



MINISTRY OF AGRICULTURE AND FORESTRY

MEAT: THE FUTURE

OPPORTUNITIES AND CHALLENGES FOR THE NEW ZEALAND
SHEEP MEAT AND BEEF SECTOR OVER THE NEXT 10 TO 15 YEARS

2009



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A large number of industry experts were either interviewed or surveyed as part of the study. MAF greatly appreciates their input and acknowledges their openness and generosity of time.

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Some photos have been provided courtesy of Meat & Wool New Zealand.

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Policy Publications, MAF Policy

PO Box 2526, Wellington 6140, New Zealand

Tel: +64 4 894 0100

Email: policy.publications@maf.govt.nz

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Pastoral House, 25 The Terrace

PO Box 2526, Wellington 6140

Tel: +64 4 894 0100

Fax: +64 4 894 0742

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FOREWORD

MINISTRY OF AGRICULTURE AND FORESTRY

The meat industry is of utmost importance to New Zealand's economy, and it has been since the *S.S. Dunedin* first set sail from Port Chalmers to London over 125 years ago. In 2007/08, the sector generated \$4.6 billion in export earnings, comprising 15 percent of total merchandise export value. We think the meat industry has great potential to grow and thrive over the next 10 to 15 years, but there are risks and challenges that need to be overcome.

Over the last decade or so there have been many studies of the meat sector that have examined the industry's frustrations and aspirations. A large number have agreed on a diagnosis of its problems, and suggested a plan of action for the way ahead.

This study does not present a plan of action. We believe that farmers and industry, not government, are best placed to make commercial decisions about their future.

Rather, this study provides the basis to understand the challenges the sector faces, with the aim of encouraging debate and conversations about the future beyond next season. We have asked experts in one or many aspects of the meat industry – farmers, processors, marketers and international clients, and even the odd government adviser – how they saw the industry 10 to 15 years from now. And we asked them how that contrasted with what they wanted to see happen, and why.

We have excluded many climate change issues from the paper, due to uncertainty over the international community's response to agricultural emissions and therefore what impact this may have on New Zealand's sheep and beef sector. Instead, we have concentrated on other challenges and opportunities that may face the sector over the coming decade or so, such as profitability, investment and a focus on the market.

The bulk of the research underpinning this report was completed prior to 2008's financial crisis and subsequent economic downturn. Despite a somewhat changing economic landscape, this report looks ahead 10 to 15 years, which means its findings are still relevant today.

This paper distils the results from a survey of experts, as well as some perspectives from the Ministry of Agriculture and Forestry (MAF) on the key issues and global trends facing the industry. We also looked at the data about company performance, at history and at some examples from other countries. We are grateful to everyone who responded to the survey.

Pulling together that information and analysis, we present four scenarios for the future of the meat sector in the next 10 to 15 years. Scenarios are not predictions. Each chooses some key factors and extrapolates from the feedback of our survey respondents, and other data, to ask “what if”.

While these are not predictions, they are in part sobering reading. Despite overall optimism, there are clearly great challenges as well as great opportunities ahead for the meat sector. Here at MAF, we look forward to debating the contents of this paper with the industry, and to identifying areas where there is an opportunity to make a change for good.



Paul Stocks
Deputy Director-General
MAF Policy



FOREWORD

MEAT INDUSTRY ASSOCIATION

In the following study, MAF have set out to “help the [meat] sector to think about the future” by “identifying medium-term strategic opportunities and challenges”. To do so, they have drawn upon the views of key people throughout the industry, and as a result, few of the ideas expressed here will come as a surprise to those involved with the sector.

The Meat Industry Association (MIA) and its members’ role in this report has been limited to participating in the Delphi study interviews. Bringing together key players’ views of “strategic opportunities and challenges” and, through the Delphi technique, ranking them in priority, provides some useful new insight.

The study correctly highlights profitability, and investment in innovation, marketing and supply chains as being key areas for consideration by the sector. While “profitability” is the key issue, it is also a difficult concept to analyse or even describe in a sector where farmers tend to capitalise wealth gains in land value and where cooperative shareholders can in theory trade-off the returns they receive on their farming assets against those they receive on their processing assets.

Profitability is also tightly interrelated with questions of investment, where owners need to balance demands for short-term cash-flow from the industry against investment for long-term yield. We would note that unlike some other primary sector industries, the meat industry has a strong exposure to open markets for capital and therefore, that the level of investment in innovation or markets for instance reflects, to some extent, the equity markets’ appetite for such investment.

MIA would support MAF’s suggestion that the sector also needs to give consideration to maintaining access to key assets that may be underappreciated by some. The sector’s ability to leverage plentiful skilled labour and water, a “clean, green image”, a non-prohibitive regulatory environment and a strong disease-free status are things we should not take for granted, but in which we must continue to invest.

The MIA does have some difficulty with considering this study in the context of the suggestion that the meat sector is broken or “systematically underperforming”. The sector provides a textbook model of a free, competitive market and displays all the ingenuity and efficiencies that accompany such markets. The diversity amongst the industry’s processing and marketing arms, which involve a mixture of public and private companies and farmer cooperatives, enables the industry to capture and utilise the strengths of each of these models. While we undoubtedly have a major challenge in the form of land use change, which stems particularly from the relative returns available from meat and dairy, it is not logical, or fair, to infer that our sector’s people or culture or structure have created that relativity of returns.

Another important point to remember is that, historically, the profitability of sheep farming has been determined by the returns available from several product streams, most importantly meat and wool. In general, today, wool's contribution to farmers' profitability has disappeared, leaving meat to provide the vast majority of revenues. From this perspective, it is completely inappropriate to attribute farmer profitability complaints solely to the performance of the meat value chain.

For all our best efforts, agriculture (with plenty of good company) remains a business where supply, demand and profitability change over time in cycles. The relative profitability of meat, wool, dairy, horticulture and other New Zealand land outputs has changed in the past and it will change again in the future.

Many of the drivers of relative profitability, like world prices, subsidisation and protectionism, are outside New Zealand's control, but that does not mean our sector should not constantly strive to make strategic improvements to its competitiveness. There are hurdles and boosts to making such strategic improvements at both ends of the economic cycle.

This study provides some suggestions on how the sector could make strategic improvements. Giving these suggestions our honest consideration costs little. If the ideas contained here promote some new and constructive discussion and debate within the sector, then the study will have served a valuable purpose.

Tim Ritchie
Chief Executive Officer
Meat Industry Association



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