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Members
Primary Production Select Committee
Youth Parliament 2016

Inquiry into what New Zealand’s primary industries must do to capitalise further on our reputation as a producer of high-quality, safe and trusted foodstuffs to the world

The Primary Production Committee has been asked to conduct an inquiry into: “What New Zealand’s primary industries must do to capitalise further on our reputation as a producer of high-quality, safe and trusted foodstuffs to the world?” on 19 July 2016. This paper has been prepared to assist the Committee with its examination. Issues are identified and possible lines of inquiry are provided for the Committee to consider. The Committee may also wish to raise these matters with the witnesses who have been asked to appear before the Committee to give evidence on this inquiry.

Introduction









New Zealand as a primary sector exporter: a short history

New Zealand’s modern primary sector constitutes around three quarters of total merchandise exports.

Having exported food since the 18th century, the modern model emerged following the entry of Britain (the major export destination of the time) into the European Union, and removal of agricultural subsidies, in the mid-1980s. It was this removal of direct government support that is often attributed as a driver for the innovation and efficiency of New Zealand primary sector producers; important components of New Zealand’s reputation. A key statistic that illustrates positive progress from this time is that of sheep numbers; in the mid-1980s New Zealand had 70 million sheep compared to today’s 30 million, yet the same amount of sheep meat is produced now thanks to advances in animal husbandry, genetics and nutrition.

Today, New Zealand’s top five primary export sectors by revenue are dairy, meat and wool, forestry, seafood and horticulture (see Table 1 overleaf)

Table 1: Sector revenues from 2012-2014, the estimate for 2015, and forecasts for 2016-2019 (SOPI, 2016)

YEAR TO 30 JUNE	Actual			Estimate	Forecast			
	2012	2013	2014	2015	2016	2017	2018	2019
 DAIRY	13 659	13 441	18 068	14 174	14 813	16 579	17 451	18 429
 MEAT & WOOL	7 714	7 723	8 093	8 757	8 543	8 826	8 872	8 963
 FORESTRY	4 272	4 478	5 144	4 630	4 696	4 923	5 113	5 332
 SEAFOOD	1 500	1 466	1 427	1 513	1 600	1 658	1 716	1 799
 HORTICULTURE	3 543	3 532	3 786	3 969	4 241	4 449	4 530	4 681
 OTHER	1 441	1 561	1 559	1 960	1 631	1 741	1 747	1 866
 ARABLE	171	223	228	198	200	204	215	230
 TOTAL	32 300	32 425	38 305	35 201	35 725	38 380	39 645	41 300

What does the future hold?

The Situation Outlook for Primary Industries (SOPI) document, released annually by the Ministry for Primary Industries (MPI), provides an update of the current status of the primary industries, and projects future performance and earnings. Total industry export earnings are projected to rise from 2015's forecast \$35.2 billion up 17 percent to \$41.3 billion in 2019. This is largely due to growth prospects in key markets, particularly China and Southeast Asia.

Globally, the demand for food is expected to grow significantly in coming decades. The Food and Agriculture Organisation (FAO) estimates that a 70 percent increase in agricultural production will be required by 2050 (FAO, 2009). The World Bank projects a 30 percent increase in global fish consumption by 2030, by which time aquaculture will likely supply more food fish than wild caught fisheries (The World Bank, 2013). Aquaculture is expected to be a major driver of growth in New Zealand's seafood export earnings, with export revenue expected to grow by 19 percent to 2019, lifting its total share of seafood export earnings to 28 percent.

The Committee on World Food security estimates that an average net investment of \$83 billion per year is needed to raise agricultural production to meet the demands of a global population expected to pass 9 billion by 2050 (CWFS, 2013). In their joint Agricultural Outlook 2015 report, the OECD and FAO identify the major changes in demand as coming from developing countries, where slowing population growth, rising per capita incomes and urbanisation all will increase demand for food.

Rising incomes prompt consumers to diversify their diets by increasing their consumption of animal protein relative to other food sources. For this reason, the FAO expects prices of meat and dairy products to be high relative to the prices of crops in the coming decade.

Exports of agricultural commodities are projected to become concentrated in fewer countries, while imports become more dispersed over a large number of countries. Specifically, dairy exports are projected to further concentrate in the four prime origins: New Zealand, the EU, the USA and Australia (OECD and FAO, 2015).

The New Zealand Reputation

As a small player with an open, liberal approach to trade, New Zealand is vulnerable to global trends. To reduce risk and, conversely, capitalise on opportunity, New Zealand relies on a positive reputation and an array of non-price differentiating factors to attract customers and return premiums where possible on merchandise products.

There are many broad elements that make up the reputation of New Zealand's primary industry products to the world. Many of these are specific to products, brands, or regions, and individual producers use innovative marketing strategies to forge their own way in the international marketplace. There are, however, a number of common elements, or qualities, that can be broadly attributed to the New Zealand primary industry reputation. New Zealand is recognised as a nation with:

- very little corruption (ranked fourth in the world in 2015 by transparency international¹);
- a high degree of freedom and transparency (a freedom score of 98/100 by Freedom House²);
- an open, liberal and trusted trade reputation;
- a high degree of diligence in maintaining world-leading food safety and animal welfare standards;
- high quality, safe, trusted foodstuffs;
- large, expansive, attractive green areas;
- a long and successful history of primary sector export; and
- a commitment to innovation and resilience from the primary sector community.

Food safety

Food safety is a key reputational factor. First and foremost, consumers want their food, and their family's food, to be safe. New Zealand's reputation is that of a trusted supplier of high quality and safe food to consumers in more than 100 countries. This requires ongoing diligence to ensure the highest standards of food safety for New Zealand producers. These standards are valuable in and of themselves, however there are wider elements to harnessing and communicating food safety to best form and leverage off a reputation. Food traceability and supply chain transparency are important components: MPI places an ongoing focus on the farm-to-plate journey of food. This is important for modern consumers, who are demanding to know more of their food, how it is produced, and the businesses that produce it. Looking forward, as more food has globally sourced ingredients, and more complex logistics and transport systems, the role of technology will become more critical to maintain integrity in this area.

Sustainable production

"Clean and Green" has been a catchphrase long associated with New Zealand. Consumers are becoming more and more conscious of the origins of their food, the way it is being produced, and the wider environmental effects of this production (see: *Knowing the market* section below). Additionally, the productive sectors are inherently reliant on the biological systems and elemental cycles that underpin them. For New Zealand primary producers, environmental performance needs to be at the forefront of planning and performance, both for our reputation with global consumers, and for the New Zealand public. Without the social license to operate from those closer to home, New Zealand's primary industries cannot

¹ <http://www.transparency.org/cpi2015#results-table>

² <https://freedomhouse.org/report/freedom-world/freedom-world-2015>

maintain a strong productive base. MPI has a shared goal of maximising on-farm productivity within sustainable limits, which is partly achieved by policy and regulatory tools such as the national policy statement for freshwater management.³

Perception is key to this element of reputation. When New Zealand is seen as a land of expansive green areas surrounded by vast ocean and braided with flowing rivers, producers can align this perception with the quality and freshness of their products. Aquaculture producers have been successful in this area, with products often grown in the picturesque surroundings such as the Marlborough Sounds. When combined with strict controls for food safety and considerations for sustainability, this can pose significant reputational leverage.

Further capitalising on New Zealand's reputation

Knowing the market

Key to capitalising on non-price factors in international markets is understanding markets and their consumers. New Zealand will never feed the entire world, and cannot produce bulk quantities of most primary industries products at levels of cost that will rival the big global producers. Instead, producers can identify the markets in which our products can best perform, and the target consumers within the markets to which our products and reputation best align.

A target demographic from which New Zealand primary industry products could stand to gain significant value is the emerging middle class in developing countries; a result of the aforementioned demand and changes in diet stemming from rising per capita incomes and urbanisation in the developing world (FAO, 2009).

A 2014 report⁴ by the Agribusiness and Economics Research Unit (AERU) is aimed at exploring how export firms can capture price premiums in overseas markets, including consumer preferences for “credence attributes”⁵ in products. Overseas consumers (including from the U.K, China and India) value food attributes in New Zealand products in different ways and to varying degrees. India and China valued both food safety (overall the most important attribute), and other credence attributes more than consumers in the U.K. They were considerably more concerned about attributes such as organic, environmental quality, animal welfare and recyclability. In the rapidly changing (and growing) market of China, the report highlighted that ‘safe food’ is also related to the idea of “green food”, with consumers associating organics with being safer and healthier because of the lack of pesticide and other residues on food.

Research suggests that consumers are, to varying degrees, willing to pay price premiums for these attributes. For example, one study (AERU, 2014) found that consumers are willing to pay, on average:

- In UK, China and India, 18-77 percent more for lamb and dairy food safety.
- In Japan, 110 percent more for food safety labelled milk and 97-264 per cent more for BSE-tested meat.
- In China, 64-140 percent more for traceability, organic and GM-free for Government certifications; and 46-113 percent more for foreign or private certifications of traceability, organic and GM-free food.

³ <https://www.mpi.govt.nz/protection-and-response/protecting-our-resources/fresh-water/>

⁴ <https://researcharchive.lincoln.ac.nz/bitstream/handle/10182/6349/Maximising%20Exports%20Returns%20report%20July%202014.pdf?sequence=1>

⁵ Credence attributes are features of a product that are not directly determinable via a product experience; they are often expressed by some form of labelling or certification scheme, e.g. food safety attributes.

- In USA, 43-96 percent for variety of animal welfare attributes certified by USDA but with inconsistent willingness to pay (premiums and discounts) for consumer group and third-party certifications.
- In China and India, 12-42 percent for reduced water pollution, reduced greenhouse gas (GHG) emissions and improved biodiversity in agricultural production.

Regardless of what markets, and which groups of consumers, emerge as the key targets, staying conscious of emerging trends, and building relationships in these markets, will be key to capitalising on our reputation.

Further to this, having the flexibility to adapt to evolving preferences is important; some attributes, such as food safety, will always be valued highly, but others will ebb and flow in popularity, especially among wealthier consumers. New Zealand's small size can be an advantage in this way, possessing an inherent manoeuvrability, with less inertia and therefore (to an extent) greater flexibility.

Accessing new markets

MPI is expanding its offshore presence in order to broaden and deepen relationships with key officials in fast-growing and emerging markets (SOPI, 2016). This is to generate greater understanding of these markets, and assist with influencing policy and regulatory developments. Most importantly, this offshore presence will maintain and enhance market access for New Zealand products.

New Zealand's reputation starts at the highest and broadest level, as a responsible and respected global citizen. By operating with integrity in the many international fora to which New Zealand belongs, international ties are strengthened and trade opportunities emerge and develop. These ties and agreements open the door for industry relationships and collaborations, which gains consumers for New Zealand products and creates a two-way flow of information, allowing producers to better communicate our story to consumers, and providing information about existing and potential consumers back to producers.

Being an effective and responsible trading partner

Being a small country and a small market a long way from international consumers, it is difficult for New Zealand to have reciprocal value to trading partners. To compensate for this, we have to be especially effective at engaging with and positively influencing a wide range of countries and international bodies. New Zealand does this by consistently adhering to rules-based trading under the World Trade Organisation (WTO), and maintaining effective relationships with other governments to ensure that, when it comes to market access requirements, we are treating foreign exporters in the same way as we expect them to treat ours.

Primary industry imports and exports have a specific range of standards and legislation for animal and plant products. These are risk-based and proportionate to risk, and are consistent with the international Sanitary and Phytosanitary (SPS) Agreement.⁶ This Agreement is key to ensuring transparency between trading partners when applying protection against imports that can potentially harm people, animal and plants. The unfair allocation of protection for SPS impact can result in unnecessary compliance costs and/or barriers to trade.

⁶ <http://www.biosecurity.govt.nz/strategy-and-consultation/strategy/international-agreements/sanitary-and-phytosanitary-sps-agreement>

Legislative support

The two most important factors for consumers in target markets are food safety and security of food supply. For New Zealand, these factors are primarily addressed through the combination of world-leading food safety requirements, a focus on increasing productivity, and a diligent biosecurity system to protect both native flora and fauna, and the productive sectors. Remaining at the forefront of global progress in, and being able to effectively detect, respond to and learn from any threats to these areas is critical to capitalising on this reputation.

MPI's programme of legislative reform prioritises regulatory regimes that best serve the growing and protecting of New Zealand. This involves work such as:

- the Animal Welfare Amendment Bill which aims to improve enforceability and transparency of animal welfare policies and regulations;⁷
- the Food Safety Law Reform Bill, which looks to better align and improve existing food safety legislation⁸;
- the review of the Fisheries Act 1996, to better achieve value from fisheries sources within environmental limits;⁹ and
- Biosecurity 2025,¹⁰ which reviews and future-proofs the multi-layer biosecurity system.

Productivity

Both to maintain a strong reputation for consistent and quality food supply, and to remain competitive on the world stage, New Zealand requires constant productivity gains. Trade partners, their importers, and their consumers want consistency of supply. The transparency, political and social stability, and low levels of corruption in New Zealand send a message of stability and reliability. Productivity gains require innovation, and focusing investment on research and development for the primary sector helps foster this innovation and increase productivity.

New Zealand has many domestic policies aimed at increasing productivity. One initiative established in 2009, the Primary Growth Partnership, features a range of fund-matching partnership projects between industry and government focusing on boosting productivity through on-going investment in innovation, delivering long-term economic growth and sustainability across the primary industry sectors.¹¹

Globally, productivity is a key factor for food security. Growth in agricultural productivity is a key recommendation of the inter-agency report lead by FAO and OECD for opportunities for economic growth in relation to food security.¹² Another FAO report estimates that in order to feed the 2050 global population, 80 percent of the necessary production increases in developing countries would come from increases in yields and cropping intensity. However globally the rate of growth in yields of the major crops has been steadily declining. The challenge for technology is to reverse this decline, and although investment in agricultural R&D continues to be one of the most productive investments (with rates of return between 30 and 75 percent) it has been neglected in most low income countries.¹³

⁷ <https://www.mpi.govt.nz/law-and-policy/legal-overviews/animal-welfare/>

⁸ <http://www.foodsafety.govt.nz/policy-law/food-regulation/nz-food-legislation/>

⁹ <https://www.mpi.govt.nz/law-and-policy/legal-overviews/fisheries/fisheries-management-system-review/>

¹⁰ <https://www.mpi.govt.nz/protection-and-response/overview/biosecurity-2025/>

¹¹ <https://www.mpi.govt.nz/funding-and-programmes/primary-growth-partnership/>

¹² OECD-FAO Agricultural Outlook 2015 <http://www.fao.org/3/a-i4738e.pdf>

¹³ http://www.fao.org/fileadmin/templates/wsfs/docs/expert_paper/How_to_Feed_the_World_in_2050.pdf

The relevance of this for New Zealand is two-fold: firstly, it highlights the importance of investing in R&D for productivity, and secondly it highlights a role that New Zealand has internationally as a partner and a collaborator. Collaboration is important for New Zealand both for strengthening international ties and to develop technologies and solutions for the primary sector both at home and abroad.

One area in which we lead and collaborate globally on, and which also is a key matter of environmental reputation, is that of reducing greenhouse gas emissions from agricultural sources. New Zealand agricultural systems are among the most productive in the world, the emission intensity of the economy has decreased 31 percent since 1990. There are currently no commercially viable mitigation technologies for biological greenhouse gas emissions. New Zealand invests around \$20 million annually on agricultural emissions research. One component of this is the Global Research Alliance on Agricultural Greenhouse Gases, which New Zealand helped establish in 2009. The aim of the Alliance is to increase international cooperation, collaboration and investment in research into ways to grow more food without increasing greenhouse gas emissions. To date (March 2016) 46 countries have joined the Alliance, including most of the world's major agricultural producers.

Fernmark

Marketing New Zealand products collectively on the international stage is an evolving process. In March 2012, the New Zealand Government through New Zealand Trade and Enterprise (NZTE) launched the 'New Zealand Story'. This initiative aimed to assist companies in gaining a competitive advantage in international markets by telling a more accurate and consistent story about what makes New Zealand unique.

Under the *Fernmark Licence Programme*, businesses that meet the eligibility criteria can use the FernMark on their products. The mark is distinct both from a statement of origin (e.g. 'Made in New Zealand') and from an assurance of quality. Instead, its value is as a marketing device providing global differentiation and to provide the licensee with a 'country of origin' marketing element as part of their overall value proposition.

MPI has developed a Customer Assurances Programme to provide a universal framework that allows MPI to endorse claims by companies that are not legal trade requirements, but are valued by businesses and consumers, not governments.

These customer assurances are about assisting New Zealand products to gain more or better shelf-space and achieve better returns by leveraging New Zealand's potential or real edge in a market.

The Consumer Insights Programme supplements this work, gathering data on how consumers engage with New Zealand Products. This work, for example, has revealed that when Chinese consumers discuss New Zealand online, 70 percent of that discussion is about food. It has also shown that New Zealand has a stronger country brand identity than Australia in this market, and that Chinese consumers associated words like 'taste', 'safety', 'genuine' and quality with New Zealand food products.

Handling crises

An important element of reputation is how one reacts in a crisis. Threats to production, or possible threats the health and safety of products and thus consumers, can have a significant effect on wider reputation. The flipside to capitalising on a positive national reputation for primary industries products, is that you are collectively vulnerable to negative trends or events.

Thus a key factor in capitalising on New Zealand's international reputation moving forward is limiting the impact of these threats. This starts with reducing the likelihood of such threats; for New Zealand this is the aforementioned strict food safety, animal welfare and biosecurity regimes. Beyond this, maintaining strong relationships with trade partners based on trust and open communication, and building open networks and safeguards to effectively inform and reassure when threats do emerge, is critical.

Report to the house

The Committee is required to report its findings on this inquiry to the House. The purpose of your report is first to inform the House and stimulate debate. In doing so your report should reflect both the oral and written evidence the Committee received, the issues the Committee considered in-depth, and the views of the members. From these the Committee should develop conclusions and recommendations to the Government.

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Ministry for Primary Industries
Report Writer
Youth Parliament 2016

Members may wish to ask:

1. How has New Zealand's reputation changed over the past few decades?
2. What is being done to diversify primary industries markets?
3. What is being done to diversify primary industries products?
4. What are some specific examples of products or companies that have capitalised particularly strongly or successfully from New Zealand's reputation?
5. What kind of work does New Zealand do to better understand consumers in target markets?
6. What do you see as the biggest threat to New Zealand's primary industries' reputation overseas in the short and long term?
7. What primary sector industries do you see as most primed to take advantage of future market and consumer trends and why?
8. In your experience, how do overseas markets view New Zealand products, and how has this changed over time?
9. "Clean and Green" as a way of viewing New Zealand, and New Zealand products, overseas has faded somewhat in recent times. Do you agree with this assessment, and is it a concern?
10. In what ways do you think that the Government can better support primary industries, and producers, in enhancing the reputation of products overseas, and helping capitalize on this reputation?

References

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Further reading

As well as considering this background paper, Youth MPs are welcome to undertake their own research on their committee topic (or on the Bill or any aspect of Youth Parliament 2016). The Parliamentary Library has agreed to accept one question per Youth MP which they will endeavour to answer to inform your work. If you have not already done so, please contact jill.taylor@parliament.govt.nz to take advantage of this opportunity.

