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AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

25 January 2012

Organisations referenced in this week's Field Notes include:	
BNZ	New Zealand Winegrowers
Bright Dairy Group	Otago University
Commerce Commission	Overseas Investment Office
ExportNZ	PGG Wrightson
Federated Farmers	Pipfruit New Zealand
Fonterra Co-operative Group	Proand
GrowHow	Pure Hawke's Bay
Hawk Packaging	Real Estate Institute of New Zealand
Kiwifruit Vine Health	Robert Wiseman Dairies
KPMG	Shanghai Pengxin Group
Landcare Research	Statistics New Zealand
Landcorp Farming	Synlait Milk
Ministry of Agriculture and Forestry	University of Otago
Muller	Zespri
Natural Dairy (NZ) Holdings	

This week's headlines	
Horticulture	**MAF pushed to explore China link to Psa harder**[23 January/ New Zealand Farmers Weekly]
Viticulture	**Wine Industry report's recommendations are getting quick action** [23 January/ New Zealand Farmers Weekly]
Dairy	**Milk price monitoring under plans to rein in Fonterra** [24 January/ Business Day]
Crafar Farm sale process	**Legal challenge looms if Chinese win Crafar farms** [19 January/ Business Desk]
Environment and emissions	**Issues on both sides of the fence over lifestyle land** [24 January/ Business Day]

Agribusiness strategy

Look at Asia says KPMG [24 January/ Rural News] With Europe facing the increasing possibility of a widespread recession, New Zealand exporters would be well advised to consider their potential in Asian markets, KPMG's head of agribusiness Ian Proudfoot says. High-value exports to Europe are likely to take a hit after rating agency Standards & Poor's downgrade of nine Euro-zone countries, he warns. In contrast, New Zealand's exports to Asia are general commodities and we need to look at ways to derive greater value from them, as money tightens in Europe. With the French Government facing a higher cost of debt and Greece being asked to implement even more drastic austerity measures, the likelihood of some degree of global recession in 2012 is heightened. Mr Proudfoot says the extent to which New Zealand is affected will depend greatly on how effectively "domestic demand in Asia (particularly China) continues to drive growth in this region as demand for goods in Europe falls".

Urgent need for industry strategy [24 January/ Rural News] New Zealand is in urgent need of an all-encompassing primary sector strategy or risk being left behind by other countries, says Ian Proudfoot, head of agribusiness at KPMG. This subject has engaged KPMG since the release last year of its report 'Agribusiness Agenda 2011 – Realising Global Potential'. Unlike tourism, where the industry has been successful in implementing a national industry-wide strategy, "agriculture has a number of strategies that sit there, but they don't link together", Mr Proudfoot says. We need to be focusing on where we want New Zealand's primary industry to be in 50 year's time, and what paths will need to be taken to achieve that. Any strategy would have to be Government-led, and with the appointment of David Carter as a Minister of Primary Industries and the likely rebranding of MAF, the time is right for change. Other countries, such as Chile, are already beating us with coherent and ambitious targets within an overall primary industry strategy. A strategic vision, however, must look beyond dominant players such as Fonterra to work for all the components of the primary industry, he added. While New Zealand is good at producing high quality protein, products such as milk powder must be globally marketed as a solution rather than a commodity. Mr Proudfoot concluded that in order for New Zealand to maintain its lifestyle, "the challenge is to be more than good; we've got to be exceptional".

Horticulture

MAF pushed to explore China link to Psa harder [23 January/ New Zealand Farmers Weekly] Work by leading Otago University geneticist Dr Russell Poulter showing that Psa-V bacteria is "virtually identical" to one found in China's northern Shaanxi province has provided evidence that the vine disease may have originated in China. Previously there had been suspicion by many in the industry that the disease had originated in Italy, due to the close ties between the industries in the countries, but this possibility has been ruled out by Dr Poulter's research. In previous reports released by MAF, the agency largely discounted a Chinese connection, due to the fact that it has not reported Psa-V, but its authors note that if it was to confirm having the virus then its status should be reviewed. Dr Poulter highlights the genomic make up of the Chinese Psa strain was almost identical to the NZ strain while the Italian and NZ strains have unique sequences that rule out there being a link.

Fruit tray shortage after fire [23 January/ New Zealand Farmers Weekly] A devastating fire at the Hawk Packaging plant in Hastings has destroyed around half of the apple packaging trays required for this year's harvest, as well as the company's ability to produce more trays. The fire which occurred as the industry is gearing up for the start of the harvest has left pack-houses having to work quickly to source alternative supplies. The other producer in New Zealand, Huhtamaki, has already put on extra shifts at its Otahuhu plant and is trying to source product from other group factories. Hawk Packaging produced moulded fibre trays for apples and eggs from recycled paper.

Wet weather increases PSA spread [24 January/ Radio NZ Rural News] Wet weather at the start of January has accelerated the spread of the Psa vine disease according to Kiwifruit Vine Health (KVH). KVH General Manager, John Burke, said that the rain has introduced Psa into a number of gold orchards that had been expected to produce a crop this year. He added the agency will have a fuller picture of the impact of the rain once it has completed a regional update of kiwifruit growing areas. Mr Burke indicated that current information indicated that the gold kiwifruit harvest could be down by 50 per cent, or 15 million trays, but the estimates for the 2012 crop season wouldn't be released until February.

Zespri says growers have planted 'illegal' gold fruit [24 January/ Business Day] Zespri has raised concerns that its intellectual property is being violated by kiwifruit growers who are 'illegally' planting its experimental new G3 Gold kiwifruit variety (a cultivar that is showing promising signs of resisting the Psa vine disease), but has yet to be licensed for use by growers. Zespri said that if the G3 variety passes its trials, then there will be an industry wide discussion of how any release is handled, in order to ensure a fair allocation to growers, providing the G3 cultivar continues to look promising. In February, Zespri spokesman, David Courtney, said a paper would be developed for the company's board on expected volumes and proposed licensing arrangements.

Rain destroys Central Otago cherries [24 January/ Radio NZ Rural News] Heavy rain in Central Otago has hit growers in the region hard for the second season in a row. The rain is expected to destroy around half of the 300 tonnes of exports worth $50 million from the region. Many growers would end up abandoning entire blocks of cherries as it wasn't economical to pick them, choosing instead to leave them to the birds. However, apricot growers were more fortunate as they could still harvest bruised apricots, which although not up to export standard, could be sent away for processing, costing money but allowing the growers to recoup some value.

No rush to WTO over apple ban [24 January/ Rural News] The government and apple growers are giving Australian authorities time to deal with the recent ban on apples announced by Tasmania, and will not be simply "rushing off to the WTO", which last year overturned Australia's 90-year ban, Trade Minister Tim Groser said. New Zealand Ministry of Trade officials have been in contact with their counterparts in Canberra since Tasmania's state government made its announcement earlier this month. Mr Groser is confident the commitment made by the Australian Federal government will be honoured "sooner rather than later". New Zealand apple growers have exported 150 tonnes to Australia since the ban was overturned late last year. Pipfruit New Zealand chief executive Peter Beaven is content with the patient approach taken, but fears if Tasmania gets away with the ban, other larger states like Victoria and New South Wales may follow suit.

Viticulture

Wine Industry report's recommendations are getting quick action [23 January/ New Zealand Farmers Weekly] The New Zealand Winegrowers board has been quick to adopt the changes recommended in a strategic review of the industry completed late last year. The report, released shortly before Christmas, made recommendations on 10 different areas including longer term governance. The board has already consulted its members on the recommendations in a series of regional workshops with most of the feedback being positive, although there was some concern by members over the timeline for implementation. The speed with which the board has acted has been praised, as many primary industry organisations often struggle with implementation of recommendations in strategic reports.

Fisheries and aquaculture

MAF move on seaweed farming not enough – marine farmer [24 January/ Radio NZ Rural News] Roger Beattie, who is involved in mussel and paua farming, as well as kelp harvesting, has said that MAF hasn't gone far enough in its decision to allow farming of undaria (also known as Japanese kelp) from marine structures. MAF permits the farming of kelp from marine farming structures in small regional pockets around the country but continues to disallow farming of it from natural surfaces. After accidentally being introduced into New Zealand waters in the 1980s, undaria is now widespread around most of New Zealand's eastern and southern coastlines. Despite still being designated an unwanted organism, MAF has recognised that it has some commercial value, both as a fertiliser as well as a protein source.

Dairy

Auction dairy price rise 'solid result in fickle world' [19 January/ NZ Herald] BNZ economist Doug Steel believes the outcome from the latest Fonterra auction is a solid result in an uncertain world. After two consecutive decreases, the average price for a basket of dairy products has risen by 1.5 per cent in the most recent auction on Global Dairy Trade's online platform. A total of 31,026 tonnes of product were sold, with an average price of US$3,701 ($4,609) per tonne. BNZ holds the view that prices will fluctuate around the current range for the first half of the year, with a mild upwards bias in the second half of the year, and hope the trend will continue into 2013. One factor which could influence the price is a United States farm bill to be negotiated this year, which may affect US subsidies.

Fonterra breaks export record [19 January/ NZ Herald] December was a record month for Fonterra, who report to have shipped 246,000 tonnes of dairy products, with a value of $1.3 billion, surpassing its previous record of 229,000 tonnes shipped in March last year. Gary Romano, director of Trade and Operations at the diary giant attributed this to a good autumn and a mild winter, which led to optimal grass growing conditions. "This helped create a wave of milk up about 10 per cent on a daily basis during the peak flow in late September through to November" he added.

Milk price monitoring under plans to rein in Fonterra [24 January/ Business Day] Competition watchdog the Commerce Commission will annually monitor milk pricing in New Zealand under a range of new proposals announced yesterday by the government to rein in Fonterra's market power and restore public confidence in the milk market. Minister of Primary Industries David Carter said Fonterra, which controls about 90 per cent of the raw milk market, would also be required to publicly disclose information about how it sets its milk price and it would have to sell 200 million litres more milk a year at a regulated price to other dairy companies. A draft Bill would also include changes which would enable Fonterra to progress with its proposed trading among farmers scheme should it choose to. Outgoing Fonterra chairman Sir Henry van der Heyden said the proposed changes will not work and will see New Zealanders subsidising increasingly foreign-owned dairy processors.

Meat

Manawatu firm lands Russian deal [17 January/ Business Day] Fielding based global meat plant designer, Proand, has won a contract to design a new meat processing plant in Russia. The plant will be located near Moscow and provide a high tech lamb slaughter and processing plant with a capacity of one million lambs per year. There are plans for a feedlot to be built next door, and the plant would use robotic machinery for killing, cutting and boning. This will allow the Russian owners to achieve their goal of having less people involved in the process. Proand's Michael Nidd said that the company received support from New Zealand consular officials, including the NZ Trade and Industry mission in Hamburg, Germany. The plant will bring together various robotic technologies used at factories around New Zealand in a unique way, making it one of the most automated plants ever built.

Wool

Doubts wool will make a comeback [19 January/ Southland Times] Doubts have been cast over Federated Farmers' claims that wool could make a comeback. There has been a 31.5 per cent increase in the export value of wool compared to last year, with wool being referred to as New Zealand's "sleeping export dragon". However, Statistics New Zealand had a less positive outlook on the future of wool exporting in New Zealand. Although wool used to account for a quarter of New Zealand's export earnings, now it only counts for 2 per cent. There has also been a large shift in the export value of wool relative to meat, with wool in the past making up 71 per cent of the sheep's relative export value, and meat making up 29 per cent. By 2010, that figure had dramatically reversed; with wool comprising just 16 per cent of the sheep's export value, and meat, 84 per cent.

Wool prices dip as supply rises [12 January/ Business Day] PGG Wrightson Wool General Manager Cedric Bayley has blamed a number of factors for the recent drop in wool prices, including an increase in supply, a strong New Zealand dollar and weakness in international economies. The most recent sale in Christchurch this week saw prices for good 31-35 micron crossbred fleece dip 1 to 2 per cent, with poorer fleeces down 3 to 4 per cent. It has been apparent from recent sales that manufacturers are buying when wool is needed rather than for stock. Mr Bayley had a positive outlook on the future, despite recent price drops with coarse wool being in short supply around the world. Over the previous year, New Zealand wool prices have virtually doubled, partly due to declining sheep population.

Crafar Farm sale process

Legal challenge looms if Chinese win Crafar farms [19 January/ Business Desk] A New Zealand consortium rivalling the Shanghai Pengxin Group's bid for the Crafar farms, led by merchant banker Sir Michael Fay and Maori investors, has threatened to seek a judicial review if the Overseas Investment Office (OIO) recommends in favour of the $210 million offer by Pengxin to purchase the 16 farms formally run by the Crafar family. The OIO has already rejected one overseas bid after they deemed it had failed the "good character" test. The Fay consortium hope to gain clarity over how the OIO reached its conclusion as they believe that as Pengxin doesn't run dairy farms, they don't meet the requirement of having "business acumen and experience relevant to the investment". This is something Pengxin intends to side-step by appointing state owned farmer Landcorp to manage the properties on its behalf.

Third arrest over failed Crafar farm bid [20 January/ Business Day] A third person has been arrested in relation to Natural Dairy (NZ) Holdings' failed bid to buy the Crafar farms in 2010. It is alleged that New Zealand resident Eric Yee, a Singapore national also known as Yee Wenjye conspired with May Wang and her business partner Jack Chen to purchase the Crafar farms and onsell them at a profit. Eric Yee worked with Ms Wang and Mr Chen to falsify the earnings of the Crafar farms, turning a NZ$30 million loss into a NZ$18.5 million profit, using fake documents. Ms Wang has appeared in a Hong Kong court, and has been accused of paying bribes worth HK$73 million to Mr Chen.

OIO Crafar call imminent [20 January/ Business Day] In a change from its previous position of not being drawn on whether it would make the deadline, a spokesman for the Overseas Investment Office (OIO) has said that after recent developments it will have a recommendation for cabinet ministers Maurice Williamson (Land Information Minister) and Jonathan Coleman (Associate Finance Minister) as to whether Chinese company Shanghai Pengxin should be allowed to purchase the Crafar farms before the receiver's deadline of January 31. This is the deadline by which Shanghai Pengxin must make its offer unconditional or forfeit its purchase.

Environment and emissions

Fountain of effluent greeted visiting officers [17 January/ Business Day] Russell Anderson, a dairy farmer and one of two directors of Marypark Farms has been sentenced to six months community detention and 150 hours community service by an environment court judge in the Palmerston North District Court in response to charges laid by the Horizons Regional Council. Offences included having an offal pit, an unconsented feed pad, and allowing animal effluent to run into a drain. Council officers delivered abatement notices and attempted to provide the couple with help, but their efforts were unsuccessful. Marypark Farms was wound up last year at a loss, hence the lack of a fine, and the judge was critical of Mr Anderson's conduct and lack of remorse, and this was taken into account upon sentencing.

Farms and producers

Soy shows way to GMO free [19 January/ Hawke's Bay Today] Hastings soy bean grower Scott Lawson says that declaring Hawke's Bay a GMO (Genetically Modified Organism) free region is just plain business sense, due to the international demand for GMO free products. Due to 80 to 90 per cent of the US crop being GMO, it makes it difficult for companies such as Heinz Watties and McCain to find GMO free product, he added. GMO products command a price premium, and lobby group Pure Hawke's Bay, of which Mr Lawson is a member, have appealed to local councils to make a stand on the issue. However, Hawke's Bay Chamber of Commerce chief executive Murray Douglas said that some growers may benefit from GMOs, so it was an issue that needed to be considered further.

Canterbury leads as farm sales climb 66% [21 January/ NZ Herald] The December quarter saw farm sales climb 66 per cent, with growth being led by the Canterbury region, and assisted by a number of offshore investors finally receiving approval from the Overseas Investment Office (OIO). The average price per hectare for the quarter was at $20,445, down $3,230 from the quarter before. Brian Peacocke, rural market spokesman for REINZ said "vendors with high price expectations are revising their sales in strategies to gain traction with purchasers, a situation that is not expected to change in the short term."

Issues on both sides of the fence over lifestyle land [24 January/ Business Day] Crown Research Institute Landcare has released new research claiming that lifestyle blocks occupy 148,000 hectares or about 10 per cent of New Zealand's most productive farmland. The report also called for a national policy with the goal of ensuring that valuable farmland wasn't being lost to lifestyle blocks, and claimed current regional policies were not working. Federated Farmers local government spokesman David Rose was sceptical of the ability of national guidelines to be flexible enough for district councils to form policies specific to their region, due to the wide variety of situations throughout the country. Many district councils, such as the New Plymouth District Council, and the Mackenzie District Council have already taken steps to curb farmland subdivision, but this has been met by opposition from landowners claiming it is too restrictive.

Economics and trade

Exporters missing out on boom in china [23 January/ NZ Herald] BNZ chief economist Tony Alexander has criticised exporters for not doing enough the take advantage of the booming Chinese market. He claimed New Zealand exporters weren't willing to put in the ground work needed to succeed in China, instead preferring to "sit back and hope that things are going to come their way." Although export growth in primary sectors has been strong, exports of non-primary goods to China have only grown 9 per cent over the past 3 years, and of New Zealand's $4.8 billion of annual exports to China, only $1.8 billion came from products other than dairy and wood. ExportNZ executive director Catherine Beard said that there were costs involved in travelling to new markets, which could be expensive for small to medium businesses.

International

Muller to buy Robert Wiseman for £279m [16 January/ Financial Times] Aggressive milk price wars have helped push Robert Wiseman Dairies, supplier of one-third of Britain's fresh milk, into the arms of German dairy group Muller. The Scottish dairy producer announced last week it had agreed to sell the company for £279 million (NZ$540 million), with Bavaria-based Muller paying a 60 per cent premium on the company's Thursday stock price. Talks between the companies began last October, as an extremely competitive UK market combined to cast long-term doubts over Wiseman's ability to achieve previous levels of profitability. Separately, Wiseman warned that rising fuel costs and low bulk prices were likely to further impact its business through March. A source close to the deal said that Muller would welcome Robert Wiseman's continuing involvement in the company, which would likely maintain its business in East Killbride and keep its management team in place.

Agriculture and climate change, revisited [19 January/ NY Times] A group of experts led by John Beddington, the chief science adviser to the British government, is issuing a call for renewed research and advocacy regarding the future of the world's food system. This call, to be published as an opinion piece in the journal Science, is a direct reaction to the failures of delegates at Durban (the venue of the latest big global climate session) to adopt a formal program on climate change and agriculture, an idea that has been on the table for several years and was promoted this year by Jacob Zuma, the South African president. The delegates did an agree to negotiate new, global limits on greenhouse gases by 2015, but declined to bring agriculture into the climate decision-making in a formal way, with objections coming from assorted countries for several reasons – including the sheer difficulty of monitoring greenhouse gas emissions on millions of farms. Regardless, the authors of the Science piece would like to see agriculture become a formal part of the treaty negotiations, presumably with binding national goals on farm performance. The piece recommends intermediate steps from the scientific community that could help lay the groundwork for such a program.

MEP calls for action on UK fertiliser 'monopoly' [20 January/ Farmers Guardian] Scottish MEP George Lyon has urged the European Commission to take action against the dominant position of fertiliser giant GrowHow in the UK market. GrowHow is 50 per cent owned by its biggest competitor Yara, the largest fertiliser manufacturer in the world (the other 50 per cent is owned by CF Industries, the largest manufacturer of nitrogen-based fertilisers in North America), effectively creating a monopoly in the UK fertiliser market. Mr Lyon is calling on the Commission to conduct a thorough investigation of the market, recognising that fertilisers are one of the largest inputs farmers require and highlighting the need for "a transparent and competitive market to enable them to buy it at a reasonable price". GrowHow marketing manager Ken Bowler rejected the claim the company operated as a virtual monopoly, suggesting it accounts for up to 30 per cent of the market. He added that the UK accounts for less than 1 per cent of global fertiliser consumption, implying that as a market it was merely a price-taker on a global scale.

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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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