



NEW ZEALAND INSTITUTE FOR THE STUDY  
OF COMPETITION AND REGULATION INC.

# The Multinationalisation of New Zealand Agri-Businesses: Drivers, Implications, Issues and Opportunities

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#### CORPORATE MEMBERS

Contact Energy Ltd

Fonterra Co-operative  
Dairy Group Limited

Meridian Energy

Powerco

Telecom Corporation  
of New Zealand Ltd

Transpower New Zealand Ltd

Vector Ltd

Victoria University of Wellington

Westpac Institutional Bank



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# Overview

- Motivation
- Key challenges facing New Zealand agricultural producers and processors
- Summary of “multinationalisation”, by sector
- Discussion
- Related themes
- Conclusion



# Motivation

- ISCR study completed in August 2007 for MAF:

Evans, L. and R. Meade, *The Effect of Industry Structure and Institutional Arrangements on Growth and Innovation in the New Zealand Agricultural Sector*

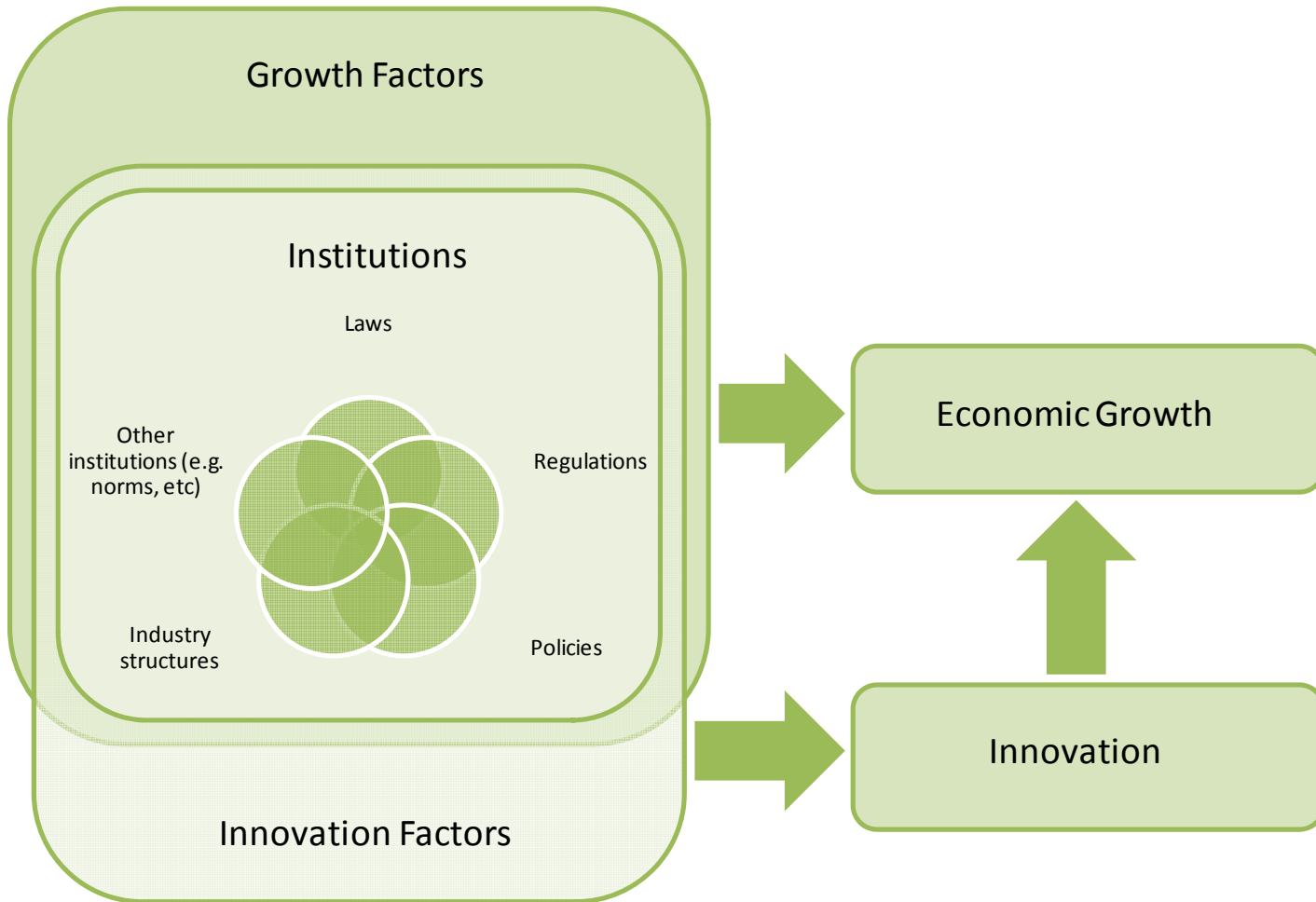
- Focus was on dairy, sheep, beef, apples and pears, kiwifruit and wine sectors
- Followed a December 2005 ISCR study (which also included forestry and fishing):

Evans, L. and R. Meade, *The Role and Significance of Cooperatives in New Zealand Agriculture: A Comparative Institutional Analysis*

- In the time between these two studies a much clearer pattern of changing agri-business strategy emerged – “multinationalisation” – the increasing international diversification of supply by New Zealand primary producers and processors through ownership and/or other means (e.g. licensing)
- This pattern has coincided and overlaps with other changing business models such as product/horizontal diversification

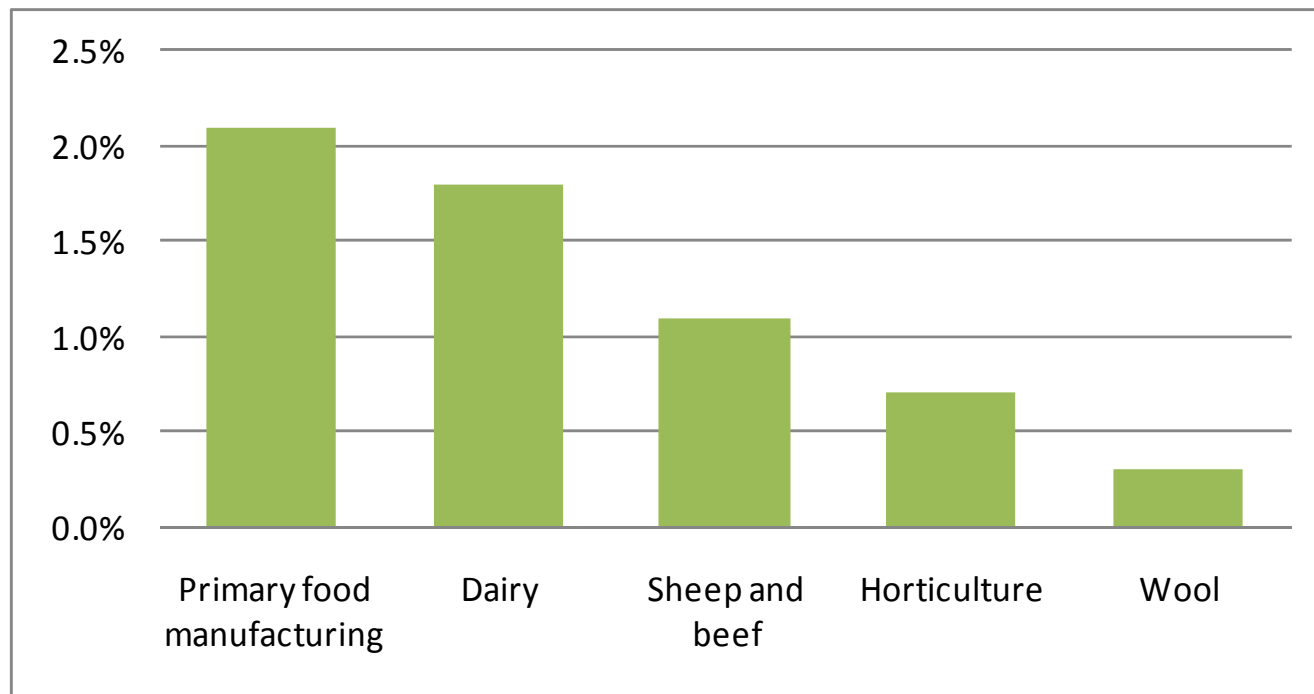


# The 2007 MAF Growth Study



# Significance of Sectors Studied

- Contribution to GDP:

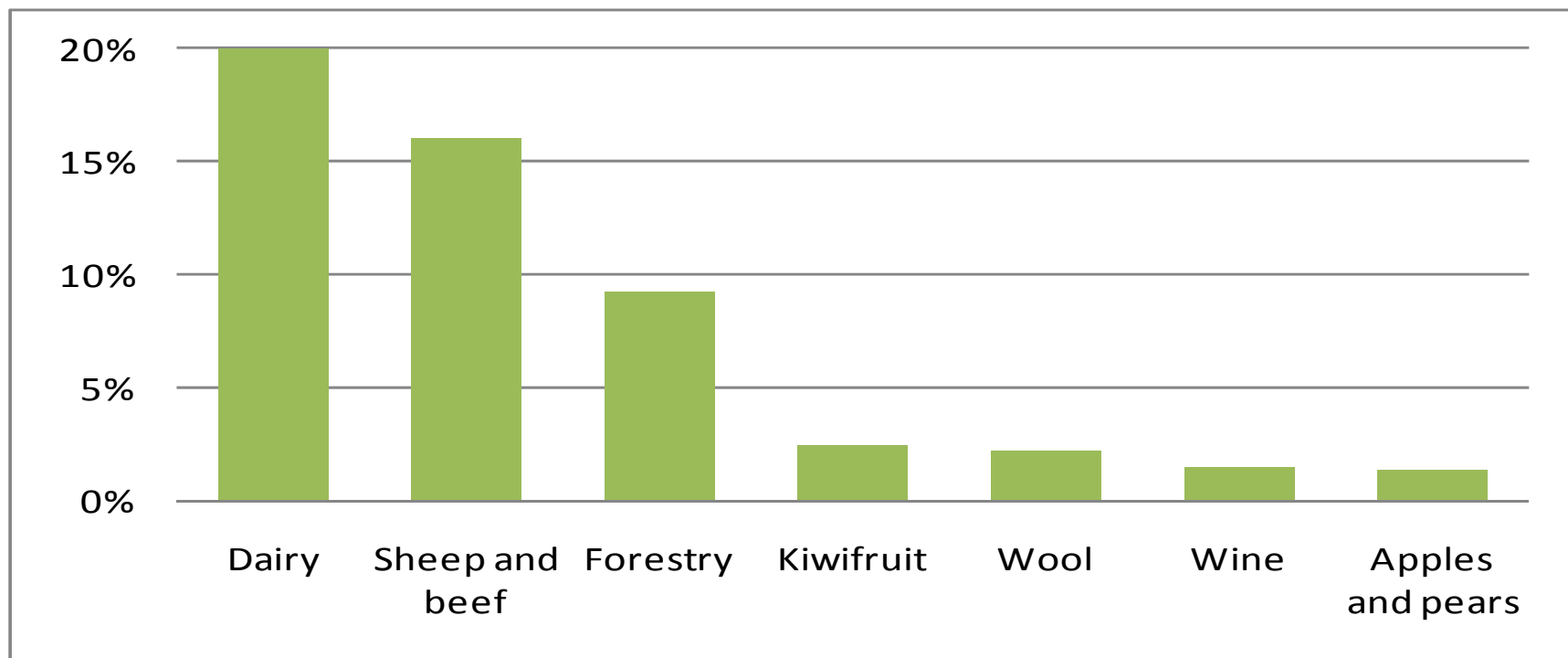


Source: Evans and Meade (2007, p. 4)



# Significance of Sectors Studied – cont'd

- Contribution to exports:



Source: Evans and Meade (2007, p. 4)



# Key Challenges facing Selected Sectors

- Rising shipping costs with competition for capacity from booming Asia region
- Consumer concerns about “food miles”, combined with rising “buy local” campaigns (especially UK)
- All sectors face growing supermarket buyer power, and the associated increasing product differentiation in relation to food safety, food health attributes, food-chain traceability, good agricultural practices and animal welfare, environmental sustainability, and year-round supply security
- Long-term declines in commodity prices (although current rallies in dairy, and both dairy and beef benefitting from corn demand for bioethanol)
- Increasing competition from growing supply in low-cost nations – e.g. dairy (China, South America), beef (South America), horticulture and wine (Chile)
- Fruit producers face loss of seasonal supply advantage (due to improved storage technologies, exacerbated by the uncoordinated Southern Hemisphere marketing)





# Key Challenges – cont'd

- Seasonal labour shortages affecting fruit picking, (e.g. due to competition for low/medium skill labour from other sectors such as construction)
- Horticultural producers increasingly rely on IP-protected variety innovations, but control of such IP is diminished when they undertake the necessary R&D via joint ventures with competitor nations
- Winemakers:
  - Face an international wine glut
  - Must defend New Zealand position as high-quality niche players against other New World producers such as Chile, Argentina and the US
  - Need to countervail against supermarket buying power if they are not already part of multinational beverage concerns
- Horticulture, winemaking and dairy all face regional water competition
- Dairy facing particular pressure to reduce impacts on water quality
- Wool and wine face the challenge of consumer preferences shifting towards alternative products (i.e. synthetic fibres, and other beverages, respectively)



# Multinationalisation – Dairy

- Fonterra:
  - *Australia* – Bonlac acquisition, now collecting c2 billion litres of milk from Australian farmers and processing it into consumer products and wholesale ingredients for domestic and export markets (cf 14.3 billion litres NZ production to May 2007)
  - *China* – developing cow-to-consumer supply chain at 21 sites in rapidly growing Chinese market through 43% stake in San Lu Group – trading technology for distribution network
  - *US* – sharing technology and expertise to process and export US milk (Dairy Farmers of America partnership, and Dairy America relationship with seven major co-ops)
  - *Chile* – investing in longstanding stake in major processor Soprole, and transferring farm technology to reduce production and processing costs, to boost Chilean dairy exports
  - *Other Latin America* – alliance with Nestle (Dairy Partners Americas) combining Fonterra's expertise (procurement and processing, brands) with Nestle's (brands, product development and distribution) based on local supply and New Zealand ingredients
- Open Country Cheese – 19.9% stake now owned by Singaporean food and industrial conglomerate Olam International
- Chilterra – joint venture between New Zealand and Chilean investors to buy and operate Chilean dairy farms – cheaper land, combined with technology transfer



# Multinationalisation – Sheep and Beef

- Processing sector was historically owned and controlled by foreign food concerns, but declined in favour of predominantly local ownership since the 1980s
- Alliance and PPCS remain traditional-style cooperative processors of New Zealand produce
- Investor-owned Affco still focused on New Zealand supply, but diversifying:
  - *Forwards* – into dairy processing through 70% stake in Dairy Trust, which owns 52.4% of Open Country Cheese
  - *Backwards* – into other food manufacturing through 50.01% ownership by Talleys (seafood, vegetables, ice cream)
- ANZCO has long-been owned by Japanese food conglomerates (Itoham, and Nippon Suisan Kaisha), finishing, processing and exporting New Zealand sourced beef and lamb



# Sheep and Beef – cont'd (plus Dairy)

- Main examples of new multinationalisation:
  - Rissington Breedline:
    - Private Hawkes Bay company
    - Focuses on improving productivity, quality/uniformity and product specification tailoring – through supplying genetic stock to farmers and managing product types
    - Within two years 100% of New Zealand lamb supplied to Marks & Spencer will be from the Rissington programme
    - Contracts 60 farmers in New Zealand, plus UK farmers (hence year-round supply), with programme also extended into Brazil, Argentina, Chile, Paraguay and Uruguay
  - New Zealand Farming Systems Uruguay (NZFSU):
    - Shareholders include PGG Wrightson and Rural Portfolio Investments
    - Takes advantage of relatively cheap land in Uruguay, and market access (US for beef, Latin America for dairy)
    - Improves dairy and beef productivity through technology transfer
    - Looking to expand into Brazil, Chile and Argentina

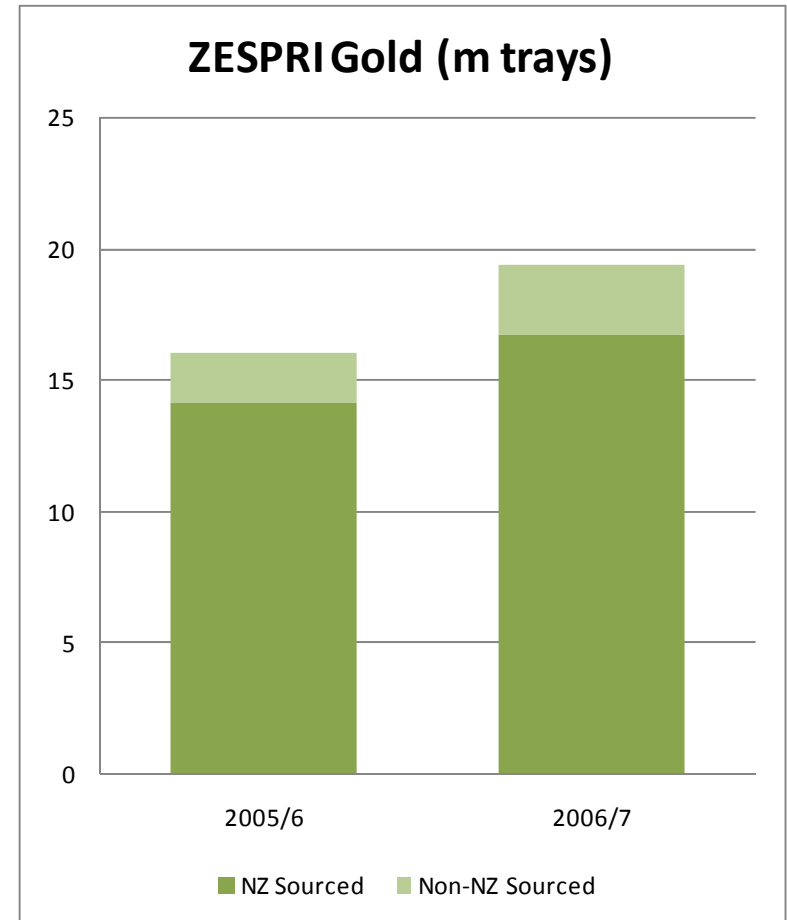
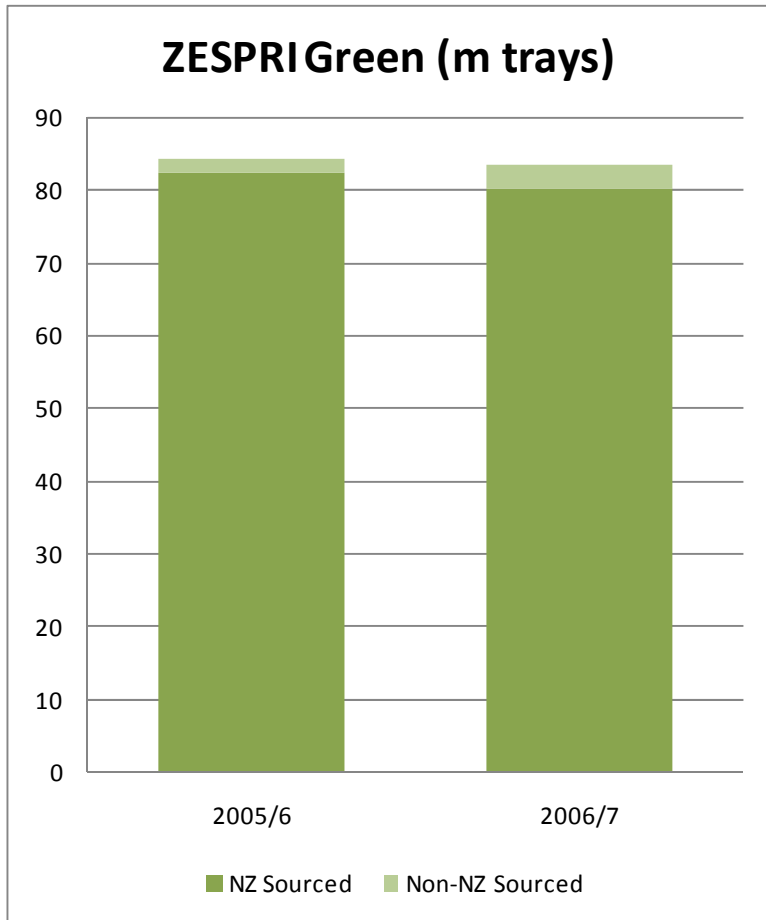


# Multinationalisation – Horticulture

- New Zealand producers looking to differentiate themselves and reduce North/South supply season overlaps/dumping by developing and controlling new IP-protected varieties, e.g.:
  - ZESPRI™ GOLD kiwifruit – developed by HortResearch and licensed exclusively to ZESPRI
  - Jazz™ apples – developed by HortResearch and licensed exclusively to ENZA
- New apple and pear varieties are being developed and commercialised by Prevar, an international joint venture involving Pipfruit NZ, Australian Pipfruit Association, International Nursery Growers Association and HortResearch
- Local growers are concerned at IP-based competitive advantage being shared with overseas growers
- ZESPRI is increasingly sourcing kiwifruit overseas in Italy, France, Chile, Korea, and Japan through licensed Gold and unlicensed Green plantings (expected to double by 2010)
- E.g. Seeka owns 20% of OPAC, which owns (with Italian partner Salvi) the world's largest Gold kiwifruit orchard in Latina, seeking year-round supply and out-of-season gold premiums – the product must be marketed via ZESPRI
- ENZA is now sourcing supply of Jazz™ apples under licence from France, England, Switzerland and the US, with organic Jazz™ supplies from Austria and Italy – also allowing year-round supply and out-of-season premiums



# Horticulture – cont'd



Source: ZESPRI 2006/7 Annual Report



# Multinationalisation – Wine

- New Zealand producers have taste and quality niche to insulate them against the international wine glut
- Increasingly though they need the distribution power and negotiating leverage of diversified beverage conglomerates, especially when dealing with growing buyer concentration and changing consumer preferences
- Ownership of major New Zealand wine producers by such conglomerates is now widespread, e.g.:
  - *Pernod Ricard (Allied Domecq)* – Montana, Church Road, Stoneleigh, Saints, Corbans, Lindauer
  - *Constellation Brands* – Nobile, Kim Crawford
  - *LVMH* – Cloudy Bay
  - *Foster* – Matua Valley
- Delegat's is a prominent exception – New Zealand owned/listed, and accounted for 10% of 2006 exports



# Discussion

- Offshore production is growing strongly and has the potential to strongly outstrip New Zealand production (remember, New Zealand may be a significant exporter of local produce, but its share of total world production is typically small)
- Much of the growth involves the leveraging of New Zealand expertise in production, procurement, processing, exporting and brands
- Significantly, this suggests a shift away from comparative advantage based on local year-round low-cost production, in favour of more IP-based comparative advantage (protected or otherwise)
- Raises questions about the appropriate focus of key agencies, e.g.:
  - *MAF* – should the focus be on the New Zealand farm gate or beyond, and should regulatory “know how” also be exported?
  - *NZTE/INZ* – should the focus be on inbound FDI or outbound FDI?
  - *MFAT* – should the focus be on market access negotiations, or investment access and investment/IP protection?



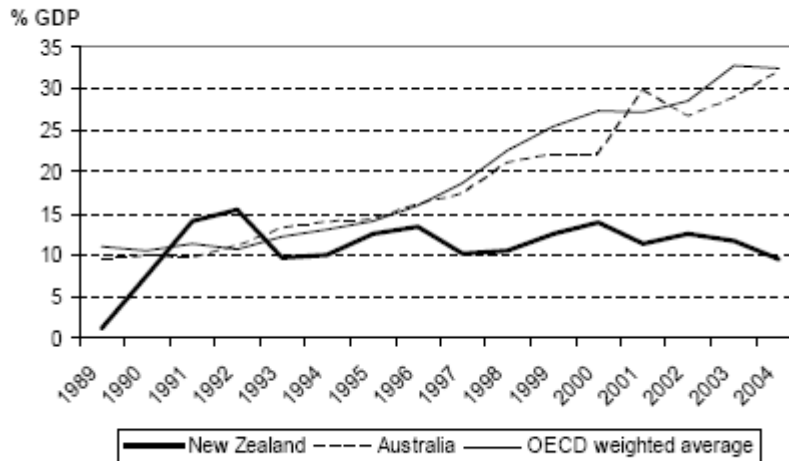


# Discussion – cont'd

TABLE 2.2  
Taxation of outbound investment in other countries

	Accrual taxation of income		Treatment of dividends	
	Active	Passive	Exempt	Tax with deferral
Australia	X	√	√	
United States	X	√		√
United Kingdom	X	√		√
Singapore	X	X	√	
Japan	X	√		√
New Zealand (non-grey list)	√	√	NA <sup>10</sup>	NA

FIGURE 1  
Outbound FDI stock<sup>12</sup>



Source: IMF, UNCTAD

- Until very recent changes in international tax rules, New Zealand has been out of step with other countries in its relatively harsh taxation of foreign-sourced income
- New Zealand outbound FDI has lagged that of other countries
- Perhaps multinationalisation will only accelerate with the softening of these rules?

Source: Table and figure from IRD, 2006, *New Zealand's International Tax Review: A Direction for Change*



# Discussion – cont'd

- Procuring offshore supply offers numerous advantages:
  - Bypasses WTO/Doha failings – it jumps trade barriers and accesses local subsidies
  - Takes advantage of other countries' FTAs – e.g. Chile's with the US
  - Creates natural hedge against NZ\$ volatility or strength
  - Reduces both “food miles” and shipping costs
  - Enables year-round supply, and out-of-season premiums
  - Subverts “buy local” campaigns by allowing local branding
  - Diversifies biosecurity risks (e.g. foot and mouth) and can get past technical trade barriers (e.g. fireblight in Australia?)
  - Enables bypass of emissions charges under the New Zealand Emissions Trading Scheme – farmers can (and are) doing something which reduces the scheme's impacts!
  - Leverages New Zealand agriculture sector “know how” and other IP (e.g. genetics) by applying them to expanded supplies of other factors (e.g. cheaper/more abundant land, labour, water, energy, ...)
- The strategy might have costs too, e.g.:
  - Branding sacrifices – e.g. “100% Pure New Zealand”
  - Possible dilution or loss of producer control



# Discussion – cont'd

- The role of cooperatives in encouraging or impeding multinationalisation is not clear:
  - *Fonterra* – has capital constraints (which it is addressing) but is also strongly multinationalising
  - *PPCS* – has possibly terminal capital constraints, and is not (though non-cooperative Affco is not doing better)
- Cooperative control may limit multinationalisation to specific inputs and their downstream products – could impede any necessary horizontal diversification
- Supplier-controlled cooperatives can have distinct advantages in forming (capital-lean) alliances in order to achieve multinationalisation – committed players



# Related Themes

- Growth in supermarket buying power forcing suppliers to become one-stop year-round quality-consistent and *diversified* → case for a vertically- and horizontally-integrated “Meta Co-op” to take on investor-owned rivals?
- Ongoing North/South season overlaps and oversupply put pressure on growers to coordinate supply and marketing decisions → e.g. case for Southern hemisphere growers to form trans-national marketing co-ops for pipfruit and kiwifruit?
- How can New Zealand producers get sufficient scale for R&D investments without sharing the resulting competitive advantages offshore?
  - Use cross-sector joint ventures?
  - Should wine, pipfruit and kiwifruit sectors own HortResearch?
  - Should dairy and meat sectors own AgResearch?

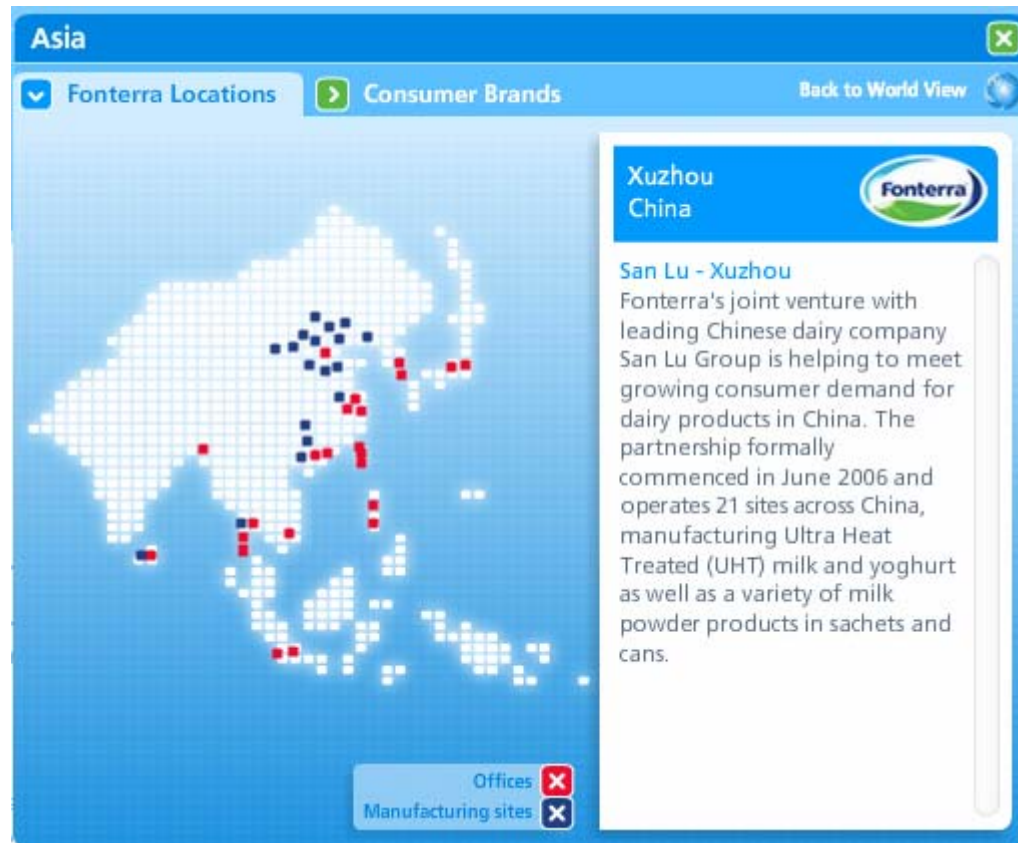


# Conclusion

- Multinationalisation is not novel, but its renewed prominence and growth suggests it has a new place in the changing global agri-business marketplace
- The direction of multinationalisation – i.e. whether ownership stays in New Zealand or passes overseas – seems to have sector-specific drivers, but could also be institutional
- As a strategy it reveals a real shrewdness on the part of New Zealand producers and processors, and highlights the importance of retaining flexible institutions
- If the trend towards multinationalisation is desirable, then this raises questions about the appropriate focus of key agricultural and more general institutions
- Recent changes suggest some institutions are following the strategy:
  - Softening of tax rules on income from offshore investments
  - August 2007 announcement of government support for firms to form strategic partnerships or make investments offshore
- These changes should also give rise to even greater multinationalisation, including in the agriculture sector



# Thank You – Any Questions?



Source: [www.fonterra.com](http://www.fonterra.com)



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