



AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network



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30 July 2020 – This week's headlines



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Can-do farm installs methane-run generator [22 July, Yvonne O'Hara, NZ Herald]

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NZ Agri-food has a promising future, but don't forget tax

The typical kiwi food entrepreneur dreams of creating a successful product. That dream and the definition of success is usually not confined to New Zealand, it includes being successful in much larger consumer markets like China or the US. For many larger agri-food companies the goal is to improve margins and growth by moving up the value chain from selling commodity like products to value-added branded consumer products.

Whether you are a smaller entrepreneur just starting to expand offshore, or a larger agri-food company with operations around the globe, the international tax implications of operating outside New Zealand would be ignored at your peril. International tax is complicated. Complacency can get you entangled in a tax audit in one or more countries, which will consume a lot of time and energy that would better be focused on more productive areas of your business.

Tax is relevant to the COVID-19 pandemic. Tax authorities are already starting to release guidance on how to treat COVID subsidies and incentives for transfer pricing and international tax purposes. As the pandemic transitions from a health crisis to an economic crisis, you can expect substantial Government stimulus and debt to be announced to counter the economic headwinds (as we've seen in New Zealand). How will Governments pay back this debt you ask? Tax.

Recent history

After the 2008-09 Global Financial Crisis (GFC), Governments around the world were hungry for tax revenue to recoup their losses. This sparked the global conversation around companies needing to pay their fair share of tax, tax morality and the removal of intricate tax-focused corporate structures. What followed was the OECD's Base Erosion and Profit Shifting (BEPS) project, which has brought about significant changes in the international tax framework.

New measures

At the start of 2020 even before the COVID crisis, the OECD outlined an aggressive timeline to reach consensus on new rules to tax the digital economy by the end of the year – labelled BEPS 2.0. The proposals included a seismic shift in how these multinational companies would be taxed, and they also extended to consumer facing branded products (including agri-food products). While this work has been delayed due to the pandemic (which brings a separate set of challenges), the stakes are high enough that it won't be delayed for long.

On top of BEPS 2.0, as we now enter the economic phase of the COVID crisis, tax authorities around the world will start turning their attention to multinationals. Those industries broadly labelled “winners” of the pandemic can especially expect to garner attention, and the list of winners typically includes agri-food.

Takeaways

The importance of international tax for the small kiwi entrepreneur or the large multinational agri-food company was there before the COVID crisis. Now it is heightened. We expect that agri-food companies (especially those selling branded consumer goods) will be impacted by the BEPS 2.0 work, and equally so all agri-food companies could be easy targets for Governments and tax authorities that begin to focus on how they repay debts incurred during the crisis. It is worth considering tax now, including what these new measures mean for your business, to minimise the amount of time and energy you'll need to spend on it later. We are expecting to hear more in the next couple of months from the OECD, so watch this space.

Kyle Finnerty

Director, Tax
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Agribusiness

[Musselling in on flower grower](#) [28 July, Farmers Weekly]

Aroma NZ, the country's largest green-lipped mussel health food company has purchased Moffat's Flowers, one of New Zealand's largest flower growing companies. Aroma Director Ben S Winters stated that the company is in the process of commercialising a new botanical extract derived from flowers, which will use about 0.5ha of just over 2ha of flower growing area for the new product, but will maintain the existing flower business which includes 35 varieties of roses.

[Rabobank Rolls Out World-First Virtual Rural Property Valuations Technology In Australia](#) [29 July, Which-50] Rabobank has released a technology that allows start-up Digital Agricultural Services (DAS) to provide virtual property valuations in Australia. The technology 'The Rural Valuations Hub' gives a detailed set of information to Rabobank for enabling a property appraisal. With 90% of their staff working from home over lockdown, the new digital service has been designed to improve the bank's efficiency, while also providing a solution that may be scaled to other markets.



Agribusiness Education

[Campaign to highlight ag careers](#) [28 July, Farmers Weekly] The Government has announced NZD\$19.3 budget allocation to a campaign called 'Opportunity Grows', a website and marketing campaign with the goal of attracting 10,000 people into careers in the food and fibre sector by 2025. Work opportunities that are planned to be advertised include traditional farming roles through to science, technology and business positions.



Agri-Tech

[Fieldays Online: MagGrow wins International Innovation Award](#) [29 July, NZ Herald]

The 2020 Fieldays International Innovation Award has been won by MagGrow, an agritech company from Ireland. MagGrow's crop technology reduces spray drift to minimise pesticide wastage while increasing efficiency and output. The technology can be used on both existing or new sprayers and works through a two-component magnetic field system.

[CropLogic put into voluntary administration](#) [28 July, NZ Herald] CropLogic, a New Zealand Agri-technology company was unsuccessful in recapitalising the business and has appointed voluntary administrators. A trial hemp farm crop failure in addition to decrease in CBD hemp price and covid-19 disruptions were all stated to have negatively impacted the operations and financial situation.

[Announcing The 11 AgriFoodTech Startup Finalists Competing For The \\$100K Future Food Asia Award 2020](#) [26 July, Scoop] The Future Food Asia 2020 conference is scheduled for September and will provide an opportunity for 11 agrifoodtech finalists to present their innovation in front of investors. The winner will receive a USD\$100,000 Future Food Asia award with finalists including companies from across Asia, in addition to the US and Australia.

[Meet the AI start-up helping Nestlé, Barilla, and Mondelez cut production waste](#) [24 July, Food Navigator] A start-up based in Israel 'Seebo' has developed a technology solution using artificial intelligence to reduce food waste through the production line. The business raised USD\$31m to support its ongoing growth as it seeks to cut waste through prediction and prevention using a software solution that can collect data from multiple sources and identify opportunities for efficiency improvements. Seebo already has large customers such as Nestle and Mondelez.



Alternative Proteins

[\\$1.1B invested in alternative protein in 2020 so far doubles 2019 totals, report shows](#) [28 July, Food Dive] According to a recent report released by FAIRR has shown that over USD\$1.1b has been invested in alternative proteins for the first half of 2020, which is more than two times the level of investment for the 2019 year. According to FAIRR's ranking system for protein diversification, Unilever and Tesco have scored the highest as 'pioneers in the movement'. It was noted that Unilever opened The Hive - a USD\$94m plant-based food innovation centre in Netherlands during 2019.

[Sizzling sensation: Alibaba, Beyond Meat and Danone rooting for plant-based innovation in China](#) [27 July, Food Navigator] A joint innovation contest launched by ProVeg International and the Shanghai Society of Food Science will look to accelerate plant-based food development. With a 13-15% annual growth rate in plant-based meat sales and 70% of consumers indicating an intention to reduce meat intake, the alternative protein market in China is expected to continue to grow. The contest is open to students in Shanghai and partners with nine established food and beverage companies including Danone and Beyond Meat.



Apiculture

[Science sweetens native honey health claims](#) [28 July, NZ Herald] The honey of two Australian native stingless bees has shown to have up to 85% trehalulose sugar content. Trehalulose is a rare sugar which contains a low glycaemic index making it good for diabetes, in addition to being acaricogenic which means it doesn't cause tooth decay.



Dairy

[Fonterra wins right to refuse suppliers](#) [26 July, Stuff NZ]

Amendments to the Dairy Industry Restructuring Act have been passed through parliament and will change the restrictions that have been placed on Fonterra Co-operative Group over the past 20 years. Fonterra will now have the right to reject milk from new dairy farm conversions or farmers that don't meet standards, in addition to no longer having to supply milk to competitors. Changes will begin to become effective from June 2022 and amendment to open entry will be implemented from June 2023.

[Carbon zero milk](#) [22 July, Rural News Group] Fonterra Co-operative Group have launched a certified carbon zero milk range 'Simply Milk' in a joint project with FoodStuffs North Island. The carbonzero certification has been achieved by purchasing carbon credits for domestic and international projects that offset emissions of producing the milk. One project includes regenerating 7.5 square kilometres of native forest near Kaikoura.



Environment & Emissions

[Can-do farm installs methane-run generator](#) [22 July, NZ Herald] A biogas conversion project at Glenarlea Farm, Isla bank has been set-up to convert methane from dairy effluent emissions to electricity for powering the milking shed. In addition to mitigating greenhouse gas footprint, the generator saves farm owners NZD\$7.11/hr that the motor is running, less \$1.44/hr for maintenance costs. The farm is owned by the Fortuna Group, and the project has been overseen by consultant John Scandrett since November 2016.



Farmers & Producers

[Farmer confidence hits lowest levels since 2009 in wake of Covid-19](#) [24 July, Stuff NZ] A survey report commissioned by Federated Farmers and representing responses from 1725 farmers has highlighted three key concerns amongst farmers. The economic situation, regulation and compliance costs and farmgate and commodity prices were the top three concerns at 15.6%, 15.3% and 11.1% respectively. The number of farmers expecting economic conditions to worsen has increased from 20% to over 50% from similar research conducted six months ago.



Horticulture

[Continued growth for the mighty avocado industry](#) [28 July, Voxy] Funal 2019-2020 results for the New Zealand avocado industry have demonstrated increased volumes and value. A total of 3.8 million 5.5kg trays were exported (26% increase on previous year), and total industry return was NZD\$154m (\$10m increase on previous year). Other industry positives include the season being a first in many years were a sustained avocado supply was delivered by growers, and a further 120 avocado properties were registered between May 2019 and May 2020.



International

[The \\$300b agribusiness plan to pump up the economy](#) [24 July, Australian Financial Review] An Australian Agribusiness State of the Industry report has highlighted that the industry is not on track to reach its AUD\$100b farmgate target by 2030. However, a meeting of over 50 top companies organised by Agribusiness Australia concluded that the industry believe the sector is able to hit this target and support the economy as the country reaches its record peacetime debt. Foreign investment throughout the supply chain was a key area of

opportunity identified, but maintaining community understanding and a level of control is important.

[UK set to bring in strict new junk food rules including pre-9pm ad ban](#) [23 July, The Guardian] The United Kingdom Government plans to place new restrictions on the advertisement and sale of junk food, which are targeted to reducing the obesity levels of the country. Proposed rules include a ban of online adverts and TV commercials before 9pm, though TV broadcasters have stated that the ban could reduce annual revenues by GBP200m. The focus on obesity has increased due to the evidence of its role in exacerbating the effects of Covid19.

[Amazon takes on supermarkets with free food delivery](#) [28 July, BBC] Amazon Fresh has announced it will be providing free next-day delivery service for online grocery orders to customers in London and parts of the Home Counties. The company has also stated that it intends to expand this to other cities in the UK by the end of 2020. The online grocery market which has almost doubled over the Covid-19 pandemic has strong competition with businesses such as Ocado.

[Food innovations from industry collaboration](#) [27 July, Food Processing Australia] A recent report by Food Innovation Australia Limited highlights the significant success some Australian Agribusinesses are realising through collaboration. The fifth edition of 'Celebrating Australian Food and Agribusiness Innovations' features 45 innovative products such as medicinal mushroom lagers and roasted pulse snacks, all developed through 'clusters' or geographically-linked companies working together. A digital version of the report can be downloaded at: <https://fial.com.au/celebrating-innovations-book>.



Policy & Regulation

[Greens commit to a ban on factory farming in new animal welfare policy](#) [24 July, Stuff NZ] The New Zealand Green Party have announced during a recent panel discussion that a ban on factory farming will be included in the Party's animal welfare policy. The Green Party say that the ban aligns with interests of the New Zealand public where 76% of New Zealander's surveyed were opposed to factory farming in a Colmar Brunton poll. Minister Damien O'Connor, National MP David Bennett and New Zealand First MP Mark Patterson did not commit to a ban on factory farming while involved in the same panel discussion.



Red Meat

[Silver Fern repays \\$43.3m wage subsidy](#) [24 July, Farmers Weekly] After a mid-April net profit announcement of NZD\$70.7m, Silver Fern Farms has now paid back the NZD\$43.3m it received as a wage subsidy from the government. The company also declared a NZD\$12.4m dividend payment to the shareholder co-operative. Despite Covid-19 disruptions, Silver Fern Farms has been able to retain all 7000 employees across the country.

[The great goat meat price mystery](#) [29 July, Rural News Group] According to goat industry expert Garrick Batten, goats are being under appreciated and underutilised in New Zealand pastoral systems. Mr Batten explains that traditional accounting mechanisms undervalue the contribution of goats to farm management and profitability, such as increasing clover content, decreasing weeds and lower management costs. Mr Batten also stated that using the Red Meat Profit Partnership KPI of biological efficiencies, goats perform much higher than cows or sheep, with 75-100% efficiency in goats, compared with an average of 33% and 57% in cows and sheep respectively.



Research & Development

[Soil your Undies research underway](#) [22 July, Farmers Weekly] A new soil research programme being undertaken in Otago will involve participants burying 100% cotton underwear in the ground for two months. The underwear are then retrieved for an earthworm count to provide an indication of soil health, while also looking at dung beetle's role in the ecosystem. Project partners include Beef and Lamb New Zealand, AgResearch and several Otago education and environment groups.



Rural Communities

[Farmer workshop for staying positive under pressure](#) [24 July, NZ Herald] A new online workshop 'Know your mindset. Grow your influence' will be launched by Beef and Lamb New Zealand and Agri-Women's Development Trust this August. The free workshop, supported by Farmstrong and Ravensdown will be conducted through two interactive sessions on the 12th and 19th of August and focus on the science of psychology in relation to farming businesses.



Trade & Exports

[A ticking time bomb](#) [28 July, Rural News Group] A China dairy market consultant Jane Li has identified that Chinese-owned companies are re-packing formulated milk powders and selling them as supplements for infants and toddlers in the Chinese market. Mrs Li states that these products are not safe for infants due to protein toxicity and are a risk to New Zealand's reputation if harm occurs. Li believes the Ministry of Primary Industries should investigate these products and enforce a labelling of 'unsuitable for infants' "big processors like Fonterra, Synlait and Open

Country Dairy aren't making such products. They are smaller, predominately Chinese-owned and operated factories here who are exploiting regulation loopholes to make these low-quality products to pass off as high-quality NZ products in China"

with consumer expectations and will move the company's production from just over 50% wool, to all-wool. After the strategy announcement, Cavalier Corporation's share price rose to 27c, up 5c from the announcement, and 11c up from a price trough of 16c in March.



Viticulture

[Canterbury winegrowers well-placed to weather climate change](#) [29 July, Stuff NZ] Bragato Research Institute have commissioned NIWA to model climate change scenarios around seven wine growing regions of New Zealand. The research showed a 0.5-1.5 degree Celsius rise in temperature by 2040 for Canterbury's wine growers, but it is not expected to negatively impact the industry according to Bragato Research Institute's viticulture extension and research manager Len Ibbotson who believes winegrowers are in a strong position to be resilient and cope with change.

[Funding to expand Blenheim's wine research hub](#) [28 July, Stuff NZ] The Marlborough Research Centre is matching NZD\$3.79 million Provincial Growth Fund (PGF) loan with a further \$3.79 investment to build Te Whare ā Waina Aotearoa/the New Zealand Wine Centre. \$2.8m of the Centre's funding is through a bank loan which is guaranteed by The Marlborough District Council. Chief Executive of Marlborough Research Centre Gerald Hope expects that the loan will be able to be paid off with industry investment, and if industry continues to invest annually for five years, the PGF loan is also written off.



Wool

[Cavalier to cut synthetics, goes all-wool](#) [27 July, Farmers Weekly] Cavalier Corporation, who operate in the soft flooring market from New Zealand and Australia while exporting across the world, have committed to 100% wool and natural fibres in their carpets and rugs. The company's Chief Executive Officer Paul Alston believes this transition is aligned

Organisations referenced in this week's Field Notes include

AgResearch
Agri-Women's Development Trust
Amazon Fresh
Aroma NZ
Beef and Lamb New Zealand
Beyond Meat
Bragato Research Institute
Cavalier Corporation
CropLogic
Danone
FAIRR
Federated Farmers
Fieldays
Fonterra Co-operative Group
Food Innovation Australia Limited
FoodStuffs North Island
MagGrow
Marlborough District Council
Ministry for Primary Industries
Moffat's Flowers
NIWA
Ocado
ProVeg International
Rabobank
Seebo
Shanghai Society of Food Science
Silver Fern Farms
Tesco
The Marlborough Research Centre
Unilever

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