



Rabobank Global Focus

New Zealand Apple Industry – crunch time!

January 2006

Not that long ago, New Zealand's apples were the envy of the world.

Growers produced exciting varieties that exhibited top quality and taste; they were marketed as almost something unique and as such commanded a premium in the market. So what has happened?

The competition has silently caught up on quality, the single desk marketing of New Zealand apples has disappeared, growers now compete against each other in the marketplace both domestically and globally and the number of global producers has increased. Critically, global apple consumption has declined by around 11% since 2000/01 as other fruits gain favour with the consumer. In short, apples have become no more than a simple commodity and the dynamics of the industry have changed.

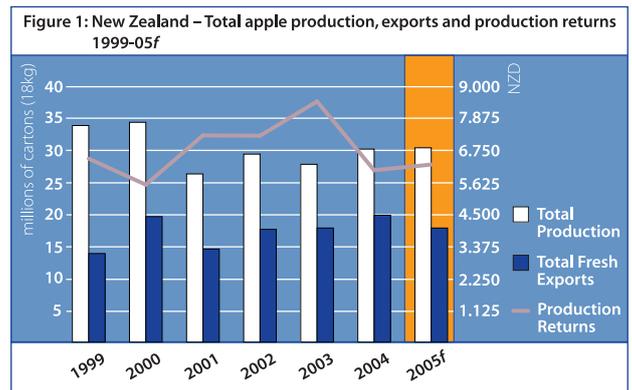
New Zealand consumes only around one sixth of the apples it produces annually; therefore, for the industry to survive exports are a necessity. The issue now of course is that the global market is awash with apples from many different sources. The technological advances in shipping, logistics, controlled atmosphere storage and chemical inhibitors of the ripening process, all mean that apples now have a shelf life that can last well into the following season. A frightening thought, especially when there is a global over supply. As crunch time has arrived, the New Zealand apple industry has to begin to ask itself the difficult question, where to from here? New Zealand cannot hope to compete on the global stage as purely a commodity producer; cost of production alone prevents this. So where does the answer lie?

Product innovation, consolidation throughout the industry, strategic management and the targeted promotion of a quality product may well once again make New Zealand the envy of the apple producing world.

NZ Overview

Since the deregulation of the apple industry back in October 2001, the industry enjoyed two years of favourable trading conditions, prices were firm, as were grower returns. However, 2004 proved to be unfavourable to the New Zealand apple industry as a number of factors conspired to devastating effect.

The domestic crop was of record proportion, up by 2500 tonnes on the previous year. However, there was excess fruit in the European markets from the record crops throughout the region, the US had record volumes of fruit to market and the New Zealand dollar was gathering strength against the major trading currencies at a rapid rate. Finally to add insult to injury New Zealand experienced quality issues. The combined effects have rocked the industry to the core while recovery appears to be some way off.



Source: MAF, SONZAF, 2005

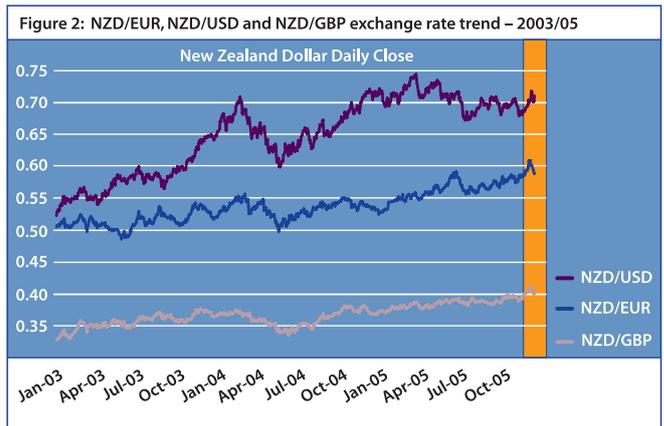
f = forecast

As with any horticultural crop subject to climatic conditions, production fluctuations are inevitable, and apple production is no exception. Production highs and lows have varied by as much as 25% since 1999; this has naturally translated into fluctuations in export volumes. Over this period, these volumes have fluctuated by up to 30%. The forecast for the 2005 year was for a reduction in export returns. Data to hand does evidence a reduction in value of exports to date. As of the year to date (end of November 2005) the value of exports was close to NZD \$60million or 16% lower than at the corresponding time in 2004. While it is acknowledged that volumes are lower, the effects of the strong New Zealand dollar will also be exerting some undue pressures on export returns.

Despite the fact that the industry has experienced some favourable conditions recently, it is interesting to note that grower numbers and cropped area have in fact fallen considerably.

According to industry figures (Pipfruit New Zealand), in the last five years it is estimated that grower numbers have fallen by 40% and that the cropped area has fallen by around 17%. It is too early to tell just what effect the very difficult trading conditions of the last year will have on industry numbers. The downward trend in grower numbers is likely to continue as their economic condition worsens. Whether there is a corresponding reduction in producing land remains to be seen. It is suspected that a number of the larger growers who have some economy of scale in their operation may well take the opportunity to increase their orchard holdings. There are a number of reasons behind this suggestion. Firstly, economy of scale is vital in reducing the cost of production, driving the trend of the big getting bigger and the smaller operators leaving the industry. Secondly, by increasing the size of orchard holdings, it allows for the transition to newer varieties to be completed a little easier, as production levels can be maintained while the newer plantings mature. And thirdly, the planting density of new varieties may be increased to around 2,200 trees per hectare, which should result in greater yields. The effect may be that the total crop displays no overall reduction.

A major problem beyond industry control is the comparative strength of the New Zealand dollar (NZD). This is one of the factors that has affected the reduction in production returns seen during 2004 and 2005, indicated in *Figure 1*. When combined



Source: Rabobank, 2005

with record production levels in the EU and the US resulting in downward pressure on export prices, the strong NZD has compounded the difficulties.

The general trend of the NZD against the Euro (EUR) United States dollar (USD) and the Great British Pound (GBP) for the period 2003 to 2005 is illustrated in *Figure 2*. There is a clear upward trend which has been fuelled by a buoyant economy and the subsequent interest rate rises to maintain discipline in the inflation rate strategy of the Reserve Bank of New Zealand. The appreciating dollar has eaten into export returns. Input costs have also been affected in both positive and negative

World Overview – Key Facts

- Apples remain the fourth most widely produced fruit in the world after bananas, oranges and grapes.
- In recent years apple production has remained in the vicinity of 60 million metric tonnes. This is sufficient to provide the global population with around 8.5kg of apples per annum.
- Global production of apples is now about 2.5 times greater than 1960. Between 1994 and 2004, global production rose by almost 30%.
- Apples are generally produced in countries with a temperate climate; however, newer varieties have allowed expansion of production into ever-hotter areas.
- China is the largest apple producing country in the world. Production equates to over one third of the world total. Apple production has increased fourfold in the last decade, but growth rate has slowed sharply since 2000; however, in absolute terms the annual increases have been large.
- The United States remains a distant second to China in terms of apple production. France, Germany, Italy, Poland and Russia remain among the top ten apple producers.
- Turkey, Iran and India are also major apple producers. However, a vast majority of their production is absorbed by their own rapidly-growing populations.
- The major Southern Hemisphere apple producing countries remain Argentina, Australia, Brazil, Chile, New Zealand and South Africa.



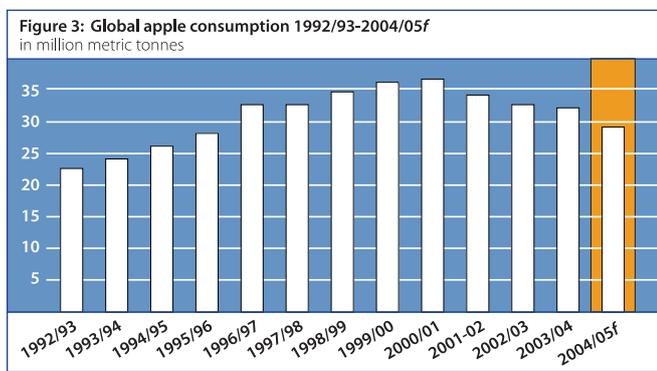
- Less than ten percent of world apple production enters the international fresh apple trade arena. Only a small number of the apple producing countries engages in long-distance exporting activities.
- The leading global fresh apple exporting countries are China, France, the United States, Chile, Italy, New Zealand and South Africa.
- The major import markets for fresh apples and concentrated apple juice are in the developed countries of Europe, North America and Asia; however, per capita consumption of fresh apples in these markets is either flat or declining.
- The markets of developing countries such as India, Malaysia, Mexico and Indonesia offer great long-term potential for existing exporters.

Source: Belrose Inc. Apple Industry Key facts

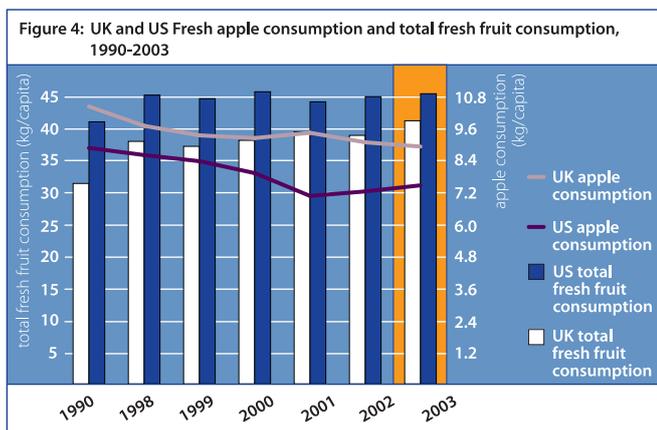
ways. The rising value of the NZD has provided some gains in respect of imported goods such as fertilisers, sprays and equipment, many of which have become marginally cheaper. However, the rising cost of fuel has offset many of these gains. Add to this scenario increased competition and supply in the market forcing down sale prices and one can see why exporters are facing a torrid time.

With exchange rate volatility and supply/demand imbalance affecting returns, it is useful to focus on what can be controlled, such as input costs and productivity, to strive for and maintain optimum efficiency. The industry needs to focus on ways to reduce grower expenditure in the orchard through improved techniques, ways to reduce supply chain costs through consolidation and co-operation and more effective marketing.

Since the marketing years of 2000/01, the global consumption of apples has been steadily declining, and the forecast of even lower consumption in the 2004/05 marketing year is expected. Figure 3 highlights the trend seen over the period 1992-2005. This trend should be of concern to all participants in the global apple industry. What is interesting is the fact that the overall fresh fruit consumption in many developed countries has increased over a number of years. Drivers behind this are numerous; one of the major factors is the availability of more exotic varieties of fruits both in and out of season. Unfortunately for the apple, it is viewed as part of the mature segment in the fruit market, despite the fruit being an integral part of many healthy eating campaigns such as the "5+ a day". Many of the varieties that are currently available en-



Source: USDA Agricultural Attache reports and the US National Agricultural Statistics Service, 2005 f = forecast



Source: World Apple Review, 2005

masse are the older, established varieties such as Red Delicious, many of which appear to have lost some of their appeal. In an attempt to offset some of these declines and generate some renewed interest in apples, other varieties are constantly being developed and introduced to the market. The Jazz™ variety from New Zealand is showing some considerable promise, and further details can be found in the Industry developments section of this report.

International Markets

For New Zealand, the largest markets are the EU (excl UK) the UK and to a lesser extent, North America. These markets are now international battle grounds for other producer countries such as Chile, Brazil and South Africa.

European Union:

As at November 1, 2005, the overall apple surplus in the EU from the countries and regions where data was available stood at close to three million tonnes, which represented an increase of approximately 3% on the previous year. This corresponds with the fact that average EU apple consumption has declined from around 19.6 kg/capita in 2000 to 16.8 kg/capita in 2004. The situation worth considering for New Zealand is the fact that a number of the varieties exported to the EU are already in surplus in this market, and New Zealand production could well be compounding this issue.

Figure 5: Apples varieties and surplus volumes (in selected countries) as at November 1, 2005

Variety	Volume (MT)	% Increase (on 2004)
Gala Group	271,429	24
Golden Delicious	982,514	2
Braeburn	201,064	3
Red Delicious Group	179,400	5
Granny Smith	170,718	7
Fuji	85,825	60
Pink Lady	60,379	14
Cox Orange	20,603	43

(Selected countries/regions where data was available: Belgium, Germany, France, Netherlands, Spain, Austria (Styria), Italy (Alto Adige), Czech Republic.)

Source: V.B.T, Section Nationale Pomme, Bolzano Chamber of Trade, Styria Chamber of Agriculture, Productschap Tuinbouw, SZIF, Mercolerida, Erofel, ZMP

Data for any apple surplus in the UK was unavailable at the time of writing.

The figures available for Gala and Braeburn do not make pleasant reading, particularly for New Zealand exporters. As the new season's fruit becomes ready for export, there is the potential to compound the issue of over supply and thus drive prices down even further.

An additional source of uncertainty is the fact that no reliable information is currently available on the state of surpluses held within the new member states (NMS) of the EU. It is worth considering that Poland has an annual production in excess of two million tonnes, and no-one appears to know what's left at the end of the season.

Poland:

For many within the industry, Poland appears to be the 'dark horse'. With large areas of land suitable for production, improvements in infrastructure and low costs of production, it is no surprise that existing operations in other parts of the EU are now eyeing opportunities in Poland. It is reported that a number of growers, particularly from Belgium and the Netherlands, have established production bases in Poland.

While a large amount of apple production in Poland is completed on a low intensity basis, there is a distinct move to higher intensity planting as seen in other producer countries. What is being seen is that defensive market behaviour is evident and a number of growers are in fact working towards Western standards in relation to fruit quality and fruit sizes. This in turn could possibly lead to fewer supplies being available as quality begins to rise and slightly easier market conditions emerge for other EU producers.

Conversely, Russia has a ban on the importation of Polish plant and plant products (including apples) currently in place. Market intelligence suggests that this ban will remain in force until at least the European spring of 2006. In the 2004/05 season, Poland exported around 448,000 tonnes of apples to the fresh markets, of this around 200,000 tonnes went to the CIS countries and a mere 37,000 tonnes went to the EU-15. There is a potential for this surplus fruit to spill onto European markets. While the quality is unknown at this stage, it is expected that a large percentage of this fruit would be offered at the lower price spectrum and could prove to be attractive for the German market which is receptive to lower priced offers to supply the discount stores. So, what does this mean for EU and of course New Zealand producers? The obvious benefit is that Russia could well be looking for additional supplies across a spectrum of qualities to compensate for the bans on Polish fruit. While it is envisaged that Western European producers will be looking to exploit the opportunity, there could well be opportunities for New Zealand producers to market their varieties to fill the void.

UK:

The UK has long been a popular and profitable market for New Zealand apples; however, this traditional market continues to show some disturbing trends and these need to be considered carefully by New Zealand apple exporters. The overall consumption of fresh fruit in this market has increased; up 24% since 1990 to an estimated 41.29 kg/capita. However, there has been an inverse effect in the consumption of fresh apples, with a fall of 15% to an estimated 8.94 kg/capita over the same period. The falling consumption levels and the readily available volumes of fruit from competitor producers points to the fact that the export market will become even more competitive. At this stage no data is available on the apple stocks currently held; however, market intelligence suggests that these stocks will be greater than previous years, which irrespective of the numbers is not the best of news.

Two issues in the UK market that may well have consequences for New Zealand suppliers are those of domestically sourced produce and organic production.

The apparent drive to procure domestically grown produce is based on research completed during the UK apple season (October 2005) on the ultimate source of apples found in all the major supermarket chains and greengrocers. Research undertaken by 'Friends of the Earth' found that around 32% of all apples sold by the major supermarkets were sourced from outside the UK and EU countries with New Zealand as one of the major suppliers of apples. There is a subsequent drive by the UK apple industry to try to convince the supermarket chains and the general population to select domestically grown apples. How successful such a drive will be is difficult to estimate; however, New Zealand producers should be aware of such sentiment and market accordingly. Incidentally, this sentiment is also being mirrored in Austria through their annual "Apple Day" promotion and through various other countries with the assistance of direct funding from the European Commission to the equivalent of NZD8.4 million.

On the issue of organic production - after several food scares in the UK and the EU, the demands for organically produced foods has increased substantially. Research undertaken by the Soil Association in the UK reveals that retail sales of all organic foods are growing at around GBP2 million per week, which is twice the rate of the general grocery market. Imports into the UK of organically grown produce have remained static at around 56% of sales. Imports of organic apples remain steady, despite a ready supply from domestic production. This is indeed good news for New Zealand producers who are able to supply organic products and maintain a premium price.

However, the UK Government has set a target to reduce organic fruit and vegetable imports to 30% of consumption by 2010. The method which this target will be implemented is not known at this stage, however, it is expected that the driving force behind this is to promote the domestic production base. In addition, there are a number of agencies involved in the UK market in the development of new organic varieties. Trials currently under way are all showing promising signs.

North America:

The North American market has provided opportunities for New Zealand exporters, particularly for counter seasonal production. From recent figures the US imports around 7% of its fresh apple supplies (counter seasonal) the bulk of which comes from New Zealand and Chile. Total imports of fresh apples have been rising, albeit very slowly over time, yet overall consumption of fresh apples has remained stagnant at around 7kg per capita for the last four years compared with an average of 8.4kg per capita throughout the

Figure 6: Southern Hemisphere total apple production in tonnes

Country	2003	2004	2005
Argentina	1,056,444	1,009,961	1,121,057
Australia	326,069	254,926	331,403
Brazil	746,000	988,009	759,630
Chile	1,090,000	980,603	980,627
S. Africa	717,313	773,374	694,401
TOTAL	3,935,826	4,006,873	3,887,118
NZ	495,000	547,500	550,000

Source: Pipfruit Newz, 2005

nineties. Again, it is considered that the availability of alternative varieties of fruits has impacted on consumption levels of fresh apples, despite to the high profile initiatives such as the apple slices offered by MacDonal's fast food chains. As for the US as a whole, the apple industry has gone through an extensive restructuring (moving from supply-oriented to demand-oriented production) over the past decade. This has been driven in the main part due to low domestic prices and increased competition from China in the juice market. The most proactive growers in this process have been in Washington, which happens to be the leading US producing state. The most progressive growers are forming partnerships whereby resources are pooled in order to construct, upgrade and operate larger scale warehousing/packing facilities. This allows economies of scale and thus assists in lowering their overheads. Consolidation of post-harvest operations has also served as a catalyst to improve the cold storage infrastructure in the U.S., which in turn has had the effect of limiting demand for off-season fruit (NZ, Chile) for the domestic market.

Competition

From the southern hemisphere, the obvious competition is from Argentina, Chile, Brazil, South Africa and to a lesser extent Australia. It is interesting to note that over the past three seasons, overall production of apples from the region has remained fairly constant and has varied (overall) by no more than 3% over the indicated years. With the reported improvements in production techniques, it will be interesting to view what differences in volume is seen over the next years production. Information to hand estimates that the 2006 Argentine crop is projected to increase by around 30%. Argentina is still heavily reliant on older varieties and on the processing market. This of course does have some limiting effects on exports. In addition there is the ban on Argentinean fruit entering Brazil; this may in turn force some additional product into other markets.

Production developments and investment in Chile is beginning to pay dividends, and the country has become the second largest global exporter of apples. An inflow of foreign capital and a re-investment strategy for domestic capital into the agricultural sector has assisted Chile in developing a fruit industry which is highly diversified. As a result, a great deal of the technology used in the production and post production process has been selected from the most efficient business models from around the globe. Hence Chile has developed the most competitive apple industry in the world. A significant advantage for Chile over New Zealand is the cost of production. It has been suggested from industry sources that the average horticulture worker in Chile is paid an approximate equivalent of NZD19 per day, whereas the average New Zealand worker is paid close to NZD100 per day.

Brazil remains a major producer of apples and is a net exporter of fruit. However, one of the greatest issues Brazil has to face is that of extreme volatility in production levels. Production figures have varied on an annual basis by over 25% in some cases. These fluctuations have a destabilising effect on marketing strategies, supply chain management and relationships with buyers as continuity of supply cannot be guaranteed.

South Africa still remains a producer of a considerable volume of fruit in the region; however, the increasing value of the South African Rand, dependence on older varieties such as Golden Delicious and adverse conditions have made South Africa far less competitive. Internal issues on the transfer of ownership of land and management of major segments of the fruit industry will continue to hamper the industry for the immediate future. An interesting point to note is that South Africa undertook the deregulation exercise before New Zealand and many lessons could have been learnt from their experience.

Industry Developments

SmartFresh™:

For the perishable food industry, one of the major issues faced has always been how to maintain the product in peak condition over a period of time. The apple industry is no exception and with the availability of controlled atmosphere storage, the shelf life of produce has been greatly enhanced. However, innovation is never far away and arguably one of the most important developments for the apple industry on a global basis has been that of the SmartFresh™ technology. This technology developed in the US has been available since 2002 in the United States, but has only relatively recently come to widespread attention through the media.

In simple terms, this is the use of the gas 1-methylcyclopropene or 1-MCP which is the volatile active ingredient. This post harvest process is a mechanism to counteract many of the undesirable effects from both external and internal sources of ethylene. Ethylene is the gas involved with the ripening process. By having the ability to regulate this process, it allows the ripening process to be controlled. This provides a greater degree of freedom in both transport and storage of harvested fruit, resulting in fruit quality being maintained over a longer period of time. Indeed, reports are available stating that apples can now be stored for over 14 months.

This ability to store fruit and yet maintain the fresh picked qualities of crunch, juiciness and taste to market is indeed a considerable breakthrough, especially for the end consumer.

However, this technology raises some very important questions: not just on the potential for apples to be judged as 'Frankenfood' by critics, but additionally, why would anyone want to store apples for such an extended period of time, especially when supplies of fresh apples are readily available all year round?

It is this last question that poses one of the greatest challenges for New Zealand. For many years, New Zealand had a distinct advantage in having the ability to supply quality apples to the lucrative northern hemisphere markets in the counter season. In its simplest terms, this window of opportunity appears to have almost closed. With the increase in competition from other southern hemisphere producers such as South Africa, Chile and Argentina there is an abundance of apples on the world market at present. Add to this the ability to store apples for considerable periods of time and still retain freshness, the potential for a growing stockpile of apples is very real.

Trade with Australia:

Another industry development, although one focused on the trade between Australia and New Zealand, is that of New Zealand apples being allowed into Australia for the first time in 84 years.

This development has been a long time coming; however, the terms of trade laid out in the proposed import protocol by Bio-security Australia are onerous. Conditions such as regular inspections of orchards, buffer zones and chlorine treatments for harvested fruit have been included. Similar conditions were imposed by the Japanese on imported apples from the US; however, the World Trade Organisation (WTO) ruled such measures unnecessary. Progress of these issues will be monitored closely.

Putting all the political issues aside for one moment, it is important to look at the actual dynamics of the apple markets of the two countries concerned, and whether Australia will in fact provide any silver lining to the black cloud currently hanging over a number of New Zealand apple exporters.

There are fundamental issues with the Australian market which are almost identical to those of New Zealand: domestic market self-sufficiency, reliance on export markets, record local production and many growers experiencing negative returns. Total cost of production is estimated at AUD1.30-1.40 per kg, while domestic returns to growers are approximately AUD0.60-AUD0.80 per kg in 2005. Apples suitable for juice are experiencing even poorer returns of around AUD0.40 per kg, although it is highly unlikely that New Zealand apples will be used for this purpose. Additionally, there is no window of unique supply as growing seasons are very similar. With these market conditions in mind, together with the associated costs of shipping apples to Australia, it is difficult at this stage to see any major market for New Zealand produced apples. It is expected that the cost to the consumer on a per kilogram basis when compared to its Australian counterpart will make NZ apples unappealing, to all but those consumers who are prepared to pay for niche market products. It does raise the question of just how much market data has been gathered by New Zealand producers' to support their push into an already saturated market. The most plausible answer is that the new varieties that have been developed in New Zealand will give the producers a marketing advantage over the older more common varieties that are currently grown in Australia.

New Varieties:

The pinnacle of innovation within the apple industry has to be the development and subsequent launch of new varieties. Jazz™ and Sweetie™ are two varieties that may well add some much needed impetus to the industry. Jazz™ apples are unique in their flavour and aroma and have the ability to retain crispness and freshness. The apples are already in production in New Zealand, France and the US, under strict licensing agreements from the New Zealand owners. This spread in the production base allows the apples to be in the premium global markets on a year round basis and thus engendering customer loyalty. Production is still controlled to retain a slight shortage in the market to preserve the uniqueness of the product. Current production figures are 74,000 cartons in France, 24,000 cartons from the US and 120,000 cartons from New Zealand.

"New Zealand is not the only country looking to introduce new varieties to the market..."

The global target is to be capped at a total production of 6 million cartons and production to be split 50/50 between northern and southern hemisphere producers. The target total production is not expected to be achieved any time before 2012. More importantly for New Zealand is that the ownership of this apple variety is protected under Intellectual Property (IP) partnering and licensing agreements. Market data is showing that the variety at this stage is showing some considerable promise with a carton price into retail stores in the US of USD50 (18kg carton) and a bagged price equivalent of USD5.60/kg. Demand for the variety is far exceeding supply at this stage, and this imbalance should be monitored and continued to ensure that the uniqueness and value of the product is retained.

The other new variety that will be appearing in the market is Sweetie™. The development and availability of this variety to the industry is on 'open release', meaning that it is not subject to or being grown under any IP arrangements or licences.

New Zealand is not the only country looking to introduce new varieties to the market. Many of the European producers are looking to add new fruit to replace the older and less popular stalwarts. France for example has already introduced the new variety "Honeycrunch" to the UK market. Available volumes at this stage are small at around 6000 tonnes, but one can expect this to rise should the variety prove to be popular. It is not just new varieties that are being targeted; some of the older "antique" varieties are also being revived. The Tesco supermarket chain in the UK has announced that it will begin to stock many of the "antique" varieties in a bid to support the diversity of the British apple industry. While number of varieties and volumes are unknown at this stage, what the effect this will have on the sale of premium New Zealand apples should be considered. Should these varieties deliver on taste and appearance, then novelty factor and parochial pride may be influencing factors in the premium end of the market.

Summary

Put bluntly, the world is growing more apples than are being consumed. Technological advancements are such that surplus apples can be maintained at quality levels not previously possible, and competition is increasing as producer countries develop greater efficiencies and newer varieties become available.

If the New Zealand industry is to survive and regain its place in the global marketplace, what can be done?

The New Zealand industry once enjoyed a competitive lead over other producer countries through availability of varieties and top quality; however, it appears that through developments in

competing countries, these advantages have all but disappeared. Many of the external issues have been ever-present, they are nothing new and include the increasing and improving competition, the geographic isolation of New Zealand, the distance to markets, the cost of transport and the time to markets. However, recent developments, such as the emergence of Poland and China as large, low cost producers, the release of SmartFresh™ technology (which reduces New Zealand's counter seasonal production advantage), the continued strength of the New Zealand dollar and the longer term declining trend of global consumption, particularly in the developed markets, have all added significant pressures.

Many of the internal issues though have not been ever-present, many of which have appeared since the removal of the single desk marketing system. The industry as a whole must now undertake a review and begin to look at the fundamental issues which can be changed and improved upon. Only when these fundamental issues are addressed and synchronised can the industry move forward. Its time to concentrate on what can be done, rather than what cannot be done.

It is encouraging to see that the New Zealand Pipfruit Industry has developed the 'Strategic Plan 2005-2010' which has highlighted the deficiencies within the industry. One of the major issues is that of quality. While quality is subjective, it is essential that all industry participants realise that a robust and industry wide quality standard is required, and needs to be implemented and adhered to for the greater good of the industry.

What is vitally important is that this strategy is not allowed to stagnate; it must be sufficiently flexible to accommodate any changes to market forces. Of equal importance is total industry participation. Since the removal of the single desk system, the industry has become fragmented. Marketing strength, quality focus and industry competitiveness has been dissipated to a greater or lesser degree. This dissipation of skills does have an effect on the industry's ability to compete on the global stage.

Some suggestions for the way forward

Industry uniformity on quality of export fruit:

As New Zealand is totally dependent on exports, any fall in quality perceived or otherwise could spell disaster. The issue the industry now faces is that there are an increased number of individual exporters, and while around 10 exporters undertake around 75% of the total exports, there is possibly up to 100 which undertake the remaining 25%. The industry has to consider how best to implement a structure to ensure that all apple exports leaving New Zealand are of sufficient quality to regain and maintain industry presence and momentum in the global marketplace. Such implementation must have the complete acceptance of all exporters' otherwise the system will become unworkable.

Development of new varieties:

This topic has been covered at an earlier point in the report. However, it should be made clear that innovation in the development and strategic marketing of new varieties has to be an ongoing process. Other producing countries such as France, Germany, Netherlands and the UK are all developing

and introducing new varieties to compete in the market. Apples are viewed as part of the mature fruit sector and as such have been losing ground to competing fruits. The introduction of new varieties is critical for those countries looking to offer the consumer diversity in their fruit consumption.

Marketing and relationship management:

With the current global over supply of apples, it is vitally important that New Zealand promotes the values and quality of its produce. It is acknowledged that the single desk marketing system was far from perfect, and with the industry's move away from this system, individual exporters have been unable to completely take over the reins. There are a number of reasons for this, including the financial costs involved, the shortfall of marketing experience and a lack of market information.

However, the development and maintenance of relationships with the supply chain participants, agents, buyers and the consumer must be undertaken and, in-market promotion of New Zealand apples should be encouraged.

Value Adding:

This should not be confined to just additional processing, although it would be prudent to reconsider the viability of all processing or semi processing of apples.

Alternative value adding could be in the form of packaging innovations, such as the use of biodegradable plastics which are now becoming available, different box configurations, sizes, materials etc.

Market Information:

This is possibly the most important issue of all, for without accurate information the industry is blind to what is happening in the market and is unable to react swiftly, which undermines investor and industry confidence. The industry needs to know what is happening on various industry levels, from production, packing and supply chain, domestic and international market trends and competitor activity. Information needs to be gathered from all levels, interpreted and disseminated to the industry to ensure that participants can make informed business decisions and move en-masse in the appropriate direction.

New Zealand apples were once highly prized and sought after, commanding premiums in the market. For the moment, those times have passed. However, through industry cooperation, strategic planning and implementation, the industry could well regain some of the ground that has been lost. New Zealand apple producers will struggle to compete on a price basis in a global commodity market. However, the industry should work towards a differentiated position such as in the high value markets through improved quality and innovation.

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*Opens early 2006

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