

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## New Zealand

**Post:** Wellington

### 2010 Report on State of Kiwifruit Sector in New Zealand

**Report Categories:**

Kiwifruit

Fresh Fruit

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**Report Highlights:**

New Zealand kiwifruit production fell to an estimated 380,000 tons in 2009, down 4% from the previous year. The drop in production translated into a 4.2% decline in exports to 361,066 tons. Production in 2010 is forecast to at 379,000 tons. A cold spring and extended drought in the main producing regions are expected to negatively impact on yields. Exports are forecast to be down marginally at 360,000 tons.



## **2010 KIWIFRUIT SECTOR REPORT**

### **Executive Summary**

Kiwifruit is New Zealand's largest horticultural export. ZESPRI, the single desk exporter, manages approximately 30% of internationally traded kiwifruit and supplies approximately 55 countries. It is 100% owned by its 2,700 current or former growers and has supply arrangements with over 1,200 offshore growers.

In 2009, kiwifruit production in New Zealand fell to an estimated 380,000 tons, down 4% from the record level achieved the previous year. A late season hail storm, which caused significant fruit loss, coincided with a previously planned supply management program initiated by ZESPRI.

The drop in production translated into a 4.2% decline in exports to 361,066 tons. However, on a value basis, exports were up 6.7% to NZ \$1,031,000. Grower profitability was up an impressive 37%. The upturn in profitability is partly attributable to good returns from gold kiwifruit, which account for approximately 22% of the total crop.

A cold spring and extended drought in the main producing regions is expected to hinder production in 2010, which is forecast to fall marginally to 379,000 tons. Consequently, exports are forecast to drop slightly to 360,000 tons.

After four years of negotiations, New Zealand, Australia and the Association of Southeast Asian Nations (ASEAN) signed a free trade agreement (FTA) in February 2009. 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. On full implementation, this is estimated to equate to an annual duty savings of approximately NZ \$50 million based on current trade. Tariffs on kiwifruit will be eliminated in most countries over a three to six-year time frame.

In October 2009, New Zealand signed an FTA with Malaysia. The FTA will eliminate 99.5% of tariffs on current New Zealand exports by 2016 and, once fully implemented, will result in a NZ \$10 million per year saving on duty payments. Immediate benefits will be felt by kiwifruit exporters – with the elimination of a 15% duty on kiwifruit in August 2010.

New Zealand has begun the process of negotiating FTAs with Korea and India. In addition New Zealand is negotiating with the United States and other countries to expand the TransPacific Partnership. Korea is of particular interest to exporters as it is New Zealand's third largest market for kiwifruit. Duty free access for kiwifruit to the Korean market would save New Zealand growers almost NZ \$34 million, which equates to approximately NZ \$12,000 per grower. At the moment the tariff rate is 45% for NZ Kiwifruit going into Korea.

A key focus of the kiwifruit industry is to develop and commercialize new varieties. In November 2009, the New Zealand Government announced a seven-year, NZ \$35.7 million partnership with ZESPRI to develop new kiwifruit varieties. ZESPRI is to contribute NZ \$20.5 million toward the program with the balance funded by the Government. This will allow ZESPRI's joint plant breeding program with Plant and Food, a crown research institute, to assess over 100,000 potential new varieties with the aim of commercializing five to seven new varieties, including several red cultivars.

ZESPRI has released three new cultivars so far this year. The new varieties include a sweeter Green/Gold hybrid; an early harvest Gold; and a long storing Gold. These cultivars, which will extend the selling season, are expected to be grafted to existing rootstock on approximately 550-560 hectares, or 4% of total kiwifruit planted area, by the end of this year.

## **Production**

### **MY 2009**

In April 2009, New Zealand kiwifruit production was widely expected to increase between 3 and 4%. To manage supply, ZESPRI signaled that 2.5 million trays of green kiwifruit would need to be removed from the market to protect grower returns. After reaching an agreement with growers, ZESPRI sought to divert Class I fruit away from global markets to either Australia or the domestic market, and to destroy, or feed to livestock, approximately one million trays of Class II fruit. (Class II fruit is usually exported to Australia or consumed domestically.) In a deal negotiated with exporters, Zespri agreed to pay a compensation payment of NZ 30 cents per tray that was diverted.

By mid-May, the picture had changed as two unseasonal hail storms caused severe damage to some kiwifruit orchards in the Te Puke region of the North Island. When the storms hit, approximately 40% of the green crop and 70% of the gold crop had already been harvested. As a result, only 5% of the total crop was affected. However, for some individual orchardists, the damage was significant. While some growers had already thinned their vines in response to Zespri's call for crop management, the hail storms obviated the need for any further supply management.

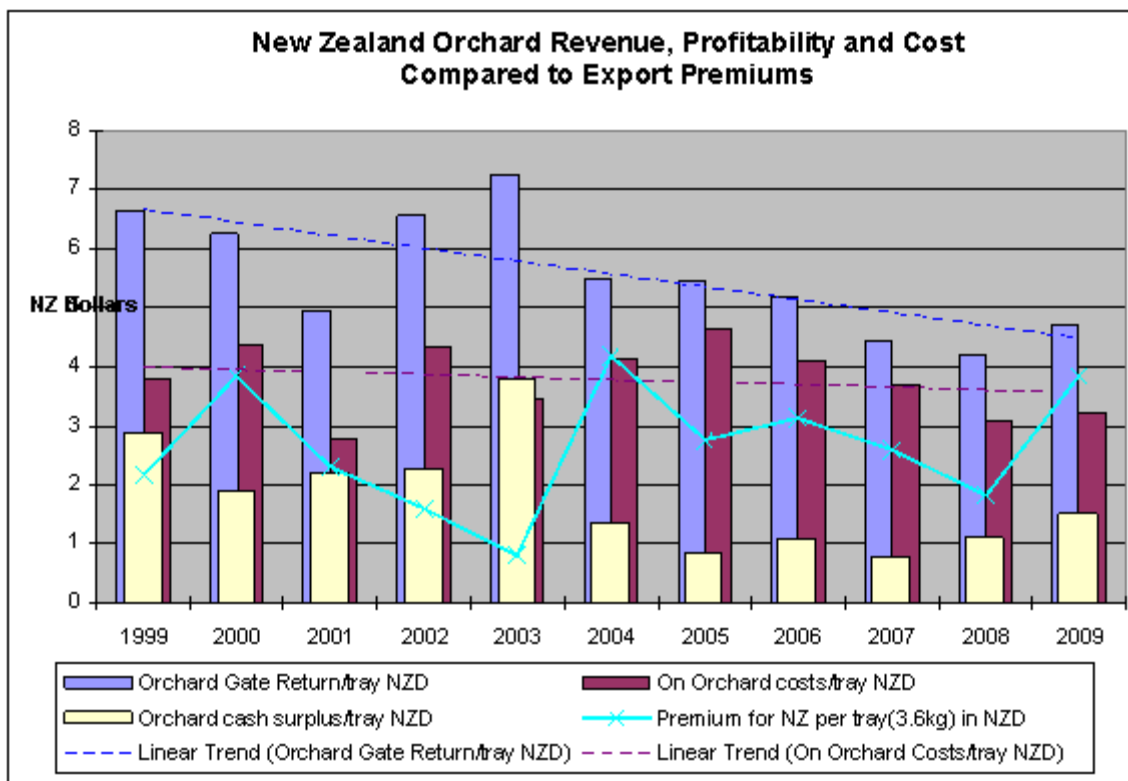
New Zealand kiwifruit production fell 4% to an estimated 380,000 tons in 2009.

### **MY 2010**

The 2010 crop, which was harvested between March and May, is forecast at 379,050 tons. The lower than expected production is primarily due to poor weather conditions. The 2009 winter was the coldest in 50 years, which ensured a very good bud break and the potential for high yields. However, the spring was also the coldest in 50 years. Some buds were lost and, as pollination was difficult, the result was both a smaller harvest and smaller fruit. A drought in the Waikato, Northland and Auckland regions, which also affected the Bay of Plenty, also negatively impacted on crop yields and fruit quality.

Out of a total of 13,250 hectares, 2,615 hectares are planted to Gold kiwifruit, which is expected to produce 28 to 30 million trays by 2014.

## Grower Profitability



Sources: Global Trade Atlas, MAF

Grower profitability was up an impressive 37% in 2009 to NZ \$1.51 per tray (cash operating surplus). Orchard gate returns per hectare were up approximately 13% to NZ \$4.73 per tray. Inflation and slightly lower yields drove costs up to \$3.21 per tray, a 4% increase. Growers are forecasting a similar level of profitability for 2010.

Profitability for Gold kiwifruit is significantly higher than for Green. In 2009, growers received a NZ \$52,455/ha cash surplus (revenue less operating expenses) for Gold versus \$6,701/ha for green. While the higher return is counterbalanced by a required payment of NZ \$15,000 to \$24,000 per hectare for the right to plant the Gold variety, profitability is still much better. The profitability of Green kiwifruit is impacted by the export market mix (i.e. more Green fruit is sold in marginal markets); significantly lower orchard yields than for Gold; and competition from Chile.

Production in New Zealand of the Gold variety has grown from 396,000 trays in 2000 to 22 million trays in 2009.

## Organic Production

Zespri's organic kiwifruit sales have grown from approximately NZ \$2.9 million to \$3.3 million in 2009/10 (February-March year). The growth in this category was negatively impacted by the global recession as some consumers shifted to cheaper conventional kiwifruit.

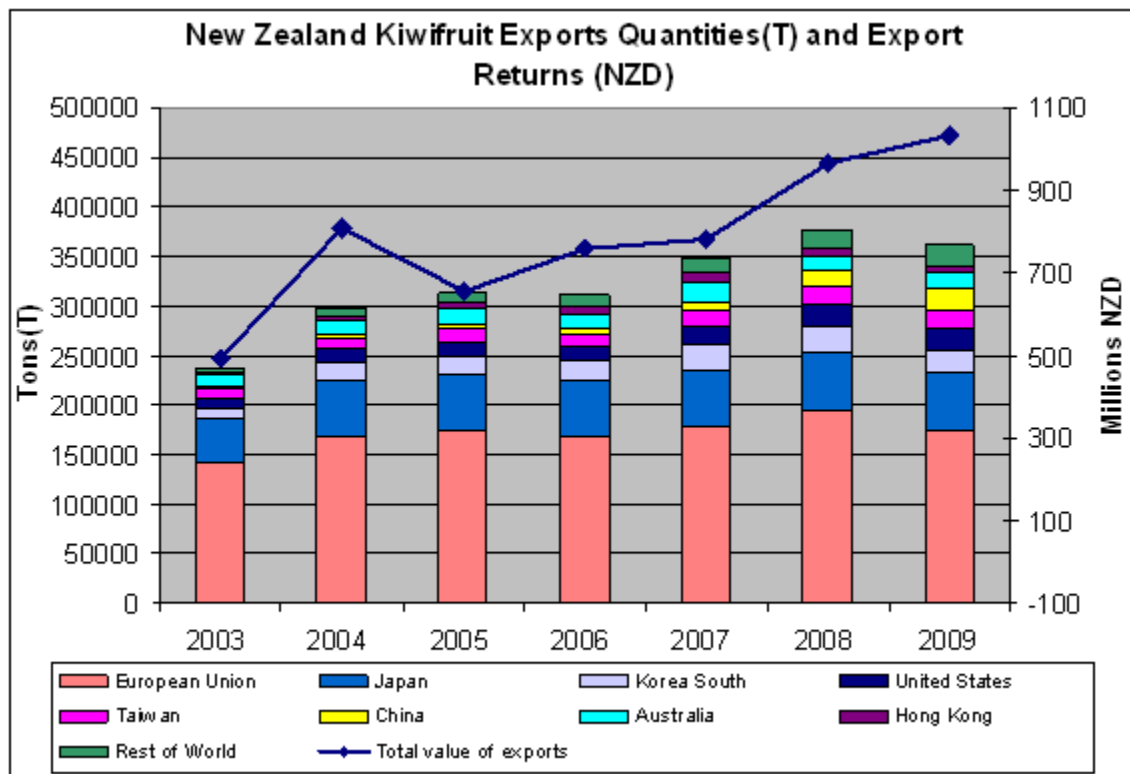
## New Varieties/Cultivar Improvements

In June 2010, Zespri announced the release of three new varieties a year ahead of the original forecast release date. The new varieties include a sweeter Green/Gold hybrid; an early harvest Gold; and a long storing Gold. A capped tender system is being used to distribute enough graft wood to plant approximately 600 hectares. With tenders now closed, press reports suggest that a total of 550-560 hectares will be planted over to the new cultivars this winter. Preference is being given to growers wishing to graft over existing kiwifruit plantings. The new cultivars are expected to command a premium in the market place.

## PSD Table

Kiwifruit New Zealand	2008/2009			2009/2010				2010/2011			
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009				Market Year Begin: Jan 2010			
	USD A Off.	Old Post	New Post	US DA Off.	Old Post	New Post	% Cha nge	US DA Off.	Ol d Po st	New Post	% Cha nge
Total Area Planted (ha)	13,4 00	134 00	13,4 00		13,4 00	13,4 00	0.0 %			13,2 50	- 1.1 %
Area Harvested (ha)	12,4 00	124 00	12,4 00		12,5 86	12,5 86	1.5 %			12,5 00	- 0.7 %
Total Production (ha)	382, 000	382 000	396, 008		394, 240	380, 088	- 4.0 %			379, 050	- 0.3 %
Imports (MT)	700	700	759		760	978	28.9 %			950	- 2.9 %
Total Supply (MT)	382, 700	382 700	396, 767		395, 000	381, 066	- 4.0 %			380, 000	- 0.3 %
Exports (MT)	362, 700	362 700	376, 767		375, 000	361, 066	- 4.2 %			360, 000	- 0.3 %
Domestic Consumption (MT)	20,0 00	200 00	20,0 00		20,0 00	20,0 00	0.0 %			20,0 00	0.0 %
Total Distribution (MT)	382, 700	382 700	396, 767		395, 000	381, 066	- 4.0 %			380, 000	- 0.3 %
TS=TD			0		0	0				0	
Production Yield T/ha	30.8	30.8	31.9		31.3	30.2	- 5.4 %			30.3	0.4 %

## Exports



Source: Global Trade Atlas

### MY 2009

Kiwifruit exports were down 4.2% in 2009 to 361,066 tons. While volumes were down, export returns were up 6.7% at NZ \$1,031 million.

The EU27 is still the largest export destination for New Zealand kiwifruit by volume, taking 48.5% of total exports. However, exports fell by 10% in 2009 to 175,019 tons. The decline is largely attributable to the global recession,

competition from Chile, and a large overhang of Italian fruit in the market.

On a value basis, Japan is the most important market returning an average of NZ \$4,079 per ton in 2009 compared with an average price of NZ \$2,857 per ton in the EU. In part, this is due to the fact that approximately one third of the exports to Japan are the Zespri Gold cultivar, which is priced substantially higher in all markets (70-80%). Sales to Japan were also impacted by favorable movements in the New Zealand dollar relative to the Japanese yen.

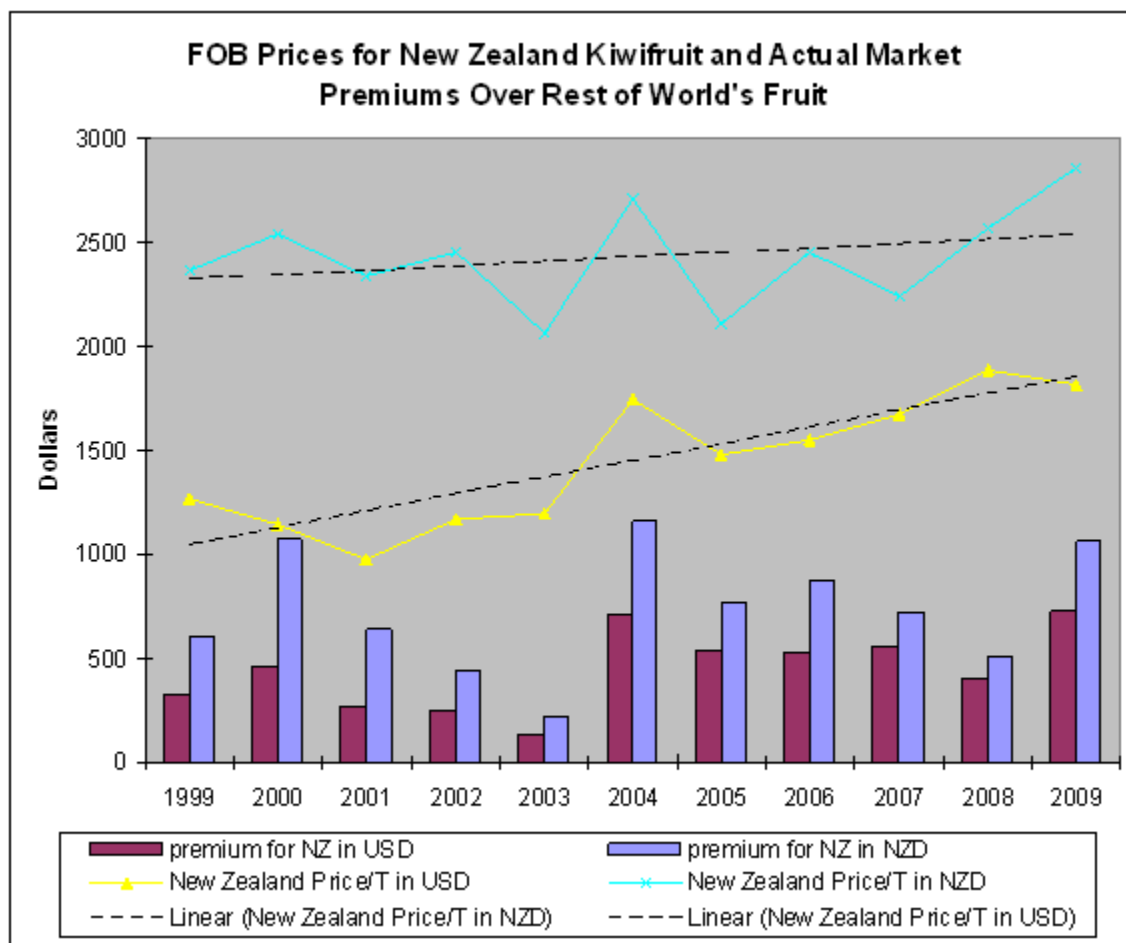
Exports to China were notable as they increased by 35% and were at prices above the world average. The five-year trend for exports to China is an upward trajectory of 55% p.a. Volumes to destinations outside the top ten have been increasing at a rate of 24% p.a. over the last 5 years.

Exports to the United States were relatively firm at 21,720 tons. The U.S. market accounts for approximately 6% of New Zealand's kiwifruit exports.

New Zealand kiwifruit exports were impacted by a number of factors in 2009 including:

- Volatility in foreign exchange rates during the year (Zespri reportedly successfully hedged currencies allowing for better returns to growers than in 2008);
- Good fruit quality and minimal losses;
- Strengthened advertising and promotional campaigns;
- Reduced costs, particularly fuel and freight costs; and,
- Relatively weak consumer demand and strong supply, particularly for Green fruit.





Source: Global Trade Atlas

Zespri has been sourcing kiwifruit from various markets around the world in order to maintain continuity of supply to its key customers. In 2009, approximately 9.8 million trays, a 13% increase from the previous year, were sourced from offshore compared to 98.5 million trays produced domestically. The non-New Zealand grown fruit is equally split between Green and Gold varieties. Of the New Zealand-grown fruit, approximately 73% is Green, 3.5% is Green organic, and 22.5% is Gold, and the remainder is other varieties.

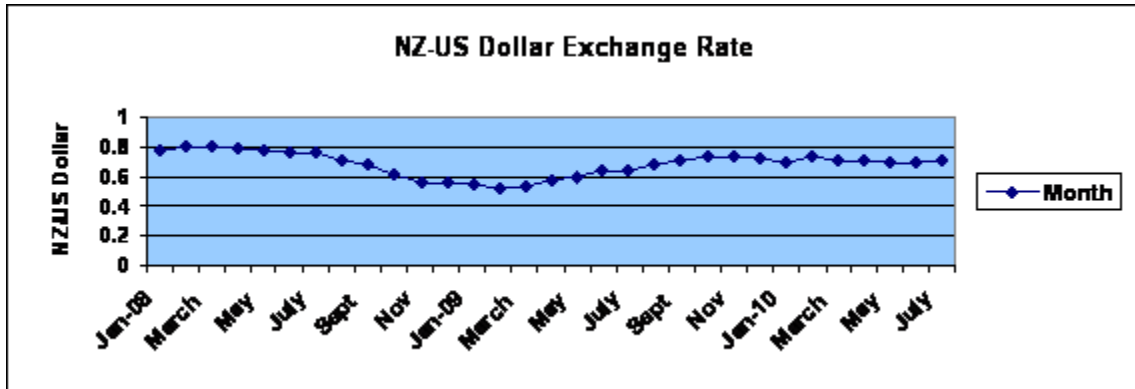
In the near term, the percentage of fruit sourced offshore could fall as orchards in Italy, France and Chile have encountered disease problems that have reportedly been quite severe in some orchards.

## MY 2010

New Zealand kiwifruit exports are forecast to remain relatively stable in 2010 at 360,000 tons, which is approximately 1,000 tons less than the volume exported in 2009. As detailed in the production section, poor weather conditions have resulted in lower yields. Eating quality of the crop is reportedly good but there is a higher than average proportion of misshapen fruit.

Approximately 40% of New Zealand’s crop, or 144,943 tons, had already been shipped by May 2010. This compares to 145,880 tons shipped at the same time last year. Average FOB prices to date are running US \$214 per ton ahead of last year. However, in NZ dollar terms, the average FOB price, at NZ \$3,090 per ton is running NZ \$212 behind last year.

The NZ dollars currently buys 0.711. At this time last year, the rate was 0.6437. The New Zealand dollar's value is often strongly affected by currency trading and is among the 12 most-traded currencies.



Source: NZRB

## Marketing

In the face of tough market conditions, ZESPRI increased spending on advertising and promotion by 24% in 2009. It focused on driving Green sales in Japan, Europe and Korea. The advertising and promotion budget was equivalent to 6% of the gross sales value of the New Zealand export crop. According to Zespri’s annual report, an additional 5.3% of sales value was spent on promotional rebates, discounts, and claims.

## Research

A key focus of the kiwifruit industry is to develop and commercialize new varieties. In November 2009, the New Zealand Government announced a seven-year, NZ \$35.7 million partnership with ZESPRI to develop new kiwifruit varieties. ZESPRI is to contribute NZ \$20.5 million toward the program with the balance funded by the Government. This will allow ZESPRI’s joint plant breeding program with Plant and Food, a crown research institute, to assess over 100,000 potential new varieties with the aim of commercializing five to seven new varieties, including several red cultivars.

## Trade Policy

### ASEAN FTA

After four years of negotiations, New Zealand, Australia and the Association of Southeast Asian Nations (ASEAN) signed an FTA in February 2009. 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. On full implementation, this is estimated to equate to an annual duty savings of approximately NZ \$50 million based on current trade.

Tariffs on Kiwifruit will be eliminated in most countries over a 3 to 6 year schedule.

The agreement does not contain any specific agricultural safeguards. For more information on the agreement, click on this link: <http://www.asean.fta.govt.nz>

<b>Kiwifruit Tariff Rate Reduction Schedules for Selected ASEAN Countries</b>			
	<b>Malaysia</b>	<b>Indonesia</b>	<b>Thailand</b>
<b>Base Rate</b>	15%	5%	30%
<b>2009</b>	10%	5%	15%
<b>2010</b>	7%	free	10%
<b>2011</b>	5%		7%
<b>2012</b>	free		5%
<b>2013</b>			free
<b>Rules of Origin</b>	WO	WO	WO

Source MFAT/ASEAN FTA website

### **South Korea FTA Negotiations**

At the invitation of President Lee Myung-bak, Prime Minister John Key visited the Republic of Korea and held a Summit meeting with the President on July 5, 2010. This followed President Lee's visit to New Zealand in March 2009.

The two Leaders discussed progress in the negotiations on a Korea-New Zealand Free Trade Agreement. They reaffirmed their expectation to conclude the Korea-New Zealand FTA as early as possible. Both recognized the mutual benefits in working closely together towards enhanced trade and economic links and the opportunities existing for new trade in both directions.

The fourth round of FTA negotiations between New Zealand and the Republic of Korea took place in Wellington from 11-14 May 2010.

After four rounds of negotiations good progress has been made in many areas, and three chapters are now substantively concluded (Competition and Consumer Policy, Labor and Environment). Initial offers for the elimination of goods tariffs were exchanged in September 2009, and initial services, investment and government procurement market access offers will be exchanged in June 2010.

Korea is the 3<sup>rd</sup> largest market for New Zealand kiwifruit and duty free access for the fruit would save New Zealand growers almost NZ \$34 million. This is equivalent to approximately \$12,000 per grower. At the moment the tariff rate is 45% for NZ Kiwifruit going into Korea.

### **Other Issues**

#### **Turners & Growers Ltd. Challenges Single-Desk System**

The New Zealand kiwifruit industry has operated a single-desk system in export markets since 1987 when the Kiwifruit Marketing Board became responsible for marketing the New Zealand's crop. At that time, the majority of growers supported a single desk exporter because of a perception that existing exporters were undercutting each other in overseas markets and, consequently, reducing returns to growers.

Under the Kiwifruit Industry Restructuring Act of 1999, the New Zealand Kiwifruit Marketing Board was turned into a private company, Zespri Group Limited (Zespri). Under legislation sought by growers, only Zespri or those exporters authorized by Kiwifruit New Zealand to enter into a Collaborative Marketing Arrangement (CMA) can legally sell kiwifruit in overseas markets other than Australia. To receive authorization to export, potential exporters must demonstrate that their exports are in the best interests of the nation's kiwifruit growers.

In July 2009, Turners & Growers (T&G), an integrated fruit growing, packing and processing company, challenged Zespri in the New Zealand courts. T&G, which is credited with having coined the name "kiwifruit" over fifty years ago, wants to be able to freely export its own green, gold and red varieties. Currently, it can only do that through a CMA with permission from Kiwifruit New Zealand.

In a bid to deregulate the industry, T&G has taken Zespri to court. Essentially T&G claims that:

- The Kiwifruit Export Regulations 1999 are inconsistent with the Commerce Act 1986, and the Bill of Rights Act 1990;
- Zespri has abused its dominant position to preserve its monopoly outside Australasia;
- Zespri has unlawfully paid more to growers who sign exclusive supply agreements;
- Zespri has carried on businesses prohibited by the Kiwifruit Export Regulations.
- That Zespri's single-desk exports beyond Australasia potentially constrain opportunities for other kiwifruit growers.

The case, which was originally set to be heard by the High Court in November 2010, was heard in mid-July. According to press reports, the Court ruled that there are no grounds to uphold the claims against Kiwifruit New Zealand and ZESPRI.

T&G conducted a series of road shows during the 2<sup>nd</sup> half of 2009 in an attempt to persuade growers that deregulation would be a good thing. However, according to a grower survey conducted by Colmar Brunton in February 2010, grower support for Zespri is on the order of 90%. As most kiwifruit producers who supply Zespri appear satisfied with how the current regulations are working, it is unlikely that the New Zealand Government will consider any changes to them.

Without a change in policy, Zespri competitors, such as T&G, are unable to freely export their own varieties to overseas markets other than Australia.

## **Carbon Footprint**

In May 2009, Zespri announced the results of a study on the carbon emissions involved in growing, packing, transporting, retailing and consuming kiwifruit from New Zealand. The study, which was done in conjunction with the Ministry of Agriculture and Forestry and Landcare Research, used a methodology that parallels the UK's PAS 2050 standard. The study found that, in the entire life cycle of kiwifruit, from growing in the orchard through to consumption, a total of 1.74 kgs of carbon equivalents are emitted for every 1 kg of fruit.

**The Different Links In The Life-Cycle of Kiwifruit Exports Contribute To Total**

<b>Emissions In Following Proportions</b>	
Orchard Operations	17%
Packing & Storage in NZ	11%
Freight	41%
Repacking & Retailing	9%
Consumer Consumption & Disposal	22%
<b>Total</b>	<b>100%</b>

Source: Zespri

The carbon footprint exercise is one of a suite of studies Zespri is undertaking as part of a broader effort to develop a total environmental footprint. The company is also assessing its water and bio-diversity footprints. The initiative will help Zespri develop a roadmap for monitoring, and possibly reducing, its environmental footprint, as well as support its marketing effort to build a premium brand image.

### **Government announces New Cultivar Science funding**

In November 2009, the New Zealand Government announced a NZ \$35.7 million program, funded over seven years, for research into new kiwifruit varieties. Zespri is to contribute NZ \$20.5 million toward the program with the balance funded by the Government via the FoRST funding agency. The funding will enable Plant & Food, a crown research institute, to enhance its breeding program, which includes 100,000 seedlings that are currently being evaluated. These seedlings include a number of red cultivars.

### **Appendix I – Relevant Websites**

NZ Government Dept: Ministry of Agriculture and Forestry Information on Kiwifruit

<http://www.maf.govt.nz/mafnet/rural-nz/statistics-and-forecasts/sonzaf/>

Zespri Group Ltd - Annual Report

<http://www.zespri.com/about-zespri/zespri-business/investors.html>

New Zealand Kiwifruit Growers Inc

<http://nzkgi.org.nz/index.html>