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 Agenda 2017**

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**AGRIBUSINESS**

# Field Notes

Weekly news update from the KPMG Agribusiness network

21 December 2017

Field Notes will be taking a summer holiday break for the next few weeks returning on 17 January 2018. We wish all our readers a safe and enjoyable holiday season and a prosperous 2018.

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

a2 Milk Company	McDonald's
Alliance Group	Ministry for Primary Industries
ANZ Bank	NZ Young Farmers
Blue Sky Meats	Orkla
Dole Food Company	Qantas
Federated Farmers	Sauliamt Fair Milk Co-operative
Fonterra Australia	Synlait
FoodPilot	The Australian Manuka Honey Association
Foodstuffs South Island	
Global Dairy Trade	The US Agriculture Department
Greenyard Foods	Unilever
Massey University	

**This week's headlines**

Agribusiness Strategy	<b>MPI escapes the knife</b> [19 December/Rural News]
Dairy	<b>Qantas executive to take over as a2 Milk Company chief executive</b> [14 December/Stuff Business]
Red meat	<b>Dry conditions put pressure on processing plants</b> [18 December/NZ Farmer]
Farmers and producers	<b>Federated Farmers President's message to workers after sudden deaths in rural communities</b> [15 December/NZ Herald]
Apiculture	<b>Aussie honey makers fight to stop Kiwi Manuka trademark</b> [19 December/NZ Herald]

**Agribusiness strategy**

**MPI escapes the knife** [19 December/Rural News] Labour has reviewed its initial plan to split the Ministry for Primary Industries into a series of separate agencies for Fisheries, Forestry, Biosecurity and Food Safety instead looking to undertake a reorganisation to create a series of portfolio entities for these activities under the MPI umbrella. Agriculture Minister, Damien O'Connor, notes that these discreet areas will have their own funding and branding but they will all come under the overall control of MPI. It appears that the cost and disruption of a major reorganisation of MPI would have challenged the spending pledges that the Labour government have made and this proposal has been developed to provide greater clarity and unity of purpose for the four portfolio areas. Minister O'Connor added that the government is seeking enhanced visibility of government policy and regulatory activities with clear lines of accountability to and engagement with stakeholders. The Director General of MPI is now charged with delivering the revised structure while ensuring prudent and efficient use of taxpayer money.

**Viticulture**

**NZ wine export revenue rises to record \$1.66 billion** [18 December/Radio New Zealand] The wine industry has experienced a bumper year and is optimistic about further export growth. A new report shows that a record \$1.66 billion was made in wine export revenue this year with volumes rising to key markets like the US, UK and Australia. The larger operators continue to report higher margins and profitability compared to small operators. ANZ Bank Food and Beverage specialist, Rob Simcic, said export revenue was driven by Sauvignon Blanc with the most growth into the US market. He added that the upcoming season was looking even better as the hot dry weather bodes well for a vintage season, although he noted that the impact of wet weather on last season's harvest means nothing can be taken for granted at this point. The report highlighted that the average age of New Zealand grape growers is now 48 with 15% aged over 65 which could start to impact the wine industry as business owners without succession plans may find it harder to achieve the vineyard process that they had been expecting.

**Dairy**

**Qantas executive to take over as a2 Milk Company chief executive** [14 December/Stuff Business] Experienced Qantas Executive, Jayne Hrdlicka, has been named as the new CEO of a2 Milk Company, replacing Geoff Babidge. Ms Hrdlicka is currently leading the customer loyalty business of Qantas having previously been CEO of Jetstar. She has also served as a non-executive director of Woolworths and was a partner at Bain & Company in the USA earlier in her career. Mr Babidge will stay in his role until the end of the 2018 financial year while Ms Hrdlicka said she was delighted to be joining the very talented and accomplished team at the a2 Milk Company as their CEO, a company she noted has significant opportunity and impressive momentum in its core markets.

**Fonterra may bring Aussies into the fold** [15 December/NZ Herald] Fonterra Australia has announced that it is looking to formulate a co-operative solution for its Aussie suppliers who at the moment supply the company outside of its co-operative structure. The CEO of Fonterra Australia, Rene Dedoncker, said the Australian business had become stronger as the plant footprint had evolved (including the recently reopened Stanhope cheese plant) and further investments were being made to grow the company's milk pool. Mr Dedoncker noted the company was also keen to work more closely with their suppliers including whether there was a co-operative solution for suppliers. Fonterra has recently reduced its milk price forecast across the Tasman because of softening in the global market.

**Prices slide at Global Dairy Trade auction, biggest drop since March** [20 December/The Country] Dairy prices fell at Wednesday's Global Dairy Trade auction with an unexpected fall in Whole Milk Powder. The index declined 3.9% to USD2,969 with 29,592 tonnes of product being sold. The key whole milk powder price fell 2.5%. Analysts suggested that production data showing New Zealand production up by 3.4% in November may have contributed to buyer apathy, despite the outlook for drier conditions and a slowing in production growth. The auction also saw cheddar, AMF, rennet casein, skim milk powder and butter prices fall.

**Synlait enters fresh milk market with Foodstuffs South Island** [20 December/The Country] Synlait Milk says it will enter into the fresh milk market in early 2019 through becoming the exclusive supplier of private label fresh milk and cream to Foodstuffs South Island. The company will invest \$125 million in a liquid dairy packaging plant and the products will be sold across the network of Foodstuffs stores. Synlait noted that the investment establishes a platform for the company to pursue a range of dairy-based products for domestic and export markets in the future, with the technical expertise coming from the company's R&D centre in Palmerston North, which is a collaboration with Massey University and FoodPilot. The plant will have a capacity of 110 million litres and will be able to produce pasteurised products for domestic and extended shelf life opportunities, the securing of a foundation customer enables the company to de-risk the investment.

**Red meat**

**Dry conditions put pressure on processing plants** [18 December/NZ Farmer] Meat processing plants across the country are working at capacity to accommodate an influx of stock caused by the dry weather the country has experienced in the last six weeks. Alliance Group said the company has been working through drought scenarios and had got all their plants up and running at full capacity with chains operating extended hours including Saturdays. A spokesperson also noted that the company was talking to employees about whether plants would operate over the Christmas and New Year break. Alliance also noted that priority was being given to platinum and gold shareholders who supply all their stock in one class to the company or all their stock overall. Blue Sky Meats also noted that their Morton Mains plant was working at full capacity while Silver Fern Farms noted that all its plants are operating at or near capacity with additional chains, overtime and nightshifts where it could and Saturday shifts to process high stock-flows, again with preference being given to loyal shareholders.

**Biosecurity**

**Damien O'Connor steps up fight against cattle disease with likely Cook Strait travel ban** [15 December/Stuff] Agriculture and Biosecurity Minister, Damien O'Connor, has indicated that a ban is likely to be put on cattle being transported across the Cook Strait in an effort to stop the spread of Mycoplasma Bovis. He has also indicated that farmers that have the disease may lose their anonymity. Minister O'Connor said that the ban may be a necessary precaution in the short term until the disease is contained, adding that most movements occur around Gypsy Day in the middle of the year so it should not have a big impact. He added that by naming farms it would enable farmers to identify if they had bought stock from a property which could help the tracking and tracing process.

**International**

**Successful start for Fair Milk in Switzerland** [14 December/Dairy Reporter] A newly formed Swiss Co-operative, Sauliamt Fair Milk Co-operative, has launched fair milk products in the Swiss district of Affoltern. The co-operative which has 40 members is part of the Fair Milk Project initiative being run by the European Milk Board and now sees fair milk co-operative having been set up in seven European countries. Each co-operative has a focus on paying a fair farm-gate price that fully covers production costs and enables farmers to run their farms sustainably. Sauliamt Milk is being sold through stores owned by the regional agricultural co-operative and saw most of the stores sell out on day one.

**Private equity firm KKR wins auction for Unilever's spreads business** [15 December/Food Navigator] Unilever has received a binding offer from US buyout firm KKR of EUR6.825 billion for global spreads business. The sale of the spreads business represents a further step in reshaping and sharpening the Unilever portfolio of businesses for long term growth according to CEO, Paul Polman. The marketing leading brands, including Flora and I Can't Believe It's Not Butter, currently have positive momentum in the market and it is expected that they will continue to develop under KKR's ownership. The deal is subject to regulatory approvals and employee consultation is expected to complete in mid-2018. The spreads business generates annual revenue of EUR 3 billion and operates across 66 countries.

**Orkla and McDonald's launch McVegan burger** [15 December/Food Navigator] Nordic food group, Orkla, is working with McDonalds to launch a new McVegan burger in Scandinavian markets. The burger has been designed to tap into the strong trend for plant-based foods and is based on soybean protein. The burger which was created for Nordic tastes and has been designed to be neutral so different flavours can be added was test marketed successfully in Finland earlier in the year and will be rolled across 270 stores in Sweden and Finland after Christmas. McDonalds note that working with Orkla provides them with the opportunity to work with the best in industry when it comes to vegan products and helps deliver against an ambition to have something on their menu for each of the 400,000 visitors that come to their stores every day.

**USDA withdraws rule establishing organic livestock standards** [19 December/Food Dive] The US Agriculture Department plans to withdraw the Organic Livestock and Poultry Practices rule which establishes animal welfare standards for organic agriculture according to official documents. The USDA believes establishing the rule would exceed its statutory authority. Organic bodies immediately amended lawsuits they had already served against the USDA for delaying the implementation of the rule put in place just before President Obama left office, arguing that it makes no sense for the Trump Administration to pursue actions that could damage a marketplace that is giving American farmers a profitable alternative. Conventional livestock groups opposed the rule (which requires animals to exhibit natural behaviours) arguing it was not based on science and was outside the scope of the Organic Food Production Act. Consumer pressure for establishing organic animal welfare standards could be the wild card in this situation but it appears likely the issue will end up being decided in court.

**Greenyard in 'advanced' talks to acquire Dole Foods** [19 December/Food Navigator] Belgian vegetable processor, Greenyard Foods, has confirmed that it is in talks over a potential acquisition of the Dole Food Company and while no deal has been finalised the company noted it has secured appropriate financing and is confident in its ability to finalise the transaction. If the deal completes it will result in the formation of a company with combined revenues of around EUR8 billion. Greenyard has operations in 25 countries and annual sales of EUR4.25 billion while Dole reported revenue of about USD4.5 billion and a transaction would extend the reach of the group away from its European core into North America. Dole is one of the world's largest suppliers of pineapples and bananas.

**Farmers and producers**

**Federated Farmers President's message to workers after sudden deaths in rural communities** [15 December/NZ Herald] Federated Farmers and other farming groups are pleading with stressed workers to speak up and ask for support following a series of sudden deaths of young men across the country. Feds President, Katie Milne, said she was becoming increasingly desperate to remind farmers that help was available when they need it. Terry Copeland, CEO of NZ Young Farmers, said the sudden deaths, which are believed to include a member of young farmers, were a blow as the organisation had just completed a series of workshops across the country educating people on how to recognise and support others and themselves. Ongoing weather worries, election uncertainty and Christmas have all put pressure on farmers and rural communities but historically young men have been poor at dealing with emotional issues, and leaders across the country are encouraging farmers to look out for their friends.

**Environment and Emissions**

**Government starts down pathway to net pathway to net zero emissions by 2050** [19 December/NZ Herald] The Labour led coalition government has confirmed that a new climate change law will be implemented in 2018 that will bind governments to carbon targets and set New Zealand on a path to net zero greenhouse gas emissions by 2050. Prime Minister Ardern announced a public consultation process to kick off in May next year involving all sectors including business, farmers, unions, Maori, economists and local communities, with a bill to follow in October that will set up an independent Climate Commission. The Commission will be responsible for setting five yearly carbon budgets for the government to meet and a 30 year pathway for future governments and industries to follow. An interim climate change committee will be established in early 2018 which will begin work including looking at how agriculture is incorporated into the ETS. This timetable means that the earliest agriculture would be part of the ETS would be mid-2019.

**Apiculture**

**Aussie honey makers fight to stop Kiwi Manuka trademark** [19 December/NZ Herald] The Australian Manuka Honey Association says that they will fight the granting of a trademark for Manuka honey to kiwi producers by UK authorities. The Australian's argue that they have been producing manuka honey naturally since records began in the 1800's and that given they have been unable to take part in UK trade mark registry conversations their only option is legal action. The UK Trade Mark Registry does not deal with other interested parties until it has decided to allow a trademark but there is a period under legislation for objections and the AMHA plan to do this vigorously given there are 80 Manuka species in Australia. On the other side the UMF Honey Association in New Zealand called the granting of the trademark a landmark decision as the industry looks to protect the term Manuka as being intrinsically intertwined with New Zealand and as a consequence Manuka honey can only come from a single geographic source, being New Zealand.

# Field Notes

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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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