

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

11 March 2015

Organisations referenced in this week's Field Notes include:

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|--|---------------------------------|
| AFFCO | JBS |
| Alliance Group | Kiwifruit Vine Health |
| ANZCO Foods | Lincoln University |
| Aotearoa Fisheries | Maori Fisheries Trust |
| Australian Agricultural Ministry | McDonalds |
| British Sheep Milk Dairy Association | Meat Industry Excellence |
| Canterbury Development Corporation | Ministry for Primary Industries |
| Ceres | MyMilk |
| Coca-Cola | New Hope Group |
| Commerce Commission | New Zealand Winegrowers |
| Dairy Companies Association of New Zealand | Primo Smallgoods |
| Deer Industry New Zealand | Rabobank |
| Federated Farmers | Safeway Canada |
| Fonterra Co-operative Group | Seeka Kiwifruit Industries |
| General Mills | Silver Fern Farms |
| Hawkes Bay Regional Investment Company | Te Ohu Kaimoana |
| Invivo Wines | |

This week's headlines

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| Viticulture | Wine exports reach record high [9 March/ NZ Herald] |
| Fishing and aquaculture | Aotearoa Fisheries launches \$30m fleet renewal [5 March/ Business Day] |
| Dairy | Threat to contaminate baby formula [10 March/ NZ Herald] |
| Water | Delay in Ruataniwha dam deadline [5 March/ Radio NZ Rural] |
| Biosecurity | Fruit fly larvae found in Auckland [9 March/ Business Day] |



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

Horticulture

Seeka post-harvest shed destroyed in fire, earnings likely to be unaffected [5 March/ National Business Review] The fire that destroyed a shed and affected a coolstore containing 250,000 kiwifruit trays, at Seeka Kiwifruit Industries' Oakside site, is expected to have no material effect on earnings, with comprehensive insurance to cover the costs. The company will undertake repairs and operational changes to enable the kiwifruit season to run without any adverse effect. The cause of the fire, which did not injure anyone, is still unknown.

Viticulture

Invivo Wines gears up for crowdfunding push [4 March/ National Business Review] Invivo Wines will try to raise up to \$2 million by offering equity on crowdfunding site, Snowball Effect, in two weeks' time, before a possible launch onto NZX's new growth market NXT. Invivo Wines co-founder, Tim Lightbourne said the company has brought in Miro Capital Advisor, John Moore, to speak to advisors about raising capital before the possible NXT listing. Invivo currently sells wine in 17 countries and expects to contribute to the growth in total wine exports expecting to be \$2 billion by 2020. The company undertook a share split recently, with no fund movements, increasing total shares from 101,010 to 8 million.

Wine exports reach record high [9 March/ NZ Herald] New Zealand Winegrowers have announced that wine exports have reached a record high, increasing 8.2 percent to \$1.37 billion, moving wine to New Zealand's sixth largest export product, driven by strong demand in key markets. A high quality, albeit smaller, 2015 vintage is expected due to the warm dry summer conditions, with future sales supported by retained 2014 vintage stocks.

Sheep Milk

The rise and rise of sheep milk [9 March/ NZ Farmers Weekly] British Sheep Milk Dairy Association Chairman, John Ryrie speaking at the recent Massey University sheep dairying conference, highlighted that the demand for sheep milk, across the globe, outstrips supply with expanding processors looking for more milk. Mr Ryrie noticed the growing New Zealand industry has similarities with the British industry, with farmers in New Zealand being able to look at British counterparts for lessons learnt. Mr Ryrie added that sheep milk farming is ideal for small family farms, with 300 to 400 ewes producing approximately 300 litres a day at about \$2 per litre. The conference highlighted two key focus areas for the emerging industry to develop; one being establishing a direct line into the export markets, including getting contracts in place. The other being genetics, with the East Friesian sheep being a breed suited to sheep dairying in New Zealand.

Fishing and aquaculture

Aotearoa Fisheries launches \$30m fleet renewal [5 March/ Business Day] Aotearoa Fisheries has announced a \$30 million fleet renewal programme that will improve productivity and reduce environmental impact of the company's fishing activities. Aotearoa Fisheries CEO, Carl Carrington, said the company contracts its quota to fishing companies, and will help companies purchase the new boats through a secured financing arrangement and long-term access to its quota. Mr Carrington added that this is the biggest fleet renewal in New Zealand since the 1970s, seeing up to six new boats launch in the next few years at an estimated cost of \$25million to \$30 million.

NZ toothfish exports face boycott in North America [5 March/ Business Day] New Zealand toothfish exports, worth about \$18 million per year, are facing a Canadian boycott after supermarket chain Safeway Canada refuse to sell the species. The decision is said to be linked to the Conservation of Antarctic Marine Living Resources (CCAMLR) failure to have the Ross Sea declared as a Marine Protected Area (MPA). Safeway has pledged not to buy or sell toothfish harvested from the Ross Sea and encourages CCAMLR member countries to designate the entire Ross Sea as a Marine Protected Area.

Sinking of Maori Trust allows \$162m AFL to rule the waves [9 March/ National Business Review] A ten-year review of the Maori Fisheries Trust (Te Ohu Kaimoana) has recommended that the trust to be wound up, enabling iwi to take direct control of Aotearoa Fisheries Ltd. The trust manages the transfer of the fisheries settlement assets to the mandated iwi organisations. It also holds all voting shares in Aotearoa Fisheries on behalf of all 57 iwi's and 20 percent of the income shares, with the remaining 80 percent held by iwi. The review suggests iwi take direct control, transferring all voting shares to iwi, who then can appoint AFL's board. The review also suggested that the trust's assets to be transferred to iwi in accordance with the Maori Fisheries Act 2004. The trust is planning to hold 10 meetings with iwi organisations to discuss the recommendations, with the Maori Fisheries Act requiring amendments for a number of the recommendations to be implemented. The trust is required to communicate its response within 40 working days, and then required to hold a general meeting within 60 days of the report's release, where iwi will vote on the recommendations.

Dairy

Asian investment in dairy predicted to grow [4 March/ Radio NZ Rural] The increase of Asian investment in the New Zealand dairy industry is likely to continue according to a new report from Rabobank. Rabobank's Director of Dairy Research, Hayley Moynihan, said the surge is likely to continue as regulations drive the need for more vertical integration and greater control of raw materials. Ms Moynihan noted the current focus is securing raw materials for infant milk formula, with added investment in liquid milk products, such as UHT facilities. Ms Moynihan recommend not to overestimate the on-going growth in import requirements by Chinese companies, as the market will see slower average growth as it matures.

Advertising on milk formula for NZ infants facing ban [5 March/ NZ Herald] The Commerce Commission has backed a proposal which bans the marketing of infant formula for babies under six months, including giving free samples to pregnant women, mothers and healthcare professionals as a sales inducement. Commerce Commission Chairman, Dr Mark Berry noted that restrictions on marketing and advertising typically reduces information for consumers, making them worse off, however the public health benefits outweigh this risk. The current voluntary Code of Practice, is adhered by 30 of 70 companies manufacturing and marketing infant formula, with a final decision on a mandatory code to be made on 25 March.

Global dairy auction prices keep firming [5 March/ NZ Herald] Dairy prices at the latest Global Dairy Trade (GDT) auction suggest that Fonterra will meet its expected \$4.70/ kgms farm gate milk price for the current season. The GDT price index gained 1.1 percent from the previous auction held two weeks ago, its sixth consecutive gain. Whole milk power fell by 1 percent to US\$3241/ tonne and skim milk rose 5.9 percent to US\$2935/ tonne. ANZ Bank Rural Economist, Con Williams said the muted demand from China was a concern, with a large slowdown in demand from Chinese buyers being noticed. Mr Williams added that the decline in price of longer-dated whole milk powder contracts, suggested short-covering in response to a reduction of New Zealand product and weak improvement in the underlying demand from importers. ASB Rural Economist, Nathan Penny said Fonterra lifted its forecast annual auction supply by 1.7 percent, with increased volumes sold than the recent auctions. Mr Penny suggested that the dairy markets had factored in lower production, due to the drought and has maintained its milk price forecasts for 2014/ 15 at \$5/ kg and 2015/ 16 at \$6.40.

MyMilk offers three incentives [9 March/ NZ Farmers Weekly] MyMilk, the contract milk purchaser that Fonterra has recently established, has committed to paying a milk price ranging between 0 and 15 cents below Fonterra's farm gate milk price on contracted supply from its shareholder suppliers. MyMilk has established a new incentive scheme enabling farmers to increase the price they receive through meeting performance targets. The incentives are worth up to 5c/ kg of milk solids for each of three parameters (volume, quality and proximity). The volume incentive will include an incremental one cent per 100,000kg milk solids supplied up to a maximum 5c/ kg, the quality incentive pays 5c/ kg to farms that achieve zero demerits for milk produced and 3c/ kg to farms which incurred one demerit for the season. Under the proximity incentive, farms receive 1c/ kg for every MyMilk farmgate within a 10km radius of the individual farms main tanker access gate, up to a maximum of 5c/ kg. MyMilk CEO, Richard Allen said the main goal is to strengthen the Fonterra Co-operative and grow Fonterra's milk supply.

Dairy prices cool as Fonterra moves to top up market [10 March/ NZ Herald] The NZX dairy futures market has indicated dairy prices are plateauing after big February gains. Dairy futures have been falling after Fonterra announced more product is to be sold through GDT over the next few months. Prices rose with the prospect of lower production caused by drought, however Dairy Companies Association of New Zealand data has shown that production fell by just 1.25 percent in the January year, leaving buyers questioning the extent of the drought. The futures market is not a cast iron indicator of upcoming prices, however it could suggest that Fonterra may struggle to meet its \$4.70/ kgms forecast price.

Threat to contaminate baby formula [10 March/ NZ Herald] Police are appealing to the public for help following letters being received threatening to contaminate infant and other formula with 1080 unless New Zealand stops using the poison for pest control. Federated Farmers and Fonterra received the anonymous letters in November, accompanied by small packages of milk powder, which later tested positive for a form of 1080. Police said the letter was likely to be a hoax. Prime Minister, John Key said the threat was a form of ecoterrorism, despite officials being confident the risk of the threat being carried out was low. Minister for Primary Industries, Nathan Guy, said that 40,000 tests have been carried out on products and none have shown traces of 1080. Police Deputy Commissioner of National Operations, Mike Clement, announced that although the threat is likely to be a hoax, it must be treated seriously. Several specialist groups, support agencies and Federated Farmers are helping with the investigation. Ministry for Primary Industries Deputy Director General, Scott Gallagher said infant and other formula products are just as safe today as they were before the threat. Mr Gallagher added that since the threat, security and vigilance has been significantly increased.

Red Meat

Red meat sector at crossroads [9 March/ Business Day: NZ Farmer] A report by the Meat Industry Excellence Reform Promotion Group, says farms in the red meat sector are poised to be lost to foreigners or converted to dairy farms. The group will shortly release the professional analysis of the industry that it has commissioned, and notes that it will include details of the costs to farmers and processors of not changing the current competitive industry structure, considered by reformers to be value-destructive, unsustainable and keeping farmers poor. It will also show farmer support for a consolidated industry based around a co-operative model. The report models estimated savings and other improvements for consolidated industry options. One option, an agreement between Silver Fern Farms, Alliance Group, AFFCO and ANZCO Foods for a coordinated and managed consolidation process was found to save more than \$1 billion over five years. Also highlighted are poor farm gate returns, an urgent need to address over capacity in the processing sector and the need for a procurement model that rebuilds the trust between farmers, processors and marketers, enabling committing supply. Meat Industry Excellence Chairman, John McCarthy, said that without reform to a strong co-operative model, foreign ownership and the conversion to dairy farms is a likely reality for the red meat sector, as has been seen in Australia. The main report will be available on the Meat Industry Excellence website from March 18.

Deer

Great season for velvet producers [6 March/ Rural News] The velvet production season, enjoying a six year-run of firming prices, started strong with demand from Korean and then Chinese buyers. Some exporters reported a 25 percent price increase on last season. Deer Industry New Zealand CEO, Dan Coup said that exporters did an excellent job maximising returns to farmers. Mr Coup warned farmers on relying on similar price increases next season, with commodity markets on which a large proportion of New Zealand velvet is sold, still having a volatile and unpredictable nature. Mr Coup added that markets recognise that New Zealand produces the best product, with growing success through Korean consumer food companies, accounting for 20 percent of their production however such companies are looking for price stability of ingredients. Mr Coup noted the velvet production is a big boost for deer farmers, offsetting disappointment from the drought and venison prices.

Water

Delay in Ruataniwha dam deadline [5 March/ Radio NZ Rural] Hawkes Bay Regional Investment Company is having to delay the deadline for deciding whether the Ruataniwha dam is financially viable. The original March deadline had been set before a High Court appeal to reconsider a rule covering the level of nitrogen allowed to be discharged from farms in the Tukituki River catchment. The delay is due to the company wanting all parties to have the chance to comment on various aspects of the High Court decision, the deadline also depended on the financial backing it needed to proceed and having enough farmers signed up to use the water. For the scheme to progress, farmers need to sign up for at least 40 million cubic metres by the deadline, currently there is less than a quarter of this demand already committed. Hawkes Bay Regional Investment Company CEO, Andrew Newman expects a substantial lift in demand in March.

Drought-stricken farmers still without rain [9 March/ Radio NZ Rural] South Canterbury Federated Farmers President, Ivon Hurst said farms in his region again received next to no rain, and that the chief fire officer for the South Canterbury coastal area had noted that the area was now the driest region in the country, with no relief coming in the weather outlook. Mr Hurst added that farmers are still reducing stock levels, with dairy farmers reducing milkings and drying off cows, after being cut off from irrigation water. North Otago Federated Farmers president, Richard Strowger, whose region received minimal rain, advised farmers to look at winter feed supply and make early contact before buying or selling it to avoid the disappointment of heading into the next season with 1000 cows and only being able to feed 500.

Biosecurity

Fruit fly larvae found in Auckland [9 March/ Business Day] Queensland fruit fly larvae have been found at two properties in Grey Lynn, Auckland. Currently, fourteen adult flies have been found, with the Ministry for Primary Industries still considering the fruit fly outbreak to be a local population, but now recognising that it may take months to eradicate. There is still a lockdown area in place, with ground treatment occurring at four Grey Lynn properties. Tonga has banned fresh-fruit imports from the Auckland region.

Wider fly controls are wanted [9 March/ NZ Farmers Weekly] The kiwifruit industry aims to take advantage of the government-industry agreement that it has entered into, to ensure the sector has input into the management of the response to the Grey Lynn fruit fly outbreak, with Ministry for Primary Industries officials. Kiwifruit Vine Health CEO, Dr Barry O'Neil said a fruit fly incursion would cost the sector anywhere between \$2 million and \$430 million. Currently there are no trade restraints put on any horticulture sector exports including kiwifruit, however there has been in the past. Dr O'Neil added that after the latest incursion is dealt with, controls to mitigate the increase discoveries need to be established, such as the return of 100% x-ray inspections and the increased use of sniffer dogs at border points.

International

Businesses push to combat California drought [5 March/ Financial Times] A group of businesses in California have called for bold measures in conserving the state's water supplies, as it enters the fourth year of its drought. The businesses, including General Mills and Coca-Cola are supporting a plan that ensures the implementation of two water management strategies approved last year. Ceres Senior Manager, Kirsten James said the USD7.5 billion water bond which is proposed to fund water infrastructure projects and improving the management of the state's groundwater supplies need to be kept on track. More than 90 percent of California is in a severe drought with the agricultural economy estimated to have lost more than USD2.2 billion. Coca-Cola Sustainability Manager, Jon Radtke believed the group of businesses can make a greater impact by working together, than one organisation or sector can.

McDonald's cuts out key antibiotics [5 March/ The Washington Post] McDonald's restaurants in the United States are to implement a new policy which stops the serving of chicken raised with antibiotics used in human medicine. The Center for Disease Control and Prevention reported the overuse of human antibiotics is the strongest factor contributing to the growing level of antibiotic resistance, with an estimated 80 percent of antibiotic drugs being used in livestock to promote growth and treat disease. McDonald's will continue to work with suppliers who use ionophores, a chicken only antibiotic. Natural Resources Defense Council Public Health Director, Erik Olson said the implementation of the policy for chicken, rather than beef, is due to the complex nature of beef supply chains, whereas chickens typically stay at the same farm. Advocates hope the McDonald's announcement will be a catalyst for other restaurant chains and food processors.

Cattlemen angry over Primo sale [5 March/ The Australian Financial Review] The approval of Brazilian food giant JBS's AUD1.45 billion takeover of Primo Smallgoods has left farmers concerned over reduced competition. Treasurer Joe Hockey ensured that the proposed acquisition was consistent with Australia's best interests. Following the Australian Competition and Consumer Commission's decision to wave the deal through, major meat processors refused to bid at the Wodonga sale-yards, pressuring livestock owners to change selling and weighing practices. Farmer lobby groups, NSW Farmers and the Victorian Farmers' Federation, are furious with the approval with reduced competition causing lower stock prices.

China's New Hope to invest \$500m in food, says Chinese farmland 'degraded' [7 March/ The Australian Financial Review] New Hope Group Chairman, Liu Yonghao has pledged to invest AUD500 million in Australian agriculture, as China needs to find a solution to feed its increasingly affluent population. Mr Liu added that China's agricultural production is unsustainable, vulnerable to drought and has severely degraded land and water supplies. The New Hope Group and the Perich family, who control the listed Freedom Foods, struck an agreement to jointly invest in Australian agriculture projects and are currently in negotiations to expand the Moxey farms outside Forbes, NSW. Mr Liu believed investing in Australia food processing assets rather than land is beneficial for both parties and will cooperate with local companies. A survey by the Australian Federal Agriculture Ministry showed over 40 percent of China's arable land had been degraded due to fertilizer overuse, with double the amount of fertilizer deemed safe being used per hectare. The China-Australia Free Trade Agreement has increased interest for Australia food assets, as tariffs will be gradually reduced.

10,000-sq-m farm built on rooftop [7 March/ China Daily] Employees at a door-manufacturing factory in Chongqing can grow crops and raise poultry and livestock on the 10,000 square meter farm that sits on top of the factory. Factory Official, Lu Xiaoging explained how leaving the rooftop unused would be a waste, especially as expanding urbanisation affects Chongqing. Official Lu said the building was built to code and is capable of supporting the farms weight, with the roof being waterproofed to prevent any possible leaks. Such efforts like these have been seen in various cities, with the Beijing Rooftop Landscaping Association stating the gross area of green rooftops in the city reached 1.2 million square meters as of 2012

Agribusiness Education

Lincoln Uni's student numbers bounce back [10 March/ Radio NZ Rural] Student numbers at Lincoln University are growing, with 10 percent increase in domestic students and a 46 percent increase in international student numbers. Lincoln University Deputy Vice Chancellor, Jeremy Baker said there have been increases in numbers taking Bachelor of Agricultural Science, the Bachelor of Environmental Society degrees and Bachelor of Agribusiness and Food Marketing, which doubled in size.

Economics and trade

Impact of Russian ban felt by all [6 March/ Rural News] Dairy Companies Association of New Zealand Executive Director, Kimberly Crewther said Russia's current ban on dairy and other imports has politicalised the food trade. The Russian ban has caused widespread disruption and dairy price volatility, with the European Union, whose largest cheese exporter is Russia, switching to processing milk instead. Ms Crewther added that the European Union are looking to send milk products to some New Zealand export destinations, causing a significant product loading when production levels are good.

Tariffs discussed in China trade talks [9 March/ NZ Farmers Weekly] Trade Minister, Tim Groser has entered preliminary discussions to upgrade New Zealand’s free-trade agreement with China, with the use of safeguard measures featuring in the talks. The outdated dairy safeguards, triggered so early every year, were set before 2009 melamine crisis which caused a loss in consumer confidence in local milk. The safeguards, which reset tariffs after a pre-determined volume is reached, were not due to expire until 2023. However, the new Australian-Chinese trade deal, in which Australia will face lower tariffs, has the potential to inflict more damage on New Zealand exporters. China is under no legal obligation to extend the improved access given to Australia to New Zealand exporters, after it was found the Most Favoured Nation clause, which automatically improves access granted in new trade deals to New Zealand exporters, covered only the sale of services not goods.

Farmers and producers

Rural Canterbury should diversify land use [6 March/ Radio NZ] A report released by the Canterbury Development Corporation, suggested diversification of the regions land use would help when other sectors, such as dairy were under pressure with drought or low pay-outs. Canterbury Development Corporation Chief Executive, Tom Hooper suggested milking sheep, production of honey, blackcurrants and pharmaceutical crops such as poppies were all viable options. Mr Hooper added the options would need a reliable water supply. Lincoln University Farm Management and Agribusiness Lecturer, Guy Trafford said diversification is key to ensure the region is a premier food producing region, however it will take time to establish.

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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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