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 Agenda 2017**

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AGRIBUSINESS

# Field Notes

Weekly news update from the KPMG Agribusiness network

21 March 2018

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

AB InBev	Ministry for Primary Industries
AfriForum	Miro Limited Partnership
Allbirds	Ngāti whare
American Heart Association	PepsiCo
ASB	PGG Wrightson
Australian Financial Review	Plant and Food Research
Bayley's	Poultry Industry Association of New Zealand
Centers for Disease Control and Prevention	Rural Women New Zealand
Chilean Blueberry Committee	Safe
Cobb Vantress	Salt of the Earth
Craigs Investment Partners	SanCor
Egmont Seafoods	Seafood NZ
Federated Farmers	Shanghai Maling
First NZ Capital	Silver Fern Farms
Fonterra Co-operative Group	South African Economic Freedom Fighters Party
GlobalDairyTrade	Statistics New Zealand
Kaipara Kumara	Synlait
Kalbe	Westland Milk Products
Kanapu Hemp Food Ltd	Westpac
LilyBee Wrap	WorkSafe
Livestock Improvement Corporation (LIC)	Zespri
Mānuka Honey Appellation Society	

**This week's headlines**

Horticulture	<b>Zespri shareholders vote in favour of changes to constitution</b> [14 March/NZ Farmer]
Environment and emissions	<b>Climate change policy can work with support</b> [13 March/The Country]
Forestry	<b>Shane Jones gives Ngāti Whare \$6m to grow millions of native trees</b> [15 March/Stuff]
Dairy	<b>Westland inks deal with Indonesia's Kalbe</b> [19 March/Dairy Reporter]
Economics and trade	<b>Primary sector export returns tipped to rise by 10 per cent to \$42.4 billion</b> [19 March/Stuff]

**Horticulture**

**Berry group hopes for a \$1b export business** [15 March/NZ Herald] A new joint venture between a Maori collective, Miro Limited Partnership, and government owned science company, Plant and Food Research, will use new technologies to grow berries for export in climates and regions that have not typically been used. Miro's Director and Horticultural Entrepreneur, Steve Saunders, said the business had a vision to drive and develop the berry industry and the regional Maori economy. Plant and Food Chief Executive, David Hughes, noted that blueberries would be the first focus of the new venture. They planned to use new varieties and innovative growing technologies including tunnels and soil media. Miro Chairperson, Rukumoana Schaafhausen, said Maori had come together to achieve common goals and that they wanted jobs, higher returns on their land and to own a global business. The Maori economy is valued at \$50 billion.

**Zespri shareholders vote in favour of changes to constitution** [14 March/NZ Farmer] Zespri shareholders have voted to ensure active growers have greater control of the co-operative. A share cap will be introduced with growers able to hold a maximum of four shares for each tray of kiwifruit that they supply to Zespri. This will mean around 8 percent of growers are 'overshared', whereas 29 percent were rated as 'undershared'. Zespri's Chairman, Peter McBride, said the changes have been in planning for over five years as part of the Kiwifruit Industry Strategy Project and that without these measures there was a risk that ownership would move away from the current growers who supply Zespri. He noted that there was a target share issue and buyback programme scheduled for the second half of 2018.

**Kumara worries: Growers battle wet weather** [15 March/Radio NZ] Northland kumara growers were worried about possible crop losses due to the extremely wet summer. The weather caused prices to increase to around \$9 per kilogram, and Kaipara Kumara Manager, Anthony Blundell, said that so far only 15 percent of the crop had been harvested and some growers believed this was the wettest summer in over twenty years. He noted that they hoped the weather did not get too much wetter as it would cause unfavourable harvesting conditions, effecting the quality and storing ability of the kumara. Mr Blundell added that the industry was trying to harvest as much of the crop as possible to prevent steep price increases. He said that by the end of April the industry would have a clearer idea of crop yields.

**Massive 98 hectare kiwifruit property on the market** [18 March/NZ Herald] A large kiwifruit orchard comprised of three mid to large blocks of land in the Bay of Plenty was for sale by Bayley's. The orchard portfolio came with an option to buy 677,720 Zespri shares. Bayley's Managing Director, Mike Bayley, said it was rare to see a portfolio that large on the market and that it was one of the largest that had ever been taken to market in one portfolio. Mr Bayley added that the economies of scale from purchasing the collection of orchards would allow for the new owner to maintain the corporate approach to crop management and production. Bayley's Tauranga Horticultural Sales Specialist, Snow Williams, noted that New Zealand had about 2500 commercial growers operating 3000 registered orchards producing kiwifruit.

**Rural supplies**

**PGG Wrightson 'open to options' amid strategic review** [15 March/The Country] PGG Wrightson was open to options after hiring First NZ Capital to complete a strategic review of the business. It has been rumoured in the Australian Financial Review that the merchant bankers were getting non-disclosure documents signed by interested parties ahead of a planned auction of the company, which is controlled by Agria Corp, with Elders, Landmark and private equity entities identified as potential bidders. PGG Wrightson's General Manager of Strategy and Corporate Affairs, Julian Daly, said the review was ongoing and more detail on the outcome would be provided later this year as the Board had previously advised. He added that the board remained open to looking at all options and no decisions had been made. PGG Wrightson's shares were trading at 62 cents, giving the company a market valuation of \$468 million.

**Shareholders approve simplified share structure for dairy genetics company** [15 March/NZ Farmer] After receiving approval from its shareholders, Livestock Improvement Corporation (LIC) will go forward with its proposal to simplify its share structure. The proposal combines the existing two share classes together into a single class to remove potential conflicts between co-operative and investment shareholders. Of the attendees, 87.69 percent of co-operative and 83.39 percent of investment shareholders voted in favour of the proposal. LIC Board Chairman, Murray King, said the result was an endorsement of the proposal and that they would now proceed with the next steps in the implementation. He noted that LIC now required to seek ministerial consent for the constitution changes and that they had written to the Minister of Agriculture for this. They plan to be trading with the new single class of ordinary from 23 July.

**International**

**Allbirds sells 1 million shoes, launches tree-based footwear** [16 March/NZ Herald] San Francisco-based company, Allbirds Shoes, have sold over 1 million pairs of shoes. The company announced a new range made from trees and said it's the most sustainable material used to date being manufactured from eucalyptus fibres which require 5 percent of the water and a third of the land traditional footwear materials use. They added that the new material doesn't compromise comfort or the environment and they looked forward to challenging the market. Allbirds began with a research grant and a kick-starter campaign in 2014. They have received various investments over the years and have expanded and grown their retail footprint in New Zealand and the U.S. It is currently the largest direct-to-consumer footwear brand in the world. Allbirds was founded by former All White, Tim Brown, and business partners and uses New Zealand sourced merino wool.

**Furious South Africa rejects Aussie offer to help persecuted white farmers** [15 March/The Country] South Africa rejected an offer from Australia's Home Affairs Minister, Peter Dutton, to help persecuted white farmers. Mr Dutton said they faced horrific circumstances through violence and land seizures. He added that based on the information, he thought they needed help and that Australia would be able to provide it. The South African Foreign Ministry responded and said there was no threat and that there was no reason to suspect that there was any danger to farmers in the country. A rights group in South Africa, AfriForum, supported Mr Dutton, however were not in favour of mass emigration. AfriForum's Deputy CEO, Alana Bailey, said that Mr Dutton's comments should serve as a warning that South Africa ran the risk of losing productive loyal citizens. South African Economic Freedom Fighters Party Leader, Julius Malima, added that they had to ensure they restored the dignity of their people without compensating the criminals who stole their land and that it was time for justice.

**Umami ingredient can reduce both sugar and sodium, company claims** [15 March/Food Dive] Salt of the Earth, an Israeli company, said its Mediterranean Umami ingredient can reduce sugar and sodium in savoury sauces. Umami is one of the five basic tastes alongside sweet, sour, bitter and salty. It is defined by its rich savoury mouth filling flavour. The company was targeting ketchup, barbecue, dressings, pizza and pasta sauces, chutneys and sauces for ready-to-eat meals. These are commonly high in sugar. The ingredient is a combination of natural vegetable extracts that are high in umami. In America, 90 percent of children consume more than the recommended level of sodium according to the Centre for Disease Control and Prevention, and average sugar intake is also above the daily limit according to the American Heart Association. The umami ingredient has the possibility to significantly reduce both sugar and salt in traditional condiments.

**Chilean blues smash shipment record** [19 March/EuroFruit] Chile's blueberry industry exported a total of more than 110,000 tonnes of fruit in the last year which has set a new export season record. The Chilean Blueberry Committee Executive Director, Andres Armstrong, warned that although results were better, the effects of the weaker and fluctuating dollar would impact returns. He said the main problem with the last season was that the harvest came four weeks too early and the markets were not ready, whereas this season that did not happen. Mr Armstrong added that this season had better fruit quality and flavour due to the hard work of the growers, better orchard management, varietal replacement and new technologies. The European market saw the greatest growth this season of 12 percent mainly due to increased consumption in countries such as France, Italy and Russia.

**Purpose takes center stage for PepsiCo, Stella Artois and SXSW** [19 March/Marketing Dive] Purpose driven marketing was being used by consumer products giants PepsiCo and AB InBev by leveraging a values-oriented approach to distinguish new products in crowded markets around the South by Southwest Festival in Austin, Texas. PepsiCo's VP of Marketing, Todd Kaplan, emphasised that purpose driven marketing didn't have to be only related to political or social causes. Mr Kaplan added that having a good CSR programme doesn't make you purpose driven. He said that millennials value transparency and can work out fake information quickly. According to statistics seen by Mr Kaplan, 80 percent of those who buy bottled water will do so from multiple brands indicating low brand loyalty. Premium water was targeted by PepsiCo when designing Lifewtr and they investigated how to be successful in that area. Mr Kaplan emphasised that purpose driven marketing didn't have to be tethered to cause marketing, however they often work together. Stella Artois' Global Director, Ben Butler, said for them it came down to 'doing good' for others through donating a portion of the proceeds from its limited edition beer chalice to water.org.

#### Environment and emissions

**Climate change policy can work with support** [13 March/The Country] According to Federated Farmers, proposals to address climate change could work as long as there is cross-party support backed by a Climate Commission that has access to informed science. The Parliamentary Commissioner for the Environment, Simon Upton, explained nine recommendations to ensure New Zealand sets effective carbon budgets, established a credible Climate Change Commission and drives plans and policies that turn into action. Federated Farmers Climate Change Spokesperson, Andrew Hoggard, said Federated Farmers supported Mr Upton, and that it was good to see the report addressed complexity around different gases and how they each need to be managed. Mr Hoggard added that while agricultural emissions are part of the problem, there needs to be a pragmatic approach to how we manage and reduce all greenhouse gases. He emphasised the importance of a Zero Carbon Act and establishing a Climate Change Commission.

#### Forestry

**Shane Jones gives Ngāti Whare \$6m to grow millions of native trees** [15 March/Stuff] Regional Economic Development Minister, Shane Jones, announced that an iwi's plant nursery will get \$5.8 million of Government's Billion dollar regional investment fund. The money will be used to expand the nursery by 2021. Ngāti Whare Chairman, Bronco Carson, said the nursery would hire 81 more employees and encouraged locals to take up these positions. Ngāti Whare Holdings Chairman, Rick Braddock, said that the Government funding boost for the small town of Minginui was in line with its regional development agenda and helped with its plan to grow one billion trees. There are fifteen types of podocarp trees including rimu, kahikatea, miro, matai and totara grown in the nursery. Most of the projects funded to date by the regional development fund were in Northland.

#### Eggs

**Egg producers shell out** [20 March/Rural News Group] According to the NZ Poultry Industry Association, law changes that require the end of battery and colony cages will cost up to \$1 million for smaller farmers and up to \$60 million for larger companies. Their Executive Director, Michael Brooks, said that by late 2022 all battery cages will need to be gone which will make us the only country after the EU where this has happened. In 2017 two large New Zealand supermarket chains said they would no longer take colony eggs. Mr Brooks added that one farmer said it cost \$750,000 for him to put in a new colony system. He noted that he was worried about views from activists such as Safe and their power on social media, with supermarkets and with the general public was high.

#### Fishing

**Taranaki fishing operators welcome the code of conduct** [15 March/Stuff] According to a Taranaki fishing industry representative, a new code of conduct for the industry would put pressure on those who aren't operating ethically and responsibly. It outlined a six point plan for the industry to follow. Egmont Seafoods Manager, Keith Mawson, said local fishing operators supported the code and that we have a commitment from fishing operators who understand the responsibility they have to New Zealand. He added it would make those operators who aren't operating ethically and responsibly to do so. He noted that a number of groups have targeted them over their perceptions of what they had done including calling them dolphin killers. Mr Mawson emphasised that these were generalisations coming from separate incidents. Seafood NZ Chief Executive, Tim Pankhurst, said the industry wanted to protect the fishery for future generations and that it was in everybody's interest to do so.

**Dairy**

**Fonterra close to reaching Argentina deal** [15 March/Rural Life] According to a media report by La Nacion, Fonterra were close to reaching a deal with SanCor, an Argentina-based dairy co-operative. They reported that Fonterra and SanCor would form a new company with Fonterra having 80 to 90 percent control. SanCor owed 1900 individual creditors \$101 million but as part of the deal with Fonterra, these creditors will write off 60 percent of their debt. SanCor's total debt at the end of 2017 was \$337 million. They have received money to keep the company afloat from the Government, and received an undisclosed investment from a Swiss investment firm. Fonterra already has extensive interests in South America.

**Dairy industry expects big day tomorrow** [20 March/Otago Daily Times] The most recent GlobalDairyTrade auction will be followed by the interim reports of both Fonterra and Synlait. Craigs Investment Partners Broker, Chris Timms, said prices were up 12.2 percent from the lows in December and were back at similar levels to the middle of last year. He added that most economists were expecting payouts to be around \$6.40 in line with Fonterra's guidance. February migration figures are also due for release. Mr Timms noted that in annual terms, net migration was 70,100 lower than the middle of last year. He said that the updated economic and financial forecasts last updated in December would attract attention. He thought the growth outlook for the U.S. economy and the rest of the world was looking better and expected growth forecasts to be ramped up.

**Westland inks deal with Indonesia's Kalbe** [19 March/Dairy Reporter] Westland Milk Products signed a Memorandum of Understanding with Kalbe, an Indonesian consumer health and nutrition company. Westland Milk Product's Chief Executive, Toni Brendish, said this was a significant opportunity to work with a South East Asian market leader and that this will lead to a strategic relationship with Kalbe. Ms Brendish added that the strategic relationships Kalbe has with other companies would enable Westland to get access into key markets. Kalbe is the largest publicly listed pharmaceuticals company in South East Asia. New Zealand Trade and Enterprise helped introduce the two companies more than a year ago.

**Economics and trade**

**Economic growth takes a hit due to weather** [16 March/Otago Daily Times] Weather related events over the last three months have affected economic growth. Gross Domestic Product increased by 0.6 percent in the three months ended December which was weaker than most forecasts suggested. Growth was also impacted by the fall in NZD/USD exchange rate. According to Statistics New Zealand, higher activity in the service industries was offset by a fall in the primary industries. They said that New Zealand's hottest summer on record appeared to have affected the primary sector with agricultural production falling 2.7 percent. ASB Senior Economist, Jane Turner, added that the agricultural sector was weaker than she anticipated. Westpac Senior Economist, Michael Gordon, noted that the New Zealand economy appeared to have lost momentum and that growth was expected to remain at a slow pace this year as the new Government's policies were expected to affect activity.

**Primary sector export returns tipped to rise by 10 per cent to \$42.4 billion** [19 March/Stuff] Export returns from farms, orchards, forests and fishing are expected to hit a new record of \$42.4 billion by the end of June. According to the Ministry for Primary Industries, this would be a 10.8 percent increase and that its forecast reflected a recovery in dairy prices over the past 12-18 months, rising red meat prices, and high log prices. Dairy cow numbers have fallen, however increased efficiency and higher value products have increased export figures. Policy and Trade Acting Deputy-Director General, Jarred Mair, said further gains in 2019 were forecast to be more modest and that growth was likely to be constrained in most sectors. In horticulture, apples, pears, kiwifruit, avocados and wine were all increasing in production and mussels were predicted to overtake rock lobsters as the most valuable seafood export by June. Arable yields are also expected to rise overall.

**Apiculture**

**Mānuka battle: Federal funding for Australian campaign** [15 March/Radio NZ] The recently established Australian Manuka Honey Association was given \$165,000 to push, promote and market its honey. John Rawcliffe from the Mānuka Honey Appellation Society wanted to stop Australia from profiting on New Zealand mānuka honey market and questioned why the federal government was helping to fund this. He emphasised that the term should only be used in New Zealand. He added that it was a matter of saying we both produced good honeys so we should go on our own journeys instead of spending money on this fight. Mr Rawcliffe noted that the Mānuka Honey Appellation Society would put its case forward to the New Zealand Government.

**Bee wax alternative food wrap a hit in Hawke's Bay** [17 March/The Country] LilyBee Wrap co-founders Stacia Jensen and Miko Hayashi started the company about 18 months ago to make reusable fabric wraps dipped in beeswax in efforts to stop using plastic food-wrap. They came up with the idea from researching traditional wrappings before plastic wrapping was common. Mr Hayashi said they started out selling products in farmers markets in Hawke's Bay but with high product interest they were able to move to industrial premises and hire a dozen staff. Most of their business is online. Ms Jensen added the wraps were made by melting beeswax, mixing it with a solution and then applying it to natural 100 percent cotton sheets. She emphasised that the solution took a long time to perfect which has created their point of difference. She noted that the support for the product has been phenomenal.

**Farmers and producers**

**Campaign aims to lower farmer death toll** [15 March/Radio NZ] A WorkSafe campaign to get farmers to use their rural vehicles more safely was prompted due to high rates of farm fatalities. According to WorkSafe statistics, 128 people have died in farm accidents since 2011. The agency will send inspectors to farms and launch publicity campaigns. The campaign aims to reduce fatalities by 20 percent by 2020. WorkSafe agriculture head, Al McCone, said the campaign would ask basic safety questions such as if they were using the right vehicle, using it within its limits and if there was too much of a load on it. He added that on farms people typically feel they can use the vehicles for anything which results in vehicle fails and accidents. Another issue Mr McCone identified was the need to make full use of guards that protect dangerous parts of machinery, such as hay balers.

## Red meat

**Silver Fern Farms ‘drags you in’, says former CEO** [16 March/The Country] Silver Fern Farm’s Chief Executive, Dean Hamilton, said his four years at the company had flown and that the company is one that drags you in. He announced his decision to resign last July, and Simon Limmer who was previously Zespri International’s Chief Operating Officer will take over the role in the next month. Mr Hamilton added that he went into the role knowing he could lead the business to where it needed to go. The company achieved a significant recapitalisation through the \$260 million investment by Shanghai Maling under his leadership. He noted that he still had two children living at home and wanted to spend more time with his family. Mr Hamilton said that he enjoyed his role at Silver Fern Farms, but was not looking for a similar CEO role elsewhere.

## Hemp

**Kiwi company’s big bet on hemp starting to reap rewards** [17 March/The Country] Hemp seed producers, Kanapu Hemp Food Ltd had a successful harvest which meant further national and international market expansion was possible. Kanapu Founder, Isaac Beach, said the season’s harvest yielded more than they expected. They want to add hemp flour and flakes to their range which currently includes hemp seed oil. Mr Beach added that their flour contained 35 percent protein, but they wanted to improve this to 50 percent. Flakes are the most nutritious way of consuming hemp seed, containing Omega 3 and 6 and protein according to Mr Beach. He noted that their hemp varieties have zero THC and were therefore completely non-psychoactive. He thanked local businesses who had supported the hemp seed oil range.

## Rural communities

**Rural midwife crisis ‘unfair’ for pregnant women** [16 March/Radio NZ] According to Rural Women New Zealand, the number of rural birthing units being downgraded or closed has reached a crisis point. Rural Women New Zealand’s Health Spokesperson, Margaret Pittaway, said the shortage was alarming and that there were at least 72 vacant midwife positions across the country. She added that they have concerns for rural communities as each closure results in job losses and the shrinking of rural communities. Ms Pittaway noted that many midwives want to live in urban areas as they could choose the lifestyle they wanted. She emphasised that it was unfair to have to go through a pregnancy not knowing where or under what conditions you would be giving birth in, and that people deserve better services than they are currently getting.

## Biosecurity

**Myrtle rust found for first time in Manawatu** [20 March/NZ Herald] The Ministry for Primary Industries confirmed that myrtle rust was detected in Manawatu for the first time. Myrtle Rust Response Spokesperson, Dr Catherine Duthie, said action would start immediately to contain the disease. She hoped that it was found early enough so that there was a chance to eliminate it. Dr Duthie added that it was sad that myrtle rust had been found in another region, but it was consistent with the expected infection pattern. She told residents they could help by checking myrtle plants in their garden as at this time of the year it would be very visible. Any suspected cases of myrtle rust can be reported to the biosecurity freephone number. As at 19 March, a total of 409 properties had been effected by myrtle rust in New Zealand.

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# Field Notes

Weekly news update from the KPMG Agribusiness Network – 21 March 2018

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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