



cutting through complexity

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

2 July 2014

Organisations referenced in this week's Field Notes include:

ANZ	Ministry for the Environment
ASB	National Beekeepers Association
BayWa AG	National Institute of Water and Atmospheric Research
Blue Skies Weather	NZX
Commerce Commission	Port of Tauranga
Federated Farmers	Produce Marketing Association
Financial Markets Authority	Rural Contractors New Zealand
Foley Family Wines	SAFE
Fonterra Co-operative Group	Silver Ferns Farms
Forest & Bird	Taranaki Regional Council
Hawke's Bay Regional Council	Taratahi
Internet Corporation for Assigned Names and Numbers	The Ministry for Primary Industries
Irrigation New Zealand	Turners & Growers
Labour Party	Vineyards
Landcorp	Westco Lagan
Maersk Line	Westpac
Meat Industry Association	World Trade Organisation

This week's headlines

Honey	One beekeeping organisation mooted [26 June/ Radio New Zealand Rural]
Forestry	'Zero market' for wind-felled rimu negates bill [28 June/ Business Day]
Pork	NZ pork industry 'cannot be trusted' [30 June/ NZ Farmer]
Research and Development	Landcorp considers business case for milking sheep [1 July/ NZ Herald]
Economics and Trade	Dairy drives seventh monthly NZ trade surplus [27 June/ NZ Herald]



FIELDNOTES.CO.NZ

HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
AGENDA 2014 VOLUME 1**

Horticulture

T&G unveils new strategy [26 June/ NZ Farmer] Turners & Growers CEO, Alastair Hulbert outlined its new corporate strategy using of five strategic pillars; global thinking, a focus on growth markets, improving relationships, growing intellectual property and simplifying operations. He said that a global focus was critical in exploring new markets, new products and new opportunities. Mr Hulbert stated that the company's majority shareholder, German firm BayWa AG would assist in facilitating the expansion. He also mentioned that the products planned for global growth are; kiwifruit, pip fruit and grapes. He said intellectual property rights enabled demand to be pushed ahead of supply volume. The company shareholders voted to re-elect chairman John Anderson and director Andreas Helber, who had retired by rotation, and approved the appointment of BayWa AG fruit general manager, Christiane Bell as a new director.

Large-scale threat to NZ [30 June/ NZ Farmers Weekly] US horticultural consultant Ronnie de la Cruz told the Produce Marketing Association Fresh Connections conference and trade show in Auckland that the US dollar, \$180 million worth, 4,000 hectares of avocado trees being planted in the Peruvian dessert by US investors pose a huge threat to New Zealand and Australia, but also mentioned that it is an opportunity for partnership. He also highlighted the opportunities for New Zealand and Australian horticultural industries to export to an Asian market hungry for Western-style products, as their incomes increase. He highlighted that protected culture agriculture accounted for 8 percent of total world vegetable production, mainly tomatoes, cucumber and peppers. Production has doubled in surface area to 4 million hectares from 2003 to 2011. He also mentioned the higher margins (80 to 110 percent compared to the 35 to 65 percent) available for protected products.

Viticulture

Foley plans NZX main board move [25 June/ NZ Herald] Foley Family Wines, which recently had its takeover of Martinborough Vineyards declared unconditional, said that with its increased capital and shareholder base, it intends to move from the NZAX, in which it has a market capitalisation of approximately \$63 million, to the NZX Main Board in the short to medium term. The company said that the funds raised from the sale of 7,092,199 shares through an overnight bookbuild to institutional investors at a price of \$1.41 per share will be used to repay \$5 million of debt from the Martinborough Vineyards acquisition, as well as allocating \$2 million towards investment in Grove Mill bottling warehouse facilities, \$1 million for a new barrel room, and winery upgrade at Te Kairanga, and \$2 million for further investment opportunities. The company said that its 2014 vintage increased 19.4 percent to 6,807 tonnes from the previous year.

Honey

One beekeeping organisation mooted [26 June/ Radio New Zealand Rural] The National Beekeepers Association and the Federated Farmers Bee Industry Group met for the first joint conference this week, with the aim of a merger to form one organisation representing the beekeeping industry. The National Beekeepers Association president, Ricki Leahy said that the industry needed to take its share of the responsibility for addressing biosecurity risks, additional to the threat of honey imports and issues with manuka honey, which all needed to be addressed in a progressive way. There has been a positive reaction from the industry for the two organisations to merge, and Mr Leahy mentioned that there was overwhelming support for a merger among delegates at the Apiculture Industry Conference. He hopes to get a pan-industry working group established as a starting point, and highlighted that the focus must be on the future.

Forestry

'Zero market' for wind-felled rimu negates bill [28 June/ Business Day] The West Coast Windblown Timber (Conservation Lands) Bill was passed under urgency on June 26, in order to allow native trees blown down by Cyclone Ita in April to be salvaged from the conservation estate, which is believed to have 20,000 hectares of forest felled and 200,000 hectares damaged. Loggers will need to pay stumpage to landowners of approximately \$250 per cubic metre of rimu and approximately \$60 per cubic metre of beech for harvesting rights, on top of the removal costs, which are expected to be heavy as most of the wood will need to be removed by helicopter. Westco Lagan owner, Dean Sweetman said that since the logging of native forests effectively ended in the late 1990s, the market for rimu has died. Forest & Bird advocacy manager, Kevin Hackwell said that although making use of the wood seems sensible, the extra wood will impact the currently sustainable native timber industry. West Coast Member of Parliament, Damian O'Conner, also expressed concerns by saying that if 4,000 cubic metres of wood was injected into the market in one year, the market would collapse. However United Futures leader, Peter Dunne commended the fact that Parliament is enabling access to the wood, which would otherwise go to waste.

Water

Farmers welcome HBRC's dam move [26 June/ Radio New Zealand Rural] Farmers backing the Ruataniwha dam plan have welcomed the Hawke's Bay Regional Council's provisional decision to invest \$80 million in the project. The Board of Inquiry which gave draft approval for resource consents to be given to the Ruataniwha dam along with nitrogen leaching limits is due to release its final decision this week. Hawke's Bay Federated Farmers' president, Will Foley, hoped that the Board would amend the stringent limits, as the limits on the draft approval were too stringent to be able to carry on the current level of activity. He said that farmers were holding off signing up to the scheme until the final outcome was released by the Board, but also mentioned there were other requisite conditions, which included investors coming on board. The Hawke's Bay Regional Council chairman, Fenton Wilson, said that farmer commitment to take water from the scheme was also pivotal in attracting institutional investors. He mentioned that unconditional contracts for a minimum of 40 million cubic metres of water are required.

Cautious nod from Irrigation NZ [27 June/ Rural News Group] The Board of Inquiry has agreed to the plan change request for the Tukituki Catchment Proposal which allows for the Ruataniwha scheme to proceed based on LUC leaching rates, rather than the draft decision rate of 0.8 milligrams of dissolved nitrate limit. The Board has also raised the upper threshold for exceeding LUC leaching rates, making the scheme more viable for farmers. Irrigation New Zealand welcomed the new decision but with CEO Andrew Curtis saying that the report needs to be carefully analysed in order to ascertain the impacts on irrigators. Mr Curtis said that the Ruataniwha dam will future proof Hawke's Bay's access to water and improve its socio-economic development. The Hawke's Bay Regional Council has decided to contribute \$80 million towards the development of the scheme. Mr Curtis said that Irrigation New Zealand is committed to developing irrigation schemes within acceptable environmental limits.

Pork

NZ pork industry 'cannot be trusted' [30 June/ NZ Farmer] A TVNZ investigation produced footage of squalid and cruel conditions at a Christchurch pig farm, which included severe overcrowding with newborn piglets squashed to death in a farrowing crate, infected animals and a dead pig that had been left to rot among living animals. The animal rights group SAFE has called for a ban on farrowing crates and has laid a complaint with the Ministry for Primary Industries. SAFE head of campaigns, Mandy Carter said that a few months after significant breaches of the pig welfare code was found by the Ministry for Primary Industries inspectors, the Ministry stated that the farm was in compliance with the pig welfare code. Ms Carter said that a follow up visit by SAFE in April revealed that conditions were worse, with many animals suffering. The Government has since undertaken to phase out sow crates by 2016. Ms Carter said that the pig industry was in bad shape, with footage of approximately 12 farms revealing similar conditions. The Green Party has called for an independent commissioner for animal welfare, with animal welfare spokeswoman, Mojo Mathers, highlighting the Ministry's failing and saying that the Ministry for Primary Industries is not the right body to monitor animal welfare given its conflict with economic interests and animal welfare.

Red meat

Meat delegation back from China [25 June/ Radio New Zealand Rural] A New Zealand meat industry delegation comprising 13 exporter and industry representatives that met Chinese regulatory agencies, industry bodies and customers is confident that it has been able to improve the working relationship with Chinese officials. Meat Industry Association chair, Bill Falconer, said that Chinese authorities indicated that misunderstandings such as the one that resulted in shipments being held up at ports over documentation issues will disappear. He said that the objective of bridging the gap in relationships which have been caused by the huge growth in the trade to China has been successful. Some of the groups the delegation met included representatives of the Administration of Quality Supervision, Inspection and Quarantine, the China Meat Association, the China Chamber of Commerce for agricultural products and the China Ministry of Commerce. He mentioned that there was an overwhelming demand by importers wanting to establish contact with the exporters.

Sheep intestines to China do a runner [29 June/ NZ Farmer] New Zealand's \$160 million sheep intestine trade with China has been suspended due to unknown access issues, while Australia continues to enjoy open access. Silver Fern Farms board chairman, Rob Hewett, said that until the access issues were rectified the casings are being diverted to alternative markets which are receiving an inferior price than from China. Mr Hewett said that the free trade agreement with China, along with New Zealand's food safety record and clean image puts the country in a beneficial position with current demand exceeding supply capacity. He also mentioned the proportion of Chinese demand satisfied by imports (currently 6 percent) is increasing, while the demand for high end cuts and premium meats is also growing.

Rural infrastructure

Key's roading spend up [29 June/ Otago Daily Times] Prime Minister John Key has announced a \$212 million roading and construction package, in addition to the \$360 million currently proposed for regional roads, in the lead up to the September 20 election. The funding for the projects will come from the proceeds of the partial sale of state-owned assets (the future investment fund). Five of the 14 projects that have already received approval are; the Kawarau Falls Bridge in Otago, Mingha Bluff to Rough Creek realignment in Canterbury, Akerama Curves realignment and passing lane in Northland, State Highway 35 slow vehicle bays in Gisborne and Normanby Overbridge realignment in Taranaki. \$80 million will be allocated to commence work in 2015. Six more projects identified for an additional \$115 million in funding to begin within the next three years are; Whirokino Trestle Bridge replacement in Manawatu/ Wanganui, Motu Bridge replacement in Gisborne, Opawa and Wairau Bridge replacements in Marlborough, Taramakau road and rail bridge on the West Coast, Loop Rd north to Smeatons Hill safety improvements in Northland and Mt Messenger and Awakino Gorge corridor in Taranaki. Mr Key said that the projects will make the roads safer, improved the region's productivity, and improve the operation of the roading network. Labour leader, David Cunliffe criticised the roading package, stating that it is less money than that taken out of regional roading in the past, and it is not a regional development policy that will give the regions a "real future".

Successful conference for Rural Contractors [30 June/ Rural News Group] Rural Contractors New Zealand re-elected Wellsford based Steve Levet as president and Southland based David Kean as vice-president of the association at its annual conference in New Plymouth. Mr Levet said that the conference was a success with a number of issues including; health and safety, employment, immigration and attracting people to work in the sector addressed. He mentioned that the association consisted of 450 member companies representing 2,500 to 3,000 workers in the sector and highlighted the role the association plays in providing a strong united voice. Mr Levet indicated the association's intention to voice the issues important to rural contractors to politicians ahead of the elections.

Environment and emissions

Govt. to look into stock on landfarms [27 June/ Radio New Zealand News] Following Parliamentary Commissioner for the Environment Jan Wright's call to take action regarding landfarms, which are consented to by the regional council, the Food Safety Minister Nikki Kaye said that a working group comprising the Ministry for Primary Industries, the Ministry for the Environment, the Taranaki Regional Council and others would be established to address the problem of livestock being exposed to oil industry waste on "landfarms" in Taranaki. Federated Farmers is volunteering to be part of the working group, with president Bruce Wills saying that rules were needed to keep livestock off active landfarms in Taranaki in order to maintain food safety and New Zealand's trading reputation. However in 2013 Federated Farmers dismissed the criticisms made about livestock being on active landfarms. The Taranaki Regional Council has now acknowledged that livestock have been on active farms, but said it does not approve of it and that it lacks the jurisdiction to regulate livestock.

Farmers refuses to plead on 52 charges [27 June/ NZ Farmer] Although Marlborough dairy farmer Philip Woolley's lawyer argued that a pleading to the charges relating to environmental breaches should not be made until the outcome of the High Court appeal on some of the enforcement orders from the Environment Court are made, Judge Jeff Smith stated that a default not-guilty plea on the charges will be used for the proceedings. Mr Woolley is personally charged with 27 offences, while an additional 25 were directed against the Awarua Farm, which includes charges related to cow crossings without consent, discharging effluent without consent and breaches of interim enforcement orders from the Environment Court. Mr Woolley has appeared in court a number of times, which included a sentence of two months home detention and a cost order of over \$38,000 in reparation on a charge of disturbing the riverbed and one of depositing soil and vegetation on the riverbed.

Research and development

Landcorp considers business case for milking sheep [1 July/ NZ Herald] Landcorp is investigating the possibility of milking sheep and will make a determination in a few months as to its feasibility. Landcorp CEO, Steven Carden, said that the company currently produces wool and meat, but identifies sheep milk as a potential international opportunity with no current major player. He highlighted the main barriers as the identification of appropriate sheep breeds for milking, development of mechanisms for increasing output and the building up of flock volumes. He highlighted that the sheep milk industry would have a smaller environmental footprint than the dairy industry, as well as having low capital costs. Mr Carden said that sheep milk based products have a consumer market around the world, but not much is traded internationally.

International

French winemakers furious at Internet administrators [24 June/ NZ Herald] Winemakers in Europe, Australia and California are in disagreement with the decision of the Internet Corporation for Assigned Names and Numbers to introduce .vin and .wine as top level domains, saying that it will allow unethical wine sellers to deceive customers about the origin and quality of their goods and will dampen the effect of the European Union's strict rules governing the use of geographical indicators in marketing and labelling. France, which is leading the protest, along with other winemakers globally have expressed concerns that the move would allow for approaches like registering a domain such as champagne.wine and not selling the authentic product, which is only produced in the Champagne region of France. France has gone as far as requesting an overhaul of how the Internet Corporation for Assigned Name and Numbers is structured and run, and mentioned that disputed proceedings could risk talks on a trans-Atlantic trade deal between the European Union and the US.

EU files WTO complaint over Russian pork embargo [28 June/ Agence France-Presse] The European Union filed a formal complaint against Russia at the World Trade Organisation over Moscow's embargo on pork from the bloc, saying the ban is disproportionate and discriminatory. Russia banned imports of live pigs and pork from the European Union in January 2014 after the discovery of two cases of African Swine Fever among wild boar in Poland and Lithuania. Although members are permitted to restrict trade on health grounds, Brussels claims that the ban, costing it US \$5.4 million a day is misplaced, with critics claiming that the ban is a cover for a political move against former communist European Union members such as Poland and Lithuania. Brussels and Moscow both have claims against each other on various trade conditions. The World Trade Organisation dispute process can last for years, and independent trade and legal experts can authorise retaliatory trade activity against the breaching party.

Agribusiness education

Wanted: young farm workers for the future [27 June/ NZ Farmer] The primary sector is facing a significant shortfall in skilled staff across the board, with the Ministry for Primary Industries' report People Powered, stating that support services is the area with the most acute need, followed by horticulture, forestry, arable, dairy and seafood. Officials and educators are providing young people with the opportunities and skills necessary for the primary sector through trade academies such as the Tarahi Agricultural College near Masterton that provides students with farm experience which earns NCEA level 2 marks, and the youth guarantee fees-free provision which allows 16 to 19 year olds without NCEA level 2 qualifications to return to an educational institution without having to pay. The Ministry of Education's Arthur Graves said that early results from the trade academies and the guaranteed fees-free programmes were positive, with farming accounting for 15 percent of the 4,500 places available at trade academies. Taratahi CEO, Donovan Wearing, said that between 90 and 95 percent of students obtained full-time jobs, with females making up 30 percent of the total.

Agribusiness strategy

Labour's immigration policy 'a shambles' [28 June/ NZ Newswire] The Labour Party's immigration policy announcement says that immigrant workers should be paid at least \$18.80 an hour (which is higher than the minimum wage of \$14.25 an hour) and that the refugee quota should be increased from 750 to 1,000, with the number of immigrants controlled through the points system. Under the Labour policy the \$18.80 will not apply to seasonal workers, (who would need to be paid a minimum wage plus \$1.25 an hour in addition to the provision of accommodation) or to Pacific quota migrants. Prime Minister John Key criticised the Labour Party's immigration policy stating that they have been giving mixed messages, and that it would be very difficult to use the points system to control immigration. Mr Key also stated that an increase in refugee quota will be unmanageable with the demands on housing and education.

Economics and trade

Dairy drives seventh monthly NZ trade surplus [27 June/ NZ Herald] New Zealand posted the seventh monthly trade surplus of \$285 million in May, bringing the annual trade surplus to \$1.37 billion, from a deficit of \$901 million a year earlier, but falling short of a Reuters poll of economists expectation of a May surplus of \$300 million and annual surplus of \$1.43 billion. Annual two way trade between New Zealand's top trading partner China exceeded a record \$20 billion, ahead of the Government's 2015 target. Exports increased 13 percent (from the year earlier month) to \$4.6 billion in May, headed by dairy exports to China, whereas imports increased 7 percent (from the year earlier month) to \$4.3 billion in May, headed by imports of trucks and machinery. Westpac Banking Corp senior economist, Felix Delbruck, said that lower dairy prices are now starting to come through the trade data and expects further price falls to be indicated in the June figures.

Transport and logistics

Accord adds depth to port [27 June/ NZ Herald] The port of Tauranga, shipping giant Maersk Line, the Fonterra Co-operative Group and Silver Fern Farms joint venture logistics company Kotahi, have signed a 10 year contract aimed at supporting the port's plan of deepening its channel by 2016. The contract involves Kotahi taking a 1.5 percent stake in the port (which is subject to the company delivery on a certain freight volume over a 10 year period) and Maersk putting more containers through its terminals over the next 10 years. The deal will allow Maersk to plan for the introduction of 6,500 TEU (20 foot equivalent) container ships to New Zealand, making the port of Tauranga the only port in the country capable of handling ships 5,000 to 6,000 TEU at low tide. Port of Tauranga CEO, Mark Cairns, said that there was \$50 to \$60 million worth of dredging to do at the port. Ports of Auckland said that there would not be a notable immediate impact to the port as Kotahi and the Fonterra Co-operative Group shipped minimal volumes through its port.

Farmers and producers

Lobby boss defiant over swaps comments [27 June/ The National Business Review] The current Federated Farmers' president, Bruce Wills, who is to step down from his role on July 4, is sticking by his statements that farmers should not be bailed out of the poor choices they made entering into interest rate swap contracts, and that the issue is not a major problem for farming. He criticised the reporting of the issue which he feels has been one sided and blown out of proportion, but maintains that if the banks have breached the Fair Trading Act, they should be subjected to the full effect of the legal system. In November 2012, Mr Wills stated that if a settlement is agreed with farmers that were sold swaps, the banks would recoup the costs from farmers who had not bought swaps. In December 2013, the Commerce Commission advised ANZ, ASB and Westpac that it intends to initiate legal proceedings over the sale of the swaps, as it believed that there was sufficient evidence indicating a contravention of the Fair Trading Act. In April 2013, the Financial Markets Authority confirmed that it is investigating whether the sale and marketing of the swaps to rural customers breached the Securities Act and the Securities Markets Act.

Doubts are growing over new El Nino striking NZ [30 June/ NZ Farmers Weekly] Blue Skies Weather director and meteorologist, Tony Trewinnard, said that predictions of an El Nino event earlier in 2014 were early and alarmist, given the length of time required to gather data to establish a pattern for such an event. National Institute of Water and Atmospheric Research, NIWA, weather ambassador Chris Brandolino said that more time was needed to make more reliable predictions. Mr Brandolino said that pastoral areas in the North Island that were worst affected by drought had recovered well due to mild winter temperatures and the absence of bad weather, which allowed for the growth of grass and for crops to put on drymatter. He highlighted an element of a grass market is driving strong winter prices at sales, 20 to 25 percent higher than last year. Rural Business Solutions consultant, Rob Macnab, said that the recovery from the drought in North Western Waikato has not been even, or as rapid as anticipated. He also mentioned that in light of current events farmers were having to assess their management plans in order to cope with such events.

Farmers demand beefing up of rustling laws [30 June/ NZ Farmer] Farmers are calling for harsher penalties for livestock rustling with costs reaching an estimated \$120 million per annum. Over 200 sheep were shot at a North Otago farm recently, as well as a Waikato lifestyle farmer having been raided. Federated Farmers rural security spokeswoman, Katie Milne, said that penalties are not tough enough to be a deterrent to rustling or poaching. ACT is the only party to address rustling issues with a policy proposal for the introduction of legislation allowing for the confiscation of vehicles and equipment used in offences, with maximum terms of imprisonment increased from three months to two years for stock valued up to \$500, and one year to three years for stock valued from \$500 to \$1,000, and 10 years for stock valued at over \$1,000, with longer terms for aggravated stock theft.

Subscribe

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

Contact Us			
Auckland/ Audit Ian Proudfoot 09 367 5882 021 656 815 iproudfoot@kpmg.co.nz	Taxation Greg Knowles 09 367 5989 021 307 332 gknowles@kpmg.co.nz	Tauranga Robert Lee 07 571 1773 027 451 1035 relee@kpmg.co.nz	Wellington Graeme Edwards 04 816 4522 027 296 5050 gdedwards@kpmg.co.nz
Christchurch Andrew Hawkes 03 353 0093 027 508 0135 ahawkes@kpmg.co.nz	Financial Advisory Services Gary Ivory 09 367 5943 021 932 890 givory@kpmg.co.nz	Risk Advisory Services Jamie Sinclair 09 363 3460 021 475 735 jpsinclair@kpmg.co.nz	Hamilton/ Private Enterprise Hamish McDonald 07 858 6519 021 586 519 hamishmcdonald@kpmg.co.nz
Farm Enterprise North Island Julia Jones 07 858 6553 027 524 8901 juliajones1@kpmg.co.nz	South Island Brent Love 03 683 1871 027 528 1537 blove@kpmg.co.nz		

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

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

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

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