

AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

30 April 2014

## Organisations referenced in this week's Field Notes include:

Alliance Group	New Zealand King Salmon
ANZ	Lakeland Dairies
ASB Bank	Landmark
Avanza	Livestock Shipping Services
Avoco	Marlborough District Council
BayWa	McDonalds
Beef + Lamb New Zealand	National Beekeepers Association
Britain's Food and Environment Research Agency's	PaperBoy Wines
Comvita	Pastoral Greenhouse Gas Research Consortium
CSIRO	PF Olsen
DairyNZ	Ryanair
Danone Group	Supreme Court
Deep Blue Seafoods	Taratachi Agricultural Training Centre
Delegats	The Commerce Commission
Ecologic Brands	The International Rubber Consortium
Elders	Ministry for Primary Industries
Environment Select Committee	Ministry of Business, Innovation and Employment
Ernslaw	Southern Dairy Development Trust
Federated Farmers	US Department of Agriculture
Fish and Game New Zealand	TPG
Fonterra Co-operative Group	Truett-Hurst
GlobalDairyTrade	Turners & Growers
Horticulture New Zealand	Westland Milk Products
Infant Formula Exporters Association	Westpac
Inghams Enterprises	

## This week's headlines

<b>Horticulture</b>	<b>Turners and Growers buys Apollo Apples</b> [16 April/ NZ Herald]
<b>Forestry</b>	<b>Replanting a concern for logging industry</b> [27 April/ Business Day]
<b>Fishing and aquaculture</b>	<b>Salmon farms judgment a 'step forward'</b> [23 April/ Business Day]
<b>Dairy</b>	<b>Formula exporters face hit</b> [25 April/ NZ Herald]
<b>Food safety</b>	<b>Illnesses prompt raw milk warning</b> [24 April/ FW Plus]

## Horticulture

**Turners and Growers buys Apollo Apples** [16 April/ NZ Herald] German BayWa controlled fruit marketer, Turners & Growers has agreed to buy Hawke's Bay based Apollo Applies for \$44.1 million, with \$36.05 million to be paid up front and the remaining \$8 million to be conditional on performance targets and paid over four years. Turners & Growers also agreed to pay \$1 million for a 50 percent stake in the small processed apple foods business, Apollo Foods. The company said that the deal is part of its strategy to help its ENZA unit meet global demand for Southern hemisphere grain produce. The agreement is conditional on Overseas Investment Office approval and certain material contracts, which Turners & Growers expects to be satisfied in four months. Turners & Growers reported a profit in 2013 supported by higher volumes, higher prices and greater access to new markets in Asia helping drive up export earnings. Its shares (73 percent owned by BayWa) which gained 8.6 percent this year remained unchanged at \$1.90 on 15 April.

**Avocado growers predict bumper crop** [24 April/ Radio New Zealand Rural] Director of both Avoco and Avanza, representing most of New Zealand's avocado exports, John Carroll said that substantial effort is being put into developing Asia as an avocado export market. The diversification is being prompted by strong local competition in Australia, where most of the fruit is currently being exported. Mr Carroll said that there are plans to be involved in Asian trade shows, as well as partnering with American firms to be able to supply the market all year-round. Mr Carroll hopes that approximately 25 percent of exports will be to Asia, with 20 percent to the US and the rest to Australia. He mentioned that Europe is ruled out as a market due to issues around maintaining quality during shipment. The industry is predicting the export crop to be in excess of 5 million trays this season.

**EPA u-turn on bees worries growers** [28 April/ Radio New Zealand Rural] The Environmental Protection Authority has informed Horticulture New Zealand that it is re-examining approvals for some organo-phosphate and carbonate insecticides after concerns were raised by the National Beekeepers Association, around the removal of a condition of insecticide application from the revised rules. NBA member of the technical submissions committee, Don Macleod said that the removal of the condition could pose a threat to bees. Horticulture New Zealand CEO, Peter Silcock criticised the re-assessment that comes less than six months after completing a major review of pesticide use. Mr Silcock also criticised the beekeepers for not ensuring that the Authority had the relevant information at the time of the review. The National Beekeepers Association said that a change will not delay the process as the revised rules on pesticide use are only phased on over two years. The Environmental Protection Authority stated that the information was not from the beekeepers, but overseas regulators, and that the re-assessment will be open to public submissions.

## Viticulture

**Delegat's founder Jim Delegat to step back from daily operations** [16 April/ The National Business Review] The founder of Delegat's Group, Jim Delegat will be stepping down as Managing Director and taking on the role of Executive Chairman from May, to focus on the company's strategic direction, while Delegat's current chairman, Robert Wilton will remain as a director. The current General Manager, Graeme Lord will be taking over as the Managing Director of the company. The group that has achieved tenfold growth over the last decade said that its strategic goal is to build a leading global super-premium wine company, with plans to spend \$132 million over the next three years to support sales growth, particularly in North America. Shares in the company which have declined 7.5 percent this year, increased 0.9 percent to \$3.50.

**Grape crops may be lost to storm** [20 April/ Radio New Zealand Rural] With the MetService reporting over 200mm of rain over 36 hours, the Marlborough Rural Support Trust co-ordinator, Ian Blair said some smaller growers were trying to bring in as much of the crop as possible during the peak of the storm, while the remainder of the grapes could be lost as they swell, burst their skin and become diseased. The Trust said that larger grape growers had already brought in their harvest.

## Arable

**Crop losses 'in millions'** [24 April/ FW Plus] Federated Farmers national grain and seed chairman and Mid Canterbury arable farmer, Ian Mackenzie highlighted the difficulties faced by Canterbury cropping farmers due to what is predicted to be the wettest autumn in almost 70 years, with industry losses predicted in the millions. At Eiffelton, 130 millimetres of rain in the first three weeks of April has made it impossible to get machinery on paddocks, preventing the harvesting of end of season crops and planting of high value vegetable seed crops. Ian Mackenzie said that unless the wet conditions dry up soon, the crop will break down and the seed will not be salvageable. Continuous rain, drizzle, heavy dew, high humidity, northwest wind, low cloud and lack of sun has resulted in spoilt and sprouted vegetable crops, with farmers facing the prospect of writing off some crops.

## Honey

**Warning on pollen test to tackle phoney honey** [20 April/ Business Day] Dr Adrian Charlton from Britain's Food and Environment Research Agency's food laboratory in York, which has over 500 scientists working on protecting the public from adulterated and mislabelled food warned the Ministry for Primary Industries against telling the world's food watchdogs to test the authenticity of manuka honey by microscopic pollen analysis. Dr Charlton said that pollen analysis is subjective and not an accurate method for verifying the authenticity of manuka honey as it is at a higher risk of human error and is susceptible to abuse by producers adding pollen to their products, as well as the pollen's inherent difficulty in being distinguished from manuka pollen. Additionally, the pollen test will not be able to distinguish manuka honey from Australian jellybush honey. Dr Charlton said that the Ministry should focus on defining the honey, and allowing the world's scientists and testings laboratories to address testing issues. Manuka honey producers, including listed Comvita prefer a simple definition stating that manuka honey is wholly or mainly derived from the nectar of manuka flowers. Producers believe that the most accurate way of distinguishing authentic manuka honey is by indentifying unique chemical markers in the honey. The Ministry for Primary Industries is recorded as saying that it planned to start investigating manuka honey fraud.

### Forestry

**Replanting a concern for logging industry** [27 April/ Business Day] With New Zealand having exported \$5 billion worth of forestry products in the last year, there are concerns that a lack of replanting could threaten the industry's future. Plantation company Ernslaw One's environment manager, Peter Weir said approximately 40 percent of new harvest belonged to investment syndicates that planted for retirement, with an intention to harvest leading up to 2020, and no incentive to replant the land. This would result in an approximate 500,000 hectares of land being available in the market post harvest. According to Statistics New Zealand figures the value of New Zealand log exports increased from \$1.6 billion (2012) to \$2.4 billion (2013), mainly driven by in log exports to China, which now account for 42 percent of forestry product exports by value. New Zealand log volume exports increased 2.8 million cubic metres to 16.6 million cubic metres in 2013. In 2011, the annual new forest planting amounted to 20,000 hectares compared with 100,000 hectares in the early 1990s. Forestry services company, PF Olsen CEO, Peter Clark said there was almost no new plantings taking place currently. The current high value of land, capital costs and log prices are only resulting in a 4-6 percent after tax return on investment, much lower than the 7-8 percent required by investors.

### Fishing and aquaculture

**Salmon farm decision protects 'outstanding landscapes'** [18 April/ NZ Herald] While the Supreme Court upheld resource consents for three salmon farms to be developed in the Marlborough Sounds by the King Salmon company, it rejected the development of a fourth site at Papatua, ruling in favour of the Environmental Defence Society's appeal on the basis that the resource consent granted failed to uphold important principles in the Coastal Policy Statement. Environmental Defence Society policy expert, Raewyn Peart said that this was an important decision, with the Supreme Court saying that the Resource Management Act with the National Policy Statement protects outstanding landscapes. The Marlborough Sounds lobby group, Save Our Sounds failed in its application to have the further three resource consents overturned. As a result of the two Supreme Court decisions, King Salmon has received resource consent clearance to develop three of the eight sites in the Marlborough Sounds it initially sought to develop.

**Salmon farms judgment a 'step forward'** [23 April/ Business Day] Marlborough Mayor Alistair Sowman said that the Marlborough District Council was studying the details of the Supreme Court's judgment allowing King Salmon to develop three out of four farms which received Environmental Protection Authority consent in 2013, and mentioned that it was a beneficial to have clarity around the Coastal Policy Statement. Aquaculture New Zealand chairman, Bruce Hearn welcomed the decision which allowed King Salmon to progress with its development, and mentioned that the additional sites will generate substantial economic benefits and employment to the industry which currently generates \$150 million in annual revenue. Mr Hearn said that it has been found that King Salmon can balance farming the sites along with environmental advocates' concerns over impacts on seabed, water column, nutrient release and impacts on seabirds, sea mammals and navigation, with scientific evidence indicating that salmon farming in appropriate sites is sustainable and that majority of New Zealanders are in support of the industry's growth.

**Catch of the day** [28 April/ Taranaki Daily News Online] Wellington's Deep Blue Seafoods which claims to be the first to commercially fish king crab in New Zealand has built its fishing operation from half a dozen pots in 2010 to 120 pots today. In 2013, the United States imported approximately \$180 million worth of king crabs, compared to \$437 million in 2007. In 2013, New Zealand exported over \$1.5 billion of seafood, with rock lobster being the most valuable export at \$250 million. Deep Blue Seafoods director and skipper, Tony Muollo hopes that king crab will prove to be lucrative in the future both for the company and the country. If caught in pots, they have the potential to be exported as high-value species to Europe, Asia and the US. The crabs are currently priced at over \$100 per live two kilogram crab. The latest Ministry for Primary Industries Fisheries Plenary Report indicated that 2.5 tonnes of king crab were caught in New Zealand in the 2011 to 2012 season. A research programme involving Deep Blue Seafoods, the Ministry for Primary Industries and other partners aiming to establish size of the king crab population, their location and their habitat began this year. Celebrity chef Simon Gault's Crab Shack restaurant has the king crabs in its menu, with Mr Gault mentioning that the crabs were the "Rolls-Royce" of crabs, provided they are fat, with fat legs. He also said that the last New Zealand king crab he was shown did not meet these requirements and had no meat. He also said that the imported king crabs were very popular and sold for \$80 for two clusters of legs.

### Dairy

**World dairy prices slip 2.6c** [16 April/ NZ Herald] The GlobalDairyTrade (GDT) price index declined 2.6 percent to USD 4,047 per tonne from two weeks ago to the lowest since February 2013, with 36,549 tonnes of product sold, down from 39,653 tonne two weeks earlier. In the latest GDT auction whole milk powder declined 1.6 percent (USD 3,990 per tonne), rennet casein declined 4.3 percent (USD 10,630 per tonne), cheddar declined 3.3 percent (USD 4,273 per tonne), skim milk powder declined 4.4 percent (USD 3,969 per tonne), butter declined 4.9 percent (USD 3,832 per tonne), butter milk powder declined 8.6 percent (USD 4,075 per tonne) and milk protein concentrate declined 7 percent (USD 7,824 per tonne), while lactose was not offered for trade. Since Fonterra raised its forecast payout to a record level for the 2013/14 season, the GDT price index has declined almost 20 percent. In March Fonterra forecasted that milk volumes would rise 7.5 percent to 1.57 million kgMs this season. ASB chief economist, Nick Tuffley stated that the record dairy price run has come to an end. He also said that the increase in volumes are a result of the incentive to produce more provided by the milk price forecast, with the strong productions resulting in falling prices. ASB expects the milk payout to be at \$8.50/kgMs. Of the 764 qualified bidders, there were 148 winning bidders of the 199 participants.

**Fonterra products still banned in China** [17 April/ Radio New Zealand Rural] The Ministry for Primary Industries said that dairy products remain suspended from the Chinese market due to the botulism scare. According to Fonterra, its whey protein and infant formula base powders have been affected, with the powders only able to enter China in processed form. The Prime Minister, John Key said that the restrictions are a matter for Fonterra, not the government, and stated that he did everything possible to reassure the Chinese officials and the public that whey and infant formula from New Zealand was safe. Mr Key said that bulk of Fonterra's product is entering China, but until final issues around the whey and infant formula scare were worked through, China will not sign off on the products. Infant Formula Exporters Council chairman, Michale Barnett said that he is surprised to hear that market access issues surrounding infant formula exports to China has not been resolved yet, and that he was under the impression that they were resolved following Mr Key's visit to China. A statement by Fonterra said that the import suspension which has been in place since August 2013 affects less than 3 percent of New Zealand's total dairy exports, and overall export volumes to China have increased 15 percent in comparison to 2013. Fonterra said that it keeps its farmers regularly updated on the company's operations, performance and the progress made relating to the botulism recall recovery, but that it did not think the suspension needed mention until it had been removed.

**Fonterra on Hong Kong shopping lists** [19 April/ NZ Herald] The Chinese stocking up on infant formula last February led to the Hong Kong Government introducing the 'two can' rule, where each shopper was only permitted to purchase two 1.8kg cans of infant formula at a time. Although the rule affected Hong Kong sales, Fonterra general manager for Hong Kong and Macau, Cortina Sin said that the cross-border trade continued to be important and a big driver of growth for local operations, with demand continuing to grow, although at a lesser rate. Fonterra products have been in the Hong Kong market for 30 years, and accounts for approximately 12,000t of products per annum, with approximately 50 percent servicing the consumer market and 50 percent servicing the quick-service restaurant trade. Ms Sin said that local operations had an average of 13 percent compound annual growth per year, in volume terms over the last three years. The three main lines of Fonterra products in Hong Kong are Anlene (55 percent market share of its segment), Anmum (48 percent market share of its segment) and Anchor. Ms Sin said that the precautionary product recall impact was not as strongly felt in Hong Kong, where the conditions had returned to normal, and she believes that although the market is more mature compared to China, there is still potential for growth. She said that there is strong competition from its main competitors Nestle and Abbotts.

**Imported feed a risk committee hears** [23 April/ Radio New Zealand Rural] Waikato agricultural consultant, Alison Dewes informed the Local Government and Environment Select Committee that dairy farming is becoming increasingly risky with the industry focusing on more growth and production. Dr Dewes told the committee that the sector is facing tougher environmental regulation, more stringent lending restrictions, climate change and increasing cost of production, as well as more intensified dairy farming becoming increasingly reliant on imported feed, which consists of 20 percent of total feed for the dairy sector. Dr Dewes mentioned that a large proportion of the imported feed is the controversial supplementary feed, palm kernel expeller, with 10 percent consisting of the imported palm kernel. She mentioned that reliance on shipments of feed imports mean that the industry is at position of higher risk.

**Ferocious storm cuts milk flows** [24 April/ NZ Farmer Weekly] Westland Milk Products General Manager, Quality and Technical, Leo McIntyre said that the company was assessing the impact on milk flows from farmers and the impact on how much finished products would be available for sale, after the ferocious storm last week. However as the storm hit towards the latter part of the season, farmers had already sold 95 percent of their production. The storm left approximately 50 percent of the 400 or so West Coast farmers supplying milk with significant damage. Damage included damage to power supplies and transportation, as well as property. Mr McIntyre said that milk flows were still 20 percent lower than two weeks ago, which will reduce the quantity available for sale, as well as the possibility that customers may not receive the products ordered. Although Mr McIntyre expects regular customers to be unaffected, he said that ad hoc businesses might be impacted, and milk powder and butter may be short by 1,000 to 2,000 tonnes. The company expects farmers' production to be 3-5 percent lower, and Mr McIntyre mentioned that there could be an impact on farmers' income, but does not expect any long term effects of the storm.

**Formula exporters face hit** [25 April/ NZ Herald] From May 1, regulations will require baby milk brands to have a 'clear control' of the manufacturing process and a 'close association' with manufacturers to gain registration with the Chinese Government. Food Safety Minister, Nikki Kaye said that approximately 10 percent of the \$200 million of infant formula exported to China are produced by firms that do not own factories, which consisted of approximately 50 companies producing around 70 brands, while the remaining 90 percent of baby milk exports to China were controlled by larger scale manufacturers. Ms Kaye said that the embassy in Beijing is working on making arrangements to help brand owners who will need to implement significant changes. Minister for Primary Industries, Nathan Guy said that 12 out of 13 factories still had to undertake action to be capable of registration for Chinese export, but expects most, if not all to achieve registration. Infant Formula Exporters Association chairman, Michael Barnett said that contract manufactured brands will be excluded from the Chinese market as a starting point, but did not necessarily mean that all the brands will be excluded in the long term if firms can afford to invest in technology or form a relationship with manufacturers. Mr Guy said that the regulations apply to all countries exporting infant formula to China, and was not related to Fonterra's botulism false alarm. Retail-ready infant formula consisted of approximately 150 infant formula brands and approximately 4 percent of the \$5 billion of dairy product exports to China last year.

**Date set for Fonterra's bid to suspend lawsuit** [28 April/ NZ Herald] The Fonterra Co-operative Group's attempt to stay legal proceedings against it by the French food company Danone for the false botulism scare's cost of recall (valued by Danone at \$350 million) and alleged damage to its reputation is due to be heard in the Auckland High Court on June 23. A Danone spokeswoman said that the quantum of damage is to be determined at trial. Fonterra is seeking to have the legal suit suspended, pending the determination of international arbitration proceedings seated in Singapore, involving companies in the Fonterra and Danone Group's. Danone has pleaded two alleged breaches of the Fair Trading Act and two alleged torts against it, including negligence. Fonterra has reached out of court settlements relating to the recall with all of the eight affected customers apart from Danone.

## Red meat

**\$25m Alliance rendering plant up and running** [17 April/ Business Day] The Alliance Group has completed its \$25 million rendering plant at Lorneville, which is now processing animal waste raw materials from Alliance's Lorneville, Matura and Makarewa processing plants, producing approximately 50 tonnes/day of meat meal for pet food manufacturers and animal feed, and 80 tonnes/day of tallow for cosmetics and biofuels. Last year, the Alliance Group CEO, Grant Cuff said approximately 40 jobs would be affected, but workers will be engaged into other roles. The innovative technology at the plant has resulted in almost zero waste and is forecasted to save the co-operative 9,000 tonnes of lignite and over 1.5 million kWh of electricity per annum. Alliance Group energy management co-ordinator, Aiann Cairns said the investment in technology will result in maximised revenue and believes it contributes to approximately 10 percent of the company's bottom line. Since 2000, the Group has cut down the use of fuel per unit production by 32 percent and electricity use per unit of production by 14 percent.

**Sheep meat volumes down, prices up** [24 April/ Radio New Zealand Rural] Beef + Lamb export figures for the first half of 2013/14 season indicate that the lamb price rise is offset by the decreased export volume, with a volume decline of 2.5 percent and a price increase of 14 percent from the same period last year. The total value of lamb exports in the first half of the season was \$1.33 billion (up 11 percent), with exports to the European Union amounting to 42 percent and North Asia amounting to 33 percent. Mutton exports reached a new record in the first half of the season with over 60,000 tonnes, earning \$33 million (up 44 percent), with China consisting of 72 percent of the exports, compared with 52 percent last season.

## Rural infrastructure

**Bank swaps probe widens** [24 April/ Business Day] The Financial Markets Authority is investigating whether the marketing of the interest rate swaps by ANZ, ASB Bank and Westpac between 2005 and 2008 as hedges against interest rate movements may have breached the Securities Act or the Securities Market Act. In December, the Commerce Commission stated that it expected to file separate proceedings against the banks under the Fair Trading Act, after receiving 140 complaints regarding how the instruments were sold. The Commerce Commission said that the case is particularly complex, with different facts and circumstances applying to the actions of the three banks, and indicated that an out of court settlement may be one outcome. The Financial Markets Authority said that although they were investigating a different potential legal breach, it was working with the Commerce Commission on the investigation. The Commerce Commission said that it is expecting to make a further announcement about the progress of the investigation at the middle of the year.

## Water

**Concerns over dam nitrogen restrictions** [17 April/ Radio New Zealand Rural] The Board of Inquiry has approved resource consent for the Rutaniwha Dam, along with limits on nitrogen leaching. Hawke's Bay Regional Council chairman, Fenton Wilson said that the council staff have got the limits wrong, and that the restrictions on nitrogen levels are lower than what is allowed into the catchment today. Mr Wilson said that the tension between economic growth and its environmental impact is an issue that needs to be addressed as a country, and that unless the scheme is made possible, small communities relying on the scheme will not survive. Headlands Consultancy agricultural consultant, Alison Dewes said that the limits send an important message to farmers who are thinking of investing as to how the environmental resources will be allocated. Ms Dewes said that the area covered by the Rutaniwha scheme will be an expensive area to convert to dairying if farmers take water, and it will be the most un-economic use of water. She said that research done in Australia shows the best value for money with water use is horticulture, viticulture and precision crops, whereas irrigating pastures take up a lot of water for the net profit obtainable, making the Rutaniwha innately risky. Ms Dewes outlined that once the cost of water is accounted for, it would cost approximately \$1,000/ha per annum for the on average dairy, with the cost of production approximating at \$5.50/kg of milk solids pre debt servicing.

## Environment and emissions

**Inquiry call over farming and water quality rules** [17 April/ Business Day] Industry representatives DairyNZ and Fish & Game New Zealand appeared before the local Government and environment select committee on April 17, responding to a report on water quality from the Parliamentary Commissioner for the environment, Jan Wright. The report released in November 2013 highlighted the increase in nutrient pollution in waterways due to the conversion to dairying. The Government is proposing amendments to the National Policy Statement for Freshwater Management and implementing minimum requirements that must be met, with the Ministers for the Environment and Primary Industries expected to take advice to the Cabinet by the middle of the year. DairyNZ and Fish & Game called for the setting of water-quality limits to be sped up to give farmers clear limits, guidelines and clarity around measuring tools. DairyNZ scientist, Mike Scarsbrook said it would be difficult to stop intensification of stock conversion without evidence of what environmental impact would be achieved by the water-quality levels.

### Research and development

**NZ 'leaders in carbon efficient food'** [16 April/ Rural News Group] Federated Farmers vice-president, William Rolleston said that the Intergovernmental Panel on Climate Change (IPCC) Mitigation Report projects that emissions from Agriculture, Forestry and Other Land Use could be half of 2010 levels by 2050. Dr Rolleston said that New Zealand needed to redefine its contribution to climate change since it is a leader in carbon efficient food production, with the carbon in each unit of production falling 1.3 percent per annum. While highlighting that Agriculture, Forestry and Other Land Use emissions account for a quarter of global emissions, he said that the major contributor is not livestock, but deforestation and land clearance. He said that policies penalising the most carbon efficient farmers will drive up global emissions and is now being recognised for its false logic. Dr Rolleston highlighted the efforts of the Global Research Alliance on agricultural greenhouse gases and how New Zealand farmers support this through their financial contributions to the Palmerston North based Pastoral Greenhouse Gas Research Consortium, which aims to reduce the carbon footprint on New Zealand products. Dr Rolleston highlighted the work that needs to be done around building the organic quality of the soil, solar power generation and the use of bioenergy, while mentioning concerns over Federated Farmers research priorities. He said if New Zealand is able to align research with mitigation and adaptation strategies such as water storage, New Zealand could be a leader in carbon efficient food.

**Sustainable farming granted \$9.9m funding** [18 April/ Business Day] Farming industries will add \$8.7 million to the \$9.9 million of government funding over three years in the latest round of Sustainable Farming Fund projects to improve agriculture. The Sustainable Farming Fund has received a total of \$122.8 million in Government funding across 906 projects. The Primary Industries Minister, Nathan Guy said the 31 new Sustainable Farming Fund projects range from water-quality to climate change, and are expected to deliver real economic and environmental benefits.

**Demo farm at hub plan's heart** [21 April/ Business Day] The Southern Dairy Development Trust has been working on a \$26.5 million dairy and research hub, creating a permanent commercial demonstration farm to show best practice dairy farming and provide accurate farm, environment and financial information, with the primary aim of improving performance and protecting the viability of existing dairy farms in the southern South Island. The hub concept proposal was an initiative by the Trust, Southland Demonstration Farm and Dairy NZ. Project leader, Maurice Hardie said that it would be the first demonstration capable of conducting research on an industry scale. Mr Hardie mentioned that \$14-15 million of the investment will come from capital contributions from partners while capital from the current demonstration farm at Wallacetown will also be used, along with a bank debt. He said that the next step is to encourage contributions from dairy farmers, which could be approximately \$2,000 per farm. Federated Farmers Southland president, Russell MacPerson said that it supported the hub, provided it was robust and relevant to farmers in the region. He said that the hub would be beneficial to the region, but he expects there to be some resistance from farmers on the financial aspects, as farmers already paid substantial levies towards industry good and there was ongoing debate about whether there was value for money from this. There was a positive uptake of the project by the Environment Southland councillors after Mr Hardie and Southern Dairy Development Trust chairman, Matthew Richards's presentation of the concept to the Environment Southland councillors on April 16. Councillor Nicol Horrell encouraged interaction between research staff and the council, while chairwoman, Ali Timms questioned if they had spoken with other research entities to ensure they was no doubling up. Mr Hardie confirmed that there had been discussions. If initiated, the hub will be operational by June 2016.

### Food safety

**Illnesses prompt raw milk warning** [24 April/ FW Plus] As a result of a series of infections linked to raw milk consumption, including two E coli o157:H7 infections and seven campylobacter infections in South Canterbury, the region's medical officer of health, Daniel Williams warned against the possibility of a death from drinking raw milk. Although the link to the raw milk as the source of the infection could not be established, all who got sick had consumed raw milk. According to Environmental Science and Research data, South Canterbury has the highest rate of campylobacter infections (321 per 100,000 people). World Health Organisation data indicates a 3-5 percent mortality rate from E coli o157:H7 infections, with New Zealand recording 100-150 infections per year, mainly in children under five years of age. Dr Williams said it is virtually impossible for a producer to ensure infections such as E coli, salmonella, tuberculosis, listeria and campylobacter were kept out of milk. Emphasising the benefits of pasteurisation, Dr Williams said that there was no evidence that raw milk was better than pasteurised milk, while there is ample evidence on diseases that could be contracted from raw milk consumption. Village Milk CEO, Mark Houston said that there needed to be greater understanding among consumers that if cows were cleaned properly, the farmgate milk would be safe for consumption. Although Mr Houston acknowledged the risks of consuming raw milk, he also mentioned there were risks in consuming pasteurised products, which did not gain the same level of publicity. Ministry for Primary Industries operational manager, Gary Orr said that they had investigated Village Milk's operation and determined that it complied with the Food Act requirements. He highlighted that there was no process to kill all the bacteria in raw milk, and encouraged suppliers to inform consumers that it may contain bacteria that could cause illness.

### Biosecurity

**Fruit fly restrictions lifted** [20 April/ Business Day] The Ministry for Primary Industries removed all restrictions on the movement of fruit and vegetables in Whangarei cancelling the 1.5km diameter control area around the surveillance trap in Parihaka, where the fruit fly was found. The Ministry for Primary Industries believe that the single fly discoveries in January and April are not connected. The Ministry for Primary Industries Deputy Director, Andrew Coleman said that during the past year 3.2 million passengers, and hundreds of thousands of parcels and postal items have entered New Zealand from countries with breeding fruit fly populations, making it inevitable that there would be a breach. Mr Coleman highlighted that there is never a zero risk, said that New Zealand's fruit fly-free status remained intact. He said that the Ministry has heightened biosecurity at key international airports, mail centres and transitional facilities in Auckland and Whangarei, as well as increasing the number of routine fruit fly surveillance programme traps in Northland.

### International

**Cuts will hinder lucrative innovation: CSIRO** [15 April/ The Sydney Morning Herald] Australia's peak science organisation CSIRO general manager of business development and commercialisation, Jan Bingley said that the organisation's capacity to generate income and its ability to form partnerships with leading companies will be compromised if the rumoured cuts were made. CSIRO earned AUD37.5 million in licence fees and royalties in 2013, and AUD278.5 million in 2011-12 from wireless technology royalties. On April 14, it was revealed that the organisation may see budget cuts of up to AUD150 million or over 20 percent of Government funding. Along with wireless technology related income (AUD420 million), and cotton seed related income (AUD10-20 million), most of the royalties are derived from research projects from over a decade ago. Ms Bingley said that without taxpayer funding, it would be much harder to innovate with the inherent difficulty in obtaining industry funding at such early stages of development. BioMelbourne Network CEO, Michelle Gallaher said that much of Australia's success in the biotech field was based on CSIRO research, and any cuts will mean a lack of opportunity.

**TPG's tender playbook on Inghams** [17 April/ The Australian Financial Review] Only a year after the acquisition of the poultry business Inghams Enterprises, the private equity group TPG's co-head of Asia Ben Gray is seeking to capitalise on the higher yield available from the Inghams properties, which if sold at the expected price could produce AUD625 million of cash. TPG has engaged agent CBRE to manage a sale and leaseback campaign. The properties are likely to be sold in two portfolios and the assets include breeder sheds and large chook processing facilities. Rent from the properties adds up to approximately AUD50 million per annum and it is expected that the properties will sell on a yield of approximately 8 percent. Banking sources have indicated that certain properties were removed from sale ahead of the auction. The Australian chicken meat federation expects chicken meat production to rise to 1.2 million tonnes (from 270,000t 10 years ago) in Australia this financial year. However it is expected that TPG will be cautious of the competitive nature of the industry and the potential for overcapacity, while bankers are expected to keep a close watch on the deal. The sale is likely to be an early step towards an exit, and also seems to resonate with how TPG and others managed the Myer sale with the subsequent sale and leaseback of Mayer's Melbourne CBD district in 2007 netting approximately 1.2 times the total original equity.

**Save The Planet By Boozing With These Paper Wine Bottles** [17 April/ Fast Company & Inc] California based packaging company, Ecologic Brands and Sonoma County based winery Truett-Hurst partnership PaperBoy Wine has developed a wine bottle made of compressed recycled cardboard formed in the shape of a standard Bordeaux wine bottle with a plastic inner liner. The concept originator was designer Kevin Shaw of London based packaging design firm Stranger & Stranger, who developed the PaperBoy name and the branding art. PaperBoy CEO, Phil Hurst said that the paper bottles being 85 percent lighter at 1.9 pounds when filled, will not only make it more mobile friendly for consumers, but if all 207.7 million cases of wine shipped annually in the US were made of PaperBoy bottles, the savings would equate to 50,793,750 gallons of diesel and 560,000 tons of carbon dioxide. Although glass bottles are recyclable, glass only has a 28 percent recycling rate in comparison to paper with a 91 percent recycling rate. As per PaperBoy Wine's calculations, PaperBoy's carbon footprint is 67 percent lower than that of glass, and the carbon footprint for shipping is 18 percent more efficient than glass counterpart. PaperBoy is available in 44 States in the US and sells a 2012 Paso Robles Red Blend and a 2012 Mendocino Chardonnay.

**China says one-fifth of its farmland is polluted** [18 April/ NZ Herald] The Chinese Government released a study conducted from 2005 to 2013, that indicated nearly one-fifth of China's farmland is contaminated with toxic metals, with the top contaminants being cadmium, nickel and arsenic. The report also points to health risks, while health advocates already having identified several 'cancer villages' near factories suspected of polluting the environment, where they say the cancer rates are above the national average. According to a summary by China's Environmental Protection Ministry and its Land and Resources Ministry, 16.1 percent of the China's soil overall and 19.4 percent of its arable land were contaminated. In 2013, the Environment Ministry rejected a demand by the Beijing-based lawyer Dong Zhengwei to release the report findings, terming the information a state secret. Mr Zhengwei attributed the later release of the report to public pressure, and said that since the results are from samples taken a decade ago, the conditions are likely to be worse now. A key concern among scientists is the carcinogenic metal cadmium which is absorbed by the country's staple grain, rice, where almost half of supplies sold in Guangzhou in May 2013 were contaminated. China Agricultural University soil contamination expert, Lu Yizhong believes that soil surveys must become more frequent and legislation is required to control the issue. China's leaders have stated that they are determined to address the country's pollution issues.

**Fishermen find £25m oil industry friend** [18 April/ The Times] The Scottish Fishermen's Federation have teamed up with trade body Oil & Gas UK in order to increase the amount of work for its members, by preventing other vessels from working in the areas being utilised the oil and gas industry. Scottish Fishermen's Federations' Bertie Armstrong said that the scheme means that cod in the North Sea are increasing and fishermen are also able to make a living even though legal restrictions curtail the amount of fish caught and the time spent catching them. The scheme is estimated to be worth approximately £25 million per annum (5 percent of the Scottish fleets annual catch), with the fleet spending 10,000 days at sea on oil industry work in 2013. Oil & Gas UK environmental issues director, Mick Borwell said the parties collaborative work included using fishing vessels to verify that the areas are clear of residual oil related material, trials on deployment of containment and recovery equipment for oil spill responses and a project to inform fishermen of seabed structure and equipment. Oil & Gas UK also manages the Fishermen's Compensation Fund, which provides compensation to those who have suffered loss or damage to fishing gear from oil related debris.

**US orange production hit by disease, juice prices soar** [18 April/ Agence France Presse] A citrus disease spread by Asian citrus psyllid has severely affected Florida's orange crop, expected to be the worst in nearly 30 years, and has resulted in soaring juice prices on New York markets. As a result the US Government has lowered its harvest forecast four times to 4.95 million tons of fruit, 18 percent lower than last year and lowest since 1985. RJO Futures senior market strategist, Joe Nikruto said that the forecast by the USDA was lower than expected, resulting in the price of frozen concentrated orange juice increasing 7 percent to \$1.67 per pound. The price increase was also driven by the drought in Brazil, the world's top orange juice producer. Authorities are focusing on helping the citrus industry worth USD9 billion per annum in just Florida, which employs 76,000 people, with substantial funding allocated into research targeted at fighting the disease. Florida Department of Agriculture and Consumer Services official, Daniel Sleep said that juice's link to breakfast is helping to keep prices from increasing too much, as it is hard to increase the price of a product that is being demanded less due to US consumers substituting to lower calorie options and skipping breakfast. There are concerns over recapturing market share once the crisis is over.

**US orders farms to report pig virus infections** [19 April/ NZ Herald] The US Department of Agriculture (USDA) announced on April 18 that farmers are required to report on positive tests of the porcine epidemic diarrhoea virus. Farmers who suffer an outbreak are also required to participate in a programme targeted at controlling the spread of the disease. The USDA said it will commit \$5 million to fight the disease, adding to the \$1.7 million research commenced by the pork industry. National Pork Board vice president of science and technology, Paul Sundberg said the reporting requirements will provide better information on the number of infected farms and where they are located, demonstrating a model for how similar diseases could be handled. Dr Sundberg said that it did not appear that the USDA will enforce quarantines, which would severely affect the industry by preventing the movement of animals for slaughter. The USDA mentioned that it will work with state agriculture departments to track the disease and watch the movement of animals, vehicles and equipment from infected farms. Some states now require veterinarian certification indicating that the pigs coming into farms or slaughter houses are virus free.

**Hawaii emerges as battleground of GMO debate** [20 April/ The Washington Post] Kauai and Hawaii counties have started to regulate genetically modified organisms and pesticide use, impacting the farms of some corn industries leading seed companies. Kauai councilman, Gary Hooser and the council passed a law set to take effect from August, requiring the establishment of buffer zones around crops and to disclose the pesticides that are being used. Seed crops in Hawaii were worth USD217 million in 2012, up from USD140 million in 2007, exceeding the value of the mainland's next several largest crops. With three to four growth cycles a year, Hawaii has a much lower timeframe for bringing a new product to the market. Approximately 90 percent of all corn grown in the US is genetically engineered and has been developed partially in Hawaii. In light of insufficient evidence to show that food grown from engineered seeds are less safe and expression of concerns from residents, Mr Hooser said that the legislation introduced will facilitate the collection of information that will allow the county to determine whether the companies' operations are having a negative impact on the health of residents in Kauai and its environment. Hawaii County adopted a new law banning the cultivation of genetically modified crops, with an exception for papaya. The Sustainable Hawaiian Agriculture for Keiki and the Aina Movement is collecting signatures for a ballot imposing the ban on the seed companies until they complete environmental and public health studies finding their practices to be safe. State Senator, Clarence Nishihara expects the fighting over genetically modified crops to continue in Hawaii and around the country, with neither party expected to concede their position.

**Lakeland Dairies gears up for end of milk quotas** [24 April/ The Irish Times] The 2,000 farmer owned Irish cross-border co-operative, Lakeland Dairies has surpassed EUR 545 million in sales (up 15 percent from last year), with the company's profits increasing almost a third to EUR 10 million. The majority of the increase is attributed to the company's food ingredients division (consisting of over half of the company's business), supplemented by the food service division and its smaller agri-trading division. The company supplies its own-brand dairy products to supermarket chains in Ireland and Britain, as well as its products being consumed by the likes of McDonalds and Ryanair. CEO, Michael Hanley said that the main priority of the business was preparing for the ending of European milk quotas in April 2015, when the Irish dairy sector is expected to increase production, with the company expecting to process 30-40 percent extra milk once quota ends. Lakeland is targeting the Chinese, Middle East and African markets, with the company expecting to invest approximately EUR 15 million this year, in addition to the GBP 9 million investment commitment in a Northern Ireland warehouse. Mr Hanley also mentioned that the company is evaluating further investments using its own funds as well as debt funding.

**Rubber falls as cartel stands back** [25 April/ The Asian Wall Street Journal] The rubber market valued at over 30 billion USD per annum is being affected by concerns of oversupply and declining Chinese demand. At the lowest point this week, on April 21, the rubber price in Tokyo was down 30 percent from the start of the year and 5 percent from the previous week's close, with the benchmark futures on the Tokyo Commodity Exchange closing at 203.6 yen (US dollars 1.99) on April 24. The International Rubber Consortium comprising of Thailand, Indonesia and Malaysia has refrained from acting to support the industry, while its CEO, Yium Tavarolit said that the group has discussed the selloff and is currently monitoring the situation closely and will consider action if and when necessary. The group was more aggressive in its support in February, when the cartel urged members not to sell rubber to help prevent a decline that saw prices reduce over 7 percent in the first 10 days of the month. The cartel also promoted export cuts in August 2012, which revived prices, although the market slipped back in 2013. Over the past two years, Thailand has implemented price support measures including commodity purchases at above market prices, which helped compete against fast growing suppliers such as Vietnam. Tokyo based Okachi & Co analyst, Ryuta Imazeki said that the three countries are not expected to buy rubber to support the market due to it being the low production season with little supply availability. He also said that the decline in prices triggered additional sell orders which reduced prices even further to multiyear lows. The Singapore based International Rubber Study Group has forecasted a production surplus of 428,000 tons this year. Stocks in major consuming countries such as China and Japan remain high, although imports of natural rubber to China increased 16 percent to 270,571 metric tons from the previous year. Mr Yium also mentioned of the forecasted dry weather, which usually means that prices tend to rise, resulting from lower production.

**Big shipment to beef up exports to Russia** [25 April/ The Australian] Earlier in April, Russia banned the importation of all frozen and chilled Australian beef due to the detection of the banned growth promotant hormone trenbolone, although Australian testing found no traces of the hormone. Following from the ban, Russia's biggest meat producing and importing agribusiness, Miratorg has contracted with South Australian farmers for the import of live cattle, to be fattened in Russia for meat. The contract is valued between 25 and 30 million US dollars, and is the largest single contract for live cattle from Southern Australia. The order is filled with year-old weaner steer cattle from South Australia, Victoria and southern NSW, bought off farmers through agents from Landmark, Elders and Perth based Livestock Shipping Services. MV Nada, one of the world's largest animal ships along with MV Ghena, the converted car carrier is being utilised for the shipment with, 17,000 and 10,000 cattle being loaded onto the ships respectively. Additionally, the MV Brahman Express will be loaded with another 4,100 cattle at Portland.

### Agribusiness strategy

**Organic industry growth 'based on deception'** [28 April/ The National Business Review] The independent international organisation founded by University of Melbourne scientist David Tribe and University of Illinois at Urbana-Champaign professor Bruce Chassy, Academics Review published a report on the organic industry, stating that consumers have been overpaying for food based on the false belief that the food is healthier and safer than its non-organic counterparts. The report stated that the 3,400 percent sales increase in 24 years is based on a misleading practice which the US Department of Agriculture also took part in. The report calls for more transparency around the US Department of Agriculture's organic seal, where consumer perceived factors such as being healthier, safer and more nutritious is not included anywhere in the Department's organic standards. The report refers to Michigan State University Law Professor, Brandon Lupp as saying that the Department's organic seals are often found on products making false and misleading claims about health and safety benefits, which drive consumer purchase decisions. Professor Lupp has mentioned that the increase in sales and its correlation with the establishment of national organic standards and the increased consumer confidence cannot be ignored. The Academic Review's report includes the analysis of over 1,000 news reports, 500 website and social media accounts, marketing materials including advertising, analyst presentations and reports by advocates, with the findings reviewed by an independent panel with expertise in food science, economics and legal affairs.

### Agribusiness education

**Agricultural 'taster course' launched** [28 April/ Radio New Zealand Rural] Taratahi Agricultural Training Centre launched the latest of its 'taster courses', which allows young people four days to get a feel for the life in agriculture and for that of studying. Taratahi spokesperson, Yvonne Way said the programme attempts to get participants to engage in as much as possible, including quadbikes, chainsawing, fencing, working with stock, with time spent at home farm dairy units and sheep and beef operations. Ms Way mentioned that approximately 70 percent of the 60 or so students on each taster course continue on to full-time study at Taratahi.

### Farmers and producers

**Quake rules a threat to rural towns** [24 April/ Rural News Group] The Waikato Mayoral Forum warned that the local Waikato communities could face huge expenditure if it has to comply with new regulations proposed in The Building (Earthquake-prone Buildings) Amendment Bill. The Forum chairman, Allan Sanson said that the proposals are excessive and do not include an appropriate risk assessment process, and mentioned that with the exception of Taupo and the Hauraki Plains, the Waikato has a very low seismic risk. In a submission to the Bill, the Forum said that a typical rural district faced initial estimated extra building assessment costs of \$3-4 million and related annual administrative costs of \$1.2-1.5 million, with upgrade costs estimated to be over \$100 million for the 20 percent of buildings expected to be earthquake prone. The Forum also meant that high upgrade costs may mean widespread demolition in town centres, resulting in personal losses, availability of commercial spaces and employment, impacting on business in the rural communities. The Forum criticised the Bill's broad approach and said that it cannot be justified to Waikato's rural communities on a cost-benefit analysis. The Forum called on the local Government and Environmental Select Committee to further investigate earthquake probabilities and risks.

**Farmers warned to prepare for the worst as risk of El Nino grows** [28 April/ NZ Herald] Federated Farmers adverse events spokeswoman Katie Milne, warned farmers to prepare contingency plans, in light of a 50 percent probability given by the National Institute of Water and Atmosphere of an El Nino climate event this year, which in New Zealand typically results in cooler, wetter conditions with high rainfall to wet regions (western areas) and droughts to dry regions (eastern areas). International forecasts have put the probability as high as 80 percent. The last severe El Nino events in 1997 and 1998 caused major droughts that cost the country hundreds of millions of dollars, but Victoria University climate scientist James Renwick did not expect the potential 2014 event to be as severe. Associate Professor Renwick mentioned the possibility of the system arriving sooner or later than anticipated, but expects it to come by spring and last through the summer.

## Field Notes

Weekly news update from the KPMG Agribusiness Network – 30 April 2014

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**Majority of farmers breaking employment laws - MBIE** [28 April/ NZ Farmer Weekly] A Ministry of Business, Innovation and Employment inspection found that 31 of 44 farms visited were in breach of minimum employment rights. The Ministry said that on one occasion a farmer was ordered to pay \$6,000 in arrears for a Minimum Wage Act breach, while several cases remained open with the possibility of more serious enforcement action pending. The Ministry's central region manager Kris Metcalf said that there were 22 enforceable undertakings by employers and one improvement notice was issued. The Ministry of Business, Innovation and Employment visits that were conducted from December to April were part of a national dairy strategy focusing on the seasonal averaging of salaries and failure to keep accurate time and wage records. Mr Metcalf said that the next phase of the investigation would focus on farms that were employing migrant workers. Employers could be fined up to \$10,000 and \$20,000 for non compliance for individuals and companies respectively. The Federated Farmers dairy chairman, Willy Leferink stressed the importance of farmers ensuring compliance with labour laws. He mentioned that Federated Farmer members were able to purchase all the relevant employment documentation for \$60. There was a grey area as to how the minimum wage should be calculated for employees that were provided housing. Dundas Street Employment Lawyers partner Susan Hornsby-Geluk highlighted the risk of personal grievances liability if the appropriate paperwork has not been completed.

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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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