

AGRIBUSINESS

FIELD NOTES

Weekly news update from the KPMG Agribusiness network

20 April 2016

Organisations referenced in this week's Field Notes include:

AFFCO	National Milk Producers Federation
Agria Corporation	National Non-Food Crop Centre
AgriHQ	New Zealand Initiative
Alibaba	New Zealand Media and Entertainment
ANZ	New Zealand Winegrowers
ANZCO Foods	Ornua
ASB Bank	Otago Young Farmers Club
AsureQuality	Overseas Investment Office
China Certification and Accreditation Administration	PF Olsen
Dairy Companies Association of New Zealand	PGG Wrightson
Dairy Technical Services	Potato Marketing Corporation
DairyNZ	Real Estate Institute of New Zealand
Fonterra Co-operative Group	SAFE
Forest Owners Association	Shanghai Maling
Global Merino	Silver Fern Farms
Golden Harvest Aquaculture	Starbucks
India Meteorological Department	Statistics New Zealand
International Dairy Foods Association	Terravesta
Irish Farmers Association	United Nations
Mandala Capital	United States Dairy Council
Mars Foods	Villa Maria
McDonalds Corporation	Westland Milk Products
Meatworkers Union	Wine Australia
Ministry for Primary Industries	World Animal Protection Group
Ministry of Social Development	

This week's headlines

Viticulture	Starbucks selling NZ wine on North American night menu [14 April/ Business Day]
Dairy	Fonterra unveils plan to cut board size [14 April/ NZ Herald]
Red meat	Taste of Kiwi bites into Japan market [18 April/ NZ Farmers Weekly]
Biosecurity	Unexpected visitor in car was Japanese rat snake [17 April/ NZ Herald]
Economics and trade	NZ open to Chinese investment, John Key tells China's business [18 April/ Business Day]



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**HOT OFF THE PRESS:
KPMG AGRIBUSINESS
AGENDA 2015 VOLUME 2**

Horticulture

Cauliflower prices up 47%, meat and fish down slightly [14 April/ Otago Daily Times] The average food price rose by 0.5 percent in March, led by a 4 percent increase in the price of vegetables. Statistics New Zealand Consumer Prices Manager, Matt Haigh said the expensive vegetables were due to a combination of dry weather and high demand. Mr Haigh added that the price of a 1.5 kilo head of cauliflower reached a 22 year high, increasing by 47 percent to \$8.24 in March. Meat, poultry and fish prices fell by 0.2 percent, lamb prices decreased by 5 percent, but beef prices reached a record high with a 0.7 percent increase in March.

Viticulture

Starbucks selling NZ wine on North American night menu [14 April/ Business Day] Sauvignon Blanc from New Zealand's Villa Maria and Kim Crawford wineries has been on North America Starbucks' evening menu since April 2015. Villa Maria Export Markets Executive, Michele Lam said the company's wine could be purchased in 377 Starbucks cafes across 18 states throughout the United States, but they aimed to increase this to 700 cafes by the end of the year. Ms Lam added that the company's presence in Starbucks was not only good for Villa Maria, but also for the entire New Zealand wine industry because it raised the profile of Marlborough Sauvignon Blanc. Ms Lam noted that Villa Maria would be interested in supplying New Zealand Starbucks if they introduced alcoholic options. New Zealand Winegrowers Chief Executive, Phillip Gregan said it was incredibly positive that a major retail chain had recognised the success of New Zealand wine in the North American market.

Forestry

New forestry leader [18 April/ NZ Herald] PF Olsen Chief Executive, Peter Clark has been elected as the president of the Forest Owners Association, replacing the retiring Paul Nicholls. Mr Clark has 40 years of experience in forest operations and consulting in New Zealand and overseas, and was on the board of the Wood Council of New Zealand. Mr Clark said he was keen to see the multiple economic and environmental benefits of forestry recognised by all New Zealanders. Lake Taupo Forest Trust Chief Executive Officer, George Asher has been elected as the vice president.

Export log prices hold steady amid improved demand [18 April/ National Business Review] The average wharf gate price for New Zealand A-grade logs remained unchanged at \$119 per tonne between March and April. AgriHQ Analyst, Reece Brick said demand from China had been relatively positive, with stimulus packages from the Chinese Government increasing interest from buyers. Mr Brick added that shipping prices had risen in April due to increased oil prices and fewer ships visiting New Zealand because of a decline in imports. Mr Brick said the price of logs in the New Zealand market was being supported by increased demand from the construction sector.

Aquaculture

Golden Harvest pulls carp farm application [12 April/ Radio NZ Rural] Golden Harvest Aquaculture have withdrawn their application for a carp farm of 20 large ponds near Lake Taupo. Conservation Minister, Maggie Barry said Golden Harvest Aquaculture had not consulted the local community, iwi and anglers in the region. Ms Barry added that there had been considerable public opposition to the proposal, and the withdrawal of their application meant the company had recognised this. New Zealand Outdoors Party Leader, Alan Simmons said that if the carp got into Lake Taupo they would have destroyed the clean lake and trout fishery.

Dairy

Fonterra unveils plan to cut board size [14 April/ NZ Herald] Fonterra's first draft of suggested changes to the co-operative's governance structure included a recommendation to cut the size of the board from 13 members to 11. The proposed structure would consist of five independent directors and six farmer elected directors to ensure farmers retained control of the board. The recommendation came after more than 200 farmer meetings and roadshows were held around the country to gauge the general opinion of farmers on the structure of the board. Fonterra Chairman, John Wilson said the focus of the recommendations was to attract the best people to the board. Mr Wilson added that the new look board would be about capability and diversity. The recommendations could be voted on by farmers in May.

New milk plant has big orders [18 April/ NZ Farmers Weekly] Westland Milk Products have secured big orders for their \$40 million ultra-high temperature (UHT) plant which was opened in Canterbury on Friday. Westland Milk Chief Executive, Rod Quinn said the commissioning of the Rolleston plant was the first step towards producing and exporting liquid milk. Mr Quinn added that it was a significant milestone in the co-operative's strategy to move away from the volatile and oversupplied bulk dairy ingredients market, and instead focus on producing added value products for the top end of the market. Mr Quinn noted that Westland's move into value added products was already adding almost 20 cents per kilogram of milk solids to shareholder payouts. Mr Quinn said the new plant would also produce UHT cream, allowing the co-operative to export into the Chinese food service and bakery market. The new plant would produce up to 14,000 litres of white milk and up to 9,000 litres of whipping cream per hour.

Dairy suppliers leaving Fonterra for new pastures [18 April/ NZ Herald] Fonterra Chairman, John Wilson said there had been evidence that the co-operative was losing market share, with production expected to be down by 4 percent this season. Farmers who were considering leaving Fonterra lodged their cease notices in February, but the co-operative would not know whether these farmers followed through with their intentions until July. AgriHQ Dairy Analyst, Susan Kilsby said she expected New Zealand's total dairy production to decrease by 2.5 percent for the season ending 31 May, but Fonterra's production would be lower because they were losing market share. Ms Kilsby added that Fonterra's requirement for farmers to hold shares in the co-operative was an incentive for farmers to look elsewhere, as the dividend did not currently justify the investment. Ms Kilsby noted that Synlait Milk and Open Country Dairy had acquired new suppliers as they increased production.

Depressed milk price brings farm values down [19 April/ NZ Herald] According to data from the Real Estate Institute of New Zealand, the median sales price for dairy farms decreased from \$37,761 per hectare in the three months to March 2015 to \$33,897 in the three months to March 2016. ASB Rural Economist, Nathan Penny said the data showed farm prices were responding to very low farmgate milk prices. Mr Penny added that the price of farms in Waikato, Taranaki and Canterbury were holding up quite well, while prices in less traditional dairy farming areas such as Northland were falling.

Red meat

Sheep and beef farming needs same attention as dairy – symposium [13 April/ Radio NZ Rural] Hill Country Symposium Organising Committee Chair, Graham Kerr said the government needed to put more resources into hill country farming. Mr Kerr explained that dairy received far more attention and money from the government when compared to sheep and beef. Mr Kerr said the hill country symposium was about setting a clear direction for the future of the industry and discussing how to make hill country farming more profitable and resilient. Mr Kerr added that the industry's land and infrastructure were in a steady state of decline and there was a lack of research and development in the industry.

AFFCO to appeal ruling on seasonal workers [15 April/ NZ Herald] AFFCO has been granted leave to appeal against an Employment Court ruling which stated that the rights of seasonal workers remained in place throughout the off season, as if they were in continuous employment. The ruling was part of a series of ongoing legal clashes between AFFCO and the Meatworkers Union. No date has been set for the Court of Appeal hearing.

'Disappointing' result flagged for SFF [16 April/ Otago Daily Times] Silver Fern Farms Chairman, Rob Hewett said the company expected its profit for the year to be materially lower than last year's result. Mr Hewett explained that the impact of lower prices and unpredictable livestock patterns had overshadowed a lot of positive initiatives. Mr Hewett noted that the company would provide an update to shareholders after the June quarter.

Taste of Kiwi bites into Japan market [18 April/ NZ Farmers Weekly] ANZCO Foods Japan President, Makoto Kinjo said ANZCO's Japanese Subsidiary was forced to move its Tokyo restaurant to larger premises as it was having to turn customers away at the door. Mr Kinjo added that the restaurant was initially set up as way of promoting New Zealand beef and lamb to Japanese supermarket buyers and other customers, replacing the test kitchen they used for this purpose at their old offices. Mr Kinjo said the restaurant was a small component in ANZCO's core distribution business in Japan, but a major part of showcasing what the core business did. Mr Kinjo added that lots of deals were signed after trade buyers dined at the restaurant. Mr Kinjo noted that the promotion had helped increase lamb sales, a meat that was not commonly consumed by the Japanese, as well as beef sales.

Guy hails halal deal as meat export breakthrough [19 April/ National Business Review] The Ministry for Primary Industries and the China Certification and Accreditation Administration have signed a new Halal Arrangement in Beijing, under which China would recognise New Zealand's regulations and certifications for halal meat products exported to China. Primary Industries Minister, Nathan Guy said the agreement was a major step forward for New Zealand's halal meat producers and it was the first time China had recognised another country's halal regulatory and certification systems. Mr Guy added that the arrangement would provide a competitive advantage in China for New Zealand's red meat producers. Mr Guy also signed an arrangement with Chinese Agriculture Minister, Han Changfu for New Zealand and China to develop an Agricultural Growth Partnership. Mr Guy said the partnership would aim to foster stronger relationships between New Zealand and China's agricultural sectors through coordinated, strategic cooperation.

Rural infrastructure

PGW takeover speculation falls with withdrawal [14 April/ Otago Daily Times] PGG Wrightson Chairman, Guanglin Alan Lai has withdrawn his takeover bid for New York listed Agria Corporation. The takeover would have given Mr Lai a controlling stake in PGG Wrightson, as Agria Corporation indirectly held a 50.22 percent stake in the company. The deal would have cost Mr Lai \$80 million.

NZME launches The Country show [15 April/ NZ Herald] New Zealand Media and Entertainment (NZME) has announced that The Farming Show would be replaced by a new multi-channel service, The Country, to better reflect the wide scope of content on the programme. The New Zealand Herald Managing Editor, Murray Kirkness said the programme would merge NZME's radio, digital and print brands to form a hub for all rural content. Mr Kirkness added that the programme had a strong following in the farming community and allowed urban New Zealanders to see everyday issues from a different perspective. The country would be rolled out in early May and will be hosted by Jamie MacKay.

Research and development

Government spends \$6.9m on primary sector projects [15 April/ Business Day: NZ Farmer] The Government has given \$6.9 million to 25 primary sector projects as part of the Sustainable Farming Fund. The equal largest spend of \$598,000 went to a project aimed at improving pollination for Gold3 kiwifruit produced under netting. This amount was also given to a project aimed at reducing the use of antibiotics to treat mastitis infection in cows. Primary Industries Minister, Nathan Guy said the projects helped farmers, growers and forecasters to tackle problems and develop new opportunities. Mr Guy added that the projects were driven by local stakeholders and would make a real difference to regional communities.

Biosecurity

Unexpected visitor in car was Japanese rat snake [17 April/ NZ Herald] A Japanese company failed to detect a live snake in a car for export, even though the company was accredited by the Ministry for Primary Industries to perform the checks. The snake later slithered out of the car in an Auckland car yard. A Ministry for Primary Industries spokesman said the snake was identified as a non-venomous Japanese rat snake. The spokesman added that the ministry was working with the operator to find out how the snake was not spotted. The spokesman noted that snake interceptions were unusual and only occurred once or twice a year.

International

Planting of Genetically Modified Crops Declined in 2015 [12 April/ The New York Times] An International Service for the Acquisition of Agri-Biotech Applications report showed that the acreage used for genetically modified crops declined in 2015 for the first time since the technology was commercialised in 1996. The report said the main reason for the 1 percent decline was low commodity prices which had led to farmers planting less corn, soybeans and canola. The report added that the growth of genetically modified crops had slowed down over the past few years as the market was saturated. The report noted that efforts to expand the use of biotechnology to other crops and countries had been hindered by regulations and opposition from environmental groups.

Milk-levy suspension a 6m boost for farmers [13 April/ Irish Examiner] Ornuia, the former Irish Dairy Board, said it would suspend the milk marketing levy it received from Irish dairy farmers, saving the farmers GBP 6 million between 1 May and the end of the year. The Ornuia board's decision was based on the challenges dairy farmers were facing due to the global dairy market downturn. The board said they would reconsider the suspension once the Ornuia Purchase Price Index returned to normal levels. Irish Farmers Association National Dairy Committee Chairman, Sean O'Leary said he welcomed the decision to suspend the GBP 0.14 per litre levy on farms while their cash flows were under pressure from low milk prices, bad weather and high feed bills.

UN climate panel to explore 1.5-degree warming goal [14 April/ NZ Herald] The United Nations' Intergovernmental Panel on Climate Change has agreed to write a special report on how to limit global warming to 1.5 degrees Celsius, following a request by world governments in Paris last December. The report would look at ways to restrict global warming to within this level compared to pre-industrial times, with temperatures having already risen almost 1 degree Celsius since humans started burning fossil fuels on an industrial scale.

McDonald's targeting buyout firms as it seeks to sell North Asia stores [14 April/ China Daily] McDonald's Corporation is planning to adopt a new business model in Asia where it would bring in partners to own restaurants under a franchise structure. The company has made a list of private equity firms who they planned to ask to participate in the auction of 2,800 restaurants in North Asia. The franchise partners would own a majority stake in the restaurants and be responsible for future capital spending. McDonald's would receive a one off franchise payment and ongoing royalty fees of 3-5 percent of annual turnover. A statement made by McDonald's said the company had a long term aim of being 95 percent franchised.

Western Australia's potato war ends with spud king Tony Galati the victor [14 April/ The Guardian] The Western Australia Government has announced that the potato industry will be deregulated from 1 July. Western Australia Agriculture Minister, Dean Nalder said the Potato Marketing Corporation would be wound up and two pieces of supporting legislation would be abolished, following requests from the industry for more certainty in the marketplace. The deregulation came after years of legal battles between the Potato Marketing Corporation and Western Australia's largest potato grower, Tony Galati, for growing more than their allocated quota. Mr Nalder noted that the deregulation would be coupled with an AUD 14 million assistance package, of which AUD 12 million would go directly to growers.

When's your Dolmio Day? 'Occasionally', new labels to say [14 April/ The Guardian] Mars Foods has announced it would introduce new 'occasionally' labels on its Dolmio savoury pasta and rice products to help consumers distinguish between everyday foods and those which should only be eaten occasionally. The move was announced as part of a five year global health initiative. The company would also reduce salt, added sugar and fat content in their Dolmio pasta sauces and expand their Uncle Ben's savoury rice range to include healthier, multi-grain options. A Mars Foods representative said the move was designed to help families by giving them nutritional information that was easy to understand as well as a wider range of healthier choices.

Infant formula the Oz standout star [15 April/ Dairy News] Infant formula and nutritional products have outperformed all other dairy categories in Australia over the last 12 months. Strong demand has led to local shortages and sales restrictions throughout Australia in 2015, with the value of infant formula supermarket sales increasing by 45.3 percent in the 12 months to January 2016. The increase has been attributed to the growth in private exports to Asia, where consumers have concerns over food safety and a preference for trusted international brands. The growing industry has led to many new strategic partnerships, including an announcement by Fonterra that it had acquired an 18.8 percent stake in Beingmate, a Chinese infant formula manufacturer.

Biofuels, plastics and drugs: is this the future of our farms? [16 April/ The Observer] Climate change, low commodity prices and new consumer tastes have seen the United Kingdom's fields planted with crops that are more likely to end up as electricity or paint additives than food. National Non-Food Crop Centre Consultant, David Turley said there was a great interest in the bio-economy, with ethanol from wheat being used to make plastics. Mr Turley added that it was an emerging market which would become huge as large brands became concerned about sustainability. Terravesta Managing Director, George Robinson said many dairy and arable farmers were turning to energy crops because they required less physical work and offered financial security when cereal or milk prices fell. Mr Robinson said the company had contracted 350 British farmers to grow 5,000 hectares of miscanthus as a biomass source for power stations.

Strong monsoon promises relief for Indian agri producers [17 April/ Agri Investor] The India Meteorological Department predicted there was a 94 percent chance of rain falling at normal levels or higher across the country. The increased rain could see India's agricultural sector begin to recover from two years of droughts. Mandala Capital General Partner, Uday Garg said that despite the recent adverse growing conditions, opportunities along the agriculture value chain had been strengthening due to a growing population and increasingly wealthy consumer base. The Indian government has allocated USD 5.4 billion to fund the agricultural sector. The funding would go towards improving irrigation and providing financial assistance to farmers.

Premium wine export hit fresh highs, but many winemakers continue to struggle under high debt [18 April/ ABC Rural] The value of Australian wine exports has increased by 13 percent to AUD 2.1 billion in the 12 months to March 2016. Wine Australia Chief Executive, Andrew Clarke said the latest quarterly Wine Export Report showed growth in every region apart from Oceania. Mr Clarke added that the rising values were being driven by a weaker Australian dollar making premium wine more affordable, and an increased appreciation of Australia's key labels by consumers in Asian markets. An analyst said the rising export values were not improving balance sheets, with parts of the sector struggling to pay debts, adding that wineries which were struggling to pay their debt had the option of leaving the industry while there was strong demand for wine assets.

Dairy organisations look to Congress for TPP agreement support [18 April/ Dairy Reporter] The United States Dairy Council, The National Milk Producers Federation and the International Dairy Foods Association have sent a letter to members of Congress, urging them to support the Trans Pacific Partnership. The associations' letter said they endorsed the agreement as it represented a step forward for United States dairy farmers and companies that processed and marketed milk. The letter added that the federal government should ensure the other participating countries stuck to their respective commitments within the agreement. The letter noted that it was important for the United States to actively enforce its own market access provisions.

Agribusiness strategy

The economics of legalising New Zealand's marijuana market [17 April/ Business Day] New Zealand Initiative Head of Research, Eric Crampton said it was possible to legalise marijuana without increasing health costs. Mr Crampton said the key would be to keep the price of marijuana the same as it currently was in the black market by implementing a large excise tax on sales. Mr Crampton explained that if the price did not change, consumption would not change. Mr Crampton said if the market was legalised in New Zealand, production and distribution costs could fall to approximately \$100 an ounce, much cheaper than the black market price of \$350. Mr Crampton added that the difference could be filled with a combination of GST and excise tax, providing the government with an extra \$250 million per year. A Drug Harm Index found that police spent about \$90 million on marijuana interventions each year, while another \$109 million was spent on the justice system.

Economics and trade

NZ open to Chinese investment, John Key tells China's business [18 April/ Business Day] Prime Minister, John Key said New Zealand was open for investment while speaking to a room representing \$100 billion of China's wealth. Mr Key added that New Zealand had a fast growing economy, wanted to develop international relationships and wanted to have a higher standard of living, but did not have enough private sector wealth to fund that growth. Mr Key noted that the process followed by the Overseas Investment Office could be streamlined so that faster decisions could be made over major foreign investment proposals. Mr Key witnessed the signing of a memorandum of understanding which would allow small New Zealand businesses greater access to sell their products on the Alibaba online retail platform.

Farmers and producers

Farmers agree Kiwi farm labourers 'hopeless' [14 April/ Radio NZ Rural] Deputy Prime Minister, Bill English said he was unapologetic for labelling beneficiaries hired to work on farms as hopeless. Mr English added that people who were seeking jobs through the Ministry of Social Development were unreliable as they did not show up for work or stay with a particular job. Mr English said there was a group of young, male New Zealanders who could not read or write properly and did not appear to be employable. Mr English explained that he was not writing young New Zealanders off, but more needed to be done to help them. Otago Young Farmers Club Vice Chair, Mike Marshall said he was glad Mr English had stood up and said what employers in the farming industry really thought. Mr Marshall added that there were a lot of New Zealanders who worked really well, but there was a large number who gave everyone else a bad name.

Farmer survival turns on focus [16 April/ Otago Daily Times] According to ANZ's Agri-Focus report, dairy farmers with a detailed understanding of their business would be in the best position to survive the industry's downturn. Agri Economist, Con Williams said farmers faced the difficult challenge of minimising short term losses while not negatively affecting the long term productive capacity of their business. The report said many farmers followed their gut when making decisions, but times of rapid adjustment and heightened risk meant they needed to focus on controlling productivity, cost efficiencies and debt. The report added that farmers should set conservative budgets to help avoid unwanted surprises like those that have occurred over the last two seasons.

Bill English to speak at Farmers' Forum [18 April/ Business Day: NZ Farmer] Deputy Prime Minister, Bill English and Fonterra Chief Executive, Theo Spierings would be among those to speak to dairy farmers at Mystery Creek for a DairyNZ forum in May. DairyNZ Strategy and Investment Leader for Sustainability, Rick Pridmore said the forum was about helping farmers understand what was driving the current financial climate and what they could do to help manage it. Mr Pridmore added that adapting to the changing environment was more important than ever.

Animal welfare

Bobby calves and pigs not protected by new rules: SAFE [15 April/ Business Day: NZ Farmer] SAFE Campaigns Officer, Shanti Ahluwalia said the proposed new rules released by the Ministry for Primary Industries around animal welfare did not go far enough to protect livestock. Mr Ahluwalia explained that the regulations would allow bobby calves to be transported when they were four days old, a much shorter period than the 10-14 days required in Europe. The representative added that the farrowing crates female pigs were kept in after giving birth breached animal welfare legislation. Dairy Companies Association of New Zealand Executive Director, Kimberley Crewther said New Zealand had been rated first equal globally by the World Animal Protection Group, but Mr Ahluwalia said the ranking was based on legislation rather than enforcement.

Food safety

Ministry for Primary Industries issues toxic shellfish warning for Port Underwood, Marlborough Sounds [14 April/ Business Day: NZ Farmer] The Ministry for Primary Industries has issued a warning to the public asking them not to fish in areas of the Marlborough Sounds after high levels of toxins were found in shellfish. A representative from the ministry said cooking the shellfish would not remove the potentially fatal toxins. The representative added that commercially grown oysters and shellfish were not affected because of the stringent hygiene controls they were required to undertake.

Fonterra sells stake in testing company DTS, AsureQuality adds to shareholding [18 April/ Business Day] Fonterra has agreed to sell its 36 percent stake in Dairy Technical Services to Bureau Veritas Singapore and AsureQuality for an undisclosed price. Dairy Technical Services was originally set up under Fonterra's Australian arm as a testing firm for dairy companies in Victoria. The sale was conditional on regulatory approvals but was expected to be completed by the end of May. Dairy Technical Services would continue to provide testing services to Fonterra.

Wool

Merino key to 'amazing' new fabrics [19 April/ Otago Daily Times] Global Merino Chief Executive, Jose Fernandez said his company aimed to create products that optimised athletic performance. Mr Fernandez explained that the performance requirements were determined and the fabrics were then engineered to meet those requirements, using merino wool as a key ingredient. Mr Fernandez added that the wool was predominantly being sourced from the Mackenzie area. Mr Fernandez noted that product quality and innovation was the reason the company was better than their competition.

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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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