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AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

23 July 2014

Organisations referenced in this week's Field Notes include:

a2 Milk Company	Lincoln University
ANZ	Maersk
ASB	Meat and Livestock Australia
Bard College	Meat Industry Association
Beef + Lamb New Zealand	National Business Review
Bruegel	National Cattlemen's Beef Association
Business NZ	National Party
California Environmental Associates	Netlogix
Carey	New Zealand New Milk
Danone	New Zealand Rural General Practice Network
Dairy NZ	Northland Rural Support Trust
Eurasia Group	NZ First
Federated Farmers	Port of Tauranga
First NZ Capital	Rabobank
Fish and Game	Ravensdown Fertiliser Co-operative
Fonterra Co-operative Group	Real Estate Institute
Forest and Bird	Synlait Milk
Green Party	TPG
Hawke's Bay Regional Council	University of California, Davis
Inghams Enterprises	Weizmann Institute of Science
Labour Party	Zespri

This week's headlines

Water	Dam saga heads to High Court [18 July/ Radio New Zealand Rural]
Dairy	Sub-\$6 milk solids price a looming possibility [17 July/ Otago Daily Times]
Red Meat	Healthy returns from lamb exports [18 July/ Otago Daily Times]
Research and development	Business leaders backs Greens' \$1 billion innovation and sustainability plan [17 July/ National Business Review]
Economics and trade	Race is on for Korean trade deal [21 July/ NZ Farmers Weekly]



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**KPMG AGRIBUSINESS
AGENDA 2014 VOLUME 1**

Horticulture

Some growers more equal than others' at Zespri AGM [18 July/ National Business Review] Although Zespri has 120.7 million shares, the shareholding voting cap for its annual general meeting on 23 July will be 84.9 million. Zespri senior communications advisor, Rachel Lynch said that vote capping is based on the lesser of either the total amount of shares held or an average of the best two years' production over the previous five seasons. This means that growers may be able to vote based on their production in 2009 and 2010. Former forum member of the self-described Zespri watchdog, New Zealand Kiwifruit Growers Inc, Steward Moss said that the Zespri voting structure gives overshadowed growers a substantial advantage in voting rights, giving them a huge advantage in terms of how the company is run. On July 11, the National Business Review highlighted that five of Zespri's eight directors own almost 5 million shares (almost 4 percent of the company), whereas Zespri shareholders hold an average of 56,594 shares each. 18 percent of Zespri growers do not own shares while 10 percent of shares are held by former growers.

Water

Dam saga heads to High Court [18 July/ Radio New Zealand Rural] In June, the Board of Inquiry into the Ruataniwha water storage scheme confirmed that it would grant 17 resource consents to construct the scheme and associated irrigation works, as well as setting minimum flow levels and water quality measures for the Tukituki catchment. Environmental lobbies, including Fish and Game and Forest and Bird said that they will seek judicial review of the decision, with Fish and Game CEO, Bryce Johnson saying that the changes from the Board's draft to the final report make the decision ineffective in achieving water quality protection in the Tukituki River. Forest and Bird advocacy manager, Kevin Hackwell said that it believed the Board has made a mistake in law by excluding methods on how water quality pollution limits could be met, as required by the National Policy Statement on Freshwater Management. The Hawke's Bay Regional Council and its investment branch said that it will not appeal the Board of Inquiry decision.

Dairy

Sub-\$6 milk solids price a looming possibility [17 July/ Otago Daily Times] Last Wednesday's GlobalDiaryTrade auction declined 8.9 percent on the previous event, with whole milk powder prices declining 10.9 percent, anhydrous milk fat declining 10 percent and skim milk powder declining 7.1 percent. ASB rural economist, Nathan Penny said that auction prices have declined approximately 33 percent from the same time previous year, with ASB's forecasted \$6.20 per kilogram of milk solid payout for the 2014/15 season under further threat. The price pressure was instigated by high New Zealand production, with further high productions seen from Europe, US and China, as well as lower demand from China. Mr Penny said that extrapolating the trends indicate the possibility of a below \$6 per kilogram price and he expects Fonterra to downgrade its \$7 forecast. However he also mentioned the possibility of a rebound of prices as some of the contributing elements are one offs. Westpac senior economist, Anne Boniface said that Westpac does not expect the slowdown in China to be permanent, although the outlook for Chinese consumer demand in the short term remained uncertain, indicating the possibility of further decreases in dairy prices over the next few auctions. Federated Farmers dairy chairman, Andrew Hoggard said he is expecting the new season farm confidence survey to indicate a substantial drop in dairy farmer morale, and recommended farmers to prepare for a payout of \$6.00 to \$6.25 per kilogram of milk solids. He also highlighted the potential further damage that could be caused by an official cash rate increase. Labour Party finance spokesman, David Parker said the fall in milk prices indicated the need for an economic upgrade to address the overreliance on the dairy industry.

Fonterra shareholders re-elect chairman [18 July/ Business Day: NZ Farmer] Fonterra shareholders have re-elected Ian Brown as the Group's chairman for the third term in a row. The position of deputy chair will be taken on by Duncan Coull on July 29 for a term of one year, replacing the current chair Philip Palmer, who is stepping down from the role.

Fonterra hails end of EU quotas [18 July/ NZ Herald] Fonterra Co-operative Group expects European Union dairy production to increase by 1.5 to 2 percent per annum over time, as a result of the abolition of the European Union's dairy quotas in April 2015. The Co-operative's CFO, Lukas Paravicini said that in line with its support for free trade, it supported the elimination of the quota system. The European Union's Common Agriculture Policy has been reformed in order to make the farming sector more market orientated and responsive. Fonterra considers itself well placed in the European milk market due to its investments in Europe, such as the joint venture with Netherland based A-ware Food Group. The Co-operative believes that the global dairy industry is still in a positive state, due to the demand from large and fast growing emerging markets, with Mr Paravicini saying that the Co-operative is well positioned in the market. Highlighting the difference between the New Zealand and the European dairy sector, Fonterra said that New Zealand exports approximately 95 percent of dairy production whereas the European Union exports approximately 10 percent of its production.

Danone regroups after Fonterra win [19 July/ NZ Herald] The New Zealand High Court has stayed Danone's proceedings against Fonterra in New Zealand over the botulism scare stating that the arbitration seated in Singapore should take place first. Fonterra had argued that the New Zealand proceedings were an attempt to transcend the liability cap in the parties' supply agreement (which is AUD 10.7 million per claim and AUD 30 million per year) and to embarrass the Co-operative. Danone argued that the arbitration only concerned one subsidiary of the group, Fonterra Ltd, and not the parent, Fonterra Co-operative Group, leaving the actions of the Group's employees outside the scope of the arbitration. Justice Venning who gave the ruling in the High Court said that Danone could seek a lifting of the stay if Fonterra delayed the arbitration, with the option to pursue any issues that were not addressed in arbitration, once the arbitration had concluded.

China approves a2 Milk Company product [22 July/ Business Day: NZ Farmer] The a2 Milk Company said that it has received approval from Chinese regulatory agencies to resume exports of the a2 Platinum branded infant formula to China. The company's a2 Platinum infant-formula processing and manufacturing partner, Synlait Milk's interim contract provider, Auckland based New Zealand New Milk Ltd also received registration as an overseas manufacturer of infant formula in China earlier in July. Dunsandel based Synlait Milk is also seeking registration in conjunction with the building of a new powder canning plant south of Christchurch. The a2 Milk Company managing director, Geoffrey Babidge said registration would provide an important confidence boost for the company's Chinese distribution partner, China State Farm and its sub-distributors.

Red meat

Healthy returns from lamb exports [18 July/ Otago Daily Times] Lamb exports exceeded \$2 billion in the first nine months of 2013/14 meat export season. During the period to June 30, the average value of lamb exports was \$8,320 per tonne free on board (up 15 percent from the same period last season). Beef + Lamb New Zealand statistics indicated that the total value of lamb exports increased 10 percent to \$2.06 billion free on board, while lamb volumes decreased 3.6 percent to 247,000 tonnes shipped in the nine month period, with June recording a 40 percent of the drop in volumes on the prior year. Exports to the European Union decreased 5.9 percent while exports to North Asia increased by 2.4 percent. Lamb slaughter in New Zealand's main competitor, Australia was forecasted to decline 7 percent in the 2014-15 season, with export volumes expected to fall even further. Westpac's latest agri update stated that the expected drop in exports from Australia combined with the growing demand from traditional markets could mean opportunities for New Zealand lamb exporters. Beef + Lamb New Zealand said that the high levels of mutton processing was starting to drop off with the decline expected to continue to the end of the season. Beef and veal exports increased by 4.4 percent to 312,700 tonnes shipped weight in the nine month period, while total value increased 5.8 percent to \$1.85 billion free on board. The Westpac agri update stated that beef prices had increased in recent weeks due to tight supply in the US.

Bank predicts meat industry revival [22 July/ Radio New Zealand Rural] ANZ's Privately Owned Business Barometer Survey of almost 800 farmers indicated that farmers were planning on increasing investment in their farms to increase production to meet the rising global demand for protein. ANZ Commercial and Agri Managing Director, Graham Turley said that the survey indicated farmers' intention to invest in greater productivity through genetics, farm structures and new pastures, with investment increasing future profitability, productivity, sustainability, which will result in a strong red meat sector.

Poultry

TPG's chooks fly the coop [19 July/ The Australian] Private equity giant TPG is expected to benefit from its Inghams Enterprises unit's sale of its New Zealand properties for AUD 57 million as well as an expected sale to US property giant, Carey, of its Australian properties. Less than a year after acquiring Inghams Enterprises operating business and property (which sells one in three chickens in Australia) for USD 880 million, TPG is in line for high returns from the sale of the lower returning property assets. New Zealand's Caniwi Capital said that it had acquired seven chicken processing plants, hatcheries and farms from Inghams Enterprises' New Zealand unit in a sale and leaseback deal, where Inghams will operate the facilities it has leased back from Caniwi for a term of 25 years with a right of renewal for a further 50 years.

Rural infrastructure

Extra rural medical student allocation [17 July/ Rural News Group] New Zealand Rural General Practice Network deputy chairperson, Sharon Hansen said that the fact that 17 of the 34 new medical places in 2015 are targeted at those wanting to work in rural New Zealand focuses on the current issues around training, recruiting and retaining doctors in rural communities. She said that it is also important that their exposure to rural based education is maintained throughout their training. However Ms Hansen highlighted the need for more similar initiatives to strengthen the rural medical workforce.

Transport and logistics

Shipping line consolidation tipped in wake of Maersk-Kotahi pact [17 July/ National Business Review] In light of Maersk's announcement that its Southern Star service will return to Port of Tauranga, First NZ Capital has increased its 12 month target price for Port of Tauranga shares from \$16.30 to \$16.50 and said that it expects to receive an extra 70,000 twenty foot equivalent unit containers per annum when the service commences from August 6. First NZ Capital also highlighted that the June 26 alliance between Maersk and Kotahi may result in cargo consolidation on fewer services as other shipping lines look to integrate services or exit New Zealand. While highlighting the short term risk of services shifting away from the Port of Tauranga, First NZ Capital believes that the port's proximity to New Zealand's largest export production region should mitigate the risk. Netlogix managing director/ CEO and Chartered Institute of Logistics & Transport New Zealand president, Chinthaka Abeywickrama said that the Maersk and Kotahi alliance may negatively impact exporters who not are Kotahi customers when other shipping lines review their strategies.

Environment and emissions

Changing enviro rules challenge [17 July/ Radio New Zealand Rural] Rabobank New Zealand's research Director, Hayley Moynihan said that the biggest challenge to agriculture is maintaining a balance between protecting the environment and increasing production and contributing to economic growth. She said that there was a difference in New Zealand's approach to that being taken in other countries that were faced with similar situations, and highlighted one of the differences as the adoption of an outputs based regulatory system. She highlighted the measurement and monitoring difficulties of such a system, as well as the uncertainties it created for producers. In contrast, she noted the Netherland's inputs based system which provides more certainty. However Ms Moynihan highlighted that such a system will limit the scope for innovation and scope for farmers to adapt. She highlighted the need for more research into increasing farm production while reducing the environmental impact.

Beef's environmental costs far outweigh poultry, pork [22 July/ Agence France Presse] Research reported in the Proceedings of the National Academy of Science outlined beef as the protein with the largest environmental impact, requiring 28 times more land than the average total needed to produce an equivalent amount of dairy, eggs, poultry or pork protein. Research conducted by Bard College in New York, Yale University in Connecticut and the Weizmann Institute of Science in Rehovot, Israel indicates that beef requires 11 times more irrigation water than other proteins. The research also claimed that raising livestock for food contributes to one fifth of global greenhouse gas emissions as well as polluting water and interfering with biodiversity. An input of approximately 10 calories was needed for every calorie of poultry or pork consumed by humans, while the ratio was almost 4 times higher for beef. US beef industry representatives questioned the methodology of the study and mentioned that environmental improvements have been made in recent years, with the National Cattlemen's Beef Association director, Kim Stackhouse saying that the US beef industry produces beef with lower greenhouse gas emissions than any other country. California Environmental Associates' Amy Dickie said that the findings are in line with recent research indicating high greenhouse gas emissions from beef production, and suggested that the information needs to be provided to consumers so they can understand the consequences of their diet choices.

Research and development

Business leaders backs Greens' \$1 billion innovation and sustainability plan [17 July/ National Business Review] BusinessNZ CEO, Phill O'Reilly said that he strongly supported the increased funding for science and technology proposed by the Green Party and highlighted its benefit to the economy. Mr O'Reilly said that the Green's enhanced innovation and sustainability policy costing \$1 billion, which includes the funding of an additional 1,000 places at tertiary institutions for students studying engineering, maths, computer science and physical sciences addresses the need for more technically skilled employees. He also said that the Green Party's support for direct research and development grants will also be beneficial as it can be allocated to businesses with high growth potential that are aligned with New Zealand's exporting industries. However Mr O'Reilly said that policies involving the Government taking an equity in businesses could pose risks. Green Party co-leader Russell Norman said that innovation is crucial to a smart, green economy, and highlighted that New Zealand only invests half of what most developed countries invest in research and development. Science and Innovation Minister, Steven Joyce said that the Green Party is out of touch with what is currently happening with New Zealand's innovative businesses, and mentioned that the support for research and development for 2015/2016 will be 70 percent higher than in 2008.

International

Drought-stricken California faces water restrictions [16 July/ Financial Times] According to authorities, 80 percent of the State of California is experiencing 'exceptional' drought (the third most severe dry spell since record keeping commenced a century ago), resulting in the implementation of water usage restrictions. University of California, Davis, researchers estimated the cost from the drought at USD 2.2 billion, with the loss of over 17,000 jobs, mainly in the agricultural sector, which is the largest agricultural sector in the US (over 11 percent of the country's total farm output). Many farmers have had their allocation of irrigation water cut, to the extent that some farmers had no water. University of California, Davis researchers said that farmers have had to leave nearly 500,000 acres of land unplanted due to the lack of water.

US-EU trade talks sour amid chlorine chicken fears [19 July/ NZ Herald] The image of chlorine treated chickens and genetically modified food being imported in to the European Union from the US is hindering the signing of a free trade agreement between the US and the 28 European Union member countries. The European Union currently refuses the import of chlorine treated chicken as well as hormone treated beef and genetically modified crops. Think-tank Eurasia Group's Antonio Roldan highlighted Germany's reluctance to allow the importation of chlorine treated chicken, hormone-treated beef and genetically modified crops. Bruegel economist, Andrew Sapir said that achieving a free trade agreement will take a long time and the deadline of end of 2014 is unrealistic. Amidst fears of job losses, Congress have been opposed to a free trade deal with the European Union, while similar opposition was also evident from the European Parliament. An agreement between the two parties to lower tariffs and eliminate other trade barriers will strengthen a relationship valued at EUR 800 billion and help the parties influence trade rules on issues such as safety standards and pharmaceutical regulation against the growing power of China and other emerging economies. The Trade Commissioner, Karel De Gucht said that protectionism should be removed while maintaining protection, and mentioned that the European Union will not accept lower safety standards. Other issues such as the need for streamlining investment rules allowing arbitration claims against a country for the breach of the investment guidelines, and US spying revelations have impacted negotiations.

China lifts Brazilian beef ban, posing a threat to Australian exports [21 July/ ABC Rural] China announced that it will lift the ban on Brazilian beef importation, that was imposed after the discovering of a case of mad cow disease in 2012. However, during the ban, Brazil was able to export beef to Hong Kong, growing the Hong Kong trade to a value of \$1.5 billion per annum. Meat and Livestock Australia economist, Tim McRae said that Australia will monitor whether Brazil threatens Australia's position of being a key beef supplier to mainland China (worth AUD 750 million over the past 12 months), and mentioned the fact that only eight Brazilian processing plants are approved for importation into China, in comparison to Australia's 33 plants. However, Mr McRae mentioned that the growth of the Chinese market over the last two years may mean that it is able to absorb the Brazilian product.

Election 2014

Parties outline agri policies at forum [21 July/ NZ Farmers Weekly] The Labour Party said its proposed capital gains tax will lower the price of rural land. Highlighting the damage done to the agricultural industry by a rising OCR, Labour Party primary industries spokesman, Damien O'Connor said that its monetary policy of using retirement savings to manage the OCR would also benefit the rural population. National Party MP, Shane Ardern criticised the Labour Party's approach by highlighting the difficulties that would be faced by new farmers from its proposed capital gains tax, emissions trading scheme, higher income tax, higher company tax, limits on livestock numbers and limits on water usage. Green Party MP, Steffan Browning highlighted its position on agriculture by indicating the intention to ban genetic engineering and to maintain the country's clean, green image. NZ First MP, Richard Prosser said that it will set a floor and a ceiling for the New Zealand dollar, weighted against a basket of currencies that are most important to world trade, as well as ceasing land sales to foreigners.

Agribusiness education

Lincoln University rebuild green-lit [17 July/ The National Business Review] Tertiary Education Minister, Steven Joyce said as part of a wider strategy to create a science research and teaching hub involving several Crown Research Institutes, Dairy NZ and Lincoln University, the Government is allocating \$107.5 million to rebuild the Lincoln University science teaching and research facilities that were destroyed in the Canterbury earthquakes. He mentioned that the investment is conditional on Lincoln University integrating its new facilities with the other major partners to the new Lincoln Hub. The building of the Lincoln hub, which is intended as an incubator for research, innovation and wealth creation in the agricultural sector is scheduled to commence in the latter half of 2015 with completion expected to be in 2018/19.

Economics and trade

Race is on for Korean trade deal [21 July/ NZ Farmers Weekly] The fourth round of trade talks on access to the South Korean market for key New Zealand agricultural products was abandoned due to irreconcilable differences between the parties. Sources indicate that the deal offered by South Korea was based on a trade deal it agreed with Australia in 2013, and did not address the tariffs on high-priority items such as milk powder (with currently a 176 percent tariff), apples and some meat by-products. Trade Minister, Tim Groser has threatened to interfere with South Korean ambitions to join the Trans-Pacific Partnership by vetoing its entry. The Foreign Affairs Minister, Murray McCully has left for Seoul for talks with his Korean counterpart, and officials are expected to meet within a few weeks to establish if there is common grounds to resume negotiations. If the trade deals with Australia and Canada are ratified into domestic law by the countries, it will give the competitors an advantage over New Zealand, with Meat Industry Association trade and economic manager, Philip Houlding saying that the tariff advantage for Australian beef exports would be 2.5 percent in the first year, 5.5 percent in the second year and 8 percent in the third year. Australian beef tariffs are on target to be eliminated in 15 years with the European Union and the US is already on the path to tariff elimination. Mr Houlding said that as a result, beef exports to South Korea have declined. Kiwifruit marketer, Zespri is also faced by declining market share due to Chile's trade deal with South Korea in 2003, giving Chile a 41 percent tariff advantage over New Zealand.

Farmers want action on interest rates [21 July/ Radio New Zealand Rural] Federated Farmers' latest confidence survey has indicated that farmers want the Reserve Bank and the Government to do more to control interest rate increases and reduce the exchange rate. The survey indicated that while beef farmers remain relatively optimistic, dairy farmer confidence has dropped due to falling prices. Federated Farmers president, William Rolleston expressed his view that the Reserve Bank Governor needed to consider the pressure on farmers and the expected decline in monetary circulation in 2015 due to the drop in dairy prices through the GlobalDairyTrade auction when considering whether to raise interest rates in the near future.

Farmers and producers

Single farmers looking for love [16 July/ Business Day: NZ Farmer] A new Facebook page, NZF Singles has been set up by Tyler Fifield to help rural singles find companionship by posting their photo and information for others to view. For those seeking a more casual relationship, a system named Second Chance Sunday has been set up where people are able to post their Snap Chat names or phone numbers. The page has received 2,300 likes in a few weeks. Mr Fifield said that the page helped address issues such as rural suicide and isolation felt by the rural population. Mr Fifield also advises applicants on their Facebook profile and edits applications to make them more apt to the market.

Ravensdown, ANZ step up to help [17 July/ Radio New Zealand Rural] Ravensdown Fertiliser Co-operative is making a \$20,000 donation to the Northland Rural Support Trust to aid the distribution of emergency feed and providing counselling and advisory services for farmers affected by the flooding, as well as providing a series of packages to support farmers. ANZ Bank is offering Northland dairy farmers an assistance package, which includes loans at lower interest rates to help farmers with short term cash requirements.

Big drop in dairy farm sales [21 July/ Business Day: NZ Farmer] Real Estate Institute of New Zealand figures indicate that the 544 farm sales over the three months to June were 3.5 percent down compared to May, and up almost 15 percent on the same period the previous year. There were over 1,900 farms sold over the year (up 27.4 percent). The median price for all farms increased to \$26,612 per hectare (up 35 percent from the prior year, and up 6.4 percent on the three months to May). REINZ rural spokesman, Brian Peacocke said that farmers were watching the impact on the upcoming sales season as a result of clear signals indicating a possible drop in incomes from the mix of lower product prices, increasing interest rates and a strong New Zealand dollar, which was evident in dairy farm sales which declined from 95 to 69 sales between May and June. The dairy farm median prices of \$33,543 per hectare was similar to May, while the median price was \$29,555 a year earlier. Real Estate Institute's Dairy Farm Price Index increased 5.2 percent from May and 12.5 percent from year earlier. In comparison, the horticultural sector was represented with strong sales, especially in the Bay of Plenty, while finishing and grazing properties maintained steady sales, especially in Auckland, Hawke's Bay, Canterbury, Otago and Southland. Nine regions recorded higher farm sales with the largest increase in Bay of Plenty (up 27 sales), followed by Otago (up 12 sales) and Northland (up 11 sales).

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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		

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