

>>> FROM THE CHAIRMAN

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Having been in the Chair of Deer Industry New Zealand since July, I have had some time to take stock of where we are as an industry. I certainly remain confident that the industry has bright future, but I share the industry's frustration at the time it is taking to see a recovery in producers' returns. However, this is directly related to increased production levels during the last three years that have affected the fine balance between supply and demand. I would like to share a few figures with you that indicate that the industry fundamentals are tracking in the right direction.

Venison

Firstly: slaughter statistics. To the year ended May 2005, the industry has processed some 729,000 deer which is 13% higher than the previous year. While this is a very high figure, it is important to note the trend. In fact, the percentage increases in monthly kill figures are generally decreasing (see the trend line in the graph below). This indicates that the industry is reaching a plateau and that venison production will not continue to rise indefinitely.

Of course, this plateau relates more to capacity constraints than to less producer demand for kill space. However, it will have the effect of placing an upper limit on supply.

Secondly: export statistics. The industry continues to market large volumes of venison. Export volumes and values are around 17% higher in the year ending May 2005 compared to the preceding period (see inside for more detail). This clearly shows that exports have

increased ahead of production during the last year, resulting in a net reduction in national stock levels. This has been achieved without de-stabilising market prices.

Thirdly: let's not overlook currency. This is clearly beyond our control, but efforts by exporters to increase prices in spite of increased production have been eroded by the continued strength of the New Zealand dollar.

Conclusion: the combination of an evening out of production and continuing good levels of exports will lead to supply and demand swinging back closer to balance which will lead to an improvement in producer returns. However, market returns are unlikely to increase until slaughter levels decline. The question is timing but, as an industry, we have killed enough breeding stock.

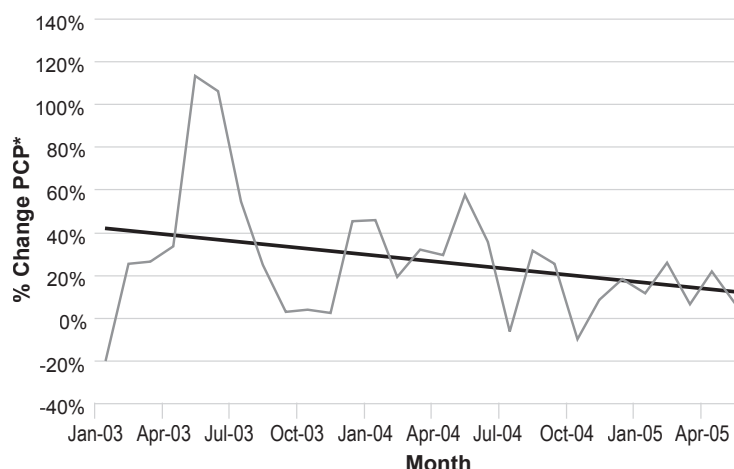
As we all know, a simple decrease in production does not position the industry for the long-term growth the industry requires. For proper growth, the

industry has to be growing demand and reducing dependence on the Hotel, Restaurant & Institutional (HRI) sector in Europe.

Exporters, Deer Industry New Zealand and producers (through their levy investment) are developing retail business so that there is a better balance between HRI and retail. As a result, the HRI sector will have to compete for venison supply. Also, extending the selling season of venison from the game season takes pressure off that small window in which most of New Zealand's production is consumed.

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New Zealand Venison Production, % Change

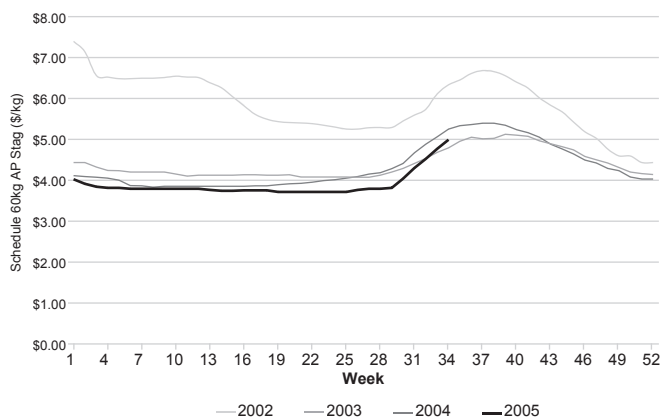


* Previously comparable period

>>> VENISON

Increases are reported for both volume and value of New Zealand venison exports over the same time last year. However, the exchange rate continues to deny New Zealand farmers any improvement. European importers report steady interest ahead of the German game season.

WEEKLY AVERAGE SCHEDULE - 60KG AP STAG



Source: Agrifax

Schedule

- The national average schedule has moved up in line with seasonal patterns. In week 34, the average was \$4.99, 5% below the same week in 2004 (but 4% above the same week in 2003) and 20% below the five-year average (\$6.24).

Exports Up, Prices Stable

- For the 12 months to May 2005 the kill increased by 13%, however venison exports during the same period increased by 18% resulting in a net reduction in national stock levels. The total value of these exports in New Zealand dollars has increased 17% (provisional), in spite of a strengthening NZ\$.
- Germany remains New Zealand's major market, but has taken less than 40% of exports this year (traditionally it has taken around 50% of New Zealand venison) as exporters continue to diversify into other markets.
- Significant growth has occurred in France and other European markets, as well as Australia and Asia.

New Zealand Venison Exports								
Year End May, Volume (Tonnes), Value \$NZ (Millions)								
	2001/02		2002/03		2003/04		2004/05	
Venison	15,852	\$215	16,182	\$160	21,360	\$172	25,214	\$201
Germany	8,006	\$94	7,801	\$66	10,080	\$71	9,775	\$78
France	927	\$14	1,380	\$11	1,219	\$9	2,218	\$18
Belgium	1,671	\$27	1,324	\$20	1,959	\$23	2,174	\$25
Sweden	793	\$7	1,225	\$8	1,258	\$6	1,625	\$10
Australia	69	\$1	98	\$1	277	\$1	1,514	\$4
USA	966	\$23	957	\$19	1,317	\$18	1,297	\$15
Others	3,421	\$49	3,398	\$37	5,250	\$43	6,611	\$51

MARKET INDICATOR PRICES (BONE IN HAUNCH)



Source: PPCS

Market Comment

- Currency** continues to deny New Zealand farmers of any improvement in the markets as the Kiwi stays stubbornly high against both the Euro and US dollar. While no industry can rely upon a devalued currency for long-term profitability, the value of the New Zealand dollar is 26% above the 10-year average against the US dollar and 17% above the long-term average against the Euro.
- European importers report steady interest in New Zealand venison for the approaching game season in **Germany**. Markets have expanded well to accommodate the extra production of legs and shoulders, while the middle cuts have been slower moving but are competitively priced against alternative proteins.
- More German supermarkets are stocking New Zealand venison through the later summer months. National supermarket chains are trialling retail packs of New Zealand venison and, with assistance from Deer Industry New Zealand through in-store tastings, sales are reported to be encouraging. The volumes are small and will not provide an overnight solution to the challenge the New Zealand industry faces, however, these programmes do reduce the supply through the traditional game channels and point to future success in selling venison outside the traditional game season.
- Autumn is also the more traditional time for game consumption in **North America**, and although venison is sold year round, interest increases in game products at this time of year. Prices for Cervena cuts have remained stable.
- In **New Zealand**, some companies are placing increasing emphasis on supply to the local market and venison is becoming more available at retail. The main supermarket chains operated by Foodstuffs and Progressive are increasingly stocking retail packs in selected stores, and this will be supported by in-store demonstrations, some advertising on television and through in-store sales promotions as the year progresses.

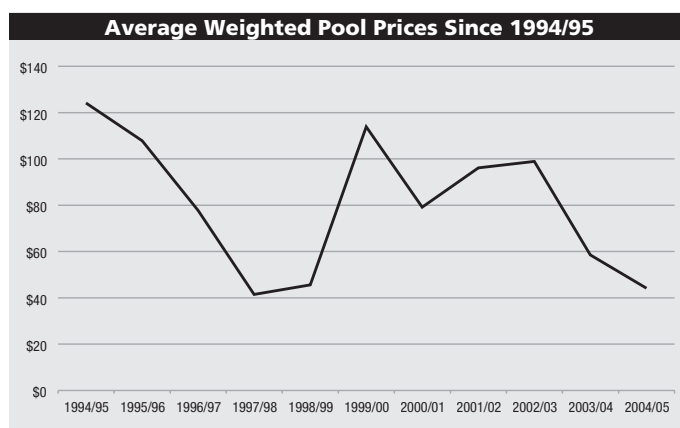
>>>VELVET

Export volume increased by 8% in the year ending May 2005, though value fell by 11%. The Korean market remains slow but market development and access work in other markets continue to encourage new opportunities outside of Korea. Velvet grading guidelines have been reviewed and new posters will be distributed in September.

Velvet Exports

- Export volume for the 12 months ending May 2005 is provisionally 225 tonnes dried equivalent, an increase of 8% over the year ending May 2004 (209 tonnes dried equivalent)
- Export value for the same period is \$24 million, a decrease of 11% over the year ending May 2004 (\$26.9 million).

Pool Summary 2004/05



- The average weighted price for velvet sold in the pools was approximately \$44 per frozen kilogram, down 25% on 2003/04 (\$58).
- The following table shows individual grades and average weighted prices compared to the previous year:

	2004/05	2003/04	Change
Elk/Wapiti	57.81	76.25	-24%
Super A	57.12	88.00	-35%
A	52.80	72.71	-27%
B	49.12	68.84	-29%
C	44.58	63.00	-29%
D	34.63	43.97	-21%
E	30.80	34.84	-12%
Taiwan	59.57	74.83	-20%
Spiker	43.53	49.54	-12%
Overgrown	28.58	42.66	-33%
Damaged	39.49	52.16	-24%
Manufacturing	41.51	41.08	1%
Regrowth	44.04	48.66	-9%
Hard Horn	13.77	14.26	-3%
Hard Antler	16.00	16.91	-5%
Total	44.14	58.49	-25%

- The following table indicates the percentage of total value by key grades, compared to the previous season:

	2004/05	2003/04
Elk Wapiti	3.5%	3.4%
Super A	11.6%	10.6%
A	27%	28.5%
B	14.2%	16.5%
C	6.9%	8.1%

Production to Date

- At the year end July 2005, levies were collected on 526 tonnes of velvet, compared to 528 tonnes at year end July 2004.

Changes to Grading Guidelines

- At a meeting on 8 July, the Velvet Grading Guidelines Review Committee agreed that the guidelines continue to serve the specific purpose of grouping velvet styles ("like with like") based on market needs.
- Key changes were also agreed for the coming season, including:
 - o SA Premium – an increase in the minimum qualifying weight to 2kg to ensure a clear distinction in quality for this grade.

MARKET TALK: Barbecue King: Raymond

Raymond van Rijk is a chef and barbecue demonstrator to Europe for three months every year to teach barbecue barbecue suppliers and distributors. He has been featured in Dutch consumer titles, such as *FHM*.

One company which distributes New Zealand venison in the Netherlands, Luiten, saw the obvious fit between New Zealand's desire to introduce venison as a summer food and van Rijk's skills in barbecuing meat. They employed his services to run a series of tasting demonstrations at their cash-and-carry outlets.

From May to July, with the assistance of the New Zealand exporter and funding from Deer Industry New Zealand, van Rijk demonstrated how to cook venison and how good it tastes to shoppers at speciality game stores and at supermarket outlets such as *Sligo* and *Hanos* in several Dutch cities, including Utrecht and Den Haag.

Raymond van Rijk reported that the response he received was nearly always the same – initial hesitation because of misperceptions that venison would be tough and gamey, genuine surprise at how mild and tender New Zealand venison

MARKET REPORT

- o Addition of Elk Wapiti Damaged Grades 1, 2, 3 to avoid the need to mix these grades with Red Deer Damaged Grades.
- o Hard Horn name change to Hard Velvet to prevent confusion.
- Other changes provide clearer instructions for graders in dealing with specific grades.
- New grading posters (Elk/Wapiti and Red) will be distributed in September incorporating all changes since 2003.

Korean Market

- Korea is coming to the end of a very hot summer, during which time the oriental medicine herb trade is always slow. Many people have been on holiday and do not spend discretionary income on oriental medicine. The market usually picks up from September.
- Reports from the market indicate continued low margins and the availability of cheap velvet supplies from Canada.
- The economy shows some positive indicators (4.6% growth in GDP last year, 11th largest current account surplus world wide, low unemployment rate of 3.4%), however, consumer confidence and, therefore, willingness to spend, remains low.
- Deer Industry New Zealand is working with a Korean public relations agency to develop local food industry interest in working with New Zealand companies to produce consumer ready velvet food products, with a view of developing a new niche for New Zealand velvet. This is consistent with the Five Year Industry Strategy for velvet.

Taiwan

- Lobbying against the five tonne quota on frozen velvet continues with meetings between contacts in the National Legislature and the Council of Agriculture.

- This follows on from the Taiwan New Zealand Velvet Research Seminar at which the Council of Agriculture was engaged in informal discussions by a Member of Parliament on the justification of the quota.

China

- The Ministry of Foreign Affairs and Trade's (MFAT) FreeTrade Agreement (FTA) negotiating team has recently visited Xian, China for the fourth round of FTA negotiations.
- Negotiations remain in the early stages, with discussions focusing on the framework of rules in FTA areas of goods, services and investment. No detailed negotiations have yet taken place on specific goods, such as velvet, venison or co-products.
- Deer Industry New Zealand continues to work with the New Zealand Food Safety Authority and MFAT on import regulations and non-tariff trade barriers.

Western Markets

- A Deer Industry New Zealand joint venture has been successful in gaining a pilot trial with a leading US retailer of sports nutrition products. The velvet product will be tested in 500 of the retailer's 4,500 stores on a trial basis.
- Deer Industry New Zealand continues to work on the industry's behalf to ensure impacts of the likely Trans-Tasman Therapeutic Products Joint Agency Project are minimised. A positive outcome of the harmonisation of regulations with Australia is possible access for consumer ready products to this market; a negative outcome is higher levels of regulations and compliance costs.

van Rijk

based in Hawke's Bay. Raymond travels
e cooking to public groups and through
ed in many European food magazines and

is and an indication that they would
consider trying it in the summer.

Deer Industry New Zealand is pleased to
be supporting this initiative to increase
sales outside of the game season and
develop new markets for New Zealand
venison and all parties are planning to
repeat the exercise in 2006, says Venison
Marketing Services Manager, Innes Moffat.

"The volumes are not large, but the
market is affluent and any product drawn
away from the mainstream trade at a
comparable price is beneficial to the New
Zealand industry."



A keen European shopper tries one of Raymond van Rijk's tasty New Zealand Venison samples.

MARKET REPORT

From the Chairman continued from page 1

These are key elements of the industry's Five Year Strategic Intent as well as the development of other geographic markets. Activities such as the German Sommerkampagne, companies' retail development programmes, joint promotional initiatives and the French campaign (see inside for more detail) are all part of efforts to execute these strategies and put the industry back on a growth path.

Velvet

It is worth considering that, for the first time since the end of the Asian Economic Crisis, velvet production has not increased. While the decrease is not large, there appears to have been a limited additional kill of older stags since last season. This indicates some decrease in production in the oncoming season.

Again, lowering supply by itself will not put New Zealand velvet back on a growth path. The industry's Five Year Strategy for

Velvet has picked up momentum nicely. See the velvet section for further detail.

Industry Survey

Enclosed with this Market Report, please find a Confidential Industry Survey. PLEASE complete this and send it back as quickly as possible. It is vital information for our industry. Individual details may not (under law) be provided to anyone else so confidentiality is assured. Thank you.

New Board Member

I am pleased to welcome Graham Carr to the Deer Industry New Zealand board. Despite only one board meeting, Graham is already making a valuable contribution to the board.

John Scurr, Chairman

UPDATE: Department of Conservation Discussion Documents

- Over 1300 letters of supporting the broad industry strong opposition position have been received by the NZDFA.
- Challenging dialogue with the Department of Conservation (DoC) continues highlighting:
 - o The difference between regulated and non-regulated areas
 - o The relevance and appropriate use of the escape statistics and claimed implications
 - o That fence specifications and fence failure are not the issue. Changing specifications will make little difference to the small number of escapes that occur, predominately caused by human error or a catastrophic event
 - o The proven ability and track record of the deer industry to meet, analyse and solve its own issues in tandem with government, without compromising deer farming and industry direction
 - o The concept of Deer Industry New Zealand developing and facilitating a stakeholder meeting to develop solutions has been broached by industry
 - o A long overdue evolution of all the legislation and the development of more relevant legislation, appropriate for modern farmed animals, continues to be suggested.
- Strong support for the industry's overall stance is developing with the Ministry of Agriculture & Forestry, Federated Farmers, Primary Industry Council, fence manufacturers and other leading agricultural organisations.
- Further activity aims to express industry disappointment at the selective use of information and the lack of cause/effect and justification for change. It is also suggested that the whole process is entirely unsuited to the responsible management of farm-raised deer.
- NZDFA will develop a submission based on the wider issues that addresses the concerns of the deer industry, rather than dwelling on the detail as contained within the DoC document and submission forms.
- Currently, industry stakeholders are reluctant to enter into any discussion and debate at that level.

PLEASE HELP!! Confidential Survey

IT IS CRITICAL for industry to have an accurate picture of the size and composition of the national deer herd to assist with forecasting and planning.

Please complete the enclosed deer numbers survey form accurately and send it back. It's free, it's simple and is of significant value to your industry.

WIN \$1,000

Every farmer who completes and returns this form goes into the draw to win **\$1,000**. And... the New Zealand Deer Farmers' Association Branch with the highest proportion of completed and returned forms will also win \$1,000 towards branch activities.

PRIVACY ASSURANCE: All information supplied will be treated in strict confidence. No information about individual farms will be supplied to any other party. All returned forms will be destroyed once the necessary data has been extracted.

VELVET REMOVAL UPDATE

Non-Compliant Velvet Removal

Following the recent prosecution of a deer farmer for illegal velvet removal, the deer industry is under increasing scrutiny from regulatory agencies concerning velvet removal practices. This article explains why compliant velvet removal is necessary from a legal and animal welfare point of view.

The Law

Velvet removal is a Controlled Surgical Procedure under the Animal Welfare Act, meaning it may only be performed by a veterinarian or 'approved person'. Approval is gained through membership of the National Velveting Standards Body (NVSB). Non-approved people removing velvet without veterinary supervision face significant penalties, including heavy fines and imprisonment. In the recent case, both the farmer and his business were fined.

The law applies to spikers as well as adult deer and veterinarians at Deer Slaughter Plants who detect non-compliance are obliged to pass this information on for further investigation.

Animal Welfare

Velvet is a sensitive tissue and removal without proper pain relief causes unnecessary suffering and poor animal welfare. Although it may not be done intentionally, the effect of failing to provide pain relief is the same for the animal; pain, suffering and distress.

Although ensuring good animal welfare is important in itself, another reason why it needs to be considered is that it has become a major factor influencing both the market and consumers.

Improving Compliance

If you are not already a member, call the NVSB, on (04) 473 4500 to join. Alternatively, get a veterinarian to do your velveting (including spikers). If you are a member, familiarise yourself with programme requirements and ensure you can spot incomplete analgesia in your stags. If you have any doubts, talk to your Supervising Veterinarian prior to velveting.

Velvet as a Food Product

Velvet is a food product and should always be handled hygienically. Individual sticks must be tagged (or tag the bag for Spiker/Regrowth) as appropriate and placed in clean plastic containers or bags and deep frozen ready for sale. As a food product, any

velvet with potential food safety risks must not be sold for human consumption.

Tourniquet First

In order to comply with current Maximum Residue Levels, a tourniquet must be applied and tightened around the pedicle before administration of local anaesthetic. Tourniquet application can be problematic on older stags with little clearance between the coronet and skull. Research is planned to address this issue, however, if difficulties are encountered, it may be necessary to apply a combination (nerve + partial ring) block, in order to obtain both analgesia and MRL compliance. Consult your Supervising Veterinarian if you are unsure about nerve block application, or wish to discuss alternate velvet removal options.

NVSB Annual Requirements

Annual requirements are:

- Payment of annual fee by 20 November.
- Supervising Vet visit/consultation for NaturO ring users completed by 15 December.
- Return of completed Velvet Record Book and any unused drug, including partially used containers, by 31 March.
- All velvet to be tagged (tag the bag for spiker/regrowth).
- Participation in NVSB audit when selected.



Deer urgently needed

The Johne's Research Group (JRG) requires:

- Skin test positive deer
- Deer waiting for an ETB test
- Deer with a positive ETB result indicating Johne's Disease (JD).

The **time frame** is urgent because the Tb testing window of opportunity is seasonally closing.

The **purpose** is to gather data to validate the ETB for Johne's diagnosis.

The **outcome** will be to separate the diagnosis of ETB positive deer for true Tb versus Avian or Johne's disease.

This will be of **huge benefit** to all deer farmers, so please do your bit.

Please contact us even if you are not sure as to whether your animals are of value to us.

Contact Deer Industry New Zealand reception, 04 473 4500 and leave your name and telephone number so the Johne's Research Group can contact you, or call Tony Pearse 021 719038. Thanks.

Five New Transport Companies Accredited

Some more news from the deer transport sector with five new transport companies becoming accredited to the Transport DeerQA Programme. This is a direct result of exporters demanding that deer delivered to their processing plant be carried by accredited deer transporters only.



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