

>>> FROM THE CHAIRMAN

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In this Market Report, I focus on two areas. Firstly, the industry is one year into the Five Year Strategies for venison and velvet. So, it is timely to review the strategies and progress towards targets and goals which we have set ourselves (pages two & three). Secondly, the recent Deer Improvement Ltd (DIL) promotional tour has raised a number of issues that require some balanced comment (back page).

Five Year Strategic Plans

We review the plans to measure how we are progressing towards targets and to consider what needs changing. Clearly, returns to producers remain uneconomic and that is necessarily at the front of all our minds. However, after one year of activity and in spite of continued increases in production levels, the industry strategy is progressing well.

For venison, out of the six geographic areas, four have reached their volume targets and all are moving well in the right direction (see inside for further detail).

Significant diversification has occurred, which has ensured our key markets have not been swamped by more venison than can be managed. While some of these markets have also grown, any expansion has been carefully controlled so that market prices have remained stable. Statistics NZ figures show that exports have grown ahead of the increased production during 2005 – evidence that our marketers are dealing with the extra volume responsibly. However, maintaining even current prices with the volume of growth has been difficult and has required significant commitment and understanding from exporters and also from market partners. If processing companies had been able to slaughter even more deer as demanded by some farmers, this would almost certainly have destroyed the confidence and stability that has been established in our markets.

The level of retail development occurring in the market is encouraging. Exporters have had some good wins in this sector and these must be nurtured and grown. However, it will take time for this sector to grow to a significant level that will impact on consumption patterns and returns to farmers. Also, if production drops too far, this development will be in jeopardy.

For velvet, all six key initiatives have begun but it is early days. None are going to be easy wins, yet all

are very important. Efforts to open new markets in Korea have been picked up by key industry players which are investing resources to develop new business. The industry is gaining momentum for change in Taiwan with a suite of initiatives to prise open the important frozen velvet market. Access work in China is accelerating with the New Zealand government taking the issue seriously following industry pressure and commercial elements are working on opportunities.

Deer Industry New Zealand (DINZ) would be pleased to receive feedback on the reviews from the farmers. Full copies of the velvet and co-product and the venison strategies can be downloaded from www.deernz.org/resources.

DIL Promotional Tour

As the Chairman of the Deer Farmers' Association in 2002 and current DINZ Chairman, it is appropriate for me to comment on the political matters that have been raised during the DIL promotional tour.

DFA 'Voice'

One of the views presented in the road show is that the DFA has lost its voice as a result of the 2002 reforms and that producers have lost control of their industry. In reality, they haven't. The DFA remains an independent organisation and certainly takes its own position - sometimes contrary to the DINZ position - for example on issues like animal identification and traceability.

The idea that the two bodies are a single organisation is absolutely incorrect.

It is the DFA's decision on whether it chooses to re-strike a commodity levy. It must choose its own path. DINZ only points out that if the DFA chooses to re-strike a levy, the Memorandum of Understanding

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>>> Year One: Venison Industry Strategic Intent 2005 – 2010

In 2004, the Venison Strategic Intent identified three key challenges which provide opportunity to improve profitability and restore growth to the New Zealand farmed venison industry. Industry work has been intense and it is timely to review the first year of work.

These opportunities are areas where the New Zealand industry can agree to cooperate. Achievement will benefit all sectors.

1. Reliance on a narrow range of geographic markets and traditional foodservice channels

- *Actions/Tactics:* Building new demand for venison in new channels outside traditional food-service channels and game segments through targeted generic and joint promotion.
- *Target:* Build new demand for 3,000 tonnes of venison outside traditional food-service channels.
- *What has been done in Year One:*
 - Year Two of Sommerkampagne consumer advertising in Germany to push venison into the retail sector.
 - Consumer promotion in France. Production of French, Dutch, Italian, English language promotional material and joint farm-raised venison promotion in the UK.
 - More than 30 company initiatives part-funded through the joint-promotion scheme aimed to expand sales into alternative markets through funding retail promotions, new product development and new market expansion.
- *Achievements:*

	Benchmark (2004)	Target (% of total exports)	Achieved at 30 Sept 2005
German Retail	est 3,000 (14%)	4,000 (18%)	Est. 3,500 (13%)
North America	1,100 (5%)	1,600 (7%)	1,325 (5%)
France	1,250 (6%)	1,750 (8%)	2,400 (9%)
Benelux	2,100 (9%)	2,350 (11%)	2,900 (11%)
UK	400 (2%)	650 (3%)	500 (2%)
Other Europe	4,400 (20%)	4,650 (21%)	5,253 (19%)
NZ & Aust	500 (3%)	750 (3%)	2,500 (9%)
Aimed to take 3,000 away from German game trade (14% of 2004 export volume)			Est. 5,500 20% Diverted

Notes:

• *Although volume targets have been met and exporters have been successful drawing volume away from the German market, significant work remains in lifting values and developing sustainable, long-term markets of value to the industry*

• *German retail comprises sales of New Zealand venison through avenues such as supermarkets and cash-and-carries and is necessarily an estimate based on feedback from exporters, importers and distributors.*

• *Source: Statistics NZ.*

2. Seasonality of Consumption.

- *Actions/Tactics:* Promoting consumption of venison outside the game season. This is a key message communicated through generic and joint promotions.
- *Target:* Chilled exports from April to July to be greater than 1,000 tonnes (under 2% of annual exports each year between 1999 and 2003) or approximately 300 tonnes a year.
- *What has been done in Year One:*
 - Dovetailing with objective 1, activities included Sommerkampagne consumer advertising in Germany communicating the suitability of New Zealand venison as a summer item and company initiatives funded through the joint promotion scheme.
 - Point-of-sale material has been produced and in-store tastings have been held at the shoulders of the game season.
 - New BBQ and summer items have been developed.
- *Achievements:*
 - Establishment of new retail business by at least five European importers as part of the process to push venison into retail outside of the traditional game season.
 - A small increase in chilled exports through the New Zealand winter months. This is encouraging but more work needs to be done.

3. Build awareness of New Zealand country of origin.

- *Actions/Tactics:* Generic and joint promotional activities. New Zealand country-of-origin is the overarching message in all promotional activities.
- *Target:* 75% of venison exports are marketed through channels where the end consumer can be identified with clear New Zealand country-of-origin branding (estimated at up to 25% of exports in 2004).
- *What has been done in Year One:*
 - Joint funding new product development with companies who have a retail focus and the capacity to deliver New Zealand branded product to the final consumer.
 - Provision of merchandising material to encourage New Zealand origin identification at point of sale.
 - 60,000 merchandising items distributed through German retail sector highlighting New Zealand origin.
- *Achievements:*
 - One company that extended New Zealand origin to its venison increased sales through the retailer by 100% over the 2004/5 year.
 - There is an increased use of the New Zealand Venison logo on fresh game and on frozen processed products at retail.

If you have ideas or comment on the Venison Strategic Intent and this review, please email Innes Moffat on innes.moffat@deernz.org or fax him on 04 472 5549.

MARKET REPORT

>>> Year One: Velvet & Co-product Strategy 2005-2010

There are six key elements in the velvet strategy. Achieving these objectives will have a real impact on the velvet industry. We look at achievements in Year One.

Three elements are based on opportunities in Asian markets, which reduce dependence on the wholesale oriental medicine channel, and three are in new products - predominantly in

western markets - to reduce dependence on the traditional business. The objectives are achievable, time bound and measurable.

Strategy	Activity	Results
1. New channels for New Zealand velvet products in South Korea.	Gain access for sliced velvet.	<ul style="list-style-type: none"> Korean Government has approved New Zealand velvet. Ten individual plants in New Zealand inspected.
	Ensure unofficial trade becomes uneconomic through the abolition of the Special Excise Tax on deer velvet.	<ul style="list-style-type: none"> Lobbying against the SET continues with industry support. Temporary reductions in SET rates on velvet products, but do not indicate when.
	Gain access for further processed product (FPP), such as capsules, tonics and extracts.	<ul style="list-style-type: none"> DINZ and industry partners working to promote FPP. DINZ has presented to five major health food companies. A DINZ campaign to other food companies.
2. New sales of New Zealand velvet in Taiwan.	Gain better access to Taiwan for frozen velvet by lobbying the Council of Agriculture (CoA – the NZMAF equivalent).	<ul style="list-style-type: none"> Successful launch of campaign to 100 trade journals, advertising value \$257,000. Taiwanese legislator picked up the issue on velvet. CoA has conceded that an increase in quota is necessary, though any increase through VET negotiations, though any increase through VET negotiations. Further work to pressure CoA continues.
3. New sales of New Zealand velvet in China.	Gain reasonable access to China.	<ul style="list-style-type: none"> Clarified barriers preventing access for New Zealand velvet. Seeking New Zealand Government assistance. Ensured New Zealand deer products are on the list.
	Assist development of distribution arrangements and assist companies selling NZ velvet through joint and generic promotion.	<ul style="list-style-type: none"> DINZ working with velvet and co-product exporters. DINZ assisting with market intelligence and promotion.
4. Wound healing product derived from New Zealand velvet.	Development of a wound healing product.	<ul style="list-style-type: none"> Range of trials conducted: pre-clinical, stability, efficacy. Current challenges include simpler bioassay. This is a longer-term project. Significant funding has been received from industry.
5. Athletic performance product derived from New Zealand velvet.	Develop industry sales from an athletic performance product with benefits flowing back to the New Zealand deer industry.	<ul style="list-style-type: none"> Joint promotion underway with New Zealand deer industry. Opportunities to leverage athletic research and development. Athletic research is being used to attract upmarket consumers.
6. New product development opportunities for New Zealand deer velvet.	New Zealand velvet as a functional ingredient in pet food and pet supplements.	<ul style="list-style-type: none"> DINZ presented to the Pet Food Manufacturers' Association. Several companies evaluating inclusion of velvet.
	New Zealand velvet as a nutritional supplement for performance animals.	<ul style="list-style-type: none"> Commercial research being investigated on velvet.

Deer Co-Products

Strategy	Activity	Results
Undertake compositional analysis and basic research into co-products' attributes.	Compositional analysis conducted on sinews by a commercial investor and DINZ.	Results available to public domain.
	Support industry good components of co-product promotion.	<ul style="list-style-type: none"> Joint promotional project underway promoting a new deer sinew product for pets. Co-products being represented at the Hong Kong Natural Products Expo at the DINZ stand.

MARKET REPORT

If you have any ideas or comment that you would like to make on the Velvet and Co-Products Strategy, please contact Daimien Reynolds at daimien.reynolds@deernz.org or via fax on 04-472 5549.

land as a country able to export sliced velvet to South Korea. tected by Korean officials, final approval for each plant pending.

market representation. t have been extended, Korean tax officials say policy is to abolish SET on luxury

ress imports of consumer ready products. od companies in Korea. is planned for December/January.

e & media attendees. Nine newspapers & six TV stations attended. Equivalent

behalf of consumers and is challenging the CoA on the quota. a is inevitable. The issue is to be addressed through World Trade Organisation WTO is likely to be small.

Zealand velvet & co-products and strategies to address them. ce for access negotiations including development of a trade protocol. t the agenda for Free Trade Agreement discussions.

porters to address access issues. strategy development leading to joint promotion.

ity, formulation, delivery mechanisms. s, scale up of production, characterisation of the extract.

FRST.

d supplier of velvet targeting the US weight training enthusiast. are being developed leading to other joint promotions. coming athletes for in-kind sponsorship contracts.

ers Association. velvet in their products.

benefits of velvet for greyhound racing dogs.

Velvet Market Update

In-Market Situation

- Carry-over stocks of velvet in Korea are reported to be lower than this time last year. The stocks are generally of low quality velvet that may be price discounted to move. There are reports of stocks also in China (mainly Chinese velvet), bound for the Korean market.
- Importers are cautious about the outlook for prices for this coming season. They are conscious of low consumer demand, but comment that prices can be expected to rise for New Zealand velvet if supply from New Zealand drops, and if the economy shows improvement.
- Russian prices have begun the new season 10% stronger, reflecting the in-market perception that Russian velvet is highest quality but relatively affordable. Chinese prices have dropped off slightly, reflecting inconsistency in quality. It remains to be seen how New Zealand prices will be in the market when product arrives.
- Canadian velvet, while lower in total volume, is still having a significant downward effect on price.
- Many Oriental Medicine clinics are finding economic circumstances extremely difficult. Some are diversifying by starting to offer some western medicine features to compete with Western medicine clinics.
- Overall, in-market wholesale prices are down approximately 22% on the same time last year.

Korean Economy

- The Korean economy is generally looking more positive. The third quarter's GDP result of 4.4% was higher than many economists expected. General expectations are that the fourth quarter should provide even better results again.
- The economy is still polarised, with construction and investment under-performing while exports and manufacturing are strong. As a result, consumer confidence is still lower than the GDP results would indicate. Private consumption is lifting however, with a quarterly growth rate of 4% in the third quarter compared to 2.8% in the second quarter. Private consumption is a key driver of oriental medicine doctor visits and therefore velvet sales.

PGG Wrightson Holds Back Grades

Following industry discussion and unanimous support from NZDFA branch chairmen, PGG Wrightson has agreed to hold back some lower priced velvet grades until 1 February to allow time for other grades to clear. The affected grades are D & E grades, Overgrown (1,2,3), Damaged 2 & 3, Manufacturing 2 & 3, Regrowth 2 & 4 and Hard Velvet (formerly known as Hard Horn).

This is a short-term measure and an effort to show that producers can act co-operatively to attempt to influence a situation.

Producers should not expect this to have a significantly positive impact on velvet returns. However, we hope that there will be some benefit. The initiative provides a precedent for further co-operative action in the future. But, importantly, it also sends a signal that New Zealand velvet producers can take collective action to impact the market.

A letter has been sent to all PGG Wrightson clients outlining the change.

MARKET REPORT

From the Chairman... continued from page 1

(MOU) between DFA and DINZ lapses and DINZ's obligations to DFA end.

DFA's voice has never been louder and more effective:

- The MOU clearly sets out how DINZ and the DFA work productively together, while both remaining autonomous;
- Excellent servicing and commitment by the Producer Manager who fairly represents the DFA's view to a wide range of parties including DINZ. DINZ is currently considering the appointment of an assistant;
- Representation of DFA's views and concerns at the DINZ board from the Producer Manager;
- Consultation on DINZ's budgets and operational plans;
- Meeting between the DINZ Board and Branch Chairmen twice a year plus two teleconferences per annum; and
- Strong producer communication through Deer Industry News.

The 2002 reforms have saved at least \$2 million for producers since their inception after the reduction of levies and efficiencies gained from lower overhead costs.

The simple reality is that the current structure is working well. Changing it will not result in better returns for producers. It is not the cause of the problem.

Outcomes From the Promotional Tour

These times of continued low returns have created a desire for change. DINZ welcomes healthy debate putting forward productive ideas to improve the industry's position.

However, don't let idealism cloud the reality.

Our industry is coping with an over-valued New Zealand dollar, a depressed global economy and massive increases in production fuelled by the desire of many deer farmers to slaughter or reduce capital stock. It is a classic Catch 22. Low venison and

velvet returns are encouraging farmers to slaughter more deer, whereas prices will only increase when the slaughter and production levels decrease.

Industry Structure

Pre-1999, the Game Industry Board and the DFA were going in different directions and weren't moving forward together in a meaningful way. There was little interaction between the political and commercial sectors and ginger groups were vocal. Today, we are all working together and have never been more cohesive, having matured with a common purpose.

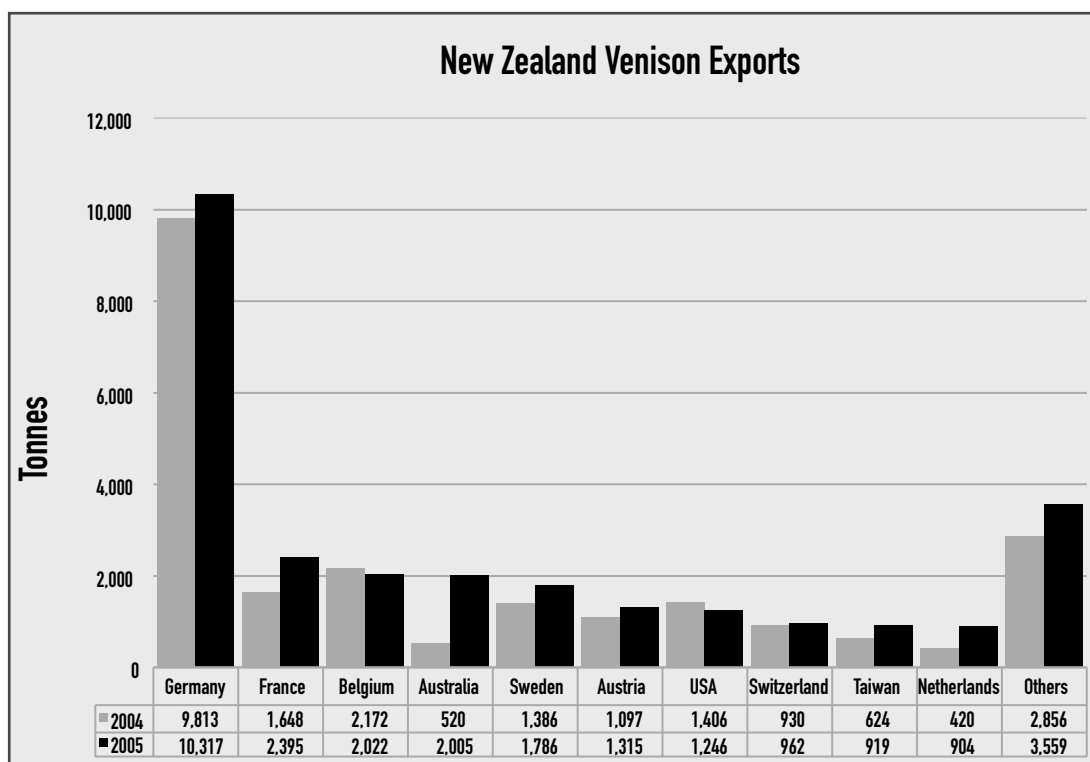
I make no apology for what has been achieved with the DFA reforms and changing the Game Industry Board to DINZ three years ago. The industry consultation was intense with 50 physical meetings and the poll and mandate decisive with 90% of producer respondents supporting reform.

Today, the farmer voice has never been stronger and the DFA's independent authority left untouched. Farmers have never had more influence than they have now with their leadership.

The 50/50 producer/processor board of directors and levy reflects the fact that we are one industry and have much more in common than what divides us. By agreeing where we can work together, and by aligning goals, we are a much more effective force. It does not mean that the different sectors in the industry should always agree - they do not. It does mean, though, effective communication in the industry to understand differences and co-operation in the many areas of common interest.

We have had two major industry approved reforms in the last five years. Further DFA reforms will have very little to do with the market and only change something that is in fact working well.

John Scurr, Chairman



Germany accounted for 43% of exports in 2003/04, this fell to 38% in 2004/05. New Zealand exported an additional 3,000 tonnes into alternative markets in this past season. This has greatly helped to stabilise prices in Western Europe, in spite of an additional 1,300 tonnes being put into this market in the last year.

DIL Promotional Tour: DINZ Comments

The recent Deer Improvement Ltd (DIL) 'Profit from Deer' promotional tour and *The Deer Farmer's* various 'Hot Droppings' (email version of the magazine) warrant some balanced comment.

There were some very positive elements in the events. The emphasis on productivity improvement is excellent and an area in which producers can act co-operatively to impact on their bottom line.

There are also aspects and views that DINZ believes are flawed, which would not generally be considered seriously except after such a long run of low producer returns.

- **Structure before strategy:** A lot of the comment came back to tinkering with industry structure as a way of improving producer returns. The 'how' or 'what are we actually going to do' is much more important. A single industry vision shared by exporters and producers to position venison in European retail emphasising the nutritional profile and country of origin, or a united industry effort to promote Cervena in the USA are much worthier goals than alignment with Federated Farmers or moving levies from one organisation to another.
- **A 50/50 producer/exporter DINZ board means producers have lost control:** No. The 50/50 board is irrelevant to producer control. The DINZ Board has rarely voted along sectoral lines. The one time it did, the result was divisive, dysfunctional and resulted in Abbotsford-like erosion of producer funds. Processor/exporters have in fact elected a venison producer as one of their appointees. The 50/50 Board has nothing to do with uneconomic returns to producers.
- **'Politically correct element disallowing debate':** No. there is nothing stopping debate and, in fact, it's encouraged. DINZ seeks out and values producers' views. DINZ particularly appreciates producers that take the time to tackle us directly on issues.
- **Companies don't promote venison effectively in New Zealand:** More and more New Zealand venison is available at retail in New Zealand. Companies are investing in product development and distribution. DINZ is supporting the

companies' own promotional efforts. Momentum will gain if we all get in to support our industry and product by spreading the word and asking for New Zealand farm-raised venison by name.

- **NZDFA has lost its voice:** No. NZDFA and DINZ views sometimes differ on issues, but communication between the two organisations to air differences is better than ever. For example, on animal identification and traceability views differ, which is not surprising. The Producer Manager is an exceptionally strong advocate for the NZDFA representing producers' interest to DINZ executive and board as well as many external parties.
- **The 2002 reforms created a single industry body, DINZ:** No. NZDFA remains an independent, autonomous organisation that will continue to choose its own path. Its members must make their own decision on whether to re-strike a commodity levy and how their executive services are provided.
- **DINZ will not release kill statistics:** Incorrect. Kill to year end July 2005 is 750,000 animals. DINZ releases them three months in arrears following company advice that this time gives the market a 'cooling period'. This has been a positive step with support from all marketing companies who confirm that the slaughter statistics that were so promptly published in the past are no longer the focus of the marketplace. The emphasis has changed to supply management by individual companies and has diverted attention away from growth figures that could have undermined market confidence.

Low producer returns over an extended period of time have created a desire for change. While that is good, it is important producers do not throw away what is working. In reality, our industry's limited resources are aligned to achieve a set of realistic and very worthwhile objectives.

A Word on Marketing Velvet

How velvet is best marketed is one issue raised during that tour that does deserve robust debate. Circumstances are that business irregularities exist in-market plus velvet is a market where there are few buyers and many sellers, all of which places producers on the back foot.

Producers should have a base from which sound investment decisions can be made.

DINZ believes this is best achieved by producers acting cooperatively though not necessarily as a 'cooperative' (there are a wide range of alternative structures that could be used). Acting together also does not mean that producers should try to take over the velvet value chain. It means coordinating the industry's own affairs to best effect.



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