

# 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:**

A2 Milk	Lincoln University
AgResearch	Ministry for Primary Industries
Alliance Group	Ministry of Business, Innovation and Employment
Beef + Lamb New Zealand	Monsanto Co.
Canterbury Green Diamond	New Plymouth Council
Cleanwater Mussels	New Zealand Agricultural Greenhouse Gas Research Centre
Cream	Onions New Zealand
Dakang New Zealand	Purata Farms
DataCol Group	Rural Health Alliance
Federated Farmers	Ryoden Development
FMG	Shanghai Maling
Fonterra Co-operative Group	Shanghai Pengxin
Freedom Foods	Silver Fern Farms
Hain Celestial	UMF Honey Association
Hawke's Bay Seafoods	Van Diemen's Land Company
International Federation of Agricultural Journalists	Waratah Corporation
JetBlue Airways	Watermetrics
Landcorp	Wood Council of New Zealand
Lempriere Capital	WWF Chile

**This week's headlines**

Apiculture	<b>Trademark application for manuka honey name</b> [12 October/ Radio NZ Rural]
Dairy	<b>Threat to contaminate infant formula with 1080: Arrest made</b> [13 October/ NZ Herald]
Red Meat	<b>Beef returns beats sheep - 1st time in 20 years</b> [13 October/ NZ Herald]
Research and development	<b>\$10.9 million granted to food researchers</b> [13 October/ NZ Herald]
Farmers and producers	<b>Landcorp establishes environmental advisory body</b> [9 October/ Rural News]

**Aquaculture**

**Mussel farms in the mix for SI Farmer of Year** [13 October/ Business Day: NZ Farmer] Clearwater Mussels has been selected as one of four finalists in the Lincoln University Foundation South Island Farmer of the Year competition. The company produces greenshell mussels and processes a range of food and pharmaceutical products. It is the first time an aquaculture operation has been selected as a finalist. The other three finalists, all of which are traditional sheep and beef farmers, include Omarama Farmers, Richard and Annabelle Subtil, Rakaia Gorge Farmers, Tony and Pam Plunkett and Te Anau Farmers Paul and Tracey Ruddenklau. Judging Coordinator, Tricia Macfarlane said the finalists demonstrated excellence, innovation, and leadership across all the judging categories. Ms Macfarlane added that the effort the finalists put into their staff made them stand out from other operations. The winner of the competition will receive a \$20,000 Lincoln University Foundation grant for business-related travel and study, and will be announced November 18.

**Water**

**Christchurch water meter company adds a bolt on firm** [12 October/ Business Day] Data collection specialist, DataCol Group has bought water monitoring and analysis services firm, Watermetrics. DataCol Chief Executive, Bruce Franks said the accurate measurement of water usage on farms was vital to the expansion of the agricultural sector. Mr Franks added that the purchase came at a time of consolidation of the irrigation industry and at a time where regulations meant there was a greater need to measure and record water use. Independent Consultant, Keith Woodford said that more efficient water usage was at the core of New Zealand's move to precision farming. Mr Woodford said Watermetrics was a pioneer in providing water measurement technology and services to the rural sector.

**Apiculture**

**Trademark application for manuka honey name** [12 October/ Radio NZ Rural] The UMF Honey Association has applied for a certification mark on the manuka honey name. If successful, the certification mark would be available to all New Zealand honey producers. UMF Honey Association Spokesperson, John Rawcliffe said the trademark was needed to protect the integrity of manuka honey from counterfeit products. Mr Rawcliffe said the Ministry for Primary Industries labelling guide was too temporary and that a certification mark was essential, especially after the finalisation of the Trans-Pacific Partnership agreement.

**Fishing**

**Hawke's Bay Seafoods, directors and companies face 380 charges** [12 October/ Business Day] Hawke's Bay Seafoods, its directors and associated companies are facing a combined total of 380 charges for failing to supply details of their catch. The offending is alleged to have occurred between October 2012 and July 2014, with all defendants pleading not guilty to the charges. The company and its directors were the subject of a large raid by the Ministry for Primary Industries in October after it was alleged to have a large-scale illegal fishing operation. Ministry for Primary Industries has alleged that the company has been exporting far more than its recorded catch.

**Dairy**

**A2 Milk whips up \$40m capital raising, oversubscribed** [9 October/ Business Day: NZ Farmer] A2 Milk has completed its \$40 million capital raising process. The offer was oversubscribed with an additional 58.8 million shares priced at 68 cents, sold. A2 Milk will also ask investors for an additional \$3 million through a share purchase plan. The capital raising will help the company continue its expansion across China, the United States and the United Kingdom, following higher than expected sales of its Platinum infant formula brand, which is set to triple this year. A2 Milk Chief Executive, Geoff Babidge said the company was struggling to meet demand for its infant formula. Mr Babidge said the capital raising will strengthen the company's balance sheet and will allow it to execute its growth strategy. A2 Milk's largest shareholder, Freedom Foods, did not participate in the capital raising.

**Threat to contaminate infant formula with 1080: Arrest made** [13 October/ NZ Herald] Police Commissioner, Mike Bush has announced that an Auckland businessman has been arrested over threats to contaminate infant formula with 1080 poison. The man has been charged with two counts of blackmail after letters were sent to both Fonterra and Federated Farmers in November last year, threatening to poison infant formula if New Zealand did not stop using the pest-control poison. Ministry for Primary Industries Chief Executive, Martyn Dunne said the arrest can put people's minds at rest, but added that the testing regime would continue. Mr Dunne said a decision has not been made of whether the ministry could file a civil lawsuit. Mr Bush said the police received a huge amount of information from the public, and added that the investigation cost around \$3 million.

**Round-the-clock dairy trade portal on trial** [13 October/ NZ Herald] Trail runs on a new day-to-day dairy trade portal are set to take place over the next few months. The platform, Cream, is designed for dairy companies to trade value-added products over an e-commerce platform. The platform is expected to be a 23-hour-a-day, five-day-a-week operation. Cream Chief Executive, Kevin O'Sullivan said the platform is not designed to be a speculative tool, as all transactions on the platform result in a physical delivery of a dairy product.

**Red meat**

**Alliance Group to offer farmers loyalty payments** [9 October/ Business Day: NZ Farmer] Alliance Group is to offer loyalty payments to farmer-shareholders who supply 100 per cent of all their livestock or 100 per cent of one species. The reward for farmers supplying 100 per cent of their lambs is an additional 10 cents per kilogram per animal. Alliance Group Chief Executive, David Surveyor said the payments were in line with the co-operatives strategy of delivering higher returns to farmers. Mr Surveyor added that the strategy will also include a further capital investment of \$125 million. An Alliance Group Spokeswoman said the payments were not in response to the threat posed by the merger of Silver Fern Farms and Shanghai Maling, which could see the joint venture in a much stronger position to bid for livestock. Mr Surveyor said the co-operative was forecasting \$100 for an 18kg lamb for the 2015/16 season. Mr Surveyor added that firm demand for beef, from the United States, had seen farm gate prices rise by around 15 percent this season.

**Landcorp backs alternative Silver Fern plan** [12 October/ NZ Herald] Company Director, John Rodwell said the alternative recapitalisation plan for Silver Fern Farms, in which a group of New Zealand agri-business companies agreed to commit to a \$40 million underwriting effort, has the support of state-owned farm owner Landcorp. Mr Rodwell said the effort was at the request of Silver Fern Farms, but the \$40 million amount was not sufficient enough to gain bank support. Mr Rodwell added that the group will continue to remain in place should it be needed after the Silver Fern Farms shareholder vote on the proposed joint venture with Shanghai Mailing. Mr Rodwell said the group has grown in numbers and financial capability.

**Robotic cutters go into boning rooms** [12 October/ Otago Daily Times] Alliance Group is to spend around \$15 million on robotic cutting technologies, which will be used in the boning rooms of its Smithfield and Pukeuri plants. Alliance Group Chief Executive, David Surveyor said the major advantages of the cutting machinery were higher product yields, improved productivity and increased safety benefits. Mr Surveyor said that while the technology would reduce the amount of staff in the boning rooms, no redundancies would be made. The machinery is expected to be installed at the Smithfield and Pukeuri sites in March and June respectively.

**Beef returns beats sheep - 1st time in 20 years** [13 October/ NZ Herald] Beef + Lamb New Zealand said returns for New Zealand beef exports have surpassed sheepmeat returns for the first time in 20 years. Beef and veal exports generated \$3.2 billion in export returns, up 39 percent on last season, while lamb export returns reached \$2.6 billion, up 1.3 percent. Beef + Lamb New Zealand said beef production increased significantly the 2014/15 season, driven by high prices, strong United States demand and low dairy prices. Despite an increase in lamb production in the 2014/15 season, New Zealand lamb exports fell 2 per cent. This was offset by an increase in the average value of lamb exports, up 3.4 percent. Mutton export returns dropped 9 percent during the 2014/15 season to \$445 million.

#### Research and development

**Reducing animal methane emissions feasible** [12 October/ Rural News] New Zealand-led research has shown that microbes causing animal methane emissions are similar across the world, meaning that global solutions would be feasible. The research project found similar bacteria and methanogens dominate in nearly all rumens across a wide variety of species and animal diets. AgResearch Senior Scientist, Gemma Henderson said the research findings now meant that mitigation strategies can be developed to target the few dominant methanogens associated to emissions. New Zealand Agricultural Greenhouse Gas Research Centre Director, Harry Clark said the study showed the real power of international research collaboration and added that the research will provide an opportunity to make a real difference on a global scale.

**\$10.9 million granted to food researchers** [13 October/ NZ Herald] Food researchers have been granted \$10.9 million under the Government's National Science Challenge - High-Value Nutrition scheme, which is designed to encourage scientific excellence and boost exports. The research areas for the challenges include high-value nutrition, technological innovation, healthier lives, sustainable use of marine resources, and Antarctic and Southern Ocean climate research. The Ministry of Business, Innovation and Employment said the purpose of the projects is to drive innovation in nutrition research, food science and health, repositioning New Zealand as a world leader in the food-for-health market as well as boosting exports by \$1 billion by 2025. High Value Nutrition Challenge Science Director, Professor David Cameron-Smith said the scheme will allow scientists to work closely with the innovators and exporters in creating greater value for exports.

#### Biosecurity

**Onion industry signs agreement** [12 October/ Radio NZ Rural] Onions New Zealand has signed the Government Industry Agreement on biosecurity readiness and response, becoming the first vegetable group to sign the agreement. It is the fifth primary industry to sign the agreement, which will see it join forces with the government to manage and respond to important biosecurity risks.

#### International

**Illegal, industrial fishing threaten oceans: experts** [7 October/ Agence France Presse] WWF Chile Conservationist, Juan Vilata said the world's oceans are under threat from both illegal and mass industrial fishing, in which millions of fish are caught and discarded. Mr Vilata, speaking at the Our Ocean conference, added that the fishing industry ignores scientific criteria's and fished beyond the recommended limits. At the conference, the United States declared two new large marine reserves on Lake Michigan and the Potomac River, while Chile declared a sanctuary larger than France around Easter Island. The United States also unveiled a major global initiative to use satellite technology to better police over-fishing and track illegal catches.

**Business News: Monsanto to Slash Jobs** [8 October/ The Wall Street Journal] Monsanto Co. is to axe around 2,600 jobs as part of a business restructuring program. The company is to streamline and reprioritise its commercial and research divisions, as the company faces a third straight year of low crop prices that have forced farmers to cut costs. Monsanto CFO, Pierre Courduroux said the restructuring plan will involve closing the company's Brazilian sugar-cane unit, CanaVialis. Monsanto's projected profit has been lowered to a range of USD 5.10 and USD 5.60 a share, falling short of analysts' forecasts of USD 6.19. Monsanto said stabilising corn prices and currency markets should enable the company to grow earnings per share by more than 20 percent in 2017.

**JetBlue tests farm-to-tray-table concept** [8 October/ The Globe and Mail] JetBlue Airways is to open a produce plot at JFK airport to educate travellers, as well as improve the appearance of the terminals exterior. The airline expects to grow 1,000 potato plants, yielding more than 450 kilograms every four to six months, along with an additional 1,100 plants such as mint, arugula, beets, garlic, onions and spinach. Hain Celestial Director of Marketing, Jared Simon said the farm was about educating people, connecting them to what they are eating. JetBlue Airways hoped to serve some items grown from the farm on some of its flights, with other items donated to local food banks.

**USDA lowers corn, soybean harvest estimates by 1 percent** [10 October/ NZ Herald] The United States Department of Agriculture has lowered its corn and soybean estimates by around 1 percent. Farmers are expected to harvest around 13.6 billion bushels of corn, the third largest on record. Soybean production is estimated to be around 3.9 billion bushels and would be the second largest on record. Around 40 percent of corn has already been harvested, slightly behind the average for this time of year, while soybeans are ahead of schedule with around 42 percent harvested.

**Medicinal cannabis start date as early as next year** [13 October/ The Sydney Morning Herald] Medicinal cannabis could be legally grown and prescribed to patients in Australia as early as next year, under a bill that has initial support from Australian Prime Minister, Malcolm Turnbull. Greens Leader, Senator Richard Di Natale said the bill, which would create a regulator for medicinal cannabis, has been drafted and would be put before Senate for a vote in November. Mr Di Natale said a federal regulatory scheme was required so growers could be licensed and that the medication gets in the hands of those who need it. Labour Senator, Anne Urquhart said there would be trails to ensure the system is safe, effective and affordable.

**Chinese buy nation's largest dairy** [13 October/ The Australian] New Plymouth Council is close to completing a sale of Australia's largest dairy farming business, Van Diemen's Land Company, to Chinese-owned companies Ryoden Development and Waratah Corporation, for AUD 220 million. Both companies will take a 35 percent stake in the company, with Melbourne-based Lempriere Capital purchasing the remaining 30 percent. Neither, Ryoden Development Owner, Herman Shao-Ming Hu nor Waratah Corporation Owner, Kenny Zheng have any previous agricultural interests, but it is believed that both will have access to distribution and marketing channels in China and Hong Kong. Mr Zheng said that due to domestic food safety issues, most Chinese people are paying more attention to safer and healthier food. Van Diemen's Land Company currently runs a herd of 29,000 dairy cattle on a combined 19,000 hectares of Tasmanian farmland. While formal purchase papers have not been signed, contracts are well-advanced and would proceed to signing ahead of Foreign Investment Review Board approval.

#### Agribusiness strategy

**Diamond to form cutting edge to boost ag business** [12 October/ NZ Farmers Weekly] Agribusiness Consultant, Andy Macfarlane and ANZCO Founder, Sir Graeme Harrison have developed a plan to make Canterbury the worlds hub for agribusiness. The concept, dubbed the Canterbury Green Diamond, would emulate the United States' Silicon Valley and would establish worldwide recognition for the regions agricultural excellence. The Green Diamond would encompass an area of land enclosing south Canterbury, Christchurch and the east and west sides of Selwyn District, forming a diamond shape. Mr Macfarlane said the area would not be just about production, but about what can be done with food. Mr Macfarlane added that the concept was about smart production and making more people aware of the regions assets. Mr Macfarlane said creating the areas brand was building on top of the investment that is already happening in the region.

#### Economics and trade

**Wood Council says TPP will open doors** [8 October/ Rural News] Wood Council of New Zealand Chairman, Bill McCallum said the industry is happy with the Trans-Pacific Partnership as it will remove all tariffs across the 11 partner countries. Mr McCallum said that while the \$9 million tariff-reduction saving was not a huge sum, it would allow for more export opportunities in countries where tariffs had deterred trade. Mr McCallum added that lost opportunities due to excessive tariffs were not included in the \$9 million saving figure.

**Andrew Little: Bigger gains for dairy in India and Indonesia, than TPPA** [11 October/ Stuff: Politics] Labour Leader, Andrew Little said the lacklustre gains for dairy in the Trans-Pacific Partnership agreement means New Zealand should look to India and Indonesia to expand its dairy markets. Mr Little said the agreement appeared to have only a few gains that outweighed the concessions made, but reserved full judgement until the full text on the agreement was released. Trade Minister, Tim Groser said that while the deal on dairy was far from perfect, it would improve as more countries sought to sign up. Mr Little questioned Mr Groser's belief that the deal on dairy would improve. Mr Little added that the Labour Party would be comfortable in walking away from the agreement if there were better deals elsewhere.

**A few gaps but a good deal** [12 October/ NZ Farmers Weekly] Trade Envoy, Mike Petersen said that while the Trans-Pacific Partnership has some gaps, it will provide greater access for tariff-free agricultural exports than any other bi-lateral agreement could have provided. Mr Petersen said the deal was outstanding for beef, sheep, fruit and vegetables, seafood and forestry products. Mr Petersen added that while dairy access would remained constrained, it would still offer potential savings of \$102 million. United States beef tariffs are to be removed after five years, while Japanese beef tariffs will fall from 38.5 percent to 9 percent over 15 years. Overall the deal is expected to be worth around \$2.7 billion per year to New Zealand by 2030. Mr Petersen said that if New Zealand walked away from the deal, there would have been no chance of renegotiating free access to the TPP markets again. Mr Petersen believed United States trade negotiators did a disservice to American dairy exporters by not taking a lead on dairy.

#### Farmers and producers

**IFAJ Congress 2015** [7 October/ International Federation of Agricultural Journalists Media Release] Around 150 agricultural journalists from around the world are to meet in Hamilton for the International Federation of Agricultural Journalists World Congress meeting this week. The journalists are expected to write stories about what makes New Zealand's farming systems so unique and world leading, and the agricultural-related businesses so successful. Speakers at the congress include Primary Industries Minister, Nathan Guy, Trade and Climate Change Minister, Tim Groser, KPMG Global Head of Agribusiness, Ian Proudfoot as well as several others. Congress 2015 Organising Committee Chairman, Hugh Stringleman said the event was a once in a lifetime opportunity to show off the qualities of New Zealand's primary sector.

**Broadband targets crucial to wellbeing of rural NZ** [9 October/ Radio NZ Rural] Rural Health Alliance CEO, Michelle Thompson said the new broadband targets announced by the government will help bring rural communities into the 21st Century. The government announced that virtually all New Zealanders will be able to access broadband at peak speeds of at least 50 Mbps by 2025. Ms Thompson said connectivity was vital to the wellbeing of rural New Zealand as it minimised the sense of isolation. Ms Thompson added that while it remained to be seen whether the current target would be adequate in 2025, it was a step in the right direction.

**Landcorp establishes environmental advisory body** [9 October/ Rural News] Landcorp is to establish an advisory group of environmental experts which will drive the enterprise's environmental focus. Landcorp Chief Executive, Steven Carden said the group will advise senior management on environmental activities with absolute independence. Mr Carden added that the expertise of the group will be invaluable for the business as adapts its new model of high value products, sustainable earnings and environmental practices. Mr Carden said an environmental focus will future proof the company's activities as well as enhancing its profitability. The group includes environmental strategy expert Guy Salmon, Massey University water quality scientist Mike Joy and sustainable farming advisor Alison Dewes as well as Dr Tanira Kingi, Dave Maslen and Angus Robson.

**Kiwi shareholders sell out of Shanghai Pengxin's Purata Farms** [12 October/ Business Day] Purata Farms Shareholders, John Penno and Juliet Maclean are to sell their respective 16 and 10 percent shareholdings in the Chinese-controlled operation. Shanghai Pengxin bought a 74 percent stake in the operation, then known as Synlait Farms, in 2014 with the conditions that gave the Chinese company first right to buy the shares if either shareholder decided to sell. Ms Maclean and Mr Penno both said they were unhappy that Shanghai Pengxin was not willing to buy more farms to develop the business. Overseas Investment Office Manager, Annelies McClure said the office had not received any information showing the sale of the shares, and added that the office must be advised if the shares are sold. Both Ms Maclean and Mr Penno hoped to have their exit price settled with Shanghai Pengxin within two months.

**Insurance claims follow big winds** [12 October/ Radio NZ Rural] Rural Insurer, FMG said extreme winds in parts of the South Island last week caused nearly \$1 million of damage, but added that claims were much smaller than the wind storm that damaged over 270 irrigators two years ago. FMG said it had received 283 claims, worth \$970,000. FMG National Claims and Services Manager, Sean Beattie said clients had taken FMG's advice by pointing irrigators into the prevailing wind. Mr Beattie added that there were still further things people could do to prevent house and property damage during wind storms, such as tying trampolines down.

**Chinese firm cans \$42m farm deal** [12 October/ NZ Herald] Chinese-owned, Dakang New Zealand Farm Group has cancelled its proposed purchase of seven dairy and three support farms in Northland. Act Leader, David Seymour said the decision showed the negative effect of the rejection of Shanghai Pengxin's investment into Lochinver Station. Dakang New Zealand Chief Executive, Gary Romano said the company's decision was partly based on the Lochinver station decision. Mr Romano said the company was not confident enough of a favourable outcome and did not want to cause frustration for the Northland vendors. Associate Finance Minister, Paula Bennett said the government welcomed foreign investment that supported economic growth.

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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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