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AGRIBUSINESS

KPMG Agribusiness Agenda 2011

Realising global potential

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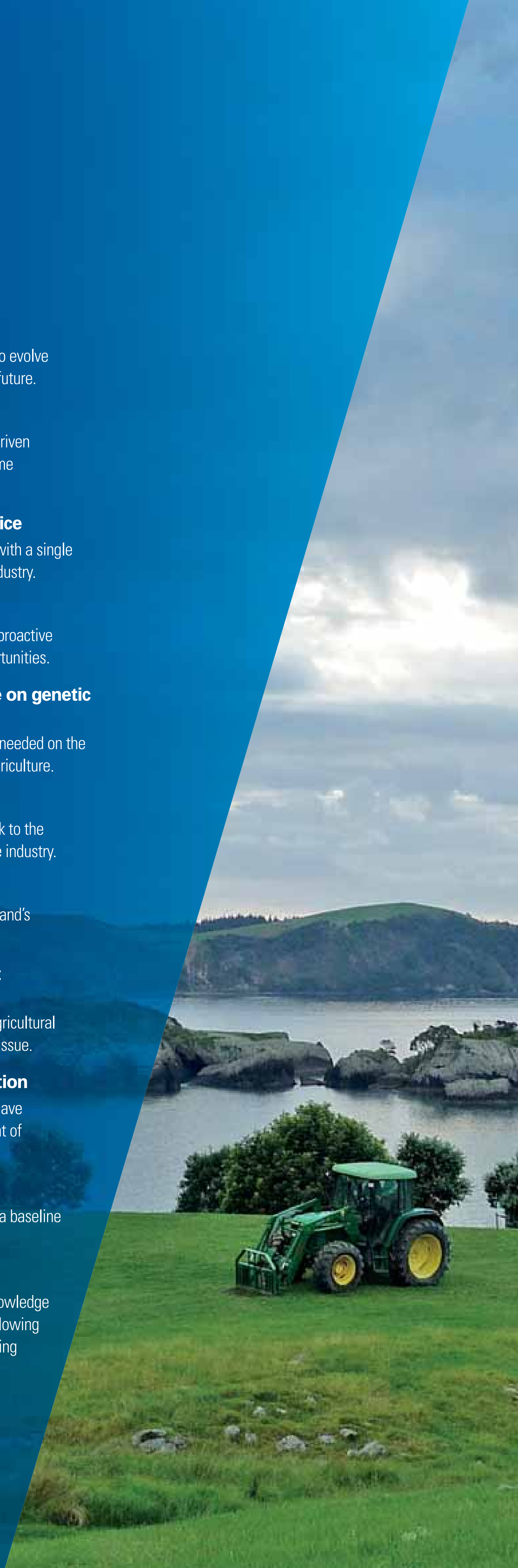
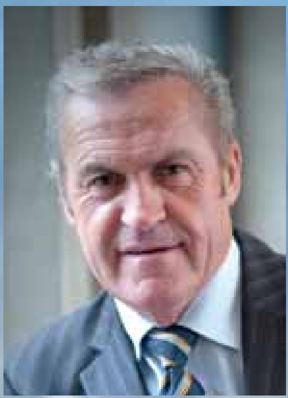
Contents



Foreword



New Zealand's primary producers are among the most innovative and efficient in the world. They have a firm eye on the future as they work to deliver greater prosperity, security and opportunity to all New Zealanders.

The National-led Government is also focused on the future; on getting the economy back on track and unlocking enormous potential for this country.

The inaugural edition of the KPMG Agribusiness Agenda in 2010 provided a compelling insight of the challenges and opportunities facing the agriculture sector and, consequently, the wider economy.

I am delighted to introduce this year's report 'Realising Global Potential'. Agriculture is the key driver of our economy. It is what prevented New Zealand slipping into deeper recession, and it is what is leading the way.

The continued prosperity of our primary sectors is crucial to growing the country's tradable economy and improving the living standards of all New Zealanders. We must capture the potential that currently exists in global markets.

New Zealand is enjoying an era of primary sector buoyancy, with producer confidence high. Demand for protein around the world is continuing to grow, predominantly from developing markets in Asia. Certainly, there are challenges to overcome as competition from other countries steps up, but increased productivity is key to our economic prosperity.

This is the driver behind the National-led Government's ambitious economic agenda to lift growth and create high value jobs. Our country's future, like its past, has relied on primary production. Our reputation as a leader in quality, sustainable and trustworthy agricultural products is our greatest asset. We must make the most of it.

I recommend you read this report and explore the KPMG team's insightful analysis of New Zealand's most important economic sector.

Hon David Carter
Minister of Agriculture, Biosecurity and Forestry
Acting Minister for Economic Development

Introduction

KPMG released the first KPMG Agribusiness Agenda in April 2010. The document attracted significant media attention and drove discussion around some of the key opportunities and challenges facing New Zealand agribusiness. Many readers commented that the report was a valuable, independent assessment on the state of New Zealand's most important productive sector.

That reaction has encouraged us to prepare a second more ambitious analysis, focused on ideas to enable New Zealand agribusiness to capture the potential that exists for the sector in global markets. These opportunities are significant. Given the current favourable market conditions for many of our key commodity products, it is arguable there has never been a better time for the industry to capitalise on the global potential available to it.

The report has been prepared after face-to-face or telephone interviews with over 80 industry leaders. These interviews discussed the key opportunities, policy settings and industry actions needed to realise our potential in global agribusiness. Many of our contributors also completed a survey rating the significance of a number of issues concerning the future of the New Zealand agricultural sector.

The preparation of this report has been a significant task which would not have been possible without the co-operation and support of the industry leaders who gave up their time to talk to us. The openness of their commentary and their insightful analysis of the opportunities available gives us confidence that the industry is ready to make key decisions that will drive its long-term future.

We also recognise the immense support received from members of the KPMG team in preparing this document. We also are very pleased that again most of the photographs in this report have been taken by members of our team.

Ross Buckley
Agribusiness Chairman
KPMG New Zealand

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KPMG New Zealand
Report author

About KPMG Agribusiness

The leading business advisor to New Zealand agribusiness. KPMG has worked with agricultural businesses for more than 100 years providing services ranging from assisting farmers and growers with accounting compliance and tax returns to provision of audit, tax and advisory services to many of New Zealand's leading agribusinesses.
For more information on KPMG Agribusiness, please refer to the inside back cover.

KPMG is a proud supporter of these organisations:

New Zealand National Agricultural Fieldays

IRRIGATION NEW ZEALAND

NZFOODAWARDS IN ASSOCIATION WITH MASSEY UNIVERSITY

DAIRY BUSINESS OF THE YEAR

KPMG won the Public Relations Institute of New Zealand Marketing Public Relations award for the Agribusiness Agenda 2010

PRINZ PUBLIC RELATIONS & COMMUNICATION MANAGEMENT

Our recommendations

GENERAL

1. Think in an integrated, strategic manner on a Trans Tasman basis
2. Develop an industry self insurance scheme in respect of flood damage

BIOSECURITY

3. Introduce a biosecurity levy on passenger and product arrivals in New Zealand to fund public good research on incursion threats

GROWING MARKETS

4. Establish international food and innovation incubators/innovation centres
5. Structuring value chains to meet and exceed customer expectations
6. Develop strategic plans to maximise 'whole of production' value
7. Collaborate to avoid market failure arising from a failure to market

RED-MEAT

8. Consolidate genetic improvement in the red-meat sector
9. Investigate stock ownership models that deliver processors greater certainty of supply

SUSTAINABILITY

10. Standardise commercial sustainability requirements into a generally acceptable code
11. Set aspirational carbon budgets for each sector of the New Zealand agricultural sector
12. Review and align the government's carbon related initiatives in an integrated strategy
13. Carbon neutral proteins – a unique market position for New Zealand premium products?

ORGANICS

14. Explore the true market opportunities for the New Zealand organic sector
15. Support research and extension for development of the New Zealand organic sector

WILD HARVEST FISHING

16. Establish the Quota Management System (QMS) as an independent commission

EXTENDING ON FARM PERFORMANCE

17. Debate the role of more intensive farming techniques in New Zealand agriculture
18. Proactive extension mechanisms with a focus on the best performers

MAORI AGRICULTURE

19. Create a market experience extension programme

GOVERNING FOR GROWTH

20. Include offshore directors on the boards of major agricultural exporters
21. Create shadow director positions on boards to create a pathway to leadership

MARKET ACCESS

22. Really understand the competitive advantages our competitors have in key sectors
23. Realising the Indian market opportunity
24. Defining the difference created by a product's New Zealandishness
25. Establish an advanced international agribusiness programme

RESEARCH AND DEVELOPMENT

26. More focus on R&D to identify and deliver lifestyle food solutions
27. Focus on adaptive research rather than pure research

WATER

28. Create a world's best mechanism to reflect the cost of water to farmers

INDEBTEDNESS

29. Create a good governance and financial management blueprint for New Zealand farming businesses

WINE

30. Create appellation marks for unique New Zealand products

UNIFIED INDUSTRY VOICE

31. Development of a national agribusiness strategy

ATTRACTING TALENT

32. Create a skills incentive programme to attract appropriately qualified people into rural areas
33. Use funding mechanisms to guide students toward courses that benefit the economy

GENETIC TECHNOLOGIES

34. Understand consumer trends around sustainability in key export markets

RURAL URBAN GAP

35. Develop an accessible mass market way to link the urban population to the rural sector

ACHIEVING SCALE

36. Review and evolve PGP to enable smaller collaborative innovation and transformation schemes to benefit

FOREIGN INVESTMENT IN AGRICULTURE

37. Incentivise vehicles that allow young farmers to co-invest in a farming business

ANIMAL WELFARE

38. Minimum stockmanship standards to be met before a farmer is licensed to own animals

Big ideas to become a globally great industry

Executive summary

New Zealand agriculture is in a good space. The prices for key agricultural commodities are at historically high levels, even wool is selling at its highest price in 20 years. Demand for core products is growing in the rapidly developing markets in Asia, we have a robust biosecurity environment, we only use a fraction of our fresh water, and almost every major economy around the world seems keen to discuss free trade with us. Add to this a growing global population and increasing concern about the world's ability to feed itself in the future and, as a premium food producer, we look well positioned.

So if all the stars are aligned and agriculture represents New Zealand's productive core, why is the economy not booming out of recession, even given the terrible Christchurch earthquake?

From discussions we have held with industry leaders in preparing this report, the industry recognises the opportunities available to it. However, capitalising on these opportunities is hampered by high debt levels, a lack of integration with customers, a certain amount of inertia, some outdated farm practices, an unwillingness to have mature conversations around some of the more difficult issues, and policy settings that have created investment uncertainty.

As Jim Collins states in his study of companies that have transitioned from good to great, a key part of this process is confronting the brutal facts of your situation while retaining the faith that you can, and will, be the best in the world in your chosen area[1]. The industry appears to want to spend a lot of time talking about how it can control the uncontrollable variables rather than focusing on the things we can control. The New Zealand agricultural sector is generally a very good industry but it

1 Jim Collins; Good to Great; Collins Business; 2001

has the potential to be a great industry. However, everybody – industry leaders, the processing companies, farmers and those of us that support the industry – must face up to the facts and focus on the strategies that are available to make the industry consistently and genuinely world class. In our view, the brutal facts the industry needs to confront are:

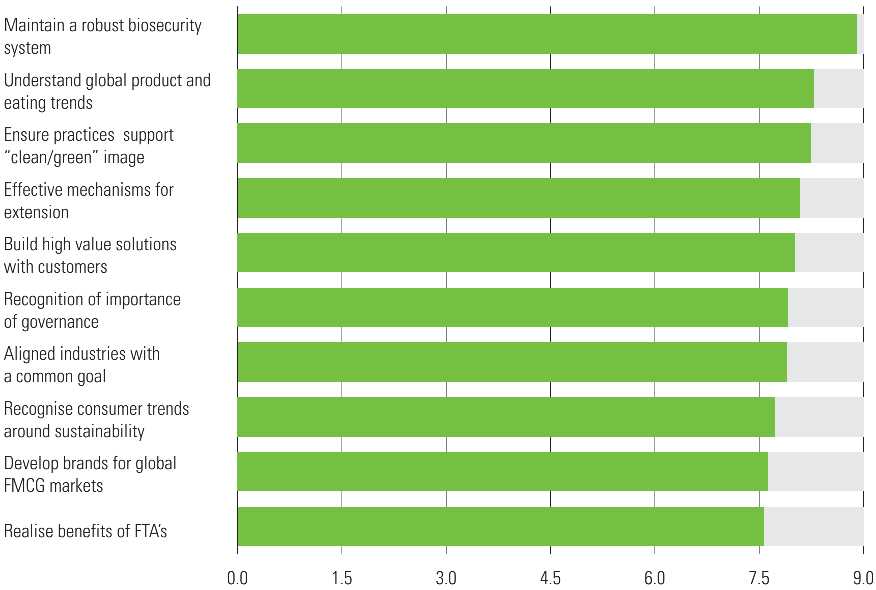
- Our customers have significant market power
- We are a small producer on a global scale
- The world does not owe us a living
- Markets continually change and our earnings rise and fall with that volatility
- A free floating currency moves

With extensive opportunities available to the industry, now is the right time to think about what New Zealand will look like in 50 years and how the agricultural industry will fit within the economy. Successful countries, like successful companies, define their goals and create strategies to deliver them. We believe now is the time for the country to think seriously about where it wants to be in 50 years. This means a series of important discussions need to take place. The agribusiness sector should be closely involved as the key driver of New Zealand's export earnings.

The KPMG Agribusiness Agenda has been prepared based on conversations with industry leaders around a series of big picture industry priorities which we included in a survey.

In this report we are going to focus on those priorities, the opportunities that they create for the industry and highlight some ideas that may help the industry grasp them.

Highest ranked priority issues for New Zealand agribusiness (on a scale of 1 to 10)



Biosecurity

Unsurprisingly, the issue raised most often as the highest priority for the industry was robust biosecurity and border control. While everybody agrees the importance of rigorous processes, there is much debate on who should foot the bill for maintaining them.

The debate over whether biosecurity is a public or private good is central to the proposals contained within the biosecurity legislation currently moving through Parliament. Ensuring that the funding burden is correctly allocated between the taxpayer and industry participants is critical to ensuring that robust protection is maintained. If the funding balance is wrong, and a risk is consequently ignored, the impact on the industry could be potentially catastrophic.

Growing markets

Much of our discussion with industry leaders revolved around the importance of getting things right in-market. A key priority is the need for industry sectors to understand their customers intimately, preferably from within the markets where they operate on a day-to-day basis.

Being on the inside means opportunities are understood faster enabling us to tailor a product solution geared to the customer's requirements, rather than trying to sell them what we have always produced. It also enables market signals to be passed right back to the farm gate and facilitates the creation of an integrated value chain from the plate to pasture, so the farmer understands their role in maximising value. Without intimate and integrated relationships with their customers the industry will always struggle to add value beyond a commodity return.

A key priority is the need for the industry sector to understand their customers from within the markets where they operate

Sustainability

The challenge of protecting and leveraging New Zealand's 'clean, green' image was also consistently identified as a high priority. The need to ensure the reputation is backed by substance plays on the minds of many industry leaders, with claims of a systematic 'greenwash' never far away. The challenge facing the industry is defining what is sustainable, as each customer has his own definition on this issue. In reality 'clean, green' is only part of the story of a sustainable business model as there are many regions around the world that can challenge our environmental provenance. We need to ensure we leverage factors such as the carbon trading scheme for our commercial advantage. We must also develop the most sustainable farming practices. This may require greater consideration of aspects of organic and biological farming systems.

On-farm development

There is a wide belief that the industry is failing to maximise value creation behind the farm gate. There is a need for much greater focus on using technology on-farm and ensuring information is extended to top performing farmers in easily adaptable formats. The challenge facing the industry is the inertia associated with an ageing farmer population, so there is a significant amount of work ahead to promote cultural change, particularly in the red-meat sector. Improved productivity is likely to also require increased use of intensive farming practices on larger farms to generate economies of scale. This creates issues that have to be properly addressed with the wider population to ensure a solution that is acceptable to all stakeholders.

Governance

The need to ensure that governance standards in the industry are at world best practice levels came up in many of our discussions. A key challenge was the need to get talented young leaders to take on governance roles in the industry. To achieve this greater consideration needs be given to the level of compensation paid to directors within the industry. It was also noted that with the increasing focus on international markets there is a growing need to get more international directors on the boards of our key exporters, so they have access to up-to-date, in-market information.

Market access

A further high priority issues raised in our interviews related to market access and free trade agreements. When we prepared last year's Agribusiness Agenda there was a consistent view that free trade agreements and market access were a significant benefit to the industry. However, this year there was a view expressed that the growing global demand for protein means the investment in developing free trade agreements might be better directed towards market development support.

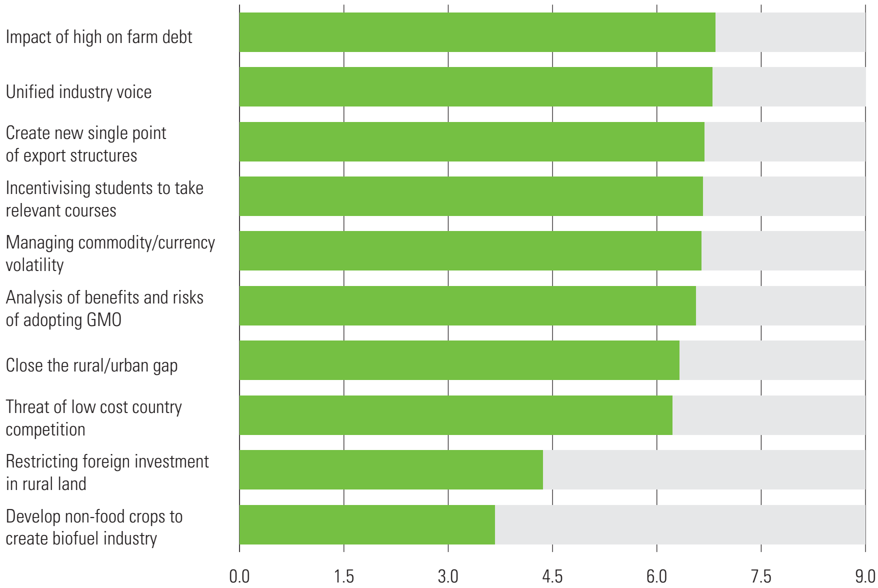
Overall there remains a strong belief that it is more advantageous for New Zealand to have market access, as this delivers competitive advantage over producers from countries with no access. It also provides a mechanism to address market access issues as and when they arise.

Lower priority issues

Given the wide acknowledgement of the importance of research and development (R&D) investment and water when we raised them in last year's Agribusiness Agenda, it was a surprise that they appeared with a lower priority this year.

Our track record on R&D has been woeful in recent years, although industry leaders provided positive feedback about the potential the Primary Growth Partnership (PGP) has to change the culture in the industry and create new collaborations that could transform it in the future. The proposed Government investment in irrigation infrastructure is an important step in getting schemes off the drawing board and into construction as soon as possible. Without this investment fresh water will remain a significant natural asset but not the vital economic asset it could be for the country.

Lowest ranked priority issues for New Zealand agribusiness (on a scale of 1 to 10)



Many industry leaders noted that even the issues they rated as lower priority were still important to the industry. For instance, the high level of indebtedness prevalent in sectors of the industry could take years to address, while farmers work through a process of de-leveraging. In the meantime, this has an effect on productivity, growth and investment on the farm. It was also noted that the task of attracting sufficient new talent into the industry presented a threat in the medium-to-long term if a co-ordinated plan was not implemented to start selling the benefits of a career in agribusiness to school children well before they start to make career decisions.

There are some important debates that need to take place in New Zealand around the long-term future of the agricultural sector. However, it will be difficult for these debates to take place in a constructive manner if there is not a good understanding of the agricultural sector in urban communities. It is clearly believed that the onus falls on the rural sector to make the effort to close the gap.

A key debate that industry leaders believe needs to begin soon centres around the use of genetic technologies in New Zealand agriculture. This could have significant implications on the market perception of New Zealand as a 'clean, green' producer of food. It also has potential social and environmental impacts and, as such, is a debate that needs to take place in an informed manner without the emotion that has surrounded the issue in the past.

Another debate that has been raging for the last year relates to foreign investment in rural land. Yet this was a matter that caused little concern to industry leaders during our discussions. Of much greater concern was the risk of foreign investors being able to aggregate sufficient production to bypass the New Zealand owned processing sector, in essence the ownership of processing assets was considered a more important issue than ownership of the land.

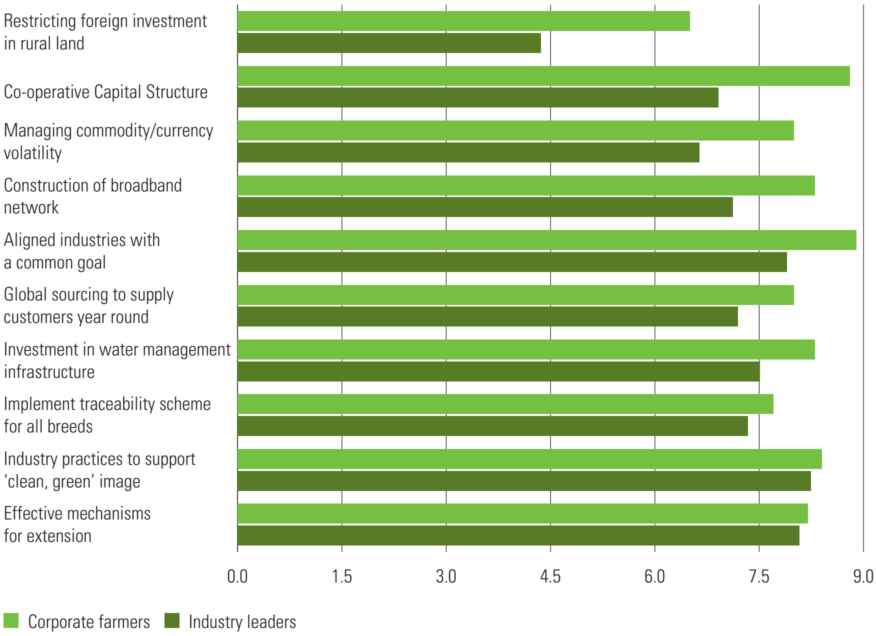
Industry leaders vs farmers

We also took the opportunity to present some questions to major corporate farmers at a seminar organised by the ASB Bank. It was interesting to contrast the priorities these farmers gave to those of the industry leaders who completed the survey. The chart on this page shows the difference in priority given to issues by each group.

The most significant difference relates to the foreign ownership of rural assets. Farmers rated the issue on average over 49 per cent higher than industry leaders, highlighting that land ownership is a more personal issue for farmers than industry leaders perceive. Other issues the farmer controlled group rated more highly include: the ability of co-operatives to evolve their capital structures; the need to utilise tools to better manage volatility in their businesses and the need to complete the construction of the rural broadband network as a high priority. It was interesting that of the questions we asked, there was not one which was rated lower by the farmer group than the industry leaders.

The farmer group rated the need for improved extension of new farming practices as a high priority at a very similar level to the industry leaders, reflecting that these high performing operators see the need for, and benefits of, improved investment in farm practices and the mechanisms for getting useful information to the farm quickly.

Corporate farmers ranked issues higher than industry leaders (on a scale of 1 to 10)



This report includes a number of ideas which have come out of conversations we have had during the last year which could move some of these key issues off the agenda and into realisation. The industry has the potential to be great but to achieve greatness it must focus on the key priorities that are discussed in this document rather than the issues that have consumed so much time in the past.

The role of PGP in creating a more collaborative environment could be transformational in creating an agribusiness sector able to have the difficult conversations, work more effectively with the wider New Zealand population, and harness the potential that has always been inherent in the industry.

Now is the right time to think about what New Zealand will look like in 50 years time

Evolution rather than revolution

Putting the KPMG Agribusiness Agenda into context.

In 2010 the KPMG Agribusiness Agenda was developed in response to comments that industry leaders made to us regarding a lack of independent insight being published on the wider New Zealand agribusiness sector. The 2010 report was written to provide an independent assessment of the opportunities and challenges facing the industry.

In preparing this year's Agribusiness Agenda we decided to focus on the issues identified in the New Zealand Agribusiness survey and the commentary provided by more than 80 industry leaders we interviewed. This means we have not repeated much of the 'big picture' analysis that was included in last year's Agribusiness Agenda. New readers may find it helpful when reading this year's report to review some of the background discussion from last year to provide additional context to the opportunities available to the sector.

This introductory section provides an overview of the key conclusions we reached in 2010 and an analysis of some of the defining events that have occurred in the 14 months since we published the report.

It has been a year when the direction of the industry has been discussed openly in a number of forums, which we believe to be a real positive; however some of the discussions have been politically motivated and not necessarily as informed or as constructive as the industry requires. The importance of agriculture to the New Zealand economy gives the industry a higher profile than equivalent sectors have in other developed countries. However, it also means the direction the industry takes on many of the key issues discussed in this year's Agribusiness Agenda will have wide ranging implications for the long-term, future wealth of New Zealand.

Ten challenges to the industry in the KPMG Agribusiness Agenda 2010

Efficient, best practice production methods
- Adopting best practice methods
- Fixing processing structures
- Adequate capital resources

Addressing future market realities
- Delivering to new customers
- Addressing market volatility

KPMG Agribusiness Agenda 2010
The big opportunities and challenges facing New Zealand agriculture

Sustainability is an imperative – like it or not
- Customers will define sustainability
- Maximising the investment in NAIT

Investing in rural infrastructure
- Water is our most valuable asset
- Technology can drive productivity
- Lifting management and governance standards

2010: Efficient best practice production methods

We suggested that New Zealand agriculture is no longer a low cost producer as the price of land and on-farm inputs have increased. However, as global demand for food is increasing there is a need for the industry to focus on efficient and sustainable production models that are resilient to market volatility and shocks, what we called 'the most efficient producer'. For this model to work we suggested that the industry should focus on selling high value, premium products into market niches, which would require investment in researching best practice products, developing future leaders and maximising the use of natural resources. The required investment will need additional capital, and in a sector which has found capital raising challenging in recent years there may be a need for co-operatives to explore hybrid equity models. We noted that regulatory frameworks need to be reviewed to ensure the benefits from regulation exceed its cost and that the long-term implications of regulation around more controversial areas, such as genetic technologies, are discussed in a mature manner to ensure the opportunities to increase productivity are balanced with the environmental and reputational risks.

2010: Addressing future market realities

The markets for our agricultural products are changing. A growing quantity of our exports are being sold to Asia, a trend likely to accelerate as the Government continues to enter into free trade agreements. We suggested our success in these new markets will be highly dependent on the success we have in building intimate customer relationships with our new consumers. The volatility in food commodity prices in recent years was noted as a trend that is likely to become increasingly prevalent as the buffer of supply over demand shrinks with a growing global population. New Zealand companies need to accept that their returns will be impacted by this volatility and must prepare for it. We also noted that the industry has under invested in R&D in the last thirty years and to remain competitive in new international markets the level of investment in science must increase.

2010: Sustainability is an imperative – like it or not

Brand New Zealand, the intangible association that has developed between New Zealand and clean, green and pure, is one of the most valuable assets the country has. Consequently, the onus falls on everyone in the industry to act in a consistent manner with the spirit of the message. Failure to do so can bring accusations of 'greenwash' from our international competitors and risk access to our markets. We noted that the implementation of a national traceability scheme is a 'must do' rather than a 'nice to have' and that we have an obligation to ensure our animal welfare standards represent best practice, requiring all farmers to treat their livestock in a humane and ethical manner. We suggested there was a growing awareness that the sustainability discussion had moved on from climate change and was now about recognising the financial benefits that can be derived from sustainable business practices.

2010: Investing in rural infrastructure

We noted a general perception that there had been under investment in rural infrastructure in New Zealand in recent decades. We highlighted three priority areas for investment as a matter of urgency.

Water. New Zealand's liquid gold, with huge, potential productivity gains from investing in water storage solutions. We noted though that the nature of the schemes meant there was likely to be a need for some Government investment to help get them off the drawing board and into construction.

People. Investment in people – both new talent to enter the industry and future sector leaders – had been lacking and the pipeline for both needed investment to provide the resources to support the long-term growth of the industry.

Communications. We supported the plan to improve communications infrastructure in rural areas, recognising the importance of the investment to help drive the adoption of technology on-farm and to bring people to live in rural areas.

Highlights of the year

The period since the first KPMG Agribusiness Agenda has seen much happen in the agriculture sector. The industry has seen mergers and acquisitions, biosecurity incursions, steps towards greater market access and development, strategic analysis of key market sectors and a debate around the foreign ownership of agriculture land.

In Australia, we have seen what can happen to local ownership of the agricultural sector if the government does not consider the industry to be strategic. Globally, the investment opportunities in the agricultural sector are becoming increasingly well recognised, particularly as the concern over the security of food supplies grows, stoked in the last year by Russia banning the export of corn.

In addition, we have seen natural disasters in Christchurch, Queensland and Japan having varying degrees of impact on agricultural infrastructure in these regions, all highlighting the susceptibility of our global food supply to unforeseeable events.

The following paragraphs we summarise some of the key stories reported over the year in KPMG's weekly Agribusiness newsletter, Field Notes.

May 2010

The Australian Government announced their decision to defer the commencement of their ETS scheme in the face of significant domestic pressure. At the same time the government in New Zealand announced a significant new funding programme to support investment in R&D in Budget 2010 and the first Primary Growth Partnership consortium, led by Merino New Zealand, was granted funding. The month also saw the investment companies of the Rural Portfolio Investments group placed into receivership.

June 2010

The month started with the announcement that New Zealand and Russia had formally commenced negotiations over a free trade agreement. A few days later Turners & Growers launched a campaign to break down the kiwifruit export regulations, describing them as anti-competitive. It was also announced that merger talks between the grower-owned wool companies had been called off as it was not possible to reach a commercial agreement. The Talley's Group announced that they would make a bid for the AFFCO Holdings shares that they did not own. Meanwhile AgResearch announced in the lead up to Fieldays that significant progress was being made in developing a GE clover that could cut livestock methane emissions.

July 2010

Fonterra received a resounding vote of support for the next stages of its capital restructure including the Trading Amongst Farmers proposal. The was a flurry of bids submitted to the Crafar Farm receivers, with Landcorp quickly finding out their bid had been unsuccessful, and Natural Dairy – a Chinese backed company – emerging as the preferred bidder. Bright Dairies (China) announced the acquisition of a controlling interest in the Synlait milk processing business and Olam International (Singapore) announce an on market bid for a controlling stake in New Zealand Farming Systems Uruguay. The Government confirmed that the reforms of the aquaculture sector remained on track and the major mussel producers announced a joint venture to collaborate over the development of the market in China. The red-meat industry announced it would collaborate in development of an industry strategy to improve the profitability of the sector.

August 2010

Predictions early in the month were for another poor dairy season as Fonterra auction prices fell, raising alarms of a repeat of the 2008/09 season. However, news for the pipfruit sector was more positive as it became clear that the WTO were going to rule in New Zealand's favour in respect of the long running dispute over apple exports to Australia. Two large Primary Growth Partnership consortia received Government support for projects associated with the dairy and red-meat sectors, the total investment in both exceeding $320 million. New Zealand's proposed free trade agreement with the Gulf Co-operation Council countries hit a block over live animal exports and global food markets experienced significant price increases when Russia banned grain exports following a series of extreme weather events and fires, which caused commodity price spikes.

September 2010

New Zealand news was dominated early in the month by the unexpected earthquake in Canterbury which damaged rural infrastructure in the region. Concern was being expressed over the impact on the availability of mezzanine finance in the rural sector following the collapse of South Canterbury Finance. A severe storm impacted farmers across the country during lambing, with estimates that more than one million lambs were killed in the extreme weather. The US Government received an application to consider the release of a genetically modified salmon into the food chain (dubbed 'Frankenfish' by the media). M&A activity continued with Talley's Group declaring their takeover offer for AFFCO unconditional and Sanford seeking approval to purchase Pacifica Seafood from Skeggs Group.

October 2010

M&A activity continued in October with speculation building on potential buyers of South Canterbury Finance assets in the rural sector, particularly Dairy Holdings (New Zealand's largest private farmer) and Scales Group (the owner of Mr Apple). It also became apparent that private equity owned Tegel Group was up for sale with speculation that the price tag may exceed $1 billion. Delegats Group sought to acquire the shares in grape grower, Oyster Bay, that it did not already own and Pernod Ricard sold off a range of non-core wine assets and brands. Fonterra announced plans to develop a second dairy farm in China and entered into an agreement to explore the development of a 40,000 cow farm in India. Plans for a new grower owned wool co-operative (Wool Partners Co-operative) were announced with a plan to seek to raise $65 million while Silver Fern Farms went out to red-meat farmers with an opinion poll on the need for the major meat co-operatives to merge. The debate over overseas ownership of farms raged on in the media, while the SFO put a hold on the Crafar Farms transaction while it probed the preferred bidder.

November 2010

The month started with the successful hosting of the World Dairy Summit in Auckland, which saw over 2,000 dairy sector specialists attend from around the world. However, it was the discovery of the PSA disease in kiwifruit orchards in the Bay of Plenty and the co-ordinated industry, grower, Government response that dominated mainstream and agricultural media in the month. The month also saw a joint bid from Telecom and Vodafone to develop rural broadband infrastructure. Privately owned animal health company, Bomac, was sold to German pharmaceutical giant, Bayer, for an undisclosed amount. Australian farmers lost their final appeal over the importation of New Zealand apples while the new Director General of MAF, Wayne McNee, started his new job as warnings of drought in the upper North Island became louder as the country experienced a dry, warm spring.

December 2010

The month started with another biosecurity scare, as a herpes virus killed around 50 per cent of the North Island oyster breeding stock. An announcement was made that the new animal welfare standards had been agreed for the pork industry which would see the phasing out of the use of sow stalls by 2015. Agria, the cornerstone shareholder in PGG Wrightson, made a bid just before Christmas to take a controlling stake in the company, partnering with a Singapore based co-investor. The Wool Partners Co-operative share offer was extended giving farmers more time to take it up, while the Overseas Investment Office made the announcement that had long been expected that Natural Dairy would not be permitted to acquire the Crafar Farms.

Field Notes

To subscribe to Field Notes our free, weekly summary by email of media reports on the agribusiness sector in New Zealand and overseas please email your contact details to: agribusiness@kpmg.co.nz

Agenda item 1

Think in an integrated, strategic manner on a Trans Tasman basis

The New Zealand market is not large enough to fund all the investment necessary to enable our industry to take advantage of all the opportunities available to it. In areas such as R&D, food safety, biosecurity and in-market strategy the issues facing many sectors of the New Zealand agribusiness sector are very similar to those facing Australia. In some circumstances there is significant Trans Tasman co-operation (for instance food safety), however there are opportunities for the New Zealand industry to think more strategically about working with Australia to maximise the benefits that both countries can obtain from the limited funds available. A Trans Tasman cross industry group should be established to explore areas were synergies could be achieved through closer industry co-operation.

January 2011

With rain coming after Christmas the risk of drought abated around the country increasing New Zealand production. Food shortages and price increases around the world saw civil unrest breakout in the Middle East and North Africa, leading to government changes in a number of countries including Egypt. The German agriculture sector was shaken to its core by wide spread dioxin contamination in feed stocks. The initial findings of the red-meat industry strategy were released to farmers, with a focus on procurement attracting a lot of attention. Over $100 million of Primary Growth Partnership consortium investment received the go ahead in the wild harvest fishing and aquaculture sectors. Realisation was also growing in the wine sector that the industry was heading for a bumper harvest raising the challenge of oversupply again.

February 2011

Despite early season fears, strong commodity prices saw Fonterra raise its payout again, this time by 60c a kilo to $7.90. This came against a background of concern being expressed over the retail price of milk and Fonterra announcing a wholesale price freeze for the rest of the year. It was a big month for the poultry sector, with Tegel being purchased by an Asian based private equity fund for around $600 million and a new welfare code being issued for layer hens, requiring the industry to move towards the use of colony cages in the future. ANZ National Bank announced that it was merging its rural and commercial banking teams to better enable the bank to service the rural sector. It was announced that the Wool Partners Co-operative had not met its subscription targets so would not progress while there was reported to be significant interest in South Canterbury Finance's shares in Wool Services International. Synlait Milk announced the acquisition of a rival processor. The end of the month was dominated by the tragic consequences of the second major earthquake in Christchurch on 22 February, which saw huge levels of assistance provided to the citizens of Christchurch by the rural sector, led by Federated Farmers and Fonterra.

March 2011

The month started with the news that Fonterra CEO, Andrew Ferrier, would be stepping down later in 2011, from the role he has held for eight years. The Government announced a plan to merge MAF with the Ministry of Fisheries in an attempt to reduce cost and improve service. Commodity prices for all our export products continued to increase, with wool reaching a 20-year high while there was speculation that the season's dairy payout may top $10 billion. The dairy industry had to acknowledge that many farmers still have work to do to comply with acceptable environmental production standards as a report on the Clean Streams Accord showed results had deteriorated since the previous year. The global consequence of the earthquake, tsunami and nuclear crisis that unfolded in Northern Japan were on the minds of everybody towards the end of the month as it became clear that significant agricultural areas of Japan had been impacted by the disaster.

April 2011

Both Silver Fern Farms and Westland Milk announced significant investments in new production capacity in the month, while New Zealand King Salmon indicated that it would look to take advantage of the new aquaculture legislation to increase the amount of water it uses for production. Concern was expressed by the pork industry that a relaxation of fresh pork importation standards could increase the risk of importing new diseases into New Zealand. Turners & Growers commissioned a strategic review of the business as the company's long-term cornerstone shareholder, GPG Group, looked to exit its investment. A new Chinese bidder for the Crafar Farms, Shanghai Pengxin Group, was announced by the receivers and commenced the approval process while Carter Holt Harvey completed the sale of eight of the 29 dairy conversion farms that had been on the market since 2009. This was in a month when the Real Estate Institute had announced that farm sales had hit an all time low.

May 2011

Overseas Investment Office approval for further farm purchases by German investors, arranged by Aginvest, was announced. South Canterbury Finance's stake in Scales Corporation (which owns Mr Apple) was sold to Direct Capital for $44m. The Red-meat strategy was released by Beef+Lamb New Zealand and Meat Industry Association, with it being welcomed as an ambitious plan to lift industry performance. The government announced significant seed funding for irrigation schemes in a pre-budget announcement together with an intention to make equity investments in schemes in future years. The Reserve Bank announced new capital requirements for loans to the agricultural sector which are likely to increase the cost of finance. Fonterra announced an initial forecast for the coming season below the current season forecast reflecting concerns over commodity prices and the continued strength of the New Zealand dollar.

Agenda item 2

Develop an industry self insurance scheme in respect of flood damage

Flood damage and loss is a significant risk to many agricultural businesses. In some cases water storage facilities developed as part of an irrigation scheme have helped to reduce the risk of flooding however the inability to obtain insurance for flood losses in many regions of the country is a significant impediment to investment in new facilities and production capability. Consideration should be given to establishing a national, multi sector self insurance scheme on a not for profit basis, if none of the commercial insurers are prepared to cover flood risk. Flood damage insurance cover will give farmers the confidence to invest in the future of their business.

Biosecurity

Public good or private benefit?

Biosecurity was the highest rated issue in the New Zealand Agribusiness survey, reflecting the potentially catastrophic impact a severe biosecurity incursion could have on the industry.

This was graphically demonstrated in the last year as the kiwifruit sector had to respond to an outbreak of pseudomonas syringae pv. actinidiae, or PSA, disease in orchards in the Bay of Plenty and the oyster industry has had to combat a herpes incursion that has wiped out around 50 per cent of the breeding stock in the North Island. Both industries are facing significant financial impact as a result of these setbacks, which will impact their profitability for many years to come.

These outbreaks, together with the Government's proposed reforms to biosecurity legislation, have triggered a debate amongst industry leaders on whether biosecurity should be considered a public or private good activity.

The legislation proposes that industry entities partner with MAF Biosecurity in Government Industry Agreements (GIAs), working together to prevent incursions and to respond to an event should one occur. Furthermore, industries will make financial contributions towards incursion research and remediation whenever those activities have a direct and specific benefit to the industry, with the Government continuing to fund the overriding generic biosecurity and border protection activities.

This structure reflects a belief that while the New Zealand economy benefits from the generic activities, there is private benefit associated with industry specific activities and these should be partly funded by the sectors that directly benefit.

The reaction to the PSA incursion has demonstrated the effectiveness of a co-ordinated government, industry and grower response

Many industry leaders we talked with supported the principal of the GIA structure. Generally these leaders believed that there was a private good benefit associated with industry specific spending. Some in the industry have made significant investments over many years to protect the disease free status of their industry. They regard this as an important part of their domestic and international branding programmes and consider the opportunity to work with MAF Biosecurity will enable them to take their programmes to the next level.

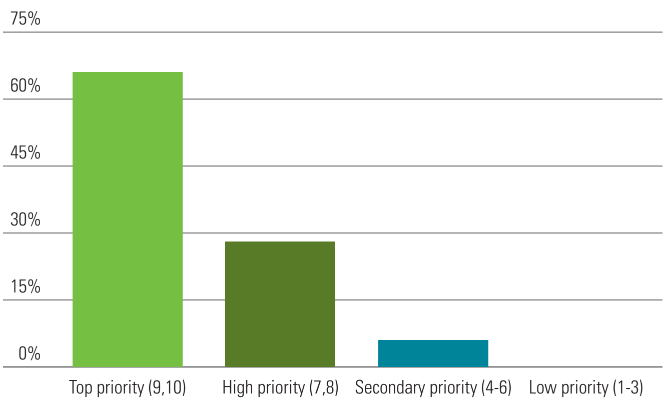
The reaction to the PSA incursion in the kiwifruit sector has demonstrated the effectiveness of a co-ordinated government, industry and grower response to an industry threat. A number of the leaders that we talked to suggested that the critical importance of biosecurity to the economic future of their business will push them to enter into agreements, to ensure they have a voice should an incursion occur.

We all benefit from biosecurity

Many leaders however raised concerns with the long-term funding implications associated with the public-private partnership structure. While acknowledging that the current government has given assurance that it will not reduce the level of public funding for biosecurity, they have no certainty that future governments will honour this commitment.

Some expressed the view that the proposals appear to have been driven more by Treasury than good science. They suggest any savings generated

Rate the significance on the future prospects for New Zealand agribusiness of:



Maintaining a robust biosecurity system at the border and taking steps to eradicate intruders when they are identified would soon be exhausted in the event of a severe incursion which an industry sector had not planned for.

The crux of the argument voiced by those opposing the GIA structure is that the economic contribution of agriculture is so completely dependent on robust biosecurity that it is too much of a gamble to leave it to a mechanism that makes some of the funding discretionary.

Challenges to investment priorities

Although our funding of reactive biosecurity initiatives is adequate, a concern was expressed that there is insufficient funding into research on contagious diseases that have the potential to reach New Zealand. Proactive research would enable us to build a base of scientific knowledge around particular threats in a New Zealand environment, so they could be better understood and contained.

The need for this knowledge investment becomes pressing as our economy becomes more open, and the risk of incursion increases. It is important from an insurance perspective that biosecurity funding is allocated to identify the diseases with the greatest potential to reach New Zealand, to ensure our scientific understanding about these threats is robust.

A challenge that was highlighted regarding our current biosecurity arrangements relates to the ability to bring new plants, cultivars and seeds into New Zealand for economic development.

While recognising the importance of biosecurity, it was noted the system needs to be flexible enough for industries to be able to source and exploit new intellectual property without the costs of doing so making such initiatives uneconomic. The need for risk assessment of new varieties to happen in a timely and cost effective manner was high on the agenda for horticulture and viticulture in particular, where we are well positioned to exploit significant innovation in international markets.

There are many diseases we do not have in this country that are prevalent around the rest of the world. This gives our customers confidence in the quality and safety of our primary product and a level of assurance many of our competitors cannot provide. It was noted that even a slight question about the disease free status of our country has been used by growers in competitor countries many times to effectively create a non-tariff market access barrier, the most notable example being the long restriction on the export of our apples to Australia.

Overall, there was a strong view among industry leaders that New Zealand can't afford not to have world class protection in this critical area, and we should maintain our no tolerance position, regardless of how the system is paid for.

Agenda item 3

Introduce a biosecurity levy on passenger and product arrivals in New Zealand to fund public good research on incursion threats

New Zealand needs to maintain a strong base of fundamental scientific knowledge on biosecurity incursions threatening our domestic environment. This allows us to respond quickly when an issue arises. At present, our investment in scientific knowledge on threats is effective, but generally reactive. We could invest more in identifying the most likely incursion risks and developing effective incursion responses. The more the economy opens up the greater the risk of incursion, and such research is a public good activity. A small levy on passenger arrivals and imported products would create a fund for proactive incursion research, improving the likelihood of effectively eradicating diseases should an incursion occur, protecting the value of the New Zealand economy, and placing the cost of incursion on those that bring the threats to New Zealand.

Growing markets

Creating plate-to-pasture solutions for customers.

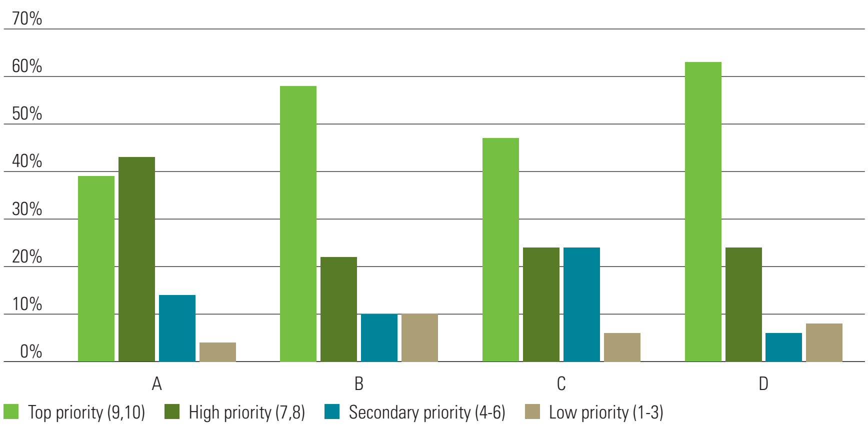
The biggest area of discussion with industry leaders was how our agricultural exporters behave in their key markets. In last year's report we noted many companies lack the level of intimacy with their major customers necessary to build strong partner relationships, deliver greater value to their customers, and greater returns to the farm or orchard gate.

Several reasons for this lack of intimacy were identified: the historic industry focus of 'production-push'; the use of intermediaries who control end-customer relationships and a lack of scale to enable investment in market development, amongst others. The clear message from our discussions this year, was that development of future industry sector strategies must start in the market and then link back to our production capabilities. This is preferable to starting with a good idea and then looking for a market.

If we are developing a solution that a customer already wants and sees value in they are more likely to pay more for it, and more quickly, than for something we think might be a good idea for them.

There were four questions in our survey regarding market behaviour. The responses showed that the issues they addressed – building market knowledge, developing solutions for customers, aligning our value chain to the end market and developing New Zealand brands – ranked in the top nine priorities for the industry leaders overall. There is recognition of what has to be done to integrate with our customers in order to maximise value, but in an environment where capital is restricted and the costs of developing in-market capability can be significant, it will take a long time for all sectors of the industry to become truly intimate with their markets.

Rate the significance on the future prospects for New Zealand agribusiness of:



A: Aligning industries so producers, processors and marketers are working towards a common goal.

B: Developing solutions in association with customers to supply higher value niche products to premium markets.

C: Developing brands in international markets to create new markets for New Zealand produce in global FMCG markets.

D: Understanding the product needs and changing eating trends of customers and consumers in premium markets.

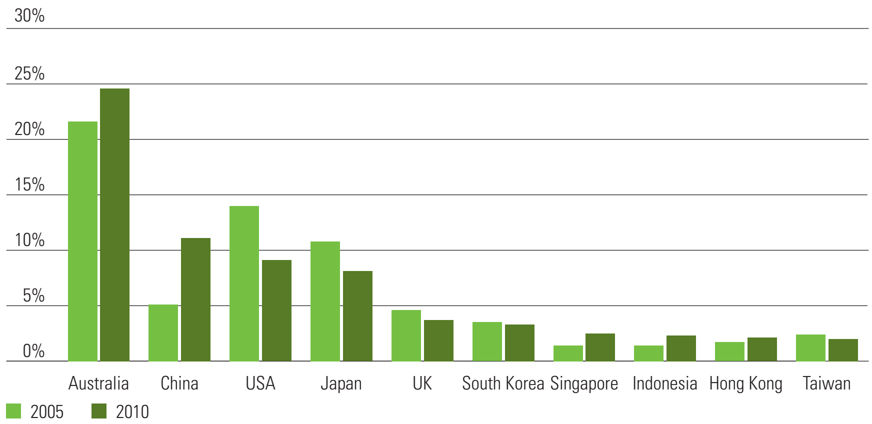
Building market knowledge

The focus of our agricultural export markets continued to shift towards Asia over the past year. Consequently the need to understand the larder or fruit bowl of consumers in China, Indonesia, Korea and India is becoming increasingly important for the agricultural sector. The Asian palate has a different taste profile to our traditional customers in North America and Europe, meaning many of the products we have traditionally produced are unlikely to appeal to Asian consumers.

Until the industry clearly understands what attributes our new customers want in their products – the taste, texture, colour, shelf life and quality – we will struggle to create any real market traction, instead, recycling products that we have historically exported to European markets. Pipfruit is one example of this. China is the largest producer of apples, but is also a significant importer, creating a market opportunity for New Zealand growers. However, the traditional varieties, such as Braeburn, do not meet the taste profile of the Chinese market. Our growers would need to make a significant investment in replanting in order to capitalise on the market opportunity, which is challenging for an industry that has seen falling returns for several years.

Understanding the market also means determining the best way to distribute

Percentage of New Zealand's total export sales - 2005 vs 2010



The need to understand the larder or fruit bowl of consumers in China, Indonesia, Korea and India is becoming increasingly important for the agricultural sector

product so as to provide the greatest returns under current trade access arrangements. This means that for some markets a lesser processed commodity may be the optimal way of shipping the product. In recent months the media has focused on demand for infant milk powders as supermarkets around Auckland have sold out of the product, much of it for export to China.

Chinese parents want to be sure about the safety of the milk powder they feed their children, creating a significant market opportunity for New Zealand producers. The challenge is determining the best form in which to export the product so that the return is maximised for New Zealand.

Consideration needs to be given as to whether a product processed at higher cost here in New Zealand and exported in finished form can command a higher price because it is packed here. This needs to be compared to a product packed at a lower cost in China using commodity ingredients imported from New Zealand (where there may be a risk, at

Agenda item 4

Establish international food and innovation incubators and innovation centres

Good ideas for transformational change in the New Zealand agribusiness sector are unlikely to come from New Zealand but will be identified by having a comprehensive understanding of the trends in our key export markets. These ideas will likely also need an in-market partner to be successfully commercialised. Creating a series of incubators and innovation centres linked to overseas universities and staffed by locals and New Zealand seconded staff will enable access to good ideas and analysis by commercial partners before we look for the intellectual property solution or supply chain answer in New Zealand. The model creates a pull through to our suppliers from the market rather than us trying to push an idea which could be great from New Zealand perspective but not wanted in-market.

least in the mind of the parent, that the product could be tainted at packing). Answering such questions requires an in-depth understanding of how the customer thinks. Ultimately this requires people to be integrated within the market, working with customers on a day-to-day basis to design the best solutions for them.

Having people assimilated in the market also makes it easier to identify and interpret new market trends as they emerge. The shift towards eating foods that have recognised health benefits was identified by a number of industry leaders as one that is important we understand and respond to. This trend, which is particularly prevalent in the Asian region, requires the industry to understand and promote the health attributes of the products they produce in specific terms so as to add value to a product. It is no longer good enough to sell a product on the basis that it tastes good, or that it comes from New Zealand. We need to be able to clearly explain the health benefits to be gained from eating the product on a regular basis.

The old adage of 'an apple a day keeps the doctor away' will no longer cut it, we now need to tell the consumer which specialists the apple will assist in keeping away and what other lifestyle benefits the product will deliver.

The key is getting into a mindset that a value-add solution can be any product if it is delivered in a way that meets a customer's specific requirements

In New Zealand we have often developed an active ingredient with health properties, for instance an enzyme extracted from milk, rather than the actual end product. To maximise the value of such innovation we may need to find partners that have the scale and resources to commercialise the idea using their existing brands. Determining the right ally will be helped by better knowledge of potential commercial partners.

Developing solutions for customers

With greater knowledge about the trends in key markets and the opportunities that these create, the next step for the industry is to integrate more with customers, so that our exporters are able to develop the solutions they need. This requires the industry to take a step back from the trader mentality that has developed over the last 30 or so years and avoid thinking about what we produce as nothing more than an input into another value chain. Whether we are delivering fresh salmon to a restaurant in New York, Angus processing beef to McDonald's, or custom designed milk powder to a food producer in China, in each case we should think of the product delivered to be a solution tailored to the needs of that customer, and extract the maximum value that we can from the solution. If processors develop a tailored solution to a customer that delivers value to them they will be prepared to discuss their future plans with the company and develop a partner relationship.

In many cases the way to add value to a product is to do little, as the incremental processing cost incurred

Agenda item 5

Structuring value chains to meet and exceed customer expectations

New Zealand agribusinesses should be working from the customer backwards – understanding customer requirements for simplified supply chains, year round supply, consistent quality and co-operative marketing, and learning from the model that ZESPRI has developed in the kiwifruit sector. We need to think about what creates value for customers – consistent brand, supply, quality and taste – and structure our supply changes to consistently deliver these to the market. We need to work with our customers to create a little bit more value for them than our competitors are able to do through the unique elements of our supply chain.

Agenda item 6

Develop strategic plans to maximise 'whole of production' value

Industry participants need to think carefully about the value we have not unlocked from our primary production and work out how we get more out of each component of an animal. Realising the value from all components of an agricultural production process ensures that maximum value is extracted for the producer and processor. For instance, colostrum is only collected from a small percentage of farms yet it is a high value functional food solution. More value could be extracted from skins and bio-energy could be derived from effluent. Industry bodies should be working to develop a whole production strategy, in partnership with customers and research institutes, to maximise the value created.

to change a basic product into something more complex will never be recovered if the customer sees less value in those activities or can do them cheaper themselves. An example is fresh fish: the most valuable fish is one caught fresh and sold that day whole to a customer who will use it that night. Successfully achieving this is difficult for a New Zealand fishing company to achieve when the market is in Sydney, Melbourne or Hong Kong. In this case, value is created for the customer in the way the fish is caught, handled and distributed rather than in the processing.

If each industry sector considers the value that can be created by thinking of their product as a solution to a customer need rather than a commodity, it changes the approach taken in discussions with customers. It prompts the industry to think about the best way to supply a product to meet the customer's need, rather than cheapest, quickest or most convenient way for the industry to sell the product. This has the potential to add real value from the products we supply.

Aligning the value chain to the end market

Aligning industry structures to deliver solutions that create value for customers is likely to require behavioural changes within industries in New Zealand. New Zealand Merino has worked very hard to align the growers to the end consumer and has had significant success in doing so. The growers understand the importance of what they do – producing a sustainable, natural product – and how this supports value when it is used in a product like Icebreaker. By contrast, growers in the coarse wool sector have generally lost connection with the product at the farm gate, have had no involvement with the final customer and ended up as little more than a commodity supplier of greasy wool. The success of the merino sector compared with the tribulations of the coarse wool sector is a clear demonstration of the benefits that can be derived by aligning the value chain from grower to customer.

Merino New Zealand is not the only organisation that has clearly linked producers to the market. Many of the industry leaders we spoke to gave similar examples within their companies. These include producer clubs and groups that are being linked to servicing specific customer contracts in the meat industry, or the grower co-operatives in the vegetable sector forming close supply relationships with overseas supermarkets to protect their selling windows. The challenge for many is that the ability to build these value chain relationships is stymied by the fact that historically they have sold to intermediaries or wholesalers rather than the end customers. They consequently do not have a relationship with the ultimate customer.

Supply relationships based on factors other than just price, are developed by creating associations directly with the end customers. Such alliances will help a company determine what products to produce and where. The mutually beneficial solutions will be obvious to both parties, and will bring value back to the farm or orchard gate.

Developing New Zealand brands

Of the four branding questions that were asked in the survey, the one relating to development of New Zealand owned and controlled brands was ranked the lowest priority. This is partly due to concerns industry leaders have about the time and cost commitment required to develop a brand in the modern market. The most iconic agricultural brand we have in New Zealand is Anchor. This was developed by a producer board at a time when there were significantly fewer media channels to cover and less choice on supermarket shelves. The maintenance of a respected legacy brand, such as Anchor, requires significantly lower levels of investment on an ongoing basis than creating a brand from scratch.

This prompted industry leaders to suggest several ways of branding New Zealand agricultural product in a cost effective way. A widely supported option was to build on the 100% Pure New Zealand brand that has been developed around the tourism sector, and which has become a defining message about what being a New Zealand person or product is all about. Our discussions during the year have indicated that the Government is unwilling to open up the use of the 100% Pure brand beyond tourism, and so the onus falls on individual

Agenda item 7

Collaborate to avoid market failure arising from a failure to market

The wool sector is a prime example of the need to understand the consumer's interest in sustainably produced, high quality New Zealand fibre and our provenance story that the component price of the fibre is but a small element of the cost of the end product. Manufacturers can sustain a price increase for fibre if its positioning promotes the end product, carpet or garment, higher up the consumer's value perception. Industry collaboration in marketing the quality and virtues of our agricultural exports, such as fibre, wine, meat and dairy has the potential to provide higher returns throughout the value chain.

companies to look at smart ways to leverage the inherent global brand recognition that New Zealand has as a clean, green and safe place for food to be produced. It may be that the only brand New Zealand products need is 'New Zealand' and the investment required is in ensuring that the systems and production standards underlying the product are robust and eliminate the risk of skeletons rattling out from the closet at some point in the future.

The second suggestion was to work with commercial partners to build brands in a linked way. For example, a partnership could be developed with an international supermarket chain to provide shelf space for a branded product in return for receiving locked-in supply of unbranded product that could be sold under a house brand. This is the approach that a number of wine companies have taken in recent years to address the oversupply issue – being prepared to provide bulk or house brand wines to supermarkets in return for shelf space for their branded products. Consequently the marketing investment for the branded product is not to convince the retailer that they should give the product shelf space, but rather the branded product can be incorporated into the supermarket's promotional programmes and encourage traffic into the supermarket by convincing consumers of the quality, taste and provenance of the product. Such an approach has a potential multiplier

It may be that the only brand New Zealand products need is 'New Zealand' and the investment required is in ensuring that the systems and production standards underlying the product are robust

effect that may attract other retailers to stock the branded product if it gains market share.

Regardless of the investment made in brands, the key point that industry leaders returned to was that without intimate and integrated relationships with customers we will always struggle to add value beyond a commodity return. As one industry leader explained it, it is all about having a dedicated sales team working closely with customers so that when a restaurateur places their product on the menu, they describe it with a few lines of poetry making it the most compelling dish available to a diner that night.

Agenda item 8

Consolidate genetic improvement in the red-meat sector

Agricultural sectors that have seen significant genetic improvement have usually had genetic research concentrated into a limited number of entities (the dairy sector in New Zealand or the global poultry industry for example). The red-meat sector in New Zealand has more than 100 entities that are working to improve herd or flock genetics. While there has been genetic improvement over the last 20 years, this could have been more significant if there had been broad collaboration in the industry. The cost of improvement is increasing, particularly as it needs to be aligned to evolving market requirements. Consolidation amongst the genetic entities in the red-meat sector could reduce overhead cost, increase the amount of money available to be spent on scientific and market research and focus improvement to deliver greater gains to the red-meat sector.

Industry Focus: Integrating with our customers

Meat

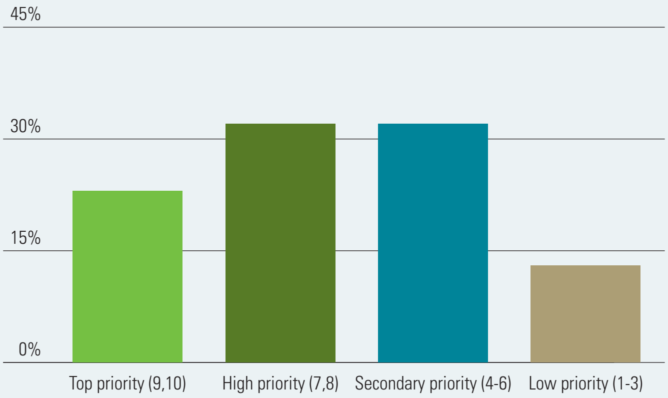
Approaching markets to maximise value.

There were few conversations held in preparing this report where the future of the red-meat industry was not raised or solutions for its long-term success offered. The section in last year's KPMG Agribusiness Agenda that suggested that the industry was "at the top of a slippery slope with little collective will to change its long-term course, despite there being widespread understanding of the need for change" generated a significant response from industry leaders which has given us the opportunity to gain deeper insight into the opportunities and challenges for the meat industry.

Calls for the Government to legislate the creation of a 'meat sector Fonterra' thereby creating a single point of export are too simplistic a solution for the industry. Such calls ignore both the existing ownership structures and the different strategies that individual companies have adopted, all of which are valid for their particular circumstances. In response to the question on single point of export structures in the New Zealand Agribusiness survey, the respondents were fairly evenly spread as to the priority they attached to the issue. However it was notable that meat sector respondents ranked it a lower priority (average score of 5.2) than dairy sector respondents (7.6) and the industry average of 6.7.

The tight global supply of lamb and the pressure on beef prices driven by the global cost of grain, means that financial returns in the meat sector are better this year than they have been for many seasons. Improved financial performance provides the opportunity for the industry to invest proactively in the future but can also create complacency. The first step the industry has taken, in partnership with the government, is the development of the Red Meat Strategy[1] which was released in early May. The strategy addresses three key themes: market co-operation, procurement, and on-farm practice, which have been identified as areas where the industry is leaving significant value on the table. The strategy will direct industry good activity in coming years. From our conversations the hope was that funding will be

Rate the significance on the future prospects for New Zealand agribusiness of:



Development of more single point of export structures to reflect the challenges New Zealand companies face competing in international markets

1 Deloitte; Red Meat Sector Strategy Report - Beef + Lamb New Zealand Limited/Meat Industry Association of New Zealand; March 2011.

Agenda item 9

Investigate stock ownership models that deliver processors greater certainty of supply

The poultry industry has become a highly efficient protein producer, partly as the processing companies tightly control the supply of birds (ie they own the birds and contract farmers to raise them to a defined timetable using specified inputs) which ensures a consistent supply of birds to the processing plant, maximising efficiency. Given the challenges the lamb industry faces in filling orders, a processor controlled stock ownership model could address some of the industry issues, support investment in genetics, and enable processors to enter into wider relationships with customers, through flattening the supply curve. This may not require direct ownership of the stock but could be through a stock financing arrangement that gives the processors greater ability to determine when farmers sell the stock into production in return for discounted finance.

predominately directed towards on-farm developments and extension, leaving the marketers to make investment in market development.

Despite the better returns experienced this season, the industry still faces some significant structural challenges: excess processing capacity split between many small sites; plants that operate at efficiency levels well below world best standards; low levels of investment in new technologies; and a poverty mentality on farm after years of being out performed by the dairy sector. These issues are compounded by the fact that the industry has spent much of its time competing in international markets on generic product features rather than selling the unique features that a particular processing company is able to offer (such as the brand that sits behind the product; its taste, texture and quality; the point of sale presentation of the product; or the logistics of getting it to market quicker to provide a longer shelf life).

Industry consolidation can only happen if a proposed transaction makes commercial sense to the companies involved and their shareholders. As with any commercial proposal, progressing industry consolidation will depend on the merger benefits and synergies that can be derived from a transaction through areas such as operational cost savings, marketing initiatives and new product development. A common view expressed was that the development of deeper, trust based relationships between the processing companies and loyal, long-term shareholders has the potential to drive change in the industry far more successfully than any partial consolidation.

Deeper trust based relationships between the processing companies and loyal, long-term shareholders has the potential to drive change in the industry far more successfully than any partial consolidation

Deeper supplier/processor relationships would enable the processor to work more closely with the farmer and assist in developing their on-farm practices to deliver the product to the market when the market requires the product. Such a relationship would promote trust on the part of the farmer that the price they are paid for their stock is directly linked to the quality of product they deliver (and consequently the price that the processor is able to sell it for).

It would also mean the processor can eliminate overhead costs associated with excess capacity as they could plan production more efficiently. The relationship could even extend to the processor helping the farmer finance their stock holdings, further allowing the processor to work with the farmer to get the product into the processing plant at the right time.

There are circumstances when it may make commercial sense for the processors to co-operate in market, but there are also situations when

going to market with a single face could be value destructive. The key to getting the right commercial approach is for the sector leaders to look at any opportunity with an open mind and assess it from the perspective of maximising their shareholder value. This may include consideration of their current relationships in the market and the market structure, the fit of their product offering and that of competitors to customer requirements, the costs associated with market development, and current and likely behaviour of competitors in the market (both from New Zealand and offshore). A balanced assessment of their own companies' strengths and weaknesses in respect of a particular market will determine whether a go it alone, avoid or collaborate approach will maximise shareholder value.

We expect that as initiatives such as the Primary Growth Partnership promote the benefits of collaboration and co-operation across the industry we will see more joint market initiatives. However, the key for any company taking a long-term view of the market is having the confidence that they will receive the stock they expect, when they expect it, and that it is up to the quality their customers require. Again, it comes back to having long-term relationships with their suppliers based on trust.

The strong message that we have gleaned from our discussions is that it is not the structure or market strategy of companies that needs to change, but the culture of the industry particularly amongst farmers. It must be recognised that both the processor and the supplier need to invest in an exclusive relationship (both financially and emotionally) which will experience good and bad times but by being loyal to each other they will both benefit in the long run. Farmers need to pick their processor based on the company's strategy, a belief that they will do the best job in maximising value for them, the desire to have an ownership interest (or not), or any of a hundred other reasons, and work out how they can support that processor and in turn how the processor can help them improve their business.

Visualise the New Zealand meat industry with farmers committed to their processor's strategy, responding to market signals and positive about new opportunities. It could redefine how to produce and market premium red-meat globally.

Sustainability

Ensuring a consistent approach to protect our reputation.

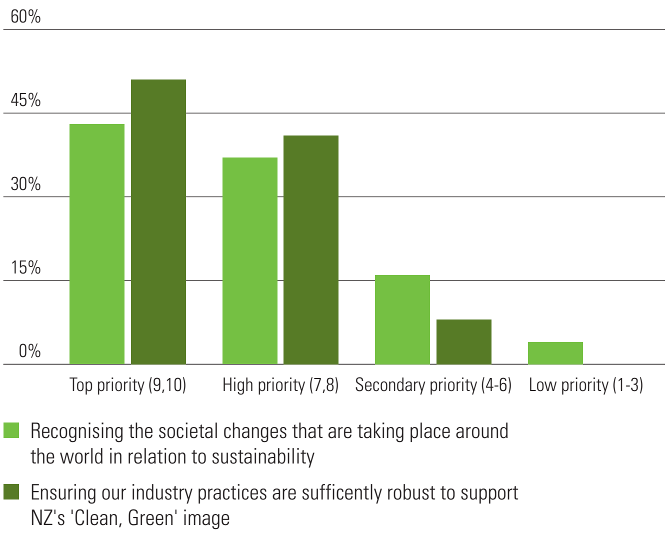
The most challenging question that came out of last year's Agribusiness Agenda was "what do you mean by sustainable" and as a consequence in November we released a green paper "Sustainability in the agribusiness sector" that began to address the question[1]. The two sustainability questions in the New Zealand Agribusiness Survey both ranked as high priorities for industry leaders, with the need to ensure that production standards are sufficiently robust to support New Zealand's 'clean, green' image ranking as the higher priority.

The 'clean, green' tag that is attributed to New Zealand is a significant benefit to the agriculture sector. However the reality of the tag is coming under intense scrutiny internationally, making it critical to clearly define what 'clean, green' means, and put in place mandatory standards for all industry participants to meet. The problem the industry faces is one of definition. There is no standard on what constitutes best, or even acceptable sustainable practice. The definition of sustainability has been left to the market to establish and this has created a situation where a sustainable supplier to one customer may not be a sustainable supplier to another customer, as they have different production standards that they require suppliers to meet. Clarity on what constitutes best practice sustainable production in a New Zealand environment is something that requires cohesive industry-wide action as a matter of urgency, before the current confusing conditions have material impact on profitability in the industry.

We must be prepared for our customers in Asia to rank sustainability as an important influence in their buying decisions

Industry leaders also indicated that an understanding of how international markets are thinking and acting around sustainability is important for the future of the sector. Often, the presumption is made that we will be predominately supplying the developing markets in Asia, and they have little or no concern about sustainability. This is a dangerous falsehood that could prove expensive in the long run if not challenged. Recognition of the importance of growing in a sustainable manner is very well understood in China, where they have been dealing with the environmental consequence of intense urbanisation for a number of decades. As a result, the Chinese Government has set some challenging targets for the country around sustainability in its latest five year plan. We must be prepared for our customers in Asia to rank sustainability as an important influence in their buying decisions in the

Rate the significance on the future prospects for New Zealand agribusiness of:



1 KPMG New Zealand; Sustainability in the agribusiness sector; November 2010

same way our traditional customers in Europe and North America have done. That said, sustainability is not yet the key determinant of whether a deal is made, with other factors (most notably price) still given higher priority by many buyers.

Responding to competitors effectively

If competitors believe New Zealand is generating a competitive advantage from our ‘clean, green’ reputation, they will work hard to counter any benefit we have through adopting their own sustainable production techniques. Our competitors are talking to the same international customers and getting the same messages about sustainability. They are already investing in production techniques to increase their ability to supply sustainable products. Many industry leaders also noted that competitor countries are adopting sustainable techniques in response to customer pressure without the need for an ETS scheme. Consequently, we need to leverage the ETS to generate a competitive advantage.

While some industry leaders recognise that the ETS scheme is important in order to be seen to be doing something in respect of carbon reduction, the overall view remains that the scheme is a collar on the industry. It is felt that it will do nothing to change behaviour unless the costs of the emissions of individual emitters are charged directly to them. There is real concern that ETS is creating a regulatory environment that is far more extensive than our competitors’ and has the potential to penalise the industry as we approach 2015 and the full inclusion of agriculture in the scheme. If the ETS is not changing behaviour or providing any competitive advantage for New Zealand in international markets it is just another tax. Consequently, the Government needs to carefully review the policy framework as it is unlikely to have been designed correctly and needs to be changed.

Agenda item 10

Standardise commercial sustainability requirements into a generally acceptable code

Our conversations have regularly highlighted the challenges that many New Zealand agribusiness processors face when dealing with different sustainability requirements imposed by their customers around the world. Many of these requirements are based on the market positioning of the customer rather than good science or economics. An industry taskforce should be established to analyse the sustainability requirements of international customers, as well as best practice sustainable production standards in New Zealand conditions. A sustainable production code can then be developed which is acceptable to customers (perhaps with a number of different sustainability levels). Farmers who supply customers who consider that the code meets their requirements would then be able to pay a body such as AsureQuality to perform a certification audit which would be accepted by their customers. This would minimise the time and cost associated with various different customer certifications, and make it easier for a farmer to produce in a best practice sustainable way.

Agenda item 11

Set aspirational carbon budgets for each sector of the New Zealand agricultural sector

The UK Climate Change Act includes carbon budgets for all sectors of the economy. The farming sector in the UK has aligned with the wider economy (“Part of the Solution” report by NFU, Country Land and Business Association). We should have a view of what carbon use should look like in New Zealand agriculture in 25 years time and develop sector specific plans to achieve these targets. Carbon charges should be based on the path to achieving the budget and penalise those farmers that do not take the steps to deliver the vision.

Creating new market opportunities

Customers who are prepared to buy sustainably produced products create opportunities for New Zealand farmers and growers to establish unique market niches based on their sustainable production techniques. A number of the industry leaders that we talked to indicated that there were opportunities for their sector to position itself as a carbon neutral producer, giving it a unique global market position, while others indicated that the trend towards sustainable purchasing made adoption of biological or organic farming techniques a better option for New Zealand.

Achievement of carbon neutral production would however require significant investment and research in farming techniques (for instance the effectiveness of feed conversion), effluent management, and greater understanding of the end to end product lifecycle. It would also involve work with associated supply industries. For example, with grain producers to ensure that they are able to grow and deliver the correct grains into the stock feed industry.

Sustainable production is not just operating with awareness of the environment, but in a manner that enables the industry to continue to farm on an indefinite basis while generating an adequate return on investment. Therefore it is important that ETS policies are settled sooner rather than later, in order to provide the industry with investment certainty and confidence as to our sustainable agricultural provenance. Without this certainty opportunities to develop the industry may be missed.

Agenda item 12

Review and align the Government's carbon related initiatives in an integrated strategy

Initiatives surrounding ETS do not sit well together, with many of the incentive schemes being piecemeal and not part of a co-ordinated policy framework. New Zealand must not get ahead of competitors to the extent that we penalise our most important industry and make it uncompetitive. Initiatives have to be designed to reward farmers that make significant changes to their own farm behaviours in order to reduce their net carbon impact, and this is not achieved by the current piecemeal approach. There needs to be a platform for investment certainty, therefore all policy surrounding climate change should be reviewed when it is clear what the post Kyoto rules will look like. There is a need for significant work to be done so that participants in the agricultural sector can understand the opportunities available for them to benefit from the policies that are in place. An annual carbon farming guidebook should be produced by MAF so farmers can make a comprehensive assessment of the investment opportunities available for them to maximise returns from their land using government carbon farming related initiatives.

Agenda item 13

Carbon neutral proteins – a unique market position for New Zealand premium products?

If ETS does not change behaviours it will represent nothing more than a financial imposition on the industry. ETS has highlighted the financial impact that not managing emissions will have on the industry if it is accepted that there is a cost to carbon. Is it realistic for New Zealand producers to target carbon neutral proteins to create a new sustainable market sector to appeal to consumers in New Zealand export markets? This is a realistic opportunity for a number of industry sectors, and with targeted research and appropriate offsetting could be investigated to see if it would create a new market niche that delivers a premium over 'sustainably' produced proteins.

Industry Focus: Sustainability

Organics

An international opportunity we do not recognise in New Zealand?

Organic farming is a minor activity in New Zealand, and the few industry leaders that referred to it generally regarded it as little more than an artisan component of New Zealand's agricultural industry. The main reason for this was the yield penalty that is perceived to exist with organic production, of around 10 per cent compared to conventional production, which the price premium does not compensate producers for.

This perspective is in contrast to other countries, where organic farming has become an economically viable part of the agricultural production mix.

New Zealand's clean, green image and reputation for sustainable production, means we can maximise opportunities for organic products globally

This is largely driven by high net worth consumers, who are prepared to pay more for products free of potentially harmful agrichemicals, and perceived to be healthier for their families.

In the UK for instance, around 4.2 per cent of productive agricultural land is being used to produce organic products, with organic product sales totalling approximately £1.73 billion in 2010 [1]. The organic industry in the US had sales in 2010 of US$28.6 billion, growing by 7.7 per cent in the year, compared with total food sales growth (all categories) of less than 1per cent [2]. As we noted in last year's KPMG Agribusiness Agenda, the development of targeted organic retailers, such as Whole Foods Market, is creating direct to customer opportunities for organic retailers across the US. The situation in New Zealand reflects the artisan view held by many industry leaders, despite sales growth of New Zealand produced organic products of over 60 per cent between 2007 and 2009 which represented around 1.8 per cent of total agricultural production [3].

The organic sector is facing a significant challenge in this country. The funding granted by the last Labour Government to establish and operate Organics Aotearoa New Zealand will soon expire, and the current government has not granted replacement funding. Consequently, an extension service that was being operated for organic farmers or those considering conversion has already been lost, and the sector leadership may well become enthusiastic amateurs in the future.

Given that organic products already generate export revenues of over $170 million, with well established markets in lamb, kiwifruit and pipfruit, as well as a growing dairy offering, it appears that the industry could be missing an opportunity to produce niche products that high net worth customers from around the world will be prepared to pay a premium for.

New Zealand's clean, green image and reputation for sustainable production means we can maximise opportunities for organic products globally. To support the sustainable market position that is so central to New Zealand's agricultural future, the industry should work towards a point where organic and conventional systems converge, creating more sustainable practice for New Zealand agriculture as a whole. This should present opportunities to overcome the yield disadvantage in organic production.

Agenda item 14

Explore the true market opportunities for the New Zealand organic sector

New Zealand has developed organic export markets in dairy, kiwifruit, lamb and pipfruit which have seen exports grow significantly in recent years. The organic sector has seen greater growth than conventional agricultural during the GFC. The problem for the sector in New Zealand is that it is regarded as niche. Internationally we are seen as a sustainable producer, which creates market opportunities for New Zealand organic products. The Government has no policy on organics and we could therefore be letting a market opportunity pass which might create value for New Zealand. In the absence of a cornerstone investor in the sector, the Government should initiate a project to explore the potential international market opportunity for organics, and guide development of an organic agricultural policy if deemed beneficial for the wider New Zealand economy.

Agenda item 15

Support research and extension for development of the New Zealand organic sector

Currently there is little research on effective operating protocols for the organic sector. This partly reflects reluctance to instigate organic farming, and also the fact that commercial research funding is directed towards conventional agriculture solutions. Organic farmers pay industry levies which are generally used to fund research and extension in conventional agriculture, with limited benefit to the organic sector. If levies paid by organic farmers are pooled and matched by government funding (from the Sustainable Farming Fund) resources would be directed to industry good research and extension for the organic sector. Funds could be used to create tools which would help organic farmers better manage their land and ensure that they have the techniques to build sustainable ecosystems.

1 Soil Association, UK; Organic Market Report 2011; 2011

2 The Organic Trade Association, USA; Press Release – US organic industry valued at nearly $29 billion in 2010; 21 April 2011

3 KPMG analysis; Organics Aotearoa New Zealand; New Zealand Organic Report 2010; 2010; Ministry of Agriculture and Forestry/ Statistics NZ; Gross Agricultural Revenue Estimates; 2010

Industry Focus: Sustainability

Wild harvest fishing

An industry living under the microscope of sustainability day-to-day

A customer meeting in the wild harvest fishing sector would rarely take place without the issue of sustainability being raised. When we published the KPMG Agribusiness Agenda 2010, it was the wild harvest sector that highlighted the challenge of defining what is sustainable, due to the wide range of opinions that exist on the way fish are caught or the quantum caught in a year.

The key driver of sustainability in the wild harvest sector is the ability to fish in a profitable manner now and in the future. Hence, management of our fisheries is critically important, as is ensuring our customers understand and have confidence in our fisheries management system.

Management of our fisheries is critically important, as is ensuring our customers understand and have confidence in our fisheries management system

The industry faces continuous challenges to its operational sustainability. In the last year questions have been raised about the impact on the fishery of using foreign charter vessels, the long-term future of the Orange Roughy fishing, and the impact on the sustainability of the inshore fisheries as a result of creating additional water space for aquaculture.

The industry's ability to rely on the Quota Management System (QMS) operated by the Ministry of Fisheries to provide certainty of fishing practices and catch quantities is central to any discussion. The reliance that is placed on the QMS to provide assurance concerning the sustainability of a fishery should be examined, because decision making is currently a political process. This means that decisions are influenced by economic or environmental considerations rather than by independent consideration of all the evidence available.

Our wild harvest QMS process has been rated to be amongst the best in the world by global experts. However, to protect that reputation and enable the process to be truly independent, it may be time to move its operation from the Ministry to an independent commission that will focus on ensuring the economic and environmental sustainability of the fisheries.

Agenda item 16

Establish the Quota Management System (QMS) as an independent commission

With the merger of the Ministry of Fisheries into MAF, it is an appropriate time to review the QMS. The current system relies on ministerial decisions and lacks the perception of independence. It allows opportunities for environmental campaigners to challenge the system and its credentials. In wild harvest fishing, sustainability of supply is a key issue for customers and the challenges to QMS can taint the environmental credentials of New Zealand caught fish. Moving the operation of QMS to an independent fishing commission comprised of representatives of environmental NGO's, Māori iwi, recreational fishing groups and commercial interests as well as policy analysts and scientists, would create an environment where catch settings are clearly independent and reflect the balance of achieving sustainable fisheries with appropriate economic return.

The key driver of sustainability in the wild harvest sector is the ability to fish in a profitable manner now and in the future

Extending on-farm performance

Focusing on the use of technology on the most productive farms.

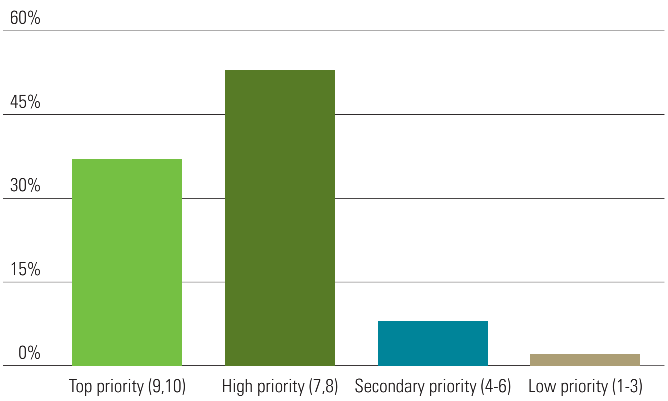
The recently released Red Meat Strategy identified that one of the biggest opportunities for the red-meat sector lies behind the farm gate, through improved farming practice. This theme has come through loudly – not just from the red-meat sector leaders, but most industry leaders. In fact, many believe that the largest prize for the industry is in intensifying production behind the farm gate through greater use of technology, increased data monitoring, a focus on extension, improved genetics, and investment in irrigation.

Many leaders point to the huge difference in performance between the strongest and weakest farmers as a major indicator of the unrealised potential of farms in New Zealand. However, they recognise that getting the individuals involved to recognise it is their own actions rather than an industry issue that is primarily costing their business money will be a significant challenge. Many will be unwilling to accept they are part of the problem and unwilling to change their behaviours.

The inertia of an ageing farming population, particularly in the red-meat sector, engenders a risk that farmers may be resistant to change or be unwilling to adopt new technologies in order to take advantage of the opportunities that are available. The challenge for many industries is to establish a culture that embraces new technologies and adopts them quickly. Industry leaders in general consider that the dairy industry is quicker to adopt new practices than other sectors. They point to; multiple touch points a farmer has with their processing company; an industry good body that has worked co-operatively to develop farm improvement solutions the industry needed; proactive investment in applied sciences; the availability of operating statistics to support real time decision making on farm; and an entry route into the industry through share-milking arrangements that makes it easier for young people to get on the ladder towards farm ownership. Even with these advantages though, farm performance in the dairy sector varies significantly, as can be seen with inconsistent compliance with effluent management rules.

A number of industries realise that to initiate cultural change, on farm extension schemes have to be rethought and reinvigorated. There is a view within the industry that extension has not worked effectively since the MAF extension service was disbanded, and that the industry is unlikely to deliver optimal extension without government intervention. This is because some of the areas covered are as much for public, as private, good. It was suggested that the delivery of extension services over the last 20 years or so has been a failure, costing the economy billions of dollars in lost productivity, and eroding the productivity advantages New Zealand held over competing producers. The

Rate the significance on the future prospects for New Zealand agribusiness of:



Implementing effective mechanisms for extension of innovation to on-farm practices

Agenda item 17

Debate the role of more intensive farming techniques in New Zealand agriculture

There has been much debate in recent years about the role of tightly managed, often housed agricultural systems in New Zealand as they contrast greatly to traditional pastoral farming systems. The industry is under consistent pressure to increase production to meet demand but there is resistance from local councils to grant resource consent to intensive farming schemes. The issue is a point of tension between the industry and the wider population and needs to be debated in a constructive manner. Guidelines need to be established around intensive systems to provide investment certainty to industry participants.

loss of extension services has been compounded by a change in the composition of farming communities – land ownership becoming increasingly concentrated and corporatised, has made the sharing of information over the farm gate less common. Consequently the informal extension of successful practices in local areas is being lost.

There is widespread agreement that extension in the future must be done differently, and a strong preference has been expressed for focusing extension efforts on the upper quartile of farmers. These farmers are more focused on adopting and maximising the benefits from new technology to improve their business. Directing extension efforts towards this group creates role model operations on a larger scale than is currently the case. The logic is that as the best operators get better and improve the returns they are generating from their business, other farmers will either seek to emulate them by investing in their farms and adopting the technologies, or will decide that they are not prepared to make the investment necessary and seek to maximise their exit value by selling to a top quartile operator.

Productivity will consequently improve steadily throughout an industry sector, together with a degree of consolidation into larger farming operations, creating an opportunity to secure the benefits of scale.

Many of the developments that are expected in agriculture in the next five to ten years will revolve around the adoption of technology on farm, and use of data-based decision systems to deliver greater productivity. These operating strategies are collectively referred to as "precision agriculture". For red-meat farmers the data creation has to be initiated on farm and is harder to obtain than in the dairy sector. Consequently, it will be a greater challenge for red-meat farmers to see the immediate return on investment from adopting data based farming.

Despite the effort required, it is widely believed that significant industry benefits can be realised by measuring, monitoring, and responding to real time data on an everyday basis. The availability of animal specific production data on farm is becoming an integral part of the dairy industry. When linked with production information provided by the processing company, this means that farmers who monitor business metrics can make targeted investments in supplementary feed or fertiliser, change the milking profile of specific animals, or target effluent spreading to boost productivity. They can then monitor the results of such actions in the days following. Precision agriculture enables farmers to pull a particular lever and view the results on a real time basis. The

The huge difference in performance between the strongest and the weakest farmers is a major indicator of the unrealised potential of farms in New Zealand

Agenda item 18

Proactive extension mechanisms with a focus on the best performers

While some sectors of the industry have established effective extension mechanisms that deliver information to farmers (dairy, wine, kiwifruit) many sectors have not focused on the role knowledge can play in improving farm performance. There has also been a trend to focus on the average farmer. Greater focus needs to be placed on extension, and the Government has a role to play in this, but attention needs to be directed towards helping the best performing farmers get better, thereby providing other farmers with a benchmark to aim for, or encouraging them to leave the industry so that their land can be managed by farmers better equipped to deliver more from it. The gaps between the best and worst performing farmers are significant, and this gap is widening as better farmers utilise technology to further improve productivity. The industry should focus on helping the best farmers become global leaders in their respective sectors thereby raising the bar for the whole industry.

adoption of these technologies is likely to be game-changing to many farmers. They have the potential to create huge uplifts in production and financial return. However, they require significant investment to adopt, and a high degree of professional skill and commitment in order to extract maximum value.

A view was also expressed that the use of technologically advanced farming practices may leave some traditional farmers struggling to keep up with the best farmers. Consequently there is an increasingly important role for professional management in New Zealand farming operations, as the skills that a modern farming business requires may not be inherent within the owners or the family. This places an onus on the farm owners to seek out the right people to run their farms (if they lack the skills themselves or are unwilling to invest in training to use data based management systems), or ensure that they have the right adviser or consultant working alongside them as they develop their farming practices. It is vitally important that farmer consultants and advisers continually invest in up-skilling their staff in new market practices, as they have an important role in extending new technology to assist the industry to extract unrealised potential from behind the farm gate.

Wider participation

One feature that stood out during our discussions was the lack of cross sector integration of farming intellectual property, meaning technology that we already have in New Zealand is not always being utilised by all the sectors that could benefit. This reflects the silo approach that has characterised farm extension in recent years. As a result, an innovation that DairyNZ has developed and extended to the dairy sector to improve the quality of pasture growth, may only be getting used on a piecemeal basis in the red-meat sector, by farmers who also have dairy operations. There is currently no one organisation mandated to ensure a good idea in one sector is applied industry-wide. This is a function that MAF (or the Ministry for Primary Industry) could perform as a public good service for the benefit of the economy. A number of leaders noted that sharing of best practice innovations should be a high priority for the new ministry, in order to quickly capture some ripe opportunities.

As well as a view that MAF must have a role in extension, it was also suggested by some leaders that the processing and marketing companies should have a greater obligation to be involved in extension, particularly in the red-meat sector. These companies, have the best understanding of what customers are looking for in respect of the taste, texture, colour, health benefits and shelf life of the product, and thus are best positioned to deliver these messages to farmers, together with detailed advice on how farming systems can be enhanced to provide greater certainty of achieving desirable outcomes. The challenge for companies, particularly in the red-meat sector, is the lack of loyalty farmers demonstrate in supplying stock – meaning a large investment in extension may benefit the farmer but provide little or no benefit to the processor if a competitor happens to be paying a higher price on the day that a farmer decides to sell. So, for processing and marketing companies to commit to a role in farm extension, there needs to be greater loyalty of supply from a farmer to that company, so they effectively work together in order to create value for both entities.

Increasing intensity

The other factor that came up on numerous occasions was the need to achieve greater intensity of production on farm. This can be prompted by many factors: more effective water management; improved genetics; genetically modified pasture technologies; partial or fully housed feedlot systems; and larger scale farms. In theory these are easy remedies for the industry, however many of these drivers of intensification have potential social, environmental, and economic impacts on the land and local communities. Consequently it is not surprising that intensification of farming systems has attracted a lot of media attention when schemes have been proposed. In addition, it is often the intensive farming systems, particularly pork and poultry, that have attracted attention because of their perceived impact on the welfare of animals, despite scientific evidence that their outcomes may be better than the free farmed equivalent.

The debate around intensification cannot continue to be held off by politically expedient decisions on a case by case basis, but should be conducted in an open and fact based manner. The reality is that there is not significantly more land available in New Zealand to be used for agricultural purposes, and as the population increases it is likely that some agricultural land on the fringes of cities will be urbanised over time. Consequently, for the industry to deliver the growth required to support the country economically in the future, there is a need to generate greater value from the land we have. This can be achieved through growing more or selling our current production for higher prices. It is likely that the workable solution is a middle ground of more production being sold for higher prices.

We need a blueprint now for how the extra production aspect of the equation will be generated. Part of it will come from improved on farm practices via improved extension strategies, but some of it will undoubtedly have to come from using more intensive farming systems. The challenge for New Zealand is to determine what we will accept as an intensive farming system and the impact that this will have on our 'clean green' pastoral farming position. The calls of greenwash continue from interested parties in the Northern Hemisphere so every step towards intensive systems (which are an everyday part of food production around the world) has to be made carefully to ensure that our markets stay with us.

Industry Focus: Extending on-farm performance

Māori Agriculture

Full engagement to ensure that Māori are part of the industry solution

Industry leaders believe Māori owned agricultural corporations have an important role to play in achieving industry wide adoption of best practice farming techniques, and therefore in the future of New Zealand agribusiness.

Māori entities need to utilise best practice farming techniques in order to maximise the intensity of production whilst ensuring the farming system remains sustainable. Often the deeds of arrangements that Māori entities are required to work within restrict them from selling the land they farm. Therefore the current farmers are the only farmers that can deliver improved productivity from that land. This provides the entities with two options: adopt best practice and invest in the technology required to ensure that their farms are achieving top quartile performance; or enter into partnerships or joint ventures with top performing farm operators to maximise the returns from their land.

The key point is that Māori and non-Māori organisations must work together for the mutual benefit of the industry. The whole industry needs to engage much more closely in the future. Māori must be fully involved in debating and resolving issues facing the industry (issues such as intensification of production, sustainable farming practices, adoption of genetic technologies, foreign land ownership), reflecting the fact that Māori entities are long-term investors in New Zealand agribusiness, and the future wealth of iwi depends on the long-term success of New Zealand agribusiness.

Agenda item 19

Create a market experience extension programme

To transform a value chain all links need to understand the impact their actions have on the delivery of a solution to the end customer. Thus it is important that farmers fully understand the whole value chain the product they produce passes through and the customers that will ultimately use the product. Understanding this value chain is an important extension activity that can drive improvements in on- farm performance. Processors and industry good bodies should work with farmers to develop a market experience programme, enabling farmers to follow the value chain, understand customers and their use of the product.

Governing for growth

Ensuring the right skills are around the boardroom table.

The importance of good governance, both at the farm level and in the boardrooms of our major processors and marketers, was consistently raised as a significant issue for the industry. The complexity of a modern agribusiness, be it a farming company operating multiple farms across a number of locations, or a processor or marketer exporting around the world, means that businesses require their leaders to have a greater diversity of skills and knowledge than has historically been required. These skills are necessary to deliver growth and returns for their investors, and the wider New Zealand economy.

The time commitment associated with taking on a governance role means many talented, potential leaders are unwilling to commit to it, preferring to focus their efforts on securing the prize behind their own farm gate. For these individuals, even the remuneration offered from director's fees does not compensate them for the opportunity cost that the time taken in a leadership role represents for their own business. We received numerous comments suggesting that in order to attract the best talent onto their boards, the remuneration being offered to these individuals for taking the role needs to appropriately reflect what they sacrifice to become a director.

Talented individuals will be prepared to take on governance roles if the role creates a challenge and excitement for them and provides them with opportunities to develop and learn personally.

A constant discussion theme involved having the right mix of directors on the board creating an environment to attract the right talent. One area in which it was suggested that boards are often lacking, is the level of in-market international business knowledge and experience which enables a board to guide the strategy for marketing products to export markets. The table provides an analysis of directors on the boards of eight New Zealand agribusiness groups that operate in international markets. Just over 10 per cent of the directors currently serving on the boards of these companies are not resident in New Zealand, yet these companies make significant sales in markets outside of New Zealand.

Residence of directors of major agribusiness companies

	Current number of directors appointed	Overseas resident directors
Fonterra Co-operative Group	13	2
PGG Wrightson	8	2
Turners & Growers	8	1
Alliance Group	9	0
Silver Fern Farms	8	0
ZESPRI	8	0
Sealord Group	7	1
Ravensdown Fertiliser Co-operative	14	2

Source: KPMG analysis of Companies Office listed directors May 2011

While the raw residency data does not give an indication of the amount of international experience that a director has gained during their career, it does suggest that many companies are not appointing directors who are living on a day-to-day basis in their key markets. Consequently they are not in a position to pick up on the subtle changes in consumer demand that are continuously occuring. Five of the companies in the table are co-operatives and consequently a majority of the seats around the boardroom table in these companies are reserved for representative directors. The election process was seen by many of the leaders that we talked to as a deterrent to strong candidates looking to get involved in leadership roles.

Remuneration needs to appropriately reflect what our best talent sacrifice to become a director

The impact of 'gumboot politics' surrounding the election of directors was considered by many leaders as a risk to the industry. Risks identified from current processes in many co-operatives include;

- candidates standing on a single issue and being elected to the board despite not bringing a comprehensive set of skills to table
- elected directors taking time to realise their governance role requires them to act in the best interest of the company rather than in the best interests of the shareholders that elected them
- good directors being dumped as a reaction to a necessary but unpopular measure a board had been required to take.

It is however recognised that co-operatives are establishing development and screening programmes to provide training to potential candidates and advice to shareholders on the skills that a candidate should bring to the board table.

Fonterra has taken a lead in developing these programmes and is viewed as moving towards a new model for co-operative governance. This acknowledges that the directors are being asked to lead a complex global business and for the good of all shareholders the candidates must be able to make a positive contribution to the board discussion.

The agribusiness sector, like any other, needs to continually strive to create environments where leaders with passion and enthusiasm are able to achieve great things with their companies. We have to recognise we are competing globally with companies that often have more informed, more experienced directors in the markets in which they trade, and consequently we need to work doubly hard to ensure the talent we have available rises and is able to work as part of a board that has the right mix of skills to win in the international arena.

Agenda item 20

Include offshore directors on the boards of major agricultural exporters

New Zealand suffers from a lack of scale making it difficult to compete and grow a market. Our key markets are offshore but boards are generally New Zealand farmers and business people, that often lack a deep knowledge of offshore markets. Competitors have strong governance, scale and market knowledge making it hard for us to compete. An opportunity exists to bring additional skills to the board table and in particular a higher number of offshore directors on boards would make sense. Failure to link with markets at all levels of the organisation could be catastrophic to our exporters.

Agenda item 21

Create shadow director positions on boards to create a pathway to leadership

Numerous conversations have suggested a school board of trustees is not a great preparation for becoming a director of a major agricultural co-operative. Future leaders need to have pathways to develop and this could in part be achieved by creating shadow director positions on boards so candidates can see the workings of the board from the inside, understand good governance and board process and obtain relevant governance training. The future leader would have no vote at the table. If every significant agribusiness entity adopted this strategy a pathway would exist to up skill future leaders for the sector and facilitate better governance and strategic behaviour in the sector.

Market access

Trade agreements can create competitive advantage.

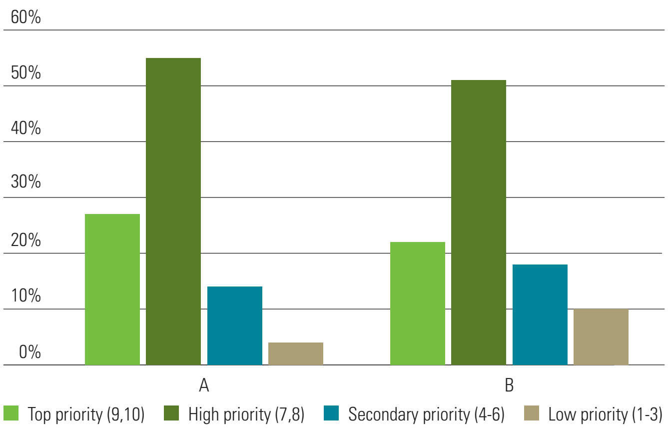
The workload for the market access negotiators at the Ministry of Foreign Affairs and Trade is significant – Trans Pacific Partnership negotiations continue; bilateral agreements at various stages with countries including South Korea, India and Russia and there is the stalled agreement with the Gulf Corporation Countries.

The majority of the leaders we talked to strongly support the Government's continuing strategy to secure as much market access as possible for New Zealand exports. However, they recognised it is important for our exporters to develop strategies to deliver a return on that access.

Trans Pacific Partnership (TTP) is currently top of the Government's trade agenda, given its potential to provide improved market access to nine countries – including the United States – and with the potential of Japan joining the group in the future.

The Government must follow through on its commitment to only enter into TPP if it delivers high quality, appropriate trade conclusions for all New Zealand exporters

Rate the significance on the future prospects for New Zealand agribusiness of:



A: Undertaking the hard work to develop relationships that build on the FTA's New Zealand has with key trading partners.

B: Completion of the Trans Pacific Partnership agreement providing free access to markets including the USA.

The direct benefits that industry sectors expect from TPP is mixed. Many industry leaders identify individual bilateral agreements with, for example, South Korea and India, as potentially more valuable. The benefit many see with TPP is that it could be the genesis of an Asia-Pacific trade block, providing New Zealand with access to many of the world's largest and fastest growing markets.

The concern regularly expressed with TPP is that there is a real challenge in creating a trade agreement attempting to tie together the various social and economic agendas of nine countries without compromising quality.

The wine industry sees significant trade potential from the TPP as the US market currently presents the biggest market development opportunity for the industry. However, the concern is that the religious requirements of some of the member countries may see alcohol excluded from the provisions of the agreement. Consequently the Government must follow through on its commitment to only enter into TPP if it delivers high quality, appropriate trade conclusions for all New Zealand exporters.

It is also important that the industry takes every opportunity to engage with the TPP negotiation team to ensure all parties clearly understand what constitutes a high quality trade agreement, and what would be unacceptable exclusions from the agreement.

Opportunities in bi-lateral negotiations

Industry leaders were generally more positive about the significant potential embedded in bi-lateral trade agreements. A number of industries highlighted the significant potential in a trade agreement with South Korea, given the current high tariff environment for many New Zealand exports, and that competitor countries in key sectors have recently secured free trade agreements with the country.

The meat industry noted the challenges of competing in South Korea as the US have recently secured a free trade agreement. The competitive position of New Zealand kiwifruit will be challenged with Chilean product now having lower tariff market access.

The benefits of a trade agreement with India were also noted. While an agreement will not create new markets overnight, a preferred trading relationship will give our companies the ability to develop long-term partnerships through supplying product and building relationships with local producers. The dairy sector is a great example of where India presents significant opportunities as an existing major consumer of dairy products.

A few of the industry leaders that we talked to questioned whether the investment being made in the development of Free Trade Agreements (FTA) is actually required, given the increased demand for protein in global markets.

They argue that given the growing demand for protein, customers will buy our products and pay market price – regardless of that price – whether or not there is a trade agreement in place. Their demand will be driven by their domestic market and a desire to secure safe product from any market which is able to supply. The argument follows that this level of inherent demand will neutralise any benefit a trade agreement affords.

This argument, however, fails to recognise that there are many high value markets to which we do not have access, and even in the current environment, our exports to these markets are below the levels they should be because competitor countries do have market access arrangements.

History suggests relying on the luxury of high prices and the ability to pick the markets to whom we sell, would be a short-term approach.

Agenda item 22

Really understand the competitive advantages our competitors have in key sectors

We regularly trumpet our clean green credentials as a market advantage but many competitors can create equally compelling stories of their provenance. They are also investing in on-farm technology, developing genetics and cultivars and looking to grow brands to secure supermarket real estate. Many also have advantages from lower land and labour costs. Our exporters need to constantly monitor the competitive advantages that our key competitors offer customers, to ensure the competitiveness of our market offer. The Government should partner with the industry in this process, using the knowledge to drive our market access strategies and maintain compelling propositions.

Agenda item 23

Realising the Indian market opportunity

Much focus has been placed on the opportunities for New Zealand agribusiness in China, however there is also significant market opportunity for New Zealand companies in India. Indian consumers are already significant users of dairy products and the market presents opportunities for our meat, horticulture and wine sectors. It also provides a base from which New Zealand companies can deliver year-round supply to global customers. Gaining a significant foot hold in the Indian market will take effort and carry some risk. However our products, particularly dairy, are staples in the Indian diet, so customers already understand the benefits. A pan-industry task force should be established with a permanent base in India, to examine market opportunities, build relationships and networks and ensure that the FTA includes provisions to provide the market access we need to maximise the opportunity.

Benefits beyond tariff reduction

The argument also fails to recognise that the benefits of a trade agreement extend beyond the reduction in tariffs. The trade agreements that we have entered into create platforms for addressing market access issues as they arise. This can assist in removing non-tariff barriers which are often erected in the period following the removal of a tariff barrier. These can be direct actions, for instance the raising of phytosantiary concerns about our horticultural products, or indirect, for example, countries delaying sending inspectors to approve our meat processing plants for export. Trade agreements provide a framework for these issues to be handled at an intergovernmental level in good faith, so that the benefits of the agreements are realised by both parties.

It is however important the trade negotiators do acknowledge that the demand for high quality protein is increasing throughout the world, and we are seen as a good source of premium product.

This market reality needs to be leveraged so we can extract maximum benefit from both bilateral agreements and the TPP. This again comes down to ensuring that the Government delivers high quality agreements and does not accept compromise positions. It is important that it stands by its principles rather than accept an easier trade

Agenda item 24

Defining the difference created by a product's New Zealandishness

The provenance story behind New Zealand products is based on our clean, green environment. However there are many other regions around the world that can boast similar pedigree in international markets. Thus the New 'Zealandishness' of our products needs to be captured in other ways that consumers around the world can understand. Characteristics may include taste, texture, scent, quality, safety, traceability etc. Being from New Zealand is not enough to lock in a long-term advantage, so we must understand what will deliver a market differential for our product over competitors' products, particularly when entering a new market, such as the Australian apple segment.

Industry focus: Market access

Pipfruit

Capitalising on a market access opportunity

The Australian Government's acknowledgement that it has exhausted all appeals to preserve the country's 90-year-old ban on the import of New Zealand apples creates a unique opportunity for the beleaguered pipfruit industry. The industry has struggled with increasing global supply of apples as new plantings around the world have come into production. In addition, increased competition in many international markets is eroding the premium any unique variety is able to realise in the market. Consequently, many growers have had to sell their production at below cost price in recent seasons, leaving the future viability and scale of the industry on a knife edge.

There has not been much good news for the industry in recent seasons, so the removal of the phytosanitary restrictions that have kept New Zealand apples out of Australia presents a chance for the industry to grow a new market in a way that can create a model for future industry co-operation. The challenge facing the industry is to build the market agreement that sacrifices elements we believe important in this country.

Even in a protein constrained world, there are huge benefits associated with increased market access as we compete in a global market to sell our products. The approach adopted by this, and previous governments, must remain a high priority. The current issue for New Zealand is that while FTAs are opening doors, few are walking through them to create new customer relationships. The creation of FTAs must be linked to significant investment in market development to realise the value back to the farmer in New Zealand. In addition, our exporters must ensure that the value created through market access arrangements is not fully competed away, some of it must be brought back to New Zealand and delivered to the farm gate.

Agenda item 25

Establish an advanced international agribusiness programme

Strategic agribusiness courses are run around the world (for instance the Harvard programme) which give sector leaders insight into trends in the global industry. Attendance at these programmes is expensive and often inconveniently timed for sector leaders in New Zealand. The ability to access global insights on the trends and developments in agriculture around the world can help to shape the strategic development of the New Zealand sector. Industry organisations, processors and universities should explore the establishment of an advanced international agribusiness programme that provides current and future sector leaders access to global best practice thinking in a cost effective and appropriately timed manner.

so that it will return value to the orchard gate on a consistent, long-term basis. In order to achieve this, a highly fragmented group of growers, vertically integrated companies, and co-operative organisations – all without a common view on the best structure for the industry – need to agree a collaborative approach to developing the market.

When the ENZA single point of export structure was abandoned by the industry around 10 years ago it was believed that individual companies would be able to create more value for themselves by dealing direct with customers. The reality has proven to be far more challenging and average returns to the orchard gate have fallen throughout the period. Many entities are selling through commodity wholesalers in export markets with little or no opportunity to secure any price premium, given limited marketing support to differentiate New Zealand product on the supermarket shelf.

During this period the industry has lost much of its historic ability to collaborate, so there is nothing legally binding that can be done to prevent individual companies pushing into the Australian market with short-term, quick profit strategies that could fundamentally damage the ability of the wider industry to benefit. There is the ability for the industry to register the market under the Horticulture Export Authority arrangements. However these arrangements are unlikely to provide the level of collaboration needed around product variety and quality, co-ordinated marketing, and cool store infrastructure, to maximise the opportunity.

The opportunity to create a valuable new market is significant, but history suggests that without the ability for the majority of growers to opt into a legally binding collaboration agreement, it is just as likely the industry will shoot itself in the foot. It is rare in the modern world that any segment of our agriculture industry is able to enter a completely new market. How the pipfruit industry handles its entry into the Australian market and the results that it derives will provide an insightful case study as to how to maximise the benefits from new market opportunities.

It is rare in the modern world that any segment of our agriculture industry is able to enter a completely new market

Research and development

Primary Growth Partnerships have the potential to transform the industry through collaboration.

The direction of government policy and investment in science and research and development (R&D) has changed significantly in New Zealand over the last two years. However it is too early to assess whether the new framework will drive the absolute growth in R&D that the economy needs to redress decades of under investment.

Eighty two per cent of survey responders rated investment in R&D at or above average international spending levels to be a high priority. This recognises the importance of the government and industry, more importantly, investing in new processes, technologies and product solutions to secure our place as a supplier of innovative, premium products.

This challenge is significant and should not be underestimated. In the most recent OECD data on national investment in R&D, New Zealand's total investment – from both the public and private sector – amounted to 1.21 per cent of GDP compared to an average of 2.33 per cent. The top spender, Israel, spends 4.86 per cent of GDP on R&D[1]. The Government has introduced a series of policy changes since coming into office in late 2008 to encourage companies to partner with universities and Crown Research Institutes in developing research programmes.

Initiatives include the scrapping of R&D tax credits, implementation of Technology Development Grants and Technology Transfer Vouchers as well as reforming the science funding structures, through the creation of the Ministry of Science and Innovation. The significant change for the sector however is the replacement of the Future Fund with the Primary Growth Partnership (PGP).

After a slow start there are now nine PGP programmes underway covering a wide range of primary industry sectors, as the table demonstrates. The schemes will see over NZ$475 million being co-invested by industry in partnership

1 OCED: Science and Technology: Key tables from OECD: Gross Domestic Expenditure of R&D as a percentage of GDP; Updated 27 September 2010

PGP schemes granted funding to date

Project	Total budget ($m)
Merino Sheep – more than wool [Wool]	36.0
Steep-land plantation forest harvesting [Forestry]	6.5
Deterrent grasses [Pastoral]	3.5
Transforming the Dairy Value Chain [Dairy]	170.0
Integrated value chain for red-meat [Meat]	151.0
Precision seafood harvesting [Wild Harvest Fishing]	52.6
Shellfish – the next generation: SPATnz [Aquaculture]	52.1
Sustainable Phytosanitary treatment for exports	2.5
Improve reliability of supply of medical grade manuka honey [Honey]	1.6

Source: KPMG analysis of the Ministry of Agriculture and Forestry website

Agenda item 26

More focus on R&D to identify and deliver lifestyle food solutions

There is an increasing focus amongst affluent consumers on quality of life and food, particularly in Asian markets. The major global food companies are investing heavily in the sector and there are opportunities for New Zealand to utilise our global reputation for food innovation to create new functional food solutions either independently or with partners. Our niche in this area is likely to be in developing and licensing intellectual property rather than developing and marketing branded products, given the costs associated with launching a new branded product on a global scale. A commercial partner is more likely to be attracted to an opportunity with clear links to functional food capabilities and we need to direct a significant share of our R&D funding into this area.

with the Government on initiatives that link science and research to innovative market outcomes. This is a significant amount of new research in projects that may not have happened without the incentive of the PGP scheme and our conversations indicated a wide recognition that the scheme has become an important part of developing a future for the agricultural sector.

However, the clear message we took was that industry leaders strongly believe the benefits of PGP extend beyond the public-private research groups that are being created, and herald a cultural change that could be transformational for the industry in the long-term.

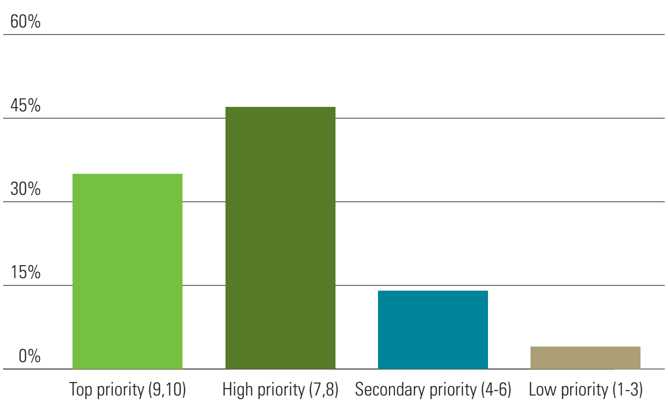
The intangible benefit of PGP is the 'what if' conversations that it is encouraging industry leaders to start. The real success of the scheme is the culture of collaboration it has fostered, breaking down some of the industry silos that have dominated behaviours in the past. Currently the steps may be small, but talking about mutually beneficial commercial opportunities will create ideas that bring value to the New Zealand economy and back to the farm gate.

Increasing R&D spending to international levels

The spending through the PGP will not however bring the industry up to or above the OECD average, more is needed. The bulk of this extra funding will have to come from the commercial sector. As we have already discussed, R&D is required to improve our productivity behind the farm gate. We noted in last year's Agribusiness Agenda that much of the on-farm science being used by the industry was developed during the 1960s and 70s meaning there is a need to rebuild capability to enable greater investment to be made in this area.

The rebuilding of this capacity will require the Government to work with industry to ensure that we educate and retain scientists with the skills to create innovative industry solutions. The Government may also need to lead the funding of pure research to create an innovation pipeline.

Rate the significance on the future prospects for New Zealand agribusiness of:



Investing in R&D at above average international spending levels to reinvigorate a culture of innovation

We believe as a small country our companies and industry bodies need to think creatively about sourcing intellectual property from offshore and performing the applied, adaptive research to make the intellectual property work effectively in New Zealand.

This strategy requires direct communication between commercial and science professionals, with both groups able to clearly understand the market and economic requirements to make a project successful. The Food Innovation Network is a positive step in enabling innovative companies in our food and agribusiness sector to gain access to this important mix of scientific and commercial skill.

The intangible benefit of PGP is the 'what if' conversations that it is encouraging industry leaders to start

There is also a need to develop our capability in market focused research. Historically, New Zealand has been comfortable developing technologies that can be used to help improve the productivity of the industry, but less focused on creating solutions that precisely meet our customer's specifications. Applying a significant proportion of R&D effort to market opportunities that exporters identify is an integral part of ensuring the industry value chain is aligned from the plate back to pasture.

New Zealand's track record on R&D and innovation has been woeful in recent decades and we have been over reliant on old science for much of this period. However the establishment of PGP may reverse this trend and create new relationships and collaborations with the potential to transform the industry. Equalling or exceeding the OECD R&D benchmark must be achieved in the fullness of time.

Agenda item 27

Focus on adaptive research rather than pure research

New Zealand lacks the scale to invest in a sufficient quantity of pure research to fill a pipeline of new innovation. Consequently we need to focus on adaptive research from technologies available offshore to make them work effectively within our farming systems. Without value being returned to farmers' pockets there is an unwillingness to invest in research and the infrastructure to support it. A greater focus on adaptive research enables faster wins and consequently faster improvement in productivity and profitability on the farm. The strategy will require a reprioritisation of funding, with greater focus directed towards building international partnerships and licensing technologies that can be developed for the New Zealand market.

Equalling or exceeding the OECD R&D benchmark must be achieved in the fullness of time

Water

Government seed funding creates the potential for water to become a vital economic asset.

In last year's KPMG Agribusiness Agenda we referred to fresh water as New Zealand's liquid gold, a natural asset that is becoming increasingly scarce. Our conversations with industry leaders consistently highlighted the importance of the water resource in New Zealand. Without the necessary water storage and irrigation infrastructure our water will remain a great natural asset rather than a great economic asset.

Consequently the Ministerial commitment of funds in Budget 2011 to support the expansion of New Zealand's irrigation infrastructure is one of the most important developments for agriculture since the last Agribusiness Agenda. The commitment of the current government to address water policy issues was clear in its response to the Land and Water Forum report issued last year. The recent announcement of a National Policy Statement provides a platform for further collaborative development of water policy, with the agriculture industry taking its place alongside other key stakeholders at the discussion table.

The announcement that the Government has provided $35 million of new funding over five years for the Irrigation Acceleration Fund to help schemes develop proposals to an 'investment-ready' prospectus stage is a positive step. Also, the proposal to find $400 million in funding in future budgets for the crown to co-invest with third parties for regional schemes is particularly exciting.

The difficulty in getting many irrigation schemes off the ground is in creating a funding model that provides third parties with the certainty to invest with scheme users to build a multi-generational asset. Acknowledgement by the Government that the Crown has an investment role in these important economic assets will undoubtedly give third-party investors greater confidence to co-invest. One potential investor did note that they would not be keen to invest in a project that did not have a significant amount of farmer equity involved as this mitigates the risk of a project becoming just another 'think big' type scheme.

With the government announcement providing greater confidence that the economic potential of irrigated land will be realised, the issue of water charging will move up the agenda. It is a contentious issue. The key area of debate is whether a charge should be made for both the provision of water and the cost of the infrastructure used to supply it.

A number of the leaders that completed our survey noted that they

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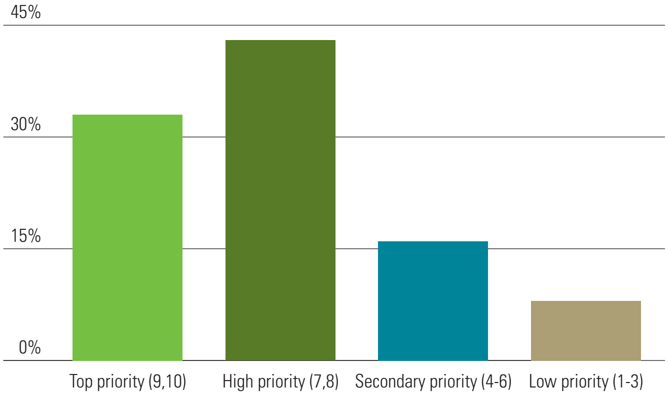
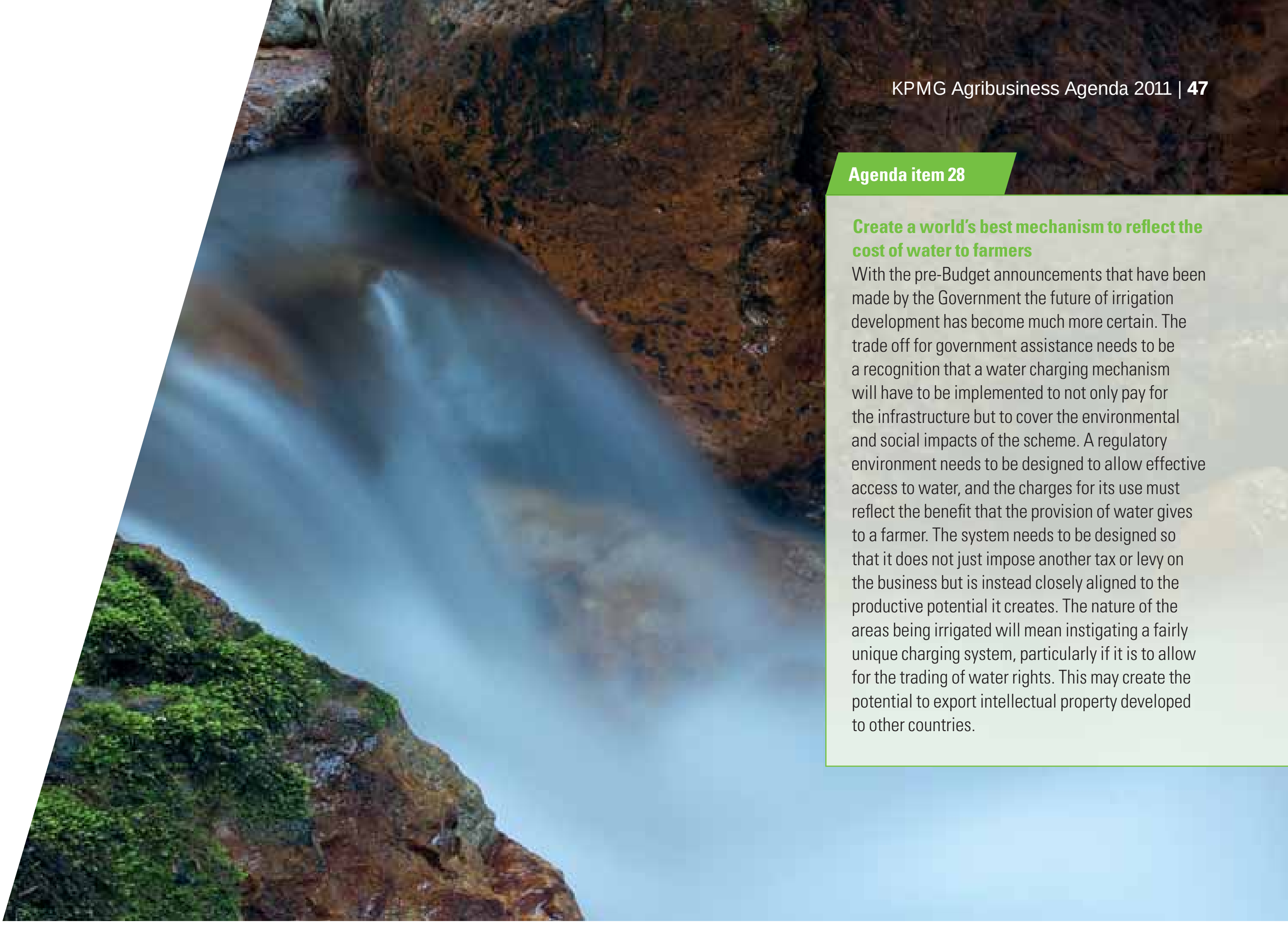


Investing in water management practices and infrastructure in drought prone regions, with the need for a price to be placed on water



Agenda item 28

Create a world's best mechanism to reflect the cost of water to farmers

With the pre-Budget announcements that have been made by the Government the future of irrigation development has become much more certain. The trade off for government assistance needs to be a recognition that a water charging mechanism will have to be implemented to not only pay for the infrastructure but to cover the environmental and social impacts of the scheme. A regulatory environment needs to be designed to allow effective access to water, and the charges for its use must reflect the benefit that the provision of water gives to a farmer. The system needs to be designed so that it does not just impose another tax or levy on the business but is instead closely aligned to the productive potential it creates. The nature of the areas being irrigated will mean instigating a fairly unique charging system, particularly if it is to allow for the trading of water rights. This may create the potential to export intellectual property developed to other countries.

had rated the water issue a lower priority than they would otherwise have done as the question alluded to the development of a water pricing regime. The main sticking point over charging for water seems to be that there is no capture cost, as most of it can be caught in dams from normal rainfall run off, rather than from wells or other infrastructure that require investment.

The counter argument is that the use of water has an environmental cost and this should be met by charging for the water supplied to ensure that any irrigation project can be implemented in an environmentally neutral manner.

The general consensus however was that utilisation of water represents a 'low hanging fruit' opportunity for New Zealand agriculture given the potential for improved productivity.

The challenges to capitalising on the opportunity were identified as the availability of capital to seed the schemes – subsequently addressed in part by the 2011 Budget announcement – and the need for certainty around the consenting process. The concern expressed here was that too much responsibility continues to sit with local government bodies, making developments subject to local political influences, as seen in Canterbury over the years. Another noteworthy issue is the treaty rights that iwi may have regarding the ownership of water and the rights to its use. It is possible a mechanism similar to that used for aquaculture – where iwi are entitled to 20 per cent of all new space created – may need to be developed for irrigation settlements.

The issue of water footprinting is also of concern to industry leaders. Comparatively speaking, we have an abundance of water in New Zealand, when water footprinting gains traction the footprints of our key products will, by comparison, be larger than those of our competitors. Our farmers need to ensure that water is used intelligently with the awareness that water is a constrained input which must have a competitive rather than wasteful footprint when benchmarked against global competitors.

The logic follows that if you put a price on water itself, rather than just its supply, it becomes a constrained resource and this will drive behavioural change around its use.

There is no doubt that water remains New Zealand's liquid gold. The developments this year have increased the opportunities for us to tap, bottle and bank it for the benefit of New Zealand farmers and the economy.

Without the necessary water storage and irrigation infrastructure our water will remain a great natural asset rather than a great economic asset

Traceability

Standardising the approach to deliver commercial outcomes more cost effectively.

The start of the National Animal Identification and Traceability scheme (NAIT) is due later this year, but there remains much uncertainty around the direct and indirect benefits of the scheme for New Zealand agribusiness. Most industry leaders indicated that providing customers with traceability is important to their business, with many acknowledging that they already had schemes in place to enable them to deliver traceability to the standards their customers required.

The concern consistently expressed about NAIT is the market is already delivering full traceability to customers when they require it, so why is a legislated scheme – with the accompanying incremental costs – required? In particular, as not all animals will be registered initially, it will not provide a complete database of animals in the event of a biosecurity incursion. Notwithstanding this, the scheme has passed into legislation and will be implemented. The onus is now on the farmers to gain the maximum benefit from their investment.

Farmers need to be focused on improving on-farm productivity, and the traceability technologies required for NAIT creates opportunities for sheep and beef farmers to utilise the data collected to make more informed decisions about on farm inputs.

Product traceability is a reality in many sectors of the industry, not just the sectors that will be subject to NAIT. A common theme in our discussions was that while traceability does add cost to a business, in most cases a return can be generated on the investment by supplying a customer that is prepared to pay more for a fully traceable product.

Some industry sectors are facing increasingly challenging traceability requirements. For example it was noted that the wild harvest fishing sector is increasingly being requested by customers to provide traceability back to a particular boat. A single container of product could have fish caught by many boats and this level of traceability creates logistic and cost challenges for the sector.

Some countries and regions are not above using traceability as non-tariff trade barrier to prevent the free access of our product to market, further exacerbating the issue.

NAIT does not provide New Zealand agriculture with the complete answer to traceability, but it does complement the existing schemes that companies have in place.

It also has the potential to reduce cost and improve on farm performance in the medium term by migrating all traceability schemes to a single, industry wide platform.

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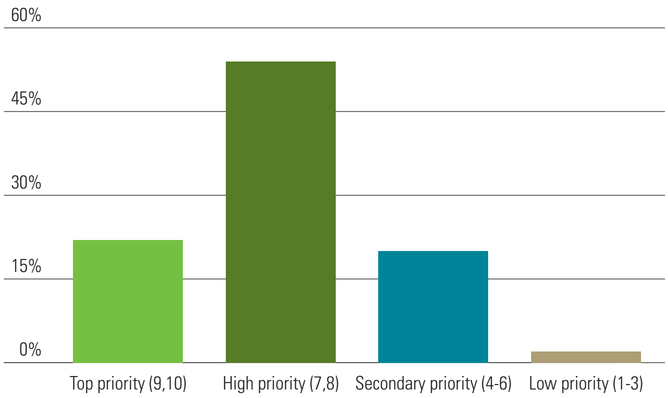

Implementing an appropriate national traceability scheme for all animals/ products bred for consumption

NAIT does not provide New Zealand agriculture with the complete answer to traceability, but it does complement the existing schemes that companies have in place

Global sourcing

Realising value in New Zealand from global sourcing Kiwifruit.

As a market led company, Zespri has consistently looked for innovative ways to create greater value for the New Zealand kiwifruit grower. The company is recognised by industry leaders as being one of the most innovative players in the market, skilled at recognising the key requirements of a customer and working back to deliver the required solution. With kiwifruit only representing around 0.5 per cent of the global fruit bowl, there is no guaranteed market for kiwifruit in most countries around the world – it is not a staple fruit like apples or bananas.

Consequently, people will only eat kiwifruit if they believe it provides them with a unique taste experience, health benefits and quality. Zespri has had to work hard in markets such as Japan, Spain and Korea to convince consumers that kiwifruit should be an integral part of their diet. This has been achieved by investing heavily in the Zespri brand, the launch of new cultivars – such as Zespri Gold – and the development of close relationships with customers. However, this investment would be much less valuable if Zespri was only able to supply the product during the New Zealand growing season, as the market they created would be open for competitors to exploit outside the New Zealand season. This could potentially impact the quality perception of kiwifruit and almost certainly reduce the price point in the market.

To address this risk Zespri has adopted a global sourcing strategy that ensures their customers get product of consistent quality year round. This helps protect their space on the supermarket shelf and ensures that the benefits of the market development work that Zespri funds flows back to New Zealand growers. This approach has enabled Zespri to capture a much larger share of the value in the global kiwifruit market than the volume it trades. Currently Zespri sources product from leased orchards in Chile and Italy and is looking at other locations to further enhance its ability to supply.

The concept of global supply to enable a company to satisfy key customers year round is widely used in the global food sector, where seasonality makes it challenging to source from a single location. The challenge for New Zealand companies is to ensure maximum benefit from global sourcing flows back into the New Zealand economy. This is best achieved by having an ownership interest in the production facilities – as Fonterra has in its farms in China. However, this may be difficult in the capital constrained environment the industry operates in.

The next best option is to license the intellectual property and production know-how to international producers, and gain exclusive control of the outputs (as Zespri is doing). This protects brand standards and ensures there is no discernible difference in quality between New Zealand produced product and the globally sourced product. The challenge for other sectors – such as red-meat (particularly lamb) and other horticulture producers – is to adopt and benefit from the global sourcing model that Zespri has successfully implemented.

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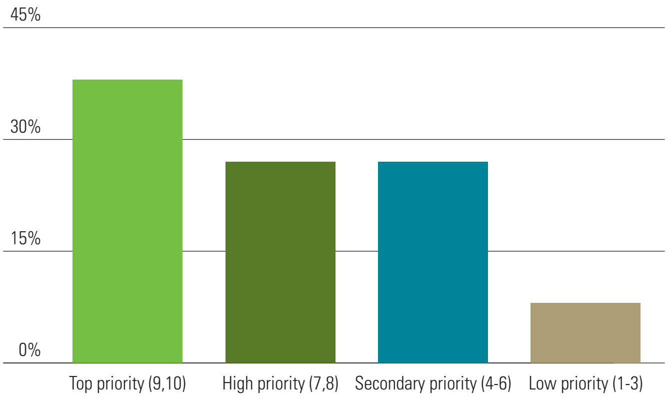

Creating a global supply chain through sourcing products from locations around the world (not just NZ) to meet customer year round supply requirements

Co-operatives

Co-operatives may have to evolve to remain relevant in the future.

The support, or otherwise, from industry leaders for co-operatives generally reflects their industry background in a co-operative or corporate business. However, all recognise that the strong, co-operative culture has been a foundation for the development in New Zealand's agribusiness. The question many ask is whether the co-operative will be as important to the future of the industry as it has been in the past.

Reflecting this, 31 per cent of industry participants, who completed our survey, indicated their view that retention of the co-operative model was a secondary, or low, priority for the future of the industry.

The passionate supporters of the co-operative model – and there are many – believe that the essence of the model in New Zealand is that it enables farmers to own and control the value chain associated with their production until it reaches the customer. They then share in the value uplifts that occur at each stage of the chain.

There has been much discussion about farmer control in the value chain with regard to the wool industry in recent months. One of the key propositions of the Wool Partners Co-operative offer was the desire to link a farmer's wool supplied at the gate right through to the manufacturers and retailers of Laneve brand carpets. Primary Wool Co-operative has been developing a similar farm-gate to shop floor strategy through their joint venture with Elders New Zealand, using the Just Shorn brand and technology solution. Both these initiatives recognise the benefits that can be created by establishing direct links with the end users of the product. A co-operative structure plays an important part in understanding customer needs and conveying that information to the farmer. As a result of this link the farmer becomes a financial investor and beneficiary of the business' success, and more engaged and committed to the long-term goal. It is also argued that creating the link results in an improvement in product quality as farmers better understand customer needs. A more resilient business develops that is better able to handle the inherent volatility within the agricultural sector.

The Wool Partners Co-operative plan did not progress as insufficient farmers made the undertaking to invest in the co-operative and commit their clip to its programmes. The directors set a minimum market share they believed was required to make the initiative successful and were not prepared to proceed without this.

This reflects a view held by many industry leaders that a co-operative can only maximise its benefit when the members – suppliers or purchasers – are committed to the long-term goals of the co-operative and transact with it exclusively. The example most often given is the contrast between a dairy co-operative, where farmers are reliant on the co-operative to collect their milk every day and the meat co-operatives, where many farmers hold shares in both major co-operatives and make a decision on which entity they supply according to the price offered at the farm gate on any particular day.

Co-operatives work best when their members are locked in and the co-operative is viewed as an extension of their own business. The

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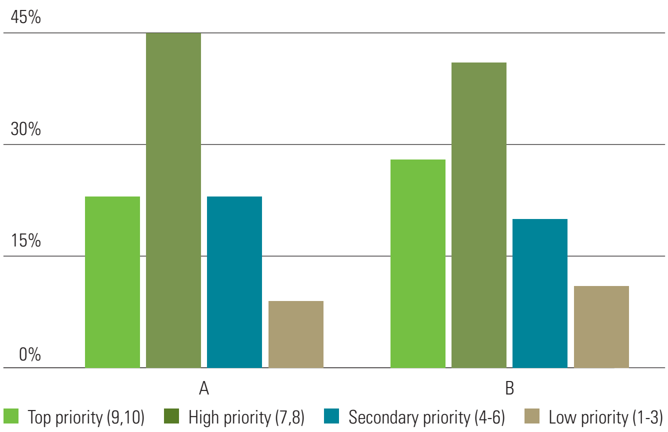


A: The ability of co-operatives to evolve their capital structures to support investment in innovation and growth.

B: The retention of a co-operative model as the major corporate structure in the agricultural industry.

member needs to understand the co-operative's strategy and align their strategy to that of the co-operative in order to create maximum value from the value chain. If a co-operative is not able to lock in the supply it requires to operate its business, questions should be asked as to whether it makes sense for the business to continue as a co-operative. In particular, given the constraints of the model such as restrictions on their ability to raise equity to invest in growth; challenges in retaining earnings in the business and difficulties getting a board with the right skills to lead the business in international markets.

Co-operative models for the future

A number of the industry leaders we talked to argued that the co-operative model belongs to the past. In a world of virtual businesses there is no need for farmers to own all the processing equipment and infrastructure to move their product from the pasture to the plate. Zespri was cited as an example of a virtual co-operative, controlling the supply chain without being invested in production, processing or distribution assets. It does this by focusing on the control and management of the intellectual property central to the kiwifruit industry. It was suggested that more flexible, hybrid models should be explored, where farmers look to co-invest with third party investors – be that the New Zealand public through an IPO; an international partner that secures market access; or an equity or superannuation fund investor – or else review the asset holdings of the co-operatives to ensure that the business is focused on its core competencies.

It is important for the future of New Zealand agriculture that co-operatives, like every other business, consistently review their business model

With many New Zealand farmers still highly leveraged, their ability to provide capital to the co-operative to fund growth initiatives is limited. This could potentially leave projects that create long-term value for the farmers, and New Zealand, on the drawing board. The importance of defining what a hybrid investment vehicle may look like will become a pressing priority for the irrigation sector over the next few years, as organisations prepare to raise capital and look to obtain a share of the funds the Government has indicated it will use to co-invest in schemes of regional importance. Irrigation schemes have traditionally been based around co-operatives, which has made it difficult to get plans off the drawing board and into construction due to lack of capital. The challenge will be getting farmers to accept that there is a model which protects their access to the asset while providing the required funding to get multi-generational assets into construction.

Co-operatives seem to give many farmers security and a sense of ownership and control over the business. However, this is potentially a perceived benefit rather than a real benefit, particularly if the business is not able to take advantage of the opportunities available to it in the global market. It is important for the future of New Zealand agriculture that co-operatives, like every other business, consistently review their business model to ensure that they are focused, delivering on their core competencies and maximising value for their shareholders. If a board can't answer these questions positively given their current asset mix and strategy, then they need to critically evaluate whether the business is best served continuing with a co-operative structure.

Indebtedness

The overhang from debt driven expansion will impact some sectors for years to come.

While the level of indebtedness of the rural sector has not increased in the last year neither has it reduced significantly, and some sectors of the industry – particularly dairy and wine – remain highly geared. The situation has been recognised by the Reserve Bank of New Zealand which has increased the capital levels that banks must hold relative to their loans.

Our conversations showed that banks have made it clear to farmers they can no longer rely on capital gains to maintain the equity in their businesses. Farms must be run to make cash returns and generate sufficient income to pay down debt – this is the new normal. Industry leaders in the dairy sector rated this one of their highest priority issues, giving it an average score of 7.5, against an overall average of 6.8.

The easily obtainable debt of the dairy and wine boom years is no longer available and any application for a loan now has to be backed by a business plan showing how and when the debt will be repaid. Banks require farmers to prepare comprehensive financial reports and when significant amounts are being lent ensure there is appropriate governance in place for checks and balances over the actions of the borrower.

It will take a long time for some sectors of the industry to extract themselves from their high levels of indebtedness because of the negative equity position in which many businesses find themselves. Easily accessible debt fuelled a land price bubble that has partially deflated leaving many unable to sell property without taking a financial loss. The impact of the bubble is obvious when New Zealand dairy land prices are compared to premium agricultural land around the world. Dairy land in this country remains the most expensive land category in a 2010 survey compiled by Knight Frank and Citi Private Bank, which suggested the price of land continues to reflect the strength of dairy commodity markets.

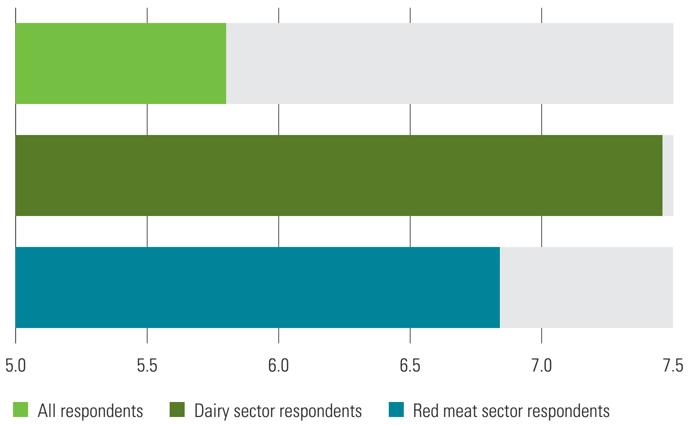
With land prices still at internationally high levels it is not surprising that the level of farm sales has been historically low in recent months. In most cases, even with low interest rates the economics of investing in land at current prices does not make sense as it is not possible to make a cash return, even with the current dairy payout. Our conversations showed concern that banks are unwilling to lend on anything but a gold plated opportunity. However, the banks we have spoken

Comparative land prices for prime agricultural land

Country	Land type	Price (US$)	Price change on 2009
New Zealand	Dairy	23,000	-3%
United Kingdom	Agricultural land	22,000	+13%
United States	Dryland/ Cornbelt	16,000	+8%
Brazil	Top sugar cane land	12,000	+24%
Argentina	Central provinces	Up to 10,000	+10%
Australia	Dryland/ reliable rain	1,700	+2%

Source: The Wealth Report 2011; Knight Frank & Citi Private Bank

Comparative industry rankings for debt question



Continuing high debt gearing and low equity levels for farmers and producers in many primary sector

Farms must be run to make cash returns and generate sufficient income to pay down debt – this is the new normal

to say that they are looking to write new business, but potential borrowers are working out a proposal does not make economic sense before taking it to the bank for financing.

Expert commentary suggests that the new capital adequacy requirements – which will require banks to hold capital of 80 to 90 per cent of the value of a rural asset – will add around 0.5 per cent to the interest rate. Consequently, highly geared rural businesses are going to be facing even higher lending costs when their loans are repriced after 1 July 2011. This is in an environment where initial predictions for the milk payout are up to a dollar a kilogram of milk solids less for next season, if the New Zealand dollar exchange rate remains around current levels, together with a tightening of general interest rates as the economy starts a more sustained recovery. In this scenario land prices will still look high for many potential buyers, so the focus for many rural businesses on repaying debt is likely to remain front and centre for some years to come.

In a volatile environment a strong balance sheet is a must for rural businesses so they have the capability to weather the down cycles. The nature of farming means that there are risks that are to a large extent uncontrollable – climate, currency, competitor supply – which impact returns in international markets. The shock that farmers experienced in 2008 and 2009 when many came close to insolvency, means they will continue to focus on strengthening their balance sheets through deleveraging until they are in a position to withstand future unexpected shocks. However, farmers will need to make investments in the technology being used on farm and many of the industry leaders expect farmers to focus investment on improving the productivity of their existing farms rather than adding another farm to their portfolio.

Agenda item 29

Create a good governance and financial management blueprint for New Zealand farming businesses

Good governance and financial reporting are practiced sporadically in the farming sector. There are some examples of businesses that have built systems allowing them to access external advice and make decisions based on comprehensive financial information and analysis, but these are exceptions rather than the norm. Many farmers are not clear on what constitutes good governance, risk assessment and financial management and work is needed to develop a blueprint that could be easily replicated by NZ farmers. Tailored financial management solutions could then sit alongside the blueprint.

Industry Focus: Indebtedness

Wine

Evolving the industry model to balance the books

The wine industry had enjoyed a decade of unstoppable growth on the back of the global success of Marlborough Sauvignon Blanc. However, all this changed in 2008 when the largest vintage ever – a result of new plantings coming on stream – occurred at the same time as demand for premium wines collapsed.

The global financial crisis changed the dynamics of the New Zealand wine industry forever. The industry had achieved great success in securing premium price points for our wines in key export markets, particularly the UK and Australia. Prices paid for grapes reflected the limited supply of very high quality product and profits were good in the industry right along the value chain from grower to retailer. High profitability and apparently unstoppable growth attracted many investors to the industry, pushing up land prices significantly, with much land investment and development being debt financed.

Roll forward three years, and the industry has changed permanently. The most notable change is the growth that has occurred in the export of bulk wine rather than bottled branded wine. Bulk wine represented an immaterial proportion of exports before 2008, but today probably accounts for around a quarter to a third of all exports. Many wine producers got into bulk exports in order to realise cash from their excess stocks of wine. However, with retailers seeing an opportunity to capture more of the margin on New Zealand wine sales by offering a lower priced house brand wine, bulk exports have now become part of the sales mix for many wineries.

Falling sales prices and excess inventory has seen the prices paid for grapes fall, and profits have turned to losses leaving many in the industry struggling to service their liabilities to the banks and unable to sell their land – there has been almost no market for vineyard land at any price in recent years. Many borrowers have only managed to service their debt by clearing aged inventory, an option which has been exhausted for many wineries heading into 2011.

Even with inventories back in balance, liquidity remains the biggest challenge for the wine industry. It is likely the industry has at least another year of challenging trading conditions ahead, and more business failures can be expected. Many companies in the sector have weak balance sheets and are being forced to pick and process all the grapes they can this year to try to balance the books. This creates long-term risks to the industry if quality is sacrificed, and makes recovering the price points achieved in the years up to 2008 ever more unlikely.

The industry's problems started as an oversupply issue but has become fundamentally one of profitability. Margins will be further impacted by a significant increase in excise tax from July 2011 which will fall on the wineries, but which will have little or no prospect of being passed through to the consumer given that the supermarket price point for wine has become so competitive. Banks have had little choice but to support companies in recent years as there has been no market for wine assets even when offered on mortgagee sale terms.

Our conversations suggest that going forward there will be pressure on many distressed wineries to consolidate into larger groupings that have the scale to compete effectively in global markets and the ability to be both a specialist producer and a specialist marketer.

It was suggested that the continuation of bulk wine supply at current levels could cause the industry long-term damage. Work needs to be done to understand what a two tier branded and bulk model will look like in the long-term, so that value can be extracted from bulk business by moving the price point up from breakeven or below, making bulk wine a profitable part of a wine business.

Agenda item 30

Create appellation marks for unique New Zealand products

It is recognised that Marlborough Sauvignon Blanc is a globally unique wine and one that commands a premium over similar products available in the market. Maintaining the quality and giving consumers confidence on the provenance of the product can be achieved through the implementation of an appellation mark, as has been done in Europe for many centuries. The challenge is to create an appellation system that does not impose an unnecessary cost burden on the industry while still maintaining the quality of the product. The system also needs to be sufficiently flexible to respond to changes in demand and supply profiles. There may be other uniquely New Zealand products (such as lamb or pork) that could also benefit from having an appellation system to protect quality and provenance.

The global financial crisis changed the dynamics of the New Zealand wine industry forever

Unified industry voice

Addressing some issues with a single voice could benefit the industry.

In our survey we sought the views of industry leaders on the creation of a single, unified voice for the industry to liaise with Government and other industry stakeholders – creating an agricultural equivalent of Business New Zealand.

The issue of a single, unified voice saw an even spread of views from those strongly in favour through to those that could see no benefit to the industry, with such a body just adding another level of bureaucracy.

The question was raised in the survey, as we have observed a propensity to debate industry issues in the public domain, creating mixed messages for external stakeholders, the general public and our customers around the world.

Publically debated issues in the last year include the use of induction calving on dairy farms, the foreign ownership of rural land and responses to biosecurity issues.

Those supportive of a single umbrella body for the industry, believe it would have the scale to better address the key policy areas that impact all industry sectors

Open communication around these issues is important, particularly when it comes to improving the understanding of the rural sector by the wider population. However with multiple organisations discussing the issues there is a tendency for an issue to be taken out of proportion, giving stakeholders mixed messages and, more importantly, creating unnecessary concern for our offshore customers.

Agenda item 31

Development of a national agribusiness strategy

Agricultural land use reflects history and is generally based on short-term decision making. There has been little effort to ensure that the productive land we have available is being used in an optimal manner. Many sector strategies have been prepared; often dealing with very similar issues, however there is no overriding pan-industry strategy. We need an overriding vision of what New Zealand wants its agricultural sector to look like in 20 years and 50 years time, so that long-term decisions can be made within a framework of what the industry wants to achieve. There are significant issues that need to be addressed in the next decade which will shape the future of agribusiness (GMO, intensification, organics, global sourcing etc). A widely accepted vision for the industry will help guide the debate and assist with quality decision making around key issues.

Those supportive of a single umbrella body for the industry, believe it would have the scale to better address the key policy areas that impact all industry sectors; including extension, emissions trading, water access and biosecurity.

The organisation would also have the financial and political capability to work closely with the Government and be able to consider the wider impacts of policy on the fabric of New Zealand's rural communities. There would need to be a series of sector or interest group organisations federated to the umbrella body to deal with specific issues in relation to that group within a prescribed framework.

It is, however, apparent industry groups have differing views on many issues, raising questions as to whether it would be possible for the industry to speak with a unified voice.

Take water as an example; all industries recognise the importance of investing in improved water management, however the interests of the dairy sector in gaining irrigation may adversely impact the horticulture or viticulture sectors.

Commentators questioned whether a single body could ever be a balanced representative of the wider industry given the dominance of dairy, and Fonterra in particular, in the industry. Should such a body be established it is likely that it would be a significant challenge to appoint a widely acceptable board to govern the organisation given the existing relationships that exist across the industry.

The need to develop a more cohesive agriculture industry strategy has been recognised in a number of countries in the last year or so. Work is underway on such a strategy in Australia, partly in response to the rapid international buy up of their processing industries. In Europe, the Irish Government released their strategy, Food Harvest 2020[1] last year, signalling their intent to reinvigorate the Irish economy on the back of their rural sector.

Tourism, our other significant foreign export earner, has a national growth strategy. However there appears to be no plans to map a strategy for the agricultural sector at the current time, nor any consideration for an umbrella representative organisation.

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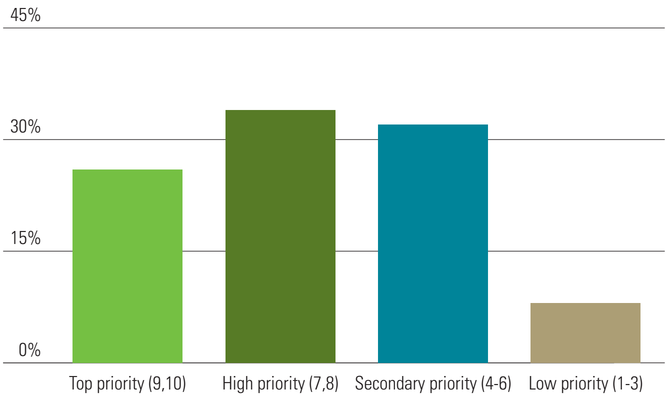


Establishing a unified voice for the agribusiness sector to effectively communicate on issues relevant to the sector in a consistent manner

1 Department of Agriculture, Fisheries and Food, Ireland; Food Harvest 2020 - A vision for Irish agri-food and fisheries; February 2010.

Attracting talent

The industry needs to be proactive in promoting career opportunities.

The ability to deliver future leaders for the sector relies heavily on the pipeline of talent that enters the industry from schools and universities, or those who can be attracted into rural areas from our cities.

In recent years this pipeline has been of insufficient size to replace the number of older people retiring from the industry at the end of their careers, resulting in many having to continue to work longer, increasing the average age of farmers.

The issue was identified as one of significant importance by a number of industry leaders who are finding it increasingly difficult to recruit appropriately skilled talent in rural areas.

There are a number of hurdles to overcome in attracting talent to the sector; the quality of information being provided in schools on the rural sector and opportunities in agribusiness; the desirability of 'easier' subjects for which students are funded, but which do not contribute directly to productive base of the country and the perceived lack of social stimulus in rural areas.

These issues are not necessarily ones that industry players can resolve without government assistance. The industry undoubtedly has a role to play in ensuring there is an adequate pipeline of new talent entering the sector by demonstrating the available opportunities. DairyNZ has done this successfully in recent years with its ‘Go Dairy’ campaign.

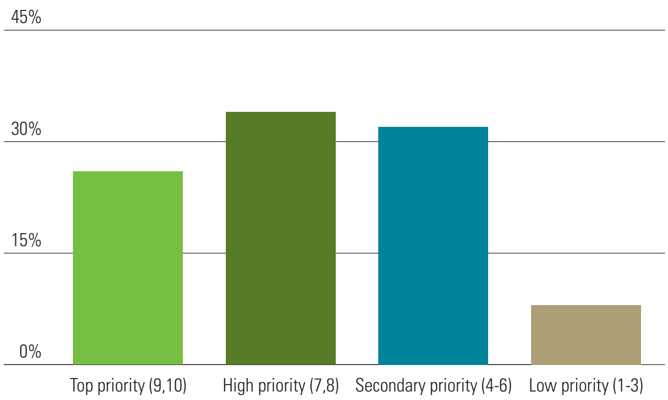
Action on other points in this report will ensure that we have an attractive, profitable industry with good prospects to entice a future generation of entrepreneurs.

Given the importance of agribusiness as New Zealand’s productive heart, it is important it is given equal priority to other career options in the education system. This is likely to require industry participation and funding to develop programmes that educate, inform and, ideally, get children out of the classroom and on to the farm.

In our conversations it was highlighted a number of times that leaders had received feedback that many career advisers are badly informed about the agricultural sector. It is up to the industry to ensure that this does not continue and that these advisers, who do influence the choices of young people, have the right information in order to provide high quality advice about the opportunities that exist.

The announcement of the rural broadband initiative is an important step … as young people in particular want to live in a networked world

Rate the significance on the future prospects for New Zealand agribusiness of:



Establishing a unified voice for the agribusiness sector to effectively communicate on issues relevant to the sector in a consistent manner

Combining this with a strategy that, provides preferential financial support for students looking to study economically critical subjects, like agricultural science, will increase the numbers willing to take on this more challenging career path.

There is also a need to ensure that we maintain vibrant rural communities to attract and retain people. The announcement of the rural broadband initiative is an important step in achieving this, as young people in particular want to live in a networked world. Often rural communities lack the infrastructure taken for granted in cities, and it is important that the Government considers the impact of any policy it adopts for rural areas. The agricultural sector relies on strong rural communities for its survival, and in challenging economic times the Government needs to ensure policies are not detrimental to the long-term future of these communities. This means maintaining the social infrastructure fabric and ensuring the foreign land investment policy provides some certainty for land values.

Agenda item 32

Create a skills incentive programme to attract appropriately qualified people into rural areas

The lack of appropriately skilled people available or willing to work in the agricultural sector represents a risk to the industry. Staff shortages could prevent the industry from achieving the productivity gains required to drive export growth. Consideration should be given to a programme which will provide financial support to companies needing to recruit specific talents not readily available in their local area. This may include funding to relocate appropriately skilled people from cities or overseas and preferential immigration arrangements.

Agenda item 33

Use funding mechanisms to guide students toward courses that benefit the economy

Students currently receive 'free' money from the Government through the student loan scheme, and are able to use this to pursue whatever course of study they choose. Worryingly, student numbers entering programmes that directly benefit the agricultural economy have been in long-term decline, despite the economic value that these programmes generate. The student loan scheme should be restructured so that only students entering programmes that directly benefit the economy receive the full advantages associated with interest free loans. This will enable the Government to give clear guidance to students as to where it perceives there to be a shortage of graduates, and flag areas in New Zealand with better employment prospects.

Starting the debate on genetic technologies

A mature conversation is needed on the long-term future of our agriculture.

Nearly 60 per cent of respondents rated a detailed risk benefit analysis on the adoption of genetically modified technology as a 'top' or 'high' priority for the future of the industry.

The adoption of genetic technologies remains a politically charged issue in New Zealand. However, attitudes around the world appear to be softening. Many scientists and researchers are mounting credible arguments that it will become more difficult to adequately satisfy the growing global demand for protein without the use of modified plants that resist disease and drought and which are able to grow in marginal soils. Also, use of genetically modified crops is expected to reduce degradation of land and water due to fewer requirements for agrichemicals and fertilisers.

Debate over the issue was raised by many industry leaders, and while it is accepted that New Zealand should not take a leadership position, there is a view that this is not an area we should ignore. Technologies have already been developed in New Zealand that can significantly improve the productive potential of New Zealand's pasture while reducing the environmental footprint of the farming system. These developments, using sysgenic technologies – switching the order of genes within a plant rather than introducing external genes – have enabled scientists to develop pasture seeds that have enhanced drought resistance.

For most consumers, there is no clear link between a clean, green environment and the use of genetic technologies

This could mitigate investment required in large scale irrigation projects, thereby generating environmental benefits. Under current legislation in New Zealand it is impossible to make an assessment of the full potential of the developments, as it is not possible to field test these seeds. However, international data suggests that genetic technologies produce on average a 12 per cent improvement in yield over conventional agriculture.

We have been crossing and breeding plants for many centuries in an attempt to improve the productivity of crops, creating new varieties with different colours, tastes and textures. Historically the creation of a new cultivar has taken decades and been an exercise in trial and error. The use of sysgenic technologies has the potential to increase the speed of breeding a new fruit cultivar by a factor of 20 to 30. This will accelerate the process of natural selection,

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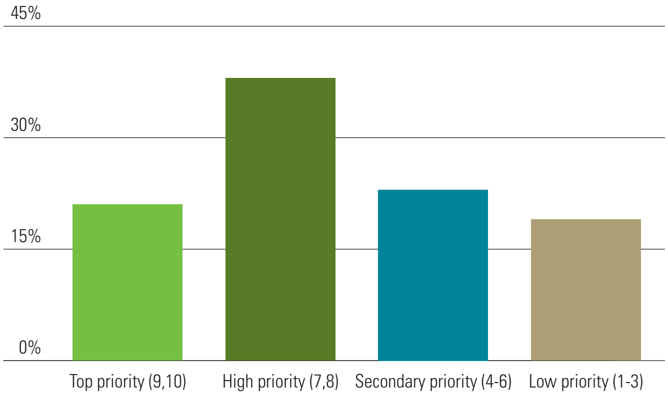

Undertaking a detailed analysis of the benefits and risks of adopting GMO technologies in New Zealand to remain competitive in international markets

Agenda item 34

Understand consumer trends around sustainability in key export markets

Much has been written around consumer trends changing around the world, particularly with regard to consumer expectations around sustainability, traceability, food safety and the use of genetics in the food chain. Much of what is written is based on personal opinion rather than well researched facts. The long-term strategy for New Zealand agribusiness and the go-to market strategies adopted should reflect specific consumer preferences. A public/private collation of industry bodies should complete a comprehensive analysis of customer preferences in key export markets to shape the long-term industry strategy and the tactical approaches adopted to particular markets.

significantly cut costs of development and potentially deliver us the next blockbuster apple or kiwifruit, bringing value back to the orchard gate.

These technologies are already being widely used around the world. When deciding whether to use them in New Zealand we need to understand the economic and social impacts such a decision will have on the industry, and the country, over the next 50 years or more. Consequently it is important that the benefits and risks of genetically modified technologies are carefully examined in a New Zealand context before making a commitment which will affect the future of the industry.

Consumer perceptions of genetically modified products remain an important consideration when deciding whether to more widely adopt these technologies. Public opinion in New Zealand remains against genetically modified products in the food chain, despite the fact that there are many products created from these technologies and consumed around the world, particularly in North America.

For most consumers, there is no clear link between a clean, green environment and the use of genetic technologies. The adoption of these technologies could damage some of the strong, environmentally aligned brands that we have already developed in international markets, despite these technologies not impacting their production. Any adoption would have to be carefully managed to avoid this and would require a lot of work to protect our existing markets.

The debate on the use of genetic technologies in the agricultural sector is one of the important issues facing New Zealand. The productivity benefits of the technologies are well documented as are the concerns that consumers have towards the products, but it is critical that the debate is based on scientific fact and balanced market research rather than emotion and hearsay. At the crux of the debate is the industry vision for the future of New Zealand agriculture – a niche producer of conventional and organic products, or the most efficient producer of value-add food ingredients in the world.

Rural urban gap

The perceived gap is a risk to the future development of the industry.

A report commissioned by the Ministry of Agriculture and Forestry in 2008 concluded that there was no perceivable gap between the rural and urban populations in New Zealand. However, our conversations with industry leaders suggest that, in their minds at least, a gap clearly exists. They also consider it to be a growing one as the rural sector benefits from the commodity price boom while the urban economy battles to recover from the global financial crisis.

The MAF research indicated that a vast majority of respondents in the urban sector recognised the economic importance of the rural and primary sectors, and they could see that the rural sector was a key driver of their own prosperity. The urban population, however, questioned whether the rural community understands the importance of urban New Zealand. This was a view supported by the responses from the rural community, where only 25 per cent of respondents agreed that if the urban sector was performing well the benefits would flow through to the rural sector. The research concluded that the rural urban divide is smaller, and different, to the common perception, but there is a need to strengthen mutual understanding[1].

Industry leaders explained the perceived gap between the two population groups in New Zealand in many different ways: a lack of openness by the agricultural sector regarding the processes that are used on farms, leading the urban population to believe that they are not getting the full story; an urban population that is ethnically mixed, with only a small proportion having a family link or association with a farm; mass media messages on the agricultural sector that tend to focus on negative issues, for example, animal welfare issues and water quality standards in dairying regions; or a perception among the urban population that the rural sector is making super profits at their expense.

However the gap has arisen, in the minds of industry leaders it is real, and has the potential to significantly impact the productivity and profitability of the agriculture industry. The wider population of New Zealand grants the agricultural sector its right to operate and consume the natural resources of the country, and will guide government policy should they believe this right is being abused. Many stories in the mainstream media relate to emotive issues such as animal welfare, or land ownership, or the impact of higher milk prices challenging the right of the sector to operate.

… the onus falls on the rural sector to educate and inform the rest of the population as to how it operates

Consequently the onus falls on the rural sector to educate and inform the rest of the population as to how it operates, and the economic benefits that it generates.

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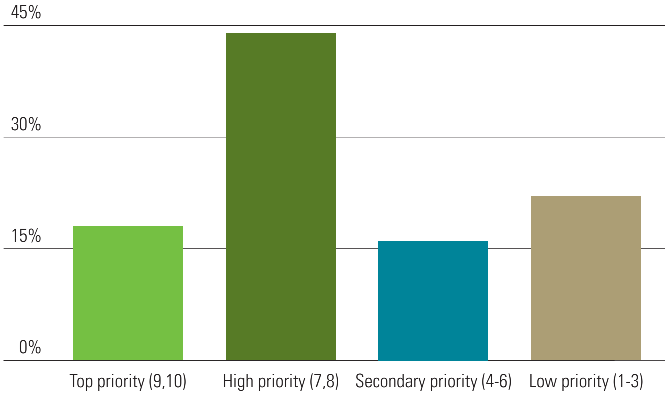


Implementing programmes to close the gap between food producers and urban consumers.

1 Ministry of Agriculture and Forestry; Situation and Outlook on New Zealand Agriculture and Forestry 2009 – Section 6: Rural-Urban Divide: Fact of Fiction?; 2009

As discussed elsewhere in this report, the industry has to make some significant policy choices regarding its operating direction in coming years. These choices could have a significant impact on the future use of New Zealand's land and water resources. Actions such as the intensification of farming systems; the adoption of genetic technologies; and increasing the use of irrigation systems will impact the environment. These are subjects where the debate can become emotive and misdirected if the wider population is not properly educated, resulting in decisions being made that have long-term, negative consequences on the economic wealth of all New Zealanders.

The reality is that mainstream political parties direct their policy development towards urban communities which represent the majority of voters. Developing policy that will win votes in Auckland is more important than policy decisions that will win votes in Taranaki or Southland. The influence that the farming community once had in the national decision making process has been significantly reduced in recent years and consequently the industry has to stand up for itself and take a proactive lead in engaging with urban communities.

Positive initiatives such as the Federated Farmers Farm Days, the active promotion of A&P shows and fieldays in the towns and cities and the rural sector response to the Christchurch eathquake are vitally important, but they must be backed up by other initiatives utilising media to which urban populations can relate.

Agenda item 35

Develop an accessible mass market way to link the urban population to the rural sector

There is a view that the urban population does not understand how value is created by the rural sector, nor does it understand the ethical, social and environmental issues that surround agriculture. Reality television has been used by many sectors to educate the wider population about their work, examples being Border Security which has addressed biosecurity, and Deadliest Catch which focuses on wild harvest crab fishing. The current reality shows within the rural sector in New Zealand, for instance Country Calendar and The Farmer Wants a Wife, have tended to put a rose-tinted perspective around the sector and have done little to help people understand the real challenges of rural life. The reality television genre has the potential to deliver to a mass market audience a comprehensive understanding of the day-to-day operations of New Zealand agricultural business, and show how the industry creates significant value for New Zealand. A better educated urban population will enable more informed debates around key go-forward issues for the agricultural sector including intensification, GMO and irrigation.

Industry Focus: Rural urban gap

Dairy

Creating an effective interface with urban New Zealand

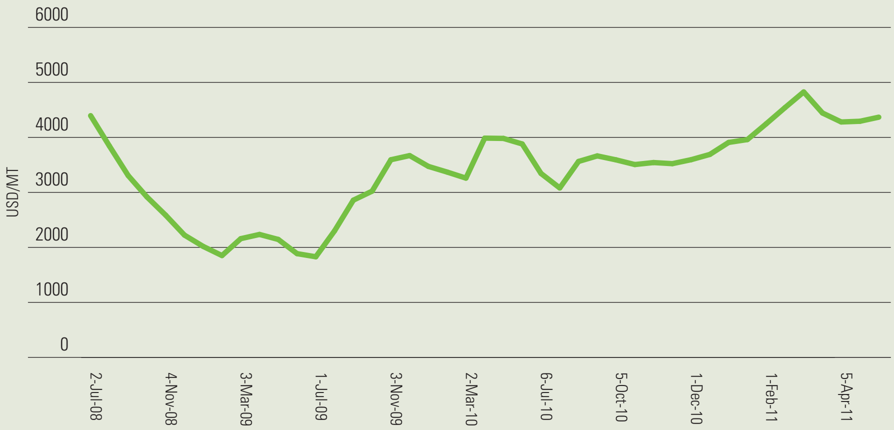
Fonterra's announcement to freeze its wholesale milk price in the domestic market earlier this year attracted a lot of comment from industry leaders. Calls from consumer groups and political parties for the Commerce Commission to investigate and possibly regulate the domestic milk price demonstrate the challenge that the dairy industry faces in communicating its message to the wider New Zealand population.

The dairy industry has recognised the importance of educating the wider population on the role the industry plays in New Zealand's economic success. This reached a peak in December last year when Fonterra released a report prepared by the New Zealand Institute of Economic Research highlighting the direct and indirect impacts that the industry has on the New Zealand economy as a whole, and the wealth it has helped generate via its contribution to economic growth and the Government's tax's coffers[1]. However, the calls for milk price regulation highlight that there is still much the industry can do to explain the link between the price of milk in New Zealand and the economic benefits that a higher milk price has for the country as a whole.

The dairy industry is benefiting as demand for protein from the growing middle classes in China and South East Asia in particular is increasing significantly faster than the global supply. This has caused a significant increase in market prices for our protein products, and has pushed up the retail prices of dairy products in New Zealand as a result. A fundamental issue with regard to domestic prices appears to be that much of the milk set aside to support competition in the industry under the Dairy Industry Restructuring Act (DIRA) is not being used to service domestic retail markets, but instead is purchased by overseas owned processors to produce milk powder products that are then being sold into international markets.

The milk price freeze was a timely move to take some of the heat out of the debate. The real challenge is communicating to the general population that it is not the role of dairy farmers to subsidise the cost of milk in New Zealand. There needs to be an understanding that just because we produce a lot of milk there is no automatic right for the domestic price to be below the international market price. This needs to be explained in conjunction with the wider economic benefits created for New Zealand from the higher milk price and should also direct attention on whether DIRA is working as it was intended in ensuring competition in the market. Successfully communicating this message will promote wider understanding of the importance of the dairy industry and may, at some point, see Fonterra being viewed as New Zealand's iconic company, in much the same way that Nokia is seen in Finland.

Fonterra's global DairyTrade Average Winning Price



1 New Zealand Institute of Economic Research; Dairy's role in sustaining New Zealand - the sector's contribution to the economy; December 2010.

... calls for milk price regulation highlight that there is still much the industry can do to explain the link between the price of milk in New Zealand and the economic benefits that a higher milk price has

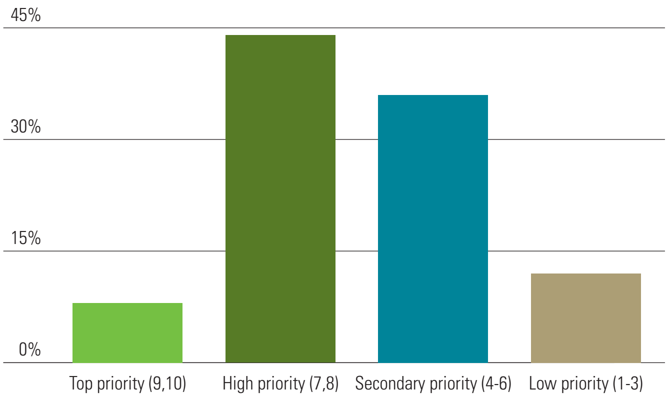
Achieving scale

A challenge for New Zealand's horticulture sector.

In 2009 Horticulture New Zealand adopted a strategy to target the increase in industry revenue from NZ$4.2 billion to NZ$10 billion by 2020 and highlighted that achieving scale in the industry was at the centre of delivering the desired growth[1].

Two years have passed since the strategy was released and the key message coming out of many of our conversations remains that the industry needs to achieve scale to succeed in growing sales. The legislative environment in the kiwifruit industry has enabled Zespri to plan and manage all aspects of the value chain for the kiwifruit growers from the orchard to the customer. This has given the kiwifruit industry the scale needed to build relationships with key customers, bring new innovation to the industry and create value for the growers at the orchard gate. Comparing the export revenues of the kiwifruit industry to the apple and vegetable industries demonstrates how working with scale

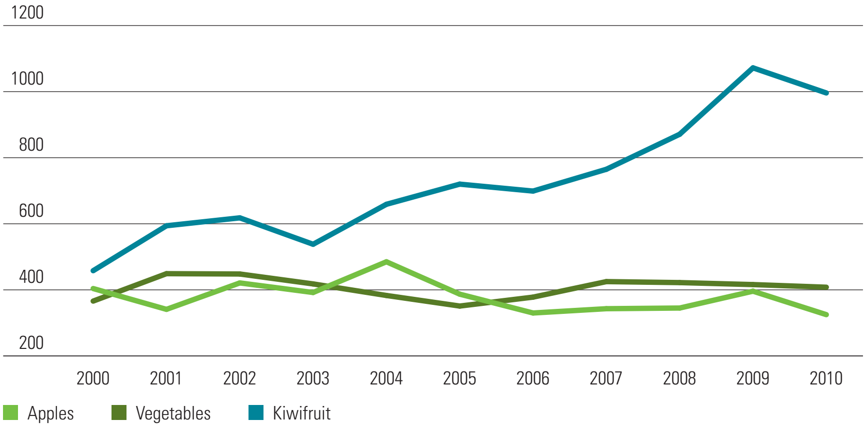
Rate the significance on the future prospects for New Zealand agribusiness of:



Entry into New Zealand's key commodity export markets by producers from lower cost competitor countries

1 Horticulture New Zealand; Horticulture Growth Strategy: Growing a New Future; June 2009

Comparative export sales of New Zealand Horticulture sectors (2000 to 2010)



Source: Statistics New Zealand: Key Statistics Table 7.04 - Value of principal exports (excl re-exports) - SH (Annual - Jun)

in a co-ordinated way has enabled the industry to grow while other horticulture sales have flat-lined over the last decade.

Sectors of the horticulture industry have worked co-operatively in many areas over the years, particularly in product development, however this co-operation has often not extended to the sales and marketing of product. Many industry sectors are made up of many small growers, some of which look to export directly while others work together co-operatively, but often no entity has significant critical mass to have an impact in the market. The apple sector demonstrates this; around 90 entities currently export apples from New Zealand, meaning many of the exporters have no choice but to sell their product to an international wholesaler and accept the price that comes back.

Working together with scale, either through merger and acquisition, co-operative structures or alliances, allows companies to maximise technology use in production, invest in marketing to create brand profile and build value chains directly to the customer. The desire to achieve scale needs to come from within the business in the sector; however it may be an external event that becomes a catalyst for change. The ability for the apple industry to develop a new market in Australia may be the catalyst for that highly fragmented sector to work more closely together.

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For some sectors, the shift to supplying product into new Asian markets, which may require new varieties to be produced to meet a different taste profile, could be a catalyst for greater in-market co-operation.

For the horticulture industry to achieve its ambitious goal for 2020, New Zealand needs to develop more products in which we offer a unique proposition and consequently a degree of market dominance. Achieving market dominance in Shanghai is an expensive business these days, let alone the rest of China or even Asia and the current industry structure will not be able to support such investment.

Consequently, the horticulture industry needs to create businesses or groups with common purpose and scale, that have the ability to source Primary Growth Partnership funding, invest in technology and ultimately transform their product into New Zealand's next kiwifruit. If this does not occur the industry will plateau and the future will look similar to the last decade for the vegetable and apple sectors.

Agenda item 36

Review and evolve PGP to enable smaller collaborative innovation and transformation schemes to benefit

The general response to the PGP scheme has been positive now that projects have started to be approved and funded, although there has been comment that the contracting process is complex and costly, preventing smaller niche industries from developing projects, as they lack a large cornerstone supporter. For example, there are no projects in horticulture to date.

The Government should consider a second tier 'industry transformation' scheme for smaller industry sectors to help deliver transformational change and provide them with the scale to compete in international markets.

Some of the funding may be applied to redesigning an industry sector structure and implementing the required changes.

Foreign investment in agriculture

Overseas ownership of agricultural land remains an emotive issue.

Despite the publicity and political focus attracted over the past year, sales of rural land to foreign investors rated as one of the lowest priorities for industry leaders. The primary concern industry leaders have is if an offshore investor accumulates sufficient land to enable them to bypass the New Zealand-owned processing structures, instead transferring the product offshore for processing – as has happened in the forestry sector – or if land use is altered to less productive activities like growing bio-fuel crops or trees for carbon offsets.

Most felt that controls are now in place to address this risk, citing the changes the Government has made to the Overseas Investment Act to provide Ministers with discretion to consider applications from the perspective of the economic benefits it creates for New Zealand.

KPMG released a paper in August 2010 on the role of foreign investors in the New Zealand agribusiness sector, concluding there was no apparent wave of foreign land sales underway, nor was one likely to occur. Since then though, analysis has indicated more land sale approvals to overseas investors. However the significant approval in February was a single forest asset sold between foreign owners. Many of the farm sale approvals have been of individual farms to German investors or syndicates, currently the most active buyers of New Zealand rural assets. In our previous report, we recognised that international investment has supported New Zealand's economic growth and development since the time of European settlement, and as a small country with a restricted amount of equity available, we will always need foreign capital in order to take advantage of good ideas.

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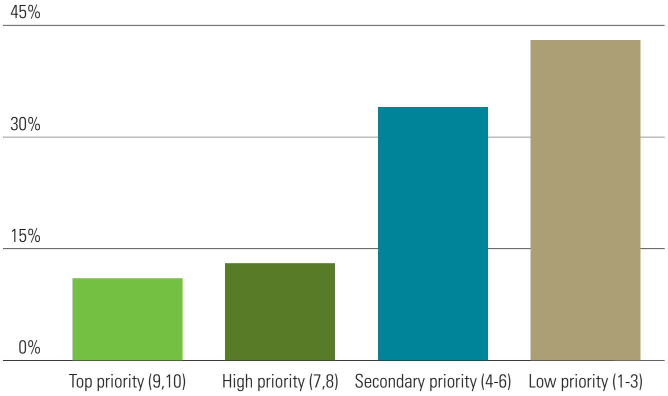
A number of industry leaders compared our situation with that of Australia, where many significant farmer-owned businesses have fallen into foreign ownership in recent years. The Australian Government has identified this risk to the country and has initiated development of a national food and agriculture strategy. This, however, appears to be 'locking the stable door after the horse has bolted'. The Australian agriculture sector now faces a future with significant control being exerted from offshore, making it more difficult for value to be realised at home and returned to the farm gate.

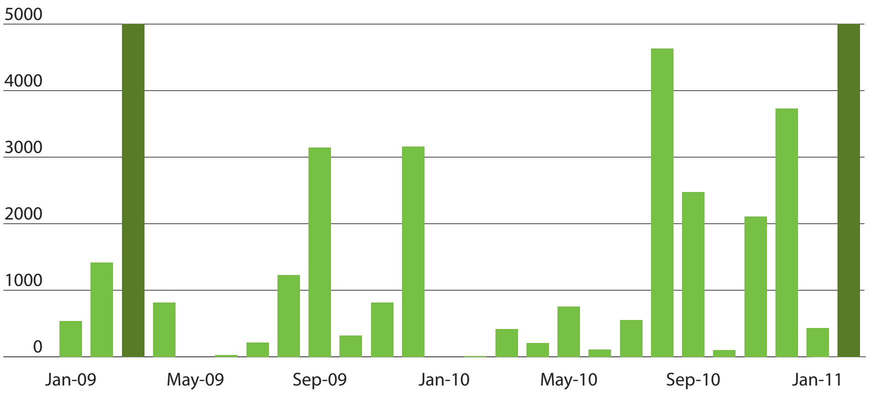
The changes to the Overseas Investment Act mean that New Zealand may well avoid the fate of Australia – selling the processing side of the industry – but a number of leaders suggested we need to ensure we understand exactly where the value lies in the industry. An example, arising in

Rate the significance on the future prospects for New Zealand agribusiness of:



Restricting foreign investment in rural land and agricultural assets to retain NZ control of productive assets

Overseas Investment Office net land sales approvals by month in hectares (Jan 2009 to Feb 2011)



Source: KPMG analysis of Land Information New Zealand - Overseas Investment Office - Decisions archive
Notes: Net land area represents the total land area proposed to be transfererd into foreign ownership under consents granted during the month March 2009 total net land area approved amounted to 9,427 hecatres and in February 2011 to 19,339 hectares.

many of our conversations, concerned the acquisition of a controlling stake in PGG Wrightson by the Chinese company, Agria, and its partners. Many perceive there to be significant unrealised value in the seeds business of PGG Wrightson, in particular the intellectual property rights it holds for new seed developments. This could be critical for the long-term future of New Zealand agribusiness.

There is a view that the sale of this asset should have been considered a far more significant issue to the economy than the Crafar farm land, although it attracted significantly less attention.

Leaders from a number of sectors highlighted that the only way many industry sectors could achieve their potential would be through co-investment from foreign investors. Aquaculture is a good example of an industry in which significant capital investment is required to maximise the potential that the provision of new water space creates. A well capitalised investor helps underwrite the risk associated with the investment given the length of time required to develop a new facility. The right foreign co-investment partnerships for New Zealand agricultural processors could contribute positively through market access, technical support and new innovation.

Agenda item 37

Incentivise vehicles that allow young farmers to co-invest in a farming business

The growth in commercial, multiple-unit farming operations means it is increasingly hard for young farmers to take the first step toward farm ownership. Instead they are left with farm manager or share milker type roles. Our discussions have indicated many believe that farm managers perform better when given autonomy to farm the land as their own, and this can be reinforced through co-investment structures such as equity partnerships. Co-investment structures provide a mechanism for young farmers to get on the land ownership ladder, whether in partnership with New Zealand or international investors. A tax incentive structure should be developed for co-investment structures where the operating farmer is under 35 years of age and there is a plan to enable them to increase their share in business overtime and make the co-investment model more attractive to investors.

Appropriate regulation

Overbearing regulations have impacted the development of some industry sectors.

Discussions with industry leaders highlighted an appropriately designed regulatory framework is required to allow business activity to progress unimpeded by unnecessary compliance costs and time delays. Regulatory issues were raised specifically around the New Zealand aquaculture industry and the challenges of securing consents under the Resource Management Act.

Industry Focus: Appropriate regulations

Aquaculture

Recovering from a lost decade of development

The third attempt at creating a workable Aquaculture Act will be on the statute book by this November's election. But there is still concern as to whether this Act will create a regulatory environment that will encourage investment in new aquaculture facilities around New Zealand.

The regulatory environment that existed for much of the last decade was not conducive to new development and consequently there was little new production until the current government tweaked the rules early in this term. The structure of the old legislation required potential investors to first secure a change in the local plan and then seek consent to operate the farm, with no certainty that consent would be granted. The rules concentrated decision making into local government so there were no consistent rules between regions. This created an environment where the risk of failure was too high for investors to develop new infrastructure. The new Aquaculture Act has introduced some changes to simplify the consenting process, but much of the decision making has been left at the local council level and so the new legislation may only deliver half the solution. A safety net built into the proposals is that the Minister of Aquaculture will have power to make an executive decision that overrides a local decision to enable a development to progress. Ministers, however, may be unwilling to use this if they are working to a different agenda than that of the current government.

The financial potential of the aquaculture industry is significant, but it is an industry with a lot of risk and long timeframes for new ventures to achieve profitability. It is littered with start up failures. But the new legislation does present an opportunity for the industry to move forward to develop new markets, introduce new species and meet some of the unfulfilled demand for our products, particularly salmon. The industry has worked hard to increase productivity from existing water space, but new space is urgently needed to enhance the quality of production and put our offerings onto the menus of top restaurants around the world.

Aquaculture has aspirational goals and after a decade of frustration is ready to work within the new rules to explore opportunities to create value. Recent history demonstrates the importance of having a regulatory framework that provides certainty and consistency in the decision making process. It is important that regulatory frameworks are designed to optimise results from an environmental, social and economic perspective. This is something New Zealand still needs to work on so we have the ability to support the lifestyle we wish to enjoy in the long-term.

Animal welfare

Robust animal welfare is a baseline for a farmer to operate.

The need for robust animal welfare standards was raised in a number of conversations. There is no dispute that farmers who fail to treat animals in a humane and ethical manner do not only fail themselves, they fail the industry as a whole. Treating animals appropriately is a baseline operational standard for all farmers and the industry has clearly put a stake in the ground on this issue. Public debate over animal welfare standards in the pork and poultry sectors in recent times highlights the importance of these standards being not only backed by science, but they also need to be acceptable to the wider population, the ultimate consumer of the product.

Industry Focus: Animal welfare

Pork and poultry

Evolving animal welfare practices to maintain the license to operate

The pork and poultry industries have found themselves at the centre of animal welfare discussions on more occasions than they would like over the last few years as the media challenges the impact that their intensive farming practices have on the animals. The problem for both industries is that it is difficult to use robust scientific evidence to overcome a proposition that systems are unethical, if the pictures presented tell only one side of the story.

Consequently, both the pork and poultry sectors are facing new animal welfare codes that will have an adverse impact on the cost of producing pork, bacon, eggs and chicken in New Zealand. The challenge for both sectors will be passing these costs on to the consumer, as history suggests that despite wide support for free range production of both pork and poultry products, only a small proportion of customers are prepared to pay the incremental price. For instance, around 80 per cent of consumers want eggs to be produced without cages, but 88 per cent of eggs sold are cage produced, as this is the cheapest form of protein available in the market.

While the domestic poultry industry faces little competition – a result of import restrictions put in place to protect New Zealand's avian-disease free status – the pork industry is having to come to terms with the new welfare regulations at a time when import regulations have been relaxed. This means our domestic industry is being required to phase out the use of sow stalls at the same time as facing further competition from cheap imported pork products. It is a 'perfect storm' for many pork producers, particularly as the cost of imported feed stocks are at all-time high levels.

The pork and poultry sectors will need to evolve to survive as economically viable industries in the long-term. The industries will need to innovate with their product offerings to create a compelling message about the safety and efficacy of the product in order to command a higher price in the supermarket and recover increased costs. For the pork industry, this will have to focus on the confidence consumers should have in the provenance of New Zealand produced product. Intensive, housed farming systems have always required high standards of stockmanship. The changes to the welfare codes and highlighting the quality of the production system to secure a premium in the market will result in even greater focus on maintaining the highest standards of animal care and welfare.

Agenda item 38

Minimum stockmanship standards to be met before a farmer is licensed to own animals

Outliers on animal welfare practices impact the whole industry and create a perception that unethical or unsustainable farming practices are being used. Currently there is no generalised minimum stockmanship qualification system in place in the agribusiness sector. This creates opportunities for people that lack the requisite skills to own and farm animals. Ownership of animals for commercial purposes should only be permitted when a minimum standard of stockmanship has been demonstrated, through completing a programme including classroom education, probationary work and a mentoring programme. The industry needs to put a 'stake in the ground' around animal farming standards and clearly link it to a farmer's right to operate.

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