



Hot Off The Press:
**KPMG Agribusiness
Agenda 2018**

**The new Field
Notes App is
now available.**

Download now!

Search "KPMG Field
Notes" on your iOS and
Android devices.



AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

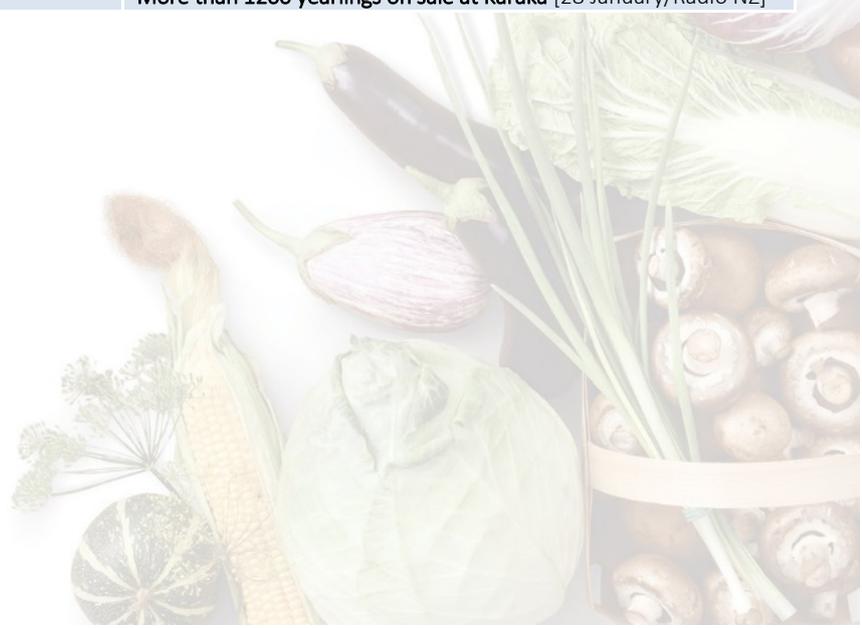
31 January 2019

Organisations referenced in this week's Field Notes include:

ASB Bank	New Zealand King Salmon
Beef+Lamb NZ	NIWA
Dairy Companies Association of NZ	NZ China Council
First Union	NZ Winegrowers
Fonterra Co-operative Group	Rabobank
FoodMaven	Royal A-Ware
Glanbia Ireland	SAFE
Groupe Lactalis	Sarita Orchards
Horticulture Export Authority	Silver Fern Farms
Horticulture New Zealand	Summerfruit NZ
Lancet Obesity Commission	Synlait
Marlborough District Council	The Workshop
Marlborough Garlic	Waikato Regional Council
Meat Industry Association	Westpac
Ministry for Primary Industries	World Trade Organisation
New Zealand Bloodstock	

This week's headlines:

Dairy	Former Fonterra chairman John Wilson dies [28 January/NZ Herald]
Economics and trade	UK veterinary agreement ensures status quo for exporters [25 January/The Country]
Animal welfare	Calls for ban on live animal exports as Europe moves to tighten rules [28 January/Stuff]
Aquaculture	Looming heatwave a worry for Marlborough Sounds marine farmers [25 January/Stuff]
Bloodstock	More than 1200 yearlings on sale at Karaka [28 January/Radio NZ]



Dairy

Former Fonterra chairman John Wilson dies [28 January/NZ Herald] John Wilson, Fonterra's former chairman, has died. Mr Wilson stood down from the top role at the company in July after a serious health scare and Fonterra reported that Mr Wilson, who was in his mid-50s, passed away after a hard-fought battle with illness. He is survived by his wife and four daughters. In a note to the co-operative's farmer-owners his successor, John Monaghan said that the co-op owes John and his family a debt of gratitude for all the time, energy and sheer hard graft he gave as a farmer-owner, inaugural chairman of the Fonterra Shareholder's Council, as a Farmer Elected Director from 2003 and as Chairman from 2012. He added that John always brought dedication, commitment, and deep dairy knowledge to each of the representation and governance roles in which he served. Mr Monaghan said we have lost a friend, colleague, leader and champion for our industry much too soon. Our thoughts and deep gratitude for all that he contributed go to his family and friends.

Synlait follows Fonterra with lower forecast farm gate payout [28 January/The Country] Synlait Milk has cut its forecast payout to farmers for the current season, following Fonterra's lead, as weaker global demand and strong domestic production weighs on market prices. Synlait now expects to pay \$6.25 per kilogram of milk solids for the 2019 season, down from its previous forecast of \$6.75/kgMS. The company noted that achieving the forecast will depend on commodity prices recovering for the rest of the season, something they consider realistic. The GDT price index rose 4.2 per cent, at the last Global Dairy Trade auction on Jan. 16, its fourth straight increase. Chief Executive, Leon Clement, noted that commodity prices had been declining for some time in part due to global demand reacting to very strong production from New Zealand carrying into summer, alongside expectations of better production growth out of the Northern Hemisphere although there were signs of this trend reversing.

Economics and trade

China watchers cautious for 2019 [23 January/Farmers Weekly] The economic slowdown in China and damage from its trade war with the United States could impact prices for New Zealand's major export commodities this year according to analysts. Westpac senior economist Anne Boniface highlighted lamb, noting that Chinese demand for the product appears to have been little affected by the economic slowdown, adding that with trade wars likely to remain a downside risk to the growth outlook and a weaker Chinese currency we don't expect the pace of growth for NZ lamb to be quite as strong over the year ahead. Ms Boniface also noted that Westpac expect record log prices to come under pressure as construction activity in China slows. NZ China Council executive director Stephen Jacobi agrees the China's economy is certainly slowing while being restructured away from investment-led growth into consumption-led growth, but noted growth still remains high. Analysts also highlighted the swing in NZ foreign policy back towards the US and suggested this may leave China disinclined to offer concessions in the proposed free-trade agreement upgrade. Nathan Penny, ASB rural economist, drew attention to positive offsets such as relatively firm household demand in China, a favourable NZ exchange rate and good starting levels for commodity prices. He noted that NZ's meat, dairy and fruit are more exposed to Chinese household demand and less directly exposed to slowing Chinese industrial demand.

NZ agriculture groups urge WTO rescue at global forums [23 January/Radio NZ] Seven major agricultural organisations are urging the government to use forums like the World Economic Forum meeting of global government and business leaders in Davos to try to rescue the World Trade Organisation (WTO). Prime Minister Jacinda Ardern used the WEF meeting to speak about issues like climate change and New Zealand's 'wellbeing Budget' but did not address some of the major challenges facing the global trade system. Seven organisations that cover almost all of New Zealand's primary (the Dairy Companies Association of New Zealand, the Meat Industry Association, Beef + Lamb New Zealand, Horticulture New Zealand, the Horticulture Export Authority, SeafoodNZ and NZ Winegrowers) said the government should also be active in securing the future of the WTO. The groups highlighted that the appeals process of the WTO could collapse this year due to insufficient judges, which would deprive small countries like New Zealand of important protections against bigger countries that might bend the rules of world trade and that resolving the issue requires collective action from developed countries if we are to protect jobs in New Zealand.

UK veterinary agreement ensures status quo for exporters [25 January/The Country] The signing of a veterinary agreement between the UK and New Zealand during the Prime Minister's recent visit to London should provide reassurance to farmers and exporters about trade after Brexit according to Beef + Lamb NZ and Meat Industry Association. In a joint statement, the organisations Chief Executive's said the signing of the agreement meant the sector was assured existing regulations would remain the same, which would help alleviate some of the immediate concerns held by exporters. The veterinary agreement was key to New Zealand's sheep and beef exports to Europe as it established the principle of equivalence of sanitary measures and had reduced many potential trade irritants. Silver Fern Farms' latest update to suppliers said UK authorities would be accepting consignments which had EU certification and documentation for a six month period after the Brexit date and would not be instigating additional custom checks at border ports. It was still expected product flowing from the UK into the EU would face new certification and documentation, as well as tariffs being added to the majority of products. One possible outcome of Brexit is that domestic lamb remained on the UK market to compete with New Zealand imports. That could create price tension, driving returns lower. On the flipside, the lack of product flowing from the UK into the EU - its major market - might create opportunities for New Zealand to supply, although the five-week shipping time made it less able to react with speed to short lead-in times from customers.

Horticulture

Central Otago cherry season par for course [28 January/The Country] As the growing season for cherries in Central Otago draws to a close growers remain happy with their numbers. Summerfruit New Zealand market data as of January 20 indicated more than 1.4 million kg of export cherry sales this year to date, which is considerably down from previous years. The 2017-18 season period export sales totalled 3.6 million. One orchardist in Cromwell described the season as successful while a Roxburgh grower said he was "quite pleased" with the cherry harvest to date. Sarita Orchard manager Matt Blanch, of Cromwell, said there had been an average crop load this season had adding the rain has caused a few issues.

Marlborough maintains its title as home of NZ garlic [28 January/Rural News] Despite losing growing space to vineyards, Marlborough still maintains the title of New Zealand's garlic king, producing about 70% of the country's total crop. John Murphy, chief executive of Marlborough Garlic says the region can't compete against the US and China in volume, but it can excel in quality, pointing to the brix (sugar) level of the garlic as the factor that sets it apart from that grown elsewhere. Ripe garlic cloves in Marlborough hit the 40 brix level, something almost impossible to achieve elsewhere in the world. Mr Murphy says it's hard to tell what the contributing factors are, but believes it's likely to be the same influences that impact on grapes, particularly sunshine, rainfall and soil. Marlborough Garlic has 80ha of garlic under production and harvests close to 7 tonnes/ha. He says this it is considered a reasonable yield worldwide although it is well below the 10 to 12 tonnes grown in other countries. Marlborough Garlic also produces Garlic Noir (Black Garlic) a diversification that Mr Murphy says is vital if they want to stay ahead of the pack, adding consumer research shows that its biggest attribute is its mystique... people don't quite know what it is, but they are absolutely intrigued by it.

Animal welfare

Calls for ban on live animal exports as Europe moves to tighten rules [28 January/Stuff] Following the European Union's decision to implement a ban on live animal exports to countries with weak animal welfare standards, animal rights groups are calling on New Zealand to introduce similar rules. A report recommending tougher rules for transporting live animals was approved last week by the EU Parliament's Committee on Agriculture and Rural Development and will go to a final parliamentary vote next month. The report recommends banning live exports to countries with animal welfare standards lower than the EU's. Its author pointed to New Zealand as a positive example for taking measures to limit live exports, but animal rights group SAFE would like to see New Zealand to follow Europe's lead. Ministry for Primary Industries records show 338,888 live cattle have been exported since 2008. Of those, 372 animals died during transport, giving an average mortality rate of 0.11%, although there was a large shipment of sheep in 2015 to Mexico which suffered a mortality rate of 0.42%. MPI did not have jurisdiction and could not require verification of animal welfare after the animals arrived. Global animal welfare group, World Animal Protection, has also called for an end to live exports, including for breeding purposes, from New Zealand.

Forestry

Here's why no-one wants to plant trees for \$400 a day [21 January/Stuff] Recent reports that there is a shortage of people to plant the trees required by the Government's one billion trees programmes reflect a view amongst many New Zealanders that it is not worth taking on casual roles according to worker advocates. Pay rates in the North Island are up to 60c a tree, or up to \$400 a day if workers plant a tree a minute over 10 hours. Worker shortages have also been reported in the meat, horticulture and pastoral farming sectors. At the end of last year the Government lifted by 1750 the number of overseas workers allowed in for seasonal work under the Recognised Seasonal Employer Scheme. But First Union general secretary Dennis Maga said many of the industries struggling to find workers had previously been staffed by international students, where numbers have dropped significantly. Jessica Berentson-Shaw of The Workshop think tank, said many people decided it did not make sense to come off the benefit for short-term work. She noted people weigh up the entire wellbeing of them and their families and conclude taking a casual role in the primary sector may not leave them better off economically over the longer term once all the costs of moving, travel to work, accommodation and stand downs from benefits have been accounted for. She adds that there is also the mental wellbeing of a person and their family to consider, suggesting expectations on people to take transient short-term work often overlook the importance of the overall wellbeing of a person and their family and the costs to them and society of it. The suggestion is made that as a country we need to find good work that works for people if we want to improve productivity and collective wellbeing over the long term.

Water

Restrictions loom for river irrigators in Marlborough [28 January/Stuff] Record-high temperatures could see water restrictions introduced in Marlborough in the near future. Data indicates that minimum flow rates for the Rai, Waihopai and Wairau Rivers' are rapidly being approached and surface water "takes" were expected to be halted in early February. Marlborough District Council hydrologist Val Wadsworth said it was trying to "forward forecast" on the current rate of flow decline, but it was difficult to be precise. The restrictions when introduced were expected to mainly impact irrigation users, but would include some industrial business. During the last significant drought in the 2014/2015 season, the Wairau River was unavailable for water takes approximately 40 days for some of February and most of March. A Niwa report released in November revealed parts of Marlborough were up to 30 millimetres "drier than normal". The Southern Valleys Irrigation Scheme availability wasn't affected at this stage, but would be shut off at the same time as the other Wairau Class B takes according to spokesperson. Mr Wadsworth said Blenheim's aquifer levels remained healthy at this stage of the season, especially at Rarangi, the Southern Valleys and Woodbourne adding there is no reason for concern yet in terms of very low levels or high salinity.

Aquaculture

Looming heatwave a worry for Marlborough Sounds marine farmers [25 January/Stuff] Marine farmers are "at the mercy of mother nature" as a looming heatwave threatens to lift water temperatures for a second successive year. National Institute of Water and Atmospheric Research (Niwa) are predicting temperatures to rise across the country over the coming week, impacting sea-surface temperatures. The warning comes after New Zealand King Salmon lost more than 1600 tonnes of fish last year, many of which overheated in warmer than usual Marlborough Sounds farms. Over a two week spell in early January, sea-surface temperatures in Marlborough peaked at 19 degrees Celsius, sitting 3 degrees above the long term average. King Salmon Chief Executive, Grant Rosewarne, said 20 per cent of the King Salmon stock did not survive last year. To put the loss in perspective, he explained in the wild situation, it's generally 1 or 2 per cent which would survive ... it's a complete reverse situation. Mr Rosewarne said that in excess of 17 degrees water temperature, there's some level of stress involved on the fish.

Biosecurity

Dirty farm machinery causes spike in velvetleaf cases [25 January/Stuff] Dirty farm machinery has been blamed for a significant jump in velvetleaf cases on Waikato farms in the past 12 months. The number of farms found to have the pest weed jumped from 36 at the start of the 2017-18 farming season to 53. The growth in the Waikato reflects a national trend, Ministry for Primary Industries data indicating that by the end of 2017/18 season there were 1100 affected properties nationally (with plants found on 236 properties and the others having received contaminated seed). The growth in cases was a result of dirty farm machinery used to harvest maize travelling between farms, Waikato Regional Council pest plant team leader Darion Embling said. The affected farms were a mix of commercial maize crops and dairy farmers growing it as a supplementary feed source. To date, areas affected include the northwest Waikato from Mercer north, Matamata-Te Aroha, Otorohanga and Waikeria. Velvetleaf is one of the world's most invasive pest plants, producing seeds that were capable of staying dormant for years before germinating. John Sanson, MPI's Pest Recovery Manager, said he believes numbers would continue to climb over time because it was still early days in terms of its eradication, with the impact assessment showing the pest will have a \$0.5 billion a year impact over time.

Bloodstock

More than 1200 yearlings on sale at Karaka [28 January/Radio NZ] The first day of the annual Karaka bloodstock sales saw almost \$11 million worth of yearlings sold, a very positive start to the week. This week, 1284 horses will go under the hammer, with 70 sold on day one at an average cost of \$150,000. The highest priced horse on day one fetched \$800,000. New Zealand Bloodstock Sales Manager, Danny Rolston, hoped that figure would be topped this week. Savabeel - a sire who has made New Zealand thoroughbred history with a clean sweep of stallion awards for domestic, Australasian and worldwide earnings in each of the past three seasons - fathered 71 yearlings. New Zealand Bloodstock Managing Director Andrew Seabrook said seven of his progeny sold yesterday at an average of more than \$250,000 each. Mr Seabrook said there were also cheaper options and buying as part of a syndicate meant it was possible to put as little as \$500 into a horse.

International

Obesity, under-nutrition and climate change fuel each other – report [28 January/Radio NZ] A new international report is calling for global action over obesity, under-nutrition and climate change. The report which has been prepared by the Lancet Obesity Commission (a group established by the Lancet and co-chaired by Boyd Swinburn of Auckland University) says obesity, under-nutrition and climate change are usually viewed as separate but share "key drivers" and fuel each other. It suggests malnutrition in all its forms, including obesity, under-nutrition and "other dietary risks", is the leading cause of poor health globally, adding that in the near future the health effects of climate change will considerably compound these health challenges. Specifically on obesity, the report says many evidence-based policy recommendations to halt and reverse obesity rates have been endorsed by member states at successive World Health Assembly meetings over nearly three decades, but have not yet been translated into meaningful and measurable change. The report suggests there is insufficient public demand for action to overcome industry opposition and governance reluctance. The report's recommendations include a new global treaty on food systems (similar to those on tobacco control and climate change), redirection of subsidies towards healthy and sustainable foods and energy, a philanthropic fund of USD1 billion to support social movements that demand action and "a seven-generations fund" to research and apply indigenous and traditional knowledge and views about living well while nurturing the environment.

FoodMaven Raises USD10m with Tao Capital and Walton Family for Food Waste Tech [24 January/AgFunder] Food Maven, a Colorado based food waste recapturing start-up, has completed a USD10 million bridge financing round with Tao Capital Partners and members of the Walton Family. Earlier investors include former Whole Foods co-CEO Walter Robb, who joined FoodMaven the day after Amazon dismantled Whole Foods' board. FoodMaven sells high-quality local, oversupplied and imperfect food from distributors, manufacturers and producers to restaurants and institutional kitchens at a significant discount through an online marketplace. They want to change the perception of the 40% of food that goes uneaten each year. Instead of describing it as food waste, FoodMaven wants people to think about it as lost food. As no one wants to buy food waste. Chairman, Founder and CEO, Patrick Bultema, said it has taken time to deliver this message at the restaurant level. The funding will be used to fund a rapid expansion campaign as it gears up for a USD50 to USD70 million Series B round early in the second quarter of this year, according to Mr Bultema. The expansion strategy primarily involves making bolt on acquisitions of mid-tier food distributors as existing food distribution centres provides better speed-to-market. FoodMaven is also investing heavily in technology. Food waste technologies have caught VCs' attention to help detect spoilage in food before it's too late.

Rabobank Lists Scenarios for U.K. Food Under No-Deal Brexit [26 January/Bloomberg] Rabobank's analysts have sought to predict what could happen to British and European agriculture under a no-deal Brexit. Amongst well known effects like faster UK food inflation due to a weaker pound, and spoiled produce due to border delays, the bank listed lesser publicised effects in their report including surplus grain supplies and lower prices if EU biofuel policies are not continued in the UK as there would be less incentive to make ethanol (benefiting livestock feed makers amongst others), changes in the competitive dynamics of the sugar industry and incremental costs for UK companies if UK certified seeds, livestock, and plant variety testing is no longer valid in the EU (and potentially force UK companies to seek for EU authorisation to continue exports). The concerns of the Irish Backstop also featured in the Rabobank analysis, which noted that a hard border with Ireland may make it too costly to take milk, live animals, barley and alcohol across the border, which means companies trading on both sides could be forced to separate their operations.

Fewer than half of consumers trust cannabis ingredients, survey finds [24 January/FoodDive] A Culinary Visions study of 2,000 US consumers found that 45% would trust the safety of such commercially made cannabis products, 42% would rather buy from a smaller company, 29% would trust the quality when bought online, 48% of respondents were interested in trying cannabis infused baked foods and 47% would consume them for the psychoactive effect. Whilst the survey indicates growing interest, it does highlight trust issues with safety and quality. Negative opinions may remain from the drug previously being illegal nationwide - despite now being legal in 33 states and D.C. The industry does suffer from a bad safety record, and badly marketing products as 'miracle cures' - causing concern with the Food & Drug Administration. With growth of the ingredient expected, manufacturers and brands need to tackle negative perceptions, or risk falling behind competition. This survey suggests that this could be accomplished by masking the ingredient's taste, and employing more knowledgeable sales staff.

Royal A-Ware and Glanbia Ireland to build EUR140m continental cheese facility in Ireland [22 January/Dairy Reporter] Netherlands based cheese and dairy company, Royal A-Ware, is partnering with Glanbia Ireland, Ireland's largest dairy processor, to build a new EUR140m continental cheese manufacturing facility in County Kilkenny, Ireland. Scheduled to be opened in 2022 the 450m litres of milk a year facility will produce continental cheeses in various formats and provide around 80 full time jobs, and a further 100 temporary jobs during construction. Jan Anker, chief executive of Royal A-Ware said that this new partnership was another step towards achieving its goals of working with strategic partners to build innovative and sustainable agri-food chains, adding that it gives the company access to additional volumes of high-quality cheese through a local supply chain. Jim Bergin, chief executive of Glanbia Ireland, said the partnership will create a new route to market for Glanbia Ireland suppliers' milk and diversify the company's portfolio of consumer dairy products and ingredients. Mr Bergin noted that since 2014 Glanbia Ireland has invested EUR 343m to facilitate a 42% increase in milk production by Glanbia farmers. First opened in 2015, the Glanbia infant nutrition plant at Belview is currently the subject of a EUR130m investment to install a third drier and expand production capacity.

Lactalis buys Indian and Egyptian companies [23 January/Dairy Reporter] Indian company Prabhat Dairy has agreed the sale of its dairy business to a subsidiary of Groupe Lactalis for INR 1,700 crore. Another Lactalis subsidiary, HALAWA JV Group, has acquired 100% of the shares of Greenland Group for Food Industries in Egypt, which was previously owned by Americana Group. Greenland owns eight factories in Egypt with a workforce of more than 2,000 people producing mainly cheeses. Greenland also owns the only whey production factory in the Middle East. Greenland's annual production capacity exceeds 100,000 tons in dairy foods and juice products, and its products are sold in more than 50 countries globally. Prabhat Dairy said the sale will allow it to further develop its cattle feed business in various parts of the country, as well as expand into businesses such as animal nutrition and animal genetics. It added that the association with Lactalis will provide the dairy businesses with a strong platform for accelerated growth.

Blockchain trialed for sea cucumber traceability in Japan [28 January/SeafoodSource] The distributed ledger technology, Blockchain (originally created in the development of cryptocurrency) is being used by a Japanese government backed organisation to develop food traceability projects, including a tracking tool for sea cucumber. Japan has been a leader in the adoption of cryptocurrency trading and their government continues to encourage the growth by working on regulatory guidelines to approve initial currency offerings. Two uses for blockchain in food traceability have emerged, one for tracking game meat from field to plate; and the other a combination of sea cucumber tracking tool and local tourism scrip. Japan's strict gun control laws, leading to a decrease in hunting, has created a problem with overpopulation of wild game. The populations of wild boar and deer have boomed, resulting in boars damaging crops and deer stripping forest trees of bark. In response, the Japan Gibier [Game Meat] Promotion Association, which oversees the standards for the distribution of game meat in Japan, is creating a blockchain system to record the supply chain of Japanese wild game meat with the goal to drive demand for game meat by increasing consumer confidence in the origin and safety of meat. Blockchain creates a tamperproof record that can be viewed by anyone along the supply chain by scanning a QR code on the product. In the seaside town of Miyazu, Kyoto Prefecture, blockchain technology has also been floated for use in the seafood sector, combining traceability with a larger health and gourmet tourism concept.

Subscribe

To subscribe to future editions of Field Notes please [click here](#).

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 – 31 January 2019

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.

The information provided herein is of a general nature and is not intended to address the circumstances of any individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received nor that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.