

Deer Industry New Zealand
FORMAL GENERAL MEETING
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CEO's Report: Mark O'Connor

(CEO Deer Industry New Zealand)

Good morning ladies and gentlemen.

I must confess to a degree of nervousness when I saw the Southland branch's and Tony's decision on the theme of this year's conference: "Positive Action... Positive People, Positive Products and Positive Places". For us stutters, it's a bit of a nightmare frankly. But, moreover its very upbeat tenor did remind me of the ill-fated conference theme in 2001 in Masterton, "Let the good times roll" which pretty much directly preceded the industry crash in 2002.

But ignoring my own superstition, I do think that the theme is well considered and fits nicely with where we are as an industry. Positive Action is absolutely where we need to be as an industry. As an industry we are rekindling our confidence after a difficult number of years which tested everyone's mettle; and that confidence will be regained by Positive Action, and of course by Positive Profit. Those of you, along with others no longer with us, who are the Positive people who pioneered this industry did so with Positive Action. They saw Positive Products derived from deer. They learned how to farm deer and got the products selling in the right places by forming close and enduring relationships with customers and their customers.

I would like to think that this year's theme takes last year's theme a little further. A key element of innovation is doing some new or differently which is the same as Positive Action. We all hear a lot about strategies and visions and missions, and I think these things do get a bit overused. I believe forming a view of the world, and where it is going, and then just getting Positive stuff done can be more important.

As we all know, it is much easier to pull something apart than to put it together; easier to demolish than it is to build and easier to be negative rather than positive. Unless you are one of the pioneers who began the industry, you will have benefitted from the Positive Action of

others in the past. So; in the spirit of karma or Confucianism's 'reciprocity' perhaps we can all think about the 'Positive Action' that we can contribute to make this industry stronger for the future participants. Over the next couple of days as you're talking with friends, acquaintances, or even with people you don't really like, I hope you, as one of the 'positive people' can discuss something that you will do to contribute to the growth of the deer industry.

Today, the DINZ executive will be discussing the Positive Action which is going on their own portfolios and how the industry's work, which DINZ contributes to, is setting producers, processors, marketers and industry suppliers up for the future. There are negatives out there – Emissions Trading Schemes, Biosecurity reviews, compliance costs, and we do do work on those – but that is not really what today is about. Today is about the things that will help us to grow rather than just survive.

For my part, I want to give you my thoughts on why the deer industry in 2008 is a good investment for the future. I will begin quite broadly at the agricultural sector level generally and work my way down to the New Zealand deer industry, and go through some of the industry numbers.

In terms of food generally, the picture for producers is positive. The current world population is approximately 6.5 billion humans. This is forecast to balloon to 9 billion by 2050. As the population grows, these people will obviously need to be fed. Generally, one would expect that food producers would just increase their production and therefore no change in the price received over the longer term. However, there are resource constraints. The quantity of arable land per person is decreasing as cities and populations grow. In 1950 there were 1.2 acres of productive land available per person, in 2010 there is expected to be only .52 acres. Water is increasingly becoming scarce and with the proportion of water used in agriculture being 70% of total use, there are upper limits. Add in the more short term concerns about energy security leading to more land being used to produce biofuels and an increased incidence of droughts as the in vogue climate change creates more pressure on land use, and food production. These factors are leading magazines such as the Economist to print headlines like "The End of Cheap Food".

The real price of food over the latter part of the last century was dropping. But in the past two years this has moved around significantly and food prices have increased some 20% since June 2006.

Drilling down from worldwide food production to worldwide meat consumption (including poultry and pork), the World is consuming more meat. As developing countries become wealthier, they move from a cereals based diet to a broader range of foods which includes more consumption of animal products. For example, the Chinese are consuming 50% more meat than they were in 1995 and South Korea, 25% more.

The increase in meat consumption as well as other factors has led to some increase in price, but not to the same extent as food prices generally, particularly dairy. The question is whether there are some fundamental reasons why prices for meat products have not increased when other products, including grain used to those produce meat products, have increased; or whether there is just a time lag before prices feed through.

What does this mean for New Zealand venison, in particular New Zealand venison which is in relatively short supply over the next few years?

As the Chairman said, venison is, and should remain a specialty, niche item. Specialty and niche does not necessarily mean low volume – 21,000 tonnes is still a fair amount of meat, but it is being sold into a large market and is squarely dwarfed by competing proteins. And it does not necessarily mean a high price – there are lower value parts of the carcass which need to be effectively marketed. However, generally speaking, New Zealand venison should remain a relatively low volume, higher-priced specialty item.

Pricewise, New Zealand venison must maintain relativities with competing proteins. As we have seen in the past, if it becomes too expensive relative to these competing proteins, consumers and the trade will easily switch to substitute products. If it is too low relative to the competition, we are not charging enough. Importantly, if meat prices generally, have moved up due to increased population and the emergence of more developed countries, venison prices will logically be higher.

The Chairman also mentioned focus with differentiation. In terms of differentiation, the industry must continue to ruthlessly pursue opportunities to tell its story which sets it apart from most other protein options. It's a good story and Innes has a number of excellent examples which illustrate Positive Action which communicate our Positive places, people and product. With our national tendency to accentuate the negative, we sometimes forget the whole picture, but brief consideration of these two images should clearly communicate a very

real difference in production environments. New Zealand venison's strong nutritional profile and healthy benefits remain an important element of the story in a world of growing obesity and incidence of lifestyle diseases such as diabetes. In terms of focus, it is relevant to acknowledge that venison consumers will tend to be relatively affluent, middle-aged and European, and marketing must focus on them and the restaurants where they eat and retail outlets where they shop. The industry has been strong on providing venison in the appropriate restaurants, and we're getting better at providing it, and selling it to them in places where they shop.

As such, I think it is fair to say that the outlook for food, agriculture, meat and venison is generally positive from a demographic and market perspective. However, as we know, a very real challenge for the New Zealand deer industry is inside New Zealand - with competing land use options. I would like to focus on this for a moment. Deer Industry New Zealand is concerned that the deer industry is currently being overlooked and under valued by a number of commentators, for example MAF's SONZAF Report which is used by banks as part of their decision-making. Further, DINZ has been concerned that the emotion and rhetoric is tending to be looking in the rear-vision mirror rather than on the road ahead. As such, DINZ has sought some comparative economic returns from a number of different farming options to facilitate some more objective comparisons.

These comparisons are made on a cents per kilo dry matter consumed basis across 31 different farming options. As you can see here, deer are in two of the top three spots with venison finishing and velvet. Breeding and finishing is in the top third of all options irrespective of land class, and is conservative, assuming a schedule of 7.10 per kilo. Dairy farming is not included because the analysis has assumed deer farming will occur on a different land type to dairy. Deer breeding operations clearly have some way to go as we all know. But they do sit 50% above the average for other breeding options. These calculations have been done using conservative weaner prices at between \$3.40-3.80. Recent strengthening demand has recently pushed some of those prices above \$4. Obviously, breeding success is a key focus of the industry's productivity strategy.

The highest return on this model is from dairy grazing at 4.2c higher than venison finishing. However, I would make a point here which has often been made to me in the past; and that is, what business are you in? Across all industries and investment decisions, the general rule is to make a decision based on your view of the future and stick to it. It is generally those who

chase the latest thing and switch tacks like reef fish with the rest of the school that end up worse off. If your decision is that you will be working for the dairy-man, subject to his moods, his demands and his fortunes, then that's the one to stick to – and accept that when his revenue falls or costs increase, it'll likely be your margin that he trims first rather than his own. To paraphrase Donald Whyte's very insightful comments a couple of weeks ago on Country Calendar, if you're in deer and enjoy the animals, and are focused on being the most efficient and productive farmer that you can be, in an industry with good prospects – then why not stick with it?

As Innes will point out in his presentation, the market for venison has expanded over the past 4 years. There is room for the industry to expand given that it only has a hoof print of 400,000ha, compared to sheep and beef's 9.5 million ha and dairy on 2 million ha. The deer industry needs to be growing as the market grows – not too far behind or ahead.

Moving now to the industry numbers over the past year.

Although total venison exports have dropped by some 19% as production has come off the historic highs, venison returns have decreased by only 7% which is indicative of the strengthening returns from venison. This has been reflected in the strong venison schedule which is up by some 40% in comparison to this time last year.

Turning now to velvet and the season which is coming to a close. The season has certainly not been for the timid. Total FOB export returns are similar to last year's at approximately \$27 million dollars while volumes exported are lower. Clearly, velvet returns are not where they need to be. Weighted average pool prices are back some 21% on last year. However they will be at least in line with the 10 average of weighted averages which is \$75. Reasons for the lower returns have been well reported; and are partly due to a stronger New Zealand dollar over the course of the season which has appreciated some 16%, slower patient visits at Korean oriental medicine clinics and stock levels in Korea and China. While the velvet season did get off to a rocky start and buyer confidence was dented, I do not believe that was the cause of lower prices as has been widely postulated.

Price volatility continues to make velvet particularly challenging and reflects a supply chain which often does not work in any of the participants' favour. You can see here the severe swings it suffers from.

As I conclude, I would like to acknowledge the efforts of the DINZ Executive team over the past year including Vanessa Crowley who has departed since the last conference. This is the only time that I publicly get a chance to express my gratitude, and I do want to say that I really appreciate the work that they put in. I know that Tony is the face that you see, but there are six others, in the small team who are committed to playing their part to see the deer industry succeed. I welcome Rhys to the team. He has already been over to Asian markets to meet those involved and get up to speed. But more importantly, he also recently ran a gauntlet of Southland farmers late last month to get the good oil.

To sum up, the big trends are in the New Zealand deer industry's favour over the longer term. The short term looks good for venison – velvet has its challenges. Deer farming does stack up in comparison to other land use options in New Zealand and has its place. We have our challenges, but they are also our opportunities and with plenty of positive action those opportunities will be converted into a more profitable industry. Thank you.