

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**

18 February 2015

#### Organisations referenced in this week's Field Notes include:

AgFirst	Landcorp Farming
AgResearch	Lincoln University
Agricultural and Marketing Research and Development Trust (AGMARDT)	Livestock Improvement Corporation
ANZ	Marlborough District Council
Armadillo Merino	Meat Industry Excellence Group
Australian Foreign Investment Review Board	Ministry for Primary Industries
Beingmate Baby & Child Food Company	Ministry of Business Innovation and Employment
Bio-Protection Research Centre	NASA
Clinton Foundation	Okanagan Specialty Fruits Inc
Commerce Commission	Point6
Craigs Investment Partners	PPG Wrightson
Dairy NZ	Rural Sports Trust
Delegat Group	Rural Support Trusts
Federated Farmers	Silver Fern Farms
Fonterra Co-operative Group	Talley's Group
Irish Farmers' Association	Unilever
Irrigation New Zealand	United States Department of Agriculture
Kathleen Spragg Agricultural Research Trust	Westpac

#### This week's headlines

Wool	<b>Astronauts catch on to wool's fire resistant qualities</b> [15 February/ NZ Farmer]
Dairy	<b>Wintering barns study finds mixed results</b> [12 February/ Radio New Zealand Rural]
Red meat	<b>Silver Fern Farms board change but chairman re-elected</b> [16 February/ NZ Farmer]
Drought	<b>Drought declared in South Island</b> [12 February/ Rural News Group]
Research and development	<b>Review finds PGPs now working well</b> [12 February/ Radio New Zealand Rural]

## AGMARDT

**AGMARDT in-market grants** The Agricultural and Marketing Research and Development Trust is making available two In-Market Grants up to the value of \$400,000 each as seed funding, with the purpose of assisting small to medium sized agribusiness companies to connect with their customers and marketplace. The grants are targeted at helping organisations gain a better understand the marketplace, develop deeper relationships with customers and collaborate with industry partners. The application form can be found at [www.agmardt.org.nz/applications](http://www.agmardt.org.nz/applications). The closing date for applications is March 20, 2015.

## Viticulture

**Delegat in growth mode as operating profits rises** [11 February/ NZ Herald] New Zealand's largest listed wine company, Delegat Group said that its first half operating profit increased one percent to \$20.5 million in the six months ended December 31 and was on target to meet guidance for full year case sales and earnings. Global case sales increased four percent to 1.13 million, with net profit decreasing to \$9.8 million from \$17.8 million, reflecting the fair value changes to the value of derivatives. The Group is increasing its spending for the year to \$86 million in order to drive growth, build a Hawkes Bay winery, expand its Marlborough winery and develop new vineyards in Marlborough, Hawkes Bay and the Barossa Valley. The Group forecasts full year case sales to increase by nine percent to 2.2 million cases, with a projected operating profit to increase to \$34 million.

## Wool

**Astronauts catch on to wool's fire resistant qualities** [15 February/ NZ Farmer] At the recent Central Otago A&P show, Armadillo Merino owner, Andy Caughey, discussed the non-flammable properties of wool and its uses, including specially engineered New Zealand merino fabrics which are used in under garments for NASA astronauts and frontline soldiers. The properties and comfort of the under garments have enabled Mr Caughey to secure contracts with the British military, police force and the New Zealand Army. Mr Caughey also highlighted the breathable and absorbent properties of the material.

**PGG Wrightson signs merino wool deal with US sock maker Point6** [16 February/ NZ Farmer] PGG Wrightson Wool has announced a new multi-million contract to supply merino wool to American sports sock manufacturer Point6 with 150 tonnes of fine micron wool per annum. Point6 owners, Peter and Patty Duke said the record demand prompted them to enter into a direct supply contract to improve transparency as to point of origin and how the wool was grown. PGG business development manager, Craig Smith said talks with Kiwi growers are to commence shortly, provided they are able to meet the stringent measurement criteria. Mr Smith hopes the contract will give more exposure to New Zealand in the United States markets with the hope of more demand for the product.

## Water

**Drought adds urgency to irrigation and storage plans** [17 February/ NZ Herald] Current drought conditions are set to add urgency to proposed or ongoing water storage and irrigation schemes. Irrigation New Zealand Chief Executive, Andrew Curtis mentioned that this year's medium-adverse rated drought highlighted what nor'wester conditions can do and the need to push projects through at a more rapid pace. Mr Curtis added that with all the run-of-river water gone, the only way to combat the conditions is to create storage and distribution networks, with the initial capital funding being the major challenge. Irrigation New Zealand highlighted that the conditions were starting to become an issue for Marlborough, which is responsible for 73 percent of the country's wine production. ANZ estimates indicate that the current dry spell will reduce at least 0.5 percent off GDP growth.

## Fishing and aquaculture

**'Marine genocide' warnings over Chinese fishing boats** [11 February/ Business Day] Over 1,300 heavily subsidised Chinese fishing boats are currently licensed in the South Pacific, with plans of increasing the number by an additional 300 this year, with Pacific countries not seeming to heed New Zealand warnings on the issue. Samoa fish exporter and expatriate New Zealander, John Luff said even though the entire South Pacific is at risk, they are allowing additional ships in to the region. He said that with Samoa's Exclusive Economic Zone only at 129,000 square kilometres, its fishery is at risk of being wiped out. The fact that Chinese boats are heavily subsidised means they are able to fish much after it has become uneconomic for other boats. Mr Luff highlighted the fact that New Zealand taxpayers are paying for their attempts to protect the South Pacific fishery, while the Cook Islands government is allowing the damage to continue.

**Marine farm expansion allowed despite algae fears** [11 February/ Marlborough Express] The Marlborough District Council resource hearing committee has approved a two hectare extension to Talley's Group marine farm at Tawhitinui Reach in Pelours Sounds to cultivate green shell and blue shell mussels and dredge oysters, despite concerns over its close proximity to a rare marine habitat. The committee said the site has been adjusted to prevent the impacts of shell drop on sensitive habitats. The consent is conditional on the Talley's Group monitoring the rhodolith bed and recommending remediation if there are adverse effects on the bed.

## Dairy

**Wintering barns study finds mixed results** [12 February/ Radio New Zealand Rural] A study, undertaken by Dairy NZ and AgFirst on the economic and nutrient loss impacts of building and running cow houses has found that wintering barns may not necessarily be profitable or better for the environment. Dairy NZ senior economist, Mathew Newman stated that farmers generally invested in wintering barns for other reasons, mainly management purposes such as preventing pasture damage and improving conditions for cows and staff. According to Mr Newman the environmental side of a barn does not directly lead to lower nitrogen loss. The final results of the study are to be completed early next year.

**Fonterra acts to gain Chinese alliance** [13 February/ Otago Daily Times] Fonterra Co-operative Group has lodged a formal bid to buy a 20 percent stake in one of China's major infant formula companies, Beingmate Baby & Child Food Company. Analysts speculated the tender offer to be between \$600 and \$700 million. As at February 12, Beingmate Baby & Child Food Company had a market capitalisation of \$4.8billion. Craigs Investment Partners broker, Peter McIntyre said although increasing debt on Fonterra's balance sheet, earnings would be immediate. The Chinese infant formula market is estimated to be worth approximately \$18 billion annually, which is expected to grow to \$33 billion by 2017. Mr McIntyre said the partnership is expected to be productive, given that Beingmate has 80,000 distribution points. The partnership wants to meet China's increasing infant formula demand, increasing the volume and value of Fonterra's ingredients and branded products exported to China.

**Subsidies pushing US milk production up** [16 February/ NZ Farmers Weekly] Fonterra Co-operative Group milk collection is currently ten percent below last season and has dropped below the last big drought in 2012-13. Fonterra chairman, John Wilson said that he expected a recovery in world dairy prices later in the year to achieve the market consensus of the approximate long-run milk powder value of USD 3,500 per tonne, and mentioned that they are currently not at the level of achieving the \$4.70 per kilogram of milksolid forecast. He also highlighted that the United States farmers are expecting a two to three percent growth in production without any indication of cutting back their milk production. China has not reduced its inventories of New Zealand milk powder as manufacturers were able to use recovering volumes of domestic milk supplies during the second half of 2014, but production data indicate a potential return to the New Zealand market. The decline in oil prices could increase demand in Asian markets including China, but may lead to payment delays from the key markets of Venezuela, Algeria and Iran. Mr Wilson defended the MyMilk option of non-shareholder supply of milk in Canterbury, saying that not all farmers support the co-operative structure and owning shares. He also said the ability to obtain cheaper milk than the shareholders' milk is beneficial to the co-operative.

#### Sheep milk

**Sheep milking untapped opportunity for farmers** [12 February/ Rural News Group] Lincoln University farm management and agribusiness lecturer, Guy Trafford is to speak at the first ever conference on sheep milk, the Ewe Milk Products and Sheep Dairying Conference on February 19, in order to raise the industry's profile. Mr Trafford expects to establish a sheep dairy processing plant and to manufacture and market the product. He mentioned that New Zealand is already exporting sheep milk to China and said that it has less of an environmental impact than its counterparts and is more sustainable. Mr Trafford also mentioned the potential to produce added value products such as ice cream and cheese from the product. He said that organisations such as Landcorp are examining the potential of sheep dairying, and will be represented at the conference.

#### Red meat

**Silver Fern Farms board change but chairman re-elected** [16 February/ NZ Farmer] Silver Fern Farms chairman, Rob Hewett has been re-elected at the recent director elections. However, there was a change in the other remaining seat with incumbent director, Herstatt Ulrich losing out to newcomer and West Otago sheep and beef farmer, Fiona Hancox. With the backing of the Meat Industry Excellence Group, which is seeking reform in the meat industry by targeting director seats, Ms Hancox shaded out Mr Ulrich in an election where 31 percent eligible shareholders voted.

#### Rural infrastructure

**LIC reveals \$23.8m revenue lift** [12 February/ NZ Farmer] Waikato farm genetics company, Livestock Improvement Corporation has recorded a 17.7 percent increase in revenue at \$159 million and a \$2.7 million increase in net profit after tax at \$29.7 million in the first half of the financial year. Livestock Improvement Corporation chairman, Murray King said the improvements were a result of farmers continuing to invest in solutions which improve their productivity and prosperity. Mr King said artificial breeding, along with DNA parentage testing and information and automation technology systems remained popular. The forecast is for a lower year on year net profit after tax, due to the expected impact of milk payout and the corporation's \$20 million investment into technology and infrastructure. Mr King said that it had reviewed where costs can be reduced without affecting its services to farmers.

**Westpac to pay over rural swap rates** [17 February/ Newstalk ZB] Westpac is to pay almost \$3 million in a settlement with the Commerce Commission over the sale, marketing and promotion of interest rate swaps to its rural customers between 2005 and 2012, with \$2.47 million being allocated to customers who made complaints and \$500,000 in costs to the Commerce Commission and the Rural Support Trusts.

#### Drought

**Marlborough dries up as more irrigation bans imposed** [11 February/ Otago Daily Times] Nine out of Sixteen of Marlborough's consent areas have imposed irrigation bans, as conditions in the region are becoming increasingly drier. Blenheim received its lowest rainfall in 85 years for the July 2014 to January 2015 period, whilst other areas are also suffering significantly. In response, the Marlborough branch of Federated Farmers have established a local drought committee, enabling communication to all water users. The Onamalutu Valley's Northbank fire is largely under control, with the situation still being monitored. Affected farmers are being supported by the Federated Farmers and the Rural Support Trust.

**Drought declared in South Island** [12 February/ Rural News Group] Primary Industries Minister, Nathan Guy declared the drought conditions affecting parts of Otago, Canterbury and the Marlborough District as a medium scale adverse event. So far most farmers have managed the conditions, with most not needing support. Mr Guy states that preparation is vital as conditions are only going to become tougher as the seasons change. Mr Guy also noted that while support is already available from Government agencies, rural assistance payments will also be made available from Work and Income in the next couple of months. Meanwhile, Federated Farmers have started to coordinated supplies and some banks are offering special support packages. The Wairarapa and southern Hawkes Bay region are also being monitored closely.

**ANZ extends assistance package for farmers** [13 February/ Rural News Group] ANZ will extend its assistance package to farmers if demand for assistance from farmers is high. The bank will commit an initial \$50 million after an official announcement of a drought was declared by Parliament. ANZ Commercial & Agri Managing Director, Graham Turley explained that the package is designed to offer targeted assistance, whilst recognising there may be more complex situations. Mr Turley also illustrated how the bank encourages farmers to meet with advisors early to develop a plan, various forecasts and talk about funding requirements.

**Research and development**

**Review finds PGPs now working well** [12 February/ Radio New Zealand Rural] After an unsteady start, the Government's Primary Growth Partnership research funding programme is showing encouraging results. A review by the Auditor General, as requested by Parliament's Primary Production Select Committee, raised concerns as to whether the programme was achieving its goals. The Auditor General believes it is too soon to see any economic benefits, but said that the programmes are now working well. The audit found that the Ministry for Primary Industries needed to improve how it recorded decisions about partnerships and how they fit in with the Primary Growth Partnership objectives. It also stated the Ministry must continue to reliably measure the progress of the programme and establish clear results. The Minister for Primary Industries, Nathan Guy said the review of the programme provides the Ministry assurance that it is on the right track. In contrast, Labour Party Primary Industry spokesperson, Damien O'Connor criticised the scheme for its inability to demonstrate what it has achieved.

**Biosecurity**

**Biosecurity officials go to war over bug** [11 February/ Radio New Zealand Rural] The Ministry for Primary industries have stepped up treatment requirements of vehicles and machines coming from the United States due to increasingly frequent discoveries of the brown marmorated stink bug. Senior biosecurity risk assessment adviser, Catherine Duthie, said an influx of the bugs can seriously damage the New Zealand horticulture sector, with 300 plant species known to be potential hosts. According to Ms Duthie the invasion of stink bugs in the United States has resulted in a substantial increase in the spraying of chemicals on crops, whilst still suffering up to 40 percent loss amongst affected crops.

**Grant boosts research on disease control options** [12 February/ NZ Farmer] PhD candidate at AgResearch and Bio-Protection Research Centre, Bryony Dignam has been awarded the Kathleen Spragg Agricultural Research Trust grant in order to further fund her research on naturally occurring plant and disease suppression in New Zealand pastoral soil, which aims to deliver substantial disease control options for pastoral farmers. She said the research aims to develop more sustainable methods of disease control that use current farm management practices without the cost and complexity of implementation. Results so far seem to suggest that the manipulation of certain soil properties could provide opportunities to manage disease suppressive soil microbial communities. Ms Dignam will use the grant to visit the University of Utrecht and the University of Wageningen in the Netherlands to learn from plant disease suppression and soil microbial ecology experts, whose main focus is on arable land system, with the intention of applying it to the New Zealand farm systems, which contain a lot of pasture diversity and different diseases.

**International**

**Farmers' pleas are finally answered** [12 February/ The Australian] The Australian Federal Government announced that all foreign purchases of farms worth over AUD 15 million will require approval by the Foreign Investment Review Board, reducing the previous trigger limit for approval of \$248 million. The change also applies to the purchase of multiple small farms totalling over AUD 15 million by one foreign purchaser. The thresholds were already part of the bilateral Japanese, Korean and Chinese Free-trade agreements that Australia signed in 2014. Although not endorsed yet, the three trade deals have also reduced the trigger limit of private sector agribusiness sales to foreigners from AUD 248 million to AUD 53 million. There was also no mention of the sale of irrigation water rights offshore once assets over AUD 15 million have been purchased. The agreements also reaffirm the fact that Foreign Investment Review Board approval is required when any farmland is purchased by an entity or company owned or associated with a foreign Government. However, the Federal Government left out the long expected restrictions on the sale of large agribusinesses such as food companies, sugar mills and dairy processors, although the Government vetoed Archer Daniels Midland takeover of Graincorp.

**Apples modified to resist browning receive federal approval** [15 February/ NZ Herald] The United States Department of Agriculture has given federal approval for two types of genetically modified apples, Arctic Golden and Arctic Granny Smith, which are modified to resist turning brown after being bruised or sliced. The Agricultural Department said the apples are not likely to carry a plant pests risk or have a significant impact on the human environment. The apples are being developed by Canadian company, Okanagan Specialty Fruits Inc. It is expected that the first apples will be available in late 2016, in small quantities. In response, the Center for Food Safety questioned whether the browning resistant may mask old apples whilst the Environment Working Group highlighted the need for clear labelling of genetically modified foods.

**IFA says 29% of pork items were wrongly sold as Irish** [16 February/ The Irish Times] An Irish Farmers' Association programme that tested DNA of pigmeat sold as Irish has discovered that almost one third of pigmeat was not of Irish origin. Of the 26 products that were discovered to be non-Irish, 25 were purchased from independent butcher shops, with the other product purchased from a supermarket. The Irish Farmers Association had introduced a DNA certified pigmeat traceability programme to prevent consumers being misled. New samples will be retested after a period of time from the shops to ensure that the products sold as Irish are produced locally. Irish Farmers' Association pigs and pigmeat committee chairman, Pat O'Flaherty said it was meeting with the butchers to address the issue.

**What can farmers do with a \$10m grant? Maybe fix the global supply chain** [17 February/ The Guardian] Unilever and the Clinton Foundation announced a USD 10 million plan with a fifty-fifty funding split to help impoverished growers in developing countries to improve their supply chain, including their farming techniques and the efficiency of selling their harvest. The grant is intended to be spent over three years to fund private businesses that will support 60,000 farmers in Africa, South Asia, Latin America and the Caribbean. The recipients will consist of the network of food processors and other businesses in the Unilever supply chain. The project, Enhanced Livelihoods Investment Initiative is designed to create a more efficient way for Unilever to buy from small producers. Non-profit investor and loan provider in social entrepreneurships, Clinton Giustra and Acumen will select or establish the businesses that will receive funding. Goals of the programme include increasing the incomes of those in agricultural communities by 50 percent on average and training funding women entrepreneurs.

## Agribusiness strategy

**The future of food: Lincoln to host global conference** [13 February/ Rural News Group] Lincoln University is to host an international conference on the future of food innovation, nutrition and technology. The conference, which is the first of its kind in New Zealand will bring together more than 250 scientists, Government officials and industry representatives from around the globe. Lincoln University Professor, Charles Brennan believes the event to be an opportunity to allow for communication between both industry and research, while creating an opportunity to showcase New Zealand’s role in food science and innovation. Mr Brennan stated that the importance of innovation in the food industry is highlighted by the Ministry of Business Innovation and Employment sponsoring the event.

## Farmers and producers

**NZ Rural games hailed as a big success** [10 February/ Radio New Zealand Rural] More than 7,500 spectators and approximately 200 contestants attended a mix of 13 national and trans-Tasman Rural Games championships, organised by the Rural Sports Trust in Central Otago. Founder and trustee, Steve Hollander said that the purpose of the event, which included traditional rural sports to bizarre egg-throwing contests, was to create a larger profile for rural sports.

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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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