

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

6 May 2015

Organisations referenced in this week's Field Notes include:

Acceso Cashew Enterprise	New Zealand Trade and Enterprise
Alliance Group	NZX AgriHQ
ANZ Bank	Pastoral Greenhouse Gas Research Consortium
ASB Bank	PepsiCo
Barnes Wild Bluff Oysters	Rabobank
Beef + Lamb New Zealand	Silver Fern Farms
China Council for the Promotion of International Trade	Southern Clams
Clinton Foundation	Southern Dairy Development Trust
DairyNZ	Southern Dairy Hub
Federated Farmers	Statistics New Zealand
Five Nations Beef Alliance	Sunny Queen
Fonterra Co-operative Group	Synlait Milk
Gulf Co-operation Council	Te Runanga o Otakou Mataitai
Horticulture New Zealand	Tyson Foods
iFarm	United States Department of Agriculture
Kiwifruit Industry Strategy Project	Watties
Meat Industry Excellence	Westland Milk
Ministry for Primary Industries	Wilson Consultancy
New Zealand Kiwifruit Growers	World Conservation Union
New Zealand Poultry Industry Association	Zespri Kiwifruit

This week's headlines

Horticulture	Fruit and vegetables: a more profitable alternative for disgruntled dairy farmers? [4 May/ National Business Review]
Poultry	Meat giant playing catch-up on antibiotics [30 April/ Radio NZ Rural]
Dairy	AgriHQ revises down farm gate milkprice forecast [29 April / NZ Herald]
Research and development	Methane gas research uplifting [4 May/ NZ Farmer Weekly]
Trade and economic	John Key wraps up Gulf States tour with Burger Fuel [30 April/ NZ Herald]



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HOT OFF THE PRESS:
**KPMG AGRIBUSINESS
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Horticulture

Three keys to success of kiwifruit vote [25 April/ Rural News] Kiwifruit Industry Strategy Project Chairman, Neil Richardson said the project's success was due to three things; consultation, the industry designing its own strategy, and industry believing the group got it right. Mr Richardson believed that the three key drivers and the way the process was run led to a high voter turnout which produced a very good result. Mr Richardson is confident the government will support the regulatory changes required as it has seen a very robust process with a great deal of independence involved. Regulatory changes, changes to the Zespri and New Zealand Kiwifruit Growers constitutions will take 12-18 months complete.

China Business: Focus on quality bears fruit [30 April/ NZ Herald] Zespri General Manager of Marketing, Carol Ward said owning the quality label is important in every market Zespri operates in, but it works extremely well with Chinese consumers. Ms Ward added that Zespri's kiwifruit sells around 10 times the price of locally produced fruit. The Chinese market is Zespri's second largest, after Japan, accounting for around 15 percent of its global sales. Ms Ward said the goal is to increase sales from \$150 million to \$200 million this year, with potential to increase Chinese sales by 20 percent year on year for the next 5 years. Ms Ward said most of the growth will come from the new SunGold variety, with gold kiwifruit sales expecting to double. To meet growing demand, Ms Ward said the company has a huge research and development programme focused on kiwifruit farm productivity and boosting fruit produced per square metre. The geographical size of China is seen as Zespri's major challenge, with a high cost of marketing.

HortNZ takes conference to Samoa [2 May/ Rural News] Samoa will host this year's Recognised Seasonal Employer Conference, the first time it has been held outside of New Zealand. Organised by Horticulture New Zealand and the Government of Samoa, the conference is an annual event for the employers, government agencies and RSE communities who support the RSE programme. Horticulture New Zealand Chief Executive, Peter Silcock said the Prime Minister of Samoa, Tuilaepa Sailele Malielegaoi had invited the conference to Samoa. The conference will look at how the programme has expanded the horticulture workforce and how the funds and skills developed can be used to build more self-reliance in the Pacific. The programme brings around 9000 workers from the Pacific Islands to New Zealand, working in the horticulture and viticulture sectors.

Fruit and vegetables: a more profitable alternative for disgruntled dairy farmers? [4 May/ National Business Review] The horticulture industry, with exports generating more than three times the return per hectare than the dairy industry, could act as a more profitable alternative for disillusioned dairy farmers. New Zealand's horticultural production in the year ending 30 June 2014, exceeded \$7 billion from 123,000 hectares compared with the \$16.9 billion generated from 1.7 million hectares of dairy land. Horticulture New Zealand Chief Executive, Peter Silcock said profitability does vary across horticultural products, but that some products have significantly better returns than dairy. Mr Silcock added that some argue horticulture poses more risk. The largest three horticulture export categories for the year ending June 2014, were wine at \$1.3 billion, kiwifruit at \$930 million and apples sitting at \$536 million.

Watties cans asparagus plant [4 May/ Radio NZ Rural] Watties has decided to stop any further asparagus processing at its Hastings plant, as it has failed to receive a sufficient supply to maintain the viability of the plant. Watties will now get its asparagus from Peru. Hawkes Bay Grower, Lindsay Kay said up to 15 growers in the region could be affected along with others elsewhere in the country. Mr Kay said the news was not a surprise, with the plants closure being mentioned a year ago. Mr Kay added that growers needed to find new options for exporting and warned that selling on the local market could push it towards oversupply issues.

Viticulture

Food needs to catch up with wine [4 May/ New Zealand Winegrower] Harlequin Public House, Mrs Hucks and the Charcoal Relief Unit Owner and chef, Jonny Schwass believed it is time New Zealand developed a food culture that matches its wine culture. Mr Schwass said many people are too scared to give food a New Zealand identity and that the reason for this being it is a young culture. Mr Schwass believed it is only a matter of time before food tourism comes to New Zealand, and that now is time to develop a food culture to match the internationally acclaimed New Zealand wines.

Arable

Record crops for South Island farmers [30 April/ Radio NZ Rural] Timaru Barley Farmers, Warren and Joy Darling now hold the world record for the largest barley crop, producing a crop of 13.8 tonnes a hectare. The award means three South Island farmers now hold world cropping titles, after North Otago Farmer, Chris Dennison and Southland Farmer, Mike Solari won awards for largest canola crop and highest wheat yield respectively.

Poultry

Meat giant playing catch-up on antibiotics [30 April/ Radio NZ Rural] American meat producing giant, Tyson Foods has announced it will stop using human antibiotics in its U.S. chicken flocks in response to growing concerns about antibiotic-resistant infections. New Zealand Poultry Industry Association Executive Director, Michael Brooks said what Tyson Foods was doing was new in the United States but has been a long standing practice in New Zealand. Mr Brooks said 98 percent of antibiotics used in New Zealand chicken is of non-human significance, with human antibiotics only used when an outbreak of disease occurs.

Fishing and aquaculture

No plan to curb clam fishing in harbour [1 May/ Otago Daily Times] Te Runanga o Otakou Mataitai said they have no plans to limit access for recreational fishing in the Otago Harbour under a proposed mataitai. Dunedin Recreational Fishermen, Ted Young and Warren Lewis feared the proposal could reduce access to clam-fishing grounds and expressed concern that it would allow Southern Clams to unsustainably harvest from the harbour. Te Runanga Committee Chairman, Tangi Russell said the organisation would oppose Southern Clams permit when it comes up for renewal next year. Southern Clams Operations Manager, David Redshaw said if the mataitai was approved it would not affect Southern Clams' harvesting from two areas near Quarantine Island. Ministry for Primary Industries Fisheries Management Director, Dave Turner said it was not possible to say when the ministry would give its decision on the mataitai and that the decision of Southern Clams' research permit renewal was pending.

Oyster season on track despite poor weather [1 May/ The Southland Times] Barnes Wild Bluff Oysters General Manager, Graeme Wright said the fleet remained confident of reaching its quota of 10 million oysters before the end of the season, despite poor weather hampering efforts over the past month. Mr Wright also said demand for Oysters was as crazy as ever. The quota for the Foveaux Strait had been reduced to 10 million, from 13.2 million, the reduction being result of a cautious approach taken by the industry as it continues to battle with the bonamia parasite. Mr Wright said research aimed at better understanding bonamia was taking place this year.

Dairy

AgriHQ revises down farm gate milk price forecast [29 April / NZ Herald] NZX AgriHQ has lowered its forecast farm gate milk price for the 2015/16 season, to \$5.70 per kilogram of milksolids, based on NZX dairy futures prices for the first six months of the season. NZX AgriHQ Dairy Analyst, Susan Kilsby expected prices to improve in the second half of the season as the global markets stabilise.

Westland milk cuts dairy payout forecast [29 April/ NZ Herald] Westland Milk has cut its forecast payout for the current season to between \$4.90 and \$5.10 per kilogram, from \$5 to \$5.40 a kg. Westland Milk Chief Executive, Rod Quin said current prices were unsustainable and that the high New Zealand dollar was making the situation harder. Mr Quin said Westland Milk was well-placed due to sales decisions made earlier in the season but it still has some exposure to both the marketplace and the impact of lower prices for the remainder of the season. Mr Quin added that the next three months are expected to be tough as European processors aggressively sell their peak milk. Westland's new Hokitika nutritionals dryer, due to open for 2015/16 season, is expected to increase Westland Milk's returns compared with milk powders.

Night milking producing melatonin-rich milk [29 April/ NZ Herald] Milking cows at night, when there is increased concentrations of melatonin in their milk, has enabled Synlait Milk to produce a milk product that improves sleep. Synlait Research and Development Manager, Dr Simon Causer said the powder, dubbed iNdream3, has been proven in an independent Otago University trial to improve sleep and reduce daytime dysfunction. Synlait Managing Director, Dr John Penno said the product demonstrated the businesses capability to create and add long term value. iNdream3 has been stocked by a Korean Synlait customer, since January, sold as a powder. The product received funding from both DairyNZ and New Zealand Trade and Enterprise.

Fonterra move blow to farmers [1 May/ NZ Herald] Fonterra Co-operative Group has lowered its farm gate milk price forecast for the current season, to \$4.50 a kilogram of milk solids. The 20 cent drop is estimated to reduce farm incomes by \$370 million and compared to the previous forecast. Incomes across all dairy companies are estimated to be around \$7 billion lower on last year. The reduction, as well as the lowered estimated dividend range of 20 to 30 cent per share, will mean the forecasted payout to farmers is between \$4.70 and \$4.80, far below DairyNZ's estimated \$5.40 per kilogram break-even point. Oversupply issues continue to affect the market with the lifting of the European Union quota system, increased supply resulting from Russian import bans and higher domestic and American production. Lowered demand from China, dropping 29 percent in the year to March, has also impacted the market. ASB Bank Rural Economist, Nathan Penny said the initial season price of \$7 per kilogram caused farmers to produce more and spend more on feed, pushing up output. Mr Penny added that the biggest issue was Chinese growth.

Dairy hub call end by May [2 May/ Otago Daily Times] Southern Dairy Development Trust Chairman, Matthew Richard said he expects a decision on whether the Southern Dairy Hub will proceed to be made by the end of May, as farmer contributions failed to meet the \$2 million target. An unofficial figure of \$1,253,100 had been pledged by 502 out of 932 farms, with the trust still awaiting postal pledges. DairyNZ and AgResearch had pledged \$10 million, conditional on local support. Mr Richard said the hub will be critical in the current low-milk-payout environment, playing a key role in increasing efficiencies, productivity and reducing costs.

Dairy price rise case of 'when not if' [4 May/ Otago Daily Times] Rabobank Director of Dairy Research New Zealand and Australia, Hayley Moynihan said medium-term prospects for dairy prices remain "solid but not spectacular" and that market volatility is expected to continue in global dairy markets as drivers in the market are factors beyond control. Ms Moynihan added that the recovery in prices was about when not if, but the recovery is likely to be more prolonged than seen in 2009/10 and 2012/13. Ms Moynihan believed the demand and consumption side of the market was not discussed enough, with China exemplifying how a change in demand can alter the markets balance. Rabobank believed imports into China would be about half the level of last year.

Early warning of advance milk payment urged [4 May/ Business Day: NZ Farmer] Fonterra Shareholders Council Chairman, Ian Brown is to ask the company to bring forward its announcement date of the new seasons advance milk payment to help farmers budget. Mr Brown said he was not sure an early forecast was possible, but agreed that it would be a huge confidence booster for farmers trying to budget. Wilson Consultancy Agricultural Consultant, Will Wilson said around \$2 billion in additional working capital will now be needed by farm businesses to fund operations for the 2015/16 season due to Fonterra's 20 cent milk price downgrade. Mr Wilson added that it was not time to blame Fonterra, but the company needed to be realistic about the pressures on world dairy prices. Mr Brown commented on how some farmers believed some of New Zealand's farm systems and practices were less resilient to payout fluctuations than they used to be but said the council had learnt of some farmers setting up systems for a \$3kg payout.

Dairy prices push index down [5 May/ NZ Herald] Declining dairy prices dragged ANZ Bank's commodity price index 7.4 percent lower than last month, with a strong New Zealand dollar amplifying the decline. In New Zealand dollar terms the ANZ index fell 8.9 per cent in April to be 6.8 per cent down on a year ago. ANZ Rural Economist, Con Williams said Fonterra's milk price downgrade and continued price weakness in the dairy sector raised the prospect of a mild opening forecast for next season and low advance payments, bringing cashflow issues to the sector. Finance Minister, Bill English cited weak dairy prices as a reason for the longer than expected return to a budget surplus. Mr Williams said other commodities were either steady or slightly up, with the meat and wool sub-group up 2.3 percent on last month including a beef price rise of 5.9 percent. Lamb prices eased fractionally, forestry prices were little changed over the month and remained on a softened trajectory, while Apple prices rose 6 per cent and seafood prices fell 0.9 percent.

Red meat

No plans for live exports change [1 May/ Radio NZ Rural] Prime Minister, John Key said there are no plans for New Zealand to resurrect the export of live sheep for slaughter and that the country will continue to export breeding stock. Mr Key expected there will be no rapid rise in the numbers of stock going to the Middle East in response to his trade visit there.

MIE has 'best of both' idea [4 May/ NZ Farmer Weekly] Meat Industry Excellence Principal Advisor, Ross Hyland dubbed the group's suggested merger between Silver Fern Farms and Alliance Group as a best of both idea, combining the two co-operatives best assets. The merger would need to raise an estimated \$150 million to cover establishment costs. The amount equates to farmer shareholders contributions of \$46,000 for a typical supplier-shareholder relationship with stock units of around 4000 lambs. Mr Hyland believed the potential merger was an exciting business proposition, with Silver Fern Farm's being the best big-scale beef business combining with the best big-scale lamb business of Alliance Group. Mr Hyland expected some farmers to be able to pay for their share up-front, while others would prefer a levy arrangement on stock.

Biggest export markets put the brakes on NZ sheep meat [5 May/ NZ Herald] Sheep meat prices have fallen by around 10 percent in the past two months following a drop in demand from China and Great Britain. Alliance Group General Manager of Marketing, Murray Brown said China, which has the largest sheep flock in the world, had experienced high levels of domestic slaughter putting pressure on imported meat. Domestic production in Britain was up 6 percent, however the weak Euro has made exporting to European countries uneconomical, causing domestic supply to increase. Mr Brown said Britain is also going through a difficult period in the retail sector, with both Sainsbury's and Tesco's recording large full year losses. Mr Brown said beef was facing a more positive outlook, driven by demand in the United States.

Rural infrastructure

NZX adds iFarm to its AgriHQ business [4 May/ National Business Review] NZX has bought livestock market information business, iFarm, for an undisclosed fee and will add the firm to its AgriHQ data business. NZX Chief Executive, Tim Bennett said the new acquisition is a great strategic fit for AgriHQ and will broaden its data and analytical offering. Sales from NZX's agricultural operations fell 1% to \$2.6 million in the three months ended March 31, on the back of lower advertising income.

Research and development

Methane gas research uplifting [4 May/ NZ Farmer Weekly] Pastoral Greenhouse Gas Research Consortium Chairman, Rick Pridmore said New Zealand farmers should be excited by the prospect of compounds, trialled on sheep, which lead to a 30 to 90 percent reduction of methane emissions. Chief Science Advisor, Sir Peter Gluckman said farm systems may need to change to reduce emissions. Mr Gluckman added that the reactions of global customers needed to be considered before accepting new technologies. New Zealand Climate Change Ambassador, Jo Tyndall was optimistic a new global climate change agreement would be reached, when delegates meet in France at the end of the year. Ms Tyndall said an agricultural section in the deal is unlikely, but may be referenced for future inclusion.

Biosecurity

Beekeeper warns over Argentine ant threat [29 April/ Radio NZ Rural] Auckland Beekeeper, James Harrison said an infestation of Argentine ants would be a major threat to New Zealand's primary industries and that there is no solution in sight. Mr Harrison said the ants, dubbed one of the one hundred worst invasive species by the World Conservation Union, got into hives, fed on honey and could kill entire colonies. Mr Harrison added that it was not only an agriculture risk, as some Northland schools were evacuated due to the ants.

Fruit-fly zone reduced [4 May/ Rural News] Ministry for Primary Industries Acting Chief Operations Officer, Steve Gilbert said the ministry is confident about the location of the fruit fly and is to reduce the size of the high risk A-zone. Mr Gilbert said there are still restrictions on the movements of fruit and vegetable. Two months have passed since the last sign of the fruit fly. Mr Gilbert said the ministry will not know for sure if there were any flies still present until they become active after the winter months. The current baiting programme will cease at the end of May and could restart in the spring, depending on trapping results.

International

PepsiCo explores a use for the previously discarded cashew apple [30 April/ The Guardian] PepsiCo is working with the Clinton Foundation and Acceso Cashew Enterprise to create a supply chain for the cashew apple. There is no current established market for the cashew fruit, with 5 tonnes discarded every year as it quickly ferments after picking. PepsiCo is planning to use the fruit in a mixed fruit drink sold in India under its Tropicana drinks label. A pilot to harvest the fruit was established in 2014 involving 2,000 Indian farmers, with a plan to increase to 15,000 farms over the next five years. Farmers who participated in the pilot program said that in just one season sales of the cashew fruit had raised their household income by as much as 20%.

USDA takes note of growing appetite for organic products [1 May/ The Washington Post] The sale of organic products certified by the United States Department of Agriculture (USDA) have more than doubled over the past ten years to more than USD 30 billion. USDA Chief of the National Organic Programme, Miles McEvoy believed the double-digit growth was down to a consumer interest in quality food, with certain production practices resonating well with consumers. Mr McEvoy also said the organic sector relies on good animal welfare because the use of some allopathic products is prohibited. Mr McEvoy added that the National Organics Standard Board has put together recommendations that expand existing animal welfare standards. Mr McEvoy also ensured there are no conflict of interests between organic certification inspectors and the companies who hire them to examine compliance.

US gov declares state of emergency in response to bird flu [2 May/ NZ Herald] A state of emergency has been declared by Iowa Governor, Terry Branstad, in response to the H5N2 avian influenza strain which has left nearly 17 million chickens and hens dead, dying or scheduled to be euthanized across the state. The declaration will continue until the end of May and activates disaster response and recovery procedures for the state's homeland security and emergency management personnel. Iowa, the nation's leading egg producer, will lose around 27 percent of its 60 million egg-laying chickens and has lost over 110,000 turkeys. Overall the outbreak has caused Midwest chicken and turkey producers to lose more than 21 million birds.

China serves up 'hope' at Milan Expo [2 May/ China Daily] China launched its largest pavilion outside of the country at the Milan 2015 Expo, and will showcase the nation's rich agricultural history, food culture and artwork. China Council for the Promotion of International Trade Chairman, Jiang Zengwei said the pavilion will show how China has a great variety of food types and the great contribution China has made in promoting food security globally. Italian Deputy Minister for Economic Production, Carlo Calenda said the pavilion highlighted China's belief that food presents an important way of life. The Milan Expo will take place between May 1 and October 31, with participants from 140 countries telling their food and agriculture stories.

Egg producer sees sunny side of pre-prepared meals [5 May/ The Australian Financial Review] Sunny Queen, Australia's biggest egg producer, has invested AUD 23 million in a pre-prepared meal processing plant in an attempt to double revenue in its pre-prepared meal business over the next two years. Sunny Queen Managing Director, John O'Hara said the venture was attempting to add value to its egg producing business and will target growth areas, including health and aged care facilities, across the Australia. Sunny Queen's pre-prepared business has revenue of more than \$10 million and is preferred supplier to NSW government hospitals. Mr O'Hara also denied any chance of an IPO.

Economics and trade

More NZ exports to Aussie than China [29 April/ Rural News] Statistics New Zealand International Statistics Manager, Jason Attewell said Australia has overtaken China as New Zealand's largest export destination. Total goods exported for March 2015 fell \$103 million to \$4.9 billion, compared to March 2014. Exports to China fell \$324 million, due to whole milk powder while exports to Australia also fell \$26 million. Trade surplus was down by \$273 million, from March 2014, to \$631 million. For the year ended March 2015, annual trade deficit sat at \$2.4 billion, the largest deficit since July 2009.

John Key wraps up Gulf States tour with Burger Fuel [30 April/ NZ Herald] Prime Minister, John Key met with dignitaries and enjoyed a Burger Fuel meal in Kuwait, the final stop of his Gulf States tour. Mr Key's tour was an attempt to complete a free trade deal with the six-member Gulf Co-operation Council, and said the chances of getting a deal was higher than before he came, however Saudi Arabia remained a potential stumbling block. Mr Key said the Gulf Council members will sit down and discuss whether they want to progress things. Mr Key added that one issue for the Saudis had been the treatment of an investor who was disadvantaged over a ban on live sheep exports, however the issue was more complicated than it seemed.

Trade envoy urges haste on TPP [1 May/ Radio NZ Rural] Trade Minister, Tim Groser said there was a 70 percent chance of getting a basic Trans Pacific Partnership deal together within a few months, following a US congressional committee approved fast-tracking legislation. New Zealand's Special Agricultural Trade Envoy, Mike Petersen said the legislation change was a huge step forward but wanted the TPP agreement passed before the end of June when the American political schedule takes over. Representatives of the Five Nations Beef Alliance, which includes New Zealand, also wanted the deal to conclude soon and called on negotiators to deliver a deal that would make it easier to do business, establish fair trade rules and reduce costs.

Farmers and producers

Govt MP blasts 'dickhead' health and safety policies [30 April/ National Business Review] Wanganui National MP, Chester Borrows blasted health and safety officials about ludicrous rules but agreed those who do not use farm equipment safely should be prosecuted. Beef + Lamb New Zealand Chairman, James Parsons said new rules being proposed are too rigid and in some cases reduce safety. Beef + Lamb CEO, Scott Champion told MP's the issue has galvanised farmers into lifting standards and reducing accidents.

Rain fails to curb Hurunui drought [1 May/ Business Day: NZ Farmer] Many farmers are set to make a loss in the drought stricken Hurunui district, North Canterbury as a three day wet period failed to provide any relief. Federated Farmers North Canterbury Meat and Fibre Chairman, Dan Hodgen said many farmers were looking at making a loss, with farmers forking out on as much as \$1000 of hay and silage reserves a day. Mr Hodgen said the hay market is reaching the point of buyer resistance. Farmers in the Hawarden area received around 25 mm of rain, while Cheviot farmland received only 7mm. Mr Hodgen said farmers needed a warm May for better growth and was impressed by both the resilience of farmers and the assistance of the rural support trusts and Beef + Lamb New Zealand.

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