Land Information New Zealand
Toitū te whenua

Briefing: Overseas Investment Office – Milk New Zealand Holding Limited – further information required

Date:	3 April 2012	Priority:	High
Deadline: 3 April 2011			

Purpose
The purpose of this briefing is to provide you with further information regarding the "average farmer spend" figures provided by Landcorp Farming Limited ("Landcorp"). This relates to an application made by Milk New Zealand Holding Limited to acquire freehold interests in 16 farms located in the central North Island collectively known as the "Crafar Farms" (refer Report/Case Number 1090/201120035).

Actions sought		**Deadline**
Associate Minister of Finance	Note the contents of this brief.	3 April 2012
Minister for Land Information	Note the contents of this brief.	3 April 2012

Recommendations

1. I recommend that you **note** the contents of this brief.

Annelies McClure
Manager, Overseas Investment Office

Date: / /

Noted **Noted**

Hon Dr Jonathan Coleman **Associate Minister of Finance**	Hon Maurice Williamson **Minister for Land Information**
Date: / /	Date: / /

Background

We refer to the "average farmer spend" figures set out in the table at paragraph 54 of page 18 of the "Report of the Overseas Investment Office on the application of consent by Milk New Zealand Holding Limited Case 201110035".

You have asked for further information on how Landcorp calculated the "average farmer spend" figures and whether they could be independently reviewed.

Calculation of "average farmer spend" figures

In response, the Overseas Investment Offices advises that the "average farmer spend" figures referred to in the third column of the table were provided by Landcorp on Tuesday 13 March 2012, as per the **attached** email.

In addition to that email, today we have consulted with Chris Kelly (Chief Executive Officer of Landcorp) who has provided us with the following further information as to how Landcorp calculated the "average farmer spend" figures:

1. Landcorp believes that it has significant experience, including ownership of 35 dairy farms, management of 50,000 dairy cows and experience in buying and selling of approximately 2-4 farms per year, and is therefore very well placed to calculate "average farmer spend" that is likely to occur on the 16 farms.

2. Landcorp considers that based on their experience, the "average New Zealand farmer" is unlikely to spend any capital on the following developments listed:

- Provision for Department of Conservation ("DOC");
- Planting/riparian/environmental;
- Offices; and
- Training facility.

3. Landcorp's opinion, based on their experience, is that an average farmer would not provide any provision for DOC and planting/riparian/environmental developments as there would be no requirement for them to do so. Further, in Landcorp's experience, a very small minority (if any) of farmers would have farm offices on their property outside their existing dwellings. In addition, Landcorp is unaware of any dairy training academies on private farms in New Zealand and therefore it is unlikely that another farmer would build such an academy.

4. In terms of the housing improvements and repairs, Landcorp has significant experience in selling and purchasing a number of farms (on average 2- 4 farms per year), and in their opinion, the standard of housing on the average farm is generally much lower than the "Farmpride" standard that Landcorp adheres to. Landcorp participates in a quality assurance programme called "Farmpride" which is externally audited every year to check whether the farms meet the required "Farmpride" standard. Landcorp has extensive experience in knowing the requirements to bring housing up to the "Farmpride" standard.

5. Regarding the races/tracks/drains category, in Landcorp's experience, the "Farmpride" standard is significantly higher than the average farmer. Therefore, Landcorp is likely to spend more than the average farmer on these matters.

6. With respect to the effluent spending, in Landcorp's experience, it is most likely that the average dairy farmer would only spend capital on effluent to ensure that the relevant regional council requirements were adhered to. Landcorp considers that the level of Landcorp's investment is likely to be higher because it takes into account future requirements for storage and/or land application systems, to enable future proofing and to ensure that the high "Farmpride" standard is met.

7. An average farmer capital expenditure on shed and plant upgrades is likely to be minimal. Landcorp's expenditure in this area is likely to be higher to ensure that the "Farmpride" standard is met and this includes use of latest technology.

8. More generally, Landcorp have advised that in their experience, a key focus for an average New Zealand farmer is the repayment of debt. The average New Zealand farmer has a debt to debt/equity ratio of 35-40%, in comparison, Landcorp has a debt to debt/equity ratio of 10.5%. In the case of the Milk New Zealand proposal, there will be no debt constraints impacting on capital expenditure.

9. In terms of necessary capital expenditure on the Crafar farms, Landcorp have commented at the very lowest end of the spectrum, $2.7 million (as indicated by the receivers) is all that is necessary for the sharemilkers to continue to run the farms.

Independent review

The Overseas Investment Office considers that it would be costly, time consuming and unhelpful to have the "average farmer spend" figures independently reviewed by an independent consultant. Given the significant work already undertaken, the Overseas Investment Office is comfortable with how the "average farmer spend" figures were calculated.

The application involves a complex farming system of 16 farms. The Applicant has already commissioned a 287 page report[1] from Perrin Ag Consultants, registered farm management consultants, (refer supporting material volume C annexed to our recommendation) which forms the basis of the capital expenditure to be undertaken by the Applicant. (Note, the Perrin Ag report does not represent the "average farmer spend", rather it represents a much higher standard). This report was undertaken prior to Landcorp undertaking due diligence of the 16 farms. As a result of this due diligence, Landcorp has required approximately $4 million additional capital expenditure to that identified in the Perrin Ag Report to bring the 16 farms up to "Farmpride" standard.

Further, the due diligence has given Landcorp specific knowledge of each individual farm, located in different regions, and is in a position to assess the "average farm spend" and the necessary expenditure required to bring them up to "Farmpride" standard.

Contacts for discussion (if required)

Name	Work phone	Mobile phone	
Annelies McClure - Manager Overseas Investment Office	[redacted]	[redacted]	1st contact
[redacted] – Senior Solicitor Overseas Investment Office	[redacted]	[redacted]	2nd contact

[1] We understand that the cost of this report exceeded $[redacted].