**Level 3: Future Proofing Strategies**

**Economic Strategies.**

**Teachers Note:**

**New Zealand’s Lamb Export Industry**

New Zealand is one of the world’s biggest exporters of lamb. Farmers raise millions of lambs across the country, and the meat is exported all over the world. Lamb is especially popular in places like the United Kingdom, China, the Middle East, and North America.

The lamb export industry is very important to New Zealand’s economy because it helps create jobs, supports farmers, and brings in money from overseas. However, exporting lamb can be complicated. Meat quality needs to be maintained while it travels to these markets however, changes in the global economy or shipping problems can affect how much lamb New Zealand can sell and how much money farmers make.

The objective of this task is to learn about some of the challenges the industry faces, like shipping delays and costs, and how companies try to solve these problems to keep New Zealand lamb reaching customers around the world.

**Task**

* Read the article “High Hope for UK Christmas Lamb”.
* Summarise the economic influence affecting New Zealand Lamb exporters and strategies they are implementing to mitigate these influences.

**High Hopes for UK Christmas Lamb**

A group of raw meat

AI-generated content may be incorrect.<https://country-wide.co.nz/high-hopes-for-uk-christmas-lamb/?srsltid=AfmBOormZ0L1xJO0wA0jkc-ZNpi2Di4cWGTiHfIGBq33hnbJd4biCadT>

Larger lamb exporters are hopeful they are putting shipping disruptions caused by Covid-19 behind them.

They credit this to supply chain teamwork with minimising impacts worldwide. They are now looking to send their usual volumes to the important United Kingdom Christmas chilled market.

But for smaller meat companies, lack of shipping space meaning high prices and container availability issues look likely to continue for a number of months yet.

A Silver Fern Farms (SFF) spokesperson says the company is facing disruption across all of its shipping routes. Managing this had required significant effort.

Its relationship with Kotahi (a joint-venture company with Fonterra), whose partnership with the Port of Tauranga and shipping company, Maersk, gave it improved access to space on export vessels and containers. It had allowed SFF to keep processing and moving product.

While there had not been an impact on deliveries, some disrupted timing of arrivals is being managed on a customer-by-customer basis. It expects the situation to continue for the foreseeable future and so will retain shipping flexibility to best manage the situation.

For example, in the Middle Eastern lamb markets, usually most countries would have been serviced from New Zealand with a one-port transition point. But shipping companies are using services that require two or three transition points, adding time and the risk of further delays at each.

Some transit times have almost doubled, with an impact on perishable chilled products’ shelf life which adds unacceptable risks to consignments.

However, UK shipping delays have been less than those in other regions, and with the lesser risk of supply chain disruption it will target typical volumes for the Christmas sea freight supply.

Alliance’s general manager of sales Shane is upbeat about shipping returning to a more normal level.

“We believe we’re through the worst of it,” he says. “We’ve worked together with our customers to minimise the disruption elements.”

In the North American market, where there has been shipping congestion problems causing delays in unloading at West Coast ports, there is more movement of product and less disruption. But it could be from 12 to 18 months before things return to a pre-Covid situation.

Susan Kilsby, ANZ agriculture economist, says shipping problems are likely to continue for the next six months if not longer.

“With ships sitting around at ports that means up to 20% capacity out of action,” she says. “Shipping companies are doing what they can, and that has meant missing out ports where there are big delays. But the bigger concern is for short shelf-life product where it is been hard to consistently deliver product to the market.”

Higher shipping costs have had to be absorbed along the supply chain with lower returns to producers than they might have received and higher prices for consumers. While more ships are now being built and containers added the situation will not be rectified suddenly.

Andrew Burtt, Beef+LambNZ’s chief economist, says shipping companies raising their rates to and from New Zealand to continue servicing United States customers would continue to put pressure on meat exporters.

“Behind the scenes they are doing a great job of paddling very fast and satisfying customers.”

Sirma Karapeeva, chief executive of the Meat Industry Association (MIA), says larger meat companies have managed the situation better than smaller players due to their long-standing shipping company relationships and their size. But small companies have had to contend with sketchy container availability which one week was fine and the next was not. In late August for example there was a two-week delay in unloading at Long Beach in California.

“It is not a pretty picture,” she says. “But there has not been any feedback about meat left in freezers or on wharves.”

While exporters are doing the best they can she felt there could be problems for the next 12 months or so. While 2020/21 lamb export volumes were up on last year at just over 267,500 tonnes in the October to July period, the value had dropped by 3%, to almost $10,500/tonne FOB due to the large increase in shipping costs which were a real concern.

“That significant cost increase is going to be with us until shipping disruption ends.”

Meanwhile, mutton volumes and prices have both increased with exports totalling almost 660,000t at an average of $7673/t.

Another issue for meat companies is the shortage of Halal-trained butchers due to Covid-19 travel restrictions. About 250 Halal butchers are required but there is a shortage of 150, as those who are correctly trained need to come from overseas, but spots in managed isolation can’t be found.

“We are pushing the Government to look at a more permanent solution,” she says. “The crisis is not right upon us but if we do not have enough of them, it will be very challenging.”

**Business as usual in Europe**

In the important European Union and United Kingdom markets it is business as usual as meat exporters wait on the announcement of free trade agreements (FTA). Karapeeva says the MIA is very focused on the UK agreement in order to obtain a credible and commercially meaningful deal for both sheep and beef farmers.

“We’re into the nitty-gritty now,” she says.

Progress with the European Union FTA progress is expected after the Northern Hemisphere summer break.

“We would love to see these agreements done sooner rather than later so exporters have some certainty,” she says. “But we do not want speed to dictate quality.”

While there might be some potential upsides for the lamb trade in these deals, Kilsby says they will likely be rolled out over several years. There is a lot of tension due to the UK not having easy access to the EU and trying to protect its own market, but she cannot see any downside for NZ lamb exports in any FTA announced.

Kingston says Alliance is still very focused on the UK food service market where it is developing more relationships. It is now supplying home delivery programmes both on a seasonal and year-round basis to create a presence for lamb in an area it has not been part of.

“There is a lot of work to do for it to be a highly picked up product so that is why we are using different channels,” he says.

SFF found Brexit caused some issues around managing the flow of a small amount of its product into Northern Ireland. But demand for Christmas chilled lamb has been close to traditional volumes, with the only downturn being the amount air freighted because of rising costs.

Beef+LambNZ’s senior agricultural economist Rachel Agnew says the United States market is a dream scenario for lamb exporters at present

“But how long it lasts, who knows?”

The US fiscal policy following Covid-19 had seen buoyant demand and a rise in consumer confidence. As well, major competitor, Australia, has played a limited role over the past 18 months due to the effects of drought.

Previous promotion work by The Lamb Company had driven demand for non-antibiotic New Zealand lamb, Kingston says.

“Then there is protein fatigue with people saying, ‘What can I feed my family tonight that they have not had before?’”

Whole carcase demand is expected to continue but there is some competition from local producers such as Colorado Lamb. Australia is now sending a growing volume of lamb legs and racks, and Icelandic, Irish and Welsh lamb all have a toehold in the market in the aftermath of Brexit.

SFF expects retail demand in the US to remain strong despite lamb being a niche product. It also expected to see a continuation of the recovery seen in the food service sector, but challenges will remain from Covid-19.

Middle East lamb markets have found it difficult to compete with prices paid by China, especially as New Zealand lamb numbers have fallen. But Kingston says Alliance is still consolidating and building existing markets and SFF reports Middle Eastern demand for frozen lamb is positive.

All Asian markets have remained solid through 2021, with consumer demand growing, particularly in Hong Kong, Singapore and Malaysia, as their populations become more westernised. And with much of the mutton which previously went to the Pacific Islands now destined for China, there’s only a limited lamb trade, mainly to French Polynesia, Fiji and New Caledonia.

**Strong demand from China**

The Chinese market for New Zealand lamb continues to price competing countries out of contention, even with shipping disruption and the increasing strength of the NZ dollar.

“Throughout the pandemic there has been strong demand for protein generally,” says Susan Kilsby, ANZ agriculture economist.

Chinese prices had held up from last year when at one stage there had been the lowest difference ever in prices received for lamb and mutton in that country. From last October to July $1.2 billion of lamb was exported to China at an average price of $8579/tonne along with $542.48 million of mutton at an average price of $7454/t.

“There is a preference for slightly more flavoured meat which is cooked slowly so it can come from a bigger animal,” she says.

This meant more meat being exported as whole or half carcases. There is also slow growth in chilled cuts of lamb being served in restaurants targeting Westerners.

Sirma Karapeeva describes the Chinese market as a dragon.

“It is super competitive and hungry for product.”

Alliance’s sales general manager Shane Kingston says the Chinese market for lamb is “absolutely continuing strongly”. Consistent demand is seen in the run up to autumn festivals and then the Chinese New Year with the high NZ dollar having little effect on prices paid.

Chinese demand has sucked mutton out of the European market where it has been historically used in institutions. More recently it is competed strongly for lamb flaps which can be sold attached to carcases. They were previously shipped to the Pacific Islands, and Middle East market demand has dropped steadily as the prices Chinese buyers are prepared to pay increased.

**Answers.**

**Summary:**

New Zealand’s lamb exporters have faced many problems since Covid-19, especially with shipping delays and high costs. Larger companies like Silver Fern Farms (SFF) and Alliance have been able to manage these disruptions better because they have strong relationships with shipping companies and access to more containers and space. Smaller companies are struggling more because shipping space is limited and expensive.

**Economic influences:**

* Shipping disruptions caused by Covid-19 have made it harder and more expensive to export meat.
* These delays have increased costs throughout the supply chain, meaning farmers and producers earn less, and consumers pay more.
* Shipping delays also risk the freshness of chilled products like lamb, which can spoil if transit times get too long.
* Some export markets, like the UK, are recovering faster with fewer delays, while others, like North America, are still experiencing congestion.
* The strong New Zealand dollar has had little impact on demand, especially in China, where demand for lamb remains high.
* Other markets, including the Middle East and Asia, are important but face challenges like competition from China and price sensitivity.

**Mitigation strategies:**

* Larger meat companies work closely with shipping partners to secure container space and manage routes more flexibly.
* Some companies use joint ventures, such as SFF’s partnership with Kotahi, to improve shipping access.
* Exporters are adapting by spreading risk, using multiple shipping routes and adjusting timing to avoid delays.
* Companies are focusing on growing urban markets and new sales channels, like home delivery in the UK.
* There is ongoing pressure on the government to help with issues like the shortage of Halal-trained butchers caused by travel restrictions.
* Exporters and industry groups are also watching trade agreements carefully to ensure they get good deals, especially with the UK and European Union.