

Agri-Gate

News from the Primary Growth Partnership

Ministry for Primary Industries
Manatū Ahu Matua



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Ben's Desk



Welcome to the second issue of Agri-gate for 2015.

The Sector Partnerships and Programme (SPP) branch I lead at MPI has an important role in linking government with industry to promote sustainable economic growth.

As an initiative that boosts economic growth and sustainability across the primary sector, the PGP is of course a natural fit within this branch, and it has been rewarding to witness the PGP's journey since it began in 2009. The PGP is among a range of programmes in the SPP branch, including our Maori agribusiness programme and the Sustainable Farming Fund. It's gratifying to see that the ways in which government is partnering with industry to make the most of New Zealand's primary sector assets.

It's an exciting time to be a part of the primary industries. We as a country are heavily invested in agriculture, and have developed an enviable reputation in world markets for high quality, safe products. However, this is not an unassailable position and requires our primary industries to constantly innovate to remain ahead of

both competitors and the increasing requirement to demonstrate sustainability in the use of our natural resources.

The PGP provides the platform for government and the primary sector to co-invest in this innovation and develop new products or processes that increase our productivity and export revenues. It provides an opportunity for partnerships and co-operation within a sector and for "competitors" to work on research together for the common good.

In this issue of Agri-gate we profile the Lifestyle Wines PGP programme, which is a great example of how the PGP is enabling innovation in industries across the sectors. Lifestyle Wines aims to position New Zealand as number one in the world for high quality, lower alcohol and lower calorie wines and has already seen some exciting results.

I'd like to close by again thanking Justine for her contribution to the PGP over the last two years. She welcomed the arrival of twins late last month and we extend a big congratulations to her and her family.

Ben Dalton
Deputy Director-General, Sector Partnerships and Programmes

From the Chair



On behalf of all of us involved in the PGP, I would like to begin by welcoming into the world Micah and Abbey, Justine and Craig's new additions.

As you will be aware, last month the Office of the Auditor General (OAG) released its performance audit of MPI's administration of the PGP. Overall, this report was positive and recognised the journey of continuous improvement the PGP has been on.

The OAG made three recommendations, mostly around documentation. I would like to comment in particular on one of the recommendations in this report, as it affects each of our programme partners.

The OAG recommended that we "use a consistent and easily understood format to publicly report the progress and achievements of Primary Growth Partnership programmes and the Primary Growth Partnership Portfolio."

The key aspect of this so far as our programme partners is concerned is in relation to the quarterly reports. Currently, the information reported is prepared by industry partners based on quarterly reports to their respective Programme Steering Groups. The OAG stated that because the reports have been prepared for people with specialist knowledge of the programmes, they are not easily understandable to the public. The OAG recommends that "Public reporting needs to be simpler and more readily understandable to appropriately inform members of the public about the performance of PGP programmes."

We have committed to implementing this recommendation as soon as practically feasible. In my mind, that means for our next quarterly reporting. I know that MPI has also welcomed this recommendation and will work with all PGP programmes to develop a consistent reporting framework.

I ask each and every programme partner to work with their MPI contact to consider how best to ensure that the quarterly reports about the programme meet this criteria.

Joanna Perry
Chair, Investment Advisory Panel

Programme Spotlight

Lifestyle Wines – the market and the opportunity

Industry participants in the Lifestyle Wines PGP Programme aim to position New Zealand as the world's top producer of high-quality, lower alcohol and lower calorie wines.

A cluster of trends related to health and wellness, social responsibility, and 'looking and feeling good' at any age have gained momentum in recent years, to the point where they now exert a powerful influence on consumers' choices. In the wine space, that means consumers are increasingly looking at lower alcohol and lower calorie options to deliver desirable features and benefits.

"Lifestyle Wines", a programme led by New Zealand Winegrowers and co-funded under the Ministry for Primary Industries' Primary Growth Partnership (PGP), plans to capitalise on these market-driven opportunities. The goal is to enhance natural production using sustainable viticultural techniques and native yeasts, providing wineries with a point of difference to existing processing methods and other products in the market. The programme aims to deliver economic benefits of \$285 million a year by the end of 2023.

Programme partner New Zealand Winegrowers (the national industry organisation) has enlisted co-investment from a wide range of wineries including Accolade Wines, Allan Scott Wines, Constellation Brands, Forrest Estate, Giesen Wine Estate, Indevin, Kono, Lawson's Dry Hills, Marisco Vineyards, Mount Riley Wines, Mt Difficulty Wines, Pernod Ricard, Runner Duck Estate, Spy Valley Estate, Villa Maria, Whitehaven Wine Company, Wither Hills, and Yealands.

Industry partners have already participated in a two-day workshop and a field day, and seasonal trials are well underway for the 2015 vintage. Experimental winery "microvinifications" will this year use some of the native yeasts identified by scientists at the University of Auckland as having the potential to help create wines at lower alcohol levels. At the same time, the programme is also digging a little deeper with market research.



Programme Manager Dr David Jordan says he believes New Zealand can lead the world as producers of high-quality lifestyle wines.

“No other wine-producing country commands a dominant position in this rapidly developing new category,” notes Dr Jordan.

“If we can produce lower alcohol wines of high quality and desirable flavours, then we will reap the commercial rewards.”

This segment of the wine market is dynamic and growing fast. Domestically, it has grown more than 50 percent by value in the past 12 months. Globally, the growth looks just as promising, according to Richard Lee, Marketing Manager for the programme.

“We’re now gaining a better understanding of key markets in terms of the ‘size of the prize’,” says Mr Lee. “Early indications suggest that both the domestic and international markets for lifestyle wines may be bigger than we envisaged at the start of the programme.”

Preliminary research has indicated the likely top markets for lifestyle wines are the United States, Canada, the United Kingdom, Germany, the Netherlands, Sweden and Australia.

One of the drivers behind the growth is the need for socially responsible behaviour around alcohol consumption – especially following new legislation pertaining to drinking and driving in New Zealand and many other countries. The introduction of changes to this country’s drink driving law (in the same sales period as the Christmas season) coincided with a record quarter for sales in the lifestyle wines category.

While growth has been rapid, sales for this category currently account for just 2 percent of the total domestic wine market – or about three glasses of wine per person each year. Most domestic sales comprise Sauvignon Blanc and Pinot Gris wines, which account for about 4 percent of sales for each variety. According to Mr Lee, that leaves plenty of room for further growth.

Global market research to date has largely reported consumer perceptions based on products that are currently available, adds Mr Lee, and that includes products that fail to deliver on the flavour and quality expectations of premium wine drinkers.

Research conducted on behalf of the Lifestyle Wines programme indicates a range of reasons cited by consumers for not buying lower alcohol wines, including:

- Poor quality.
- Poor taste.
- Favourite wine is not available in a lower alcohol option.
- Not stocked where the consumer shops.
- Not aware of products.
- Belief that lower alcohol products are not really wine.

“The true market potential lies in ‘what might be’,” adds Mr Lee.

“Premium wine consumers are most likely to purchase lower alcohol wines that are close to or equal to the quality and flavour of their preferred wines when seeking to satisfy a range of lifestyle needs.”

Many of the barriers cited by consumers intersect with the quality issues that the PGP programme aims to address, observes Dr Jordan.

“These issues are not insurmountable,” he adds. “We’re confident that Lifestyle Wines will contribute to the future growth of the New Zealand wine portfolio and help it to achieve the goal of becoming one of this country’s top five export industries.”



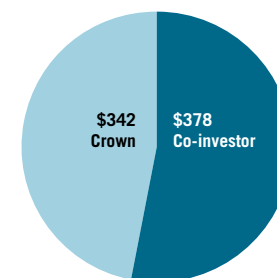
Overview of Primary Growth Partnership Investment

Sector	Programme Name and Co-investor	Total Crown and co-investor investment \$ million	Sector total \$ million	Estimated benefits \$ million (per annum)
Wool	NZ Sheep Industry Transformation (NZSTX) NZ Merino	30	\$30	250
Dairy	Transforming the Dairy Value Chain Dairy NZ/Fonterra	170		2700
	New Dairy Products and Value Chains Whai Hua Limited Partnership	3	\$174	9
Fishing & Aquaculture	Shellfish – The Next Generation Shellfish Production and Technology NZ (SPATnz)	26		81
	Precision Seafood Harvesting Precision Seafood Harvesting (PSH)	48	\$74	44
Meat	FoodPlus – Redefining Meat Horizons ANZCO	77		630
	Marbled Grass-fed Beef Grass-fed Wagyu Ltd	23		80
	Red Meat Profit Partnership Red Meat Profit Partnership (RMPP)	64		194
	Integrated Value Chain for Red Meat FarmIQ	151		1100
	Targeting New Wealth with High Health	25		TBA
	NZ Deer Industry Passion2Profit	15	\$357	TBA
Pastoral	A New Vision for Pastoral Agriculture PGG Wrightson Seeds	15		200
	ClearView Innovations Ballance AgriNutrients	20		348
	Precision Application of Fertiliser in Hill Country Ravensdown Fertiliser Co-op Ltd	10	\$44	120
Bee Keeping	High Performance Manuka Plantations Manuka Research Partnership (NZ) Ltd (MRPL)	3	\$3	1200
Forestry	Innovative Steep-land Tree Harvesting Future Forests Research (FFR)	7		100
	Use of Fumigants for Log and Wood Product Exports Stakeholders in Methyl Bromide Reduction (STIMBR)	2.6 (actual cost)		TBA
	From Stump to Pump Phase 1 (feasibility study) Norske Skog Tasman Ltd (NSTL)/Z Energy	3.6 (actual cost)	\$13	TBA
Viticulture	Lifestyle Wines New Zealand Winegrowers	17	\$17	285
Horticulture	NZ Avocados Go Global Avocado Industry Council	9	\$8	210
Total			\$720	

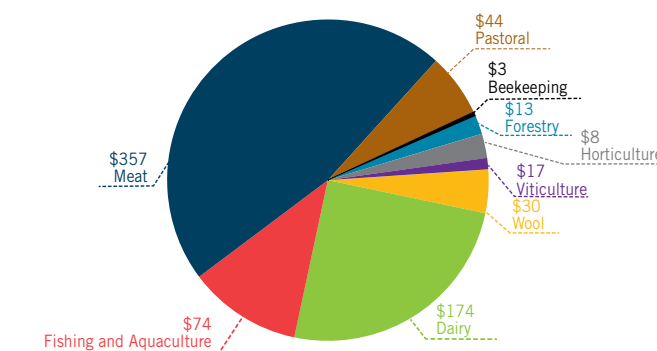
Please note that the figures in this table have been rounded. Therefore the total Crown and co-investor investment for each sector may differ to the sum of the individual programmes.

As at 28 February, there were 16 programmes underway, two pending and two completed.

Crown/co-investor committed investment (in millions)



Crown/co-investor committed investment by sector (in millions)
Total \$720 million



Total government funding paid to programmes as at 28 February 2015 was \$138.9 million.