

The 2008/09 season resulted in low returns for velvet producers. This led to some farmers culling their velvetting stags more aggressively and taking advantage of higher venison prices. NZ Velvet Marketing Company was formed between PGG Wrightson and Tasman Velvet Processors. Subsequently it included Veleco and another velvet farmer cooperative. More velvet was shipped to, and reportedly consumed in China – though Korea still remains New Zealand's main velvet consumer. A new Velvet Industry Strategic Intent was launched and work continued to promote velvet in New Zealand's core markets.

Strategic objectives

A new [Velvet Industry Strategic Intent](#) was written and launched in 2009 (see below for further information). The 2010–2014 Velvet Industry Strategic Intent puts emphasis on traditional markets and improving market access. The traditional markets of South Korea, China and Taiwan have a receptive audience that better understands velvet's role in health and wellbeing. With China's increasing wealth and burgeoning economy, it is important the industry acts quickly to ensure velvet is kept "top-of-mind" as a credible health product, or potentially lose to alternative, western-based supplements. Also, the industry needs to keep pace with a changing Asia as newer generations demand further evidence of efficacy and easier delivery systems.

Around the markets

Traditional and new markets in South Korea

2008/9 was a challenging year with New Zealand's biggest velvet market, Korea, not immune to the economic pressures facing the world. While Korea narrowly avoided a technical recession, spending on premium items slowed and the Korean won



NEW ZEALAND UNLIMITED APRIL 2009. NEW ZEALAND'S LARGEST FOOD AND BEVERAGE SHOWCASE TO KOREA.

suffered due to repatriation of major currencies.

On the market side, two companies in Korea used around 10% of New Zealand's velvet production in modern, ready-to-use formulations. This was a fast-growing segment where quality and authentic ingredients are desired. New Zealand was increasingly well recognised in this respect

In April 2009, Deer Industry New Zealand participated in a New Zealand food and beverage expo, run by the [New Zealand Embassy in Seoul](#). Deer Industry New Zealand participated alongside a number of leading New Zealand industries. This gave New Zealand velvet great exposure to over 12,000 Koreans. The event's public day was preceded by a "VIP" day targeting business leaders, politicians and media.

Negotiation of a [Free Trade Agreement](#) between New Zealand and the Republic of Korea began in June 2009. The first set of formal offers were tabled in September. The balance of trade between the two countries is quite even, with

Korean exports of technology and hardware complementing New Zealand's strengths in food, tourism and education.



NEW ZEALAND'S LEAD NEGOTIATOR, ALISON MANN, AT THE 2009 DEER INDUSTRY FGM. PHOTO: PHIL STEWART.



CHINA'S LARGEST PET TRADE SHOW, HELD IN SHANGHAI DURING SEPTEMBER 2009, GAVE THE CHANCE TO PROMOTE NEW ZEALAND DEER VELVET'S USE IN COMPANION ANIMALS.

Strengthening ties with Taiwan

Deer Industry New Zealand strengthened ties between the New Zealand and Taiwan deer industries when it welcomed the Chairman of the Taiwan Deer Farmers' Association and a representative of the Republic of China Deer Farmers' Association on their visits to New Zealand. (Taiwan has two deer farmers' associations, which have complementary functions.) Deer Industry New Zealand believes that a potential *win:win* strategy in lifting consumption of velvet in Taiwan could benefit both industries, ultimately leading to an increased quota.



THIS DELEGATION FROM HEILONGJIANG TO NEW ZEALAND INCLUDED CHINESE GOVERNMENT OFFICIALS AND DEER INDUSTRY REPRESENTATIVES.

Unlocking the potential in China

An increased amount of New Zealand deer velvet was exported to China over the past season. While a portion is re-exported to Korea, one major exporter commented that a growing amount was retained and consumed in China. China was less affected by the global recession than other countries, still achieving solid economic growth. As individual wealth continues to grow, it is very important for the New Zealand velvet industry to capture market opportunities. Deer Industry New Zealand continued to strengthen its relationship with importers, marketers and local Chinese government.

China's desire to trade in New Zealand velvet has strengthened with more high-level delegations to New Zealand to seek further trade opportunities.

Hong Kong creations

Deer Industry New Zealand worked closely with New Zealand's two main exporters of deer co-products in a well co-ordinated promotion. The joint promotion was designed to create interest in New Zealand deer sinew and tails as functional foods good for "health and beauty". The campaign started with a media launch leading into [Chinese New Year](#) at a well respected [5-star hotel](#). Several dishes were created with a few remaining as signature dishes on the menu well after the event. The event received widespread coverage in Hong Kong's main Chinese language magazines, newspapers and on several Hong Kong television shows. The publicity also gave an opportunity to educate the audience on identifying authentic versus imitation co-products. The event also sought to educate consumers on the difference between authentic Deer sinew and imitation products sold as deer sinew.

Pet promotions

Work continued with a Hong Kong-based company selling velvet into the companion animal market. Joint promotional activity with Deer Industry New

Zealand over the past year has included bus, newspaper and magazine advertising, veterinary conferences and trade expos in Hong Kong, Taiwan and China. [Evergrow Health Supplies](#) reported continuing growth within this market.

Strengthening the New Zealand velvet brand

The deer Velvet Technical Manual was revised and updated to link health claims with supporting scientific research. The Technical Manual is a comprehensive tool which is fully referenced to scientific papers on velvet from New Zealand and around the world.

To complement the Technical Manual, two brochures were produced: a consumer brochure, summarising key health benefits from the Technical Manual, and a wholesaler brochure highlighting New Zealand's key attributes as the premium velvet supplier. These two brochures completed the suite of marketing materials outlined in the 2007/08 Annual Report.

In line with the 2010–2014 Velvet Industry Strategic Intent, the Technical Manual and brochures were translated into Korean, and Traditional and Simplified Chinese. All received excellent feedback from the markets.

STRATEGIC INTENT

Review of 2005–2009 strategic intent

Between 2005 and 2009 Deer Industry New Zealand carried out around 30 joint promotional campaigns, worked to improve market access, and undertook research programmes to assist the development of the New Zealand velvet industry. This period saw significant challenges, however new markets are developing and opportunities have been created for the commercial sector.

| Main market segment goals and results | | | |
|---------------------------------------|--|--|--|
| Market | Objective | Action/Target | Result by 2009 |
| Korea | Diversify from traditional market reliance | 45 tonnes into new channels by 2010 | Over 35 tonnes of New Zealand velvet consumed in further processed form by Koreans, primarily as drink sachets. This market is growing. |
| | Improve market access | Reduce duty and Special Excise Tax | Korean Free Trade Negotiations began in 2009. Deer Industry New Zealand ensured the deer industry's interests were represented by New Zealand's negotiators. |
| | | First shipment of sliced velvet exported in 2008 | Paves the way for future shipments of sliced New Zealand deer velvet. Several tonnes were exported sliced, packaged and finished in 2008 and 2009. |
| China | Increase sales of New Zealand velvet | Retain and consume 55 tonnes of New Zealand velvet | 2005 exports: around 100 tonnes. 2009 exports: around 345 tonnes. Deer Industry New Zealand estimates that at least 1/3rd is retained and consumed in China (more than 114 tonnes). |
| Taiwan | Improve market access | Increase current 5 tonne frozen velvet quota | Restrictive Tariff Rate Quota still applied to imported deer velvet. Solid working relationship with government and local industry has been instrumental in reducing fear of New Zealand velvet flooding the market. This is an important, first step toward support in reducing trade restrictions. |

All figures in above table relate to frozen equivalent

Other market segment qualitative goals and results

- **Western markets:** While some companies have carved a reasonable niche for themselves in the western market, effective change in terms of New Zealand velvet exports did not occur. Compared to Asia, it would take significant promotion to educate the relatively naïve western audience and create a meaningful impact on New Zealand velvet.
- **Velvet in a wound-healing product:** Promising steps led to planning for a “first in man” trial due to commence in 2010. If successful, the project moves closer to commercialisation.
- **Co-products:** Exports of co-products continued to climb during the period from \$7.7 million to more than \$12 million. Compositional analysis and joint promotional activity helped raise the profile of co-products which included a joint functional foods promotion in Hong Kong in 2009.

Velvet Industry Strategic Intent 2010–2014

The goal of the 2010–2014 Velvet Industry Strategic Intent is to create sustainable, profitable businesses in the New Zealand velvet industry through the efficient production and successful marketing of quality velvet.

New Zealand remains a large supplier of an unfinished commodity into a historically small, single market segment. This has created an environment which results in volatile returns to the industry and although another market is emerging, there is still uncertainty ahead. The Strategic Intent acknowledges the poor state of the velvet industry through long-term diminishing returns and the recent exit of farmers and processors. The Intent also highlights exporters' diverse opinions on how velvet is best handled in terms of delivery to market.

While returns in the short to medium term may improve through decreased supply, history dictates this will change as soon as the demand:supply equilibrium adjusts. Real change needs to be effected to create sustainable and increasing demand over time.

Based on current conditions, there will be a change in tactic for the next five years. The 2005–2009 Velvet Industry Strategic Intent sought new

markets and positioning for New Zealand deer velvet, while maintaining the traditional market. The new Intent puts focus back into core markets which readily accepts the role of velvet in modern health care.

The core priorities include:

1. Freedom to operate – in terms of velvet removal and regulatory challenges.
2. Improve market access – particularly in the current environment of free trade negotiations with New Zealand's leading trading partners, including South Korea.
3. Protect and grow traditional markets – South Korea, China and Taiwan.
4. Provide efficacy-based research – to support the above core markets.
5. Strengthen the New Zealand velvet brand – to gain a "fair value" for the unique quality systems New Zealand has in place.
6. Western-based markets will receive less focus; however there could be opportunities in the companion animal market.

The Strategic Intent needs to be flexible to allow for changes in the market and industry environments. It aligns DINZ actions with commercial objectives to create a sustainable velvet industry. To download the 2010–2014 Velvet Industry Strategic Intent, please click [here](#) or email info@deernz.org

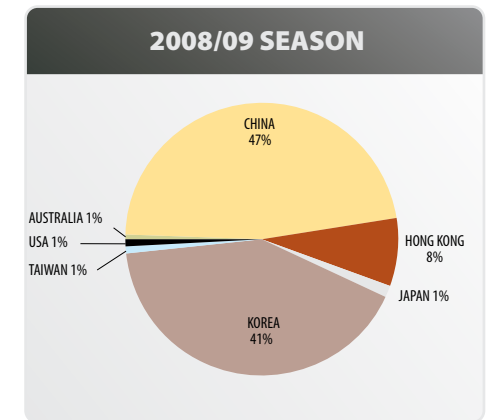
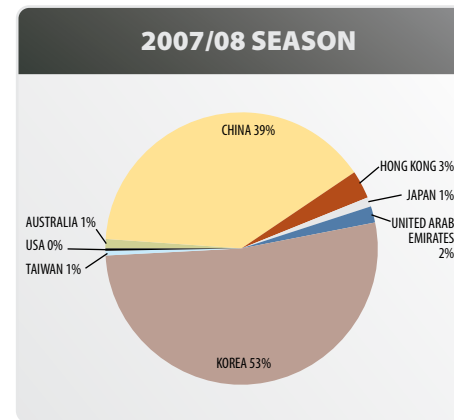


STATISTICS

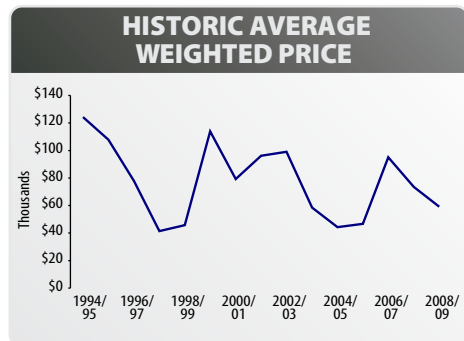
Velvet prices started 2008/9 at low levels, but improved as the year progressed. The weighted seasonal average of under \$60 per kilogram (for all grades) and around \$70 per kilogram for Korean A grades reflected the tough market conditions prevalent through the early part of 2009. Most exporters agreed that prices had improved by season's end.

The decline on 2008 was attributed to the unfavourable exchange rate with the Korean Won, the plentiful supply of velvet at the start of the season and the global financial crisis. Korea's economy was already declining when hit by the global economic recession, which caused an increase in domestic unemployment and reduced spending.

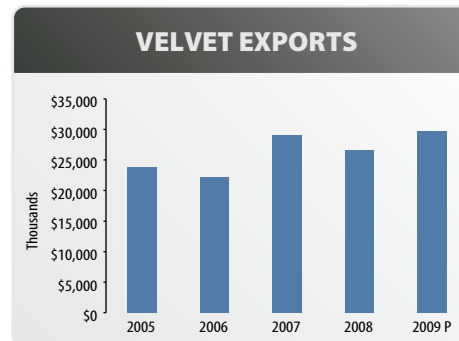
Velvet production (based on levy collected) declined from 487 frozen tonnes in 2007/08 to 443 frozen tonnes in 2008/09. While production in 2008/09 was down on the previous year, it was still higher than expected. Competition for land use continued to affect the velvet industry during the period as producers took the opportunity of the high venison schedule to reduce stag numbers. This heavy cull is expected to further reduce velvet production in the 2009/10 season.



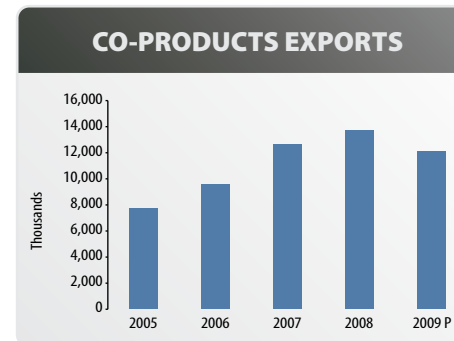
Export destination split (by value) as a percentage from 2007/08 to 2008/09



The major change in export destination was a slight shift from direct Korean exports to China. China represented 47%. Deer Industry New Zealand estimates that up to 65% of the velvet exported to China is then processed and re-exported to Korea.



VELVET
New Zealand exported velvet valued at NZ\$29.7m FOB during the year ending September 2009, a 12% increase in export value on the NZ\$26.6m earned in the year ended September 2008.



CO-PRODUCTS
New Zealand exported co-products valued at NZ\$12.1m FOB during the ended September 2009, versus NZ\$13.7 for the year ended September 2008, a 12% decrease in export value.



A 31% increase in the value of deer leather exported from New Zealand contributed to the increase in hides and leather export earnings.

RESEARCH PROGRESS AND RESULTS

Isotopic signature

This project was delayed until the 2009/10 velvetting season. Final results from the pilot study were only available towards the end of the 2008/09 velvetting season and as a result, the decision was made to hold off until the next season.

RepaiRx

Development of the wound-healing product from a velvet extract has continued at an appropriate pace. Throughout 2008/09 the components for conducting a small-scale human study were determined, negotiated with providers and assembled. Early in the year the expertise and clinic (where the study will take place) of a burns specialist was secured. Much of the remainder of the year was spent determining Australian regulatory requirements for a human study. Advice from a regulatory consultant was that the information gathered to date is very comprehensive

and should meet regulatory requirements. The later stages of the year were spent in securing manufacturing facilities and material.

As a result, expenditure on this project was relatively small this year, but will increase in 2009/10 as an application is made to conduct the study and the study itself gets underway.

Strategic research workshop

In 2009/10 the industry funding contribution to VARNZ will drop in line with the reduced velvet levy. This, coupled with projects ending or soon to end, provided a good opportunity to engage with some key velvet industry stakeholders to determine research needs to underpin the 2010–2014 Velvet Industry Strategic Intent. A workshop was held in August 2009 for participants to provide the VARNZ Board with ideas and industry issues to allow research topics to be prioritised according to their relevance to the 2009–2014 Velvet Industry Strategic Intent and affordability.