

PGP - The New Zealand Sheep Industry Transformation Project

Quarterly Report Summary. September - December 2010

The New Zealand Sheep Industry Transformation Project (NZSTX) aims to engineer a shift in New Zealand sheep production to a true multipurpose animal with high value fibre, meat and co-product (e.g. leather and lanolin) characteristics. The New Zealand Merino Company Limited (NZM) aspires to transition half of all New Zealand coarse wool growers into fit-for-market production systems over time.

NZSTX is divided into three sub-projects:

1. Transforming demand for fit-for-market fibre;
2. Transforming demand for 'other' fit-for-market products, primarily meat; and
3. Growing New Zealand's fit-for-market sheep base through removing barriers to production.

Overall

- The NZSTX contract was signed in September 2010 and the project is underway.
- A major earthquake occurred in Christchurch during the period, which has caused some disruption to NZM's business and team. Some of the activities planned for the coming months will be delayed as a result.

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

A toolkit, which includes tools and messages to assist brand partners convert non-users of Zque fit-for-market fibre products, is being developed. The toolkit will be provided to existing brand partners for their use.

Fibre forward contract volume (kilograms of clean wool) to existing partners and one quality new partner exceeds forecast pre-NZSTX. There has been significant market activity from the NZM team during the past quarter in Asia, Europe and the US.

Brand partner innovation plans have been completed and were presented to European brand partners in December.

A key area of focus has been on those parts of the market where currently NZM does not have large volumes of contracts – particularly in the 16.0 to 17.9 micron bracket and in the higher end of the 22.0 – 25.9 micron bracket. NZM are very encouraged by the interest that is being generated, particularly for wools around 17.5 micron.

NZM is developing five prototype value propositions for Zque fibre, including market and product differentiators, as well as value capture mechanisms, to present to potential brand partners by 30 June 2011.

NZM, through the Wool Research Consortia, has been involved in discussions with a New York based design company, who are looking at new uses / new users for wool generally (and specifically for Merino).

Project Two – Meat and Other Products

NZM's work in this area continues to be focused on relationship building and developing product and market knowledge. In the quarter ended 31 December 2010, NZM has had significant discussions within the meat industry, as NZM continues its search for a suitable meat processing partner. Work on the development / substantiation of value propositions for meat will commence once a meat partner has been identified and dedicated meat resources engaged.

In terms of leather, NZM has made some significant progress towards identifying the unique characteristics and qualities of Merino leather. As part of this process NZM has had several trial batches of Merino skins tanned.

NZM has started to test market interest in Merino leather with potential clients in Europe and the US. Interest in and enthusiasm for the product from those who have seen the leather has been strong.

With lanolin, NZM has entered into discussions with a potential partner to determine the feasibility of isolating New Zealand wool grease from other wool grease and having this refined to lanolin.

Project Three – Production Science

This quarter, the production science team has focused on the development of three models (farm systems model, market model and farm management model) to assist growers make productivity gains.

A breeding management programme, including infrastructure (such as mechanisms for sample collection, application of data standards, data capture, data analysis and reporting to growers) is underway with the demonstration farm scope and design complete. The plan includes both North and South Island properties, which span:

- High country;
- Hill country;
- Dry hill country; and
- Finishing areas.

Work to raise farmer awareness continues, with a second series of NZSTX grower road show meetings held in early December, and attended by over 400 growers, updated growers on NZSTX activities since June 2010.