

Chair  
Cabinet Economic Growth and Infrastructure Committee

## **Primary Growth Partnership**

### **Proposal**

This paper seeks Cabinet's agreement to the establishment and broad parameters of the Primary Growth Partnership.

### **Executive Summary**

1. The primary and food sectors are critical to New Zealand's economy both in terms of exports and the number of people they employ, and it is imperative that we enhance the economic and sustainable performance of these sectors.
2. Budget 2009 includes funding for a "Primary Growth Partnership" (PGP) initiative at \$30 million for 2009/10, \$40 million for 2010/11, \$50 million for 2011/12 and \$70 million per annum for 2012/13 and outyears. PGP will drive substantial gains in economic growth and sustainability in the primary and food sectors, including forestry, through investment in partnership between government and the primary and food industries in research and innovation.
3. The industries included within the scope of PGP are: pastoral (including wool) and arable production, horticulture, seafood (including aquaculture), forestry and wood products, and food processing. PGP will also include a Centre for Agricultural Greenhouse Gas Research.
4. There will be overall matched investment from industry and the government, with industry and government investment aligned. Investment programmes will consist of a suite of complementary and mutually supporting projects targeted at a range of points along the value chain (which may include education and skills development, research and development, product development, commercialisation, market development and technology transfer) and will be aligned with, but additional to, existing initiatives and work programmes—that is, beyond business as usual.

### **Background**

5. The primary and food sectors are critical to New Zealand's economy both in terms of exports and the number of people they employ. Our primary sector firms also have the scale and global reach that support many domestic businesses and will provide the base for successful new internationalised manufacturing and service businesses. Moreover, global demand for food is increasing and it is likely that at least the food sector will prove more resilient in the current global economic crisis than other sectors that are more reliant on discretionary consumer spending.

6. It is imperative that we enhance the economic and sustainable performance of the primary sectors through greater productivity, increasing the number of farmers and growers achieving best practice and increasing the value of the products and services that we sell globally.
7. Those involved in these sectors recognise that to maximise the returns from our natural resources (land, water and energy), our people, and the decades of past investment, there is a need to work collaboratively together and with the government in an increasingly competitive world. By so doing New Zealand's pastoral, food and fibre sectors will increase their contribution to New Zealand's economic performance by being increasingly recognised and valued by customers and consumers as trusted suppliers of goods and services that meet and frequently redefine market demands.

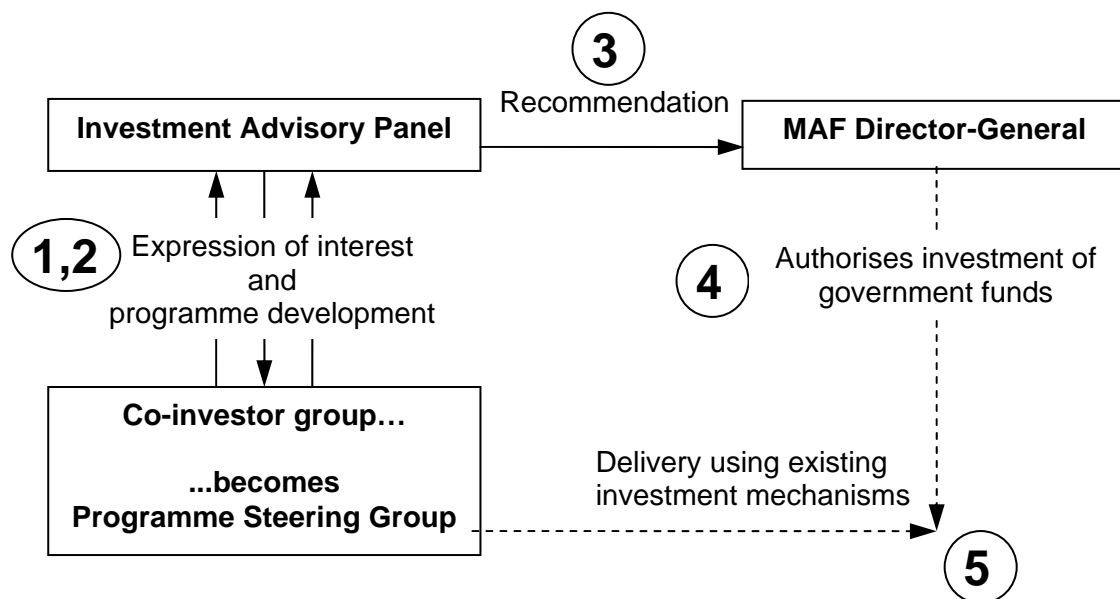
### **Comment**

8. Budget 2009 includes an initiative for a "Primary Growth Partnership" (PGP) at \$30 million for 2009/10, \$40 million for 2010/11, \$50 million for 2011/12 and \$70 million per annum for 2012/13 and outyears to be appropriated to Vote: Agriculture and Forestry. PGP is intended to drive substantial gains in economic growth and sustainability in the primary and food sectors, including forestry, through investment in partnership between government and the primary and food industries in research and innovation.
9. PGP will be a partnership between the Crown and the primary and food sectors, and industry will match the level of government investment in the initiative. Crown and industry investments will be complementary and aligned, and investments will be demand-led, with the prioritisation, strategy and delivery processes led by a government-industry partnership.
10. PGP covers the whole of the value chain, including education and skills development, research and development, product development, commercialisation, market development and technology transfer.
11. The industries included within the scope of PGP are:
  - pastoral (including wool) and arable production;
  - horticulture;
  - seafood (including aquaculture);
  - forestry and wood products; and
  - food processing (including, for example, nutraceuticals and bioactives).
12. PGP will also include a Centre for Agricultural Greenhouse Gas Research.

### *How will PGP work?*

13. PGP governance would have three specific functions:
  - ensure the development of robust proposals;

- assess which proposals should be supported and how they should be funded; and
  - implement those decisions via entering into contracts and monitoring, evaluating and reviewing activities.
14. In order to operate in a timely and pragmatic manner, the governance structure will be relatively light and make the maximum use of existing mechanisms for delivering the investment programmes.
15. The key elements of PGP are:
- The **Investment Advisory Panel (IAP)** – recommends investment of government funds to the Director-General of MAF (MAF-DG) and recommends adjustment of existing expenditure to all investors;
  - **Programme Steering Groups** – develop business plans for programmes of investment; and
  - The **Director-General of the Ministry of Agriculture and Forestry (MAF-DG)** – approves government investment and provides point of contact for relationships between private investors and the Crown
16. The figure below outlines how PGP will operate:



- Step 1:** The IAP will call for expressions of interest (EoIs) for investment programmes. Groups of potential co-investors with similar interests develop EoIs. The IAP determines which EoIs will be progressed (this process may include iterative discussions between the IAP and groups of co-investors to further develop EoIs).
- Step 2:** Co-investor groups with successful EoIs become formal Programme Steering Groups (including government officials), who develop business plans for the investment programme. These business plans are then submitted to IAP for assessment.

3. **Step 3:** The IAP assesses the quality and value proposition of programmes and makes recommendations to the MAF Director General (MAF-DG).
  4. **Step 4:** MAF-DG approves government investment and subsequent contracting of the programmes.
  5. **Step 5:** Members of the Programme Steering Groups will arrange for contracts to be entered into, via existing investment mechanisms (such as the Foundation for Research, Science and Technology (FRST)). The Programme Steering Group will also be responsible for oversight of the programme.
17. Crown investments will be made using existing investment managers (for example, agencies such as FRST, the Tertiary Education Commission or New Zealand Trade and Enterprise), with the possibility of other entities (including non-government entities) where best practice is demonstrated.
  18. A Secretariat will assist the IAP and have a key role in ensuring that process and documentation are of the highest quality. This will support the IAP in making recommendations to MAF-DG with confidence.
  19. It is also proposed that there be an “Annual General Meeting” of investors, including key Ministers and key private sector investors which would meet with the IAP and discuss overall progress of PGP in achieving its objectives.
  20. After two years MAF will review the progress of PGP.

#### *Investment programmes*

21. Industry and government investment will be aligned with, but additional to, existing initiatives and work programmes. Although delivery of significant step change is likely to take some time, that does not detract from the expectation that programmes will be beyond business as usual.
22. Programmes will consist of a suite of complementary and mutually supporting projects targeted at a range of points along the value chain, but not every programme will necessarily be expected to cover the entire breadth of the value chain.
23. Programme proposals will contain a plan for the appropriate management of any intellectual property (IP) arising from the proposals to ensure maximum benefit to New Zealand. This will be determined on a case by case basis.
24. There will be overall matched investment from industry and the government at the programme level, with industry and government investment aligned. Within each programme, public good activities are likely to be the subject of more government investment, while activities with more value able to be appropriated by industry will be funded more heavily by private partners. All of the activities within a programme may not happen all at once, and partners will come to a binding agreement about securing government and private investment over the span of the programme.

25. Programme business plans must clearly demonstrate:
- how the activity will result in **economic growth and increased sustainability** (for example: more productive and sustainable use of our resources; identification of new valuable ingredients and products; significant productivity gains above business-as-usual; new markets etc);
  - how this proposal fits in with the overall **strategic direction** of the sector and the **existing activities** already occurring;
  - the **new** activities that must occur for this to be achieved across the value chain, from the research through to commercialisation;
  - key **performance indicators** that can be used to measure the outcomes;
  - the **likely beneficiaries**, their contribution (both financially and how they will implement and adapt outcomes to maximise the gains); and
  - why the Crown needs to invest in this activity or aligned activities (that is, the **public good aspects** of the proposal).
26. In determining “additionality” of investment, acceptance of in-kind contributions will be at the discretion of the IAP. In-kind contributions would have to be clearly declared – not generic – and state accountabilities and obligations (in terms of maintenance, depreciation, health and safety, confidentiality and other criteria that IAP may specify). All in-kind contributions will be valued at their operational value to PGP, not capital or ‘book’ value, and be subject to independent valuation. Staff effort is unlikely to meet the definition of in-kind contribution.

#### *Allocation of funding*

27. All programme proposals will be assessed by the IAP against criteria including those shown in paragraph 24 above. The IAP will recommend funding only for programmes of sufficient quality.
28. To encourage investment to begin flowing, initial allocations of \$2 million for each of the five sectors (pastoral (including wool) and arable production, horticulture, seafood (including aquaculture), forestry and wood products, and food processing (including, for example, nutraceuticals and bioactives)) will be set aside within the PGP appropriation for each of the first two years. The remainder of the PGP appropriation (excluding funding set aside for the Centre for Agricultural Greenhouse Gas Research; see below) will be fully contestable between all sectors and programmes.
29. Because an investment programme may span more than one sector (for example, pastoral and food) or there may be more than one programme per sector, the IAP will determine which programme(s) each sector allocation is used for.

#### *Centre for Agricultural Greenhouse Gas Research*

30. A Centre for Agricultural Greenhouse Gas Research will be funded from within PGP. The key objectives of this Centre will be to:

- develop mitigation options focused on New Zealand's agricultural greenhouse gas emissions;
  - improve co-ordination of domestic agricultural greenhouse gas emissions research;
  - exploit environmental and productivity co-benefits from greenhouse gas emissions research;
  - maximise the potential to deliver practical greenhouse gas mitigation/abatement solutions on-farm to the agricultural sector; and
  - make use of international research opportunities including contributing to a global Virtual World Research Centre (which New Zealand is interested in developing as part of its international negotiations on climate change).
31. Officials will discuss the proposed model for this Centre with other potential PGP co-investors, the Sustainable Land Management and Climate Change Peak Group, the Pastoral Greenhouse Gas Research Consortium and other departments and will report back to the Minister of Agriculture and the Minister of Research, Science and Technology after these discussions.
32. Although the Centre will have different governance arrangements from other programmes under PGP (which will enhance the timeliness and limit the cost of its establishment), once its business plan, goals and strategic direction are agreed, these (as well as the Centre's future performance) will be reviewed by the IAP, the MAF Director-General and the Chief Executive of the Ministry of Research, Science and Technology.
33. This Centre will have access to two types of funding through PGP:
- stable funding allocated through PGP of \$5 million per annum of ongoing baseline funding from the Crown, identified by the Centre in a 10-year business plan. The baseline funding would be regularly reviewed; and
  - the ability to contest for the remaining PGP funds, subject to the same criteria and rules of use as other programme proposals under PGP.
34. Funding awarded to the Centre under PGP could be administered using the Foundation for Research, Science and Technology (FRST) based on a memorandum of understanding. FRST and MAF already have a transparent and accountable process for administering Crown funds on greenhouse gases and climate change.
35. The Pastoral Greenhouse Gas Research Consortium (PGgRc) could be the key route through which the Centre's technologies and management practices are commercialised and adopted by farmers. The PGgRc is an established, branded entity that purchases research into reducing methane and nitrous oxide emissions and holds intellectual property in this area. It is not a research provider. Although industry may suggest that research funding for the Centre should be allocated through the PGgRc rather than through PGP processes, it is important to note that PGgRc has an industry focus, while the Centre will provide elements of both public and industry good research. Furthermore, there may also be other organisations that are not members of the PGgRc that wish to provide co-funding for research through the Centre.

### *Investment Advisory Panel*

36. The IAP will consist of a Chair plus five additional members. Following consultation with the Prime Minister and the Minister of Finance, I have appointed Bill Falconer as the inaugural Chair of the IAP. I intend to appoint the remainder of the inaugural IAP, in consultation with the Chair, the Director-General of MAF, the major co-investors, the Prime Minister and the Minister of Finance.
37. Given the long-term nature of PGP, IAP members will be appointed for three-year terms, with staggered membership. IAP members may have their membership renewed once, for an additional three years. In exceptional circumstances IAP members may be appointed for greater than two terms.

### *Programme Steering Groups*

38. Potential investors will group together of their own initiative around common goals to develop Expressions of Interest (EoIs), and these groups will designate formalised Programme Steering Groups when the IAP approves an EoI to progress to business plan development. The IAP may also suggest other potential co-investors or linkages with other EoIs. Programme Steering Groups will include government officials from the relevant agencies, which may include delivery agencies.
39. Programme Steering Groups will need to be able to demonstrate to the IAP that their proposed investment meets the criteria for investment through PGP, which will include demonstrating support and strategic priorities of the relevant sectors. In addition, in order to help meet the necessary criteria for use of public funds, Programme Steering Groups will need to consult with the Ministry of Foreign Affairs and Trade (and other departments, as appropriate) to confirm that the proposal is consistent with New Zealand's international trade obligations and trade policy settings. Departments may require specific commercial information (subject to the appropriate confidentiality arrangements) from Programme Steering Groups to enable this analysis.
40. In addition, to ensure that sectors with similar interests are engaged in the development of joint programmes, it will be important that investors continue to build on mechanisms to keep each other informed of proposals under development.

### *Resourcing the operation of PGP*

41. The PGP is a large initiative. Although not every Programme will be expected to cover the full breadth of the value chain, the programmes of activities funded under PGP are expected to be large, complex, and multifaceted, including education, research, technology transfer and near market activities. Programmes will be multiyear with the commitments of contributing parties likely to vary over time. Robust programmes of work will take time to develop and contract (as multiple parties will be involved) and will need to be actively managed and will require ongoing evaluation. Achieving the desired outcomes will require appropriate administrative resourcing.

42. The initial set-up costs and remuneration, fees and expenses of the IAP; and contracting of specialist advice by the IAP will be funded from the PGP appropriation. The IAP will also be supported by a MAF-employed Secretariat to address the day to day administrative responsibilities of PGP, and the set-up, remuneration and administrative expenses of the Secretariat will also be funded from the PGP appropriation.
43. Contracting of PGP investments will be done through existing mechanisms, including operational agencies who are investment managers, such as FRST. These agencies specialise in contracting providers to provide services (e.g. research) that will achieve the outcomes sought and they will evaluate those PGP contracts they administer and report to the Programme Steering Group responsible for the programme. It is anticipated that this contracting and evaluation will cost around 3% of the funds contracted.
44. The proposed funding for the IAP, the Secretariat and contracting processes will need to be transferred from non-departmental to a departmental output class. This can only occur post-Budget. I recommend that Cabinet delegate the authority to carry out this transfer to the Minister of Agriculture and the Minister of Finance.

## **Consultation**

45. This paper was prepared by the Ministry of Agriculture and Forestry (MAF).
46. The following government agencies were consulted in the preparation of the paper and agree with its recommendations: Foundation for Research, Science and Technology; Ministry of Economic Development; Ministry for the Environment; Ministry of Fisheries; Ministry of Foreign Affairs and Trade; Ministry of Research, Science and Technology; New Zealand Trade and Enterprise; Tertiary Education Commission; and Treasury. The Department of the Prime Minister and Cabinet was informed.
47. MAF has consulted the prospective key industry stakeholders in developing PGP, including: Aquaculture New Zealand, DairyNZ, Fonterra, Foundation for Arable Research, Horticulture New Zealand, Meat and Wool New Zealand, Meat Industry Association, New Zealand Forest Owners Association, PGG Wrightson, Seafood Industry Council, Wood Processors Association of New Zealand and Zespri. These stakeholders are comfortable with the overall proposed structure of PGP.

## **Financial Implications**

48. Funding for this initiative is included in Budget 2009.
49. As this is a partnership and co-investment is required before government money is committed (apart from the stable funding for the Centre for Agricultural Greenhouse Gas Research), there is a risk, given the current difficult economic situation, that not all of the available appropriation will be utilised. This is one reason why the initiative's funding increases over time.



## Human Rights

50. This proposal is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

## Legislative Implications

51. There are no legislative implications.

## Regulatory Impact Analysis

52. Regulatory impact analysis is not required as this proposal does not alter existing regulatory arrangements.

## Gender Implications

53. A gender implication statement is not required.

## Disability Perspective

54. A disability perspective statement is not required.

## Publicity

55. PGP will be announced as part of Budget 2009. Enquires about PGP should be referred to the office of the Minister of Agriculture.

## Recommendations

56. We recommend that the Committee:

1. **Note** that the primary and food sectors are critical to New Zealand's economy both in terms of exports and the number of people they employ, and it is imperative that we enhance the economic and sustainable performance of these sectors.

**Noted**

2. **Note** that Budget 2009 includes an initiative for a "Primary Growth Partnership" (PGP) at \$30 million for 2009/10, \$40 million for 2010/11, \$50 million for 2011/12 and \$70 million per annum for 2012/13 and outyears to be appropriated to Vote: Agriculture and Forestry.

**Noted**

3. **Note** that PGP covers the whole of the value chain, including education and skills development, research and development, product development, commercialisation, market development and technology transfer.

**Noted**

4. **Note** that PGP intends to drive substantial gains in economic growth and sustainability in the primary and food sectors, including forestry, through investment in partnership between government and the primary and food

industries in research and innovation, with industry matching the level of government investment in the initiative.

**Noted**

5. **Agree** that the industries included within the scope of PGP are:

- pastoral (including wool) and arable production;
- horticulture;
- seafood (including aquaculture);
- forestry and wood products; and
- food processing (including, for example, nutraceuticals and bioactives).

**Agreed / Not agreed**

6. **Note** that in order to operate in a timely and pragmatic manner, the governance of PGP will be relatively light and make the maximum use of existing mechanisms for delivering investment programmes.

**Noted**

7. **Agree** that the key elements of PGP are:

- The Investment Advisory Panel (IAP), who recommends investment of government funds to the Director-General of MAF (MAF-DG) and recommends adjustment of existing expenditure to all investors;
- Programme Steering Groups, who develop business plans for programmes of investment; and
- The Director-General of the Ministry of Agriculture and Forestry (MAF-DG), who approves government investment and provides point of contact for relationships between private investors and the Crown.

**Agreed / Not agreed**

8. **Note** the intended process for how ideas will progress to investments through PGP:

- **Step 1:** The IAP will call for expressions of interest (Eols) for investment programmes. Groups of potential co-investors with similar interests develop Eols. The IAP determines which Eols will be progressed (this process may include iterative discussions between the IAP and groups of co-investors to further develop Eols).
- **Step 2:** Co-investor groups with successful Eols become formal Programme Steering Groups (including government officials), who develop business plans for the investment programme. These business plans are then submitted to IAP for assessment.
- **Step 3:** The IAP assesses the quality and value proposition of programmes and makes recommendations to the MAF Director General (MAF-DG).
- **Step 4:** MAF-DG approves government investment and subsequent contracting of the programmes.

- **Step 5:** Members of the Programme Steering Groups will arrange for contracts to be entered into and will be responsible for oversight of the programme.

**Noted**

9. **Agree** that Crown investments will be made using existing investment managers (for example, agencies such as the Foundation for Research, Science and Technology; the Tertiary Education Commission or New Zealand Trade and Enterprise), with the possibility of other entities (including non-government entities) where best practice is demonstrated.

**Agreed / Not agreed**

10. **Agree** that a MAF-employed Secretariat will assist the IAP and have a key role in ensuring that processes and documentation are of the highest quality, which will support the IAP in making recommendations to MAF-DG with confidence.

**Agreed / Not agreed**

11. **Agree** that there will be an “Annual General Meeting” of investors, including key Ministers and key private sector investors which would meet with the IAP and discuss overall progress of PGP in achieving its objectives.

**Agreed / Not agreed**

12. **Note** that after two years, MAF will review the progress of PGP.

**Noted**

13. **Agree** that industry and government investment will be aligned with, but additional to, existing initiatives and work programmes—that is, beyond business as usual.

**Agreed / Not agreed**

14. **Agree** that investment programmes will consist of a suite of complementary and mutually supporting projects targeted at a range of points along the value chain.

**Agreed / Not agreed**

15. **Agree** that there will be overall matched investment from industry and the government at the *programme* level; and because all of the activities within a programme may not happen all at once, partners will come to a binding agreement about securing government and private investment over the span of the programme.

**Agreed / Not agreed**

16. **Agree** that programme business plans must clearly demonstrate:

- how the activity will result in economic growth and increased sustainability (for example: more productive and sustainable use of our resources; identification of new valuable ingredients and products; significant productivity gains above business-as-usual; new markets etc);
- how this proposal fits in with the overall strategic direction of the sector and the existing activities already occurring;
- the new activities that must occur for this to be achieved across the value chain, from the research through to commercialisation;

- key performance indicators that can be used to measure the outcomes;
- the likely beneficiaries, their contribution (both financially and how they will implement and adapt outcomes to maximise the gains); and
- why the Crown needs to invest in this activity or aligned activities (that is, the public good aspects of the proposal).

**Agreed / Not agreed**

17. **Agree** that, in determining “additionality” of investment, acceptance of in-kind contributions will be at the discretion of the IAP.

**Agreed / Not agreed**

18. **Note** that all programme proposals will be assessed by the IAP against criteria including those shown in recommendation 16 above, and the IAP will recommend funding only for programmes of sufficient quality.

**Noted**

19. **Agree** that to encourage investment to begin flowing, initial allocations of \$2 million for each of the five sectors in recommendation 5 will be set aside within the PGP appropriation for each of the first two years, and the remainder of the PGP appropriation (excluding funding set aside for the Centre for Agricultural Greenhouse Gas Research; see recommendation 25 below) will be fully contestable between all sectors and programmes.

**Agreed / Not agreed**

20. **Agree** that, because an investment programme may span more than one sector (for example, pastoral and food) or there may be more than one programme per sector, the IAP will determine which programme(s) each sector allocation is used for.

**Agreed / Not agreed**

21. **Agree** that a Centre for Agricultural Greenhouse Gas Research will be funded from within PGP.

**Agreed / Not agreed**

22. **Agree** that the key objectives of this Centre will be to:

- develop mitigation options focused on New Zealand’s agricultural greenhouse gas emissions;
- improve co-ordination of domestic agricultural greenhouse gas emissions research;
- exploit environmental and productivity co-benefits from greenhouse gas emissions research;
- maximise the potential to deliver practical greenhouse gas mitigation/abatement solutions on-farm to the agricultural sector; and
- make use of international research opportunities including contributing to a global Virtual World Research Centre (which New Zealand is interested in developing as part of its international negotiations on climate change).

**Agreed / Not agreed**

23. **Note** that officials will discuss the proposed model for this Centre with other potential PGP co-investors, the Sustainable Land Management and Climate Change Peak Group, the Pastoral Greenhouse Gas Research Consortium and other departments and will report back to the Minister of Agriculture and the Minister of Research, Science and Technology after these discussions.
- Noted**
24. **Agree** that, although the Centre will have different governance arrangements from other programmes under PGP (which will enhance the timeliness and limit the cost of its establishment), once its business plan, goals and strategic direction are agreed, these (as well as the Centre's future performance) will be reviewed by the IAP, the MAF Director-General and the Chief Executive of the Ministry of Research, Science and Technology.
- Agreed / Not agreed**
25. **Agree** that this Centre will have access to two types of funding through PGP:
- stable funding allocated through PGP of \$5 million per annum of ongoing baseline funding from the Crown, identified by the Centre in a 10-year business plan. The baseline funding would be regularly reviewed; and
  - the ability to contest for the remaining PGP funds, subject to the same criteria and rules of use as other programme proposals under PGP.
- Agreed / Not agreed**
26. **Note** that funding awarded to the Centre under PGP could be administered using the Foundation for Research, Science and Technology (FRST) based on a memorandum of understanding.
- Noted**
27. **Note** that the Pastoral Greenhouse Gas Research Consortium could be the key route through which the Centre's technologies and management practices are commercialised and adopted by farmers.
- Noted**
28. **Note** that the IAP will consist of a Chair plus five additional members, of whom I have appointed Bill Falconer as the inaugural Chair and I intend to appoint the remainder in consultation with the Chair, the Director-General of MAF, the major co-investors, the Prime Minister and the Minister of Finance.
- Noted**
29. **Note** that proposals under PGP need to be considered in the context of international trade rules regarding the provision of subsidies and that MFAT (and other departments as appropriate) will be consulted to ensure that programmes proposed for funding are consistent with New Zealand's international obligations and trade policy settings.
- Noted**
30. **Note** that PGP is a large initiative and achieving the desired outcomes will require appropriate administrative resourcing.
- Noted**

31. **Agree** that the:

- initial set-up costs and remuneration, fees and expenses of the IAP;
  - contracting of specialist advice by the IAP;
  - set-up, remuneration and administrative expenses of the MAF-employed Secretariat; and
  - costs of contracting processes (administration, initial evaluation and reporting on contracts);
- will be funded from the PGP appropriation.

**Agreed / Not agreed**

32. **Note** that the proposed funding for the IAP, the Secretariat and contracting processes will need to be transferred from non-departmental to a departmental output class, which can only occur post-Budget.

**Noted**

33. **Delegate** the authority to carry out the transfer referred to in recommendation 32 to the Minister of Agriculture and the Minister of Finance.

**Delegated / Not delegated**

Hon David Carter  
Minister of Agriculture

Date: