



AGRIBUSINESS

# FIELD NOTES

Weekly news update from the KPMG Agribusiness network



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**HOT OFF THE PRESS:  
KPMG AGRIBUSINESS  
AGENDA 2016 VOLUME 1**

17 August 2016

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

A&P	New Zealand Winegrowers
A&W Food Services Canada	Oregon Cannabis Growers' Fair
AgResearch	Overseas Investment Office
Beef + Lamb New Zealand	PGG Wrightson
Certification and Accreditation Administration of China	Pizza Hut
Commerce Commission	Powerplant Ventures
Co-operative Business New Zealand	Reserve Bank
Department of Conservation	Shanghai Maling
Environmental Defence Society	Silver Fern Farms
Environmental Protection Authority	Snact
Federated Farmers	Statistics New Zealand
Fonterra	Synlait Milk
Irish Farmers Association	Taco Bell
KFC	Treeline Treenut Cheese
Landcorp	Unique Manuka Factor Honey Association
Massey University	Waikato University
Ministry for Primary Industries	Washington State University
Monsanto	Wools of New Zealand
New Zealand Avocado	Yum Brands
New Zealand Merino	Zespri

**This week's headlines**

Horticulture	<b>Ample supply of avocados due in upcoming season</b> [14 August/ Business Day]
Apiculture	<b>Association backs 'thorough' manuka honey classification</b> [10 August/ Radio NZ Rural]
Dairy	<b>World's largest purpose built livestock carrier ships dairy heifers to China</b> [11 August/ Business Day: NZ Farmer]
Research and Development	<b>Plans for Food HQ at Massey in Palmerston North could help double food exports</b> [12 August/ Business Day]
Economics and Trade	<b>Kiwi honey, wine face new Chinese rules</b> [16 August/ NZ Herald]

## Horticulture

**Zespri welcomes changes to Kiwifruit Export Regulations** [11 August/ Zespri Media Release] Zespri Chairman, Peter McBride said he welcomed the Government's announcement that Cabinet has approved amendments to the Kiwifruit Export Regulations. Mr McBride explained that these regulatory changes represented the first major review of the regulations since they were put in place 17 years ago. Mr McBride added that the amendments would help position the kiwifruit industry for growth as it looked to more than double sales revenue to \$4.5 billion by 2025. Mr McBride said growers asked the Government to amend the regulations to allow for shareholding to be more closely aligned with production, ensuring growers continued to own and control Zespri. Mr McBride noted that he would like to acknowledge Primary Industries Minister, Nathan Guy for his continued support of the industry through the process.

**Ample supply of avocados due in upcoming season** [14 August/ Business Day] New Zealand Avocado has predicted the 2016/17 season to produce 7.6 million 5.5 kilogram trays. Southern Produce Marketing Manager, Mike Swan explained that avocados were biennial, meaning they produced well every second year. Mr Swan said the price for an avocado this year would be nothing compared to last season when prices reached up to \$5 each. Mr Swan added that there would be more avocados on the market at a decent price from the middle of September.

## Apiculture

**Association backs 'thorough' manuka honey classification** [10 August/ Radio NZ Rural] Unique Manuka Factor Honey Association Member, John Rawcliffe said the association can now classify what genuine manuka honey is. Mr Rawcliffe added that the clarification around what constituted genuine manuka honey would help protect the brand and identify legitimate honey. Mr Rawcliffe said the next step was to protect the word manuka through a different organisation that represented the whole industry. The association would discuss and showcase its four years of research at the Manuka Honey Symposium in Auckland.

**Top risks for world's pollinators named** [15 August/ Radio NZ Rural] An international study has narrowed down the biggest risks for pollinators in the hope of preventing further threats to global food production. The study identified six risks that needed urgent attention, including corporate control of agriculture, diversifying pollinator species, the effects of climate change, and reducing chemicals in non-agricultural settings. Study Author, David Pattermore said he was hopeful that global authorities would consider how they could incorporate the recommendations as the research was spread around the world.

## Fishing and aquaculture

**Whitebaiters should 'only take what they need' – DOC** [11 August/ Radio NZ Rural] Department of Conservation Compliance Officer, Rod Hansen said the future of whitebait populations in the Hawke's Bay region lay in the hands of local whitebaiters. Mr Hansen explained that the whitebait season dates and fishing hours would give whitebait the opportunity to return to their spawning grounds. Mr Hansen added that when people did not follow those regulations, it harmed whitebait populations to a point where they may not recover. Mr Hansen said fishers were encouraged to only take what they required and to think about the sustainability of the fishery for future generations. Mr Hansen noted that it was good to see the implementation of more conservation measures such as planting and fencing off spawning grounds.

## Dairy

**World's largest purpose built livestock carrier ships dairy heifers to China** [11 August/ Business Day: NZ Farmer] The world's largest ship built to carry livestock, the Ocean Drover, arrived in Timaru on 5 August to collect a shipment of cows bound for China. The shipment was organised by Fonterra to supply its Chinese dairy farms with livestock. Approximately 3,500 cows were loaded at Timaru, with the remaining 4,500 to be loaded in Napier. Fonterra Livestock Portfolio Director, Fiona Carrick said the co-operative was exporting in-calf heifers specifically bred to perform well in the China farming environment and produce high quality milk. The voyage to China was expected to take 16 days and had met the Ministry for Primary Industries' stringent animal welfare standards.

**Synlait defies milk slump** [13 August/ NZ Herald] Synlait Milk Chairman, Graeme Milne said the dairy company's annual profit more than doubled due to an increase in sales of products with high margins. Net profit increased from \$10.6 million in the year ended July 2015 to between \$34 million and \$35 million in the year ended July 2016. The company raised \$75 million of new capital in its initial public offering and used those funds to repay debt and build a new plant, enabling it to boost production of value added products. Synlait Managing Director, John Penno said canned infant formula volumes had grown steadily since the company commissioned its consumer packaging facility in the 2015 financial year. The company would publish its full earnings on 19 September.

**ComCom releases milk price report** [15 August/ Dairy News] The Commerce Commission has released its draft report on Fonterra's base milk price calculation for the 2015/2016 dairy season in which the payout was \$4.90 per kilogram of milk solids. The Commission was required to review Fonterra's calculation each year at the end of the dairy season under the milk price monitoring regime in the Dairy Industry Restructuring Act. Commerce Commission Deputy Chair, Sue Begg said Fonterra's calculation of the 2015/2016 price was consistent with both the efficiency and contestability purposes of the Act. The final report would be published on 15 September.

**Fonterra to ditch uncertified palm oil products** [15 August/ Radio NZ Rural] Fonterra Social Responsibility Director, Carolyn Mortland said the co-operative planned to purchase only sustainable palm oil products by 2018. Fonterra would only buy certified palm oil and work with suppliers to ensure full traceability to where it was grown. Ms Mortland said Fonterra wanted to make sure the palm products it bought did not contribute to deforestation, predominantly in Indonesia and Malaysia. Ms Mortland added that Fonterra was supportive of any farmer who chose not to use palm kernel extract (PKE), but wanted to give its farmers the choice. Ms Mortland explained that PKE had a role to play in cow health and milk production, particularly as grass quality declined over a season or during bad weather such as a drought. Landcorp has announced that it would ban the use of palm oil products on its farms from next year.

## Red meat

**Sheep numbers fall to lowest level in New Zealand since 1930s** [9 August/ NZ Herald] The number of sheep in New Zealand has fallen to its lowest level since 1934. The decrease from 29.1 million sheep in June 2015 to 28.3 million in June 2016 meant New Zealand now had seven sheep for every person, compared to 22 sheep for every person in 1982. Beef + Lamb New Zealand Chief Operating Officer, Cros Spooner said North Island ewe numbers had decreased by 2.9 percent to 9 million due to droughts and facial eczema, while South Island numbers dropped 3.3 percent to 9.5 million due to the dry weather. New Zealand's beef cattle herd increased 2.8 percent to 3.7 million.

**SFF farmers back China deal again** [12 August/ Farmers Weekly] Silver Fern Farms shareholders have reconfirmed their support for the deal with Shanghai Maling at a special meeting, meaning the transaction only required Overseas Investment Office approval to be completed. Deal Opponent, John Shrimpton said he accepted the vote in which 80.4 percent of voting shareholders approved the transaction and just 19.6 percent rejected. The outcome of the vote was very similar to the vote last October. Silver Fern Farms Chairman, Rob Hewett said the special meeting has been distracting and had cost at least \$500,000. Silver Fern Farms Chief Executive, Dean Hamilton said the Overseas Investment Office has confirmed it had all the information and was in the process of confirming its decision.

#### Environment and emissions

**Feds welcome national biodiversity forum** [10 August/ Rural News] Environment Minister, Nick Smith has announced a new national biodiversity forum at the Environmental Defence Society. Federated Farmers Biodiversity Spokesperson, Chris Allen said New Zealand now had the opportunity to come to a common understanding of the pressures and priorities for biodiversity, both on land and in water. Mr Allen said the next step would be agreeing on a national policy statement. Mr Allen added that the vision and thinking around the recent predator free New Zealand announcement was an excellent start for tackling the key issues for native biodiversity on land and water.

#### Research and development

**Plans for Food HQ at Massey in Palmerston North could help double food exports** [12 August/ Business Day] The Accelerate 25 Manawatu-Whanganui Economic Action Plan has revealed plans to build a \$39 million Food HQ facility on Massey University's Manawatu campus next year. The facility could help double New Zealand's food value and would be the second largest agriculture research centre in New Zealand. The centre was part of a \$133.3 million development of AgResearch facilities nationwide. AgResearch Chief Executive, Tom Richardson said 89 researchers would be based at the centre, of which about 40 would be new to the organisation's Manawatu operations. The research centre could be finished by the end of 2018.

#### International

**Shareholders press Yum for stricter antibiotics policy** [9 August/ Reuters] Shareholders of Yum Brands have requested that the company phases out the use of harmful antibiotics in its meat supply. Yum Brands' Taco Bell and Pizza Hut chains have made promises to stop using antibiotics important to human medicine in their chicken supply, but the company's KFC chain has yet to make a similar promise. KFC has stated that it would only use antibiotics important for human medicine to maintain chicken health by 2017, but critics said this policy effectively allowed KFC's suppliers to routinely use antibiotics.

**Consumer Goods A&W Canada's sales get boost on food-quality focus** [10 August/ The Globe and Mail] A&W Food Services Canada has been expanding rapidly in Canada despite the challenging environment fast food giants faced. Laurentian Bank Securities Equity Research Associate, Elizabeth Johnston said A&W sales grew by nearly 8 percent in its restaurants that had been open for at least a year for the 2015 financial year. Ms Johnston added that this was greater than the company's competitors which ranged from a 1 percent decrease to a 5 percent increase. IBISWorld Industry Analyst, Andrew Alvarez said A&W had managed to capture consumer loyalty and was now satisfying demand through expansion.

**Powerplant Ventures Raises Largest Animal-Free Food Fund to-date with \$42m Close** [10 August/ AgFunder News] Powerplant Ventures has closed a USD 42 million fund aimed at funding companies which focused on plants. The company aimed to partner with entrepreneurs looking to make a positive impact and who were creating plant-centric products which were more convenient and enjoyable for consumers. The fund targeted deals in the USD 1-5 million range, with most deals being around the USD 2 million mark. The company's goal was to leverage a massive shift in the way the planet grew, processed, distributed and consumed food.

**Joe Healy urges co-ops to bring milk price in line with rise in global dairy markets** [11 August/ Irish Examiner] Irish Farmers Association President, Joe Healy said European Union commodity prices have risen since May with butter increasing by 24 percent, cheddar rising by 9.1 percent, and the price of whey growing by 28 percent. Mr Healy said dairy co-operatives must accept that the dairy market was recovering and start to increase milk prices. Mr Healy added that dairy farmers were under extreme cash flow pressures after the prolonged dairy downturn and the Irish Farmers Association would not tolerate any stalling on milk price increases.

**Agriculture Technology Trends: Agtech Captures More Attention but Investment Falls in H1** [11 August/ AgFunder News] Investment into agriculture technology start-ups fell by 20 percent in the six months to June 2016 compared to the same period in 2015. The decrease was due to a 14 percent fall in the amount of investment recorded across the global venture capital markets, along with a wait-and-see approach from venture capitalists in the agtech sector. Although investment figures decreased, soil and crop technology start-ups saw investment grow by 290 percent while biomaterial and biochemical start-ups raised 32 percent more in the first six months of 2016 compared to the whole of 2015.

**Food reject snack business eyes new product development with seed funds** [12 August/ Food Navigator] Snact is a United Kingdom snack company which produces a range of fruit jerky from products which would otherwise be rejected at the harvesting state for not meeting the cosmetic standards set by supermarkets. Snact Co-Founder, Ilana Taub said the company planned to expand its product range with money from its latest round of fundraising. Ms Taub said the company would be looking at a potential vegetable based product to go with the fruit based products. Snact Co-Founder, Michael Midge-Dixon said there was waste across almost every food category. Snact's formula was to identify those sources of waste and couple that with trends in the food sector.



**Treeline cashew nut ‘cheese’ to roll out nationwide at Kroger as plant-based category catches fire** [12 August/ Dairy Reporter] Treeline Treenut Cheese Founder, Michael Schwarz said he had secured nationwide contracts for his cashew based cheeses at Kroger, a United States supermarket chain. Mr Schwarz added that his products appealed to both dairy cheese lovers and dairy avoiders. Mr Schwarz said he was not trying to convert people to cashew based cheeses as he did not believe the majority of Americans would abandon dairy cheeses. Mr Schwarz explained that Kroger decided to stock Treeline products as they were performing well in other stores and would fit well with the supermarket’s strategy of stocking more artisanal brands.

**Can we feed 10 billion people on organic farming alone? Organic farming creates more profit and yields healthier produce** [14 August/ The Guardian] Washington State University Soil Science & Agroecology Professor, John Reganold said although organic farming systems produces yields that were 10-20 percent less than conventional agriculture, they were more profitable and environmentally friendly. Mr Reganold added that conventional agriculture had focused on increasing yields, but at the expense of other sustainability metrics. Mr Reganold noted that organic farming delivered equally or more nutritious foods that contained less or no pesticide residues. Mr Reganold’s research showed that organic agriculture was between 22 percent and 35 percent more profitable for farmers because consumers were willing to pay more.

**First-ever marijuana growers’ fair opens in Oregon** [14 August/ NZ Herald] Oregon has held its first ever marijuana growers’ fair, including a competition for the best pot plants. The inaugural Oregon Cannabis Growers’ Fair focused on how the once illicit marijuana industry was starting to go mainstream in Oregon, one of the four states in which recreational use of marijuana was legal. The winning pot plant would be displayed at the state fair with more traditional items such as tomatoes, hogs and horses, but in a translucent greenhouse guarded by extra security.

## Economics and trade

**Food prices drop on plunging dairy** [11 August/ NZ Herald] According to Statistics New Zealand, food prices fell by 0.2 percent in July, bringing the total decrease for the year to 1.3 percent. The decreases were heavily influenced by the plunging prices of dairy products in recent months. Cheese and butter prices both fell by 11 percent with yoghurt down 9.7 percent and fresh milk decreasing by 3.2 percent. Cucumber prices reached their highest level since August 1995.

**Kiwi honey, wine face new Chinese rules** [16 August/ NZ Herald] Chinese regulations which caused upheaval in New Zealand’s infant formula industry two years ago are about to be extended to honey and wine exporters. A Ministry for Primary Industries spokesperson said the Certification and Accreditation Administration of China would require registration of wineries and honey producers next year. The spokesperson added that the registration requirements would apply to all countries that exported wine and honey to China. Unique Manuka Factor Honey Association General Manager, John Rawcliffe said it was up to the industry to have the systems and processes in place to comply with changes in Chinese regulations. New Zealand Winegrowers Chief Executive, Philip Gregan said the industry group had been aware of the planned regulations for some time.

## Farmers and producers

**Royal Event comes to the Canterbury A&P Show** [10 August/ Rural News] The Canterbury A&P Association has announced that they would host a Royal A&P Beef Cattle Event at the 2016 Canterbury A&P Show. The event would give South Island competitors the rare chance to win prestigious Royal ribbons and medals at the annual show. Canterbury A&P Association president, Warrick James said a Royal Event attracted the best stock from around the country and top judges from around the world. Winning a Royal medal was the highest honour in the showing movement. Around 100,000 people were expected to attend the show, making it the largest agricultural and pastoral show in New Zealand.

**Banks should pass on OCR cuts – farmers** [12 August/ Radio NZ Rural] Federated Farmers Dairy Chairperson, Andrew Hoggard said he was aware of situations where banks had told dairy farmers with high debt that their credit facilities could be stopped and interest rates could rise. Mr Hoggard added that this was not in the best interest of the banks because it would make it even tougher for those farms and probably put them in a higher risk category. Mr Hoggard explained that banks should pass on the Reserve Bank cuts and should not treat farms any differently to Auckland home buyers.

**Help needed for farmers affected by snowstorm — Feds** [15 August/ Rural News] Federated Farmers Adverse Events Spokesperson, Katie Milne said the Hawke’s Bay farmers affected by the snowstorm just over a week ago were in need of skilled labour and hay as they attempted to repair the damage from the event. Milne said the organisation appreciated the efforts made by Unison Networks and other companies to provide generators to restore power to farmers so they could continue with important tasks such as milking. Ms Milne added that in addition to the damaged infrastructure, damage to paddocks and fences would become more evident as the snow began to melt. Federated Farmers was calling for all able people with the skills and experience in relief milking or feeding to offer some time on affected farms to allow farmers to have a break.

## Agribusiness education

**Jacqueline Rowarth appointed as EPA’s chief scientist** [10 August/ Business Day: NZ Farmer] Waikato University Agribusiness Professor, Jacqueline Rowarth has been appointed to the new role of chief scientist at the Environmental Protection Authority. Ms Rowarth would resign from her position at the university and start in her new position at the end of October. Environmental Protection Authority Chief Executive, Allan Freeth said Ms Rowarth had a depth and breadth of experience that covered agricultural science, the environment, and agribusiness. Mr Freeth added that Ms Rowarth had established herself as a trusted voice for science and was a good communicator. Mr Freeth noted that Ms Rowarth would be in a position to use her expertise to explain the organisation’s science so that people could have trust and confidence in the decisions made.

## Rural infrastructure

**Wrightson profits soar 20pc on lower tax** [9 August/ NZ Herald] PGG Wrightson has posted a 20 percent increase in profit from \$32.8 million in the year ended June 2015 to \$39.6 million in the year ended June 2016. The increase in profit was primarily due to lower tax payments with the company’s income tax expense almost halving from \$16 million to \$8.8 million. PGG Wrightson Chief Executive, Mark Dewdney said the parts of the business which were exposed to the dairy downturn had experienced the toughest year. Mr Dewdney added that more cautious spending from the company’s dairy clients was the main reason for the small decrease in group revenue this year. PGG Wrightson would pay a fully imputed final dividend of 2 cents per share on 4 October, bringing payments for the year to 3.75 cents. The company’s shares have gained 30 percent this year and recently traded at 54 cents.

## Agri-chemicals

**Cancer all-clear given to weedkiller glyphosate by New Zealand scientific review** [12 August/ Business Day: NZ Farmer] New Zealand scientists have reviewed the evidence on the weedkiller glyphosate and determined that it was unlikely to be a cause of cancer and should not be classified as a mutagen or carcinogen under the Hazardous Substances and New Organisms Act. The review was commissioned by the Environmental Protection Authority. Glyphosate was the active ingredient in Monsanto’s Roundup and was used in much of New Zealand’s food production. Federal Farmers President, William Rolleston said he welcomed the report as glyphosate was safer than other more toxic chemicals which would have to be used in its place.

## Rural communities

**People at the heart of a profitable and resilient future for hill country farming** [12 August/ Business Day: NZ Farmer] Waikato University Economics Professor, Frank Scrimgeour said a strong, resilient rural community would ensure an environmentally and economically sustainable future for hill country farming in New Zealand. Mr Scrimgeour said vibrant rural communities were so important to the survival of hill country in New Zealand that establishing a national committee to protect these communities should be considered. Mr Scrimgeour added that a non-statutory committee with an advisory role would help solve the falling populations in rural areas. Mr Scrimgeour put forward these suggestions in a New Zealand Grasslands Association report he authored, with the association seeking feedback on the paper before the final version was released in September.

## Agribusiness strategy

**Kiwi cooperatives celebrate success** [13 August/ Rural News] Winners at the Co-operative Business New Zealand Annual Awards Dinner included Fonterra, Farmlands and FMG. The event was a celebration of co-operatives and recognised outstanding governance, leadership and enduring service across the sector. Co-operative Business New Zealand Chairman, Jonathan Lee said the winners demonstrated all that was good about the co-operative business model which placed community service and care for shareholders’ wellbeing alongside economic performance as key measures of success. Finance Minister, Bill English said co-operatives had the people, structure and culture to stand the test of time.

## Zespri

**Zespri to resume China shipments** [15 August/ National Business Review] Zespri would resume shipments to China later this week after an overhaul of the process for checking kiwifruit before they were exported. A statement from Zespri explained that its revised processes had been approved by the Ministry for Primary Industries who were now notifying the Chinese authorities. The revised processes came China’s General Administration of Quality Supervision, Inspection and Quarantine issued a risk notification and strengthened inspection and quarantine processes on New Zealand kiwifruit entering Chinese ports when it found the fungus *Neofabraea actinidiae*. The issue led to one million trays of kiwifruit being rerouted to different markets.

## Wool

**Wools of NZ urged to merge with NZ Merino** [15 August/ Business Day: NZ Farmer] Former Wools of New Zealand (WONZ) Chief Executive, Ross Townshend said the co-operative should merge with New Zealand Merino as he did not believe its balance sheet would survive past 2018. Mr Townshend’s comment resulted in WONZ Chairman, Mark Shadbolt revealing that it would declare a net profit of \$1.1 million next month. Mr Shadbolt said that for a company of WONZ’s size, a net profit after tax was a very good result for the growth it has achieved. Mr Shadbolt added that WONZ had secured Government funding for technology investment, but declined to say how much. WONZ made a loss of nearly \$1 million in 2015 due to foreign exchange rates and the costs related to replacing Mr Townshend.

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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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