MAF (Policy)	Distribution
Briefing for the Minister of Agriculture	Minister
File Ref: BS-28	Ministers Advisor
ADMS No: 05-471	Minister's Office
Drafted by: Information withheld under Section 9 (2) (a) of the Official Information Act 1982	ADG Policy
Cleared by: Information withheld under Section 9 (2) (a) of the Official Information Act 1982	Director-General
	Deputy Director-General
Date Sent: 8 February 2006	ADMS
	Drafter
	Director Biosecurity

BRIEFING ON THE FOOD AND BEVERAGE TASKFORCE MEETING – 9 FEBRUARY 2006

Date:	8 February 2006	**Priority:**	High
Security Level:	NA	**Document Number:**	05-471

Action sought

Minister	**Action sought**	Deadline
Minister of Agriculture	***Note*** *the contents of the attached brief*	Thursday 9 February 2006

Does the paper have financial implications?			*No*
Risks		**Level of Risk**	

Ministry Contacts

Name		**Position**	**First Contact**	**Telephone (work)**	**Telephone (after hours)**
Responsible Manager	**Kay Brown**	Manager, Sector Performance Policy	Yes	Information withheld under Section 9 (2) (a) of the Official Information Act 1982	Information withheld under Section 9 (2) (a) of the Official Information Act 1982
Principal author	**Information withheld under Section 9 (2) (a) of the Official Information Act 1982**	Policy Analyst		Information withheld under Section 9 (2) (a) of the Official Information Act 1982	Information withheld under Section 9 (2) (a) of the Official Information Act 1982

FOOD AND BEVERAGE TASKFORCE MEETING – 9 FEBRUARY 2006

Purpose

1. *This briefs you in readiness for the next meeting of the Food and Beverage Taskforce (the Taskforce) on Thursday 9 February 2006 from 9.00am to 4.00pm at the Duxton Hotel, Wellington.*

Key Points

2. You are attending the morning session. During this session, the Taskforce will be discussing the role of medium-sized enterprises in the Food and Beverage sector and considering how to encourage further growth of these types of businesses.

3. We have, for ease of reference, provided some analysis on the complete Taskforce agenda. This is attached in tabular form.

4. We have identified some ***questions you may wish to ask*** during the discussion on medium-sized enterprises. These are highlighted in grey in the attached brief.

Recommendation

5. We recommend that you **note** the contents of the attached brief.

noted

Kay Brown Manager, Sector Performance Policy	Hon Jim Anderton Minister of Agriculture
	/ /2006

Food and Beverage Taskforce Meeting on 9 February 2006

Agenda Item	Comment
2: Increasing the number and role of medium sized enterprises in the sector	Graham Stuart's paper on the structure of the Food and Beverage sector raised a number of issues. In particular, the paper comments on the need for more medium-sized businesses to drive economic growth in the sector. In this meeting, NZTE will report on actions currently aimed at addressing these issues. Taskforce members will discuss the adequacy of these measures and identify what else needs to be done. Graham Stuart's paper contended that the Food and Beverage sector will find it difficult to sustain productivity growth, due to a number of key structural reasons. a) *The absence of medium-sized firms and the dominance of a small number of large firms*. The sector relies on a very small number of enterprises to drive its real economic growth. The large numbers of small businesses in the sector are too small to sustain investment in capital plant, spend significantly on R&D, develop human resources or invest directly in foreign markets. *b) A small domestic market and large distance to export markets.* These factors act as a hurdle to small businesses trying to grow to medium-sized businesses. *c) The dominance of cooperatives.* Cooperatives by their nature aim to maximise the returns paid to supplying members. The paper suggests that cooperatives may therefore limit their strategic ambitions and be more likely to forego some downstream investments.

	You may wish to note that MAF recently commissioned research on the role and significance of cooperatives in New Zealand agriculture from ISCR. Some of its key findings were that: - cooperatives in New Zealand have demonstrated considerable adaptability in response to market and other pressures; - many variations in the cooperative model have been adopted, alleviating a number of criticisms often levelled at traditional cooperative forms; - cooperatives tend to arise more naturally where multiple, small and competing producers of a product face market power due to industry concentration further downstream in the supply chain, particularly where product perishability exacerbates their exposure to such market power. In other words, the dominance of cooperatives does not appear to be symptomatic of a market failure. We have attached a copy of the executive summary of ISCR's report for your information. We are in the process of preparing a comprehensive report on the research findings and possible next steps.

Questions you might like to ask on medium sized enterprises

- ***What are the unique characteristics*** (if any) of medium-sized enterprises currently operating in the food and beverage sector?

- ***What are the key impediments to growth?*** The Government led work on the Growth and Innovation Framework suggests that some of the underlying causes of low economic growth could be:
  - low levels of research and development, resulting in and successful commercialization of new products and processes;

- absence of deep and low cost capital funds;
- lack of skilled labour;
- inability to access international value chains;
- insufficient or inadequate infrastructure;
- absence of enterprise culture (There is anecdotal evidence that SME business owners want their businesses to remain small);
- a regulatory environment that does not foster business growth (but note that NZ scores consistently highly in terms of the quality and costs associated with our business regulatory environment).

- ***Which of these factors is placing a hand-brake on the food and beverage sector's growth?*** Is it all of them in combination or are there any specific challenges?

- The Ministry of Economic Development (MED) has undertaken significant amount of research on Small and Medium Sized Enterprises (SMEs). It has defined SMEs as enterprises with 19 or fewer employees. ***Is this definition helpful*** when thinking about the barriers and opportunities for growth in the food and beverage sector, particularly at the on-farm end of the value chain?

3: Australian experiences with the implementation of their National Food Industry Strategy (NFIS)	This is a chance to learn from the Australian experience and directly discuss issues / lessons learned with Susan Nelle (CEO of the company set up to oversee strategy implementation) The Mid-term review of the NFIS (10 May 2005) gives a fairly glowing and supportive report of the strategy. The Australian experience in Food and Beverage sector engagement may differ from New Zealand's in some significant respects. However, where parallels do exist, we need to identify what has worked, what hasn't and why.

4: Establishing a Working Group on options for improving collaboration within the sector	The Taskforce will consider establishing a new working group focused on improving industry collaboration. This may build on the discussion with Susan Nelle, particularly the lessons from the Australian experience, and how these might be applied in the New Zealand context. *Background* When the Taskforce set up the initial three working groups (Innovation; Skills; Markets) in May 2005, they decided to revise the need for further working groups once that first three had started to report. The Taskforce originally discussed establishing a further 7 working groups (bio-security, SME capacity building, investment, compliance, property rights, environmental sustainability, and industry structures). At that time, the Taskforce accepted that many of these topics were cross-cutting and would be dealt with in the existing 3 working groups. *Industry feedback on sector collaboration* Initial (limited) feedback on the discussion document[1] from industry players indicates that: - current F&B sector representative bodies are not adequate, are under-resourced, un-skilled, and do not always account for small producers or certain sub-sectors; - closer coordination and greater commitment is essential. However, some respondents also acknowledged that it is difficult for an industry body to set pan-industry targets. Some indicated that this is more appropriate for individual companies. Note that this feedback was from a very limited sample of respondents.

[1] Refer to the overview of responses, attached to your meeting agenda

	Issues you might like to consider: *a) Function and purpose of the proposed working group* A ***clear problem definition is crucial*** if the group is to serve a useful purpose and add any real value. Initial discussions at officials' level have failed to establish yet a clear idea of the precise problem the proposed group would address and its potential deliverables. *b) Ability to add value* Officials, industry members and Taskforce members appear to broadly agree on the need for greater collaboration to facilitate further productivity growth in the sector. We are concerned, particularly in the ***short period of time available,*** that this group is unlikely to bring about the necessary change in behaviour to achieve this increased collaboration. The Taskforce is due to wrap up by 30 June 2006. However a working group on collaboration in the sector may be able to take the first step in this process and identify areas for future collaboration work. The group would need to have clearly defined terms of reference, to ensure that it makes meaningful progress in the short time available. *c) Location of the secretariat for the group* If the Taskforce does decide to establish this working group, our view is that ***MAF should not take on the secretariat function***, due to significant resource constraints.

5: Responses received on Discussion Paper	The "issues and options" discussion paper, published in December last year, aimed to provoke responses from key players in the sector. It attempted to present the issues in a way that would neither "scare the horses" nor be so bland that the sector would not feel motivated to respond. At this meeting, Taskforce members will discuss the feedback and decide what messages to present at the regional workshops. Generally there has been a **low level of response** from the sector to the discussion paper (only 14 responses received by 27 January). The Taskforce may wish to discuss possible reasons for this and the implications for the workshops. Peter Harris' overview paper (attached to meeting agenda) suggests that the low level of response is *not* due to poor distribution of the discussion paper. He suggests that the poor response may reflect that businesses / sector participants: - don't consider long term strategic issues to be relevant to their day to day concerns; or - doubt the value of the sector engagement process. The low response may also indicate that the discussion document was so bland that industry players didn't see any threatening issues. A further possible reason for the low response relates to the **broad nature of the sector engagement process**. The Food and Beverage sector is large and its many sub-sectors are diverse in size, scale, and stage of development. The engagement process has therefore, of necessity, been broad based. Because of this approach, there seems to have been **no cross-cutting burning issue or platform** to capture the energy of the sector as a whole or the wider public. A more tailored approach may have generated this platform, and delivered the desired level of response and participation. Peter Harris will give an update of responses to the discussion paper at the Thursday meeting. As he has noted, some bigger industry organisations may submit late.

6: Regional workshops	The Taskforce will be invited to sign off the proposed format, organisation and content of the workshops. We are generally comfortable with the workshops' proposed format, panel topics and invited panellists. We encourage you to look over the proposed panel topics for each workshop and consider attending those of most interest to you.
7: Format of Working Group reports	The three working groups are preparing to submit their final reports by mid year. The Taskforce members can give feedback on the proposed format for final reports and signal any preferences for reporting requirements from the working groups. Officials have collaborated to create a consistent format over each of the three working groups, and the report outlines were included with the meeting agenda package.