



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/5/2001

GAIN Report #NZ1041

New Zealand

Agricultural Situation

Agribusiness Report - September 2001

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Report Highlights: General: GMO moratorium extended past August. Trade : Non-tariff trade barriers assessed. Dairy : New era begins for the NZ dairy industry. Livestock: WTO - US lamb decision welcomed. Wine: Frustrating season for wine market.

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

GENERAL

GMO moratorium extended

The voluntary moratorium on applications for release and field testing of genetically modified organisms (GMO) will be extended to October 31, the Environment and Science Ministers announced last month. The moratorium was to end in August but the New Zealand Life Sciences Network representing the biotechnology industry and research groups has offered to continue it until midnight on October 31. By this date, the Government will provide its response to the Royal Commission on Genetic Modification which will include its policy regarding field tests and commercial releases. New Zealand has no GMO's released for commercial production and all new GMO field trials have been halted since May 2000.

Non-tariff trade barriers assessed

A recent report was released in New Zealand that assessed the impacts of non-tariff trade barriers on New Zealand exporters. The report was jointly undertaken by Standards New Zealand, the Ministry of Foreign Affairs and Trade, the Ministry of Economic Development, the Ministry of Agriculture and Trade NZ. The key findings were:

- Nearly NZ \$1 billion (US \$410 million) of export revenue is lost to New Zealand exporters every year through non-tariff trade barriers.
- Its most experienced and largest exporters identify non-tariff barriers as a serious impediment to maximizing trade opportunities.
- The markets where New Zealand are most likely to encounter non-tariff barriers include countries where we have a long-established trade history - including the USA, Australia, the UK and Japan.
- One in five exporters believe there has been an increase in non-tariff barriers over the last three years- suggesting some countries are becoming more protectionist rather than less so.

China to be bound by the rules

China's entry to the WTO would bind it into the rules-based international trading system according to the New Zealand Trade Minister. China had committed to substantial tariff cuts which once fully phased in over 5 years, would add up to at least NZ \$48 million/year (US \$17 million) in duty saved on current NZ exports, as well as providing new market opportunities. There would be improved access for New Zealand service providers in sectors including education, tourism, and insurance and zero export subsidies for agriculture. China would have to fully implement WTO disciplines on sanitary and phyto-sanitary measures, which might help resolve a range of issues now constraining New Zealand primary sector exports, from meat products to plant products to live animals. The NZ Trade Minister was now confident that China would put in place a system for wool imports to ensure that trade flowed quickly and directly in response to demand.

DAIRY

New era begins

Parliament's passing of the Dairy Industry Restructuring Bill in September marked the beginning of an exciting new era for the dairy industry, the New Zealand Minister of Agriculture said. The Bill enables the NZ Dairy Group and Kiwi Co-op Dairies to merge and to absorb the Dairy Board

to form Fonterra, and also sets out a regulatory package to ensure that competition is maintained. The Agriculture Minister said the Government and Parliament had managed to maintain the time line on the Bill. Fonterra is expected to be officially operating as of October 25.

Fonterra Co-operative group

Fonterra Co-operative Group Ltd. is the official name for the dairy industry's mega co-operative which has until now been known as the Global dairy company or Globalco. The name was said to have been chosen as it associated with natural purity and the quality products that flowed from the land. Fonterra owes its origins to Latin, with 'fon' meaning fountain or spring to denote flowing, and 'terra' meaning earth or land.

Dairy Board revenue almost NZ \$10 billion

The New Zealand Dairy Board had a record group revenue of NZ \$9.99 billion (US \$4.1 billion) in the year to May 31, up NZ \$2.34 billion (US \$959 million). Both the Board's strategic business units recorded strong sales growth. NZ Milk's revenue grew 18 percent to NZ \$3.5 billion (US \$1.4 billion); NZMP's revenue totaled NZ \$6.3 billion (US \$2.6 billion) an increase of NZ \$1.8 billion. Total payments to NZ dairy companies for NZ-origin products was NZ \$1.2 billion (US \$2.5 billion), up 36 percent.

NZ Milk in Mexican buy-up

NZ Milk a subsidiary of Globalco, is planning to buy two Mexican dairy companies, Lamesa and Eugenia, to make it the top seller of cheese and one of the biggest dairy product marketers in Mexico. The purchases which are still to be completed would boost NZ dairy sales in Mexico by NZ \$220 to \$750 million (US \$97 - 330 million). The two companies have more than 2000 staff. Milk for the products will come from Mexican suppliers.

Dairy deal

The Fonterra-Nestle' deal to market dairy products in North And South America was a hot topic of conversation in the Uruguay meeting of Cairns Group Agriculture and Trade Ministers. The New Zealand Trade Negotiations Minister said his Ministerial colleagues, were electrified by the news. Nestle' - the world's largest food company and the largest marketer of dairy products in the world with a network that spanned the entire American region wanted to be equal partners in a joint venture with Fonterra. Nestle' regarded New Zealand expertise in farming and milk technologies to be the best in the world, and Fonterra was well on its way to becoming a truly multinational company.

Fonterra supports GM research

Fonterra Co-op Group believes the responsible use of genetic modification must be allowed in New Zealand, but it did not mean that it wanted to use GM Ingredients in its products an industry official said. Fonterra must be allowed to conduct research in New Zealand in a responsible manner. It must have the ability to make sensible choices about the commercial application of genetically modified organisms in the future. If the present moratorium was extended (see general section) it would be impossible for Fonterra to remain competitive with developments in GM science without moving its research operations overseas.

Kosher future for Edendale?

Anchor is looking at new markets for the production from its Edendale plant, with one option being the production of kosher milk products for exports to the Jewish market in the US. This has been trailed in Waikato and the company is at present exploring its viability. Anchor has established an anhydrous milk fat plant at Edendale which was commissioned on 1 September. It has been scheduled to process up to 600,000 liters of cream. A new milk treatment plant, able to process 4 million liters of milk, is to come on stream in February next year. The third major development, a new milk powder drier, is still at the planning stage.

LIVESTOCK

US lamb decision welcomed

The decision by the US Administration to finally remove the quota and tariffs on imports on New Zealand and Australian lamb from November 15, 2001, is great news for New Zealand sheep farmers according to a Meat New Zealand official. New Zealand currently exports 15,000 tons of lamb to the US worth NZ \$180 million (US \$74 million).

Venison exports up

It remains a record breaking period for the deer industry with the national average schedule breaking NZ \$10/kg (US \$4.10/kg) for the first time. Total industry exports reached NZ \$303 million (US \$124 million) for the year ended July, 2001. This represents a 39 percent increase on last year. Industry predict NZ venison prices to remain firm for the next five years assuming no abrupt increase in supply. Deer numbers are up 14 percent from last year to 2.57 million. By 2004, MAF predicts there will be 3.31 million deer in New Zealand.

Cows muscle out sheep

The results from last years livestock and arable cropping survey, by Statistics New Zealand show a big increase in the number of dairy cattle in non-traditional dairying regions throughout New Zealand as well as a continuing decline in sheep numbers. The growth in dairy cow numbers has been particularly strong in the Southland region. Nationally dairy cattle numbers grew by 25.4 percent in the past decade. In 1990 there were 3.4 million. By 1999 that number had grown to 4.3 million. Sheep numbers have continued to decline in virtually all regions. There were 45.7 million sheep last year compared to 70.3 million in 1982 when they were at their highest numbers (and numbers continue to decline). Forestry is continuing to replace sheep farming in suitable areas, and conversions of former sheep units to dairying, particularly in the South Island has gained momentum.

HORTICULTURE

Magic NZ \$2 billion looms

Horticultural exports may pass NZ \$2 billion (US \$820 million) for the first time this year. Earlier this year, MAF estimated that horticultural exports would reach NZ \$1.960 billion (US \$804 million) by March 2001. A new survey indicates that they will reach NZ \$2 billion, and that exports could more than double again by 2010.

Average apple returns higher

Current average apple returns for all major apple varieties marketed by ENZA were up on last years by up to NZ \$7.40 (US \$3) per carton. Fuji was the top paying variety at an average of NZ \$26.26 (US \$10.76) per carton, while Talyors Gold proved to be the premium paying pear,

fetching an average of NZ \$44.50 (US \$18.23) per carton. With 97 percent of its 12.1 million export cartons sold, ENZA said its forecast returns to growers had lifted from NZ \$16.36 (US \$6.70) per carton in February to NZ \$19.20 (US \$7.87) per carton now. The improved returns had been driven by shipping and offshore cost savings, a smaller national crop and strong performances by sales teams.

Good news for pipfruit (apple & pear) growers

Nelson pipfruit growers have at last received some good news- they will all be getting their highest returns for several years. Even with a smaller crop, the higher returns are expected to pump an extra NZ \$8 million (US \$3.3 million) into the Nelson economy. The higher returns had bolstered confidence among ENZA suppliers, which had been severely dented by the internal industry strife and bitterness over this years foreign exchange debt row. An industry spokesman said the return would be the highest growers had received from ENZA since 1988.

Zespri forecast

Zespri is forecasting a full-year net supplier return of NZ \$449.4 million (184 million), up 2.7 percent on the previous year's record NZ \$437.5 million (US \$179 million). This equated to an average-per-tray return of NZ \$6.78 (US \$2.78) against last years NZ \$6.87 (US \$2.82) last year, reflecting higher volumes, slightly softer global pricing and foreign exchange movements. Zespri estimates supply will reach 66.3 million trays by season end, a 4.1 percent over last year. Overall the kiwifruit marketer reports a boost in net revenue for all products of 15 percent year-to-date on 28 percent higher volumes. A Zespri spokesman said that Europe in particular had managed the increased volumes of green and other classes well and achieved record August sales of 2.6 million trays.

Organics losing their shine

Some Gisborne producers of organic vegetables are considering switching back to conventional production says MAF. This follows declining price margins and a series of difficult growing seasons which led to excessive weed problems and increased pest problems. Yields were falling, and maintaining adequate soil fertility levels was difficult. In Gisborne, organic corn yielded a disappointing 9.5 tons/ha compared with yields of 17.5 tons/ ha from conventional crops. Processing companies and marketers are considering a joint approach with growers to overcome there problems, as overseas interest in organic vegetables remains high.

Bitter harvest for mandarins

Predictions for a record export mandarin season have been dashed by bad weather in North Island growing regions. Major new plantings coming into production this year were expected to lift sales to Japan, the country's only export market, to around 2000 tons, up from 900 tons last season. However, low sunshine hours in the critical March-April picking period meant fruit sugar levels on much of the crop failed to reach the minimum standard for Japan. Only 400-500 tons attained export standard and the rest was dumped onto an already flooded local market. A NZ Citrus Growers mandarin official said export returns would be around NZ \$2.5 million (US \$1 million) compared to NZ \$5 million (US \$2 million) in 2000.

WINE

Frustrating season for wine market

The New Zealand wine market showed little growth in the past year, but smaller than expected harvests mean many wineries have struggled to fulfil customer demand. An industry spokesman estimated wine sales for the 2000/01 season totaled 66.6 million liters, up just 0.4 million liters on the previous year. Domestic wine sales made up some 37.4 million liters of the total, a drop of 9.4 percent from 1999/00 which allowed space in the market for a record imports of 33.4 million liters. Following the established trend, most imported wine came from Australia, which holds some 29 percent of the domestic market, compared to local suppliers who hold 56 percent. The smaller than expected volumes of wine available the year meant that, despite continued media and consumer appreciation of New Zealand wines, sales growth was cut short for many wineries and export volumes remained relatively static, rising just 0.4 percent to 19.25 million liters. Total exports earned NZ \$198 million (US \$81 million), 17.5 percent more than the previous period and nearly double that of the year to June 1998. Shipment to some countries had continued to grow strongly, despite product shortages - the United States bought 3.1 million liters of New Zealand wine up 28.4 percent, and is expected to grow further.

Industry surveys show the national vineyard area growing at a compound rate of 12 percent until 2003 and estimate that by 2000 producing area will exceed 15,000 hectares. This will be 150 percent greater than a decade earlier. Most of this expanded production is destined for the export market.

Allied wins Montana - Lion wins US \$56 million

The long stand-off between Britain's Allied Domecq and Australasia's Lion Nathan for control of New Zealand's Montana Wines is over, with Allied set to gain control and Lion Nathan gaining NZ \$127 million (US \$56 million). Lion Nathan announced in August that it had pulled out of the contest after 16 months of fighting, which included high court hearings, stock exchange investigations and a huge amount of legal fees. Lion Nathan had decided to sell its 43 percent stake because Montana had become too expensive and intends to invest in wine company purchases in Australia.

FORESTRY

Potential for processing

New wood available for processing in New Zealand will increase from 7 million m³ in 2001m to 18 million m³ by 2010, according to a study by Jakko Poyry Consulting for Investment New Zealand (INZ). An INZ official said new export-driven-value added processing was needed, such as medium density fibre board plants, appearance grade lumber products and engineered wood products. A third of New Zealand's logs were exported as logs, and the challenge was to get as much of the wood supply as possible processed and exported. New Zealand's key markets are Japan, the U.S., Taiwan, Australia and South Korea, and emerging markets were in China, South East Asia, India and the Middle East. The New Zealand Forest Industries Council under its Wood Processing Strategy has set an objective of attracting NZ \$3 billion (US \$1.23 billion) in new wood processing investments by 2010. It has also set an objective of processing at least 50 percent of the additional harvest by 2015.

FISHERIES

Seafood shows huge potential

With foreign exchange earnings of NZ \$1.48 billion (US \$607 million) in 2000, seafood is New

Zealand's fourth largest export industry. Hoki is New Zealand's largest seafood export and is working to raise its profile in key export markets of the UK, mainland Europe and the USA. New Zealand Greenshell mussels are another major seafood export capturing an estimated 75 percent of the US mussel market. An industry official says there is huge potential in seafood exports, in particular, value-added products in Australia and Asia.