

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

20 August 2014

Organisations referenced in this week's Field Notes include:

Fonterra Brands NZ	Lincoln University
Labour Party	Meadow Mushrooms
Lake Taupo Protection Trust	Ngati Apa
Aldi	Nufarm
Apollo Apples	PGG Wrightson
Commonwealth Scientific and Industrial Research Organisation	Pipfruit New Zealand
Baywa	Potatoes New Zealand
Beef + Lamb New Zealand	Queensland University of Technology
Chiquita Brands International	Real Estate Institute New Zealand
Commerce Commission	Safra Group
Cutral Group	Sanford
Dairy Goat Co-operative	Sanitarium
Federated Farmers	Scales Corporation
Fonterra Co-operative Group	Sealord
Forest Industry Contractors Association	St Peter's School
Fruitgrowers Federation	Statistics New Zealand
Fyffes	Turners & Growers
Irrigation New Zealand	US Department of Agriculture
Landcare Research	WorkSafe
Lidl	

This week's headlines

Horticulture	Pipfruit sector's future 'very bright' [15 August/ Otago Daily Times]
Forestry	WorkSafe slams forestry industry over deaths [14 August/ Business Day]
Fishing	Fishing companies may work together [15 August/ Business Day]
Goat	Dairy Goat Co-op ready to expand [14 August/ NZ Farmer]
Agribusiness education	Challenge thrown down at farm launch [19 August/ NZ Farmer]



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Horticulture

Carb concerns marr potatoes' image [14 August/ Radio New Zealand Rural] Potatoes New Zealand CEO, Champak Mehta said that new marketing initiatives are attempting to reverse falling potato consumption, due to the belief in the under 40 age group in Western nations that potatoes are bad for you. Mr Mehta said that it is the total interaction between the proteins and the carbohydrates and its glycaemic loading that is important, rather than just the glycaemic index. He said that Potatoes NZ is using that information to provide health and nutritional messages that highlight the benefits of potatoes, including the benefits from its potassium, vitamin C and fibre content.

Meadow Mushrooms' expansion continues [15 August/ NZ Farmer] The second stage of Meadow Mushrooms' \$120 million expansion project in Hornby commenced this week, with the \$12 million extension of the Christchurch farm expected to provide 60 jobs and increase production by 37,000 kilograms of white mushrooms per week. Meadow Mushrooms' CEO, John Barnes said that approximately \$60 million had been spent so far, and mentioned that an office administration and headquarters construction project and an expansion of the compost facilities and growing-shed conversions would commence before the end of 2014. Mr Barnes said that the development is an indication of Meadow Mushrooms' confidence in the future of the market. He also mentioned that fresh mushrooms were the third highest selling vegetable in New Zealand.

Pipfruit sector's future 'very bright' [15 August/ Otago Daily Times] Pipfruit New Zealand CEO, Alan Pollard highlighted that good returns are expected in the industry this year, following a record season last year (550,000 tonnes in total production, 320,000 tonnes for export with \$500 million in export returns). At a two day Pipfruit New Zealand conference in Queenstown last week, Mr Pollard highlighted how to achieve the goal of developing the industry to a \$1 billion export level by 2022. Mr Pollard said that despite the lower volume this year (from pipfruit being a biennial crop), returns would be similar to or better than last year. He highlighted the positivity in the industry by mentioning the investment by Turners & Growers in Apollo Apples in the Hawkes Bay, the successful float of Scales Corporation and the amount of investment in new tree plantings and post-harvest technology. Mr Pollard said as many exporters shifted focus to the Asian market (where there was the biggest growth opportunities), there were also opportunities to fill the gaps created in New Zealand's traditional markets of Europe the UK and the US. Speaking as a keynote speaker at the conference, Mr Pollard mentioned that the pipfruit sector will become the second horticultural sector to sign up to the Government Industry Agreements, where the Government and industry work in collaboration to deliver the best biosecurity outcomes. The annual Pipfruit New Zealand award for Outstanding Contribution to the Industry was received by Pipfruit New Zealand technical manager, Mike Butcher, who is to retire this year.

PSA disease grips Kerikeri orchards [19 August/ Radio New Zealand Rural] Although Northland growers have managed to confine the PSA disease to a few orchards, Fruitgrowers Federation's Rick Curtis said that the PSA disease has infiltrated onto Kerikeri orchards. He said the wet and warm conditions have resulted in an increased spread of the bacteria, with approximately 30 positives detected to date. He also highlighted that the disease has not been detected in Whangarei.

Arable

Price of cereal grain buoyant [17 August/ NZ Farmer] Although planting of milling wheat levels are expected to be similar to that of last harvest, the latest arable industry marketing initiative grower survey (a survey of grower intentions) indicates that the predicted area of feed barley for the 2015 harvest has increased by 18 percent. Areas of milling and feed wheat, and malting and feed barley crops planted in autumn declined 17 to 21 percent due to exceptionally wet weather. Despite some districts being too wet, the survey indicated that farmers were intending to sow wheat, with spring sown feed barley expected to become the most likely option. Uncontracted feed wheat and barley was selling for up to \$440 to \$450 per tonne, delivered, with the possibility of some lines of grain selling out before next harvest. The survey also indicated that the carry-over grain inventories from the bumper 2012 and 2013 harvests have been depleted, with tonnage back to normal levels. An estimated 44,000 tonnes of feed wheat remained unsold at July 1, compared with 100,000 tonnes at the same time in 2013 and 128,000 tonnes in 2012. Feed barley has 44,000 tonnes unsold, compared to 68,000 tonnes in 2013 and 113,000 tonnes in 2012. Data indicated the average yield of milling wheat for the 2014 harvest has declined to 8.7 tonnes per hectare, compared to 9.4 tonnes per hectare in 2013, while feed barley yields increased to 7.6 tonnes per hectare in 2014, compared to 7.5 tonnes per hectare the previous harvest.

Forestry

WorkSafe slams forestry industry over deaths [14 August/ Business Day] In a submission made to the Independent Forestry Safety Review, the workplace health and safety regulator, WorkSafe, stated that the structure of the forestry industry meant that no one was responsible for workers' safety, putting the greatest burden for safety on workers rather than the asset owners. The regulator said that it had identified five key problems in the industry (supply chain, undervaluing safety, competency deficits, poor safety culture and insufficient investment in forest harvesting infrastructure). WorkSafe stated that the short term harvesting contracts in the industry (particularly in the farm forest sector) resulted in slow technological advancements and reliance on manual labour. It said that poor process and planting design does not take due account of safety implications, and mentioned of systemic financial and operational under investment in safety. The regulator said that the problems are exaggerated by non-compliant operators undercutting those who are implementing good systems. It said that with the high reliance on individual judgement at the worker level and contributing factors such as fatigue, hard physical working conditions and the impact of variable environmental factors, poor safety issues were more prevalent in forestry. WorkSafe CEO, Gordon MacDonald said that while WorkSafe was prepared to play a leadership role, it was the responsibility of the sector to address its issues and target improvements. The panel expects to have a final report by mid-October.

Small forestry contractors leaving industry [18 August/ Radio New Zealand Rural] The Forest Industry Contractors Association estimates that almost 50 operators have left the industry due to the decline in the log export trade driven by a drop in demand from New Zealand's main market, China. Forest Industry Contractors Association CEO, John Stulen highlighted that smaller scale and short term operators working on farm forestry blocks have been the heaviest affected group. The Government safety agency, WorkSafe New Zealand said that serious injuries reported almost halved in the first five months of the year, in comparison to 2013. However the regulator stated in a submission to the Independent Forest Safety Review that there was no firm evidence of fundamental changes required to improve safety having occurred in the sector in a sustainable way.

Wool

Wool levy spending specifics outlined [13 August/ Otago Daily Times] A proposal outlining how a proposed wool levy would be spent has indicated that \$2.7 million would be allocated to education targeted at stimulating demand for wool. Up to another \$500,000 has been allocated for innovation, including co-ordination, communication and extension of the investment in wool research and development and to allow projects not covered by current funding to progress. Approximately \$500,000 is to be spent on communication used to support trade negotiations and improve market access. Governance and administration is to receive \$500,000 with administration expected to be kept to a minimum with a board of three farmer elected directors and up to two appointees. The Wool Levy Group chairwoman, Sandra Faulkner said that the board will be supported by a pan sector advisory group. The levy will be 3 cents per kilogram (16.2 cents per sheep). The Wool Commodities Levy Act caps the maximum possible levy at 5 cents per kilogram. Voting is scheduled to close on October 10.

Water

Labour levy to hit rural irrigators [18 August/ NZ Farmers Weekly] Irrigation New Zealand CEO, Andrew Curtis said the Labour Party's user pays levy (for large scale rural users) on fresh water for rural users appears unlikely to receive support by irrigators, unless it drops environmental investments and focuses on irrigation infrastructure. Labour Party primary industry spokesman, Damien O'Connor said the levy figure is yet to be determined, but may differ from region to region and would not place an undue burden on rural users. The levies earned are proposed to be used within the region. Mr Curtis highlighted that it was inequitable to only target irrigators through the levy when hydro generators, commercial users and urban users will not be charged on their usage. Mr O'Connor said that there was a need to determine how increased research and development, clean-up and infrastructure development is to be funded. He highlighted that levy is reasonable if farmers are aware of how the funds will be used for water management and are aware of the costs they will face. Lake Taupo Protection Trust CEO, Graeme Fleming had predicted that cleaning up beyond Taupo would be difficult if funds were not made available to retire land and reduce stocking rates on farms.

Fishing and aquaculture

Fishing companies may work together [15 August/ Business Day] Although Sanford and Sealord were reported to be in talks aimed at consolidating their fishing operations, Sanford CEO, Volker Kuntzsch said that they were not contemplating a merger and that the companies had only discussed combined quotas on certain vessels. Sealord said that it was engaging in collaborative efforts with Sanford to address the impacts of a strong New Zealand dollar, and highlighted that it works with all its peers. Sanford fisheries manager, Shane Walsh said that he was in discussions with Sealord over creating an one fleet-type approach, aimed at increasing efficiencies. Sealord fishing general manager, Doug Paulin told Fairfax Media that as both companies had excess fishing capacity, consolidating fleets would be a substantial opportunity to save costs. Mr Paulin said that the industry was faced with unfavourable exchange rates, stagnant commodity pricing of fish and narrowing margins.

Dairy

Fonterra in Australian research deal [14 August/ Radio New Zealand Rural] Fonterra Co-operative Group chief technology officer, Jeremy Hill said that its agreement with Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO) would complement, rather than compete with its work with New Zealand research providers. Dr Hill mentioned CSIRO's breadth of science and technology capabilities in agriculture and food, and said that its agreement would mean that it could bring some of its capabilities to come up with solutions New Zealand would not have been able to achieve on its own. As an example, Dr Hill highlighted exploring CSIRO's approach to dealing water issues in the New Zealand's dairy industry. He also mentioned that the CSIRO 3D printing technology had the potential for making new types of packaging.

Move over cow milk as alternatives make inroads [15 August/ Business Day: NZ Farmer] In 2013, Sanitarium reported a 12 percent increase in the growth of milk alternatives such as rice, soy, oat and coconut milk in New Zealand, while almond milk experienced a 143 percent increase. Fonterra Brands CEO, Peter McClure said that sales of cow milk and cream over the past year have been stagnant. While a Foodstuffs spokeswoman highlighted that almond milk and coconut milk have experienced the biggest dollar and unit growth, rice milk sales had declined for the second consecutive year. Supermarket chain Countdown has seen a 14 percent increase in milk alternatives, mainly driven by 228 percent increase in almond and almond blended milk sales. Sanitarium communications manager, Mark Roper said that almond milk was the highest selling alternative in the US. Mr Roper said that consumer were pursuing alternatives due to health reasons, including allergies and the lower calorie content of the alternatives. Organic almond milk sells for \$3.89, the organic almond sells for \$7.50, while soy varieties sell for between \$4.60 and \$6.20, in comparison to cow milk selling at \$2.89 at Countdown. A spokeswoman for the Ministry for Primary Industries said Food Safety Australia New Zealand is investigating the issue of hemp milk (which is from the same plant as marijuana and contains low levels of marijuana's psychoactive substance) for sale in food products.

Commission questions Fonterra payouts [16 August/ Otago Daily Times] A Commerce Commission draft report has indicated that the decision by Fonterra to drop last season's forecast payout to 55 cents below the calculation stated in the milk price manual was inconsistent with incentives for the dairy giant to operate efficiently. The final report scheduled to be published on September 15 concludes that the company had set a price inconsistent with the purpose of the milk price monitoring regime. The Fonterra board had the discretion to pay a lower farmgate milk price than that specified in the milk price manual if it was in the best interests of the co-operative. The Commission's deputy chairwoman, Sue Beggs said that the Co-operative was setting a lower price to compensate for adverse effects of a number of unanticipated events that would have had a negative impact on profits. There were no consequences for Fonterra under the Dairy Industry Restructuring Act's milk price monitoring regime which prompted the draft report. Ms Beggs acknowledged that there are other factors that provide efficiency incentives for the co-operative, and the draft findings do not imply Fonterra is inefficient. A working group chaired by Ruawai dairy farmer and former Fonterra director, Greg Gent that has been established to determine methods meet the future capability needs of the dairy processing sector is expected to submit its final report to the Ministry for Primary Industries Director-General, Martyn Dunne by the end of July 2015.

Rebuffed calf rearers rule out Fonterra legal action [18 August/ NZ Farmer] Taranaki farmers dumped from the Fonterra International Live Stock Venture said they will not pursue legal action, with Waverley calf rearer, Chris Carrick saying that they were given assurances that they would be involved in the venture for a minimum of three years. Mr Carrick said that he cannot afford to take legal action against the co-operative. A Fonterra spokesperson previously stated that all contracts under the venture were for one year and the system was evaluated and streamlined at the end of each season, which could result in farmers who had raised calves for live export missing out. Mr Carrick said that he had heard nothing from Fonterra, apart from receiving a \$500 RD1 voucher in compensation. An unnamed farmer said that they have managed to secure a contract with a neighbouring farmer to raise 180, and potentially 250 calves instead.

Producer prices fall as dairy declines [19 August/ NZ Herald] Statistics New Zealand said that New Zealand producers' output prices declined 0.5 percent in the three months ended 30 June, while input prices declined 1 percent. Dairy produce prices have experienced a decline this year, due to increased production, which has led to an inventory surplus in China and falling demand in some emerging markets. Statistics New Zealand stated that raw milk prices in the second quarter declined 11 percent in respect of the prices received by dairy cattle farmers and declined 9.4 percent in input prices paid by dairy product manufacturers. Statistics New Zealand prices manager, Chris Pike said that lower milk prices have contributed to a decrease in input and output producer price index in the June quarter (output dairy product manufacturing price index down 2.9 percent, electricity and gas supply price index down 8.4 percent). Producer output prices increased 2.5 percent while input prices increase 1.4 percent on an annual basis.

Goat

Dairy Goat Co-op ready to expand [14 August/ NZ Farmer] The Dairy Goat Co-operative started commissioning its new \$70 million spray dryer and it plans to start using it later in August. Dairy Goat Co-operative CEO, Tony Giles attributed the co-op's growth to \$150 million of revenue to its demand driven, market-led strategy. He emphasised the importance of the market-led philosophy in an industry with no commodity market. The growth has also resulted in the co-operative increasing its number of suppliers to approximately 70 farmers. Mr Giles said that the growth enabled it to achieve vertical integration from the farm to the market, highlighting the company now supplies 20 markets, including China. The Co-operative's long term strategy focused on brands, market and product development while having a focus, as well as placing a heavy emphasis on the production of infant formula, including the premium end of the infant formula market. Mr Giles said that it was the first to invent commercial goat milk infant formula, and that it was the first entrant to each market it entered. He also mentioned the intention of the company to pursue the opportunity to become a niche operator of a different protein source and to be a value added producer. The co-operative also anticipates entering the European market.

Rural infrastructure

PGG Wrightson returns to profit but outlook clouded by dairy slump [12 August/ NZ Herald] PGG Wrightson declared a profit of \$42.3 million in the year ended June 30, up from a loss of \$306.5 million the previous year due to a \$321 million charge taken to write off goodwill from its 2005 merger. The Rural services division made the biggest contribution to the total earnings of \$58.7 million (based on non-GAAP measures). PGG Wrightson CEO, Mark Dewdney said that the company will put more emphasis on the dairy, water and agronomy sectors, while mentioning that the outlook for its core sheep, beef, arable, horticulture and viticulture markets is positive. He said that while the company is confident that operating EBITA will increase in the current year, it would wait until its annual meeting in October to give guidance, given the volatility in the forecast dairy price. The company is to pay a fully imputed dividend of 3.5 cents a share on Oct 3 (final dividend of 2.5 cents, a special dividend of 1 cent to bring the total dividends for the year to 5.5 cents).

Environment and emissions

Land sector on toxic sites priority list [14 August/ Radio New Zealand Rural] The Government is spending an additional \$2.4 million on cleaning up the Kopeopeo Canal near Whakatane, increasing the total funding for addressing Government's targeted top 10 priority list of contaminated toxic sites in New Zealand to \$4.7 million. The Kopeopeo canal was polluted in the 1950s to late 1980s as a result of stormwater discharges from a former sawmill, with the clean-up involving the removal of dioxin-contaminated sediment. The former New Zealand Farmers Fertiliser Works at Onehunga is another site on the Government's list. The Green Party has welcomed the announcement of a national register of contaminated sites.

Promising report on Horizon rivers [14 August/ Rural News Group] A Landcare Research sediment report, commissioned by Horizons in 2013, which aimed to assess the impact of the Sustainable Land Use Initiative on sediment levels in the region's rivers has been delivered to Horizons Regional councillors. Horizons Environmental Manager-Land, Grant Cooper, said they needed to ensure they were making an impact downstream. He also highlighted that Landcare provided five scenarios and their predicted impact by 2043. Mr Cooper said the most promising scenario and the one most likely to be implemented by the Sustainable Land Use Initiative predicted an annual sediment load on rivers to decline by 27 percent across the region, while it will decline by 61 percent in the Middle Whangaehu catchment. Horizons catchment operations committee chair, Murray Guy said that the report will aid funding applications to Central Government and help make decision in the works programme.

International

Nufarm growth seeds set to sprout [13 August/ The Australian] Agricultural chemicals and seed company, Nufarm managing director, Doug Rathbone said that in light of improving local market conditions and the results of the company's wholesale restructuring, the company's outlook for 2015 looks to be positive. He said that although conditions have been tough over the last 12 months, the past three months have proven to be positive. Mr Rathbone said although pricing remained competitive, channel inventories were normalising and the strong demand provided a better platform for margin recovery in 2015. In March, Nufarm announced plans to cut 105 jobs from its Australian business, close its Lytton and Welshpool manufacturing plants and close several regional service centres over the next two years. The company said that it expects annual costs savings of AUD 13 million a year and restructuring costs of up to AUD 39 million. He also said that the review of its Australian operations by Deloitte to achieve a more flexible cost base has been successful. In July, Citi analysts upgraded Nufarm from a "sell" to "neutral" and increased its price target to AUD 4.65 from AUD 4.20. Mr Rathbone also mentioned that the Russian import ban will not have a significant impact on the company.

Banana investors bet on a bidding war for Chiquita [14 August/ NZ Herald] Carolina based Chiquita Brands International's stocks rose over 30 percent this week on news of a surprise \$13 per share joint takeover bid from Brazilian orange juice processor, Cutrale Group and financial conglomerate, Safra Group. MKM Partners said that a deal may require as much as \$16 per share. Accepting the proposal would mean Chiquita will have to comply with Cutrale's request to not proceed with the plan of acquiring Irish competitor Fyffes. An analyst said that Fresh Del Monte Produce or even PepsiCo may join the bidding for Chiquita (valued at \$629 million).

Aussies embrace 'no frills' stores [14 August/ The National Business Review] A Queensland University of Technology study indicates that Australian consumers have embraced European style supermarkets that sell only private label goods, led by the German supermarket chain Aldi, with over 300 Australian stores. Queensland University of Technology consumer expert, Gary Mortimer said that Aldi has identified an untapped segment of the market (price conscious grocery shoppers who are happy to buy private labels). Dr Mortimer said that Aldi has grown to be the third largest food retailer, with plans to expand to South Australia and Western Australia. He said that in Britain, Aldi's market share has increased to 4.8 percent from 3.7 and a competitor Lidl has increased its share to 3.6 percent, while Britain's largest supermarket chain Tesco's share has declined from 30.3 percent to 28.9 percent. He highlighted the possibility of Australian consumer uptake of such supermarkets, with research indicating that 97 percent of consumers shop across all supermarkets.

A bumper crop, but a bad year for farmers [17 August/ The Washington Post] World's largest farming machinery manufacturer, John Deere reported a 15 percent decline profits to US dollars 850 million for its fiscal third quarter. US farm profits are expected to decline by almost 27 percent in 2014, with crop sales anticipated to decline by over 12 percent. According to the US Department of Agriculture, this year's corn crop is expected to be the largest in history, driving down corn price by 35 percent.

Agribusiness education

New demo farm for Lincoln in Waikato [14 August/ Radio New Zealand Rural] A 200 hectare Waikato dairy farm on the banks of the Waikato River, owned by St Peter's School in Cambridge has formed a partnership with Lincoln University to provide a demonstration farm, similar to Lincoln University's research and demonstration dairy farm in Canterbury. Lincoln University vice-chancellor, Andrew West said that St Peter's School farm is an ideal site to monitor environmental impacts and demonstrate how dairy farming can be both environmentally sustainable and profitable. St Peter's School principal, Steve Robb said the farm will also provide an educational ground for students.

Challenge thrown down at farm launch [19 August/ NZ Farmer] Similar to its latest demonstration farm in Cambridge, Lincoln University has established a training farm (for finishing lambs, raising beef cattle and to demonstrate how to produce arable crops) 10 kilometres north of Bulls in Manawatu to be run in partnership with local iwi Ngati Apa. It is targeting a feed conversion efficiency ratio of three to one for both lamb and cattle, outperforming dairying on a return on assets. The Lincoln University vice chancellor, Andrew West said that it was expanding its farms to train and educate young people and assist farmers to farm more productively and profitably, while being environmentally sustainable. The Cambridge dairy farm partnership between the University and St Peter's School has so far established a governance committee to be chaired by the school board chairman, David Heald. Dr West also highlighted that the management committee is in the process of being established, with one of its first tasks being to recommend the type of dairy farm system that should be adopted. Fonterra chairman, John Wilson said that the trials to be set up on the farm would be critical for the future environmental sustainability of the dairy industry.

Farmers and producers

Dairy conversions, urban sprawl drive down numbers of sheep [13 August/ NZ Herald] Beef + Lamb New Zealand said dry conditions in the northern North Island and changes in land use in the South Island has resulted in sheep numbers falling by 3.2 percent over the 2013-14 season, with the total flock having declined to 29.8 million in the year to June 30, 2014 (from 70.3 million in 1982). The declining trend has also been reflected in Australia, where numbers reduced from 180 million in 1990 to an estimated 72.2 million in 2014. Beef + Lamb chief economist, Andrew Burt said that the factors contributing to the decline were conversions to dairying, urban sprawl, plantation forestry and viticulture. However productivity increases have meant that New Zealand farmers could get 20 more lambs per 100 ewes than in 1980s. Beef numbers have also experienced decline over the same period, but grew 1.6 percent over the year to 3.76 million

Farm sales up despite winter lull [19 August/ Business Day: NZ Farmer] Real Estate Institute figures indicate 1,923 farms were sold (up 25 percent) over the year to July, with national sales up by almost 17 percent in three months to July with 512 sales, although they dropped 5.9 percent when compared to three months to June. The median price per hectare for all farms in the three months to July increased 29 percent to \$26,680, and was 2.6 percent higher than June, although the prices declined in many regions. Real Estate New Zealand rural spokesperson, Brian Peacocke said that although there had been increases in annual volumes and prices over the past 12 months, there was a drop in both volumes and prices in the three monthly figures. Real Estate New Zealand All Farm Price Index (adjusted for farm size, location and type) declined 5.7 percent in the three months to July, compared to three months to June, and increased 8.8 percent compared to July 2013. Mr Peacocke said that unlike dairy farms, finishing and grazing properties had maintained some momentum, with inquiries for beef farms in the north, dairy support properties in the centre of the country and sheep, beef and dairy support farms in the lower south.

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Weekly news update from the KPMG Agribusiness Network – 20 August 2014

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