

Nuffield Farming Scholarship 1996

European Study

By Murray Taggart

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SECTION ONE

1.0 MEAT MARKETING BRANDED -v- GENERIC PROMOTION

In order to form an opinion regarding the relative merits of branded and generic promotion it was necessary to gain an overview of the marketplace. The following section largely focuses on the major markets within the European Union.

1.1 UNITED KINGDOM ("UK")

1.1.1 GENERAL

The UK is by far the largest market for New Zealand lamb buying some 55% of our sheep meat exports to the European Union. New Zealand processors maintain significant investments in the UK market in areas such as further processing (eg PPCS, Barry Brooks Ltd), and importing/wholesaling (eg PPCS; New Zealand Lamb Co Ltd, Alliance/AFFCo; New Zealand Farmers Ltd).

Not all integration is directed further down the marketing chain. Bernard Matthews PLC has integrated back up the supply chain by purchasing Advanced Foods Ltd in New Zealand.

The bulk of New Zealand's lamb trade with the UK is with the retail sector. This sector is dominated by major supermarket chains (eg Tesco, Sainsburys, ASDA, Waitrose, Safeway). Other corporates such as Marks & Spencer PLC have "food halls" in many of their department stores and are significant buyers of New Zealand lamb.

1.1.2 BUTCHERS' SHOPS

The traditional butchers' shops maintain an (ever diminishing) presence, particularly in smaller towns and villages that cannot sustain the huge supermarket complexes operated by the major chains. It would appear that a significant portion of the remaining frozen carcass trade to the UK is purchased by butchers and processed "in house". Without exception the butchers spoken to were purchasing frozen New Zealand lamb based on price. If local product was cheaper they would buy that in preference to New Zealand lamb.

Many of the shops appeared to be thawing the frozen New Zealand product and selling it as fresh. Several were not labelling the product as from New Zealand and only admitted it was New Zealand product when questioned.

1.1.3 SUPERMARKETS/FOOD HALLS

UK town planning regulations have facilitated the building of huge supermarket complexes near major population centres. The sheer size of these complexes restricts their construction and operation to the corporate sector. The major chains extract significant economies of scale from their size and wield huge power in the market place.

1.1.4 BRANDING

The major chains are heavily committed to "own brand" retailing with only a handful of products in a store displaying the manufacturer's label. Common amongst this latter group are brands such as Anchor, Bernard Matthews and Birdseye. It costs these companies vast sums of money to support their brands in the eyes of the consumer. However few supermarkets can afford not to have these brands on their shelves.

Marks & Spencer PLC are the most graphic example of own label branding, only stocking product carrying their own label. As an example, the New Zealand Dairy Board policy that their cheese will only be sold under the Anchor brand has meant that New Zealand cheese is not sold in Marks & Spencers PLC.

Branding can be viewed as more than just the label on the final retail product. It can also be reflected in the strength of the relationship between the New Zealand exporter and the UK supermarket. In this regard consistency of supply, quality of product, innovation, etc all contribute to the value contained in the brand of the supplier. Effectively, while the UK consumer may never be aware of the New Zealand Lamb Company or New Zealand Farmers brands, those brands are highly regarded by the retailers they supply. Ultimately the retailer reaches the point where the suppliers brand with its value added service is so highly regarded that price becomes a secondary issue in contract negotiations. It appears that a number of New Zealand exporters are reaching that point.

1.1.5 SHELF SPACE

The UK supermarkets are extremely conscious of the profit generated per metre of shelf space. Products that fail to generate sufficient margin and/or sales are ruthlessly culled from the supermarket shelf. Lamb is a relatively low volume product in the supermarket and receives limited shelf space as a result.

1.1.6 CHILLED LAMB

Chilled lamb has brought huge changes in the positioning of New Zealand lamb within the supermarket. Chilled lamb is sold along side other fresh

meats (eg chicken, beef, pork), both on the supermarket floor and from the delicatessen counter. It is vital to be displayed in the fresh meat section as consumers increasingly demand fresh produce. This trend has seen reduced allocation of shelf space for frozen product amongst the more upmarket retailers. Marks & Spencer PLC have carried this one step further and will only stock fresh produce (other than ice-cream!)

1.1.7 FROZEN LAMB

When supermarkets stock frozen lamb it is sold from a freezer cabinet in the frozen foods section. Invariably the frozen foods seem to be at the opposite end of the store to the fresh meat counters. A customer looking to purchase meat would most likely only chance upon the frozen lamb by accident and probably after they had already made the meat purchase decision at the fresh meat counter. Observation revealed that the purchasers of frozen lamb are generally an ageing (50+) group of consumers who value the cheaper price of the frozen product. They are aware of its location in their supermarket and are familiar with the preparation of the more traditional cuts available in frozen form.

1.1.8 VALUE-ADDED PRODUCTS

An increasing proportion of New Zealand lamb is sold in a value added form. This can be basted or crumbed cuts with flavours ranging from the traditional (eg minted) to Mexican (eg Spicy Tika) to Asian. Flavoured options are available for competing meats and are an essential part of lamb's marketing armour.

Value added also extends to the 1990's equivalent of the TV dinner. Contrary to uninformed opinion these meals are a high quality, highly convenient meal option. Sold through upmarket stores such as Marks & Spencer PLC they are popular with two income households who value convenience in meal preparation. While the price per kilogram is similar to a cut of meat, meat is only a portion of the meal. The result is that a higher price is achieved for each kilogram of meat sold.

1.1.9 FAT COVER

The older bracket of UK lamb purchasers appear to accept a degree of fat on lamb cuts. However it is clear that the 35 years and under age bracket are very "anti-fat" and prefer to purchase meat that is devoid of visual fat. In the years ahead it seems highly likely that lamb sales to the UK will move to cuts more in tune with this shift in consumer demand.

1.1.10 GRADING

It appears that the butchers trade is still conducted using the Meat Board grading system. However the standard grading system is no longer relevant to the supermarket trade. The large supermarket chains set very exacting specifications covering every aspect of the meat being purchased. This applies whether they are purchasing beef, pork, poultry or even fish. In the case of lamb the specifications cover portion size, fat cover, quality attributes and even animal welfare practices on the farm.

1.1.11 COUNTRY OF ORIGIN

Within the European Union all meat is required by law to be labelled as to country of origin. UK supermarkets clearly label product in this regard. Prior to the BSE crisis there was limited use of the New Zealand Meat Rosette on packs of New Zealand product. Use of the Rosette did increase significantly following the intense publicity surrounding the BSE crisis when every attempt was made to highlight product that did not come from the UK.

However use of the rosette was largely restricted to the retail meat packs and generally did not appear to extend to media promotional campaigns undertaken by the supermarkets.

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Brian Johnston, General Manager
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Bernard Matthews PLC

Eric Reid, Production Director
James French, Processing Director
Moy Park Ltd

Christopher Brown,
Meat and Livestock Commission

Margaret Harvey, Senior Development Executive
Scottish Food Quality Certification Ltd

Vic Prow, UK Promotions Manager
Elizabeth Welsh, Public Relations Manager
Scotch Quality Beef & Lamb Assn Ltd

David Middlemass, Meat Buyer
Marks & Spencer PLC

1.2 GERMANY

1.2.1 GENERAL

Germany is New Zealand's second largest market within Europe with 16% of New Zealand's lamb to the European Union (19% of the mutton). The New Zealand sheep meat trade to Germany differs significantly from that to the UK with around half of the New Zealand lamb being sold through the Hotel, Restaurant, and Institution ("HRI") trade.

Until recently New Zealand companies appeared reluctant to invest directly in the German market. However growth in the German and Benelux markets combined with a tightening of supply has created an environment conducive to more direct investment in importing/wholesaling. Relationships with importers reflect a strong commitment by each company to one or two importers and vice versa.

1.2.2 HRI

It is difficult to gain an overview of the distribution channels for the HRI sector when only limited time (and resources) are available. "Cash & Carry" wholesalers are readily visible links in the supply chain. These warehouses supply a range of smaller food businesses including restaurants, shops, etc. Vertical integration between importers and Cash & Carry's by way of ownership is apparent. As a result strong links from Cash & Carry's back to individual New Zealand exporters are evident. Product is sold in the attractively packaged and clearly branded packs that left the New Zealand processing plant.

Promotional material carrying both the New Zealand processor and the importer's brands is widely used and serves to reinforce the integrated nature of the supply chain. Limited use of the Meat Board Rosette was apparent.

Importers appear to be increasingly moving to supply larger institutions and hotels directly. This will shorten the supply chain and should improve commitment and information flows.

1.2.3 SUPERMARKETS

Similar to the UK, the retail trade is dominated by several major retail groups. However within these groups there is more variation in the type of retail outlet. Huge mega-store type supermarkets are less common than in the UK due largely (it appears) to more restrictive town planning regulations. As a result there is a proliferation of smaller supermarkets with a corresponding reduction in range of products offered.

1.2.4 SHELF SPACE

Supermarkets on the Continent show significantly lower levels of profitability (1% cf. to 3% in the UK). Visits to German supermarkets indicate that some of the reason for this is a more relaxed attitude to allocation of shelf space.

Chilled lamb is again sold alongside other fresh meats, often in a delicatessen type section of the meat counters. However unlike the UK the frozen lamb is also displayed in very close proximity to the fresh meat counters. Under this arrangement shoppers are more likely to be tempted to buy frozen product.

Observation would indicate that the frozen New Zealand lamb is receiving significantly greater shelf space than purchase frequency would justify. While this may be detrimental to supermarket profits, it is a bonus for New Zealand lamb.

1.2.5 PRODUCT CHARACTERISTICS

The use of flavourings, bastings etc was minimal in the red meat trade although poultry offered some products of this nature. The continental markets prefer significantly less fat than the typical UK consumer with many red meat cuts devoid of fat.

1.2.6 BRANDING

Unlike the UK, German supermarkets appear to have a more relaxed attitude to supplier brands on the shelves. There is some own label branding by the supermarkets. However in the case of New Zealand lamb, frozen product is displayed in the vacuum packaging that the cut left New Zealand in. Some chilled product is similarly displayed. Delicatessen counters tend to display a portion of the chilled unwrapped but with associated New Zealand brand labelling still present.

New Zealand packs are well labelled and usually with cooking instructions. Packs with plenty of green in the logo tend to reinforce the clean green image. Some companies make an effort to cover the fat with the label leaving the meat visible.

1.2.7 GRADING

The lamb trade on the continent has developed around cuts rather than carcasses. As a result there is even less emphasis on the Meat Board grading system than in the UK. The choice and specifications of cut offered appear much more dependent on suggestions from New Zealand than in the UK. This could reflect the almost insignificant size of the local sheepmeat industry.

1.2.8 COUNTRY OF ORIGIN

Again country of origin is generally clearly defined apart from the occasional portion of unwrapped chilled product in the deli-counter. A number of exporters use the Rosette on their packs but at a similar size to the recycling designation on the plastic. Nowhere did the Rosette appear to represent a major plank in the branding platform with importers stating that the Country of Origin was more important. One importer with a heavy emphasis on branding felt the Rosette promoted averaging with poorer performers "propped up" and better performers dragged down.

1.2.9 FOOD SAFETY

In the UK consumers rely on the supermarkets to take care of food safety issues. Supermarkets there are acutely conscious of this hence the desire for traceability back to the farm appears to be more pronounced there.

The German consumer tends to want to take more responsibility for food safety his/ herself. The net result is that supermarkets often "display" their butchery area through large glass windows to enable the consumers to satisfy themselves that it is clean and that no "foreign" items are "slipped in".

The concern with food safety is a significant factor encouraging supermarkets to stock New Zealand lamb still in the original wrapping. This enables the consumer to be certain that the product is what the label says and from where the label says.

1.2.10 AVAILABILITY

New Zealand chilled lamb was available in the larger supermarkets and the upmarket food halls in the city centre department stores of the major cities. However the proliferation of small suburban and town supermarkets are simply not capable of handling chilled product and do not have sufficient lamb sales to warrant investment in this area. Many of these stores appear only to stock frozen lamb in the lead up to festive occasions such as Christmas and Easter.

An indication of the potential for lamb in the German market was the 20 minute drive it took a German family, living near the Rhine (a heavily populated region), to reach a supermarket large enough to stock New Zealand lamb year round.

Discussions with German importers highlighted how the supply/demand equation has changed in New Zealand's favour in recent years. The strengthened relationships with key German importers were also clearly evident. Those importers that had failed to invest in the New Zealand product and move beyond a commodity trade were losing supply and

desperate to locate alternative supplies. This supply shortage augers well for sustaining or improving prices over the longer term.

1.1.13 COMPETING PRODUCT

All the Continental countries seem to have a (relatively) small sheep flock focused on meat production for the local market. Local product is generally poorly presented with packaging, fat cover, portion size and quality sub-standard.

Significant amounts of South American product (both chilled and frozen) are available; primarily Chilean, Uruguayan and Argentinean. Product from the latter two suffers from their reluctance to differentiate lamb and mutton. Argentinean beef was widespread both in supermarkets and through the HRI sector. A chain of Argentinean steakhouses was prominent and offered excellent steak at reasonable prices. Chilean product is of similar consistency and quality to that from New Zealand.

1.1.14 MUTTON

Germany remains a major market for mutton. However it is a somewhat "invisible" trade with HRI taking the high priced cuts and legs, and remaining boneless product used for manufacturing. Certainly restaurants in the areas of cities dominated by other nationalities (eg Turks) appeared to offer mutton. However in those areas some outlets offered lamb at prices low enough to suggest it was actually mutton

Contacts: Mark Niederer, Regional Manager, Continental Europe
 New Zealand Meat Producers Board

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Taurus Meat-Trading GmbH

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1.3 FRANCE

France is the third most significant destination for New Zealand lamb in Europe with around 10% of the trade.

1.3.1 COUNTRY OF ORIGIN

The French place considerable emphasis on tradition. That emphasis theoretically extends to eating product from the region in France from which they hail, or at "worst" eating product grown in France. In practice many urban French will buy quality food no matter what the country of origin. However use of the Rosette is not favoured and the compulsory Country of Origin labelling tends to be in small inconspicuous print. Occasionally this labelling is omitted altogether. There is a reluctance to highlight New Zealand lamb in supermarket promotions given the potential problems with French farmers.

1.3.2 RETAIL SECTOR

Around 80% of the New Zealand lamb trade to France is sold through the retail sector. The French supermarkets appear to be tending toward the larger UK type stores. Attitudes to shelf space allocation appear more aligned to Germany. Again consumers seem to prefer little or no fat.

The major demand for lamb, particularly for legs, has been for the Christmas and Easter trades. Trade is growing through the rest of the year with importers keen on chilled product.

A portion of the retail trade is also through shops known as Freezer Centres. These stores appear to be aimed at mid to lower income consumers and sell only frozen food. Freezer Centres are well suited to the frozen lamb trade and are well stocked with New Zealand product.

1.3.3 BRANDING

Most major supermarkets sell own label fresh meat but do allow some supplier branded product. Very little New Zealand lamb is currently sold outside the supermarket label. However Bernard Matthews/Advanced Foods frozen product was sold under their brand in one supermarket. It is likely that more branded product will be sold if the threat of action by French farmers reduces. Discussions with one importer endeavouring to establish their own brand highlighted the long term commitment needed for such an exercise to be successful.

Freezer Centres offer more opportunity for branded product. Openly branded New Zealand lamb and occasional use of the Rosette indicate a less sensitive attitude to French farmers' concerns.

1.3.4 DISTRIBUTION CHAIN

The level of investment by New Zealand companies in France is significantly less than in Germany. However as is occurring in Germany (and other parts of Europe), New Zealand exporters are using the opportunity presented by tightened supply to form closer links with a handful of preferred importers. At the same time the role of agents is declining, reflecting the move away from the commodity end of the market.

Agents have yet to appreciate that the move to dispense with their services is a permanent change. Similarly many importers are still coming to terms with the concept of a limited supply of product.

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New Zealand Meat Producers Board

Claude Thieblemont, Directeur General
S A Ovimpex Massicard

Raymond Martin, Directeur
Dial

John Brook, Directeur General Adjoint
 Irene Jaques, Directeur Commercial Adjoint
Sogeviandes

Claudine Journo
Ets Dena

1.4 *NORTHERN EUROPE*

The Benelux countries of Belgium, the Netherlands and Luxembourg are significant markets for New Zealand lamb. The trade is split roughly 30% retail/70% HRI. Market practices appear closely aligned to those evident in the German market.

Austria and Switzerland are also similar, although Austria as a recent entrant to the European Union lags behind in its development as a market for New Zealand lamb. Switzerland while not exempt from the depressed economic environment still impresses as a wealthy market. Chilled New Zealand lamb is relatively common, even in butchers shops.

Switzerland boasts the most visibly expensive lamb in Europe; NZD120 equivalent/kg in the Zurich Airport duty free shop. Unfortunately it was Australian lamb and was comparatively cheap relative to the Scottish salmon at NZD180 equivalent/kg.

Contact: Laurie Bryant, European Director
 Terry Brown, Regional Manager, Continental Europe
 New Zealand Meat Producers Board

 Paul Van den Meutter, Managing Director
 Hans Meeus, Director Finance & Operations
 Corimex N V

 Frans Anton Poels
 Frigo N V

1.5.1 GENERAL

1.5.2 FROZEN BEEF

**-Laurie Stevens, Asia Director
New Zealand Meat Producers Board**

1.6 CROATIA

Croatia is an example of an emerging Eastern European economy keen to join the European Union.

1.6.1 GENERAL

Contrary to popular New Zealand perception Croatia is not some war-torn 3rd world country. The country has moved quickly to rebuild and repair areas damaged by the Balkans war. Concurrently the economy has been significantly deregulated, although there is some way to go before deregulation approaches New Zealand's progress. Reforms since the dissolution of the former Yugoslavia have seen more than half the country's businesses privatised. Private enterprise is flourishing.

Croatia has a population of around 4.7m people in an area one fifth the size of New Zealand. 50% of the population live in urban areas. Per capita income is comparable with Portugal with most houses having TV, video, stereo, automatic washing machine etc. Families generally own at least one car and their apartment or house. Croats are very positive about the economic prospects for their country, more so than any other country visited in Europe.

1.6.2 MARKET PROSPECTS

Croats enjoy a range of meats including lamb. Increasing wealth and relaxation of import controls are opening up opportunities for New Zealand sheepmeats.

In the short term, the real potential in Croatia lies with the HRI sector. Croatia's spectacular Adriatic coastline is a major summer playground for German holiday makers. The end of the Balkans war has seen tourism rebound rapidly and with it the demand for service industries such as hotels and restaurants.

Supermarkets stock a good selection of products including frozen New Zealand lamb and frozen New Zealand mussels. Supplier brands are readily accepted, as highlighted by well branded packs of New Zealand mussels. It was somewhat disappointing to see New Zealand lamb forequarters with the only discernible identification being the Meat Export Plant number. Croatian lamb is also available in frozen form but is of poor quality, highly variable and extremely fatty (approximately 1.5cm fat cover).

Questioning Croatian families on their lamb buying habits revealed a preference for Croatian product, but not for parochial reasons. The well presented New Zealand product was roughly half the price of the Croatian lamb leading the consumer to assume "there must be something wrong with it at that price!"

Croatia will take time to develop the infrastructure required for chilled lamb. However it is likely that relationships developed with branded frozen product now will pay dividends in the future.

Visited: Zagreb, Capital city
 Split, Regional Capital, Dalmatian Coast

1.7 SUMMARY

De-regulation in New Zealand and improved access to Europe have combined to produce an environment that encourages New Zealand meat companies to forge long term mutually beneficial relationships with European wholesalers and retailers. In conjunction with these changes the supply of New Zealand lamb has declined significantly leaving the European market under supplied.

It is no longer appropriate to continue generic promotion campaigns in the environment that now prevails. Also other components of the commodity trading of the past such as the Meat Board grading system are not now an important tool in the marketing equation.

The meat industry demonstrates a high level of maturity in the marketplace. It appears that the industry is now ready to assume responsibility for all marketplace activities and that direct producer funding of off shore activities via the Meat Board is no longer appropriate.

SECTION TWO

2.1 **ANIMAL WELFARE**

Attitudes to animal welfare vary considerably throughout Europe. Britain is obsessed with it, but as you move to the northern continental countries such as Belgium, Germany, Austria, etc it is less of an issue. Southern Europe appears to have little or no conception of animal welfare.

The animal welfare lobby in Britain is a well organised and powerful lobby with significant funding provided by wealthy benefactors such as Linda McCartney (wife of former "Beatle" Paul McCartney). This funding extends to paying demonstrators and funding their travel expenses to move between protest sites. The high profile media coverage of the campaign waged against calf shipments to the continent was a graphic example of the "success" of such tactics.

Most of the animal welfare groups target welfare issues pertaining to practices undertaken by British farmers. However the heightened animal welfare awareness of the British consumer has led to supermarket chains needing to be seen to stock "animal friendly" products. This trend is having an increasing impact on farmers with supermarkets requiring confirmation from suppliers that certain animal welfare standards have been met in the production of the foodstuff in question. We are now seeing New Zealand meat companies seeking assurances from their suppliers that animal welfare codes have been adhered to. These assurances stem directly from the requirements of the end user.

Discussions with staff of the Director General for Agriculture, European Commission Headquarters highlighted a very complimentary attitude to the New Zealand Codes of Animal Welfare developed for sheep and beef production.

An opportunity arose to discuss animal welfare with a protest group outside the British Ministry of Agriculture, Fisheries and Food headquarters, London. They were protesting at the shipping of live animals and had apparently undertaken a similar protest at the New Zealand Meat Board offices earlier. When challenged this group informed me that it wasn't so much the shipments that concerned them, but rather the inhumane slaughter undertaken in the country of destination. They did not appear to have considered whether their protest should be directed at the countries where the slaughter was occurring.

Animal welfare protests were also present in Germany but directed solely at European animal welfare issues such as force feeding of ducks and geese, and the use of veal calf crates. New Zealand farmers would generally share the protesters' sentiments on these issues.

Visited: Agriculture Directorate - General of the European Commission,
Brussels

Viewed: Animal Welfare Protest, Munich, Germany
Animal Welfare Protest, London, UK

2.2 BOVINE SPONGIFORM ENCEPHALOPATHY ("BSE")

Contact: Dr Richard Kimberlin
 - member of the **Creutzfeldt-Jakob disease ("CJD")**
 Surveillance Unit, United Kingdom
 - Scrapie and Related Diseases Advisory Service Consultant

2.2.1 BSE

The background to BSE is readily available in New Zealand. Dr Kimberlin summarised the background and made the following points -

- scientists remain confident that the source of the infection was meat and bone meal. The 'bell' shaped graph of infection levels closely follows a similar curve of the availability of infected foodstuffs. Unfortunately there is a delay of 7 years (representing the incubation period for the disease) between the "infected foodstuffs curve" and the "symptoms curve"
- he felt there was a possibility of maternal transfer but at rates so low that the disease could not be sustained by maternal transfer alone. (Maternal transfer has subsequently been confirmed at levels possibly high enough to sustain the disease).
- whole herd slaughter is inappropriate in view of the low levels of BSE in individual herds.
- no definitive test has been developed for BSE. A number of tests are available that can confirm BSE is present by testing a protein. There are no tests yet available which can reliably confirm that an animal does not have BSE.
- the 'organophosphorous theory' which argues that there is a strong association between the incidence of BSE and exposure of cattle to organophosphorous pesticides ("OPs") is dismissed by the bulk of the scientific community. An example of why is in the island of Guernsey which has the highest incidence of BSE in the UK despite the fact that OPs have never been used there and cattle have never been imported onto the island.

2.2.2 CJD

The source of CJD infection is unknown. It has traditionally been found at similar levels in every country. In 1996 a new sub-group of CJD cases, similar in characteristic and slightly different to other CJD cases was recognised. At the time of our meeting no common link was apparent between the CJD cases in the sub-group. However it now appears that the structure of proteins from the sub-group and from BSE infected cattle are sufficiently similar as to indicate a link.

2.3 *BOVINE TUBERCULOSIS ("TB")*

2.3.1 Ireland

TB levels in Ireland run at 2.9 reactors/1000 tests but with a TB incidence of 1% of the total herd of some 7 million cattle. Traditionally farmers tested within 60 days of movement. Now they have moved to a scheme where pre-movement testing for clear herds is not required but an annual test is still necessary. In conjunction with this change "user pays" charging has been introduced for TB testing.

Compensation is generally paid to 100% of the value of the animal for reactors slaughtered. The exception is high valued pedigree dairy or stud cattle.

Movement of infected cattle by dealers is a significant source of infection. At one street market in Galway province dealers were selling calves from the south literally out of the back of trucks lending credence to concern at their activities. Illegal cattle movements are also believed to contribute to a lower incidence of Brucellosis in the south western regions. The Department of Agriculture, Food & Forestry are keen to introduce cattle identification systems in an endeavour to address this problem.

The other main source of infection is the badger. Infection rates in badgers are estimated at around 10% in Ireland and populations are increasing. The Badger is protected but some can be caught for analysis. Badgers can harbour disease for some time. They roam outside their normal territory when infected, even wandering into farmyards. Vaccination of badgers against TB is under consideration but appears to be some way from practical reality.

TB testing of farmed deer is only in its infancy, however numbers of farmed deer are very low. The TB incidence in wild deer is unknown.

Contact: Fergus Phalin
 Higher Executive Officer, Administration
 Department of Agriculture, Food & Forestry
 Dublin

2.3.2 England

Ministry of Agriculture, Fisheries and Food officials seemed reluctant to discuss TB, or provide information on incidence levels. Farmers were more forthcoming and are very concerned at the rapid increases in TB infection occurring in some areas. For example Herefordshire only had one reactor 2 years ago and around 50 last year. Farmers are concerned that this trend is likely to continue as the badger population increases.

Badgers are heavily protected in the UK and apparently cannot be destroyed even if showing signs of TB. Populations are increasing rapidly in parts of Wales and the south and west of England. Vocal lobby groups closely monitor badger populations and pressure authorities to protect the badger at all costs.

2.3.3 General

Farmers in New Zealand are fortunate by comparison with our UK counterparts. At least in New Zealand we are able to kill the TB vectors as a means of controlling disease spread. In England (and Ireland) the disease is on the increase and farmers are helpless to do anything about it.

Discussions with farmers in various continental countries indicate TB is currently a very minor problem on the Continent.

2.4 RABBIT CALICIVIRUS DISEASE ("RCD")

RCD arrived in the UK in 1992 having been a notifiable disease there since they began researching it in 1991.

Rabbit farming is insignificant in the UK but large numbers are kept as pets. RCD was first identified there in a pet rabbit. The scientific community consider it likely infection was from the Continent and occurred via pet breeders smuggling rabbits into the country.

RCD is a stable virus transferred by contact and via urine, faeces etc. The virus will survive for weeks in experimental conditions in Europe. Fleas are not thought to be a major vector in Europe.

RCD is spreading slowly throughout the UK with the main concentration of cases in southern England. Unfortunately around 60% of UK rabbits show resistance to RCD. This appears to be caused by a subclinical virus similar to RCD resulting in them testing sera positive to RCD antigens. NZ rabbits are not sera-converted (ie do not show false positives) indicating a similar virus is not present here.

Surveys of susceptible rabbits indicate 90% contract fatal infections of the disease. However due to the immunity discussed earlier wild rabbit losses could be as low as 30%. There is considerable difficulty in accurately estimating this figure as many die in their burrows and a portion are eaten by foxes.

Foxes that have consumed infected rabbits can develop antigens to the disease (ie sera-convert) but do not contract the disease.

Rabbits were evident in quite high numbers in parts of the UK particularly in the Borders region of Scotland.

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2.5 *HORMONAL GROWTH PROMOTANTS* ***("HGP")***

The use of HGPs is illegal in Europe. Despite this it would appear that there is a thriving black market for the likes of Clenbuterol (commonly called "Angel Dust") on the Continent and to some degree also in Ireland.

Clenbuterol use was not openly apparent on any farm visited. However articles in various agricultural journals confirmed that many farmers do use HGPs. The murder of a Belgian vet who was leading calls for a crackdown on HGP use received significant publicity.

While I was in Ireland the Irish Minister of Agriculture (Mr Ivan Yates) announced new legislation to combat HGP use. Under this legislation farmers convicted of serious offences in regard to illegal growth promotants would be banned from farming. At the time of the announcement there had been 59 prosecutions over the previous 10 years and 120 cases still to be heard by the Courts. However the Office of the Chief State Solicitor issued a statement that in their view the agricultural authorities are turning a "blind eye" to much of the HGP use and that prosecutions should be around one thousand per year over the 10 year period.

UK officials also hold the view that a "blind eye" is turned to HGP use. Department of Agriculture of Northern Ireland officials explained that there are three tests for Clenbuterol:

- 1 blood test - detects Clenbuterol up to 48 hours after it is administered;
- 2 bile test - good for 14 days after Clenbuterol use; and
- 3 retina test - good for 6 months after Clenbuterol use.

They advised that most other European countries are not using the retina test - in other words those countries are deliberately avoiding detecting HGP use.

Consumers appear largely unaware of HGP use by European Union farmers. However like consumers anywhere it is likely that if given an informed choice they would prefer HGP free meat.

Over-all the general lack of action by European Union authorities toward stamping out the black market in HGPs highlights the real reason for the official ban on their use. It appears the ban is to enable the maintenance of a non-tariff barrier against beef imports from countries such as the USA and Canada which are heavy HGP users.

2.6 *EU ECONOMICS*

Europe is largely in recession with Germany, Italy and France showing poor economic growth and high (12-15%) unemployment. With combined populations of some 200 million people these statistics impact heavily on the wider European economy. Even Switzerland is experiencing some fallout and an air of pessimism is apparent amongst the population there.

Belgium's economy is benefiting from the decision to house the European Parliament there. Only the Netherlands and Britain have managed to achieve above average performance amongst the northern European countries.

To a visitor from outside the economic environment appears remarkably similar to that prevailing in New Zealand in the early 1980s. Subsidies, incentives, quotas and regulations appear to drive many of the major decisions for a European business, whether a family farm or a large corporate such as Phillips or BMW. Factories are not located based on proximity to markets, raw materials or some other logical reason. Instead a "bidding" process occurs where the manufacturer effectively says "who will give me the greatest subsidy to locate in a particular region?"

The effect of this environment is demonstrated by a company Moy Park Ltd, in Northern Ireland. Moy Park Ltd is a successful and innovative company processing and adding value to chickens. However on the surface there are no logical reasons for the plant to be located in Northern Ireland. There is no significant arable farming to produce poultry feed and therefore no chicken rearing industry. This requires most of the company's chicken supplies to be imported from Thailand and Argentina.

Northern Ireland's population is only around 1.6 million people, not enough to justify locating the UK's 2nd largest poultry processing plant there. This necessitates 95% of the production being exported to the British mainland.

Only when visiting one of their competitors did the reasons for locating the plant in Northern Ireland become clear: There are significant business and employment incentives for companies to locate there.

It is difficult to see the EU achieving its economic potential in the short to medium term while they continue to favour a system riddled with distortions and inefficiencies. With the most deregulated economy in Europe it is no surprise that Britain is outperforming her EU partners.

2.7 COMMON AGRICULTURAL POLICY ("CAP")

The Common Agricultural Policy provides artificial price/support for many mainstream agricultural and horticultural land uses. Not all products are covered. Examples of exceptions include the lack of a direct subsidy for wool production and deer farming.

There is a considerable divergence of views between the different member states on the need for de-regulation and removal of subsidies and protection. A British document produced by the Minister of Agriculture, Fisheries and Food's CAP Review Group gives an indication of UK Government preferences. This document titled "European Agriculture, The Case for Radical Reform" advocates a move to an unsubsidised and unprotected farming sector. However payment of environmental subsidies decoupled from production is accepted. Many UK farmers do not share such radical views although an increasing number are accepting that subsidies and protection cannot (and should not) continue.

Unfortunately (from a New Zealand perspective) the more commonly held view through the remainder of Europe is that the reforms to date are already radical. There is no real desire to dismantle the CAP distortions; too many people have a vested interest in seeing them continue. The vested interests are not only restricted to the farming community but also include bureaucrats both in Brussels and throughout the member countries.

A popular theory amongst academics appears to be that the entry of East European countries into the European Union will crystallise the need for further reform of the CAP. One view was that the entry of Poland alone could require an increase in the European Union agriculture budget of 40% unless major reform is undertaken.

On the surface the European Union appears keen to admit additional members. However at the same time there is a feeling that every attempt is being made to delay tangible progress toward entry by the East Europeans in order to postpone looming CAP reform where possible.

2.8 WOOL

2.8.1 GENERAL IMPRESSIONS

2.8.1.1 INTERIOR TEXTILES

Regional differences apparent in the meat trade also apply to the market for woollen products in Europe. The UK continues to favour extensive use of wool carpets, particularly for domestic housing. In contrast few houses on the Continent have wall to wall carpet. The need for the warmth of wool carpets has all but gone with houses throughout Europe centrally heated.

The use of wool for its functional qualities appears to be at a low level on the Continent. However there is a huge market for rugs there. Rugs are used extensively to "decorate" the hard flooring which is very much in vogue on the Continent. There is a huge range of sizes and prices with designs ranging from conventional to abstract.

Many rugs are hand knotted having been produced in countries such as Nepal, Pakistan and Turkey. It is likely that a significant portion of the raw wool is from New Zealand although generally there is no indication of this. The predominance of modern designs indicates rug makers have a very clear idea of the end customer's requirements.

Wool is positioned at the top end of the market with top wool carpets retailing at twice the price of the most expensive synthetic carpets. Rugs, far from appearing like the output from some third world cottage industry are very upmarket with prices to match. Stores visited would invariably have a selection of rugs retailing for in excess of NZD10,000 equivalent.

While wool offers the "comfort" of being a natural fibre, carpets made from sisal are readily available and also emphasise the "natural" aspect in their promotion.

2.8.1.2 APPAREL

Visits to Europe's major cities serve to confirm that most consumers are not relying on wool products for warmth. As a result wool must compete with other fibres in a world dictated by fashion trends. Again the advantage of being a natural fibre is shared with other products such as cotton and linen.

2.8.2 IMPLICATIONS FOR NEW ZEALAND

The wool industry was not studied in detail. Also the Fernmark branding programme was only in its infancy at the time of visiting Europe. However given the depressed state of the European economy, and the current position of wool in that market, it is difficult to envisage a dramatic increase in demand sufficient to result in a significant upturn in prices for raw New Zealand wool. The above factors, when combined with the sheer size of the

market, do not auger well for the Fernmark programme delivering a tangible return to growers.

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2.9 NEW ZEALAND INC

2.9.1 DAIRY PRODUCTS

The New Zealand Dairy Board and its subsidiaries have achieved impressive market penetration with branded retail product in Hong Kong and England. Discussions with a UK competitor, The Cheese Company Ltd, confirmed that Dairy Board subsidiary, Anchor Foods Ltd, is very much the market leader. New Zealand retail product is less evident in Scotland and the Continent. Competition is intense with a huge range of dairy product suppliers. Non tariff barriers remain a minefield restricting market development.

Dairy Board staff believe critical mass is essential to support consumer product brands in the market place.

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2.9.2 APPLES

New Zealand apples are readily available throughout Europe but face intense competition from other Southern Hemisphere producers, namely Chile and South Africa. It is common for the same variety from all three countries to be sold by the supermarket in the same bin at the same price. The eating quality of fruit from all three countries was excellent.

2.9.3 KIWIFRUIT

New Zealand kiwifruit were largely absent from the shelves until well into the European summer. European product was available and largely of small size and poor quality. New Zealand product appears highly regarded judging from one supermarket selling local product in New Zealand trays.

2.9.4 WINE

New Zealand wines have achieved good penetration in the UK along with "new world" wines from other southern hemisphere producers. The "new world" wines are highly regarded and considered reasonably priced. To date New Zealand wines have really only "scratched the surface" in the Continental market. Despite appearing awash with wine from nearly every winegrowing country in the world, there would seem to be considerable opportunities for future growth in that market.

2.9.5 GENERAL

New Zealand is a small insignificant country in the context of the world. Despite this it has a huge reputation as a clean, green natural country. This reputation is of immense value in marketing our products and is evident even in areas where New Zealand product is rarely if ever sold.

It is clear that tourism has played a huge part in creating this image. Many Europeans do not know the products we produce and have never been reached by generic marketing campaigns but they retain a firm image of New Zealand as a clean, green, natural haven in the South Pacific. In the words of one German meat wholesaler - "New Zealand's greatest advantage is its distance from Europe - when you're that far away you must be clean!"