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New Zealand

Fresh Deciduous Fruit Annual

Apple and Pear Growing and Exporting Annual Report for 2012

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Report Highlights:

Export tonnage for apples likely to rise in 2012/2013 to 293,000 MT on back of better production. The trend for a greater proportion of exports going to Asia is a continuing theme in the sector. Industry restructuring is continuing with the sector still trying to construct an economically sustainable model.

Executive Summary

Warmer spring weather and an anticipated biennial bearing “on” year should ensure apple and pear production bounces back from 2011/2012’s poor growing season to record increases forecast at 5% to reach 481,000 MT and 14,200 MT for apples and pears respectively. Were it not for a hail storm and an unseasonal frost late in October in the Hawkes Bay and outbreaks of European Canker in the Nelson region the forecasts for total production could have been materially greater.

Grower returns are forecast to be slightly better in the 2011/2012 year but are still not anywhere near the level that would see unbridled optimism in the sector break out. Growers in the Nelson region (approx 30% of national production) are enduring the 4th or 5th loss in a row, and many are in precarious financial positions.

Greater apple production should, given domestic consumption is forecast to be stable, give rise to increased export shipments and an increase in processing tonnages. For apples, in 2012/2013 exports are forecast to reach 293,000 MT which would constitute a lift of 3.5% over the 2011/2012 year. Apple processing tonnage should rise by 9% to use 127,250 MT. Pears exports are forecast to bounce back from 3,000 MT in 2011/2012 to reach 4,200 MT in 2012/2013.

Apple exports to India have been a standout performer going from 12,000 MT in 2011/12 to over 18,000 MT in 2012/2013 and helping to lead the way for exports to the greater Asia region to take 33% of total apple exports. This is up from 29% in the 2011/2012 year, and is accelerating a trend away from Europe and the UK which is likely to become more pronounced as the plantings of the last five years mature and a greater proportion of the fruit produced becomes suitable for Asian markets. There are market access issues to do with SPS that still restrict access to many countries in Asia which the sector participants and New Zealand Government officials are working to overcome.

The one northern hemisphere market which isn’t part of the above trend is the US market where exporters are familiar with the quality demands for large fruit and know that the window of opportunity for the best prices is fairly short. A shipment level of just over 30,000 MT each year seems to be a sustainable demand level.

The sector is not in expansion mode, and while some businesses are profitable there is in parts an undercurrent of pessimism. It is hoped that the restructuring of the largest apple exporter Enza by its new owners Bay Wa will ultimately lead to better grower returns. A trickle of growers continue to leave the industry which is leading to the large integrated fruit companies often taking over orchards as they are sold. As the large fruit companies work to maintain market share and keep economic throughput of fruit to their post harvest facilities the industry model will change over time.

*Note: Marketing Year 2012 is from Oct 1, 2012 to Sep 30, 2013 and will be referred to as 2012/2013 in the text. Similarly MY 2010 is shown as 2010/2011.
Note2: A TCE stands for Tray Carton Equivalent and is 18.0 kilograms of fruit*

Production, Supply and Demand Data Statistics

Apples, Fresh New Zealand (HA)/(MT)	2010 2010/2011			2011 2011/2012			2012 2012/2013		
	Market Year Begin: Oct 2010			Market Year Begin: Oct 2011			Market Year Begin: Oct 2012		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	9,061	8,470	8,470	0	8,324	8,324			8,320
Area Harvested	8,850	8,316	8,316	0	8,200	8,200			8,225
Bearing Trees	0	0	0	0					
Non-Bearing Trees	0	0	0	0					
Total Trees	0	0	0	0	0	0			0
Commercial Production	464,700	467,060	467,060	447,600	447,600	447,600			467,000
Non-Comm. Production	15,000	15,000	15,000	12,500	12,500	12,500			14,000
Production	479,700	482,060	482,060	460,100	460,100	460,100			481,000
Imports	1,000	1,257	1,257	1,300	1,300	740			750
Total Supply	480,700	483,317	483,317	461,400	461,400	460,840			481,750
Fresh Dom. Consumption	56,200	60,000	60,000	61,400	61,400	61,400			61,500
Exports	299,500	298,317	298,317	270,000	270,000	283,000			293,000
For Processing	125,000	125,000	125,000	130,000	130,000	116,440			127,250
Withdrawal From Market	0	0	0	0					
Total Distribution	480,700	483,317	483,317	461,400	461,400	460,840			481,750
TS=TD			0			0			0

Pears, Fresh New Zealand (Ha/MT)	2010 2010/2011			2011 2011/2012			2012 2012/2013		
	Market Year Begin: Oct 2010			Market Year Begin: Oct 2011			Market Year Begin: Oct 2012		
	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data	Official Data	Post Estimate	New Post Data
Area Planted	431	473	473	0	441	441			440
Area Harvested	431	473	473	0	441	441			440
Bearing Trees	0			0	0				
Non-Bearing Trees	0			0	0				
Total Trees	0	0	0	0	0	0			0
Commercial Production	14,100	14,099	14,099	14,000	14,000	12,300			14,000
Non-Comm. Production	200	200	200	200	200	200			200
Production	14,300	14,299	14,299	14,200	14,200	12,500			14,200
Imports	3,100	3,601	3,601	3,500	3,500	3,200			3,300
Total Supply	17,400	17,900	17,900	17,700	17,700	15,700			17,500
Fresh Dom. Consumption	10,500	10,400	10,400	10,400	10,400	10,200			10,300
Exports	4,400	4,387	4,387	4,300	4,300	3,000			4,200

For Processing	2,500	3,113	3,113	3,000	3,000	2,500			3,000
Withdrawal From Market	0			0	0	0			
Total Distribution	17,400	17,900	17,900	17,700	17,700	15,700			17,500
TS=TD			0			0			0

Note: Data included in this report is not official USDA data. Official data can be found at <http://www.fas.usda.gov/psd>

Production

Planted Area

The Planted area for both pears and apples going into the 2012/2013 year is assumed to be relatively stable and similar to 2011/2012. There are no official statistics released yet and anecdotally there are no reports of any major changes to the planted area. There is some replanting going with orchards removing unprofitable blocks of trees and replacing with varieties more suited to current demands i.e. sweeter, high color fruit for the Asian markets. Total apple area planted is put at 8,320ha and the pear area at 440ha.

There are no reports that there are material changes to the area farmed organically which is an estimated 630ha or 7% of total area.

Apple Production

2012/2013

The two main growing areas Hawkes bay and Nelson are due for a biennial bearing "on" year so it is likely this coming growing season should produce an increased volume. At this stage with the trees just in blossom or with tiny fruitlets it is estimated the total production will reach 481,000 metric tons (MT) which would be 4.5% ahead of 2011/12.

Given a really conducive growing season it is possible total apple production could go over 500,000 MT. The positive inducements for that to happen are:

- The flowering intensity this spring is generally heavy
- So far the Growing Degree days are running at a higher level than last year and temperatures are forecast to be normal or advantageous for the season.
- 42% of total plantings are less than 10 years old and 22% of total plantings are less than 5 years old; these plantings are only just starting to reach full production now.
- There is some confidence that there will be good demand for New Zealand apples come harvest time so crop loadings will be pushed.

However the top end of this production potential is likely to be knocked off by:

- Climatic factors, a hail storm and an unseasonal frost late in October will reduce yields in parts of the Hawkes Bay.
- Outbreaks of European Canker in the Nelson region may cut production in some blocks.
- Negative sentiments among some growers in the Nelson region who have endured 4 to 5 years of financial losses may be a factor which hastens tree removal, and or sale of orchards to other uses.

2011/2012

The overall production level for the 2011/12 year has not been changed from the previous revision and sits at 460,100 MT. The poor growing season, which saw fruit sizes drop to historical lows, was the result of overcast days and cooler than average temperatures. A look at the Growing Degree Days, a measure of the heat available to grow a crop, shows that for the Hawkes Bay they were 23% behind the previous season and 16% below the average number.

There were some silver linings to the season: export pack-outs were generally high, with fruit being of exceptional color and quality. A shortage of fruit in northern hemisphere markets meant that the small fruit sizing was not of a hindrance.

Pear Production

2012/2013

It is expected that pear production will rebound from the poor production season experienced in 2011/12 to get back to 14,200 MT.

2011/2012

The same climatic factors which affected apple production in 2011/2012 acted similarly to reduce pear production. Post now estimates total production only reached 12,500 MT, 12% below the previous estimate.

Grower Returns

Apple Prices in NZ\$ per Tray Carton Equivalent(18kg) on a Free Alongside Ship Basis								
Marketing Year (FAS/PSD)	2004	2005	2006	2007	2008	2009	2010	2011
Harvest Year Variety/Growing Method	2005	2006	2007	2008	2009	2010	2011	2012 Est.
Braeburn- Integrated Fruit Program	9.81	19.42	16.29	25.09	16.13	18.25	18.04	
Royal Gala- IFP	13.87	19.26	19.13	22.16	21.11	22.90	20.37	
Jazz- IFP	31.81	34.24	29.57	30.98	19.46	21.59	18.97	
Granny Smith - IFP	11.46	19.85	16.48	21.64	19.20	21.68	19.48	
Cripps Pink/Pink Lady- IFP	22.72	26.56	25.8	32.12	26.71	21.60	22.79	
Fuji- IFP	18.13	27.06	24.01	26.10	25.53	25.71	20.95	
Pacific Beauty	17.80	17.02	21.95	23.05	32.47	27.59	23.85	
Pacific Queen	17.36	22.26	23.63	26.20	35.19	33.47	29.59	
Pacific Rose	16.51	19.42	20.9	25.37	27.29	30.72	28.01	
Organically grown Braeburn		48.17	30.75	35.14	17.43	25.69	23.13	

All Organic Apples			32.45	36.03	21.15	27.35	24.21	
Average All IFP Apples	12.88	20.02	19.06	24.44	20.52	22.22	20.47	20.70
Breakeven Costs(estimated)				23.00	20.35	22.57	20.01	19.90
Total Export Production(MT)	315,191	264,818	292,096	261,154	303,030	258,982	298,317	283,000

Source: PipfruitNZ, MPI, Post. Note: Breakeven costs include all orchard operating costs and overheads but do not include wages of management, interest, tax or capital expenditure

It would appear there is a small positive gap opening up between revenue and expenses for growers. This is not as good as the 2011/12 year promised to be when initial forecasts indicated a net grower return closer to \$22.00/TCE. Growers have worked hard to control expenditures and the new PipfruitNZ chair Nadine Tunley has publicly stated she doesn't think growers can cut costs any more.

These estimates mask the differences between the main producing regions Hawkes Bay and Nelson. The Hawkes Bay region, benefiting from its variety mix and warmer climate which means it can harvest earlier varieties suited to the Asian markets, is estimated to be making a margin of \$1.40/TCE between revenue and expenses. This can be compared to Nelson which is estimated to be losing \$0.16c/TCE. Considering this is a loss before any overhead costs and is the 4th or 5th loss in a row for many Nelson growers, financially many are in precarious positions.

Consumption

Consumption of apples and pears in New Zealand is estimated to be relatively stable. For apples in 2012/2013 it is forecast 61,500 MT will be consumed domestically which is virtually no change from the estimate for 2011/2012 at 61,400 MT.

Pear consumption is estimated to be 10,300 MT for both 2012/2013 and 2011/2012.

Trade & Processing

Apple Exports & Processing

2012/2013

As long as there are no more major weather events such as hail or frost over the growing season apple exports are forecast at 293,000 MT. This level of exports would be 3.5% ahead of 2011/2012.

Given that overall apple production is likely to be up and only approximately 60% of production makes it to export grade, it is likely that the tonnage going to processing will increase as well. For the coming year it is forecast that the processing volume will be 127,250 MT approximately 9% ahead of the 2011/12 level.

In terms of the markets it is likely the trend to supplying a greater proportion of fruit to Asia and the Middle East will grow hastened by shipping costs increasing by greater amounts to the Northern Hemisphere destinations; better availability of fruit suited to Asian tastes; and possibly an increased removal of Braeburn and possibly Jazz on marginal blocks where the costs of production cannot be reduced below the orchard returns. Typically Braeburn and Jazz are varieties mainly suited to European tastes. India is likely to take more fruit as long as the fruit fumigation issue can be solved equitably. Volumes shipped to Japan could easily double if pricing is satisfactory. It is likely the lure of the Chinese market will continue and exporters will work at increasing the 2011/2012 tonnage in 2012/2013.

2011/2012

The high export pack-outs achieved at harvest have meant that even with a low total volume of fruit available export volumes are going to be above Posts previous estimate. Apple exports for the 2011/2012 year are expected to total 283,000 MT, just on 5% ahead of the April 2012 forecast, but still 5% behind 2010/11. The increased export shipments have come at the expense of volumes going to processing.

Reportedly processors received increased volumes initially at harvest but as the season wore on fell further and further behind last year. This occurred especially as the Braeburn harvest got going and growers realized that export returns were likely to be better than initially anticipated and completed 2nd and 3rd export picks. At 116,440 MT the estimated apple processing tonnage is 10% less than previously forecast and 7% down on the 2010/2011 final estimate.

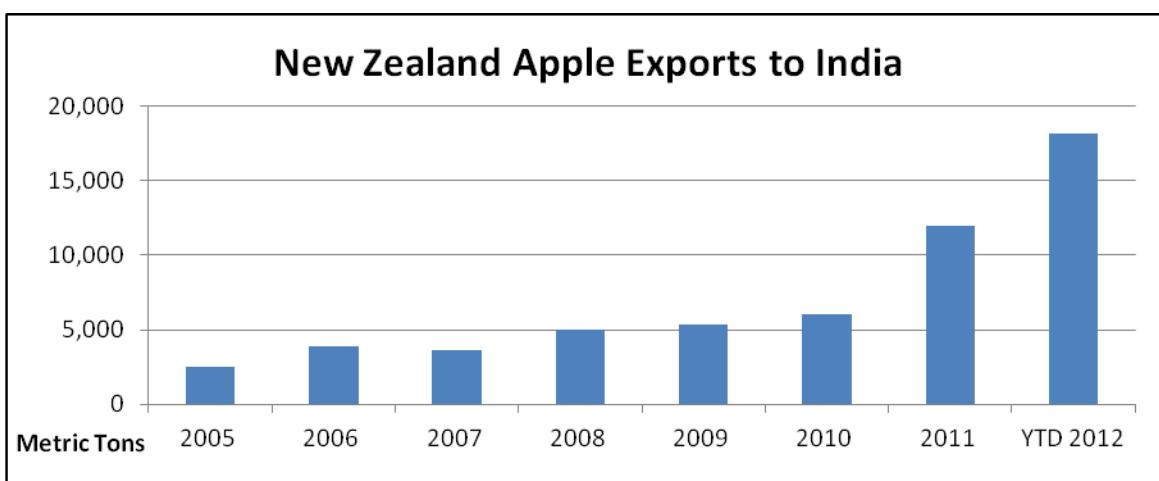
Asia

In the future this year may be looked back upon as a real turning point for apple exports. Even in a low volume year with good demand for fruit in Europe and the UK the proportion of fruit sent in total to Asia has still increased. Over 33% of total volume shipped went to greater Asia up from 29% in 2010/2011. Along with Asia the Middle East is becoming another region of choice for exporters. Back in 2001 only 1% of the total export crop went to the Middle East. In 2010/2011 it had become 4%, but only one year later in 2011/2012 six percent of total exports are likely to arrive in the Middle East.

New Zealand Apple Export Statistics										
Year Ending Series: September 30, 2001 - 2011, & 11 Months to August 31, 2012										
Partner Country	Quantity(metric tons)							2006 % Share	2011 % Share	YTD 2012 % Share
	2006	2007	2008	2009	2010	2011	YTD 2012			
World Total	26554 1	29202 0	26115 4	30301 6	25898 2	29831 7	28117 4	100.0 %	100.0 %	100.0 %
Total EU excl UK	11224 0	11349 4	99134	11645 2	94619	10435 7	75210	42.3 %	35.0%	26.7 %
United Kingdom	59181	63076	43526	50286	36297	46171	44025	22.3 %	15.5%	15.7 %
United States	37578	47669	32958	45678	42108	33210	33769	14.2 %	11.1%	12.0 %
Thailand	2219	3160	7435	9085	12860	14249	20127	0.8%	4.8%	7.2%
India	3861	3675	4966	5331	6058	11966	18163	1.5%	4.0%	6.5%
Hong Kong	5583	6341	8160	13454	10935	16234	13956	2.1%	5.4%	5.0%
United Arab Emirates	2727	4591	6166	8962	7148	8061	13210	1.0%	2.7%	4.7%
Taiwan	15204	18283	20599	16450	15634	18152	12217	5.7%	6.1%	4.3%
Singapore	4680	4824	5736	5894	4517	6059	7254	1.8%	2.0%	2.6%
Malaysia	4514	5398	6947	6957	3434	6457	6682	1.7%	2.2%	2.4%
All Other Destinations	17756	21508	25524	24466	25370	33404	36561	6.7%	11.2%	13.0 %

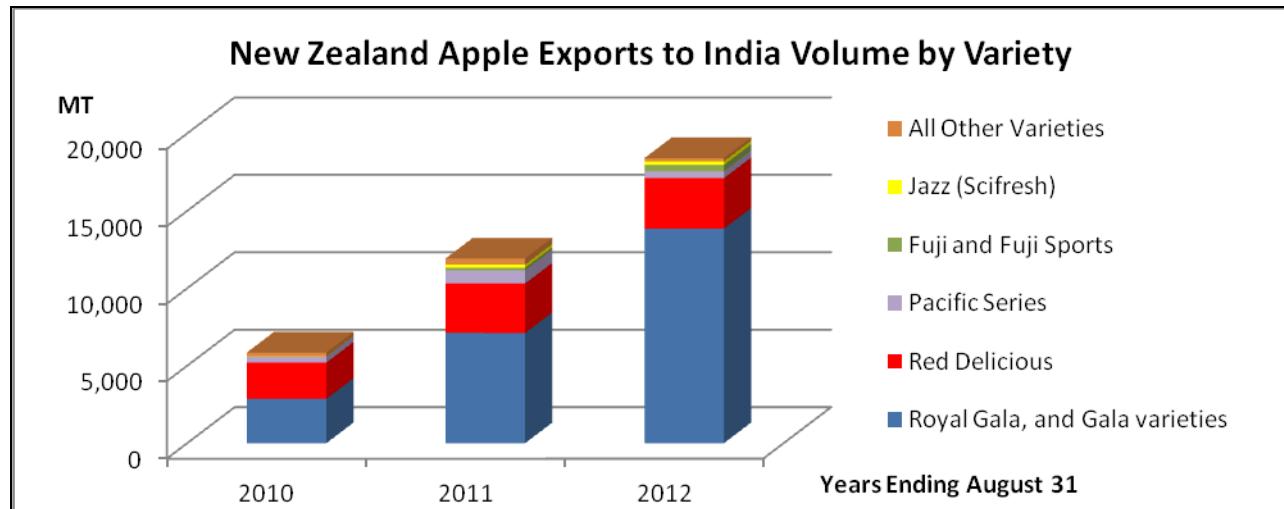
Source: Global Trade Atlas

India



Source: Global Trade Atlas

One of the high points of the last two years has been the steep increase in shipments to India. Despite a tariff rate of 50% exporters are still able to make the trade work financially. Reportedly there is unmet demand for high quality fruit which New Zealand can produce, it doesn't compete with domestically produced fruit, and the higher prices charged have served to lift prices in the domestic apple market.



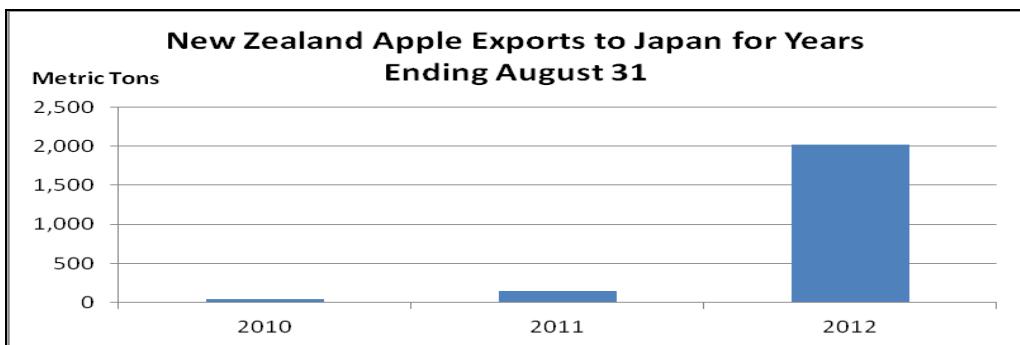
Source: Global Trade Atlas

Principally the market would like to source Red Delicious apples however Red Delicious is not produced in any quantities in NZ. Exporters have managed to substitute the lack of Red Delicious with Royal Gala, which is an apple of higher quality which has really superseded Red Delicious.

There is one storm cloud on the horizon however. Indian officials have stated they intend to regulate that all apple imports will need to be fumigated with Methyl Bromide. This would effectively halt the trade for New Zealand. Once the regulation is enacted there would be a six month grace period before it would become operational. New Zealand Pipfruit sector officials hope at the very least announcement of the regulation enactment can be delayed long enough to allow the 2013 shipping season go ahead. In addition trade access officials are negotiating with their Indian counterparts for a protocol which would avoid the use of Methyl Bromide.

Thailand

Thailand is another good news story in Asia for New Zealand exporters. A 41% increase in volume shipped in 2011/2012 puts Thailand into the top spot among Asian destinations. Despite NZ and Thailand being part of the ASEAN, Australia, NZ FTA the increase in exports is being put down to imports of South African apples being banned by the Thai Government.



Source: Global Trade Atlas

Japan

Now that SPS/access protocols have been established a satisfactory trade has begun. This season's total shipped isn't as much as had been originally envisaged by some sector participants. The leading variety shipped was Fuji capturing 43% of the total volume, Jazz at 32% and Royal Gala at 12% were the other major contributors to total volume shipped. The tariff rate levied upon entry is 17%, this has not changed.

China and Hong Kong

Despite the ongoing expressions of the potential in the Chinese market, the volume shipped seemed to have stabilized. Last year the combined destinations received 16,506 MT, whereas for the year-to-date there was a 6.3% reduction to 15,468 MT. Following the new access protocol having been agreed with mainland China, direct shipments have perked up going from 272 MT in 2010/2011 to 1,512 MT for the year-to-date. The main varieties going to Hong Kong are Royal Gala, the Pacific series, and Fuji at 38%, 44%, and 8% of the total volume shipped respectively. Varieties going to China directly share a similar mix but with Pink Lady and Jazz replacing Fuji and making up virtually the rest of the tonnage shipped.

Taiwan

Taiwan has disappointed exporters this year. It is primarily a market for the Fuji variety. Over the last two years 77% to 79% of the total volume shipped has been Fuji, with Royal Gala making up just about the rest at 18% to 20%. The quality and SPS protocols are very high and satisfying them is costly. There is usually a window of opportunity to achieve high prices in the market between the end of US shipments and the onset of Chilean imports. However this window was squeezed up this year and there was some comment that some of the fruit was not colored well enough.

European Union

With less fruit than ever going to the EU during 2012, and good demand by a market short of fruit, higher in-market prices were achieved when compared with the previous year. However this hasn't translated into significantly better onshore prices for growers. The high New Zealand dollar which has appreciated over the last 12 months has had a significant impact on returns to growers. In addition, several commentators still note there is a surplus of exporters all trying to sell fruit in the market with generally only one means of competing for sales; that is price. This combined with some analysis that suggests the supply chain in to the EU is still relatively inefficient means it is likely that potential returns are being lost in the logistics and marketing process.

United States

Even with a reduced total volume of exports, the tonnage shipped to the US has been maintained. The shortage of fruit in the northern hemisphere through mid 2012 drove demand and forced prices to high levels. Even though this market primarily demands large fruit sizes the shortage of fruit allowed exporters to satisfy demand with slightly smaller fruit sizes but still maintain satisfactory pricing levels.

Australia

A combination of low prices in the Australian market and the severity of the conditions contained in the access protocol have meant there has been virtually no interest in supplying this market. Only 26 MT of fruit have crossed the Tasman Sea to Australia in 2012 so far. This market is still considered to have considerable potential just not in the short to medium term.

Apple Imports

New Zealand Import Statistics for Fresh Apples							
Partner Country	Year Ending Series: September, 2006 - 2011, 11 Mths to Aug, 2012						
	Quantity (MT)						
2006	2007	2008	2009	2010	2011	YTD 2012	
World	1235	1102	1572	1658	1349	1257	737
United States	1169	1082	1572	1618	1213	1240	732
New Zealand	64	0	0	41	125	17	
Australia	1	0	0	0	0	0	5
Canada	0	20	0	0	0	0	
China	0	0	0	0	11	0	
India	1	0	0	0	0	0	
United Kingdom	0	0	0	0	0	0	

Source: Global Trade Atlas

Pear Exports

With a more normal growing season it is expected that pear exports will bounce back up to 4,200 MT for 2012/2013. This would put the forecast total at 1,200 MT greater than the estimated total for the 2011/2012 year.

Pear Imports

New Zealand Import Statistics for Fresh Pears							
Partner Country	Year Ending Series: September, 2006 - 2011, 11 Mths to Aug, 2012						
	Quantity (MT)						
2006	2007	2008	2009	2010	2011	YTD 2012	
World	3937	2980	3314	3442	3523	3601	3142
United States	1230	1388	1084	1223	1340	1712	1302
Australia	1532	950	1452	1458	1564	1271	1485
China	993	551	629	593	425	507	261

Korea South	161	92	149	168	167	111	92
Canada	21	0	0	0	0	0	0
New Zealand	0	0	0	0	4	0	0
South Africa	0	0	0	0	22	0	0

Source: Global Trade Atlas

Policy

Industry Developments & Restructuring

There is no coordinated industry plan to restructure itself to maximize returns and ensure its presence as a major land-use and exporter into the future despite sector strategies having been generated in the past. However there are a number of themes which are remodeling the sector even though there is a disparate group of influences causing the changes. Four of these themes which are evident at the moment are:

- Bay Wa the German industrial and fruit trading company which now owns 70% of Turners & Growers which in turn owns Enza the largest apple processor and exporter in NZ has engaged in a complete overhaul of the company. It is hoped improved efficiencies will result in better returns to growers.
- However growers are still continuing to exit either orchard ownership or the industry altogether, though this is a trickle not a torrent and is most likely to continue this way.
- The large integrated fruit companies which encompass growing, packing, storage and sometimes exporting and logistics are continuing to increase their market shares often by leasing orchard area from exiting growers. There is somewhat of a trend toward outside investors purchasing orchard land then leasing it back to one of the large integrated companies.
- The familiar 80/20 rule is at work in the exporting arena where 12 exporters handle 85-90% of the volume but there are approximately another 80 exporters who ship the remaining 10-15%. This has been the situation for several years now and many industry participants and commentators believe having 20 to 40 exporters working independently in any one market does not maximize the returns back firstly to New Zealand and secondly to the growers. There are moves afoot to look at supply chain efficiencies and how groups of exporters could align themselves to achieve better returns. In the past efforts to get exporters aligned haven't been successful.

Commodities:

Apples, Fresh

Pears, Fresh