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New Zealand

Agricultural Situation

Agribusiness Report - November

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**Report Highlights: General: US supermarket deal opens way for new brands in NZ.
Dairy: Dairy price falls. Livestock: Sheep numbers drop despite record lambing.
Horticulture: Another record kiwifruit payout. Wine: exports predicted to triple.
Fisheries: World leading salmon firm in NZ.**

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

GENERAL***US deal opens way for new brands in NZ***

US food giant General Mills purchase of Diageo's Pillsbury global business is expected to have a spin-off effect for the rapidly growing Pillsbury New Zealand operation - more brands and a wider product range. The deal reportedly was sealed this week after an approval process which has taken nearly 12 months to conclude with US government agencies.

NZ aims achieved at Doha

New Zealand has achieved its principal aim by ensuring further World Trade Organization talks to end agricultural export subsidies says the New Zealand Trade Minister. Speaking from Doha, the Minister said the agricultural text was virtually unchanged from that which arrived in Doha, despite being under constant attack by the European Union and several other countries. They settled for the addition of a deftly drafted caveat that the outcome of the talks would not be pre-judged. It is seen by New Zealand, an agricultural exporting nation, as an opportunity to get fairer trading rules than in the past. However those negotiations were likely to take 3-4 years.

China an important market to New Zealand

China is one of New Zealand's most important and fastest growing export markets. NZ exports to China grew by 46 percent in the year ending August 2001 and totaled over NZ \$1.16 billion (US \$487 million). With this in mind, NZ food and beverage exporters are keenly waiting the accession of China to the WTO. The likely timing of this is for the first quarter of 2002. Trade NZ believes the most tangible impacts of China joining the WTO for food and beverage exporters will be:

- Reduction in duty rates,
- Reduction in non-tariff barriers,
- greater transparency in legal and financial systems,
- Allowances for foreign enterprises to be directly involved in the wholesaling and distribution of food and beverage products.

The NZ meat industry also sees potential gains. Currently NZ beef and lamb exports face a 45 percent duty rates in China. These should be reduced over a three-year period to around 12-15 percent.

WTO dairy appeal

The World Trade Organization's Appellate body declined to make a ruling on New Zealand's complaint that Canada was providing illegal export subsidies to its dairy industry. The New Zealand Agriculture Minister said this is an important case for New Zealand. Canada's illegal export subsidies cost New Zealand about NZ \$80 million (US \$33.6 million) a year because of their depressing effect on world dairy prices. That's more than NZ \$5,500 (US \$2,130) per year for each New Zealand dairy farmer. While the Appellate Body disagreed with some aspects of the panel's legal analysis, the Appellate Body made it clear that it was not finding that Canadian measures were consistent with Canada's WTO obligations. The Minister also said that it was important for New Zealand to see the process through to its resolution. It was important that the integrity of WTO rules relating to export subsidies is not undermined.

New Zealand system for official organic assurances

The New Zealand Ministry of Agriculture and Forestry (MAF) has recently completed development of the New Zealand Government's Official Assurance Program for New Zealand organic products exported to overseas markets such as the U.S. consequently New Zealand has applied to the United States Department of Agriculture for recognition of equivalence with the U.S. National Organic Program, and would like to commence discussions on equivalence arrangements.

NZ representation increased

New Zealand's representation on the Australia New Zealand Food Authority has been increased from 2 to 3. The current board of the authority has 8 members, 2 from New Zealand. The new board will have 12 members, 3 from New Zealand. The authority has also been renamed Food Standards Australia New Zealand.

Higher costs under Kyoto

A study by a consulting firm commissioned by the Ministry of Economic Development, predicts that the costs of agricultural production could increase by 5.5 percent for dairying, 10 percent for beef, 16 percent for lamb, and 21 percent for venison if New Zealand ratifies the Kyoto Protocol to curb global warming. Transport fuel prices would rise around NZ \$0.04 cents/liter. Federated Farmers has asked the Government not to ratify the Kyoto Protocol on climate change until New Zealand's preferred policy options have been decided. The Federation wanted a robust analysis of the costs and benefits on climate change. The Energy Minister has hopes of research delivering solutions to reduce agricultural emissions (cattle & sheep) but a report by MAF suggested significant work needed to be done before research could provide worthwhile solutions.

Concern over Japanese beef market

The second confirmed case of BSE in Japan is ringing alarm bells for New Zealand exporters. A meat industry executive said exporters would have to revisit their earnings forecasts for the Japanese market. Japan takes only 4 percent of beef exports, but for the first half of this year, exports were up a third on last year. After a massive drop in consumption 70-80 percent in some areas- sales were beginning to pick up again. The problem for exporters was the Japanese consumers appeared not to differentiate between domestic beef and imported meat.

DAIRY

Dairy price drop

An increase in the payout to 14,500 New Zealand dairy farmers this year is looking shaky after the ANZ Bank's commodity price index revealed a 10 percent dive in world dairy prices in November. ANZ's commodity price index showed a slump of 4 percent yesterday in commodity prices last month, the biggest monthly fall since October 1990. The tumble was driven largely by significantly lower prices for milk powders and butter on the world market, but also reflecting further weaknesses in other commodity prices. A spokesman for Fonterra said the outlook for dairy prices and exports was not all bleak but the company might have to take another look at payout forecasts. Farmers were paid NZ \$5.00/kg of milk solids (US \$2.10/kg) by the Dairy Board in the June 2001 year. Total exports were worth NZ \$7.4 billion (US \$3.1 billion) in the June 2001 year.

Fonterra offer filled early

In a vote of confidence, Fonterra Co-operative Group's first capital notes offer was fully allocated 8 days before the offer was due to close. The NZ \$200 million (US \$84 million) offer opened on November 5 and was due to close on November 28. Fonterra's group controller said the company would in future probably borrow more on capital markets than from banks as it sought to exploit its relative size and strong credit rating. It would use the banks more for stand-by funding.

LIVESTOCK

Stock drop despite record lambing

A record lambing has relieved some procurement pressure on meat companies from a declining national sheep flock, but there will still be 400,000 fewer lambs available for slaughter this season. The Chief Executive of the Meat Industry Association said the lamb supply would be tight, putting some pressure on prices. There would be some procurement competition, but he doubted it would result in the bidding wars of previous seasons. About 80 percent of New Zealand lambs are contracted to meat companies, which guarantees prices to farmers and supply to the companies. Exporters will have 7-8 percent less meat volume to sell this compared to last. The New Zealand Meat and Wool Economic Service, said farmers retaining lambs to rebuild flocks would lower the total lambs available for slaughter in the South Island.

Gene company offering big returns

The sheep industry could make gains of up to NZ \$150 million (US \$63 million) a year through capitalizing on the rich genetic diversity of the national flock to improve the genetic performance of sheep. A wool industry official said the new biotechnology company 'Ovita', being formed by the Wool Board, Meat Board and Ag Research, could identify characteristics such as resistance to parasites, multiple lambing, and heavier fleece weights, which could be passed on to commercial flocks at modest prices.

HORTICULTURE

NZ \$500 million export milestone

The export value of New Zealand vegetables has broken the NZ \$500 million (US \$210 million) says the New Zealand Vegetable and Potato Growers Association. This was a 27.5 percent increase on the previous year with significant growth in capsicum (bell peppers) sales, fresh vegetables and processed vegetables.

Another record payout

Zespri International is set to pay kiwifruit growers a 5th successive record return of NZ \$467.2 million (US \$196 million). The payment for the current year (the 2001/02 season) is NZ \$17.8 million (US \$7.5 million) more than Zespri had forecast in August, and 6.7% more than the NZ \$437.5 million (US \$184 million) return in 2000/01. An industry official said the increased return was a reflection of the successful end to European sales. At the end of its first 6 weeks of selling, Europe was 3.4 million trays ahead of the same time last year. Europe maintained overall prices on 17 percent higher volume, with significant gains for Zespri Green and Organic lines, but lower volumes for Gold after a difficult start. Sales in Japan are continuing. The company expects total net revenue to hit a new record NZ \$744.8 million (US \$313 million), up 7 percent. Per tray returns for Green and Gold each are currently up 4 percent and Organic up 15 percent, based on 94 percent of total volume sold.

Record pipfruit prices

New Zealand fruit company Enza is celebrating its highest average grower return since 1994, achieving up returns to growers of NZ \$237 million (US \$99.5 million) in the 2001 season. Growers will receive on average NZ \$19.75 (US \$8.30) a tray carton equivalent (18 kg box) for the 2001 season, compared with the 2000 average of NZ \$16.34 (US \$6.86).

Avocado exports down

Avocados exported to the US this season are well down on the numbers expected, with 335,000 tray equivalents sold and 19,000 more in transit. An industry official said there were patches of pricing that were marginal, but overall the market was not a disaster and was close to the 10-year average. 1999 and 2000 had been the best 2 years in a decade and were not a good comparison. The September 11 terrorist attacks had rocked the US markets, and high-value NZ avocados dropped in price as demand slumped. Australian avocados are in short supply, and 100,000 trays of NZ fruit have gone there, with another 45,000 trays on the way. This season a total of 1.45 million trays of fruit were produced, next season an increase of 70 percent is expected to more than 2 million trays.

WINE***Wine exports predicted to treble***

The NZ Wine Institutes annual statistical review has predicted New Zealand wine exports will triple over the next five years - rising to NZ \$1 billion (US \$420 million) annually. The forecast predict exports will jump from 19.2 million liters to 60.4 million liters by 2006 as northern hemisphere consumers increase their consumption of down under wines, especially Sauvignon Blancs, and Pinor Noirs. A wine official said that to achieve this, much greater investment in production, marketing and sales resources was needed.

FORESTRY***GE field trials abandoned***

Field trials for genetically modified pine trees have been abandoned by NZ Forestry Giant Cater Holt Harvey as it does not want to be in the middle of a political storm. The company has pulled out of the trials citing consumer resistance to the process saying it did not want to compromise its commercial viability or community standing. Another forestry trial approved by the Environmental Risk Management Authority but yet to start involves one at Rotorua where the Forest Research Institute is planning trials on pine trees.

FISHERIES***World leading salmon firm in NZ***

One of New Zealand's major processors of seafood is a Nelson-based company, The New Zealand King Salmon Company Ltd., harvesting approximately 5,000 tons a year from its own farms. This makes this company the largest producer of King Salmon in the world. New Zealand King Salmon products are sold in the New Zealand market as well as numerous export markets including, Japan, Singapore, Malaysia, Hong Kong, Australia, Pacific Islands and the West Coast of the US. Japan is the largest export market, accounting for over 50% of production, and the salmon is delivered in a variety of forms including fresh, frozen, marinated, brined or processed into kebabs or medallions. The company also produces smoked eel, mussels and mackerel.

Annual net sales are approximately NZ \$55 million (US \$23 million), and export markets account for 70% of these sales.

New Zealand King Salmon owns and operates all stages of farming, processing, and marketing giving it total control over quality. There are 360 staff employed to operate all of these functions. The company uses no antibiotics, vaccines or growth hormones in the farming of their King Salmon. The strategy of the company recognizes that with its species, volume capacity and isolation, it cannot be the lowest cost producer of salmon. This is one of the reasons why the company is focused on developing new products, increasing sales of its value added products and ultimately moving away from the commodity product market which has become extremely competitive.

At present there is no plan to increase the volume of salmon it harvests each year but to concentrate on adding more value in the processing of 5,000 MT of salmon. The company's aim is to develop quality branded products that are different to its competitors and highly valued by customers.