



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

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

30 May 2018

Organisations referenced in this week's Field Notes include:

ANZCO Foods	New Zealand Veterinary Association
ASB Bank	NIWA
Beef + Lamb New Zealand	NZ Apples and Pears
Bounty Fresh Foods	NZ International Business Forum
Comvita	Revolution Fibres
Craigs Investment Partners	S&P
Environment, Food and Rural Affairs Select Committee	Sanford
Federated Farmers	Seeka
Fonterra Co-operative Group	Southland Rural Support Trust
Forest Owners Association	T&G Global
Greenpeace	Tegel
iHemp Summit	University of Pisa
Invivo Wines	Vets on Waiheke
Kamut International	VetSouth
MetService	Victoria University
Ministry for Primary Industries	Westland Milk Products
Nestle	Zespri
New Zealand Europe Business Council	

This week's headlines:

Environment and emissions	How New Zealand should be getting ready for climate change [24 May/The Country]
Fishing	Hoki Dokey: NZ fish skin facemasks to launch in China [23 May/Radio NZ]
Biosecurity	MPI will face 'don't give a damn' attitude on M. Bovis, farmer says [28 May/NZ Herald]
Horticulture	Zespri reports strong year despite lower volumes [23 May/Radio NZ]
Poultry	Bounty Fresh launches Tegel takeover with minimum target already achieved [29 May/NZ Herald]

Dairy

S&P: Fonterra's credit rating ok, for now [25 May/NZ Herald] S&P Global said Fonterra's credit rating had not been affected by the co-operative's recent earnings downgrade. Fonterra increased the farm gate milk price from \$6.55/kg to \$6.75/kg per kilo of milk solids for the 2017/18 season and noted that it expected to be outside the target end of year gearing range. The agency said they expected its EBITDA to breach its downward threshold. They believed the group remained committed to retaining its long-term credit rating and had a number of levers to manage debt levels. S&P expected Fonterra's credit metrics to return comfortably within its key rating tolerance. It noted rapid milk price increases had increased input costs and working capital demands. The higher payout to farmer shareholders should relieve some of the financial stress experienced over the past few years. S&P noted that Fonterra's financials were likely to benefit from the receipt of \$185 million in farmer loan repayments.

Fonterra approaches farmers to switch from Westland Milk Products [25 May/The Country] Fonterra has approached Westland Milk Products suppliers to switch loyalties with the promise of better returns. Federated Farmers President for the region, Peter Langford, said it was known that Westland suppliers had been talking to Fonterra as it tried to secure supply on the West Coast. He expected some suppliers would switch because they no longer had the same loyalty to Westland after years of low payouts. He added Westland needed to get better at the job they do quickly to retain its current suppliers. It was critical to their future. Dairy Sector Chairwoman, Renee Rooney, said West Coast farming had dealt with several disruptions in the past season including cyclones and the uncertain direction of Westland Milk Products. Westland had a proud history of loyal shareholders but needed to work hard to ensure those relationships were firmly cemented. Westland Milk Chairman, Peter Morrison, said they were aware of approaches by Fonterra to a number of shareholders.

Environment and emissions

How New Zealand should be getting ready for climate change [24 May/The Country] Better planning, resourcing and leadership have been called for by a top-level panel tasked with helping New Zealand prepare for a warmer, wetter and wilder future. The Climate Change Adaptation Technical Working Group released 21 major recommendations to adapt to the effects of a transformed atmosphere. Specific recommendations included amending the Local Government Act 2002 to specify climate change adaptation as a function of local government, and removing legal barriers so work could happen more easily. The group split adaptation into four categories; avoiding places exposed to climate change impacts, retreating from those places over time, accommodating changes, and protecting against them through hard engineering. The introduction of an independent Climate Change Commission whose first duties were to look at how the methane-heavy agriculture industry could be brought into the Emissions Trading Scheme was another recommendation. Victoria University Senior Researcher, Dr Judy Lawrence, noted even if the world stopped all greenhouse gas emissions today, the climate would still change for centuries.

Fishing

Fishing giants under-reported hoki catch by 'thousands of tonnes' [24 May/Stuff] According to Fisheries Minister, Stuart Nash, fisheries companies have historically behaved badly but the reports of under-reported hoki catches several years ago was not grounds for an independent inquiry. Greenpeace Executive Director, Russel Norman, said that MPI had been captured by the fishing industry and he was not convinced anything had changed since the report. He added an independent inquiry was needed in both the fisheries management system and industry supervision. The practices identified included companies that misreported catches and targeted areas populated by juvenile hoki. One fishing company is alleged to have relied on the weight of randomly sampled cartons, only addressing discrepancies of more than 2 percent which was unlawful. Two Sanford ships were calculated to have underestimated catches by more than 200 tonnes. Mr Nash said there were things that happened in the past that we knew were wrong and needed to change.

Hoki Dokey: NZ fish skin facemasks to launch in China [23 May/Radio NZ] Hoki skins that were destined for pet food are being used in facemasks to go on sale in China this month. Sanford has teamed up with innovation company, Revolution Fibres, to produce a skincare range. They claim it can reduce wrinkles by up to 31.5 percent. Revolution Fibres Research Manager, Bhuvana Kannan, said they recently created a nanofiber which was then weaved together with a chemical or nutrient and placed on the skin. The fibre was smaller than a skin's pore meaning nutrients could be absorbed deeply and quickly. She added the fish collagen worked effectively on human skin. Sanford takes the fish skins and convert them into a liquid. They were then dried into pure white marine collagen to be spun into the nanofiber. Business Development Manager for Sanford, Adrian Grey, said hoki skins were previously sent to make pet food or fish meal. Once the Chinese market is established, it would be on shelves in New Zealand.

Economics and trade

'Unrealistic' to expect EU to ditch all agricultural tariffs, business body warns [23 May/Stuff] The New Zealand Europe Business Council said a free-trade deal between the EU and New Zealand could boost exports by \$2 billion a year and save New Zealanders hundreds of millions of dollars a year in cheaper imports. Its president, Franck Olssen, forecasted an agreement could be produced in two years. He noted it was unrealistic to expect tariff-free trade for all agricultural products. NZ International Business Forum Chairman, Malcolm Bailey, said concessions that the EU was likely to demand could include more food labelling rules to protect European regional brands. He added that while New Zealand had the most to gain from reducing tariffs, the EU would be focused on all of the things that come with trade agreements. Beef + Lamb NZ Chief Executive, Sam McIvor, said red meat exports to the EU were \$1.8 billion in the previous year despite paying \$53 million in tariffs.

New Zealand needs a food integrity story [28 May/Farmers Weekly] According to agricultural trade envoy, Mike Petersen, New Zealand has a role to play in helping other countries with food security, business futures and innovation. He added food security was a real issue for many countries, but as we have an abundance of food in New Zealand and we don't take security seriously. He noted that it was about exporting our products but also about exporting farming systems to help other countries. It was our comparative advantage and something we could share and use offshore. He said New Zealand needed a new story that related to New Zealand, centred on humble people with more trust and the integrity of our products and systems. The story currently has three themes including open hearts, open spaces and open minds. He noted NZ needed to talk about the agri-food sector, not the primary sector.

Emerging markets

Cannabis companies to put themselves in ‘best light’ at inaugural summit [21 May/Stuff] Business people hoped to make profits from a legal home grown cannabis industry. iHemp Summit Chairman, Richard Barge, said two parliamentary bills to allow the use of medicinal cannabis and the sale of hemp-based food made it the right time to hold the summit. Submissions on the Misuse of Drugs Amendment Bill closed last month. The event would focus on the business opportunity for hemp food and fibre, however its use for medicinal purposes would be discussed too. Mr Barge added that there was the opportunity to introduce a new primary sector and with positive intent from the Government it could take off. He stressed the need to export hemp products. He noted that the New Zealand Hemp Industries Association was set to meet with Agriculture Minister, Damien O’Connor, in June.

Biosecurity

Infected farm’s use of distant vet concerns [25 May/Rural Life] The New Zealand Veterinary Association expressed concern over the use of distance veterinary services in light of news the farm at the centre of the Mycoplasma bovis outbreak was using a vet clinic 1,600km away. Vets on Waiheke Manager, Stephen Gilmore, confirmed they were the vets responsible for the Zeestraten herd. NZVA President, Peter Blaikie, said the association could not comment on the situation, but regular and real vet presence on farm was the greatest biosecurity protection for early detection. Typical practice was for farmers to use veterinary practices that were based in their regions. Mr Blaikie added that appropriate authorisation of medicines and advice on biosecurity required to safeguard New Zealand agriculture also required a veterinary presence past the farm gate. The Ministry for Primary Industries announced it had simultaneously executed search warrants at three locations as part of the Mycoplasma bovis investigation. There was growing speculation the disease was introduced through illegally imported livestock drugs.

Solution for M bovis goes down to wire, expected to cost \$1b [25 May/Radio NZ] Regardless of the chosen solution, Mycoplasma bovis is expected to cost around \$1 billion. Industry leaders have been discussing issues with the government which would form the basis of the paper that would go to Cabinet. Federated Farmers President, Katie Milne, said they were nearing consensus around what to do with the disease and were confident the decision would be the right one for all farmers. Minister for Agriculture and Biosecurity, Damien O’Connor, added he wanted a final word with the industry before the government decision. Speculators thought eradication would be selected ahead of management. Ms Milne noted it was a big call to make and keeping eradication on the table was a good thing. She said culling the cows caused a lot of pain that doesn’t sit well with farmers.

Between the devil and the deep: D-day for Mycoplasma bovis call [28 May/NZ Herald] Mycoplasma bovis’ first New Zealand victim, Aad van Leeuwen said overseas dairy rivals were laughing as the Government killed New Zealand’s cows in an overreaction to the discovery of the disease. Reports suggest the potential cost to control the disease would be around \$1 billion. Mycoplasma bovis was an animal welfare issue and not a food safety threat as it doesn’t affect milk or meat for human consumption. Federated Farmers said the cull would equate to four cows per herd nationally. Mr Van Leeuwen’s farming operation had lost 1.2 million kilograms of milk solids production plus a milk contract worth \$750,000. He emphasised international farmers were happy as their payout would be increased due to decreased NZ milk production. MPI responded by acknowledging he was an experienced farmer, however was not an expert in animal disease or international trade. Seven months ago, his operation lost more than \$7 million overnight when MPI ordered his cows killed in response to the first diagnosed outbreak in his South Canterbury farm.

MPI will face ‘don’t give a damn’ attitude on M. Bovis, farmer says [28 May/NZ Herald] The Ministry for Primary Industries will get a ‘don’t give a damn’ attitude from some farmers as it attempts to eradicate Mycoplasma bovis according to a Southland farmer, following the Government’s announcement of an eradication strategy. Lumsden Farmer, Ben Walling, said he thought it was the right call to attempt to eradicate the disease, and if the MPI were aggressive enough they could be successful. He added that a few farmers thought the disease was farmable which is adding to the problem. MPI’s policy on compensation for farmers who have their herds culled was that they should be no better or worse off as a result. No country had yet successfully eradicated the disease. ASB Bank Economists said the revenue impact of the cull was not yet clear cut as the potential loss on dairy production could be partly or completely offset by higher dairy prices.

Apiculture

Poor seasons hit Comvita earnings [25 May/Otago Daily Times] According to Craigs Investment Partners, Comvita would take another two years to reach its \$400 million sales target after two poor seasons in a row. It downgraded its recommendation from buy to hold. Comvita lowered its forecasted annual earnings due to adverse weather. The stock price fell sharply since Comvita said it had pulled out of talks with a counterparty after failing to reach a deal on the price. Craigs Research Analyst, Aldrin Allbon, said they liked the Comvita thematic of becoming a more reliable premium branded Manuka honey targeting the Chinese consumer. He cut his outlook on the stock due to two short harvests which materially impacted profitability. He noted they thought it would be difficult for Comvita to deliver its sales target of \$400 million by 2021 given lowers sales and depressed profitability.

Horticulture

Zespri reports strong year despite lower volumes [23 May/Radio NZ] Zespri reported an earnings increase for the 2017-18 season despite kiwifruit volume falling 11 percent. Production volumes suffered from the cloudy summer. Zespri Chairman, Peter McBride, said the increased value of kiwifruit sales reflected strong consumer demand and good market performance. He added they sold a record volume of SunGold while growing returns at both the per-tray and per-hectare levels. He noted the industries performance over the last season reinforced their confidence in their strategy and potential for strong, sustainable growth. Zespri Chief Executive, Dan Mathieson, said the season represented good progress. He added they were anticipating record production of New Zealand and non-New Zealand kiwifruit this year driven by increased supply of SunGold and recovery in supply of Green.

Apple accolades top great season and more trees already in the ground [29 May/The Country] Hawkes Bay's contribution to the apple industry was set to grow with more than 100,000 new tree plantings planned for the coming season. The World Apple review named New Zealand's apple industry as the most competitive on the global stage. NZ Apples and Pears Chief Executive, Allan Pollard, said to earn and then retain the title was an outstanding achievement that rewarded everyone who is part of New Zealand's apple industry. Mr Pollard said the ranking was a reward to our \$850 million apple industry which was celebrating one of its best seasons yet. T&G General Manager Pipfruit New Zealand, Bruce Beaton, said it was the culmination of decades of effort by New Zealand growers and supporting partners to ensure locally bred and grown apples started to stand up to the scrutiny on the world stage. Mr Beaton noted T&G now exported apples to more than 60 countries worldwide.

Western Bay of Plenty kiwifruit industry rejoices at much-needed cold snap [29 May/The Country] Temperatures in the Western Bay of Plenty have fallen which is good news for the kiwifruit industry. NIWA's principal Scientist for Forecasting, Chris Brandolino, said the coldest days were yet to come and warmer temperatures would return this weekend. MetService meteorologist, April Clark, added a southerly flow was traveling up the country and no one could escape the cold winds associated with it. A Seeka spokeswoman was delighted by the cold snap and called the week perfect. She noted it raised sugar level in fruit which allowed fruit to mature. Kiwifruit grower, Rob Thode, said May was unusually warm and the cold snap was needed to enable the industry to complete this seasons harvest quickly.

Forestry

Labour shortage could create 'significant issue' for Govt.'s 1 billion tree target [27 May/Stuff] A shortage of labour and land could result in growing pains for the Government's 1 billion trees programme. The Government planned to plant 1 billion trees by 2027 to grow regions, create jobs, offset carbon emissions, enhance biodiversity and reinvigorate New Zealand's forestry industry. Forestry currently covered 1.7 million hectares of land. Ministry for Primary Industries estimated up to 1 million hectares would be required to plant a billion trees. Nearly 7 million trees have been planted and more than 67 million seedlings sold for planting in 2018. The recent budget allocated \$258 million to the programme. Forestry Minister, Shane Jones, said they would aim to plant 110 million per year however finding people to plant and maintain trees could be difficult. Hundreds more workers were needed to ramp up planting. He noted another barrier would be the historical attitudes of farmers who feared tree planting would diminish farming capacity. Forest Owners Association Chief Executive, David Rhodes, said the programme was challenging but doable.

Water

Swimmable rivers not just a rural issue, agriculture minister says [27 May/Stuff] Agriculture Minister, Damien O'Connor, did not accept that the Government's freshwater quality targets were unattainable but said the whole country needed to do better. The Policy Statement for Freshwater Management set a goal of having 90 percent of rivers and lakes swimmable by 2040. Currently 72 percent of the rivers and lakes are classed as swimmable. Mr O'Connor said they wanted swimmable over a generation and farmers could do pretty much anything given clear guidelines and time to adapt. The Government committed \$5 million in its recent budget over four years to upgrade the nutrient management tool, Overseer. Mr O'Connor added they had to allow people, through the exchange of knowledge and practices, to move in that direction. He said it was important to be reasonable. Taranaki-King Country MP, Barbara Kuriger, agreed and said the country would need to pull together to meet the set targets.

Viticulture

Invivo Wines opens \$6.5m funding round [25 May/NBR] Wine company, Invivo, opened another funding round to promote growth in export markets. The company was raising \$6.5 million through existing and wholesale investors. Funds would go towards expanding into the U.S. driving growth in its more established markets, and hiring more staff. Production was up to three million bottles this year from 50,000 when they first set out. The capital raise in 2015 was influential on the company according to Co-founder, Rob Cameron. He said the company has met profit targets and they had achieved what they set out to three years ago. The capital raise would give them the ability to build the team and structure to further propel the company to growth. The company has a skill at self-promotion, which has resulted in fast overseas growth. Invivo used celebrities such as Graham Norton to endorse its brand worldwide. It had projected turnover of \$13.9 million this year.

International

Nestle top for tackling nutrition issues – but all global firms need to improve [23 May/Food Navigator] Nestle has been ranked top for addressing obesity and malnutrition in its food products in a new survey. While many firms stepped up their efforts, a disappointing number still had too many unhealthy products in their portfolios according to the Access and Nutrition Index. The index ranked the top 22 biggest food and beverage companies worldwide on their nutrition-related policies, formulation and delivery of affordable and appropriate products, and positive influence on consumer choice and behaviour. Nestle ranked top with a score of 6.8. The index aimed to track the ways food and beverage manufacturers addressed global nutrition challenges. This year saw the introduction of a product profile which measured the healthiness of product ranges across nine markets. Advocacy Lead at Nestle, Cecile Dupez-Naudy, said the index was important in showing the food and beverages industry encouraged a race to the top.

EU agri policy "patchwork and incoherent" [25 May/EuroFruit] Researchers claimed the EU's policy on food production had failed on several health and environmental indicators. University of Pisa representative, Professor Gianluca Brunori, said they assessed 10 different policies to judge how they contributed to a sustainable food and farming system and evidence showed inconsistencies. They needed to be addressed through an overarching framework that could mix demand and supply side instruments, as well as food environment oriented ones. The failure of the CAP to deliver planned environmental benefits, reduce seed diversity at the cost of resilience goals, and little connection between the EU laws to protect water from nitrate pollution was highlighted in the report. DEFRA Secretary of State, Michael Gove, promised a green revolution in British farming, stating the government would instead provide payments for farmers who promoted public goods such as health and environment.

Ancient wheat variety could ease gluten sensitivity [24 May/Food Dive] Kamut International claims eating products made from the Khorasan wheat variety instead of modern wheat could reduce symptoms of gluten based on its pilot study. About 1.7 million Americans had celiac disease which is an autoimmune disorder triggered by gluten and other factors. A million Americans avoid gluten without celiac diagnosis. Kamut International suggested modern wheat could contribute to chronic conditions such as non-alcoholic fatty liver disease. It recently funded a clinical trial that found significant differences in blood markers between 20 people who ate products made from Khorasan wheat and 20 people who ate products from modern wheat. The Khorasan wheat group had a 6 percent improvement in cholesterol, as well as improvements in enzymes related to liver health.

Britain considers NZ Model [28 May/Farmers Weekly] British politicians were considering giving farmers control of their levy moneys in a system that follows the New Zealand model. The Environment, Food and Rural Affairs Select Committee is set to look closely at the role of the farming industry bodies as part of its probe into the future of Brand Britain. Committee Chairman, Neil Parish, said he had to be careful to not second guess which way the report would go but they had to look at the NZ model where farmers were more in charge of their own levy boards. He added it could suit the farmer and government as well. The industry had questioned whether the UK food boards were spending enough on promoting British food. Mr Parish noted AHDB spent a lot of money on research which would be necessary in the new agricultural world. Chief Communications Specialist, Christine Watts, said they would welcome the chance to back Brand Britain but EU State Aid rules prevented that.

Farmers and producers

Mental health fears for farmers over mass cow cull [29 May/Radio NZ] Experts are warning that the bid to eradicate Mycoplasma bovis outbreak could have disastrous knock-on effects on farmers mental health. The Government announced it was committed to eradicating the illness with a ten year plan that would cost around \$886 million. Prime Minister, Jacinda Ardern, said they had one shot at eliminating the disease. Since its discovery last year, 41 farms have been confirmed as infected. Around 11,000 cattle have already been slaughtered. Some believe culling is the way forward, however others say the cull may trigger suicides among owners of infected cattle. One man believed the next lot of suicide figures in the next twelve months would show an escalation due to the mass cull. VetSouth Winton Managing Director, Mark Bryan, supported the move but acknowledged the potential impact it would have on the owners of the infected herds. Southland Rural Support Trust Chairman, John Kennedy, agreed the government made the right call, but was not surprised many were opposed to it.

Red meat

Tough year hits ANZCO's profits [28 May/Farmers Weekly] A hard year in beef procurement and processing caused a decrease in profits for ANZCO Foods. ANZCO Chief Executive, Peter Conley, said competition for stock and uneven livestock flows increased costs while consumer market prices were steady. ANZCO's profit fell to \$1.8 million. Chief Financial Officer, Paul Loke, said the uneven flow of beef livestock to processing plants meant plant costs were incurred for periods without full throughput gains. ANZCO's sheep meat business performed well due to increased consumer market prices but could not offset the beef impacts. Mr Conley added the balance of the overall business is in the food and solutions division covering food, nutrition and healthcare. Growth was strong and expected to be sustainable. Mr Loke noted the business model in which ANZCO supplies its international offices also meant a slower path of revenue back to New Zealand.

Poultry

Bounty Fresh launches Tegel takeover with minimum target already achieved [29 May/NZ Herald] Bounty Fresh Foods has sent the offer document for its takeover bid for Tegel to the company. It is offering \$1.23 per share. The offer is conditional on Bounty holding at least 50 percent of Tegel's voting rights and Overseas Investment Office approval. Claris Investments had agreed to accept the offer meaning with Bounty's current holding they are assured of securing more than 50% of the company. It does seek 100 percent, however it would welcome any shareholder that wished to remain invested. Tegel continued to advise shareholders to take professional advice before acting with respect to their shares. Because of slow progress in Australia and one off costs, full-year profit could be as much as a fifth lower than initially predicted. One of the takeover's conditions is that Tegel cannot issue any guidance or warning that the EBITDA or net profit would be more than 10 percent lower than its guidance.

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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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