



cutting through complexity

Agribusiness Agenda 2014

VOLUME **1**

Facilitating growth in an uncertain world

Leading New Zealand's
primary industry into
a prosperous future.

kpmg.com/nz



The Zero Hunger Challenge

Hunger can be eliminated in our lifetimes.

Michael Andrew, the former Global Chairman of KPMG International, along with the leaders of many other global agri-food companies, signed the World Food Programme's Zero Hunger Challenge at the World Economic Forum's Davos meeting in January this year. He signed the following commitment on behalf of KPMG...

I declare:

- 1) I am actively working to eradicate hunger;
- 2) I align myself with all elements of the Zero Hunger Challenge;
- 3) I encourage others to join in my activities and take the Challenge;
- 4) I advocate for actions and policies that achieve Zero Hunger; and
- 5) I will hold myself accountable to deliver on my promise.

The challenge of Zero Hunger means:

- › zero stunted children less than 2 years
- › 100% access to adequate food all year round
- › all food systems are sustainable
- › 100% increase in smallholder productivity and income
- › zero loss or waste of food

Eliminating hunger involves investments in agriculture, rural development, decent work, social protection and equality of opportunity. It will make a major contribution to peace and stability and to the reduction of poverty. It will contribute to better nutrition for all – especially women from the beginning of pregnancy and children under the age of two.

KPMG New Zealand is committed to working with the wider KPMG International community and other organisations in New Zealand to utilise the skills and experience inherent within our organisations to make progress in delivering upon this significant challenge.

While the New Zealand primary industry does not have sufficient scale to feed the world; there is much we can do, as a leading producer and exporter of high quality protein, to make a contribution to meeting this challenge.



FOREWORD

It has been an incredibly busy, challenging and ultimately successful 12 months for the primary industries since I contributed the foreword to last year's *KPMG Agribusiness Agenda*.

Our farmers, growers and producers have helped drive New Zealand's economy and achieve a Budget surplus – something which makes us the envy of many nations around the world.

Primary industries continue to be the backbone of New Zealand's economy. Every hour they generate another \$4 million in exports – earnings which help pay for our schools, hospitals and roads.

As international markets become more sophisticated and competitive, it is crucial New Zealand's primary industries keep pace. There is a lot of work ahead of us to achieve the Government's ambitious goal of doubling primary sector exports by 2025. This is why we are investing in irrigation, the Primary Growth Partnership, new roads, broadband and new trade deals.

I'm not surprised to see biosecurity again ranked as a concern by industry, and it is my number one priority as Minister.

This year the Ministry for Primary Industries (MPI) budget has increased by over \$17 million with a focus on strengthening biosecurity and food safety systems. We are also beefing up the border with new staff, more dog detector teams and new x-ray machines.

Recently the first Government-Industry Agreement (GIA) Deed was signed between MPI and Kiwifruit Vine Health. This partnership involves working together on preparedness and responses for pests and diseases. It is the start of a new era of cooperation and I'm sure will be followed by other industries.

Another important challenge will be building and maintaining a capable workforce. MPI has worked in partnership with DairyNZ and Beef + Lamb NZ to fund research that helps forecast our future capability needs.

This publication provides a summary of that research. It will be a valuable asset for those working within primary industries, as well as students, educators, and economic development agencies.

This work shows big changes in skills are required if these sectors are to adapt and respond to new opportunities and technologies.

Of course, this is an election year and I know that industry leaders are very focused on how the result on September 20 may impact on their economic momentum.

I welcome the findings of this year's *KPMG Agribusiness Agenda* and look forward to discussing them in person at this year's Fieldays, and around the country over the coming months.



Hon. Nathan Guy
Minister for Primary Industries
New Zealand

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WELCOME

TO THE FIFTH KPMG AGRIBUSINESS AGENDA

We wrote the first *KPMG Agribusiness Agenda* in 2010 in response to feedback that Ian Proudfoot and I received from industry leaders. At the time, there was little independent analysis on New Zealand's primary sector, despite its contribution to the economy.

This fifth edition continues to build on the foundations laid by our previous *Agendas*, providing insightful analysis on the key opportunities and challenges facing the sector. Again, it provides KPMG's reflections on the views and opinions that more than 150 industry leaders shared with us during our research.

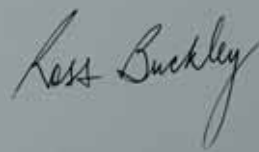
Five years ago, the contribution that the primary sector made to New Zealand's economy was being overlooked in favour of more fashionable industries. However the last few years have reinforced the view we reached during the Global Financial Crisis – namely, that the long-term economic future of New Zealand depends on a strong, innovative and sustainable primary sector.

This *Agenda* reflects some new themes that emerged during this year's Roundtable conversations. These include the opportunities and challenges China is presenting to the sector; the role that data will have on the industry; and the impact that nutrient caps are having on the sector's ability to grow.

We also explore the strategies we believe the industry should take to maximise its chances of succeeding in global markets. They all revolve around the strength and quality of relationships that companies can build with their communities, consumers, innovators, government, and providers of capital.

We will publish a second volume of the *2014 Agenda* later this year. This will focus on the global agri-food system, and the trends that are most important for New Zealand companies to understand.

The *2014 Agenda* is again well-informed, relevant and, we hope, challenging. We trust you will again find the read insightful – and that it encourages you to think about what we can do collaboratively to take advantage of the opportunities available to fuel New Zealand's prosperity.



Ross Buckley is the Executive Chairman of KPMG New Zealand and sits on the board of KPMG Asia Pacific and Agri-One, the joint venture between Massey and Lincoln Universities



PREPARING THE

AGRI- BUSINESS

AGENDA

2014

The *Agenda* this year has been prepared based on a series of 13 Roundtable discussions held with industry leaders across New Zealand, during March and April 2014.

The Roundtables took place in Auckland, Hamilton, Tauranga, Palmerston North, Wellington, Nelson, Christchurch and Timaru.

A total of 157 industry leaders have contributed to the *2014 Agenda* process. The Roundtables have been complemented by one-on-one conversations with industry leaders, as well as a quantitative online survey of key industry priorities. We had 100 participants in the series of Roundtables, 25 one-on-one conversations (for those unable to attend a Roundtable) and 86 participants completing the online survey. We are extremely grateful for the time these industry leaders gave us to be involved in the process.

This volume of the *Agenda*, titled *Facilitating Growth in an Uncertain World*, provides a state-of-the-nation analysis of the key issues and priorities on the minds of industry leaders. A second volume will be released in Spring 2014, and will examine the key trends in the global agri-food system.

**THE YEAR
IN REVIEW
2013/2014**

EXPORT RECORDS SMASHED

It has been a year of mixed fortunes for New Zealand's primary sector. Many industry sectors have delivered record production and smashed export records during the last year; while others have suffered from adverse weather, earthquakes and challenging export market conditions.

The successes of the last 12 months have been tempered by some significant challenges in the areas of market access, health and safety, and biosecurity. The year has also demonstrated that the wider population is watching the actions of the industry more closely than ever, particularly in relation to its stewardship of the environment.

The highlights for the year featured overleaf illustrate another action-packed year for New Zealand's most valuable sector – with challenges and innovation, opportunities and own goals. Most importantly, the opportunities available to the sector remain as extensive and exciting as they have ever been.



THE YEAR IN REVIEW

2013/2014



Errors with MPI paperwork see New Zealand **red meat exports** being held on Chinese wharfs

McDonalds remove **Lamb Burgers** from its permanent menu after slow sales

A national management plan for the **PSA virus** is adopted, leaving primary responsibility with the kiwifruit industry

Budget sets aside \$80 million of Crown funding for regional **irrigation projects**



Biosecurity risks associated with PKE resulted in consideration being given to strengthened import rules

Dairy prices increase at the mid-month GDT auction

Two **PGPs receive government support** – focused on high country production and developing new dairy health products in the Māori agribusiness sector

The 45th National Fieldays attracted 125,000 people and saw many businesses making **record sales**



NZ wine industry reports a record 2013 vintage of 345,000 tonnes, 5% higher than the previous record

Representatives of the **four largest meat companies** meet to explore alternative structures for the industry

Synlait Milk lists on the NZX as Dutch co-operative Friesland Campina takes minority stake in company

Fonterra cuts prices in China as Chinese government launches investigation into dairy product pricing



Amendments to the National Policy Statement for **Freshwater management** are noted as requiring sacrifice from both agricultural and urban communities

A proposal to **ban shark finning** in New Zealand waters receives wide support from industry and community

Lifestyle Wines PGP programme receives funding to develop **low calorie and alcohol wines**

Parliamentary Commissioner for Environment issues a **report warning waterways** will further deteriorate if the dairy industry continues to boom

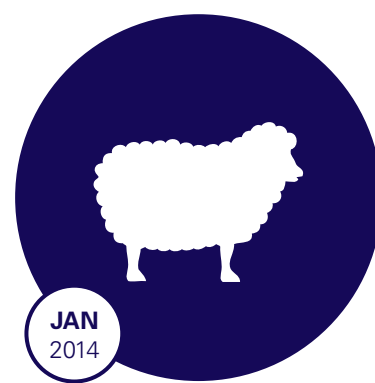


Major venison exporters announce collaborative programme to lift carcass weights and increase focus on **exports of chilled products**

New life breathed into stalled WTO Doha round with trade facilitation measures being agreed by **159 countries**

Members of the Meat Industry Excellence group elected to boards of **major red meat co-operatives**

Commerce Commission to file proceedings against three banks over **sale of interest swap** contracts to farmers



NZ sheep meat exports to China reach new peaks with China becoming the largest market for the product

Danone announces it will make a claim against Fonterra over the WPC recall to recover claimed losses of **EUR€350 million**

Fruit fly found in Whangarei resulting in quarantine restrictions being imposed on local community

Mounting employee deaths in the **forestry sector** increase calls for significant reforms of health and safety procedures in industry

ACCESS FIELDNOTES WEEKLY AT FIELDNOTES.CO.NZ



AUG
2013

AgResearch announce plan to focus its **science activities** on two centres at Lincoln and Palmerston North

Fonterra issues a precautionary recall for products feared to be contaminated by botulism, resulting in a number of countries **restricting NZ dairy exports**

Some Marlborough wineries are damaged by **major earthquakes** centred around Seddon

Over 48,000 submissions received in response to proposed changes to **snapper catch limits** imposed on recreational fisherman



SEP
2013

The Government plans to introduce new labelling standards for **Manuka honey** in response to claims of false labelling

A pop-up restaurant in San Francisco for the America's Cup exceeds expectations and profiles **fine NZ products**

Severe **wind storms** damage more than 800 irrigators in Canterbury as new season starts

Ruataniwha scheme in the Hawkes Bay gains indications of commercial investment but requires farmers to commit to **water off-take** to ensure viability



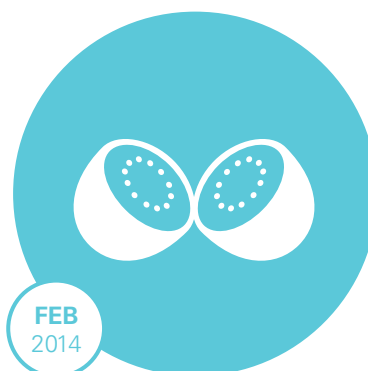
OCT
2013

Bumper milk flows stretch the limits of NZ's dairy processing capacity

Serious Fraud Office announces that it is investigating claims made against **Zespri**

Shanghai Pengxin bids to acquire a controlling interest in the Synlait Farming business

NZ Post announce that reductions in urban delivery levels will not be reflected in rural areas where current service levels will be maintained



FEB
2014

Zespri terminates three distributors in Taiwan after being alerted to discrepancies in their invoice practices

Drought conditions take hold across parts of Northland and the Waikato

Dairy commodity prices at GDT auctions peak with economists suggesting price levels are **unsustainable**, although payouts maintained at record levels

Trade Minister not confident that **Trans Pacific Partnership** deal can be completed in 2014



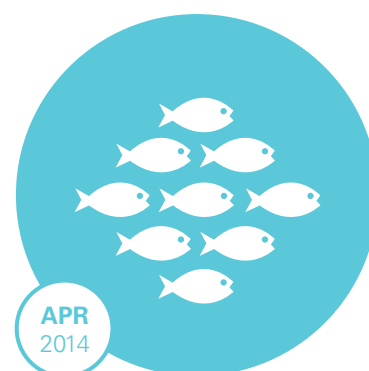
MAR
2014

Westland Milk Products and Synlait Milk announce significant new investment in processing assets

Prime Ministerial visits to China and Europe strengthen relationships after WPC recall and initiate conversations around an EU/NZ FTA

Labour announces a pro-wood policy including a requirement for government buildings to consider **timber construction** options

Primary Industries Minister encourages **red meat sector** collaboration but will not convene a summit



APR
2014

Supreme Court upholds consents granted to **NZ King Salmon** to develop three new farms in Marlborough Sounds

A second, unconnected fruit fly is found in Whangarei only 400 metres from January discovery

Japan and Australia enter into weak Free Trade Agreement, further denting likelihood of a successful outcome to TPP

NZ exporters feel the impact of **Chinese government** restrictions on consumption of luxury products



UNCERTAINTY MAKES

ELECTION 2014

THE MOST SIGNIFICANT IN DECADES FOR THE

PRIMARY SECTOR

The world we live in is changing at a staggering pace. Some commentators suggest we are in the most significant period of change in the global economy since the industrial revolution, when automated production triggered the growth of dense urban populations around the world.

The centre of economic power is shifting; there are growing numbers of wealthy people, and the influence of traditionally dominant cultures and religions is diminishing. Technology is disrupting established business models, product lifecycles are shortening, and there is growing concern that we are facing a significant change in the global climate. The fundamentals that New Zealand's primary industry has been built upon over the last 150 years have the potential to change quickly.

It is against this background that we conducted the Roundtables for the *2014 KPMG Agribusiness Agenda*. The theme underlying almost every conversation we had revolved around how the primary sector strives to deliver high-yield, high-protein nutrition to a changing world from a truly sustainable production base, while creating value for all stakeholders. The ability to deliver against this ambitious goal is subject to a significant number of uncertainties. Some of these uncertainties are inherent to the industry's supply chain, while others may be directly influenced by the policy framework adopted in New Zealand. Regardless of their origin, all these uncertainties will have to be managed to deliver long-term business success.

With the level of change in the markets we are supplying, it is not surprising that the regulatory environment surrounding the primary industries in New Zealand is also evolving. During the last year alone, we have seen changes in food safety regulations, new export requirements to maintain market access, changes proposed to the Resource Management Act, and new rules designed to enhance water quality in Canterbury. The point was made during our Roundtable discussions that it is not the imposition of regulation per se that is the issue for the primary sector, but the uncertainty that the current level of change can create.

It was apparent that many leaders are approaching the forthcoming election in September with some degree of trepidation. Any change in government brings with it uncertainty as it implements its policy platform. In recent decades, the approach to key areas of primary sector policy – such as securing export, market access, biosecurity, food safety and core science funding – has been broadly consistent, regardless of the party controlling the Treasury benches. That is not to say the political approaches are indistinguishable. The current National-led Government has placed a greater priority on the development of water infrastructure than the previous Labour-led Government, for instance, while the latter had a generous research and development tax credit scheme which was relatively easy for companies to access and obtain cash refunds. Both policies had direct, positive benefits to the primary sector.

Should National be unable to form a government after the 2014 election, the composition and policy position of any potential left-of-centre coalition towards the primary sector is a top-of-mind issue for industry leaders. The result of the 2014 election will influence the future potential of the primary sector.

What could impact the industry's ability to grow?

The need for the primary sector to continue to improve its performance around core sustainability issues, such as water quality and nutrient management, is not disputed. However it was recognised during the Roundtable discussions that while significant investment has been made to address these issues, the benefits are not immediately apparent. As a result, there is a concern that the 'lack of runs on the scoreboard' may result in a new coalition government increasing the regulation on the industry, and imposing charging mechanisms for the use of natural capital. The industry still has much work to do to deliver a sustainable future, and time is needed to progress towards this goal. A key concern is the possibility that the time the industry needs to resolve its challenges may be reduced or completely removed.

In the past decade, the industry has found it difficult to get water schemes off the drawing board and into construction. The funding initiatives the current Government has introduced to support the development of new water storage and irrigation infrastructure have been welcomed by many in the industry. However concerns were expressed about whether this level of support would be retained by an alternative coalition government, as it is not apparent they would have the same desire to accelerate the implementation of these transformational projects. Water is a globally scarce resource that New Zealand has in abundance. Industry leaders recognise that if managed properly, the certainty of water availability can provide our producers with a significant advantage over many global competitors.

Concerns were also expressed that a new coalition government could adopt a different policy stance in relation to market access. Whereas trade policy has historically been an area of cross-party cooperation, there are indications that this may no longer be guaranteed. The Trans-Pacific Partnership (TPP), in particular, could have a complex and significant impact on many aspects of the New Zealand economy. It has attracted more opposition than other FTAs, due to concerns it could deliver a loss of sovereignty. As we discuss later in this *Agenda*, industry leaders are attaching a higher priority to securing high-quality free trade agreements than in the past. This reflects the benefits that are being derived from the agreements in place; and the constraints being experienced when competing in key markets, such as Europe and South Korea, where competitors have preferential market access over our companies.

While foreign investment in the primary sector remains an item on the political agenda, industry leaders are less troubled by this issue. As a nation, we have always relied on foreign investment to fuel the growth of our economy, and there is still a significant need for capital to enable the primary sector to capture the opportunities available to it. However the stated position of many potential partners of an alternative coalition government is to place restrictions on the ability of foreign investors to acquire New Zealand-based assets. During our Roundtable discussions, it was recognised that not every offshore investment is good for the New Zealand economy. Equally, they are not all bad. We need to strike a balance, and industry leaders are looking for a more well-rounded policy than is currently being suggested.

How could a change support industry growth?

Despite the uncertainty surrounding the election outcome, industry leaders have identified some potential policies an alternative coalition government could adopt that would have real appeal. One positive expectation is that a new coalition government will take a much more active stance in promoting sustainable business; with a particular focus on increasing the investment in R&D activities targeted at addressing environmental issues such as greenhouse gases, nutrient leaching, and water quality. Industry leaders believe it is critical these important streams of scientific research take place. They expressed concern that there is currently insufficient support to enable this research to happen fast enough to provide farmers and producers with the tools they need to truly transform into sustainable businesses. The view was expressed that additional funding into these core research areas must be the counterbalance to any tightening in environmental regulation.

The issue of a pan-industry vision and strategy continues to feature in many Roundtable conversations. The widely-held belief is that such an initiative would aid the industry in allocating resources, coordinating strategic investments, and engaging with the wider population. It is also recognised, though, that the challenges of developing such a strategy are significant. While the current Government has indicated little willingness to support the development of an industry-owned strategy, it is expected that a new coalition government might be prepared to take a more active role in this. We continue to strongly advocate for the development of a broadly-accepted vision for the future of the industry, together with a roadmap as to how the vision is delivered. This is key to ensuring our available natural assets are leveraged and utilised as critical, strategic assets of this country.

It has also become apparent that any coalition government is likely to be more active in directly assisting selected businesses to succeed. For example, the *Economic Update for the Forest and Wood Products Industry* document, recently released by Labour, contains many of the initiatives that forestry sector leaders have been lobbying the Government to consider in recent years. Given that Ministers and officials are not actively working with customers in the market on a day-to-day basis, there has historically been some doubt about whether it is the role of government to pick winners. However it was recognised that in some cases, a step change in the performance of a sector may not be possible without some government action. Labour's proposed policy in the engineered timber sector, for instance, might help deliver certainty of demand and a growing domestic market that could support companies to explore export opportunities.

Making the sector relevant to the electorate

The reality is that Election 2014 will not be won or lost on the approach that the parties take to the primary sector. The election will be predominately fought on issues that are of significant importance to the urban populations of New Zealand; and policy positions around housing, education, health and the economy are likely to dominate the conversations. However there is a crucial point that is likely to be overlooked during the discussions. The next government's ability to implement its policy platform will be highly dependent on the primary sector continuing to grow its productivity and value to generate export earnings. This is what will ultimately pay for the infrastructure, schools and hospitals necessary to deliver on the pledges made in the heat of an election battle.

If the primary sector wants to effectively influence the policy framework it operates under – after this or any future election – it must make real and substantive progress in informing and engaging with the urban population. It needs to tell the story about how it operates, what it is doing to improve, where it requires support, and the contribution it delivers to the economy. Without an active programme to communicate this in an open and honest way, the pre-election uncertainty expressed during this year's Roundtables will become the norm for industry leaders. And that cannot be good for the long-term prosperity of New Zealand's primary industries.

“IT IS NOT THE IMPOSITION OF REGULATION PER SE THAT IS THE ISSUE FOR THE PRIMARY SECTOR, BUT THE UNCERTAINTY THAT THE LEVEL OF CHANGE CAN CREATE.”



Ian Proudfoot
Global Head of Agribusiness
KPMG New Zealand
Report Author

Ian Proudfoot is the Global Head of Agribusiness and an Audit Partner based in Auckland. He provides services to clients in a range of sectors including viticulture, horticulture, pastoral agriculture and agricultural support services. He has led KPMG New Zealand's strategic agribusiness initiative since it was launched in 2009, authoring each edition of the *KPMG Agribusiness Agenda* and editing the weekly *Field Notes* publication. In 2013, he was asked to establish and lead a global network of KPMG professionals working with clients in the agribusiness sector worldwide. Ian is a regular presenter and commentator on sector issues both in New Zealand and internationally.

INDUSTRY LEADERS' PRIORITIES FOR 2014/2013

#01

ENSURING WORLD-CLASS BIOSECURITY

9.55/9.23

As with past *Agendas*, we asked industry leaders to rank a range of priorities currently facing the sector. We had 86 responses to the survey.

The respondents were asked to rank a series of industry priorities on a scale from one to 10 (with one being an issue of no priority at all, and 10 being an urgent priority requiring immediate action). We asked 35 questions in this year's survey, including five new questions. (The questions were broadly the same as those asked in prior years, although slight changes were made to the wording of the priorities to maintain their relevance in light of industry developments).

Overall, there is a slightly stronger sense of urgency around key issues facing the sector. The average priority score in 2014 increased to 7.03 (from 6.90 in 2013). Last year 17 out of the 30 questions (57%) scored a priority score greater than the average, while 21 out of 35 questions (60%) attracted a score above the average priority in 2014.



#02

RECOGNISING
STRATEGIC IMPORTANCE
OF FOOD SAFETY

8.64/NA

#03

SECURING HIGH
QUALITY TRADE
AGREEMENTS

8.58/7.91

#04

INVESTING IN
IRRIGATION /
WATER STORAGE

8.52/8.26

#05

DELIVERING
MARKET SIGNALS
TO PRODUCERS

8.41/8.28

#06

DELIVERING RURAL
HIGH SPEED
BROADBAND

8.26/7.94

#07

CREATING NZ
PROVENANCE
BRANDS

8.10/7.85

#08

INNOVATING
COLLABORATIVELY
WITH CUSTOMERS

8.08/7.46

#09

DELIVERING R&D
INCENTIVES TO
COMPANIES

8.06/7.41

#10

DEVELOPING
FUTURE
LEADERS

8.01/7.99

Notable trends in the results this year include:

Maintaining a world-class biosecurity system to protect New Zealand has retained its ranking as industry leaders' top priority for the fourth consecutive year. The incursions of the last few years have clearly focused minds on the need to work with government to manage industry-specific biosecurity issues. During our conversations it was apparent that most industry sectors have now accepted the need to enter into a Government Industry Agreement (GIA) in order to better manage the risks to their sector.

- › We added a new question to the survey around the need to complete a GIA agreement, and to accept a share of the costs for management and response to incursions. This was ranked 12th, with a priority score of 7.75. However we also received a clear message – the industry does not intend to commit to writing a blank cheque; they expect the Government will continue to maintain its contribution to protecting New Zealand's biosecurity.

The impacts of the precautionary WPC recall Fonterra conducted in August 2013 clearly highlighted the importance of food safety to the industry. It was undisputed that food safety is critically important to customers, and that the industry must place the same priority on this issue. Industry leaders attached the second highest priority score of 8.64 to the question about the strategic importance of food safety. We also asked whether a higher degree of central control should be taken over food safety management for export-focused products. Centrally controlling food safety systems received a lower priority score (6.52) than the strategic importance of food safety. Many believed that food safety is best managed by the companies that own customer relationships, as those customers will ultimately determine the food safety standards to be applied.

The priority score attached to securing high-quality trade agreements increased to 8.58 in 2014. Market access and trade issues were a significant talking point during the Roundtables. Concern was expressed that our trade policies are placing 'too many eggs in the China basket', and other opportunities are being overlooked. The likelihood of securing a high-quality Trans Pacific Partnership (TPP) agreement appears to have become more remote during the year. As the number of countries involved in the TPP discussions has grown, it has increased both the size of the prize and the obstacles to achieving a comprehensive agreement. The benefits of preferential market access are compelling. Industry leaders are looking to the next government's continued commitment to delivering high-quality trade agreements that appropriately address agricultural issues.

Investing in improved water storage and distribution infrastructure, and accelerating the rollout of rural broadband infrastructure, continue to rank among the highest priorities.

This year, discussions around water focused on what the industry needs to do to deliver long-term improvements in water quality. (The need to manage and utilise water resources more effectively was not raised as often as it has been in the past). With regard to broadband, industry leaders recognised the current Rural Broadband Initiative marks only the start of delivering a future-proofed communications solution to rural areas. The role of data collection and analysis within our farming systems featured in many more conversations this year.

Resourcing of people within the sector is a lower priority in 2014.

Last year, the Top 10 priorities included two people-related issues (developing future leaders was ranked 4th, and providing incentives to students to attract them into agribusiness careers was ranked 9th). Surprisingly, both of these questions have recorded lower rankings in 2014 (reducing to 10th and 17th respectively). It was

apparent from our discussions that the industry still faces significant challenges sourcing sufficient people with the skills and experience required, be they manual labourers or graduate-qualified. Industry leaders undoubtedly recognise the challenges, and are implementing initiatives tailored to meet their needs in response. Yet as we discussed in the 2013 Agenda, the solutions to these issue require long-term collaborative responses, and there still appears to be a lack of coordination in the response.

A pan-sector vision and strategy remains elusive. The need to develop a wider vision and strategy for the primary sector remains something that many leaders spoke in favour of during the Roundtables. Yet the survey result (a score of 7.32, ranked 20th) continues to reflect the perceived difficulties in producing and implementing such an initiative. While the ability to present a long-term vision is seen as important for engagement with a wider range of industry stakeholders, concerns continue to be expressed around who would own and ensure the implementation of the strategy. There is limited desire to see government take a lead role in any strategy; and most industry leaders continue to see minimal benefit in developing an industry umbrella body to assume this role (priority score 5.86, ranked 32nd).

Genetically modified organisms ('GMO') remains in the too-hard basket. The issue continues to be a low priority for industry leaders (scoring 6.35, ranked 29th), given the expected challenges associated with having a balanced conversation around the issue. New Zealand's strategy towards GMO was raised in numerous conversations this year, reflecting the growing adoption of these technologies around the world. Concerns were expressed that failure to have a discussion on this issue could have a material impact on our long-term competitiveness; as more countries recognise the benefit these technologies can have on yield, the environment, drought tolerance and the sustainability of the food supply.

Lukewarm support for large-scale organic production. Some conversations explored whether there is a greater role for organics and natural products within our product mix. The response was fairly lukewarm (investigating large-scale organics had a priority score of 4.32, ranked 34th). The overall view was that there is a role for organics within our production system, but the industry is likely to largely remain the domain of smaller scale producers supplying niche markets that will pay a premium. The point was made that a good organic operator can achieve similar outputs to a conventional farmer; however, like conventional farming, there is a wide mix of abilities within the farmer population.

A limited desire to see production standards codified persists. Last year we observed that the priority respondents attached to a question relating to setting standards to protect our environmental reputation fell from second to 14th rank, when we amended the wording to suggest that the minimum standards to achieve this should be codified. The item held its rank at 14 this year.

› This year we added a further question relating to the priority should that be given to initiatives that preserve New Zealand's clean, green reputation in global markets. This question recorded a priority score of 7.66 (ranking 16th) which was surprising, given that the mainstream media regularly hold the primary sector to the unspecified 'clean, green standard'. The wider population consequently holds the sector to the same arbitrary standard, and the industry needs to be able to demonstrate how it performs against this benchmark.

PRIORITY RANKINGS ATTACHED TO NEW QUESTIONS ASKED IN 2014

#02

FOOD SAFETY STRATEGIC IMPORTANCE

8.64

#12

GIA COLLABORATION / COST SHARING

7.75

#16

PRESERVING OUR GREEN REPUTATION

7.66

#28

CENTRAL CONTROL OF FOOD SAFETY

6.52

#30

ENGAGING WITH COMMUNITIES

6.30

Slow traction on sector's engagement with wider community.

The survey included two items relating to the priority given by industry leaders to engagement between the sector and the wider community, particularly the urban population:

- › The first item, which has been asked in prior years, related to developing understanding between the rural and urban communities (so both parties better understand and value the contribution the other makes to the prosperity of New Zealand). This question has recorded a ranking of 15 in both years (although the priority score increased 7.1% to 7.67 in 2014). Given the conversations during the Roundtables on the importance of the urban population having a better understanding of the primary sector, to inform electoral choices and regulatory outcomes, it was surprising the priority had not increased more significantly this year.
- › The second item related to engaging in community projects that deliver beneficial social outcomes, without immediate direct business benefit. This recorded a priority score of 6.30 and a ranking of 30th. The rating is consistent with other survey findings on corporate social responsibility. Most initiatives are still being designed to provide both business benefits and value to the community, rather than being focused on delivering the maximum benefit to the wider community.

Growing caution around foreign land investment.

For the fourth consecutive year, the item relating to restricting foreign land investment recorded the lowest priority score (4.24). This reflects the continued view of industry leaders that foreign capital investment is needed for the industry to maximise its potential. It was notable, however that the score attached to this item recorded the highest percentage increase on the 2013 score (16.2%). This reflects a growing desire to have each foreign ownership proposal considered on its merits, to ensure the benefits it delivers to the country are assessed.

An increasing focus on innovation.

The priority scores for items relating to innovation saw significant increases in 2014. These included: developing products collaboratively with customers (up 8.3%); providing incentives to companies investing in R&D activities (up 8.8%); spending more of our research funding to source and tailor global technologies (up 14.6%); and reforming levy structures to facilitate more intergenerational investment (up 11.1%). This trend was consistent with our Roundtable discussions. A key theme was the need for industry to develop an innovation system that is geared towards delivering long-term market success for key customers, utilising the best technology available in the world.

More support for widespread best-practice.

Ensuring that best-practice farming methods and innovation are widely adopted across the industry is seen as important for two reasons. As well as delivering productivity increases, it can maintain or reduce the environmental footprint of the industry. Therefore it was not surprising to see a 7.72 priority score attached to implementing effective mechanisms for on-farm extension (an increase of 8.1% on 2013). The view was expressed in a number of Roundtables that the sector faced a significant people challenge in this respect. The issue is whether the sector can recruit and train enough farm consultants and specialists to meet the growing demand for extension and specialist on-farm advice. This was noted as a key constraint to implementing best-practice across the industry.

MOST SIGNIFICANT INCREASES IN PRIORITY SCORES (2014 VS 2013)

↑ 16.2%

RANK 35 RESTRICTING FOREIGN LAND INVESTMENT

↑ 14.5%

RANK 26 SOURCING AND UTILISING GLOBAL INNOVATION

↑ 11.7%

RANK 24 DEVELOPING LIGHT EXPORT MODELS

↑ 11.1%

RANK 31 REFORMING LEVIES TO ENABLE LONG TERM PROJECTS

↑ 8.8%

RANK 09 DELIVERING R&D INCENTIVES TO COMPANIES

↑ 8.5%

RANK 23 LICENSING TO ACCELERATE MARKET ACCESS

↑ 8.47%

RANK 03 SECURING HIGH QUALITY TRADE AGREEMENTS

↑ 8.3%

RANK 08 INNOVATING COLLABORATIVELY WITH CUSTOMERS

↑ 8.12%

RANK 13 EFFECTIVE EXTENSION OF INNOVATION ON-FARM



We would like to thank the following students studying the Agribusiness programme at the Waikato Management School for providing us with their perspectives on the priorities for the primary sector:
John Cao, Lana Kennett, Steven Law, Thomas Macdonald, Alex He, Fergus Fauvel, Lori Gibbison, Kahleigh Ahomiro, Joshua Cousins, Bryce Fausett, Peter Shields, Daniel Baxter, Alex Tressler, Sam Morgan, Sarah Hogan

“FRESH VOICES” – OUR NEXT GENERATION OF AGRIBUSINESS LEADERS

Having finished our programme of Roundtables, we thought it would be interesting to compare the views of current industry leaders with those of the next generation.

We were very grateful to Professor Jacqueline Rowarth at the Waikato Management School, who allowed us to take over one of her Monday lunchtime Agribusiness lectures to discuss the initial findings from our research with her students, and seek their views on the priorities for New Zealand’s primary sector.

Here are some of the highlights:

- › A key top-of-mind concern is the **growing burden of regulation** being placed on the sector. Students highlighted that the cost this imposes on farming businesses is making it increasingly difficult to contemplate farm ownership in the future. The inconsistency of the regulation, and the lack of easily understandable information, is making it difficult to know whether a development will comply with regulations (increasing the risk of making the wrong investment and being penalised for non-compliance). The students questioned why we have not considered a regulatory framework that is based around carrots rather than sticks, and delivers incentives to those that exceed the required environmental standards.
- › The opportunity to grow the size and extent of our **trading relationships with China** was identified as a priority by a number of the students. They highlighted it is critically important that our exporters control the relationships with Chinese customers (and they perceive this is currently not the case in many circumstances). They also posed the question whether more companies should be following Fonterra and investing directly into production assets in China to maximise the return on available capital.
- › Addressing the challenges of **attracting young, intelligent people into the primary sector** was also discussed. The view was clearly expressed that it is not financial reward that has attracted them to study for a career in the industry. Rather they see a significant opportunity to make a difference – whether to their family business, to their community’s assets, or in addressing some of the challenges that the sector faces. The need to engage with children at school was identified as a key priority. However they were concerned that over-subsidising agricultural study would not necessarily attract people who want to make a long-term contribution to the industry.
- › A further priority raised was the need to address the **primary sector’s image with the wider population**. The stereotypical image of farmers used in the mainstream media is unlikely to attract people to work in the primary sector, and it does not reflect real people in the industry today. There is an urgent need to showcase innovative farming models to the wider population, potentially via a reality-based television programme. (They noted that the Country Calendar series is now too focused on niche farming operations, rather than best-practice mainstream farming).





**THE GROWTH AGENDA FOR A
SUSTAINABLE
PRIMARY
SECTOR**



During this year's series of Roundtable discussions, the agenda was intentionally left open. Our goal was to draw out the issues that are top-of-mind for industry leaders as we approach the election in September. As a result, we had 13 very different conversations.

The following pages present our perspectives on the core drivers of the industry in 2014. We have also included some best-practice Case Studies to illustrate some of the points made. This year we have split the *Agenda* action points into two parts – those that need to be addressed at a government or industry level ('Industry Action Points'); as well specific actions that individual companies and sector participants could consider taking in their business.



Rural Communities



Sustainable Farming



Māori Agribusiness



Biosecurity



Food Safety



Long-term Market Access



Product Diversification



China



Future Capital



People Challenges



Potential of Water



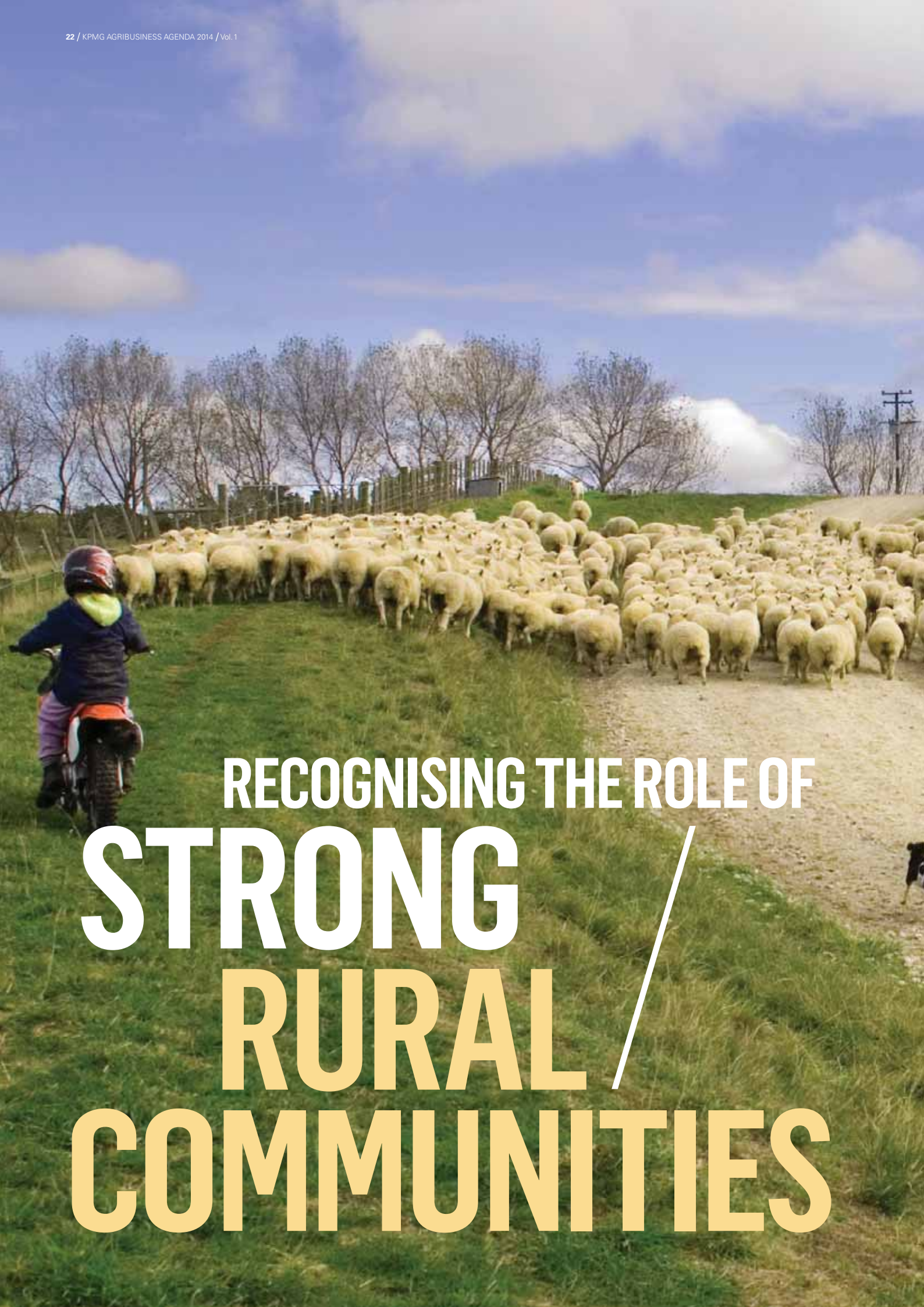
Innovation



Technology Priorities



Red Meat Sector



RECOGNISING THE ROLE OF
STRONG
RURAL /
COMMUNITIES



Strong rural communities lie at the heart of a vibrant primary sector. Yet concerns were expressed during our Roundtable discussions that we are failing to adequately invest in our rural communities. This is effectively driving people into cities and compounding the sector's difficulties in recruiting and retaining talented people.

Urbanisation is a global trend and New Zealand is not immune. The percentage of our population residing in urban areas has increased from 64.8% in 2006 to 65.5% in 2012 (i.e. 193,000 extra people residing in urban areas over the period¹). Although our urban population is low compared to other developed countries (UN statistics suggest urbanisation levels in Europe sat at 73% in 2010)², New Zealand is one of the few developed countries that is heavily reliant on the primary sector. Having strong and vibrant rural communities is significantly more important to New Zealand's prosperity than other developed countries.

“POLICYMAKERS NEED TO BE CLEAR THAT A ONE-SIZE-FITS-ALL APPROACH WILL NOT ALWAYS WORK. RURAL COMMUNITIES OFTEN REQUIRE DIFFERENT SOLUTIONS TO ACHIEVE EQUITY OF OUTCOMES.”



Jamie Sinclair is the Director of our Sustainability Services advisory team

One-size-fits-all legislation is making life increasingly difficult for many rural communities. Two examples, discussed later in the *Agenda*, are the challenges associated with the strict interpretation of labour law for rural employers which has been recently adopted; and the differing speed of broadband connectivity in rural and urban areas. Other issues were highlighted during our discussions. Legislative requirements relating to the minimum earthquake strength of buildings are being applied across the country, without consideration of the lower risk associated with rural buildings. The Government’s policy to direct funding towards roads of national significance (the majority of which are located in or close to urban population centres) fails to recognise that more than 50% of the country’s tradable exports are trucked along rural roads. Many of these are in a poor state of repair, yet are a more critical link in our global supply chain than the Auckland motorway network.

The challenges of rural healthcare were also raised during a number of discussions. It was noted that work has been done in Australia to benchmark government health funding in rural areas in comparison to urban areas. The work indicated that the rural health funding deficit in Australia was between A\$2.1bn and A\$2.4bn, with spending shortfalls in all areas of healthcare³. Although per capita expenditure was significantly higher for rural and remote populations, the uplift failed to cover the incremental costs of delivering healthcare in these areas. While an equivalent piece of work has not been done in New Zealand, it has been suggested that the outcomes could be expected to be broadly similar. The rural sector has many health challenges arising from the isolated nature of the lifestyle (including high suicide rates, family violence, and alcohol abuse). There are other challenges associated with access to healthcare; all of which increases the problem of attracting people to live in rural communities.

¹ KPMG analysis of Statistics New Zealand data: Subnational Population Estimates – at 30 June 2012 (Table 2: Estimated resident population, territorial authority area, at June 2006, 2011 and 2012; 2013)

² United Nations Department of Economic and Social Affairs – Population Division; Percentage of Population residing in urban areas (1950 to 2050); October 2012.

³ National Rural Health Alliance Inc; Australia’s health system needs re-balancing: a report on the shortage of primary care services in rural and remote areas; January 2011

It was highlighted in one conversation that when the Crown Research Institutes were established, there was initially an institute directed at social research (the Institute of Social Research and Development), which was disestablished after only three years. The need to fully understand the dynamics of New Zealand's increasingly diverse population is critical in designing and implementing policies that will support the development of strong rural communities – yet there is no dedicated organisation to undertake this work in New Zealand. It was suggested that it may be time to establish a unit to expand our understanding of the social issues surrounding rural communities. This body could also be responsible for conducting formal assessments of the impact proposed legislation will have on rural areas, to ensure that government introduces equitable policies.

In previous *Agendas* we have commented on the challenges of securing sufficient investment for rural infrastructure, given the limited funds available and the ability to positively impact more people by investing in urban regions. This year it was again highlighted that infrastructure needs to be adequate in rural areas if the primary sector is going to grow. Infrastructure limitations can impact on business growth, as they deter the right people and the necessary capital committing to a region. The ultimate result is that communities dwindle over time, and opportunities to create value for the country as a whole are lost.

The key message from our discussions was that policymakers need to be clear that a one-size-fits-all approach will not always work. Rural communities often require different solutions to achieve equitable outcomes with urban communities. For instance, they may require different education systems, access to data for business rather than entertainment purposes, different health promotion strategies, and greater access to e-services. This may cost more in some cases, and less in other circumstances. Policies should be carefully designed, to avoid taking a blanket approach where that would deliver inequitable outcomes. The overall goal is to build and maintain strong rural communities, in order to strengthen their ability to grow New Zealand's most productive sector.

AGENDA POINTS

SUMMARISING THE AGENDA

The primary sector relies on people living and working in rural areas – and the quality of life in these regions has a direct impact on the ability of the industry to deliver the economic outputs expected. The following were all identified as limitations on our rural communities: inconsistent access to health and education services (in comparison to urban areas); one-size-fits-all legislation; and under-investment in infrastructure.

INDUSTRY ACTION POINTS

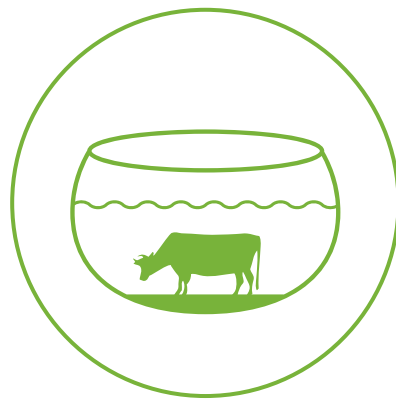
- ① Advocate for a research unit to grow understanding of social issues impacting on rural communities and conduct impact assessments of policies
- ② Work with NZTA and Councils to ensure that primary roads in rural areas are adequately maintained to support our export businesses

ACTIONS WITHIN YOUR BUSINESS

- ① Actively support the Rural Health Alliance Aotearoa New Zealand as it works to develop effective delivery models for rural healthcare
- ② Ensure rural employees are provided with access to a support service available 24/7 as a response to many of the health problems faced in the sector

A high-angle photograph of a vast, green, grassy field. A person wearing a red shirt and blue jeans is walking away from the camera along a faint path. The field is dotted with large rocks. In the background, a line of trees stands against a clear sky. The text 'FACING THE REALITY OF FARMING IN A FISH BOWL' is overlaid on the image. 'FACING THE REALITY OF' is in white, 'FARMING' is in large white letters, 'IN A' is in white, and 'FISH BOWL' is in large yellow letters. A white diagonal line separates 'FARMING' and 'IN A'.

FACING THE REALITY OF
FARMING /
IN A
FISH BOWL



One contributor captured the reality for most primary industries sectors in 2014, when he commented that “it feels like we are constantly farming in a fishbowl”.

One theme came through loudly from all of our conversations this year – the industry is not operating in a vacuum from the rest of society. Industry leaders also acknowledged a sobering reality regarding the over-riding messages that New Zealand’s mainly urban population are receiving about the sector. These messages are telling the community to be seriously worried about the stewardship the industry is exercising over New Zealand’s natural environment.

It was apparent in many discussions that industry leaders are frustrated by the views held by the majority of the population, as these fail to recognise much of the good work being done by businesses across the primary sector. The urban population generally do not see the link between a farmer’s land assets and their livelihood; or acknowledge that for a farmer to stay in business in the long run, their assets must be managed in a sustainable manner. The industry also appears defensive (and receives significantly less airtime) when it tries to rebut some of the more extravagant claims made against its practices, as the reality often makes for far less exciting headlines. Another point that grates with many industry leaders is the failure to recognise that others are contributing to many of the pollution problems we have in New Zealand, including the impact that urban communities have on air and water quality.

“THE INDUSTRY HAS TO BE OPEN ABOUT ITS TRUE FOOTPRINT, WHERE IT MUST IMPROVE, AND THE OPPORTUNITIES FOR FURTHER INCREMENTAL IMPROVEMENTS OVER TIME.”



Brent Love is our South Island Farm Enterprise Specialist and is the Director of our new office in Timaru

It is important that the industry acknowledges these frustrations, but does not get caught stewing in self-pity for too long. The industry needs to stand up and acknowledge that there are issues to be dealt with; and the best way to address these challenges in a truly sustainable manner is through open and consultative engagement with the wider community. The inescapable reality is that any form of primary sector activity has an impact on the environment – we have to consume some level of natural resource to produce a product. Therefore the industry has to be open about its true footprint, where it must improve, and the opportunities for further incremental improvements over time. It must also be willing to challenge the urban community to do the same thing.

The challenge with any environmental project is that it is impossible to measure and report the impacts of actions taken in the instantaneous manner we are used to today. The benefits of environmental investments that have been made in recent years (such as the fencing of waterways, or planting of riparian strips) will take time to be realised and reported to the wider community.

As highlighted in the editorial to this *Agenda*, the future prosperity of the sector relies on the industry being given sufficient time to evolve to a highly productive, sustainable model that delivers environmental, economic and community outcomes that meet the expectations of all stakeholders. The increased level of environmental regulation that is currently being implemented around the country suggests there is limited faith that the primary sector will be able to deliver on its side of this bargain.

New regimes, such as Environment Canterbury Land and Water Regional Plan (discussed overleaf), could potentially have unprecedented negative impact on the sector’s ability to grow.

Given this, it is critical that all constituents of New Zealand’s primary industries must be prepared to get involved in steering the industry towards a collaborative, engaged future:

- › The majority of farmers and producers will need to change how they manage their operations to **mitigate their individual impact on the environment**. For example, a dairy farmer may have to determine how forestry and cropping can be built into their farming model, explore the use of feed pads and housed farming systems, or invest in new effluent management systems that incorporate precision agriculture techniques. These changes require significant investments and substantial increases in operating costs, but if managed carefully, should also deliver productivity growth over time.
- › While there was little consistency among leaders on whether minimum production standards should be defined in regulations, it was acknowledged that the industry needs to be ruthless in **culling poorly-performing operators**. The point was made that the base standards applied to all farmers and producers must be consistent across an industry sector, regardless of which customer they ultimately supply their product to. No primary sector business should be allowed to ‘freeload’ on the efforts of the wider industry.

- › Industry participants must be active in **engaging with the community**. This can take many forms – whether it’s being part of a programme to provide urban kids with an on-farm experience, attending a zone group meeting to discuss community expectations for a particular water catchment, or contributing to an industry profile at school and community events. It is critical that the wider community sees the primary sector for what it truly is: a group of ordinary New Zealanders working hard to create a future for themselves and their families. As busy people, many in the primary sector have a natural reticence to get involved in these types of activities; but failure to do so will undoubtedly impact on their future ability to operate. On the positive side, the benefits of engagement are often real and measurable. It was noted that when farmers started to substantively engage around the Horizon Regional Council One Plan (almost at the eleventh hour), significant changes were made that have resulted in better outcomes for both the industry and the wider community.
 - › We have discussed in previous *Agendas* the gap in understanding between rural and urban communities, which many describe as ‘the rural/urban disconnect’. One of the key ways to build trust with urban communities is for the sector **to tell its environmental story in a proactive, open and honest way**. While those that challenge the industry’s environmental credentials may be comfortable focusing on only part of the story, it is important that any industry response has the integrity to tell the whole story, warts and all. This will highlight both the progress made, and the work still to be done.
 - › It was also suggested that much could be gained from **building bridges with those that actively challenge the sector’s credentials**. At their core, these organisations are about protecting the key environmental attributes of New Zealand – a goal that is completely aligned with a fundamental need of the primary sector. While they may look at the issues through different lens, internationally there are benefits being derived from working with environment-based organisations to deliver assurance to communities, regulators and customers. This approach is clearly visible in a number of sectors globally; including fishing, forestry and horticulture.
- The overriding message from the Roundtables was that farming sustainably is no longer a nice-to-have; it is a bottom line. It is demanded by customers, regulators, and the wider community. If the industry is wide and proactive in its engagement with key stakeholders, it will achieve better outcomes. The extent of engagement and the strength of relationships built are critical, as it does take time for investments and initiatives to make a tangible difference to environmental outcomes. Like any well-kept goldfish bowl, New Zealand’s primary sector fishbowl needs clear water. It also needs occupants that are constantly looking to do things differently and better, rather than swimming in the same old circles.

AGENDA POINTS

SUMMARISING THE AGENDA

The urban population of New Zealand is increasingly concerned about the stewardship the primary sector is exercising over the country’s natural environment. The good work being done by the industry is not being explained. Tighter regulation is being imposed on the industry which could constrain its ability to grow. The industry needs time to evolve to become truly sustainable.

INDUSTRY ACTION POINTS

- ① Proactively communicate with the urban population on environmental performance, areas for improvement, and the contribution delivered to the New Zealand economy
- ② Apply base production standards consistently across the sector, with poor operators no longer being granted a license to operate
- ③ Engage with environmental groups that challenge the sector’s license to operate to find common ground and ways to work together towards common goals

ACTIONS WITHIN YOUR BUSINESS

- ① Objectively assess your environmental performance; create a plan to address immediate issues and incorporate capital projects into long-term planning
- ② Get involved in initiatives that help urban populations increase their understanding of the realities of life in the primary sector

SECTOR
FOCUS
ENVIRONMENT

CANTERBURY—
**FACING
A NEW
REGULATORY
BALL GAME**



The implementation of the Environment Canterbury Land and Water Regional Plan was one of the most highly discussed developments of 2013 during our Roundtable conversations.

It was considered by one leader to be the most significant change to New Zealand agriculture since the 1980s. While it currently only applies to the Canterbury region, there is a broad expectation that the plan will soon be replicated by many Regional Councils across the country.

While farming has historically been confined by the limitations of water, sunlight and soil; the new regulations suggest that externalities, such as nutrient run off, will be the more significant constraint on farming in the future.

The message from the Roundtables was clear – there is huge uncertainty surrounding this new set of nutrient rules. The regime is complex; the basic principle being that each catchment will be allocated a total permitted level of nitrate leaching, which in turn will be split between the farms in the catchment. Each farm will be required to develop an environmental management plan, and report on their compliance using the Overseer tool. The process of setting the catchment limits is being delegated to a number of community-based committees who are being charged with setting limits, based on the community's wishes for the future status of the waterways.

The key perception, expressed on numerous occasions, is that the new regime is a blunt tool which has the potential to materially change the way activities are undertaken on land, and the way farms are managed. Currently, the most significant uncertainty is how the permitted level of leaching will be allocated to farms within a catchment. From our discussions, the approach preferred by dairy farmers (which reflects the level of improvements

put on the land and thus its value) is inconsistent with the preference of the sheep and beef sector, which would prefer an allocation based on area. The varying perspectives are all centred around providing options for future land use. If nutrients are allocated based on the comparative size of farms, this will increase the value of a sheep and beef farm; as it will have the ability to be converted at a future point in time. Conversely, an allocation based on value will remove that option, and potentially depress land values for sheep and beef properties.

The allocation conversation is fundamentally a property rights discussion, with the initial allocation being all about how wealth is distributed between farmers. The allocation of nutrient rights in Taupo (the first area to have introduced nutrient limits) is considered to have had wider impacts than just the environmental consequences in the region; including changes in the comparative wealth of farmers. The decisions made around this issue will shape the future of Canterbury's rural areas.

The ECan regime appears to be a numbers-based regulatory system designed to deliver neither the best scientific or economic outcomes. As a result, it is unlikely to deliver the optimal environmental and water quality outcomes. The regime is based on averages – when the future of the industry relies on farmers escaping from averages, and instead designing customised solutions to maximise the productivity of their farm in a truly sustainable manner.

The allocation issue will also significantly impact the dairy sector's future ability to grow. It is absolutely critical that farmers and others in the industry educate themselves about these regulations, and get involved extensively with the community engagement process to inform the allocation decisions made.



**DEFINING THE FUTURE FOR
MĀORI /
AGRI-
BUSINESS**



It was notable that the role of Māori within New Zealand's primary sector was a frequent discussion point during the Roundtables this year. The opportunity inherent within the Māori economy has become increasingly apparent to industry leaders.

Given the country has finite land available, iwi and other Māori incorporations are well-positioned to make a significant contribution to the industry's future growth, as they work to capture the untapped potential inherent within their land holdings.

The scale of the opportunity was acknowledged by leaders. For example, it was noted that a study for the Ministry of Primary Industries found that around 80% of Māori land is currently unutilised or under-performing compared with average regional benchmarks. There was also recognition that realising the inherent potential in the sector has many challenges, which will take time and effort to address.

These challenges include:

- › There are inherent difficulties around the ownership and governance structures of the land. Many blocks are of uneconomic size and are often owned by a large number of interested beneficiaries, not all of whom are easy to identify or trace.
- › There is uncertainty around securing capital to support transformational growth. Many Māori entities remain wary of gearing their land to fund development, and this has been compounded by an historic unwillingness of banks to lend.
- › There has been a lack of access and exposure to best practices in the past; including the science and technology required to enable land of cultural significance to be farmed, while also protecting the features that are inherently important to its owners. There has also been a lack of access to people with the skills and experience to maximise the potential of the land, coupled with an uncertainty about where to seek out reliable and trustworthy advice to address these issues.

“GIVEN THE COUNTRY HAS FINITE LAND AVAILABLE, MĀORI ORGANISATIONS ARE WELL-POSITIONED TO MAKE A SIGNIFICANT CONTRIBUTION TO THE PRIMARY INDUSTRY’S FUTURE GROWTH.”



Matthew Prichard is National Managing Partner of Markets and Strategy and the Executive Co-leader of our Māori Sector team

Leadership and governance

It was clear from the discussions that none of the historic challenges are viewed as insurmountable. The key to delivering transformational change was seen as strong and visionary leadership. The sector needs leaders that can envisage and articulate a better future for the land, and consequently take the wider ownership group towards this future.

It was highlighted that all the finalists in this year’s Ahuwhenua Trophy are successful farming businesses which have been developed by consolidating clusters of smaller land holdings. The process of consolidation has not been without speed bumps for these businesses, however. In most cases it has needed an inspirational leader to stand up and be prepared to ‘knock some heads together’ to get the action required. It is up to the organisation to ensure that it does not let fragmented ownership structures constrain its ability to access economic gain, which can be transformational for a community.

Financing growth

It was also highlighted that relationships between Māori organisations and banks have evolved significantly for the benefit of both parties in recent years. Māori organisations have an initial advantage over other sector participants, as they already have freehold land ownership. Initial debt requirements are therefore lower, as borrowing is only needed for land development rather than purchase. Undoubtedly, though, there is still an inherent fear of debt among many Māori-based organisations.

Transformational change requires investment, and debt provides the cash necessary to make the investment. The message from our discussions was that the banks have a much clearer understanding of the key values of Māori organisations and are comfortable to lend on the back of a well-developed business plan, without putting ancestral land holdings at risk. It was also highlighted that using debt to get the home block operating efficiently provides the cash flow to expand the business into other farming properties or post-farm gate activities and accumulate wealth for an organisation’s beneficiaries.

Leading into the future

The last year has seen significant progress in building links between the mainstream and Māori agriculture sectors. This increases the ability of both segments of the industry to learn from each other. The deep understanding that Māori have of their land – and the need to ensure it remains economically and environmentally sustainable for future generations – is critical for the wider sector to observe and learn from. The wider engagement that Ngāi Tahu instigated around the development of their farming operations in Canterbury is an excellent example. It demonstrates how the environmental concerns of a community can be addressed, while building a robust and economically viable plan for agricultural development.

There is also real opportunity for sharing best practices in terms of people development, business management, technology and market-facing activities. It is clear from our discussions that many ideas are being explored around opportunities for collaboration between Māori organisations and other industry participants - whether it be a tailored agricultural education (such as Whenua Kura, a specialist agricultural training programme blended with cultural values being run by Lincoln University in partnership with Te Runanga o Ngāi Tahu) or joint innovation projects (like Whai Hua, the PGP programme between the Government and Māori organisations in the dairy sector).

It was also noted that Māori organisations appear to have a strong interest in developing post-farm gate marketing initiatives. This reflects a desire for organisations to secure the future for their beneficiaries, by controlling their own destiny. Much of this investment is being conducted in association with strategic partners, who often bring a deep understanding of the market segments being targeted. The desire for an organisation to plot their own course should be considered carefully against the benefits of developing strategic relationships with an existing processing or marketing company. For instance, an organisation could choose to work with an existing milk company to process their milk, rather than develop their own plant; and then enter into a collaborative marketing arrangement to leverage the story that underlies their product in the niche market sector. It was highlighted that Māori organisations are perceived to have authentic stories that can deliver extra interest and integrity in marketing a product.

There was another idea mooted to accelerate the speed at which the New Zealand economy captures the opportunity inherent within Māori agribusiness. It was suggested that banks and the Government could work to develop a seed capital fund that invests commercially at the initial stage of land consolidation projects. This could assist with getting projects off the ground, build confidence with debt, and deliver trustworthy advice to ensure the businesses are based on best-practice models.

AGENDA POINTS

SUMMARISING THE AGENDA

The critical role of Māori in the future of New Zealand agribusiness was front and centre in this year's Roundtables. The opportunity to improve the productivity of underperforming land will contribute significantly to the industry's growth in coming years. Māori organisations are actively exploring opportunities beyond the farm gate to leverage their cultural differences in market.

INDUSTRY ACTION POINTS

- ① Develop more leaders that have the capability and mana to lead projects that can transform the productive performance of an iwi's assets
- ② Evaluate the development of a seed capital fund that could make commercial investments to drive land consolidation projects
- ③ Establish a portal that provides a single source of reliable information and contacts that are proven in delivering tailored advice to Māori agribusiness

ACTIONS WITHIN YOUR BUSINESS

- ① Consider opportunities that are available to collaborate; particularly exploring partnerships that can extend involvement along the supply chain
- ② When looking to plot an independent course into the future, ensure that the obvious opportunities to collaborate with existing industry players are not ignored



BIOSECURITY—A NEW ERA OF
PUBLIC
PRIVATE /
PARTNERSHIP



The conversation around biosecurity has moved on during 2013.

Whereas last year the discussion centred on whether or not a sector should enter into a Government Industry Agreement ('GIA') with the Ministry; it is now about what should be included in the GIA, and how costs should be shared between participants. The uncertainty that existed over whether committing to a GIA required user-pays contributions from sectors has been resolved. Most leaders now consider that engaging with MPI makes good sense.

From our discussions, it was acknowledged that all sectors will ultimately sign GIAs. However the negotiation process will take time, as many industries remain concerned about committing to writing an open cheque when an incursion occurs on their patch. From the perspective of industry leaders, the GIA structure is intended to define who will fund the inevitable incursion. Drawing a line between national interest and industry benefit will be a key determinant in calculating the user-pays component of the costs of an incursion response. Clarity around how this line will be drawn is critical to moving the debate forward.

Many industry sectors are already involved in conversations about the most equitable way to fund any future liability under their prospective GIA agreement. The fundamental question facing the sectors is: who should pay and when. Should an indemnity fund be built now out of levy receipts from current industry participants; or should a special levy be imposed at the time of the incursion (when levy payers are under significant financial stress); or should higher post-incursion levies be charged to those that are directly benefiting from the incursion response? There is no easy or consistent response to these questions across the industry.



“CONCERN WAS EXPRESSED DURING A NUMBER OF CONVERSATIONS THAT THE GIA STRUCTURE WILL BE SEEN BY TREASURY AS A HEDGING MECHANISM – PROVIDING THEM WITH A MANDATE TO SCALE BACK INVESTMENT”

Concern was expressed during a number of conversations that the GIA structure will be seen by Treasury as a hedging mechanism – providing them with a mandate to scale back investment into preventing future incursions, as part of the cost will now fall on the industry. This was countered with a view that GIAs will place the cost of an incursion on those most directly responsible for it, and increase the focus of all involved in preventing the incursion from occurring. Consequently, GIAs maintain the incentive for government to do all it can to manage border exposures; as a border failure will direct the liability largely towards the government.

The current Minister has consistently highlighted his commitment to maintaining robust and well-funded border security, and Budget 2014 has maintained funding at similar levels to prior years. Despite these assurances, the incursions in recent years have continually raised questions about the adequacy of current arrangements. It also challenges whether we are being too accepting of an increasingly porous border. During the Roundtable discussions, a number of incursion events were held out as examples where greater vigilance at the border could have mitigated risk and cost to the industry. These included the discovery of white peach scale on imported kiwifruit in a Bay of Plenty supermarket, the new strain of theileria which is killing dairy stock, and the two fruit flies in Northland.

Preventing a significant biosecurity failure remains the highest priority for industry leaders. As biosecurity management moves into an era of ‘public-private partnership’, sector leaders will increasingly be responsible for influencing how this critical business risk is managed on a day-to-day basis.

AGENDA POINTS

SUMMARISING THE AGENDA

Biosecurity remains the top priority for industry leaders in 2014. The majority of industry sectors have indicated their intention to enter into GIAs with the Government and are now focused on how the cost-sharing model will work. Concern was expressed that the number of incursions in recent times could indicate that the border controls in place may not be sufficiently effective.

INDUSTRY ACTION POINTS

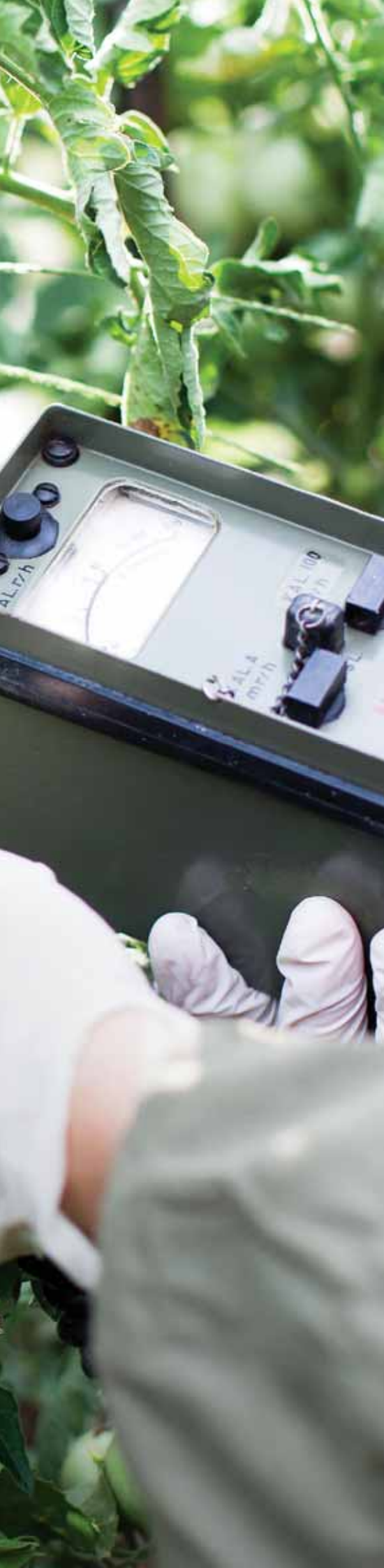
- ① Prioritise the finalisation of GIAs with the Government to ensure a seat at the table, including the resolution of future funding models for incursions
- ② Develop best-practice guidance for industry organisations around potential structures and mechanisms to fund any future incursion obligations

ACTIONS WITHIN YOUR BUSINESS

- ① Complete an assessment of biosecurity risks inherent within the business and, if necessary, develop management or response plans
- ② Provide training to staff on factors to be alert to that could indicate a biosecurity incursion has occurred and a mechanism through which these risks can be escalated



A COORDINATED
RESPONSE
TO FOOD
SAFETY



As a country that grows, processes and sells food products; quality issues and safety scares are a constant and inherent risk to New Zealand's reputation.

The events associated with the precautionary recall of Whey Protein Concentrate ('WPC') that Fonterra announced in August 2013 came up in many of the Roundtable conversations. These discussions centred on the approach that should be taken to food safety in the future.

It was apparent from the conversations that the impact of the recall extended beyond Fonterra and the dairy sector. The collateral damage arose from an uncoordinated response to the recall, and the resulting communication uncertainty, with fact and speculation often becoming blurred. It was suggested that the response lacked coordination at numerous levels; between the Government and Fonterra, between industry players, and between Fonterra and its customers and consumers. The media coverage of the recall verged on hysterical and did little to put the recall into context, given the tiny fraction of New Zealand dairy product impacted.

Regardless of the subsequent reviews and reports, the view was expressed that the scare has damaged New Zealand's reputation around the world because we failed to get the communication right. All organisations in the primary sector need to learn this lesson once and for all - because there will be a next time. Whichever company is unlucky enough to be at the eye of the storm will need to get their crisis management right, or the whole industry will feel the consequences.

“WHICHEVER COMPANY IS UNLUCKY ENOUGH TO BE AT THE EYE OF THE STORM NEXT TIME WILL NEED TO GET THEIR CRISIS MANAGEMENT RIGHT, OR THE WHOLE INDUSTRY WILL FEEL THE CONSEQUENCES.”

Concern was expressed that the Government appeared to rush in, in order to be seen to be responding. This resulted in an over-statement of the extent of the issue underlying the recall. A more measured response, in the view of many leaders, would have been to demonstrate confidence in the fundamental strength of our food safety system (as confirmed by the global peer review that concluded that we have a world-class system).

Nobody would deny that maintaining New Zealand’s reputation in the global agri-food system is critical. However many industry leaders are uncomfortable that the regulatory environment appears to be moving back towards a ‘command and control’ approach as a response to the WPC scare, rather than persisting with the more collaborative approach which has developed in recent times. Ultimately, customers will determine what needs to be done in respect of food safety. That is why it is important to retain sufficient flexibility in the system to enable companies to meet their commercial requirements. The companies themselves are in the best position to assess those requirements. This is far preferable to regulations being set based on the interpretation of market requirements by officials, or applying a one-size-fits-all set of rules across the primary sector.

Industry leaders are concerned that new regulations will bring additional and unnecessary complexity to production processes; that is, adding cost without delivering incremental value. The view was clearly expressed that robust food safety systems are strategically important to the industry, and not simply a cost to be managed. It was also stressed that tick-the-box compliance systems are no substitute for a system that is based on the integrity and experience of good people and trust-based commercial relationships. The Global Agricultural Practice (‘Global GAP’) scheme being run by the horticulture sector was cited as a good example of how a commercially-driven programme can create value for growers and customers.

Other actions suggested during our Roundtable conversations included:

- › **Recognising that our food safety system cannot be allowed to stagnate**, particularly in an environment where products can now be tested for miniscule traces of contaminants and toxins. The industry needs to increase its investment in proactive research, so we can keep pace with evolving challenges. It is critical we keep ahead of the natural environment, and enable science to guide market access negotiations and regulatory responses.
- › **The regulation of raw milk was identified as a weak spot** within the regulatory framework. The recent food poisoning of 12 raw milk consumers in Timaru put the wider dairy sector at risk. This was because the story was reported internationally as 'consumers of New Zealand milk' rather than a niche raw milk supplier. The safety and integrity of all products produced in key export sectors must be assured, whether they are for export or not.
- › The industry needs to **more carefully consider how downgrade product is treated**. Can we continue to accept reprocessing to put a product back into the export supply chain, or farmers using antibiotic-tainted milk to feed calves as a cost-cutting measure? Companies need to continuously consider how a consumer would interpret their actions and act accordingly. The extra dollar generated from such an action may not seem so valuable if it costs the industry market access down the track.



AGENDA POINTS

SUMMARISING THE AGENDA

The strategic importance of food safety to the long-term prosperity of the primary sector was brought into stark focus in August 2013 when Fonterra recalled WPC products. The impacts of the recall have been felt across the industry and the lessons, particularly around communications, are being learned. Having said that, a peer review of our food safety system confirmed that we are world-class in this area.

INDUSTRY ACTION POINTS

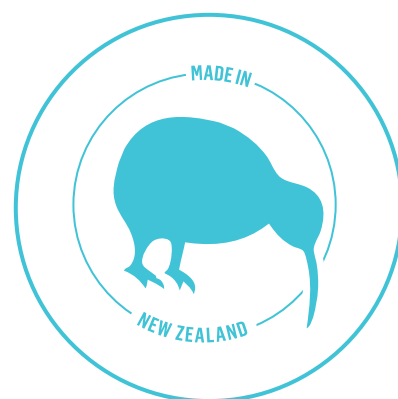
- 1 Stand up and defend the overall quality of New Zealand's food safety system (in partnership with the Government), while working on areas identified for improvement
- 2 Fund research to keep ahead of the natural environment to enable science to guide food safety regulations

ACTIONS WITHIN YOUR BUSINESS

- 1 Every business should have a response strategy in place that is regularly tested and could be activated when a scare occurs
- 2 Develop a food safety protocol for the business to ensure adequate training is provided to all staff on how to minimise failures occurring in the business



SECURING & NURTURING
LONG-TERM
MARKET
ACCESS /



Securing high quality market access was rated in our survey as the third-highest priority for industry leaders in 2013.

It was very clear during our conversations that the future success of the industry depends on effective connectivity with the markets that we supply. Without an ability to gain access into a market, and engage with the consumers of our products, we run the risk of becoming little more than a toll producer and processor for distributors that own the market-based intellectual property and consumer relationships through which our products are sold.

“WHILE SECURING AN FTA IS AN IMPORTANT MILESTONE IN BUILDING A TRADE RELATIONSHIP, THE ACTIONS TAKEN AFTER RATIFICATION ARE MORE IMPORTANT TO REALISE THE VALUE OF THE AGREEMENT.”



Kim Jarrett leads our specialist Trade and Customs team and is the Chair of our National Communities Team

While we were conducting our Roundtables for this year's *Agenda*, it was announced that Australia and Japan had entered into a new free trade agreement. This has been widely criticised as a poor quality agreement, as it fails to deliver anything close to free trade. For instance, tariffs on fresh beef are to be reduced from 38.5% currently to 23.5% over a 15 year period; while milk products will be subject to an ongoing tariff rate of 5.4%⁴. The concern was expressed that this outcome may anchor other negotiations currently in progress, most particularly the Trans-Pacific Partnership ('TPP'), making it impossible for our Government to achieve an acceptable outcome to this critical negotiation.

It is widely recognised that the TPP has the potential to be transformational for New Zealand and the Asia Pacific region. The growth in the number of countries wishing to be part of the agreement (particularly Japan, Canada and Mexico) has undoubtedly grown the size of the prize. It has also increased the difficulty of delivering a successful outcome, as it has brought countries to the negotiating table that have historically been highly protective of their agricultural sectors. Our Government has been clear that it will not sign an agreement that does not deliver the necessary market access for our primary sector products. Achieving a high quality outcome is currently not certain.

The impact of not having preferential market access is becoming increasingly apparent. In reality, the majority of the dairy products we sell to China are not supplied under the preferential FTA terms. (The 127,309 tonnes of dairy product that can be supplied under the preferential terms of the FTA were shipped by the 17 January this year,⁵ meaning all products supplied for the remainder of 2014 are on the same terms as other countries' exports). However, the fact the agreement exists has made New Zealand companies more attractive supply partners to Chinese companies. This is because the agreement provides a mechanism to address trade issues between the countries in an effective manner.

Equally, there was discussion around situations where the lack of an agreement is impeding our ability to compete with other countries that have preferential access. South Korea was held up as an example where we are competing against US beef and Chilean kiwifruit, with both countries being able to supply under preferential FTA terms. It was also highlighted that without some form of statutory market access arrangement, there is a greater risk that our products can be shut out of a market at any time, no matter how significant our current business is (as happened in Europe in the 1970s).

⁴ Government of Australia – Department of Foreign Affairs and Trade; Japan – Australia Economic Partnership Agreement: Key Outcomes; April 2014

⁵ New Zealand Farmers Weekly; Our free trade not so free; 24 February 2014

The likely challenges of completing TPP means industry leaders remain strongly supportive of the work being done by the Government to create further bilateral trade agreements. The recent announcement that New Zealand and the European Union will commence exploratory discussions on the potential of an FTA was welcome, as this could correct a major shortcoming in New Zealand's current trade arrangements.

However, given that we are geographically well-positioned to benefit from the growth in Asia, industry leaders are more focused on potential agreements with South Korea and India, as well as rapid ratification of the agreement with Gulf Co-operation Countries. With supply chains becoming more complex and touching more countries, it is recognised that multilateral agreements (such as TPP) provide opportunity to maximise the potential of a business over bilateral agreements.

It was also highlighted that while securing an FTA is an important milestone in building a trading relationship, the actions of government and exporters after ratification are more important in realising the value of the agreement. The need for both companies and the government to have people with the right skills and networks embedded in a market was identified as being critical to leveraging an FTA, and addressing issues that arise on a timely basis. Any such agreement must be actively managed, and the recent announcement that MPI and NZTE are investing in more in-market resource was seen as a valuable investment in protecting market access. We continue to believe that companies are under-investing in embedded resource within key markets, as we have argued in previous *Agendas*, and believe that having feet on the ground (be they local or expat) is critical if a company is serious about growing a sustainable market position in a country.

AGENDA POINTS

SUMMARISING THE AGENDA

TPP negotiations have progressed throughout the year, although there is currently no certainty on a high quality agreement being secured. The challenges of competing in a market without preferential access are apparent. The value of access remains dependent on the efforts of our exporters to develop consumer relationships.

INDUSTRY ACTION POINTS

- ① Make continual efforts to secure more extensive access, working in partnership with all governments
- ② Utilise knowledge of government and major exporters to provide companies with regular, easily-accessed analysis of global regulations impacting on the agri-food sector

ACTIONS WITHIN YOUR BUSINESS

- ① Maintain continual awareness of changes in market access arrangements to ensure that benefits inherent in the framework are being derived
- ② Invest in in-market resource, using local people whenever possible, to leverage the benefits of market access

RIPE FOR DEVELOPMENT



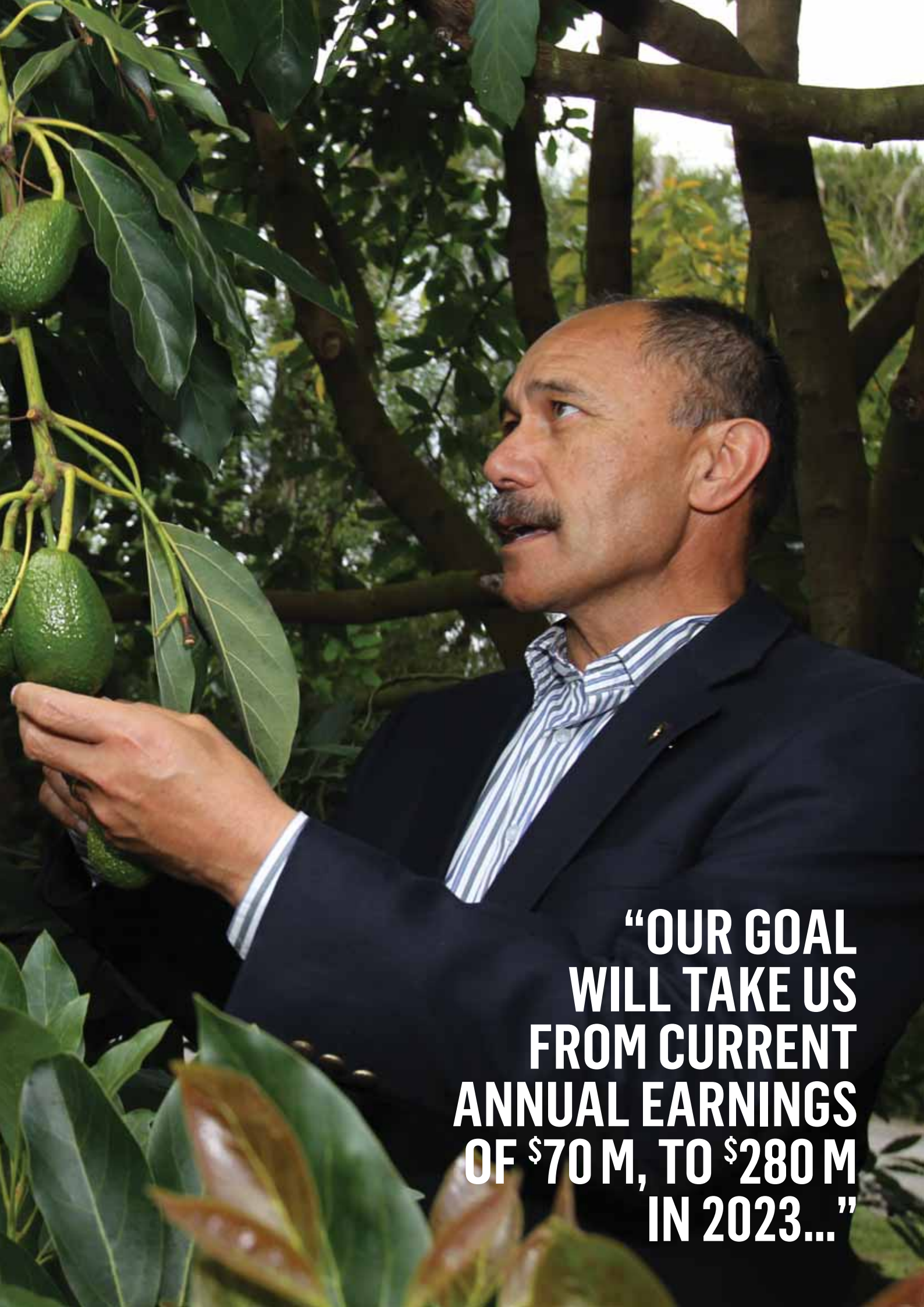
THE 'GO GLOBAL' PGP PROGRAMME FOR AVOCADO INDUSTRY

The NZ Avocado Industry Council is relishing its role as a crash test dummy for New Zealand's wider horticultural sector.

As the first horticultural body to enter into a Primary Growth Partnership (PGP) programme, the Council has ambitious plans to triple productivity and quadruple returns by 2023.

To achieve that, the PGP has focused the industry's attention on overcoming their two biggest challenges – irregular crop bearing, and reliance on a single market.





**“OUR GOAL
WILL TAKE US
FROM CURRENT
ANNUAL EARNINGS
OF \$70 M, TO \$280 M
IN 2023...”**



**“THE
SMALL-STEP
APPROACH
HAS BEEN VERY
SUCCESSFUL
FOR US OVER
THE PAST
THREE YEARS.”**

“Our modelling is based on finding solutions to those issues, and then looking at where that would take us,” explains Jen Scoular, NZ Avocado’s CEO.

“It would take us from current annual earnings of \$70m to \$280m in 2023; with average productivity increasing from 4 tonnes per hectare to 12 tonnes per hectare.”

While those goals seem “audacious” at first glance, Jen Scoular says it’s more or less a case of identifying and adopting the practices of our most successful orchards.

“We know some growers now who are able to achieve 10 times the average productivity. So it’s been done already – we just need to get others replicate that success.”

As part of their R&D platform, NZ Avocado has set up working groups comprised of three to four orchardists who are looking for innovative ways to solve a particular problem in their orchard.

“We go to their orchards, we benchmark it, and map out what the orchardist wants to achieve. Then we provide support with scientists and consultants, and record the results. Previously we would do industry trials, which took a lot of resource and are very slow to get results. This way, the growers are far more involved – and they’re solving problems on their orchards at the same time.”

On the problem of irregular bearing, Jen Scoular says the industry has now realised there is no silver bullet.

“We used to think one thing would be discovered that would solve the whole issue. But our research has shown there are actually many factors that will influence how your trees bear fruit – and we need to look at improving the top seven to eight things by 2%-3% each.”

Increased engagement with growers and others in the industry is another key to success.

“Anything we do, we get buy-in first. And to get buy-in you have to engage, and to engage you have to listen. It’s the small-step approach...and it’s been very successful for us over the past three years.”



ON SHOWING THE LOVE TO THE DOMESTIC MARKET:

A few years ago, the domestic avocado market was seen as simply a by-product of export. But a bit of extra focus is delivering major rewards.

According to Jen Scoular, the launch of the PGP programme was the catalyst for closer engagement with the local market.

“For us, the New Zealand market had always just been a by-product of export... our industry charts used to exclude the local market altogether. It was actually when we started the PGP process that we needed to look at the industry as a whole. We put someone in charge of the New Zealand market, which we’d never had before. And we focused on improving strategies in four key areas – supply chain, flow planning, quality, and engagement at retail/consumer level.”

The new regime also meant greater engagement with local marketers, who’d previously had little interaction with their export counterparts. And the results speak for themselves – delivering a 32% increase in category value straight away.

“We’d always talked about the NZ market having a category value of somewhere between \$17 and \$21 million. In the first year of having someone focused on that market, we made \$28.7m, followed by \$33m this year. So it’s big bucks.”

ON DEVELOPING NEW MARKETS:

The long-standing argument over which country invented the pavlova may never be resolved. But when it comes to the supply of avocados, the Aussies definitely have us to thank.

New Zealand is the only country with access to export avocados to Australia – and it provides very good return to our avocado growers. Under a four-year Memorandum of Understanding with Australian Avocados, both countries are working to grow the collective market pie.

“Australia recognises they don’t grow enough avocados to meet their domestic demand,” explains Jen Scoular. “In the season we just had, demand was greater than supply. Australians consume about 3.5kg per person each year, compared to our 2.2kg per person.”

(In case you’re wondering, the world’s champion avocado-eaters are Mexicans, who consume a whopping 9kg per person).

Although Australia offers excellent returns, a key platform of the PGP programme is to explore new markets. PGP activity includes development of new and niche markets in Japan, Singapore and Korea, as well as developing networks in brand new markets such as India and China.

“High-end chefs in India definitely want avocados, and price is not an issue. Although the supply chain has its challenges, we’ve had our first pilot shipment into India with really good results.”

“WE’VE HAD OUR FIRST PILOT SHIPMENT INTO INDIA WITH REALLY GOOD RESULTS.”



ASPIRING
TO BE
ASIA'S
DELICATESSEN



New Zealand food producers are regularly challenged to become the ‘food bowl of Asia’. However one leader suggested a more appropriate aim for the country is to become ‘Asia’s delicatessen’.

The definition of delicatessen suggests a store or counter that is selling top quality (and premium price) foodstuffs. These are not basic foods, used for sustenance – rather they are foods to enhance a discerning person’s lifestyle. The best delis offer a wide variety of products, introduce the latest global trends to their customers, and present food in an array of innovative ways. They continually evolve and change their offering, leaving others to follow.

For New Zealand’s primary sector to aspire to this status, it needs to monitor emerging market trends, undertake product innovation, challenge whether we should be producing something different and, most importantly, ensure that we continue to offer a diverse basket of products to the world. Our basket already contains a suite of products viewed by the global marketplace as being unique and premium products – the likes of chilled lamb, salmon and venison, Zespri kiwifruit, Marlborough sauvignon blanc, merino wool, manuka honey, and vegetable seeds.

Although New Zealand is world famous for high quality, premium dairy products, it was hard to identify any major product categories within the sector where New Zealand has a truly differentiated consumer product. We do not have the historic appellation cheeses of France, or the classic gelatos of Italy, that are recognised globally as the standard that others aspire to.

“ADOPTING A VISION TO BECOME ASIA’S DELICATESSEN COULD GUIDE THE INDUSTRY TOWARDS PRODUCTS THAT HAVE ATTRIBUTES THAT ARE NOT EASILY REPLICATED, AND ARE TAILORED TO ASIAN CONSUMERS.”



Simon Hunter recently joined our Strategy and Performance consulting team and has extensive experience working with primary sector companies

Commentators outside the industry regularly urge the sector to move along the value chain – something that is much easier said than done. Yet adopting a long-term vision to become Asia’s delicatessen could guide the wider sector towards products that have a set of attributes that are not easily replicated, and are targeted towards selling comparatively large volumes in export markets. During the Roundtables, conversations regularly touched on new opportunities that companies in the sector could explore to create niche products targeted at premium markets:

- › Parts of New Zealand would be well-suited to growing **poppies** which are used to create pharmaceutical grade morphine; however regulation currently prevents this opportunity being pursued. (It was noted that Tasmania currently produces around 40% of the global supply of opium alkaloids for pharmaceutical use; an industry worth around \$1 billion of annual revenues to the State). Other high-value opportunities could be identified in growing products for pharmaceutical use.
- › The global success of the **niche hop sector** based around Nelson demonstrates the ability to create a premium niche sector when climatic conditions are right. Thinking about our future role as a supplier to Asia, products such as buckwheat, green tea, ginger, sweet potatoes and daikon radishes were all noted as products that could be investigated for the development of commercial-scale export markets.
- › The opportunities in **natural products** were discussed as a growth and diversity opportunity in a number of sessions. This could include expanding the range and diversity of honey-derived products – or developing smaller sectors, such as blackcurrants – based on the clinically-proven health benefits of the products. Many small sectors that could add to the diversity of our high-value product portfolio are constrained by the costs associated with clinically proving their health benefits. The challenge was issued to the High Value Nutrition stream of the National Science Challenges to assist the primary sector in its ability to secure clinical health claims for its products.
- › There was discussion around opportunities to enhance our range of **animal-derived protein products**. Initiatives are in progress to create commercial scale, export-focused operations in areas such as sheep milk, poultry and goat products. Developing new initiatives has the potential to deliver improved export returns. We should be highlighting and leveraging the unique attributes of our existing animal protein products, and maximising the value of their associated by-products (such as bloods collected from animals at the time of slaughter).

› **The seafood sector** is regularly highlighted as an industry with the ability to deliver a wider range of premium products to a global market. During discussions it was highlighted that the Norwegian seafood industry now generates more value from its by-products than from the sale of protein. This is an under-exploited revenue opportunity for the New Zealand fishing sector. The need to expand beyond the three key aquaculture products (salmon, pacific oysters and green lipped mussels) was also highlighted. Freshwater trout, sea cucumbers, crab, alternative finfish species, and live wildfish were all discussed as alternatives to diversify the product offerings.

› **The wine sector** has entered into a Primary Growth Partnership (PGP) with MPI as part of a long-term investment in diversifying its range of products. In response to changing drinking patterns and shifting demographics in key export markets, the Lifestyle Wines programme is focusing on developing low-alcohol and lower calorie wines with all the taste complexity of full-alcohol alternatives. This could create innovative market segments in international markets like the US and the UK, as well introducing wine to new consumers.

It is important that all industry participants are actively scanning global markets to identify niche opportunities that offer the best potential to create value in the short and medium term. The key to targeting the right markets lies in developing a vision for the future of the industry - yet this is not yet being articulated clearly by industry participants themselves. A lack of cohesive vision increases the risk we will miss opportunities inherent in the market to diversify the sector, and the economic transformation that could bring.

AGENDA POINTS

SUMMARISING THE AGENDA

New Zealand should aspire to be Asia's delicatessen, delivering a wide variety of premium products, including those we already produce and new products that are targeted at premium niche markets in Asia.

INDUSTRY ACTION POINTS

- ① Undertake granular market analysis across Asia to identify potential market niches that could develop into premium opportunities for New Zealand producers
- ② Ensure that our regulatory regime has the flexibility to allow producers to take advantage of new opportunities, while managing any risk to New Zealand
- ③ Explore whether a commercial virtual shopping basket platform could be established to enable smaller New Zealand exporters to present their products as part of a delicatessen offering to global consumers

ACTIONS WITHIN YOUR BUSINESS

- ① Be willing to challenge the status quo in your business – ask yourself strategically whether the products you are producing are maximising your return on investment and best meeting the needs of your ultimate consumers

658 元 / 500g

青苹果(进)

体系红富士

1550 元 / 500g

1880 元 / 500g

THE ART OF DOING

AGRI-
BUSINESS /
IN CHINA



Any conversation about the economic future of New Zealand does not take too long to turn its attention to China, and it was not surprising that most of the Roundtables got to this issue fairly quickly.

There is no doubt that the shift in economic power towards Asia continues. As consumers in those markets gain wealth and grow their consumption, we can all expect to pay more for food, fibre and timber products and services; as demand growth outstrips supply.

For the primary sector in New Zealand, the growth in demand from Asia (and China in particular) has seen the importance of these markets grow exponentially in the last five years. Exporters of products across the spectrum of our primary production – timber, dairy, sheep meat, honey, kiwifruit and seafood among others – have been able to attract premium prices for their products, and have diverted product from traditional export markets to take advantage of these opportunities. During many of our Roundtable conversations, the discussion centred around the issue of exposure to China. When does the primary sector become over-exposed to China, and what should we be doing to manage this risk?

New Zealand's primary sector has firsthand experience of being overly-dependent on a single export market. We know the pain that can follow when the playing field is shifted by a trading partner unilaterally. Given this, it was clear that many leaders are taking a cautious approach to their trading relationship with China. They recognise there is no certainty that the rules applying today will still be in force next month, let alone next year (something infant milk formula exporters have had to face up to in recent weeks). However it was also recognised that our growing trading relationship with China has been critical to New Zealand emerging from the Global Financial Crisis in a better condition than many other developed countries.

“YOU NEED TO RECOGNISE THERE IS NO CERTAINTY THAT RULES APPLYING IN CHINA TODAY WILL STILL BE IN FORCE NEXT MONTH, LET ALONE NEXT YEAR; AND BUILD THE CAPACITY TO RESPOND TO CHANGE INTO YOUR BUSINESS.”



Greg Knowles leads our specialist China team supporting clients going to or coming from China to do business

Many companies appear to be thinking carefully about the amount of product that they are prepared to commit to Chinese customers. This is a balancing act between managing the commercial and political risks inherent in the market, with an attempt to optimise price. The challenge for many companies, however, is how they decline making a sale to a Chinese customer that is prepared to pay a higher price for a product than any other customer elsewhere in the world. This is particularly challenging for an exporter that is faced with a competitive market to procure supply. Our observation is that while many companies are taking a cautious approach to the Chinese market, very few currently consider they are over-exposed to the country and are thus turning away new business.

There were many interesting observations made by industry leaders around their experiences of doing business with China:

- › A point made numerous times during our conversations is that **success in China relies on having a very granular strategy** to the market. Each of Mainland China's 22 provinces has its own culture and regulatory environment, thus to take a one-size-fits-all approach is unlikely to be successful. To take on China in a single bite is too big for most New Zealand companies to digest. Market development needs to be done city by city, province by province; to build the right relationships and deliver the greatest probability of success. Companies should not overlook the inherent cost associated with doing business in China, given the fractured nature of the regulatory environment.

- › It was highlighted that most of the relationships New Zealand companies are developing in China are business-to-business, rather than business-to-consumer. While working through distributors can reduce complexity, **organisations should not overlook the importance of building direct to consumer markets;** as Fonterra is currently doing with its Anlene and Anmum products in selected cities. This requires greater investment and a clearer understanding of what the consumer needs your product to deliver; but it can provide greater market security and better returns over time. It also increases the likelihood your products will be a better consumer fit; in terms of variables such as size, variants and taste.
- › An emerging trend, noted in a number of the discussions, related **to processors reverting to more generic products for the Chinese market** (e.g. a frozen, quartered lamb carcass), in return for an immediate price premium. It is recognised that, on a short-term basis, this tactic will deliver stronger cash flow and an ability to pay higher prices to procure stock. Yet concern was expressed that the more dependent we become on such sales, particularly if this is at the expense of processing capability, the price premium currently being achieved may not always be available in future.

- › **The challenge of adding value over cost through further domestic processing** in New Zealand was also highlighted. The regulatory environment and wage expectations differ significantly between New Zealand and China; and in many cases, our businesses lack the scale that is delivered by Chinese manufacturers. While financial benefits can be derived by further processing a product, it does not follow that the processing needs to be done in New Zealand. There are circumstances where investing in capacity offshore (in China or elsewhere) could generate a better return for New Zealand investors and our economy.
- › **Understanding the different perceptions of government** was also recognised as a key issue when doing business in China. It should never be forgotten that China remains a communist state rather than a free market economy. Given the size and complexity of the bureaucracy in the country, having networks is critical to navigating regulation and achieving outcomes. Building relationships with partners that can deliver access to the right contacts is crucial to success in China. It was also recognised that the New Zealand Government has an important role to play in opening doors for companies looking to do business in China. Industry leaders welcomed the increased investment from both MPI and NZTE to put more people on the ground in China as a practical step to support our companies to grow in the market. It is also critical to localise staff in the business at the earliest opportunity, ensuring that you select trusted local employees who bring the right networks to the business.

As noted earlier, there is an inherent concern about the stability of the regulatory environment in China. Things change quickly – and this can leave product stranded on a wharf with little ability to redirect it to another market. It was also suggested that as China continues to open up, there are likely to be unexpected shocks and public unrest as the political system is challenged by a new generation of more globally aware citizens. Industry leaders clearly communicated that New Zealand must continue to build alternative markets to China. It was observed that recent Government-led missions to Indonesia, the Middle East and South America were about ensuring that our companies are actively developing their Plan B, should issues arise in China.

In the final analysis, China's significance to the global economy ensures it is a market that our exporters have to deal with. New Zealand operators are continually learning that business is done very differently, due to cultural differences, in Chinese and other Asian markets. This can make doing business at times confusing, frustrating, stressful and daunting. But as one contributor said, you could also think of it as exhilarating. Or to coin a Chinese phrase, 'if you grab the dragon by the tail, make sure you have a plan for the teeth!'

AGENDA POINTS

SUMMARISING THE AGENDA

China is critical to the long-term future of New Zealand. The way business is done in China is very different to our traditional business practices, and the regulatory regime can change quickly. Although Chinese companies currently often pay the highest price for our products, there is some concern that the sector will become overly-dependent on China.

INDUSTRY ACTION POINTS

- ① Continue to invest in on-the-ground resource in China, focused on building relationships at a government level, to address market access issues as they arise
- ② Support our exporters within the Chinese 'market' environment

ACTIONS WITHIN YOUR BUSINESS

- ① When setting a strategy for China, envisage where you would like to be in 10 years, and think carefully about the key strategies that will enable you to deliver that success
- ② Given the cost differentials between New Zealand and China, be open to further processing outside of New Zealand if it better enables your company to add value beyond the incremental cost to your product

FORESTRY- CHINA DEPENDENCY

SECTOR
FOCUS
FORESTRY



The growth in export of raw logs to China in recent years has been one of the most noticeable features of New Zealand's burgeoning export relationship with China.

The boom in planting of radiata pine during the 1990s has started to be harvested in recent years; driving a significant growth in the forest products we have available to export. China has absorbed most of the additional product in raw log form, while paying strong prices. This is due to supply issues in Russia, and growth in demand, fuelled by the continuing rapid urbanisation of Chinese society.

While nobody suggested it was optimal that the logs were being exported unprocessed, it is recognised that we currently do not have a forest products industry that can competitively process the volumes involved at a lower cost than our customers. To achieve a competitive processing solution would require a major investment in new capacity. This in turn relies specifically on having a sufficiently large domestic market to underwrite the investment in plant and security of supply at an economic price (and given the level of replanting in recent years, this is not assured beyond 2025).

The current export trend is having material consequences on the wider forest products sector which will impact its future competitiveness. Research currently being done in New Zealand and internationally is identifying a wide variety of high value product solutions that utilise the by-products of processed timber, with sustainable uses including

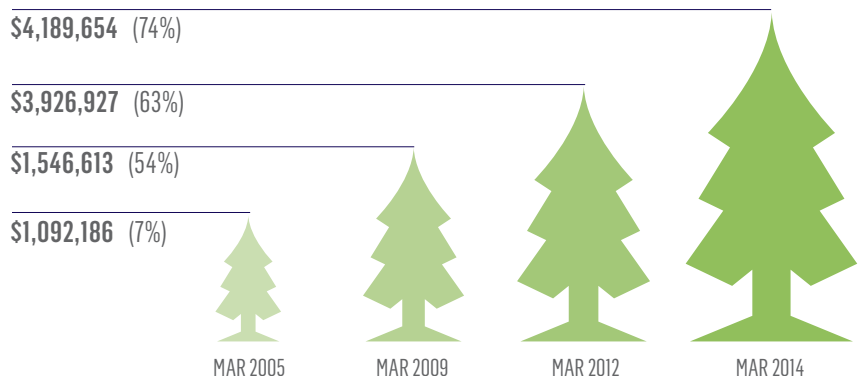
biofuel and natural replacements to chemical products. These products have the potential to be transformative to the energy and packaging industries among others, but the lack of scale in our forest products sector means we are not utilising the technologies to the extent we could in New Zealand. With our timber resources, we could be taking in a lead in bringing these innovations to global market.

As we have noted in previous *Agendas*, the rebuild of Christchurch presented a perfect opportunity to develop and showcase an advanced engineered wood products industry – however the window to achieve this is rapidly vanishing. We have previously indicated our support for a 'wood first' procurement policy for government-funded buildings being constructed in Christchurch. This would provide the sector with a stimulus to innovate with building systems, and to focus on selling more than the raw log. We were pleased to see this being incorporated into Labour's forest policy for the election.

A further policy idea raised in a Roundtable conversation, which could help kickstart the domestic processing sector, related to the rules surrounding timber framing for houses. Modernisation of the Building Code to permit the use of new construction techniques that incorporate prefabricated timber components would speed construction, enhance code compliance, minimise wastage, reduce cost and create an exportable building system.

LOG EXPORT VALUES

% value of New Zealand's log exports to China



Source: Statistics New Zealand, Overseas Trade



SECURING THE RIGHT
INVESTORS
FOR THE
FUTURE



While restricting foreign investment remains the lowest-ranking priority for industry leaders, the priority assigned to the issue recorded the largest percentage increase on 2013 in this year's survey.

Industry leaders consider foreign investment is critical to the future of the primary sector, but believe that too much time is being focused on the wrong conversations around the issue.

“THERE ARE MANY COMPANIES THAT EXIST BELOW THE RADAR WITHIN THE PRIMARY SECTOR THAT COULD BUILD SCALE WITH ACCESS TO FOREIGN CAPITAL.”



Gary Ivory is a Partner in our Corporate Finance team that works extensively with clients in the primary sector in New Zealand and internationally

It was highlighted that New Zealand has always relied on foreign capital. Constructive foreign investment has underwritten the country's growth as a modern, developed economy. However the Roundtable discussions showed that not all foreign investment is viewed positively. Comments were expressed by a number of contributors about New Zealanders becoming tenants on their own land. The challenge is, what should the regulatory framework look like around foreign investment? The goal must be to ensure that investors who will contribute to the industry, and assist in realising its long-term potential, are attracted to New Zealand opportunities.

New Zealand's foreign direct investment ('FDI') regime has been unstable over the last decade. This instability is not attractive to potential investors, and the threat of further change creates more uncertainty.

The policy settings currently suggested by a number of political parties, which could severely restrict the ability of international investors to buy New Zealand land, were considered to be short-sighted by most industry leaders. They suggested our FDI framework should be focused on making a well-rounded, holistic assessment of a prospective investor, and their ability to make a positive contribution to the wider economy. It should take into account the investor's values, philosophy, exit strategy, operating experience and market connectivity; rather than the country they come from.

The primary sector is forecast to have a huge demand for capital over the period to 2050. The *ANZ Greener Pastures* report estimated the industry's capital requirements to be in the region of \$340 billion over this period⁶; in order to cover farm succession, on-farm development and post-farm gate investment.

Historically, the majority of the sector's capital has come from banks. However with the Reserve Bank expressing concerns about the level of indebtedness in the sector, it is likely the industry will need to source more capital from a wide range of investors, including those that have traditionally shied away from agriculture. These investor groups (which include sovereign wealth funds, private equity funds, international investment funds, and high net worth individuals) will challenge the sector as they bring a different set of metrics and expectations to the table.

There are a number of challenges in the current environment for these investors, beyond the uncertainty surrounding the foreign investment regime (which may make New Zealand a less attractive proposition for them than many other countries around the world). On the positive side, New Zealand agricultural businesses can boast reliable water, a reputation for quality products, and an ethical business environment. Critically, though, there are few businesses of sufficient scale that have the structure, systems, management and governance to be considered investment-ready by international investment funds.

There are many companies that exist below the radar within the New Zealand primary sector that could potentially build scale with access to foreign capital. These include farming businesses; as well as companies delivering technology, supply chain or production-related products and services. The view was expressed that too often, these companies are being sold prematurely in their lifecycle and their ability to deliver innovation is being lost to the economy. Ultimately, the next government should be focused on delivering an investment environment that supports these companies accessing the right growth capital, while remaining in New Zealand and contributing to the economy.

AGENDA POINTS

SUMMARISING THE AGENDA

New Zealand has always relied on foreign capital, although it is recognised that there is good and bad foreign investment. The primary sector has a huge future demand for capital, for both succession and growth. Therefore our regulatory regime must continue to facilitate foreign investors who are prepared to work constructively with New Zealand companies.

INDUSTRY ACTION POINTS

- ① Maintain a regulatory framework that enables the Overseas Investment Office (OIO) to continue to allow foreign investment, when an investor will contribute positively to the long-term success of the industry
- ② Lobby for a continued government focus on delivering an investment environment that enables New Zealand companies to grow while remaining in New Zealand

ACTIONS WITHIN YOUR BUSINESS

- ① Continually review the capital requirements in your business to support growth, ensure costs are managed, and allow for managed business succession

MORE CHALLENGES TO THE 'GOOD EMPLOYER' TAG





We explored many of the people issues facing New Zealand's primary sector in Volume 2 of the 2013 KPMG Agribusiness Agenda, titled *People Powered Performance*.

The key message from this year's Roundtable conversations was that there is little tangible evidence of progress being made in addressing the primary sector's key people issues. Challenges remain in: recruiting talent, making sufficient investment in training, addressing succession issues, attracting new leadership talent, and engaging with schools to educate children about the opportunities in sector.

“THE CORE PEOPLE ISSUES ARE PERSASIVE ACROSS THE INDUSTRY AND REQUIRE COLLABORATIVE SOLUTIONS TO ACHIEVE TRANSFORMATIONAL CHANGE.”



Julia Jones is our North Island Farm Enterprise Specialist based in the Waikato with a particular interest in building people capability in farming businesses

From our conversations, it is apparent that there is no shortage of initiatives across the sector attempting to address the industry’s people issues, although much of the activity appears to be occurring in silos. The core issues facing the industry are pervasive across the sector. Consequently the more collaboration that occurs – between companies, producers, industry organisations and educational establishments – the more likely that transformational progress will be made.

Interestingly, there were new people issues that emerged in a number of conversations, for the first time this year, which can further impact on the impression of the sector as a good employer. The following were identified as needing immediate attention:

- › The most critical people-related issue to emerge in this year’s Roundtables centred on **health and safety**. The issue was raised specifically in relation to the forestry sector, in light of the recent spate of serious and fatal accidents in the sector. It was also recognised it is a significant issue for farming businesses, which still have workplace injury and death rates well above acceptable levels. Recent legislative changes, that place obligations on directors to actively manage these issues, mean the accountability for maintaining robust health and safety systems has increased. Industry leaders recognise that safety must be a bottom line across the primary sector. There is a need to ensure that work processes are designed with safety in mind – which may mean that things that have been done the same way for many years need to change. It was also highlighted that training must ensure people have the necessary foundation knowledge to understand the potential implications of the actions they are taking, so they can make an informed decision on whether or not to take a particular action (such as riding a quad bike without a helmet).

› Another issue that has emerged this year is the **compliance of farming businesses with labour laws** and particularly the minimum wage. Historically, there has always been an implicit recognition that across the course of a year, farm workers are paid above the minimum wage for the hours that they work; albeit some of this may be in the form of benefits in kind (access to accommodation and a vehicle in particular). The recent moves by government officials to strictly enforce the minimum wage rules have the potential to increase the use of casual labour in the sector, and make the recruitment of good people into farm jobs more difficult. This is an example of a regulation that is designed for and applied effectively to urban areas, but can create issues when applied in the primary sector. Clearly, there is no place in the industry for employers that are looking to exploit their staff. But a solution needs to be found to reflect the seasonal nature of the primary sector, to avoid imposing cost penalties on business owners that are committed to providing their employees with fair and secure employment.

› The other emerging issue that arose during discussions around the strength of rural communities relates to the challenge of attracting **key professions in rural areas**. There are difficulties in recruiting a range of medical professionals, educators and veterinarians to rural roles; due to the perceived challenges inherent in working in rural environments and the associated lifestyle impacts. Some of the current schemes include placing students into rural roles during the practicum component of their training, and offering bonding incentives to newly-qualified professionals who accept rural roles. The best chance of recruiting young people into these roles is to immerse them into a rural community. They can experience firsthand the real nature of the work, and balance their perceived concerns with the positive experiences that come from working in rural communities.

AGENDA POINTS

SUMMARISING THE AGENDA

The industry continues to face challenges sourcing the people it needs both for skilled and physical roles. While there are numerous current initiatives to address these issues, they are often uncoordinated; despite the issue being pervasive across the industry. New people issues to emerge this year include an increased focus on health and safety and labour law issues.

INDUSTRY ACTION POINTS

- ① Take a leadership role in engaging with schools around the country; and collaborate to engage with every child and careers advisor in every school as a high priority
- ② Review legislation around minimum wage rules to allow for the seasonality of farming businesses

ACTIONS WITHIN YOUR BUSINESS

- ① Contribute to industry initiatives to engage with schools and universities; and where possible allow staff time to act as mentors for current or potential students
- ② Recognise the new obligations on Directors in relation to health and safety; and implement a comprehensive risk management plan

**HORTICULTURE—
SECURING THE**

FUTURE OF THE RSE SCHEME

**SECTOR
FOCUS
HORTICULTURE**



The Horticulture sector has ambitious growth plans, with an industry strategy to grow revenues to NZ\$10b by 2020.

Key to the industry achieving this goal include: sufficient access to water; access to premium markets for the products the industry grows; mitigating biosecurity incursions in the future; making available innovative and unique cultivars; and having access to sufficient reserves of reliable and skilled labour. The labour issue is a significant one for the sector.

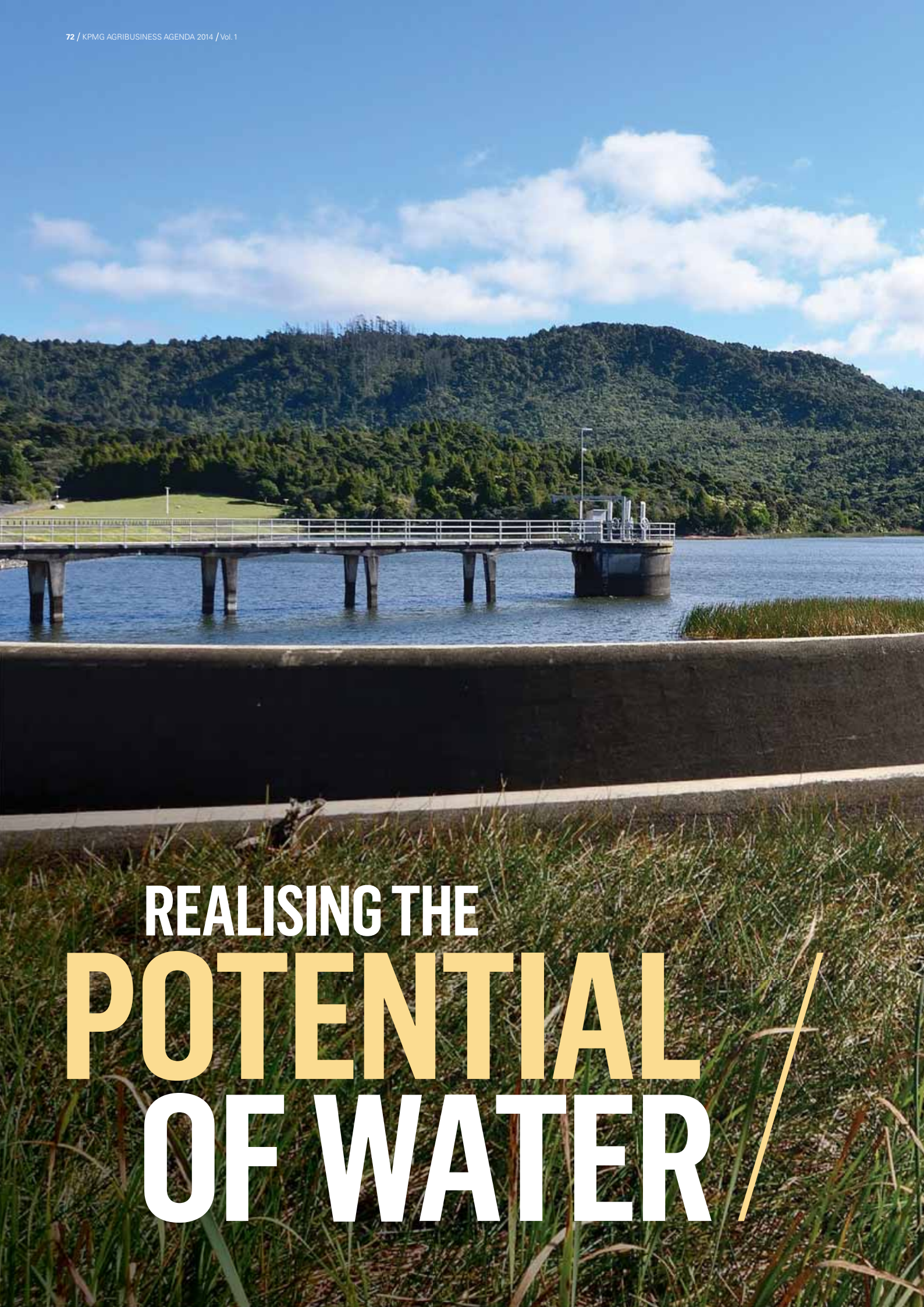
The horticulture sector remains labour-intensive, with large seasonal demands for people. In recent years the sector has come to rely heavily on the Registered Seasonal Employers scheme ('RSE'). This scheme enables employers to bring seasonal employees to New Zealand, predominately from Pacific Islands, to meet the demand for labourers in their businesses which is not being filled from the domestic workforce. During the course of our Roundtable discussions, concern was raised on more than one occasion as to whether the RSE scheme will be retained in its current format.

Sector leaders were concerned about the views expressed by a number of opposition parties, in favour of restricting immigration of lower skilled workers to ensure that jobs are available for New Zealanders to fill. While industry leaders would prefer to see jobs going to New Zealanders, they expressed real concern about having to rely on the New Zealand labour pool to fill manual roles. They recounted experiences of annual worker turnover rates exceeding 100% with New Zealand employees, particularly those that have been allocated to employers by Work and Income.

The sector has never had a problem attracting well-trained, highly motivated young people into key permanent roles; but is consistently challenged by the peak demands for physical labour. The benefits of the RSE scheme were highlighted in our conversations, in particular the strong relationships many employers have built with returning staff and the communities that they come from. The scheme has developed into a significant mechanism by which New Zealand is able to deliver indirect financial support to the Pacific Islands – money that would potentially have to be paid by the New Zealand government as aid without the scheme. Those RSE workers who return year after year have built on their skills, and each year they make an increasing contribution to the businesses they work for.

The long-term solution to this issue is for the industry to work out how to reduce the labour intensity of production, via increasing mechanisation and development of new genetic strains of the crops. This will take time and require significant capital investment. In the meantime, the message from industry leaders was clear. It is important for the industry that the RSE scheme is retained, to ensure the sector can continue to grow towards its 2020 target.





REALISING THE
POTENTIAL
OF WATER



Some progress has been made during the past year in getting water storage and irrigation schemes off the proverbial drawing boards and into construction, although the challenges of realising a scheme remain significant.

However the most notable feature of this year's Roundtable conversations around water was the major focus on water quality and nutrient management; and how this changes the business case for a proposed scheme in many and varied ways.

“IN ATTEMPTING TO DEVELOP NEW WATER INFRASTRUCTURE IT IS CRITICAL THAT THE COMMUNITY IS ENGAGED THROUGH EVERY STEP OF THE JOURNEY WITH INFORMATION BEING SHARED OPENLY.”



Troy Newton is a Partner in our Transactions and Restructuring Group with a particular focus on major project advisory

During the year the Government has issued a range of proposed amendments to the National Policy Statement on Freshwater Management⁷. These retain a commitment to maintain or improve water quality, while adding a requirement for communities to define their freshwater objectives (together with introducing compulsory values that we as a country place on water in relation to ecosystem health and water quality for recreation purposes). These initiatives reflect a perspective held by many in the industry, and the wider community, that there is more that the industry can and should do in relation to water stewardship. The Statement amendments are a clear signal that the Government, on behalf of the electorate, expects the industry to make a significantly greater investment in water quality.

Budget 2013 also saw the Government commit to the next stage of its plan to support the development of regionally significant water schemes. A sum of \$80 million was allocated to the newly-established Crown Irrigation Company to provide seed capital investments to enable beneficial regional schemes to progress, with further funds being allocated in Budget 2014. The government funding is being provided on commercial terms and, at the date of writing, only one scheme (Central Plains Water) has received an investment. This reflects the challenges many schemes are having in delivering an investable business plan. These include:

- › A significant challenge many schemes are facing revolves around **selling the need for the investment to the wider community**. Concerns that cost will force farmers to intensify their production when water becomes available mean many communities are directly linking irrigation with environmental degradation. The key learning for the industry is that the community must be engaged through every step of the journey, with information being provided in an open and objective manner. The mainstream media is unlikely to champion the industry's cause; thus the obligation falls on those promoting the scheme to make the effort and engage with the community, to explain the impact it will have on the local community and its environment.

⁷ <http://www.mfe.govt.nz/issues/water/freshwater/nps-freshwater-management-amendment-proposals.html>

- › As we have noted earlier in the *Agenda*, the regulatory trend to **cap nutrient run-off permitted from a farm or catchment** is challenging the traditional economics of farming businesses. Much of the modelling for schemes was based on an unconstrained ability to convert to a land use that would deliver farmers a return over the cost of water a scheme supplied. However nutrient caps may restrict this freedom, making it more difficult to secure commitments to take water. As a consequence, committing to take water from a scheme is likely to entail a significant change to farming practices. A further constraint to taking water is a reticence among some farmers to adapt their practices in response to water.
- › Conversations also touched on the **apparent changes in climate across New Zealand**, particularly the regular droughts in Northland and the Waikato over the last five years. The water challenges of urban Auckland impact significantly on water allocation issues in the Waikato region – and with major water take decisions on the horizon, it was noted as surprising that there is not more of a discussion around improving water reliability in these regions. With expectations that the weather will become increasingly volatile over the next century, discussion on the future water capacity requirements for the industry is becoming increasingly urgent.

In past editions of the *Agenda* we have referred to water as New Zealand's most important economic asset, and the increasing scarcity of water globally does nothing to change this position. However we continue to fail to maximise the potential that our available resources could deliver to the economy. The issues surrounding development of significant water infrastructure are not solely economic. The environmental consequences are significant, and consultation around the schemes tends to be sensitive.

The view was expressed during our conversations that a national vision for water infrastructure is required; one that balances the productive benefits with sustainable management of environmental assets. The reality is the water issue is not solely a primary sector issue; it is a whole of economy issue, and one that needs to be addressed as a priority post-election.

AGENDA POINTS

SUMMARISING THE AGENDA

Slow progress is being made in moving new water infrastructure off the drawing board and into realisation. Public concerns that more water results in farming intensification and environmental deterioration is constraining progress. The global scarcity of water makes it critical the potential of water is realised. The industry needs to work with local communities to find workable solutions.

INDUSTRY ACTION POINTS

- 1 Strive to fully implement the National Policy Statement on Water; to provide a consistent regulatory framework that meets the needs of communities, and provides certainty for business investment
- 2 Develop collaborative initiatives to engage with regional councils and communities around water, and the economic contribution it can make

ACTIONS WITHIN YOUR BUSINESS

- 1 Take an active role in explaining the benefits of water to your local community, and how farming businesses can deliver improved economic and environmental outcomes by adding water



MAXIMISING THE
IMPACT OF
INNOVATION/
INVESTMENT



A recurring theme during many of our conversations on innovation centred around the fact that New Zealand continues to under-invest in research and development, and remains slow to adopt and commercialise the resulting technologies.

Given that New Zealand's government funding is at levels broadly consistent with other OECD economies, the issue with our investment in innovation appears to be at the company level. Many of our small companies lack the balance sheet strength to invest in innovation, while our larger companies have to balance their investment with maintaining competitive cash returns to their suppliers.

“WHILE THE GOVERNMENT HAS A ROLE TO PLAY WITHIN OUR INNOVATION SYSTEM, THE ONUS IS ON COMPANIES AND INDUSTRY SECTORS TO TAKE THE LEAD”

The message from the Roundtables was clear: while the government has a role to play within our innovation system, the onus is on companies and industry sectors to take the lead. Within the broad conversation on innovation, there were a number of themes raised during Roundtables that are worth exploring:

- › One of the key concerns about the science system in New Zealand is the **lack of appropriately skilled people**. The World Economic Forum ranked the availability of scientists and engineers in New Zealand at 58 out of 140 countries this year (compared to 55 last year and 69 in 2011/12). The work needed to rectify this starts at school level, to ensure more students are taking science subjects and retaining pathways to university science programmes. The key message we received from talking to the students at Waikato University was that they are looking for a career where they are able to make a difference. This is certainly something a science career can offer. Science institutions and their sponsors need to deliver insight and inspiration to future scientists early in their school career, using programmes like those run by the Cawthron Institute that featured in last year's *Agenda*.

- › The low spending levels on R&D by many companies means the science system remains **dependent on government funding** to enable critical work streams to progress. The view was expressed in a number of Roundtables that the bar for primary sector organisations to access contestable science funding appears to have been raised in the last year. Despite the contribution the primary sector makes to the economy, funding bodies appear to assume that the industry is big enough to fund its own R&D investment. The most notable demonstration of this is the removal of the Riddet Institute from the recently announced list of funded Centres of Research Excellence ('CoRE'), despite its global reputation. This means none of the funded CoREs for the next six years are focused on the primary sector, although it is noted that primary sector organisations will be able to contest new funding made available in Budget 2014. The beauty of CoRE funding is that it provides scope for blue sky research. It was noted in one discussion that it is hard to achieve transformational science when you have to define the outcome before the work commences.

- › Concern was also expressed about the value that will be delivered from the **National Science Challenges**, which are the focus for government science funding for the next few years, and how these will engage with existing programmes in the industry. Only the High Value Nutrition programme appears likely to deliver market-focused outcomes; albeit three of the other programmes (New Zealand's Biological Heritage, Our Land and Water and Sustainable Seas) all address important issues about how the primary sector can engage and interact with our natural assets.
- › A top-of-mind issue raised by some contributors related to the current **restructure of AgResearch**. Concern was expressed about the effects of the planned consolidation of core scientific research onto two campuses, at Massey and Lincoln Universities. For instance, knowledge and experience could potentially be lost if people are unwilling or unable to relocate. While it makes sense to minimise the funding consumed in overheads, it was questioned if co-location was required for collaboration in the modern connected world. The concept of creating innovation ecosystems has appeal, as they allow informal meetings that would otherwise not happen and which could seed a transformational development. Ultimately, AgResearch and the other CRIs will be assessed on their ability to deliver science that drives the primary sector forward. They need to be confident that the changes being made will improve outcomes for the industry.
- › We have discussed in previous *Agendas* the challenges small innovation companies face in securing seed and follow-on capital in the New Zealand environment. The **limited scale of the venture capital capability** in New Zealand can see many companies look to offshore funding early in their development. Industry leaders are keen to see more innovation being retained in New Zealand hands. One interesting suggestion related to the role larger companies can have in investing in innovative companies. Globally we are seeing major companies create a capital arm to invest in niche technology companies; thus securing access to innovative technology for their own benefit as well as other stakeholders. In the case of New Zealand, the likes of a Fonterra or Zespri Capital entity could help to keep some of our early-stage technology companies in this country, as well as deliver benefits to the company and its shareholders.

AGENDA POINTS

SUMMARISING THE AGENDA

Companies continue to under-invest in innovation. They need to take a lead in increasing the amount invested in future products and productivity improvements. A range of issues were identified as constraints on innovation; including the availability of scientists, the availability of government co-funding, and limitations on the availability of venture capital funding.

INDUSTRY ACTION POINTS

- ① Lobby for proportional access to government co-funding and key programmes (such as CoRE and the National Science Challenges), to recognise the sector's substantial contribution to export growth
- ② Ensure funding is in place for Universities and Crown Research Institutes to recruit additional people to protect our national institutional knowledge

ACTIONS WITHIN YOUR BUSINESS

- ① Regularly challenge whether your business is investing sufficiently in innovation, either directly into R&D or by sourcing relevant international technologies
- ② Consider whether your business has a role to play in establishing or investing in a targeted capital arm or fund



**SECTOR
FOCUS**
AGRICHEMICALS



SETTING POLICIES TO
**ATTRACT
GLOBAL
INNOVATION**



One theme that emerged during the Roundtables for the first time this year concerned the legislative environment surrounding patent and data protection in New Zealand.

As we have advocated in previous *Agendas*, a large part of ensuring our primary sector remains at the leading edge of global agriculture relies on accessing and tailoring international technology to work in our conditions.

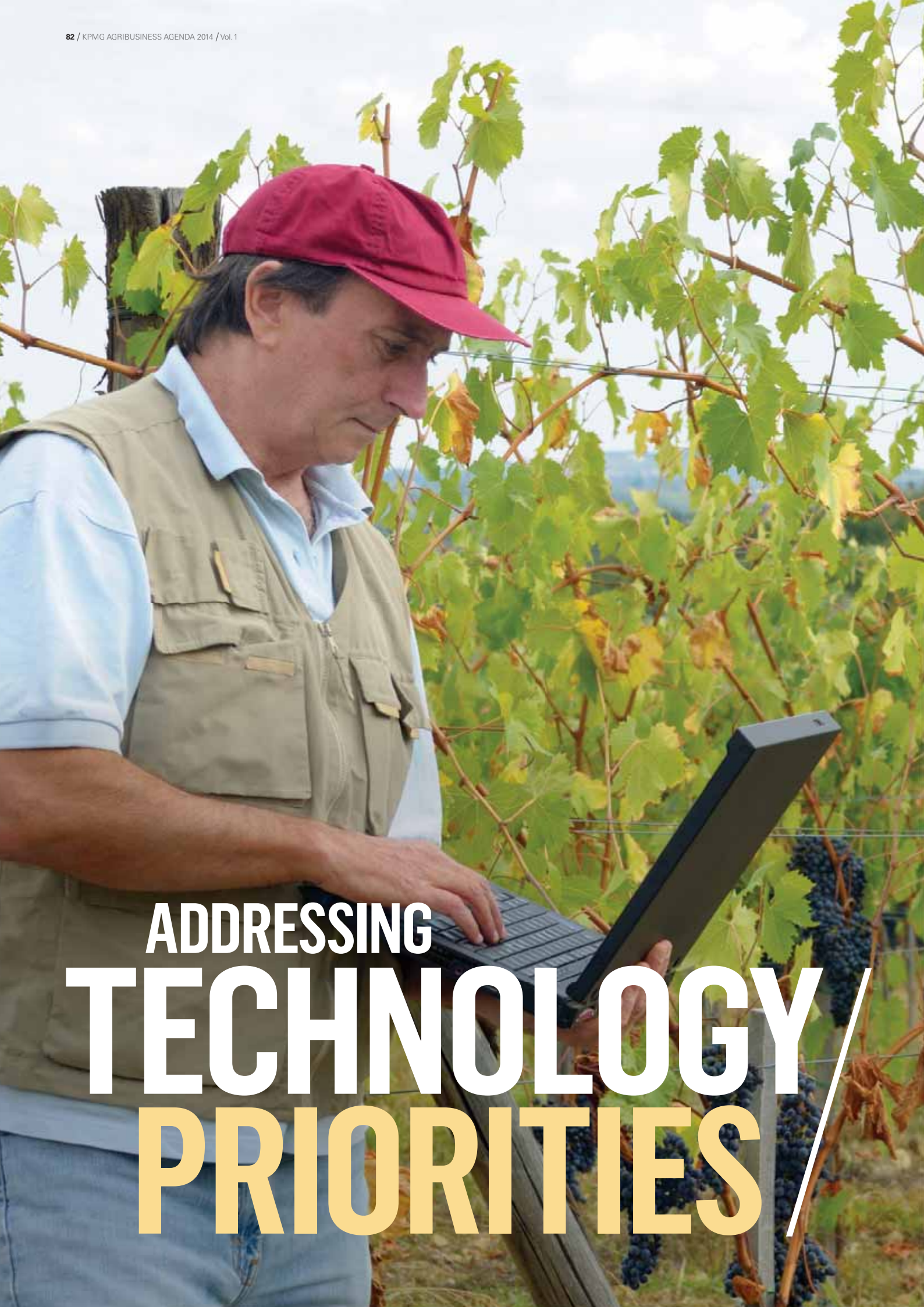
It was consequently a concern to learn that the major international agrichemicals and animal health companies are unwilling to bring their leading edge innovation to New Zealand due to the regulatory environment in this country. The issues surrounding intellectual properties rights have been an area of focus during negotiations around the proposed Trans-Pacific Partnership. Industry leaders noted there has been little evidence that the New Zealand government has been prepared to move on this issue, in order to provide equivalent protections to those afforded to innovators in other developed economies.

While patent protections in New Zealand are broadly similar to those granted in other countries, the difficulty arises when an existing product is applied to a new and innovative application. To gain authorisation to use the product for an alternative use, the product owner must complete a certification process, which could involve field trials being undertaken to collect the necessary data to support the efficacy of the application.

Despite the costs that could be incurred in completing this process, the current rules in New Zealand mean that the product owner does not receive any extension to its patent life to cover the new application. This means that if a product is out of patent, there is no incentive for a technology owner to invest in certifying new applications of the product. A generic competitor has wide access rights to the information used during the certification process; and can bring a generic product with the same certifications to market, soon after the product owner, and at minimal cost.

As a result, there is no incentive for a technology owner to invest in new applications on a product that has expired or nearing the end of its patent. It is also apparent that we are missing out on technology that exists in competitor countries that could increase our production and deliver better environmental outcomes. This is because the technology owners do not wish to weaken their global patent status by having the product available in New Zealand.

As a primary sector-based economy, we need to position ourselves at the leading edge of technology. We cannot afford to be on the blacklist for innovative products that our competitors have unfettered access to. There is an urgent need to look at adopting intellectual property rights consistent with other developed countries, to ensure our farmers and producers are not materially disadvantaged as they seek to compete with global producers.



ADDRESSING
TECHNOLOGY
PRIORITIES



A theme that emerged clearly in this year's Roundtable conversations was the growing role of data collection, analysis and interpretation within primary sector businesses.

Globally, those businesses that are successful in unlocking the value inherent within their burgeoning data warehouses have the potential to secure a competitive advantage.

With the roll-out of broadband progressing across rural areas, more technology options are opening up to our primary sector businesses. However the adoption of technology continues to primarily rely on individual managers being able to recognise the benefits their business can gain. Industry leaders noted that technology change is happening at pace on a global scale. Therefore the ability of our businesses to adopt technology, and the speed at which this occurs, is critical to New Zealand retaining its competitiveness in international markets.

“MORE TECHNOLOGY OPTIONS ARE BECOMING AVAILABLE TO FARMING BUSINESSES; HOWEVER ADOPTION RELIES ON INDIVIDUAL MANAGERS RECOGNISING THE BENEFITS THAT CAN BE GAINED.”



Hamish McDonald is a Partner in our Private Enterprise team that is working with farm clients to deploy technology solutions to enhance financial reporting

Some of the immediate technology priorities identified during the Roundtable conversations include:

- › **The incorporation of Overseer into environmental management regulations** has highlighted the role that technology will increasingly have on regulation. The need for data to demonstrate compliance with regulation provides a compelling driver for the adoption of technology on farm. It is also important to ensure that such regulations are well-founded, and collect only information that is relevant and valuable to building sustainable businesses.
- › The **fragmented nature of data within the primary sector** was noted in a number of conversations as a priority issue for industry leaders to address. While it is recognised that data can deliver competitive advantage to the information holder, there is a greater good at stake. It was suggested that, where possible, databases are integrated through an open access platform to maximise the value that the information can deliver to the industry. Conversations are occurring around the linking and meshing of data, however progress is extremely slow. The industry cannot afford to leave this issue languishing in the too-hard basket.
- › As already discussed, the industry faces a major challenge telling its stories to the wider population. The opportunity to **effectively utilise social media** was highlighted in many conversations as a key mechanism for engaging directly with the full spectrum of stakeholders; including customers, consumers, industry participants, government and the New Zealand population. Developing and actively monitoring social media channels not only complements business development; it should also be a key component of a crisis response strategy.
- › The **transition to e-commerce** continues to move slowly, with rural customers lagging behind their urban counterparts in purchasing inputs to their business online. Interestingly, it was noted that while the internet is increasingly being used to research products, there are still relatively low volumes of transactions being made through rural e-commerce channels. Deploying technology to facilitate and enhance the delivery of products and services to rural customers remains a key focus for companies that have historically engaged with customers on a face-to-face basis. The desire to have human contact and the challenges of quickly fulfilling transactions to rural addresses has meant many farmers still prefer to complete a transaction in the time-honoured way.

The point was made that the sector needs to look beyond what is achievable with today's technology, and challenge itself as to what it needs technology to do in the future. Taking the time for blue ocean thinking will help identify transformational applications for technology; and ensure that investment is directed towards delivering quantum leaps in competitive advantage at the earliest possible opportunity. Industry good bodies should consider investing in technology incubators to bring people together to think creatively about the future.

The speed of connectivity remains an important issue for many in the sector. As the rural broadband initiative continues to roll out, it is becoming apparent that the demand in rural areas is being driven by business, health and education applications (rather than entertainment, as it is in urban areas). Unfortunately, the connection speed differential between urban and rural areas is continuing to grow. Although New Zealand has a more cohesive policy towards rural broadband than many countries, the next government will need to give early consideration to its post-2015 rural broadband policy to ensure the infrastructure remains fit-for-purpose beyond 2020.

AGENDA POINTS

SUMMARISING THE AGENDA

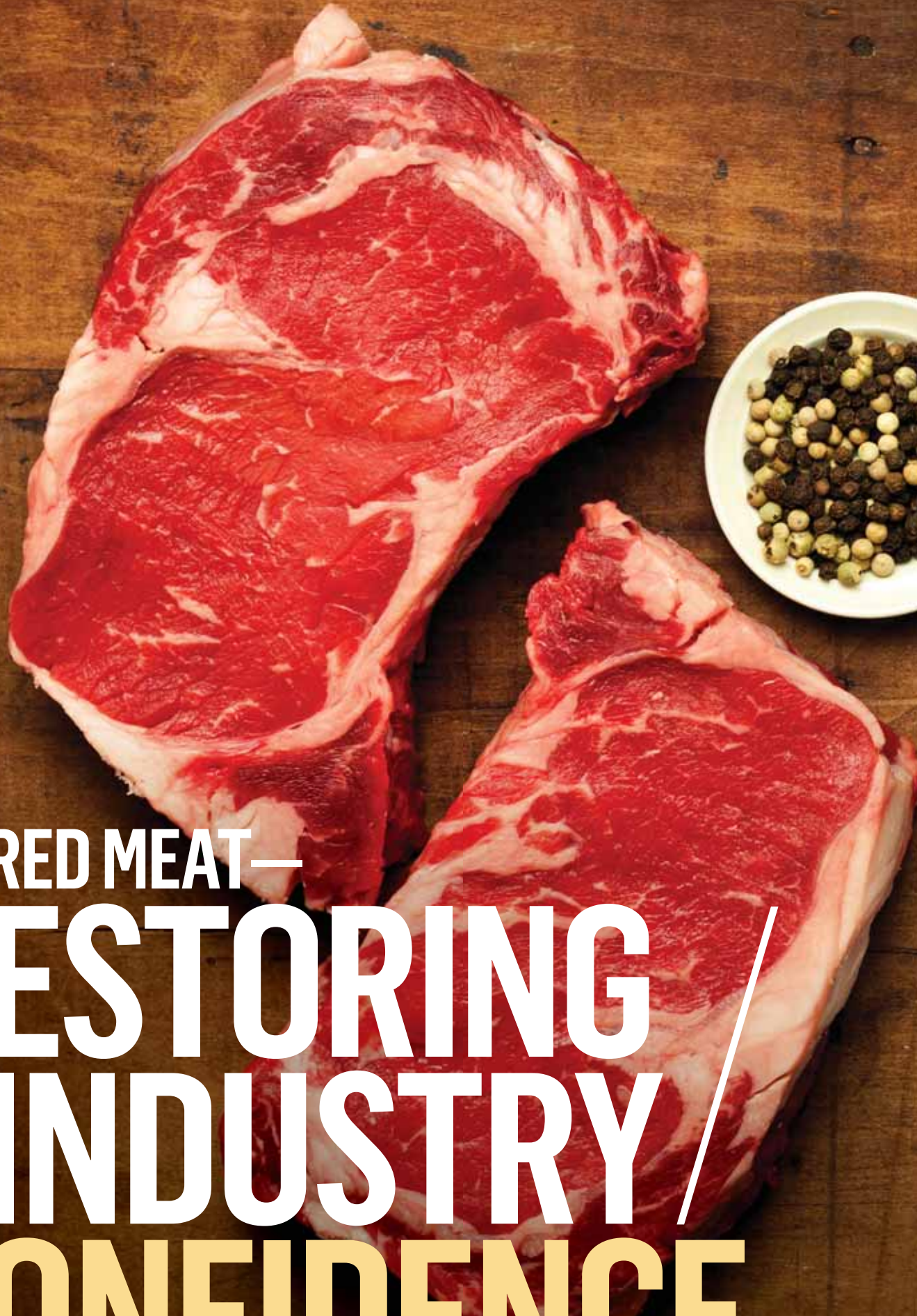
The use of data is becoming as critical in agriculture as it is in other parts of the economy. As broadband capability improves in rural areas, uptake of technology within farming businesses is increasing. The potential of technology across the industry is becoming increasingly apparent as a tool for regulation, benchmarking, communication and e-commerce. This makes a fast, reliable platform critical.

INDUSTRY ACTION POINTS

- ① Develop the post Rural Broadband Initiative strategy for connectivity in rural communities, to ensure that technology uptake is not constrained in rural areas

ACTIONS WITHIN YOUR BUSINESS

- ① Consider how you can utilise technology in your business to generate a competitive advantage, and translate this into a phased implementation strategy
- ② Consider the establishment of industry incubators to explore future uses of technology



RED MEAT—
**RESTORING
INDUSTRY /
CONFIDENCE**



The last year has not seen the radical reform of the red meat sector that many commentators have been calling for.

The debate that has taken place over the last year, driven by the Meat Industry Excellence Group, has increased awareness of the sector's opportunities and challenges. However the year has also seen more land change use to dairy, and dairy support, in the hope of delivering better financial returns.

The issue facing the red meat sector was summarised in a single, eloquent comment: the dairy boom is impacting the sheep and beef sector in ways that could never have been envisaged, *but most significantly, it is destroying farmers' self esteem.* The impact of low farm profitability on confidence in the industry was a recurring theme in many of our conversations.

There is no quick fix to rebuild belief among farmers. This requires a shift in culture that needs to be driven by all in the industry. It was noted that some progress is being made to facilitate cultural change – with initiatives like FarmIQ and the Red Meat Profit Partnership being identified as important steps in the right direction.

It was highlighted by a number of our contributors that the industry situation is not uniform. There are many farmers and processors that are delivering exceptional results from their businesses. Successful farmers are improving their pasture, adopting analytical tools and nurturing long-term partnerships with the company they supply. Likewise, successful processors are committed to changing from a transactional relationship with farmers to increase transparency, reduce commoditisation, and grow the overall pie for all industry participants. They are also innovating across the supply chain to deliver innovative, sustainable and traceable products that meet the needs of the end consumer.

In our case study, we profile Greenlea Premier Meats, an innovative family-owned company that is successfully growing export markets for premium beef products.

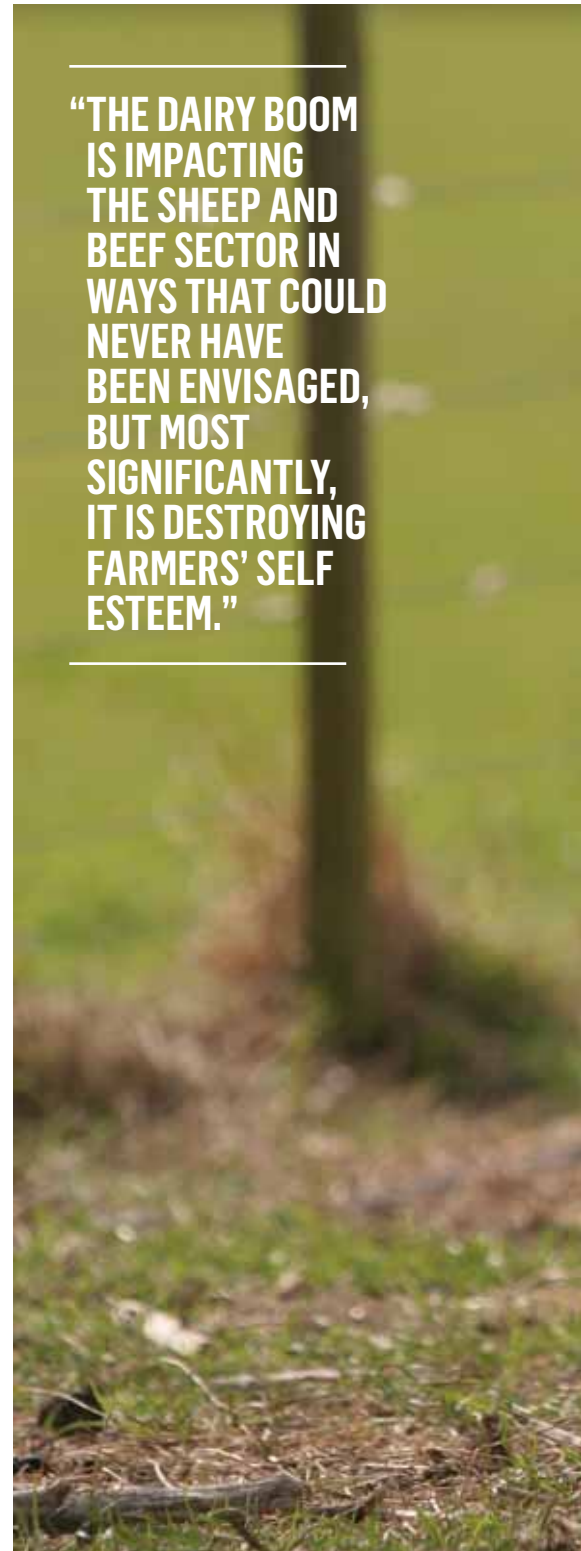
While the concept of a 'red meat Fonterra' met with little support during our discussions, the majority of leaders recognised that the industry needs to continue to evolve. If sector participants are prepared to take a long-term perspective, some of the potential options could include:

- › Consolidating processing assets to **create an open access toll processing entity** was floated as way of securing overhead cost reductions (which are estimated to be between \$300 and \$500 million per annum), while enabling the industry to cement the efficiency benefits of scale. There are many challenges to implementing consolidation, not least the cost associated with rationalising existing capacity. However there appears to be reasonable consensus around the cost benefits that could be realised and returned to processing companies and the farm gate.
- › Some leaders expressed the view that the industry was unlikely to progress without one or more **international partners** being attracted to invest in the sector. It was suggested that well-capitalised offshore investors can strengthen the balance sheet, as well as bringing market connections and new perspectives. (Though it should be noted an offshore investor does not deliver a guaranteed fix; KPMG analysis suggests less than one in four Mergers & Acquisition transactions actually deliver the expected uplift in value).

- › Our beef and sheep meat products have totally different characteristics, yet more often than not they are lumped together as a single sector. Lamb has a dominant position in a high-value, niche sector; while our grass fed beef industry supplies a differentiated niche beef product that represents a small fraction of the global beef supply. The view was expressed that the unique features of each product require a **more tailored focus and branding** to grow value in each sector, rather than continuing to take a one-size-fits-all approach to red meat products.
- › A number of leaders recognised that a key challenge to the financial viability of sheep farmers is the **parlous state of the wool sector**. They noted that rebuilding farmer confidence is heavily dependent on recovering wool profitability. However with the crash in wool volumes seen over the last six months, achieving a turnaround becomes increasingly challenging, as supply shortages are driving short-term market behaviours.

The continued success of New Zealand's primary sector is dependent on having strong and viable beef and sheep farming sectors. A long-term perspective will enable the industry to move beyond survival mode and focus on maximising its potential, rather than looking jealousy over the fence at dairy. There should be no room for infighting or talking down the industry. Strong leadership will therefore be critical to establish a new era of engagement, collaboration and trust-based relationships; to enable the industry to succeed through a variety of different routes to market.

“THE DAIRY BOOM IS IMPACTING THE SHEEP AND BEEF SECTOR IN WAYS THAT COULD NEVER HAVE BEEN ENVISAGED, BUT MOST SIGNIFICANTLY, IT IS DESTROYING FARMERS’ SELF ESTEEM.”





AGENDA POINTS

SUMMARISING THE AGENDA

There has been much talk about red meat sector reform, yet limited change in the last 12 months. A key theme was that many farmers have lost confidence in the sector. It is important to avoid generalisations, as there are many industry participants achieving strong returns. If change makes commercial sense, we got a clear message companies would be prepared to explore proposals.

INDUSTRY ACTION POINTS

- 1 Explore commercial proposals that could deliver improved value to all stakeholders by eliminating cost or enhancing market performance

ACTIONS WITHIN YOUR BUSINESS

- 1 Focus on building strong, trust-based relationship with your key trading partners that deliver certainty to both their business and yours

A 'RIGHT-SIZED' APPROACH



THE AGILITY OF GREENLEA PREMIER MEATS

It may not be the biggest in the land, but Greenlea Premier Meats is cleverly turning its size into a competitive advantage.

From its two plants in the Waikato, Greenlea processes more than 200,000 prime steer and heifer, bobby calves, manufacturing bull and cows per year.

According to Business Development Manager, Julie McDade, being located in the heart of a cattle-rich region is just one factor in their success.






Greenlea

**“WE RETAIN
THE SKILLS THAT
ALLOW US TO PROVIDE
A QUALITY PRODUCT,
CONSISTENTLY YEAR
AFTER YEAR.”**



“WE’RE AGILE; AND WE’VE GOT REALLY HANDS-ON MANAGEMENT.”

“I think the culture at Greenlea is fairly unique. We have a one-team culture that flows right from the top of the organisation, and the Egan family, right through to the factory staff. Because everyone is pulling together in the same direction, we have very low staff turnover. So we retain the skills that allow us to provide a quality product, consistently year after year. And it makes for a really great place to work.”

Unlike some of their competitors in the region, Greenlea can provide their staff with full-time, year-round employment. And according to McDade, the company also has an extremely loyal supplier base.

“I think there is a lot of respect for Greenlea because it is a family-run business. The company has consistently done what they’ve said they will do; so farmers trust us. We have suppliers who send their cattle to us without even knowing what we’re going to pay them...they just trust that we wouldn’t under the pay to the market.”

“We also listen to our farmers. They told us they wanted to send their bobby calves to the same company they send their cull dairy cows. So last year we built a bobby calf chain at Morrinsville.”

The \$2m purpose-built facility is already paying dividends, with strong customer demand for veal from the 70,000 calves processed in the first year.

So all things considered, being the newer kid on the block is an advantage?

“I guess you could say we’re right-sized. We’re agile, and we’ve got really hands-on management. Our corporate office is less than 100 yards to one of our factories. If we do have a problem identified, we just walk over there and sort it out.”

“We can also respond quickly to customer request to change a specification – if they want something different, we get it done.”



ON GIVING BACK TO THE COMMUNITY:

With year-on-year growth since inception, it's been a profitable 20 years for Greenlea. Now a percentage of those profits are being returned to the community via a charitable foundation.

According to Julie McDade: "The company consistently reinvests profits into the business to improve efficiency – and we also have a strong track record for returning profits to the community."

While there's a sizeable list of charitable recipients (including KidsCan, Order of St John, Salvation Army, university scholarships, and others), the flagship community project is their rescue helicopter Flight for Life programme.

As well as sponsoring the Greenlea helicopter based in Taupo, the programme supports all central North Island regions covered by the Philips Search & Rescue Trust. Greenlea's farmers can opt to support a rescue helicopter, in any region, by donating either a carcass or a cash sum.

"Rescue helicopters is something that has struck a chord with farmers," says Julie McDade. "They know there's a real possibility they'll one day need that service for themselves or their families."

OPERATION INNOVATE

Being a smaller player in a commoditised market has driven Greenlea to focus on spending smarter.

Explains Julie McDade: "We're all competing for the same pool of cattle, and at the end of the day we're selling a commodity. So it's that opportunity in the middle where Greenlea has chosen to focus. It's all about striving for operational excellence and efficiency – because in this industry, that's often the difference between making or losing money."

For instance, Greenlea was the first meat processor in New Zealand to invest millions of dollars in the Marel boning system, game-changing technology that's imported from Iceland.

"It allows us to track every piece of meat as it comes off the carcass through the boning room; and it's given us incredible management and control in terms of yield. We can instantly feedback information to ourselves, our staff and our QA team. It is an amazing leap forward in technology for that area of the business."

“IT’S ALL ABOUT STRIVING FOR OPERATIONAL EXCELLENCE AND EFFICIENCY – BECAUSE THAT’S OFTEN THE DIFFERENCE BETWEEN MAKING OR LOSING MONEY.”

**AGRIBUSINESS
ACCOUNTS FOR
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REAL VALUE TO
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OF WHAT IS NEW
ZEALAND'S MOST
IMPORTANT
STRATEGIC ASSET.**

Ian Proudfoot

Global Head of Agribusiness
KPMG New Zealand



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Jen Scoular

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Julie McDade

Photo Credits

Scott Bauer pg36

Justine Todd pg60

Foreword

Hon. Nathan Guy



HELPING THE SECTOR PROSPER

New Zealand can and should be achieving more with the talent, knowledge, natural resources and market reputation the generations before us have built.

We love agribusiness, and take great pride in how our roles as independent advisors, thought leaders, strategists and, in some cases, farm owners helps fuel prosperity for our great country.



Fostering pathways to prosperity for our clients, communities and the country is something KPMG is deeply committed to. Our team of specialist Agribusiness advisors are passionate about the sector. The contribution we make with the professional advice we give and the success we create for our wide range of agribusiness clients is what drives us to do what we do.

We would like to thank our many clients for the opportunities they give us to help them overcome their challenges and contribute to their successes at home and around the world. Being proudly New Zealand owned, the investment KPMG makes in producing thought leadership for the industry, and our sponsorship initiatives across the agribusiness and food sectors, is our way of saying thank you to our clients for their business. We really appreciate it.

KPMG's Agribusiness team can help you improve the efficiency and profitability of your business through our wide range of advisory services. Our national and international, cross functional agribusiness professionals focus solely on understanding the issues faced by agribusiness companies and developing tailored solutions to meet these challenges.

KPMG Farm Enterprise

In the last 12 months we have continued to enhance our ability to assist New Zealand's most productive sector to grow its prosperity. Most notably we have launched KPMG Farm Enterprise in both the North and South Island. Brent Love and Julia Jones, our Farm Enterprise Specialists, are passionate about working with ambitious businesses to enable them to prosper. They do this by bringing the full extent of KPMG's resources, together with their own extensive experience, inside the farm gate.

We are committed to growing our footprint across New Zealand. Our mobile Farm Enterprise team enable us to do business with you wherever you are in the country. We have also grown our office network this year, opening an office in Timaru, that is servicing both our agribusiness and commercial clients in South Canterbury and North Otago. We have been delighted with the welcome that KPMG has received in Timaru and look forward to making a contribution to fuelling the prosperity of this important growth region of New Zealand.

KPMG brings together over 800 staff across six offices to serve clients throughout New Zealand. Whether it be in the office, down at the milking shed, around the homestead kitchen table or the boardrooms of our processing and world-renowned export companies; wherever the difficult business decisions are being made, we feel right at home.

KPMG can help you with:

- » Availability and structure of equity and debt
- » Acquisition and transaction support to encourage growth in local and overseas markets
- » Mentoring and support for growing your business
- » Negotiating financing arrangements
- » Volatility in earnings due to exchange rates and commodity prices
- » Addressing customs and quota issues and maximising the benefit of FTAs
- » Issues arising from environmental regulations, carbon trading and food miles
- » Obtaining R&D funding to support innovation in genetics, seed technology and nutrition
- » Enhancing business performance by doing more for less
- » Financial reporting to support farming for profit
- » Valuation of brands on a local and international basis
- » Advice on control and governance structures for all sizes of business
- » Succession planning and future proofing your business strategy
- » Assisting businesses to successfully navigate China
- » Collecting, analysing and interpreting data

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