

>>> FROM THE NEW CHIEF EXECUTIVE

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New General Manager Marketing

As the new CEO of your industry board, I acknowledge the difficulties the industry is going through on a daily basis. Taking on the role, I've accepted the challenge to play my part in helping to get the industry turned around. The Deer Industry New Zealand team and I are determined to make a positive difference to the industry.

Creating new demand for venison is a critical investment in the medium-term future of the industry. But in the short-term it is not a silver bullet and will not adequately address the basic supply and demand imbalance that is present in the industry.

The industry is in its first year of a five-year strategy that includes market development in seven territories, retail development and consumption of venison outside the game season. It's a plan that is achievable and will put the industry in a much stronger position when the industry recovers. It's vital that the industry remains focused on its successful implementation.

There is a lot of promotion of your product in-market by exporters, importers and Deer Industry New Zealand. There could always be more and there will be.

Following the initial *Sommerkampagne* last year, the German trade was keen to do more. *Sommerkampagne 2005* will show consistent commitment to the trade that the New Zealand industry is determined to invest in its products and inspire German consumers to enjoy New Zealand venison year round.

The French campaign is particularly exciting (see Venison update). Designed to raise the profile of venison among French consumers, it incorporates media events, point of sale materials and consumer tastings at the Galeries Lafayette - one of the top department stores in central Paris. With year round market access secured, the industry is taking its first collective step in positioning New Zealand venison as a premium product that can be enjoyed any time of the year in France.

Three New Zealand chefs are active in a range of markets between Christmas and Easter. This is important to fill the trough in sales between these two periods.

Velvet market development work for diversification continues. Work in Taiwan is particularly important and when successful will have a significant impact on market diversification. See inside for details.

Thank you to all producers that filled in the Survey of Deer Numbers and Farmer Intentions (see back page for more detail). This is crucial information for the industry and will be repeated to build up trend data. I am acutely aware that it is more 'form filling' for producers, but it is information that is directly applicable to your industry.

Also, following various media reports, I feel that I should point out that Deer Industry New Zealand values the good, professional working relationship with New Zealand Deer Farmers' Association (NZDFA) that has developed following the Memorandum of Understanding which both organisations signed in 2002. The savings and efficiencies gained to the industry have been significant (including the services of Producer Manager and combining the office and administration services). Deer Industry New Zealand would be disappointed if those benefits to the industry were lost and is not aware of any issues between the organisations. However, the NZDFA remains a completely autonomous organisation and will determine its own future.

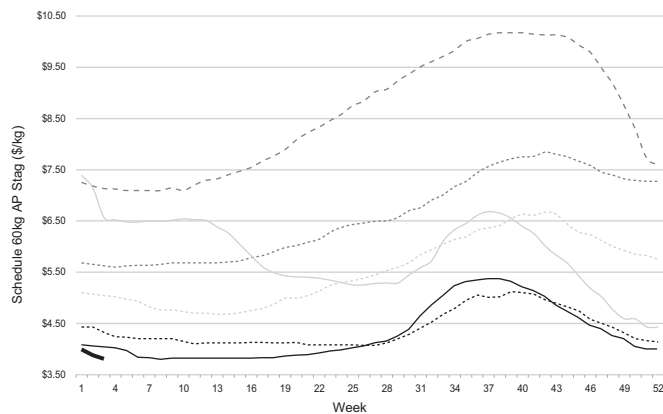
Finally, in these very difficult times, it is worth remembering that our problem does not lie with the consumer. More people than ever are eating New Zealand venison and the quality of the product itself is unsurpassed. The combination of the resolution of the supply/demand imbalance and the creation of new demand through promotion are the two fundamental factors which will drive a sustainable future.

Mark O'Connor, Chief Executive

>>> VENISON

There are some encouraging reports of good demand in the European chilled venison season, however production volumes continue to place pressure on the ability of markets to recover.

WEEKLY AVERAGE SCHEDULE - 60KG AP STAG



Source: Agrifax

Schedule

- The average published schedule price in 2004 (\$4.33) was 1.4% lower than that in 2003 (\$4.39).
- Although still low, compared with 2003, the schedule peaked higher (\$5.39) and lasted longer, being over \$5.00 for 10 weeks.
- Published schedule prices in 2005 have started lower than those in 2004 and are tracking down.

Exports

- Throughout 2004, leg prices firmed, however, some other items - especially middles - did not see similar price increases.
- Initial reports of the chilled season are encouraging, and there are no reports of stocks in the market.
- Some exporters are reporting reasonably good levels of enquiry from key markets in the new-year.
- Frozen prices said to be stable at the levels where they were before the chilled season.
- There are also reports of relatively good demand for product with Easter arrival coming from European markets.
- Production volumes continue to influence efforts to improve market returns.
- Almost all major markets showed volume growth in 2004, with Germany now representing 42.9% of total export volume, followed by Belgium (9.8%), France (7.1%), Sweden (6%) and the United States (5.8%).
- There are also signs of increased diversification of markets, with these top five markets accounting for 71.6% of total export volume, down from 77.1% in 2003. With greater diversification, there are clearly some emerging markets showing good growth, these include Australia (728 tonnes, up from 231 tonnes in 2000) and Italy (954 tonnes, up from 352 tonnes in 2000).

Chef Activities

Plans for chef activities over three continents in four months are already in place, with considerable market activity scheduled for the opening quarter of 2005.

- *February* - Hamish Brown has a series of projects in Germany, including trade fairs, cash and carry promotions and a chef function. Concurrently, John Cornish will be

MARKET INDICATOR PRICES (BONE IN HAUNCH)



Source: PPCS

involved in promotional work in a number of Middle East markets.

- *March* - Hamish working in Scandinavian markets, while Graham Brown will be promoting in Asia.
- *April* - Graham will spend a week in the United States, en-route to Europe where he will be involved with more trade fairs, cash and carry promotions and culinary school seminars.
- All projects are in association with exporters and their market partners, and illustrate the commitment to year-round consumption shown by import partners. March and April is typically a good time to promote to chefs, as the European winter is ending and menus change accordingly.
- Also in the second quarter of 2005 are major industry promotional projects in France (\$285,000) and Germany (\$600,000).

Investment in France

Having successfully negotiated unrestricted access to the French market last year, industry promotion of venison to French consumers 12 months of the year begins with a major consumer media programme in 2005.

To support exporter and importer initiatives, the industry has developed a public relations campaign to help raise the profile of venison to French consumers – year round. Targeting food, lifestyle, women's and general media, key points of the PR campaign include:

- A press event for trade and consumer media in February
- 250 press packs including product samples and recipes promoting venison as a lean, healthy and versatile meal option
- New recipe booklets distributed with product
- Consumer tastings in May and June at the respected "Lafayette Gourmet", to help generate further media coverage and exposure
- Advertisements in key consumer and trade press.

France is currently the third largest export market for venison, with export volumes growing 20% in 2004, to over 1,600 tonnes. Exporters and their French partners are committed to developing the market, which will require ongoing investment in education, training and promotion.

>>>VELVET

Velvet pool prices remain low and buyer interest is still weak, with high supplies in-market and a continuing weak Korean economy and currency. The situation for exports to China has been clarified.

The Market

- Post-Christmas, there has been a small increase in pool prices to producers. However, prices remain low even in comparison to last season - which in itself was difficult.
- Exporters report that buyer interest remains weak with a whole dry piece price of around US\$140. Exporter comment puts the low price down to high in-market supply, a weak Korean economy hampering demand and a weak Korean won.
- Exporters are also concerned at the very weak prices being offered for Chinese velvet (US\$100-110). These low prices encourage traders to buy Chinese velvet before New Zealand.

Exports to China Clarified

Rumours have been officially confirmed by the Ministry of Foreign Affairs and Trade that China has effectively removed the tariff exemption on velvet imported to China for re-export (generally to Korea). This is rather than a complete ban on velvet to China as was initially indicated.

The official rationale for the removal of the tariff exemption on deer velvet is that tax inspectors have not been able to correlate the volumes of velvet imported with the volumes exported. The Ministry of Commerce and the New Zealand Embassy in

Beijing have since met to discuss the situation, which is now summarised as follows;

- The tariff of 11.4% and a value added tax (VAT) of 17% will be levied on velvet imports to China.
- When processed velvet products are exported the VAT (17%) paid can be claimed back.
- If the imported deer velvet is consumed in China, such imports would attract both the tariff and VAT.
- China is not willing to remove deer velvet from the list of products in Announcement 55 which it has determined will not be tariff-exempt when entering China for the processing and re-export trade.
- The Ministry of Commerce is to monitor the impact on New Zealand's deer velvet imports to China over the next few months.

Deer Industry New Zealand will monitor the impact of Announcement 55 over the next few months on deer velvet trade to China. There will be an opportunity to raise any ongoing concerns on this issue with the Ministry of Commerce in New Zealand's regular trade talks with them, which are currently scheduled for March 2005.

MARKET TALK: Targeting Taiwan

Persuading Taiwanese officials that New Zealand velvet should have access to that market is a task that Jet-Go Public Relations Consultants will play a big part in.

Jet-go has been retained by Deer Industry New Zealand to assist the industry in its goal to be able to supply consumers with New Zealand frozen velvet.

With a total of 24 staff, Jet-Go is split into four divisions – commercial, election campaigning, non-profit organisations and government public relations. It has a diverse range of clients, including food and pharmaceutical companies and Taiwan's Bureau of Health Promotion

"Each division complements the other," explains Eric Moon, commercial division manager, an American from Florida, who holds a Masters in Political Science with a speciality in Taiwanese politics and has spent the past five years with Jet-Go. He now heads up the five-strong team that will be working on the frozen New Zealand velvet campaign. The company's effective political networking throughout the island-nation will prove important to the success of the campaign.

Along with small cars, fish and pork products, New Zealand frozen velvet was one of the items subjected to a tariff rate quota (TRQ) arrangement when Taiwan acceded to the World Trade Organisation in 2002. Current imports into the market are constrained to five tonnes of frozen velvet at a tariff rate of 22.5% on the invoiced CIF value.

The Taiwanese government seeks to protect local industries and does not have a long-term view of development of trade, Moon explains. Alongside being persuaded that opening up trade will

boost local industry, officials need to be convinced that importers, local medical associations and domestic farmers do not oppose a lifting of the ban. With Taiwan's "consensus culture", it will take

a two-pronged approach. Firstly, informally through personal channels, vitally important in the Taiwanese process and where Jet-Go can make a real contribution and, secondly, to bolster progress in the formal arena of policy questions, public hearings and recommendations to government.

Moon sees the opening of trade as a good opportunity for the Taiwanese deer industry to rejuvenate what is, essentially, a dying sector. Agriculture contributes just 2% to the Taiwanese economy. According to the Taiwanese Council of Agriculture, in 2003 the Taiwanese velvet herd numbered about 19,500 animals, and produced 19.5 tonnes. Eric Moon says many of the velvet farmers are older and retiring. The example of Korean producers' success despite the New Zealand velvet exports to Korea will provide a good case study to support that argument, he says.



Eric Moon (back row, left), heads up the Jet-Go team that will be working on the New Zealand velvet campaign. Back row: Eric Moon, Maite Ho, Elise Wang, Front row: May Chang (Jet-Go Vice General Manager), Max Wu (founder and GM of Jet-Go).

Deer Survey Results

A total of 2,373 forms were received back in response to the Survey of Deer Numbers and Farmer Intentions which ran from September to December 2004. Of these responses, 2,099 confirmed that the recipients were farming deer as at 30 June 2004.

Herd Size and Composition

Returns suggest the following herd size and composition at 30 June 2004 – with an extrapolation out to 1.7 million deer based on Statistics NZ figures.

	Industry Survey	Extrapolation to Stats NZ figures
Weaner Hinds	267,753	320,233
R2 Hinds	145,492	174,009
MA Hinds	563,886	674,408
TOTAL HINDS	988,356	1,168,650
Weaner Stags	280,549	334,781
R2 Stags	74,301	88,664
MA Stags	90,426	107,906
TOTAL STAGS	449,376	531,350
TOTAL DEER	1,439,861	1,700,000
Hinds Calving (at 82% of R2 and MA Hinds based on responses)	581,690	695,702

Note that the total hind and stag numbers in the Industry Survey column do not equal the sum of the different classes within each gender as in some cases survey respondents provided total hind and stag numbers only. Furthermore, as some respondents only provided total deer numbers the total stag and total hind numbers do not equal the total deer numbers provided. The extrapolated figures use the relative percentages in each sex and age class from the industry survey extrapolated out to 1.7 million deer to estimate the total herd composition.

Data available regarding velvet production supports the Statistics NZ figures of 1.7 million deer being fairly accurate. At an average weight of 2.75 kg per stag, 107,906 mixed age stags would produce 296 tonnes of Korean grade velvet. Results from last year's pools adjusted for total production put the volume of Korean grade velvet at 285 tonnes.

The average herd size of respondents was 686 deer. Assuming there are 4,500 deer farmers and 1.7 million deer, this compares with an overall average deer farm size of 378 and suggests the average herd size of non-respondents is 108 deer.

Farm Size & Geographic Distribution

- 28% of farms have 150 or fewer deer - accounting for 3% of the total herd.
- 65% of farms have 500 or fewer deer - 19% of the total herd.
- 84% of farms have 1,000 or fewer deer - 39% of the total.

- The 5% largest farms have 2,000 or more deer - 39% of the total.
- 62% of respondees were based in the South Island, while 38% were based in the North Island

Respondents gave an indication of expected changes in deer numbers or percentage changes. These were converted to animal numbers and the results are shown below.

	Stags	Hinds
Intentions to increase	17,952	48,410
Intentions to decrease	32,072	68,804
Net change indicated	-14,120	-20,394
Extrapolated	-16,671	-24,079

This supports anecdotal reports of some farmers selecting to reduce numbers/exit and others seeing this as an opportunity to expand. A slight reduction in herd numbers is suggested – 40,750 animals, or 2.4% of the estimated 1.7 million deer.

New General Manager Marketing

Daimien Reynolds has been appointed as General Manager Marketing, filling the gap left by Mark O'Connor when he assumed the CEO role.

Starting at the beginning of February, Daimien comes to Deer Industry New Zealand with a strong background in marketing, particularly international market development, public relations and e-marketing. His previous role was as a project manager for Tourism Resource Consultants – an international tourism consultancy. He has also held event management roles with Toyota New Zealand and marketing roles at Tourism New Zealand.

The primary focus of Daimien's role is the execution of velvet industry good activities. This includes velvet promotion, velvet research and new market development. He will also provide additional resource to assist with venison promotion.

New DINZ Finance Contact

Deer Industry New Zealand Finance Manager **Susan Gee** will be going on maternity leave from February. From that date, finance queries should be directed to **Sandra Windley** on 04-474 0841.



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