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Investment needed for NZ red meat sector to realise sustainable advantage – industry report

Increased investment into the ethical and sustainable aspects of New Zealand's red meat production systems can deliver a range of benefits for the sector, according to a recently-released report by agricultural banking specialist Rabobank.

In the report, ***Realising the Sustainable Advantage: How investments in sustainability can benefit the New Zealand red meat sector***, Rabobank says in order to address local concerns about the impact livestock farming is having on animals and the environment, regulation of the New Zealand agricultural sector is set to tighten over the next 12 to 18 months, requiring the industry to invest more into the ethical and sustainable aspects of its production systems. However, this investment can pay strong dividends to the sector by helping to mitigate risks and providing future market opportunities.

"While it will be challenging in the short to medium term for the sector to pass on the associated cost increases to New Zealand's offshore customers, changing global trends and market requirements ensure there are benefits to be realised from this investment," report author, Rabobank animal proteins analyst Blake Holgate said.

"These benefits include risk mitigation measures which will help to future proof the red meat sector, as well strategic advantages that position the industry to unlock new markets, develop long-term supply arrangements and influence the direction of future regulation."

Tightening regulations

The report says the three aspects of red meat production that are most commonly the focus of public, and regulatory, attention in New Zealand are environmental sustainability – including freshwater use and pollution, loss of biodiversity/land use change – greenhouse gas (GHG) emissions and animal welfare.

Mr Holgate said increased regulation relating to each of these aspects of production was expected in the short to medium term.

"In September 2017 the National Policy Statement for Freshwater Management was amended to set a national target of making 90 per cent of New Zealand's rivers and lakes swimmable by 2040. In order to achieve this target, new stock exclusion rules have been proposed which will require increased on-farm investment in fencing and other mitigation measures," he said.

"The Minister for the Environment has also this week indicated that it is likely the government will be introducing a new National Policy Statement on Freshwater Management and a new environmental standard by 2020."



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In regard to bio-diversity, Mr Holgate said, a draft policy statement for indigenous bio-diversity is due to be released for public consultation in late 2018.

“There has been no indication of what, if any, implications this will have for red meat farmers, however, with 24 per cent of New Zealand’s native vegetation estimated to be on sheep and beef farms, there is potential for rules to be introduced that will further restrict ability to convert any existing native vegetation into pasture in order to expand production,” he said.

In addition to these policy developments, the report says a new GHG emissions bill is currently being drafted, while new animal welfare regulations were introduced earlier this month.

“By mid-2019, the Zero Carbon Act is expected to be in force, which will put targets into law that require New Zealand to be carbon neutral by 2050. In order to achieve this target, the Productivity Commission recently concluded that agricultural emissions need to be included in the New Zealand Emissions Trading Scheme. Should that occur, it would introduce a new cost into the farming system in the form of an emissions price,” Mr Holgate said.

“New regulations for animal welfare standards also came into force on October 1. The most relevant changes for red meat farmers are the introduction of new minimum standards for castration and stock handling, with further regulations for de-budding and dehorning due to come into effect in a year’s time.”

Benefits of investment

The report says while improvements to the ethical and sustainable aspects of the red meat sector’s production systems will incur a cost, improvements that go beyond minimum compliance standards now will help to reduce risks that could eventuate in the event standards become more arduous in the future.

“At the farm level, this investment will help protect against future regulatory changes that may otherwise threaten the viability of the operation and/or necessitate a significant one-off spend. In addition, banks are increasingly incorporating an applicant’s ability to meet certain production standards into their lending assessments,” Mr Holgate said.

“For processors, and the sector as a whole, future risk primarily comes in the form of reputational damage. If New Zealand is unable to meet the non-regulatory production standards prescribed by major food retailers and foodservice providers, it will increasingly find itself excluded from these sales channels, and unable to access these markets.”

Mr Holgate said beyond risk mitigation, a number of strong strategic advantages would also become available to the New Zealand red meat sector from increased investment into the ethical and sustainability aspects of production.



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“Observing robust production standards will help reinforce New Zealand’s position as a credible and reliable source of ethical and sustainable red meat products in the eyes of global consumers as well as major food buyers and retailers. Adhering to these higher standards will also be an important complement to the other aspects of New Zealand’s production systems, such as pasture raised, that underpin New Zealand’s red meat country of origin brand.” he said.

Further, Mr Holgate said, increased investment would create opportunities to identify and supply those niche markets where consumers were willing to pay a premium for ethical and sustainability-produced food.

“To date, mainstream consumers have proven reluctant to pay noticeably more for products that meet higher sustainability standards, however, further investment in this area will place New Zealand in a strong position to capitalise on any change in mainstream consumers’ behaviour should they start to become increasingly willing to pay for sustainability attributes,” he said.

Mr Holgate said a further strategic benefit of increased investment in ethical and sustainability aspects of red meat production was an improved perception of the sector among young people.

“Retention and attraction of high quality workers into the red meat sector will be crucial for the long-term success of the industry and investments into ethical and sustainable practices will help ensure the industry is viewed by the younger generation as an appealing sector to be part of, both within and outside the farm gate,” he said.

Additionally, Mr Holgate said, increased investment would place the industry in a stronger position to negotiate any future regulation.

“The power to sufficiently influence future regulation flows directly from how much trust the public have in the sector to act in a way it considers to be acceptable. Investments made to secure this trust now will place the red meat industry in a much better position to influence the final shape of any future regulations ensuring they are not ineffective, over burdensome, or ultimately unnecessary,” he said.

Transparent communication

Mr Holgate said realising the potential benefits of investment would require open and transparent communication between regulators, industry and farmers.

“The most efficient means to capitalise on the opportunity created by pending regulatory changes will be by ensuring there is as much alignment as possible between the needs of consumers, the needs of the local community, and the investments that are made by the sector,” he said.

“Transparent communication will be required to ensure future production standards are both appropriately designed, and signalled sufficiently in advance to inform any future investment decisions.”



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Rabobank New Zealand is a part of the global Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has nearly 120 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 39 countries, servicing the needs of about 8.4 million clients worldwide through a network of close to 1000 offices and branches. Rabobank New Zealand is one of the country's leading agricultural lenders and a significant provider of business and corporate banking and financial services to the New Zealand food and agribusiness sector. The bank has 32 branches throughout New Zealand.

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