

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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HOT OFF THE PRESS:
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Organisations referenced in this week's Field Notes include:

Avocado Industry Council	Environment Canterbury
BayWa	BioConsortia
Potatoes New Zealand	BioDiscovery
AusVeg	Horticulture New Zealand
Zespri	Food and Drug Administration, US
ArborGen	Cofco Corporation, China
Edendale Nursery	Nidera NV, Holland
New Zealand King Salmon	Noble Group, Singapore
Primary Wool Co-operative	Noble Agri,
Elders Primary Wool	Temasek, Singapore
Irrigation New Zealand	British Broadcasting Corporation
Delta Kumara	Rabobank
BurgerFuel	New Zealand Trade and Enterprise
Fonterra Co-operative	Ngai Tahu Property
Woolworths	ANZ
a2 Milk Company (formally A2 Corporation)	ASB
Beef + Lamb New Zealand	Westpac
Z Energy	Federated Farmers
AngusPure	Ravensdown
Silver Fern Farms	Transpower
ANZCO Group	

This week's headlines

Horticulture	Avocado industry aims to grow [2 April/ Radio New Zealand Rural]
Dairy	Sharp drop in dairy auction prices [2 April/ NZ Farmers Weekly]
Red meat	Z energy plans 21m biodiesel plant [4 April/ NZ Herald]
Biosecurity	Fruit fly: An 'unbelievable' biosecurity breach [3 April/ NZ Herald]
Economic and trade	Govt help to exporters gets a boost [3 April/ Otago Daily Times]

Horticulture

Avocado industry aims to grow [2 April/ Radio New Zealand Rural] A five year programme, 'Go Global' is aiming at tripling avocado productivity to 12 tonnes per hectare and quadrupling of returns to \$280 million per annum by 2023. The Avocado Industry Council CEO, Jen Scoular mentioned the fruit's inherent low and irregular fruit bearing as a barrier to the objective, as well as noting the lack of best practice and environmental conditions such as frost as barriers. She mentioned that Go Global will allow best practices used by high producing growers to be shared across the industry. Ms Scoular emphasised Asia as a target market, mentioning the current high consumption of the fruit in Japan and the interest in Asia, fuelled by the trend in demand for health foods and products, including the interest in the potential of avocado in hair and skin beauty products. She said that they will also be using the 'New Zealand story' the Government has developed in order market avocados to the global market.

High Court rejects kiwifruit growers' claim [3 April/ NZ Farmers Weekly] A group of kiwifruit growers challenged the Overseas Investment Office's view that Germany's BayWa, which owns 73% Turners & Growers had fulfilled its consent conditions imposed when it took over Turners & Growers in 2012. Part of BayWa's consent requirements were that it identify "any measures taken to improve relationships with growers and other third parties". The growers argued that their dissatisfaction with how Turners & Growers dealt with them since the takeover had to be mentioned in BayWa's report dealing with improving relations with growers, and hence the Overseas Investment Office erred in accepting that BayWa met its obligations. Justice France rejected the claim stating that there was no evidence indicating that the report was accepted by the Overseas Investment Office, and that a mere consideration of the report's content does not amount to a formal acceptance that reporting conditions had been fulfilled. He also mentioned that there are no statutory criteria that the report must meet, and that it is also unclear that the grower group's grievances fell within the terms of the BayWa's reporting requirements. In February, Turners & Growers reported a net profit of \$16.2 million in the year to 31 December 2013, in comparison to the \$15.3 million loss the previous year, which was affected by writedowns associated with the PSA virus outbreaks.

NZ growers attack Oz 'porkies' over psyllid [7 April/ Radio New Zealand Rural] Australian authorities have ordered another import analysis on the fresh potato exports from New Zealand currently banned. It will assess the risk of psyllid contamination to Australia. Potatoes New Zealand CEO, Champak Mehta said that after undertaking a pest risk analysis, which concluded that there is no substantive risk to the Australian potato, tomato and capsicum industries, Australia has allowed tomato and capsicum back into Australia, but not potatoes. Mr Mehta accused Australia of using false figures in assessing the damage from the pest and said that the Australian vegetable association, AusVeg has been blowing the psyllid threat out of proportion. He said that the impact on the industry since 2008 has been approximately \$60 million, or 7% of farmgate value or 2% of the total value chain per year, far less than that stated by AusVeg. Australia remains New Zealand's biggest potato export market, in the form of frozen chips, whereas the industry would like to be able to grow the fresh potato market.

Zespri plans Mideast push [8 April/ NZ Herald] Kiwifruit marketer, Zespri will re-enter the Saudi Arabian market in June with its SunGold kiwifruit variety, which has shown a good resistance to Psa. Zespri Dubai-based market manager, Ben Hughes said that the firm could secure 20-30% of the kingdom's kiwifruit market over the next five years, with the SunGold variety providing an advantage over the Chilean competitor. With a frost in Chile destroying approximately 60% of the kiwifruit crop last year, Zespri has predicted a 40-50% rise in gold kiwifruit volumes this season. Mr Hughes said that the company will target Saudi bloggers as well as traditional media outlets as part of its market strategy. He said that the company did not previously have a staff presence in the country to manage the complexities in the market, which resulted in the exit from the market five years ago. Mr Hughes also said that there is potential for Zespri to enter the Iranian market within the next two years, as well as highlighting the potential entry into North Africa.

Forestry

Edendale Nursery sold to large forestry biotech [7 April/ Otago Daily Times] Forestry biotech company, ArborGen, the largest seedling supplier in New Zealand, which is 31.67% owned by NZX-listed Rubicon, has acquired the Edendale Nursery in Southland. ArborGen Australasia which is a subsidiary of the US owned ArborGen Inc, sells up to 25 million trees per annum and owns five production nurseries, two seed orchards and a manufacturing facility for production of radiata varietal seedlings. Edendale Nursery grows seedlings for large corporate forest owners, forest managers, consultants and farm foresters in Otago and Southland, with a capacity to produce up to 10 million seedlings per annum. ArborGen general manager of Australasian operations, Greg Mann said that the acquisition meant that ArborGen could supply customers in both islands in New Zealand, while Edendale customers would benefit from the ArborGen's investments in superior genetics for plantings in New Zealand forests. Edendale's land would be leased from the current owners with an option to purchase. ASB rural economist, Nathan Penny, in the latest ASB Commodities Weekly said that record forestry prices which re-attracted Russian and North American supply into the Chinese market should result in either a decrease in prices or a cap on further rises.

Fishing and aquaculture

Fish firm: No shocks in climate report [3 April/ Marlborough Express] A report by the International Panel on Climate Change has predicted less rain, warmer seas and rising sea levels for Marlborough, with water temperature change potentially affecting mussel production and ending salmon farming. New Zealand King Salmon environmental compliance manager, Mark Gillard said that long-term climate change effects are less challenging for salmon farming than seasonal changes. He said that the cool Tory Channel is likely to be ideal for salmon farming for as long as foreseeable, even with worse case scenarios of ocean warming. Mr Gillard said that whether climate change will affect King Salmon in Marlborough is only speculation at this stage, and that the temperature was "comfortably" within the tolerance limits. He also said that there were several options for fin fish farming if the need arose, including the breeding fish of which are more tolerant to warmer temperatures.

Wool

PWC decides against uniting with Wool Equities [7 April/ NZ Farmers Weekly] Discussion on a proposed investment by the Primary Wool Co-operative into Wool Equities, which was hoped to benefit all shareholders and the New Zealand wool industry have been terminated, with the Primary Wool Co-operative board concluding that the investment required and the security available meant that it could not recommend the investment to its 1,100 member shareholders. Primary Wool Co-operative chairman, Bay de Lautour while expressing his disappointment, stated that the farmer-owned co-operative is committed to unifying the New Zealand wool industry and will continue to look for opportunities. The Primary Wool Co-operative owns 50% of the Elders Primary Wool (EPW), with two of the Co-operative's directors sitting on the EPW board. Mr de Lautour said that the EPW marketing initiatives to the American market helped the Co-operative increase returns to wool growers.

Water

Irrigation conference starts in Napier [7 April/ Radio New Zealand Rural] Irrigation New Zealand chairman, John Donkers said Hawke's Bay was chosen to host the bi-annual Irrigation New Zealand conference due to the level of activity in the Region, with the proposed Ruataniwha water storage scheme. He highlighted his desire to have farmers also take part in the conference which is attended by tradespeople and those running irrigation schemes, saying that it will have a substantial impact on their business. He said that farmers probably will not be able to continue to do what they have been doing if they take water from the proposed scheme.

Drought

Repeat droughts cause kumara crisis [4 April/ NZ Farmers Weekly] Consecutive droughts have resulted in a supply deficit of kumara chips for the second year in a row, with Kumara growers in Northland's Kaipara region, where most of the kumara is harvested saying that the three consecutive summers of drought have impacted crops. Delta Kumara general manager, Locky Wilson said that although there was a good supply of fresh kumara, the supply of processed kumara stored for longer periods and used to make chips were limited. A big seller of kumara chips, BurgerFuel said that it experienced the deficit, with all of its 35 stores in New Zealand selling out of kumara chips for a second year in a row. BurgerFuel Australasia general manager, Craig Notman said that the sales from returning kumara chips have been exceptionally high making forecasting difficult for suppliers. Mr Notman mentioned that BurgerFuel will continue to use its local supplier, instead of importing the chips.

Dairy

Sharp drop in dairy auction prices [2 April/ NZ Farmers Weekly] The GlobalDairyTrade price index dropped 8.9% at the April 2 auction, contributing to an 18% decline over the last two months. Bank of New Zealand senior economist, Doug Steel said that the drop was significant enough to have a "material effect" on economic growth, and mentioned that if the NZ dollar declined along with dairy prices, it would lessen the impact on dairy farmers, but would result in higher import prices. Westpac economist, Anne Boniface said that the decreasing milk prices and the high dollar will tend to reduce inflation pressure, and if it continues it could mean fewer OCR rises. Craigs Investment Partners analyst, Arie Dekker said that it was too early to speculate on the Fonterra Shareholder Fund, which was at \$6.12 per share (up 2c) at April 3. He said that the firm's general conclusion is that prices are weakening, which would benefit investors. Federated Farmers dairy chairman, Willy Leferink said the size of the drop was unexpected, but farmers are currently more worried about the growing drought conditions.

Fonterra inks Aussie supermarket deal [3 April/ New Zealand Herald] Fonterra Australia has secured a deal to process Woolworths Own Brand milk in Victoria for the next 10 years, replacing the current one year long contracts. The deal which gives farmers more certainty will also see Fonterra investing over AUD30 million at its milk processing plant in Cobden, South West Victoria. The agreement means all Woolworths Own Brand milk sold in Victoria will be made and processed within the state. Woolworths managing director of supermarkets, Tjeerd Jegen said that the company did not want milk to be shipped from long distances, which increases costs and the farm-to-shelf time period. Fonterra Australia managing director, Judith Swales said that the agreement will expand Fonterra's white milk portfolio and would complement its Riverina Fresh milk business in NSW.

Genuine opportunities for a2 Milk [5 April/ Otago Daily Times] A2 Corporation managing director, Geoffrey Babidge said that its new name 'The a2 Milk Company' will be effective from April 8. Craigs Investment Partners has issued a hold recommendation on the shares of the company, given the broad-based nature of growth opportunities. Craigs broker, Chris Timms said that the company's demonstration of value associated with A2 milk in Australia has provided credibility for potential expansion into new markets, and opportunities in the UK and infant formula category being implemented, with further potential in the US, Southeast Asia, New Zealand and increased product categories. There was significant value for the a2 Milk Company in joining local partners with established routes to markets and distribution chains which would hasten progress through the otherwise lengthy and difficult part of the value chain. Mr Timms emphasised the strong marketing base for the A2 milk, with the science supporting the milk being an important differentiator, but he said that there were limits in what the company can say in direct marketing to consumers, which is reflected in its simple messaging around general benefits, which proved to be effective in Australia. The company has made substantial long-term investment in public relations activity focused on healthcare practitioners and opinion leaders who have the ability to influence consumer decisions over time. He also mentioned the use of the internet by consumers as being an important element of a2's public relations strategy. The a2 Milk Company is also focusing on increasing its people resources, stating its importance in increasing the confidence in the ability to execute on available opportunities. Mr Timms said that it was important to have an understanding of the science associated with A2 milk, along with its limitations, with a focus on barriers to market entry and sustainability of the competitive advantage. Mr Babidge said that a2 milk was the fastest growing major milk brand in Australia, with over 8% market share. He also mentioned that the A2 milk products were available in the UK, New Zealand and China. The company shares recently traded at 94c, and Mr Timms put a 12-month target on the shares of 90c.

Red Meat

Appointments to new genetics board [3 April/ Radio New Zealand Rural] Following the merging of the separate beef and lamb genetics entities, Beef + Lamb New Zealand has appointed the former head of Landcorp, Chris Kelly to chair the Beef + Lamb New Zealand Genetics Board, along with the appointment of former Zoetis genetics business manager, Graham Alder as general manager of the new entity. Beef + Lamb New Zealand stated that it will allocated \$2.9 million a year of its own funds along with the \$3 million of Government funds over five years towards research, which mainly focuses on identifying animal traits that thrive on hill country, prompted by flatter land being converted to dairying. Beef + Lamb said that the sector could earn \$742 million over the next 20 years as a result of genetics work.

Z energy plans 21m biodiesel plant [4 April/ NZ Herald] Z Energy expects to spend \$21 million on a biodiesel plant at Wiri, which will process tallow from the meat industry to produce 20 million litres of biodiesel a year, to be mixed with traditional mineral diesel, which if successful could double biodiesel output. Z Energy CEO, Mike Bennetts said the product will cost 1-2c more a litre. Z Energy said that the biodiesel would meet the highest New Zealand and European fuel specifications, and mentioned that there were commercial customers who had expressed commitments to buy the initial production. Mr Bennetts said that it will be minimising risks through feedstock supply-chain agreements, but the overall success of the project would depend on how much customers value a cleaner and more sustainable alternative. Initial production is likely to be allocated to commercial customers, but Z Energy also expects to supply upper North Island retail sites. Mr Bennetts made it clear that Z Energy is not planning on growing a feedstock supply, and that its core business remained in distribution and marketing. A previous biodiesel attempt by Solid Energy in 2007 failed, and it sold the business in 2013, after investing a reported \$62 million.

McAngus doing wonders for farmers [5 April/ NZ Farmers Weekly] AngusPure chairman, Tim Brittain said the McAngus programme, which consumes 3 million kilos of angus beef via McDonald outlets has been vital in growing the demand for the angus branded beef. Mr Brittain said that the prices and the numbers of angus bull prices sold at auction had continued to defy expectations since the burger range was introduced in 2009, with a 42% increase in angus two-year-old bulls sold at auction and a 20% increase in price. He stated that the progeny of bulls were coming on to the market and that production needed to increase to satisfy demand. Angus cattle profitability was on par with dairy support and exceeded sheep and beef farming. AngusPure has worked with processor Silver Fern Farms and ANZCO Group through its Riverland Beef operation to supply McDonald's. In 2013, McDonald's spent \$170 million with local suppliers and exported \$465 million worth of meat, cheese and other produce to McDonald's markets overseas.

Rural infrastructure

Energy initiative targets meat, dairy plants [8 April/ Otago Daily Times] New energy efficiency initiatives by the Government aimed at improving business productivity, cost savings and reducing carbon emissions have targeted meat and dairy plant operations. Energy and Resources Minister, Simon Bridges said that transport and industrial heat were two key areas where there was potential to save costs and reduce carbon emissions. Meat and dairy plants were the biggest users of industrial heat, with over 200 plants using coal-fired boilers. Mr Bridges said that the Energy Efficiency and Conservation Authority will be working with plant operators to identify energy savings, with businesses expected to achieve savings of up to \$700,000 in energy costs per annum, as well as a reduction of approximately 7,000 tonnes of carbon per annum. The other energy-efficiency initiative announced was the expansion of the heavy-vehicle fuel-efficiency programme and a fuel-efficiency tyres initiative at a cost of \$1.1 million doubling the current programme. The programme is targeted at reaching an additional 150 small to medium-sized vehicle fleets over three years, and is expected to result in \$1.2 million worth of diesel savings and a 7,500 tonnes reduction in carbon emissions per year. The Government will spend \$2 million over two years, and the initiative is expected to save approximately 2.5 million litres of fuel and reduce carbon emission by approximately 6,000t per annum. In 2013, the Silver Fern Farms and Alliance Group announced its own energy management strategy, investing approximately \$1.4 million in a cost saving initiative expected save \$70,000 per annum within two years. Silver Fern Farms was working with the Energy Efficiency and Conservation Authority to reduce energy consumption by over 13GWh. The Alliance Group's energy management coordinator, Aiann Cairns said that since 2000, the Group has reduced fuel use per unit of production by 32% and electricity use per unit of production by 14%. The consolidating and upgrading of the company's Lorneville plant, after a year of operation is expected to save 9,000 tonnes of lignite and over 1.5 million kWh of electricity per annum.

Environment and emissions

Farmers told to talk through differences [3 April/ NZ Farmers Weekly] Head of Environment Canterbury, Dame Margaret Bazley said that she is committed to working with farmers to resolve issues with the Canterbury Land and Water Regional Plan. She mentioned that Environment Canterbury had no control over Government's requirement that all regional councils set water quality limits with an established a process and timeframe for its achievement. Dame Margaret said that farmers should engage with environmental and recreational groups to try and resolve differences. She acknowledged that the Land and Water Regional Plan brings substantial changes, but said that the gap between farmers' interests and those of environmentalists must be narrowed, and that it was important that farmers comply with regulations as to what comes off their lands. She also acknowledged that the high country farmers are in a unique situation as they are concerned about having to fence off sensitive waterways to exclude stock, and said that Environment Canterbury wanted to discuss this issue with affected farmers.

Research and development

Agricultural biotech – backed by \$5m in taxpayer funding – relocates R&D HQ to California, raises \$17.5m [7 April/ The National Business Review] BioConsortia, with subsidiary BioDiscovery based in Parnell, has raised \$17.5 million in series B funding with Khosla Ventures and Otter Capital participating equally. The capital will fund further research in its New Zealand developed crop selection technology. BioConsortia's newly appointed CEO, Marcus Meadows-Smith said that its unique R&D platform is set to deliver significant benefits to mainstream agriculture and sustainable food production. The Parnell office is listed as one of BioConsortia's R&D centres. BioConsortia is expected to take over some of the lab space at BioDiscovery, which is about to be vacated by Lanzatech. On January 15 BioDiscovery was allocated a \$5 million R&D grant from the New Zealand Government agency, Callaghan Innovation. BioDiscovery was not available to comment on the allocation of the grant. Mr Meadows-Smith said that in addition to product development and commercialisation, BioConsortia will use the funds to invest in resources to build collaborative partnerships with seed, fertilizer and crop production companies. BioConsortia uses a proprietary method of the selection of beneficial microbial consortia for crop improvement, and the company has products in the pipeline as well as research projects for the enhanced utilization and substitution of some fertilisers, plant growth improvement including harvestable yield, root mass and accelerated development, other desirable crop traits such as abiotic tolerance, biotic resistance and enhanced metabolic expression. BioConsortia is expected to partner with crop protection, seed and plant breeding companies in order to bring the microbial science and biotechnology to sustainable crop production. Mr Meadows-Smith said that the company will not be disclosing the pre or post-deal valuation of the company.

Biosecurity

Fruit fly: An 'unbelievable' biosecurity breach [3 April/ NZ Herald] A 1.5km controlled area has been implemented in the Parihaka area of Whangarei after a Queensland fruit fly was found in a routine surveillance trap, only 400m away from where a similar fly was found in January, which triggered a \$1.6 million surveillance response. While Horticulture New Zealand criticised the fact that another fruit fly was found only months after the previous find, the Ministry for Primary Industries (MPI) deputy director general of compliance, Andrew Coleman said that all information suggested that the fly was unrelated to the January incident. Mr Coleman said it responded promptly and that investigations were underway to determine if this is an isolated find similar to that in January. Horticulture New Zealand CEO, Peter Silcock emphasised the importance of keeping the pest out the country and said the management of biosecurity risk to keep the fruit fly out of the country needs to be examined. The Green Party biosecurity spokesman, Steffan Browning said that the fact the pest was found in close proximity to the previous find in January meant that it is likely that there is a connection between the two finds, which raises serious concerns about the MPI ending their January campaign early. The Labour Party primary industries spokesman, Damien O'Connor criticised MPI's approach to biosecurity incursions and said there must be a complete review of its response.

Fruit fly find serious: HortNZ [3 April/ Rural News Group] Horticulture New Zealand CEO, Peter Silcock said that although they have confidence in the system to detect any fruit flies at a very early stage, urgent attention must be given to looking at how biosecurity risk is managed, so as to prevent future fruit fly incursions. He mentioned that the fly will affect New Zealand's ability to grow and export produce, as well as the 50,000 jobs provided by the industry. Mr Silcock emphasised the importance of the control zone and warned against swapping or giving fruits away to friends. He mentioned the need to put traps in the immediate vicinity of the fruit fly find, as well as implementing measures to control the movement of host material, and said they were satisfied that the Ministry for Primary Industries was moving on this front.

Food safety

Fonterra fined \$300k for botulism scare [4 April/ Business Day] Judge Peter Hobbs presiding in the Wellington District Court gave judgment for a fine of \$300,000 for the botulism scare that resulted in rejection of WPC product in several markets as well as damaging New Zealand's international reputation, particularly in China. The fine with a maximum ceiling of \$500,000 included an early plea discount and an additional \$47,000 to ensure its deterrent effect in light of Fonterra's financial capacity to pay. The Judge accepted that the offending was caused by carelessness and failure to follow appropriate procedures, rather than intentional acts by Fonterra. An affidavit by Fonterra indicates the stringent measures Fonterra has taken to ensure that there is no repetition of a similar event. The prosecution highlighted the damage caused to New Zealand's reputation as well as confidence in the effectiveness of New Zealand's overall food-safety regulatory system in those markets. Fonterra spokesperson, Maury Leyland said that Fonterra had already accepted responsibility and will not be contesting the level of the fine.

International

Survey shows support for farmers [27 March / RTE] An Ipsos/MRBI survey commissioned by Agri Aware indicates that almost 90% of consumers believe that legislation should be enacted to ensure that farmers receive a fair price for the food they supply to supermarkets, and two-third of consumers believe that supermarkets do not treat farmers fairly when buying produce. A vegetable price war between leading supermarkets in Ireland just before Christmas saw carrots being sold for as little as USD0.05/kg, a fraction of what it cost farmers to produce them. Although the National Consumer Agency said that the competition was good for consumers, the survey showed that almost two-thirds believed that these price promotions were not good for consumers in the long run. The survey also found that 79% thought quality to be more important than price.

Norway keeps whaling quota unchanged for 2014 [2 April/ Agence France-Presse] According to Norway's Fisheries Minister, Elisabeth Aspaker, the country has maintained its whaling quota at 1,286, consistent with previous years. Norway formally objected to the 1986 commercial whaling moratorium and does not consider itself to be party to it, making the Scandinavian kingdom and Iceland the only countries which hunt whales with commercial objectives. The United Nations' International Court of Justice recently ordered Japan to end its annual Antarctic whale hunt, calling the programme a commercial activity disguised as science. Greenpeace Norway head, Truls Gulowsen said that the quota is unnecessarily high, but said that it wasn't a major issue, as the industry was fading. Whaling professionals argue that the annual quota is not met due to whale meat processing plants' lack of capacity, high fuel prices and distant hunting areas.

Illegal GM food raises concerns [2 April/ China Daily] Hainan provincial agricultural department recently said that nine cotton samples out of 107 taken from various trial farms were identified as genetically engineered and were destroyed immediately, and another six samples were being further examined at the time. The department said that any genetically modified crops that have not obtained Government permission are considered illegal. A former member of the country's biosafety committee in charge of agricultural genetically modified organisms, Huang Dafang said that it is rare for the rule to be ignored and that the public shouldn't panic. A lawyer from Anhui province, Shi Baozhong, in an open letter in September has requested to the China Food and Drug Administration and the Ministry of Agriculture to publicize information on genetically modified food in China. He said that a statement should have been released in December informing of the destruction of the genetically modified crop samples. Agriculture Minister, Han Changfu said that it will not tolerate illegal plantings of genetically modified crops. Mr Changfu said bio-safety certificates have been issued for some genetically modified strains of cotton, rice, corn and papaya, with only cotton and papaya being allowed for commercial plantings. Import certificates for genetically modified crops have been given for soybeans, corn, rapeseed, cotton and beets. According to the Chinese Academy of Agricultural Science, 4 million hectares of genetically modified pest-resistant cotton was planted in 2013.

Farmers urged to reduce use of antibiotics [3 April/ The Globe and Mail] The US Food and Drug Administration (FDA) announced in March that 25 companies including ADM Alliance Nutrition, Bayer Healthcare and Novartis have agreed to adopt a US Food and Drug Administration programme designed to reduce the use of antibiotics in food animals by agreeing to stop labelling certain drugs for 'production purposes', as well as agreeing to therapeutic drug use requiring veterinary prescription. Calgary's Foothills Medical Centre director of infection prevention and control, John Conly told a senate committee in February that up to 50% of antibiotic use in humans and up to 80% of antibiotic use in animals is unnecessary. Experts mentioned that the spread of drug-resistant organisms is increasing the risk of treatments for common conditions becoming ineffective. University of Guelph's Ontario Veterinary College professor, John Prescott said that this will pressure Canadian authorities to follow similar guidelines. Canadian authorities are faced with the complexity that the federal Government regulates the sale of antimicrobials where as the provincial authorities control their use. The Canadian Council of Chief Veterinary Officers, which represents provincial veterinary officers support the implementation of a similar approach. Health Canada spokesman, Gary Holub said that they were reviewing the changes announced by the FDA, and that the Government was committed to limiting and controlling the emergence and spread of antimicrobial resistance.

Grain Buyer COFCO Makes a Deal for Agribusiness [3 April/ The Wall Street Journal] In addition to an earlier agreement to acquire 51% of the Dutch grain trader, Nidera NV, China's state owned COFCO Corporation has joined with mainland private equity firm Hopu Management Investment Co to acquire a 51% stake in a joint venture (Noble Agri Ltd.) with the Singaporean Noble Group. COFCO has been instrumental in China's importing of US corn and Australian wheat, while Hopu Management Investment Co is set up by Goldman Sachs Group Inc's China partner, Fang Fenglei and is backed by Goldman and Singapore's Temasek Holdings Pte Ltd. COFCO chairman, Frank Ning said incremental trade volumes from COFCO as a strategic investor in Noble Agri will create significant synergies and value. China's growing wealth is increasing its demand for higher cost foods, prompting increased imports, with China becoming a net importer of rice in 2011, and the import of soybeans taking over domestic production in 2004. The connections with food traders such as Nidera and Noble have the potential to make grain pricing more transparent to COFCO. Mr Ning will hold the position of chairman of Noble Agri, while Richard Elman, the founder and chairman of Noble Group will hold the position of deputy chairman. Noble's net profit in 2013 declined 48%, while the agribusiness division reported an operational loss.

Pig virus threatens US outdoor grilling season [5 April/ Agence France-Presse] The porcine epidemic diarrhoea virus, first detected in May 2013 is now present in 27 of the 50 states in the US, the world's second leading pork producer. The US Department of Agriculture is confident that the virus poses no threat to food safety or human health, but is fatal for piglets. Resulting from an anticipation of a potential supply deficit, some processors have stocked up warehouses, causing an increase in prices. Pork delivery prices for April have increased over 45% since the start of the year, closing USD0.02 down at USD1.23 on April 4, on the Chicago Board of Trade. The Director of agricultural market research and trading firm Allendale, Rich Nelson, said that as many as 7 million pigs were infected since May 2013 (6-8% of production). Precautions have been increased in order to contain the virus, and it is expected to be less contagious when temperatures increase. Mr Nelson said the industry will likely be worst effected during June to early July, with hogs slaughter predicted to be 10-15% lower. Mr Nelson anticipates a price spike by as much as 8%. Grain and livestock investment firm in Iowa, US Commodities vice president, Jason Roose said that price impact could be offset by the benefits from cheaper corn feed and larger pigs, as well as price-point pressure resulting in consumers purchasing substitute products.

Lambing Live, brought to you by 65 BBC staff in £279-a-night-hotel [7 April/ The Daily Telegraph] A 65 member BBC crew filmed the third series of the hit television show, Lambing Live from March 24 to March 28, which filmed the Dykes family preparing for the arrival of 1,500 lambs at the South Slipperfield Farm, South of Edinburgh, during its busiest time of the year. The BBC has been criticised for the use of a large crew housed in an exclusive £279-a-night Country Club accommodation run by the Marriott chain. A BBC spokesman defended the decision stating that it was an economic and practical option which was within BBC policy guidelines. Post series of the show have attracted more than 2 million viewers.

Cattle farmers to get \$2.8bn in trade deal [8 April/ Financial Review] The Abbott Government's free trade deal with its biggest beef export market (30% according to Meat and Livestock Australia), Japan, has resulted in a reduction of the 38.5% tariff on beef by 19.5% over 15 years, reducing the current AUD590 million per annum impost on beef producers. Cattle producers are expected to gain AUD2.84 billion in benefits over the next 20 years. Meat Industry Taskforce head, Lachie Hard said that the criticism of the deal for not completely eliminating the tariff was justified as Australia has managed to completely eliminate tariffs in other bilateral agreements. One of Australia's biggest private beef producers, Graeme Action, although praising the Government for their achievement said that a zero tariff should have been sought, especially in light of the fact that the Japanese Government is seeking a zero tariff on their car exports. The dairy industry will also benefit from the removal of tariffs as high as 5.4% on milk products, as well as increased quota opportunities for ice cream and yoghurt.

Agribusiness strategy

Rabobank says joint industry and government approach needed to improve sector's competitiveness [7 April/ NZ Herald] Rabobank stated that the growth of New Zealand's dairy industry would be partly dependant on how efficiently producers' adopt their production systems to meet stringent environmental controls, as milk production growth is likely to be constrained over the next five years due to change land use becoming more difficult and expensive. Rabobank's report on New Zealand's competitiveness in the agriculture sector said that both New Zealand and Australian food and agribusiness industries are coming under threat from a growing group of competitors in South America, Eastern Europe and Asia, and that New Zealand risked a "golden opportunity" to grow its agricultural base unless it adopted a co-ordinated, joint approach targeted at improving its competitiveness. The report highlighted critical areas of focus to be production costs, international market access, logistics, regulatory pressures, capital constraints and product environment. Rabobank general manager food and agribusiness research and advisory, Luke Chandler, highlighted the need for a more coordinated effort from industry and the Government and said that New Zealand's competitors are investing heavily and becoming more productive. Mr Chandler said that along with countries in South America and Eastern Europe, some major food importers such as China and the Asean-5 nations are contributing to the exports landscape. The report highlighted the adaptation to increasing environmental regulation, investment in the sheepmeat sector's supply chains and access to investment capital as key factors that need to be addressed in order to remain competitive. Mr Chandler said that the lack of investment has particularly affected the sheepmeat sector, where lagging processing capability is affecting returns.

Economics and trade

Meat and seafood rises offset dairy's decline in commodities index [3 April/ NZ Herald] World prices for a basket of New Zealand's export commodities flattened out in March as declining prices for dairy products offset widespread gains in other exports. ANZ's commodity price index declined 0.1% from the February level, which was a 28-year record high. Although the index is 13.8% higher than a year ago, ANZ economist, Steve Edwards said the commodity prices valued in NZ dollars is 12% higher than a year ago, just 6% below the March 2011 peak. Ten out of the seventeen commodities in the index increased last month included a 9% increase in sheepmeat, 6% increase in beef and a 1.5% increase in seafood, as well as increases in forest products, wool, pelts and aluminium. However, dairy products (47% of exports), with the exception of butter (up 0.25%) decreased, with whole milk powder dropping 6% and skim milk and cheese both dropping 2% each. ANZ also mentioned the price decline in Fonterra's GlobalDairyTrade auction on April 2, and said that it was hard to predict if the trend will continue, given the impact of dry conditions in parts of the North Island and the resulting supply response from foreign producers.

Govt help to exporters gets a boost [3 April/ Otago Daily Times] Prime Minister, John Key, Trade Minister, Tim Groser and Economic Development Minister Steven Joyce announced that the New Zealand Trade and Enterprise (NZTE) budget will be allocated \$55 million of new funding and \$14 million of redirected funding over the next four years to assist exporters to succeed internationally, demonstrating the government's focus to build export markets. The funding package includes NZTE working intensively with up to 200 additional New Zealand companies (700 companies in total) to make them more international. Mr Key's announcement also stated that the new Budget funding would provide more funding for NZTE's high impact programmes in sectors such as agribusiness, food and beverage, ICT, marine and aviation, health and wine. The Budget will also result in the creation of seven new positions in China, adding to the current 60 staff in the country. Mr Key said that NZTE is working with 150 customers who had targeted intensive engagements in China. He acknowledged that the complexities of the Chinese market meant that companies required more guidance and assistance for longer periods than companies in other markets. NZTE will also be creating an additional position each in Brazil, Chile and Colombia, as well as two new positions in the Middle East. ExportNZ executive director, Catherine Beard said that the geographic spread of the extra spending allocated to NZTE, including the increased resources to be based in the China, South America and Middle East regions was welcomed, while emphasising the importance of reducing the concentration risk. She said that the way for companies to stay competitive in the high exchange rate environment was to differentiate through innovation and design. She welcomed the extension of these programmes while emphasising the importance of such investments in meeting the target of increasing export performance to 40% of GDP.

Farmers and producers

Commission delays interest swaps proceedings [2 April/ Rural News Group] The Commerce Commission has delayed filing proceedings against ANZ, ASB and Westpac over the potential misleading marketing of interest swaps, mentioning the complexity of the case. The Commission, while mentioning that they expect to make an announcement mid-year, said that it has been able to advance the investigation by using the new compulsory interview powers to interview current and former bank staff. Interest rate swaps are a financial derivative product that allows a borrower to manage interest rate exposure on their borrowings, and were offered by banks to rural customers in New Zealand since 2005.

Dairying fuels Ngai Tahu's \$1.5b drive [2 April/ NZ Farmers Weekly] Ngai Tahu Property CEO, Tony Sewell said that the company's target of growing the value of its agricultural investment to over \$1.5 billion will be aided by its conversion of forestry to dairying and will be backed by extra capital investment. The Iwi is expected to invest \$600 million in land conversion, stock and dairy company shares, with the investment spanning the next five years contributing \$150 million. The investment includes 36,000ha of high country property at Greenstone Routeburn and Elfin Bay, with the transformation of Eyrewell (7,000ha), Balmoral (10,000ha, with approximately 30% already cleared) and West Coat land (10,000ha) held for farm development. Mr Sewell also highlighted that its 5% shareholding in Waimakariri Irrigation gave it access to water for the Eyrewell property, and said that it was examining cost effective options for the Balmoral property including the Hurunui Water Project (with 30% shareholding) and options around the Waiau River. Ngai Tahu has already commenced operating three pilot dairy farms with three more in the pipeline. Mr Sewell expressed the future intention to establish a board and management group to oversee the business. He said that different types of sheep, horticultural and beef farming would be examined, while emphasising the need to be sustainable. Federated Farmers environment spokesman, Ian Mackenzie acknowledged the environmental work done by Ngai Tahu, but highlighted that other farmers were doing the same, and that there will be an environmental effect from the development.

Isolation a factor in farm suicides - lobby [4 April/ Radio New Zealand Rural] Federated Farmers said that the isolation of farming and its impact on physical and mental wellbeing is contributing to the high suicide rate in the industry. Federated Farmers believe that the Law Commission's recommendation of easing restriction on reporting of suicides will make discussing depression and stress easier. Federated Farmers Health and Safety spokesperson, Jeanette Maxwell, expressed her belief that physical issues are being left untreated due to the distance that needs to be travelled to obtain help is contributing to farmers' stress levels. In 2010, 92 farmers were reported to have committed suicide, compared to approximately five deaths from quad bikes and five deaths from tractors per annum.

Buoyant Ravensdown boosts sales and lowers debt [7 April/ NZ Farmers Weekly] Fertiliser Co-operative, Ravensdown's chairman, John Henderson, stated that its debt has reduced to \$170 million from \$450 million last year. Due to problems in Australia, the Co-operative did not pay a rebate or dividend last year, for the first time in 35 years. Mr Henderson, although cautious about making a profit forecast, expects a positive result. The CEO, Greg Campbell in the latest newsletter stated that December, January and February sales were ahead of last year's figures and ahead of forecasts. Ravensdown has sold its Western Australian business to Louis Dreyfus Commodities and returned the cash to New Zealand, as well as having sold its DirectFarm business in South Australia and Victoria. Mr Campbell said that the balance sheet and interest cover from earnings indicated a financially stronger company. Mr Henderson said that a tighter control on stock has resulted in lower inventory levels as well as improved management of debt funding to clients. Although the Co-operative still operates a business in Queensland, it has good support from local sugar cane growers. Since the middle of 2013, the focus of the business has clearly been on the core business of better returns, services and value to shareholders. Mr Henderson told shareholders that a model of revenue growth for the sake of growth will not be pursued.

Farm buildings seen as risk to power supply [8 April/ NZ Farmers Weekly] Transpower said that its representatives told the Southland District Council's resource management committee taking submission the proposed District Plan, that it should ban milking sheds and other intensive farm buildings from being built below powerlines that supply the national grid. Transpower environmental policy and planning group manager, Dougall Campbell and senior transmission lines engineer, Stephen McAdams said the buildings must be built at least 12m from the lines to ensure that there was sufficient room for maintenance work as well as to avoid damage to stock or buildings in the event of a fault. Kate Robinson, representing three large forestry companies operating in the district, called for more communication between forestry operators and the Council, rather than proposing additional rules for financial contributions in the plan. Ms Robinson said that forestry block owners already contributed to roading through a targeted rate, and hence any extra contribution and resource consent costs would be inequitable. She proposed a new rule requiring forestry companies to inform the council of plans for harvesting in advance, which will allow the council to set the targeted rate appropriately as well as to plan repairs and maintenance. The committee hearings are set to continue on May 5, commencing with the hearing on biodiversity and Fiordland/Rakiura zone sections of the proposed plan.

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Field Notes

Weekly news update from the KPMG Agribusiness Network – 9 April 2014

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Field Notes presents a summary of some of the media comment on the Agribusiness sector in the last week. The views expressed do not necessarily represent the views of KPMG but are summaries of the articles published.

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