

HORIZONS IN LIVESTOCK SCIENCES CONFERENCE

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OPENING ADDRESS

Fast Forward Limited is aimed at harnessing public and private sector investment, in partnership, to drive transformational change in the New Zealand economy from its pastoral and food industries. It is said that with the \$700 million committed by the Government, together with counterpart contributions from the private sector, the partnership investments have the potential to reach \$2 billion over 10 years or so. This is a significant initiative, which has support from all of the major participants in the pastoral, horticultural and aquacultural sectors, including the Meat Industry Association of which I am also Chairman.

Management of the investment of the Government funds has been entrusted to a separate company, Fast Forward Fund Limited, from which Fast Forward Limited will draw down monies as required by individual programmes and projects it has approved.

These will be developed for consideration by consortia of research and technology providers and private sector investors, and the programmes and projects will have to be:

- transformational;
- additional to "business as usual" r&d expenditure;
- contribute to the sustainability of New Zealand's natural resources;
- lead to enterprises with a significant international presence.

So why does New Zealand need this kind of initiative, now.

I often reflect how much we take for granted these days the contribution which our pastoral and food industries make to the economy – 50% of our exports; 20% of our employment when related services are included.

And how much we fail to understand that if our economy is to grow, if we are to achieve and match the economic performance of the countries against whom we benchmark ourselves, if we are to retain the people we educate and train in New Zealand, then central to that transformation will be our pastoral, horticultural, and aquacultural sectors, and the processing industries which create food products to meet the increasingly sophisticated demands of the world's consumers.

The point is that we do not have a wide range of resources outside the primary sector we may call on, nor a significant home market on which to base this growth. I never cease to be impressed with how well we do in IT, biotechnology and medical research, but in these knowledge based industries people are the principal resource, and there is nothing uniquely "New Zealand" about what they do. And while we may generate a "Nokia" or a "Samsung" distance from the market is a constraint, and our people tend to get sucked abroad as soon as they become successful.

If we are to grow, our people need resources to work with, and something to sell.

Secondly, while commentators have been observing for some time now that New Zealand must lift itself up the value chain for its food products, the fact is that we haven't made all that much progress. One simple statistic says it – only 20% of our lamb is exported as chilled product ; the remainder is still exported in frozen form to a declining retail market, or to overseas re-processors and re-packers who regard it as an ingredient rather than a consumer product in its own right.

Now, New Zealand cannot feed the world. We are a small country, and there is only so much we can expect from our soil and water. So we have to make sure that what we do produce finds its way into high margin products, and is directed to those who will pay most for them. If we don't then we will continue to be an ingredient supplier at the commodity end of the chain, with others taking the margins from transforming our ingredients into valued consumer products.

Thirdly, while New Zealand is one of the leading nations in the world for agricultural research and development, most of this until now has been at the production end of the spectrum. This has resulted in huge productivity gains from farm mechanisation - we have only to reflect on the

transformational impact of milking sheds and equipment, tanker collection, on-farm constant temperature storage, aerial topdressing, and the humble farm bike – and possibly even greater gains in livestock quality and productivity.

And in milk processing in particular the industry has made tremendous gains in efficiency of production across an increasing range of products.

What we face now however, is a new range of challenges if we are to meet the demands and expectations of the world's food consumers, and this will require starting the process at the marketing rather than the production end of the spectrum.

In brief then, our pastoral and food industries have always been the backbone of New Zealand's economic capability, they will be at the centre of our future growth. The key is to determine ways of adding value to our capability, of moving our products up the value chain, and of finding out what the market wants, rather than making more of what we can produce.

This requires a quantum shift in the way in which we address primary sector research and development, and a quantum leap in the amount of funding we dedicate to the task. That is what the Fast Forward public-private investment partnership is all about.

I am not certain I need to explain this to this audience, but discerning consumers today expect their food:

- to be fresh and well presented;
- to meet the highest hygiene standards;
- to be beneficial from a health and nutritional standpoint – or at least not bad for you – albeit that it must be a matter of personal choice as to whether one eats food which is either good or bad for one's health;
- to be free from disease, with no harmful additives, and with any chemical residues well within acceptable tolerances;

and they want to know that the food has been grown under conditions which will sustain the planet's essential resources – soil, water and energy.

Meeting these expectations will require levels of research well beyond that on which our farm production and productivity as been based.

Consumers are increasingly bombarded with a bewildering array of medical science, some of it pseudo, advocating that certain foods not be eaten, or the consumption of supplements of one kind, and the food industry needs to have its own research with which to assess this information. Those of us in the livestock industry are getting a little tired of red meat being blamed for everything from varicose veins to the virgin birth, or at least cardiac arrest to carcinoma of one kind or another. Given that humans have evolved over 3 million years to eat meat, I find it difficult that we should now be saying that the evolutionary process got it wrong, but let me not distract us with this aside.

And finally, in addition to the demands I have just listed, consumers are looking for food which requires little subsequent preparation. Ready to heat or ready to eat are an increasingly presence in the supermarket trolley. People who will do best in the food industry are those who will create variety in such products.

Can we meet profitably all of these requirements?

Well of course we can, but there is much more to be done:

- identifying market opportunities with potential for New Zealand;
- harnessing the research and development required to know we can realise that potential – on farm, and in processing and marketing; being opportunistically promoted by domestic producers and gullible journalists in some of our markets;
- ensuring that in meeting the opportunity we sustain our essential resources;
- managing the “food miles ‘ propaganda
- eliminating unnecessary cost and maximising productivity;
- finding investment structures which will lead to scale in the initiative and more New Zealand international enterprises or partnerships.

Fast Forward is aimed at establishing programmes between the government and the private sector which will address all of this work.

Unusually, the Government has entrusted the Board with the task of defining the strategy for the initiative. The Board plans to produce a discussion document by Christmas, to consult with cornerstone shareholders and other stakeholders in January and February, and to present a strategy to the Government for endorsement thereafter.

In its work, the Board needs to define:

- what will constitute transformational investment in research and development;
- principles to ensure that the investment is additional to that which is already undertaken by CRIs, Universities and companies;
- principles for the transition of investment funds from front end research to product and market development , and the respective contributions of Fast Forward (the government) and the private sector investors at each stage through the transition;
- principles as to what constitutes the sustainable use of resources;
- benchmarks as to scale and presence on international markets.

I do not wish to foreshadow where the Board will finish up on these issues, or the outcome of the consultations which will be held. Nor do I wish to speculate on what kinds of projects or programmes may come before Fast Forward when it is in business except to say that I believe that the transformational initiatives will fall into 3 broad categories:

- Those which result in different uses of or natural resources, as for example, the conversion of pastoral land to viticulture in Marlborough and Hawkes Bay, and to kiwifruit in Bay of Plenty;
- Those which result in serious productivity gains by removing major costs for production and processing, or opening up new logistic efficiencies;
- Those which result in the more substantial processing of primary products into consumer products.

Now, since this is a livestock sciences conference, let me create a straw man.

We know that most of our markets for sheepmeat and beef are concerned with endemic obesity in adults and children, and that animal fats are being demonised as one of the causes. We are told that in consequence grass fed beef is becoming increasingly popular with health conscious consumers in

North America, and that it is now attracting premium prices. So there could be a market opportunity for New Zealand grass fed beef. We already know that the market already has a strong preference for lean lamb.

So, instead of exporting lean beef to the United States for hamburger patties, which is what we do now, earning around \$750 million a year, we might be able to develop as well a significant market for specialty range fed beef cuts.

The challenges would be several however:

- to develop a product which has attractive presentation, tastes somewhat like grain fed beef, and is tender;
- to develop refrigeration services which extend throughout the market chain from processor, to ship, to inland carrier in the market, to the supermarket cabinet or restaurant – and which provide a sufficient chilled product window to allow efficient supply and marketing;
- to develop a marketing campaign which sells not only the product but also captures the value to the consumer of the environmental integrity of the conditions under which it was grown, processed and delivered.

We know we can handle the product development and distribution aspects.

Much of the value in New Zealand's pastoral and food products has been developed on farm – for example, through the selective breeding of animals, designer nutritional programmes to produce highly specified meat or dairy products; and through the selection of animals for slaughter based on age and expected flavour, and the tenderness profiling of meat products depending on whether they are to be exported in chilled and frozen form – and so on.

The refrigeration industry is already addressing how to prolong the storage and shelf life of chilled meat in the face of moves by the shipping industry towards slow steaming to conserve energy.

So we would need to apply our experience and skills to a new endeavour. And we would need to do it better, and faster, than our competitors – or maybe in partnership with them.

We would also need to work on the relative economics of beef as against dairy production, and on the processing consequences. And we would need to develop a profound understanding of the sustainability issues.

Normally I would be advocating that all these challenges be left to the market to address and reconcile. But such is the breadth of the work to be done, there is a case for a concerted and collaborative programme of research and development, first to identify and establish the market opportunity and then the means of realising it.

Now, my grass fed beef straw man could well disappear in a puff of smoke with no more than a few minutes more reflection, and he may be “business as usual” rather than transformational.. But I created him to give you a feel for the breadth of a research programme which may be transformational.

I could create another one aimed at producing salty lamb (agneau du sel) on coastal farms facing the Tasman Sea, to match the famed product from the Brittany coast in France, but I think you get the idea.

Can I just conclude this point however, by reminding us that none of the effort would be productive unless the marketing were aimed at capturing the whole product value. It would be a wasted effort to develop a specialty livestock product and still have it marketed as a commodity.

The Report of the Fast Forward Establishment Group sees economic transformation as being concerned with migrating a country’s product and export mix of goods and services towards those that provide higher value returns – typically products which differentiate on the basis of innovation and integrity rather than price. I think I would have talked about products whose innovation and integrity is reflected and captured in the price.

Our Chairman for this morning, Dr Andy West, in address to the Meat Industry Association Annual Conference last month, posted a vision of doubling the value o a sheep by 2020 while doubling the efficiency of production. He coined a slogan of “the world’s most discerning consumers with the world’s most desirable sheep products”.

He talked of a knowledge intensive, vibrant and confident industry, crafting superior quality and unique meat, leather and wool production from New Zealand pastoral systems, by using information more intensively than we do now, with new technologies and knowledge derived from that information. Note the re-emergence of leather and wool as valuable products.

He posited an integrated value chain driven by demand and supply, with information flowing in one direction, and product in the other, so that precise product is supplied as close to when required as possible. In the meat works he sees non-invasive scanning, new chilling and storage technologies, and on the farm, single nucleotide polymorphism genetic technology for sheep.

You won't be surprised that he sees Agresearch playing a big part in making this happen, and so he should.

I repeat this, in very summary form, simply to give some substance to the view that more science and more technological development can add value to our core products, and to remind that if we don't do this, we will have failed to make the best of them.

Let me turn now to the matter of scale.

Last Monday evening I had the honour of speaking at the Massey Foods Awards and sharing in the exuberance of that splendid biennial occasion. We recognised and applauded a fascinating array of innovative food and beverage products. Obviously as new products none had achieved any marketing scale. These products- mostly from small and medium scale enterprises - don't have to capture the world, and a small bit of it would doubtless transform them. But to be transformational for New Zealand we need a lot of them. So we need to establish a technological infrastructure which will allow our innovative and creative food technologists to keep generating new products, and we need to establish investment pathways for the few with potential for a significant presence on world markets.

Much of what I have said this morning is not new for our pastoral and livestock industries. I think we could find papers delivering the same message half a century ago. And many of our exporting companies are well down the track.

What is new is a realisation that if we are to make progress, we would do best with a focused collaborative effort between the government's research provider agencies and business which, starting with the identification of gaps in the market, will span the full spectrum of scientific research and technological development, and enable New Zealand to maintain its position as one of the world's leading food producers, and consolidate its reputation for being so in a way which respects our resource endowment.