

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

26 August 2015



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

Organisations referenced in this week's Field Notes include:

A2 Milk	Kenepuru and Central Sound Residents' Association
Aldi	Landcorp
Alliance Group	Marlborough District Council
Australian Wool Exchange	Meat Board
Beef + Lamb New Zealand	Meat Industry Excellence
Business Leaders Health and Safety Forum	Ministry for Primary Industries
Canterbury University	Mondiano
Cargill	New Zealand Dryland Forests Initiative
Center for Science in the Public Interest	New Zealand Pork
Clearwater Mussels	OM Financial
Dairy Companies Association	Panera
Dean Foods	Pernod Ricard
Deer Industry New Zealand	Rabobank
Deere & Co.	Real Estate Institute of New Zealand
EWOS	Rural Health Alliance Aotearoa New Zealand
Federated Farmers	Scott Technology
Fonterra Co-operative Group	Seafood New Zealand
Freedom Foods	Syngenta
General Mills	Turners & Growers
Hershey	Waikato University
HighGroundDairy	Wools of New Zealand
Iron Solutions	WorkSafe New Zealand
JBS	

This week's headlines

Health and safety	Minister, WorkSafe at odds on farm safety [21 August/ Radio NZ Rural]
Fishing	Seafood industry backs legislation update [20 August/ Radio NZ Rural]
Dairy	Milk prices surge at latest auction [19 August/ Otago Daily Times]
Red meat	Change of guard at Meat Industry Excellence [20 August/ Business Day: NZ Farmer]
Farmers and producers	No fire sale for public farms [24 August/ NZ Farmers Weekly]

Viticulture

Marlborough promoted at national wine conference [24 August/ Business Day] The annual Romeo Bragato wine conference is to feature four finalists from the Cawthron Marlborough Environmental Award's. Sustainability in Action Workshop Co-ordinator, Bev Doole said the conference provided an opportunity to promote the sustainable practices within the Marlborough region. Attending the conference includes Wine Industry Innovation Category Finalists, Tracey Marshall, Stephen Leitch and David Williams alongside Business Innovation Category and Supreme Marlborough Environment Award Winner, Paul Millen. Pernod Ricard Winemakers Sustainability Partner, Tracey Marshall, who won the Innovation Category, helped Pernod Ricard reduce its winery energy consumption by 40 percent, wine waste by 85 percent, winery water consumption by 15 percent and reduced carbon dioxide emissions by 28 percent. New Zealand Dryland Forests Initiative Project Manager, Paul Millen helped establish the growing of eucalypt forests to provide vineyards with hardwood timber which did not require treatment. The winners of the national Viticulturist of the Year and Winemaker of the Year will be announced at the conference.

Health and safety

Classing farming as low risk a 'dangerous message,' says business leaders' forum [19 August/ National Business Review] Business Leaders' Health and Safety Forum Executive Director, Francois Barton said the government was sending a dangerous message to the farming industry by classing farming as a low-risk activity in its Health and Safety Reform Bill. Mr Barton believed that telling farmers that the industry was low risk would undermine the agricultural sector's motivation to change in response to the new law. Mr Barton said the industry needed to change its practices to address health and safety problems. Labour Minister, Michael Woodhouse acknowledged that the farming sector had a high number of accidents, but added that the industry had a huge number of workers, which when measured against the other industries, constituted a lower risk profile.

Farmers applaud Govt safety move [20 August/ Radio NZ Rural] Farmers and industry groups have applauded the government's decision not to categorise the majority of farmers as being high risk under the Workplace Health and Safety Bill. The move will exclude the majority of farms from designating a staff member as a health and safety representative. Federated Farmers Health and Safety Spokesperson, Katie Milne said the decision made sense as most farm owners work alongside their employees. Beef and Lamb New Zealand Chairman, James Parsons said most farms had too few staff, making it impractical to elect a health and safety representative. Mr Parsons added that the reason why there were a high number of agricultural fatalities was a reflection of the size of the industry in New Zealand. Beef Farmer, Geoff Broughton said farmers were capable of identifying safety risks, and did not need a health and safety representative.

Minister, WorkSafe at odds on farm safety [21 August/ Radio NZ Rural] WorkSafe New Zealand said the decision to classify sheep, beef and dairy farming as low-risk in terms of health and safety went against its advice. WorkSafe New Zealand said it told Workplace Relations and Safety Minister, Michael Woodhouse that agriculture was the worst performing industry in the country in terms of health and safety, while dairy, beef and sheep industries were the most dangerous sectors of all with the highest accident and fatality tolls. Mr Woodhouse said that when the size of the agricultural industry is taken into account, the amount of injuries falls below the government's threshold and below that of other industries. Labour Party Workplace Relations and Safety Spokesperson, Sue Moroney labelled the decision as farcical.

Andrew Little sledges farmers for not speaking up about health and safety [21 August/ Business Day: NZ Farmer] Labour Party Leader, Andrew Little has slammed farmers for failing to speak out about new health and safety rules that defines dairy and cattle farming as low-risk. Mr Little said the industry had a responsibility to step-up and improve its health and safety record. Mr Little believed the National Party was frightened of upsetting the farming lobby and said it was wrong that dairy, sheep and beef farmers were not high risk, while worm farmers were. ACT Leader, David Seymour said that while the bill had some absurdities, it was expected when creating a proportional level of regulation.

Wool

New boss for WNZ [20 August/ Rural News] Turners & Growers Global Marketing Manager, Rosstan Mazey has been appointed as the next new chief executive of Wools of New Zealand. Wools of New Zealand Chairman, Mark Shadbolt said Mr Mazey has good experience in the international marketplace and in dealing with growers. Mr Mazey said he hoped to increase the company's focus on marketing, innovation and brand development with strategic partners.

Fishing

Seafood industry backs legislation update [20 August/ Radio NZ Rural] Seafood New Zealand Chairman, George Clement has backed the government's decision to review the Fisheries Act. Primary Industries Minister, Nathan Guy said both the Fisheries Act and the quota management system needed to be freshened up, with potential changes to both management processes and legislation. Mr Clement said the review will bring the Act into the current day and will make the most of modern digital technology, such as cameras on boats.

New Zealand's fish stocks up with the world's best, says top scientist [24 August/ Business Day] Ministry for Primary Industries Principal Fisheries Science Adviser, Dr Pamela Mace said New Zealand fish stocks are performing as well as, if not better, than any other stocks in the world. Ms Mace said that 83 percent of 300-plus stocks were above the level where sustainability issues might be a concern, with that figure representing 96 percent of landed fish. Ms Mace believed the current public perception around fish stocks was not reflected in many developed countries, with both the United States and Europe making substantial progress improving the status of their stocks. Ms Mace did believe the amount of funding for science on fish stocks needed to be improved, with science funding falling to around 45 percent of the level in 1990.

Dairy

Milk prices surge at latest auction [19 August/ Otago Daily Times] Wholemilk powder prices have increased by 19.1 percent to USD 1,856 a tonne in the latest GlobalDairyTrade auction, raising hopes that prices may finally have turned. The overall GlobalDairyTrade price index also increased by 14.8 percent. Whole milk future prices, for contract periods from November through to February 2016, also posted double-digit percentage price gains suggesting further improvement was to come. HighGroundDairy President, Eric Meyer believed that prices had bottomed out but did not expect rapid improvements. Mr Meyer added that the gain was a response to Fonterra's decision to take product off the platform, and that the current supply-demand imbalance had not changed. OM Financial Director, Nigel Brunel said future prices would depend on local production in the current season. Rabobank said it expects substantial improvement in prices by mid-2016.

A2 Milk burns through cash as takeover talks stall [20 August/ National Business Review] A2 Milk has spent around \$10 million in cash in the year ending 30 June 2015, as it begins to ramp up infant formula production ahead of its launch into the United States. The company has also called off a planned equity raising, after it decided a joint takeover offer by Freedom Foods and Dean Foods was not compelling enough. A2 Milk Chairman, David Hearn said the A2 board had offered to continue talks under the condition of confidentiality, but that had not materialised. Mr Hearn said the business is running as usual, and was in discussions with other parties. A2 Milk Managing Director, Geoff Babidge believed the company's expected rise in EBITDA, from \$30 million to \$40 million, would help fund the company's United States launch. Mr Babidge added that the company was looking at the possibility of using debt to raise funds.

Fonterra wants more say in milk acceptance [24 August/ Business Day: NZ Farmer] Fonterra said that it should have more control over what milk it should accept from farmers and that it should not have to make milk available to large dairy processors, other than domestic market food producer Goodman Fielder. Fonterra's submission comes at a time when the Commerce Commission is reviewing the state of competition within the New Zealand dairy industry, which if it concludes is sufficient, could see the dairy industry become deregulated. Fonterra believed the current requirement to accept all milk offered to it was inefficient, and left the co-operative as a fall-back option for all potential suppliers. Fonterra also believed that satisfactory commercial arrangements could be agreed with processors, without the Raw Milk Regulations.

Production rolling at Fonterra's \$230m plant [25 August/ NZ Herald] Production has begun at Fonterra's new \$230 million high-efficiency milk powder plant in Pahiataua. Whole milk powder from the plant will be exported into more than 20 markets including South America, the Middle East and Southeast Asia. Fonterra Managing Director of Global Operations, Robert Spurway said the plant was part of the co-operative's strategy of greater efficiency and value in its product mix. The new dryer will have the capacity to process an additional 2.4 million litres of milk each day, and is expected to be running at full capacity by October.

Red meat

Brazil's JBS offers 4.5% premium for majority stake in Scott Technology [20 August/ National Business Review] JBS has offered a 4.5 percent premium to buy a controlling stake in Dunedin-based Scott Technology. The offer, which requires 75 percent shareholder approval, would include the purchase of 10 million shares at \$1.39, a one-for-eight non-renounceable rights issue at \$1.39 for shareholders who did not want to be diluted and then a further placement, giving JBS 50.1 percent of the company. Scott Technologies had indicated to its shareholders that it was considering a capital raising to reduce its debt of \$24 million. Scott Technologies is to hire an independent advisor to prepare a report on the possible merger.

Change of guard at Meat Industry Excellence [20 August/ Business Day: NZ Farmer] Southland Farmer, Peter McDonald has been appointed as chairman of Meat Industry Excellence following the resignation of John McCarthy. Mr McDonald currently farms around 4,000 ewes and has been a tireless campaigner for Meat Industry Excellence. Mr McCarthy said it was appropriate to have a chairman from Southland, and added that Mr McDonald and newly appointed Deputy Chairman, Tim Coop will recharge the industry's energy for reform.

Culling of dairy cattle increases as farmers look to maximise milk profit in hard season [21 August/ Business Day: NZ Farmer] According to Meat Board statistics, the national cow kill has increased by more than 160,000 cows, as more dairy farmers cull cattle in response to slumping milk prices. The amount of cows processed in export-licensed plants also increased by 19 percent on last year. Economic Service Director, Rob Davison said farmers had started culling dairy cows in February, two months earlier than usual. Alliance Group Livestock General Manager, Murray Behrent said the company's cow kill had increased, with the company processing 2,000 cows in the past week, 1,300 more than the same period last year. Mr Behrent said many farmers decided to kill cows returning from winter grazing, rather than graze them. Mr Behrent expected an above average cull this spring as farmers opted to sell late-mating or lesser quality animals rather than keep them through summer. The Ministry for Primary Industries said it had received complaints about the condition of pregnant cattle going to meat works, but had not found any breaches of animal welfare law.

Environment and emissions

Climate change policy a failure, says professor [24 August/ Radio NZ Rural] Canterbury University Forestry Professor, Euan Mason said the agriculture sector should be required to participate fully in the Emissions Trading Scheme to make it more effective. Mr Mason said figures released by the Environmental Protection Authority showed that New Zealand's climate change policy was a failure, with the country now the fifth highest emitter of greenhouse gases per capita. Mr Mason said that agriculture accounted for half of New Zealand's emissions and that if farmers traded credits through forestry, it would make them more profitable and more stable. Mr Mason added that while research had been conducted to reduce the belching emissions of livestock, most of that research will not be seen for a number of years.

Deer

Science close to unlocking velvet's secret [24 August/ Deer Industry New Zealand Media Release] New Zealand and South Korean scientists believe they will soon be able to identify compounds that give deer antler velvet its immune boosting properties. If successful, it will allow velvet extracts to be sold with the measurements of the active ingredients they contain. Deer Industry New Zealand Chief Executive, Dan Coup said that being able to quantify the active ingredients was an important step in getting products registered for sale as healthy, functional foods. Mr Coup added that government regulators and consumers want claims to be backed up with evidence, and that if it becomes possible to do this with velvet antlers, it could add considerable value to New Zealand velvet.

Pork

Pork industry brings home the bacon [20 August/ Radio NZ Rural] New Zealand Pork Chairman, Ian Carter said the industry has been reaping the benefits of the dairy downturn and high beef prices. Mr Carter said domestic produce had become even more competitive due to the higher price of beef, with consumers purchasing pork as a more cost-effective option. Mr Carter added that grain and other feed components had become cheaper as a result of less demand from dairy farmers.

International

Salmon Deal [18 August/ The New York Times] Cargill has agreed to acquire salmon and trout feed supplier, EWOS for around USD 1.5 billion. The deal will see Cargill enter the salmon market for the first time, making it a leading supplier to salmon farms. Cargill President, David MacLennan said the deal was a strategic investment in line with the company's long term growth plan and evidence of its commitment to the growing aquaculture industry. EWOS posted operating revenue of around USD 1.4 billion in 2014. The deal is subject to regulatory approval and is expected to close by the end of the year.

Look after animal welfare or pay the price, warns wool buyer [18 August/ The Australian] Modiano Chief Executive, Laurence Modiano has asked Australian Agriculture Minister, Barnaby Joyce to legislate for mandatory pain relief when performing animal husbandry operations on sheep. Mr Modiano said commercial requests for wool from non-mulesed sheep had grown by 50 percent in the past year, and that a lack of action on key animal welfare issues would accelerate this trend further. Mr Modiano added that the wool industry could no longer afford any association with animal pain. According to the Australian Wool Exchange, only 29 percent of the 2014/15 Australian wool-clip came from sheep that had not been mulesed, or was mulesed using pain relief.

Swiss agribusiness giant Syngenta to sell flower seed business [19 August/ Agence France Presse] Syngenta has announced that it is to sell its flower seed business. The activity has been part of its lawn and garden unit, whose focus is on professional products markets such as golf courses and industrial pest management. No further details were provided.

Popular foods taking on new hues without artificial dyes [21 August/ NZ Herald] Food makers in the United States are attempting to remove artificial dyes from their products in a bid to make products more natural. Many have faced difficulties in replicating the vivid colours consumers expect. General Mills Cereal Developer, Kate Gallagher said the company had struggled to produce the same vibrant colour in its blue and green pieces in its cereals, and is contemplating removing them completely. Ms Gallagher added that the company's red coloured cereal pieces, coloured with radishes and strawberries, will also look different. Companies have attempted to replace artificial dyes with colours made from fruits, vegetables and spices, however these have higher associated costs, are sensitive to heat and acidity, and alter the taste of products. FDA approval is also an issue for many food producers, as approval for a new colour can take years to be completed. Critics of synthetic colouring have linked them to hyperactivity in children. Center for Science in the Public Interest Senior Scientist, Lisa Lefferts said artificial colours have been used in deceptive ways, such as masking the absence of ingredients. Hershey Chief Research and Development Officer, Will Papa said the company needed to deliver bold colours and flavours, or else they would lose sales. Panera Head Baker, Tom Gumpel said consumers would get use to the change of colours over time.

Seeds of doubt on Aldi's beef claim [21 August/ The Sydney Morning Herald] Supermarket chain, Aldi has admitted that its Highland Park-branded grass-fed beef products are from cattle given grain-based supplementary feed in bad weather conditions. Under both local and international best practice standards, grass-fed cattle must never consume grain or grain by-products. While Aldi's produce are not grass-fed-certified under the Pasturefed Cattle Assurance System, it has entered representative cuts into food shows that stipulate cattle described as grass-fed must never eat grain. Grass-fed Cattle Farmer, Ian McCamley said Aldi was misleading customers and hurting genuine grass-fed producers. Mr McCamley added that Aldi's grass-fed production methods allowed it to offer cuts at a lower price, disadvantaging other producers and retailers. An Aldi Spokesman said the supermarket chain was compliant with all current legal requirements for food labelling, and added that stating a product as grass-fed did not imply an animal was grass-fed 100 percent of the time.

Deere Reaps Results of Weak Crop Prices [22 August/ The Wall Street Journal] Deere & Co. has seen its latest quarter profit fall by around 40 percent to USD 511.6 million as a result of weak crop prices reducing the demand for new farm equipment, while also leaving dealers with a surplus of used models. Used-equipment market consultants, Iron Solutions estimated that the supply of used farm machinery in North America was around 30 percent higher than demand, forcing dealers to slash prices on trade-ins to attract buyers. Deere & Co. Director of Investor Relations, Tony Huegel said the used equipment market continued to be a challenge, with the company now offering free warranty coverage and performance-monitoring software on all certified used equipment purchases. Sales of the company's new farm equipment continued to suffer, with third-quarter sales falling 24 percent to USD 5.3 billion. The company's farm-business earnings fell 50 percent to USD 472 million, while the company said it expected world-wide sales of its farm machinery to decrease 25 percent this year, worse than its May forecast. The company now expected overall equipment sales to fall by 21 percent to around USD 26 billion, 3 percent lower than its May forecast.

Woe for Coveney as dairy hopes turn sour [22 August/ The Irish Times] Irish Agricultural Minister, Simon Coveney, once a keen advocate of the removal of the European Union milk quotas, wants the Union to step back in and raise its intervention price for milk. Mr Coveney had encouraged farmers to increase herd numbers and debt to be able to produce more ahead of the quota's removal, and now finds himself in a spot of bother with an upcoming election amid a full-blown crisis in rural Ireland. Mr Coveney has also been criticised for over-hyping the potential of the United States beef market, predicting it could be worth EUR 100 million, while half-year figures have shown only EUR 194,000 worth has been sold. European Commissioner for Agriculture and Rural Development, Phil Hogan insisted that farmers needed to be weaned off supports.

Aquaculture

Marlborough mussel farmer fights for farm extension [24 August/ Business Day: NZ Farmer] Clearwater Mussels is to appeal a decision by the Marlborough District Council, which rejected the renewal of its coastal permit and extension of its farm at Campbell Point from 4.37 hectares to 15.25 hectares. Clearwater said it should be allowed to extend its permit because the site was not in an area of outstanding natural landscape, and that scientific evidence proved there would be no significant adverse effects from the farm. Clearwater Mussels Owner, John Young said the company was prepared to adopt a management regime to manage any risk to fish spawning areas. The Marlborough District Council maintained that the area should be protected under the Marlborough Sounds Resource Management Plan, and that scientific reports showed a decline in sheltered ecosystems in the Pelorus Sound. The Kenepuru and Central Sound Residents' Association said there was no pressing need for the industry to add mussel farms incrementally, and that the Campbell Point landscape should be considered for protection.

Agribusiness strategy

Our food story must tell the truth [24 August/ NZ Farmers Weekly] Waikato University Agribusiness Professor, Jacqueline Rowarth said New Zealand needed to improve its marketing by basing it on facts, evidence and statistics rather than hype. Ms Rowarth said consumers are increasingly focused on where their food comes from, with a global trend towards natural, organic produce. Ms Rowarth believed New Zealand's ethical approach has placed it in a good position, but more marketing of the farm-to-table approach was needed to capitalise the country's potential. Landcorp Chief Executive, Steve Carden said New Zealand farmers were reaching their limits of production, and added that more was needed to be done to create more value.

Farmers and producers

Farm sales for Landcorp likely - SOE Minister [19 August/ Radio NZ Rural] State Owned Enterprises Minister, Todd McClay expected Landcorp to sell farms to boost its balance sheet. The government is concerned with Landcorp's debt levels, following the demise of Solid Energy and the drop in dairy prices. Mr McClay believed that the company would lose money in the remainder of the year, and was concerned with dairy conversion contracts it had entered into. Mr McClay insisted that the government would retain 100 percent ownership of the company. The Green Party called on the government to disclose any financial penalties that may be imposed on Landcorp if it stopped converting land to dairying in south Waikato.

Farm sales falling, latest figures show [20 August/ Radio NZ Rural] According to the Real Estate Institute, the number of farm sales has continued to fall with no sign of a surge of dairy farms hitting the market. The amount of farms sold in the three months to July 31 fell by 15 percent to 433 farms compared with same period last year. Real Estate Institute Rural Spokesman, Brian Peacocke said that while there were reports of more dairy farmers trying to sell up, there was no evidence of that currently occurring. Mr Peacocke said that if there was a sudden surge of dairy farm sales, it would be seen later in the year.

Call for more rural mental health funding [24 August/ Radio NZ Rural] Rural Health Alliance Aotearoa New Zealand Chief Executive, Michelle Thompson said the recently announced \$500,000 funding boost for mental health initiatives was a good start, but more funding was needed to solve complex mental health issues. The Rural Health Alliance Aotearoa New Zealand is to work with the Ministry of Health to run workshops around the country to increase the skills of doctors and nurses as well as farm consultants and stock agents. Ms Thompson said the focus of the workshops was to screen patients for suicide risk, a growing issue in rural areas due to the impact of low dairy payout's and adverse weather events.

No fire sale for public farms [24 August/ NZ Farmers Weekly] State Owned Enterprises Minister, Todd McClay said that while Landcorp may sell some its land to reduce debt levels, the company will remain 100 percent government-owned. Prime Minister, John Key said the debt levels of all state owned enterprises were under close scrutiny following the voluntary administration of debt-laden Solid Energy. Mr Key added that while Landcorp's balance sheet and debt was growing, it could be managed. Finance Minister, Bill English said all state owned enterprises needed to assess which assets were not core to their business. Labour Party Leader, Andrew Little said the mismanagement of Landcorp could lead to large amounts of land ending up in the hands of foreign investors.

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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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