

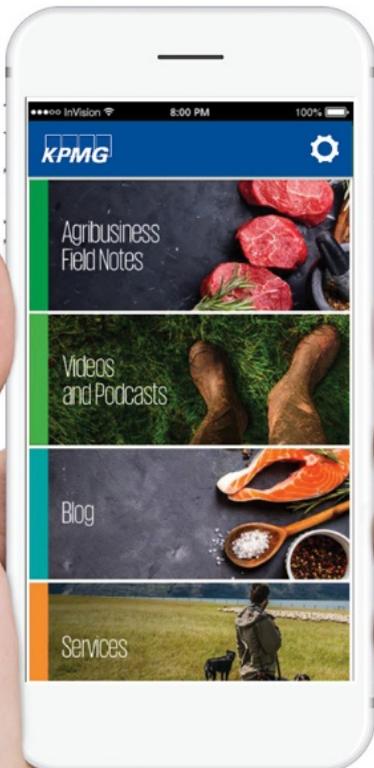


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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

11 July 2018

Organisations referenced in this week's Field Notes include:

a2 Milk	Inter-weave
Agriseeds	Jetstar Group
Air New Zealand	Lincoln University
American Soybean Association	Marlborough Lines
Barenbrug Group	New Zealand Winegrowers
Beef + Lamb New Zealand	New Zealand Tractor and Machinery Association
Blue Sky Meats	PGG Wrightson
Credit Suisse	Rabobank
Cropmark Seeds	Save Animals from Exploitation
Federated Farmers	University of Canterbury
First NZ Capital	Woolworth's Farming for the Future
Fonterra	Worldwide Fruit
Greenpeace	Yealands Wine Group
Grocery Business	

This week's headlines:

Emerging Markets	Missed economic opportunities if hemp industry isn't allowed to flourish, experts say [6 July/NBR]
Red Meat	Farmers puzzled by Air NZ's vege burger [5 July/Rural News]
Viticulture	We're selling cheaper wine overseas, but more of it [9 July/Stuff]
Farmers and Producers	First woman to lead Feds arable elected to national board [4 July/Rural News]
Environment and Emissions	Quarter of NZ's native vegetation found of sheep and beef farms [6 July/Stuff]



Dairy

a2's new boss will be paid more than twice as much as the current MD [5 July/NBR] The salary of a2 Milk's new managing director, Jayne Hrdlicka, would be more than double that of her predecessor. She would take over the role on July 16. Ms Hrdlicka was previously the Chief Executive of the Jetstar Group, and would start on a base salary of AUD1.5 million. Her short term incentive would be up to 100 percent of her base salary depending on performance. Her long term incentive would be the rights to buy shares. Until her rights are vested and fully paid, she will not have any right to dividends. The company mostly reported losses until the 2016 financial year. It expected revenue to be between \$900 and \$920 million, up from \$549.2 million last year. She would be required to give six months' notice if she decided to leave the company.

Dairy prices slump 5% in worst fall this year [4 July/NBR] Dairy prices fell 10 percent at the Global Dairy Trade auction. This auction marked the 10th anniversary since it started. Whole milk powder fell by 7.3 percent which was the largest decline. Prices were under pressure due to the total volume sold increasing. Fonterra's latest production update reported a 6.6 percent increase in May. Production was also rising in other dairy countries such as Australia and the EU. The price of skim milk powder fell 4.6 percent. The 118 winning bids were slightly down on the previous auction. The next auction will be held on 17 July.

Emerging markets

Missed economic opportunities if hemp industry isn't allowed to flourish, experts say [6 July/NBR] According to experts, New Zealand was at risk of missing out on economic opportunities if it didn't change regulations to allow the hemp industry to flourish. Industrial hemp was forecast to be a \$75 billion global industry by 2025. Hemp is grown in New Zealand for fibre and hemp seed oil. Law changes were expected later this year to the Food Act, the Misuse of Drugs act and the Medicines act, which would allow hemp seed to be sold as food in New Zealand. These law changes could potentially triple planting of the crop. Agriculture Minister, Damien O'Connor, supported the regulation of hemp to move to the Ministry for Primary Industries. He added hemp was a possible way to diversify land use. He acknowledged there had been lost revenue opportunities for not moving quickly enough. Medical cannabis was also under the spotlight as New Zealand attempted to catch up with other countries who had already legalised it for domestic use and export.

Farmers and producers

Farmer confidence 'hanging in the balance' amid M. bovis concerns [5 July/NBR] According to a Rabobank survey, the impacts of Mycoplasma bovis were the main reason for a 100 percent rise in the number of farmers who expected the rural economy to worsen. Rabobank New Zealand General Manager for Country Banking, Hayley Gourley, said confidence was hanging in the balance with the number of farmers who expected conditions to improve almost in line with those who expected conditions to worsen. She added there was a significant level of uncertainty as testing for the disease continued. Ms Gourley noted one of the factors bolstering farmer confidence was Fonterra's strong opening milk solid price forecast. A weakened New Zealand Dollar relative to the USD had also improved farmer outlooks. Federated Farmers National Dairy Chairman, Chris Lewis, acknowledged the dairy industry had been through difficult times. The Rural Confidence Survey was administered by an independent research agency.

First woman to lead Feds arable elected to national board [4 July/Rural News] Federated Farmers elected Karen Williams as its arable chairperson at its national conference. She would replace Guy Wigley who stepped down after three years in the role. She was the first woman to lead the Federation's arable sector. She was previously a planner with the Greater Wellington Regional Council, and now runs her own consultancy business that specialises in resource management, facilitation, engagement and speaking on agri-environmental issues. She played a key role in securing government funding to develop a future focused cropping strategy for the Wairarapa, and worked to secure payments for growers impacted by the extended regional growth ban. Ms Williams said she would like to see an increased presence of the arable sector and that it had a lot to offer.

Mackenzie Basin: Fonterra dairying criticism rejected [4 July/Radio NZ] Dunedin businessman, Murray Valentine, was behind the planned mega dairy conversion in the Mackenzie Basin. He was rejecting criticism from Fonterra about further intensification of the vulnerable landscape. He was originally granted consent for 15,000 cows but planned to put 2,000 on it by next year. Greenpeace campaigners chained themselves to heavy machinery in a bid to stop the work. Fonterra Chief Operator, Miles Hurrell, said the company had said for a while that its strong preference was for no further expansion in the Mackenzie Basin. He added they were concerned it would have a negative impact on the sensitive environment. Pilot, Gavin Wills, noted it was a shame they did not speak up 10 or 15 years ago as that may have resulted in no dairy development in the area at all. He emphasised it was easy for Fonterra to say that now, but it needed to back up its claims with active discouragement.

Wallace named Young Farmer of the Year [8 July/Stuff] Logan Wallace was named the Young Farmer of the Year. He was a sheep farmer from South Otago and beat six other contestants to win the competition. He has a certificate in agriculture and a diploma in rural business from Telford. He is also a Land Search and Rescue member. The contestants visited a farm in Glenham before the first event of the competition. Wallace represented the Otago/Southland region at the national grand final in Timaru in 2016.

Rural supplies

Global seed group confirms PGG Wrightson interest [5 July/NBR] Barenbrug Group confirmed its interest in PGG Wrightson's seed unit. PGG Wrightson had hired First NZ Capital and Credit Suisse Australia to help with a strategic review. This can be seen as a move to invite offers from buyers for part or all of the company. Barenbrug is an innovative market leader with a global market share of 12.5 percent. Chief Executive of Barenbrug's New Zealand Unit, Michael Hales, said the company was interested in the PGG Wrightson seed business. The seed and grain segment was PGG Wrightson's most profitable business. Chief Executive of Cropmark Seeds, Glen Jarvis, said there was a great deal of speculation around the future of PGG Wrightson's seed division. He added a merger would have significant implications for the local market. Mr Jarvis noted PGG Wrightson and Agriseeds both had businesses that competed with Cropmark.

Red meat

Farmers puzzled by Air NZ's vege burger [5 July/Rural News] Farmers were puzzled by Air New Zealand's decision to promote an overseas produced plant protein burger. Federated farmers said Air New Zealand prides itself on being innovative, and liked to partner with like-minded businesses. Federated Farmers Meat and Wool Chairperson, Miles Anderson, added that they understood that, however was unsure why our national carrier would build an advertising campaign around a foreign product rather than a New Zealand firm. Inter-weave is a bespoke wool upholstery and home wares manufacturer that combines design and technology with New Zealand wool. The transportation fabrics Inter-weave supplies to Air New Zealand met the highest flame retardant criteria. It was a great advertisement for New Zealand natural products, our farmers and an industry that was the lifeblood of rural communities. Mr Anderson noted that seated in nature sounded like a good basis for an Air New Zealand advertising campaign.

Decision made on fate of defunct Gore meat plant [9 July/Rural Life] Blue Sky Meats decided to sell its Gore plant which had been non-operational since 2016. The company announced it was reviewing options for the unprofitable plant last year. The company said the decisions was not made lightly but it felt it was the best course of action to take. Its annual report for the 2018 year showed an improved result with a net profit of \$3.7 million, up from a loss of \$2.5 million in the previous period. The improved position was attributed to more chilled sales, better yield from each carcass, and an increase in rendering returns. Chief Executive, Todd Grave, was delighted with its performance, but emphasised there was still a lot of work ahead. Chairman, Scott O'Donnell, said the next step would be creating a value-added, differentiated brand position to further increase profitability. It would include a focus on investing in plant infrastructure to reduce the company's environmental impact.

Biosecurity

Ministry defends kauri dieback programme performance [5 July/Radio NZ] The Ministry for Primary Industries defended its leadership of the kauri dieback programme. Dr Amanda Black of the Lincoln University Bio-Protection Research Centre said the programme was a trainwreck. She added there was week governance around the programme, and people involved with management of the programme did not know how to procure research. She noted there was also some non-delivery in key science areas which led to the further demise of trees. The Ministry's Conservation Adviser, Eric van Eynhoven, said the governance group was advised by scientists and that it was very easy to criticise from the outside. He added there was competing priorities for research funding. The research funding currently stands at more than \$2.6 million per year. Dr Black noted Waipoua was in urgent need of a crisis management plan to save the big trees. Mr van Eynhoven however said the responsibility for soil sampling and ground work laid with DOC and Regional Councils.

Viticulture

Yealands Wine Group granted suppression order as Marlborough Lines takes complete ownership [5 July/Stuff] Electricity network company Marlborough Lines took full ownership of Yealands Wine Group. A subsidiary of the company acquired the final 14 percent of Yealands from an entity controlled by Peter Yealands. Mr Yealands also resigned as a director of the group which he founded in 2002. He refused to comment on the sale, however denied he had ended his association with Yealands Wine Group. Chairman of Marlborough Lines, David Dew, said the purchase of the remaining shares was part of a long term plan which dated back to the original 2015 investment in the wine company. The terms of Peter Yealand' exit from the company had not been disclosed and were kept private. Marlborough Lines paid \$89 million for 80 percent of the group in 2016. Mr Dew noted dividends from Yealands Wine Group were the reason Marlborough Lines was able to increase electricity discounts and payments to consumers. Mr Yealands was the recipient of the 2013 South Island Farmer of the Year. Mr Yealands was pleased that Marlborough Lines would be the shareholder to take over the group.

We're selling cheaper wine overseas, but more of it [9 July/Stuff] New Zealand winemakers were earning less for a litre of export wine, however the total export value of the industry has risen quickly. According to the Ministry for Primary Industries, the total value of wine export had grown sixfold. New Zealand Winegrowers Global Marketing Director, Chris Yorke, said wine had become cheaper to make as more wineries expanded to meet market demand. He added in 2004 New Zealand was exporting about \$300 million of exports and that number was now around \$1.7 billion. Mr Yorke noted exports to the U.S. exceeded \$500 million in the last year. The value of the export market was helped by New Zealand exporting higher valued wines than other countries. An estimated 2 billion glasses of New Zealand wine is consumed overseas every year. According to Tourism New Zealand, 24 percent of all tourists visit a winery.

Animal welfare

Govt could appoint commissioner to improve animal welfare [3 July/Stuff] A commissioner for animals could be possible when the Government attempts to improve animal welfare. Minister for Animal Welfare, Meka Whaitiri, released the framework for action on animal welfare a day after footage of a farmer abusing cows in a milking shed was made public. Ms Whaitiri said New Zealander's took animal welfare seriously, and the framework set out a clear, transparent and inclusive approach to the issue. The framework was the result of eight months of discussions with stakeholders. One of the key ideas was ensuring those in charge of animals believed that animal welfare mattered. Federated Farmers Animal Welfare Spokesman, Chris Lewis, welcomed the idea but said it offered little that was new. Animal rights group, Save Animals from Exploitation, also encouraged the call for an independent voice for animals, but noted plans to establish it as part of the Ministry for Primary Industries was not the way forward.

Rural supplies

Tractor sales could reach a record high [9 July/The Country] New Zealand Tractor and Machinery Association President, John Tulloch, said sales of tractors were up more than 25 percent on this time last year. He added sales were back near 2014 levels, and there was also increased spending within the lifestyle and horticulture markets. He noted it was rare to see every sector performing relatively well at the same time. Mr Tulloch said agricultural customers were being cautiously optimistic rather than going on big spending sprees. Despite the caution, overall sales looked healthy and if the trajectory continued, tractor and machinery sales could possibly his a new record high by the end of the year.

International

Vermont farmers to create their own organic certification [5 July/Food Dive] According to Grocery Business reports, a group of farmers and scientists in Vermont had written standards for their own organic requirements. The plan was to launch this summer on 20 to 60 farms. The operations would add the label after they were certified by an inspector. The label would list information that details if produce had been grown in soil or if meat and dairy products came from farms that pasture their animals. Grocery Business said the new label was the result of controversy over whether the U.S. Department of Agriculture should include hydroponics and aquaponics in its certification program. This new label would exclude hydroponic farming from certification. Large livestock farms that don't pasture their animals would also not be eligible for the new certification.

US farmers could take a significant hit from trade war [5 July/CNBC] A 25 percent duty on \$34 billion worth of Chinese goods by the Trump administration was set to come into effect on Friday. Beijing has said it would retaliate immediately. A beef farmer in Missouri, Casey Guernsey, said rural communities were dependent on agriculture. It was feared the tariffs would affect farmers. China's new tariffs would affect soybeans, wheat, corn, cotton, pork and U.S. autos. They could cost farmers in the U.S a great amount according to Mr Guernsey. He emphasised they could not afford any increase in price as the difference between making and losing money per head sometimes was just a few dollars. President Donald Trump proposed tariffs last March in an effort to fix what he saw as unfair trading practices. Tariffs against Canada, Mexico and the EU came into effect on 1 June. Chairman of the American Soybean Association, Ron Moore, said the tariffs were devastating to soybean farmers.

South Africa considers water future [9 July/EuroFruit] A recent initiative from Worldwide Fruit said that growers and their staff would have to develop an entirely new approach in future to managing water use on their farms and ensuring it was used optimally. It also said that while most in the South African fruit industry were aware of the challenges, there was a need to dig deeper on farms and within orchards and vineyards to see what was really going on. Worldwide Fruit Technical and Procurement Director, Tony Harding, said its business relationships extended to and operated across multiple countries and regions. Recent rain may have reduced some of the immediate pressure on the fruit sector. Head of Woolworth's Farming for the Future, Kobus Pienaar, said a study showed South African nectarine growers were already among the most sensitive water users in the world. The way South African growers understood water vulnerability risks and the best way to find solutions and communicate strategies was the key message of the workshop.

Environment and emissions

Quarter of NZ's native vegetation found on sheep and beef farms [6 July/Stuff] A report by the University of Canterbury has shown that a quarter of New Zealand's native vegetation was found on sheep and beef farms. This was the largest amount outside of conservation land. Beef + Lamb New Zealand Chief Executive, Sam McIvor, said the findings were a great acknowledgement for farmers and the work they were doing. Satellite imagery was used to assess the amount of native vegetation. Forest and Bird Chief Conservation Adviser, Kevin Hackwell, said it was promising that Beef + Lamb NZ had commissioned the research as part of its environment strategy. Mr McIvor noted the report was also relevant to the Government's proposed zero carbon legislation. While further research was needed, the native forest would be isolating and storing carbon, most of which was unlikely to be counted under the current Emissions Trading Scheme. Further research was being undertaken.

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Contact Us

Auckland/ Audit Ian Proudfoot 09 367 5882 021 656 815 iproudfoot@kpmg.co.nz	Taxation Greg Knowles 09 367 5989 021 307 332 gknowles@kpmg.co.nz	Tauranga Robert Lee 07 571 1773 027 451 1035 relee@kpmg.co.nz	Wellington Graeme Edwards 04 816 4522 027 296 5050 gdedwards@kpmg.co.nz
Christchurch Andrew Hawkes 03 353 0093 027 508 0135 ahawkes@kpmg.co.nz	Financial Advisory Services Gary Ivory 09 367 5943 021 932 890 givory@kpmg.co.nz	Management Consulting Simon Hunter 09 367 5881 027489 9737 simonhunter@kpmg.co.nz	Hamilton/ Private Enterprise Hamish McDonald 07 858 6519 021 586 519 hamishmcdonald@kpmg.co.nz
Ashburton/ Private Enterprise Craig Jakich 03 307 0769 021 0600 553 cjakich@kpmg.co.nz	Farm Enterprise North Island Roger Wilson 07 858 6520 027 281 9575 rogerwilson@kpmg.co.nz	Julia Jones 07 858 6553 027 524 8901 juliajones1@kpmg.co.nz	South Island Brent Love 03 683 1871 027 528 1537 blove@kpmg.co.nz

Field Notes

Weekly news update from the KPMG Agribusiness Network – 11 July 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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