

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

9 September 2015

Organisations referenced in this week's Field Notes include:

ANZ Bank	Modern Meadow
ASB Bank	National Institute of Water and Atmospheric Research
Bayleys	New Zealand Bankers Association
Beef + Lamb New Zealand	Ngāti Kahungunu Iwi Incorporated
Blackmores	NZX AgriHQ
BMI Research	Omega Seafoods
Coomboona Holdings	People for the Ethical Treatment of Animals
Copa	PGG Wrightson
Dairy Companies Association of New Zealand	Pressure Fresh Australia
Dairy NZ	Rice Dairy International
Federated Farmers	Rural Support Trust
Fonterra Co-operative Group	SeaDragon
Fraser Farm Finance	Serious Fraud Office
Green Party of New Zealand	Taratahi Agricultural Training Centre
Harvey Norman	Technomic
Hawkes Bay Seafoods	Tertiary Education Commission
Labour Party	The Avolution
Malaysian Palm Oil Board	University of Western Australia
McDonald's	Wildlife Ranching South Africa
Ministry for Primary Industries	

This week's headlines

Fishing	Hawke's Bay Seafoods says it is co-operating with investigation [4 September/ Business Day]
Dairy	Strong response to Fonterra's free loans [4 September/ Radio NZ Rural]
Red Meat	Red Meat Promotion a Hot Topic [7 September/ NZ Farmers Weekly]
Agribusiness Education	Taratahi centre to repay millions [8 September/ Wairarapa Times-Age]
Farmers and producers	Little chance of a warm spring, says Niwa [3 September/ Stuff: National]

Viticulture

Marlborough wine leaders visit China [7 September/ Business Day] A group of six wine industry leaders and a Marlborough District Council member have attended a wine conference in Ningxia, China with the hope of establishing a long term relationship with the region. Marlborough Mayor, Alistair Sowman said there was long-term potential for Marlborough viticulture businesses in Ningxia and hoped the two regions could develop a friendship agreement. Mr Sowman added that the exploratory visit has already developed the beginning of contract agreements. Marlborough Council Economic Development Manager, Neil Henry said that establishing a civil relationship with the province would help Marlborough businesses to strengthen their economic ties.

Wine companies buying farm land [8 September/ Business Day: NZ Farmer] PGG Wrightson Nelson Marlborough Sales Manager, Joe Blakiston said there has been an increase in the number of wine companies looking to purchase rural land, with prices moving close to levels seen six years ago. Mr Blakiston added that large wine companies were looking at available land for sale to map out future plans. Improved growing and frost fighting techniques have allowed wineries and growers to buy land previously considered unsuitable for grapes, however water supply still remains a crucial factor in the ability to expand growing areas. Mr Blakiston said an indication of where the market was heading was the sale of an eight hectare block at Rapaura for around \$180,000 to \$200,000 per hectare. Bayleys Real Estate Marlborough Vineyard Sales Specialist, John Hoare said interest in bare land for vineyard development was high depending on location and water access.

Aquaculture

Blenheim seafood company gains national recognition [2 September/ Business Day: NZ Farmer] Marlborough seafood company, Omega Seafoods, has won recognition in the nationwide Westpac Business Growth Grant competition. The company sells ready-to-eat vacuum packed small mussels and clams to New Zealand restaurants and export markets in China, the United States, Australia and the UAE. The company was selected from 424 applicants to a final group of six businesses in the competition, which included businesses with a turnover of up to \$5 million. Omega Seafood missed out to overall winner Haka Tours in the top prize of \$50,000, but were awarded a business retreat to Fiji, as well as a free consultancy session. Omega Seafood Managing Director, Chris Redwood said the company's aim is to keep things simple by expanding markets for its three core products.

Animal health

Test show high levels of toxins in killer swedes [3 September/ Radio NZ Rural] Dairy NZ has released test results which confirmed that high levels of toxins in herbicide-tolerant swedes killed hundreds of cows in Southland. Dairy NZ Southland-South Otago Leader, Richard Kyte said the results found the swedes to have higher levels of glucosinolates, which can be toxic to livestock. Mr Kyte urged farmers not to feed the swedes to cows in spring, when the animals are in late pregnancy or early lactation. Green Party Genetic Engineering Spokesperson, Steffan Browning said the herbicide-tolerant swedes should be removed from shelves immediately. Mr Browning believed that both the government and PGG Wrightson should compensate farmers for their stock losses.

Fishing

Seadragon rejected Blackmores investment in favour of tapping shareholders [3 September/ National Business Review] SeaDragon Chairman, Colin Groves said the company has turned down an investment offer from Blackmores, because it included uneconomic conditions such as the production of 2,500 tonnes of anchovy oil. Mr Groves said the offer would not have been in the best interests of the company's shareholders. Mr Groves added that company will now look to its shareholders to raise up to \$9 million to fund its new Omega-3 refinery. The company aims to shift production to Omega-3, and aims to produce 5,000 tonnes a year. It currently produces 250 tonnes of Omega-2 annually. SeaDragon has forecasted revenue of \$10.1 million in the year ending March 2016, up from \$6.3 million a year earlier. It also expects an EBITDA of \$144,000, compared to an EBITDA-loss of \$2.2 million in 2015.

Hawke's Bay Seafoods says it is co-operating with investigation [4 September/ Business Day] Hawkes Bay Seafoods Managing Director, Nino D'Esposito said the company was cooperating fully with fishery officers investigating a potential black market operation. Hawkes Bay Seafoods was raided by the Ministry of Primary Industries as part of an 18-month undercover investigation into the alleged illegal sales of paua and crayfish. Mr D'Esposito said the company did not condone black market sales of illegally caught fish species, as it was a threat to the sustainability of the resources of which it relies on. The ministry believed some of the alleged illegal trading involved the use of customary authorisations, which can only be issued by guardians appointed by iwi. Ngāti Kahungunu Iwi Incorporated Chairman, Ngahiwi Tomoana said his organisation, which has ties to Hawkes Bay Seafoods, supported the ministry's investigation and was disappointed in the actions taken by those involved.

Dairy

Fonterra loan now open [2 September/ Otago Daily Times] Applications have opened for Fonterra shareholders to apply for an interest free loan to help deal with dairy downturn. Shareholders are able to apply for a 50 cent loan for every kilogram of milk solids they produce and are shared up for, with the loan being interest-free for two years and paid back when the farmgate milk price rises above \$6 per kilogram. Fonterra has estimated that around \$430 million worth of loans will be applied for. Fonterra Chairman, John Wilson said there had been a lot of interest from farmers and that a large number of applications are expected.

Fonterra: We're not stockpiling [2 September/ Radio NZ Rural] Fonterra has said it is not stockpiling its product, despite reducing the amount of whole milk powder it sells on the GlobalDairyTrade auction platform. Volumes sold at the most recent auction totalled 35,865 tonnes, a decrease of 1,000 tonnes on the previous auction and 21,000 tonnes below the amount sold in the same period last year. Fonterra said it is putting its excess volume into higher value consumer products such as cheese and UHT longer life milk, or mixing milk powder with vitamins or minerals for other customers. Prices have increased for the second successive auction, with analysts believing the increases are a response to Fonterra's decision to restrict the amount of product it sells. ANZ Bank Rural Economist, Con Williams said there had not been a decline in supply from the United States or Europe so far, and believed that demand needed to improve before prices could increase significantly. Culverden Sharemilker, Justin Slattery said the lift in prices has boosted the confidence of dairy farmers.

Dairy prices keep rising as Fonterra cuts offering [3 September/ NZ Herald] Fonterra's move to reduce the amount of product sold on the GlobalDairyTrade auction platform has appeared to increase dairy prices, with prices rising by 10.9 percent at the latest auction. Whole milk powder prices increased by 12.1 percent to an average USD 2,078 a tonne, while skim milk powder rose by 11.7 percent to USD 1,698 a tonne. AgriHQ's theoretical farmgate milk increased to \$4.19 per kilogram of milksolids after the sale. AgriHQ Dairy Analyst, Susan Kilsby said that the dairy derivatives market indicated that whole milk powder prices would increase by 34 percent by the end of the season. ASB Bank Rural Economist, Nathan Penny believed there needed to be a reduction in global milk production before a sustained price recovery could occur. Rice Dairy International Head of European Markets, Robbie Turner said the latest auction suggested that China had returned to the market.

Strong response to Fonterra's free loans [4 September/ Radio NZ Rural] Fonterra said there has been a strong response to its interest free support loan offer, with 1300 farmers signing up in the first four days. Fonterra's 10,500 farmer shareholders can apply for an interest-free loan of 50 cents for every kilogram of milk solids produced from 1 June to 31 December 2015. Fonterra Group Director of Co-operative Affairs, Miles Hurrell said it was still early days and added that farmers appreciated Fonterra's efforts to help them through tough times. Mr Hurrell said a total of \$430 million of interest free loans will be made available, with the expectation that most farmers will apply. The loan will be interest-free until 31 May 2017, after which Fonterra may charge interest.

Milk production powers ahead despite low prices [4 September/ NZ Herald] According to the Dairy Companies Association of New Zealand, July milk production increased to 19.01 million kilograms of milk solids, up from 13.1 million in June and up 13.2 percent from July last year. Milk production over the last four months has remained strong due to an unusually productive late autumn flush. Expectations are that a higher-than-normal cow cull, more restrained use of feed supplements, adoption of less intensive farming techniques and curtailed off-farm grazing will result in lower production and increase prices.

Agility to drive value [7 September/ NZ Farmers Weekly] Fonterra Chairman, John Wilson has refuted criticism that the co-operative has not delivered on the promises it once held, and said that Fonterra's progress since formation has been extraordinary. Mr Wilson said the biggest reasons why Fonterra had closed the gap on its competitors were its scale and improved efficiency in being able to process milk effectively and getting products to market. Mr Wilson added that there had been considerable wealth created due to more milk being produced, while farmers received, on average, higher prices. Mr Wilson said that if Fonterra was not a success story, it would not have achieved a 24 percent increase in milk production over the past five years. Mr Wilson said the rate of driving volume into value would increase, but that the co-operative needed to be more agile in responding to the challenges of world markets.

Red meat

Red Meat Promotion a Hot Topic [7 September/ NZ Farmers Weekly] Farmer meetings have indicated that there is strong support for the continuation of Beef + Lamb New Zealand, with voting closing on its levy referendum this week. Beef + Lamb New Zealand Chairman, James Parsons said the board has decided to keep promotion in its levy, at \$5.5 million per year, despite processors rejecting the organisation's proposal of a joint promotion scheme. Mr Parsons said the plan is to discuss with farmers what they want to do in regard to promotion after the referendum, with farmers keen to engage in a promotion review. Mr Parson also said that farmers have discussed on what the organisation could do better, including better market access, the reduction of tariffs, and the removal of other export barriers. Mr Parsons assured farmers there was no intention to raise levy rates from current levels, and that any change would require strong farmer support.

Research and development

Dairy goat infant formula and waterproof roads get Government cash [3 September/ Business Day] Dairy goat infant formula is among 48 science advances that will receive a share of \$96.5 million in government research funding. The funding, which will be over four years, is part of the Ministry of Business, Innovation and Employment's 2015 science investment round. Science and Innovation Minister, Steven Joyce said the programmes that qualified for funding reflected the high quality of research across the country, which helped boost New Zealand's productivity and competitiveness. Over half of the funding was allocated to environmental and biological research.

International

Palm Oil's Outlook Is Bearish [2 September/ The Wall Street Journal] BMI Research Analyst, Aurelia Britsch said the outlook for Palm Oil prices looks poor, with weakened demand and increased production. Crude palm oil futures closed at MYR 1,987 a metric tonne, after hitting a six-year low of MYR 1,863 in August. Ms Britsch believed prices will continue to decline to a new low of around MYR 1,700. Ms Britsch said prices will fall as the Malaysian Ringgit stabilises over the next few months. According to the Malaysian Palm Oil Board, July production was up 9 percent from the previous year. Exports to the European Union and China, during the first seven months of 2015, were down 7.2 and 7.5 percent respectively. Overall Palm Oil exports declined 1.5 percent this year.

Harvey milking a new cash cow [3 September/ The Australian] Harvey Norman has brought a 49.9 percent stake in one of Australia's largest dairy farms, Coomboona Holdings, for a cost of AUD 25 million. The fee also included an advance of AUD 9 million. Harvey Norman Founder, Gerry Harvey said the farm will initially have 6000 cows producing 30 litres per day, with a desired output of 38 litres being reached over a period of time. Mr Harvey said Australia's ever-growing coffee culture and a growing Asian middle-class were reasons behind the purchase.

Black S.African shakes up white preserve of game farming [3 September/ Agence France Presse] Black Entrepreneur and Game Breeder, Mike Gcabo wants more black South Africans to be part of the Game Breeding industry. Game breeding in South Africa has been dominated by white farmers as a result of the country's apartheid regime which restricted black ownership of land, but Mr Gcabo wants to upend the status quo in the lucrative and glamorous sector. Mr Gcabo said the ethnic bias in the game breeding industry makes it a target for reform. Only 15 out of 1,500 farm owners who belong to Wildlife Ranching South Africa are black. Wildlife Ranching South Africa President, Peter Oberem said that for the industry to thrive it needs to do more to diversify and broaden its public interest. Mr Oberem is in talks with the South African government to form a collaboration with black farmers who have won a land claim or have purchased government land to run game breeding businesses.

French PM gives farmers €3bn to end Paris blockade [4 September/ The Times] French Prime Minister, Manuel Valls has announced a EUR 3 billion package to farmers, after more than a thousand tractors threatened to bring central Paris to a standstill. The package, which involved measures to erase taxes and debts, will be worth EUR 1 billion per year for the next three years. Mr Valls announced the package after President Hollande expressed fears that farmers could bring the entire country to a standstill. French Agricultural Minister, Stéphane Le Foll said that around 25,000 farmers were on the verge of bankruptcy.

McDonald's all-day breakfast might make America's egg shortage worse [5 September/ NZ Herald] Technomic Executive Vice President, Darren Tristano said McDonald's plan to sell breakfast sandwiches throughout the day will increase the strain on the United States egg industry. The United States egg industry is struggling due the country experiencing its worst bird flu epidemic in history, with over 48 million fowl being killed in the first half of 2015. Mr Tristano said the move by McDonalds will increase the price of eggs further. According to the United States Department of Agriculture, retail egg prices soared to a record USD 2.57 a dozen in June, and remained at that price during July. McDonald's believe that selling their Egg McMuffin sandwich all day could increase sales by 2.5 percent.

Is company's claim of meat without murder too good to be true? [6 September/ The Guardian] Brooklyn startup Modern Meadow has said it is developing laboratory-grown animal products without killing animals. University of Western Australia Researcher, Oron Catts said he was skeptical of the ethics and economics behind Modern Meadows operations. Mr Catts said there were ethical issues behind the company's slaughter-free label, as the process is reliant on fetal bovine serum, which is harvested from unborn cows during the slaughter of the pregnant mother. Mr Catts also believed the cost of the lab-grown meat would cause issues, with amount of serum needed to produce 1 kilogram of meat costing around USD 75. Modern Meadow Co-Founder, Andras Forgacs said the company is trying to phase out the use of fetal bovine serum, but Mr Catts said he was not optimistic about the alternatives. People for the Ethical Treatment of Animals President, Ingrid Newkirk said the organisation supported Modern Meadows efforts, as lab-grown meat remained less cruel than slaughterhouses. Ms Newkirk added that there was growing enthusiasm with the belief that the use of fetal bovine serum will soon be phased out by plant, fungal or synthetic counterparts.

Tear gas, water cannon at mass EU farmer protest in Brussels [8 September/ Agence France Presse] Belgian police have fired tear gas and water cannons at up to 7,000 European farmers protesting for intervention by the European Union against plunging food prices, which has been partly blamed on the Russian embargo. Copa President, Albert Jan Maat said European farmers were paying the price for international politics, and demanded action by the European Union. The European Commission said it is to release EUR 500 million in emergency funds to ease the pressure on farmers, with crisis talks on the situation under way. European Union Vice President, Jyrki Katainen said the aid was mainly targeted to the dairy sector, and will address cash-flow difficulties farmers were facing. Mr Katainen said the commission takes its responsibility towards farmers very seriously and is prepared to back it up with the appropriate funds.

Avocados get smarter as new markets open up [8 September/ The Australian Financial Review] Since reaching a record low in 2011, avocado prices have skyrocketed with a combination of new uses and coordinated marketing, which has opened up new markets. Four years ago, avocado prices slumped from \$22 per tray to less than \$4, with the majority of premium fruit being unsold, despite consumption increasing. The Avolution Chief Executive, Antony Allen said growers have become smarter since the price slump, with the majority making their supply chain more organised. Mr Allen added that there has been new uses of avocados such as miniature avocados, purees and dips. Pressure Fresh Australia Managing Director, Trent De Paoli said his company, which exports avocado dips and purees, is helping to clear non-premium fruit and is opening previously closed export markets.

Agribusiness education

Taratahi centre to repay millions [8 September/ Wairarapa Times-Age] Livestock and jobs are on the line at the Taratahi Agricultural Training Centre, as it tries to pay back \$7.5 million of over claimed government funding. Taratahi Agricultural Training Centre Chairwoman, Mavis Mullins said results of the recent Tertiary Education Commission investigation have been released, while a Serious Fraud Office investigation into the centre was ongoing. Taratahi Interim Chief Executive, Dr Linda Sissons said the recent investigation revealed some cases of incorrect or over-funding of some courses from 2009 to 2014. Ms Mullins said the centre will repay \$1.1 million by the end of the year, with the centre looking at selling livestock and potentially cutting jobs to raise funds. Ms Mullins added that the delivery of education at the centre will not be affected. Ms Mullins was unconcerned with the Serious Fraud Office's investigation and said the improper funding occurred due to the loose internal systems being unable to keep up with centre's growth.

Agribusiness strategy

Foreign buyer deals could be approved faster if OIO beefed up [8 September/ Business Day: NZ Farmer] Finance Minister, Bill English said the government is to consider increasing staff numbers and resources at the Overseas Investment Office, speeding up the time it takes for foreigners to buy New Zealand assets. Mr English said there had been complaints of delays at the agency, but stressed that the Government won't dilute strict laws that set out conditions for foreigner buyers. Mr English also said that farmers, who have opposed Chinese investment in Silver Fern Farms, should put up money to maintain 100 percent ownership of the company. Labour Leader, Andrew Little said the Overseas Investment Office needed to look more carefully at applications and added that it did not do enough monitoring when a purchase was approved.

Farmers and producers

Farmers happy with banks, says Fed survey [3 September/ NZ Herald] According to a Federated Farmers survey, the majority of farmers are happy with the support banks are providing them during the dairy downturn. The survey showed that only 6.6 percent of dairy farmers had come under undue pressure from banks over their mortgage, while 5.7 percent were dissatisfied with banks over their mortgages. Around 3.5 percent of dairy farmers were unhappy with how banks were communicating with them. Across all farming industries, 5.2 percent were dissatisfied with mortgages, 5.5 percent had come under undue pressure and 3.5 percent were unhappy with communication. New Zealand Bankers' Association Chief Executive, Kirk Hope said banks were working closely with dairy farmers to help them manage through tough times.

Little chance of a warm spring, says Niwa [3 September/ Stuff: National] The National Institute of Water and Atmospheric Research has ruled out the chance of a warm spring, but said the risk of a summer drought in eastern areas and Northland was rising. Niwa said that an El-Nino weather pattern had become established in the tropical Pacific Ocean resulting in cooler, windier and drier conditions. Niwa estimated that the North Island has only a 20 percent chance that spring would be warmer than usual, while the South Island has a 10 percent chance. It also believed there was only a 25 percent chance of a wetter than usual spring across the country. Niwa believed there was a 90 percent chance that El-Nino conditions would continue into summer.

Snow in Southland affect early lambing [6 September/Business Day: NZ Farmer] Federated Farmers Southland President, Allan Baird said snow in the region has affected farmers who have started lambing. Mr Baird said there would be lambing losses due to the wind chill factor, while feed levels remained low across the region as a result of ongoing wet and cold weather. Mr Baird added that soil temperatures needed to increase by around 2 degrees for grass growth. MetService Meteorologist, Emma Blades said it will remain wet until the end of the week.

Suicide rate triples in rural Waikato: ministry [8 September/ Business Day: NZ Farmer] According to Ministry of Justice figures, the suicide rate in rural Waikato has tripled, with six farmers taking their own lives in the year ending June 30, 2015. Fraser Farm Finance Director, Don Fraser was not surprised by the number of suicides, and expected to see more this financial year. Mr Fraser said farmers should talk to and be aware of their peers. Waikato-Hauraki-Coromandel Rural Support Trust Chairman, Neil Bateup was nervous about drawing any conclusions from the figures, but said the amount of calls to the trust had increased to at least one a day. Mr Bateup said it was important for the rural community to pull together in tough times and encouraged farmers to talk to the trust. Mr Bateup believed that farmers could support one another by getting together once a week to share experiences. Waikato Dairy Farmer and Dairy NZ Mentor, John Fransen said the current mood in the rural community is sombre, but said that there will be light at the end of the tunnel. Mr Fransen encouraged farmers to talk to him if they need a hand.

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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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