

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network



LAUNCH OF:
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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
AGENDA 2013 VOLUME 1**

24 July 2013

Organisations referenced in this week's Field Notes include:

AgFirst	New Zealand Avocado
Allan Scott Family Winemakers	New Zealand Bee Products Standards Council
ANZ Bank	New Zealand Institute of Primary Industry Management
Beef + Lamb New Zealand	NZ Pork
Blue Sky Meat	Operational Solutions for Primary Industries
China National Development and Reform Commission	Organisation for Economic Co-operation and Development
Comvita Health Products	Rural Contractors New Zealand
Coriolis Research	Saint Clair Family Estate Wines
DairyNZ	Synlait Milk
Fonterra Co-operative	TBfree New Zealand
Forest Growers Levy Trust	UMF Honey Association
Hong Kong Consumer Council	Waikato Regional Council
Lincoln University	Westland Milk Products
Ministry for Economic Development	Westpac Bank
Ministry for Primary Industries	Yealands Estate Wines

This week's headlines

Horticulture	Infected kiwifruit material moved into Hawke's Bay – KVH [22 July/ Radio New Zealand Rural]
Honey	Threats to manuka honey industry [19 July/ Radio New Zealand Rural]
Dairy	Fonterra slashes prices in China [July 18/ New Zealand Herald]
Dairy	Synlait shares soar on listing – up 21pc [23 July/ New Zealand Herald]
Economics and Trade	Recipe for resilient farming [21 July/ Rural News Group]

New Zealand food awards 2013

Are you innovating in the New Zealand food industry? So why haven't you entered the New Zealand Food Awards?

The New Zealand Food Awards, is an annual event designed to celebrate new initiatives in New Zealand food and beverage production and manufacturing, recognising not only company leaders who inspire others to meet their standards of excellence, but the creative work of product innovators in the areas of packaging design, nutrition, enterprise, food safety and products.

[Entries are now open thru the New Zealand food Awards website](#)

Agriculture Education

Claim people being put off agriculture by school system [18 July/ Radio New Zealand Rural] The agriculture sector has been told by commentators to become more attractive if it is to be more integrated classroom programmes. Rural Contractors New Zealand President, Steve Levet, said that it is getting harder to find qualified New Zealanders to do agricultural contracting work. He said that he believes that the education system is partly to blame. He said that brighter students need to be targeted in order to promote the industry and the idea of rural contracting as a career. He said that students will not only be exposed to a highly-specialised field requiring great expertise but it opens the opportunity for international travel also.

Lincoln signs deal for Waikato training school [18 July/ NZX Agri] A training school is set to be developed by Lincoln University as the organisation continues its reach into the rural heartland. The training school will be developed with Waikato local iwi, with a memorandum of understanding signed with Ngati Koroki Kahukura and Ngati Haua, of the Southern Waikato. The centre will be developed at the old Maungatautari School site. Approximately 5.5 per cent of New Zealand's total land mass is Maori owned land however 80 per cent of this was not operating at its potential. Land Consultant Roger Pikia said that Lincoln University was looking to expand its delivery of vocational training into the North Island and the centre would develop farming skills through the Lincoln First qualification. He said the program will have an initial intake of 10 students and it will commence later in the year.

Animal Health

Agency on track to meet bovine TB eradication target [18 July/ Radio New Zealand Rural] The Animal Health Board, the group responsible for bovine TB control has been renamed TBfree New Zealand and has said that it is ahead of its eradication target despite new cattle herd infections in a couple of regions. The organisation is part of Operational Solutions for Primary Industries (OSPRI) which began operations this month. Chief Executive William McCook said that the newly invigorated TB strategy is now focused on eradicating the disease in possums and other wild animals that can re-infect cattle and deer. The first step towards clearing farmers' herds who had contracted the disease has been completed with the latest round of testing six infected Taranaki herds indicating zero signs of the disease.

Horticulture

Bay poised to boom as fruit bowl of Asia [18 July/ Hawke's Bay Today] A recent Coriolis Research Report shows that fruit exports are shifting more and more towards Asia and away from traditional markets such as Europe and the United States. Economic Development Minister Steven Joyce said that the report highlights how New Zealand could become the fruit bowl of Asia, especially because of the Asian consumer preference towards sweeter and high quality New Zealand fruit. The report highlighted the export of kiwifruit doubling from \$567 million in 2002 to \$1.04 billion last year. It also indicated avocados as becoming a high export-growth item. New Zealand Avocado Spokesperson Midge Munro said that Asia will become a major component of the global market mix for avocados from New Zealand, although Australia is its largest export market. The report emphasised how New Zealand needs to be clear about how and where it wants to position itself in the Asian fruit export area.

Infected kiwifruit material moved into Hawke's Bay – KVH [22 July/ Radio New Zealand Rural] A grower who moved plant material from the Bay of Plenty to the Hawke's Bay is facing an investigation by the body charged with keeping the PSA disease under control in the kiwifruit industry. Kiwifruit Vine Health has confirmed that a grower moved plants from his Tauranga nursery to a nursery in Hawke's Bay in January, a clear breach of biosecurity rules. PSA is throughout the Tauranga area and most of the Bay of Plenty region. Only two Hawke's Bay orchards have the disease and the region is officially a containment region.

Viticulture

Alan Scott secures China deal [17 July/ Marlborough Express] China is receiving even more New Zealand wine exports as Allan Scott Family Winemakers becomes the latest addition to the list of winemakers exporting to the region. More than 200,000 bottles are to be shipped to China in the first year of a significant wine export deal recently signed by Mr Scott. Market commentators have said that New Zealand Winegrowers see China as a key growth market and Marlborough wine companies still believe that the Chinese wine-drinking culture is still evolving. New Zealand Winegrowers released recent figures which show that the value of New Zealand wine exported to China has increased by more than 1000 per cent in the past five years. Global Marketing Director Chris Yorke said that in 2007, just over 200,000 litres of wine, worth \$2.1 million, was exported to China. In the past 12 months, the figure was 2.1 million litres of wine, worth \$31.8 million. Saint Clair Family Estate is a New Zealand brand that has been exporting wine to China. The Estate's senior winemaker Hamish Clark said that the brand had been exporting to China on a small scale for almost ten years after being approached by a distributor. He also said that competition between New Zealand, South African and Chilean wines was intense in China. Mr Clark said that the preferences of Chinese consumers were also changing rapidly, with the largest consumer group being those in the 25 to 30-year-old age group.

Ground like jelly, says Rich Lister Yealands [22 July/ National Business Review] Peter Yealands of Yealands Estate Wines has said that many residents in the Marlborough region are still on edge after the recent earthquakes that have struck the area. He said that a variety of damage has resulted throughout townships and vineyards have also faced some of the effects. Bolts holding wine tanks into the ground have given way Mr Yealands said, adding that they have been designed to give way during earthquakes. Assessors and engineers are set to review the damage in the area and come up with a plan. Mr Yealands said that his estate is 15 kilometres away from the epicentre so most of his property has come out relatively unscathed so far.

Honey

Threats to manuka honey industry [19 July/ Radio New Zealand Rural] New threats to the validity of the New Zealand manuka honey industry have been revealed by scientists. Bioactive compounds found in the honey result in manuka honey fetching up to \$250 a kilogram overseas and it is these compounds that imitators are attempting to promote. Such imitators fake these properties by adding chemicals to normal honey, such as regular clover or low grade manuka honey and then label these as original high grade manuka. The UMF Honey Association is seeking a unique chemical fingerprint for manuka honey so that it can create a new test to spot fakes. Comvita Chief Executive Brett Hewlett said that the existence of such behavior in New Zealand was relatively minimal.

Checks on honey to increase [19 July/ Business Day] Exports of manuka honey from New Zealand will receive closer checks after some brands were found to contain sugar and other contaminants upon arrival in Hong Kong. New Zealand officials have said that The Hong Kong Consumer Council tested 55 samples of New Zealand honey, including manuka honey, and about a quarter were found to contain sugar. Others contained plain syrup, small amounts of antibiotic residues or traces of an anti-parasite drug. Dr Jim Edwards, Chairman of the New Zealand Bee Products Standards Council, said that the Council had yet to see the full report on the Hong Kong investigation and wanted to confirm if the results were from an old test which gave incorrect readings. He said the manuka honey industry had been aware of false positive readings that were obtained from an old test. He said that until the full test from Hong Kong was given, then conclusive results would not be able to be obtained. The National Bee Council is relying on the Ministry for Primary Industries to verify the Hong Kong results.

Forestry

Forest Levy takes important step [17 July/ Forest Owners Association] The Associate Minister for Primary Industries, Jo Goodhew has received an application for the introduction of a levy on harvested logs. The proposed levy rate is 27c a tonne of harvested wood in the first year and can be raised to a maximum rate of 30c a tonne over the six year term of the levy order. Income to be drawn from the levy has been estimated to be approximately \$6.5 million annually. Forest Growers Levy Trust Chair Geoff Thompson said that the levy was an important step in the process of getting a Levy Order under the Commodity Levies Act. He added that the result followed a successful forest growers' referendum in March. The month long levy referendum had a successful outcome with 502 growers (86.3 per cent) voting for the levy.

Dairy

Dairy payout lift tipped as world prices up 4.9pc [July 17/ New Zealand Herald] Another record year is looking more likely for dairy farmers after a 4.9 per cent rise in the Global Dairy Trade Auction prices was recorded last week. One of the most important commodities for New Zealand producers - whole milk powder - was up 7.7 per cent at US\$5,058 a tonne. A spokesperson for ANZ Bank said that if the weather continues as it has recently for the rest of the year, then this could deliver a new record profit for 2013-14.

Fonterra slashes prices in China [July 18/ New Zealand Herald] Just as the Chinese government has announced that it is beginning an investigation into dairy product pricing in the country, Fonterra has announced a 9 per cent cut in its Anmum maternal health products sold in the Asian region. With the price cut becoming effective from August 1 this year, President of Fonterra Greater China and India Kelvin Wickham said that the co-operative is committed to providing high quality, premium imported products as well as maintaining the long-term trading relationships the company has with the country. He also said that Fonterra had been contacted by the China National Development and Reform Commission (NDRC) regarding a current broad-ranging investigation into consumer dairy products in China. This news from China did not appear to affect the Global Dairy Trade auction as the trade weighted index gained 4.9 per cent since the last auction a fortnight ago.

Currency moves give windfall to dairy sector [July 18/ Business Day] The average price recorded on the recent online Global Dairy Trade auction was 4.9 per cent up on the previous auction, the third consecutive lift in the fortnightly event, considered a barometer of world dairy markets. US\$4828 (\$6144) was the average winning price across all products offered and wholemilk powder was the best performer. BNZ Economist Doug Steel said that the weaker New Zealand Dollar was more about the improvement in the US economic outlook and helped drive price increases in dairy. In Westpac Bank's latest agri update, Economist Nathan Perry said that decreases in the New Zealand Dollar had been typically associated with concerns about global financial stability, which flowed on to hurt risk-sensitive markets such as the New Zealand dollar and commodities in equal measures. BNZ Bank highlighted that dairy prices are soon expected to fall from these record levels, however, due to the apparent tightness of the world's milk supply, the market will first need to be confident the New Zealand 2013-2014 season will be favourable. Federated Farmers Dairy Chairman Willy Leferink said that although farmers did not take too much notice of the auction prices, the recent results supported Fonterra leaders' guidance to farmers.

Dairying commits to unified action on water quality [18 July/ Rural News Group] The newest scheme released between the dairy industry and regional Councils, 'Sustainable Dairying: Water Accord', is set to help foster improvement in the industry. The accord will improve waterway quality and help replace the amount of stock and effluent that enter the waterways. Headed by DairyNZ and backed by 15 regional Councils, milk processors, fertiliser companies, Irrigation New Zealand, Federated Farmers and the Government, the accord is set to be one of the largest of its kind in New Zealand. DairyNZ Chief Executive Tim Mackle said that the accord will address issues and seek improvements that will result in tidy dairy farms around the country. Prime Minister John Key launched the accord.

Westland Milk taps into China [19 July/ Business Day] Westland Milk Products has become a supplier of finished dairy products after launching an infant nutrition range in China earlier this week. This comes as the company moves from being an exporter of dairy ingredients to expanding its product base. The Westpro Nutrition range is a near-complete infant formula intended for branding in China. This is being produced at Westland Milk's new \$28 million nutritional plant in Hokitika. The new products were showcased in Shanghai in front of more than 100 guests where Chief Executive Rod Quin said Westland had moved to being a producer of value-added nutritional products in order to reduce the company's reliance on bulk ingredients. He also highlighted the significant opportunities that exist in China, especially with the growth the company has experienced in the past decade.

Fonterra offers recycling relief [22 July/ Business Day] Following Fonterra's controversial Anchor light-proof bottle release in the New Zealand market place has had, industry recyclers complaining due to difficulties they have had handling the new bottles. Fonterra has released a solution that will make the bottles easier to recycle within New Zealand as opposed to shipping them overseas. It has lined up recycling separators with recycled product manufacturers. Associated recyclers will turn the bottles into new products such as recycling bins, slip sheets, cable covers, culverts, agricultural pipes and drainage coils. Business Manager Steve Mead said that from a processing perspective there was no difference between the opaque and clear HDPE plastic. The milk cooperative also plans to host the first of four-monthly forums aimed at increasing identifiable ways of recycling various plastic bottles. These will draw on insight from those in the recycling industry and plastic manufacturers.

Registered brand names of formula exports to be published [22 July/ Radio New Zealand Rural] A list of registered brand names is to be published by the Ministry for Primary Industries this month. The list will include all registered New Zealand infant formula products exported to China. Consumers as well as Chinese authorities will have access to the list in order to verify that formulas carrying New Zealand labels are valid. The move comes after Chinese regulators have increased the stringent requirements for infant formula labelling. The Ministry said that 30 exporters had registered their brands last month.

Synlait shares soar on listing – up 21pc [23 July/ New Zealand Herald] Shares in Canterbury-based milk processor, Synlait Milk, recorded an 18.6% premium on their debut on the NZX. The shares that had been issued at \$2.20 debuted at \$2.61 and had climbed to \$2.67 by midday on Tuesday, a premium of 21% over the issue price. The shares had been sold at the lower end of an indicative price range of \$2.05 to \$2.65. The company has successfully raised \$75 million in new capital from the IPO, with Dutch dairy company, FrieslandCampina taking a 7.5% stake in the company through the listing process. The new capital will be used to repay debt and fund construction of new production facilities to increase production of value-added ingredient products.

Red Meat

Strong balance sheet helps Blue Sky Meats [16 July/ Business Day] A second loss has been recorded in the 27 year history of Blue Sky Meats' with the result for the year ended March 31, 2013 showing an after tax loss of \$3.88 million. A loss of \$449,149 was reported in the year to March 2012 and a profit of \$3.69 million in the 2011 trading year. These results came as many meat processors in the industry struck difficult times which a number of market commentators link to the recent fall in demand for meat. Blue Sky Meat's founder and Chairman Graham Cooney said that a reduced demand for sheep meat and a rapid drop in prices internationally between December 2011 and December 2012 were attributable to the results. Mr Cooney also said that the lost value on products held in storage was alarming. He added that there were some positives during the year however he hoped that conditions would not be repeated. When commenting on the recent restructuring of the meat industry, Mr Cooney said that he believed it was a waste of time for many companies unless they had a succinct strategy in place.

Lamb price tipped to rise [19 July/ Business Day] Farmer confidence is set to be increased as the return of \$100 lambs is expected for the 2013-14 season. During the drought, farmer confidence was in short supply as the average lamb price dropped to \$85. With the new season starting in October, meat companies believe that \$100 could be the average lamb price with Beef + Lamb New Zealand setting a modest \$98.50 forecast price. Organisation Chairman Mike Peterson said that although the price estimates are positive, the outlook is still not totally clear. He said that estimated lamb production for New Zealand would be around 18.2 million, assuming that lambing proceeded uninterrupted.

Pork

Presentation key to supermarket meat sales [17 July/ Business Day] Studies have revealed that many women do not like shopping for meat, describing supermarket displays as a "wall of dead things" and "a wall of blood", studies have found. Pork products were important to display favourably however price was the largest barrier with shoppers resisting paying more than \$6-\$9 a kilogram. The issue that stems from such prices is that many cuts existed above this price range. Retail Marketing Researcher Briar Harland told NZPork's annual conference in Wellington recently that marketing should focus on pork being nutritious, easy to cook, and locally grown.

Water

Group to prepare for social impacts of irrigation scheme [20 July/ Radio New Zealand Rural] The Ruataniwha Water Storage Scheme is set to allow a greater proportion of intensive farming in the Hawke's Bay area if it is allowed to progress to construction. The proposed \$600 million scheme will store more than 90 million cubic metres of water and take about three to four years to build. Chairperson for a socio-economic working party established for the project, Debbie Hewitt, has said that it is their job to ensure that the local community gets the maximum possible benefit from the scheme while any negative side-effects are minimised. Regional GDP could be lifted by \$235 million per year if the project gets the go-ahead. An additional \$110 million a year in household income is also estimated to result from the project as well as the creation of 2250 ongoing jobs in the region.

New riparian tax breaks [21 July/ Rural News Group] Water quality is set to benefit after the announcement of new tax breaks. Riparian plantings by farmers are to become tax deductible from this month under operational expenses as opposed to recording them as capital expenditures. The Income Tax Act is set to be changed to allow deductions for plantings in order to prevent discharges into water courses or water bodies. The incentivised provision is available to trees, shrubs and other plantings. The Government hopes that this will encourage farmers to plant trees and shrubs in riparian strips along creeks and rivers. From this behaviour it is hoped that farmers will be encouraged to plant so that natural habitats for New Zealand fauna are increased as well as reducing the amount of sediment and nutrients that flow into waterways. Waikato Regional Council catchment services group manager Scott Fowlds said that the Council, its partner iwi and stakeholders have a strong focus on protecting water quality in the region. He also said that the Government's new tax rules were a welcomed addition to support and foster more sustainable farming.

Rural infrastructure

Collier heads NZIPIM [18 July/ Rural News Group] The New Zealand Institute of Primary Industry Management has appointed AgFirst consultant Hilton Collier President of the organisation. Mr Collier will replace Wayne Allan who is finishing his standard two-year term in the role. Mr Collier said that Wayne Allan was the driving force in developing NZIPIM's new strategic plan and was instrumental in its implementation. He also said that the outgoing President helped to position New Zealand's farmers and growers to capture global market opportunities and to ensure that the country has a highly profitable primary sector. Agribusiness and farm management consultants, education providers, farm financiers, accountants, farmers, rural valuers, vets and fertiliser firms all make up the 700 strong membership that NZIPIM currently has.

Biosecurity

PKE campaign targets Fonterra [17 July/ Business Day] Over \$200 million a year is contributed by New Zealand's PKE-purchasing dairy farmers to organisations that are currently committing the worst damage to the world's rainforests, a spokesperson for Greenpeace has said. Campaigner for Greenpeace Simon Boxer said that New Zealand needs to pursue alternatives to the palm kernel expeller (PKE). As New Zealand has one of the largest financial contributions to PKE, the country's purchasers need to reassess their spending habits on the expeller, Mr Boxer said. Each year for the last three years, New Zealand has imported over 1.3 million tons of PKE at an average cost of \$280 million. Mr Boxer also said that many of Fonterra's suppliers of PKE are finding it difficult to certify them as being appropriately sourced. He said that many of the co-operative's subcontractors supplying the larger firms in South East Asia lack a transparent supply chain. Greenpeace claim one of supplier, Wilmar, cannot vouch for over 60 per cent of what they supply. Managing Director of Fonterra Co-operative Affairs, Todd Muller, said that while grass remained the major feed in New Zealand and PKE accounted for less than 5 per cent of milk production. He said that all of Fonterra's feed sources, including PKE, are taken into account in the co-operative's carbon footprint.

International

UK's first city-based farming show to be staged in Cardiff [17 July/ Farmers Guardian] The centre of UK town, Cardiff will host one of the UK's first city-based farming events, something that is set to become a regular feature on the calendar. The Cardiff Council initiative has goals to showcase the region's agricultural prosperity as well as uniting both rural and urban dwellers. The two-day event will showcase some of the best examples of livestock from across Wales on display at Cardiff Castle on September 28-29. Plans are to continue this every other year into the future, alternating with the Great British Cheese Festival. Key agricultural figures in the community have agreed to support the event, including The Royal Welsh Agricultural Society, the Farmers Union of Wales and NFU Cymru.

Thai farm subsidy creates rice mountain [July 17/ The Financial Times] Thailand has stockpiled 17 to 18 million tonnes of rice, as its rice buying policy reaches record levels. With a new crop set to be harvested in October, the Thai Government needs to dispose of its existing inventory in order to raise money for the new purchases. Market commentators and traders now fear that a price collapse could be imminent. Bangkok could issue tenders for about 350,000 tonnes of its rice as early as next week which has set rice market experts on high alert. Many market commentators are warning about the catastrophic impact the event could have on rice prices regionally and globally. Last month, rating agency Moody's warned Government authorities about the inefficient and increasingly expensive scheme. They also said in their report that it could result in negative impacts on Thailand's sovereign ratings. Thailand's Prime Minister replaced the Minister of Commerce in charge of the rice purchase soon after Moody's report was released. The Government also announced that it would cut the official rice buying price by 20 per cent however, following challenges from farmers, the Government was quick to reverse the decision. The policy implemented by the Thai Government has meant that the country's rice price is no longer used by institutions such as the FAO and the Organisation for Economic Co-operation and Development. They have instead begun using the Vietnamese rice price. Spokeswoman for the FAO, Ms Calpe, said that the Thai Government has completely distorted the rice market as a result of their actions. Official elections are scheduled for next year; an event which many say will be a turning point in farmer support.

£160m investment to boost UK farming [22 July/ Farmers Guardian] The British Government is to give a GBP160 million boost to UK agricultural science and technology. The Agricultural Technologies Strategy funding will be used to deliver sustainable, healthy and affordable food for future generations. Universities and Science Minister David Willetts said that some of the largest brands in farming and food are based in the United Kingdom. He also said that the country has a world class science and research community and that the institutes and universities that exist are at the forefront of agricultural research. Chairman of the All Party Group on Agricultural Science George Freeman said that the funding brought a large opportunity for the sector to flourish. He said that the funding will help the UK to become a world-class cluster of Agri-Tech. Defra Minister for Science Lord De Mauley said that the country currently faces a global challenge aimed at feeding the rapidly increasing population in a way that is affordable and sustainable.

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Weekly news update from the KPMG Agribusiness Network – 24 July 2013

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Farmers and producers

Recipe for resilient farming [21 July/ Rural News Group] Running resilient farming operations are attributable to strong leadership, quality networks and being ready for change, Westpac Managing Director of Private Wealth and Insurance Simon Power has said. Vidals Winery in the Hawke's Bay hosted the Westpac Farming Insights 2013 event last week, at which Mr Power spoke. He emphasised most farming operations these days as being sophisticated business enterprises that require strong vision, entrepreneurship and tenacity. He also said that resilient farming operations look for ways to enhance competitive edge which he highlighted as being an important factor in agribusiness. Westpac intends to hold two more Rural Resilience workshops by the end of the year in association with Sir John Kirwan.

Economics and trade

Exporters look to PM for progress on Korean FTA [23 July/ Radio New Zealand Rural] Exporters are hoping that the Prime Minister can increase the momentum of free trade talks with South Korea when he visits the country this week. The talks that started in 2009 have made little progress, despite Korea having signed free trade agreements with the US and Europe over this period. Korea is New Zealand's fifth largest market and Mr Key noted that with the lack of progress on an FTA we are effectively going backwards, putting our exporters at a real competitive disadvantage. Mr Key noted that opposition from a powerful farming lobby remains one of the biggest obstacles to an agreement. Mike Petersen, the recently appointed agricultural trade envoy, said the tariffs imposed by Korea on New Zealand are amongst the highest charged anywhere in the world (both beef and horticulture products, such as kiwifruit, face tariffs of 40%) making it country we would like to do more business with but struggle to do so given the high costs, with the beef tariffs costing the industry \$60 million alone.

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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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