CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

B.29 [16v]

Inquiry into the Saudi Arabia Food Security Partnership

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New Zealand Trade and Enterprise

Inquiry into the Saudi Arabia Food Security Partnership

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

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Auditor-General's overview

In June 2015, I received letters from members of Parliament and a petition from about 10,000 New Zealanders asking for an inquiry into the Saudi Arabia Food Security Partnership. Concerns were raised about money that the Government had paid to a foreign businessman, and questions were asked about whether the payments amounted to corruption or bribery. Issues such as these go to the heart of New Zealanders' trust in government. Therefore, I decided that my Office would inquire into the matter.

The inquiry reviewed the history of why the payments were made, the actions of New Zealand Ministers and officials, the arrangements that the payments related to, and what the use of public resources has achieved.

Background

This is not a simple story. To understand the arrangements entered into as part of the Saudi Arabia Food Security Partnership, it is important to outline the background. This includes the history of Saudi Arabian investment in New Zealand farming, the development of policy and legal considerations affecting the export of live sheep, and the resulting difficult diplomatic relationship between the Kingdom of Saudi Arabia (Saudi Arabia) and New Zealand.

The background also includes the effect of these issues on the negotiation of a free trade agreement with the Gulf Cooperation Council, which includes Saudi Arabia. These factors combine to create a complex picture of competing economic, trade, and animal welfare interests.

In this report, we consider whether:

- the arrangements were made within the law;
- the business case for spending public money was robust;
- good process was followed; and
- value for money was obtained.

It is not within my legal mandate to comment on or criticise the Government's trade, diplomatic, or animal welfare policy decisions.

Main findings

I found no evidence that the arrangements entered into as part of the Saudi Arabia Food Security Partnership were corrupt. To understand whether there was corruption, we looked at whether there had been an abuse of power for private gain or an offence against the Crimes Act 1961 by a Minister or an official. The payments did not amount to bribery or facilitation payments. Instead, they were

made as part of a legally valid contract for services. Public money was spent within the necessary financial approvals.

That said, I share many New Zealanders' concerns about the arrangements. I found significant shortcomings in the paper put to Cabinet in support of the decision to enter into the Saudi Arabia Food Security Partnership. The contract's benefits to New Zealand were unclear in the Cabinet paper, the business case, and its subsequent implementation.

It is not clear on what basis the amounts paid to the Saudi Arabian investor's company under the contract were arrived at. A key objective of the Saudi Arabia Food Security Partnership was to remove a perceived obstacle to a free trade agreement with the Gulf Cooperation Council. That agreement remains unsigned, although in two recent joint statements (in April and September 2016) New Zealand and Saudi Arabia have indicated progress, including towards completion of the free trade agreement.

In my view, settlement of a grievance was provided under the guise of a contract for services. The Saudi Arabia Food Security Partnership was the result of a need to resolve a diplomatic issue and, in the view of Ministers, to settle a Saudi Arabian investor's grievance. The situation was complicated by views about live sheep exports. The contract does not outline those different policy objectives or the complexities. Importantly, the contract does not specifically reflect the settlement component relating to the grievance.

This lack of transparency, both at the time of the decision and subsequently, has led to the concerns from the New Zealand public about the nature of the payments made. To date, explanations from Ministers or officials have not resolved those public concerns. Without transparency, people will speculate. This report is an opportunity for the complete story to be told.

At a lower level, but still important, we found that:

- Ministers and officials gave mixed messages to Saudi Arabia;
- there were shortcomings in the contract for services; and
- the timing of a payment was not best practice.

To date, slightly more than $8.7 million has been spent. There are some benefits, such as an improved diplomatic relationship and business opportunities, but whether those benefits are a good return on investment is unclear to me. Given the level of public interest, and that the benefits of the spending remain largely uncertain, I expect the Ministry of Foreign Affairs and Trade (the Ministry) and New Zealand Trade and Enterprise (NZTE) to assess and report on what the

Saudi Arabia Food Security Partnership has achieved once all of the $11.5 million (increased from $10 million for the additional cost of exporting pregnant ewes) has been spent.

History of live sheep exports from New Zealand to Saudi Arabia

New Zealand has been involved in the trade of exporting live sheep for many years. Before 2003, the live sheep trade to Saudi Arabia focused on export for slaughter and consumption, particularly at the time of the annual Haj festival. In the 1990s, Sheikh Hmood Al Ali Al Khalaf (Sheikh Hmood) invested money in New Zealand farms and research through his group of companies (the Al Khalaf Group), with the intention of generating returns from the ongoing export of live sheep to Saudi Arabia.

In 2003, the New Zealand Government stopped the export of live sheep from New Zealand after a large number of sheep died on the *Cormo Express* – a ship transporting sheep from Australia to Saudi Arabia. Between 2004 and 2007, officials from Saudi Arabia and New Zealand discussed a Memorandum of Understanding to regulate veterinary protocols and other procedures for the live sheep trade. During this time, New Zealand officials suggested to Sheikh Hmood and his companies' representatives that the export of sheep for slaughter would resume. In 2006, the New Zealand Government told Saudi Arabian officials and the Al Khalaf Group that there was a policy review of the trade under way.

In 2007, the Customs Export Prohibition (Livestock for Slaughter) Order 2007 (CEPO) prohibited the export of livestock for slaughter unless the Director-General of the Ministry of Agriculture and Forestry granted an exemption to the prohibition. The CEPO has been renewed twice, in 2010 and 2013, and remains in force. To date, no exemptions have been granted.

After the CEPO was implemented, the Al Khalaf Group and the Ministry of Agriculture and Forestry discussed the progress of the Memorandum of Understanding between New Zealand and Saudi Arabia. A representative of the Al Khalaf Group considered that the Memorandum of Understanding was crucial to getting an exemption to the CEPO. The Group continued to invest in farming sheep in New Zealand in the expectation that exports of sheep for slaughter would resume.

In 2009, the then Minister of Agriculture made public statements that exports of sheep for slaughter were unlikely to resume because he did not think Saudi Arabia would be able to meet the animal welfare standards he would require for the transportation and treatment of the sheep. These conflicting messages contributed to a diplomatic issue between New Zealand and Saudi Arabia.

A diplomatic issue

Between 2007 and 2009, a free trade agreement between New Zealand and the Gulf Cooperation Council was negotiated. In late 2009, negotiations were complete and the final text had been agreed, subject to legal verification by each participating state.

However, in early 2010, it became clear that the diplomatic relationship between Saudi Arabia and New Zealand was strained. The New Zealand Government was aware that Sheikh Hmood felt a deep sense of injustice. The Al Khalaf Group had invested millions of dollars into New Zealand farming on the understanding that New Zealand was negotiating in good faith to resume the trade in live sheep. The Group's view was that, on the one hand, it was being led to understand negotiation of a government-to-government Memorandum of Understanding was being carried out in good faith. On the other hand, no progress was being made.

On a trip to Saudi Arabia, the then Minister of Trade was told by a Saudi Arabian Minister that New Zealand's position on the export of sheep for slaughter was a commercial issue that was an obstacle to signing the free trade agreement. Ministry officials believed that the sheep for slaughter issue was "poisoning" trade negotiations, as well as the broader relationship with Saudi Arabia and, potentially, the other members of the Gulf Cooperation Council.

In my view, New Zealand Ministers and officials sent mixed messages about New Zealand's policy position on exporting sheep for slaughter, an issue on which people have strong and polarised views. The Government needed to balance concerns about animal welfare with the interests of an important trade partner. In this instance, trying to balance those competing interests caused complications in New Zealand's relationship with Saudi Arabia.

A commercial solution

In early 2010, Ministers and officials considered options to resolve this complex diplomatic issue. They identified that they needed to find a solution that would address the perceived obstacle to the free trade agreement, improve the relationship with Saudi Arabia, resolve the position on exporting sheep for slaughter, factor in animal welfare concerns, and meet New Zealand's international and domestic legal obligations.

Advice to Ministers from officials included several different options, including paying compensation to the Al Khalaf Group, the possibility of one shipment of sheep, or a forward-looking commercial arrangement.

In 2012, the Minister of Foreign Affairs, Hon Murray McCully, and officials discussed a food security partnership with the Al Khalaf Group that would allow the Al Khalaf Group to benefit from its investments in New Zealand and for New Zealand to benefit from trade and business activities in Saudi Arabia.

During the negotiations, the Al Khalaf Group indicated that it considered it should be paid compensation of $24 million. New Zealand Ministers and officials decided to focus on a partnership arrangement that would allow the export of sheep for breeding, together with the establishment of a joint-venture breeding operation in Saudi Arabia.

The outcome of the negotiations was an exchange of letters outlining a proposed partnership between the New Zealand Government and the Al Khalaf Group. A contract for services would be entered into under which the New Zealand Government would purchase $4 million of services directly from the Al Khalaf Group and a further $6 million of goods and services from New Zealand companies to gift to the Al Khalaf Group. These goods and services would be installed and demonstrated at Sheikh Hmood's Um Alerrad farm in Saudi Arabia (to become known as the "Agrihub") with a view to helping New Zealand agricultural companies to enter the Middle Eastern agricultural market.

The use of a contract for services to resolve these matters was a decision made by Cabinet. I comment below on the quality of the Cabinet paper process but not on the decision itself.

The Cabinet paper

The Minister of Foreign Affairs put a paper to Cabinet outlining the proposed arrangement with the Al Khalaf Group in February 2013.

Cabinet was advised that there was a need to settle a dispute between New Zealand and Saudi Arabia as well as with a Saudi Arabian investor, that the Al Khalaf Group had received legal advice that it could pursue a legal claim against the Government for $20-$30 million, and that the Gulf Cooperation Council had asserted that the sheep export issue was the only obstacle to the signing of the free trade agreement.

Cabinet was also advised that New Zealand exports to the Gulf Cooperation Council could double to $3 billion in the next five years if the free trade agreement was entered into.

I found some significant shortcomings in the Cabinet paper, including that it:

- did not clearly explain that the Al Khalaf Group would own the goods and services costing the New Zealand Government $6 million;

- did not identify how the $10 million figure was arrived at (a figure that has since risen to $11.5 million);
- signalled the risk of a claim against the Government based only on the $20-$30 million figure that the Cabinet paper said was suggested by the Al Khalaf Group (there was no assessment by Ministry officials of the substance of that legal risk);
- did not include any analysis about whether there were any other potential obstacles to the signing or ratification of the free trade agreement, apart from the concerns of the Al Khalaf Group about the export of live sheep or the assertion by the Gulf Cooperation Council that this was the only obstacle to the free trade agreement; and
- identified that New Zealand exports could double to $3 billion in five years if a free trade agreement was signed with the Gulf Cooperation Council, without including any analysis.

Based on these significant shortcomings, I am concerned at the lack of robust analysis and the quality of information that was provided to Cabinet on this matter.

A contract for services

After Cabinet approval, a contract for services was signed between the Ministry and the Al Khalaf Group. According to the Ministry, the contract has achieved certain things, including that it has:

- addressed Sheikh Hmood's sense of grievance about New Zealand's policy change on exporting sheep for slaughter;
- facilitated the removal of the then Saudi Arabian Minister of Agriculture's opposition to the free trade agreement between New Zealand and the Gulf Cooperation Council; and
- resulted in New Zealand companies installing and demonstrating their products at the Agrihub.

I was surprised that it was decided to use a contract with a private individual's business interests to resolve a diplomatic issue between governments. It is difficult to reconcile the words of the contract with the unstated objectives, which included resolving a complex diplomatic issue and removing a perceived obstacle to the signing of the free trade agreement. The contract for services was a convenient mechanism by which the allocated $10 million, later $11.5 million, was put towards achieving those unstated objectives. It does not tell the full story.

Procurement process and contract management

As part of my inquiry, I looked at the procurement practices the Ministry used, as well as the management of the arrangements by the Ministry and NZTE. I found that the procurement processes complied with the relevant rules that government departments were required to follow at the time. I also found that both agencies have had an ongoing and active role in the management and performance of the contracts.

Exporting sheep for breeding

In 2014, the project plan for the Saudi Arabia Food Security Partnership was amended to include exporting breeding sheep to Saudi Arabia by air. Cabinet agreed to spend an additional $1.5 million to send sheep to the Um Alerrad farm as part of the Partnership. Shortly after the 900 ewes arrived, NZTE was made aware of significant losses of lambs born at the farm – about 75% of lambs died.

New Zealand consultants were sent, with the agreement of the Al Khalaf Group, to help determine what had happened. Reports show that the losses were caused by a variety of factors, including vaccination timing, housing conditions, handling, and weather events. The New Zealand consultants provided recommendations, and lambing at the farm was improved in 2015.

Results achieved

When we published this report, the Saudi Arabia Food Security Partnership was an ongoing arrangement, and about $8.7 million of the agreed maximum of $11.5 million had been spent.

Cabinet sought to achieve several objectives when it agreed to enter into the contract for services. Many of the benefits of the Saudi Arabia Food Security Partnership depend on the quality of the relationship between New Zealand, Saudi Arabia, and Sheikh Hmood.

There is evidence that there has been an improvement in New Zealand's relationship with the Al Khalaf Group and the Saudi Arabian Government. However, the free trade agreement with the Gulf Cooperation Council remains unsigned, although in two recent joint statements (in April and September 2016) New Zealand and Saudi Arabia have indicated progress, including towards completion of the free trade agreement. At least one New Zealand company has gained ongoing business opportunities as a consequence of the Partnership.

However, many uncertainties remain about what will be achieved as a result of spending up to $11.5 million of public money. As I said earlier, I expect the Ministry and NZTE to assess and report on what the Saudi Arabia Food Security Partnership has achieved once all of the goods and services that are covered by the contract for services have been provided.

My final thoughts

I thank those organisations that assisted us with this inquiry and all those who we interviewed or sought information from during this inquiry.

I am aware that many people hold strong views on this matter. It is a complex story that has taken us more than a year to put together. My hope is that this report will help people understand the facts and appreciate the competing interests, and that it will provide an insight into the complexity of government decision-making.

There are undoubtedly things to be learned from the report, and everyone will take away their own lessons.

My final thought relates to transparency. New Zealand has worked hard to have an ethical and transparent public sector. Accusations of corruption and bribery should be of concern to us all. During my time as Auditor-General, I have seen an increase in these accusations.

None of my inquiries has upheld those accusations. However, complacency is not an option. We should all continue to demand transparency in how our public resources have been used and what was achieved with our money. Transparency is the best foil for corruption.

Lyn Provost
Controller and Auditor-General

26 October 2016

1 Introduction

Why we carried out this inquiry

1.1 On 28 May 2015, 29 May 2015, and 10 August 2015, the Auditor-General received letters from James Shaw MP, Jordan Williams (of the New Zealand Taxpayers' Union Incorporated), and Hon David Parker MP. These letters requested an inquiry into the Saudi Arabia Food Security Partnership (the Partnership) and associated matters. On 24 June 2015, Mr Shaw also forwarded to the Auditor-General a petition from about 10,000 New Zealanders asking for a similar inquiry.

1.2 The Prime Minister's visit to the Kingdom of Saudi Arabia (Saudi Arabia) in May 2015 contributed to media interest in the proposed free trade agreement with the Gulf Cooperation Council[1] and New Zealand's exporting of live sheep. Details of the Partnership, including the involvement of Sheikh Hmood Al Ali Al Khalaf (Sheikh Hmood) and related activities, progressively emerged in the media and were the topic of questions asked in the House of Representatives.

1.3 On 4 August 2015, the Ministry of Foreign Affairs and Trade (the Ministry) released documents that could have provided enough information for people to make their own assessment of some of the questions raised about the Partnership and associated matters. However, considerable public interest remained.

1.4 We decided to carry out an inquiry under the Public Audit Act 2001 into the spending of public money on the Partnership.

1.5 We use the term "Partnership" to reflect its usage by the parties, not because we consider that there was a legal partnership. The contract for services specifies that "nothing in this Contract constitutes a legal relationship between the Parties of partnership, joint venture, agency, or employment".

How we carried out this inquiry

1.6 In our terms of reference, we said that we would look at:

- the amount of public money budgeted for, and spent on, the Partnership, how it has been used, and the outcomes achieved with it;
- whether the spending on services was within the appropriations of Vote Foreign Affairs and Trade, as authorised by Parliament;
- the procurement and contract management practices the Ministry and New Zealand Trade and Enterprise (NZTE) used to purchase services relating to the Partnership;
- whether the services received were in keeping with the business case and contract specifications; and

1 Formally, the Cooperation Council for the Arab States of the Gulf. It is a regional political and economic union that includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

- any other related matter the Auditor-General considered it desirable to inquire into and report on.

1.7 The main public entities involved were Ministers, the Ministry, the Ministry for Primary Industries (MPI),[2] NZTE, and the Treasury. We met with, spoke to, or otherwise communicated with a range of former and current Ministers, officials, private sector individuals, and the Serious Fraud Office (see Appendix 1).

1.8 We requested and reviewed unredacted documents provided by the Ministry, NZTE, MPI, the Treasury, Cabinet Office, and the office of the Minister of Foreign Affairs. We also considered information private individuals provided to us.

1.9 When reviewing this information, we were mindful of Cabinet conventions, particularly the confidentiality of Cabinet meetings and discussions. Agendas and minutes of decisions can be obtained, but they do not record the details of the discussions at the meetings. Our inquiry also included countries and individuals about whom it is outside our mandate to comment.

1.10 We have considered how to achieve an appropriate balance between natural justice issues, diplomatic sensitivities, and the public interest.

1.11 We sought comments on draft elements of this report from those we interviewed. We sought the assistance of a barrister, Jane Meares, in conducting this inquiry. We also engaged Dr John Larkindale, an expert adviser in the field of international relations and diplomacy.

Structure of our report

1.12 In Part 2, we provide a timeline of the main events and decisions leading up to the Partnership, including an explanation of the contact between Sheikh Hmood and his companies (the Al Khalaf Group) and successive New Zealand Governments. We explain how the Partnership came to be seen as a way to improve New Zealand's diplomatic relationship with Saudi Arabia.

1.13 In Part 3, we describe how the Partnership was set up, including the communication between Sheikh Hmood and his companies' representatives and the Ministry. We also discuss the main information put to Cabinet for it to make a policy decision about implementing the Partnership.

1.14 In Part 4, we explain the first steps to implementing the Partnership – signing a contract for services between the Ministry and Sheikh Hmood's Saudi Arabian company, Hmood Al Ali Al Khalaf Trading and Transportation Establishment (HAATT Est). We also discuss the roles of other agencies and provide our comments on the contract for services.

2 This report also refers to the Ministry of Agriculture and Forestry, which became part of MPI in April 2012.

1.15 In Part 5, we address the question of alleged corruption and bribery. We also explain what financial approvals were required for the Ministry and NZTE to spend the public money allocated to the Partnership.

1.16 In Part 6, we discuss the procurement practice the Ministry used to implement the contractual obligations of the Partnership under the contract for services.

1.17 In Part 7, we explain how the goods and services were delivered and the management of the arrangements. We also discuss the decision to send pregnant ewes to Saudi Arabia and how that was managed once people knew about the high mortality rate of the lambs born in Saudi Arabia.

1.18 In Part 8, we explain what the Partnership has achieved, to the extent that it can currently be assessed.

Live sheep trade and events before the Saudi Arabia Food Security Partnership

2

2.1 In this Part, we outline:

- investment and the live sheep trade before the *Cormo Express* incident;
- suspension of the export of sheep for slaughter, and animal welfare considerations;
- the 2007 Customs Export Prohibition Order;
- New Zealand's relationship with Saudi Arabia from 2007 to 2009;
- discussions with the Al Khalaf Group from 2009 to 2010;
- New Zealand's relationship with Saudi Arabia in 2010;
- the free trade agreement sought between New Zealand and the Gulf Cooperation Council, and the live sheep trade;
- New Zealand's World Trade Organisation obligations and trading in live sheep;
- the development of a "commercial solution"; and
- our comments on these matters.

2.2 Setting out some relevant history is crucial to understanding how the decision to commit public money to the Partnership was made. It shows how government organisations and private individuals came to be involved and their roles in the Partnership, the competing issues involved, and why these arrangements were entered into. It highlights the complexities involved as well as some of the problems we identify in this report.

2.3 Figure 1 sets out a timeline of the main events in that history.

Figure 1
Timeline of main events

Date	Main event
Before 1990	New Zealand exports live sheep, including to Saudi Arabia.
1990-99	Sheikh Hmood and other Saudi Arabian nationals export live sheep from New Zealand for slaughter in Saudi Arabia. Sheikh Hmood invests in New Zealand, including in HAATT NZ Limited, Awassi (N.Z.) Limited, and Awassi NZ Land Holdings Limited. New Zealand continues to export live sheep to Saudi Arabia.
2003	*Cormo Express* incident: significant numbers of sheep die on an Australian shipment of sheep to Saudi Arabia.
2003-07	New Zealand suspends exporting sheep for slaughter while politicians and officials discuss whether the trade will resume. Officials communicate with Sheikh Hmood and his companies' representatives and suggest that the export of sheep for slaughter will resume. Sheikh Hmood and New Zealand farmers continue to invest.

Date	Main event
2007	Negotiations begin for a free trade agreement with the Gulf Cooperation Council. Customs Export Prohibition (Livestock for Slaughter) Order 2007 comes into force. It prohibits the export of livestock for slaughter except with the approval of the Director-General of the Ministry of Agriculture and Forestry.
2008	Discussions resume on a Memorandum of Understanding between New Zealand and Saudi Arabia on exporting sheep for slaughter.
2009	The then Minister of Agriculture, Hon David Carter, as he was then known, publicly speaks about it being unlikely that sheep will be exported to Saudi Arabia for slaughter. Mr Carter and the then Saudi Arabian Minister of Agriculture discuss the Memorandum of Understanding. Negotiations stop after this discussion, and the diplomatic relationship between New Zealand and Saudi Arabia deteriorates. The free trade agreement stalls. (We were told that it was complete in late 2009 and needed only legal verification.)
2010-12	Tensions are evident in the relationship between Saudi Arabia and New Zealand. Sheikh Hmood makes public statements in Saudi Arabia about his grievance with New Zealand. The Minister of Foreign Affairs, Hon Murray McCully, and the then Minister of Trade, Hon Tim Groser, become involved.
2012	Mr McCully and Sheikh Hmood exchange letters formalising a relationship "in the spirit of a partnership" between the Ministry and the Al Khalaf Group. Ministry documents report an improved relationship between New Zealand and Saudi Arabia.
2013	Cabinet notes a $4 million payment to Sheikh Hmood's Saudi Arabian company and agrees a $6 million payment to New Zealand companies to provide services to Sheikh Hmood's Saudi Arabian company. The Ministry and HAATT Est sign a contract for services that includes a $4 million payment and $6 million of services provided by New Zealand companies. A contract is signed between the Ministry and Brownrigg Agriculture Group Limited as the lead provider to deliver the $6 million in goods and services (the funding agreement).
2014	A protocol (the Arrangement) is signed between Saudi Arabia and New Zealand on exporting live sheep – for breeding, not for slaughter. Cabinet approves an additional $1.5 million payment to be transferred from the Ministry to NZTE to airfreight sheep for breeding as part of the Partnership. Total value of the contract for services becomes $11.5 million. The funding agreement with Brownrigg Agriculture Group Limited is transferred from the Ministry to NZTE. 900 pregnant ewes are airfreighted to Saudi Arabia. There are a significant number of deaths in Saudi Arabia of lambs born from the exported ewes.

Date	Main event
2015	NZTE sends consultants to Saudi Arabia to review death of lambs. Delays continue in the only incomplete project (an abattoir). The Ministry has spent $8.7 million of the agreed maximum of $11.5 million under the contract for services (leaving $2.8 million remaining). We understand that the delivery of goods and services will be overseen by NZTE under the funding agreement.
2016	The abattoir was expected to be completed by December 2016. We now understand that it may be delayed beyond that date.

Investment and the live sheep trade before the *Cormo Express* incident

2.4 Before 2003, New Zealand exported live sheep for many years. In 1990, the annual export number peaked at 1.5 million sheep. We were told that, in the early 1990s, Saudi Arabian investors who wanted to export live sheep from New Zealand to Saudi Arabia either procured exports or made direct investments in New Zealand with the intention of generating returns from exporting sheep for slaughter. Saudi Arabia was particularly interested in importing live sheep at the time of the Haj. Other countries, including Australia, had similar approaches.[3]

2.5 We understand that Sheikh Hmood is Saudi Arabia's largest international livestock trader. We were told that he owns and operates several Saudi Arabian and international companies that are involved with livestock (farming and export trade, and, in Saudi Arabia, the sale of chilled meat). New Zealand officials refer to Sheikh Hmood's group of companies as the Al Khalaf Group. His New Zealand investments were, in part, made by:

- his acquisition of shares in Awassi (N.Z.) Limited;
- his establishment of Awassi NZ Land Holdings Limited; and
- his establishment of Hmood Al Ali Al Khalaf Trading and Transportation NZ Limited (HAATT NZ Limited) in 1995.

2.6 The Al Khalaf Group's New Zealand companies are represented by Sheikh Hmood and the Al Khalaf Group's Australasian representative, as well as informally by New Zealand companies that have had business relationships with the Al Khalaf Group.

2.7 The Minister of Foreign Affairs, Hon Murray McCully, the then Minister of Trade, Hon Tim Groser, and officials told us that Ministers of successive New Zealand Governments encouraged Sheikh Hmood to invest in New Zealand. No Ministers or officials were able to say with certainty what form that encouragement took.

3 See Parliament of Australia website (www.aph.gov.au), Parliamentary Business, *The export of live sheep from Australia*. We understand that Western Australian farmers depend more than New Zealand farmers on the sheep for slaughter trade because without it there would be transport and processing shortfalls.

2.8 Records show that Sheikh Hmood clearly communicated to Ministers and officials his intentions to export sheep for slaughter before and after he invested in New Zealand. During 2009 and 2010, Sheikh Hmood and his companies' representatives told the then Minister of Agriculture, Hon David Carter, as he was then known, the Ministry of Agriculture and Forestry (MAF), and the Ministry that Sheikh Hmood had received the following encouragement:

- The New Zealand Minister of Agriculture at the time visited Saudi Arabia in 1991 and 1995 to negotiate new protocols for the live sheep trade. Documentation states that "On the back of these protocols HAATT NZ Limited was set up in 1995 ..."
- Sheikh Hmood and his companies' Australasian representative remembered receiving "strong support and encouragement from successive New Zealand Ministers of Agriculture".
- Awassi New Zealand[4] purchased and leased farms in the Hawke's Bay and in the South Island to export sheep for slaughter to Saudi Arabia. These acquisitions were approved by the New Zealand Overseas Investment Commission.[5]
- A former Minister of Agriculture strongly encouraged Awassi New Zealand to purchase a feedlot (preconditioning) farm in the South Island.
- Awassi (N.Z.) Limited assisted New Zealand by hosting Saudi Arabian dignitaries on several occasions.
- Sheikh Hmood received support from MAF and the Government over the years. According to Sheikh Hmood and his companies' representatives, the Government engaged constructively with Awassi (N.Z.) Limited towards the "mutual goal of high value exports". This had included visits to Saudi Arabia, co-operation on protocols, and, in recent years, advice that there was nothing standing in the way of reinstating the trade in live sheep.

2.9 On behalf of the Al Khalaf Group, the Government was also told that Awassi (N.Z.) Limited had, at its own cost, conducted live sheep shipping trials under the direction of MAF. Sheikh Hmood's long-term plan for investing in New Zealand was to develop the Awassi breeding stock and to export Awassi cross-breeds. Interviewees told us that the Awassi breed has characteristics valued in the Middle East market, commands a premium price in that market, and is better able than other breeds to tolerate hot climates and ship transport conditions.

2.10 Awassi sheep had first been bred in New Zealand at Flock House, a MAF research facility, using frozen embryos that had been imported into New Zealand. Sheikh Hmood bought that existing Awassi stock (through the acquisition of the shares

4 Records are not clear. This could refer to Awassi (N.Z.) Limited, Awassi NZ Land Holdings Limited, or HAATT NZ Limited.

5 The Commission was later replaced by the New Zealand Overseas Investment Office.

in the company, Awassi (N.Z.) Limited, which was incorporated on 2 July 1991). Sheikh Hmood became a director of Awassi (N.Z.) Limited on 14 June 1995.

2.11 We were told that Awassi (N.Z.) Limited invested in further genetics work on the breed and that local farmers were then contracted to produce cross-bred Awassi sheep to supply livestock for the "live sheep for slaughter export trade" to Saudi Arabia. Market conditions, including the low prices farmers received for sheep for slaughter in New Zealand and excess supply, were particularly conducive to the sheep for slaughter export trade in the 1990s.

2.12 We were told that the Al Khalaf Group's trading activities in the 1990s established a valuable network of business relationships in Hawke's Bay and that Sheikh Hmood gained a high level of respect from those he worked with. Included in that network was David Brownrigg from Brownrigg Agriculture Group Limited (BAGL), who in the 1990s and early 2000s worked with the Al Khalaf Group to provide livestock and ensure that shipping consignments were fully met. We were told that, from the early 2000s, fewer live sheep were exported than in preceding years because of commercial factors, including an increase in the price offered by the meat processing industry in New Zealand.

2.13 Exporting sheep for slaughter from New Zealand to Saudi Arabia had been regulated by a verbal arrangement (the Arrangement) between New Zealand and Saudi Arabia agreed in 1991. The Arrangement included agreement on 10 veterinary, transport, and arrival procedures. In 1995, the Arrangement was recorded in a MAF document. Each shipment required an Animal Health Certificate approved by the Director-General of MAF.

2.14 In September 2003, a shipping consignment from Australia of about 60,000 sheep aboard the *Cormo Express*[6] was rejected at a Saudi Arabian port, purportedly for sanitary reasons. We were told that the inability to offload the sheep caused the shipment to be stranded at sea for 92 days until an alternative market and port to offload the sheep was confirmed. The resultant mortality rate and general concern about animal welfare led Australia to stop exporting sheep for slaughter. New Zealand also suspended the trade until animal welfare concerns were addressed.

2.15 Australia resumed the trade under a memorandum of understanding with the Saudi Arabian Government. We were told that the primary purpose of this memorandum of understanding was to ensure that any further shipments were promptly disembarked into quarantine facilities in Saudi Arabia. That memorandum was signed in 2005.

6 The Al Khalaf Group had a connection with the *Cormo Express*, but we do not consider that the Al Khalaf Group's involvement with that shipment is relevant to this inquiry.

Suspension of the export of sheep for slaughter, and animal welfare considerations, from 2004

2.16 During 2004, there were negotiations between the New Zealand and Saudi Arabia Governments towards a bilateral Arrangement. This Arrangement was later superseded and then referred to as a Memorandum of Understanding.

2.17 The Memorandum of Understanding sought "to establish clear veterinary, transport, quarantine and arrival for processing principles in order to ensure the welfare of livestock and allow trade (particularly in live sheep) to resume following suspension at the time of the *Cormo Express* incident". The negotiations were conducted between New Zealand (through MAF and Biosecurity New Zealand) and Saudi Arabia (through Saudi Arabia's Ministry of Agriculture).

2.18 While meetings and discussions between the two countries about the Memorandum of Understanding were under way, MAF and Biosecurity New Zealand officials started a general policy review of the export of livestock for slaughter in August 2006. It appears that there were no shipments of live sheep during the 2004-07 negotiation period.

2.19 MAF officials confirmed to representatives of the Al Khalaf Group that negotiations on the Memorandum of Understanding were progressing, and Sheikh Hmood's company considered that it had "previously received assurance from the New Zealand authorities that there was nothing standing in the way of finalising a Government to Government [Memorandum of Understanding] enabling trade to continue".

2.20 However, there was uncertainty about the status of the Memorandum of Understanding between New Zealand and Saudi Arabia. Biosecurity New Zealand and Ministry officials recognised in a paper to the then Ministers of Agriculture and Trade that "New Zealand risks being perceived as not negotiating in good faith if it continues to negotiate a bilateral [Memorandum of Understanding] with Saudi Arabia whilst simultaneously undertaking a [policy] review with the potential to change the conditions under which any trade may subsequently occur …".

2.21 Given indications that a Memorandum of Understanding would be signed, Sheikh Hmood, through his company Awassi (N.Z.) Limited, contracted BAGL to arrange breeding contracts with local farmers to supply cross-bred Awassi sheep. A flock of cross-bred Awassi was intended to be bred in 2007 to be ready for export in 2008.

2.22 It appears that MAF was made aware in 2007 of a potential application to export live sheep in 2008. MAF's review was finalised and provided to the Cabinet External Relations and Defence Committee in October 2007.

The 2007 Customs Export Prohibition Order

2.23 A Customs Export Prohibition Order (CEPO) is a regulatory instrument enacted under the Customs and Excise Act 1996. It prohibits the export of specified goods but enables exemptions to be granted to permit the export of those goods on a case-by-case basis.[7]

2.24 In October 2007, the Cabinet External Relations and Defence Committee (with Hon Jim Anderton as Minister of Agriculture) was presented with a paper asking for a decision in principle to impose legal restrictions on the sheep for slaughter trade by enacting a CEPO. The paper included the results of the review of the export of live sheep for slaughter and the risks associated with various policy options.

2.25 We were told that there was considerable pressure from external stakeholders to restrict the export of live sheep for slaughter. The paper recommended consulting with exporters and industry groups before imposing a restriction. A decision in principle was made after the recommendation, and consultation with stakeholders took place. Mr Anderton announced the implementation of the CEPO on 18 December 2007.

2.26 In making the decision to impose a CEPO, the Cabinet External Relations and Defence Committee considered three options for the trade in exporting livestock for slaughter:

- a complete ban on the trade;
- restricted trade under a CEPO with exemptions where the risks could be acceptably managed (referred to as a "prohibition with exemptions"); or
- a full resumption of the trade.

2.27 The CEPO was brought into effect, and the usual 28-day rule was waived.[8] The CEPO was intended to be a temporary measure, but it has been renewed twice since 2007 (by a 2010 Order and a 2013 Order[9]). The CEPO is still in place, awaiting regulations under recent amendments to the Animal Welfare Act 1999.[10] The current CEPO (2013 Order) is automatically revoked on 20 December 2016 if it is not renewed or extended.[11]

7 Customs Export Prohibition (Livestock for Slaughter) Order 2007, clause 4.

8 According to the Cabinet Manual, "It is a requirement of Cabinet that legislative instruments must not come into force until at least 28 days after they have been notified in the New Zealand *Gazette*. The 28-day rule reflects the principle that the law should be publicly available and capable of being ascertained before it comes into force." (see Cabinet Manual 2008, paragraph 7.91.)

9 CEPO 2010 came into effect on 21 December 2010. CEPO 2013 came into effect on 20 December 2013.

10 Animal Welfare Amendment Act (No 2) 2015 (www.legislation.govt.nz). We were told by MPI that the CEPO will be revoked on 20 December 2016, and the Animal Welfare (Export of Livestock for Slaughter) Regulations 2016 will come into force on 21 December 2016.

11 Customs Export Prohibition (Livestock for Slaughter) Order 2013, clause 6.

2.28 An official told us that, when the CEPO was implemented in 2007, MAF was genuine in its approach to allow trade to resume where animal welfare requirements were met. The Director-General would make the case-by-case assessment and would have to take agreed factors into account when considering an application under the CEPO.

New Zealand's relationship with the Kingdom of Saudi Arabia from 2007 to 2009

2.29 In 2007 and 2008, food security concerns heightened in Saudi Arabia because of world food shortages and a spike in global prices. This resulted in Saudi Arabia developing food security programmes, including "King Abdullah's Initiative for Saudi Agricultural Investment Abroad: A Way of Enhancing Saudi Food Security", which had the objectives of:

- maintaining food security for Saudi Arabia;
- enhancing international food security; and
- encouraging Saudi Arabian investors to use their resource and experiences abroad.

2.30 We understand that Saudi Arabia's interest in importing livestock was also to meet high demand from Muslim pilgrims during the Haj.

2.31 New Zealand official records show that the then Saudi Arabian Minister of Agriculture expressed disappointment about the CEPO because of a lack of prior consultation, variance from Australian policy, and ill-informed value judgements.

2.32 The then Saudi Arabian Minister of Agriculture also expressed disappointment because the proposed guidelines included a consideration of extraterritorial requirements. That is, when considering applications for exemption under the CEPO, the Director-General of MAF could take into account extraterritorial factors such as requiring that the slaughter of livestock exported from New Zealand would take place in commercial slaughterhouses and that inspectors nominated by MAF would carry out a pre-shipment audit of slaughter facilities in the importing country.

2.33 In this context, negotiations for a Memorandum of Understanding resumed in January 2008. In July 2008, a new version of the Memorandum of Understanding included the requirement that animals be slaughtered in commercial slaughterhouses.

2.34 A briefing paper was provided to the newly appointed Minister of Agriculture, Mr Carter, on 7 January 2009. Officials conveyed in the briefing paper that Saudi Arabia had verbally indicated that it wished to proceed with the Memorandum of

Understanding and that any changes were likely to be minor. The briefing paper asked Mr Carter to approve the continuation of negotiations.

2.35 From March to May 2009, domestic and international animal welfare groups lobbied the Government to ban the trade in live sheep for slaughter, expressing animal welfare concerns and opposing any resumption of shipments. This lobbying included 5750 letters and emails received by the Prime Minister's office between 2008 and 2009 (and an additional 4551 "campaign" emails and letters).

2.36 The Ministry and MAF considered the competing issues involved in exporting live sheep, including the relationship with Saudi Arabia, animal welfare concerns, and the legality of a ban on the export of livestock for slaughter. In May 2009, the Ministry advised MAF to continue negotiations on the Memorandum of Understanding (and retain the animal welfare and monitoring requirements).

2.37 Negotiations on the Memorandum of Understanding proceeded at a slow pace. In August 2009, Mr Carter made public statements that he did not think Saudi Arabia would be able to meet the standards he would require for the transportation and treatment of sheep exported for slaughter.

2.38 The Al Khalaf Group and the Saudi Arabian Government were surprised and disappointed at what they perceived as a change in the Government's position on the export of sheep for slaughter. They considered that this change had not been communicated directly to them previously. Mr Carter told us that the Director-General of MAF had made him, as the Minister of Agriculture, aware of the Director-General's independent statutory decision-making authority under the CEPO.

2.39 On 17 November 2009, Mr Carter met with the then Saudi Arabian Minister of Agriculture in Rome during a Food and Agriculture Organisation of the United Nations World Summit on Food Security. Mr Carter outlined the conditions about animal welfare in the Memorandum of Understanding for live exports with Saudi Arabia. The then Saudi Arabian Minister of Agriculture responded that Saudi Arabia could not accept those conditions and that, accordingly, there could be no resumption of the live sheep trade. Ministry officials' records show that the diplomatic relationship between New Zealand and Saudi Arabia deteriorated after this meeting.

2.40 In 2009, Sheikh Hmood and his companies' representatives also confirmed that they were not amenable to New Zealand's imposition in the Memorandum of Understanding of what they considered unacceptable extraterritorial requirements.

Discussions with the Al Khalaf Group from 2009 to 2010

2.41 Correspondence and discussions between the New Zealand Government, the Saudi Arabian Government, and Sheikh Hmood's companies' representatives in late 2009 and early 2010 communicated that Sheikh Hmood, his companies' representatives, and the then Saudi Arabian Minister of Agriculture felt a deep sense of injustice. Their view was that, on the one hand, they were being led to understand negotiation of a government-to-government Memorandum of Understanding was being carried out in good faith. On the other hand, no progress was being made.

2.42 No applications were made by the Al Khalaf Group under the CEPO to export sheep for slaughter.[12] BAGL told us that this was because the requirement that there be a Memorandum of Understanding between New Zealand and Saudi Arabia was crucial to a successful application under the CEPO. (The agreed factors to be taken into account by the Director-General when considering an application under the CEPO include that a bilateral agreement may need to be in place.)

2.43 We were told that the cross-bred Awassi that had been readied for export were in due course slaughtered in New Zealand, resulting in losses for the Al Khalaf Group. The cross-breeding supply contracts continued for three years before the lack of progress with the Memorandum of Understanding meant that the contracts were terminated. We were told that farmers with Awassi cross-breeds received a premium price over local New Zealand slaughter prices. However, the farmers' returns were described as well below what they might have received had they been able to export live sheep.

New Zealand's relationship with the Kingdom of Saudi Arabia in 2010

2.44 Documentation shows that Mr McCully and Mr Groser were advised of the outcome of Mr Carter's meeting in November 2009 (see paragraph 2.39) and increased their level of involvement with this issue amid concerns for the diplomatic and trade relationship with Saudi Arabia.

2.45 A visit to the Gulf by the Prime Minister was planned for April 2010. Originally, the trip was for the signing of the free trade agreement between New Zealand and the Gulf Cooperation Council. Mr Groser told us that, because of unforeseen and urgent events, the Prime Minister was unable to join the trip. Mr Groser said that he represented the New Zealand Government and performed the official duties arranged by the Saudi Arabian Government for the Prime Minister, as well as the specific trade activities scheduled as part of his responsibilities.

12 No applications for exemptions have ever been made under the CEPO – see MPI's website, www.mpi.govt.nz/exporting/overview/general-requirements/live-sheep-and-cattle-exports/.

2.46 Mr Groser met with the then Saudi Arabian Minister of Agriculture in Riyadh, Saudi Arabia, on 24 April 2010. At this meeting, Mr Groser was made aware of the tensions in the relationship between the two countries, and the obstacle to the signing of the free trade agreement, as a result of New Zealand's position on exporting live sheep to Saudi Arabia.

2.47 It was explained that the Saudi Arabian experience with New Zealand during the negotiation of a Memorandum of Understanding to resume the livestock trade led to suspicions that New Zealand had not been sincere in its negotiations. Further, for Saudi Arabia, this was a "commercial" issue because Saudi Arabian businesses had invested millions in New Zealand on the assumption that New Zealand was negotiating in good faith to resume exporting sheep for slaughter.

2.48 The next day, on 25 April 2010, Mr Groser attended, with other New Zealand delegates, a meeting of the Riyadh Chamber of Commerce and Industry. At this meeting, Sheikh Hmood publicly presented his case and tabled a letter, a translated version of which was provided to Mr Groser. This letter described how, in Sheikh Hmood's view, New Zealand's position on exporting livestock for slaughter changed without warning despite assurances from the New Zealand Government that the Memorandum of Understanding between Saudi Arabia and New Zealand was ready to be signed.

2.49 At this point, relations with Saudi Arabia deteriorated. Ministry officials told us that border transit problems began for existing trade and that Ministry officials could not access senior Saudi Arabian officials. Even though market conditions differed, Saudi Arabia made comparisons with how Australia had managed to resume the trade. MAF officials considered that New Zealand's trading profile and exposure to other markets, especially in Europe, differed from Australia's. They thought that New Zealand's reputation as a country with high animal welfare standards was critical to New Zealand's valuable export trade to Europe.

The free trade agreement and exporting live sheep

2.50 Negotiations between New Zealand and the Gulf Cooperation Council for a free trade agreement began in 2007. Negotiations were concluded in October 2009, with the final text subject to legal verification by each participating state. The New Zealand Government expected the free trade agreement to be signed in April 2010.

2.51 By April 2010, New Zealand records of diplomatic meetings indicated that Saudi Arabia regarded New Zealand's policy on exporting sheep for slaughter and its perception that New Zealand had not conducted the Memorandum of Understanding negotiations in good faith as grounds for holding up the legal verification of the free trade agreement.

2.52 Ministry officials believed that the exporting sheep for slaughter issue was "poisoning" trade negotiations, as well as the broader relationship with Saudi Arabia and, potentially, the other members of the Gulf Cooperation Council. Ministry officials' concerns included the potential effects on existing trade with Saudi Arabia. (We were told that, when negotiations on the free trade agreement began, trade in goods with Saudi Arabia was worth about $800 million, with significant projected growth.) Based on meetings between Ministers and senior officials, Ministry and MAF officials believed that Saudi Arabia had put a block on the agreement.

2.53 Mr McCully and Mr Groser proceeded on the basis that they needed to find an alternative option to resolve the bilateral problems with Saudi Arabia.

New Zealand's World Trade Organisation obligations and trading in live sheep

2.54 New Zealand has international trade obligations as a member of the World Trade Organisation (WTO) and under the General Agreement on Tariffs and Trade (GATT). Subject to certain exemptions, GATT obliges us to not maintain non-tariff barriers to trade.

2.55 Documentation states that Ministry officials were concerned about the risk that the CEPO could have been seen to be operating as a ban. A ban would have been a non-tariff barrier. Ministry officials advised on the possibility of WTO action because of the CEPO. Mr Groser, in particular, considered that how the CEPO had been interpreted and the relationship problems with Saudi Arabia needed to be resolved to mitigate the risk of action against New Zealand in the WTO.

The development of a "commercial solution"

2.56 After the April 2010 meeting (see paragraph 2.46), Ministry officials considered that a "commercial solution" to the blockage of the free trade agreement was needed.

2.57 In June 2010, Ministry officials sought guidance from Mr McCully and Mr Groser on the possible options for unblocking progress with the free trade agreement. The options were:

- accepting the CEPO as a prohibition on exporting sheep for slaughter, with resultant risks to New Zealand's trading and diplomatic relationships; or
- concluding the Memorandum of Understanding to allow one annual shipment of sheep for slaughter under appropriate animal welfare conditions, including strict conditions about transport and that slaughter of imported New Zealand livestock would occur in commercial slaughterhouses.

2.58 In August 2010, Mr McCully, Mr Groser, and Mr Carter met with two industry experts to discuss the export of livestock to Saudi Arabia and resulting issues. A record of that meeting indicates that the three Ministers "agreed that the negotiation (on the [Memorandum of Understanding]) had been dilatory and likely perceived by Saudi Arabia as not conducted in good faith or even as duplicitous".

2.59 Mr McCully and Mr Groser also agreed that New Zealand's wider trading interests needed to be protected. Mr McCully and Mr Groser discussed the potential for one shipment after 2011 of only Awassi sheep. This would be under World Organisation for Animal Health (OIE) standards for live shipments. Mr McCully intended to take an oral item to Cabinet on this issue, but it did not proceed to Cabinet.

2.60 In documentation, Ministry officials referred interchangeably to a commercial solution, a compensation-based solution, and compensation. Officials did not think a compensation-based solution would deal with the breadth of the Government's bilateral relationship problems.

2.61 Our interviews and documents highlighted that Ministers and officials instead sought a solution that would address the following:

- the Gulf Cooperation Council relationship – in particular, the free trade agreement;
- the current and future bilateral relationship with Saudi Arabia;
- the effect of exporting sheep for slaughter on other trading relationships;
- animal welfare concerns;
- international and domestic legal obligations;
- the concerns of domestic and offshore investors in New Zealand; and
- Saudi Arabia's food security concerns.

2.62 We understand that Mr McCully and officials were aware that the Al Khalaf Group was in contact with a private stakeholder. That private stakeholder proposed what it viewed to be solutions to diplomatic and commercial issues between Saudi Arabia and New Zealand, including offshore livestock breeding in a third country (that is, not New Zealand or Saudi Arabia). We are also aware that Mr McCully and officials met with this private stakeholder.

2.63 Officials advised the Prime Minister, Mr McCully, Mr Groser, and Mr Carter that a "compensation-based approach holds no promise of unlocking the Saudi reservations to the [free trade agreement] and in fact there remains a risk of rupture in the bilateral relationship which could spread to other [Gulf Cooperation Council] states".

2.64 Our evidence also shows that:

- Officials understood that the overriding priority for Sheikh Hmood and his companies' representatives was "a resumption of the trade, rather than compensation".
- Compensation could have carried its own considerable risks and difficulties, especially in relation to the overriding goal of unblocking the free trade agreement negotiations and resetting the relationship with the relevant parties.

2.65 In a 2012 discussion, Mr McCully clarified with Sheikh Hmood and his companies' representative that any exemption under the CEPO was granted by the Director-General of MAF – independently of the Minister of Agriculture or other Ministers. Mr McCully expressed his opinion that the bar for approvals was set very high. Further, it would be difficult to get an exemption to export sheep for slaughter and there was a high chance any application would be turned down.

2.66 However, Mr McCully also stressed that it was "the investors' right to lodge an application and have it subject to judicial review". Although evidence indicates that the Al Khalaf Group did take legal advice, our interviews indicate that Sheikh Hmood wished to maintain a long-term trading relationship with New Zealand and considered legal action to be a last option. We are not aware of any application, or challenge to a decision made, under the CEPO.

Our comments on these matters

2.67 The history set out in this Part is crucial to understanding how the Partnership arose and why particular arrangements were put in place. There were factors that combined to create a complex picture of competing economic, trade, and animal welfare interests.

2.68 In our view, between 2003 and 2009, there were mixed messages from Ministers and officials in New Zealand to Ministers and businessmen in Saudi Arabia. This was a major contributor to subsequent complications in New Zealand's relationship with Saudi Arabia. The contradictory and mixed messages were:

- putting in place the CEPO, which prohibited the export of livestock for slaughter except on a case-by-case basis;
- continuing negotiations on a Memorandum of Understanding to regulate the export of live sheep; but
- at the same time, Mr Carter's public statements that the trade was unlikely to resume.

2.69 We are not aware of any applications made or exemptions granted under the CEPO.

2.70 The CEPO clearly states that the Director-General makes decisions about granting exemptions, and Mr Carter knew this. However, it might not have been clear to the public or stakeholders between 2009 and 2012 that the Minister of Agriculture's opinion did not determine the matter.

2.71 Officials in MAF and Biosecurity New Zealand appear to have been negotiating the Memorandum of Understanding with Saudi Arabia under direction from Ministers and senior officials that exports of live sheep were likely to resume once agreement was reached. The reality was that a decision to resume was far from certain. We do not have evidence that successive Ministers of Agriculture clearly communicated this uncertainty to officials.

3 Setting up the Saudi Arabia Food Security Partnership

3.1 In Part 2, we described significant problems and complexities related to live sheep exports that arose in the relationship between New Zealand and Saudi Arabia. In this Part, we explain how the Partnership was developed as a solution to resolve some of those problems and complexities.

The Gulf Strategy and establishing the Saudi Arabia Food Security Partnership

The Gulf Strategy

3.2 New Zealand has a significant trading relationship with the Gulf Cooperation Council. In 2012, when the Partnership negotiations were under way, New Zealand exported goods worth $1.53 billion to the Gulf Cooperation Council, making it our seventh largest export market. New Zealand exports to Saudi Arabia alone were worth about $700 million in 2012. New Zealand's two-way goods trade with Saudi Arabia totalled $1.44 billion in 2013.

3.3 The Government's strategy for the Gulf (the Gulf Strategy), published in July 2013, noted the importance of food security for the Gulf Cooperation Council and that New Zealand, as an exporter of high-quality food, is a "natural partner" in this regard. The Gulf Strategy set out aspirations for increasing trade with the Gulf Cooperation Council in areas where New Zealand has "relevant public and private sector expertise". In 2012, the top five exports were milk powder, butter and dairy spreads, sheep meat, cheese, and chilled beef meat.

3.4 The Gulf Strategy explained that "while the [Gulf Cooperation Council] states have high per capita GDP fuelled by huge oil reserves … they share a serious shortage of both water and arable land". As such, food security had become an important concern in regions such as the Gulf. Food exporting countries are "natural partners" for the Gulf Cooperation Council in their food security goals, which include increasing the number of domestically raised sheep and developing sustainable husbandry techniques.

3.5 Maintaining the existing trade relationship was an important factor influencing decisions about exporting sheep for slaughter. Given ceasing that export was (in the words of Ministry officials) a "poisonous" factor in New Zealand's relationship with Saudi Arabia, and consequentially the Gulf Cooperation Council, officials sought a commercial solution that would remove that factor.

Developing the Saudi Arabia Food Security Partnership

3.6 On 14 February 2012, Mr McCully and officials met to discuss an upcoming meeting with Sheikh Hmood and his companies' representative. This meeting, and a subsequent briefing, discussed solutions that included putting a food security proposal (the Food Security Arrangement) to Sheikh Hmood.

3.7 Mr McCully explained to officials that the purpose of the proposal was to consider committing some funding to make it possible to export sheep to the Gulf region for breeding rather than for slaughter, because the Government wanted to keep Sheikh Hmood's investment in New Zealand. The aim of the proposal was:

> *... to put in place the necessary governmental support ... as well as the technical framework – to make possible the establishment of a third country breeding colony of Al Khalaf's stock.*

3.8 In the 14 February meeting with officials, Mr McCully noted that:

- A transparent and contestable process would be required – and that any private benefit should be incidental. If cash was invested in the proposal, due process would need to be followed – for example, approval by Cabinet.
- He was aware that MAF was concerned that the proposal was creating a "back door" for exporting sheep for slaughter, and that the Ministry had to be clear this was not the case. He explained that "any [Sheikh Hmood] work would be part of a wider context".

3.9 On 27 February 2012, Mr McCully and officials met with Sheikh Hmood and his companies' representatives. Mr McCully talked about the history of the issue of the export of livestock for slaughter and said that, if he were in Saudi Arabian shoes, he would conclude that Sheikh Hmood had been misled. He commented on the shift in the political landscape.

3.10 Sheikh Hmood expressed his gratitude to the New Zealand Government and people for all of the support he had received over the years and explained that he had invested because of market forces and the better health of livestock in New Zealand. Sheikh Hmood said that "the Saudi side would like to see a solution around exporting animals for breeding purposes to Saudi", and was wary of the animal health issues that may arise in third countries.

3.11 The discussion also included greater co-operation with the Gulf Cooperation Council on food security and proposals that would meet Saudi Arabia's food security concerns, including exporting sheep for breeding.

3.12 On 1 March 2012, an official met with Sheikh Hmood and his companies' representatives. Three options were discussed:

- option A (Sheikh Hmood's preferred option) – to "continue to seek live sheep for slaughter";
- option B – "export of live sheep for breeding, small scientific trial for slaughter and financial compensation"; and
- option C – "export of live sheep for breeding and financial compensation".

3.13 Sheikh Hmood's Australasian representative explained to an official that, if options B or C were progressed, the Al Khalaf Group would seek financial compensation for the eight years that they had been unable to export, which amounted to about $24 million.

3.14 On 5 March 2012, Mr McCully met with Sheikh Hmood and his companies' representatives again. In this meeting, exporting sheep for slaughter and a joint farming operation or sheep-for-breeding project in Saudi Arabia were discussed. An official's report on the meeting states:

> *The Minister noted that he did not want any (financial) contributions to be treated as compensation as this would involve a plethora of lawyers and bureaucrats. Rather he would prefer an investment in a partnership to achieve the objective that could have been achieved by exporting [sheep for slaughter].*

3.15 The actions recorded from the 5 March meeting, and confirmed in a letter from Mr McCully to Sheikh Hmood in March 2012, included:

- completing a Memorandum of Understanding for trade in live sheep between New Zealand and Gulf countries, including Saudi Arabia; and
- developing a food security partnership with an immediate focus on exporting sheep for breeding purposes.

3.16 In a letter dated 9 April 2012, Sheikh Hmood responded to Mr McCully's letter. Sheikh Hmood expressed his pleasure that the issues that delayed the signing of the Memorandum of Understanding were to be resolved and that there would be a partnership for a breeding venture in Saudi Arabia. He also said that the then Saudi Arabian Minister of Agriculture was pleased by the content of Mr McCully's letter.

3.17 A Ministry paper to Mr McCully and the Minister of Primary Industries (and referred to the Prime Minister, Mr Groser, and the Associate Minister of Primary Industries) on 19 April 2012 records the recommendation from officials that work streams begin on:

- establishing protocols for exporting sheep for breeding to Saudi Arabia;
- establishing a joint-venture sheep breeding operation in Saudi Arabia; and
- finding an appropriate mechanism to meet Sheikh Hmood's concern for "compensation" (possibly through the joint venture).

3.18 Agreement was also sought from Ministers to appoint a Special Envoy for Food Security Issues. The Ministry contracted an official in June 2012 "to build public-private partnerships in pursuit of commercial opportunities in the Gulf and potentially beyond". This role was called the Special Envoy for Government-Commercial Partnerships. The ratification of the free trade agreement was noted in the contractor's offer of employment as an associated issue. As well as one other project, the contracted official was asked:

- *to explore establishing a food security co-operation partnership with the* [Gulf Cooperation Council] *states;*
- *to oversee the work of a group of technical experts on scoping and developing sheep breeding joint ventures; and*
- *to lead negotiations with Saudi investors.*

3.19 Officials told us that they needed to "change the narrative" with Sheikh Hmood and his companies' representative from one of compensation to one that was "future-focused". The language of partnership was used as a means to achieve this "change in narrative". The Special Envoy told us that a Ministry official on the Middle East desk made it clear to him that exporting live sheep was the biggest issue needing resolution. Accordingly, the Special Envoy and other Ministry officials met with Sheikh Hmood's Australasian representative in July in the Hawke's Bay and also travelled to Australia to meet with him.

3.20 The file note of the Hawke's Bay meeting on 23 July 2012 estimated that the investment required would be $5-$10 million. The Special Envoy told us that his job was to work with the Ministry and the Al Khalaf Group to prepare a partnership with a budget of $10 million.

3.21 Further evidence from interviews and documents indicates that Ministry officials discussed the split between the payment for services from HAATT Est and the payment to New Zealand companies to provide services and equipment to the Agrihub being set up in Saudi Arabia, within a $10 million budget. The Agrihub is a term used to describe the agri-business operation located on Sheikh Hmood's Um Alerrad farm.

3.22 In a Ministry internal memorandum dated 7 September 2012, it was requested "that subject to ministerial, and then Cabinet approval, a contingency of NZ$10 million be made to fund a potential partnership with Al Khalaf Group as a key part of a New Zealand / Kingdom of Saudi Arabia food security arrangement …".

3.23 Negotiations resulted in agreement that a partnership was the way forward. An undated briefing paper to Mr McCully commented that, "[w]hile this is a great opportunity for New Zealand, due consideration must be given to what New

Zealand requires from this process." It went on to note that consideration had been given to how New Zealand could benefit from strategic engagement with a substantial business in the Middle East.

3.24 An exchange of letters took place between Mr McCully and Sheikh Hmood in November 2012 that described a mutual commitment to a partnership between the New Zealand Government and the Al Khalaf Group (we discuss these letters in paragraphs 4.2 and 4.3).

3.25 A meeting between Ministry officials and the Ministry's external lawyers took place on 10 January 2013 about how to structure the relationship with the Al Khalaf Group, by a licence, contract for services, or a joint venture.

3.26 Documentation shows that the arrangements needed to be concluded urgently to enable a payment to be made, based on Mr McCully's exchange of letters with Sheikh Hmood. With that constraint, it was decided that the Ministry should be the contracting party. We describe the contractual arrangements that were made in Part 4 and the implementation of the Partnership in Part 7.

3.27 A draft paper to Mr McCully refers to the "capital contribution"[13] as a "one-off, ex-gratia payment". The final paper, dated 14 January 2013, did not categorise the payment as an ex-gratia payment but sought approval from Mr McCully to make an initial capital payment to the Al Khalaf Group as a necessary first step in establishing a partnership. Notes on the paper record that Mr McCully requested officials to prepare a Cabinet committee paper on this to advise his Cabinet colleagues and confirmed his oral advice to officials that appropriate probity standards be applied for any procurement.

Advice to Cabinet

3.28 The Cabinet Manual[14] provides guidance on which issues Ministers should submit to Cabinet and what is more appropriately dealt with by departments.[15] The Cabinet Manual states that Ministers should keep their colleagues informed about matters of public interest, importance, or controversy.[16]

3.29 When the Partnership was being developed, Cabinet Office Circular CO (11) 6 (dated 18 October 2011) set out the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications,

13 See paragraph 4.3 – this was the $4 million payment.

14 The Cabinet Manual is available on the website of the Department of the Prime Minister and Cabinet, www.dpmc.govt.nz.

15 See Cabinet Manual, pages 63-64. Part 3 of that manual covers the general framework of Ministers' relationships with the State sector.

16 Cabinet Manual, paragraph 5.11.

including any changes to appropriations.[17] We discuss appropriations further and specific types of payments that require Cabinet approval in Part 5.

3.30 In January 2013, Mr McCully put a paper entitled "Food Security Partnerships in the [Gulf Cooperation Council]" to the Cabinet External Relations and Defence Committee. This January 2013 paper proposed to the Committee that it note the steps being taken by Mr McCully to promote food security partnerships with the members of the Gulf Cooperation Council, including steps being taken with Saudi Arabia to promote "agricultural partnerships taking into account the cessation of live sheep exports since 2002". The main features of the proposal were explained in this paper as:

- *Initial funding of $4 million increasing over time depending upon progress with the partnership (with the possibility of additional contributions from participating firms and the government of Saudi Arabia) to provide a hub of New Zealand agribusiness partners working alongside Saudi co-investors to showcase New Zealand agricultural expertise and technology. The initial $4* [million] *in funding will come from operational savings achieved through 2011/2012 and rolled over for future NZ Inc. leveraging purposes.*
- *Possible export, once or twice a year, of a significant number (in the tens of thousands) of pregnant livestock for breeding purposes to form the basis of a New Zealand hub in Saudi Arabia. These arrangements will need to satisfy the normal MPI criteria. However, this is well explored territory given that NZ has exported over 85,000 head of livestock in the last three years for breeding purposes.*
- *Provision of genetic and breeding technology and scientific support services from New Zealand companies.*

3.31 After the paper "Food Security Partnerships in the [Gulf Cooperation Council]", in February 2013 (the recommendations in this paper were noted by the Cabinet External Relations and Defence Committee), Mr McCully submitted a further paper to Cabinet entitled "Saudi Arabia Food Security Partnership". We were told that Ministry legal advisers were not asked for input or made aware of this Cabinet paper or earlier related Cabinet papers. Officials emphasised to us that the February 2013 Cabinet paper was, for the most part, drafted and revised in Mr McCully's office with involvement from Mr Groser. Mr McCully told us that the Cabinet paper was his responsibility.[18]

3.32 The February 2013 paper provided the following major context to Cabinet:

- It provided an update on progress with addressing the live sheep for slaughter

17 CO (11) 6. This was subsequently replaced by CO (15) 4, 3 June 2015, Proposals with Financial Implications and Financial Authorities.

18 The Cabinet Manual states at paragraph 5.37 that "Ministers are responsible for the papers they submit to Cabinet ..."

export issue, which was a significant impediment in the bilateral relationship between New Zealand and Saudi Arabia.

- The proposal to invest in a pilot agri-business operation with Saudi Arabia was a means to resolve that impediment as well as a dispute between New Zealand and a Saudi Arabian investor.
- There was a serious threat to existing trade in goods and services with Saudi Arabia because of the live sheep for slaughter export issue.
- The Gulf Cooperation Council had asserted that the live sheep for slaughter export issue was the only obstacle to ratification[19] of the free trade agreement and the issue had suspended the ratification of the free trade agreement.
- The member states of the Gulf Cooperation Council had acute food security concerns and prioritised food security projects.
- Mr McCully and officials had spent three years working to resolve the relationship issue with Saudi Arabia as a consequence of the live sheep export issue.
- "Saudi parties" (we interpret those parties to be only the Al Khalaf Group) would have preferred to enter discussions on the basis of seeking compensation for commercial loss as a result of Government decisions. Some consideration had been given to purchasing the Saudi Arabian parties' investments in New Zealand, but this would not address the grievances as perceived by the Saudi Arabian Government.
- The proposed arrangement would result in strong incentives for the Saudi Arabian parties to promote the ratification of the free trade agreement, but that there was no written understanding on this.
- The paper advised on a risk of a WTO case being taken against New Zealand and significant risks to New Zealand's reputation as an investment destination.

3.33 Further, the financial matters highlighted to Cabinet in the February 2013 paper were:

- New Zealand goods exports to the Gulf Cooperation Council exceeded $1.57 billion and had grown at an average of more than 10% in the past three years.
- It was estimated that New Zealand exports to the Gulf Cooperation Council could double to $3 billion in five years if the free trade agreement could be achieved.
- The Al Khalaf Group had received legal advice that it could pursue a claim against the Government for between $20 million and $30 million.

19 The Cabinet paper uses the term ratification. However, before the drafting of the Cabinet paper, officials advised that the obstacle was to the signing and ratification of the free trade agreement with the Gulf Cooperation Council.

3.34 The February 2013 paper explained a proposal to:

> *... work with the existing Saudi investors in New Zealand to relocate the parts of their business that are no longer able to operate here as a result of the ban on live sheep exports for slaughter. The objective is to use the investment they have made in the genetic development of the Awassi breed, their logistical, supply chain and market connections to create a base for New Zealand service suppliers to leverage the New Zealand brand and reputation for agricultural excellence in the Middle East market.*

3.35 The proposal included:

> *... a $4 million commitment to acquire from the Saudi investors the components of the platform to conduct a three year pilot.*
>
> *The allocation of up to $6 million for a project to use the platform as a hub for New Zealand agriculture service providers to build an enduring presence in the Middle East and African markets. This will depend on securing relevant New Zealand company commitment to the project.*

3.36 The February 2013 paper further explained "the platform" for the Crown's investment into an agri-business operation or demonstration farm (the Agrihub). It was confirmed that funding for the $4 million contribution, and allocation of $5.5 million to the project, would be met from reallocated Ministry baseline savings. It was also explained that NZTE had "allocated approximately $500,000 for this project within [its] Agribusiness High Impact Programme".

3.37 The January and February 2013 Cabinet papers show the expectation that NZTE would, in due course, become involved. The paper states that "NZTE view this project as an extension of their normal activity, and support for this project will be via the New Zealand companies, and is conditional on company support, commitment and co-investment." We were told by NZTE that, although this was within NZTE's usual scope of activities, the rationale for the NZTE Board supporting this initiative was to deliver on a wider NZ Inc. strategy to resolve complex diplomatic issues in pursuit of the free trade agreement.

3.38 Officials from the Treasury[20] briefed the Minister of Finance on several versions of the draft Cabinet paper. The Treasury's pre-Cabinet briefings to the Minister of Finance on 4 February and 11 February 2013 noted that:

- It had not been consulted about the financial implications of the proposed expenditure.
- It had concern about the lack of clarity with the benefits of the business case.

20 The Treasury must be consulted on all papers with financial, fiscal, economic, or regulatory implications, or that contain recommendations on expenditure or revenue.

- It understood that the proposal was a goodwill initiative[21] intended to help progress the free trade agreement, and it noted that there was no guarantee the proposal would benefit the free trade agreement.
- Alternative options were not presented to Cabinet.
- Cabinet was originally asked only to note the proposal (as opposed to agree to it) – the Treasury considered that the proposal met the criteria for needing Cabinet approval.
- The Treasury recommended that, given its concerns, the Minister of Finance not support the proposal.

3.39 After reviewing the final Cabinet paper, the Treasury continued to recommend that the Minister of Finance not support the proposal because "it remains unclear what the benefits for New Zealand firms from the proposal will be, whether the spending will benefit the [free trade agreement], or what precedent it could create for other trade agreements".

3.40 The recommendation from the Treasury was that, if Cabinet decided to proceed with the proposal, Cabinet "direct [the Ministry] to work with the Treasury, NZTE, and MBIE on the execution and management of this contract". It appears that the Treasury accepted the funding arrangements for the proposal and the intended transfer of funds to NZTE. However, it thought that a new appropriation for the $4 million payment might be required. We understand that the Treasury's concern at the time was that there was an authority to charge the expense against the relevant appropriation.

3.41 In keeping with the February 2013 paper, the Cabinet Minute[22] records that, on 18 February 2013, Cabinet:

- ***noted*** *the progress reported by the Minister of Foreign Affairs to address a significant impediment in the bilateral relationship between New Zealand and Saudi Arabia, as outlined in the paper under CAB (13) 71;*
- ***noted*** *the proposal to invest in a pilot agribusiness operation with Saudi Arabia as a means to resolve this dispute and form a long-term food security partnership;*
- ***noted*** *that the cost of this food security platform will be $4 million initially, which recognises the intellectual property which the Saudi investor brings to*

21 The two forms of settlement payments that the government can make are **compensation payments** and **"ex gratia" payments** (payments made out of a sense of goodwill). Compensation payments envisage that there is a policy decision to settle a potentially valid legal claim and that the settlement will provide the government with legal reassurance that no future claim can be filed against it on the particular issue. "Ex gratia" payments envisage that the government makes a policy decision that there is a moral obligation to settle a wrong (that is, create goodwill with the payment), even if there is not a legal claim that has been or will be filed against it.

22 CAB Min (13) 4/7.

- *the platform and the services and in-market networks he will contribute, as well as the settlement of the long-running dispute;*
- ***agreed** that there will be an ongoing investment in the pilot agribusiness operation of up to $6 million for the delivery of services by NZ agricultural service entities, and that the $6 million will be undertaken in strict conformity with government procurement requirements;*
- ***noted** that the costs of these initiatives will be met from within the Ministry of Foreign Affairs and Trade's baseline;*
- ***noted** that the procurement and selection of New Zealand firms and services to participate in the food security partnership will be done with the agreement of the Saudi partners, the Ministry of Foreign Affairs and Trade, and New Zealand Trade and Enterprise;*
- ***noted** that any related proposal to export livestock for breeding purposes must meet existing Ministry for Primary Industries criteria and be the subject of an application in the normal way.*
- ***note** that any export of livestock for breeding purposes under the partnership must be undertaken to achieve the effective relocation of breeding stock to Saudi Arabia for the purposes of shaping the new business model, and not to establish a new business in New Zealand for the export of livestock for breeding;*[23]
- ***directed** the Ministry of Foreign Affairs and Trade to work with the Treasury, the Office of the Auditor-General*[24] *and New Zealand Trade and Enterprise on the execution and management of the contract.*

Our comments on these matters

3.42 The intention behind Mr McCully's early negotiations with Sheikh Hmood was to find a "commercial solution" to address Sheikh Hmood's sense of grievance. However, we did not find evidence of officials' real analysis of other options. We also did not find evidence of Ministers or officials requesting or receiving internal or external legal advice on the extent of the risk of a claim for compensation from the Al Khalaf Group against the Government.

3.43 We found significant shortcomings in the February 2013 Cabinet paper, including that it:

- did not clearly explain that the Al Khalaf Group would own the goods and services,[25] costing the New Zealand Government $6 million;
- did not identify how the $10 million figure was arrived at (a figure that has since risen to $11.5 million);

23 See paragraph 7.31 and footnote 41.

24 We discuss our role further in Part 4.

25 See footnote 26.

- signalled the risk of a claim against the Government based only on the $20-$30 million figure that the Cabinet paper said was suggested by the Al Khalaf Group (there was no assessment by Ministry officials of the substance of that legal risk);
- did not include any analysis about whether there were any other potential obstacles to the signing or ratification of the free trade agreement, other than the concerns of the Al Khalaf Group about the export of live sheep, or the assertion by the Gulf Cooperation Council that this was the only obstacle to the free trade agreement;
- identified risk in the form of a WTO case, without including any analysis in the Cabinet paper; and
- identified that New Zealand exports could double to $3 billion in five years if a free trade agreement was signed with the Gulf Cooperation Council, without including any analysis.

3.44 Mr McCully told us that it was unfair to criticise the Cabinet paper for failing to analyse the consequences of a litigation or a compensation negotiation process that it had expressly ruled out.

3.45 We found no evidence that officials substantially reviewed other potential obstacles to the free trade agreement with the Gulf Cooperation Council, the strength of the relationship between the Al Khalaf Group and the Saudi Arabian Government, or the risk to existing trade with Saudi Arabia or elsewhere referred to in the February 2013 Cabinet paper. We are concerned about the lack of robust analysis and the quality of information provided to Cabinet on this matter.

3.46 In our view, a consequence of the shortcomings of the Cabinet paper was that the settlement component relating to the grievance was not reflected in any subsequent arrangements. This lack of transparency about how the contract for services would settle the dispute has led to the concerns from the New Zealand public about the nature of the payments made.

First steps in implementing Cabinet's decision

4

4.1 In this Part, we discuss the signing of the contract for services and the different agencies involved in implementing that contract.

Signing the contract for services

4.2 As mentioned in paragraph 3.24, an exchange of letters took place between Mr McCully and Sheikh Hmood in November 2012.

4.3 Mr McCully's letter explained that the first component was the payment of a $4 million "capital contribution" to "recognise the Al Khalaf Group's [including HAATT Est] investment in the Awassi sheep breed to-date ... and the expertise and customer networks that it will bring to the partnership". The second component was described as:

> *... a NZ$6 million contribution from the New Zealand Government to invest in the partnership, in particular in investing in research and development for the purpose of producing and exporting Awassi and New Zealand livestock for breeding and enhancing the supply of fresh meat to the Saudi market while promoting New Zealand red-meat technology and capability both in New Zealand and Saudi Arabia.*

4.4 It was the arrangements detailed in these letters that were referred to in the Cabinet paper described in Part 3.

4.5 In Part 3, we explain that:

- Ministry officials had acted urgently to prepare a contract for services based on the November 2012 exchange of letters between Mr McCully and Sheikh Hmood.
- Ministry legal advisers were not asked for input into the Cabinet paper.
- We saw no evidence of internal or external legal advice being sought on the extent of the risk of a claim for compensation from the Al Khalaf Group against the Government.

4.6 After Cabinet's decision, the Ministry moved to implement it by entering into a contract for services (dated February 2013) that reflected the exchange of letters with HAATT Est, which officials referred to as part of the Al Khalaf Group. HAATT Est is an "integrated livestock business comprising meat retailing, processing, feedlots, importation and transportation of live animals, and farming".

4.7 The Ministry of Business, Innovation and Employment has a set of standard conditions of contract for routine government purchases. These conditions are called Government Model Contracts. Government Model Contracts are aimed at low-value, low-risk common goods and services. The contract for services,

which the Ministry drafted with the assistance of external legal representation, was based on these standard contracts. We were told that it was the Ministry's practice to use the Government Model Contract templates for procurement.

4.8 More detail was included in the contract for services than was contained in the letters. Phase 1 of the services being purchased for $4 million was described as:

- *access to the output of the research and development, capital investment and market-analysis of HAATT Est, particularly related to the Awassi breed of sheep;*
- *facilitation of access to HAATT's key customer, business and influencer networks in Saudi Arabia; and*
- *assistance with preparation of a New Zealand agri-business delegation to Saudi Arabia to study the HAATT Est in-market supply-chain and provide recommendations regarding the potential New Zealand intellectual property and technologies that could be used to enhance and improve the existing animal welfare standards and red-meat productivity in Saudi Arabia.*

4.9 Phase 2 of the services being purchased was described as being "in the spirit of a partnership between HAATT Est and [the Ministry]" to "assist in the development and delivery of Saudi Arabia's food security programme". The services that the Ministry was purchasing in Phase 2 of the contract for services were listed as:

- *participation of key personnel and/or associates of HAATT Est in the New Zealand Agri-business study tour to Saudi Arabia in April 2013;*
- *the development, in cooperation with* [the Ministry]*, of a detailed business plan by the end of May 2013, and following the study tour in March, outlining the research and development and procurement of relevant technologies to be carried out, along with the timing of implementation. The development in the business plan, in cooperation with* [the Ministry]*, of a project management and governance model to facilitate delivery of the objectives specified in Phase 2;*
- *implementation of the business plan, in cooperation with the Buyer, between June 2013 and June 2014.*

4.10 The Ministry paid $4 million to HAATT Est on 21 February 2013, before any of the services described were provided by HAATT Est.

4.11 The $6 million was later agreed by the parties to be the provision of New Zealand-sourced services[26] to the demonstration farm in Saudi Arabia. Several services were to be performed by HAATT Est in return.

26 The contract for services specifies services. However, we have referred to the supply of goods and services because this is our understanding of what was supplied.

4.12 The contract for services achieved certain things.[27] We have evidence that it:

- purchased HAATT Est's (through Sheikh Hmood) representations of New Zealand's interests in Saudi Arabia;
- addressed Sheikh Hmood's sense of grievance about New Zealand's policy change on exporting sheep for slaughter;
- facilitated the removal of the then Saudi Arabian Minister of Agriculture's opposition to the free trade agreement between New Zealand and the Gulf Cooperation Council;
- purchased HAATT Est's breeding expertise and access to Awassi genetic stock;
- purchased HAATT Est's assistance with hosting a study tour to Saudi Arabia by New Zealand companies;
- improved the relationship so that Ministry and NZTE officials and New Zealand companies could, with permission, have access to the Agrihub (Sheikh Hmood's Um Alerrad farm); and
- resulted in New Zealand companies installing and demonstrating their products at the Agrihub.

4.13 Importantly, neither the contract for services nor any later agreement achieved some things that might have been expected. It does not:

- provide a formal legal settlement of the "long running dispute" with the Al Khalaf Group;
- put in place clear and specific contractual obligations;
- give the Ministry or New Zealand companies any formal legal rights to access the Agrihub (nor does it provide a mechanism for them to gain these); or
- give the Ministry or New Zealand companies any formal legal rights to install or demonstrate New Zealand equipment at the Agrihub (nor does it provide a mechanism for them to gain these).

4.14 We discuss details of the management of the contract for services in Part 7.

Agencies involved in the contract for services

4.15 Various agencies were involved in the contract for services, including the Ministry, NZTE, the Treasury, and our Office.

Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise

4.16 The mechanism for delivery of the $6 million of goods and services, to which Cabinet agreed, was to be a funding agreement signed initially between the Ministry and the selected lead provider of those goods and services. That is, the lead provider would distribute the funds and lead the subcontracting and

27 These achievements are not set out explicitly in the contract for services, but we have evidence that they were part of its effect.

management of the delivery of those goods and services to Sheikh Hmood. It was envisaged that the funding agreement would be transferred from the Ministry to NZTE (referred to by agencies as a "novation" of the contract).

4.17 In March 2013, NZTE's agri-business official briefed the NZTE Board on the background and purpose of the Partnership. The paper to the Board explained:

> *It has been proposed that NZTE will manage the $6 [million] programme of work, as an extension of normal activity through Output Class Three. $500,000 of this project is allocated from current NZTE baseline, within the Agribusiness High Impact Programme.*

4.18 The intended transfer would leave the Ministry responsible for relationship management at a diplomatic level. We understand that it was thought that the management of this particular work programme was a better fit with NZTE's core business and contract management capabilities. Beachheads is an example of both of these capabilities.[28]

The Treasury and the Office of the Auditor-General

4.19 In the decision on the February 2013 Cabinet paper, Cabinet directed the Ministry to work with the Treasury, the Office of the Auditor-General, and NZTE on "the execution and management of the contract".

4.20 The Treasury was contacted about the business case for the $6 million expenditure. The Treasury assessed an initial "blueprint" (see paragraphs 6.10 and 6.11) that Deloitte was asked to prepare and provide to Ministry officials. The Treasury assessed that the version officials provided to it was "very poor". The Treasury's documentation shows that it was mindful that the blueprint "specifics, tender requests etc" went beyond the Treasury's core business.

4.21 Documentation shows that the Treasury clarified its role with the execution and management of the contract given that Cabinet "agreed to the proposal, and has committed the funding" (see Part 5). The Treasury considered:

- whether the $6 million was "not material enough to warrant close Treasury oversight";
- whether the proposal "might turn into a significant Crown investment and/or Crown exposure to financial risk, which would be best protected by Treasury having a reasonably close oversight role from the outset"; and

28 "The objective of the Beachheads programme is to use private sector executives to work with New Zealand exporting firms in order to accelerate their entry and growth in offshore markets … Some advisers may facilitate contact between firms and other individuals in their personal business networks. Good advisers are able to add value by drawing on their working knowledge of the market, are able to relate well to New Zealand firms, and have a clear understanding of their role." *Ministry of Economic Development, Evaluation of New Zealand Trade and Enterprise's Beachheads Programme, Final Report, May 2012,* page 3 paragraphs [3] and [4]. We were told that an example of offshore relationship management was that the Ministry pays Honorary Consuls to represent New Zealand's interests in certain circumstances.

- from a legal perspective, the fact that the Treasury normally tried to ensure that the lead agency's lawyers handled the contract development unless there were Public Finance Act 1989 issues.

4.22 The Auditor-General is an independent Officer of Parliament. The Office's mandate is limited by the Public Audit Act 2001. After we were made aware that the Cabinet Minute had requested that the Ministry work with us, we clarified the limits of our role with the Ministry (on 20 August 2013). At that time, we decided it was within our mandate to independently assess whether the $4 million expenditure was within appropriation and to carry out a limited check on the quality of the business case for the $6 million planned expenditure.

4.23 In our August 2013 letter to the Ministry, we "concluded that the $4 million spend was within the scope of the appropriation" (see Part 5). Our views on the $6 million planned expenditure are set out in paragraphs 5.20 and 5.22. We noted inadequacies in the indicative business case and we expected a fuller explanation of the business proposals, risks, and benefits at the initial decision-making phase. The results of our work for this period were publicly released.

4.24 The Ministry briefed the Secretary of Foreign Affairs and Trade in response to the issues we raised about the business case. It was thought that there was "little value in elaborating the points raised by the [Office of the Auditor-General]" until the Ministry had more detail on what it would be procuring. The Secretary was also advised that the NZTE Board and the Treasury were consulted and were "comfortable with this approach, with NZTE reserving its decision to participate until it knew the nature of the deal".

4.25 We and the Treasury received a final business case in November 2013. On 3 December 2013, the Treasury communicated that it was generally comfortable with the final business case and discussed its possible involvement on the Governance Group to monitor the performance of the contract to deliver the $6 million goods and services (the funding agreement).

4.26 Ministry officials discussed with the Treasury the complexities of introducing the Treasury into the Governance Group because of relationship sensitivities between the parties. The Treasury and the Ministry agreed that the Treasury would receive regular reports and agendas relating to the Governance Group, be consulted on any reporting back to Ministers, and discuss issues as required with the Ministry. (We discuss the Treasury's later involvement in paragraph 7.21.)

4.27 On 10 December 2013, we wrote to the Ministry again. We provided additional comment to our 20 August letter, stating that:

- The final business case sets out only where potential commercial benefit might lie (as opposed to what we expect from a business case, which is where

commercial benefit will need to be realised).

- The resolution of the relationship with Saudi Arabia and the Gulf Cooperation Council is mentioned in the business case. We noted the stated importance of this relationship in not only assisting progress with a free trade agreement but also for mitigating the risk to New Zealand's existing trade (as per the February 2013 Cabinet Paper).
- We were told by Ministry officials that MPI criteria would be applied to the export of any sheep.
- We also commented that the sustainability of the Agrihub would rely on the future investment by New Zealand agri-businesses and Saudi Arabian interests.
- We clarified the limits of our work in the 10 December letter, stating that "our comments do not provide assurance of any nature and neither do they constitute an endorsement of government policy, which is outside of the Auditor-General's mandate".

Our comments on the contract for services

4.28 As outlined in Parts 2 and 3, a diplomatic issue had arisen that, in Ministers' minds, needed to be resolved. The contract for services, and the Partnership it formed, was seen as a commercial solution to that issue.

4.29 We were surprised that, in these circumstances, it was decided to use a contract as a means to resolve a diplomatic issue between governments. We have been told that contracts with private individuals and companies for diplomatic objectives are not unusual but it has raised questions in this case. Even if the commercial dispute between Sheikh Hmood and New Zealand needed to be addressed before that diplomatic issue could be resolved, the use of a contract was problematic.

4.30 The contract does not outline the different policy objectives or the complexities of this situation. Importantly, the contract does not specifically reflect the settlement component relating to the grievance.

4.31 In paragraphs 4.12 and 4.13, we set out what the contract for services achieved and, importantly, what it, nor any later agreement, did not achieve.

4.32 It is difficult to reconcile the words of the contract with the unstated objectives, which included resolving a complex diplomatic issue and removing a perceived obstacle to signature of the free trade agreement. These are not reflected in the contract, which focuses instead on the purchase of services from HAATT Est and a contribution to HAATT Est as an "investment in the partnership". The contract for services was a convenient mechanism by which the allocated $10 million, later

$11.5 million, was put towards achieving those unstated objectives. It does not tell the full story.

4.33 Because the wider objectives are not articulated in the contract, it is not clear to the public what the contract ultimately achieves for the $10 million (and ultimately up to $11.5 million) being spent. As discussed in Part 8, it is not an easy task to identify or measure how those wider objectives have been met and how the amounts paid under the contract have contributed towards meeting those objectives. We also note that the payments were made upfront, before the services were provided by HAATT Est. This is not best practice for a contract for services.

4.34 Given it was decided to use a contract for services, we question that the contract for services was based on a Government Model Contract template. We do not consider the contract for services was low value or low risk. We expected a more comprehensive document that would have placed clearer and more specific obligations on both parties. This would have helped to clarify what was to be given and received, and would also have allowed a more transparent assessment of the benefits.

4.35 Negotiations on the free trade agreement with the Gulf Cooperation Council were concluded in 2009. Even though the contract for services was effective from 19 February 2013, the free trade agreement has still not been signed, although in two recent joint statements (in April and September 2016) New Zealand and Saudi Arabia have indicated progress, including towards completion of the free trade agreement.

5 Legality of the payments

5.1 There has been public concern that payments associated with the Partnership might have been a bribe or otherwise corrupt. We concluded in Part 3 and have discussed in Part 4 that the decision to use a contract for services created confusion and suspicion about how the compensation elements of the arrangements were actually addressed. As a result, it was not surprising that questions were raised about the legality of the payments to Sheikh Hmood.

5.2 In this Part, we consider the lawfulness of the payments, including:

- whether corruption or bribery was present;
- whether the money spent by the Government was properly appropriated; and
- how the money was spent.

Was there corruption or bribery?

5.3 The Crimes Act 1961 provides for several offences of bribery. Each offence has slightly different elements. A bribe does not have to be money – it can be any benefit that a person will receive, but it must involve corruption. Corruption can be described as "the abuse of entrusted power for private gain".[29]

5.4 Ministers and officials have power entrusted to them because of their involvement in government decision-making and their responsibility for public money. That entrusted power must be used for proper purposes and with integrity and honesty. Ministers and officials must not privately benefit from using their entrusted power; to do so would constitute an abuse of it.

5.5 To understand whether there was corruption, we looked at whether a Minister or an official had abused that entrusted power in preparing the Partnership, signing the contract, and making the associated payments, and for private gain. We also looked at whether anyone involved in the Partnership had tried to influence a foreign public official in a way that offended against the Crimes Act 1961. In many instances, receiving a bribe will be an offence, as will offering a bribe.

5.6 In Parts 2, 3, and 4, we outlined the policy outcomes that the Ministers and officials were trying to achieve. As we said in Part 2, those outcomes were the resolution of the following issues:

- the relationship with the Gulf Cooperation Council – in particular, the free trade agreement;
- the current and future bilateral relationship with Saudi Arabia;
- the tensions about exporting sheep for slaughter and its effect on other trading relationships;
- animal welfare considerations;
- international trade and domestic legal obligations;

29 This is the Transparency International definition – see Figure 4 following paragraph 5.30.

- the concern of investors in New Zealand; and
- Saudi Arabian food security concerns.

5.7 The interviews we conducted and the documents we reviewed showed that, although this was a long and convoluted process full of the shortcomings that we have mentioned in previous Parts, it did not involve corruption. We did not find any evidence that any Minister or official involved with the Partnership:

- had an improper motive;
- intentionally or otherwise acted against the law; or
- obtained a private gain.

5.8 Therefore, we do not consider that an offence of bribery could be established. We found no evidence or reason to refer the matter on to an appropriate agency to carry out a criminal investigation into corruption and bribery.[30]

Was there a facilitation payment?

5.9 We were also asked whether there were any facilitation payments. The Ministry of Justice has explained a "facilitation" or "grease" payment as a small payment made to a foreign public official to speed up a service to which the payer is already entitled.[31] Two payment phases were agreed to under the contract for services. The first was for $4 million, and it was made directly to Sheikh Hmood's company, HAATT Est. The second was for $6 million (later increased to $7.5 million) to be spent on delivering New Zealand services to the Agrihub. The payments made under the contract for services were not small payments to speed up a service to which the Ministry was entitled. They were not facilitation payments.

Appropriations for the Saudi Arabia Food Security Partnership

5.10 We also reviewed whether the payments were lawfully authorised, because all spending of public money must be lawfully authorised by an appropriation. An appropriation is a statutory authority from Parliament allowing the Crown or an Office of Parliament to incur expenses or capital expenditure.

5.11 Neither the Crown nor an Office of Parliament can legally incur any expense or capital expenditure – as those terms are defined in the Public Finance Act 1989 – unless it is expressly authorised by an appropriation or other authority by or under an Act of Parliament. Appropriations are generally viewed as both an authority (to

30 We also note that it is not our role to make, or attempt to make, binding decisions about the legality of actions, to give detailed assessments about the legality of decisions by public entities, or to attempt to function as a court.

31 See www.justice.govt.nz/policy/criminal-justice/bribery-and-corruption: *Facilitation payments and New Zealand's anti-bribery laws.*

incur an expense or capital expenditure) and a constraint (on how and on what that money is spent).

5.12 The Treasury's guidelines on appropriations note that:

> *Each appropriation has a defined scope that limits the uses or activities for which the expenses or capital expenditure can be incurred. The scope should be sufficient on its own to establish the nature and extent of the authority to incur expenses or capital expenditure. The wording of the appropriation scope should achieve the balance between being sufficiently precise to act as an effective constraint against non-authorised activities and not so specific that it inadvertently limits activity intended to be authorised. ...*
>
> *Except in a very limited number of cases (e.g. permanent appropriations or revenue dependent appropriations) an appropriation also limits the amount of expenses or capital expenditure that can be incurred, and the time period within which those expenses or capital expenditure can be incurred.*[32]

5.13 On 18 February 2013, Cabinet noted that the costs of the Partnership would be met through the Ministry's existing baselines. That is, new money was not budgeted, and the Ministry's departmental appropriation Policy Advice and Representation—other countries (Vote Foreign Affairs and Trade) would be used for the entire $10 million. As noted earlier, $4 million would be paid directly to HAATT Est under the contract for services, and $6 million would be provided through goods and services purchased under the funding agreement.

5.14 At the time of the February 2013 Cabinet paper, the relevant Cabinet guidelines said that "a departmental chief executive's authority to incur expenses and capital expenditure applies to departmental appropriations only".[33] Mr McCully considered that he and the Secretary of Foreign Affairs and Trade had the authority to approve the $4 million expenditure. This appears to be why Cabinet was asked to **note** the expenditure rather than **agree** to it in the February 2013 Cabinet paper.[34]

5.15 Mr McCully told us that he considered that responsibility for the $6 million arrangement was going to be transferred to NZTE and that Cabinet approval was needed because of this. Cabinet Manual guidance asks that Ministers "keep their colleagues informed about matters of public interest, importance, or controversy".

32 See the *Introduction* sections, page viii, of the 2015 Estimates of Appropriations sector volumes on the Treasury's website, www.treasury.govt.nz.

33 Cabinet Office Circular CO (11) 6, page 5. The current version of the Cabinet Office Circular on Proposals with Financial Implications and Financial Authorities (CO (15) 4), paragraph 68, explains "Cabinet has authorised departmental chief executives and their delegates to incur expenses or capital expenditure under departmental output expense, departmental other expense and departmental capital expenditure appropriations on behalf of the Crown, in accordance with the terms, and subject to the restrictions, set out in this circular."

34 See paragraph 3.41.

5.16 The Ministry analysed the two payment phases that were part of the contract for services against the appropriation scope. These were the $4 million payment for Phase 1 and the $6 million spending on services under Phase 2 (which was arranged by the funding agreement). The Ministry determined that the spending was within scope.

5.17 In February 2014, NZTE officials asked the NZTE Board to note the transfer of funding of $6.5 million and approve the transfer of responsibility for managing the funding agreement from the Ministry to NZTE. The paper to the Board noted that $10 million was approved for investment into the Partnership and that a further $1.5 million was before Ministers for approval. The additional $1.5 million was to transport pregnant ewes to Saudi Arabia by air. This airfreight would replace the originally intended subproject of the Partnership that involved transporting pregnant ewes by sea. Figure 2 shows how the NZTE Board noted the components of the transferred $6.5 million.

Figure 2
Breakdown of the money transferred to New Zealand Trade and Enterprise

Agri-business Hub: Calculation of funds transfer to NZTE	
Initial Agri-business investment	$5,500,000
+ expansion investment [airfreight]	$1,500,000
+ NZTE investment	$500,000
Total Agrihub investment	**$7,500,000**
Less [BAGL] costs to date	($500,000)
Less NZTE investment	($500,000)
Transfer from the Ministry to NZTE	**$6,500,000***

* We note that these are rounded figures. The actual transfer figure was $6,547,000.

5.18 The Ministry transferred $5 million to NZTE's budget for 2013/14. In the March 2014 Baseline Update, the Ministry transferred $1.5 million (to meet airfreight expenses) to NZTE, after Cabinet agreement to do so on 7 April 2014. NZTE's $500,000 contribution and $250,000 project management and operating costs were met from NZTE's existing budget.

5.19 NZTE's budget for the Partnership has been under Vote Economic Development and Employment in the *International Business Growth Services* appropriation.[35] This appropriation was later included as a category in a new multi-category appropriation titled *Support the growth and development of New Zealand firms, sectors and regions*.[36] The overarching purpose of this appropriation is "to provide

35 NZTE's funding under relevant appropriations is as non-departmental output expenses through Vote Economic Development and Employment (and later Vote Business, Science and Innovation).

36 Vote Economic Development and Employment was merged into Vote Business, Science and Innovation in Budget 2015.

support for the growth and development of New Zealand firms, sectors and regions to maximise international business opportunities".

5.20 We continue to consider that the money budgeted for the Partnership was within the scope of the relevant appropriations, based on:

- our 2013 review into the $4 million payment phase;
- the Ministry's advice on it; and
- our consideration in this inquiry of the $4 million, $6 million, and $1.5 million payment phases.

How was the money spent?

5.21 The Ministry made a $4 million payment to HAATT Est on 21 February 2013. The rest of this Part covers the spending of the remaining $7.5 million allocated to the Partnership.

5.22 We have reviewed NZTE's spending from the time the funds were transferred from the Ministry and found that the spending was made with appropriate financial authorities in place. This included our sighting evidence of appropriate expense and capital transfers and approvals.[37] We discuss the reasons behind delays in delivering some of the goods and services under the funding agreement in Part 7. Although underspending has been transferred between financial years, Parliament has not separately appropriated money for the Partnership above the $11.5 million.[38]

5.23 Figure 3 shows how the money has been spent on the Partnership from 2013/14 to the end of June 2016. The listed projects are further explained in Appendix 2. Projects listed have been completed, except for the abattoir.

37 NZTE transferred the unspent funds of $4.5 million (a mix of fixed and in-principle transfers) from 2013/14 to 2014/15 by an expense and capital transfer. Because funds were also not fully spent in 2014/15, $2.9 million was also transferred to 2015/16. An expense and capital transfer of $2.8 million was also made from 2015/16 to 2016/17.

38 NZTE budgeted for a Project Manager and operating expenses from International Business Growth Services, both of which are in addition to the $7.5 million.

Figure 3
Budgeted and actual spending on the Saudi Arabia Food Security Partnership, to June 2016

Item	What was purchased	Budget amount	Total actual spending to June 2016
Contract for Services with the Al Khalaf Group – Phase 1			
MFAT spend	Representation in Saudi Arabia Awassi sheep genetics in New Zealand Assistance with business delegation to Saudi Arabia and options for investment Business plan development and implementation (for the $6 million)	$4,000,000	$4,000,000
Contract for services with the Al Khalaf Group – Phase 2: Delivered by a funding agreement with BAGL Demonstration farm in Saudi Arabia (the Agrihub)*			
MFAT spend	Milestone 1**	$500,000	$453,000
NZTE spend	Sea freight	Budget included above as part of the Milestone 1 budget	$7,531
NZTE spend (i) – (vi)	(i) Export breeding ewe supply chain	Reallocated to (ii) and the airfreight below	
	(ii) Awassi breeding and genetics programme	$718,628	$581,977
	(iii) Forages and nutrition	$83,446	$26,634
	(iv) New technologies	$1,525,926	$1,490,068
	(v) Abattoir and feedlot design and construction	$3,172,000	$489,460
	(vi) People development	-	-
	Subtotal	**$6,000,000**	**$3,048,670**
Airfreight of 900 breeding ewes to Saudi Arabia*			
NZTE spend	Purchase of ewes Airfreight and associated costs	$1,500,000	$1,630,340
	Subtotal	**$7,500,000**	**$4,679,010**
	Total	**$11,500,000**	**$8,679,010**

* See paragraph 7.20, which explains that the Governance Group could vary the budget for each milestone.

** See paragraph 7.16.

Our comments on these matters

5.24 We found no evidence of corruption, bribery, or a facilitation payment.

5.25 The arrangements entered into were a lawful use of public resources, and public money was spent with appropriate financial authorities in place.

5.26 However, as we have said in Parts 3 and 4, the use of the contract for services was problematic because it was trying to achieve many outcomes that were not included in the terms of the contract for services.

5.27 When public funds are involved, transparency is paramount. The public had no visibility of the other outcomes that Cabinet was seeking to achieve by this arrangement. As a result, concerns were raised about the lawfulness and appropriateness of these payments.

5.28 Without transparency, it is easy for allegations of corruption to flourish.

5.29 Figure 4 shows, in more detail, a framework for considering corruption and bribery matters. We have included the Figure to help people to understand:

- what might constitute a corrupt payment, including a bribe under the Crimes Act 1961; and
- what compensation or "ex gratia" payments are and the process public agencies must follow to make those payments.

5.30 The Serious Fraud Office and the Ministry of Justice have published information for public and private sector agencies about corruption and bribery. We have used some of that information in Figure 4, with a focus on the application of the Crimes Act 1961 to the administration of law and justice, specifically actions of Ministers of the Crown, public officials, or people dealing with them.

Figure 4
Framework for considering bribery and corruption matters

This material is for guidance purposes and is current as at the date of publication.		
	Illegal payments: corruption and bribery	**What to consider**
What is corruption?	The abuse of entrusted power for private gain.* Behaviour on the part of officials in the public or private sector in which they improperly and unlawfully enrich themselves or those close to them, or induce others to do so, by misusing the position in which they are placed.** The lack of integrity or honesty (typically involving bribery) or the abuse of a position of trust for dishonest gain. ***	If a person is in a position of power or influence, then they should consider whether they or another will privately benefit from exercising that power or influence. If a person attempts to influence another person in a position of power, then they should consider whether they or another will privately benefit from that exercise of power or influence. If a person attempts to influence a foreign public official to use their power or influence in a particular way, they should consider whether they or their business will benefit from that exercise of power or influence.
What is bribery?	Corruption often involves bribery, which, generally speaking, is the giving or receiving, whether directly or indirectly, of something of value to influence a transaction.† A *bribe* does not have to be money. It can be a benefit that a person will receive but it must involve corruption. Each offence of bribery in the Crimes Act 1961 includes the requirement that the person committing the offence acts "corruptly".	If any person is intending to offer or agree to make payment, or to provide any benefit, to an individual to influence them or another, they should consider whether: • the payment or other benefit is to influence a public official to act or omit to act in their official capacity; or • if that individual is in a position of power overseas, whether the payment or other benefit will result in the person obtaining or retaining business, or an improper advantage in the conduct of business.

* In its guidance, the Ministry of Justice explains that there is no legally binding definition of corruption and refers to the Transparency International definition. The guidance is available on the Ministry of Justice website, www.justice.govt.nz.

** The Serious Fraud Office explains that there is no legally binding definition of corruption. It refers to the Asian Development Bank definition.

*** The Ministry of Justice explains that this is corruption on the website page Combating bribery and corruption "How to create a fraud and corruption policy". The explanation goes on to say that it can include bribery (both domestic and foreign); coercion; destruction, removal, or inappropriate use or disclosure of records, data, materials, intellectual property, or assets; or similar forms of inappropriate conduct.

† The Ministry of Justice uses this description in the guidance document *Saying No to Bribery and Corruption – A Guide for New Zealand Businesses*.

	Legal payments	What to consider
What is a facilitation payment?	A "facilitation" or "grease" payment is a small payment made to a foreign public official to speed up a service to which the payer is already entitled.†† A facilitation payment is currently legal under New Zealand law.	If any person is intending to offer or agree to make payment, or to provide any benefit, to an individual to influence them or another, they should consider whether: • the payment is small; and • the influence is to speed up a service to which they are entitled. We encourage readers to refer to the Ministry of Justice document *Facilitation payments and New Zealand's anti-bribery laws*, which advises on the risks of facilitation payments in foreign countries.
What is compensation or "damages in settlement of claims"?	The Oxford dictionary definition of *compensation* includes: • something, typically money, awarded to someone in recognition of loss, suffering, or injury: • something that counterbalances or makes up for an undesirable or unwelcome state of affairs. A compensation or "damages in settlement of claims" expense is where there is a legal claim against the Government and a payment is made to settle that claim.	If Ministers of the Crown and public officials want to make a compensation payment, then there are procedural requirements that must be met. These are set out in Cabinet Office Circular CO (15) 4. CO (15) 4 requires that any compensation or damages in settlement of claims that is more than: • $150,000 and up to $750,000 must be approved by the Appropriation Minister; and • $750,000 must be approved by Cabinet. In either case, the payment must be endorsed either by the Crown Law Office or a court judgment. †††

†† The Ministry of Justice, www.justice.govt.nz/policy/criminal-justice/bribery-and-corruption: *Facilitation payments and New Zealand's anti-bribery laws*.

††† The predecessor of this Cabinet Office Circular was CO (11) 6, which was in place from June 2011 to April 2015. That Cabinet Office Circular said that "Expenses for compensation or damages for settlement of claims should be endorsed by Crown Law Office or a court judgement (sic)".

	Legal payments	What to consider
What is an "ex gratia" expense?	A payment made out of goodwill or a sense of moral obligation. A commonly known example of an ex gratia payment is a payment made to an individual by the Government to compensate that individual for wrongful imprisonment.	If Ministers of the Crown and public officials want to make an ex gratia payment, then there are procedural requirements that must be met. These are set out in Cabinet Office Circular CO (15) 4.‡ CO (15) 4 requires that: • an ex gratia expense is a payment made without the giver recognising any liability or legal obligation; the payment is made out of a sense of goodwill or a sense of moral obligation; and • any ex gratia payment that is: ◦ $30,000 or less must be approved by the Chief Executive (or his or her delegate); ◦ more than $30,000 and up to $75,000 must be approved by the Appropriation Minister; or ◦ more than $75,000 must be approved by Cabinet.

‡ The predecessor of this Cabinet Office Circular was CO (11) 6, which said that "an 'ex gratia' payment is made in respect of claims that are not actionable at law, but for which there exists a moral obligation and payment should be made".

6 Procurement practices

6.1 Our terms of reference for this inquiry included considering the procurement practices that the Ministry and NZTE used to purchase goods and services for the Partnership. We reviewed five relevant engagements. In this Part, we discuss them in chronological order. The costs incurred under the third and fifth engagements (the contract for services and the funding agreement) formed part of the agreed maximum of $11.5 million allocated to the Partnership.

Procurement practice guidance

6.2 From April 2006, the *Mandatory Rules for Procurement by Departments* (the Mandatory Rules) applied to "public service departments", which included the Ministry. They were introduced not only to help government departments make good purchasing decisions but also so that New Zealand's obligations under its trade treaties were complied with. The Mandatory Rules were replaced (from 1 October 2013) by the *Government Rules of Sourcing*, which are now into their third edition. However, the Mandatory Rules applied at all times relevant to this inquiry.

6.3 In 2001, we published *Procurement: A Statement of Good Practice*. We updated it in 2008, publishing *Procurement guidance for public entities* (our 2008 guidance). Our 2008 guidance described what good procurement looks like, including:

- Good process requires good planning so that value for money is achieved, along with overall goals and business strategy.
- The procurement approach will vary depending on the goods or services being procured.
- Open tendering will most likely be the preferred method, although direct procurement and closed tenders can be appropriate in certain circumstances.

The Mandatory Rules

6.4 The Mandatory Rules "set out mandatory standards and procedural requirements for the conduct of procurement by government departments". In brief, they required:

- that departments conduct their procurement in accordance with certain policy principles, that procurement was normally by way of open tendering procedures, and that notices of intended procurement be published on the Government Electronic Tenders Service (GETS);
- compliance with the Mandatory Rules for the procurement of goods and services above $100,000 (based on the maximum total estimated value of the procurement over its entire duration);
- that departments put in place policies and procedures to eliminate any

potential conflict of interest;

- that departments accord all potential suppliers equal opportunity; and
- that certain procedures, relating, for example, to information and time limits, be complied with.

6.5 There were certain exclusions and exceptions to the Mandatory Rules, including:

- that the Mandatory Rules did not apply to the procurement of goods and services "outside the territory of New Zealand, for consumption outside the territory of New Zealand" or to the hiring of government employees; and
- that open tendering was not required "where ... for reasons connected with the protection of exclusive rights, such as patents or copyrights, or where there is an absence of competition for technical reasons, the goods or services can be supplied only by a particular supplier and no reasonable alternative or substitute exists" (exception 1b) or "... for reasons of extreme urgency" where open tendering "... would result in serious injury to the department, the department's programme responsibilities or the New Zealand Government".

6.6 If it was necessary for a department to depart from the open tendering procedures because of one of the exceptions, the department was required to maintain a record, or prepare a written report, providing specific justification for the contract.

Engagements carried out

First engagement

6.7 The first engagement for the Partnership was engaging an official to lead the development of a public-private partnership between New Zealand and the Gulf Cooperation Council and act as Special Envoy for Government-Commercial Partnerships (the Special Envoy). We discuss New Zealand's relationship with the Gulf Cooperation Council in paragraph 3.2. Employment arrangements are generally exempt from the requirements of the Mandatory Rules.

6.8 The Special Envoy's contract was described as a fixed-term employment agreement, and we have no evidence that suggests it was not an employment relationship. It is clear from the documents we have seen that, in a paper to the Ministers of Foreign Affairs and Primary Industries, officials suggested several other possible candidates. Ministry officials told us that they held no record of what was agreed at the meeting with the Ministers.

6.9 Mr McCully told us that he had previously worked with the appointed official (who was not one of the possible candidates on the list suggested by officials) and recommended him for the role to the Ministry. The then Secretary of

Foreign Affairs and Trade said that, because the letter of engagement was from him, he would have made the decision to employ the Special Envoy. The letter of engagement outlined how the official's previous experience met the requirements of the role. We have seen no evidence of any open process for engaging the official. However, the Mandatory Rules did not apply to employment arrangements, and this engagement is not contrary to the Rules.

Second engagement

6.10 The second engagement was of Deloitte in late 2012. This occurred after a Ministry official had discussions with the Al Khalaf Group about a way forward. The engagement was to draft a "blueprint", which would outline the potential components of the Partnership, including the breeding venture.

6.11 The Secretary of Foreign Affairs and Trade approved a budget that allowed a Ministry official to progress various Government-Commercial Partnerships Initiative matters, including engaging Deloitte. A file note in the Ministry's documentation details the decision to carry out a "selected" (which we have taken to mean "closed") procurement to engage Deloitte and outlines why an approach was to be made to that firm. The documentation we have seen indicates that Deloitte was chosen because of the experience the firm had in the red meat trade and the Middle East.

6.12 A scope of work was agreed, with the costs estimated to be about $40,000 (the final invoice submitted was for that amount). Under the Mandatory Rules, open procurement was not required where the cost of the goods and services was under $100,000.

6.13 Accordingly, the direct procurement of Deloitte to prepare this blueprint was not in breach of the Mandatory Rules. The Ministry's procurement manual guideline is that "selected" purchases of $25,000 or more required an additional step in the procurement process. We did not see evidence that this step was taken. The manual also suggests that such purchasing must not be used to circumvent competition but could be used in a variety of circumstances, including where there was only one supplier.

6.14 Even though good practice suggests that the amount to be spent is not the only factor in deciding whether to openly tender an opportunity, where there is clearly a well-qualified and knowledgeable contractor available, not offering the opportunity can be the most efficient procurement method. We note that the good practice of preparing a file note was followed and that this indicated that the team at Deloitte fitted the requirements, given the specialist advice required, the need for the preferred supplier to be acceptable to the Al Khalaf Group, and confirmation from informal enquiries.

Third engagement

6.15 The third relevant engagement was the contract for services, dated February 2013, signed between the Ministry and HAATT Est. The Ministry would pay $4 million to recognise the investment HAATT Est had made in the Awassi breeding programme and its knowledge-based assets and networks in Saudi Arabia. The Ministry would also contribute up to $6 million as an investment in the Partnership. The disbursement of the $6 million was to be agreed between the parties (see paragraphs 6.23 to 6.30).

6.16 We understand that the Ministry's view, after receiving internal and external advice, was that the engagement was excluded from the Mandatory Rules because HAATT Est's services were to be performed overseas. Accordingly, there was no open procurement of these services.

6.17 A memorandum to the Secretary of Foreign Affairs and Trade, recommending that the contract be signed to enable immediate payment of the $4 million, referred to the Mandatory Rules and commented that departments were not required to apply them to procurement of goods and services for consumption outside New Zealand. There was also an exemption from open tendering because only one supplier was available (that is, the networks in Saudi Arabia, and the skills and expertise required, could be supplied only by HAATT Est).

Fourth engagement

6.18 The fourth relevant engagement was of Deloitte. This second piece of work was to help the Ministry to prepare the indicative business plan for investing in an agri-business hub in Saudi Arabia, required under the contract between the Ministry and HAATT Est. An undated procurement plan, which appears to have been written about March 2013, sought approval for the direct engagement of Deloitte to prepare this indicative business plan.

6.19 Deloitte was to be engaged under a syndicated contract for professional services.[39] Selective purchasing under a syndicated contract to which the Ministry had access was permitted under the Ministry's procurement manual without a competitive tender process. However, since the amount involved was more than $25,000, an additional step in the procurement process was required in accordance with the Ministry's procurement guidelines. We saw no evidence that this additional step was taken.

6.20 The procurement plan noted that the selection of Deloitte for what we have referred to above as the "second engagement" had been under the Ministry's threshold of $50,000 for seeking competitive quotes. Based on Deloitte's

39 A syndicated contract is one where, for example, a department has carried out an open tender for particular services, and other departments are then able to join that contract and purchase off the panel without having to carry out their own tendering process. The syndicated contract used by the Ministry was the "Defence Syndicated Contract".

performance under that procurement, the plan recommended that the Ministry engage Deloitte directly (which it was able to do under the syndicated contract).

6.21 The final contract price was $50,000 plus expenses. GST is excluded in valuing contracts under the Mandatory Rules, which further provide that all forms of remuneration must be taken into account in calculating the thresholds. Although some expenses were reimbursed under these two engagements, the combined total of the remuneration payable under them was not above the $100,000 threshold of the Mandatory Rules.

6.22 Deloitte provided the indicative business plan to Ministry officials, and officials produced a final draft in August 2013. We consider that this further engagement of Deloitte was appropriately conducted in all important respects.

Fifth engagement

6.23 In August 2013, the Ministry carried out a procurement process to find a supplier "with suitable experience, capability, capacity and commitment to build and lead a consortium of agricultural businesses in establishing an agribusiness hub in Saudi Arabia". This was the mechanism by which the Ministry and NZTE would procure $6 million of services to deliver on Phase 2 of the contract for services. A procurement plan was put in place. The process used was open and appears to have followed the recommendations of the Ministry's procurement manual.

6.24 The process began with a notice of procurement and an expression of interest document. Both of these were publicly notified on the GETS website on 20 August 2013. The notice stated that the Ministry, along with NZTE, was seeking "a lead provider and indicative consortium to develop an agribusiness hub around a demonstration sheep breeding farm and operation in Saudi Arabia".

6.25 This aligned with the procurement plan for the expression of interest. The plan called for a lead provider and consortium partners to develop a demonstration sheep breeding farm and operation in New Zealand and Saudi Arabia to showcase New Zealand agri-business expertise and technologies to Saudi Arabia and the wider Gulf Cooperation Council region. New Zealand farming techniques, technology, and equipment were to be showcased on an existing Saudi Arabian sheep breeding unit owned by the Al Khalaf Group.

6.26 The notice of procurement made it clear that interested parties needed to participate in the expression of interest to be given the opportunity to be selected as a potential consortium lead. It was anticipated that the next stage would be a "competitive dialogue" phase. Information about what this entailed and what it was supposed to achieve was contained in a publication that accompanied the notice and expression of interest. About 180 parties viewed the notice, with

about 80 downloading some or all of the documentation. Supplier questions were posted to the GETS website. A discrepancy in the closing date was addressed.

6.27 Three entities responded to the expression of interest: BAGL and two others. The competitive dialogue process for shortlisted candidates that was originally intended was not used because of the limited number of responses. An evaluation panel was convened, which included two officials (one as a non-voting chairperson) from the Ministry, an official from NZTE and, on the NZTE official's recommendation, independent representation from an industry expert. Various other officials, including the Ministry's probity adviser, were also involved. The panel shortlisted BAGL and one other, and these candidates gave presentations to the panel.

6.28 The evaluation panel concluded that, although BAGL and the other shortlisted provider were both viable choices, BAGL should be recommended as the preferred consortium lead. The funding agreement was eventually signed with BAGL. Proper minutes were kept, and proposals were appraised against pre-published criteria and weightings. The panel noted that "in order to develop a detailed schedule of deliverables and associated project budget [...] [the consortium lead] will need to work with the Al Khalaf Group to ensure that the balance of effort and investment meets the expectations of both parties".

6.29 In a tendering filing and probity checklist, it was noted that panel members had made conflict of interest declarations. From evidence received from the Ministry of Business, Innovation and Employment, it appears that no "GETS post-award notice" identifying who the successful supplier was, and other matters, was posted to GETS. This is in breach of Mandatory Rule 48.

6.30 The Ministry completed a probity audit of the tender process. This made some minor criticisms but concluded overall that the Ministry acted, and was seen to act, in a fair, transparent, and unbiased manner. The findings of this audit were released publicly. We agree with these conclusions.

Conflicts of interest

6.31 Several perceived and actual conflicts of interests associated with the Partnership and associated procurements needed to be managed. Where appropriate, we expect conflicts of interest to be transparently managed rather than avoided to the detriment of excluding relevant people from a project or decision.

6.32 The Ministry's probity audit included a review of the conflict of interest declarations. It stated that conflict of interest declarations were obtained and that actual or potential conflicts were assessed and addressed. A declaration of interest

was made by BAGL in its expression of interest response for the lead provider role and in a separate document on 24 January 2014 (after the funding agreement was signed). BAGL declared its interest in On Farm Research Limited and BL Land Co Limited.

6.33 Evaluation panel members also declared their conflicts of interest, and the probity auditor judged that the conflicts had been appropriately managed. The presentation material BAGL submitted to the panel explained that there was a "close business association" between BAGL and the Al Khalaf Group. The material provided a summary of the history of that association.

6.34 We were told that the panel knew about the previous relationship between BAGL and Sheikh Hmood and his companies, and between the second shortlisted entity and Sheikh Hmood and his companies. Nonetheless, we expected BAGL's expression of interest response to have referred specifically to this. The relevant Cabinet Minute "noted that the procurement and selection of New Zealand firms and services to participate in the food security partnership will be done with the agreement of the Saudi partners, [the Ministry], and NZTE".

6.35 We were told that the panel viewed BAGL's previous relationships with the Al Khalaf Group as a positive factor. BAGL was seen to have an increased understanding of the different conditions for farming in Saudi Arabia and of the Awassi sheep breed from its involvement in the Al Khalaf Group's farming operations in New Zealand. The second shortlisted entity also had a previous relationship with the Al Khalaf Group. We discuss Awassi NZ Land Holdings Limited's acquisition of 24.9% of the shares in BAGL in Part 7. Sheikh Hmood is a director of, and has a 90% shareholding in, Awassi NZ Land Holdings Limited.

Our comments on these matters

6.36 For the contract for services, the Government was clear that there could be only one supplier (Sheikh Hmood's companies) and entered into a contract for a specified amount. The Government entered into a commitment and then put together a range of services to meet that commitment. In other circumstances, and especially where a contract is high value or high risk, a competitive tender is to be preferred, in accordance with our 2008 guidance.

6.37 Overall, we consider that these procurements were carried out properly and that, in all significant aspects, they complied with the Mandatory Rules (which government departments were required at the time to follow).

The contract for services and its management

7

7.1 The terms of reference for our inquiry included considering the contract management practices that the Ministry and NZTE used to purchase goods and services for the Partnership. In this Part, we explain how the services were delivered and the management of the arrangements.

7.2 As mentioned in Part 4, the Ministry entered into a contract for services, dated February 2013, with Sheikh Hmood's company in Saudi Arabia, HAATT Est. The contract for services included an end date of 30 June 2014.

Implementation of Phase 1 of the contract for services

7.3 In accordance with, and in performance of, the contract for services with HAATT Est, an agri-business delegation, referred to by the Ministry and NZTE as a "study tour" or "technical visit", was planned for April 2013 in co-ordination with "the KSA interests" (which we have interpreted as the Al Khalaf Group).

7.4 In a Ministry file note of 15 March 2013 to Mr McCully, officials explained that this was a "first step in the partnership" and that the trip was to study the red-meat supply chain. Officials also noted that the purpose of this visit was "to provide a basis for a business plan for identifying the NZ technologies and expertise that can become part of the hub".

7.5 Ministry, NZTE, and MPI officials were on the study tour, as well as what is referred to as "their [the Al Khalaf Group's] NZ based advisors", and several private sector technical experts from the red meat, farming, and animal breeding industries who had experience in the Middle East (including a consultant from Deloitte engaged to prepare an indicative business plan – see paragraph 6.18).

7.6 It was also noted that:

> *Given the limited number of New Zealand firms with the combination of technological expertise and GCC/Middle East market experience, it is inevitable that the potential technologies and services selected in the first instance might come from the firms/individuals on the study tour. If there is a particular technology or service identified by the group that has more than one New Zealand provider, then a robust procurement process must be undertaken* ... [The Ministry] *has advised the Saudi interests that the advisors and firms that have been selected on the technical visit, and the organisations that they have selected, will still need to be selected on merit for the next phase of implementing the Business Plan.*

7.7 Further, the March 2013 file note said:

> *The partnership will contribute airfares and accommodation and appropriate related costs for private sector participants on the study tour, but will not meet fees or salaries. Other costs will be met directly by Saudi interests (such*

as Dammam accommodation, and ground handling in [Saudi Arabia]*), or by* [the Ministry] *and / or NZTE (such as the costs of staff travel as part of the technical visit, and the per diems of the selected firms – particularly where the scope of work commissioned by the NZ firms is broader than the parameters of the partnership i.e. commenting on and investigating broader agri-export / food security related opportunities in* [Saudi Arabia] *and the* [Gulf Cooperation Council] *region).*

7.8 The study tour took place on 9-16 April 2013. New Zealand's embassy in Riyadh explained in a report dated 23 May 2013 (the Embassy report), that the group:

- visited "one of the massive and state-of-the-art Al Marai dairy farms (amongst the biggest in the world, 17,000 cows)", which provided the group with the opportunity to understand the "potential for world-class agricultural production in [Saudi Arabia]";
- visited Al Khalaf Group's (HAATT Est) slaughter, tanning, feedlot, and retail butchery operations in Dammam and Jeddah, including livestock disembarkation facilities;
- met with the Gulf Cooperation Council's Agricultural Department, the Saudi Arabian Ministry of Agriculture, and the Saudi Arabian Livestock Investment Company; and
- attended a formal dinner to provide the delegation with an opportunity to meet senior Saudi Arabian agri-business and agricultural and food security leaders.

7.9 The Embassy report described the outcome of the study tour:

The early focus will be on establishing a breeding programme from the NZ end to export livestock into a "best in class" breeding and production programme in Saudi Arabia that would showcase NZ expertise and enable the Al Khalaf Group to demonstrate the use of superior systems and innovations through the value-chain .... The project would also assist both Al Khalaf Group and New Zealand Inc. to demonstrate commitment to assisting with food security issues in [Saudi Arabia].

7.10 The activities listed in paragraph 7.8 can be interpreted as evidence of HAATT Est's provision of some of the services described in Phase 1 of the contract for services.

7.11 Furthermore, HAATT Est's representative wrote on behalf of the company to the Ministry about the services HAATT Est considered it had provided in keeping with the contract for services. These were:

- significant investment into the development of the facilities and infrastructure of the Al Khalaf Group in Saudi Arabia and New Zealand, including $80 million

spent to develop the Agrihub project to help showcase New Zealand's best agricultural practice and the purchase of a ship to facilitate the commercial export of sheep and cattle for breeding;

- hosting the technology of 16 New Zealand companies at the Agrihub;
- facilitating interest from around the Gulf in the Agrihub;
- lobbying and direct representation of New Zealand's interests in Saudi Arabia, including hosting members of the Saudi Arabian Government on several occasions at the Agrihub;
- direct lobbying of Saudi Arabian Ministers and officials leading to the signing of the export for breeding protocols between New Zealand and Saudi Arabia (in 2014), helping with the removal of an issue affecting the progress of the free trade agreement with the Gulf Cooperation Council and continued lobbying in support of progress, and securing the visit of the Saudi Arabian Minister of Agriculture to New Zealand for the Joint Ministerial Commission in April 2014;
- hosting numerous New Zealand delegations to the Agrihub, including the Minister of Primary Industries, NZTE and Ministry officials, and additional visits by businesses and officials; and
- meeting with Gulf Cooperation Council secretariat officials and the investment company Kingdom Holdings with New Zealand delegate officials to discuss the Agrihub and how to assist with the Gulf's food security aspirations.

Implementation of Phase 2 of the contract for services

The funding agreement and project specifications

7.12 The mechanism for delivery of the $6 million of services was to be a funding agreement signed initially between the Ministry and the selected lead provider of those services (that is, the lead provider would distribute the funds and lead the subcontracting and management of the delivery of those services).

7.13 In August 2013, the Ministry partnered with NZTE to select a lead provider for delivery of Phase 2 (the $6 million) of the contract for services. BAGL was selected after the procurement process described in Part 6.

7.14 We noted in paragraph 6.35 that Awassi NZ Land Holdings Limited is now a registered shareholder of a 24.9% share in BAGL. We were told that Awassi NZ Land Holdings Limited expressed an interest in investing in BAGL in mid-2014. A loan was a precursor to its acquisition of shares, and we were told that the loan took place after the funding agreement was signed. We were told that the Ministry and NZTE were notified of the loan and potential for it to be converted to a maximum 24.9% shareholding before the acquisition of shares in January 2015.

BAGL considered that the loan, and later acquisition of a shareholding interest of Awassi NZ Land Holdings Limited in BAGL, would not affect its delivery or management of the funding agreement.

7.15 BAGL signed the funding agreement with the Ministry in December 2013. The funding agreement included planned milestones and the intended structure of the project, including six components:

- design and implement the export breeding ewe supply chain;
- design and implement Awassi sheep breeding and genetics research programmes;
- design and implement an appropriate forages and nutrition research programme;
- identify appropriate new technologies available in New Zealand and integrate these into the Saudi Arabian partner's operations;
- design, provide specialist equipment for, and support the construction and commissioning of a state-of-the-art abattoir and feedlot on the Saudi Arabian partner's land; and
- develop people capability on site to ensure that programmes and facilities implemented are sustained.

7.16 The first task under the funding agreement included travelling to Saudi Arabia to see the Sheikh Hmood's Um Alerrad farm, scoping of each of the above listed components, and presenting a costed plan for agreement from the Governance Group. This first task – described as Milestone 1 – had a $500,000 budget (see Figure 3 in Part 5).

The Governance Group

7.17 The funding agreement established a Governance Group.

7.18 At its first meeting on 28 January 2014, the Governance Group agreed that its role was primarily to provide oversight, including agreeing milestones, overseeing their delivery, and managing any minor variations to milestones and activities. The Governance Group was told that NZTE had appointed a project manager. The project manager started in the role in January 2014.

7.19 The Governance Group included one Ministry representative, one NZTE representative, and two BAGL directors. The NZTE project manager attended Governance Group meetings, and there was intermittent attendance by a representative of the Al Khalaf Group in person or by telephone.

7.20 The Governance Group could vary the budget for each milestone without amending the funding agreement as long as the maximum cost of the milestone was not varied by more than 15% and the total maximum funding amount ($7.5 million) was not exceeded.[40] BAGL regularly submitted project plans and individual update reports on each milestone to the Governance Group.

7.21 Governance Group minutes were sent to the Treasury periodically from January 2014. The Treasury has also been briefed periodically on the progress with the Agrihub by the NZTE project manager and the Ministry representative on the Governance Group.

Responsibilities and progress

7.22 As noted in Part 4, the funding agreement with BAGL was transferred from the Ministry to NZTE, in March 2014. The NZTE Board approved this decision in February 2014. The transfer was to be subject to the condition that the Ministry would remain responsible for relationship management at a diplomatic level. The funding agreement was varied at the same time as the transfer to NZTE to include the additional milestone of the airfreight shipment of pregnant ewes (see paragraph 7.38).

7.23 Figure 3 in Part 5 shows budgeted and actual spending against the milestone headings. Appendix 2 gives more details about the specific component projects.

7.24 BAGL produced a project plan that recommended a costed work plan to the Governance Group in March 2014. The project plan also described key changes to the original programme.

7.25 The main areas of the project were described to the NZTE Board as:

- *New Zealand Breeding Ewes*
- *Awassi Genetics and Breeding (Saudi Arabia)*
- *Forage and Nutrition*
- *New Technologies (on farm)*
- *Abattoir and Feedlot Design.*

7.26 The variation to include the airfreight milestone is discussed above. A major change to the project plan has been the extension of the time frame. Several projects were delivered beyond the original end date of the contract for services of June 2014 and BAGL's project plan's stated 2015 deadline. Although we do not have evidence of explicit agreement, we infer from their actions that the parties have mutually agreed to extend the contract for services beyond June 2014.

40 The total maximum funding amount was $6 million under the original funding agreement and $7.5 million in March 2014, when the funding agreement was transferred to NZTE.

7.27 As at June 2016, the abattoir project was the only incomplete project. The significant delay in finishing the abattoir project has prevented the completion of Phase 2 of the contract for services. Saudi Arabia has regulatory measures that apply to commercial abattoirs. Interviewees told us, and a report from NZTE records, that the Al Khalaf Group needed to obtain the necessary regulatory approval to build and operate an abattoir in Saudi Arabia.

7.28 We understand that Sheikh Hmood intends to gift the abattoir to Saudi Arabia and lease it back to the Al Khalaf Group to operate. The Governance Group was asked to commission the abattoir equipment to be built and shipped. However, it refused to do so without the Al Khalaf Group having first obtained the applicable Saudi Arabian regulatory approvals. This has caused spending to be delayed and transferred from the 2014/15 Budget to the 2015/16 Budget and, more recently, to the 2016/17 Budget (see Part 5).

Delivering live sheep to Saudi Arabia

Urgency for exporting live sheep

7.29 In December 2013, a Ministry and NZTE official travelled to the Middle East and reviewed progress on the demonstration farm. The issue of needing to fly breeding ewes to Saudi Arabia was raised because of timing issues with transporting breeding stock. Mr McCully was told that the then Saudi Arabian Minister of Agriculture's objection to the free trade agreement would not be removed until the first shipment of sheep arrived in Saudi Arabia. It appears that this urgency to deliver sheep to Saudi Arabia was caused by a lack of confidence in New Zealand's commitment to export any live animals.

7.30 A NZTE official's report from this December 2013 trip described significant infrastructure development since his last visit on (what he refers to as) Sheikh Hmood's "NZ Demonstration Farm". The official describes the planning and construction of new pivots and bores, a significant feed mill for processing crops onsite, a breeding farm with capacity for 160,000 sheep, a fattening feedlot for 40,000 lambs, and an abattoir.

7.31 The official's summary of the key risks at this time included:

- shipment time for sending breeding ewes to Saudi Arabia; and
- the expectation among Saudi Arabians for further shipments, balanced against Cabinet's requirement that "no industry is formed" as a result of the project.[41]

7.32 A meeting between a Ministry representative, an NZTE representative, two BAGL representatives, and one other was held on 19 December 2013. At this meeting, the Ministry official advised that:

41 Our interpretation of the phrase "no industry is formed" is that no ongoing trade in exporting sheep for breeding would be established.

> *... a shipment by sea in 2014 was no longer supported in Wellington, and following a discussion around the reaction expected from the Saudi partner to a delay in shipment, and the alternative of freighting a smaller number of animals by air, it was agreed to proceed if possible with an airfreight of approx. 1,000 in-lamb ewes in 2014, with a commitment to be made by the relevant officials that a sea freight shipment of approximately 50,000 animals would be approved in advance for 2015 shipment.*

7.33 On 31 January 2014, a submission by the Secretary of Foreign Affairs and Trade to the Minister of Foreign Affairs (with recommended referral to the Ministers of Trade, Primary Industries, and Economic Development) included the requests that he:

- note that the Saudi Arabian Minister of Agriculture has reiterated his condition that New Zealand sheep arrive in Saudi Arabia before he lifts his objection to the conclusion of the free trade agreement between New Zealand and the Gulf Cooperation Council;
- agree that sheep be airfreighted in an attempt to remove this objection earlier than November 2015; and
- agree that $1.5 million should be allocated to allow this to occur and that funds should be transferred from the Ministry to NZTE for this purpose.

7.34 The submission explained the timing issues with sending sheep by sea freight, stating that "a shipment this year would not be in the interest of a longer term breeding programme and food-security partnership between New Zealand and Saudi Arabia". The Cabinet External Relations and Defence Committee was updated on the Partnership in a paper during February 2014. We discussed Cabinet's approval of the $1.5 million transfer in paragraph 5.18.

Protocols for exporting sheep for breeding

7.35 In Part 2, we talked about the need for a Memorandum of Understanding or Arrangement (the agreed protocols) to govern the export of sheep for slaughter from New Zealand to Saudi Arabia. Agreed protocols were still sought for exporting sheep for breeding (as opposed to slaughter).

7.36 The New Zealand and Saudi Arabian Governments signed the Arrangement on 4 March 2014. The Arrangement includes provisions on the health, welfare, and safety of livestock for export (and import in Saudi Arabia). This is available on MPI's website, www.mpi.govt.nz.

7.37 The then Saudi Arabian Minister of Agriculture notified New Zealand that his objection to the free trade agreement with New Zealand was removed after the Arrangement was signed.

The airfreight of pregnant ewes and events after lambing

7.38 As noted above, there was growing urgency for sheep to arrive in Saudi Arabia. Animal welfare "technical standards" governing the transport of pregnant animals, seasonal factors affecting animal welfare on arrival, and shipping logistics then made airfreight the preferred solution. Funding for the airfreight decision is explained in Part 5.

7.39 The airfreight milestone (agreed by the Governance Group), and the $1.5 million spent on this project, included buying and mating ewes and hoggets and cross-breeding with Awassi rams to produce appropriate breeding stock for export to Saudi Arabia, selecting 900 healthy and pregnant ewes to be exported (some purchased from Awassi (N.Z.) Limited), and transporting the sheep by air. The 900 sheep were gifted to Sheikh Hmood when they arrived in Saudi Arabia and formed part of New Zealand's contribution to the Partnership.

7.40 An issue arose about the ability to import sheep by airfreight into Saudi Arabia. Sheikh Hmood urgently worked with the Saudi Arabian Government to resolve this issue. The airfreight went ahead on 11 October 2014. The 900 pregnant ewes arrived in Saudi Arabia on 12 October 2014, with correspondence from BAGL noting that the ewes "travelled well and arrived in good order".

7.41 On 30 November 2014, the Al Khalaf Group told BAGL that there was concern about poor survival rates for the lambs. In December 2014, BAGL was informed of a high lambing mortality rate (about 75%) at the Agrihub. The Governance Group arranged to send the NZTE project manager, together with an experienced New Zealand veterinarian and stockman, to the Agrihub to evaluate the situation. The Project Report records that:

> ... [at Sheikh Hmood's] *request an expert team from NZ visited the NZ Saudi Agri Hub demonstration farm to: assist him to better understand the reasons for a high mortality rate amongst new born lambs; provide support, guidance and suggestions on best practice sheep management*.

7.42 As well as the above report written by the NZTE project manager, the veterinarian wrote a report that was shared with the Governance Group. The high mortality was reported as being the result of a combination of yarding, feedlot management, and stock-handling issues; problems with vaccination rates; and unseasonal and excessive rainfall (increasing sanitary problems). A range of improved farm management measures were identified and recommendations made. The Governance Group meeting minutes of 5 January 2015 said that the Group:

> *... acknowledged that the project team is privileged to be able to retain ongoing access to the animals at* [the Agrihub] *as it is very rare in the Saudi system that such visibility is allowed following the arrival of animals in the Kingdom. The Governance Group agreed that despite the fact that the sheep had been gifted to the Al Khalaf Group on arrival in* [Saudi Arabia]*, it was important to continue providing support to the Al Khalaf Group with the objective of a successful future lambing.*

7.43 The NZTE project manager's report says that:

> *This report is outside the scope of Brownrigg Agriculture's contract obligations as lead provider... and is being undertaken in good faith on behalf of NZ Inc. to continue and foster ongoing relationships with* [HAATT Est]*, the Kingdom of Saudi Arabia, and to ensure the success of the overall NZ Saudi Agri Hub project.*

7.44 A later report of the NZTE project manager explains that:

> *The team identified that the poor lamb survival had resulted from a combination of environmental and management factors. Solutions and a calendar of operations were recommended which* [Sheikh Hmood] *actioned immediately. The ewes have now been re-mated and the breeding program is back on track. While this outcome of the trial shipment was not expected it has provided very valuable findings from which to move forward.*

7.45 The main lessons described in the report are:

- export breeding ewes from New Zealand at an earlier stage in pregnancy or mate them after arriving at the Agrihub;
- have feedlot facilities, design, and layout more suitable for sheep breeding operations;
- not keep in-lamb ewes in yard and vaccinate them multiple times immediately before lambing;
- have appropriate ewe density for each pen, particularly during the lambing period;
- work to a planned sheep management calendar of operations for a ewe breeding programme; and
- ensure that staff operational structure, knowledge, and capabilities are suited for breeding New Zealand sheep.

Our comments on these matters

7.46 We have produced guidance on public entities' management of contracts. Our expectation is that public entities have "an ongoing and active role" in managing and monitoring the performance of the supplier to assess risk and value for

money. Based on the evidence we have reviewed, the Ministry and NZTE have had an ongoing and active role in the management and performance of the contract for services and the funding agreement.

7.47 We expected to see better documentation of how the Governance Group was managing conflicts of interest – in particular, the ownership interest that the Al Khalaf Group had in BAGL from January 2015. We were told that BAGL informed the Ministry and NZTE about the potential conflict in writing in August 2014. However, we found no evidence of how the Governance Group actively turned its mind to managing it.

7.48 We comment on the Ministry and NZTE's management and monitoring value for money in Part 8.

Outcomes of the Saudi Arabia Food Security Partnership

8

8.1 In this Part, we look at the outcomes intended from the Partnership.

8.2 With the Ministry signing the contract for services with HAATT Est on 19 February 2013, the Partnership has been in place for about three and a half years. As at June 2016, the Partnership continued. The arrangement includes paying or providing up to $11.5 million of cash and goods and services to the Al Khalaf Group. As at June 2016, $8.7 million had been spent. The Ministry is contractually required to complete the project and spend up to the remaining $2.8 million.

8.3 No formal assessment of the benefits to New Zealand of proceeding with the Partnership was prepared before or after Cabinet made its decision to set up the Partnership in February 2013. We cannot now look back on this project and accurately assess the benefits for New Zealand from the money spent, although there are some indicators as to what the project might have achieved in a wider sense.

8.4 In its decision in February 2013, Cabinet sought to achieve several outcomes through the Partnership. These included:

- settling the "long running dispute" with a Saudi Arabian investor in New Zealand;
- improving the relationship between New Zealand and Saudi Arabia;
- improving New Zealand's relationship with the Gulf Cooperation Council, including food security and removing blockages to the free trade agreement; and
- entering New Zealand companies into new markets by creating a hub for New Zealand businesses to launch into the Middle East and Africa.

The dispute with a Saudi Arabian investor in New Zealand

8.5 In Part 2, we noted that animal welfare concerns resulted in changes to New Zealand's export of sheep for slaughter policy. We noted how this affected Sheikh Hmood's companies in New Zealand and led to a dispute. In Part 3, we explained how the Partnership was set up and was intended to settle the dispute, including by exporting sheep for breeding. The Partnership has resulted in the negotiation and signature of the export for breeding protocols between New Zealand and Saudi Arabia.

8.6 We noted in Part 7 that 900 breeding ewes were exported from New Zealand to Saudi Arabia for breeding purposes.

8.7 Interviews and documentation, including letters from Sheikh Hmood and his companies' representatives, have shown his satisfaction with the Partnership in that it has resulted in limited sheep exports for breeding, new approaches at his

Um Alerrad farm, and improved relations between New Zealand and Saudi Arabia. We understand that Sheikh Hmood's companies have invested more than $80 million in the agri-business operation on his Um Alerrad farm (including meeting most of the costs of the ongoing abattoir build). We were told that the Al Khalaf Group still expects that New Zealand might eventually allow the exports of sheep for slaughter to resume.

The current and future relationship between New Zealand and Saudi Arabia

8.8 We were told that there has been an improvement in the relationship between Saudi Arabia and New Zealand, particularly after New Zealand sheep arrived in Saudi Arabia in October 2014. Saudi Arabian objections to the free trade agreement could be spoken about directly. An official told us that the evidence for this improvement is the continued and growing trade between Saudi Arabia and New Zealand.

8.9 Meeting reports show that the then Saudi Arabian Minister of Agriculture thought that, after a period of turbulence, relations with New Zealand were more settled and that the signing of protocols about exporting sheep for breeding would have a positive effect on Saudi Arabia's perceptions of New Zealand.

8.10 Officials told us that restrictions to trade between Saudi Arabia and New Zealand had not (re)appeared and subsequent diplomatic encounters between the two countries are reportedly no longer "poisoned" by discussions about exports of sheep for slaughter. The protocols for exporting sheep for breeding were signed because of the need to export breeding stock for the Partnership. It remains to be seen what future use is made of the protocols.

The free trade agreement, Gulf Cooperation Council relationship, and food security

8.11 Reports from 2014 meetings with the then Saudi Arabian Minister of Agriculture show that the Partnership removed one barrier to finalising the free trade agreement with the Gulf Cooperation Council. The free trade agreement currently remains unsigned, although we have been told that discussions continue. We note the joint statements on 7 April 2016 and 27 September 2016 by New Zealand and Saudi Arabia confirming a desire for progress, positivity about the trading relationship and growing food security partnership, and pleasure with progress being made to complete the free trade agreement.

8.12 We noted in Part 3 that, although officials identified the "live sheep issue" as a significant obstacle to the signing of the free trade agreement, we found no evidence of substantial analysis about whether this was so, including whether

there were other obstacles to signing. Also, we did not see evidence of substantial analysis assessing the risk to existing trade from live sheep exports.

8.13 As noted in Part 3, the decision to set up the Partnership was made in the context of New Zealand's interests in the broader Gulf region, including the food security objectives of the Gulf Cooperation Council and the possible export opportunities for some New Zealand companies involved in the Partnership. We have been told that representatives from other Gulf states and other areas of Saudi Arabia have visited and shown interest in the New Zealand companies and technologies on show at the Agrihub.

New Zealand companies' entry into Gulf Cooperation Council markets

8.14 More than 30 New Zealand companies are reported as having had some engagement in the Agrihub. We interviewed three New Zealand companies involved in supplying goods and services to HAATT Est under the Partnership.

8.15 We were told two New Zealand companies used equipment from the Agrihub to display agriculture technology at the Riyadh regional trade fair in 2015. We also understand that some companies intend to continue their involvement in the Agrihub and have received some interest from other Gulf Cooperation Council markets.

8.16 One of the companies we interviewed told us that its involvement in the Agrihub has directly led to new export opportunities. Others commented on their limited involvement and that "time will tell" on subsequent opportunities. We were told that at least four New Zealand companies will be at the Riyadh regional trade fair in 2016 and that two new projects are being scoped.

8.17 Interviewees who have visited the Agrihub mentioned Sheikh Hmood's continued representation and promotion of New Zealand interests, including at the Riyadh regional trade fair in 2015. Our interviews with New Zealand companies show that Sheikh Hmood readily allows those companies access to the Agrihub (as we noted in Part 4, there are no contractual rights to access it). We were also told that Sheikh Hmood hosts interested parties from Saudi Arabia and the Gulf Cooperation Council to view his Agrihub.

Our comments on these matters

8.18 Cabinet sought to achieve several objectives through the Partnership. Many uncertainties remain about whether these objectives have been achieved. The Partnership depends on the quality of interpersonal relationships between New Zealand Ministers, officials, companies, and Sheikh Hmood and his companies' representatives.

8.19 We have not seen a formal assessment of the benefits to New Zealand of proceeding with the Partnership. We cannot now look back on this project and accurately place a value on what New Zealand gained for the money spent.

8.20 We expect the Ministry and NZTE to assess and report on what the Partnership has achieved once all of the goods and services that are covered by the contract for services have been provided. We expect that this reporting would help the public to understand the outcomes if it included such matters as:

- what has been achieved with the money spent, including progress towards the free trade agreement and other benefits;
- the financial benefits;
- the residual risks; and
- the lessons learned from the arrangements, including an assessment of the success and suitability of the mechanisms used.

Appendix 1
List of people interviewed

We met with or spoke to:

- Hon Murray McCully, Minister of Foreign Affairs since November 2008;
- Hon Tim Groser, Minister of Trade November 2008 to December 2015, currently New Zealand's Ambassador to the United States of America;
- Speaker Rt Hon David Carter, Minister of Agriculture, November 2008 to December 2011, and Minister for Primary Industries, December 2011 to January 2013;
- Hon Jim Anderton, Deputy Prime Minister 1999-2002, Minister of Agriculture 2005-2008;
- Mr John Allen, Chief Executive and Secretary of Foreign Affairs and Trade from mid-2009 to early 2015;
- Mr Murray Sherwin, Chief Executive and Director-General of the Ministry of Agriculture and Forestry, November 2001 to November 2010;
- officials from the Ministry, NZTE, MPI, and the Treasury;
- private sector business leaders involved in the Partnership; and
- individuals who approached the Auditor-General with information they considered might be helpful to the inquiry.

We also consulted the Serious Fraud Office, which told us that it had received a complaint and that its evaluation of the available information meant it did not think an investigation would disclose serious or complex fraud. The Serious Fraud Office asked us to refer any concerns about serious or complex fraud, bribery, or corruption to it, should such concerns arise during the course of our inquiry. We did not need to make such a referral.

Appendix 2
Additional information about the funding agreement projects

The funding agreement listed the following projects:

- *Export Breeding Ewe Supply Chain;*
- *Awassi Breeding and Genetics Programme;*
- *Forages and Nutrition;*
- *New Technologies;*
- *Abattoir and Feedlot Design and Construction;* and
- *People Development*.

Export Breeding Ewe Supply Chain and Awassi Breeding and Genetics Programme

The purpose of the Live Export and Sheep Breeding Project was to resolve two key issues through research: "managing a late season mating in New Zealand to ensure that sheep are not arriving and lambing in the heat of a KSA summer" and "which breeds and age of ewes will give optimum performance both for a successful late mating and then adapt to KSA conditions".

MPI regulations restrict the transport of pregnant sheep to the Middle East to ewes that are no more than 115 days in lamb (if by air) or 96 days in lamb (if by sea), and ewes cannot be exported between the months of May and October because of the high temperatures in the region at this time.

To export pregnant sheep from New Zealand, mating must occur in July, which is later than normal. The objective of the research was to "generate data on the length of the breeding season and the relative success of late matings". The project included:

- an evaluation of Awassi sire genetics;
- an evaluation of ewe age and breed effects and their adaptation to Middle East conditions; and
- research into the seasonality of breeding and late mating of ewes and hoggets.

The summary contract price was estimated at $718,628. Project savings and revisions through to December 2014 put new costs at $537,476. The actual cost was $581,977. We have evidence that the project has been completed.

Forages and Nutrition

The Forages Project was planned to benefit the efficiencies of the overall feed production onsite by two research programmes into evaluating alternative winter active alfalfa varieties grown under local conditions and alternative winter active Rhodes grass varieties grown under local conditions. The Al Khalaf Group grows alfalfa and Rhodes grass, which is blended with imported grains and additives, and converted in its own feed mills to feed pellets for stock. The summary contract

price was estimated at $83,446, and the actual cost was $26,634. The project was cancelled at the request of the Al Khalaf Group, and the funding reallocated to the provision of increased expertise to support the abattoir construction.

New Technologies

The New Technologies Project was "to provide current NZ agricultural technology both for use on the Um Alerrad farm, and to provide a demonstration facility to showcase NZ agricultural equipment, technology, and expertise in the wider region". The Technologies Project included "a six stand shearing shed to be shipped in kitset form and assembled in the sheep breeding feedlot to provide the capability to shear 1,000-1,200 sheep each day; a demonstration area adjacent to the lamb finishing feedlot contained by a covered yards complex shipped from NZ to demonstrate the use of key NZ agri-tech equipment". NZTE described the delivery of the project as:

> *Two major facilities have been constructed within the technologies project:*
>
> *1. A fully equipped raised four stand NZ woolshed complete with a comprehensive set of covered yards attached. These facilities have been constructed adjacent to the existing sheep breeding feedlot. It is capable of shearing up to 1,000 sheep per day. An animal race connecting the feedlot to the woolshed and covered yards has been erected, with all equipment installed and commissioned.*
>
> *2. A partially covered set of sheep and cattle handling yards. These facilities have been constructed adjacent to the new abattoir site, and designed to service the new lamb and cattle finishing to be built by the Saudi Partner.*
>
> *The major technologies that have been provided in conjunction with these two facilities include:*
>
> *1. Automated animal handling and drafting equipment which are linked to electronic weigh scales and identification (EID) devices for sheep, cattle and camels.*
>
> *2. Management software to assist with recording and monitoring farm performance.*
>
> *3. A full range of animal husbandry tools, shearing plant and equipment.*

The intended completion date was 30 March 2015. The summary contract price was estimated at $1,525,926, and the actual cost was $1,490,068. We have evidence that the project has been completed.

Abattoir and Feedlot Design and Construction

The Abattoir Project was "planned to showcase New Zealand meat processing technology, with high quality equipment supplied by the project from New Zealand where possible, and with public viewing areas to be utilised for marketing and promotional activities planned".

The Project Plan also indicates that the showcase area for marketing and promotion would enable the public to see their own animals slaughtered if they wished. A New Zealand company was contracted to design the plant and equipment required, issue construction specifications, oversee the installation of equipment supplied from New Zealand, commission the plant, and train operators once the plant has been commissioned. The New Zealand engineering firm that will construct the internal machinery fit out, install the equipment, commission the plan, and train local staff to operate the abattoir satisfactorily has been selected.

The Al Khalaf Group is obtaining regulatory approvals for the abattoir in Saudi Arabia. This has caused delays with the project (see Part 7). The Al Khalaf Group has expressed confidence that the approvals will be obtained. In August 2015, the NZTE project manager included the following in a report on the project:

> *As part of the abattoir, a New Zealand company has developed two prototype portable slaughter boxes, one each for sheep and cattle (camels). This leading innovative technology was developed in New Zealand at the request of the KSA partners and trialled in their abattoirs in Dammam. It complies with the KSA slaughter (halal) requirements. Potentially this technology could open up the market and be adopted by many of the other abattoirs across the Middle East.*

The remainder of the project will be completed once the approvals are obtained, and the current anticipated completion date is the end of December 2016. An alternative solution is planned if approvals are not obtained. The summary contract price was estimated at $3,172,000, and the actual cost as at June 2016 was $489,460. About $2.8 million remains budgeted for this project.

The project to develop procedures for the sea freight of breeding ewes was stopped as a result of the decision to airfreight 900 pregnant sheep to Saudi Arabia in October 2014. The summary contract price of this project was estimated at $47,000, and the actual cost was $7,531 before cancellation.

People Development

We did not find evidence that People Development became an active project, although we note that training of staff at the Agrihub was carried out as part of other projects. For example, people were trained in shearing and wool handling as part of the New Technologies Project.

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