



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

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AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

07 March 2019

Organisations referenced in this week's Field Notes include:

ABARES	Ministry of Social Development
Allbirds	Mondelez
Amazon	Motif Ingredients
Arnott's	New Zealand Apples & Pears
Australian Mānuka Honey Association	PGG-Wrightson
Campbell Soup	Quartz Reef
Commerce Commission	South African Citrus Growers association
Deer Industry New Zealand	The Plant Based Foods Association
Environment Defence Society	Unique Mānuka Factor Association
Federated Farmers	US National Milk Producers Federation
Fitch Ratings	Waikato River Authority
Fonterra Co-operative Group	Whole Foods Market
Forest and Bird	
Griffith foods	
Kellogg	
Kuli Kuli	
MetService	
Ministry for Primary Industries	

This week's headlines:

Emerging Markets	Poll shows 75 percent of Māori support cannabis legalisation [03 March/Radio NZ]
Dairy	Fitch puts Fonterra on notice over credit rating [05 March/NZ Herald]
Rural Supplies	PGG-Wrightson takes profit hit [28 February/Otago Daily Times]
Horticulture	Meeting for Hastings locals interested in picking fruit during labour shortage draws a crowd of zero [04 March/Stuff]
Water	Otago farmers may voluntarily restrict water usage due to dry conditions [04 March/Radio New Zealand]



Arable

Wairarapa pea weevil ban could come to an end [28 February/Radio NZ] No pea weevils have been detected in traps throughout the Wairarapa this season, which could note the end of a two-year ban on growing peas. The pest was first discovered in the region in 2016 and there has been a ban on growing peas since, including extra time to ensure the pea weevil has been eradicated. Pea weevil larvae feed on young peas and can ruin crops along with threatening valuable fresh and seed pea exports. In late 2017, 15 pea weevils were found in two sites east of Masterton with the rest of the region found clear. Recent trapping work during the 2018/2019 pea growing season has resulted in no pea weevils found near the Wairarapa. Karen Williams, Federated Farmers Arable Chair stated this was great news for those farmers who took a financial hit in order to eradicate the pest from New Zealand. A governance group which is handling the response will meet at the end of March and discuss how much longer the growing ban needs to remain in place. Figures from before the ban from the Ministry for Primary Industries show before the ban, that the Wairarapa accounted for about 10 percent of New Zealand's pea production.

Emerging Markets

Poll shows 75 percent of Māori support cannabis legalisation [03 March/Radio NZ] A Horizon Research poll for TV Three's 'The Hui' programme found 75 percent of 620 Māori surveyed would vote for legalising cannabis if a referendum was held tomorrow. Of the remaining, 14 percent would vote against and 11 percent were unsure. The poll found those under the age of 55 years were more in favour of legalisation than those older than 55. Tuari Potiki, Chair of the Drugs Foundation reported that this directly contradicts the belief that the issue is solely for those who are white and middle-class. Mr Potiki stated that cannabis is a totally unregulated market which is harming Whānau and wants to see the toughest regulation possible in order to add an element of control. Mr Potiki also spoke around how three times more money and resourcing goes into police, customs and correction than providing treatment, so would like to see this shift as Māori are currently being disproportionately harmed by current legislation. Chloe Swarbrick, Green MP reiterated Mr Potiki's comments and stated how new legislation could allow the disproportionate impact to shift, helping to change issues in the current system.

Dairy

Fonterra takes stake in alternative protein start-up [27 February/Rural News Group] Fonterra Co-operative Group has invested in a minority stake in Motif Ingredients, a US-based food ingredients company developing plant-based or cell-grown animal products including milk. Motif has been established by Ginkgo Bioworks, one of the world's leading organism companies. Motif will use biotech experts to combine genetic science and fermentation technology to re-create and sell animal proteins and food ingredients. Judith Swales, Head of Global Consumer and Foodservice Business at Fonterra reported this move is to ensure the co-operative stays at the forefront of innovation in order to meet changing preferences of customers. Mrs Swales stated that dairy nutrition will always be the core of Fonterra's business but the co-operative is looking at other ways to capture value and provide nutrition especially for future generations as global population continues to grow. Complementary nutrition such as plant, insect, algae and fermentation-produced nutrition is growing and Mrs Swales reports that these can co-exist against animal proteins such as cows' milk in order to meet the world's increasing need for food, especially protein. Jonathan McIntyre, CEO of Motif Ingredients states that Motif will propel the next food revolution to provide the world with more sustainable, affordable and accessible ingredients.

NZMP picks top 5 dairy trends for 2019 [27 February/Dairy Reporter] NZMP, global ingredients brand of Fonterra, has released its top five dairy trends for 2019 based on various global food and nutrition research providers. The trends include digestive wellness, focusing on the public's increasing awareness of microbiome science and its effects on overall health and wellbeing. Awareness has increased demand for products that promote digestive wellness such as yoghurt. The second trend is snacking as an occasion in its own right. Snack items have a share of 40 percent of food and beverage consumption in diverse markets which is increasing the demand for high quality snacks and increased demand. Ethics goes 360 reveals how consumers are seeking ethically sourced and sustainably produced items which are both healthy for the world and for the consumer. Total wellbeing looks how consumers are looking after not just their physical health but also total body, mind and emotional wellbeing. Lastly, adventurous consumption as customers show curiosity and seek new food items. These trends help NZMP to meet consumer's changing needs.

Govt warned over loaning WMP \$10m [28 February/Otago Daily Times] The government was warned that loaning Westland Milk Products \$10 million may set a precedent to other companies to ask the government when they are not able to get a loan from the bank. In a brief from September, released on the Treasury website last week, officials advised Finance Minister Grant Robinson that the decision to loan the money should be deferred until more consideration had been given to when the Crown should act as a lender of last resort to a private company. Despite this, two months later Shane Jones, Regional Economic Development Minister, announced the South Island dairy co-operative would be allocated \$9.9 million. Westland's Chairman Peter Morrison announced the co-operative has entered discussion with interest parties. Mr Jones reported that the contract will include conditions that will allow the Crown to exit in cases of major ownership cases if deemed appropriate.

Fonterra lifts milk-price forecast [01 March/Otago Daily Times] Fonterra Co-operative Group has moved its 2018-2019 forecast up from \$6.00-\$6.30 to \$6.30-\$6.60. Chairman John Monaghan states this is reflective of global milk prices across the last quarter. Global demand has strengthened since Fonterra's last price milk update in December with stronger demand from Asia. Fonterra also revised its forecast earnings down to 15c-25c per share and announced no interim dividend would be paid. Miles Hurrell, Chief Executive of Fonterra reported the main issues impacting returns were challenges in its Australian ingredients and Foodservice's businesses in wider Asia along difficult trading conditions in Latin America. The increase in milk price has also made impact on margins for products. Mr Hurrell mentioned that the aim to reduce debt by \$800 million through portfolio review and asset divestments was on track.

Miles Hurrell appointed Fonterra CEO on a base salary of \$1.95 million [05 March/NZ Herald] Miles Hurrell has been permanently appointed into the CEO position at Fonterra Co-operative Group, with a base salary of \$1.95 million after a six month trial period. After the announcement of Mr Hurrell's appointment, Fonterra's share price rose 3 cents to \$4.28. John Monaghan, Chairman of Fonterra reported that the board is impressed with Mr Hurrell's leadership and commercial skills, specifically performing under difficult circumstances with the company facing financial difficulties. Mr Hurrell has been part of Fonterra since 2000 and has worked globally. Before taking up interim CEO for Fonterra last year he was the CEO of Farm Source. Last year Fonterra posted a net annual loss of \$196 million which moved the gearing ratio up 11 percent to 48.4 percent, being outside the companies comfort level of between 40 to 45 percent. The board has promised to reduce debt by \$800 million this year.

Fitch puts Fonterra on notice over credit rating [05 March/NZ Herald] Fitch Ratings has put Fonterra Cooperative Group on notice over its credit rating, stating its asset sale programme will be important in controlling debt. The international ratings agency downgraded the outlook on Fonterra's 'A' long-term issuer default rating to 'negative', from a previous 'stable' outlook. Fitch said last week's earnings downgrade indicated that Fonterra is facing structural issues, also reporting the suspension that has been placed on the interim dividend along with the ongoing strategic review was a positive for bondholders. Fonterra's review includes the divestment of assets which are not deemed core to the business. The ratings agency said a key rating driver is for Fonterra to make sure it meets its debt obligations before paying higher prices to its shareholder-suppliers. Fonterra acknowledged the warning, saying its earnings aren't satisfactory and a fundamental change is needed to boost earnings capacity and quality. Fonterra has noted the steps it's taking including plans to cut operating costs to its 2016/17 levels which would cut about \$130 million from selling and marketing, distribution, administration and other operating costs to about \$2.37 billion.

Economics and Trade

EU chief talks up free trade deal [27 February/Rural News Group] Phil Hogan, the EU Commissioner for Agriculture and Rural Development is optimistic that a quality free trade agreement (FTA) will be set up with New Zealand before the end of the year. Mr Hogan visited New Zealand briefly last week to discuss current FTA negotiations with three more formal rounds scheduled up until the mid-year. Two major issues that are of concern for New Zealanders are tariff rate quotas (TRQs), affecting access of sheepmeat in the EU and the UK along with geographic indicators (GIs) which mainly affect the dairy industry. Mr Hogan reports that TRQs are more related to Brexit and are an issue for the World Trade Organisation to deal with and that the issue of GIs can be resolved. Mr Hogan reports he is hopeful that Brexit does not fall through and an agreement is made because he says UK agriculture along with industry, jobs and financial services would take a blow if Britain opt out.

Viticulture

Pickers fill the fields as grape harvest begin [03 March/Otago Daily Times] The first day of Autumn marked the first day of grape harvesting in Central Otago. Vineyard staff have been put to work on Quartz Reef's 30ha of fields in Bendigo. Rudi Bauer, Quartz Reef Winemaker said that this is a typical time of year to start harvesting and that the main harvest will occur 20 March for 2019, being late for New Zealand. Grant Rolston, Vinewise Viticulturalist stated regular rainfall in spring had led to more stability for winegrowers, as pressure has been taken off irrigation. Mr Rolston also reported employment issues remaining a consideration as he explained one never knows what the employment situation will be like until later in the season. 40 Masters of Wine members from across the world visited Central Otago last week, which will help to develop the region's reputation on the global stage.

Deer

Spring peak in venison price expected [27 February/Otago Daily Times] Deer farmers can expect to return to a normal pattern of seasonal demand this year, when venison schedule prices peak in spring. Dan Coup, Chief Executive of Deer Industry New Zealand (DINZ) reports that the spring premium rewarded farmers who were able to carry finishing deer through the winter for processing from September to early November. Chilled venison is highly sought after by European customers during their game season. In early February the average schedule price for prime venison stags was \$9.51 per kilogram, about \$2 per kilogram down from its peak in early October 2018 but well above average for this time of year. Mr Coup reiterates the importance of farmers receiving a spring price premium if Europe is to receive the chilled New Zealand Venison it demands. Mr Coup predicts the peaks and troughs throughout the year will be less pronounced due to the success in developing year round markets for chilled venison, especially in North America and under the P2P programme in Europe.

Rural Supplies

PGG-Wrightson takes profit hit [28 February/Otago Daily Times] PGG-Wrightson (PGW) has reported a decrease in profit after its soon-to-be-sold Seed and Grain division delivered an \$8.6 million loss, resulting in first half profits \$320,000. The sale of the division should give PGW a \$210 million cash surplus for the company. Ian Glasson, PGW Chief Executive expects EBITDA for the full year to be similar to last year, in a range of \$20 to \$30 million. Mr Glasson reports conditions in Uruguay remain challenging for the business due to the effects of droughts and floods combined with lower commodity prices. Also stating New Zealand market conditions for the rest of 2019 remains mixed due to the weather-affected spring. Mr Glasson also noted that the country is drier than usual, Mycoplasma bovis remains a risk, along with global trade relations going through a tumultuous time. Damian Foster, Broker for Forsyth Barr stated that both divisions of PGW's Rural Services business faced issues due to wet spring delaying sales along with a settlement claim, where \$1.8 million was not recovered from the purchase of a defective spray. The sale of the Seed and Grain division is considered highly probable, as both the Commerce Commission and Australian Competition and Consumer Commission have given approval for the transaction. Along with the sale, there is to be a non-taxable capital distribution to shareholders of about \$120 million, with details yet to be finalised.

Bio-security

Third fruit fly found in Northcote on Auckland's North Shore [01 March/Stuff] Four Queensland fruit flies have been found on the North Shore, after a third male has been discovered in a trap in Northcote. The Ministry for Primary Industries (MPI) reports they are glad the surveillance is working and that they still have no evidence of an established breeding programme. MPI state that the restriction on the movement of fruit and vegetables will be extended along with other further measures such as extra traps and biosecurity measures at the border. The end of the high risk period for the Queensland fruit fly is at the end of April. After the most recent MPI are also going to continue the biosecurity response in Devonport, even though no more Queensland fruit flies have been found in the area since the first discovery. No more fruit flies have been found in Ōtara, South Auckland.

'M. bovis' found on three farms [05 March/Otago Daily Times] Bulk testing from all dairy farms has confirmed *Mycoplasma bovis* infection on three farm's according to Ministry for Primary Industries' (MPI) latest release. All three farms have previous links to this disease, whilst 51 farms will be further investigated as part of routine surveillance. Extra testing for 50 farms which calved later in the season will also occur due to the bacteria being more likely found after period of stress such as calving. MPI will host meetings for directly affected farmers about the eradication scheme on 11 April in Oamaru and 12 April in Invercargill. Separate meetings will then be held for farmers' under active surveillance, other farmers and members of the public.

Horticulture

Wide interest in Waikato River Authority's \$100m investment plan [27 February/Stuff] The Waikato River Authority's (WRA) \$100 million investment plan into organics has received a positive response from investors since its launch in November. The plan aims to secure the capital to buy 12-18 dairy farms within the Waipa catchment and convert the land into low impact organic dairy operations. This would allow the halfway pollution reduction target to be achieved in the Waipa Catchment's 10 year plan. Bob Penter, Chief Executive for WRA stated he was pleased by the response from investors across the globe and that people have responded from all parts of the dairy supply chain. Mr Penter says the plan is ready to go ahead but warns investors that the funder needs to be prepared to underwrite the bond during the low cash flow period whilst the organic certification occurs. The project has support from the Maniapoto Māori Trust, and upon investor support will be the first large scale environmental impact investment project of its kind in New Zealand.

T&G lifts revenue but profit challenged by weather and tariff issues [27 February/The Country] T&G Global lifted full year revenue 11.2 percent to \$1.2 billion, but weather and Chinese tariff-related challenges saw its net profit plunge 63 percent to \$8.3 million. The international produce division experienced adverse weather impacts on cherry season in Australia and the quality of its grape harvest in Peru. However, operating profit lifted to \$3.1 million due to favourable conditions particularly in the Pacific Islands. In New Zealand operating profit dropped \$8.2 million from 2017 to 2018 due to poor growing conditions for tomatoes and an over-supply in the domestic market. T&G has also sold ENZAFoods, its Kerikeri-based kiwifruit orchards, post-harvest facilities and business assets as it has turned its focus to growing its core businesses which has contributed to total assets reducing by \$50.5 million.

Wool shoe company Allbirds expands into China, eyes three stores by end of the year [01 March/The Country] Allbirds, an New Zealand founded woollen shoe company, is expanding into China with an expected three physical stores in the market by the end of the year. Allbirds already has stores in London, San Francisco and New York, and will open its first store in Shanghai in April and further plans to open two others in Beijing and Chengdu. A spokesperson for Allbirds said the company saw good opportunity in the Chinese market and as part of the China expansion, Allbirds has entered a partnership with e-commerce company Alibaba to have its products sold on the popular Tmall platform. Tim Brown, Founder of Allbirds, reported how the Chinese market has shown enthusiasm for their products.

Flu strikes Hawke's Bay pickers [03 March/The Country] Two overseas workers in the fruit picking community have been hospitalised in Hawke's Bay due to H1N1 influenza outbreak. A Hawke's Bay DHB spokeswoman said there were 71 cases of people showing symptoms of the flu. Richard Bubby, Managing Director of Thornhill Horticultural Contracting confirmed that 31 workers had been off work with influenza-like symptoms last week. The sick workers were all from the Pacific Islands and in New Zealand on the Recognised Seasonal Employer Scheme which allows both horticulture and viticulture employers to hire staff from overseas if there is a shortage in New Zealand workers. The health board is monitoring the situation including working out whether the flu was caught in New Zealand or brought over from another country as well as whether it is purely affecting the fruit picking community or other parts of the region. The pickers had been picking peaches and apples but there is no health risk posed to those who eat the fruit because all fruit is well washed before sale.

Meeting for Hastings locals interested in picking fruit during labour shortage draws a crowd of zero [04 March/Stuff] Zero locals showed up for a meeting in Flaxmere based on gathering fruit picking workers. The meeting was held by the Hastings District Council who paired up with New Zealand Apples & Pears and the Ministry of Social Development to give information after a seasonal labour shortage was announced in February of around 300-400 people. Another information session was held in the Hastings suburb of Camberley and approximately 30 people attended. More sessions will be held in Flaxmere at more suitable times. New Zealand Apples & Pears spokesperson Gary Jones said that with a record crop and low unemployment Hawke's Bay's horticulture sectors were seeking to engage more closely with local communities. Hastings Mayor Sandra Hazlehurst said it was a great opportunity to use the council's Flaxmere and Camberley community centres to bring people together to help with the pipfruit harvest.

Water

Otago farmers may voluntarily restrict water usage due to dry conditions [04 March/Radio New Zealand] Farmers may voluntarily restrict their water use during this week as the prolonged hot and dry weather shows no sign of stopping. While plenty of feed is prepared after a wet spring, local waterways are dropping and water storage starting to decline. Otago Regional Council has reminded farmers that watching water usage may be needed to prevent water takes, expressing concern over low river levels and the impact of this on aquatic life and river plants. Annabeth Cohen, Forest and Bird's Freshwater Conservation Advocate agreed these impacts were a concern and that New Zealand considers how consents around water are given for in the future, as the effects of climate change continue to hit the globe. Parts of the region's water plan are being reviewed at present, as well as permits which allow landowners to take water in parts of Central Otago under mining rights that will cease in 2021. Andrew Patterson, High Country Chair of Federated Farmers reported the biggest issue right now due to the hot and dry conditions is fire. Tui McInnes, MetService Meteorologist stated little relief is in sight with temperatures in the south expected to top 30 degrees.

Apiculture

Hey Australia - keep your hands off New Zealand's mānuka honey [05 March/Stuff] Australians have been accused of taking the term mānuka and diluting the definition of what constitutes the valuable honey. The Australian Mānuka Honey Association (AMHA) was created two years ago to represent producers across the Tasman. The value of New Zealand honey exports is \$350 million a year and expected to rise to \$1 billion in 10 years. Kiwi honey producers have spent three years with the Ministry for Primary Industries developing a definition of what constitutes real mānuka, after reports of producers elevating honey potency through artificial means. Most New Zealand producers sending mānuka overseas, are now getting it tested to this definition. New Zealand's industry is divided on how to proceed, however the Unique Mānuka Factor Association claims to speak for 80 percent of producers (UMFA) which has its own UMF trademark to signify potency of different honeys. The AMHA have reported they tried to partner with UMFA who declined. UMFA last year won a landmark decision in the U.K to register the term mānuka honey for certification trade marking, which the Australians are challenging. The United Kingdom Trade Mark Registry concluded the term "mānuka" was a Māori word used to refer to the plant *Leptospermum scoparium*, and although it is grown in different territories, different names are used in various places.

Farmers and Producers

Eugenie Sage urged to tuck away tens of millions to buy leases [05 March/Stuff] The Environment Defence Society (EDS) have questioned how much the Government needs to get rid of tenure review in the high country, saying tens of millions is needed. Federated Farmers South Island regional policy manager Kim Reilly says the Government's proposed changes could lock up leased land giving lessees significant rights. Federated Farmers worry that ending tenure review removes an important tool for protecting Crown-owned land. Gary Taylor, Executive Director of EDS reported that ideally the government would have established a land acquisition fund before announcing it was planning to get rid of tenure review. The remaining Crown pastoral land consists of 1.2 million hectares in 171 leases and the total amount to be sold is not yet confirmed.

International

Kellogg redesigns its cereal boxes in Europe to reflect 'naturalness' of food [28 February/CNBC] Kellogg has just completed the largest redesign of its packaging in its 113 year history, releasing new packaging for many of its products in Europe. The packaging is said to show the naturalness and history of the cereals. Kellogg is known for cereal such as Rice Krispies, Corn Flakes and Coco Pops. The images on the boxes are no longer overflowing, with the Kellogg logo appearing larger and the name of the cereal as well as the cartoon characters made smaller. This comes after various reports surrounding the sugar content in cereal, particularly in those targeting children. Kellogg reported the packaging reflects a change in consumer preferences. In February, Kellogg posted a loss of \$84 million for the fourth quarter, compared with a profit of \$417 million a year earlier. However, it was reported growth of its cereal market share in the U.K. and France across 2018.

Dairy group urges FDA to crack down on use of terms on non-milk products [28 February/Food Dive] The US National Milk Producers Federation (NMPF) petitioned the Food and Drug Administration (FDA) on 21 February to take enforcement action against non-dairy products using terms that are usually used to reference standardised dairy foods. Since then, 13,000 public comments have been made on the submission. Existing FDA rules require the use of the word "imitation" if they reference a standardised dairy item but do not have the same nutritional value. Tom Balmer, NMPF Executive Vice President reports that there is a need to solve this issue as many companies are not following current FDA rules and calls for proper disclosures to be made on products. If the petition is successful, plant-based alternatives will need to convince FDA they are nutritionally equal to their dairy-based counterparts and depending on the outcome, possibly change their labelling accordingly. The Plant Based Foods Association says that the outcome could damage the growth of the plant-based food industry. Non-dairy milk sales rose 9 percent to \$1.6 billion in the year ending June 2018, whilst cow's milk sales dropped 6 percent.

Superfood Product Start-up Kuli Kuli Closes \$5m Series B to Sell Moringa as an Ingredient [28 February/AG Funder News] Kuli Kuli has closed a \$USD 5 million (approx. NZ \$7.3 million), led by Griffith foods and eighteen94capital, Kellogg's venture capital fund amongst other smaller investors. Kuli Kuli manufactures and distributes moringa, a superfood which is the fastest growing green supplement, with 3 percent penetration in US households. The superfood includes nine essential amino acids including high levels of iron, calcium and vitamin A. The company will use the funding to launch a new moringa ingredient business as well as continue to scale its moringa powder, bars and shots business. Griffith foods will be a strategic investor as it plans to include moringa in its range of ingredients offerings.

Trump Asks China to Immediately Remove Agricultural Tariffs [02 March/Bloomberg] US President Donald Trump has asked China to immediately remove all tariffs on US agriculture after he refrained from increasing US tariffs on Chinese goods to 25 percent last week. This signalled the countries were getting closer to agreement. China last year introduced retaliatory tariffs on certain American agricultural products and if these were removed would result in a boom for US agricultural products after the agricultural economy has suffered due to falling crop prices. Greg Crow, Director of Agribusiness at Archer Financial Services reported that the industry needs confirmation of a deal, not just simply more speculation and updates surrounding the discussion between the two countries. U.S. Trade Representative Robert Lighthizer stated that more work needs to be done and that administration won't accept a deal that doesn't include structural changes to China's state-driven economy. Mr Lighthizer also reported the need for an enforcement mechanism, allowing the U.S. to take unilateral action if China breaks the rules.

Drought wipes billions from Australian farm production [04 March/ABC News] The value of farm production in Australia has fallen to \$58 billion from \$63.8 billion two years ago. The latest commodity report released by Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) found improved commodity prices and a low Australian dollar had softened the decline, largely been driven by drought. Livestock product volume dropped by two percent and ABARES also noted that floods in Queensland could further reduce the volume of live cattle exports. Despite increasing risks to trade, it forecast a recovery in the value of Australian agricultural production in 2019–20 to be worth around \$59 billion, if seasonal conditions improved. ABARES reported 75 per cent of dairy farmers, and half of all broadacre farmers were expected to receive a lower income in 2018–19 compared to last year. Dairy farm incomes fell by more than \$67,000 on average which ABARES attributed to the high cost of production, including feed and water prices and a drop in forecast milk production. The average farm income for sheep properties increased from \$131,600 per farm in 2017–18 to \$142,000 in 2018–19.

Report: Ferrero and Mondelez seen as frontrunners to buy Campbell Soup's Arnott's [04 March/Food Dive] According to the Australian Financial Review, there are less than three weeks to submit bids to buy Campbell Soups' Arnott's cookie brand. Arnott's, the largest biscuits player in Australia, is selling more than six times the next biggest competitor Mondelez. Ferrero is also a candidate for the acquisition after reports they are looking outside candy into purchasing snack companies. Mondelez is looking at acquiring the brand which is thought to be up for sale for about \$3 billion. A private equity interest is also interested and if sold to them it would mean an infusion of cash and likely a board of advisors. Last year, Campbell Soups' former CEO Denise Morrison abruptly resigned. Denmark-based Kelsen Group who makes Royal Dansk cookies is also being sold along with the sale of refrigerated soup brand Garden Fresh Gourmet. Arnott's as a brand is growing as sales grew from \$708 million in the first quarter of 2018 to \$1.24 billion in the first quarter of 2019. Despite the growth, the divestment is meant to tighten Campbell's portfolio.

Amazon's grocery stores may push seafood changes [04 March/Seafood Source] Amazon is planning to open dozens of full sized grocery stores across the US allowing them to offer a wide variety of products which will threaten existing grocery stores due to Amazon's lower cost items. Seafood is expected to be able to mix-and-match in meal portions according to Steven Johnson from Foodservice Solutions which will allow customisable meal sizes. Mr Johnson suggests that in order to compete, other retailers should consider carrying more grab-and-go items along with pre-packaged meal components. Amazon is known for its incredibly fast service on a wide range of items. The first Amazon grocery store could open later this year in Los Angeles whilst Amazon is also considering opening at least 8 more stores across the US in 2020. Amazon currently has 10 Amazon Go stores in operation, which are 1,800-square-feet compared to the 35,000-square-foot full sized grocery stores that will be opening. Amazon is also taking a different approach this year with its newly-acquired property Whole Foods Market converting all value-based, smaller-format Whole Foods 365 stores into regular Whole Foods stores according to Yahoo Finance.

World lemon production under the spotlight [04 March/Eurofruit] The South African Citrus Association have released figures showing that two of the top producers of lemons, Italy and China, do not export their lemons. China is both on the 10 largest producer list as well as the 10 largest importer list. Many EU countries feature high on the importer list. Argentina and Spain are continuing to dominate world lemon production producing 1.68 million tonnes and 1.16 million tonnes respectively. Spain, Turkey, South Africa and Chile are heavily dependent on exports as over 50 percent of their production is sent overseas. For example, South Africa produces 309,000 tonnes of lemons and exports 237,000 tonnes, around 77 percent of their lemons.

M&S beef traceability pays off: Boosted sales and 'dramatically' reduced complaints [04 March/Food Navigator] UK-based Marks and Spencer (M&S) report it is the only retailer nationally to be able to trace every piece of beef back to its origin. Seven years ago, M&S implemented a DNA sampling system across its beef supply chain to ensure traceability, verifying breed profiles and maturation specifications. Steve McLean, Head of Agriculture and Fisheries states he has seen beef sales rise and customer complaints by two thirds drop as a result due to traceability which has reduced mistakes by M&S. M&S now have two projects in place towards extending its DNA processes including DNA programmes to allow breeding regimes which will improve eating quality as well as introducing traceability against its shrimp supply chain according to Mr McLean.

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Field Notes

Weekly news update from the KPMG Agribusiness Network – 7 March 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.

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