

AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

19 April 2017

Organisations referenced in this week's Field Notes include:

Alpro	Green Monday
American Heart Association	Habit
Apiculture New Zealand	Harvard University
Beyond Meat	Honeypai
Butchers Club	Ministry for Primary Industries
Campbell Soup Co.	Nestlé
Charoen Pokphand Foods	New York Stock Exchange
ChemChina	New Zealand Kiwifruit Growers Inc.
CHS Inc.	OM Financial
City Sprouts	Rabobank New Zealand
Colombia University	Rural Support Trust
DairyNZ	Skipping Rocks Lab
Danone	Smithfield Foods
DanoneWave	Stoneyfield Organics
DouxMatok	Syngenta
Federated Farmers of New Zealand	The National Milk Producers Federation
Fenway Farms	TVNZ
Fonterra Co-operative Group	United States Department of Defence
Forrest Wines	United States Department of Justice
Freight Farms	US Dairy Export Council
Glencore Plc	Western Co-op Transport Association
Green City Growers	WhiteWave
Green Common	

This week's headlines

Viticulture	Vineyard techniques help save fruit in sodden Marlborough grape harvest [16 April/ Stuff]
Apiculture	Beekeepers struggle to get unstuck from mānuka red tape [13 April/ Radio NZ]
Environment and emissions	Waterways report misses key concerns – consultant [13 April/ Radio NZ]
International	Danone completes acquisition of WhiteWave to create DanoneWave [13 April/ Food Navigator]
Farmers and producers	Dairy farmers to get advice on the media [17 April/ The NZ Farmers Weekly]

Field Notes will not be published next Wednesday (26 April) due to the ANZAC Day public holiday the preceding day. Field Notes will return on 3 May.



fieldnotes.co.nz

Hot Off The Press:

**KPMG Agribusiness
Agenda 2016 Vol. 2**

EVENT : Foresight to the Future of Food and Beverage— Tauranga

The latest KPMG Agribusiness Agenda highlights the huge gap between our export earnings and the end-value of our products. New Zealand exported a total of \$37 billion in agri-food products in 2015. KPMG estimates those same products ultimately generate more than 0.25 trillion dollars in retail sales when sold to consumers around the world. The fundamental question is, how do we capture our fair share of that quarter of a trillion dollars.

This Tauranga edition of Foresight to the Future of Food and Beverage will be presented by KPMG's Global head of Agribusiness, Ian Proudfoot, on Thursday May 4th, 3-5pm. If you would like to register, or for any further details, please RSVP [here](#).

Horticulture

Kiwifruit harvest halted by Cyclone Cook [13 April/ New Zealand Herald] Kiwifruit harvesting was halted following ex-Cyclone Debbie before Cyclone Cook's arrival caused further delays. New Zealand Kiwifruit Growers Inc. Chief Executive Nikki Johnson, said the group has been identifying severely affected orchards near Edgumbe and was providing support, particularly with pumping water off orchards. Ms. Johnson noted only a small number of orchards had been severely affected. An industry spokesperson said rain did not tend to affect kiwifruit growth, but high winds may affect harvest.

Viticulture

Vineyard techniques help save fruit in sodden Marlborough grape harvest [16 April/ Stuff] Technology and experience have helped the wine industry through a difficult season. Ex-Cyclone Cook and another low-pressure system dropped the equivalent of two months of rain in the space of two days in Marlborough. The worst-affected areas, Ward and Waihopai Valley, each received 129 millimetres of rain. This event followed a wet-weather streak, causing a spread of the fungal disease botrytis, with some wine companies rejecting fruit above a certain threshold. Viticulture Consultant Murray Paterson said improved technology and management practices had shown their worth. Leaf plucking helped minimise the spread of botrytis and larger wine companies had reverse osmosis systems to allow them to identify fruit where the sugar content had been diluted by the rain. Forrest Wines Co-Owner Dr John Forrest said although recent downfall has increased rot pressure, aside from the presence of botrytis the fruit was above average and, unlike other wine companies, Forrest Wines has not turned any crops away.

Apiculture

Beekeepers struggle to get unstuck from mānuka red tape [13 April/ Radio NZ] The Ministry for Primary Industries has issued a scientific definition of New Zealand mānuka honey, expected to protect the market from fake products. The definition states honey is New Zealand mānuka honey when four chemicals and a DNA marker are present at a specified level. A six-week consultation period will now begin, with the definition expected to take effect by late July. Some beekeepers said the lengthy process has cost valuable sales, with some businesses such as Honeypai having struggled to find a market for this season's harvest. Honeypai owner, Craig Salmon said a lot of financial stress could have been mitigated if the ministry had released its definition when production was peaking rather than at a time of honey sales. Apiculture New Zealand Chief Executive Karin Kos said short-term costs would be outweighed by the long term benefits the industry would experience as the definition will put New Zealand in a strong market position.

Dairy

Traceable formula a first for NZ [11 April/ Rural News Group] Fonterra has released its first batch of traceability-coded cans of Annum infant formula in New Zealand. The codes allow customers, via a mobile phone app, to electronically track and trace ingredients and products throughout Fonterra, from the raw milk source on farm through to retail stores. Through the app, the unique codes will connect customers to a web page with information verifying product authenticity. Consumers can also see updated information of their purchased product at any point after purchase. Fonterra Marketing Manager Annum, Teresa Smyth, says the codes give her confidence to buy Fonterra products, especially for her children. Fonterra expects 90 percent of their plants globally to have traceability data electronically connected this year, with the remaining 10 percent to be completed in 2018-19.

Fonterra's \$240 million cheese plant expansion [14 April/ New Zealand Herald] Fonterra is investing \$240 million to expand its Clandeboye site and increase the plant's production of mozzarella cheese for the global market. The new development will cover about 9000 square metres, making the factory 30 percent larger, creating an expected 100 new jobs, and will double the site's mozzarella production. Fonterra Operations Readiness Lead Chris Turner said the build was expected to be completed next year, the plant would be ready for testing in May 2018 and is expected to start commercial production later in the year. The expansion was due to expectations of high returns and mozzarella demand being greater than the existing plant's processing capabilities, creating an opportunity to fill a gap in the market. Fonterra expects the new project to significantly affect the wider community in a positive way, by providing employment opportunities and attracting entire families to the area.

Futures market picking milk powder price rise [15 April/ New Zealand Herald] Futures market pricing is expecting a sharp increase in whole milk powder prices at this Wednesday's GlobalDairyTrade auction. Whole milk powder prices increased higher in NZX futures trading this week, with traders betting on a cut back on production next season due to heavy rain. Dairy Futures Broker at OM Financial expects physical whole milk prices to be up 7 to 12 percent. Whole milk powder futures traded at around USD3130 to USD3150 per tonne for May to December contracts in the NZX futures market. Fonterra's farmgate milk price for the current season is \$6.00 per kg of milk solids, compared with DairyNZ's \$5.05 per kg breakeven amount. Like Cyclone Debbie, DairyNZ expects Cyclone Cook to impact the coming season's dairy production as rain and silt will kill grass or limit its growth. Recent bad weather may cause a decrease of Fonterra's current estimate for a 3 percent fall for the season from last season.

NZ farmgate milk price may lift next season as Chinese demand improves, Rabobank says [18 April/ National Business Review] New Zealand dairy farmers are expected to receive a higher payout next season as global output remains low while Chinese demand increases, controlling prices. Rabobank forecast a farmgate milk price close to \$6.25 per kilogram of milk solids for the upcoming season, ahead of Fonterra's \$6/kgMS forecast for the current season. Global dairy prices have increased this season due to demand and supply balances however Rabobank said further lifts to the current season farmgate milk price was limited. Rabobank Dairy Analyst Emma Higgins said greater market balance may ensure a favourable farmgate milk price for next season. Ms. Higgins noted a profitable 2017/18 season is crucial to boost confidence in the sector, with a milk price of \$6.25/kgMS being profitable for most farmers and would provide a second year of healthy farmer margins. The most significant upside to Rabobank's outlook was the potential for a large increase in New Zealand dairy exports to China.

Environment and emissions

Waterways report misses key concerns – consultant [13 April/ Radio NZ] Agribusiness Consultant Alison Dewes said the Prime Minister's Chief Scientist, Sir Peter Gluckman, has failed to address the real problems in his new water quality report. The report said some waterways are significantly affected by agricultural intensification, urban expansion, industrial pollution, hydroelectric development and droughts. Ms Dewes noted the lack of attention on cows or recent conversions of vulnerable landscape and said talk around riparian planting and fencing waterways and water allocation was insufficient. Ms Dewes commented on the focus around municipal, hydro and industrial water use when 78 percent of the country's water, excluding hydro, is used for pastoral agriculture irrigation. Ms Dewes encouraged land use interrogation, as current usage is unsustainable. Federated Farmers said farmers were aware of the issues such as their effect on water quality, and affirmed improving water quality requires effort from all aspects of society including farmers. The government has banned further agricultural intensification in 16 catchments and invested \$450 million into fresh water clean-ups.

Biosecurity

Thailand sends first cooked duck to New Zealand [12 April/ Global Meat News] Charoen Pokphand Foods is the first Thai food company to take advantage of New Zealand's March 2017 policy change allowing imports of cooked Thai duck for the first time. The company expects export value for duck products to increase by up to 25 percent this year, in part due to this new trade channel. The first batch of cooked duck products will arrive in New Zealand by sea in April.

International

Designer sugar is here - but just what are we sacrificing for healthier sweets? [11 April/ The Guardian (London)] Growing public demand for low sugar options and the federal government's new dietary guidelines limiting sugar consumption has caused companies like Nestlé and DouxMatok to redesign sugar by changing with the shape of sugar molecules to provide the same sweetness with a lower amount of actual sugar. Americans have consumed at least 30 percent more calories per day from sugar since 1977, consuming 19.5 teaspoons of added sugar daily when the American Heart Association recommends no more than six teaspoons per day for women and nine teaspoons for men. Retail sales of chocolate in America, rose from USD11.8bn in 2011 to USD13.7bn in 2016, with cookie sales increasing from USD7.1bn to USD8.2bn in the same period. However, formulation changes can impact taste, texture and shelf life, with Nestlé commenting its restructured sugar could reduce the amount of sugar needed up to 40 percent in some of its confections which will impact product sizes.

ChemChina's purchase of Syngenta garners Chinese regulatory approval [12 April/ Financial Times] ChemChina's USD43bn purchase of Syngenta has been approved by China's competition regulator. The approval heightens expectations that the pact to create an agrichemical and seeds heavyweight will close in the current quarter. The consent was expected as ChemChina is a state-owned enterprise, and the deal represents a significant improvement to China's agrichemical and seeds industry.

This 'edible water bottle' could put an end to plastic packaging [13 April/ New Zealand Herald] An edible water bottle called Ooho! made by Skipping Rocks Lab is a biodegradable and natural membrane which can be completely swallowed and digested, and hydrate people as drinking water normally would. The product is made from a tasteless seaweed extract and has raised over \$897,400 in a crowdfunding campaign. Skipping Rocks Lab plans to develop a collection of sustainable products, of which Ooho! is the first, and said the material used to produce Ooho! is cheaper than producing a plastic water bottle. More than 500 people have invested in the project, and Skipping Rocks Lab plans to trial Ooho! this year at major events such as marathons and music festivals.

Danone completes acquisition of WhiteWave to create DanoneWave [13 April/ Food Navigator] Danone's deal with WhiteWave has been finalised and under the terms of the agreement, WhiteWave shareholders will receive USD56.25 per share in cash. WhiteWave common stock has ceased trading and will be delisted from the New York Stock Exchange. The acquisition was permitted due to Danone's agreement to sell its Stoneyfield subsidiary after reaching an agreement in principle with the Antitrust Division of the United States Department of Justice. Danone and WhiteWave will merge their activities and operate as a Strategic Business Unit in North America called DanoneWave. The combination will include Danone Dairy and WhiteWave's current North American businesses. Lorna Davis has been appointed Chief Executive Officer of the combined entity. Alpro will work with Danone Dairy with the aim to expand and develop the plant-based category globally.

U.S. Farm Giant Reviews Assets Amid Commodity Price Slump [13 April/ Bloomberg] US agriculture giant CHS Inc. is reviewing its business-wide operations including quantitative metrics such as returns over the cost of capital and roles played by various units and will investigate assets that may no longer fit with its core business strategy. The giant co-operative is owned by shareholders including 1,100 smaller farm cooperatives and more than 75,000 individual farmers. Sales in the most recent quarter were USD7.32 billion, compared with a loss in the previous quarter, however Chief Executive Officer Carl Casale said operating conditions were challenging, partly due to record supplies of corn, soybeans and wheat weighing on crop prices. CHS's review caused the company to divest some food-processing assets overseas and purchase Western Co-op Transport Association. The review also includes processes to improve core asset performance, such as grain origination. Glencore Plc could be among potential buyers, should CHS sell off assets, due to desires to expand in US agriculture.

Pork producer's venture aims to grow skin, organs for humans [14 April/ New Zealand Herald] Virginia's Smithfield Foods, the world's largest pork producer, is entering the business of trying to grow skin and organs for humans through its new division called Smithfield Bioscience. Smithfield Foods already sells its by-products to firms that are producing medicine and supplements. The Smithfield Bioscience division joins a group of organisations that are finding ways to replace tissue for injured soldiers, partly funded by the US Department of Defence. Smithfield Bioscience also works with Harvard and Columbia universities on immunology therapy research and development.

Is Boston the next urban farming paradise? The city's healthy start-up culture is contributing to Boston's rapidly growing reputation as a haven for organic food and urban farming initiatives [16 April/ The Guardian (London)] Boston's growing entrepreneurial reputation and progressive legislation like Article 89 has made the city an urban agricultural hub. Freight Farms, headquartered in Boston, sells freight containers to would-be farmers interested in sustainable living. A Freight Farms container is largely self-sustained, using solar energy to provide most electricity required to grow the crops. Over 100 of the company's container farms operate in the US, with each 40ft container equipped for the entire soil-free hydroponic system farming cycle, from germination to harvest using recirculated water with higher nutrient levels to help plants grow. Over 50 customers have started small businesses, each consistently producing two acres worth of food year-round. Article 89, expands zoning laws to permit farming in freight containers, on rooftops, and in larger ground-level farms and allows practitioners to sell their locally grown food within city limits. Green City Growers, which runs Fenway Farms, is a 5,000-sq ft. rooftop farm above Fenway Park and takes advantage of this new law. Over 20 public schools also use City Sprouts, an initiative that teams up with educators to allow students to cultivate gardens on school property that they can grow their own food in.

Dairy farmers worry about trade to Mexico [17 April/ New Zealand Herald] US dairy farmers are concerned the North American Free Trade Agreement (NAFTA) renegotiations could harm trade with Mexico, its biggest export market. 15 percent of United States dairy production is exported, with one-third valued at USD1.2 billion going to Mexico. The National Milk Producers Federation said trade with Mexico is top priority as the income of dairy farmers depends on it and any small export reduction would see a significant drop on overall prices. US dairy trade with Mexico has increased 558 percent since NAFTA's 1994 establishment. Recently inaugurated US President, Donald Trump, believes NAFTA disadvantages US workers and renegotiations will provide a pleasant surprise. Mexico has objected to Trump's desires to increase deportations, establish a border wall and renegotiate NAFTA. The National Milk Producers Federation and US Dairy Export Council met with Mexican dairy leaders to confirm its ongoing commitment to working with Mexico.

Campbell CEO: Local products, personalized nutrition and automation are the future of food [17 April/ Food Dive] CEO of Campbell Soup Co. Denise Morrison said the company looks past a five-year horizon and aims to anticipate food industry disruptions motivated by the convergence of real food, health, well-being and technology. Ms. Morrison's three-part focus on the future of food reflects trends in the industry. Ms. Morrison referred to "future commerce," "limitless local" and "better-dot-me" as the company's three-part focus. Future commerce is described as a fully-automated and flexible experience that will exceed traditional e-commerce channels, including connected kitchens that automatically refill consumer staples based on consumption habits. Limitless local centres around expanding consumer demand for smaller, more regional farming and food that places focus on quality, authenticity and community. Better-dot-me looks at the future of customised nutrition, something that is already impacting the industry. This customised nutrition trend motivated Campbell Soup Co. to fund Habit, a start-up selling at-home nutrition test kits to create individualised diets for consumers.

Beyond Burger goes beyond borders, taking meat-free patty to HK aisles [17 April/ Food Navigator] Beyond Meat, creator of the Beyond Burger, has begun exporting to Hong Kong, having recently launched in food service outlets at Hong Kong's Green Common markets. Retail packs are expected to be sold in the protein aisle of Hong Kong supermarkets soon as well as the Beyond Burger being rolled out in May at the Butchers Club, a burger restaurant. Beyond Meat Executive Ethan Brown said the company initially planned to keep business America-only, however the partnership with Green Monday prompted him to abandon the America-only policy. Mr. Brown hopes entering the Asian market will increase awareness of the shifting protein paradigm to an important economy.

Farmers and producers

Farmers bring in pumps to drain sodden land [15 April/ Radio NZ] Bay of Plenty farmers are concerned it will take months before their farms are normalised. Many farmers have been forced to move their stock to alternative locations due to flooding that has hit the region following a low which flooded Edgecumbe, and Cyclone Cook. It has been estimated that 5000 animals have been moved. Federated Farmers Regional President Darryl Jensen said farmers have been bringing pumps to the area to help, but said it could take months before the stock can return. Mr Jensen added it was paramount that farmland was drained so stock can return. The government recently announced a support package for flood-affected farmers providing tax assistance and help from task force green teams and the regional Rural Support Trust.

Dairy farmers to get advice on the media [17 April/ The NZ Farmers Weekly] Dairy Farmers likely to have contact with mainstream media have been offered support by Dairy NZ after the TV1 programme The Price of Milk provoked hostile farmer reaction. The programme filmed a conventional farm during the worst winter of recent years, with bad cow conditions, calving difficulties, inundated farm buildings and what farmers believed to be a home kill and butchery. Dairy NZ Chief Executive Dr Tim Mackle said there is bias in some of the media that DairyNZ is working to correct through information, relationships and positive storytelling, adding that good dairying must be more visible to the media, regulation-setters and wider communities. Programme Presenter Cameron Bennett said he did not deliberately choose the farm, and understood it was having trouble in one of the worst winters. Dairy NZ expects media contacts to become more frequent in the election year.

Peak water moving through flooded farmland [18 April/ Stuff] The Piako River at Patetonga topped its stop banks on Sunday, drowning acres of productive farmland. Federated Farmers Waikato Provincial President Chris Lewis said it will take badly affected farmers 3 to 4 months to get going again. The water is likely to leave some paddocks with a layer of silt rotting the grass below and stifling growth. Mr Lewis emphasised the importance of keeping stock well fed and with winter around the corner, there will be high demand for supplementary feed. Mr Lewis also urged affected farmers to contact the Federated Farmers of New Zealand helpline. Regional council hazards Team Leader Rick Liefing said river levels are diminishing, however upper catchment water was still flowing through the river system and collecting at an area further north of Patetonga.

Field Notes

Weekly news update from the KPMG Agribusiness Network – 19 April 2017

Floods 'financially devastating' for some farmers [18 April/ Radio NZ] Farmers on the Hauraki Plains have begun cleaning up after two storms in a fortnight, and are facing a risk of feed shortages caused by the floods. Federated Farmers Waikato Provincial President Chris Lewis said it would be financially devastating especially after two low-return seasons. Mr Lewis suggested farmers should start considering what they would need to get through the winter such as whether they had sufficient supplementary feed. Mr Lewis said the flooding meant some farmers had to move livestock to other areas. Local farmer, Ian Troughton, said half of his farm (200 hectares) was flooded for 10 to 12 days and estimated 20 or 25 properties nearby were likely in a similar situation. This situation means many farmers have been unable to harvest maize silage, causing their supplement to be lost, and have already invested in planting those crops in anticipation of supplement presence through the winter and spring.

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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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