

**OFFICE OF THE MINISTER
FOR ECONOMIC DEVELOPMENT**

The Chair
**CABINET ECONOMIC DEVELOPMENT COMMITTEE
FOOD AND BEVERAGE SECTOR ENGAGEMENT**

PROPOSAL

- 1 This paper proposes that the Government proceed with an engagement with the Food and Beverage Sector and seeks Cabinet agreement to the proposed leadership, structure and process arrangements to facilitate this, including Terms of Reference and a process for appointment of Taskforce members.

EXECUTIVE SUMMARY

- 2 In May 2004 Cabinet agreed that sector engagement was a useful tool for economic development and also agreed to a formal framework for conducting such engagement processes. Cabinet also directed MED, MAF and NZTE, in conjunction with key government agencies to report to Ministers with a proposal for engaging with the Food and Beverage sector by 30 August 2004, with a subsequent report to Cabinet by 30 September 2004. [CBC (04) 70 refers]
- 3 Consultation by officials with sector stakeholders confirms that there is significant support for engagement with the Food and Beverage sector, so long as key sector players are involved and government is willing to engage on the whole range of issues of interest to the sector.
- 4 Stakeholder feedback indicates that the sector has considerable potential to grow. There is sympathy among stakeholders for the idea that focusing the resources of industry, government, science and education in partnership will optimise the sector's efforts to access and exploit market opportunities. Collaboration on this scale will be a first for the industry.
- 5 This paper recommends a process and structure for the engagement, including proposals for Ministerial and Government agency leadership, the proposed composition and operation of the engagement "Taskforce", administrative arrangements and indicative timelines. Terms of reference for the Food and Beverage engagement are attached as Annex 1, and a list of recommended candidates for Taskforce membership, including for the position of private sector Co-Chair are attached as Annexes 2 & 3. A process for appointing the Taskforce is also outlined.

BACKGROUND

- 6 In May 2004 Cabinet considered a framework for sector engagement. [CBC (04) 70 refers]. Taking into account the experience of the GIF Sector Taskforces and other recent sector engagements, Cabinet agreed to continue with high-level whole-of-government engagement with vertical sectors as an economic development tool, with the objective of raising the sustainable rate of economic growth. Cabinet also

agreed that the aim of high-level sector engagement should be the development of a vision for the sector, a sector-led strategy and supporting plan of action.

- 7 To this end Cabinet directed MED, MAF and NZTE, in conjunction with TEC, MSD and FRST, and in consultation with the Treasury, to report to the Ministers of Economic Development, Social Development and Employment/Associate Education (Tertiary Education), Agriculture and Research, Science & Technology with a proposal for engaging with the food & beverage sector – as the first candidate for this engagement - by 30 August 2004, with a subsequent report to Cabinet by 30 September 2004. [CBC (04) 70 refers].
- 8 The August report to Ministers forms the basis of this submission to Cabinet.

COMMENT

SECTOR SELECTION CRITERIA AND FOOD AND BEVERAGE

- 9 Cabinet agreed to a set of criteria to guide the selection of sectors with which to engage [CBC (04) 70 refers]. These are:
- i) the sector's current contribution to GDP, and potential to grow (material impact);
 - ii) the value that the sector can add across a range of other sectors (spillover effects);
 - iii) the ability of government to add value (for example, by improving co-ordination across government agencies, developing better linkages between the sector and public sector training providers or by changing regulatory settings), recognising the costs and risks of government intervention; and
 - iv) the commitment of the sector to work in partnership with government, and its preparation and ability to lead development of a vision and strategy, and to implement action points.
- 10 New Zealand's Food and Beverage sector meets these criteria par excellence, for example:
- The sector has undergone significant transformation over the last ten years increasing its contribution to GDP. Exports have doubled and today account for close to 50% of total merchandise exports, a significant proportion of which can be characterised as added value. The sector's growth rates and productivity increases have consistently been above the average for the whole economy, and there is significant potential for this level of growth to be maintained and enhanced;
 - The level of growth and innovation already achieved by the sector has had spillover effects into related technologies and sectors, including packaging, refrigeration, containerisation and agritech industries. There continues to be considerable potential for New Zealand agribusiness to be a building block for new businesses and industry growth in related and in new areas. These associated industries contain many of New Zealand's truly world class firms.

- Up to fourteen government agencies have some direct interaction with the food and beverage sector in a variety of roles, from regulatory compliance, resource management, food safety standards, R&D funding, business assistance, policy development and so on. Yet policy makers do not have an integrated and co-ordinated food system strategy (eg paddock to plate) with which to engage with industry. Hence the engagement is likely to add significant value, through improving co-ordination and alignment across the whole range of government activities, and ensuring that policy and assistance programmes support to best effect the growth of the sector.

Results of Consultation

- 2 The key determinant is the level of commitment of the sector to an engagement. Officials have consulted key stakeholders (see Annex 5 for list). All stakeholders expressed interest in the engagement proposal and considered it useful and timely. This was tempered with concerns that:
 - the engagement would amount to little more than a “talkfest”;
 - Government may not have an appetite to tackle some tough issues facing the sector (see list of issues below), although there is an appreciation that Government must balance differing objectives;
 - the engagement could result in extra layers of bureaucracy or Government interventions which could skew market conditions; and
 - the largest companies already engage directly with Government on a regular basis on the issues that affect them. Any sector engagement would have to add additional value, and not be used by Government to avoid engaging with individual companies.
- 3 Stakeholders indicated that, so long as these concerns were taken into account, then an engagement had potential to add significant value. A number of issues were identified by stakeholders during consultation, and these can be taken as an indication of the types of areas where the sector thinks that an engagement process might add value. The issues include the:
 - Impact of skill and labour shortages, eg the supply of food technologists; the supply of labour for picking horticultural crops; the aging demographic in many production areas;
 - Prevailing trading environment, in particular market access and potential impacts of free trade agreements;
 - Increasing compliance costs and unintended consequences of new legislation, particularly in relation to border charges as a result of changes to New Zealand’s international security and bio-security regimes, other legislation such as the Holidays Act, Resource Management Act, Customs and Excise Act and the Hazardous Substances and New Organisms Act and strategies such as the biodiversity strategy;

- Inconsistency in i) the application of cost-recovery mechanisms across sectors; ii) the application of New Zealand’s food standards to imported foods; and iii) the scientific basis of bio-security standards and other standards restricting use of products and practices at the farm level (reacting to perceptions rather than scientific analysis);
 - Factor conditions, particularly energy, transport and sustainable land and water use;
 - Need for improved co-ordination in the sector, including a whole value chain focus such as partnering on distribution channels and marketing initiatives;
 - Level and direction of current R&D spending, by both Government and the private sector, in particular the potential for taking a broader integrated approach to realise synergies and partnering opportunities across the value chain;
 - Lack of recognition of the value the sector creates;
 - Need to develop the local market to provide improved opportunities for SMEs; and
 - Promotion of the importance of international developments, such as changes in consumer demand and changes in the structure of food retailing.
- 4 A full list of potential issues with associated opportunities for the engagement to add value is contained in Annex 4.
- 5 In summary, a high-performing Food and Beverage sector is fundamental to achieving the Government’s economic goals. Given this pivotal role in the economy - in terms of growth and exports, spillover benefits and future potential - and taking account of the high level of interaction between government agencies and the sector, the proposed engagement has potential to add significant value.

ENGAGEMENT OBJECTIVES, PROCESS AND STRUCTURE

- 6 The size of the Food and Beverage sector, the range of players at various points in the value chain and the number of government agencies that are involved in the sector, means that the process and governance arrangements for the engagement will be more complex than for previous engagements.

The Engagement’s Name

- 7 It is recommended that the Food and Beverage engagement group be called a “Taskforce” so that it can build on the GIF Sector Taskforce branding, hence positioning it in the innovation and “high-growth high-value” firm space. Ministers may also want to specifically position Food and Beverage as a key GIF initiative. This would assist in mitigating an impression prevalent in the sector that the GIF process has not been sufficiently focused on the contribution and potential of Food and Beverage.

Engagement Objectives

- 8 Government sector engagement policy [CBC (04) 70 refers] defines the generic objectives of sector engagement as:
- **Facilitating sustainable economic development**, eg by encouraging an increase in the proportion of firms pursuing high value-added activities;
 - **Ensuring generic policies and institutional arrangements** are impacting on a sector in a consistent and mutually reinforcing way; that is, opportunities to change government generic or sector specific policy settings in order to lift industry growth rates should be identified;
 - **Improving co-ordination, linkages and networks** between government and the sector, particularly in respect of industry assistance, science and education.
- 9 The key task for the Food and Beverage Taskforce will be establishing a development agenda for the sector, including bold targets if these are deemed appropriate, and securing stakeholders ownership of that agenda and commitment to implementing it.
- 10 The Taskforce should provide vision, drive and information to help shape strategic thinking in the sector, in order to take it to the next level of development.
- 11 Full Terms of Reference, including identification of the scope of the engagement, specific Food and Beverage engagement objectives and criteria for Taskforce membership is attached as Annex 1.

Ideal Outcome

- 12 The ideal outcome would be that the resources of industry, government, science and education are focused in partnership to deliver faster, smarter, sustainable growth in the Food and Beverage sector.

Importance to Maori Economic Development

- 13 Maori have significant interests in fishing quota and agricultural assets. It will be important that Taskforce membership includes people with knowledge of Maori interests in the Food and Beverage sector, and the suggested candidates for Co-Chair and Taskforce membership (see Annexes 2 and 3 and discussion below) takes this into consideration. MAF has a strong Maori policy capability focused on Maori land and skills and employment issues, and this capability will be applied as an integral part of the sector engagement. The Food and Beverage sector engagement could have a significant impact in addressing the interests and opportunities of Maori.

Focus on Sustainable Economic Growth

- 14 The Food and Beverage engagement must be positioned in the context of the Government's vision for New Zealand, as outlined in the Growth and Innovation

Framework and reaffirmed in the Sustainable Development Programme of Action. Sustainability is particularly important to primary production industries such as Food and Beverage. In addition increased consumer demand for safe, healthy and sustainably produced products provides important economic opportunities.

Lessons from Previous Sector Engagements

- 15 The experience of both the GIF Taskforces and the Wood Processing Strategy has been reviewed. From this information the following five components are considered essential to a successful engagement process:
- (i) Senior Ministerial leadership - particularly to assure the sector of the Government's commitment to progress issues and drive whole-of-government participation including implementation;
 - (ii) Participation and commitment of key sector leaders – if this cannot be secured then the engagement should not proceed;
 - (iii) The leadership and close involvement of senior public servants, particularly if they have a mandate and direction from their Ministers to take action and drive the process forward;
 - (iv) Effective co-ordination of the whole of government process including government agency input, policy analysis and implementation; and
 - (v) Effective project management.
- 16 Taking these lessons into consideration, and recognising the complexity of the task, the following model is suggested.

Preferred Model

- 17 An evolutionary and flexible model similar to the Wood Processing Strategy is preferred over the GIF Taskforce model, but with some important improvements. The proposed improvements include:
- the engagement should be time-bound from the outset with clear (albeit overlapping) engagement and implementation phases;
 - in recognition of the size and importance of the sector and the need to demonstrate the Government's commitment to the process, the Chief Executives of MAF and NZTE should both be members of the core Taskforce – this is in line with Australian practice; and
 - a final report (as with the GIF taskforces) will not be a required outcome, but the Taskforce might decide to publish a report or series of papers, to enable its thinking, particularly on any strategic objectives, to be communicated to the many thousands of participants in the sector.

- 18 A flexible process will enable a dynamic working relationship to develop with issues addressed as they arise and recommendations implemented as they are agreed, rather than waiting until the Taskforce process is complete.

Ministerial Responsibilities

- 19 Given the relevance of both portfolios to the sector, it is proposed that the Minister for Economic Development and the Minister of Agriculture both serve on the Taskforce, with the Minister for Economic Development acting as Co-Chair, taking a similar role to that played in the Wood Processing Strategy and GIF Taskforces.
- 20 In addition, the involvement of other Ministers with a direct, day-to-day role in the Food and Beverage sector, such as the Minister for Food Safety; the Minister for Research, Science and Technology; the Minister for Social Development and Employment; the Associate Minister of Education (Tertiary Education); and the Minister of Fisheries will be important. These Ministers and others as appropriate can be co-opted to participate in Taskforce meetings as required.
- 21 As innovation will be a core component of the Taskforce's deliberations, all GIF Ministers will have an interest in the engagement and will need to be kept apprised of progress.

Working Groups

- 22 The Taskforce will identify the key issues and opportunities for the sector, and may establish Working Groups to work on specific priority issues. These will be comprised of expert sector representatives and officials from government agencies responsible for policy relating to the issue in question, such as MAF, NZTE, TEC, MoRST, FRST, Department of Labour, Ministry of Social Development and others. It is at this level that other groups within the sector, such as Industry Training Organisations or sector representative bodies may be involved or consulted. The size of Working Groups will be flexible as will be their duration. They will be Co-Chaired by a sector representative and a government official.
- 23 The output of the Working Groups will usually be advice to the Taskforce on possible actions for the government and/or industry to address the issue under consideration. The Working Groups may also produce discussion papers or other papers on issues. In parallel with advice to the Taskforce, the relevant government officials will, as appropriate, advise relevant Ministers on policy proposals.

Taskforce size and membership

- 24 The Taskforce needs to be a manageable size, bearing in mind that key players and experts not included on the Taskforce itself will likely be called upon to participate at the Working Group level.
- 25 Officials are working on the assumption that the Taskforce will be made up of:
- the Minister for Economic Development (as Co-Chair) and the Minister of Agriculture;

- the Chief Executives of the Ministry of Agriculture and Forestry and New Zealand Trade and Enterprise (see also Lead Agencies below);
- a private sector Co-Chair; and
- up to twelve further representatives drawn from the private sector and the education, science and research sectors.

Appointment Process

- 26 Officials sought views on potential candidates for Taskforce membership as part of the consultation with private sector stakeholders on the engagement. Officials from MAF, NZTE and the New Zealand Food Safety Authority (NZFSA), who have extensive knowledge of the sector, have also had comprehensive discussions on the potential makeup of the Taskforce, in consultation with officials from MED.
- 27 From these deliberations a list of recommended Taskforce candidates from which the Taskforce can be drawn has been compiled and is attached as Annex 3. Three options for the private sector Co-Chair are also provided and attached as Annex 2.
- 28 In drawing up this list officials applied the following criteria:
- knowledge of the whole value chain, rather than attempting to represent every food and beverage sub-sector;
 - knowledge of key aspects such as skills and talent, science and innovation, and investment as well as a strong economic development perspective;
 - the need for participation of key players in the industry;
- 29 Detailed membership criteria are provided as part of the Terms of Reference attached as Annex 1.
- 30 It is proposed that Cabinet note the attached list of candidates for the Taskforce and private sector Co-Chair. Candidates will then be contacted to ascertain their availability.
- 31 It is proposed that the Ministers of Economic Development and Agriculture be empowered to finalise selection of the private sector Co-Chair and Taskforce membership (including going outside the attached lists if required) in consultation with the Prime Minister.
- 32 It is proposed that the final selections for Taskforce membership, including the Co-Chair, will be submitted to Cabinet by the Minister for Economic Development and the Minister of Agriculture for approval.

Payment of Taskforce Members

- 33 In line with the practice for the GIF Taskforces, Taskforce members will not be paid, but will be reimbursed for travel and accommodation costs. The cost of

participation by government officials, eg at the working group level, will be borne by their respective agencies.

- 34 Because of the size of the Food and Beverage sector and the complexity of the engagement, the commitment of the private sector Co-Chair to the process will be crucial. For this reason, consideration should be given to paying the Co-Chair the equivalent of a director's fee. If this is agreed, then it is suggested that the amount be commensurate with that paid to the Chair of the Growth and Innovation Advisory Board.

Lead Agencies

- 35 Cabinet has agreed that, on a case-by-case basis, the lead agency for high-level vertical sector engagement should be the agency with the best overview of the sector [CBC (04) 70 refers]. Both MAF (and the New Zealand Food Safety Authority) and NZTE have key roles and complementary expertise with respect to the Food and Beverage sector. As the perspectives of both will be crucial to the success of the engagement, it is recommended that MAF and NZTE act jointly as the lead agencies responsible for the Food and Beverage Sector engagement. As indicated above, it is recommended that the Chief Executives of MAF and NZTE be included as members of the Food and Beverage Taskforce.

Secretariat

- 36 Building on the institutional experience of running sector engagements, NZTE will be responsible for leading the engagement's organisation and administration (the operational dimension) and will provide the Secretariat.
- 37 The role of the secretariat will be to project manage the engagement and provide administrative support to the Food and Beverage Taskforce and Working Groups.
- 38 The Secretariat will be comprised of a contracted project manager and an administrator. Officials from MAF, NZFSA, MED, NZTE, TEC, Department of Labour, MFAT and other agencies as required will be seconded to the Secretariat on an as-needed basis.

Whole of Government Co-ordination

- 39 MAF will be responsible for leading the whole of government co-ordination and input (that is, the policy dimension), including ensuring robust government agency input into the engagement, such as participation in working groups, and timely implementation of recommended actions.
- 40 To this end an Inter-Agency Food and Beverage Policy Group has been established with representatives from MED, TPK, MAF, NZFSA, NZTE, TEC, MoRST, MFAT, FRST, DoL, Ministry of Fisheries, Ministry of Social Development, Treasury and DPMC. Other agencies as appropriate will be added to this group. This group will be the key vehicle for a robust whole-of-government process. It may also be used to proactively seek input and explore policy issues with the public sector agencies, particularly in those areas for which government has key responsibility, such as regulation, capability-building and public good research, science and technology.

Departments will also be key to ensuring the process builds on the learning and policy development of past engagements.

- 41 This Inter-Agency Policy Group will be convened by MAF on an as-needed basis.

Officials Oversight Committee

- 42 The Taskforce will be responsible for directing and oversight of the work programme. It will be important, however, for there to be a mechanism at officials' level to oversee the engagement in terms of process and organisation, including monitoring risks, quality, timeliness and the effectiveness of governance arrangements. To this end an Officials Oversight Committee comprised of representatives from NZTE, MAF, NZFSA, and MED and the project manager will be established. This Committee will report on these issues to Ministers of Economic Development and Agriculture quarterly.

Flexible approach to development of process

- 43 This engagement will be complex, and the agencies involved recognise that managing the issues and inter-relationships between them will require close working relationships and a willingness to change the management of the process as it progresses if that is required.

Timeline

- 44 Two phases of work are envisaged.

Active Engagement Phase

- 45 The active engagement phase will be a series of Taskforce and Working Group meetings. It is recommended that the Taskforce and associated working groups be allowed up to 18 months to complete their work (to June 2006), remembering that implementation will begin concurrently.
- 46 The engagement work programme following the initial Taskforce meeting will be dependant on the priorities identified by the Taskforce itself.

Implementation Phase

- 47 The implementation phase will potentially last 3-5 years. It is recommended, however, that the Taskforce itself be asked to provide advice on the length of the implementation phase, taking into account the nature of the recommendations, and need for this to be a time-bound process.
- 48 It is envisaged that the implementation phase will begin concurrently with the active engagement phase, so that early wins can be implemented on an as-you-go- basis. The precise nature of the implementation will depend on the outcomes of the engagement process.

49 The following is an indicative timeline.

Indicative Timeframe

2004	
October 2004	Submission to Cabinet to agree process
October – November 2004	Recruit and appoint Taskforce members, set up secretariat
November – December 2004	First Taskforce meetings
2005	
February 2005	Taskforce meetings continue. Working groups set-up. Implementation of early agreed wins begins (if any).
March 2005 onwards	Taskforce and Working Group meetings continue. Implementation of early wins.
2006	
June 2006	Engagement phase ends, implementation phase continues to agreed completion date.

Measurements

50 The project will be successful if it:

- identifies pathways to generate a higher rate of sustainable economic growth in the sector;
- establishes a clear action plan for how this objective can be delivered;
- delivers tangible economic benefits as a result of the implementation of the action plan; and
- is considered by the sector leaders to have been beneficial.

51 It should be noted that there are gaps in the Food and Beverage statistics, and there is a case for a regular and comprehensive statistical publication on the sector which could act as a scorecard. Such a scorecard has been pioneered in South Australia and has been shown to be an effective means of measuring progress.

Engagement Budget

52 Running the engagement is estimated to cost \$800 000 over 2 years. This includes re-imburement for travel and accommodation for Taskforce and Working Group members from the private sector, meeting costs, project management and administration, and funding available to contract research and specialist advice.

53 This will be funded out of NZTE baselines. Relevant government agencies will also have to commit resources to Working Groups and to policy work in response to recommendations.

Implementation Budget

- 54 Cabinet has agreed that high-level sector engagement should not lead to any substantial re-allocation of resources in favour of particular sectors, unless there are exceptional and overriding reasons for addressing a market failure or spillover [CBC (04) 70 refers].
- 55 Implementation of recommendations arising out of the Food and Beverage sector engagement should in the main be met from existing baselines. Nevertheless, it will be prudent to consider potential fiscal implications in establishing a contingency for the 2005 GIF Budget.

Relationship to Existing Food and Beverage work

- 56 Agencies including NZTE, FRST, the Ministry for Social Development and the Department of Labour have a mandate to deliver assistance to the Food and Beverage sector, including for example funding of Industry Training Organisations (ITOs) operating within the sector. Work by these and other agencies should continue. The engagement, however, will be a means of testing and if necessary re-aligning these initiatives.

Risks

- 57 The main risks and means of mitigation are listed below.

Risk	Mitigation
Industry participants may not be sufficiently committed to the exercise.	Active participation in the Taskforce by senior Ministers and senior public servants will demonstrate the Government's commitment to the engagement process. Industry commitment will be particularly encouraged by the identification of early wins.
The engagement may become unmanageable, given the size of the sector.	Seek to focus the Taskforce, at least initially, on the common factors and issues which can be addressed for the sector as a whole while also being prepared, as necessary, to look at the issues on a more disaggregated sub-sector level.
There may be insufficient whole-of-government co-ordination and/or commitment to the process from public sector agencies, or lack of communication between work streams and working groups.	Participation of the CEs of MAF and NZTE as full taskforce members will provide public sector leadership. In addition, as lead agencies, both MAF and NZTE will work to ensure a robust and effective process.
Relationships between the participants may not be sufficiently constructive to enable us to make progress.	Place particular emphasis on the establishment and development of good working relationships between the participants, and on overall design of an effective process for the engagement.

<p>The process may become a semi-politicised talk-fest without adding any value to the work which MAF, NZTE, TEC etc already have in hand and/or the participants may have expectations that the engagement will lead to changes in areas of strongly held Government policy;</p>	<p>Ensure that this process, including the articulation of the terms of reference, focuses the participants on the achievement of practical results. This may need to include helping the Taskforce to identify the issues on which progress is most likely to be achievable and helping them to avoid getting bogged down in less productive areas. Choosing the right people to sit on the Food and Beverage Taskforce in the first place will obviously also be critical.</p>
<p>The participants may have expectations that the engagement will lead to additional government resources being allocated to the sector and pressure from them may lead Government to decide in favour of such allocations even if this is not well justified.</p>	<p>Make clear that the results of the engagement will be used to improve coordination and utilisation of Government resources already available to the sector, and to improve generic policies, but that they will not be used to secure additional resources such as tax breaks/subsidies or other market distorting mechanisms unless there are exceptional or overriding reasons for addressing a market failure or spillover.</p>
<p>The Government may find it hard to disengage at the end of the process</p>	<p>The timeframe for the engagement is included as part of the Terms of Reference (Annex 1).</p>

CONSULTATION

58 The following agencies have been consulted and agree with the recommendations of this paper: Ministry of Agriculture and Forestry; New Zealand Food Safety Authority; New Zealand Trade and Enterprise; Tertiary Education Commission; Ministry of Research Science and Technology; Foundation for Research, Science and Technology; Department of Labour; Ministry of Fisheries; Ministry of Social Development; Treasury; Ministry of Foreign Affairs and Trade; and Department of Prime Minister and Cabinet.

FISCAL IMPLICATIONS

59 There are no fiscal implications as a result of this paper.

HUMAN RIGHTS

60 Not applicable.

LEGISLATIVE IMPLICATIONS

61 Not applicable.

REGULATORY IMPACT AND COMPLIANCE COST STATEMENT

62 Not applicable.

PUBLICITY

63 Officials propose that the new framework for sector engagement and the Food and Beverage Taskforce be launched as a package, led from the Government's perspective by the Prime Minister, Minister for Economic Development and Minister of Agriculture, in partnership with the sector. Options include events marking the announcement of the Taskforce's membership and/or its first meeting, and/or site visits illustrating the themes for the engagement.

64 Important communications considerations are:

- that the engagement is informed by and builds on our experience with previous engagements;
- that the framework for engagement is inclusive – and similar engagements will be rolled out for all economically significant sectors, where a need for sector engagement has been demonstrated;
- that this engagement, and sector engagement generally, is consistent with and an important component of the Government's strategy for growth through innovation and sustainable development;
- that the engagement is very much a partnership with the sector; and
- that the Food and Beverage sector has undergone considerable development over the last decade and makes a significant and growing contribution to New Zealand's economy – further realising its potential will benefit all New Zealanders.

65 Officials are developing a communications strategy in consultation with the Ministers of Economic Development and Agriculture's offices, to be finalised by October 29, 2004.

RECOMMENDATIONS

66 It is recommended that the Cabinet Economic Development Committee

- 1 **Note** that Cabinet directed MED, MAF and NZTE, in conjunction with TEC, MSD and FRST, and in consultation with the Treasury, to report to Ministers of Economic Development, Social Development and Employment/Associate Education (Tertiary Education), Agriculture and Research, Science & Technology with a proposal for engaging with the food & beverage sector by 30 August 2004, with a subsequent report to Cabinet by 30 September 2004;
- 2 **Note** that there is support among industry stakeholders for a Food and Beverage engagement, with the proviso that key sector and government leaders are involved and the full range of issues are considered;

- 3 **Agree** that the Food and Beverage engagement will extend over the full range of the value chain from pre-farm gate to consumer, including production, processing, marketing and market and product development, distribution, and consumption (including the hospitality industry);
- 4 **Agree** that the ministers responsible for the engagement will be the Minister for Economic Development and the Minister of Agriculture, and that the Food and Beverage Taskforce will report to them;
- 5 **Agree** that the Minister for Economic Development will take the role of Co-Chair; and that the Minister of Agriculture will also be a full member of the Taskforce;
- 6 **Note** that other key Ministers whose portfolios impact directly on the Food and Beverage Sector, such as (but not limited to) the Minister of Research, Science and Technology, the Minister for Food Safety, the Minister of Fisheries, and the Minister for Social Development and Employment and Associate Minister of Education (Tertiary Education) will be co-opted to participate in Taskforce meetings as required;
- 7 **Note** that as innovation will be an important theme in the Taskforce's work, GIF Ministers will be kept apprised of progress;
- 8 **Agree** to the Terms of Reference attached as Annex 1;
- 9 **Agree** that the vehicle for the engagement be a core Taskforce made up of approximately 17 members (including Ministers and the Chief Executives of the Ministry of Agriculture and Forestry, and New Zealand Trade and Enterprise) and that this group be empowered to convene Working Groups with expertise drawn from outside the core group, including relevant government officials;
- 10 **Agree** that Taskforce members, other than the Co-Chair, will not be paid, but will be reimbursed for travel and accommodation costs, and that the cost of participation by government officials, eg at the working group level, will be borne by their respective agencies;
- 11 **Agree** that the private sector Co-Chair be paid the equivalent of a director's fee commensurate with that paid to the Chair of the Growth and Innovation Advisory Board, subject to being consistent with the Cabinet fees framework for members of statutory and other bodies appointed by the Crown, or going through a process for granting an exception to the framework;
- 12 **Note** that a list of three options for private sector Co-Chair of the Taskforce is attached as Annex 2;
- 13 **Note** that a list of recommended candidates from which the final Taskforce members might be drawn is attached as Annex 3;
- 14 **Agree** that the final selections for Taskforce membership, including the Co-Chair, will be submitted to Cabinet by the Minister for Economic

Development and the Minister of Agriculture for approval, by November 2004;

- 15 **Agree** that the recommendations of the Taskforce may be implemented as they are agreed rather than be delayed until the Taskforce is concluded;
- 16 **Agree** that NZTE and MAF will be joint lead agencies in charge of the Food and Beverage engagement process;
- 17 **Note** that oversight and monitoring of the engagement at the officials' level will be provided by an Officials Oversight Committee comprised of the engagement project manager and representatives from NZTE, MAF, NZFSA and MED and that this Committee will report to the Minister for Economic Development and the Minister of Agriculture quarterly;
- 18 **Note** that managing the issues and inter-relationships between government agencies will require close working relationships and a willingness to change the management of the process as it progresses if that is required;
- 19 **Note** that the engagement process is estimated to cost \$800 000 over two years (to June 2006) and will be funded out of NZTE baselines;
- 20 **Note** that Ministers will need to consider potential fiscal implications of the current engagement process in establishing a contingency for the 2005 GIF Budget;
- 21 **Note** that officials are developing a communications strategy in consultation with Ministers' offices to be finalised by October 29, 2004.

**HON JIM ANDERTON
MINISTER FOR ECONOMIC DEVELOPMENT**

**HON JIM SUTTON
MINISTER OF AGRICULTURE
MINISTER FOR TRADE NEGOTIATIONS**

Annex 1

Food and Beverage Sector Taskforce Terms of Reference

Context

1. The Food and Beverage Sector engagement takes place in the context of the importance of increasing New Zealand's rate of sustainable economic growth.
2. The Government is inviting sectors and enterprises in New Zealand to join in guiding Government policy and decision making as set out in the Growth and Innovation Framework, and reaffirmed in the Sustainable Development Programme of Action.
3. The vision for New Zealand is:
 - A land where diversity is valued and reflected in our national identity;
 - A great place to live, learn, work and do business;
 - A birthplace of world-changing people and ideas; and
 - A place where people invest in the future.

Engagement Purpose

4. The generic objectives of sector engagement are to:
 - **Facilitate sustainable economic development**, eg by encouraging an increase in the proportion of firms pursuing high value added activities;
 - **Ensure generic policies and institutional arrangements** impact on a sector in a consistent and mutually reinforcing way – that is, opportunities to change government's generic or sector specific policy settings in order to lift industry growth rates should be identified; and
 - **Improve co-ordination, linkages and networks** between government and sector, particularly in respect of business assistance, science and education.
5. With this in mind the Food and Beverage Taskforce is asked to establish a development agenda for the sector, including bold targets - if deemed useful - secure stakeholders' ownership of that agenda and commitment to implementing it.
6. The starting point is recognition of the Food and Beverage sector's recent success - in terms of quality and international reputation, the increasing proportion of exports as added value products and increased productivity and export growth.
7. The Taskforce should provide vision, drive and information to help shape strategic thinking in the sector, based on a sound analysis of current strengths, weaknesses, opportunities and threats. The Taskforce should focus on consideration of solutions

resulting in concrete recommendations and actions that involve input from both the industry and government, either collectively or individually. In addition it may want to “drill down” to consider specific sub-sectors at some stage in the process.

Issues based Approach

8. A flexible issues based approach will enable a dynamic working relationship to develop, with issues addressed as they arise and recommendations implemented as they are agreed, rather than waiting until the Taskforce process is complete.

Strategic Component

9. The strategic component of the Taskforce’s work should provide the sector – in partnership with Government – an opportunity to think about likely future scenarios and for considering ongoing needs and opportunities.
10. A strategic view might be informed by questions such as:
 - How should the Food & Beverage sector be developed over the next 10 years, given changing demands and market conditions?
 - What would it take, for example, to double the value of Food and Beverage exports in that time?
 - What actions for industry and/or government would be required for such development to take place?

Sustainable Development

11. In its deliberations, the Taskforce should take note of the overarching objectives for development in New Zealand set out in the Sustainable Development Programme of Action.

Outcome

12. The ideal outcome would be that the resources of industry, government, science and education are focused in partnership to deliver faster, smarter, sustainable growth in the Food and Beverage sector.

Working Groups

13. The Taskforce may establish Working Groups to work on specific priority issues. The Working Groups will be comprised of expert sector representatives appointed by the Taskforce and officials from government agencies responsible for policy relating to the issue in question, such as MAF, NZTE, TEC, MoRST, FRST, MFAT, TPK, Department of Labour, Ministry of Social Development and others. It is at this level that other groups within the sector, such as Industry Training Organisations or sector representative bodies, may be involved or consulted. The size of Working Groups will be flexible as will be their duration. They will be co-chaired by a sector representative and a government official.

14. The output of the Working Groups will usually be advice to the Taskforce on possible actions for the government and/or industry to address the issue under consideration. The Working Groups may also produce discussion papers or other papers on issues. In parallel with advice to the Taskforce, the relevant government officials will, as appropriate, advise relevant Ministers on policy proposals

Reporting

15. The Taskforce will report to the Minister of Economic Development and the Minister of Agriculture.

In Scope

16. The Food and Beverage Taskforce will consider the full range of the value chain from pre-farm gate/harvester to consumer (including the hospitality industry) and address such things as consumer demand, distribution, marketing and market development, processing, product development, research and development, and production.
17. In particular it will:
 - include consideration of a range of inputs including research, science and technology, skills and labour supply and investment;
 - consider various food and beverage products from the standpoint of increasing complexity and specificity along the continuum of primary production, basic food, differentiated food & ingredients, processed food and beverages, nutraceuticals and functional foods and beverage and nutrigenomics.
 - include the following sub-sectors: kiwifruit; pipfruit; wine; brewing; processed vegetables; fresh vegetables; other horticulture (e.g. berryfruit, nuts, olives); dairy; sheepmeat; beef; venison and game, pork, poultry, seafood (wild catch fisheries); aquaculture; and other beverage (mineral water, softdrinks, juices);
 - include core cluster businesses, such as agritech and food handling and processing enterprises and services; and
 - include the relationships between the Food and Beverage sector and other sectors with co-joined value chains; eg tourism, cosmetics and health.

Not in scope

18. Non-food primary production activities, eg forestry, fibre production, are not in scope.

Specific Food and Beverage Objectives

19. To achieve its task the Taskforce will likely need to:

- take a whole-of-government perspective particularly by identifying opportunities for improved co-ordination across government agencies and between government and the sector;
- facilitate sector appraisal of, and gearing towards, exploiting the opportunities and meeting the threats provided by changing global (particularly consumer) demand, emerging markets and competitors;
- identify and work towards minimising or eliminating New Zealand specific barriers to realising growth in the Food and Beverage sector;
- identify and clarify the government's role in addressing these barriers and seizing the opportunities;
- evaluate existing government Food and Beverage related strategies, programmes or services to ensure that they are in alignment with industry needs;
- facilitate further economic development, by identifying actions to encourage an increase in the proportion of firms pursuing high value-added activities;
- ensure that generic government policies and institutional arrangements are providing the best framework for growth for the sector in a consistent and mutually reinforcing way;
- identify the potential for and pursue improved coordination, linkages and networks within the sector;
- consider and work towards the potential for growth in the wider cluster industries such as agritech, food processing and services;
- identify proactive actions to take advantage of new trade opportunities, including free trade agreements, eg with China and Thailand;
- consider the role of the local market and associated food culture, and identify opportunities to develop this further as a means to encourage innovation;
- re-position the sector's image in the public mind to reflect the reality of the Food and Beverage sector as one that is highly innovative, high performing and an attractive option for investment and careers;
- identify the opportunities to realise the market potential of sustainably produced food and beverage products; and
- assist industry to adopt practices across the value chain (from pre-farm gate/harvester to consumer) that are environmentally sustainable over the long-term.

Timelines

20. Two phases of work are envisaged.

Active Engagement Phase

21. The active engagement phase is projected to last up to 18 months until June 2006. This is envisaged as a period of intensive work identifying issues and formulating recommendations resulting in a development agenda for the sector, with actions being implemented as agreed.
22. The engagement work programme following the initial Taskforce meeting will be dependant on the priorities identified by the Taskforce itself.

Implementation Phase

23. It is envisaged that this phase will begin concurrently with the active engagement phase, and entail implementation of each of the individual actions identified by the Taskforce.
24. The aim will be to complete all implementation within a reasonable timeframe, eg 3-5 years from the start of the engagement process. The Taskforce itself, however, is asked to provide advice on the length of the implementation phase, taking into account the nature of the recommendations, and the desire for this to be a time-bound process.

Taskforce Membership Selection Criteria

25. To emphasise the value chain view of New Zealand's Food and Beverage sector it is proposed that members be selected for their knowledge of the whole value chain, rather than attempting to represent every Food and Beverage sub-sector (of which there are at least 17).
26. Important value chain components include:
- production;
 - product development;
 - processing;
 - packaging;
 - marketing and market development;
 - transport and distribution;
 - retailing; and
 - consumption.
27. Knowledge of key aspects such as skills and talent, science and innovation, and investment as well as a strong economic development perspective is also essential.

28. In addition the criteria for membership should include:

- strong commercial experience and a leadership role in the Food and Beverage sector;
- strategic and futures thinking - understanding the specific needs of the Food and Beverage sector, including conditions and trends, both in New Zealand and internationally;
- strong appreciation of the business growth path of Food and Beverage companies and critical issues in the business growth cycle;
- focus on developing New Zealand productive capacity;
- strong international experience and a focus on export growth;
- understanding of the roles of government and its interface with the sector;
- understanding of how environmental sustainability supports the Food and Beverage sector, market opportunities, and how the sector itself contributes to environmental sustainability;
- good understanding of marketing (including market access issues), distributing and supporting New Zealand Food and Beverage products and services in foreign markets; and
- experience in dealing with off-shore organisations, agencies, including major corporate partners, Governments, and investors.

Annex 4 Potential Issues for Sector Engagement

The table below lists issues where the Food and Beverage Sector engagement could add significant value.

Key Issues Facing sector	Implications	Opportunities for Engagement
Land use		
Plant and animal genetic resources.	Limits ability to provide new products.	Accessing elite genetics to provide new products and a base for biotechnology.
Matching land use to the natural environment (soils, climate, rainfall, vegetation cover, etc). Carrying capacity.	Enhances / enables increased productivity re: raw materials etc. Influences ability to produce sustainable food & beverage products.	Forum for discussion. Development & implementation of management tools like LENZ (Land Environments of NZ).
Business Behaviour		
Recruitment and retention of skilled staff.	Limits ability to innovate, produce and respond to market requirements.	Skill and Talent working groups that look at long term supply / demand issues and integrate needs with wider govt policies.
Collaborative interaction.	Potential for inefficiencies and delayed learning.	Facilitating clustering activity and sharing of information / learning.
Short-term vs long-term outlook.	Limits medium - long term strategic planning and R&D - can limit value addition/ extraction and competitiveness.	Development and communication of joint government / industry long term vision and strategy. Education and awareness.
Investment	See above.	
Focus on realising premium value.	Value left on the table for others to extract.	Education / Awareness. See 'Investment in R&D', 'commercialisation'.
Factor Conditions		
- Infrastructure	Potential to affect reliability and cost of production.	Forum for communication.
- Energy - cost and availability		Alignment with the Sustainable Water Programme of Action work programme, lead by MFE/MAF.
- Transport		
- Telecommunications, particularly broadband access		
- Water sustainability (allocation, efficiency, quality)		

Cost of capital.			
Labour productivity & availability.			
Rural services.			
Land use sustainability.			
R&D into technologies, and uptake of technologies, that help to make sector practices more sustainable.			
Intangible Assets			
Investment in R&D.	Limits innovation and value extraction.		Provide Govt with information on which to make policy choices. Understand and overcome barriers to industry investment.
Commercialisation of IP and IP protection.	Commercialisation returns reduced / delayed.		Provide Govt with information on which to make policy choices. Understand and overcome barriers to industry investment.
Image and reputation (brand).	Dilution of brand limits ability to extract value.		Forum for understanding challenges of establishing global brands ex NZ. Education / awareness.
ICT / biotech / design exploitation.	Not maximizing the value of a product, or efficiencies in the business.		Ability to leverage off other government initiatives eg GIF sectors.
Business and management capability.	Limits ability of companies to grow and develop in most effective way possible.		Skills working groups that look at long term supply / demand issues and integrate needs with wider govt policies.
International			
Trade and market access issues.	Potential limitation of available markets.		Engagement could assist prioritisation of market issues facing the industry.
Increased cooperation with Australia.	Possible synergies from cooperation with Australian Food and Beverage sector, eg in food standards, international marketing, or economic development efforts.		Identify opportunities and how to utilise them.
Access to and participation in the global value chain.	Potential limitation of value extracted from product - limited information flows from market.		Education and awareness.
Increasing integrity and traceability demands.	Potential limitation of access to markets.		More effective communication to garner consumer and industry views on food safety integrity.
Increasing food standards requirements.	Potential limitation of access to markets.		More effective communication re consumer and industry views on food safety integrity. Sharing industry understanding with Government.

<p>Point of origin (branding), eg NZ's clean green image, "100% Pure" :</p>	<p>Dilution of brand limits ability to extract value. The risks to NZ's "clean green" image if we don't live up to that image.</p>	<p>Forum for discussion on New Zealand's brand position.</p>
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Information asymmetry - that is, access by New Zealand players to market signals and new knowledge.	Potential limitation of value extracted from product and limitation of ability to respond to market in timely fashion.	Forum for Communication.
Increasing pace of change in market demand and structures.	Requires open information flows and responsiveness.	
New competitors.	Requires open information flows and responsiveness.	
International obligations, eg WTO, Kyoto.		
Growing consumer demand for clean green and ethically produced products, particularly from Europe		
Business Environment		
The rules of operation - the legislative and regulatory environment, maintenance of an open economy and sound monetary and fiscal management.	Changes can affect cost of doing business.	Providing government with information on which to make policy choices.
Whole of government co-ordination and engagement, - ease of access to government services, both generic and sector specific and ease of compliance with legal requirements.	Increased synergies and efficiencies.	Engagement could provide an important point of contact for Government agencies with industry.
Tax and related issues.	Appropriateness of regime.	Identification of issues and potential solutions.