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Agricultural Situation

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Report Highlights: Government commits more resources to support efforts to gain a free trade agreement with the U.S. Horticulture: New Zealand market reopens to U.S. grape imports. Livestock: New Zealand venison industry continues to expand. Fisheries: Treaty of Waitangi Fisheries Commission considers alternative proposal for the allocation of US\$ 329 million of Maori fisheries assets.

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

GENERAL

Potential Free Trade Agreements with Chile and Taiwan

The New Zealand prime minister reportedly is optimistic that an announcement for the initiation of discussions for a free trade agreement with Chile may be made in October. Earlier talks with Chile did not progress well due to issues relating to access for New Zealand dairy products into Chile. The New Zealand Government has announced that it is willing to consider a transitional arrangement for dairy products.

In a parallel development, the NZ Government reportedly has responded positively to a Taiwanese proposal for a free trade agreement. At the recent New Zealand-Taiwan Business Council conference, the NZ Minister for Trade Negotiations responded to such a proposal. A date for the beginning of such negotiations has not been announced.

Government Commits more Resources to Broker a Free Trade Agreement with the U.S.

Minister for Trade Negotiations, Jim Sutton, reportedly announced that the NZ Government will increase funding for the New Zealand Embassy in Washington in order to enable it to intensify its efforts to build support in the United States for a free trade agreement. The increase in funding will be provided to ensure that New Zealand's interest in a free trade arrangement is known at the highest levels of the Bush Administration. The New Zealand embassy in Washington will employ a congressional liaison person to assist the ambassador in creating political support for the free trade agreement in the U.S. Congress. Additional funding is also being provided to conduct research activities related to a free trade agreement. According to the local media, U.S. business interests are supportive of the New Zealand campaign. More than 100 American U.S. businesses reportedly have signed a letter to President Bush urging him to initiate negotiations with New Zealand.

The increase in government funding for the Washington-based embassy comes amidst criticism from the Labour-led government's opposition party, the National Party, that the NZ Government has not been pro-active enough to secure a free trade arrangement with the United States. The NZ Government has also admitted that New Zealand's anti-nuclear stance is probably excluding it from any free trade talks. According to the National Party's foreign affairs spokesperson, the fact that the Government is refusing to join the United States in any military action against Iraq probably also means that New Zealand will not be considered by the Bush Administration for a free trade agreement.

Farm Investments Lift Output

According to a briefing paper by the Ministry of Agriculture (MAF), New Zealand's farm sector recorded the highest real profits in 20 years. This enabled primary producers to catch up on investments in productive capacity which deteriorated during the 1990's when general farm profitability was low. Investments have been concentrated in the dairy sector, deer farming, and viticulture. This

has resulted in a marked rise in farm property values over the last two years, most noticeably in Southland and Central Otago – in the South Island – where many dairy farm conversions and new vineyards have been developed.

However, total gross revenue from the agricultural sector in 2001/02, however, is forecast to fall to NZ\$ 15.65 billion (US\$ 7.4 billion) from NZ\$ 16.3 billion (US\$ 6.85 billion). The MAF briefing paper suggests that the liberalization of dairy export marketing by the creation of Fonterra under the Dairy Industry Restructuring Act has created a new, empowering environment for the dairy industry which allows new dairy-related businesses to emerge and exploit specialized niche markets. Total dairy exports totaled NZ\$ 7.1 billion (US\$ 3.3 billion) in 2001/02 but are forecast to fall to NZ\$ 6.4 billion (US\$ 3 billion) in 2002/03, and again to NZ\$6.28 billion in 2003-04. Dairy export value is projected to trend upward in 2004/05 and in 2005/06 to NZ\$ 6.81 billion and then to NZ\$ 7.4 billion, respectively, thanks to improved global economic conditions and stronger commodity prices.

New Zealand Biosecurity Review Report

A review conducted by independent consultants, Prime Consulting International, of border surveillance by the Ministry of Agriculture and Forestry (MAF) has led to the claim that there are considerable gaps in government systems to detect and monitor pests such as willow sawfly, lettuce aphid, clover weevil, and varroa bee-mite. The review found deficiencies in New Zealand's pest detection and monitoring strategy, objectives and purpose, and coordination with other Government agencies. MAF was further criticized for not having an overview on information regarding pests and for taking a scattergun approach to surveillance. Inadequate maintenance of databases which hold information on occurrence and distribution of pests and weeds was emphasized.

The review claims that the NZ\$ 5 to 10 million (US\$ 2.35 to 4.7 million) that New Zealand spends each year on detecting exotic species was modest in comparison to the economic damage that such pests could cause. A spokesperson for MAF defended its performance by commenting that the division of surveillance between the Ministry of Agriculture and Forestry, the Ministry of Health, the Department of Conservation, and the Ministry of Fisheries is not functioning adequately. MAF can point to several success stories, including the eradication of Aujeszky's disease in pigs (1992), fruitfly (1996), and the white-spotted tussock moth, as well as the control of fire ant and two species of crazy ant during the past two years.

Meanwhile, MAF is still trying to eradicate a population of painted apple moth in the Auckland region which had spread in recent months. Previous attempts to eradicate the moth have failed and prompted the approval of an additional NZ\$ 88.3 million (US\$ 41.5 million) to the NZ\$ 23.3 million (US\$ 10.95 million) already spent, to eradicate pest. While the NZ Treasury advised against the latest eradication expenditure, the program received qualified support from the Agriculture Ministry, the Conservation Department and the Ministry of Research, Science and Technology.

Ministry of Agriculture and Forestry's Reaction to Australia's Simulated FMD-Outbreak

MAF's Animal Biosecurity was present as an observer during last month's Australian Foot and Mouth disease outbreak simulation exercise ('Minotaur'). Derek Belton, the director of MAF's Animal Biosecurity, commented that emergency services were critical to the effective management of such an exotic animal disease outbreak. This included the effectiveness of the police and defense forces. He added that time critical tasks such as notifying and enforcing movement controls on infected farms, managing logistics at response headquarters such as communications, mapping, administration and providing frontline labor for slaughter, cleaning and disinfection were the keys to managing such an outbreak. According to Belton, New Zealand's animal disease response program could react immediately in the case of an outbreak of an exotic animal disease based upon activation of the National Crisis Centre. If a disease outbreak was confirmed, a process that should not take longer than six hours after being reported, there would be an immediate stop to national livestock movement and all susceptible stock on infected farms would be slaughtered. Intensive tracing of movements of livestock, stock transport vehicles, and anything else that had come into contact with the site of infection would immediately follow. Harnessing emergency services were deemed critical to the effective management of a Foot and Mouth outbreak.

New Zealand MAF Seeks NZ Hydatids-Free Status

Agricultural officials have advised world animal health authorities that they seek to have New Zealand registered as free from the 'pure hydatids' disease. MAF Animal Biosecurity declared New Zealand "provisionally free" of hydatids after maintaining a 45-year eradication program. The hydatid (tapeworm) affects ruminant animals and humans and is transmitted by feeding contaminated offal containing hydatid cysts to dogs. The disease is later transferred to animals (or humans) either through direct contact with the dogs or through contact with their feces. The parasite lodges itself into organs such as the brain, liver or lungs. If New Zealand can maintain its free status for an additional 4 years, it can be declared 'officially clear' of the disease. Since last year, no new cysts have been found from the slaughter of 26 million lambs, 6 million sheep, 3.5 million cattle, and 500,000 deer.

LIVESTOCK & PRODUCTS

Wool Board Era Ends with Unexpected Operating Surplus

The Wool Board delivered, in what is expected to be its last annual report, an operating surplus of NZ\$ 2 million (US\$ 940,000) for the year ending June 2002. Legislation to end Board operations and to use its assets to create several farmer-owned commercial companies and industry bodies which will be funded by farm levies is expected to be enacted by June 2003 (see GAIN report NZ2018). The surplus was greater than an initial break-even forecast. It resulted from a slightly higher than budgeted levy income, increased investment income, a reduction in overhead charges, and an excellent financial result generated by research and development subsidiary, Wool Production Technology.

Export Meat Production Summary

Exports of meat and co-products in the year ending June 30, 2002, were valued at NZ\$ 6 billion (US\$ 2.82), according to the Meat Industry Association (MIA). This result was achieved in spite of a decline in export volumes exported, particularly lamb, due to pressure on livestock numbers resulting from bad weather during the season which led farmers to rebuild stock numbers. However, the aggregate return to the industry was less than NZ\$ 200 million (US\$ 94 million), reflecting a profit margin of 1 percent of turnover. According to the MIA, the appreciation of the NZ dollar will make it difficult for meat exporters to sustain the same level of export returns in 2002/03.

As of mid-September, the number of lambs slaughtered for export reached an accumulative total of 23.5 million down 6.8 percent compared with the same period a year earlier. Hogget production totaled 11,600 down 32 percent; mutton production totaled 4 million down 13.6 percent; steer production totaled 395,000, down 16.9 percent; heifer production totaled 169,000 up 5.4 percent; cow production totaled 664,000 up 14.3 percent; bull production was similar at 612,000; bobby veal production totaled 1.1million, up 12.4 percent. Total beef slaughter for export rose 0.6 percent to 1,841,000 head. Goat slaughter fell 15 percent to 110,000.

Venison Production and Export Summary

The NZ deer industry continues to grow rapidly. The deer population has been growing by nearly 300,000 animals or 12.5 percent annually over the past 5 years. The national deer herd was estimated at 2.25 to 2.5 million in mid-2002, with two-thirds of the herd being hinds (females). Although venison prices have fallen from the record highs of last year, the fundamentals of the industry are set for future industry expansion.

Production levels for 2001/02 remain below levels of the previous season. For the year to date (October 2001 to August 2002) production was recorded at 388,190 animals, down 16.6 percent from the previous year's 465,667 animals. However, average carcass weight continued to increase, reaching 55.3 kg (August year). The schedule price increased from June 2002 lows but according to reports appears now to have peaked. In week 39, the schedule price was NZ\$ 6.55 (US\$ 3.1) per kg, 36 percent below the same time last year. For the year to June period, the total value of venison exports fell 6.6 percent to NZ\$ 215 million (FOB) and 10 percent by volume to 16,036 MT. Germany continues to account for 45 percent of all venison export shipments with other major markets including Belgium (14 percent of value), the U.S. (11 percent), and France, Switzerland and the Netherlands (each with 5 percent). Prices currently being paid for chilled venison are reported to be half of those paid last year.

HORTICULTURE & PRODUCTS

Californian Table Grape Import Trade Re-opened

Imports of Californian table grapes have resumed after a suspension of trade in November 2001 when black widow and other exotic spiders were found in U.S. shipments at New Zealand supermarkets. A New Zealand inter-agency project team, consisting of officials from the Ministry of Agriculture and Forestry (MAF), the Ministry of Health, and the Department of Conservation produced risk assessment and risk mitigation documents. The documents related to the potential environmental risks, health risks and suggested mitigation measures to minimize risk of introduction of black widow spiders. After public comment the documents were carefully reviewed and discussions held with the USDA, MAF issued a revised Import Health Standard (IHS) in early September. MAF indicated that achieving 'a zero biosecurity risk' was not practical, implying that from time to time exotic spiders may still be detected in imported grapes. The IHS will be revised again after the end of the current export season if deemed necessary by MAF. Under the new IHS, biosecurity procedures require a 100 percent visual inspection of grapes during harvest in the United States, to ensure that grapes are free of any regulated pests such as spiders and glassy wing sharp shooters. Each consignment must be packed and shipped in such a way as to prevent infestation and fumigated with sulphur dioxide and carbon dioxide. MAF will inspect upon arrival a sample of grapes from each consignment before it is released into New Zealand. If a spider is found at the point of entry, the whole consignment will be rejected. If spiders are found after entry, i.e. at the wholesale and retail levels, they will be traced back to their consignments and to the facility where the grapes were fumigated to determine possible non-compliance with the IHS. The first consignments since the new IHS was issued arrived in New Zealand on October 12.

Improved Apple Rootstock

A new dwarf apple rootstock (CG 202), naturally bred and selected for high yield efficiency and pest and disease resistance is about to be commercially released. The new rootstock produces a tree about the size of M26. Unlike M26, it is resistant to fire blight, Phytophthora root rot, and woolly apple aphids. It also has the ability to produce more fruit per canopy volume than many currently available rootstocks. These traits offer environmental benefits as well as cost savings for producers. The funding for the research initially came from the Foundation for Research, Science and Technology and growers' funds made available through ENZA (a major private commercial apple and pear exporter). More recently, funding into this research has been undertaken by Pipfruit New Zealand. The research was made possible by the collaboration between Cornell University in the United States, HortResearch Scientists, and McGrath Nurseries (a private New Zealand enterprise). About 5,000 budded trees were delivered this winter for planting.

Pipfruit Growers See Risk in Sale of Apple Varieties

HortResearch's bid to sell its 30-year-old pipfruit breeding program, which is under threat since the Government announced considerable funding cuts, has pipfruit growers concerned for the future of their NZ\$ 500 million (US\$ 235 million) export industry. Industry observers estimate that at least NZ\$ 20

million (US\$ 9.4 million) has been spent over the past 20 years on this world leading program. Industry members are now concerned that growers will be asked to pay again for a program that their money helped to build. According to a Ministry of Agriculture and Forestry report, the program is integral to the industry's future. Pipfruit Growers of New Zealand (PGNZI) maintains that the industry owes its existence to this breeding program which has kept New Zealand ahead of competitors by introducing a stream of new apples to the market.

Zespri Increases Payout Forecast for Kiwifruit

Zespri has increased its payout forecast for all kiwifruit pools (green, organic, and gold) to an overall average return of NZ\$ 8.39 (US\$ 3.94) per tray. Green kiwifruit growers are now forecast to receive NZ\$ 8.14 (US\$ 3.83) per tray, 3 percent above 2001/02 returns. Green Organic kiwifruit growers will receive NZ\$ 10.02 (US\$ 4.71) per tray, 1.6 percent above 2001/02 returns. Gold kiwifruit growers will get NZ\$ 10.20 (US\$ 4.79) per tray, 11 percent above 2001/02 returns. The projected full year net distributable grower returns for the year ended March 2003 are estimated at NZ\$ 505.5 million (US\$ 237.6 million), up from NZ\$ 488.8 million in 2001/02. The increase is attributed to the early start of the selling season, the high quality of the fruit across all three product classes and the considerable success of the Gold variety in Europe, Japan, and Asia. The NZ\$ 1 (US\$ 0.47) increase per tray for Gold kiwifruit since the last forecast in August reflects the increased returns from Japan, lower fruit loss, and continuing strong sales in Asia at good prices. According to Zespri, these gains are helping to offset the lower value occasioned by the smaller fruit size profile and the higher promotional costs per tray caused by an overestimation of the total available crop.

Total sales to week 37 ending September 15, reached 46.1 million trays (41.5 million in 2001). In Japan sales were up nearly 70 percent to 9.9 million trays. Sales to East Asia reached 7.3 million trays, now 45 percent ahead of the same time last year. Europe is down 6.5 percent with sales of 25.2 million trays. Sales to North America are similar to last year, with 2.6 million trays sold.

DAIRY

Dairy Herd Testing Monopoly Broken

A 50-year old statutory monopoly on dairy cow herd testing held by the Livestock Improvement Corporation (and its predecessor) has been lifted. Ambreed, a Hamilton-based company, has become a certified dairy herd tester making it the first to obtain a license under the revised Dairy Industry Act. Ambreed can now directly compete against the Livestock Improvement Corporation (LIC) which has more than 500 full-time and 1200 seasonal employees in a market that is estimated to be worth NZ\$ 7 million (US\$ 3.29) per annum. The market is growing as dairy cow numbers increase. Ambreed reported that it has already signed up 850 herds from New Zealand's total of more than 10,000 dairy herds tested annually.

FISHERIES

Fishery Commission's Allocation Plan Questioned

The Treaty of Waitangi Fisheries Commission which proposed the establishment of a new fishing company, Aotearoa Fisheries Ltd. (see GAIN report NZ2026), to strengthen Maori influence within the industry has run into opposition from a group of dissenting and influential tribes. A group of Maori tribes called the "Iwi Forum" has proposed an alternative model for allocating NZ\$ 700 million (US\$ 329 million) of Maori fisheries assets – quota, shares and cash. Both the commission and the tribal group proposal allocate quota to iwi, but they are based on different systems. The main difference concerns the control of the new company after the allocation of shares is completed. The Commission's allocation system endeavors to keep the shares under the Commission's roof within a system of governance that does not give individual Maori tribes direct control or allow them to sell their shares. The alternative model by the Iwi Forum allocates shares in the company directly to Maori tribes on a population basis. While there would be an initial two-year moratorium on the sale of the assets, each Maori tribe would be free to sell after this period.

The Iwi Forum is based on the former group known as Treaty Tribes and claims to have the support of 60 percent of the 78 iwi the Commission had consulted. The central issue is whether Maori proceed with collective strength as per the Commission's model or whether the larger tribes, in particular Ngai Tahu, disperse control of the settlement among four or five tribes. This alternative Iwi Forum model will be discussed by the Commission in October.