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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

6 June 2018

Organisations referenced in this week's Field Notes include:

ABB Technology Ventures	Manuka Farming New Zealand
AgResearch	Monsanto
American Proteins	New Image Group
ANZ	New Zealand King Salmon
BASF SE	Omnivore
Bayer AG	Onuku Maori Lands Trust
Beyond Meat	Planet Ark
Bill and Melinda Gates Foundation	Qualcomm Ventures
Coles	Rabobank
Craigmore Permanent Crop Limited Partnership	Sara Lee
Federated Farmers	Southbase Construction
Fonterra	Stellapps Technologies
GE Free Northland	Stock and Station Agent Rural Property & Livestock
Glanbia Nutritionals	Synlait Milk
Impossible Burger	Tyson Foods
IndusAge Partners	Wellington Beekeepers Association
Kohlberg & Co	Westland Milk Products
Lincoln University	Woolworths

This week's headlines:

Animal Welfare	Farm animals' feelings focus on pioneering NZ study [5 June/The Country]
Farmers and Producers	Federated Farmers pulls out of Northland GMO policy fight [1 June/The Country] Federated
Emerging Markets	What's New Zealand's answer to Impossible burger? [1 June/NBR]
Biosecurity	ANZ offers M. bovis assistance package [1 June/Dairy News]
International	Plastic straws to be shelved by Woolworths this year and Coles commits to 90pc diversion from landfill by 2022 [5 June/ABC News]

Dairy

Westland, Synlait forecast higher milk prices after Fonterra hike [1 June/The Country] A bullish outlook for butter prices encouraged Westland Milk Products to increase its farmer payout forecast from \$6.75 to \$7.20 per kg of milksolids for 2018/19. This compares with \$7.00 for Fonterra and Synlait Milk. Westland Chairman, Pete Morrison, said the coming season's forecast was driven by an improved sales outlook. He added they were seeing improved performance from its infant and toddler nutrition and UHT plats and consumer butter had been exceptional. He noted Westgold was out selling all other gourmet butters in New Zealand combined, and it was starting to reach sales levels comparative with established brands. Synlait Managing Director, John Penno, said its opening forecast was based on milk fat prices remaining firm throughout the season.

Greater food safety reassurance needed over M bovis – exporter [31 May/Radio NZ] New Image Group Founder, Graeme Clegg, said he had been fielding concerned calls about his infant formula from around the world about Mycoplasma bovis. Around 150,000 cattle will be culled as part of the eradication programme. Mycoplasma bovis can cause lameness, abortions and mastitis in cows, but there is no risk to human health from the infection. Mr Clegg added his company had been working quickly to reassure overseas markets their products posed no danger to consumers. He noted he realised the governments statement had to be made, but there wasn't clarity of the fact there is no threat to humans associated with it. Mr Clegg said their products were universally sold all around the world, so they had a big customer base. Through its own announcements and reassurances, the company managed to stop any damage being done.

Animal Welfare

Farm animals' feelings focus on pioneering NZ study [5 June/The Country] Scientists said exploring farm animal moods and personalities could help us improve their welfare, as well as the farms they're found in. AgResearch Scientist, Dr Gosia Zobel, said they couldn't directly measure how animals were feeling, so there was a need to find indirect measures which was what they were trying to do. Those measures can be used to understand how personality contributes to animal welfare. Their initial testing was with goats and found each goat showed different responses were different in a manner consistent with their personalities. Some goats that had just stood in the rain may be more reluctant to approach a new object. After the results of the goat study are analysed and published, it would offer a stepping stone towards understanding and measuring both personality and mood of individual animals.

Farmers and producers

Federated Farmers pulls out of Northland GMO policy fight [1 June/The Country] Federated Farmers pulled out of attempts to overturn plans to ban GMO testing and growing by a number of local authorities. It had taken several court actions and subsequent appeals. It argued the Government's Environmental Protection Authority regulations were protection enough, and local government's measures were unnecessary. Federated Farmers were criticised for its stance by Environment Court Judge, Laurie Newhook. Federated Farmers President, Katie Milne, said it would reassess its challenges of regional GMO policy in the future. GE Free Northland President, Zelka Grammer, said her group was grateful to Ms Milne for ensuring current litigation against various councils' plan changes were withdrawn.

Rotorua farm wins Ahuwhenua Trophy [30 May/Stuff] A small, yet productive dairy farm owned by Onuku Maori Lands Trust won the Ahuwhenua Trophy for Maori excellence in dairy farming. The announcement was made by the Governor General Dame Patsy Reddy in Christchurch. The farm milks 220 cows, producing about 90,000kg of milksolids. Ahuwhenua Trophy Management Committee Chairman, Kingi Smiler, said finalists set high standards in their farming and governance of operations. The Onuku trust said the award was a credit not only to the trustees, management and farm advisor, but also to those who had faithfully been a kaitiaki of the lands till now. The winner of the Ahuwhenua Young Maori Farmer Award was Harepaora Ngaheu from Te Teko in the Eastern Bay of Plenty. He plans to go contract milking for the same farmer in the new season. The award was first held in 2012 and designed to recognise talented young Maori farmers.

Apiculture

Demand for seedlings stun manuka farming group [3 June/Stuff] A free manuka seedling offer was so popular it was almost 200 percent oversubscribed. Manuka Farming New Zealand offered 1.8 million seedlings to landowners. Applications had been made for 5.2 million. MFNZ General Manager, Stephen Lee, said interest was overwhelming and they had the task of assessing potential plantations from Northland to Te Anau. There was no maximum limit on the size of potential plantation sites, however larger ones were more suitable as they produce higher quality manuka honey. A condition of the offer was that landowners had to be ready and committed to planting the seedlings in 2018. Final decisions on which landowners would be offered seedlings would take a few weeks. Wellington Beekeepers Association President, Frank Lindsay, said beekeeping's popularity had exploded due to the global spike in demand for manuka honey.

Aquaculture

Salmon industry in short supply turns to Atlantic seas for help [3 June/Stuff] New Zealand King Salmon sought stock from outside of New Zealand waters after demand exceeded supply. Chief Executive, Grant Rosewarne, warned the move could be permanent as New Zealand salmon supplies suffered in the face of static stock numbers. The company faced shortfalls of between 20 and 30 tonnes a week. Mr Rosewarne blamed increased demand, shortage of space for farming, and warmer than usual water temperatures. It imported salmon from Norway and Canada in April. The imported salmon would be sold under the Southern Ocean brand which would be modified to reflect the change or origin. New Zealand was the world's largest exporter of king salmon and is the only salmon species farmed in New Zealand. They operated eight sea farms in the Marlborough Sounds. This year was described as the most difficult farming year on record.

Horticulture

Overseas Investment Office rejects Craigmores application to buy orchard [1 June/Stuff] Craigmores Permanent Crop Limited Partnership Chief Executive, Che Charteris, said its application had been caught up in Government changes to foreign land ownership in light of its rebuff from the Overseas Investment Office to its application to buy a kiwifruit and avocado orchard. He added every government had the right to set new rules, and they were working with the OIO to see how the new rules would work. The application was to buy freehold land which was green kiwifruit and avocados. The investment would have provided one full time job and some additional export receipts. Mr Charteris said New Zealanders controlled the governance of the company. He noted it was not like some investors who had one or two kiwis on their boards, and they controlled its investors were not allowed to make operational decisions. The OIO said for consent to be granted, Ministers needed to be satisfied the acquisition of the land would benefit New Zealand.

Agribusiness education

Education Minister ‘frustrated’ as Lincoln University and AgResearch further delay \$206m facility [3 June/Stuff] Education Minister, Chris Hipkins, said he was disappointed and frustrated by further delays to the development of the science research centre at Lincoln University. Lincoln Acting Vice-Chancellor, Professor Bruce McKenzie, said the university and AgResearch decided to delay construction and put the contract back out for tender. They hoped to appoint a contractor by August, and open the first part of the building at the end of 2020. Mr Hipkins said he was informed its completion had been pushed back to finalise the facility’s design and provide greater certainty of the costs of the project. He added it was frustrating that it would now be even longer before the significant benefits of the project were realised. Cabinet would not allocate any funding without first endorsing the business case. Southbase Construction concluded its work on campus on May 11 and the site had since been under the control of Hamish Cochrane, the project’s senior responsible officer.

Emerging markets

What’s New Zealand’s answer to Impossible burger? [1 June/NBR] The Ministry for Primary Industries and Plant and Food’s joint report assessed consumer response to protein and highlighted the opportunity for New Zealand’s traditional animal-based agriculture. Animal-based protein export revenue accounts for 60 percent of the country’s total primary exports. The report said while animal proteins continued to appeal to traditional consumer preferences, a growing drive for more sustainable and healthier lifestyles was positioned to shift that emphasis to plant protein products. New Zealand should also identify opportunities for all protein types with targeted research and monitoring. A separate case study looking at Impossible Burger noted alternative meat products had the potential to cause a level of disruption to the U.S. beef market. The New Zealand meat industry was aware of the potential threat from alternative proteins.

International

Aussie cattle station larger than Lebanon for sale [3 June/Otago Daily Times] Australia’s second largest cattle station was for sale and the owners hoped for a domestic buyer. Clifton Hills Station is in the north-eastern corner of South Australia and covers 1.65 million hectares. It had 18,300 head of cattle and approval for 21,500. Managing Director of Stock and Station Agent Rural Property & Livestock, Wally Cooper, said he fielded up to 60 inquiries for the station, mostly from domestic buyers. The owners wanted a domestic buyer to avoid the time it takes for foreign firms to get approval from Australia’s Foreign Investment Review Board. Clifton Hill Owner, Neil Dunn, said he hoped the station would fetch \$59 million. He added he would prefer to sell to an Australian buyer, even if an international buyer had more money.

Plastic straws to be shelved by Woolworths this year and Coles commits to 90pc diversion from landfill by 2022 [5 June/ABC News] Coles and Woolworths announced new environmental commitments in response to a shift in consumer attitudes. Coles pledged to halve its food waste across its supermarkets in two years, and divert 90 percent of its waste from landfill by 2022. Senior Communications Manager, Martine Alpines, said Coles wouldn’t be setting these targets if they didn’t expect they would be able to meet them. Woolworths said it would stop selling plastic straws by the end of 2018, as well as reducing plastic packaging in fruit and vegetables. Woolworths Group CEO, Brad Banducci, said they had seen a shift towards sustainable attitudes from customers, and the momentum was growing. Environment Group, Planet Ark, welcomed the moves but also wanted them to go further. Head of Operations, Marty Middlebrook, said they needed to commit to using the recycled product in packaging. If the packaging was made from recycled content, it would give the recycling industry a kickstart.

Breaking: Gates Foundation Invests in Dairy Tech Stellapps \$14m Series B, First in India [31 May/AgFunder News] Stellapps Technologies raised \$14 million in Series B funding in a round led by IndusAge Partners alongside the Bill & Melinda Gates Foundation, and two strategic corporate venture investors Qualcomm Ventures and ABB Technology Ventures. This is the first investment by the Gates Foundation in India. Omnivore Partner, Mark Kahn, said Dairy was India’s largest crop, larger than rice and wheat. Two billion litres of milk flow through Stellapps’ platform annually. It had also digitised payments for the industry. The proceeds would go towards expanding Stellapps globally. Mr Kahn added the dairy economy in the developing world was a massive opportunity and Stellapps full stack solution seemed to be the best way to make digitalisation in dairy a reality globally. Stellapps was founded in 2011 by five technology industry veterans.

Bayer Plans Monsanto Close amid \$30 Billion Share, Bond Sale [4 June/Bloomberg] Bayer AG was close to the closure of its purchase of Monsanto Co this week. Bayer will retain its name and drop Monsanto’s. The purchase will be part of a multiyear transformation as Bayer attempts to transform its business. Chief Executive Officer, Werner Baumann, said they were about to close the transaction and didn’t rule out any further portfolio changes. The deal would double the size of Bayer’s agriculture business. S&P downgraded Bayer two levels from its previous A- rating. To gain approval for the deal, Bayer agreed to sell assets to BASF SE.

‘This is going back to where nutrition should come from – from nature’ [31 May/Dairy Reporter] Glanbia Nutritionals displayed its ‘Truly Grass Fed’ protein range. The range included products coming from cows that received 95 percent of their nutritional feed from grass. Consumers might not be on the lookout for grass fed attributes, however it ties in with the desire for clean label products and a move to take nutrition back to nature. The cows are grazed on grass land for up to 300 days a year, receive 95 percent of their feed from grass, and the products were non-GMO verified. Marketing Manager, Dagmar Ortlepp, said it tied into three key consumer concerns, namely sustainability, animal welfare and clean label. Mr Ortlepp added consumers may not be directly on the lookout for grass fed products however consumer trends showed grass fed as an attribute that resonated with consumers.

Inside Tyson Foods’ effort to adopt the start-up mentality [31 May/Food Dive] Tyson foods started an innovation lab and its seven member team oversees everything from creating to marketing products to get them to consumers faster. Senior Vice President of R&D for Insights and Innovation, Jen Bentz, said that they were thinking of innovation and what was happening in the market, They had to take a step back to look at what was making these firms successful, and what they needed to do from a growth model moving forward. The innovation lab team create and get a product to market within six months. The lab has produced two products so far. First was the Flashfoodbox and second was its protein crisp called Yappah that incorporated chicken trim with ingredients that would otherwise be left behind. The lab had three focus areas which tackled larger global issues like food waste, health and nutrition, and food deserts.

Tyson to sell Sara Lee and three other non-protein brands [4 June/CNBC] Tyson Foods said it would sell Sara Lee Frozen Bakery and three other non-protein brands to private equity firm, Kohlberg & Co. It did not disclose the financial terms of the deal. The meat processor wanted to focus on its core business. Tyson Foods Group President of Prepared Foods Unit, Sally Grimes, said they were focused on expanding Tyson Foods’ leadership position in protein. Tyson Foods said a month ago it would buy poultry rendering and blending assets of American Proteins for around \$850 million. Tyson also raised its stake in plant-based protein maker Beyond Meat last year.

Biosecurity

ANZ offers M. bovis assistance package [1 June/Dairy News] ANZ said it would provide an assistance package to help Mycoplasma-bovis affected cattle farmers. It is in response the Government’s announcement stating it would work with farming sector leaders to eradicate the disease. The package would help farmers meet their short term cash flow requirements. ANZ Bank’s Managing Director Commercial and Agri, Mark Hiddleston, said they knew it was a distressing time for those affected and it was important they played a role in supporting customers through this. He added that as New Zealand’ largest rural lender they were offering a range of options to help farmers. Affected farmers should contact their relationship manager to discuss the various support packages available.

Red meat

Supply pressure building in major world beef markets [30 May, Rabobank] There was a positive start to the global beef sector in 2018, however building pressures had the potential to change the export market dynamics. A report by Agribusiness Banking Specialist, Rabobank, said supply pressure was growing in global beef markets due to dry weather conditions in the U.S., a surplus of animal protein in Brazil, and changes in live cattle trade out of Australia. Rabobank New Zealand Animal Proteins Analyst, Blake Holgate, said the degree to which the supply pressures continued to build would determine the extent of their impact on global markets. He added U.S. slaughter numbers were already higher than previous years, and the likelihood of forced liquidation was high. He noted that of the supply pressures outlined in report, the U.S was most likely to impact New Zealand given the significance of the U.S. as an export destination. Mr Holgate said despite New Zealand beef export volumes rising significantly in the last quarter of 2017, they rose only one percent in the first quarter this year,

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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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