

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

28 January 2015

Organisations referenced in this week's Field Notes include:

AgriHQ	Ministry for Primary Industries
Alliance Group	Ministry of Business, Innovation & Employment
Animal Health Board	New Zealand Equine Health Association
ANZ Bank	New Zealand Grain and Seed Trade Association
Arla Foods Ingredients	New Zealand Onion Growers
Australia and New Zealand Ministerial Forum on Food Regulation	New Zealand Institute of Economic Research
Beef + Lamb New Zealand	North Otago Irrigation Company
Costa Group	OSPRI
Dalian Yidu	Otago Regional Council
Environment Canterbury	Overseas Investment Office
European Union	Pew Charitable Trust
Federated Farmers	Pure New Zealand Greenshell Mussels Trading Co
Fleming & Co	Real Estate Institute of New Zealand
Fonterra Co-operative Group	Rural Contractors New Zealand
Food Standards Australia New Zealand	Shanghai Pengxin
Horizons Regional Council	Silver Fern Farms
Horticulture New Zealand	Synlait Farms
Hunan Dakang Pastoral Farming	Te Runanga o Arowhenua
Kono New Zealand	Turners & Growers
Lincoln University	URS New Zealand
Meat Industry Action Group	Zespri
Milk New Zealand Capital	

This week's headlines

Horticulture	Fiji joins New Zealand's seasonal work scheme [27 January/ Radio New Zealand Rural]
Water	Interest in irrigation share offer overflows [22 January/ Business Day: NZ Farmer]
Dairy	Price rise at dairy auction [21 January/ NZ Herald]
Biosecurity	Horse industry signs biosecurity agreement [27 January/ Radio New Zealand Rural]
Farmers and producers	Farm sales rise nearly 6pc in 2014 [22 January/ Business Day: NZ Farmer]



FIELDNOTES.CO.NZ

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

Horticulture

Turners and Growers forecasts higher profit [21 January/ Business Day] Turners & Growers is expecting its pre-tax profit to increase by up to 20 percent on the previous year. The company said although the normalised trading results in the second half of 2014 have generally been in line with the prior year, the full 2014 result has been affected by a number of significant items, including the acquisition of Apollo Apples and the revaluation of land, buildings and biological assets. The company expects to release its results on 27 February.

Onion growers facing challenges [21 January/ Radio New Zealand Rural] New Zealand Onion Growers spokesperson, Martin Tribe said growers in Pukekohe required warmer and drier weather to compensate for an unfavourable spring, but ran the risk of the size and yield of onion crops being affected if the current hot weather continues. He said the outcome of the difficult growing conditions created in Pukekohe is yet to become fully evident. He also mentioned the disadvantages caused by the strong New Zealand dollar and the good crops being produced in the Northern Hemisphere. However he mentioned that if Europe experiences unfavourable spring conditions, the local exporters may have an extra few weeks of sales in the season.

Zespri monitoring Chinese arrest 'situation' [22 January/ Business Day: NZ Farmer] Zespri spokeswoman, Rachel Lynch said the investigation at one of its Chinese importers, Dalian Yidu, where nine staff members have reportedly been arrested does not indicate any involvement with Zespri Kiwifruit. Ms Lynch said they were in constant contact with their personnel in China and are monitoring the situation closely. Zespri said with its supply season to export markets having been completed, the exporter has no financial exposure to Dalian Yidu.

Fiji joins New Zealand's seasonal work scheme [27 January/ Radio New Zealand Rural] Thirty Fijians will be arriving in New Zealand in February to work on orchards and vineyards under New Zealand's Recognised Seasonal Employer scheme. The inclusion of Fiji in the scheme this year is only on a trial basis, but Horticulture New Zealand communications manager, Leigh Catley expects to build a strong relationship, based on the proven success of the scheme.

Arable

Commercial hemp crops could cure the munchies [26 January/ NZ Farmers Weekly] A review scheduled for the end of January is to consider a change to the regulations governing the production of hemp seed. Cropping Industry leaders said a positive change would present an opportunity for diversification, with the prospect of new jobs and exports. In December, the Food Standards Australia New Zealand re-affirmed its recommendation that the sale of hemp seed products for human consumption be permitted, with the Australia and New Zealand Ministerial Forum on Food Regulation hoped to endorse the recommendation on January 30. New Zealand Grain and Seed Trade Association general manager, Thomas Chin said the Food Standard Australia New Zealand decision meant that more hemp crops could be grown in the country. He highlighted the Canterbury Plains as an ideal location for plantations due to its climate and soil conditions and with existing seed production, harvesting, drying and cleaning operations recognised globally. However Mr Chin said there was potential to grow the crop right across the country. New Zealand Grain and Seed Trade Association president, John Duncan said New Zealand has the potential to become a major global hemp seed producer, given the strong international demand for hemp seed.

Drought

Water restrictions becoming widespread [23 January/ Radio New Zealand Rural] Councils around the country have enforced water restrictions on users, including Horizons Regional Council, which has implemented water restrictions for the Tararua, Manawatu and Whanganui catchments. Otago Regional Council was to issue a water shortage direction to three farms along the Taieri River between Paerau and Waipaita on January 23, with Council CEO, Peter Bodeker saying that a small quantity of water can be allocated to the farms, within minimum flow restrictions.

Water

Interest in irrigation share offer overflows [22 January/ Business Day: NZ Farmer] North Otago Irrigation Company CEO, Robyn Wells, said there has been strong demand for the shares it is issuing to fund its \$53 million expansion. The company is issuing up to 7,969 shares with the right to irrigate their land from the scheme at a maximum rate of 0.4 litres per second as well as rights to vote and receive dividends. The current shares are valued at \$4,200. The prospectus for the offer states that its ability to draw water from the Waitaki River is restricted during low river flows, but applicants have been told that flow in the Waitaki River downstream of the Waitaki Dam has historically not reached these minimum levels. The company is seeking to have its new piped, pressured supply in place by September 2016.

Farmers want to tap Tekapo [23 January/ Business Day: NZ Farmer] Federated Farmers' national president, William Rolleston said the assumptions in an Environment Canterbury commissioned report by Engineering firm, URS New Zealand saying that taking water from Lake Tekapo to coastal areas would generate a net loss needs to be further examined before the proposal is dismissed. The report claimed taking water from the lake would result in a net loss of \$135 million in one scenario and \$235 million in another. The report also recommended a cultural impact assessment due to the proximity of some parts of the potential scheme to Maori rock art. Te Runanga o Arowhenua chairman, John Henry said it was against the scheme as it would mix water from Lake Tekapo with water in other catchments, resulting in undesirable consequences, including the mixing of water with different mineral compositions. Dr Rolleston believes it is possible to reconcile the views of all interested parties.

Fishing and aquaculture

Kono takes ownership of Chinese company [22 January/ Marlborough Express] The food and beverage company, Kono New Zealand, has acquired full ownership of Pure New Zealand Greenshell Mussels Trading Co from its Chinese owners. Kono New Zealand CEO, Don Everitt said the move provides easier access to China. The acquisition would enable the company to trade other products such as Tohu wine, apples, pears, kiwifruit, hops, mussels, oyster and fruit leather bars in China, in addition to greenshell mussels and lobsters, which the company was initially set up to trade.

Dairy

Price rise at dairy auction [21 January/ NZ Herald] The GlobalDairyTrade price index increased by one percent at January 21 auction on the previous sale two weeks ago. Wholemilk powder increased by 3.8 percent to USD 2,402 per tonne, but short of the USD 3,500 required to meet Fonterra Co-operative Group's \$4.70 per kilogram forecast. ANZ Bank are now forecasting the farm gate milk price to decline to \$4.35 this season. At the auction, rennet casein prices increased 3.3 percent, butter increased 0.1 percent and skim milk powder increased 1.0 percent, while anhydrous milk fat declined 5.0 percent, butter milk powder declined 6.4 percent, cheddar declined 4.3 percent and sweet whey powder declined 4.1 percent. AgriHQ analyst, Ivan Luketina said that due to milk flows remaining high, it is unlikely there will be a rapid price increase under the current market conditions. The average winning price across the auction was USD 2,758 per tonne.

European co-op to sell on GDT's platform [22 January/ NZ Herald] Fonterra Co-operative Group's GlobalDairyTrade said that the northern European co-operative, Arla Foods Ingredients will offer food-grade lactose on its platform, with GlobalDairyTrade director, Paul Grave saying that Arla Food Ingredients will be offering a significant volume on the platform. He said the auction will set the market based benchmark price for lactose. He expects a high level of interest from its 650 plus registered buyers.

Fonterra's largest guaranteed milk price offer again under-subscribed [26 January/ Business Day: NZ Farmer] Fonterra Co-operative Group's guaranteed milk price for 20 million kilograms of milksolids was undersubscribed for a second time in a row, with the co-operative only receiving subscription offers for under 14.5 million kilograms of milksolids. The co-operative introduced the guaranteed price scheme in order to give its suppliers more certainty. Fonterra head of origination, Arron Atkinson said the co-operative was pleasantly surprised by the subscription response, given the forecast milk price of \$4.70. In December 2014, farmers were able to supply up to 35 percent of their production at the fixed price. Mr Atkinson said the co-operative was pleased that it was able to provide price certainty for part of the subscribing farmers' supply. He said that with the national breakeven being below the current \$4.70 forecast, farmers are inclined to prefer some certainty.

Red meat

Three seek two Silver Fern Farms positions [21 January/ Otago Daily Times] Manuka Gorge farmer and Silver Fern Farms chairman, Rob Hewett, former Meat Industry Action Group member and incumbent director, Herstall Ulrich and West Otago farmer, Fiona Hancox are standing for election to the Silver Fern Farms board, with voting papers to be posted on January 28 and voting to close on February 13. The results are expected to be released by February 18. Mr Hewett said the meat industry restructuring is a wider issue than simply merging the two co-operative and that it is open to the prospect of a merger of the two co-operatives. Alliance Group chairman, Murray Taggart said at its annual meeting that there were commercial reasons making a merger infeasible. Mr Hewett said Silver Fern Farms remains open to discussing a sensible rationalisation option with any industry participant. Mr Ulrich said that the best method of achieving sustainable improved returns was to establish a value creative strategy. West Otago farmer, Fiona Hancox said the focus of Silver Fern Farms must be to return to sustainable profitability, underscore co-operative values and provide pricing transparency, while rewarding loyalty and improving the debt equity ratio. Geraldine farm consultant, Peter Clark estimated the cost of production for a lamb at an average of \$85, with even the top 20 percent of farmers predicted to be returning only a 2.5 percent on investment.

Rural infrastructure

Dry summer halves contractors' workloads [26 January/ Radio New Zealand Rural] Rural contractors in Canterbury are estimated to have lost approximately half of their normal workload for the month of January due to grass not growing and hay and silage not being made. Rural Contractors New Zealand Canterbury spokesperson, Steve Murray said contractors in the south of the region are the most impacted due to dry conditions. He stressed that contractors on non-irrigated land are being impacted the most. Rural Contractors New Zealand president, Steve Levet said the long-term forecast for Northland included cyclones, whereas good grass growth can be seen in the Waikato.

Biosecurity

MPI fee rises to recover costs [26 January/ NZ Farmers Weekly] From July 1, the Ministry for Primary Industries is proposing to increase the fees for the cost recovery of biosecurity and food safety services by 12 percent and 20 percent respectively, in order to obtain a net revenue increase of \$8.9 million in 2015-16, partially to correct deficits from under recovery over the past three years. Cost recovery revenue totals in 2014-15 were forecasted to be \$55.3 million and \$30.4 million for food safety and biosecurity respectively. The Ministry stated that the activity levels had increased substantially over the last five years, while there had been no changes to the fees. It was also indicated that the cost recovery fee increase did not include charges applying to climate change response, the commodities levy, forests, fisheries and the National Animal Identification and Tracing or costs recovery related to Government Industry Agreements on biosecurity readiness and response to pest management. The Ministry highlighted a \$5 million deficit for 2014-15 in the biosecurity and food safety cost recovery areas.

Horse industry signs biosecurity agreement [27 January/ Radio New Zealand Rural] Joining the kiwifruit, pipfruit and pork industries, the equine industry's New Zealand Equine Health Association has signed a biosecurity agreement with the Government to work in a partnership with the Ministry for Primary Industries to manage and respond to disease threats. New Zealand Equine Health Association chairman, Ivan Bridge said the most serious disease threat for the industry is equine influenza. Dr Bridge compared an outbreak of equine influenza to be as destructive as foot and mouth disease in the livestock industry.

Animal health

McCook hangs up his pest sword [26 January/ NZ Farmers Weekly] OSPRI CEO, William McCook is to step down from his post, with his team having made a strong start to the target of eradicating tuberculosis from at least 2.5 million hectares of 10 million infected hectares by 2026, with the team being ahead of target by eradicating tuberculosis from 830,000 hectares since 2011. The expertise developed through the Animal Health Board and the National Animal Identification and Tracing scheme has aided the team in managing and controlling tuberculosis in production animals. Analysing the National Animal Identification and Tracing data on herds that have had tuberculosis infections is being used to profile other herds that might be at risk. Mr McCook said there is potential for it to be applied to other diseases, but emphasised that the acceptance of the programme needs to increase.

International

Costa Group in pursuit of \$800m initial public offering [22 January/ The Australian Financial Review] AFR.com has revealed that Australia's largest fruit and vegetables grower and distributor, the Costa Group has decided on an initial public offering in the first half of 2015. It plans to raise between \$300 million and \$600 million for an enterprise value of between \$800 million and \$1 billion.

EU blacklists Sri Lanka over illegal fishing [27 January/ NZ Herald] The European Union has blacklisted Sri Lanka and banned the import of fisheries products from Sri Lanka flagged vessels in to the European Union due to the country's failure to address illegal fishing. The bloc stated that it will only accept stocks caught at sustainable levels and certified as legal by the exporting country. Environmental group, the Pew Charitable Trust's Tony Long welcomed the restrictions, while stating that the ban would also prevent European Union fishing vessels from working in Sri Lankan waters.

Agribusiness education

MBIE report backs primary sector careers [23 January/ Rural News Group] The Ministry of Business, Innovation & Employment report, the Occupation Outlook 2015 has projected an annual growth of agricultural scientists by 4.0 percent for 2013 to 2018 and 3.2 percent for 2018 to 2023. Job prospects for environmental scientists, food technicians and farm managers also received a high rating. The Government is attempting to improve the outcomes across the primary industries' value chain in order to meet the target of doubling primary exports by 2025. The report estimates that New Zealand will require an additional 92,000 qualified workers in the sector by 2025 in order to meet its industry target. Lincoln University Deputy Vice-Chancellor business development, Jeremy Baker encouraged students to seek qualifications focusing on the primary sector.

Economics and trade

Dairy, lamb skid on oil slick [26 January/ Business Day: NZ Farmer] Economists say that along with the drop in oil prices, the demand for dairy products will also decline, hindering the chances of a commodity dairy price recovery in the first part of 2015. New Zealand Institute of Economic Research principal economist, Shamubeel Eaqub said dairy product demand from oil producing countries with low disposable incomes such as Venezuela, Iran and Iraq are likely to experience a sharp decline in the coming year. He is also sceptical as to the extent that the New Zealand dollar will continue to weaken. The oil price drop is also expected to contribute to the decline in the lamb schedule in the sheepmeat export sector, with Silver Fern Farms saying that the decline had been more severe than anticipated. Silver Fern Farm CEO, Dean Hamilton highlighted another reason for the decline as the reduced demand from China. He said that the increased Chinese kill, oil price drop and the softening of the Euro has resulted in the declining price being passed onto farmers. ANZ rural economist, Con Williams said Russia would not be expected to purchase a lot of dairy product even if the ban on European dairy imports are to be lifted given the low oil prices. Mr Williams predicted a modest recovery in milk powder prices over the next few months, with an improvement expected in the second half of the year. Beef + Lamb economics service executive director, Rob Davison said that dry conditions in New Zealand were another reason contributing to the reduction of schedule prices. However Davison said despite the current conditions, the outlook for meat returns in 2016 remains positive. Mr Hamilton said beef returns to farmers are 20 percent higher than those paid last year, and he expects prices to remain strong at least for the current season. However, he said demand was not sufficient to increase prices, when compared to the same time last year.

Farmers and producers

Farm sales rise nearly 6pc in 2014 [22 January/ Business Day: NZ Farmer] According to the Real Estate Institute figures, there were 486 farm sales in the three months to December, a 30 percent decline from the previous three months and a 12.3 percent decline from the previous year. Farm sales were 5.9 percent higher in 2014, when compared to the 2013 year, with the median price having increased 19 percent to \$28,781 per hectare. Real Estate Institute rural spokesman, Brian Peacocke said despite the lowered milk payout, the rural market was remaining strong, with the Real Estate Institute dairy farm price index, adjusted for differences in farm size and location having increased 11 percent from last year. The sale of lifestyle properties increased 4.9 percent on the same period a year ago, with lifestyle prices increasing one percent to \$525,000 and 17 percent to \$958,000 in Auckland, while they declined 4.0 percent in Waikato to \$490,500 and 2.5 percent in Canterbury to \$580,000.

Chinese firm wants third Taupo dairy farm for \$22m [22 January/ National Business Review] Chinese owned company, Hunan Dakang Pastoral Farming, entered a sale and purchase agreement with Fleming & Co to acquire a 1,235 hectare farm near Taupo for \$22.75 million. Hunan Dakang is ultimately 55% controlled by Shanghai Pengxin. The agreement is conditional on Overseas Investment Office approval. Dakang Pastoral Farming is also intending to acquire Shanghai Pengxin's existing New Zealand farm assets for \$375 million. Pengxin International CEO, Gary Romano said that its aim was to deliver dairy products to the group's Chinese consumers. It is understood that Dakang may also seek to acquire Milk New Zealand Capital, which holds a 74 percent stake in Canterbury dairy farm business, Synlait Farms.

Subscribe

To subscribe to future editions of Field Notes please [click here](#).

Contact Us			
Auckland/ Audit Ian Proudfoot 09 367 5882 021 656 815 iproudfoot@kpmg.co.nz	Taxation Greg Knowles 09 367 5989 021 307 332 gknowles@kpmg.co.nz	Tauranga Robert Lee 07 571 1773 027 451 1035 relee@kpmg.co.nz	Wellington Graeme Edwards 04 816 4522 027 296 5050 gdedwards@kpmg.co.nz
Christchurch Andrew Hawkes 03 353 0093 027 508 0135 ahawkes@kpmg.co.nz	Financial Advisory Services Gary Ivory 09 367 5943 021 932 890 givory@kpmg.co.nz	Management Consulting Simon Hunter 09 367 5881 027489 9737 simonhunter@kpmg.co.nz	Hamilton/ Private Enterprise Hamish McDonald 07 858 6519 021 586 519 hamishmcdonald@kpmg.co.nz
Farm Enterprise North Island Roger Wilson 07 858 6520 027 281 9575 rogerwilson@kpmg.co.nz	Julia Jones 07 858 6553 027 524 8901 juliajones1@kpmg.co.nz	South Island Brent Love 03 683 1871 027 528 1537 blove@kpmg.co.nz	

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.

The information provided herein is of a general nature and is not intended to address the circumstances of any individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received nor that will it continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved. The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International Cooperative (“KPMG International”).

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative (“KPMG International”), a Swiss entity.