

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

08 July 2015

Organisations referenced in this week's Field Notes include:

AgEagle	Irrigation New Zealand
Alliance Group	JBS USA
ANZ Bank	Marlborough Lines
ASB Bank	Meat Industry Excellence
Cargill Inc.	Ministry for Primary Industries
Cawelo Water District	New Zealand Merino Company
Chevron	New Zealand National Fieldays Society
Commerce Commission	PGG Wrightson
Dairy & Food	Royal Agricultural Society
Deer Industry New Zealand	Silver Fern Farms
Environmental Protection Authority	Statistics New Zealand
Federal Aviation Authority	Summerfruit New Zealand
Federated Farmers	Thai Overseas Fisheries Association
Fonterra Co-operative Group	The Consumer Goods Forum
Food Standards Australia New Zealand	Tomatoes New Zealand
Fresco Nutrition	UBS New Zealand
Godfrey Hirst Carpets	United States Department of Agriculture
Hawkes Bay Fruit Growers Association	World Farmers Organisation
Heinz Watties	Yealands Wine Group
HighGround Dairy	

This week's headlines

Viticulture	Yealands' synergies with lines company revealed [3 July/ National Business Review]
Dairy	Gaping hole greets new season [6 July/ NZ Farmers Weekly]
Rural Infrastructure	Comcom investigates PGG Wrightson over NAIT scheme fees [6 July/ NZ Herald]
Economics and trade	NZ disproves Barnaby Joyce's claim gay marriage would hurt Asia trade [6 July/ Business Day: NZ Farmer]
Farmers and producers	Government opens up financial assistance for struggling farmers [7 July/ Stuff: Politics]

Horticulture

Irradiated tomatoes must be labelled [1 July/ Rural News] Tomatoes New Zealand Chairman, Alasdair Macleod reminded retailers to clearly label their irradiated tomatoes, as it allows consumers to make informed choices on the products that they are buying. Food Standards Australia New Zealand requires anyone selling irradiated produce or products that contain irradiated produce, whether cooked or raw, to be clearly labelled at point of sale. Mr Macleod added that if retailers are unsure about the source of their product, they should contact their suppliers.

Far from peachy if anti-dumping canned – industry [2 July/ Radio NZ Rural] Summerfruit New Zealand Chief Executive, Marie Dawkins said if anti-dumping legislation is removed in New Zealand, it would undermine the peach canning industry. Ms Dawkins said the removal of the legislation will allow the importation of cheap peaches from other countries, meaning New Zealand peaches will no longer be economical for Heinz Watties to can, which could lead to the industry's collapse. Hawkes Bay Fruit Growers Association President, Lesley Wilson said if the legislation is lifted, many growers would suffer significant financial losses. The Golden Queen peach industry is worth \$15 million to the Hawkes Bay economy alone.

Viticulture

Yealands' synergies with lines company revealed [3 July/ National Business Review] Marlborough Lines have announced an \$89 million investment into Yealands Wine Group. Marlborough Lines Managing Director, Ken Forrest said the investment was on a cash, debt-free basis from the proceeds of recent investment sales. Mr Forrest said that new regulatory constraints on the allowable returns of electricity lines companies are coming into effect this year, and therefore an investment outside the sector offered best prospects of a higher return. Commentators have queried the expertise of Marlborough Lines investing in a wine company. Marlborough Lines Chairman David Dew has been involved with several wine sector companies in the past, including wine company River Farm, which was placed into liquidation in 2012 at the request of shareholders.

Yealands sale transparent, say key players [6 July/ Business Day] Key players in the Yealands Wine Group sale to Marlborough Lines have said the deal was thoroughly researched, with due diligence undertaken independently. Marlborough Lines will incur no debt as a result of the purchase of 80 percent of Yealands. Marlborough Electric Power Trust Chairman, Ross Inder said an independent assessment whether the purchase was prudent was undertaken, as per the trust deed. Yealand Wine Group Board Member, Peter Radich, who also acts as an adviser for Marlborough Lines denied any conflict of interest, as he was not involved in any part of the deal. Mr Radich added that both entities had separate lawyers involved in the negotiations. UBS New Zealand Investment Bank Executive Director, Chris Simcock said the sale attracted strong interest from across the globe, and was a good reflection on the New Zealand wine industry. Yealands Wine Group Founder, Peter Yealand said the company could grow to be worth up to \$300 million.

Goat

Plans to invest up to \$30m goat plant [3 July/ Radio NZ Rural] Fresco Nutrition has announced plans to invest up to \$30 million to build processing and packaging facilities in Hawke's Bay. Fresco Nutrition Managing Director, Greg Wycherley said there was growing demand for infant formula that came from goats and sheep milk, and that Hawke's Bay was the ideal place to produce and process the product. The company hoped the factories will be up and running in two years.

Deer

Silver Fern Farms chief executive appointed to deer board [2 July/ Deer Industry New Zealand Media Release] Silver Fern Farms Chief Executive, Dean Hamilton has been appointed to the Deer Industry New Zealand board for a three year term, replacing Dr Andrew West as the board's venison processor-appointee. Deer Industry New Zealand Chairman, Andy Macfarlane said to have a leader of Mr Hamilton's calibre on the board was an asset for the organisation, as it signals Silver Fern Farms' commitment to the deer industry.

Advance Parties gaining traction [5 July/ Rural News] Deer Industry New Zealand have experienced an increase in the number of farmers wanting to participate in its Advance Party concept. The concept is designed to allow farmers to encourage and support each other in adopting management practices that help make farms more profitable. Advance Party Co-ordinator, Amy Wills said many participants in the scheme reported major benefits including insight from other farmers and a new found confidence from being in a group with like-minded farmers, sharing private business information and exploring new ideas. Ms Wills added that each project is tailored to each group's goals, and that farm system changes are occurring faster due to a higher level of trust in fellow farmers offering advice. Ms Wills urged more farmers to contact the organisation about the scheme, as expansion of the initiative would come through the establishment of new Advance Parties.

Water

Fibre model might suit irrigation [6 July/ NZ Farmers Weekly] Irrigation New Zealand Chief Executive, Andrew Curtis said the Government's Crown Fibre Holdings model could be a solution to the cost of irrigation schemes. Under the government's broadband model, the government builds the backbone of the network, with users then paying to connect to the scheme. Mr Curtis said that model could work for irrigation, with the government funding construction of storage and head races. Mr Curtis added that irrigation schemes provided economic benefit to rural areas, as it allowed farmers to grow high value crops, while providing insurance against drought.

Dairy

Gaping hole greets new season [6 July/ NZ Farmers Weekly] The latest GlobalDairyTrade price index has fallen 5.9 percent, its eighth consecutive fall, signalling another tough season for New Zealand dairy farmers. Whole milk powder prices fell 10.8 percent to just above USD 2000 per tonne, the lowest level since the global financial crisis. September and October contracts for delivery dropped by 12.5 and 13.5 percent respectively, while the NZX Dairy Futures market had bids in the region of \$1910 and \$1950 per tonne, an indication that the market could deteriorate further. ANZ and ASB Banks have both lowered their milk price forecasts to \$4.50 and \$5.00 per kilogram of milk solids respectively. ANZ Bank Rural Economist, Con Williams said the latest GlobalDairyTrade auction suggested that the market was going to struggle from higher seasonal volumes from New Zealand, over the coming months. Mr Williams added that exporters needed to tighten supply if the market is to rebound. Both ASB and ANZ expect three further Official Cash Rate cuts by the Reserve Bank in response to depressed dairy prices.

Everything under review as Fonterra talks to staff [6 July/ NZ Farmers Weekly] Fonterra Chief Executive, Theo Spierings said the company has begun consultations with workers on proposals to streamline its business structures, a move that will lead to job cuts. Mr Spierings said the company needed less man power in its support and group functions, with more resources needed in its sales and marketing divisions. In a statement, Fonterra said the purpose of the business-wide review was to ensure the company was well placed and able to respond to the rapidly changing global environment. Mr Spierings said the review enabled the company to be more agile, reduce unnecessary costs and generate more value. Federated Farmers Dairy Chairman, Andrew Hoggard hoped the review and job losses are not a knee-jerk reaction to low dairy prices. A Fonterra Spokesman said the business review and its impact on jobs will not affect the co-operatives capacity to receive and process milk at the peak of the season.

Red meat

Support building for meat merger analysis [1 July/ Radio NZ Rural] Shareholder groups at both Silver Fern Farms and Alliance Group are seeking to encourage their respective co-operatives to obtain an independent cost benefit analysis of a possible merger. Alliance Group Shareholder, Jeff Grant said that farmers are becoming frustrated by the low-key response by the two co-operatives to the recommendation of a merger, highlighted in a Meat Industry Excellence report. Silver Fern Farms Shareholder Group Spokesman, Allan Richardson said farmers are owed a report, especially if there are the proposed \$100 million in savings to be made. Mr Richardson added that there is urgency around the issue, as Silver Fern Farms are considering to bring in new outside investors.

Alliance farmers aim to force merger review [4 July/ NZ Herald] Alliance Group shareholders are hoping to have the support from 5 percent of all members, within ten days, to force a special meeting to discuss the potential benefits and risks of a merger with Silver Fern Farms. Alliance Group Shareholder, Gaye Cowie said the industry needed a change as the future looked bleak. Ms Cowie added that many shareholders wanted the Alliance board to state its long-term strategy and give them the opportunity to show support for an independent assessment of the business case for amalgamation. Silver Fern Farms shareholders have crossed their own 5 percent threshold, with a date for the special meeting yet to be confirmed.

Little new information, SFF says [4 July/ Otago Daily Times] Silver Fern Farms Chief Executive, Dean Hamilton said the co-operative had reviewed the costs and benefits of industry consolidation, including those related to a potential merger with Alliance Group, a number of times. Mr Hamilton said the board believed the Meat Industry Excellence report provided minimal new information that was not previously available to the board, and that if a special meeting was called to investigate further, it would not have any more information available for it to consider any analysis or risk management plan. Mr Hamilton added that the company looked forward to the opportunity to discuss the matter further with shareholders.

Fieldays 2015

Themes and maybe an extra day [6 July/ NZ Farmers Weekly] Fieldays Chief Executive, Jon Calder said the event was looking at creating new specialised areas for exhibitors with a mutual focus, as seen at international events such as EuroTier. A dairy sector zone is thought to be the first priority area planned for Fieldays 2016. Mr Calder added that organisers were also looking at expanding the event to five days from four, with benefits including the reduction of traffic at peak times and smoothing crowd attendance. Mr Calder said that decision would be made after consultation with exhibitors, and will only occur if it added extra value. Visitor numbers at the 2015 event increased by 5 percent, with around 126,000 attending the event.

Rural infrastructure

Comcom investigates PGG Wrightson over NAIT scheme fees [6 July/ NZ Herald] The Commerce Commission is to investigate PGG Wrightson over the fees the firm charged during the implementation of the National Animal Identification and Trading Act programme, which required nationwide tagging of cattle and deer in a bid bolster New Zealand's response to biosecurity threats. The commission believed the company breached the Commerce Act and will seek a pecuniary penalty. PGG Wrightson Chief Executive, Mark Dewdney said the company will cooperate with the investigation and added that while the penalty was significant, it is unlikely to be materially price-sensitive.

Environment and emissions

EPA rules protect from toxic sprays [7 July/ Radio NZ Rural] The Environmental Protection Authority said new rules, that restrict sales of organophosphate and carbamate-based insecticides will better protect people and the environment from highly toxic insecticides. Ten active ingredients have had their approvals revoked immediately and can no longer be imported or manufactured in New Zealand. From July next year, fenitrothion and phorate will also be prohibited. New rules have also been set to manage the risks posed by the remaining active ingredients that it assessed, including those that can be used only by specially qualified people. These rules will be written on product labels.

Wool

Designers carry the flag for wool [4 July/ Rural News] Auckland Fashion Editor and Stylist, Anna Caselberg who launched New Zealand's second annual fashion wool week in June, said its aim was to educate the public and fashion sectors about wool. Ms Caselberg said the way in which Australia promotes wool used in its fashion and interiors sectors needed to occur in New Zealand, to elevate its status across the world. Ms Caselberg said that the campaign had brought people into the stores asking questions and generally raised awareness of wool, but that more needed to be done to talk about show wool. A wool show is also planned as part of Fashion Week in August.

Merino farmers enter carpet market [6 July/ Business Day: NZ Farmer] New Zealand Merino Company has entered a contract, worth \$3 million, with Godfrey Hirst Carpets to supply merino crossbred wool. New Zealand Merino Company Supply, Logistic and Innovation Manager, Mike Hargadon said the deal was of significance as it is an example of how innovation can open up new commercial opportunities for products which once had been written off as not commercially viable. Godfrey Hirst New Zealand Manager, Tania Pauling hoped the new carpet range would help halt the decline of wool carpet sales.

International

Ambitious New Resolution on Food Waste Agreed by The Consumer Goods Forum Board [24 June/ The Consumer Goods Forum Press Release] The Consumer Goods Forum has announced a new initiative to halve the amount of food wasted within its members retail and manufacturing operations. The initiative is an attempt to reduce some of the 1.3 billion tonnes of food that is being wasted across the globe each year. Five new open-source toolkits will be available to support member companies implement the initiative. The forum has also released a series of free tools to improve business efficiency and consumer trust. These include a health and wellness platform which will provide examples and content to improve employee health, a consumer engagement handbook which enables companies to take positive steps in managing consumer data, a Global Food Safety Initiative and International Trade Centre standards map which aims to bolster competitiveness for small to medium agribusinesses and a new Global Food Safety Initiative and International Trade Centre Quick Scan application which will enable companies to self-assess supply chains against best practices. The Consumer Goods Forum Managing Director, Peter Freedman said it is important the organisation creates innovative solutions to the serious issues that affect the planet.

Research says biofuel crops will feel effects of oil's slump [1 July/ The Globe and Mail] According to an Organization for Economic Co-operation and Development report, low oil prices have decreased both the demand and price of biofuel crops corn and soybean. Following a 50 percent drop in the price of oil and two years of large global harvests, prices for corn and soybean have fallen by around 40 percent. The report also highlighted how ethanol and biodiesel use is now expected to grow at a slower pace over the next decade, with low oil prices expected to continue as well as growing uncertainty over long term government energy policies around the world.

Thai crackdown on illegal fishing threatens industry [2 July/ Agence France Presse] Thai Overseas Fisheries Association President, Aphisit Techanitisawad said that more than 5,000 Thai fishing boats have stopped operating out of fear that they will be prosecuted over new rules. Mr Aphisit said factories are already being affected by the reduced catch, with many employees being laid off. Thai Authorities imposed a series of new regulations for fishermen, in response to a threat by the European Union to ban Thai imports if the country does not clampdown on illegal fishing. According to Thai Navy figures, 27,886 trawlers have registered under the government's new scheme with more than 12,000 trawlers still unregistered.

JBS USA to buy Cargill pork business for \$1.45 billion [2 July/ NZ Herald] JBS USA is set to buy the pork division of Cargill Inc. for a fee of around USD 1.45 billion. JBS USA Pork Chief Operating Officer, Martin Dooley said the deal is a strategic investment in the long term growth of the company's United States pork business. JBS will acquire two processing plants in Iowa and Illinois, four feed mills and three hog farms as part of the deal.

India approves \$8 billion plan to boost irrigation [3 July/ Agence France Presse] The Indian government have approved spending USD 8 billion over five years to develop infrastructure for rural irrigation. Indian Finance Minister, Arun Jaitley said the project's main objective is to increase the cultivable area under irrigation, improve on-farm water use efficiency and to introduce sustainable water conservation practices. The decision follows an increase of suicides by debt-laden farmers who have suffered damage to their crops due to bad weather.

California farmers use oil firms' water [3 July/ Agence France Presse] Some Californian farmers are irrigating their crops with waste water supplied by oil companies, in a bid to operate during the state's fourth record year of drought. Farmer Co-operative, Cawelo Water District has used waste water from oil companies for 20 years, and buys around 500,000 barrels of waste water per day from Chevron's Kern River operation. Chevron Spokeswoman, Abby Auffant explained that crude comes out of the ground mixed with water, from which it must be separated. The water is then cleaned by a filtering system and piped to a reservoir where it is mixed with fresh water, and then distributed to around 90 farms within the Kern River district. Cawelo Water District Head, David Ansolabehere said farmers pay around USD 33 per acre-foot for the co-operatives water, compared to around USD 1,500 for the same quantity of fresh water. Mr Ansolabehere added that the water is in compliance with all testing requirements. Water Defense Lobby Group Member, Scott Smith said the testing methods used were outdated.

Holy cow! Milk supplies overwhelm US dairies [4 July/ NZ Herald] United States milk output reached its highest level for the fifth consecutive year during 2014, with around 31 percent more product being made by north-eastern dairies. According to a United States Department of Agriculture report, American output in May reached 18.4 billion pounds, the most in any month, and is on pace to reach a record 208.7 billion pounds this year. The report also stated that global production is to rise 2.1 percent to 582.52 million tonnes. HighGround Dairy President, Eric Meyer said the world needed less milk, with prices falling 39 percent to its lowest point in five years. American dairy farmers are still making profits, despite falling prices, due to a drop in costs and a wet spring providing higher quality feed. Dairy & Food Market Analyst, Matt Gould said there is currently enough incentive for farmers to produce more milk, but that may not last with income over feed costs beginning to fall to around USD 8.90 per 100 pounds of milk. Mr Gould added that a profit margin of below USD 7.50 will signal a drop in output.

Farmers get \$1.2b boost in white paper [4 July/ The Australian Financial Review] The Australian government will release a AUD 1.2 billion package with the aim of boosting farm incomes and increasing drought resistance. The agricultural competitiveness white paper includes AUD 728 million extra funding for existing and new investment programs, and a further AUD 500 million for the development of new dams over four years. The paper also contained a commitment to extend the drought assistance concessional farm loans program by a further AUD 2.5 billion over 11 years. The Farm Management Deposits scheme will also be extended to smaller farms and for the first time be used as an offset against farm loans. The package also included AUD 11.4 million to set up a special Agriculture Commissioner, AUD 200 million to boost research and development programs, AUD 200 million to increase biosecurity surveillance and AUD 30 million to break down technical barriers to trade.

Farm use of drones to take off as US loosens restrictions [7 July/ NZ Herald] The Federal Aviation Authority has approved more than 50 exemptions for farm-related drone use within the United States. Agricultural use of drones in the United States is expected to increase dramatically, the Association for Unmanned Vehicle Systems International estimated as much as 80 percent of all commercial drone use will be used for agricultural reasons. The Federal Aviation Authority is to loosen restrictions on drone use that will allow them to be used regularly for business, while maintaining certain safety and privacy standards. An FAA proposal would allow flight of the vehicles as long as they weigh less than 24 kilograms, stay within the operator's sight and fly during the daytime, among other restrictions. Operators would also have to pass an FAA test of aeronautical knowledge and a Transportation Security Administration background check.

Economics and trade

NZ disproves Barnaby Joyce's claim gay marriage would hurt Asia trade [6 July/ Business Day: NZ Farmer] New Zealand trade experts have dismissed Australian Agriculture Minister, Barnaby Joyce's comments that allowing same-sex marriage in Australia has the potential to damage negotiations and its trading relationship in Asia. Trade Minister, Tim Groser said he knew of no evidence that showed same-sex marriage had a negative impact on international trade. According to Statistics New Zealand, trade with China has increased by around \$3 billion since gay marriage was legalised in New Zealand. Victoria University Professor, Siah Hwee Ang said New Zealand's boost in trade to China had nothing to do with gay marriage, with main drivers being food scares, wealthy Chinese enterprises looking to invest and a free trade agreement.

Farmers and producers

Rolleston's new role on the world stage [30 June/ Rural News] Federated Farmers President, William Rolleston has been elected as the new vice president of the World Farmers Organisation. Mr Rolleston said the World Farmers Organisation is a growing voice on the international stage, and that it is important that New Zealand's views are continued to be heard. Federated Farmers said Mr Rolleston's election reflected the high regard New Zealand held during international discussions. Mr Rolleston will undertake a pivotal role advocating on behalf of farmers and representing their interests at international policy forums.

Guy taps into resilience theme at agri-conference [2 July/ Radio NZ Rural] Primary Industries Minister, Nathan Guy attended the recent Federated Farmers National Conference and acknowledged the resilience of farmers following a year of low dairy prices, drought and flooding damage. Minister Guy announced that the government is to fund a further \$8.8 million for local councils, giving them the opportunity to plan and deliver initiatives over the next four years to tackle hill erosion. Minister Guy also discussed the work achieved through primary growth partnership projects, the sustainable farming fund and the greenhouse gas research alliance, in reducing farming's impact on the environment.

Young farmers 'shattered' after tough contest [5 July/ Business Day: NZ Farmer] Aorangi Farmer, Matt Bell has been declared as the 2015 Young Farmer Contest champion. The three-day contest included a wide range of practical and technical events including sheep shearing, assembling irrigation systems and presenting a business plan. The young farmers were vying for a share of \$300,000 in prizes with the Mr Bell taking at least \$70,000 in cash and prizes.

Rural ambassador cuts straight furrow [7 July/ Otago Daily Times] Southland Farmer, Tryphena Carter is to represent New Zealand as the Royal Agricultural Society's rural ambassador, an annual award that recognises excellence among young people under the age of 30 who are involved in the Agricultural and Pastoral show movement. Ms Carter will travel to Tasmania to represent New Zealand in the trans-Tasman Agricultural and Pastoral competition.

Government opens up financial assistance for struggling farmers [7 July/ Stuff: Politics] The government has activated its Rural Assistance Payments programme for farmers struggling to recover from major flooding. Social Development Minister, Anne Tolley said the government wants to support farmers as they work through the clean-up and begin to repair damage. Primary Industries Minister, Nathan Guy said local Rural Support Trusts will coordinate with farmers to facilitate payments for those in need. The government will allocate an extra \$145,000 in funding to the trusts.

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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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