

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

7 October 2015

Organisations referenced in this week's Field Notes include:

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| Beef + Lamb New Zealand | New Zealand Institute of Economic Research |
| Dairy Companies Association of New Zealand | New Zealand Labour Party |
| Dairy Farmers of Canada | Peterson Institute for International Economics |
| Federated Farmers | Potato Marketing Corporation |
| FMG | Public Health Wales |
| Fonterra Co-operative Group | Rural Contractors |
| Food Standards Agency | Shanghai Maling |
| Green Party of New Zealand | Silver Fern Farms |
| Immigration New Zealand | Taranaki Investment Management Limited |
| Kiwifruit Vine Health | Tatua |
| Lincoln University | United States Dairy Export Council |
| Massey University | United States National Milk Producers Federation |
| Meat Industry Excellence | Van Diemen's Land Company |
| National Institute of Water and Atmospheric Research | Westland Milk Products |
| New Plymouth District Council | |

This week's headlines

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| Dairy | 75 percent of Fonterra farmers take interest-free loan [29 September/ Radio NZ Rural] |
| Economics and trade | No increased medicine costs under TPPA [6 October/ Stuff: Politics] |
| Red Meat | Putting a dollar value on beef genetics [14 September/ NZX AgriHQ] |
| Research and development | Govt lays out R&D plans [6 October/ NZ Herald] |

Horticulture

Kiwifruit growers to meet after Psa discovery [25 September/ Radio NZ Rural] Whangarei kiwifruit growers are to meet following the discovery of vine-disease PSA in the region last week. Kiwifruit Vine Health Chief Executive, Barry O'Neil said the region's 49 kiwifruit orchards are to be extensively monitored. Mr O'Neil said the discovery so far only affected one orchard, but advised growers to operate as if PSA was present by minimising the risk of spreading the disease. Mr O'Neil said no kiwifruit plant material, including budwood and nursery stock, along with any potentially contaminated orchard equipment, should be moved between orchards.

Dairy

Tatua dairy earnings tumble 11pc [29 September/ NZ Herald] Tatua annual earnings before tax has fallen by around 11 percent to \$121 million as a result of the dairy downturn. The result equated to earnings of \$7.73 per kilogram of milksolids before retentions and tax, down from last year's record of \$10.32. Tatua has set its payout for the 2014/15 season at \$7.10 per kilogram of milksolids. It also declared a pre-tax retention of \$0.63 per kilogram to ensure the company retains the financial strength necessary to support its strategy of growing its specialised added value business. The company's gearing ratio increased to 36.4 percent from 25 percent, resulting from the construction of a new specialised powders dryer. Tatua's milk supply also increased by 2.5 million kilograms of milksolids, to 15.7 million kilograms.

75 percent of Fonterra farmers take interest-free loan [29 September/ Radio NZ Rural] Fonterra has said that more than 75 percent of its farmer-suppliers have applied for the co-operatives interest-free loan. The co-operative said when applications closed on Friday, 7,800 farmers applied for the loan. Federated Farmers Sharemilker Chairman, Neil Filer said sharemilkers were not eligible to apply for the loan because they did not hold shares, but added that most farm owners were sharing the support. Mr Filer said that there has been demand for farmers to pass the loan on directly through to sharemilkers. Mr Filer added that Federated Farmers has drawn up a loan type agreement for any farm owners that do want to directly pass cash on to their sharemilkers.

Dairy price volatility thanks to high tariffs cost NZ \$7b [2 October/ Business Day: NZ Farmer] Dairy Companies Association of New Zealand Chairman, Malcolm Bailey said high milk tariffs were a big driver of milk price volatility and has cut around \$7 billion from the economy this year. Mr Bailey said negotiators in the Trans Pacific Partnership talks needed to deliver a deal that stacked up for New Zealand and added that a more open global dairy market would help balance out rises and falls in milk production and demand, resulting in more stable prices. Mr Bailey said more intent was needed from countries such as the United States, Canada and Japan to achieve more dairy access in the deal. Lincoln University Trade Professor, Crawford Falconer said New Zealand has made impressive ground in trade negotiations over the past twenty years, and added that the Trans Pacific Partnership agreement was important as it had the potential to open up Pacific Rim countries such as Japan, Mexico, Canada and the United States. Mr Falconer believed the next trade deal attempt would be with Europe, as it had an agreement with Canada.

Westland Milk still optimistic [5 October/ NZ Farmers Weekly] Westland Milk Products has increased its forecasted payout for the 2015/16 season by 30 cents, to a range of \$4.90-\$5.30 per kilogram of milksolids. Westland Milk Chief Executive, Rod Quin said the current market showed signs of increasing demand and recovery. Mr Quin added that the company continued to focus on its nutritional and value-add growth strategy. Mr Quin said the co-operatives Dryer 7 and UHT projects would both come online in the 2015/16 season, with growth plans supported by retentions of 10 cents per kilogram from the 2014/15 season. Westland Milk confirmed its 2014/15 payout of \$4.95 per kilogram to suppliers. Total revenue for the 2014/15 financial year fell 23 percent to \$639 million as a result of lower dairy prices.

Fonterra to scrap guaranteed milk price scheme [6 October/ Radio NZ Rural] Fonterra is to scrap its guaranteed milk price scheme at the end of the 2015/2016 season. Fonterra said it had decided to end the scheme because it was not widely supported by farmers. Fonterra is to call for applications for the final part of the scheme in December.

Red meat

Putting a dollar value on beef genetics [14 September/ NZX AgriHQ] Beef + Lamb New Zealand Genetics is to launch a dairy-beef progeny test that will put a dollar value against what quality beef genetics can add to the dairy-beef supply chain. The four-year test will calculate the additional value that can be added by using high-genetic-merit beef bulls, rather than the unrecorded bulls traditionally used as follow-on bulls in most New Zealand dairy systems. Beef + Lamb New Zealand Chief Executive, Scott Champion said the test is significant to both the beef and dairy sectors. Mr Champion added that a 2015 analysis indicated that around \$61 million could be added to the beef sector if better quality beef bulls are used over dairy cows. Mr Champion said that dairy farmers, calf rearers and beef finishers needed more information or financial incentives to change practices. Mr Champion said the project's main objective is to introduce a dairy-beef genetic index that clearly quantifies the economic benefit of recorded bulls.

Positive farmer reaction to message [2 October/ NZX AgriHQ] Meat Industry Excellence Deputy Chairman, Tim Coop said the presentation by Silver Fern Farm directors and management of the proposed investment by Shanghai Maling was well received by farmers, but added that the presentation was very polished and played to an extent on farmers' emotions. Mr Coop believed that answers surrounding future control of the company were not convincing and urged shareholders to read the information pack carefully. Other shareholders have remained positive about the deal, as the investment would allow the company to move forward. Mr Coop agreed that the deal appeared to have momentum, and that a second option would have to materialise quickly for it to be considered.

Research and development

Govt lays out R&D plans [6 October/ NZ Herald] Science and Innovation Minister, Steven Joyce said farmers must spend more on research and development if New Zealand is to reach its target for science investment. The government wants to increase research and development spending from 0.67 percent of GDP to 0.8 percent. It also wants the private sector to increase its spending from about 0.5 per cent of GDP. Mr Joyce said an increase in spending is vital if domestic companies are to compete and succeed globally. Mr Joyce added that the primary industry sector needed to raise its funding levels if the government is to achieve its long-term investment target of 1 percent of GDP. Mr Joyce said that while the current low milk price may deter some farmers from spending on research, it was in farmer's best interests that they do.

International

U-turn over wild salmon killing ban [29 September/ The Times] The Scottish government has backtracked over controversial plans that would have banned the killing of all wild salmon, except for those holding a license. Scottish Environmental Minister, Aileen McLeod said the idea has been dropped in favour of a more flexible system. Ms McLeod said ministers are prepared to allow fish to be taken and killed from rivers which have a healthy population of wild salmon, while rivers with fewer fish must be returned.

Canadian dairy farmers in tractors protest trade deal [30 September/ Agence France Presse] Canadian dairy farmers have blocked road access to Canada's parliament to protest against potential agricultural concessions included in the Trans-Pacific Partnership agreement. Protesters have said that they fear opening up the Canadian market will harm the supply-managed dairy industry. The protesters added that reciprocal access to foreign markets would not balance out milk sales because most Canadian dairies are too small to compete on a global scale. Support for Canadian involvement in the deal has dropped in recent months, while opposition has almost doubled. Canadian Prime Minister, Stephen Harper said the country would only negotiate an agreement in the interest of the entire economy.

U.S. News: Pacific Trade Talks at Crucial Juncture [30 September/ The Wall Street Journal] Trade Ministers are to meet in Atlanta from Wednesday in an attempt to conclude the Trans-Pacific Partnership agreement, before talks become further complicated by political campaigns. Officials want the agreement to be concluded before election campaigns in the United States and Japan make it harder for negotiators to embrace a deal that could hurt sensitive industries. Peterson Institute for International Economics Trade Expert, Gary Hufbauer said negotiators may have another chance before the end of the year, but time is running against them. United States Trade Representative, Michael Froman said the United States will only accept a deal that delivers for middle-class families, supports jobs and furthers national security.

Case of mad cow disease on Welsh farm condemns herd [2 October/ The Daily Telegraph] A case of Bovine spongiform encephalopathy disease, also known as mad cows disease, has been identified on a farm in Wales, resulting in the culling of an entire cattle herd. Welsh Government Deputy Minister for Farming and Food, Rebecca Evans said the case was found in a dead cow as a result of strict control measures, in which all animals over four years old that die on a farm routinely tested for the disease. The Food Standards Agency and Public Health Wales said there was no risk to human health as a result of the isolated case, as the animal did not enter the food chain. Ms Evans said the identification of the case demonstrated the controls in place are working well.

Kiwi owners put Australia's biggest dairy farming operation on the market [2 October/ Business Day: NZ Farmer] Australia's largest dairy farming operation, Van Diemen's Land Company has been put up for sale by Taranaki Investment Management Limited, on behalf of the New Plymouth District Council. Taranaki Investment Management Limited Chief Executive, Mike Trousselot said it was the right time to put the operation on the market and expected the sale to be completed by the end of the financial year. Mr Trousselot expected a lot of interest in the company, but did not discuss the details of interested parties. Mr Trousselot said the company continued to perform strongly, with production increasing by around 150 percent since it was acquired by the council. The operation, which includes 25 farms, is estimated to be worth around \$250 million.

EU warns Taiwan over illegal fishing or risk ban [2 October/ Agence France Presse] The European Union has warned both Taiwan and the Comoros that they have six months to take stronger action against illegal fishing or risk an import ban. European Union Fisheries Commissioner, Karmenu Vella said both countries could be labelled as uncooperative in the fight against Illegal, Unreported and Unregulated fishing. Mr Vella said shortcomings in Taiwanese laws failed to deter illegal fishing and poorly monitored its long-distance fleet. Mr Vella added that the Comoros partly outsourced their fleet register to a private firm off shore in breach of Comorian law and was not monitored by Comorian authorities.

Court hearing intensifies potato wars [3 October/ The Australian] Western Australia's potato regulator, Potato Marketing Corporation is to seek a court injunction to restrain leading producer Tony Galati from growing more potatoes than he is allowed. Under Western Australia laws, the corporation decides who can grow potatoes, how many hectares can be planted and what varieties are produced. It also sets the price growers receive and acts as the monopoly seller of potatoes to the wholesale market. The regulator said it was forced into legal action after many failed negotiation attempts. Mr Galati said he had done his best to come to an agreement, which included buying potatoes from the general pool, rather than from his own farms. Mr Galati has applied to the State Administrative Tribunal for a review of the corporation's decision to reject his proposal to be allowed to grow more potatoes. The corporation said legal action was needed to ensure the transition into a deregulated industry was done in a coherent and managed way.

Economics and trade

New signs of TPP dairy movement [28 September/ NZ Herald] News media in both the United States and Canada have reported on signs of access for dairy products as part of the Trans-Pacific Partnership agreement, despite protests from dairy sectors in both countries. Reports in the Toronto Star, the iPolitics Canadian political website, and the Inside US Trade newsletter all point to the United States willingness to open its dairy market to some extent for imports from New Zealand and Australia. United States National Milk Producers Federation and Dairy Export Council have expressed concern over proposals of dairy access which could open the American market to Canadian imports without a reciprocal ability for American dairy producers to enter the Canadian market. Dairy Farmers of Canada Spokesperson, Isabelle Bouchard accepted that Canada may have to concede on some issues to allow agreement to be concluded.

No increased medicine costs under TPPA [6 October/ Stuff: Politics] New Zealand and 11 other Pacific Rim countries have finalised the Trans-Pacific Partnership agreement. Prime Minister, John Key welcomed the deal and said it would give exporters much better access to a market of more than 800 million people with expected financial benefits of at least \$2.7 billion per year by 2030. Trade Minister, Tim Groser said New Zealanders will not pay more for medicine as a result of the deal, with increased costs of \$2.5 million being insignificant compared to the total health budget. Mr Key acknowledged disappointment with the lack of gains on dairy tariffs, but said the agreement was very good deal for New Zealand, and included vast benefits for the meat, fruit, wine, forestry and manufacturing industries. Fonterra Chairman, John Wilson expressed disappointment by the limited gains for dairy but said the deal was a small but significant step for dairy. Mr Groser said the deal would eventually lead to elimination of tariffs on cheese exported to Japan and elimination of one part of cheese tariffs to the United States. Canadian officials confirmed the deal would only offer up to 3.25 percent of the Canadian dairy market and around 2 percent of the poultry market over five years. Green Party Co-Leader, James Shaw said the deal looked like it would deliver the current status-quo and remained concerned about the Investor-State Disputes Procedures. Labour Acting Leader, Annette King said a full debate on the deal was needed in parliament.

Farmers and producers

Forget the credit crunch - food is the new global issue [1 October/ NZ Herald] Massey University Professor, Paul Moughan believed that food security will become the next global crisis. Mr Moughan said New Zealand has an amazing opportunity to help educate the world in areas that are going to be required to meet food availability challenges. Mr Moughan said that while food production needed to increase by around 70 percent by 2050, more nutritious food needed to be produced as around a billion people are currently undernourished. Mr Moughan believed New Zealand's agricultural and scientific expertise put it in the perfect position to take advantage of opportunities and to become a leader in the sector.

Biggest El Nino in 18 years could be costly, based on history [2 October/ Business Day: NZ Farmer] National Institute of Water and Atmospheric Research Forecaster, Chris Brandolino expected the current El Nino weather pattern to be the biggest since 1997/98 and believed it is to intensify over the next three months, costing the economy hundreds of millions of dollars. According to the New Zealand Institute of Economic Research, the drought associated with the 1997-98 El Nino resulted in a loss of \$618 million. Federated Farmers Hauraki-Coromandel Dairy Chairwoman, Adele Archer said the outlook is not a cause for panic, but believed that Fonterra's palm kernel restrictions could cause issues. Ms Archer said that while prices have improved, the low dairy payout would be the biggest problem for farmers. Mr Brandolino said that there is a 95 percent chance the El Nino will carry on through the summer to March 2016.

Rural Theft Target of New Campaign [5 October/ NZ Farmers Weekly] Federated Farmers, FMG and the police have joined forces as part of a campaign against rural thefts. The campaign will offer simple and practical advice to support farmers in protecting their personal possessions and to keep the wider rural community safer. FMG General Manger of Products and Services, Mike Lange said theft on any scale was frustrating and that it can add extra stress to farmers. Mr Lange urged farmers to report suspicious activity, no matter how small. Federated Farmers Rural Security Spokesman, Rick Powdrell said the campaign would give farmers the appropriate tools and resources to implement effective security measures on their properties. A Rural Crime Prevention Advice Guide has been produced and is free to download from the FMG website. Community workshops have also been planned to give advice on crime prevention.

Deal to lift overseas agriculture worker numbers [6 October/ Radio NZ Rural] Rural Contractors New Zealand and Immigration New Zealand have struck a deal which will make it easier for agricultural contractors to bring overseas workers into the country. Rural Contractors President, Steve Levet said registered members would now be able to bring in overseas workers under Rural Contractors' umbrella. Mr Levet said that due to the sophisticated nature of machinery, skilled overseas workers were needed. Mr Levet added that the organisation would prefer to employ New Zealanders, but that there was not enough of them.

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