

AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network

10 December 2014

Organisations referenced in this week's Field Notes include:

AGCARM	Ministry for Primary Industries
Alliance Group	Ministry of Education
ANZ	National Institute of Water and Atmospheric Research
Aotearoa Fisheries	New Zealand First Party
ASB	New Zealand Grain and Seed Trade Association
Bank of New Zealand	New Zealand Sport Fishing Council
Blue Sky Meats	NZX Agri HQ
Clover Export	Opuha
Commerce Commission	Overseer
Constellations Brands New Zealand	People for the Ethical Treatment of Animals
Environmental Protection Authority	Pipfruit New Zealand
European Food Safety Authority	Synlait Milk
European Union	Talley's Group
Federated Farmers	United States Department of Agriculture
Financial Markets Authority	Western and Central Pacific Fisheries Commission
Fonterra Co-operative Group	Westland Milk Products
Labour Party	World Wildlife Fund
LegaSea	Yealands Wine Group
Lincoln University	Zespri

This week's headlines

Honey	<b>Bitter honey row keeps going</b> [8 December/ NZ Farmers Weekly]
Dairy	<b>Another \$1 off payout likely</b> [4 December/ Otago Daily Times]
Red Meat	<b>Alliance appoints David Surveyor CEO</b> [5 December/ Business Day: NZ Farmer]
Food Safety	<b>Fonterra 'silo' culture slammed in government botulism probe</b> [9 December/ NZ Herald]
Farmers and producers	<b>Watchdog told to stand up to big business</b> [5 December/ Business Day: NZ Farmer]



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**KPMG AGRIBUSINESS  
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**Horticulture**

**Director a first for Zespri** [5 December/ NZ Herald] Zespri said that it appointed former Danone executive, Teresa Ciprian as an independent director, making her Zespri's first women director. Ms Ciprian has advised a number of internationally focused business on their growth strategies and has developed a governance portfolio, which includes the boards of Firstlight Foods, AgResearch, Aspeq and Aviation New Zealand.

**Viticulture**

**US wine firm snaps up troubled dairy farm** [5 December/ Marlborough Express] Marlborough dairy farmer, Phillip Woolley who put his company into receivership last week has leased 308 hectares of his farmland on Hunter, Pembers, Blind Creek and Rarangi roads in Tuamarina for a term of 34 years to American owned wine company, Constellations Brands New Zealand. Mr Woolley and his wife had intended to take back control of the farm once the business was restructured. The High Court in September confirmed the Environment Court ruling that barred Mr Woolley from re-stocking his Tuamarina farm until it upgraded its effluent management system to comply with its resource consent. The first receivers report is due in February 2015. Constellations Brands New Zealand Managing Director, Sam Glaetzer, said that the company intends to plant sauvignon blanc vines and the plantings would be used for the company's major export brands, Kim Crawford, Nobilo and Monkey Bay wines.

**Yealands probes capital raising, possible IPO** [8 December/ NZ Herald] With the aim of hastening their expansion into the international markets, Yealands Wine Group is investigating options surrounding capital raising. The company outlined the need to increase its grape supply in order to capitalise on the current growth opportunities in the market. Yealands Wine Group has hired investment bank, UBS, to assist in reviewing capital raising options, including an initial public offering.

**Arable**

**Asian group to visit seed growers** [8 December/ Business Day: NZ Farmer] Canterbury growers are confident that a visit by Asian vegetable seed producers will increase the \$15 million per annum seed export industry to Asia, with New Zealand Grain and Seed Trade Association manager, Thomas Chin saying the influential Asian group of vegetable seed producers will be exposed to how high quality vegetable seed crops are grown, processed and exported. The service multiplies seed in the Northern Hemisphere's off season, and the growers, mostly based in Canterbury supply over 50 percent of the world's supply of hybrid carrot, radish and beet seeds, while a wide range of other specialist vegetable and Asian brassica seed crops are exported. Mr Chin said the vegetable seed exports to Asia could easily be increased by \$5 million in the next few years. He anticipates that the study tour will result in new partnerships and business.

**Honey**

**Bitter honey row keeps going** [8 December/ NZ Farmers Weekly] Honey producers welcomed the Ministry for Primary Industries' decision to re-examine Australian honey imports. Ministry for Primary Industries' head of animal and animal products, Matthew Stone, said in a letter to Federated Farmers Bee Industry Group chairman, John Hartnell that the Import Health Standards, which was at the centre of the dispute between honey producers and the Ministry was based on science and risk analysis going back ten years. The Ministry acknowledged that there had been significant advances in scientific knowledge of honey bee diseases since then. An independent review panel appointed in 2009 identified gaps in the proposed import standards for Australia. In 2012 the Ministry for Primary Industries obtained inconclusive results from an overseas source that indicated heat treatment killed most but not all Israeli Acute Paralysis Virus, which the local industry was keen to keep out. This was a key contention by the industry who were concerned about the disease risks with imports. The Ministry has also drafted a new list of hazards identifying the bee diseases and pests that a new Import Health Standards would need to manage for the future. The beekeeping industry will have an opportunity to peer review the Ministry's risk assessment prior to any formal standards being completed. Mr Stone expects the formal Import Health Standards to be available for public consultation by September 2015.

**Wool**

**Shearer slams bad sheep treatment claims** [8 December/ Business Day: NZ Farmer] Hawke's Bay shearer, Ingrid Smith has criticised the animal rights group, People for the Ethical Treatment of Animals (PETA) for its claims on social networks about the treatment of sheep. Ms Smith indicated her disbelief that PETA materials indicated woollen products could not be obtained without slaughtering sheep. Ms Smith's reply to social media posts by PETA prompted replies from around the world including a post from the United States that said his visit to a shearing shed in New Zealand was one of the most impressive experiences of his life, a post from an Australian who said it was more cruel not to shear them due to the heat and a post from a Britain saying that PETA's contention that torture is standard practice is absurd. In addition, Ms Smith disputed the claim that shearers being paid by volume encouraged disregard for the animal's welfare. She called for the group to stop misleading the public with untrue portrayals of the industry.

**Fishing and aquaculture**

**App wanted for anglers' catch** [5 December/ Business Day] The largest Maori owned fishing company, Aotearoa Fisheries wants recreational fisherman to record their catches in order to improve the management of fisheries, but recreational fishing advocacy group, LegaSea and fisheries scientists say it adds no value. An ecosystems services review conducted by Aotearoa Fisheries along with the Sustainable Business Council outlined the lack of recreational fishing data as one of the challenges facing the seafood industry. New Zealand Sport Fishing Council advisor and fisheries scientist, John Holdsworth said the real time total recreational harvest estimate that the commercial fishermen are seeking is not viable using an app that assumes total and accurate recording by all users. LegaSea spokesman, Scott Macindoe said a voluntary app to gather data is unscientific. He highlighted the fact that commercial fishermen not recording the by-catch they throw back into the ocean as a larger issue holding back the rebuild.

**Talley's adds tuna ship – and its crew** [9 December/ Business Day] Talley's has acquired a second purse-seiner from Sanford, doubling the size of its tuna catching capabilities. The 40 year old, 61 metre ship, Eagle which has retained its mixture of 21 American crew is to commence fishing from January to May in New Zealand's exclusive economic zone and from May to December in the Pacific. Talley's Nelson division CEO, Tony Haslett said the new acquisition would not increase the pressure on the tuna fishery as the ship was already part of the overall fleet.

## Dairy

**Another \$1 off payout likely** [4 December/ Otago Daily Times] The latest global dairy trade auction declined 1.1 percent, with whole milk powder declining 7.7 percent, offsetting all other gains. In addition to strong global production, New Zealand milk production itself has increased by 4 percent from a year ago. This season's Fonterra milk payout could reduce by as much as \$6.6 billion to \$6.4 billion. Taieri dairy farmer, Peter Horne said whole milk powder prices had to reach approximately USD 3,500 per tonne to be able to provide a \$5.30 payout, whereas the current USD 2,500 per tonne could only produce a payout of approximately \$4.70. He expects dairy farmers to be cutting down on spending and reducing capital investments. AgriHQ dairy analyst, Susan Kilsby said that if the latest auction prices were maintained across the entire season, the resulting milk price payout will be \$3.65. While analysts expect the payout to be below \$5, sharebroker, Forsyth Barr and AgriHQ expects it could be as low as \$4.25. ASB expects the Fonterra to downgrade the payout to \$4.70 for the season. The NZX whole milk powder futures contracts had dropped approximately 20 percent during the last fortnight, with contracts that are to expire in April to June 2015 showing the highest declines, indicating a further slowing down in the price recovery.

**Infant formula priority** [5 December/ Business Day: NZ Farmer] Synlait Milk Managing Director, John Penno, said that it expects half its product in the coming financial year to be allocated into infant formula, either through its own product, base for other formulas or milk powder added into other producers' infant product. Of its target of achieving 70 percent of its infant formula business to be with six large corporate customers, it has so far achieved business with four of its targeted customers, generating approximately 45 percent of its revenue. Mr Penno said that it expects 25 percent of its business to come from large, regional market leaders, and the rest to come from speciality producers such as A2 Milk. Mr Penno said that it expects to increase its milk supply once all of its six capital projects have been completed. He said that a large increase is not expected through into the 2015 financial year due constraints, but expects large increases to follow. Mr Penno said despite Synlait being on target, there was considerable uncertainty in dairy markets and that it will continue to weaken to lower levels than some in the industry anticipate, given the over production and the weak demand in China and Russia.

**Westland records highest-ever one-day milk collection** [8 December/ NZ Herald] New Zealand's second biggest dairy co-operative, Westland Milk Products recorded its highest ever one day milk collection at just over four million litres of milk on October 31, adding to the 335 million litres supplied to the company's plants in Hokitika and Rolleston by 29 November. West Coast based shareholders produced 3 percent more milk than the same time last year, while Canterbury shareholders produced over 14 percent more than last year. Westland Milk Products CEO, Rod Quin said a new dryer at Hokitika is expected to be functional next season, followed by the Ultra High Temperature plant in Rolleston. Mr Quin said that the company is not expected to have any difficulty on-selling the production, with as much as possible being directed to added value nutritional products.

## Red meat

**Blue Sky to buy Clover** [5 December/ NZ Herald] Blue Sky Meats has agreed to acquire the Gore based Clover Export, which will add to its processing capacity in beef and venison. The deal includes an agreement by Blue Sky to continue with Clover's horsemeat processing on a toll basis for sale in the European market. Blue Sky Meats chairman, Graham Cooney said Clover is approximately 10 to 15 percent the size of Blue Sky in terms of turnover. Mr Cooney said the purchase removes an export licence holder out of New Zealand processing market, contributing to industry rationalisation.

**Alliance appoints David Surveyor CEO** [5 December/ Business Day: NZ Farmer] The Alliance Group has appointed Fletcher Building subsidiary Laminex executive general manager, David Surveyor as its new CEO, effective from January 2015, replacing the current CEO, Grant Cuff, who announced his resignation in July 2014. Alliance Group chair, Murray Taggart highlighted Mr Surveyor's ability to grow businesses in tough and changing environments and thanked Mr Cuff for his service over the past nine years.

## Environment and emissions

**Industry wants time to change system** [4 December/ Radio New Zealand Rural] The industry association representing most of New Zealand's crop protection and animal health companies, AGCARM said that two years is insufficient to make the complex changes sought by the Environmental Protection Authority, who are seeking to adopt the latest version of a global system of classification and labelling for chemicals, including safety information. AGCARM CEO, Graeme Peters, is asking for a term of five years to make the changes and said that despite the disagreement over the time frame, it supported nearly all of the proposed changes to the chemical labelling system.

**Overseer needs cash to progress** [8 December/ NZ Farmers Weekly] Overseer general manager, Caroline Read said that it was evident that more money needs to be invested in Overseer to make it a more reliable tool for setting nutrient regulations. Citing an AgResearch annual report that highlighted Overseer needing significant development to be suitable for setting regional council nutrient limits, New Zealand First agriculture spokesman, Richard Prosser challenged the model's relatively low funding. Primary Industries Minister, Nathan Guy acknowledged that Overseer is only receiving \$1.6 million per annum. Fertiliser industry sources confirmed that the suggested level of investment at around \$5 million per annum was only a ballpark figure to lift the model to a degree of accuracy to make it a more valid tool to use in setting nutrient loss limits. A report by Doug Edmeades identified errors of negative 40 percent to positive 60 percent in the model's predictive outcomes. Overseer is currently funded by the Fertiliser Association, the Ministry for Primary Industries and AgResearch. Ms Read said non-Government funding was an option, provided it came without conditions. She acknowledged the impacts the Overseer standards could have on farmers' business decisions. Councils are aware of the inaccuracies of the Overseer model and are working to incorporate the issues into the regulatory and policy standards.

## Biosecurity

**Pipfruit industry third to sign GIA** [4 December/ Radio New Zealand Rural] The pipfruit sector is the third to sign a Government Industry Agreement with the Ministry for Primary Industries. Pipfruit New Zealand CEO, Alan Pollard saying that the agreement will allow it to influence decisions around future biosecurity programmes. He said that the agreement will allow the two parties to work together using the best of both resources, people and skills to achieve the best biosecurity outcomes. Mr Pollard said that the first step would be to set out roles and responsibilities around costs, training and readiness and response to biosecurity. He also highlighted the significant risk posed by fruit flies.

## Food safety

**Fonterra 'silo' culture slammed in government botulism probe** [9 December/ NZ Herald] A Government report into the Fonterra WPC 80 scare has outlined that Fonterra's workplace culture contained an entrenched 'silo' mentality that robbed the company of some of the cohesion that was essential for an organisation of its size. The report said that internal and external pressures contributed to missed opportunities to correct the course of events, and communication within and between parts of the organisation was often unclear, as well as there being a shortcoming in adequate escalation procedures to deal with potential food safety issues. The report said that the group lacked an effective crisis response protocol, while the Ministry for the Primary Industries also lacked a single and coherent food incident plan. The inquiry had stimulated the dairy giant to implement a series of comprehensive changes, especially targeting food safety and quality as well as crisis management capabilities. It also resulted in the Ministry for Primary Industries creating a regulation and assurance branch focusing on food safety. The Ministry is also preparing a new crisis response model for implementation in 2015. The Government has allocated \$7.9 million to the Ministry over four years to address the inquiry's nine primary recommendations. The inquiry found that from the changes made by Fonterra it was satisfied that the company has fostered a stronger culture of food safety and quality.

## Animal health

**Tail-breaker banned from cows** [4 December/ Business Day: NZ Farmer] Former sharemilker, Jacob Archer has been sentenced to 11 months home detention, disqualified from owning cows for a period of five years and ordered to pay veterinary and court costs, after pleading guilty to a representative charge of ill-treating an animal in October 2014, while under employment at Egmont Village farm, where he intentionally broke the tails of over 200 cows.

## International

**Pig-Crate Bill draws veto from Christie** [29 November/ The Wall Street Journal] Florida Governor Chris Christie vetoed legislation that would have banned the practice of confining pregnant pigs in crates, saying that lawmakers passed the Bill in response to misguided partisans and special interest groups. Animal rights activists have collected thousands of signatures and gained support of celebrities for the Bill, which passed both houses of the Legislature by large margins. Democratic Senator, Raymond Lesniak, who is the Bill's main sponsor said it had bipartisan support and Governor Christie was giving way to his personal political ambitions at the expense of the humane treatment of animals. The Humane Society of the United States said that nine states have banned the use of the pig-gestation crates that house pregnant sows. Farmers have shown support for the crates by saying that it prevents the animals from fighting and injuring the foetuses by rolling over. While the National Pork Producers Council commended Mr Christie's veto, the Human Society of the United States president, Wayne Pacelle criticised the Governor's veto.

**Scientists accused of plotting to get pesticides banned** [4 December/ The Times] Research condemning pesticides for the decline in honey bees has been called into question by a leaked private note which records a discussion in 2010 between four scientists about how to persuade regulators to ban neonicotinoid pesticides. The European Union placed a temporary ban in 2013 based on risks identified by the European Food Safety Authority, while the Department for Environment, Food and Rural Affairs opposed the ban on the ground that there was insufficient evidence. Many farmers have attributed the damage to oilseed rape crops from flea beetle to the ban. The note highlights that the scientists agreed to select authors to produce four co-ordinated papers to obtain the targeted policy change. The scientists at the meeting include Maarten Bijleveld (Task Force on Systemic Pesticides chairman) and Piet Wit (International Union for Conservation of Nature of the ecosystems management commission chairman). The temporary ban is to be reviewed in 2015 using evidence from field trials, which are overseen by the Centre for Ecology and Hydrology. Mr Wit acknowledged the accuracy of the note but said that the scientists had not decided the conclusions of the research in advance.

**Value of Pacific fishing watchdog questioned** [6 December/ Agence France Presse] Small Pacific Island states and the larger players which fish in the Pacific waters were unable to reach agreement on tuna conservation measures during a week of discussions at the Western and Central Pacific Fisheries Commission annual conference. A group of island nations, including Samoa and Palau are calling on the Fisheries Commission to establish strict catch limits for bigeye tuna. Despite there being reports of stocks having declined to 16 percent of their historic high, conservation measures seem to have been prevented by larger players, such as Europe, China, the United States, South Korea, Japan and Taiwan. China's head delegate, Liu Xiaobing said that if agreement could not be reached next year, the reputation of the organisation will be on the line. The World Wildlife Fund's Pacific tuna programme manager, Bubba Cook said there did not seem to be a willingness to compromise. Additionally, efforts to protect other species including yellowfin and albacore, as well as shark finning also failed. Greenpeace Australia Pacific's Lagi Toribau said that the Commission does not seem to be capable of delivering outcomes.

## Agribusiness education

**Primary industry education – not there yet** [5 December/ Rural News Group] A recent Ministry of Education report, Ministry of Education Profile and Trends: New Zealand's Tertiary Education Sector 2013 report shows that only 1.1 percent of New Zealand University students are studying an agricultural based discipline, reflecting an ongoing concern of the lack of skilled graduates entering primary sector industries. Minister for Primary Industries, Nathan Guy has highlighted the need for approximately 50,000 more workers if New Zealand is to have a chance of doubling its primary exports by 2025, with estimates suggesting that approximately 25,000 of these workers will need to be tertiary educated. Lincoln University deputy vice-chancellor business development, Jeremy Baker highlighted the need to entice urban students in order to achieve the required growth in student numbers. He also highlighted the perception that primary sector training is for less academically capable students as hindering growth in student numbers.

## Economics and trade

**TPP could boost NZ exports by \$1b, says US** [8 December/ NZ Herald] A United States Department of Agriculture report, Agriculture in the Trans-Pacific Partnership estimate indicates that a Trans-Pacific Partnership agreement could lift New Zealand's agricultural exports by up to 13 percent by 2025, on top of the 14 percent growth in exports to Trans-Pacific Partnership countries in isolation of the Trans-Pacific Partnership. The increase would amount to \$1 billion by 2025, in constant 2007 USD. However the report assumes the elimination of all tariffs and tariff rate quotas by 2025 and increases are estimated from a relatively low base. The United States Department of Agriculture economists also note that its modelling does not take into account efficiency gains or protectionists policy responses in certain countries as a result of Trans-Pacific Partnership driven structural challenges to earlier protected sectors. As per the baseline, New Zealand exports are estimated to increase by 14 percent, driven by almost a 20 percent increase in trade in bovine meat and a 14 percent increase in milk powder. If the Trans-Pacific Partnership eliminated all tariffs and tariff rate quotas by 2025, New Zealand meat exports to partner countries would increase by 22 percent and dairy exports by 19 percent. However the impact on Gross Domestic Product would be a negligible 1 percent, but does not take into account other parts of the Trans-Pacific Partnership agreement. An Asian Development Bank Institute estimate in 2013 modelled New Zealand's increase in Gross Domestic Product to be almost one percent by 2027.

## Farmers and producers

**Farmers face water restrictions as El Nino develops** [3 December/ NZ Herald] According to the National Institute of Water and Atmospheric Research, an El Nino weather pattern that lead to dry conditions on the East Coast of the North and South Islands may be imminent. Officials have restricted water flow from the Opuha dam in South Canterbury that irrigates 16,000 hectares of land, including land of farmers that supply Fonterra's Clondeboy plant. Farmers are required to reduce their take by 25 percent. Opuha said that if current conditions were to prevail, more severe restrictions will be needed by late January. Bank of New Zealand senior economist, Doug Steel said that dry conditions may slow dairy output in the second half of the season, restricting growth by approximately two percent. Additionally farm incomes are declining while global dairy prices continue to fall.

**Watchdog told to stand up to big business** [5 December/ Business Day: NZ Farmer] ANZ reached an \$18.5 million settlement on December 3 with the Commerce Commission and the Financial Markets Authority over the sale of complex swap loans to farmers between 2005 and 2009. The average payout to farmers of approximately \$100,000 each is short of the losses suffered by some farmers. Labour Party primary industries spokesman, Damian O'Connor commented that the Commerce Commission needs to stand up to big businesses, expressing his dissatisfaction at the settlement. He also criticised the Commerce Commissions decisions involving the Countdown supermarket owner, Progressive Enterprises and telecommunications network provider, Chorus. The farm debt mediator, Janette Walker said that the possibility for a class action law suit was being considered. But those who accept the settlement will be barred from taking part in further legal action.

**Farm confidence picking up: survey** [5 December/ Radio New Zealand Rural] Rabobank's quarterly Rural Confidence Survey indicates a rise in optimism among the sheep and beef sector, while dairy farmers were the most pessimistic. Rabobank New Zealand CEO, Ben Russell said that according to the survey, 75 percent of sheep and beef farmers are expecting an improvement in the performance of their own farm business in the next 12 months, up from the 48 percent last quarter, while 52 percent of dairy farmers expected performance of their own farming business to worsen in the next year.

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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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