



Agribusiness Agenda 2018

We need to tell you our stories

Layering our products with
verifiable attributes

June 2018

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We love what we do every day, **inspiring confidence and empowering change** by working closely and connecting people across New Zealand's agri-food sector.

Contents

Ministerial foreword	3
It's time to take back the initiative	4
Setting the scene for this year's Agenda	9
The year in review	10
The 2018 Agribusiness Agenda Priorities Survey	14
Shaping the Agenda	16
We don't know what it will look like but we know it is coming: Change	22
Perspectives	24
Natural capital	34
Social capital	42
Economic capital	48

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**CANTERBURY
A&P SHOW**

AWDT
Agri-Women's Development Trust
Supported growth

 **SPROUT**

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NUFFIELD
NEW ZEALAND
Global Vision, Leadership
and Innovation in Agriculture



KPMG
Agribusiness
Agenda



**ASB
MAGS FARM**


KELLOGG
Rural Leadership
PROGRAMME

KPMG

Ministerial foreword



Hon. Damien O'Connor

Minister of Agriculture, Biosecurity, Food Safety and Rural Communities. Damien is also Minister of State for Trade and Export Growth, New Zealand

Seven months into the job, this is my first foreword as Minister for Agriculture for the KPMG Agribusiness Agenda and it comes as New Zealand's primary industries face both challenges, such as *Mycoplasma bovis*, and opportunities, such as opening up new markets with the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Our producers continue to innovate, develop and export high-value products to our overseas markets. Primary sector exports are expected to grow to over \$42 billion this year with strong revenues across all sectors, led by dairy, meat, and forestry.

A strong biosecurity system continues to be ranked highest priority in the KPMG Agribusiness Agenda survey results, and rightly so, with food safety also a high priority. These are front of mind for me as minister for both portfolios.

To bring increased focus to these areas, the Government has established new business units within the Ministry for Primary Industries (MPI), including Biosecurity New Zealand and New Zealand Food Safety.

We need to improve the biosecurity system, which is under increasing pressure. As part of that, I am committed to review the 25-year-old Biosecurity Act 1993, to enhance protection of the whole of the primary sector and to enable and promote an agile system.

In February, the Government passed the Food Safety Law Reform Act 2018, which addresses the recommendations from the Whey Protein Concentrate Contamination Inquiry. It includes a range of changes such as strengthening our responses to food safety incidents and creating a more consistent and fair approach to enforcement for non-compliance.

After years of mucking around we have established a robust, scientific export standard for Manuka honey.

This year's KPMG Agribusiness Agenda also highlights a range of other Government priorities, such as supporting rural communities and developing sustainable practices through innovation and technology – a story worth telling the world about.

I am supporting the adaptation and resilience I see in rural communities by enhancing access to essential infrastructure, services and technology.

Oversubscription to the Sustainable Farming Fund (SFF) will be relieved with a \$15 million injection in the recent Budget 2018. Of the 86 applications last year only 28 could be accepted with the funding available. This boost builds on work I prioritised late last year – the creation of SFF Tere to help our creative smaller industries.

It's for the reasons above and the issues raised in previous KPMG Agribusiness Agendas that I have appointed a primary sector council. This is a group of forward-thinking agribusiness leaders who will provide a strategic vision for the whole sector and collaborate with each industry to develop a sustainable and valuable path forward.

Consumers are increasingly buying products to align with their values and we must make the most of our natural advantages such as pasture-fed livestock, environmental sustainability and good animal welfare – and now more than ever is the time to tell that story.

A handwritten signature in blue ink, appearing to read 'Damien O'Connor', written in a cursive style.

It's time to take back the initiative

By Ian Proudfoot

KPMG Global Head of Agribusiness

“People outside of farming do not realise that your whole life is consumed by farming – day in, day out. After six years in the industry, I am not certain I want a farm now. With the low returns, environmental issues, weather and biosecurity risks, long hours, animal health and welfare challenges, why would you do it? That said I am PROUD to be a farmer, a food producer, and I welcome people to come and visit my farm.”



Comment from
grassroots roundtable

For the first time this year, we held two grassroots roundtable conversations in addition to our usual industry leaders' discussions. We invited good farmers, not those good farmers that sit on boards (although they may do in the future); but farmers that are ambitious and currently focused on growing successful, sustainable businesses. The discussions were fast-paced and sharp, and were encapsulated in the preceding quote. Working in the agri-food sector is hard. It takes over your life, you hate it at times; but you are going to keep doing it because you love the challenge and are passionate about producing high-quality food for customers around the world.

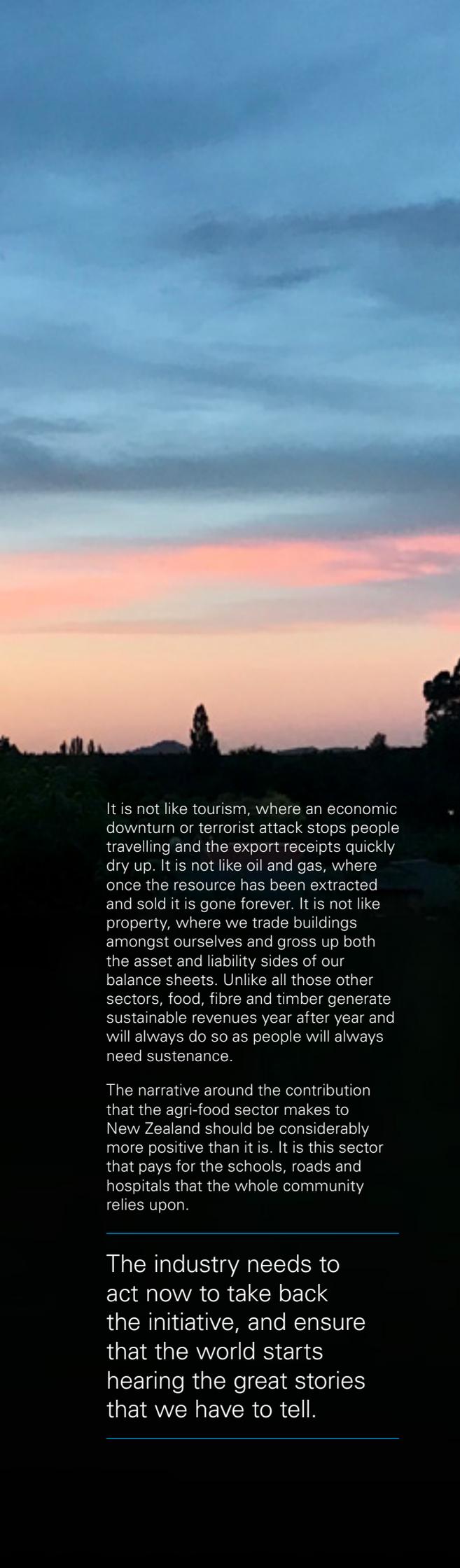
The problem is that the majority of New Zealand community has no knowledge about the complexities of running a farming business. Our customers are rarely, if ever, exposed to the passion of the people that grow the food that they pay a premium for. Our regulators are so focused on the minutiae of their rules that they miss the bigger picture, and fail to recognise how their actions impact the health and wellbeing of rural communities.

The mainstream narrative around the primary sector is nearly always negative. It feels like a newsreel of environmental neglect, farmers making big profits, animals mistreated, income crashes,

disastrous investments, disease spreading out of control, water being too dirty to swim in, people getting sick from eating food. We all recognise these stories and our hearts sink when the latest iteration breaks, as we know the media will milk it for a few days. That is one of the drawbacks of living in this beautiful place at the bottom of the earth, where there are few big happenings to report on, and mole hills can quickly become mountains.

The quality food, fibre and timber being created by thousands of farmers, growers and producers around New Zealand every single day is rarely, if ever, celebrated. The contributions that farmers make to their local communities and to New Zealand go largely unnoticed and recognised. The investments that the industry has made to better manage its impact on our land and water are dismissed as being insufficient, rather than being acknowledged for the scale of what has been achieved to date.

The reality is that the agri-food sector is the life blood of New Zealand. It creates wealth for the country year in, year out. The wide portfolio of products we grow and sell to the world means that even in a down year for dairy prices, there is usually another sector having a good year which is able to step up and fill at least some of the revenue shortfall.

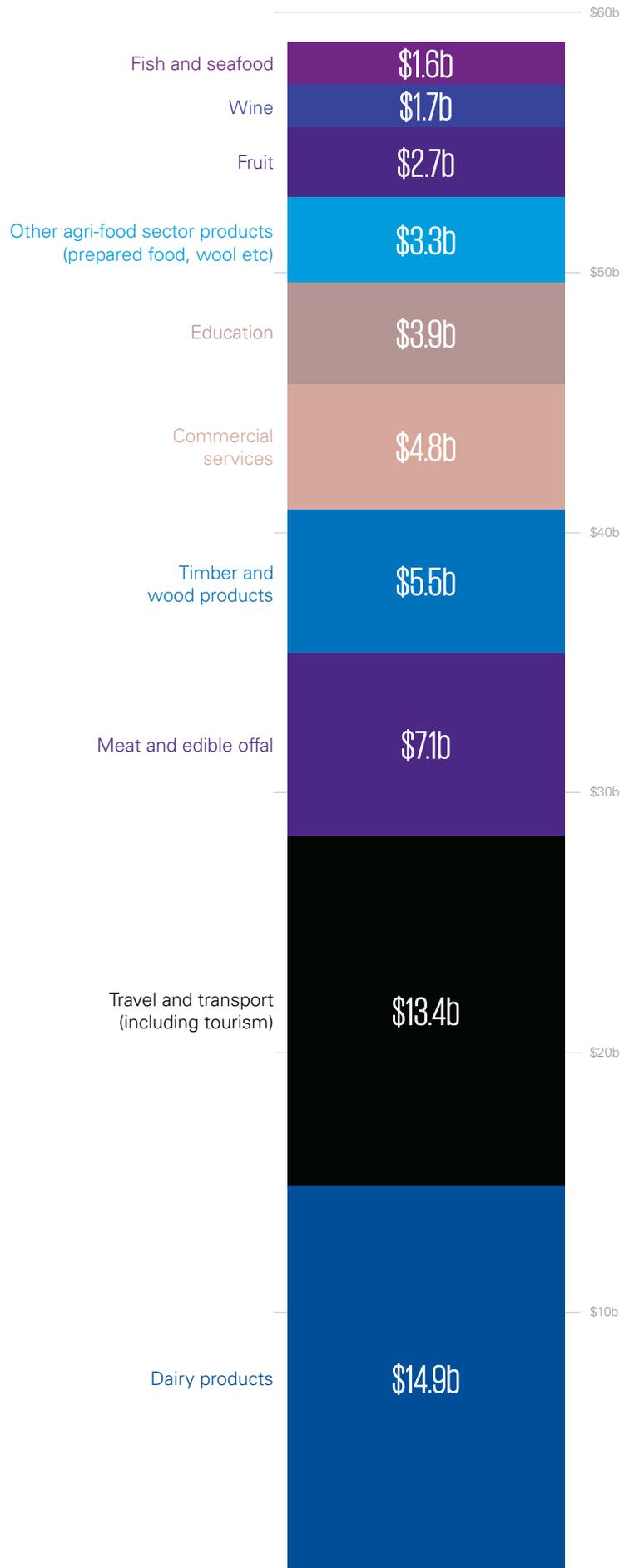


It is not like tourism, where an economic downturn or terrorist attack stops people travelling and the export receipts quickly dry up. It is not like oil and gas, where once the resource has been extracted and sold it is gone forever. It is not like property, where we trade buildings amongst ourselves and gross up both the asset and liability sides of our balance sheets. Unlike all those other sectors, food, fibre and timber generate sustainable revenues year after year and will always do so as people will always need sustenance.

The narrative around the contribution that the agri-food sector makes to New Zealand should be considerably more positive than it is. It is this sector that pays for the schools, roads and hospitals that the whole community relies upon.

The industry needs to act now to take back the initiative, and ensure that the world starts hearing the great stories that we have to tell.

Selected export receipts – Year to December 2017



Source: Statistics New Zealand Goods and Services Trade by Country: Year Ended 31 December 2017 – selected industries

Why is now the time to tell our stories?

The unbalanced narrative around the sector has reached a point where it can no longer be ignored as an inconvenience or an annoyance. It is putting the sector at risk. It is putting the contribution the sector makes to New Zealand at risk. The message came through clearly during our roundtable conversations that the 2017 General Election highlighted how close the industry has come to losing its social license to operate.

However, it is not only the threat to the social license that should be focusing the industry on taking back the narrative. It is also about how customers perceive our products in comparison to a competitor's offering. The provenance story that underlies a product contributes to how its value is assessed. The positive stories we weave around a product can appear to be simply spin, when the customer makes a Google check and discovers nothing but bad news about the industry. They question our integrity. They question the provenance. If they do buy, they pay a lower price. The predominant narrative around the sector is costing our farmers, growers, processors and their supply chain partners real money every single day. It is costing New Zealand and all New Zealanders real money.

The reality facing the industry is that the threat of eroded value, caused by negative narratives, is growing every single day. As we have discussed in previous Agendas, the traditional value chain flowed lineally: from input suppliers, through the farmer to the processors, and ultimately to the retailer and the end consumer of the product. The bricks-and-mortar controlled by the retailer was the only point that the consumer interacted with the product, and this experience was carefully managed by the retailer to ensure that they captured the largest share of margin available from the value chain. Much of the time, the consumer had limited knowledge about the original source of the product they were buying. Given that, what was happening in the source country had little impact on their perception of the product or its value.

However, it has become increasingly clear to us that the traditional concept of a lineal value chain is rapidly being replaced by a much more complex 'value web' that is built around satisfying the needs of a consumer. Technology has eroded the previously-held power of the



retailer. Now every participant within the value web is able to develop direct connection with any other participant, including the consumer.

Given that the consumer sits at the centre of the web, every participant organisation should be focused on understanding their expectations for a product. Obtaining this understanding will enable them to maximise their contribution to delivering a high-value product; and in turn, be rewarded with a share of the margin reflecting this. In other words, they will be rewarded for what they bring to table, rather than simply due to their position on the lineal value chain.

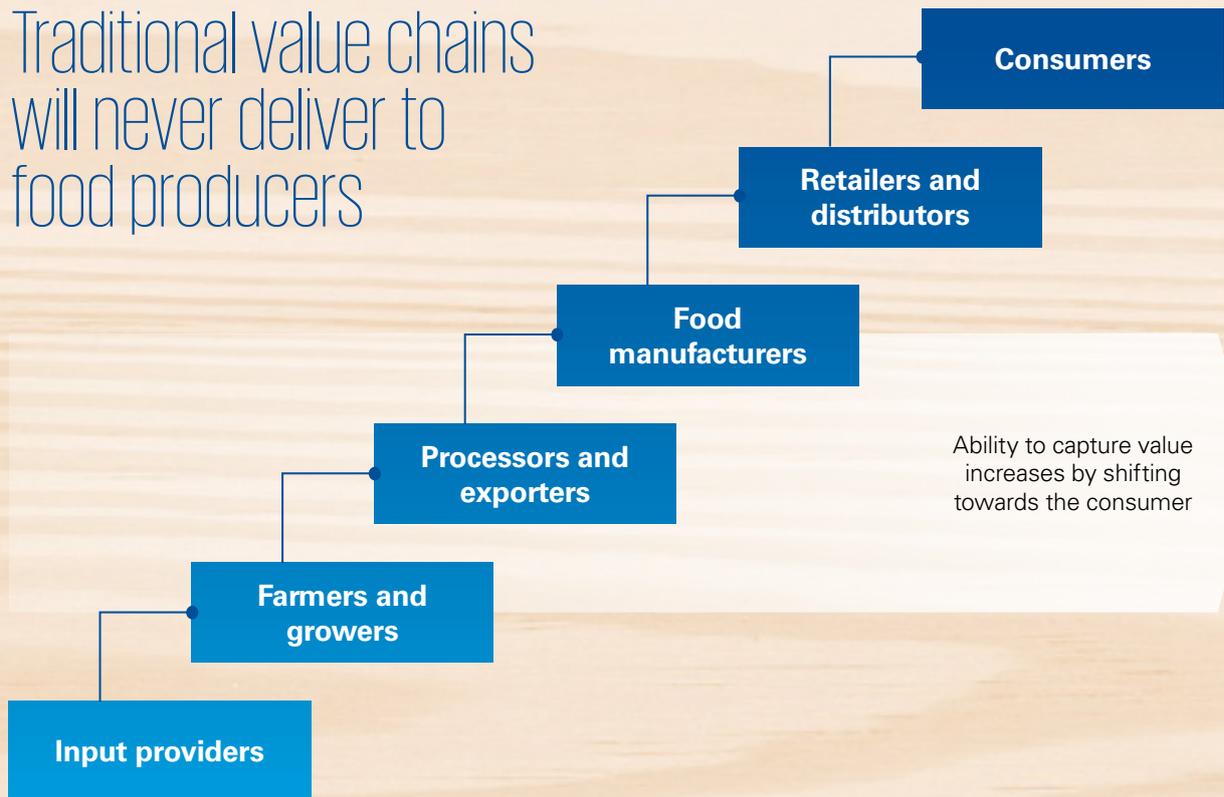
Meanwhile the consumer is also seeking information about the product they are being offered, and is seeking out a wide range of information before they make a buying decision. Uncertainty around the sustainability, efficacy, safety or quality of one product in comparison to another will make the buying decision easier for the consumer. The unbalanced narrative puts New Zealand's agri-food sector at risk. The need for organisations to raise their game and ensure that their stories are told in a way that satisfies the customer's requirements is more critical today than it has ever been in the past.

So how does the industry tell its stories?

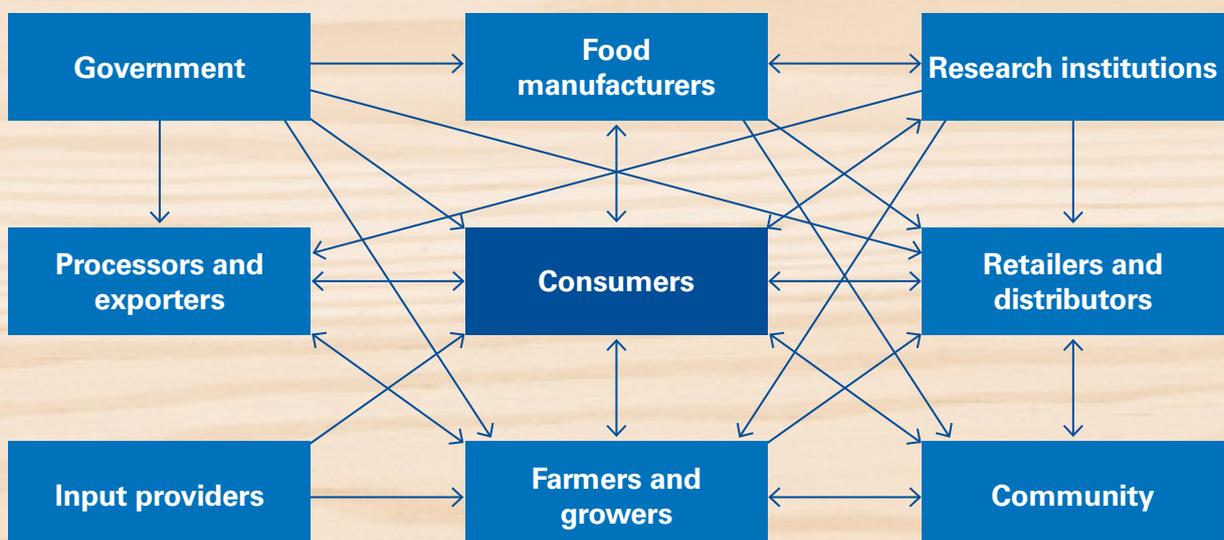
One industry leader that I met recently suggested that the agri-food sector does not need to tell stories. It simply needs to tell the truth. His view was that in today's world of fake news and unreliable facts, stories are simply works of fiction to many consumers. His argument has merit. It may no longer be enough to wax lyrical about the natural environment the product comes from, the production systems used to produce it, and people responsible for growing it. While each of these elements are important, they do not tell the whole story.

Trips our team have taken around the world over the last few months, some of which are described in this year's Agenda, have highlighted to us that consumers want more than poetry in their story telling. The stories they want to hear are articulated in a series of verifiable attributes that can be attached to a product as it is grown, processed, exported and ultimately distributed to the end consumer. Every step in a production process has the potential to add attributes to a product that consumers may find valuable. For instance, the cultivar or genetics of a particular plant or animal could be an attribute. The soil it is grown in, the way

Traditional value chains
will never deliver to
food producers



Envisaging the future:
a consumer-centric value web





water is utilised, or how the environment is managed can all be attributes. The employment conditions of people involved in the process can be attributes, as can the channels through which a product is exported, or the technology deployed to verify its provenance.

The specific attributes that are important to a local community, an individual consumer or a specific market will vary; depending on their particular interests and values. However, an attribute will only be valuable to these stakeholders if it can be verified. This puts the truth at the heart of any story being told. When a local community can verify what is really happening within a farming system, it gives them confidence that the natural environment, water and animals are being used in an ethical and sustainable way. It will also assure a consumer that the provenance of a product is intact, and it has the attributes they would expect given its premium price point.

Throughout this Agenda, we provide ideas of attribute marks – or truthful, verifiable stories – that could be attached to New Zealand products. These could be developed by organisations, industries or the government around the key environmental, social and economic issues facing the sector.

Ultimately, specific businesses will identify and develop the suite of attributes that best suit the needs of their product, based upon a deep understanding of their customers' needs.

As more companies embrace the principles of integrated reporting (IR) – and consider their performance in a wider sense than just profitability – we expect the attributes that companies choose to focus on will increasingly align with a more comprehensive approach to business reporting. The inclusion of attributes within an IR framework enables companies to better articulate the total contribution they are making to their community, as well as being transparent about their opportunities to do better.

Given that the agri-food sector has faced a regular barrage of criticism in recent years, much of it unjustified, this represents a real opportunity. The great thing is that most in the industry are already doing what is needed to provide their products with a compelling attribute-based story. The industry now needs to front-foot this, obtain the necessary verification and take the lead in telling its stories in a factual way, but with the true passion that exists across the sector. This is the only way to take back the initiative and firmly regain control of the narrative. Articulating the attributes inherent within products will provide accurate stories to counter those based on half-truths and perceptions that have dominated the conversation for far too long.



Ian Proudfoot
KPMG Global Head of Agribusiness
KPMG New Zealand
Report Author

Ian Proudfoot is the Global Head of Agribusiness for KPMG and an Audit Partner based in Auckland. He provides services to clients in a range of sectors including viticulture, horticulture, pastoral agriculture and agricultural support services. He has led KPMG New Zealand's strategic agribusiness initiative since it was launched in 2009, including being the lead author of the *KPMG Agribusiness Agenda* and editing the weekly *Field Notes* publication. He is working with the MAGS Foundation and ASB to develop an experience centre at the ASB farm at Mount Albert Grammar School in Auckland. Ian is a regular presenter and commentator on sector issues both in New Zealand and internationally.

Setting the scene for this year's Agenda

With the range of potential themes for discussion, it was not at all clear which topics would dominate our roundtable conversations for the 2018 Agenda.

The last year has not played out as expected. The 2017 Agenda was focused externally, on customers and markets. There was little interest in the forthcoming election. There was confidence that sufficient progress had been made on the environment to keep the issue off the election debate. The industry was comfortable that a change in government would not have a major impact on the direction of travel of the industry.

The actual run of events over the past year has turned out to be quite different.

The environment became one of the defining issues of the election. The government changed and the Coalition Government has set about implementing a policy agenda built on a distinctly different vision for a more socially-inclusive, environmentally-sustainable New Zealand.

This has curtailed support for irrigation and collaborative innovation through Primary Growth Partnerships. It has seen foreign ownership laws tightened. Climate change initiatives and forestry have been prioritised. A \$1 billion per annum regional development fund has been created to support job creation outside our cities. The Government has commenced a review of the Dairy Industry Restructuring Act,

the founding legislation for Fonterra, and deferred the implementation of camera monitoring on fishing vessels. Despite all government partners opposing the original Trans Pacific Partnership (TPP), the government has signed the revised Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPPA), creating an 11-country free trading block in the Asia Pacific Region.

The year has seen the discovery of *Mycoplasma bovis*, which has stretched response capabilities and highlighted the erratic use of NAIT, the National Animal Identification and Tracking System. Biosecurity agencies have also been dealing with the spread of Myrtle rust and the threat of the Brown Marmorated Stink Bug.

Three themes dominated the global agri-food system in 2017. There was the shift of globally significant food companies to protein-agnostic positions, the proactive investment by major players into disruptive start-ups, and the central role that health and wellness has played in shaping company strategies.

This was the year that novel foods gained media notoriety, although there is limited evidence that much has changed in terms of the supply of these products to consumers. It was also the year when the potential of Blockchain technologies was identified, in terms of providing consumers with the provenance information they seek. The question

now is how quickly the technology will be adopted, and how value will be extracted from its implementation. However Blockchain is just one of many technology solutions the industry will need to come to terms with. Data analytics, biotechnology, precision irrigation, satellite-driven insights, virtual and augmented reality, robotics and others will impact our farms, processors and distribution models.

The past year saw dramatic weather extremes. We shifted from droughts to floods in inordinately short timeframes, stretching the skill and resilience of farmers in parts of the country to their limit.

The last year has also seen growing realisation that the value chain is no longer linear; but a web of relationships, collaborators and even competitors, with the consumer sitting at the centre. The challenge to pivot operations to be truly customer-centric is one that faces every company, every day.

As a consequence, this year's Agenda is a state-of-the-nation reflection on how the industry is handling these various challenges and opportunities.



The year in review

2017

June

- Food giant **Nestle** launches an incubator program to support emerging food and agriculture start-ups, and explore disruptive technologies and business models.
- **Horticulture New Zealand** confirms Australia has implemented country-of-origin labelling for fresh fruit and vegetables; and that 71% of respondents to a Consumer NZ survey would like the same to be implemented by law in New Zealand.
- **Synlait** acquires 100% of the shares of **The New Zealand Dairy Company**, allowing the group to increase its blending and canning capacity.
- **Unilever** switches to a 100% renewable energy model in 15 of their UK sites, with plans to ensure all UK sites are using renewable energy by 2030.

July

- Researchers from the **University of Foggia** in Italy use 3D printers to mould vegetables into shapes designed to boost consumption of fruit and vegetables by children.
- **Amazon** registers a trademark for prepared food kits, flagging a threat to popular meal kit delivery provider **Blue Apron**, which has been performing poorly on its IPO.
- New Zealand meal kit company **My Food Bag** expands its reach into the convenience food market by launching heat and eat meals.
- **Science and Innovation Minister Paul Goldsmith** announces a new \$8.4 million research institute for Tauranga, which aims to leverage the Bay of Plenty's strengths in horticulture to commercialise research and innovation.
- **Fonterra** announces plans to restore 50 freshwater catchments as part of its efforts to improve New Zealand's waterways.
- An \$85 million government grant is secured as part of a \$206 million research facility at **Lincoln University** to boost the connection of primary sector research and education.

August

- **Silver Fern Farms** sends shipment of chilled meat to China, becoming the first company to use sea-freight containers rather than air-freight. The shipment is part of a six-month trial with China to test market protocol and supply chain at sea ports.
- **Nestle, Unilever, Walmart** and other leading food brands join a consortium with **IBM** to investigate areas of the food supply chain that would benefit from Blockchain technology.
- Research conducted in New Zealand reports that avocados grown in New Zealand have unique nutritional qualities, including double the amount of Vitamin B6 and 20% more folate, than those grown in other countries.
- As part of a \$1 million research program led by the **Foundation for Arable Research**, funding is received from the Ministry for the Environment's Freshwater, to target understanding the levels of soil nutrient lost from cropping system.
- Salmon becomes the world's first genetically-modified animal to enter the food supply, when US firm **AquaBounty Technologies** sells five tonnes of genetically-modified salmon fillets to an unnamed customer in Canada.
- **Zespri** opens regional office in Orange County, California to manage the increasing sales across America after significant growth in the new SunGold variety.

September

- **Affco's** first shipment of chilled meat lands in China as part of a trial that enabled the meat to be shipped, chilled and aged over a 21-day shipping period to ensure arrival in prime condition.
- **DairyNZ** develops a new app, EnviroWalk, which allows farmers to assess their fertiliser use, waterways, cropping, irrigation and water utilisation from their smartphones; with 1500 farmers downloading the app.
- **Silver Fern Farms** begin developing a new retail packaging QR code to allow customers to track the provenance of their products.
- **Hampton Creek**, a US-based plant protein product producer, receives a patent for a technology that combines robotics, proprietary plant databases, artificial intelligence and predictive modelling to scan and intensively use plant proteins.
- **Livestock Improvement Corporation** announces it will test its artificial breeding bulls for Mycoplasma bovis, after **MPI** advises dairy farmers to ask suppliers if their bulls had been tested.
- **BioGro NZ** launches a non-GMO certification programme that attracts over 700 farmers, growers and manufacturers who wish to verify themselves free of genetic modification.
- **T&G Global** announce they are now the exclusive license holder for 16 high-yielding blueberry varieties in Australia, with commercial production to start in 2019.

October

- **Rabobank** and **UN Environment** kick-start a billion dollar program to accelerate the transition to sustainable food supply through the key areas of waste, earth, stability and nutrition.
- Hawkes Bay company **Bostock's Organic Free Range Chicken**, sign supply contracts with three of Hong Kong's largest supermarket chains and restaurants.
- **Beef + Lamb New Zealand** plan to establish a Future Farm to trial new technologies and farm systems as part of their strategy to support farming excellence and innovation in the sector.
- Farming in New Zealand is reported to be exposed to the wettest year on record.

November

- Myrtle rust disease is reported to have been found in nine new infected sites, bringing the total in the Taranaki region to 82 since May.
- **Agri-Women's Development Trust** announces it would expand its development programmes for women involved in sheep and beef farming to new locations next year.
- South Korea's largest pharmaceutical company, **Yuhan Corporation**, signs a deal to launch a range of New Zealand deer velvet products as an agreement between **AgResearch** and **Alpine Deer Group**.
- Strong European markets facilitate the growth of **Dairy Goat Co-Operative's** revenue, due to its significant investment into market development globally.
- New Zealand wins a WTO appeal to reduce trade barriers with Indonesia, prompting increased beef trade with the country.
- **Ripe.io**, a Blockchain start-up in the US, creates a technology to track tomatoes and report on the ripeness, colour and flavour of tomato crops. They plan to expand across all aspects of the agricultural industry.
- **FoodRescue Northland** creates 9,020 meals from five tonnes of food that would have otherwise ended up in landfill, using it to feed those in need.

2018

December

- **Landcorp Farming** launches a new health and safety programme which aims to reduce the high number of deaths and accidents that are recorded in the industry each year.
- **Farmlands** invests **FarmIQ**, a farm software company that is a joint venture between **Landcorp**, **Silver Fern Farms**, and **Veterinary Enterprise Group**.
- **Maple Leaf Foods** expands its North America portfolio by acquiring **Field Roast Grain Meat**, a premium supplier of grain-based meat, for UD\$120 million.
- **Land Information Minister Eugenie Sage** announces new regulations which will see the **Overseas Investment Office** scrutinise sales involving more than five hectares of New Zealand land to a foreign buyer.
- Sustainability strategist **Henry Gordon-Smith** reports Auckland should focus on vertical farming in high-rise buildings, warehouses and shipping containers; placing emphasis on fresh local produce.

January

- **McDonalds** commits to renewable, recyclable packaging across its global restaurant network by 2025. They also announce plans to recycle packaging in all of its networks across 37,000 stores in more than 100 countries.
- Big food brand **General Mills** leads a US\$17 million investment round into **Urban Remedy**, a California-based fresh juice and readymade meals company.
- **LIC** launches a satellite technology for pasture management. Space uses satellite imagery to measure pasture cover and send detailed reports to farmers.
- As a response to Mycoplasma bovis, **MPI** announces a milk surveillance programme will be conducted nationwide.
- The **Grey** and **Buller** districts on the West Coast are added to the regions experiencing medium-scale droughts, giving them access to a funding boost.

February

- In a pivotal decision for the New Zealand egg industry, **FreshChoice** and **SuperValue**, both owned by **Progressive Enterprises**, announce they would phase out caged eggs by 2025, meaning all major retail groups are planning to stop selling caged eggs.
- **Camelicious** releases the world's first camel milk based baby formula. Calcium-rich camel milk contains around ten times more iron than other formulas, and is seen as an integral part of the Arabic and Islamic culture.
- **Agriculture Minister Damien O'Connor** calls for a review of the New Zealand dairy industry, with a view to ensuring that the sector is maximising its contribution to New Zealand. The review may consider regulatory, capital and other incentive structures.
- **Nestle** acquires a major stake in **Terrafertil**, a natural organic plant-based foods company, to expand its presence in the healthy food space.
- The New Zealand avocado industry gains approval to export to China, as the demand in China for avocado has skyrocketed 250% over the past three years.



March

- The term 'Manuka Honey' is certified by the **Manuka Honey Appellation Society** as a way to differentiate New Zealand honey from other countries such as Australia.
- **Allbirds**, a San Francisco-based footwear company that uses New Zealand-sourced merino wool, sells over 1 million pairs of shoes.
- **Fonterra Ventures** partners with German nutrition start-up **FoodSpring**, that has a focus on products such as organic superfoods and whey protein shakes.
- **MPI** estimates that tracking and tracing the spread of *Mycoplasma bovis*, along with compensating farmers, will cost approximately \$95 million. The disease is confirmed at 26 properties.
- **Horticulture New Zealand** reports the price of many varieties of vegetables across New Zealand have increased by almost double due to the erratic weather experienced over the summer.

April

- A government report identifies Auckland as having the hallmarks of an internationally recognised food cluster; with one third of New Zealand's food and beverage firms, 23% of its manufacturing employees, and more than half of head offices.
- The **a2 Milk Company** signs a distribution deal with South Korean **Yujan Corp**, to promote and distribute a2 brands in South Korea. Products will be sourced from Australia and New Zealand.
- **Soylent** signs a deal with **Walmart**, as the meal replacement drinks supplier continues its growth trajectory both in-store and across e-commerce platforms.
- **Icebreaker** sells to **VF Corporation** for \$288 million, and thus introduces a whole new channel of consumers to the benefits of sustainably-farmed, ethical New Zealand merino wool.
- France leads the way in becoming the first country to ban plastic cups and plates; as well as aiming to cut landfill waste in half by 2025.

May

- **Tyson** invest in Israeli start-up **Future Meat Technologies** that manufactures meat from animal cells. The company claims to be the first to produce animal fat in a laboratory without harvesting animals and without the use of genetic modification.
- The **Ministry for Primary Industries** launched its future-focused biosecurity intelligence squad. Smart technology and skilled analysts will look to information including offshore data to help border staff make better decisions to target high-risk air passengers and cargo.
- **The Coalition Government** has announced a plan to eliminate *Mycoplasma bovis* from New Zealand which could include the cull of up to 150,000 cows, many of which will be healthy. The plan which provides certainty about the government's response direction will cost over \$800 million with part of the cost being incurred by farmers.
- As part of a plan to prevent 500,000 deaths a year from cardiovascular disease, the **World Health Organisation** have initiated a plan to eliminate industrially-produced trans-fats by 2023. WHO data indicates trans-fats increase heart disease related deaths by 28% and are looking to food producers to limit amounts used in products.



The 2018 Agribusiness Agenda Priorities Survey

Having completed the KPMG Agribusiness Agenda Priorities Survey for the eighth year, we are able to continuously track how the views of industry leaders across New Zealand's primary industries are evolving in response to changes in the operating environment.

- Unsurprisingly, against a background of Mycoplasma bovis and Myrtle rust, world-class biosecurity retains the number one priority ranking for the eighth consecutive year; hitting a new record priority score of 9.62 in the process.
- Fifteen other priorities receive their highest ever ranking in the 2018 Survey. These include: high speed broadband connectivity, developing future leaders, and supporting schemes that are intended to regenerate native ecosystems.
- The average priority score increased 2.3% to a new high in 2018 of 7.41. This indicates that industry leaders continue to see a wide range of issues becoming higher priorities for their organisations.
- Schemes to regenerate native ecosystems moves up eight places, to nine in the priority ranking, making its first Top 10 appearance. This reflects an increasing focus on balancing productive uses of the environment with the preservation and enhancement of native flora and fauna.
- Surprisingly, the priority focused on increasing commercial collaborations with partners throughout the value chain shows the largest drop in priority ranking. It declined nine places to 22, despite broad recognition among industry leaders that markets and consumers are becoming increasingly complex.

Here are the 2018 Top 10 priorities...

2018 RANK	2017 POSITION		ACTION	PRIORITY SCORE 2018 / 2017
1	=		World-class biosecurity	9.62 / 9.23
2	▲ 4		Deliver high speed rural broadband	8.73 / 8.51
3	=		Food safety strategic importance	8.63 / 8.54
4	2 ▼		Create NZ provenance brands	8.52 / 8.60
5	=		Innovate with customers	8.50 / 8.50
6	=		Sign high quality trade agreements	8.35 / 8.42
7	▲ 10		Deliver market signals to producers	8.31 / 7.97
8	▲ 9		Developing future leaders	8.29 / 8.05
9	▲ 17		Schemes to regenerate native ecosystems	8.23 / 7.65
10	▲ 14		Invest in irrigation/ water storage	8.12 / 7.71

The most notable factor of this year's results is the limited amount of change that has occurred amongst the Top 10 priorities. Eight of the Top 10 are consistent with 2017, with only 'schemes to regenerate native ecosystems' and 'investment in irrigation and water storage' being new entrants into the group of highest priorities.

We were not surprised by the increased focus on the balanced management of the environment by industry leaders, given the real risk many leaders perceive to the industry's social license to operate. The return of irrigation investment to the Top 10 indicates that the challenge of effectively managing water supplies has not gone away for industry leaders, despite the Coalition Government indicating it will no longer provide seed funding for large-scale regional irrigation projects.

The two priorities to drop out of the Top 10 in 2018 related to the delivery of R&D incentives to companies, and the development of rural/urban understanding. Subsequent to the survey being closed, the Coalition Government announced in Budget 2018 an intention to re-introduce an R&D tax credit system to provide incentives

for companies to lift their investment in innovation. Time will tell if such a system delivers the necessary support for transformational innovation.

We were surprised to see the development of rural/urban understanding fall by eight places in the priority rankings, given the debate that occurred around the election. However it was interesting that a number of roundtable contributors noted that no matter what the industry does, there is little cut-through into the mainstream media for good news stories about the primary sector. This has raised questions about why the industry would bother continuing to try and outreach to urban communities.

Mechanics of the survey

We once again used an online survey tool to obtain industry leaders views of the most pressing priorities for New Zealand's primary sector. We asked industry leaders to rank a range of priority items on a scale of 1 to 10, with 1 being an item they consider to be of no priority for the industry, through to 10 representing a high priority item requiring immediate attention and action. We used exactly the same set of priorities in 2018 as we did in 2017. We received responses from around 60 industry leaders. As in previous years, the full survey results will be made available on the KPMG Agribusiness Agenda 2018 page on our website.



Shaping the Agenda

Interpreting the survey results

While the top-ranked priorities have not changed significantly this year, there are some significant movements among the other priorities.

For many years, we have discussed the need for an umbrella body to steer the industry's engagement with government and the wider community. Over this period the response has been fairly blunt; the last thing we need is yet another organisation. So it was interesting to see the priority score for an umbrella body to unify industry voices record the highest increase in this year's survey, at a time when the Agriculture Minister has convened the Primary Industries Council. Given the need for a body remains only the 36th equal highest priority for leaders, there still appears to be some resistance to creating a single voice for the industry, but it appears people are warming to the idea.

Other significant increases recorded in this year's survey were interesting. While remaining the lowest-ranked priority amongst industry leaders, it appears that the Coalition Government's initiative to further curtail the ability of foreign investors to buy land in New Zealand has gained some support from the industry. This priority recorded an 8.17% increase in score. It was also interesting to see a strong increase in priority score for incentivising students into agri-food sector careers. This comes against the background of the Coalition Government's policy to provide fee-free access to tertiary academic programmes to all new students. This effectively makes it harder to use scholarships or other incentives to attract students to programmes that have a direct correlation with employment opportunities in the New Zealand economy.

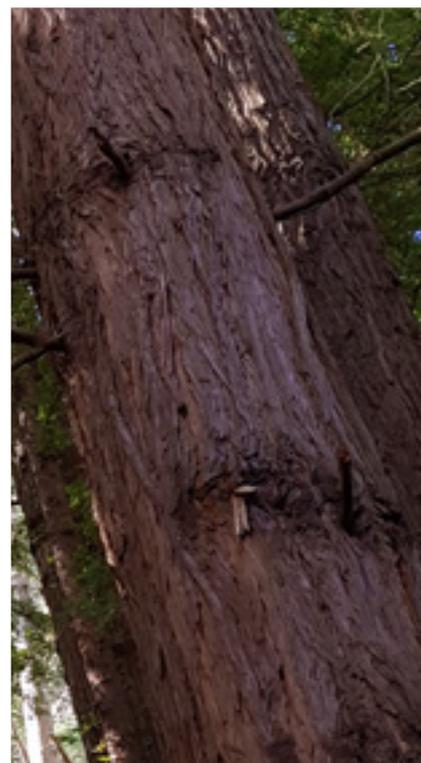
Most significant increases in priority scores:

Umbrella Body to unify industry voice	6.60	▲ 13%
Restricting foreign land investment	5.02	▲ 8%
Incentivising students into agri careers	7.63	▲ 8%
Schemes to regenerate native ecosystems	8.23	▲ 8%
Mandating minimum H&S practices	7.00	▲ 6%





While 19 priorities recorded a score increase of more than 4%, only one recorded a decrease of a similar magnitude. The decline in that priority – engaging with communities in a meaningful way that does not necessarily have a direct economic benefit – is interesting, as it is inconsistent with much of the commentary we received during the roundtables. One of the key messages from the roundtables was that the industry needs to focus on being good, not just for itself, but also for the wider community. This requires organisations to be proactive in working to benefit their communities, whether this is supporting critical services, supporting cultural diversity or utilising their influence to lobby for infrastructure investment to create vibrant communities across New Zealand.



Greatest declines in priority scores:

Engaging with communities	6.76	▼4%
Delivering R&D incentives	8.02	▼4%
Licensing products to accelerate market access	6.79	▼4%
Increasing rural/urban understanding	7.83	▼3%
Implementing water costing mechanisms	6.25	▼2%

It was also interesting to look at priorities that achieved their highest-ranking scores in 2018. We were not surprised to see among them increasing the consequences for farmers that fail to protect their animals, creating a single open-access data platform, and tracking synthetic and alternative proteins. These are issues that were regularly raised in many of our conversations about the future of the primary sector.

The overriding message from this year's priorities survey is that industry leaders have more on their plate today than at any point in recent history. Successfully growing, transforming, exporting and marketing our premium food, fibre and timber products to the world involves mastering many moving parts.

Priorities which recorded their highest scores in 2018

PRIORITY SCORE			2018 RANK
9.62		World class biosecurity	1
8.73		Deliver high speed broadband	2
8.29		Developing future leaders	8
8.23		Schemes to regenerate native ecosystems	9
8.04		Penalties for those that don't protect animals	12
7.87		Tracking synthetic and alternative proteins	15
7.63		Articulating a collective industry vision	20
7.50		Developing NZ wide integrity mark system	23
7.33		Global dialogue on food integrity	26
7.27		Industry body alignment	27
6.85		Central control of food safety	31
6.65		Creating a single open access data platform	35
6.60		Umbrella Body to unify industry voice	36
6.02		Exploring scale organics	41
5.87		Changing fiscal policy to influence FX rates	43
5.02		Restricting foreign land investment	44

This is not a simple industry to be successful in, yet New Zealand organisations have been remarkably successful over the last few decades at delivering wealth back to the wider community.

The challenge for industry leaders is maintaining this success into the future, and in ever more complex and demanding markets.



Other themes from our conversations

Organics

Relic of the past or an engine for growth?

Survey question

Exploring scale organics

Rank 41 (42 in 2017)



Actual scores
2018 / 2017:

6.02 / 5.67

Dairy

Facing disruption from the a2 revolution

Survey question

Licensing to accelerate market access

Rank 33 (28 in 2017)



Actual scores
2018 / 2017:

6.79 / 7.04

Exploring opportunities for scaled organics markets obtained its highest-ever priority score in this year's survey, highlighting growing recognition of the commercial potential of organic-branded products. There is a wave of demand for organics in premium markets around the world, however pressure is building for definitions to be aligned with consumer understanding of organics, rather than the pure technical definitions industry leaders have promoted over the years. Perception is everything. If a consumer associates organic with spray-free, for instance, for them a product is organic if it is produced without sprays, regardless of whether it is grown in soil or in a hydroponic system under LED lights.

Against this background, the Coalition Government has recently launched consultation into New Zealand's regulatory environment surrounding the use of the term *organics*. There is no question that organic definitions are an emotional topic for many. Contributors shared a range of perspectives; ranging from the need to lock the term down tightly so only farmers that adopt a holistic systems approach can call their product organic, to those that believe it is a broad definition of a farming style that can be used to underlie a brand promise. The key message was that we should be careful not to adopt a position that is out of step with the rest of the world; particularly when our free-range, grass-fed farming systems are already reflecting their understanding of an organic farming systems for many consumers around the world.

The a2 Milk Company becoming the largest company by market capitalisation on the NZX during the year was highlighted as a landmark event for the industry. This indicates a potential new direction for how milk is produced, processed and delivered to markets in the future. In the last decade, the dairy industry has grown its volume, legislation has required all milk to be collected, and operational necessity has meant there has been little opportunity to stream milk produced in a premium manner. The emerging demand for verified a2 milk – together with other products with provable premium attributes such as organics, grass-fed or antibiotic-free – suggests that the dairy industry may evolve in a different way in the coming years.

To meet consumer demand for these verified products, farmers will be required to focus on the genetics of the animals in their herds, as well as their management systems, to record and verify the provenance of their products. It will also require processors to be able to stream milk sourced from specific farms from collection, through processing to marketing, to preserve the attributes farmers have enshrined in their milk. Such changes will undoubtedly come with a cost to the industry, and will likely impact the volume of milk we produce in this country; but has the potential to secure greater returns from the market for both farmers and processors. Given the environmental pressures that the industry is facing, it was suggested that such changes may be the only way to avoid the dairy production being forced into fully-housed systems in the medium term.

Genetics

Reacting to next generation technologies

Survey question

Initiating GM field trials

Rank 38 (34 in 2017)



Actual scores
2018 / 2017: **6.50 / 6.55**

The continued unwillingness of the industry or the Government to initiate an open discussion on New Zealand's position on the use of genetically modified organisms was raised again by a number of our contributors. While our regulations continue to group all genetic technologies under a single generic heading, concern remains that New Zealand is missing opportunities to utilise emerging biotechnologies that other countries are not categorising as GMOs.

The ethics of not using some of these technologies were questioned by some contributors. For instance, technologies that could advance drought tolerance, eliminate introduced pests and predators, or reduce the level of inputs that farmers routinely add to their land. The key argument for not adopting the technologies is that they would adversely impact New Zealand's brand and reputation with premium consumers; the inference being that these customers would walk away from our products should these technologies be adopted. One contributor noted that despite Impossible Foods being open about their burger containing a genetically-modified element, it is nevertheless being embraced by consumers. It shows that these consumers make the effort to seek out the truth about a product before making a buying decision on all information available. As we have noted in previous Agendas, we consider it is important for New Zealand to have an open and mature conversation around GM.

Animal welfare

Ensuring our actions reflect true consumer perceptions

Survey question

Penalties for those that don't protect animals

Rank 12 (=11 in 2017)



Actual scores
2018 / 2017: **8.04 / 7.79**

Many factors are suggested as drivers behind the emergence of novel plant-based foods. One of the most commonly-cited reasons is consumer concern over the treatment of animals used in the production of food. The industry has experienced animal welfare failures over the years; the mistreatment of bobby calves in particular has attracted significant mainstream media attention.

The need for the industry to enhance its animal welfare performance has been raised occasionally during conversations in past years, but received greater focus in 2018. It was highlighted that expectations over how animals used in commercial farming are managed are continuously rising. However it is not clear whether the standards being adopted accurately reflect the views of the majority consumers – who place greater focus on the cost of food as opposed to how it is produced – versus those with the most followers on social media. The decision by the local supermarkets to only sell cage-free eggs was highlighted. Egg producers had already committed to large investments to shift to colony cages in line with new welfare rules. However they now have to rethink their strategy as the caged eggs will no longer have a domestic market when the supermarkets stop stocking them, despite more than 80% of current sales still being comprised of caged eggs. While it is unanimously accepted that there can be no tolerance for any mistreatment of animals, it is important that our rules reflect the views of all the consumers that we produce food for – and not just those that can afford to have a choice – to protect the nutritional choices for consumers and economic sustainability for producers.

Immigration

Risking the industry's future

Survey question

Developing future leaders

Rank 8 (9 in 2017)



Actual scores
2018 / 2017: **8.29 / 8.05**

Labour shortages across the country in recent months have highlighted the challenges the primary industry faces in securing sufficient skilled and unskilled workers to support the growth occurring in many sectors. Many businesses across the primary sector rely on migrant labour.

It was clear from our conversations that it is becoming increasingly difficult to recruit and retain migrant workers. The pathway to residency has historically provided an incentive for these workers to commit to their role and develop a career which has been mutually beneficial to both the business owner and the individual.

The uncertainty surrounding the Coalition Government's long-term position on immigration was raised during a number of conversations as a factor that could constrain industry growth. Businesses may hold back on making investments, given a lack of confidence that sufficient qualified people will be available to operate the business. While seeking to provide employment for as many New Zealanders as possible is a completely appropriate goal, the Government also needs to recognise the realities. There are, and will continue to be for the foreseeable future, practical challenges to motivating, recruiting and training sufficient people to meet the demands of a growing industry. Thus any reduction in the ability to access immigrant labour must be balanced with the desire to enhance the capability of the domestic workforce.

We don't know what it will look like but we know it is coming: Change

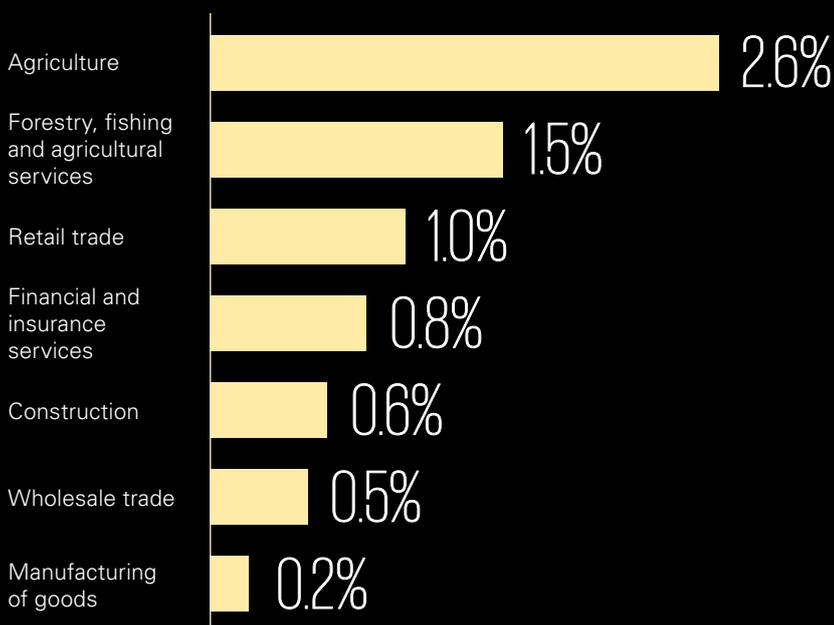


Industry leaders explored many issues during our roundtable discussions, but one theme was central to every conversation we had. It was the ability of organisations and individuals to adapt to new technologies, regulations, consumers and investors; to ensure that the primary sector prospers into the future. There were diverse views on the industry's ability to successfully manage the numerous and simultaneous change projects involving multiple stakeholder groups, in order to respond to the opportunities and challenges emerging in the global agri-food system.

Many contributors pointed to the industry's track record of change. Sectors have consistently adopted innovations to systems, products and technology to improve productivity and yield as they have become available. When an investment makes financial sense, farmers, growers and processors have been quick to respond. This has seen the industry deliver consistent productivity improvements over many decades. However, change has often been incremental and largely focused on production systems. There has been less innovation in market and consumer-facing activities over the years. Innovation has been focused on tangible assets rather than the intangible innovation surrounding brands, consumer relationships and people.

The range of innovation across the global agri-food system presents organisations with many opportunities to change. Determining which innovations are most likely to deliver sustainable value will challenge many organisations, as will having the discipline to intensively focus on these projects. Organisations will need to develop networks and tools to connect themselves to emerging trends across multiple levels – in their sector, the wider agri-food industry, and disruptive business models appearing across the global economy. They also have an obligation to share key foresights with other stakeholders in their business (e.g. farmer suppliers, logistics and retail partners, and regulators) to assist in responding to key trends in an integrated manner.

Annual productivity growth (1978 to 2017)



Source: Statistics New Zealand Productivity Statistics 1978 to 2017: Multifactor productivity – selected industries



Enabling a change culture

While the scale of change will require strong project management capability, the bigger challenge for the industry will be addressing any cultural resistance to change. This factor was remarked on by a number of contributors.

At farm level, adopting innovation can mean having to reshape daily routines. This in itself can be a barrier to change, particularly if routines have become engrained in the operating cadence of the family farm. It was noted that many farmers are recognising that their businesses are facing potentially transformational change; and as a result, many are holding off significant investment while they seek greater clarity around the future products and markets their farm will supply. As one contributor noted, farmers appear to be strengthening their balance sheets and de-intensifying their farming systems in advance of 'something'. However at this point in time they are not clear what that something is.

Companies and organisations will need to enshrine agility into their culture, and this may present challenges to governors, management and staff. The demands for rapid change will force them to take decisions on limited information, take calculated risks, and accept that role-responsibilities will continually evolve. Some organisations have already embedded agility into their operations, while others will require strong leadership to guide the organisation towards a future vision.

How quickly do we jump into an innovation?

There was much discussion during the roundtables around how New Zealand organisations should approach change. This country is uniquely positioned as the only the developed country that generates the majority of its export wealth from selling food, fibre and timber products that we grow to the world. Maintaining and growing the contribution that the industry makes to the prosperity of all New Zealanders means the primary sector has to retain a position close to the leading edge of global innovation. However the risks associated with being the first mover into frontier markets were raised by a number of contributors.

The breadth of innovation around the world makes it uncertain which innovations will ultimately be successful. As one contributor said, we need to be an early enough mover into an innovation to gain a benefit but timing our move so that we can be confident that we are backing a winner more often than not. This implies organisations need to balance prudent strategies with being prepared to throw caution to the wind to take educated risks to remain relevant and grow wealth generated from agri-food exports.

Fit-for-purpose regulation

There was little doubt among our contributors that regulation will have a significant impact on how effectively the agri-food sector responds to the challenges of change. Regulators are not generally noted for the speed at which they react to innovation or emerging technologies; and

globally, they are clearly struggling to keep pace with the emergence of novel foods, the utilisation of new biotechnologies, and new approaches to managing the use of water or preserving the natural environment.

Regulators that proactively observe the macro changes happening around the world will be better-placed to ensure appropriate standards are established. Similarly, regulators that are resourced to move quickly, listen to markets, and influence their peers in other countries will be of significant benefit to New Zealand organisations. The message was also clear from our leaders that the industry is looking for open communication with regulators; and clear, certain rules.

The trend towards 'governing in response to Twitter' is not something industry leaders want to see in New Zealand. Contributors hoped that the Coalition Government would show appropriate diligence in their regulatory processes, taking time to understand issues and seeking industry views, rather than reacting to perceptions held by a vocal minority.



Grassroots observation:

"I believe that farmers are swamped with far too much information. It is inconsistent, working through it wastes time, and there is no easy way to distil valuable insights for our business. While some information will relate to changes we should be making to our farming system, I have no idea which information I can trust. It is easier to do nothing than run the risk of doing the wrong thing."

Grassroots perspectives

Interpreting a changing world from inside the farm gate

By Julia Jones and Brent Love
Associate Director and Director, Farm Enterprise

This year we wanted to really highlight the perspectives from behind the farm gate. We talked to groups of farmers in the North and South Island so we could hear 'from the horse's mouth' their thoughts and feelings on New Zealand's agri-food industry. We found there were three over-arching themes.

The right technology for the job

Technology is welcomed by producers because it enables farming for the future. The environment, humans and animals are finite resources – so we need the support of technology to maximise them. The key word is 'support'; it must provide productivity benefits and/or save time, and as a result, provide financial benefits. Unfortunately a lot of the new technology, although designed with good intent, can create more fires than it puts out. We are left with the familiar conundrum of new technology. We have a 'need for speed' to keep up with the fast-changing complexity of the industry, and at times technology becomes very quickly outdated. The flip side is when new technology is not adequately tested, is introduced too quickly, and offers limited effectiveness.

Another problematic symptom of technology is an over-indulgence in data. Much of the data coming at farmers is just that – data – when what they need is useful information to empower precision decisions. Then we have the data 'custody battle'. While everyone is arguing over custody of the data, no-one benefits, and the data remains just a bunch of characters on a page. We need to be truly producer-centric in our approach to data; it's about augmenting and empowering, creating precision decisions, and maximising what we can extract from limited resources without exploiting them.

But all the perfect technology in the world won't work, if you don't create a consistent energy infrastructure and reliable, robust connectivity across rural communities. To effect change, you also need credible early adopters that other farmers are prepared to listen to.

Navigating a Changing world

For farmers, there is plenty of change to navigate. Whether it's protecting their licence or freedom to farm, understanding the changing needs of consumers, or working out what they need to do behind the farm gate to meet them. One quote that summed it up was "being a farmer is like doing basic training for the SAS these days". They were referring to the sheer pace of change, and the fact that most are now numb to the change, and just get on with it.

The farmers we spoke to weren't worried about alternative proteins. They want to produce food for those who value traditional proteins, and at the same time, be open to these changes and seek opportunity as the food trends evolve. As an industry, we need to be clear about who we want to feed, and while we focus on creating value, we can't lose sight of what we already have. Free-range, free-from, grass-fed are still compelling propositions – and we need to put energy and strategy into capturing the full essence of this value.



Employment is another big part of the farmer's changing world. Changes in immigration regulation and employee expectations are putting pressure on sourcing and retaining suitable labour in rural communities. At a time when rural New Zealand needs more people, it feels like policy misses the mark when it turns off the tap to focused and driven immigrant workers. This provides an opportunity to re-think the business model to create a proposition to attract and retain good people.

When it comes to a potential change in land use, farmers recognise that having a mix of revenue sources may well be necessary to deliver income hedges, enhance environmental outcomes, and keep the business interesting and challenging. Farming systems will need to evolve to become more resilient, particularly in the face of more volatility. This doesn't mean flicking from one industry to another, but taking a considered approach to diversification.

Acknowledge a little support a lot

A farmer's whole life is consumed by farming – day in, day out. The stresses are many; and can include low returns, weather and biosecurity events, long hours, and animal health issues. But people who farm are proud to be a farmer. They are proud of what they do each day, and proud of what they contribute to New Zealand and their communities.

But to them it feels like there is nothing other than bad press, and no credit for the work that farmers have already done. The recent water quality report, for instance, felt like people were trying to pick holes in the positive data. When no-one understands water better than a rural community, it is their life blood and they care for it more than any other part of the community.

Farmers feel like they have been political pawns. Pending environmental legislation leaves them worried that it's implying that farmers are doing nothing, when so many farmers are doing amazing things to regenerate the environment. Farmers understand that the world will continue to change what they do and how they do it will continue to evolve. All they ask is that politicians, consumers, and communities take a little time to acknowledge the hard work completed to date. They aren't looking for a ticker tape parade; just a 'tip of the hat' and some space to breath and face the next challenge. They want people to come and see the farms, experience the beauty, and feel the pride, passion and belief they put into the producing the food we eat. And to remember what it ultimately all means. If you ate today, thank a farmer.



Julia Jones
Associate Director, KPMG
Farm Enterprise
North Island



Brent Love
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Alternative perspectives

The world through the eyes of others

By Ian Proudfoot
KPMG Global Head of Agribusiness



The core themes in this year's Agenda are critical to securing the industry's long-term future. However it will require significant leadership time and focus to develop and implement solutions that deliver for all the industry's stakeholders. The debate during the last election highlighted what happens when major sectors are perceived by the community to have placed too much focus on profit rather than delivering win-win outcomes for the environment and our society.

New Zealand is not the only country where the agri-food sector faces the challenge of balancing economic, environmental and social outcomes. My travels indicate these issues are prevalent in many countries that export food, as communities challenge the industry's impact on the environment to supply commodity food to other countries.

I recently had the opportunity to present at a number of international events. These included the Outlook 2018 conference organised by the Australian Bureau of Agricultural and Resource Economics and Science (ABARES) in Canberra, the Trans-Tasman Platinum Primary Producers conference in Taupo, and at a number of events to launch the KPMG Irish Farmers Journal Agribusiness Report 2018 in Dublin and Belfast. Talking to people at these events has highlighted that Australia, the Republic of Ireland and Northern Ireland – which are all net food exporters - have similar debates to those going on here in New Zealand.



Responding to climate volatility

Unprecedented climate volatility appears to be a global phenomenon with all three countries having to deal with major weather events on a regular basis. Until tools to enable farmers to manage extreme weather events become available, there is an expectation that the climate will randomly deliver winners and losers every year; as some crops are devastated and others reap higher prices that reduced supply delivers.

The EU has led (and in some cases dragged) its members into acknowledging the threat of climate change and committing them to a low carbon future. As the Common Agriculture Policy is reformed, there is a clear expectation that subsidy payments will be more explicitly linked to the environmental actions that farmers take on their land. In Ireland, Origin Green has well over 90% of farmers and processors registered and subject to greenhouse gas audits. It is providing B2B customers with confidence that the products they source are being grown to minimise their environmental impact.



The Australian response, similar to New Zealand, has been slowed by vacillations in government policy and a fear of imposing cost on business by doing anything too radical. It was suggested at the ABARES Conference that the impact climate change has on Australia will depend on how other countries respond, highlighting the Australian government plans to neither lead or be a fast follower in this area. With our Coalition Government's clear commitment to a low-carbon future, it is likely we will be better positioned than Australia in the eyes of global customers. However we have much ground to make up on Ireland and other EU exporters.

Race to secure a share of emerging markets

Conversations with agri-food leaders around the world never take too long to get to the 'what about China' question. The reality was spelt out at ABARES; Australia is in a race to secure a share of business, not just in China, but across all emerging markets. This makes early market access critical. The trebling of high-value consumers as the new middle classes emerge around the world presents a huge opportunity for premium food producers. The new middle classes will reshape the culture, society, economics and the environment of their countries in ways that are hard to predict, making it more critical than ever to have people embedded into these markets.

The week I was in Ireland was the week after an Irish agri-food delegation had visited China. This was connected with Ireland being the first EU country to be given rights to export beef to China. A number of the industry leaders I talked with had been part of the delegation. Their recognition of the importance of the opportunity was palpable, as was their trepidation of the work in front of them to maximise the benefits for the Irish industry. While hard to secure, we need to be clear that being granted market access is only the start. The really hard work then starts on building relationships and developing supply partnerships.

It is ever more apparent that companies that put people on the ground, to understand and respond to the subtle changes occurring as a market develops, will be the ones that have the best opportunity to edge the race the Australians alluded to at the line.



The 2018 Irish Farmers Journal/ KPMG Agribusiness global survey examines the global agricultural in terms of innovation, technological disruption and how this results in changing consumer trends. Agriculture has been one of the last sectors to experience significant disruption from new technologies. However, the Agtech movement is now maturing rapidly with investors funnelling more and more cash into new start-ups looking to disrupt traditional agriculture.

home.kpmg.com/ie/en/home/insights/2018/05/agricultural-disruption.html



Brexit – the race with no winners

Visiting Belfast gave me the opportunity to talk to industry leaders operating day-to-day in Brexit's ground zero, Northern Ireland. The European customs union has meant supply chains have developed across Ireland which can see animals and products cross the Irish border on numerous occasions without complication. This arrangement has created wealth for many. However faced with the choice of a hard border between the North and South of Ireland (something that would be physically and emotionally challenging to implement), or a hard border between Northern Ireland and the rest of Great Britain, the province is between a rock and a hard place.

Add to these issues the fact that Britain wishes to take back control over the free movement of labour across its border, the expected wind down of agriculture subsidies in a post-Brexit UK, and the impact nearly two years of bickering has had on business confidence. It is therefore not surprising that there is little expectation of a workable deal for Ireland's agri-food sector by March next year. While scenario planning is being done, it was interesting how many people noted it is realistically a waste of time, as nobody has a clue what any solution might look like. We should follow Brexit carefully, back in New Zealand, as it will have consequences for all trading nations. It will define how Europe and the UK engage with each other and the world into the future.

Growing volume or value from under-utilised assets

Since production quotas were lifted, Ireland has increased its milk pool by around 50% to 7 billion litres of milk; with plenty more still come. The pool could grow to 10 billion litres or more; as farm sizes increase, genetics and technology are deployed, and new markets are developed. However the underlining question was whether this was growth for growth sake, or to create value. They are aware of the environmental pressure that milk pool growth has created in New Zealand; and are finding similar challenges in adding value to an ever-growing wave of milk. This is despite having some very smart dairy nutrition companies in their backyard, in Glanbia and Kerry. Regardless of these challenges, dairy still offers the highest return to farmers per hectare of land. More milk will be produced, raising a whole range of questions around how the stainless steel needed to process the milk is acquired, and the impact these investments will have on the milk cheque in the long term.

The opportunity to utilise land more effectively across the northern half of Australia presents opportunities and challenges. The land is harsh, living is remote and achieving productivity can be challenging. But the proximity of the region to growing markets in Asia, the ready availability of land and the ability to work constructively with indigenous communities means the Australian government is focusing on realising the potential inherent across the top end. In a world of finite land resources, the right investments will provide Australia with an opportunity to unlock an undeveloped region.

Innovation is not negotiable

One clear message from all our conversations is that change is coming faster and more intensely than at any time in our history. The 2018 Irish Farmers Journal/KPMG Agribusiness global survey this year focuses on innovation across agri-food, and it was a central theme at the other conferences. While different countries are taking different approaches to support organisations to innovate faster and more creatively, the common theme was that innovation needs to be driven by industry and connected to the consumer. There are common concerns that agri-food organisations under invest in R&D.

One notable contribution to the discussion came from Kerry Group's new CEO, Edmund Scanlon. He talked about Kerry's innovation investment which runs at about 4% of revenue (EUR250 million annually), and is driven by connecting with nascent and emerging market trends for new taste and higher nutrition products.

In the end, he noted if the product does not taste great, nobody will buy it. The industry should never lose sight of this in guiding its innovation agenda; whether that be on farm, through processing or in distribution and marketing.



Does an industry strategy make a difference?

The Coalition Government has recently appointed the Primary Industries Council, which is charged with developing a national primary industries strategy. So it was interesting to explore what is (and is not) working in countries that have already created such strategies. Ireland has been through numerous iterations of its food strategy, with the current Food Wise 2025 being launched in 2015. It is very clearly an industry-created and led strategy facilitated by government. The Irish government invests significant time to ensure it delivers on the commitments it made to facilitate industry growth. It holds sectors and companies to account for doing what they said they would do. However the strategy has done little to break down the silos within the industry, or to focus conversations on structural change. There is no question that having Bord Bia, a dedicated food promotion agency, is critical to driving progress towards strategy goals. We have no equivalent in New Zealand.

The Australian government's aspirations for the primary sector were set out in a white paper on agricultural competitiveness, which also highlighted how the government would invest to support the primary sector. The benefit of this approach meant the initiatives proposed automatically became government policy, but the government ownership of the strategy means it is detached from the wider industry. The paper also reflected the views of the Minister at the time, who was strongly focused on supporting producers to increase volume rather than working from the market back.

The funding unlocked by the white paper has benefited collaborative industry initiatives, such as the digital farming research partnership, Food Agility.

The broad collaborative approach adopted in Ireland, where everybody is invited to be in the tent, appears to drive outcomes faster. Government should only ever be a facilitator and secretariat for any strategy, but should deliver on what it commits to do. It should also not be overlooked that there are aspects of our system that other countries look to with envy. In particular, the way that the Te Hono Movement has built connections and trust between leaders across sectors, and the collaborative innovation that the Primary Growth Partnerships have fostered. We should ensure these world-class elements are preserved in whatever comes next.



Ian Proudfoot
KPMG Global Head of Agribusiness
Partner, KPMG

New perspectives

Ambitions for the future of the global agri-food sector

By Emma Wheeler
Manager, Agri-Food

Be obsessed with your consumer. This was the fundamental message embedded in my mind on the return from my recent trip to San Francisco for the Global AgTech and Future Food Tech conferences. Success comes to those agile operators with the ability to be truly in harmony with their consumer, and thread this theme through every touch-point across the value chain.

Disruption and innovation have become the go-to words across all industries; including food, agriculture and technology. In New Zealand we are at an advantage. We are relatively small, allowing us to be a small test-bed for innovation, with access to a feedback loop from consumers and users of our products. Using social media to connect, engage, and draw inspiration from is an increasingly successful tool for feedback. It is also powerful for creating market exposure with campaigns and stories around our products and services.

My recent trip not only exposed me to my first WholeFoods Market

experience, but it put me among some of the world's leading thinkers, innovators, and disruptors; along with the more traditional food players in the industry. The common theme was the need to break the silos we have become so accustomed to working within. Delegations were sent from around the world to listen to what some of these out-of-the-box thinkers were working on, with a view to collaboration. AusTrade had a strong presence, bringing a large delegation from Australia and flagging their willingness to collaborate. Many other big corporates came to mix and mingle with the disruptors in their field.

While there is a constant call from across the industry that we need to produce more food to feed the world's growing population, there was a different theme highlighted in San Francisco. Creating mass is not the issue – but creating valuable quality products is. This is where agri-tech

can facilitate the enhancement of products, to offer nutritionally-dense options that can nourish bodies rather than simply fill up bellies.

In a world where everyone speaks of the disruption and change that is coming, most people can't actually articulate what it looks like. Consequently, this fear means nothing gets done. People wait to alleviate the risk, but the risk is the sweet spot where the prize can be won. This industry event was the perfect setting to not only look to the horizon, but also to walk towards it. It offered an abundance of learnings in an environment that nurtured partnerships, openness, and collaboration. It provided a forum for people to strategize, learn from failings, and delve into the nitty-gritty on how we might truly fix the broken food system. It highlighted to me the willingness of people to work together in solving the big problems, and start to truly embrace change.



The key themes that I identified are as follows:

Transparency

- Technology and transparency go hand-in-hand – consumers are now demanding information they can clearly interpret and base their opinions on. There is an exponential interest in the safety of their food, and they want transparent labelling that will deliver that.
- Innovators and regulators need to be a strong team – they need to travel the journey together, to ensure regulations are met and risks reduced. This is especially relevant to the increasing role of food safety and the technology enabling this.
- There has been a shift in focus from having the ability to fix food safety issues and food-borne illness, to preventative models and working with food regulators to enable this. The use of technology to tighten value chains, minimise risk and ensure data visibility to customers and consumers are vital.
- The current agriculture and food industry has lost consumer trust, while food safety incidences have proven to cripple economies. Collaboration, education and technology-enabled transparency will facilitate recreating a new and trusted food system.
- IBM have created a Blockchain-enabled platform focusing on changing the dynamics of how companies can work together. Their system is built on a platform where there is shared value for everyone to benefit. User experience is also crucial, ensuring data is ready in a form that is easy to use and accessible, and aligning to industry standards is central to this tool being valuable.
- Transparency does not simply mean providing more information. Consumers don't want to have to work hard to get the information they need; but they do want it easily accessible and there if required.

So what does that mean for New Zealand?:

We have a beautiful pasture-based setting, access to clean water and valuable resources. This lies within a trusted environment. We can utilise technology to truly tell this story and take our consumers on the journey with us. Not only will this authenticate the provenance of our products, it can generate value back to our producers for adhering to the high ethics and standards being set by consumers.

Health, wellness, and preventative models

- Consumer research from Campbell Soup Company has identified that consumers believe the definition of health means “fresh, organic, natural and functional”.
- Products now need to be 'better than' – consumers want added benefit, they want functionality, they want to know these options will fulfil their personal goals.
- As 'better than' products are becoming the norm, innovation is needed across the value chain – from seed to plate, producers need to diversify and enhance.
- The use of technology is enabling products to be tailored and personalised to fit into individualised requirements.
- On-farm technology is also a key enabler. Enhancement to crops can be embedded from the seed, with new agri-tech developments offering the ability to address such critical issues as malnutrition.
- Consumer testing and R&D needs to be embedded at early-stage commercialisation, to create products that will remain relevant to consumers.
- Products can be created that are functional, nutritional, personalised and tailored; but if they don't taste good, consumers will not re-purchase. Innovation is irrelevant if taste and flavour profiles are poor.

So what does that mean for New Zealand?:

Our land availability presents a unique opportunity to leverage innovative options. Farmers can diversify their land use and start to incorporate a variety of high-value crops that support high-value products. Not only will this de-risk farms by taking pressure off the single land-use option, it will also give farmers the opportunity to hedge higher returns. The key is knowing which ingredients will need to be fed into the supply chain to produce the 'new breed' of consumer end products.

Genetic modification

- Interestingly, GM was not a big topic in San Francisco. Genetic modification is already an integral part of the food system.
- There is general acceptance that technology and modification has a valid role to play; to not only increase the amount of food we can grow, but also to enhance its nutritional value.
- The key with technologically-manipulated food is transparency and consumer awareness.
- If consumers are taken on the journey, and are kept educated and engaged with, they will feel more comfortable with the technology.

So what does that mean for New Zealand?:

While it may not be New Zealand's main play to create products through cellular engineering, we can still embrace this technology to further enhance our naturally nutrient-rich products. It can also be used to add precision around nutrient values for more personalised consumer options. If we chose to have genetically modified products, a clear regulatory steer will need to be taken from government to reflect consumer expectations.





Corporate venturing

- Corporate partnerships, co-investment and start-up acquisition is having an increasing role to play in the agriculture and food ecosystems.
- Big food companies are increasingly connecting with small agile start-ups, whether by acquisition or venture capital, in order to keep their finger in the disruption pie.
- While corporate venturing is a relatively new model in agri-food, big players like Tyson, Kellogg's, Campbell (and many more) are incorporating strategic investments into their long-term play.
- The model is a win-win. Corporates get access to innovation and disruption, with less risk; while start-ups get access to funding, global networks to scale, and resources such as on-farm research or speciality lab facilities.

So what does that mean for New Zealand?:

Our local big food players can also choose to stay at the forefront of innovation by investing, acquiring or partnering with smaller start-ups. Not only does this enable access to next-generation thinking and technology, it avoids the inherent risks of 'turning around the big ship' themselves. Similarly, it gives our start-ups access to the resident capabilities and research facilities of our large innovative companies, in addition to much-needed capital.

Social Enterprises

- Consumers now have an established expectation that corporates should be contributing to their communities and the environment.
- When given the option, consumers will choose to work with or purchase from a company that is not purely focused on financial measures, but the non-financial components too.
- As corporate reporting starts to incorporate 'green' indicators, it will become clear who is contributing back to the environment and community and who isn't.
- Big food and agri-tech organisations are now using social enterprise as a way to validate their place in the wider community, and mitigate any negative reputation they may have historically.

So what does that mean for New Zealand?:

Industry players who partner with and give back to communities through initiatives can capture this value through non-financial corporate reporting. Driven by investor demand, this is becoming a standard that is no longer a nice-to-have but a necessity. KPMG's Better Business Reporting is helping businesses achieve this, and create a story that integrates their financial and non-financial performance.

On-farm

- Precision agriculture and the technology that enables it will have an increasing impact on-farm. Artificial Intelligence will play a growing role. When combined with the farmer's own judgement, it has the ability to deliver significant environmental and financial benefits.
- The replacement of labour-intensive roles with robots is starting to be implemented on farm. The key will be utilising the capability elsewhere and up-skilling agricultural talent; in order to not only create new roles for them, but also allow them to operate and leverage the technology.
- Implementing on-farm technology is redundant without the talent capability to interpret the data and draw insights from it. The value comes from the interpretation of the data, which requires specific skillsets.
- Technology designers and distributors will need to ensure that farmers understand how to utilise and leverage the systems. To do this, they will need to develop ongoing relationships with the farmer and others on farm.

So what does that mean for New Zealand?:

Our innovative creators have the opportunity to work alongside farmers to gain valuable user insights, and create technology that is user-friendly. With our more intimate market, we are well-positioned to become test-bed for technology that has global application.

Some of the cool new start-ups

The Global AgTech and Future Food Tech conference was a melting pot of traditional and next-generation operators. Along with the more well-documented and PR-spun products out there, here are some of the early-stage start-ups that caught my eye.

Arbiom. From wood to food, Arbiom technology unlocks high-value opportunities for abundant, renewable biomass to provide options in the form of food and feed ingredients, bio-based chemicals and materials industries with environmentally-friendly source choices. With the challenges facing the global food system, they want to bring a non-food product (wood) into the food chain.

3TandAi. This brand aims to reduce disease through personalisation of food and lifestyles. Recognising the need to customise nutrition and wellness, 3TandAi have created a wellness platform to use data through information of genotypes, gut biomes, lifestyle and metabolic markers to give tailored and personalised recommendations. It is provided direct to consumer or through other channels such as dieticians or nutritionists.

MiraculeX. MiraculeX Inc. is devoted to developing solutions for sugar replacements that currently exist in most foods and beverages. Their plant-based sweeteners are based on protein and are naturally derived.

Spoiler Alert. Having created a technology to better manage unsold inventory, Spoiler Alert are recreating the way in which wasted food is handled. They work with food manufacturers, wholesale distributors, and grocery retailers to manage unsold inventory more effectively. In addition to the financial impact, their technology can decrease landfill by 55%.

JUST. This organisation recognises that in some regions of poverty, the problem is not the lack of food (with options such as rice and potato chips) but it's a lack of nutrient-dense food. Just Power Gari (like oatmeal), is produced by their Liberian partner Kawadah Farms. They source locally from small-scale farmers, most of them women; balancing an affordable price-point with the ability to run a sustainable business. Currently operating in Liberia, they are soon to expand to other countries.



Emma Wheeler
Manager, KPMG
Advisory, Agri-Food



Natural capital

The central role that water and the environment played in the election debate last year has increased the focus on how aspects of our unique natural environment are used on a daily basis. Prime Minister Jacinda Ardern has described climate change as her generation's nuclear-free moment. Through the coalition agreements, the new Government has placed the transition to a low-carbon, environmentally sensitive country at the centre of its agenda.

The environmental challenge facing the country has many dimensions. But it is too often simplified by mainstream media to a position that the primary sector is largely responsible for environmental decline across the country, and needs to take ownership in fixing the issue. However the pollution that closed many Auckland beaches over the summer was raised in a number of conversations as highlighting that this is not an 'us or them' issue, but one that needs whole-of-community responses.

Given the economic contribution that the primary sector makes to New Zealand, determining where lines are drawn over how the use and protection of our land, soil, fresh water, native ecosystems and seas are balanced presents practical challenges. These can only be addressed by bringing our community together in a conversation to find common ground and collaborative solutions.



Partnering to protect the environment



Survey question

Codify environmental expectations



Rank 11 (=14 in 2017)

Actual scores 2018/ 2017:

8.10 / 7.71

Land is the foundation on which most farmers, growers and foresters build their businesses. We have been told many times over the years that farmers are the country's best environmentalists, as maintaining the productive capacity of their land is critical to building their businesses and securing their families' futures.

However the economic opportunities associated with more intensive production systems has seen some farmers seek to extract more from their land than it is capable of giving. These farmers have impacted ecosystems and caused environmental degradation. The actions of the minority have resulted in all farmers being placed under increasing scrutiny (in previous Agendas, we have described this as farming in a fishbowl).

The perception that farmers can no longer be trusted as guardians of the land is leading the industry towards tighter regulation, more one-size-fits-all remediation, and increasing requirements to capture and report data. This is an undesirable path that will see much invested in managing perceptions, and significantly less in fundamentally enhancing ecosystems for the benefit of current and future generations.

The key message from our conversations this year was clear.

It's not OK to pollute the environment in any way, and there needs to be significant consequences for those that continue to do so.

It was also apparent that the industry recognises that restoring the environment to meet the expectations of the wider community cannot be done alone. It is going to require partnerships.

Partnerships could evolve by the government and community providing financial support to retire marginally productive land, returning it towards native planting, for instance. Or through the community setting rules that



provide the time and scope to allow farmers, growers and producers to transition their farming systems to a lower carbon operating model. The reality is that there are many projects around the country where land-owners, farmers, community groups, industry and government agencies have come together with a goal of improving environmental outcomes. Such collaboration will require a mind-set change for many farmers who have spent decades seeking to maximise production and yield. This new focus will mean aligning their systems and deploying data-rich technology to enable them to work in balance with the capacity of their ecosystem.

Historically, we have dealt with environmental issues and concerns in easily manageable, often localised silos. One of our contributors summed up the general mood of the conversations this year when he said the industry now needs a holistic 'mountain to sea' strategy, in order to meet the wider expectations of our community. Such an approach is critical to protecting the essence of New Zealand, while extracting more value from our land for the benefit of all New Zealanders.

Attribute:



The food you are eating today is produced from a farm that has been accredited as utilising a farming system that is scientifically verified to support the restoration of its natural ecosystem.



Grassroots observation:

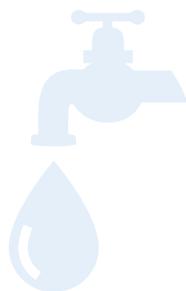
"When today's farmers were training, all the focus was on productive growth...there was nothing about the environment. Farmers need to seek out professional development that gives them the skills to keep up with community expectations. We have gone numb to the challenges; but the pressure is impacting businesses, families and marriages."



Agenda point:

The agri-food sector should stand up collectively and make bold commitments on how it will operate moving forward. This could involve making pledges on achieving carbon neutrality, pest eradication or regenerating native ecosystems so that the industry stands out as being part of New Zealand's future rather than its past.

Continuing to optimise the use of water



Survey question

Invest in irrigation/ water storage

Rank 10 (=14 in 2017)



Actual scores
2018 / 2017:

8.12 / 7.71

Travelling around the country for the roundtables, we again observed that the relationships between the industry and water vary dramatically by region. Similarly, the sophistication of water management frameworks differ across the country, and there are sound reasons for these alternative approaches. It was clear from our conversations that there remain many different perspectives on the fundamental issues; including whether water is a public or private good, whether a price should be placed on water, and the impact of irrigation on the environment.

Water is an emotional issue for many New Zealanders, something that became apparent during last year's election. The Coalition Government has made its position on water very clear; rivers and beaches will become safe for swimming. They expect the primary sector will have a significant role to play in delivering safe, swimmable rivers but they have extended the conversation by also placing expectations on urban communities to contribute to cleaning up their rivers and beaches.

The strong differences of opinion on fundamental issues surrounding water, and the emotional connections people have to their river or beach, can see conversations around water become adversarial. People take strong positions for or against irrigation or water storage, for example, resulting in many of the subtle issues within the debate being lost. It is easy for those opposed to irrigation projects to argue the projects are only being developed to increase the intensity with which farmers use their land to grow their wealth. They point to the actions of some farmers that have taken water-enabled intensification to its limits. The link between water and more cows becomes a conventional wisdom that is difficult to challenge.

As a consequence of the entrenched positions people hold, it has become more difficult to hold a balanced conversation on water. The benefits to the community that come from making water available – and the chance



to unlock a diversity of higher value land uses – have become lost in the noise. The opportunities to use water storage to better manage water flow in a river for long-term environmental benefits are often overlooked. The industry faces a significant challenge re-establishing its voice in relation to the responsible management of water. As one contributor suggested, the industry needs to convince the community that water does not have any impact on pollution; it is bad farming practices that cause pollution.

The Coalition Government has indicated that it will no longer provide seed funding to irrigation projects, making it even more challenging to utilise water effectively. Despite our frequent droughts, the majority of New Zealand has no water shortage. We have a plentiful supply of water, but we do not use it effectively. The industry needs to re-focus on doing what is right in relation to water and ensuring that the country's inherent water resources are used as responsibly as possible.

Attribute:



Your food today is grown to world class standards for water use, utilising all available technologies to create products with the lowest introduced water footprint.



Grassroots observation:

"Farmers thrive or fail based around the availability of water. We have an inherent understanding of water. It has been really interesting watching the response to the most recent water quality report. It felt like the city folks that had used the report to criticise us in the past were this year picking holes in the data because it showed things to be improving."



Agenda point:

The agri-food sector needs to move with velocity to deliver on the community's desire for swimmable rivers and lakes. Many commitments have been made by organisations, however these are piecemeal and have gaps; a collective view of commitments made should be developed, projects developed to address gaps identified and a more ambitious timetable adopted.

Land use will change in coming years



A notable feature of our conversations this year was how often contributors highlighted the likelihood that the use of land will change across New Zealand in coming years. This theme has been led by Horticulture New Zealand, given the increasing challenge of retaining high quality market gardening land around Auckland and Christchurch, as demand increases for housing. However, our discussions showed change may be driven by other factors as well. This ranged from community pressure over current land use and any resulting regulation, through to opportunities that come from climate change or a growing population.

Historically, there has been little planning over the use of rural land. Whereas land use is highly managed in urban areas, in rural areas it has been driven by farmers adopting production systems that deliver viable economic returns. The view was expressed that this is changing, as more Councils introduce consenting for primary sector land, and also look to respond to the challenges that urban communities are facing.

There was concern that prioritising the availability of land for housing raises new issues for the country's food system that have not previously been on the radar in New Zealand. In particular, it has always been assumed that we will be able to grow sufficient food to meet domestic demand. Yet if prime vegetable-growing land is no longer used for growing vegetables, we run the risk of losing domestic supply. This will mean increasing dependency on imported supplies, together with higher costs, biosecurity risks, and potentially, less nutritionally-dense products.

There were a number of discussions around the need for a National Policy Statement on Land Use. Such a statement could help to guide Councils around how planning decisions should be prioritised. It could take a longer-term view around how technology innovation and infrastructure development will shape land use, and help ensure that available land



is used in a way that maximises its benefit for all New Zealanders. A National Policy Statement has the potential to bring clarity to matters which may be very partisan to local communities; guiding decision-makers towards optimal conclusions.

However any statement needs to be balanced with the fundamental right of a land owner to determine how their land is used. The point was made that if a farmer or grower is comfortable producing a sub-optimal return, for reasons of personal choice or lifestyle, then they should have the right to do so. The point was made that future regulations will undoubtedly be shaped by the Paris Climate Accord commitments the country has made. This will ultimately mean that even those that are most comfortable with their circumstances will be required to change daily practices to meet new emissions rules, and ultimately driving land use towards activities that deliver greater returns to justify incurring the costs of meeting new regulations.

Survey question

Deliver market signals to producers

Rank 7 (10 in 2017)



Actual scores 2018 / 2017:

8.31 / 7.97

Attribute:



The way we utilise our production assets has been certified to be beneficial for all stakeholders in our business. We use our land to ensure that we capture the maximum value for New Zealand.



Grassroots observation:

"We know we may need to change the use of our land one day. But it's hard to make the investment in change when there's no infrastructure in place to deliver better returns to the farm gate from an alternative product. We want to use our land to create more income, and we can imagine a future where our farm produces a range of products in order to provide income hedges, improve environmental outcomes and, frankly, keep business interesting."



Agenda point:

The obligations countries made under the Paris Climate Accord are being operationalised by companies around the world. The New Zealand agri-food sector should aspire to lead on mitigating the impact of agriculture on human induced climate change by accelerating the sector's inclusion into the ETS with appropriate carrots and sticks to encourage companies to adopt low carbon technologies.

Rethinking our biosecurity protections



Survey question

GIA collaboration and cost sharing

Rank =17 (21 in 2017)



Actual scores
2018 / 2017:

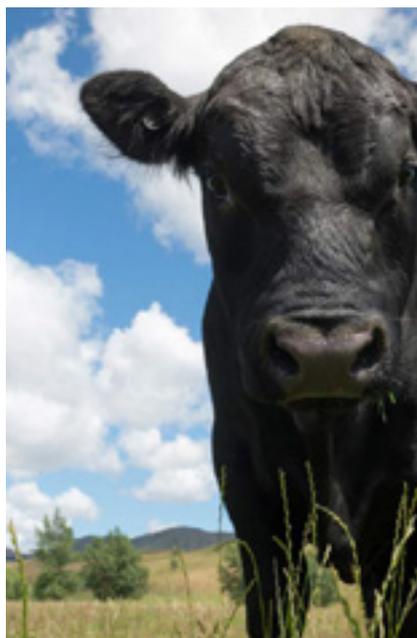
7.71 / 7.39

The past year has not been great for New Zealand on the biosecurity front. It is no surprise that maintaining world class biosecurity systems has again ranked number one in our Agenda priorities survey. The year saw the arrival of Myrtle rust, a disease that impacts many plants including natives like the iconic pohutukawa, and commercially-farmed species. It also saw increasing risk from the Brown Marmorated Stink Bug, culminating in four cargo ships being sent away for fumigation before being allowed to disembark in New Zealand.

The year has also seen the slow spread of Mycoplasma bovis (MBovis) across the country, highlighting weaknesses in how the industry has been using the National Animal Identification and Tracking System (NAIT). After our roundtable conversations, the Coalition Government has made the call to pursue the eradication of MBovis at an estimated cost to the Crown of more \$800 million.

With such an active year for biosecurity issues, it was no surprise that it gained a reasonable amount airtime during our roundtable conversations. The key message from our contributors is a simple one; NAIT must be made to work properly. There must be consequences for those that fail to use the system to track their stock movements (although it was noted that using the system is both frustrating and time-consuming, particularly for those without high-speed connectivity). The failure to utilise NAIT correctly has created a perception that the industry is to some extent culpable for its own biosecurity issues, and this is hard for the industry to argue against. The lack of complete information has slowed the national response and wasted taxpayer funds.

The industry needs to step up and take ownership of its biosecurity exposures. We are fortunate that MBovis is not Foot and Mouth Disease. We may not be so lucky next time. The point was made that every person in the industry has a role to play in mitigating the risk associated with a biosecurity incursion.



Farmers must provide their staff with biosecurity awareness training so they can spot risk factors. Processors (particularly meat companies) need to present a united front in only purchasing correctly documented stock. Rural support organisations need to get alongside the industry and support it to better manage the risk that it faces. MBovis has highlighted the risk associated with implementing rules and then not enforcing them.

A key element in maintaining robust biosecurity is managing the introduced predators and pests that have established themselves within our ecosystems, and can facilitate the spread of diseases across the country. Whether this is eliminating introduced pests, or managing the spread of wilding pines and other invasive weeds, it was highlighted that the wider industry needs to ramp up its support of initiatives looking to eliminate pests and predators from our country by 2050. This strategy is about future-proofing our natural environment for the benefit of all New Zealanders.

Attribute:



Your food today is grown on a farm that has a tailored biosecurity plan which is subject to annual review and audit. We use technology to track all activities on our farm and work with the local community to eliminate introduced predators and pest to make sure your food is safe from all unwanted pests and diseases.

 **Grassroots observation:**

"Farmers are happy to adapt to new operating environments, but we need to be told what we're expected to do. With the outbreak of MBovis, the regulatory environment seems to be moving even slower than usual. You'd be a very brave farmer to take action or make an investment at the moment without getting written approval from the authorities."

 **Agenda point:**

Every sector, every business, every person in agri-food has an obligation to contribute to helping prevent biosecurity incursions and minimising the impact of those that have occurred. Managing biosecurity risks should be treated in the same way as health and safety or fraud risks, fully integrated into the day to day activities of each and every person in the industry.

A new dawn for forestry



Survey question

Schemes to regenerate native ecosystems



Rank 9 (17 in 2017)

Actual scores
2018 / 2017:

8.23 / 7.65

The Coalition Government has made significant policy commitments aimed at reinvigorating New Zealand's forestry sector. The signature pledge to plant one billion trees over the next decade attracted much focus during the roundtables. However this is only one of a range of initiatives that also include the launch of Te Uru Rākau, the forestry business unit of MPI, and Regional Growth Fund support for relevant timber processing investments. The industry will also benefit from policies to shift New Zealand towards a low carbon future, which is likely to include a reinvigoration of carbon markets and the admission of agriculture to the Emissions Trading Scheme.

This policy refocus is something forestry sector leaders have been seeking for some years. Concerns that the industry was in a downward spiral given low tree replanting levels have been apparent in our conversations with sector leaders over the last three years. They had highlighted that the failure to replant trees creates uncertainty over the supply of timber in the medium to long term, impacting the confidence of investors in innovation and further processing technologies.

The planting programme is ambitious by any measure. While contributors were supportive of the Government's aspiration, there remains uncertainty around how the programme will be delivered. The need for planting to be distributed across the country was considered necessary to mitigate any impact it has on rural communities. Forestry previously productive land may make environmental and economic sense but it has the potential to eliminate jobs from rural communities, given the low levels of employment a forest creates during its growth cycle. Ensuring the programme supports farmers to plant native forestry blocks on their land to promote biodiversity and provide carbon farming opportunities was seen as critical to achieving the one billion tree ambition.



While the planting programme dominated conversation, contributors also noted the challenges of developing a vibrant domestic processing sector, given New Zealand's inherent cost disadvantages to Asia. The benefits of local processing were highlighted, including the opportunities to extract value from not only the timber but the resulting by-products. However it was recognised that new capacity would most likely need to be developed in partnership with offshore investors. The Government will need to ensure that a capital pool for growth remains available, given the position it has taken on foreign investment in primary sector assets.

The discussions around the new forestry policy settings were largely positive. The potential of the sector to provide a range of environmental mitigations to other agri-food producers, as well as lifting its economic contribution to the wider community, is well-recognised. Now, for the first time in many years, there appears to be a pathway for these benefits to be realised.

Attribute:



Our storied native timbers stood strong for millennia before humans arrived in New Zealand. They have been used for many centuries to create beautiful buildings designed to withstand the rigours of an unstable natural environment. Native Solid Build technology combines engineering solutions and premium timber to create storied buildings.

 **Agenda point:**

Industry good organisations, Te Uru Rākau and processors should be collaborating to develop packages that will support farmers to deploy some of their land area to forestry. There is a need to investigate whether premiums can be paid to farms with forestry stands for carbon neutral milk or beef alongside carbon credits and other incentives for land that is redeployed from traditional farming practices.

The real deal



Greg Campbell
Ravensdown
CEO

☞ CASE STUDY

When it comes to walking-the-talk around sustainability, Ravensdown is making some pretty impressive strides.

The pioneering fertiliser co-operative, which has just celebrated its 40th year, publishes a 'stakeholder review' alongside its annual report. They even have a dedicated website which tells the business story through the sustainability lens (see integratedreporting.ravensdown.co.nz), which also won them a spot as finalist for the Australasian Reporting Awards.

CEO Greg Campbell is very clear on the reasons why.

"With emerging concerns and expectations around the social license to operate for farmers, we are on a path to not only improve financials, but also to articulate our organisation's meaning and purpose. That means helping our farmers to offset the environmental impact farming has historically been known for by some, before we consider the economic advantages."

For Greg, the co-operative's business model is not simply about selling more product. It's actually the opposite.

"Selling less product to an individual customer – this means an environmental benefit, improved nutrient efficiency or a productivity improvement – represents success to us. We aren't looking to maximise value from the land, but to optimise it. We're leading with integrated reporting as a way to capture our non-financial success and failures."

And while the integrated report is the tangible outcome, explains Greg, it's the underlying philosophy and 'integrated thinking' that's more important.

"Our people are absolutely passionate about this – knowing where they can make a difference, and being able to articulate that. We measure the performance of our whole organisation including our sales team not solely on sales; but on the value they deliver across a matrix of non-financial measures."

Ravensdown's stakeholders include a wide range of groups; from their farming shareholders, communities, employees, research institutes, regulators and suppliers from markets as diverse as Morocco and Germany (their various stories are told on the stakeholder website).

So having an ongoing dialogue around sustainability – and what it means for everyone involved – is important to Ravensdown.

"Our stakeholders appreciate honesty, and we are fully transparent with the journey we are on. You cannot please everyone, but we believe we are doing the right thing."

At the end of the day, sustainability remains fundamental to the intergenerational nature of farming in New Zealand. This is reflected in the many conversations Greg has with his farmer customers.

"What they really want to do is to leave their land, and their farm, in the best condition for when they will ultimately pass it on to their family, or others."

And with growing awareness of the need for sustainability, the future can only get brighter, believes Greg.

"I have a lot of faith that future generations are going to do a great job in looking after our communities, our environment, and the New Zealand economy."



Sustainably speaking



Erica Miles
Director, KPMG

Internal Audit Risk & Compliance Services

☪ CASE STUDY

When asked to define 'sustainability' in the corporate context – many people still might say it relates to environmental or green credentials. Yet it is far broader than that, explains Erica Miles, KPMG's Director of Sustainability.

“In its true sense, sustainability recognises that environmental issues are interlinked with financial, social and ethical elements. It highlights the need for companies to capture, define, measure and report long-term value through more than only a financial lens.”

Whilst Erica says New Zealand companies have been “slow to awaken to the true potential” of embracing these wider concepts, the landscape is changing for the better. This change is being driven from various quarters including: investor pressure, regulatory change, and public policy.

For example, the current Government is introducing measures to tackle climate change, implement the UN's Sustainable Development Goals, and measure value more holistically through the Living Standards Framework. Further weight is added by the recent changes to NZX and FMA Corporate Governance Codes, both of which have an increased focus on sustainability.

As Erica points out, non-financial reporting is a powerful tool for communicating value, that's at the disposal of New Zealand companies.

“While reporting has been primarily driven by investor pressure and increased consumer awareness, businesses themselves are also recognising that communicating how they create and protect intergenerational value is a significant value-creator. It is an opportunity for businesses to embrace the wider concepts and benefits of sustainability.”

Yet there is still plenty of room for improvement.

In 2017, KPMG analysts studied the financial and non-financial reports of the top-earning 100 companies in 49 countries, including New Zealand. The KPMG Survey of Corporate Responsibility Reporting: The Road Ahead found only 28% of New Zealand companies acknowledged the financial risk of climate change in their annual reports. This showed New Zealand was lagging behind the rest of the world, with 48% of the world's 250 largest companies acknowledging the risk. Further, no New Zealand company's annual financial reports acknowledged the Task Force on Climate-related Financial Disclosures (TCFD).

And whilst 55% of New Zealand companies studied did publish non-financial information in their annual report – the quality of that information was not always high.

“When it comes to sustainability reporting, many New Zealand reports lack objectivity, transparency and quality,” says Erica.

“They often have no link to the company's business model or strategy for creating intergenerational value – which is what their stakeholders increasingly want to see.”

KPMG New Zealand's Sustainability and Reporting team advises clients on best-practice reporting; which relies on using recognised international standards and frameworks. KPMG supports the NZX's recommendation that companies adopt the Global Reporting Initiative (GRI) Standards and/or the International Integrated Reporting Council's Integrated Reporting (<IR>) framework.

As Erica notes, the report itself is simply a means to a more important end.

“The role of reporting is not to provide statistics and stories. Rather its role is to encourage director-led integrated thinking whereby a company's ability to create and protect long-term value is subsequently articulated. Ultimately, sustainability is the key to fuelling New Zealand's prosperity.”

Social capital

There has been much talk over the last two years about the returns that can be generated from New Zealand being good for the world.

It is argued that this will assist in the primary sector in building deeper and more sticky relationships with consumers in international markets. The argument goes that by utilising our people, technology and innovation to support communities to feed themselves and prosper, the premium products we export benefit by reputation.

However, the message came through from our roundtables that while we do need to play a role globally, there is no benefit in trying to be good for the world if we are not good for our own country and people first. There is no point trying to help the world to feed itself if people in our country are unable to access adequate nutrition, useful employment or relevant education. Consumers today look for substance behind the stories companies share with them, and want assurance that the people and communities involved in producing the food they are eating are being supported and developed appropriately.

Building social capital is no longer just a matter of throwing some money at a range of sponsorship initiatives. It is very much about making a whole-of-organisation commitment to creating greater opportunity for all the communities that a business interacts with. This is a more challenging and broader programme for many organisations, and is not always directly connected to delivering an obvious financial return. The benefits of investing in and growing social capital however were considered by many of our contributors to be the key element missing from many business plans in New Zealand's agri-food sector at the current time.



Healthy communities



Survey question

Schemes to regenerate native ecosystems



Rank 34 (29 in 2017)

Actual scores 2018 / 2017:

6.73 / 7.03

Some contributors believe that our rural communities are at a turning point. They cited the loss of regional rescue helicopters, the well-publicised challenges some rural schools and clinics have had recruiting teachers and doctors, as well as evidence that people in rural areas are more likely to commit suicide due to mental health issues.

The primary sector relies on small towns across the country to provide the services and connections that ensure employees and their families enjoy a high quality of life. Concerns about the availability of a teacher, or access to the right health professionals in the event of an emergency, can only make living and working in rural areas less attractive. This is particularly true for talented young people who have a range of career options in front of them. A number of our contributors suggested the industry has a key role to play in maintaining the vibrancy of rural communities. This requires organisations to become mentors, ambassadors and activists for the towns their employees live and work in.

Some noted that policy setting often seems to overlook or ignore the realities of rural environments. The restructuring of rescue helicopter services, for instance, was highlighted as a decision that appeared to be made in Wellington by analysts with limited grasp of the lifeline such services provide in remote areas of the country. The appointment of the Minister of Agriculture to the parallel role of Minister for Rural Communities was seen as a positive; however there is an expectation this will result in proactive assessment of whether new rules are fit-for-purpose in rural communities.

The UN Sustainable Development Goals (SDGs) were raised in a number of our conversations, with contributors noting they are not only relevant to emerging economies, but also provide useful guidelines for reinvigorating our rural communities. The 17 SDGs provide a framework for collaborative conversations between communities,



companies and the government. For most organisations, trying to implement impactful actions across all SDGs would result in a lack of focus and action. The SDGs can be powerful when used as a framework to preserving the unique dynamics of our rural communities. They present an opportunity for local community representatives, employers, government agencies and industry groups to sit down and work out their collective priorities to enhance the vibrancy of their community.

The challenges rural people face in receiving timely and effective healthcare was raised in a number of our conversations. Concern was expressed about the winding down of the Rural Health Alliance, given the work that still needs to be done to address mental health issues in rural areas. Despite the significant focus placed on this area in the last two years, men in rural areas remain more likely to commit suicide than other demographics within our community. Rather than reducing funding, the message from the roundtables was clear; this is an area that needs the industry and government to come together to invest in imaginative solutions to proactively support rural people well before they get a point of thinking about making an irreversible decision.

Attribute:



Our products are produced by people who we encourage and support to take leadership roles in their local communities. We believe being part of a strong communities helps our people to grow better products.



Grassroots observation:

"I'm happy to host people on the farm but it is becoming harder to do with the health and safety rules. It is even harder to live on the farm, particularly with kids; you run a real risk if you ignore the rules to give the kids some freedom. But that's become the only way to bring up your kids, otherwise you just have city kids that live on the farm."



Agenda point:

Organisations should seek to utilise the UN's Sustainable Development Goals to develop their community engagement strategies in partnership with other organisations in their communities to ensure that their investment creates the most benefit for all their stakeholders.

Unleashing human potential



Survey question

Incentivising students into agri careers



Rank =20 (26 in 2017)

Actual scores
2018 / 2017:

7.63 / 7.09

The challenges associated with recruiting and retaining people with the right skills, attitude and passion for a whole range of primary sector jobs was raised during every roundtable conversation. The overriding theme to all the discussions was simple; it is getting harder to satisfy the people requirements of the industry, particularly in sectors that are experiencing significant growth.

Dairy industry representatives highlighted the challenges of securing farm labourers, given the new government appears to have tightened the interpretation of the rules surrounding the granting and renewing of visas for migrant workers. Horticulture leaders noted the challenges employers have faced in recruiting people for a wide range of roles, including picking and packing jobs, across the country.

Other leaders identified the challenges attracting specialists in areas as diverse as data science and consumer empathy, while others highlighted the need to do more attract school leavers into tertiary study and graduate positions. We came away from the roundtables with a view that the industry is struggling to get the work done that needs to be done.

While the government does have some leavers to pull to assist with some of these issues, it was recognised they do not have all the answers. They can address the uncertainty that has surrounded the Recognised Seasonal Employer scheme this year; this programme provides significant benefits to the industry and the communities that RSE workers come from. The uncertainty benefits nobody. They can also think carefully about how minimum wage rules are implemented when businesses provide significant in kind benefits to their employees (particularly housing) to ensure pay and conditions are fair to both parties.

However, much of the onus falls on the industry to ensure that it has access to the right people with the necessary skills to fill the jobs available. More than one conversation touched on the

variable quality of employers across the sector; one contributor noting too many farmers are known by reputation for bullying staff and too few for their capability to develop and train young people. The industry tells a great story about diverse and interesting jobs; all employers have a role to play in ensuring that the actual experience has the bells and whistles promised.

One idea to address labour challenges related to the limited progression opportunities for workers on family farms. The suggestion was made that groups of family farmers could collaborate to offer cadetships across a number of farms to provide trainees with wider skills and experiences. Another suggestion was that the industry needs to think about the seasonality of roles and explore ways to create primary industry careers across sectors to provide year round employment, rather than seasonal meat or wine sector careers for example.

The industry also needs to work harder to engage with schools and tertiary institutes to ensure agri-food opportunities are on the radar of students and young people able to obtain relevant skills. Technology is transforming learning practices and as a consequence schools and universities are being forced to transform how they deliver programmes. The proposed Experience Centre at the ASB Farm at Mount Albert Grammar School in Auckland, which has been featured in previous Agendas, will provide new ways for industry to connect with students, explain the unique careers it offers and plant the seed of inspiration to attract the most talented students.

Attribute:



The food you are eating today has been produced by professional, highly skilled farmers who are continuously growing their capability to secure advanced qualifications in farm and environment management. This is so that they can grow food that is better for you, the environment and our community.



Grassroots observation:

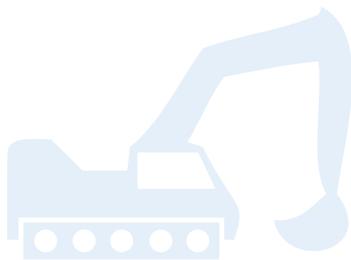
"Farming systems need labour at particular times, which makes the traditional staffing model uneconomic. Farmers need to re-think staffing models to create a proposition for employees that attracts good people. We need to open to job sharing, automate repetitive tasks and encourage staff to bring better ways of doing things to the table."



Agenda point:

The agri-food sector should support the development and delivery of programmes that equip young people with the critical thinking and entrepreneurial talent that the industry needs to deliver on its potential. This will involve supporting schools and universities to take teaching outside the classroom and delivering live experiences through case study competitions, hackathons, funding start-up initiatives and other similar activities.

Enabling infrastructure



Survey question

Develop infrastructure for strong rural communities



Rank =17 (=11 in 2017)

Actual scores
2018 / 2017:

7.71 / 7.79

Infrastructure in rural areas needs to work effectively if the primary sector is going to capture the opportunities available in global markets. Issues surrounding the capture and storage of water and access to social assets, such as schools and hospitals, have already been canvassed in this Agenda. There were other infrastructure issues raised during the roundtables. Digital connectivity was highlighted as a challenge in rural areas, despite the ongoing investment into Rural Broadband Initiatives, as was adequacy of transport infrastructure and, interestingly, the reliability and cost of energy was raised for the first time ever during a roundtable.

Digital connectivity appears to be an issue that will not go away. It is ranked as the second highest priority in this year's survey. No matter how much money is invested enhancing the reach of broadband connectivity, contributor opinion was that the solutions lack the bandwidth and speed to deliver transformational technologies to communities and businesses. Expecting the rural population to tolerate lesser online performance is no longer acceptable; rural areas are too important to New Zealand's prosperity to be given second class service.

The urban community needs to accept that providing rural regions with the same connection speeds that they expect is critical to supporting businesses to thrive, delivering integrated health and education services and enhancing stewardship of the natural environment. It may also be necessary to enable rural people to watch Rugby World Cup matches in their own homes, given Spark's acquisition of broadcast rights based on using a steaming model.

The Coalition Government's Provincial Growth Fund was identified as a fund with the potential to transform the infrastructure of rural communities; although there was uncertainty about whether this would be achieved given some of the investments to date.

The \$3 billion fund could solve rural connectivity issues by underwriting the delivery of a rural 5G solution. It could also improve transport infrastructure, reducing cost and enhancing the reliability of product flow to ports and consumers. The PGF support for reopening of the East Coast railway was noted as an investment that will enhance the resilience of our rural transport infrastructure.

The identification of energy as an issue facing the New Zealand industry was notable. Conversations with farmers and farming businesses around the world always quickly to turn to energy, given it is often the largest input cost after labour and farm supplies however it has never been raised in New Zealand previously. The ability of our ageing rural power network to reliably deliver given increasingly volatile weather patterns was questioned. The significant power price hikes that rural regions have experienced in recent years were also highlighted.

It was suggested that power is becoming a larger component of cost for rural businesses, eroding a traditional cost advantage New Zealand has held. Rural businesses expect to face further energy cost increases in coming years as investment is made to enhance the resilience of power networks and demand for energy increases, fuelled by emerging technologies like electric vehicles. We expect more rural businesses to follow the lead of companies overseas and explore off the grid energy solutions to manage cost and deliver enhanced resilience; internationally appropriately scaled solar farming, biomass reactors and wind turbine technologies are emerging that can be adopted at farm, processor or community level.

Attribute:



This food is produced using only energy from renewable sources to assist in minimising its carbon footprint. Our farm minimises the power it takes from the grid by using solar systems that generate at least 50% of total power used.



Grassroots observation:

"We need to be realistic, why would I invest in expensive high technology solutions when a power surge could fry them in an instant leaving me unable to operate my farm? Inconsistent power infrastructure is a real problem for adopting new technology, but it's not the only problem with our energy system. Power costs keep hiking up, while rotting power poles create health and safety risks. We're losing the competitive advantage that cheap reliable energy used to give us."



Agenda point:

Explore the use of public private partnerships and other novel infrastructure funding techniques to increase the ability of rural communities to access world class infrastructure.

A new way of life

☞ CASE STUDY



Lindy Nelson
 Agri-Women's Development Trust
 Founder and Executive Director

With no farming or agriculture background behind her, Lindy Nelson could not have imagined she'd later re-shape the entire agricultural industry for women in New Zealand.

When she first married her Eketahuna farmer husband, David, the former Wellington nurse had to adjust from working in high-pressure hospital environments to life on the farm. Lindy quickly immersed herself in farm life, supported by her new husband.

"I had a great husband that mentored, nurtured and encouraged my development. I found my voice in the community and got involved with initiatives that just weren't working."

Lindy's job as a rural Plunket nurse gave her insights into the unique challenges faced by farmers' wives.

"As I began to get more involved in community organisations, I would question why there were so few women represented in the industry."

She quickly recognised that while these women had innate skills and untapped ambition, they needed leadership and governance skills in order to take on the big roles.

"I knew they wanted to contribute more, but they didn't know how... so they were frustrated!"

Lindy embarked on a three-year research project to identify what was needed, using a mix of self-funding and the support from the Kellogg's Rural Leadership Programme.



"This gave me a solid foundation to identify problems in the primary sector, and engage women to align the opportunities with their strengths."

In 2009, Lindy founded the Agri-Women's Development Trust (AWDT); together with fellow farmers Jane White, Sue Yerex and Mavis Mullins. The flagship course offered by the Trust is a year-long governance and leadership programme for rural women. This has been followed by a range of other initiatives, training and workshops.

Today, more than 2,000 women have gone through an AWDT course – and there are 16 regional hubs formed by graduates, which provide ongoing support and learning for women at local level.

"We can now see how women's roles have massively transformed the industry," says Lindy.

"Our role is not in opposition to men, it is complementary; and about understanding where we can truly add value."

Lindy has a strong belief that women can change food production for the world.

"Women are the consumers, purchasers, and now the producers of food. We want to reframe the conversations, discover common ground and take a whole-of-New Zealand approach to challenges such as food production, food security, health and wellness."

One of the keys to this, believes Lindy, will be developing strong relationships between urban and rural women – in order to grow understanding, change negative perceptions about farming, and encourage values-led discussions.

"We need to ensure there is alignment between all New Zealanders to continue to have a licence to farm. I have a unique opportunity to bring urban and rural women together, and help them discover that they are all in the same boat."

Finding a purpose



Jesse Phillips
Partner, KPMG
Deal Advisory

☪ CASE STUDY

Jesse Phillips spent a decade in New York and London, carving out a high-flying career in investment banking. But it was the opportunity to contribute to New Zealand's burgeoning infrastructure market that drew him back to KPMG Wellington in 2013.

"Working in that fast-paced and often ruthless environment overseas was a great experience, but it helped me realise I wanted something more real and tangible. I wanted to find that passion for my work."

Today Jesse plays a key role in tackling some of New Zealand's most critical issues, and helping to craft the future landscape of infrastructure and housing.

"Working in both the public and private sector, I advise on the efficient structuring and financing of housing and infrastructure. These two issues are at the forefront of New Zealand's biggest challenges, and I passionately believe we can change the state of our economy with the right investment."



This work has huge implications for New Zealand's regional communities. Part of Jesse's purpose is to design systems that make a meaningful difference to the economic well-being of farmers and their wider communities.

One of the major challenges facing our regions is the deteriorating state of our infrastructure, particularly our water networks – and the burden of paying for it.

"It's now widely accepted that our local authorities' balance sheets are full," says Jesse.

"They cannot borrow more and there is a limit to extent these costs can be passed on to ratepayers, particularly in the regions that have not had the same population growth as the urban centres."

That's why the Government is exploring new models to fund these projects – with the likes of fuel tax, tolls, targeted levies and user-charges. The Provincial Growth Fund will also invest a good proportion of its \$3 billion in local infrastructure.

Another innovative approach is Crown Infrastructure Partners (CIP), the government-owned company that's tasked with designing and implementing new commercial models to attract co-investment for infrastructure projects.

For instance, CIP can establish new financial vehicles (known as 'special purpose vehicles') that invest in infrastructure in the place of Council. The advantage is that it allows developers to accelerate infrastructure and housing projects that would otherwise stay bottle-necked, due to Council's financial constraints.

"KPMG is at the forefront of this change, and we're currently advising CIP on the development of some of these models," says Jesse.

"We're also advising a bidder on the refurbishment of a new wastewater system for Rotorua District Council, using alternative financing; and helping Queenstown Lakes District Council explore alternative commercial models to deliver council offices and two public carparks."

Another area of focus is irrigation, and identifying new and creative models in the water space.

"We're ascertaining the challenges with regards to water and irrigation, and looking to create flexible and viable solutions. This is an area that can add instant economic value, and directly impact the livelihood of our producers and farmers."

It's delivering these real and tangible benefits that Jesse finds so rewarding.

"When we see a school being built, or social housing projects come to life, that's where the satisfaction comes from. It's a win-win – when you can deliver social assets in a way that's economically viable."

Economic capital

New Zealand's agri-food sector relies on selling the premium products it grows to consumers across the world. While this Agenda is more focused on domestic issues in comparison to recent years there was still plenty of discussion around the opportunities available for organisations to capture more value from markets.

Markets which are perceived to be becoming more complex and volatile than we have had to face before. Changes in the expectations of consumers, concerns around the stability of the global trade system, the ability to access the necessary capital to both stand still and grow and the impact that technology will have on markets were all raised during roundtable conversations.

It is clear to industry leaders that the fundamentals on which their organisations have been built are shifting. What is not clear is how rapid the shift will be or where markets and organisations may end up. It is apparent more businesses are adopting multiple lenses to assess their performance. While profit remains important, business leaders are being challenged to explain how their organisation benefits all its stakeholders.

The reality facing many businesses is that they are moving from an environment where a single offering met the needs of a million or a billion potential consumers to one where the offering is expected to "fit me and my needs". The transformational challenge facing businesses is how they shift from being configured to deliver to the average consumer to meeting the tailored needs of a specific customer. Such flexibility comes with a cost, there is no question that there are many discussions ahead around how organisations deliver a return on meeting the aspirations of each and every customer.



Rise of the complex consumer



Survey question

Embed resources in export markets

Rank =17 (16 in 2017)



Actual scores
2018 / 2017:

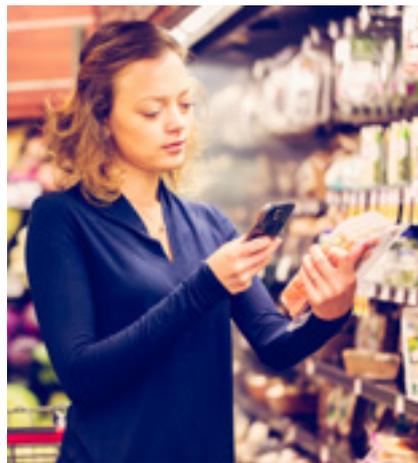
7.71 / 7.67

When the conversation turned to markets and customers this year, the overriding theme centred on the increasingly contradictory wants and needs of different groups of consumers. The message from the latest roundtables was that the 'average consumer' no longer exists. Success in markets depends on organisations doing the work to identify the consumers that they want to work with; and then aligning their products, attributes and story with these expectations.

A number of contributors highlighted the intrinsic contradictions in the behaviour of many consumers. One example given was that customers looking for the highest health standards for their food very often require everything to be individually packaged, creating a massive waste footprint, which does little to create a healthy planet. While such positions appear inconsistent to a traditional mind set we need to recognise that they make complete sense to the consumer and if we are to be successful in markets it is critical to see the world through the eyes of our customers. The attributes that are important to a consumer may not be important to us. The point was we need to be careful not to devalue high value attributes inherent in our products because of our mind-set.

Historically, people used food for a single purpose – to provide themselves and their families with sustenance and nutrition. Today, particularly in premium market segments, this can no longer be taken for granted. People now use products for a wide range of reasons; including enhancing health, demonstrating status, following fashion, highlighting political agendas and creating social interactions. The point was made time and again that agri-sector organisations need to build their understanding of and empathy with consumers, in order to identify the niches best suited to their products.

The reality is that for most consumers around the world, the most important attribute remains price and for many



cheaper is better. While people love engaging stories, there is limited evidence that the average consumer is prepared to pay enough of a premium to justify the cost associated with delivering premium attributes. The market niches where consumers are prepared to look beyond price are limited making market selection more critical than ever.

Given New Zealand's restricted supply of land and lack of scale, we need to think very carefully before entering any market where low cost is likely to ultimately become the dominating attribute. Looking beyond the claims consumers make about the attributes they are seeking in products – versus understanding how they actually behave at the point of sale - is critical to cutting through complexity. We need to find those consumers who will ultimately align their rhetoric and actions when it comes to checkout.

While delving into the inconsistencies and complexities of consumers is ever more challenging, the message from the roundtables was clear: we have no choice. The future for the agri-food sector lies in selling to micro-markets around the world that back their words with action. The challenge awaiting the industry is finding these segments, and speaking with them in the language that they understand.

Attribute:



This product has been designed to meet the health, wellness, sustainability and provenance needs of millennial consumers. Our company actively supports our staff to work with communities in Africa to assist them in creating sustainable community farming businesses.



Grassroots observation:

"We need to recognise that there is a generation of kids around the world with very different values to us. We need our processing companies to become smart marketers of our products. The whole industry needs to lift its sophistication and as farmers we are relying on our supply chain partners to deliver."



Agenda point:

Organisations should collaborate to gain a deep understanding of consumers collectively, rather than all working in silos. As suggested in last year's Agenda, we advocate that an independent Consumer Insights Centre of Excellence is created to pool investment into this critical activity.

The New Trade Order



Survey question

Sign high quality trade agreements

Rank 6 (6 in 2017)



Actual scores
2018 / 2017: **8.35 / 8.42**

New Zealand relies on the global trade system working. We rely on our trading partners to follow the rules and respect the agreements and treaties they have signed up to. We rely on countries not introducing unilateral tariffs, non-tariff barriers or phytosanitary restrictions to protect their domestic markets. As a small trading nation, the best we can hope for is a level playing field.

For those countries that champion free trade and rely on others to respect the rules of the global trading system, the past 12 months have been challenging. The Trump Administration has openly challenged the fundamentals of global trade, taking the view that a deal can only be a good deal if the United States wins. The rocks that the US have thrown have, not surprisingly, elicited responses; particularly from China, but also from Canada and Mexico, from the European Union and many other nations. When the largest economy in the world decides that the rules it helped create no longer apply to it, this creates an environment where everybody can renege on their commitments, fundamentally placing the world trade system at risk.

Concerns around the future of the trade system featured in many of our conversations this year, particularly regarding the fallout from any US/ China trade war that ultimately breaks out. The point was made that should the war eventuate, which most felt was more likely than not, then New Zealand will be expected to take a side. This will put at risk access to at least one of the key markets for our primary sector products.

Industry leaders were not clear on how New Zealand should respond to a fundamental shift in the trade system. As a very small player, our needs are unlikely to be taken into account as larger economies play geopolitical chicken with each other. There is every chance that our market access arrangements could be 'collateral damage' as countries close their borders, implement tariffs



or impose other border restrictions in pursuit of more strategic gains.

We have relied for decades on a trade system that works within a widely-accepted framework of rules. In entering into the CPTTPA and commencing free trade negotiations with the EU, the Coalition Government has indicated it believes that such a framework will continue to function and deliver benefits to New Zealanders. While supportive of continuing to seek market access in this manner, the message from the Roundtables was that we should not rely on these agreements to continue to deliver access if trade relations continue to deteriorate. It is critical that we work to develop a Plan B, working closely with our customers and their communities to ensure we are seen as more than just a supplier of product, but as a partner seeking build win-win relationships that are of real benefit to the countries that buy our products.

Attribute:



The product you are holding has been exported from New Zealand through government-controlled and monitored export channels, meaning we can guarantee the quality and the provenance of your product is the same as we sell to our customers in New Zealand.

 **Agenda point:**

Actively work with industry partners and the Government to ensure that the advantages available in current trade agreements are being secured. Support initiatives to expand the network of trade agreements, including engaging with the domestic community to enable them to understand the benefits of free international trade for New Zealand.

Unlocking growth capital



Survey question

Restricting foreign land investment

Rank 44 (44 in 2017)



Actual scores 2018 / 2017: **5.02 / 4.64**

This year, our roundtable conversations around the availability of capital had many more dimensions beyond the usual co-operative verses corporate tussle.

The core issue through many conversations was the impact that the changes to the Overseas Investment Rules will have on the flow of capital into New Zealand, and the value of the current capital stock already invested in the industry. It was clear that the changes have already seen some funds reprioritise investment away from New Zealand, particularly international investors that have been active in buying farms but don't wish to face the ignominy of having an application declined by the OIO.

There is concern that this decreasing demand for high-quality assets will negatively impact farm values, increase loan to value ratios, and leave many farmers facing difficult conversations with their bankers. At a time when the industry requires farmers to be thinking about how they invest into their business to grow value (both in terms of environmental improvement on farm and into activities beyond the farm gate), this may have the opposite effect. There's a likelihood they will have to focus on reducing debt to ensure that loans are not put into default positions.

Conversations touched on how sustainable it is for banks to continue to lend based on fully-capitalised land values, particularly as production returns will increasingly be dependent on how a product is grown, processed and marketed. In other words, this will potentially require less rather than more output. It was suggested that the relationship between the industry and debt has historically been too close. Debt was argued to be a drag on the industry's ability to invest down the value chain, as it is hard to borrow for intangible investments. It was also noted that regulatory changes to the banking sector may restrict the availability of debt, by requiring



banks to utilise a broader range of metrics to assess lending proposals.

A number of contributors noted that although there is no shortage of equity capital available to businesses that consistently generate profits, profitability has not been the key focus for many primary sector businesses over the years. As the industry evolves in response to disruptive technologies, organisations will need to make investments that come with significantly higher risk profiles than traditional land investments. The risk associated with these investments will require businesses to seek equity funding, consequently driving a greater focus on profitability.

Given the equity available in international markets, the point was made that we have nothing to fear from well-capitalised and connected foreign investors. Correctly-structured foreign investment that partners with New Zealand farmers or growers ultimately increases the likelihood of an organisation unlocking its full potential in global markets.

Attribute:



This food is grown by a business that has a capital structure confirmed as sufficiently resilient to withstand unexpected production shocks. This enables the business owner to guarantee the employment of their staff and the quality of their products regardless of what happens around the business.



Grassroots observation:

"Land owners need to be more creative in developing opportunities for loyal staff to invest alongside them to increase staff retention. Large dairy farms provide sufficient income to provide a good lifestyle and funds to invest into a business. The question is why good people would invest in a farm...the one or two per cent return does not match the risks."



Agenda point:

Identifying new models to attract and finance young and ambitious people into primary sector asset ownership through exploring alternative equity investment vehicles, hybrid and vendor financing arrangements; as well providing intensive operating training so that they understand how to operate a profitable business from day one.

Missing the innovation uplift



Survey question

Delivering effective extension

Rank 14 (18 in 2017)



Actual scores
2018 / 2017:

7.96 / 7.58

As the global agri-food industry experiences unprecedented change, a key question that arose from our roundtable conversations was whether our businesses are actually adopting innovation and changing at the necessary pace.

A number of contributors questioned whether the technological innovation being sold in this country was actually addressing the key challenges facing businesses. Others questioned whether an innovation uplift is realistically available to most participants in the industry, given they lack a deep R&D budget. A number of contributors suggested that the technology being served up to farmers is generally not solving the most significant challenges they face in their businesses. This includes processes that are highly labour intensive, such as putting the milking cups on. It was also highlighted that there is limited effort to integrate discrete innovations into a cohesive system. Most suppliers are providing a standalone, piecemeal solution to a specific problem that currently faces a business; rather than thinking about how processes can be completely redesigned to find a better way.

The overall message we took from the roundtable conversations was that New Zealand's agri-food sector is largely missing benefits which could be secured from the rapid adoption of world-leading innovation. Yet our contributors seemed to be comfortable with this position, possibly because change is inherently uncomfortable.

The lack of integrated solutions appears to be a significant impediment to technology adoption; as farmers want solutions that enable them to change once, not multiple times. The other key blockage is uncertainty around the ownership and use of data generated by many of the products available. There was also mention of 'change fatigue' (the unending pressure to adopt change without a clear economic reason to do so), and business cases that do not stack up to support an investment.



It is disappointing that innovation adoption is slower than it needs to be to capture the undoubted benefits technology can provide in augmenting the intuition of our farmers and business owners. However, this could all be about to change with the introduction of Blockchain. With major retailers around the world indicating they will only accept food products backed by Blockchain provenance, it is likely that many businesses will need to move quickly over the next year or two to adopt technology solutions that will enable them to populate the Blockchain. The key for businesses being forced into populating data into a Blockchain is whether collecting the data becomes a cost or a business driver. This will largely depend on the mind-set a business owner adopts, but it will provide the opportunity for more enlightened businesses to have a second chance at capturing the innovation uplift.

Attribute:



This product is made in New Zealand using the latest global technology available to create a product that is safe, sustainable and backed by full data about its provenance, even before we started to grow it on our farm.



Grassroots observation:

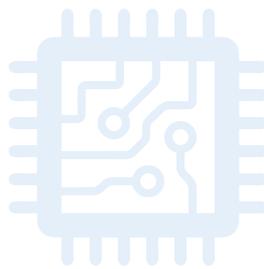
Technology is supposed to increase productivity but in my experience, it will often light more fires than it puts out. It doesn't always free up time, improve productivity or make life easier. In fact the opposite is true. It creates more stress, costs us more, and it's not configured to cope with weather volatility. Technology suppliers need to get closer to farmers and lift their game.



Agenda point:

Technology suppliers need to be investing more time in understanding the practical challenges that businesses are facing on a day-to-day basis; to ensure they are providing easy-to-use, effective solutions to key issues. They need to support their customers to capture the lowest hanging fruit in their business as quickly and efficiently as possible.

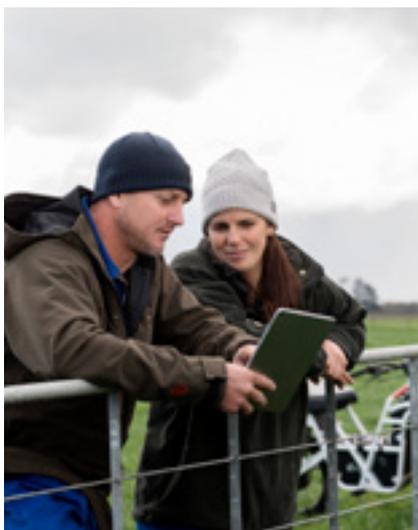
Digital sophistication



Social media strategy is a dark art to many of the industry leaders that contribute to the Agribusiness Agenda, however it was clear that they recognise the tools available are critical to engaging with potential business partners and consumers all over the world. Whether it is posting photographs of meals on Instagram or WeChat, product reviews on Amazon or Ali Baba, recipe videos on YouTube or business inquiries through LinkedIn there are social media platforms to suit every type of business connection that people seek to make across the world over.

There was significant discussion during this year's roundtables on whether New Zealand companies are optimising their use digital channels to generate value or whether the web is only seen as a transactional channel to flog more product. While digital channels are an insurance policy for companies should traditional distribution channels close for any reason, the view was expressed that too many companies are only transactional in their approach to online platforms. Given New Zealand's geographically remote location contributors noted that social media provides companies with tools that can build profile for our branded products in a cost effective way that is often difficult to do from New Zealand.

The diverse nature of the platforms available means content needs to be carefully tailored. One size fits all does not work. Fonterra demonstrates this approach across its social media strategy; Richie McCaw is used to communicate with New Zealanders about community programmes, like Milk in Schools, while Key Opinion Leaders and bloggers in China highlight the health attributes of key products like Anmum to specific demographic groups. The challenge for all companies is to develop social media strategies that demonstrate an understanding of the audience that they wish to communicate with and the content that will be interesting and compelling to them.



Digital provides the opportunity to connect widely with consumers all over the world. It also challenges organisation to have the flexibility to meet the specific needs of these consumers. Different consumers buy products in differing pack sizes challenging companies to embed the flexibility to meet these expectations into their operations. This can come at a significant cost to the company. A cost that is often impossible to recover from the consumer who expects to be able to buy the product in the format that suits their needs. Online channels do however provide opportunities to experiment with new business models that can make the flexibility to meet specific consumer needs an attribute that customers will be prepared to pay (an example being the personalised nutrition businesses that are developing around the world).

The overwhelming view was that social media is worth investing the time and effort into to do it properly. The various platforms enable New Zealand companies to target their stories to people around the world that genuinely care about where their food comes from and over time this will hopefully enable the companies to capture a premium for their products.

Survey question

Food solutions for dominant demographics

Rank 25 (20 in 2017)



Actual scores 2018 / 2017:

7.46 / 7.42

Attribute:



The products purchased from this website are all grown on our family farm and harvested and packed with care when we receive your order to ensure that you receive a fresh, high-quality New Zealand product in your kitchen within 48 hours.

Grassroots observation:

"We want to share images and stories about what we are doing. Putting this content through an industry-wide site facilitated by our processor, fertiliser company, bank or rural suppliers business would have much greater impact that using my own Twitter account, where I only share our stories with my friends and colleagues."

Agenda point:

Ensure the social media channels you use are telling compelling stories about your business, highlighting the unique features of your product, and creating experiences that will attract and retain the consumers you want to engage with.

allbirds

Walking in their shoes



Tim Brown
Allbirds
Co-Founder

☞ CASE STUDY

With its minimalist yet luxe design, the founders of shoe brand Allbirds are keeping one thing non-negotiable – their commitment to sustainability.

Building on their flagship shoe design made from New Zealand-merino wool, Allbirds have recently released a new line being made from eucalyptus trees. The tree fibre is sourced from South African farms and is FSC-certified, while the shoelaces are made from recycled plastic bottles.

Their goal is not only to weave sustainability throughout their end-to-end value chain, says CEO Tim Brown, but also to embed it in their culture.

“There is normally a trade-off when it comes to sustainability – consumers assume that the products will be uncomfortable. We’re here to do things differently, by making products that are not only sustainable and affordable, but also comfortable and practical for our consumers.”

The Allbirds story began when Tim, a Kiwi and merino fan, teamed up with American engineer and renewables expert, Joey Zwillingler.

The company is headquartered in the San Francisco Bay area, but the spirit of New Zealand’s story travels with them wherever they go.

Their distribution model gives them a fast-moving competitive advantage; as well as enabling the comprehensive sustainability platform.



“Having a direct-to-consumer model means we save margin in our processes...and what this is essentially means for our consumers is that we can afford to source the best materials for our products, and ensure they are certified. Sustainability is non-negotiable.”

Certification is a crucial part of their process, and as well as to the FSC rating, they are a certified B-Corp company. Their cardboard packaging is 90% post-consumer recycled products, and they partner with Soles4Souls, a non-profit that distributes second-hand shoes around the world.

Another critical factor in Allbirds’ success, explains Tim, has been a single-minded focus on placing the consumer first.

Having evolved their first product, The Wool Runner, 27 times to date since launching, they use retail stores, social media and surveys to ensure the entire business is calibrated to the consumer.

“We adopted a gender neutral colour approach based on social media comments that the era of pink for girls and blue for boys was over.”

“We don’t want to wait for a new season to release new products. We want to constantly re-iterate and push out our new products in line with evolving consumer needs.”

Taking on the world



Andrew Watene
Associate Director, KPMG
Advisory

☞ CASE STUDY

Andrew Watene's international career has seen him immersed in a number of markets around the world - sweeping Africa to Asia, America to Europe but it all began over two decades ago in the Bay of Plenty.

Andrew is of Tūhoe descent, and began his career in the 90s on the production floor of an abattoir in the Bay of Plenty. Nearly 20 years later, he recently returned to New Zealand to join KPMG. He specialises in working with agribusiness clients, particularly those who identify as being Māori and export-orientated and is closely involved with KPMG's Accelerating Exports Programme.

In his new role, Andrew is keen to apply his industry experience and in-market knowledge to enable opportunities for New Zealand's primary industry, and in particular, the Māori sector. "An observation that is often missed is the in-market component of competitive comparison, naturally we tend to think of those exporting 'to' a market without paying attention to local companies operating within the border"... often these companies are exemplars and most connected to the consumer.

"An interesting insight after a recent market visit were consumer expectations on the authentication of a brand or product. Being able to provide consumers with an experience that is tied to a set of attributes with unique cultural principles – that the attributes are a way of 'being' as opposed to 'doing' – is extremely powerful. These are the kind of compelling stories that Māori exporters can tell."

Another closely-related principle, Andrew says, is the need to be relentlessly consumer-centric.



"It's critical to understand what drives consumer behaviour and consumption patterns. This consumer-centric mind-set is essential to maintain a competitive advantage; looking at products as 'made for' a market, as much as 'made in' New Zealand."

During his career, Andrew has been a director and board member of a number of companies in Asia and Europe. He was also a member of the Irish Market Access Group, a government-industry collaboration lobbying for the lowering of international barriers.

"I am lucky to have had such rich experiences in my career, at the time they challenge us but on reflection they can help others. The businesses and leadership teams I have been part of have had to deal with a number of different challenges from global recalls, scandals that impact our industry, or geopolitical challenges... they say 'never waste a good recession', we've been challenged by a few."

For Andrew, one of the rewards of returning home is the opportunity to connect with New Zealand businesses, understand their ambitions, and help navigate the complexities of international markets.

He clearly sees the potential to contribute to Māori – either co-designing sustainable business models that will enhance resources while maintaining values or generate employment opportunities which help to secure the well-being of future generations.

"We work to understand the needs of Māori organisations, and facilitate access to the right resources to support them in those ambitions. It is about creating models that truly resonate with our people."

As an MBA graduate, Andrew is also giving back to the community in other ways. Through KPMG's partnership with the charitable organisation, Springboard Trust, he is donating his business expertise to support educational outcomes in Aotearoa schools.



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We trust that we have again created a useful narrative to move the conversation forward on how the industry creates the value for its participants and the wider New Zealand economy. We would like to thank each and every one of our contributors who gave their time and their opinions so freely – without your input we would be unable to produce the *Agenda*.

We have again received extensive commentary and insights from our contributors in preparing this edition of the *Agenda*.

We trust that we have again created a useful narrative to accelerate the pivot from producer to consumer, from volume to value. The potential for New Zealand agri-food to grow its contribution to our country is significant – every leader we talked to has a desire to realise this potential.

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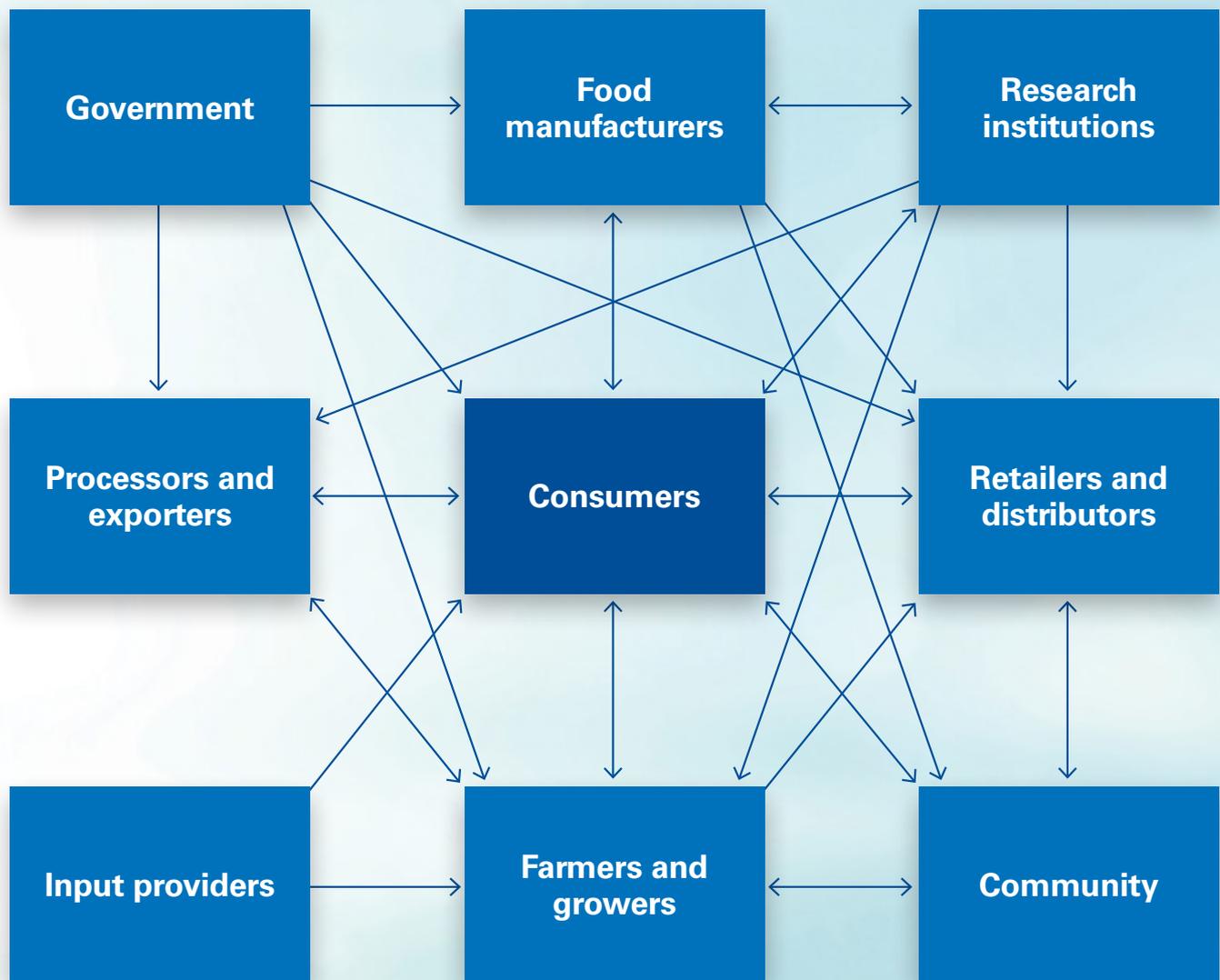
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Agri-food network



We believe that New Zealand's agri-food sector has the potential to achieve more with the talent, knowledge, natural resources and market reputation that have been developed over generations. Our teams support clients in telling their better business stories, work in market with our clients to develop new markets and ensure that product is delivered in the most effective way, explore ways to make world class infrastructure available to rural communities as well supporting good farmers to improve many aspects of their businesses. We are passionate about doing our bit to fuel the prosperity of New Zealand's agri-food sector in our roles as advisors, thought leaders, strategists, auditors and accountants to the industry.

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