



FARMER UPDATE MEETINGS AUGUST 2010

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Time for change

Your levy funded organisation has had a major shake up. In the first called for referendum after the organisation shifted from being two statutory bodies farmers almost voted it completely out of existence. Rightfully or wrongly the mix wasn't right and now before you we have a meat only industry-good body with an appreciation that it better deliver or else in another five years sheep and beef farmers will walk.

July 1 heralded a new start - a new era. I know they're just words, but I believe its the best attempt yet at getting the mix right.

Firstly, the name change – Beef + Lamb NZ – what else would we be named, after all that's what we do and that's what we market to the world.

Aligning the name with our domestic marketing arm makes perfect sense. After all your levies pay over 50% of the domestic promotion. "Steak of Origin" is becoming a mainstream national interest and the "Glammies" are moving the same direction. Our iconic sportswomen are instantly recognisable.

Beef & Lamb NZ have shifted offices and are now in the same building as Federated Farmers, the Deer Industry & Meat Industry Associations. An agricultural hub. The close proximity of Feds means that already there are regular movements and interactions between floors.

Surely after years of political neglect and lack of respect of our importance to the NZ economy we finally appreciate that if we don't help ourselves no one can be relied on to do it for us. We need to build a strong united front and what is more important than having two organisations Beef + Lamb NZ and Federated Farmers working in sync with each other. And while we are building our relationship with Feds lets also build strategic partnerships with other organisations – including Young Farmers, Dairy NZ, & perhaps Rural Women to collaborate and grow our reach.

Get out of Wellington – get into the regions – get closer to farmers. Meet with more farmers; more often; about more things.

Lets strengthen the role of the Sheep & Beef Councils. In our case its meant the addition of a new Council to align with our electorate.

The Council will undertake an advisory, regional role. It will help guide the thinking, prioritisation & structure of the research investment, uptake & extension activities.

This approach will ensure that the right priorities and farmer requirements are progressed and there is a greater connection between the organisation and you the Farmers.

Beef + Lamb NZ's vision

Beef + Lamb NZ's vision is to have a growing sheep and beef industry providing sustainable profits for future generations.

Beef + Lamb NZ sees its role in achieving this vision by delivering innovative tools and services to you the farmer to assist and support you in making informed decisions on and about your farming. Its role is to continually work at improving market access & our product positioning in those markets. It will also continue to work to improve our farming systems – to make them more productive, efficient & cost effective.

To assist us in our delivery, that is to perform our role and ultimately achieve our vision Beef + Lamb NZ have identified four key areas they must address.

1. Farm

Beef + Lamb NZ will fund research programmes that are prioritised by farmers, modelled by the economic service to ensure they will deliver significant gains – this may include projects that can most effectively increase product value, reduce costs of production, enhance farmer control over their farming business by managing risks & minimising the need for regulations. Projects will be overseen by Beef + Lamb NZ to achieve an outcome.

As an organisation we are moving to more focus on extension and ensuring that outcomes of research are taken up by farmers. This will be on a more regional basis and each region will be able to choose from a "toolbox" of activities to make sure each region can get the tools that will deliver the best uptake relevant to them.

I have a list available on request outlining the research projects that Beef + Lamb NZ is currently investing in.

Our annual objective is to have a 3% productivity gain. This will be assessed using the Economic Service database which is a statistically representative sample of the farming industry and the benchmark will be based from the 2009/10 year. We are also investigating the possibility of opening the database to allow individual farmers to be able to input their own information to assess whether they have achieved this goal or not. Could this thinking be expanded even further?

2. Market

This is effectively split into two:

- Market access, and
- Market development.

The market access area is essentially the technical and trade policy area. Sheep & Beef farmers export over 90% of what they produce. To get access into markets we currently pay tariffs (or a tax to the foreign government of the importing country) The cost of tariffs to our industry in 2009 were \$190.8 million for beef & \$43 million for sheep meat. In total this equates to in excess of \$18,500 per farm per year or (\$79 per cattle beast & \$1.58 per lamb). This market access activity plays a significant risk management role for NZ Sheep & Beef Farmers and it is a role that goes largely unseen. While the Government is responsible for negotiating tariffs away, Beef + Lamb NZ provide all the analysis, priority setting i.e. whether the efforts should be say Japan, India or Russia etc and support on behalf of farmers who are the ultimate beneficiary of reduced tariffs. We also play a key role with our counterpart organisations to ensure we have constructive relationships as those are the people that will lobby their governments to restrict access for us.

Market access issues and threats to our trade are often unpredictable and require responses urgently as barriers to trade spring up all the time. Beef + Lamb NZ Market Access team work with government and other key groups to counter and negotiate when these issues arise. Much time, work and funding is spent on having to protect & maintain our position in the international market. Our investments are categorized into whether they will protect, maintain or grow and there is a lot of work Beef + Lamb NZ have to do to just protect and maintain our current positions.

We will continue to work with the government & our own industry contacts offshore to get better access into markets through Free Trade agreements & the completion of the DOHA round. The bottom line measurement as to how well we are doing as an organisation in this area is a reduction in the value of the tariffs paid by you the farmer.

Market Development or the high level promotional efforts to position our products in some key markets globally is vitally important. Many farmers ask why as an organisation are we involved in this area?

Well, unlike the dairy industry where over 90% of product is marketed by one entity our industry has several commercial companies operating in the market place.

There is no incentive for any one company to position NZ meat in the market. So Beef + Lamb NZ acts as a 'proxy' for a single company approach in the market.

Since the referendum a sheep meat market research project has been completed. Beef + Lamb NZ and the meat companies who co-funded the research have a much clearer pathway to follow in terms of promotional spend for sheep meat.

The way forward will be away from the more generic promotion where companies have argued against co-funding the spend because others who were not contributing were benefiting. So on a practical level the way forward will be more at the 'point of sale' which will be co-funded by participating companies.

As farmers we asked that there be more co-funding from companies & this will be a requirement for our long term investment in this area.

A beef product international market research project is planned to be undertaken next & again the outcomes of which will provide a clear pathway for future investment in the marketing of beef.

Measurement of success in this area will be by an increased value of NZ beef & lamb at the point of sale & the participation & support of co-funding from companies in our programmes. Some commentators suggest that there is not enough industry spend in the area of market. Zespri spend 9% of the value of their industry in promotion or about \$90 million per annum, If we did that in the meat industry we would be looking at a promotional spend of approx. \$500 million per annum. Our spend (Beef + Lamb NZ) is about \$8.5 million per annum.

The Farm & Market programmes equate to approximately 80% of Beef + Lamb NZ's budget.

3. People

The People programme is divided into two main areas – leadership and the attraction and retention of skilled people.

As proposed in the lead up to the referendum B+LNZ see the development of a meat industry strategy being a key part to moving the industry forward. This is now under way – it is being co-funded by the Meat Industry Assn (representing the processor/exporter part of the sector) & government represented by NZ Trade & Enterprise & MAF. The Strategy development process is being independently facilitated by Deloitte. It is intended that the strategy will identify opportunities for improving profitability within the sector.

Funding of scholarships & leadership courses will continue. For example Kelloggs; Nuffield & FAME. Investment in Agriculture ITO to deliver training for farm workers & managers is key to building skills too.

B+LNZ are also looking to partner with Young Farmers & other like minded groups to promote the sector & identify pathways for new entrants into the industry.

Measurement of our success in this area will be at the completion of the meat sector strategy & in the participation by industry of the new initiatives under way. Also the availability of skilled labour & new leaders prepared to assume industry positions.

4. Information

Our sector requires information on which it can base sound decisions. The information collated & generated by our organisation is used by government, farmers & the industry to support & shape decision making. When we talk to our government or government & regulators offshore we do with strength because of the data that backs up our argument. Information gathered & analysed by our Economic Service (whose database of farm production & performance spans over 50 years of records) also helps us develop & assess our programmes & priorities for all areas of Beef + Lamb

NZinvestment. It also generates the information we use for submissions & advocacy. Data generates farm production & profit forecasts & can be used to benchmark from.

The recent ETS debate is a classic example where along with ourselves we have had Feds, government & opposing MP's and farmers using our information and analysis to ensure that farmers are better off by getting the on farm emissions knocked out of the scheme. It has been Beef + Lamb NZ's data & analysis that has been the catalyst for the re-think.

The Government's current time frame has biological emissions included in the ETS in 2015 but there are two prior review periods set for 2011 & 2014. These will be key times for us to work towards more favourable treatment for sheep & beef. Beef + Lamb NZ will continue to argue that agriculture emissions should be excluded until affordable mitigation technologies become available.

Information is a hard area to measure but this is all about providing farmers with information to support good decision making & information that improves the performance & profitability of the sector.

Accurate independent forecasts valued by farmers & industry.

Funding

So.....This current year 2010/2011 Beef + Lamb NZ's income from levies will be in the area of \$9 million from beef levies & \$12.6 million from sheep meat. Total of about \$21 million. As I've already outlined almost 80% of the income is spent in the area of Farm \$11.3 million & market \$12.7 million. People will be \$900,000 & information \$2.9 million & \$2.2 million just over 9% spent on administration.

As outlined in the referendum last year it is B+LNZ's intention to increase the levy take for sheep meat by 15 cents per head. That is to say to increase by 5cents per head per year for the next 3 years. So this year the intention is to shift from 45cents to 50cents per head.

For Beef levies the intention is to increase the take by 80 cents over 4 years; that is increments of 20 cents per head per year also starting in 2010/2011 year. That will mean for you an increase from a \$1.80 per head to \$4 per head.

I know what your thinking "B" typical! – we're the farmers struggling with our incomes & what does our industry good organisation go & do but increase our levies.

This increase is not set in concrete and has to be ratified each year by the Board at budget time which is September. If the feeling of opposition to the increase is strong from you – it won't happen.

But let me just say in defence of the increase. Our take in levies this year is around \$21 million for an industry that is worth \$5.5 billion. This organisation "take" comparatively speaking is at the lower end of investment.

We need to keep striving to improve our "lot" in every way possible & there is no avoidance - no quick fix – without continual & improved investment.

Other points

Although "industry good" activities are hard to measure & commercial companies tend not to do these activities because of the difficulty in capturing a return, I have outlined how you as farmers will be able to measure how B+LNZ are progressing with the programmes outlined. We are accountable to you. The intention is to report to you regularly & you have the added advantage of not only being able to contact me directly or Aaron your Extension manager but also an active Council to interact with.

I would also like you to take on board a number of points.

Whenever you hear about any research project in the sheep & beef area from any provider albeit it be Lincoln; Massey or Ag Research it is nearly always initiated with farmer levy investment or at least matched by farmer levies .

This is an area where I believe MWNZ let themselves down badly in as much that little or no recognition of past investments in projects was widely known or acknowledged. Now and in the future B+LNZ will demand that providers & researchers of our projects will attribute B+LNZ appropriately to ensure that there is a connection & appreciation between the funders and the outcomes.

Farmer levies fund the genetic engine of the sheep industry Improvement Ltd. You may have your personal thoughts on SIL but like it or not it has been a huge success & is now the largest sheep database & evaluation system in the world.

When your confidence is at a low ebb, remind yourselves that in the past 20 years there has been a 78% productivity gain in sheep farming through increase lambing % & increased lamb weights with leaner carcasses. Or from a purely kg's of lamb sold per ewe has increased a massive 92%. Genetics, research into scanning, management of single & multiple bearing ewes, parasite management & techniques, forage & grazing improvements have all contributed to these significant gains.

Investing in productivity gains must continue & I'm excited to imagine what percentages we may reflect on in another 20 years.

What Beef + Lamb isn't

In summing up it is important that I reinforce what B+LNZ can't do for you.

It is not the role of an industry good organisation to reorganise the commercial sector. I know that this is unpalatable for some of you to hear but we do not have the tools to do this job. You the farmers are the only ones who can change the structure & behaviour of the industry as shareholders suppliers of livestock.

And as much as I wish I had, along with B+LNZ, a silver bullet we have no influence on the exchange rate, farm gate prices or the weather.

We all moan, criticize, blame & have our opinions but let us make sure our opinions are well informed before we comment; lets be constructive, lets be positive; lets be longer term in our thinking when we move forward into this new season.

Integrity is all important.

Don't be "sucked" into what you hear at the pub or what your neighbour's doing.

Forward plan – do what you need to do for your business and know that your Industry Good organisation B+LNZ is behind you.

Additional updates

The unspent wool levy of around \$2.8million.

This unexpected unspent levy came about due to wool sale volumes from the time between the referendum last year & when the old levy order ran out in April of this year being well in excess of the volumes forecasted for and increased from the previous years and the reduced expenditure during this time. To return the levies to the levy payers is not a simple or straight forward process and would be a high cost option. Currently B+LNZ Management is completing an analysis of activities that could be funded. These may include transitional funding for wool classers, shearing sports and ensuring that the provision of information relating to wool is continued. These ideas will be tested with the Agriculture Ministers wool group led by Murray Horn.

NAIT standing for National Animal Identification and Tracing.

NAIT is primarily a data recording and collection system. Cattle & deer will be identified with electronic ear tags that have unique identifiers. Specific information related mainly to animal movements will be collected and held in a central data base. The scheme is compulsory for cattle from October 2011 and for deer a year later. Nait is a joint industry/government initiative. The NAIT stakeholders' reference group currently have representatives from DairyNZ, B+LNZ, MIA, Federated Farmers, NZ Food Safety Authority, Dairy Companies Assn of NZ, Deer Industry NZ & the Ministry of Agriculture & Forestry. NAIT will apply only to cattle & deer at this stage -the system however will be designed to allow other livestock sectors to be added in the future if need be..

Australia, UK, Canada, South Korea, Japan, EU, Argentina & Brazil all have mandatory tracing systems for cattle.

Closing

What more of an incentive to stick with beef & sheep than the following sobering statistics. Nationally 1982-83 beef numbers were a bit under 5 million they have dropped to just over 4 million or a 16% loss to the total from 1992 -now 1982-83 sheep numbers were around 70 million they have dropped to currently 32.7million which is similar to the numbers back in 1947. The loss to the total number of sheep from 1992 to now is 52%.Nationally since 1992 the number of dairy cows have increased by 92%. For us here in our region this slide shows increases in Dairy & in beef that is over & above the national trends for the same period. Which indicates greater expansion of dairy & beef including bull beef in Central South Island compared to other regions around NZ. But this final slide shows that although Dairy income has grown dramatically in our area over the past 6 years the overall income (revenue) generated from the sheep & beef sector in our area has also managed to keep pace.

As an exporting nation NZ requires diversity with it exports to spread its risks the NZ economy needs many eggs in its basket. These graphs suggest that things are getting out of balance. We are at a point where our sheep & beef numbers seriously need to be maintained. We farm protein and the world needs protein, so lets farm with confidence.

That ladies & Gentleman is about all I have to say.

I hope I have offered you a better understanding of what your Meat Industry Good Organisation is doing on your behalf.

These are challenging times, but I'm feeling positive & enthusiastic about the way forward.

B+LNZ is focused & determined to deliver.

I am looking forward to working with you & for you.

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