

AGRIBUSINESS

# Field Notes

Weekly news update from the KPMG Agribusiness network

Holiday catch up edition: 25 January 2017

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

Alliance Group	Massey University
Apiculture New Zealand	Mengniu
ASB Bank	Modern Dairy
Australian Livestock Exporters Council	Ministry for Primary Industries
Beef+Lamb New Zealand	Murray Goulburn
Bellamy's Australia	National University of Singapore
Binxi Cattle Industry Co	Ngai Tukairangi Trust
Blue Sky Meats	NZ Rodeo Cowboys Association
British American Tobacco	NZ Winegrowers
Campbell's Soup Company	NZX Agribusiness
Cawthron Institute	O'Dywers Creek Vineyard
ChemChina	Opuha Water
Chobani	Organic Trade Association (US)
Comvita	PETA
Derma Sciences	PGG Wrightson Real Estate
DoorDash	Plant and Food Research
DuPont Nutrition and Health	Rabobank New Zealand
EasiYo	Real Estate Institute of New Zealand
Fairtrade Australia and New Zealand	Reynolds American Inc
Feijoa Growers Association	Sealord
Federated Farmers	Silver Fern Farms
Fonterra Co-operative Group	Sinochem
Food-X	Starship Technologies
Forest and Bird	StockX
General Mills	Sushi Zanmai
Greenpeace	Syngenta
Horticulture New Zealand	Tenon
Hurunui Water Project	University of Technology Sydey
Kellogg's Company	US Department of Agriculture
KFC China	US Dairy Export Council
Kuli Kuli	VCA Inc
Lewis Road Creamery	Waikato Regional Council
LMVH	World Trade Organisation
Marlborough Lines	Yealands Wine Group
Mars Inc	



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Hot Off The Press:

**KPMG Agribusiness  
Agenda 2016 Vol. 2**

## 21 December 2016

**Federated Farmers team up with StockX** [Farmers and producers /Rural News] Federated Farmers CEO, Graham Smith, has announced that the organisation has signed a partnership agreement with StockX enabling its members to save money and easily and securely trade stock online. Mr Smith said that the trend to doing business on line was as prevalent in the rural sector as any other part of the economy and StockX provides farmers with a more flexible platform to trade stock. StockX was launched in 2015 and since then 1,500 farmers have registered to trade, with registration and listing being free and farmers paying a 2.5% commission on sales. The platform enables farmers to trade stock more easily beyond their immediate district. StockX welcomed the relationship with Federated Farmers.

**Global Dairy prices dip** [Dairy /Rural News] The Global Dairy Auction recorded its first loss in five auctions at the final event of the year. Prices dipped slightly with the overall price index falling 0.5% while the key whole milk price fell 0.8% to USD3,568 per tonne. The drop is not expected to impact forecast payouts. Butter, cheddar, rennet casein all recorded price increases while AMF and lactose fell and skimmed milk powder was unchanged.

**Australian meat chief targets China and Saudi in 2017** [International /Food Navigator Asia] Australian Livestock Exporters Council (ALEC) CEO, Simon Westaway, says that market diversification is a key priority for the Australian livestock industry in 2017. Mr Westaway says that there is great anticipation about improved feed and slaughter cattle trading with China as well as the long awaited re-opening of the Saudi Arabia sheep meat market. Currently Indonesia accounts for roughly 75% of cattle export trade and Mr Westaway noted that trading with China will add significant value to the industry and provide additional marketing options to cattle producers.



**China to improve farmers' income, agricultural product quality** [International /China Daily] A two day meeting of the central rural work conference has stressed the need for better quality and efficiency in Chinese agriculture with product mix, management and regional planning being highlighted as top priorities for 2017. President Xi Jinping has previously stated that China will seek new growth engines in agriculture and rural areas to improve productivity and competitiveness and as a consequence a structural overhaul of the sector was high on the government's work agenda for the coming year. The country has plenty of ordinary produce but very few high-quality, branded agricultural products meaning that Minister of Agriculture, Han Changfu, is expecting reforms to be market orientated to meet the demands of consumers.

## 22 December 2016

**Lewis Rd drops Fonterra legal action** [Dairy /NZ Herald] Lewis Road Creamery will not pursue legal action against Fonterra as it has discovered that a deal between the co-operative and Foodstuff supermarkets does not include premium brands. Lewis Rd Managing Director, Peter Cullinane, had claimed that Fonterra had negotiated a greedy deal with the supermarkets designed to limit the ability of smaller dairy brands to get chiller space. Mr Cullinane said that lawyers for both sides had found a resolution and confirmed the Fonterra deal excluded premium milk products, allowing smaller companies to retain chiller space and to compete with the co-operative. Fonterra Brands Managing Director welcomed Lewis Rd's decision not to proceed and was pleased the parties had been able to talk through the matter.

**Trade deficit beats forecasts** [Economics and trade /Otago Daily Times] Falling beef and lamb exports, including a 50% decline in US beef exports, resulted in an unexpected \$705 million trade deficit for November. The deficit was the fifth consecutive month of deficit. The deficit was worse than expected due to a heavy drop off in the amount of meat sold compared to the prior year and a slower increase in dairy prices than expected. Economists are expecting the trade balance to improve as we move into 2017 reflecting rising dairy prices.

**Farmers' confidence in beef and lamb drops** [Farmers and producers / Radio New Zealand Rural] Figures from Beef+Lamb New Zealand indicate that farmer confidence in the beef and lamb sector dipped 11 per cent in the last four months of 2016 as exports have fallen in both volume and value. B+LNZ CEO, Sam McIvor, said that confidence was generally stronger in the North Island, but in the South where farmers are generally sheep dominated confidence is much lower as farmers are expecting lower lamb prices as well as wool prices having fallen. Mr McIvor added that factors like Brexit were further impacting the confidence of sheep farmers. He also noted that there was confidence in the long term fundamentals of the industry; an industry which produces high quality, safe products for an ever increasing and discerning global consumer. As part of capturing this value Beef+Lamb is working on developing a unique red meat story that explores the values of NZ sheep and beef farmers and the ethical drivers they have for producing the best beef and lamb.



## 23 December 2016

**Jeremy Anderson new head of NZX Agri** [Rural Infrastructure /Business Day] Jeremy Anderson has been announced as the new head of Agribusiness for NZX and will take up his new role on 1 March 2017. Mr Anderson was previously Vodafone's national agribusiness manager and he has been involved in the rollout of the Rural Broadband Initiative. He has also worked as an independent agronomy consultant and a sales manager for a fertiliser company. Mr Anderson has also completed the Kellogg Rural Leadership Programme in 2015.

**NZ wins beef trade dispute** [Red Meat /Radio New Zealand Business] New Zealand and the USA have won a trade dispute with Indonesia at the World Trade Organisation. The action was taken following Indonesia's imposition of restrictions on importing food and animal products, including beef and poultry. The WTO found that all 18 of Jakarta's measures were prohibited under the organisation's rules and urged Indonesia to bring its measures into line. Trade Minister, Todd McClay, said the ruling was an important result for New Zealand farmers and that trade access had already improved with Indonesia. The restrictions are estimated to have cost the NZ beef industry between \$500 million and \$1 billion.

**Tenon in exclusive talks to sell remaining NZ operations** [Forestry /National Business Rules] Having completed the sale of its US operations for USD110 million, Tenon said it was in exclusive talks with a potential buyer of its New Zealand operations which, if completed, would see the former Fletcher Challenge entity wound up. The announcement came as Tenon made a USD71 million distribution to shareholders through the cancellation of 1 in 2 shares in return for a payment to shareholders of \$2.20. Tenon said if the sale of the Clearwood New Zealand business, based in Taupo, is completed surplus cash would be returned to shareholders and the company liquidated.

**Eleven fancy food trends you'll face in 2017** [International /Bloomberg] The team at Bloomberg Pursuits have prepared their list of food and drink talking points that should be paid attention to as we move into 2017. These include the emergence of artisanal butcher shops (people are eating less meat but when they do they are looking for elite, pricey cuts), vegetables increasingly taking over the centre of the plate at the expense of meat entirely, the explosion of Filipino food (the re-emergence of the original fusion cuisine), increased focus from celebrity chefs and restaurateurs on reducing food waste, the emergence of chilled red wines and high tech cocktails (utilising sous vides machines and centrifuges), the fast foodisation of cereal (following the opening by Kelloggs of a cereal restaurant in Times Square) and the introduction of more charcoal to food and drink, for not only the dramatic looks but purported health benefits (including detoxification).



24 December 2016

**KFC launches first AI enabled outlet in Beijing** [International /China Daily] KFC China launched its first artificial intelligence enabled smart store in the Financial Area of Beijing in December in co-operation with Baidu Inc, China's largest search engine. Photographic sensing technology is being used to recommend to customers menu choices that match their gender, age and mood, the technology will also remember consumers previous orders and their dining habits. There are also ways consumers can interact with the restaurant and augment their experience through social media and other options KFC are trialling include intelligent robot ordering. A spokesperson said that KFC is committed to expanding its smart restaurant footprint, creating more innovative and interesting dining experiences for customers.



26 December 2016

**Feijoas under threat from crop-destroying moth** [Biosecurity /Radio New Zealand News] A feijoa grower has found the crop-destroying guava moth breeding in the plant's flowers. The moth, which was first found in Northern New Zealand around 20 years ago, attacks the feijoa as it makes a pinprick hole as it burrows into the fruit, ruining the product. Very little is known about the pest and growers are calling on the government to help fund further research so it could be managed. The Ministry for Primary Industries said that it was considering an application from the Feijoa Growers Association for funding under the Sustainable Farming Fund.

27 December 2016

**Growing mega-cities will displace vast tracks of farmland by 2030, study says** [International /The Guardian] A new report from the Mercator Institute on Global Commons and Climate Change in Berlin suggests that future crops face threats not only from climate change but also the massive expansion of cities. The report warns urban areas could triple in size by 2030, taking over cropland and undermining agricultural productivity. It is estimated that 60% of the world's prime cropping land lies on the outskirts of cities, with this land being twice as productive as other land around the world. The biggest challenges will be faced in Asia and Africa where the impacts of urbanisation and the productivity differentials between prime land and peripheral land are greater. The report warns that unchecked urbanisation will make cities more dependent on importing food increasing food security risks.



29 December 2016

**Vegetarian schnitzel faces ban in meat loving Germany** [International /Daily Telegraph] Christian Schmidt, Germany's Agriculture Minister has called for a ban on vegetarian alternatives sharing names with their meat based inspirations. He says terms such as vegetarian schnitzel are misleading and unsettle consumers and favours a ban in preference of clear consumer labelling. Mr Schmidt was not clear on what the alternative names for products like vegan currywursts should be (a vegan curry sausage) but has in the past been quoted as saying what is on the label should be in the product, preferring meat substitutes to adopt names that are entirely different from the food that they are trying to imitate.



30 December 2016

**Threat to Kiwi manuka industry from the Oz Honey Project** [Apiculture/ Business Day: NZ Farmer] Australian beekeepers are buzzing about a plan to challenge New Zealand's dominance in the active manuka honey market. Work has been led by researchers from the University of Technology Sydney, who have sought to identify the most potent varieties amongst the more than 80 leptospermum species in Australia. Work is also progressing on branding (with trademarks filed for 'Tasmanuka' and 'Active Jellybush Honey: Australia's Manuka' already lodged. The work is intended to capture some of the premium New Zealand generates on Manuka Honey and has been funded by the Australian Government.



**Wine and power lines a good match as Yealands deal starts to pay off for Marlborough Lines** [Viticulture /Business Day] Customers of Marlborough Lines, the electricity distribution business in the Marlborough region, can expect a payout three times greater than last year as a result of the businesses acquisition of Yealands Wine Group in 2015. The customer dividend has increased from \$50 last year to \$150 this year following Yealands making a profit of about \$10 million in the year to 30 June, from which Marlborough Lines accounts for its 80% interest. Yealands had declared a dividend of \$4.4 million, which would fund the customer distribution. Marlborough Lines Chair, David Dew, said he expected Yealands profits to increase in future years funding further growth in the dividend paid to each customer.

**Fancy clinking glasses of lychee or durian wine?** [International /Straits Times] Researchers at the National University of Singapore have successfully created wines from tropical fruits including mango, papaya, lychee and durian. The challenge for researchers was in getting fermentation to work on fruits that have a much lower sugar content than wine grapes, given that yeast requires sugar to synthesise other compounds. The solution was found in friendly bacteria to undertake a malolactic fermentation, which enhances the wine's flavour and adds aromatic compounds. Tropical fruit wines remain in research phase but there is commercial interest, with economic potential in countries with an abundant supply of such fruit.



## 4 January 2017

**Sealord profit more than double** [Fishing/ Otago Daily Times] Sealord reported a climb in net profits of \$14 million to \$22.9 million for the year ended 30 September 2016 from revenues up 5.3% and improved gross margins. CEO, Steve Yung, said in December that the company had experienced a good year with better catch volumes, better pricing and tighter controls over overhead and administrative expenses.

**Leadsom pledges GBP5 billion savings for farmers** [International /Daily Telegraph] The UK's Environment Secretary, Andrea Leadsom, is announcing a series of measures that will save UK farmers GBP5 billion a year following the UK's exit from the EU. The UK government is proposing to scrap rules which require farmers to pay for and display billboards that publicise the EU contribution for grants to grow their business. Rules around which crops farmers must plant will be dropped (freeing farmers to grow the crops that consumers want) and farm inspections will be replaced by aerial photography.



## 5 January 2017

**Dairy prices dip again** [Dairy/ Otago Daily Times] The first Global Dairy Trade auction of the year saw prices fall for the second consecutive auction as volumes sold increased. The price index fell 3.9% to USD3,463 with 22,396 tonnes of product being sold. The price for whole milk powder fell 7.7% to USD3,294 while skimmed milk powder firmed 2.3%. The auction saw the lowest number of bidders for 15 events. ASB Chief Economist, Nick Tuffley, said even with the dip the annual gain was impressive and suggested that WMP may challenge USD4,000 a tonne in the coming months. Butter and cheddar gained while AMF, lactose and rennet casein fell.



**Bluefin tuna goes for \$632,000 in first Tsukiji auction of 2017** [International /NZ Herald] A winning bid of YEN74.2 million for a 212 kilogram Bluefin tuna saw Kiyoshi Kimira, owner of the Sushi Zanmai chain, win the annual new year auction for this prized but imperilled species. The bid was the second highest recorded and represented a price of \$2,981 per kilogram. The Japanese are the biggest consumers of the torpedo shaped Bluefin tuna and surging demand has experts warning the species could go extinct if the market is not properly managed and overfishing continues. Analysis suggests in some regions harvesting levels are three times the sustainable level of catch.



## 6 January 2017

**What a difference a year has made to the Opuha Dam** [Water/ Business Day: NZ Farmer] Opuha Water CEO, Tony McCormick, has noted that the dam has started 2017 full to the brim having been at low levels at the same time in each of the last two years (41% in at the start of 2015 and 66% at the start of 2016). He noted irrigation demand had been quiet during November and December compared to the last two years when the dam was irrigating flat out. The company has also commissioned a downstream weir upgrade providing the opportunity to maintain lake levels at or above 100%.

**Marlborough wine company O'Dwyers Creek Vineyard finds niche with kosher wines** [Viticulture/ Business Day] Lindsay Dahlberg, owner of O'Dwyers Creek Vineyard saw his business become the first company to start making Kosher wine in the Marlborough region when friends highlighted the demand for a kosher sauvignon blanc. The first vintage was made in 2010. Kosher wine is made by a Mashgiach, an orthodox Jew that oversees the production process. Mr Dahlberg notes the market is niche and there are logistical challenges to making the wine (in particular traditional fining agents can't be used). The wine is exported to Canada, England, Australia and the US and competes not only on its Kosher status but also its single vineyard quality.

**Massey prof recognised for animal welfare work over 29 years** [Animal welfare/ Business Day: NZ Farmer] Professor David Mellor from Massey University has been awarded the Best Animal Welfare Academic in New Zealand by the Global Health and Pharma magazine. Professor Mellor has worked at Massey for 29 years, but said the award was as much about the contribution made by his teams over the years as him. His work has been focused on providing practical, science-based and ethical advice, education and solutions to animal welfare problems, including work on developing animal welfare codes and regulations to support their credibility.

**Mengniu buys out Modern Dairy for HKD6.9 billion** [International /South China Morning Post] China's second largest dairy producer has announced that it will pay a 3% premium to market price to take control of Modern Dairy, the company controlling China's largest dairy herd. Modern Dairy which supplies raw milk to a number of dairy companies is growing its output of high quality and stable raw milk critical to enabling Chinese dairy companies to assure consumers about the safety of their milk supply. Controlling Modern Dairy provides Mengniu with highly recognised production standards to enhance its offerings of safe and premium dairy products.



## 10 January 2017

**Forestry workers gearing up for busy few years in Taranaki as sections mature** [Forestry/ Business Day: NZ Farmer] Taranaki's logging contractors are gearing up to handle a bumper crop over the next few years as trees planted over two decades ago reach maturity. The region has 19,000 hectares of Radiata pine, 80% of which will be harvested over the next five years, with Port of Taranaki already seeing a lift in the amount of timber being exported. With such a major workload ahead, an event was organised to welcome contractors back to work and remind them of the need to look out for themselves and their work mates to ensure that everybody goes home safely from the first day back.

**South Canterbury no longer in drought** [Drought/ Timaru Herald] The Ministry for Primary Industries has announced that the South Canterbury region's drought classification was not extended at the end of December following a recovery in the soil moisture levels. A medium scale adverse event was declared in Marlborough, Canterbury and parts of Otago in February 2015 and extended in June 2016. Federated Farmers regional President, Mark Adams, said the lifting of drought conditions in South Canterbury was good news for farmers and reflected substantial rain in the last two months.



**More kiwis willing to pay for ethical shopping** [Agribusiness strategy/ Business Day] Sales of Fair Trade products have increased 17% in Australia and New Zealand in the past year as more consumers put their money where their mouth is when it comes to sustainable and ethical products. Recent market research suggested that 71% of Kiwi's say that they were willing to pay more to get the best organic, sustainable and ethically produced products while 83% would stop buying if they heard about a company being irresponsible or unethical. CEO of Fairtrade Australia and New Zealand, Molly Harriss Olson, said the trend reflected rising concerns about origins of the food and better access to information.

**Further upside for dairy price rally** [Dairy/Rabobank NZ Press Release] Rabobank's latest Global Dairy Outlook suggests that reduced supply from key export regions, including New Zealand, will fuel further price increases in the first half of 2017. Six of seven major export regions saw production contract in the second half of 2016, although the US bucked the trend driven by a strengthening of producer margins. Rabobank analyst, Emma Higgins, noted that at the same time as supply was falling, demand strengthened meaning inventory growth has halted and prices increased. With reduced cow numbers and challenging production conditions, Rabobank expect volume recovery may be delayed until the second half of 2017 creating further short term price pressure. Ms Higgins did caution that the recovery will remain bumpy, with the key factors to watch being currency movements, the affordability of dairy products, the impact of Chinese buying, developments in emissions standards in the Netherlands and new regulations being introduced in California.

**Candy and gum are no longer Mars' biggest business** [International/NZ Herald] Mars Inc, one of the world's largest confectionary businesses, has taken a further step to diversify its business through the acquisition of VCA Inc, a veterinary and pet business based in Los Angeles, for USD7.7 billion. Mars has been in the pet food sector for over 80 years and already owns a chain of veterinary clinics and hospitals, but the VCA acquisition will grow the pet business into the Group's largest segment. American's spend USD63 billion on their animals according to market data reflecting the fact that consumers see their pets as part of the family and meaning that they are prepared to pay whatever it costs to keep beloved pets around as long as possible. It is also noted that there is growing research that pets help keep people healthy. Mars is a private company but is believed to have revenues of around USD35 billion per annum from its five business segments.



## 11 January 2017

**Meat co-op offers new app to farmers** [Red Meat/ Rural News] Alliance Group has launched the Farm Alliance app to its 5,000 farmer shareholders to provide them with a range of resources to help them manage the processing of their stock. The app enables farmers to see their livestock processing results in real time, access kill sheets, make booking requests and receive industry updates. The app is a demonstration of Alliance's co-operative business strategy as it works to improve performance and lift returns to farmer shareholders. The app is available for free from Apple App Store or the Google Play Store.

**MG appoints new Managing Director** [International/ Dairy News] Australian dairy co-operative, Murray Goulburn, has appointed Ari Mervis as its new Chief Executive Officer. Mr Mervis joins MG from SAB Miller where he most recently was Managing Director of the Group's Asia Pacific and Australian based businesses. The board of MG noted that they were pleased to have secured a candidate with a proven track record of delivering results and operational success across multiple geographies.



**DuPont announces EUR57 million European dairy investment** [International/ Food Navigator] DuPont Nutrition and Health is to invest EUR57 million in expanding production facilities in Germany and France in response to growing demand for frozen and freeze dried starter cultures for the yogurt, fresh fermented dairy and cheese markets. The first facility to be expanded will be in SE France with investments in Northern France and Germany to follow. The speed of investment will reflect customer demand. The first facility is expected to be open by the end of 2018. The investment reinforces DuPont Nutrition and Health's leading position in the frozen and pelleted dairy culture sector and anticipates expected growth in the dairy sector.

**Kellogg's venture arm supports superfood start-up** [International /Agri Investor] Kellogg Company's new venture capital arm has made its debut investment into a start-up working with female farmers in the developing world to produce products from moringa (a protein from trees grown in semi-arid and tropical areas). Kuli Kuli, an Oakland, California company, received USD4.25 million series A funding from Kellogg and other investors. Kuli Kuli sells moringa based bars, teas, powders and energy shots and will use the funding to expand sales and marketing operations, add new staff and develop new products. Moringa is described as a next generation superfood, high in protein, fibre, vitamins A, B and C and anti-inflammatory properties.

## 13 January 2017

**Brand sale nets Comvita \$19m** [Apiculture /NZ Herald] Comvita has announced that it has sold its Medihoney brand to Derma Sciences, its US based partner, for \$19 million and will reap a further \$11 million selling Derma shares into a takeover offer for the Nasdaq listed company. The sale of the brand includes an upfront payment with an earn out based on sales milestones being achieved. Derma Sciences already owned the global rights to Medihoney wound care products and paid \$2.1 million royalties in 2016. Comvita retains the use of the brand to develop its over the counter business while Derma Sciences will hold rights make products to medical device quality standards.

**Chobani notched up double-digit US growth in 2016, has no plan to head back to Europe right now** [International /Dairy Reporter] Innovative US dairy company, Chobani, reported strong sales growth in the yogurt category despite total retail sales of yogurt falling 0.9% to USD7.7 billion. The brand retains the number one position for Greek yogurt and has driven sales with Flip products, which the company believes has the potential to become a billion dollar product. It was also noted that a new protein packed yogurt beverage launched in July 2016, Drink Chobani, has exceeded expectations in terms of sales and feedback, with it being suggested that yogurt drinks could eventually account for 30 to 40% of the category. In an update the company also noted that it had no plans to re-enter the European market at the current time given the scope to grow the US yogurt category and that the company is making real progress in foodservice, with its Yogurt tubes about to be added to Southern California McDonald's Happy Meals.



**China creates Agriculture Giant with Grain, Cotton merger** [International/ Bloomberg] The approval by China's State Council of the merger of the China National Cotton Reserve Corporation and China Reserve Grain Corporation creates the country's largest agriculture product group. The combined company will have assets of USD213 billion. China is seeking to speed up sales of its crop reserves (it holds around half of global cotton and corn inventories) after state support systems encouraged farmers to boost production. The government is also focusing on minimum purchase price policies to boost efficiency.

**Animal rights activist PETA buys stake in Louis Vuitton** [International/BBC News] PETA, the animal rights activist organisation, has bought shares in Louis Vuitton owner LVMH to put pressure on the group to stop selling products made from exotic animal skins. The shares will give the group the right to attend and speak at company meetings. The investment strategy, which is becoming more common for activist groups, follows an investigation that it conducted into the way that crocodile skin is harvested in Vietnam. LVMH have said that any method of harvesting skins that involves the animal suffering is a clear contradiction of the company's principles and rules.

14 January 2017

**Former Bellamy's Chief Executive Laura McBain's fall from glory** [International /NZ Herald] Laura McBain built Bellamy's Australia into a \$1 billion company capitalising the Chinese demand for clean, green milk products but has recently resigned as the company's share price collapsed following a series of disclosures surrounding the company's sales into China. Ms McBain joined the Tasmanian based company in 2004 and became General Manager in 2007 focusing market development and sales on the 20 million babies born annually in China. The company successfully IPO'ed in July 2014 with the A\$1 issue price climbing to A\$15.48 in December 2015. However Chinese government crack downs on importers of dairy products created issues for Bellamy's with the company admitting in early December that profit guidance had been too optimistic. Bellamy's sales appear to have been impacted by customers purchasing cheaper products being offloaded by other suppliers in advance of new rules being implemented restricting the number of brands any company can have in the market. The inflexibility of the long term supply contracts that Bellamy's used to back its sales has also been questioned, particularly a contract with Fonterra.



15 January 2017

**Dry conditions take toll on Northland farmers** [Drought /Radio New Zealand Country] It is looking increasingly likely that there will be a drought declaration in Northland within the next few weeks according to Federated Farmers. Northland region President, John Blackwell, said spring had been good for the region but a dry November and December had caused problems across the board, particularly when combined with strong, drying winds. Rainfall was around half of average in December which has seen soil moisture levels fall, particularly in the Far North. Mr Blackwell said the localised dry conditions provided farmers options to transfer stock to farmers in other parts of the country.

16 January 2017

**Silver Fern Farms sinks to \$30m loss** [Red Meat /NZ Herald] Silver Fern Farms has reported a \$30.6 million loss for its financial year to 30 September 2016 on the back of what it described as a 'very challenging year across the industry'. The reported loss included an impairment charge of \$22.4 million related to the investment made in the company by Chinese SOE, Shanghai Malling Aquarius. A year earlier the co-operative had posted a profit of \$24.9m. Chair, Rob Hewitt, said the small operating loss was in line with guidance but was nonetheless disappointing, being driven by sharp price falls in a number of key markets, lower industry wide volumes, unseasonal livestock flows and strengthening NZ currency through the year (amplified by the Brexit vote in the UK).

**Contamination among primary food safety concerns, authority says** [International /China Daily] Over 64% of food safety issues identified by random inspections by the China Food and Drug Administration were related to the overuse of food additives and microbial contamination during 2016. A spokesperson said that the overall situation stayed stable compared to the previous year as nearly 97% of food products inspected were up to the necessary standards. Additional food safety concerns included heavy metal contamination and excessive amounts of pesticide residues and veterinary drugs, due to contamination of soil and water and overuse of pesticides and animal drugs, including antibiotics.



**Fava bean yogurt? General Mills patents process to create range of dairy alternatives from legumes** [International /Food Navigator] General Mills explains in recently published patent applications that it is experimenting with hydrating high starch legumes to produce non-dairy milks, eggless mayonnaise and cultured products like yogurts, cheese, kefir and ice cream. The company is working with legumes including chickpeas, adzuki beans, fava beans and lentils on the developments, noting the legumes need to have a low oil content; as a consequence high oil content pulses (like soybeans and peanuts) are less practical due to their fat content and less ability to replicate dairy ingredients.

**Sinochem denies ChemChina merger plans** [International /Financial Times] The head of Sinochem, Ning Gaoning, has firmly denied that the company has any plans to acquire ChemChina, after reports of discussions over such a transaction had unnerved investors concerned about the impact such a deal would have on the proposed ChemChina/ Syngenta transaction. The Chinese government have an active project to streamline the number of state owned firms its controls. A transaction would have changed ChemChina's ownership potentially requiring more approvals to be sought to enable the USD44 billion acquisition of the Swiss chemical and seed manufacturer to progress.

17 January 2017

**Angela Merkel gives support for EU trade deal with New Zealand** [Economics and trade/ NZ Herald] Following a meeting with new Prime Minister, Bill English, in Berlin, German Chancellor, Angela Merkel has given strong backing for the EU free trade deal with New Zealand. She added that Germany would apply pressure in Brussels to hasten talks. Mr English said the EU agreement was a priority for New Zealand, adding the agreement gave both parties the opportunity to give substance to the assertion of our values as believers in an open and globalised world.



**December food prices among the lowest for year** [Economics and trade /Otago Daily Times] December food prices were amongst the cheapest of the year according to Statistics New Zealand. Food prices fell 0.8% in December but were 0.6% higher than a year earlier, driven by increases in vegetables, milk and butter. Lower prices were recorded across most categories in December, vegetable prices fell for the fourth month in a row, reflecting an expected seasonal price reduction.

**USDA calls for comment on organic check-off proposal as demand for organic outstrips supply** [International /Food Navigator]

With sales of organic products reaching new peaks, supply is tight and confusion is growing about what products are actually organic. To address the challenges the Organic Trade Association in the US has worked for five years to create the Generic Research and Promotion Order for Organic check off programme, which the USDA has now sought public comment on. The programme could raise USD30 million via levies to fund research, provide technical services to grow supply and help consumers understand the full value of organic products. After consultation, certified organic stakeholders that would pay into the programme will be asked to vote on the levy in a referendum to determine if it will be implemented.



**BAT agrees to buy Reynolds for USD49 billion** [International /Reuters] British American Tobacco (BAT) has agreed a takeover of rival tobacco company, Reynolds American Inc, to form the world's largest listed tobacco business. The deal will see BAT pay a 26% premium over the stock price at the time of the initial bid being made public and will see BAT returning to the highly lucrative and regulated US market for the first time in 12 years. BAT CEO, Nicandro Durante, said the merger will create a stronger global tobacco and next generation products business. The US market is the most profitable tobacco market after China. It is possible that more deals may eventuate in the tobacco sector as the industry continues to shrink in the west as more people quit smoking.

**18 January 2017**

**Wine lovers from 20 countries heading to capital to celebrate Kiwi pinot noir** [Viticulture /Business Day] Exports of Pinot Noir wine generate around \$140 million in revenue for NZ wineries annually making the three day Pinot Noir celebration event an important milestone on the NZ Wine industry calendar. The Pinot Noir festival in Wellington will bring together 600 delegates from 20 countries who will taste over 600 wines from 117 wineries. According to Chris Yorke, Global Marketing Director of NZ Winegrowers, the event, described by some as the best pinot noir event on the planet, provides an opportunity to showcase the country's best pinot noir wines.

**Researcher probes deep secrets to boost fish stocks** [Fishing/ Business Day: NZ Farmers] Over the last two years, a Plant and Food Research senior scientist has developed a method to successfully breed New Zealand native fish species commercially. Maren Wellenreuther has focused her research on snapper but noted she was planning to adapt the method to other New Zealand native species. Ms Wellenreuther noted that much focus has been placed on breeding animals in the past but little focus had been placed on breeding fish due to natural abundance but as that changes the need to focus on breeding is growing. A highlight for 2016 for Ms Wellenreuther was receiving an MBIE grant of \$5.5 million to accelerate breeding for enhanced seafood production.

**SFF shareholders to receive dividend** [Red meat /Otago Daily Times] Silver Fern Farms Co-operative shareholders will receive a \$34.5 million special dividend on 14 February, the co-operative's first dividend since 2008. The dividend of 30 cents per share will be paid on all ordinary and rebate shares and follows the completion of the Shanghai Maling transaction in December. The co-operative has also completed the redemption of supplier investment shares. Chair, Rob Hewitt, notes that the co-operative will have distributed \$40 million to shareholders reflecting their support and patience as SFF has developed its plate to pasture strategy over the past seven years.

**Slight rise in global dairy prices** [Dairy /Radio New Zealand Business] Prices have risen slightly at the latest Global Dairy Trade auction. The average index price rose 0.6% to USD3,517 per tonne. The key whole milk powder price fell 0.1% keeping prices in the break-even range for dairy farmers.

**Former USDA secretary becomes new USDEC CEO and aims to 'aggressively market' US dairy worldwide** [International /Dairy Reporter] Tom Vilsack, Former President Obama's Agriculture Secretary, has not taken much time to find a new role, with it being announced that he will be assuming the role of President and CEO of the US Dairy Export Council (USDEC). Mr Vilsack said his focus will be on the end product and creating more exports, stabilising prices and creating jobs, a formula he said that everybody would agree on. He noted he would be focused on building relationships to enable the US to market their steady and reliable supply of the world's safest dairy products.



**Food-X reveals the 8 startups taking part in its latest cohort** [International/ AgFunder] New York based food tech accelerator, Food-X, has selected 8 companies for its latest programme from 500 applications. The start-ups receive a USD50,000 investment in exchange for a 7% stake in the company. The selected ventures are: Lecker (Hong Kong) counter top overnight yogurt maker; RISE (New York) repurposing spent grain from breweries into high-protein, nutrient rich flour; Wasteless (Israel) RFID technology to save money and reduce food waste; FruitCubed (Ireland) disrupting existing fruit and vegetable waste paradigm through innovative natural products; All Beauty Water (New York) beverage that promises to enhance skin health; Dollop Gourmet (Rochester/ LA) removing junk ingredients from dessert and cutting sugar; FoodieTrip (New York) tailored, authentic culinary experiences around the world and KunaChia (Ecuador) vertically integrated company combining South American superfoods with probiotics.

**USDA announces stricter animal welfare rules for eggs, meat** [International /Associated Press] New rules have been adopted by the USDA, only two days before President Obama leaves office, placing stricter standards on organic meat and egg producers. The regulations will ensure that organically grown livestock have enough space to lie down, turn around and fully stretch their limbs while poultry need to have enough room to move freely and spread their wings. Living conditions will also need to include fresh air, proper ventilation and direct sunlight. The rules are designed to ensure the integrity of the USDA organic seal as the industry has grown rapidly. Some farm State Lawmakers and farm groups remain opposed to the rules as they could raise prices and force farmers out of business, and the leader of House Agriculture Committee said he would work with the incoming Trump administration to reverse the regulations.

**The robots are coming – to deliver your dinner** [International /San Francisco Business Times] Starship Technologies, a maker of autonomous robots, has partnered with San Francisco based food delivery start-up, DoorDash, and Postmates to pilot robot deliveries of food over the last mile. Starship, which was founded by Skype co-founders Ahti Heinla and Janus Friis, have developed the personal couriers to deliver goods locally within a two to three mile radius within 15 to 30 minutes in suburban areas. The robots (which are knee high) travel on pavements alongside pedestrians but are able to avoid getting in the way. When the robot arrives at its destination the customer will be able to use a button in the app to unlock the courier. The robots are suited to carrying small meals rather than pizza's at the current time, freeing up drivers to complete the larger more complex deliveries that generate more revenue for them.

## 19 January 2017

**EasiYo expands in Europe through Ornuu Nutritional Ingredients Partnership** [Dairy/ Dairy Reporter] EasiYo is to be produced outside of New Zealand for the first time, following an agreement between Ornuu Nutritional Ingredients (ONI) and EasiYo. The natural and flavoured yogurts will be blended and packed using Irish dairy powders at an ONI facility in Leek in the UK. ONI, a subsidiary of Irish agri-food company Ornuu, has invested in a new facility specifically for the venture, with a plan to phase out of New Zealand production and create 20 new jobs in the UK. Brian Dewar, CEO of EasiYo Products, said that the UK and EU markets represent an opportunity for EasiYo to capitalise on the growing consumer trend of people who love to make fresh, wholesome food at home.

**Hawke's Bay kiwifruit orchard sale a record** [Horticulture /Hawkes Bay Today] A sale of a 66.5 hectare kiwifruit orchard in Hawkes Bay is believed to have set a record price for the sale of any kiwifruit land in New Zealand and started a new era of fruit growing in the Bay. The property in Fernhill has been sold to Tauranga's Ngai Tukairangi Trust for \$40.2 million, reflecting the extremely positive indications that the kiwifruit market will remain buoyant for the next five years. Commentators suggested that in recent months the value for premium Bay of Plenty orchards had exceeded \$800,000 per canopy hectare. The orchard sold was developed over 20 years ago by the vendor. Demand for gold kiwifruit properties is very high and the agent, PGG Wrightson Real Estate, noted interest in the property from domestic and international investors.

**TOP  
STORIES**

**Poor summer plays havoc with honey collection** [Apiculture / Business Day: NZ Farmer] Less than ideal summer weather is impacting honey yields as beekeepers face one of their worst ever seasons, although strong inventories carried forward from the previous season might prevent prices from rising. Wet and windy conditions have impacted the production of all types of honey; strong winds in particular were bad for honey production as they discourage bees from collecting plant nectar. Conditions have varied across the country and CEO of Apiculture NZ, Karin Kos, noted it is still too early to conclude on what the overall honey harvest will be, with the production season continuing until the end of February or later this year due to cooler weather.

**'Industrial dairying' criticism of Hurunui irrigation project untrue, say backers** [Water /Business Day: NZ Farmer] Alex Adams, the Hurunui Water Project CEO, says that Greenpeace is wrong to claim the proposed scheme on the Hurunui River will lead to large scale intensive dairying and a degraded river. Mr Adams said that the scheme is very different to original proposal, with dairy development now being a very minor component of land use change around the scheme. Most farmers are wanting irrigated water to ensure they can continue to farm in the drought prone region meaning claims of algal bloom being made by Greenpeace are misleading. Mr Adams adds that Greenpeace's lack of homework means they are opposing a scheme that actually contributes towards responsible and environmentally sustainable farming.

**Marine greens and curry culture: Here are some trends spotted in Campbell Soup's Culinary Trendscape 2017 report** [International /Food Navigator] Each year Campbell Soup Company issues the perspectives of its Global Culinary and Baking Institute on future food trends, insights the chefs working for the company collect from their day to day work. The 2017 report suggests Marine Greens are currently in discovery phase (products such as spirulina, kelp and algae oils), that 'Chefs on a Mission' are attracting millennial consumers who are moved by products that stand for something and that consumers are desperately seeking out more and varied condiments, beyond ketchup and sriracha. The report suggests that the Curry has now become a mainstream of the North American diet, ancient grains are now an established mass market category and coconut has moved beyond 'trend' and has become a staple for global consumers.



## 20 January 2017

**NZ's sheep-to-human ratio takes another hit** [Red Meat /NZ Herald] New data from Statistics New Zealand suggests that the country now has fewer than six sheep for every person, down from the historic high in 1982 when there was 22 sheep for every New Zealander. The number of sheep fell just over 5% in the year to June 2016 or around 1.5 million to 27.6 million sheep. The numbers of beef cattle and deer also fell during the year but the number of dairy cattle remained constant at around 6.5 million.

**\$50m of cherries bound for Chinese New Year** [Horticulture /NZ Herald] The last of four charter flights packed with \$50 million of cherries has left to take cherries to consumers in China ahead of their new year celebrations. The four flights, operated by Singapore Airlines, each carried about 85 tonnes for cherries from Christchurch airport. Other products being exported to China in advance of New Year on direct flights to China from Christchurch include live lobsters, fruit and flowers. For many people in China, their family meal on New Year's Eve is the most important meal of the year and as a consequence they look for premium products to enhance their celebrations.

**Fonterra welcomes new trade talks with Sri Lanka** [Economics and trade /Dairy News] Fonterra has welcomed the announcement by Trade Minister, Todd McClay, that New Zealand and Sri Lanka will progress discussions on new trade and investment opportunities, including the possibility of an FTA down the track. Sunil Sethi, Managing Director of Fonterra Brands Sri Lanka, said Sri Lanka is one of Fonterra's most important markets and the co-operative is working hard to develop the local dairy industry. He added that Fonterra would see an FTA as a logical extension of this relationship.

**River plan remains unchanged** [Water /Rural News] Waikato Regional Council says that the submission process over the Waikato River clean-up plan has not been affected by a judicial review lodged with the High Court. The application for review was lodged by Horticulture New Zealand and five other organisations seeking a judicial review of the decision by the regional council to withdraw part of the proposed plan change announced on 5 December last year. The withdrawal was made to allow for consultation with Hauraki iwi. The action has been taken as the submitters believes that in making the decision to withdraw part of the proposed change the council has failed to comply with the requirements of Resource Management Act.

**Perdue to head USDA** [International /Rural News] President Donald Trump announced the final member of his cabinet line up the day before his inauguration, naming Former Georgia Governor Sonny Perdue as Agriculture Secretary. Mr Trump said Mr Purdue would do 'great things' as his new agriculture chief, given he has spent his whole life working in the industry or on the problems that farmers face. Mr Perdue said that he would champion the concerns of American agriculture and work tirelessly to solve the issues facing farming families. Mr Perdue is 70 years old, he has seen the state of Georgia through two recessions.





**Brexit speech failed to address farming's fate** [International /UK Farmers Weekly] While the speech by British Prime Minister, Theresa May, setting out her negotiating objectives for Brexit was well received by many observers there was little in it to clarify the future for the UK's primary sector. Ms May suggested the EU and UK will need to reach a completely new type of customs union but gave no indication of the role that food and farming may play in establishing this. Many farming organisations expressed concern that the UK is heading for a hard Brexit, which could include barriers to trade with the EU, putting pressure on prices for farmers. It is widely agreed across the UK primary sector that three factors need to be protected; tariff free access to the EU, access to overseas labour and equivalent standards on imports coming from third countries.

**Bellamy's rebel shareholder Jan Cameron leads boardroom spill** [International /NZ Herald] Problems continue to deepen at troubled Australian infant formula manufacturer, Bellamy's. Following the resignation of CEO Laura McBain, large shareholders are now pushing to replace four non-executive directors at the company which has seen its value fall by over \$700 million following revelations that its sales were falling in China faster than previously disclosed. An extraordinary general meeting has been called to consider proposals to vote on replacing the current independent directors, in a move being led by Kathmandu founder, Jan Cameron. Ms Cameron, a supporter of the former CEO, said that she believed that the board had been stunningly arrogant in not accepting any accountability on what's gone on. Bellamy's have urged shareholders to vote down the resolutions.

## 21 January 2017

**Govt challenges landmark restricted fishing ruling** [Fishing/ NZ Herald] The Ministry for Primary Industries has announced that it has appealed an Environment Court decision that Councils are able to impose fishing rules in their regions for the purpose of protecting native species. The case was taken to the court by Forest and Bird and Motite Rohe Moana Trust in a bid to prevent fishing around the Astrolab Reef, the area damaged when the MV Rena sunk in 2011.

## 23 January 2017

**MPI 'investigating rodeo' over claims of animal abuse** [Animal welfare /Yahoo New Zealand] Undercover footage recorded by an anti-rodeo campaigner at an event near Whangarei has been provided to the Ministry for Primary Industries who are checking whether the event was conducted in accordance with the Rodeo Code of Welfare. The footage appears to show electric prods being used on calves, which would be in contravention of the code. A spokesman for the NZ Rodeo Cowboys Association said although it appears a prod is being held it was not actually used on the young animal. While MPI could not comment on the video as it is under investigation, they did note that current welfare codes are difficult to enforce.



**Farm sales dip compared to last year** [Farmers and Producers /Rural News] Farm sales dropped in the three months to December compared to 2015 according to data from the Real Estate Institute of New Zealand. The number of sales fell from 547 to 499 in the period, with significant reductions in the number of dairy farms being sold (28%). The median price of sales was \$27,774 (down 1.2% on the prior year) but up 5.4% on November.

**Work begins to develop open-ocean marine farms** [Aquaculture /Radio New Zealand Business] Two sites of the east coast of New Zealand have been earmarked for open-ocean research by the aquaculture industry. The sites offshore from Opotiki in the Bay of Plenty and Pegasus Bay in Canterbury will be used to trial technology in open ocean conditions. The project, being led by the Cawthron Institute, is a significant stage in making a planned offshore aquaculture industry viable. The project is developing concepts to enable researchers to match various animals to the environment. The government has committed \$6 million of funding to the project over five years with Sanford and Whakatohea Mussels also providing resources.

## 24 January 2017

**Poor honey crop hits Comvita** [Apiculture / NZ Herald] Wet, windy conditions will impact on Comvita's ability to deliver on its 2017 financial forecast, with the company announcing that anticipated profit would be in the range of \$5 to \$7 million compared with previous indications of a result consistent with the prior year's \$17 million. The company had expected to harvest 974 tonnes of honey but now believes this will be just 380 tonnes, noting that the geographical diversity of its production facilities has been of limited mitigation given the wide spread nature of the poor weather. The company will report a loss for the first half which will include a negative movement on the value of options held in Seadragon, the fish oil processor. The company noted it was experiencing strong sales in all markets except the informal trade channel with China.

**Blue Sky Meats seeks 30 cents/ share lift from Binxi** [Red meat/ NZ Herald] The Directors of Southland based meat processor, Blue Sky Meats, have indicated that they are looking to Chinese suitor, Heilongjiang Binxi Cattle Industry Co, to raise its takeover offer by 30 cents per share before they will recommend it to investors. Binxi is offering \$2.20 per share at the top end of a range of \$1.93 to \$2.21 determined by independent adviser, Campbell MacPherson, but the board said that new CEO, Todd Grave, had recently led a strategic review unconstrained in its thinking and this had identified a significant amount of unexploited potential and led the board to believe a fairer valuation was nearer \$3.20 per share.

**Push to save Pacific Rim trade deal after US exits TPP pact** [Economics and trade/ NZ Herald] In one of his first acts as President, Donald Trump has signed an executive order to withdraw the USA from the Trans Pacific Partnership, instructing officials instead to explore bilateral agreements with trading partners. Leaders of the remaining 11 members of the partnership are now working with each other to explore opportunities to salvage the pact. Australian Prime Minister, Malcolm Turnbull, said his discussions suggest that the deal could progress without the US adding the Australian government was not going to walk away from a commitment to protect and increase Australian jobs. Japan has completed the TPP ratification process recently and Prime Minister Shinzo Abe said the goals remained important to Japan. It is likely that the remaining members will meet shortly to discuss next steps, with Mr Turnbull floating the possibility of China replacing the US as the cornerstone nation in the agreement. He also noted the US position may evolve with proposed Secretary of State, Rex Tillerson, being a strong advocate for the agreement, and many Republicans in Congress also being supportive.



# Field Notes

Weekly news update from the KPMG Agribusiness Network – 25 January 2017

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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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