



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

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

24 April 2018

Organisations referenced in this week's Field Notes include:

Alliance Group	
Climate Change Commission	
Crowe Horwath	
Employers and Manufacturers Association	
Fast Company	
FDA	
Federated Farmers	
Fonterra Co-operative Group	
GW Pharmaceuticals Plc	
HelloFresh	
IndieBio	
Irrigation New Zealand	
Kyeburn Catchment Ltd	
Lewis Road Creamery	
ManufacturingNZ	
Ministry for the Environment	
New Zealand Treasury	
Opus International Consultants	
Polson Higgs	
Ravensdown	
Shanghai Malings	
Silver Fern Farms	
Spoiler Alert	
Terramino Foods	

This week's headlines

Dairy	Shareholders council puts spotlight on Fonterra's value and capital spending [19 April/NZ Herald]
Economics and Trade	Developing Auckland as a Silicon Valley for food [18 April/NBR]
Environment and Emissions	Major report: What we've done to NZ's landscape [19 April/The Country]
Research and Development	Good step but 'devil will be in the detail' [20 April/Otago Daily Times]
Water	Irrigation body confident of big projects despite Govt. cuts [17 April/Radio NZ]

Dairy

Shareholders council puts spotlight on Fonterra's value and capital spending [19 April/NZ Herald] The Fonterra Shareholders Council has commissioned a new study to see if Fonterra's farmer-shareholders are better off as a result of the co-operative's creation. The council is comprised of 25 farmer-elected representatives. Chairman, Duncan Coull, said the questions needed to be answered and farmers needed confidence that capital was being put to good use and creating value. He added that they monitor performance on an annual basis. Mr Coull noted that there were some unanswered questions and if they could answer them in a straightforward way it would be a positive. He said we needed to know where we are today relative to 17 years ago when Fonterra was formed. It was not as simple as looking at a balance sheet and drawing conclusions, and would be an in depth process.

Milk prices lift in latest Global Dairy Trade auction [18 April/NZ Farmer] Dairy prices rose 2.7 percent at the latest Global Dairy Trade auction. This was the first price increase since early February. All categories increased with the key whole milk powder price rising 0.9 percent. Skim milk powder increased 3.6 percent, butter was up 2.9 percent, anhydrous milk fat 5.3 percent, rennet casein 3.1 percent and lactose rose 14.8 percent. Federated Farmers Dairy Chairman, Chris Lewis, said the GDT result was positive and welcome, but questioned if gains were cancelled by the recent appreciation in the dollar. He added that prices over the past few months were consistent which was beneficial to farmers. At this stage of the season, most dairy companies had sold close to 100 percent of their product.

Environment and Emissions

Major report: What we've done to NZ's landscape [19 April/The Country] Almost 200 million tonnes of soil are lost in New Zealand each year, which could have consequences on our environment and economy according to a new report on New Zealand's land from the Ministry for the Environment. The quality and quantity of our soil is crucial to the overall health of our land and wider environment, storing water, carbon and nutrients, growing food, breaking down contaminants and hosting an abundance of species. It is also vital for our economy. According to the Ministry for the Environment and Statistics New Zealand's latest stocktake, 192 million tonnes of soil was being lost to erosion each year. Environment Minister, David Parker, acknowledged more action was needed. A recent land survey showed that just under half of the land area was blanketed by forest, grassland, scrub, waterways and bare ground, with the rest being changed by us. The picture painted is challenging for New Zealand's native biodiversity and ecosystems which continued to be under threat. Habitat loss was a main issue and nearly 83 percent of native birds, bats, reptiles and frogs were either threatened or at risk of extinction. The impact of the climate was expected to bring even more pressure on our land. Mr Parker was troubled by how much of our urban growth was occurring in our irreplaceable highly productive land.

Minister in no rush to decide on palm oil labelling or ban PKE [19 April/Stuff] Agriculture and Food Safety Minister, Damien O'Connor, suggested the farming industry might turn away from palm kernel expeller use without government intervention. He indicated he had not decided if mandatory palm oil labelling on food was warranted. Lewis Road Creamery Chief Executive, Peter Culliane, noted that he supported banning palm oil expeller from New Zealand. PKE is used as an alternative feed for cattle. Mr O'Connor added that New Zealand's ability to sustainably produce and sell primary products was key to a strong economy. He said that while PKE was an important tool for farmers when there was a lack of feed, some companies were moving away from its use for market reasons and customer demands. There was a consideration whether there should be mandatory labelling of palm oil or not.

Climate change committee members announced [17 April/Radio NZ] The government announced the expert committee for the Climate Change Commission. They will investigate how New Zealand will transition to a net zero emissions economy by 2025. They will also consider how agriculture can be brought into the Emissions Trading Scheme. The commission will be set up next year. Climate Change Minister, James Shaw, said we needed to start planning now for the move to 100 percent renewable electricity generation by 2035. He added that setting up the committee was a great step in the right direction. David Prentice who was the CEO of the infrastructure firm Opus International Consultants, is the chair of the committee. Lisa Tumahai is the deputy chair.

We are growing houses instead of food – Feds [19 April/Rural News] According to a report by the Ministry for the Environment, we are losing our productive land to houses. This was the most significant point Federated Farmers took from the new report. There was a 10 percent increase in urban areas from 2002 to 2012, and a 7 percent reduction in land used for agriculture. Federated Farmers Environmental Spokesperson, Chris Allen, said they knew soils were precious and seeing them covered with tarseal and concrete was frustrating. The report was a useful tool for helping farmers and land users see what the industry needs to keep working on according to Mr Allen. He noted that most of the data was six years out of date which was not acceptable or helpful. He added that they knew scientists were struggling to get successful bids for this type of research funding over the line.

Water

Responsible irrigators should 'tell the good news' [19 April/The Country] Central Otago Mayor, Tim Cadogan, said that responsible irrigators needed to spread the word about good work being done in the primary sector. He added that primary and irrigation sectors were under pressure from the public to act responsibly, but did not court publicity and therefore the public did not know of their positive actions. Mr Cadogan noted that those in the primary sector should not preach that the country relied on primary industries if they were to strengthen their relationship with the rest of the country.

Irrigation body confident of big projects despite Govt. cuts [17 April/Radio NZ] Irrigation New Zealand was confident that ending government subsidies would not spell the end of large-scale irrigation projects. They held their biennial conference last week which looked at the future of the sector. Irrigation New Zealand Chief Executive, Andrew Curtis, said the government funded entity had only granted a small portion of money it had been allocated by the National Government with the most significant contributions still to come. He added that the industry has a number of projects about to come into fruition. The funding for new projects has been removed as part of Labour's coalition agreement with the Green Party. Mr Curtis emphasised that he thought this would hurt the environment rather than help it. South Canterbury Dairy Farmer, Ryan O'Sullivan, said the Hunter Downs scheme that was to apply for a \$70 million grant could likely proceed anyway. He noted that urban people thought dairy farmers were on a crusade of environmental terrorism, but the reality was that they had little impact of the environmental impact of cows.

Red Meat

Silver Fern Farm's review will look at directors [19 April/The Country] A review of Silver Fern Farms constitution will include looking at the tenure of directors on the board, the board size and the ratio of elected to independent directors. Silver Fern Farms Chairman, Rob Hewett, said the review was underway and that governance was the key focus. He added there was a desire to increase the size of the board. The aim was to develop incoming directors so they could hit the ground running when they were required to take a seat on the board of the operating company. He noted there was a lot of flexibility provided when the co-operative's constitution was last reviewed in 2010, which meant a lot did not need to be changed despite the co-operative entering into its partnership with Shanghai Maling. Mr Hewett said a good working relationship had been built with Shanghai Maling that would continue to grow and evolve. The balance sheet was strong as at December 31 with no debt and \$16.6 million cash on hand. Mr Hewett paid tribute to former Chief Executive, Dean Hamilton, who recently stepped down.

Alliance Group promotes NZ meat as 'premium fair' [19 April/NZ Farmer] The meat processor, Alliance Group, was funding international chefs to go on farms to help promote New Zealand meat on the global stage. Chefs from the UK, Hong Kong and New Zealand toured South Island farms and visited premium restaurants recently. Alliance General Manager of Marketing, Peter Russell, said it was aiming to improve awareness and understanding of New Zealand as a supplier of premium fare. He added that although New Zealand boasts a fine reputation, we could do more to highlight key features. He noted that this was an opportunity to demonstrate the passion our farmers had and the fact that not all lamb, beef and venison was the same. The guests experienced a selection of Alliance's products, and also visited a series of farms. Mr Russell said they were showing that New Zealand meat was raised from a unique land.

Rural Supplies

Hundreds of Hawke's Bay farmers in line for Ravensdown rebate [18 April/Hawkes Bay Today] Over 500 farmers around Hawke's Bay were given an indication of how much they can expect to receive from Ravensdown. They announced an early interim rebate of \$17.50 cash per tonne of eligible fertiliser payable to farmer shareholders across the country. Ravensdown Chairman, John Henderson, said it demonstrated the co-operative's strong performance over the last four years and supported the board strategy of returning surplus cash to farmers. He added that the commitment for a cash injection had benefits to the wider rural community. There were 564 customers in Hawke's Bay who bought fertiliser from Ravensdown and qualified for the rebate. The payment will take place in June. Ravensdown Chief Executive, Greg Campbell, said good buying, consistent team effort and strong shareholder support enabled the positive move. He noted that new customers were joining the ranks and were showing interest. He believed that together with shareholders, smarter farming for a better New Zealand could be achieved.

Research and Development

Good step but 'devil will be in the detail' [20 April/Otago Daily Times] An R&D tax incentive discussion document was released yesterday by Research, Science and Innovation Minister, Megan Woods. ManufacturingNZ Executive Director, Catherine Beard, said the tax incentive proposals were a positive step towards a higher innovation economy. She added the proposal could go a long way towards increasing company level investment in innovation. Polson Higgs Tax Partner, Michael Turner, hoped the scheme would last longer than the previous one that only lasted one year. There were mixed feelings from various agencies such as the Treasury. Finance Minister, Grant Robertson, emphasised how important increasing R&D spending was to New Zealand's economic future. He noted that the devil would be in the detail. Crowe Horwath Tax Managing Partner, Scott Mason, said there was possibly evidence the package had been rushed. The need to take a careful approach when establishing tax incentives was stressed.

Economics and Trade

Developing Auckland as a Silicon Valley for food [18 April/NBR] Auckland had the hallmarks of a business cluster for F&B manufacturing according to a government report. The report identified Auckland as having one-third of New Zealand's food and beverage manufacturing firms, 23 percent of the country's F&B manufacturing employees and half of the head offices of the largest F&B firms. The report said these were the hallmarks of an internationally significant cluster and noted its access to international and domestic air and shipping links. The report added that governments could have a role in fostering the development of existing clusters where industry cluster leaders and stakeholders had an appetite for this. Employers and Manufacturers Association Chief Executive, Kim Campbell, said his organisation wanted investment into organising a food cluster for Auckland but added there also had to be infrastructure. ATEED's General Manager for Economic Growth, Patrick McVeigh, said the report was useful but Auckland should be promoting itself in all sectors.

International

HelloFresh Taps Spoiler Alert to Cut Food Waste by 65% [17 April/AgFunder News] HelloFresh had reduced its landfill bound waste by 65 percent in less than a year. They contacted Spoiler Alert in 2017 and began a pilot with their New Jersey distribution centre in July. They had also reduced waste-hauling pickups by 44 percent and nearly doubled the percentage of unsold inventory donated to charities to 61 percent. HelloFresh had strict specifications for fresh produce in terms of size and appearance both to satisfy customers and fit into the packaging the company uses. Spoiler Alert Co-founder and Chief Product Officer, Emily Malina, said that from their perspective, the aesthetic requirements around food was one of the leading causes of surplus and waste. Ms Malina added that the meal kit industry was a data-driven part of the supply chain and didn't exist as a model until five or six years ago. HelloFresh was also working to tackle the packaging issue with its products.

Drug Made From Cannabis Plant Gets Backing From FDA Staff [18 April/Bloomberg] A medication that could become the first derived from marijuana received backing from the staff of the Food and Drug Administration in the U.S. GW Pharmaceuticals Plc provided substantial evidence of the drug's effectiveness, according to a report by FDA staff. The drug would treat seizures associated with epilepsy. The risk-benefit profile appeared to support approval of cannabidiol. GW Pharmaceuticals Chief Executive Officer, Justin Gover, said they hoped to market the product under the name Epidiolex. They were seeking to sell the solution to patients ages two or older. The FDA has approved a few drugs made from synthetic cannabinoids. They are expected to decide whether or not to approve the drug by June 27.

Field Notes

Weekly news update from the KPMG Agribusiness Network – 24 April 2018

San Francisco startup's plant-based 'salmon' burger could make waves in the protein segment [18 April/Food Dive] Terramino Foods has created a fake salmon burger out of fungi and algae, according to Fast Company. It looks, tastes and smells like salmon and is a complete protein source with omega-3 fatty acids. It however contains less fat. Terramino Foods co-founders, Kimberlie Le and Joshua Nixon, completed an accelerator program run by biotech IndieBio. The program provided \$250,000 in funding, plus mentoring and lab and workspace facilities. They plan to scale up the production of the salmon burger in 2019 to make it cost competitive with the average wholesale price of salmon. They hoped to sell their products to restaurants by the end of the year. They also plan to develop of fish fillet product. Terramino Foods could have a first mover advantage if they are able to get the product to restaurants this year. Salmon is one of the most popular types of fish consumed in the U.S.

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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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