Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 02/11/2003

GAIN Report #NZ3004

New Zealand

Agricultural Situation

Agribusiness Report December/January

2003

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Report Highlights: Counter-Terrorism Bill calls for food security and livestock safeguards. Biotechnology: GM dairy cattle research demonstrates consumer and producer benefits. The Government's recent approval of GM cattle research is subjected to legal challenge by anti-biotech group. Dairy: Fonterra increases its "fair value share price" U.S. 5.5 cents. Forestry: Fletcher Forests sells off cutting rights to 9,000 hectares of pine forests.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Wellington [NZ1], NZ

GENERAL

New Counter-Terrorism Bill Includes Food Security and Livestock Disease Protection

The New Zealand Government submitted a Counter-Terrorism Bill to parliament in December 2002. The Bill is expected to become law later this year. It will define a new set of terrorist offences that can be punished by jail terms ranging up to 10 years. The "new offenses" include: infecting animals with a disease, such as Foot and Mouth; contaminating food, crops, water or other products intended for human consumption; threatening or communicating information about harm to persons or property, including hoax calls; harboring or concealing terrorists; and the unauthorized handling of radioactive material. The Bill calls for new powers to be given to law enforcement agencies. Police officers will be allowed to use electronic tracking devices, while customs officers will be able to seize cash or property from persons suspected of being linked to terrorist organizations. Opponents have criticized the Bill based on their belief that it fosters a "creeping invasion" of civil liberties. The Government, however, is assuring the public that safeguards will be put into place that will ensure that civil liberties are preserved.

BIOTECHNOLOGY

Court Challenge to Genetically Modified (GM) Cattle Research Approval

Mothers Against Genetic Engineering (MAdGE) has asked New Zealand's High Court to review the Environmental Risk Management Authority's (ERMA) decision taken in October 2002 which approved a research project to develop genetically-modified (GM) cattle. MAdGE, which has a New Zealand-wide membership of more than 1,500, is attempting to have ERMA's decision overturned. ERMA's approval allowed AgResearch, a New Zealand Crown Research Institute, to conduct GM research on the introduction of human and animal genes into cattle in order to produce milk containing therapeutic proteins for use in human medical treatment. MAdGE seeks a judicial review on the grounds that the Minister for the Environment failed to exercise her obligation to consider relevant ethical issues. According to MAdGE, ERMA should not have been given the authority to consider the application before the formation of a Bioethics Council, which is set to be created as a result of the Royal Commission's report on biotechnology. A judicial conference to review MAdGE's petition is set for March 2003. AgResearch has announced that it will move ahead with the research project, subject to the outcome of the anticipated judicial review. The potential for the research to be terminated after an application process in which AgResearch already had addressed ERMA's concerns, has drawn criticism from many supporters of biotech research. The withdrawal of ERMA's approval would call into question the validity and value of ERMA's approval process for biotech research.

GM Research Approval and Funding Increasingly Influenced by Maori Values

Recent press reports indicate that the Environmental Risk Management Authority (ERMA) will now be giving greater consideration to ethical and Maori spiritual values and concerns when reviewing applications for GM research. Many New Zealand researchers maintain that ERMA's existing Maori consultation protocols already stifle GM research in New Zealand and that the introduction of additional non-science based principles into the approval process will further limit GM research. GM technology is generally viewed as incompatible with the Maori value system.

The need to demonstrate that specific Maori interests are adequately represented along with a requirement to consult with Maori when applying for publicly funded research is becoming more important in New Zealand. All applications for funding under the government's Foundation for Research, Science and Technology (FRST) are being assessed on the basis of meaningful collaboration with Maori. Two applications to FRST were recently rejected because research objectives did not focus sufficiently on benefits directly related to Maori interests, even though significant economic benefits from the research were identified. In one case, an application for research on footrot in sheep - a major problem in New Zealand which costs the industry NZ $20 million (U.S. $11 million) annually in lost production - was rejected by FRST due to a "lack of Maori benefits flowing from the research." According to some industry commentators, the Maori focus is thwarting the Government's objective to develop New Zealand into a technology-based country.

GM Crop Find Incidence Report Released

An independent report into the handling of the recent discovery of GM maize in New Zealand (see NZ2036) found that "confusion over accountability and legislation" was prevalent. The review concluded that it was not clear whether the Environmental Risk Management Authority (ERMA) or the Ministry of Agriculture and Fisheries (MAF) was the lead government agency responsible for responding to such incidents. The report further noted that confusion existed over whether the Hazardous Substances and New Organisms (HSNO) Act, the legislation regulating the introduction of new organisms into New Zealand, applied or whether New Zealand's Biosecurity Act constituted the appropriate legal framework for responding to the incident. The report identified a lack of coordination and communication between the two agencies. This led to delays in testing the affected crops and the subsequent clean up of the affected field sites. All of the GM-tainted crop in question was destroyed, which was deemed a satisfactory response by the report. The report made several recommendations to improve government agency coordination and accountability in the event of future GM incidents. (For detailed information, visit: www.maf.govt.nz)

New Zealand GM Research Demonstrates Producer and Consumer Benefits

New Zealand scientists at AgResearch, a Crown Research Institute, claim to have produced a herd of 9 genetically modified and cloned cattle which produce protein enhanced milk. AgResearch obtained permission from ERMA in 1999 to conduct two pieces of research. One was to eliminate the specific gene from transgenic cattle that controls beta lactoglobulin which is the main whey protein in milk. This protein is not found in human milk and can cause an allergenic response in some infants and adults. The second research on these animals is directed at inserting additional copies of two cattle milk casein genes (beta and kappa) to produce milk with a higher protein level, while maintaining the same amount of milkfat. This will assist solidification in liquid cheese while driving off whey, an undesired by-product in the curdling process of cheese making. According to recent press reports, for every percentage point the casein content of milk can be increased, the local dairy industry will enjoy an increased annual income of $ U.S. 55 million.

The research represents the first case in New Zealand in which cattle have been both genetically modified and cloned to produce altered milk for human consumption. Release of the GM cattle and commercialization may become possible after New Zealand's moratorium on the commercial release of GM organisms expires in October 2003. Industry observers believe, however, that additional development work is needed before commercial application becomes viable. Food safety, ethical, and animal welfare issues associated with cloning also need to be addressed before commercial application becomes practical.

DAIRY

Fonterra Seeks Australian Dairy Merger

Fonterra's planned consolidation of its assets in Australia and its drive to establish a firm footing in the Australian market under its "homemarket strategy" is moving ahead. Merger talks between Bonlac, in which Fonterra holds a 25 percent stake, and Murray Goulburn Co-op, Australia's two largest dairy exporters, will potentially create a company with an annual revenue of more than U.S. $2 billion. The merger will allow Fonterra to exercise influence over 10 of Australia's largest dairy manufacturing facilities. Approval by the Australian Competition and Consumer Commission is needed before the merger can be finalized.

Fonterra Estimates Next Season's Fair Value Share Price

Fonterra has set its estimated fair value share price for the 2003-2004 season at NZ $3.95 (U.S. $2.17) per kilogram of milksolids. This represents a NZ $ 0.10 increase over the current season's price. The 2003-2004 price was established after consultations with Standard and Poor, an independent credit rating agency. Standard and Poor developed a share price range based on current season price indicators. Under the Dairy Industry Restructuring Act, Fonterra's share price must fall within the range suggested by Standard and Poor. Fonterra has until June 1, 2003, the official start of the next dairy season, to set the final price. Milk producers must purchase their delivery rights to Fonterra at the fair value share price. Every fair value share purchased entitles a milk supplier to deliver Fonterra with the liquid milk equivalent of 1 kilogram of milksolids.

Fonterra maintains that the NZ $ 0.10 increase represented a testament to the success of its business strategy in a difficult international environment as well as Standard and Poor's confidence in its ability to deliver solid returns to shareholders. Some industry commentators, however, believe that the price increase reflects increased business risk associated with a larger milk output and the challenge to Fonterra to market additional volumes profitably in export markets. The higher price for additional supply rights may, therefore, discourage expansion of New Zealand's milk production. It will compel milk producers to evaluate the direction of milk prices in the long-term. If milksolid payouts were to stay at current forecast levels into the 2003-2004 season, producers would incur a net cost for expanding their milk production capacity.

Recent developments since the presentation of Fonterra's new long-term strategy, Project Galileo, signal a possible end to Fonterra's growth through international acquisitions and joint ventures. Fonterra recently announced that its target band for annual growth, set between 13 and

15 percent, will be achieved through internal growth from the development of new products or processes. This growth strategy comes as a surprise to some industry participants given that Fonterra signaled only last year that external growth would deliver two thirds of its 15 percent annual growth target. Dairy Farmers of New Zealand has suggested that Fonterra may not have the cash reserves needed to finance further large-scale acquisitions.

FORESTRY & PRODUCTS

New Forest Research Consortium

New Zealand and Australian forest industry organizations have established a joint research consortium under a New Zealand Government research and development program. In December 2002, the New Zealand Science Minister announced the approval of funding for the Wood Quality Initiative (WQI). Fourteen shareholding companies are the founding members of the WQI. The WQI believes that it will become a critical force in the industry's future as an increased wood supply comes on stream over the next few years. The main purpose of the consortium is the improvement of the genetic makeup of New Zealand's predominant tree species, Pinus radiata. The Government has agreed to match the consortium's contribution through its Foundation for Research, Science and Technology (FRST) fund. Initially, the partners are expected to contribute NZ $1.5 million (U.S. $825,000), but WQI's total funding level reportedly will increase to NZ $ 12.5 million (U.S. $6.88 million) over the next five to seven years. U.S. companies involved in the research group are Weyerhaeuser and International Paper (through its majority ownership of Carter Holt Harvey).

Fletcher Forests Refocuses Strategy and Sells Off Cutting Rights

Three months after a failed attempt by the Board of Fletcher Forests to convince its shareholders to buy the forest interests held by the Central North Island Forestry Partnership (see footnote 1 below), Fletcher Forests announced in November 2002 that it planned to sell off its forest holdings in an effort to remedy poor returns from growing forests and its low stock market share price. Fletcher Forests will sell the cutting rights to almost 9,000 hectares of mature trees for U.S. $65 million to UBS Timber Investors. Fletcher Forests owns a total of 108,500 hectares of forests (accounting for 6.7 percent of New Zealand's plantation forests). The company will retain ownership of the land on which the trees stand, continue to manage the forests, and will maintain an option to buy back half of the trees at market prices at harvest time. This will refocus Fletcher Forest activities on distribution and processing. While Fletcher Forests stated it would concentrate on the "front end" of the business, ie. processing and selling trees, it did not commit itself to joining the recently announced export log company (see NZ2040). Fletcher Forests has stated that it is not prepared at this stage to join the group, even though it acknowledged that the New Zealand timber exporting industry was being harmed by competing against itself in export markets. Carter Holt Harvey and Ferrier Hodgson, acting as the receiver of the CNIFP (see footnote 1) below) plan to launch the new export log company in June 2003.

1) The New Zealand government sold cutting rights to 168,000 hectares of government-owned forests in the Central North Island to CNIFP, a partnership between Fletcher Challenge and Citic, a Chinese investment company in 1996. CNIFP fell into receivership in 2001. A plan by Citic

and Fletcher Forests (renamed after Fletcher Challenge underwent large-scale reorganization of its operations) to buy back the forests from the receiver in 2002 failed because Fletcher Forests shareholders voted down the proposed deal at a shareholder meeting due to concerns over rising debt levels and Citic's long-term intentions.