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Agenda 2017**

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

4 April 2018

Organisations referenced in this week's Field Notes include:

99	Milk New Zealand
A S Wilcox & Sons	Ministry for Primary Industries
a2 Milk	Monoprix
Amazon	Natural Farm Food Limited Partnership
Anzco Foods	Nestle
Apiculture New Zealand	New Zealand Kiwifruit Growers Inc
Australian Federal Department of Agriculture	Onions New Zealand
BBC	Plant and Food Research
Danone	Salt Funds
EastPack	Syndex
Farm Venture	Synlait
FoodLogIQ	Tesco
Heliuss Therapeutics	Theland
Horticulture New Zealand	Tyson
Jaquemet	Work the Seasons
Kangaroo Industries Association of Australia	Yakult
	Zespri

This week's headlines

Biosecurity	Tests show beef sector so far free of serious disease affecting dairy animals [1 April/NZ Herald]
Horticulture	Trio taking \$5m bet on medicinal cannabis industry that doesn't exist yet [31 March/NZ Herald]
Water	Making our rivers swimmable comes at a cost of \$217million a year [29 March/Stuff]
Farmers and Producers	Syndex announces first of its kind Diversified Agri Fund [27 March]
International	Amazon targets French grocery market with Monoprix deal [28 March/Reuters]

Biosecurity

Tests show beef sector so far free of serious disease affecting dairy animals [1 April/NZ Herald] New Zealand's beef export sector appeared to be free of *Mycoplasma bovis*. The Ministry for Primary Industries said there were no positive results from the testing of animals. An MPI spokeswoman said the risk of *Mycoplasma bovis* was different due to how beef is raised in New Zealand. She added that they are farmed in pasture and not fed risky discarded calf milk. Animals tested at slaughter showed no positive results. MPI reports that analysed the different pathways it may have spread in New Zealand show the disease may have been in New Zealand since 2015. They attempted to contain the disease with a mass cull on 28 quarantined properties by 1 June. The spread of the disease is through contact between animals.

Horticulture

Trio taking \$5m bet on medicinal cannabis industry that doesn't exist yet [31 March/NZ Herald] Advertising Executive, Paul Manning, has left his role as the Managing Director of the ad agency 99 to take what is essentially a \$5 million bet on an industry that doesn't yet exist. He is joining cannabis start-up Helius Therapeutics. Mr Manning said all three men had given up salaries and high-paying positions to do this. He added that legitimacy in the industry involved high barriers to entry. He said it was a capital-intensive business and that he estimated the industry to be worth a billion dollars before exporting is even taken into account. The company was yet to receive a licence to cultivate medical cannabis in New Zealand. He noted that prohibition was causing one in twenty New Zealanders to purchase cannabis from criminals for medical purposes. They recommended the adoption of seed-to-sale tracking biotechnology that would allow producers and law enforcement to track any product on the market back to the source.

Zespri: Kiwifruit crop increase could lead to labour shortage [30 March/The Country] New Zealand Kiwifruit Growers Inc Chief Executive, Nikki Johnson, said early indications show an increased crop this year, particularly for SunGold. She added that the industry was expected to grow significantly over the next 10 years. EastPack Chief Executive, Hamish Simson, noted its six sites could pack 38 million trays this season which was a 5 million tray increase over last year. They had invested over \$100 million in infrastructure. Mr Johnson said they anticipated there would be fewer international students available to work, which increased reliance on backpackers and New Zealanders.

New website aims to make it easier for seasonal workers and employers [23 March/Stuff] The Work The Seasons website was launched in Pukekohe by the Minister for Social Development, Carmel Sepuloni, and the Minister of Employment, Willie Jackson. It is designed to make it easier for seasonal workers to find jobs and employers to find the right candidates. Horticulture New Zealand Chief Executive, Mike Chapman, said they needed more people and supported the initiative to get New Zealanders to take on the healthy lifestyle involved with a career in horticulture. A S Wilcox & Sons Managing Director, Kevin Wilcox, said as an employer they appreciated the introduction of tools such as these. He added that skills and labour shortages needed to be addressed. Work the Seasons was supported by 13,500 seasonal employers who can recruit with it. The website has been live since 1 February.

Onion crop slashed by disease [29 March/Radio NZ] New Zealand's onion crop has decreased by at least 20 percent due to humid weather which resulted in a leaf disease. Onions New Zealand Chief Executive, Michael Ahern, said stemphylium had damaged plants and caused difficulties in some growing areas. The onion industry commissioned Plant and Food Research to find out more about the disease. According to Mr Ahern, this year was the worst anyone could remember and that it pointed to changing climate conditions. He added that the industry would use its resources and expertise into finding a solution. Potato growers also had a hard season due to water shortages, hot temperatures and storms. Potatoes New Zealand Chief Executive, Chris Claridge, said there was a direct link to climate change and that it was directly impacting farmers.

Dairy

Chinese-owned dairy firm plans NZX listing [29 March/The Country] Milk New Zealand planned to list a company on the NZX within 3-5 years. Milk NZ Managing Director, Terry Lee, said it would give dairy farmers different options for supply and ownership. Milk NZ expanded to become one of the largest dairy farm groups in New Zealand with 29 farms milking 30,000 cows. Mr Lee added they had grown rapidly and the model of partnering with supermarkets had led Theland to being New Zealand's fastest growing brand in China. Milk NZ will follow Synlait Milk which listed with the backing of a major Chinese shareholder if the listing goes ahead. Mr Lee emphasised that the listing was an option and not a plan yet. He noted restructuring the company's supplier and production relationships was key to stable growth. He said the relationship with Alibaba had already enabled Milk NZ to better sell into the China consumer market.

A2 Milk shares tumble after Nestle launches competing formula [28 March/The Country] A2 Milk shares fell 6.5 percent due to Nestle confirming its launch of an A2 infant formula product. A Nestle spokeswoman confirmed the release. Salt Funds' Managing Director, Matt Goodson, said the price was being driven down because of this news and that there were fears large premiums may fall. A2 milk believed he A2 beta-casein protein milk is better for people, particularly those who had trouble digesting milk. A2's milk formula sales to China largely drove the 150 percent lift in earnings. An a2 spokesperson added they had been monitoring companies operating in China and considered new entrants should assist in building awareness of the A1 protein-free proposition. He noted a2 Milk considered itself well positioned to benefit from the overall category expansion.

Apiculture

Potential remains to grow honey industry, says Apiculture CEO [29 March/The Country] Apiculture New Zealand CEO, Karin Kos, said the growth of the manuka honey industry was slowing, but there was potential for more. Of the 8,000 beekeepers in New Zealand, 5,800 were hobbyists owning 10 hives or less. There was an 11 percent growth in hive numbers last year. Ms Kos added that although this may slow, there were other ways to grow the value of the industry such as using honey in wound care and health supplements. She noted there was talk of overstocking, which would put pressure on resources and needed to be watched closely. The Ministry for Primary Industries came up with the definition for manuka honey in February. The 2017-18 season is forecast to be average or slightly above average.

Animal welfare

New rules see fines for owners leaving dogs to overheat in cars [29 March/NZ Farmer] People transporting sick or injured animals to slaughter plants could be fined \$500. Cabinet approved a range of new regulations including fines for people using electric prodders. Fines had also been approved for people who leave dogs to overheat in cars or do not provide them with enough dry and shaded shelter. It is now an offence to dock the tail of cattle, except in emergencies. Associate Minister of Agriculture responsible for animal welfare, Meka Whaitiri, said most animal welfare offences were of lower seriousness and may not have warranted prosecution. The new regulations introduce penalties and fines to prevent this mistreatment.

Water

Making our rivers swimmable comes at a cost of \$217million a year [29 March/Stuff] It was estimated to cost \$217 million a year to make all our rivers swimmable by 2040, according to the Ministry for the Environment. A swimmable river has low levels of E. coli, which was used as an indicator of the risk to human health. Currently, 71.2 percent of rivers and lakes are swimmable. The councils provided information on planned upgrades of point of discharges such as wastewater outfalls, and scientists provided information on the effect of mitigation measures that could be carried out. A ministry report stated swimmability would increase 6.9 percent if all the works currently planned were in place now. Auckland were expected to bear 40 percent of the cost, which represented the large portion of the population living there. The cost for sheep and beef farming was driven by the low level of stream fencing, however if they were to be fenced from waterways it would be significant extra cost according to the report.

International

China hits back at US with tariffs [2 April/Radio NZ] China responded to America raising duties on foreign steel and aluminium by imposing tariffs of up to 25 percent on US imports. According to Beijing, the decision was to safeguard China's interests and balance losses caused by new US tariffs. China did not want a trade war however Donald Trump said trade wars were good and the US should be able to win this one. Chris Buckler of the BBC said that it was in response to unfair trading practices in China that affected US company, but it raised possibility of more action being taken. US scrap aluminium and frozen pork will have a 25 percent additional tariff. The US were planning to impose duties on \$60 billion of Chinese imports. Further tax rises may lie ahead.

Breaking: Food Traceability and Safety Software FoodLogIQ Raises \$19.5m from Pontifax, Tyson [29 March/AgFunder News] FoodLogIQ has raised a \$19.5 million series A round. They are a software platform aimed at mitigating food safety traceability issues. The round saw participation from a diverse range of investors. The platform offered supplier management, food safety compliance, quality incident management, recall management and whole chain traceability. Founder and Managing Partner of Pontifax Agtech, Phil Erlanger, said large chains will insist upon visibility and accountability at every step of the supply chain. The ultimate driver of this technology was the health and wellbeing of consumers. Research has predicted the food traceability market to be worth \$14 billion by 2019 and there were a growing number of startups working towards introducing their own traceability solutions. Mr Erlanger explained that FoodLogIQ was not built on a blockchain, but that it was compatible with blockchain elements. It will use the funds to expand its product offering as well as expanding sales, marketing and customer service teams.

Canada wants clearer warnings on junk food. The US is using NAFTA to stop them [26 March/CNBC] The obesity crises is now worldwide. In Chile, health officials were trying to revolutionise nutrition labelling. In Canada 26 percent of adults are obese. They were considering becoming the first high-income country to adopt a warning system. However, if American trade representatives prevail they will not be able to implement this as they proposed a provision that countries should not adopt front-of-package symbol warnings. Some saw this is a threat to the battle against obesity. Public health officials wanted consumers to know that processed foods were heavily linked to obesity and diabetes. Chile has created easy to understand symbols for less healthy foods on the front of their labels. The US food industry argued that the labels would be costly, however health researchers disagreed. University of Waterloo academic, David Hammond, said it didn't surprise him that food companies who manufactured products high in sugar and sodium didn't want labels that told consumers.

Nestle unveils 'hollow sugar' candy bar [29 March/Food Dive] Nestle will bring their first chocolate bar made with its new sugar reduction technology into the market this week. Milkybar Wowsomes contain no artificial sweeteners and are labelled as containing 30 percent less sugar. Nestle scientists developed a porous sugar that dissolves faster in the mouth according to a release by Nestle. It allows a person to perceive the same amount of sweetness with less sugar consumption. They announced their breakthrough in 2016 and it took over a year to develop it for the Milkybar. Nestle were committed to reducing sugar in its products by another 5 percent by 2020. The new sugar is only stable in dry products. Consumer rejection of sugar showed no signs of slowing so this ingredient innovation could be a lucrative asset to the company. Other confectioners are expected to try create sugar-reduction innovations of their own.

Danone completes the sale of part of its stake in Yakult for \$1.6bn [28 March/Dairy Reporter] Danone, a French dairy company, announced they had sold \$24.6 million shares of Yakult for approximately \$1.6 billion. This corresponds to a valuation multiple of thirty nine times their 2017 net income. Proceeds from the transaction will be used to continue deleveraging and invest in accelerating organic growth and maximising efficiencies in line with Danone's capital allocation priorities. Danone's stake in Yakult has fallen from 21.29 percent to 6.61 percent. Danone will maintain their long term partnership with Yakult and remained their largest shareholder. They will nominate two directors for approval at the Annual General Meeting.

Are pineapples the new avocado? [28 March/Food Navigator] Tesco revealed that pineapple sales were the fastest growing fruit in the UK. There was speculation that it might overtake avocados. Pineapple sale growth was beating avocado demand growth by around half. The versatility of pineapples was one of the main factors causing the growth, according to Jaquemet. Consumers use pineapples as ingredients and the demand was boosted by cook-at-home trends. Tesco also saw increased pineapple sales in line with related categories outside the produce aisle, and responded by rolling out product development that utilised pineapple as an ingredient. Jaquemet added that pineapples could rival avocados as a niche fruit that suddenly gains mainstream popularity. Pineapple production in Costa Rica, the leading supplier of pineapples, increased by around 10%.

Australian government defends kangaroo meat industry [29 March/Global Meat] The Australian Federal Department of Agriculture has backed the kangaroo meat industry despite delisting's' from UK retailers. The government said the industry had a reputation for producing high quality, safe and healthy meats which were in global demand. Other retailers such as Tesco have been criticised for kangaroo products. Australia exported around 3,000 tonnes of kangaroo meat in 2016/17 which included 13 tonnes to the UK market. The kangaroo population increased from 27 million to 45 million, prompting the encouragement for consumers to eat more of the meat. Kangaroo Industries Association of Australia Executive Officer, John Kelly, said kangaroo meat was a nutritionally-rich and low-fat meat choice.

Amazon targets French grocery market with Monoprix deal [28 March/Reuters] Amazon had made further inroads into food retail in France as Casino's upmarket Monoprix Chain became the first local retailer to sell groceries via Amazon. According to one source, Amazon and Casino were negotiating a deal in Brazil. The deal was to either partner or sell Casino's appliance and electronics chain Via Varejo. The move was set to shake up the local food retail market and Casino shares rose 9.7 percent. Casino and Amazon noted that groceries sourced from Monoprix would be available in the Amazon Prime Now app. Monoprix is one of France's best known store chains with over 800 stores in 250 cities. Amazon France CEO, Frederic Duval, said they considered Monoprix product selection as exceptional. Since purchasing Whole Foods, there were expectation Amazon would focus on Europe.

Red meat

Pressure on processors' margins [2 April/Farmers Weekly] Less aggressive buying by United States manufacturing beef importers put pressure on New Zealand processor margins. American feedlots are well stocked at this time of the year, and importers were aware of the New Zealand supply trends according to Anzco Foods General Manager of Agriculture and Livestock, Grant Bunting. He said this season at this stage was similar to last year. Mr Bunting emphasised that if they thought they could hold off a bit and create an anomaly that helped their pricing, they would do that. NZX Agri Analyst, Rachel Agnew, added that the US market was performing in line with historical trends but the high NZ dollar and procurement prices was hurting processors. She added there was an issue over the forced kill of Mycoplasma bovis animals which could raise total numbers artificially. Bull margins were down 30 percent on last year and the five year average.

Forestry

Forest rule puts the cart first [2 April/Farmers Weekly] Neil Walker, a Taranaki farmer, hoped proposed changes would add clarity to the eligibility rules for forests joining the Emissions Trading Scheme. Confusion over criteria made it not only difficult to set aside land as ETS carbon sinks, but deprived owners of poor performing, inaccessible land of a valuable source of income. Land owners can generate new income from carbon planting due to the Government's ambitious greenhouse gas emission goals. A Ministry for Primary Industries spokesman said it was aware of landowner concerns and that they were working on operational improvements. Mr Walker said landowners had a role if the country was to meet its goal of being carbon neutral by 2050. He could not be told whether his property qualified for the ETS until after it was planted. By definition, land must already be in forest when the assessment is made.

Farmers and producers

Syndex announces first of its kind Diversified Agri Fund [27 March] Syndex, an innovative investment platform, announced the listing of its first diversified agriculture fund. The Natural Farm Food Limited Partnership Fund (NFFLP) was being released alongside Farm Venture which was a farm property and operations management business. The new funds aimed to raise \$150 million. Syndex Chief Executive, Ross Verry, said the Farm Venture fund had an innovative structure and allowed for both institutional and wholesale investors. Farm Venture's Managing Director, Tim Barrett, added that the fund was targeting returns of 10 percent per annum and that it investors would be kept well informed due to its strict reporting disciplines. Mr Verry noted the benefit of the fund and its investors from utilising Syndex focussed on administrative ease. He explained that detailed reports could easily be distributed to investors, and that there was informational transparency. He said this meant the fund had a higher level of liquidity than traditional agriculture investments.

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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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