

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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

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**Organisations referenced in this week's Field Notes include:**

Asciano	Ministry for Primary Industries
Brookfield Infrastructure	National Institute of Water and Atmospheric Research
Carrfields Group	New Zealand Institute of Economic Research
CBH Group	OMF
Central Plains Water	Property Brokers
Clean Seas Tuna	Real Estate Institute of New Zealand
Coca-Cola	Rockefeller Foundation
Comvita	Rural Health Alliance
Convergex	SeaDragon
Egg Farmers Australia	Seal Air Corporation
Federated Farmers	ShearWarmth Wool Blankets
FishOnline	Synlait Milk
Fonterra Co-operative Group	Trust for America's Health
Free Range Producers of South Australia	Western Isles Fisherman's Association
Kaika Energy	Women of Influence
Kaikorai Valley College	World Economic Forum
KPMG New Zealand	World Water Council
Marine Conservation Society	Wynnstay Group
McDonald's	

**This week's headlines**

New KPMG New Zealand Thought Leadership	<b>Fonterra's profits tipped to soar</b> (24 September/ NZ Herald)
Fishing	<b>Comvita looks to secure fish oil supply</b> (28 September/ NZX AgriHQ)
International	<b>Coca-Cola Has Spent Millions on Health Research and Fitness</b> (24 September/ The Guardian)
International	<b>Life on the modern farm is all about the appliance of science</b> (24 September/ The Times)
Farmers and producers	<b>Women of Influence 2015 The finalists</b> (28 September/ Stuff: Women of Influence)

**New KPMG New Zealand Thought Leadership**

**Fonterra's profits tipped to soar** [24 September/ NZ Herald] KPMG New Zealand has said that Fonterra is on track to significantly improve its profits over the next decade. Fonterra has declared that wants to achieve a turnover of \$35 billion by 2025. KPMG Partner, Simon Hunter said Fonterra could achieve an EBIT figure of \$3.5 billion if it can execute its strategy. Mr Hunter said recent events, such as food safety scares, has taken the focus away from implementing the co-operatives strategy, and that it cannot afford a diversion again. Mr Hunter added that the scale of company's value-add business should not be underestimated, considering it has had around invested \$1 billion into it over the past year. KPMG said Fonterra's key problem to date has been its inability to lift profitability beyond an EBIT to sales ratio of 5 per cent, compared with competitors such as Nestle, Abbott and Danone that deliver ratios of 10 to 15 per cent. KPMG added that reaching 8 per cent was achievable in the next two years, based on the Fonterra's solid foundation and plans for growth. KPMG believed the co-operatives volume, value and velocity strategy was systematically building volume through a truly integrated value chain and was transitioning more product into food service, consumer products and high-value ingredients. By doing so, Fonterra was capitalising on the advantage of its integrated business model and superior access to milk pools to build its position. KPMG Executive Chairman, Ross Buckley said the dairy industry and Fonterra were vital to New Zealand's prosperity. KPMG's report on Fonterra is available at <http://www.kpmg.com/NZ/fonterraAnalysis>

**Arable**

**Well priced grain feed is available** [25 September/ NZX AgriHQ] Federated Farmers Arable Industry Chairman, Guy Wigley said arable farmers are well placed to meet any feed shortfall as a result of new dairy industry guidelines that limits the use of palm kernel. Mr Wigley said grain was much better value and believed that dairy farmers were aware of its value. Mr Wigley added that the reduction in grain prices, coupled with an increase in the forecasted milk price, should allow farmers to make better feed decisions.

**Fishing**

**Comvita looks to secure fish oil supply** [28 September/ NZX AgriHQ] Comvita is to take a 19.9 percent stake in SeaDragon, helping the fish oil refiner to complete a new manufacturing facility in Nelson in return for a secure supply of fish oil. Comvita will participate in SeaDragon's three-for-five renounceable rights offer, ensuring the issue crosses its minimum threshold to raise \$5 million. Comvita will invest between \$2 million and \$3.2 million, depending on uptake, to ensure it takes the 19.9 percent stake. Comvita Chief Executive, Brett Hewlett said the company has been looking to expand its exposure in fish oils, and that SeaDragon was perfect partner as it is New Zealand's only producer of food-grade fish oil. Mr Hewlett said the company will be given first right of refusal to all SeaDragon products, and will build its product line over time. Comvita will appoint a director to SeaDragon's board once the offer closes.

**Dairy**

**Fonterra ups payout after \$506m profit** [24 September/ Otago Daily Times] Fonterra has announced a net profit after tax of \$506 million for the year to July 31, an increase of 183 percent. Fonterra said its EBIT increased by 94 percent to \$974 million. Fonterra has stuck with its 2014/15 farmgate milk price of \$4.40 per kilogram of milksolids which, together with its final dividend of 25 cents per share, takes the final cash payout to \$4.65. The co-operative has also revised up its up its current milk price forecast to \$4.60, with a forecast earnings per share of around 40 to 50 cents. Fonterra Chairman, John Wilson said the improved milk price reflected a lift in global prices. Mr Wilson added that while supply growth globally was easing, a lift in demand was needed to raise prices further.

**Synlait profits to bounce back** [28 September/ NZ Farmer Weekly] Synlait Milk has recorded an after-tax profit of \$10.6 million for the year ended July 31, down from \$19.6 million a year earlier. Its revenue also fell by 25 percent to \$448 million as a result of lower dairy prices. Lower than expected sales of Synlait's new lactoferrin protein product was a factor in the earnings fall but directors expect that bigger projects nearing completion should give profits a boost. Synlait Milk Chairman, Graeme Milne said that as well as achieving operational excellence from the new assets, reducing the company's \$263.6 million of debt would also be a priority over the next two years. Synlait Milk Managing Director, John Penno said moving customers up the value chain with infant formula, consumer-ready and nutritional products was a highlight of the year.

**Wool**

**Shearing the love** [22 September/ NZX AgriHQ] ShearWarmth Wool Blankets Owners, Lyn and Monique Neeson said that they started the business in 2009 as an alternative outlet for their wool. Ms Neeson said their wool was worth much more than the \$1.89 per kilogram that they were offered, and wanted to make it into something to try and add value. The blankets, made from lamb's wool, is completely New Zealand made and is sold with a birth certificate that tells the story of how it is produced. Ms Neeson said customers like to know exactly where their blanket is made. Ms Neeson added that customers wanted to trace the blankets back to the farm, but that many had little knowledge about wool. Ms Neeson hoped the company will eventually become a more profitable outlet for their lambs' wool than if they were selling it via auction.

**Water**

**Water wins award for excellence** [29 September/ NZX AgriHQ] Central Plains Water has been acknowledged for its excellence in the Champion Canterbury Business Awards. The company received several awards for stage one of its Canterbury Plains Water scheme, including the supreme award in the medium to large category. Central Plains Water Chief Executive, Derek Crombie said he was delighted that the business community endorsed the importance of the scheme to the region. Mr Crombie said the first stage of the scheme was ready to supply water to farmland as soon as it was needed. Mr Crombie added that stage two of the project has begun, and has been extended to supplier to a further 10,000 hectares. The stage two canal will now be 26 kilometres with eight feeder pipelines coming off the canal to irrigate 30,000 hectares. It is expected to cost around \$250 million and will take two years to complete.

## International

**Colorado gets high on taxes from MARIJUANA** [22 September/ The Times] Marijuana businesses in Colorado have generated USD 73.5 million in taxes since it was legalised in January 2014. Intense competition since marijuana sales were legalised has caused prices to decline by around USD 40 per eighth of an ounce, to USD 30. Despite the fall in price, around USD 540 million was sold in the first seven months of 2015, compared to USD 700 million during the whole of 2014. Convergenx Market Analysis, Nicholas Colas said the decline in price has resulted in local businesses becoming more creative in trying to tempt in a newly liberated generation of customers. Mr Colas said the number of stores selling legal marijuana in Colorado has increased by 229 since legalisation, and now sits at 385 stores.

**Coca-Cola Has Spent Millions on Health Research and Fitness Programs** [22 September/ The Wall Street Journal] Coca-Cola said it has spent around USD 120 million on funding scientific research as well as health and fitness programs in the United States since 2010. The company has disclosed its financial contributions as part of a promise to become more transparent after critics accused it of playing down the role of sugary drinks in obesity. Coke said it has never disputed the role of calories in obesity and added that it is wrong to single out a food or drink. Out of the total USD 118.6 million contribution, USD 21.8 million was spent on third-party scientific research of health-related issues and another USD 96.8 million in health and well-being partnerships. According to the Trust for America's Health, in 2014 adult obesity rates rose above 30 percent in 22 states, while there were no states with an obesity rate below 20 percent.

**EU says increased farm exports offset Russian ban** [23 September/ Agence France Presse] The European Commission has said that an increase in farm exports to other markets has offset the cost of the Russian import ban. European food exports to Russia have dropped by around 43 percent to EUR 6.3 billion in the year to July 2015. The commission said total farm exports increased by 6 percent to more than EUR 127 billion. United States exports rose by 16 percent to EUR 18.3 billion, while Chinese exports increased by 33 percent to EUR 2.35 billion.

**SNP 'sinking the fishing industry'** [23 September/ The Times] Western Isles Fisherman's Association Secretary, Duncan MacInnes has blasted the Scottish government over its plans to introduce marine conservation areas around the Hebrides islands. Mr MacInnes believed the marine protected areas would cost more than 100 jobs, and added that fishing was one of the last sustainable industries left on the islands. A Scottish Government Spokesman said the government had designed the conservation area to safeguard fragile habitats. The spokesman added that ministers carried out an assessment which showed that there would only be a modest impact on the Hebridean economy. The final decision on the protected areas has been delayed to allow fishermen to make their case at the Scottish parliament.

**Life on the modern farm is all about the appliance of science** [24 September/ The Times] Wynnstay Group Head of Dairy Technical Services, Huw McConochie said the appliance of science on farms is vital in increasing productivity. Mr McConochie said that since dairy prices have soared, the role of science has increased, with everything from the make-up of the feed to the ventilation of the building and the cows' fertility being able to affect productivity. Mr McConochie added that keeping cows healthy was vital in producing profits, and that they needed to remain healthy until higher prices return.

**Transforming the pork market** [24 September/ China Daily] Seal Air Corporation Shanghai Vice-President, Shen Hong said the company has launched its China Pork project, with the aim of revolutionizing the nation's pork supply chain. Mr Hong said the company has stumbled upon a potentially huge market after findings revealed massive amounts of pig meat were being wasted every year during the industry's distribution process. The research found that logistics systems, involving chilled transportation, which handled much of the produce, were inefficient and the hygiene conditions of many operators needed improvement. Mr Hong believed that updating the packaging and distribution processes to meet the specific needs of different cities could greatly reduce waste and improve hygiene standards, which could extend the average shelf life of pork products from the current one to two days to over two weeks.

**Water shortage is one of the top global risks, how can we avert it?** [24 September/ The Guardian] Water shortage has been ranked as the top global risk in this year's World Economic Forum Global Risks report. According to the World Water Council, unsustainable levels of water are being extracted from many of the world's water ecosystems, with around 80 to 90 percent already being used in basins where water is scarce. As discussed at the 25th Annual World Water Week in Stockholm, there is a need for a new water agenda that could involve building economic development strategies and infrastructure investment portfolios that spot key water risks and develop resilient systems to mitigate them. The new agenda would also have to include policies and markets that capture the economic, social and environmental values of fresh water. World Economic Forum Head of Public-Private Partnerships, Dominic Waughray and Rockefeller Foundation Ecosystems Managing Director, Fred Boltz urged a transition to a new water economy which resulted in fully informed development choices regarding water use.

**McDonald's french fries to be British** [25 September/ The Times] McDonald's has announced that its British restaurants are to buy all of their potatoes from British growers. The move will result in a further GBP 9 million investment into the sector. McDonalds United Kingdom Supply Chain Director, Connor McVeigh said the company has always attempted to buy potatoes from British farmers, but uncertain weather conditions meant some had to be sourced from across Europe. Mr McVeigh hoped the long-term commitment will give farmers the confidence to innovate and invest for the future. McDonald's current spends around GBP 80 million each year to purchase 250,000 tonnes of British potatoes.

**Plan to scale up a winner** [25 September/ The Australian Financial Review] Fish breeder, Clean Seas Tuna has unveiled a plan to transform itself from a fish farmer to a broader food company. Clean Seas Tuna Chief Executive, Craig Foster said the company would have a concerted focus on new products in its Hiramasa Kingfish brand and would look to broaden export markets. The company's pre-tax profit fell 61 percent to AUD 1 million, which Mr Foster attributed to the cost of re-entering export markets and cooler seawater temperatures hindering fish growth. The company's sales increased by 78 percent to AUD 18.5 million. Mr Foster said the company was on track to triple sales to 3,000 tonnes in coming years, which would deliver improved margins. The company has also decided to scale back the research and development of its tuna breeding program after it failed to produce commercial quantities.

**Bid to unscramble the free-range rules** [25 September/ The Australian] Legislation for a legally enforced definition of free-range eggs has been introduced into South Australia's parliament, as farmers and consumers remain frustrated by attempts to reach a uniform national approach. Under the proposed bill, supermarkets would be legally obliged to provide separate shelves for eggs which are free-range. Greens MP, Tammy Franks said the legislation required no more than 1,500 hens per hectare for the term free-range to apply. Farmers now want the federal government to create a national standard on what can be labelled as free-range in a bid to end uncertainty. Egg Farmers Australia Chairman, John Coward said farmers had become frustrated by the pace of the creation of a national standard. Free Range Producers of South Australia Chairman, John Rohde said that without a national standard, consumers were being ripped off.

**Cod is out of the danger zone and back on the menu** [26 September/ The Daily Telegraph] The Marine Conservation Society has taken cod off its red-list of fish to avoid, after a rise in population numbers. Decades of overfishing, along with the warming of the seas, had reduced populations, the size and age of cod, causing some supermarkets to remove the fish from their shelves. Marine Conservation Society Fisheries Officer, Samuel Stone said it was fantastic to see the fish off the red-list after years of sacrifice and hard work to raise population levels. Mr Stone added that while it was a milestone, efforts needed to continue, and warned that people should eat cod occasionally to keep levels sustainable. FishOnline also warned that all wild caught sea bass should be avoided as its stocks face collapse.

**Brookfield 'ruthless' in extracting infrastructure profits: CBH** [28 September/ The Sydney Morning Herald] Australia's biggest grain exporter, CBH Group has made a submission to the Australian Competition and Consumer Commission over Brookfield Infrastructure's AUD 8.9 billion proposed takeover of rail and ports company, Asciano. CBH Group said it was concerned that Brookfields will have control over the entire Western Australia grain export network, and that it is likely that the company will maximize their profits at the detriment of the grain export task and Australian grain growers. CBH claimed that Brookfield has already increased charges by up to 30 percent on Western Australian rail links and has made profits of up to 27 percent.

#### Agribusiness strategy

**Indian seed market growing** [28 September/ NZ Farmer Weekly] Carrfields Group has opened its Indian seed operation, Winseed Agri Private, giving New Zealand cropping farmers a greater opportunity to grow a wide range of crops for export to India. Carrfields Managing Director, Craig Carr said the product would develop its own brand and be packaged in India, meeting the country's growing demand for New Zealand hybrid seed. Mr Carr said the operation was an opportunity to add value to farmer's products, by supplying a growing market. Mr Carr added that the operation was a critical distribution point for the business as it continued to grow.

#### Economics and trade

**El Nino drought 'won't tip NZ into recession'** [22 September/ NZ Herald] According to the New Zealand Institute of Economic Research, the current El Nino weather pattern will affect the agricultural sector if it leads to a drought, but it will not push the country into a recession. The institute said farming practices and irrigation had improved and become more efficient, making the sector more resilient. The institute added that the location of drought conditions will determine the magnitude of the impact to the economy. The institute said that if competitors are also adversely affected by El Nino, then the impact of higher commodity prices will offset the effect to the economy. According to Reserve Bank figures, the 2013 drought had a net impact of 0.3 percent of GDP, while a drought event with a large impact on the North Island could generated a 0.7 percent impact on GDP.

**Fonterra forecast pushes kiwi up** [25 September/ NZX AgriHQ] The New Zealand dollar has risen after Fonterra increased its forecast milk price to \$4.60 per kilogram of milksolids. Economists have lowered the chances of rate cut by the Reserve Bank following Fonterra's announcement. OMF Senior Foreign Exchange Dealer, Stuart Ive expected a resistance level of USD 0.64 to hold, unless the United States Federal Reserve makes an aggressive rate change. ANZ Economists also expect the Reserve Bank of Australia to make two more rate cuts, further boosting the New Zealand dollar.

#### Farmers and producers

**NZ set for long, dry summer** [22 September/ NZ Herald] National Institute of Water and Atmospheric Research Forecaster, Chris Brandolino predicted that this summer's El Nino weather pattern will be one of the top four driest on record. The worst hit areas are expected to be the northern parts of the North Island and eastern areas of both islands. Mr Brandolino said there was an elevated risk of a drought. National Rural Fire Officer, Kevin O'Connor said authorities are already actively planning for the coming fire season. Federated Farmers Spokeswoman, Katie Milne advised farmers to prepare for the dry conditions by having plans and strategies in place. Primary Industries Minister, Nathan Guy said the ministry will keep a close watch on how the El Nino develops. Mr Guy added that farmers should plan for a possible drought.

**Kaikorai innovators youngest award finalists** [23 September/ Otago Daily Times] Kaika Energy, a biotechnology company established by Kaikorai Valley College pupils, has been chosen as one of five finalists in the people's choice category at the New Zealand Innovators Awards. The company's directors are the youngest finalists, and the first secondary school finalists in the competition's history. The company aims to sell fertiliser created by the schools biodigester, which breaks down organic material, turning it into biofuel and the fertiliser. New Zealand Innovation Council chief executive Louise Webster said the finalists represented game changing innovation.

**Land records still being broken** [24 September/ NZX AgriHQ] Property Brokers Rural Manager, Charlie Graham said there had been signs of more life in the rural property sector. The market had slowed towards the end of 2014 and had continued through the first half of 2015, with the outlook for dairying properties continuing to deteriorate as well as large parts of the country set to be very dry over the summer. Mr Graham said that while the rural real estate market had slowed, good, productive and well located farms had sold very well with some selling at record prices. Mr Graham added that there were weaker sales that offset record prices. Weaker sales had generally been marked down due to location, productivity and improvements needed. According to REINZ statistics, dairy farm values had declined by 6.8 percent since August 2014. Mr Graham said there was good demand for sheep and cattle units. Sales for good finishing country were recorded at around \$9,500 a hectare, while harder hill country farms had sales from \$3,300 to \$6,500 per effective hectare of grazable country.

**June floods cost farmers \$70m; sheep and beef take the biggest hit** [25 September/ Business Day: NZ Farmer] According to a Ministry for Primary Industries report, the June floods across the North Island cost farmers around \$70 million. Sheep and beef farmers took the biggest hit, with an estimated cost of \$58 million, including \$20.6 million of production losses. Around 34 percent of all of commercial sheep and beef farms in Taranaki, Whanganui, Rangitikei and Manawatu faced extensive damage. Dairy farms suffered around \$6.4 million in on-farm economic losses, with around half due to infrastructure damage. Crop losses were estimated at \$1.2 million, while the destruction of 3,000 beehives will cost around \$2.5 million to replace. Civil Defence Minister, Nikki Kaye said the combined cost of the floods was estimated to be around \$270 million. Ms Kaye added that it will take months, if not years, to fully recover from the storm.

**Women of Influence 2015: The finalists** [28 September/ Stuff: Women of Influence] The finalists for the Women of Influence awards for 2015 has been announced. The programme recognises and celebrates women who make a difference to everyday kiwis. Included in the rural award section are KPMG Farming Specialist, Julia Jones, Federated Farmers National Board Member, Katie Milne, Rural Health Alliance Chief Executive, Michelle Thompson as well as several others. Minister for Women, Louise Upson said the programme is committed to increasing the visibility of women's leadership in New Zealand, highlighting the important contribution women take in creating a bold and diverse future for New Zealand.

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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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