



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

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

7 February 2018

Organisations referenced in this week's Field Notes include:

ANZ	National Milk Producers Federation
Avocados New Zealand	New Zealand King Salmon
Beef + Lamb NZ	Otago Regional Council
Cainthus	Pernod Ricard New Zealand
Cambridge Stud	Rabobank New Zealand
Cargill	Ripple Foods
Danone Manifesto Ventures	Rural Health Alliance Aotearoa
Federated Farmers	Saputo
Felsineo	Southern Pastures
Flight Centre NZ	Sysco
Fonterra Co-operative Group	Tourism Industry Aotearoa
Goldman Sachs	Tyson Foods
Harmless Harvest	US Dairy Exporters Council
Ministry for Primary Industries	US Foods
Mt Cook Alpine Salmon	Wedderspoon
Murray Goulburn	Westland Milk Products

This week's headlines

Agribusiness strategy	Agribusiness needs urgent vision [6 February/Rural News]
Viticulture	'Pretty bloody dumb': Agriculture Minister Damien O'Connor's reaction to Montana Wines Australian move [31 January/ NZ Herald]
Aquaculture	Hotter-than-normal water kills off salmon in the Sounds [2 February/ NZ Farmer]
Biosecurity	Travellers win with plans to cut New Zealand Border Clearance Levy [4 February/ NZ Herald]
Drought	Southern drought: Still dry on Otago farms despite rain [3 February/ Otago Daily Times]

Agribusiness strategy

Agribusiness needs urgent vision [6 February/Rural News] Agriculture Minister, Damien O'Connor, has returned from a recent trip to Europe with a strengthened belief that New Zealand needs a vision and strategic plan for the agribusiness sector. Having visited a number of countries as well as the Green Week trade show in Berlin, he said the language in Europe is around food strategies rather than farm production strategies. He said that there is a need for New Zealand to do the same and he hopes that the Primary Production Council that he plans to have up and running by April will help facilitate a strategy and make it happen. During his trip the Minister met officials and Ministers from a number of countries and reinforced New Zealand's desire to seek a free trade agreement with the European Union, something he believes we are well placed to progress. Minister O'Connor did not meet with UK Ministers on this trip but he highlighted that New Zealand was not seeking to exploit the uncertainty associated with Brexit. He said that his discussions in Ireland highlighted that both countries believe that reducing barriers to trade will help both New Zealand and Ireland to become better off.

Horticulture

NZ avos off to China [2 February/ Radio New Zealand] It has taken four years for New Zealand avocados to gain approval for export to China. New Zealand Avocados Chief Executive, Jen Scoular, said it had been a huge process but they're now set to start feeding China this year. There has been a 250 percent increase in avocado imports into China each year over the last three years. The demand for avocados in China has skyrocketed, and there was increased awareness around the New Zealand product. New Zealand currently has around 4000 hectares of avocados in production with a thousand more being planted. Increase avocado production is expected to meet the increased demand.

Major blackcurrant buyer Ribena cuts NZ contracts [2 February/ Radio New Zealand] Buyers for the Ribena brand have decided not to renew contracts with New Zealand blackcurrant growers. It is expected that this will have a big effect on the industry. They had previously taken more than half of New Zealand's 8000 tonne crop. Blackcurrant industry consultant Mike Callaghan said it was something of a shock, or a surprise at least. However, he still believes there is hope that Ribena will continue purchasing New Zealand blackcurrants in the future. Mr Callaghan added that the industry remained optimistic through this, and many growers are trying to find new markets for their crops. Ribena will continue to be made from 100 percent New Zealand blackcurrants according to Frucor Suntory.

Kiwifruit sector set for growth report [2 February/ Rural News Group] Growth is expected to continue in the New Zealand kiwifruit sector after last year's record season and new orchard development currently taking place, according to the ANZ Kiwifruit Insights paper. Following the recent PSA crisis, the sector has bounced back strongly seeing annual sales rise significantly. ANZ Managing Director Commercial & Agri, Mark Hiddleson, said that although the industry can expect growth, it is the sustained growth over a number of years that will allow the industry to thrive. Land prices for orchards across the country have increased. Direct kiwifruit growing costs have also increased to an average of \$32k/ha for green and \$37k/ha for SunGold according to the ANZ.

Viticulture

'Pretty bloody dumb': Agriculture Minister Damien O'Connor's reaction to Montana Wines Australian move [31 January/ NZ Herald] Pernod Ricard New Zealand has started to source Australian grapes for inclusion in their Montana brand wines, which have historically been made using New Zealand grown grapes. Minister for Agriculture, Damien O'Connor bluntly called the move 'pretty bloody dumb.' His opinion received support from others across social media, including one commenter, Ren Hamington, who replied with 'says it all when they think cheap plonk wins out over brand and NZ identity. Pity.' There was some support for Pernod Ricard with some commentators saying the move was fair and necessary for profit maximisation. Pernod Ricard New Zealand Managing Director, Kevin Mapson, said that increasing demand and the rising costs of New Zealand grapes meant it was increasingly challenging to produce New Zealand sourced wine that could be sold for under \$10. Over time, most of the Montana Classic and Affinity wines would be made from Australian grapes, Mr Mapson added.

Bloodstock

Sir Patrick Hogan squeezes in one more sales pitch at Karaka – and it works [31 January/ Stuff NZ] Sir Patrick Hogan has taken every opportunity he has been given over the years, and he made the most of the one he was given when he was being honoured for his forty plus years of leadership in the Bloodstock industry with Cambridge Stud. He took the opportunity to inform the audience that he still had several lots to sell and that they should 'get bidding.' The offers rolled in, including one for \$975,000 for a Tavistock filly out of Special Diamond from the famous Eight Carat family by a Chinese horse club. Mr Hogan founded the Cambridge Stud in the early 1970's, which has had arguably the largest impact on the thoroughbred industry in this part of the world. Twelve of his yearlings have surpassed the million dollar mark, including one that sold for \$3.6 million in 2000. The industry veteran was emotional throughout his short speech, and assured the audience that he will continue to breed horses. Mr Hogan said 'I'm not going away but I won't be seen like I have been in the past.'

Dairy

Storm cuts power to Westland milk factory and forces farmers to dump milk [2 February/ NZ Farmer] Westland Milk Products had to temporarily close its factory in Hokitika and dozens of farmers in the region have had to dump milk because of power cuts and impassable roads. 'There's flood damage to roads and trees down so tankers cannot get through,' a Westland Milk Products spokesman said. According to the spokesperson, in times of crisis the highly competitive processors worked together. It was too soon to determine whether the rain would end the drought the region was suffering, or if further downpours were needed. Farmers were advised to dispose only of sufficient milk to make space for the next milking.

Milk Producer cuts forecast price [2 February/ Radio New Zealand] Westland Milk Products has cut its forecast milk price back by more than 20 cents. They are expecting a price of between \$6.20 and \$6.50 which is relatively similar when compared to Fonterra, \$6.40, and Synlait, \$6.50. Westland's chair Pete Morrison stressed that they seek to be fair to all of their stakeholders and wanted to maintain integrity by indicating what their expectations were. Mr Morrison added that the value of the dollar also had an impact on prices. Westland have also announced a new relationship with New Zealand's largest farmland investment fund, Southern Pastures. The deal is expected to bring in an extra four million kilograms of milk solids each season from June this year. The deal opens up various other opportunities for Westland, which included working with Lewis Road Creamery, which Southern Pastures acquired an interest in late last year.

Global dairy prices up again [6 February/Radio New Zealand Business] The latest GlobalDairyTrade auction recorded a third consecutive increase in prices. The index price increased by 5.9% to USD3,553 a tonne and it is now at its highest point in four months. The key whole milk powder price climbed 7.6% and has reached its highest point in eight months. Volumes sold were down 5% at the auction reflecting the weather conditions around the country. All products recorded an increase including butter which jumped 7.9%.

Red Meat

Beef + Lamb NZ to review activities [3 February/ Rural News Group] Beef + Lamb NZ was seeking farmers' views on their sector capability programme. General Manager of Innovation for Beef + Lamb NZ, Richard Wakelin, said the review would look at Beef and Lamb NZ's investment in their current portfolio of activities, how these activities align with farmer needs and perceptions, and how they provide value back to the sector. It was also noted that the review would consider future investments as well. Their main investments were around leadership development, farm skills training, agribusiness management training, agriculture sector career promotion, school agriculture curriculum projects and the provision of a range of scholarship opportunities, according to Mr Wakelin. The outcomes of the review were expected to be announced mid-year.

Aquaculture

Hotter-than-normal water kills off salmon in the Sounds [2 February/ NZ Farmer] Salmon in the Marlborough Sounds are dying in their farms as an abnormally hot summer continues to take its toll on marine life. The ideal water temperature for salmon is between 12 and 17 degrees Celsius, but farms had been warmer than usual since early December. New Zealand King Salmon Chief Executive, Grant Rosewarne, said the farms had to manage warmer water every summer, but this summer was extraordinarily hot. Salmon cannot self-regulate their body temperatures, so some have ultimately died due to the heat. The mortalities were disposed of, rather than used for human or pet consumption. Kopaua and Clay Point felt the high temperatures the most, and staff were re-assigned to help the harvest in these areas. The most recent forecast for the current financial year was for sales of around 8,000 metric tonnes, up from last year's actual sales of 7,200 tonnes.

Mt Cook Salmon appointment [2 February/ Otago Daily Times] Professional director Sarah Ottrey has been appointed to the board of Mt Cook Alpine Salmon. Ms Ottrey brings an array of previous board and senior management experience to the position. Notably, she has worked for Unilever before moving to DB Breweries where she became the head of marketing. As the Tui marketing manager, Ms Ottrey created the brand's well known 'Yeah Right' Billboard campaign. She said that she looks forward to bringing her skills to the table, ensuring they remain both future-focused and customer-focused while remaining grounded. The Chairman, Jim Bolger added that Ms Ottrey's marketing knowledge and international experience would prove invaluable as the company continued to grow.

Apiculture

Manuka Honey: Buzz builds for New Zealand superfood [2 February/Food Navigator USA] The unique health benefits of Manuka honey are starting to make a mark in the US market with the market leader, Wedderspoon, reporting record sales across all retail channels in 2017. Wedderspoon has calculated that its products accounted for 73% of the combined growth in the Manuka category across conventional grocery, natural and speciality stores. Wedderspoon CEO, Rebecca Remley, said that the company recognised the massive potential of Manuka in the US but also noted realising the potential would take a thoughtful and unconventional approach rooted in consumer education, innovation and supply chain traceability. The product growth reflects much wider distribution in 2017 including through maintain stream retailers like CVS. The company launched an organic Manuka Honey Pop for kids in 2017 which is made with simple ingredients including organic Manuka honey and 100% RDA Vitamin C. Ms Remley said that the US is one of the last major markets to learn about the product but she hesitated on providing an estimate of how big the market could be, noting that the product crosses over so well into so many categories, from skin care to food.

International

Goldman Sachs invests in fast-growing Ripple pea milk [30 January/ Food Dive] Goldman Sachs has joined a USD65 million funding round for Ripple Foods, a company that uses it Rippstein pea protein to make milk and yogurt style products. The funding round means that Ripple has now raised USD110 million to date. Global Chair of Consumer, Retail and Healthcare groups at Goldman Sachs, Kathy Elsesser, said they were proud to be investing in a company with one of the fastest growing plant-based product lines in the market. Ripple has made no announcements about how the funds will be used, however some analysts hope that the funds will be used to scale up production and reduce prices to make the product more attractive to both occasional and recurring customers. Pea protein has roughly half the sugar of dairy milk although the same amount of protein, while it has around 8 times more protein than sweetened almond milk. Non-dairy US milk sales have increased by 61% over the past five years to an estimated USD2.1 billion in 2017, consumers are interested in the products and the allure of protein as a value add could attract more people to sample pea-based milks.

Chicken suppliers fall amid allegations of collusion [31 January/ CNBC] Two major foodservice distributors in the US, US Foods and Sysco, have launched separate lawsuits against a range of poultry producers, including Tyson Foods, Pilgrim's Pride and Sanderson Farms, alleging that the companies have colluded to manipulate wholesale chicken prices. The lawsuits argue that the companies have artificially limited supplies and inflated prices for years according to a report in the New York Times. The announcement of the action saw the share prices of the defendants fall between 4 and 6%. A spokesperson for Tyson said that lawsuits like these are common in antitrust disputes but that the company's position is that the claims are unfounded and it will vigorously defend itself.

Murray Goulburn sale delayed [2 February/The Australian] Murray Goulburn believes that its AUD1.31 billion sale to Canadian owned dairy company, Saputo, can complete by July despite a two week delay to regulatory approvals being announced by the Australian Competition & Consumer Commission. The ACCC said that it required more time to consider data relating to the two businesses and competition issues associated with the proposed transaction, particularly in Western Victoria. Murray Goulburn was the largest milk processor in Australia but with a series of price downgrades the company now collects less milk than Fonterra Australia, although the proposed transaction will bring together the second and fourth largest processors.

Italian meat boss admits veganism is growing as he launches plant based line [2 February/ Plant Based News] Felsineo, a major Italian deli meat producer, has launched a range of six vegan deli meat options under the Veghiamo brand. The company has seen sales of traditional deli meat products slow, with President, Andrea Raimondi, noting that it is a fact that the number of people opting for vegetarian and vegan goods is increasing as people look for products that will deliver better health and wellbeing. He adding the trend should not be seen as a passing fashion but a new eating habit. The products have been designed to have a similar look and feel to traditional meat varieties with flavours like black pepper and smoked. The products are made from wheat, lupine and chickpeas.

Danone invests in Harmless Harvest coconut water [5 February/ Food Dive] Danone Manifesto Ventures, the venture capital arm of Danone, has announced that it was part of a USD30 million investment round into coconut water producer, Harmless Harvest. The amount of the investment was not disclosed but it gives global dairy company access to the hot coconut water market that is expected to reach USD3.1 billion per annum in sales by 2021. Harmless Harvest sources organic coconuts from Thailand and produces a fresh coconut water product using a microfiltration process. The company was founded in 2010 and differentiates itself through its Fair for Life certification, which is awarded to sustainable businesses that support social, agricultural and environmental improvement. Managing Director of Danone Manifesto Ventures, Laurent Marcel, said that the group looks forward to leveraging its expertise and resources to help Harmless Harvest to reach its full potential while maintain the unique DNA that has enabled its success. Harmless Harvest said the investment will be used to support growth initiatives by increasing and optimising sustainable production capacity as well as boosting awareness of the brand.

Cargill takes stake in livestock-monitoring technology [5 February/Food Dive] Irish Agritech start-up, Cainthus, has received investment from agribusiness giant, Cargill, and the companies have announced a partnership to develop monitoring technology for dairy farms initially. The amount of the investment has not been disclosed. Cainthus has developed a way to use predictive imaging technology to identify specific animals through facial and hide patterns and uses analytics on the resulting data to help determine milk production and herd management plans (including feed, tracking and treating for individual animals). The system may also be able to help deliver on growing consumer demand for transparency and traceability.

US dairy sees ‘strong advocate’ in nominee Gregg Doud as USTR chief agricultural negotiator [6 February/ Dairy Reporter] The US Dairy Exporters Council and National Milk Producers Federation have both urged the US Senate to swiftly approve the nomination by the Trump Administration of Gregg Doud to the role of Chief Agricultural Negotiator in the Office of the US Trade Representative. Mr Doud’s nomination has been on hold since June 2017 due to concerns by one senator over an aspect of the North American Free Trade Agreement but that block has now been lifted, the organisations have said that the importance of agriculture and what is at stake for the industry in the NAFTA negotiations makes it important that Mr Doud is confirmed swiftly as the next ambassador. The organisations stress that America’s dairy farmers rely on carefully calibrated trade agreements which makes a strong advocate for agriculture critical in the Office of the US Trade Representative. They add that despite the President wanting to have smart, intelligent trade agreements the US is falling behind in trade agreements if it is compared to competitors like Europe, New Zealand and Australia.

Biosecurity

Travellers win with plans to cut New Zealand Border Clearance Levy [4 February/ NZ Herald] The boarder travel tax charges imposed in 2016 to help pay for Customs and Ministry for Primary Industries inspections are to be reduced, which the government is arguing is good news for travellers. The Border Clearance Levy paid by air travellers is to drop by nearly \$3, and for cruise passengers by more than \$3. Tourism Industry Aotearoa Chief Executive, Chris Roberts, said that the recent boom of inward and outbound travel has meant the levy raised far more than anticipated, which has resulted in the decrease in the charges. Flight Centre NZ Managing Director, David Coombes, added that ‘It has been good to see in recent years the levies contribute to an improved experience through our airports and ports and we hope to see this continue.’

Middlemarch property positive for Mycoplasma bovis [6 February/NZ Herald] A property in Middlemarch in Otago has been identified as having tested positive for the Mycoplasma bovis cattle disease, the 21st property to have been detected with the disease. In addition there are 34 properties that are under restricted place notices. The Ministry for Primary Industries reiterated that all detections are still linked to the site of the original infected properties via animal movements. MPI also noted that it has contracted a private laboratory to boost the testing capacity to ensure that farmers are receiving the results of testing within the original target timeframe of two to three weeks from a sample being tested; an MPI spokesperson noted that the testing was being processed in risk order.

Drought

Southern drought: Still dry on Otago farms despite rain [3 February/ Otago Daily Times] The extreme January heat has affected farmers through low water stocks. Federated Farmers Otago President, Phil Hunt, said farmers were still facing what some were describing as the worst drought in decades. Mr Hunt emphasised the importance that farmers needed to plan accordingly and could just wait for more rain to fall. Otago Regional Council Director of Environmental Monitoring and Operations, Scott Maclean, noted that Otago’s regional water plan allowed stock to have access to water for drinking from rivers and lakes.

Agribusiness Education

Youth Ag-Summit confirm career path for DairyNZ scholars [1 February/ NZ Herald] DairyNZ scholars Beth Hampton and Jemima Snook recently represented New Zealand at the 2017 Youth Ag-Summit. They flew to Brussels last October to take part. They both found the experience to be invaluable and one that reinforced their passion of the industry. Jemima said that the summit discussions made it clear there were real similarities between New Zealand and other developed countries. She noted that ‘the issues affecting New Zealand agriculture are not unique to us. Other countries are facing the same public pressure in terms of the environment and animal welfare.’ In New Zealand, there was an increasing need for effective and proactive communication as the dairy sector was increasingly aware of consumer and public perception.

Field Notes

Weekly news update from the KPMG Agribusiness Network – 7 February 2018

Farmers and Producers

Rabobank advises caution but good year coming for farmers [2 February/ Radio New Zealand] Farmers could expect another profitable year as long as they make well informed business decisions, according to Rabobank. The driving factor behind their expectations was the stable global markets. However, Rabobank General Manager of country banking, Hayley Gourley, is warning farmers to use the current situation wisely. She emphasised the importance of investing returns wisely in order to be well positioned for the next downturn. The main challenges she identified included regulation changes, adding that the weather had come in to play recently. She noted that while product prices remain very good, actual production levels are likely to be challenged, suggesting that will be farmers will be weighing up these issues in their own businesses.

Rural Communities

Search for the top rural GP practice in NZ begins [31 January/ The Country] The award for New Zealand's best Rural General Practice Team of the Year was underway, with the winners to be announced at the New Zealand Rural General Practice Network's national rural health conference in April. Rural Health Alliance Aotearoa New Zealand Chief Executive, Michelle Thompson, said that the competition was a great way for rural communities to tell us their stories about how rural general practice teams go above and beyond the call of duty in providing health services to their rural communities. The winning practice will receive a prize up to the value of \$1,500 and the winning nominator will receive a prize up to the value of \$500.

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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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