

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

17 September 2014

Organisations referenced in this week's Field Notes include:

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| AACo | New Zealand Veterinary Association |
| Agcarm | Norwegian Seafood Council |
| AVOCO | Olam International |
| Beef + Lamb New Zealand | PGG Wrightson |
| Canadian Pork Council | Primary Wool Co-operative |
| Cargill | RW Partners |
| Commerce Commission | Scottish National Farmers Union |
| CropLife International | Statistics New Zealand |
| Diary NZ | Syngenta |
| Environmental Defence Society | Taratahi Agricultural Training Centre |
| European Union | The Environmental Defence Society |
| Federated Farmers | Tourism Waitaki |
| Fonterra Co-operative Group | Turners & Growers |
| Foundation for Arable Research | Unifruitti |
| Green Party | Unitec |
| Irrigation New Zealand | Waitaki Irrigators Collective |
| Labour Party | Weekend Australian |
| Meat Industry Association | Wool Equities |
| National Grain and Feed Association | Wool Levy Group |
| New Zealand Grain and Seed Trade Association | Zespri |
| New Zealand Institute of Economic Research | |

This week's headlines

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| Horticulture | NZ exports to EU may face stricter pesticide standards [12 September/ Otago Daily Times] |
| Dairy | Fonterra milk price review finished [16 September/ Radio New Zealand Rural] |
| Research and development | Feds want \$600m to spend on science [12 September/ NZ Farmers Weekly] |
| Election 2014 | Editorial: Greens' ideas on dairying hold plenty of good water [15 September/ NZ Herald] |
| Agribusiness education | Taratahi takes agri courses to Auckland [9 September/ Rural News Group] |



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HOT OFF THE PRESS:
KPMG AGRIBUSINESS
AGENDA 2014 VOLUME 1

Horticulture

Record avocado crop a challenge [10 September/ Radio New Zealand Rural] The Avocado harvest this season is forecasted to top seven million trays, with almost five million trays expected to be exported. New Zealand's largest grower group, AVOCO said that a record crop will test the industry and its ability to manage the fruit. AVOCO director, John Carroll noted the competition expected to also come from a bumper crop from growers in New Zealand's main export market, Australia. He said that AVOCO's target was to increase consumption in Australia by 30 percent. He expects approximately 60 percent of this seasons sales to be to Australia, down from 85 percent last year.

NZ exports to EU may face stricter pesticide standards [12 September/ Otago Daily Times] If the European Union proceeds with the regulation of common crop protection products containing endocrine disrupting properties, New Zealand fruit and vegetable exports to Europe could feel an impact by as much as \$600 million, according to a report commissioned by the American industry association for plant science, CropLife International. The European Union believes that reducing endocrine disrupting pesticides will be beneficial to the environment, growers' and workers' health, rural communities and consumers, as well as boosting the economy. Agcarm CEO, Graeme Peters said that the European Union's proposal states that the tolerance for imported food products would be 0.01 milligrams per kilogram (10 parts per billion) and is likely to affect up to 70 substances. CropLife International Director of International Regulatory Policy and Crop Protection, Bernhard Johnen, said that a public consultation will be held on the options for ED criteria, with consultation expected to commence in October 2014. A Ministry for Primary Industries spokesman said that as the European Union has not finalised its rules, it is too early for New Zealand to consider its options. New Zealand officials have been in discussions with European Union officials to gain a better understanding of the proposed rules.

Huge success for Zespri in China [12 September/ Radio New Zealand Rural] Zespri's marketing campaign earlier this year involving the staged water fight in Shanghai exceeded expectations with a video of the event having received over 25 million hits on Chinese social networking sites. Zespri spokesperson for China, Simon Limmer, said that being able to engage such a large number of people in a market containing one third of world's social network users is remarkable. He said that social media was a cost effective way of penetrating into such a broad market. He also mentioned that Chinese on average are consuming approximately 110 kilograms of fruit per annum per person, with kiwifruit accounting for approximately 1 kilogram. Mr Limmer said that current forecasts indicate that China will grow to be its number one market, from number three within the next five years.

T&G announce Peruvian grape joint venture [12 September/ Rural News Group] Turners & Growers announced its joint venture with Unifruitti which aims to meet the increasing global demand for quality Peruvian table grapes, with its first harvest expected in late 2015. Turners & Growers CEO, Alastair Hulbert said that the company's new strategy involves focusing on grapes as one of its key categories, alongside building partnerships to expand its pipfruit and other products internationally. The partnership will enable both parties to leverage off each other's expertise. Unifruitti Vice President, Jorge Massanes, said that through the Turners & Growers partnership, it will be able to better serve its clients by expanding its shipping season.

Arable

Arable farmers scan the skies [31 August/ Business Day: NZ Farmer] New Zealand Grain and Seed Trade Association manager, Thomas Chin said that Canterbury grain growers are hoping for a productive spring after poor weather hindered autumn seeding. Mr Chin said that the weather during the coming growing season would play a significant part in determining harvest yields, with good harvests in the last two seasons having helped growers maintain a positive outlook. He highlighted that the demand for feed crops was expected to remain strong, as well as there being opportunities for the industry to provide ingredients for high value processed food industries. An Arable Industry Marketing Initiative survey of growers demonstrated mixed planting intentions, with an expectation for an increased planting of feed barley crops. Mr Chin said that the 2015 harvest of key arable crops is expected to be higher than in the 2014 harvest.

Wool

Wool levy vote under way [13 September/ Business Day: NZ Farmer] Voting on the wool levy referendum commenced this week and is scheduled to close on October 10. The Wool Levy Group chairwoman, Sandra Faulkner said that all other agricultural products in New Zealand are represented by an industry body, yet the \$700 million wool industry lacks one. They levy is to be 2.75 cents per kilogram of wool from an average 5.4 kilograms produced by a sheep per annum. The Wool Levy Group said that the levy would be used for non-commercial activities to provide communication, education and innovation for the wool industry which was not found elsewhere, with existing activities not duplicated and costs maintained at a minimum. A \$500,000 communications budget is to be allocated to support trade negotiations, improve market access, provide representation for wool and provide a point of contact for Government and other groups. A further \$2.7 million contestable fund is to be allocated for joint projects educating retail staff and consumers, and for fellowships and scholarships. Approximately \$1 million would be spent on research into a development of wool products and on governance and administration. Ms Faulkner said that farmers wanted the levy to be market focused and to provide reassurances about governance.

Wool deal puts sector on track for unity [15 September/ Business Day: NZ Farmer] The Primary Wool Co-operative acquired a five percent stake in Wool Equities for \$50,000, making it the largest single shareholder. Primary Wool Co-operative chairman, Bay de Latour said that the move was a small start to consolidating the industry. Wool Equities is to de-list from the New Zealand Alternative Market and transfer to the Unlisted exchange. Federated Farmers Meat and Fiber chairman, Rich Powdrell said he hopes for further consolidation of the industry, and that a creation of a new umbrella organization would aid data gathering and assist in marketing.

Water

Irrigation conference for Oamaru [14 September/ Business Day: NZ Farmer] Irrigation New Zealand announced that its 2016 conference will be held in Oamaru, with the organisation stating the irrigation heartland being in Canterbury and North Otago as the main reason for the decision. The North Otago bid for the conference was put together by the Waitaki Irrigators Collective, Tourism Waitaki, the Oamaru Opera House and several other local business persons. Approximately 450 to 500 people expected in Oamaru for the conference.

Fishing and aquaculture

Ebola a boost for NZ salmon [12 September/ Business Day] China banned all imports of whole Norwegian salmon on September 10, based on concerns around the presence of infectious salmon anaemia, which a Chinese news website headlined as having a link to Ebola. The disease so far does not affect New Zealand's king salmon or chinook salmon. The Norwegian Seafood Council has launched an international campaign highlighting that its salmon is safe for consumption, and that the infection cannot be transferred to humans, while any fish with the disease are rejected for export. There is no treatment for infectious salmon anaemia and the European Union rules require the compulsory slaughter and disinfection of infected farms, along with stringent movement controls on suspected farms.

Dairy

Fonterra milk price review finished [16 September/ Radio New Zealand Rural] The Commerce Commission has completed its annual review of the Fonterra Co-operative Group's milk price payout to farmers, with the Commission highlighting the most significant issue as Fonterra's decision to pay farmers a price for the 2013-14 season that is less than the price calculated in its Milk Price Manual. The Commission stated that the Co-operative's approach is inconsistent with incentives for it to operate efficiently, but it does allow for contestability in the milk market. The Co-operative said that the reason for the payout forecast being 55 cents lower than the \$8.95 per kilogram of milksolids calculated in the Manual is due to other products such as cheese and casein fetching lower prices than milk powder, which is used to calculate the price in the Milk Price Manual. The Group is to confirm its final payout for the 2013-14 season September 24.

Research and development

Feds want \$600m to spend on science [12 September/ NZ Farmers Weekly] Federated Farmers president, William Rolleston said that New Zealand needed further investment in order to develop technology, crops, feed and animals. In order to meet the goal of becoming a primary superpower, Dr Rolleston called on the new Government to increase its investment in science by \$600 million over the next three years. He highlighted the loss of funding for the three Centres of Research Excellence targeting biosecurity, food innovation and reproduction as a reason for needing the \$600 million funding. He stressed that New Zealand's investment of 1.2 percent of gross domestic product in research and development had to increase. Dr Rolleston said that a significant reason why New Zealand earned 73 percent of its merchandise export earnings through agriculture was due to the sector's science capability. Dr Rolleston also highlighted the inadequate number of the primary sector graduates that New Zealand produced. It is forecasted that by 2025, two thirds of primary industry roles will require a qualification beyond secondary school.

Animal health

Vets at forefront of swede sickness [15 September/ Rural News Group] New Zealand Veterinary Association's Mark Bryan said that after Southland veterinary practices noticed unusual signs of liver disease in cows that were grazing on swede crops, the Association has collected a large number of samples from over 40 farms and are now helping Dairy NZ address the issue. Dr Bryan said that symptoms displayed by cows that have consumed swedes in the region include photosensitivity, weight loss and/or ill thrift, along with increased mortality and higher susceptibility to other diseases. PGG Wrightson information confirmed that the HT variety of swedes is linked to the majority of cases. Dr Bryan said that a working group led by Dairy NZ has been established, with Southland veterinary practices working closely with the group.

International

Pork industry demands Japan drop agriculture import tariffs [10 September/ Globe and Mail] Pork producers in Canada and other leading countries are threatening to remove their support from the Trans-Pacific Partnership trade deal unless tariffs are completely removed on virtually all agricultural products. Groups including the Canadian Pork Council and associations representing US, Australian, Chilean and Mexican pork producers highlighted that Japan's protectionist stance is preventing other countries from making concessions. In an open letter, the pork producers said that a broad exemption for Japan will set a dangerous precedent and risks unravelling the entire agreement. Trans-Pacific Partnership negotiators are meeting in Hanoi this week in the anticipation of reaching a final deal by the end of the year, with momentum having suffered due to slow progress on parallel negotiations between the US and Japan. In August, a group of powerful US senators pressured the Obama Administration to remove Japan and Canada from the negotiations unless they open up their agricultural sectors. Toronto trade lawyer, Lawrence Herman said that he expects Japan to eventually shift its protectionist stance due to intense pressure from the US and other partner countries, which will result in pressure being put on other countries that are claiming to have sensitive sectors.

Olam offloads dairy unit [11 September/ National Business Review] Singapore's Olam International divested its dairy processing unit in Cote d'Ivoire, West Africa for USD 18.7 million to the Dutch company, Royal Friesland Campina, with the terms of the sale allowing Friesland to use Olam International's trademark, Pearl for its sweetened condensed milk and evaporated milk products in certain African countries for an additional USD 18.7 million. Olam International is expected receive a one off pre-tax gain of approximately USD 10 million upon finalising the deal in the second quarter of 2015. In other dairy sector transactions, France's Lactalis is to acquire the dairy units of Brazilian company, BRF through its Parmalat subsidiary for EUR610 million, while the Irish Dairy Board purchased the Spanish cheese producer Luxtor, a subsidiary of global pizza chain Telepizza.

Farming groups welcome appointment [11 September/ Irish Times] Farming organisations and sector Leaders have welcomed the appointment of Phil Hogan as the European Union commissioner for agriculture and rural affairs. Minister for Agriculture and Fine Gael colleague, Simon Coveney said that the Government has prioritised agriculture and food as a major driver for the Irish economy, and Mr Hogan's appointment will help deliver the Government's targets. Fianna Fáil agriculture spokesman, Éamon Ó Cuív urged Mr Hogan to make free trade in beef a priority, in order to resolve the current beef crisis. He also mentioned that Mr Hogan must pursue a comprehensive rural development plan to ensure the improvement of rural Europe. The Irish Farmers' Association president, Eddie Downey said that they look forward to working closely with Mr Hogan, and mentioned that there are important decisions to be made in the sector, such as the future direction of the CAP, excessive bureaucracy, climate change restrictions, European Union retail legislation and damaging trade deals. The Irish Creamery Milk Suppliers Association leader, John Commer and Ibec's Food and Drink Industry Ireland highlighted the Russian ban on European Union exports as one of the immediate challenges facing Mr Hogan.

Cargill sues Syngenta over seed dispute [September 12/ The Financial Times] One of the largest agricultural product and food suppliers, Cargill is suing Syngenta in a US state court over a biotech seed which it is claiming has almost destroyed the corn trade with China. Late in 2013, China started to reject US corn imports on the basis that it could contain a genetically modified seed that was not approved for use in the country. Cargill is claiming damages of USD 90 million, based on the fact that Syngenta decided to commercialise the product, Agrisure Viptera without receiving import approval from China. It says that a National Grain and Feed Association study indicates that US exporters and farmers could have lost up to USD 2.9 billion due to the Chinese import ban. Syngenta is rejecting the claims, stating that it strongly upholds the rights of growers to have access to approved new technologies. Analysts said that China's stance on genetic modification has the potential to transform agricultural markets.

\$91m plant puts meat on AACo's new bones [13 September/ The Australian] AACo's director, David Crombie discussed the Group's new AUD 91 million greenfield Darwin beef processing plant, which is capable of processing over 1,000 cattle per day. The new site will allow AACo to have more control and potentially a greater share of profits of the integrated beef supply chain. It will also mean less reliance on AACo's northern cattle stations, and being able to meet the growing demand from the US and Asian markets for basic manufacturing beef. AACo chairman, Don McGauchie said that the new facility will allow AACo to pursue the philosophy of adding value along the supply chain and being able to differentiate the whole range of products. Although it has not determined how the 25,000 tonnes of trimming beef to be sold each year will be labelled, in the past year, AACo has moved from selling half of its beef output as unbranded beef to only selling 15 percent as unbranded. AACo CEO, Jason Strong said the branded strategy is an intentional move to identify which end of the market the company wanted to operate in. He said that the company wanted to be selling premium products in every category. He highlighted that the new facility will allow the company to enter into long-term contracts with guarantees of supply.

Beijing splashes \$3bn on Aussie agriculture [16 September/ The Australian] The Chinese state owned Beijing Agricultural Investment Fund has committed AUD 3 billion on Australian dairy, beef, lamb and aquaculture assets, establishing the Beijing Australia Agricultural Resource Co-operative Development Fund in a joint venture with Yuhu Agriculture Investment. The Federal Trade Minister, Andrew Robb said that the fund was particularly interested in investing in local dairy farms and dairy processing with the aim of producing and exporting powdered infant milk formula to China. It was also revealed that a private Chinese company has acquired the Elizabeth Downs cattle station in the Northern Territory for AUD 12 million, along with the 9,000 cattle on the property for AUD 7 million.

Peak body for Scottish farmers questions what impact Thursday's referendum results may have on trade and supply networks [16 September/ABC Rural] Scottish National Farmers Union president, Nigel Miller said that while the separation from the Union may bring new trade opportunities, it may impact the ability of Scottish farmers to sell their products to the UK. Mr Miller highlighted that Scottish meat has at times had an 80 pence per kilogram premium over meat from Ireland, as it is a part of Britain.

Election 2014

Feds RMA backtrack criticised by EDS [11 September/ Forest Owners Association] The Environmental Defence Society said that the Election Manifesto released by the Federated Farmers contains an extremely disappointing and self-serving policy wish list. The Environmental Defence Society chairman, Gary Taylor said that it was very disappointing to see the Federation advocating RMA reform to give farmers full market compensation if land use is unduly restricted under the RMA, as well as arguing in favour of industry leadership as an alternative to regulation of freshwater quality. He also criticised the Federated Farmers support for biodiversity to be limited to nationally important sites. He said that the Manifesto seeks land intensification without hard limits on nutrient run off and biodiversity damage. Mr Taylor said that a regime that lacks numerical limits for freshwater quality is against what Federated Farmers agreed to at the Land and Water Forum. He said that the current Manifesto opens up the prospect of active campaigning and litigation.

No need for capital gains tax - experts [12 September/ NZ Farmers Weekly] The Labour Party election policy promotes a capital gains tax on property sale, including farmland but excluding the family home. The policy would mean that the main farm home and surrounding land used for domestic purposes will be exempt from the tax, whereas the land used for the farming business would attract a capital gains tax on realisation, while the Party has highlighted that there will be a small business concession for certain circumstances. A New Zealand Institute of Economic Research report, commissioned by the Federated Farmers estimated the eventual loss in farmland value from a capital gains tax to be \$2.4 to \$7.6 billion. Although the Labour Party expected to raise a minimum of \$1.3 billion from the farm sector, the report stated that a more realistic estimate would be \$590 million in revenues over 15 years. RW Partners accountant, Roger Wilson, expressed his uncertainty about a capital gains tax in the productive sector, which New Zealand is trying to encourage. He highlighted the fact that the proposed tax will benefit the business succession planning industry, where the farm passing to the next generation will not be taxed. Waikato accountant, Nigel McWilliam, highlighted that New Zealand already enforces a capital gains tax under the guise of income tax, with livestock gains, share sales, land turned over regularly and those in the business of selling land attracting a tax under the current legislation. Mr McWilliam highlighted the need for a capital loss, if there is to be a tax on capital gains. Mr McWilliams also said that the regime may not produce a worthwhile gain, and that a transaction or a consumption tax may be more effective.

Editorial: Greens' ideas on dairying hold plenty of good water [15 September/ NZ Herald] The Green Party is seeking cleaner rivers and streams, while the National Party has accepted the need for action against farm run-off with its announcement that it would require cattle to be fenced off from streams by July 2017, as well as stating that it would spend \$100 million over 10 years to purchase riparian strips through farmland for protective planting. However Fonterra already requires the fencing off of stock from waterways as a condition of supply, with Environment Minister, Amy Adams, has stated that 90 percent of waterways have already been fenced off. However the Green Party claims that only cattle reduction will be effective in stopping all the nitrates produced by the dairy industry from being washed through to rivers. The Green Party has also proposed a fee for the water drawn from rivers by irrigation schemes. Regardless of the composition of the new Government, waterways in dairying regions are set to receive more attention.

Labour pledges return of rural minister [16 September/ Radio New Zealand Rural] Labour Party primary industries spokesperson, Damien O'Connor said that it would appoint a rural affairs minister if it was to form the next Government. He also said that the Labour Party would establish a primary industry council and appoint a chief agricultural adviser. He said that it would also make the Food Safety Authority and biosecurity stand-alone agencies, allowing them to maintain high levels of biosecurity and food safety standards.

Agribusiness education

Taratahi takes agri courses to Auckland [9 September/ Rural News Group] The Taratahi Agricultural Training Centre is offering a 13 week Level 3 'Certificate in General Farm Skills' programme in Auckland through the Unitec campus. Taratahi CEO, Donovan Wearing said that New Zealand requires an additional 1,100 farm workers each year to address the skills shortage in the industry, with the Ministry for Primary Industries estimating that New Zealand will require 93,000 additional skilled workers in the primary sector by 2025. Dr Wearing highlighted its 'real training on real farms' philosophy, saying that its students have access to over 7,500 hectares of commercial farmland throughout New Zealand. In August 2014, the Taratahi Agricultural Training Centre won the 'Primary ITO Trainer of the Year' award at the Beef + Lamb NZ Industry Awards.

Acupuncture trumps forestry at varsity [16 September/ Business Day: NZ Farmer] The Federated Farmers highlighted that acupuncture, music, sport and recreation rate above primary industry science among university students. The forestry industry (\$4 billion worth of export) had 14 graduates, the wine industry (\$1.3 billion worth of export) had six graduates, while there were 24 graduates in acupuncture and 322 graduates in sport and recreation. In 2013, 365 people graduated at degree level and 287 people graduated at certificate and diploma level in the primary industries. He said that New Zealand was not producing sufficient graduates to create a "world class economy".

Economics and trade

Food prices rise on more expensive fruit and veges [12 September/ NZ Herald] According to Statistics New Zealand, the food price index increased 0.3 percent in August, paring a 0.7 percent decline in June. Fruit and vegetable prices increased 5.1 percent from July to August headed by a 46 percent rise in the price of tomatoes, a 30 percent increase in the price of broccoli and a 22 percent rise in lettuce, while grocery food prices declined 1.5 percent, based on a 29 percent decline in bread prices. Meat, poultry and fish prices declined 0.3 percent, led by a 4.9 percent drop in mince and sausage prices. On an annual basis, fruit and vegetable prices declined 1 percent, grocery food prices declined 0.6 percent and meat, poultry and fish prices inclined 2 percent. Statistics New Zealand said that the Consumer Price Index for the September quarter will be released a week later than normal, in October.

Kiwis should not fear China – advisor [12 September/ Business Day] Investment and advisory firm owner and New Zealander living in China, David Mahon said that New Zealanders should not be concerned with the sale of assets such as Lochinvar Station to Asian investors. He said that Chinese investors had been singled out, whereas there is a much wider debate about foreign investment to be had. Mr Mahon criticised the New Zealand debate around foreign ownership as insincere and only bought to the surface during elections. He said that New Zealanders needed to engage in a wider debate, and be provided with information and alternatives. Mr Mahon encouraged New Zealand companies to establish distribution arms in China and said that Chinese were buying the manufacturing capabilities in New Zealand because New Zealand companies were moving too slowly and taking too long to add value to their production. He highlighted that Chinese investment will make a big difference to the New Zealand property sector and industries by creating greater added value products.

Farmers and producers

Farmers treated 'worse than criminals' [10 September/ Radio New Zealand Rural] Waikato Federated Farmers president, Chris Lewis, commenting on a warning issued by the Hamilton District Court stating that farmers should expect tougher penalties for continuing effluent offences, saying that courts appear to be treating dairy effluent breaches more harshly than some serious criminal offences.

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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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