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Agricultural Situation

Agribusiness Report - April 2002

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Report Highlights: Dairy: Fonterra forecasts payouts for 2002/2003 to be down to NZ$ 4.00 (US$ 1.76)/kg milk solids. Forestry: Government presents its preferred Kyoto Climate Change policies but industry concerns remain. General: Organic product earnings forecast to increase from NZ$ 120 million (US$ 52.8 million) to NZ$ 500 million (US$ 220 million) in 2005. Horticulture: Wine industry confirms record quantity of high quality wine grape crop of about 120,000 tons.

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

GENERAL

Privy Council Okays Progressive's Woolworths Grocery Chain Takeover
Last years's controversial competition and constitutional law case – Progressive Enterprises' abortive bid to acquire Woolworths supermarkets – has gone to the Privy Council, which decided that Progressive Enterprises can proceed with a takeover bid, estimated to be worth NZ$ 700 million (US$ 308 million). Effectively the Privy Council has validated an original clearance Progressive obtained from the Commerce Commission on July 13, last year. At issue in the Privy Council was whether the Court of Appeal was correct in ruling that the Commerce Commission was obliged to assess the bid under a tougher new competition test for business acquisitions inserted into the Commerce Act on May 26, 2001. Progressive Enterprises, which is owned by Perth-based Foodland Associated, can now go back into negotiations with Woolworth's Hong Kong-based owner, Dairy Farm International, which now needs to decide whether it would sell the business. If a bid is successful Progressive Enterprises would expand its market share from 24 percent to 44 percent, shrinking the New Zealand grocery market to two big operators. The second operator, Foodstuffs, which is made up of three independently-owned co-operatives with New World, Pak 'n' Save, Write Price, and Four Squares stores. It has a market share of 55 percent and annual turnover of NZ$ 4.9 billion (US$ 2.16). Progressive Enterprises would increase its turnover from NZ$ 2.1 billion (US$ 0.93) from its Foodtown, Countdown, and Three Guys stores by NZ$ 1.8 billion (US$ 0.79 billion) from Woolworths, Big Fresh, and Price Chopper stores.

Demand for NZ Organic Products Surges
Export demand for New Zealand's organic produce still far outweighs supply and demand and is surging according to the Organic Products Exporters of New Zealand Inc (OPENZ). The industry earned around NZ$ 120 million (US$ 52.8 million) in 2001, NZ$ 70 million (US$ 30.8 million) of which was earned with exports. OPENZ estimates that this will grow to NZ$ 500 million (US$ 220 million) by 2005. Organic exports were apportioned to the following product groups: fresh fruit – 71 percent; food – 14 percent; meat & wool – 7 percent; fresh vegetables – 3 percent; and other – 5 percent. Total organic product exports were shipped in the following proportions: Europe – 39.3. percent; Asia – 30.4 percent; North America – 21.4 percent; Australia – 3.8 percent; and Others – 5.4 percent. Exports to North America have increased to NZ$ 12 million (US$ 5.28 million), up 8 percent on the previous year, and up 17 percent on 1999. Exports to Asia accounted for NZ$ 17 million (US$ 7.48 million), up 5 percent on 2000. The European market accounted for NZ$ 22 million (US$ 9.68 million) and was slightly down on the 2000 calendar year due to the increase in demand from North America, Asia, and the domestic market in New Zealand. Some product groups also increased significantly. Organic meat and wool exports increased to NZ$ 4 million (US$ 1.76 million) representing an increase of 250 percent on the previous season. Processed foods and fresh vegetables stayed steady compared with previous years. Increases in organic meat and wool come on the back of a study commissioned by the Ministry of Agriculture and Fisheries which examined potential costs and risks associated with converting to organic production systems. The study identified that the maintenance of substantial premiums over conventionally raised stock is a crucial factor, since the options for pest, disease, and weed control, should the unforseen happen, are limited (a copy of the technical paper can be found on MAF's website: www.maf.govt.nz)

Farm Input Costs Increased in 2001 & Export Prices Slip But Farmers Stay Confident

The costs associated with running NZ farm businesses have increased. The three major cost categories all increased in the year to December 2001. The cost of farm labor (as measured by the labor cost index) increased by 2.8 percent, intermediate inputs (fuel, fertilizer, and feed as measured by the farm expenses index) by 9.9 percent, and costs for capital goods (measured by the capital goods price index) by 3.4 percent. On the other hand, the export commodity price index fell 0.7 percent driven by weaker dairy prices (which make up 36 percent of the index). The overall fall in prices was magnified to 3.7 percent by a stronger New Zealand dollar. An economist from the banking industry attributed the fall in prices to increasing export subsidies for skim-milk powder (U.S. and EU) and whole-milk powder (EU). Despite all this farmers are planning to maintain or increase investment in their businesses. A third of the farmers expect to invest more, 57 percent expect no change in current levels, and 13 percent plan to spend less. Farmers have substantial cash reserves after the previous two good years. The combined agricultural sector holds about NZ$2.85 billion (US$ 1.25 billion) in cash accounts, twice the level two years ago and 30 percent up on last year.

First Hazardous Substances and New Organisms (HSNO) Trial Approval

BASF New Zealand Ltd. is the first company to apply for approval under the HSNO regime of a crop protection product designed to assess the efficacy of the substance in managing plant growth in a wide range of crops,. Under the previous Pesticides and Animal Remedies Act the cost for approval of such a product would have amounted to NZ$ 365 (US$ 161) while the HSNO fee (which varies according to staff time required) reportedly is in excess of NZ$ 5,000 (US$ 2,200). BASF's time to complete the application reportedly was also twice that under the old regime.

Trade With Taiwan to Increase Dramatically

Taiwan's recent acceptance to the WTO meant significant tariff cuts across a wide range of food products, further enhancing New Zealand's export opportunities. Average tariff reductions from 11.9 percent to 4.8 percent could mean potential savings of NZ$ 50 million (US$ 22 million) for NZ exporters. While the main export categories have been in milk powder, and to a lesser extent butter, cheese, beef, lamb, seafood, and fresh fruit and vegetables, industry officials believe that good opportunities exist for health foods, baby foods, and niche products such as yogurt.

HORTICULTURE AND PRODUCTS

Kiwifruit Sales Reach Record for 2001/2002 Season

The 2001/02 kiwifruit export season has ended and Zespri predicts record sales of NZ$ 800 million (US$ 352 million) from a total of 65.9 million trays. Returns to suppliers are up 8 percent on the previous season or NZ$ 473 million (US$ 208 million) due to an early finish to the European season, meaning Zespri did not need to compete with Northern Hemisphere production. Accordingly, prices did not have to be dropped. On the downside is Zespri's Italian venture. Due to a big drop in crop production from their Italian growers, Zespri incurred losses of NZ$ 190,000 (US$ 83,600).

Early 2002/03 Kiwifruit Supplies Under Way
The new kiwifruit season is ahead of schedule with picking of green and gold varieties well under way. Boats with gold and green varieties are on the water to Japan, South East Asia, and Europe. Zespri's main competition, Chile, has problems with crop size and shape due to cold spring weather. Forecasts for New Zealand's crop are good, despite a wet summer which has not affected fruit volumes and ripeness.

Zespri Faces Battle with Packhouses over Cross-Subsidization of Organic Growers
With 1.4 million trays of kiwifruit already on the water and the harvesting season in full swing, the industry's packhouses have created an impasse over payment differentials to organic growers. Zespri, the sole New Zealand kiwifruit marketer, intended to subsidize organic growers for NZ$ 2.30 (US$ 1.01) per tray to keep them financially viable in the short term. Zespri argued that a failure to pay the subsidy could lead to reduced returns to the conventional pool by up to NZ$ 10 million (US$ 4.4 million). The New Zealand Kiwifruit Growers Inc. (NZKGI) has recommended to reduce this to NZ$ 0.50 (US$ 0.22) per tray but packhouses do not appear to want to accept the smaller subsidy either. Zespri wants packhouses to accept the lower subsidy recommended by the NZKGI if at least 65 percent of all growers accept it. However, conventional growers are not likely to go along with the offer, arguing that Zespri's poor marketing efforts have led to the low returns for organic kiwifruit. Instead, Zespri should bear the cost itself. The industry blames Zespri's lack of consultation with growers over the current situation. Accepting the subsidy would mean that returns to the conventional pool would reduce by NZ$ 0.02 (US$ 0.009) per tray.

New Apple Variety Promising
ENZA's latest new apple variety proves successful in world markets. The new variety, known as "Jazz", is a cross between the Royal gala and Braeburn varieties. HortResearch took 15 years to develop the apple. It is the first variety to be fully controlled by ENZA. Being the result of consumer trials during 2001 in the UK, Continental Europe, Asia, and the U.S., the Jazz is considered number one in both appearance and eating quality, although, German consumers ranked it second after Braeburn for overall appeal. Packout rates and fruit size are acceptable and returns per carton were nearly double that for other varieties. Currently about 150,000 trees are growing the Jazz variety in New Zealand. ENZA is also trialing plantings in France and North America. Volumes for this season are expected to be about 4,000 cartons for sale in Europe and North America. Volumes are forecast to steadily increase over the next few years.

New Pear Variety
HortResearch reports that several crosses of pear varieties show commercial promise. The crossbreeding program began in 1983 with the aim to combine the most desirable characteristics of Asian varieties for juiciness and crispness, and European varieties for aroma and flavor. Some second generation-crosses that produced excellent textures and flavors are expected to be released over the next year.

Asparagus Exports Down
According to figures supplied by nine asparagus exporters, New Zealand exported 1,042,051 kgs of asparagus between August 2001 and January 2002, down 269,256 kgs on the previous season, due mainly to heavy rainfalls in most production areas, which affected both yields and quality.

Japan, in particular, lost confidence in New Zealand supplies. Even during the peak month of December, demand was higher for the usually lower quality Australian crop, as it was of good quality and had a long shelf-life this season. September 11, fuel surcharges for airfreight, higher freight rates, and an appreciating NZ currency meant that NZ growers were in a difficult situation all around. Export volumes (in kilograms) to individual countries were as follows: Japan – 923,669; U.S. – 57,285; Singapore – 19,290; Hong Kong – 16,977; Taiwan – 12,895; Canada – 4,730; Korea – 2,750; Australia – 390; and Other – 4,065.

Rains Affect Summerfruit Exports
The summer is over and in the view of many it has not been a good one. While final export statistics are not available, yet, interim figures indicate that the wet weather has reduced total export volumes for the 2001/2002 season. Peaches were down from 66 tons in 2000/2001 to 10 tons in 2001/2002. Nectarines slipped from 249 tons in 2000/2001 to 131 tons. But apricot exports were up from 1,360 to 1,624 tons. Overall prices were substantially lower. Summerfruit New Zealand intends to run a series of grower workshops to address quality problems experienced this season, among other issues. Exporters also indicated that apart from rain-created quality problems, a focus on cold chain maintenance due to reduced air freight space from the South Island would create opportunities for improvements.

Wine Industry Confirms Record Quantity, High Quality Crop
Favorable climatic conditions during March, with warm temperatures and lower than average rainfall recorded, have provided good conditions for ripening and development of flavor and color for the wine grapes. The total wine grape crop is expected to be 120,000 tons compared with 71,000 tons last season (70 percent above 2001 levels). The previous record was 81,000 tons. Wine industry officials are warning producers that they need to be very sure about their markets after substantial increases in production areas since 2000. Britain is New Zealand's biggest market taking more than 50 percent of all exports. In the twelve months to December 2001, New Zealand exported 21.8 million litres of wine worth NZ$ 230.3 million (US$ 101.3 million). Exports are forecast to rise to NZ$ 736 million (US$ 323.8 million) by 2006. New Zealand has 600 growers harvesting grapes from about 13,000 hectares. The biggest operator remains to be Montana (owned by Allied Domeq), and Marlborough remains the biggest wine growing region followed by the Hawke's Bay and Gisborne. The Hawke's Bay's wine growing area increased from 2,443 hectares to 3,072 hectares. Nationally, the production area will reach 13,637 hectares in 2003 (12,822 in 2002; 11,275 in 2001). The demand for land has driven up prices for land. In Marlborough and Nelson average prices have gone up by NZ$ 8,000 (US$ 3,520) per hectare. A record NZ$ 98,230 (US$ 43,252) per hectare were achieved for grape growing land in the Wairarapa.

Grape Growers and Wineries Merger
The wine industry has formed a new industry group: New Zealand Winegrowers. The merger between the Grape Growers Council and The Wine Institute is aimed at facilitating the achievement of the combined interests of grape growers and winemakers. An industry representative said that the unified body would help the industry to increase exports. 600 grape growers and 400 wineries are unified in the body. It is expected that the industry will collect levies to fund the body, later this year.

Growing U.S. Market for New Zealand Wines

The U.S. remains a key market for New Zealand wine exporters. For the twelve month period to January 2002 New Zealand exported 3.4 million litres (up 6 percent on the previous period). Industry projections predict that the U.S. market will grow 450 percent to 17.3 million litres in the next five years. By 2006 those sales are predicted to be higher than sales to the UK market making it the number one export market by value. The industry believes that it has weathered the increased market volatility following the September 11 terrorist attacks, indicating that export demand has remained strong nevertheless. New Zealand wines will be promoted in various major U.S. cities this year as part of food and wine fairs.

DAIRY

Dairy Payout Forecast for 2002/2003 Further Reduced

Fonterra Co-operative Group Ltd. has advised shareholders that its forecast of the most likely final payout for the upcoming 2002/2003 (June/May) season is now NZ$ 4.00 (US$ 1.76) per kg milk solids (MS), down from the previous forecast of NZ$ 4.50 (US$ 1.98). Falling commodity prices and a strengthening New Zealand dollar are being blamed for this adjustment. Fonterra comments that although commodity prices are close to their lowest levels in 20 years, a NZ$ 4.00 (US$ 1.76) payout would still be among the highest in recent years. Currency hedging by Fonterra will limit the impact of an appreciating NZ dollar to about NZ$ 0.10 (US$ 0.044) per kg MS. Fonterra has also indicated that final payout for the 2001/02 season to end May 31 is most likely to stay at the forecast level of NZ$ 5.30 (US$ 2.33) per kg MS.

LIVESTOCK AND PRODUCTS

Meat New Zealand Issues New Strategic Plan

Meat New Zealand has just released a Statement of Strategic and Consultative Intent for 2001-2006, which simply contains Meat New Zealand's strategic plan for the coming five years. The document outlines that the NZ's meat industry's long term success depends on how well it can compete in the global food sector. Succeeding in the global market implies that the industry achieves five objectives: (1) encouragement of global leadership in farming systems and practices; (2) keeping export markets open for trade; (3) positioning NZ beef and lamb in domestic and export markets as a safe, natural and nutritious food; (4) facilitating new opportunities in bio-actives, functional foods, value-added foods and co-products; and (5) building strong partnerships between industry participants to tackle the big issues. Benefits of more than NZ$ 100 million (US$ 44 million) are expected to eventuate from Meat NZ's general research program which is focused on farming practices. The program costs NZ$ 8 million (US$ 3.52 million) per annum. Direct effects include raising lambing percentages from 116 to 125, which should improve average farm revenue by NZ$ 6,000 (US$ 2,640) per year. Maintaining trade access costs the industry about NZ$ 2 million (US$ 880,000) per annum, but as in the recent case of tariff removal for NZ sheep meat to the U.S. has shown, can create additional earnings (in the U.S. tariff case: NZ$ 5 million or US$ 2.2. million). Local market promotions are adding NZ$ 1.5 million (US$ 660,000) per year. Funding for implementing the strategic plan is suggested to come from a commodity levy-type mechanism.

Wool Outlook Good Despite Fluctuations

The short to mid-range outlook for wool on the world market is seen as generally positive by the wool industry, with supply and demand forces evenly weighted. Expectations are that if no major economic downturns occur in key markets, then the outlook remains positive. Wool prices have been up on average by 3.7 percent after a supply bottleneck in worldwide mills. China is the main driver of the world market demand. During last year wool prices have risen 40 percent and the danger the industry faces is that manufacturers might revert to increasing the use of synthetic fiber. The appreciating NZ dollar may also pose problems and reduce returns. Higher prices may also lead to higher rates of stock retention, a build up of the national flock, and thus an increase in supply in the longer term. The industry wants to see supply increase but in an orderly fashion.

Sheepmeat Performance Better Than Expectations

Total sheep industry earnings for 2000/2001 have increased 22 percent over a six year period, despite a 10 percent stock reduction and less land for grazing, and despite falls in returns for wool. The industry reached returns of NZ$ 4.32 billion (US$ 1.9 billion) mainly due to increased returns for sheepmeat. Export lamb returns of NZ$1.89 million (US$ 831,600) in 2000/2001 have increased 74 percent since 1994. Mutton created returns of NZ$ 234 million (US$ 102.96), up 41 percent. Farm gate receipts have increased to NZ$ 2.6 billion (US$ 1.14 billion) or 38.4 percent. Lamb has been the best performer, according to the industry, attributing the success to having repositioned the product. Moreover, fundamentals in the market appeared to be right, which is predicted to provide more opportunities to increase returns to NZ$ 5 billion (US$ 2.2 billion) in the future.

Historic Iran Meeting

The New Zealand Trade Minister and the Iranian President met to negotiate the reopening of the lucrative Iranian market for NZ lamb. A memorandum of understanding was signed to secure access to Iran for NZ primary products such as meat, dairy products, fish, wool, skins and hides. The Iranian market is estimated to be worth tens of millions of dollars in lamb exports alone. New Zealand exported up to 152,000 tons of lower quality sheepmeat to Iran during the 1980s.

McDonald’s Trialing New Zealand Beef

McDonald’s in the U.S. is joining BurgerKing, Wendy’s and other U.S.-based fast food chains in importing New Zealand and Australian beef due to a shortage of U.S.-raised beef that is sufficiently lean and cheap. McDonald’s is trying out the imported beef in 400 of its 13,000 fast-food outlets. U.S. import tariff quota restrictions apply to New Zealand and Australian beef. The current quota for New Zealand beef is 213,400 tons worth about NZ$ 1 billion (US$ 440 million) depending on prices. The above-quota tariff rate is currently 26.4 percent. New Zealand nearly filled its U.S. beef quota in 2001 and is expected to fill the quota in 2002.

Uncertainty in the Venison Market

High prices in 2001, the usual slowdown of European consumption and concerns over stock levels have created uncertainty in key venison markets. In the 2001 calendar year, total venison exports increased 17.6 percent in volume (to 17,726 tons) and 48 percent in value (NZ$ 251.9 million FOB or US$ 110.8 million FOB) compared to 2000. But slaughter numbers from October 2001 to February 2002 were down 5 percent on the year earlier. Average carcase weights, for the same period, continue to trend upwards (to date: 56.5 kg). Since prices fell to

NZ$ 6.50 (US$ 2.86) in mid-January, they have remained stable at that level. The average published schedule of NZ$ 6.26 (US$ 2.75) is 15 percent below the same time last year (NZ$ 7.40 or US$ 3.26). European demand for frozen venison has fallen, especially for frozen legs. Importers blame unworkable price levels last season (due to strong consumer demand during the BSE and Foot and Mouth outbreak) and say venison was de-listed by distributors and retailers, affecting Easter sales. Further supply pressure on the European market comes from UK venison whose supply doubled on the domestic market compared with five years ago. Over 100 Sainsbury supermarkets are now stocking Scottish wild venison. Another reason for the price decline is that consumers are reverting back to buying lower-priced beef, after the BSE and Foot and Mouth concerns have declined. The U.S. took 22 percent more product in 2001 than in 2000, worth a total of NZ$ 25.5 million (US$ 11.2 million).

FORESTRY

Government Puts Forward Kyoto Policies

The Forestry Industry Council considers the Governments proposed policies a nationalization of a key forest asset. The proposed policies are: (1) a tax on greenhouse gas, based on world carbon prices but capped at NZ$ 25 (US$ 11) per ton of carbon dioxide equivalent. Revenue will be redistributed into the economy via tax cuts or similar measures; (2) Government incentives for projects reducing greenhouse gas emissions; (3) negotiated greenhouse gas reduction agreements with industries or groups that may have difficulty paying the full price for emissions because it would put their competitiveness at risk; (4) an exemption of farmers from any carbon emission trading regime during the first "commitment" period (2008-2012). In return the industry must invests in research to identify ways to reduce emissions; and (5) the Government will retain carbon sink credits and liabilities allocated to New Zealand in recognition of forests planted after 1990. A portion of the credits and any surplus will be used as an incentive to create more carbon sinks, as well as being redistributed into the economy. Businesses remain wary over the final policies the Government will implement. Submissions on the policies close June 14. The Government intends to ratify the Kyoto Protocol in August of this year.

FISHERIES

Introduction of New Species Constrained

The Government has been accused of stifling the development of new fish resources because outdated legislation was not modified. A leading fisheries company predicts that if New Zealand was not going to provide legislative incentives – as opposed to financial incentives – to develop and commercialize new species in New Zealand's economic zone, companies would develop them outside New Zealand. It is reported that new fish species can be found in New Zealand waters but regulation discourages this. Local deals with governments are easier to make in other countries. For example, a leading New Zealand fisheries company with close to NZ$ 1 billion (US$ 440 million) annual turnover has successfully developed fish resources in South Africa, Chile and in the Indian, Antarctic, and Atlantic Oceans.