

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**

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Organisations referenced in this week's Field Notes include:

Accident Compensation Corporation	Landcorp Farming
Agricultural and Marketing Research and Development Trust	Lincoln University
AgriHQ	Manawatu District Council
Agri-Women's Development Trust	Meat Industry Association
Avante International	Meat Industry Excellence
British Retail Consortium	National Farmers' Federation
Callaghan Innovation	New Zealand and Australian Food Ministers Forum
Couplands Bakeries	New Zealand Winegrowers
Deer Industry New Zealand	NZ Grain and Seed Trade Association
Environmental Justice Foundation	Otago Regional Council
European Union	Overseas Investment Office
Farmers Mill	PGG Wrightson
Federated Farmers	Rabobank
Fonterra Co-operative Group	Silver Fern Farms
Food Innovation Network	Statistics New Zealand
Food Standards Australia New Zealand	Vulpes Agricultural Land Investment Company New Zealand
Foundation for Arable Research	Wine Marlborough
India New Zealand Business Council	WorkSafe New Zealand
James Kirkpatrick Group	World Cocoa Foundation
King Avocado	WWF UK

This week's headlines

Viticulture	Marlborough savvy leading the way in the United States [9 February/ Marlborough Express]
Arable	Ministers spit out hemp plan [9 February/ NZ Farmers Weekly]
Dairy	Dairy prices bounce back [4 February/ NZ Herald]
Red Meat	US port dispute hitting beef farmer returns [10 February/ Radio New Zealand Rural]
Farmers and producers	Minister welcomes launch of Safer Farms [10 February/ Rural News Group]

Horticulture

Entrepreneur buys big orchard [9 February/ NZ Farmers Weekly] An English trader and investor, Stephen Diggie of Singapore based Vulpes Agricultural Land Investment Company New Zealand has acquired New Zealand's largest avocado orchard, King Avocado in the Far North from founding developer, Terry Jarvis. The buyer is committed to planting 20,000 trees in addition to the current 75,000 on the 160 hectares of sand hills. The Overseas Investment Office said the requirement to provide substantial and identifiable benefit to New Zealand were met. Mr Diggie's New Zealand representative, Alistair Nicholson said King's orchard production is expected to increase to 500,000 trays in 2018, amounting to eight percent of the total national avocado crop for both export and domestic sales this season.

Viticulture

Marlborough savvy leading the way in the United States [9 February/ Marlborough Express] The United States is expected to soon become New Zealand's leading wine market, in terms of volume and value. For the year ended November 2014, wine exports to the United States were worth \$348 million (50.7 million litres), while wine exports to Australia and Britain were worth \$360 million (51 million litres) and \$332 million (53.9 million litres) respectively. New Zealand Winegrowers chief, Philip Gregan said the value of wine exports to the United States was higher than Britain due to less bulk wine being sent to the United States. Rabobank analyst, Marc Soccio said the United States market expanded by 15 percent year on year to November 2014, with the trend expected to continue. This was supported by the weakening of the New Zealand dollar against the United States dollar. One of the obstacles for the industry was the unstable nature of the harvest, which made marketing difficult.

Smoke-tainted grapes could be an issue [9 February/ Radio New Zealand Rural] Vineyards in the vicinity of the fire which burned through almost 600 hectares of forest and farmland in Onamalutu Valley near Renwick, Marlborough may be facing problems from smoke tainted grapes. Wine Marlborough general manager, Marcus Pickens said it was receiving advice from the Australian wine industry and that certain varieties such as pinot noir could have some exposure to smoke taint. He said that there will be pre-harvest trials and an attempt to produce wine to conduct sensory and laboratory analysis to identify if there is any impact from smoke tainting.

Arable

Ministers spit out hemp plan [9 February/ NZ Farmers Weekly] A proposal to allow hemp seed to be sold as food has been rejected by the trans-Tasman regulatory body, the New Zealand and Australian Food Ministers Forum, despite a positive recommendation from Food Standards Australia New Zealand. New Zealand Grain and Seed Trade Association general manager, Thomas Chin expressed his frustration at the result, and said that it was a prime opportunity for New Zealand to capture its share of a new fast growing international food market. He said that the misunderstanding and the basis of the decision was the plant's relationship to cannabis, issues around law enforcement and sending mixed messages regarding the safety of cannabis. Mr Chin highlighted that there has been no problems in comparable jurisdictions where hemp is grown extensively. The New Zealand Government has the potential to override the decision. The ministers' food forum had agreed to conduct further work around law enforcement and marketing concerns.

Grants for Rich Listers' mill to 'benefit everyone' [10 February/ The National Business Review] The Timaru based Farmers Mill is establishing a North Island distribution centre partly funded by grants from Callaghan Innovation and the Agricultural and Marketing Research and Development Trust to supply Couplands in Auckland. The distribution warehouse in Penrose, Auckland is owned by industrial developer, James Kirkpatrick Group. The North Island distribution centre will allow Farmers Mill to offer its products to bakery and ingredient customers in Auckland and Couplands Bakeries nationally after having won the national supply tender. The company has also secured funding from Crown entity, Callaghan Innovation to continue its product development programme which explores high protein and low GI products using New Zealand grown grains. Farmers Mill CEO, Grant Buntings said the high value nutritional products should be available within the next six to nine months. He mentioned that the company was working with Lincoln University, the Food Innovation Network and the Foundation for Arable Research to identify improvements that can be made to its milled range of grains to produce health driven products.

Wool

Lamb wool in demand [6 February/ NZ Herald] According to AgriHQ, New Zealand lamb wool prices increased three percent to their highest level since April 2011 at \$6.55 kilogram during last week's auction. The average price for 35-micron wool increased one percent to \$5.15 per kilogram, with the quantity of wool offered for auctions in the North and South Island reduced to 14,000 bales. Statistics New Zealand figures indicated that China accounted for 52 percent of New Zealand's wool exports in 2014, at \$794 million. New Zealand lamb wool prices have been increasing steadily this year, with AgriHQ agriculture analyst, Ivan Luketina saying that high demand for lamb wool and finer crossbred types are propping the prices up.

Water

Taieri irrigation ban lifted [4 February/ Radio New Zealand Rural] The Otago Regional Council has cancelled the impending irrigation ban on the Taieri River, with the Otago Regional Council CEO, Peter Bodeker saying that significant rain has been received in recent days, bringing the river levels above minimum flows. However, he stressed the need for farmers to continue to irrigate conservatively.

Rural water supplies being tampered with [5 February/ Business Day: NZ Farmer] Manawatu District Council inspections revealed that a number of water restrictions have been tampered with in Halcombe and Stanway in Manawatu, with the Council general manager of infrastructure, Hamish Waugh saying that some people are taking water that is not available to them is resulting in some not receiving their allocation. He said the Council is treating the matter seriously and has warned some residents about the theft of water, with the potential for repeat offenders to be referred to the police. The Council is also concerned about poorly maintained connectors, such as water tank fittings not switching off automatically when full.

Dairy

Dairy prices bounce back [4 February/ NZ Herald] The most recent GlobalDairyTrade auction delivered a 9.4 percent increase in prices, driven by concerns about supply levels as a result of dry conditions. Whole milk powder prices increased 19.2 percent to USD 2,874, but remain short of the USD 3,500 necessary for the co-operative to deliver its current forecast of \$4.70 per kilogram of milk solids. ASB Bank Rural economist, Nathan Penny said that they were more confident that the downside risk to the forecast has reduced. However, some farmers have had to reduce production due to dry conditions. ANZ rural economist, Con Williams said that dry conditions and continued reduction in supply to be offered in the GlobalDairyTrade auction over the next six months have reversed market sentiment, making a milk price of between \$4.50 and \$4.70 more likely than a few weeks ago. However Mr Williams said that this was still below the breakeven point for many dairy farmers. Skim milk powder prices increased by 6.7 percent to USD 2,598 per tonne and butter prices and rennet casein increased 6.1 percent and 7.7 percent respectively, along with anhydrous milk fat prices declining 5.4 percent and cheddar declining 11.1 percent. The average winning prices was USD 3,042 compared with USD 2,758 at the previous sale.

Auckland infant formula supplier shut down [9 February/ National Business Review] The infant formula supplier, Avante International has been forced to close due to contracted manufacturers failing to comply with the new Chinese import regulations. Avante International Managing Director, Stephen Darling said that the company has been put into liquidation. The company is 50 percent owned by Mr Darling and his wife Gretchen Darling, with the remainder owned by numerous shareholders through a nominee company.

Red meat

Talk of meat industry reform as lamb falls [7 February/ NZ Herald] A decline in lamb prices, driven by a decline in demand from China and the Middle East, and from dry conditions in New Zealand is likely to reinvigorate discussions around meat industry reforms, with Meat Industry Excellence chairman, John McCarthy saying that lower prices would cause the issue to again gain greater prominence. According to AgriHQ, South Island average prices for a \$17.5 kilogram lamb have reduced from \$5.40 to \$5.00 per kilogram when compared with last year, while North Island average priced reduced from \$5.50 to \$5.08. An analyst said that falling demand from recently developed Chinese market for lamb and mutton meant that exporters had to return back to their traditional markets. Mr McCarthy said that competition between farmers meant that during difficult conditions, they reduce prices without demonstrating a commitment to quality or supply contracts that should be present in a mature trading relationship.

US port dispute hitting beef farmer returns [10 February/ Radio New Zealand Rural] Meat Industry Association CEO, Tim Ritchie said that a long running labour dispute at key United States shipping ports, and the resulting backlogs are impacting on the ability to get the increased volumes of beef that are being produced by New Zealand and Australia to customers. A primary industry analyst at AgriHQ suggested that the slowdown at the US ports has resulted in a loss of six to ten cents per pound of New Zealand lean beef last week.

Merino meat sales defended [10 February/ Business Day: NZ Farmer] Silver Fern Farms chairman, Rob Hewett said that despite it not selling as much Silere merino sheepmeat as it wants, the brand is an important gateway for the wider business. The company is to offer farmers a new round of Silere alpine merino contracts for the supply of approximately 100,000 animals. It is likely to offer fewer contracts this year due to the current demand. Silere is a joint venture with the New Zealand Merino Company and is to launch in Asia and the Middle East in the next 12 to 18 months, in addition to the current markets in New Zealand and the United States. He said although it was a niche product, it helped sales of other Silver Fern Farm products. Mr Hewett also mentioned that the programmes, BeefEQ, Angus and Hereford breed were also performing well.

Deer

Velvet bubble prompts warning [5 February/ NZ Farmers Weekly] A rapid increase in demand for deer velvet from China has prompted warnings of an emergence of an unsustainable price bubble. Demand for deer velvet has already increased 25 percent on a year ago. According to PGG Wrightson prices of an average all grades and net of industry levies for farmers in January increased from \$128 per kilograms in December to \$130 per kilogram in January. Prices for regrowth and short spikes hit an unprecedented \$200 per kilogram last week. According to official trade statistics, China imported 60 percent of New Zealand's velvet production. PGW national velvet manager, Tony Cochrane said the construction of more factories in China demonstrated investors' confidence in the future demand for velvet. Deer Industry New Zealand velvet marketing services manager, Rhys Griffiths said a rapid rise in prices also risked squeezing out long standing customers in the South Korean market.

International

No way, mate! [6 February/ Rural News Group] The National Farmers' Federation CEO, Simon Talbot believes that GST exemptions for fresh food should be retained, despite the potential to earn AUD 6 billion per annum with GST imposition suggested by Liberal backbencher, Dan Tehan. He said along with the negative health impact on Australians, the farmers are the ones likely to absorb the increased costs. Health groups in Australia are also opposing the GST imposition claiming that it will worsen the currently alarming rates of obesity and chronic diseases. Prime Minister, Tony Abbott said there will be no changes made to GST this term and that it cannot change unless all states and territories agree and there is a political consensus in Parliament.

How can we avoid peak chocolate? [7 February/ The Guardian] A report released on February 7, The Earth Security Index 2015 stated that a shortfall in chocolate over the next five years is only likely to be avoided if major manufacturers adopt business models that give full recognition to the role of cocoa farmers. Ghana and Cote d'Ivoire, which account for 60 percent of global cocoa production are expected to decline due to land degeneration, lack of investment by smallholder farmers and the declining availability of suitable land due to climate change. The report states that the current investments being made in sustainability programmes designed to support smallholder farmers made by major chocolate companies are unlikely to be sufficient to prevent farmers switching to more profitable crops, such as palm oil or rubber. The report states that climate change and unsustainable farming techniques have reduced the amount of land for cocoa crops by 40 percent in the last 40 years, with the shortfall expected to reach one million tonnes by 2020. Major chocolate producing companies, including Nestlé highlighted that they are members of the World Cocoa Foundation's Cocoa Action strategy, which focuses on improving the livelihoods of cocoa farmers. The report's author, Alejandro Litovsky said that companies must put farmers at the centre of the value chain.

New guidance aims to keep products of pirate fishing out of UK supply chain [9 February/ The Guardian] Fresh guidance, designed to help British businesses keep illegal fish products out of the supply chain and stop the practice, indicated illegal pirate fishing damages the environment and human rights, and leads to economic losses as large as USD 23.5 billion per annum. A briefing published by the British Retail Consortium, Environmental Justice Foundation and WWF UK outlined how to end long term threats to oceans while building legal and sustainable fisheries. Eight key recommendations in the document, including requirements to have a unique identification to enable satellite tracking, improved port controls and a European Union centrally coordinated database of fish catches and fisheries call for increased transparency and traceability of fish supplies. Environmental Justice Foundation executive director, Steve Trent said more decisive actions by major companies and retailers are needed to ensure long term change. He said full engagement of the corporate sector, Government and other key stakeholders is necessary to require suppliers to provide information on the origination of products. British Retail Consortium director of food and sustainability, Andrew Opie said that its guidance will help all retailers and manufacturers ensure that illegal fish do not enter the British supply chain. He said he hoped the principles will be adopted by other food companies abroad.

Agribusiness education

Women's programme receives support [9 February/ Radio New Zealand Rural] A programme run by the Agri-Women's Development Trust, with funding from the Government and the Red Meat Profit Partnership, Understanding Your Farming Business is helping to upskill women on sheep and beef farms. Agri-Women's Development Trust executive director, Lindy Nelson said the programme helps women gain a better understanding of what drives a farming business and how to measure on-farm performance. The programme is to commence later in February, with workshops to be held in Canterbury, Hamilton, Te Kuiti and Wellsford.

Export and trade

New Zealand out to bowl over India [7 February/ Rural News Group] Primary producers are being invited to attend an international summit in Auckland called 'Growing with India: Inspire, Innovated, Grow', which is coinciding with New Zealand and India facing off in World Cup matches. The India and New Zealand Business Council is asking the pipfruit and avocado industries to attend the summit as they could be exporting to India. The Council chairman, Sunil Kaushal sees opportunities for honey, wine, meat, agricultural machinery and products, agri services, new technology and other primary produce. He said a vital message to convey to visiting Indian representatives is that New Zealand is not a threat to its intentions for self-sufficiency, but only a complementary and collaborative supplier. He said India is opening up, but mentioned that the relationship is a two way street. He mentioned the possibility for New Zealand to help Indian states in cow productivity, feed, soil, environment, fertiliser and other on-farm management practices. Mr Kaushal said the pending world cup matches are prime opportunity for building better relations between the two countries.

Farmers and producers

Fire the latest worry [5 February/ NZ Farmers Weekly] The drought like conditions experienced in recent weeks have resulted in a large part of the South Island being in a prohibitive fire season. Federated Farmers rural fire spokesman, Anders Crofoot said that they rely on people's common sense to prevent fires, as opposed to the formal guidelines present in Australia. He said that Federated Farmers is attempting to keep members informed of pending fire risks. Mid Canterbury arable farmer and South Island Grain and Seed vice chairman, David Clark urged farmers to manage their own fire risk. Rural fire authorities urged people to take extreme care as regions are extremely dry.

Local body rating system needs rethink [8 February/ Rural News Group] Federated Farmers local Government spokesperson, Katie Milne said setting rates based on the value of a property is overly simplistic and unsustainable, as it results in farmers subsidising rural dwellers. Ms Milne commended the Local Government New Zealand discussion paper for pointing to fairer and more efficient rating systems. She also highlighted the need to look at institutions that use council services, but are exempt from rates. She said the methods the central Government utilises to impose new rates on local Governments require closer examination.

Minister welcomes launch of Safer Farms [10 February/ Rural News Group] The Workplace Relations and Safety Minister, Michael Woodhouse welcomed the launch of the Government's multiyear Safer Farms Programme, designed by farmers and the wider agricultural sector, WorkSafe New Zealand and the Accident Compensation Corporation. Mr Woodhouse said the programme will address the high mortality and injury rates on farms by helping farmers find effective health and safety solutions. The programme includes an easy to use toolkit and a comprehensive online resource.

Landcorp reviews profit forecast [10 February/ Radio New Zealand Rural] Landcorp Farming has made a net half year operating profit of \$1 million, compared with \$12 million for the first six months of the previous financial year, with a forecast of \$1 million to \$6 million, which is below the \$30 million operating profit last year. Landcorp CEO, Steven Carden said it was revising the forecast due to the declining milk production. He mentioned the difficult conditions faced due to the dry conditions this year. He also said they were cautious regarding the store lamb market in the red meat side of the business.

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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	

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