

Deer Industry Conference FGM
Hamilton May 2007

Mark O'Connor – Chief Executive Officer

Good morning. Innovate 2007 is a fantastic theme for this conference and as one of the first speakers at the conference I suppose I have the chance to range widely on the topic of Innovate or Innovation and put my own spin on it. So, as we begin our day or two together thinking about innovation and what it means to the deer industry in 2007 and beyond, it is worth giving a moment's thought to what innovation actually is. The best definition of innovation I have seen is: doing something new or differently which adds value. Three bits to emphasise here: doing, new or differently, adding value. It's got to be about doing. If it stays an idea, then nothing has changed. New or differently by definition is unpredictable and uncertain which tends to make us cautious and self doubting, but once done can put us on a whole new level. And finally adds value. There are plenty of new things around which we are required to do, but if they don't actually add any value, what's the point? The trick is working out exactly how doing something new and different will add value. Will it improve bottom line? When – short or longer term? Or will it add to the viability of our industry? The opposite of innovation is 'more of the same'. There is nothing wrong with this operational perspective. More of the same helps us make sense of the world around us and repeating things which have worked well in the past makes sense. The reality is that we need to strike a balance between creative innovation and 'more of the same', operational type activity.

Also, innovation is not necessarily about technology or cutting edge gadgets. It is much broader and can include new systems, processes, old machines; just as long as it's done, new or different and adds value.

With a definition of 'innovation' under our belts, I think a reasonable question to ask is 'Does the New Zealand deer industry have a culture of innovation?' Do we seek out and do the 'new and different' to add value. The industry was started by a group of innovative people – no doubt about that, but that was 35 odd years ago. As we sit here today, do you foster innovation. It's pretty hard to measure, but I believe you do. For example, look at the remits you've put up for debate this

afternoon. I would say that 5 of them are certainly about innovation. Of the others, one is procedural, and one – advocating a delay in the mandatory implementation of animal id and traceability – questions whether the programme will result in value for the deer industry. Moreover, if you take a look at the remits presented last year, when the industry was into its fourth year of unsustainable returns, of the 13 branch remits, 10 were about requesting or fostering innovation.

At this time when we're all focused on getting back on a path of profitable growth, it's helpful to acknowledge that as an industry we can confront uncertainty and ambiguity so that we innovate and grow.

During the presentations from the Executive this morning, I hope you will get a flavour that the Executive is also agitating for innovation. I think that the Executive has some great stories to tell about the work that they have done or contributed to during the year which are innovative whether it's the Impress Your Guests campaign, a new Venison Production Systems Research & Development strategy, or a new Code of Welfare for the farming of Deer or promoting deer velvet as a healthy food in Korea.

For my part, I will begin by presenting a few of the numbers and projections with respect to venison and velvet. I'll then discuss traceability from a marketing perspective to hopefully add a different angle for the remit discussion on this later today. Finally I'll wind up by running through a couple of additional areas which the rest of the Executive won't be covering.

Statistics Update

Here is a graph of the indicator venison schedule NZ. As you see here and very much know yourselves, we have seen an improvement in the schedule which has been sustained despite a strengthening New Zealand dollar particularly against the Euro. The schedule is 32% ahead of where it was at this time last year. While at this time last year, the NZD was worth approximately 49 Euro cents, today it is 54. As with other exporting industries in the productive sector, the strength of the New Zealand dollar is having a serious effect on returns and the industry recovery.

When we put venison exports into the mix, we see that volumes have begun to drop, consistent with production, while value has increased by over 20%. Of more interest, the average per kilo value of venison exports has risen by 30% over the past year. This is quite consistent with the 32% increase in the schedule over the past year and indicates that the improvement in export values is finding its way back to producers.

On the market side, prospects appear sound. Marketers report good interest and demand for New Zealand venison. As the dust has now settled on the demise of Berger Wild, it appears that a clear preference has developed from the main players for New Zealand venison's safety profile. Marketers also report satisfactory progress on market diversification. The German economy is showing some signs of life and there is widespread comment of a re-rating for the price of proteins generally given increasing grain prices as more grain is used for biofuels. These factors along with a shorter supply of venison bode well for a recovery.

But, in the cold, hard light of day, we have to come back to the exchange rate. To receive 30% more for venison exports in NZ dollar terms coupled with a New Zealand dollar which is 10% more expensive than last year, means higher prices in market. It is relevant to consider what past schedule prices would be in today's currency. The schedule in April 2001 was \$7.66. Using today's exchange rate, this would equate to a schedule of \$5.51. Or a schedule of \$7 today, on exchange rates of 2001 would equate to \$9.73 using 2001 exchange rates. We all know what occurred in late 2001 when prices in market were overheated by the infamous \$10 schedule. These figures should clearly send us a signal of caution – not doom and gloom, but caution. The foundation has been laid by producers and marketers to obtain slow, manageable, steady gains from the market to allow a steady, sustainable recovery to producers. It is important that we stay committed to this path because it will draw the volatility out of the system and to that end, it is important that the industry does not over-price its future expectations.

At this point, it is worth taking a look at the scenarios of venison production which I put up at last year's conference. Heading towards September this year, assuming production of 640k, production is tracking between the realistic and optimistic scenarios which makes sense given what has occurred since last year. Here is an

updated version with figures from the last industry survey and Statistics New Zealand's production figures. It indicates a range of production between 500k and 590k with a mid point at about 540k. If a more optimistic tone continues, production could be more in the lower 500s. One point I'd make is that the Industry Survey information you have provided has given us a good picture of the current industry and a good indication of intentions. Eg, the June 2005 survey to a reasonable extent accurately reflected what was to occur a year later. DINZ won't be running the survey this year given pretty common producer feedback that the survey was a hassle. I think this is a pity, but at least Statistics New Zealand will be running a full agricultural census this year. Please make sure that you fill it in accurately. It is vital information for all parts of the industry.

Turning to velvet. Clearly, the very solid improvement in prices was both welcome and very necessary. For the record, the weighted average price of velvet was close to double last season at \$95 per frozen kg. This was on the back of lower world supply of deer velvet, particularly from New Zealand. New Zealand's production dropped by about 100 tonnes over the past two years. We should be under no illusion that the issues which we face in Korea are now in the past. The lower supply will not be a long term phenomenon because generally, there is sufficient velvet supply in the Korean market. Our goal remains clearly about building demand and preference for New Zealand velvet. We still remain in a reasonable position, partly by luck and partly by design, following the various problems experienced by Russia, China, Canada and Australia. The 'by design' element is particularly important. The traceability of New Zealand velvet, the NVCB programme, strict government controls and commitment of New Zealand farmers to producing a quality product have stood the industry in very good stead. One Korean velvet importer recently told Vanessa and me that, 'finally the quality systems which New Zealand has in place in place for 10 years are starting to pay dividends'. Even though those systems may not have been explicitly demanded 10 or 15 years ago, whoever had the foresight to put them in place has provided a great service to today's industry. Those systems mean that today's industry is still in the game when others aren't and we have built a reputation as a sound consistent supplier. I think that is worth bearing in mind as the industry debates individual animal id and traceability and considers issues of sustainability.

Overall, the value of the industry's exports to January 2007 was \$319 million which is an increase of approximately 22% over the same period in 2006. Key features were a 17% increase in returns from venison, a 20% increase in velvet, hides and leather and co-products.

Global Issues

John has given you an update on where the industry is at with venison and velvet strategies and the Executive team will update you shortly on the raft of activity which is currently going on. I would like to take a moment now to give a view of where we are as an industry and where we need to be going. Because as well as our industry challenges of economically sustainable returns and our growth as an industry, it is important to recognise where we sit in terms of industry development and where we can go.

As I mentioned in my introduction, I am convinced that as an industry we tend towards innovation. But this very strong producer resistance to animal ID and traceability troubles me. I think that we need to be considering some of the angles a little more clearly. I certainly empathise with strong resistance to any increase in costs particularly when the industry has been in survivability mode for the past four years and is only just beginning to emerge. However, I'd like to give you my take on why traceability offers an excellent opportunity for us now. It relates to the concept of telling the backstory of a product. A backstory is a literary device used to add depth to the main story. For example where the history or backstory of one of the characters is given so that the main story has more depth and meaning. New Zealand venison's back story is very strong. Extensive farming systems, natural feed, robust welfare systems, passionate producers, stringent processing quality standards in a clean, green environment.

The best way to tell the backstory of New Zealand venison would be through an effective traceability system back to the passionate people who produce it. Let me give you an example. On the label of Dole organic bananas there is a three digit code. Go to Dole Organics website and put in the three digit code. It pops up with the farm on which the bananas were grown including pictures of the farmer and workers. It includes the QA programmes which the farm is part of. There is a section in which the farmer and workers talk a little about things which are

important to them and a link to click on Google Earth which takes the customer to an aerial map of the farm from which their bananas came. Dole organic has told a really effective backstory which helps people relate to the provenance, or origin, of their food. In actual reality, the New Zealand deer industry will have a much stronger backstory than Dole's bananas which I believe would resonate strongly with consumers particularly when combined with the unmatched health profile of New Zealand venison. We are already telling a part of Cervena's backstory in the 'Meet the Cervena Farmers' section of cervena.com. But it could be so much richer. Obviously, it would be up to company marketers if they wanted to pursue this sort of an angle, but the technology is certainly there – some apples in the UK have had labelling which indicates which orchard the apple came from since 2002. In five years time, traceability of products will have become stronger and more of an expectation rather than a bonus. It's not just going to fade away. We should jump in now and at least be ahead of the pack.

I also believe that as an industry we need to be prouder about the good that we do and telling our individual stories will help that. You're producing a quality product in a free range environment which is healthy and makes a real contribution to the New Zealand economy of nearly a million dollars a day. We hear a lot about the problems: greenhouse gas emissions from ruminants, environmental concerns, welfare concerns, et cetera – and we do have to work on those challenges; no question. But I think we also need to be very proud of our story and be keen to tell that great story to the world and traceability to farm could be a big part of it. And would be a neat example of innovation.

DINZ Executive

In the past year Deer Industry New Zealand welcomed two new team members. Pam MacLeman is Quality Services Administrator and Vanessa Crowley is Velvet Marketing Services Manager. Both colleagues have come up to speed nicely and are contributing to the organisation well. In front of you, as the people we work for, I would like to sincerely thank the Executive for their commitment and hard work. We specifically recruit for people who do have a sense of service that is an important part of DINZ's corporate personality. The more positive vibe around the industry with somewhat improved returns is a much better environment for working positively and creatively and DINZ is really looking forward to the year ahead.

Final comment

Finally, we have a big year coming up between now and next conference. We've a suite of good promotional programmes coming up and the momentum of these promotional programmes must continue to accelerate to create new demand for New Zealand's deer products.

As an industry we need to strive to find the balance between maximum achievable market related returns for both venison and velvet without damaging the markets but which result in the achievement of decent returns for producers and marketers so that that they stick with and invest in their industry.

We will have a new industry research and development programme beginning for venison production systems to assist productivity improvements – a key element to achieving sustainable returns. A suite of focus farms will hopefully be a hot bed of innovation and learning. More about it later, but I also believe we'll have a more efficient velvet selling platform.

Other challenges and potential costs will continue such as Johne's disease management, emissions trading schemes to price carbon into agricultural production, Tb eradication, plant inspection charges, velvet removal systems, and environmental challenges.

But, on balance, I feel confident that overall industry prospects are positive because the products you produce are excellent and well tailored to future needs. Also, I believe that the passion and purpose of producers will continue to re-emerge which will foster more innovation and positive energy for growth. Thank you.