

WHAT FUTURE FOR

NEW ZEALAND MEAT?

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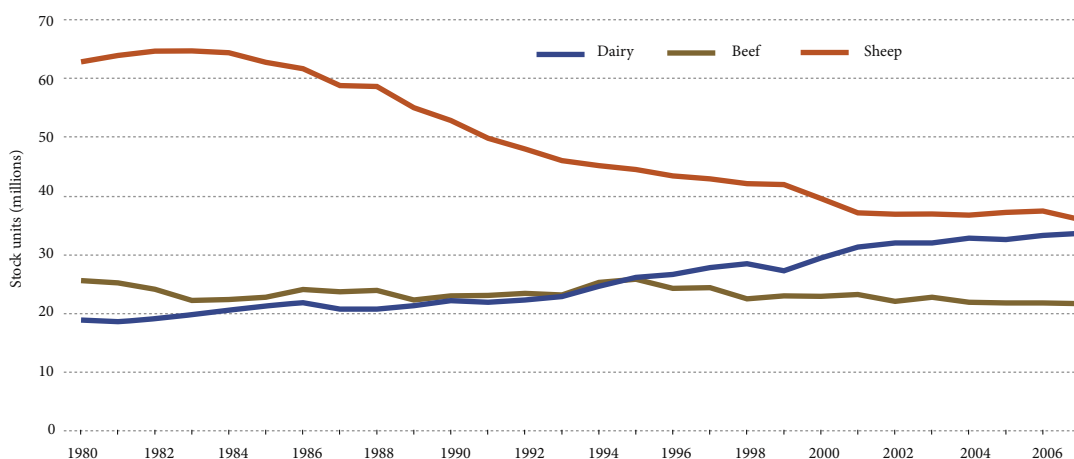
“Major land use changes continue to challenge the stability of supply.”

The many players in New Zealand’s sheep meat and beef sector agree there needs to be greater profitability and innovation for the sector to have a bright and sustainable future. How to achieve this is perhaps the industry’s greatest challenge.

Throughout its history, the sector has faced continual change and uncertainty. In the last decade, sheep and beef farming saw record price highs fall quickly to devastating lows. The exchange rate was cut in half, then doubled and almost halved again. Often, when beef prices were up, lamb prices were down. Meat processors merged, expanded and closed plants. In 2009, most processors’ profitability has been high, when only last year some processors were on the verge of insolvency.

Major land use changes continue to challenge the stability of supply. First came forestation, then dairy expansion, and now cropping is becoming more prevalent in pastoral systems. A changing climate is another challenge for most sheep and beef farmers, particularly droughts. As a consequence, resilience to difficult growing conditions is becoming strained in some places.

FIGURE 5.1: STOCKING TRENDS OVER TIME, 1980–2006



Note
Livestock numbers measured are those of breeding animals.
Source MAF.

But even allowing for all these factors, the industry is considered by many to be a systemic under-performer. In recent years, farmer groups have campaigned for industry reform, but to date no structural initiative for change has gone beyond discussion.

»» THE PATH AHEAD

In response to this dynamic landscape, and to foster discussion and strategic thinking on the outlook of the New Zealand meat industry, MAF has recently undertaken a study looking out over the next 10 to 15 years. The aim is to identify and synthesise some of the main opportunities and challenges facing the sheep meat and beef sector.

Central to the analysis was a Delphi study that drew on the sector's collective knowledge and expertise on New Zealand's sheep meat and beef production. It involved surveys of farmers, processors, stakeholder groups, researchers, observers, Government, international contacts and customers.

Table 5.1 shows the top 10 factors of strategic importance to the future of the sheep meat and beef sector, ranked by survey respondents.

»» TABLE 5.1: TOP 10 FACTORS OF STRATEGIC IMPORTANCE IDENTIFIED IN THE DELPHI SURVEY¹

FACTORS OF STRATEGIC IMPORTANCE	RANK
Sheep and beef farm overall profitability	1
Investment in sector research and development	2
Meat processing companies' overall profitability	3=
The importance to sales from using "New Zealand" in branding	3=
Reliance on generating and growing new markets to sustain the meat sector	5=
New Zealand ownership and control of sheep meat distribution and marketing networks and firms	5=
Level of co-operation between NZ companies to develop and sustain marketing internationally	7
The reliance on producer and processor efficiency to sustain the meat sector	8
Use of forward supply contracts for supplying livestock to processors	9
Marketing expenditure as a proportion of total expenditure by the sheep and beef sector	10

Note
1. The rankings were established after the second survey asked respondents to reassess their answers after seeing the results of the first survey.
Source MAF Delphi Study, 2008.





»» PROFITABILITY AND INVESTMENT

It's not surprising that respondents saw on-farm and processor profitability as very important strategic factors for the future of the industry. But responses also highlighted perceived investment priorities, such as research and development and growing new markets. Structural issues, including ownership of distribution networks and international marketing co-operation, were also raised.

The priorities highlighted in the survey bring to the debate tradeoffs that the industry must consider. For example, should the industry wait for higher profits before investing in a step-change in innovation? Or, in the case of co-operatives, should farmers forgo a greater proportion of short-term returns in favour of co-operatives retaining more profits to reinvest in their future?

The reliance on producer and processor efficiency to sustain the meat sector was ranked as the eighth most important strategic factor. While productivity improvements will be important to remain competitive, the thinking among respondents is that the sector's future is in creating more-value products, rather than competing on price and cost alone.

REALISING THE VISION IS THE CHALLENGE

Respondents to the survey settled on a collective vision for the sector in 10 to 15 years' time:

An economically and environmentally sustainable industry that invests in innovation, has a greater focus on the market and is more co-ordinated across the value chain.

Unfortunately, respondents were not confident that this vision will be achieved. The majority thought the culture of the meat industry was a major constraint for achieving the vision. In spite of this, two-thirds of respondents still agreed the sector would be a good investment in 15 years' time.

By and large, respondents predicted small incremental change into the future and thought that more radical changes to the sector are less likely.

»» THE CONSTRAINTS

The study also looked at the current system and some of the constraints and benefits that are inherent within it, the first of which is the market and trade environment. The sheep meat and beef sector relies heavily on a small number of traditional markets, although there has been recent growth into new markets, particularly in Asia. The sector also faces a variety of international competitors, and competes against a number of other protein sources. This suggests the sector will need to find ways of adding more value to products.

»» **TABLE 5.2: SHEEP MEAT AND BEEF PRODUCTION AND EXPORT VOLUMES FOR SELECTED COUNTRIES**

COUNTRY	SHEEP MEAT			BEEF		
	SHEEP NUMBERS (MILLION)	PRODUCTION VOLUME (000 t)	PERCENTAGE EXPORTED (%)	BEEF CATTLE NUMBERS (MILLION)	PRODUCTION VOLUME (000 t)	PERCENTAGE EXPORTED (%)
New Zealand	40.7	525	90	4.4	534	83
Australia	93.0	626	53	28.0	2 000	64
Brazil	–	–	–	195.0	8 900	29
Uruguay	11.1	140	11	11.7	1 151	78

Symbol t = tonne.
Source AgResearch 2008.

The second major set of constraints relates to processors. They face certain capital constraints that limit their ability to invest in areas such as innovation. Farmers in particular lack incentives to invest in their co-operative-owned processors, leading to a situation where such co-operatives may be unable to reinvest at the desired rate.

A meat processing industry that is larger than the supply of animals for processing can also lead to lower profits for meat processing firms, limiting their ability to invest in the future. The dynamics of seasonal overcapacity, combined with the allocation of quota, encourage spot market relationships between farmers and processors. Business models become driven by production. All of this detracts from value-enhancing strategies over the longer-term.

The engine room of the meat industry, the on-farm production system itself, places a third major set of constraints on industry performance. Land use change to competing uses means that sheep and beef farming



now depends more on extensive hill country than in the past. This reduces access to lower-risk finishing land. Furthermore, if future forestry returns improve, then sheep and beef farming could also feel the squeeze on more marginal hill country.

The cost and security of the supply of inputs such as water and fertiliser will probably be an important issue in the future, as will the number of staff and their capability. MAF is continuing to explore how secure these inputs are likely to be.

Constraints don't just exist at various points along the value chain; they also exist in the interrelationships across the value chain. For instance, processors see benefits in being able to elicit long-term supply commitments from farmers to ensure certainty of supply. At the same time, processors face short-term financial incentives to procure on the spot market, which maximises the use of capital and provides the best access to quota markets.

Overall, numerous opportunities appear to exist for the sector to become more aligned and better connected across the value chain and to create greater value. Together, these will generate higher returns to the sector.

»» WHICH PATH?

The meat sector study concludes with a set of hypothetical scenarios designed to encourage debate and highlight future strategic issues and challenges facing the sector. There are, of course, a multitude of other possible scenarios and the industry has a number of choices in determining its own future.



A SUMMARY OF FOUR SCENARIOS

- › **SLIPPERY SLOPE:** Failure to address key opportunities and challenges substantially reduces the sector's size and scope. Profits not only retain their cyclical variations, but become systemically lower.
- › **NEW MARKET ORIENTATION:** The sector is able to diversify into new markets and overcome the production challenges of greater year-round supply and product specification. Improved economies of scale lead to successful consolidation of processors.
- › **SHRINK-TO-FIT:** The sector reduces in size, but is able to stabilise due to increased returns from reduced supply. Competitive advantages are achieved in areas such as environmental performance, and the sector is able to meet specific customer demands in traditional markets.
- › **THE KNOWLEDGE INDUSTRY:** The sector makes a step-change in innovation investment, resulting in more innovative processes and end products. More strategic alliances are entered into with customers, and their needs are better met across the value chain. Increased capability and intellectual property from research and development allows the meat sector and associated industries to internationalise.

While the sector faces major challenges over the coming decade, the study identified a generally positive tone in people's perceptions of the industry's future. However, all the optimism in the world will be worthless if a "business as usual" approach is adopted.

New Zealand should be able to maintain a comparative advantage across much of the value chain and be at the forefront of high-quality, sustainably produced meat, which in turn will reward farmers as they meet consumer expectations in both traditional and new markets. For this to happen, there needs to be not just a vision, but concerted leadership and action that anticipates and responds to the challenges of continual change.

More online

More information on the Meat Sector Study can be found on the MAF website at:

www.maf.govt.nz/mafnet/publications/meat-the-future/index.htm