

MacMASTER, Hamish (MEA)

From: s 9(2)(a) - Private Secretary to Hon Tim Groser  
Sent: Tuesday, 29 May 2012 3:55 a.m.  
To: MacMASTER, Hamish (MEA)  
Subject: Re: Saudi Arabia: Live Sheep : Al\_Khalaf\_letter\_from\_MFA\_-\_May\_2012 (2)

Thanks for that Hamish. If you are able, I wouldn't go any further until you have discussed with Mo.

s 9(2)(g)(c)

s 9(2)(a)

s 9(2)(a).

From: MacMASTER, Hamish (MEA) [mailto: s 9(2)(a) ]  
Sent: Monday, May 28, 2012 02:35 PM  
To: s 9(2)(a) - Private Secretary to Hon Tim Groser  
Subject: Saudi Arabia: Live Sheep : Al\_Khalaf\_letter\_from\_MFA\_-\_May\_2012 (2)

[SEBMAIL] [RESTRICTED]

Hi

s 9(2)(a)

To update you on where we are presently at on the live sheep issue:

- We have finalised a Letter of Appointment for Alex Matheson as Special Envoy for Government-Commercial Partnerships. Part of Alex's role will of course be to front the negotiations with Saudi investors on the joint venture idea. Work on his Contract has begun.
- Work is progressing on the Protocol for the export of live sheep for breeding. In essence this would entail MFAT / MPI working on a veterinary protocol for the export of live sheep for breeding,

s 6(a)

- As I understand it, it was agreed by Ministers that the negotiations around the breeding protocol would be overseen by Minister Groser and a meeting is in the process of being arranged between officials and the Minister upon his return from Europe in mid-June.

Given the length of time since the investors were in New Zealand, we believe it would be prudent to send a short letter of acknowledgement from Minister McCully, responding to their April acknowledgement of the Minister's Letter and advising them of developments at this end. We intend to seek Mr McCully's agreement to this letter this week in our weekly issues meeting. I would be grateful if you could let me know if there are any concerns with this course of action from your perspective.

Best regards

Hamish



MINISTRY OF  
FOREIGN AFFAIRS & TRADE  
MANATŪ AORERE



19 April 2012

SAU/MZ/1

Minister of Foreign Affairs

For consideration by 27 April 2012

► Minister for Primary Industries

For consideration by 27 April 2012

## LIVE SHEEP – UPDATE

**Submission:** Issues

**Purpose:** The purpose of this submission is to seek your approval to the proposed pathway towards resolving the Saudi live sheep issue.

**Comments:**

### Recommended referrals

Prime Minister	For information
Minister of Trade	For information
Associate Minister for Primary Industries	For information

### Contacts

Hamish MacMaster	Director	Middle East and Africa Division
Chris Carson	Director	International Policy MAF

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Minister's Office Comments

Signed / Referred

Date: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

### Key points

- Following your (MFA) discussions last month with the principal Saudi sheep investor, Hmood Al Khalaf, officials from MFAT and MAF have been working on a pathway forward for the live sheep issue.
- Officials now propose to begin a number of work streams required to give effect to our commitments made to Al Khalaf. As part of this, it is also proposed to set up a working/steering group, consisting of specialist subject and regional experts to implement the joint venture element of the work streams. The work streams are, in brief:
  - The establishment of protocols for the export to Saudi Arabia of live sheep for breeding
  - The establishment of a joint venture sheep breeding operation in Saudi Arabia
  - Finding an appropriate mechanism to meet Al Khalaf's concern for "compensation" (possibly through the joint venture)

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- It is proposed that the Joint Venture Working Group and the team negotiating animal health protocols be kept separate and at 'arm's length'. This will keep those involved in working on the government-to-government arrangements separate from those working on providing technical, commercial and farm management advice, to avoid any real or perceived conflict of interest;
- Your agreement is sought for this Joint Venture working/steering group to be overseen by a Special Representative or Special Envoy for Food Security Issues. This role could desirably be recruited in consultation with key industry stakeholders, for instance the Meat Industry Association (MIA). Potential candidates would include

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There are also ex MAF/NZFSA officials who may also be appropriate.

- Proposed next steps are:

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- despatching small delegations to the Kingdom of Saudi Arabia, as appropriate, including the possibility of a visit by MFA this year, to signal our good faith to the Saudi sheep investors - and to scope, plan and execute the agreed work streams;

- putting in place a New Zealand entity which would operate as the joint venture partner (with consideration being given to whether Mr Al Khalaf be invited to be part of this entity) and identifying and approaching an appropriate KSA partner.
- funding the above work streams from an expanded Trade Access Support Programme (TASP) given development assistance funding will not likely be available for Saudi Arabia; and seeking approval for a new funding allocation to the New Zealand side of the joint venture breeding operation (i.e. as a means of dealing with Al Khalaf's compensation request).

### Recommendations

It is recommended that you:

1. Approve the establishment of a Joint Venture working/steering committee, to be fronted by a Special Envoy, and with MAE / MFAT involvement. Yes / No
2. Agree to officials consulting with the Meat Industry Association and Beef and Lamb New Zealand to identify suitable persons for the role of Special Envoy, and to sound out potential candidates. Yes / No
3. Agree to officials approaching the Saudi government in order to discuss the proposed solution to the live sheep for slaughter issue; involving the establishment of a joint venture to export breeding stock to KSA and the conclusion of associated veterinary arrangements for breeding animals; and Yes / No
4. Agree that the cost of establishing veterinary protocols to enable the export of sheep for breeding to Saudi Arabia; and also the <sup>s 6(a)</sup> (if agreed), should to the extent possible be met from within the existing \$450,000 annual allocation to the Trade Access Support Programme. Yes / No

- |    |  |          |
|----|--|----------|
| 5. | Agree to officials proposing a Cabinet submission to cover the funding of the potential New Zealand contribution to a joint venture breeding operation in the KSA as a means of securing Mr Al Khalaf's cooperation. | Yes / No |
| 6. | Agree that officials investigate the possibility of a visit by MFA to Riyadh to reinforce to the Saudi authorities that New Zealand has begun a process of constructive bilateral engagement on this issue.          | Yes / No |

Hamish MacMaster  
for Secretary of Foreign Affairs and Trade

Chris Carson  
for Director-General MAF

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## REPORT

Since your (MFA) meeting last month with key Saudi sheep investor, Khmood Al Khalaf, you have written to Mr Al Khalaf re-iterating the key areas of discussion and follow-up action. Our Embassy in Riyadh reports that the letter was well received.

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Meanwhile, Saudi investors have continued to press on particular two aspects:

- the negotiation of an Arrangement on the trade in live sheep for slaughter, removing the contentious elements of extraterritoriality from the previous drafts;
- their strong desire to see a trial shipment (for slaughter) to prove the animal health and welfare levels of their vessels.

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Against this background, your agreement is sought to progress the various work streams in the manner suggested below:

### *i. Establishment of veterinary protocols for the export of breeding animals*

3 Officials believe that if supported by Saudi Veterinary Services, animal health protocols for the export of live sheep for breeding should be able to be agreed in a relatively short period. It is probable the focus would be on transport by air shipment given the likely small numbers involved. This work is normally cost-recovered from exporters to cover MAF's staff and other costs. In this case, however, it should be possible to secure funding from the Trade Access Support Programme to cover these costs. An exchange of letters to put in place the necessary technical framework for the breeding programme may also be required for the breeding programme work to proceed.

### *ii. Food Security Partnership and the joint venture*

4 A small technical team (the working/steering group) is being assembled to address the range of complex commercial issues around the proposed venture. This will be in part informed by the nature of Al Khalaf's existing holdings in Saudi Arabia –

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5 We envisage that the technical team would include:

- a specialist on irrigation and grass or crop production (on the assumption being that feed would be grown *in situ* as opposed to being imported);
- a specialist on animal management in hot climates, especially around housing requirements;
- and a specialist in processing and marketing in the region;
- MAF and MFAT (TND / MEA) officials as required;

and would be fronted by:

- a Special Representative or Special Envoy, should Ministers wish to appoint one.

6 Several potential candidates who may be suitable to undertake the Special Representative/Envoy role suggest themselves. This role requires a combination of knowledge of the New Zealand meat industry with a background in international relationships. Potential candidates include:

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7 The technical team [or 'working/steering group'] (Para 5) would scope a possible venture - including investment needs and commercial viability - before consulting again with Ministers and opening negotiations with Al Khalaf.

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s 6(a)

14 Given this divergence of views, officials are seeking advice as to which course of action is preferred by Ministers.

The remainder of this document is withheld under s 9(2)(a)



Hamood Al-Khalaf Trading & Transportation Group

Date: 9/4/2012

The Honourable Murray McCully, Minister of Foreign Affairs of the New Zealand Government

We received your letter and were pleased of your desire to resolve the outstanding areas between your esteemed government and me relating to my business in your country and to solving the problems that delayed the signing of a Memorandum of Understanding between the Saudi Government and your esteemed Government, as well as to the partnership in the breeding venture in Saudi Arabia.

Your Honourable: I handed a copy of your letter to HE Dr Fahd Abdulrahman Balghunaim, Minister of Agriculture, and he was pleased of its content. He asked me to convey to you his greetings and said that all doors are open to any understanding in the interest of the two brotherly countries.

We thank you and appreciate your care for the interest of both countries. We also thank your Ambassador Hamish MacMaster

Best regards

Hamood Al-Ali Al-Khalaf

(Signature and Date)

التاريخ : ١٣٦٠/٤/٩ هـ

صاحب السيادة محرمي بن عبدالعزيز آل سعود ،  
خارجية حكومية ،  
المحترم

تحية عليية وبعد

إستلمنا خطابكم وسرنا رغبة محالكم في حل المجالات الخاصة بيني وبين حكومتكم الموقرة حول  
مشرعي لديكم وكذلك حل المشاكل التي أشرت توضع إتفاقية التفاهم بين حكومة المملكة العربية  
السعودية وبين حكومتكم الموقرة وكذلك المشاكل بخصوص مشروعات الإنجاب بالسعودية .

معالي الوزير : لقد إطلع معالي وزير الزراعة الدكتور فهد عبد الرحمن بالغنيم على خطابكم وسلمته  
نسخة منه وقد سره ما ذكرته وأخبرني أن أنظر لك تحياته وكذلك يقول جميع الأبواب مفتوحة لأي  
تفاهم فيه مصلحة البلدين الشقيقين .

شاكرين ومقدرين لكم إهتمامكم في مصلحة البلدين وكذلك في وصول أسفيركم

دامش ماكماستر ، دمتم سالمين .

محرمي بن عبدالعزيز آل سعود

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**MacMASTER, Hamish (MEA)**

**From:** RIYADH  
**Sent:** Sunday, 1 April 2012 12:26 a.m.  
**To:** ...WLN MEA NZEO; ...WLN TND NZEO  
**Cc:** ...WLN DS AMAG NZEO; ...WLN PATP NZEO; FM.P/S Agriculture; FM.P/S MFA;  
FM.P/S Trade; FM.MAF (Seemail); ...RIY NZEO  
**Subject:** FORMAL MESSAGE: MEETING WITH HMOOD AL-KHALAF

[RESTRICTED]

CAVEAT:	NZEO	OUR FILE:	SAU/NZ/1/7
HANDLING INSTRUCTIONS:	MAF : Carson	YOUR FILE:	

**Summary**

1 meets with Hmood Al-Khalaf to deliver letter from Minister McCully. Al-Khalaf welcomes the letter, along with its contents. He also appreciates the opportunities to meet the Minister during his recent visit s 6(a)  
2 We took from his comments also that he feels that a pathway forward has been identified. s 6(a)

3 We suggest that the time has come to consider re-engaging with the Saudi Government over how to move the issue forward. We also suggest that this engagement could be most effective at ministerial level.

**Action**

**MEA:**

Otherwise for information. s 6(a)

**Report**

MacMaster/Kelly/Harris emails refer.

4 As instructed, we (HOM/DHOM) met on Wednesday 28 March with Mr Hmood Al-Khalaf at the Residence to pass over the letter from Minister McCully which set out the New Zealand understanding on possible next steps in addressing issues related to Al-Khalaf's New Zealand investments.

5 Al-Khalaf spoke warmly of the recent visit to New Zealand and the two meetings with Minister McCully.

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6 we handed over the MFA letter, plus the Embassy's Arabic translation (with the agreed correction: copy actually handed across is attached, with translation). s 6(a)

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under s.6(a)



Office of Hon Murray McCully

Minister of Foreign Affairs

Minister for Sport and

Mr Hmood Al Khalaf  
Group President  
Al Khalaf Group

s9(2)(a)

SAUDI ARABIA

Dear Mr Khalaf

Thank you very much for making time available for the constructive and positive meetings we had recently in Wellington and Auckland. I greatly enjoyed meeting with you and your colleagues. I now wish to take the opportunity to reiterate the key areas that we discussed and for which we agreed that there would be follow up action.

First I want to reiterate my strong sense of regret that we have had to deal with the saga of misunderstandings and disappointments that have characterised your relationship with the New Zealand Government in recent years. I hope I have made clear my own determination to ensure that your involvement in New Zealand is more straightforward in future.

In that spirit I have attempted to be very clear about the challenges associated with applying to export sheep for slaughter under the existing Customs Export Prohibition Order. I have explained the political context and the likelihood that the political situation will remain difficult.

You on the other hand have made it clear that you wish to "leave the door open" to future shipments, should the political situation change. While the Government will need to consider the CEPO when it expires, and the Parliament may consider the question when new Animal Welfare legislation is introduced in 2013, we agreed that we should chart a pathway forward on the basis that the current difficulties will continue.

We proceeded to examine two further matters; first the need to complete a memorandum of understanding in relation to the trade in live sheep - not just for Saudi Arabia but for Gulf countries generally, and second we discussed the possible shape of a partnership that might enable the successful development of a food security partnership regardless of the current difficulties.

s6(a)

piece of architecture  
assertion and commit to proceeding accordingly. I have asked officials to progress this matter.

st(a). We agreed with your

Second, you expressed strong objection to the extraterritorial aspects of the existing draft, i.e. the provisions that extend past disembarkation. After careful consideration, I agree to recommend to colleagues that we should modify the MOU by deleting provisions purporting to deal with issues past the point of disembarkation.

You have outlined the safeguards and prohibitions that operate in Saudi Arabia which would render extraterritorial provisions redundant. New Zealand recognises those Saudi safeguards. I suggest that it will be useful to exchange letters at some point recording the Saudi safeguards and New Zealand's respect for those safeguards.

The steps I have outlined above will "keep the door open" as we agreed, and put in place a MOU on terms that meet the concerns expressed by you and your Government.

Turning to the overriding question of a food security partnership, I want to acknowledge the strong sense of disappointment you expressed to me that you have been denied an opportunity to bring to fruition the food export partnership you have always intended. I am, however, heartened to hear of your commitment to growing the relationship between our two countries notwithstanding recent challenges. I share your view that our two countries are natural and logical food security partners, and would like to progress our discussions regarding practical ways of moving forward.

While there will be other initiatives we may wish to pursue in partnership, our immediate focus has been on the prospect of exporting live sheep from your New Zealand farms for breeding purposes in Saudi Arabia. This would establish a basis for a farming operation in Saudi Arabia, operating in tandem with your Hawkes Bay property. The New Zealand Government would support the venture with technical expertise and other support services.

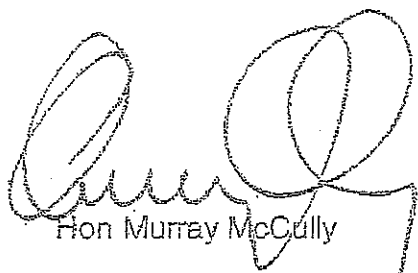
The export of sheep for breeding purposes can be accommodated relatively easily under existing regulations. New Zealand officials stand ready to assist with the zoosanitary certification and animal welfare export certification that would be required.

That leaves a range of complex commercial issues to be addressed including the size of any shipment or shipments, ways of ensuring such a shipment is commercially viable, the scale of the Saudi operation, and the technical and other support services to be provided by New Zealand.

I have asked Ambassador Hamish MacMaster to assemble a small team of relevant officials to address these issues. It is likely that I will appoint a special representative to complete the discussions. I confirm that they are ready to meet with your representatives at your convenience.

Finally, may I again thank you for our constructive discussions. I hope that over the coming weeks we can give shape to a partnership that meets your original ambitions of a strong food security partnership between our countries under the umbrella of a completed Free Trade Agreement with the Gulf Cooperation Council.

Yours sincerely



Hon Murray McCully

Minister of Foreign Affairs

Warm regards

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Report of the meeting between the Minister of Foreign Affairs

and

Hmood A Al Khalaf Group of Companies

Auckland

5 March 2012

1. Personnel present

New Zealand

Hon J McCully

H MacMaster

s 9 (2) (a)

Minister of Foreign Affairs

Director, MFA, MRAT

Senior Specialist, TND, MFAT

s 9 (2) (o)

Hmood A. Al Khalaf Group of Companies

Hmood Al-Ali Al-Khalaf

George Assaf

David Brownrigg

Group President

CEO Australasia Division

Brownrigg Agriculture

2. Report

The Minister welcomed the Al-Khalaf group to New Zealand and immediately gave them the opportunity to voice their concern relating to the ongoing export of livestock to Saudi Arabia (KSA).

2. George Assaf, the CEO of the Australasia Division of the Hmood A. Al Khalaf Group of Companies outlined this concern as being:

i) Live sheep for slaughter (LS4S)

LS4S was the preferred situation. Assaf questioned as to why the Arrangement between KSA and New Zealand covering the export of sheep for slaughter had not been completed. (Trade had stopped in 2003.) He said that it was better to have some sheep being exported, even on a trial basis under very strict conditions (e.g. age, transport).

ii) Live sheep for breeding (LS4B)

Assaf noted that anyone could export LS4B.

s 6 (a)

3. The Minister said that he understood their preferred option (LS4S) and understood that they wanted to leave that option open. He said that the Al Khalaf Group may wish New Zealand to continue to explore ways for progressing the LS4S option and that he was happy to agree to that.

*MoU*

4. Assaf stated the Saudi side wanted to continue work on and conclude the MOU (Arrangement) suspended in 2007. The suspension of talks on this document had been taken very hard in Riyadh. He went on to assure the Minister that Al Khalaf Group had put in the necessary infrastructure to support the export of live animals from quarantine stations to the most modern ship on the planet. The MOU was a necessary building block.

5. The Minister noted that the Minister of Agriculture may have a different view regarding the export of LS4S. He said that could the parties in principle agree that there be an MoU. Such an MoU could mirror the Australian situation and not include extraterritoriality. He understood the desire that issues be treated up to the point of disembarkation. Assaf agreed and said that they did not want any interference after landing, i.e. they did not want a third party looking over their shoulder. He said that every abattoir was government owned and that people were no longer allowed to kill animals domestically. For countries not to trust their system (i.e. landed sheep to slaughter) upset the KSA.

6. Brownrigg again raised the issue of the CEPO. The Minister repeated his earlier advice based on his discussions with MAF CE and Minister of Agriculture and acknowledged it was the right of the Saudi investors to submit an application for the export of live sheep for slaughter, but gave his honest assessment that it would be difficult to get approval for this. The decision would be that of MAF CE. Were the Govt to attempt to change the CEPO this would be a public process and could well spark a political debate that would see the opposition commit to return the CEPO to its original state when next in office.

7. The Minister said that the MoU needed to be in place so parliament could debate the export of LS4S when the bill was being discussed. The framework for export would need to be in place. He said that under the political climate it would be difficult to change the conditions of the CEPO, but the MoU could be addressed. He reiterated that he understood the desire to "keep the door open".

[Comment:]

59(2)(g)(i)  
56(a)

8. Hmood Al Khalaf spoke (through Assaf). Points included:

- He thanked the Minister for his time and the Minister's frankness and openness
- He said that he would back up anything that was good for New Zealand
- He had been investing a great deal in the LS4S trade for some time
- The KSA government had a high regard for New Zealand, e.g. the way in which the KSA students were treated.
- The Saudi side considered their meetings in New Zealand to have been helpful in addressing the issues. If New Zealand wanted the FTA, the 6 Gulf countries would deliver as long as New Zealand didn't interfere with the countries' territoriality.

9 Assaf commented that the six GCC countries believed that countries like New Zealand had an obligation to supply meat and this sentiment was growing stronger. At the recent GCC meeting there had been a pledge to work more closely together on this and other issues, reflected in the proposed name change from a 'Cooperation Council' to a 'United Council'.

10. The Minister said that New Zealand officials would now go away and consider in detail the questions and respond promptly.

*Joint Farming Operation / Live Sheep for Breeding (LS4B)*

11. The Minister also raised the issue of NZ supporting a joint farming operation in Saudi Arabia. This operation would work in tandem with the Saudis retaining their farming interests in the Hawkes Bay. Assaf commented this would be a big project and there was much to research before it could get off the ground including whether the animals would survive in the new climatic conditions. That said, he believed the project had great potential and, if successful, would be of major benefit to both countries. He would want to see though the issue of the MOU worked through in parallel order to that of the farming venture. The issue of compensation would therefore be less costly.

12. The Minister noted that he would not want any (financial) contributions to be treated as compensation as this would involve a plethora of lawyers and bureaucrats. Rather he would prefer an investment in a partnership to achieve the objective that could have been achieved by exporting LS4S. The goals would still be the same from the viewpoint of food security partnership but now we would try a different delivery method (LS4B). The Minister noted that both countries would be investing in a partnership that would help to expedite the FTA. He said the FTA required the input from business people to put the "meat on the bones"

*Satellite farms in developing countries?*

13. There was some discussion concerning using developing (viz. African) countries as satellite farms. The Minister said that New Zealand was keen to work in partnership with the KSA in African countries using New Zealand expertise and KSA funding to complement.

56 (a)

Assaf noted that the KSA Minister of Ag had also been visiting Uruguay, Brazil and Argentina and developing relations with those countries.

14. The Minister noted that the AANZFTA had been ratified and that as part of that New Zealand would be assisting the developing ASEAN countries through the Overseas Development programme. Assaf noted that New Zealand expertise could assist with production system in KSA. He said that Al Khalaf had been involved for 12 years with slaughter houses and had just been given permission for a breeding programme (by the KSA cabinet).

*Further actions*

15. The Minister acknowledged that the ball was in New Zealand's court with respect to:

- i) The MOU issue with respect to keeping the door open
- ii) Partnership – needed further discussion as to how to make the situation work.

16. Assaf noted that they were still in a difficult situation and they needed to know where they stood. It could be another 2-3 years before another decision was made and they needed to know for planning purposes, where to from here. A year's notice was required before any shipment.

17. The Minister said New Zealand would get back to them regarding the memorandum and timeline for the legislation (review of the Animal Welfare Act). Keeping the door open was the best approach in the short term. He suggested a step-by-step approach, i.e.

- i) Assaf wished to protect the right to export (LS4S). There would be a process as described.
- ii) New Zealand would get back to them with a firm response on the MoU – addressing the areas of concern.
- iii) On the basis that nothing may change even when the new legislation is addressed by parliament, he would want to progress the partnership with KSA to ship breeding ewes, etc.

18. The Minister went on to note the commercial issues around the partnership needed to be addressed. This would involve both MFAT (TND, MEA) and the Ministry of Agriculture. Assaf noted that much of the planning work would need to be done in New Zealand and transferred to KSA.

19. Brownrigg raised the need to be able to fill the ship (approx. 5000) to ship animals to KSA) and wondered whether dairy heifers could be shipped as well. There was also the notion of sending wethers as part of the shipment (accompanying breeding ewes) as a "trial". Commercially a buffer was needed (i.e. more animals than could be shipped) as inadvertently, some were refused export (due to physical shortcomings, possible disease problems, etc) and the boat needed to be filled. Without the trial Assaf stressed there would be too much risk for the investors, more so than they were prepared to carry. The Minister agreed this was one of the commercial issues that needed to be sorted out.

20. Al Khalaf said that the main thing was to start immediately. He was sick of telling people that "he didn't know". He needed to rebuild the trust of the farmers as well as for planning purposes. The Minister said that the NZG also needed to know. It was uniquely positioned to be involved in the GCC food security programme. He said that he would be in contact with the Al Khalaf group within the next two weeks to establish a process to move forward.

21. Al Khalaf noted that what could be good for the NZG in the Gulf would be a bit of positive publicity to the effect that the NZG was considering the options surrounding the export of live sheep to the Gulf. Assaf thanked the Minister (and officials) on behalf of the Al Khalaf group and expressed his appreciation for the very frank and honest manner that the Minister had approached the meeting. He said that: *"it was the first time that someone had listened with both their ears and heart open"*

22. The Minister thanked the Al Khalaf group for making time available and hoped for a positive outcome. He would make sure that there was a small group of officials that would be mandated to progress the issue.

Follow-up actions for MFAT (with MAF)

1. Resurrect the MoU and develop a draft based on the Australian model, i.e. guaranteeing offloading regardless of status and requiring, but NOT (NZG) auditing the systems in KSA.
2. Develop a trial that would involve a shipment (10-15k) that would test the system through to slaughter to ensure that the animal welfare aspects are covered. If satisfied that the system was in place the NZG could then in the revised MOU require assurances from the KSA that the sheep would be part of that slaughter pathway.
3. Live sheep for breeding - Joint venture (development of the LS4B project)
4. Financing the JV.

MacMASTER, Hamish (MEA)

From: MacMASTER, Hamish (MEA)  
Sent: Thursday, 1 March 2012 5:16 p.m.  
To: s 9(2)(a) Private Secretary to Hon Murray McCully  
Cc: WALKER, David (DS AMAG); KELLY, Clare (ZND); ARMSTRONG, Wade (PATP); s 9(2)  
Subject: SAUDI ARABIA: LIVE SHEEP ISSUE: CONVERSATION WITH AL KHALAF

s 9(2)(a)

I spoke to Hmood Al Khalaf, George Assaf and David Brownrigg again this afternoon about the live sheep issue. The conversation gave a further indication of Saudi thinking.

Al Khalaf began by asking that his gratitude be conveyed to the Minister for his time and attention to the issue. He wanted to include his awassi as part of any future food security arrangement and hoped the NZ Govt would assist him to eliminate the obstacles to his project. His project was the result of a 20 year vision. Preliminaries aside, he stated his preferred option was to work with the NZ Govt to export the awassi for slaughter.

**SAUDI OPTION A & PREFERRED OPTION: CONTINUE TO SEEK LIVE SHEEP FOR SLAUGHTER**

Brownrigg and Assaf then joined in to say they had studied the CEPO in depth and could not see any obstacle to lodging an application for export. I recounted the Minister's advice on this, stressing it was their right to do so, but it was difficult to see how this would take the matter forward. Al Khalaf said the starting point of any conversation would be to dig down on why the MAF CE would take a negative view on granting an exemption for the export of live sheep for slaughter. The question they would ask again would be: were the obstacles really that great to the export of live animals for slaughter that they could not be overcome?

**SAUDI OPTION B: EXPORT OF LIVE SHEEP FOR BREEDING, SMALL SCIENTIFIC TRIAL FOR SLAUGHTER AND FINANCIAL COMPENSATION**

I commented that Assaf had earlier raised the option of whether NZ would be agreeable to a shipment of live sheep to Saudi Arabia for breeding purpose. The CEPO did not apply to breeding stock and initial indications were that there were no particular impediments with the export of breeding stock directly to Saudi Arabia. Assaf responded noting that were the option of animals for slaughter be closed to them, they would focus on the Minister's point about making good on their investments.

In addition to shipping breeding stock, the Saudi investors wondered whether there would be scope for a small niche for export of around 5000-10,000 animals for 'scientific trial' and then slaughter. Assaf remarked the scientific trials would be part of a wider food security pact and entail small scientifically controlled trials ending with the animals being slaughtered.

I commented about the difficulty in seeking export approval of the animals in the trial going to slaughter and the required statement of intent. Moving on to the idea of satellite farms, I asked whether there was any possibility of these farms being located anywhere else other than in Saudi Arabia? Al Khalaf responded in earlier terms stating that the risk s 9(2)(b)(i) ruled out alternative locations. The breeding stock would have to go to farms in the Kingdom.

Given the cost of establishing farms in the Kingdom and re-orientating their operation to breeding purposes, Assaf said the investors would be seeking financial compensation for the eight years they have been unable to export. The compensation would be around \$15 a head. At three shipments a year, 60,000 sheep per shipment, this would amount to around NZ\$24 million dollars.

The Saudis would look to retain their Hawkes Bays farms to feed breeding stock to their Saudi satellite.

SAUDI, OPTION C: EXPORT OF LIVE SHEEP FOR BREEDING AND FINANCIAL COMPENSATION

If the Saudis were not allowed to undertake any scientific trial leading to slaughter and only export a shipment of animals for breeding purpose, Assaf remarked they would be seeking compensation greater than \$24 million.

Assaf said they were happy to come to Auckland to meet with the Minister at 10 o'clock Monday 5 March. He would need to cancel a number of meetings so would appreciate confirmation by Friday morning.

He saw the conversation running along the following lines:

- thanking the Minister for his involvement
- re-stating the Saudi preference for export of live animals for slaughter
- focusing on what future co-operation might look like.

Hamish MacMaster

RELEASED UNDER THE  
OFFICIAL INFORMATION ACT

Cc: KELLY, Clare (TND); s9(2)(a)  
Subject: FW: Meeting with MAF

[SEEM 'TL] [RESTRICTED]

Hi s9(2)(a)

This looks promising and a basis for moving forward. I would agree with Clare that we should try to involve MAF in the next meeting. I am going to ring Assaf / Al Khalaf this afternoon to enquire whether they would be available to meet the Minister on Monday morning in Auckland. Can you let me know any preferred time / venue?

Cheers

Hamish

From: KELLY, Clare (TND)

Sent: Wednesday, 29 February 2012 11:16 a.m.

To: MacMASTER, Hamish (MEA); WALKER, David (DS AMAG)

Cc: s9(2)(a)

Subject: Meeting with MAF

ARMSTRONG, Wade (RATP)

[RESTRICTED]

s9(2)(a) and I met with Chris Carson yesterday to talk about the proposal from Hmood Al-Khalaf that he export an Awassi flock to Saudi Arabia for breeding rather than slaughter. Chris confirmed the following:

- That he could see no particular problem with the export of breeding stock directly to KSA. Matt Stone, Director, MAF Animal and animal Products has recently confirmed that there is no problem from the voyage perspective with Ethiopia, therefore it seems unlikely that there would be concerns about length of voyage to nearby KSA;
- Such exports would require an AWEC application only. The application would be assessed on the basis of detailed information that Al-Khalaf would need to supply on conditions on ship and disembarkation to quarantine facilities. Further, the statutory declaration about end use would need to be given and the nature of the shipment would be taken into account in assessing its veracity – i.e. a very high proportion of ewes with a few rams, rather than a shipment of wethers, would support a declared end purpose of breeding;
- There would need to be an import protocol in place between in NZ and KSA to take care of zoosanitary issues. There is already one in place for livestock for slaughter (LS4S), but not breeding (LS4B). Chris does not foresee problems, but flagged that we have a few diseases that are of concern to other countries and we'd have to ensure that KSA did not share those concerns;
- Beyond this, MAF would be unlikely to see a need for any sort of arrangement supporting the trade.
- If MAFAT wished to wrap it up in some sort of agricultural cooperation agreement as a side letter to the FTA, that was our call and the funding would have to come from us. In that case, there is of course livestock and pasture management expertise that NZ Inc. can offer KSA. Also MAF could contribute to the effort by starting the necessary work asap; i.e. getting us the recently revised AWEC conditions, supplying a draft zoosanitary agreement and waiving the fees it normally charges for this work and making Matt Stone available as necessary to travel to KSA to put the MAF side of things into place.

Obviously a more detailed discussion with MAF will be necessary soon. Perhaps if the Minister meets with Al-Khalaf again before he leaves, Matt Stone or Chris Carson or both should be present, to ensure Al-Khalaf is fully across the details of what would be required from him.

Clare Kelly  
Deputy Director, Goods  
Trade Negotiations Division



SAU/NZ/1

## Note for File

## LIVE SHEEP MEETING WITH HMOOD AL KHALAF &amp; GEORGE ASSAF

16 : 00, 27 February 2012

Present: Minister McCully, David Walker (DS AMAG), Hamish MacMaster (MEA), Clare Kelly (TND),  
s9(2)(a) (PS to Minister), Hmood Al-Khalaf, George Assaf, David Brownrigg

## Minute

The Minister began by making some general observations. Looking back over the history of this issue over the past 10 years and for a variety of reasons such as NZ agencies not talking to each other and changes in the political landscape, the conclusion he would draw if he were in Saudi shoes would be the investors had been misled. Their expectation would have been that they would be able to export, but along the way the political landscape shifted. This was unsatisfactory for the NZ Govt and unsatisfactory for the investor. The Saudi Minister had expressed his strong feeling over the matter to him. The Minister rejected any suggestion that the issue had been drive by an anti-Islamic sentiment. Having promised Minister Balghunain, he would deal with the issue frankly, Mr McCully said he wanted a frank and honest discussion with the Saudi businessmen. Noting that they were in New Zealand until 7 March, the Minister said were progress to be achieved today, both sides could return to the issue before Al Khalaf's departure.

2 Mr McCully recalled that following their earlier meeting, he had met with the NZ Minister of Agriculture and MAF CE to discuss the Customs Export Prohibition Order (CEPO). The Minister noted that the MAF CE made his decision on approvals for export independently from Ministers and the bar was set very high for such approvals to be granted. The conclusion he had come to was that, while not impossible, it would be very difficult to get an exemption for the export of live sheep for slaughter. There was a very high chance that any application would be turned down. The Minister stressed however that it was the investors right to lodge an application and have it subject to judicial review. The Minister noted that were the Govt to attempt to change the CEPO this would be a public process and could well spark a political debate that would see the opposition commit to return the CEPO to its original state when next in office. Mr McCully believed this would not take the matter forward.

3 Mr McCully noted that he had been considering ways of achieving some form of greater cooperation with the GCC in the area of food security. While the amount of agricultural land was finite, the demand for food would double in the near future. NZ had to become better at using its IP in food production. This had led the Minister to discuss s6(a) the possibility of a formal food security arrangement. He had also discussed with governments

s6(a) see what export opportunities New Zealand would have with governments in geographical proximity to the Gulf. The Minister wanted to stress that NZ was keen for the Saudis to retain their farming interests in New Zealand. Against this background we wanted to explore how we could progress this matter further.

4 The Minister commented that we were now at the point of wanting to firm our plan to provide agricultural IP under food security partnerships with the GCC and attract investors from that region. Our concept was very much a commercial one. We would conclude an arrangement between governments and then leave it to commercial interests to take matters forward. The Minister then outlined his concept of possible satellite breeding farms off shore and the possibility of IDG involvement in their setup. He acknowledged the unfortunate history surrounding the Al Khalaf operation in New Zealand and stressed his desire to help put things right. Were there to be interest on the Saudi side in the concept, he would be happy to shape the proposal further into something that could meet all our objectives.

5 In response Al Khalaf thanked the NZ Govt / people for all the support he had received over the years. He invested all over the world but felt very secure when he came to New Zealand. He also expressed his gratitude as a Saudi citizen for the visa free access and the hospitality shown to the Saudi students. Why had he chosen NZ? He was driven by market forces. Many NZ farmers had supported him, but also on animal health issues he felt safer here s 9(2)(ba)

Al Khalaf went on to detail some of the history of the awassi brand: NZ had 70 million sheep when he had come to the country in 1989. He had started with the awassi in 1995 when trials had demonstrated they could be transported with minimal mortality. Now New Zealand was down to 30 million sheep and this hurt him. Al Khalaf could have kept this number up if New Zealand had wished it.

6 Al Khalaf thanked the Minister for his frankness and said he wanted to ask one question: had the ban on live exports brought any national benefit for New Zealand? The Minister acknowledged that the ban had not brought a benefit as defined by Al Khalaf, instead it had addressed a pressing political issue. Assaf observed that the Saudi side were investors not politicians: the fact that they had stayed and continued to pay for 10 years derived from their love of New Zealand. Al Khalaf had bought up the assets of other Saudi investors that had left. He asked whether it would be of benefit that the Saudis establish a lobby group in support of live animal exports, to which the Minister responded that it was the Saudis right to run a public relations campaign. Assaf acknowledged the attractiveness of the satellite farm model and commented that this in Saudi eyes was what they had developed already in New Zealand.

7 The Minister commented that the Saudi side had done nothing wrong. Someone had shifted the goal posts. Brownrigg observed that former Deputy PM Anderton had acknowledged that the Saudi investors had been done an injustice and asked whether all NZ political parties could come to a compromise over this issue. The Minister repeated his earlier observation that if this issue opened up to political debate, certain political parties would commit to returning the CEPO to its original form and no progress would have been made. He repeated though his earlier advice that it was the right of the investors to go to the Courts. Al Khalaf responded that he was a businessman. Going to court was the last option, "even if a law firm advised I had a 90% chance of winning. Under our culture when someone opens a door to you for many years, you do not take them to court at the end of your stay."

8 Al Khalaf then offered to put forward a proposal if NZ wished to hear it. He wondered whether NZ would be agreeable to a shipment of live sheep to Saudi Arabia for breeding purpose. The CEPO did not apply for breeding stock. Kelly commented the intended purpose for which the

animals were to be used was what determined the status of the animals. There was no precise definition for the length of time devoted to breeding and MAF would need to be consulted on the proposal. The Minister acknowledged that different procedures applied for breeding purposes. In terms of establishing satellite farms in Saudi Arabia he commented that there would be issues around the suitability of any IDG assistance.

9 Assaf commented the Saudi side felt victimised over this issue.

The Minister commented the proposal for breeding was something that would naturally fit into his Food Arrangement proposal. He found this argument to be compelling. Al Khalaf reiterated that the Saudi side would like to see a solution around exporting animals for breeding purposes to Saudi. They were not ruling out a wider longer term cooperation / partnership on satellite farms with NZ in third countries,

10 The Minister said he was pleased to have had this discussion early on in the Saudi visit. We would now reflect on what had been raised and come back to the investors prior to their departure. He wanted to make sure there was a process in place that would bring some certainty to their future operation. If there was interest on the part of Al Khalaf in the idea of exporting animals as breeding stock to a satellite farm in Saudi Arabia the Minister invited the investors to the possibility of further discussions later in their visit. Mr McCully said he was keen to explore this proposal in greater depth with the Saudi side when he returned to New Zealand the following week.

ENDS

MacMASTER, Hamish (MEA)

From: s9(2)(a)  
Sent: Friday, 24 February 2012 9:43 a.m.  
To: MacMASTER, Hamish (MEA)  
Subject: Saudi Visitors  
Attachments: s9(2)(b)(i)

Hamish

Out of scope

I have attached a briefing paper on food security. This paper is designed for the whole of the GCC but the discussions we hold with George and Hamoud on Sunday will be around just Saudi food security and based on King Abdullah's food security strategies (attached).

They will be meeting with Laurium Asset Management ( s9(2)(a) ), NZ Private Office ( s9(2)(a) ) and Agricultural Estates ( s9(2)(a) ).

1. Laurium Asset Management: is the main company which will oversee GCC FDI. It has been the main driver of this FTA completion as the FTA is a key part to the seeding of one of their funds.
2. NZ Private Office: This entity owns the relationships with parties and is co-ordinating the whole package of FTA commercial projects which includes items outside food security.
3. Agricultural Estates: is the company which will implement the agricultural aspect of the FTA initiatives (satellite farms, agricultural commodities, consultancy) Ag Estates is the architect of the satellite farms and has developed an Agricultural Partnership proposal joining a number of NZ farming organisations (including Ayasssi farms) together to develop product for Saudi – food security
4. NZ Commodities Exchange: will develop the agricultural commodities trading, fertiliser, oil and gas trading. These form a key part of the food for oil agreement (food security / energy security)

Despite the above, Sunday is designed as an informal group of meetings held outside boardrooms. I expect that George and Hamoud will take up our offers unless things go not so well in Wgtn. I would anticipate that after the Wgtn meeting there could be a spike in the amount of discussions and activity required to ensure we get full acceptance and the message is sent back to Saudi that things have been patched up.

The above companies are ready to work closely with MFAT to ensure that we get an agreement to ratify this FTA.

Please call if you have any questions.

Regards

Graeme Leversha  
Laurium Asset Management



PO Box 99 845  
Newmarket, Auckland  
New Zealand  
[www.Lauriumasset.com](http://www.Lauriumasset.com)

s9(2)(a)

*"A regional leader in the alternative asset class by delivering risk-controlled solutions and best-practice performance, service and support to institutional clients".*

The remainder of this document is  
withheld under s9(2)(b)(i)

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→ MEA

MINISTRY OF

FOREIGN AFFAIRS &amp; TRADE

195 Lambton Quay  
Private Bag 18 901  
Wellington 5045  
New Zealand64 4 439 8000  
64 4 472 9596

24 February 2012

SMB/RZ/1

Minister of Foreign Affairs

for action by 27 February 2012

## LIVE SHEEP: MEETING WITH HMOOD AL KHALAF &amp; GEORGE ASSAF

Submission: Briefing for call

Purpose: You are meeting with Saudi sheep farm investor Mr Hmood Al Ali Al Khalaf and his local representative Mr George Assaf at 4.00pm on Monday, 27 February 2012 in Wellington.

Comments: To discuss proposal to resolve the live sheep issue.

## Recommended Referrals

► Minister of Trade

for information by 27 February 2012

## Contacts

Hamish MacMaster Director, Middle East and Africa Division

s 9(2)(a)

Paul Foster-Bell Deputy Director, Middle East and Africa Division

s 9(2)(a)

## Minister's Office Comments

H. Khalaf is considering proposals as a way forward. MEAT/MAF also looking at what is possible around shipment of breeding stock to Saudi Arabia.

Signed/Referred

Date 28/2/12

## Outcomes sought

You are scheduled to meet with Saudi sheep farm investor Mr Hamood Al Ali Al Khalaf and his Australasian representative, Mr George Assaf, at 4.00pm on Monday, 27 February 2012. Both Al Khalaf and Assaf are flying to New Zealand to visit Al Khalaf's farms, following a stop-off in Singapore en route to inspect their recently commissioned animal transport ship.

2 This meeting offers an excellent opportunity to assess, first hand, the attitudes of Saudi Arabian investors in *awassi* sheep farms to possible solutions to the live sheep for slaughter export issue

Awareness of these attitudes will help inform our approach for addressing the issue in Saudi Arabia and with the other GCC states. s9(2)(j)

3 You have indicated that the proposal to be put to Al Khalaf should be framed in terms of a possible NZ-GCC Food Security Arrangement. You have already discussed food security issues, both in your recent visit to the Gulf - with Qatari and Kuwaiti ministers - in January, and, more generally, in your call on the GCC Secretary-General in Riyadh in April last year. Feedback to date from the Qatari and Kuwaiti governments and the GCC Secretariat has been quite clear - a food security partnership is something which regional players would have an interest in progressing. s6(a)

4 Such an arrangement would aim to put in place the necessary governmental support (including, potentially, through use of official development assistance) - as well as the technical framework - to make possible the establishment of a third country breeding colony for Al Khalaf's stock.

5 If accepting of the proposal, one element that it would be useful to determine in your conversation with Al Khalaf is if the proposal would be best presented to GCC/Saudi authorities and investors by HGM Riyadh, rather than private sector actors such as Al Khalaf.

6 Mr Al Khalaf may, of course, reject this proposal outright. He might insist that his interest remains solely in securing the ability to ship live *awassi* sheep directly to Saudi Arabia and the Gulf for slaughter. Should this prove to be the case, we would suggest that you consider enquiring in general terms as to whether Mr Khalaf will be seeking compensation for his inability to capitalise on the investment.

RESTRICTED

LIVE SHEEP:

Page 3 of 5

Members Present

- Hamish MacMaster, Director, Middle East and Africa, MFAT
- Paul Foster-Bell, Deputy Director, Middle East and Africa Division, MFAT
- Clare Kelly, Deputy Director, Trade Negotiations Division, MFAT
- Richard Ivess, Senior Specialist (Sanitary), Trade Negotiations Division, MFAT

Attachments

- Discussion points
- Food Security Arrangement proposal document

Hamish MacMaster  
for Secretary of Foreign Affairs and Trade

RESTRICTED



## Issues for discussion

- You may have heard from Mr Assaf that we are looking to identify an alternative to exporting live sheep for slaughter from New Zealand, given the opposition of the public of New Zealand to live shipment.
- We acknowledge that our relations with GCC countries are affected by the ban on live sheep exports, but I believe security of supply can be achieved in other ways.
- I recognise that this is not what you want to hear. But I know you have made a longstanding contribution to bilateral relations between our two countries.
- One option we are considering would involve assisting you to send breeding stock from your properties to Ethiopia, which already exports around 500,000 sheep and goats annually - mainly to the Middle East and especially Saudi Arabia.
- The important question is whether you would wish to be involved in sending part of your flock for breeding initially, and thereafter selling germplasm? I would be interested in your views as to whether this would be commercially viable.
- We see a long term supply arrangement from a neighbouring country as the only way in which New Zealand can be involved in live sheep exports to the Gulf.

s6(a)

- The NZ Government would leave all transport arrangements for initial shipment to the shipper/exporters, from whom it would buy a small initial breeding flock. For animal welfare reasons my officials would need to visit Djibouti to examine disembarkation arrangements, and onward transport.

s9(2)(g)(i)

The remainder of this document is withheld  
under s9(2)(g)(i)

Note for file:  
Meeting with Minister – Live Sheep / Al Khalaf Visit

16:30, 14 February 2012

Present: Minister McCully, Hamish MacMaster (MEA) <sup>59(1)(a)</sup> (MEA)  
Clare Kelly (TND), Richard Ivess (TND), <sup>59(1)(a)</sup> (PS to Minister)

Minute

MacMaster began by advising the Minister that the principal Saudi investor Hmood Al Khalaf together with the CEO of the Al Khalaf (Australia/NZ) group of companies, George Assaf will be coming to Auckland via Singapore (where he would inspect the transport ship which he would use for any shipments of sheep) on Sunday 26 February and expressed an interest in meeting with the Minister. HM advised that Al Khalaf would likely also meet Graeme Leversha and Michelle Boag in Auckland before driving down to the Hawkes Bay on 27 February to see his farms. The trip had now been extended until 7 March (with same planned arrival date), so indications were there would be plenty of time to put forward the proposal on live sheep exports / food security arrangement, then follow up on this once Al Khalaf had considered the proposal.

2 The Minister responded that he had read the paper on the approach proposed for the Al Khalaf visit, and emphasised that care would need to be taken in some regards. In particular, the Minister noted anything the government does – regardless of the connections or knowledge of those in the private sector who may be seeking to bid in this process – would need to be transparent and contestable – and any private benefit should be incidental. 'No-one should get the inside running' he added.

3 The Minister queried the focus of the paper on a GCC-NZ food security agreement, and asked whether we would be better to negotiate with individual countries. Clare Kelly suggested that the proposed approach, of a side letter on food security to the existing NZ-GCC FTA, would fit well with the context of the original agreement. HM added that the issue of live sheep had now spread well beyond just Saudi, and included all Gulf States. The Minister agreed with this observation,

out of scope

4 The Minister then asked what assets Al Khalaf actually had in NZ. HM replied that current value was unclear but some earlier estimates of the Al Khalaf farms were valued at around NZ\$11m – but that figure excluded the lost opportunity costs of tying up that investment, etc. The Minister re-affirmed his view that the paper was 'on the right track' and that 'we want to be in a place where we can do live sheep exports (for breeding) within the region – so we'll commit some funding to make it possible: because we want to keep your investment in NZ'. This approach should test whether Al Khalaf does want to stay or 'pack up his bags' – and that he saw the NZ link/brand being important in Al Khalaf's planning. HM concurred and commented that Al Khalaf seemed well disposed towards NZ and officials were hopeful he'd be prepared to consider our proposal.

5 The Minister said we should proceed on the basis that he would want to talk with Al Khalaf – in Wellington. If we invest cash into this, due process would need to be followed – e.g. Cabinet sign off. We may also be able to exert some effort to get others (companies / countries) into this trade once it starts. The Minister said he would make time available for a meeting with Mr Al Khalaf, and recommended that he see Minister Groser and possibly the PM (if a solution has been identified) too. MAF were concerned that we were creating a 'back door' for live sheep exports for slaughter – we have to be clear this is not the case. Any Al Khalaf work would be part of 'a wider context'.

6 HM observed that current trade through Djibouti to the Gulf region was huge and it was not unlikely Al Khalaf would already have linkages between Ethiopia and Saudi Arabia.

Out of scope

7

sb(a)

8 The meeting ended with the Minister tasking MEA/TND to take the ideas in the paper forwarded and arrange meetings with Al Khalaf and Assaf.

ENDS



MINISTRY OF  
FOREIGN AFFAIRS & TRADE  
MANATŪ AORERE

13 February 2012

► Minister of Foreign Affairs

for action by 18 February 2012

### Live Sheep Issue – Visit of Al Khalaf

Submission Issues

Purpose To brief you on upcoming visit of Hmood Al Ali Al Khalaf from 20–22 February and seek your agreement on arrangements for meetings.

Comments -

### Recommended referrals

Minister of Trade

for information by 18 February 2012

Minister of Agriculture

for information by 18 February 2012

Prime Minister

for information by 18 February 2012

### Contact details

NAME	ROLE	DIVISION	WORK PHONE	MOBILE PHONE
Hamish MacMaster	Director	MEA		59(2)(e)
Wade Armstrong	Principal Advisor	Trade Policy		

Minister's Office comments

Signed / Referred

Date: \_\_\_\_ / \_\_\_\_ / \_\_\_\_

## Key points

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Saudi Arabian sheep investor Hmood Al-Ali Al Khalaf is intending to visit New Zealand 20-22 February.

This seems to us to be a timely opportunity to explore issues around live sheep for slaughter exports, including proposals for establishing potential third country breeding colonies with Mr Al Khalaf.

Further advice about the costs and commercial viability of such proposals will be needed prior to any potential meeting.

## Recommendations

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It is recommended that you:

- 1 Note the visit of Mr Al Khalaf. Yes / No
- 2 Agree that a meeting be arranged for the Saudi visitor,  
s9(2)(g)(i) ; to explore solutions to the export  
of live sheep for slaughter issue, s9(2)(j)
- 3 Agree that officials will discuss with you prior to this visit proposals that could be put to Al Khalaf. Yes / No

Hamish MacMaster  
for Secretary of Foreign Affairs and Trade

## Report

We have it on good authority that the principal Saudi Arabian sheep investor Hmood Al Ali Al Khalaf, is intending to visit New Zealand 20 - 22 February. His business colleague, CEO of Al Khalaf Group of Companies (Australia), George Assaf, is also planning on visiting New Zealand at this time. Their visit to New Zealand, if confirmed, offers an excellent opportunity to explore with them - at the highest level - ways of alleviating Al Khalaf's commercial concerns over the cessation of live sheep exports for slaughter and the transferring of our livestock breeding expertise offshore.

2 It appears that Mr Graeme Leversha has been in regular contact with Mr Assaf so presumably Al Khalaf has been briefed though Assaf on the offshore livestock breeding proposal, with production units possibly situated in Africa. We do not know to what degree of detail or on what terms this proposal has been put to Al Khalaf. If it has been raised we can assume that it would lead to Mr Al Khalaf questioning as to how his interests are going to be taken into account; this may explain the timing of his visit.

3 Mr Al Khalaf has extensive experience in the livestock trade and shipping, and the proposal to export breeding stock (and subsequently genetic material) to a satellite farming operation, say in Ethiopia (a country which is already a significant supplier to Gulf consumers) is an option on which his views may be of value. The stance adopted to it by the existing investors in New Zealand, notably Mr Al Khalaf, would likely be a key element in the Saudi response to the scheme.

s 9(2)(b)(i)

4 We are unaware of whether Al Khalaf ships ply the route between Djibouti and the Gulf. The Saudi investor may be attracted to the proposal were the ongoing availability of breeding stock to the project be assured. In the longer term, the profitability of the project would likely be enhanced were genetic material gradually to replace the stock. That would assist with any animal welfare concerns, which may exist over the extended transport envisaged by the scheme.

5

s 9(2)(b)(i)

In short, Al Khalaf will want to secure a clear idea as to who will set this arrangement up, what the risks are and who will underwrite them.

6 Attached is a 2010 cable from our Embassy in Riyadh that gives a sense of Al Khalaf's longstanding friendship with New Zealand and his honourable approach to doing business with us.

s 6(a)

s 9(2)(g)(i)

MacMASTER, Hamish (MEA)

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From: MacMASTER, Hamish (MEA)  
Sent: Tuesday, 17 January 2012 4:43 p.m.  
To: ARMSTRONG, Wade (PATP)  
Cc: KELLY, Clare (TND)  
Subject: Export of Live Animals

Hi Wade / Clare,

Thanks for all your help. Attached for your consideration are some suggested talking points

Will be in touch tomorrow morning - 8.30 ? The meeting with the Minister is at 10 am

Regards

Hamish

( GCC Countries

s6(a)

- We are actively considering ways of transferring our livestock breeding expertise offshore.
- One possible avenue we are exploring is the possibility of satellite sheep farms in third countries near to end markets but with suitable transport networks and climatic and environmental conditions.
- These farms would be established with government assistance and entail the export of breeding stock to these farms.
- Such a solution would feed into a possible food security arrangement with GCC countries and would be of benefit to all GCC countries.
- We have an open mind as to where we intend to establish these farms. s6(a) is one possibility with the right geography and proximity to market and I intend to investigate this possibility on my forthcoming visit there.

s6(a)

( out of scope

s6(a)

MacMASTER, Hamish (MEA)

From: KELLY, Clare (TND)  
Sent: Tuesday, 17 January 2012 1:07 p.m.  
To: s 9(2)(a) (TND); MacMASTER, Hamish (MEA)  
Cc: s 9(2)(a) (LGL/TLU); ARMSTRONG, Wade (PATP); s 9(2)(a)  
BAILEY, Jan (TND); FYFE, Nigel (TND)  
Subject: FW: FTA Investment Chapter - GCC  
Attachments: Leversha FN.doc

[RESTRICTED]

Thanks s 9(2)(a) for the useful note. Hamish - FYI.

From: s 9(2)(a) (TND) s 9(2)(a)  
Sent: Tuesday, 17 January 2012 12:52 p.m.  
To: s 9(2)(a) ARMSTRONG, Wade (PATP); KELLY, Clare (TND) s 9(2)(a)  
s 9(2)(a); FYFE, Nigel (TND)  
Cc: s 9(2)(a)  
Subject: RE: FTA Investment Chapter - GCC

[RESTRICTED]

Hi s 9(2)(a) and others

FYI, I contacted Mr Leversha on Friday to discuss his specific queries on investment. I've dealt with him in the GCC FTA process, during his tenure with the Middle East Business Council

out of scope

Mr Leversha was far more interested in the issue of live sheep. For obvious reasons, this is not something I engaged substantively on,

attached.

s 9(2)(g)(i) See rough file not

s 9(2)(a)

The remainder of this document is  
out of scope



17 January 2012

NOTE FOR FILE

DISCUSSION WITH GRAEME LEVERSHA, LARIUM ASSET MANAGEMENT

We were contacted via email by Graeme Leversha of Larium Asset Management regarding the status of the GCC-NZ FTA and in particular the outcome on investment (see Annex for text of email). At the request of Warren Fraser Deputy Director (TLU), I contacted Mr Leversha to discuss his queries given my responsibilities for GCC investment issues. I have prepared this note to highlight the specific remarks he has made with regarding the current bilateral issue over "live sheep" between New Zealand and Saudi Arabia.

[I had several discussions with Mr Leversha during the GCC FTA negotiations in 2009, in his then capacity as Director of the New Zealand Middle East Business Council and as director of Larium Asset Management (where he was working to establish a GCC based private equity fund to invest in NZ agriculture).]

At the outset, Mr Leversha stated that he was acutely aware of the current "live sheep" issue Saudi Arabia <sup>s9(2)(j)</sup> and noted that he and former National Party President Michelle Boag had been working with Minister McCully to resolve it, and that a solution was imminent

<sup>s9(2)(j)</sup> He explained that Larium Asset Management was working towards a range of commercial agreements that he had hoped could be signed in parallel with the GCC-NZ FTA. Mr Leversha did not provide any specific details on the commercial "work around" that would unlock the process (nor did I seek it). I did query however if he had been in contact with officials on any process, and he indicated that he had some discussions with Rod Harris and Malcolm Miller but was largely bypassing officials and engaging primarily with the Minister. It also appears from his remarks that he is raising expectations in the industry and with Saudi investors that this issue is one that can and will be easily resolved.

While I did not engage substantively on this issue (reiterating my brief and seeking to deflect the discussions to any investment specific questions he may have), I noted our obvious desire in getting the deal across the line, but noted

that there were complex and sensitive domestic and political issues that would need to be worked through (seeking to dampen expectations)

out of scope

s 9(2)(a)  
TND

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