



Memo to Clients

14 December 2012

With the short end of the 2011 lamb killing season closing and the new season opening it is appropriate to reflect on the industry's performance. I would like to thank those clients who supported the kill through Lean Meats and Blue Sky as, contrary to what some believe, a large amount of solid information was generated that illustrates where the standard industry lamb sits and the ratification of the Falkirk system of animal selection as highlighted below.

Those producers who sought to help evolve the Falkirk solution by supporting the kill through Lean Meats and Blue Sky are approximately \$5 advantaged in price than if they had remained with the large processor that posted a \$50.8 million loss amongst some \$200 million loss for the industry. As Alliance stated in the media they will not be making the final payment this season. I hold some empathy with those clients who chose to fulfill their loyalty contracts for last season to be stymied by corporate mismanagement.

The Red Meat Strategy is in tatters as companies revert to selling and trading product to satisfy financial demands. The overhang of the inventory of last season lamb being held at high cost will continue to impact any attempt at genuine marketing of quality New Zealand lamb. There is some irony in the fact that two markets have told me that Falkirk is way ahead of the game and that they need to get their act together.

Incidentally I am advancing through the legal process of signing a confidentiality agreement to enhance a marketing potential. My intent is to progress this relationship securely to benefit long term business. It will take the time required which is not to be predetermined.

Desperation, frustration and anger are the human emotions driving the industry at the moment. None of these factors have a home in a true marketing regime.

The recent release of the Falkirk Sheep and Beef Industry Due Diligence provides a very clear précis of events that delivered the systemic failure that was predictable - this is the real cause of the price decline and until remedied a true marketing culture will not emerge.

Shortland Station Lamb Dissection (Crutchley - 25 October 2011)

Lean Meats Processing Plant at Oamaru

The opportunity for this analysis arose from the industry perception that the Falkirk type of optimal animal appeared short in stature and therefore lacked capacity.

The availability of thirty five lambs only which were considered the residue from the 2010 season from some 12,000 lambs slaughtered from this property were the catalyst for some robust findings. Eleven animals aged twelve months were selected to encompass a range of type, structural and physical difference.

The animals were same day killed at Lean Meats' processing plant in Oamaru, to fit the normal operating practice. The ensuing carcasses were held over for the next day breakdown for assessment. Upon entry to the plant, senior managers stated that these animals did not require washing, but due to industry dictate all animals had to be washed at least once - some up to five times.

The animals were processed to industry standard as normal, with the offal and runners identified and retained for assessment and measurement. Pelts were also isolated for examination.

When compared with industry standard the offal was heavier/larger and the runners were longer. Both these factors contribute to greater value and more optimal metabolic function.

Select carcasses were cut to meat yield to industry specification and evaluated. The senior boner commented on the ease of cutability and quality product with an obvious high red meat yield retrieval.

When compared with cuts taken from the normal processing line these cuts displayed a superior colour, indicating higher quality meat and significantly better portion size. When the final analysis was compared with the National Progeny Test Trial, and adjusting in real terms for age and carcass weight difference the Shortland lambs delivered one and one half times larger carcass and two times greater eye muscle area (EMA). The pelts were identified and assessed individually in the fellmongery, by the senior grader, to measure superior length, area, wool type and quality and skin thickness. All these attributes indicate superior quality and greater value.

As a result of this trial a new grading category was created by the CEO. "Jumbo Grade"! Documented and photographic evidence compliments this trial outcome.

Crosshills Farm Lamb Dissection (Weller - 24 April 2012) Blue Sky Processing Plant at Morton Mains, Southland

The opportunity to challenge the industry perception that the P grade lamb shoulder is fatter than the Y grade lamb hence a negative price schedule.

The selection of 24 ewe lambs from the final 175 head mixed sex lambs remaining from the season's kill of some 3,000 slaughter animals was carefully configured. We were acutely aware that this was an opportunity to test the Falkirk system of livestock assessment against the industry grading system and perceptions that are the basis for payment to producers and a sorting process for "marketing" New Zealand sheep meats.

These animals were selected on farm with no assistance from weights or measures. The skill of many years focus upon structured correctness, form and balanced physiology was applied. Same day slaughter was experienced at Blue Sky plant at Morton Mains. The carcasses were held over until the next day for the purpose of assessment and cut to industry standard.

Additionally the plant management had discreetly selected from the chiller, industry standard carcasses that mimicked weight and GR grade categories.

The two sets of carcasses were cut to normal specification with specific emphasis focused on the shoulder. This was boned and trimmed to specification with percentage of red meat and trim to waste was measured.

Consider that by the GR grading system the 24 head ewe lambs selected by Falkirk allegedly spread across the grades with some assessed with a high excess of fat. In reality the default industry set of animals yielded less meat and trimmed more fat than the Weller lambs, which illustrated a high degree of muscularity and form through the shoulder to maximise yield and provide a uniform cut dimension. The cutting room foreman and the product quality control manager were both visibly ecstatic about the cut form and quality of these carcasses.

In conclusion:

The combined information from these two lamb cutting and analysis trials ratified the Falkirk animal assessment system as being correct to the point that structural correctness and trait balanced physiology provides:

- lack of traditional tail end lambs
- Falkirk certified lambs are superior by specification
- pre-slaughter cleanliness and health status
- higher yielding carcasses
- bone, fat, meat ratio that is predictable
- superior meat quality
- predictable portion size
- superior by-products and runners
- form and capacity in the shoulder/chest region to accommodate superior organs that influence better metabolic function and higher meat yield
- superior pelts inclusive of wool on pelts
- that the GR grading system is flawed as a reliable payment method
- that facts rather than perception determine what is optimal and profitable

This confirmation of valuable data that has been repeated in Australia and South Africa is solid leverage to advance the Falkirk solution to a high quality certified marketing regime.

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