

>>> FROM THE CHAIRMAN

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While the rising schedule is positive news, the high level of production is a drag on the recovery so there is still a long way to go. In the meantime, the level of activity from your Board and Executive continues at 'full throttle'.

Sommerkampagne is drawing to a close with over 160,000 consumers having participated in the competition associated with the event. More than 2.2 million consumers have been exposed to targeted advertising in cuisine, lifestyle and fashion magazines and New Zealand Venison has been demonstrated and promoted at the height of summer throughout Germany as part of the campaign. We are working with exporters to compile data to assess the impact of the campaign, but anecdotal reports are very positive. This has been an important event to position New Zealand Venison in the market as a summer protein and to demonstrate the industry's commitment to retail market development. PR activity announcing winners of the various competitions will take place in Germany in September.

Prior to the end of October, **Graham Brown**, **Hamish Brown** and **Geof Christie** will all be in Europe assisting companies with promotional events:

- Promotion at major trade shows - SIAL in Paris and Intercool/Intermeat, a major German chilled and frozen trade show;
- 10 days of **retail tasting** promotions in Germany;
- 11 days of **cash & carry** promotions in Germany; and
- Venison promotions and demonstrations at a wide range of other events including a retailer's in-house trade fair, a university summer festival, a media/celebrity PR event with a major hotel chain and a VIP dinner for a major retailer and food-service distributor's buyers and top accounts.

A joint promotional programme is being developed for a specific **Asian market** and there is also considerable activity planned in **New Zealand** before the end of October including:

- Support for a new **television advertising** campaign promoting PPCS' range of retail venison products, including targeted print advertising and public relations;

- Venison promotion at the **New Zealand Culinary Fare show**, including a venison competition for chefs; and
- **Venison classes** for trainee chefs at five New Zealand polytechnics.

Mark O'Connor and Dr Jimmy Suttie recently returned from meetings in Europe with a range of medical research companies to take the industry's **wound-healing research** to its next stage. The announcement of a new VARNZ Board with specialist governance, science and business skills is an important stage in the development of the velvet research programme and positions us well for the next stage in commercialising this exciting finding.

We are currently consulting with industry stakeholder groups on **budgets and operational plans** for the coming year to implement the agreed strategic directions for venison and velvet. While there is a lift in the AHB levy this year, it is important that this is considered in context (see article later in *Market Report*). Despite lower production and levy income forecast next year, we plan to maintain promotional momentum by carrying over funding from this year. Proposed plans in the coming year include:

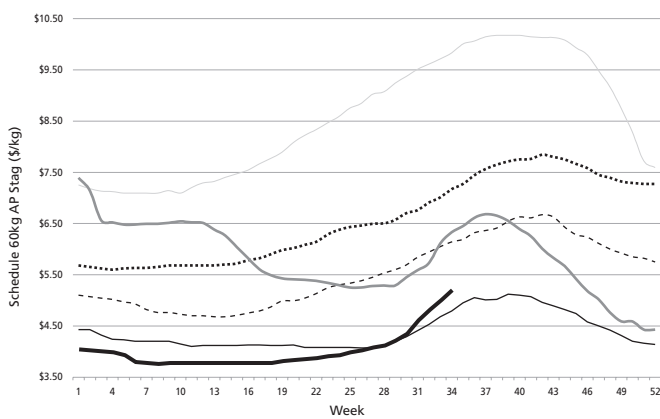
- A new generic promotion programme in France;
- Maintaining joint promotion at this year's high level to ensure the current high level of activity can continue. Promotions will be funded in Germany, USA, New Zealand, UK and other markets;
- Further summer promotions in Germany;
- Collaborative promotion of venison in the UK with the British Deer Farmers' Association;
- Continued critical research into velvet removal issues;
- Reinstating a promotional programme for velvet including activity in Korea and promoting velvet's use to assist athletic performance;
- A new joint promotional fund for co-product market development.

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>>> VENISON

Coming into the game season, there is reported to be good demand for legs which have seen price increases. Prices for middle cuts remain soft compared to previous years.

WEEKLY AVERAGE SCHEDULE - 60KG AP STAG



Source: Agrifax

Production

- Venison production continues to track roughly 25% above the previous year.
- More recent reports are that monthly production numbers are starting to come back to levels slightly lower than the same month last year but remain at relatively high levels.
- Hinds comprise 46% of total venison production – up from an average of 41% for the previous 10 year period.
- While the stag percentage of total production is down to 54% - compared with 59% for the previous 10 year period - there has been a record number of stags processed: 14% higher than the previous highest ever stag kill for a March year.

Schedule

- The average published schedule price for week 34 (23 August 2004) has risen to \$5.25 - 10% above that for the same week last year (\$4.79).
- The schedule remains well below (22%) the 10 year average schedule the same week, at \$6.71, but this gap is closing.
- Adjusted for currency on a trade-weighted basis, the average published schedule for week 34 is 16% above that for the same week last year.

Export Markets

- Most major markets showed growth for the year ended May 2004, with seven markets now taking more than 1,000 tonnes (Germany, Belgium, Sweden, USA, France, Italy and Austria). There are continued signs of greater diversification, with these top seven markets representing 74% of total exports (compared with the top seven five years ago accounting for 92% of total exports).

MARKET INDICATOR PRICES (BONE IN HAUNCH)



Source: PPCS

Sommerkampagne continues...

- Success continues for Sommerkampagne in Germany with over 160,000 German consumers entered into the competition that ends at the close of August.
- Anecdotal reports from importers, distributors and retailers indicate that Sommerkampagne has achieved significant success in terms of raising the profile New Zealand Venison with retail shopper and positioning venison as a modern, healthy product perfect for summer dining. It has also been important in demonstrating the New Zealand industry's commitment to support retail market development – encouraging retailers to stock and promote the industry's products.
- Data on the sales impact of the promotion is being sought to assess the value of the promotion and to determine whether and how to repeat the event, as currently planned, in 2005.
- Summer barbecue dishes for New Zealand venison have been covered in the editorial of leading German consumer magazines *Brigitte* and *Snack Bistro*. Accompanied by photographs of barbecues and New Zealand venison kebabs, the articles have a combined advertising equivalent value of \$40,000 and actively promote New Zealand as the country of origin. Editors of both publications were invited to the summer venison BBQ workshops held in Munich and Hamburg earlier in the year.

The Markets

- Exporters continue to report good demand for legs coming from Western Europe. The improved demand has led to price increases for legs, with the market indicator price for Bone-in-Haunch reported to be around €3.75 per kg CIF.
- Demand for other items, including shoulders and middles have not seen the price increases of legs and, in some cases, prices for these cuts have softened.

>>> VELVET

New Zealand production has been steady but there are signs, with an increased stag kill this season (see Venison section), that supply in the coming season will be tight. Sales in Korea of whole dry piece velvet are slow currently – typical for this time of year – and are receiving thin margins, but the economy there remains weak overall.

Exports

- Export volume for the 12 months ending April 2004 is provisionally 194 tonnes dried equivalent - an increase of 23% over the year ending April 2003 (157 tonnes).
- Export value for the year ending April 2004 is \$27 million - a decrease of 4% over year ending April 2003 (\$28 million).

New Zealand Velvet Production

- Levy has been collected on 525 tonnes of velvet to the end of May, compared to 506 tonnes last year. Few further remittances are indicated so total volume is expected to be similar to last year's 529 tonnes.
- As the 2004/05 season nears, venison production statistics indicate a record stag kill suggesting a drop in New Zealand velvet production for the coming season, particularly given that the average stag weight slaughtered has increased (55.2 to 56.7 kgs).

The Korean Market

- The Korean economy grew at 3.1% in 2003 and is forecast to grow at 5% in 2004. Growth is being fuelled by a strong export sector, but is hampered by weak consumer demand.
- The weakness of the Korean won remains a key threat to New Zealand velvet exports. The exchange rate between the Korean won and the New Zealand dollar is currently (August 2004) approximately 750 won to \$1 – compared to the 10-year average of approximately 600 won. This is 25% higher than the 10 year average and reduces export returns in New Zealand dollar terms. (See the graph on the right.)

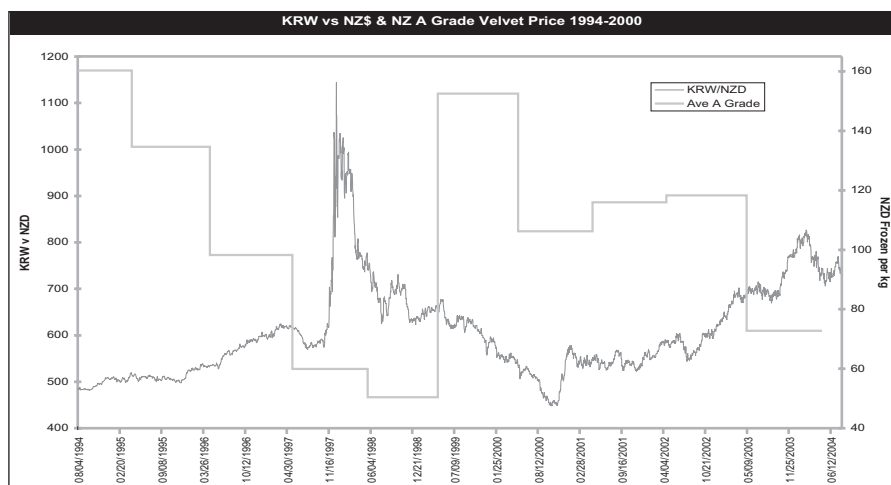
Sliced Velvet Access

- The Korean Government has advised that the revised regulations for the management of deer velvet, including changes to imported sliced velvet access to Korea have completed the required consultation and have been passed to the Prime Minister's office for approval. Normally a perfunctory step, the KFDA has indicated that this stage usually takes about one month.

Taiwanese Quota on Frozen Velvet

- Efforts to improve access received a shot in the arm recently when the National Chinese Medicine Association of Taiwan (NCMA) added its support for New Zealand frozen velvet to be allowed proper access to Taiwan. NCMA has 18,000 members serviced by 23 regional offices; membership comprises Chinese medicine importers, wholesalers and retail shops.

- Its Chairman indicated members currently use Korean ginseng and South East Asian hard antler, but they would prefer to be using New Zealand frozen velvet.
- The Taiwanese Government allows only five tonnes of frozen velvet into Taiwan (under 1% of New Zealand production). Frozen (or fresh) velvet is the preferred way velvet is consumed in Taiwan.
- Deer Industry New Zealand, New Zealand exporters and Taiwanese importers are very keen to see the border opened so that improved trade can take place. But the Taiwanese Government's Council of Agriculture's (the New Zealand MAF equivalent) mandate is to protect Taiwanese deer farmers and therefore not allow access of frozen velvet.



MARKET TALK: Develop Easy-

Maryanne Hedrick has been associated with the US Cervena programme since 1992, working as Market Manager for the Cervena Company from 1993 to 1999 and more recently on various sales promotion projects with US importers and distributors. She sees opportunities for Cervena in the development of easy-to-cook, cost-effective products for the US restaurant and retail sectors.

Over the past decade, Hedrick has observed immense growth in chef and consumer interest in alternatives to beef, pork, and chicken and says the trend to eat more healthily - specifically the desire to eat "natural" foods - has partially influenced the growth of alternative meats. Mainstream restaurateurs are eager to provide "trendy" menu ideas; customers expect more menu creativity, as a result of celebrity chefs cooking on television and endorsing products in nationwide commercials.

>>>VELVET UPDATE

Velvet Removal

Twelve months ago, the proposed implementation of default Maximum Permissible Levels (MPLs) for deer velvet, by the New Zealand Food Safety Authority (NZFSA), threatened the future of the velvet industry. A year on, a considerable number of options have been explored and the velvet industry faces a much brighter future. In particular, as a result of research into potential residues in velvet and expert toxicology studies, new MPLs are able to be set by NZFSA, which will allow the continued use of xylazine and lignocaine for velvet removal. In addition, the industry has committed to a five-year research programme in order to identify alternative velvet removal methods.

The new MPLs, currently undergoing approval, allow existing velveting drugs to be used under conditions of Good Agricultural Practice (GAP). A particular GAP is the requirement to apply and tighten an appropriate tourniquet around the pedicle **before** administering lignocaine. Detailed information concerning GAP, especially tourniquet application will be sent out by the NVSB in the near future.

Further good news is that a Code of Practice for velvet removal has recently been approved under the ACVM Act. The code replaces the old Develveting Regulations, which recently expired, and gives certificated velveters the legal ability to access otherwise restricted velveting drugs.

The five year plan is focused on ensuring New Zealand remains the world leader in safe and effective velvet removal, and includes research into NaturO rings and physical restraint systems, in addition to exciting new velveting remedies.

New VARNZ Board

Recognising the challenges and opportunities ahead for the VARNZ velvet research programme, especially as a result of exciting new research results regarding potential wound-healing products from velvet, the shareholders of VARNZ have agreed to increase the size of the VARNZ Board from three to five, including the appointment of independent Board Members with specialist science and natural product/pharmaceutical commercialisation experience.

Dr Richard Janes, former Game Industry Board Chief Executive and current Board Member on Gallagher Group, ASURE and CentrePort, replaces Andy Thomson as the independent Chairman of VARNZ. Janes is joined by Dr William Rolleston and Dr Doug Wilson.

Dr Rolleston has been heavily involved in the Life Sciences Network and Biotenz, industry representative groups relating to natural products and biotechnology and runs South Pacific Sera Ltd which produces and exports blood products for pharmaceutical, diagnostic and biotechnology industries.

Dr Wilson has a distinguished career in medical research and teaching and from 1991 worked with multinational pharmaceutical company Boehringer Ingelheim, including time in the USA and as Head of Corporate Medicine in Germany overseeing all of the company's medical research world-wide.

MJ Loza and Dr James Suttie remain as Board Members, appointed by Group Research Holdings Ltd (a subsidiary of Deer Industry New Zealand) and AgResearch respectively.

VARNZ is a 50:50 joint venture between AgResearch and the deer industry which undertakes research into velvet and is responsible for managing and exploiting the results of that research for the benefit of the deer industry.

-To-Cook, Cost-Effective Products For US

Americans now eat out more often than at home and consumer preferences have influenced changes in dining trends. One new Marriott Hotel in Baltimore, Maryland has even replaced its fancy dining room with a food-court, offering a wide range of take-outs alongside a small area with table service, she says.

"Eating on the run has generated a plethora of convenience dining businesses, from home delivery of prepared Atkins meals to Wolfgang Puck's Express restaurant chain in airports and major metro areas."

Hedrick says American diners are becoming more adventurous and their preferences are becoming more sophisticated – corn oil has been replaced by extra virgin olive oil on salads for example - and there has been a boom in gourmet foods at retail.

Fine dining will always be the laboratory of almost all major food trends, she says, but margins have been continuously challenged. The US restaurant sector is recovering from the major economic setbacks that began before the 9-11 disaster.

These worsened afterwards, she points out, and one of the major changes in the industry is the emergence of more sophisticated, less expensive restaurants attempting to give diners a true food experience for a reasonable price.

She believes the New Zealand venison industry needs to offer products that meet the taste, imagination, ease-of-use and price-point requirements of its targeted customers in the US.

The basic qualities that excited customers a decade ago, also stand today, she believes: "White tablecloth chefs in the US want everything that Cervena has to offer: natural, tender, and delicious meat. They want delicious and cost-effective foods to serve their customers and, today, they have many more choices for that 'creative meat' menu position," adding that the venison industry needs to offer more cost-effective and easy-to-cook items to US restaurants and retailers, if it wants to grow significantly in the US.

MARKET REPORT

From the Chairman... continued from p1

In addition, Deer Industry New Zealand is about to embark on a comprehensive round of industry consultation to assess whether the industry wishes to retain Deer Industry New Zealand as an industry good organisation and, if so, for what activities. We believe Deer Industry New Zealand has provided significant benefits to the industry over the last five years and we look forward to your participating in the consultation process. Details of shed meetings and the consultation process are covered on the back page of this issue of *Market Report*.

Clive Jermy, Chairman

>>> Animal Health Board Funding

Deer Industry New Zealand has circulated its draft budget and operational plan to stakeholder groups and DFA Branch Chairmen for feedback. This document includes a proposal to increase the levy rate for Animal Health Board (AHB) funding from 2.2 cents/kg to 6.2 cents/kg for venison (and from 22 cents/kg to 62 cents/kg for velvet).

While this represents a significant increase from current rates, the following factors should be considered:

- The increase in the levy rate does not reflect a proportionate increase in total deer industry funding to the AHB.
- Current rates are extraordinarily low due to over-collection in 2002/03 and a decision to give the industry the full benefit of the reduced immediate need for funding this year, rather than attempting to 'smooth' the levy rate between years. This approach was signalled and endorsed as part of the budget consultation last year.
- The proposed rates of 6.2 and 62 cents per kg are lower than the previous two years.
- Based on the sector funding negotiations concluded last year the programme proposed for 2004/05 will cost \$2.03 million, instead of \$2.88 million under the previous funding model.

	2001/02	2002/03	2003/04	2004/05
				Budget
Total Deer Industry Contribution (\$m)				
Previous Funding Model	\$1.75	\$2.30	\$2.68	\$2.88
Current Funding Model (from July '03)			\$1.90	\$2.03
(June Years)				
Venison Levy Rate (AHB)	6.9	8.4	2.2	6.2
Velvet Levy Rate (AHB)	74.6	84.0	22.0	62.0
(Rates to 30 September)				

(Note that the proposed levy rates for 2004/05 are not finalised at the time of writing. Final levy rates for Deer Industry New Zealand and the AHB will be notified at the end of September 2004).

- While the total funding to the AHB is proposed to increase \$130,000 from \$1.90 million to \$2.03 million, this includes more than \$200,000 in new initiatives to speed up the clearance rate of infected deer herds. As discussed at Conference, there are serious concerns that the clearance rate of deer herds is falling off and this is resulting in increasing numbers of infected deer herds, when these numbers should be coming down.

IN BRIEF

Survey of Deer Numbers: All farmers will be sent a simple and brief survey form shortly asking for information about deer numbers and future intentions. This is being co-ordinated by Deer Industry New Zealand with the support of the DFA. All information supplied will be treated in strict confidence. Please assist to improve the industry's forecasting and planning by accurately completing and returning this form when you receive it.

Marlborough Branch Young Stock Competition and Dinner: The Branch's annual Young Stock Competition will be held on Mon 20 and Tue 21 September followed on Tuesday night by a presentation Dinner/ speaker/ auction at the Marlborough Club commencing with Happy Hour from 5.30 pm. This year's speakers are Gary and Sue Joll, author and successful trophy hunting guide for 22 years at Lilybank Station.

More information: Kevin Hayes (03) 578 6923.

Sustainable Farming Field Day: The 2004 Elworthy Environmental Award Winners - George and Mary Scott, in conjunction with the Southland Branch of NZDFA are hosting a field-day at their property on Thursday October 14, 1 pm till 5 pm with a BBQ to follow. The event will be signposted from SH1 near Pukerau, north of Gore.

More information: Eddie Brock(03) 207 6822, John Paterson (07) 3322093.

**MAKE SURE YOU
HAVE YOUR SAY ON
THIS IMPORTANT
INDUSTRY ISSUE**

All industry participants are urged to read the consultation information you will receive, attend a meeting and have your say by responding to the industry poll.

Deer Industry New Zealand Re-mandating Consultation

In 1999, as part of the GIB Reform Consultation process, the commitment was made to consult with the industry every five years about whether the industry wanted to retain an industry good organisation and, if so, to carry out what functions.

Some of the major outcomes of the 1999 Reform Consultation included the establishment of a true industry partnership through equal representation on the Board and equal sharing of the venison levy between producers and venison processors/exporters. These changes have now been implemented by MAF, with the development of the Deer Industry New Zealand Regulations 2004 which are expected to come into effect sometime in October 2004.

As per the commitment made in 1999, we propose to consult with the industry in October and conduct an industry poll in November to determine whether the industry wants to retain Deer Industry New Zealand as an industry good organisation and, if so, to undertake what activities.

All known deer farmers and processor/exporters will receive a consultation document in the first few days of October and are invited to a series of meetings to discuss this document and its recommendations. The same group of people will then be sent a poll document in early November, with responses required no later than 12 noon on 22 November.

Please read the consultation document closely when you receive it and try to come to a meeting to discuss remandating issues as well as for an update on industry issues including venison and velvet market prospects and an update on velvet removal issues.

We believe there is a very strong case to retain Deer Industry New Zealand as a cost effective, efficient industry-good organisation, delivering substantial value to the deer industry.

Meetings have been arranged as follows:

DEER INDUSTRY NEW ZEALAND SHED MEETINGS 2004			
Date	Time	Place	Venue
Monday 11, Oct	12.00 noon	Blenheim	Marlborough Club
	7.00 pm	Nelson	Waimea Town and Country Club
Tuesday 12, Oct	12.00 noon	Hokitika	Southland Hotel
	7.00 pm	Christchurch	Sudima Hotel
Wednesday 13, Oct	12.00 noon	Timaru	The Poplars
	7.00 pm	Mosgiel	AgResearch Invermay Conference Centre
Thursday 14, Oct	12.00 noon	Cromwell	Lake Dunstan Boat Club
	7.00 pm	Te Anau	Te Anau Workingmen's Club
Friday 15, Oct	12.00 noon	Winton	Middle Pub
Monday 18, Oct	12.00 noon	Whangarei	Hearing Association Hall, Devron St, Whangarei,
	7.00 pm	Kaipara	Helensville War Memorial
Tuesday 19, Oct	12.00 noon	Hamilton	Hamilton Airport Motor Inn
	7.00 pm	Rotorua	Geyserland Hotel, 424 Fenton St, Rotorua
Wednesday 20, Oct	12.00 noon	Gisborne	Bushmere Arms
	7.00 pm	Waipukurau	Tavistock Tavern
Thursday 21, Oct	12.00 noon	Feilding	Manchester Tavern
	7.00 pm	Stratford	Café Deborah-May, Pioneer Village, Stratford
Friday 22, Oct	12.00 noon	Masterton	Gladstone Tavern

A **Light Lunch** will be provided at daytime meetings. Please arrive in time for lunch at 12.00 so meetings can start promptly at 12.30. **Supper** will be provided at evening meetings.

For more information please contact MJ Loza, mj.loza@deernz.org, telephone (04) 471 6112.



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Deer Industry New Zealand is the operating name of the Game Industry Board.