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## New Zealand

### Fresh Deciduous Fruit

### Annual

### 2004

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#### **Report Highlights:**

Good growing conditions will lead to a larger, high-quality apple crop in 2004. Apple exports, benefiting from a strong import demand in key Northern Hemisphere markets, are forecast to increase 7 percent to 350,000 tons. Supplies of processing grade apples will fall markedly and apple prices and producer returns will increase during the upcoming season. New Zealand's pear crop in 2004 will rebound to a level similar to that of 2002 and export volumes will respond to good marketing opportunities

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Wellington [NZ1]  
[NZ]

**SECTION I. SITUATION AND OUTLOOK**

Favorable growing conditions point to a significant increase in harvest levels for New Zealand's apple and pear crops in 2004. Unlike last year, maturing fruit has benefited from only minor frost and hail damage. Overall, growers look forward to a consistent crop of good-sized fruit. Fruit quality will be much improved compared to a year earlier, which will allow a larger percentage of harvested fruit to be exported. New Zealand's apple harvest in 2004 is forecast to increase to 506,000 tons. The local industry anticipates that world market demand for New Zealand's apples will be strong during the upcoming 2004 marketing season. This includes a projected increase in shipping volumes to the United States in response to what the New Zealand trade describes as a disappointing U.S. harvest.

Pear production in 2004 also is looking positive thanks to the same favorable growing conditions that apples have enjoyed. Pear exports in 2004 will respond to an increase in exportable supplies and a good export demand. New Zealand pear producers will also benefit from a buoyant local market.

The anticipated larger crop consisting of good quality fruit will encourage an increase in apple exports during the 2004 season. A larger average fruit size will spur shipments to higher value markets such as the United States. Some industry participants believe that as much as 36,000 tons of apples may be exported during the upcoming shipping season that might not have met quality control criteria before deregulation when the Apple and Pear Marketing Board handled the industry's export sales. Taking this additional volume into account, New Zealand's total export volume in 2004 might reach 20 million 18 kilogram cartons or approximately 350,000 tons. Apple supplies for processing into juice will fall during the upcoming season and grower price levels will improve compared to a year earlier when there was an oversupply of processing grade fruit.

The 2004 marketing season represents the third year that New Zealand's apple and pear industries have operated under deregulation. Deregulation has meant that the industry has been transformed from one main exporter in 2001 to ninety seven in 2003. This figure looks set to rise again in 2004 to well over one hundred. Although apple prices to growers will benefit from strong exporter competition for fruit in the short-term, many in the industry are concerned that some fruit is now being exported that does not meet export standards previously imposed by the Apple and Pear Marketing Board. In the long-term, such exports may negatively affect the quality image that New Zealand apples enjoy in overseas markets. The elimination of the apple board has also reduced the industry's effectiveness in carrying out grower funded market development activities in key export markets.

**SECTION II. STATISTICAL TABLES**

## PS&amp;D TABLE – FRESH APPLES

<b>New Zealand Fresh Apples</b>						
	(HA) (1000 TREES) (MT)					
	<b>2001 USDA Official [Old]</b>	<b>Revised Post Estimate [New]</b>	<b>2002 USDA Official [Old]</b>	<b>Estimate Post Estimate [New]</b>	<b>2003 USDA Official [Old]</b>	<b>Forecast Post Estimate [New]</b>
<b>Market Year Begin</b>		10/2001		10/2002		10/2003
<b>Area Planted</b>	13000	13000	11700	11700	0	11000
<b>Area Harvested</b>	0	0	0	0	0	0
<b>Bearing Trees</b>	0	0	0	0	0	0
<b>Non-Bearing Trees</b>	0	0	0	0	0	0
<b>Total Trees</b>	0	0	0	0	0	0
<b>Commercial Production</b>	446500	446500	460000	460000	0	470000
<b>Non-Comm. Production</b>	33500	33500	35000	35000	0	36000
<b>TOTAL Production</b>	480000	480000	495000	495000	0	506000
<b>TOTAL Imports</b>	70	70	275	275	0	50
<b>TOTAL SUPPLY</b>	480070	480070	495275	495275	0	506050
<b>Domestic Fresh Consump</b>	70070	70070	65000	65000	0	70050
<b>Exports, Fresh Only</b>	325000	325000	325000	327000	0	350000
<b>For Processing</b>	85000	85000	105275	103275	0	86000
<b>Withdrawal From Market</b>	0	0	0	0	0	0
<b>TOTAL UTILIZATION</b>	480070	480070	495275	495275	0	506050

## PS&amp;D TABLE – CONCENTRATED APPLE JUICE

New Zealand Concentrated Apple Juice						
	(MT)					
	2001 USDA Official [Old]	Revised Post Estimate [New]	2002 USDA Official [Old]	Estimate Post Estimate [New]	2003 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		10/2001		10/2002		10/2003
<b>Deliv. To Processors</b>	85000	85000	105275	103275	0	86000
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	14450	14450	17900	17600	0	14600
<b>Imports</b>	1700	1700	3600	2500	0	5000
<b>TOTAL SUPPLY</b>	16150	16150	21500	20100	0	19600
<b>Exports</b>	7500	7500	13500	11100	0	10600
<b>Domestic Consumption</b>	8650	8650	8000	9000	0	9000
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	16150	16150	21500	20100	0	19600

## PS&amp;D TABLE – FRESH PEARS

New Zealand Fresh Pears						
	(HA) (1000 TREES) (MT)					
	2001 USDA Official [Old]	Revised Post Estimate [New]	2002 USDA Official [Old]	Estimate Post Estimate [New]	2003 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		10/2001		10/2002		10/2003
<b>Area Planted</b>	995	995	995	995	0	1000
<b>Area Harvested</b>	0	0	0	0	0	0
<b>Bearing Trees</b>	0	0	0	0	0	0
<b>Non-Bearing Trees</b>	0	0	0	0	0	0
<b>Total Trees</b>	0	0	0	0	0	0
<b>Commercial Production</b>	19400	19400	11900	11900	0	20000
<b>Non-Comm. Production</b>	4400	4400	1600	1600	0	4000
<b>TOTAL Production</b>	23800	23800	13500	13500	0	24000
<b>TOTAL Imports</b>	2048	2048	3000	3000	0	1500
<b>TOTAL SUPPLY</b>	25848	25848	16500	16500	0	25500
<b>Domestic Fresh Consump</b>	11948	11948	9000	9000	0	12000
<b>Exports, Fresh Only</b>	10500	10500	5000	5000	0	10000
<b>For Processing</b>	3400	3400	2500	2500	0	3500
<b>Withdrawal From Market</b>	0	0	0	0	0	0
<b>TOTAL UTILIZATION</b>	25848	25848	16500	16500	0	25500

## TRADE MATRIX – FRESH APPLES

<b>New Zealand Apple Exports</b>				
<b>Country</b>	<b>(Calendar Years, MT)</b>			
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>
<b>Other EU</b>	115267	78224	93922	86445
<b>United Kingdom</b>	92343	76499	80955	82621
<b>United States</b>	78152	55782	64427	54356
<b>Netherlands</b>	2539	4310	21678	30622
<b>Taiwan</b>	9419	6594	15481	16234
<b>Germany</b>	4055	18354	15390	22507
<b>Malaysia</b>	9368	7908	12356	8913
<b>Singapore</b>	10008	7109	10127	8647
<b>Hong Kong</b>	21246	14374	8583	12675
<b>United Arab Emirates</b>	1680	2287	3985	2199
<b>Indonesia</b>	5106	3575	3984	4943
<b>India</b>	1034	1966	2701	2959
<b>France</b>	253	27	2582	3040
<b>Thailand</b>	2674	2908	2428	3706
<b>Canada</b>	815	113	2079	4313
<b>Other</b>	19877	15392	13531	14015
<b>TOTAL</b>	<b>373832</b>	<b>295422</b>	<b>354209</b>	<b>358193</b>
* YTD (Jan - Oct)				
Source of Data: Statistics New Zealand				

## TRADE MATRIX – FRESH PEARS

New Zealand Pear Exports				
Destination	(Calendar Years, MT)			
	2000	2001	2002	2003*
United States	6991	2204	5056	1834
United Kingdom	3053	1260	2549	714
Other EU	1709	358	1486	255
Netherlands	76	29	1016	37
Singapore	0	0	125	55
Fiji	4	3	89	4
France	0	0	80	65
Other	49	98	279	189
<b>Total</b>	<b>11881</b>	<b>3952</b>	<b>10680</b>	<b>3152</b>
* YTD (Jan - Oct)				
Source: Statistics New Zealand				

**SECTION III. SUPPLY AND DEMAND, TRADE****PRODUCTION**

New Zealand is a relatively small producer of apples, accounting for only 2 percent of world production. However 65 percent of the crop is exported, making New Zealand one of the top 10 exporters in the world. Approximately 5 percent of world apple export volume consists of New Zealand fruit. The main apple varieties exported are Royal Gala and Braeburn, which represented 40 percent and 34 percent respectively of exports in the 2002/2003 marketing season. Approximately 90 percent of New Zealand's apple harvest is grown in the Hawkes Bay (50 percent) and Nelson (40 percent) regions. The apple harvest begins in the second week of February in Hawkes Bay (slightly later in Nelson) and usually is completed by early May.

The 2004 season looks positive, with maturing fruit as of late December 2003 healthy due to only light frost and no hail at critical times earlier in the season. With weather to date having been favorable, the industry expects a consistent crop of good-sized fruit that will exhibit better quality characteristics than last year. This will encourage a larger percentage of the harvest to be exported. The upcoming apple harvest is forecast to increase modestly to 506,000 tons.

New Zealand pear production and exports are on a far smaller scale than apples. The higher carton prices that growers receive for pears are offset by higher production costs. With lower net returns to growers, pears are generally less appealing to New Zealand's farming community than apples. Most pears are grown in apple orchards, making it difficult to get an exact count on the number of hectares planted to pears. Pears are harvested from the beginning of February until the end of April. Pear trees produce in two-year cycles, with every second year producing approximately twice as much as the alternate years.

Following this cyclical trend, the 2004 season is expected to be a heavier producing season. The same beneficial growing conditions that apples have enjoyed should produce a significantly larger pear harvest compared to a year earlier. World pear production is somewhat stable at the present time and good export sales opportunities exist for New Zealand's upcoming harvest. New Zealand pear producers will also benefit from a buoyant local market.

For the apple industry as a whole, grower profitability is generally viewed as attractive at present, particularly in comparison to the last decade. Many growers now seek to replace older trees that have experienced a slow yield reduction. This had not been given a high priority by most farmers in recent years when returns were not as high. Grower planting intentions are being hampered, however, by a shortage of rootstock material. The number of nurseries with rootstock declined due to low demand over the last 10 to 15 years. Rootstock material in New Zealand is generally grown to order and the industry will probably require a season or two to produce the needed planting material. The steady decline in apple area witnessed over the past decade should now be halted. Apple area will probably not increase greatly in the near-term as most rootstock will be used to replace older, less productive trees. Apple production in New Zealand will benefit, however, from an increase in yield levels.

*Industry Deregulation*

New Zealand's apple and pear industries were deregulated in October 2001. The Apple and Pear Marketing Board ceased to be the exclusive exporter of apples for the 2002 crop. Prior

to deregulation, all apples and pears were exported by the Board under the ENZA brand. ENZA Ltd (ENZA) emerged as New Zealand's largest exporter, retaining the ENZA label which the Board had previously utilized as its generic marketing brand. Industry-good activities (including research, market access, and policy) previously managed by the Board are now being undertaken by Pipfruit Growers New Zealand Incorporated (PGNZI). These activities are funded through producer levies under the Commodity Levies Act (1990). PGNZI, however, does not carry out producer-funded market development activities in overseas markets that previously had been organized by the Board. ENZA, as well as other apple exporters fund and conduct specific promotional or sales activities in key export markets to promote their own brand and individual company sales strategies. Growers will vote at PGNZI's Annual General Meeting at the end of January 2004, to determine whether the organization should represent post-harvest operators (mainly pack houses and exporters) as well as growers.

Industry participants are still uncertain about how the joint venture between PGNZI, HortResearch, and their international partners will affect the future of the industry (see NZ3001, NZ3008 and NZ3017). Although some industry participants believe that New Zealand will continue to be the main beneficiary of the program, concern exists that this ultimately may lead to a diminished competitive advantage for the New Zealand industry through a sharing of intellectual property.

Deregulation has also driven a large amount of vertical integration in the industry. This comes from both ends of the chain. Growers are seeking to 'cut out the middle man' and export directly or cooperatively with other growers. Pack houses and cold storage facilities are also attempting to ensure their apple supplies, and hence their economies of scale, by purchasing, leasing or planting new orchards.

## TRADE

Deregulation has meant that the industry has rapidly moved from one main exporter (the Apple and Pear Marketing Board) in 2001 to ninety seven in 2003. This figure looks set to rise again in 2004 to well over one hundred. It was originally thought that the number of exporters would decrease rather than increase for the 2003 and 2004 seasons. The increase in the number of exporters is being driven by two profitable export seasons under deregulation and minimal regulatory costs in becoming an exporter. The majority of New Zealand's apple exporters handle only relatively small volumes. Less than 35 exporters account for 95 percent of total apple exports. ENZA Ltd. remains the largest exporter and is expected to handle 40 percent of all apple shipments in 2004.

Although growers are benefiting from strong exporter competition for their fruit in the short-term, many in the industry are concerned that the now fragmented nature of the industry will have a negative long-term impact. Some exporters this past season reportedly shipped fruit that would have failed to reach the quality standards previously adhered to by the Apple and Pear Marketing Board. This may have boosted export volume in 2003 by as much as 1.5 million cartons (27,000 tons). In the long-term, such exports may negatively affect the quality image that New Zealand apples enjoy in overseas markets.

Another challenge that faces the New Zealand apple industry under deregulation is developing relationships with government and industry organizations in export markets and gaining access to new markets. At present, there is very little motivation for New Zealand exporters to develop new markets by themselves, as this market access will be available to any organization in the industry once granted. There is also a feeling in the industry that importing countries prefer to deal with one industry body (as happened under the Apple and

Pear Marketing Board) rather than several different exporters. However, New Zealand's industry has managed to maintain a cohesive approach in meeting the demands of USDA's pre-clearance program and the European Union's EUREGAP accreditation program.

### *Exports*

Current indications are that Northern Hemisphere markets will offer attractive sales opportunities for the 2003/2004 season, as they have been for the previous two. The main driver for this is the disappointing harvests experienced by several major Northern Hemisphere apple producers the last couple of years. New Zealand apple exporters look set to enjoy higher prices for this season's crop thanks in part to a good outlook in selling its premium fruit in the U.S. market. Grower returns in local currency will be partially offset by the sharp appreciation of the New Zealand dollar witnessed in recent months. Many within the New Zealand business community anticipate that the New Zealand dollar will remain steady against the U.S. dollar for the next several months, with a decline in value relative to the U.S. dollar towards the end of 2004.

The anticipated larger crop consisting of good quality, fruit will encourage an increase in apple exports during the 2004 season. A larger average fruit size will spur shipments to higher value markets such as the United States. Some industry participants believe that as much as 36,000 tons of apples may be exported during the upcoming shipping season that might not have met quality control criteria before deregulation when the Apple and Pear Marketing Board handled the industry's export sales. Taking this additional volume into account, New Zealand's total export volume in 2004 might reach just under 20 million 18 kilogram cartons or approximately 350,000 tons. Apple supplies for processing into juice will fall during the upcoming season and grower price levels will improve compared to a year earlier when there was an oversupply of processing grade fruit.

Although the 2003/2004 season looks positive, most in the industry are braced for an industry downturn in the next two to three years. The current strength in demand for New Zealand fruit in overseas markets is driven by poor seasons in many northern-hemisphere growing regions. The local industry believes that this is unlikely to continue in the future. Producers are also monitoring the emergence of several countries that are beginning to rapidly expand their apple production and export levels.

South America, especially Chile, looks set to become an important player in the world apple market. Chilean producers have a competitive advantage over New Zealand due to their lower costs of production and rapidly improving quality. Their closer proximity to key markets compared to New Zealand and favorable access to the U.S. market will make it increasingly difficult for New Zealand to maintain its export price competitiveness. These concerns are confirmed by the recent first place ranking of Chile along with New Zealand in the world competitiveness survey for 2003 by the World Apple Review. This is a position that New Zealand had enjoyed exclusively for the previous eight years. China is another market that has the potential to significantly boost its crop size. However, it continues to face major quality problems.

Another threat to New Zealand's apple exporters is the development of improved cold storage technology that will allow apples to be stored for much longer periods. This may impact Southern Hemisphere producers by eroding their position as sole suppliers during the Northern Hemisphere's 'off-season'. New Zealand, however, may also benefit from the use of this storage technology to gain access to new markets. Unfortunately, many in the industry view it only in terms of added costs.

*WTO/Fire blight*

The recent ruling by the World Trade Organization (WTO) on Japanese restrictions applied to U.S. apple imports due to the existence of fire blight in the United States may have a positive impact for New Zealand's apple growers who face similar restrictions in both Japan and Australia. Many in the industry feel that it will take at least a couple of years before Australia liberalizes its import restrictions on New Zealand-grown apples and Australia emerges as a viable export outlet. New Zealand's apple industry believes that ultimately Australia will become a lucrative market for its fruit given its lower costs of production and higher fruit quality.