AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

3 May 2017

Organisations referenced in this week's Field Notes include:	
AdvancePierre	Navis Capital
Alliance Group	New Zealand Wool Services International
Asian Blending	Open Country Dairy
Auckland Council	Plant and Food Research
Australia and New Zealand Ministerial Forum	QualityNZ
Beef+Lamb New Zealand	Rabobank
Federated Farmers	Real Estate Institute of New Zealand
Fonterra	Silver Fern Farms
GlobalDairyTrade	Statistics New Zealand
Hemp Industries Association	Synlait
Irrigation New Zealand CEO	The A2 Milk Corporation
Mainland Poultry	The Co-Op
Massey University	The National Organic Standards Board
Minister for Primary Industries	The New Zealand Superannuation Fund
Miratong	Tyson Foods
Murray Goulburn	US Food and Drug Administration
National Cattlemen's Beef Association	Zespri

This week's headlines	
Viticulture	Value of NZ wine to US tops Australia [19 April/ Otago Daily Times]
Arable	Seed-only hemp standard a 'missed opportunity' [29 April/ Radio New Zealand]
Wool	Changing Chinese fashions slam NZ wool [27 April/ Radio New Zealand Rural]
Farmers and producers	Farmers welcome migrant visa changes [21 April/ Rural News]
Poultry	Navis Capital acquires majority stake in Mainland Poultry [27 April/ NZ Herald]

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Hot Off The Press:

KPMG Agribusiness Agenda 2016 Vol. 2

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Horticulture

Heavy rain and flooding cause vegetable shortages, rocketing prices [18 April/ Business Day] Wet weather during March and April has caused extensive damage to crops and higher vegetable prices for consumers. The wet weather has seen root rot wipe out entire crops, particularly of green vegetables like beans, broccoli, salads, silverbeet and spinach. Market gardeners around the country are reporting that the wet weather has rotten their crops and in some cases they do expect to be able to harvest anything, with growers in South Auckland reporting the worst weather conditions in 50 years. It is expected that the prices for onion, potatoes and kumara will increase over coming months as many of these crops are expected to be wiped out. Farmers are likely to experience disease, quality issues and crop losses due to flooding and will likely face financial losses and most are not covered for flood damage.

Zespri forecasts record profit from Gold3 licence revenue [24 April/ National Business Review] Zespri International expects to post a record profit for its recently started financial year. The kiwifruit exporter has announced forecast profit for the year ending 31 March 2018 of between $98 million and $103 million, up on the expectation of between $71 million and $74 million for the recently ended March 2017 year. The increased profit is attributable to revenue coming from the 2017 allocation of licences for 400 hectares of the Gold3 variety or SunGold. Zespri has announced that it will release a further 400 hectares of G3 licences in 2018, 2019 and 2020 subject to the cultivar's performance and global demand.

Viticulture

Value of NZ wine to US tops Australia [19 April/ Otago Daily Times] Rabobank's latest Wine Quarterly report shows that the value of bottled and bulk wine imported into the USA from New Zealand now exceeds those of Australia. The value of US imports from New Zealand increased 11% to USD400 million, while imports from Australia fell 9% to USD351 million. In volume terms, Australian exports are more than twice those from New Zealand, suggesting that the cost per litre of New Zealand wine was more than two and half times of Australian wine. Total New Zealand wine exports followed a steady upward trajectory as 2016 harvest volumes became available to meet demand, while the average export price fell (in part due to changes in UK returns as a result of the decline of the pound following the Brexit decision. Recent heavy rain has presented challenges for the 2017 harvest across New Zealand, thus it is expected that production will be down for the current vintage.

Arable

Seed-only hemp standard a 'missed opportunity' [29 April/ Radio New Zealand] Hemp growers say allowing people to eat hemp seeds is a big step forward but does not go far enough following the decision by the Australia and New Zealand Ministerial Forum on Food Regulation to approve the use of low-THC hemp seeds. Hemp Industries Association, Richard Barge, said it had taken 18 years of lobbying to get the approval despite the enormous economic and social benefits of hemp seed. He noted that not allowing the whole plant to be used was a missed opportunity, despite it containing some cannabinoids. The fledging industry would create jobs, boost rural industries and provide healthy food options for the public but it may take up to 18 months before legal changes are made for the new standard to be introduced.

Dairy

Global dairy prices rise again [19 April/ Radio New Zealand Rural] The latest GlobalDairyTrade auction resulted in the average price increasing 3.1% of USD3,139 per tonne, the third consecutive increase. The key Whole Milk Powder gained 3.5% to USD2,998 per tonne while skim-milk powder, butter and cheddar cheese prices also made gains overnight. Rabobank analyst, Emma Higgins, said global dairy prices were better balanced now than at the start of the season and she expected this to flow through to largely stable commodity pricing through the new season. As a consequence, Rabobank expect the pay-out to farmers should hold around $6 per kilo milk solids or more in the new season.

Flavoured milk powders make debut [26 April/ Otago Daily Times] Singapore based milk powder blending manufacturer, Asian Blending, has announced that it will be offering chocolate and vanilla flavoured milk powders through GlobalDairyTrade. The company has been a long standing buyer on GDT and are now as a seller, a company spokesperson said, that they had chosen to use GDT as they wanted to be associated with a reliable, safe and secure way of conducting business. Asian Blending brings the number of sellers on the platform to five.

Infant formula driving A2 [27 April/ Otago Daily Times] The A2 Milk Corporation has forecasted an almost 50% gain in annual revenues in the current financial year driven by Australian and Chinese demand for A2 Milk's Platinum infant formula. The company has struck an agreement with Synlait to lift the production schedule for the rest of the year and it provided a trading update for the year of forecast revenue of $525 million. Managing Director, Geoff Babidge, said that since mid-February demand for its Platinum Infant Formula product had exceeded expectations, particularly in Australia but also through the cross border e-commerce channel into China. A2 Milk has been more successful than other rivals in navigating the changes in the regulatory environment in China for infant formula products.

Synlait Milk gets FDA 'GRAS' notice for lactoferrin [27 April/ NZ Herald] Synlait Milk has advised that the US Food and Drug Administration has issued a Generally Recognised As Safe (GRAS) notice for lactoferrin, which means the product can be used as an ingredient in the grass fed infant formula that Munchkin, its US partner, is planning to launch this year. Lactoferrin is a naturally occurring ingredient in milk, which reportedly has antibacterial and anti-inflammatory properties. Synlait is the second company to obtain a GRAS notice to export lactoferrin to the US. Synlait has previously said that significant volumes of manufactured product to the US market are not expected to 2018.

OCD confirms new plant [2 May/ Rural News] Milk processor Open Country Dairy is to build a new plant at Horotiu, Waikato. Suppliers were informed of the expansion after the Board had approved the expansion programme last month, with groundwork to start on site shortly. Chief Executive Steve Koekemoer said "the expansion will provide more capacity for us in the Waikato and more options for the milk we process". The plant is expected to provide more flexibility on its product mix also. Standing behind their award winning cheeses, this has always been the priority product, but there are signs that the EU will get more aggressive on prices. "Open Country Dairy's future will rely on the ability to have more flexibility on product mix; to remain competitive and move with the market."

Red meat

Silver Fern Farms proposes to merge Paeroa and Waitoa plants [24 April/ Business Day: NZ Farmer] Silver Fern Farms has announced that it is proposing to merge its operations at Paeroa and Waitoa onto the Waitoa site and close the Paeroa processing site. The sites both process bobby calves for around three months a year which would now all be processed at Waitoa. The company said that no jobs would be lost at the Paeroa site as transfers would be offered to Waitoa and consultations are underway with staff and unions. The staff that work at Paeroa and Waitoa, spend nine months of the year working at the company's Te Aroha plant during the main processing season. The merger coincides with a $1 million upgrade to the Waitoa bobby calve processing site to allow it process the combined volume of bobby calves.

Indian market for lamb growing [26 April/ Otago Daily Times] Geoff Thin, CEO of QualityNZ, says that the company has seen encouraging growth in demand for NZ lamb over the past year, adding that there is the potential to increase supply. QualityNZ was established to promote New Zealand products to Indian consumers (including food and beverage, tourism and education). QualityNZ is working with the Alliance Group to develop the lamb market, and it has been successful in getting Pure South lamb on the menu of a growing number of high end hotels and exclusive retail stores, with 10 different frozen cuts now being offered. Alliance Group believe it will one day see India as a significant export destination for the company.

Sheep and beef farm profits on the rise after last season's dip [28 April/ Business Day: NZ Farmer] Recent forecasts suggest sheep and beef farmers can look forward to a boost in profits of $8,000 this season as a result of better lamb prices and improved grass growth. Federated Farmers Meat and Fibre Spokesperson cautiously welcomed the increase in profits, adding that they still remained too low. Beef+Lamb New Zealand analysis indicated that global demand for sheepmeat remains firm, due to tighter supply from both Australia and New Zealand. Beef+Lamb NZ CEO, Sam McIvor, noted profitability is still not great, but added that farmers are in a better space and are confident of their ability to feed stock. Mr Powdrell said that a recent visit to Europe had shown the direction that the New Zealand industry needs to move in if profits are to improve; the industry needs to focus portion sized cuts of beef and lamb, adding consumers are wanting smaller cuts rather than traditional legs of lamb.

British chain to stop selling NZ lamb [2 May/ NZ Herald] In a drive to back British farmers, retail giant The Co-Op is ending the sale of imported fresh meat, which includes New Zealand lamb. Following the Brexit vote, research has shown shoppers want to support British brands. Making economic sense, importing has become more expensive due to the pound falling so it has called on more supermarkets, fast food chains and restaurants to back homegrown goods. Almost a tenth of all meat imports come from Denmark, exporting £550m of meat into Britain each year, while New Zealand lamb accounts for £291m worth of UK imports. Chief executive of the National Pig Association has said that "Fluctuating currency markets and imports which are cheaper because of lower welfare standards can significantly impact the cost of home-produced pork, making it harder for farmers to make a living. We call on more retailers and food providers to ... go 100 per cent British."

Wool

Changing Chinese fashions slam NZ wool [27 April/ Radio New Zealand Rural] New Zealand Wool Services International have reported that the New Zealand wool market is being hit by a change in Chinese wool demand. Chinese fashion trends are demanding more finer fibres, which has seen the demand for New Zealand's coarse wools (which make up around 70% of exports from this country) rapidly drop in both volume and value terms. Australian wool prices have increased as Chinese buyers have sought to source more of their wool which is predominately fine wool. CEO of NZ Wool Services International, John Dawson, said the industry has faced a difficult year and the market remained fragile, adding that the shift in fashion had caught the industry off-guard. He also noted that there might be a slight change of sheep breeding decisions to finer breeds as a result.

Environment and emissions

Reduce dairy cow numbers to stop water harm- ecologist [28 April/ Radio New Zealand] Massey University ecologist, Mike Joy, said that comments from Nathan Guy, Minister for Primary Industries, that dairy farm intensification can't go on is decades too late. Mr Guy said that there was a limit to how many dairy cows New Zealand could handle the future would rely on increasing the value of milk rather than the volume. A report from the Ministry for the Environment showed a 69% increase in dairy cow numbers between 1994 and 2015 while freshwater biodiversity had declined. It also noted that nutrients from rural and urban waterways were a growing problem. Mr Joy said he had been calling for an end to dairy farm intensification for more than two decades, adding that while farmers had been making positive incremental changes this had been against a background of intensification meaning that the net result is that things get worse. Mr Joy also called for government funds set aside for irrigation to be redirected to riparian planting and other mitigation measures, including reducing the number of cows. Irrigation New Zealand CEO, Andrew Curtis, said the call to stop irrigation was over the top as irrigation water supports some of our most productive regions including Marlborough and Central Otago. Mr Guy said agriculture did harm the environment but the work farmers are doing to mitigate their impact on the environment should be acknowledged.

Biosecurity

Guava moth explosion devastating Auckland's feijoas [26 April/ Radio New Zealand] Auckland Council's biosecurity team has reported an explosion of the guava moth this year which is attacking feijoa trees across the region. The guava moth is not a new pest – having first been found in Northland in 1997 and it is now established in pockets in Auckland and further south. Auckland Council's biosecurity principal, Nick Waipara, said that there had been a deluge of reports and complaints from across the region, with some people loosing 100% of their crop. It is likely that gardeners will need to work much harder to get a crop from their trees in future. Plant and Food Research are currently carrying out research into the moth as the chemicals used by professional growers are currently very expensive. The Ministry for Primary Industries have also given nearly $300,000 to the Feijoa Association to fund research.

International

Russian meat giant plans huge lamb farming hub [21 April/ Global Meat News] Russian agricultural holding company, Miratong, has announced a plan to construct a 30,000 strong sheep farm in the Kursk Oblast region the country. The farm which is the first of a proposed group of 10 operations, will ultimately form one of the largest sheep farming clusters in the world. The development will also include a meat processing facility. Miratong president, Viktor Linnik, said the proposal had been in development for 2 years and the total project was expected to cost USD330 million. Sheep will be imported from Australia and all be of the same breed. Miratong already owns the land for the development.

NOSB defers vote on organic certification for hydroponics amid confusion about 'basically everything' [24 April/ Food Navigation USA] The National Organic Standards Board in the USA deferred a vote on whether hydroponic and aquaponics farms produce products that can qualify for organic certification. There was a lot of confusion apparently across the board about these farming systems and a range of wildly different opinions on how the systems should be classified. As a consequence the NOSB decided to take more time to consider the issues and ensure that clearer definitions are developed of the farming systems. The crux of the debate is whether organic farming systems require soil, something that is absent in hydroponic and aquaponic systems. While the laws governing organic farming systems do not specifically state an organic system requires soil they do include language hat says farms need to either not harm or build soil. The issue is further compounded by the variety of farming systems captured under these farming systems, making the whole issue challenging. The board will next consider the issue in six months but a spokesperson said it would be unlikely that that the board will be in a position to make a recommendation at this time.

Irish minister lays out seven-point plan for food and drink industry after Brexit [26 April/ Food Navigator] The Irish Minister for Agriculture, Food and the Marine, Michael Creed, laid out his plans for Brexit negotiations to over 600 farmers at an Irish Farmers Association event. Around 41% of Irish food and drink exports are sent to the UK each year and Mr Creed argued that this special relationship should be treated as uniquely important in forthcoming Brexit negotiations, given the impact on jobs no deal would have on the Irish economy. The reduction of the British pound had reduced the value of Irish exports by EUR570 million. Supply chains are fully integrated across the Northern Ireland border which much product being exported to the North or onto the British mainland for further processing. The plan includes establishment of a committee dedicated to ensuring market access, providing new resources to government agencies to secure alternative market access arrangements, new funding to Bord Bia to analyse market opportunities in third party countries together with funding for international trade missions, together with working closely with European partners to support their trade and regulatory efforts. EU Agricultural Commissioner, Phil Hogan, who was attending the meeting left with a clear message from farmers; they expect Europe to show its commitment to Irish Farming. "It is about jobs, it's about rural communities, and it's about farm families. Commissioner, Ireland's farmers expect you to deliver!"

Tyson to sell off three non-meat businesses, focus on protein portfolio [26 April/ Food Dive] Tyson Foods announced that it is selling three of its non-protein businesses (Kettle, Van's and Sara Lee Frozen Bakery) as the company seeks to focus on its core protein businesses. Tyson CEO, Tom Hayes, was appointed earlier this year and is delivering quickly on his stated goal of paving the way for the next phase of protein growth. The company has recorded strong profits on its pork and beef businesses in the first quarter but has been active in reshaping its business portfolio, having already announced it will phase antibiotics out of its branded chicken products and acquiring ready to eat sandwich and snack manufacturer, AdvancePierre, in a deal valued at USD4.2 billion. The frozen business has not seen the same growth as protein products that are offered in the fresh sections of the supermarket and offer greater potential to add value.

Trump says US won't leave NAFTA – for now [28 April/ NZ Herald] President Trump has tweeted that he has agreed with the leaders of Canada and Mexico that the US will remain a partner in the North American Free Trade Agreement (NAFTA) at this point in time, although he reserves the right to withdraw if the renegotiated pact is not a fair deal for all. Trump noted in the tweet that relationships between the partners are very good, adding the prospects of a renegotiated deal are very possible. Rumours from the White House had suggested that the President was about to issue an Executive Order withdrawing the US from the pact, but the messaging released was all about an immediate start to the renegotiation with a rapid completion expected to these discussions. The moves come days after the US Administration placed hefty tariffs on softwood lumber being imported from Canada and various attacks from the President on Canadian milk product pricing.

No court action against Fonterra Australia [28 April/ NZ Herald] While major Australian competitor, Murray Goulburn, has had Federal Court proceedings filed against it by the Australian Competition and Consumer Commission (ACCC), it has been announced that no further action will be taken against Fonterra Australia. ACCC said that no action had been taken against Fonterra as it had been more transparent about the risks and potential for a reduction in the farmgate milk price from early in the season. The charges against Murray Goulburn and certain former executives follow an investigation which was commenced when the co-operative abruptly slashed forecast milk payments to farmer shareholders in April last year. ACCC alleges that Murray Goulburn engaged in unconscionable conduct and made false or misleading representations, by setting milk prices at levels that misled farmers. The ACCC is seeking a series of orders that include declarations, compliance programmes, corrective notices and costs but no pecuniary penalties against the company.

Trump's biggest tax cut in US history thrills meat sector [28 April/ Global Meat News] Tax proposals published by President Trump's administration indicates plans to cut taxes for big and small businesses in the largest reforms for over 30 years. The proposals include a repeal of estate tax, a move welcome by the National Cattlemen's Beef Association given the threat it presents to multi-generational family farming businesses, as farmers ae often forced to sell assets to keep their businesses going on the death of a family member. The reforms to the tax system were announced shortly after President Trump signed an Executive Order relating to the promotion of agriculture and rural prosperity in US. The order will result in the creation of a taskforce to analyse regulatory issues that could impact agriculture positively or negatively.

Farmers and producers

Farmers welcome migrant visa changes [21 April/ Rural News] Federated Farmers Dairy Chair, Andrew Hoggard, has expressed concern about the government's changes to migrant visa arrangements, in particular the impact that the three year cap on visa may have on farmers. He noted that this arrangement may mean that migrant labourers would have to leave after three years having developed a core set of skills, while the farmer will need to employ another migrant as there are no New Zealanders available. He added that Federated Farmers will be working with Immigration NZ on this issue. Immigration Minister, Michael Woodhouse, announced changes to visa schemes to better manage immigration and improve long-term labour market contribution of temporary and permanent migration. Mr Hoggard said most of the proposed changes were positive and provided continued access to migrant labour where it is needed, adding agriculture relies on migrant labour for part of their workforce while initiatives continue to attract more kiwis into agricultural sectors.

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Rural real estate sales up 14.4% [22 April/ Otago Daily Times] Rural real estate sales have increased 14.4% in the three months to March 2017 over the corresponding period last year. Statistics from the Real Estate Institute of New Zealand show that there were 438 farm sales in the March quarter and nearly 1,800 farm sales in the year to March 2017. The median price per hectare for all farms sold in the quarter was $27,509. The Waikato region recorded the largest increase in sales for the March quarter followed by Taranaki and Otago. Values of horticulture properties showed a significant lift while prices in other categories were volatile.

Super Fund buys 21 local dairy farms [2 May/ NZ Herald] The New Zealand Superannuation Fund is looking outside the dairy sector for its next venture, eyeing land used for beef and permanent crops and expansion into Australia. With $204 million of its rural portfolio exclusively invested in local dairy farms, the fund suggests this is about to change with other types of rural land now on the radar. Neil Woods, the fund's manager in charge of agriculture and timber investments has said “we are interested in more agricultural investments, not only in New Zealand, but also offshore,". Australia has been targeted due to larger scale agricultural developments with good systems, laws, biosecurity systems and free open borders enabling international prices for products. North America is also on the funds radar. The Super Fund was initially set up in 2001 to help meet pension needs for the future; with acquisition of rural land driven to diversify investments and benefit from increased demand for meat and proteins as Asian countries become wealthier and favour a more western diet.

Poultry

Navis Capital acquires majority stake in Mainland Poultry [27 April/ NZ Herald] Navis Capital, a private equity firm with offices in Australia and Asia, has been successful in securing a controlling interest in New Zealand’s largest egg producer, Mainland Poultry. While the percentage of the company purchased and the price to be paid has not been disclosed, The Australian newspaper reported the price was about $350 million. The current shareholders are said to be retaining a significant shareholding in the business. Mainland faces significant capital expenditure phasing out battery cages and replacing them with larger colony cage systems or free range production. Navis has a portfolio of chicken and duck operations in the UK, Europe, Thailand and China and said that, subject to OIO approval, it will transform Mainland into the pre-eminent agribusiness in the Oceania region, with strong export linkages into Asia.

Economics and trade

NZ exports rise 11pc to 2-year high in March as dairy values increase [28 April/ NZ Herald] New Zealand’s merchandise exports reached a 2 year high in March as the value of dairy exports increased. Total exports of NZD4.65 billion were up 11% of the preceding month, with a 29% lift in the value dairy exports accounting for a NZD250 million increase (despite only a 6.4% increase in volume). Exports to China increased 43% in March to NZD1.08 billion driven by increases in dairy exports. Statistics New Zealand that China remains the top export destination, and also saw large increases in lamb exports while wool exports decreased. While imports increased 7.6%, the country recorded a NZD332 million trade surplus in the month.

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Contact Us

Auckland/ Audit	Taxation	Tauranga	Wellington
Ian Proudfoot	Greg Knowles	Robert Lee	**Graeme Edwards**
09 367 5882	09 367 5989	07 571 1773	04 816 4522
021 656 815	021 307 332	027 451 1035	027 296 5050
iproudfoot@kpmg.co.nz	gknowles@kpmg.co.nz	relee@kpmg.co.nz	gdedwards@kpmg.co.nz
Christchurch	Financial Advisory Services	Management Consulting	Hamilton/ Private Enterprise
Andrew Hawkes	**Gary Ivory**	**Simon Hunter**	**Hamish McDonald**
03 353 0093	09 367 5943	09 367 5881	07 858 6519
027 508 0135	021 932 890	027489 9737	021 586 519
ahawkes@kpmg.co.nz	givory@kpmg.co.nz	simonhunter@kpmg.co.nz	hamishmcdonald@kpmg.co.nz
Ashburton/ Private Enterprise	Farm Enterprise North Island		South Island
Maurice Myers	**Roger Wilson**	**Julia Jones**	**Brent Love**
03 307 0768	07 858 6520	07 858 6553	03 683 1871
027 208 3405	027 281 9575	027 524 8901	027 528 1537
mauricemyers@kpmg.co.nz	rogerwilson@kpmg.co.nz	juliajones1@kpmg.co.nz	blove@kpmg.co.nz

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