



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

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AGRIBUSINESS

# Field Notes

Weekly news update from the KPMG Agribusiness network

21 February 2018

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

Alliance Group	Nestle
AVANZA	New Zealand King Salmon
AVOCO	Northington Partners
Cricket-One	Open Country Dairy
Farmers Edge	Partners Re
Federated Farmers	Performance Foods
Food Standards Australia and New Zealand	Pipfruit New Zealand
Irish Farmers Association	Power Farming Group
Kiwifruit Vine Health	Silver Fern Farms
Lakes Water Quality Society	Taupo Beef and Lamb
LIC	Vidal Estate Winery
Lincoln University	Villa Maria Family of Wineries
Monsato Vegetable Seeds	West Coast Regional Council

**This week's headlines**

Aquaculture	<b>Report recommends moving Marlborough salmon farms</b> [14 February/Radio NZ]
Dairy	<b>Dairy industry law changes 'inevitable': Minister</b> [19 February/The Country]
Red Meat	<b>Taupo Beef and Lamb starts exporting its meat range to Japanese supermarkets</b> [16 February/NZ Farmer]
Farmers and Producers	<b>Farmer confidence tumbles in January on regulatory, drought fears</b> [15 February/The Country]
Agribusiness Education	<b>Lincoln to make radical changes</b> [19 February/The NZ Farmers Weekly]

**Horticulture**

**AVOCO welcome Chinese export season** [15 February/The Country] AVOCO, an avocado export supply group, welcomed the recent announcement that New Zealand suppliers had been granted to market access to China for the 2018-19 season. They export to various Asian markets under their AVANZA brand, and have been preparing for access to China for a long time. New Zealand will be competing for shelf space with fruit from Mexico, Peru and Chile who were the only other countries to benefit from market access. AVOCO's Marketing and Communications Manager, Steve Trickett, said he believed New Zealand fruit will stand out as it geographically closer and therefore the freshest in the markets, as well as having various other qualities which aim to secure a premium place in the market. Demand for New Zealand avocados has grown in key Asian markets due to efforts lead by AVANZA.

**Cyclone delays arrival of Tongan fruit-pickers** [15 February/Radio NZ] Many Tongan workers are being held up by Cyclone Gita, which has caused concern for the apple industry as worker shortages are getting worse just as the fruit is ripe for the picking. Every year around 1500 Tongan's come to New Zealand under the Recognised Seasonal Employer scheme to help with the harvest. Pipfruit New Zealand Business Development Manager, Gary Jones, said their biggest worry now is bringing those Tongan's over. He added that although flights were going, the main difficulty was in getting to the airport, and accessing visas and passports. Many government departments had to close down because of the cyclone, resulting in workers being unable to access their passports. He added that they have a managed labour shortage as it is, so they end up losing quality as harvest is delayed and this loss is reflected in the sales values of the late harvested product.

**Man killed by potato harvester in Pukekohe had been sent from India to study** [19 February/The Country] A farm worker died on Saturday after becoming trapped in a potato harvester in Pukekohe. He was an Indian man who had moved to New Zealand to study. According to the Indian Weekender, some workers were on break and the tractor was turned off, but the machine was still working when the accident happened. His family had recently funded him to come to New Zealand from the Punjabi village of Talwandi Salbo.

**Onion breeding station opened in Pukekohe** [19 February/The Country] An Onion Breeding Station worth \$2 million was opened in Pukekohe earlier this month. The facility has state-of-the-art sheds, crop covers and irrigation systems. It supports key markets which include Australia, New Zealand, South Africa and Brazil. Monsanto Vegetable Seeds Global Breeding Director for Large Seed/Root & Bulb/Brassica crops, Dr Yossi Shapiro, officially opened the station and said that it is already yielding significant results for seminis onion growers worldwide. Many of the attendees of the innovation day noted how impressed they were with the seminis' investment at the station and the quality of the facilities. Attendees learnt about various new varieties as well as having presentations from market leaders.

**Aquaculture**

**Report recommends moving Marlborough salmon farms** [14 February/Radio NZ] A report has recommended that three Marlborough Sounds salmon farms should be relocated to help improve the environment. The report which made this recommendation was written by an independent advisory panel who considered submissions and public hearings on the proposal to relocate up to six Marlborough Sounds salmon farms to more sustainable sites. The report noted that relocating three of the farms would allow the New Zealand King Salmon company to improve the environment by reducing the effects on the seabed, and improving fish health without having to sacrifice jobs or profits. The three farms are in Otanerau Bay, Waihinau Bay, and Ruakaka Bay. Fisheries Minister, Stuart Nash, said he is still some months away from making a final decision on what to do.

**Viticulture**

**Vidal Estate winery, restaurant, land in Hastings on the market** [15 February/Stuff] One of New Zealand's first wineries, Vidal Estate, in the Hawkes Bay has been put up for sale by pioneering winemaker Sir George Fistonich. The Estate was established in 1905 by Anthony Joseph Vidal, who set out to establish a wine empire. The reason for the sale is so the company can move its production to a new winery a few kilometres away. Sir George said there had already been interest from potential buyers who looked to retain the restaurant and events centre, as well as use the winery for boutique production. He noted that the new winery will allow premium grapes from Gisborne and Hawke's Bay to be processed in one place for the Villa Maria Family of Wineries. Bayley's Hawke's Bay Salesman, Paul Garland, said there was a lot of potential for the wine portfolio and gave his opinion on possible business routes potential buyers could take. Villa Maria will retain the Vidal Estate label.

**Dairy**

**OCD offers fixed milk price** [15 February/Dairy News] Open Country Dairy, New Zealand's second largest milk company announced that they are offering suppliers a fixed milk price of \$6.05/kgMS for the next milking season. OCD's Chief Executive, Steve Koekemoer, has told suppliers that the reason for this decision is to remove price volatility where possible. Mr Koekemoer added that the price they have set has received great support. He noted that the programme was voluntary and, depending on its success, the company plans to roll it out every year going forward.

**Dairy industry law changes 'inevitable': Minister** [19 February/The Country] Agriculture Minister Damien O'Connor said that changes to the Dairy Industry Restructuring Act (DIRA) are inevitable based on a review of the dairy industry this year. This comes after the misinformation within the industry that the review he announced recently would be less in depth than a review which had previously been scheduled for 2020-2021. Mr O'Connor added that the misunderstanding resulted in industry participants suggesting they would not bother making a submission as a substantial review was coming later. However the Minister advised that the substantive review is now this year, and it is important that everyone who has a stake in the industry has input, as there would inevitably be changes to the legislation as a result of this review. Mr O'Connor noted that new issues had surfaced in the dairy industry since 2015, which required discussion.

**Red Meat**

**Lamb and wool marketers confident** [16 February/Rural Life] Many farmers have been asking the Alliance Group how long lamb prices could be sustained at the recent Southern Field Days, a question Chairman, Murray Taggart, has been responding to by noting that they feel market fundamentals around the world give them some confidence. Mr Taggart said he had also received a lot of praise for his work since taking up the Chairman position, however he stressed that it was a team effort and that the Alliance team was getting stronger all the time. Silver Fern Farms Chairman, Rob Hewett, was telling farmers that the meat industry was having one of its quieter years so far while wool marketers were highlighting the number of brands looking at wool products and clothing. They noted that opportunities for fine wool at the moment were great, which has resulted in the 34 year high for merino prices.

**Taupo Beef and Lamb starts exporting its meat range to Japanese supermarkets** [16 February/NZ Farmer] Taupo Beef and Lamb, a company established by farmers Mike and Sharon Barton, has begun exporting its meat range to Japan. They sent their first container load in December which went on sale at five high end supermarkets East of Tokyo. Mr Barton praised his partners for their help with the venture, and emphasised the importance of good food presentation in the Japanese market. They focus on sustainable farming, and Mr Barton added that if the primary industry was going to fix water quality issues, it had to extract value from overseas customers. He said their work will be a two generation process that will allow them to understand that water quality, greenhouse gasses and other environmental impacts had costs. Their current agreement with their Japanese supplier is for a year.

**Research and development**

**GM or not GM? Food watchdog reviews new products** [15 February/NZ Herald] Food Standards Australia and New Zealand (FSANZ) were reviewing how rules may apply to products that can be altered genetically, but without any introduced DNA. New breeding techniques (NBTs) are a set of technologies being developed and applied in plant and animal breeding. There was doubt whether the outputs of these technologies should be treated as foods produced using gene technology as some of the new techniques could be used to make certain changes to the genetic make-up of an organism without permanently introducing any new DNA. There has been debate over foods using NBT and whether they needed to be assessed and approved before entering the market. FSANZ's Chief Executive, Mark Booth, said a range of new techniques have been developed since the standard was introduced almost 20 years ago. He added that at this stage they weren't proposing any code changes or labelling issues, however would consider all feedback and if necessary consult with the community. Otago University Geneticist, Professor Peter Dearden, said these technologies use lab manipulation to change DNA, but don't involve direct DNA insertion.

**Farmers and producers**

**Farmer confidence tumbles in January on regulatory, drought fears** [15 February/The Country] Due to the drought and uncertainty around new government policies, the latest measure of New Zealand farmer confidence has fallen significantly according to Federated Farmers. Of those surveyed, 34 percent were pessimistic about general economic conditions over the next 12 months according to the Federated Farmers' Farm Confidence January survey. Federated Farmers Vice President, Andrew Hoggard, said that most recent surveys have found a drop in confidence due to the uncertainty over October's general election. Since the last survey in July 2017, pessimism has increased and so has farm debt. Federated Farmers added that biosecurity concerns are more evident, and the highest they have seen in these surveys. Finding suitable staff was also found to be increasingly difficult based on the results.

**West Coast Farmers bracing as Gita looms** [19 February/Radio NZ] Farmers are preparing for Tropical Cyclone Gita to hit the West Coast of New Zealand. Within the last month farm buildings, paddocks and roads had all been damaged by heavy rain, king tides and strong winds. The West Coast Regional Council were deciding whether to declare a state of emergency for the area. A Dairy Farmer from the Westport area, Rebecca Keoghan, said farmers were taking the warnings seriously. She added that although previous warnings hadn't always eventuated, they were not taking any chances and doing all they could to be prepared.

**Biosecurity**

**Japanese shipment full of 'stink bugs' a biosecurity risk** [15 February/The Country] Federated Farmers has called on the Ministry for Primary Industries to hold firm on a shipment which had been previously turned away from the Ports of Auckland. The ship was deemed a biosecurity risk after over 100 brown marmorated stink bugs were found. It was carrying vehicles from Japan and has subsequently been re-routed to Australia. Federated Farmers' Biosecurity Spokesperson, Guy Wigley, said that the ship should not be allowed near our shores until it has been properly fumigated. He added that the threat to our primary industries is significant and could do hundreds of millions of dollars' worth of damage to our economy. He compared this scenario to the Foot and Mouth disease of the crop world. Kiwifruit Vine Health Chief Executive, Barry O'Neil, said the MPI should be congratulated for taking the right action by turning the ship away. The brown marmorated stink bug is a pest that could potentially destroy New Zealand's fruit and vegetable industries.

**Minister blasts NAIT** [20 February/Rural News] According to Agriculture Minister Damien O'Connor, National Animal Identification and Tracing (NAIT) clearly hasn't worked as it should have. He brought this up because of the recent Mycoplasma bovis outbreak which has caused problems across the board. Mr O'Connor said that he doesn't blame farmers as there is a lack of clear direction from industry leaders and organisations. It's almost a crisis as Mycoplasma bovis is a disease New Zealand does not want nationwide. He has seen a draft report which will be made public that identifies a number of issues. The Minister did not accept that it was taking time to sort out problems as the system started running five years ago. He added that changes are to be made, education will be given and it will be clear that non-compliance with NAIT will be unacceptable.

## International

**Farmers Edge partners with global reinsurer to bring farmers custom data-backed insurance products** [13 February/Agfunder News] Farmers Edge have announced a four year deal with Partner Re to bring customised insurance products to users of Farmers Edge's farm management and agronomy software platforms. The two companies will work together to develop new agriculture insurance products targeted at farmers in both developed and developing markets. CEO of Farmers Edge, Wade Barnes, noted that when farmers use the platform to improve yield and lower costs they are de-risking their business which could be connected with more tailored insurance products (where crop insurance markets already exist) or the development of insurance products where non currently exist. Mr Barnes said that the data collected by Farmers Edge could help establish insurance products in emerging markets after one year and when insurance becomes available farmers are able to take on greater risk to support their growth and development. A spokesperson for Partners Re said marrying insurance expertise and cutting edge technology will enable insurers to get closer to their customers in terms of risk selection, product design and claims adjustment to create very tailored solutions that meet farmer's specific needs.

**Trump budget proposes major overhaul to food stamp programme** [13 February/Food Dive] President Trump's 2019 Budget proposals would result in fundamental changes to the Supplemental Nutrition Assistance Programme (SNAP) if enacted. The proposals see those that currently receive more than USD90 a month in SNAP benefits having some of their current cash benefits being swapped for a USDA food package, including shelf stable milk, pasta, canned fruit and meat, that would be 100% American grown. The box, being referred to as "America's Harvest Box" represents the most fundamental overhaul to the SNAP programme in 50 years and is expected to result in large savings over a 10 year period. Congress will have the final say on these changes and history suggests that changing the SNAP programme which has strong support from grocers is hard to achieve, particularly when the large retailers stand to lose billions in sales from food stamps (which amount for around 7.5% of all US food spending). It has also been suggested that the harvest box would result in significantly increased distribution costs for food compared to SNAP funds meaning any savings would be negated. Research has shown that SNAP recipients spent more money on soft drinks than any other category, thus the harvest box would have significant impact on particular food categories.

**Cricket One: If edible insects are to take off, they have to be more affordable** [14 February/Food Navigator USA] Vietnamese start-up Cricket One argues that with the growing demand for alternative protein there is a significant potential market for efficiently farmed, protein packed bugs. The co-founder, Bicky Nguyen, said that consumers are finding out about new products more quickly than ever and while crickets will never completely replace traditional animal proteins they do provide another option that will become more attractive as prices come down. The challenge for the cricket farming industry to date has been that production systems are not very scalable and costs have consequently been high. Cricket-One has the ambition to become the leading premium supplier to the market making cricket protein more affordable and accessible to the mass market. The company is using by-products from cassava as food for their crickets and has kitted out abandoned shipping containers as intensive breeding units, using an approach developed in association with experts from Wageningen University. The company has full traceability, the container units are provided to cassava farmers together with crickets and the farmers provide the labour and the feed biomass. The crickets are collected and processed at a central facility before being sold to customers producing snack foods but also petfood.

**Irish Farmers' Association warns of Brexit impact** [15 February/Global Meat News] A report prepared for the Irish Government on the impacts of Brexit on Ireland's trade and economy paints a very stark picture for food and farming in the country according to the Irish Farmers Association. The report looks at various trading models that the EU could adopt with Britain moving forward and estimates Brexit will reduce Irish GDP growth between 2.8% and 7% by 2030 with the agri-food industry being one of the key sectors that would take most of the impact. IFA President, Joe Healy, said the report should refocus government efforts towards avoiding a hard Brexit and securing an outcome that avoids this bleak scenario for the largest indigenous industry sector. He added that questions regarding trade between Ireland and the UK needed to be answered, particularly the need to look beyond the border between Ireland and Northern Ireland towards the relationship between the EU and the entirety of the UK. He also argued that if the UK wants continued access to EU markets after leaving the UK Government can't have the freedom to open its market to low-standard or low-value products from outside the EU.

**'The incline has become steeper' Nestle's uphill battle to grow** [16 February/Food Navigator] Nestle has acknowledged that it is facing an uphill battle to deliver organic growth in the face of the changing consumer having reported sales growth for the final quarter of 2017 of 1.4%, well below the consensus forecast at 2.6%. This is the lowest organic sales growth figure reported in this century according to one analyst and the Nestle CEO, Mark Schneider, said the company was disappointed about sales performance in the final quarter. The company has a goal of achieving mid-single digit organic sales growth by 2020 and acknowledged that the incline to achieving this goal had now become much steeper. The company noted it had made and continues to make changes to its product portfolio via M&A however the impact of these changes will not impact sales growth until 2018 and 2019. The group's M&A strategy is intended to align the company's portfolio with the changing consumer, with health and traceability as two key issues shaping demand for food. Mr Schneider noted that the consumer is increasingly willing to pay for premium products but are increasingly price sensitive when it comes to what they perceive to be exchangeable standardised products. He also added that it was critical that Nestle adopts fast cycle innovation to roll out strategy product innovation and renovation more quickly.

**Protes unveils protein popcorn: 'We're the first ones to bring function to the category'** [19 February/Food Navigator USA] Performance Foods, a Brooklyn based food business, claims while the popcorn category has seen a lot of innovation in recent years it has all been driven around flavour rather than function and as a consequence the company is launching a new popcorn product that delivers 10 grams of protein per serving. The new product, Protes, will be sold through 5,000 plus stores including GNC and Giant Eagle. The products is an air-popped, whole grain, non-GMO, lower fat and guilt free but offers a protein shot that is new to the category. The products is made with a whey protein isolate as it was the only ingredient that delivered a satisfying eating experience as well as delivering a minimum of 10 grams of protein that it is necessary to interest the sports nutrition consumer and meeting an acceptable price point for the product. The company in determining to use whey protein isolate had to be very clear on its mission and clarify whether it is a vegan protein company or a protein snack company. The company says that most grocery retailers are 5-10 years behind the trend when it comes to sports nutrition and they are playing catch up because the highest growth categories are sports nutrition and supplement sets, which is driving a real focus on grab and go items of sports nutrition like chips and cookies.

## Fieldays

**Rural bachelor contest revamped to become battle of sexes** [15 February/NZ Farmer] The Rural Bachelor contest has undergone some changes, and will now be open to both male and female contestants. The contest has been renamed as the Fieldays Rural Catch of the Year. The Fieldays theme this year is the future of farming, so they felt that since females are doing the same thing as the males, they should be allowed to compete. The contest gives participants a chance to have a break off the farm and meet other people. To participate in this competition, contestants must be New Zealand or Australian residents, aged 21 or over and employed in the agricultural industry. The competition will take place from the first day of Fieldays on 13 June, and a prize pool worth more than \$20,000 is at stake.

## Rural Supplies

**Morrinsville, Waikato-based tractor and machinery sales company Power Farming Group powers ahead with overseas expansion** [19 February/The Country] Power Farming Group Director, Brett Maber, said that a policy of returning 100 percent profits into the business is what empowered the group to achieve overseas expansion and annual revenue of \$400 million. Power Farming Group is an independent tractor and machinery sales company which started in 1948 as Maber Motors. They employ over 400 people across three trading groups, and have a wholesale and retail distribution business of more than 20 dealerships either wholly or jointly owned. Mr Maber noted the group had 20-25 percent of the New Zealand market, having sold 25,000 new tractors and 100,000 pieces of equipment. His advice for small to medium companies hoping to expand was to back their ability to do the job, and pull the trigger on their ideas.

**Share reform to cut conflicts** [19 February/The NZ Farmers Weekly] According to an independent report, simplifying the Livestock Improvement Corporation ownership structure into an ordinary share system should guard against potential conflicts in the dual share structure. Currently, some owners have voting power but not the full economic interest in the company whereas other owners have the greater economic interest, but not the voting power. LIC Chairman, Murray King, believed the dual structure created potentially serious conflicts of interest. There will be a special shareholder meeting on 14 March where shareholders will vote on the change, and it will be given the go ahead if 75% of the votes under each class are in favour. Northington Partners added that most farmer investment in LIC is not very material in the context of their overall farming operations and the proposal will not significantly change that position. They concluded the potential benefits outweigh the negative impacts for some groups of existing shareholders.

## Water

**Federated Farmers trying to raise \$50k for PC10 challenge in Rotorua** [20 February/NZ Herald] Federated Farmers want to raise \$50,000 to challenge a controversial plan to improve water quality in Lake Rotorua. Their opposition to the plan was labelled as ridiculous by a group working to improve lake water quality. Four appeals have been lodged to the Environment Court against the plan. According to the Federated Farmers website, the plan requires irreversible land use change to achieve a nitrogen target in circumstances where science no longer supports the target. Lakes Water Quality Society Chairman, Dan Atkinson, said he believes Plan Change 10 is fair and reasonable, and that extensive work went into ensuring the plan was an honest effort from all parties.

## Agribusiness Education

**Lincoln to make radical changes** [19 February/The NZ Farmers Weekly] Lincoln University will undergo significant change to solve the grand challenges of the land based sector based on a report from the University's Transformation Board. The institution aims to change from a stand-alone traditional university to an enabler of collaborative initiatives involving multiple parties and various academic fields of study. Lincoln University Vice-Chancellor, Robin Pollard, said they had set a target to become a globally ranked top-five agriculture university and a top-five university in New Zealand. He added that this is a radical change for the university, and anything short of a radical structural change wouldn't be sufficient. He suggested it would take about four to eight years to implement the changes. They plan to get multiple initiatives started early in 2018, and to develop other initiatives as they grow. Lincoln has already committed more than \$1 million to a recruitment drive to attract international researchers to head Lincoln's initiatives projects. He claimed whoever is best equipped to do the job is welcome at Lincoln, both for education and research.

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# 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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