

Chairman's Speech – July 21 2008

Good Morning Ladies and Gentleman, delegates, fellow producers and other industry participants a warm welcome to this the New Zealand Pork Industry Board's 10th annual general meeting and conference it's great to see some ninety odd attendees here. For those of you from out of town welcome also to Christchurch and Canterbury.

The first day of this conference provides the opportunity for all parts of the value chain to come together and consider the challenges and opportunities facing our industry, to network and identify ways by which we better cooperate to grow all of our wealth.

The second day is dedicated to producers to allow us to consider in more depth how some of these issues impact on us and our response.

The theme of our conference is Consumers. Costs, and Competitiveness. It recognises the three key elements that drive all of our businesses, and the relative profitability of them. The strong focus on consumers is appropriate as consumers themselves, those that deal directly with them and those that influence them are ultimately the

determinants of our success. On the other side of the ledger is our cost structure which has changed dramatically during the last 12 months and is certainly constraining our profitability. Our biggest cost being feed, is therefore an area where we need to be informed and leave no stone unturned, and I'm certainly looking forward to that session later today. Lastly you only have to look at the 800,000kgs per week of imported pork that flowed in to our country last year to recognise that we're in a global industry and therefore understanding our competitiveness is a critical exercise for the industry.

These are very trying times. Globally the pork industry is under extreme pressure and in response we have seen a significant reduction in pig numbers and production in the EU. Canada has suffered similar economics but a 1 to 1 exchange rate and country of origin labeling in the US has only tightened the economic screws. This has seen a rapid uptake of exit packages offered by the government. The US has been the last to see the full effects as increases in production, strong domestic demand and a low dollar making them a very competitive exporter. However the worldwide shortage of grain combined with explosion of the biofuels industry has seen the US producer facing a fourfold increase in their grain inputs.

Domestically, these are hard times, certainly the hardest times I've experienced during my 29 year pig farming career. It has been good to see our schedules start to lift and the notice of further lifts in coming weeks. You are as well aware as I am, that we need many more weeks of increases especially as we look forward to the new grain production year. Schedules need to rise in excess of \$4.00 to see the industry just treading water and with beef, lamb and chicken prices well north of this figure pork would still be the most competitively priced meat protein on the market. The situation has been well communicated to retailers, processors, wholesalers and the wider community. However the supply and demand situation has been such that all participants have been under real pressure. As you will see in an analysis presented later, we are more and more reliant on the fresh market, and our extra supply came at a time when sales are traditionally quieter and consumer spending has been tightened by an economic recession which is forcing down household meat purchases.

Globally however things are starting to bounce back, the European schedules have seen consistent rises and the drop in supply gives them confidence that this will continue, we've seen \$100 futures in the US and the Australian schedules have seen increases every week for the last seven weeks. I note prices for lighter pigs in NSW rose 29cents last week and heavier pigs by 15cents. Intelligence out of Australia suggests

this is a response to supply issues with significant concerns expressed about the ability to supply the domestic fresh market demand. This supply squeeze should have an upside for us with reduced exporting to New Zealand, already we are starting to see a hint of this.

The feed supply situation continues to concern us all. It is not only the price but the availability of grain and other inputs that is problematic. The combination of world shortages, particularly in Australasia, the drought in New Zealand and a rise in the milk solids payout every time you pick up the paper has put unprecedented demand on local grains. However the domestic situation is really a mini global example. There is no doubt that grains have reached a new level. The cost of production, the competition for land and the competition for the grain will ensure prices remain in this ball-park for some time yet.

We have sought to provide as much intelligence as possible to producers about the grain situation, increasing this to a weekly email over the last few months. I would like to publically thank those industry participants that provide input on a weekly basis, those Friday's always seem to come round very quickly. One thing that has been frustrating has been the lack of accurate information on our own grain industry. It is easier to source information about the Australian industry to our own, this has

provided a real challenge and is an important area for further work with fed farmers and the grain industry. In my opinion good accurate information allows all participants in the value chain to make better decisions. One advantage of the world grain price explosion is that it has brought international prices more in line with our own and should somewhat level the cost of production playing field. However unless we take advantage of the technology available this competitiveness will be short-lived. It is also a priority for us to work with the grain industry to increase yield and quality and the introduction of GM grains needs serious consideration to ensure a sustainable and competitive domestic grain industry – a must for our industry.

Consideration of feed alternatives and alternative sources will be a critical aspect of our feed situation this year and just this week the Board has identified an industry group to share notes and explore opportunities for the industry to work collectively to procure feedstuffs and identify opportunities for cost savings to be delivered to the individual. John Russell from Tegel will speak to us later, Tegel is not immune from this situation and I look forward to John's thoughts on the prospects and opportunities.

As expected during this crisis the Board set about reviewing the promotional options to enhance demand. Of particular concern was the level of frozen stocks and the

pressure these stocks would put on the current schedule. Also of concern was the indicated exits from the industry which surveys showed were sitting between 10 and 15% of sows and would have significant consequences for dare I say it the industry's critical mass. As I said earlier this crisis was unprecedented as the combination of cost and price pressure was being exerted at the same time. We had already upped the marketing investment in the new year in response to producer and wholesaler demand. We met twice with wholesalers and at the second meeting had retailers and processors present to assess options for extra advertising spend considering all avenues from TV, radio to press to bus-backs. An option that emerged from discussions was an opportunity for the Board to work with processors and wholesalers to substitute domestic product in place of imported frozen. My belief is that this investment prevented a further fall by as much as 20 cents and in that regard was one of the better marketing investments we have made. To me there were two significant observations from this process: (1) was the cooperation between the Board, wholesalers and processors and (2) processors standing up and making a significant commitment to our industry.

At our ADM's in May producers raised questions about the level of investment in marketing and its benefit especially given the current prices and the continued influx

of imports. This is a fair question, as producers we are assessing every dollar we spend on farm it's reasonable to question our off-farm investment in marketing. In response to this management have contracted McDermott Miller a strategic marketing company with economics competency, to review the effectiveness of our marketing activities from 2003–2008. They will bring that review to us after lunch. This was on the back of quantitative research from Nielsen and an assessment by staff across retailers, wholesalers and processors of the destination of the 50,000 t of domestic production and how that has changed over time. I don't want to steal their thunder – but the essence of the analysis shows a significant shift of product into the fresh market over the last five years and there is no doubt the our marketing has assisted that shift successfully.

The processing market is a critical outlet for our products though and the Board this year determined to mount an offensive against the imported product based around country of origin and differentiating local product. Country of origin is an important consideration for NZ consumers. That in combination with our Lesnies New Zealand bacon of the year competition and the associated media campaign has helped to raise awareness of imported product and we are seeing a response from processors with both labeling and product lines. Against this backdrop the registration and availability

of Paylean for producers brings an interesting discussion point for the industry and whether there are any risks to our differentiation position. You have some background information on Paylean in your conference papers and I look forward to your constructive discussion of this issue during the conference.

Marketing is our largest area of investment, in my view we have run an effective programme over the last year but with greater research and an independent review, management have asked some hard questions about how the effectiveness might be increased, I look forward to your response and ongoing input into what is presented today. I acknowledge Tim Donaldson from Foodstuffs and Nick Harris of Heller Tasty in anticipation of what I am sure will be an insightful assessments on where they see the future challenges for fresh and processed product.

The second biggest investment this year has been on biosecurity related issues and in particular PRRS. At this time the issue is still not resolved. As time goes on the scientific evidence builds to back our contention that there is a unacceptable risk of PRRS infecting our national herd should the currently proposed Import Health Standard be put in place. Just last Monday I spent time with Vietnamese scientist Nguyen van Long who has been intimately involved in research and management of the Vietnam's recent PRRS outbreak. He was also able to provide useful information on China's PRRS

catastrophe. The discussions confirmed that this disease is unpredictable and the consequences can be disastrous. When considering the scientific evidence and the reasonable protections available under the SPS agreement I can only conclude that trade considerations are overriding biosecurity ones. The Beekeepers case seems to back up this contention. However other industries are waking up to what they see as two disconcerting case studies. Following a court case loss to the beekeepers in late 2007 the government sought to change the Biosecurity legislation under urgency in March. However the select committee headed by David Carter (National's Agricultural spokesman) insisted on a hearing. The result was that 50 odd submitters expressed concern and through a well coordinated effort with other industries we saw an independent review clause added to the Biosecurity Act and assurances given by the biosecurity minister in the house that our industry would have this option available to us.

We completed a robust and detailed submission on the draft IHS as did many of you and we now await MAF's response to that. It was notable that several other industries also submitted against the proposed IHS. Should MAF's response fail to manage the risk adequately we will progress to the independent review and still have a judicial review option post that.

In the meantime the ombudsman has acknowledged that there are grounds to investigate the process used by Biosecurity NZ in developing the Import risk assessment and the draft import health standard, we look forward to the results of his investigation.

During the year the Board has intensively reviewed the strategic plan undertaking a detailed analysis of each goal and associated objectives and strategies through our six board meetings. The result is that what you will be asked to approve at this conference and Hadleigh and Sam will put some more detail around specifics in the marketing area during today's session. While at present it is hard to look past the current crisis the Board convened an industry wide workshop to look forward 10 years to 2017 and consider what the most important issues the industry must address to achieve sustainable wealth. Aside from the current strategies four stood out: the need to enhance the eating quality and consistency of our product, the need to develop retail ready branded products that better meet the need of consumers, the need to secure on ongoing commitment by processors to NZ product at an acceptable price and the need to work collectively as an industry to develop feed stuff supply chains that offer acceptable quality and price long-term.

I believe that your investment with the Board has delivered benefit, this past year across a wide range of activities whether it be through producer workshops, training, regulatory issues; be they animal welfare, food safety, biosecurity or environmental considerations. The analysis and reporting available to the industry has taken a step forward and the profile that both the industry and our products have received has seen an unprecedented level of media coverage and increased consumption on the back of a sound marketing campaign.

However despite this the present makes for extremely difficult production conditions. The conference this year has been developed to provide you with up-to-date intelligence as you chart your way forward. I look forward to the speakers and to the discussion and debate that follows, and all of your input into the Boards investment and activities over the last year.

In closing I would briefly like to acknowledge two retiring directors who have made a tremendous contribution to the Board and our industry. This is Graham Taylor's and Colin Kay's last official meeting as directors and we will take the opportunity to recognise their achievements in more detail this evening. I also welcome Ruth Lee and Steve Kidby who will join the Board at our next meeting and also look forward to their input.

My thanks to all of you who are here today and I look forward to an excellent conference. Special thanks to the presenters who have made themselves available and to our sponsors for getting in behind this conference.

I now submit this report for your approval. Could I please have a mover and seconder for the adoption of this report.