AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

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HOT OFF THE PRESS:
KPMG AGRIBUSINESS AGENDA 2014 VOLUME 1

3 September 2014

Organisations referenced in this week's Field Notes include:	
a2 Milk Company	Lincoln University
Aberdeen University	Massey University
Australian Mushroom Growers Association	Ministry for Primary Industries
Australian Sugar Milling Council	National Party
Ballance Agrinutrients	New Zealand First Party
Beingmate	New Zealand King Salmon
Bright Dairies	OneFarm
Cambridge University	Ontario Securities Commission
China Modern Dairy Holdings Ltd	OOB
Coles	Primary Wool Co-operative
Costa Group	Rabobank
Dairy NZ	Rural Women New Zealand
Delegat Group	Scales Corporation
Federated Farmers	Shanghai Pengxin
Fitch Ratings	Silverstream
Fonterra Co-operative Group	Sino-Forest
Forest Owners Association	Standard and Poor's
Hawke's Bay Regional Council	Synlait Milk
Keurig Green Mountain	Westland Milk Products
KiwiRail	Westpac
KKR & Co	Wool Equities Ltd
Labour Party	Woolworths
Landcorp	

This week's headlines	
Honey	**More manuka honey trees** [28 August/ Rural News Group]
Forestry	**Forest grant scheme will help control erosion** [1 September/ Rural News Group]
Dairy	**Westland cuts forecast payout on falling global dairy prices, strong kiwi** [28 August/ National Business Review]
Dairy	**Fonterra's $1billion splash-out** [28 August/ NZ Herald]
Rural infrastructure	**Rural broadband pledge 'a little late'** [27 August/ Radio New Zealand Rural]

Horticulture

Organic berry firm snares new market [28 August/ Business Day: NZ Farmer] The award winning organic berry and ice cream company, OOB, now sells its organic frozen blueberries and mixed berries in around 750 Coles supermarkets across Australia, in addition to the 860 Woolworths stores that they started supplying in 2012. The company's sales have increased by over 45 percent per year. OOB owner, Robert Auton said that the company expects to ship over 500 tonnes of fruit this financial year. With New Zealand growers unable to meet the demand, OOB needed to expand their partnerships with international organic orchards, in addition to its current relationship with some of the largest blueberry farms in the world. Mr Auton said that it intends to develop sales of its current products before introducing new products to Coles. He noted that the recent expansion in Australia is in line with the company's export focused strategy.

Scales first-half profit falls on lower European apple prices, listing costs [29 August/ National Business Review] Scales Corporation said that its first half profit declined 22 percent from an year earlier reflecting lower apple prices and its one off listing cost. Profits declined to $20.6 million from $26.4 million in the previous year, while sales increased 3.4 percent to $150.2 million. The company's shares last traded at $1.53, 4.4% below the initial offer price on the NZX in July. Scales Managing Director, Andy Borland said the Group is continuing to develop its presence in Asia and other markets and is expecting premium variety apple plantings to yield increased volumes in 2015. He also highlighted that along with a group of other primary sector exporters, it is establishing a collaborative venture in Shanghai, ServeCo, in order to assist the partners market development in China. The company is increasing its cold store capacity by 16 percent by building an 8,700 square metre Polarcold plant at the Ports of Auckland inter-modal freight hub at Wiri, South Auckland. The company attributed the 11 percent (to $23 million) drop in operating earnings to the decline in European apple prices, which was partially offset by higher volumes. Its storage and logistics profit declined 7.7 percent (to $7.9 million), while its food ingredients business increased earnings by 3.4 percent (to $2.8 million). Chairman, Jon Mayson, said that the group has met targets and expects to meet the prospectus guidance for the full year, which includes a dividend of between 9.4 cents and 9.6 cents per share for the 2014 financial year and between 10.5 cents and 10.7 cents per share for the 2015 financial year.

Viticulture

Yealands buys Clifford Bay [28 August/ National Business Review] Marlborough wine grower and Yealands Wine Group principal, Peter Yealands has purchased 413 hectares of property south of Blenheim at Clifford Bay from KiwiRail. Although the purchase price remains confidential, the land has a rateable value of $1.54 million. In 2013, KiwiRail abandoned a $500 million plan for an alternative Clifford Bay inter island terminal on the property. Mr Yealands said that he is intending to upgrade the newly acquired property, along with the historic Flaxbourne Station he already owns.

Wine industry reflects economy - Key [28 August/ Marlborough Express] Prime Minister John Key said that the wine industry is a model of New Zealand's economy, having transformed into a connected export industry earning over $1 billion per annum, and is on target to double its earnings in opening the annual NZ Winegrowers conference. The Prime Minister said that New Zealand has the potential to become a much wealthier country over the next 10 years. Mr Key launched the National Party's trade and tourism policies and a new $2 million a year for five years fund for schools to bid to get money to offer Asian language courses. He also said that the TransPacific Partnership was a mode to get access to the American market, which is a third of the global economy.

Delegat annual profit rises 3% as increases in volumes outweighs higher currency [29 August/ National Business Review] New Zealand's largest listed wine company, Delegat Group increased its profit by 3 percent to $42.6 million in the 12 months ended June 30, with a strong New Zealand dollar impacting profits (volumes increased by 4 percent to 2.031 million cases of wine, while the average value per case declined 4 percent to $110). Excluding accounting adjustments on the value of its assets, the group's annual earnings increased 19 percent to $31.4 million, with the valuation of grapes, vines and foreign exchange instruments contributing a net $11.2 million to earnings, compared to $14.9 million the previous year. Delegat Group has planned a $86 million capital expenditure funded through retained earnings and debt to build a 10,000 tonne capacity winery in Hawke's Bay and develop new vineyards in Marlborough, Hawkes Bay and the Barossa Valley in Australia. Delegat Group Executive Chairman, Jim Delegat, said that the group is well positioned to pursue its strategic target to build a leading global Super Premium wine company, and is expecting to increase sales by 9 percent in 2015 (to a record level of 2.205 million cases). Group Managing Director, Graeme Lord, said that North America will be the key growth region for the group over the next five years. The Delegat Group said it will also establish an in-market sales operation in China. The company is to pay an 11 cent per share dividend on October 10.

Honey

More manuka honey trees [28 August/ Rural News Group] As part of a high performance manuka plantation programme (a seven year Primary Growth Partnership between the manuka honey industry and the Ministry for Primary Industries to increase yield and reliability of supply of medical grade manuka honey) Landcorp will be planting an additional 93 hectares of manuka honey trees. Trials involving Landcorp, Hawke's Bay Regional Council, Comvita, Aborex Industries, Don and Conchita Tweeddale and Nukuhau Carbkon Ltd were commenced in 2011 to increase the value of the manuka honey sector from an estimated $75 million to $1.2 billion per year by 2028. Landcorp general manager, Phil McKenzie said that the additional plantings would double the Primary Growth Partnership's capacity to conduct commercial field trials. Mr McKenzie said the trials are designed to identify methods of increasing production by planting in the shrubs in different environments and climates. He said the trials will collaterally test the use of manuka on farms for riparian planting and as a shelter for stock. The trials are designed to test levels of dihydroxyacetone (precursor to the medically significant methylglyoxal in honey) against a range of variables such as climate, soils and temperature. Manuka Research Partnership Ltd managing director, Neil Walker said that early results were encouraging. The Ministry for Primary Industries Director of Primary Growth Partnership, Justine Gilliland said the programme also intends to obtain environmental benefits such as increasing the rate of hill country remediation, reducing costs associated with erosion and improving water quality.

Forestry

Forest grant scheme will help control erosion [1 September/ Rural News Group] Forest Owners Association said that the Government's decision to reinstate the Afforestation Grant Scheme will be welcomed by farmers and regional councils that are battling soil erosion in steep hill country. The Forest Owners Association CEO, David Rhodes said the previous scheme was an important source of funding for plantings on very steep terrain. He said that more Government funding in research is needed in the area of economic, environmental and safety challenges presented by post-harvested steep terrain. Mr Rhodes said that there was potential to transform forest profitability by making the emissions trading scheme function as intended. He also mentioned the Resource Management Act compliance as another area to be addressed by the new Government, as without a National Environmental Standard, there is no certainty around consent for harvesting. He said that the biggest barrier to investment in the sector is the uncertain political conditions during the life of the forests.

Wool

PWC to take 5% buy-in to WEL [29 August/ NZ Farmers Weekly] The Primary Wool Co-operative is to take a five percent shareholding in Wool Equities Ltd for $50,000 (1.6 million shares) in an attempt which it believes would be the start of consolidating the industry. The transaction is conditional on the approval of Wool Equities shareholders at a vote on September 12. The shareholders are also expected to vote on a change in the constitution which would allow a group of growers, a wool trading entity and a processor of wool to also purchase shares, transcending the current restriction which limits purchases only to active wool growers. The shareholders will also be voting on the currently pending formal delisting of the company from the NZAX to the unlisted platform. Wool Equities chairman, Cliff Heath said that the transaction would be beneficial for wool growers in the long-term, and he hopes would result in a Fonterra-type co-operative for the wool growing sector.

Fishing and aquaculture

King Salmon upset by cheaper import [18 August/ Marlborough Express] Imported Atlantic salmon from Norway on sale at a Countdown supermarket in Blenheim for $20 per kilogram (compared with the regular $32 per kilogram and the $36 per kilogram King Salmon price) is so substantially under-priced that the New Zealand King Salmon CEO Grant Rosewarne believes it may be a loss-leader in order to gain a foothold in the market. A Countdown spokeswoman said the promotion on Atlantic salmon was not a loss-leader adding that Atlantic salmon, which arrives in New Zealand frozen, is thawed for sale and has a different oil content and taste to King salmon. Mr Rosewarne said King Salmon had become uncompetitive in the domestic market due a lack of scale. The company received approval for three out of the 12 surface hectares of Marlborough Sound's water it intended to expand into. King Salmon also ceased export to China in July as it would not have been able to meet demand. Mr Rosewarne expressed his disappointment at the current conditions faced by the company. However noted its current market performance is fairly strong, despite the small product volume.

Dairy

Westland cuts forecast payout on falling global dairy prices, strong kiwi [28 August/ National Business Review] Westland Milk Products revised its forecast payout from between $6.00 and $6.40 per kilogram per milk solids to $5.40 and $5.80 per kilograms milk solid. Westland CEO, Rod Quin, said that the decline is driven by reductions in prices globally and a high New Zealand dollar. He said that its traditional reliance on bulk dairy commodities such as skim milk makes it more vulnerable to cyclical changes in the international dairy market. Fonterra confirmed its forecast payout at $6 per kilogram of milk solids, stating that it expects commodity prices to rise later in the year or early in 2015. Mr Quin said the company is pursuing its strategy to increase production of higher value nutritional products such as infant formula.

Fonterra's $1billion splash-out [28 August/ NZ Herald] Fonterra Co-operative Group said that it plans to acquire a 20 percent stake in China's Beingmate Baby & Child for approximately $615 million in order to meet its baby formula ambitions in China. The deal involves Fonterra offering 18 yuan per Beingmate share (an approximate 20 percent premium to its last traded price), with Beingmate chairman, Wang Zhentai selling down his stake to approximately 33 percent. Fonterra and Beingmate intends to set up a joint venture to acquire Fonterra's Darnum plant in Australia, bringing in $50 million to Fonterra for the sale of its half share of Darnum. The co-operative is also planning on spending $555 million building a new drier at the Lichfield site in South Waikato (capable of processing up to 4.4 million litres per day), and installing three plants at Edendale in Southland. When questioned whether the co-operative had conducted sufficient due diligence to avoid a repeat of the toxic melamine scandal in 2008, Fonterra CEO, Theo Spierings said that the co-operative was focused on learning from the past and that it was completely different from the situation six years ago. Mr Spierings said that its pilot of the Anmum brand in southern China was a success, with Fonterra saying that Anmum would be distributed through Beingmate.

A2 growing but little profit [28 August/ Business Day] The a2 Milk Company was only marginally profitable, despite its growth in sales during the year to June 30. Total revenue increased 17 percent at $111.3 million. a2 Managing Director, Geoffrey Babidge, said that it has been a challenging year, but the company was pleased with its performance in Australia where milk sales increased by 24 percent on its 9 percent market share by value. But a2, which was affected by a strong New Zealand dollar lowered its net profit to $10,000 compared to $4.1 million the year before. Mr Babidge is confident about plans for the UK, US and Asia. Milford Asset Management's Mark Warminger welcomed the annual results as positive and said that buying itself out of its UK joint venture with Robert Wiseman Dairies was a sensible move. Mr Warminger highlighted the cashflow funding of the US launch (expected to be $23.9 million for three years) as the most positive message from the results. The company confirmed its belief that there was opportunity for it in China, with Mr Warminger saying that its manufacturing partner, Synlait Milk is expected to receive registration for export into China.

Synlait Milk plant approved, waiting on China [29 August/ Business Day: NZ Farmer] Synlait Milk said it had gained approval of its risk management programme from the Ministry for Primary Industries for its dry blending and consumer packaging plant under the New Zealand food safety requirements of the Animal Products Act 1999. The company is currently waiting for export approval by Chinese authorities. Synlait Milk managing director, John Penno said that he expects consent for Chinese export to be approved and that he does not expect the alleged bribery charges in China against ex-Bright Food (which was 60 percent owned by Bright Dairy, which owns 39 percent of Synlait Milk) chairman to impact Synlait's application to the Certification and Accreditation Administration of the People's Republic of China for the export of finished infant formula into the country.

China's own "foreign buyer" fears on Fonterra deal [29 August/ NZ Herald] High profile Chinese dairy industry expert, Lei Yongjun said that for the long-term safety of China's dairy industry, the Government should veto the Fonterra-Beingmate partnership, which involves Fonterra acquiring a 20 percent stake in Beingmate and a Fonterra-Beingmate joint venture purchasing Fonterra's Darnum manufacturing plant in Australia. Mr Yongjun said that Fonterra already controlled milk pools in China, and securing access to manufacturing and distribution meant that Fonterra would exercise too much power in the Chinese market. Mr Yongjun's comments were published through the Xinhua agency, which is seen as the Government's official representative. Fonterra anticipates the partnership to expand sales of its Anmum baby milk brand in China. The Co-operative said that Beingmate has access to approximately 80,000 retail outlets in China. Additionally, Chinese infant formula makers, Yili and Yashili are in the process of establishing manufacturing operations in New Zealand.

Winston's warning bells over Fonterra joint venture [2 September/ Business Day: NZ Farmer] New Zealand First Party leader, Winston Peters criticised Fonterra's joint venture with Beingmate, questioning why the co-operative did not add value to its raw materials, create local jobs and establish New Zealand as a world class centre for the development, production and marketing of infant formula instead. Mr Peters criticised the extent to which Chinese companies had been able to establish business in New Zealand and use the China-New Zealand free trade agreement to their advantage. He also highlighted concerns over Chinese officials determining which industrial dairy plants they would recognise, leading to an eventual loss of control. In response, a Fonterra spokesman said that its research and development centre in Palmerston North was recognised as a world leading centre for dairy innovation. He said that the Beingmate partnership will give the New Zealand produced Anmum brand a direct line into the infant formula market in China. He also highlighted the 125 plus full time jobs that will be created (in addition to the construction job created during the building phase), from the confirmed $755 million investments at Lichfield, Edendale and Pahiatua.

Fonterra unfazed by credit rating cut [2 September/ NZ Herald] Fonterra CFO, Lukas Paravicini said that it continues to have a strong balance sheet despite the credit rating downgrade of its long term senior unsecured notes from an A plus to an A and the downgrade of its subordinated notes from an A to an A minus by Standard and Poor's. Fitch Ratings affirmed Fonterra's long and short term issuer default ratings at AA minus and F1 plus, senior unsecured notes at AA-, subordinated notes at A plus and commercial paper at F1 plus. Standard and Poor's report stated that it sees Fonterra's plans to spend $615 million investment in Chinese Beingmate and $555 million investment in increasing manufacturing capacity as evidence of a risk appetite higher than its previous rating expectations. The rating agency also said that in addition the global dairy product prices are currently weak, resulting in the estimated forecast milk price of $6 per kilogram of milksolids. The agency said that if the co-operative was to pursue further material debt funded transactions, particularly in higher risk regions that alter the supply mix, it may also undermine the subordination benefit, with further downward pressure on its ratings.

Arable

Beet crop 'revolution' for beef farmers [27 August/ Radio New Zealand Rural] Lincoln University senior lecturer in livestock health and production, Jim Gibbs predicts that due to the rapid growth in the use of fodder beet as a forage crop in the beef industry, the seed supplies for the coming growth season will run out. He said the season just finished saw 15,000 hectares planted, whereas there was less than 500 hectares six years ago. Dr Gibbs said that next year may well result in 30,000 hectares being grown. Dr Gibbs said that a feeding trial resulted in cattle reaching the acceptable carcass weight at 14 to 16 months, compared with the normal 26 to 36 months. He said that work in Silverstream this year resulted in cattle doing better than a kilogram of lightweight a day over the winter period with the upper weight group having an average weight of 420 kilograms, which is extraordinary.

Rural infrastructure

Rural broadband pledge 'a little late' [27 August/ Radio New Zealand Rural] Rural Women New Zealand has welcomed a National Party election pledge to establish a $150 million fund to extend broadband beyond the current 230,000 plus rural households connected, with $100 million to be placed in a contestable fund for communities to improve connections, while $50 million will be allocated to extend mobile phone coverage in remote areas. Rural Women executive officer, Noeline Holt, emphasised the necessity of connectivity for rural communities, but suggested the pledge should have come sooner. Labour Party ICT spokesperson, Clare Curran said that National must provide guarantees around contestability and who would have access to the new fund, and highlighted the fact that large telecommunication companies may have more access to it. Ms Curren stressed the importance of connectivity for the primary production sector.

'Defining' year for Ballance [1 September/ NZ Farmers Weekly] Ballance Agri-nutrients sales volumes reached a record 1.55 million tonnes, (up from 1.33 million tonnes in the prior year), driving strong cash flows and a reduction in debt. While the debt position was reduced, the company invested over $21 million on upgrades at Kapuni urea plant and $10 million on an upgrade at the SealesWinslow animal feeds business, in addition to other capital projects. Ballance is paying out $75.35 million in rebates to shareholders with $51 million in cash and the remainder paid out through share allocation top-ups, in addition to a 10 cents per share dividend (totalling $3.8 million). The ratio of debt to total debt plus equity at May 31 was 20 percent with the ratio of interest bearing debt dropping to 6.7 percent (from 8.5 percent). Net interest cost was recorded at $4.5 million (covered 20.7 times by earnings before interest and tax of $93.5 million). A cost of $3.99 million was incurred as a restructuring cost from the superphosphate manufacturing plant closure in Whangarei, resulting in a profit before rebate and tax of $89.5 million ($92.6 million the previous year). The annual report stated that the oversupply is expected to result in low prices for the foreseeable future, resulting in the company seeking opportunities to maximise the effectiveness of its assets. Ballance had benefited from its long supply relationships that secured fertiliser at very competitive prices. The co-operative was placing emphasis on helping farmers with nutrient management strategies and to meet new regulatory frameworks for dairying.

Research and development

Is NZ missing the genetic revolution? [1 September/ Business Day: NZ Farmer] Massey University professor and head of Massey University Institute of Agriculture and Environment, Peter Kemp is concerned that New Zealand will not fully capitalise on the genetic revolution in the primary industries. He said that New Zealand is unsure as to whether it wants to use its genetic capabilities, such as producing low allergy milk, ryegrass with high drought tolerance and kiwifruits with long term Psa resistance. He said that concerns over the safety of genetically modified products are no longer justified. Professor Kemp said that New Zealand's uncertainty as to whether genetically modified species should be allowed or not does not give molecular scientists career certainty, with the country at the risk of losing this expertise as scientists move overseas. He highlighted that New Zealand is not allowing its scientists to add value to local products by using the genetic modification technology that has been developed, while it allows the importation of value added products.

Farming app in running for award [2 September/ Business Day: NZ Farmer] The Grass2Milk app developed by the OneFarm Centre of Excellence in Farm Business Management (a joint venture by Massey and Lincoln universities) was shortlisted in the World Summit Award mobile competition under the environmental category. The app allows farmers to monitor whether herds were sufficiently fed to reach daily milk body condition targets, allowing farmers to plan feed allocation for the day. OneFarm senior research officer, Liz Dooley said that the organisation funded by Dairy NZ and the Ministry for Primary Industries is looking to develop other apps based on irrigation and stock management to assist farmers. While one of the students involved in the project highlighted that many farmers were apprehensive about the new technology, Ms Dooley highlighted some older farmers are also interested in the new technology.

International

Senate delay reignites levy battle down on the farm [27 August/ The Australian] Liberal Democratic Party senator, David Leyonhjelm delayed routine increases in statutory levies paid by all mushroom, mango and onion growers in a move indicating that the AUD 500 million plus rural levy funding system may be sent to a Senate inquiry. Senator Leyonhjelm believes that current levy spending is inappropriate, with farmers not having a say on the size of the levy increase. Agricultural Minister, Barnaby Joyce expressed concerns regarding the move, saying that it threatens the foundation of the model for co-operative industry and government funding of rural research and development. While Australian Mushroom Growers Association chairman, Greg Seymour said that many farmers were angry that the issue is still being debated, Costa Group's Mushroom Exchange CEO, Harry Debney said that it was not opposed to paying the a levy, but the flawed system needs to be debated. Opposition agricultural spokesman, Joel Fitzgibbon said Labour would support a Senate inquiry into how the levy system could be improved.

KKR Invests in China Food Firm [27 August/ The Wall Street Journal] US private equity firm KKR & Co has agreed to take an 18 percent stake in China's largest breeder, processor and supplier of chicken products, Fujian Sunner for USD 400 million. The Chinese poultry industry has recently been faced with a major food safety scandal where Chinese authorities accused a Shanghai company of selling expired meat, as well as a sharp decline in sales due to repeated bird-flu outbreaks. In contrast with the US, Chinese poultry farms are highly fragmented, with KKR & Co partner, Julian Wolhardt saying that vertical integration in chicken farming is a key solution to the food safety threats facing China's animal protein sector. Although poultry consumption per capital remains comparatively low in China (with only 10 kilograms of chicken a year per capita consumed compared with 43 kilograms in the US), it surpassed the US last year as the world's largest chicken market. KKR & Co also led a consortium of private equity firms to obtain an approximately USD 270 million stake in Chinese state owned food company, Cofco Crop's meat unit in June 2014, as well as taking a state in China Modern Dairy Holdings Ltd in 2009 (with the China Modern Dairy Holdings stake reduced from the sale to China Mengniu Dairy Co).

Nespresso smells opportunity in helping small coffee growers [27 August/ Financial Times] Nespresso head, Jean-Marc Duvoisin is to announce a Swiss Franc 500 million six year farmer welfare and environmental programme, which includes Swiss Franc 15 million investment in South Sudan, Ethiopia and Kenya. The project is to contribute to a retirement fund for a coffee growing community in Colombia and provide funding to its aluminium capsule recycling programme. Mr Duvoisin said that with only one to two percent of the world's coffee meeting the standard required by Nespresso, it wants to ensure that there is adequate supplies available. He said that greater engagement with the growers can improve the relationship between the product and the customer. Farms smaller than 10 hectares produce approximately 70 percent of the world's food, and are a key source of commodities such as coffee and cocoa. Imperial College professor of international development, Gordon Conway said that strategies of large companies are often dependent on small growers who are concentrated in developing countries. Other coffee sellers such as Starbucks and Keurig Green Mountain are also providing assistance to growers, while cocoa traders and chocolate companies have agreed to collaborate on social welfare and farming aid initiatives for cocoa farmers in Africa.

EU announces aid to dairy sector hit by Russian ban [29 August/ Agence France Presse] Agricultural Commissioner, Dacian Ciolos said that the price signals on the European dairy market indicate that the Russian embargo as a result of US and European sanctions is beginning to impact the sector. As part of its efforts to help affected European farmers, European Union's executive arm agreed to fund the storage of butter, milk powder and certain cheeses over a period of three to seven months, anticipating it will slow the price drop and give producers time to establish alternative markets. European Union dairy exports to Russia in 2013 were worth EUR 2.3 billion, including EUR 1.0 billion in cheese. The latest aid is in addition to the current EUR 33 million in place for peaches and nectarines and EUR 125 million in place for the perishable fruit and vegetable sector.

Sugar milling industry's future $1 billion investment into renewable energy stifled by recommended RET changes [29 August/ ABC Rural] The Australian sugar milling industry said that it could miss out on AUD 1 billion of growth if the Federal Government adopts recommendations to change or scrap the Renewable Energy Target, with Australian Sugar Milling Council CEO, Dominic Nolan saying that policy uncertainty has muted the investment that originated from having the scheme's target set at generating an additional 20 percent of electricity from renewable sources by 2020. Australian sugar mills produce their own electrify by burning bagasse (a cane by-product) and the industry has been able to on-sell electricity since the additional 20 percent target was established. He said that if the proposals for change were to be implemented, it would have a substantial impact for the energy efficiency co-generation for the Australian sugar milling sector. Mr Nolan said that it has recognised a further AUD 1 billion worth of potential projects at existing mill sites in Queensland if the renewable energy is to stay in place. The Federal Government is reviewing a report on the scheme over the next few weeks. The Labour Party, the Greens and Palmer United Party have expressed its staunch position that they will not be supporting major reductions to the Renewable Energy Target.

Sino-Forest fraud hearing begins [1 September/ The Globe and Mail] Financial markets regulator, Ontario Securities Commission is to lay out it case against the collapsed forestry giant, Sino-Forest Corporation and some of its former executives in a complicated case where Sino-Forest claimed to control CAD 3 billion worth of timber assets. In May 2012 the Ontario Securities Commission alleged Sino-Forest and some of its former executives of being involved in a fraudulent scheme to inflate its assets and revenue, making materially misleading statements and falsifying the evidence of ownership for a majority of its timber holdings using a deceitful documentation process. The hearing is before a three member panel of the Ontario Securities Commission and as it is not a criminal proceeding, consequently having a lower burden of proof. The regulator said it could seek up to CAD 84 million in penalties, with former executives being faced with the possibility of lifetime bans from trading or service as directors of public companies. Sino-Forest's former CFO, David Horsley agreed to a CAD 6.3 million settlement, with the regulator under the admission that his lack of due diligence resulted in the company making materially misleading disclosures to investors (with a CAD 700,000 payment to the regulator with the balance being paid to investors), which included a ban from serving as a director or officer of a public company.

Keep red meat down to twice a week and save the environment [1 September/ Daily Telegraph] A study by Cambridge and Aberdeen University has found that the increasing meat consumption trend indicates that farmers will not be able to raise sufficient livestock to meet demand, with attempts to produce more meat resulting in possible adverse impacts on the environment. They also warned that without radical changes to diets, the food industry would alone produce dangerous climate change. The study published in the journal Nature Climate Change said that if current trends in food production continue, crop land will have expanded by 42 percent and fertiliser use by 45 percent by 2050, over 2009 levels, with a further ten percent of the world's pristine tropical forests having disappeared. The study's co-author, University of Aberdeen professor, Pete Smith said that changes to food consumption will be an essential change that will need to be made.

Agribusiness strategy

Rabo head sounds positive note for NZ produce [29 August/ Business Day: NZ Farmer] Rabobank executive board member, Berry Martin said New Zealand is in a good position to capitalise on the world's need for good quality food. He said that of three main variables of farming (inputs, climate and prices), New Zealand had the comparative advantages of a favourable climate and low cost inputs because it relied on pastoral farming. He mentioned that although prices go through cycles of rises and falls, the general trend was heading upwards. He said that with food expected to be scarce as the world population grew, New Zealand's proximity to Asia was a significant advantage. Mr Martin expects New Zealand dairy farmers to evolve to a hybrid system of extensive farming and the use of barns. He also highlighted that approximately 70 percent of Dutch farms used robotised milking systems.

Economics and trade

Terms of trade still at 40 year high [2 September/ Otago Daily Times] New Zealand terms of trade remain at more than a 40 year high, despite weakening prices for dairy, with the terms of trade index rising 0.3 percent in the June quarter. However export prices are expected to experience a steep decline over the second half of the year. The price of exported goods declined two percent, dairy prices declined 4.3 percent, forestry product prices declined 6.5 percent, with seasonally adjusted meat export volumes and forestry volumes both declining 8.3 percent and dairy volumes declining 2.0 percent. The prices for imported goods declined 2.3 percent, while seasonally adjusted import volumes increased by 3.6 percent. Westpac senior economist, Michael Gordon said that the majority of the decline in dairy prices will be reflected in the September and December quarter instalments of the terms of trade. Westpac expects the terms of trade to decline by over 10 percent approximately in the next year. Mr Gordon said that prices were expected to start recovering by the end of 2014. Westpac economists stated that they expect falling international dairy prices to put downward pressure on domestic dairy product prices.

Farmers and producers

Labour denies change on Lochinver sale [29 August/ NZ Farmer] Although the Labour Party initially stated that it will use its ministerial discretion under the Overseas Investment Act to veto the sale of the Lochinver station to Chinese investor, Shanghai Pengxin (for $70 million), it seems to have softened its position by saying that it will prevent the sale if it is lawfully possible. Labour Party leader, David Cunliffe said that the application to prevent the sale has been lodged and the sale is to be judged on the applicable law as at the time when the application was made. He said that a threshold of providing a "major advantage" to New Zealand must be met before a sale was approved.

Flooded farmers coping – Fed Farmers [2 September/ Radio New Zealand] Northland Federated Farmers president, Roger Ludbrook said that farmers are generally coping with conditions, despite some farmers being flooded three times in a month. He said that there was a good system in place to support farmers through the rural support network.

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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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