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Country of Origin as a Brand: The Case of New Zealand Lamb

Roxanne Clemens and Bruce A. Babcock

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Midwest Agribusiness Trade Research and Information Center
Iowa State University
Ames, Iowa 50011-1070
www.matric.iastate.edu

Roxanne Clemens is the managing director of the Midwest Agribusiness Trade Research and Information Center (MATRIC), and Bruce Babcock is a professor of economics and director of the Center for Agricultural and rural Development, Iowa State University.

For questions or comments about the contents of this paper, please contact Roxanne Clemens, 568F Heady Hall, Iowa State University, Ames, IA 50011-1070; Ph: 515-294-8842; Fax: 515-294-6336; E-mail: rclemens@iastate.edu.

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Executive Summary

New Zealand has used country-of-origin labeling (COOL) as a “country brand” to differentiate New Zealand lamb in international markets and increase consumer awareness of this lamb as a high-quality imported product. The case of New Zealand lamb is especially interesting as an unsubsidized commodity product competing against subsidized lamb in some of the most competitive and sophisticated retail markets in the world. Given New Zealand’s dependence on international markets, producers, processors, and exporters needed to develop strategies to create and maintain a strong positive image for their product. This paper explores the history of New Zealand lamb exports, the focus on quality and meeting consumer specifications, and differences in the use and effectiveness of New Zealand as a country brand for lamb in different import markets. The paper also notes how COOL regulations might create country brands that increase demand for imported meats.

Keywords: brand story, COOL, country brand, country of origin labeling, lamb, lamb exports, New Zealand.

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Introduction

Mandatory country-of-origin labeling (COOL) regulations for meat have been implemented in several major importing countries, including Japan, South Korea, and the European Union. Unless provisions of the 2002 farm bill are modified, the United States will implement mandatory COOL for beef, pork, and lamb in the retail sector. Proponents of the U.S. regulations hope that consumers will use country-of-origin information to choose domestic meat products over imported alternatives and perhaps will pay a premium for the domestic product. Opponents believe the U.S. COOL regulations will create additional paperwork for producers, processors, and retailers; increase costs of domestic product; and cause discounting of imported meat instead of creating premiums for domestic product.

Within this discussion, the case of New Zealand lamb illustrates how country of origin can serve as a brand to differentiate meat products and encourage consumers to choose the imported option. The case of New Zealand lamb is especially interesting because it is an example of an unsubsidized product successfully competing in some of the world's most sophisticated, high-value markets.

The Evolution of New Zealand Lamb as a Country Brand

As shown in Table 1, the New Zealand sheep flock accounts for about 3.8 percent of the world total. However, the country is the world's largest exporter of mutton and lamb, accounting for more than 40 percent of total world exports (FAOSTAT 2004). Approximately 80 percent of these exports are lamb, and this volume accounts for about 83 percent of New Zealand's total lamb production. In 2003, for example, New Zealand exported 447,000 metric tons of sheep meat (carcass weight equivalent), of which 359,000 metric tons were lamb (New Zealand Ministry of Agriculture and Forestry 2004).

TABLE 1. Sheep stocks in major producing areas, 2003

	Sheep Stocks (million head)	Percentage of World Total
China	143.8	14.0
European Union	103.4	10.1
Australia	98.2	9.6
Former Soviet Union	52.0	5.1
Iran	53.9	5.3
New Zealand	39.3	3.8
Total World	1,024.0	—

Source: FAOSTAT 2004.

New Zealand's dominance in world lamb exports has arisen from a combination of favorable production conditions and an industry that focuses on continually improving production and processing efficiencies, meat quality, and the ability to respond to international consumer demand. New Zealand's history of exporting meat to the United Kingdom dates back to 1882, and exports of frozen lamb to North America began in 1926. Given New Zealand's lengthy export history, consumers in several importing countries have had many years of experience with New Zealand lamb. However, the creation of a modern, internationally competitive industry was neither easy nor smooth.

During World War I, New Zealand producers were encouraged to produce as much mutton and lamb as possible to export to Britain. When the war ended, producers were left with 180,000 metric tons of frozen stocks, which they attempted to sell in London. The result was a major market crisis in England. Recognizing the need for cooperative marketing efforts to deal with export issues, New Zealand created a Board of Control in 1921 "to regulate the New Zealand industry, cooperatively market the products, and negotiate prices and freight" (Meat and Wool New Zealand 2004b).¹ In 1922, the Meat Export Control Act created the New Zealand Meat Producers Board. In 1923, the New Zealand Meat rosette was introduced to identify New Zealand meat products. The rosette is still used today.

A major driver in developing an internationally competitive industry was the removal of government subsidies 20 years ago. Prior to 1984, a series of government programs using various systems of price supports, market intervention, and low-interest loans was implemented to stabilize and support the industry. In the 1960s and 1970s, government schemes caused large surges in the country's flock size at times when sheep

numbers would otherwise have been decreasing. By 1984, New Zealand's sheep flock totaled 69.7 million animals and government support accounted for 40 percent of sheep producers' incomes (Barnard 2003). However, 1984 was also the year New Zealand's government eliminated agricultural subsidies. With the removal of virtually all government assistance over a one-year period, industry restructuring was immediate. A massive increase in slaughter occurred in 1985 as producers downsized their flocks. By 1986/87, annual lamb slaughter had declined by 25 percent compared to slaughter levels when subsidies were in effect (Calder and Tyson 1999). This loss of government support was a turning point in changing producer dependence on subsidy-driven, volume-based production to an industry structure that emphasized production efficiencies and product quality.

As New Zealand's flock declined, production eventually shifted to high-quality pastures. Table 2 compares 1984 production data with 2002 data. As shown, the percentage decline in lamb inventories is smaller than that for sheep. As a result of improved production efficiencies, part of the decline in lamb numbers and lamb meat production was

TABLE 2. Changes in New Zealand sheep and lamb production before and after elimination of agricultural subsidies

Sheep	June 1984	June 2002
Inventory (1,000 head) ^a	69,739	39,546
Stock Units (1,000 units) ^b	64,172	35,706
Lamb	1983-84	2001-02
Total Slaughter (1,000 head)	34,711	24,711
Export Slaughter (1,000 head)	33,870	23,872
Average Carcass Weight (kg/head)	13.60	16.76
Average Export Carcass Weight (kg/head)	13.61	16.93
	1983-84	2001-02
Total Production (metric tons, bone-in)	472,174	414,069
Export Production (metric tons, bone-in)	461,099	404,123
	1990-91 ^c	2001-02
Export Shipping Weight (metric tons, bone-out)	286,081	270,035

Source: Meat New Zealand 2003b.

^aThe sheep inventory is taken on July 1 (mid-winter in New Zealand). The inventory is a census of live animals at the lowest point in the annual production cycle.

^bStock units measure pasture consumption, where one stock unit is based on one ewe rearing one lamb.

^cData were not provided prior to 1990-91.

offset by an increase in multiple births, with the lambing percentage reaching 124 percent by 2001/02 compared with 100 percent in 1990/91. Some of the decline in lamb meat production also was offset by a 13 percent increase in average lamb carcass weight. During the years that subsidies had encouraged volume-based production, many sheep were produced on marginal lands, but improving production efficiencies meant that virtually all sheep were moved to high-quality pastures. This change reduced grazing on marginal lands, which contributed to related environmental benefits such as improved water quality (Federated Farmers of New Zealand 2002).

Following the large 1985 kill, slaughterers and processors were faced with overcapacity, leading to a series of mergers and plant closures in the mid- to late-1980s. However, even as the processing sector rationalized, companies resisted efforts to develop a coordinated marketing program for Europe (New Zealand's biggest lamb customer), and competition among individual companies drove down producer and wholesale prices of both imported and domestic lamb. Despite lower prices from suppliers, retail prices for lamb in European markets remained strong. The E.U. sheep industry began to feel the negative effects of less-expensive New Zealand lamb, and the European Union began to consider support measures to protect the domestic industry. Measures were eventually implemented, and the current E.U. tariff rate quotas (TRQs) for New Zealand sheep meat are part of the General Agreement on Tariffs and Trade of the World Trade Organization (Calder and Tyson 1999).

By the mid-1980s, New Zealand producer prices, wholesale prices, and processor margins were all declining and product quality was deteriorating. Meat companies had resisted establishing an industry-wide set of quality standards and instead continued to process lamb according to a minimum quality standard. In 1988, the industry finally accepted a Quality of Product Acknowledgement Agreement to address quality and tenderness issues, largely because the European market was demanding better quality. At about the same time, a series of changes were being implemented throughout the industry in response to price signals indicating that European consumers would pay higher prices for higher quality (Calder and Tyson 1999). These changes included improved genetics, new systems of paying producers for their animals, quality audit systems, and new processing technologies.

As mentioned, New Zealand has shipped frozen lamb to the United States since 1926. But serious efforts to provide a continuous supply to the North American market really began in the 1950s. Unlike the marketing system in the European Union whereby individual countries competed for market share, the Meat Export Development Company (DEVCO) was established in 1960 to market lamb to the North American market. DEVCO was a consortium of New Zealand freezing companies and the Meat Board (as a non-shareholder) with exclusive rights to sell New Zealand lamb in the United States and Canada. Because prices in the United Kingdom were higher than were those in the United States, New Zealand producers and meat companies were paid the price difference from a reserve fund, and the consortium was not profitable until its ninth year of operation. In 1986, DEVCO was renamed the New Zealand Lamb Company (North America) Ltd., which later became what is now known as the New Zealand Lamb Cooperative, which is owned by New Zealand's four largest meat companies. The difference in marketing presence in the United States may be one reason New Zealand lamb is not as popular in the United States as it is in the United Kingdom. Twenty-six years of a single-channel marketing system, the historical sensitivity of the U.S. industry to imports, and low per capita consumption in the United States may all be factors in lower U.S. consumer knowledge about New Zealand lamb relative to that in the European Union.

In New Zealand's domestic market, years of focusing on export markets resulted in a different industry structure, different standards, and less-rigorous grading of lamb for domestic consumption than for lamb entering the export market. Abattoirs could receive licenses to process lamb for the local market only, and the strength of export demand generally determined when and where high-quality lamb was available in the domestic market. Overall, the lamb sold in domestic retail outlets and restaurants often was less desirable than the lamb being exported. The country that was gaining an international reputation for high-quality lamb was not offering a similar level of quality in its domestic market. In 1987, greater promotional efforts began in the domestic market. By 1997, a quality mark was established with auditable quality systems, and the domestic markets were offering export-quality product (Calder and Tyson 1999).

Throughout the transformation of the New Zealand lamb industry, turf battles, competition among companies, and costly labor contracts and strikes often sidetracked

progress toward profitable production of a consistently tender, high-quality product. Throughout the process, the New Zealand Meat Board maintained a changing relationship with producers, processors, and exporters as the needs of the international markets and the domestic industry changed. Among other duties, the Board has been in charge of marketing, managing price supports, pricing, promotion, and research.

The New Zealand lamb industry continues its efforts to improve product quality, the effectiveness of promotional efforts, and consumer recognition of New Zealand lamb as a high-quality product. Effective July 1, 2004, the New Zealand Meat Board and Sheep Incorporated (SheepCo, the wool industry organization charged with assessing levies to support industry programs) were restructured under the Commodities Levies Act to form Meat & Wool New Zealand. This move places assessment and oversight of producer levies from both meat and wool within a single organization. The organization's principal activities include optimizing access for red meat and wool in international markets, increasing international and domestic demand, supporting research and development activities, and providing services such as economic analysis and educational programs (Meat and Wool New Zealand 2004a).

The relatively small size of the New Zealand meat industry and its individual companies probably helped facilitate the development of New Zealand Lamb as a brand. As New Zealand's industry developed, no individual company held the combination of resources and market share to create an individual brand that could displace consumer recognition of New Zealand lamb in international markets. Through the years, individual companies have marketed lamb under their own brands, but the industry has come to recognize the value of the New Zealand Lamb brand. Levies on sales of wool and sheep meat are used to create a preference for New Zealand lamb in global markets by funding exporters' efforts to develop strategies and implement programs to position New Zealand lamb as a high-quality product. As discussed in the following section, part of New Zealand's marketing strategy is to promote an appealing "brand story."

The New Zealand Brand Story

Clean, Green, and Disease Free

Increasingly, lamb has become a niche product in comparison with the more "main-

stream” meat commodities of beef, pork, and poultry meat. Lamb trade volumes are much lower compared to those of other meats, yet lamb is at the upper end of restaurant menu prices (New Zealand Ministry of Agriculture and Forestry 2001). The notion that “every good brand has a story behind it” has become especially fitting in international meat trade (Martin 2003/04, p. 7), where a series of meat safety and animal disease crises has created increased consumer demand for information about the origin of meat and how it is produced and handled.

As a country, New Zealand cultivates a “clean green” image and the perceptions about lifestyle and values implied by this image, especially in marketing the country as a tourist destination. These promotional efforts have had a strong, positive carry-over effect for New Zealand’s agricultural products, and the New Zealand meat industry has adopted the image in promotional campaigns in international markets. One example is a recent Meat New Zealand print ad depicting New Zealand as a country with “a gentle climate, lush grass, unpolluted air, and clean water” (*Meat and Poultry News* 2003). A second example is a television advertisement that shows a pristine, green countryside, then flashes to prepared lamb being served, and finally shows the New Zealand lamb rosette with text that states, “It doesn’t get any more free range than this.” This clean green brand story has been highly successful in encouraging consumers to associate New Zealand’s production environment with safe, high-quality meat products.

Meat New Zealand reports that 85 percent of producers support the use of levy funds for country-of-origin promotions in export markets. According to Meat New Zealand (2003a), “Future beef and lamb market development funding will involve more joint strategies with meat companies focused on New Zealand’s grass-fed, healthy, clean green image with consumers.” As part of this image, exporters are emphasizing the following attributes of New Zealand lamb in international markets:

- free-range animals;
- good animal welfare practices;
- no use of growth-promoting hormones, steroids, or other chemicals;
- good processing quality;

- leanness that will contribute to a healthy, nutritious diet; and
- standard and custom-made cuts.

As an island country, New Zealand does not have several major animal diseases that occur on most of the continents. Among these diseases are foot-and-mouth disease, bovine spongiform encephalopathy (BSE), scrapie, and other transmissible spongiform encephalopathies such as chronic wasting disease in deer (*Meat International* 2001). Like Australia, New Zealand has a Geographical BSE Risk (GBR) Rating of Level I, which is advantageous to both countries in terms of importers' perceptions of safety of their meat products.² This perception is especially important for New Zealand's lamb trade with the European Union, where lamb is popular and where BSE and outbreaks of FMD have caused some consumers to opt for imported lamb in lieu of domestic meat products.

Although New Zealand's clean green image works in many countries, promotional efforts have been tailored for countries with strongly different consumer preferences. In the Middle East, for example, adherence to strict Halal regulations is more important to many consumers than is a country-of-origin's green image, so the New Zealand brand story emphasizes assurances of handling methods that meet Halal requirements. Also, lamb exported to the Middle East carries the New Zealand lamb rosette with the picture of a lamb, in part to appeal to customers who cannot read the label. On the other hand, lamb sent to France does not carry the rosette at all in an effort to avoid triggering a negative reaction among French farmers (Martin 2003/04, p. 9). The rosette also is not widely used to promote New Zealand lamb in the United States.

Quality and Consistency

In addition to leveraging the benefits of a positive country image, the New Zealand lamb industry has steadily moved toward higher meat quality and greater consistency in producing, classifying, and fabricating the product. This trend has included heavy investment in animal production and meat quality research and in some of the meat industry's most sophisticated processing, packaging, and distribution systems. The result has been a highly efficient system with the ability to market products to the exacting specifications of many different markets.

Lawrence (2002) found that New Zealand's strong dependence on exports has made its meat industry highly responsive to customer demands. This focus on satisfying the end user is recognized through the entire supply chain. Processors have implemented their own voluntary standards for animal identification and quality assurance. Producers, processors, and exporters are all highly responsive to consumer demand in terms of consistent size of animals and cuts, delivery schedules, meat tenderness, and packaging.

A major focus of these efforts has been the adoption of strict hygiene standards that meet or exceed the specifications of any importing country. These high standards not only contribute to the clean image of New Zealand lamb but also have allowed exports to attain long enough shelf life to allow shipment of chilled lamb to any foreign market. New Zealand processors have also responded to changing regulatory and retail environments by implementing systems such as Hazard Analysis Critical Control Points and International Organization for Standardization (ISO 90002) systems and offering controlled atmosphere packaging and retail-case-ready packaging.

Despite the international success of New Zealand lamb and mutton, the country's sheep industry is shrinking. New Zealand has about 10 sheep for every person, compared with 20 sheep for every person in 1982. At 39.1 million head, sheep numbers in 2002 were the lowest number recorded since 1955. Sheep pasture area is declining as land is diverted to more intensive uses such as dairy cattle and horticulture production (e.g., wine grape production). Grazing and arable land use declined by 12 percent between 1994 and 2002 (to 12.0 million hectares), whereas horticultural land use increased by 6 percent (to 110,000 hectares) during the same period (Statistics New Zealand 2003).

Given the downsizing in the New Zealand sheep industry and resistance to import competition and low consumption in many other countries, New Zealand processors are establishing cooperative efforts to promote lamb. One example of such collaboration is the Tri-Lamb Group, a three-country coalition whereby lamb industry groups in New Zealand and Australia have joined the U.S. industry in a three-year marketing program to increase overall demand for lamb in the United States. New Zealand companies are also forming alliances among themselves to market lamb in other countries. Processors are increasingly using e-commerce to schedule orders and delivery dates and are watching retail trends to stay abreast of consumer demand. And, New Zealand exporters are marketing a higher

proportion of chilled product relative to frozen product and fulfilling consumer demand for small packages of lamb that can be used in recipes for quick, easy-to-prepare dishes.

Food safety and the ability to guarantee it rank ahead of price and quality as consumer concerns in world markets. The New Zealand industry must service the top end of the market to obtain price premiums for its lamb, and one of the industry's responses to this consumer concern has been to develop traceability procedures. New Zealand can supply fully traceable specialty cuts for high-value niche markets that can pay enough to cover the higher costs of these lamb products. On the other hand, New Zealand also supplies many lower-value markets that complement high-value markets by providing a destination for lower-quality grades and less-valued cuts (Jones 2004).

New Zealand Lamb in the United Kingdom

As shown in Table 1, the E.U. sheep herd is about two and one-half times the size of the New Zealand herd. Among E.U. member states, the United Kingdom is the largest sheep meat producer, the largest sheep meat importer, and the largest importer of New Zealand lamb. In 2003, New Zealand exported 151,521 metric tons (product weight) of lamb to the European Union, most of which went to the United Kingdom, which purchased 51 percent of the total volume of New Zealand lamb exports (63 percent on a value basis).

Given the importance of this market, New Zealand invests a great deal of its marketing resources in promoting New Zealand lamb as a country brand. The large U.K. supermarket chains generally use the New Zealand Lamb rosette in addition to individual store brands, and New Zealand Lamb has become one of the most recognized brands by British consumers. A recent survey indicates that 80 percent of British consumers mention New Zealand when asked what countries produce lamb (*Meat and Poultry News* 2003). Another consumer survey indicates that British consumers "prefer New Zealand lamb more than lamb from any other country" (MEATNEWS.com 2003). These surveys underscore the success of New Zealand promotional efforts in this market.

E.U. Policy

Although the United Kingdom is the largest importer of New Zealand lamb, government policies limit import competition. Under the Uruguay Round of the WTO, the

European Union uses a country-specific TRQ to limit imports from non-E.U. countries. The duty-free quota for New Zealand sheep meat in 2004 is by far the largest, at 226,700 metric tons (carcass weight basis). The New Zealand quota has been about 99 percent filled during the past several years (U.S. International Trade Commission 2003). Given that the over-quota tariffs are high enough to prohibit trade, the TRQ effectively limits trade to the in-quota volume.³ However, New Zealand negotiated an unlimited amount of chilled lamb within the quota, so the proportion of higher-value chilled lamb exported to E.U. markets has been increasing.

Also, the European Union supports domestic producers through ewe premium payments. The ewe payment is comprised of a flat-rate payment of €21 per ewe.⁴ The number of ewes eligible for premiums varies by individual E.U. member state, but the E.U. total is 79.1 million eligible ewes. At the producer level, the number of eligible ewes is determined by premium rights (a ewe premium quota) held by individuals or groups. This annual premium is independent of the lamb price. Producers raising sheep in less-favored areas and where production “constitutes a traditional activity or significantly contributes to the rural economy” receive a supplemental premium of €7 per ewe (Meat and Livestock Commission 2002, p. 17).

In addition to the ewe premiums, a national envelope is paid to producers who implement specified production practices such as reducing stocking densities or improving forage. The envelope amount varies by individual E.U. state, but the average rate is €2.10 per ewe (U.S. International Trade Commission 2003, Meat and Livestock Commission 2002). Also, a Private Storage Aid (PSA) program allows the European Union to place 2,700 metric tons of sheep meat into storage to relieve short-term oversupplies. The PSA aid rate is €1,400 per metric ton of frozen lamb stored for three months and an additional €1.45 per metric ton per day for storage times between three and seven months (U.S. International Trade Commission 2003).

This policy discussion underscores the relative efficiency of New Zealand lamb production compared with that in the European Union. Using no subsidies, the New Zealand industry can profitably produce and transport lamb to a region with multiple support measures. The strong consumer identification of New Zealand lamb in the United Kingdom may be largely due to New Zealand’s long history of exporting lamb to a country

where consumers have more experience preparing and eating lamb than in some other countries. The use of the New Zealand Lamb rosette by U.K. supermarkets indicates the importance of identifying New Zealand so customers can choose the imported option over U.K. lamb. However, an informal survey of retail prices in some major U.K. supermarkets in October 2004 indicates that New Zealand lamb cuts generally sell for lower prices than do U.K. lamb cuts. Part of this difference occurs because much of the U.K. lamb is chilled and much of the New Zealand lamb is frozen.

New Zealand Lamb in the United States

U.S. imports of lamb surged when Australia and New Zealand overcame shelf-life limitations and began to ship chilled lamb to the United States. In 2003, the United States imported 77,510 metric tons of sheep meat (product weight), the vast majority of which was lamb. Of this total, 66 percent (50,949 metric tons) was supplied by Australia and 34 percent (26,410 metric tons) was supplied by New Zealand (USDA-ERS 2003a). The value of total sheep meat imports from New Zealand was \$26.4 million (product weight). On the other hand, U.S. lamb and mutton exports are small, accounting for about 2 percent of production in 2003. In addition, the United States imports live slaughter lambs from Canada to utilize excess slaughter capacity and exports culled ewes to Mexico (U.S. International Trade Commission 2003).

Despite programs to help the U.S. industry adjust to international competition, the domestic sheep herd has been declining for several decades. The number of U.S. sheep operations totaled 64,170 in 2002, down 39 percent from the 1974 level (Jones 2004). Between 1975 and 2004, U.S. lamb and mutton production declined from 411 million pounds to 223 million pounds. Because production declined more quickly than did consumption (which was supported by increased human population), imports increased from 27 million pounds in 1975 to 162 million pounds in 2002 (Jones 2004).

Imported lamb meat accounts for approximately 26 percent of U.S. lamb consumption. At about 1.1 pounds per capita (retail weight basis), annual U.S. lamb and mutton consumption is low compared with beef (66.2 pounds), pork (50.2 pounds), and chicken (75.6 pounds) (American Meat Institute 2002). Also, U.S. consumption is located primarily in ethnic groups, which consume much more lamb than the average U.S. per capita

level. Given these consumption rates, New Zealand lamb competes against other sources of meat protein as much as it competes against domestic lamb in the United States.

U.S. Policy

As in the European Union, the U.S. government has implemented a variety of policies to stimulate and protect the domestic industry. Historically, U.S. lamb has been a byproduct of wool production. The National Wool Act of 1954 provided wool and mohair incentive payments to producers from 1955 to 1995 to increase U.S. self-sufficiency and to improve the quality and value of raw wool by improving handling and marketing systems. When the support price exceeded the national average price, producers received direct payments. Wool payments were made every year except 1973, and mohair payments were made 22 times during the 40-year life of the Act (USDA-ERS 1998). In 1993, the Wool Act began to be phased out.

In the four years before the Wool Act was phased out (1990-93), the market value of the wool averaged \$53 million per year and direct payments averaged \$122 million per year, or more than twice the value of U.S. wool production (USDA-ERS 1998). The phase-out legislation reduced direct payments to wool producers by 25 percent in 1994 (\$75.3 million) and by 50 percent in 1995 (\$34.8 million).⁵ With the loss of these payments, many producers exited the industry and many of the remaining producers began to produce sheep primarily for lamb meat.

In July 1999, the United States implemented a three-year safeguard measure establishing a TRQ on lamb imports. The first-year quota was 31,831 metric tons. In-quota duties were set at 9 percent ad valorem, declining to 3 percent by the third year. Over-quota tariffs were 40 percent ad valorem, declining to 24 percent by the third year (USDA-FAS 2002a). New Zealand and Australia won a challenge against the safeguard at the World Trade Organization, and the TRQ was terminated on November 15, 2001. Currently, the United States has a low tariff (\$0.07/kg) and no quantitative restrictions on lamb imports. Even when the TRQ was in place, U.S. imports of lamb increased as a result of weak currencies in New Zealand and Australia and good U.S. consumer demand, but eliminating the tariff boosted imports even more (USDA-NASS 2001).

In 2000, the Lamb Meat Adjustment Assistance Program was implemented, providing \$100 million to help stabilize the U.S. lamb market. The three-year package included

ewe lamb adjustment payments. Producers could receive incentive payments for maintaining ewe lambs from August 1, 2002, through July 31, 2003. Payments were set at \$18 per ewe lamb, to be prorated if applications exceeded \$26 million each year. The program also provided funding for animal health programs, marketing and promotion, and government purchases of lamb (USDA-FSA 2002, USDA-ERS 2003b).

Most recently, the Farm Security and Rural Investment Act of 2002 reinstated the wool and mohair program. The Act provides nonrecourse loans using wool as collateral for the 2002-07 crop years at rates of \$1.00 per pound for graded wool and \$0.40 per pound for non-graded wool (USDA-ERS 2003b). Also in 2002, the USDA Agricultural Marketing Service established a Lamb Promotion, Research, and Information Order to provide for industry-funded promotion, research, and information programs. Under this program, lamb producers, seed-stock producers, feeders, and exporters would pay \$0.005 per pound for each live lamb sold and first handlers (normally packers) would pay \$0.30 for each lamb purchased for slaughter (USDA-ERS 2003c).⁶

Generally, U.S. consumers prefer high-quality cuts such as lamb legs and loins. However, recent events indicate that subsidies may have prevented some of the industry rationalization and improved efficiencies that occurred in the New Zealand industry. Many U.S. producers tend to keep lambs longer when wool prices are high to grow additional wool, which means fewer animals are sent to slaughter, and lamb and mutton production falls. Conversely, when wool prices are low, producers tend to sell sheep, which increases the supply of lamb and mutton in the market (USDA-ERS 2003c).

U.S. lamb producers tend to maximize volume at the expense of quality. In the first half of 2001, lamb producers expected strong prices and many fed lambs to higher dressed weights. The result was a combination of overweight market animals and lower prices (USDA-ERS 2002). This situation suggests that marketing decisions continue to be based on volume-maximizing price signals as a result of subsidies rather than on consumer-driven demand for high-quality, lean product. U.S. lamb consumption, especially by ethnic groups, is increasing, and U.S. producers are not keeping pace with this increased demand. U.S. consumers show good acceptance of meat from the smaller, grass-fed animals from New Zealand, and New Zealand lamb has been successful in this market environment.

Relative Value

New Zealand produces market lambs under a variety of systems, ranging from selling live animals at the farm on a price-per-head basis to forward contracting, that can include negotiated premiums based on market returns or for exceeding specifications (and discounts for not meeting the specifications). Because New Zealand is so dependent on export markets, with long shipping distances and long-term supply contracts, the marketing system has moved toward contract-based sales to coordinate live animal supplies with lamb export demand (Burt 2004). Table 3 compares recent producer prices in New Zealand and the United States.

Figure 1 compares USDA retail scanner price data for imported lamb and domestic lamb in U.S. supermarkets. As shown, imported lamb generally sells at a lower price than does U.S. lamb. Based on the retail scanner price data for January through August 2004, 17.6 percent of imported lamb was sold under featuring whereas 13.1 percent of domestic lamb was sold under featuring. These data indicate that although New Zealand supplies high-value lamb to niche markets, most New Zealand lamb is sold on a commodity basis in the United States. Although New Zealand lamb is often identified in retail outlets, marketing efforts are somewhat understated and often do not use the New Zealand lamb rosette. Market potential in the United States is largely based on the potential to build on the country's low per capita consumption, but the availability and low price of

TABLE 3. Lamb prices for New Zealand and the United States

	New Zealand Lamb ^a Producer Price (hot carcassweight)		U.S. Markets	
			Sioux Falls Auction Market ^b (liveweight)	Central Carlot Lamb Carcasses ^c (FOB Plant)
	(NZ cents/kg)	(U.S. \$/cwt)		(U.S. \$/cwt)
2000	300.1	62.20	—	—
2001	382.3	73.00	—	129.25
2002	418.6	88.10	70.96	153.26
2003	379.4	100.16	89.61	187.84

Source: Meat New Zealand 2004, USDA-AMS various.

Note: These data do not account for differences in production methods, grading, weight ranges, and marketing mechanisms such as auction markets vs. contract markets, or differences in data calculations such as weighted versus simple averages.

^aWeighted average, based on October-September price year.

^bSimple average price for all lambs.

^cCentral U.S. Choice and Prime Yield Grade 1-4, 40-60#.

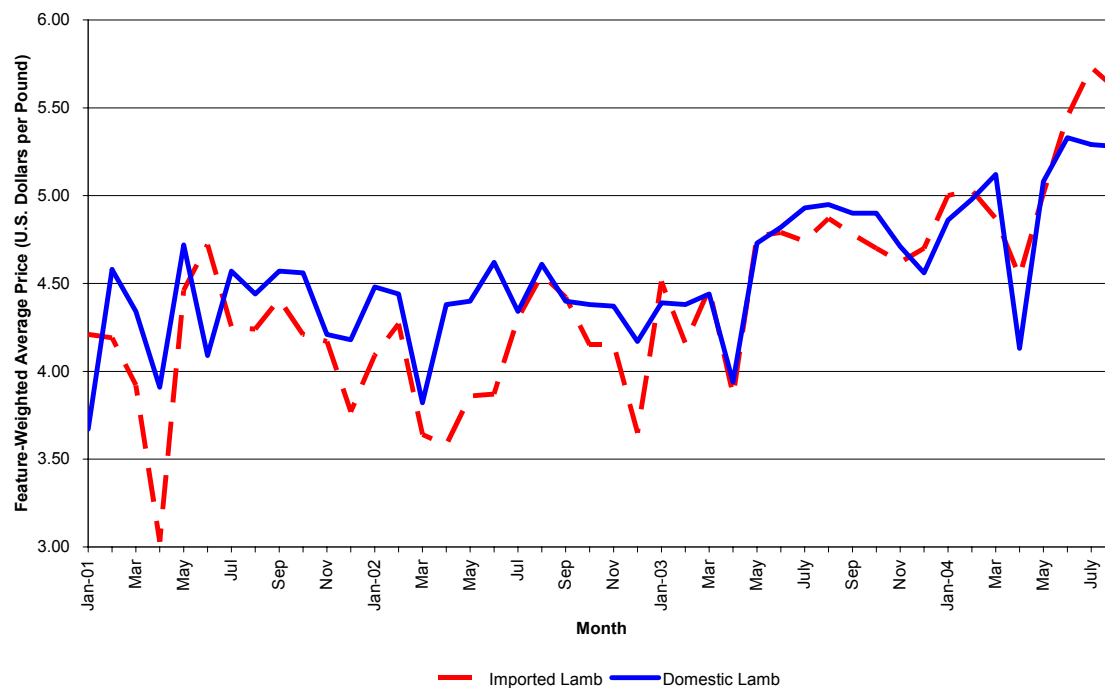


FIGURE 1. Retail prices of U.S. and imported lamb based on U.S. retail scanner data, January 2001-August 2004

competing meats make this hurdle a difficult one to overcome. In this situation, the New Zealand Lamb brand may have less impact than in markets where consumers eat more lamb and have experienced differences in quality and tenderness of product from more than one country.

Developing Other International Markets

On a regional basis, New Zealand's top five markets are the European Union (151,521 metric tons), North America (46,138 metric tons), Northern Asia (40,150 metric tons), the Middle East (21,740 metric tons), and the Pacific (19,669 metric tons). As noted, the New Zealand industry has become adept at tailoring promotional activities to the culture, cut specifications, and consumer concerns of the importing market. A recent example of market potential is occurring in Japan, and the New Zealand industry is aggressively working to increase consumer knowledge of the attributes of their product.

The discovery of BSE in Japan, Canada, and the United States created opportunities to increase exports of lamb to Japan. As long as Japan maintains bans on Canadian and U.S. beef, consumers are looking for desirable alternatives to the high-quality, grain-fed beef

these countries were supplying. Lamb imports declined dramatically when the Japanese beef import market was liberalized in 1991, but even when lamb imports were at their peak, per capita consumption was very low. This situation is similar to that in the United States, where most people consume little or no lamb. As a result, most Japanese consumers do not know how to prepare lamb, are not familiar with its flavor, and are less willing to pay premium prices for lamb than are consumers who are familiar with high-quality lamb.

In the wake of the BSE crisis, the New Zealand lamb industry is aggressively marketing lamb as a healthy and nutritious product and hopes to increase demand in this high-value market at a time when Japanese consumers are exploring different meat options (Levy 2004). In the northern Asia market, China imported 32,738 metric tons of sheep meat (shipped weight, including offal) valued at about NZ\$60 million (FOB). During the same period, Japan imported about one-fourth of this amount but the value of the lamb was almost the same to both countries (Meat New Zealand 2004). This comparison illustrates the potential value of increasing demand in the Japanese market.

New Zealand's clean green story is also being used to market beef. The discovery of BSE in North America has dramatically changed meat trade flows, at least temporarily, for products of all species. The case of BSE in the United States and cases elsewhere mean the impact of COOL will be more important in many importing countries than otherwise would have been the case. However, even before North America's BSE problems, New Zealand was working to achieve similar international consumer recognition for its beef as that already established for lamb—as a high-quality, nutritious, and safe product from a clean green country, free of many major diseases that affect livestock and meat production. A pan-industry group in New Zealand has recommended broader country-of-origin marketing for other agricultural products using a brand like “New Zealand, Inc.” to increase consumer identification with New Zealand's clean green brand image and the values and lifestyle associated with that image.

In the United States, country branding of New Zealand beef may not be an effective marketing strategy at the retail level because the United States has an abundance of high-quality, grain-fed beef and because domestic consumption of U.S. beef remains strong despite the discovery of BSE. Also, most New Zealand beef exported to the United States is manufacturing beef and not sold as chilled cuts in retail outlets. However, country

branding might be successful in countries where U.S. beef exports are blocked, end users prefer grass-fed beef, or end users are looking for a lower-cost product yet want to market a strong, positive country-of-origin image to consumers.

Conclusions: COOL and Country Branding

New Zealand lamb is one example of using COOL as a brand to market meat as a high-quality product in international markets. When subsidies were terminated in 1984, the New Zealand lamb industry was forced to focus on customer specifications for quality, consistency, and cutting and packaging. As a result, New Zealand lamb has become internationally known as a high-quality meat product that can compete in subsidized markets.

In many international markets, some New Zealand lamb fills the demand for high-quality, premium product. However, the success of New Zealand lamb is strongly based on equal or lower retail prices. In North America, for example, some high-value New Zealand lamb is sold to restaurants and high-end markets, but most New Zealand lamb sells at a lower average retail price than does domestic lamb. The same situation was found in U.K. supermarkets. While country branding for New Zealand has opened markets and achieved strong consumer recognition, it has created price premiums for only a small percentage of exported product.

Recently, Australia announced a new country brand that will be used to promote lamb in many international markets. The brand's text, "Australian Lamb—Fresh, Easy, and Delicious," appears with a map of Australia and is meant to connote the naturalness, freshness, and safety of Australian lamb (USAgNet 2004). This country brand will likely have an effect similar to that of New Zealand lamb, which will be to differentiate Australian lamb from lamb from other origins; however, most of this lamb will continue to be sold as a commodity product. As such, Australia's new brand should increase consumer recognition but is unlikely to create any price premium.

Country branding returns the greatest benefit to producers and processors when agricultural products are sold in markets where consumers are willing to pay more for the attributes being marketed by the exporter's brand story. As mentioned, Japan is a high-value market where mandatory COOL legislation has been implemented for the retail sector. Consumer surveys in Japan reveal that perceptions about agriculture in exporting

countries are pervasive and have a major impact on purchasing decisions. As the trend to provide as much information as possible to assure consumers of the quality and safety of the food supply continues, country branding is an important marketing tool. However, as occurs in many countries, the Japanese preference for domestically produced meats is strong, and attributes besides country of origin may be necessary if meat products are to obtain a premium.

An example of a case in which country branding seems poised to have a positive economic impact is the Canadian meat industry, which has been positioning itself to supply high-quality, differentiated products for export. Given its increasing dependence on export markets, the Canadian meat industry is following the examples of the New Zealand lamb industry and the Danish pork industry in its high level of responsiveness to consumer demand for quality, safety, cutting specifications, and assurance programs. Under these conditions, mandatory COOL legislation in importing countries may help create niche market opportunities and price premiums for high-value meat products if the appropriate positive image is created by the country's brand story.

Endnotes

1. Between 1997 and 2004, the board was known as the New Zealand Meat Board. Effective July 1, 2004, the Board was renamed Meat and Wool New Zealand.
2. The GBR levels system was developed by the European Commission as a qualitative indicator of the likelihood of the presence of one or more cattle being infected with BSE ... at a given point in time, in a country. Level I means “the presence of one or more cattle clinically or pre-clinically infected with the BSE agent in a geographical region/country is highly unlikely.” Level II means such presence is unlikely but not excluded (European Commission 2002).
3. For sheep meat and lamb, over-quota duties are assessed based on a fixed customs duty of 12.8 percent plus an import tariff based on type of cut. The over-quota import tariff ranges from €902 per metric ton for CN code 0204 42 10 (frozen short forequarters) to €3,118 per metric ton for CN code 0204 23 00 (chilled, boneless cuts) (Meat and Livestock Commission 2002).
4. The premium is €16.8 per ewe on holdings that market sheep milk or sheep milk products.
5. In addition to the wool payments, direct payments to mohair (wool from Angora goats) producers averaged more than \$50 million per year during 1990-93. During 1994 and 1995, phase-out payments totaled \$21.6 million and \$18 million, respectively.
6. Although the final rule was issued on April 12, 2002, this Information Order was legislated under the Commodity Promotion, Research, and Information Act of 1996.

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