

COMMERCIAL IN CONFIDENCE

File Ref: 11479161

03 March 2014

Minister for Economic Development
Minister of Foreign Affairs
cc Minister of Trade

AL KHALAF PARTNERSHIP – AIRFREIGHT SHIPMENT APPROVAL

PURPOSE

1. This briefing seeks Ministers' approval of New Zealand Trade and Enterprise (NZTE) as the agency responsible for a one-off airfreight shipment of breeding ewes to Saudi Arabia as part of the Al Khalaf Partnership and Hon Murray McCully as primary spokesperson.

COMMENT

2. *59(2)(h)*
3. NZTE, MFAT and the Ministry of Primary Industries (MPI) have developed a strategy to communicate the Al Khalaf agribusiness hub and food security partnership in Saudi Arabia. A Communications Strategy and Back Pocket Question and Answer document are attached in Appendix One.
4. The strategy proposes that the primary spokesperson is Hon Minister McCully who will retain the key relationship with Sheik Hmood Al Khalaf.

BACKGROUND

5. In February 2013 Cabinet noted the proposal to invest in a pilot agribusiness operation with Saudi Arabia as a means to resolve a long-running dispute and remove the basis for their objection to the Free Trade Agreement (FTA) with the Gulf Cooperation Council (GCC) nations proceeding. A total of \$10 million was allocated from within MFAT baselines for the New Zealand-Al Khalaf Partnership, a food security partnership.
6. Brownrigg Agriculture won a public tender for contract implementation. Design of the agriculture hub in Saudi Arabia (animal feed and water use, breeding and fattening units, a processing unit) is under way, together with the selection of the New Zealand technologies to be utilised and showcased at the agribusiness hub. A detailed design is scheduled to be delivered by March 2013.

7. As instructed by Cabinet the contract process was developed in consultation with the Treasury. ^{59(2)(g)(i)} The contract has been led initially by MFAT but will be transferred to NZTE for implementation following approval by the NZTE Board on 13 February 2014.
8. NZTE's Board also approved NZTE as the agency responsible for the airfreight shipment of breeding ewes before November 2014, subject to Ministerial approval.

Airfreight of Breeding Ewes

9. On 24 February Cabinet (ERD Min (14/2/1) ^{59(2)(g)(i)} refers) was updated on an option for advancing the Saudi food security partnership with the Al Khalaf Group in order to accelerate Saudi Arabia's removal of its objection to the G20's FTA with New Zealand.
10. The proposal is that there is a one-off airfreight shipment of breeding ewes before November 2014. The arrangements for the airfreight shipment will be managed by Brownrigg through a variation to its existing contract. Brownrigg is experienced with live animal exports by air.
11. Cabinet noted that the costs of the proposal are estimated to be up to:
- NZ\$0.850 million for the airfreight of the pilot flock;
 - NZ\$0.650 million of associated costs to enable the shipment;
12. MFAT has funds available within its 2013/14 financial year budget to accommodate this cost. With the agreement of the Minister of Finance, the \$1.5 million will be transferred from Vote: Foreign Affairs and Trade to Vote: Economic Development (ERD Min (14) 2/1), to enable the shipment to take place.

CONSULTATION

13. MPI has been consulted in the preparation of this briefing.

RECOMMENDATIONS

14. It is recommended that you:

- Note on Thursday 13 February NZTE's Board approved NZTE to implement the agribusiness hub in Saudi Arabia, including responsibility for a one-off airfreight shipment of breeding ewes before November 2014, subject to Ministerial approval.
- Note that Cabinet considered this issue on 24 February (ERD Min (14/2/1) refers) noting the costs of the proposal are estimated to be up to:
 - NZ\$0.850 million for the airfreight of the pilot flock,
 - NZ\$0.650 million of associated costs to enable the shipment.
- Approve NZTE as the agency responsible for the one-off airfreight shipment of breeding ewes.

AGREE/DISAGREE

- Note the Communications Plan agreed by MFAT, MPI and NZTE.
- Agree Hon Murray McCully as primary spokesperson.

AGREE/DISAGREE

Tim Green
GENERAL MANAGER
INTERNATIONAL

AGREE/DISAGREE

Jeff Langley
for SECRETARY OF FOREIGN AFFAIRS
AND TRADE

Hon Steven Joyce
MINISTER FOR ECONOMIC
DEVELOPMENT
Date: 1 / 3 / 2014

Hon Murray McCully
MINISTER OF FOREIGN AFFAIRS
Date: 1 / 2014

APPENDIX ONE

Saudi Arabia/Al Khalaf Communications Strategy and Back Pocket Question and Answer

Communications Objectives

New Zealand

- Ensure the full scope of the broader project is fully understood and manage concerns over live sheep exports.
- Profile the Al Khalaf project within the broader context of NZ Inc GCC strategy and the growth in Saudi Arabia and the region and the opportunities this provides for New Zealand businesses and the wider economy.
- Maximise opportunities around inward and outward visits to discuss Saudi Arabia, GCC and relationships with New Zealand.
- Use government activity and channels to raise awareness of the opportunities for New Zealand/New Zealand business in Saudi Arabia, and other GCC countries, using the Al Khalaf partnership as an example.
- Ensure all communications activity about Al Khalaf is aligned and that key partners and stakeholders are kept informed, and are aware of the communications approach.

Saudi Arabia

- Use government channels to raise the profile of New Zealand in Saudi Arabia and other GCC nations, by leveraging Al Khalaf as well as ministerial visits, trade shows and company examples.
- Maximise opportunities around inward and outward visits to discuss relationships between New Zealand, Saudi Arabia and the GCC.
- Ensure all communications activity is aligned and that key partners and stakeholders are kept informed, and are aware of our communications approach.

Spokespeople

- The strategy proposes that the primary spokesperson is Hon Minister McCully who will retain the key relationship with Sheikh Hmood Al Khalaf.
- All queries on the GCC strategy; the government investment in the Al Khalaf project; and FTA negotiations will be referred to MFAT.
- Hon Minister Guy will be the overall Minister responsible for the protocol for the export of cows and sheep negotiated by MPI and the Ministry of Agriculture Saudi Arabia.
- All queries relating to animal exports will be referred to MPI.
- All queries relating to the ongoing development of the farm; the business opportunities in the region; NZ agribusiness opportunities and NZTE's agribusiness strategy will be referred to NZTE.

- The spokespeople in Saudi Arabia will be Ambassador Hamish MacMaster or NZTE Regional Director Clayton Kimpton as appropriate
- Company spokespeople
 - Brownrigg – media queries will be directed to NZTE.
 - Mamood Al Khalaf
 - Individual companies involved in the project will talk about their successes.

Key messages

General

- In early 2013, the New Zealand government confirmed an agreement with the Al Khalaf Group in Saudi Arabia to open up opportunities for New Zealand agribusiness goods and services in Saudi Arabia.
- The agreement will provide New Zealand with access to the knowledge and networks of the Al Khalaf Group throughout the GCC, and will result in the development of a significant New Zealand agribusiness 'hub', or demonstration farm, near Damman, Saudi Arabia.
- The demonstration farm will be developed as a commercial partnership between a New Zealand consortium, led by Brownrigg, and Al Khalaf Group. The hub will be one of the largest of its kind, and is expected to be a full showcase of New Zealand agrotechnology, including:
 - Technical services (core science, R&D, advisors and educational courses)
 - Farm inputs (animal feed and health products, fertilisers, chemical sprays, building and fencing materials)
 - On-farm equipment (readers, scanners, scales, irrigators)
 - On-farm business systems and expertise (specialist farm and benchmarking systems)
 - Genetics testing and mapping expertise
 - The provision of sheep from New Zealand for breeding.
- In November 2013, following a detailed RFP process, Hawke's Bay-based Brownrigg was appointed the lead provider for the development of the agribusiness hub, and is now establishing a consortium of companies to deliver goods and services. It is hoped that the first services will be installed in Damman by June 2014.
- The partnership with Al Khalaf will open up significant opportunities for New Zealand in the GCC and potentially elsewhere in the Arab world; Arab countries have little productive agricultural land and are actively looking to other countries to provide food and food systems. New Zealand is well placed as a leader in agrotechnology to provide a full range of agribusiness expertise, products and services throughout the GCC. It is expected that the agribusiness hub in Saudi Arabia will also provide a platform for further opportunities in third party countries, especially in Africa.
- Al Khalaf is a long-time investor in New Zealand and has established Awassi sheep farms in Hawke's Bay. The group has substantial investments and assets in transportation, farming, abattoir, property development, and retail in Saudi Arabia, and they are investing heavily into their main farm near Damman (the site of the proposed demonstration, breeding farm and operation).
- The agreement forms a significant component of a broader food security partnership with Saudi Arabia, and is a critical element of the New Zealand-GCC (Gulf Cooperation Council) Free Trade Agreement currently under negotiation.
- The partnership with Al Khalaf is part of a wider programme of work that aims to maximise international opportunities for our agriculture industry, and individual agribusiness and agrotechnology companies.

New Zealand-GCC and Food Security

- Exports from New Zealand to the GCC already exceed NZ\$1.5 billion, and have been growing steadily by 10% a year. Acutely aware that there is a finite aspect to petroleum-based wealth, GCC countries have been seeking to invest to secure their post-petroleum futures. Future food security is high on the list of priorities, and New Zealand, as one of the world's leading agricultural nations is a partner of choice.
- In recent years, the New Zealand Government has been working with its counterparts in Saudi Arabia, and the wider GCC to better understand the food security needs of that region. The recent launch of the NZ Inc GCC strategy by the Minister of Foreign Affairs outlines food security as a key area of focus.
- The GCC countries share a common problem – an acute need for future food security resulting from a shortage of arable land (on average less than 1.5% of the land mass of GCC countries). In each case, well-funded food security initiatives represent a priority for their government, and a number of GCC countries are actively seeking partners, especially from countries such as New Zealand that have a global reputation for their innovation and expertise in food security, food production and agribusiness.
- One of the food security initiatives in Saudi Arabia is to increase the number of sheep, after seeing sheep numbers in the Kingdom drop from 12 million in 2008 to 8.7 million in 2012. The Saudis also want to make the industry sustainable. This will entail developing or importing technology, techniques, tools and expertise in diverse specialities including environmental protection, herd management, breeding improvement programmes and feed improvement. New Zealand has the experience, knowledge and expertise to assist with this.
- This is a challenging region to do conduct business in, and requires strong personal ties and good political relations. Before New Zealand becomes a partner of choice for the region, we need to develop strong government and private sector relationships. That is why the Government developed the GCC Strategy.
- The GCC Strategy defines how we will grow our relationship with the region. The goals are to:
 - Develop a model for public-private partnerships with the GCC region.
 - Double the value of NZ high value-manufacturing and service exports.
 - Double the value of NZ value-added food exports
 - Establish NZ as a premium education service provider and study destination.

BACK POCKET QUESTIONS & ANSWERS

What is the New Zealand agribusiness hub in Saudi Arabia?

The New Zealand agribusiness hub in Saudi Arabia is a demonstration farm in Damman, Saudi Arabia that will be developed as a commercial partnership between a New Zealand consortium and Al Khalaf Group, following an agreement between the New Zealand government (MFAT and NZTE) and Al Khalaf.

The hub is expected to be a full showcase of New Zealand agrotechnology. It will include:

- o Technical services (core science, R&D, advisors and educational courses)
- o Farm inputs (animal feed and health products, fertilisers, chemical sprays, building and fencing materials)
- o On-farm equipment (readers, scanners, scales, irrigators)
- o On-farm business systems and expertise (specialist farm and benchmarking systems)
- o Genetics testing and mapping expertise
- o The provision of sheep for breeding.

What New Zealand products and services will be included in the hub, and what companies will be involved?

The agribusiness hub in Damman, Saudi Arabia is expected to showcase a full range of New Zealand agribusiness technology and expertise. The actual New Zealand providers of technology, products, services, knowledge and expertise is yet to be finalised, however the demonstration farm will be seeking providers of:

- o Technical services (core science, R&D, advisors and educational courses)
- o Farm inputs (animal feed and health products, fertilisers, chemical sprays, building and fencing materials)
- o On-farm equipment (readers, scanners, scales, irrigators)
- o On-farm business systems and expertise (specialist farm and benchmarking systems)
- o Genetics testing and mapping expertise
- o Sheep for breeding

Based on this, our expectation is that a wide range of New Zealand companies will be involved.

Why is the farm being located in Saudi Arabia?

The demonstration farm is being developed in Saudi Arabia because that is where the Al Khalaf Group's farms are located. Al Khalaf has substantial investments and assets in transportation, farming, abattoir, property development, and retail in Saudi Arabia, and they are investing heavily into their main farm near Damman.

How much money is this partnership costing?

The New Zealand Government has committed NZ\$7.5 million over the next two to three years to develop the demonstration breeding farm and operation.

What will the return on investment be?

It is too early to say, however, the partnership with Al Khalaf will open up significant opportunities for New Zealand in the GCC and potentially elsewhere in the Arab world; Arab countries have little productive agricultural land and are actively looking to other countries to provide food and food systems. New Zealand is well placed as a leader in agrotechnology to provide a full range of agribusiness expertise, products and services throughout the GCC. It is expected that the agribusiness hub in Saudi Arabia will also provide a platform for further opportunities in third party countries, especially in Africa.

Which companies are involved?

To be provided by NZTE

Is this just a way of exporting live sheep to Saudi Arabia?

The provision of sheep for breeding is just one part of this partnership, and is by no means the only element.

The export of live animals is a known contentious issue, and one which is being considered very carefully. The export of live sheep from New Zealand for slaughter was suspended in 2002, and while there is no confirmed date, it is expected that exports of sheep for breeding only will resume as part of this agreement. This will initially be a pilot involving 1000 to 2,500 sheep which will be air freighted to Saudi Arabia.

There are a number of issues that need to be resolved in order for more substantial sheep for breeding exports to resume, in particular around transportation and welfare.

It is vital to this project that the prime breeding stock being exported remains in excellent condition. The project partners will ensure the highest standards of animal transportation are maintained.

What will happen to the sheep exported to Saudi Arabia?

The long term aim is to keep a nucleus flock of high quality New Zealand sheep on the demonstration farm for breeding. The stock bred from the sheep from New Zealand will be slaughtered in Saudi Arabia.

How will these sheep survive in the desert?

Sheep are extremely versatile animals and particular breeds cope well with hot desert climates, for example Australia. The sheep going to Saudi Arabia as part of the pilot will be given plenty of water, shorn more often and kept in the shade. We will also be running a parallel study in New Zealand to gauge how different breeds/combinations cope to ensure that only sheep that can thrive in Saudi Arabia will be involved in this project.

The sheep will be fed pellets produced from forage grown in Saudi Arabia, using New Zealand technology and systems – just one example of the broader opportunities to showcase our agribusiness expertise.

Won't this damage our meat exports?

The provision of sheep for breeding is quite separate from New Zealand's overall meat exports to Saudi Arabia. New Zealand's exports of chilled and frozen meat (beef and sheep) to Saudi Arabia for the year ending June 2013 amounted to NZ\$108.2 million, an increase from the year before (NZ\$90.9 million). Saudi Arabia's demand for meat far outweighs what New Zealand can provide.

The sheep for breeding programme and our meat exports are two separate channels and will run in parallel.

Many countries, including the UK, France, Australia and Germany, export live sheep for slaughter to Saudi Arabia. We won't be doing that. We will be exporting live sheep for breeding, and their offspring will enter the Saudi market as a result of this project.

Why can't you just kill the sheep here under Halal certification?

We do this already – all New Zealand meat (and any other product that contains any type of animal product) exported to Saudi Arabia and the GCC already meets their often strict and detailed halal requirements, and is readily accepted and consumed by people throughout the region.

However, Saudi Arabian consumers also want live sheep for slaughter which are sold at 'hot' markets. The Hajj alone requires 20 million sheep and boosting breeding capacity in Saudi Arabia will help meet this need.

Where are you getting the sheep from?

Ultimately, over 100 farmers from throughout New Zealand, but particularly Hawke's Bay, will provide breeding stock for this project. Brownrigg will lead the consortia of New Zealand companies involved across the agribusiness spectrum.

Won't you be removing sheep from NZ production systems?

If the pilot is successful, there will be increased demand for New Zealand meat, both processed here and in Saudi Arabia.

How do Saudi farms differ to NZ farms?

New Zealand farms, with animals grazing on open pastures, are different to farms in many parts of the world including Saudi Arabia. Desert farms in Saudi Arabia generally feature covered feedlot pens on sand designed with different roof heights to cope with heat and to allow adequate airflow. Desert farms in Saudi Arabia usually have pivot irrigators to grow food crops, as well as water wells and date palms.

Why Saudi Arabia?

There are a number of specific reasons why Saudi Arabia:

- The Government partnership is with the Al Khalaf Group, a long-time investor in New Zealand, which has substantial investments and assets in transportation, farming, abattoir, property development, and retail in Saudi Arabia, and they are investing heavily into their main farm near Dammam.
- Saudi Arabia, like other GCC countries has an acute need for future food security resulting from a shortage of arable land (on average less than 1.5% of the land mass of GCC countries). Well-funded food security initiatives represent a priority for their government, and a number of GCC countries are actively seeking partners, especially from countries such as New Zealand that have a global reputation for their innovation and expertise in food security, food production and agribusiness.
- Saudi Arabia is seeking to increase the number of sheep, after seeing sheep numbers in the Kingdom drop from 12 million in 2008 to 8.7 million in 2012.
- Saudi Arabia is looking to make its sheep and food production systems more sustainable, which includes developing or importing technology, techniques, tools and expertise in diverse specialities including environmental protection, herd management, breeding improvement programmes and feed improvement. New Zealand is well placed to partner with Saudi Arabia to provide this expertise.
- Saudi Arabia, with a population of 29 million people, is actively looking for ways to ensure a consistent quality supply of food for its people. According to Business Monitor International, food consumption in Saudi Arabia is projected to grow by nearly 10% this year alone (as at June 2013).

Does NZ have or intend to have demonstration farms?

How many breeding animals are sent overseas each year, and where are they sent?
Data for exports of livestock from New Zealand in recent years follows. Statistics on all livestock exports are published by MPI annually in the June issue of Surveillance magazine, available on the MPI website at <http://www.biosecurity.govt.nz/publications/surveillance/index.htm>.

Annual Numbers for Exports of Livestock to All Countries (2010-2012)

Jan-Dec 2010	Jan-Dec 2011	Jan-Dec 2012
Cattle: 16,150	Cattle: 30,499	Cattle: 39,636
Sheep: 311	Sheep: 177	Sheep: 421
Goats: 58	Goats: 979	Goats: 0
Deer: 5	Deer: 31	Deer: 65
Pigs: 10	Pigs: 0	Pigs: 0

Annual Numbers for Cattle Exported by Country (2011-12)

	Grand Total	China	Fiji	Philippines	Malaysia (Sabah)	USA	Vietnam
Jan - Dec 2011	30499	22913	340	870	826	1250	4300
Jan - Dec 2012	39636	33571	4	1205	250	0	4610

How will the sheep get there?

The sheep involved in the pilot will be flown to Saudi Arabia.

How do we know they're for breeding?

The exporter must sign a statutory declaration that the animals are intended for breeding and approval for subsequent shipments will consider the compliance record of the exporter.

When will the exports happen?

Export dates will depend on commercial and practical realities of preparing consignments for export.

Who is the actual exporter?

Brownrigg.

How will the welfare of the sheep be assured?

Approval for export is only given when the Director General of MPI is satisfied that all conditions have been met, including animal welfare requirements. This applies to live animal exports to any destination and of any species.

What happens if the sheep get ill en route?

For sea transport, the arrangement stipulates a requirement for at least one veterinarian on board.

For air transport, the arrangement references the International Air Transport Association regulations, the international standard used by NZ and most other countries for livestock air freight.

What assurances do we have the animals won't be mistreated en route or in country?

The arrangement references standards and guidelines under the Animal Welfare Act and international standards used by NZ and most other countries for livestock freight. Saudi Arabia is a member of the OIE and abides by the international standards for Animal Welfare established by this organisation.

What other investments does Al Khalaf have in New Zealand?

Al Khalaf's main investments in New Zealand are the development of a number of farms in the Hawke's Bay, primarily for the breeding of Awassi sheep.

What is the government doing to ensure that the welfare of animals

The government takes animal welfare very seriously, and our laws and regulations reflect this. The development and implementation of this programme involves MPI which regulates the industry.

This project involves partners in New Zealand and Saudi Arabia who are highly experienced in this area and it's in everyone's best interests to ensure the welfare of high quality breeding animals.

How and why was this contract awarded to Brownrigg?

The contract for the lead provider to develop a consortium to deliver goods and services for the agribusiness hub in Dammam, Saudi Arabia was awarded to Brownrigg following a public Request for Proposals via GETS. Brownrigg's experience in leading multi-company consortia; their experience in sheep farming; and their experience in the Middle East were factors in the decision to appoint them.

How will setting up farms and processing plants overseas actual return money to New Zealand?

There are a number of areas: salaries of New Zealand employees, products and services provided to those operations from New Zealand, profits repatriated from the ownership and operation of the processing business farm.

What is the Govt's role?

Al Khalaf will develop and run the farm and NZTE will work with them, Brownrigg and New Zealand companies to identify the New Zealand technology that will best demonstrate the country's expertise. The Government will also facilitate the provision of live sheep for breeding purpose.

Won't this approach eventually erode our competitive advantage by giving away the secrets to our farming success?

No company will be giving away its secrets or IP. Accelerating demand globally for food as well as increasing international interest in the New Zealand farming system suggests that to do nothing to take advantage of these trends is more likely to erode our country advantage than continuing with the status quo.



Hon Nathan Guy

**Minister for Primary
Industries**

Visit to the Gulf

1 – 8 March 2014

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Out of scope

Pages 3 to 22 are out of scope

Meet with Shiekh Hmood Al Khalaf and view farm

Shiekh Hmood Al Khalaf is the owner and CEO of Al Khalaf Group, one of the world's largest importers of livestock.

s9(2)(a)

Objectives

- Build a relationship with Sheikh Hmood Al Khalaf to support the delivery of the NZ-Saudi Arabia Agribusiness Hub.
- Demonstrate the New Zealand Government's commitment to the project and the resumption of livestock exports for breeding (including through a pilot air shipment of 1000 sheep in 2014).
- Gain a deeper insight into the NZ-Saudi Agribusiness Hub and seek Sheikh Hmood's views on his future plans for the Um Alerrad farm.

Key Points

- The Al Khalaf Group has set aside a significant parcel of land for the New Zealand – Saudi Arabia demonstration farm (Um Alerrad), which is located some 130km from the Eastern port city of Dammam, on the main highway to Riyadh.
- MFAT and NZTE officials have visited the farm and it is apparent that the Al Khalaf Group is investing substantially in anticipation of the partnership activities: tens of millions of dollars worth of breeding, feeding and potentially meat processing abattoir facilities are under various stages of design, development, and construction.
- The current farming operation comprises a total of 3920Ha, with 25 operating pivot irrigators, employing 120 staff. The new demonstration farm will be set up 7km from the existing operation on 1360Ha. It already has 10 pivots in place or under construction.
- Al Khalaf's vision is for a farm

s9(2)(b)(i)

In the set up phase, New Zealand ewes will be mated with Awassi rams.

- The demonstration farm will also be a model for vertical integration, from cropping to hot fresh meat supply to the local market. Al Khalaf wishes to have an onsite abattoir to service both lambs from the demonstration farm feedlot and neighbouring farms.

s9(2)(b)(i)

Background

The Al Khalaf Group is reputed to be the world's largest livestock importer, importing livestock from Australia, Africa and Europe into Saudi Arabia via the port cities of Dammam and Jeddah. The group also owns farms in Australia and in the Hawke's Bay, and owns a quarantine centre near Timaru, which is currently used as part of the existing trade in exporting breeding dairy cattle and sheep to destinations such as South America and China.

2 It has significant holdings in Saudi Arabia including its core business of livestock transportation and trading, as well as construction, retail and contracting businesses. As the largest livestock trading company in Saudi Arabia it owns significant assets in the red-meat supply chain and globally, and has access to Saudi customers and influencers that will benefit New Zealand firms involved in the partnership.

3 Trading in New Zealand as Awassi NZ Ltd the Group bred, contracted and transported sheep from New Zealand from the late 1980s to 2003 when the practice was banned. During this time the group spent hundreds of millions of dollars in the New Zealand farming sector, and has developed a highly-prized breed of Awassi sheep using New Zealand genetic and pastoral expertise. It works closely with a range of New Zealand firms in its New Zealand operations, including consultants from PGG Wrightson, and Brownrigg Agriculture.

4 The Group advised that it has entered into a

s9(2)(b)(i)

5 The Group has shown an interest in working with the New Zealand Government and firms in assisting Saudi Arabia with its food security needs and religious festival red-meat requirements. The Group is investing along with the Saudi Government in increased breeding facilities and farms in Saudi Arabia.

Pages 25 to 30 are out of scope

Meeting with Minister of Agriculture - Dr Fahd Balghunaim

Objectives

- Sign, with Minister Balghunaim, the Arrangement for the Export of Livestock from New Zealand to Saudi Arabia for Breeding Purposes.
- Update Balghunaim on the progress made with the Al Khalaf partnership and our commitment to a longer-term food security partnership with Saudi Arabia.

Key Points

- You have not met with Minister Balghunaim before. The Minister of Foreign Affairs, Hon Murray McCully, most recently met with Minister Balghunaim in January 2014.
- Negotiations between MPI and the Saudi Ministry of Agriculture on the livestock arrangement allowing the export of livestock for breeding took place between March 2013 and January 2014.
- The partnership with Al Khalaf Group is underway, with Brownrigg Agriculture appointed as the lead provider. The elements of the partnership are currently undergoing detailed design work due at the end of March but will centre on a large scale breeding and demonstration facility on the Al Khalaf farm near Dammam.

Page 32 is withheld under s6(b)
and s9(2)(j)

Out of Scope

S4(2)(g)
Minister McCully commented that specific deadlines needed to be achieved, including the signing of the Protocol during your visit to Saudi Arabia. Once this was signed it became principally a commercial matter.

Suggested messages:

- NZ has in good faith addressed the livestock issue to the satisfaction of both the Saudi Government and that investor. This has involved some risk and expense for the NZ Government, and is a measure correspondingly of our commitment to the relationship with Saudi Arabia and the GCC.
- The protocol negotiations have been concluded. Once the protocol is signed, during your meeting, it becomes principally a commercial matter when the first exports take place (bearing in mind the need to obtain an Animal Welfare Export Certificate). This is beyond the control of either Government;
- NZ is committed to the relationship. We have placed considerable emphasis in the last few years, including through implementation of the GCC Strategy, on developing the NZ-GCC relationship on all fronts including political dialogue, investment, food security, air links and education;

Pages 34 to 52 are withheld
under s9(2)(j)

Background Briefs

Background on the New Zealand-Saudi Arabia Agribusiness Hub

Key points

- Good progress has been made to implement the New Zealand – Saudi Arabia Agribusiness Hub, with a detailed design scheduled to be completed by March 2014.
- The creation of an agribusiness hub in partnership with Al Khalaf Group has resulted in a dramatically different outlook towards New Zealand from Riyadh.
- The livestock protocol, together with the Al Khalaf partnership, provides a sound basis for broader food security partnership activity in Saudi Arabia and the Gulf region and presents an excellent opportunity for New Zealand firms to benefit from the increasing demand for food security in the Gulf.
- A one-off airfreight shipment of a small pilot flock of up to 1000 animals has been agreed by Cabinet.
and would strengthen the partnership with the Al Khalaf Group, providing invaluable data for both commercial and animal welfare purposes that could be used to assess the viability of any subsequent transport of larger numbers of animals by sea.

Background

In February 2013, Cabinet approved a proposal to invest in a pilot agribusiness operation with Saudi Arabia as a means to resolve a long-running dispute with Saudi Arabia

and as a basis to form a food security partnership with the Kingdom. A total of \$10m was allocated from within MFAT baselines for designing and developing the food security platform. \$6m of this was for the Agribusiness Hub specifically. This funding has been committed to the design and development of a demonstration breeding farm showcasing New Zealand agriculture and technology in partnership with long term investor in New Zealand, the Al Khalaf Group.

Key benefits of the project include:

- Gaining direct access to al Khalaf project spend for the farm project (est. \$100m), over and above the partnership funding;
- Establishing a showcase for New Zealand agricultural technology in the Gulf.

Delivery of the Agribusiness Hub

3 The project was awarded to Brownrigg Agriculture to design and deliver the demonstration farm with Al Khalaf Group; the core delivery team includes ~~59224~~ and two additional project managers, one of which will reside for extended periods of time in Saudi Arabia. Good progress is being made in the partnership with the Al Khalaf Group, and Brownrigg Agriculture has moved quickly to begin implementing a project plan focused on at least five key areas:

New Zealand Breeding Ewes (genetics and sheep supply chain)

4 Brownrigg will source and coordinate shipment of elite breeding ewes as well as approximately 45,000 breeding ewes and 4,000 cattle to Saudi Arabia to form the basis of a demonstration farm and breeding programme. An inaugural shipment is expected in September – November 2015 with a trial air shipment this year (see below).

Awassi Genetics and Breeding (Saudi Arabia)

5 A breeding programme will be designed and implemented in both Saudi Arabia and New Zealand. Until research design and planning activities are completed in March 2014, no detailed budgets or timelines can be estimated. The genetic programs are to be designed to identify the sheep with the best productivity and lamb carcass suitable to the environment and market.

Forage and Nutrition

6 A forages and nutrition programme will be designed and implemented by On Farm Research, with expertise contracted in from experts such as PGG Wrightson, and others as identified in the initial planning phase.

7 It is intended this programme will evaluate the forages for yield increases and nutritional values as part of the feeding programme for the feedlot farm. This is likely to be implemented through utilizing New Zealand know-how, specifically looking at new grass cultivars (working closely with NZ seed companies), harvesting schedules to achieve maximum nutritional value, and wider technology transfer through cooperation with Saudi Agricultural institution(s).

New Technologies (on farm)

8 Brownrigg will identify New Zealand farm technologies that could be appropriate to install in the New Zealand demonstration areas on Um Alerrad farm. It is expected that a wide range of New Zealand technology will be deployed, such as:

- Feed mixing equipment
- Feed ration wagons
- Electronic weighing scales
- Auto drafting setups
- Walk over weighing setups
- Software programs (genetics SIL, pedigree matchmaker, monitoring & reporting productivity, nutrition requirements, traceability & compliance)

- Electronic Identification (EID) & visual management tags
- Animal health & veterinary equipment
- Reproduction equipment
- Feedlot yard & roof design construction
- Electronic CCTV livestock monitoring

Abattoir and Feedlot Design

9 A key part of the New Zealand demonstration farm is likely to be the construction of a New Zealand designed abattoir and feedlot. The Al Khalaf Group is expected to provide land, obtain all approvals and permits required, and meet building construction costs.

10 There are a wide number of New Zealand companies who could provide technology and services into the abattoir in the area of specialised slaughter and processing plant and equipment (product conveying, robotic processing, refrigeration P&E, hygiene ware, robotic primal cutting, production control, weighing grading and recording, product yield control systems etc.)

11 It should be noted that the potential for a private abattoir is a significant development in Saudi Arabia, where all slaughterhouses (2,000) are owned by the government. In this case, the Saudi Government appears prepared to allow Al Khalaf Group to build an abattoir that would then be gifted to the Saudi Government and leased back to the group. Given this, there is potential for New Zealand (particularly the New Zealand design companies involved in this project) to have first mover advantage if Saudi Arabia was to loosen current laws.

Air Shipment

12 As agreed through the partnership, a significant number of New Zealand breeding ewes would be exported to Saudi Arabia as part of the relocation plan for the Al Khalaf business.

13 The partnership had been working on a sea shipment date of 2014, utilizing a new state-of-the-art vessel Al Khalaf group has commissioned (due for sea trials February 2014). Due to timing issues associated with approval against current technical standards, it is unlikely an export certificate would be granted for a shipment in 2014 that was also economically feasible for Al Khalaf due to mating seasonality of the breeding ewes. Mindful of the pressure to have sheep in Saudi Arabia in 2014, Al Khalaf has indicated a desire to have sheep on the ground this year.

14 A revised approach will now see a one off airfreight shipment of a small research flock of up to 1,000 animals. It is intended this will:

- Provide demonstration to the Saudis of the sincerity of the New Zealand government's efforts to resolve the issue.

59(2)(3)

- Allow the partnership to scientifically research the performance and welfare of different cross-breeds in advance of a larger, and economically viable, shipment of breeding stock in 2015. The Ministry for Primary Industries has indicated a strong preference for this approach as opposed to an initial shipment by sea.

15 Since 2005, sheep for breeding have been exported on multiple occasions to Asia, Australia, UK, Europe, Pacific Islands, Central and South America, USA. These have primarily been small shipments by airfreight (breeding rams), of which there has been zero mortality on all flights. Only one large sea shipment has taken place since 2005, where 34,824 breeding ewes were shipped to Mexico in 2007. Dairy cattle are frequently exported from New Zealand by sea freight.

16 The cost of an airfreight shipment (aircraft charter, fuel, fit-out, veterinary, animal and related costs) is estimated at up to NZ\$1.5m. Associated costs in Saudi Arabia would be met by Al Khalaf.

Food Security in the Gulf

Key points

- Food security is a policy priority for the Gulf States. Given New Zealand's world-class agricultural expertise, we are a natural food security partner for the region.
- New Zealand is well placed to work with the Gulf States in three main areas:

- Co-investment (including in third countries) – the Al Khalaf partnership represents a potential model for NZ – GCC co-investment in large-scale agricultural projects. There could also be opportunities in third countries, particularly in Africa

56(a)

Background

Food security has become a pressing domestic and foreign policy priority for all the Gulf States who, due to the region's dependence on desalinated water and a shortage of arable land, have become largely dependent on imports to achieve food security. In the GCC, food imports typically account for about 80-90 percent of domestic food consumption, and by 2020, food imports are projected to grow to US\$53.1 billion.

56(a)

s 6(a)

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4 As an agricultural economy, with world-class food production systems New Zealand is well placed to provide the expertise the Gulf States are seeking for their food security projects. New Zealand enjoys a deserved reputation in the Gulf for being Muslim friendly, including its halal infrastructure (nearly 100% of New Zealand's meat is halal). New Zealand is also recognised in the Gulf as clean and green and having considerable expertise in agribusiness.

5 New Zealand has recently taken steps to build potential food security partnerships with the Gulf States, especially through the Special Envoy for Government-Commercial Partnerships who has been tasked with building food security partnerships in the Gulf. Aside from the Al Khalaf Partnership (refer NZ-Saudi Agribusiness brief), food security-related work is under way with Environment Abu Dhabi in the UAE, and interest in working with New Zealand has been expressed by Qatar (fisheries), Oman (aquaculture, red meat, and food safety), and Kuwait (sheep breeding cooperation and embryo transfer).

Out of Scope

Pages 60 to 70 are out of scope



Kingdom of Saudi Arabia

- **Population:** 28.2m (UN 2010 estimate)
- **GDP:** USD \$921.7 billion
- **Total bilateral goods trade:** NZD 1.44 billion (2013)
- **New Zealand goods exports:** NZD 545 million (2013). Milk powder (34%), butter and dairy spreads (15%), sheep meat (15%)
- **New Zealand goods imports:** NZD 889 billion (2013). Crude petroleum (76%), nitrogen fertilisers (19%), polymers of ethylene (3%)

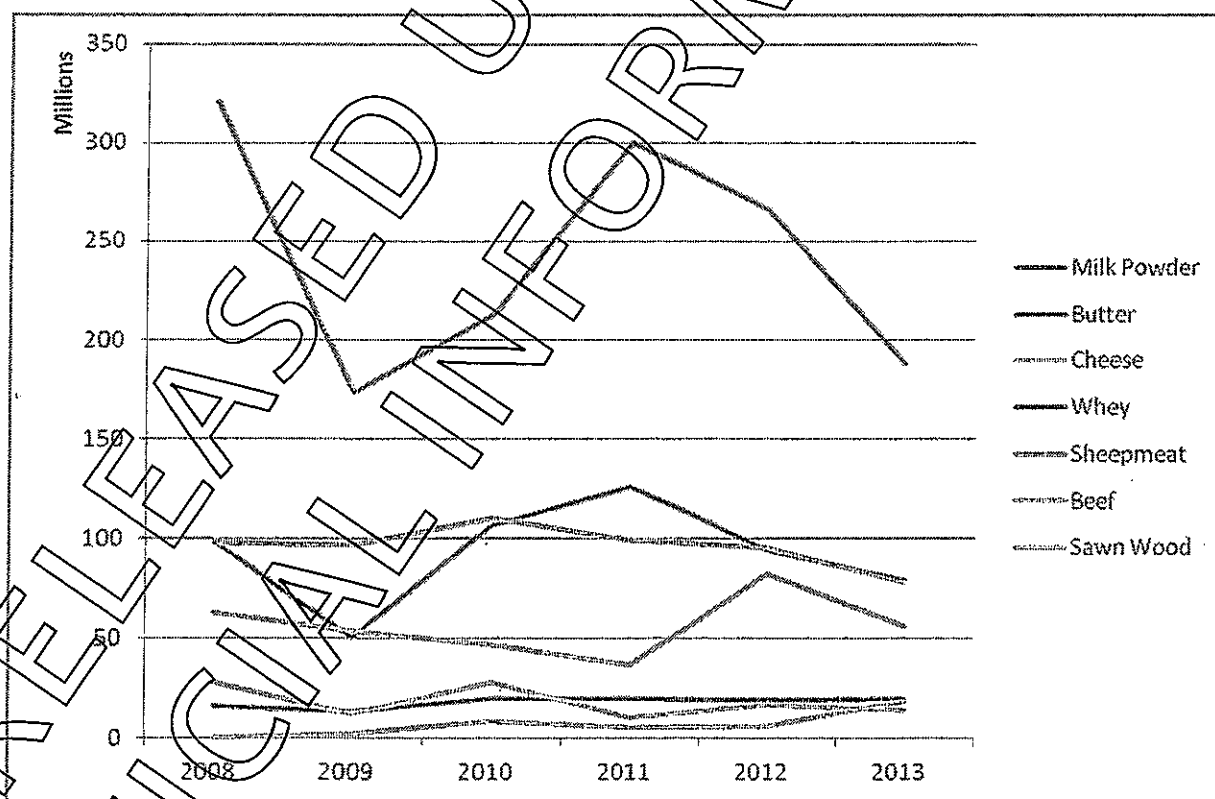


Figure One. Top New Zealand exports to Saudi Arabia (NZ\$)

Bilateral Relationship with Saudi Arabia

sb(a)

Out of Scope

3 The agribusiness partnership with the Al Khalaf Group has the potential to develop into a broader food security partnership with Saudi Arabia and could present new and lucrative opportunities for New Zealand companies. In Saudi Arabia, and across the Gulf more broadly, food security is an important preoccupation due to the virtual absence of arable land. This makes New Zealand a natural partner. The current value of New Zealand agricultural exports to Saudi Arabia and the wider Gulf countries could be increased by securing the entry into force of the FTA and exporting higher value products and services.

Out of Scope

Out of Scope

s9(2)(j)

s6(b) + s9(2)(j)

8 Your meeting with Minister Balghunaim presents an opportunity to sign the Arrangement and to reinforce our commitment to the export of livestock for breeding purposes and the wider food security partnership. Once the Arrangement is signed resumption of trade will principally become a commercial decision beyond the scope of the NZ Government.

s9(2)(j)

Page 74 is withheld under
s9(2)(j)

Saudi Arabia and the Haj

13 The Haj is an Islamic pilgrimage to the city of Mecca that every Muslim, if they are able to, is required to undertake at least once in their lifetime. In 2012 the Saudi Arabia Ministry of Foreign Affairs estimated that 3.2 million pilgrims undertook the Haj. The Haj takes place during the festival of Eid, where Muslims traditionally slaughter animals and distribute the meat to the needy. Today, pilgrims buy a voucher in Mecca for sheep to be slaughtered in their name. This usually involves around 20 million sheep.

Pages 76 to 87 are out of
scope

Saudi-NZ Agri Hub
Governance Group Meeting Minutes
26th February, 2014

Withheld under sections
under s9(2)(b)(iv) + s9(2)(ba)

SAUDI-NZ AGRI HUB

Governance Group Meeting

1.15 pm, Wednesday 26th February, 2014

Brownrigg Agriculture Boardroom

Hastings

Agenda

Governance Group Members :

Mike Taylor - Chairman
David Brownrigg
Alex Matheson
Haylon Smith

Attending:

John Austin-Smith – Minutes
Paul Muir
Malcolm Macfarlane
Peter Bailey

1. Apologies
Confirmation of Minutes of 28 January 2014 Meeting
Matters Arising
2. Informal Report on visit to Saudi w/c 17th February – David Brownrigg
3. Progress Reports (Verbal):
 - Airfreight – Contract Variation
 - Airfreight – Research Update
 - Sheep Breeding
 - Forages
 - Feedlots
 - New Technologies
 - Abattoir
4. Other Business - Future Meetings

RESTRICTED



Cabinet External Relations and Defence Committee

ERD Min (13) 2/1

Copy No: 24

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Saudi Arabia: Food Security Partnership: Update

Portfolio: Foreign Affairs

On 19 February 2014, the Cabinet External Relations and Defence Committee:

1 noted that:

1.1 the Minister of Foreign Affairs visited Riyadh in January 2014¹

s9(2)(j)

1.2

s9(2)(j)

2 noted that, as a next step in advancing the food security partnership, the Minister for Primary Industries will sign an Arrangement with Saudi Arabia on the export of livestock for breeding purposes on 4 March 2014 during his proposed visit to the Gulf;

3 noted the progress made in implementing the Saudi Arabia food security partnership as a hub for New Zealand agribusiness in Saudi Arabia and the Gulf Cooperation Council region since last year's report to Cabinet [CAB Min (13) 4/7];

4 noted the significant potential for New Zealand agribusiness exports to the Gulf region, arising from the development of the agrihub concept and the partnership with Saudi Arabia;

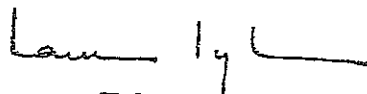
5 noted that this progress has helped restore what had become a difficult relationship.

s9(2)(j)

6 noted that discussions have commenced on the airfreight of a pilot flock of up to 1,000 ewes to Saudi Arabia to support the development of the agribusiness hub.

s9(2)(j)

- 7 noted that the cost of this proposal would be up to NZ\$1.5 million, with funds identified from within existing Ministry of Foreign Affairs and Trade baselines for this purpose, and that the Minister of Foreign Affairs has made a proposal to the Minister of Finance for these funds to be held, and then transferred to Vote Economic Development at a later date.


Laurence Tyler
Committee Secretary

Reference: ERD (14) 9

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Office of the Minister of Foreign Affairs

Chair,

Cabinet External Relations and Defence Committee

SAUDI ARABIA: FOOD SECURITY PARTNERSHIP: UPDATE**Proposal**

1 Ministers are asked to note the progress made in implementing the Saudi Arabia food security partnership as a hub for New Zealand agribusinesses in Saudi Arabia and the Gulf, and the intention to commit a further \$1.5 million to the airfreight of a research flock of sheep this year in place of a large scale seafreight shipment.

Background

2 My visit to the United Arab Emirates, Oman and Saudi Arabia in January provided me with an excellent update.

and enabled me to assess progress in dealing with the sensitive issues relating to Saudi Arabia. It is appropriate that I should report on these matters to Cabinet, and also outline the steps that are now proposed.

¹ The Gulf Cooperation Council includes Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Oman and Bahrain. Combined the GCC is New Zealand's fifth largest trading partner, with NZ\$4.7 billion in bilateral trade in 2013 (5% of New Zealand's total trade).

56(a) + 59(2)(j)

Next Steps

7 We noted that the final step now required was the signing of an arrangement setting the conditions for the export of livestock from New Zealand to Saudi Arabia for breeding purposes. While the export of livestock for slaughter remains effectively prohibited, New Zealand routinely exports livestock to China, Vietnam, Malaysia, the Philippines, Australia and the UK.

I have recommended that Minister Guy visit Saudi Arabia next month to sign this agreement.

8 Minister Balghunaim and I agreed that from that point (the signing of the arrangement) governments would have completed their formalities and it would be for commercial players to proceed.

9 It has always been clear that a significant milestone in Saudi thinking is the arrival of the first sheep for breeding. While earlier discussions had focused on a ship containing pregnant ewes, attention has now turned to a more careful process involving an aircraft shipment of up to 1,000 pregnant ewes.

Saudi Agribusiness Hub

³ The Animal Welfare Act requires that the exporter apply for and receive an Animal Welfare Export Certificate (AWEC). The Act defines the matters that the Director General of MPI considers when issuing certificates, and MPI has developed standards and guidelines to expand on and operationalise these matters. MPI's process is that exporters indicate an intention to export, providing planning details for the consignment (number and class of stock, means of transport, stockpersons etc). When satisfied that appropriate plans are in place, a provisional AWEC is issued. The actual AWEC is issued on the day of export by the MPI Port Veterinarian after verification that all the plans have been appropriately followed during preparation, the stock are in good condition, and on-board arrangements (feed, water, pens, maritime safety certification for the vessel etc) are similarly in place.

10 Meanwhile good progress has been made with the partnership approved by Cabinet last year. Brownrigg Agriculture won a public tender for contract implementation. Design of the agrihub in Saudi Arabia (animal feed and water use, breeding and fattening units, a processing unit) is under way, together with the selection of the New Zealand technologies to be utilised and showcased in the breeding farm. There is strong interest from New Zealand firms. A detailed design is scheduled to be delivered by March 2013. The NZTE Board has agreed to take over implementation of the contract, with the balance of funds to be transferred from MFAI for this purpose.

11 New Zealand officials have made several visits to the farm in Saudi Arabia where many of the proposed activities will be based. It was apparent that the Al Khalaf Group is investing substantially in anticipation of the partnership activities: tens of millions of dollars' worth of new initiatives in support of the partnership are either under development or construction. While this investment will be a platform for Al Khalaf expanding its own business, it sees the New Zealand component and partnership – particularly focusing on research, genetics, design and new technologies – as being a core part of this expansion into Saudi supply-chains. In addition to investing in a new vessel, s 9(2)(b)(i) for the transportation of breeding stock, the Al Khalaf Group's contribution is summarised in the table below. Actual contributions and level of Al Khalaf capital investment will be detailed in the proposed implementation plan due at the end of March, along with the range of New Zealand technologies that will be involved in the partnership:

Al Khalaf Contribution to Agrihub	Description
Land and Irrigation	Al Khalaf has purchased several hundred hectares of additional land with irrigation potential to accommodate the agrihub and farming operation. The group is looking to put 10-12 pivot irrigators (1-1.5k diameter) to grow feed for the agrihub operation.
Agrihub showcase	Providing staff and facilities dedicated to the agrihub showcase and operation, and infrastructure including roading.
Feedmill	Building the largest feedmill in Saudi Arabia within the agrihub.
Feedlot and breeding units, and cattle yards	2 x 20,000 Breeding Ewe farms
Sheep and cattle finishing pens	Pens to accommodate 15,000 Sheep and 2,000 Cattle
Feed, equipment and manure storage, and cattle yards	Supporting infrastructure for the operation of the farm and showcase.
Abattoir	We understand that Al Khalaf Group is in the process of obtaining the only private licence in Saudi Arabia to operate an abattoir. The agrihub design intends for this to be built using NZ technology – with a range of firms likely to contribute to this development. The Saudi authorities are thought to be watching this development closely with a view to the future redevelopment of hundreds of public abattoirs through the country.
Purchase of New Zealand animals in 2015, and associated costs	The sheep that will be used in the breeding programme from 2015 onwards will be high-value cross breeds with the local Awassi breed, from New Zealand farmers.

12 The livestock Arrangement, together with the Al Khalaf partnership, provide a sound basis for broader food security partnership activity in Saudi Arabia and the Gulf region and present an excellent opportunity for New Zealand firms to benefit from the increasing demand for food security in the Gulf. Saudi Arabia and its neighbours spend substantial sums on subsidies in attempts to secure supplies of food. There are opportunities for New Zealand agritech firms in Saudi Arabia and in third countries (largely African) where land has been purchased for farming. There is also a growing appreciation for high quality food sourced directly from New Zealand. The partnership aims to help move consumer preference from buying live animals for slaughter to higher quality processed cuts, including chilled product from New Zealand.

_____ Agrihub: maintaining momentum

S9(2)(a) + S6(a)

14 These efforts have been complemented by the development of an innovative solution to the bilateral dispute with Saudi Arabia over livestock exports. The creation of an agribusiness hub in partnership with Al Khalaf Group has resulted in a dramatically different outlook towards New Zealand from Riyadh. The evidence of this can be found in the reinvigoration of the Joint Economic Commission with the Saudis, which will take place in April and hosted by New Zealand, and the warmth with which I was received in Saudi Arabia during my visit in January. The agrihub is gaining attention elsewhere: during my visit to Muscat last month, S9(2)(a), S9(2)(ba) + S6(a) expressed interest in the partnership with Saudi Arabia and made a point of offering Oman's assistance as a logistics hub for New Zealand's involvement.

15 As a way of taking forward the relationship with Saudi Arabia, and to best capitalise on its currently positive trajectory, a one-off airfreight shipment of a small pilot flock of up to 1000 animals is under discussion. S6(a) and S9(2)(j)

and would strengthen the partnership with Al Khalaf Group, providing invaluable data for both commercial and animal welfare purposes that could be used to assess the viability of any subsequent transport of larger numbers of animals by sea.

16 Airfreight of livestock from New Zealand is not unusual. At this stage plans are focused on five different types of cross breed in the shipment, matched by similar

numbers as a control sample in New Zealand. This research programme would be conducted over the coming months. This would:

- provide earlier 2014 demonstration to the Saudis of the sincerity of our efforts to solve this problem. s(6)(a) s(9)(2)(j)
- allow the partnership to research scientifically the performance and welfare of different cross-breeds, in advance of a larger, and economically viable, shipment of breeding stock.

17 The Al Khalaf Group has indicated a willingness to experiment with an airfreight shipment but has said it is not economically viable for them to do this alone. Financial support from New Zealand would be required. An airfreight consignment is technically straightforward and there is recent experience airfreighting cattle and horses from New Zealand.⁴ Due to the small numbers as well as short and temperature-controlled transit, the International Air Transport Association (IATA) regulations used by New Zealand around air transport of live animals are easier to meet than those for sea voyages to achieve the same animal welfare outcome. The cost of an airfreight shipment (livestock, aircraft charter, fuel, fit-out, veterinary and related costs) is estimated at up to NZ\$1.5m. Associated costs in Saudi Arabia would be met by Al Khalaf. Purchasing the pilot flock would need to take place by the end of February so that the ewes could be mated prior to shipment. A detailed timeline is contained in the annex to this paper (Annex 1).

18 Previous Cabinet consideration of this issue [CAB Min (13) 4/7] has focused on shipment by sea as the most likely method of transporting livestock for breeding to Saudi Arabia. For a variety of reasons Ministers have insisted that this course be explored with great sensitivity. It is clear that there are also a range of practical impediments to the prospect of any transport of breeding stock to Saudi Arabia by sea during 2014, and this is judged highly unlikely to proceed.

19 In light of the above, discussions have commenced on the basis that the New Zealand Government would contribute to the trial shipment. In my view there is undoubted value in the pilot programme that is proposed, particularly as it would enable us to meet the sheep arrival milestone earlier and take the place of a large scale sea shipment this year. We should also welcome the very careful and prudent manner in which the Saudi interests propose to proceed. For that reason I have asked officials to advance these discussions with a view to seeking in due course the concurrence of the Minister of Finance to a transfer from the current year's MFAT underspend. If Ministers agree, NZTE is willing to manage implementation.

⁴ In each of the last three years (2011-2013) between 30-40,000 cattle have been exported annually to China. Most shipments are by sea, comprising around 2500-3500 head per shipment, although Brownrigg has undertaken air-freight of cattle to China in this period. Exports of sheep have numbered between 170-420 annually in the same three year period, all by air-freight. All these exports are of animals for breeding. Exports of horses by air is much more common, with between 2800-3308 annually over the same three year period. Air freight of livestock is covered by standards under the International Air Transport Association (IATA). See Annex 2.

Consultation

20 New Zealand Trade and Enterprise, and the Ministry of Primary Industries have been consulted. They concur with the contents of this paper.

Financial implications

21 The cost of this proposal would be up to NZ\$1.5m. Funds have been identified within existing baselines. A proposal has been made to the Minister of Finance that funds will be held, and then transferred to Vote: Economic Development at a later date.

Human rights implications

22 There are no inconsistencies with the Human Rights Act 1993 and New Zealand Bill of Rights Act 1990.

Legislative implications

23 None.

Regulatory impact analysis

24 Not required.

Gender implications

25 None.

Disability perspective

26 None.

Publicity

27 The Saudi food security partnership was announced in June 2013. Further publicity will be given to this partnership now that implementation is under way. This will include reference to the airfreight proposal should this be agreed.

Recommendations

28 The Minister of Foreign Affairs recommends that the Committee:

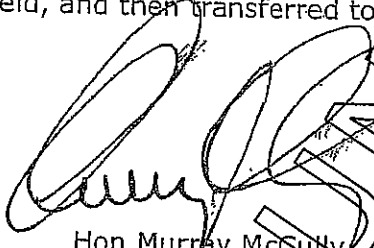
1. Note that the Minister of Foreign Affairs visited Riyadh in January 2014

56(a), 59(a)(j)

2. Note that as a next step in advancing the food security partnership the Minister for Primary Industries will sign an Arrangement with Saudi Arabia on the export of livestock for breeding purposes on 4 March during his proposed visit to the Gulf;

3. Note the progress made in implementing the Saudi Arabia food security partnership as a hub for New Zealand agribusiness in Saudi Arabia and the Gulf Cooperation Council region since last year's report to Cabinet [CAB Min (13) 4/7];

4. Note the significant potential for New Zealand agribusiness exports to the Gulf region arising from the development of the agrihub concept and the partnership with Saudi Arabia.
5. Note that this progress has helped restore what had become a difficult relationship
s6(a), s7(2)(c)
6. Note that discussions have commenced on the airfreight of a pilot flock of up to 1000 ewes to Saudi Arabia to support the development of the agribusiness hub and to advance the removal of Saudi Arabia's objection to the NZ's FTA with the GCC;
7. Note that the cost of this proposal would be up to NZ\$1.5m, with funds identified from within existing MFAT baselines for this purpose, and that the Minister of Foreign Affairs has made a proposal to the Minister of Finance for these funds to be held, and then transferred to Vote: Economic Development at a later date.


Hon Murray McCully

Minister of Foreign Affairs

Annex 1: Timeframe for export of sheep to Saudi Arabia by air.

Activities	Monthly timelines	Number of Days	Temperature in Saudi Arabia (average "high" °C)
Purchase 2,000 ewes	February 2014	120	23
Graze & hold ewes in isolation (quarantine)	March to June	120 - 0	23 - 27 - 32 - 38 - 41
Mating of ewes	June	0	41
Scanning of ewes for pregnancy, select and retain 1,000 best pregnant ewes for export	September	70	40
Pre-condition nutrition of ewes for export	September/October	70 - 115	40 - 34
Ewes depart New Zealand (flight)	October	115 (as per protocol)	34
Ewes arrive in Saudi Arabia	October	115	34
Ewes begin lambing in feedlot	November	155	27
Lambs weaned from ewes	February 2015	250	23

Annex 2: Cattle and Sheep Export for Breeding Statistics

Exports of cattle for breeding during the period 2009-2013										
Year	China	Fiji	Japan	Norfolk Island	Philippines	Sabah (Malaysia)	Thailand	USA	Vietnam	Grand Total
2009	11801			1	470	566	9			12847
2010	7059		10		980	760			7341	16150
2011	22913	340			870	826		1250	4300	30499
2012	33571				1205	250			4610	39636
2013	35242					381			950	36573
Total	110586	340	10	1	3525	2783	9	1250	17201	122858

Volume of sheep exports to world regions 2005-2013											
	Africa	Asia	Australia	Canada	Europe except UK	Middle East	Pacific Islands	Central and South America	UK	US	Total
2005		68					9	4 544	2		4 623
2006		84	843					56			983
2007			65				1	34 824	2	2	34 894
2008		45	3				33	15	5		118
2009		2					100	22			124
2010			41				243	5	22		311
2011	0	0	174	0	0	0	0	32	31	0	177
2012	0	20	350	0	0	0	0	15	36	0	421
2013	0	15	287	0	0	0	0	7	71	0	380
Total	0	234	1703	0	17	0	386	39 520	169	2	42 032

NB: The last major shipment of sheep from New Zealand was in 2007 to Mexico, with a consignment of 34,824 sheep for breeding. With the notable exception of this shipment, almost all other shipments were by air freight, which had a nil mortality rate.

S 9(2)(a)

From: RIYADH
Sent: Wednesday, 12 February 2014 12:24 a.m.
To: MEA
Cc:

Subject:

[RESTRICTED]

Not for cable exchange

Handling Instructions:

VZTE (C Kimpton (DXB), S Jones (DXB), H Smith (AKL))
MPI (M Stone)

Summary

A short but high tempo one day visit to Riyadh by Minister McCully is well received by the Saudis - with calls on the Crown Prince, Deputy Minister of Foreign Affairs, Minister of Finance and Minister of Agriculture as well as GCC Secretary General.

Out of Scope

Action

Out of Scope

Report

Minister McCully, accompanied by HOM MacMaster, S 9(2)(a) MEA Lead Adviser Curr and DHOM Lewis undertook a day of high level calls in Riyadh on 21 January 2014.

Minister called on the Saudi Crown Prince, Deputy Foreign Minister, Ministers of Agriculture and Finance and Secretary General of the GCC. Out of Scope

S 6(b)

Call on HRH Prince Salman bin Abdulaziz Al Saud, Crown Prince and First Deputy Prime Minister and Minister of Defence

Out of Scope

Call on His Royal Highness Prince Abdul Aziz bin Abdullah, Deputy Foreign Minister

Out of Scope

Out of Scope.

Food Security

17 Minister noted that Saudi Arabia and New Zealand were natural food security partners. With New Zealand's food production expertise and Saudi capital, there were opportunities for both countries to partner in Africa. World food demand was growing and there was considerable underdevelopment of agriculture in Africa. The Minister also described the New Zealand agrihub to be based in Saudi Arabia. The Minister noted that officials had visited Saudi Arabia in December 2013, and considered the agricultural project would be larger than initially envisaged.

18

s9(2)(ba).

Out of Scope

Comment

Out of Scope

ENDS

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59(2)(a)

From: RIYADH
Sent: Wednesday, 12 February 2014 12:39 a.m.
To: MEA
Cc:

59(2)(a)

Subject:

FORMAL MESSAGE: SAUDI ARABIA (2)- MINISTER MCCULLY VISIT TO RIYADH:
FTA, SHEEP PROTOCOL AND ECONOMIC ISSUES

out of scope

Summary

*Minister McCully calls on Ministers of Agriculture and Finance and Secretary General of the GCC to update on the sheep for breeding export protocol *Minister confirms Protocol will be ready for signing in Feb/March with the proposed visit of Minister Guy to Riyadh *Once signed any decision on export for breeding purposes will be a commercial decision

out of scope

Action

Out of scope.

Report

Separate reporting of today (not to all) on political/regional discussions and signing of the GCC Consultation Agreement refers. This FM pertains to FTA and trade/economic calls.

2 Minister McCully, accompanied by HOM MacMaster, 59(2)(a), MEA Lead Adviser Curr and DHOM Lewis undertook a day of high-level calls in Riyadh on 21 January 2014. This report pertains to the Minister's calls on Saudi Minister of Agriculture, HE Dr Fahd Balghunaim and the Minister of Finance HE Ibrahim Abdulaziz Al-Assif. These discussions focused on developments of the live sheep for breeding protocol and aspirations for the NZ/GCC FTA.

Call on HE Ibrahim Abdulaziz Al-Assif, Minister of Finance

s6(a) + s9(2)(j)

4 Minister McCully opened noting that the bilateral irritant over live sheep exports had all but been resolved with Saudi Arabia. A bilateral protocol for the export of livestock for breeding had been negotiated and was now being finalised. It was intended that the Minister for Primary Industries, Minister Guy would visit Saudi Arabia in either February or March to sign the Protocol.

s6(a) + s9(2)(j)

out of scope

7 The Minister highlighted that there were opportunities to work bilaterally on food security opportunities in third countries (particularly Africa).

s9(2)(ba)

Out of scope

Out of Scope

Call on HE Dr Fahd Balgunaim, Minister of Agriculture

11 The Minister's call on Balgunaim built upon the good relations developed during the Minister's previous visit to Riyadh in March 2013.

s6(a), s9(2)(ba)

12 The Minister commented that "good and fruitful progress was being made" with the Al Khalaf Group. He updated Balgunaim on the December visit of Brownrigg to the Kingdom, noting that the partnership with Al Khalaf appeared to be bigger than either side had envisaged.

s6(a), s9(2)(ba)

13 The Minister advised that in discussions with NZ based exporter George Assaf, sea trials would soon commence on a new vessel. Much depended on how these trials went. In the short term while the maritime option was being clarified, a further means being considered was for animals to be transported by air.

Out of Scope

s6(a) + s9(2)(ba).

The Minister commented that specific deadlines needed to be achieved, including the signing of the Protocol during Minister Guy's proposed visit to the region in February/March. Once this was signed it became principally a commercial matter.

Comment

Sb(a) + S9(2)(j)

With the stars aligning, the visit reaffirmed New Zealand's credibility as a food security partner and our sincerity and commitment to livestock for breeding exports to the Kingdom.

Sb(a) S9(2)(ba) S9(2)(j)

ENDS

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BOARD PAPER

DATE	4 February 2014
PREPARED BY	Tim Green, General Manager – International / Haylon Smith, Programme Leader, Global Agribusiness
APPROVED BY	Peter Chrisp – Chief Executive
SUBJECT	Al Khalaf Partnership (Saudi Arabia Agribusiness Hub)

RECOMMENDATION

It is recommended that the Board:

- Note Cabinet has approved an investment into the New Zealand – Al Khalaf partnership of \$10,000,000. This includes \$6,000,000 toward the development of an Agribusiness Hub (demonstration farm).
- Note an additional \$1,500,000 is currently before Ministers for approval, which would bring the Agribusiness Hub to a total of \$7,500,000.
- Note the Agribusiness Hub will be funded by transfer of funds of \$6,500,000 from MFAT to NZTE (i.e. \$7,500,000 less \$500,000 MEAT / Brownrigg costs for Milestone 1, and less \$500,000 NZTE contribution).
- Approve a \$500,000 NZTE contribution to the Agribusiness Hub, and an additional \$250,000 for project management and OPEX costs (which is allocated within current NZTE budget).
- Approve NZTE to deliver the Agribusiness Hub and be novated the MFAT/ Brownrigg Agreement.
- Delegate authority to the Chief Executive to approve expenses within the approved budget, and to sign the novation agreement between MFAT, NZTE and Brownrigg.
- Note this project is expected to run for two years, through to FY 2015/16. Future leverage activities for the Hub will be determined at a later date.

1 PURPOSE

Approval is sought for NZTE to manage the implementation of an Agribusiness Hub in Saudi Arabia. This paper provides an overview of the Agribusiness Hub, details of the wider project and updates the Board on progress made over the last six months.

Since the last formal update to the Board in July 2013 and detailed background provided in April 2013, there have been a number of significant developments. In particular, MFAT (with NZTE's support) has awarded the design and implementation of the Agribusiness Hub to Brownrigg Agriculture.

An additional project is being undertaken to expedite the Hub, which would see 1000 pregnant breeding ewes airfreighted to Saudi Arabia in 2014, to ensure the expectations of the Saudi Government and partners are met. This option is also favourable for the project

team, and the Ministry of Primary Industries as it will provide animal performance and welfare data before a larger sea shipment in 2015.

2 BACKGROUND

In February 2013 Cabinet approved the proposal to invest in a pilot agribusiness operation with Saudi Arabia as a means to resolve a long-running dispute with Saudi Arabia

SB(a) + S9(2)(j)

, and as a basis to form a food security partnership with the Kingdom. A total of \$10m was allocated from within MFAT baselines for designing and developing the food security platform. \$6m (including \$500k from NZTE) of this was for the Agribusiness Hub specifically. This funding has been committed to the design and development of a demonstration breeding farm showcasing New Zealand agriculture and technology in partnership with long term investor in New Zealand, the Al Khalaf Group.

Good progress is being made in the partnership with the Al Khalaf Group. Following the completion of the technical visit in April 2013, a public tender was used to select a lead provider to design and implementation of the Agribusiness Hub. Three applications were received and considered by a review panel including MFAT, NZTE, and independent consultant Chris Kelly, the former CEO of Landcorp. The panel recommended the contract be awarded to Brownrigg Agriculture, a corporate agribusiness company based in Hastings (Overview in Appendix One).

In order to progress the project expeditiously, MFAT signed the contract with Brownrigg and committed \$500,000 of the \$6,000,000 for Milestone One, a detailed design plan, with the intention of novating the remainder of the project to NZTE when and if approved by the NZTE Board (this paper refers).

The contract is being overseen by a steering group comprising New Zealand officials (MFAT and NZTE) and representatives of Brownrigg. The intent is that NZTE will be responsible for managing the contract following the initial design phase (Milestone One). NZTE has been closely engaged in contractor selection and contract negotiation.

Brownrigg Agriculture has moved quickly with implementation. They have visited Saudi Arabia and devised a project plan comprising at least five key areas:

- New Zealand Breeding Ewes (Genetics and sheep supply chain)
- Awassi Genetics and Breeding (Saudi Arabia)
- Forage and Nutrition
- New Technologies (on farm)
- Abattoir and Feedlot Design

Further detail on these areas is outlined in 3) below. A detailed design and implementation plan for each of the areas above is scheduled to be delivered by the end of March 2013.

MFAT and NZTE officials have visited the Al Khalaf farm near Damman where much of the proposed activities will be based. It was apparent that the Al Khalaf Group is investing substantially in anticipation of the partnership activities: up to NZ\$100m worth of breeding, feeding and potentially meat processing abattoir facilities are under various stages from design, development to construction.

These developments are being observed closely by the Saudi authorities. Significantly, it is expected the Government will authorise Al Khalaf to build the only private slaughterhouse in Saudi Arabia – using New Zealand design and technology. The intention is that this facility will be used as a best-practice model for technology advancement in the Saudi processing

industry, including potentially across the more than 2000 public processing facilities in the Kingdom.

2.1 Air Shipment

As agreed through the partnership, a significant number of New Zealand breeding ewes would be exported to Saudi Arabia as part of the relocation plan for the Al Khalaf business.

The partnership had been working on a sea shipment date of 2014, utilizing a new state-of-the-art vessel Al Khalaf group has commissioned (due for sea trials February 2014). Due to timing issues associated with approval against current technical standards, it is unlikely an export certificate would be granted for a shipment in 2014 that was also economically feasible for Al Khalaf due to mating seasonality of the breeding ewes. Mindful of the pressure to have sheep in Saudi Arabia in 2014, Al Khalaf has indicated a desire to have sheep on the ground this year.

A revised approach will now see a one off airfreight shipment of a small research flock of up to 1000 animals. It is intended this will:

- provide demonstration to the Saudis of the sincerity of the New Zealand government's efforts to resolve the issue. The arrival of sheep in Saudi Arabia should remove the basis for their objection to the FTA proceeding.
- allow the partnership to scientifically research the performance and welfare of different cross-breeds, in advance of a larger, and economically viable, shipment of breeding stock in 2015. The Ministry for Primary Industries has indicated a strong preference for this approach as opposed to an initial shipment by sea.

Since 2005, sheep for breeding have been exported on multiple occasions to Asia, Australia, UK, Europe, Pacific Islands, Central and South America, USA. These have primarily been small shipments by airfreight (breeding rams), of which there has been zero mortality on all flights. Only one large sea shipment has taken place since 2005, where 34,824 breeding ewes were shipped to Mexico in 2007. Dairy cattle are frequently exported from New Zealand by sea freight.

The cost of an airfreight shipment (aircraft charter, fuel, fit-out, veterinary, animal and related costs) is estimated at up to NZ\$1.5m. Associated costs in Saudi Arabia would be met by Al Khalaf.

All costs for this additional project of \$1.5 million will be funded by MFAT, which will be included in the MFAT/Brownrigg Agreement and, if approved by the Board, be novated to NZTE as part of the Agribusiness Hub.

3 ANALYSIS

3.1 Al Khalaf Dammam Farm

The Al Khalaf Group has set aside a significant parcel of land for the New Zealand – Saudi Arabia demonstration farm, which is located some 130kms from the Eastern port city of Dammam, on the main highway to Riyadh (see Appendix Two).

The current farming operation comprises

s9(2)(b)(ii)

The new demonstration farm will be set up 7km from the existing operation on 1360Ha. It already has 10 pivots in place or under construction.

s9(2)(b)(i)

The demonstration farm will also be a model for vertical integration, from cropping to hot meat supply to the local market. Al Khalaf wishes to have an onsite abattoir, which would service both lambs from the farm and neighbouring farms

§ 9(2)(b)(i) Animals from offsite would be held in a separate self-contained feedlot.

3.2 Delivery of the Agribusiness Hub

The project has been awarded to Brownrigg Agriculture to design and deliver the demonstration farm with Al Khalaf Group, the core delivery team includes On Farm Research Ltd, Lowe Corporation and two additional project managers, one of which will reside for extended periods of time in Saudi Arabia.

The project has been structured in an iterative fashion, with only the first milestone being agreed between MFAT and Brownrigg. This milestone outlines five areas that are to be planned in detail before approved. These five areas (plus the opportunity for capability development) will become independent work streams, alongside the airfreight project.

It should be noted that there is significant flexibility in the project, in that if any of the areas below are deemed to be either of no commercial interest to Al Khalaf Group, or would provide little input from New Zealand companies, then the weightings of funding will be adjusted accordingly.

3.2.1 Forages and Nutrition

Design an appropriate forages and nutrition programme. The implementation will be completed by On Farm Research, with expertise contracted in from experts such as PGG Wrightson, and others as identified in the planning phase.

It is intended this programme will evaluate the yield increases and nutritional feeding programme for the farm. This is likely to be implemented through utilizing New Zealand know-how, specifically looking at new grass cultivars (working closely with NZ seed companies), harvesting schedules to achieve maximum nutritional value, and wider technology transfer through cooperation with Saudi Agricultural institution(s).

3.2.2 New Technologies

Identification of appropriate New Zealand farm technologies that would be appropriate to install in the New Zealand demonstration areas on Um Alerrad farm.

It is expected that a wide range of New Zealand technology will be deployed, such as:

- Feed mixing equipment
- Feed ration wagons
- Electronic weighing scales
- Auto drafting setups
- Walk over weighing setups
- Software programs (genetics SIL, pedigree matchmaker, monitoring & reporting productivity, nutrition requirements, traceability & compliance)
- Electronic Identification (EID) & visual management tags
- Animal health & veterinary equipment
- Reproduction equipment

- Feedlot yard & roof design construction
- Electronic CCTV livestock monitoring

3.2.3 Abattoir and Feedlot Design and Construction

A key part of the New Zealand demonstration farm is likely to be the construction of a New Zealand designed abattoir and feedlot. The Al Khalaf Group is expected to provide land, obtain all approvals and permits required, and meet building construction costs.

There are a wide number of New Zealand companies who could provide technology and services into the abattoir in the area of specialised slaughter and processing plant and equipment (product conveying, robotic processing, refrigeration R&E, hygiene ware, robotic primal cutting, production control, weighing grading and recording, product yield control systems etc.)

3.2.4 Awassi Breeding and Genetics Programme

Design and implement a breeding programme in both Saudi Arabia and New Zealand. Until research design and planning activities are completed in March 2014, no detailed budgets or timelines can be estimated.

3.2.5 Export Breeding Ewe Supply Chain

Source and coordinate shipment of elite breeding ewes as well as approximately 45,000 breeding ewes and 4,000 cattle to Saudi Arabia to form the basis of a demonstration farm and breeding programme. An inaugural shipment expected September – November 2015.

3.2.6 Other: Capability Development

There are a number of additional areas of opportunity for New Zealand firms in this project which are likely to come to light during the initial stages (Milestone One).

Of particular interest is that of people development. With no structured development / training for the significant number of farm workers, Al Khalaf group has signalled an interest in collaborating with a local Saudi Agricultural institution(s) and a New Zealand university to supply such education and training.

3.3 Benefits

The development of the Agribusiness Hub will be a showcase of New Zealand technology for Saudi Arabia, and the wider Middle East region, key benefits are:

- a. Direct access to al Khalaf project spend for the farm project (est. \$100m), over and above partnership funding
- b. Establishment of a New Zealand showcase of New Zealand technology
- c. Reference site of New Zealand provision of agricultural solutions for other countries (future NZ Inc Initiatives)
- d. New Zealand companies showcase technologies (future sales)

The project is expected to engage a number of technology and service providers. Eight organisations

s 9(2)(b)(ii).

I expressed interest in supplying the Agribusiness Hub during the procurement for a lead provider, and since then a number more have indicated a willingness to engage. NZTE's project manager will work closely with Brownrigg to identify further suppliers to the hub, in each of the various project areas.

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OFFICIAL INFORMATION ACT

3.4 Risk assessment

The summary below outlines key risks and mitigation approaches for the project. Note the majority of these are high or extreme risk categories. These determinations have impacted the management structure NZTE has implemented to oversee the project, including a dedicated (technical expert) project manager and a seat on the Governance Group.

Financial risks of the project have been largely mitigated by the engagement of a lead provider. It is expected contingency budgets will be built into each of the future workstreams. If Ministers do not approve the additional funding of \$1,500,000 (to cover the air shipment project activity), the agreement with Brownrigg will provide that the cost for that milestone activity be met from the original Total Funding Amount Funding Amount of \$6 million. This will require cost savings (and potential associated scope decrease) in other areas of the project. The governance group would be responsible for agreeing the necessary changes to the proposed design to accommodate the shortfall.

Risk				Mitigation Approaches	
Project Management				Mitigation Approaches	
Project delays	Moderate	Likely	Moderate	MFAT and NZTE have implemented a phased structure to the contract with Brownrigg Agriculture, requiring a detailed plan for all key work streams for Milestone One, before confirming the implementation of the Project and future milestones. Furthermore NZTE has acquired a dedicated project manager, and both NZTE and MFAT have representation on the Steering Group. Going forward, the Trade Commissioner in Riyadh (budget dependent) will have strong on the ground contact.	
Project scope creep	Likely	Likely	Minor		
Technology implementation	Unlikely	Unlikely	Major		
Lack of NZ company interest	Unlikely	Unlikely	Major		
Lead Provider Risk					
Failure of lead provider to deliver &/or third party supplier risk	Unlikely	Unlikely	Major	Brownrigg has a long history with Al Khalaf Group; they also have expertise in the shipment of animals. They have identified a project coordinator to live in Saudi during key implementation phases, and have a project team willing to work closely with NZTE to ensure the most appropriate companies are showcased and engaged as part of the project.	
Expectation risk (Saudi, NZ Govt, Brownrigg)	Moderate	Moderate	Major		
Animal welfare issues (transport, feedlot, abattoir)	Unlikely	Unlikely	Major	NZTE and MFAT will facilitate the relationship between MFAT and Brownrigg with regard to all technical and protocol requirements in the project	

56(a)

Page 8 Withheld under 56(a)