



cutting through complexity

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

24 September 2014

Organisations referenced in this week's Field Notes include:

ANZ	Landcorp
Green Party	Lenovo
AgFirst	Ministry for Primary Industries
AgResearch	National Party
APEC Wine Regulatory Forum	Natural Dairy Holdings
Aqua Synergy Group	NetEase
ASB	New Zealand Institute of Economic Research
Australian Taxation Office	Oceania Dairy
China Tuna Industry Group	Plant and Food Research
Breast Cancer Research Trust	South Pacific Regional Fisheries Management Organisation
Dairy Companies Association	Sutton Group
Dairy Women's Network	Synlait Milk
Danone	UBNZ Assets Holdings
Federated Farmers	Undercurrent News
Fonterra Co-operative Group	Westpac
Greenpeace	Winemakers' Federation of Australia
Irrigation New Zealand	Yili Industrial Group
Labour Party	Yungeng Capital
Landcare Research	Zespri

This week's headlines

Dairy	Price forecast tipped to fall by up to \$1.50 [18 September/ Otago Daily Times]
Dairy	Synlait lifts profit 70pc – plans new China stake [22 September/ NZ Herald]
Biosecurity	More biosecurity scrutiny for yachts [18 September/ Rural News Group]
Economics and trade	Korean trade talks stall [22 September/ NZ Farmers Weekly]
Election 2014	More of the same says Nathan Guy [22 September/ Radio New Zealand Rural]



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**KPMG AGRIBUSINESS
AGENDA 2014 VOLUME 1**

Viticulture

Outrage over Kiwi wine subsidies [21 September/ Business Day: NZ Farmer] Preliminary figures indicate that the subsidies from an Australian Government rebate scheme (originally designed to help small Australian wine producers) paid New Zealand producers in excess of AUD 23 million in 2013-14 with the final figures expected to rise further. New Zealand wine companies have claimed AUD 122 million in rebates since the scheme became available to New Zealand as part of a free trade arrangement. Winemakers' Federation of Australia CEO, Paul Evans expressed his outrage at the fact that New Zealand competitors are being supported by Australian taxpayers. Australian Taxation Office assistant commissioner, Tom Wheeler said that there were no issues found in relation to the New Zealand producers in the Australian Taxation Office's compliance programme.

Fishing and aquaculture

Fishing vessel not authorised [18 September/ Business Day] The fishing industry website, Undercurrent News stated that a Russian vessel claiming to be the world's largest fishing boat is operating in the South Pacific, taking large amounts of jack mackerel without the permission of the South Pacific Regional Fisheries Management Organisation. Satellite data obtained by Undercurrent suggests that the vessel has most likely been transshipping for jack mackerel since mid to late August. New Zealand and other countries suspect that the ship cannot fish at all, and is creating fake data that will enable it to be allocated a legal quota in coming years. The European Union demanded an investigation after French officials determined that the vessel's Hong Kong owner had lied about its fishing capabilities, while officials in Wellington said that Russia was not providing full and accurate information about the ship.

Dairy

Price forecast tipped to fall by up to \$1.50 [18 September/ Otago Daily Times] ASB and Westpac has downgraded their milk price forecast to \$5.30, while ANZ said it could see prices as low as \$4.50. Along with the bumper global production and reduced demand, the additional pressure from the Russian import ban have further reduced prices. Westpac senior economist, Anne Boniface said that dairy farmers will be partially insulated from the effects of the low payout due to the retrospective payouts from the record breaking 2013-14 season. Ms Boniface said that at the current stage, Westpac was comfortable with its forecast of a \$6.60 milk price payout for the 2015-16 season, while ASB maintained \$6.50 for its 2015-16 forecast. Although Fonterra left its advance payment rates unchanged when it downgraded its 2014-15 season payout forecast to \$6.00 in July, Ms Boniface said that the Co-operative may consider adjusting this. Federated Farmers dairy chairman, Andrew Hoggard said despite the short-term, the medium-term and long-term outlooks are positive. While the GDT price index remained unchanged, whole milk powder increased 0.6 percent, skim milk powder increased 0.9 percent, casein increased 1.3 percent, anhydrous milk fat, butter and cheddar declined approximately 2 percent each and butter milk powder declined 7 percent. Although ASB still expects prices to stabilise, the starting point of the recovery was significantly lower than anticipated. Sweet whey powder was sold for the first time on the GlobalDairyTrade platform by the European dairy co-operative, Molkerei Ammerland.

French formula firm plans expansion [18 September/ Radio New Zealand Rural] French owned Danone acquired the Gardian milk powder plant in South Otago and the Sutton Group's infant formula blending and packaging plant in Auckland earlier in 2014. Danone Nutricia New Zealand managing director, Corine Tap said that it plans to source milk from approximately 60,000 cows in 2020, along with investing in its facilities to meet the growth demand in New Zealand and Asia. Ms Tap said that the acquisitions mean that they now are able to move supply back to New Zealand, after ending their contract with the Fonterra Co-operative Group. She said that they are moving the supply of the Karicare brands to the Balclutha plant in the South Island.

Oceania's Glenavy factory ready to go [22 September/ NZ Farmers Weekly] The Oceania Dairy's new \$214 million milk processing plant in North Otago is on target to meet its production target this season. The plant will receive 170 million litres of milk from suppliers and is expected to generate 30,000 tonnes of milk powder, operating at 65 percent of capacity for the first year, while full capacity would generate an annual output of 47,000 tonnes. Oceania Dairy CEO, Aidan Johnstone said that the company has been very pleased with the product output from the commissioning processes, which is expected to end this week. The company expects to reach maximum production for the 2014-15 season in October when milk supply is expected to peak, with 31.8 million litres scheduled to be processed for the month. The factory's home collection area has a radius of 50 kilometres, with all milk supply contracts within its targeted collection area. Oceania Dairy was acquired by China's largest dairy food company, dairy manufacturer and marketer, Yili Industrial Group early in 2013. The majority of Glenavy's production is expected to supply the factories and the supply chain of Yili Industrial Group.

Synlait lifts profit 70pc – plans new China stake [22 September/ NZ Herald] A Synlait Milk statement said that its profit increased 70 percent to \$19.6 million in the 12 months ended July 31, meeting its prospectus financial information target, with sales having increased 43 percent to \$600 million. Synlait Milk chairman, Graeme Milne said that profitability advantages over and above PFI experienced in the first half of the year were offset by the regulatory changes in the Chinese market. The company is currently waiting on registration from Chinese food safety regulators. In order to build its relationship with a Chinese brand, Synlait Milk is planning to acquire a 25 percent stake in New Hope Dairy, which is owned by New Hope Nutritional. New Hope Nutritional sells the Akara branded infant formula range in China. Synlait Milk Managing Director, John Penno said that Chinese officials have indicated that this approach will be a future requirement for the export of retail-ready infant formula to China.

Dairy drop 'catastrophic' [23 September/ NZ Farmer] AgFirst agricultural economist, Philip Journeaux said that a drop in the dairy price to \$5.20 from the record breaking \$8.65 payout last season will have an \$800 million impact to the Waikato economy alone. Morninsville farmer, Keith Holmes, while predicting a forecast of between \$5.50 and \$5.80 per kilogram of milksolids said that it would not be possible for a farmer to make a profit with a payout below \$6. University of Waikato professor of agribusiness Jacqueline Rowarth said that Fonterra would feel the pressure if it maintained its current strategy of providing increased milk quantities while the price was low on the GlobalDairyTrade. Professor Rowarth also said that with money from the record payout having already gone towards debt re-payments and new compliance costs, a low payout will have a significant impact on farmers. Waikato Federated Farmers president, Chris Lewis said that farmers would be expecting the dividend forecast due on September 24 to be very high. Mr Lewis said that many agricultural goods and services companies were also feeling the impacts flowing through, with AgrowQuip sales representative, Colin Henderson saying they have already felt the impact from the drop in forecasts. NRM feed specialist, Jason Ward said he is expecting sales to drop over the next two months.

Environment and emissions

New products to help meet regulations [19 September/ Radio New Zealand] Agri-companies are currently under pressure to come up with new products to cater to the needs of farmers facing stringent environmental regulations. Aqua Synergy Group's general manager, Richard Martin said that its new self-cleaning product which removes E.coli from water will have a big impact. The PUER system physically removes E.coli from dairy shed washdown water, with the cleaned water available for washdowns while the solids are separated to be used as fertiliser. Effluent Treatment Systems director, Phil Welham said that it would address one of the biggest problems facing the country's dairy industry. Mr Welham said that the first product will be used in the Waikato in October.

Research and development

Funding aims to stop the rot [19 September/ Business Day: NZ Farmer] The Cell Foods project has been allocated \$340,000 per year for two years to investigate methods of making processed foods healthier by keeping food cells intact in juice and pulp. Generally the process of turning fruits into pulp destroys their cells, resulting in some degradation of the chemical and nutrient profiles. A second project is investigating the remote release of natural volatiles into containers carrying produce in order to keep it fresh, with Plant & Research estimates indicating that the devices could earn \$10 million per year globally, while providing cost savings to exporters by controlling rot and allowing perishable produce to be exported via shipping.

Biological control for pest plant [23 September/ Radio New Zealand Rural] Landcare Research is assessing two types of insects (a leaf feeding beetle and a fruit and stem feeding moth), with the hope that they will act as a biological control for the highly invasive weed, tutsan, which is costing an estimated \$30 million per annum in production losses and reduced land values. Biocontrol scientist, Hugh Gourlay said that while it is believed the insects only feed on tutsan, Landcare Research is in the process conducting tests to establish if the Georgian origin insect will feed on anything else. He said retrospective studies show that biocontrol agents introduced in New Zealand have not significantly attacked other plants beyond their predictions. He also said that the studies have not shown any major impacts on other insects.

Biosecurity

More biosecurity scrutiny for yachts [18 September/ Rural News Group] Following the two Queensland fruit fly detection in Whangarei earlier in 2014, the Ministry for Primary Industries said that yachts arriving in Northland from overseas this season will face heavier biosecurity scrutiny. Ministry for Primary Industries North Ports manager, Sharon Tohovaka said that inspectors will be carrying out a higher number of intensive inspections, in addition to the existing biosecurity protocols. She also highlighted that inspectors may be supported by biosecurity detector dogs. She said the air force and naval support will also be used in the biosecurity efforts. Ms Tohovaka said that the Ministry will be working with the Northland iwi to increase the population of the Coast Watch programme, which encourages local reporting of unusual events on the coast, such as vessels anchoring without informing authorities. She also said that there will be biosecurity staff placed at the two main yacht gathering points in the South Pacific, Musket Cove in Fiji and Vava'u in Tonga to increase biosecurity awareness.

International

Win for wine industry with Pacific countries agreeing on standardising chemical residue limits [18 September/ ABC Rural] The APEC Wine Regulatory Forum has agreed to commence establishing maximum residue limits for agricultural chemicals in wine, which will supersede the individual limits set by each country. The Winemakers Federation of Australia general manager of strategy and international affairs, Tony Battaglione said the new limits could take up to two years to come into effect and will bring substantial benefits for Australian vineyards, winemakers and exporters, as the wine produced according to a one method is able to be sold into any market. Mr Battaglione said that it will result in millions of dollars in savings, as well as increase efficiencies.

Tech giants turn to agriculture [18 September/ Australian Financial Review] Chinese executives have started investing in agriculture, with Alibaba founder, Jack Ma and Citic Private Equity's Yungeng Capital having spent at least RMB2 billion in July acquiring a 60 percent stake in the Chinese dairy giant Yili Industrial Group, while internet company NetEase invested in an 80 hectare pig farm and computer maker, Lenovo, set up an agricultural subsidiary with plans to invest RMB1 to 2 billion over the next five years. An analyst said that the number of investors entering agriculture is on the rise, despite the turnaround period being longer than a typical private equity investment. He noted that although the turnaround period can take up to 10 to 20 years, the return could be significant. He highlighted Government's prospective land reforms and the changes to the operation of over 1,700 state-owned farms as creating opportunities for investors. Shanghai based advisor to EG Funds Management, Scott Reid said while Chinese investment in Australia's agriculture is still relatively small at approximately 2 percent of the total of the country's investment, in the six years to 2012, there were several major acquisitions.

Stimulus for long-term investment in farms [20 September/ The Irish Times] The Minister of Agriculture in Ireland, Simon Coveney, said that the Government is planning a re-orientation of farm taxation to encourage long-term investment in farms and to address the challenges facing agriculture in the country. He said that one of the changes includes a progressive taxation system targeted at assisting farmers meet the challenges ahead. He said the plans will also focus on challenges surrounding climate change, generational change and protecting biodiversity. Mr Coveney said that the Government wants to support farmers who want to expand, as well as promoting access to land for young farmers. He also mentioned the removal of the milk quota system as a benefit for the industry.

Duo jailed for laundering Natural Dairy funds [20 September/ Southern China Morning Post] Solicitor, Wu Wing-kit and the wife of former director of listed company Natural Dairy Holdings (Chen Keen), Ye Fang, were sentenced to six years and six and a half years respectively for laundering a total of HKD 230 million of Natural Dairy Holdings (formally China Jin Hui Mining Corporation) funds. Ms Fang's husband and two other officials from Natural Dairy Holdings were charged with conspiracy to defraud over the purchase of New Zealand based UBNZ Assets Holdings, while Ms Fang's husband was also charged with money laundering.

China Tuna suspends IPO [22 September/ Business Day] The China Tuna Industry Group suspended its USD 100 to 200 million IPO on the Hong Kong Stock Exchange on revelations that it was significantly understating risks it faced chasing bigeye tuna and it was telling investors that international quotas were unlikely to have any effect on its operations. Greenpeace Hong Kong which filed a complaint with Hong Kong Exchanges and Clearing Ltd last week said that some of the data used in the IPO was outdated, and it had ignored evidence indicating that bigeye tuna stocks were at dangerously low levels. IPO paperwork highlighted China Tuna's disregard for attempts by Pacific nations, including New Zealand to control the tuna fishery, with the company having to admit that catch vessels flying the Chinese flag exceeded the quotas over four years.

Agribusiness strategy

GM on the agenda at Roundtable [20 September/ NZ Farmer] Ashburton farmers, Craige and Roz Mackenzie have been invited to attend the Global Farmer Roundtable, a part of the World Food Prize meeting held in Iowa, United States in October. The focus of the Roundtable is on feeding a population of 9 billion by 2050 through trade and technology, with the subject of genetic modification to improve agriculture production discussed freely. Mr Mackenzie said that talks were likely to be centred around land intensification and innovation. Mr Mackenzie commented that it would be interesting to discuss genetic modification and its benefits without the emotional connotations and encouraged the same approach in New Zealand. He acknowledged the public resistance, and said more science was needed to identify the risks and whether markets would prefer food that were not genetically modified.

Economics and trade

Korean trade talks stall [22 September/ NZ Farmers Weekly] Trade negotiations between New Zealand and South Korea have failed to overcome significant differences, including the removal of high tariffs on New Zealand dairy products, with an agreement unlikely to be reached in the near future. Trade Minister, Tim Groser earlier threatened to thwart South Korea's ambitions of entering the Trans Pacific Partnership. The Government is under pressure from the meat and kiwifruit industries to enter an agreement with South Korea to maintain competitiveness against their rivals with current or pre-ratified trade deals. Beef exporters are concerned that United States and Australian exporters with a significant tariff advantage will risk New Zealand's fourth largest meat export market, while Zespri, with a 40 percent tariff is losing market share against rival Chile, which is not subjected to any tariffs. The Dairy Companies Association said that the Government should not agree to a trade deal if significant reductions in tariffs, currently as high as 176 percent on some dairy products are not forthcoming.

Election 2014

Greens spoof Nats' dirty river row [18 September/ NZ Farmer] The Green Party said that dairy conversions in the upper Waikato River are undermining clean up attempts. The Green Party co-leader, Russel Norman said that the Landcorp dairy conversions would add phosphorous and another 700 tonnes of nitrogen into the waterways each year. He said that over time, it will contribute to the algal bloom problems in Lake Karapiro. Former Green Party candidate and ocean rower, Rob Hamill said that two thirds of monitored swimming sites throughout the country were unfit for swimming while Karapiro was progressing to the stage of being unusable. Mr Norman said that if he was in power after the election, Landcorp would have to operate within strict environmental limits, which would put an end put to conversions.

Fed Farmers against water tax [18 September/ Radio New Zealand Rural] Federated Farmers said Green and Labour Party plans to introduce irrigation charges will damage regional economies in parts of the South Island, with a report by the New Zealand Institute of Economic Research saying that a tax of 1 percent per cubic metre of water used for irrigation and stock purposes will result in \$39 million of payments by farmers. Water and environment spokesperson, Ian Mackenzie said that it will increase the price of fresh fruit and vegetables grown locally, opening up the market for poorer quality products from overseas. He also commented that the science does not support the common view that irrigation equals water pollution.

More of the same says Nathan Guy [22 September/ Radio New Zealand Rural] Primary Industries Minister, Nathan Guy said the new National government would have a particular focus on continuing the primary sector's economic growth. He highlighting the Party's manifesto commitments on more research and development and focusing on the Primary Growth Partnership, while ensuring the gains flow through to farmers who adopt technological advances inside the farmgate. He also highlighted the Government intentions to establish water storage projects. Green Party primary industries spokesperson, Steffan Browning said that the Green Party will continue focus on clean water.

Labour questions Fed Farmers priorities [22 September/ Radio New Zealand Rural] Labour Party primary industries spokesperson, Damien O'Connor said that although there can be some improvements surrounding the RMA, the Federated Farmers' call for reform is misplaced as the highest cost of agriculture is capital and the cost of power, with both banks and power companies making record profits. While expressing his disappointment with the election result, Mr O'Connor said that the Labour Party had hoped to get into Government and address issues surrounding research funding. He criticised the Government for sending mixed signals by cutting back on AgResearch capabilities while spending \$700 million on the Primary Growth Partnership projects.

Easy wins for Kuriger, Muller [22 September/ Rural News Group] The inaugural Dairy Woman of the Year, Barbara Kuriger and former Fonterra executive, Todd Muller comfortably won their Parliamentary seats on National Party tickets. Ms Kuriger, who was awarded the 2012 inaugural Dairy Woman of the Year award, graduated from the Global Women's breakthrough programme and also served as a Dairy New Zealand board member. Mr Muller was a former general manager for Zespri and was the Fonterra group director of cooperative affairs. Mr Muller is a Waikato University councillor and serves on the boards of Plant and Food Research and the Sustainable Business Council.

More power for irrigation [22 September/ Rural News Group] Irrigation New Zealand said that John Key's Government will develop the infrastructure needed to provide the security of water for agriculture, town drinking, waterways, recreational use and to future proof New Zealand from climate change. Irrigation New Zealand acting chair, Nicky Hyslop said the proposed RMA reforms will facilitate irrigation schemes to be established, including the schemes in Ruataniwha, Hurunui and Hunter Downs. She made the distinction between water infrastructure and opening the floodgates to large dairy conversions, saying that water infrastructure is an essential tool in adding value to the economy. Irrigation New Zealand CEO, Andrew Curtis mentioned that the National Party's re-election is an opportunity to review the current nutrient management policy, while highlighting the need for farmers to operate within strict limits. With public increasingly realising the importance of water infrastructure, Irrigation New Zealand also believes in the public contribution to the cost.

Farmers look forward to resource law reform [23 September/ NZ Farmer] Federated Farmers said the National Party’s decisive election victory is directive to reform the Resource Management Act, with the Green Party co-leader, Metiria Turei warning that the proposed changes will remove the ability for people to have a say on environmental issues. Federated Farmers environmental spokesman, Ian Mackenzie said that it was important to align the RMA with the National Policy Statements on Freshwater. Those against reform said that the addition of social, economic and community values would favour development over environmental issues. Ms Turei said that with a decline rate of only 0.27 percent, there was no need for a reform.

Farmers and producers

Support for breast cancer charity [19 September/ Radio New Zealand Rural] The Dairy Women’s Network and the Breast Cancer Research Trust have joined forces, with farmers being encouraged to donate a minimum of 5 kilograms of milksolids to help raise funds for breast cancer research. Suppliers to the Fonterra Co-operative Group can nominate five, 10 or 15 kilograms of milk solids per month, which is automatically taken off the dairy cheques, along with other payments and levies.

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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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