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AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network

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## 2 April 2014

| Organisations referenced in this week's Field Notes include: | |
|---|---|
| Agrium Inc | Onions New Zealand |
| Airborne Honey | Opotiki Packing and Cool Storage |
| Beef + Lamb New Zealand | Primary Wool Co-operative |
| Cargill Inc | Rabobank |
| Constellations Brands | Royal Society of New Zealand |
| Deer Industry New Zealand | Rural Support Trust |
| Endorsement of Forest Certification (PEFC) | Sealord |
| Environment Canterbury | Silver Fern Farms |
| Federated Farmers | Synlait Milk |
| Fonterra Co-operative Group | Temasek Holdings |
| Hawke's Bay Regional Investment Company | Trustpower |
| Ling Hai Group | University College London |
| Ministry for Primary Industries | Waikato Regional Council |
| Nestlé | Waikato Regional Council |
| New Zealand Honeyco | Waikato Regional Council |
| Ngai Tahu Holdings Corporation | Westland Milk Products |
| Olam International | Wools of New Zealand |

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| **Dairy** | **Westland, Synlait to expand processing** [28 March/ Otago Daily Times] |
| **Red Meat** | **Beef exports to Indonesia gaining traction** [31 March/ NZ Farmers Weekly] |
| **Environment and emissions** | **NZ unprepared for climate change** [30 March/ Business Day] |
| **Water** | **Trustpower backs out of Ruataniwha water scheme as council sets public consultation** [27 March/ The National Business Review] |
| **Economics and Trade** | **EU to consider free trade deal, says Key** [26 March/ NZ Herald] |

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## Horticulture

**Onion growers on the roll** [27 March/ Rural News Group] Backed by onion growers' belief that successful research and innovation is core to becoming a world-class industry and lifting profitability, Onions New Zealand announced the appointment of consultant Dr Jane Adams as Research and Innovations Manager. Dr Adams is a science and innovation consultant, who has been working with the primary industry sectors, and her experience includes research and development, quality systems development and auditing, tertiary education, senior management and governance, with involvement in strategic management of research in commercial companies, academic and research institutions and at national level. Prior to establishing her consultancy company, Adams Harman Ltd three years ago, she was an innovations leader at Zespri International Ltd. Onions New Zealand chairman, Michael Ahern said that Dr Adams will be responsible for the development and management of research and innovation projects aimed at improving profitability of the onion industry. Mr Ahern said that Onions New Zealand has recognised the need to invest in capability and capacity in research and innovation to provide quality outcomes for its marketer and grower members.

**Kiwifruit packer buys out shareholder** [28 March/ Rural News Group] Opotiki Packing and Cool Storage (OPAC) shareholders voted on March 27 to buyout Seeka's 19.91% shareholding in the company for around $3.2 million. OPAC managing director, Craig Thompson said the move represents the company's intention to focus on expansion in the Bay of Plenty and Poverty Bay regions. Mr Thompson mentioned that OPAC and Seeka have conflicting strategies, and consequently the strategic benefits expected are not being delivered. He said that the move gives OPAC complete control over its future plans and that they believe the outlook for the New Zealand kiwifruit industry and the company is positive. He mentioned the growing client base and attributed it to high grower returns and friendly and personable service. Mr Thompson stated that the company will continue to review its capital requirements and look for beneficial alliances with growers and suppliers. OPAC expects increased volumes over the next two to three years, and intends to pack approximately 4.3 million trays this year and 6 million trays by 2018, as well as expanding the Factory Road site at Opotiki.

**Five fruit and veg a day should be doubled - study** [1 April/ NZ Herald] A research study by the University College London, published in the Journal of Epidemiology and Community Health, looking at eating habits of 65,000 people in England between 2001 and 2013 found that eating seven servings of fruits and vegetables a day reduced the risk of dying of cancer by 25% and heart disease by 31%. As a result, public health experts are questioning the need to update the Government's 'five-a-day' recommendation. The strongest protective effect was seen from fresh vegetables, followed by salad and then fruit. The study's leading author, Dr Oyinlola Oyebode from the University College London's Department of Epidemiology and Public Heath said that the size of the effect from eating vegetables and fruits is astonishing, and stated the overall message as the more fruits and vegetables consumed, the lower the likelihood of dying at any age. The study showed that two to three daily portions of vegetables resulted in a 16% lower risk of death, compared with 10% reduction for the equivalent amount of fruit. The authors approved of the Australian official health advice of two portions of fruit and five portions of vegetables. The study also indicated that eating tinned and frozen fruit appeared to increase the risk, which the authors suggested could be due to the high sugar content counteracting the positive effects. But other scientist have cautioned against relying on the link, as aggravating factors such as poor access to fresh groceries or pre-existing health conditions cannot be ruled out, with University of Reading food scientist, Gunter Kuhnle saying that eating tinned fruits could be an indicator of high sugar intake, but it might also indicate poverty or lower socio-economic class and poor access to fresh groceries.

## Viticulture

**Chinese snap up another vineyard** [1 April/ The National Business Review] Zongren Ling and family owned Ling Hai Group has purchased the 747 hectare Castlebrae sheep, beef and viticultural property at the mouth of the Awatere River in Marlborough, as part of its long-term investment in the New Zealand wine and tourism industry. Ling Hai intends to expand a vineyard that is located 0n the property, as well as building a winery and accommodation, leaving over half of the land to be used for pastoral purposes. Although the purchase price is unknown, the capital value of the land is estimated to be approximately $2.5 million. Following the purchase of the 57 hectares of land at 252 Merrifields Road Blind River Marlborough last month, the US owned Constellations Brands has purchased 29 hectares at Ngatarawa, Hastings from the Michael Glazebrook Trust, in order to expand its vineyard and winery business.

## Honey

**Poor season slashes honey harvest** [27 March/ Business Day] Beekeepers predict honey supplies to be half of last year's volumes due to cooler than usual temperatures around the flowering period. Dunedin based New Zealand Honeyco chairman, Peter Ward said that production was the lowest in a decade, and that it will affect both local pricing and the export market considerably. He predicted that local prices could rise 10% in May and potentially another 10% in July or August, with export prices expected to rise approximately 10% to 15%, while demand continues to grow. He said that Manuka honey was not affected as much due to different flowering seasons, but still expected supply to be stretched. Airborne Honey sales and marketing manager, John Smart said high export prices were the main cause of the local price rise, rather than honey supply. Honey exports peaked at 8086 tonnes worth $155 million in the year ended November 2013 (up 13.5% in volume and up 34% in value). Mr Smart also expects manuka honey prices to rise when new export standards come into force, as tighter testing would reduce genuine supply. Airborne Honey Managing Director, Peter Bray said that the decrease in volume was not caused by reducing bee numbers, as the number of hives have increased from 300,000 to 400,000 since the varroa mite surfaced.

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**Fake products risk NZ honey exports** [31 March/ Radio NZ Rural] Waikato University School of Science and Engineering Associate Professor, Merilyn Manley-Harris said with honey exports in 2012 amounting to $120 million and 90% of it consisting of manuka honey, it is urgent that New Zealand set up standardised labelling of honey, especially for the manuka variety. The Ministry for Primary Industries have formed two working groups, one made up of scientists and the other made up of the industry to recommend labelling guidelines for manuka honey. Associate Professor Merilyn, who is part of the scientist working group, said that the main problems faced by the group were the close similarity between manuka and kanuka honey and the chemical change manuka sometimes undergoes which imitates the addition of sugar. The working groups are working to an end of June deadline, focusing on guidelines defining manuka honey, as well as indentifying what statements and claims are appropriate for manuka honey labels.

## Forestry

**PEFC talks to NZ forestry industry** [28 March/ Radio NZ Rural] The head of the world's main sustainable forestry certification programmes, the Endorsement of Forest Certification (PEFC) is meeting with industry groups to discuss joining the programme. Most forestry companies in New Zealand only belong to one certification system conducted by the Forestry Stewardship Council. The new industry standard will be introduced to New Zealand in April. PEFC secretary general, Ben Gunneberg said that belonging to the PEFC system could be beneficial for the industry in China, as they have recently introduced a new standard which is certified by the PEFC.

## Fishing and aquaculture

**Sealord boss to step down** [27 March/ Business Day] The announcement that the Sealord CEO, Graham Stuart will be leaving the company comes after a briefing to iwi where Sealord reported performance well ahead of the plan for the year's halfway mark and indicated expectations of a strong profit and dividend for the 2014 financial year. Mr Stuart said that he believed companies such as Sealord benefit from revitalisation at the top, and stated that the Argentina deal was exceptionally hard, was at a time when fishing was poor and exchange rates were unfavourable. A fishing trade website, Undercurrent News stated that Mr Stuart has indicated that he will leave Sealord in September or earlier if a replacement is found, and that he was committed to guiding the company through the 2014 financial year, a significant turnaround on the loss reported in 2013. According to Undercurrent News the announcement was also made at the annual meeting of Aotearoa Fisheries Ltd, which owns 50% of Kura, Sealord's holding company. The other 50% of Kura is owned by Nippon Suisan Kaisha.

## Dairy

**Fonterra profit slumps 53% as high commodity prices bite** [26 March/ NZ Herald] Fonterra's total revenue for the six month period increased to $11.3 billion (up 21%), while EBIT dropped to $403 million (down 41%). Net profit for the six months ended 31 January was $217 million (down 53% from $459 million the previous year), resulting from having to purchase milk for use in value add businesses at higher rates. Strong milk production has also resulted in capacity constraints in milk powder processing facilities, with Fonterra CEO, Theo Spierings, saying that 25% of its milk had to be processed into non-reference commodity products such as cheese and casein, which earned negative returns over the period. Mr Spierings said that higher dairy commodity prices have impacted on margins in the consumer and food services businesses, and stated that a balance had to be reached between raising costs immediately and continuing to build the market presence to lock in long term growth. While restating the record forecast cash payout of $8.75, he stated that the company is focused on delivering a consistently strong farmgate milk price and stable and growing earnings over the medium to the long term.

**Synlait Milk lowers full-year forecast** [27 March/ NZ Herald] Although still higher than the prospectus forecast of $19.8 million, Synlait Milk lowered its full-year profit forecast to $25 - $30 million, from the $30 - $35 million range, quoting impacts from the regulatory changes in China and Fonterra's whey protein recall. Synlait announced its first half profits at $12.1 million (up 79%) and sales at $284.9 million (up 62%), with a profit margin of $919 per metric tonne for the six months ended January 31, an increase from $751 for the full year 2013. Full year infant formula sales are now expected to be similar to the 2013 figures and the company took a pre-tax provision against infant and nutritional inventories of $5.8 million. First half figures showed that sales volumes for ingredients increased to 40,503 metric tonnes (up 4.1%), nutritional volumes increased to 3,005 tonnes (up 90%) and total milk procurement increased to 31,547kg (up 7%) of milk solids. Synlait managing director, John Penno reassured that the company was on target for meeting its long term objectives. Synlait Milk, which is 39% owned by China's Bright Dairy & Food, is valued at approximately $584 million based on the last trading at $3.99 per share (up 81% from the IPO). The company does not expect to pay a dividend.

**Fonterra appoints new media man** [27 March/ Business Day] Fonterra has created a new role, General Manager External Communications, which is to be filled by Gordon Jon Thompson, who resigned as the head of Sky City's corporate communications last week. Mr Thompson has a strong political background, which includes time in the then-Prime Minister Helen Clark's office, chief of staff for then-Labour leader Phil Goff, as well as experience at market research firm UMR. Mr Thompson's brother is the current executive and chief editor of Radio New Zealand and ex-group editor of Fairfax NZ. It is understood that the PR consultancy Baldwin Boyle Group will still be involved in Fonterra's communication activities. In light of the WPC scare, last August, Kerry Underhill was appointed as Fonterra's communications chief. Mr Underhill said that he planned Fonterra's structure, which included the key roles of internal and external communications. Mr Underhill has already appointed Helen Keir from Vector to lead internal communications. He said that Thompson will be entrusted with developing and implementing a global media strategy and managing and enhancing Fonterra's reputation. Mr Thompson is expected to start his position on April 22.

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**Westland, Synlait to expand processing** [28 March/ Otago Daily Times] Westland Milk Products and Synlait Milk announced expansion plans totalling over $200 million. Westland Milk Products has lodged a resource consent application with the Westland District Council to build a $102 million nutritionals drier at its Hokitika site, which is to include new batching equipment, high specification mixing equipment, warehousing, an additional laboratory and a 25kg packing line, as well as providing 36 jobs and producing 23,000 tonnes of nutritional products per season. Westland Milk Products CEO, Rod Quin was confident that consent would be granted conditional on noise, traffic and air discharge. The company board has approved funding through debt and retentions. The project that is expected to commence in August 2015, is expected to generate sales of $115 million per annum at full capacity. Synlait Milk is expanding the scope of some of its growth plans at its Dunsandel site and brining forward some investment, resulting in the company's second large-scale infant formula spray drier having 25% more capacity than initially planned. The company board has also approved $6 million in additional expenditure to prepare the site for a fourth large-scale spray drier. Synlait Milk managing director, John Penno said the estimated cost of the project has been increased from $103.5 million to $135 million. In other developments, Fonterra has begun construction on its first blending and packing plant in Indonesia, aimed at supporting the growth of consumer brands Anlene, Anmum and Anchor Boneeto, which is expected to be completed by March 2015 and provide at least 150 jobs.

**Nestlé scrutinises 50 South Island dairy farms** [28 March/ Otago Daily Times] Fonterra global sales director, Tim Deane said that Fonterra was relaxed about being part of the Nestlé's pilot project which audited randomly selected South Island farms, and stated that the audits were not connected to the botulism scare last year. Mr Deane said that Fonterra welcomed the opportunity to work with Nestlé, which is one of its biggest multinational customers. A Nestlé spokesperson said that it was working with dairy companies in New Zealand, Europe and the US to test and finalise a protocol which will be used to assess performance against the Nestlé Responsible Sourcing Guidelines and help farmers improve their practices where applicable. The guidelines are to ensure that ingredients were produced responsibly and sustainably, with the main focus of dairy being environmental management and animal welfare. The Responsible Sourcing Guidelines complement the Nestlé Supplier Code which sets standards for suppliers to meet, in areas such as human rights, labour practices, environmental impacts, conversion of natural vegetation, land use rights, animal welfare and creation of shared value for society and local communities and rural development.

**Council thinks Fonterra has got the message** [31 March/ Radio NZ Rural] The Waikato Regional Council issued a formal warning to Fonterra for disposing five million litres of buttermilk waste onto land at Atiamuri last October, along with warnings to the owner and the manager of the land for breaching the Resource Management Act. Waikato Regional Council Investigations manager, Patrick Lynch said the formal warning is the least punitive response, and the Council did not prosecute due to the lack of apparent contamination of ground or surface water. Mr Lynch said that Fonterra has informed him that it has since changed its procedures, and he is confident that there will not be a similar occurrence in future.

**Farmers offered guaranteed milk payout** [1 April/ NZ Herald] Fonterra is to offer its shareholders two opportunities during the 2014/15 season to secure a fixed price for a proportion of the milk they supply to the co-operative. The move follows a successful trial of the scheme run this season, when farmers were able to fix a proportion of the milk they supply at $7 per kilogram milksolids. Fonterra has announced that it will seek applications for supply of 40 million kilograms of milksolids in June (for supply over 12 months at the guaranteed milk price (GMP)) and applications for a further 20 million kilos in December (for supply over 6 months at the GMP). The current trial was significantly oversubscribed with farmers seeing the scheme as a useful tool to deliver some protection from volatility and to secure part of their income according to Lukas Paravicini, the co-operative's Chief Financial Officer. He added that certainty means that farmers have been able to confidently make decisions around servicing debt or making capital investments on farm.

## Red Meat

**Beef exports to Indonesia gaining traction** [31 March/ NZ Farmers Weekly] New Zealand beef exports to Indonesia have passed the 2009 export levels at 3,105 tonnes in February, although falling short of the 2010 peaks (4,536 tonnes in February) seen prior to stringent quota restrictions being imposed. The restrictions were removed late in 2013 after Indonesian domestic prices rose to unaffordable levels. Exports to Indonesia consist of mainly lower-grade cuts and products. Silver Fern Farms beef product manager, Murray Jones said knuckles were sold both to China and Indonesia at similar prices. He mentioned that the export market is now well diversified, and that increased exports to China have cut into some of the export volume to Japan and Korea. Due to the presidential election in Indonesia, there is some concern that the lifting of import restrictions may not last. While Silver Fern Farm exports to China are expected to increase with the licensing of more plants, over 40% of its beef exports are still to the US, which mainly consists of top-value cuts and grinding beef. Mr Jones reported good supplies of beef due to some dairy-cow culling in the North Island as farmers reacted to drought, with South Island beef kill expected to peak around April to May.

## Deer

**Velvet even dearer as NZ matches Russian prices** [29 March/ Business Day] Deer Industry New Zealand CEO, Dan Coup said that New Zealand produced deer velvet, which has in the past been considered to be of a lower quality than Russian and Chinese velvet have caught up with Russian prices. Mr Coup said that farmgate prices have increased from an average of $60/kg six years ago to almost $100/kg in the season just ended. Mr Coup hopes that the relative market stability and modest increases in velvet prices that have been demonstrated in the last five years will continue. New Zealand produces an average of about 500 tonnes of velvet a year, with most of it exported to South Korea and China. Dear Industry New Zealand marketing manager, Rhys Griffiths said that the demand increase is due to the growing affluent consumers seeking more health foods containing traditional ingredients such as velvet, and that velvet is used in traditional Asian medicine, as well as in a growing number of supplements, drinks and tonics. Mr Coup said that the South Korean Government's 20% import tariff and approximately 9% excise duty is a major barrier to maximising market opportunities and Deer Industry New Zealand is hoping that the free-trade negotiations with South Korea will benefit the velvet industry.

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## Wool

**Little enthusiasm for wool levy** [31 March/ NZ Farmer Weekly] Wools of New Zealand chairman, Mark Shadbold said that it was not up to commercial businesses to recommend how shareholders should vote on the wool levy, but he added that looking at the millions of wasted dollars in the past, a high level of confidence would be required as to how the money will be spent and managed in order to support the levy. Mr Shadbold said that Wools of New Zealand shareholders have made a five year commitment to contribute funds to assist in its commercial activities and it would be concerned if the proposing a levy referendum at the Beef + Lamb NZ's annual meeting, however the motion was passed by the votes of approximately 14% of all farmers (representing approximately 24% of sheep numbers in New Zealand). Mr de Lautour is in support of a large commercial structure involving a majority of farmers to fund industry activities, that are planned to be covered by the levy, and believes the Primary Wool Co-operative, which has already funded several Campaigns for Wool promotions could fulfil this role. The potential merger of the Primary Wool Co-operative (approximately 1,200 shareholders) with Wool Equities (approximately 9,000 shareholders) could provide the large structure Mr de Lautour is seeking. Wools of New Zealand raised $6 million in capital approximately a year ago, and Mr Shadbold said that although time is needed to see the fruits of the investment, farmers are locking in contracts. It is unclear if Merino farmers, who currently pay a fee to the New Zealand Merino Company to cover marketing costs, will be involved in the levy referendum.

## Environment and emissions

**NZ unprepared for climate change** [30 March/ Business Day] The fifth Intergovernmental Panel on Climate Change report indicates that rising temperatures are putting pressure on New Zealand's agricultural industry and coastal communities, and states that New Zealand is not doing enough to prepare for the resulting problems, which are expected to grow. The report stated that it was virtually certain that warming would continue throughout the 21st century with resulting rise in snow lines, rise in sea levels (up to 110cm), increased rainfall risk in some areas and drought in others, changes in ocean acidity levels with impacts on water resources, coastal ecosystems, infrastructure, health, agriculture and biodiversity. Victoria University School of Geography Associate Professor, James Renwick highlighted key impacts, such as increased drought in dry areas, average increase in temperature of 4 degrees by the end of the century, and said that this would interfere with agricultural systems including the increase of pests that currently cannot survive in the New Zealand climate. The report criticised the lack of direction from the central Government, highlighting the lack of information and limited financial and human resources. Professor Gary Wilson from the New Zealand Antarctic Research Institute said that New Zealand was not doing enough to prepare for changes because New Zealand did not know enough about what to prepare for. Professor Wilson highlighted the need for farmers to think about long term viability of their farms rather than short term profits. Professor Wilson said he did not expect the report to have any impact due to the lack of political incentive to address the issues. Green Party co-leader, Russel Normal called the report "a big wake-up call, and criticised the Government for not preparing for the impacts. Mr Norman mentioned the need for more direction from the central Government and mentioned the legal thwarting of Kapiti Coast District Council's attempts to introduce coastal hazard zones. Federated Farmers CEO, Connor English said that farmers were concerned about extreme weather and were changing their practices accordingly.

## Drought

**West coast drought now official** [26 March/ Radio NZ Rural] Councils from Auckland to Far North, the Ministry for Primary Industries, Fonterra and farming sector groups have decided to officially classify a localised drought from Kaukapakapa north. Federated Farmers Northland president, Roger Ludbrook said that he was pleased with the official declaration, which triggers the Rural Support Trust, allowing farmers to seek free advice, as well as potentially aiding with entering the IRD's income equalisation scheme. Northland Rural Support Trust co-ordinator, Julie Jonker said that it would also allow for tax concessions and some legal leeway for those engaged in sale contracts. Ms Jonker said that the many farmers who had moved their autumn calving to the east of Northland for grazing may soon need to look outside the region for feed. The Northland head of the Federated Farmers Dairy Section, Ashley Cullen said that farmers were not looking for handouts, but an acknowledgement that they were facing difficulties, and hoped that those requiring assistance would benefit.

**Critical weeks ahead for Waikato** [28 March/ Rural News Group] A teleconference of farmer representatives and officials have highlighted that ongoing challenges of the very dry conditions in the Waikato and South Auckland are heavily affecting some farmers. Figures from the Waikato Regional Council showed rainfall at Ruakura for the three months to March were the second lowest on record, with significant soil moisture deficits around the region. Among the things that farmer representatives discussed included the high stress levels on farms, concerns over low rainfall forecasts, dairy farmers drying off early, feed deficits of sheep and beef farmers and challenges surrounding breeding replacement stock and shrinking supplementary feed stocks. Beef + Lamb New Zealand extension manager, Andrew Jolly encouraged farmers to use the range of dry management tools and information that have been e-mailed through, in order to make the best decisions for the farm. The Rural Support Trust said that although there has been no need for Government recovery measures, problems could worsen if lack of rainfall continues. Trust chairman, Neil Bateup said they will be closely monitoring the situation, and mentioned that it is vital that rain initiates pasture recovery before winter. As farmers are generally coping, there are no plans for the region to seek a medium-scale adverse event classification from the Government, which would trigger recovery assistance measures. However there is a clear localised-scale drought under the Government's primary sector recover policy. Waikato Regional Council resource use group manager, Chris McLay said that it is ready to reconvene the regional drought committee if the need arises. Waikato Federated Farmers president, James Houghton encouraged farmers to talk to neighbours, consultants, accountants, banks, Dairy NZ and Beef + Lamb New Zealand.

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**Drought hits Waikato maize yields** [1 April/ Business Day] This year's maize silage harvest on Waikato farms have been hugely varied, from as little as 14t/ha on lighter soils to 26t/ha on heavier, good peat soils, as a result of the drought. Waikato Federated Farmers Grain and Seed Industry Group chairman, John Hodge said that poorer yields were limited to the Waikato, whereas Te Kuiti and east to Whakatane had seen some excellent crops. Mr Hodge said that with drought-stressed crops with few kernels can have high nitrate levels, and he advised farmers to test green chops before feeding animals. He said that the maize grain harvest faced similar issues with the main concern being the quality of grain on the cobs, with some plants drying due to lack of moisture. Longer-maturity varieties planted late are more susceptible to quality issues and it is expected those will be exaggerated this year due to the lack of rain. Whangarei, Bay of Plenty, the centre of the North Island and most of the South Island crops are looking promising due to significant rainfall in these areas. Mr Hodge expects the demand for meal to decline, as most dairy herds are being dried of early.

## Water

**Trustpower backs out of Ruataniwha water scheme as council sets public consultation** [27 March/ The National Business Review] Infratil controlled Trustpower walked away from a proposed $50 to $60 million investment in the $265 million Ruataniwha water storage scheme, stating that it will not be possible to invest in the Ruataniwha water scheme within the risk and return framework for a project of this nature. Trustpower general manager of operations, Chris O'Hara stated that although there was short-term interest in the scheme, the long-term uptake by farmers and irrigators was not strong enough. Trustpower also has interests in the Canterbury Plains irrigation scheme, which would also generate hydro-electricity, but did not require the construction of a storage dame due to the large natural storage available in Lake Coleridge. The council subsidiary, the Hawke's Bay Regional Investment Company (HBRIC), said that it maintains its position that the scheme offers the Hawke's Bay community significant environmental and economic benefits, and provided contractual commitments to taking water is secured, the scheme will be financially viable. HBRIC is continuing to negotiate with Crown Irrigation Investments, which was established with funds from partial privatisations to initiate major new irrigation projects. In September 2013, Trustpower and Ngai Tuhu said that the scheme had the potential to supply water for farming and horticulture for 25,000 to 30,000ha of land, and was expected to create approximately 2,520 jobs. The Ruataniwha scheme has been contentious due to its potential impact on the Tukituki River and the growing intensification of dairying. The council has released its business plan for the scheme and set the timeline for public consultation, with the intention of making a decision on June 25. The Labour Party water spokesperson, Mika Whaitiri launched a private members' bill named 'Don't Turn the Tukituki Toxic' on 27 March at the banks of the Tukituki River.

**Ngai Tahu 'nervous' over plan** [29 March/ Business Day] Ngai Tahu Holdings Corporation CEO, Mike Sang said that Trustpower brought experience of Coleridge power station and electricity generation to the Hawke's Bay Regional Investment Company, and the fact that they have pulled out of the Hawke's Bay Ruataniwha irrigation scheme makes the corporation "very nervous". Ngai Tahu and Trustpower were to invest up to 30% to 40% (approximately $50 million each) of the initial capital cost. Mr Sang said that participation in the scheme will be dependent on having satisfactorily addressed a number of key components that are vital to its success, including commercial criteria and the involvement of the right investment partners. Hawke's Bay Regional Council may invest up to $80 million in the scheme, and investment from the Crown Irrigation Investments Scheme has also been sought.

## Biosecurity

**NZ under intense pressure from pests** [27 March/ NZ Herald] A Royal Society of New Zealand report, 'Challenges for pest management in New Zealand', states that much more needs to be done to protect the New Zealand biodiversity, from pests and diseases, including weeds, wasps, rats and sea squirts. The report highlighted the need for new technologies or on-going refinement of existing methods, and stated the need for more knowledge-intensive, biological based control systems, rather than pesticides. The report conservatively estimates that weeds cost the economy $1.2 billion per annum in lost animal production and control costs, as well as potentially degrading 7% of the conservation estate within a decade, which amounts to a loss of native biodiversity worth $1.3 billion. The direct and indirect economic cost of invertebrate pests to the primary sector could be as high as $3.3 billion (1.96% of GDP), with annual production losses to aquaculture from a single species of sea squirt estimated at $15 million per annum in 2005. A Fellow of the Society and co-author, Stephen Goldson mentioned the importance of maintaining New Zealand as a high quality, residue-free and ethical primary producer, while stating the costs associated with the loss of biodiversity and the clean green reputation. Dr Goldson stressed the need for species-focused biology research, research into monitoring and surveillance technologies, as well as citizen involvement in monitoring and surveillance. In January, the Conservations Minister, Nick Smith announced that $21 million in funding will go towards the largest ever conservation programme, which will increase pest control in 35 forests, aiming to protect 12 native species. The issue has a heightened importance this year with the country facing a one in 10 to 15 year large beech mast, which could trigger a plague of an additional 30 million rats and tens of thousands of stoats which would severely affect the populations of endangered birds. Efforts are also being made to create vertebrate pest-free areas on islands and predator-fenced sanctuaries.

**Big bounce in South Island wallaby numbers** [28 March/ Business Day] South Canterbury farmers are struggling to control the rising wallaby population. Tim Morrow, who manages a 5000 hectare sheep and beef farm estimated his loss of income as approximately $150,000 due to the wallaby population and mentioned that he has spent an additional $24,000 on a programme to poison the thousands of wallabies on the property. Environment Canterbury biosecurity team leader, Brent Glentworth said that numbers were growing and spreading out within the 900,000 hectare contaminated zone between Rangitata and Waitaki Rivers. The wallabies have also established themselves in two areas outside the contaminated zone at Mount Cook and the south bank of the Waitaki River. Mr Glentworth said that since disestablishment of the Wallaby Control Board, control activities have not been co-ordinated, and encouraged farmers to co-ordinate their approach. He said that if the numbers have reached a level-four on the Guilford Scale at a property, Environment Canterbury issues a legal notice requiring action to reduce numbers, and failure to comply will result in Environment Canterbury undertaking the work and charging the respective farmer. He mentioned the need for financial assistance by the Government to help farmers reduce numbers.

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**Response all set for any foot and mouth outbreak** [1 April/ Business Day] Ministry for Primary Industries deputy director-general for compliance, acting deputy director-general for verification and systems, and Crown appointed director for Operational Solutions for Primary Industries New Zealand, Andrew Coleman said that with a national biosecurity network developed along with an operational agreement between the Ministry for Primary Industries and about 30 industry bodies, the Government is prepared to initiate an effective response if food and mouth disease was to strike in New Zealand. The biosecurity network of 50,000 means that the Ministry will be aware of the location of all the groups with the resources to battle the disease anywhere in the country. The Government's response in the event of an outbreak is outlined in the Whole of Government Biosecurity Response Guide. Mr Coleman said that the response to the discovery of the single Queensland fruit fly is a demonstration of the improved system. Mr Coleman compared the foot and mouth outbreak in the UK, where the Government lost disease traceability quickly due to the lack of a good system such as New Zealand's National Animal Identification and Tracing system (Nait), and stated that with agriculture amounting to approximately 70% of exports, he would want to avoid such a damaging scenario in New Zealand. Mr Coleman highlighted that New Zealand does not have full traceability of cloven-hoofed animals and believes the best solution for Nait was for every cloven-hoofed animal to be tagged. Unconfirmed economic modelling estimates the cost of a foot and mouth outbreak to be approximately between $16 and $26 billion.

## International

**Agrium eyes asset sale as new CEO narrows focus** [25 March/ The Globe and Mail] Agrium Inc's new CEO, Chuck Magro has stated that his main priority is to "optimize" the Group's business portfolio, in contrast to the previous CEO, Mike Wilson's pro-purchase strategy. The company owns facilities producing potash, nitrogen and phosphate, as well as retail networks to sell the products. Mr Magro said that the company is reviewing the future of the phosphate production operation, valued at approximately $1 billion, mentioning the negative impact on margins from the need to purchase rock. Mr Magro although expecting purchasing to increase, is not in favour of high priced acquisitions based on long-term commodity price forecasts. He is currently interested in the brownfield expansion of facilities owned by Agrium, stating that building from scratch is too expensive. Although interested in the greenfield project of a new nitrogen plant in the US com belt, he would prefer the option to share the $4 billion cost and the associated risks with a partner. However Mr Magro emphasised that the company will continue to be one of Canada's most aggressive businesses.

**Pork Prices Fall in China as Farms Grow** [26 March/ The Wall Street Journal] Beijing's move to encourage large scale farms have resulted in a surge in pork supplies and a decline in prices. By the second week of March, live hog prices decreased 14% from the previous year to USD1.97/kg, while pork prices decreased 10.2%. With food accounting for up to a third of China's consumer price index, the reduced prices have slowed inflation, with the January's index up 2.5% from the previous year. Pig Technology Co consultant, Mike Varley said that high prices subject the pork industry to rapid expansion, and the resulting oversupply reduces prices, putting farmers out of business, with the cycle recommencing later. However some analysts think the current cycle looks different, with UBS AG, Beijing economist Harrison Hu saying that there has been a structural change in the supply due to the increased share of large-scale hog raising. China's agricultural minister, Han Changfu said that although the industry is dominated by 60 million backyard hog farmers, farms with over 500 pigs amount to 38.5% of production, with policy makers favouring larger farms in order to improve quality controls. Mr Hu said that although prices have been declining, piglet prices have been increasing, suggesting that some are expecting prices to recover by the time piglets reach slaughter weight, which is inconsistent with the behaviour of small famers, indicating a possibility that large scale farmers are trying to squeeze out smaller players.

**Loophole in farm bill lets state reinstate food aid** [27 March/ The Washington Post] Governors in several states are using a loophole in the farm bill to restore food aid to low-income families. It has resulted in Congress saying that this amounts to an end-around of the bipartisan agreement that took years to establish. Republicans sought to cut billion in benefits from the USD956.4 billion farm bill, while Democrats resisted the move, with the parties settling for USD8.5 billion in food stamp cuts. The loophole amounts to increasing a prerequisite, the heating aid given to residents to $20, triggering more residents to eligible for extra food stamp benefits. House Speaker, John A. Boehner threatened legislation to stop what he called "cheating" and "fraud". Governors have retaliated saying that their actions are legally acceptable. Montana's Democratic Governor, Steve Bullock said that his action allows 2,000 households with less than USD10,000 per annum income to receive additional food aid, with Oregon spending USD2 million to receive USD56 million in food stamps and New York spending USD6 million to receive USD547 million in food stamps. The windfall from the Federal Government outweighs the cost of heating aid, with the total of USD8.5 billion in cuts disappearing if all states take advantage of the loophole.

**Nats lobby hard to destroy 'cattle tax' before it starts** [27 March/ The Australian] The Australian Government is explaining implementing an environmental certification scheme for beef producers, backed by WWF and McDonalds. The guidelines are expected to be adopted by retailers such as Coles and Woolworths as the minimum requirements for beef suppliers. The guidelines seek to identify key areas that must be addressed to ensure that production is environmentally sound, socially responsible and economically viable. The National MP's warn that this will increase costs in the industry and that graziers refusing to sign up could be locked out of beef markets. Veteran Nationals senator, Rob Boswell said it needed to explain the process of proving 'sustainability' and its costs. Senator Boswell stated that it means that WWF putting constraints and restrictions farm practices, and he will move for a Senate inquiry into the sustainability initiative. Western Australian Senate candidate, Shane Van Styn made it an election issue, stating that the 'cattle tax' certification scheme will result in global environmental groups attacking Australian farmers. WWF Australia CEO, Dermot O'Gorman said the roundtable draft definitions for sustainable beef means a truly sustainable future for production, and taking further steps towards proving Australian products are clean and green will mean producers will be well placed to becoming global leaders in the beef market.

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**Cargill Exits Coat Trade, Plans Sugar Partnership** [28 March/ The Wall Street Journal] The agriculture trading giant, Cargill Inc said that it will be closing a division that trades coal, as well its as European power and gas division, stating significant changes in the coal and European power and gas markets. At the same time, Cargill and Copersucar SA, a Brazilian sugar giant agreed on a 50:50 joint venture combining their global sugar trading activities that will source and trade sugar. Cargill's current head of the sugar business, Ivo Sarjanovic will be taking over as the CEO of the new joint venture company once formed later in 2014. Copersucar chairman, Luis Roberto Pogetti will take over as the first rotational chairman of the venture.

**Robb tries to smooth waters on ADM deal** [29 March/ The Australian] The Trade Minister, Andrew Robb said that the Government was not entirely against the bid for GrainCorp by American raider Archer Daniels Midland, if the offer was in the national interest. Joe Hockey, who rejected the offer had indicated that the Coalition believed that it was better for ADM to increase its current stake from 19.8% to 24.9% rather than a complete takeover. Mr Robb indicated that although the sector was benefiting from deregulation, the second biggest company in the world dominating the Australian grain market was considered not to be in the national interest. But Mr Robb indicated that the Government would consider another bid if ADM was to gradually build its GrainCorp holding.

**Singapore state set to take control of commodities trader Olam** [31 March/ The National Business Review] The Singapore Government's sovereign wealth fund, Temasek Holdings is expected to gain a more direct control of New Zealand agribusiness interests with its takeover of one of world's top commodities companies, Olam International (valued at NZD2.3 billion). Olam International has a large shareholding in Open Country Dairy, made a successful takeover of NZ Farming Systems Uruguay and has bought assets of SK Foods. Temasek plans to take Olam private, in line with its strategy of increasing the unlisted portion of its USD170 billion portfolio of companies. Olam stock price gained 40% since late January, before the takeover announcement. Analysts predict the deal will help re-energise Olam International, amidst a wave of acquisitions in the commodities sector. Singapore has been active in the purchase of food-related companies with eight out of the top ten state funded acquisitions of food and beverage and agribusiness companies been made by either Temasek or Singapore's other Government Investment firm GIC.

## Economics and trade

**EU to consider free trade deal, says Key** [26 March/ NZ Herald] According to a Radio New Zealand report, the presidents of the European Commission and European Council have agreed to consider a free trade deal after talks with Prime Minister, John Key in The Hague. Mr Key mentioned that there are only six World Trade Organisation countries that are not part of a free trade agreement or in negotiations over a free trade agreement with Europe, and a deal would remove the costs associated with selling goods in Europe, which currently amounts to $16 million worth of trade. He said that the situation will be revisited in 2015 to decide on the next step. Mr Key also said that New Zealand was engaged in concluding a new Partnership Agreement with Europe, which will provide a blueprint for all parts of the relationship, and mentioned that the European Union's decision to upgrade its diplomatic mission in Wellington was a good sign of its commitment to the relationship.

**Growth in exports to China drives NZ trade surplus** [28 March/ NZ Herald] Exports surpassed imports by $818 million (22%) in bringing the annual trade surplus from $264 million a month ago to $649 million. Exports were at $49.4 billion for the year ended February 2013, a $3.5 billion (7.6%) increase from the previous year, which was contributed by a 26% increase dairy exports, 26% increase logs and a 53% increase in exports to China. New Zealand's previous year trade with China resulted in a $2.6 billion surplus. Exports to the next three largest markets, Australia, the US and Japan declined, whereas exports to the European Union increased to 4.8 billion (up 6.8%). Top three export commodities (dairy, meat and forest products) amounted to 48.3% of total exports, in comparison to 43% the previous year, resulting in an increase in concentration risk. Exports to the largest five export markets increased to 57.9%, from 56.5% the previous year.

**Keep FTA with EU 'in perspective'** [28 March/ Radio New Zealand Rural] Prime Minister, John Key announced that New Zealand and EU are considering commencing negotiations to liberalise trade and investment. The Dairy Companies Association of New Zealand CEO, Kimberly Crewther said a deal would benefit both parties as the peak production periods are at different times for New Zealand and Europe, and would also result in less local market based volatility. Ms Crewther also said that smoother pricing resulting from the liquidity from open trade will benefit farmers. She said that a free trade agreement would not however mean that quotas of New Zealand product into Europe, would automatically be filled, they have not been filled since 2007. She mentioned that quotas will not be filled if there is stronger demand for New Zealand product from elsewhere, including China, the Philippines, Malaysia, Indonesia and the Middle East region. Ms Crewther highlighted that global demand for dairy is growing at approximately 23 billion litres a year, which is in excess of New Zealand's current annual production of approximately 19 billion litres.

## Farmers and producers

**Dip in farmer confidence: survey** [26 March/ Otago Daily Times] According to the latest Rabobank rural confidence survey, which was completed prior to the OCR increase, 42% of New Zealand farmers expected the agricultural economy to improve in the next 12 months (down from 56% last quarter), while 13% expected conditions to deteriorate (up from 5%). Rabobank CEO, Ben Russell associated the decline to a belief that dairy prices have peaked, the expectation that interest rates are likely to increase, and its potential flow-on effect across other sectors in the next 12 months. Mr Russell said that while there has been a slight drop in farmer confidence, there was overall optimism and strong fundamentals in some sectors. Confidence in the horticulture producers was stronger than the average farming community, likely due to the stronger prices and the recovery in the kiwifruit industry from the PSA outbreak. Mr Russell said that the OCR increase will put pressure on cash flow for farmers with significant debt, and may impact decisions regarding investment. Farmers' confidence in the overall viability of their farm increased to 75% (up from 67% previously), which Mr Russell attributed to improved seasonal and market conditions over the previous quarters. The survey found that 32% of the farmers found it difficult to attract and retain labour in the region, with dairy farmers reporting less difficulty than other sectors.

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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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