

30 April 2020

Hon Dr Megan Woods
Minister of Research, Science and Innovation
Private Bag 18041
Parliament Buildings
WELLINGTON 6160

Dear Minister

Annual Letter of Expectations for 2020/21 – The New Zealand Institute for Plant & Food Research Ltd

I am writing to provide you with an update on the strategy The New Zealand Institute for Plant & Food Research Limited (PFR) has developed to ensure our organisation meets your expectations over the next two years. You have asked us to set out how we will respond to the COVID-19 crisis.

We remain committed to taking a leadership role in ensuring a Smart Green Future for New Zealand through research, science and innovation to support growth in the primary sector. The primary sector has a major role to play in our country's economic recovery and the future prosperity of all New Zealanders following the COVID-19 pandemic. We expect the primary sector to be more resilient than many other sectors. Our customers are likely to emerge intact and be ready to re-engage more fully in the second half of 2021 on their science and technology needs. For our customers to succeed we will need to protect the sector from threats through our work on biosecurity and to enhance their competitive position through the provision of new products, scientific support for marketing messages and sustainable production methods. To continue to deliver these vital functions we will need the shareholders help to protect Plant & Food Research's human, scientific and infrastructure capabilities during the crisis.

The likely impacts of COVID-19 on our operations and our response is set out below.

Delivering value and ensuring financial resilience throughout crisis

1. Our highest priority has been to ensure our staff, customers and collaborators remain safe and supported. We have moved towards virtual operations that enable us to deliver on contracted activities as much as possible while observing Ministry of Health guidelines. We have the IT and connectivity capacity to support all staff working from home.
2. A response team has used our Coordinated Incident Management System methodology to establish a series of workgroups across key functional areas (science continuity, customers, staff well-being and engagement, IT services, operational resources, infrastructure continuity and finance). This has included activities to secure our national network of research facilities and protection of science and business assets (e.g. nationally significant biological resources such as germplasm collections and essential equipment to support long-term research needs).
3. We have taken steps to understand and manage short term liquidity. This has prompted discussions with our bank to secure new financing arrangements to support business continuity in the short term.
4. We have also completed financial modelling through to 30 June 2021 of the potential financial implications under both a 'U' (likely) and 'L' shaped economic recovery. For a 'U' shaped scenario our work suggests that, with ongoing support from our bank, we can meet our operational commitments over this horizon. However beyond this, it clearly shows that we would have very limited ability to fund essential capital investment to remain viable. This would threaten business continuity, introduce organisational risk and potentially erode our science capability. Therefore, to address these risks and to retain appropriate levels of investment in our capability we are seeking a capital injection from the shareholder of \$24.2M to bridge the forecast contribution margin shortfall over the next 15 months. The analysis to support this request has been provided to MBIE officials. Financial support at this level will ensure we can play a pivotal role in helping support the primary sector in leading New Zealand's economic recovery.
5. We are working with our New Zealand customers (Government and private) to identify innovative ways to continue to deliver value, using flexible work plans to deliver full impacts within original timeframes as far as possible. We are also carefully monitoring revenue streams from commercial sources, particularly Science Services.
6. Responding to requests for support from ESR and the Ministry of Health and other arms of Government has been a top priority. We have provided resources, equipment and skills to support analytical chemistry and testing services. We will continue to proactively seek opportunities to support the national efforts against COVID-19 and its impacts.

7. We have worked with Government departments to define our essential services activities to maintain and protect vital biological assets and datasets that underpin the long-term success of our primary sector partners. We have also ensured our vital biosecurity surveillance and monitoring can continue with appropriate precautions under Alert Level 4. Every activity we undertake in these areas has a detailed set of operating procedures designed to ensure that our staff do not create a transmission risk to others in their community and that they themselves are safe.

Providing critical science and technology to the primary sector so that they can lead New Zealand's recovery and securing a Smart Green Future

8. The Government has already recognised the essential services that the primary sector supplies, both in terms of feeding New Zealanders and maintaining exports to high-value global markets, by permitting their activities to continue throughout Alert Level 4.
9. We anticipate that the primary sector (particularly horticulture and seafood) will play an even more significant role in New Zealand's economic recovery from COVID-19 in the months ahead as one of the industries least affected by the pandemic, supported by strong global demand for our food products.
10. Recent data on food consumption patterns in US and European markets in March confirm increased demand for fresh produce as consumers invest in their health. In early April Zespri announced that revenue from kiwifruit exports exceeded their 2025 target of \$3B for the first time. We anticipate increased concern by Governments around the world for food security, resulting in a drive to secure essential food supply chains from trusted sources. Supplies of nutritious and safe, high-value functional foods and supplements that support health and wellness are likely to be in strong demand. These market and customer sentiments are likely to generate commercial opportunities for our sectors, increasing demand for New Zealand produce from both existing and new markets in the medium to long term.
11. Changes in the way we and our sectors operate and the way science is done may emerge from this crisis. We are preparing for a new era where business and science are done more virtually, using a range of new and expanded digital technologies with less investment in travel and face-to-face connections. We expect that food production and delivery systems may become more automated and contactless, e.g. using new robotics technologies that reduce people in supply chains. We are already investing in the necessary technologies and science (e.g. through our Growing Futures portfolio of SSIF-funded research into Horticulture Goes Urban', Open Ocean Aquaculture and Sustainability and Providence Wins) to futureproof New Zealand's food production capacity in collaboration with thought-leaders in New Zealand and around the world, recognising some challenges in engaging with scientists offshore due to ongoing travel restrictions.

12. We are in continuous dialogue with our research collaborators across the CRI and university sectors as well as with various arms of Government (particularly MPI) over opportunities for research that will position the primary sector to be a key player in New Zealand's economic recovery.
13. We believe that the science needed to support primary sector growth will continue to be in areas that require our capability in Prosperous Food Production Systems (sustainable food supply and value chains; climate change mitigation and adaptation; biodiversity and biosecurity; and sustainable land and water use) and Premium Foods for Global Consumers (foods delivering value and benefits to consumers; urbanised horticulture technologies supplying fresh, health produce to city-based consumers; food safety; and foods with verified social and environmental credentials). We have the capacity, networks and infrastructure to immediately apply this capability to stimulate growth by adding value, protecting and transforming the horticulture and seafood sectors.
14. While we anticipate continued demand for our Technology Development activity and royalty returns, a reduction in demand for contracted Science Services is likely over the next 6–12 months as our customers feel the effects of uncertain supply chains with ongoing border restrictions to export markets, countries moving in and out of 'lock-down' and a slow recovery from a global economic downturn. This is forecast to result in a material drop in our operating margins and cash flow over this period. Our optimistic projection is that in two years' time our overall revenue will return to pre-COVID-19 levels. For this reason we do not anticipate any need to adjust our overall science capability. Instead we recognise the need for agility and the ability to rebalance science capability between areas to respond to any increased demand in areas such as biosecurity.
15. We do not see any change in the priorities we had signalled in our capital investment plan. In fact, we believe our capital plan creates ideal opportunities to support economic growth through the recovery. We have already formally submitted three 'shovel ready' infrastructure projects to Crown Infrastructure Partners, however this will not remove our need for further capital support from the Shareholder (per point 4 above).

We will continue to actively engage with officials in MBIE over our science and business strategy and targets for 2020/21 – 2021/22 when preparing our draft Statement of Corporate Intent for your consideration.

Yours sincerely

Nicola Shadbolt
Chair