



AGRIBUSINESS

Field notes

Weekly news update from the KPMG Agribusiness network

KPMG

17 April 2013

Organisations referenced in this week's Field Notes include:

AsureQuality	McCain Foods
Auckland University of Technology	Plant & Food Research
Beef+Lamb New Zealand	
Canterbury University	Potatoes New Zealand
Certified Organic Kiwifruit Growers Association	Ravensdown
DairyNZ	Talley's Group
Department of Conservation	Vegetables New Zealand
Federated Farmers	Viticulture Central Otago
Fonterra Co-operative Group	Waikato District Council
Gallagher Group	Westland Milk Products
Ministry for Primary Industries	World Farmers Organisation
Miraka Dairy	Zespri

This week's headlines

Horticulture	Static potato yields prompt research [12 April/ Rural News Group]
Forestry	Deforestation intentions soar with carbon prices low [15 April/ NZ Herald]
Meat	Meat reform lobby seeks farmers' support in writing [16 April/ NZ Herald]
Farms and farmers	Life on the farm: high pay, low costs [15 April/ NZ Herald]
Economics and trade	Food prices slide 1.3% in March as fruit, vegetables, groceries fall [12 April/ National Business Review]

Animal Health and welfare

Facial eczema threat soaring in some areas [15 April/ Radio NZ Rural] Facial eczema in livestock is on the rise on North Island farms following the rain that eased the recent drought conditions in the area. Until the recent rain, the widespread drought conditions had kept the infection rates of the fungal disease at bay. However, the wetter conditions have now caused facial eczema spore counts to rise rapidly in many areas. The spore counts are now at a level which is considered to be dangerous, AsureQuality field technician Leo Cooney said that Northland, the Bay of Plenty, Waikato, Taranaki and the lower North Island including Manawatu and Horowhenua have all been identified as areas with very high spore counts. Mr Cooney said that farmers should be keeping a close watch on spore counts especially within the areas that are traditionally affected by the facial eczema disease.

Biosecurity

Growers and DoC work to eradicate butterfly pest [12 April/ Radio NZ Rural] A voracious new pest that is threatening brassica crops has the direct attention of vegetable growers and the Department of Conservation as they aim to eradicate the pest's presence. Nelson City was the first area identified as being the home of the great white butterfly in 2010 and it is starting to spread outside of the city boundaries. The pest is able to fly long distances and can lay up to 300 eggs, producing large 4cm long caterpillars. Vegetable New Zealand Director Mark O'Connor said that the butterflies emerge in Autumn and if efforts are made now to control it, there is a good chance it will be possible to eradicate the pest. He said the pest was a concern because of the dairy industry's heavy reliance on brassica forage crops in addition to the butterfly threatening native cress species.

Horticulture

Static potato yields prompt research [12 April/ Rural News Group] In recent years, yields for potatoes have remained relatively constant at around 100 tonnes per hectare, while milk and other products have seen yields increase by 40 per cent or more. In order to understand the reasons behind such results, potato growers are undertaking a \$240,000 research project with Plant and Food Research to investigate the role soil fertility has played in the current situation. Potatoes New Zealand, McCain Foods, Ravensdown and Plant & Food Research are all co-funding the yield gap analysis. General Manager of Research & Development for Ravensdown, Mike Manning, highlighted the fact that for a number of years, the yields for potatoes have not been at levels that would be expected when compared to levels found in carrots and wheat. He said that the same positive results witnessed in other areas of agriculture have not occurred in potato production. Nutrient supply and fertiliser practice will be studied as well as the incidence of pest, disease and other issues such as seed quality, irrigation management and soil physical conditions. Mr Manning said that the project is a large undertaking, with all parties keen to ensure that sufficient funding and technical resources are available. He also said that the potential existed for the project to develop into a multi-year project.

Growers hope contaminant won't affect certification [15 April/ Radio New Zealand Rural] Zespri has discovered traces of chloride residue, didecyl dimethyl ammonium chloride (DDAC) on organic kiwifruit about to be harvested. The spray, Citrox BioAlexin, is used by both organic and conventional growers to attempt to keep their vines healthy in the fight against the problems caused by the PSA disease. Two of the six containers recently imported were contaminated by DDAC and Certified Organic Kiwifruit Growers Association Chairman Doug Voss has said that growers are still not knowledgeable about the implications for their organic-certification. He said that two positive tests on the fruit for traces of the residual would mean that the fruit cannot be exported under the organic labelling for this current season. He also said that until Zespri's current testing programme was complete, the industry would not know the full scale of the problem. The European Commission's maximum tolerance level for such chemicals on fruit is 5 parts per million and Zespri has indicated that the highest levels detected on fruit so far is 0.7 parts per million. Japan has a zero tolerance level and is New Zealand's most valuable market for kiwifruit.

Viticulture

Warming likely boost to vineyards [10 April/ NZ Herald] New Zealand grape growers are expecting harvest forecasts to grow in the future as climate change is set to treat New Zealand grape growers to land ripe for production while other parts of the world are facing more negative, threatening effects. Over the next few years, New Zealand's potential growing area for wine production could increase by 168 per cent. This is drawn from results obtained from a major study by Chilean and Californian researchers studying the effects of climate change against global wine production. By 2050, New Zealand's climate is forecast to warm by at least 1 degree Celsius, while the average rate for the world has been put at more than 2C. New areas of wine production are estimated to be available in New Zealand, Western North America and Northern Europe, while areas set to lose vine-friendly land have been identified in California and the Mediterranean. Looking more locally, the results identified potential expansion and opportunity in Canterbury, Marlborough coastal areas, inland of Wanganui and West from Martinborough to Masterton. Research from the Auckland University of Technology has identified climate effects as becoming less consistent across regions. Eco-friendly winemaker Peter Yealands said that he expects Marlborough to expand further Southward into currently cooler areas. He said that his Yealands Estate Winery, in the Awatere Valley, was in a prime position to benefit from warming as temperatures there were half a degree cooler than the Wairau Valley, the region's main growing area.

Warm weather puts pressure on pickers [11 April/ Business Day] Following the very warm summer throughout the country, vineyard workers are facing a busy harvest season as grapes ripen at once and frost-fighting also kicks in. Viticulture Central Otago Co-owner Tim Deaker said that vineyards and varieties normally reach picking point at different times, but the warm, dry weather experienced this summer had ripened different grape varieties at the same time, putting pressure on harvesting staff. Adding to this busy time was the fact that frosts have started on cue on April 4 which further stretched vineyards' resources. A similar pace of harvesting is being seen in Hawke's Bay, Marlborough and Martinborough vineyards, which began harvesting earlier than in Central Otago causing a labour bottleneck as vineyards attempted to pick grapes at the optimum time. Mr Deaker said that he was confident his company would be able to cope with the unexpected situation. An excellent vintage of Central Otago pinot noir was expected this season as warm nights throughout the growing season had reduced the levels of acid in the fruit. This reduction in acidity levels would result in a different style of wine, Mr Deaker said. Terra Sancta Wines at Bannockburn winemaker Jen Parr agreed with Mr Deaker, saying that this year's vintage would be an exceptional one for the decade.

Forestry

Deforestation intentions soar with carbon prices low [15 April/ NZ Herald] Current low carbon prices is starting to encourage forester owners to consider deforestation as the Emissions Trading Scheme is no longer seen as a barrier to switching land to other uses. Professor Bruce Manley of Canterbury University conducted a survey of large forest owners with over 10,000 hectares of land. His findings showed that many intend to deforest a cumulative amount of 39,000 hectares between now and 2020, mainly in the Central North Island with the primary aim of switching the land to dairy farming. These owners represent three-quarters of the plantation forests with trees older than 20 years which are likely to be harvested within the next eight years. Total areas deforested would be 55,000 hectares or 12 per cent of the areas of plantation forest maturing in that period, assuming smaller forest owners only replant 80 per cent of the forests they harvest in the same period. While this would represent only a modest increase on deforestation over the past five years, it represents a steep increase in the amount of deforestation the large forest owners said they expected to undertake in Mr Manley's previous survey in 2011 on the assumption that the ETS would remain in place. His report estimates that 86 per cent of the land deforested by large scale owners would be converted to dairy farms and another 9 per cent would be converted to sheep and beef farms.

Wood finds a niche in rebuild designs [16 April/ Business Day] The recent Wood Smart Construction Seminar at the Addington Events Centre saw more than 100 architects, engineers and suppliers attend one of New Zealand's largest timber conferences. The traditional methods of using construction materials made from stone in Canterbury architecture are adopting to alternative lightweight construction philosophies since the quakes. This idea was a main theme running throughout the seminar. Director of the engineering Sheppard & Rout, Jasper van der Lingen, spoke about their work on Tony Merritt's building in Victoria Street. Here, an Expan timber-framed building with post-tensioned steel tendons running through the laminated veneer lumber (LVL) wooden beams was incorporated into the structure. LVL is wood which has been engineered to be longer, thicker and stronger than natural timber, a product which was on show at the expo. Mr van der Lingen said that this particular design was a third generation of the post-tension timber technology and its use in the Merritt building was the first timber-framed commercial build designed speculatively rather than for a specific tenant. He said that the building would cost \$2500 per square metre to erect, a price competitive with more traditional methods. University of Canterbury Associate Professor of Engineering, Stefano Pampanin, said that using different construction media in the same building was becoming easier and broadened the spectrum of what engineers and architects could do with their designs. He also said that timber was becoming an increasingly popular construction material for commercial buildings over concrete systems. Timber seismic technologies are new ways of achieving the same 3000-year-old structural goals Mr Pampanin said with post-tension timber achieving much of the effect seen in steel.

Fishing and aquaculture

Fishing company calls for quick ban on foreign vessels [11 April/ NZ Herald] The government has previously announced its intention to have a law preventing foreign fishing vessels from operating in New Zealand waters in place in four years time, however fishing company Talley's Group is calling for the law to be implemented next year. In 2012, the Government made a decision to introduce legislation that foreign-flagged vessels would not be able to fish in New Zealand in order to prevent the abuse of workers. Vessels will be required to fly the New Zealand flag, subjecting them to New Zealand law, including employment relations and workplace health and safety legislation. The fair treatment of fishing crews, the safety of vessels and New Zealand's reputation for ethical and sustainable fishing practices were all part of the message former Primary Industries Minister David Carter hoped to convey. The announcement came after an investigation into allegations of sexual and physical abuse and slave labour conditions on some chartered boats operating in the New Zealand fisheries. Talley's Group wants the timeline brought forward so that foreign fishing vessels would have to become New Zealand-registered by May next year. Managing Director Peter Talley raised his concerns for foreign fishing operations continuing in New Zealand waters, saying that the abuses will still continue if the legislation is not brought forward and that he thought it was wrong that 1500 – 2000 foreign nationals were working within New Zealand's exclusive economic zone when unemployment levels in New Zealand were high. He wants to see increasing numbers of New Zealanders being phased onto these fishing vessels. The Council of Trade Unions said they shared Mr Talley's view.

Dairy

Miraka – it's Maori for milk [12 April/ NZ Herald] A new entrant into the New Zealand dairy industry is faring well and is steadily building a well respected list of suppliers after just two seasons. Miraka, a Maori-controlled dairy company, started in late 2011 and since then has grown its operations quickly. The company runs a milk processing plant at Mokai located 30 kilometres northwest of Taupo and this has reached supplier capacity, meaning that the company can no longer take on any more suppliers. Unlike dairy co-operative, Fonterra, Miraka does not require its suppliers to hold shares and it is currently in a favourable position of paying 10 cents per kilogram over the rate paid by Fonterra. Federated Farmers Waikato Dairy Section Chairman Chris Lewis said that Miraka was becoming increasingly dominant in the region. It is the only Maori majority-owned and controlled dairy company in New Zealand. Miraka can currently process 210 million litres of milk from 55,000 cows at its processing plant, turning out eight tonnes of whole milk powder an hour. In addition to Miraka's developing presence in the New Zealand dairy industry, the company is 19 per cent owned by Vinamilk, Vietnam's largest dairy company which selected Miraka as its first ever foreign investment. Vinamilk invested in Miraka due to its close fit with Vinamilk's niche market operations in addition to the changing preferences of Asian consumers towards higher quality nutrition.

Co op or company - dairy firms cover the range [12 April/ NZ Herald] Farmer members of the Westland Milk Products Co-operative have indicated their preference for the company's current co-operative model under which it operates. The dairy co-operative, which shares many similarities to Fonterra, is one of New Zealand's top 100 businesses and has a turnover of more than \$530 million, processing about 4 per cent of the country's dairy supply. Some market commentators have stated that with the Fonterra share price jumping from \$4.52 before the inception of the Trading Among Farmers program to \$7.42 today there is increasing attractiveness for Fonterra farmers to sell their share holdings and to opt for another processor, such as Westland Milk. And this has been apparent in the current market with a small proportion of Fonterra farmers, mostly from Canterbury, moving over to Westland Milk. Farmers supplying milk to Westland pay \$1.50 per share and Westland Milk Chief Executive Rod Quin says that interest from Canterbury dairy farmers wanting to join Westland has increased significantly in recent months.

Yashili plant effects 'less than minor' [12 April/ Business Day] A proposed \$210 million Yashili infant formula production plant in Pokeno, north Waikato, has been assessed as having environmental effects that are less than minor. The disclosures are made in the Chinese company's resource consent application which indicated that the land use consent application assessed noise from the proposed development to comfortably comply with permitted noise standards in the Council's district plan. Yashili applied last week to the Waikato District Council for land use consent to build and operate the milk powder manufacturing plant within the Pokeno light industrial zone. The application highlighted the fact that although some components of the proposal such as the height of the drier exceed the permitted activity standard of the area, there are certain processes that can be implemented that avoids, mitigates, or remedies the effects stemming from this. A spokesperson for the company said that they had recently had discussions with local Iwi and other Pokeno residents and they believe that the proposal meets the requirements set out in the Resource Management Act.

Fonterra extends contracts of some of its organic farmers [16 April/ Radio NZ Rural] Fonterra has announced that it will continue to its organic operations into future seasons. Streamlining of the organic milk supply business of Fonterra began in 2011 and involved dropping half of its organic suppliers. While this helped to reduce costs, it is now becoming increasingly apparent that demand for organics is increasing steadily, especially in China. This has seen Fonterra's organics business return to profitability, resulting in Fonterra saying it will renew the contracts with its organic farmers in the middle and lower North Island that are due to expire this year while it continues to develop the optimal model for the business.

Meat

Meat reform lobby seeks farmers' support in writing [16 April/ NZ Herald] A written mandate is being sought by red meat industry organisers who are holding an event in Christchurch this week. Red meat industry spokesman Blair Gallagher said that the organising committee was hoping to build on the progress made from last month's meeting which was held in Gore. This meeting saw over 1000 farmers agree that a mandate was required for change in the red meat sector. It is hoped that this week's meeting will gain more commitment from farmers who are willing to see their stock units organised under a new entity. Mr Gallagher highlighted that such support from farmers could be used to apply pressure to the industry in order to bring about change. He added that it was apparent that many red meat farmers were in a mood for change. Massey University Agribusiness Professor Hamish Gow will look at other business models and their relevance to the red meat industry and New Zealand Merino Company Chief Executive John Brakenridge will relate the redesign of the merino wool industry to the meat industry.

China, drought factors in increased sheep kill [16 April/ Otago Daily Times] Increased exports of sheep meat to China in February this year has helped the sector to record strong growth. Exports grew 27 per cent year-on-year, reaching 45,387 tonnes as large numbers of stock were offloaded due to the widespread dry conditions, a recent Rabobank agribusiness monthly report indicated. Chinese shipments were just below 17,000 tonnes for the month, which was more than 10,000 tonnes higher than the same time last year. New Zealand sheep meat exports to the United Kingdom improved 8 per cent on February last year to reach 8655 tonnes, although total European Union shipments were back 9 per cent. South Island lamb prices reached a plateau in March and in the first week of April, averaging 431c per kilogram, however this value was still a quarter below the same week last year. Since October to February, lamb slaughter was 13 per cent or 1.1 million head higher than last year, totalling 10.1 million head. Beef slaughter continued to run well above year-ago levels, as hot and dry conditions persisted.

Rural education

Innovator plugs agri tech careers [11 April/ NZ Herald] Waikato based innovator Gallagher Group has said that young people need to start considering developing careers in New Zealand's dynamic but often overlooked agricultural technology sector as a viable, well-paid career option. Gallagher has ranked in the top 10 of the TIN100 Survey of New Zealand's leading technology companies for the past three years. The company specialises in animal management and Matt Macfie, the International Business Development Manager, said that the industry was growing in both the creation of jobs and in improvements in farm efficiency. He added that he believed people did not fully appreciate the depth and width of the agri-industry and what it can offer to the country. Gallagher employs 700 staff in Hamilton and approximately 100 of those are solely dedicated to research and development. Mr Macfie said that the sector had provided him with an excellent career and that university students need to be made more aware of the benefits of working in the agriculture sector. He also said that he wants to start seeing more people viewing this as a viable career option.

Logistics

New transport rules for agricultural vehicles [12 April/ Radio NZ Rural] From June this year, new transportation rules will be implemented that cover the operation of agricultural vehicles on roads. Vehicles that operate below the set speed of 40 km/h will be exempt from warrant of fitness and work time requirements developing a two tier system regulatory environment. Laws covering more than 40,000 registered agricultural vehicles are being changed after complaints from farmers and rural contractors about their inflexibility. The use of a flashing amber warning beacon when they're travelling on the roads will be required to be used from agricultural vehicles registered from when the law takes effect.

Water

Inefficient water use harming farmers [14 April/ Business Day] Federated Farmers President Bruce Wills has indicated that, while New Zealand has large supplies of water, the country is not successful at using it efficiently as evidenced in the recent drought. He said that during winter, most of this fresh water is allowed to flow out to sea but during the summer months the economy is affected by the implications of having a lack of water stored. The recent drought was one of the worst seen in 70 years and Government officials have estimated it as costing as much as \$2 billion to the economy. Mr Wills said that meat kill is running well ahead of the same time last year as farmers deal with the impacts of the drought on their livestock levels. He said that this has a worrying long-term influence on production in next season. Mr Wills highlighted the large potential to expand farming productions in New Zealand but only if careful consideration is given to irrigating large areas of land. The public-private scheme to construct a \$230 million Ruataniwha water storage scheme in the Hawke's Bay would hold 90 million cubic metres of water and have the potential to irrigate 30,000 hectares, a contrast to the 6,000 hectares currently irrigated in the Hawke's Bay. Mr Wills said that the Ruataniwha scheme would build sensible resilience into the economy and that water storage and irrigation had wider benefits. He also said that when you run out of water, you run out of options, so putting strong irrigation systems in place is critical to reducing volatility in the industry.

Farms and farmers

Life on the farm: high pay, low costs [15 April/ NZ Herald] Federated Farmers has said that many farms are finding it difficult to hire good workers, despite the average farming wage being higher than that of the country on a whole. The national average wage and salary according a Federated Farmers/Rabobank Survey was found to be \$5500 a year less than that earned by the average farm worker. Federated Farmers spokeswoman Katie Milne said that the 2013 survey found farm workers earn an average salary of \$46,246 which was seen to increase to approximately \$49,159 when the value of non-wage benefits was taken into account. She also indicated the fact that living costs in many rural areas tended to be lower than those costs found in urban areas. What was also apparent, according to the survey, was the difficulty farmers were still facing to find skilled and motivated farm workers despite relatively high national unemployment. Ms Milne said that it was expected that the recent drought conditions was expected to hold back growth in farm wages. South Otago Dairy Farmer Stephen Korteweg said that it was known that paying farm workers slightly more than average helped to attract more into the industry. He also said that he had noticed a recent influx of more urban and young people choosing to work on the farm. The survey conducted covered more than 3900 positions and involved the input of 1194 farm employers, Federated Farmers announced.

Environment

Sheep, beef leaders focus on environment [12 April/ Rural News Group] The Beef + Lamb New Zealand (B+LNZ) Environmental Leadership Forum is to be held in Wellington and will be delivered by the New Zealand Farm Environment Trust. It is based on the Trust's successful programme for dairy farming leaders run in partnership with DairyNZ. Dr Scott Champion, B+LNZ Chief Executive Officer says that the Forum will help equip farmers with some of the skills they need to engage with regional councils and take on leadership roles within their communities. Guest speakers are also set to present and participate in workshop sessions. Dr Champion said that most of the farmers involved in the forum have been actively involved in the Ballance Farm Environment Awards or are B+LNZ Farm Council Members. He also said that with increasing community participation in water and environmental discussions, sheep and beef farming leaders are needed across New Zealand, actively participating in such events in order to promote the voice of the sector.

Economics and trade

NZ-China agribusiness agreement signed [11 April/ Radio NZ Rural] Two Chinese food giants and a variety of New Zealand companies have signed a collaboration agreement that will aid investigation into the development of a China and New Zealand agribusiness service and food safety centre. Prime Minister John Key's trade delegation to China has been timed to coincide with the agreement and this year marks the fifth anniversary of the free trade agreement between the two countries. Local partners to the agreement are Government owned auditing, certification and testing company AsureQuality and PricewaterhouseCoopers. Chinese partners consist of Mengniu Dairy Company, one of the biggest dairy manufacturers in China, and COFCO Corporation, the country's largest supplier of agricultural and food industry products and services. Sales and Marketing Manager for AsureQuality, Mark Inglis, said that it already provides quality assurance and auditing services as well as training for Chinese customers in the dairy and horticulture sectors. A dairy related food safety and farm assurance project are initially planned to be worked on by AsureQuality and PwC with the Chinese companies. Moving further into the future, the partnership is expected to attract other New Zealand commercial and research interests in the agricultural sector.

Food prices slide 1.3% in March as fruit, vegetables, groceries fall [12 April/ National Business Review] Declines in the price of apples, tomatoes, kumara, mandarins and chocolate bars have all lead the largest fall in New Zealand food prices recorded since October 2011. In March from February prices fell 1.3 per cent and declined 0.4 per cent from March 2012 according to Statistics New Zealand. These decreases have been recorded as the largest monthly fall in 17 months. First quarter results for the Consumer Price Index are set to be released later this week, with 19 per cent of the index made up by food prices. If the Reserve Bank of New Zealand's forecast is accurate then the inflation rate of 0.4 per cent should be reflected by this index after prices fell in the final quarter of 2012. A gain of 3.8 per cent was recorded in the prices of fruit and vegetables in the year with the month of March recording a decline of 6.5 per cent. Grocery prices fell 0.8 per cent in the month and fell 2.6 per cent in the year. A fall of 0.9 per cent was recorded for meat, poultry and fish prices in March from February and was down 0.4 per cent for the same months of 2012. A fall of 0.8 per cent was recorded for non-alcoholic drinks in the month and 0.5 per cent for the year, while restaurant and instant meals up 0.2 per cent in the month and increased 1.1 per cent for the year.

NZ pushes for international free trade farming commitment [16 April/ Radio New Zealand Rural] Adoption of a free trade policy for an international farmers body will be discussed when representatives at the World Farmers Organisation General Assembly meet in Japan this week. New Zealand representatives that are scheduled to attend the Assembly consist of Federated Farmers President Bruce Wills and Chief Executive Conor English, in addition to delegates from more than 40 farming nations. The preparation of draft policy on free trade was agreed to by last year's World Farmers Organisation Assembly in Rome, and Mr Wills says that New Zealand and Australia, backed by Argentina will submit this for discussion at this year's conference. Mr Wills highlighted that gaining commitment to a free trade policy will be a challenge, especially in Japan as this was traditionally one of the more protectionist countries. He also said that last year only three countries, including New Zealand, were supportive of the idea of free trade while the other 38 countries were not. Success for him, Mr Wills said, would be coming back to New Zealand with a fairly comprehensive free trade policy set in place at the World Farmers Organisation.

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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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