



Agri-food trade: the power of relationships

There are signs that the rules-based international trading system the New Zealand economy relies on is under threat.



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New Zealand is unique as a developed nation – we generate over 70% of our tradeable export earnings from the food, fibre and timber products that we grow and sell to the world.

Despite biological products being expected to account for a record \$45b of export revenues in 2019, there are signs that the rules-based trading system New Zealand companies have relied on for decades is coming under increasing threat.

Governors of agri-food companies can no longer afford to be passive on trade, delegating much to the government, they need to take proactive steps to secure long-term positions.

The reality we are faced with is that trade is often seen as a contributor to the increased inequality between the haves and have nots that societies, including our own, are recognising and struggling to address. Trade is being seen as a mechanism that has resulted in the export of jobs and wealth and provided little to the majority of the population in return.

Farmers around the world have always appealed to their governments for protections from imports through tariffs, phytosanitary requirements and other non-tariff barriers. These calls are growing louder as concerns in the wider population become more apparent.

With trade wars breaking out between many of our major trading partners, now is the time for directors to be more active in understanding the trade strategies that their organisations have developed.

POLITICS, TARIFFS AND FAIRNESS

We would expect agri-food organisations to have identified market access and trade in their enterprise risk management exercises. And we believe that the likelihood of issues arising, and the assessment of their impact, is likely to have increased over the last year.

Given our agri-food industries have the capability to produce far more than we can eat, trade will always be central to the success of the industry.

Negotiating market access for agricultural and horticulture products remains a government to government activity. However, we would expect organisations to be engaging proactively with the Ministry for Primary Industries (MPI) to stay informed about changes in regulation (which can quite literally change overnight in the current environment) and to ensure that MPI always has all the information that it needs to keep its government counterparties informed to avoid surprises.

Any supply chain glitch could shut a market, making it critical that organisations view the government as a key collaborator in their export strategy.

Successive New Zealand governments, including the current Government, have done a massive amount of work securing free-trade access to many markets around the world and protecting the position of our exporters. As a small trading nation, we account for less than

0.5% of all agricultural products traded across borders, we have relied heavily on every country playing by the rules of the global trading system to secure access. We have played fair, opening our borders to imports and have expected countries around the world to offer similar access to our products, but we have done little to demonstrate that trading with us is mutually beneficial to the countries we are selling to.

In a world where trade is increasingly seen as a problem, as it has not been mutually beneficial, our historic approach to markets needs to evolve.

Organisations need to recognise that gaining access to a market will no longer be assessed solely on economic benefit. A wider assessment of the impacts of two-way trade will occur, which will undoubtedly encompass social and environmental benefits.

We believe securing access for biological products will become more challenging unless companies have invested ahead of the free-trade discussions in demonstrating their long term commitment to mutually beneficial trade.

APPLES TO INDIA

A good example of this is the apple sector's current initiative in India. The Indian market presents a massive opportunity for New Zealand agri-food exporters but it has been one that successive governments have failed to make any real progress in securing access to, in part due to the influence that farmer lobby groups have in Indian state and national politics.

The New Zealand apple industry has recognised the opportunity and the associated challenge and is proactively investing in helping Indian growers to improve their orchard practices and produce a better, more valuable crop.

This type of investment demonstrates our industry is not seeking to replace domestic growers but that they want to build mutually beneficial partnerships that will be more valuable to everybody, should the import of our products be permitted. The apple sector is leading the way in recognising that securing market access is too important to be left to solely to the government.

MUTUALLY BENEFICIAL TRADE

Mutually beneficial trade relies on strong relationships being developed with the customers and consumers of products. Historically, we have traded with Intermediaries and distributors and not invested heavily in developing close relationships with the end user or consumer. In a more volatile trading environment, we believe that it is more important than ever to have on-the-ground representation in market to build deeper relationships and capture key market insights that can inform product development.

It is difficult to demonstrate the two-way benefits of trade if the sale is being made remotely from a desk in Palmerston North or Timaru. It is also difficult to do anything more than sell on price when trade is done remotely.

The benefits of embedding people in market are becoming increasingly apparent as more organisations make this investment. The benefits we are observing include companies being able to capture more value for their products through better pricing strategies, improved processing of products across the border and closer engagement with consumers through social media platforms.

Given our agri-food industries have the capability to produce far more than we can eat, trade will always be central to the success of the industry. The reality is that most organisations have historically taken passive positions in relation to trade; it has just happened.

As a result of politics and changes in market dynamics, directors should be ensuring that market access and trade issues are being proactively managed by their executive teams as there are benefits to be gained from doing so and growing risks if the approach remains passive. **b**