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Agricultural Situation

Agribusiness Report - February 2002

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Report Highlights: Biotechnology: Farm and industry groups oppose proposed moratorium on GMO release. Dairy: Dairy payout prices next season expected to dip. Livestock: Good year for 2001 meat exports and promising exports in 2002. Horticulture: NZ horticultural exports in 2001 top NZ$2 billion (US$840 million). Forestry: NZ targets radiata pine to China. Fisheries: Moratorium proposed for aquaculture development.

Includes PSD changes: No
Includes Trade Matrix: No
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BIOTECHNOLOGY

Farm and Industry Groups Oppose GMO Release Moratorium

Federated Farmers of New Zealand has told a Parliamentary Select Committee considering the HASNO (Hazardous Substances and New Organisms Act) Amendment Bill that the Government's announced two-year moratorium (starting October 31, 2001) on applications for release of genetically modified organisms (GMOs) from containment into the environment is unnecessary and will stiffle R&D investment. The pastoral farming organization noted that the Royal Commission on Genetic Modification, which issued its report last July (www.gmcommission.govt.nz), considered this issue and recommended the introduction of a new 'conditional' release category (which would allow release but with monitoring of future impacts); the group stated it was extremely disappointed that the Bill did not address this release. The Farm Federation noted that the two-year restriction will severely impact on investment in R&D, to the detriment of research and ultimately the competitiveness of primary industry. The Federation added that imposing non-scientific restrictions on commercialization of GM products will ensure capital flows into NZ's biotech sector are at best slow and at worst negative.

Also, dairy giant Fonterra told a Parliamentary hearing in Auckland in February that it has signed a NZ$60 million (US$25 million) contract to reserch genetic modification in the dairy industry but stated that the deal may be cancelled due to the high cost of complying with NZ regulations. The NZ$12 billion cooperative, representing 97% of New Zealand's dairy industry told the committee that it was still considering moving its genetic research overseas, despite the government's approval for controlled field trials. Australia was a particularly attractive alternative. Fonterra also stated that the cost of complete containment of field trials and destruction afterwards of heritable GM materials (which is yet to be clarified in legislation) could make research costs in New Zealand prohibitive.

Transgenic Application

Crown research organization AgResearch has lodged an application for Government approval to develop transgenic cattle that can produce human proteins of use to the pharmaceutical industry. The proposed trial would also look at gene function in cattle. The cattle would not be kept in a laboratory but kept in secure paddocks (pastures) at a research center. The Environmental Risk Management Authority (ERMA) has notified the application to the public due to the high level of public interest. This is the only application to date to be submitted to ERMA since the moratorium on new field trial applications was lifted last October.

GENERAL

Farm Group Opposes Early Signing of Kyoto Climate Protocol

Federated Farmers (FFNZ) has called again for the Government to delay ratification of the Kyoto Protocol on Climate Change and adopt realistic policies after the release of the National Interest Analysis (NIA). FFNZ noted that the cost-benefit analysis undertaken by officals is inadequate and states that New Zealand risks slowing economic growth and diverting investment offshore. FFNZ stated that the NZ$1 billion (US$ 420 million) the Government attributes to the 110 million forest sink credits NZ will earn during 2008-12 will only be a net benefit to the country if the Government retains full responsibility for New Zealand's emissions and forest sinks**.** But this is highly unlikely given the Government's intention to have all sectors address their emissions. Compliance costs will provide a high cost for small woodlot owners and farm foresters, many of whom will also likely be responsible for livestock emissions. An estimated 61 percent of NZ's methane emissions come from agriculture, mainly livestock. The remaining 39 percent of emissions come from industry associated wuth livestock such a transportation, which will add costs and make the ag sector uncompetitive with trading partners which have no Kyoto obligations. Also, emission liabilities from harvesting pre-1990 forests will diminish benefits and will impact significantly on large corporate forest owners. Their heavy investments are in pre-1990 forests that comprise the wall of wood (doubling of wood availability in the next 5 years).

Joint Irradiation Venture

A New Zealand produce distributor, Turners & Growers, has announced it has entered into a joint venture with the U.S.-based Surebeam Corporation to develop an irradiation facility for Australasia. Once the facility is operational, it will allow more widespread tropical fruit varieties to be shipped across the Tasman, increasing the range of tropical fruits to New Zealand consumers (after approval from ANZFA and MAF is secured). The Australian New Zealand Food Authority (ANZFA) has approved irradiation for use on herbs and spices. The treatment is effective against certain biosecurity pests such as fruit flies.

Strong Growth for Leading Fast Food Company

Restaurant Brands reported sharp growth over the last year, with group sales up nearly 13 percent on the previous year to NZ$258 million (US$108 million). Fast-food chain KFC supplied stability, with sales rising only 1.5 percent, while Pizza Hut sales rose 44 percent and Starbucks coffee sales gained by 55 percent . The company reports its strategy is to become the market leader in the growth sectors of retail food and beverages. In the year to November 2001, twelve Starbucks cafes opened , bringing the total store numbers in New Zealand to 29. By increasing café numbers to 50, the company could bring its market share up from 3 to 5 percent in two years. The company also plans further growth after the sale and leaseback of 51 KFC properties last year, which freed up capital.

Beverage Makers Form Alliance

Beverage makers have formed an organized lobby in New Zealand under the wing of the Australasian Soft Drink Asociation (ASDA). The New Zealand Beverage Association will be formed as a division of ASDA, and will be managed by the New Zealand Grocery Marketers Association, based in Wellington.

Organic Standard Being Developed

Standards New Zealand is expected to release a draft standard defining 'organic' foods in May and a final determination is expected by December 2002. The organics industry is considered difficult to regulate since growers were widely dispersed and many want to label their products organic in order to attract higher prices. One local organic certifier reports that up to 15 percent of organic produce in NZ shops and 30 percent at markets and stalls would not meet international certification standards.

DAIRY

Dairy Payout Prices Next Season Expected to Dip

Fonterra officials have stated that the most likely payout to Fonterra Group shareholders this season (2001/02) is NZ$5.40 (US$2.27) per kg of milksolids, but higher export restitutions by the EU could see it decline as low as NZ$5.20 (US$2.18)/kg MS. Based on these forecast prices, the average farmer's return could be between NZ$410,000-460,000 (US$172,000-193,000). But higher milk production to date in 2001/02, up 3 percent, could lift farm returns even higher. Based on current commodity prices and the first full-year effects of the global slowdown, Fonterra notes that shareholder payout is forecast to drop to NZ$4.50 (US$1.89) /kg MS next season (2002/03). Some private banks are forecasting payouts next season at between NZ$4.00-4.50 (US$1.68-1.89)/kg MS. The current season NZ$5.40 payout is under pressure because of declining international dairy commodity prices as milk prices have fallen from NZ$6/kg MS to almost NZ$4 kg/MS this season.

Fonterra officials have stated recently, however, that the fundamentals don't support current price levels, although lower prices were inevitable after the record prices received 18 months to two years ago. Fonterra executives note that market prices don't seem justified by events actually taking place in the market, such as: 1) demand from Asia has rebounded; 2) Argentina was no longer disrupting world markets by unloading cheaper product; 3) the latest moves within the EU to dispose of stockpiles should lead to higher global prices; 4) the U.S. program to sell 60,000 MT of surplus product on global markets had reached a halfway mark and should soon be completed; and 5) the fast growth in Australian production had started to slow due to deregulation--Australia had been increasing output by eight percent a year but this year it would be about two percent.

Also, Fonterra reports that negotiations for the alliance with Nestle are proceeding well, though slower than anticipated; firm proposal were expected to be considered in the next quarter. Fonterra's focus on the Americas and Nestle is a deliberate strategy to target a major demand area with a low Fonterra market share (the Americas represented last year less than 2 percent of Fonterra turnover) and where it can grow profitably.

Fonterra and Dairy Farmers of America Extend Joint Venture

Fonterra and Dairy Farmers of America (DFA) have announced an extension of their companies' DairiConcepts joint venture. The venture, forged in 2000, is a 50/50 partnership between DFA, the world's largest dairy co-operative, and NZMP, Fonterra's global ingredients business. The extension of the joint venture, effective March 1, will see an existing DFA plant in New Mexico significantly expanded to feature the first commercial production of milk protein concentrate (MPC) in the United States, as well as other dairy ingredients for many market applications in the U.S.'s fastest growing food sector, convenience foods. Fonterra has stated that establishing a U.S. source of MPC is an essential step for it to meet the needs of customers in the NAFTA region.

LIVESTOCK

Good Year for Meat Exports in 2001 and Promising Exports in 2002

New Zealand's earnings from beef and lamb exports rose to NZ$4.35 billion (US$1.83 billion) in the meat year to September 30, 2001--a 24 percent jump or NZ$838 million (US$352 million) over the previous year. The rise was mainly the result of higher returns on exports to Europe, supported by higher prices in Asia and North America, and a competitive exchange rate. Meat

NZ is looking forward to another good year in 2001/02 given strong expected demand for NZ lamb in foreign markets and declining sheep numbers in Europe and the U.S. New Zealand lamb also goes to the top end of the U.S. and EU markets, which are less likely to be affected by the uncertain global economic outlook. For beef, by mid-February 2002, New Zealand calendar year exports to the U.S. were running much below the high figure for the same period in 2001 created by the early release in 2001 of product put into bond after NZ's quota was filled in 2000. A slow start to the 2001/02 production season in New Zealand due to heavy October-January rains also has affected exports but the pace is expected to pick up as increasing numbers of dairy cattle are sent to slaughter.

Changing Face of Beef Industry

A recent Meat NZ report forecasts the changes to take place in the NZ beef industry. Total beef production is expected to peak in 2001/02 at 619,000 MT (bone-in), 12 percent ahead of the 99/00 year and at a similar peak to the 97/98 year. This peak is forecast to remain through to 2003/04 before declining. What is unique to the peak is the make up of the beef produced. Over the past eight years, 1,516 new dairy farms have displaced 3.3 million sheep and beef cattle stock units, including 120,000 breeding cows. In 1994/95, 48 percent of the beef produced was prime, i.e. via the beef breeding heed. In 2002/03, this is forecast to fall to 35 percent or conversely 65 percent will come from dairy origin, being bobby calves, finished dairy beef and cull cows. This change in beef production will substantially increase the manufacturing or ingredients component of NZ's marketable beef. The U.S. takes about three-quarters of NZ's ingredients beef and an even higher percentage of the bull beef component. Canada is the second largest market for NZ ingredients beef. The analysis suggest that through the years 2002-2004, there may be upwards of 25,000 MT of ingredients beef in excess that would be required to be placed outside markets in the U.S. and Canada.. This, in combination with sluggish East Asian markets and aggressive marketing from the U.S. and Australia, and also from South American companies once they are cleared off FMD restrictions, is likely to put pressure on export price values.

Larger 2002 Chinese Wool Quota Welcome

New Zealand's Trade and Agriculture Minister has welcomed China's publication of the tariff rate quota regulations for wool imports in 2002. The regualtion will allow imports of 337,000 tons of wool and wool tops into China this year, a five percent increase over last year. China is New Zealand's most important market for wool with exports topping NZ$166 million (US$70 million) for the year ending June 2001, and accounting for 40 percent of wool exports. Access for wool was NZ's number one priority in its negotiations over China's access to the WTO and it is pleased that China also decided to introduce a "first-come, first-served" mechanism to allocate the TRQ to importers. The Minister stated that the Government will be looking closely at how the regulations operate in practice and their consistency with WTO obligations. The NZ Council of Wool Exporters has added that the Chinese wool quota policies should underpin recent wool auction price gains and remove wild price fluctuations.

Early 2002 Venison Prices Fall but Exports Remain Promising

After the record highs of 2001, early 2002 schedule venison prices have fallen back but prospects for New Zealand venison exports remain promising as exports are maintaining momentum to Germany and the U.S. From October -December 2001, venison slaughter numbers rose 3 percent but kill is expected to have dropped sharply in January 2002. At NZ$6.48/kg

(US$2.72/kg), prices are running 9 percent below the same time last year but are 15 percent above the same time in 2000 and except for last year, were the highest level in 6 years. Exports of New Zealand venison for the year ending November 2001 increased by 26 percent in volume and 57 percent in value to more than NZ$256 million (US$107 million) FOB. The value of exports to Germany, the largest market, rose by 70 percent to over NZ$116 million, with tonnage up by 27 percent to just over 9,000 tons. The volume of New Zealand venison exports to the U.S. grew by 25 percent to 1,205 tons and value rose by 21 percent to NZ$25.4 million (US$10.6 million).

Pork Production Rises and Imports Fall in 2000/01
New Zealand pork production in the year to September 30, 2001, rose 2.6 percent to 46,187 MT due to heavier slaughter weights, despite a decline in pig kill numbers to the lowest on record to 696,000. At the same time, international market conditions and the weak New Zealand dollar resulted in a decrease in 2000/01 imports of about 2,900 MT or 14 percent to 17,616 MT. Imported pork now accounts for 28 percent of all pork consumed in New Zealand. In the 2000/01 meat year, frozen pork accounted for 97 percent of all pork imported with processsed and cured pork comprising the rest. Most pork imported (product weight) into New Zealand came from Canada (67.3 percent), Australia (22.7 percent), Denmark (6.1 percent) and the U.S. (3.2 percent). Over the 2001/02 meat year, pig kill numbers are forecast to increase 1-2 percent. Imports, at least for some products and traders/processors, are expected to be negatively affected by a regulation put in place in the NZ Ministry of Agriculture in September 2001, that requires pork meat imports from countries with PRRS virus, including the U.S., Canada, and Denmark, to be cooked to certain temperatures, whether at the point of export or in approved import facilities in New Zealand.

HORTICULTURE
New Zealand Horticulture Exports Top NZ$2 billion
New Zealand's annual horticulture exports in CY2001 increased to NZ$2 billion (US$840 million). Exports have doubled in value over 12 years. Export returns increased in 2001 over 2000 for all sectors of fruits and vegetables except for fresh apples, where value fell 16 percent, reflecting lower production. Kiwifruit and apples represented 30 and 17 percent respectively of horticultural exports, followed by fresh vegetables and processed/frozen vegetables (13 percent each), and wine (10 percent). Japan is by far NZ's top market for horticultural produce, buying NZ$457 million in 2001; Britian in the largest market for NZ wine (NZ$93 million); and Japan is the largest market for fresh flowers. New Zealand has a target for horticultural exports to reach NZ$3.5 billion (US$1.5 billion) by 2010. Significant growth is expected for exports of avocados, citrus, cherries, and wine over the next few years due to new plantings that will be coming into production.

Kiwifruit Hits Record Revenue in 2001
Zespri kiwifruit global volumes in the 2001 season were up 5 percent to 65 million trays (all classes), and with prices basically flat, revenue was up 5 percent to a new record NZ$785.7 million (US$330 million). ZESPRI GREEN and GOLD volumes were up 4 and 16 percent respectively, with Zespri ORGANIC volumes down 18 percent. According to Zespri, for Europe in 2001, a relatively empty fresh fruit market helped spur rapid Zespri sales and an early exit, despite early season issues with GOLD; lower Northern Hemisphere production should provide

similar market conditions in 2002. For Japan in 2001, tough economic conditions worsened, leading to reduced consumer spending on a all items, although consumers showed a preference for sweeter tasting GOLD; in 2002, the goal will be to deliver consistently good tasting GREEN, in the face of record unemployment. East Asia in 2001 saw a record year pushing Zespri sales above the previous high in 1997; strong promotion amd market support led to sharp growth in Zespri GOLD kiwifruit sales, which is expected to lay the foundation for further increases in 2002. For North America in 2001, concentrated efforts to regain market share led to significant increases in volume sales and revenue; in 2002, continued promotional efforts and realignment of resources will aim to boost incremental category growth.

Record 2002 Grape Harvest Expected

The NZ Grape Growers Council and the Wine Institute expect New Zealand's 2002 vintage to be the largest ever harvested. The Wine Institute has said that at this stage the two groups expect the 2002 grape crush to total around 120,000 tons, an increase of nearly 70 percent on the 2001 harvest of just 71,000 tons. Driving the increase in production this year will be a rebound to more normal vineyard yields, after the low yielding 2001 vintage, and an increase in producing area. The NZ Wine Institute reports that current reports indicate yields are slightly above average in most regions, lifting production above 2001 levels as yields last year, at 6.1 tons/ha, were well below average. There is also an additional 1,500 ha. which are producing for the first time, boosting the harvested area by 13 percent to nearly 13,000 ha. But the quality and size of the harvest is very much dependent on weather over the next 2-3 months.

FORESTRY

NZ Pine Trade Delegation Targets Eastern China

In early March, a delegation of 20 strong, representing 15 sawmillers and wood processing companies, are traveling to the eastern Chinese cities of Shanghai and Ningbo as part of a Trade NZ program to open the Chinese domestic market to NZ pine. NZ timber had for along time been sent to southern China, where it used mainly used by local exporters; the timber was used to make furniture and kitchenware, which was then exported to places such as the U.S., Japan, Europe, and the Pacific. Trade NZ is now trying to assist NZ companies sell into eastern China, where the wood will be used by companies making products to sell in China itself. The delegation will address Chinese concerns over the quality of pine, with the aim of convincing some of the top furniture and construction companies that NZ pine was versatile. Increased private house ownership along with a ban on logging has increased the demand for wood, including paneling and flooring, in China. Environmental certification of NZ's sustainable forests is seen as an attraction for Chinese exporters of furniture and for domestic consumers.

FISHERIES

Moratorium Proposed on Aquaculture Development

The NZG has proposed a two-year moratorium on coastal permit applications for aquaculture. Industry officials believe that the moratorium could erect serious barriers to growth of one of NZ's most profitable export industries, which is currently earning NZ$280 million (US$118 million), and has the potential to earn NZ$1 billion (US$420 million) by 2020. The moratorium, announced by the Government on November 28, would freeze all water space applications for such ventures as mussel farms that were not being heard by that date (there are an estimated 287 applications in the pipeline). Some groups, including Maori interests, have proposed that valid applications as of December 18, 2001, be processed. The NZG says that where regional councils have put in coastal plans, the aquaculture moratorium could be lifted. According to one source, present applications for aquaculture exceed 35,000 hectares. This was more than double the Aquaculture Council's vision for 17,000 hectares of coastal space for marine farming by 2020 and more than10 times the space used for marine farming at present. Mussels farmers, with current exports of NZ$170 million (US$71 million), say they will pull up stakes, shift to Chile or China and farm green-tipped mussels in competition to the NZ product if the government proceeds with the moratorium, which they say will in effect freeze all mussel farm development for at least six years.