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New Zealand

Fresh Deciduous Fruit

NEW ZEALAND FRESH DECIDUOUS FRUIT REPORT 2007

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Report Highlights:

New Zealand apple production is forecast to fall nearly 5% in MY 2007/08, due primarily to severe frosts in the Hawkes Bay region. While area planted to apples is trending downward, industry sources report that many of the older trees are being replaced with more intensive plantings and more profitable varieties. New Zealand apple exports are forecast to fall 7.6% to 270,000 tons in MY 2007/08 continuing a downward trend after reaching a peak of 364,554 tons in MY 2003/04.

Includes PSD Changes: Yes
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Table of Contents

SECTION I. SITUATION AND OUTLOOK.....	2
SECTION II. STATISTICAL TABLES	3
PS&D TABLES	3
SECTION III. PRODUCTION, TRADE AND POLICY	6
Production.....	6
Apple Production and Consumption	6
Apple Juice Production and Consumption	6
Pear Production and Consumption	6
Organic Production.....	7
TRADE	7
Exports.....	7
Export Marketing Panel	8
International Competitiveness.....	8
POLICY	8
WTO Case	8
Tariff costs.....	9

SECTION I. SITUATION AND OUTLOOK

Apple and pear production are forecast to fall by 4.8% and 5.3%, respectively, in MY 2007/08 due primarily to severe frosts in the Hawkes Bay region. While planted area is trending downward, industry sources report that many of the older trees are being replaced with more intensive plantings of more profitable varieties on dwarf rootstock. However, planted area is still being lost to urbanization, alternative crops and other land uses.

New Zealand apple exports are forecast to fall 7.6% to 270,000 tons in MY 2007/08 continuing a downward trend after reaching a peak of 364,554 tons (19.8m cartons) in MY 2003/04. Over the longer term, exports are expected to remain in a band between 215,000 to 325,000 tons (12 and 18 million cartons).

Prices for the Braeburn variety, which accounts for approximately one third of total exports, deteriorated badly at the end of the season and overall pool prices paid by exporters to growers are likely to be well below the cost of production.

One bright spot in the sector is organic production, which accounts for 10% of total planted area. Prices for organic apples were 2.5 times higher than for conventionally grown fruit in MY2005/06. However, margins slipped this past season as a result of increased organic production in South America. Along with organic apples, new varieties in short supply command good prices such as Jazz, Tentation, and the Pacific series.

SECTION II. STATISTICAL TABLES

PS&D TABLES

PSD Table										
Country	New Zealand									
Commodity	Apples, Fresh									
Units	(HA) (1000 TREES) (MT)									
	2005	Revised		2006	Estimate		2007	Fore cast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Est.	Post Est. New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/20 07	10/200 7	MM/YY YY
Area Planted	12300	12300	9000	12200	10500	8766	0	0	8750	(HA)
Area Harvested	0	0	0	0	0	0	0	0	0	(HA)
Bearing Trees	0	0	0	0	0	0	0	0	0	(1000 TREES)
Non-Bearing Trees	0	0	0	0	0	0	0	0	0	(1000 TREES)
Total Trees	0	0	0	0	0	0	0	0	0	(1000 TREES)
Commercial Production	407800	407800	407800	440000	440000	441000	0	0	41700 0	(MT)
Non-Comm. Production	32000	32000	32000	25000	25000	13996	0	0	16000	(MT)
Production	439800	439800	439800	465000	465000	454996	0	0	43300 0	(MT)
Imports	1200	1200	1200	1000	1000	1100	0	0	1000	(MT)
Total Supply	441000	441000	441000	466000	466000	456096	0	0	43400 0	(MT)
Fresh Dom. Consumption	56000	56000	56000	56000	56000	58,000	0	0	58000	(MT)
Exports, Fresh	265000	265000	265000	300000	290000	292096	0	0	27000 0	(MT)
For Processing	120000	120000	120000	110000	120000	106000	0	0	10600 0	(MT)
Withdrawal From Market	0	0	0	0	0	0	0	0	0	(MT)
Total Distribution	441000	441000	441000	466000	466000	456096	0	0	43400 0	(MT)

PSD Table										
Country	New Zealand									
Commodity	Apple Juice, Concentrated									
Unit	MT									
	2005	Revised		2006	Estimate		2007	Fore cast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Est.	Post Est. New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/Y YYY
Deliv. To Processors	120000	120000	120000	110000	120000	106000	0	0	106000	(MT)
Beginning Stocks	0	0	0	0	0	0	0	0	1000	(MT)
Production	20400	20400	20400	20000	20000	17710	0	0	18020	(MT)
Imports	4270	4270	4270	6000	6000	7700	0	0	6000	(MT)
Total Supply	24670	24670	24670	26000	26000	25410	0	0	25020	(MT)
Exports	11650	11650	11650	13000	13000	8410	0	0	9020	(MT)
Domestic Consumption	13020	13020	13020	13000	13000	16000	0	0	16000	(MT)
Ending Stocks	0	0	0	0	0	1000	0	0	0	(MT)
Total Distribution	24670	24670	24670	26000	26000	25410	0	0	25020	(MT)

Export Trade Matrix			
Country: New Zealand			
Commodity: Apples, Fresh			
Time Period	1 year	Units:	Tonnes
Exports for year end Sep 30	2006		2007
U.S.	37578		47669
Others			
EU Total	171082		176334
Taiwan	15204		18283
Hong Kong	5583		6341
Canada	4951		6177
Malaysia	4514		5398
Singapore	4680		4824
United Arab Emirates	2727		4591
Thailand	2219		3154
India	3861		3675
Indonesia	1916		2447
Total for Others	216737		231224
Others not Listed	11228		13202
Grand Total	265541		292096

PSD Table

Country	New Zealand									
Commodity	Pears, Fresh									
Unites	(HA) (1000 TREES) (MT)									
	2005	Revised		2006	Est.		2007	Fore cast		UOM
	USDA Official	Post Est.	Post Est. New	USDA Official	Post Est.	Post Est. New	USDA Official	Post Est.	Post Est. New	
Market Year Begin		10/200 5	10/200 5		10/200 6	10/200 6		10/200 7	10/200 7	MM/YY YY
Area Planted	1000	1000	1000	1000	1000	734	0	0	735	(HA)
Area Harvested	0	0	0	0	0	0	0	0	0	(HA)
Bearing Trees	0	0	0	0	0	0	0	0	0	(1000 TREES)
Non-Bearing Trees	0	0	0	0	0	0	0	0	0	(1000 TREES)
Total Trees	0	0	0	0	0	0	0	0	0	(1000 TREES)
Commercial Production	5700	5700	5700	6700	6700	15086	0	0	14350	(MT)
Non-Comm. Production	400	400	400	500	500	500	0	0	400	(MT)
Production	6100	6100	6100	7200	7200	15586	0	0	14750	(MT)
Imports	3000	3000	3000	3000	3000	2980	0	0	3700	(MT)
Total Supply	9100	9100	9100	10200	10200	18566	0	0	18450	(MT)
Fresh Dom. Consumption	2000	2000	2000	2000	2000	10300	0	0	10300	(MT)
Exports, Fresh	4700	4700	4700	5900	5900	5766	0	0	5750	(MT)
For Processing	2400	2400	2400	2300	2300	2500	0	0	2400	(MT)
Withdrawal From Market	0	0	0	0	0	0	0	0	0	(MT)
Total Distribution	9100	9100	9100	10200	10200	18566	0	0	18450	(MT)

SECTION III. PRODUCTION, TRADE AND POLICY

Production

Apple Production and Consumption

Post has revised area planted to apple production downward due to the availability of more accurate data available from Pipfruit New Zealand, which now conducts surveys of growers. Post had previously relied on data available through Statistics New Zealand, a government agency, for orchard area data. The primary difference in planted area estimates stems from the fact that Pipfruit New Zealand's figures are based on actual planted area and Stats New Zealand's are based on the total area owned by a business entity.

Production during MY 2007/08 is forecast to drop 4.8% to 433,000 tons because of two severe frosts in October 2007 in the Hawkes Bay region - the largest growing area in New Zealand. While total tree numbers are not readily available, industry sources report that older fruit trees are being removed and replaced with more intensive plantings of more profitable varieties on dwarf rootstock. Availability of quality rootstock continues to be a problem for growers wanting to replant their orchards. Apple trees are also being pulled out due to competing land uses such as urbanization as well as for alternative crops including potatoes, onions, sweetcorn, export squash, and, in a few areas, grapes.

Domestic apple consumption in New Zealand is forecast to remain relatively stable at 58,000 tons in MY 2007/08.

Apple Juice Production and Consumption

Deliveries to processors during MY 2006/07 have been revised downward to 106,000 tons based on estimates from Pipfruit NZ and MAF.

Domestic consumption of apple juice generally fluctuates approximately +/-25% around 13,000 tons. Post estimates consumption at historically high levels of 16,000 tons for both MY 2006/07 and MY 2007/08. At this level there would be a small carry over of stocks.

Pear Production and Consumption

According to MAF surveys and their model orchard analysis, gross pear yields per hectare can range from 30 tons up to 50 tons, which is a significantly higher figure than post has used in the past. Post estimates that exports account for anywhere from 55% to 80% of total yield, which implies that net yields for export can range from 16.5 tons per hectare all the way up to 40 tons per hectare. Also, pears are a biennial bearing crop so production can fluctuate dramatically between years in spite of no significant climatic influences. It's worth noting that product for domestic consumption on the local market typically has higher net pack out rates because grading is not as strict for product consumed domestically as it is for exported product. Export yields were reportedly good in Nelson this year.

Assuming that nationally yields are likely to be approximately 80% of the surveyed orchards, post is revising the production estimates up significantly, which has also impacted on domestic consumption estimates. Anecdotal evidence from the supermarket trade suggests that pears would comprise approximately 10% to 20% of total pip fruit consumed domestically. This fits with the revised post estimate. Due to good yields during MY 2006/07, there are still plenty of domestic pears available in the market, which is damping demand for imported product, including U.S. pears. Due to the frost in October in Hawkes Bay, demand for imports to satisfy domestic consumption is likely to be up in MY 2007/08.

Pipfruit New Zealand now conducts their own planted acreage surveys rather than relying on data provided by Statistics New Zealand. This data is considered to be more up to date and accurate and based on actual planted area rather than total area owned by the business entity. Post has revised the area planted in line with this new information.

Watties is the main processor in New Zealand. According to industry sources, approximately 2,400 tons of pears will be used by processors in the next 12 months. Processing quantity estimates are consistent with previous year estimates.

Organic Production

New Zealand organic apple production continues to grow. In MY2006/07, approximately 8% of total planted area was fully certified organic, up from 6% the previous year, and another 2% is undergoing conversion.

In MY2005/06, yields for organically grown apples averaged 26.7 tons per hectare (export grade) compared with 28.5 tons per hectare for conventionally grown apples. This is only a 7% reduction below conventionally grown fruit for organic production.

High prices for organic apples are a primary factor driving production. In MY2005/06, organic fruit returned between NZ \$42.84 per carton (18kg) and \$58.87 per carton depending on the variety compared with a range of \$17.02 to \$34.24 per carton for conventionally grown fruit. For the main varieties - Braeburn and Royal Gala – returns on the organic versions were 2.5 times higher than for the conventional variety per carton. On orchard operating costs are higher for organics but only on the order of 10 to 30%. On balance organic orchards in MY2005/06 were much more profitable. However, during the MY2006/07, prices for organic apples fell due largely to increased organic supplies from South America.

TRADE

Exports

Exports of New Zealand apples were 293,000T (16.3 million cartons) during MY 2006/07, up from the previous year's total of 266,400T (14.8 million cartons) but well off the peak of 356,400T (19.8 million cartons) in the MY2003/04.

Sales for the MY 2006/07 export year basically finished in September, but exporters still haven't finalized grower returns as at the start of December. During MY 2006/07, 60% of exports on a volume basis went to the EU and a further 16% to the United States. It has been reported that for varieties other than Braeburn, prices in the market were similar or better than 2006. However, the relative strength of the Kiwi dollar during the first half of the season has depressed returns to New Zealand growers. The Braeburn market deteriorated toward the end of the season, due largely over sized fruit and quality problems. Fruit losses and repacking expenses were costing some exporters more than NZ \$2 per carton.

Exports during MY 2007/08 are forecast to fall to 270,000T (15 million cartons) due to two severe frosts during October 2007 in Hawkes Bay, the largest growing area. Over the longer term, exports are expected to remain in a band between 215-325,000 tons (12 and 18 million cartons). Unless growers can return to a reasonable level of profitability then exports will trend to the lower end of the range. Factors that will increase profitability include: depreciation of the NZ dollar; replanting new varieties on dwarf rootstocks; more strategic

and orderly marketing of the crop; attending to quality/fruit loss problems; lowering on orchard and packing costs; and market differentiation using organics or zero residual fruit.

Export Marketing Panel

The export marketing panel created by Pipfruit New Zealand was introduced for the 2006 season and was made up of 26 exporters (out of the approx 100 in total), representing 90% of export production. The exporters met every week during the season to discuss export volumes, market conditions and apples being packed. Membership of the panel is voluntary and reports on the success of the panel are mixed. Membership has reportedly fallen to 20 exporters in 2007.

Exporters market to the supermarkets in Europe, shipping virtually all the fruit on consignment (which means there is no forward pricing agreements) with in-market pricing on a week to week basis or past the supermarket shelf pricing (if margins not maintained by supermarkets they claim back the margin by lowering the price to the exporter) determining the exporters' returns.

One grower interviewed said it was important for growers to export their fruit with exporters who have sales and marketing programs organized with the supermarket chains.

International Competitiveness

Export returns to the growers in MY 2007/08 for Braeburn apples are rumored to be in the order of NZ \$13 to \$18 per carton. This is below the cost of production, which is estimated by MAF to be approximately New Zealand \$20 per carton. While Royal Gala, the other main variety, should fare somewhat better it is only likely to return NZ \$18.50 to \$20 per carton. Together, Braeburn and Royal Gala account for over 70% of the New Zealand crop.

The newer varieties are returning far better per carton prices with Tentation leading the pack at over NZ \$34 per carton. (However, there are very limited quantities of this variety.) The Pacific series returned in the mid NZ \$20's per carton which would supply a solid profit to the grower.

New Zealand's offshore competitors have lower costs of production. For example, China's cost per 18 kg carton is only 25-35% of New Zealand's cost. Chile comes in at 50-60% of New Zealand's cost and the United States registers at 80-85%. The low cost producers are still making good profits at current world prices. Unless New Zealand growers and exporters can either lower costs and/or increase market returns, it is likely that the industry will shrink further.

POLICY

WTO Case

Trade Minister Phil Goff and Agriculture Minister Jim Anderton announced on August 20, 2007 that the New Zealand Government will take Australia to the World Trade Organization over apples.

New Zealand has been trying to obtain access to the Australian market for its apples since it filed for access in 1986. (New Zealand apple exports to Australia have been banned since 1921, when fire blight, a bacterial disease, was discovered in New Zealand) Earlier this year, New Zealand seemed to be making some headway as they were working jointly with Australia on a set of standard operating procedures that would set the terms of access. The

standard operating procedures were based on an import risk assessment done by Australia. However, according to Minister Goff, Australia has still not agreed to implement the final rules and, if New Zealand got access at all, it wouldn't be until 2010. He said that the WTO case was the last option.

This marks the first time that New Zealand has taken Australia to the WTO in its long trading history. New Zealand's total exports to Australia, its largest trading partner, are approximately \$4.5 billion per year as compared to \$3 billion a year to the United States.

Tariff costs

A report by commissioned by Horticulture New Zealand and Horticulture Export Authority (industry funded governance bodies) on barriers to export trade and released in June 2007 estimated that tariffs in target markets cost each apple grower NZ \$22,000 (US \$17,600). Its findings concluded that countries or economic unions with higher tariff regimes stifled the growth of horticultural exports.