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GAIN Report

Global Agricultural Information Network

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New Zealand

FRESH DECIDUOUS FRUIT ANNUAL

Annual Report and Statistics

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Report Highlights:

Apple exports in MY 2008 reached 303,000 tons, up 16% from last year. However, MY 2008 has proven unfavorable to New Zealand apple growers as a number of factors conspired to negatively impact on returns. Looking forward, a cold, wet spring is expected to reduce total apple and pear production by approximately 7% to 434,400 tons. Assuming stable domestic consumption, this is likely to leave approximately 265,700 tons of apples and pears available for export.

Executive Summary

MY 2008 was one of the best growing seasons in memory yielding a high-quality apple and pear crop totaling 469,000 tons, up 2% from the previous year. Challenges with the Jazz apple, a relatively new late-season variety, were the only blemish on the quality front as these apples had to undergo extensive repacking in Europe.

Domestic apple consumption, in spite of the economic downturn, remained fairly constant at 56,600 tons in MY 2008. Because New Zealanders only consume approximately 10-15% of domestic apple production, the remainder must be exported for the apple industry to survive. Apple exports in MY 2008 reached 303,000 tons, up 16% from last year.

MY 2008 has proven unfavorable to New Zealand apple growers as a number of factors conspired to negatively impact on grower returns. When the season started, the global market was awash with apples from the Southern Hemisphere, consumers globally were tightening their belts, and the U.S. market was still laden with fruit. While exports to China and Hong Kong jumped 37% to 14,119 tons in MY 2008, exports to the rest of Asia fell 2%. This meant the bulk of the increased New Zealand production had to go to the traditional markets of North America and Europe but, as the selling season unfolded, competition and supply in the international market forced prices down. The fall in market prices was compounded by an appreciation of the New Zealand dollar - up 28% against the USD and 17% against the Euro during the selling season.

Looking forward, a cold, wet spring is expected to reduce total apple and pear production by approximately 7% to 434,400 tons. With stable domestic consumption and imports, this is likely to leave 265,700 tons of apples and pears available for export.

In October 2009, the Government of New Zealand signed another free trade agreement, this time with Malaysia. The FTA will eliminate tariffs on apples by 2010. The Government of New Zealand also recently concluded FTA negotiations with the Gulf Cooperation Council and Hong Kong. Details of these agreements will be made public in 2010.

The WTO dispute panel heard final submissions in July 2009 under the apple case that New Zealand brought against Australia. The panel is now consulting with experts and is expected to release its findings in January 2010.

Production, Supply and Demand Data Statistics:

Apples, Fresh Zealand (HA)/(MT)	New	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	0	8,890	8,850			8,850	
Area Harvested	0	0		0	0	8,600			8,500	
Bearing Trees	0	0		0	0					
Non-Bearing Trees	0	0		0	0					
Total Trees	0	0	0	0	0	0			0	
Commercial Production	430,000	425,928	425,928	450,000	439,150	439,150			405,300	
Non-Comm. Production	15,000	15,000	14,154	15,000	15,000	15,000			15,000	
Production	445,000	440,928	440,082	465,000	454,150	454,150			420,300	
Imports	1,600	1,572	1,572	1,000	1,700	1,658			1,700	
Total Supply	446,600	442,500	441,654	466,000	455,850	455,808			422,000	
Fresh Dom. Consumption	76,600	55,300	55,300	56,000	56,600	56,600			56,000	
Exports	260,000	262,000	261,154	300,000	294,250	303,016			261,000	
For Processing	110,000	125,200	125,200	110,000	105,000	96,192			105,000	
Withdrawal From Market	0	0		0	0					
Total Distribution	446,600	442,500	441,654	466,000	471,000	455,808			422,000	
TS=TD			0			0			0	

Not Official USDA forecasts

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	735	735	412		412	
Area Harvested	0	0		0	0				
Bearing Trees	0	0		0	0				
Non-Bearing Trees	0	0		0	0				
Total Trees	0	0	0	0	0	0		0	
Commercial Production	13,971	13,971	13,971	15,000	15,000	14,670		13,900	
Non-Comm. Production	400	400	201	500	500	200		200	
Production	14,371	14,371	14,172	15,500	15,500	14,870		14,100	
Imports	3,130	3,129	3,314	3,050	3,050	3,442		3,400	
Total Supply	17,501	17,500	17,486	18,550	18,550	18,312		17,500	
Fresh Dom. Consumption	10,301	10,300	10,300	10,300	10,300	10,300		10,300	
Exports	4,800	4,800	4,786	5,750	5,750	5,512		4,700	
For Processing	2,400	2,400	2,400	2,500	2,500	2,500		2,500	
Withdrawal From Market	0	0	0	0	0				
Total Distribution	17,501	17,500	17,486	18,550	18,550	18,312		17,500	
TS=TD			0			0		0	

Not Official USDA forecasts

Production

MY 2008

Post estimates MY 2008 (October 1, 2008 to September 30, 2009) apple production at 454,000 tons, up 3% from the previous year. At a harvested area of 8,600 hectares, production is thought to have been close to the maximum achievable level given current planting systems, technology, and level of inputs.

A notable feature of the MY 2008 harvest was improved quality, which translated into a reduction in the tonnage for juicing, down from approximately 125,000 tons to an estimated 96,000 tons.

The only real problem encountered from a quality perspective was with the Jazz variety, which reportedly suffered from a problem with lentacil breakdown and bitter pit, an abiotic disorder that reduces the fresh market quality of apples. This necessitated a relatively high level of repacking in Europe, which reduced returns to Jazz apple growers.

Post estimates pear production in MY 2008 at 14,870 tons, up 5% from the previous year.

MY 2009

Both production and exports are forecast to fall in MY 2009. The expected decline is largely attributable to the following factors:

- Production in the two main producing regions – the Hawkes Bay on the North Island and Nelson on the South island - will decline because of the biennial nature of apple production;
- A cold spring in both Nelson and Hawkes Bay (reportedly the coldest October on record in Hawks Bay since the 1940s) will reduce the volume of fruit produced;
- Wide spread hail in the Hawkes Bay during the last week of October, 2009, combined with the cold spring, could reduce the yield by between 20 and 30% compared to last year; (Hawkes Bay's export production was 10.9 million tray carton equivalents (TCE) in MY 2008 but is likely to be between seven to eight million TCE in MY 2009.)
- The cold start to the season suggests that growers could struggle to produce enough large fruit for the U.S. market

Looking forward, the future of the New Zealand apple industry will be determined by a number of factors including the ability to reduce grower expenditure in the orchard and increase profitability, ways to reduce supply chain costs through consolidation and cooperation, and ways to develop and effectively market new varieties.

Due to the biennial nature of pear production and the cool spring, production volumes are expected to decrease this year. Post estimates production at 14,100 tons for MY 2009, which is a 5% decrease on MY 2008.

Consumption and Imports

Post's estimates put domestic apple consumption at 56,600 tons in MY 2008, which includes 1,658 tons of imported apples supplied by the United States. Despite significant fluctuations in the price of apples on the domestic market, consumption and imports are forecast to remain relatively constant in MY 2009.

New Zealand: Monthly Retail Prices for Apples (Weighted Average, NZD/kg)		
Date	Price	% change
2007 Sep	2.13	
2008 Sep	2.79	31.0%
2009 Sep	2.60	-6.8%

Pear imports totaled 3,442 tons in MY 2008. Australia was the largest supplier (1,458 tons) followed by the United States (1,223 tons), China (593 tons) and South Korea (168 tons). Imports tend to comprise 32-33% of fresh pear consumption in New Zealand. Both consumption and imports are forecast to remain stable in MY 2009.

Exports and Marketing

MY 2008

Total apple exports jumped 16% in MY 2008 to 303,000 tons. For New Zealand, the largest markets are the EU (excluding the UK), the United Kingdom, and, increasingly, the United States. New Zealand exports to the U.S. market jumped 38.6% in MY 2008.

New Zealand Fresh Apple Export Statistics								
Partner Country	For Year Ending September 30						% change 09 over 08	Share of Exports in 2009
	Quantity (Tons)							
	2004	2005	2006	2007	2008	2009		
Total EU excl UK	163219	160886	112240	113494	99134	116452	17.5%	38.4%
United Kingdom	78453	66059	59181	63076	43526	50286	15.5%	16.6%
United States	56376	32455	37578	47669	32958	45678	38.6%	15.1%
Taiwan	19279	25762	15204	18283	20599	16450	-20.1%	5.4%
Hong Kong	6806	4769	5583	6341	8160	13454	64.9%	4.4%
Thailand	1082	840	2219	3160	7435	9085	22.2%	3.0%
United Arab Emirates	2033	2577	2727	4591	6166	8962	45.3%	3.0%
Malaysia	6034	3625	4514	5398	6947	6957	0.1%	2.3%
Singapore	5252	3637	4680	4824	5736	5894	2.8%	1.9%
India	2477	2522	3861	3675	4966	5331	7.3%	1.8%
Rest of World	17047	15722	17756	21508	25524	24466	-4.1%	8.1%
Total Exports	358062	318855	265541	292020	261154	303016	16.0%	100.0%

Source: Global Trade Atlas

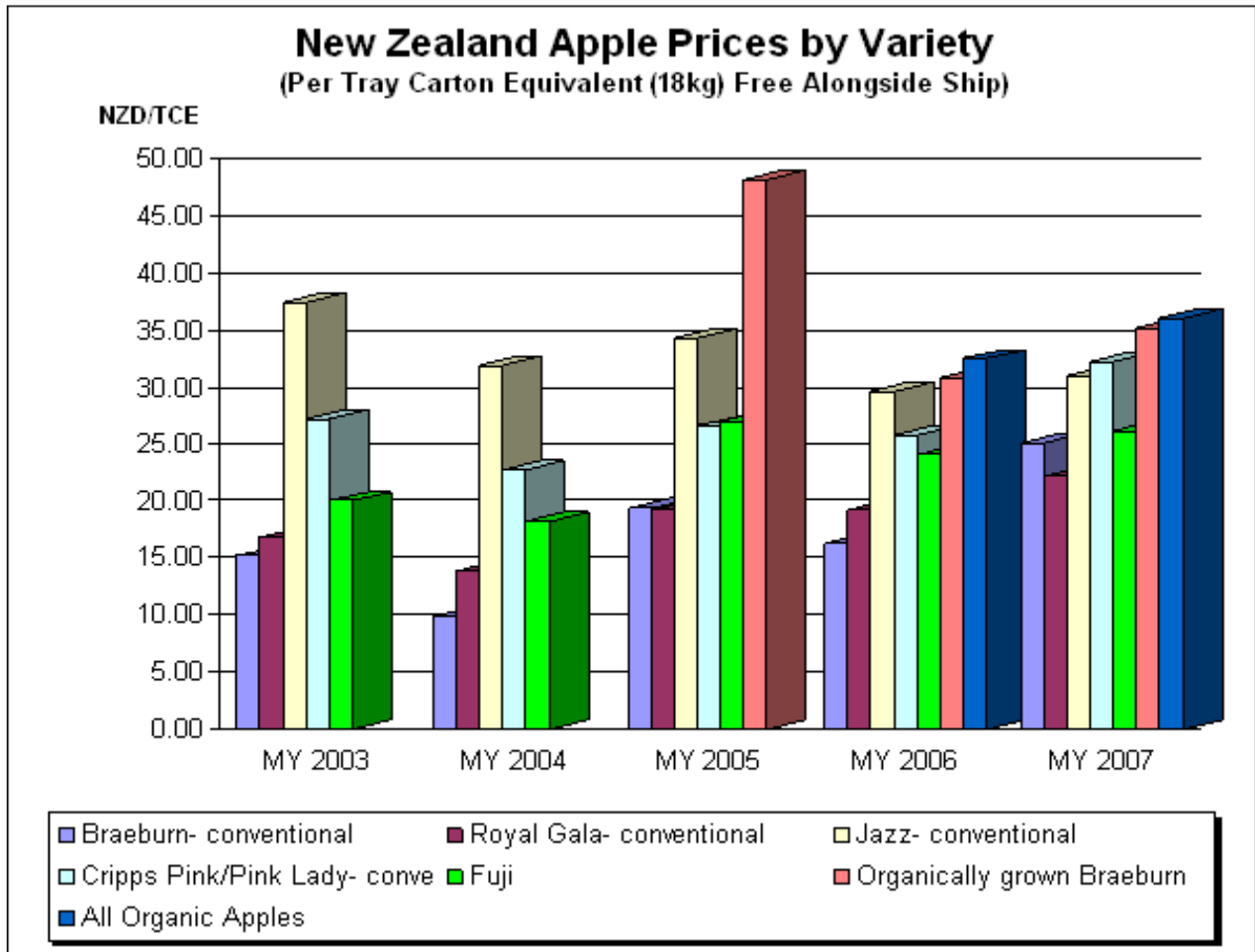
Highlights of MY 2008 include:

- Sales of early season varieties (Royal Gala, Fuji and Pacific), especially to Asian markets, were relatively good;
- Export volumes to Asia were down 1.7% but exports to China and Hong Kong were up 37%;
- The comparative strength of the New Zealand dollar is a major problem affecting New Zealand grower returns. During the selling season from April to September 2009, the New

Zealand dollar appreciated 28% against the USD and 17% against the Euro, which could reduce returns to New Zealand growers by as much as 20% depending on how much currency hedging was done. The strong NZ dollar also impacts on input costs in both positive and negative ways.

- Entry to the U. S. market was delayed until the end of June due to the size of the U.S. crop;
- Quality issues with Jazz apples resulted in extensive repacking in Europe taking export pack outs from an expected 80 to 85% of the total crop down to as low as 60% in some cases;
- Braeburn apple exports went up approximately 18,000 to 20,000 tons tipping the supply/demand balance and exacerbating downward price pressure. Industry observers are putting returns at NZ \$14-15/TCE (free alongside ship), down from \$25 last year. This implies minimal profitability for New Zealand Braeburn growers. Some in the industry estimate their costs, including packing and transport charges from farm gate to port, at NZ \$18-20/TCE;
- The global economic downturn has negatively impacted on sales of organic and high-end apples including the Jazz, Pink Lady and Tentation varieties. Industry contacts estimate that returns for Jazz apples may fall to NZ \$20 to \$24 per TCE as compared to nearly NZ \$31 last year. (The breakeven point is reportedly NZ \$22 to \$24/TCE.)
- Late season varieties such as Braeburn, Pink lady and Jazz were reportedly most affected by falling prices, falling demand and the appreciating exchange rate.
- A new variety called “Envy”, which was bred by the crown research institute Plant and Food Research and licensed to ENZA, was released on the market in June 2009. A large red, sweet apple, it is likely destined for Asian and North American markets.

Pear exports reached 5,512 tons this year, a 15% increase over MY 2007. North America continues to be the major destination taking 48% of the exports by volume, followed by the UK (25%) and the rest of the EU.

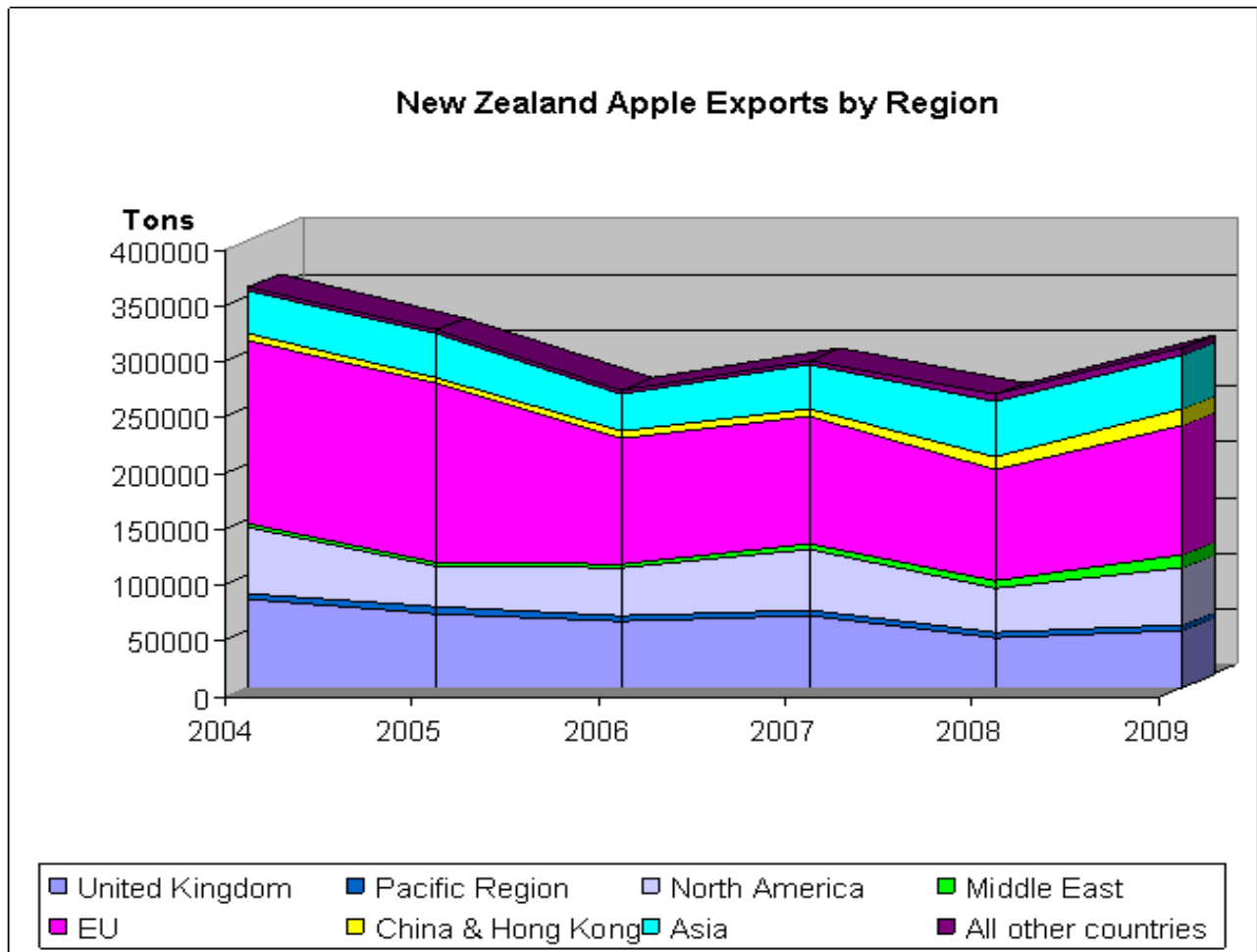


Source: Global Trade Atlas

MY 2009

The combination of a very cold spring and widespread hail damage in Hawkes Bay during the last week of October is expected to result in a drop in apple exports in MY 2009. Post forecasts exports to drop by 14% to 261,000 tons, which is in line with industry estimates.

Over the past six years, exports have trended downward at nearly 4% per annum, which many believe is a direct consequence of the lack of profitability at the orchard level. The industry’s export volumes have fluctuated between 261,000 tons and 303,000 tons over the last four years and will likely remain in this range over the near term.



Source: Global Trade Atlas

Although small, the Middle East is an important growth market for New Zealand. Asia is also an important growth market. Taken together, the share of exports going to these markets has jumped from 13.4% in 2004 to 24.6% in 2009.

From a marketing standpoint, the New Zealand apple industry is reportedly coordinating with a UK supermarket chain to better differentiate New Zealand-grown apples at the point of sale. This initiative reflects the results of taste panels and the potential for repeat purchases of New Zealand apples. If successful, this could potentially translate into increased sales value for New Zealand apples in the UK/EU.

Post forecasts pear exports at 4,700 tons in MY 2009, a 15% decrease compared to last year. The forecast reflects lower production and stable domestic consumption.

Trade & Government Policy

New Zealand-Gulf Cooperation Council (GCC) Free Trade Agreement

Negotiations on the New Zealand – Gulf Cooperation Council (GCC) Free Trade Agreement (FTA) successfully concluded on October 31, 2009. While details of the agreement are not yet available, it will likely secure improved access to the GCC, which is made up of Bahrain, Oman, Kuwait, Saudi Arabia, United Arab Emirates, and Qatar. Total Exports to GCC totaled NZ \$1.3 billion in the year to June 2009, an increase of 218% since 2000. The group now ranks as NZ's seventh largest trading partner with bilateral trade worth NZ \$3.85 billion.

The Middle East is a prime growth market for NZ apples. Over the last six years, apple exports to the region have grown at a rate of 32% per annum.

Malaysia – New Zealand Free Trade Agreement

The Malaysia – New Zealand Free Trade Agreement (FTA) was signed in Kuala Lumpur on October 26, 2009. Malaysia is New Zealand's eighth largest export destination, accounting for almost a billion dollars of exports in 2008. Under the agreement, the tariff on fresh apples and pears will be eliminated in 2010. The current rate is 5%. There is no tariff on apple juice imports from New Zealand. Although not a major export destination, Malaysia is still an important market taking 6,957 tons in MY 2008. It is also a growth market expanding by approximately 8.5% per year over the past six years.

Australia – New Zealand WTO Case Apple Access

Final submissions by both Australia and New Zealand were submitted to the WTO Dispute Panel in July 2009. The panel will consult with experts through the end of the year and is expected to release its findings in January 2010.

Government/Regional and Industry Initiatives

Life Cycle Carbon Analysis Project

In July 2009, the New Zealand apple industry released the results of a project to measure the industry's carbon footprint. The study, which was jointly sponsored by the Ministry of Agriculture and Forestry, Pipfruit New Zealand, Landcare Research, Plant and Food Research, Agrilink, and Massey University, measured the entire carbon emissions foot print across the supply chain - from the growing and packing of apples in New Zealand to the shipping and subsequent storage emissions in destination countries through to the emissions entailed in retailing the fruit and use by a consumer.

The study is part of a broader industry initiative to efficiently produce and effectively market New Zealand apples around the world. Many in the industry believe that this project makes good business sense as consumers around the world are becoming more discerning, and buyers are increasingly sourcing product from suppliers that can demonstrate they have taken concrete steps to reduce their emissions.

The study found that approximately 15% of emissions are generated from the growing and packing of fruit. The balance is emitted during the shipping, subsequent storage, purchase, and use/disposal by the consumer. It also found that reefer ships were more efficient from an emissions perspective than using container transport. The information obtained from the study will be used to identify both a point against which the industry can measure further reductions, and targets to reduce emissions.

GHG Emissions for Braeburn and Royal Gala Apples (For 1kg apples consumed) using PAS2050 methodology			
Methodology	Asia*	USA West Coast	Europe

Type			
PAS 2050	0.7 kgCO ₂ eq	0.7kgCO ₂ eq	0.9 kgCO ₂ eq
ISO 14039	0.92 kgCO ₂ eq	0.93 kgCO ₂ eq	1.2 kgCO ₂ eq

* assumes post-shipping component equivalent to UK conditions.

Source: PipfruitNZ

The P.A.S. 2050 methodology used in the study was developed in 2008 in the UK. It totals up the emissions from the orchard to the supermarket shelf. The I.S.O.14040 methodology goes a bit further as it accounts for emissions involved in consumer purchases and emissions due to the manufacture of capital equipment such as tractors.

The New Zealand apple industry hopes that its approach will be adopted by other countries in order to standardize greenhouse gas emission accounting and make country-to-country comparisons valid. To this end, Pipfruit New Zealand offered to make the methodology available to other countries/producers at the last meeting of the Southern Hemisphere Association of Fresh Fruit Exporters.

Apple Futures

The Apple Futures initiative which aims to provide growers with pathways and husbandry techniques to achieve nil detectable residue levels is a joint program between PipfruitNZ and three territorial authorities in Hawkes Bay, Nelson, and Central Otago. The initiative is now in its 3rd season. More information can be found at:

http://www.pipfruitnz.co.nz/Library/Apple_Futures.aspx

http://www.pipfruitnz.co.nz/News_and_Events.aspx?cms_584_param_detail=57

