

PGP - The New Zealand Sheep Industry Transformation Project

Quarterly Report Summary. July to September 2012

Overall

Good progress is being made across all NZSTX projects.

Project One - Transforming Demand for Fit-For-Market Fibre

Significant progress has been achieved over the quarter with the trialling of a retailer and consumer education and engagement programme to be implemented alongside an active outdoors apparel brand partner. The response to the planned activities has been very positive, and the communications from brand partners since the brand partner summit in Biella continue to provide valuable feedback.

The Leisure Trends Group research conducted in Q3 and Q4 of 2011/12, in addition to the feedback provided by brand partners at the brand partner summit in Biella in May/June, have been helpful in ensuring maximum impact of the 'toolkit'. Collateral has been customised for both an active outdoors consumer and a luxury consumer, with distinct looks and messaging for each, reflecting the different buying criteria of these consumers.

To date, there is excellent support and commitment for the Life Cycle analysis (LCA) impact work, with various brand partners on board. The project proposal has been completed and a clear path forward identified. Support for this project is reflective of the emphasis placed on this in the market currently and the risk to brand partners' reputations if it is not adequately addressed.

One of our active outdoors brand partners will trial a retailer and consumer engagement programme designed to cement a deeper appreciation of New Zealand Merino among retail staff and customers of their second largest retailer. The retailer's stores will feature experiential Merino education "zones" that reinforce key New Zealand Merino messages (engineered by nature for performance, hand selected and accredited for integrity). To optimise the impact of this engagement prototype, growers from three different New Zealand supplier properties have been selected as 'educators / ambassadors' in store. These growers will not only attract consumers in-store, but also communicate the spirit of New Zealand farming and the values of New Zealand Merino.

External consultants are currently being vetted for assisting us in prototyping new social media tactics to build our online reach.

A visit to China and Japan in early September identified a number of potential partners for whom the New Zealand Merino story and NZM's commercial offering provide a point of difference. The challenge in Q2 will be quantifying the volume potential and positioning of these companies, and determining which partner(s) will deliver long term value to New Zealand.

Project Two – Meat and Other Products

The Alpine Origin Merino Limited (AOML) joint venture is progressing well.

As predicted, the contract model for meat procurement and supply is delivering the same advantages to growers that our branded fibre contracts do. There has been continued strong demand from growers for the roll-out of a new contract and, while we are delaying the roll-out of a further contract until later in the season, we are confident of continued grower loyalty

as a result of the benefits to existing suppliers last season. The ongoing challenge will be managing grower expectations as, under current market conditions, there would be a drop-off in value from the original contract prices under a new contract. We want to minimise the impact of this by opening up additional, international markets.

We are expanding domestic distribution of SILERE into the central North Island. We have launched a Merino burger patty using Merino mutton forequarter meat. There are plans to launch sausages (a larger volume product) in March 2013, after the annual mutton cull in January-March.

The international opportunities are looking very promising.

Project Three – Production Science

The results we have seen during the first quarter of the 2012/13 year from projects already in progress have been very promising.

To date, there have been very positive results both for growing lucerne in challenging environments and for the role of Russell lupins in acidic soils. These trials are taking place where fit-for-market fine wool sheep are already being produced – the aim is to boost that existing production. The trial results show that lucerne can be grown in these challenging soils and produce a considerable increase in dry matter production.

A key result so far has been the establishment of healthy lucerne on a site with an aluminium pan. The trial has demonstrated that lucerne can be grown successfully in sites previously considered outside the boundary of lucerne production. We expect that the stocking rate on this land will lift from 1 SU/ha to 5-6 SU/ha.

A further important result is the production increase we have measured on land with light soils that are normally considered too marginal for development. These soils currently produce less than 2 tonnes of dry matter annually. However, during the 2011/12 year, when paddocks on the trial site were developed into lucerne, it was shown that they could produce between 7 and 11 tonnes of dry matter (depending on the paddock). An economic analysis is being developed to underpin the results.

Russell lupins have been successfully developed on an acidic soil with high aluminium levels. In sites that have aluminium throughout the plant rooting zone, Russell lupins have now proven to be a viable option. Stocking rates can be increased from near zero to 3-4 SU/ha.

We expect good initial gains in FFM sheep production on the transition farms this season. The Corriedale transition farm will breed approximately 1,000 fit-for-market fine wool lambs and the Crossbred transition farm approximately 2,000 fit-for-market fine wool lambs this season (lambs to be born during September and October 2012). This should lead to wider grower uptake next season as other growers are encouraged by the results being achieved by the programme.