

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

17 December 2014

Organisations referenced in this week's Field Notes include:

AbacusBio	Green Party
Alliance Group	Hawke's Bay Regional Council
ANZ Bank	Irrigation New Zealand
Aquaculture New Zealand	LanzaTech
ASB Bank	McShane's Rd Tasman Bay Berries
Beef + Lamb New Zealand	mymilk
Berrylands	NAB
Boeing	New Zealand Meat Workers Union
Commerce Commission	North Otago Irrigation Company
Commonwealth Bank	Overseas Investment Office
Craggy Range	Queen Elizabeth II National Trust
Dairy Companies Association of New Zealand	Rabobank
Dairy New Zealand	Sanford
Duncan and Co	South African Airways
Employment Relations Authority	Silver Fern Farms
Environmental Defence Society	SkyNRG
Federated Farmers	Sunchem SA
Fonterra Co-operative Group	Turners & Growers
Forsyth Barr	Waikato Regional Council

This week's headlines

Dairy	NZ dairy outlook still sound, says Rabobank [11 December/ NZ Herald]
Horticulture	Turners & Growers to buy tomato firms for \$26m [11 December/ NZ Farmer]
Viticulture	Winery savours Rob Fyfe's vision [15 December/ NZ Herald]
Fishing and Aquaculture	Asia just 'can't get enough of our mussels' [12 December/ NZ Farmer]
Red Meat	Silver Fern Farms face \$3 million bill after 100 job cuts [15 December/ NZ Herald]



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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
AGENDA 2014 VOLUME 2**

Horticulture

Turners & Growers to buy tomato firms for \$26m [11 December/ NZ Farmer] Turners & Growers has acquired two tomato growing businesses (Great Lake Tomatoes in Reporoa producing approximately 3,000 tonnes of tomatoes per annum and Riato in Ohaupo producing approximately 1,600 tonnes of tomatoes per annum) for a total price of almost \$26 million, but due to the 72.5 percent German ownership, it is subject to Overseas Investment Office approval. The Overseas Investment Office decision is expected to be released in mid-2015.

Growers hoping for a berry Christmas [12 December/ NZ Farmer] Despite the cold weather having delayed the berry season, workers are picking boysenberries, raspberries and strawberries in the Waimea Plains, near Nelson. McShane's Rd Tasman Bay Berries' Glen Holland said this season was looking promising and he hoped for mainly dry weather. This year the Hollands' are trialling black raspberries that have been developed by a plant breeder from the region, who is excited about its health properties. Berrylands director, Kris Tofski also commented that this season was looking positive, with larger berries.

Viticulture

Winery savours Rob Fyfe's vision [15 December/ NZ Herald] Former Air New Zealand boss, Icebreaker CEO and Michael Hill International board member, Rob Fyfe, has taken up the role of strategic advisor to the winery, Craggy Range. He said Craggy Range had huge potential in the international market, with the biggest challenge being to build distribution in international markets and increase brand awareness. Craggy Range owner, Terry Peabody said that Mr Fyfe's experience will be invaluable in supporting Craggy Range's ambitions to grow its export markets.

Water

Food grows where water flows [10 December/ Rural News Group] Irrigation New Zealand CEO, Andrew Curtis told a breakfast meeting in Wellington that highlighting New Zealand's irrigation practice to urban audiences and addressing myths is vital to getting greater acceptance of water storage and irrigation in New Zealand. The minister for Primary Industries, Nathan Guy, highlighted the importance of irrigation to the New Zealand economy. Irrigation New Zealand chairperson, Nicky Hyslop, also stressed the importance of irrigation to the country's economy and urged urban New Zealand to recognise the efforts made around irrigation and sustainable management of land and water. North Otago Irrigation Company CEO, Robyn Wells' and Melrose Dairy's Mark Slee's presentation highlighted the districtwide Gross Domestic Product increase of \$48 million (4.9 percent per annum) and the increase in 274 full time equivalent jobs that has resulted from the North Otago Irrigation Company scheme. North Otago Irrigation Company was the first New Zealand irrigation scheme to introduce a mandatory Farm Environment Plan for its shareholders, which ensures that specific environmental issues are managed appropriately. Mr Slee and his wife, Devon Slee have made considerable investment into managing water, effluent and energy systems at their 2,640 cow diary milking operation. Mr Slee said although it will take time to notice improvements, they are being undertaken.

Water accord making some progress [11 December/ Radio New Zealand Rural] The voluntary water accord, the Sustainable Dairying Water Accord introduced in 2013 to improve water quality is making progress on reaching some of its environmental targets while it is lagging behind on others. The accord is led by Dairy New Zealand, the Dairy Companies Association of New Zealand and other dairy companies. Dairy New Zealand environmental policy manager, Mike Scarsbrook's report on the accord's first year mentioned areas of progress such as stock exclusion from waterways and stock crossings, and ongoing progress around effluent management. An area requiring more attention was highlighted as collection of effluent management information from farms, which would allow for analysis using Overseer models. Dr Scarsbrook said that the aim for 2015 is to obtain data on collection of effluent management information from 100 percent of farms. He said the level of farmer compliance with effluent rules were still lagging behind in some regions, including Northland. Federated Farmers said that it was generally pleased with the progress towards meeting the accord's objectives, but Federated Farmers' dairy chair, Andrew Hoggard said different dairy companies using different reporting systems was a barrier that needed to be addressed.

Court backs green groups, overturns Ruataniwha 'factual fiction' [12 December/ The National Business Review] The High Court has ordered the Hawke's Bay's Ruataniwha Water Storage Scheme back to the drawing board on the out-clause that allowed 615 larger farms to avoid the water quality rule requiring dissolved inorganic nitrogen in the Tukituki River downstream from the proposed Ruataniwha dam to be less than 0.8 milligrams per litre. Justice David Collins' judgment stated that the rule failed to give effect to the Government's National Freshwater Policy Statement and that the board needs to consider a range of possibilities and ensure the parties have had a fair opportunity on the final version of the rule. The Environmental Defence Society said it would participate in new hearings and seek real enforceable limits that will protect the ecosystem health of the Tukituki River. Currently, the \$265 million Ruataniwha Water Storage Scheme lacks commercial support to proceed, but the Hawke's Bay Regional Council is continuing to pursue resource consents in order to allow a potential development to occur in the future.

Fishing and aquaculture

Asia just 'can't get enough of our mussels' [12 December/ NZ Farmer] Aquaculture New Zealand CEO, Gary Hooper, while highlighting the demand for New Zealand mussels in Asia said mussel exports to the industry's second largest market, Thailand, had increased by 450 percent in the past five years. He also highlighted the potential for export growth in China, and said that the industry is pleased with the free trade agreement with South Korea, which would eventually eliminate the 20 percent tariff. Mr Hooper said the challenge is in managing production, as climate conditions two years earlier had negatively impacted on spat, with downstream effects having led to a flat production outlook for 2015. New Zealand trade commissioner in Bangkok, Karen Campbell, said meeting demand was an issue.

Sanford voyages from frozen to fresh [14 December/ NZ Farmer] Sanford's CEO, Volker Kuntzsch said that the highest level of adding value to fish is not to do anything to the product and deliver it fresh, and mentioned that live fish sold to Chinese restaurants have been worth 50 to 70 percent more. Despite not being able to export fish live, but Mr Kuntzsch is leading a new customer focused operation around fresh, rather than frozen product, making it possible to inform Hong Kong consumers that the fish had been alive within the last 24 hours. Mr Kuntzsch said that customers should be able to use a smartphone to trace the fish to its origin and to when it was alive. He highlighted the company's philosophy of adding value to the already valuable resources in New Zealand, rather than trying to cover a large number of different species. The company is also moving to a new system which ensures that the fish are coming aboard alive, making it possible for fish to be returned to the sea if needed.

Dairy

NZ dairy outlook still sound, says Rabobank [11 December/ NZ Herald] Rural lending specialist, Rabobank said that despite New Zealand dairy farmers facing significant challenges in the next 12 to 18 months, the medium to long term outlook remains positive, with Rabobank New Zealand CEO, Ben Russell saying that it anticipates a price recovery to commence during the 2015-2016 season. Rabobank director of Dairy Research New Zealand and Asia, Hayley Moynihan, said that economic indicators were showing signs of an impending lead to reduced global dairy supply. Mr Russell said despite the fact that a \$4.70 per kilogram milk price would result in trading losses for many dairy farmers, most of them had entered the downturn insulated with a favourable 2013-2014 season. He said Rabobank was confident that most of its clients would be able to withstand the decline in dairy prices.

Fonterra thirsts for milk [12 December/ NZ Herald] The Fonterra Co-operative Group has formed a wholly owned subsidiary, mymilk, in order to take in more milk from the high growth provinces of Southland, Otago and Canterbury without the need for suppliers to buy shares in the co-operative. The Co-operative will also look at establishing the same process in the North Island over the next 12 months. Farmers are able to apply for a one-year contract to supply the Co-operative with milk, with contracts being renewable for a maximum of five years. ASB Bank rural economist Nathan Penny said that Fonterra's share of the national milk pool as declined from 90 percent to approximately 86 to 87 percent. Fonterra chairman, John Wilson, said that the increase in milksolids would generate better cost synergies for its large South Island plants and that it did not want a fragmented industry. Fonterra CEO, Theo Spierings, said mymilk sends a message that Fonterra values milk from New Zealand farmers and emphasises its intention to secure it. The Co-operative said that prices paid to mymilk suppliers will not exceed the farmgate price set by the co-operative and could be up to 15 percent lower.

Warning about milk payout [12 December/ Otago Daily Times] Analysts have warned that in order to achieve the Fonterra Co-operative Group's \$4.70 farmgate milk price payout, global milk prices must increase by more than 40 percent from the current USD 2,200 per tonne of whole milk powder during the rest of the year. Fonterra has predicted its dividend to be between 25 and 35 cents per share. Forsyth Barr broker, Andrew Rooney, said there was still some downside negative risk in the Fonterra forecast. He said a 45 percent price increase was heavily reliant on Chinese importers significantly entering the market, with such a scenario uncertain as the current Chinese inventory levels are above average. Craigs Investment Partners broker, Peter McIntyre, expects the Co-operative to review its dividend payout when it delivers its first half-year trading results in March.

Fonterra gets Commerce Commission tick [15 December/ NZ Farmer] The Commerce Commission's annual report on the extent to which the Fonterra Co-operative Group's milk price manual promotes the setting of a base milk price that provides incentives for the Co-operative to operate efficiently and provide contestability in the market, has found that Fonterra has been 'largely consistent' with the purpose of the milk price monitoring scheme for 2014-15. The Commerce Commission chairman, Mark Berry said that the Co-operative had made amendments to this season's manual after the Commission criticised aspects of the 2013-14 payout, which increased consistency with the overall purpose of the regime. Dr Berry said the Fonterra Milk Price Panel has decided to consider whether a cost allowance should be introduced to take into account events that are difficult to forecast.

Red meat

Lindsay fails in fifth-term director bid [13 December/ Otago Daily Times] Alliance Group shareholders have removed long-standing director, John Lindsay from its board and appointed Avondale sheep and beef farmer, Russell Drummond. Incumbent director, Dawn Sangster topped the farmer-director election, while Wanaka vet and farmer, Mandy Bell was unsuccessful. Along with the results that were announced at the annual meeting in Gore on December 12, Alliance Group chairman, Murray Taggard, said there were sound commercial reasons why a merger with Silver Fern Farms was not realistic, but it would continue to pursue commercially sensible opportunities. Mr Taggard said it has been a positive year for the beef and sheep sector, although the negative sentiment and the preoccupation with mergers from some quarters was disappointing. He said its view on industry reform remains consistent.

Silver Fern Farms face \$3 million bill after 100 job cuts [15 December/ NZ Herald] Silver Fern Farms faces a bill of up to \$3 million after an Employment Relations Authority ruling, when Silver Fern Farms made over 100 Dunedin seasonal meat workers redundant. The New Zealand Meat Workers Union argued that Silver Fern Farms had acted in a reprehensible manner, with the workers left in uncertainty and with reduced income for 18 months. Employment Relations Authority member, Christine Hickey, rejected the Silver Fern Farms argument that the workers were on an extended seasonal lay-off. She called on the union and Silver Fern Farms to collaborate to establish which staff are redundant and on the amount of compensation. She also did not rule on whether the approximate 70 Silverstream workers who accepted work at Finegand were eligible for redundancies. She also called on the parties to come to an agreement on the issue, with the option to return to the Employment Relations Authority if an agreement cannot be reached. New Zealand Meat Workers Union Otago Southland branch president, Daryl Carran said the decision clarifies how long meat companies could leave staff in limbo by calling it an extended off season. He said Silver Fern Farms has had a reasonable reputation on dealing with closures until Silverstream.

Deer

Otago Venison taken over [10 December/ Otago Daily Times] Venison export, processing and marketing company, Duncan and Co, has moved to obtain full ownership of Otago Venison. Duncan and Co CEO, Andrew Duncan, expressed his confidence in New Zealand venison and the deer industry. He said with increasing demand and decline in supply, the focus for the business will be on securing supply and building farmer support for the business.

Environment and emissions

Wills joins QEII trust [10 December/ Rural News Group] Former Federated Farmers president, Bruce Wills, has been appointed as a director to the Queen Elizabeth II National Trust board for a term of three years, commencing in November 2014. Mr Wills said he is looking forward to being involved in the Trust's governance and promoting its work with landowners and the wider agricultural sector. Mr Wills and his family have planted thousands of trees across their farm in Napier and have protected 160 hectares of native bush with National Trust covenants on their 11,134 hectare property. National Trust chair, James Guild, said that Mr Wills joins at a time when the National Trust is beginning to play a larger role in private land protection. He also said that Mr Wills is well connected and has a strong understanding of the primary sector, governance and financial planning. Along with Mr Wills, the Minister of Conservation also appointed the board's incumbent chairperson, James Guild, for a further three year term.

Council choppers to get the chop [12 December/ NZ Farmer] The Waikato Regional Council is to stop helicopter inspections of dairy farms and replace it with pre-announced personal visits to farms. The decision is yet to be ratified after addressing key issues such as the extra burden on taxpayers from the move, and the potential for larger players to alleviate this burden. The decision was one of seven recommendations made by the dairy effluent compliance monitoring review working party, other recommendations included a risk based monitoring programme. In July, the Green Party water and local Government spokeswoman, Eugenie Sage, comparing the Waikato Regional Council to other councils said that it was moving in the wrong direction.

International

Boeing to trial tobacco biofuel [10 December/ NZ Herald] Boeing and South African Airways stated that farmers are to soon harvest their first crop of tobacco plants that are to be used in the production of biofuel. The project is supported by partners SkyNRG and Sunchem SA. Project Solaris is focused on developing an aviation biofuel supply chain from tobacco plant Solaris, with the possibility that bio-jet fuel will be produced as early as 2015. Last week Boeing completed the world's first flight using a blend including 15 percent 'green diesel', a sustainable biofuel in one engine. Green diesel is made from vegetable oils, waste cooking oil and waste animal fats. Virgin Atlantic is continuing to work with New Zealand founded LanzaTech, which is focusing on commercialising a process of converting waste gases into biofuel.

ANZ remains sole moratorium bank [13 December/ The Australian] Given the drought affecting parts of New South Wales and Queensland, on December 10, Agricultural Minister, Barnaby Joyce, provided an ultimatum to major banks to stop evicting farmers off the land or risk Government intervention. ANZ Bank is the only agribusiness lender to pledge that financially stressed farmers in drought affected parts of New South Wales and Queensland can stay on the land, with a 12 month moratorium on repossessions, as well as a freeze on interest rate rises on distressed farms and interest rate relief in extreme stress cases. NAB said that it worked with farmers individually through a range of options to keep them on the land, with foreclosure being a rare last resort. NAB also said there are currently no plans to evict any customers. Of its 30,000 farm customers, NAB has foreclosed on seven customers in Queensland and northwest New South Wales in the last 12 months. The Commonwealth Bank announced a number of drought support measures, including loan repayment holidays, interest free periods, loan extensions and waiving fees, with CEO, Ian Narev saying that they will not be foreclosing on any farmers. Rabobank group executive for country banking, Peter Knoblanche, said that it only had a very small number of problem loans in the drought affected regions, with less than 0.2 percent of its loan portfolio in the worst affected areas subjected to current receivership action.

Agribusiness strategy

Campbell named to head AbacusBio from next April [10 December/ Otago Daily Times] AbacusBio has appointed the winner of the 2012 Westpac Otago Chamber of Commerce business award, Anna Campbell, as its managing director, replacing Neville Jopson. Dr Campbell has a science degree from the University of Otago and a PhD in cereal biotechnology from Lincoln University and Crop and Food Research. She has worked for the University of Southern Queensland, where she discovered DNA markers for wheat quality and disease resistance traits. She joined AbacusBio in 2006. Dr Jopson will be shifting his focus to more science application work, mainly within the Beef + Lamb New Zealand Genetics programme.

Agribusiness education

More primary sector jobs will be in cities [12 December/ Radio New Zealand Rural] The Ministry for Primary Industries forecasts most of the growth in the primary sector jobs will be in support services, rather than on farms or in plants. Business New Zealand CEO, Phil O'Reilly, said that growth is in areas such as engineering, ICT and support services, allowing work to be conducted in cities. Competitions and new school subjects form part of the Government strategy focused on attracting students to the primary sector. Primary Industries Minister, Nathan Guy, said that there needs to be a better emphasis in promoting the primary industries to students. Ministry for Primary Industries science advisor, Liz Clayton, highlighted the need to change students' perceptions.

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