

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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**HOT OFF THE PRESS:
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AGENDA 2015 VOLUME 1**

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Organisations referenced in this week's Field Notes include:

a2 Milk Company	Meat Industry Excellence
AeroFarms	Milken Institute
Alliance Group	Munchkin Inc.
ASB Bank	National Beekeepers' Association
Bee Industry Group	New Zealand Forestry Institute
Blue Sky Meats	New Zealand Initiative
Cavalier Wool Holdings	New Zealand Wool Services International
Commerce Commission	NZ Bio
Craigs Investment Partners	Peter Walsh and Associates
Dairy Companies Association of New Zealand	Rabobank
Dairy Farmers of Canada	Rural General Practice Network
Dean Foods Company	Rural Support Trust
Federated Farmers	Silver Fern Farms
Fonterra Co-operative Group	Statistics New Zealand
Forsyth Barr	Synlait Milk
Freedom Foods	University of Edinburgh
Godfrey Hurst	VetSouth
Governance and Representation Review Joint Working Group	Vilagrad Winery
Lincoln University	Yili

This week's headlines

Honey	Bee industry abuzz on proposed body [25 June/ Radio NZ Rural]
Forestry	Institute to government: 'Start taking forestry seriously' [29 June/ National Business Review]
Dairy	Fonterra farmers embrace latest guaranteed price [25 June/ NZ Herald]
Red Meat	Beef shortage might see beef prices match last year's record highs [25 June/ Business Day: NZ Farmer]
Environment and emissions	Rotorua couple win National Farm Environment Award [26 June/ Rural News]

Viticulture

Family to rebuild after fire [30 June/ Business Day] A fire has destroyed up to 70 percent of the Vilagrad Winery, with most of its bottled wine lost in the blaze. Vilagrad Winemaker and Owner, Jacob Nooyen said the winery was insured and will be up and running again in October. Mr Nooyen said the winery has current bookings and will look at alternative venues in the short term, but will open up a mobile kitchen to hold future functions while the winery is being rebuilt. Neighbours to the winery have backed the family owned business to bounce back after the devastating event.

Honey

Bee industry abuzz on proposed body [25 June/ Radio NZ Rural] Bee industry representatives are hoping for confirmation of support needed to further plans to create a new organisation which would combine the National Beekeepers' Association, the Federated Farmers Bee Industry Group and other interests such as honey packers, exporters and hobbyists. Federated Farmers Bee Group Chairman, John Hartnell said the response of the industry indicated a strong commitment to the new organisation. Mr Hartnell added that both the honey packers and exporters had already endorsed their support, with both the National Beekeepers' Association and Bee Industry Group planning to vote on the unification plan at their respective annual meetings.

Forestry

Institute to government: 'Start taking forestry seriously' [29 June/ National Business Review] New Zealand Forestry Institute President, James Treadwell said the National government does not take the forestry industry seriously and that policy reform is being handled by politicians who have a weak knowledge on the industry's issues. Mr Treadwell said the institute believed the development of an integrated land use policy needs to be urgently addressed by the government. Mr Treadwell called for a reform in which every land user pays for their land, unlike the current arrangements where the dairy industry does not pay for the pollution it causes. Mr Treadwell said the institute wanted acknowledgement from the government that there are inherent subsidies for some land uses, while the government has imposed costs for others.

Animal welfare

HT swede risks far higher than other crops [25 June/ Business Day: NZ Farmer] VetSouth veterinarians have released a report that showed herbicide tolerant swedes were the cause of more than 200 cattle deaths in Southland. The report showed how heightened glucosinolate levels in HT swedes led to liver damage, a factor in the deaths. VetSouth Managing Director, Mark Bryan said poor transitioning to winter crops was not the underlying cause, as cows that had been transitioned seemed more likely to be affected. Southland Dairy Farmer, James Deans also believed that poor transitioning was not the cause of the cattle deaths, as disease and illness persisted after the transitional period.

Dairy

Munchkin's first foray in infant formula marks start of 'very long-term partnership' [24 June/ National Business Review] Munchkin Inc. Chief Executive, Steve Dunn said the marketing of Synlait's grass-fed infant formula product will be the company's first foray in the market and that both companies view the partnership as long term. Mr Dunn added that there is a void in the United States market for the grass-fed product, as many cows in the United States rarely set foot on a pasture. Synlait Managing Director, Dr John Penno said the company is unsure how much infant formula will end up being marketed through the partnership, but that the company would be completely comfortable with it sitting around 20% of its portfolio, dependent on how quickly others grow.

Fonterra farmers embrace latest guaranteed price [25 June/ NZ Herald] Many farmers have opted enter into Fonterra's guaranteed milk price scheme, achieving a locked farmgate price of \$5.25 a kilogram of milk solids, the same price as its forecast price. A total of 45.2 million kilograms was offered by 443 farms, 5.2 million more than Fonterra was seeking. Fonterra Group Director Co-operative Affairs, Miles Hurrell said that many farmers are using the scheme as a financial risk tool. As the programme was over-subscribed, applications were accepted from the lowest price upwards with applications at \$5.25 scaled back by 16.5 percent.

Takeover speculation drives up a2 share price [25 June/ Otago Daily Times] Speculation of Freedom Foods and Dean Foods Company's takeover of the a2 Milk Company has raised the latter's share price from \$0.57 to \$0.77, while the Australian Financial Review speculated a bid could be as much as \$2 per share. Forsyth Barr Broker, Andrew Rooney believed there was a solid chance of a bid value of \$1.03, based on the ability of a larger company to better promote and distribute the a2 brand in offshore markets, particularly China. Craigs Investment Partners Broker, Peter McIntyre said while the "base case" valuation remained at 66c, for the "bull case" valuation of \$1.17 to be achieved, another trade player would have to enter the bidding process.

Kiwis not ripped off over milk price: Key [29 June/ NZ Herald] Prime Minister, John Key said New Zealanders are not being ripped off when it comes to the price of milk, as overseas markets were causing high prices. Mr Key added that the price wars between retailers in countries could result in prices in being lower than they are in New Zealand. Former Labour Leader, David Shearer asked the government to explain why New Zealand milk prices were still high when in Australia and the UK they had dropped by 16 percent.

Velocity business detailed [29 June/ NZ Farmers Weekly] Fonterra's drive for velocity from value-added products to boost profitability and dividends has been explained to its European and American stakeholders. Fonterra Chief Executive, Theo Spierings explained to stakeholders that velocity is shorthand for the emphasis the co-operative is placing on driving up returns from processing in the climate of low dairy prices. The term has been emphasised in response to the disappointment expressed by farmer shareholders after the co-operative revised down its dividend payout. Fonterra Chief Operating Officer Velocity, Jacqueline Chow said that velocity is a reset of the business, and a focus on performance and creating value quicker, ultimately generating more returns for farmers. Ms Chow said the co-operative will improve efficiency, lower costs and duplication where possible and improve the overall effectiveness and agility of the co-operative. Mr Spierings said the strategy is expected to increase return on capital from 11 percent to 13 percent plus, over the next three to five years. Mr Spierings also expected a 20 percent to 50 percent uplift in the co-operatives EBIT.

Vote delay disappoints farmers [29 June/ NZ Farmers Weekly] Farmers have criticised Fonterra for delaying a vote on changes to its governance and representation. Fonterra have delayed the voting on the recommendations put forward by the Governance and Representation Review Joint Working Group following the 1080 contamination scare and low payouts. Whitianga Farmer and Working Group Co-Chair, Dick Sieling said the recommendations were not drastic but if took on, would be a step on a path of gradual improvement. Mr Sieling said the fear of rejection could be a reason for the delay, especially during a season of low payouts. Mr Sieling added that farmers needed to make a clear separation between governance and representation, and that governance can only be improved if farmers are allowed to vote.

Red meat

Beef shortage might see beef prices match last year's record highs [25 June/ Business Day: NZ Farmer] Beef returns rose 2.6 percent in the past week and are tipped to continually increase because of a shortage of supply. ASB Economist, Nathan Penny said there would be less beef coming out of New Zealand due to the cow cull, and that there were also low numbers in the United States following recent droughts. Mr Penny added that the beef price index is 13 per cent higher than this time last year and about 15 per cent above the 5-year average. Prices are predicted to rise as a result of US demand, and could reach last year records because of the weakness in the New Zealand dollar. The commodity price index rose 0.9 per cent in NZ dollar terms last week solely on the back of a 0.9 per cent depreciation in the NZ dollar against the United States dollar.

Blue Sky Meats annual profit sinks 36%, under-used plant blamed [29 June/ National Business Review] Blue Sky Meats reported a 36 percent drop in annual profit, falling from \$1.9 million to \$1.2 million, for the year ending 31 March. The company also reported a 7.2 percent increase in revenue, to \$102.1 million. Blue Sky Meats Chairman, Graham Cooney said the fall in profit was down to the underutilisation of its processing facilities, a factor that was not unique to the company. Directors of the company declared a 5 cent dividend per share.

Livestock reach Mexico [29 June/ Business Day: NZ Farmer] According to vessel tracking website Marine Traffic, the livestock vessel carrying a shipment 50,000 sheep and 3000 cattle has reached its destination, Mexico. It is understood that the livestock is being moved to two different states in Mexico. Peter Walsh and Associates Director, Peter Walsh dismissed claims that the animals were to be slaughtered, but said that once they arrive in Mexico, the importer becomes responsible for their welfare.

Silver Fern told to take another look at reform in meat sector [30 June/ NZ Herald] Silver Fern Farms farmer shareholders are believed to be close to achieving a five percent voting threshold required to call a special meeting forcing the company to take another look at meat industry reform, before it looks for fresh capital. Heriot Farmer, Allan Richardson said that both Silver Fern Farms and the Alliance Group had not given the Meat Industry Excellence reform report enough attention, and that it deserved a better hearing at a time where farmers were struggling. Mr Richardson added that with a potential \$100 million in savings at stake, the issue needs debating. Mr Richardson also said farmers were uneasy about the prospect of a capital raising, as it impacts the ownership status of the co-operative.

Agribusiness education

NZ students, China farms to benefit from project [29 June/ Radio NZ Rural] Chinese Dairy Company, Yili has established a research and development centre at Lincoln University which will benefit farms in China and students in New Zealand. Lincoln University Business Development Manager, Sam Yu said the Chinese company encouraged its suppliers in China to farm sustainably. Mr Yu added that Yili is conscious about effluent management and food safety, areas which Lincoln teaches. Mr Yu said students can get exposure to industry challenges and then see how their teaching can be applied, while having the opportunity to be recruited by Yili.

Environment and emissions

Rotorua couple win National Farm Environment Award [26 June/ Rural News] Rotorua Farmers, John and Catherine Ford have won the 2015 Ballance Farm Environment Award, the first time it has been awarded to a North Island farming business. Judges said their 1240 hectare Highlands Station stood out in terms of environmental sustainability and impressive production and performance figures. Mr Ford said the careful and responsible management of nutrient runoff is one of the most critical on farm issues to get right.

Research and development

NZ surges up global biotech rankings [25 June/ Rural News] New Zealand has been ranked third in the Scientific American World View Scorecard, which measures the biotech innovation potential of 54 countries. NZ Bio CEO, Dr Will Barker said his organisation has always stated that New Zealand is a great place to grow bio-based businesses, but that there is room for improvement in both public and private R&D investment. Dr Barker added that the results show the evolution of New Zealand's growing bio-economy, but that it does fail to examine local legislative challenges such as the HSNO Act.

International

Good news on the grapevine [23 June/ The Washington Post] A United States Supreme Court decision has led to the deregulation of raisins. The decision stemmed from a court decision which allowed California Raisin-Grower, Marvin Horne to devote his entire crop for sale on the free market, rather than setting some aside as reserve raisins for the government. The government attempted to fine Mr Horne USD 680,000, which in response Mr Horne sued, arguing that the mandatory taking was contrary to the Fifth Amendment, where no private property is to be taken for public use, without just compensation. In an 8-to-1 majority, the court decided that the growers' share of what the government received for reserve raisins did not amount to just compensation.

Could these piglets become Britain's first commercially viable GM animals? [24 June/ The Guardian] Genetically modified pigs, edited with a warthog gene to resist African swine flu, could be among the first commercially viable GM animals created in Britain. The pigs, developed by University of Edinburgh's Roslin Institute Professor, Bruce Whitelaw, will enter a trial to see if their modification protects them from the disease which is currently sweeping through Eastern Europe. Mr Whitelaw said if the pigs showed resilience, they will apply to regulators for approval. Mr Whitelaw believed such animals could be commercially available within five to ten years. During June, around 6,000 pigs are expected to have been culled in Poland, following outbreaks of African swine flu, while the disease is believed to have spread to neighbouring countries.

Snake smugglers thwarted by Melbourne biosecurity officials [24 June/ ABC Rural] Biosecurity inspectors at Melbourne's international mail facility have discovered 13 live snakes hidden in a package from Indonesia. Department of Agriculture Head of Pathway Compliance, Nicola Hinder, said it appeared the animals had been smuggled into Australia for sale as pets or breeding stock, and posed a high biosecurity risk. The department said that exotic animal lovers should check how animals arrive in Australia. All 13 snakes were euthanased. The department is to investigate the smuggling attempt.

Ottawa plans compensation for farmers [26 June/ The Globe and Mail] The Canadian federal government is to prepare a financial compensation package for Canadian dairy and poultry farmers to lessen the impact of signing into the Trans-Pacific Partnership agreement. With details yet to be confirmed, it is believed the package will mirror the model used when Canada agreed a trade deal with the European Union, where cash was offered to cushion the blow of higher costs. Canadian Prime Minister, Stephen Harper said the country had no choice but to join the TPP, as it will be the basis of an international trading network. A Dairy Farmers of Canada Spokesperson said the TPP could lead to further erosion of the protection enjoyed by Canadian farmers.

For sale: land holding the size of Scotland [26 June/ NZ Herald] The Kidman Estate, a series of cattle stations in Australia that is larger in size than Scotland, is to be sold for an estimated price of \$398 million. The estate, covering around 100,000 square kilometres, includes 11 cattle stations across the country, about 155,000 cattle and the world's largest stand-alone cattle property, the 23,000 square kilometre Anna Creek Station. The sale reportedly followed tensions among 50 family members located across the globe. Federal Minister, Barnaby Joyce said he would oppose selling the empire to a foreign government-controlled company.

Innovation for the industry on show at National Horticulture Convention [27 June/ ABC Rural] The 2015 National Horticulture Convention concluded on Queensland's Gold Coast, innovative horticultural experts encouraged farmers to think beyond traditional farming and food processing methods. Skyscraper farms, growing crops in the desert, value adding to food waste, and using smart phone apps to arrange immediate transport for produce are some of the technologies that were discussed. AeroFarms CEO, David Rosenberg said his company's vertical farming model required no soil or sunlight and produced about 70 times more product per hectare than traditional farming. United States Potato Board President, Blair Richardson discussed how ride-sharing is an efficient way to solve the problems many growers face in getting their produce transported.

Wool

Commerce Commission delays final wool scouring decision [29 June/ National Business Review] The Commerce Commission has delayed its final decision on the proposed merger of Cavalier Wool Holdings and New Zealand Wool Services International until 28 August. The Commerce Commission explained that the delay was due to parties continuing to provide new information and submissions. Godfrey Hurst General Manager, Tania Pauling said that she is unhappy with the delay as it gave the companies more time to remedy any flaws in their initial application.

Economics and trade

NZ fourth best country for foreign investment [25 June/ NZ Herald] United States economic think-tank, Milken Institute has ranked New Zealand as the fourth most attractive foreign investment destination, behind Singapore, Hong Kong and Finland who were ranked first, second and third respectively. Out of a maximum of ten, New Zealand got a 4.95 score for economic fundamentals, 8.21 for ease of doing business, 8.50 for quality of regulation and 9.60 for rule of law, which was the highest score in that category of all the countries included in the index. Both the Milken Institute, and the New Zealand Initiative blamed overly restrictive entry regulations for the relatively low economic fundamentals score. According to Statistics New Zealand, foreign direct investment in New Zealand had reached \$97.3 billion by the end of June 2014, up from \$89.7 billion a year earlier.

Current TPP offer not good enough – DCANZ [25 June/ Radio NZ Rural] Dairy Companies Association of New Zealand Chairman, Malcolm Bailey said the current Trans-Pacific Partnership does not offer enough for the dairy sector. Mr Bailey added that dairy access should be the top priority for the agreement, as it is New Zealand's biggest export sector. DCANZ has met with the Government to reinforce its message.

Trade partnership deal entering end-game, says Groser [26 June/ NZ Herald] Trade Negotiations Minister, Tim Groser said the likelihood of the Trans-Pacific Partnership being finished is around 70 percent, after President Barack Obama cleared the last hurdle in Congress to fast-track the free trade deal. US negotiators are now able to make final offers in the firm knowledge that any final deal cannot be amended by the Congress. Mr Groser said the passing of the Trade Promotion Authority will now allow the real negotiations on the dairy sector to begin, which has been left until last because of its sensitivity. Mr Groser believed that New Zealand will not be worse off relative to competitors in other TPP countries than before the TPP.

Farmers and producers

Dairy gloom leads farmer confidence to 10-year low [24 June/ NZ Herald] According to Rabobank's latest rural confidence survey, farmer confidence in the agricultural economy turned to a negative net 45 percent in the second quarter, from a positive net 13 percent in the first quarter, its lowest level since 2006. The sharp decline has been led by dairy farmers, with 58 percent expecting worse farm business performance over the coming 12 months. Rabobank New Zealand Chief Executive, Ben Russell said while milk processors are expected to increase their payouts to farmers for the upcoming season, levels would probably still be below the full production cost for many farmers. Mr Russell added that the weak dairy prices have contributed to sluggish growth in the economy, weighing on the dollar and increasing expectations of further interest rate cuts.

Rural mental health crisis predicted [24 June/ Radio NZ Rural] Rural General Practice Network Chief Executive, Dr Dalton Kelly warned that the extraordinary set of circumstances that has affected the rural sector is likely to create an influx of mental health issues among farmers, and that the health system needed to be prepared. Dr Kelly said mental health initiatives and extra government funding were of help, but that the main issue was finding and keeping doctors in remote locations. Dr Kelly added that appointments via teleconferencing could be a solution, but rural internet connections had to be improved first.

Unprecedented support for North Canterbury [29 June/ Rural News] A group of stock agents and meat processors have agreed to work with Federated Farmers and the Rural Support Trust to help farmers affected by the drought. PGG Wrightsons, Hazletts Rural Ltd, Rural Livestock, Silver Fern Farms, ANZCO Foods, Peter Walsh and Associates, South Pacific Meats and Alliance Group Ltd have grouped together to look at solutions such as share-farming to retain farmers breeding flocks rather than being forced to sell them. Federated Farmers North Canterbury Meat and Fibre Chairman, Dan Hodgen thanked the groups for their commitment in helping drought-affected farmers. In Cheviot alone, 60,000 plus breeding stock have left for grazing, with many unlikely to return to lamb. Federated Farmers Spokesperson, Katie Milne said the collaborative group needed to work for everyone, but that all have agreed it is important to find homes for ewes before August.

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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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