

PGW China deal puts spotlight on IP values

New Zealand faces the choice of protecting intellectual property more constructively, or watching it shipped offshore without reward as greater off shore funds move into our agribusiness sector.

"There is definitely an upside to funds coming from China, such as those going in to PGG Wrightson (PGW), but we have to manage it appropriately," said head of the Asia Institute at Otago University, Malcolm Cone.

PGW is teaming up with Agria Corporation, a Chinese genetics company that brings \$36 million of much needed capital to the indebted rural company.

Cone has worked as a consultant in cross cultural communication and is researching the modernisation of China and conflicts between western and Chinese business models.

He said the Chinese have a huge respect for NZ's pastoral capabilities and ultimately want to acquire more Kiwi technology.

"The challenge is to manage the transfer of that intellectual property (IP) so we can retain the benefits of it and get a return from it," he told *The NZ Farmers Weekly*.

This will include ensuring technology is not replicated in an inferior fashion. However, it may also involve accepting there is a completely different cultural take on ideas that comes with the funds being invested from China in particular.

"The Chinese do not really expect

people to hold on to knowledge of practical use – if they see that knowledge they will reproduce it and apply it. They are not secretive about it and are quite happy to share their ideas, something you notice when researching over there."

Successful technology companies dealing with Chinese had often given up on the concept that their smart idea was theirs to keep anymore, he said. NZ agribusinesses may not expect significant amounts of two-way traffic around IP in agribusiness, with most of the innovation coming from here.

Head of Waikato Innovation Park Derek Fairweather said with huge tracts of land being purchased by the Chinese in places like South America, any technology available is an attractive investment at present.

"PGW are an excellent vehicle to transfer technology into those areas and I expect we will see more and more acquisitions."

The chemical company NuFarm has recently confirmed a takeover bid from Chinese company Sinochem, again providing much needed capital to a company suffering a 42% fall in its net profit to year ended July 31.

While not owned by Chinese companies, significant overseas investment already exists in the newer dairy processors here, and in large meat processor ANZCO.

Fairweather said many of the start up businesses over five years old at the Innovation Park had been

snapped up by overseas investors keen to secure IP on such products as milk sensor equipment and flood protection technology.

"We do have the opportunity to step up the value chain and sell farm systems and technology, we cannot continue to increase milk and meat production much more and these investors have funds in huge land areas that require the technology to run them."

However, he doubts NZ has smartened up in how it deals with foreign investment.

"I suspect we are getting underdone on deals, particularly with asset prices lower – as long as we don't lose our shirts on deals we could have a sophisticated bundle of technology to market."

Even without foreign investment NZ has pushed IP offshore to other pastoral economies. In 2007 the Manual TechnoKiwi was launched in Chile, essentially a blueprint on how to farm NZ style there.

Promoted by NZ Trade and Enterprise, it was seen as a springboard to stimulate demand for products produced by pastoral focussed NZ companies.

The level of foreign investment in NZ agribusiness companies other than high profile cases like PGW is hard to determine (see table).

The Overseas Investment Office (OIO) is no longer required to keep



sector statistics on ownership by foreign interests, although it is possible to obtain information on land sales.

Offshore investment and security of food sources underpin the Chinese interest in technology.

“There is a sense of strategic timing behind all this for China. They have received the green light for bank investment off shore and they are not so concerned about price as about the need to invest now with realisation they will be running into food shortages,” said Cone.

Competitive pressure was also on from other countries in the Middle East snapping up land tracts in Africa

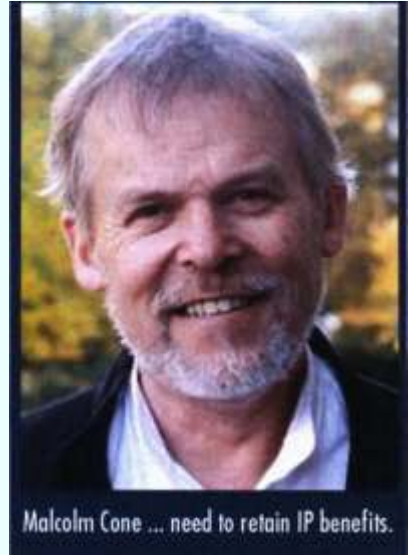
Areas of North China have been declared drought zones, with citizens being relocated and land retired

from farming as winter snow supplies have depleted.

Annual grain loss in China due to drought have averaged 37 million tonnes this decade, almost twice the 1980s level and the proportion of damaged crops has lifted to 60% against 1990 averages of 48%.

Cone likens NZ’s position now to that of the colonial relationship held with the UK in the late 1800s acting as the protein source for increasingly affluent English city dwellers. This time however it is technology that will supply the protein to a nation unfamiliar with pastoral farming.

“Australia shares a similar position with its mineral resources and we need the ability to bargain accordingly.”



Malcolm Cone ... need to retain IP benefits.

Foreign ownership in key NZ agribusiness operators			
Company	Per cent of foreign ownership		
ANZCO	48%	Itohan Foods	Japan
	25%	Nippon Suisan Kaisha	Japan
Synlait Ltd	13.5%	Mitsui & Co.	Japan
	9%	Mitsui & Co.	Australia
Open Country Dairy Ltd	24%	Olam Intl	Singapore
New Zealand Dairies	82%	Nutritek	Russia
Mataura Valley Milk	38%	Assorted foreign owners	

Source: Companies Office