

COVER SHEET

1. Sheep and Goat NZ Dairy Processing Business Case	For: Approve
Background & context:	Recommendation:
<p>Applicant Organisation:</p> <ul style="list-style-type: none"> NZ Food Innovation (South Island) Limited trading as FoodSouth <p>Location:</p> <ul style="list-style-type: none"> National <p>Proposal:</p> <ul style="list-style-type: none"> This project will provide an assessment to support the development of the New Zealand sheep and goat milk industry. It will identify export market opportunities as well as processing infrastructure and farm milk supply requirements to meet market demand and the optimal locations for processing infrastructure. <p>Funding Sought:</p> <ul style="list-style-type: none"> Total project value: \$ <small>Commercial Inform</small> PGF Funding: \$490,000 <p>Background:</p> <ul style="list-style-type: none"> Currently the development of the sheep and goat milk industry is supported by New Zealand Food Innovation (Waikato) Limited (NZFIW) through the provision of contract product development and small, commercial scale powder manufacturing services to companies. This reduces the risks for start-ups and has enabled a number of fledging businesses to establish themselves in export markets before investing in their own processing facilities or moving to large scale contract manufacturers. NZFIW has witnessed strong and growing demand in nutritional formulas which contain imported whey powder from ovine and caprine species. Companies manufacturing sheep and goat milk formulas containing whey are currently forced 	<p>We recommend that the SROs:</p> <ul style="list-style-type: none"> a) Discuss the Sheep and Goat NZ Dairy Processing Business Case application. b) Commercial Information c) Note New Zealand Government will own any IP and all the information that comes from this project. MBIE, NZTE and MPI will work closely with the applicant in the delivery of this project. d) Note government agencies in the past have funded such initiative but at a regional level. e) Note several crown research institutes have initiated discussions on sheep milking and this project will support those discussions. f) Note the funding request is recommended for support because: <ul style="list-style-type: none"> a. The project links strongly with PGF and government outcomes; b. The project would add significant value to the existing work (funded by government agencies) in this space; c. The project would unlock potential across multiple regions; and d. New Zealand Government will own any IP coming out of this project. g) Approve \$490,000 as a grant from the PGF fund towards Sheep and Goat NZ Dairy Processing Business Case subject to: <ul style="list-style-type: none"> a. PDU's agreement to any third party provider undertaking any part of this

<p>to import 100 percent of the whey powder.</p> <ul style="list-style-type: none"> • The feasibility of manufacturing whey powder (and butter) in New Zealand has been investigated by Commercial Information. The project was supported by NZFIW and findings will be released in late 2018. • This proposed project will add to the findings of Commercial Information and be broader in scope, by assessing the economic viability of infrastructure investment that will support the development of a sheep and goat milk industry in New Zealand as a whole. • Consideration will be given to a range of potential product formats, including 2 liquids, butter, cheese and protein powders that will meet the demand for whey and determine the best scenario to maximise the return on a bucket of milk. • Viability will be assessed on three dimensions - the market opportunity for high value sheep and goat milk based products, farm supply requirements and the processing infrastructure needed to maximise the return on a bucket of milk. • Information will be obtained through desk-based research and interviews with a range of stakeholders across six regions throughout New Zealand. Stakeholders will include Economic Development Agencies, Iwi, farmers, processors and marketers. 	<p>project.</p>
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PGF criteria that this proposal supports:

PGF Criteria	Assessment Commentary	Rating (1✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> • Subsequent projects if funded, based on the outcome of this project would develop a new industry in New Zealand and could generate hundreds of direct and indirect jobs in regions. 	✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> • Increased economic activities from subsequent projects would connect local communities to markets and increase social participation for regional growth. 	✓✓✓

Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> Potential to enhance returns for Maori through their business investments and role as landowners. MBIE, MPI and NZTE have been involved in meetings with <small>Commercial Information</small> about this opportunity, Maori landowners and farmers could be very interested. 	✓✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> The project will also look at environmental implications of developing the sheep and goat industry in New Zealand. 	✓✓✓✓
Mitigation of climate change effects	<ul style="list-style-type: none"> N/A 	
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> Central government agencies have funded few initiatives in this industry (<small>Commercial Information</small> <small>Commercial Information</small>). Those initiatives were either locally focussed (1 or 2 regions) or had partnerships with one commercial entity (no sharing of information). This project would look things nationally and the outcome will be shared with the wider industry. 	✓✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> Sheep and goat milking industry will leverage on regional strengths for growth and in the process act as a catalyst for improving regional productivity. Providing a promising alternative to dairy. 	✓✓✓✓
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> Understanding of global sheep and goat milk market opportunity would help New Zealand to increase its share of exports in GDP, which is a government priority. 	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> Support from regions actively working in the sector (Canterbury, Southland, Waikato). 	✓✓✓
Governance, risk management and project execution		
Robust project management and governance systems	<ul style="list-style-type: none"> An expert Steering Group will oversee the actions and progress of the project team. 	✓✓✓
Risk management approach	<ul style="list-style-type: none"> The project risks are considered to be low. 	✓✓
Future ownership / operational management	<ul style="list-style-type: none"> New Zealand Government will own the IP and all the information that comes from this project. 	✓✓✓✓

The purpose of this briefing is to consider recommending PGF funds to the Sheep and Goat NZ Dairy Processing Business Case

Risks Issues:

- No investment is made by the private sector in this niche industry in New Zealand due to high risks associated with new industry development. PGF and other government funds can share the risk by co-investing in those new ventures.

Eligibility points of note:

- *Due diligence:* - Full due diligence is to be completed. It is a condition of approval that due diligence is to be to the satisfaction of the Head of PDU Investment team.
- *Conflict(s) of interest:* - Based on the information provided no conflict of interest is evident noting that full due diligence will inform this item further.
- *Illegal Activity:* - Based on the application information provided and feedback from other agencies there is no indication that the applicant or project has been involved in, or associated with illegal activity.
- *Commercial funding availability:* - Given the nature of the project which is to fund a business case for a new industry access to commercial funding is not considered a feasible option.

Consultation undertaken or implications:

Legal	N/A	HR	N/A	Finance	N/A	MBIE policy	Yes	Other	MPI
Supporting proposal:		Yes							
Appendices:		Yes - Application is as annexe							
Sponsor(s):		N/A							
Manager/Author of paper:		DG/RW Investment Team							