

## BRIEFING ON OPTIONS TO DISCUSS WITH CORNERSTONE INVESTORS TO INCREASE PRIMARY SECTOR INNOVATION

### Purpose

1. *This brief updates you on options for increasing primary sector innovation in line with the New Zealand Fast Forward principles you discussed with Cornerstone Investors last week.*

### Key Points

2. You met with Cornerstone Investors on Tuesday 2 December to discuss the future of New Zealand Fast Forward. You stated the Government's commitment to increased investment in primary sector innovation but made it clear that the Fast Forward Fund will not continue.
3. There was agreement that the underlying principles of New Zealand Fast Forward were sound and you asked MAF to work with Cornerstone Investors on ways that the government and the sectors could give effect to these principles.
4. Initial analysis suggests that there are three broad options: a company and board; an advisory group advising you; or a new consortium model.
5. We would like to discuss these options with you at your regular pre-Cabinet meeting with officials on Monday 8 December, before we engage further with Cornerstone Investors around options.

### Recommendations

6. We recommend that you **note** the contents of this brief

**noted**

Richard Lynch  
Director  
Innovation & Research

Hon David Carter  
Minister of Agriculture

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## BACKGROUND AND ANALYSIS

### Background

7. You met with Cornerstone Investors on Tuesday 2 December to discuss the future of New Zealand Fast Forward. You stated the Government's commitment to increased investment in primary sector innovation but made it clear that the Fast Forward Fund will not continue.
8. There was agreement that the underlying principles of New Zealand Fast Forward were sound. These principles are:
  - partnership: a long term commitment by all parties to achieve an agreed collective benefit, including building capability;
  - transformation: increasing New Zealand's long term productivity and economic growth, sustainability, product innovation and market development;
  - sustainability;
  - additionality: investments resulting in new activities in addition to those already occurring;
  - benefit to New Zealand: across industries and along the whole value chain; and
  - best practice: including minimising transaction costs and maximising the ease of partners entering into contracts together.
9. Cornerstone Investors indicated their willingness to keep their additional investments 'on the table' if there is a continued, shared commitment to these principles. They stressed the need for a long-term commitment and noted particularly that there has been a culture change within industries, prompted by the principles, so that they now think more strategically and consider longer-term capability issues.
10. You asked MAF to work with Cornerstone Investors on ways that the government and the sectors could give effect to these principles.

### Analysis

11. There are three mechanisms that could facilitate future investment in primary sector innovation, potentially through multi-year appropriations, which have particular potential to keep the private sector engaged and help ensure that investment activities are demand-driven. These are:
  - **a legal entity, such as a company with a representative board**, under which government and industry would agree a package of investments designed to address shared strategic goals. As a separate legal entity it could enter into contracts with government and industry partners that specify the actions each party will undertake;

- **a government-industry advisory council**, to recommend appropriate investments for you and/or other responsible ministers to approve. The contracting of the activities could be undertaken by MAF on your behalf; or
  - **a new type of consortium** including educational/training institutions, research, development and commercialisation and leading to profitable products and services. This would differ from the current research consortium model in that it would have a much broader mandate;
12. The fit of these options with the six principles is described in the table on the following pages.
13. Officials would like to discuss these options with you at your regular pre-Cabinet meeting on Monday 8 December, before we engage further with Cornerstone Investors around options.

	<b>Company and Board</b>	<b>Advisory group</b>	<b>New consortia</b>
<b>Partnership</b>	<p><u>Excellent</u></p> <p>Well understood and familiar to Cornerstone Investors. Ability to agree strategic priorities and enter into contracts is likely to resonate well with the private sector.</p> <p>With effective, representative composition, is likely to enable a whole of value chain approach.</p> <p>Long term commitment could be achieved by a multi-year appropriation.</p>	<p><u>Very Good</u></p> <p>Less independence than a company, and would require an agency such as MAF to undertake the contracting based on the recommendations agreed with Ministers.</p> <p>With effective, representative composition, is likely to enable a whole of value chain approach.</p> <p>Long term commitment could be achieved by a multi-year appropriation.</p> <p>Good communication required to avoid implying lack of equal footing between industry and government.</p>	<p><u>Medium to Good</u>, if the rules specify the composition of partners and the governance arrangements are more flexible than the current research consortium model.</p> <p>Current research consortia boards have a mix of research providers and industry representatives.</p> <p>Most consortia require money to be placed into a common pool and the consortia determine how the money is invested. This could take a whole of value chain approach but is likely to favour project-by-project co-funding and may limit the ability to align and coordinate investment in other ways.</p> <p>The challenge with a mega consortium would be prioritisation across a range of activities such as research, education and capability building, and commercialisation.</p> <p>Consortia with defined functions to deliver on components of the over arching strategy could sit under one of the other mechanisms (Company/Board or Advisory group).</p>

<p><b>Economic Growth and Transformation</b></p>	<p><u>Very good</u>, especially if all parties are engaged in a whole of value chain approach and there is a long term commitment. This is evident in the changes Cornerstone Investors have already noticed in how their industries are planning for their own futures.</p>	<p><u>Good/very good</u> if industry believes their priorities are being taken into account.</p>	<p><u>Medium</u>, with good governance arrangements. Inclusion of education/training through the value chain to commercialisation brings more perspectives.</p> <p>May be less flexible in its ability to try novel ways of achieving outcomes such as aligned activity and using other entities (for example, DairyNZ) as a lead provider</p>
<p><b>Sustainability</b></p>	<p><u>Good</u></p>	<p><u>Good</u>.</p>	<p><u>Good</u></p>
<p><b>Additionality</b></p>	<p><u>Good</u>. Open dialogue and partnership mechanism can lead to cross-fertilisation of ideas and synergies.</p>	<p><u>Good</u>. Open dialogue and partnership mechanism can lead to cross-fertilisation of ideas and synergies.</p>	<p><u>Medium</u>. Part of additionality is about effective new ways of working together. A potentially unwieldy consortium mechanism may not lead to significantly new outcomes.</p>
<p><b>Benefit to NZ</b></p>	<p><u>Very good</u> if education/training and/or research and scientific perspectives are included.</p> <p>This mechanism particularly encourages industry to consider interests wider than their immediate future and whole of value chain viewpoint.</p>	<p><u>Very good</u>, particularly with a specific dialogue mechanism enabling government to reflect back to industry.</p>	<p><u>Good</u>, given the range of interests involved along the value chain.</p> <p>The challenge will be to ensure that with multiple providers and multiple investors, clear priorities can be agreed.</p>
<p><b>Best practice</b></p>	<p><u>Good</u>. A company structure is well understood with clear accountabilities.</p>	<p><u>Medium to Good</u>. The coordination between the Advisory group, the implementing agency and other investors will be critical for the success of such an approach.</p>	<p><u>Medium</u>. New Zealand already has a research consortium model that would need to be significantly adapted for this purpose. Current rules around consortia do not allow them to have a commercial focus.</p>