

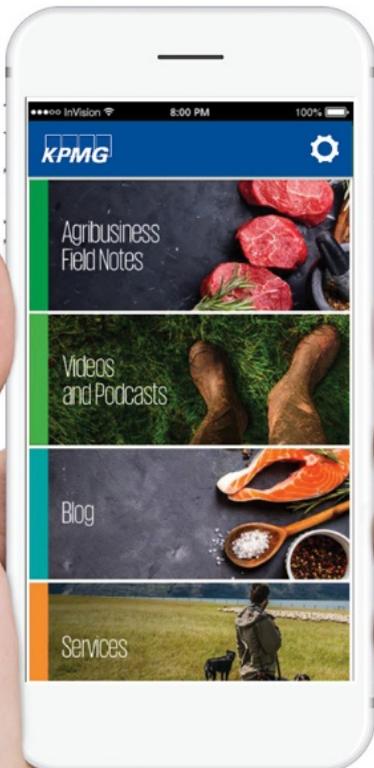


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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

14 February 2019

Organisations referenced in this week's Field Notes include:

AgResearch	Kōtia
ASB	KP Snacks
Asda	Kraft Heinz
Beef + Lamb NZ	Life Pharmacy
Beingmate	McDonald's
Beyond Meat	MiiMOSA
Butterkist	Mondelez
Cadbury	MPI
Campbell Soup	Nestle
Carrefour	New Zealand Plant Producers Incorporated
Carrfields Primary Wool Group	NIWA
CELCAA	NZX
Copa and Cogeca	Pāmu
DairyNZ	Plant & Food Research
Danone	Rabobank
European Union	Sainsbury's
Federated Farmers	Seafood New Zealand
Fonterra	T&G Global
FoodDrinkEurope	UK Hospitality
Forest and Bird	Unichem
Habit	Viome
Impossible Foods	Westpac
IRTA	Yuhan

This week's headlines:

Dairy	Dairy product prices rally, led by milk powder [7 February/NZ Herald]
Dairy	M. bovis costs to add 3.9c/kgMS to levy [12 February/Dairy News]
Fishing	Fishing industry letter to Stuart Nash opposes cameras on boats [7 February/Radio NZ]
Horticulture	New Zealand apple industry under threat from climate change [7 February/Stuff]
Plant producers	'Crisis' for New Zealand's commercial nurseries [11 February/Stuff]



Dairy

Dairy product prices rally, led by milk powder [7 February/NZ Herald] The most recent Global Dairy Trade auction resulted in prices moving higher for the fifth consecutive auction. NZX dairy analyst Robert Gibson said firm demand from Asian countries is likely to have helped to support prices. The key whole milk powder price increased 8.4 percent to USD3,027. The auction results showed that rennet casein surged 10.9 per cent to USD5,596 a tonne, while anhydrous milk fat climbed 5.8 per cent to USD5,579 a tonne. Butter, skim milk powder, cheddar and lactose all increased with only butter milk powder declined, sliding 3.1 per cent to US\$3,158 a tonne. For sweet whey powder, no product was offered or sold, or no price was published for the last event, or on both of the two previous events. Volumes of product sold were 23,236 tonnes significantly lower than the 27,909 tonnes sold at the previous auction.

Fonterra negotiates termination deal for Darnum JV with Beingmate [12 February/NZ Herald] Fonterra has announced that it has taken back full ownership of the Darnum manufacturing plant in Australia, unwinding its processing joint venture with Chinese partner, Beingmate. The exact terms of the separation agreement remain confidential. A Fonterra spokeswoman said the deal had been structured to ensure no cash was paid by the co-operative to Beingmate, adding that the company would remain a cornerstone customer of the Darnum site. They explained that the agreement includes the parties entering into a multi-year supply contract for ingredient supply to Beingmate. With base milk powder sales volumes not meeting the expectations (750,000 tonnes per year, or 51 per cent of the total annual production capacity of Darnum), Beingmate had to pay a fixed compensation fee of about A\$200m. Beingmate decided to withdraw from the agreement and Fonterra was happy to oblige. Fonterra said taking full control of Darnum will give it more options, with the spokesperson noting that the co-operative will be able to look for new partners, improve efficiencies and produce a product mix that creates the greatest value for our farmer-owners and unit holders.

M. bovis costs to add 3.9c/kgMS to levy [12 February/Dairy News] The cost of the response to Mycoplasma Bovis to dairy farmers have been revealed, with DairyNZ announcing it is asking farmers to approve a levy of up to 3.9 cents/kg milksolids over the next two seasons to pay their share of the eradication effort. With DairyNZ's regular levy now 3.6c/kgMS, the proposal is to more than double farmers' total levy payments. DairyNZ emphasises that 3.9c/kgMS is the proposed maximum, chosen so that the bulk of the M.bovis response can be paid for in the first two years and after that substantially decreased. It represents about \$6,100 per year, for those two years, for an average farm milking 430 cows. After the decision last May to move to eradication of M.bovis, the Government estimated the total response cost over 10 years to be \$870 million. The Government would pay \$591m, the dairy sector \$262m and the beef sector \$17.4m. DairyNZ and Beef + Lamb NZ will each apply their own levying regime after consulting with their sectors. DairyNZ chair Jim van der Poel commented that eradication is looking achievable, and partnering with the Government has significantly reduced the costs of managing the M.bovis response.

Viticulture

Challenge ahead for smaller wineries [11 February/The Country] Rabobank's latest Global Wine Quarterly Report has raised a warning for New Zealand's smaller, domestic market wineries which may be finding it more difficult gaining access to distribution channels. Rabobank's Senior Wine and Horticulture Analyst, Hayden Higgins, said the large 2018 global harvest was starting to create a fundamental shift in the availability and pricing of wine, with bulk wine prices starting to ease. Westpac senior economist Anne Boniface said New Zealand grape growers and winemakers had to be able to differentiate their product on a crowded international stage, a challenge made even more difficult as NZ wines tended to be more expensive than some competitors. The industry as a whole has invested heavily in marketing, which was critical for attracting the attention of independent distributors which provided access to large retail networks. Ms Boniface noted larger firms have their own distribution networks, however small wineries producing limited volumes are finding it challenging to gain access to distribution channels. The opportunity to expose tourists to New Zealand wines does present an opportunity she noted. The Rabobank report also highlighted beer consumers in some countries now drinking more wine and spirits and also ageing populations in key markets boosting consumption.

Fishing

Fishing industry letter to Stuart Nash opposes cameras on boats [7 February/Radio NZ] A letter from some organisations in the fishing industry to Fisheries Minister Stuart Nash has raised concerns about the level lobbying the industry is engaging in over putting catch recording cameras on boats. Forest and Bird says that while some in the sector have been publicly happy to consider the idea of putting cameras on boats, behind the scenes they have been fighting hard to make sure it never sees the light of day. The organisation says that at the same time as the seafood industry was placing television adverts last year proclaiming it had "nothing to hide", it was writing to the Minister expressing its "overwhelming opposition" to the idea of cameras on board its boats to monitor fishing activities. The letter, released under the Official Information Act, said its purpose was to "dismiss any suggestion that the 'New Zealand Seafood industry' supports the current proposal". Some of the signatories were redacted but amongst those still visible are managers at Talley's, Sealord, the Federation of Commercial Fishermen and Te Ohu Kai Moana, representing Māori fishing interests. One of the signatories, the head of Te Ohu Kai Moana, Dion Tuuta, said he did not resile from the comments and they were based on the camera proposal as it sat in July last year. Other companies declined to be interviewed but issued statements that the letter is consistent with their public positions that the proposals as they had stood when the letter was issued were potentially unworkable across the entire fleet.

Fishing industry under fire for killing endangered albatrosses [12 February/Stuff] Conservation Minister, Eugenie Sage, believes that the fishing industry is not doing enough to stop killing endangered seabirds. Ms Sage was responding to a report that a longline fishing boat killed five critically threatened Antipodean albatross and she urged the industry to show leadership over bycatch issues. Ms Sage said the deaths had occurred even though the fisher was operating within the existing fisheries regulations for reducing bycatch, adding that the industry needs to explore the use of innovations such as hook-shielding devices to cover the point and barb of the hook when longlines were set so seabirds cannot be hooked and drowned. Ms Sage acknowledged existing measures fishers take to reduce the risk to seabirds include weighting lines so they sink faster, setting them at night, and using bird scaring lines, but despite the use of all three together being international best practice suggested it is obviously not enough. Seafood New Zealand said NIWA had demonstrated that the domestic fishing industry was not the main driver of the decline in albatross population, which was likely mostly caused by captures on the high seas or potentially by unknown environmental factors. The industry was working on a number of projects to reduce seabird bycatch.

Wool

Crossbred wool growers need to 'target the top' [7 February/The Country] Colin McKenzie, CEO of Carrfields Primary Wool Group (CP Wool), says New Zealand crossbred wool is of such quality it could find a place in high-end, value-added market niches. Mr McKenzie said that the markets for these niche products are small and we're never going to see the whole crop used in these segments. He noted CP Wool has been servicing the high-end private jet market, positioning its crossbred fibre products at the top end of the value chain, adding a wide range of different fibres were found within the crossbred wool clip and the challenge was to focus on the unique characteristics of these and pursue niche markets. Mr McKenzie said crossbred wool was a true global commodity and while quality varies considerably, the NZ industry was at the mercy of global cycles. The rapid decline in sheep numbers in recent years does mean output has fallen and he also noted that subdued demand in the north Asian markets had put pressure on prices. Mr McKenzie suggested consolidation, efficiency improvements and more resources in international marketing were needed within the NZ wool industry if the industry is to succeed in avoiding the commodity trap and targeting the very valuable niche opportunities.

Biosecurity

M.bovis alert continues in Tasman as fire fight drags on [11 February/NZ Herald] Biosecurity officials have offered assurances that they are monitoring cattle under quarantine for risk of spreading *Mycoplasma bovis* despite taking all steps possible to protect animals and assure their welfare as the Tasman District fires ravage the region. The Ministry for Primary Industries (MPI) said three properties involved in the eradication effort were in the area affected by fires. MPI officials were working closely with farmers and emergency services to be prepared to move the stock away from other cattle if necessary, adding that the cattle considered at risk of spreading *M.bovis* remained under quarantine and their welfare needs were being met. Latest MPI data shows 23 properties in the South Island are considered infected by MPI, and nine in the North Island. In the South Island there are 45 properties under movement control and 12 in the North Island. Under MPI scrutiny are 137 farms in the South Island and 78 in the North Island. MPI said the value of compensation so far paid to farmers for cattle killed was \$43.8 million.

Horticulture

New Zealand apple industry under threat from climate change [7 February/Stuff] Climate change will threaten New Zealand's ability to grow apples which has prompted scientists to start developing new hot climate varieties. The qualities that make New Zealand apples like Jazz and Envy successful on the world stage are a result of the country's temperate climate, and require cold nights and warm days. Fruit produced in hot climates also don't store as well, affecting their ability to be exported. Plant & Food Research has teamed up with IRTA, its equivalent in Catalonia, Spain, to establish a hot climate breeding programme. T&G Global will commercialise these new hot climate varieties in New Zealand and overseas. As well as safeguarding New Zealand's ability to grow apples in the future, it's hoped some of these new varieties expand the range able to be grown in more marginal regions like Central Otago, or open up new regions entirely.

Research and development

Milk miracle: New Zealand AgResearch scientists eye new baby booster [10 February/NZ Herald] Dr Mark McCann of AgResearch refers to milk as a miracle food as he reflects on the amount of growing a human baby does in the first 1000 days of life is astounding. Mr McCann, a Senior Research Scientist, said one important part of this period was how different organs and systems developed to boost our potential for good health over a lifetime. Mr McCann and fellow scientists have been trying to understand how a recently-discovered and naturally-occurring element of milk, called extracellular vesicles, or EVs, could have a role in how babies grow and develop. One type of EV the researchers are particularly interested in are exosomes, as there is evidence that those derived from milk can not only survive digestion, but potentially interact with the complex biological pathways involved in early life development. Mr McCann said the ability to understand how EVs work provides opportunities to look to how we could naturally enrich or supplement infant foods.

Forestry

Warning for forestry exporters following 'fantastic' record year [11 February/NZ Herald] The ASB Bank is issuing a warning to forestry exporters about to take notice of the global demand for logs beginning to trend downwards despite many experiencing record returns in 2018. An increased market share for New Zealand's exporters, against declining market share for both Canada and the United States, has bolstered the sector's earnings: 2018 exports receipts were up by \$684 million against 2017. ASB senior rural economist Nathan Penny said 2018 had been a "fantastic" year for the sector, and in New Zealand dollar terms, the forestry index was at record levels. Port Otago is predicting the possibility of yet another record-setting year of log exports, or at least coming close to equalling last year's record. However, Penny anticipated that global log demand will fall further, given world economic growth was slowing, particularly in China which is the world's largest importer of logs, and NZ's largest market.

Plant producers

'Crisis' for New Zealand's commercial nurseries [11 February/Stuff] New Zealand plant producers are concerned that their business is being damaged by taxpayer funded prison and community nurseries that are able to undercut commercial operators. Many nurseries have gone bust while those that remain are competing for tenders in an environment where undercutting is common and delivering to timelines requires "magic". This comes at a time when the government's One Billion Trees Programme is earmarked for native tree planting. Landscape architect Di Lucas described the issue as a crisis and noted that while she's thrilled there's a concerted effort to plant more native trees being made by government agencies there are serious concerns about how procurement is being managed. New Zealand Plant Producers Incorporated (NZPPI) CEO Matt Dolan says there needs to be better processes for managing projects and purchasing native trees, adding there are numerous pipeline issues such as poor lead in times for tendering for contracts, prices expected are too low to be economically viable and eco-sourcing demanded but the effort and care required not understood by large purchasers. Growers say price is a deciding factor in who wins the tender and they're a race to the bottom for the industry with prices sometimes dropping to between \$1 and \$2 per plant and there are few conditions in contracts to protect growers, meaning any margin on plants can be quickly eroded if a project runs over by a few months. One grower noted that the social good of prison and community nurseries in teaching people to grow plants cannot be allowed to impact on the commercial growers otherwise the training investment that has been made in the industry over many decades will be lost.

Deer

NZ deer milk to make it to shelves in skincare products [12 February/Radio NZ] New Zealand brand Kōtia is set to launch a range of skincare products it has developed with deer milk this month, something it claims to be a world first. The brand's founder, Queenstown-based Graeme Shaw, said he had spent the last six years focusing on R&D of deer milk harvest and new product development with a network of New Zealand farmers. He said the company had secured distribution deals with two major New Zealand pharmacies and Farmers. Kōtia will be launching first into Life Pharmacy Wilkinson in Queenstown in mid-February and then launching into Farmers, Unichem and Life Pharmacies in March before being released to the world shortly after. Mr Shaw said by 2020, the Asia-Pacific skincare market was predicted to be worth USD81 billion, and he believed there was enormous potential for the brand. In December 2018, state-owned farmer, Pāmu, launched a partnership with South Korea's top pharmaceutical company Yuhan to supply deer milk for the manufacture of skincare, expected to go on sale in South Korea this year. Pāmu also supplies deer milk powder to chefs, who mainly use it in luxury desserts.

Farmers and producers

Nelson bush fire: It started here, but farmer's spokesman says it's too soon to say how [7 February/Stuff] It is believed that a farmer ploughing a paddock in Pigeon Valley, about 30 kilometres from Nelson, could have sparked the Tasman wildfire. Fire authorities confirmed the fire started near Tasman Pine Forests land and Fire and Emergency New Zealand Regional Manager Rural, John Sutton, said it was highly likely that a tractor started the blaze. Mr Sutton believed the owner of the tractor was mortified and stressed it was an accidental event and certainly nothing that anyone would hope to happen. He added it was "almost certain" the fire was caused by a spark from agricultural machinery, noting that there was a tractor towing discs in a rocky field and while he wouldn't say certain he was prepared to say it's highly likely that's how the wildfire started. The fire has spread over 1900 hectares, forced the evacuation of 182 homes, and caused significant damage to forestry. A State of Emergency has been declared in Tasman, and at least one house has been lost, with others yet to be confirmed according to Civil Defence.

Government behind farmers' slipping confidence — Guy [12 February/Dairy News] The January Mid-Season Farm Confidence Survey from Federated Farmers suggest farmer confidence is at its lowest since 2009 during the Global Financial Crisis. National Agriculture spokesperson, Nathan Guy, noted that there are many international issues like Brexit and trade wars causing concern, most of the pessimism results from Government policies. He noted that Minister, Damien O'Connor has ended Government funding for water storage projects, initiated an expensive restructure of MPI, reduced R&D investment and didn't support funding calls for rural mental health support. Mr Guy also notes that other headwinds include proposed restrictions on hill country cropping, winter grazing restrictions, increased union access and the likely recommendation of the Tax Working Group to place a Capital Gains Tax on the family farm. He adds the government seem comfortable increasing farmer's costs and believe that they need to get used to these new expectations while also making it harder to access skilled labour. Mr Guy suggests that the Primary sector, New Zealand's biggest export earner, is currently the biggest loser under the Coalition Government suggesting it not surprising farmer confidence has fallen so significantly.

International

'Burger'? Impossible: Ranchers lobby lawmakers to agree only animal products can be called 'meat': NY Times [10 Feb/ CNBC] As plant based alternatives to meat gain momentum in their share of the market, ranchers, farmers and industry groups in the U.S. are trying to limit the use and definition of the word "meat". Lab-grown and plant based alternatives produced by companies such as Impossible Foods and Beyond Meat have started to move into the mainstream market. The value of the meat substitute market is set to reach USD7.5 billion worldwide by 2025. In the past few weeks, lawmakers in nearly 15 states have introduced legislation to stop these start-ups from being able to call their products "meat". CEO of Beyond Meat Ethan Brown reported that this discussion and public spotlight could actually be good publicity for their company rather than bad as it could ignite discussion what meat really is and if that matters to the customer.

Campbell Soup drops Habit, selling its nutrition company to Viome [07 Feb/FoodDive] Campbell Soups' personalised nutrition company Habit, has been sold to Viome, a healthcare company that uses artificial intelligence. The financial terms of the deal have not been disclosed. Habit was formed in 2015 and up until this point Campbell Soup has been the sole investor and majority shareholder. CEO and founder of Viome, Naveen Jain reported that by combining their insights from the microbiome with Habit's ability to engage the consumer they are able to see more of a complete story of one's overall health. Campbell Soup has also listed its Australian brand Arnott's for sale which has reportedly received interest from both Kraft Heinz and Mondelez. Campbell Soup is reverting to its core soup and snacks operations after falling into debt. Habit was created in order to take advantage of the growing demand for convenient meals. They did this by bringing personalised meal kits to customers' doorsteps based on customer data such as a DNA swab, body metrics and a behavioural survey.

Crowdfunding for sustainable agri-food: Carrefour joins Danone backing MiiMOSA Transition [07 Feb/Dairy Reporter] French retailer Carrefour has announced plans to back the launch of crowdfunding platform MiiMOSA. MiiMOSA aims to provide financial support for the transition to more sustainable agricultural systems such as agroecology and organic farming methods. MiiMOSA helps with the transition between systems and the support of companies such as Danone and Carrefour signify a "paradigm shift" in funding models for agri-food businesses according to Florian Breton, MiiMOSA's founder. In a separate announcement, Carrefour has announced that it will only stock seasonal produce in its Bio stores.

European food makers call for 'special consideration' in event of no-deal Brexit [07 Feb/Dairy Reporter] Representatives of the European food industry met with Michael Barnier, European Union's chief negotiator in order to press for "special consideration" for the industry in the event of a no-deal Brexit. Representatives included those from Copa and Cogeca, CELCAA and FoodDrinkEurope (FDE) and a follow up letter was also signed. The Brexit deadline is on the 29th March and it is becoming increasingly likely that it will be a no-deal. The companies stressed that there needs to be smooth customs and transportation of food and that a no-deal will be very damaging to the food industry. The call for "special consideration" comes from the idea that food products should be prioritised as they are a primary need for consumers. In the joint letter, the agri-food representatives detailed a set of measures related to customs, labelling, food safety and transport which they stated could help soften the impact of a no-deal Brexit as well as asking for Emergency Brexit funds to deal with any unforeseen event and for EU institutions to carefully consider making adjustments to agricultural markets.

Food industry warns Gove on Brexit 'crisis' [11 February/BBC] The UK food industry has threatened to stop co-operating with government policy consultations, saying it is busy trying to stave off the "catastrophic impact" of a no-deal Brexit. The warning came in a letter to Environment Secretary Michael Gove from more than 30 business leaders. The government said leaving the EU with a deal remained its "top priority". The Department for Environment, Food and Rural Affairs admitted the current situation was a "moment of potential crisis" for the industry. Those signing the letter included the heads of the Food and Drink Federation, the National Farmers' Union and UK Hospitality. Members of the various trade bodies include Mondelez subsidiary Cadbury; KP Snacks; and Butterkist popcorn, as well as consumer goods giant Nestle. The firms are urging the government to place a range of current and planned industry consultations on "pause" until the Brexit uncertainty is over, including further curbs on the advertising of sugary foods, a national recycling collection strategy and proposals for a tax on plastic items with less than 30% recycled content. The letter comes just two weeks after major retailers warned MPs that a no-deal Brexit would cause huge disruption to the industry, leading to higher prices and empty shelves in the short-term. Sainsbury's, Asda and McDonald's were among those who warned stockpiling fresh food was impossible, and that the UK was very reliant on the EU for produce.

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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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