KPMG

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

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HOT OFF THE PRESS:
KPMG AGRIBUSINESS AGENDA 2015 VOLUME 2

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Organisations referenced in this week's Field Notes include:	
AgResearch	Israel Export and International Cooperation Institute
ASB Bank	Labour Party
Ballance Agri-Nutrients	Lincoln University
Bay of Plenty Regional Council	Marisco Vineyards
Beef + Lamb New Zealand	McDonald's
Buckminster Fuller Institute	Ministry for Primary Industries
Copa and Cogeca Working Party	Mitsui & Co
Countdown	National Farmers Federation
Dairy Companies Association of New Zealand	National Farmers Union
Dairy Farms NZ Limited	New Zealand Bloodstock
Dairy NZ	New Zealand Winegrowers
Elk and Wapiti Society of New Zealand	NZX AgriHQ
Farm Animal Investment	Oceania Dairy
Farmer's Federation of Israel	Open Country Dairy
Farmers Edge	Organic Trade Association
Farmers For Action	Pipfruit New Zealand
Federated Farmers	Ravensdown
Fonterra Co-operative Group	SAFE
Forest Industry Contractors	Synlait Milk
Forsyth Barr	Westland Milk Products
GreenWave	WineFriend
Inner Mongolia Yili Industrial Group	WorkSafe New Zealand
Institute of Global Food Security	

This week's headlines	
Horticulture	**BoP orchards listed on hazardous activity register over pesticides** [27 January/ Radio NZ Rural]
Poultry	**Countdown bombarded with messages to stop stocking caged eggs** [27 January/ NZ Herald]
Dairy	**Fonterra to review governance structure** [1 February/ NZ Herald]
Agri-Education	**Next Lincoln Uni head appointed** [1 February/ NZ Farmer Weekly]
Economics and trade	**MPs break ranks on TPP** [28 January/ NZ Herald]

AgriHQ Pulse: Ian Proudfoot's latest opinion piece

Are we building the infrastructure that delivers New Zealanders the lifestyle they aspire to?

The political year kicked off in earnest last week with the first shots being fired in the debate to ratify the TPP and many of the party leaders delivering their state of the nation speeches to influence the agenda for the year ahead. The Prime Minister gave his state of the nation address to an Auckland business audience and focused on infrastructure, announcing new or accelerated funding for a number of transport projects around the country, but most particularly the Auckland City Rail Loop and a new link road in the Onehunga/ Penrose 'industrial' area.

Mr Key trumpeted the government's $4.2 billion investment into road infrastructure in Auckland over the next three years as well as the funding for the rail loop (likely to be at least $1 billion). Having made these major investments in Auckland, there was not much left for the rest of the country but the Prime Minister did announce $115 million of new or accelerated funding for four regional road projects. His announcements raised a question for me as to whether the investments will drive economic wealth and job creation or are simply sweeteners to attract votes in 2017.

I passionately believe New Zealand's future prosperity will be derived from the primary sector, through selling the products we grow and licensing the intellectual property we employ in creating those products, to customers and consumers around the world. This belief raises questions over the right infrastructure needed to create wealth, particularly in a digitally disrupted world, and whether the government is investing in today's reality or future proofing New Zealand for tomorrow.

Growing and selling biological products to the world may be one of the oldest forms of economic activity, but to do it effectively in the modern world and consistently derive a premium, requires the right mix of people, natural capital and infrastructure. People bring their knowledge and relationships to the table, the natural capital comes from our environment and its sustainable utilisation, while infrastructure is the community assets, transport networks, irrigation resources and communication systems that enable us to connect ourselves and the solutions we create with their ultimate consumers.

Getting the optimal resources in place for each element of the farming equation is challenging, but getting the infrastructure right in regional areas makes it easier to attract the right people and manage the environment sustainably. The biggest impediment to getting rural infrastructure right, as was clearly demonstrated last week, will always be politics; winning Auckland is critical to winning the government benches and as a consequence policy will be shaped to increase the likelihood to attracting votes in the Auckland region, whether this is best long term for the economy or not.

For example, the emergence of autonomous vehicles has the potential to multiply the number of cars able to fit onto existing roads while changes in ownership models may mean there are ultimately less cars on the road. These innovations will reshape vehicle ownership in the coming decades, potentially before some of the projects announced last week are realised. Disruptive innovation will likely mean the economic return from road investment will be lower than current business cases suggest.

The lack of people in regional areas means that the business cases for infrastructure projects that would have truly transformational economic and social impact are often overlooked for political reasons. A prime illustration being the roll out of ultrafast broadband. In rural areas UFB connects businesses to their customers and consumers around the world, farmers to the opportunities presented by emerging digital technologies and people to potentially lifesaving services, yet the funding has been focused on urban residential suburbs and enabling people to stream Netflix faster.

The political realities are unlikely to change, making it critical rural communities and the primary sector thinks innovatively about how it overcomes market failure and gains access to the infrastructure needed to unleash its potential. Farmers have used co-operative models to build critical water infrastructure but progress remains slower than necessary (although this is partly due to an unfavourable regulatory environment). Exploring innovative partnerships, for instance co-operating with electricity lines companies to rollout local fibre loops, or looking for alternative, long term offshore investment rapidly appears to be becoming the main options available to build the infrastructure that will really secure the lifestyles all New Zealanders aspire to.

This article was first published in the AgriHQ Pulse service on 29 January 2016. See more about KPMG's views on the emerging trends in infrastructure investment in 2016 at https://home.kpmg.com/xx/en/home/insights/2016/01/emerging-trends-in-infrastructure.html

Horticulture

BoP orchards listed on hazardous activity register over pesticides [27 January/ Radio NZ Rural] Orchards in the Bay of Plenty are to be listed on the regional council's Hazardous Activity and Industries register, due to the regular use of pesticides. The Bay of Plenty Regional Council said the register will help identify potentially contaminated land if owners want to develop it in the future. Bay of Plenty Regional Council Project Implementation Officer, Emma Joss said it was important to keep a record of land use, as the build-up of pesticides can affect human health. Ms Joss said a number of orchards had recently been found to be contaminated and not suitable for development. Ms Joss added that the register would not affect land owners unless they planned to repurpose the land in the future for a more sensitive use.

This year's crop coming up apples [1 February/ Radio NZ Rural] Pipfruit New Zealand Chief Executive, Alan Pollard said the final crop estimates were for 19.5 million export cartons for 2016, an increase of 5.5 percent on last year. Mr Pollard said 2016 is likely to be the third consecutive export record for apples. Mr Pollard added that it was great news for apple growing regions, which were injecting millions directly back into local economies. Mr Pollard added that Pipfruit New Zealand would be creating more jobs, training and career opportunities to support the growth in the industry.

Viticulture

Wine exports reach record $1.5 billion [28 January/ NZ Herald] New Zealand wine exports have increased by 14 percent in 2015, reaching a record high of $1.54 billion. New Zealand Winegrowers Chief Executive, Philip Gregan said the growth was an outstanding achievement and showed that global demand for New Zealand wine is strong. Mr Gregan added that the value of exports had increased by 26 percent in the United States, 18 percent in Canada, and 12 percent in the United Kingdom. Mr Gregan explained that the lower New Zealand currency has contributed towards the increased returns, but the major reason for the growth is the very positive reputation of New Zealand wine amongst consumers globally. Mr Gregan said the industry aimed to increase annual wine exports to $2 billion by 2020.

New Marisco dam provides for future growth [28 January/ Business Day: NZ Farmer] Marisco Vineyards has built a new 320 million litre dam at Leefield Station. The dam will ensure there will be enough water for future plantings, allowing Marisco to create one of the biggest vineyards in Marlborough. Marisco Vineyards planned to expand from 300 hectares of vines to 600 hectares over the next three years. Marisco Vineyards owner, Brent Marris said the dam protected the company from water restrictions which were becoming more common. Mr Marris added that even growers with small vineyards were beginning to build dams due to the uncertainty around the supply of water. Mr Marris said that the expansion was fuelled by strong demand for Marisco wines. Mr Marris added that their wine sales have grown extremely fast, with approximately 15,000 bottles consumed worldwide each day.

Wine profitability up for big wineries, down for small wineries [29 January/ Business Day] According to a New Zealand Winegrowers survey, boutique wineries are losing money following a tough 2015. Wineries which generated more than $20 million in revenue had an average profit of 30.5 percent, while wineries with sales less than $1.5 million had an average loss of 9 percent. New Zealand Winegrowers Chief Executive, Phillip Gregan said that expenses were being driven up by increased spending on marketing. According to the survey, small wineries were spending more than 13 percent of their revenue on sales and marketing expenses, while the larger wineries were spending just over 11 percent. Mr Gregan added that there were always going to be some wineries which do well and some which struggle, but the industry looked to be in pretty good shape.

Bloodstock

Further increases conclude Fantastic Karaka 2016 [31 January/ New Zealand Bloodstock Media Release] The recent Karaka 2016 Festival Sale has posted an increase in figures, completing a successful National Yearling Sales Series. The Festival Sale aggregate increased by around 7 percent to $3.02 million, while the average sale increased by 10 percent to $16,065. The clearance rate at this year's event was 79 percent, an increase from last year's rate of 71 percent. The strong Festival Sale also resulted in a 27 percent increase of the National Yearling Sales Series aggregate, which totalled at $85.65 million. The National Yearling Sales Series average increased by 17 percent to $88,025. New Zealand Bloodstock Managing Director, Andrew Seabrook said he was delighted with how the Karaka sales went, and added that the increased figures showed the strength of New Zealand's breeding. Australia was the leading international buying bench, purchasing 239 horses for $30.5 million. Domestic buyers purchased 578 horses for $35.30 million and accounted for 41 percent of the total spend.

Poultry

Countdown bombarded with messages to stop stocking caged eggs [27 January/ NZ Herald] Countdown has been bombarded with messages from consumers for it to stop stocking caged eggs. Animal rights group, SAFE, encouraged consumers to post the messages after Countdown's Australian owner, Woolworths pledged to go fully free range in its Australian stores. Countdown said that while it had increased its free-range stock, there was currently not enough supply in New Zealand to meet demand. Countdown said the supply issue affected the entire supermarket industry, and added that it was working with suppliers to improve the quantity of free-range eggs available. Safe said it wanted a commitment to phase out caged eggs over time.

Apiculture

Liquid gold: honey exports up 41pc [1 February/ NZ Herald] High demand for manuka honey increased New Zealand honey exports by 41 percent last year, setting a new record. According to Statistics New Zealand, the value of honey exports increased from $202 million in 2014 to $285 million in 2015. Primary Industries Minister, Nathan Guy said the honey industry is a real success story with strong growth in exports. Mr Guy said this was a good example of New Zealand producing high-quality products that attract a high price, and added that the strong demand from overseas was likely to result in continued growth. A government and industry primary growth partnership aims to increase the annual value of New Zealand's manuka honey industry to $1.2 billion by 2028 through investment in product development and extracting more volume from manuka.

Dairy

Westland Milk's 'grim news' for farmers [26 January/ NZ Herald] Westland Milk Products said it had to cut its forecasted milk price for the 2015/16 season because of a 15 to 25 percent fall in the price of all its commodity products. Westland Milk Products Chairman, Matt O'Regan said the new predicted payout of $4.15 to $4.45 per kilogram of milk solids would be grim news for suppliers, but was not unexpected. Mr O'Regan said the major driver of downward prices was the continual growth of European and American milk supply. Mr O'Regan added that concerns about the Chinese slowdown was also adding to volatility. Mr O'Regan said the recent lifting of sanctions against Iran was good for Westland Milk, as it has butter contracts in country. Westland remained confident that it can grow its sales in China.

Fonterra cuts farmer milk payout [28 January/ NZ Herald] Fonterra has decreased its farmgate milk price forecast for the 2015/16 season from $4.60 per kilogram of milksolids to $4.15 per kilogram. Combined with the earnings per share range of 45-55 cents, farmers can expect a total payout of between $4.60 and $4.70 per kilogram of milksolids. Fonterra Chairman, John Wilson said that the declining demand for dairy products was a result of economic uncertainty in developing countries, a slow recovery of dairy imports into China, and low international oil prices weakening the spending power of oil producing countries. ASB Bank said the current low prices were unsustainable and expected the milk price to increase to $6.50 per kilogram next season. Fonterra Chief Executive, Theo Spierings said that despite unsustainably low prices for farmers globally, Fonterra was performing well and was on track to generate improved dividend returns.

Payout drop delivers 'a sobering blow' [28 January/ Rural News] Fonterra Shareholders Council Chairman, Duncan Coull said the 45 cent decrease in the co-operative's 2015/16 forecast is a sobering blow to farmers. Mr Coull said the decrease would further amplify the effects of the current low milk price environment on farmers. Mr Coull added that farmers expected the board to communicate any significant price fluctuations despite milk prices being out of the co-operative's control. Mr Coull encouraged farmers to seek guidance from their rural professionals on how to get through the tough times.

Latest drop last straw for some - Fed Farmers [28 January/ Radio NZ Rural] Federated Farmers Dairy Chairperson, Andrew Hoggard said the cut in Fonterra's forecast payout is likely to push more people out of the dairy industry. Open Country Dairy and Westland Milk Products also dropped their prices close to $4 per kilogram of milk solids in the past few weeks. Mr Hoggard said he was not hearing any signs of recovery until at least 2017. Farm Advisor, Don Fraser said that farm running costs and debt meant farmers were spending approximately $4.80 per kilogram of milk solids, making it tough to breakeven. Waikato Farmer, Matthew Zonderop said Fonterra must seriously consider driving more milk into value added products. Southland Farmer, Jono Bavin said the impact of the low payout had flowed through to the community.

Yili starts on $200m factory [29 January/ NZ Farmer Weekly] Construction on Oceania Dairy's $200 million factory in south Canterbury has begun. The factory is the second stage of a five year development project announced by the Inner Mongolia Yili Industrial Group in late 2014. Once stage two is completed, the amount invested by the Inner Mongolia Yili Industrial Group will have exceeded $400 million. Oceania Dairy Chief Executive, Roger Usmar said the new development will significantly increase capacity to produce a wider range of products and will generate export revenues of more than $300 million each year. Mr Usmar added that when all three stages are complete, the expansion will be a major boost for the local milk suppliers with the factory expecting to handle over 630 million litres of milk annually. The expansion is expected to be commissioned in March 2017.

Fonterra to review governance structure [1 February/ NZ Herald] Fonterra Co-operative Group has started a review on whether a board made up largely of farmers has the correct skill set to drive a global business, and whether milk suppliers in other countries should be allowed to hold shares in the co-operative. The document to be put before the board will ask whether there is the right ratio of farmers to independent directors, and whether the company is attracting the best candidates. Fonterra said that reviews indicated their governance and representation structures have served them well, but that there was still an opportunity to further strengthen them. Fonterra added that stronger governance and representation was need so it can increase milk volumes 22 billion litres to 30 billion litres, and increase revenues from $18.8 billion to $35 billion over the next 10 years. Fonterra is to put the proposal before shareholders for a vote in May 2016.

Synlait cuts milk price forecast [1 February/ NZ Herald] Synlait Milk has reduced its farmgate milk price forecast from $5 to $4.20 per kilogram of milksolids. Synlait said low international prices were behind the move. Synlait Milk Managing Director, John Penno said things were becoming harder for dairy farmers after two years of unsustainably low milk prices. Mr Penno said it was important to give suppliers a realistic idea of where the milk price is likely to end up. Synlait Chairman, Graeme Milne believed the recovery in commodity prices would be slower than anticipated. Mr Milne said that while Synlait was focused on value added products, global commodity pricing was the main driver behind the milk price its suppliers received.

Red meat

New Beef + Lamb NZ head announced [28 January/ Business Day: NZ Farmer] Beef + Lamb New Zealand has appointed Ospri Group Farm Operations General Manager, Sam McIvor as its new chief executive. Mr McIvor has previously been CEO of both Preston Corp Ltd and New Zealand Pork. As well as being the new head of Beef + Lamb, Mr McIvor will also become the CEO of the New Zealand Meat Board.

Ewe prices rocket [29 January/ NZ Farmer Weekly] Farmers in the North Island are having to pay high prices for quality ewes, while returns from lamb and mutton are falling. AgriHQ Senior Analyst, Rachel Agnew said prices for ewes have increased significantly over the past two weeks. Ms Agnew added that it is great for those with ewes to sell but it is hurting those needing to buy replacements, especially given low lamb and mutton returns. Hawke's Bay Federated Farmers Meat and Fibre Chairman, Adrian Arnold said one of the reasons for the current prices was that a lot of farmers had destocked earlier in the summer after warnings of an El Nino drought. Mr Arnold added that another reason for the high prices was that pasture had to be eaten down to prevent it going to waste, and there was a shortage of sheep on the market as a grazing option.

Deer

Deer velvet industry prospering from diversification [31 January/ Business Day: NZ Farmer] Elk and Wapiti Society of New Zealand President, David Lawrence said the New Zealand deer velvet industry is very strong and the future for deer farmers is looking even brighter. Mr Lawrence said New Zealand deer velvet was acknowledged around the world as a premier product. Mr Lawrence added that there had been stability in the velvet market from a New Zealand producer's point of view for five to six years now. Mr Lawrence explained that deer velvet was being used in the Chinese traditional medicine market and the Korean health foods market. Mr Lawrence said the quality of velvet at the Elk and Wapiti Society of New Zealand Velvet Antler competition seemed to improve each year.

Future of food insights

Tailored wine sales [1 February/ Rural News] A new form of wine sales has hit the market. WineFriend is New Zealand's first and only online wine retailer to deliver cases of wine that match an individual's preferences to their door. WineFriend uses an eight question taste survey to gain information about each customer's preferences. It then creates a profile for each customer which enables it to select wines that are tailored to the individual's tastes and preferences. A case of six wines is then delivered to their front door for around the same price as what they currently spend at the supermarket. WineFriend Chief Tasting Officer, Yvonne Lorkin said that the taste survey is simply the starting point of the customer relationship, and that a deeper understanding of the styles of wine each customer likes and dislikes comes from feedback.

Rural infrastructure

Strong supply and lowering demand see fertiliser prices fall [1 February/ Business Day: NZ Farmer] Both Ballance Agri-Nutrients and Ravensdown have announced price cuts for all of their products. Urea prices have dropped by $50 to $525 a tonne, the lowest price since 2007. Diammonium phosphate has been reduced by $25 per tonne, granular ammonium sulphate by $15, and potash by $10. Ballance Chief Executive, Mark Wynne said there was a lot of fertiliser supply globally, which has been offset by lower demand due to less cash in the farming community. Mr Wynne said the company had taken advantage of currency hedging to pass on savings to New Zealand farmers. Ravensdown CEO, Greg Campbell said the urea reduction represented a $37.5 million per year saving to farmers. Mr Campbell said the reduction in prices is more useful to shareholders than a large rebate cheque later in the year. Both Ravensdown and Ballance said the price reductions are likely to result in a smaller rebate later in the year.

Forestry

Drop in forestry workers deaths [1 February/ Radio NZ Rural] According to WorkSafe New Zealand data, there has been a significant decrease in workplace deaths and injuries. After the death of 10 forestry workers in 2014, the industry was overhauled following an investigation into its appalling accident record. This reduced the number of deaths to three in 2015, while the number of serious accidents have also halved. Forest Industry Contractors Chief Executive, John Stulen said with the help of new technology, forest managers and contractors have led positive safety changes. Mr Stulen added that production has increased from 19 million cubic metres in 2008 to over 30 million cubic metres, meaning the rate of serious harm is a third of what it was in 2008.

Research and development

Drought-resistant pasture being investigated [26 January/ Radio NZ News] Scientists have identified a ryegrass plant that recovers from drought quicker than others, but it may be 10 years before the plant becomes available for. Dairy NZ Scientist, David Chapman said the ryegrass plants were collected from dairy farms in Waikato in 2011. Dr Chapman explained that the plants were then grown for a few years by AgResearch scientists and showed a superior ability to recover from drought. Dr Chapman said that since the plants had been collected from dairy farm pastures, they had been subject to all the normal dairy farming practices and weather conditions. Dr Chapman added that the next step was for plant breeders to gain a better understanding of the plant's genetics and properties. The research is being funded by the Primary Growth Partnership – Transforming the Dairy Value Chain.

Agri education

Next Lincoln Uni head appointed [1 February/ NZ Farmer Weekly] Lincoln University has appointed University of Central Lancashire Deputy Vice-Chancellor, Professor Robin Pollard as its new vice-chancellor. Lincoln University Chancellor, Tom Lambie said the appointment was made after an international search, and added that Mr Pollard will begin his position in March. Mr Pollard said that key areas of focus for the university was continuing the growth in student numbers, supporting high quality research and advancing the Lincoln Hub.

International

Fewer potatoes, more 'superfoods' could be perfect recipe for local agriculture [19 January/ The Jerusalem Post] According to a report by the Israel Export and International Cooperation Institute, Israel no longer has an edge exporting standard fruits and vegetables, and should focus on the specialty food market. The report showed a decrease in revenue from exporting standard items such as potatoes and tomatoes, but indicated an opportunity for Israel to export superfoods such as pomegranates, dates and avocados. The report also suggested Israel should increase exports to Japan, Taiwan and Singapore since customers in those locations are willing to pay the prices demanded by Israeli farmers for their premium produce. Farmer's Federation of Israel General Manager, David Hayman said he agreed with the report's recommendations since Israeli produce exporters have seen their revenues decrease by 20 percent in the past two years.

GreenWave ocean farming model scoops $100,000 sustainability prize [26 January/ The Guardian] GreenWave Executive Director, Bren Smith has won the 2015 Fuller Challenge with a $100,000 prize for his 3D ocean farming model, designed to address overfishing, mitigate climate change, restore marine ecosystems and provide jobs for fishermen. The GreenWave model is a vertical ocean farming system that only grows restorative crops such as seaweed and shellfish to produce food, fertilizer, animal feed, cosmetics and biofuel. Mr Smith said he intends to use the $100,000 to shift from an applied concept to actual replication. Mr Smith added that anybody with 20 acres, a boat and $30,000 can start a farm and be up and running within a year. Buckminster Fuller Institute Executive Director, Elizabeth Thompson said it will have an enormous impact if implemented at scale.

State to set up its own 'Silicon Valley of food' [27 January/ The Advertiser] South Australia's food industry has unveiled an ambitious plan to develop a new food innovation centre. The South Australian Food Innovation Centre is expected to house at least 100 food industry researchers and experts, many from existing organisations, within a year. The centre will be a collaboration between various groups, helping the state's food sector develop into a more dynamic and innovation-led industry. Agriculture, Food and Fisheries Minister, Leon Bignell said the industry must develop new ways to remain competitive and added that the centre will maximise opportunities as it supports innovation and the commercialisation of new products.

Food industry makes first moves in transformation to going antibiotic-free [27 January/ Irish Examiner] McDonalds has committed to stop using antibiotics important to human medicine in chicken production for its American restaurants by March 2017. Subway aims to serve chicken raised without antibiotics across the United States by next March, with antibiotic-free turkey, beef and pork to be served by 2025. Institute of Global Food Security, Chris Elliot said the new food trend is due to the public health problem of the rise in antibiotic resistance. Mr Elliot said that antibiotics which could be relied upon 20 years ago are now failing. Mr Elliot explained that this is partly due to the widespread and increased usage of antibiotics in both human and animal medicine. Mr Elliot added that all farming sectors have a responsibility to reduce unnecessary use of antibiotics and ensure that antibiotics are used in accordance with veterinary advice.

Farmers Edge raises C$58m to expand internationally [27 January/ Agri Investor] Canadian agri-data company, Farmers Edge has raised CAD 58 million from existing investors to fund further expansion efforts, as well as expanding the company's data and agriculture science teams. The company has planned to open its first office in Russia this year, following the recent expansion into Brazil, Australia and the United States. Mitsui & Co General Manager, Kenji Otake is to join the Farmers Edge board after further investment by the Japanese company. Farmers Edge currently sells hardware, software and analytics products aimed at increasing farm yields by allowing growers to collect and evaluate data on virtually all aspects of their farm, from soil health to equipment output and fuel use.

Man charged with seed corn theft conspiracy pleads guilty [28 January/ NZ Herald] A Chinese man living in the United States with permanent residency admitted that he participated in a conspiracy to steal corn seeds from companies in the United States. Mr Hailong was arrested in 2013 and has now entered a plea agreement with federal prosecutors admitting that he conspired to steal trade secrets. Mr Hailong intended to steal seeds from cornfields in the United States and ship them to China so that scientists could attempt to reproduce their genetic traits. Mr Hailong faced up to 10 years in prison, but the government agreed to seek no more than five years. Mr Hailong will now give the government details of multiple farms used in the operation of the conspiracy, and may be immediately deported from the United States after he serves his prison sentence. Five other Chinese nationals working with Mr Hailong fled the country.

Accelerate agricultural supply-side reform [28 January/ China Daily] Supply-side reform was the main theme of China’s Central Document on Agriculture this year. Chinese President, Xi Jinping again repeated that the country should properly expand its demand, enhance structural reform of its supply systems, improve the quality and efficiency of its agricultural supply system and improve its economic growth sustainably. China’s cabinet also suggested the country refines its agriculture supply in a bid to expand domestic demand. Currently, China’s agricultural products do not satisfy domestic demand, resulting in structural imbalances in the supply of agricultural products. Chinese Rural Economics Research Center Director, Hongyuan Song said the supply-side reform will aim to increase the supply of major agricultural products, focusing on the quality and the effectiveness of their supply rather than solely seeking production increases. Mr Song added that the key to accelerating such reform is to improve the quality and efficiency of the agricultural products to satisfy consumer demands. Mr Song said that if there is to be an increase in the effectiveness and competitiveness of agricultural production, there needed to be an increase in technology and a reduction in the unreasonable use of fertilisers and pesticides.

Upper Midwest farmers transitioning to organic can get aid [30 January/ NZ Herald] The state governments of North Dakota and Minnesota have been helping farmers with the three-year transition from traditional to organic production. Both states have programmes which will assist farmers with transition costs, with Minnesota farmers being able to claim up to USD 750 annually, while North Dakota farmers can claim up to USD 1,000. The Organic Trade Association said that if the programmes take off beyond the Midwest, it could lead to an increase in the amount of organic crops grown in the United States. The Organic Trade Association is also pushing for an industry-led, government-administered certification program for organic farmers who are still in the transition phase, giving them more support. According to the United States Department of Agriculture, organic crops account for less than 1 percent of American farm land, while sales of organic products have increased from USD 3.6 billion in 1997 to around USD 40 billion in 2014. Organic Trade Association Senior Crop Specialist, Nathaniel Lewis said the supply and demand difference is being made up by imports and provided an opportunity for American farmers.

UK dairy farmers to march on Downing St [31 January/ The Guardian] British dairy farmers are planning to march on Downing Street to protest about the sharp fall in the price they receive for milk. The National Farmers Union said dairy producers were facing a state of emergency after the price they received for milk fell by around 25 percent in one year. Supermarkets responded to the crisis by increasing the price they paid for milk. Farmers For Action has claimed that Tesco wanted to shift 200 million litres of milk from a co-operative owned by farmers to a privately owned company. Tesco has not yet confirmed the shift. Farmers For Action have asked thousands of farmers to join the march on Downing Street to show the government that the industry needs help.

FAIRR’s Alan Briefel: time to face up to factory farming [31 January/ Agri Investor] Farm Animal Investment Risk and Return Executive Director, Alan Briefel said the long-term risks of intensive farming of animals are becoming a sustainability issue for investors. Mr Briefel said there has been a dramatic shift to large scale, highly mechanised systems of meat production over the past few decades, and that over 70 percent of the world’s farm animals are being factory farmed. Mr Briefel explained that the overuse of antibiotics on factory farms means they are perfect breeding grounds for antibiotic resistant superbugs that could set back medical advances by years. Mr Briefel added that over 14 percent of global greenhouse gas emissions come from the livestock sector, so it is likely to be hit hard by the transition to a low carbon economy especially after the recent Paris Agreement.

Farmers and co-ops fearful of EU trade talks with Latin American trade bloc Mercosur [31 January/ Irish Examiner] Copa and Cogeca Working Party Beef and Veal Chairman, Jean Pierre Fleury claimed that ongoing bilateral free trade negotiations with the Mercosur trade bloc could have an adverse impact on the beef industry. Mr Fleury said there are serious problems with the market and the sector is fragile. Irish Farmers Association Livestock Committee Chairman, Henry Burns said recent European Commission analysis showed that a Mercosur deal would result in losses of EUR 7.8 billion for the agriculture sector. Mr Burns added that beef production in Ireland is based on environmentally sustainable grassland systems which are much more efficient than South America in terms of climate change and greenhouse gas emissions. Brazilian Foreign Trade Deputy Minister, Daniel Godinho said the deal could be signed in 2016.

Taxing backpackers will hit jobs and tourism, says farming group [1 February/ The Age] The federal government wants to implement higher income-tax bills for backpackers and people on working holidays in Australia. New rules announced in last year’s federal budget will scrap the tax-free threshold of AUD 20,000 from July. Under the new rules, they will have to pay 32.5 percent of their income in tax up to AUD 80,000. The National Farmers Federation said taxing backpackers will hurt regional jobs and tourism, and have launched an online petition and social media campaign proposing to introduce a tax rate of 19 percent instead.

Animal welfare

Fonterra receives low ranking for animal welfare [29 January/ Radio NZ Rural] Fonterra has received a low rating for animal welfare standards and reporting in the recent Business Benchmark on Farm Animal Welfare report. Fonterra was ranked in tier four, with one being the highest performing, and is behind groups such as Marks and Spencer, McDonalds, Sainsbury and Unilever. World Animal Protection Regional Agricultural Director, Rob Gregory said the ranking indicated that Fonterra was making progress in putting in place animal welfare processes and procedures, but added that the co-operative needed to detail more of its work on specific animal welfare issues. Animal welfare concerns for the dairy industry include the use of antibiotics, humane slaughter, long-distance transport of animals and calf management. The report was created to encourage companies to increase their reporting on animal welfare.

Economics and trade

MPs break ranks on TPP [28 January/ NZ Herald] Labour MP's, Phil Goff and David Shearer have declared their support for the Trans Pacific Partnership, and could cross the floor of parliament to vote in favour of the deal. Former Labour Prime Minister, Helen Clark has also backed the deal. Labour has joined the campaign to oppose the deal on the grounds that it undermined New Zealand's sovereignty. Mr Goff said that every international agreement will lead to some loss of sovereignty and the TPP was no different to other deals Labour signed while he was Trade Minister in this regard. Mr Goff was critical that National did not write in an exception in the deal that restricted foreign investment into New Zealand's residential housing market. Labour Leader, Andrew Little said the party would support legislation that reduced tariffs, but opposed any measures that undermined sovereignty.

TPP tariff cuts add up for agri-sector: Forsyth Barr [30 January/ Otago Daily Times] Forsyth Barr Broker, Peter Young said New Zealand's agricultural exporters would benefit from the Trans-Pacific Partnership agreement. According to Forsyth Barr's Farm to Fridge report, the deal would result in tariff reductions of $262 million and provide limited quota access to key dairy markets. The report said that the top-end potential annual benefit for New Zealand was $445 million. Mr Young said that access to TPP markets could increase the volumes of key products and present higher value-add opportunities. Mr Young said that the agreement's potential value was estimated at $310 million in year one, growing to $670 million by year 15.

Industry lobbyists set out benefits of trade deal in letter to John Key [2 February/ NZ Herald] Business and industry group leaders have sent an open letter to Prime Minister, John Key showing their support for the Trans Pacific Partnership free trade agreement. The letter said the agreement will give New Zealand better access to globally significant markets, allowing the country to build on the $27 billion worth of goods and services exported to the member countries in 2014. The letter said that all of the country's major trade interests will benefit from the reduction or elimination of tariffs and non-tariff barriers. Dairy Companies Association of New Zealand Executive Director, Kimberley Crewther said that while the deal was less than the dairy sector hoped for, there were gains resulting from the agreement. The association estimated that the agreement will result in an initial dairy quota increase of around 80,000 tonnes, expanding to 180,000 tonnes after 15 years. New Zealand International Business Forum Executive Director, Stephen Jacobi said that as a collective opportunity, the agreement is bigger than the China free trade agreement. The letter was signed by the heads of Beef + Lamb, New Zealand Winegrowers, New Zealand Forest Owners Association as well as several other industry leaders.

Farmers and producers

OIO approves $47m dairy farm sale [1 February/ Radio NZ Rural] The Overseas Investment Office has approved the sale of five neighbouring Southland dairy farms, totalling 1,206 hectares, to Dairy Farms NZ Limited for around $47 million. Dairy Farms NZ Limited is 55 percent owned by a Chicago-based company, 5 percent owned by overseas investors and the rest by New Zealand investors. The five interlinked farms milked a total of 3620 cows and produced nearly 1.5 million kilograms of milksolids last year. Dairy Farms NZ Limited said it planned to develop the farms to maximise milk production, with a significant increase in cow numbers. The Overseas Investment Office also approved the $11 million sale of a 770 hectare dairy sheep operation to Chinese 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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