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AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network

6 August 2014

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

ACT Party	Ministry for Primary Industries
Agcarm	Nestlé
Australian Dairy Farms	New Zealand First leader
Ballance Agri-Nutrients	New Zealand High Commission
Bee Industry Advisory Council	New Zealand King Salmon
Bell Potter	NIWA
Carr Group	OSI Group Inc
Conservative Party	Overseas Investment Office
Dairy Partners Americas	Pacific Edge
Dairy Partners Americas Ecuador	Pizza Hut
Diary Partners Americas Venezuela	Primary Production Select Committee
Elders Rural Holdings	Rhone Capital
Fairfax Media	Rossekhoznadzor
Federated Farmers	Rural Business Network
Fish and Game	Shanghai Pengxin
Fonterra Co-operative Group	Stevenson Group
Green Party	Sustainable Winegrowing New Zealand
Husi	Treasury Wine Estates
KFC	Westland Milk Products
Kohlberg Kravis Roberts	Yum Brands Inc
Lochinver Station	

### This week's headlines

Fishing	<b>Parliament outlaws slave-like fishing conditions</b> [31 July/ Business Day]
Honey	<b>Manuka honey labelling guide revealed</b> [31 July/ NZ Herald]
Dairy	<b>Westland forecasts higher payout than Fonterra</b> [30 July/ NZ Farmer]
Red meat	<b>High sheep meat prices are here to stay</b> [4 August/ NZ Farmers Weekly]
Farmers and producers	<b>Foreign farm ownership register call</b> [5 August/ Radio New Zealand Rural]



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**KPMG AGRIBUSINESS  
AGENDA 2014 VOLUME 1**

### Viticulture

**Firm moves HQ to wine country** [5 August/ NZ Farmer] Sustainable Winegrowing New Zealand is to move its head office to the Marlborough Research Centre in Blenheim. Sustainable Winegrowing New Zealand general manager, Philip Manson, said that it would be an opportunity to work closely with the key players in the industry and be closer to the issues faced by New Zealand's largest wine growing region. He also mentioned that it wanted to have more involvement in biosecurity and labour.

### Honey

**Bees in good shape** [31 July/ Rural News Group] The Primary Production Select Committee report, Briefing on the health of bees highlighted that managed bee hives, honey production and exports are increasing in New Zealand and there is insufficient evidence to support that pesticides are affecting bee health. The report concluded that there is no evidence to indicate a colony collapse in New Zealand, despite neonicotinoids having been used since the early 1900s. Agcarm said that the crop protection industry views its responsibility towards pollinators seriously, and mentioned that industry has been actively involved addressing honey bee health and minimising the impact from crop protection products on bees. Agcarm welcomed the introduction of the Bee Industry Advisory Council as a body to address issues impacting on the bee industry.

**Manuka honey labelling guide revealed** [31 July/ NZ Herald] The Ministry for Primary Industries regulation and assurance deputy director general, Scott Gallacher, said that it has released an interim labelling guide for Manuka honey to address industry concerns about false labelling that is misleading consumers. He said that the labelling guide will help ensure that consumers were not misled as to the product they were purchasing and that the product met market expectations. Mr Gallacher said that the Ministry will continue to work with the industry to ensure businesses understood what the guidelines required, with the potential of enforcement actions for non-compliance. He said that the Ministry expects to consider a revised guide in late July of 2015. Part of the Ministry for Primary Industries research will examine technologies including pollen identification, DNA profiling and chemical fingerprinting to address the current difficulty of differentiating Manuka from kanuka properties.

### Fishing and aquaculture

**Parliament outlaws slave-like fishing conditions** [31 July/ Business Day] The Fisheries (Foreign Charter Vessels and Other Matters) Amendment Bill which was passed by Parliament on July 31 will require foreign charter fishing vessels to fly the New Zealand flag and comply with New Zealand laws from May 2016. The Bill is currently pending regal assent. The change will give Government agencies full jurisdiction over areas such as employment and labour conditions on fishing vessels. The change follows the Fairfax Media expose of abuses aboard a large fleet of foreign charter vessels fishing in the exclusive economic zone in 2011. Primary Industries Minister, Nathan Guy, said the change would help maintain New Zealand's reputation globally. The Bill was partially opposed by the Maori Party and several iwi who used foreign charter vessels. However Maori Party co-leader, Te Ururoa Flavell, said that the Party had zero tolerance for companies that exploited workers, but allegations of human rights abuses on the ships were never proven. The Green Party commended the legislation, saying that this was a much needed change.

**King Salmon pulls plug on China** [5 August/ Business Day] New Zealand King Salmon CEO, Grant Rosewarne, said that it has stopped exporting to China due to not being able to meet future demand, and mentioned that there needed to be sufficient volume exported for the exportation to be feasible. He mentioned that only having received approval for three out of the nine new farms in Marlborough sounds meant that it was not able to sell the 5,000 tonnes, valued between \$80 and \$90 million as initially anticipated. He said that although the company would prefer to remain a pure New Zealand producer, it may have to contemplate establishing outside New Zealand to support growth.

### Dairy

**Westland forecasts higher payout than Fonterra** [30 July/ NZ Farmer] Westland Milk Products has forecast their 2014-15 payout at between \$6.00 and \$6.40 per kilogram of milk solids, while keeping its 2013-14 payout prediction between \$7.50 and \$7.70 (with some of it to be retained for investment and other spending), which is under Fonterra's estimated final payout of \$8.40 and the 10c dividend. Westland Milk Products CEO, Rod Quin, said that the drop was due to lower international dairy prices from high inventories and increased supply from Europe and the US, as well as the high New Zealand dollar. He said that although there had been a decline in the New Zealand dollar, it still remained overvalued. However he said that there were signs that companies had reached the bottom of the price cycle and that customers were buying more milk products than previous months. Mr Quin said that the co-operative's strategy is to shift towards producing more of higher value nutritional products, such as infant formula. He mentioned the \$102 million investment in the nutritionals dryer at Hokitika will provide the capacity to shift more production to the higher value end of the market.

**Efforts to stop peak milk bottle-neck** [1 August/ Radio New Zealand Rural] The Fonterra Co-operative Group chairman, John Wilson, said that the company has invested \$50 million into plants in order to try and address bottle-necks at the peak of the season, such as those which required the Co-operative to dump low value products around the country last season, causing health scares and environmental issues.

**Fonterra director retires** [1 August/ Business Day] The Fonterra Co-operative Group Director, Jim van der Poel, is to leave the Co-operative's board in November after 12 years of service. He was elected to the Fonterra Board in 2002. Mr van der Poel encouraged more farmers to get involved in governance early in their careers, in order to gain the experience and skills necessary for strong governance, and be able to serve on the Fonterra Board.

**Changes to Fonterra-Nestlé joint venture** [4 August/ NZ Farmer] The Fonterra Co-operative Group and Nestlé have revised their Dairy Partners Americas joint venture (created in 2003 to manufacture milk powder and manufacture and commercialise chilled and liquid dairy products throughout Latin America) to better reflect their respective strategies, which has resulted in Fonterra obtaining a 51 percent controlling stake in Dairy Partners Americas Brazil, and taking over Nestlé's share of Dairy Partners Americas Venezuela, together with a local partner. In return Nestlé intends to take over control of Dairy Partners Americas Ecuador and the Dairy Partners Americas milk powder manufacturing business, which is currently subject to regulatory approval. Fonterra managing director of Latin America, Alex Turnbull said that the changes will enable the Group to further build on the current 900,000 metric tonnes of volume and \$3.5 billion of revenues per year from consumer dairy, food service and dairy ingredients.

**Red meat**

**High sheep meat prices are here to stay** [4 August/ NZ Farmers Weekly] British farmer and marketing consultant, Richard Brown, told New Zealand's sheep meat industry that the increase in sheep meat prices this year (caused by low supply and high demand from China, other parts of Asia, the Middle East and North Africa) is unlikely to drop back. Mr Brown said that the markets such as the UK could take up to two to three years to recover, but growth elsewhere would make up for the deficit. He said leaders in sheep meat exports such as New Zealand and Australia would benefit from the supply demand gap that is created by the continued demand from markets such as China, the Middle East and North Africa. He mentioned that New Zealand had shifted sales from the UK to China at a faster pace than the slowdown in the UK market, and said that fewer shipments to the UK will help retain prices. He also highlighted the opportunity for New Zealand to increase sheep meat production to take advantage of the price competition in the UK. He said that the drought in Australia had stalled the sheep flock recovery, with those moving out of the industry unlikely to return. However there were reports of growth in Chinese production.

**Election 2014**

**ACT vows to target Fish and Game** [30 July/ Radio New Zealand Rural] ACT Party primary industry spokesperson, Don Nicolson, expressed his frustration at what he called Fish and Game's discriminatory attacks on farmers, and said that if the Party is to be part of the next Government, it would make a review of Fish and Game a condition for its support. Mr Nicolson said that one of Fish and Game's roles is to manage the introduced species trout, rather than acting as an advocacy group who believe their role is beyond their remit. Fish and Game has statutory authority to advocate for fresh water. Mr Nicholson also stressed his belief that there is a lack of evidence to indicate that agriculture is negatively impacting water quality.

**Rural infrastructure**

**Rural GPs likely to favour new e-commerce site** [30 July/ Otago Daily Times] Pacific Edge CEO, David Darling, said that general practitioners in rural areas are likely to be keen users of the new e-commerce site it launched on July 29, which allows all New Zealand residents and healthcare professionals to access the Cxbladder cancer detection technology. He said that this would allow rural practitioners to order the Cxbladder product online, issue it to their patients and send it for testing at a cost of \$368 per test. He mentioned that the company's brand promised a five day turnaround on the tests, with the information transferred between the General Practitioner and the urologist without the need for the patient to do it personally in some cases. Mr Darling said that the feedback from urologists regarding the new system so far has been positive.

**Elders sale confirmed** [4 August/ NZ Farmers Weekly] The Elders Rural Holdings managing director, Stu Chapman, confirmed that its sale to Ashburton based Carr Group had been finalised. The Carr Group now has complete ownership of Elders Rural Holdings, with Mr Chapman having been retained as the managing director. He said that the first area planned for growth is livestock in the South Island. Mr Chapman said that the Carr Group connections meant that the South Island portion of the business has potential to grow from the current 30 percent concentration in the South. He highlighted insurance as another area for growth, as well as mentioning Just Wool's brand promotion planned in the US next week. Mr Chapman also made mention of Just Shorn's launch in Australia.

**Ballance sets profit record – again** [4 August/ NZ Farmers Weekly] Ballance Agri-Nutrients has reported a record breaking \$93.5M profit for 2013-14, driven by the focus on cost reduction and growth in shareholder numbers (almost 1,000 new shareholders), with a \$78.9M (up 21 percent) distribution to farmer shareholders. Gross sales revenue also set a record at \$921M (almost up 4 percent) to the year ended May 31, with sales volumes increasing from 1.33 million tonnes to 1.55 million tonnes. Ballance Agri-Nutrients CEO, Larry Bilodeau, said that growing conditions had largely been favourable across the country and all sectors through the year. He believes that the fertiliser market had neared the cap at about 3.4 million tonnes last year. He mentioned that the two most recent purchases (SalesWinslow and AgHub) were continuing to grow and perform well. Mr Bilodeau acknowledged that the company was contemplating investment opportunities in and beyond the company's core business. He also mentioned dairy payout, and managing environmental pressures as examples of challenges that the company will need to address in the coming months.

**Food safety**

**Fonterra steers High Commission's response to food safety scare** [4 August/ The National Business Review] Documents obtained under the Official Information Act indicate that the Fonterra Co-operative Group staff advised the New Zealand High Commission in New Delhi on the content of its media release. In January 2013, Fonterra announced that traces of the agricultural chemical dicyandiamide were found in some dairy products, resulting in the Sri Lankan Government imposing requirements for a certification that imports were dicyandiamide free, which Fonterra has adhered to since June 2013. The communications obtained indicate that some Sri Lankan media had wrongly confused the dicyandiamide scare with the precautionary recall due to botulism fears. The documents show that Fonterra requested a press release from the Ministry for Primary Industries indicating that dicyandiamide had not been used on New Zealand farms since a certain date and that imports into Sri Lanka were free of dicyandiamide. While the Ministry declined the request, the New Zealand High Commission in New Delhi obliged in part with the Fonterra request. Fonterra general manager of trade strategy, Robb Stevens said that as it posed a threat to New Zealand's dairy industry, it was appropriate for the Government, through the Ministry for Primary Industries and the New Zealand High Commission in New Delhi to provide a formal response.

**International**

**Russia bans fruit, veggies from Poland** [30 July/ Agence France Presse] As part of its trade restrictions linked to the dispute with the West over Ukraine, Russia has banned the importation of fruits and vegetables from Poland. Russian agricultural watchdog, Rosselkhoznadzor spokesman, Alexei Alexeyenko dismissed that the ban was politically motivated, and referred to Poland's breach of Russian sanitary standards. The watchdog said that Polish companies had made a recorded 916 breaches of the international requirement for phytosanitary documents in 2013, and mentioned that 90 percent of Polish apples it tested contained excessive quantities of pesticides. The ban follows the US and the European Union's sanctions against Russia over the Ukraine conflict. The European Union member, Poland is one of the strongest supporters of Ukraine's pro-Western position.

**KFC owner says Chian scandal hurting sales** [31 July/ NZ Herald] The owner of the KFC and Pizza Hut restaurant chains Yum Brands Inc, said that the food safety scandal in China (where OSI Group Inc owned Hushi was accused of selling repackaged old beef to KFC and McDonald's Corporation restaurants in China), has impacted on its sales and has the potential to also impact the company's global profits if the significant sales impact continues. KFC and McDonalds stopped using Shanghai Hushi products and Yum Brands Inc said that its restaurants have ceased to trade with OSI in China, the US and Australia. In a filing with the US securities regulator, the Securities and Exchange Commission, Yum Brands Inc stated that there has been a significantly negative impact to same-store sales at KFC and Pizza Hut in China over the past ten days.

**Australian Dairy Farms eye float for Asia boost** [4 August/ The Sydney Morning Herald] The investment adviser Bell Potter has assembled a team of directors to form Australian Dairy Farms, which Adrian Rowley hopes would start trading on the ASX in September. Bell Potter has been hired to raise up to Australian dollars 14.5 million. Australian Dairy Farms expects to add 14 more farms to the current two farms it already owns, to increase milk production to 50 million litres per annum by 2016. Mr Rowley and Australian Dairy Farms' other directors hope to capitalise on Asia's demand for dairy, in particular infant formula, which the Australian Government's commodities forecaster ABARES is not expecting to slow down in the short term. Mr Rowley said that unfavourable dairying conditions in Australia with production having declined 20 percent, and farm prices having declined, supported the creation of listed Dairy Farm. He said that the fact that most dairy farms are family owned meant it was difficult for them to raise capital to facilitate volume growth, making reducing risk difficult, which Australian Dairy Farms will be well placed to manage. The company anticipates operating large scale farms with a minimum of 500 cows, ahead of the Victorian average of 300. He said that the Company expects to give investors earnings from dairy operations, as well as exposure to rising farm prices off a cyclical low.

**Treasury Wine Estate receives high KKR takeover bid** [4 August/ ABC News] Australia's largest listed wine company, Treasury Wine Estates received a takeover proposal from a US based buyout firm, Kohlberg Kravis Roberts and European private equity group Rhone Capital, to increase their offer by 10.6 percent to Australian dollars 5.20 per share, beating the earlier offer by Kohlberg Kravis Roberts, which the board rejected in April. The Board has recommended that shareholders consider the offer, which was 5.1 percent higher than the company's share price of Australian dollars 4.95 as at August 1. The Board has informed investors that the agreement remains subject to several conditions including the completion of due diligence by the potential purchasers.

#### Farmers and producers

**China's Shanghai Pengxin seeks approval to buy Lochinver Station** [1 August/ The National Business Review] The company that purchased the Crafar dairy farms in 2012, Shanghai Pengxin has confirmed the signing of an agreement for the purchase of the 13,800 hectare Lochinver Station through its subsidiary Pure 100 Ltd. Lochinver Station has a rateable value of over \$70 million. The sale is currently pending Overseas Investment Office approval and Chinese regulatory consent. Conservative Party leader, Colin Craig, who has been campaigning on the issue of foreign ownership said that the voters needed to be aware of this. Lochinver Station is believed to be one of New Zealand's largest and most productive farms and is currently owned by the Stevenson Group.

**El Nino chances high but lessening** [1 August/ Rural News Group] NIWA said that although the chances of an El Nino event developing over spring seem to be decreasing, there is still a 70 percent chance of the event developing, based on international modelling done using data through to the end of June, which however does not consider the rapid changes that were present in July. August to October temperatures are most likely (50 percent chance) to be above average for the east of the North Island and likely (40 to 45 percent chance) to be average or above for all other regions of New Zealand, with cold snaps and frosts expected in some parts of the country toward the end of winter. August to October rainfall is also likely (40 percent chance) to be normal or above in the north and east of the North Island, and normal or below normal in the west of the North Island and the north of the South Island, with the remaining South Island most likely (45 percent change) to be in the normal range. August to October river flows and soil moisture levels are equally likely (35 to 40 percent chance) to be normal or above in the north and east of the North Island, and most likely (45 percent chance) to be below normal in the west of the North Island, with river flows and soil moisture levels likely (40 percent chance) to be normal in the west and equally likely (35 to 40 percent chance) to be normal or below in the north and east of the South Island.

**'Exhaustive' tender for Lochinver, says seller** [4 August/ NZ Herald] The quarrying and engineering firm, Stevenson Group, said that it will reinvest the proceeds from the sale of the 13,843 hectare Lochinver Station in other businesses. Stevenson Group CEO, Mark Franklin, explained the sale saying that farming is not the core business of the Group. He said that the tender process did not limit its consideration to price, but included other factors such as retention of workers and the future of the property. The Conservative Party leader, Colin Craig, and New Zealand First leader, Winston Peters, expressed concerns about foreign purchases in New Zealand and highlighted it as an election issue. The Green Party wants restrictions of such sales, while Mr Peters said he would block the sale if he became part of the new Government. The agreement is currently pending approval by the Overseas Investment Office. Although the purchase price has not been revealed, the property has a rateable value of over \$70 million.

**Network comes south** [5 August/ Otago Daily Times] The Rural Business Network, which consists of hubs across the country catering to rural people working on or off farm, is looking to grow their professional networks with a launch in Otago on August 26. The network is already established in Waikato, Manawatu and Canterbury. Rural TV's Sarah Perriam, who initiated the establishment, said that it is open to anyone who may benefit from the network.

**Foreign farm ownership register call** [5 August/ Radio New Zealand Rural] The Federated Farmers renewed its call for a register of foreign owned farmland, in light of the Shanghai Pengxin Group's proposed purchase of Lochinver Station, which is currently pending Overseas Investment Office approval and Chinese regulatory consent. The Shanghai Pengxin Group currently owns 29 New Zealand farms. Federated Farmers president, William Rolleston, questioned whether the sale would provide the benefits required by New Zealand under overseas investment laws. He highlighted the need for a register to ensure that conditions placed on foreign owners are complied with and to identify the extent of the issue. He said that there may not be as many farms in foreign ownership as the public perceives, and mentioned that Australia was currently working on a farm register.

## Field Notes

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5

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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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