

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



FIELDNOTES.CO.NZ

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

13 May 2015

Organisations referenced in this week's Field Notes include:

Alliance Group	Murray Goulburn
ANZ Bank	New Hope Nutritional
Aotearoa Fisheries	New Zealand First
ASB Bank	New Zealand Merino Company
Avoco	NZX AgriHQ
ChemSpeak LLC	Rabobank
Commerce Commission	Shanghai Pengxin
DairyNZ	Societe Generale
Energy Efficiency and Conservation Authority	Southland Swedes Working Group
Farmers Mill	Sunfed Meats
Federated Farmers	Syngenta AG
Fonterra Co-operative Group	Synlait Milk
Lincoln University	Te Ohu Kaimoana
Massey University	The University of Aberdeen
McDonalds	Unique Manuka Factor Honey Association
Milk New Zealand Holding Limited	Westpac Bank
Ministry for Primary Industries	Wilmar International
Monsanto Co.	

This week's headlines

Honey	Manuka sweeter with chemical test [11 May/ NZ Farmers Weekly]
Dairy	Slow rebalancing in global dairy markets weighs on prices, but turnaround beginning [7 May/ Rabobank Media Release]
Red meat	Chinese, UK lamb prices lower [11 May/ NZ Farmers Weekly]
Environment and emissions	Feds welcome climate change consultation [12 May/ Radio NZ]
Farmers and producers	Median price for all farms up to \$28,000 a hectare [7 May/ Business Day: NZ Farmer]

Horticulture

High prices and volumes for avocado growers [8 May/ Radio NZ Rural] Avoco Director, John Carroll said strong end of season demand from Australia has lifted returns for growers to between \$14 and \$15 per tray for both large and small fruit. Mr Carroll added that the company had exported a recorded volume of fruit, 4.5 million trays out of 7 million, and still got a good price for growers. Exports to the United States were seen as the big negative during the season, with significant delays at American West Coast ports compared to Mexican competition who could truck fruit into the company.

Honey

Manuka sweeter with chemical test [11 May/ NZ Farmers Weekly] The Unique Manuka Factor Honey Association and Analytica Laboratories have developed a test that ensures manuka purity and authenticity. The manuka honey industry invested \$1.2 million over the past four years to develop the test, which will be able to identify chemical fingerprints that are only present in manuka honey. Unique Manuka Factor Honey Association Manager, John Rawcliffe said the tests would strengthen the Unique Manuka Factor certifications and also removed the politics and counterclaims about manuka authenticity from the industry.

Forestry

Scheme to pay farmer for planting trees rebooted [11 May/ NZ Herald] The government has rebooted its Afforestation Grant Scheme, which pays farmers and landowners \$1300 per hectare for planting trees on their land. Associate Primary Industries Minister Jo Goodhew said the scheme is to be allocated \$3.75 million over six years, funding up to 15,000 hectares of new forest. Applicants have to plant between 5 and 300 hectares of forest, with those planning to address environmental issues such as erosion, given priority.

Fishing and aquaculture

Restructure of Te Ohu Kaimoana throws up management concerns [6 May/ National Business Review] Te Ohu Kaimoana's Chief Executive, Peter Douglas said the recommendations to restructure Te Ohu Kaimoana and give full control of Aotearoa Fisheries to Iwi may be rejected by Maori over concerns that the oversight the body exercises over the industry may be lost. Mr Douglas added that a main question, in response to the recommendations, was how to maintain a Maori voice across recreational, commercial and customary fishery interests. The recommendations are being presented to Iwi, with a special meeting scheduled for June 4 for them to decide on the proposal.

Dairy

Fonterra launches Anchor Organic [7 May/ NZ Herald] Fonterra Co-operative Group has launched its new Anchor Organic brand. Fonterra Brands New Zealand Managing Director, Tim Deane said organic milk represented approximately 2.5% of the nationwide market, with the segment growing by more than 50 percent over the past year. Mr Deane added that the new milk would work out to be about 20 cents dearer per glass than ordinary milk, reflecting the higher costs of organic farming. Fonterra's market research showed that 72 per cent of respondents said they would buy organic milk more often if it was more affordable. The milk will be available from May 18.

Dairy prices show 'emerging crisis' [7 May/ Otago Daily Times] New Zealand First Leader, Winston Peters described the current low dairy prices as an emerging crisis, and predicted the current \$4.50 forecast milk price to fall much further. There was another fall in GlobalDairyTrade auction prices with whole milk powder down 1.8 percent, its smallest decline in two months, while skim milk powder prices fell again for the fourth consecutive auction, dropping by 7.5 percent. AgriHQ dairy analyst Susan Kilsby said the number of companies buying via the platform had increased, indicating improving demand which had not yet been reflected in prices. ASB Bank expected prices to remain low for at least three months before rising, while Westpac Senior Economist, Michael Gordon said future markets suggested no increase was expected until late 2015. Both ASB and Westpac predicted next season milk price forecasts of \$5.70.

Slow rebalancing in global dairy markets weighs on prices, but turnaround beginning [7 May/ Rabobank Media Release] Rabobank New Zealand CEO, Ben Russell said the current market price forecast will negatively impact New Zealand dairy farmers across this season and the next, but that the turnaround in global dairy markets had begun with price recovery expected to commence during the 2015/16 season. Rabobank Director of Dairy Research New Zealand and Asia, Hayley Moynihan said market indicators were emerging that would lead to reduced global supply growth and a recovery of prices. Ms Moynihan warned that the global market rebalancing would take time as production growth slows and normal buying patterns resume. Ms Moynihan added that Chinese demand is still subdued, with a modest 1.5 percent improvement expected for 2015. Rabobank expects the lower New Zealand/United States exchange rate to benefit New Zealand farmers, but Ms Moynihan expected this benefit to flow through to farmers in 2016. Mr Russell said farmers should plan for a milk price around \$5.50 per kilogram of milksolids, but also understand their financial position at a \$5.00 price.

Synlait's coup may become the Model T of Chinese infant nutrition [7 May/ National Business Review] A new infant formula, manufactured by Synlait and distributed in China by New Hope Nutritional, is selling for around a quarter of the price of its competitors. The new formula, Akarola, is sold exclusively online allowing it to bypass traditional middlemen distribution costs and be at a price range which many families can afford. Lincoln University Honorary Professor of Agri-food Systems, Keith Woodford compared the partnerships strategy, of relying on price and scale to make profit, to that of Henry Ford's Model T car. Professor Woodford added that while large volumes of infant formula are sold online, many companies have not made it their main distribution channel, or have priced the product in the same range of shops.

Animal Health

Swede risk not flagged, group says [7 May/ Radio NZ Rural] Southland Swedes Working Group claimed it had not been told there was a risk with herbicide-tolerant swedes, with the group now looking into the deaths of 400 cows and sheep in Southland. The Ministry for Primary Industries had told the group that the leaves of herbicide tolerant swedes had high levels of glucosinolates toxic to cows. DairyNZ Southland Regional Leader, Richard Kyte said the working group understood further testing was required.

Red Meat

Chinese, UK lamb prices lower [11 May/ NZ Farmers Weekly] Higher domestic lamb volumes in the Chinese and British markets are competing with New Zealand exports, and pushing the New Zealand prices down. Prices are around 14 percent lower than the corresponding period last year. NZX AgriHQ Analyst, Chris Taylor said the Chinese processing season had started earlier than normal, with lambs being killed at an earlier age, leading to increased supply and lower prices. Mr Taylor said lamb production in the United Kingdom was also ahead of schedule, due to a combination of fewer adult sheep being processed and favourable conditions which has boosted supply. Mr Taylor added that the United Kingdom had also reduced the amount of exports into Europe, which increased domestic supply. According to NZX AgriHQ figures, British leg prices were down 17 percent, European legs and racks were down 14 percent and 11 percent respectively. Racks to the United States market were up 2 percent, with importers taking note of global movements.

Arable

Farmers Mill secures Asian markets [11 May/ Business Day: NZ Farmer] Sugar-free and low GI bakery products purchased by Malaysian and Indonesian retailers could secure between \$2million and \$3 million in revenue for South Canterbury's Farmers Mill, every year. Farmers Mill Chief Executive, Grant Bunting said it was a lucrative opportunity for the company with many growing Asian markets become increasingly aware of the need for a healthy diet. The first shipment of goods is expected to leave in June.

Environment and emissions

Blaming farmers for emissions 'too easy' [7 May/ Radio NZ Rural] University of Aberdeen Food Security Expert, Professor Pete Smith said it is too easy to point fingers at farmers, but for environmental impact, to successfully fight climate change, people need to eat less meat. Professor Smith said while there are technical measures that could be taken to reduce animal gas emissions, a reduction in the demand for meat and the amount wasted globally would be far more effective.

Alliance Group targets energy use [7 May/ Rural News] Alliance Group has set a target with the Energy Efficiency and Conservation Authority, to reduce carbon emissions by 3,300 tonnes over the next three years. Alliance Group Chief Executive, David Surveyor said reducing the company's energy use makes good environmental and business sense, with the company expected to save approximately \$620,000 annually. Energy Efficiency and Conservation Authority Chief Executive, Mike Underhill called for more energy-intensive industries to set a higher energy efficiency standards and the associated carbon reductions. Mr Underhill added that through technology upgrades and process-improvement, New Zealand companies could collectively save \$1.6 billion in costs every year.

Feds welcome climate change consultation [12 May/ Radio NZ Rural] Federated Farmers Climate Change Spokesperson, Anders Crofoot welcomed the opening of a public consultation on reducing the country's greenhouse gas emissions as it is critical everyone understands the trade-offs involved. Climate Change Minister Tim Groser said the public consultation would help the Government set an emissions reduction target at a global meeting in Paris this year. Mr Crofoot believed looking at the cause of climate change was not helpful for farmers, and that being prepared for the outcome of the Paris meeting was of more importance

Agribusiness education

Initiative promotes agricultural careers [11 May/ Otago Daily Times] An initiative supported by Lincoln University and DairyNZ, has been launched with the aim of promoting the opportunities available in the primary industries sector. A panel of speakers of differing expertise, outlined their own career paths and involvement within the sector. Speaking at John McGlashan College in Dunedin, Ranfurly Dry Stock Manager, Leon Olsson said the industry was one of the country's most impressive, and is screaming out for the involvement of young New Zealanders.

Wool

Better merino sheep in the making [8 May/ Business Day: NZ Farmer] New Zealand Merino Company Production Science Manager, Dr Mark Ferguson said farmers are hoping to have footrot-resistant fine wool sheep that will produce more lambs and feed on better forages within ten years. Footrot costs the industry around \$10 million a year in both treatment and loss of production. The initiative, dubbed FeetFirst is part of a wider Primary Growth Partnership project to lift wool sheep numbers and production. New Zealand Merino aims to produce fine wool sheep with no wool around the head and legs, stronger feet so they did not get footrot and ability to wean lambs at a 125 per cent to 130 per cent rate. Assisting the project will be a simple genetic test which will phase out footrot by selectively breeding resistant sires. The wider project also aims to build a better feeding base for fine wool sheep by grazing more lucerne rather than using it for baleage. Researchers are also looking at the potential of russell lupin as a feed.

International

High-speed broadband an issue for Irish also [26 April/ Rural News] Ireland's Minister for Communications, Alex White said Irish farmers have told the government that a complete rollout of high speed broadband to rural areas is needed, as it is critical for increasing production and productivity. Mr White said broadband issues facing farmers is worldwide problem, and has been in New Zealand to discuss the issue.

McDonald's adding kale to the menu [8 May/ NZ Herald] McDonald's are including Kale in some of their new meals. The company is attempting to shake its junk food image, as sales in the United States declined for the sixth straight quarter. McDonalds' CEO, Steve Easterbrook said he wants to turn the company into a modern progressive burger company. The burger chain is currently testing one breakfast meal and three salads, all of which include Kale.

Big sugar order jolts prices [9 May/ The Wall Street Journal] Wilmar International Limited bought 1.9 million tonnes of sugar on the ICE Futures U.S. Exchange, a move that caused prices to soar on the sugar market. Wilmar called for sellers to ship the USD 547 million order through as soon as possible. Brokers are assuming the purchase was based on Wilmar betting on growing Asian sugar demand, with the company attempting to benefit from the difference in sugar prices between the United States and Asia. Societe Generale Brazilian Commodities Head, Michael McDougall said the order could be an indication of stronger than expected sugar demand. United States government figures estimated that global sugar production is expected to surpass consumption by 1.5 million tons this year.

Monsanto makes bid to go big in pesticides [11 May/ The Wall Street Journal] Monsanto Co. made a USD 45 billion bid for Swiss rival Syngenta AG, in a deal which would rank as the biggest agribusiness merger ever. Syngenta's board rejected the deal on the grounds that it undervalues the business and that Monsanto underestimated the risks the companies would face in closing any deal and securing regulatory approval. Monsanto stated that it remains interested in a deal and that its offer included an attractive premium for Syngenta's shareholders. The company also said the deal could be passed by regulators. By acquiring Syngenta, Monsanto would move back into the chemical industry after decades of investing in biotech seed research. The deal comes amid rising challenges in the seed industry, with sales growth declining to 4.7 percent last year compared to an average 21.3 percent over the previous five years. ChemSpeak LLC Managing Director, William Young said diversification for Monsanto would be a good thing, due to the slowdown in the growth rate for GM crops. Syngenta generated USD 15 billion in annual sales last year, while Monsanto annual sales sat at USD 16 billion, both companies share prices rose in response to news about the deal.

Oz co-op copies Fonterra [11 May/ NZ Herald] Shareholders of Murray Goulburn have voted in favour of a Fonterra-style capital structure that will see its unit's trade on the ASX and move the co-operative closer to its goal of raising AUD 500 million. Murray Goulburn Managing Director, Gary Helou said the vote represented confidence in the co-operatives growth plans, including a strategic shift towards premium value-add dairy foods. Murray Goulburn's current milk price forecast stands at AUD 6.

Agribusiness Strategy

Playing chicken: Turning pea protein into fake fowl [10 May/ Business Day] After developing a chicken-like meat protein from Canadian Yellow Peas, Sunfed Meats Co-founder, Shama Lee said plant proteins are the way forward for global protein consumption. Sunfed Meats is partnered with Massey University in developing proteins extracted from plants, with commercial standard trial runs being the next step for the company. Ms Lee is aiming to produce into the local market at the same price point as free-range meat by July. Ms Lee stated that it is vital that the proteins have the same texture and cooks the same as meat, otherwise it would not sell. Selling points to the protein include its clean credentials, and will be targeted at both mothers and women.

Research and development

Two research institutes re-gain funding [11 May/ Radio NZ Rural] Lincoln University's Bio-Protection Research Centre and Massey University's Riddet Institute were successful in their applications to become Centres of Research Excellence. The research institutes have regained government funding for at least five years, from 2016 to 2020.

Economics and trade

Shanghai Pengxin owned Milk NZ takes out NZ China awards [7 May/ NZ Herald] Shanghai Pengxin owned, Milk New Zealand Holding Limited, has been announced as the supreme winner at the 2015 HSBC NZCTA New Zealand China Business Awards. New Zealand China Trade Association Chairman, Martin Thomson said Milk New Zealand proved the benefits of direct investment by China in New Zealand. Mr Thompson expected more Chinese investment in New Zealand, as investment is usually a result of trade. Mr Thompson welcomed Chinese investment as it has created New Zealand jobs.

Farmers and producers

Median price for all farms up to \$28,000 a hectare [7 May/ Business Day: NZ Farmer] The median farm land price rose by 24% over the past three months compared to the corresponding period last year. The median price for all farms reached \$28,000 per hectare with horticulture and arable land rising by 99 and 76 per cent respectively on the previous year. Dairy farm prices rose 31 per cent to \$45,000 per hectare, grazing by 12 per cent to \$16,000 and finishing by 7 per cent to \$22,000. Values have been pushed higher because of a lower volume of sales, down 14%. ANZ Bank said the average New Zealand farm land has risen compared to its global competitors.

Banks got off too lightly, negotiator says [8 May/ Radio NZ Rural] Farm Debt Negotiator, Janette Walker said farmers should come together and take legal action for more compensation from banks, after ANZ, ASB and Westpac reached a \$24.7 million settlement with the Commerce Commission over the way interest rate swaps were sold between 2005 and 2009. Both Ms Walker and Labour's Primary Industries Spokesperson, Damien O'Connor believed the settlement to be a trivial amount compared to what farmers lost. Mr O'Connor voiced his disappointment with the Commerce Commission for not taking the case through to court and setting precedent which stops banks repeating their actions in the future. The Commerce Commission has closed its investigation but said farmers can still query their settlements with their banks or with the Commission.

Strategic shake up to refresh Fed Farmers [11 May/ NZ Farmers Weekly] Federated Farmers Chief Executive, Graham Smith said the strategic refresh of the organisation is aimed at improving engagement with members, strengthening involvement in the provinces and an overall improvement across all its areas of work at a national level. Mr Smith added that there is no thought of closing regional offices. Three key areas of focus in the refresh are; policy and the environment, health and safety and science and innovation. Mr Smith highlighted communication with the organisations members as a key target under the refresh. Improvement of the organisation's information technology infrastructure was also on the refresh agenda.

Shanghai Pengxin cashes in, North Island expansion plans track [11 May/ Business Day: NZ Farmer] Shanghai Pengxin is to earn \$7 a kilogram of milk solids, for half of its expected North Island milk production, as it cashes in on its participation in Fonterra's guaranteed milk price scheme. Pengxin NZ Farm Group Chief Executive, Andy Macleod supported the scheme as it provided certainty of cashflows and supported capital expenditure. The company's total milk production for the season is expected to be more than 10 million kilograms of milksolids. The company, soon to be renamed to Hunan Dakang, is awaiting consent from the Overseas Investment Office to confirm purchases of a large Taupo dairy farm for \$23 million, **the Lochinver Station**, for \$88 million and a cluster of 10 farms totalling 3300 hectares south of Kaikohe for around \$43 million. The purchases are in line with Pengxin's New Zealand strategy of buying under-capitalised farms in close proximity to each other to achieve production synergies.

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

Christchurch

Andrew Hawkes

03 353 0093

027 508 0135

ahawkes@kpmg.co.nz

Farm Enterprise

North Island

Roger Wilson

07 858 6520

027 281 9575

rogerwilson@kpmg.co.nz

Taxation

Greg Knowles

09 367 5989

021 307 332

gknowles@kpmg.co.nz

Financial Advisory Services

Gary Ivory

09 367 5943

021 932 890

givory@kpmg.co.nz

Julia Jones

07 858 6553

027 524 8901

juliajones1@kpmg.co.nz

Tauranga

Robert Lee

07 571 1773

027 451 1035

relee@kpmg.co.nz

Management Consulting

Simon Hunter

09 367 5881

027489 9737

simonhunter@kpmg.co.nz

South Island

Brent Love

03 683 1871

027 528 1537

blove@kpmg.co.nz

Wellington

Graeme Edwards

04 816 4522

027 296 5050

gdedwards@kpmg.co.nz

Hamilton/ Private Enterprise

Hamish McDonald

07 858 6519

021 586 519

hamishmcdonald@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.