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New Zealand

Fresh Deciduous Fruit

NEW ZEALAND APPLE AND PEAR ANNUAL

2000

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Report Highlights:

New Zealand's export apple production in 1999/2000 is forecast to total 17 million TCE, or 470,769 MT. This is down slightly on last year's harvest of 17.6 million TCE. The 1999 season brought much frustration for growers due to the mid-season collapse in Braeburn prices. The introduction this year of the Apple and Pear Industry Restructuring Act sets a legislative framework for fundamental change within New Zealand's pipfruit export industry retaining the advantages of the single-desk seller while introducing a commercial structure.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

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SECTION 1. SITUATION AND OUTLOOK

New Zealand's export apple production in 1999/2000 is forecast to total 17 million Tray Carton Equivalents (TCE) or 470,769 MT. This is down slightly on last year's harvest of 17.6 million TCE. (Note: 1 TCE = 18.0 kilograms). The 1999/2000 season is off to a good start with weather conditions in the Hawke's Bay area being particularly good and only a few damaging hailstorms in the Nelson district.

Last season (1998/99) brought very favorable weather patterns for growers in New Zealand. Prolonged warm weather was combined with periods of rainfall. Conditions were definitely a relief from the extremes that El Nino presented in 1997/98, which reduced the export apple harvest to 13.9 million TCE.

The 1999 season brought much frustration for growers due to difficulties in export markets. There was a mid-season collapse in Braeburn prices, which adversely affected grower returns. While all varieties were affected by a global oversupply of pipfruit (apples and pears), the severe and rapid downturn for Braeburn - which represents 40 percent of the total export crop - had the greatest impact on the industry as a whole.

The average return to growers in 1998/99 was NZ\$10.96 (US\$5.70) per TCE. This was devastating to many growers as earlier budgets predicted growers would receive a net average return of NZ\$15.87 (US\$8.25) per TCE. Last year (1998/99) an average NZ\$14.17 (US\$ 7.37) per TCE was achieved. While early season prices were consistent with the budget, the full effect of the global oversupply of pipfruit became evident in mid-July. In particular, product from other Southern Hemisphere countries remained in the market at a time when New Zealand apples had previously enjoyed relatively little competition. Of greater significance is the extent to which New Zealand competitors are now offering varieties previously considered unique to New Zealand, typically Royal Gala, Fuji and Braeburn.

While the New Zealand Apple and Pear Board did expect greater volumes of fruit from other Southern Hemisphere producers, it did not anticipate the size of the increase in production. Brazil alone increased its exports from zero to almost three million cartons while Chile's exports to Europe were up significantly over 1998. The earlier than usual arrival of Northern Hemisphere fruit also compounded the situation.

Quality issues also eroded sales of New Zealand product, these included poor Cox Orange pressures; over maturity and shrivel in Braeburn; greasiness and over maturity in Royal Gala; and rots and variable color in Fuji and Pacific Rose.

An oversupply of competing fruit products, in particular bananas, also contributed to the flatness of world markets. The trend towards declining apple consumption was exacerbated in 1999 by a heatwave in Europe, leading consumers to opt for competing fruit products. Highlights by export region in 1998/99 were:

- A record volume of New Zealand fruit was exported to North America in 1999 - 3.6 million TCEs, up 28 percent on 1998.
- The Board exported its highest volume of fruit to the United Kingdom since 1996. However, they faced a totally oversupplied market with many varieties trading at low commodity values.
- Poor economic conditions and a general oversupply of all fruit and vegetables in most markets were the

underlying factors that affected business in Asia.

- The 1999 season was the best season in the Pacific since 1993. Total sales were in excess of 155,000 TCEs. This represented an increase of 14 percent on 1998 and 39 percent on 1997. Sales were also maintained at high prices.

The introduction, this year, of the Apple and Pear Industry Restructuring Act sets a legislative framework for fundamental change within New Zealand's pipfruit export industry. It retains the advantages of the single-desk seller while introducing a commercial structure that will allow the Board to better meet the challenges presented by the international market. The Board will become a company, ENZA Limited, with responsibility for acquiring and marketing New Zealand apples internationally. Growers will now be able to take ownership of the industry as they are allocated shares in that new company. Key implications of the restructuring are:

- From 1 October 1999, the Board has separated its logistics business and the new logistics business must compete in providing on-shore logistics to growers, including storage and transport to wharf. A separate company has been formed, called ENZA Logistics Ltd, which is a wholly owned subsidiary of the Board and ENZA Ltd;
- A new regulatory body has been created to enforce the regulations governing the Board;
- The new regulatory body will appoint an Export Committee to consider export applications;
- The New Zealand Apple and Pear Marketing Board will assume ownership of fruit at dockside or free alongside ship (FAS).

SECTION II. STATISTICAL TABLES

PS&D TABLE- APPLES

PSD Table								
Country	New Zealand							
Commodity	Fresh Apples							
	Revised	1997	Preliminary	1998	Forecast	1999		
	Old	New	Old	New	Old	New		
Market Year Begin		10/97		10/98		10/99		
Area Planted	12100	12100	12100	12100	0	12100		
Area Harvested	0	0	0	0	0	0		
Bearing Trees	0	0	0	0	0	0		
Non-Bearing Trees	0	0	0	0	0	0		
Total Trees	0	0	0	0	0	0		
Commercial Production	458190	439650	495720	487384	0	470769		
Non-Comm. Production	40000	40000	40000	40000	0	40000		
TOTAL Production	498190	479650	535720	527384	0	510769		
TOTAL Imports	100	74	80	95	0	95		
TOTAL SUPPLY	498290	479724	535800	527479	0	510864		
Domestic Fresh Consumption	53000	53000	53000	113479	0	64864		
Exports, Fresh Only	235000	192467	310000	314287	0	306000		
For Processing	210290	234257	172800	100000	0	140000		
Withdrawal From Market	0	0	0	0	0	0		
TOTAL UTILIZATION	498290	479724	535800	527479	0	510864		

PS&D TABLE - PEARS

PSD Table						
Country	New Zealand					
Commodity	Fresh Pears					
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	995	995	995	995	0	995
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	16220	16220	16220	17450	0	17450
Non-Comm. Production	4400	4400	4400	4400	0	4400
TOTAL Production	20620	20620	20620	21850	0	21850
TOTAL Imports	150	150	150	300	0	300
TOTAL SUPPLY	20770	20770	20770	22150	0	22150
Domestic Fresh Consump	12600	12600	12600	12500	0	12600
Exports, Fresh Only	4700	4938	4700	6194	0	5000
For Processing	3470	3232	3470	2950	0	4550
Withdrawal From Market	0	0	0	0	0	0
TOTAL UTILIZATION	20770	20770	20770	22150	0	22150

PS&D TABLE - CONCENTRATED APPLE JUICE

Country	New Zealand					
Commodity	Concentrated Apple Juice					
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Deliv. To Processors	210290	234257	172800	100000	0	140000
Beginning Stocks	0	0	0	0	0	0
Production	22336	20791	19600	13214	0	18500
Imports	400	400	400	400	0	400
TOTAL SUPPLY	22736	21191	20000	13614	0	18900
Exports	19736	18191	17000	10067	0	14175
Domestic Consumption	3000	3000	3000	3547	0	4725
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	22736	21191	20000	13614	0	18900

New Zealand Apple Exports			
(September Years, metric tons)			
Destination	1996/97	1997/98	1998/99
Other EC	90,659	69,586	110,460
United Kingdom	65,887	28,463	77,243
United States	54,257	40,173	64,587
Hong Kong	18,473	11,571	12,578
Singapore	12,709	9,607	10,520
Malaysia	5,823	2,227	4,994
Philippines	4,452	2,446	2,332
Germany	4,424	8,746	3,331
Thailand	4,266	852	1,754
Sweden	4,177	2,576	2,901
Spain	3,773	605	921
Taiwan	3,592	6,080	8,827
Russia	2,401	6,176	86
Vietnam	1,700	1,889	870
Canada	703	182	0
French Polynesia	655	551	1,279
Saudi Arabia	397	738	738
Other	8,120	5,196	10,866
TOTAL	286,469	192,467	314,287

Source: Statistics New Zealand

NZ European Pear Exports			
Year ended September, metric tons			
Destination	1996/97	1997/98	1998/99
United States	2,100	2,504	3,241
United Kingdom	1,149	1,193	1,398
Other EU	635	331	1,279
French Polynesia	72	87	80
Fiji	23	2	11
Malaysia	38	0	0
Russia	0	614	0
Canada	421	0	0
Other	69	208	184
Total	4,505	4,938	6,194

Source: New Zealand Department of Statistics

NZ Nashi Pear Exports			
Year ended September, metric tons			
Destination	1996/97	1997/98	1998/99
United States	158	154	278
United Kingdom	79	0	87
Other EU	48	58	76
Hong Kong	31	12	20
Indonesia	132	0	0
Malaysia	9	1	0
Singapore	49	34	19
Thailand	0	0	0
Canada	0	0	1
Other	25	42	25
Total	530	302	506

Source: New Zealand Department of Statistics

N.Z. Concentrated Apple Juice Exports			
70 deg Brix, tons, September years			
Destination	1996/97	1997/98	1998/99
	MT	MT	MT
Japan	7,944	3,448	3,672
Australia	4,348	6,538	4,722
United States	8,138	7,521	882
Canada	115	330	0
Barbados	119	57	107
Singapore	89	85	250
United Kingdom	46	0	48
Malaysia	26	2	30
Hong Kong	46	82	82
Other	6	129	274
Total	20,877	18,191	10,067

Source: Statistics New Zealand

ANALYSIS OF APMB RETURN TO GROWERS(1999)

Year ended September 30, TCE: 18.0 kg tray carton equivalent

	1999		1998	
	NZ\$000	per TCE	NZ\$000	per TCE
Sales Receipts	591,680	33.50	611,131	43.75
Plus Foreign Exchange Management	(55,056)	(3.11)	(75,784)	(5.43)
	536,624	30.39	535,347	38.32
Less Overseas Paid Costs:				
Duty	(6,807)	(0.39)	(8,802)	(0.63)
Distribution & Storage	(44,037)	(2.49)	(32,573)	(2.23)
Advertising & Promotion	(11,353)	(0.64)	(15,589)	(1.12)
Offshore marketing, logistics & administration	(20,418)	(1.16)	(25,602)	(1.83)
Freight and Shipping	(121,988)	(6.91)	(125,438)	(8.98)
Seasonal Finance	(4,394)	(0.25)	(5,089)	(0.36)
Net Sales Proceeds Recieved in N.Z	327,627	18.55	322,254	23.07
Less New Zealand Paid Costs:				
Packaging	(62,234)	(3.52)	(49,676)	(3.56)
Cool storage	(25,054)	(1.42)	(27,073)	(1.94)
Operations & marketing	(42,096)	(2.38)	(32,978)	(2.36)
Market Return	198,243	11.23	212,527	15.21
Less Industry "Good" Costs (R & D, compliance, market access)	(7,775)	(0.45)	(8,640)	(0.62)
Less Taxation	(538)	(0.03)	(769)	(0.05)
Plus Commercial & Investment	-379	-0.02	-925	-0.07
Finance costs	(855)	(0.05)	(4,205)	(0.30)
Payment from Reserves	4,864	0.28	4,411	0.32
Net Surplus to Fresh Export Pool G1	193,560	10.96	202,399	14.49

(For conversion to U.S. dollars, see exchange

rate table on following page).

NEW ZEALAND IMPORT TARIFFS (for years beginning July 1st)		
Tariff Code & Description	Normal Tariff Rate	
	July 1999	July 2000
Fresh Apples HTS.: 0808.10.00	FREE	FREE
Fresh Pears HTS.: 0808.20.00	FREE	FREE
Apple Juice		
HTS.: 2009.70.01	6.5%	5.0%
HTS.: 2009.70.09	5.0%	5.0%
HTS.: 2009.70.11	7.0%	5.0%
HTS.: 2009.70.19	6.5%	5.0%
Preferential Tariff Notes: Australian juice imports are FREE under the Closer Economic Relations agreement between New Zealand and Australia. Canadian juice imports have preferential tariff rates of between 0% and 5%, falling to between 0% and 4% in 2000.		

Source: New Zealand Working Tariff Document

The New Zealand 1999 General Election resulted in a change in government to a Labour-Alliance Government. This Government has announced it will repeal the previous National government's legislation providing a timetable for eliminating all import tariffs by 2006 and it will freeze remaining tariffs at next year's levels for five years or until key trading partners match these tariffs.

N.Z.\$: U.S.\$ EXCHANGE RATE	
Year-ended September 30th, average mid-rates for period	
1995/96	0.6770
1996/97	0.6853
1997/98	0.5594
1998/99	0.5200
1999/2000f	0.5500

Source: Reserve Bank of New Zealand

SECTION III. SUPPLY, DEMAND, POLICY AND MARKETING

PRODUCTION - APPLES

PSD Table Changes

Commercial Apple Production 1998/99 has been revised to 487,384 MT to better reflect end-of-year industry estimates.

Apple Imports/Exports are as reported by Statistics New Zealand for the year ended 30 September.

Domestic Fresh Consumption 1998/99 as has been revised upwards to reflect an decrease in apples that were used in processing per industry sources.

Apples used for Processing 1998 has been revised to reflect decreased volumes due to low world prices for apple juice concentrate.

1999/2000 Crop Shaping Up

Export apple production in 1999/00 is forecast to drop slightly to 17 million TCEs (470,769 MT), slightly down on last season's harvest of 17.6 million TCEs or 487,384 MT. The slight decrease is more an indication of the excellent growing conditions last season, than of poor growing conditions this season. Growing conditions for the 199/2000 season look to be favorable. Nelson growers experienced several hail storms in the month of November, meaning some growers are facing the prospect of widespread bud rot and poor pollination, but it may be another month or so before growers can properly gauge how the crop will fare.

1998/99 Export Prices

The world fruit glut wiped approximately NZ\$58,000 off the average New Zealand export apple grower's income in 1998/99. The net average return to growers was NZ\$10.96 per TCE, down from the expected NZ\$15.87. In 1997/98 export growers earned NZ\$14.17 per TCE. This steep drop in earnings in 1998/99 was affected by a world oversupply of fruit and a big increase in New Zealand fruit supplied for export - 17.6 million TCEs, up from 1997/98's 13.9 million TCEs.

The worst affected variety was Braeburn, with just over NZ\$7 per TCE being paid. This reflected the huge volume of Braeburn coming on stream from trees which had been planted over the past 10-15 years - the cultivar now makes up 60 percent of the apple crop in New Zealand.

This steep downturn in prices has led to thousands of commercial apple trees being chainsawed in the Marlborough region as apple orchards are leveled and replaced with grapes. It is estimated that about 10 percent of apple trees in Marlborough had been removed and replaced mainly with grapes.

Fresh Fruit Prices Paid to Suppliers

\$NZ per 18.0 kg TCE, September years

1995-96	\$12.20
1996-97	\$10.24
1997-98	\$14.17
1998-99	\$10.96

TCE: Tray Carton Equivalent

Source: APMB

PRODUCTION - PEARS

PSD Table Changes

Pear Imports/Exports are reported as by Statistics New Zealand for the year ended 30 September.

Domestic Fresh Consumption in 1998/99 revised to reflect the increased level of fresh exports.

Commercial Production in 1998/99 has been revised to 17,450 MT, largely due to higher export packouts.

Commercial pear production in 1999/2000 is expected to remain steady at 17,450 MT. Pear production is composed of two types of pears; European pears which are varieties such as Buerre Bosc, Taylors Gold, Comice, Winter Coles, Packham and Winter Nellis. The other type is the Nashi Asian Pear.

Nelson (northern South Island) is the main pear growing area producing 50 percent of the Comice crop, 80 percent of the Buerre Bosc and 90-95 percent of the Taylors Gold variety. The Comice, Buerre Bosc and Taylors Gold varieties are grown primarily for export, while Winter Coles, Packham and Winter Nellis are consumed domestically. The Hawke's Bay (in the North Island) is the secondary pear growing region.

PRODUCTION - CONCENTRATED APPLE JUICE

PSD Table Changes

Apples Delivered to Processors in 1998/99 has been revised to reflect decreased volumes due to low world prices for apple juice concentrate, and higher fresh apple exports.

Domestic Consumption has been revised upward to reflect an industry benchmark of approximately 25 percent of production consumed domestically.

Processed volumes of apples were well down in 1998/99 compared to the 1997/98 season, largely due to higher export packouts. Processing prices paid by ENZA were raised during the season to encourage growers to supply juice apples, even though ENZAFOODS (the subsidiary that deals with concentrated apple juice) knew they were facing low world prices. Most growers consider processing as an outlet for export reject fruit, rather than providing a contribution to income.

POLICY

Pipfruit Industry Restructuring

In response to the Government's call for producer board restructuring, in the 1998 Budget, the New Zealand Apple and Pear Marketing Board has restructured its industry. What follows is a summary of the most significant changes:

- From 1 October 1999, the Board was required to separate its logistics business and from 1 February 2000 the new logistics business must compete in providing on-shore logistics services to growers, including storage and transport to wharf. A separate company has been formed, called ENZA Logistics Ltd which is a wholly owned subsidiary of the Board (NZAPMB) and ENZA Ltd.
- A new regulatory body was created on 1 November 1999. It will enforce regulations governing the Board.
- The new regulatory body appoints an Export Permit Committee to consider export applications.
- New Zealand Apple and Pear Marketing Board (NZAPMB) will assume ownership of fruit at dockside or free alongside ship (FAS). This change is due for introduction by 1 February 2000.
- The Board will be converted into a company, ENZA Ltd, on 1 April 2000 to acquire and market apples and pears for export.

- Shares in ENZA Ltd will be held by growers and will be tradable only among growers.
- Growers will be invited to enter into supply contracts with the Board and subsequently ENZA Ltd to supply certain volumes, varieties etc to the point of FAS.

MARKETING

12 month marketing presence

ENZA reports that year by year supermarkets are becoming more important as outlets for export fruit resulting in fewer customers exercising increased buying power. Most large foreign supermarkets are dealing with fewer suppliers and exercising their retail power to increase competition. ENZA-branded fruit, therefore, must consistently meet the exacting quality and supply expectations of these customers. ENZA also hopes to meet a 12-month presence in the market, that will require complementary products that will take New Zealand beyond the traditional six-month window to become an all-year-round supplier. As a result the Board must enter into alliances and joint ventures that will allow them to reduce costs and to add income by becoming a 12-month business.

An example of this strategy, is the recent joint venture with Geest World Wide Fruit, which supplies Northern Hemisphere fruit to the majority of the United Kingdom's largest supermarket chains. The Board (NZAPMB) will benefit from Geest's relationship with key customers and low-cost infrastructure, while Geest will gain access to New Zealand's premium quality, ENZA-branded pipfruit. The new company will be known as ENZAFRUIT World Wide Ltd.

Marketing Infrastructure/Channels

The 1999 season saw a continuation of the reduction of costs to growers. Shipping rates for the season were reduced significantly while packaging costs in New Zealand declined from NZ\$3.11 per TCE in 1998 to NZ\$2.50 per TCE in 1999. With the introduction of a new legislative framework for the 2000 season further opportunities are seen to drive down costs.

The industry also sees further consolidation within the post-harvest sector. The emergence of integrated packhouse/coolstore operations will be the direction for the industry over the coming years.

Chiquita-ENZA Chile Limited

Chiquita-ENZA Chile Limited was formed in September last year, combining the Chilean businesses of ENZA and Chiquita into a new joint venture company.

The company has now completed its first year of operations in what has proved to be a very difficult world fruit market. The company broke even prior to restructuring and made a loss after restructuring of US \$1 million. The result was disappointing but reflects the difficult trading environment exhibited in 1999.

Organics

In the 1998/99 year New Zealand growers produced some 220,000 cartons of organic apples, or apples in transition to organic apples. In 1999/2000, it's likely there will be in excess of 250,000 cartons of organic apples exported. The main market is Europe, particularly Germany, primarily to boutique organic retailers.

Organic production is an attractive alternative for New Zealand apple growers at the moment because returns for conventionally grown apples are on the low side. ENZA has said that organics could make up 10 percent of pipfruit exports by 2005. Currently, 3 percent of apple exports are organic or from farms converting to organic production. Organic apples fetched NZ\$30 a carton, compared to NZ\$14 for non-organic fruit. However, ENZA has warned that more volume would reduce premiums, and affect returns.

First Ever Pear Imports From The U.S.

A New Zealand importer has made the first ever purchases of two containers of U.S. pears and at least one more container is expected to be imported in January. An agreement in October between MAF and APHIS opened the market to pears from Washington state and a November agreement allowed access from California, Oregon and Idaho. The first pear imports are from Washington state and include Bosc and Anjou (including some reds). Despite the higher U.S. pear prices compared to those of Australia and competition from New Zealand stone fruits now in the market, the quality of the U.S. pears has been high and sales have been good.