

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

8 June 2016

Organisations referenced in this week's Field Notes include:

AgResearch	McDonald's
AgriHQ	Ministry for Primary Industries
Coca Cola	Nestle
COFCO	New Zealand Merino Company
Commonwealth Scientific and Industrial Research Organisation	New Zealand National Agribusiness Fieldays
Dairy Companies Association	NZX
DairyNZ	Otago Merino Association
DBV Technologies	Pact Group
Environmental Protection Agency	Reda
European Union	Sheep Industry Association
Fonterra	Skretting
Global Dairy Trade	Synlait
Heartland Bank	T&G
Huntly District Court	Tutsan Action Group
Infant Nutrition Council	Unilever
KPMG	University of Adelaide
Landcorp	University of Minnesota
Lincoln University	University of Waikato
Marlborough District Council	Walmart
Massey University	World Health Organisation
Matua	

This week's headlines

Environment and Emissions	Producing food for the rubbish bin [5 June/ Business Day: NZ Farmer]
Research and Development	Future Footprint gets green light [6 June/ Farmers Weekly]
Economics and Trade	Brexit means issues [7 June/ Rural News]
Animal Welfare	Waikato man pleads guilty to mistreatment of bobby calves [2 June/ NZ Herald]
Wool	Italian wool mill signs \$45 million deal with merino farmers [1 June/ Business Day: NZ Farmer]



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**HOT OFF THE PRESS:
KPMG AGRIBUSINESS
AGENDA 2015 VOLUME 2**

Horticulture

T&G Global sells crate hire business to Pact Group for \$21m [7 June/ National Business Review] New Zealand fruit manufacturer, T&G Global has sold Fruit Case Co to packaging manufacturer, Pact Group for \$21 million. The sale is expected to be completed around 1 July. T&G would continue to support Fruit Case Co, a crate hire business, once the sale was completed by sharing research, technology, and business improvements. T&G Chief Executive, Alastair Hulbert said the supply arrangements with Pact were part of the company's strategy to strengthen relationships market leading experts. Mr Hulbert added that Pact's access to innovative developments in crate design and packaging solutions would be of significant benefit to T&G. Mr Hulbert noted that the deal would allow T&G to focus their resources on strengthening the company's position as a leading producer, marketer and exporter of fresh produce.

Viticulture

Matua winery sold to family business [3 June/ NZ Herald] Treasury Wine Estate has sold Matua winery to Family owned business Sutton Group Holding. The Auckland winery claimed to be the first place in New Zealand at which Sauvignon Blanc vines were planted. Sutton Family Spokesman, James Shortall said the business planned to reinvigorate the winery, expand the site's current production operations and explore future employment opportunities for existing Matua employees.

Fishing and aquaculture

Petition opposing Okiwi Bay fish research facility gathers support [6 June/ Business Day] An online petition opposing a planned experimental fish farm in the Marlborough Sounds has gained more than 500 signatures. The application from Skretting, an international fish food company, involved constructing a tank based fin-fish research facility, operating hazardous goods, and discharging contaminated seawater into Okiwi Bay. The Marlborough District Council had received more than 200 submissions on the application, with a hearing scheduled to begin on 14 June.

Dairy

World dairy prices start new season with 3.4pc lift at GDT auction [2 June/ NZ Herald] Dairy prices increased at the latest Global Dairy Trade auction with the price index rising 3.4 percent. The price of whole milk powder, the key determinant in Fonterra's farmgate milk price, decreased by 1.7 percent to USD 2205 per tonne. AgriHQ Dairy Analyst, Susan Kilsby said the weaker whole milk powder price was driven by the larger volumes on offer combined with ongoing weakness in demand. Ms Kilsby added that the overall dairy commodity market was currently moving in the right direction, but prices were going to take some time to recover to a level where dairy farmers could make a profit. Milk price futures recently commenced trading on the NZX dairy derivatives market with the September 2017 contract trading at \$4.50 per kilogram of milk solids and the September 2018 contract trading at \$5.60 per kilogram.

Fonterra chair: Time to end mud-slinging [4 June/ NZ Herald] Fonterra Chairman, John Wilson said it was no coincidence that as soon as the co-operative was proposing a vote on the constitution, terrible rumours, false stories, mud-slinging and politicking had emerged around the edges of the co-operative. Mr Wilson was referring to the rumours that Fonterra Chief Executive, Theo Spierings was about to resign and be replaced by Air New Zealand Chief Executive, Christopher Luxon. Mr Wilson added that the feedback from farmers was that they were over it.

Cut in doubt [6 June/ Farmers Weekly] Fonterra Chairman, John Wilson said the 75 percent of shareholder support required in the vote to change the co-operative's governance and representation structure would be difficult to obtain. Mr Wilson added that many shareholders were uncertain about the change to the voting process. Waikato Farmer, Wynn Brown said he considered the loss of contestable elections for directors a step too far that would split the co-operative. Mr Wilson noted that he recommended shareholders support the new process as it would provide the outcomes the co-operative was looking for.

Organic milk back in favour [6 June/ Rural News] Fonterra Waikato Head of Co-operative Affairs, Paul Grave said the marketplace for organic milk was very competitive, leading to the high prices which helped the co-operative secure a steady supply of organic milk. Mr Grave added that organic farmers were actively helping Fonterra create value, with organic milk margins some of the highest seen among the co-operative's products. Mr Grave noted that by selling higher value products at premium market rates, the long term organics strategy reflected Fonterra's priority to derive more value from every drop of milk.

Compromise softens infant feed guidelines [6 June/ Farmers Weekly] The World Health Organisation's 194 countries have agreed to new guidelines which banned the promotion of breast milk substitutes for children up to three years old. The agreement was only achieved through a negotiated consensus, rather than a full endorsement, after strong opposition from the United States, the European Union and New Zealand. Infant Nutrition Council Chief Executive, Jan Carey said there was now less pressure on governments to adopt the new guidelines than if there had been a full endorsement. Dairy Companies Association Executive Director, Kimberly Crewther said countries could do their own assessments of the potential impact of the guidelines to determine whether it was appropriate to adopt them.

Synlait forecasts 2016/7 milk price at \$4.50/kg [7 June/ NZ Herald] Synlait Chairman, Graeme Milne said the company's forecast milk price for the 2016/17 season was \$4.50 per kilogram of milk solids. Mr Milne added that milk suppliers would receive an advance rate than was higher than usual, meaning they would start the season in a stronger cash flow position that they were expecting. Synlait Chief Executive, John Penno said the company had adjusted payments for the current season to give suppliers better cash flow through the winter.

Environment and emissions

Producing food for the rubbish bin [5 June/ Business Day: NZ Farmer] Recent research has shown that Australians throw away 25 percent of their food, while as much as 30 percent of food was thrown away in the United States. A United Kingdom report showed that the average British household throws away GBP 420 worth of good food each year. New Zealand Farmer Editor, Jon Morgan said this was confirmation that more than enough food was produced to feed the world. Mr Morgan added that New Zealanders may be even worse, as the country was a large meat producer and consumer.

Research and development

Future Footprint gets green light [6 June/ Farmers Weekly] The Government has approved AgResearch's \$133 million Future Footprint plan, under which the majority of its four campuses would be consolidated at Massey University and Lincoln University. AgResearch Chief Executive, Tom Richardson said the Government sign-off allowed it to push ahead with detailed planning, with most of the work expected to be completed by 2017/18. Mr Richardson added that the Future Footprint plan was designed to encourage collaboration between scientists across research institutions, and it would see AgResearch scientists work alongside university staff. Mr Richardson noted that \$200 million would be spent on new buildings at Lincoln University and \$40 million at Massey University. Mr Richardson said he would consider Future Footprint a success when he saw teams of scientists from various organisations working together to solve major primary sector issues.

Biosecurity

Approval for insect weapons granted [6 June/ Business Day: NZ Farmer] The Environmental Protection Agency has approved the use of a moth and beetle to help fight the tutsan plant pest. The plant was not toxic, but livestock would not eat it and it was time consuming and costly for sheep and beef farmers to remove. Tutsan Action Group Member, Rosalind Burton said the decision to release the insects came after 18 months of Landcare research in Christchurch which found the bugs were not a threat to other plants in New Zealand. Ms Burton added that hundreds of thousands of bugs were being bred in Christchurch and would be released in spring when warmer weather came.

International

Nestle steps up push into medicine with 100m milk allergy test deal [31 May/ Irish Examiner] Nestle has bought the rights to a skin patch test which can determine whether someone has an allergy to the protein in cow's milk. Nestle would pay EUR 10 million to DBV Technologies for the rights, with a potential EUR 90 million to follow after certain development, regulatory and commercial milestones were met. The deal complemented Nestle's infant formula business and the ambitions of its Health Science division.

Drop in milk consumption and dip in dairy 'very concerning' [31 May/ The Sydney Morning Herald] A new study by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the University of Adelaide found that one in six Australians were avoiding milk and dairy foods despite having no medical reason to do so. The study showed that most people avoiding dairy were influenced by celebrities, fad diets, friends and alternative health practitioners. CSIRO Behavioural Scientist, Bella Yantcheva said the scale of people restricting their diet without a medical reason was very concerning in terms of the public health implications.

Coke, Coke Femsa to buy Unilever's soy beverage business [1 June/ Reuters] Coca Cola announced that it has come to an agreement with Unilever to buy its AdeS soy-based beverage unit for about USD 575 million. AdeS was known for selling its soy milk and fruit juice mixed beverages in South American countries. The company had a revenue of USD 284 million in 2015 as it sold 56.2 million units. Coca Cola has been investing in its non-carbonated drinks portfolio and had expanded beyond North America where sales were falling.

McDonald's is quietly testing a huge change that everyone is underestimating [1 June/ The Independent] McDonald's has begun using fresh beef that had never been frozen in 14 of its Dallas restaurants in the United States. Nomura Analyst, Mark Kalinowski said investors were underestimating just how serious McDonald's was about a larger rollout which could result in better tasting burgers, faster cooking times, and speedier customer service. McDonald's Chief Executive Officer, Steve Easterbrook said there was not currently enough supply of fresh beef to expand the test nationally, but the company could start expanding it region by region. Mr Easterbrook added that a larger rollout would not require any major new equipment or expenses for franchises.

Producing spandex from agricultural byproducts? Welcome to the circular bio-economy [1 June/ The Guardian] University of Minnesota Professor, Kechun Zhang said his team have designed a new method of turning agricultural waste such as orange peel and maize leaves into useful products such as chicken feed. Mr Zhang added that the team had recently developed a way to convert common waste sugars into a raw material used to produce spandex. Mr Zhang said there was an urgent need to move from a fossil based economy to a bio-economy. Mr Zhang noted that farms around the United Kingdom could be the key to energy generation in the future due to the large quantity of organic waste.

Boris Johnson attacks EU 'burden' on UK farming [1 June/ The Guardian] Former London Mayor, Boris Johnson said farmers would receive the same amount of money from subsidies if Britain left the European Union, while the exit would also bring about deregulation of the farming industry. Mr Johnson explained that unnecessary, outdated rules meant spinal tissue had to be removed from sheep with more than two big teeth upon slaughter due to fears over consumers getting a sheep disease similar to the Mad Cow Disease (BSE). A Sheep Industry Association representative said the rules should be eased because they increased costs by slowing down the slaughter process. However, the European Union has maintained the rules as a precautionary measure to protect the public from potentially infected meat.

McDonald's Canada finishes beef project [2 June/ The Globe and Mail] McDonald's Canada has announced a two year partnership with the beef industry to advance environmental and ethical standards. Through a pilot project, the company has verified 180 beef operations in Canada as sustainable, based on factors such as animal welfare and community engagement. McDonald's would now create a verification framework for its beef suppliers to build on the pilot project.

Cofco shows children the secrets of farming [2 June/ China Daily] COFCO has launched a two day program for children to explore the high-tech farming systems and plants on one of its Chinese farms. The farm had adopted the highest level of modern agriculture technology to cultivate vegetables and mushrooms, including artificial lighting and temperature controls. The farm's engineers were available to explain the farming systems and answer questions.

Walmart to pilot grocery delivery service utilizing drivers at Uber, Lyft and Deliv [3 June/ Food Navigator] Walmart Global E-Commerce Chief Operating Officer, Michael Bender said Walmart would start testing the delivery of groceries through Uber and Lyft. Mr Bender explained that a customer could place their grocery order online and select a delivery window, after which a Walmart employee would carefully prepare the order. Mr Bender added that the Walmart team would then request a driver from one of the transport services to come to the store, pick up the customer's order, and take it directly to the customer's location. Mr Bender noted that the customer would pay the normal delivery charge of approximately USD 7 online.

Rural Australia at a political crossroads as ties of conservative loyalty fray [4 June/ The Guardian] Independent Politician, Tony Windsor is attempting to topple Deputy Prime Minister, Barnaby Joyce in the high profile seat of New England in the Australian election. Mr Windsor said he would focus on issues including climate change, land and water use, and renewable energy. Mr Windsor added that these issues represented the future, while Mr Joyce and his party represented the past.

Economics and trade

Brexit means issues [7 June/ Rural News] KPMG Global Head of Agribusiness, Ian Proudfoot said New Zealand companies exporting to Europe should be aware of the consequences should Britain decide to leave the European Union. Mr Proudfoot explained that if Britain decided to exit the European Union, it would create opportunities for New Zealand as Britain would look to form trading agreements with its old Commonwealth allies. Mr Proudfoot added that New Zealand would lose the leverage it had with Europe by virtue of its special relationship with Britain.

Farmers and producers

Heartland Bank warns dairy farm values could fall 40 per cent from peak [2 June/ NZ Herald] Heartland Bank Chief Executive, Jeff Greenslade said the bank would be paying close attention to the dairy sector as farm values could fall 40 percent from peak to trough if the downturn continued. Mr Greenslade added that the majority of dairy farms could convert to sheep or beef farms if dairy prices remained low or worsened. The bank's exposure to dairy farmers made up 17 percent of its net receivables.

Primary sector leader 'humbled' by award [6 June/ Business Day: NZ Farmer] Chris Kelly, best known for his previous role as CE of Landcorp, said he was humbled by the Officer of the New Zealand Order of Merit bestowed on him in the Queen's Birthday honours. Mr Kelly said he was proud to be part of a wonderful industry which was not only important for New Zealand but also a great place to work. Mr Kelly is currently chairman of Beef and Lamb Genetics, a director of the Crown Irrigation Investment Company, and chancellor of Massey University.

Agribusiness education

Scholarship winner to research ryegrass [2 June/ NZ Herald] University of Waikato Masters Student, Rebecca Yeates has been awarded the New Zealand National Agriculture Fieldays Sir Don Llewellyn Scholarship worth \$22,000. Ms Yeates said her research would involve assessing thousands of ryegrass seedlings to determine whether it was possible to select seedlings with reduced root hair length and density that would decrease competition with white clover for soil phosphorus. Ms Yeates added that her findings could be passed on to plant breeders who would be able to create a ryegrass that competed less with white clover which would reduce the need for additional phosphorus. Ms Yeates noted that using less phosphorus led to environmental benefits and lower costs. University of Waikato Vice Chancellor Professor, Neil Quigley said Ms Yeates' research could have significant impacts on the agriculture sector.

Animal welfare

Waikato man pleads guilty to mistreatment of bobby calves [2 June/ NZ Herald] Down Cow Farm Slaughterer, Noel Erickson has pleaded guilty to 10 charges relating to the mistreatment of bobby calves in the Huntly District Court. The Ministry for Primary Industries launched an investigation into Mr Erickson last September after secret video footage revealed animals being severely mistreated on a farm and in a slaughterhouse. Farmwatch New Zealand Member, John Darroch said the group had obtained the secret video footage and it was unfortunate that New Zealand had to rely on a voluntary organisation to bring animal abuse to light. Mr Darroch added that the Ministry for Primary Industries did not have any surveillance like Farmwatch did, and therefore the public could not have any confidence that calves were not being abused elsewhere.

New rules are ready for the bobby calf season [6 June/ Farmers Weekly] Ministry for Primary Industries Deputy Director General, Scott Gallacher said new regulations covering the welfare, transport and slaughtering of bobby calves could be enacted for the dairy calving season this winter. The proposed changes included a ban on blunt force trauma to the head for on-farm calf killing, a four day on-farm requirement before calves were transported to slaughter, a maximum of eight hours in transit, and a prohibition on crossing the Cook Strait. DairyNZ were holding over 50 workshops on bobby calf supply chain awareness and responsibilities during June and July.

Wool

Italian wool mill signs \$45 million deal with merino farmers [1 June/ Business Day: NZ Farmer] The New Zealand Merino Company has signed a \$45 million deal which would allow their farmers to sell wool to Reda, an Italian wool mill. New Zealand Merino Company Chief Executive, John Brakenridge said the deal's five year length would provide certainty for farmers and manufacturers during times where prices were volatile. Mr Brakenridge said the deal could be compared to a guaranteed five year payout of \$7 per kilogram of milk solids in the dairy industry. Mr Brakenridge added that in only one of the last 10 years had the price been higher than that which farmers would now receive over the next five years.

Merino work recognised [6 June/ Otago Daily Times] Merino Industry Statesman, Bill Gibson has been recognised for his contributions to the breed as he was presented with the Heather Perriam Memorial Trophy at the Otago Merino Association's Merino Excellence Awards in Queenstown. Mrs Perriam's Husband, John Perriam said it was a privilege to present the trophy to someone who was deserving of it in every possible way. Mr Perriam added that Mr Gibson had been a great father figure to the younger generation.

Livestock

Merino wethers stolen by sheep rustler in Marlborough [3 June/ Business Day: NZ Farmer] Approximately 83 merino sheep have been stolen from a farm in Marlborough. Rural Constable, Beau Webster said it was hard to pinpoint when the sheep had been taken as the farmer only brought the sheep in once or twice a year for drenching. Mr Webster added that the sheep had ear tags which identified the owner, but the tags were easily removed or replaced. Mr Webster noted that the sheep were worth up to \$120 each.

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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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