

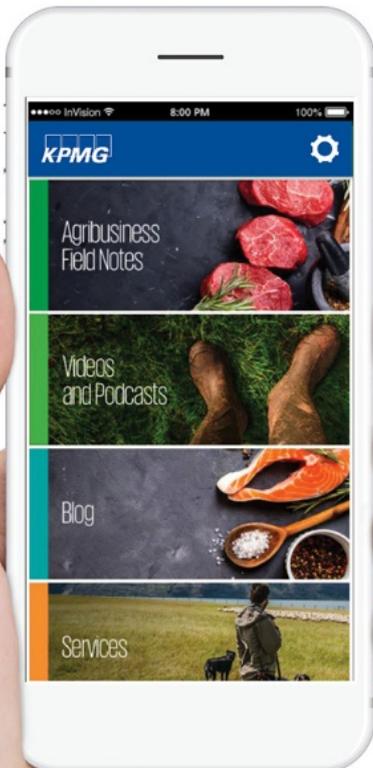


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Agenda 2018**

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

5 September 2018

Organisations referenced in this week's Field Notes include:

Agritech New Zealand	Landcorp
ASB	Massey University
Caprine Investments BZ	Mr Apple
Coca-Cola	New Zealand Redwood Company
Costa	Pamu
Dairy Goat Co-operative	Rabobank
Farm2050	Riddet Institute
Federated Farmers	Scales Corporation
Fonterra	Synthase Biotech
Gold Chick Poultry	Tasman District Council
Greenpeace	The Missouri Cattlemen's Association
King Salmon New Zealand	Tofurky
Kiwibank	Waimea Irrigators
KiwiRail	Wine Marlborough
KPMG	

This week's headlines:

Research and Development	From accident to bold plans – Kiwi biotech company takes science to market [31 August/NZ Herald]
AgriTech	NZ Agritech is officially recognised by globally connected venture capital [3 September/Agritech]
Economics and Trade	Huge China-backed free trade deal could be signed as early as November [3 September/NZ Herald]
Aquaculture	King Salmon showcases giant tyee salmon, records jump in profit [29 August/Stuff]
Goat	New PGP programme to foster high value goat milk infant formula industry [31 August/MPI]



Research and development

From accident to bold plans – Kiwi biotech company takes science to market [31 August/NZ Herald] Waikato based startup, Synthase Biotech, accidentally discovered an enzyme. The discovered enzyme, Aloxyn, could be turned into a weapon against some of the major health and wellbeing issues such as arteriosclerosis, dementia, infertility, and fatty liver disease. The company, Synthase, is aimed to develop and commercialise human drug applications, and fulfil its brand boast of “extending life”. The company also intended to generate income through selling its enzyme product in animal applications after promising results. The enzyme was discovered when taking a latex gene out of a desert shrub in which the enzyme prevented the latex from oxidising. Synthase Executive Director, Andrew West, provided a detailed explanation of the enzyme and how it worked. There are a range of shareholders that have interest in the company. Chief Executive, Greg Moss-Smith, said if it succeeded in raising the \$5 million it required, it would be well positioned to be listed on the ASX in two years’ time.

Dairy

Fonterra set to lower 2018/19 milk price forecast [30 August/NZ Herald] Fonterra is expected to lower its forecast \$7.00 per kg milk price. It legally had to upgrade its price every three months. ASB Senior Rural Economist, Nathan Penny, said based on results since they opened at \$7.00 per kg, a downgrade was almost inevitable. He added the market consensus was around \$6.40 to \$6.50. He noted at that level most farmers would still be in profit. The whole milk powder price was down 10 percent at the latest Global Dairy Trade auction. Milk was Fonterra’s largest input cost and high milk prices could hurt its profitability. Fonterra said at the time that \$6.70 per kilogram was a strong milk price historically.

Water

Tasman District Council votes against Waimea Dam [28 August/The Country] The Tasman District Council voted against the controversial Waimea Dam. It announced the final construction costs had increased, leaving it \$18 million short. Other costs would have pushed the total to \$26 million above the original amount. The council decided the increased costs were unaffordable for ratepayers, and voted against funding the capital shortfall. Tasman Mayor, Richard Kempthorne, said the decision meant the project would not proceed as public consultation could not occur before the 15 December deadline, when the Government would withdraw its funding. He added it was unfortunate the costs were too high, and the council needed to look at other options for resolving water shortages. He said work on finding an alternative would begin immediately. Regional Economic Development Minister, Shane Jones, said the vote was a pantomime of political mannequins and summed up the worst aspects of local body politics.

Council pulls out of dam project [29 August/Farmers Weekly] The Tasman District Council decided to pull out of the Waimea Dam project, with its backers being taken by surprise. The council decided the increased costs were unaffordable for ratepayers. Tasman Mayor, Richard Kempthorne, said it meant the project would not proceed as public consultation could not occur before the deadline of 15 December, when the Government would withdraw its funding. Urgent work on an alternative to the dam to secure the water supply would have to begin immediately. Waimea Irrigators Chairman, Murray King, said the decision would have serious consequences for shareholders and land users. He was shocked at the decision. He believed it was a short sighted response and that councillors who voted against the dam would have to live with their decision that would have far reaching consequences for those living in Nelson and Tasman.

Poultry

Farmer sold millions of caged eggs as ‘free-range’, Commerce Commissions alleges [30 August/The Country] West Auckland egg farm owner, Xue (Frank) Chen, is facing eight charges for allegedly selling millions of caged eggs as free range. He owned Gold Chick Poultry Farm which faced four charges of obtaining by deception and four of making misleading representations. The Commerce Commissions said that while he produced some free-range eggs at his farm, he had also sold millions of caged eggs as free range. It was alleged that he arranged for caged eggs to be purchased and re-packaged in cartons labelled free range. New Zealand supermarkets have committed to phasing out the sale of caged eggs by 2027 or earlier.

Horticulture

Record Mr Apple performance boosts Scales Corp [29 August/NZ Herald] Mr Apple saw its exports rise 69,480 tonnes which helped its parent company, Scales Corporation, achieve a half year profit of \$34.8 million. Scales Corporation Managing Director, Andy Borland, said exports from its Mr Apple business grew 9 percent. He added export demand was strong, particularly in Asia. He noted the return to good growing conditions had been a factor in achieving both a record harvest crop and export volume. Scales Corp agreed to sell its Whakatu coldstore operation and it is waiting Overseas Investment Office Approval. The sale was worth \$151.4 million. Scales Corp Chairman, Tim Goodacre, said the company was pleased to reaffirm its announced EBITDA guidance of between \$58 million and \$65 million.

Volume pushes Scales profit up [29 August/Farmers Weekly] Higher apple volumes and prices increased profits for Scales Corporation. It was waiting for confirmation of its sale of its Polarcold business. All its divisions traded strongly, but Mr Apple subsidiary accounted for around 75 percent of its earnings. An improved growing season meant fruit volumes were much higher. Scales Corp Managing Director, Andy Borland, said the gains in premium varieties were pleasing. Mr Apple revenue increased from \$120.3 million to \$143.8 million, with more than half its sales now in Asia. Under accounting rules, they needed to value all unsold fruit at the half year balance date, and at that time about half of the crop was sold. Most receipts came through later in the year, however, so this would turn around its operating cash outflow. Mr Borland added the last season was a fairly average season. Rainy weather caused quality issues, however higher volumes made up for this. Scales was waiting for Overseas Investment Office approval for the sale of its Polarcold business.

Aquaculture

King Salmon showcases giant tye salmon, records jump in profit [29 August/Stuff] King Salmon Chief Executive, Grant Rosewarne, said its launch of super-sized tye salmon was a success although production remained small. The company had only been able to harvest around 10 per month given the salmon required more space and nutrition than regular salmon, and would grow to around 13 kilograms, being double the size of other salmon. Being a New Zealand success story, King Salmon have taken a premium product and turned it into super premium product. King Salmon had offered the tye salmon to exclusive events around the world where chefs have used it in sashimi dishes, such as a recent function hosting the Japanese Prime Minister. Tye salmon are native to the Campbell River in British Columbia and have a life cycle of around four years. King Salmon are waiting for approval to relocate four fish farms to cooler open sea areas. A final decision is expected in the new year. Mr Rosewarne added the relocation would mitigate warmer temperatures.

Forestry

Shane Jones wants criminals, unemployed to plan trees [30 August/Rural Life] Regional Economic Development Minister, Shane Jones, said people on the dole and criminals could provide some of the labour required to implement the Government's One Billion Trees project. He added if you could get up and go to work, you should be made to do it. He noted the forestry sector needed additional employees to roll out the strategy. The \$3 billion regional development fund would also benefit Tauranga. Mr Jones said there was an outstanding proposal on development of a hub to cope with passengers off visiting ocean liners and that he hoped to help the council sharpen the proposal. He added a percentage of funds was set aside in the fund to improve KiwiRail so it could carry more freight to the Port of Tauranga.

Growing exports of New Zealand Redwood for US market [4 September/Radio NZ] The New Zealand forestry is growing Redwood timber for buyers in California who were not allowed to cut down their own trees. There are around 8,000 hectares of commercial Redwood across 14 locations in New Zealand. Many Redwood forests date 80 to 90 years old. The New Zealand Redwood Company won approval to buy 1,148 hectares of farmland in South Waikato. The company is American owned, so it needed approval from the Overseas Investment Office. Its General Manager, Simon Rapley, said the business had been around since 2001. He added growth rates were higher in New Zealand than in California. Noting that the only significant market for Redwood is California and some other states, the company would work on developing markets in New Zealand, Australia and parts of Asia. Sales to the U.S. would be assisted by environmental rules there that made cutting down Redwoods difficult.

Environment and emissions

Farmers face pressure under climate change legislation [30 August/Radio NZ] Parliamentary Commissioner for the Environment, Simon Upton, said to prevent global warming, methane emissions needed to fall by 10 to 22 percent. Farmers who thought they would get an easy ride in the legislation were unhappy. The report followed intense debate about the impact of methane on climate change. Farmers argued it was short lived and should not be at the forefront of the policy. Federated Farmers said most methane came from livestock, and farming was essential for the economy so it should not be burdened with costs it could not afford and thought the policy should be aimed at carbon dioxide. Greenpeace Sustainable Agriculture Campaigner, Gen Toop, said New Zealand needed to substantially reduce methane emissions from livestock. Greenpeace added the Government should ban all new dairy conversions of farms. The Government recognised the strengths of both sides of the argument.

Viticulture

Wine exports grow by more than \$700 million in less than a decade [29 August/Radio NZ] According to Marlborough, growth in New Zealand wine exports was driven by growth in demand from the U.S. The value of exports had grown by more than \$700 million in less than a decade and volume had doubled since 2009. However, domestic sales of New Zealand wine had fallen. Marlborough's vineyard accounted for 68 percent of the total planted grapes in New Zealand. Wine Marlborough Spokesman, Marcus Pickens, said the strength of the U.S. market was a surprise. Despite this solid growth, they kept a close eye on any fall-out from the existing trade disputes ongoing. New Zealand's productive vineyard area continued to grow, and increased by three percent last year alone. There were now 2,031 vineyards in New Zealand, however the number of growers had dropped. Its biggest challenge was land availability, strain on natural resources, and a growing labour shortage.

Goat

New PGP programme to foster high value goat milk infant formula industry [31 August/MPI] A Primary Group Partnership programme looked to grow a sustainable, high value goat milk infant formula industry in New Zealand has launched. Caprine Innovations NZ is a programme between the Ministry for Primary Industries and the Dairy Goat Co-operative. The goals of the programme is to improve the health and wellbeing of families, targeting consumers in New Zealand and overseas by meeting demand in situations where breast feeding requires supplementation or isn't feasible. The programme was launched by Minister of Agriculture, Damien O'Connor. Dairy Goat Cooperative Chief Executive, David Hemara, said the programme aimed to strengthen the position of goat's milk infant formula as the preferred alternative to conventional formula. The programme would develop innovative tools to enable New Zealand goat farmers to measure and improve performance. MPI Director-General, Martyn Dunne, said the programme expected to deliver a number of benefits and was excited about the difference it would make for the New Zealand goat milk industry.

Agribusiness education

Jeremy Hill appointed Adjunct Professor at Massey University [31 August/Riddet Institute] The Riddet Institute appointed Jeremy Hill as an Adjunct Professor at Massey University to recognise his achievements in the dairy science and technology areas, and his leadership qualities. Riddet Institute Director, Harjinder Singh, said Mr Hill would mentor the food science leaders of tomorrow. He added Mr Hill brought a wealth of knowledge from his extensive career, and was passionate about the critical role sustainable nutrition played in society. He also recognised the opportunity for New Zealand to take a leading role in solving some of the world's significant challenges. He noted the role was awarded to distinguished members of the community that demonstrated excellence, achievement, and leadership capacity. Mr Hill said he was honoured to receive the professorship and opportunity to work with talented scientists to further the role of the Riddet Institute as a global leader in sustainable nutrition.

Red meat

All eyes on the US market for NZ beef producers [3 September/Rabobank] According to an industry report, while global beef prices held up well in the first half of the year, a range of changes in the U.S. market had the potential to affect global beef trade and impact New Zealand producers. In a report, Rabobank said activities in the U.S. were the focus of attention. Its co-author, Blake Holgate, said a number of factors created uncertainty and market volatility in the U.S., and New Zealand producers would need to closely watch developments. He added the main developments that could affect trade were growing supply, a range of protein production, drought conditions, and trade uncertainties. The report said U.S. trade policy was another factor that could impact global beef markets. Mr Holgate noted outbreaks of African Swine Fever in China could also impact markets. The report added prices in New Zealand lifted over the last quarter.

Economics and trade

Huge China-backed free trade deal could be signed as early as November [3 September/NZ Herald] The ongoing trade war and a thaw in ties between China and Japan raised prospects for the world's biggest regional free trade deal. Singaporean Trade and Industry Minister, Chan Chun Sing, said negotiators from 16 likely signatories of the China-backed Regional Comprehensive Economic Partnership agreed on key elements of the deal at a recent meeting. He added they were looking for broad agreement between the leaders. The deal had been under negotiation for years but no deal had been reached. Former director of a research institute under China's Ministry of Commerce, Huo Jianguo, said China needed a breakthrough in the deal urgently. Negotiations were tripped by just how much each country needed to open up its markets. Mr Huo said interim arrangements could allow for gradual opening.

Farmers and producers

Pamu to pay Govt \$5m dividend [3 September/The Country] Landcorp would pay a \$5 million dividend to the Government, being its first in four years. It had an after tax profit of \$34.2 million, which was a 34 percent fall on the previous year. Revenue had grown 7 percent and included a 15 percent increase in livestock revenue. Pamu Chief Executive, Steven Carden, said the result was helped by an upswing in prices for core dairy and livestock businesses, and the continued delivery of Pamu's strategy to move to products that attracted a premium. The focus into the future would be improving the resilience and performance of its core business, ongoing expansion of its forestry portfolio, and development of partnership opportunities. It expected its focus on alternative dairy foods would become a greater contributor to its business over time. Pamu have also recently launched its Pamu deer milk.

Rural communities

Rural areas can keep banks – if govt willing to pay for them [3 September/Stuff] Regional Development Minister, Shane Jones, was told that if he wanted banks to continue to offer branches in rural areas, the Government may need to contribute. He criticised banks for closing branches in provincial towns, and suggested they should be obliged to service rural areas. New Zealand banks made cumulative profit of \$5.19 billion in 2017 according to a survey. Massey University Banking Expert, Claire Matthews, was sceptical of a suggestion that New Zealand profits were used to subsidise Australian operations. One of her colleagues, David Tripe, added most banks local profits were reinvested in New Zealand. Kiwibank had also closed branches in recent years. Head of Banking and Finance at KPMG, John Kensington, noted there was nothing to stop the government-owned opening branches in areas where others closed. He said in other areas of the world where branches were needed but not profitable they existed.

Agri-tech

NZ Agritech is officially recognised by globally connected venture capital [3 September/Agritech] New Zealand has become Farm2050's first country partners when a Partnership Agreement was signed on Friday the 31st of August. Farm2050 is a collective of major global venture firms and agribusinesses dedicated to supporting Agtech innovations, being established by Google Chair, Eric Schmidt, in 2014. Agritech New Zealand would drive the partnership. They had identified a number of areas of potential value to the agritech sector. The agreement would provide New Zealand agritech businesses looking to enter the U.S. market with access to globally connected capital, access to a landing pad at the Western Growers facility in Salinas, access to farms, ranches and orchards across America, and access to major potential agribusiness partners to trial and licence the technology. A nationwide roadshow would be set up in Spring where the opportunity would be explained.

International

Canada rejoins NAFTA talks as U.S. autos tariff details emerge [28 August/Reuters] Mexico's trade concessions on autos and labour rights were praised by Canada's top trade negotiator. She re-joined NAFTA talks, and U.S. lawmakers warned that a bilateral U.S. and Mexico trade deal would struggle to be approved in congress. Automotive executives said the deal allowed Mr Trump to impose 25 percent tariffs on Mexican made vehicles. If he proceeds with the deal, exports would be capped at 2.4 million vehicles annually. Canadian Foreign Minister, Chrystia Freeland, said Mexico's difficult concessions would pave the way for productive talks. They wanted to modernise the North American Free Trade Agreement. Ms Freeland said the concessions would be important for workers in Canada and the U.S. Mr Trump warned he could proceed with a deal with Mexico and levy tariffs on Canada if it did not agree with the revised terms. Mexican Foreign Minister, Luis Videgaray, noted they would work for a three way deal. If a deal was not reached, Mr Trump's administration would proceed with a separate agreement with Mexico.

Missouri becomes first state in US to regulate use of the word 'meat' [28 August/CNBC] Missouri became the first state in the U.S. to have a law that prohibits food producers to use the word meat to refer to anything other than animal flesh. This targeted manufacturers of fake or non-traditional meat. Violators could be fined \$1,000 and imprisoned for a year. A similar argument was arising at the federal level. The meat substitute market was expected to reach \$7.5 billion globally by 2025. The Missouri Cattlemen's Association had cited shopper confusing and protecting local ranchers as a reason for the law. Its spokesman, Mike Deering, said the big issue was marketing with integrity and consumers knowing what they were getting. The company that made Tofurky filed an injunction to try prevent the enforcement of the statute. Mr Deering was surprised by the lawsuit.

Trump says Canada not needed in NAFTA deal, warns Congress not to interfere [2 September/Reuters] President Donald Trump said Canada was not needed in the North American Free Trade Agreement, and warned Congress to not interfere with the negotiations or he would terminate the trade pact altogether. He added there was no political necessity to keep Canada in the new deal. He notified Congress of his intentions to sign a bilateral deal with Mexico, after talks with Canada ended. Lawmakers warned that a deal with Mexico may struggle to win approval from Congress. Support from Democrats would also be required to pass a bilateral deal. Mr Trump threatened to put tariffs on Canadian made cars if they did not join talks to revamp NAFTA.

Coca-Cola CEO reveals rationale behind Costa acquisition – and outlines its strategy for conquering the coffee category [3 September/Food Navigator] Coca-Cola announced its acquisition of Costa for \$5.1 billion, being one of the world’s largest coffee chains. CEO, James Quincey, explained the reasoning behind the acquisition, Costa had 4,000 retail outlets across the UK and 30 other countries. Mr Quincey said coffee was a significant on-trend, fast-growing and profitable category and that Costa was a strong consumer proposition. He added it had a scalable platform to engage with consumers across multiple platforms. The acquisition would help Coca-Cola enter into the largest growing beverage category. Mr Quincey made five key points regarding the acquisition. Namely, he said Costa’s existing presence was proof there was great potential for expansion, Costa would remain connected, rather than integrated into Coca-Cola’s business, it would be a starting point for Coca-Cola to enter the retail category, he added it was a coffee strategy rather than a retail strategy, and it was an opportunity to dive straight in to the top end of the coffee market.

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