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Agricultural Situation

Agribusiness Report - March 2002

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Report Highlights: Dairy: Fonterra and Nestle establish Dairy Partners Americas; Fonterra establishes dairy agreements in Mexico and India. Livestock: Meat Export Receipts Up in 2001/Strong Competition for Lamb Exports in 2002. Horticulture: Apple Harvest Off to a Good Start; Promising Kiwifruit Season in 2002. Forestry: Forest Industry Plan to Address Kyoto Protocol Pain

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

GENERAL

Uruguay Round Saved New Zealand Ag Exporters NZ$400 Million in Duties

The NZ Ministry of Foreign Affairs and Trade (MFAT) has released a study which evaluates the gains to New Zealand from the Uruguay Round (UR) by comparing tariffs paid on NZ exports in CY2000 to the duties that would have been paid at pre-Uruguay Round rates. It concluded that duties paid on NZ$17 billion (US$7.3 billion) of NZ exports to WTO founding nations were NZ$525 million lower in 2000 than otherwise because of the Uruguay Round. Of those gains, NZ$397 million (US$171 million) of duty savings applied to agricutural exports. These gains were concentrated in New Zealand's two largest export sectors--meat and dairy--with NZ$191 (US$82 million) and NZ$131 million (US$56 million) in duty savings, respectively. A study by the NZ Ministry of Agriculture of the benefits of the Uruguay Round indicates that every sheep, beef and dairy farmer earned an average of more than NZ$11,500 (US$4,945) extra in 2000 because of UR gains. The GNZ wants to further expanded the UR gains for agriculture through negotiations begun last November under the Doha Development Agenda. Phasing out agricultural export subsidies, expanding market access and reducing government domestic support to agriculture are key objectives.

DAIRY

Fonterra and Nestle Establish Dairy Partners Americas Joint Venture

On March 25, Fonterra Co-operative Group and Nestle SA signed an historic alliance agreement, called Dairy Partners Americas. The two companies agreed to set up a joint venture in the dairy business in North, Central, and South America. The 50:50 alliance, for which a memorandum of understanding was announced last August, will initally have 10,000 staff and first year turnover of about US$1.4 billion. The alliance will target initial markets in the next several months, specifically Argentina, Brazil, Paraguay, Uruguay and Venezuela. The companies have agreed to co-operate in manufacturing and distributing shelf-stable dairy products, such as UHT milk, as well as refrigerated milk-based products such as yogurts, and beverages in supermarket chillers, liquid milk, and ingredient milk powers. The deal does not cover butter and cheese. Fresh milk for Dairy Partners of Americas' joint ventures will be sourced in the Americas and dairy ingredients from New Zealand. Joint venture companies will have access to the brands of both companies. Fonterra has said that the agreement was undoubtedly New Zealand's biggest-ever offshore commercial deal and is consistent with its strategy to work with the world's leadng dairy and food companies to profitably grow Fonterra into one of the world's leading multinational dairy companies. Last year, Fonterra had turnover in the Americas of US$1.7 billion.

Fonterra Signs Deal in Mexico with Liconsa

Liconsa, Mexico's largest importer of milk powder, signed a supply contract in Wellington on March 14, which will see NZMP, the ingredients division of Fonterra, supplying product worth around NZ$100 million (US$44 million) over the next 12 months. Mexico is now one of New Zealand's largest dairy markets, with sales running at over NZ$400 million annually. Liconsa had altered its purchase arrangments and would henceforth buy from only a selected group of suppliers of which NZMP was one. Fonterra added that NZMP is now the world's largest supplier of dairy ingredients.

Fonterra on the Ground in India

Fonterra is now formally on the ground in India' NZ$50 billion dairy market. A joint venture between Fonterra's consumer products division New Zealand Milk and Britannia Industries, Ltd- has received the necessary regulatory approval and commenced operations in late March. The new companuy will be based in Banglore and will market a wide range of dairy products, including butter, cheese, dairy whiteners, ghee, and liquid milks. Britannia Industries is well known in India, especially in baking. NZMP officials report that while the domestic operators supply the bulk of India's huge milk market through an informal market, there is a NZ$5.8 billion formal market which the new company would target. That sector is reportedly growing at nine percent per year and good sales growth is foreseen, with the joint venture expected to supply new product innovations.

Fonterra warns of cut in next season's payout

Fonterra has warned dairy farmers that if farmers were paid at today's prices, the payout for next season would be just below NZ$4/kg (US$1.76/kg) of milk solids (MS)–more than NZ$1 below the predicted payout. Fontera had warned earlier that the payout for next season would drop, although this season's payout was expected to remain about NZ$5/kg (US$2.20/kg) MS.

LIVESTOCK

Meat Export Receipts in 2001 Up Sharply; ***Lamb Competition Fears in 2002***

According to MeatNZ, New Zealand's export meat receipts for 2001 increased by 17 percent to NZ$5.04 billion (US$2.17 billion) on similar volumes to the previous year. While demand was generally bouyant, doubts hung over some markets. Japanese consumers were still suspicious of beef because of BSE outbreaks; in Korea, the economy was slow to recover, there was consumer suspicions over meat because of BSE fears, and there was competition from other protein sources. Australian lamb exports was up sharply, competing with NZ lamb for market share in the U.S., Japan, and the Middle East. Demand for lamb remained strong in Europe; in France lamb prices were 20 percent above the norm for February. For 2002, NZ meat companies are worried that a huge number of lambs still being held on NZ farms could face stiff trade competition if they reach Britain and European markets as North American lambs also start arriving. In the 24 weeks to mid-March, more than 1.5 million fewer New Zealand lambs had gone to slaughter (11 percent below last season's pace). Meat industry officals report that rain during the spring and summer had produced pastures that were not nutritious and lambs had not fattened at the normal rate. Cattle slaughtered for beef production in 24 weeks to mid-March (2001/02 season) were off 1 percent compared to last season as farmers/ranchers are holding on to cattle longer for fattening.

Meat Prices Up, Consumption Down

In 2001, New Zealanders ate 7.7 percent less lamb and 11 percent less beef than in the previous year as prices were pushed up by strong demand overseas. In contrast, chicken consumption increased 5.7 percent but 5 percent less pork was eaten. New Zealand exported about 90 percent of its lamb and 85 percent of its beef.

Animal Identification Issue with EU Looms

Meat industry officals report that a new trade issue with the EU could be looming over animal identification. The European Commission is expected to make public a statement in May covering future requirements for identifying and tracing back farm stock used in feed production. It is likely the EU will expect outside countries supplying animal products to use similar ID systems, such as electronically tagging all lambs, sheep and cattle. New Zealand industry officials say they will strongly resist such a system and argue for an exemption under the agreement it already has with the EU. Officials estimate the cost of EU requirements could total tens of millions of NZ dollars, with individual tags costing NZ$50-100 million (US$22-44 million), which would blunt New Zealand's competitive advantage in that market.

Meat Strategic Plan Targets Productivity

Meat New Zealand, an industry funded organization, in its strategic plan is working to increase productivity for farmers by having them adopt farming methods that will create significant on-farm benefits. MeatNZ has set a goal of lifting the average lambing percentage from 113 percent to 125 percent within the next four years by funding research to minimize lamb losses, provide for better management of multiple-birth ewes and use genetics to increase reproductive efficiency. Meat NZ is also seeking to lift the average calving percentage from 86 percent to 92 percent by 2005. It will focus on developing embryo technology that will enable beef farmers to boost the beef production efficiency of NZ beef herds.

Venison Production and Prices Down

New Zealand deer slaughter numbers from October 2001-February 2002 were down 5 percent on the year earlier but an increase of 10 percent on 1999/2000. Average carcass weights for the same period continue to trend upwards and now stand at 56.5 kg. Prices, since falling to around NZ$6.50/kg (US$2.86/kg) in mid-January, have remained relatively stable. The recent average schedule prices of NZ$6.25/kg is 15 percent below the same time last year but 10 percent higher than 2000. In calendar 2001, total venison exports increased 17 percent in volume to 17,726 MT, and gained 48 percent in value to NZ$251.9 million (US$108 million) FOB. Exports in CY2001 to Germany rose 17 percent to 8,525 MT with value rising 57 percent to NZ$112.5 million FOB; exports in CY2001 to the US rose 22 percent by volume, worth 15 percent more (totaling NZ$25.5 million FOB). This year, exporters report that European demand for frozen venison has fallen due to higher prices last season, a delisting of venison by distributors which affected Easter sales, and more competitive and larger quantities of UK product on the market.

HORTICULTURE

Apple Harvest off to Good Start

Good fruit size, excellent color and positive market indicators suggest a good 2002 New Zealand apple harvest. Hawkes Bay growers are enjoying excellent color and size as are Gisborne producers. In Nelson it has been more of an average season but disease and pest levels are low, and in central Otago growers are also picking good quality fruit. The major problem is lack of pickers, especially while onion and squash growers need labor, many wine grape crops are harvested by hand and processing companies are at top capacity. The industry estimates that wages have risen 10-15 percent this year. In Hawkes Bay, size has picked up from last season's small 125 average, to something closer to 110 for Royal Gala (which was harvested 10 days earlier than normal this season). This is near to an optimal size, and will give marketers more flexibility in the sale of the crop. Braeburn crops in Hawkes Bay are also looking superb, both for size and color. After deregulation in October of last year, which allows any exporter to ship without needing approval from an export permits committee, growers are reportedly spreading their risk by working with more than one exporter. But this makes it difficult as there are differences in exporters' standards. ENZA, the largest exporter, reports that some not unexpected price degradation in Taiwan of NZ$3-4 a carton for Royal Gala has occurred as a result of multiple New Zealand exporters. After deregulation, there is also strong interest from offshore traders and buyers in this year's crop.

Higher Return Forecast for Kiwifruit This Season

The Zespri Board has lifted the forecast end of season (2001/2002) total supplier returns for Kiwifruit to NZ$473.6 million (US$208 million), up from the previous forecast of NZ$467.5 million. The new forecast represents growth of 8 percent on the NZ$437.5 million achieved in 2000/2001. The pool returns for all products per tray are: new forecast NZ$7.19, last forecast NZ$7.09, and for 2001 NZ$6.87. Zespri International expects a fast early start in 2002. The crop is expected to be harvested earlier than last year and is estimated at 65.9 million trays. Priorities are for ZESPRI GREEN Kiwifruit are to continue the growth made in Europe while introducing the Taste ZESPRI standard, initially in Japan and then in other markets. ZESPRI GOLD Kiwifruit will again be heavily promoted to aid its establishment as a mainstream product in the trade and for the consumer; programs are being developed in Japan and East Asia and a very aggressive approach is planned for Europe. ZESPRI ORGANICS will again be featured strongly in markets where a premium can be acquired and maintained.

Mauka Honey Production Down Sharply

The season's prolonged wet weather has led to the worst honey production in memory and manuka honey prices have almost doubled. Honey production manufacturer, Comvita, reports its production will be down by 80 percent, as a result of heavy rains during the flowering season over Christmas. Last year they produced 700 tons of manuka honey but this year it would be half that. Consumers could expect to pay at least 40 percent more for honey this year.

Potato Area Down in 2001

Area planted to potatoes in 2001 dropped to 10,545 hectares from 10,642 hectares planted in 2000. Of the total in 2001, 4,944 hectares were planted in potatoes for processing, down from 5,250 hectares planted in 2000.

FORESTRY

Forest Industry Proposes Plan to Ease Kyoto Fears

The forestry industry has proposed a green package to the Government to mitigate the damage it expects to suffer if New Zealand ratifies the Kyoto Protocol on climate change. This month, the Government will released its preferred policy plan for further consultations before a Cabinet decision in August. The Forest Industries Council supports an approach that would have New Zealand wait until major trading powers such as the U.S., Japan, and Europe have ratified the protocol and signed on for its second 5-year commitment period, which starts in 2013.

New Timber Standards

New standards for New Zealand-grown pine timber (lumber) are being developed by Standards NZ because it is no longer possible to tell the strength of timber by looking at it. Trees are growing faster, maturing in 25 years and their internal properties were not the same as for trees that took 35 years to mature. According to the NZ Forest Research Institute, modern pine was not weaker but its internal properties were more varied than before. The timber industry needed to move toward performance grading, where every piece of timber was performance assessed.