Deer Industry Conference FGM
Hamilton May 2007

John Scurr- Deer Industry New Zealand Chairman

Good morning ladies and gentlemen

Introduction

Welcome to the Deer Industry New Zealand Formal General Meeting for 2007. We have a full session for the morning so I will get straight into it.

I will begin by running through the plan for the morning. The FGM begins with an update on results from the Venison Five Year Strategic Intent and the Velvet 5 Year Strategy to date. Given the very topical question of whether DINZ and industry activity will slow as venison production decreases, I'll outline the programme which the DINZ Board put in place to ensure, as much as possible, a continuation of activity without large increases to the levy. I will then give you my perspective on a couple of the industry projects which are currently on the boil, the Velconz initiative and focus farms.

Our CEO, Mark O'Connor, will report for the past year on top line Executive activity. Innes will then lead a venison session with detail on the industry venison programmes and what is coming up. I am pleased to then welcome Keith Cooper, CEO of PPCS to address us for the first time on his perspectives on venison markets and marketing. Andrew Duncan of Duncan & Co and DINZ Board Member will cover off his perspective of the venison market. We will then have some opportunity for discussion and questions for the three venison speakers. Following a quick break, we'll come back for an update of velvet activities from Vanessa Crowley, Velvet Marketing Services Manager.
She will be followed by Lindsay Fung with a Research update. Then John Tacon will provide some comments on welfare. Tony Pearse will outline the Productivity strategy and focus farm situation. Then Ponty von Dadelszen as Chairman of the Velconz Working Group and Craig Osborne, Group Strategy Manager at PGG Wrightson will discuss the Velconz initiative and the morning will be rounded out

by an open discussion session with your Board that can run until your questions and comments have been aired. We will take lunch around 12.45.

Strategy Report Cards

Ladies and gentlemen, the industry five year strategic intent for venison and the strategy for velvet were launched in October 2004, so we are now close to half way through our five years. It is therefore very appropriate to review progress and next steps.

While these are the documents from which DINZ determines its strategic priorities, annual budgets and operational plans, it's important to emphasise that these pathways for the future are <u>industry</u> strategies, DINZ's alone. They are agreed common priorities that industry stakeholders have developed for the whole industry to strive for. They are broadly consistent with companies' own activities, but they do acknowledge that companies will also have their own strategies and ambitions which are outside the industry directions. The strategies include measurable targets – which provide some indication of how the results of the five year plans are tracking.

Venison

For venison, the Strategic Intent addresses a number of issues:

- Firstly, venison returns: in 2004, the annual average schedule was $1.20 below the ten year average
- It identifies a need for improved information regarding deer numbers and improved forecasting models
- It states an opportunity to encourage more consumption outside the small window in which venison is traditionally consumed.
- It highlights reliance on a small number of geographic markets which leads to heightened risk should there be a problem in the market, but more importantly less competition between markets to purchase venison
- It emphasises reliance on traditional food service channels, which again means a lack of healthy purchasing tension between HRI and retail
- The industry identifies 'country of origin branding' as an opportunity to differentiate New Zealand venison and build preference and value in the New Zealand venison brand.
- New product forms appropriate to retail were required, given that retail product forms can be quite different to HRI
- Overall these culminate in addressing volatility in supply and the volatility in schedule prices which our archilles heal so often in the past.

As an industry, we have been working to address these issues, challenges, opportunities - call them what you will - in a variety of ways.

Current returns

In terms of returns from venison; generally the industry pulled together over the past two and a half years. A key feature is that company marketers have a mature and functional relationship so that they were able ensure that some price stability was maintained in key markets. They were also able to show enough commercial leadership and supply large quantities of venison to markets other than core markets. This meant key markets were not overburdened. As we can see in this graph, the industry, although production was at levels never seen before, and way in excess of what the market was demanding, indicator venison prices were increasing steadily and consistently. This means that as the industry moves to a lower production environment, we have not swamped and overburdened key markets. Were it not for responsible communication and sound industry relationships, the situation could be very different now. The challenge over the next 2 ½ years is for the industry to continue working in this functional and positive way in the challenge of a lower production environment.

Better information

We have collected and disseminated more information on the position of the New Zealand herd, how it is changing and what future scenarios might look like. This has been done through the Deer Industry Survey over each of the past three years and I thank you for it. Based on the survey and Statistics New Zealand figures, a range of production scenarios to 2012 has been completed and provided to industry.

These allow producers to consider a deeper level of information with sufficient flexibility form their own view of industry prospects. Further, DINZ has undertaken activities such as data sharing with AHB, advertising in rural publications for details of new deer farmers and working with Statistics New Zealand on their survey and census.

Seasonality

As always, seasonality of consumption and growing demand outside the game season is a key challenge for the industry. This has been one of the objects of the Impress Your Guests campaign and prior to that, Sommerkampagne. The Impress Your Guests programme extends consumption by pushing out from the edges. We are using the percentage of chilled exports outside the August to December period as a measure of out of season consumption as well as feedback from importers to gauge the effectiveness of these initiatives. Results are encouraging the percentage of chilled exports outside the peak export period has increased to almost 4%. This is consistent with feedback from importers that the campaign is having a positive impact. We have also seen a larger number of importers undertaking their own promotion to make sales after the game season. For the first time, DINZ has received requests for out of season promotion this year, particularly between January and Easter. Innes will expand on this.

Reliance on small number of markets

The reduction of dependence on a small number of traditional geographic markets is measured by working to increase export volumes in a range of markets. DINZ makes a contribution to the development of new business in these markets through the joint promotional programme and makes a contribution to an industry promotional initiative so that the promotion is larger and goes further and industry funding flows to where commercial opportunities lie. To date, DINZ has not undertaken generic promotion outside Europe and the US because we are very mindful of the need to focus what is relatively limited funding. Opportunities in German retail are clear – our presence there is low relative to competing proteins, but distribution in Germany is strong and there is good brand awareness in venison generally. Further, the USA through Cervena is a good opportunity in a market which has good potential for further growth. To meet that potential, there is motivation and good alignment among Cervena licensees which means that consistent promotional messages are sent.

This shows how the industry is performing against the targets it set itself. We are ahead in 4 regions and about half way in 2. However, it is important to treat this with a healthy degree of caution as these are volume-based figures. We will get a fairer understanding of any change to our spread of markets once volumes drop. Venison marketers have anecdotally reported that they believe that the overall venison market has expanded over the past three years.
Our strategy is about growth and through this emerging phase of lower volumes it is critically important that we keep the momentum in the market which means continued investment to grow the value of our product.

Reliance on traditional HRI and lack of country of origin branding
Since October 2004, one particularly pleasing feature of progress has been an increasing focus on developing venison sales at retail. This is also consistent with country of origin branding given that this forms a sensible part of the selling message and new product development.

At the conference in Christchurch last year, Andrew Duncan indicated that Duncan's own proportion of venison labelling with New Zealand country of origin had increased from 55% to 75% in two years along with a large increase in the proportion of 'value added' items being sold. Alliance has line-extended its successful Gold Class and Ashley brands to include venison. PPCS has developed its range of value added packs and positioned them in key European markets. SDP Marketing continues to have a strong focus on valued added venison products and we have a new company – First-light Foods which has taken a progressive approach to marketing based strongly on country of origin positioning.

We must of course be realistic that retail is a tough environment. In the supply chain, retailers have more influence and clout than suppliers. New Zealand venison competes with a wide range of protein options and therefore pricing levels are a key issue. Consumers are not actively demanding New Zealand venison, so there isn't 'consumer pull through' so retailers don't have to supply it. Therefore, we have to actively do a lot of consumer promotion to build awareness and interest in New Zealand venison – no one else will do it for us.

Volatility of supply and schedule prices

In terms of volatility of supply and schedule prices, we all know that this remains a key challenge for us as an industry. Nearly all the activities we undertake feed into solving this challenge. Work to extend the time when venison is consumed, improving the retail- HRI balance, co-operation between venison marketers and getting better information in producers and marketers' hands are all part of decreasing volatility. Further, the Productivity Strategy, which Tony Pearse is driving, is about getting more deer, ready earlier and heavier to provide more production flexibility is also attacking volatility from the supply end.

Personally, while I am well aware that the conditions of the past four years are at the front of everyone's minds, I am confident that a measured, steady improvement in schedule prices can occur based on both supply conditions and our credible, well executed promotional initiatives. To this end, a drop in supply has been well signalled to the market and particularly key accounts, by venison marketers. Despite high supply, marketers have tended to narrow down the companies which they supply to those who do actively invest in the future of New Zealand venison.

So while the industry faces some risk from trading in the market, this has been lessened.

Velvet Strategy Report

In velvet's case, aside from selling structures which I will come to shortly, the industry has identified 6 key areas of opportunity. Three are in traditional geographic markets and three are in non-traditional uses. By 2009

- In Korea, the industry aspires to sell an additional 45 tonnes of frozen equivalent velvet in markets other than the traditional whole piece market
- In Taiwan, it aims to sell an additional 30 frozen tonnes
- In China, we wish to sell 55 tonnes frozen equivalent
- We aim to have a wound healing product
- We want to increase sales and distribution of velvet as a sports nutrition supplement and
- We plan to have other products based on velvet, for example other health benefits or velvet products for companion animals.

These six areas are designed to reduced dependence on the oriental medicine, whole piece velvet market in Korea. Good progress is being made in all of these areas. Better access has been achieved in Korea and China. We are very active and have good allies to help solve issues in Taiwan. Vanessa will provide more detail, but nine deer products from three companies are being sold in China. We have a set of good, innovative promotions running in Korea to position New Zealand velvet as a healthy food. For wound healing, we have a comprehensive set of trials which will take place between now and September to give us a definitive understanding of whether there is a sound business case for further development. In terms of sports nutrition and other western uses, thanks to the commitment and activity of one company, more velvet than ever is being sold in New Zealand. The industry also has a number of enthusiastic marketers in the US.

Achievement of the velvet strategy's goals is still certainly a work in progress, but there is a lot of good activity taking place which Vanessa will expand on.

DINZ Business Plan

Deer Industry New Zealand operates a 5 year business plan to assist in medium term planning. Given production is beginning to head down, I want to update you on how DINZ's funding position is tracking. The Board built a manageable level of reserves during the past three years of very high production and determined that this would mean that those exiting the industry paid their share of levy on the way out, so that those committed producers who stayed the course would hopefully not be burdened with higher levy as production dropped back. Production has tended to track as the Board expected. As you can see, the Board intends to run down reserves over the next three years so that good levels of industry development can continue even though production and therefore levy income is lower. While I certainly cannot promise that there will not be levy increase in the next few years, DINZ is doing what it can to ensure changes in levy are kept to a minimum

Our conference theme is "Innovate" and I would like to raise a couple of important initiatives which are innovative and which we need to see embedded in the industry.

Firstly Velconz. Without pre-empting later discussion, I do want to give you the DINZ Board's perspective on the Velconz initiative. Despite the very welcome increase in prices this season, we remain really concerned for the future of New Zealand velvet. On the one hand, it should be bright. We are the largest, most efficient producers and processor of a fantastic niche product which has a prized place in traditional medicine. On the other hand, in 1995 velvet exports were worth $55 million. At 2.5% inflation, today's exports need to be valued at $73 million just to be standing still – but they're worth around $25 million. Sure, some of the reasons for this erosion in value are demand-related. We've had an Asian Economic Crisis, exchange rate issue, a slower growth rate in the Korean economy etc. But a lot of the erosion is supply driven. Most of the industry's velvet is exported frozen rather than value added. We make no distinction between buyers committed to marketing our velvet and those that certainly are not. We sell by auction to a small group of buyers who know that they generally do not have to compete too hard except in the odd year where world supply has dropped too far. We have encouraged a supply chain in which treats our niche, high value, well produced velvet as a commodity for which participants have little choice but to compete with each other on price. In short I believe we have to change and support change, and the sooner we do it the sooner we'll get back on a growth curve. But in our view, 'not changing' is not an option.
Of course, change by its nature means that business for some participants will not continue as it has previously. And in this case, the organisation most affected by

the change is PGG Wrightson. I have been pleased with the vision and openness that PGG Wrightson have shown.

Gaining the momentum for transformational change has taken time – and it was always going to - , but I am pleased with the position that has been reached. As one would expect in a passionate industry like velvet, there are different perspectives on what should be done and by whom. This debate is worthwhile as long as it is focused on improving the position of the New Zealand velvet industry and does not result in a stale-mate of no change or just the pushing of personal agendas. I've enjoyed the vibrant, robust exchanges over the past year. I would be much more concerned if they weren't there. Let's keep on debating, but the time is coming where individual producers will need to decide whether 'doing nothing' is OK. I urge you to not to take the 'she'll turn out alright' position because I don't think it will be. We are the World's best producers and processors of velvet, we have the opportunity to become the World's best marketers of it. There are plenty of examples of Kiwi industries changing their marketing structures and fully realising their potential, and we can do it too.

I would also note that the Velconz group is, of course, not the only agent of change – the Velexco Cooperative Group has been an advocate for change for some time. The fundamental difference between Velconz and Velexco is where change needs to primarily occur.
Velconz's short term goals are very much focused on the supply end. That is, how velvet is aggregated and sold. While Velexco has put resources into the demand, or market end, of the chain. Despite this fundamental difference, what is the same is that both organisations see the importance of producer-led responsibility for their velvet industry.

I'd like to move now to briefly mention DINZ's support for the development and implementation of a suite of industry focus farms as community centres for productivity improvements. The DINZ Board is very aware that there has been significant industry and government investment in research, but that there has been little real demonstrable gains in venison productivity. As such, the Board wanted to send a clear message of commitment to technology transfer and farm extension of research and development work. To that end, industry has agreed to fund a portion of focus farm development in a similar way to how it funds industry joint promotion. Also, the Board has encouraged the co-ordination work at an industry level to be coordinated by the producer manager, Tony Pearse, so as to encourage the efficient use of resources and the avoidance of any duplication. However, DINZ is very keen to see focus farms being a community-led initiative which is set up and owned by local producers. We believe it can be a really positive initiative which will fit in well with the industry's research strategy while addressing local needs and invigorating interest in more productive and profitable deer farming.

To conclude, ladies and gentlemen, I am encouraged by the way this industry has managed its affairs by adhering to robust strategies and addressing the issues before us. We will have a different shape to the industry going forward. Where and on what class of land the principle bulk of deer will be farmed in NZ. In what markets the major volumes of venison and velvet will traded during lowering production and where investment is best placed.

I am confident that the deer industry is well positioned for the future. We know we have a great product, we know the market is growing and we know we have to continue building relationships and working together to achieve sustainable outcomes. The innovation that shaped our past can certainly now contribute to secure the future. We look forward to continuing to advance the industry.

Thank you