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Agricultural Situation

Agribusiness Report - October 2001

Approved by:

David Young

U.S. Embassy

Prepared by:

Stephen Benson

Report Highlights: Dairy: Fonterra formally a business and plans joint ventures in Britain. Livestock: Tighter restrictions on importing beef into NZ. General: NZ Wool Board announces its demise. Horticulture: More marketing spending needed on wine. Forestry: Kyoto Protocol may affect land use.

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

GENERAL***Food and beverage exports surge***

Food and beverage exports, including meat, meat preparation, dairy, fish, fruit and vegetables, water and alcoholic beverages (representing 50% of merchandise exports), increased 31.6% to NZ \$15.42 billion (US \$6.5 billion) in the year ended June, 2001. The top performers amongst the major products were milk powder, up 74.6%, lamb up 23.5% and cheese up 28.8%.

Growing organic food exports

Exporting organic foods is proving a worthwhile strategy for NZ as the global demand for organic produce increases rapidly. Trade New Zealand's review of the sector's exporting capability and size shows a range of activity and financial success. Trade NZ estimates more than 200 companies make up the organic sector, and within this are 40-50 exporters. The study found organic exports were worth at least NZ \$61 million (US \$26 million) in the year to June 2001, - a more than 7 fold increase since 1995 when organic were worth just NZ \$8 million (US \$3.3 million). Across all categories the top organic destination stood out as the European Union, particularly Britain, closely followed by Asia and North America.

Income drop of 10 percent predicted

Pasture farmers should have another boom year in 2001/02, but should not expect last years exceptional returns say industry officials. Soaring overseas prices, aided by a favorable exchange rate, brought a record NZ \$13.2 billion (US \$5.5 billion) into New Zealand in the year to June 30 - a 33 percent jump on the previous year. The greatest uncertainty in the coming year was the exchange rate, which would depend on how the U.S. dollar performed on world markets. It was forecast that the average farm income would drop 10 percent to NZ \$80,200 (US \$33,684) from last years record of NZ \$89,500 (US \$37,590) - still well above the average for the 1990's of NZ \$40,900 (US \$17,178) in todays money.

Tracing trials prove viability

Results from on-farm trials of an innovative electronic livestock management and traceability system could see an affordable product in farmers hands early next year. The system has been developed by a NZ based software firm, which is linked to a number of leading local agribusiness interests. The company believes electronic data identification tag will also provide tangible financial benefits to farmers as well as meeting stringent market compliance requirements.

Farmers plea over free-trade talks

NZ Federated Farmers, which represents pastoral industries says the Government must insist that agriculture is part of any free-trade deal with the US after the Prime Minister hailed warming relations with the U.S. A key issue was freeing up access to all classes of dairy products in the U.S.

DAIRY***Fonterra formally a business***

The Fonterra Co-operative group is formally in business as of mid-October. The boards of Fonterra, the Dairy Group and Kiwi have passed the merger resolutions and the required documents filed with the Registrar of Companies. With a turnover of NZ \$10 billion (US \$4.2

billion), Fonterra is New Zealand's biggest company, and controls 99 percent of all milk production (for more details see NZ1042).

Fonterra plans joint venture in Britain

Fonterra Co-operative and Arla Foods, Europe's biggest dairy co-operative group, plan a joint venture in Britain's highly competitive yellow fats market. It is subject to approval by Britain's Office of Fair Trading. The joint venture will involve a new company to be responsible for the marketing and distribution of the Lurpark and Anchor brands in Britain and the European Union, as well as developing products for the yellow fats market. It will be owned 75% by Arla and 25% by Fonterra. The new company will start with 15.6% by volume of the UK market.

Fonterra fears slide in prices

Fonterra is warning that world prices for milk products, which have fallen 6% since last month's terrorist attacks, may decline faster than expected as a slow down in economic growth reduces demand. NZ's biggest company, which is in partnership with Nestle' to sell products in Latin and North America, exports 95% of its output. It had been expecting prices to retreat for 3 years from the middle of next year because of slowing global demand, but that contraction has started earlier as buyers hold off, following the atrocity in the US.

Dairy ingredients set for multi-billion turnover

New Zealand Milk Products (NZMP), the ingredients division of the Dairy Board (part of Fonterra), expects a turnover of US \$4.5-5 billion in the next two or three years. This years NZMP turnover was just over US \$3 billion. An industry official said a key part of the increased profitability will be Fonterra's ability to create international takeovers and alliances meaning NZMP can purchase product from other countries. So deals announced between Nestle' and in Australia with Bonlac potentially create this opportunity to sell both locally in these countries but also export some of the components of milk, therefore providing a much greater range of products and services.

Milk passes peak

Milk flows in the North Island have passed last years peak, Fonterra says. Daily production was more than 49 million liters of milk at the beginning of October - up 1.5 percent on last year. Mild weather has enhanced grass growth in Taranaki and Manawatu but more rain is needed.

LIVESTOCK

Tighter restrictions on importing beef

Tighter restrictions on importing beef products into New Zealand are to be introduced to lessen the risk of variant Cruetzfeld-Jakob disease. The health Ministry has issued for consultation details of a scheme to categorize countries according to the risk of their meat products containing BSE, which has been implicated with the rare but fatal brain disorder. The measures would allow countries to apply for categorization from one to five, with those that pose least risk ranked one, and those considered riskiest at five. Based on international standards for animal health, the measures would leave some countries uncategorized and unable to trade meat products with New Zealand. Consultation on the move ends December 7, with amendments to be completed and implementation due by January 14, 2002.

Imports of British beef and meat products were suspended in 1996, and those from other European countries including Belgium, France, Germany and Italy banned in January this year. Japanese products were suspended on September 25 after the presence of BSE was confirmed in a dairy cow. The new measures cover all beef products, including canned foods, sausages, gravies and sauces and flavorings, pates, pastes and luncheon meats. New Zealand's approach is more specific than that announced in July by Australia, as it covers more specific animal by-products and includes collagen and tallow.

Wool Board announces its demise

After years of wrangling, the wool industry looks set for major change after the Wool Board announced its disestablishment. Over the coming months, the board plans to ask that the Wool Board Act be repealed. The majority of its assets will be transferred to an investment company, with tradeable shares issued to all growers owning a minimum of 250 sheep as of June 30, 2001. Funding of future industry good programs will be raised under the Commodity Levies Act by a new, small incorporated body. The company's shares will be tradable and those who wish to cash up their stake in the industry will be able to do so.

Japan reaction to first BSE case affects NZ bone meal

Japan has handed out a backlash to beef producers by banning imports of meat and bone meal after its first case of mad cow disease. Japan, which imports 27,000 tons of bone meal from New Zealand a year, banned the trade last month in response to consumer concerns and falling domestic prices. It is the first indigenous case outside Britain and Europe. A New Zealand meat company spokesman said the company had not yet noticed any impact on the beef trade, but the meat and bone meal ban, which also includes exports from Australia, US and Canada, is unwelcome. It remains to be seen whether the scare will affect Japan's longer-term demand for beef. Alternatively it could open doors for exporters with a clean, green reputation and favorable animal health status.

Drought report

The New Zealand Agriculture Minister has commissioned an urgent report into the drought-stricken South Island, just as rain began falling over some of the worst hit areas. But despite heavy rain over central NZ and some good falls in Canterbury, there are fears of another parched summer for some areas. This year's winter was one of the driest on record with rainfall in parts of Canterbury and Otago less than a quarter of normal in some areas during August and September. For many farmers this has taken the gloss off what has been a tremendous year for them price-wise.

Shortage of lamb

An industry source reports that New Zealand will have problems supplying more lamb to the US, even though it will soon have easier access to the market when the tariff rate quota is lifted on November 15, because there isn't enough meat to go around. NZ Lamb Co (North America) Ltd, a consortium of four meat companies, says its first priority is to fill European lamb quotas. A company spokesman said that while the company was pushing to increase sales, the difficulty was having enough meat to supply the market. NZ exports 15,000 tons of lamb to the U.S., worth NZ \$180 million (US \$74 million).

China could be huge for NZ meat exporters

Meat companies exhibiting at a recent Food and Hotel China trade show report considerable interest in New Zealand meat. And with the world's most populous nation now admitted to the World Trade Organization, the opportunities for local meat exporters are great according to a Meat New Zealand official that attended the trade show. From 1999/00 to 2000/01, New Zealand exports of Meat to China increased by 78% to 21,217 tons, with a total value of NZ \$37 million (US \$15.5 million). Only a small part of these exports is currently into the high-end hotel and restaurant markets. Meat New Zealand prepared and took with it a range of material in Chinese, aimed at promoting New Zealand beef and lamb, including recipes, fact sheets on our natural farming systems, food handling, nutrition, food safety and presentation and preparation. These were extremely popular at the fair and indicated a strong interest in New Zealand meat products among chefs and food and beverage managers. Key industry members were also invited to the stand.

Plea for ostrich finishing

Canterbury deer farmers are being encouraged to take on ostrich finishing. NZ Ostrich Export Corp, based in Alexandra, said Canterbury farmers were being sought because of a surge in exports of ostrich meat has resulted in a shortage. It was thought that BSE and foot and mouth outbreaks overseas had aided the increased demand. NZ ostrich was now exported to the US, Thailand, Germany and France.

Smoothing the velvet market

Heavily dependent on a volatile Korean market, NZ deer velvet producers have embarked on a campaign to expand the Korean market while finding new markets. NZ produces about half the worlds deer antler velvet and about 90% goes to South Korea where it is used for medicinal tonics. Velvet is predicted to fetch NZ \$88 per kg (US \$37 per kg) in 2002. Production for the year to June 2002, is expected to reach 510,000kg adding up to about NZ \$45 million (US \$19 million) of exports.

HORTICULTURE***More marketing spending needed***

New Zealand wine exporters have been advised to invest massively in marketing and sales campaigns to sell against expanding volumes of wine worldwide. A NZ wine institute official has told wine producers that, if they think the costs of promotion are high now, they will be dwarfed by the sums necessary over the next few years. Last year wine exports increased in value by 17.5% to a record NZ \$198 million (US \$83 million), exceeding imports by NZ \$55 million (US \$23 million) in the year to June. By 2004 more than 15,000 ha will be planted in grape vines, a 150% increase over 10 years. Most of this new production will be sold overseas because of NZ's limited domestic market.

FORESTRY***Kyoto protocol may affect land use***

Some farm foresters remain unaware that ratification of the Kyoto protocol may mean they no longer have the right to choose what they do with their land. A Farm Forestry Association official

says the Kyoto Protocol on Climate Change, expected to be ratified by NZ in mid-2002, proposes a system of methane taxes, carbon credits and regulations on replanting forests that could destroy many peoples forestry investments. For example, a deforestation tax proposed under the climate change policies would mean farm foresters may be limited in their choice of land use in future and most were yet to realize the impact this could have. Consultation on climate change policy was starting this month and it was important for the industry to work with the Government and win compromises (for more details see NZ1040).

Carter Holt Harvey posts loss

Forest products giant Carter Holt Harvey (CHH) was hit by low product prices and higher energy costs in the September quarter, posting a NZ \$25 million (US \$10.5 million) trading loss and it remains cautious about the global outlook. CHH predicted the next three months would be slightly better than the September quarter, but it was too hard to predict beyond that because of uncertainty about how deep and long a global downturn might be.