AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

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HOT OFF THE PRESS:
KPMG AGRIBUSINESS AGENDA 2014 VOLUME 2

3 December 2014

Organisations referenced in this week's Field Notes include:	
AFFCO Holdings	LPF Litigation Funding
AgResearch	Manawatu-Whanganui Regional Council
AgriHQ	Massey University
Alliance Group	Pipfruit New Zealand
ANZ	Potatoes New Zealand
ANZCO Foods	St Paul's Collegiate
Bank of New Zealand	Statistics New Zealand
Civil Aviation Authority	Talleys Group
Coca-Cola	Tatua
Fairlife	United Nation's Food and Agriculture Organization
Federated Farmers	United States National Institute of Health
Figured	Victoria University
Fonterra Co-operative Group	Waikato University
Kiwifruit Claim	Westland Milk
KPMG	Wools of New Zealand
Livestock Improvement Corporation	Yellow Brick Road

This week's headlines	
Horticulture	Kiwifruit lawsuit launched against Government [28 November/ NZ Herald]
Dairy	Westland Milk cuts dairy payout forecast [26 November/ NZ Herald]
Red Meat	Plan support tepid [1 December/ NZ Farmers Weekly]
Rural communities	Mining key to rural wealth - report [December 1/ Business Day: NZ Farmer]
International	Coca-Cola gets into milk business with Fairlife brand [26 November/ Huffpost Business Canada]

Horticulture

New funding for apple pest research [28 November/ Radio New Zealand Rural] An additional $4.3 million of government support for the Apple Futures II programme will enable Plant and Food Research to continue the development of techniques to control pests and diseases and remove insects post-harvest with minimal use of chemicals. Pipfruit New Zealand CEO, Alan Pollard said the programme is designed to address issues surrounding phytosanitary challenges, pest and disease management and food safety, which are key focuses of the Asian market that is expected to be approximately half of New Zealand's export market by 2022. Mr Pollard said most of the export growth for the pipfruit industry is expected to be in markets such as China and India.

Kiwifruti lawsuit launched against Government [28 November/ NZ Herald] The group alleging that the Government was negligent in allowing the Psa incursion into New Zealand, the Kiwifruit Claim, lodged its claim in the High Court on November 28. All kiwifruit growers have been invited to join the class action law suit for a one off fee of $500, $1,000 or $1,500 based on the size of the orchard, while post-harvest operators have been invited to join for a one of fee of $10,000. Kiwifruit Claim media spokesman, Matthew Hooton said 18 percent of gold kiwifruit growers and eight percent of green kiwifruit growers by volume had joined the lawsuit, with an additional nine percent of gold kiwifruit growers having expressed an interest. An additional seven percent of growers had also joined the claim but are yet to be confirmed as gold or green growers. The total loss of those growers that have joined the lawsuit is estimated to be almost $250 million. Mr Hooton said that the agreement for funding with the litigation funder, LPF Litigation Funding became unconditional on November 19.

Legal action still worries growers' body [1 December/ Radio New Zealand Rural] Despite suing the Government over the incursion of the Psa virus into New Zealand, representatives of the Kiwifruit Claim have said that they have been assured by ministers that there would be no repercussions from the claim. However, New Zealand Kiwifruit Growers president, Neil Treblilco said there could still be damage done to the industry's relationship with government. Mr Trebilco said that the legal advice it received indicated that the suit against the Government is unlikely to succeed.

Taiwan bites into apples [2 December/ Business Day: NZ Farmer] The value of apple exports to Taiwan has increased by 210 percent in the 10 months since the free trade agreement was signed with New Zealand. Total exports from the commencement of the free trade agreement on 1 December 2013 to the end of September 2014 had increased in value by over 20 percent to a total of $884 million, with dairy products increasing by 37 percent to $352 million. Apple exports increased in value from $13 million pre-agreement to $39 million after the free trade agreement. The main apple varieties on sale in Taiwan are fuji, royal gala, pacific rose and pacific beauty. The Trade Minister, Tim Groser said that over 69 percent of New Zealand's exports to Taiwan are now free of tariffs, resulting in savings of approximately $78.4 million. With exports for the year ended September totalling over $1 billion, Taiwan is New Zealand's seventh largest goods export market.

Forestry

China demand for wood products set to climb [28 November/ NZ Herald] New Zealand market data provider, AgriHQ said that China's demand for wood products is forecasted to grow faster than its domestic production. AgriHQ analyst, Ivan Luketina said the Chinese Government's long term plan for urban migration will result in another 120 million people requiring housing in urban centres by 2020, which will support construction. Approximately 80 percent of New Zealand log exports to China are used in the Chinese construction market. Although domestic production in China is expected to increase in the long term, slow growth in production is expected for at least the next four to five years. The DNS Forest Products-AgriHQ China Forestry Report said New Zealand is the only major supplier likely to be notably increasing supply by 2020. The slowdown in residential construction in China resulted in a drop in prices to USD 123 per Japan Agriculture Standard (JAS) cubic metre, with inventories increasing from approximately 2 million tonnes on Chinese wharves earlier in 2014 to 5 million tonnes, with inventories having settled at an estimated 3.5 million tonnes. Current log prices have recovered to USD 133 per JAS cubic metre.

Wool

Wool programme aiming to deliver stability [28 November/ Ogato Daily Times] The wool marketing and sales company, Wools of New Zealand has launched an annual wool commitment programme, called Staple, aimed at providing certainty of supply to customers direct from growers, allowing planning and confidence of meeting contracts. Wools of New Zealand CEO, Ross Townshend said it was an important tool in reducing price volatility and improving sustained, predictable returns and certainty. Its benefits include preferential access to Wools of New Zealand and Laneve supply contracts, a rebate on achieving annual supply commitment, communication on contract supply options and specifications as available and participation in the Wools New Zealand Grower of the Year Award.

Fishing and aquaculture

Seafood 'story of sustainability' [24 November/ Business Day: NZ Farmer] Yellow Brick Road was founded by Rachel Taulelei in 2006 to allow consumers to identify where the seafood they purchase was caught, increasing New Zealand seafood in the value chain. Yellow Brick Road now supplies approximately 300 restaurants around New Zealand. Ms Taulelei was a finalist in the business category at the Wellys Wellingtonian of the Year awards last week. Yellow Brick Road is supplied by up to 20 fishermen and seafood farmers, offering over 30 seafood varieties. Yellow Brick Road works with artisan fisherman to increase the value of their catch, however as a small business is not necessarily able to take the whole catch from a particular boat, given its need to match the demand of its customers with the supply that fisherman can make available.

Dairy

Westland Milk cuts dairy payout forecast [26 November/ NZ Herald] New Zealand's second largest dairy co-operative, Westland Milk said it would cut its dairy payout forecast for 2014/15 by 40 cents per kilogram of milksolids to a range of $5.00 to $5.40 per kilogram. Westland chairman, Matt O'Regan said that its customers were generally comfortable with their inventory levels into the first quarter of 2015 and there is no expectation for a sudden increase in demand. Given the volatility in the commodity market, he reaffirmed the company's emphasis towards more value added products, such as the move into base infant formula powders and its recent investment in a Ultra-high Temperature milk plant. Mr O'Regan said the company had systems in place to offer support to shareholders who may financially struggle due to the cut in the payout. He also noted that he expected Fonterra will cut its forecast when it updates farmers early in December.

Fonterra mulls equity partnership trust [26 November/ NZ Herald] Fonterra Co-operative Group said that it has commenced a consultation process to gauge interest in a proposed collaborative equity partnership trust for New Zealand and Australian farmers, which would target investments in farming operations while allowing farmers to retain control of their business. Fonterra CFO, Lukas Paravicini said that the objective is to provide greater financial flexibility to farmers and support sustainable milk production volumes through the ability to efficiently fund dairy farming. The trust would allow farmers to access equity that is customised to their needs and growth targets, as well as allowing for the better management of earnings volatility.

US mega dairies 'a threat' [28 November/ Business Day: NZ Farmer] ANZ corporate rural manager, Hamish Edge said that the development of mega dairies in the United States is threatening the competitive advantage of New Zealand's low cost farming system, where the total capital invested in the mega farms are $20 per kilogram of milksolids, compared with New Zealand's $50. He said the only way for New Zealand to compete with the United States and other countries is through a single marketer, such as Fonterra. He emphasised the importance in producing milksolids at the lowest cost possible. The mega farms accounted for 40 percent of United States' milk produced and are growing in number. On the other hand Mr Edge expressed his concerns that a similar trend in New Zealand would threaten family farms. ANZ also mentioned that the payout for the next few years will be low, and encouraged farmers to seek support and advice.

Wilson coy on Fonterra payout [28 November/ NZ Farmers Weekly] Fonterra Co-operative Group chairman, John Wilson speaking at the KPMG BNZ Rural Business update reminded farmers and industry professionals that prices had been as low as current levels in 2012. He mentioned Fonterra's strategy of increasing milk payout and dividend return through its V3 strategy for growth of volume, value and velocity, as well as highlighting its investment in plant targeted at adding value to base commodity inputs. He mentioned that the current fragility is due to global supply issues. Mr Wilson acknowledged New Zealand farmer frustration at the United States Farm Bill being passed in February, which offered subsidies benefiting US farmers. The Russian ban has further frustrated the market with an additional 2.5 to 3.0 billion litres of milk having to find a market, as well as the pickup in the Chinese domestic milk production. Additionally the abolition of European milk quotas in April 2015 will result in further increases in supply. Responding to questions, Mr Wilson said that the details of the China-Australia free trade agreement are yet to be released. He expressed the need for Australia to seek high quality trade deals and mentioned the desire for the two countries to work closely together in seeking global trade deals.

Tatua dairy company punches above weight [December 2/ NZ Farmer] Tatua CEO, Paul McGilvary, reflecting on the co-operative's recent 100th anniversary celebrations, said that revenue can be expected to grow by 50 percent to $400 million, along with an increase in staff by 60 percent to 500 within the next ten years. The company is also expected to fill capacity at its new drier in June 2015, making it the world's largest producer of dairy hydrosates, which will be able to produce 6,000 tonnes of pre-digested protein per annum at full capacity, bringing total potential production to 8,500 tonnes per annum. According to Mr McGilvary, the growth is expected to be achieved without material increases in milk supply. Tatua produces 180 products out of raw milk, with most products being exported. The company is expected to open an office in China in February and is also setting up a base in the United States. Japan forms 20 percent of Tatua's market, while China constitutes 17 percent, the United States 15 percent and Australia and New Zealand 15 percent, with the remaining product being sold in South East Asian markets. Mr McGilvary said the company's next big investment is likely to be on sustainable treatment of wastewater. A research project by AgResearch on the soils of high input Tatua farms attempting to find strategies to control nitrogen and phosphate loss is also currently underway.

Red meat

Plan support tepid [1 December/ NZ Farmers Weekly] Alliance Group and one of the leading private company owners, Craig Hickson are not in support of the licensing or the need for Government regulation that is seeking to enforce a temporary halt to new meat processing capacity, while ANZCO Foods said the plan addressed few of the crucial issues, such as over capacity and had a mechanism for companies to remain in or exit the market. Silver Fern Farms acknowledge the existence of an over capacity issue but said they needed more details on the plan and will engage on any sensible basis. The owner of AFFCO Holdings, Talleys Group, is in support of the moratorium plan. Mr Hickson said the plan would fetter competition, while the Alliance chairman, Murray Taggart said the plan is more biased towards companies than farmers. He was also opposed to a plan that required Government involvement for implementation. ANZCO managing director, Mark Clarkson said that he would be willing to discuss any proposal that enhanced the viability of the meat industry. Talleys proposed a 12 year moratorium on new sheep and beef processing plants and new chains at existing plants to reduce over capacity, while Mr Hickson said a 12 year time period was excessive. Mr Hickson and Mr Taggart said that farmers had the choice as to where stock would go for processing. Mr Taggart also questioned the benefits of a temporary ban if companies were able to return to the old system, after the designated ban period.

Rural communities

Mining key to rural wealth - report [December 1/ Business Day: NZ Farmer] The New Zealand Initiative produced report, Poverty of Wealth: Why Minerals Need to be Part of the Rural Economy stated that the New Zealand's minerals sector will help to revive struggling rural economies, if the Government was to reduce the complexities of the Resource Management Act and create financial incentives for local Government to work with mineral extractors. The report says that the mineral resources in the provinces are under explored and underutilised. The report's demonstrates that New Zealand is capable of offsetting the negative macroeconomic and environmental effects of mining.

Environment and emissions

Controversial One Plan finally approved [27 November/ Radio New Zealand Rural] The Manawatu-Whanganui Regional Council has signed off its controversial One Plan, which will guide resource management decision making. Federated Farmers' dairy chair, Andrew Hoggard said that the plan needed many changes as meeting the original proposed nutrient management targets would have be challenging for some farmers. The plan will require many farmers to invest to meet the standards it sets out. Mr Hoggard said that it was not consistent with the National Policy Statement on Fresh Water, as it only identified certain catchments for rules surrounding nitrogen to apply in. The Horizon One Plan is to be operational from 19 December.

Private sector to the rescue? Climate change needs industry, not government [28 November/ National Business Review] The landmark deal between the USA and China to take more active steps to restrict greenhouse gas emissions has attracted significant attention from analysts. There is apparent concern from Chinese negotiators whether the US will be able to fulfil its commitments given the political challenges the administration faces working any legislation through the Republican controlled legislature. However, Lionel Carter of Victoria University suggests the change in US policy focus appears to have come more from business than government, with the insurance industry in particular taking a climate adaption stance. Another Victoria academic, Professor Martin Manning, says it is better that the deal has happened even though it is unclear what impact it will have. He adds that the Chinese government's ability to set and follow a 30 year plan makes it more likely that they will deliver on their commitments, whereas the US system has an inability to see past the next election term and create functional long-term strategies. He does note that having global sectors, such as insurance and pension schemes, placing greater focus on the climate policies being adopted in a country could help speed up policy evolution, as it is driven by commercial rationales and drivers.

International

Coca-Cola gets into milk business with Fairlife brand [26 November/ Huffpost Business Canada] Coca-Cola North American president, Sandy Douglas said that it was preparing to launch Fairlife milk across America, as a result of a joint venture it has entered into with Fairlife Dairies. Fairlife promotes its brand as being lactose free, higher in protein and calcium than traditional milk and lower in fat and sugar. Fairlife said it had developed a sustainable business that is sensitive to environmental issues.

Sierra Leone goes hungry as Ebola targets prove elusive [28 November/ Agence France Presse] The United Nations said Sierra Leoneans are going hungry as the country's farms are being impacted by the Ebola outbreak, while the United Nation's Food and Agriculture Organization saying that the three worst hit countries (Guinea, Liberia and Sierra Leone) are at risk of malnutrition and under-nutrition. The FAO said that restriction on movement has led to panic buying, food shortages and price hikes. The United Nation's Mission for Ebola Emergency Response crisis manager for Sierra Leone, Amadu Kamara said that it was unlikely to meet the goals set in October to handle the Ebola outbreak. Quarantine zones implemented in the three countries have impacted production of cash crops such as palm oil, cocoa and rubber. The United Nation's World Food Programme initiated a regional emergency operation in September to supply 65,000 tonnes of food to 1.3 million people in the most impacted areas. Researchers for the United States National Institute of Health said that they were a step closer to developing a vaccine.

Agenda 2014

Ian Proudfoot: NZ can be local producer to world [26 November/ NZ Herald] KPMG Global Head of Agribusiness, Ian Proudfoot, said in an opinion article that given the growth in demand for food, particularly protein, set to occur over the next 30 years, there are multiple opportunities for New Zealand businesses to add greater value to products by meeting the needs for new customer niches. Mr Proudfoot highlighted the need for producing more food from less available resources for many countries, as well as the customer expectations around sustainability. He said the focus for New Zealand should be on providing the fraction of the diet that is the lifestyle-enhancing, premium experience to the 400 million richest consumers in the world rather than trying to feed the total diet of 40 million consumers. He also emphasised the need adopt to the consumption changes around the world, as well as focusing on how to add value to products and addressing ethical issues facing the agri-food sector. Mr Proudfoot highlighted water constraints faced by many countries and stressed the need to focus on export opportunities for liquid products, particularly in dairy. He highlighted the need for New Zealand companies to focus on how new technologies can complement the traditional agri-food activities.

Agri-tech

Better communication urged over drones [27 November/ Radio New Zealand Rural] The Civil Aviation Authority is aiming to tighten rules around the use of drones in 2015. The Civil Aviation Authority general manager, Steve Moore said that the new regulations will require an owner to have an operator's certificate if a drone could pose a risk to people or become a hazard. Massey University professor, Ian Yule said that information regarding timing, location and altitude of drones need to be communicated better with aerial top dressers and sprayers, as e-mails and phone calls to farmers and pilots seemed to be ineffective.

LIC partnership may bring 'farming in the cloud' down to earth [27 November/ National Business Review] Farm financial management software provider, Figured, has entered into a strategic partnership with Livestock Improvement Corporation (LIC) at the same time as LIC has taken an 18.8% equity stake in the business. Figured, which delivers cloud based livestock and cashflow reporting tools, integrates with Xero to allow real time farm accounting. Figured soft launched in February and now has 300 farming customers, but CEO, Paul Reid, said the company was still in its start-up phase. Mr Reid said that LIC's direct relationships with farmers would provide Figured a valuable channel to market. LIC CEO, Wayne McNee, said the partnership aligns strongly with its strategy to improve the prosperity and productivity of the company 11,000 farmer-shareholders, and he sees a wider, long-term picture being the development of an integrated farm performance information system that will integrate information from a wide range of sources to support farmer decision making. While not disclosing the cost of the investment, Mr McNee noted that LIC was looking at a number of other potential acquisitions and investments in the farm performance software space.

Agribusiness education

Agribiz targets bright kids [1 December/ NZ Farmer] After piloting a new curriculum for year 12 and 13 students, which include career skills from agriscience and agritechnology to agrimarketing and finance at St Paul's Collegiate in Hamilton, an additional seven schools have formally signed up to the project to offer the subjects from 2016. The curriculum was developed through a $2 million public-private partnership supported by Dairy New Zealand and Beef + Lamb New Zealand. The St Paul's Collegiate is also to build a $1.3 million centre of excellence for agriculture science and excellence, funded by parents, ex pupils involved in agribusiness and the board. St Paul's deputy headmaster, Peter Hampton said that it was working with the Ministry of Education to make the subjects NCEA qualifying courses. He said the curriculum would target academic students, while there will be lower level courses for students not at that stage. Waikato University professor of agribusiness, Jacqueline Rowarth welcomed the initiative but said that the importance of agriculture had to infiltrate the whole school curriculum.

Economics and trade

Terms of trade picked to fall further [2 December/ NZ Herald] The terms of trade declined 4.4 percent in the September quarter, led by a 4.5 percent drop in export prices which was offset by a 0.1 percent decline in import prices. Around 80% of the fall can be attributed to an 11 percent drop in dairy prices, although less than a third of the decline recorded by the Fonterra Co-operative Group global dairy auctions since February has flowed through to the terms of trade so far. Forest product prices declined 3.9 percent (12 percent for the year), beef prices increased 9.3 percent, wool increased 3.3 percent, aluminium increased 7.8 percent and oil increased 2.7 percent. Statistics New Zealand commented that if dairy products were taken out, the decline in export prices would have been 0.9 percent. Bank of New Zealand economist, Craig Ebert said that most forecasters, including the Reserve Bank of New Zealand have forecasted a decline in the terms of trade by approximately 10 percent by 2015.

Farmers and producers

Too wet in winter, now too dry [2 December/ Radio New Zealand Rural] Federated Farmers Gisborne Wairoa president, Sandra Faulker said that soil level in the region were much lower than the normal for this time of the year, with record high temperatures on some days during October and November. Hawke's Bay's farmer president, Will Foley said that the dry conditions has given rise to stock sales, especially for sheep. A wet winter, less sunlight and cooler temperatures have resulted in a shortage of potatoes, with Potatoes New Zealand CEO, Champak Mehta saying that the impacts are also being felt on companies such as potato chip processors.

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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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