

Hot Off The Press:
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 Agenda 2018**

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Weekly news update from the KPMG Agribusiness network

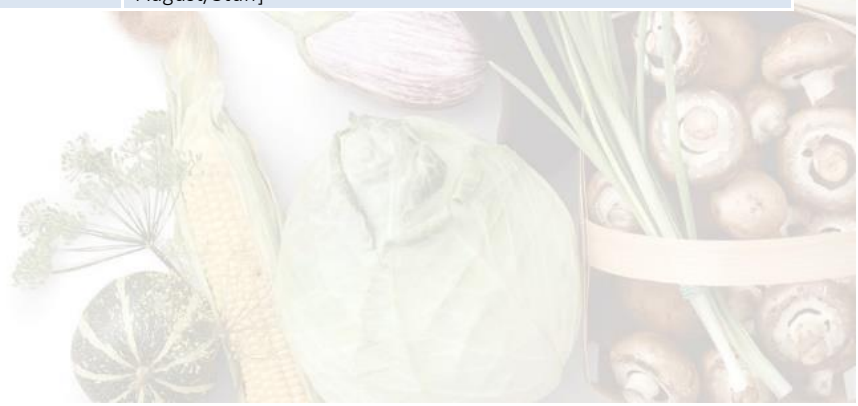
29 August 2018

Organisations referenced in this week's Field Notes include:

AgResearch	New Zealand Pork
Almond Board of Australia	Pattullo's Nurseries
ANZCO	Pennsylvania State University
ASB	Plant & Food Research
Beef + Lamb New Zealand	SBT Group
Bloomberg	Scales Corporation
Canopy Growth Corp	Seafood New Zealand
Canterbury University	Statistics New Zealand
CLCV	Summerfruit New Zealand
Comvita	Sustainable Farming Fund
Cronos Group	Sustainable Food and Fibre Futures Fund
Diageo	The A2 Milk Company
Environmental Protection Agency	The Riverland Horticultural Council
Federated Farmers	Tilray
Five Star Beef	University of Auckland
Fonterra Co-operative Group	Waimea Irrigators
Hikurangi Cannabis	Walker Flat Almonds
Irrigation New Zealand	Wastebusters
Landcare Research	Westpac
Lincoln University	Wilde Chicken Chops
McDonalds	Zespri
Ministry for Primary Industries	

This week's headlines:

Red meat	Farmers to raise another \$4m to support meat export sales [23 August/Stuff]
Horticulture	New apricot co-operative sets up for business [22 August/Rural Life]
Environment and emissions	Financial incentives no silver bullet for sustainable agriculture – study [27 August/Radio NZ]
Agribusiness education	Lincoln and Canterbury Universities look at partnership options [21 August/Farmers Weekly]
Pork	Bacon back in latest country of origin labelling proposal [27 August/Stuff]



Red meat

Five Star Beef notified of 44 suspected cases of *Mycoplasma bovis* on feedlot [23 August/Stuff] New Zealand's largest beef farming operation, Five Star Beef, has been served a notice that 44 of its 16,000 cattle could have *Mycoplasma bovis*. The feedlot currently houses around 16,000 cattle but has resource consent for up to 19,000 cattle. They live in pens for two to eight months before being sent to slaughter. The feedlot had been operational for 27 years and is owned by ANZCO. ANZCO is the primary supplier of grass-fed beef to McDonalds in New Zealand and their General Manager of Agriculture and Livestock, Grant Bunting, said the affected cattle were quarantined. The disease was first detected in New Zealand in July 2017, and the Government expects to order 150,000 cattle to be culled in attempting to eradicate the disease, which is harmless to humans. Five Star Beef CEO, Peter Conley, said the company was working closely with MPI to manage the impact of the disease. SAFE's head of campaigns, Marianne Macdonald, said the feedlots raised serious animal welfare and environmental concerns.

Farmers to raise another \$4m to support meat export sales [23 August/Stuff] Sheep and beef farmers will spend an additional \$4.1 million per year to market their products to overseas consumers. This is a move to support Beef + Lamb NZ's Taste Pure Nature origin brand and its Red Meat Story. New Zealand exporters will be able to attach the branding to their packaging and advertising by the end of the year. Sheep and Beef farmers will need to pay an extra \$260 on average in their annual levy to support the programmes. Of those who voted, 63 percent of farmers were in favour of the programme. Federated Farmers Meat and Wool Chairman, Miles Anderson, said high prices partially resulted in the farmers' willingness to pay the extra amount. Farmers were still waiting to hear whether there would be a one off levy to help pay the costs of eradicating *Mycoplasma bovis*. Mr Anderson was surprised an agreement had not yet been reached.

Horticulture

Plant & Food Research study backs use of biopesticides [23 August/The Country] Consumer demand for residue-free produce is on the rise. University of Auckland Researcher, Madeleine Trusewich, said New Zealand's kiwifruit industry would benefit from fast tracking its shift towards biopesticides. Through her internship with Plant & Food Research, she determined shifting sooner was a big opportunity for New Zealand. Zespri was working with Plant & Food Research, AgResearch and the Bio-Protection Research Centre to develop and promote biopesticides. Zespri already restricted the use of pesticides to comply with or exceed EU limits. Despite health and environmental benefits, the uptake of biopesticides had remained low in the industry. All Zespri fruit was required to be produced in line with the Zespri KiwiGreen Integrated Pest Management Programme. Ms Trusewich added kiwifruit growers were the ultimate source of knowledge when it came to pest and disease control and they had a crucial role in the development of biopesticides.

Scales Corp sells Timaru liquid storage business [23 August/The Country] Scales Corporation Limited has announced that it is selling its Timaru bulk storage business, Liqueo, to SBT Group. Scale's Managing Director, Andy Borland, said Liqueo enjoyed strong growth with a long term storage contract set to run for another 18 years. He added the operation was sub-scale in the context of the Scales Group. Scales Chairman, Tim Goodacre, said the sale was the final phase of rebalancing businesses that were less aligned with their new strategy. Scales recently sold Polarcold in May this year to Emergent Cold. Polarcold operates in Timaru, Dunedin, Christchurch, and Auckland. Polarcold and Liqueo were both linked to Allan Hubbard and South Canterbury Finance.

New apricot co-operative sets up for business [22 August/Rural Life] A new grower cooperative is being set up to manage the release, marketing and licencing of new apricot varieties. There were three new varieties that were yet to be given brand names. One of the directors, Nigel Hinton, said Summerfruit New Zealand's Apricot Co interim board was a sub-committee of the organisation and its role was to work through the establishment of Apricot Co. This was the working title for the business entity but was subject to change. He said it would be responsible for the commercialisation of the new varieties. He added the interim board met for the second time and they were in the early stages of development. He noted new varieties could lead to a renewal of the industry for both local and export markets. Summerfruit New Zealand funded the Apricot Co interim board to setup the entity.

Environment and emissions

On-farm recycling to end as Mid Canterbury firm winds down [23 August/The Country] Wastebusters is being forced to shut down due to economic conditions. It had been the facilitator, educator and champion of recycling in the Mid Canterbury region. On-farm recycling would end on 31 August. The green waste operation and shop would close on 28 September and the whole operation would shut at the end of October. Six jobs would be lost. Wastebusters manager, Sharon Breakwell, said the drop in price of recycled materials and market uncertainty were the cause of their decision to shut down. She added it was the only sensible option and there had been a lot of pressure on their market in Malaysia. She noted the Malaysian market was swamped with product and no more was being accepted for three months. Due to tight cash flows and budget, they were unable to hold product for that long. Ms Breakwell had been involved with Wastebusters for 18 years.

Ban of controversial pesticides could cost the country \$1.2 billion [21 August/Radio NZ] The agriculture sector would face a \$1.2 billion bill if controversial pesticides, Neonicotinoids, are axed. According to a report, without the pesticides, bugs would savage grain, maize silage, brassica and other plant matter. Neonicotinoids were under threat of being banned as they are linked to deaths of bee colonies. Bees are essential for cross pollination and are therefore vital to life on earth. The European Union has banned the use of three major Neonicotinoids. In New Zealand, their use is currently banned near beehives or on flowers that are likely to be visited by a bee. The Environmental Protection Agency opened a new investigation to see if tougher measures were needed. EPA Chief Executive, Mark Ross, gave some preliminary information and said a ban would have a large impact on agricultural productivity. He added the \$1.2 billion cost was not solely due to crop failure or low crop productivity, but also the need to use more land for the same output, to buy insecticides that cost more, and higher prices for consumers.

Financial incentives no silver bullet for sustainable agriculture – study [27 August/Radio NZ] According to a Landcare Research study, financial incentives to encourage more sustainable practices on farms are not enough. The study looked at the best incentives to promote changes within the agriculture sector with regards to climate change. Landcare Research Senior Scientist, Nick Cradock-Henry, said he had been working with farmers and found awareness around climate change to be growing. He added it was partly due to recent severe weather events such as droughts, floods, and unexpected snow storm events. He noted that when looking at what would encourage farmers to make changes, financial incentives became less effective over time. Mr Cradock-Henry said better communication around the risks, working alongside farmers and promoting change in social norms and technology are much more motivating.

Apiculture

Poor harvest affects Comvita annual result [22 August/The Country] Manuka honey grower and exporter, Comvita, experienced a second poor annual harvest which resulted in a 16 percent decline in after tax profit. A third poor harvest was not being ruled out, however Comvita held a positive outlook. Comvita shares are down over 30 percent since the start of the year. Comvita Chief Executive, Scott Coulter, said the poor harvest had a negative \$6.2 million dollar effect on profit. He added a third consecutive bad season was unlikely. Comvita had made changes to its apiary model. The company noted it was in a strong inventory position. It recently started a \$12 million upgrade to its warehousing capacity at Paengaroa, which would be completed next February. Comvita declared a final dividend of 2c per share, resulting in total dividends for the year of 6 cents per share being paid.

Manuka honey causing legal problems in the US [28 August/Stuff] There has been an unexpected increase in food crime in the first half of 2018. One incident involved USD98,000 worth of ramen noodles being stolen, in Chile a drought caused avocado related crimes. Theft of avocados was also a problem in New Zealand. This had led to the installation of alarm systems in orchards. Manuka honey had been rising in popularity, which was causing problems inside the industry. There were three lawsuits in July against Trader Joe's for selling counterfeit manuka honey that was labelled as 100 percent pure. One of the major players in the manuka honey market was Comvita. It had expanded its presence to 200 Costco stores. Vice President of Comvita North America, Corey Blick, was watching the drama in the manuka honey world and refused to comment on the lawsuit. Manuka honey growers cannot manufacture enough to meet demand as the trees flower for only a few weeks each year. Mr Blick did not think the problem of counterfeit manuka would improve any time soon.

Dairy

Dairy prices fall to eight-month low [22 August/Radio NZ] Dairy prices fell to an eight month low at the most recent Global Dairy Trade Auction. The average price fell 3.6 percent to USD3044 per tonne. This was the lowest the average had been since December. The price of whole milk powder fell 2.1 percent and volumes sold were down 6 percent. Analysts suggested that the continued low pricing would likely put pressure on Fonterra's forecast payout to farmers of \$7 per kilogram of milk solids for the new season.

A2 Milk Co continues to grow [22 August/Farmers Weekly] Infant formula sales in Australia and China are driving The A2 Milk Company's ('A2 Milk') growth momentum. A2 Milk reported a 68 percent increase in revenue. Sales of A2 Platinum formula still dominated the business. According to Managing Director, Jayne Hrdlicka, the company continues to gain market share in both Australia and China. She described the year as transformational. She was confident increased competition would expand demand for A2 milk over time and the company would benefit from it. Ms Hrdlicka noted A2 Milk was achieving sales volume growth in a network of about 6,000 shops across the U.S. She noted its ability to keep meeting the demand growth highlighted the flexibility and strength of its supply base. A2 Milk had several supply lines into China. With the increasing growth based investment, a dividend would not be paid.

Fed Farmers calls for supermarket milk boycott [27 August/Rural Life] Federated Farmers wants New Zealanders to stop buying milk from supermarkets, and buy it from dairies instead. This was a result of University of Auckland Marketing Professor, Bodo Lang, finding milk pricing in New Zealand was very high. Federated Farmers Dairy Chairman, Chris Lewis, said he avoided the supermarket when buying milk for his family. He instead buys two 2-litre bottles for \$6 from his local dairy. He questioned what happened between the product leaving the farm and entering the supermarket for prices to be so high. Farmers received around 60 cents per litre of milk. A Foodstuffs spokeswoman said retail prices took wholesale costs from suppliers into account which could change based on the global market. Mr Lang compared New Zealand prices to prices in Europe. The majority of shoppers said milk was too expensive.

Agribusiness education

Lincoln and Canterbury Universities look at partnership options [21 August/Farmers Weekly] Lincoln and Canterbury University will explore partnership and merger opportunities under a new memorandum of understanding. The MOU has been signed off by the chancellors of both universities. Lincoln University Chancellor, Steve Smith, said the Government was focused on encouraging more people to study and work in land-based sectors, increase productivity, and develop solutions to present and future challenges. He believed a simple merger may not achieve those goals. He added the fact that Lincoln University needed to stay at its current site and retain its identity and culture was an important bottom line. Canterbury University Chancellor, John Wood, added it had longstanding interests in the land-based sectors and was confident the parties would collaborate to create innovative solutions to achieve the Government's goals. Lincoln University Vice-Chancellor, James McWha, noted the deal was a logical vehicle to ensure the sector remained internationally competitive.

Research and development

New ag investment fund launched [21 August/Farmers Weekly] According to Agriculture Minister, Damien O'Connor, the Government's new primary sector investment programme would amalgamate the best of the Sustainable Farming Fund and Primary Growth Partnership. The \$40 million a year fund was launched by Mr O'Connor. He said its primary funding criteria was improving product value or understanding. He also released an independent review of the Primary Growth Partnership. The new Sustainable Food and Fibre Futures Fund would help the sector move from being driven by volume to value. He noted the Primary Sector Council would provide guidance for the fund to assess applications through its work establishing strategies for the various sectors. The absence of a strategic plan had in the Minister's view resulted in funding of projects being ad hoc with some duplication in the past.

Emerging markets

Hikurangi Cannabis country's first company to be granted medicinal cannabis licence [26 August/NZ Herald] Hikurangi Cannabis has been issued with a licence by the Ministry of Health which enables it to breed cannabis strains to be used in medicines. Co-founder, Manu Caddie, said it was an important milestone for the company, adding that being able to execute the business in Ruatoria was particularly special. Hikurangi Cannabis was the second company to obtain such a licence from the Ministry. Ms Caddie added the Government's proposed medicinal cannabis bill would allow for the production of medicinal cannabis and sale in New Zealand. More than 1,500 local families invested \$2.5 million through a crowdfunding campaign. Obtaining the licence caused a series of transactions for the company to access the funds raised. They were initially looking at two products including an oral syringe and topical balm. Imported products like Sativex cost as much as \$1,000 but Ms Caddie hoped their products would halve that price.

Rural communities

Key announcements Rotorua and Taupo rescue helicopters expected in September [26 August/The Country] The first announcement around the current tender for national air ambulance services is expected in late September. The announcement would be in relation to Rotorua's BayTrust Rescue Helicopter. This was the first step towards a 10 year modernisation programme for air ambulances. The process had moved into formal negotiations with preferred tenderers. They remained confidential until the results were announced. The negotiations were to ensure the new services would deliver a nationwide service for all New Zealanders and be more integrated with the road ambulance and hospital services. Rotorua and Taupo residents fought to have their local helicopter services included in the process. Manager Community and Ambulance at the Ministry for Health, Andy Inder, said air ambulance services were more than a transport service. The final providers for each region would be announced as the negotiations are concluded.

Water

Waimea Irrigators finds investor to help plug funding gap for dam plan [27 August/Stuff] Waimea Irrigators Ltd said an investor could help fill the gap in funding for its dam project. Tasman District Council and Waimea Irrigators Limited were potential partners in the project. The cost of the project had increased around \$26 million to an estimated \$75.9 million in capital costs required. The council was due to discuss a report and vote on whether to go ahead with the project on Tuesday. Waimea Irrigators reached its target of commitments for 3,000 water shares to help fund the project. Waimea Irrigators said it had been working hard on how to fund its share of the funding gap. It provided details of how it wished to do this, but acknowledged there were still flaws that needed to be fixed. Waimea Irrigators Project Manager, Natasha Berkett, said it was not in a position to comment further.

Irrigation efficiency unlikely to free up more water – study [28 August/Radio NZ] Irrigation New Zealand remained unfazed by a report that criticised irrigation efficiency. The international report found efficiency did not free up more water for elsewhere, but only encouraged farmers to use more water themselves. It cited research from several countries. Irrigation NZ Chief Executive, Andrew Curtis, said New Zealand's experience was different, and efficiency improved the environment. The report found water saved at farm typically did not reduce water consumption across a wide region and pushed farmers to produce more water-intensive crops. The authors proposed robust monitoring of irrigation, and a cap on the amount of water extracted from the ground. The Government recently withdrew funding from most large irrigation schemes. Mr Curtis added limits were already placed on New Zealand users via conditions imposed by councils which many other countries did not have.

Pork

Bacon back in latest country of origin labelling proposal [27 August/Stuff] The Primary Production Select Committee recommended cured meats such as bacon and ham be included in the Consumers' Right to Know Bill. This would mean bacon would require country of origin labels. This was a change on its interim report which excluded such products. NZ Pork Chairman, Eric Roy, said the change showed committee members were listening to both local farmers and New Zealand consumers. NZ Pork had previously opposed the exclusion of cured meats. The Green Party also welcomed the change. Green MP, Gareth Hughes, added it was good New Zealand consumers would have clear information of where their bacon came from but would keep pushing for more foods to be included in the bill. Beef + Lamb New Zealand, Federated Farmers and Seafood NZ all made submissions opposing the bill in its original form.

Economics and trade

\$4.44b annual trade balance highest in nine years [27 August/Otago Daily Times] New Zealand's trade deficit hit a nine year high of \$4.44 billion. This was mainly due to export volumes being stronger than expected. According to Statistics NZ International Statistics Manager, Tehseen Islam, oil prices and a weakened New Zealand dollar were contributing factors, and imports and exports were both up for the year to July. Annual imports were \$60.7 billion and annual exports were \$56.2 billion. Exports of dairy and meat products caused the increase in exports. ASB Senior Economist, Mark Smith, said the annual deficit saw imports grow 13 percent which was greater than the export growth of 11 percent. He added that looking at the year ahead they expected the deficit to narrow. Westpac Senior Economist, Michael Gordon, noted New Zealand's trade deficit for July was better than expected, but was offset by a downward revision for June.

Biosecurity

Five-day relief for fruit growers [24 August/Rural News] The court ordered a five day relief to nurseries and orchardists that faced losing tens of thousands of apple and stonefruit plants imported from the U.S. It meant the Ministry for Primary Industries would need to re-engage with the orchardists and nurseries. Justice Francis Cooke said he found the Ministry applied the wrong set of provisions to the present circumstances, and the other provisions may need to be considered. The injunction was sought by five importers who were challenging the decision. The importers said the judge found the MPI directions were unlawful and directed them to reconsider. Pattullo's Nurseries employee, Kerry Sixtus, noted they were encouraged by the judgement and would move forward to engage with the MPI as quickly as possible to achieve a suitable position. She said the group always believed the MPI should have taken a more considered approach to the issue.

International

Almond worker shortage reaching crisis point as businesses struggle to house pickers, major grower says [23 August/ABC News] According to Walker Flat Almonds Grower, Peter Cavallaro, Australia's almond industry had a major worker shortage, which was pushing the industry to a crisis point. He said he had struggled to hire and maintain skilled and temporary workers due to the lack of accommodation in the area. He added they were looking for backpackers or anybody that wanted a job, however it meant they would have to camp down at the river however there were no facilities for them there. The Almond Board of Australia CEO, Ross Skinner, noted almond growers had struggled to find workers across the area. The industry was booming in recent years, so this was bad news for producers. The expansion of the industry had contributed to the shortage. Mr Cavallaro called on all industry stakeholders to help fix the problem, and The Riverland Horticultural Council encouraged young people to consider the industry.

The deadly African virus that's killing China's pigs [23 August/Bloomberg] A swine disease is spreading across China. It has infected hundreds of animals and threatens the world's largest pig industry. African swine fever has killed 340 pigs in Leqing city, meaning four Chinese provinces have now confirmed cases of the disease. African swine fever is a highly contagious viral disease that can be up to 100 percent lethal to domestic pigs and wild boars. There was no vaccine. The virus only affected pigs and was not a threat to humans. However, it could impact food security. China has more than half of the world's pigs, and pork is the primary source of dietary protein. The disease originated in sub-Saharan Africa and has spread around the world. China has previously resorted to mass culling pigs to get rid of the disease. It is found in all body fluids and tissues of infected animals and spread via direct contact.

French unhappy with flavour [21 August/EuroFruit] A poll by the consumer association CLCV found that French shoppers were critical of the flavour of fruit sold in supermarkets. It found there was little correlation between price and intensity of flavour. Around 32 percent said they were content with the flavour of strawberries, and only 31 percent were satisfied with various other fruits. It showed shoppers were unable to tell the difference between French and Spanish strawberries, despite the domestic variety being twice as expensive. A parallel study found that 68 percent were fairly or completely unsatisfied with the flavour of fruit sold in large retailers. The biggest issues were ripeness, flavour, and shelf life. CLCV advised supermarkets to show better information in the shop, including additional details on the origin of the produce and the variety on offer.

Mushrooms may exert prebiotic, diabetic risk-lowering effect, suggests study [22 August/Food Navigator] According to a study by the Pennsylvania State University, an 85 gram serving of white mushrooms could be enough to trigger a prebiotic, gut health boosting action that could reduce the risk of Type 2 diabetes. The findings were from a study on mice and pointed to white button mushroom's prebiotic effects on both host and bacterial metabolism. Lead Author, Dr Margherita Cantorna, used two types of mice in the study. One group had a gut microbiome population and the other did not. They were fed mushrooms daily and found distinct changes in the composition of microbiota in mice that had the gut microbiome. Dr Cantorna added the study was done with lean mice, however they were interested in what the reaction would be in obese mice. They were interested how this would work in humans. The findings were limited due to the use of raw mushrooms.

Wilde Chicken Chips believes it can crack into breakfast time [23 August/Food Navigator] Wilde Chicken Chips have reached nationwide availability at Whole Foods and Sprouts stores in the US. The company is planning to release a new flavour early next year of the chicken based snack that its founder, Jason Wright, believed would make the chips a breakfast item. Meat snacks have boosted the salty snacks category in recent years. The company initially sold meat bar products but found it hard to stand out and gain consumer attention. In order to bring disruption to the meat snack category, Mr Wright targeted the chip market and started producing chicken chips (pieces of chicken cooked to look and eat like kettle potato chips). It required the customisation of new manufacturing equipment. They had to test a number of oils to find the optimal recipe. He was motivated by the interest from Whole Foods. He wanted chicken chips to be seen as a healthier alternative to regular potato chips. Mr Wright also believed there was an opportunity to position the chicken chips as a breakfast item with its new chicken and waffles flavour.

Cannabis stocks get high as Diageo pursues deal [27 August/Food Dive] According to Bloomberg, Diageo is in talks with at least three Canadian cannabis producers around a deal for a cannabis infused drink. Cannabis stocks rose after it was found Diageo was a potential investor. Tilray was up 11 percent, Canopy Growth Corp increased by more than 10 percent, and Cronos Group rose 16.6 percent. The potential deal came at a time when recreational marijuana would be legalised in Canada on October 17. One executive said the company would take its time to evaluate and decide on a partner in the marijuana industry after it becomes legal. The Canadian market could give companies a trial market to improve their products as legalisation expands across the U.S. There was still uncertainty with what the market and products would look like.

South Africa in a tiff over Trump [23 August/EuroFruit] Some of President Trump's tweets have caused concern in South Africa and have been condemned as an effort to divert attention from his own problems in the U.S. The South African Minister of Communications said that the issue of land was important to South Africa and its resolution was vital for the country. Other Government officials noted that they believed Mr Trump had no understanding of what was going on in the country. Politician, Jules Malema, told Mr Trump to stop interfering with South Africa. Mr Trump has asked the US Secretary of State to keep a close eye on what was happening in South Africa in respect of forced land purchases. He suggested the government could start seizing the land of white people, which fuelled the racial debate. Citrus growers in the Cape are believed to be watching developments with concern, as the situation could easily go out of control.

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Weekly news update from the KPMG Agribusiness Network – 29 August 2018

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