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New Zealand

Fresh Deciduous Fruit Semi-annual

New Zealand Apples and Pears Trade and Production Update

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Report Highlights:
New Zealand apple production during MY 2009 is estimated at 420,300 tons, down 1% from the original forecast. Post has revised the apple export forecast downward by 4,500 tons to 256,500 tons. While the EU and North America still account for 55% of New Zealand's apple exports, Asia and the Middle East are becoming increasingly important export destinations accounting for nearly 25% of total apple exports.

Commodities:
Apples, Fresh
Pears, Fresh

EXECUTIVE SUMMARY

Post has trimmed back the initial MY 2009 (Oct/Sept) production forecast from 420,300 tons to 416,500 tons, a 1% reduction. A cold, wet spring that brought about disease challenges is one of the major factors accounting for the slight downward revision.

Post has revised the apple export forecast downward by 4,500 tons to 256,500 tons, less than a 2% reduction. The new estimate is at the lower end of Pipfruit New Zealand's export forecast, which is between 256,000 and 261,000 tons. Anecdotal reports suggest that the export crop will be at the lower end of this band.

While the EU and North America still account for 55% of New Zealand's apple exports, Asia and the Middle East are becoming increasingly important export destinations. For the six years from MY 2003 to MY 2008, exports to these two regions grew at an annual growth rate of 10% per annum and now account for nearly 25% of total New Zealand apple exports, up from 13.5% in MY 2003.

Of the total apple growing area in New Zealand, approximately 11% is devoted to organic production. Organic apples accounted for approximately 8% of total exports in MY 2008 and an estimated 7% in MY 2009.

New Zealand's fruit and vegetable exports to China have more than doubled since 2007, up from nine million kgs to 22 million kgs. Exports through Hong Kong have grown from 16 million kgs to 21.5 million kgs during the same period. Much of the increase via Hong Kong has come about because apples have been rerouted to circumvent potential SPS restrictions relating to woolly apple aphid. However, this is costly for New Zealand exporters and the route limits the distribution potential in China.

PSD Tables

Apples, Fresh New Zealand (HA/MT)	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data
Area Planted	8,640	8,640	8,640	8,850	8,890	8,850	8,850	8,850	8,950
Area Harvested	0	0		8,600	0	8,600	8,500	8,500	8,630
Bearing Trees	0	0		0	0		0		
Non-Bearing Trees	0	0		0	0		0		
Total Trees	0	0	0	0	0	0	0	0	0
Commercial Production	430,000	425,928	425,928	439,150	439,150	439,150	405,300	405,300	401,500
Non-Comm. Production	15,000	15,000	14,154	15,000	15,000	15,000	15,000	15,000	15,000
Production	445,000	440,928	440,082	454,150	454,150	454,150	420,300	420,300	416,500
Imports	1,600	1,572	1,572	1,000	1,700	1,658	2,000	1,700	2,000
Total Supply	446,600	442,500	441,654	455,150	455,850	455,808	422,300	422,000	418,500
Fresh Dom. Consumption	76,600	55,300	55,300	58,958	56,600	56,600	32,300	56,000	57,000
Exports	260,000	262,000	261,154	300,000	294,250	303,016	285,000	261,000	256,500
For Processing	110,000	125,200	125,200	96,192	105,000	96,192	105,000	105,000	105,000
Withdrawal From Market	0	0		0	0		0		
Total Distribution	446,600	442,500	441,654	455,150	471,000	455,808	422,300	422,000	418,500
TS=TD			0			0		0	0

Pears, Fresh New Zealand (HA/MT)	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data
Area Planted	735	735	735	412	412	412	412	412	431
Area Harvested	0	0		0	0		0	0	431
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	0	0	0
Commercial Production	13,971	13,971	13971	14,670	14,670	14,670	13,900	13,900	14,000
Non-Comm. Production	400	400	201	200	200	200	200	200	200
Production	14,371	14,371	14172	14,870	14,870	14,870	14,100	14,100	14,200

Imports	3,130	3,129	3314	3,442	3,442	3,442	3,400	3,400	3,400
Total Supply	17,501	17,500	17486	18,312	18,312	18,312	17,500	17,500	17,600
Fresh Dom. Consumption	10,301	10,300	10300	10,300	10,300	10,300	10,300	10,300	10,300
Exports	4,800	4,800	4786	5,512	5,512	5,512	4,700	4,700	4,800
For Processing	2,400	2,400	2400	2,500	2,500	2,500	2,500	2,500	2,500
Withdrawal From Market	0	0	0	0	0		0	0	
Total Distribution	17,501	17,500	17486	18,312	18,312	18,312	17,500	17,500	17,600
TS=TD			0			0			0

Note: Data included in this report is not official USDA data. Official data can be found at http://www.fas.usda.gov/psd

PRODUCTION

Orchard Production

Apples

Post has trimmed back the initial MY 2009 (Oct/Sept) production forecast from 420,300 tons to 416,500 tons, a 1% reduction. Factors suggesting a decline in domestic apple production include:

- widespread hail in October 2009 that particularly affected late season varieties;
- a cold, wet spring in the Hawke's Bay region of the North Island, which reduced yields by approximately 20%;
- lower yields of the Braeburn variety, a mainstay of New Zealand apple production, due to alternate-year bearing patterns; and,
- more disease (black spot) and pest pressure in the two main growing regions of Hawke's Bay and Nelson.

Pears

Post has increased the MY 2009 estimate for pear production by 100 tons to 14,200 tons, which brings it into line with Pipfruit New Zealand's estimates. The weather conditions that impacted apple production also influenced pear production, but not to the same extent as most pear production is in the Nelson region of the South Island.

Growing Systems

From Integrated Fruit Production to "Apple Futures"

In response to demand from European consumers and retailers for residue-free fruit, the Apple Futures program was implemented in New Zealand during the 2007-08 growing season. Launched by Pipfruit NZ and the three regional economic development agencies of Hawke's Bay, Nelson, and Central Otago, the program is intended to help growers move beyond Integrated Fruit Production (IFP) techniques and develop the capability to implement production management systems that produce fruit

with “nil detectable” residue levels. The program has been successful in that 63% of the apple growing area in New Zealand now falls under the Apple Futures Program.

A three-year project, the program continues to be modified and refined. In light of the environmental challenges during the past two growing seasons, rather than “nil detectable” residue levels, the program is now largely focused on helping growers implement production management systems that ensure that fruit is produced with a residue profile of no greater than 10% of internationally set maximum residue levels for the target market.

Organic Production

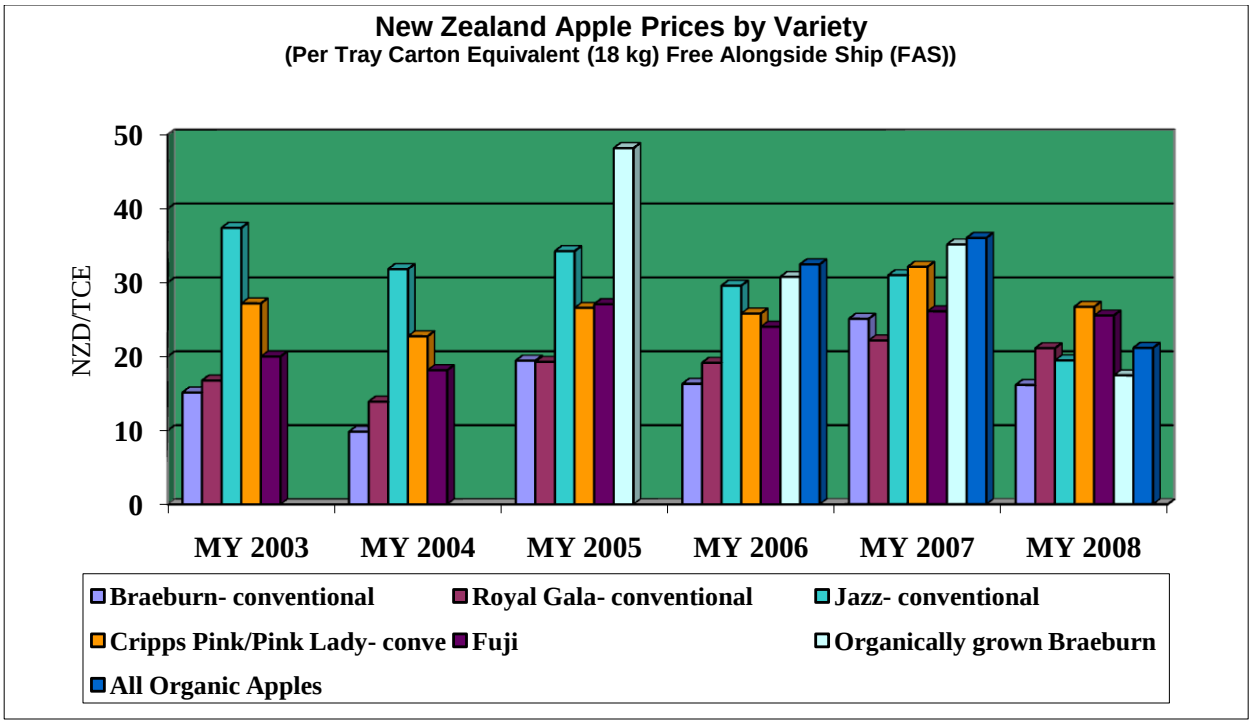
Of the total apple production area in New Zealand, approximately 11% is devoted to organic production. This is not expected to change in MY 2009, especially in view of the relatively poor returns organic growers received in MY 2008.

Organic apples accounted for approximately 8% of total exports in MY 2008, or approximately 1.4 million tray carton equivalents (TCE). Organic apple exports are expected to be down by approximately 30% in MY 2009. Wide-spread hail, a cold spring, and a wet summer caused increased disease and pest pressures, which negatively impacted on both conventional and organic production.

Export Prices and Grower Returns

According to Pipfruit New Zealand, export prices for conventionally grown apples averaged NZ $20.52/TCE in MY 2008, a 16% fall from the NZ $24.44 received in MY 2007. According to the New Zealand Ministry of Agriculture and Forestry (MAF), growing costs (which, among other things, include transportation to port, wages paid to management, and depreciation) were NZ $20.35/TCE in MY 2008, down from NZ $23.00/TCE in MY 2007. Given export prices, there was little profit for most growers and, for Braeburn blocks, there was an average loss of just over NZ $4.00/TCE. According to informal MAF estimates, growing costs in MY 2009 are expected to be on par with MY 2008, if not slightly higher given the lower total volume of fruit produced.

The small size of the domestic market combined with the fact that up to 25% of the national crop goes to processing means that export returns play a central role in grower profitability. In any one year, between 62% and 67% of domestic production is typically exported. This year, even with the NZ dollar sitting at historically high exchange levels to the UK pound, EU euro and US dollar, industry stakeholders are reasonably confident that grower returns will be better than last year. Factors contributing to this view include limited volumes of fruit held over in northern hemisphere markets, lower production levels in New Zealand and Chile, and an improving outlook for consumer demand.


New Zealand Apple Prices by Variety
(Per Tray Carton Equivalent (18 kg) Free Alongside Ship (FAS))
NZD/TCE
50
40
30
20
10
0
MY 2003
MY 2004
MY 2005
MY 2006
MY 2007
MY 2008
Braeburn- conventional
Royal Gala- conventional
Jazz- conventional
Cripps Pink/Pink Lady- conve
Fuji
Organically grown Braeburn
All Organic Apples

Source: GTA

CONSUMPTION AND IMPORTS

Selected Monthly Weighted Average Retail Prices for Apples in New Zealand (NZD/Kg)		
Date	**Price**	**% change**
2007 Sep	2.13	
2008 Sep	2.79	31.0%
2009 Sep	2.60	-6.8%
2010 Jan	3.57	37.3%
2010 Mar	2.11	-40.9%

Source: Statistics NZ

Post has revised the apple consumption estimate upward by 1,000 tons to 57,000 tons. Imports, which have been revised upward from an estimated 1,700 tons to 2,000 ton, will likely satisfy some of the increase in consumption. The drop in the 2010 production level and strong export demand suggest that there may be a shortage of apples on the local market later this calendar year.

The forecast for MY 2009 domestic pear consumption remains unchanged at 10,300 tons with an expected 3,400 tons coming from imports.

New Zealand Deciduous Fruit and Juice Imports					
	First Six Months of:			Total Imports	
Commodity/Country	**MY2007**	**MY2008**	**MY2009**	**MY2007**	**MY2008**
Apples, Fresh (tons):					
China	0	0	11	0	0
India	0	0	0	0	0
New Zealand	0	0	104	0	41
United Kingdom	0	0	0	0	0
United States	1558	1614	1213	1572	1618
World	1558	1614	1328	1572	1659
Pears And Quinces, Fresh (tons):					
Australia	24	324	336	1452	1457
China	629	593	300	629	593
Korea South	144	150	162	150	168
South Africa	0	0	22	0	0
United States	1084	1223	1341	1084	1223
World	1880	2291	2160	3314	3442
Apple Juice (liters):					
Australia	188278	344913	9504	583300	348693
China	2728455	604645	2311792	6619586	1781408
United States	4572	12818	126	7022	50093
Rest of World	202665	190083	84791	242018	195762
World	3123970	1152459	2406213	7451926	2375956

Source: GTA

EXPORTS

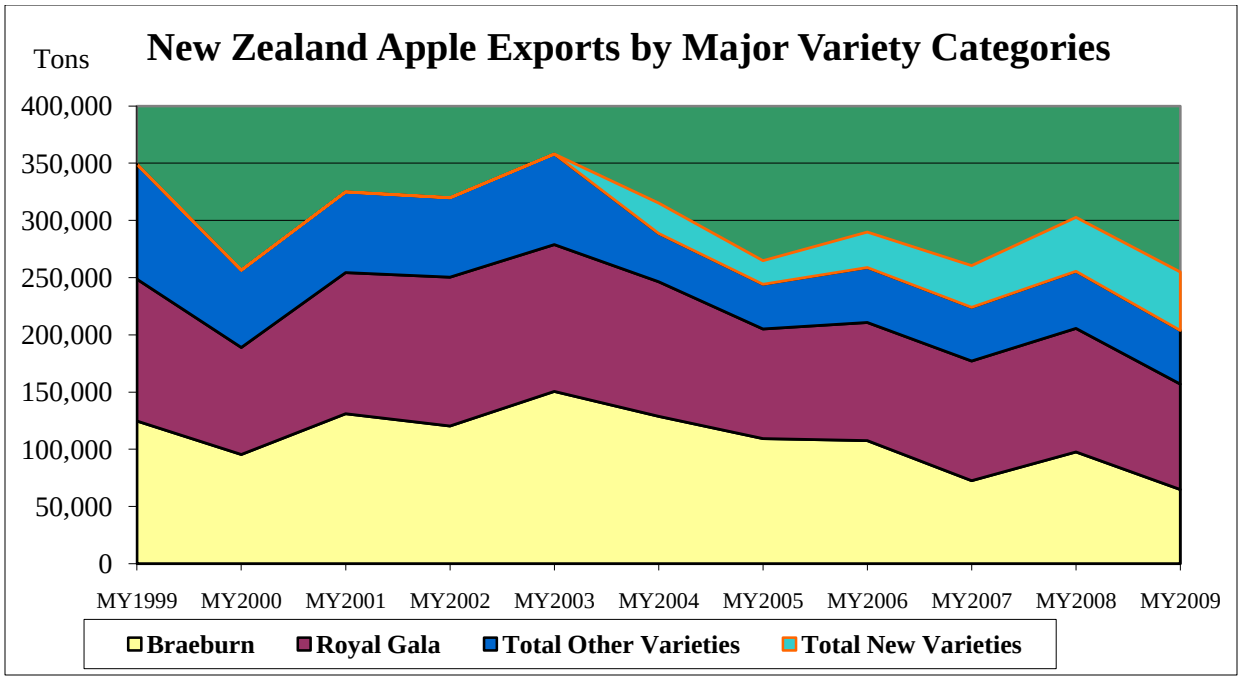
Apples

Post has revised the apple export forecast downward by 4,500 tons to 256,000 tons. The new estimate is at the lower end of Pipfruit New Zealand's export forecast, which is between 256,000 and 261,000 tons. Anecdotal reports suggesting that the export crop will be at the lower end of this band include: organic apple production down by 30%; lower pack out levels for Royal Gala in the Nelson region; lower Braeburn yields due to hail damage and the biennial nature of the crop; and lower yields for Jazz apples.

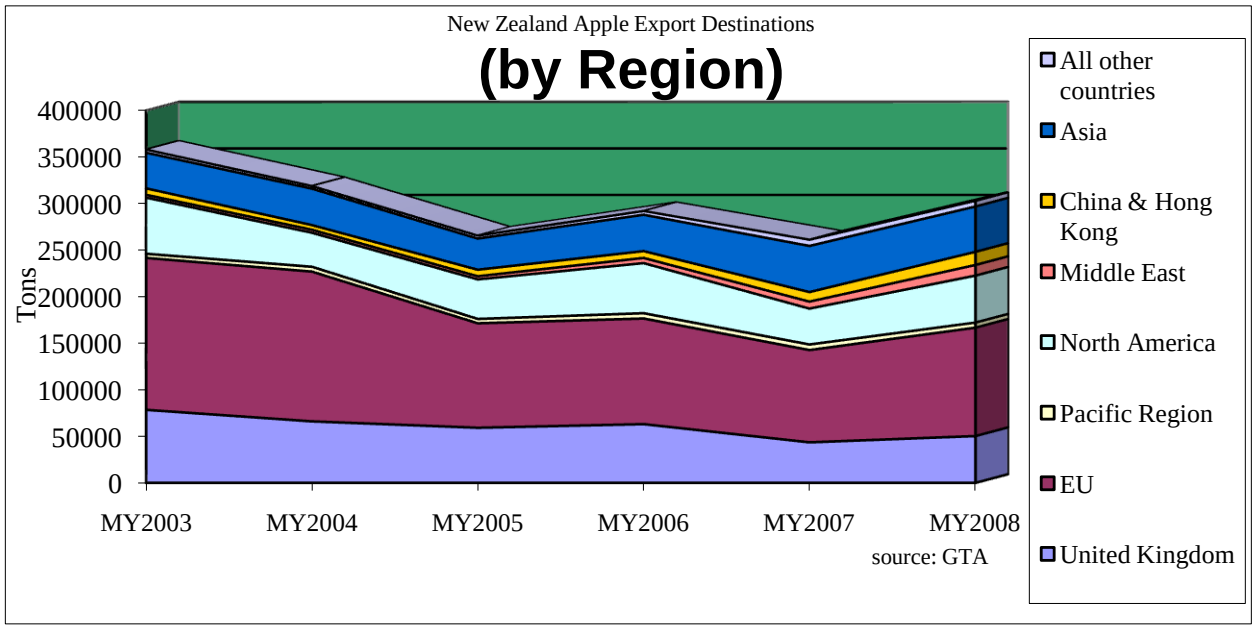
While the EU and North America still account for 55% of New Zealand apple exports, Asia and the Middle East are becoming increasingly important export destinations. For the six years from MY 2003 to MY 2008, exports to these two regions increased at an annual growth rate of 10% per annum and now account for nearly 25% of total New Zealand apple exports, up from 13.5% in MY 2003.

According to a recent report that appeared in the April 2010 edition of The Orchardist, returns in Asia for New Zealand Queen and Royal Gala varieties have steadily improved over the past six years reaching between NZ $25 and NZ $30 per TCE in calendar year 2009. This is in contrast to returns from the traditional markets of the United Kingdom and the EU where, for example Braeburn, returns have fluctuated around an average of NZ $17.50 per TCE for the last six years, surpassing NZ $20.00 per TCE only twice in that time period. This year, some exporters have offered fixed price contracts for fruit destined for Asia instead of the usual on consignment pool approach to pricing.

The extent to which New Zealand exports to the Asian and Middle Eastern markets continue to grow will depend on a number of factors including the ability of the industry to produce the varieties suited to Asian tastes, including Fuji, Rose and Beauty. The new variety Envy, which is just coming into commercial-scale production now, may help the industry funnel more production into exports to the Asian region. While these markets are attractive to New Zealand exporters, partly because of the ability to obtain higher prices and because the retail sectors are less concentrated, SPS/TBS issues are likely to present challenges, particularly in China.



Source GTA



Source GTA

Pears

Post forecasts pear exports to reach 4,800 tons in MY 2009, 100 tons up on the previous forecast. Most of the pear production for export is centered around Nelson, which was spared from some of the more damaging weather patterns that impacted on apple production in the Hawke's Bay.

POLICY

New Zealand WTO Case for Apple Access to the Australia Market

Although press reports in early March 2010 suggested that the WTO had found in favor of New Zealand, the WTO has not officially released its finding. An official announcement is not expected until late June 2010. After the announcement, the two countries will then have up to 60 days to decide if they want to appeal.

Free Trade Agreement's

Although New Zealand continues to hope for a positive outcome for the WTO Doha Round negotiations, it continues to aggressively negotiate bilateral trade agreements. The country made history by becoming the first OECD country to sign an FTA with China in 2008. Since then, China has surpassed the United States as New Zealand's largest destination for agriculture, forestry and fishery exports. In February 2009, New Zealand and Australia signed at FTA with ASEAN. The FTA will eventually eliminate tariffs on 99% of New Zealand's current exports to the four key ASEAN markets of Indonesia, Malaysia, the Philippines and Vietnam. In October 2009, New Zealand signed an FTA with Malaysia, and in November negotiated another agreement with the Gulf Cooperation Council. In March 2010, New Zealand signed an FTA with Hong Kong. Hong Kong is New Zealand's ninth largest export destination, and New Zealand's trade with Hong Kong is currently worth NZ $823 million per annum. The CEP complements New Zealand's Free Trade Agreement (FTA) with China and enhances the potential for Hong Kong to be used as a platform for trade into China. The CEP is expected to enter into force in late 2010.

On December 14, 2009, United States Trade Representative Ron Kirk notified Congress that President Obama intends to enter into negotiations of a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) Agreement with the objective of shaping a high-standard, broad-based regional pact. The first round of negotiations took place from March 15-19 in Melbourne, Australia. The second round of negotiations is scheduled to take place from June 14-18 in the United States. The negotiations include New Zealand.

Update on NZ-China FTA

New Zealand fruit and vegetable exports directly into China have more than doubled since 2007 (from 9 million kgs to 22 million kgs). Through Hong Kong, exports have grown from 16 million kgs to 21.5 million kgs during the same period. Much of the increase via Hong Kong has come about because most apples are now rerouted to circumvent potential SPS restrictions relating to woolly apple

aphid. However, this is costly for New Zealand exporters (costing an extra NZ $3.00/TCE) and the route limits the distribution potential.

While the FTA does not seem to have provided New Zealand with any tangible increase in apple access to the Chinese market, New Zealand has an on-going dialogue with China regarding SPS issues. New Zealand's SPS challenges relate to China's "Quarantine Pest List". According to NZ, of the 400 pathogens or pests on the list, there are at least 35 that have an effect on all fruit and vegetable exports (not just New Zealand exports) to China. Several of these, which in New Zealand's view are incorrectly termed "quarantine pests", are threatening access for NZ apples. While it is proven that New Zealand has these pests/ pathogens, in New Zealand's view, there is scientific evidence that they are also present in China. China maintains there is a movement control system that prevents spread of these pest/pathogens within China. However, New Zealand says this can't be scientifically supported and that, on a scientific basis, there should be no significant impediment to exports of apples from New Zealand.

New Zealand is working toward the completion of a bilateral quarantine arrangement with China in regard to apples. The next meeting of the FTA joint management committee (JMC) will be in July, 2010. While the FTA quarantine committee will meet prior to the JMC, it is unlikely apples will be on the agenda. In October 2010, New Zealand will host Chinese scientists to view and discuss fire blight control systems and MAF Biosecurity New Zealand will again bring up the scientific arguments for resolution of the apple trade as it relates to China's quarantine pest list.

New Zealand has recently issued a new import health standard for pears *Pyrus bretschneideri, Pyrus sp. nr. communis* and *Pyrus pyrifolia* being imported from China. The new standard opens up New Zealand to pears from all regions of China. This will likely boost imports from China into New Zealand which have trended downward in volume over the last few years.