

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

15 July 2015

Organisations referenced in this week's Field Notes include:

Agricultural Technology Co	JD.Com
ArcView	McDonalds
Australian Taxation Office	Milk New Zealand
Ballance Agri-Nutrients	Ministry for Primary Industries
Bayleys Real Estate	Ministry of Business, Innovation and Employment
Beef + Lamb New Zealand	Miraka
Beingmate Baby and Child	MJIC
Biosecurity New Zealand	New Zealand Kiwifruit Growers Incorporated
Carrfields	New Zealand Winegrowers
Commerce Commission	PGG Wrightson
DairyNZ	Poseidon Asset Management
Elders New Zealand	Progressive Enterprises
Federated Farmers	Royal A-Ware
Fish & Game	Rural Livestock
Fonterra Co-operative Group	Shanghai Pengxin
Foodstuffs	Silver Fern Farms
Founders Fund	Su Cheng Foodstuffs
Goodman Fielder	TAG Oil
Landcorp Farming	Westland Milk Products
Lincoln University	

This week's headlines

Health and safety	Farmers, hunters collaborate on bill [13 July/ Radio NZ Rural]
Dairy	Norgate - visionary and deal-maker [8 July/ NZ Herald]
Dairy	New Fonterra partnership opens up \$2.7 billion market [9 July/ Business Day: NZ Farmer]
Environment and emissions	Emissions cuts deeper: Groser [8 July/ NZ Herald]
Poultry	McDonald's moves to free range eggs [13 July/ Otago Daily Times]

KPMG Publications

KPMG International's Global Consumer Executive Top of Mind Survey 2015 launched: To stand still is to fall behind KPMG's Global Consumer Markets practice is pleased to launch our third annual Global Consumer Executive Top of Mind survey. This survey was conducted jointly with The Consumer Goods Forum (CGF). The focus of this year's Top of Mind report – is on the hard-edged choices consumer organizations need to address in order gain the advantage they need to achieve their growth goals. By delving into six levers—classified as either drivers, enablers or potential derailers—the report identifies strategies most-likely to exert the most influence on a company's ability to grow revenues including:

- Building consumer trust and confidence
- Effective omni-channel and technology strategies
- Managing data security
- Adherence to corporate responsibility and sustainability agenda
- Knowing the end consumer
- Application of cross-functional supply chain strategies

To further explore the survey results, download the report or view the infographic visit www.kpmg.com/cmsurvey

Arable

Federated Farmers makes changes [13 July/ NZ Farmer Weekly] Federated Farmers have confirmed that its grains and seeds industry group is to be renamed to Federated Farmers Arable Industry Group. The new group will comprise of a chairman, the chair of the Foundation for Arable Research and three vice-chairs, each with a delegated responsibility for grains, seeds and forage. The council will meet bi-annually, with members being elected to delegated portfolios that best suit their skill set. Canterbury Arable Farmer, Guy Wigley will take over from Ian Mackenzie to become the group's new chairman. Bulls Farmer, Hew Dalrymple has been elected vice-chairman with delegated responsibility for maize and forage, while Canterbury Farmer, Colin Hurst has been elected vice-chairman with responsibility for seed issues. The third vice-chairman, in charge of grain issues, is yet to be confirmed. Birkett Farming Owner, David Birkett will continue his role on the executive as chairman of Foundation for Arable Research.

Viticulture

Organic and biodynamic wine consumption growing [9 July/ Business Day: NZ Farmer] New Zealand Winegrowers Chief Executive, Philip Gregan said more consumers are drinking organically grown New Zealand wine. Mr Gregan added that organic and biodynamic wine validates consumer's assumptions about New Zealand wine being clean and green. Wine Consultant, Monty Waldin also explained how organic wine plantings had increased globally, with the number of organic vineyards growing from less than 2 percent to more than 5 percent worldwide.

Apiculture

Governance skills a priority for new apiculture body [11 July/ Rural News] Federated Farmers Bee Industry Group Vice-Chairman, Peter Bell said it is vital the best people with the appropriate governance skills apply for positions on the Interim Apiculture Industry Governance Board. The working group is charged with the goal of achieving a fully inclusive, fully funded industry group structure that will provide a strong platform for the future growth and prosperity of the industry. Mr Bell said the new apiculture industry body should include more than just beekeepers and needs appropriately skilled representatives from different areas of the sector. The Governance Board is to establish the new group by 1 April 2016.

Health and safety

Farmers sign petition over H and S changes [9 July/ Radio NZ Rural] Farmers have started a petition to show the government that more consultation and common sense is needed in regard to changes to the Health and Safety Act. Sheep and Beef Farmer, Hugh Pearce, said farmers were not against health and safety changes, but were against the over-regulated and iron-fisted proposed approach taken by the government. Mr Pearce added that there has been a lack of consultation around the issue. The Ministry of Business, Innovation and Employment said farmers have had three opportunities to submit feedback on the changes, which aim to reduce workplace injury and death rates.

Farmers, hunters collaborate on bill [13 July/ Radio NZ Rural] Federated Farmers Health and Safety Spokesperson, Katie Milne, said farmers are worried that the proposed Health and Safety in Employment Amendment Bill would make them liable for accidents caused by recreational users of their land. Ms Milne added that the amendment needed to be tidied up around this issue to protect farmers. Fish & Game Chief Executive, Bryce Johnson, said the Bill needed to be clarified to preserve the existing understanding between farmers and those using their land for recreational purposes. Mr Johnson added that the current status quo should continue, and that farmer's only obligation should be to point out extraordinary hazards.

Horticulture

Kiwifruit industry weighs legal action [14 July/ Radio NZ Rural] New Zealand Kiwifruit Growers Incorporated President, Neil Trebilco said the group's members are free to join in with legal action to seek damages from the government for losses cause by the PSA vine disease. Mr Trebilco however, advised them not to as legal action could ruin the industry's relationship with the Government. The claim has been signed by 72 growers who are seeking a share of the \$885 million worth of damage that the government estimates was caused by the disease. Growers believed that Biosecurity New Zealand was negligent in allowing the disease to be introduced into the country.

Dairy

Fonterra eyes long-term guaranteed milk price deals [6 July/ Business Day: NZ Farmer] Fonterra is to entertain the possibility of offering longer guaranteed milk price contracts. Fonterra Head of Origination, Aaron Atkinson said numerous milk suppliers and current guaranteed milk price contract takers, such as Landcorp and Shanghai Pengxin, supported the idea of longer contracts. Milk New Zealand Chief Executive, Andy Macleod said the company would welcome contracts of two to three years. Mr Atkinson said that no expansion of the contract scheme was imminent, but is to be considered over the next six months. Mr Atkinson added that the company has a lot to figure out before any expansion can occur, such as how big the market for an extended guaranteed milk price scheme is.

Norgate - visionary and deal-maker [8 July/ NZ Herald] Former Fonterra CEO, Craig Norgate sadly passed away in London last week, with many former colleagues, competitors and friends celebrating his success. Mr Norgate was a key figure in the merging of Kiwi Cooperative Dairies and the NZ Dairy Group into Fonterra, and became the co-operative's inaugural CEO. Mr Norgate was widely known as a remarkable visionary, deal-maker, and one of New Zealand's most respected Chief Executives.

Disclose what Oz is costing us – Feds [7 July/ Dairy News] Federated Farmers Dairy Chairman, Andrew Hoggard said every farmer should know how much they are paying per kilogram of milksolids to support Fonterra's Australian operations. Mr Hoggard added that farmers know Fonterra has to pay a more attractive milk price in Australia to secure supply. Fonterra announced an opening milk price of \$6.30 per kilogram of milksolids for its Australian suppliers, compared to \$5.25 for its New Zealand farmer-shareholders. Fonterra Australia National Milk Supply Manager, Mark Watt said the Australian price was weighted towards the domestic market, where competition drive prices higher as processors retain supply, unlike in New Zealand where Fonterra is a price-setter and 95 percent of the milk is exported, exposing the price to global volatility. Mr Hoggard said farmer-suppliers need to see more returns from overseas milk pools.

Beingmate shares suspended on China exchange [9 July/ NZ Herald] Beingmate Baby and Child shares have been suspended from trading amid the turmoil that has affected Chinese stock markets. Bloomberg reported that around 1330 firms on both the Shanghai and Shenzhen stock exchanges have halted trading to avoid volatility. The company's stock price tumbled 32 percent from the 18 yuan per share price Fonterra paid for its 18.8 percent investment. The price fall has wiped \$270.8 million of the value of Fonterra's Beingmate shareholding. The stock market crash in China had wiped more than USD 3.5 trillion of the value of both Shanghai and Shenzhen-listed stocks by the middle of last week.

New Fonterra partnership opens up \$2.7 billion market [9 July/ Business Day: NZ Farmer] Fonterra has opened its first wholly owned and operated ingredients plant in Europe. Partnered with Dutch cheese manufacturer Royal A-ware, the plant is to process whey and lactose, increasing Fonterra's ability to access a whey protein and lactose market which was worth more than \$2.7 billion in 2014. Fonterra Chief Executive, Theo Spierings said the site was integral to the company's long-term strategy of building global milk pools.

Fonterra's rivals tell DIRA review there is insufficient competition for dairy industry deregulation [14 July/ NZ Herald] Competitors of Fonterra have claimed that there is still insufficient competition to deregulate the industry, with rivals wanting the status quo or tighter regulations. Westland Milk Products said that Fonterra's actions in response to competition, such as locked-in long-term supply agreements highlighted that the co-operative will use its position of dominance to restrict competition. Miraka believed the current Dairy Industry Restructuring Act competition thresholds should be lowered from 80 percent to 75 percent before deregulation is triggered. Federated Farmers said that all processors should be treated the same whether they have their own supply or not and that farmgate competition would be increased by limiting this access to three years. Federated Farmers added that the rule allowing Fonterra suppliers to divert up to 20 percent of their daily milk supply to independent processors should be either dropped, changed to a volumetric limit. Goodman Fielder said continued regulation was required to retain downstream competition, with independent processors unable to guarantee year-round supply of milk of the scale it required.

Red meat

B+LNZ undecided on marketing [13 July/ NZ Farmer Weekly] Ahead of the upcoming sheep and beef levy referendum, Beef + Lamb New Zealand said that it is to keep meat promotion within its budget, even though processing companies rejected a proposal for a joint in-market promotion scheme. Beef + Lamb New Zealand Chairman, James Parsons, said promotion was kept within the budget to allow it to be thought through strategically and within an appropriate time frame. Mr Parsons added that after the levy vote the organisation is to discuss with farmers their views about promotion. Mr Parsons said the upcoming referendum is to know whether farmers want an organisation to act on their behalf, and how it is to be funded. Voting will begin in September, and will be open to all sheep, beef and dairy farmers registered on the Beef + Lamb New Zealand roll.

SFF could go it alone – but won't [13 July/ NZ Farmer Weekly] Silver Fern Farms Chief Executive, Rob Hewitt, said the co-operative had turned a corner financially and could continue without additional shareholder funds, but that was not its preferred option. Mr Hewitt added that if new funds are not acquired, dividend flows and growth opportunities around profitable products would be constrained. Silver Fern Farms' have lowered its debt from \$388 million to \$288 million at the end of the previous financial year. Mr Hewitt hoped existing shareholders would feature in any new equity, which would be used to further reduce debt, invest in plants and invest in the company's growth strategy, which includes the roll-out of its branded retail packs in overseas markets.

Bison-beef cattle cross gives beefalo [13 July/ Otago Daily Times] A beefalo has arrived at a Southland farm, with the expectation of it being the start of a local beefalo blood line. Southland Farmer, Blair Wisely said the beefalo was a product of artificial insemination, as cattle and bison do not naturally interbreed. Mr Wisely said beefalo was nutritionally better than beef and pork because it was leaner and higher in protein. A Central Washington University study found that beefalo was the only red meat to lower cholesterol. Mr Wisely said beefalo marketing was still in its infancy, with only a few cuts being sold to local buyers.

Rural infrastructure

ComCom to file court proceedings against Wrightson, Elders, Rural Livestock over price fixing [7 July/ NZ Herald] The Commerce Commission is to file court proceedings against PGG Wrightson, Elders New Zealand and Rural Livestock by August. The commission claimed the three companies fixed fees charged during the adoption of the National Animal Identification and Trading Act 2012. If convicted, the companies could be hit by a maximum penalty that is the greater of \$10 million, three times the commercial gain, or 10 percent of turnover.

Ballance Agri-Nutrients calls for tenders on South Taranaki urea plant [10 July/ Business Day] Ballance Agri-Nutrients has called for tenders for the redevelopment of its South Taranaki urea plant. Ballance Chief Executive Mark Wynne, said while the current plant runs efficiently, the tender process offered the company the chance to invest in new technology to sustain globally competitive production into the future. Mr Wynne added that the new plant would see benefits such as superior health and safety measures, and more efficient technologies employed to turn natural gas into ammonia. If the project is undertaken, the board must submit the proposal for shareholder approval.

Carrfields takes Canterbury farming portfolio to international level [13 July/ Business Day: NZ Farmer] Carrfields Managing Director, Craig Carr said the company is aiming for a turnover of around \$500 million within five years-time. The company has recently acquired stock and station company, Elders NZ, a deal which Mr Carr highlighted as a chance for the company to become a national player with a global business. Mr Carr said the company has grown fast within the past 18 months, with turnover rising from \$120 million to more than \$200 million. Mr Carr added that the company's recent growth had been by acquisition, and that there were still opportunities to buy more businesses.

Environment and emissions

Emissions cuts deeper: Groser [8 July/ NZ Herald] The government is to take a highly conditional pledge to cut New Zealand's greenhouse gas emissions to 11 percent below 1990 levels by 2030. Climate Change Minister, Tim Groser said the target is expressed as a cut of 30 per cent from 2005 levels, making the approach more comparable to that of the United States and Canada. Mr Groser added that the target is a significant increase from the government's current target of 5 percent below 1990 levels, by 2020. Green Party MP Kennedy Graham said a more significant cut was needed. The target is to cover all sectors and all greenhouse gases, and does not exclude agricultural emissions, however it will be hedged with various conditions. Mr Groser said the government will adopt policies to ensure the target is met, and will also review the current emissions trading scheme.

Survey shows \$1billion environment investment [14 July/ Dairy News] A joint survey conducted by Federated Farmers and DairyNZ has revealed that New Zealand dairy farmers have spent over \$1 billion on the environment in the last five years. The main investments included initiatives such as effluent management, stock exclusion, riparian planting, upgrading systems and investing in technology, retiring land and developing wetlands. Federated Farmers Dairy Chairman, Andrew Hoggard was encouraged that farmers have attempted to protect and improve the environment, with the average farmer spending around \$18,000 per year on environmental investments. DairyNZ Chief Executive, Time Mackle said the survey was just the start of tracking farmer's environmental investments. Around 500 farmers responded to the survey.

Research and development

\$7.3 million for pasture project [11 July/ Otago Daily Times] The industry-led, Pastoral Genomics research project has been boosted by a \$7.3 million government investment. The project is aimed at improving pasture grasses that will increase productivity, profitability and environmental sustainability of New Zealand's pastoral farming systems. The partnership between DairyNZ, Beef + Lamb New Zealand, Grasslands Innovation, NZ Agriseeds, DEEResearch, AgResearch and Dairy Australia will use non-regulated biotechnologies to help progress breeding and commercialisation of high-performing forages for grazing livestock. Science and Innovation Minister, Steven Joyce said the investment is expected to boost the sustainability of New Zealand pastoral farms, and increase the value of exports by the sector.

Biosecurity

Mexican grapes pulled from shelves after venomous spiders found [8 July/ Business Day] Foodstuffs and Progressive Enterprises stores have pulled all Mexican grapes from their shelves, after the discovery of 10 venomous spiders. The Ministry for Primary Industry's identified five black widows, one brown widow and two yellow sac spiders within the grapes, with two others yet to be identified. Ministry for Primary Industries Manager of Surveillance, Brendan Gould said the matter is being taken very seriously, and is being investigated with appropriate measures taking place to tighten up the system. Mr Gould added that the spiders identified do not pose a risk to the horticultural industry. Canterbury Spider Expert, Cor Vink said the possibility of dying from a bite was slim, but that it would cause an extreme amount of pain. Mr Gould advised people who recently brought imported grapes to be on the lookout.

International

Increased ATO scrutiny regarding foreign investment in agriculture [29 June/ Hon Barnaby Joyce Media Release] From 1 July 2015, all foreign investors who hold interests in agricultural land, regardless of value, must register those interests with the Australian Taxation Office. The new register is to strengthen reporting requirements and provide a clear picture of foreign agricultural land ownership, allowing better scrutiny of future foreign land purchases. All existing holdings must be registered with the Australian Tax Office by 31 December 2015, with any new interests registered within 30 days. The tax office will collect information such as the location and size of property and the size of interest acquired on new foreign investment in agricultural land to develop a national register. The information is to be made public from 2016.

The legal marijuana industry: Silicon Valley meets Bob Marley [4 July/ The Economist] ArcView Chief Executive, Troy Dayton said the legal cannabis industry is the fastest growing industry in the United States, which is highlighted by his company's predicted sales of USD 3.5 billion in 2015, up from USD 2.7 billion the year previous. MJIC Chairman, Frank Marino said the continuing growth of confidence within the industry has seen the number of publicly traded marijuana companies to soar to over 200, from only a handful a few years ago. Capital flowing to the cannabis industry has also increased rapidly within the past year, highlighted by influential Silicon Valley venture-capital firm Founders Fund, investing in Privateer Holdings, which owns a stake in the emerging Marley marijuana brand. Poseidon Asset Management Founding Partner, Emily Paxhia said that most of the investors in the industry are wealthy individuals from around the United States, and not mainstream venture capitalists from California. Mr Dayton said the biggest risks to the industry are political, including referendums on legalisation and the upcoming presidential election.

Su Cheng Foodstuffs investigated over food fraud [6 July/ Global Meat News] Su Cheng Foodstuffs has been investigated by the police for using chemical additives and pig's blood to counterfeit beef. The police investigation is expected to lead to a trial of the company's boss, wife and seven workers. Agricultural Technology Co Spokesman, Anhui Lu Xin said the news of fake beef is not unusual in China, as many smaller restaurants doctor meat, selling it as beef to make higher profits. Changzhou's daily newspaper questioned whether corruption was the cause of incompetence of authorities to detect fake-meat firms such as Su Cheng Foodstuffs.

Omega-3 breakthrough could help fish farms: UK scientists [9 July/ Agence France Presse] British researchers have discovered that omega-3 fish oils can be grown using genetically modified oilseed crops, eventually allow for a more sustainable supply of fish oil for fish farms. Rothamsted Research Programme Leader, Professor Johnathan Napier said the discovery will help develop sustainable sources of feed for fish farms.

Agribusiness strategy

China food opportunity goes begging [13 July/ Business Day: NZ Farmer] Lincoln University Honorary Professor of Agri-Food Systems, Keith Woodford said New Zealand has a prime opportunity to establish an online mall to sell food to Chinese buyers, but the government needs to act fast. Mr Woodford believed the best way forward was for all New Zealand marketers to work together to create a one-stop-shop for Chinese online purchases, and that the government has a key role to play due to many food companies being too small to go it alone. Chinese web-portal, JD.com has recently begun work to set up an Australia Mall on its website. Mr Woodford said that while an exclusive opportunity may have been lost because of the Australian Mall partnership, New Zealand could attempt to do the same by opening up its own New Zealand Mall, selling products such as milk, meat, fruit and wines.

Poultry

McDonald's moves to free range eggs [13 July/ Otago Daily Times] McDonald's is to introduce free range eggs in all of its New Zealand outlets by the end of 2016. The move means the company will buy around 9 percent of all free range eggs sold in New Zealand annually. McDonald's New Zealand Managing Director, Patrick Wilson said an 18 month rollout has been coordinated to ensure it was sustainable for egg suppliers.

Farmers and producers

Oil drilling 'nightmare' drives out rural couple [8 July/ Business Day: NZ Farmer] Taranaki Farming Couple, David Morrison and Sarah Roberts warned farmers of the risks of granting approval for oil companies to drill wells on nearby properties. Mr Morrison said three well sites of up to 40 wells were drilled within a one kilometre radius of his property causing ongoing noise, light, repulsive smells, ongoing flaring and vibrations in the ground. Mr Morrison said the couple were approached in 2005 by Astral Pacific consultants, then in a joint venture with TAG Oil, looking for written approval to explore for oil near their farm, without knowing there was a plan to produce from six wells. Mr Morrison added that neither the oil company nor the council had provided information, with both taking advantage of the couple's inexperience. Mr Morrison advised farmers to reject any attempts for written approval as it allows for more protection. TAG Oil Country Manager, Max Murray said the company strived to be a safe and considerate neighbour, and that it has a positive relationship with the majority of landowners it has engaged with.

Dairy NZ offers pointers [9 July/ Otago Daily Times] DairyNZ has created an online resource, which includes in-depth budgets from top-performing dairy farms, to help struggling farmers cope with lower milk prices. Economic modelling showed farmers could recover from low prices three to four years faster, if they could decrease potential losses by up to \$1 per kilogram this season. DairyNZ General Manager of Research and Development, David McCall said farmers could recover from low milk prices quicker by spending on the right things and implementing good budgetary control of costs. Mr McCall added that many of the top-performing farms have improved in their farm systems and have built resilience. Budgets gathered showed farms throughout the country with a cost of production of below \$3.50 per kilogram.

Fall in payout having little effect on rural property prices [14 July/ Business Day: NZ Farmer] PGG Wrightson Waikato Real Estate Manager, John Sisley said the fall in dairy payout had little effect on rural land values, as the amount of farm sales in 2015 almost equalled those in 2014. The average dairy farm price in the Waikato had also increased to \$41,260 per hectare, from a 2014 average of \$39,500 per hectare. Mr Sisley said there was an increase in the amount of older farmers who have decided to sell, many of them looking to cut losses. Bayleys Country Sales Manager, Simon Anderson said there was no indication that prices had declined. Mr Anderson added that good farm's will be well sought after, no matter the payout prices.

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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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