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Agricultural Situation

Agribusiness Report - May 2002

Approved by:
David Young
U.S. Embassy
Prepared by:
Sven Koops

Report Highlights: General: Farm exports up 17 percent through March. Government appoints Biotech Taskforce. Horticulture: Record grape harvest but quality may be down. Livestock: Pork industry may receive investment from Singapore. Dairy: Fonterra to consolidate its Australian home market and re-open wholemilk powder plant. Forestry: NZ$ 2 million boost for wood processing center.

Includes PSD changes: No
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GENERAL

Farm exports up 17 percent

The value of New Zealand farm exports rose 17 percent to NZ$13.78 billion (US$ 5.58 billion) in the 12 months to March 31, 2002. In its May Situation and Outlook Report, MAF reported that horticultural exports had risen by 9 percent to over NZ$ 2.2 billion (US$ 0.94 billion), largely due to the lower value of the NZ dollar, generally favorable product prices, and reasonably good climatic conditions. Forestry exports suffered from the downturn in key overseas markets and some price falls, which pushed sales slightly lower to NZ$ 3.58 billion (US$ 1.5 billion). Exports returns are expected to drop next year due to a strengthening NZ dollar and weaker international prices for dairy products. Forestry is expected to do better due to increasing export volumes.

Government appoints Biotechnology Taskforce

The Government, under its Growth and Innovation Framework, has appointed a new Biotechnology Taskforce consisting of 10 top biotechnology entrepreneurs, academics, and business leaders to look at practical ways of stimulating the growth and international competitiveness of NZ's biotechnology sector. The taskforce is expected to pick international trends on which New Zealand's biotechnology sector might capitalize, develop strategies for building high-value technologies, and identify areas where Government action might enhance the sector's development. The taskforce will be supported by biotechnology specialists from Industry New Zealand and officials from the Ministry of Research, Science and Technology. The work of the taskforce will be coordinated with the work on a national biotechnology strategy, which is led by the Ministry. The strategy is designed to ensure that New Zealand keeps abreast of developments in biotechnology, while preserving essential social, cultural and environmental values. Biotechnology, ICT and creative industries have already been identified as sectors, which the Government can focus efforts to lift New Zealand's international competitiveness.

New NZ food safety authority

As from July 1, 2002, the New Zealand Food Safety Authority (NZFSA) will replace the existing regime, which is currently administered by two separate organizations: the Ministry of Health (MoH) and the Ministry of Agriculture and Forestry (MAF). Bringing the two regimes together will reportedly provide a stronger and more coordinated approach to food safety within New Zealand and improve consumer protection while at the same time ensuring the continued well-being of NZ's vital trade in food and food-related products. Also, the new authority enables the pooling of resources, which will lead to more effective use of scarce expertise in specialist areas like microbiology, risk assessment and toxicology. Regulation of all food production, both for export and domestically, is expected to become more consistent.

New export council for market access

A new Plants Market Access Council (PMAC) is to be formed to safeguard access for NZ exporters of horticultural and arable products. The PMAC has the backing of the Ministry of Agriculture and Forestry and was developed by the current Plant Market Access Consultative Committee (PMACC) executive, which represents the horticulture and arable sectors. The chairman of the PMACC said that continued access to world markets for fruit, vegetables, plants, flowers and seeds from New Zealand was vital if New Zealand was to maintain the profitability of these business sectors. The council is to find ways to improve access to new and existing markets with minimum cost and disruption. While the requirements of importing countries will be respected, the council plans to challenge non tariff barriers if they appear to keep NZ produce out of the country. Represented on the council are the horticultural and arable sectors along with the respective directors of MAF Food Assurance and MAF Biosecurity.

Government provides "seed" capital for new ventures

The New Zealand Research, Science and Technology Minister has announced the selection of 6 venture capital fund managers to set up seed funds which will invest in high potential NZ start-up and early-stage businesses. The funds will have access to NZ$ 100 million (US$ 47 million) of taxpayers' money, and for every NZ$ 1 (US$ 0.47) from that source the funds will match it with NZ$ 2 (US$ 0.94) of their own for new ventures. The Government claims that this will accelerate the implementation of its growth and innovation strategy. The 6 venture capital fund managers are: NZ Biotech Fund No. 1 Ltd; Endeavour I-Cap; IO Fund; iGlobe Treasury Funds (a JV with Singaporean interests); TMT Ventures (partly managed by U.S.-based Advent International); and No.8 Ventures 2002 Fund (associated with U.S. interests via No. 8 Ventures).

Demand for organic produce grows but study claims "organics is no better"

Overseas demand for organically grown produce is growing rapidly, driving it to become a mainstream product category for NZ growers. For example, some organic apples and kiwifruit for export have achieved price premiums of up to up to 300 and 15 percent, respectively, over their conventionally-grown brothers. While organically-grown products are viewed as being grown in a more environmentally-friendly manner because of the less harmful environmental impact of the underlying growing system, consumers reportedly seek organic products believing they are safer, more nutritious, of a higher quality, and better for the environment. In regards to nutritional levels, past scientific evidence was often debatable, some recent studies showing that organically-grown produce contains higher levels of minerals. However, a study by the University of Otago refutes any claims that organic food has superior nutritional benefits. The study, which included aspects of nutritive, sensory, and food safety qualities of organics, found no strong evidence that organics and conventional produce differ in concentrations of various nutrients, with the possible exception of nitrate levels, which were found to be lower in organically-grown produce. Further, no evidence was found that organic produce is more susceptible to microbiological contamination.

Rural property prices increase

In spite of market commentators who claimed that the rural economy had peaked in the last quarter of 2001, many sectors of the rural property market in March recorded land sales and values well over those recorded in either the previous month or during March last year. Figures from the Real Estate Institute for March 2002 showed 355 farms were sold, compared with 201 in February and 265 in March 2001. The national median sales price for March was NZ$ 815,000 (US$ 366,750) compared to February at NZ$ 680,000 (US$ 306,000), and the March 2001 median of NZ$ 650,000 (US$ 292,500). The median sale price for arable farms increased by 86 percent, horticultural blocks by 10.5 percent, fishing properties by 33 percent, grazing farms by 25 percent, and dairy farms by 42 percent. The median sale price for dairy farms in March 2002 was NZ$ 1.7 million (US$ 0.765 million) compared with NZ$ 1.2 million (US$ 0.504 million) in March 2001. However, forestry blocks fell by 13 percent. Land for dairy production and extension of sheep and cattle farming operations made up the bulk of purchases.

Industry analysts expected the rural economy to plateau, suggesting three factors responsible for this: (1) a strengthening NZ dollar (1 NZ$ = US$ 0.47 compared with average of US$ 0.42 in 2001); (2) a tightening monetary policy with increasing interest rates; and (3) falling commodity prices (down 8.4 percent on March 2001), which were largely caused by falling dairy prices, especially in late 2001. These are only now starting to flow through to the export sector. The industry calculates that every movement of NZ 1 cent (US 0.47 cent) against the US dollar is worth NZ 8 cents (US 3.8 cents) per kg milksolids. However, the number of farm sales suggests continuing optimism in the rural economy. Figures released by the Reserve Bank show farmland purchases have contributed to increasing rural debt – up 17.4 percent to NZ$ 14.8 billion (US$6.66 billion).

Farmers should be concerned about rising NZ dollar, Bank warns

As the NZ dollar is rising (1 NZ $ = 0.47 US$), every 1 cent appreciation of the NZ dollar versus the US dollar reduces milksolids payout by 8 NZ cents per kilogram. The NZ dollar has risen by about 12 percent compared with the 2001 average, caused by the Reserve Bank's recent rises of the official cash rate, while the U.S. continues to hold its interest level at a historical low. Analysts also suggest that the NZ dollar had been undervalued for some time and is now gravitating towards its long-run equilibrium of about 55 NZ cents per US dollar. According to the Bank of New Zealand, the risk of a rising NZ dollar to farmers' incomes – in the medium-term – far outweigh those caused by lower commodity prices, and the potential that the current payout forecast of NZ$ 4 per kg of milksolids is revised further downwards is increasing by the day.

New rules on farm sales to foreigners

Foreign investment rules, in force since January 2002, require farms to be advertised in New Zealand before they can be sold to overseas buyers. The rules cover foreign buyers of companies with holdings of farm land, and apply to acquisitions of securities in entities that, either directly or indirectly, own or control farm land. Under these investment rules, all farm land must be advertised for sale in New Zealand for at least 20 working days before the Overseas Investment Commission can consider giving green light to foreign investors. The commission also assesses whether foreign investors bring substantial and identifiable benefits to New Zealand. While the rule usually only causes a delay in a transaction, the wider consequences can be considerable, for example, when farm sales to the open market are neither possible nor practical, as could be the case if a land sale is part of a much bigger transaction. The Overseas Investment Commission approved the sale of 37,000 ha of land during 2001.

HORTICULTURE & PRODUCTS

Wine quality affected by record harvest

While the NZ national grape harvest is expected to reach between 120,000 to 130,000 MT this season (between 50 and 60 percent above 2000 levels) due to higher yields in Gisborne, Marlborough, Canterbury, and Central Otago, the outlook for the quality of sauvignon blanc grapes is not bright, because high grape yields produce thin and dilute wines. The combination of high yields and low quality is expected to exert downward pressure on prices. Lower quality wines will most likely be sold as bulk wine as not to jeopardize established NZ brands, known for the high quality wines associated with them, in international markets. Essentially, the situation, according to some industry insiders, is described as a glut of substandard wines. However, demand for top quality wines remains strong and outweighs current supply, some wine exporters are claiming. On the downside, surplus wines sit in tankers and dairy factories, and some vineyards have not been harvested, yet, due to limited processing capacity in the NZ industry. Montana, New Zealand's biggest winemaker, said it harvested 1.5 times as many grapes as last year. This year's Gisborne harvest equated to 80 percent of the company's national crop last year. Finding markets for the additional wine will be challenging, especially as the NZ dollar has strengthened (1 NZ $ = 0.47 US$). Last year New Zealand earned nearly NZ$ 200 million (US$ 84 million) from wine exports.

More grapes in Marlborough

Growing grapes has become the pre-dominant land use in Marlborough. Over the past five years grape production area has increased from 3,000 ha to 7,000 ha. During the same period land use for orchards has decreased from 613 ha to 406 ha. The new owners of Montana Wines and Matua Valley Wines, UK-based Allied Domecq, have bought 22 ha near Gisborne and 161 ha in Waipara, North Canterbury. The rationale is to increase Montana's economy of scale and supply more wine to international markets.

Kiwifruit crop sizes smaller than expected

Zespri reports that due to the dry weather during January and April, problems with fruit sizing were encountered, although, fruit sizes of Green are expected to remain about the same at 35 count as last season. Regionally, this appears not to be the case, though. BK Mergeco Ltd, New Zealand's largest kiwifruit postharvest company, indicated that the Gold crop had not sized properly and that the Green crop was variable and also not up to size due to difficult pollination conditions. It is expected that a substantial amount of under-weight fruit will be harvested in the Bay of Plenty area. BK Mergeco Ltd. suggested that New Zealand will not pack sufficient numbers of kiwifruit this season, which may be good for growers, but not good from a global marketing perspective.

Illegal kiwifruit exports cost industry millions

Kiwifruit marketer Zespri claims that illegal kiwifruit exports to China undercut grower returns by up to NZ$ 3 million (US$ 1.41 million) a year. In a first prosecution in relation to breaching MAF's export regulations, an Australian-owned company is charged with exporting nine containers of kiwifruit between July and October 2001. Zespri reports that prices were undermined, after big spending on promotions in new markets in Asia, and trays sold for between NZ$ 2 to 3 (US$ 0.94 - 1.41) less, causing market price expectations to be lower. It was estimated that 500,000 trays might have been sold during 2001, causing lost sales in China of between NZ$ 2 to 3 million (US$ 0.94 to 1.41 million), not to mention the effects in Singapore and South-East Asia. While small amounts of re-exporting via Australia, where kiwifruit can be legally exported to, could be tolerated, shipments directly from New Zealand, ostensibly to Australia, but in reality bound for other markets, could cause significant problems for the NZ kiwifruit industry.

Fruit specialist recommends targeting larger size apples

An industry fruit specialist predicts NZ competitors to produce large volumes of small apples next season. He expects that many competitors will not be ruthless enough with their thinning practices, and thus will not avoid the trap of too much fruit set in their "on" crop year. Consequently, he argues that the only position where NZ sellers may have some bargaining power with international buyers will be in the larger fruit sizes. Based on ENZA's last year's final FAS prices, a 125 average fruit count fetched NZ$ 18 (US$ 8.1) versus a 105 count, which fetched NZ$ 24 (US$ 10.8). After accounting for orchard costs and post harvest problems with larger sized fruit, the economics seemed to favor larger sizes over smaller sizes. Consequently, NZ growers should target larger fruit sizes next season.

Deregulation provides opportunities for fruit processors

A Hawke's Bay company, which was formed after deregulation of the apple industry last year, is exporting apple juice concentrate to the U.S. market, achieving multi-million dollar sales. While juice concentrate exports are not new, new markets are being constantly opened up, which creates strong demand for those second grade apples that are not wanted on the fresh fruit market. The company has sales worth between NZ$ 5 to 10 million (US$ 2.25 to 4.45 million) to the U.S., and NZ$ 2 to 4 million (US$ 0.9 to 1.8 million) to markets including Australia, Malaysia, Singapore, and Taiwan. The plant is capable of processing about 40,000 tons of apples per year.

Guinness Peat Group gains near-full control of ENZA

GPG's takeover offer for ENZA ended on May 24, but GPG director Mr Gibbs was reported as saying that they were continuing to receive acceptances by shareholders and would not move to compulsorily acquire the outstanding shares for 10 days. GPG has now more than 96 percent of apple and pear exporter ENZA. It offered NZ$ 1.20 (US$ 0.57) per share.

LIVESTOCK & PRODUCTS

Kyoto shield for livestock farmers may cost taxpayers NZ$ 125 million

The Ministerial climate change group convener indicated that exempting NZ livestock farmers from the cost of methane belching animals under the Kyoto protocol could cost NZ$ 125 million (US$ 59 million). In return, the Government expected the agricultural sector to invest in the research required to reduce greenhouse gas emissions from cattle and sheep. While the convener did not indicate that the enforcement of a compulsory research levy was imminent, he reportedly indicated that such an investment was not optional to farmers. Emissions from livestock are expected to exceed New Zealand's target under the protocol by 5 million tons of carbon dioxide equivalent a year in the first commitment period (between 2008-2012), which is about 12 percent above current levels. At an international price of carbon of NZ$ 25 (US$ 11.75) per ton, this would cost taxpayers NZ$ 125 million (US$ 58.8 million) a year.

Pork industry may expand with help of Singaporean investments

A Singaporean trade delegation – comprised of eight importers and two officials from the Singaporean Agri-Food and Veterinary Authority – visited New Zealand in late April to discuss the supply of pork and pork products to the Singapore market. While NZ's pork industry has been in serious decline over the past six years, Singapore is experiencing a weekly shortfall of about 7000 pigs (of 28,000 consumed weekly) and it appears likely that Singapore will invest in New Zealand production to secure future supplies of pork. Based on a closer economic relationship between the two countries, which took effect in January 2001, New Zealand's intention to secure long-term access for its products to Singapore suggests that this could become a highly beneficial relationship. The NZ pork industry does not view itself as a low-cost producer but it believes to be able to provide top-shelf product to a niche market in premium supermarkets and hotel chains. Investments in production are envisaged at two levels: on-farm production and further processing. While slaughter capacity is sufficient at current, what is lacking is investment to produce retail-ready modified-atmosphere packs. While New Zealand is concerned about competition from North American producers, the Singaporean delegation had reassured New Zealand that it currently took only small quantities because Singaporeans did not like grain-fed pork, which colors the fat and also tends to break up during cooking. New Zealand feeds pigs on a barley diet which does not discolor the fat and which stays in place during cooking. New Zealand is currently experiencing a shortage of domestically produced pork. Most imports come from Australia (51 percent) and Canada (44 percent). Imports from the U.S. are 1.3 percent.

During the international pork glut of 1999 about 100 NZ producers went out of business when carcass prices dropped to NZ$ 2.30 per kg (US$ 1.15). These prices have since recovered to NZ$ 4 per kg (US$ 1.80). Farmers pay an industry levy of NZ$ 4 per slaughtered pig (US$ 1.8) to promote pork (50 percent) and provide retail level back-up. New Zealand has a total sow population of 38,000 and 400 piggeries. The Singaporean pork market is estimated to be worth NZ$ 118 million (US$ 53.1 million).

Meat export license extended

A law passed in 1999 that required seafood and meat processors to introduce risk management systems by November 1, 2002, in order to retain their license to export, has just been extended. Meat industry representatives went to the Government and asked for an extension of the original deadline as it became apparent that most companies couldn't meet it. The Government agreed and introduced the Animal Products Amendment Bill, which allows for a general extension of the deadline to July next year and a cut-off to be phased in over 3 years.

Live sheep sales to Saudi Arabia

A middle east live sheep trader with NZ farming interests has shipped 32,000 live sheep to Saudi Arabia. This was the first live shipment from NZ in a year, following a big drop in sheep numbers.

Farmers reap benefits of good prices and feed

Due to good pasture growth and the extended summer growing season this year, many farmers have been holding on to lambs resulting in a different flow of lambs from farms. Some freezing companies had found it hard to keep on track, according industry sources. This resulted in a stand-off in the Hawke's Bay region between farmers and buyers for export markets. Buyers were reluctant to buy at high prices and farmers wanted to put more weight on their animals before selling. The drop in livestock production and a decreasing national flock was also driven by land use changes to forestry and lifestyle blocks. After last year's drought in some regions farmers retained stock for breeding, which was supported by good feed levels. The current situation has allowed some farmers to achieve NZ$ 6 (US$ 2.7) a lamb above prime export schedules. It also contributes to an uncertain outlook for buyers in terms of stock available for slaughter.

Despite reduced overall export supplies (see below), New Zealand seems to be on track to fill its 226,700 MT quota of lamb to the EU. While challenges are considerable for exports, as sales to Britain are down, demand in France and Germany, in particular, is strong this year. Demand in Britain was down 12 percent as Britain is unable to export to the continent, leaving its local market fully supplied with local product. This, however, opens up opportunities for NZ lamb to France and Germany, where exports for lamb increased by similar margins (about 40 percent). Half of the quota was filled within the first four months of the year – similar to last year's levels – and sales of higher value chilled lamb were up 9 percent to about 20,000 MT. Predictions are that total sales of chilled lamb this year are likely to be around 40,000 MT, which is up by 5,000 MT compared with last year. The strong European farmers' lobby and their concerns with their own protection, forces New Zealand to keep a low profile, leaving little opportunity to distinguish New Zealand lamb from that from other sources.

Export Meat Production

In the 32 weeks of the 2001/02 season to May 11, the number of NZ lambs slaughtered for export was 18,510,252, down 10.5 percent on the same period last year; hogget export production was down 57.3 percent to 3,953; mutton export production was down 9.6 percent to 3,423,408. The number of steers slaughtered for export was down 15.7 percent to 288,715; heifers slaughtered were up 13.2 percent to 114,732; cows slaughtered were up 20.3 percent to 443,831; bulls were up 1.9 percent to 473,935. Total beef slaughtered for export was up 3.4 percent to 1,321,212. Bobby veal slaughter numbers was up 61.4 percent to 151,244, while goats were down 11.2 percent to 65,093.

New Zealand's beef herd is forecast to increase to 4.85 million by June 2003, from an estimated 4.78 million now. The sheep flock is forecast to drop to 42.94 million next year, down from around 43.99 million now. The dairy herd is expected to rise to 3.88 million by next June, from 3.76 million.

DAIRY

Fonterra plans to consolidate its Australian "home" market

Fonterra is planning to consolidate its assets in Australia. Fonterra owns significant portions of the Australian dairy industry outside the town milk sector. It holds 18.2 percent of National Foods, and co-owns 50 percent Bonland Dairies, with Bonlac Foods. Under Australasian Food Holdings, Fonterra has already combined Peters and Browne's dairy distribution network, the Tip Top ice-cream business in Western Australia, and Mainland, to represent Fonterra Group's single biggest operating company, and the biggest player in Australia and New Zealand's consumer dairy business. New Zealand industry observers have said Bonlac's role as Australia's largest dairy ingredients business and its big export markets in Japan, the Middle East and Asia are a central focus for Fonterra. The focus on consolidating assets in Australia, and soon smaller assets in the Pacific Islands, is to provide a strong home base, which Fonterra believes is a characteristic of all successful consumer goods companies. Fonterra further indicated that Australasian production had the single biggest impact on world markets.

Rank Group's Dairy Foods wins Starbucks contract

Dairy Foods, the former subsidiary of Fonterra and now half-owned by the Rank Group, reports it will produce a pre-mix for "frappucino" drinks sold by Starbucks licensees in the Asia-Pacific Region. The dairy marketer, which took two years to develop the drink will now produce several million liters of the liquid pre-mix at Dairy Foods' Takanini plant. Winning the contract, according to Dairy Foods, was the ability to produce a consistent quality product.

Fonterra re-opens dairy plant to meet wholemilk powder demand

Fonterra is to re-open its Morrinsville plant, near Hamilton, to produce 24,000 MT of wholemilk powder in the 2002/2003 season, to meet increasing demand for wholemilk powder. Thirty new staff will be employed, and the plant will start processing on September 1, 2002.

NZ dairy products most popular in Malaysia

New Zealand is the most favored supplier for dairy products to the Malaysian food service industry, according to a report from an Australian firm. New Zealand also rates high for its meat products and for its food products in general. Researchers found 59 percent of the 150 outlets questioned, listed New Zealand as their preferred source of dairy products (no. 1 ahead of Australia), and 31 percent of the outlets indicated preference for New Zealand meat products (no. 2 behind Australia).

FORESTRY

Export Log and Lumber Update

Demand for logs from Korea and China continues to be strong, with log prices rising again last month. However, shipping costs have appreciated US$ 2 to 3 per ton since early March and the stronger NZ dollar is also negating returns. For every 1 NZ cent (US 0.47 cent) rise, NZ wharf gate returns decline by NZ$ 2.50 (US$ 1.18) per ton. While demand from Korea remains strong, increased supplies from Russia and Chile are likely to dampen prices. Demand from China is at similar price levels to Korea. China is also overtaking Japan as NZ's second biggest log importer, potentially double that of Japan's volume this year. Export volumes to Japan are falling and Russian logs previously going to Japan are now heading to China.

All lumber markets are strong in terms of demand and price. In the U.S., moldings and better grade has lifted 37 percent from the low December levels. Shop grade (from unpruned trees) is also moving up, caused by increased demand from window manufacturers. As NZ exporters receive good prices in New Zealand and Australia, U.S. users are being forced to raise prices.

NZ$ 2 million boost for wood-processing

Industry New Zealand will invest NZ$ 2 million (US$ 0.9 million) in a wood-processing national center of excellence in Rotorua. The Forest Industries Training and Education Council, the Wairaki Institute of Technology and Auckland University would contribute another NZ 2.67 million (US$ 1.2 million) to the new center of excellence. Total costs for the center are estimated at NZ$ 18 million (US$ 8.1 million). The project, to be backed from the state agency's regional partnership program, comes amid forestry industry criticism of the Government's planned ratification of the Kyoto protocol on climate change (this was reported on in NZ2014). The wood processing center will focus on education and training, help overcome a shortage of skilled wood-processing workers, and stimulate economic development. In the following stage between NZ$ 10 to 15 million (US$ 4.5 to 6.75 million) will be needed for investments in buildings, equipment, and software. If successful the center would contribute towards wood exports earnings of NZ$ 14 to 20 billion (US$ 6.3 to 9 billion) a year by 2025, applying skills to producing higher-value products – up from an estimated NZ$ 8 to 10 billion (US$ 3.6 to 4.5 billion) if exports remained concentrated in commodities such as logs, pulp and paper.

FISHERIES

Mussels export potential untapped

According to a marketing consultant, the export potential for NZ unique green shell mussels is virtually untapped. Currently, large investments are being made into NZ production, and it is believed that there are good market opportunities to cope with volumes in the future, which are forecast to double over the next five years. However, marketing needed to be improved. The U.S. market for mussels takes about 40 percent of NZ exports (9,808 MT in 1999, 11,765 MT in 2000, 9,068 MT in 2001) generating about NZ$ 60 million (US$ 25.8 million) in 2001. Given that major markets in the U.S. are highly price sensitive (China Town and Little Italy), they are expected to switch to cheaper alternatives if available. It was recommended that mussels should be promoted and be value added to whenever possible, thereby differentiating NZ mussels from Thai and Chinese mussels. Strategic relationships with American food groups should also be part of reducing reliance on the current price sensitive markets. Other important markets for NZ mussels include Australia, Korea, Japan, Spain, the UK, Hong Kong and Canada. By far the largest proportion of New Zealand mussels exported is in processed or frozen form (96.5 percent) and only a small proportion is exported fresh or chilled (3.5 percent).