



Agribusiness
and Economics
Research Unit

A Lincoln University Research Centre.
New Zealand's specialist land-based university.

The Land and the Brand

Agri-food produce grown from the country's natural resources make up more than 70 per cent of New Zealand's merchandise exports (see Figure 1). This includes dairy products, meat and wool products, forestry and wood products, horticulture products and seafood.

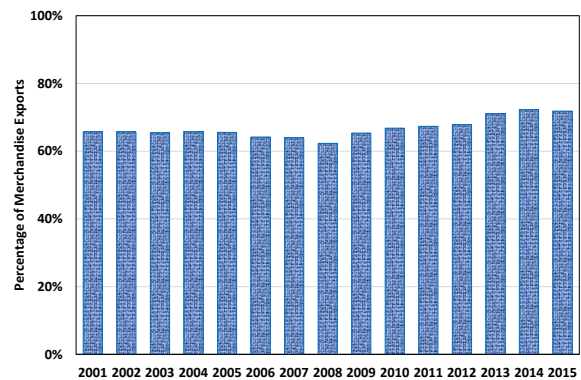
The whole economy is involved in creating this value, as shown in Figure 2. The growing and harvesting of the raw produce on farms, in plantations and in the sea is recorded in the country's primary industries. In 2011/12, this was valued at \$12 billion, or 6 per cent of Gross Domestic Product (GDP).

Almost all this raw product needs processing before it can be exported or sold to domestic consumers. The processing industries double the sector's value, increasing it to \$25 billion in 2011/12 or 12 per cent of GDP.

These primary and processing activities draw on goods and services produced across the whole economy. This includes transport, storage, communications and a wide range of business services. Taking these indirect effects into account, the total size of the agri-food sector was \$40 billion in 2011/12, or nearly \$1 for every \$5 spent in the economy.

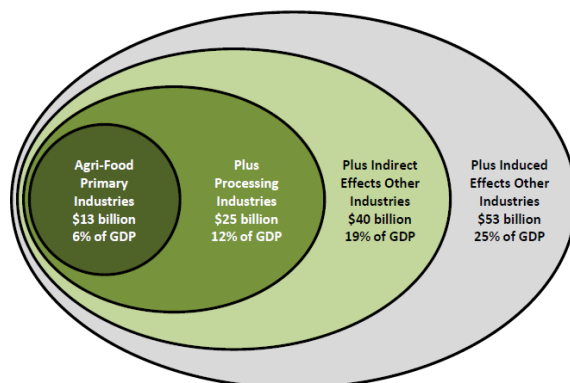
Finally, the people earning these incomes spend their money on other goods and services produced in New Zealand. If these induced effects are counted, it brings the total contribution of the agri-food sector to \$53 billion, or 25 per cent of GDP, in 2011/12.

Figure 1: Agri-Food Share of Merchandise Exports, 2001-2015



Source: Saunders *et al.* (2016, Figure 1-1, p. 1).

Figure 2: Contribution of the Agri-Food Sector to Gross Domestic Product, 2011/12



Source: Saunders *et al.* (2016, Figure 2-7, p. 16).

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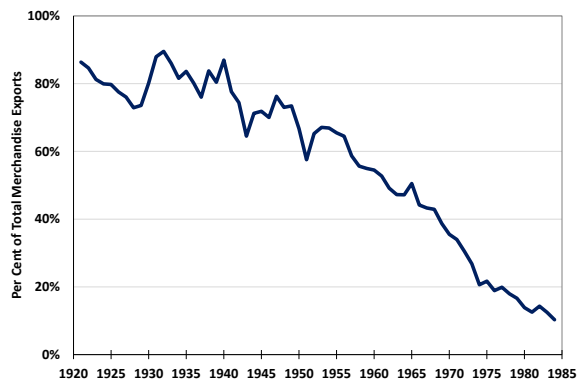
Financial support for the project was also provided by Lincoln University.

A History of Internationalisation and Innovation

The importance of the agri-food industries in the national economy is no accident, but is the result of a long history of internationalisation and innovation. New Zealand's small domestic population and long distance from the large markets in the Northern Hemisphere mean that the country's wealth is created largely from developing its natural and human resources. This can be seen in the way the agri-food sector has grown through the interaction of four key elements:

- Changes in the international trading environment;
- Developments in domestic industries and policies;
- Innovations in science and technology; and
- Creations of trusted commercial brands.

Figure 3: Share of Total Merchandise Exports Sent to the United Kingdom, 1921-1984



Source: Saunders *et al.* (2016, Figure 3-5, p. 48).

A key event in that history was the original shipment of refrigerated meat to the United Kingdom in 1882. As early as 1895, the brand of "Canterbury" had become the standard term for the best class of meat exports; it remains an essential brand for ANZCO Foods. The Anchor brand, still prominent in the global marketing strategy of Fonterra, was launched by Henry Reynolds in 1886.

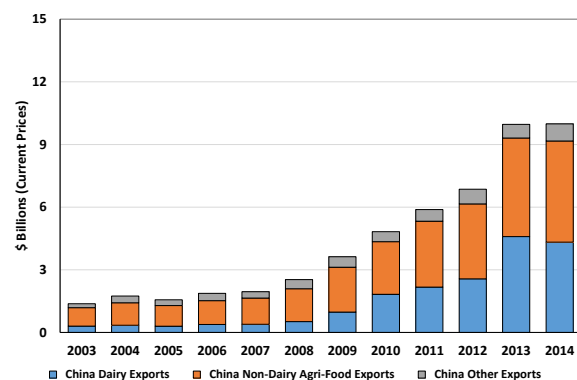
The 1932 Ottawa Agreement tied our export fortunes to the United Kingdom, but these links began to weaken after the wartime bulk purchase agreements with that country ended in 1954. Figure 3 shows how New

Zealand exporters adapted quickly, with the share of merchandise exports to the United Kingdom falling from 60 per cent to 10 per cent just three decades later.

Science and innovation have been essential for the sector's prosperity. New breeds of animals and plants have been developed, new products designed, and new markets forged. The Department of Agriculture was created in 1892. The Department of Scientific and Industrial Research (the forerunner of today's Crown Research Institutes) was established in 1926. Lincoln University, Massey University and the Cawthron Institute began their research work in 1878, 1926 and 1921 respectively.

Figure 4 illustrates a recent example of New Zealand producers taking advantage of new international opportunities after the Free Trade Agreement between New Zealand and China was signed in Beijing on the 7th of April 2008. World-class brands continue to grow. An outstanding example is the ZESPRI brand, "recognised as the world leader in premium quality kiwifruit, managing 30% of internationally traded kiwifruit by volume, yet accounting for approximately two-thirds of global value" (New Zealand Government, *Building Export Markets*, 2012, p. 19).

Figure 4: New Zealand Merchandise Exports to China, 2003-2014



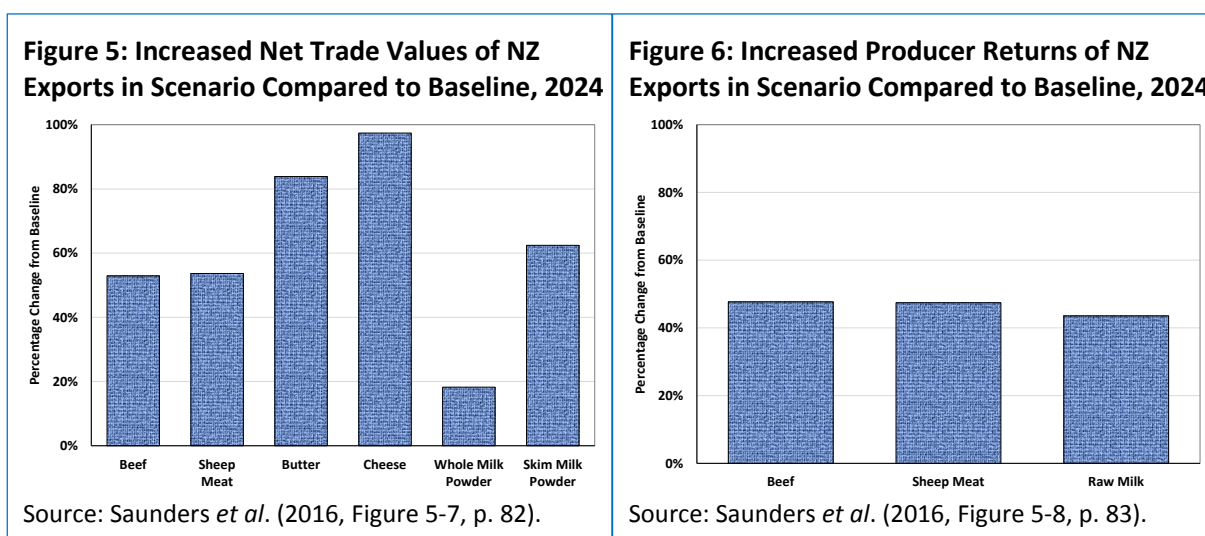
Source: Saunders *et al.* (2016, Figure 2-13, p. 23).

Modelling Future Opportunities

New Zealand's international trading environment continues to change in the present day. Four important examples of relevant trends are: (1) growth in global agricultural production; (2) increased market segmentation and consumer targeting; (3) greater trade liberalisation in agri-food products; and (4) biosecurity threats to agri-food production. These developments present new opportunities for New Zealand's land based sectors.

The Lincoln Trade and Environment Model (LTEM) has been developed by the AERU at Lincoln University. It is based on a model originally created in the United States for the Uruguay Round of the GATT trade negotiations. It can be used to analyse possible impacts of policy and other changes on future net trade and producer returns for 23 agri-food commodities and 23 countries or regions. The full report, *The Land and the Brand*, provides details of the LTEM and the ten scenarios that were modelled for this project. This summary focuses on the most important example, which is comprised of two elements.

For historical reasons, international trade in agri-food products is still much more restricted than trade in manufactured goods. The first element in the scenario, therefore, is to consider what would happen if all barriers to trade in agri-food products were eliminated. Secondly, the New Zealand Primary Sector Bootcamp at Stanford University in 2015 considered that New Zealand agri-food exports should be able to achieve an average price premium of 20 per cent based on market segmentation and targeting of consumers who value the environmental and other credentials of New Zealand agri-food production systems.



Figures 5 and 6 present the results of the LTEM analysis for this scenario. Both graphs show the projected change for 2024 compared to a baseline in which there are no significant policy changes. Figure 5 shows that the value of net trade in New Zealand's meat and dairy produce could increase in the order of 20 to 100 per cent. Figure 6 shows that the returns to New Zealand producers could increase by between 40 and 50 per cent.

This analysis illustrates the benefits to New Zealand producers of: greater liberalisation in the trade of agri-food products; and greater use of market segmentation and consumer targeting to achieve price premiums for our environmental credentials. Neither element of this scenario will be easily achieved, of course, but the size of the potential benefits suggests that the agri-food sector will continue to play a dominant role in the New Zealand economy for the foreseeable future.

A Vision for Future Growth

The Land and the Brand expresses the vision that in globalised markets, commercial success requires a combination of quality production systems (“*The Land*”) and quality consumer perceptions (“*The Brand*”). This is true for individual products, for particular enterprises, for specific value chains, for different sectors, and indeed for New Zealand as a high profile country-of-origin for quality food and beverages. Internationally, New Zealand has strong competitive advantages in its land and in its brands, but the full report identifies six aspects that it argues would facilitate the agri-food sector’s continued growth.

- The importance of industry leadership;
- Private-public partnerships;
- Effective science and innovation systems;
- Market awareness;
- Responsive skills development ecosystems; and
- Cooperative investment to support value chain enhancements.

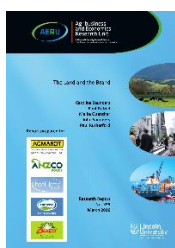
This vision of the sector’s development entails a move away from New Zealand being known as a low-cost provider of agri-food commodities to New Zealand being known as a high value provider of agri-food products. Industry leadership is essential since industry know their customers best and are therefore best placed to initiate efforts for providing value that can attract a premium for quality.

Nevertheless, there are aspects of value creation and value communication that can be achieved only through private-public partnerships. The ongoing roles of the government in biosecurity and negotiating trade liberalisation are obvious examples, but there are also public good characteristics in science, innovation and skills development.

Science and innovation have always been at the foundation of developments in New Zealand agri-food production and processing. If New Zealand is to capture greater value from its land and brand, then good science will be required, in the words of the mission for *Our Land and Water* national science challenge: “to enhance primary sector production and productivity while maintaining and improving our land and water quality for future generations”.

Markets are increasingly sophisticated and differentiated. To capture and maintain value in these markets, New Zealand exporters must be aware of what attributes consumers value and are willing to pay for, and how these attributes can be communicated. New Zealand’s food production has many positive qualities associated with it and these must be communicated into markets, including through a strong New Zealand brand.

Finally, the vision requires collaborative value chains in which the expectations of consumers are communicated to producers and the credential attributes of production systems are communicated to consumers. The sustenance of collaborative value chains is not easy, but the reward will be an ability to capture the full value of New Zealand’s land and brand.



The full report should be cited as follows: Caroline Saunders, Paul Dalziel, Meike Guenther, John Saunders and Paul Rutherford (2016). *The Land and the Brand*. AERU Research Report No. 339, prepared for AGMARDT, ANZCO Foods, Beef and Lamb New Zealand, Fonterra and Zespri. Lincoln University: Agribusiness and Economics Research Unit. It can be downloaded without charge at <http://www.lincoln.ac.nz/aeru>.