

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

03 June 2015



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

Organisations referenced in this week's Field Notes include:

Airways New Zealand	Itoham Foods
ANZ Bank	Landcorp Farming
ANZCO Foods	Ministry for Primary Industries
ASB Bank	Murray Goulburn
AWS Legal	New Zealand Winegrowers
BNZ Bank	Plant & Food Research
Harrods	PGG Wrightson
Callaghan Innovation	Rabobank New Zealand
Civil Aviation Authority	Real Estate Institute of New Zealand
Costa Group	Sustainable Business Network
DairyNZ	Talley's Group
Deutsche Bank	Telecommunications Users Association
Eden Research	Trevelyan's Pack and Cool Ltd
Fieldays	UBS
Fonterra Co-operative Group	Vodafone
Forestry Industry Safety Council	Westland Milk Products
Fountain Forestry	Westpac Bank
Goldman Sachs	Zealong Tea Estate
Heinz Wattie	

This week's headlines

Animal welfare	Vets must lead on farm animal welfare [1 June/ Rural News]
Dairy	Farmers face another tough year [29 May/ NZ Herald]
Rural infrastructure	Vodafone Rural Broadband uptake prompts inquiry call [29 May/ Business Day]
Research and development	Drone rules for NZ coming - 'light handed' says Minister [28 May/NZ Herald]
Farmers and Producers	Wairoa scoops pool at Maori Farming Awards [30 May/ Rural News]

Horticulture

Beetroot booster [29 May/National Business Review] Heinz Wattie's is to go ahead with two major projects to improve local carrot and beetroot crops. The two-year beetroot project is in conjunction with Plant & Food Research and will cost \$480,000, with 40 percent funded by Callaghan Innovation. Heinz Wattie's Managing Director, Mike Pretty said the project aims to develop crop scheduling tools and management guidelines to produce beetroot to specification regardless of the weather and growing conditions. The company has not released details of the carrot project.

Kiwifruit packer analyses its business publicly [29 May/ National Business Review] Trevelyan's Pack and Cool Ltd has become one of the first New Zealand businesses to publicly analyse its economic, social and environmental performance, after it released its first sustainability report based on the Global Reporting Initiative G4 framework. The report provides a comprehensive overview of the packing and cool storage company and its supply chain, analysing economic, social and environmental improvements. Trevelyan's Pack and Cool Ltd Executive Director, Alister Hawkey said the report has led to more innovations within the business, making the company more efficient and resilient. Sustainable Business Network Chief Executive, Rachel Brown said sustainability reports are useful as stakeholders are more likely to support initiatives if the bigger picture is known.

Harrods stocking tea from Hamilton [1 June/ NZ Herald] New Zealand's sole commercial tea estate, Zealong, has secured a deal to sell its Oolong Green Tea in upmarket London department store Harrods. Zealong General Manager, Gigi Crawford said it was encouraging that such a high profile establishment recognised the quality of its tea. Ms Crawford added that Zealong invested \$20 million into developing its premium New Zealand tea range. Zealong tea sells at Harrods for around \$1 a gram.

Viticulture

Brits have a new reason to wine - price NZ sauvignon blanc in UK to go up [29 May/ NZ Herald] The price of New Zealand sauvignon blanc in the United Kingdom is set to increase due to the smaller 2015 harvest. New Zealand Winegrowers Marketing Manager, Chris Stoud said the 2015 vintage is expected to decrease by around 25 percent compared to 2014, but that there is no reason for concern as wineries would manage stocks of 2014 vintage to meet demand. New Zealand Winegrowers CEO, Philip Gregan said the warm dry summer of 2015 was perfect for the ripening of grapes and expected a high quality vintage. Sauvignon blanc accounts for more than 86 per cent of wine exported from New Zealand, which are worth more than \$1 billion a year.

Animal welfare

Vets must lead on farm animal welfare [1 June/ Rural News] Ministry for Primary Industries Animal Welfare Advisor, Dr Richard Wild said the New Zealand veterinary profession has an increasing leadership role to play in farm animal welfare. Dr Wild explained how the importance of farm animal welfare is rising with more people wanting assurances that their food is being produced in welfare friendly systems, and that the veterinary profession can play a key role in areas such as assurance and verification. Dr Wild also added that the profession has a responsibility to facilitate debate, help inform the public and guide the evolution of welfare standards.

Forestry

New chair for Forest safety council [28 May/ Radio NZ Rural] Dame Alison Paterson is to head the new Forestry Industry Safety Council, which was officially launched by parliament following recommendations from an independent forestry safety review panel. Ms Paterson is currently a director of GMI Investments, Vector, Stevenson Agriculture, among other companies, and was previously chairwoman of Landcorp Farming. A national safety director is also being appointed to the council.

Fishing and aquaculture

Fishing magnate knighted for philanthropy, services to business [1 June/ NZ Herald] Talley's Group Joint Managing Director, Peter Talley has been knighted for his services to business and philanthropy. Mr Talley said he was grateful to receive the honour, and that the accolade recognised what the business and family has achieved. As well as owning the successful Talley Group, Mr Talley has also promoted the employment of New Zealanders in the fishing industry, calling for tighter regulation of foreign fishing vessels in New Zealand waters. Mr Talley also lobbied the Government to bring forward a law that requires vessels to fly the New Zealand flag and be subject to local law. Mr Talley's philanthropic efforts include supporting the Motueka Hospital Trust, funding a Nelson museum and sponsoring the Motueka Charity Golf Classic, Outward Bound and the Nelson Car Club rally.

Dairy

Westland lifts its prediction for 2015-16 [27 May/ Rural News] Westland Milk Products confirmed that its payout for the 2014/15 season will remain unchanged at between \$4.90 and \$5.10 per kilogram of milk solids. With expectations of a recovery in prices, Westland has set its 2015/16 forecasted price between \$5.60 and \$6.00. Westland Chief Executive, Rod Quin expected prices to remain low due to supply pressure from both the United States and Europe, but predicted Chinese whole milk powder buyers to return, with more demand, by early 2016. Mr Quin also said the company will start the 2015/16 season with a higher than usual advanced payout of \$4.40, as cash is required on farms to keep milk production high.

Farmers face another tough year [29 May/ NZ Herald] Fonterra Co-operative Group revised down its farmgate milk price for the 2014/15 season to \$4.40, as global prices did not increase as expected. Fonterra has also set its opening forecast for the 2015/16 season at \$5.25 per kilogram of milksolids. Fonterra's chief financial officer Lukas Paravicini believed low prices would be temporary, with the market moving back towards balance in time. Westpac Senior Economist, Michael Gordon doubted that the low prices would be permanent, but believed record payouts would be a thing of the past as supply is more responsive to demand. ANZ Rural Economist, Con Williams said the sector was in for a prolonged downturn, but that the return of high payouts could not be ruled out due to the volatile nature of the market. Mr Paravicini believed prices will return to the long term average of around USD 3500 per tonne of whole milk powder. Wholemilk powder traded at US\$2390 a tonne at the most recent GlobalDairyTrade auction.

Dairy farmers slashing costs will still be short [29 May/ Business Day: NZ Farmer] Dairy NZ estimated that costs for farmers in Canterbury will be around \$1 per kilogram more than the revenue they received in the new 2015/16 season, equating to around \$300,000 in extra costs for the average farmer. DairyNZ Chief Executive, Tim Mackle said the forecasted Fonterra payout of \$5.25 per kilogram of milk solids is well below the believed \$5.70 breakeven point for Canterbury farmers. Mr Mackle added that DairyNZ is concerned with the mental health of farmers. Multi-farm Operator, Trevor Hamilton said Fonterra's payout was unsustainable, and did he not understand how smaller co-operatives such as Westland Milk, could signal more cash to its suppliers. BNZ Head of Agribusiness, John Janssen said the next six months will be tough for the industry, but that banks and the industry were confident that global dairy prices would rebound.

Red meat

Larger Japanese stake in ANZCO gains OIO approval [30 May/ Business Day: NZ Farmer] Itoham Foods has gained approval from the Overseas Investment Office for their \$40 million investment in ANZCO Foods, increasing its ownership share in the company from 48 percent to 65 percent. Itoham announced in February that it was to increase its shareholding as part of its expansion plans to meet growing Asian demand. ANZCO Foods Founder and Chairman, Sir Graeme Harrison said the transaction increased foreign ownership in the company to 82 percent, from 74 percent. Mr Harrison said the New Zealand primary sector depended on foreign investment and if more growth is to occur there should be no hesitation in obtaining investment from overseas. Mr Harrison's stake in ANZCO Foods now sits at 14 percent.

Rural infrastructure

Vodafone Rural Broadband uptake prompts inquiry call [29 May/ Business Day] Labour Communications Spokeswoman, Clare Curran has written to the Commerce Select Committee to start an inquiry into why only 8,000 of 252,000 homes and businesses have signed up for the Vodafone Rural Broadband service, subsidised through the Rural Broadband initiative. Vodafone Technology Director, Tony Baird said the initiative had been a huge success and was happy with the level of uptake of the service, with significant growth occurring each month. Telecommunications Users Association Chief Executive, Craig Young said the level of uptake was disappointing, and that more needed to be done to make households aware of the services available. Mr Baird said Vodafone Rural Broadband would improve with a move to the latest 4G wireless technology. The company has also built 115 new towers and upgraded 300 since its involvement with the initiative.

Research and development

Drone rules for NZ coming - 'light handed' says Minister [28 May/NZ Herald] Transport Minister, Simon Bridges said he is keen to push ahead with flexible, outcome-based regulation that will allow drone operators the opportunity to find the most efficient way to meet the minimum safety standards. Mr Bridges attended a discussion at the International Transport Forum about drone use. Mr Bridges said it is key that a balance is struck between regulating for safety while still promoting innovation. Airways New Zealand COO, Pauline Lamb said around 70 drone use applications are received each week with about 50 of those in controlled airspace. Ms Lamb added that most commercial drone operators wanted new regulations to update existing rules that were largely designed for model aircraft. Airways NZ is reviewing current rules with the Civil Aviation Authority.

International

Winegrowers toast all-natural pesticide [26 May/ The Daily Telegraph] The European Union have approved an all-natural pesticide that tackles Botrytis, a destructive fungus that cost the winegrowing industry around EUR 10 billion each year. Chemical pesticides are banned from being used three weeks before harvest, however the all-natural pesticide, developed by Eden Research, can be used up to the point the fruit is picked. The approval allows the product to be marketed in southern Europe within 120 days. The company is now focusing on gaining approvals for the central European zone.

Japan braces for another butter shortage [26 May/ Agence France Presse] Japan is preparing for a severe butter shortage, as the Japan Dairy Association warned that demand is to outstrip supply by more than 7,000 tonnes. Farm Minister, Yoshimasa Hayashi said the government is planning to import butter to enable sufficient supply. The root of the problem is a wider dairy deficit, with farmers selling their raw materials as liquid milk. Dairy herds have also been in decline in recent decades as demand has slimmed with the aging Japanese population.

IPO market calls Costa as trade buyers struggle [27 May/ The Australian Financial Review] Costa Group, the Australian horticulture business, is expected to be listed on the ASX exchange within the next month, with its advisors Goldman Sachs and UBS preparing pre-IPO research reports and marketing roadshows. Private Equity owners are believed to have been put off by the company's 10-to-12-times earnings valuation, while there is growing confidence that the IPO market would be the best suited option for the company. According to sale documents, Costa Group is expected to earning around AUD 70 million this year, increasing to AUD 90 million by 2016.

Farming tax break brought forward [28 May/ The Australian] Australian Agriculture Minister, Barnaby Joyce announced that farmers can immediately claim for tax deductions on money spent on building dams, repairing fences, buying water pipes, silos, hay-sheds and water tanks. The deductions will include money spent in the current 2014-15 financial year, if spent after budget night. Mr Joyce said bringing forward the date for full tax deductibility eligibility will cost the government AUD 72 million and will allow farmers to prepare for droughts by immediately investing in the productivity of their farms. The move is the result of pressure from farm organisations, particularly in Queensland and New South Wales where many farmers are facing three years of consecutive drought.

Investing in forests: Where money grows on trees [30 May/ The Economist] Investors in British forests did better on average than those who invested in traditional places such as stocks and bonds. Forests returned 18.4 percent in 2014 and averaged a return of 21 percent per year since 2010, compared to average stock returns of around 7.7 percent. The high returns are a result of high timber prices and overwhelming demand from investors who want to get their hands on the land. Fountains Forestry Investment Director, Alastair Sandels said woodland will continue to grow because Britain does not have enough trees to satisfy demand.

IPO puts spotlight on Aussie dairy sector [30 May/ NZ Herald] The upcoming Murray Goulburn Unit Trust IPO has raised issues of whether farmer shareholder and external investor interests in Fonterra are fully aligned through the Fonterra Shareholders' Fund and Farmgate Milk Price Manual. The Murray Goulburn Unit Trust has a similar relationship to the Murray Goulburn Co-operative as Fonterra Shareholders' Fund has to Fonterra Co-operative Group. However, there is a big difference in how both the milk payments to farmers and the surplus available for distribution as dividends to farmers and unitholders is determined. Murray Goulburn calculates its milk pool by deducting total expenses, not including milk payments and tax, from total revenue. It then distributes its milk pool into milk and tax payments, leaving 100 percent of its net profit to be distributed as fully franked dividends. This process allows Murray Goulburn to have clear milk payments, net profit after tax and a dividend distribution structure, unlike Fonterra's complicated Farmgate Milk Price Manual. Under the Murray Goulburn structure, Fonterra unit holders would have received a higher dividend than the 10 cent per unit they received for the 2013/14 year, however Fonterra's dividend could be higher when dairy prices are low and Fonterra's non-commodity earnings are high. The IPO of Murray Goulburn's Unit Trust has direct attention to both unit trust structures and the setting of milk prices.

Seas face biodiversity shakeup even under 2 C warming [2 June/ Agence France Presse] According to a study by the French National Centre for Scientific Research, oceans will undergo a dramatic change in biodiversity even if the UN meets its goal of limiting ocean warming to two degrees Celsius. Species that need cooler waters will begin to migrate or become extinct, and be replaced by ones who can survive in warmer waters, leading to major consequences for fisheries. Current trends indicate that oceans temperatures are to increase by 4.8 degrees Celsius, causing the biggest ocean species change in the last three million years. The study focused on species in the top 200 metres of the ocean, the most valuable part of the ecosystem for humans.

Fieldays

Innovation on show at Fieldays [1 June/ NZ Farmers Weekly] The National Fieldays' Innovation Accelerator is to showcase a mix of ten companies at the inaugural Mystery Creek site. Fieldays Chief Executive, Jon Calder said the organisation must continue to evolve if it is to remain relevant to the agri-tech and agribusiness sectors. Mr Calder added that the companies showcased at the accelerator are concepts, products and ideas that will ensure New Zealand remains a leading agribusiness nation. Exhibiting in the accelerator is a one-off for companies, where after they must exhibit in the main National Fieldays' events. The Innovation Accelerator is sponsored by Callaghan Innovation.

Economics and trade

Dairy weighs on trade balance [27 May/ NZ Herald] A slump in dairy exports weighed on the trade balance, with exports falling \$240 million lower than in April last year, a drop than can be explained by a \$237 million drop of whole milk powder exports to China. The annual trade benefit also widened by \$300 million to \$2.6 billion for the year ending March 31. Annual trade balance also deteriorated by around \$4.4 billion. Deutsche Bank Chief Economist, Darren Gibbs expected the annual trade deficit to widen in the coming months as low dairy revenues continue to flow through. Mr Gibbs expected the annual current account deficit to widen to around 4 to 4.5 percent of GDP. April dairy exports were 27 percent lower than the same period last year, despite a 1.2 percent rising in volume. For the year ended April, dairy exports were down \$2.5 billion or 16.5 per cent compared with the year before. ASB Economist, Nathan Penny believed that as dairy prices recover, the trade balance will begin to stabilise.

Saudi Arabian agri-hub threatened compo [27 May/ Radio NZ Rural] Foreign Affairs Minister, Murray McCully revealed that Saudi Arabian Businessman, Hamood Al-Ali Al-Khalaf threatened to seek compensation of up to \$30 million after the government banned the live export of animals for slaughter. The government refused the compensation effort, and has instead spent \$6 million building an agri-business hub on Mr Al Khalaf's farm, \$1.45 million on flying 900 pregnant ewes to Saudi Arabia and a potential \$4million on a food security platform. Primary Industries Minister, Nathan Guy defended the money spent on the agri-hub as it provided an opportunity to showcase New Zealand businesses. Cabinet papers released by Mr McCully suggested a free trade agreement could double exports to the Gulf States to \$3.5 billion.

Farmers and producers

Wairoa scoops pool at Maori Farming Awards [30 May/ Rural News] The winner of the 2015 Ahuwhenua Trophy, for the top Maori sheep and beef farm, has been awarded to Mangaroa Station, Wairoa owned by Bart and Nukuhia Hadfield. BNZ Head of Agribusiness, John Janssen said the standard of the finalists was outstanding, and highlighted how Maori agribusiness has come of age, with some Maori farmers being the best in the country. The Young Maori Sheep and Beef Farmer of the Year accolade has been awarded to Hannah Wallace, also from Wairoa. Ms Wallace works as a Sheep General at two sheep and beef farms.

Court allows iwi opposition to delay farm sale [1 June/ NZ Farmers Weekly] The Supreme Court has allowed the Ngati Whakahemo iwi to appeal the decision that allowed Landcorp Farming to sell its Wharere farm last year to the Pamment family. Mr Pamment said he was surprised by the decision, but intended to roll over the lease the family already had with Landcorp until the issue was resolved. The supreme court judges ruled that the Court of Appeal decision required a full examination around three key points; the claim of bad faith on part of Landcorp in dealing with iwi, the acknowledged error of law by the Office of Treaty Settlements in advising Landcorp and the failure of Landcorp's shareholding ministers to intervene. Mr Pamment said the iwi had approached the family about a collaborative ownership model, but the family declined.

Gypsy Day activity significantly lower in 2015 [2 June/ Business Day: NZ Farmer] AWS Legal Rural Team Partner, Toni Green estimated that the amount of transactions on Gypsy Day was 30 to 40 percent lower than 2014, but was still up on 2013. Ms Green added that the overall complexity of dairy farm ownership had increased. The latest Real Estate Institute of New Zealand rural market report indicated mixed results for Southland and Otago, with good, well-located properties selling well, but top end and lower quality farms faced difficulties. ASB Lower South Island Regional Manager, Blair Evans said there has been a reduction in the sales of farms in the region, and while some of the reduction is payout-related, it can also be attributed to a shortage of quality dairy farms on the market.

Banking chief confident dairy prices will rebound [2 June/ NZ Herald] Rabobank New Zealand Chief Executive, Ben Russell said the low dairy prices are part of a short term cyclical downturn, and will begin to lift into 2016 as supply and demand moves back into balance. Mr Russell believed farmers can cope with the financial pressures of two years' worth of low prices, with the majority of farmers having sound equity, strong balance sheets and the capacity to get through the next couple of years. Mr Russell added that farmers are becoming use to the extreme volatility which is now associated to the dairy industry. According to Real Estate Institute of New Zealand, farm prices have continued to rise. PGG Wrightson Real Estate General Manager, Peter Newbold said prices have firmed due to there being more buyers than sellers, but that the average size of farms sold was smaller.

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