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Report Highlights: General: Woolworths takeover near completion. NZ farmers call for an increase in trade negotiators. Horticulture: Organic kiwifruit top up payment and kiwifruit pools become industry issues. HortResearch suffers NZ$ 5 million funding cut. Livestock: Woolboard officially disbanded. Dairy: Fonterra further consolidates Australian market. Forestry: Citic and Fletcher Forests to acquire Central North Island Forest Partnership.

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

GENERAL

Woolworths takeover near completion but not guaranteed, yet

Australian supermarket Foodland Associated – which already owns NZ's Progressive Enterprises with a 21 percent New Zealand market share – has agreed to pay NZ$ 690 million (US$ 331 million) for the Woolworths New Zealand chain to its Hong Kong-based owner, Dairy Farm International. Foodland indicated that it wants to expand operations, opening at least five new supermarkets each year, estimating capital expenditures for the Woolworths network and support facilities to exceed NZ$ 45 million (US$ 21.6 million) each year. This would provide the business with the critical scale to support greater investment in technology and the development of world-class operating procedures. Foodland expects synergy benefits to emerge over a three year period, driven by brand rationalization, reduced marketing costs and supply chain economies. According to Foodland, increased purchasing power will mean increased competition and better choice and value for NZ consumers. Foodstuffs, NZ's largest supermarket group (annual turnover of NZ$ 4.8 billion, approx. 55 percent market share) and Foodland's only serious competitor in New Zealand, still argues that a merger between the number two and three players (Woolworths and Progressive Enterprises) is bad for competition. Foodstuffs is seeking a High Court judicial review, contending that New Zealand's Overseas Investment Commission, which approved the transaction, had acted improperly in doing so. Foodland has Commerce Commission approval to merge with Woolworths until July 13, 2002. If it is not able to successfully defend all of Foodstuff's legal challenges until then, it will need to lodge a fresh application under the new tougher competition rules which took effect on May 26, 2001. It is understood that if the judicial review, set for June 24, overturns the Overseas Investment Commission's decision, then Foodland might have to divest its Woolworths shares. Foodland is trying to raise NZ$ 345 million through institutional capital raising to fund the purchase.

Merger imminent between Enza and Turners & Growers

Guinness Peat Group (GPG) wants to create an international produce marketing company by merging two of its investments, Enza (which it fully owns) and Turners & Growers (46 percent-owned), to create added-value for shareholders and the companies' suppliers and customers. Turners & Growers is a significant player in the domestic produce market with a comprehensive distribution network, wholesaling and distributing fruit, vegetables and cut flowers, and supplying packaging equipment to the fresh produce industry. Enza is the largest apple and pear exporter with a comprehensive overseas network. A team of executives from both companies is investigating the feasibility of a full merger, and they are expected to report back by the beginning of August. The two companies have annual gross receipts of between NZ$ 500 to 600 million (US$ 240 to 288 million) and collectively employ up to 1600 staff during peak times. Enza has significant apple distribution infrastructures in the UK, Europe, and America, which could be used to get other NZ produce into those markets. Potential synergies, according to GPG, existed in areas such as shipping, transport, container management, warehousing and back office functions. Turners & Growers is seen to supply Enza with products other than apples or pears to create a big international horticultural company. The suggested merger has been predicted by industry insiders ever since GPG took control of Enza in May. Enza has just paid out over NZ$ 100 million to local growers for the current season, which ends on September 30, an amount similar to last year's.

NZ Farmers call for increase in trade negotiators

Federated Farmers, the independent NZ farmers' representative body, wants the Government to increase its team of international trade negotiators because it is concerned New Zealand will be left behind by Australia, which is suspected by the industry to be first in line for a free trade agreement with the U.S. Federated Farmers said that any new free trade agreements by Australia would have a negative impact on foreign investment and trade in New Zealand, as Australia was negotiating all agreements without New Zealand. The federation said it believed the team of 15 trade negotiators from MAF and the Ministry of Foreign Affairs and Trade was inadequate and under-resourced when compared to Australia, which had quadrupled its team to 85 with a further 60 people involved in trade advocacy. Because New Zealand relies 90 percent on trade (Australia 60 percent) the Federation believes that New Zealand needs more complementary skills for WTO negotiations, bilateral and multilateral agreements, free trade agreements, and the closer economic relations agreement with Australia (ANZCERTA).

HORTICULTURE & PRODUCTS

Kiwifruit exports off to a good start

Shortages of non-NZ kiwifruit had allowed New Zealand kiwifruit to have an unusually strong start. Total sales are well ahead of sales the same period last year. European customers were impressed with the fruit quality this season with both brix and dry matter tests indicating good keeping qualities. Sales in Japan had been strong with early shipments selling out early. Italian fruit still available in Japan in May was of poor quality and customers were eager to switch to New Zealand kiwifruit. Early sales of gold kiwifruit had also been very good in Asian markets. However, the gold crop is below expectations this season as about one third is too small for export. However, the crop is still up on last year with about 8 million trays (5.2 million last season), as vines planted in 2000 matured and start to bear more fruit. Next year's gold volume is expected to be twice this season's. Zespri forecasts that green and organic kiwifruit production will be down by between 5 and 10 percent compared with the 2001/02 season when green volumes were 54.64 million trays and green organic 2.52 million trays. Compared with the same period last year (week 24) the season is developing strongly in Europe, Japan, and East Asia. The total volume sold in all markets by week 24 was 14.7 million trays, compared with 12 million (2001/02), and 8.8 million (1999/00 and 2000/01).

Suggested organic kiwifruit top up payment and kiwifruit pools become industry issues

The recent decision by Zespri to support organic kiwifruit growers by trying to maintain a price differential of NZ$ 2.30 (US$ 1.1) per tray of organic kiwifruit compared with conventionally grown green kiwifruit has met some resistance among the 'green' growers. Zespri argues that it needs to provide its retailers with a full range of kiwifruit (green, gold, and organic) to secure business. Recent price declines for organic kiwifruit and problems with getting organic kiwifruit into Japan without fumigation coupled with recent law changes in Japan that fumigated organic fruit cannot be sold as pure 'organic', have meant that the premium for organic kiwifruit has been decreasing from about NZ$ 3 (US$ 1.44) per tray in 1999. Zespri is concerned that more organic growers may decide to return to growing conventional kiwifruit only, as organic grower numbers have already dropped from 186 to 150. Consequently, Zespri suggested short term price support to ensure future organic kiwifruit supplies by offering organic growers to maintain the price differential. If the market is not able to provide the full differential, the top up would come from the conventional pool, which is what green growers oppose. At the moment it appears that organic growers may need to receive about NZ$ 0.5 (US$ 0.24) per tray to maintain the differential. This would mean that growers from the conventional green pool would receive 2 cents (US 1 cent) less per tray.

Zespri's rationale for maintaining an adequate incentive for organic production is that it wants to increase its share in the North American market, but to clearly differentiate itself from Chilean and Californian fruit it needs to have an organic line (as well as a gold line). In Europe, category management considerations also require Zespri to be able to supply a full range of kiwifruit. While market returns in North America are substantially lower than in Europe or Japan, Zespri argues that growing that market would benefit the entire NZ kiwifruit industry. Yet, the volume of organic kiwifruit has been decreasing over the last two seasons. In addition, the risk of losing organic growers would mean that up to at least 1.5 million additional conventional fruit would have to be marketed. Industry insiders argue that the value that the organic line of kiwifruit adds to the returns for conventional growers is about 20 cents (US 10 cents) per conventional tray.

In a recent AGM of the KGI (Kiwifruit Growers Incorporated), the industry body representing kiwifruit growers in New Zealand, the question of how the pooling system should work in the future was raised to growers. How organic, gold, and conventional fruit is sold in markets has affected returns to individual pools in the past, with some insiders claiming, for example, that green kiwifruit growers subsidized the development of gold fruit, which has since been placed in high priced markets at the expense of green kiwifruit.

Avocado crop revised down to 1.5 million trays

After estimates in March this year that the next season's crop would be up to 1.8 to 2 million trays, most recent estimates are now down to 1.5 million. Some orchards are reporting mid-period fruit set problems with severe ridging that was not previously experienced. One theory about ridging is that it is related to cold weather; some overseas authorities attribute it to insect damage. The problem will be the number one research issue this year. With these fruit quality problems, more fruit is expected to be supplied to the growing domestic market. The industry is planning a range of in-market promotions to stimulate domestic market demand.

HortResearch suffers NZ$ 5 million funding cut

HortResearch, New Zealand's premier pipfruit researcher, announced that reduced funding from the Foundation for Research, Science and Technology (FoRST) would see the end for several study programs and significantly reduce resources available for research on apples and pears. FoRST, which is charged with allocating government funding to Crown Research Institutes, has reduced HortResearch funding by NZ$ 5 million (US$ 2.4 million) across all activities. One million dollars will be taken directly from apple and pear research, while a further NZ$ 4 million (US$ 1.92 million) will come off gene science, plant genomics and programs to develop drugs from plant extracts. HortResearch stated that funding cuts reflect the Government's shifting priorities from funding in primary production to areas in the economy where it perceives the potential for social rates of return to be higher.

FoRST is suggesting to HortResearch to try to attract private sector investment, which over the past decade has, at best, kept pace with inflation and at worst, remained static. If no industry co-funding can be attracted it will be highly likely, according to HortResearch, that staff numbers will be reduced and entire facilities be closed down. "Zero funding" for bio-active research means that those programs are also over. FoRST has set guidelines for gene science work, leaving HortResearch with some discretion over which fruit programs it wishes to continue. HortResearch indicated that it was giving priority to programs that where strategically important to the industry to ensure continuation of relevant short and long-term projects. Varietal research, which has been credited with providing NZ growers with a commercial advantage over Northern Hemisphere competitors -- such as the recent release of the JAZZ apple variety – is said not to be safe from cut-backs in funding. Apple and pear exporter Enza is believed to continue to provide about NZ$ 1 million annually towards commercializing advanced selections. Those funds are not aimed at new cultivar development, though. Thus HortResearch is now looking for NZ interests to be partners in global tenders for apple breeding research to fill the NZ$ 1.5 million (US$ 0.72 million) funding gap for plant and apple breeding. HortResearch believes this to be crucial if New Zealand wants to retain access to new cultivars. Under the proposed regime New Zealand interests would co-own new varieties with the ability to commercially exploit them. Pipfruit New Zealand also recognizes that New Zealand is too small a market to justify the sale of science in New Zealand alone, which means that information will have to be sold worldwide.

LIVESTOCK AND PRODUCTS

Woolboard officially disbanded

As a result of a grower referendum on the future of the Wool Board held in early June, 98 percent of the 6500 growers who voted (representing 45 percent of the industry) supported the move to disestablish the board. The referendum's result backs the Board's plans to distribute the NZ$ 109.1 million (US$ 52.3 million) it has in reserves. The Board proposes to take NZ$ 38.9 million (US$ 18.7 million) out to wind up its operations and pay off staff pension schemes and then divide the remaining NZ$ 70.2 million (US$ 33.6 million) into assets and shares to be owned by NZ's 15,000 sheep farmers. Another outcome of the referendum was a 65 percent support for an initial two year restriction on trading of shares in the companies being formed to acquire the board's assets. This will confine share ownership initially to woolgrowers and limit the proportion of shares able to be held by any single grower. The move is now on to repeal the Wool Board Act and set up a new entity, Wool Equities, after payment of NZ$ 32.1 million (US$ 15.4 million) to fund the start-up of the new commercial companies. At that time, ordinary shares would be issued to farmers in this company. The remaining NZ$ 35.9 million (17.2 million) from the reserves will also be converted into shares in Wool Equities, but at first as redeemable preference shares, and distributed to farmers. The board also proposes that at the end of the reform process, when its empowering legislation is passed by Parliament, farmers will be given the option of cashing in these preferences.

The new structure proposed would see Wool Equities manage the distribution and commercial exploitation of assets. It is further recommended that the separate structures for commercial activities and research should be further separated according to whether they deal with fine wools (Merino) or strong wools (majority of New Zealand's clip). Wool Equities will hold grower interests in Ovita (a biotechnology consortium to capitalize on the intellectual property of the sheep genome), Covita (to commercialize discoveries), Wool Interiors, and the New Zealand Merino Company. A separate incorporated society, SheepCo, will be responsible for research. This will need to be formally established and growers need to approve a plan to fund it through a levy.

Commodity Situation

Increased supply of beef on global markets (U.S. supplies in particular), coupled with a rising NZ$ versus the US$ in which most of the NZ export beef trade is conducted, have led to sharp falls in farm-gate prices and an increasingly gloomy outlook for exports. The situation is made worse by NZ farmers sending cattle in increasing numbers to the works because of fears that the increasing NZ dollar would lead to further price declines. Export production to June 8 has been: steer 330,391 (down 15.2 percent), heifer 133,433 (up 9.8 percent), cow 562,901 (up 18.4 percent), bull 539,907 (up 3.2 percent, and bobby veal 152,139 (up 62.3 percent).

The export outlook for lamb is good, as prices remain high and supplies limited. Growing awareness in European markets that NZ lamb production could be down by 1 million on last season has helped to firm demand a little. Returns have been more insulated as most trade is done in euros and sterling. Export production to June 8 has been: lamb 20,381,721 (down 8 percent), hogget 4,096 (down 58.1 percent), and mutton 3,546,062 (down 11 percent).

The venison market remains slow. While exports were up at the end of March, they have slowed considerably since, as has production, which is running about a fifth lower than ususal. Schedule prices are relatively stable – down 12 percent on the five year average for this time of the year. Industry estimates place the year-end production at the end of September 2002 at 460,000, 8.7 percent down on last year. At year-end March, venison exports decreased to 16,306 MT (down 1 percent) but returns increased to NZ$ 229 million (US$ 110), up 13 percent.

DAIRY

Fonterra further consolidates Australian market

Fonterra now owns 75 percent of the NZ$ 2.3 billion (US$ 1.1 billion) Australasian Food Holdings (AFH) through the merger of its consumer food businesses in New Zealand and Australia, with those of Bonlac Foods. The existing JV between the two companies, Bonland Dairies, will also be part of Australasian Food Holdings, along with the Mainland and Tip Top operations in New Zealand and Peters and Brownes in Western Australia. The company will try to get established in Australia's east coast supermarkets, and try to strengthen brands such as Mainland, Meadowfresh, Tararua, Galaxy, Bega, Bodalla, Perfect Italiano, Cadbury Icecream, Ferndale, Huttons and Kiwi. Benefits from the consolidation are estimated to be worth up to NZ$ 20 million (US$ 9.6 million) annually. Direct benefits of NZ$ 10 million (US$ 4.8 million) would add 1 NZ cent (US 0.48 cent) a kilogram milk solids to the New Zealand farmer-shareholder payout. AFH, employing 4000 people, would be used as a springboard for further acquisitions. Commentators speculate that Fonterra might add Australia's listed National Foods, in which it already holds 18 percent, to its expansion. Fonterra indicated that such a move would be unlikely to create problems with the Australian Competition and Consumer Commission.

Fonterra - Nestlé joint venture expected to earn NZ$ 770 million in Brazil

Sales by the dairy partnership forged by NZ's Fonterra Dairy Cooperative and Nestlé in Brazil are expected to be worth NZ$ 770 million (US$ 370 million) in its first year. The JV, Dairy Partners Americas (DPA), was created to improve efficiency of milk production and the manufacture of dairy products in South America. DPA will start production next year in Venezuela and the Mercosur trade bloc countries (Brazil, Argentina, Uruguay, and Paraguay) and will expand over the next three years into the rest of South America, Central America, the Caribbean, and NAFTA countries (the U.S., Canada, and Mexico).

Fonterra sells dairy stake in Philippines

Fonterra has sold its 30 percent stake in Philippine Dairy Products (PDPC) to JV partner San Miguel Pure Foods for NZ$ 8.3 million (US$ 4 million). PDPC makes butter, margarine, and cheese, including Fonterra's Anchor brand.

Fonterra's Shareholders Council approves changes to board member structure

Fonterra's 14,000 milk supplier-shareholders are asked to consider a constitutional change to allow the appointment of an additional fourth independent non-farmer director to its board, and to reduce the number of farmer directors from ten to nine. Fonterra's watchdog, the Shareholder Council, has approved the constitutional change, which means that the proposed changes can now be presented to all shareholders for a special vote, which will take place on July 26. At least a 75 percent shareholder approval is required to effect the consitutional change..

NZ dairy farmers continue to fund industry good activities

In a levy vote turnout of 56 percent, 63 percent of dairy farmers voted in favor of the levy-funding of Dairy InSight, which will take over industry good activities, formerly undertaken by the Dairy Board. Dairy InSight must now apply to the Minister of Agriculture for a levy under the Commodity Levies Act, which may take up to eight months. In the meantime, dairy companies continue their interim funding of three cents (US 1.5 cent) a kilogram of milk solids from each dairy farmer. Based on predicted milk production, the levy rate for each kilogram of milk solids will be 3.4 cents (US 1.6 cent) in the first year. The biggest proportion of the levy income – about NZ$ 18 million – will be spent on quality-related activities, including disease eradication, biosecurity and product safety.

FORESTRY

Citic and Fletcher Forests (FFS) to acquire Central North Island Forest Partnership (CNI)

After the collapse of the Vela Brothers' deal to purchase the CNI's assets (which was owned by Fletcher and Citic but went into receivership more than a year ago) from its receivers, FFS will now purchase the 163,000 ha of forest and three processing facilities for US$ 650 million. This is paid to the receivers of CNI, and owed to the partnership's bankers. Of the US$ 650 million, US$ 450 million will come via a new bank facility from a consortium led by the Bank of New Zealand and HSBC, which will extend a further US$ 137 million to replace FFS' existing facility, to provide working capital, and fund transaction costs.

The remaining US$ 200 million will be funded by issuing 1.1 billion shares. These shares will be picked up by Hong Kong-listed South East Asia Wood Industries (Seawi), which is 9 percent -owned by Chinese Government-owned Citic (China International Trust & Investment Corp and has four directors on Seawi's board), for 37 cents (US 17.8 cents) a share to take it to a 31 percent shareholding in FFS. The transaction will increase Citic's shareholding in Seawi to 41.4 percent and see Seawi act as a holding company for the stake in FFS. However, Rubicon, an FFS off-shoot and cornerstone shareholder, which holds 17.6 percent in FFS will give up 75 percent of its shareholding to FFS in return for the 11,874 ha Tahorakuri forest (valued at US$ 64 million), and the remaining 25 percent (at NZ 37 cents or US 17.8 cents a share or US$ 48 million) to Seawi, bringing Seawi's shareholding in FFS to 35 percent. The deal still has to be approved by shareholders, and Xylem, which holds 7.6 percent in FFS, does not agree that the deal should go ahead, as it considers the deal unfair and unreasonable for minority shareholders. The Shareholders Association reportedly promised legal action if the partnership deal proceeded, as Rubicon got a high 37 cents (US 17.8 cents) per share, and minority shareholders would be stuck with a partner they knew nothing about. If shareholders were to vote against the package they could invoke the Companies Act's minority buyout provision, which could allow them to require FFS to buy back their shares at an arbitrated price. Fletcher's major institutional shareholders are thought to be worried about the effect another management failure by Fletcher, if it bought the forest partnership, would have on an already low share price. FFS and Rubicon will both hold a special shareholder meeting in August to approve the deal. FFS comments that Citic will not have a managerial or marketing role in the company. FFS states that it would operate independently and that the deal should open new opportunities in the Chinese market.

Carter Holt Harvey makes deal with International Paper Pacific Millennium

Carter Holt Harvey's (CHH) Sydney-based Pinepanels has done a deal with International Paper Pacific Millennium, which is a Hong-Kong-based company and 25 percent-owned by CHH. Currently, Pinepanels exports about 40,000 cubic meters of MDF (medium density fibreboard) to China's southern provinces. The deal would see exports increase by about 30 percent. Panel products, mainly used for furniture production, would be marketed to 5 of China's northern provinces. About 80 percent of the MDF will come from CHH's New South Wales plant, and the remainder from its plant in North Canterbury.

Overall MDF capacity in New Zealand is 875,000 cubic meters (Australia: 830,000 cubic meters) which is not expected to increase significantly before 2006. Australia and New Zealand currently have a US$ 350 million share in the global MDF market. Industry insiders predict that North Asian consumption of MDF will increase by more than 50 percent, driven by a 70 percent rise in MDF demand in China.