

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**

26 March 2014

Organisations referenced in this week's Field Notes include:

Abacus Bio	LegaSea
Alliance Group	Meat Industry Excellence Group
AsureQuality	Ministry for Primary Industries
Beef + Lamb New Zealand	New Zealand Infant Formula Exporters Association
BioGro	New Zealand Institute of Economic Research
China New Zealand Kiwifruit Investment Company	New Zealand Merino Company
COFCO	Oceania Dairy
Dairy New Zealand	Organic Aotearoa New Zealand
European Union	Royal FrieslandCampina
Fonterra Co-operative Group	Sajo Oyang
Foodstuffs	Sport Fishing Council
Foundation for Arable Research	Synlait Milk
Freshpork	Synutra International Inc.
HSBC Australia	Vidal Estate
Kiwifruit Vine Health	Wood Council
Labour Party	Zespri Group

This week's headlines

Forestry	Labour's 'pro-wood' policy offers timber sector a fillip [20 March/ NZ Herald]
Fishing and aquaculture	Commercial fishing quota cut [20 March/ Business Day]
Water	Face up to water issues, says watchdog [21 March/ Radio New Zealand Rural]
Biosecurity	Single fruit fly find cost nearly \$1m [24 March/ Business Day]
Economics and trade	Trade Minister Tim Groser and Primary Industries Minister Nathan Guy are leading an agribusiness delegation to Chile and Colombia [24 March/ Rural News Group]

Horticulture

Kiwifruit battle heats up [23 March/ NZ Farmer Weekly] The plan by China New Zealand Kiwifruit Investment Company (CNZK) to raise \$250 million in capital from Chinese investors to buy 1,000ha of kiwifruit orchards directly from banks or distressed sellers at under market prices and enter an agreement with the state owned Chinese food distribution giant, COFCO has been cancelled after a sources warned Zespri about the authenticity of some of CNZK's claims. CNZK needed a collaborative marketing agreement from the industry's regulatory body, Kiwifruit NZ, before it could export in collaboration with Zespri. The warning indicated that the mid-level manager that CNZK negotiated the supply agreement with had no authority for the transaction. After meeting with the COFCO chairman, a spokesperson for Zespri stated that COFCO did not appear to have any interest in Zespri or the New Zealand kiwifruit industry. A CNZK director Bob Robertson disputed this and mentioned that COFCO was genuinely interested in the deal and that they were negotiating at the highest levels of the company. He mentioned that they are now intending to take the investment overseas. Simon Dickie, another CNZK director, laughed off suggestions that the proposed Chinese agreement was an attempted takeover of the kiwifruit industry by China. Mr Dickie said that he was limited in what he can say as he is in the process of selling his kiwifruit orchards. Some growers want to cut away from the monopoly exporter, Zespri as they believe they can be more profitable independently, but most believe that the single exporter model was what turned the industry into a \$1 billion industry and prevented collapse under the Psa incursion. Zespri chairman, Peter McBride said that the disenfranchised growers were damaging the industry that is characterised by transparency, robust debate and co-operation. The president of the Te Puke Fruitgrowers Association, Ross Bawden believes that the monopoly structure should not be interfered with. Primary Industries Minister, Nathan Guy said that the Government is not anticipating changes to kiwifruit export regulations, as majority of growers support the single seller model.

Viticulture

The best Chardonnay vintage ever? [21 March/ NZ Herald] A Hawke's Bay winegrower, Hugh Crichton of Vidal Estate said this year's harvest is showing all the signs of a landmark vintage for Hawke's Bay Chardonnay, and also said it could bring much needed export revenue for the industry, which has been suffering from competition from Marlborough's Sauvignon Blanc. The forecasted dry, warm weather also promises to provide a good harvest for Hawke's Bay's Merlot, Syrah and Cabernet Sauvignon. Hawke's Bay is New Zealand's second largest wine growing region with over 5,000 hectares of planted land. Mr Crichton mentioned that the high quality, clean fruit will mean a naturally fermented juice without the need to add any cultured yeast, which will provide a superior quality wine. He also believes that Chardonnay is moving from oaky, buttery notes to a lighter and fresher wine. Mr Crichton said that with this harvest providing more wine, there will be more to export overseas, especially China where Chardonnay is considered to be the most popular white wine variety.

Forestry

Labour's 'pro-wood' policy offers timber sector a fillip [20 March/ NZ Herald] Labour Party's election-year economic package includes policies to improve the value of the forestry sector, including a 'pro-wood' policy to encourage the use of wood in low-rise government buildings being replaced from the Canterbury earthquakes. Labour Party leader, David Cunliffe said that there were structural barriers preventing long-term development in the industry. He outlined the proposed favourable tax treatment for investment that will allow long-life high cost investments that were needed for the sector. Labour finance spokesman David Parker said that the cost of approximately \$10-25 million will generate up to \$80 million worth of investment annually which will result in a benefit for taxpayers by higher tax revenue from wages and increased profits. Labour would also secure long-term supply with incentives such as low cost loans for plantings, joint ventures with iwi and restriction on the use of cheap imported carbon credits. Mr Cunliffe also mentioned the development of a 'forestry taskforce' for long-term unemployed in partnership with the private sector. Economic Development Minister, Steven Joyce criticised Labour's plans, calling them a "grab bag of ideas" from the 1970. Mr Parker criticised Mr Joyce, saying that Mr Joyce's policy of industry support involves providing cheques to multinationals like Rio Tinto, making unfavourable deals with SkyCity or providing subsidies to known farmers. Green Party co-leader, Russel Norman said the Green Party will offer a \$1 million prize to encourage uptake of structural timber in the building sector, which is being lead by the Canterbury University.

Wood Council pleased by MPs' turnout [20 March/ Radio NZ Rural] Associate Minister for Primary Industries, Jo Goodhew told the Forest Wood conference in Wellington that the Government has invested \$150 million in forest innovation and science since 2010 and that it was working hard on encouraging demand for high value wood products. Labour Party leader, David Cunliffe said that his government will partner with the industry to ensure more logs are turned into finished product in New Zealand, creating jobs and re-energising the industry-dependant towns such as Kawerau. The Wood Council chair, Bill McCallum said the Council is very pleased that both major parties are committed to the sector. He said that National's recent focus and the fact that Labour has developed a policy is encouraging, but also mentioned the need for more to be done. However, Mr McCallum was doubtful of Green Party's proposal to award a \$1 million prize for the first 10-story wooden building and mentioned that there was work to be done before that can be possible, including the revision of the building standard to take into account the new technology that is available.

Arable

Arable research body sets strategy [21 March/ Radio New Zealand Rural] The Foundation for Arable Research launched its next three year strategy, which aims to ensure that arable farming a viable option for farmers. The Foundation's CEO, Nick Pyke said that it was important to develop the right partnerships that are complementary to the Foundation's work, as well as having the right people doing the research and having leading research that is capable of making a difference for farmers. He said that there will be more integration of cropping into pastoral systems, mainly for diary, but also sheep farms. Mr Pyke also stated that the Foundation was looking at how to link expertise with animals and nutrients into the current programmes.

Fishing and aquaculture

Commercial fishing quota cut [20 March/ Business Day] The recreational fishing group lobby is launching a campaign against alleged overfishing of crayfish. LegaSea and the Sport Fishing Council said that the Government has allowed commercial crayfisherman to lift 2 million pots per year, while the public catch is being squeezed out. Minister for Primary Industries, Nathan Guy announced changes to catch limits for seven commercial fish stocks, which does not affect recreational and customary quotas. The commercial catch limit for crayfish in the Bay of Plenty (CRA 2) has been reduced to 416 tonnes (down by 36 tonnes), Wellington/Hawkes Bay (CRA 4) reduced to 662 tonnes (down by 33 tonnes), Gisborne (CRA 3) increased to 390 tonnes (up by 35 tonnes), with similar increases in Otago (CRA 7) and Westland/Taranaki (CRA 9). Southern blue whiting fishery near Campbell Island (SWB 6l) has been increased from 30,000 to 40,000 tonnes, and Tasman and Nelson Bays scallop reduced from 747 to 400 tonnes. Mr Guy said that commercial fishing boats had agreed on sea lion exclusion devices as well as full observer coverage on boats in the sensitive SWB61 fishery, in order to avoid sea lions being snared by fishing boats. LegaSea stated that they are mostly concerned with the CRA 2 lobster catch, the most important recreational and customary crayfishery in the country, with the pot lifts increased from 250,000 in 1999 to 530,000 in 2012, of which an increasing amount is going to commercial fishing at the reduction of the recreational catch. LegaSea are calling on the Government to halve the allowable CRA 2 catch and to implement a management plan. The campaign co-ordinator Adam El-Agez said the current quota management system is failing and that it was allowing some commercial operators to catch undersized crayfish around the Gisborne coast. Mr Guy stated that he has approved a new management approach on CRA 2, and that if numbers do not improve, further changes will be considered.

Court battle looms over wages [23 March/ Business Day] Approximately 300 Indonesian crew from South Korean fishing boats that operated in New Zealand waters, including 200 from foreign charter vessels hired by Sanford Ltd are claiming \$17 million in unpaid wages from the Employment Relations Authority. Officials from Korea's largest fishing company, Sajo Oyang are facing fraud and forgery related criminal charges in connection to operations in New Zealand. The 200 crew claiming \$10 million, allege they were paid \$600/month, had to work in poor conditions, at times in excess of 20 hour stretches and suffered verbal and physical abuse. The 100 employees of Timaru's South East Resources Ltd chartered vessels are claiming \$7 million. Sanford, in its last annual report stated that foreign charter vessels had a very good year with strong catches. A Bill requiring foreign charter vessels to reflag by 2016 is unlikely to pass before elections in September. International allegations around Sajo Oyang have meant that US State Department has placed Seoul on a human trafficking annual watch list report. Sajo Oyang officials on Oyang 75 were fined over \$420,000 after being convicted of environmental offences, with the ship being subjected to a forfeiture order, which is yet to be confirmed in court. The Korean Coast Guard has laid charges of fraud against Sajo Oyang officials including CEO, Gapsuk Lee on allegations of drawing fake foreign currency transfer receipts indicating Indonesian crew had been paid.

Dairy

Dairy prices fall again in GDT auction [19 March/ Business Day] The GlobalDairyTrade (GDT) trade-weighted price index dropped 5.2% overnight compared with the last sale two weeks ago, with the average winning price dropping to USD4,563/tonne from USD4,794/tonne. Maximum supply (amount of product available for sale) dropped to 39,806 from 42,037, with 39,008 tonnes being sold. The third consecutive fall in the price meant that dairy commodity price index has fallen from 1,482 on February 14 to 1,332 on March 19. With six of the nine categories falling, the weighted average price of anhydrous milk fat and rennet casein dropped to USD4,578 and USD10,533 respectively (both down 10.7%), whole milk powder dropped to USD4,439 (down 5.8%), butter milk powder and milk protein posted gains and lactose did not trade. The auction resulted in 147 winning bidders with 187 of 747 qualified bidders participating. Fonterra products represented 89% of the products sold in the Fonterra owned independent platform, GDT, with US, Australian, Indian, European and Scandinavian dairy companies also selling their products.

Plant on target, milk contracts full [19 March/ Otago Daily Times] Chinese-owned milk factory, Oceania Dairy currently has contracts with 46 suppliers with a minimum supply period of three years, to supply 170 million litres of milk for the first season, ahead of its target of 130 million litres. Oceania CEO, Aidan Johnstone mentioned that there was strong interest in supplying milk to Oceania, and that there was strong support from the farming community. The first milk supply contract was signed at the end of 2013 with dairy farmers Aad and Wilma van Leeuwen, who represent a group of foundation suppliers covering 20 farms. All Oceania's contracts are with farmers within its home collection area, set at a radius of 50km from the Glenavy factory. The factory will operate at 65% capacity in its first year, producing 30,000 tonnes of milk powder. Once full production is commenced, in around 2016-2017, it expects to employ approximately 70 people, process 300 million litres a year and producing 47,000 tonnes of milk powder for export to China to be used in infant formula.

Dutch giant increases Synlait Milk stake [20 March/ Business Day] The giant Dutch dairy company Royal FrieslandCampina, who is also a Synlait customer, increased its stake in the Canterbury milk processor Synlait Milk from 7.5% to 10%. Synlait chairman, Graeme Milne welcomed the move and said that Royal FrieslandCampina has become a valued customer and a key strategic partner. FrieslandCampina sold products in over 100 countries and had annual revenue of approximately EUR10.3 billion (NZD16.7 billion). Synlait's shares rose 3c in trading to \$3.90 on March 20.

Chinese still think NZ dairy less safe [20 March/ NZ Herald] A Massey University survey of 531 people in Lanzhou, Gansu province in October 2013 (two months after Fonterra's botulism scare) suggests that Chinese consumers regard New Zealand milk products as less safe than those produced by competitors such as US and Europe, with just over 28% rating New Zealand dairy products as "not very safe", in comparison to 14.8% Australian, 13.2% US and 12.5% European Union products rated as "not very safe". However 64.9% of the respondents rated Chinese dairy products as not safe. Just under 72% regarded New Zealand dairy products as "very safe", whereas 87.6% respondents thought European Union products, 86.9% US products and 85.1% Australian products to be "very safe". Massey University professor of food safety and microbiology, Steve Flint indicated the power of publicity that was evident from this, and said that it was important for Prime Minister John Key to generate positive media coverage to restore confidence during his visit to China. In an interview with CCTV, Mr Key highlighted that the botulism scare was a false alarm. Federated Farmers president, Bruce Willis expects the Chinese market's impression to improve over the next 12 months. Despite the botulism scare, dairy exports to China grew strongly in 2013.

Dairy Woman of year named [20 March/ Radio NZ Rural] Whangarei accountant specialising in farm accounting, Charmaine O'Shea has been named the Dairy Woman of 2014. Ms O'Shea and her brother Shayne who co-own a Maungatapere property won the Northland Supreme Balance Farm Environment Award in 2013 and Mr O'Shea has also won Northland Sharemilker of the Year previously. The judges at the Dairy Women's Network gala held Hamilton on March 19 said that Ms O'Shea has had an important role in improving the profitability of the industry through strong financial, environmental and people performance. Ms O'Shea explained that she was passionate about showing people what they are capable of, building their skills, confidence and their belief in their own ability to reach their goal. Ms O'Shea has also been appointed to the chair of Agri Women's Development Trust, and she mentioned that this will help share her expertise in leadership and governance.

Key's visit very important for Fonterra, says chairman [25 March/ NZ Herald] Fonterra chairman, John Wilson said that its clients have welcomed its prompt decision to accept the court charges and mentioned that it was a mark of respect for New Zealand's food safety system. But smaller exporters said they are still feeling the strain. New Zealand Infant Formula Exporters Association chairman, Michael Barnett said that competitors from France, Australia and Europe used the botulism scare to gain shelf space. Prime Minister John Key acknowledged the issues faced by smaller exporters from restrictions resulting from the botulism scare. He emphasised the need to work through these restrictions to identify if they are still needed. Fresco Nutrition managing director, Gregg Wycherley said that the number of New Zealand brands had already reduced from 300 to 30 resulting from the restrictions. He said that for the most part, the trust in New Zealand dairy was strong. Mr Wilson said that Fonterra was appreciative of the Government's decision to boost the number of Foreign Affairs and Primary Industries staff in China, and said that it was crucial to have a strong backing in China given the events in the Chinese market since the free trade agreement was signed.

Meat

Farmers vote for meat reform group [21 March/ Radio NZ Rural] Over 60% of voters at the Beef + Lamb New Zealand annual meeting were in favour of the Meat Industry Excellence (MIE) group's work to be funded by industry good organisation. The MIE called for consolidation and more collaboration in the sector. MIE chairman, John McCarthy said that MIE believes the current single-minded focus behind the farmgate will not turn the industry around, and that procurement and in-market behaviours needed to be addressed. Mr McCarthy said that they are still planning on a national red meat sector summit and still hoped for Primary Industries Minister, Nathan Guy's support. The Beef + Lamb chairman, James Parson said that although only 14% of eligible sheep and beef farmers voted at the annual meeting, he's confident that Beef + Lamb got a fair cross-section of farmer's views. Farmers also voted in favour of using left over funds from the old wool levy for a business case and farmer referendum to see if there is an appetite for a new one, as well as voting to merge the industry's genetics programmes.

Pork

Freshpork has perfect answer to imports [21 March/ FW Plus] Despite competition from imported pork, Freshpork general manager, John McDonald said that demand for its Perfect Pork label had grown strongly, with Foodstuffs stores trialling the label in Auckland and Wellington. Freshpork's other label Freedom Farms is stocked nationwide. Mr McDonald said that it valued its exclusive supply arrangement with Foodstuffs, but also mentioned that it was becoming increasingly difficult to compete with foreign imports. He said that relaxing of import laws will put more pressure on the New Zealand pork industry and pork pricing. New Zealand's pork farming standards were set at a high level with animal welfare a key focus. The Freedom-linked farmers were audited by the SPCA for a Blue Tick welfare standard, as well as having to meet Freshpork's criteria. Mr McDonald said that all of its suppliers were operating comfortably within the welfare standards, which included the ban on the use of sow crates from next year, which was almost already adhered to. He mentioned that Perfect Pork was a high risk brand development, with its tenderness being guaranteed.

Wool

Vibrant future in merino [22 March/ NZ Farmer Weekly] The Government and industry funded Primary Growth Partnership programme, the \$34 million New Zealand Sheep industry Transformation Project is targeting a “fit-for-market”, easy to care and highly productive fine wool sheep earning wool, meat and other revenues. The New Zealand Merino Company CEO, John Brakenridge said it could bring payoffs in the billions by the 2029 target. The project is targeted at developing more profitable sheep with high quality wool and meat to cater for premium markets. A company has been incorporated with seven South Island stud breeders with the target of making sheep productive in a wide range of land types, in combination with work in genetics, animal health and forages improvement in the high country. The project is also looking at lanolin and sheep leather options, and is in talks targeted at developing sheep milk. Mr Brakenridge said although parts of the project would take many years to complete, initial results are bringing in extra income. He said that with the changes in genomics and greater affordability, there could be significant change for the type of sheep available and the meat and wool they produce. New Zealand Merino has provided over \$125 million in contracts to wool farmers over the last 18 months. Merino consists of 5% of the total wool clip and 15% of total value. Merino farmers also received a new one-year contract for 200,000 young sheep this month, in addition to the 3 year prototype contracts for Silere alpine origin merino meat by Silver Fern Farms. Merino staff are in regular contact with Silicon Valley companies, and are currently looking at new ways to access consumers, which includes the online social network game FarmVille.

Water

Face up to water issues, says watchdog [21 March/ Radio New Zealand Rural] The New Zealand Institute of Economic Research dismissed the Parliamentary Commissioner for the Environment, Jan Wright's report warning of the deteriorating water quality due to dairying. The Institute's paper examining water and irrigation suggested that more needed to be done to understand the values communities place on water. One of the authors, economist Bill Kaye-Blake said that the Commissioner's report was outdated and not very relevant to their work on what policies would be put in place, how they will clean up the streams and its costs. Dr Wright disagreed and said that the amount of nitrogen being released into rivers and lakes will continue unless major changes are implemented. Last year, Fonterra CEO, Theo Spierings also dismissed the Commissioner's report stating it was backward looking and was based on the premise that dairy will grow the same way it has done over the last 20 years, which is an assumption Mr Spierings does not share. Dr Wright said the report was simply about nitrogen pressure from the conversion to dairy, and denying this means the situation will not be addressed.

Rural infrastructure

40% rise in farm sales [20 March/ Otago Daily Times] Farm sales for the quarter ending February have increased 40% at 534 farm sales (inclusive of lifestyle properties) compared to the previous year, with some of the largest gains in the number of farms sold seen in Otago (up 28 sales) and Taranaki (up 28 sales), followed by Northland (up 16 sales), Bay of Plenty (up 15 sales) and Southland (up 15 sales). The largest number of sales in a 12-month period since 2009 was seen in the year ended February 2013, with 1,829 farms sold (up 26.6%). Lifestyle property sales increased to 1,504 from 1,403 (up 7.2%) from previous year, with the national median lifestyle price rising to \$516,000 from \$495,000 (up 4.2%) for the three months ending February 2014, compared to last year. Real Estate Institute of New Zealand rural spokesman, Brian Peacocke while welcoming the high Fonterra payout as a positive to the sector and the economy, warned of the issues within the red meat sector, the semi-drought impact in areas of North Island and the foreseen interest rate increases in the short to medium term. Compared with February 2013, the Real Estate Institute's all farm price index, which adjusts for differences in farm size, location and farming type compared with the median price per hectare, rose 8%.

Gathering of agri 'economic grunt' [24 March/ Otago Daily Times] The 2014 Platinum Primary Producers (PPP) Conference led by Wairarapa deer and beef farmer, Shane McManaway (who is also the PPP group chairman) is expected to attract almost 200 Australian and New Zealand agri-professionals in Queenstown, for what is being described as the “biggest gathering of agricultural economic grunt in Australasia”. The New Zealand attendees will include representatives from Fonterra, Beef + Lamb, Silver Fern Farms, Federated Farmers, Shanghai Pengxin, Dairy Holdings, NZ Merino Co and the Ministry for Primary Industries. The conference will provide a forum for farmers to share knowledge and experience, and delegates are expected to debate food safety, succession planning, social media, trade opportunities, raising a positive profile of agriculture and men's health, themed 'Peaks & Valleys', representing the ups and downs of farmers' experience, as well as the Queenstown landscape. The keynote speakers are to include Beef + Lamb resigning chairman, Mike Petersen, Silver Fern Farm's CEO, Keith Cooper, Fonterra's John Monaghan, former All Black Richard Loe, Warriors nutritionist Lee-Ann Wann and men's health expert Bernie McKone. Mr McManaway also said that details of a new industry award recognising future agri leaders would also be announced.

Environment and emissions

Environment problems seen as threat by Royal Society [24 March/ Radio New Zealand Rural] A panel chaired by Otago University Emeritus Professor Gerry Carrington released the paper 'Facing the future: towards a green economy for New Zealand', which stated that growth in human consumption over the last century had significant impacts on the global environment, including things such as deteriorating water quality, loss of biodiversity and changing climate. Professor Carrington said that there were some good initiatives to green the economy, including many from the agricultural sector, but believes that more should be done. He mentioned that groups such as the Smart Grid Forum facilitating the sharing of information, ideas and expertise help overcome barriers that are preventing development. The Smart Grid forum members, which represent consumers, businesses, science and research were announced on March 21 by Energy and Resources Minister, Simon Bridges. Professor Carrington said if conducted effectively, New Zealand has the potential to become a green economy without compromising living standards.

Research and development

New scholars off and running [21 March/ FW Plus] Five New Zealanders were among the 51 from around the world that have been awarded Nuffield scholarships, that spent the week in New South Wales for the annual Contemporary Scholars Conference. The scholars will be participating in a six-week Global Focus Programme. New Zealand scholar, Lucy Cruickshank said that the conference was more about inspiring leadership than farm visits. The scholars will be travelling through the world, including India, Qatar, Ukraine, Turkey, France, US and Brazil, gathering information to be included in the report they will compile relating to specific topics to benefit New Zealand agriculture. Ms Cruickshank's topic is the positioning of manuka and other NZ honey offshore. The other scholars are north Canterbury sheep-and-beef farmer and entrepreneur, Dan Shand, who is focusing on how mobile technology can be used as a data-collection tool in the honey and red-meat sectors to deliver value to farmers, Marlborough Garlic general manager and vineyard owner John Murphy, who is focusing on how good farming can be turned into big business without losing its "essence", Opiki potato grower, Paul Olsen, who is focusing on potato (cropping) production, and Beef + Lamb New Zealand western North Island extension manager, Mel Poulton, who is focusing on how we capture value for New Zealand through the distribution of our information and technology for access to markets.

Sheep breeding experts head for the hills [25 March/ Business Day] Abacus Bio managing director Neville Jopson said that with sheep increasingly being pushed into the hill country due to increased dairying in flat lands, it is important to test which breeds performed best on hill country. Beef + Lamb New Zealand and Abacus Bio, supported by processor Alliance Group are attempting to answer this using a hill country Central Progeny Test (CPT) which will evaluate different sire breeds under same environmental conditions, with hill country sites Koromiko Station, north-east of Masterton and Onslow View at Millers Flat, Central Otago added to the test this season. To date the CPT has only evaluated the progeny of different sire breeds at lowland sites. The CPT ewes are run on hill country and farmed under commercial conditions at 5 stock units per ha. The ewes were artificially inseminated to various ram breeds by AgResearch, and resulted in a 64% success rate and 120% lambing. Abacus Bio consultant Nadia McLean said the aim of the CPT was to determine if the well performing flat land breeds also performed well in the hill country. Ms McLean said that ewe lamb survival, FEC 1, hogget mating, number of lambs scanned, dag score and fleece weight are among the traits that will be measured, as well as obtaining Viascan data from all the ram lamb progeny of the CPT ewes.

Organics

Meeting to clarify organic rules [19 March/ FW Plus] Organics Aotearoa New Zealand chairman Brendan Hoare said although certified organic products had a strict approval process through BioGro andASUREQuality, the sector needs greater control around the use of the term organic. A meeting held to set the sector's rules will comprise of officials from the Ministry for Primary Industries, as well as Zespri and Fonterra staff, who are hoping to provide stricter guidelines as standards and expectations of high-value overseas markets have increased. He said that a goal of the meeting is to avoid the US model, which has encumbered the industry with litigation. Mr Hoare said that the fact the Government was involved at such an early stage is a good sign. He said that the Government is also aware of products imported into New Zealand claiming to be organic, which are then re-exported under the New Zealand brand. Attempts by companies to set up independent organic certifying bodies, has threatened the term 'organic'. In light of the recent food scares, Asian markets are also tightening the use of the term. Four of the eight agencies globally that are capable of certifying organic production and processes are present in New Zealand and Australia, with two of them, BioGro and ASUREQuality being in New Zealand. Zespri global marketing manager, Glen Arrowsmith welcomed the discussions and said that it would make the need for audits from overseas redundant. The organic market was worth \$140 million domestically and \$210 million in export in 2012, with the global market estimated to be worth USD60 billion annually with a 9% per annum growth rate.

Career and education

Farmers educate students on career options [21 March/ Business Day] Young Farmers Association member, Rosie Todhunter said that the national Get Ahead Career Experience Day, run in conjunction with Beef + Lamb New Zealand and Dairy NZ in Nelson's Rai Valley on March 18 was a success. She mentioned that the event was attended by students from Motueka to Blenheim, who were interested in the primary industries. She said ten event days are being held around the country, with the aim of providing an opportunity for students to hear from industry professionals, including representatives from universities and training centres. The event with over 1,000 students attending showcases both on-farm and business related career opportunities. Ms Todhunter said that according to Dairy NZ estimates, the primary industry will need at least 1,200 agriculture related graduates yearly in order to ensure sustainable growth.

Biosecurity

Single fruit fly find cost nearly \$1m [24 March/ Business Day] The Ministry for Primary Industries' two week campaign to determine if the single fruit fly found in Whangarei was part of a breeding population cost the taxpayer a total of \$916,446, of which \$733,536 was spent on service contracts, \$67,162 on publicity, \$82,716 on staff overtime and \$33,000 on staff travel, accommodation and expenses. Horticulture New Zealand said the discovery of the fruit fly threatened a \$4 billion industry.

Kiwifruit industry models fruit fly cost [25 March/ Radio New Zealand Rural] Staff at Kiwifruit Vine Health have summarised existing models to estimate the impact that a fruit fly incursion into a prime kiwifruit growing region would have the industry. Biosecurity analyst, Matt Dyck, says that while an incursion of a breeding population of fruit flies anywhere in the country would be expensive the establishment of a breeding population in Te Puke would cost the industry upwards of \$430 million. The key concern would be countries closing their borders to our exports, which is what happened in 1996 when a breeding population was found in Auckland.

International

China Needs Milk and France Has It --- Brittany's Dairy Farm Get Boost as Chinese Baby-Formula Maker Sets Up Shop

[19 March/ The Wall Street Journal], Mayor of Carhaix in Central Brittany, Christian Troadec said allowing foreign investment into the food industry will stimulate growth in a region where local firms are dependent on the domestic market and lack the capital to expand. Initiating a USD125 million investment, workers commenced construction of the region's largest milk-drying factory and France's first infant-formula plant on a 37 acre tract sold to one of China's top 10 baby-formula makers, Synutra International Inc. The plant will provide Chinese dairy companies Western sourced milk to satisfy Chinese consumers' thirst for safer milk as well as providing support to Brittany's economy, which has been suffering from cuts in European subsidies, lagging technology uptake, factory closures and tax increases. Synutra intends to ship the entire production to China, and has negotiated with the French dairy cooperative Sodiaal to secure access to 300 million litres of milk a year over the next 10 years (the entire milk production of farmers within a radius of 12 miles of Carhaix) and 30,000 tonnes of whey, which is to be transformed into dried baby milk. The French Government has been actively encouraging investment from China to revive its economy, and has even included offers to take over French companies. Other Chinese companies are also investing in France and other European countries to increase their milk supply. Europe's second largest dairy producer, France's shipment of dried milk used for infant formula increased by 41% in 2013.

Crisis in Ukraine prompts grain shortage fears, soaring prices

[21 March/ The Globe and Mail] With Ukraine ranked third in global share of corn and sixth in wheat production, Prairie farmers are anxious about the political situation in Ukraine. Cold and dry weather in the southern plains, shipping problems in Canada and Russia's annexation of Crimea has seen the wheat price for May delivery rise to USD7.19 per bushel on March 19, beating the US Department of Agriculture's estimate of USD5.30. Although Ukraine's conditions resemble the northern corn belt in the US, the lack of sophistication, equipment and infrastructure means that farmers in the country only achieve approximately 60% of the output per acre of their US counterpart. But Ukraine is already making huge gains, with corn production rising 17% over the last five years, but E.I. du Pont de Nemours & Co said that disruption to seed sales would have an impact on earnings. Grain shortages have been contributed to by countries holding onto domestic supplies, especially by Russian and India banning exports. Real-time information about crops not only allows farmers to react swiftly to prices, but also contributes to panic and the implementation of official barriers to trade, which exaggerate shortages.

UK poultry adds more than paltry sum to GDP

[22 March/ The Times, UK] An Oxford Economics analysis outlined that the British poultry sector provided a gross value added contribution of GBP3.3 billion to GDP per annum and providing 73,200 jobs, with a further GBP1.3 billion generated to the rest of the economy for every GBP1 billion provided by the poultry sector, resulting in a total of GBP 1 billion in tax payables. Poultry has only seen price increases of 23% since 2008, in comparison to 51% increases for beef and 54% increases in lamb prices, constitute approximately 50% of all meat purchased in the UK, by weight. The Farming Minister, George Eustice said that poultry has become increasingly popular with its popularity surpassing that of beef, lamb and fish combined.

Farmer in Norway jailed for starving pigs to death

[22 March/ Agence France-Presse] The public broadcaster NRK reported that a Norwegian farmer was handed down a one year prison sentence for allowing 400 pigs to die of hunger and thirst. The food safety authority investigation revealed that a further 60 pigs in the farm had to be put down due to their condition.

Myanmar to ban log exports to save forests

[22 March/ China Daily] The Myanmar government has announced that it will ban the export of raw timber from 1 April in an effort to protect the country's rapidly diminishing native forests. Forest cover has reduced from 58% of the country's area in 1990 to 47% of land area in 2010 with revenue from timber exports generating over USD1 billion in the year to March 2013. As the country opens up and sanctions are lifted following political and social reforms, the importance of timber as a source of export earnings is reducing and the government appears ready to put conservation ahead of profit. A spokesperson for Myanmar's forest industry noted that the reform would hurt the sector, which generates 90% of its export earnings from raw timber, and would force companies to invest in sawmilling capacity to remain competitive but recognised it was necessary as legal overproduction had decimated the forests for decades. The ban will end Myanmar's status as the only country to export raw teak logs from natural forests rather than plantations.

EU slaps seafood trade ban on Belize, Cambodia, Guinea

[25 March/ Agence France-Presse] The European Union has taken its toughest move to date to eradicate illegal fishing by blacklisting Belize, Cambodia and Guinea. This effectively bans their products from the world's most valuable seafood market. The EU said the countries had taken insufficient action against illegal fishing and member states are now required to ban their fish imports and EU vessels are required to stay out of their waters. The EU's Fisheries Commissioner, Maria Damanaki, called the decisions historic and an important step in ensuring that the fish that EU citizens consume is sustainable, wherever it comes from. The actions have been praised by environmental groups who claim that illegal fishing accounts for some 15% of world catches depleting fish stocks and damaging marine ecosystems. The three countries were in a group of eight nations warned that they needed to take action against illegal fishing or face a ban in late 2012. The other countries (Panama, Fiji, Togo, Sri Lanka and Vanuata) had made significant progress but monitoring continue and another three countries are currently being evaluated (South Korea, Ghana and Curacao).

Asia's changing food tastes could be Australia's 'next big story' [25 March/ Sydney Morning Herald] A report from HSBC Australia suggests that Asia's growing taste for meat and dairy could see agricultural exports outperform metals and drive Australia's next commodity boom. The report suggests that growing incomes in Asia will see consumers shift preference to more high quality foods, leaving Australia well placed to benefit as one of the world's biggest exporters of soft commodities. The report also notes that Asia's expansion will benefit the education and tourism sectors of the Australian economy. HSBC's chief economist for Australia, Paul Bloxham, noted that agricultural product prices have risen far less than metals and energy prices over the past decade and could be the next big story. The report suggests as a country's wealth grows demand for grain rises first, with demand for animal products and other finer foods (like sugar and edible oils) increasing over time. They note that the demand for dairy is even more drawn out, with statistics showing that the consumption of dairy products continues to rise beyond per-capita GDP of USD30,000. The report noted further consolidation in the agricultural sector, particularly aggregation of farms, and greater foreign investment would also boost productivity in the agricultural sector.

Economics and trade

China trade target has risk: expert [21 March/ NZ Herald] ANZ chief economist, Cameron Bagrie said that the upgrade in the target for the New Zealand's two-way trade with China to \$30 billion by 2020 (from \$20 billion by 2015) between Prime Minister John Key and China's President Xi Jinping in Beijing on March 19 runs the risk of over-dependence on China, and that New Zealand needed to diversify its export base. The two-way trade increased to \$18.2 billion in 2013 (up 25% from 2012). Mr Bagrie said that there were opportunities to export more than just milk to China, and mentioned that China is New Zealand's second largest tourism market valued at \$670 million per annum, with the Tourism Industry Association of New Zealand expecting that figure to double in the next five years. He mentioned that dairy products consisted of 50% of the \$10 billion worth of goods exported to China in 2013. Mr Bagrie also said that there has been a substantial amount of leverage being built up in the Chinese economy over the last few years. He also mentioned that New Zealand would see an indirect impact from a negative economic result on Australia from its heavy reliance on mineral exports to China. NZ Manufacturers and Exporters Association CEO, John Walley said that the challenge for New Zealand will be growing its value-added exports to China, and also mentioned that Chinese value added imports have been making inroads into the New Zealand market. He said that some of the \$30 billion target should come from alternative products and high-value manufactured goods. New Zealand China Council executive director, Pat English said if New Zealand's other export markets recover from the downturn, it will be putting pressure on the price and supply to China. Auckland Chamber of Commerce CEO, Michael Barnett said that there needs to be a strategy put in place for achieving the \$30 billion target. He said that New Zealand should also exploit other Asian markets such as India to the same extent, in order to avoid over-dependency on one market.

Trade Minister Tim Groser and Primary Industries Minister Nathan Guy are leading an agribusiness delegation to Chile and Colombia [24 March/ Rural News Group] An agribusiness delegation headed to Chile and Colombia, led by the Trade Minister, Tim Groser and Primary Industries Minister, Nathan Guy will be centred on a field day event in southern Chile, with over 40 New Zealand farm technology brands being promoted to farmers, buyers and distributors. Trade Minister, Tim Groser said New Zealand's relationship with Chile is thriving, with high levels of engagement in areas such as energy and environment and agriculture and education, with Chile encouraging further investment. Primary Industries Minister, Nathan Guy stated that New Zealand has invested \$630 million in the Chilean agricultural sector since 2007, and that he believes the relationship will continue to strengthen. Mr Groser said that New Zealand is also attempting to build more comprehensive understanding of the Colombian market. Mr Guy said that there is a large amount of productive agricultural land in Colombia as well as an interest from New Zealand businesses for investment in the country. He said that a significant focus will be placed on greater collaboration in growing the Colombian agricultural sector.

Subscribe

To subscribe to future editions of Field Notes please [click here](#).

Contact Us

Auckland/ Audit

Ian Proudfoot

09 367 5882

021 656 815

iproudfoot@kpmg.co.nz

Hamilton/ Taxation

Rob Braithwaite

07 858 6517

021 586 517

rbraithwaite@kpmg.co.nz

Tauranga

Robert Lee

07 571 1773

027 451 1035

relee@kpmg.co.nz

Wellington

Graeme Edwards

04 816 4522

027 296 5050

gdedwards@kpmg.co.nz

Christchurch

Andrew Hawkes

03 353 0093

027 508 0135

ahawkes@kpmg.co.nz

Financial Advisory Services

Gary Ivory

09 367 5943

021 932 890

givory@kpmg.co.nz

Risk Advisory Services

Jamie Sinclair

09 363 3460

021 475 735

jpsinclair@kpmg.co.nz

Business Advisory Services

Hamish McDonald

07 858 6519

021 586 519

hamishmcdonald@kpmg.co.nz

Field Notes

Weekly news update from the KPMG Agribusiness Network – 26 March 2014

9

Farm Enterprise			
North Island	South Island		
Julia Jones	Brent Love		
07 858 6553	03 683 1871		
027 524 8901	027 528 1537		
juliajones1@kpmg.co.nz	blove@kpmg.co.nz		

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.

The information provided herein is of a general nature and is not intended to address the circumstances of any individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received nor that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.