



Hot Off The Press:
**KPMG Agribusiness
Agenda 2017**

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

13 December 2017

Organisations referenced in this week's Field Notes include:

a2 Milk Company	Happy Valley Milk
Adama New Zealand	Harbour Asset Management
AgriHQ	Landcorp
Alliance	Lion
Anzco Foods	Marks and Spencer
ASB	Ministry for Primary Industries
Atrium Innovations	Ministry of Business, Innovation and Employment
Bayer	Monsanto
Beyond Meat	Nestle
Campbell's Culinary & Baking Institute	New Forests
DairyNZ	New Zealand Winegrowers
Engender	Otorohanga District Council
European Commission	Piopio College
European Union	Real Estate Institute
Farm Animal Investment Risk & Return	Sainsbury's
FarmIQ Systems	Sanford
Farmlands	Silver Fern Farms
Firmenich	Smartwool
Fish & Game	Soylent
Fonterra	Statistics New Zealand
Food and Agriculture Organisation	Taihape Area School
Food and Drink Federation	Techion Group
Food Business News	Tourism New Zealand
Forest Owners Association	Tyson Foods
Habit	Zespri

This week's headlines

Viticulture	Tourism boom ripe for picking, says wine industry [10 December/ NZ Herald]
Rural communities	Rural schools struggle to fill key high school teaching jobs [7 December/ Radio NZ]
Wool	US company Smartwool gets quality and back-story from New Zealand merino [8 December/ Stuff]
Agri-tech	Farmlands invests in FarmIQ Systems [6 December/ NZ Herald]
Environment and emissions	Genetics, emissions on agenda [11 December/ Farmers Weekly]

Horticulture

Kiwifruit's potential \$26m-a-year windfall [9 December/ NZ Herald] Zespri and its growers could gain \$26 million on the first day of the revised Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTTP) as early as the end of 2018. The new agreement would involve implementing a zero percent tariff rate for the 11 countries including New Zealand. Currently, New Zealand kiwifruit exporters paid a 6.4 percent tariff in Japan, compared with Chile who paid nothing. Minister of Foreign Affairs, Vangelis Vitalis said Zespri had worked out that the zero percent tariff would save at least \$26 million from Japan alone.

Contaminated spray may cost apple exporters \$3m [12 December/ NZ Herald] The New Zealand apple industry was still not sure of the cost of a fungicide contamination which has threatened to destroy 35 hectares of apples in Hawke's Bay. The contamination could potentially lower the value of the export harvest by several million dollars. The fungicide caused russet on apple skins, knocked apples of trees prematurely, and damaged leaves. Adama New Zealand Chief Executive, David MacGibbon said he was devastated by the impact on growers of the apple.

Dairy

Dairy prices rise [6 December/ Otago Daily Times] The Global Dairy Trade price index increased by 0.4 percent to USD 3,091 at the most recent auction. The price of whole milk powder, which had a major influence on the price New Zealand farmers received, increased by 1.7 percent to USD 2,830 per tonne. AgriHQ Dairy Analyst, Amy Castleton said buyers may have been concerned about the dry conditions in New Zealand, with contracts for shipping in March and April showing the greatest support. Ms Castleton explained that New Zealand milk production had coped with the adverse weather conditions to date, but continuing dry conditions were likely to affect milk production through the summer months.

Fonterra cuts its milk price forecast [7 December/ Stuff] Fonterra has decreased its forecast payout for the 2017-18 season by 35 cents to \$6.40 per kilogram of milk solids. Based on DairyNZ production figures of 1.85 billion kilograms of milk over the season, the 35 cent decrease equated to lost income of \$647 million for farmers. For the average farmer milking 414 cows producing 381 kilograms of milk each, the new forecast meant they would lose out on \$55,206 of income. Fonterra Chairman, John Wilson said the lowered forecast reflected a prudent approach to the volatility, with the Global Dairy Trade price for whole milk powder decreasing almost 10 percent since 1 August.

Fonterra seeks 3b litres more NZ milk 2025 [8 December/ National Business Review] Fonterra said it would need an extra 3 billion litres of New Zealand milk production to reach its 2025 growth targets. The company collected 19 billion litres of liquid milk equivalent in 2017, but wanted to boost that to 22.5 billion litres by 2025. Fonterra said this could be done through efficiency gains and the company would continue to promote using improved research and technology to help drive farm productivity.

Proposed Otorohanga dairy plant meets local resistance [8 December/ Radio NZ] Otorohanga District Council have stated that they were against resource consent being granted for a \$230 million dairy factory, with locals worried it would threaten wildlife as there was a wetland adjacent to the factory site. Happy Valley Milk applied for consent in November 2016 and went through public consultation, with submissions for and against evenly split. Because of regulation changes in China, the company said it had to put sales and distribution of its infant formula to Hong Kong and China on hold until it built its own milk processing, blending and canning plant.

Fonterra dairy farm open day part of co-operative's charm offensive [11 December/ Stuff] Fonterra has launched their 'Opening Our Farm Gates' campaign in an attempt to change the perception urban New Zealanders have of dairying and water quality. Part of the campaign involved opening two Manawatu dairy farms to the public over the weekend, with around 240 people visiting. Dairy Industry Chairman, Chris Lewis said it was a great opportunity to debunk some myths around farmers and the environment. Mr Lewis added that it was a great idea for all Kiwis to visit a farm and see first-hand the environmental work farmers have done and were still undertaking.

Viticulture

Tourism boom ripe for picking, says wine industry [10 December/ NZ Herald] Tourism New Zealand and New Zealand Winegrowers have joined forces to support the growing trend of international visitors seeking out a "wine experience" while touring New Zealand. According to figures from the Ministry of Business, Innovation and Employment's International Visitor Survey, about 25 percent of international tourists sought out a wine experience. Tourism New Zealand and New Zealand Winegrowers worked together to produce new interactive online tools to help the wine industry grow the value of their tourism business. New Zealand Winegrowers Global Marketing Head, Chris Yorke said the online tools had been well received by the industry, and tourism numbers were expected to increase as a result of the initiative.

Red meat

Stock flood fears [11 December/ Farmers Weekly] Meat processing plants have become very busy in the last two weeks as farmers reacted to dry conditions by unloading stock. Anzco Foods General Manager of Agriculture and Livestock, Grant Bunting said plants were working overtime and on Saturdays, while livestock backlogs were starting to build. Mr Bunting added that two weeks ago he would have said the season was slow, but it was now back to normal. Alliance Livestock and Shareholder Services General Manager, Heather Stacy said poor spring conditions and the quite sudden drying out could mean some lambs were being killed lighter than farmers and processors would have liked.

Silver Fern Farms forecasts record spend [12 December/ NZ Herald] Silver Fern Farms has forecast a record spend on livestock of over \$230 million this month. Silver Fern Farms Chief Executive, Dean Hamilton said the warm weather throughout the country had pushed stock processing levels higher than normally seen during December. Each week, Silver Fern Farms was processing more than 20,000 cattle, 180,000 sheep and 3,500 deer, with all plants operating at or near capacity. Saturday shifts were being worked, along with overtime and night shifts. Mr Hamilton said despite the record capacity, there was exceptional demand by farmers for space, and queues for processing space were forming.

Fishing

Sanford pulls out after big salmon by-catch [6 December/ Otago Daily Times] Fish & Game has praised Sanford for voluntarily withdrawing from trawling around Banks Peninsula. Sanford's decision was made after one of its vessels caught nearly 400 salmon as by-catch last weekend, of which 372 were escaped farm salmon and 22 were wild fish. Fish & Game Scientist, Mark Webb welcomed the decision to stop trawling in the area, even though Sanford was legally allowed to fish there. Mr Webb added that Sanford had made the decision because of the company's desire to improve the recreational salmon fishery for anglers, and it hoped its actions would give people a better chance of catching a fish this summer.

Forestry

Australian forestry company gears up for NZ expansion with multi-million fund [11 December/ Stuff] New Forests, an Australian forestry company, has set aside \$500 million for investing in New Zealand forestry. New Forests Australia and New Zealand Managing Director, Mark Rogers said the money had been recently raised from mainly European investors. The Forest Owners Association said the Government would be keen to use some of these funds as well as other overseas investment for forestry, partly for environmental reasons. The Government has set a target of planting 1 billion trees over 10 years.

International

Nestle to buy vitamin maker Atrium Innovations for \$2.3 billion [11 December/ Reuters] Nestle has announced that it has reached an agreement to buy Canadian vitamin maker Atrium Innovations for USD 2.3 billion, increasing its presence in consumer healthcare. Nestle Health Science Head, Greg Behar said the purchase of Atrium, which would have USD 700 million in sales this year, would add to earnings immediately. Atrium had seven factories in the United States, Canada, Europe and Argentina. The purchase of Atrium was expected to close during the first quarter of 2018.

Firmenich's flavour of the year for 2018 is... FIG: 'It represents health and authenticity' [7 December/ Food Navigator] Firmenich has selected fig as its flavour of the year for 2018. Firmenich Flavour Division President, Chris Millington said the fig had surged in popularity in recent years thanks to its complex flavour profile, health benefits, versatility in sweet and savoury applications, and artisanal culinary associations. Mr Millington added that the fig was naturally sweet, yet extremely complex. Mr Millington noted that figs were also packed with fibre, magnesium, manganese, calcium and potassium. Fig flavoured products had grown by more than 80 percent between 2012 and 2016.

Did Lion cave to a2 on milk labelling? [8 December/ National Business Review] The a2 Milk Company has announced that it has settled the legal claims and counter claims between itself and Lion. The a2 Milk Company initiated the litigation in 2016 after Lion marketed its milk as containing a2 protein, a claim a2 believed breached its patent and misled consumers. Lion then counter-claimed that a2 had engaged in misleading and deceptive conduct by stating that a2 milk had health benefits over regular milk. The settlement of the claims came before the parties were due in court early next year. Fund managers have said they don't believe a2 would have agreed to any settlement before the court date unless Lion had agreed to stop making claims about some of its brands containing a2 protein. Harbour Asset Management Managing Director, Andrew Bascand said the settlement came a lot of evidence was published showing the health benefits of a2 milk compared to conventional milk.

Food sector breathers relief as Brexit talks to move to stage two [8 December/ Food Navigator] The European Commission has confirmed that sufficient progress had been made with discussions over the United Kingdom's exit from the European Union, enabling Brexit negotiations to move onto stage two, the future trading relationship. In a joint press conference, United Kingdom Prime Minister, Theresa May, and European Commission President, Jean-Claude Juncker revealed that an agreement had been reached on the Irish border, citizens' rights, and the financial settlement. Food and Drink Federation Director General, Ian Wright said he looked forward to seeing the detail of that had been agreed on citizens' rights and on the border between Northern Ireland and the Republic of Ireland, as both issues were of critical concern to food and drink manufacturing.

Meat innovation may be boosted by novel foods law, experts say [8 December/ Global Meat] The European Union Food Industry Association has revised their novel food regulations which would come into force from 1 January 2018. FoodDrinkEurope Communications Director, Florence Ranson said the revision of the regulations was an important element to stimulate innovation in the food industry. Ms Ranson added that the regulation included important amendments to the legislation from 1997, such as the simplification and speeding up of the authorisation process and data protection provisions. Ms Ranson explained that these developments would protect the interests of companies producing new products.

EU agri-food to 'benefit most' from trade deal with Japan [8 December/ Food Navigator] European Union Trade Commissioner, Cecilia Malmstrom and Japanese Foreign minister, Taro Kono have revealed that the final discussions on the EU-Japan Economic Partnership Agreement (EPA) have now been concluded. The EPA was the largest bilateral agreement ever negotiated with the European Union and would strengthen cooperation between Europe and Japan in areas such as sustainable development. Europe's food sector was expected to be a chief beneficiary of the new trading relationship as it provided European food exporters with access to Japan's 127 million consumers.

Meat giant Tyson Foods increases stake in plant-based brand Beyond Meat: a 'fantastic alternative for consumers' [8 December/ Food Navigator] Beyond Meat has raised USD 55 million in a financing round supported by Tyson Foods. Beyond Meat was now in around 19,000 stores with products including Beast Burgers, Beyond Chicken Strips, Beyond Beef Crumbles, and the famous Beyond Burger. Beyond Meat's products contained no meat, with many being based on pea-protein. The money raised would be used to more than triple the size of its production, fund research and development, and expand sales and distribution.

M&S launches stoneless avocados [8 December/ EuroFruit] Marks and Spencer has launched a Spanish stoneless avocado that would be available for a limited time over the Christmas period for GBP 2 per fruit. The stoneless fruit was the result of an unpollinated blossom. The avocados came with an edible skin and measured about 8cm. Marks and Spencer Agronomist, Charlotte Curtis said the fruit had been on the company's radar for years and it was very excited to have finally been able to get hold of some for its customers to try.

Bayer to Face EU Objections to Monsanto Deal in Coming Days [9 December/ Bloomberg] According to people familiar with the matter, Bayer would receive a statement of objections listing reasons why the European Union's antitrust regulator could block its proposed USD 66 billion takeover of Monsanto. The list of objections may help the companies by laying out regulators' concerns so that they could be addressed with a package of concessions. Bayer and Monsanto officials have met with the European Union and were in regular contact to resolve the issues. European Union Competition Commissioner, Margrethe Vestager said regulators were looking very carefully at the competition issues that could arise to ensure farmers still had choice and affordable prices when it came to seeds and pesticides.

Campbell's six food trends for 2018 [11 December/ Dairy Reporter] The chefs at Campbell's Culinary & Baking Institute have identified their top six food trends for 2018. The chefs believed alternative foods such as lab-cultured burgers, cricket flour and ancient grains would continue to become more mainstream, while there would still be a strong interest in all things carnivore. Herbs and spices such as ginger, lavender, mint and cardamom would be popular, along with twists on classic products, retro re-releases and seasonal themes. The chefs said healthy treats would grow in popularity, while the new culinary buzz word would be 'heritage'.

Bryan Crowley assumes CEO role at Soylent, gears up for wider bricks & mortar rollout after trial at 7-Eleven 'blew away our expectations' [11 December/ Food Navigator] Soylent Founder, Rob Rhinehart said he would be stepping down as chief executive officer and moving into the role of executive chairman. Soylent President, Bryan Crowley would take over the chief executive officer position. Mr Rhinehart said he was leaving the chief executive officer role to someone with more management and industry experience. Mr Crowley said Soylent was one of the fastest growing brands on Amazon as well as the number one company in the meal replacement category.

Personalised nutrition could reach the masses if hurdles can be overcome [11 December/ Food Dive] According to an article on Food Business News, in order for personalised nutrition programs to develop and be available to the masses, significant changes needed to be made in terms of customer knowledge surrounding their needs, food manufacturing and distribution. One possible solution to this could be 3D printing, as emerging technologies could allow us to download a personalised product formulation and print it at home. Habit currently made specific meals for customers after at-home tests, but these tests and advice currently cost USD 249.

Taxes on Meat Could Join Carbon and Sugar to Help Limit Emissions [12 December/ Bloomberg] According to a report by the Farm Animal Investment Risk & Return (FAIRR) group, meat could be the next product to be taxed, following in the steps of tobacco, carbon and sugar. The tax would be based on the aim of improving public health and meeting emissions targets set in the Paris Climate Agreement. According to the Food and Agriculture Organisation, greenhouse gas emissions from livestock made up around 14.5 percent of the world's total, while global meat consumption was expected to increase by 73 percent by 2050. Lawmakers in Denmark, Germany, China and Sweden have discussed created livestock related taxes over the past two years, but the idea has encountered strong resistance.

Economics and Trade

Meat, dairy soften sales total [10 December/ NZ Herald] Data from Statistics New Zealand showed the volume of all manufacturing sales rose a seasonally adjusted 0.3 percent for the quarter, while the value increased 0.5 percent. ASB Senior Economist, Jane Turner said the increase was small compared to other periods due to the weak meat and dairy sales volumes. Ms Turner noted that the recent dry weather experienced across the country casted doubt over further dairy production growth for the rest of the milking season.

Farmers and producers

Farm sales activity hits a low [11 December/ Farmers Weekly] Farm sales volumes for the three months to the end of October fell by 26 percent compared to the prior corresponding period. The median sale price was \$24,982 per hectare for October, more than 8 percent lower than September and 3.8 percent lower than October 2016. The Real Estate Institute All-farm Index, which adjusted for difference in farm size, location and type, fell 5.7 percent from September to October, but finished 7.3 percent ahead of October last year.

Deer

Construction set to begin for new Alliance venison plant [11 December/ NZ Farmer] Alliance Group has begun building its new venison processing plant in Southland. The project to create the \$15.2 million modern facility would include improved handling operations, increased slaughtering, a wider boning room and an increased offal area. Alliance Chief Executive, David Surveyor said the new plant was a vote of confidence in New Zealand's venison industry. Mr Surveyor explained that the company was committed to the New Zealand deer industry and this investment would mean the company's farmer shareholders would benefit from world-class modern and innovative processing facilities.

Rural communities

Rural schools struggle to fill key high school teaching jobs [7 December/ Radio NZ] Taihape Area School Principal, Richard McMillan said he would not be able to relax over summer because he has been unable to fill key positions for high school teachers at his school. Mr McMillan explained that positions for an English teacher, maths teacher, and a science teacher were advertised months ago, but he has had to re-advertise them. Piopio College would be starting the new school year two teachers down if no one could be found in time. Piopio College Principal, Johan van Deventer said potential applicants were put off by the isolation. Mr Deventer explained that you really had to be an outdoors person and an adventurous person to live in rural spots.

Health and safety

Landcorp launches safety programme after deaths [6 December/ Radio NZ] Landcorp had launched a health and safety programme to try and reduce the high number of deaths and accidents in the sector. The programme was a joint venture between Landcorp and Wilson Consulting Group of Australia and aimed to get farmers on short courses around the country. Landcorp Chief Executive, Steven Carden said after three staff deaths in six months, the company re-evaluated its safety approach and leadership training. Mr Carden explained that the programme would be available to everyone in the industry and it would be a game changer.

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Wool

US company Smartwool gets quality and back-story from New Zealand merino [8 December/ Stuff] Leaders from Smartwool have visited the Stonyhurst farm in North Canterbury. Smartwool was a merino apparel company from the United States which sourced 95 percent of its wool from New Zealand. Smartwool Brand President, Travis Campbell said the reason the wool had always been sourced from New Zealand was due to the quality and back-story it added to their products. Mr Campbell explained that customers now wanted to understand where their garments came from and ensure it was ethically sourced.

Biosecurity

Mycoplasma bovis - culling continues, MPI quashes 'stories' [7 December/ NZ Herald] Cattle culling has continued on the South Canterbury dairy farms infected with Mycoplasma bovis. All cows from the first two farms in the Ministry for Primary Industries' depopulation programme had been removed for slaughter. After the infected herds had been culled, the farms would be disinfected and go into a stand down period when no cattle would be allowed there. A Ministry for Primary Industries statement said Mycoplasma bovis did not survive in soil for a long period and the stand down period would be long enough to ensure cattle were not infected from the soil.

Auckland company Engender seeks \$20m to commercialise bull sperm sexing technology [8 December/ Stuff] Engender has announced that it would be seeking \$20 million in order to commercialise its technology which would allow farmers to select the sex of their calves. Engender has pioneered new techniques to sex semen, using high-tech microfluidic and photonic chips that sorted sperm by sex. One of the likely benefits would be that farmers could decide not to have unwanted bobby calves. The dairy industry was under pressure from animal rights groups to reduce the quantity of bobby calves, as 1.69 million had been slaughtered at just a few days old this year.

Agri-tech

Farmlands invests in FarmIQ Systems [6 December/ NZ Herald] Farmlands has taken a stake in farm software company FarmIQ Systems as part of a capital raising round. FarmIQ Systems joined Landcorp Farming, Silver Fern Farms Joint Ventures, and Veterinary Enterprises Group as shareholders in the company that developed and marketed software for farming and agribusiness. FarmIQ Chairman, John Quirk said the shareholding companies now represented the value chain from farm suppliers, farm consultants and farmers to processors. Mr Quirk added that the company remained open to working with any other companies which could add value to farmers through data. Farmlands Chief Executive, Peter Reidie said the investment would help Farmlands support and service its shareholders.

Local tech in \$19m 'win-win' [9 December/ Otago Daily Times] Research from Sainsbury's has shown the use of technology developed by Techion Group in Otago could save farmers in its supply chain about \$19 million annually. Techion Founder, Greg Mirams said the involvement of the United Kingdom's second largest supermarket would put his animal parasite diagnostics company on the map. Techion was awarded a research and development grant in 2014 and investigated drench resistance and the effectiveness of current parasite management programmes. Undetected drench resistance currently cost Sainsbury's' lamb suppliers more than GBP 10 million a year.

Environment and emissions

Genetics, emissions on agenda [11 December/ Farmers Weekly] Papers with strong recommendations on climate change, water quality and gene technology would be presented by Environment Ministry staff to incoming Environment Minister, David Parker. The papers reflected the views of the ministry, and not necessarily Government policy. The paper noted how the latest developments in genetic technology were unknown when it was included under hazardous substances and new organisms rules in 1996. The paper added that they were amended in 2003, but there had been no further work since, with the topic now on the Ministry's agenda as an area needing revision.

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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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