part of a campaign to encourage major companies to adopt more ethical sourcing, Oxfam has again issued its behind the brands scorecard which compares the way the ten largest global food and drink companies do business. The report compares companies on criteria including transparency, women's rights, farmers' right and land, water and climate sustainability. The report was first prepared in 2013 and resulted in companies receiving nearly 400,000 requests to change their practices. Of the top ten companies, nine were assessed to have made improvements to their policies in the last 12 months. The survey ranks Nestle, Unilever and Coca-Cola as the highest ranking companies with strong drive to change their sourcing attitudes. The companies ranked lower challenge the methodology that Oxfam adopts and suggest that they are not provided sufficient credit for the sustainability initiatives that they are taking within their global business. Oxfam highlights that it will take time to reverse a 100 year history of relying on cheap land and labour to make mass products at huge profits but at high social and environmental costs.

Nations agree to temporary fishing ban [28 February/ The Globe and Mail, Canada] An agreement has been reached between Canada, the USA, Russia, Denmark and Norway to block commercial fishing in the central Arctic Ocean until more research is done about the potential of the resource. The Central Arctic Ocean is unregulated and no commercial fishery currently exists in that part of the ocean, which was until recently covered by permanent sea ice, although up to 40% of the area is now clear of ice for at least part of the year. The meeting of the nations, held in Greenland, achieved consensus that the region is not ready for commercial fishing until science and management measures are more developed. Scientists had expressed concern that the regulatory gap could make the region a target for large bottom trawlers that could stress fish populations. Given that the waters are not regulatory owned by any country, the five countries set an ambitious agenda for the rest of 2014 to bring the rest of the world on board to committing to staying out of the region and ensure it is protected into the future.

China's COFCO to acquire 51% of commodity trader Nidera [1 March/ Agence France Presse, France] COFCO, China's state owned food conglomerate has acquired a majority stake in the Netherland's based commodity trader, Nidera, for USD1.2 billion. Nidera trades grain and soyabeans among other agricultural commodities and the acquisition will give China greater control over the pricing on the world's grain markets and better access to major grain growing regions, including Latin America and Russia. COFCO said in the press statement that the acquisition was part of the company's strategy to become a major global player in the food industry and is a significant step in the global expansion. The CEO of Nidera, Ton van der Laan, said the deal would generate growth opportunities and highlighted the importance of Chinese and Asian markets for the company, adding that COFCO would be a strong strategic partner and the transaction would benefit both parties.

Beef recall raises questions for USDA [1 March/ The Wall Street Journal, USA] The closure of a San Francisco based meat processing company following a recall of 8.7 million pounds of beef has raised concerns about gaps in the US Department of Agriculture's meat inspection system. The USDA announced recall suggested the processor, Rancho Feeding Corp, had processed diseased and unsound animals and that the resulting meat is unfit for human consumption. The meat had been processed between January 2013 and January 2014. The meat was shipped to retailers and food processors across the USA. Some experts are questioning how so much meat could have been produced for so long without proper oversight, with the USDA suggesting that the operators appeared to have intermittently circumvented the inspection requirements. A representative of the plants operators said that they were hopefully that there would be an opportunity to understand exactly what the USDA is investigating; highlighting that not all the product produced at the plant should be incorporated in the recall. A union representative claimed that a meat inspector employed by the USDA raised concerns about the health of animals being slaughtered at the plant during summer 2013 but the USDA says it can find no record of the inspector's report.

Political unrest, cold weather boost global wheat prices [3 March/ Australian Financial Review] Cold weather across the grain belt in the USA and the rapidly intensifying political instability in Ukraine has triggered a jump in the global wheat price, with a resultant benefit for Australian farmers that are dealing with drought conditions in New South Wales and Queensland. A 3% increase in prices over the last week together with some rain in drought impacted regions is likely to see more farmers make winter plantings in the coming weeks. The rain that has fallen recently is not drought breaking and more rain is needed to shore up east coast crops and encourage farmers to take advantage of higher market prices.

Agribusiness strategy

MPI being aligned, not restructured [28 February/ Radio New Zealand] The Ministry for Primary Industries' new director-general, Martyn Dunne told Federated Farmers' dairy council that the Ministry is not going through a restructuring, but a "process of alignment". Mr Dunne said that dealing with issues such as dairy product recalls, apples in China and meat trade access issues are distracting the Ministry from preparing for big changes in the primary sector. Mr Dunne is confident that the alignment will better enable the Ministry to deal with issues it needs to.

Economics and trade

TPP talks snag over Japan-US impasse on farm protection [26 February/ The National Business Review] Reporters covering the 12 nation Trans Pacific Partnership talks in Singapore said the talks have ended with an impasse over Japan's refusal to ease protection of its farming and car manufacturing sectors. Trade Minister, Tim Groser said that market access was central to the trade agreement, hence this issue needs to be resolved before progress can be made. US Trade Representative Michael Froman said progress had been made on food-safety standards as well as trading rules for state-backed companies and telecommunications, but there was not yet a deal on market access and intellectual property. Japan is adamant to protect farm products, while the US is demanding full access for its agricultural goods. Professor Jane Kelsey said that even if the US and Japan comes to an agreement, there is no guarantee it will extend to the other partners, which means New Zealand will have very little leverage on a US-Japan agreement, but nevertheless a US-Japan deal could mean that other governments will also make compromises on major issues. Mr Groser acknowledged that the issues are sensitive for both the US and Japan and that negotiations will be heavily affected by the bilateral negotiations between the two parties.

Annual $312m surplus the country's first for two years as dairy exports to China surge [28 February/ NZ Herald] According to Statistics New Zealand, exports exceeded imports by $306 million (8.1%), putting the balance into surplus for the first time in two years and first time in six years for the month of January. Over the last 12 months, exports to China increased by $3.7 billion (up 54%), more than offsetting the $1.2 billion decline in exports to the next biggest markets, Australia, US and Japan. Exports to China in January were at $1.2 billion, making up 31% of total exports and over twice the value of exports to the second largest market, Australia. The increased exports are attributed to the increase in dairy by $2.9 billion (+25%) and forest products by $750 million (+24%). Dairy, meat and forest products amount to 48% of total New Zealand exports, and New Zealand Institute of Economic Research principal economist, but Shamubeel Eaqub points out that 74% of exports to China are dairy, meat and forests products. Mr Eaqub warned of the increased volatility risks associated with increased concentration. Statistics New Zealand noted that the increase in value of dairy exports are predominantly driven by prices, rather than volumes with January exports up by 56% ($605 million) by value from last year, whereas volumes were up by 9.2%. Compared to last January, forest product exports increased by $65 million (33%), contributed mainly by higher production as well as higher prices. In comparison to the prior year, for the three months ended January, imports were up by 6%, contributed by an 8.4% increase in non-transport plant and machinery, 1.7% increase in consumer goods and 18.4% increase in cars.

Nathan Guy visits Middle East [28 February/ Rural News Group] New Zealand Primary Industries Minister, Nathan Guy is expected to open a new Fonterra warehouse in the United Arab Emirates during his visit to the Middle East. The warehouse will be a hub for re-exports throughout the region. Mr Guy said the visit is an opportunity to build on New Zealand's strong relationships with key agricultural and food export markets and to discuss how New Zealand can work with the regions where we have particular expertise, such as agriculture, fisheries and environmental management. He stated that New Zealand exported $1.6 billion of primary products to Saudi Arabia, Oman and the UAE. Mr Guy will also be discussing a joint project with Environment Abu Dhabi where New Zealand is helping with environmental management. The Minister is also expected to meet his counterpart while in Saudi Arabia, and also visit the site of a New Zealand agribusiness service hub and demonstration farm which is currently under development. While in Oman, Mr Guy is expected to meet the Agriculture and Foreign Affairs Ministers to discuss increasing trade and agricultural linkages. The NZ Inc Gulf Cooperation Council (GCC) strategy also outlines New Zealand's plan for developing government and private sector relationship with the GCC.

Ambassador summoned, FTA on hold [3 March/ Business Day] The Prime Minister John Key said that New Zealand has put a free trade deal with Russia on hold in light of its troop deployment to Ukraine. The Prime Minister has also put a visit to Moscow on hold and ordered Trade Minister Tim Groser who is working on the trade agreement to return to New Zealand. Foreign Minister Murray McCully expressed the Government's disapproval of the troop deployment to the Russian Ambassador Valery Tereshchenko. Mr McCully condemned the breach of Ukraine's sovereignty, and called on the Russian Government to take steps to reduce tensions. The US and other parties are also contemplating boycotting the G8 meeting set for June in Sochi.

Farmers and producers

New rural political party to launch today at Northern Field days [27 February/ Farming Show Rural News] A new political party, Focus New Zealand was officially launched at Field Days on 27 February, with the hosting of a rural 'think tank' inviting the public to brainstorm and challenge scenarios and policy ideas. Focus New Zealand president, Ken Rintoul said that they have close to 900 members with the rural sector making up about 50% of the membership. Mr Rintoul said that the party's main aim is to look after New Zealand's food producers.

Synlait gains extension [3 March/ Radio New Zealand Rural] The New Zealand Overseas Investment Office approved Shanghai Pengxin purchase of a 74% ownership interest of the 13 Synlait Farms' properties in Canterbury. Shanghai Pengxin has to meet the final requirement of the takeover offer of obtaining Chinese regulators' approval for the agreement and for funds transfer out of China. Although Chinese regulators' approval was not obtained by the deadline, Synlait Farms' chairman, Barry Brook said that the Takeovers Panel has granted a month's extension.

McNee to ring changes at LIC [3 March/ NZ Farmers Weekly] Wayne McNee, the CEO of Livestock Improvement Corporation, has been in discussions with the co-operative's board about a significant structural changes to the business to support a plan to expand the business in the South Island, grow internationally and focus the business on the future needs of farmers. The plan could affect 56 jobs, many of them at the executive level, with 17 new roles being created, and it is currently being discussed with staff. Mr McNee has a goal to increase annual revenue growth to between 5 and 10%. The new roles would be focused on business development and front line areas of the business according to Mr McNee to support a goal of improving the prosperity and productivity of farmers. Mr McNee added the changes are intended to put farmers at the centre of the business and providing staff that work with farmers more decision making rights around the products that are developed and the solutions that are delivered. The initiatives are a response to feedback from staff, the shareholder council and the board that they wanted the co-operative to be less head office focused and more focused on what farmers want from LIC. Mr McNee said that the new strategy was based around four themes; genetics and information to create superior livestock, information services to improve decision making on farm (with the recently announced acquisition of Dairy Automation being an example of the theme), hardware and systems to improve productivity and decision making and increasing presence and capability in international markets. The company will also be focused on mergers and acquisitions.

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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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