

**UNLOCKING
VALUE** 

**MEAT INDUSTRY
BRIEFING 2014**

mia
Meat Industry Association



25,000 +
EMPLOYEES
MOSTLY IN REGIONAL NEW ZEALAND

our
LARGEST
manufacturing
INDUSTRY



2nd
largest
MERCHANDISE EXPORTER
\$6.3b exported in 2013

8% **ANNUAL**
EXPORT VALUE
GROWTH
AVERAGE (\$US) 2002-2013

86% **of production**
EXPORTED
TO OVER 120 DIFFERENT MARKETS

major
TECHNOLOGY
+SYSTEMS
investment



Red meat.

A dynamic, highly competitive export industry and a large regional employer.

High growth potential

Global demand for high-quality protein is increasing rapidly and, with a reputation for the highest standards of food safety and integrity, the red meat sector – working with government – is well placed to drive growth in jobs and exports for this country.

97% of red meat exports are shipped after value has been added to them by the industry's more than 25,000 staff. This is achieved through understanding customers and markets, and being able to deliver to their specific needs.

Facing some major challenges

The meat industry has continued to innovate and drive good export and revenue growth over recent years. The sector has struggled to be consistently profitable, however, due to challenges ranging from increasing market access costs through to the high New Zealand dollar. Rising dairy returns have continued to drive conversions away from sheep and beef farming.

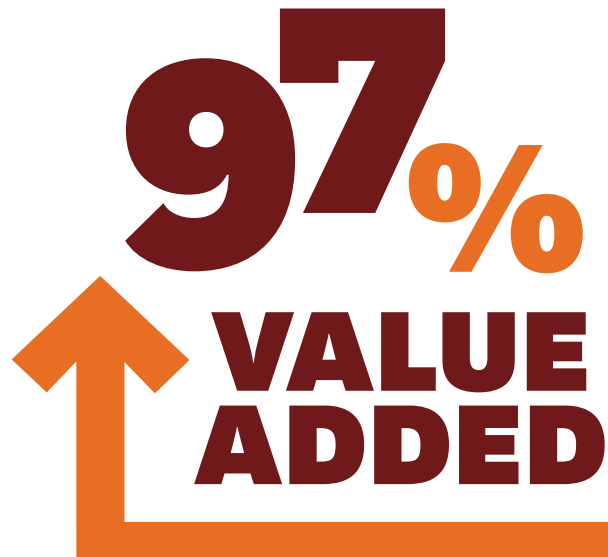
It is in New Zealand's best interests, for economic, environmental and social reasons, to have a profitable sheep and beef sector.

In the face of environmental, regulatory and above all land-use challenges, it is imperative that central government and industry work together to maximise the overall return of the sector to New Zealand.

Areas to address

This document indicates ways that central government can assist the red meat industry to thrive, in five key policy areas: Workforce, Regulation, Environment, Innovation and Trade.

We welcome discussion on these issues.



97%
**VALUE
ADDED**



Workforce.

The meat industry employs approximately 25,000 individuals, making it the largest manufacturing employer in New Zealand.

Over 50% of the workforce are members of the Meat Workers and Related Trades Union (MWU) and are covered by collective agreements.

High workplace productivity

In 1980 the volume of meat exported per worker was 23 tonnes; in 2013 the volume was 43.2 tonnes of a much more valuable product: a productivity gain of at least 88%. A typical meat worker now processes 130 sheep a day, compared to 55 in the 1980s.

Looking after staff

On its own initiative the red meat industry established the Meat Industry Health and Safety Forum, which brings companies, unions and central government together to assist in managing industry health and safety. In 2013 the Forum developed the Meat Industry Health and Safety Guidelines; these were formally endorsed by the MIA and MWU.

The meat industry is strongly committed to training. Workforce training not only develops staff for their immediate role, but also gives many people the opportunity for second-chance learning and career paths.

The majority of meat processing companies participate in the ACC Accredited Employers Programme, insuring their own workforce for statutory entitlements (thereby relieving ACC of the obligation), and taking on greater responsibility for preventing injuries and promoting rehabilitation in the workplace.

Committed to ongoing training

The meat industry is committed to workforce development: 4,391 workers in the meat and leather industries took part in New Zealand Industry Training Organisation courses in 2013, making up 74% of their total students.

Tertiary Education Commission statistics for the year to March 2014 show the meat processing industry achieved a 91.75% credit achievement and a 100% completion rate for NZITO courses. This compares to the 2012 “all industries” figures of 70%.



88%
PRODUCTIVITY
GAIN

Muslim slaughterers vital for industry

Approximately 19% of meat exports in 2013 were certified as halal, enabling approximately \$1b of exports – but the vast majority of exports were processed in a halal manner, to ensure the flexibility to send different parts of the carcass to halal markets, when those markets paid the best price.

This model has enabled the industry to derive additional export revenue. It is a regulatory requirement for halal processing to have a Muslim slaughterer, but finding and recruiting enough suitable individuals in New Zealand has not been possible.

Each year, in order to receive an “Approval in Principle” to allow overseas recruitment, the meat industry has to provide sufficient evidence to satisfy the “Labour Market Test.” This is heavily resource-intensive and provides no certainty of access to what is a fundamental labour force requirement. It is equivalent to 0.5% of the workforce, but enables the industry’s business model of maximising the return for each carcass.

Putting halal slaughterers on the long-term skills shortage list, or establishing a small special immigration programme, would greatly facilitate the important and growing trade with Muslim nations and provide labour stability to the industry as a whole.

Halal slaughterers give the industry flexibility to service many markets.

Jobs in rural communities

Bryan Cadogan, Mayor of Clutha, has acknowledged Silver Fern Farms’ work with the community’s “Ready, Steady, Work” programme to provide regional employment opportunities. A new sausage casing facility, established at Silver Fern Farms’ Finegand plant in October 2013, has provided 40 new jobs.

“We have a Mayor’s Taskforce for Jobs initiative for Clutha, which is aiming for zero unemployment for youth in the Clutha District. Silver Fern Farms have been a supporter of this programme from the start. These 40 new roles in our district will be a great help for our ambitions of realising this goal.”

Silver Fern Farms’ chief executive Keith Cooper says it makes good economic sense too.

“It will create value from a product that will add to the profitability of our sheepmeat business in the short to medium term.”



Looking after staff health

Auckland Meat Processors (AMP) has implemented a Wellness Programme aimed at encouraging employees to adopt a healthier lifestyle.

It involves baseline screening for diabetes, weight, BMI, muscle mass, waist measurement and blood pressure. Presented with these results, employees were encouraged to identify their personal health goals, and were supported towards them.

AFFCO runs a similar programme for its staff in Te Puke; the checks are encouraged by management to help staff be aware of the importance of taking control of their health.



GOVERNMENT CAN HELP BY:

With respect to Worksafe New Zealand:

Identifying workplace risks and making policy decisions based on accurate data that is verified by all relevant parties, including industry; and having transparent policy on how the information Worksafe gathers during education or collaborative activities with industry can be used, especially in enforcement action.

Recognising the long-term shortage of halal slaughterers and working with the meat industry to implement a special immigration programme for Muslim slaughterers

See explanation on page 5.

Reduce the Residual Amount payable by AEP members

The Residual Amount paid by Accredited Employers has been set too high, and the associated levy therefore acts as a cross-subsidy for the general Work Levy paid by standard employers.

It is estimated that this cross-subsidy could be costing MIA members up to \$6m per annum for belonging to the AEP, rendering the employer incentive scheme an ineffective tool for improving workplace safety – a perverse outcome.



Regulation.

The meat industry is one of the most heavily regulated industries in New Zealand.

Government involvement adds value and cost

Regulation delivers value – enabling access to markets and maintaining New Zealand’s premium global positioning – as well as adding cost, including direct costs for government inspection and supervision of around \$87m per year.

Given this total cost to industry, it is critical that constant attention is given to providing these services efficiently and cost-effectively, without compromising the essential food safety assurances given by the programme.

A world-leading system

New Zealand is recognised as an international leader in regulatory systems associated with the meat industry, from animal welfare right through to food safety. Maintaining this performance is critical for market access and reputational reasons.

Similarly, it is imperative for the industry’s survival that New Zealand’s biosecurity status is kept at the highest levels, without breaching our international trade obligations.



\$87^m
FOR
GOVERNMENT
SERVICES

Industry asks to be regulated

On occasion, the meat industry has asked central government to regulate, where this would add value. For example, prior to 2009, a fragmented halal certification system resulted in the Malaysian Government banning most New Zealand meat plants from supplying product to their valuable market.

The meat industry requested government intervention. The end result was the Halal Export Notice 2010 – a regulatory framework of criteria that companies and halal certifiers need to meet to achieve halal certification.

Government involvement has been crucial in giving the system international credibility and has re-opened access to Malaysian (and other) markets.

Government involvement has been crucial in giving the system international credibility and has re-opened markets.

Every worker a quality inspector

A good example of central government taking a science-driven, risk-based approach is the current meat inspection reform.

MPI, working with industry, identified that it could allow meat companies to run quality checking, while government meat inspectors remain responsible for food safety inspection.

Data from the initial trial at the AFFCO plant at Imlay and ongoing government monitoring show that company inspection results in at least as good and often better food safety outcomes – primarily because every worker is empowered as a quality checker. The industry has very powerful incentives for voluntary compliance – failure would be commercially devastating.



GOVERNMENT CAN HELP BY:



Enabling innovative approaches to meet regulatory objectives

It is possible to modernise government inspection regimes and improve meat companies' operational efficiency, while still achieving the highest food safety standards. Regulation should set desired outcomes and companies should be allowed to develop innovative processes to meet them, with regular independent auditing.

Promoting New Zealand's world-leading, outcome-focussed food safety regulatory model offshore

More resource should be devoted to ensuring that New Zealand's regulatory system continues to be recognised internationally as modern best practice and to seeking systems-level equivalence in major markets.

Ensuring the Ministry for Primary Industries (MPI) is properly developed and sufficiently resourced

The Ministry's current structure, which includes biosecurity and food safety functions, makes a lot of sense. Breaking up MPI and setting up separate independent regulators for biosecurity and food safety would be disruptive and costly.

New Zealand also needs to be at the forefront of international standard-setting bodies working on food safety.

Ensuring that biosecurity regulations are science and risk-based, and meet relevant international standards

As a major exporter of food, the meat industry relies on international standards that are based on sound science. It is imperative that biosecurity import regulations are likewise based on science and do not constitute an unjustified barrier to trade.

Banning on-farm euthanasia of bobby calves, except in extreme circumstances

The meat industry has a good reputation for meeting strict animal welfare standards, but that reputation is potentially tarnished by actions of some New Zealand farmers using inhumane methods to put down unwanted dairy calves soon after birth. The meat industry performs a valuable service by paying for calves and, by way of humane and regulated slaughter, adding value by selling the meat offshore.



Environment.

“One of the world’s most efficient and environmentally benign ruminant livestock industries.” FAO

Efficient resource use

The meat industry has a continuing focus on efficient resource use, and its environmental performance is steadily improving over time. Since the 1970s, the amount of:

- Energy required to process a tonne of meat has reduced by 34%
- Fossil fuel used has reduced by 47%
- Water used has dropped 27%

The carbon footprint of lamb production has reduced by 22% since 1990; and of beef production by at least 12%.

Low impact on water

Sheep and beef farming is a relatively extensive form of land use. Studies commissioned by various regional councils show that extensive sheep and beef farming leaches around 75% less nitrogen than dairy farming, on an average per-hectare basis.

Carbon FOOTPRINT

LAMB ↓ 22%

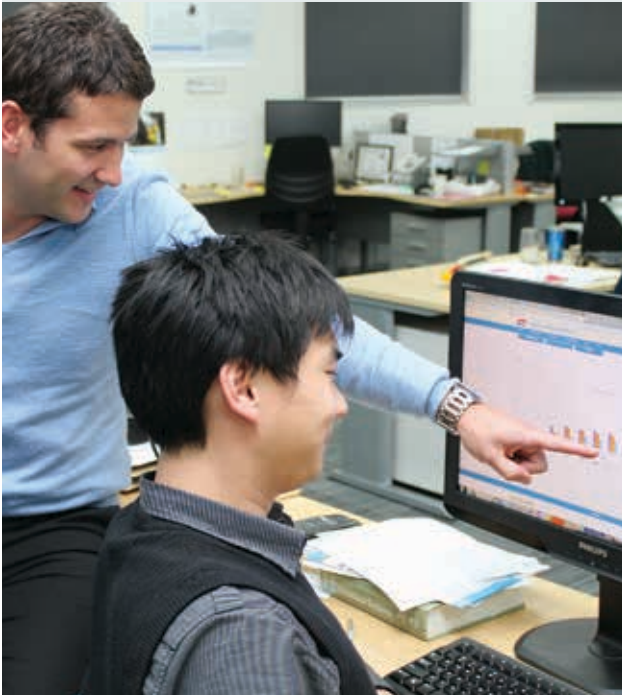
BEEF ↓ 12%

Decreasing our Hoofprint

In response to signals from major markets, the Alliance Group, working with Dunedin biotechnology company AbacusBio Ltd, developed the “Hoofprint” programme to help its farmer-suppliers measure the carbon footprint of beef and lamb production.

This is used to assure consumers the products they consume are from sustainably-managed resources.

On the processing side, Alliance Group has reduced energy use per unit of production by 25% since 2000, with an associated reduction in greenhouse gas emissions.



Private investment saves public money

The Greenlea beef processing plant in Morrinsville is a major part of the town's economy and a heavy user of its wastewater system.

Over many years, Greenlea has worked closely with other industry and the local authorities to ensure the town's water treatment plant has never been overloaded.

As the town grew, the local Council sought to upgrade its own facilities. Greenlea took the opportunity to do the same, installing state-of-the-art covered and odourless water treatment facilities. Because of the company's improvements, the local municipal facilities did not require a more complicated upgrade – saving local ratepayers approximately \$5m.

Greenlea's voluntary investment saved the local community \$5m.

GOVERNMENT CAN HELP BY:



Including “economic development” as a national value that has to be considered in water management

The industry is highly supportive of improving water quality. It is important to recognise, however, that water has an economic as well as environmental value. Both need to be considered when communities decide on their desired “values” for water. Trade-offs need to be clear.

Giving sufficient time for industry to respond to changes in water management regimes

The meat industry’s water discharges are already consented activities under Council plans. In some cases, the cost of upgrading to meet new limits may be prohibitive, potentially closing plants and costing jobs if not managed properly. Receiving early signals helps companies adjust investment decisions.

Binding water management regimes by consistent science across the country

The industry has operations all over New Zealand and is therefore aware of inconsistency in water management regimes applied by regional councils. It is imperative that central government ensure a consistent scientific basis for regional plans – as proposed in the National Policy Statement on Freshwater Management.

Benchmarking environmental performance of New Zealand production against relevant international best practice

The United Nations Food and Agriculture Organisation (FAO) describes the unsubsidised New Zealand sheep and beef industry as “one of the [world’s] most efficient and environmentally benign ruminant livestock industries.” This performance should be promoted internationally.

If New Zealand production is to be compared to overseas systems, either in domestic politics or in international negotiations, care needs to be taken to ensure assessment methodologies are consistent. Also, it can be misleading to compare New Zealand’s performance against some of our highly subsidised competitors.



Innovation.

The meat industry is constantly investing in new approaches and methods to maintain its competitive edge.

Investing in innovation

The industry provides significant levels of funding and in-kind contributions to several pan-industry collaborative projects in key areas such as food safety. Individual companies also invest in technologies to progress their own strategies.

Industry consortia are currently investing in research to:

- Increase the quality and shelf-life of chilled meat
- Improve food safety by controlling E.coli and other bacteria
- Develop new, added-value export products, for example converting low-value meat and bone meal to high-value aquaculture feeds
- Increase meat processing automation and efficiencies
- Improve halal compliance and animal welfare.

Adding value

Industry members are investing \$178m in Primary Growth Partnership projects worth \$323m. These are expected to generate additional value of nearly \$2.7b by 2025.

Supporting New Zealand science

Meat industry investment supports science jobs in New Zealand. All relevant Crown Research Institutes are engaged in research activity for the meat industry, along with New Zealand universities and a number of private research providers.



\$178m
IN PGPs

Strategic innovation

The 2011 Red Meat Sector Strategy identified struggling profitability as one of the main drivers of conversions of sheep and beef farms to dairy production.

The meat industry is addressing this on several fronts, in particular through co-investment with the government in long-term innovation programmes through the Primary Growth Partnership fund. Almost all red meat companies are involved in some way. Each project is intended to establish precedents for innovation which will, through accumulation and improvement, benefit the whole sector.

The **Red Meat Profit Partnership** involves a group of six meat companies (Alliance Group, ANZCO, Silver Fern Farms, Greenlea, Blue Sky Meats and Progressive Meats) as well as Beef + Lamb New Zealand, Rabobank, ANZ and Deloitte. They are investing in arming farmers with measuring technologies and better information for business decisions. The investment is \$64m over 7 years.

The **FoodPlus PGP programme** started in November 2012 and is led by ANZCO Foods. It aims to generate more value from the beef carcass, with a focus on new food, ingredients and healthcare products. For example, the Bioculture project is producing culture media and other products from animal blood. The total investment is \$86m over 7 years.

The **FarmIQ PGP programme** (commercial partners Silver Fern Farms, Landcorp and Tru-Test) aims to create a demand-driven, integrated value chain for red meat. Work is being done to better understand meat quality and then to organise information flows along the chain to consistently deliver this. The total investment is \$150m over 7 years.

Robotics

Ovine Automation Limited is a consortium of nine industry investors, supported by additional MBIE funding. It aims to generate efficiency, lower workplace injury and increase yields through automated sheep processing robotics. If successful, the resulting intellectual property could also be licensed and brought to market.

The group has invested \$14.8m into the research activities. Two systems have been successfully employed in on plant trials, with five more in development. In June 2013, the consortium, along with Callaghan Innovation, won the Commercialisation Collaboration Award at the KiwiNet Research Commercialisation Awards.

Meet Alice.
Her job is to
remove the internal
organs from sheep
carcasses.



War against disease

A bacteriophage (or phage) is a virus that infects and replicates within bacteria. Industry has invested approximately \$750,000 to investigate whether they can be used to infiltrate and destroy E. coli and other bacteria that can harm humans.

The meat industry, via pan-industry funding arrangements, has worked with the Institute of Environmental Science and Research, AgResearch and MPI to investigate whether there may be applications for bacteria control in the meat processing sector. This is a ground-breaking area of research that could have a profound effect on food safety outcomes and market access arrangements, potentially saving the industry millions of dollars.

Supporting NZ science

The meat industry commissions work from a number of private agri-technology companies.

AbacusBio Limited is a privately held, Dunedin-based company involved in agribusiness consultancy and new venture development. Over half of their 30 science staff are heavily involved in projects funded by the red meat industry especially the Alliance Group.

AbacusBio are also highly committed to training young people at all levels. AbacusBio have just fully funded one of their staff members to complete a PhD in economic and genetic analyses of international sheep breeding programmes, and are also hosting two other red meat-related PhD programmes in meat nutritional composition and on-farm water foot-printing.

GOVERNMENT CAN HELP BY:



Establishing and communicating a long-term innovation investment strategy

To guide industry investment decisions, a long-term (10-20 year) Government research strategy is required; that strategy should integrate the needs of key export industries, including red meat. Government should continue to support core research, which often needs to be completed before new research areas can be initiated; it also helps retain capability in New Zealand.

Developing a government funding programme specifically for research in the food safety area

New Zealand's food safety reputation is a major advantage for the meat industry, earned over many years and providing significant value through access to markets. It is imperative that we remain at the forefront of food safety research and practice.

Committing to continue co-funding industry research programmes

New Zealand is gaining enormous value from the partnership approach and scale of the Primary Growth Partnerships. It is important for central government to incentivise and bolster private sector research.



Trade.

The meat industry exported hundreds of different products worth a total of \$6.3b to over 120 countries in 2013.

Access is crucial

The industry's business model is to derive the maximum value from an animal by identifying the highest returning market for each individual part of the carcass. As such, the industry is dependent on consistent and predictable access to markets.

Many markets, many standards

Processing premises have to undertake literally thousands of individual processes to meet all the requirements and standards of the markets and customers to which they export. Time and resources spent changing between these processes can add huge costs to business.

Trade barriers abound

Many of the aforementioned processes are driven by non-tariff barriers to trade, imposed by foreign governments quite often for political, rather than scientific, reasons. On top of the costs these barriers bring, exported meat products also attract approximately \$350 million in tariffs annually.

The industry is highly supportive of government efforts to open markets, including through the historical bipartisan approach to Free Trade Agreements (FTAs). This needs to continue.

\$350m
TARIFFS PAID
ANNUALLY



Trade liberalisation = jobs in New Zealand

New Zealand, as an unsubsidised food-producing nation, gains much more from FTAs than we lose. Indeed, existing trade agreements have brought great benefit to the meat industry, allowing investment in people and facilities.

The European Union lamb quotas, established alongside North American beef quotas under the GATT Uruguay Round, have been the mainstays for sheep and beef for many years. The China FTA has subsequently given the industry a huge first mover advantage, and all other agreements have delivered excellent outcomes.

The meat industry is a staunch supporter of FTAs, including the Trans-Pacific Partnership currently under negotiation. A successful outcome will help grow export value and retain jobs in the industry.



Growing demand = negotiating leverage

Tariffs tend to take the headlines, but equally as pressing are non-tariff barriers. They tend to be opaque and unpredictable, and therefore costly.

Often the critical factor in resolving non-tariff barriers is political will. Government therefore needs to commit resources to building relationships and influence with key overseas officials, including future leaders.

As global demand for protein increases, New Zealand – as a protein exporter of the highest standard – should assertively use this leverage to resolve long-standing trade impediments and shape the global trade environment to our needs.

Non-tariff barriers
are opaque, unpredictable
and costly, and equally as
important as tariffs
to resolve.

Prioritise systems recognition

Several key export markets for New Zealand meat require companies to engage in an arduous approvals process. This can take many, many years, and success can depend on something as arbitrary as the travelling itinerary of a visiting official.

If plants are not “listed,” their competitors have an advantage – in the case of some markets this cost runs to tens of millions per plant. Negotiating systems recognition in major markets (i.e. if plants meet New Zealand standards, they are “recognised” by the importing country as approved for trade) would resolve this and bring significant value to the industry.



GOVERNMENT CAN HELP BY:

Prioritising efforts to have New Zealand regulatory systems recognised as equivalent by major markets

The meat industry is increasingly forced to cater – at high cost – to the prescriptive, non-scientific demands of markets. Central government, working with industry, should use the increasingly short supply of protein worldwide to motivate key importing countries to recognise New Zealand’s excellent regulatory system for meat production as equivalent to their own.

Continuing an aggressive FTA agenda – not accepting less than comprehensive access and ensuring non-tariff provisions have teeth

Continuing to achieve high quality FTAs will help grow our industry and keep jobs in this country.

Ensuring that New Zealand continues to take leadership roles in international standard-setting bodies

International standard-setting bodies must remain committed to risk-based approaches. It is imperative that New Zealand continues to be strongly represented and works closely with like-minded partners to promote food safety regulatory models that are efficient and cost effective.

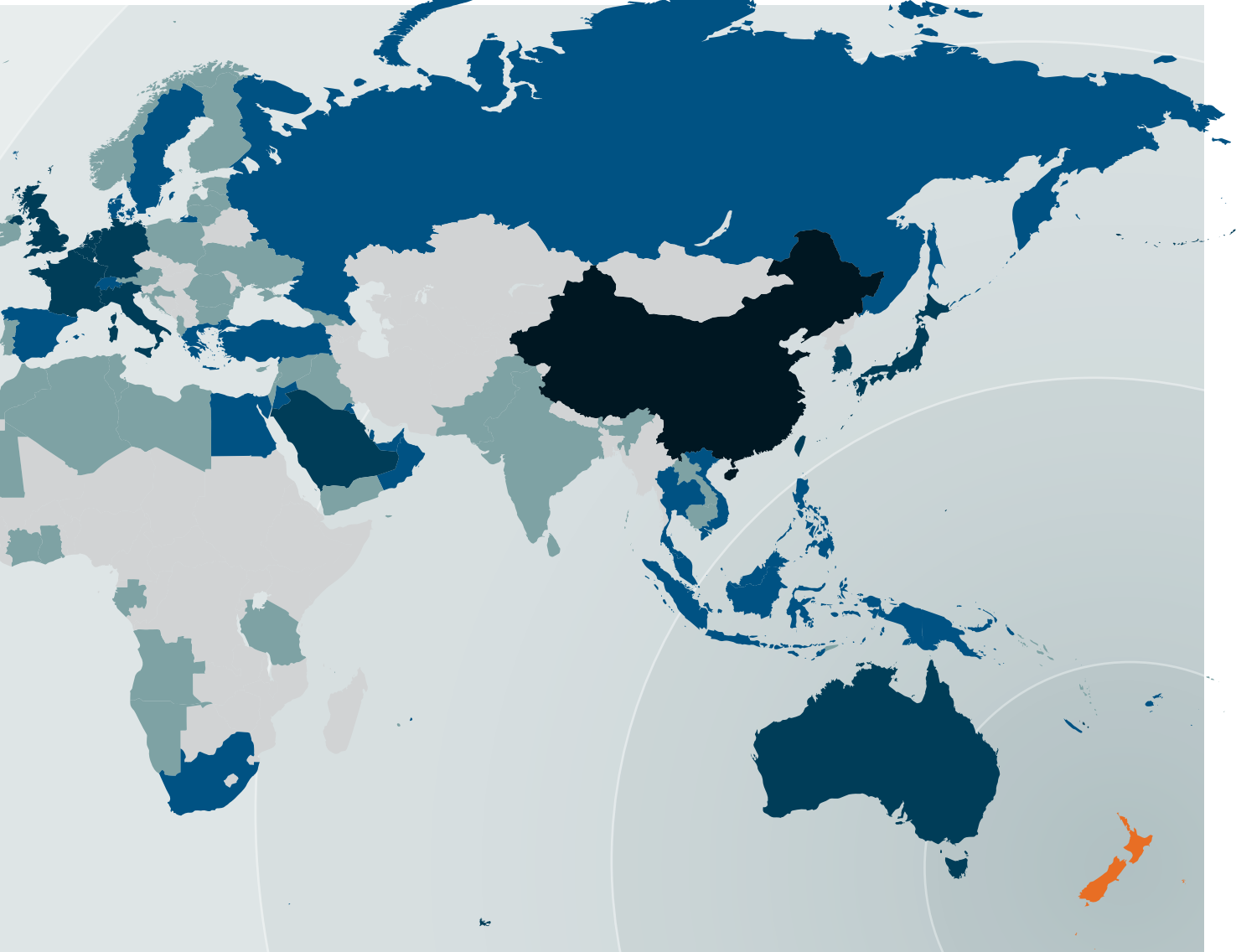


120+
countries

\$6.3b

2013 meat product export value

■ \$1b+ ■ \$100m+ ■ \$10-\$100m ■ up to \$10m





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Beef + Lamb New Zealand.