

AGRIBUSINESS

Field Notes

Weekly news update from the KPMG Agribusiness network

7 December 2016

Organisations referenced in this week's Field Notes include:

a2 Milk Company	Massey University
AgriHQ	Mataura Valley Milk
AgriProtein	Meat and Livestock Australia
ARC Center of Excellence for Coral Reef Studies	Ministry for Primary Industries
Australian Federal Government	Ministry of Economic Development
Bank of England	Nestle
Barilla Center for Food and Nutrition	New Zealand Asparagus Council
Bellamy	New Zealand Hops Limited
Blackmores	New Zealand Winegrowers
Borst Holdings	Noma
Cavalier	Open Country Dairy
China Animal Husbandry Group	PGG Wrightson
Commerce Commission	Phillip Morris
European Union	Rabobank New Zealand
Federated Farmers	Reserve Bank
Fonterra Co-operative Group	Synlait
Global Dairy Trade	Tendertips
Godfrey Hirst	Tenon
Labour Party	Westland Milk
Landcorp	WineFriend
Lewis Road Creamery	Zespri
Lincoln University	Zume Pizza
Mangaweka Asparagus	

This week's headlines

Horticulture	Hort industry celebrates major successes [1 December/ Rural News]
Dairy	Open Country Dairy lifts forecast on back of better market prices [2 December/ Business Day: NZ Farmer]
Biosecurity	Contaminated palm kernel importer's identity remains hidden [30 November/ Business Day: NZ Farmer]
International	Nestlé discovers way to slash sugar in chocolate without changing taste [1 December/ The Guardian]
Agribusiness strategy	NZ on road to becoming the Detroit of agriculture [1 December/ Business Day: NZ Farmer]



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Hot Off The Press:

**KPMG Agribusiness
Agenda 2016 Vol. 2**

Horticulture

Bad weather, fungus spears North Island asparagus crops [30 November/ Business Day: NZ Farmer] Excessive amounts of rain have caused a fungal disease which has affected the growth of about half of the asparagus grown at a Mangaweka farm. Mangaweka Asparagus Owner, George Turney said the farm usually generated about 300 tonnes of asparagus, but this summer production would likely be less than 200 tonnes. Tendertips Owner, Cam Lewis said there was no sign of the fungal disease in the company's Levin farm, but the lack of heat and sunshine had meant lower volumes and the laying off of 18 staff members. New Zealand Asparagus Council Chairman, Tony Rickman said the cold, wet weather had slowed growth and meant production would be between 20 percent and 25 percent lower this season.

Hort industry celebrates major successes [1 December/ Rural News] The New Zealand Horticulture – Barriers to Our Export Trade report showed that export earnings from New Zealand's horticultural sector have increased by 40 percent since 2014. Primary Industries Minister, Nathan Guy said horticulture was a star performer of the New Zealand economy, with export revenue just under \$5 billion. Mr Guy said the report showed tariffs on exported produce had decreased by 22 percent since 2012, but reducing tariff and non-tariff barriers were a big priority for the Government.

Top 200 Awards: Most Improved Performance – Zespri [2 December/ NZ Herald] Zespri has won the Most Improved Performance category in the Top 200 awards. Top 200 Judge, Cathy Quinn, the Chair of Minter Ellison, said Zespri was a great New Zealand co-operative success story. Ms Quinn explained that the company won the award following its positive and dramatic turnaround after the Psa crisis, the way the crisis was managed, and the fantastic returns the company was now delivering to growers. Ms Quinn added that SunGold had achieved price premiums over international competitors across the world, while orchard values had skyrocketed.

Viticulture

Govt helps wine industry fix tank damage [29 November/ Otago Daily Times] The Ministry of Business, Innovation and Employment and the Ministry for Primary Industries have been working with New Zealand Winegrowers to resolve quake damage to wine storage tanks in the Marlborough region. Economic Development Minister, Steven Joyce said an estimated 20 percent of wine storage tanks in the Marlborough region had been damaged by the earthquake and there was a possibility that the lack of storage could affect the ability of the industry to process the full 2017 harvest. New Zealand Wine Growers Chief Executive, Philip Gregan said a survey showed that only 2 percent of Marlborough's total annual wine production had been lost due to impacts from the earthquake, meaning there would still be plenty of wine available.

Former Air NZ boss eyeing a new venture [30 November/ NZ Herald] Icebreaker Chief Executive, Rob Fyfe, and Trilogy Co-Founders, Sarah Wickens and Catherine de Groot, have taken a 25 percent stake in WineFriend, a personalised wine retailer. WineFriend gave each individual customer a simple taste survey which allowed the company to tailor a selection of wine to the customer, basing the wines on the customer's survey results and price bracket. WineFriend Co-Founders, Yvonne Lorkin and Debbie Sutton said the money from the investment would be used to help accelerate the company's growth plans. WineFriend had quadrupled its monthly revenue between April and November.

Dairy

Synlait's profit jumps as infant formula business grows four-fold [29 November/ Business Day: NZ Farmer] Synlait has announced an after-tax profit of \$34.4 million for the 2015-16 season, compared to a \$10.6 million after-tax profit in the previous year. The dairy company nearly quadrupled sales of its canned infant formula from 4,300 cans to 16,000 cans over the past year. Synlait Managing Director and Chief Executive, John Penno said proposed Chinese regulations meant growth over the next year would be modest compared to 2015-16, but the 2017-18 season should see a significant increase in growth. Synlait planned to invest about \$300 million over the next three years to add more infant formula, consumer packaging, and spray drying capacity.

Westland Milk says co-op's performance was poor [30 November/ NZ Herald] Westland Milk Products Chairman, Matt O'Regan said the company's low payout of \$3.62 per kilogram of milk solids was beyond disappointing and represented a failure of Westland's goal to be competitive in the industry. Mr O'Regan added that despite the poor result, Westland's strategy for growing its capacity to produce value added products remained sound. Mr O'Regan explained that Westland had the people, the structure, and the means to be a top supplier of value added products. Mr O'Regan noted that the new Westland Chief Executive Officer, Toni Brendish, had moved quickly to restructure the senior management team. Mr O'Regan would step down as chairman in March 2017.

Open Country Dairy lifts forecast on back of better market prices [2 December/ Business Day: NZ Farmer] Open Country Dairy has increased its full year average milk price forecast from between \$4.25 and \$4.45 per kilogram of milk solids to between \$5.60 and \$5.90 per kilogram of milk solids. The company said in an email to suppliers that improving market conditions in the past months had indicated a stable outlook for the global dairy market for the rest of the dairy season. The email added that an improvement in the exchange rate had also boosted confidence. The email explained that the main reason for the global price increase was the decrease in global milk supply.

DIRA threat to Fonterra [2 December/ NZ Farmers Weekly] Fonterra Chairman, John Wilson said the co-operative could potentially have stranded assets unless the Government changed its requirement for Fonterra to accept all new milk. Mr Wilson explained that the Dairy Industry Regulation Act meant the co-operative had to have inefficient processing capacity in case it was needed. Mr Wilson added that this was a cost to farmers and was inconsistent with the Government's aim of maximising earnings in the primary sector. Fonterra recently opened the biggest milk powder dryer in the world at Lichfield which came in \$30 million under budget at \$360 million. The dryer can produce 30 tonnes of milk powder an hour and handle 4.4 million litres of milk a day.

Whole milk powder may rise in next week's Global Dairy Trade auction [2 December/ NZ Herald] AgriHQ Senior Dairy Analyst, Susan Kilsby said futures prices indicated that the price for whole milk powder at this week's Global Dairy Trade auction was likely to increase. Futures for December last traded at USD 3,480 a tonne, a 2.1 percent premium on prices at the previous Global Dairy Trade auction. Ms Kilsby explained that the increase in prices was partly due to farmers in the Netherlands having to reduce cow numbers by about 11 percent next year in order to meet European Union phosphate limits.

Lewis Road vow to take on dairy giants Fonterra over 'staggeringly similar' milk marketing [4 December/ Business Day] Lewis Road Creamery Founder, Peter Cullinane said he planned on taking Fonterra to court for copying its distinctive packaging in an attempt to confuse customers. Lewis Road had been selling premium organic milk since 2013, while Fonterra released its first range under its Kapiti brand in early November. Mr Cullinane said he was annoyed with Fonterra's use of a cow on its packaging as Fonterra did not use one on any of its other products and the image had always been used by Lewis Road. A Fonterra spokeswoman said the cow icon was generally used in the premium milk category to help customers easily identify cow's milk products from other premium milks like goat's milk and buffalo milk. Mr Cullinane said it was too soon to tell if Lewis Road sales had been affected, but he thought they would be.

Investors turn first sod on Mataura Valley Milk plant [5 December/ Business Day: NZ Farmer] Directors, investors and dignitaries of Mataura Valley Milk have gathered at the plant site to celebrate the formal start of construction of the company's new dairy factory. The plant would be operational by 1 August 2018 and would be valued at more than \$200 million, employing 65 people. Mataura Valley General Manager, Bernard May said the plant would be able to produce 46,000 tonnes of products and use 100 million litres of milk from farmers. Mr May said about 50 percent of the plant's production would be exported to China. China Animal Husbandry Group owned 71.8 percent of the company, while 20 percent would be owned by Southland farm suppliers.

Forestry

GM Mark Taylor says Tenon Ltd's Taupo wood-processing plant is going strong [30 November/ Waikato Times] Tenon Taupo General Manager, Mark Taylor said the sale of Tenon's United States distribution business would not affect its Taupo wood processing plant. Mr Taylor said the Taupo company still had supply agreements to continue distributing products throughout the United States. Mr Taylor added that consumer confidence was growing in the United States, leading to an increase in sales. The company exported 80 percent of its clearwood products to the United States, Europe, Australia and China, with consistent growth seen across all regions.

Environment and emissions

Cost of clean New Zealand air: Up to \$141 a bottle in China [30 November/ NZ Herald] Chinese residents are now able to purchase pure, hand-bottled, pollution-free, oxygen-rich New Zealand air from about six online retailers. A 7.7 litre bottle of New Zealand air could cost up to \$141, but some online stores had discounted them to \$44 a bottle. Retailers said bottles contained 180 gulps of air, so each breath would cost between 24 cents and 78 cents. Air from other countries was also available, but was cheaper than that from New Zealand.

Biosecurity

Contaminated palm kernel importer's identity remains hidden [30 November/ Business Day: NZ Farmer] The Ministry for Primary Industries has refused to release the name of the importer whose ship was denied entry into New Zealand. The ship was not allowed to unload 20,000 tonnes of palm kernel at Tauranga Port because it was considered a biosecurity risk. The Ministry for Primary Industries explained that the name of the importer was commercially sensitive information as it could prejudice the importer in future business deals. The ministry added that public interest in identifying the company had lessened as the shipment was intercepted before entering New Zealand and the vessel had since left.

International

Silicon Valley and food [26 November/ The Economist] A San Francisco start-up called Zume Pizza has programmed robots to make pizzas which were then put into a van and baked as they were delivered to customers. Ovens in the vans were timed in sync with the arrival of the vehicle at the destination so that pizzas were delivered hot and fresh. Zume Pizza Co-Founder, Alex Garden said the robots cost around USD 100,000 each. The company has patented the process of cooking food in ovens while a vehicle was moving. Zume Pizza had raised USD 6 million from investors since being founded last year, and was now planning on expansion.

For U.S. Agriculture, Trump Questions Overshadow Castro Death [29 November/ Bloomberg Markets] United States agriculture companies planning on boosting production of sugar cane and other crops in Cuba have been left unsure about the future of production in the country after the result of the presidential election. United States President Elect, Donald Trump said he would end the harmonious relations with Cuba unless the country was willing to make a better deal for citizens of both countries. Mr Trump's statement came after speculation that Cuban farmers could mean fiercer competition for American growers.

New £5 notes contain animal fat, says Bank of England, drawing anger from vegans and vegetarians [30 November/ NZ Herald] The Bank of England has admitted that the new GBP 5 notes contained tallow, a substance made from animal fat. More than 60,000 people have signed a petition demanding the substance not be used in the production of the currency. The petition stated that the use of tallow in bank notes was unacceptable to millions of vegans and vegetarians in the United Kingdom.

Philip Morris's vision of cigarette-free future met with scepticism [30 November/ The Guardian] Philip Morris, a major tobacco company, has launched a new product which it claimed could replace conventional cigarettes. Philip Morris Chief Executive, Andre Calantzopoulos said the new iQos product heated tobacco but did not burn it, and was less harmful than traditional smoking. The company had invested USD 3 billion in the new product. Tobacco Industry Analyst, Rae Maile said there was plenty of demand for alternatives from current smokers, but it would be a very slow process.

Nestlé discovers way to slash sugar in chocolate without changing taste [1 December/ The Guardian] Nestle has announced that it has found a way to decrease the amount of sugar in some of its chocolate bars by 40 percent without compromising the taste. The company explained that the new process made sugar dissolve faster so that the tongue perceived an identical level of sweetness even when less sugar was used. The faster dissolving sugar would be used in Nestle's confectionary products from 2018. Nestle Chief Technology Officer, Stefan Catsicas said the ground-breaking research was inspired by nature.

AgriProtein Raises \$17.5m to Build Second Waste-to-Insect Protein Factory and License Tech [1 December/ AgFunder News] AgriProtein, a South African company which grows insects for animal feed, has raised USD 17.5 million from investors across Europe, North America and Asia. The funding valued the company at USD 117 million, making it the most valuable insect farming business in the world. The funds would be used to build the company's second industrial black soldier fly farming factory in South Africa and to license its technology into other regions. AgriProtein fed fly larvae on waste it sourced from shopping malls, educational institutions, hospitals and food processors. The company now had 8.5 billion flies and could recycle 250 tonnes of waste per day, allowing it to produce 50 tonnes of larvae per day.

How the Humble Taco Inspired a \$750 Mexican Meal [2 December/ Bloomberg] Noma Co-Owner, Rene Redzepi has travelled through Mexico, tasting a range of fresh fish and insects to plan for the opening of his latest pop-up restaurant on Mexico's Yucatan Peninsula. Reservations for the pop-up restaurant opened on 6 December, with waiting lists of previous Noma pop-up restaurants reaching 60,000 people in Tokyo and 27,000 tables in Sydney. The cost of food and drinks would be around USD 750 per person once local taxes and tips were included. Mr Redzepi said one dish made from a large clam and sliced bananas would sound weird, but was actually delicious. Copenhagen based Noma has won the global restaurant of the year award on a number of occasions and Rene Redzepi is seen as a global leader in cooking local, seasonal food.

Great Barrier Reef Facing Multiple Threats, Report Says [2 December/ The New York Times] According to a report by the Australian Government, climate change and the flow of chemicals and coastal sediment into waters that wash over the Great Barrier Reef pose one of the biggest threats to its survival. Scientists from the ARC Center of Excellence for Coral Reef Studies said the reef had suffered the worst coral bleaching and die-off ever recorded due to the warm summer waters that washed over the coral. Queensland Environment Minister, Steven Miles said good progress had been made towards the Reef 2050 Plan in the last 18 months. The plan aimed to limit sediment and chemical runoff from farms and improve management of starfish predators.

Federal Government finalises new rules, rates for wine tax rebate [2 December/ ABC Rural] The Australian Federal Government has announced its plans to reduce the Wine Equalisation Tax rebate from AUD 500,000 to AUD 350,000 from 1 July 2018 in order to make the scheme fairer. Eligible producers who exceeded the AUD 350,000 cap would have access to a new wine tourism and cellar door grant of up to AUD 100,000 if their work contributed towards tourism in the region. Assistant Agriculture Minister, Anne Ruston said the rebate was reduced to improve the integrity of the scheme and decrease the incentive for people who were coming up with clever ways to get their hands on the money. New eligibility criteria would mean less New Zealand wine makers would be able to claim the Wine Equalisation Tax rebate, while none would have access to the wine tourism and cellar door grant. Mr Ruston said there would be a significant number of people from New Zealand who were currently claiming the rebate and would no longer be able to.

Meat products from 3D printer could be the new food for aged care homes and restaurants [2 December/ ABC Rural] Meat and Livestock Australia Research, Development and Innovation General Manager, Sean Starling said a high protein ink or powder could be used in a 3D printer to produce a soft food with specific nutrients which was suitable for people who had chewing or swallowing problems. Meat and Livestock Australia saw the potential in the idea after finding that German nursing homes used 3D printed foods which were more appetising than pureed food.

Infant formula company Bellamy's shares plunge 44pc on weaker China sales [3 December/ NZ Herald] The share price of Bellamy, an organic baby formula maker, has fallen by 43.9 percent after the company released an investor update which signalled weaker revenue this year. Bellamy Chief Executive, Laura McBain said growth had fallen short of expectations because of a regulatory crackdown by the Chinese government prompting a rival company to discount stock in anticipation of losing their export licenses. Only nine importers would be accredited under the new system in order to give local brands a stronger position in the market. Other baby formula producers were affected by Bellamy's announcement, with Blackmores share price falling by 6 percent and a2 Milk Company's share price decreasing by 12 percent.

France tops global food sustainability index [5 December/ Food Navigator] According to a sustainability index by the Barilla Center for Food and Nutrition, France ranked the highest for tackling food waste and nutritional challenges, while Germany came in first for sustainable agriculture. Overall, the top three countries were France, Japan and Canada. The index used 58 criteria across the three categories of sustainable agriculture, nutritional challenges and food waste to rank the countries. France ranked highly due to its policy framework which included a ban on expiration dates for some food categories and a requirement for supermarkets to donate excess food to charities. Germany topped the index for sustainable agriculture due to its relatively low use of fertilisers and pesticides. The United States was the third worst performing country for food waste, but the report praised San Francisco for its efforts in tackling the problem.

Economics and trade

Government 'pussy-footing around' on solving non-tariff barrier trade issue: Labour [30 November/ Business Day] Labour Party Trade Spokesperson, David Clark said the Government was not showing enough urgency over reducing the \$5.9 billion New Zealand exporters paid in non-tariff barriers to trade. Mr Clark added that New Zealand's growing network of trade agreements had reduced the cost of exporting, but there had been a significant rise in the number of non-tariff barriers that exporters faced. Mr Clark said the New Zealand Government had not set any timelines or targets for what it expected to achieve. Trade Minister, Todd McClay said the Government's objective was to resolve non-tariff barriers as quickly as possible, which could range from weeks to years depending on the issue.

Farmers and producers

Farmers given green light to bypass consents in quake aftermath [29 November/ Radio New Zealand] The government has introduced new emergency earthquake legislation which would allow farmers to carry out work to fix their farms without having to worry about obtaining resource consent. The emergency work was permitted to continue until the end of March. Federated Farmers Adverse Events Spokesperson, Katie Milne said council regulations had been the last thing on farmers' minds and it was good they would not be penalised for getting their farms back up and running. Ms Milne added that the 30 March deadline for emergency work may be a bit soon, as some of the work that needed to be done would take a lot longer.

\$520,000 for Southland primary sector [30 November/ Rural News] The Ministry of Business, Innovation and Employment and the Ministry for Primary Industries have announced a \$520,000 contribution to Southland's primary sector. Economic Development Minister, Steven Joyce said the Ministry for Primary Industries would be contributing \$220,000 to sustainably increase beef and sheep productivity through a programme that would develop the skills and capabilities of farmers and promote the use of improved farming systems and practices. Mr Joyce added that an additional \$300,000 would be spent on the development and delivery of Southland's People, Water and Land Strategy to maintain and improve freshwater quality.

Reserve Bank says dairy debt, house price inflation still pose risks [30 November/ National Business Review] Reserve Bank Governor, Graeme Wheeler said dairy farm debt and the risk of further house price inflation continued to pose risks to the nation's financial stability. Mr Wheeler explained that despite dairy prices having recovered, debt had increased because of losses over the past two seasons. Mr Wheeler added that some farms remained under pressure and the sector was still vulnerable to future shocks.

Landcorp farms likely to stay NZ-owned, agent says [1 December/ Radio NZ Country] PGG Wrightson Real Estate General Manager, Peter Newbold said the majority of interest in the 10 Landcorp farms for sale had come from New Zealanders. Mr Newbold added that offshore investors were not interested in the type of farm that Landcorp was selling. Ms Newbold said the farms would probably remain sheep and beef farms as Landcorp had looked after and managed them well. Green Party Land Information Spokesperson, Eugenie Sage said local farms should remain in Crown hands so that the land could be considered for treaty settlements.

Big South Island dairy farm portfolio on the market [2 December/ National Business Review] A portfolio of Otago farms owned by Borst Holdings have gone up for sale. The portfolio was one of the largest dairy farming operations to come on to the market since the controversial Crafar and McVitty farms about seven years ago. The portfolio comprised of four farms covering 992 hectares and held a herd of 3,380 cows which produced 1,418,000 kilograms of milk solids worth \$8.5 million each year. The four farms for sale included the 321 hectare Pleasant Creek Farm, the 225 hectare Kauroo Flats Farm, the 245 hectare Kinloch Farm, and the 197 hectare Incholme Farm. The farms could be bought as one portfolio, individually, or as a combination of entities.

Dairy, horticulture underpin agricultural confidence [6 December/ Otago Daily Times] Rabobank New Zealand Country Banking General Manager, Hayley Moynihan said a positive outlook for the dairy and horticultural sectors had kept overall confidence levels high in the agricultural economy, although the latest Rabobank Rural Confidence Survey found that confidence levels had decreased slightly. The number of farmers expecting the rural economy to improve in the next 12 months had fallen to 39 percent from 48 percent in the previous quarter, while the number of farmers expecting the economy to worsen rose to 14 percent from 13 percent in the previous quarter. Ms Moynihan said the primary reason for the fall in overall confidence was reduced optimism in the prospects for the sheep and beef sector.

Agribusiness strategy

NZ on road to becoming the Detroit of agriculture [1 December/ Business Day: NZ Farmer] Strategic Communications Consultant, Rosie Bosworth said in an opinion piece that New Zealand was in danger of becoming the 'Detroit of Agriculture' as production moved elsewhere. Ms Bosworth explained that New Zealand's agricultural industry would soon become a sunset industry as it was overtaken and displaced by disruptive technologies, science breakthroughs, and new business models. Ms Bosworth said New Zealand farmers were frontrunners when it came to adopting new pasture-based technologies, but it was not these technologies that would be disruptive to agriculture. Ms Bosworth explained that the disruptive technologies would include those which enabled lab manufactured and bio-printed animal and plant proteins, along with CRISPR technology which allowed scientists to edit genomes with unprecedented precision without a trace of genetically modified organisms.

Agribusiness education

Massey back to its roots [6 December/ Rural News] Massey University Chancellor, Chris Kelly said the university would place more emphasis on its agricultural and veterinary courses rather than its fine arts and business courses as it wanted to regain its name as an agricultural university. Mr Kelly added that from next year, the university's veterinary and other agricultural courses would have more agricultural aspects in them from the first year rather than from the second year. Mr Kelly said he believed there should only be one agricultural university in New Zealand, and given what was happening at Lincoln university, there was a possibility that this could be the case in the future.

Wool

Godfrey Hirst loses bid to halt Cavalier's domination of NZ wool scouring [30 November/ NZ Herald] The Court of Appeal has dismissed Godfrey Hirst's appeal against earlier decisions by the Commerce Commission and the High Court to allow the merger of the wool scouring operations of New Zealand Wool Services International and Cavalier Wool Holdings. The Commerce Commission had allowed the merger that would create a monopoly because there was a public benefit in fending off competition from cheaper foreign rivals. Cavalier said in a statement that it welcomed the decision that would capture the efficiencies necessary to keep wool processing in New Zealand in the long term.

Hops

Asian thirst for unique NZ hops bolsters industry growth [5 December/ Business Day: NZ Farmer] New Zealand Hops Limited Chief Executive, Doug Donelan said new land was being converted to hop gardens, processing cool store capacity was being increased, and five new growers had started gardens in the last few years. The surge in growth of the industry was due to a new generation of craft beer drinkers in Japan, Taiwan, Korea and China. This year, the New Zealand hop industry exported 794 tonnes of conventional and organic hops, with the forecasted yearly production for 2020 having increased from 900 tonnes to 1,100 tonnes.

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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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