

Field Notes

Weekly news update from the KPMG Agribusiness network



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Hot Off The Press:

**KPMG Agribusiness
Agenda 2016 Vol. 1**

26 October 2016

Organisations referenced in this week's Field Notes include:

Agriculture Canada	Lewis Road Creamery
BBHO	LIC
Better Cotton Initiative	Marfrig Global Foods
BlackBelly Restaurant	Meat Industry Excellence
Blue Sky Meats	Ministry for Primary Industries
China Resources Ng Fung	Murray Goulburn
Comvita	New Zealand King Salmon
Department for Environment, Food & Rural Affairs, UK	Nike
Dutch Dairy Association	Rethink – Sustainable Solutions
European Union	Rural Health Alliance Aotearoa New Zealand
Federated Farmers	SAFE
Fonterra Co-operative Group	Sealord
Global Dairy Trade	Shanghai Maling
Goodbody Stockbrokers	S Kidman & Co
Goodman Fielder	Silver Fern Farms
H&M	Synlait Milk
Hancock Prospecting	University of Waikato
Ikea	Waikato Health Board
InSymbio	Whittaker's
International Organisation of Vine & Wine	WILD Flavours & Specialty Ingredients
Labour Party	Zespri

This week's headlines

Aquaculture	New Zealand King Salmon lists on the NZX and the ASX [19 October/ Business Day]
Red meat	Heavily indebted meat ginger group rides into sunset [21 October/ Business Day: NZ Farmer]
Dairy	Government moves to make dairy industry more competitive [21 October/ Business Day: NZ Farmer]
Environment and emissions	Environment report takes 'right approach' – Farmers [20 October/ Radio NZ]
Rural infrastructure	LIC plays safe on new business split [25 October/ Dairy News]

Horticulture

Zespri's latest forecast holds profit steady; Gold returns dip [21 October/ National Business Review] Zespri has announced that it still expected profit for the 2017 financial year to fall between \$66 million and \$71 million, despite a decrease in returns from the company's gold kiwifruit varieties. The profit figure included licence revenue of \$50.2 million after tax from the release of 400 hectares of the Gold3 variety this year. Zespri Chief Executive, Lain Jager said forecasted returns for the gold varieties had increased by 4 cents to \$8.21 per tray and noted forecasted returns for Green had risen by 1 cent to \$4.22 per tray. Mr Jager added that all of Zespri's marketing programmes were now focused on supporting green sales and bringing the season to an end in good time.

Apiculture

Comvita share placement lifts Chinese investor's stake to 9% [24 October/ National Business Review] Comvita has placed 2 million shares with China Resources Ng Fung, increasing the Chinese food giant's stake from less than 5 percent to around 9 percent. Comvita said in a statement that the move would strengthen working capital and provide funding to support strategic initiatives currently under consideration. The deal would also give Comvita access to the Chinese firm's huge distribution network and thousands of Chinese supermarkets. Comvita Chief Executive, Scott Coulter said China Resources Ng Fung was a highly reputable corporation with executives who respected Comvita's culture and the need for Comvita to be a New Zealand controlled business.

Aquaculture

New Zealand King Salmon lists on the NZX and the ASX [19 October/ Business Day] New Zealand King Salmon has been listed on the NZX and ASX, with a \$1.12 share price valuing the company at nearly \$155 million. The shares rose to \$1.15 shortly after being listed before falling back throughout the day. New Zealand King Salmon will use the \$30 million raised through the initial public offering to repay debt and fund future investments. The company would spend \$15.3 million by 2018 to increase farm capacity and improve processing operations in an attempt to increase annual production to 15,000 tonnes.

Fishing

Fishing companies laud 'best season in many years' [21 October/ Business Day] Sealord Fishing General Manager, Doug Paulin said the company had experienced one of the best hoki seasons in years, with larger fish than usual and a high catch rate. Mr Paulin explained that a key consideration in spending \$70 million on a new boat was the health of the industry, and the positive results were a good indication that the fishery was in a healthy state. Hoki was one of the most commercially valuable fisheries in New Zealand with a market value of more than \$800 million.

Red meat

Age ousts three directors [20 October/ Otago Daily Times] Three directors of Blue Sky Meats have been forced to step down from the board of the company due to a clause in the company's constitution prohibiting any individual from being a director once they reached the age of 65. One of the directors forced to stand down was Blue Sky Meats Founder, Graham Cooney. Blue Sky Meats Chairman, Mr O'Donnell said he did not know that the clause existed until recently. Mr O'Donnell added that the process of appointing replacement directors had not yet been discussed as the board was busy exploring possibilities for the company's future.

Heavily indebted meat ginger group rides into sunset [21 October/ Business Day: NZ Farmer] Meat Industry Excellence has announced that it would be bringing an end to its operations after multiple defeats in its attempts to reform the meat processing industry. The lobby group was formed in 2013 by farmers concerned about poor returns to red meat farmers. Meat Industry Excellence Chairman, Dave McGaveston said members of the group had accumulated huge debt over the last year in an effort to keep the organisation going. Mr McGaveston added that the media had not given the group a chance, and it would have sued one particular news organisation if it had the funds to do so. Mr McGaveston said he feared for the future of the industry, predicting that Silver Fern Farms' deal with Shanghai Maling would have a big impact in years to come. Mr McGaveston added that giving control of our processing and exporting sector to foreign interests would be a disaster for New Zealand red meat farms in the long term.

Silver Fern Farms not interested in bidding war [21 October/ Rural News] Silver Fern Farms will receive a \$261 million cash injection when its deal with Shanghai Maling came into force on 4 January 2017. Silver Fern Farms Chairman, Rob Hewett said the money would not be used to start a bidding war for new season lambs, but the company's balance sheet was now better prepared for one if it occurred. Mr Hewett said the company had not yet decided on prices for the new season as it was very challenging to work out where they were going to be with large foreign exchange movements in the last 12 months.

Dairy

Dairy prices firm at latest auction [19 October/ Otago Daily Times] The average dairy price increased by 1.4 percent to USD 2,965 at the recent Global Dairy Trade auction. The increase partially offset the 3 percent decrease in the Global Dairy Trade index at the previous auction. The price of whole milk powder, which heavily influences payments to New Zealand farmers, rose by 2.9 percent to USD 2,760 per tonne. The price of butter increased by 2.6 percent to USD 3,984 per tonne, while the price of cheddar fell by 3.7 percent to USD 3,290 per tonne.

New Zealand's clean and green image no selling point for Synlait chief [20 October/ Business Day: NZ Farmer] Synlait Milk Chief Executive, John Penno said New Zealand's clean, green image was not a selling point for the country's primary industries. Mr Penno explained that New Zealand did not have a monopoly on beautiful clean green places, although he added that we acted as though we did. He said we cannot expect customers to pay a premium for clean and green. Mr Penno said Synlait had actively tried to distance itself from the New Zealand image and instead create brands and partnerships based on the company's own attributes and capabilities. Mr Penno noted that market research in the United States showed that consumers were no longer as keen on organic products as they had lost confidence in them.

Government moves to make dairy industry more competitive [21 October/ Business Day: NZ Farmer] Goodman Fielder Managing Director, Tim Deane said the Ministry for Primary Industries' plans to change the way in which the dairy industry was regulated was an important step in ensuring New Zealand customers continued to get competitive prices and choice. The proposed changes would remove the requirement for Fonterra to sell regulated milk to large exporting processors from the start of the 2019/20 season. The changes would also give Fonterra discretion over whether to accept applications from new dairy conversions to become shareholders.

Fonterra directors to retire [21 October/ Dairy News] Fonterra Directors, Malcolm Bailey and Ian Farrelly have informed the co-operative that they would be retiring from the board of directors on 8 December. Fonterra Chairman, John Wilson said Mr Bailey and Mr Farrelly were dedicated and experienced directors who shared a strong commitment to co-operative principles and Fonterra's strategy of converting more milk into higher value products. Mr Wilson added that he would like to thank Mr Bailey and Mr Farrelly on behalf of Fonterra's farmers for their contribution and commitment to the co-operative.

MPI welcomes Innovation Award enabled by PGP investment [21 October/ Ministry for Primary Industries Media Release] The Ministry for Primary Industries was delighted to acknowledge the receipt of the Innovation in Food and Beverage Award by Fonterra at the 2016 New Zealand Innovation Awards for its innovative nutrition products. Ministry for Primary Industries Investment Programmes Director, Justine Gilliland said the award was a fitting acknowledgement of the cutting edge research enabled by the Government's Primary Growth Partnership programme. Ms Gilliland explained that the research ensured infant formula provided the necessary nutrition to help grow children's minds.

Lewis Road launches chocolate butter [24 October/ Dairy Reporter] Lewis Road Creamery and Whittaker's have created what is believed to be the world's first chocolate butter. The chocolate spread combined Lewis Road Butter with Whittaker's 72% Dark Ghana Chocolate. Lewis Road Creamery Founder, Peter Cullinane said he thought the butter would primarily be used as a spread on breads and pastries, but could easily be used as an ingredient for cooking. Mr Cullinane said if the product was as successful as he expected it to be in the local market, then it would be a great product for exporting as well. Lewis Road Creamery Chocolate Butter was available from 20 October from specialty food stores and most major supermarkets for a recommended retail price of \$8.99.

Fonterra launches review after China milk powder arrests [25 October/ Radio NZ] Fonterra has launched an internal review after 19 people in China were arrested for repackaging and trying to sell 276 tonnes of expired Fonterra milk powder that should have been destroyed. Fonterra Milk Products Brand Manager, Kelvin Wickham said the company had rules for on-selling, but they only went so far and the milk powder could have been on-sold multiple times before reaching the criminals. Mr Wickham said Fonterra would now look at what else it could have done to prevent the repackaging. Deputy Prime Minister, Bill English said the seizure of expired milk powder in China showed food safety rules were being strengthened there. Mr English added that the discovery would not be a significant challenge for Fonterra as no one connected with the company was involved.

Environment and emissions

Environment report takes 'right approach' – Farmers [20 October/ Radio NZ] Federated Farmers Vice President and Climate Change Spokesperson, Anders Crofoot said the Parliamentary Commissioner for the Environment's report on climate change and agriculture was useful and a good starting point. The report explained that inclusion of agriculture in the Emissions Trading Scheme was not the only way forward, as other things could be done. These other things included developing a methane reducing vaccine, using more feed pads, cutting stock numbers on farms, and planting more forests. Labour Party Climate Change Spokesperson, Megan Woods said New Zealand must begin the transition to lower emission farm production systems.

Research and development

Kiwifruit Psa saviour celebrated at awards [21 October/ NZ Herald] Zespri has won the Sustained Innovation Excellence Award and Export Innovator of the Year Award at the New Zealand Innovation Awards evening for its SunGold kiwifruit variety. Zespri New Cultivar Development Operations Manager, Bryan Parkes said the awards were a real boost for the researchers who had worked on the programme over the last few years. Mr Parkes explained that SunGold was fundamental to the industry's recovery from the Psa disaster and had proved hugely successful with consumers. Mr Parkes said Zespri had a red variety and a new green variety in precommercial trials, with a commercialisation decision to be made in the next few years depending on how successful they were expected to be.

Biosecurity

MPI ready to handle foot-and-mouth disease outbreak [21 October/ Business Day: NZ Farmer] Ministry for Primary Industries Acting Director of Investigations, Diagnostic Centres and Response, John Sanson said the Ministry for Primary Industries (MPI) was prepared to manage a foot-and-mouth disease outbreak after a successful exercise was held on a Waikato farm. Mr Sanson explained that MPI had wanted to test their operational plans for destroying animals, disposing of carcasses, quarantining a property, and disinfecting vehicles and equipment. Mr Sanson added that although New Zealand's strict border controls meant the likelihood of foot-and-mouth disease entering the country was very low, MPI wanted to be prepared for an outbreak. No animals were involved in the exercise.

International

Brazilian beef producer Marfrig calls Asia main growth area [18 October/ Reuters] Marfrig Global Foods Vice President of Finance, Jose Eduardo de Oliveira Miron said the Brazilian company expected the majority of growth in beef consumption to occur in the Asia-Pacific region in coming years. Mr Miron said China and the United States had opened up their markets to Brazilian fresh beef in 2015, but the company would focus on natural growth rather than mergers and acquisitions. Mr Miron explained that demand from Asian markets was expected to increase and be met by an increased quantity of imports. Mr Miron explained that a small per capita increase in Chinese beef consumption could be equivalent to all of Brazil's current annual beef exports. Mr Miron noted that he expected Mexico and Canada to be the next markets to open their markets to fresh beef from Brazil.

Murray Goulburn cuts milk price, production forecasts [20 October/ NZ Herald] Murray Goulburn has decreased its milk price forecast from AUD 4.88 per kilogram of milk solids to AUD 4.70 per kilogram of milk solids. Murray Goulburn said in a statement that the unusually wet weather this year meant milk production could fall by 20 percent or 2.7 billion litres. The statement added that the company would continue to work with stakeholders to ensure the industry was taking appropriate action to address these adverse conditions. The statement noted that after tax profit for the 2016-17 financial year would now be lower than the previous forecast of AUD 42 million.

WILD on trend with vegan protein power drinks and Clarisoy dessert toppings [20 October/ Dairy Reporter] WILD Flavours & Specialty Ingredients Product Manager, Wolfgang Feile said the company was tapping into the vegan market with its protein drinks and Clarisoy dessert toppings. Mr Feile said the growth rate for new launches of vegan foods and drinks had reached 400 percent between 2011 and 2015. Mr Feile said this showed that vegan diets had established themselves in society and there were no signs of the trend reversing. WILD is part of the Archers Daniel Midland group of companies.

Forget Organic, Retailers Increasingly Are Turning to Sustainable Cotton [20 October/ Bloomberg] According to some estimates, the cultivation of cotton accounts for up to 17.5 percent of global insecticide sales, making some people consider it as the world's dirtiest crop. Some companies such as Nike have used organic cotton produced by farmers who enrich their soil with compost, but the product was too expensive for most customers. Organic cotton cost around USD 2.20 per pound, while conventional cotton cost around USD 0.61 per pound. The higher cost meant less than 1 percent of the world's cotton production is organic. However, companies such as H&M and Ikea have signed on to the Better Cotton Initiative, a coalition of farmers, garment makers and retailers committed to producing and using sustainable cotton at accessible prices. Farmers who were part of the initiative were taught how to grow sustainable cotton using less pesticides but at a cost close to that of regular cotton.

Leadsom pledges best post-EU deal for farmers [21 October/ Farmers Weekly] United Kingdom Department for Environment, Food & Rural Affairs Secretary, Andrea Leadsom said she was determined to get the best trade deal for United Kingdom farmers after the country's vote to leave the European Union. Ms Leadsom added that she wanted to continue to maximise trade possibilities with the European Union, but there were also enormous opportunities around the world. Ms Leadsom said she was aware of the potential tariff and non-tariff barriers that may arise, but the ministry would do all it could to minimise these.

China lays out plan for agricultural modernization by 2020 [21 October/ China Daily] The new five year plan for agricultural from Chinese State Council showed the country would strive to ensure food security, improve the quality and efficiency of farm produce supply, and enhance the sector's international competitiveness by 2020. The plan added that modern agriculture should be established in suburbs around the country's major cities and in eastern coastal developed regions. The plan explained that fiscal and financial support would be given to the agricultural sector, while better land policies and farm produce market regulations would be introduced.

Dutch dairy can cut it without EU price supports – execs [22 October/ NZ Herald] Dutch Dairy Association International Affairs Director, Jan Maarten Vrij said the Dutch dairy industry did not support the European Union's payments to farmers for producing less than they did in the corresponding period in the previous year. The European Union currently paid farmers EUR 0.14 per kilogram of milk solids to farmers who met the lower production criteria. Mr Vrij explained that the industry would rather not have the complication of support payments, with the majority of farmers believing the government was not responsible for their income. Mr Vrij noted that the Dutch dairy sector was competitive on the world market.

World wine output nears 20-year low as rain, frost hit vineyards [22 October/ NZ Herald] According to estimates from the International Organisation of Vine & Wine, the volume of wine produced globally may fall 5.3 percent from 273.9 million hectolitres to 259.5 million hectolitres as a result of adverse weather in France and excess rain which ruined grape harvests in South America. International Organisation of Vine & Wine Director General, Jean-Marie Aurand said production would be at one of its weakest levels in the past two decades. Ms Aurand explained that the El Nino weather patterns meant more frosts and rain, leading to losses when the grapes were harvested. Chile's wine production was expected to decrease by 21 percent this year, while volumes in Argentina could fall 35 percent.

Marijuana-based cuisine and wine mature – slowly [22 October/ China Dai] BlackBelly Restaurant in Colorado has begun pairing some of their meals with different strains of marijuana at special events as the legalisation trend continued to spread throughout the United States. BlackBelly Restaurant Head of Catering, Corey Buck said he talked with the marijuana growers to understand what traits they saw in the marijuana, such as citrus or herbal, so that he could pair them with items on the restaurant's menu. Colorado law meant the guests of the special event held at the restaurant had to purchase their marijuana separately from their meal, and in the case of the desert, grate marijuana infused chocolate onto their own ice-cream.

Food policy; Why a new national strategy on food can't satisfy all [24 October/ The Globe and Mail] Canadian Prime Minister, Justin Trudeau included the development of a national strategy on food be developed as one of his election pledges last year, with a goal of promoting healthy living and safe food by putting healthier and higher quality food, produced by Canadian ranchers and farmers, on the tables of families across the country. Agriculture Canada Assistance Deputy Minister, Greg Meredith has been given the task of creating such a policy. Mr Meredith said his committee would focus on four key areas including health, food security, the environment, and sustainable growth in the food and agriculture sector. Mr Meredith added that consultations were set to begin in the new year, with a draft policy expected to be unveiled before the end of the current term of government.

Brexit causes a wave of volatility in Irish food industry [24 October/ The Irish Times] Goodbody Stockbrokers Corporate Banking Director, Joe Gill said in an opinion piece that Brexit has caused turbulence and volatility for everyone involved in the Irish food industry. Mr Gill explained that the 15 percent decrease in the value of the pound compared to the euro over the last four months could lead to ugly consequences given that the Irish agricultural industry depended on exports to the United Kingdom. Mr Gill added that Irish farmers and producers operate with very small margins, meaning a large shift in foreign exchange rates could have a large impact on profitability.

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Your trash is our treasure: InSymbio's digital marketplace for by-products [24 October/ Food Navigator] An Italian engineering and technical consulting firm, Rethink – Sustainable Solutions, has developed InSymbio, an online marketplace for trading biomass, residues and by-products from the agricultural and forestry sectors. Rethink – Sustainable Solutions Chief Executive Officer, Stefano Esposito said he thought of the idea after realising that 33 million tonnes of bio-based materials were wasted every year. Mr Esposito explained that the cheap bio-based waste materials could be used to produce fuels, fibres, feed and chemicals, but there were a lack of sales channels until now.

S Kidman and Co: Gina Rinehart's company claims bid price 'essentially the same' as Australian syndicate [24 October/ ABC News] Hancock Prospecting recently made an AUD 365 million bid for the Kidman cattle empire, but the BBHO syndicate has now made an offer which it claimed was superior to Hancock's. However, Hancock Spokeswoman, Sophie Mirabella said the price of the two bids were essentially the same when Anna Creek Station was added to the calculations. Anna Creek Station would be included in the deal with the BBHO syndicate but not in the deal with Hancock. In addition, Kidman would have to pay AUD 4 million to Hancock if it walked away from the bid agreement between the two parties, meaning there was very little difference in the monetary offers.

Rural infrastructure

LIC plays safe on new business split [25 October/ Dairy News] LIC has announced that its herd testing and Minda businesses would remain within the core co-operative after LIC split its business into two on 1 December. The diary improvement company would split into a co-operative, LIC, which would focus on its core business, and a company, LIC Agritech, which would seek external capital to grow and boost shareholder returns. LIC Chairman, Murray King said the decision was made after shareholders expressed their concerns over transferring herd testing and Minda to a company that could one day be publically listed.

Animal welfare

Rodeos 'animal abuse for entertainment' – SAFE [22 October/ Radio NZ] SAFE Campaigns Officer, Marianne MacDonald said people should not attend rodeo events this season as it was cruel to the animals. Ms MacDonald added that calf roping and the use of flank straps, which made horses and bulls kick, was especially cruel. Ms MacDonald explained that if people did not go to rodeos, the organisers, sponsors and competitors may be forced to give up. Ms MacDonald added that it was basically just animal abuse for entertainment. Ms MacDonald noted that a recent poll showed two thirds of New Zealanders were against rodeo.

Rural communities

Proposed rurally-focused medical school wins praise [21 October/ Rural News] The Government was currently considering a proposal put forward by the University of Waikato and the Waikato Health Board to establish a new rurally focused medical school in New Zealand. Rural Health Alliance Aotearoa New Zealand Chief Executive, Michelle Thompson said the organisation welcome the proposal. Ms Thompson added that it was a top priority of the organisation to ensure that there was an appropriate number of health professionals in rural communities, as there was currently a serious shortfall.

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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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