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New Zealand

Fresh Deciduous Fruit

Annual

2006

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Report Highlights:

New Zealand's apple harvest for 2006 is forecast to decline 3 percent to 488,000 tons. This will reduce apple exports by 6 percent to 300,000 tons. Pear production in 2006 is forecast to increase 55 percent to 10,600 tons, increasing exports 27 percent to 6,500 tons. Pipfruit New Zealand is scheduled to introduce an 'export market panel' that will administer a new voluntary quality standard. Biosecurity Australia issued a draft import risk analysis report for the importation of New Zealand apples into Australia. The New Zealand apple industry has reacted negatively to the report, arguing that the IRA is inconsistent with WTO findings in a similar case between the United States and Japan.

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

SECTION I. SITUATION AND OUTLOOK

New Zealand's apple harvest for 2006¹ is forecast to decline 3 percent to 488,000 tons. This will reduce apple exports by 6 percent to 300,000 tons. The decline in production is primarily the result of the large number of tree removals following two disastrous years for the industry. Average production per tree is forecast to increase slightly. Pear production in 2006 is forecast to increase 56 percent to 10,600 tons due to the biennial nature of pear production. Pear exports will increase 27 percent to 6,500 tons. The pear crop will benefit from the same positive growing conditions as apples. The volume of apples utilized for processing in 2006 is forecast to increase 2 percent to 132,350 tons. Implementation of a new, voluntary quality mark is likely to result in a small increase in the percentage of apples not exported as a result of not meeting new voluntary quality standards.

The poor profitability faced by the industry during the past two seasons has motivated participants to work together to better coordinate marketing efforts. Pipfruit New Zealand (PNZ) is scheduled to introduce an 'export market panel' that will administer a new voluntary quality standard in January 2006, before fruit harvesting begins. The export marketing panel's new voluntary quality standard will be identified on cartons of certified apples as a branded Country of Origin Labeling (COOL) mark. It is being aimed primarily at pipfruit buyers in overseas markets. The consumer is not being targeted, as implementing an adequate promotional campaign would be too costly. The marketing panel is an important part of the strategy of the surrounding implementation of the mark. It will provide a regular forum for exporters to meet and discuss issues that arise. It is hoped that better coordination will greatly reduce the aggressive competition among New Zealand exporters in previous years that contributed to poor returns for the industry. PNZ estimates that 80 percent of New Zealand's apple crop will carry the mark in 2006, which will sit alongside exporters' own brands.

Biosecurity Australia issued a draft import risk analysis report (IRA) for the importation of New Zealand apples into Australia on December 1, 2005 (see AS5044 and NZ5013). The New Zealand apple industry has reacted negatively to the report, arguing that the IRA is inconsistent with WTO findings in a similar case between the United States and Japan. New Zealand growers state that the import conditions included in the draft IRA make it economically unviable to export apples to Australia. The New Zealand government is currently reviewing the report before making a submission. It has stated that it has 'serious concerns' about some of the conditions imposed on New Zealand apples. The final IRA for New Zealand is expected to serve as a basis for a subsequent IRA for U.S. apples. New Zealand initiated negotiations with Japanese authorities on its apple access protocol. This follows Japan opening its borders to U.S. apples in September 2005, after the WTO ruling that mature fruit is not a vector for transmitting fireblight.

Horticulture New Zealand (HNZ) officially began operating on December 1, 2005. This follows the election of its board in November 2005. HNZ was created as an umbrella organization to present a unified voice for New Zealand's horticulture industry (see NZ5001), representing the interests of New Zealand's 7,000 commercial fruit, vegetable, berryfruit and olive growers. HNZ will also act as an information clearinghouse, distributing relevant information to its stakeholders (product groups and district associations). Industry participants see the organization's formation as an opportunity to present a stronger voice to government on issues common across horticultural industries. Funding will come from a commodity levy paid by growers based on product value.

SECTION II. STATISTICAL TABLES

PS&D TABLES

| New Zealand Apples, Fresh | | | | | | |
|----------------------------------|--------------------------------|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|------------------------------------|
| | (HA) (1000 TREES) (MT) | | | | | |
| | 2003 USDA Official [Old] | Revised Post Estimate [New] | 2004 USDA Official [Old] | Estimate Post Estimate [New] | 2005 USDA Official [Old] | Forecast Post Estimate [New] |
| Market Year Begin | 10/2003 | | 10/2004 | | 10/2005 | |
| Area Planted | 11000 | 11000 | 11000 | 11000 | 0 | 10500 |
| Area Harvested | 0 | 0 | 0 | 0 | 0 | 0 |
| Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial Production | 511000 | 511000 | 468000 | 467000 | 0 | 453000 |
| Non-Comm. Production | 39000 | 39000 | 36000 | 36000 | 0 | 35000 |
| TOTAL Production | 550000 | 550000 | 504000 | 503000 | 0 | 488000 |
| TOTAL Imports | 360 | 360 | 200 | 350 | 0 | 350 |
| TOTAL SUPPLY | 550360 | 550360 | 504200 | 503350 | 0 | 488350 |
| Domestic Fresh Consump | 56000 | 56000 | 55000 | 55150 | 0 | 56000 |
| Exports, Fresh Only | 358000 | 358000 | 320000 | 319000 | 0 | 300000 |
| For Processing | 136360 | 136360 | 129200 | 129200 | 0 | 132350 |
| Withdrawal From Market | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 550360 | 550360 | 504200 | 503350 | 0 | 488350 |

| New Zealand Apple Juice, Concentrated | | | | | | |
|--|--------------------------------|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|------------------------------------|
| | (MT) | | | | | |
| | 2003 USDA Official [Old] | Revised Post Estimate [New] | 2004 USDA Official [Old] | Estimate Post Estimate [New] | 2005 USDA Official [Old] | Forecast Post Estimate [New] |
| Market Year Begin | 10/2003 | | 10/2004 | | 10/2005 | |
| Deliv. To Processors | 136360 | 136360 | 129200 | 129200 | 0 | 132350 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 17800 | 23000 | 16100 | 22000 | 0 | 22500 |
| Imports | 5000 | 6000 | 6000 | 6400 | 0 | 6200 |
| TOTAL SUPPLY | 22800 | 29000 | 22100 | 28400 | 0 | 28700 |
| Exports | 10600 | 11300 | 11000 | 12000 | 0 | 12100 |
| Domestic Consumption | 12200 | 17700 | 11100 | 16400 | 0 | 16600 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 22800 | 29000 | 22100 | 28400 | 0 | 28700 |

| New Zealand Pears, Fresh | | | | | | |
|---------------------------------|----------------------|---------------|---------------|---------------|---------------|---------------|
| | (HA)(1000 TREES)(MT) | | | | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast |
| | USDA Official | Post Estimate | USDA Official | Post Estimate | USDA Official | Post Estimate |
| | [Old] | [New] | [Old] | [New] | [Old] | [New] |
| Market Year Begin | | 10/2003 | | 10/2004 | | 10/2005 |
| Area Planted | 1000 | 1000 | 1000 | 1000 | 0 | 1000 |
| Area Harvested | 0 | 0 | 0 | 0 | 0 | 0 |
| Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial Production | 10400 | 9700 | 6500 | 6300 | 0 | 9500 |
| Non-Comm. Production | 1350 | 1350 | 500 | 500 | 0 | 1100 |
| TOTAL Production | 11750 | 11050 | 7000 | 6800 | 0 | 10600 |
| TOTAL Imports | 3000 | 3700 | 4500 | 3400 | 0 | 3000 |
| TOTAL SUPPLY | 14750 | 14750 | 11500 | 10200 | 0 | 13600 |
| Domestic Fresh Consump | 4450 | 4450 | 3200 | 2100 | 0 | 3100 |
| Exports, Fresh Only | 6300 | 6300 | 5300 | 5100 | 0 | 6500 |
| For Processing | 4000 | 4000 | 3000 | 3000 | 0 | 4000 |
| Withdrawal From Market | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 14750 | 14750 | 11500 | 10200 | 0 | 13600 |

TRADE MATRICES

| New Zealand Fresh Apple Exports | | | | | |
|--|--------------------|--------|--------|---------------------|--------|
| Partner Country | January - December | | | October - September | |
| | | | | (MT) | |
| | 2002 | 2003 | 2004 | 2004 | 2005 |
| Other EU | 84119 | 77805 | 92008 | 92008 | 57690 |
| United Kingdom | 72728 | 73591 | 78453 | 78453 | 66059 |
| United States | 58348 | 49158 | 56376 | 56376 | 32455 |
| Netherlands | 19578 | 27457 | 48429 | 48429 | 66031 |
| Taiwan | 13818 | 14557 | 19279 | 19279 | 25762 |
| Germany | 14685 | 20798 | 14491 | 14491 | 21179 |
| Hong Kong | 7658 | 11121 | 6807 | 6806 | 4769 |
| Malaysia | 10563 | 8315 | 6034 | 6034 | 3625 |
| Singapore | 9188 | 7821 | 5230 | 5252 | 3637 |
| France | 2305 | 2766 | 4752 | 4752 | 7681 |
| Canada | 1824 | 3916 | 3961 | 3961 | 4135 |
| Other | 24046 | 25453 | 22507 | 22221 | 25832 |
| Total | 318860 | 322758 | 358327 | 358062 | 318855 |

| New Zealand Fresh Pear Exports | | | | | |
|---------------------------------------|--------------------|------|------|---------------------|------|
| Partner Country | January - December | | | October - September | |
| | | | | (MT) | |
| | 2002 | 2003 | 2004 | 2004 | 2005 |
| United States | 4473 | 1486 | 3151 | 3151 | 2981 |
| United Kingdom | 2183 | 478 | 1647 | 1647 | 1055 |
| Destination Unknown EU | 1204 | 173 | 680 | 680 | 430 |
| Netherlands | 857 | 28 | 283 | 283 | 202 |
| Singapore | 100 | 51 | 126 | 126 | 97 |
| France | 73 | 48 | 118 | 118 | 38 |
| Other | 332 | 191 | 328 | 292 | 329 |
| World | 9222 | 2455 | 6333 | 6297 | 5132 |

SECTION III. PRODUCTION, TRADE AND POLICY

Production

New Zealand's apple harvest for 2006² is forecast to decline 3 percent to 488,000 tons. This will reduce apple exports by 6 percent to 300,000 tons. The decline in production is primarily the result of the large number of tree removals following two disastrous years for the industry. Estimates put tree removals at between 5 and 10 percent of New Zealand's apple trees. Production per tree is forecast to increase slightly due to several factors. The majority of trees removed are older and lower performing, increasing the average productivity per tree across the harvested area. The apple bloom this season has been good and the Braeburn crop is expected to increase production in 2006 due to its biennial cycle. These gains will be offset slightly as growers have aggressively thinned some varieties, including Royal Gala, to save on pruning costs later in the season and increase apple size to appeal to markets. A good natural 'apple drop' helped lower thinning costs. Exports may be reduced due to a new, voluntary Country of Origin Labeling (COOL) mark that requires apples to meet a minimum quality standard before export (see below). A warm, wet spring has meant that growers have had to implement spray programs to control black spot on fruit.

Returns to New Zealand's apple industry during the last two seasons have been very poor. In many instances, returns have been lower than the cost of production. This poor profitability is forecast to continue in 2006 due to several ongoing factors. New Zealand's dollar remains strong, reducing returns to growers. Shipping and marketing of exports are uncoordinated as a result of the large number of exporters and fragmented nature of the industry. Competition from other countries has increased and New Zealand's seasonal advantage is being lost due to increasing southern hemisphere supply, improved storage technology (for example, Northern hemisphere competitors using SmartFresh™) and competition from other types of fruit. This is causing many growers to leave the industry, generally converting the land to other uses such as cropping or subdividing for housing.

In 2005 New Zealand's apple harvest declined 8.5 percent to 503,000 tons. Exports declined 11 percent to 319,000 tons. This is consistent with post's earlier estimates (see NZ5013). Returns to the industry were even lower than in 2004, with many exporters finding it difficult to sell the remnants of New Zealand's Braeburn crop. Many growers owe packers money, as returns from fruit failed to cover the cost of packing and packaging. This is mainly due to the very poor prices paid for apples in the European market, which took 70 percent of New Zealand's apple exports. Returns from the U.S. and Asian markets were good in comparison. A large number of exporters diverted product to the European market in 2005, following forecasts at the beginning of the season that prices would be poor in the U.S. market.

The volume of apples utilized for processing in 2006 is forecast to increase 2 percent to 132,350 tons. Implementation of the voluntary COOL mark is likely to result in a small increase in percentage of apples not exported as a result of not meeting the new voluntary quality standards.

Pear production in 2006 is forecast to increase 55 percent to 10,600 tons due to the biennial nature of pear production. Pear exports will increase 27 percent to 6,500 tons. The pear crop will benefit from the same positive growing conditions as apples. Like apples, pears are at increased risk of black spot on fruit this season due to the warm, wet spring in 2005. Pears are a niche product and haven't suffered the same poor returns as the apple industry. Some industry analysts believe that this will motivate growers to increase pear production in

² Year ending October, 2006

future, as they forecast returns on apples to continue to remain low. In 2005 New Zealand's pear harvest declined 38 percent to 6,800 tons. Exports declined 19 percent to 5,100 tons. This is slightly lower than Post's earlier estimate (see NZ5013).

Overview of New Zealand's Apple Industry

New Zealand is a relatively small producer of apples, accounting for only 1 percent of world production. More than 60 percent of the crop is exported on average, however, making New Zealand one of the top 10 exporters in the world. Approximately 5 percent of world apple trade volume consists of New Zealand fruit. The main apple varieties exported are Braeburn and Royal Gala, which represented 38 percent and 37 percent respectively of exports during 2005. These two varieties are becoming international commodities as their production increases in major apple producing countries. This is motivating many growers to assess proprietary breeds such as Jazz when planting new trees. 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.

New Zealand pear production and exports are on a far smaller scale than apples. The higher carton prices that growers typically receive for pears are offset by higher production costs. With lower net returns to growers, pears have in the past been considered less appealing than apples. This view is changing as a result of poor returns to apple growers, while pears maintain profitability in niche markets. Most pears are grown in apple orchards, making it difficult to get an exact count on the number of hectares planted in pears. Pears are harvested from the beginning of February until the end of April. Pear trees produce in two-year cycles (biennial), with every second year producing approximately twice as much as the alternate years.

TRADE

Fire blight and Australian Market Access

Biosecurity Australia issued a draft import risk analysis report (IRA) for the importation of New Zealand apples into Australia on December 1, 2005 (see AS5044 and NZ5013). The comment period for the draft IRA closes on March 30, 2006. The New Zealand apple industry has reacted negatively to the report, arguing that the proposed stringent quarantine risk management procedures are inconsistent with WTO findings in a similar case between the United States and Japan. New Zealand industry participants view these measures as protectionism, following the findings by the WTO that mature apples are not a vector for fireblight. They state that the import conditions included in the draft IRA do not make it economically viable to export apples to Australia. The New Zealand government is currently reviewing the report before making a submission. It has stated that it has some 'serious concerns' about some of the conditions imposed on New Zealand apples. The final IRA for New Zealand is expected to serve as a basis for a subsequent IRA for U.S. apples.

New Zealand has begun negotiations with Japanese authorities on its apple access protocol (see NZ5013). This follows Japan opening its borders to U.S. apples in September 2005, after the WTO ruling that mature fruit does not transmit fireblight. Industry participants see a lot of potential in the Japanese market, despite it being viewed as challenging.

POLICY

Voluntary Quality Mark

The poor profitability faced by the industry during the past two seasons has motivated participants to work together to better coordinate marketing efforts. Pipfruit New Zealand (PNZ) is scheduled to introduce an 'export market panel' that will administer a new voluntary quality standard late January 2006, before fruit harvesting begins (see NZ5013). This is in response to concerns within the industry and international markets that fruit quality had deteriorated following deregulation of New Zealand's apple industry. New Zealand exporters often compete aggressively against each other on price in export markets. The fragmented nature of the industry has made it difficult to coordinate among exporters to avoid this situation. ENZA, formerly the single desk marketer of New Zealand apples and now a private company, states that of the more than 90 apple exporters, only ENZA and a very small number of others have structured marketing programs. A large number of exporters are shipping apples without a committed buyer, forcing prices down as they compete to sell their product before it deteriorates. In addition, many exporters are shipping apples that are below required quality standards, negatively impacting the image of high quality, New Zealand apples. ENZA is attempting to attract growers back to the company. Its share of exports has fallen from 70 percent before deregulation in 2000 (the remainder was sold by other exporters under permit) to 31 percent in 2005.

The export marketing panel's new voluntary quality standard will be identified on cartons of certified apples as a branded Country of Origin Labeling (COOL) mark. The standards are unable to be made compulsory as New Zealand's apple industry is deregulated. The focus of the mark's guidelines will emphasize post harvest operators more than growers. Only exporters that join the marketing panel that manages the mark will be eligible to use it on their packaging. Their apples must conform to this quality standard in order to carry the mark. The mark is designed to represent quality, traceability and the positive image associated with New Zealand. It is being aimed primarily at pipfruit buyers in overseas markets. The consumer is not being targeted, as implementing an adequate promotional campaign would be too costly. Marks will only be printed on cartons of apples, as stickers for individual fruit are considered too expensive.

The marketing panel is an important part of the strategy of the surrounding implementation of the mark. It will provide a regular forum for exporters to meet and discuss issues that arise. It is hoped that better coordination will greatly reduce the aggressive competition among New Zealand exporters in previous years that contributed to poor returns to the industry. PNZ estimates that 80 percent of New Zealand's apple crop will carry the mark in 2006, which will sit alongside exporters' own brands.

Horticulture New Zealand

Horticulture New Zealand (HNZ) officially began operating on December 1, 2005. This follows the election of its board in November 2005. HNZ has been created as an umbrella organization to present a unified voice for New Zealand's horticulture industry (see NZ5001), representing the interest of New Zealand's 7,000 commercial fruit, vegetable, berryfruit and olive growers. HNZ brings together the New Zealand Fruitgrowers Federation, the New Zealand Potato and Vegetable Growers Federation and the New Zealand Berryfruit Growers Federation. Olives New Zealand officially joined HNZ following its creation. HNZ will perform the role of these organizations, with a focus on promoting the horticulture sector and its common views to the public, media, policy makers and Members of Parliament. Although

these three organizations will continue to function in the background, most of their functions will be contracted out to HNZ. They will be responsible for product specific issues such as research and development and quality assurance programs. HNZ will also act as an information clearinghouse, distributing relevant information to its stakeholders (product groups and district associations). Industry participants see the organization's formation as an opportunity to present a stronger voice to government on issues common across horticultural industries.

Funding will come from a commodity levy paid by growers based on product value. The levy will be managed by HNZ, with the exception of product groups or federations of product groups who wish to incorporate HNZ funding into their own product levy or other income. Candidates for the board are nominated by product groups and voted on by all growers. Individual product groups will continue to deal with product specific issues including research, product promotion and industry planning. Memorandums of understanding will be created between HNZ and product groups to minimize duplication of effort and possible organization clashes. Apple industry participants view Pipfruit New Zealand (PNZ) and HNZ as complimentary organizations.