



There are two topics that are the main feature of this year's Beef + Lamb New Zealand consultation with farmers. We have a new plan to put in front of you on how we plan to conduct market development which I have outlined in this letter – and we are reviewing and updating the Beef + Lamb New Zealand Constitution – also outlined here. There will be the opportunity to hear more about both topics at meetings in your area over the coming weeks.

You will also have the chance to provide feedback on the consultation topics by sending the enclosed submission form back to us, or by going online where you can watch a short video from me and our CEO Sam McIvor. Then tell us what you think.

A handwritten signature in white ink, appearing to read "JP", with a long, sweeping underline.

*James Parsons
Chairman
Beef + Lamb New Zealand*



MARKET DEVELOPMENT

After a thorough review we're proposing a new approach to market development that will see our activity shift from market maintenance in traditional markets to targeting new segments in both new and traditional markets. Good knowledge of customers and market information will underpin the work.

The independent review of Beef + Lamb New Zealand's promotion activities began last year. It started with the question: "Is there a role for Beef + Lamb New Zealand in market development using farmer investment?"

We committed to do this review during the 2015 Sheepmeat and Beef Levy Referendum. The view of the Board then was it was time to exit promotion and refocus behind the farm gate. However after numerous interviews, farmer focus groups then follow up interviews with farmers, exporters, importers and those at the consumer coal face, the overwhelming answer has been: "yes there is a role for B+LNZ but different to the way we have been doing it."

We've taken this feedback on board and embarked on a very thorough process to develop a business plan in conjunction with individual farmers, meat exporters, government agencies, and other sector stakeholders to flesh out what that future role looks like.

Now it is time to test our fully developed business plan with you. It has an overriding principle of achieving a premium for quality, growing the size of the sector and creating market opportunities.

The plan has four key components. They are:

- 1. Market Intelligence** - Better knowing customers and markets and their attitudes to our products and ensuring that knowledge is shared right through the value chain.
- 2. Our Story** - Our 'business as usual' story is exceptional, yet a continual theme in the review from people involved right through the supply chain was that we haven't told the story well. The passion, integrity and values we farmers exercise in producing our products is second to none. We need to tell that story. This will be the basis of building a red meat sector story that differentiates New Zealand farmers and our products from those in other countries. The story will evolve and keep New Zealand at the forefront of the international meat trade. A key aspect of this story is that our claims will be underpinned by verifiable on-farm and in-plant information.
- 3. New Markets - New Segments** - One of the current global food trends is the increase in snack foods and major companies like Hershey, Mars and Nestle have all started to acquire companies that produce healthier snacks. There is a longterm consumer shift to eating healthier snacks and meat snacks are showing the greatest category increase with health conscious consumers. This is the sort of opportunity we'll be looking at. Led by good market intelligence we will build a business case and partner with specific meat exporters to develop new markets and new value opportunities. Underpinning this will be our unique farm production story.
- 4. Crisis & Issues Management** - Food safety scares, biosecurity issues or animal welfare concerns are a constant threat. The sector must be nimble with industry-wide coordinated plans to address key international and domestic industry and market risks.

We'd like your views on the plan. More detail can be seen at beeflambnz.com/marketdevelopment where you can also watch a video from Market Development General Manager, Nick Beeby.



BREXIT

You will no doubt be watching with interest the developments with Brexit. We are working closely with the Government, relevant Ministers and officials to ensure there is a clear understanding of the trading arrangements New Zealand sheep and beef farmers need in place to ensure we're not disadvantaged in future agreements. This is a priority area for Beef + Lamb New Zealand and we will keep you updated.



BEEF + LAMB NEW ZEALAND CONSTITUTION REVIEW

During last year's sheepmeat and beef referendum we committed to undertake a review of the Beef + Lamb New Zealand Constitution.

Established by the farmer referendum in 2003, it's due for a review. For example, changes include removing references to goats where there is no longer a levy stream. Of a more significant nature, is whether farmers wish to retain on the Board the two industry directorships that are nominated to our Board by the Meat Industry Association (MIA). These positions are currently held by Mark Clarkson, Managing Director of ANZCO Foods Ltd and Sam Lewis, Chairman of Affco New Zealand Ltd.

The constitution gives discretion to the six farmer directors on the Beef + Lamb New Zealand Board about accepting the MIA recommendation and farmer directors control majority votes around the board table, six to two.

The constitution says appointees must act in the interests of sheep and beef farmers. It's the farmer directors' view that over the years, the MIA appointees have in fact brought valuable insights from beyond the farmgate that have been of significant value.

In this review, the question we are posing to farmers is whether or not to continue to have industry nominated directors on the Beef + Lamb New Zealand Board. If there's sufficient support for these positions the constitution will remain unchanged. We've included a table laying out the pros and cons of the constitution governance structure.



Watch a video on the issues covered in this year's Beef + Lamb New Zealand farmer consultation beeflambnz.com/consultation

Beef + Lamb New Zealand farmer directors will be speaking at meetings in your area over the next six weeks. Both these topics will be covered, as well as the usual farmer consultation areas including next year's budget and proposed funding from New Zealand Meat Board interest and capital. We encourage you to try and get along to these meetings which will be advertised through the Beef + Lamb New Zealand e-diaries and in the weekly farming publications in your mailbox.

We're keen to hear what you think about these topics. You can lodge your views online surveymonkey.com/r/farmer-consultation or mail back the enclosed submission form.



Three possible options for the B+LNZ governance structure

	+ Pros	- Cons
<p>Current Situation Two industry nominated directors on Board and provision to appoint an additional independent director (never been utilised). (6 farmer directors + 2 industry directors + 1 independent)</p>	<ul style="list-style-type: none"> • Brings valuable insight of beyond farm gate issues impacting the red meat sector strengthening the governance decisions made. B+LNZ would struggle to find this expertise outside of the pool of NZ processors and exporters. • Like farmers, industry appointed directors are aware of profitability across the value chain and competing uses of land. • Industry directors on the Board help build greater understanding of processor issues with farmer directors and gain better understanding relating to farming challenges which they convey to the processing sector. • Experienced in senior executive or governance roles. • B+LNZ farmer elected directors have the option to decline nominations from the Meat Industry Association, and also control majority votes around the Board table six to two. • *Industry nominated directors under the NZ Meat Board (NZMB) Act also sit on the NZMB as do the six farmer directors, providing some synergies and cost savings. • B+LNZ director fees paid to industry directors (\$32,300 per director), would require fees of \$45,000 to \$50,000 per director to attract experienced independent directors if replaced, based on market rates. 	<ul style="list-style-type: none"> • Perception amongst some farmers these directors put processor interests ahead of farmer interests. • Occasionally industry directors are removed from decision making process due to conflicts of interest. • Nominated currently by the Meat Industry Association as the representative “industry organisation”, this could be an issue if, for example, MIA ceased to exist and no other obvious organisation reasonably representing the meat industry replaced it. • **The cost of additional director fees to have Industry nominated directors.
<p>Remove meat industry directors, replaced by appointing two independent directors and retain provision for a third independent director (6 farmer directors + 3 appointed independent directors)</p>	<ul style="list-style-type: none"> • Opportunity to appoint additional skillsets that complement farmer director skillsets. eg. marketing, IT, R&D, procurement, processing, finance etc. • Removes perception of conflicts of interest, industry nominated directors have in governing B+LNZ. 	<ul style="list-style-type: none"> • Would be looking for skillsets similar to industry nominated directors, such people generally have conflicts that need managing anyway. • Current constitution allows the Board to appoint one additional director with specialist skills, but the Board hasn’t felt the need to fill that position. • Creates possible gap between on-farm priorities and beyond farm gate considerations. • *Would require amendment to NZMB Act to remove legislative requirement for industry appointed directors from B+LNZ on the NZMB. • **Greater cost in director fees to attract suitable independent directors (as noted earlier).
<p>Industry directors are not replaced and fill the independent director slot under current constitution making a Board of seven. (6 farmer directors + 1 independent director)</p>	<ul style="list-style-type: none"> • **Saving on director fees • A Board of 7 is smaller and easier to manage than a Board of 8. 	<ul style="list-style-type: none"> • Removes valuable skills and expertise, leading to less robust governance decisions. • *Requires consequential amendment to NZMB legislation (Meat Board Act 2004) to remove provision for industry appointed B+LNZ directors to also sit on the NZMB. • **Higher director fees per person required than currently expended on industry directors to recruit a suitably experienced independent director, resulting in minimal cost savings.

*The NZMB Act 2004 was passed into legislation to align with the B+LNZ Constitution voted in by farmers in 2003. The NZMB currently governs \$80m of reserves and administers NZ’s Country Specific Quotas into the EU and USA. The NZMB Act requires the Board be governed by 10 directors, 2 appointed by government and 8 from B+LNZ (under the Act 2 B+LNZ directors must be industry nominated directors).

**B+LNZ directors including industry nominated directors receive fees of \$32,300 from B+LNZ and the NZMB directors receive fees of \$16,300.

BUDGET

We're not planning any change to the beef or sheepmeat levy investment in the next budget year. Investment across the programmes will be similar to last year, except in market development where we estimate spending \$4.2 million for the first year if we are to bed in the proposed programme.

Funding applications will be made to the New Zealand Meat Board (NZMB) for:

- Beef + Lamb Genetics, estimated at \$1.9 million from interest income (after NZMB costs). This supports funding from levies.
- Red Meat Profit Partnership, \$4 million from capital.

There are remaining wool reserves of \$400,000 and the Board will be assessing options for wool-specific investment, complementary with existing B+LNZ programmes. For example facial eczema and genetic markers may be invested in.

BEEF LEVY Beef programme expenditure including NZMB funding for the 2016-17 year (\$10m)



SHEEPMEAT LEVY Sheepmeat programme expenditure including NZMB funding for the 2016-17 year (\$16m)



The total budget is \$26m. \$24m comes from levies and \$1.9m comes from NZMB interest income.

