

Ministry for Primary Industries
Manatū Ahu Matua



SITUATION AND OUTLOOK FOR PRIMARY INDUSTRIES 2014

Growing and Protecting New Zealand

Acknowledgements

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Ministry for Primary Industries
Pastoral House, 25 The Terrace
PO Box 2526, Wellington 6140, New Zealand
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CONTENTS

Minister's Foreword	3
Director-General's Introduction	5
OVERVIEW	7
Primary industries situation.....	7
Primary industries outlook.....	8
Industry summaries.....	10
DAIRY	13
MEAT AND WOOL	17
Beef	17
Lamb	20
Venison	22
Wool	23
Foot-and-mouth disease preparedness	24
FORESTRY	27
Forest Growers Levy	29
SEAFOOD	31
Wild capture fisheries	31
Aquaculture.....	33
New Zealand rock lobster exporters profit from the New Zealand–China Free Trade Agreement	34
HORTICULTURE	35
Apples and pears	35
Kiwifruit.....	37
Transition to the new gold kiwifruit cultivar.....	39
Fresh and processed vegetables.....	40
Wine.....	41
ARABLE	43
Grains.....	43
Seeds	44



FIGURES

Figure 2.1: Dairy export revenue by destination and product, year ended March 2014	12
Figure 2.2: Year-on-year change in the number of cows in milk, milk solids production per cow and total milk solids production, 2008 to 2018.....	14
Figure 2.3: Dairy export prices and MPI forecasts in USD.....	15
Figure 3.1: Meat and wool export revenue by destination and product, year ended March 2014.....	18
Figure 3.2: Projected beef imports into Asia ...	19
Figure 3.3: Lamb and mutton exports to China.....	21
Figure 3.4: Venison exports	22
Figure 3.5: Current world situation of FMD	25
Figure 4.1: Forestry export revenue by destination and product, year ended March 2014.....	26
Figure 5.1: Seafood export revenue by destination and product, year ended March 2014.....	30
Figure 5.2: Seafood export value by species, year ended December 2013.....	32
Figure 5.3: Aquaculture export values, year ended December 2013.....	33
Figure 6.1: Horticulture export revenue by destination and product, year ended March 2014	36
Figure 6.2: Apple and pear export volumes by destination, 2002 to 2013.....	37
Figure 6.3: Gold kiwifruit export volumes.....	38
Figure 6.4: New Zealand wine vintages and exports, 2003 to 2014.....	41
Figure 7.1: New Zealand grain production, 2004 to 2015.....	43

TABLES

Table 1.1: Agriculture, fisheries and forestry export value (\$ millions).....	7
Table 1.2: Exchange, interest and inflation rates, 2011 to 2018.....	8
Table 1.3: Gross agricultural revenue and expenditure, years 31 March 2011 to 2018....	9
Table 2.1: Dairy farm production, milk price and export value, 2011 to 2018	13
Table 2.2: Dairy export by commodity for the year ended June 2001 and 2013	14
Table 3.1: Meat and wool export values (\$ million), 2011 to 2018.....	17
Table 3.2: Beef cattle numbers, beef prices, export volumes and values, 2011 to 2018	20
Table 3.3: Sheep breeding numbers, lamb prices, export volumes and values, 2011 to 2018	21
Table 3.4: Total deer, venison prices, export volumes and values, 2011 to 2018.....	23
Table 3.5: Sheep numbers, wool prices, export volumes and values, 2011 to 2018	23
Table 4.1: Forestry export volumes, prices and values, 2011 to 2018.....	28
Table 5.1: Seafood export volumes, prices and values, 2011 to 2018.....	31
Table 6.1: Apple and pear export volumes, prices and values, 2011 to 2018	35
Table 6.2: Kiwifruit export volumes, prices and values, 2011 to 2018.....	39
Table 6.3: Vegetable exports, 2011 to 2018.....	40
Table 6.4: Wine export volumes, prices and values, 2011 to 2018.....	42





MINISTER'S FOREWORD

Hon Nathan Guy
Minister for Primary Industries

I am pleased to launch this year's edition of *Situation and Outlook for Primary Industries (SOPI) 2014*. Export earnings from New Zealand's primary industries have reached record levels over the last year which is fantastic.

The industry has continued to build value and increase export returns. As several industries come off the record highs of the last year, the decline in returns are expected to remain higher than the historical average. This indicates that the sector has consolidated its gains and is looking to extend competitive advantage.

The industry faces a range of challenges ahead as New Zealand solidifies its position in emerging markets and China, and responds to changing market conditions in our traditional export destinations. The Government plays a central role in supporting our primary sectors, and has demonstrated its commitment to the sectors through close partnership arrangements which continue to build value in the sector both domestically and internationally.

The steady progress being made by Government programmes, such as the Primary Growth Partnership (PGP), Sustainable Farming Fund (SFF) and Irrigation Acceleration Fund, will deliver long-term value to the sector, and subsequently to all of New Zealand.

This report is an important tool in aiding informed decision-making, and highlights how important New Zealand's primary industries are to our economy. The primary sectors play a key role in improving prosperity for all New Zealanders, and I am pleased to see the sectors succeeding as demonstrated in this report.

A handwritten signature of Nathan Guy in blue ink. The signature is written in a cursive style, with the first name 'Nathan' and the last name 'Guy' clearly visible.

Hon Nathan Guy

GROWING





DIRECTOR-GENERAL'S INTRODUCTION

Martyn Dunne
Director-General
Ministry for Primary Industries

This year's *Situation and Outlook for Primary Industries* provides an assessment of the current state of our major primary sectors and their prospects for the next four years.

The main focus of this year's report is the importance of maintaining the right balance between growing and protecting the primary industries. This is made evident by the fast growth of exports over the last twelve months, particularly into China, and by the need for fast and effective responses to situations that may be economically or environmentally damaging.

The Ministry for Primary Industries (MPI) continues to work with industry to ensure the sustainable growth of primary industries, and their continued economic and social contribution to New Zealand. This is a key element of MPI's strategy. Understanding how industries create export value is crucial for making the the right investment decisions to ensure the future success of all New Zealand's primary products.

Over the last year, demand growth in China for food has fueled a sharp rise in New Zealand's export returns, and this has brought into focus the importance of China as a trading partner. Ensuring the long-term strength of our relationship with China, and indeed all of Asia, is critical to New Zealand's economic success. MPI is working very hard alongside industry and other government agencies to build our understanding of these markets and build relationships that will contribute to strengthening our trade/investment opportunities.

Looking out to 2018, the future for our primary sectors is positive, though not without some challenges. With the insights provided in *SOP1* I am confident that we can achieve our objectives and continue to lead the world in high quality primary production.

A handwritten signature in dark ink, appearing to read 'M Dunne'.

Martyn Dunne



PROJECTING

OVERVIEW



PRIMARY INDUSTRIES SITUATION

The last 12 months have seen export values for New Zealand primary industries reach near historic high prices, and producers have enjoyed generally favourable climatic conditions. Much of the value gained over the year came from rising demand in China, and resulting high commodity prices.

While the gains made over the year have been excellent for our producers, the industry has seen a renewed focus on protecting our resources and production base against various threats, both economic and environmental. The vision of MPI is *Growing and Protecting New Zealand*, and the last year has been an example of how well the sectors collectively achieve both these objectives. By ensuring our primary industries have the freedom to produce highly valued products for our export markets, while also ensuring the security of the production base and market access, it is clear why New Zealand retains its reputation as one of the best primary producers.

Export prices increased across most sectors for the year ending June 2014. The year will be particularly memorable for the dairy and forestry sectors where both prices and production stood out. Combining the high prices with record production for the year, dairy now accounts for 46 percent of total primary industries export value and 35 percent of total New Zealand merchandise export value. The high price levels for dairy were supported by other products such as logs, meat and aquaculture. All are underpinned by robust demand from China, which is the most important market for dairy, meat and wool, aquaculture and logs.

High export prices have also been accompanied by an appreciated New Zealand dollar (NZD) due mainly to a loosening of monetary policy in the United States (US) and the European Union (EU) to stimulate their economies. The trade weighted index is estimated to average 77.5 in the year ending June 2014 and reached 80.2 in April 2014, the highest for the last 15 years.

TABLE 1.1: AGRICULTURE, FISHERIES AND FORESTRY EXPORT VALUE (\$ MILLIONS)

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Dairy	13 173	13 659	13 441	17 613 *	15 842	16 152	16 970	18 444
Meat and wool	7 760	7 714	7 723	8 071 *	8 213	8 445	8 734	9 426
Horticulture	3 359	3 538	3 526	3 652 *	3 826	4 030	4 115	4 192
Other ¹	1 524	1 608	1 782	1 787 *	1 863	1 941	1 996	2 084
Agriculture	25 816	26 519	26 473	31 123 *	29 744	30 567	31 815	34 146
Fisheries	1 547	1 500	1 466	1 440 *	1 435	1 472	1 531	1 640
Forestry	4 527	4 272	4 478	5 129 *	4 694	4 658	4 759	5 003
Total	31 890	32 291	32 417	37 693 *	35 873	36 697	38 106	40 789

Note

1. Other comprises live animals, arable, other food products and other agricultural products.

Symbol

* Estimate

Sources: Statistics New Zealand and MPI.

Winter and spring were mild with adequate rainfall for most, providing excellent conditions for livestock farming. Peak milk solids production reached a record high, the number of lambs born was higher than expected, and warm temperatures contributed to a bumper grape harvest in 2014.

Drier than average conditions began to develop again from January 2014 in the North Island but extensive rain fell in April. This will leave few lingering effects going into the 2014/15 year.

PRIMARY INDUSTRIES OUTLOOK

Export values from agriculture, fisheries and forestry are projected to reach \$40.7 billion by year ending June 2018, which is an increase of more than eight percent on the year ending June 2014. This is expected to come from industries within the agriculture sector. The fall in dairy export values in year ending June 2015 reflects a significant reduction in dairy prices. The rising importance of the Chinese market underpins growing demand and prices for many of New Zealand's exports.

The International Monetary Fund reports that global economic activity strengthened during the second half of 2013 and is expecting further improvements in 2014 and 2015. This is mainly due to a recovery in the US, the EU and other

advanced economies. However, an easing in growth is expected in China in 2014 and 2015 due to a rebalancing of consumption from low- to higher-value commodities and an easing in infrastructure investment. China's demand for food and fibre imports is driven by rising incomes and demand for their manufactured exports by advanced economies. New Zealand is well placed to take advantage of the structural shift in consumption and this is reflected in significant growth in exports to China.

The growth in exports of manufactured, value-added products has been notable. For dairy, exports of consumer-branded products now make up almost 10 percent of dairy export value. This shows that demand for New Zealand-branded food is strong and manufacturers are becoming more focused on the needs of their customers.

The forecasts presented in *SOP1 2014* use exchange rate, inflation rate and interest rate assumptions from *The Treasury's 2012 Budget Economic and Fiscal Update* (see Table 1.2). The assumptions are consistent with an expected preference by the Reserve Bank of New Zealand for higher interest rates to counter inflationary pressures, lower overseas interest rates due to stimulatory monetary policies and relatively high New Zealand export prices over the outlook period.

TABLE 1.2: EXCHANGE, INTEREST AND INFLATION RATES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				ASSUMPTIONS			
	2011	2012	2013	2014	2015	2016	2017	2018
Trade weighted index	67.7	71.1	74.7	77.5 *	78.6	78.3	77.5	74.6
US dollar	0.76	0.80	0.82	0.82 *	0.83	0.83	0.80	0.78
UK pound	0.48	0.51	0.52	0.51 *	0.50	0.51	0.50	0.46
Australian dollar	0.77	0.78	0.80	0.91 *	0.93	0.93	0.93	0.89
Japanese yen	62.9	63.3	72.1	83.5 *	86.0	86.0	85.7	84.7
Euro	0.56	0.60	0.64	0.61 *	0.61	0.61	0.60	0.57
Interest rate (%) ¹	3.0	2.7	2.6	2.9 *	4.1	4.7	4.8	5.1
Inflation rate (%) ²	3.8	2.2	0.8	1.6 *	1.8	2.3	2.3	2.1

Notes

1. For 90 day bank bills.

2. As measured by the annual average percent change in the Consumers Price Index.

Symbol

* Estimate

Sources: Reserve Bank of New Zealand, The Treasury and MPI.

The successful dairy season has driven an estimated 35 percent increase in contribution to New Zealand's nominal gross domestic product (GDP) by agriculture. This is due to an increase in both payments and milk solids production to dairy farms in the year ended 31 March 2014. Agriculture sector income is a proxy for taxable

income which is estimated to rise 73 percent to \$7.04 billion. Over the outlook period to March 2018, sector income is expected to fall initially on the back of a forecast reduction in milk solids payments, but then rise as dairy continues to expand, productivity increases for sheep meat, and the exchange rate is assumed to depreciate.

TABLE 1.3: GROSS AGRICULTURAL REVENUE AND EXPENDITURE, YEARS 31 MARCH 2011 TO 2018

YEAR TO 31 MARCH	ESTIMATE				FORECAST			
	2011 (\$mil)	2012 (\$mil)	2013 (\$mil)	2014 (\$mil)	2015 (\$mil)	2016 (\$mil)	2017 (\$mil)	2018 (\$mil)
Dairy	10 960	10 567	10 386	14 637	13 791	13 857	14 631	16 038
Cattle	2 129	2 289	2 316	2 209	2 219	2 292	2 355	2 485
Sheepmeat	2 364	2 820	2 263	2 518	2 695	2 778	2 877	3 157
Wool	563	675	587	580	646	683	697	729
Deer	200	234	200	230	207	208	208	216
Poultry/eggs	169	185	174	185	187	188	190	192
Pigs	153	167	167	168	167	169	171	172
Other farming	225	232	210	423	439	453	468	503
Sales of live animals	848	871	866	895	928	958	988	1 064
Value of livestock change	87	200	-30	-30	-32	-33	-34	-36
Fruit	1 882	2 071	2 017	2 030	2 102	2 273	2 338	2 408
Vegetables	1 062	1 065	987	1 027	994	995	1 002	1 030
Other horticulture	243	251	239	249	241	241	243	249
Crops and seeds	588	745	751	703	647	617	622	639
Agricultural services	216	216	220	269	262	267	278	300
Non-farm income	399	408	472	576	563	573	597	644
Total gross revenue	22 089	22 995	21 826	26 667	26 057	26 520	27 632	29 789
Intermediate consumption	11 637	11 717	11 655	12 956	13 241	13 347	13 762	14 514
Contribution to GDP¹	10 451	11 278	10 171	13 711	12 816	13 173	13 870	15 275
Wages	1 937	1 923	1 937	1 988	2 046	2 107	2 178	2 254
Depreciation	1 423	1 438	1 452	1 719	1 680	1 726	1 787	1 929
Net indirect taxes ²	681	554	600	794	742	763	803	886
Operating surplus	6 410	7 363	6 183	9 210	8 348	8 578	9 102	10 207
Interest paid	2 807	2 642	2 296	2 362	2 684	2 842	2 845	2 813
Interest received	202	190	184	189	266	325	331	351
Agriculture sector income	3 805	4 911	4 070	7 037	5 930	6 060	6 588	7 745

Notes

1. GDP – gross domestic product.

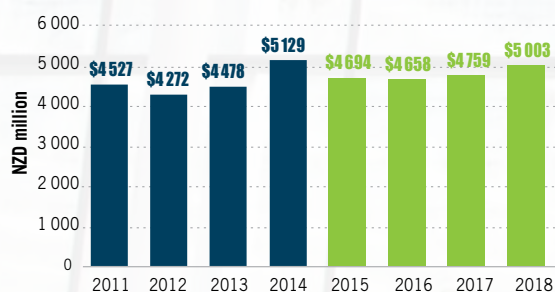
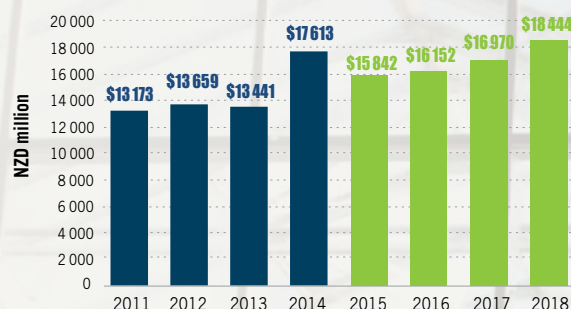
2. Net indirect taxes are indirect taxes less subsidies.

Sources: Statistics New Zealand and MPI.

INDUSTRY SUMMARIES

Dairy

Following an exceptional year in 2013/14, milk solids production in 2014/15 is forecast to rise a further 3.2 percent due to an increase in production per cow. Expansion of dairy farming is progressing in New Zealand and productivity gains from technology and genetics are expected to continue. International dairy prices are forecast to retreat to more sustainable levels in the coming year which will see a 16 percent reduction in milk forecasted price to 720 cents per kilogram. Global supply of dairy products is increasing, creating downwards pressure to prices. Reflecting these lower prices and higher production, dairy exports are forecast to decline 10.2 percent to \$15.8 billion for year ending June 2015, but will then increase steadily to 18.4 billion by year ending June 2018.

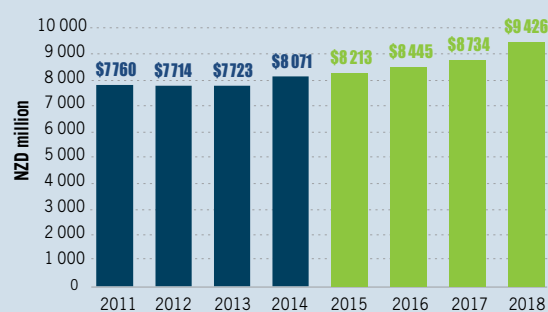


Forestry

Very strong log prices in the year to June 2014 were supported by record log production. But a global production response to the higher prices will be felt in the coming year, particularly in China where demand growth is expected to slow. Forestry export value for year ending June 2015 is forecast at \$4.7 billion, down 8.5 percent on this year due mainly to lower log prices. By 2018, export value is projected at \$5.0 billion due to increased log volume, lower log price and higher prices for other forest products. The Forest Growers Levy came into effect on 1 January 2014. A levy of 27 cents per tonne on all logs harvested will fund research and development.

Meat and wool

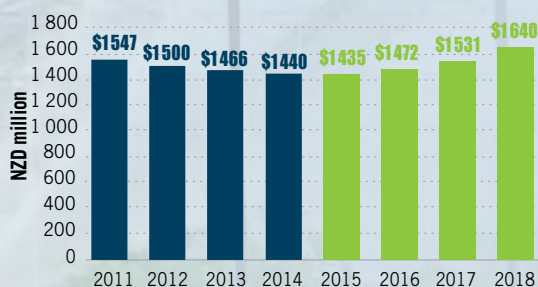
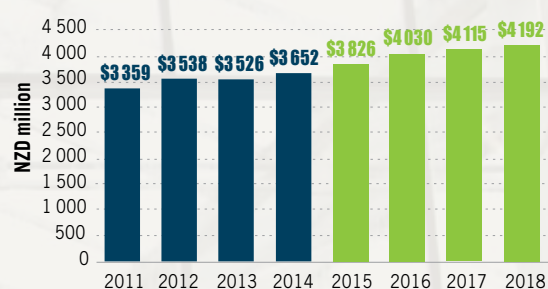
Total meat and wool export value (including hides and skins, meat related products and manufactured wool products) for the year to June 2015 is estimated to increase further to \$8.2 billion and is projected to reach \$9.4 billion by 2018. This reflects an increase in prices mainly for beef and lamb products. Rising Asian demand for red meat is putting pressure on a contracting global supply. Domestically, dairy farming expansion continues to be a threat to the meat industry, but productivity improvements in lambs born per ewe and average carcass weights of slaughtered animals are projected to offset static to declining herd and flock numbers.



Horticulture

Horticulture export value is forecast to increase 5.2 percent to \$3.83 billion in the year ending June 2015. Exports will be boosted by a record harvest of wine in 2014 due to warm conditions around bud initiation and flowering. Kiwifruit export volumes have reached a turning point due to the containment of the bacterial disease Psa and the prospects for apple exports are good as new apple varieties planted come on stream.

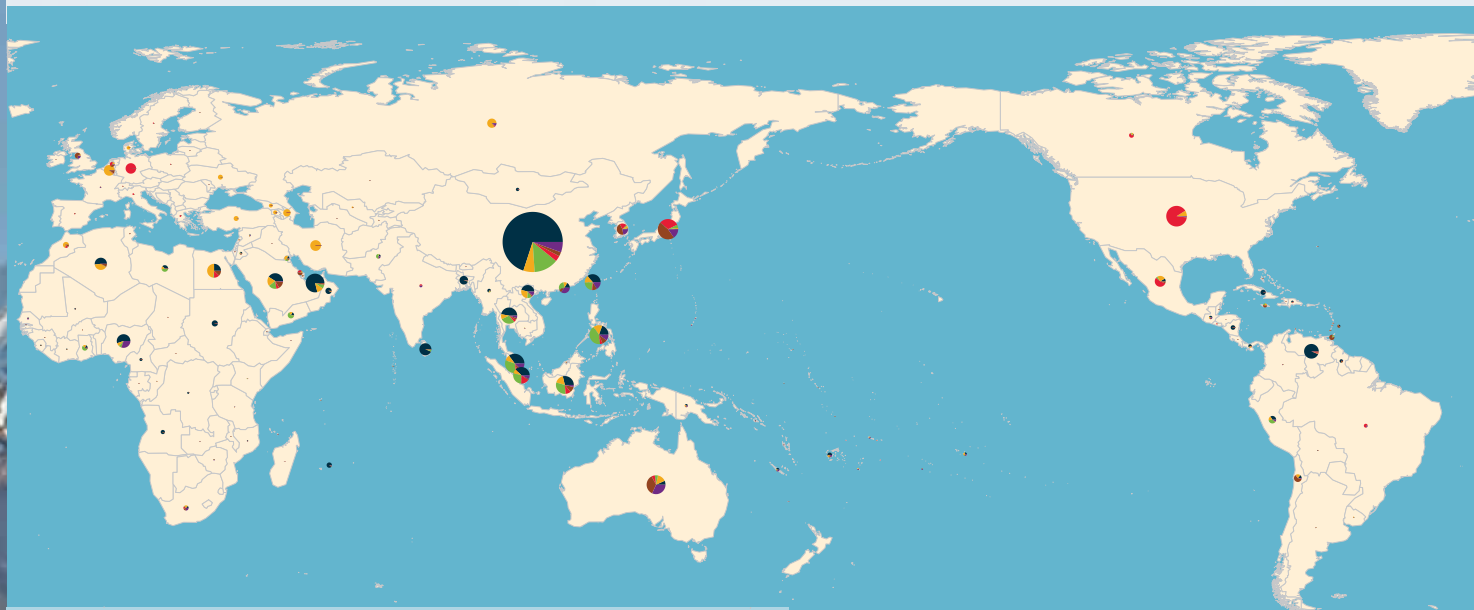
Horticulture export revenues are forecast to surpass \$4 billion in 2016, a major milestone for the sector.



Seafood

New Zealand's top three seafood export earners are rock lobster, hoki and mussels, accounting for more than 40 percent of total seafood exports. Total seafood export value for year ending June 2015 is forecast at \$1.44 billion, slightly down on the current year, but is projected to reach \$1.64 billion by 2018 because of increasing export prices and growth of aquaculture export volume from 2016 through a planned expansion of salmon farming.

FIGURE 2.1: DAIRY EXPORT REVENUE BY DESTINATION AND PRODUCT, YEAR ENDED MARCH 2014

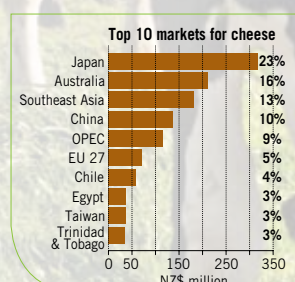
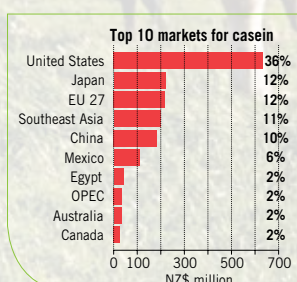
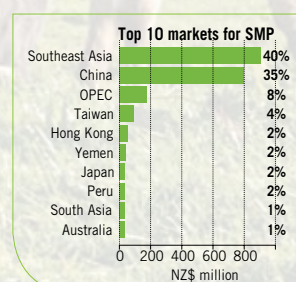
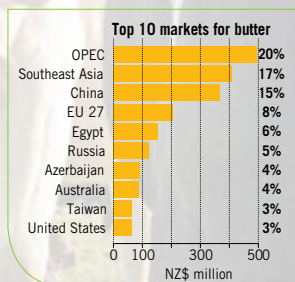
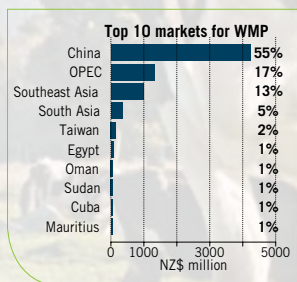
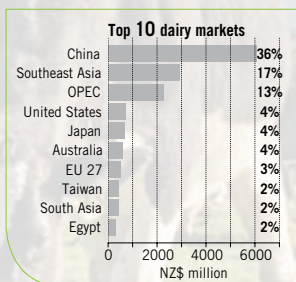


Legend: Export revenue by key products

- **WMP:** NZ\$ 7766 million (45.3%) ● **Casein:** NZ\$ 1825 million (10.6%)
- **Butter:** NZ\$ 2499 million (14.6%) ● **Cheese:** NZ\$ 1453 million (8.5%)
- **SMP:** NZ\$ 2294 million (13.4%) ● **Other:** NZ\$ 1318 million (7.7%)

Total dairy export: NZ\$ 17 154 million (100%)

Sources: Statistics New Zealand and MPI.



DAIRY

2

» Milk solids production in 2013/14 is expected to bounce back strongly from last year's drought.

» Dairy export revenue in 2013/14 is estimated to soar by 30 percent to \$17.6 billion, which is expected to boost farm gate milk price by 46 percent to a record \$8.54 per kilogram of milk solids.

» The value of New Zealand dairy exports is expected to continue its growth path. Demand for New Zealand branded dairy products is strong, and manufacturers are becoming more focused on customer needs to produce value-added product to maximise profits.

Production

New Zealand's milk solids production for the year ended 31 May 2014 is expected to bounce back strongly from the drought-affected 2012/13 season. Total milk solids production is estimated to increase by 9.5 percent to 1815 million kilograms and milk solids per cow increasing by 9.6 percent. As at 30 June 2013, there were five million dairy cows and heifers in New Zealand, a 0.1 percent decrease on 2012 due to stock being slaughtered during the last drought.

Climatic conditions for the first half of 2013/14 season were ideal for milk production with a mild winter and excellent spring conditions. Conditions deteriorated during the summer and early autumn period, negatively affecting production in parts of the North Island. The South Island, however, still has positive momentum. The milk production in the South Island is more than offsetting any reduction from the North Island.

Looking ahead to the 2014/15 season, production is expected to increase modestly by 2.3 percent. This is as a result of a continued long-term trend in increasing cow numbers and more moderate growth in milk yield per cow which is expected to ease back to its long-term average.

Over the remainder of the outlook period moderate increases in milk solids production are forecast, as shown in Figure 2.2. This assumes gradual increases in cow numbers and milk yield per cow, as well as average climatic conditions.

Over a longer term, finding innovative ways of dealing with environmental concerns arising from dairy intensification, especially in the area of nutrient management, is likely to become an increasingly important challenge for the dairy industry.

TABLE 2.1: DAIRY FARM PRODUCTION, MILK PRICE AND EXPORT VALUE, 2011 TO 2018

	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Cows and heifers in calf or in milk ¹ (million)	4.68	4.82	5.01	5.00	5.10	5.21	5.38	5.52
Milk solids production ² (million kg)	1 513	1 685	1 658	1 815 *	1 856	1 916	1 975	2 036
Milk price ² (cents per kg milk solids)	760	596	584	854 *	720	724	744	797
Total export value ³ (\$ million)	13 173	13 659	13 441	17 613 *	15 842	16 152	16 970	18 444

Notes

1. As at 1 July (opening numbers).

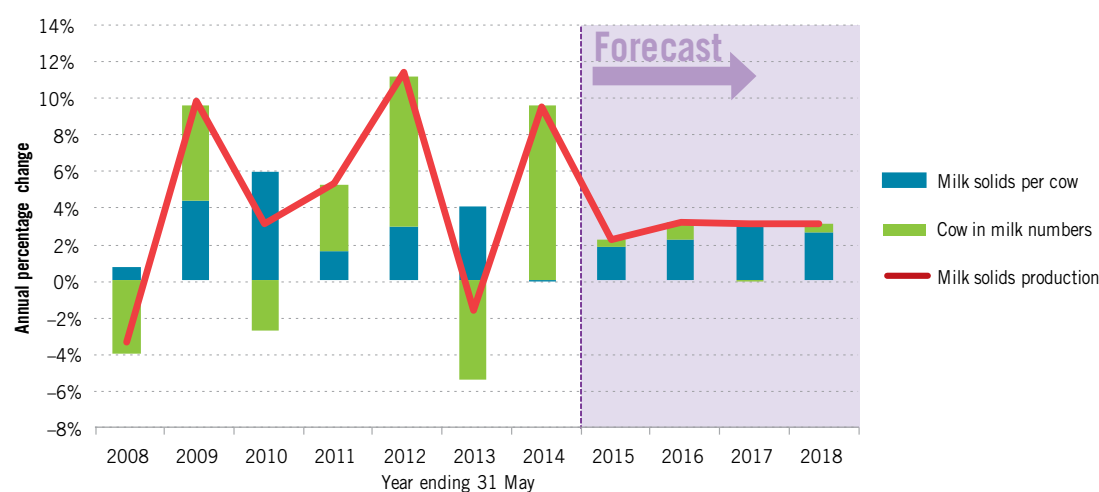
2. Year to 31 May.

3. Year to 30 June.

Symbol

* Estimate

Sources: Statistics New Zealand, DairyNZ, Fonterra Co-operative Group and MPI.

FIGURE 2.2: YEAR-ON-YEAR CHANGE IN THE NUMBER OF COWS IN MILK, MILK SOLIDS PRODUCTION PER COW AND TOTAL MILK SOLIDS PRODUCTION, 2008 TO 2018

Sources: Statistics New Zealand, DairyNZ and MPI.

Exports

Dairy export revenue for the year ending June 2014 is expected to grow by 31.0 percent to reach \$17.6 billion due to high international prices and a considerable lift in production.

Over the next 12 months, it is expected to decrease by 10.1 percent to \$15.8 billion, as a result of expected decrease in prices and modest increase in production. Dairy export revenue is forecast to rise gradually to reach \$18.4 billion by the year ending 30 June 2018. This forecast is based on a modest rise in domestic production, increasing international dairy prices, and a depreciating NZD.

The mix of dairy products exported has been changing since 2001 as shown in Table 2.2. Today, New Zealand exports considerably more whole milk powder compared to 2001. Skim milk powder and butter exports have also increased but at a slower rate than that of whole milk powder. Cheese and casein exports are relatively static with their share of dairy export volumes steadily dropping.

Exports for the "Other" category, which mostly consists of consumer-branded products, increased the fastest. This reflects not only that the demand for New Zealand-branded food is strong, but also domestic producers are

TABLE 2.2: DAIRY EXPORT BY COMMODITY FOR THE YEAR ENDED JUNE 2001 AND 2013

	EXPORT VALUE (\$ BILLIONS)		SHARE OF TOTAL DAIRY EXPORT		CAGR ¹
	2001	2013	2001	2013	
Whole milk powder	\$2.1	\$5.1	29.1%	38.0%	8.2%
Skim milk powder	\$1.1	\$2.0	15.0%	14.7%	5.5%
Butter	\$1.1	\$1.9	15.0%	14.2%	5.1%
Cheese	\$1.3	\$1.4	17.3%	10.7%	1.1%
Casein	\$1.4	\$1.7	19.2%	12.5%	1.6%
Other ²	\$0.3	\$1.3	4.5%	9.9%	13.6%
Total dairy	\$7.4	\$13.4			5.6%

Notes

1. CAGR stands for compounded annual growth rate.

2. Other includes consumer branded products such retail infant formula (\$408 m), dairy food preparation (\$396 m), UHT milk (\$108 m), milk and cream (\$105 m), whey (\$104 m), chocolate preparation (\$79 m), lactose (\$70 m), ice cream (\$42 m), and yogurt (\$21 m).

Sources: Statistics New Zealand and MPI.

demonstrating an increased customer focus when producing more value-added product to maximise profits.

The change in product mix is market and demand driven. New Zealand's key dairy export markets have changed dramatically over time. A key change is the shift in focus from traditional European markets to the Chinese market. Dairy export to the Chinese market has grown from \$0.2 billion revenue in 2001 to \$6.1 billion for the year ended March 2014, and market share soared from 2.6 percent to 35 percent. By contrast, EU 27 market share fell from 12 percent to 3 percent. OPEC, Southeast Asian countries, and Australia markets have always been important to New Zealand dairy exports and are growing in importance.

Prices

International dairy prices remained at an elevated level for most of the 2013/14 dairy season because of a shortage of internationally traded dairy products. The four largest dairy exporting nations – New Zealand, the US, the EU, and Australia – all responded to the high international dairy prices by increasing milk production.

As a result of increased international production, dairy prices have been falling over the last few months and are expected to remain

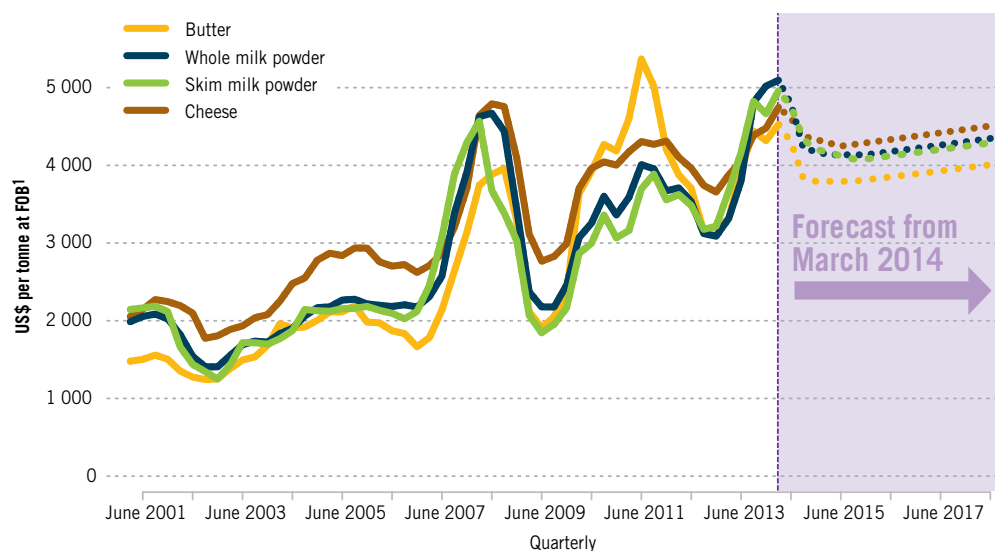
subdued for the year ending June 2015. The EU's milk quota system will expire in 2015 which is expected to increase its milk production and further depress international dairy prices in the medium term. Milk production in the US is also expected to increase as a result of low feed costs.

International dairy prices are expected to increase over the medium to long term. This will be underpinned by demand for dairy products from emerging markets with growing populations and increasing income levels. In the short term, the increased demand from these emerging markets should absorb some of the additional dairy products, softening the fall in international dairy prices.

The domestic farm gate milk price is expected to be \$8.54 per kilogram of milk solids in the 2013/14 season, 46.3 percent higher than the previous season. This is a record milk price underpinned by high international dairy prices for most of the season, despite a strong NZD exchange rate.

The outlook for the farm gate milk price in 2014/15 is \$7.2 per kilogram, a 15.7 percent decrease, which reflects the declining international dairy prices over the last few months. A farm gate milk price of \$7.2 per kilogram is still well above the 10-year average of \$5.9 per kilogram.

FIGURE 2.3: DAIRY EXPORT PRICES AND MPI FORECASTS IN USD



Sources: Statistics New Zealand and MPI.

The 2014/15 dairy season may prove challenging for some dairy farmers, in particular those who need a relatively high milk price to break even. In addition to a lower milk price, the Reserve Bank of New Zealand has lifted interest rates which would increase the financial burden on farmers, particularly those with floating mortgage rates.

Beyond 2015, the farm gate milk price is expected to continue to increase and projected to be \$7.97 per kilogram by the year ending June 2018. This is based on the assumptions of a depreciating NZD, a trend of increasing international dairy prices, and the growing demand for dairy products to exceed the increases in world milk production.



MEAT AND WOOL³

The value of New Zealand's meat and wool exports is expected to increase by about 22 percent over the next five years. This will be driven by high prices from a globally constrained supply of beef and lamb and steadily growing demand in Asia. China is now the most significant market for New Zealand's meat and wool exports.

Stock numbers will recover in 2014 following the 2013 drought. But beyond 2014, numbers will continue their decline with conversions to dairy, especially in the South Island. However, productivity improvements on farm will see beef production remaining relatively stable and lamb production slowly increasing. Wool and venison production, however, are expected to decline with stock numbers.

BEEF

» Recent droughts in the US and Australia and growing Asian demand are expected to lift prices.

» China is now New Zealand's second largest market for beef by both value and volume.

» New Zealand beef production is set to remain stable over the outlook period.

Production

A declining beef herd offset by higher volumes of dairy cow beef will see beef production remain stable over the outlook period. This assumes average climatic conditions and improved productivity through increasing carcass weights.

This year to June 2014 beef production in New Zealand is estimated to fall 2.4 percent due to beef herds being rebuilt following the 2013 drought. Opening beef cattle numbers for 2014 were down one percent on 2013, to 3.70 million. These numbers are expected to have recovered slightly in the current year.

Exports

The US remains New Zealand's largest market for beef, accounting for almost half of all exports. Exports to China have increased and

TABLE 3.1: MEAT AND WOOL EXPORT VALUES (\$ MILLION), 2011 TO 2018

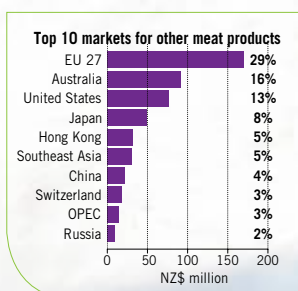
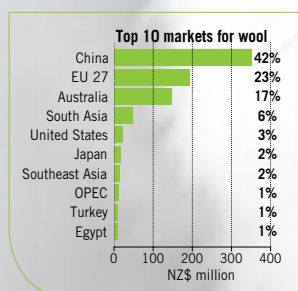
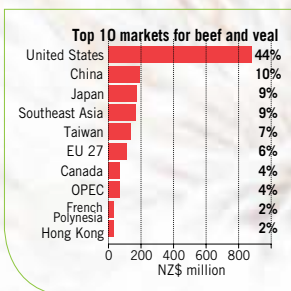
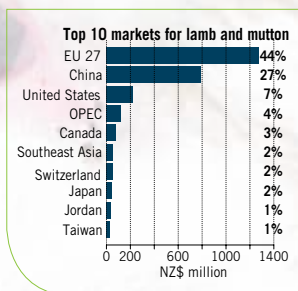
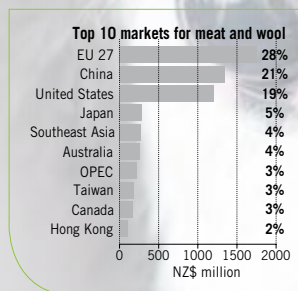
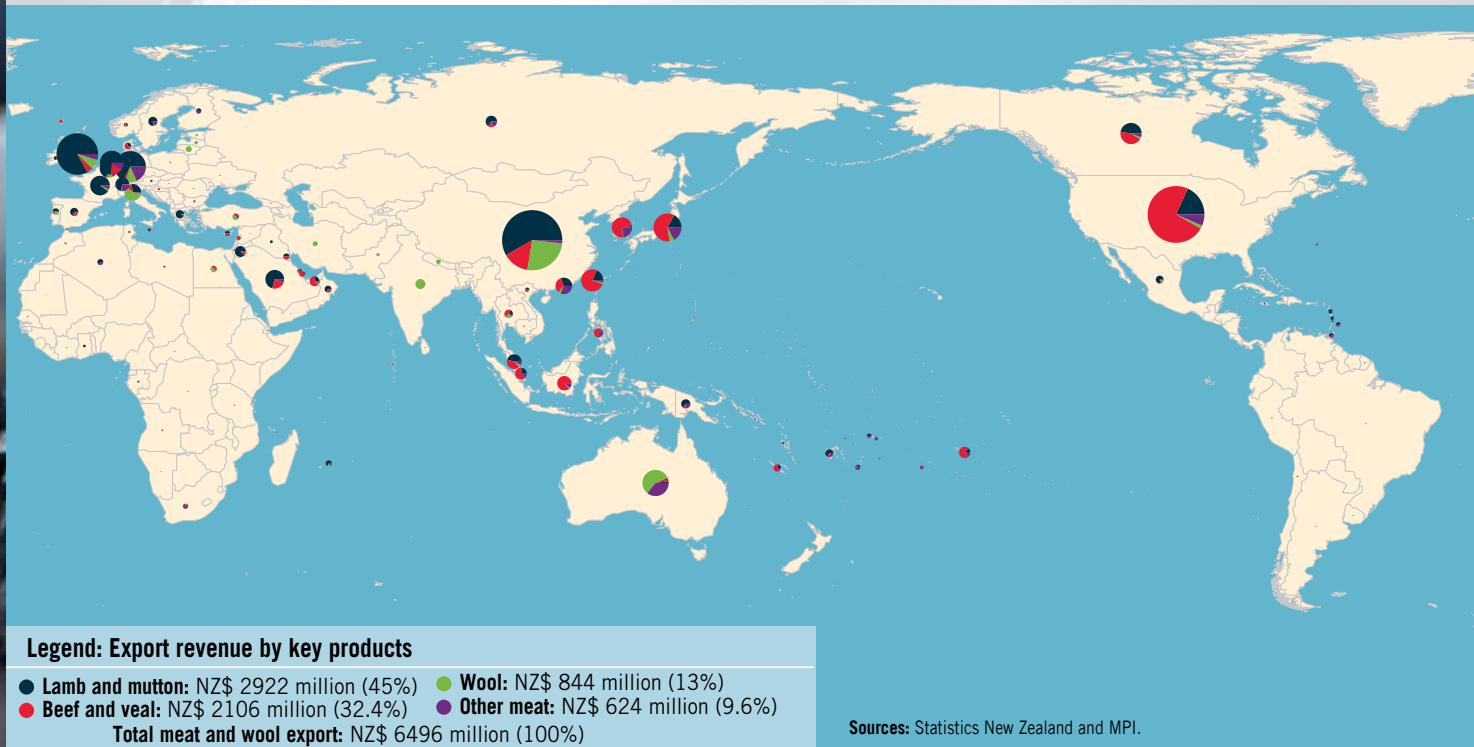
YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Beef and veal	2 036	2 010	2 143	2 115 *	2 136	2 201	2 277	2 421
Lamb	2 436	2 310	2 263	2 570 *	2 677	2 763	2 898	3 246
Mutton	474	329	395	498 *	481	490	508	558
Venison	215	205	171	179 *	171	170	171	179
Other meat	391	433	435	417 *	393	403	416	442
Hides and skins	511	570	565	592 *	520	534	552	587
Animal co-products	576	671	678	639 *	653	659	665	689
Animal products for feed	214	213	229	210 *	229	230	232	240
Wool	711	756	648	685 *	755	784	801	843
Carpets and other wool products	196	217	196	166 *	198	210	212	220
Total	7 760	7 714	7 723	8 071	8 213	8 445	8 734	9 426

Symbol

* Estimate

Sources: Statistics New Zealand and MPI.

FIGURE 3.1: MEAT AND WOOL EXPORT REVENUE BY DESTINATION AND PRODUCT, YEAR ENDED MARCH 2014



this market is now New Zealand's second largest beef market by both volume and value.

New Zealand beef exports to Asian markets comprise mainly boneless frozen cuts and co-products which differ from the manufacturing (grinding) beef that is predominantly shipped to the US market.

In its Agricultural Long-Term Projections, the US Department of Agriculture forecast Asian beef imports to more than double to 3.9 million tonnes by 2023 with most of this growth occurring in the Chinese and Hong Kong markets where imports are forecast to grow from 340 000 tonnes in 2012 to 1.3 million tonnes by 2018 (see Figure 3.2). A free trade agreement with China gives New Zealand beef a comparative advantage over product from competing exporters, such as Australia, Brazil and the US.

New Zealand will not be able to greatly lift total export volume to take full advantage of this opportunity due to dairy expansion impeding growth in beef cattle numbers. But volume can be diverted away from certain markets where New Zealand beef faces headwinds on account of higher tariffs and unfavourable exchange rates compared to its competitors. In addition, gaps in global supply primarily from the US and Australia, as they recover from drought, will support prices and bring better value per tonne for New Zealand's beef exports.

New Zealand's beef exports to Indonesia are projected to increase over the outlook period. However, uncertainty over the impact of ongoing Indonesian trade-restrictive measures on beef imports prevents any strategic focus on this market by exporters.

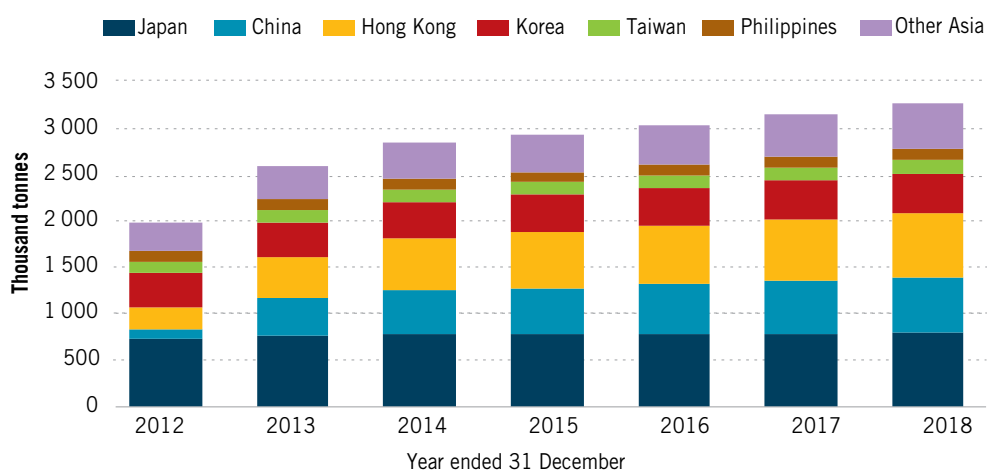
Prices

Over the next 18 months, beef export prices in US dollars (USD) are forecast to remain high. This is due to both the US and Australia rebuilding herds following drought which is creating global supply constraints. In the US, beef prices reached historically high levels in March 2014 due to herd rebuilding from improved dairy profitability and several years of drought.

Further out, growing demand, particularly from the Asian markets, led by the expanding Chinese market, will continue to support higher prices. Total export value for beef is forecast to continue to increase over the outlook period to reach \$2.42 billion by 2018.

Domestically, a high NZD limited growth in schedule prices in the year to June 2014. Schedule prices are forecast to increase in the year to June 2015 as a result of higher international prices. Beyond 2015, slowly rising international prices and an assumed depreciating NZD against the USD should continue to lift schedule prices.

FIGURE 3.2: PROJECTED BEEF IMPORTS INTO ASIA



Source: USDA Long-Term Projections, February 2014.

TABLE 3.2: BEEF CATTLE NUMBERS, BEEF PRICES, EXPORT VOLUMES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Total beef cattle ¹ (million)	3.95	3.85	3.73	3.70	3.74	3.74	3.73	3.73
Schedule prime beef price (cents/kg)	408	406	400	397 *	408	421	436	466
Export volume (000 tonnes)	350	346	374	366 *	360	362	363	364
Export value (\$ million)	2 036	2 010	2 143	2 115 *	2 136	2 201	2 277	2 421

Note

1. Opening numbers are as at 1 July of the preceding year.

Symbol

* Estimate

Sources: Statistics New Zealand, Beef + Lamb New Zealand Economic Service and MPI.

LAMB

» **Constrained supply, growing Asian demand and a pick up in European demand are expected to lift prices.**

» **New Zealand lamb production is set to slowly increase due to productivity improvements more than offsetting a declining sheep breeding flock.**

» **China is now New Zealand's largest market for sheep meat.**

Production

Lamb production is expected to slowly increase over the outlook period. Assuming average climatic conditions, the sheep breeding flock will continue to decline but this will be offset by productivity improvements, including improvements in lambing percentages and carcass weights.

In the year to June 2014, lamb production in New Zealand is estimated to have fallen only slightly, due to higher carcass weights on good pasture offsetting lower stock numbers. Opening sheep numbers for the 2014 production year were down 2.6 percent following the 2013 drought. The number of lambs tailed in the spring of 2013 was also down (1.6 percent to an estimated 25.5 million head) due to drought decreasing the average condition of many ewes at mating time.

Exports

New Zealand lamb export value is estimated to have lifted 13.6 percent in the year to June 2014 to a record \$2.57 billion. A recovery in demand from traditionally high-value European markets has complemented strong growth in the Chinese market for cheaper cuts, bringing about robust overall value for lamb.

There has been exceptional growth in exports to China. Exports of lamb and mutton increased 76 percent in the year ended June 2013. Strong demand saw China absorb the increased supply of both lamb and mutton due to the 2013 drought. In addition, mutton that would previously have found its way to the European market appears to have been diverted into China. Exports to China tend to be lower-value cuts and mutton which are shipped in frozen form. Further growth in China and other Asian markets is expected but at a slower rate over the outlook period.

Exports to the European markets tend to be higher-value leg and middle cuts with a strong chilled component. New Zealand exerts its competitive advantage by delivering increased volumes during high-consumption periods such as Christmas and Easter, when local European production is at its low point, while also ensuring year-round supply.

TABLE 3.3: SHEEP BREEDING NUMBERS, LAMB PRICES, EXPORT VOLUMES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Sheep breeding numbers ¹ (million)	23.9	22.5	22.8	22.2	22.6	22.4	22.1	22.0
Lamb schedule price (cents/kg)	623	637	477	537 *	540	546	567	615
Export volume (000 tonnes)	262	254	314	312 *	315	320	321	325
Export value (\$ million)	2 436	2 310	2 263	2 570 *	2 677	2 763	2 898	3 246

Note

1. Mated ewe and ewe hoggets are as at 1 July of the preceding year.

Symbol

* Estimate

Sources: Beef + Lamb New Zealand Economic Service, Statistics New Zealand and MPI.

Prices

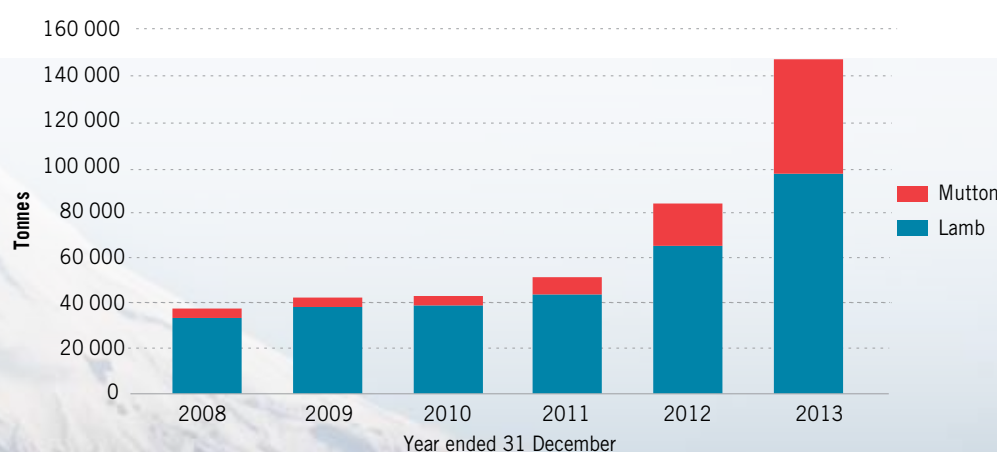
Over the next 18 months, lamb export prices in British pounds (GBP) are forecast to improve due to global supply constraints, robust demand from China and an improvement in UK demand. Constrained supply is expected from New Zealand, Australia and the UK. In Australia, breeding flock numbers fell three percent in the year ending June 2014 due to drought while in the UK numbers have also contracted in recent years due to a combination of climatic factors and market conditions.

Further out, modest increases in global supply and growing demand are expected, particularly

from China which will steadily increase prices.

Lamb exports from Australia are expected to recover, reaching 210 000 tonnes by 2018, but only modest gains are expected from New Zealand and the UK. Total export value for lamb is forecast to continue to increase over the outlook period to reach \$3.45 billion by 2018.

Domestically, the average lamb schedule price for the year to June 2014 is estimated at 537 cents per kilogram, up 12.6 percent on the previous year. Over the outlook period, schedule prices are forecast to continue to improve due to higher international prices and an assumed weaker NZD against the GBP.

FIGURE 3.3: LAMB AND MUTTON EXPORTS TO CHINA

Sources: Statistics New Zealand and MPI.



VENISON

» Constrained supply and an increase in European demand are expected to lift prices.

» New Zealand venison production is expected to decline with a declining deer herd.

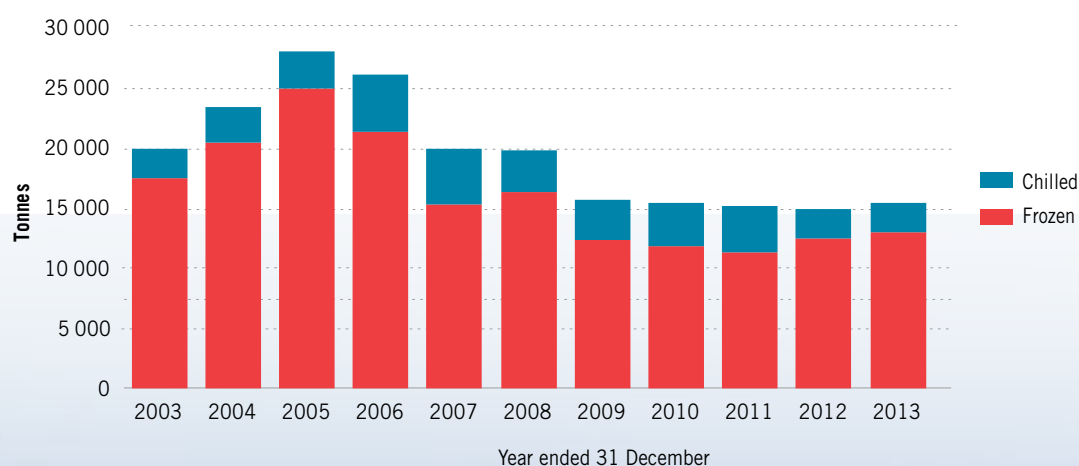
New Zealand's deer herd is expected to decline over the outlook period, due to conversions to dairy and a period of comparatively low returns for venison. This will impact on New Zealand's venison production over the outlook period.

The EU, particularly Germany, remains the largest market for New Zealand venison. The European economic crisis saw prices fall in

recent years as the market accepted less higher-value chilled venison. Chilled exports fell from 25 percent in 2011 to 16 percent in 2013. Prices in Euro are expected to stabilise this year to June 2014 and improve next year.

Further out, higher demand from economic growth in the key European market, will combine with constrained supply to increase average prices. Coupled with the expected decline in volume of venison exports, total export value for venison is forecast to remain static over the outlook period.

FIGURE 3.4: VENISON EXPORTS



Sources: Statistics New Zealand and MPI.



TABLE 3.4: TOTAL DEER, VENISON PRICES, EXPORT VOLUMES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Total deer ¹ (million)	1.12	1.09	1.06	1.03	1.05	1.04	1.02	1.00
Venison schedule price – AP Stag (cents/kg) ²	750	794	689	658 *	672	685	709	764
Venison export volume (000 tonnes)	15.6	15.2	14.4	14.7 *	14.3	14.0	13.5	13.2
Venison export value (\$ million)	215	205	171	179 *	171	170	171	179

Notes

1. Opening numbers are as at 1 July of the preceding year.
 2. Gross net of levies.

Symbol

* Estimate

Sources: Statistics New Zealand, Agrifax and MPI.

WOOL

» **Constrained supply, growing Asian demand and an increase in European demand are expected to lift prices.**

» **New Zealand wool production is expected to decline with a declining sheep flock.**

The declining sheep flock will see wool production continue to fall over the outlook period. This year to June 2014, wool export volumes are estimated to have declined by 7.1 percent to 117 000 tonnes following the 2013 drought.

China is set to remain the most important market for New Zealand's wool exports, accounting for 56 percent of exports in the year

to June 2013. China consumes around half of its manufactured wool products and exports the remainder to developed markets such as Europe and the US. Economic recovery in these markets will strengthen demand for Chinese wool products. However, competition from cheaper synthetic fibres and cotton will continue to constrain prices.

Over the next 18 months, a fall in wool exports from Australia, the largest wool exporter, due to drought will sustain prices. Further out, prices are forecast to rise gradually due to improved demand and only marginal increases in production from Australia.

TABLE 3.5: SHEEP NUMBERS, WOOL PRICES, EXPORT VOLUMES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Total sheep numbers ¹ (million)	32.6	31.1	31.2	30.8	31.3	31.0	30.7	30.4
Average sale price (cents/kg)	602	669	515	584 *	598	612	631	669
Export volume (000 tonnes)	123	113	126	117 *	126	128	127	127
Export value (\$ million)	711	756	648	685 *	755	784	801	843

Note

1. Opening numbers are as at 1 July of the preceding year.

Symbol

* Estimate

Sources: Statistics New Zealand, Beef + Lamb New Zealand Economic Service and MPI.

FOOT-AND-MOUTH DISEASE PREPAREDNESS

The 2030 strategy for MPI is **GROWING AND PROTECTING NEW ZEALAND.**

Foremost under protecting is to have effective and efficient policies and processes in place that minimise the risks of exotic disease and pest incursions. These are carried out by MPI through bilateral health standards agreements negotiated with the countries New Zealand imports from; biosecurity processes at seaports, airports and international mail centres; and post-border response surveillance, preparedness and response. These policies and processes are vital because of the economic, environmental and social consequences of exotic disease and pest incursions to New Zealand.

Foot-and-mouth disease (FMD) is one of many animal diseases monitored by the World Animal Health Organisation (OIE). FMD is a highly contagious viral disease that affects all cloven-hoofed animals. These include all the commercial livestock in New Zealand – dairy cattle, beef cattle, sheep, deer, pigs and goats. While the disease may have significant impacts on animal health, there is no human health risk to the products of such animals.

New Zealand has FMD-freedom status and the disease has never occurred here. New Zealand shares this status with other developed countries of Australia, North America, Western Europe, Japan and some developing countries. FMD is either sporadic or endemic across the rest of the world.

An incursion of FMD would mean the loss of this FMD-free status for a minimum of three months after the last detection and culling of all susceptible animals on infected properties (IP). Meat and dairy products exported in the three weeks prior to the initial outbreak would be recalled, redirected or destroyed and export trade in many animal products would be banned until individual countries agree to resume.

Following lessons learnt from Exercise Taurus – a simulated response to a hypothetical FMD incursion – a FMD preparedness programme has been initiated by MPI in conjunction with animal industry organisations. The programme runs over 18 months with 16 component projects. One of these is an economic impact assessment which is nearing completion.

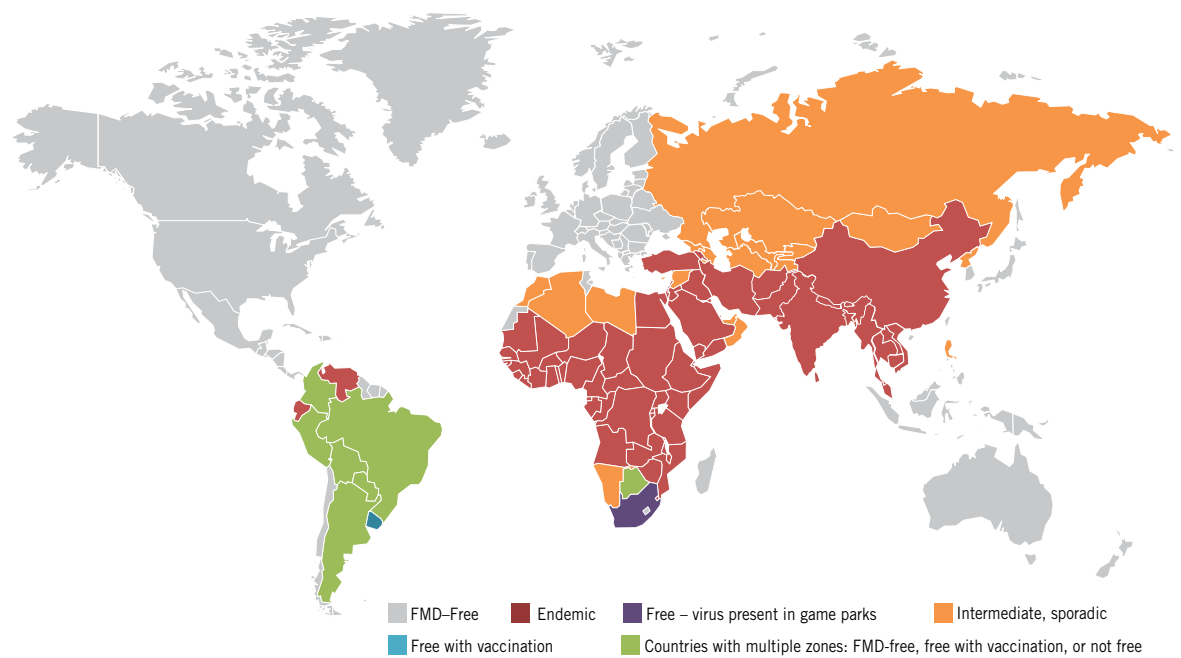
A large scenario involved 508 IPs in the North Island taking 191 days to eradicate from an assumed start on 30 September 2011. Three other scenarios were selected to explore sensitivity to scale of incursion and to cattle vaccination in the eradication process.

MPI derived export losses for meat, meat-related and dairy amounted to \$14.4 billion, using assumptions that were necessarily big picture, plausible and estimable. Eradication expenditure was estimated at \$1.17 billion and livestock compensation on IP was estimated at \$30.8 million. This is for killing losses only. Losses incurred due to movement controls were not included. Compensation does not cover losses caused by the disease or the closure of export markets.

The New Zealand Institute for Economic Research modelled export losses, eradication expenditure and compensation payments using their computable general equilibrium modelling. In addition, they undertook research on impacts to tourism. The nominal GDP loss was estimated at \$13.8 billion in year ended June 2012 with a loss of \$5.8 billion attributable to farm and processing industries. In the year ended June 2013, a gain of \$1.8 billion was estimated due to sales of manufactured dairy stocks and part of the build up of livestock numbers on farms prior to the resumption of meat exports. A small incursion on just one IP was estimated to result in a nominal GDP loss of \$5.8 billion in year ended June 2012 with a loss of \$1.6 billion attributable to farm and processing industries.

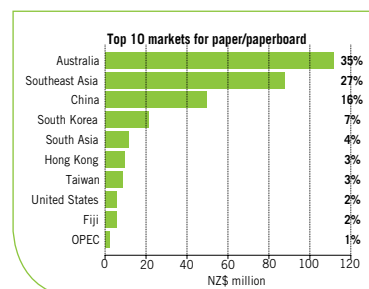
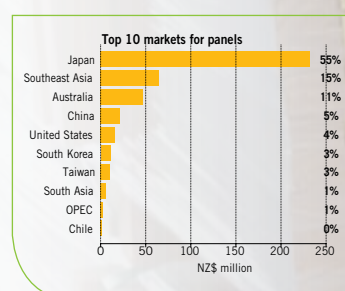
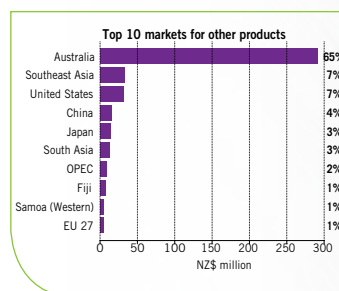
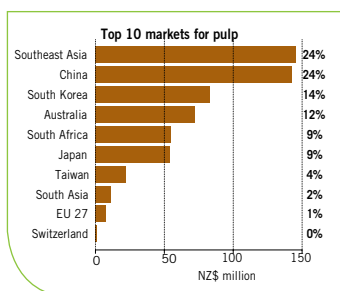
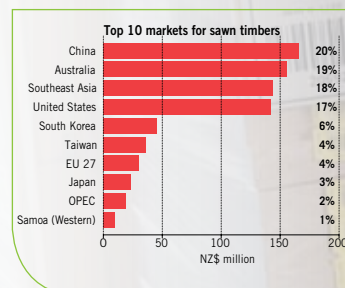
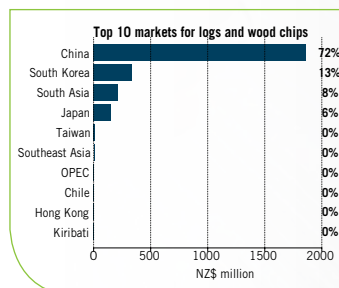
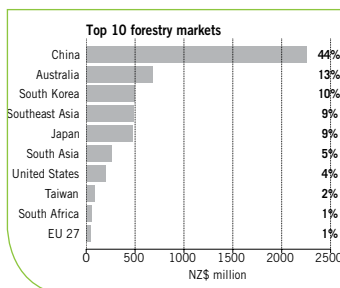
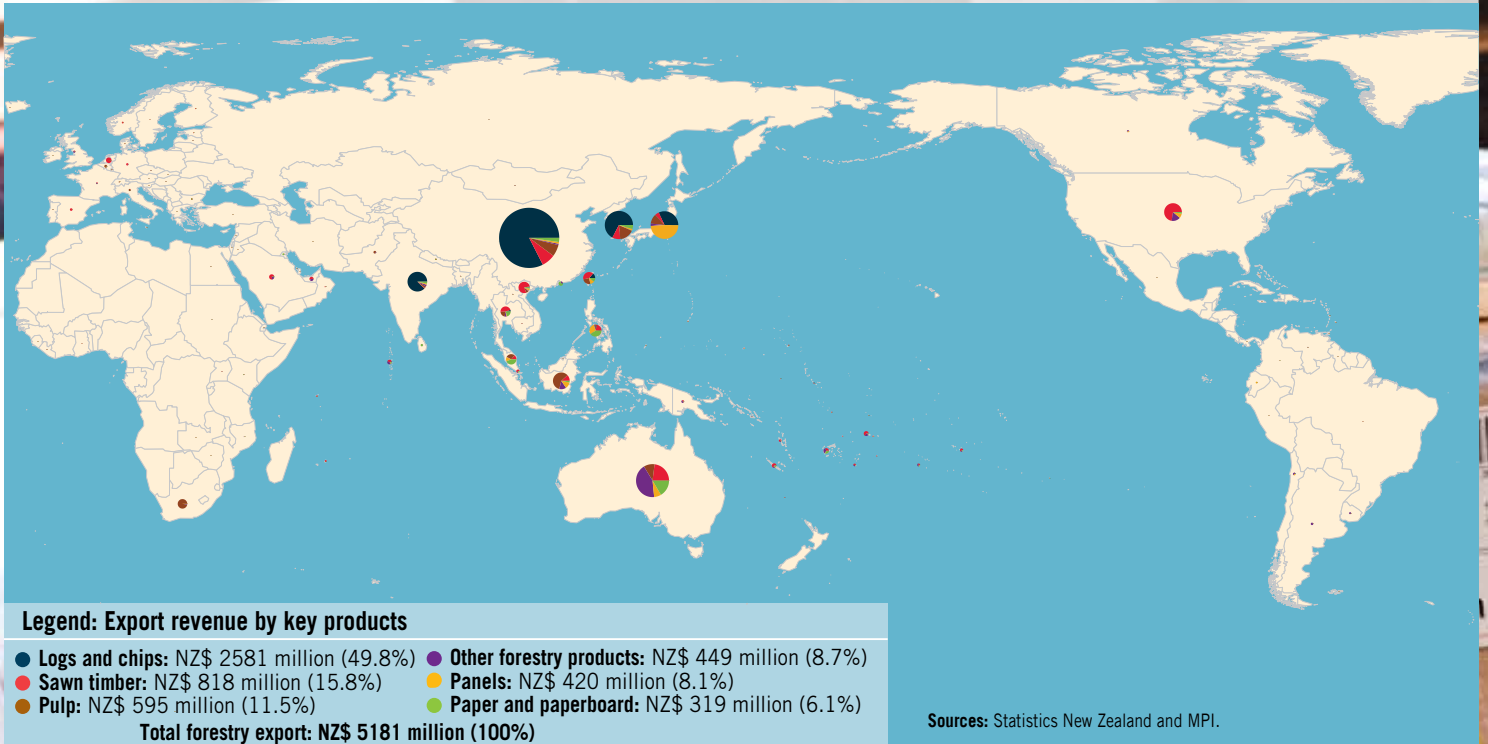


FIGURE 3.5: CURRENT WORLD SITUATION OF FMD



Growing and Protecting New Zealand

FIGURE 4.1: FORESTRY EXPORT REVENUE BY DESTINATION AND PRODUCT, YEAR ENDED MARCH 2014



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PINE

FORESTRY

4

New Zealand's log harvest is at record levels, and expected to increase during the forecast period as trees planted in the early-1990s mature. Demand from China for logs is driving the growth of the forestry sector, with export value forecast to reach \$5.1 billion at the end of June 2014. Global log prices are at historically high levels reflecting China's consumption of wood products, Russia's imposition of an export tax on logs, and global supply of logs decreasing. The high log prices have meant that New Zealand's domestic sawmilling sector faces challenges with higher input costs; however, domestic demand for sawn timber is expected to increase with the Auckland and Christchurch housing markets growing.

Production

Forestry harvest volumes have seen year-on-year increases since 2009, with the harvest for the year to June 2014 expected to reach a record 30.1 million cubic metres. This represents a 55 percent volume increase over five years. Two factors contributing to production growth are the maturing age class structure of the forestry estate and demand from China.

High demand for logs across different log classes and international supply constraints has led to historically high global log prices. Should prices remain high this may increase harvesting rates in the short term as firms look to take advantage of high prices. The age-class profile of New Zealand forestry is such that if the demand trends continue out to 2016, which is expected, forest owners may begin harvesting logs at younger ages to take advantage of the market opportunities.

Domestically, the sawmilling industry faces challenges with higher input costs combined with the high NZD, which contribute to limit their profitability. However, the sawmilling industry has improved productivity over the last few years

through finding efficiency gains. The domestic demand for sawn timber is also set to increase with the housing markets in Auckland and Christchurch set to grow. While there may be some rationalisation of older, smaller mills, the outlook for the sawmilling industry is reasonably positive.

Exports

By June 2014, almost 17 million cubic metres of logs worth \$2.5 billion are expected to be exported. This represents over 50 percent of the harvest. China continues to be the principle market for unprocessed log exports, accounting for 41 percent of export volume (12.3 million cubic metres of logs worth \$1.9 billion). New Zealand is now the top softwood log exporter to China, surpassing Russia.

Little has changed in more mature markets like Japan and Korea. They are expected to remain steady due to very stable demand in these markets. However, growth in emerging markets may lead to an increase in demand in future. The anticipated housing growth in India, for example, will likely generate a global uplift in demand for timber and raw logs. The scale of demand, and the extent to which New Zealand can position itself as a value supplier (rather than volume supplier), means there are potentially significant returns from alternative markets to China. There are many barriers to entry in these markets, and considerable investment is necessary to gain a foothold.

In other exports, sawn timber to the US has increased this year as that economy continues to recover. However, exports to Australia have been struggling due to an unfavourable exchange rate. Demand from China for New Zealand's lower value timber has decreased as China has imported less sawn timber this year; likely reflecting a preference to process raw logs onshore.

Prices

Log export prices are expected to average \$147 per cubic metre in 2013/14, the highest level seen since the early 1990s, reflecting strong demand from China and reduced supply from some major competitors. The price is expected to decrease to \$130 per cubic metre in late 2014 but will remain in the mid-to-high \$130s over the forecast period, well above the historical average.

Overall, sawn timber export prices are expected to be up eight percent to \$413 per cubic metre, which combined with a three percent drop in volume is expected to lead to a five percent increase in export value to \$0.83 billion. Global wood fibre markets have come off their 2013 lows, with export pulp prices increasing seven percent to \$664 per tonne in the last year, but still down 16 percent from 2011. This is largely due to the global move away from paper and towards digital media. Higher grade paper still experiences reasonably strong demand.

TABLE 4.1: FORESTRY EXPORT VOLUMES, PRICES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014*	2015	2016	2017	2018
LOGS								
Price (\$ per m ³)	132	114	124	147	131	131	132	135
Volume (000 m ³)	12 284	12 966	14 953	16 876	15 891	15 574	16 033	16 834
SAWN TIMBER								
Price (\$ per m ³)	399	373	383	413	417	417	421	436
Volume (000 m ³)	2 011	2 047	2 067	2 013	2 018	2 018	2 018	2 018
PANELS								
Price (\$ per m ³)	523	517	501	469	472	472	477	494
Volume (000 m ³)	898	955	870	910	942	942	942	942
PULP								
Price (\$ per t)	795	682	621	664	642	643	649	672
Volume (000 t)	783	828	875	888	888	888	888	888
Total value (\$ million)¹	4 527	4 272	4 478	5 129	4 694	4 658	4 759	5 003

Note

1. Includes chips, paper and other products, but excludes newsprint.

Symbol

* Estimate

Sources: Statistics New Zealand and MPI.



FOREST GROWERS LEVY

The Forest Growers Levy came into force on 1 January 2014. The levy is imposed on logs harvested from plantation forests in New Zealand with forest owners primarily responsible for the payment. The initial rate of the levy for year ending 31 December 2014 was set by the Forest Growers Levy Trust (FGLT) at 27 cents per tonne of harvested wood material, excluding non-commercial domestic firewood. The levy is calculated on the basis of the amount of the commodity produced, such as volume of logs harvested and supplied to a levy collection agent, during the levy year.

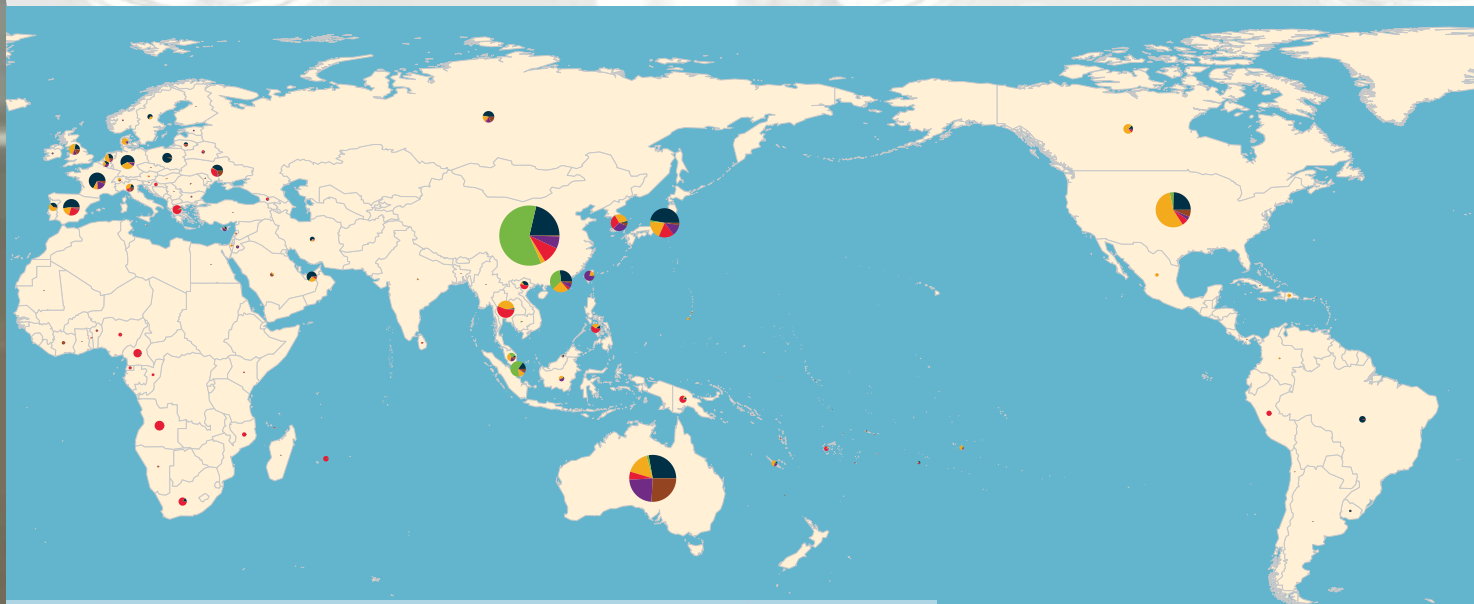
The general purposes for which the FGLT may spend the levy will be:

- › research and development;
- › forest biosecurity;
- › the National Forest Health Surveillance Scheme;
- › health, safety, and education;
- › supporting implementation of the Wood Council's Strategic Action Plan;
- › programme development and implementation costs (facilitation of industry collaboration on issues such as health and safety);
- › industry and product promotion;
- › information dissemination;
- › representing the interests of forest owners and the industry; and
- › administration costs.

The levy will not be spent on any commercial or trading activities.

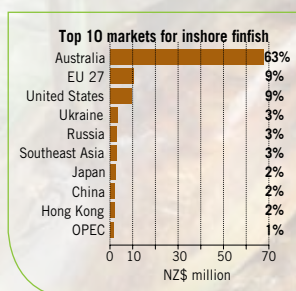
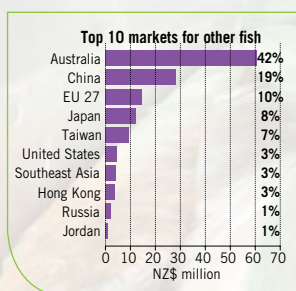
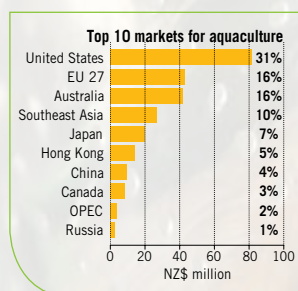
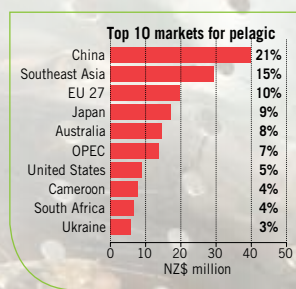
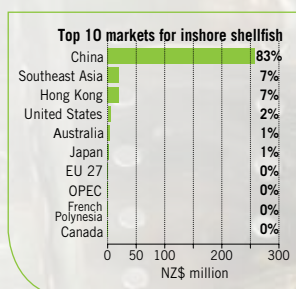
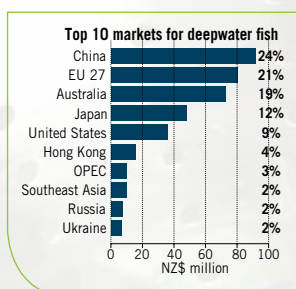
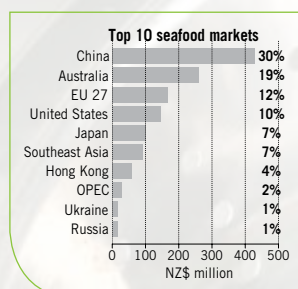


FIGURE 5.1: SEAFOOD EXPORT REVENUE BY DESTINATION AND PRODUCT, YEAR ENDED MARCH 2014


Legend: Export revenue by key products

- **Deepwater:** NZ\$ 391 million (27.1%)
 - **Inshore Shellfish:** NZ\$ 312 million (21.6%)
 - **Aquaculture:** NZ\$ 276 million (19.1%)
 - **Pelagic:** NZ\$ 200 million (13.9%)
 - **Other and freshwater:** NZ\$ 155 million (10.7%)
 - **Inshore Finfish:** NZ\$ 110 million (7.6%)
- Total fishery export: NZ\$ 1445 million (100%)**

Sources: Statistics New Zealand and MPI.



SEAFOOD

5

» The New Zealand seafood industry is expected to grow modestly. Export earnings are forecast to increase from \$1.44 billion in year ending June 2014 to \$1.64 billion in 2018.

» Aquaculture is expected to be the key driver for the forecast growth. It is expected to grow in the next couple of years through planned expansion of salmon farming.

» Prices are likely to remain high due to strong demand from New Zealand's top seafood export destinations (China, Australia, US and the EU) driven by their positive economic growth prospects.

WILD CAPTURE FISHERIES

Wild capture fisheries accounted for around 82 percent of New Zealand's total seafood export earnings in the year ended December 2013. Wild capture fisheries comprise five species groups: deepwater, pelagic, inshore shellfish, inshore finfish and other seafood products.

The export value of wild capture fisheries is expected to decrease by 5.2 percent to \$1.15 billion for the year ending 30 June 2014, as a result of decrease in catch volume. For the remainder of the forecast period, it is expected to increase by about 1.9 percent per year to reach \$1.24 billion in the year ending June 2018.

Wild fisheries catch volume is expected to grow at a slow pace after a small decrease in the year to December 2013. New Zealand has a mature fisheries management regime with the majority of fish stocks managed at or slightly above their maximum sustainable yield. While this limits the

TABLE 5.1: SEAFOOD EXPORT VOLUMES, PRICES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014*	2015	2016	2017	2018
WILD CAPTURE								
Export volume (000 tonnes)	267	249	261	244	245	245	246	246
FOB price (\$/kg)	4.7	4.9	4.7	4.7	4.6	4.7	4.8	5.0
Export value (\$ millions)	1 249	1 221	1 214	1 151	1 134	1 151	1 178	1 238
AQUACULTURE								
Export volume (000 tonnes)	45	42	38	36	37	39	41	45
FOB price (\$/kg)	6.6	6.6	6.6	8.0	8.1	8.3	8.5	9.0
Export value (\$ millions)	298	279	252	289	301	321	353	402
TOTAL SEAFOOD SECTOR								
Export volume (000 tonnes)	312	292	299	280	282	284	287	291
FOB price (\$/kg)	5.0	5.1	4.9	5.1	5.1	5.2	5.3	5.6
Export value (\$ millions)	1 547	1 500	1 466	1 440	1 435	1 472	1 531	1 640

Symbol

* Estimate

Sources: Statistics New Zealand and MPI.

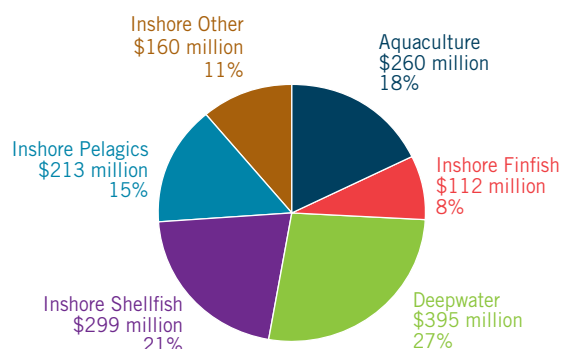
scope for volume growth, there are a small number of fisheries where volume growth is anticipated, including hoki and southern blue whiting. This is estimated to contribute a 0.2 percent increase per year in wild fisheries export volume over the outlook period.

Export price is expected to increase by 1.7 percent per year over the outlook period. It is due to growing demand for New Zealand's wild capture fish outpacing limited supplies. Global supply of whitefish for 2014 and 2015 is likely to

be lower than the 2013 levels as there have been small quota cuts for Barents Sea cod and haddock stocks, and further cuts are expected in 2015. Alaska pollock supplies are expected to decline slightly in 2014.

Developing new and high-priced product forms and markets will be key in lifting export revenue to overcome the potential limitation in growth of wild capture volumes. New developments, such as the Precision Seafood Harvesting PGP, may create an opportunity for value growth.

FIGURE 5.2: SEAFOOD EXPORT VALUE BY SPECIES, YEAR ENDED DECEMBER 2013



Sources: Statistics New Zealand and MPI.



AQUACULTURE

Aquaculture export earnings are estimated to increase by 14.6 percent to \$289 million in the year to June 2014. This is due to strong prices and a rebound in mussel and oyster production stemming from more favourable climatic conditions. Mussels, oysters and salmon are the three main species farmed in New Zealand with green-lipped mussels accounting for 69 percent of export values in 2013.

Aquaculture export earnings are forecast to increase by 9.8 percent per year over the outlook period to reach \$402 million in 2018. This growth will be underpinned by the planned salmon production increases by New Zealand King Salmon from 2016. The Supreme Court confirmed resource consent approval for New Zealand King Salmon's three new farms in the Marlborough Sounds on 17 April 2014.

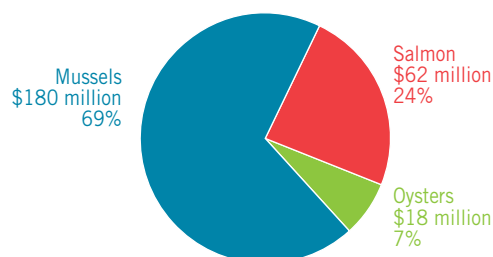
Aquaculture export volume is expected to bounce back after a decrease in 2013. Export volumes experienced a significant decrease (15 percent) in year ended December 2013, due to a fall in mussel farming productivity related to La Niña climate conditions. Such conditions limit food supply in the water column. The situation has improved in the latter part of 2013. An improvement in green-lipped mussel production and export volumes in the coming years is expected, as further production extensions are planned. On top of this, green-lipped mussel prices have rebounded and shown an increasing trend over the past 12 months.

Salmon export earnings increased by 20 percent in 2013 compared to the last year. Prices were slightly down in 2013 but have rebounded in recent months. Production growth is expected in 2016 when New Zealand King Salmon Limited's three new farms come on line.

Oyster production is expected to grow at a modest pace while prices will remain stable. Oyster virus issues in Northland, causing the loss of up to 80 percent of juvenile oysters on some farms in 2010, affected oyster harvests in 2011 and 2012. However, oyster production is starting to recover alongside a selective breeding programme with improved juvenile oyster survivability. In 2013, oyster production rebounded by 26 percent, and is expected to increase further, albeit slowly. With increased global supply, oyster prices were slightly down in 2013.

There is scope to increase aquaculture production through development of new farms and new aquaculture species. Development of new farms will depend on the availability of suitable space and willingness to invest in new farms. Various research trials and innovation initiatives into the new aquaculture species are underway in collaboration between industry, research providers and the government.

FIGURE 5.3: AQUACULTURE EXPORT VALUES, YEAR ENDED DECEMBER 2013



Source: Seafood New Zealand.

NEW ZEALAND ROCK LOBSTER EXPORTERS PROFIT FROM THE NEW ZEALAND-CHINA FREE TRADE AGREEMENT

Since the New Zealand-China Free Trade Agreement (FTA) was signed in 2008, New Zealand has benefited from improved market access with the strong growth of New Zealand rock lobster exports to China.

Today, China is New Zealand's most important market for live and chilled rock lobster. For the year ended December 2013, New Zealand exported 2550 tonnes of rock lobster to a booming market with a value of \$240 million. Rock lobster is the highest-value fish species exported from New Zealand.

Since the FTA came into force, China's tariff rates for chilled rock lobsters have been cut to zero from 15 percent in 2008. This reduction in tariff rates resulted in tariff savings of approximately \$36 million in 2013 to the New Zealand rock lobster industry.

Improved access to China has been complemented by strong growth in the Chinese

economy and the ever-growing consumer demand for high-quality food. China's middle class is now estimated to comprise more than 240 million people and continues to grow. This is expected to fuel further demand for New Zealand rock lobster and other seafood products.

Crustaceans are just one of the New Zealand seafood exports to China that have seen strong growth following the implementation of the FTA. Between 2008 and 2013, the total export value of New Zealand seafood exports to China rose from \$161 million to \$416 million – accounting for 27 percent of the value of all New Zealand seafood exports.

This New Zealand seafood success story can be in part attributed to producers maintaining quality throughout the value chain for rock lobster – from harvest to market. That is, exporting a product that has not been processed, and is still in near perfect condition by the time it arrives in the market.



Photo: T&J Enderby

HORTICULTURE 6

APPLES AND PEARS

» Export earnings for apples and pears are expected to reach \$460 million in the year to December 2014, down nine percent on last season due mainly to lower export volumes.

» The outlook is encouraging for the New Zealand apple and pear industry, with an increasing proportion of new varieties planted and potential for ongoing market expansion in Asia.

» Annual export volumes are expected to increase steadily as recent plantings and those planned for the next few years come into production.

Production

Apple and pear production in 2014 is expected to be down on the previous year. This decrease is mainly due to an off-year in the biennial bearing pattern of several apple varieties.

Favourable growing conditions, particularly the warm spring, have delivered fruit of good size, colour and eating quality. The warm spring has also led to an earlier harvest – one to two weeks ahead of normal.

Industry reports indicate a significant new phase of orchard replanting and new plantings over the next few years that could lift the national planted area by upwards of five percent from 9500 hectares currently.

Exports

Market conditions for the 2014 season are generally positive following on from a record year in 2013. Early signals indicate good demand from markets in Asia, the Middle East and North America. The early season has provided an opportunity for New Zealand apples and pears to arrive in some markets ahead of other southern hemisphere supplies. Demand for New Zealand apples in Taiwan is reported as particularly strong, likely helped by New Zealand's FTA with Chinese Taipei (Taiwan) that came into force on 1 December 2013.

New Zealand is expected to export around 306 000 tonnes (17 million cartons) of apples and pears in the year ending December 2014, down six percent on 2013.

TABLE 6.1: APPLE AND PEAR EXPORT VOLUMES, PRICES AND VALUES, 2011 TO 2018

YEAR TO 31 DECEMBER	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Export volume (million cartons) ¹	16.9	16.0	18.1	17.0 *	18.5	17.5	19.0	18.0
FOB ² price (\$/carton) ³	24.0	25.0	27.8	27.0 *	27.0	28.0	28.0	28.0
Export value (\$ million) ³	406	400	504	460 *	500	490	532	504
Export value YEAR TO 30 JUNE (\$ million)	371	347	484	477 *	494	491	524	509

Notes

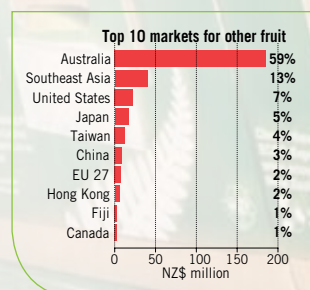
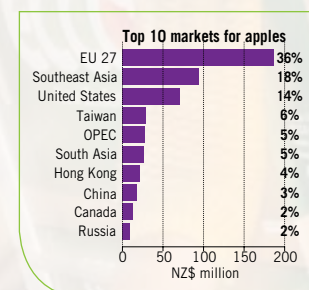
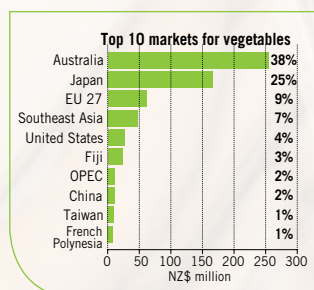
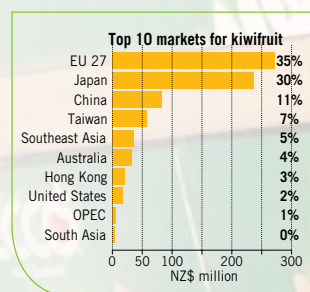
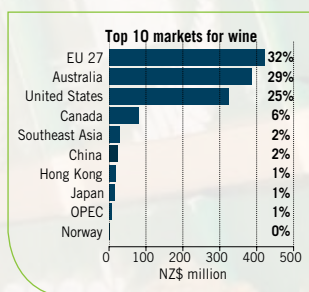
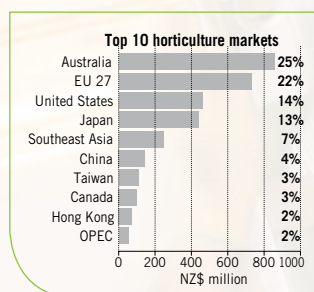
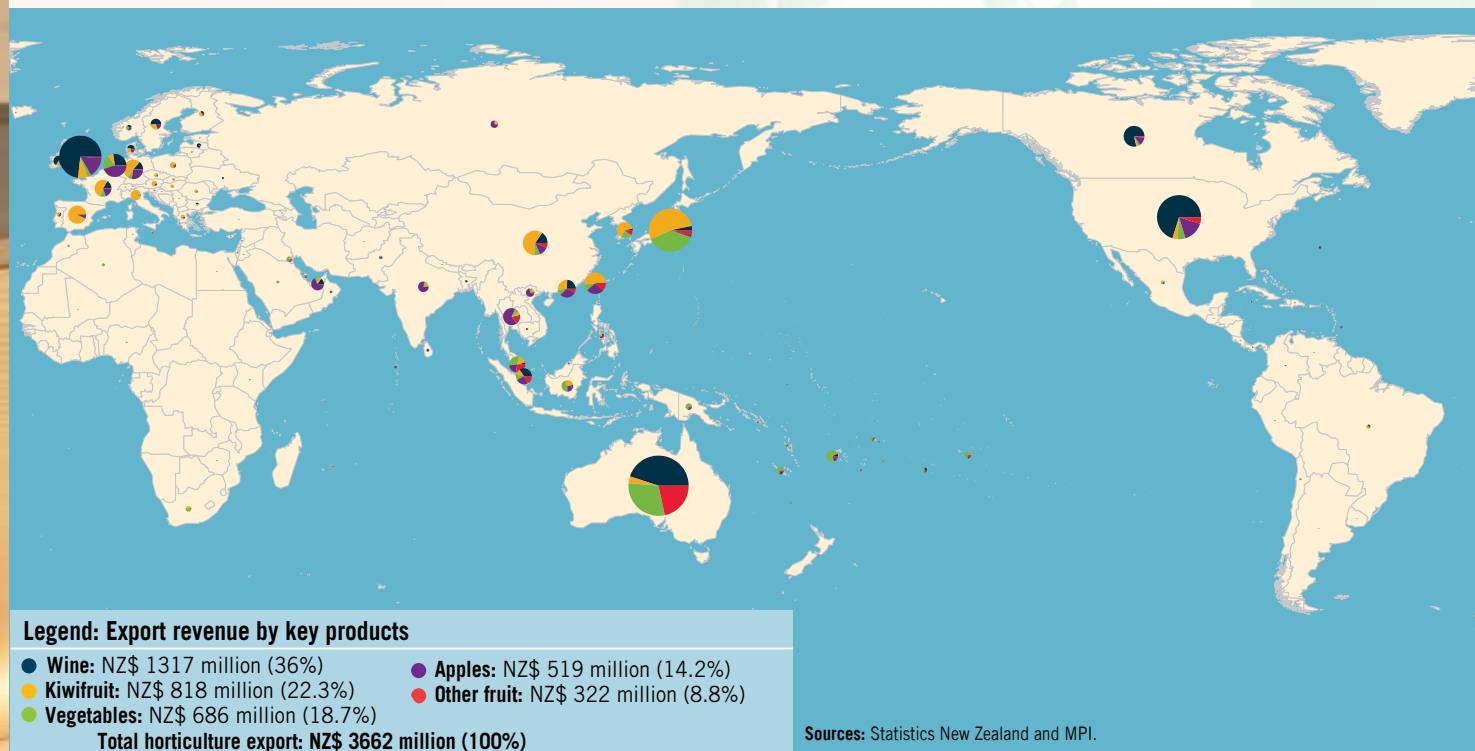
1. A carton is equivalent to 18.0 kilograms.
2. Free on board is the value of goods delivered to the port of export and loaded onto the vessel for transportation out of the country of origin.
3. Official statistics for FOB prices and export values for year to 31 December were modified for 2011 and 2012 as industry data and MPI Pipfruit Monitoring data indicated that higher export prices were achieved.

Symbol

* Estimate

Sources: Statistics New Zealand and MPI.

FIGURE 6.1: HORTICULTURE EXPORT REVENUE BY DESTINATION AND PRODUCT, YEAR ENDED MARCH 2014



Annual export volumes are expected to increase steadily over the forecast period (notwithstanding biennial bearing fluctuations) as recent plantings and those planned for the next few years come into production.

Market diversification into Asia and the Middle East has increased – refer to Figure 6.2. Asia received around 105 000 tonnes of New Zealand apple and pear exports in 2013 (32 percent) compared with 50 000 tonnes (16 percent) in 2002. Volumes into Europe fell to 44 percent (from 62 percent) over the same period, attributed to declining consumption of apples and pears in the main markets, a shorter marketing window due to Europe's improved storage technology, and an appreciating NZD.

Prices

Export prices are forecast to remain stable and improve slightly over the forecast period. This is due to ongoing changes in the variety mix and further expansion into higher paying markets.

KIWIFRUIT

Progression of the bacterial disease Psa meant export volumes for the year ended 31 March 2014 were down from the previous year. The kiwifruit industry has, however, acted to contain the impact of Psa through replacing the Psa-susceptible Hort16A with the more resilient new

Gold3 cultivar. Over the forecast period, therefore, export volumes are expected to recover as the new Gold3 vines are harvested. Volume and value of green kiwifruit are forecast to remain steady.

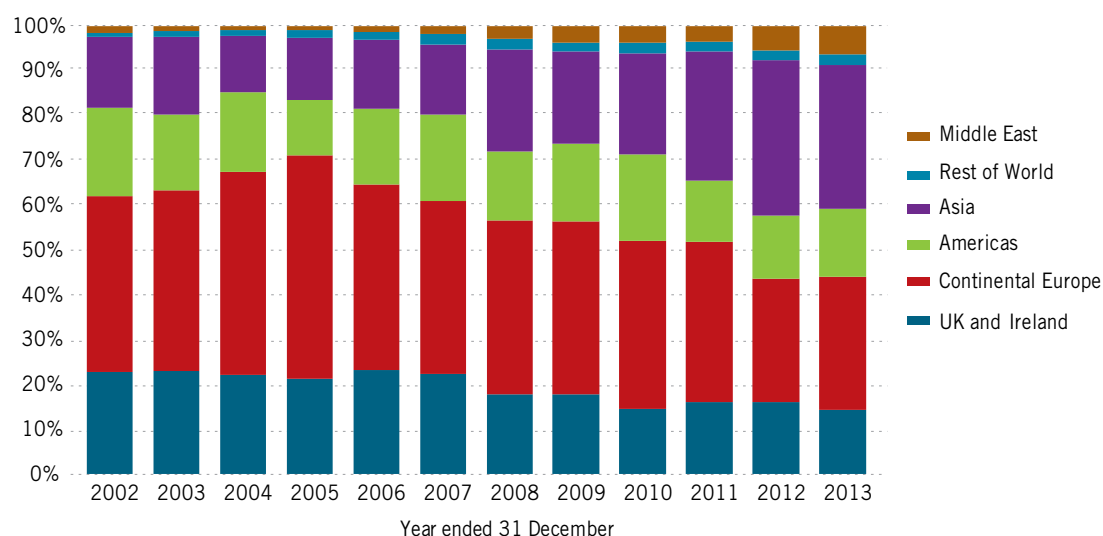
Production

The bacterial vine-killing disease Psa, confirmed in New Zealand in November 2010, has spread to all kiwifruit growing regions of the North Island. As at May 2014, over 76 percent of kiwifruit orchards are known to have the bacterium present, up from 70 percent one year ago, and 40 percent two years ago. Hort16A, the main gold kiwifruit cultivar grown prior to Psa, is particularly susceptible to Psa. To date, 2394 hectares (over 85 percent) of Hort16A vines have been removed because of the disease.

Production of gold kiwifruit is on the path to recovery after the impact of Psa. Over the medium term, this recovery will be due to two factors: the rate of transition to the Gold3 cultivar and the productivity impact from Psa. MPI has developed two scenarios as shown in Figure 6.3. The mid-point of these two scenarios is used for the forecast.

The low scenario for gold kiwifruit production is based on no Hort16A production in the Bay of Plenty in 2014 (year to March 2015), and no

FIGURE 6.2: APPLE AND PEAR EXPORT VOLUMES BY DESTINATION, 2002 TO 2013



Sources: Statistics New Zealand and MPI.

production in other regions by 2015. This scenario assumes a 40 percent reduction in the productivity of Gold3 due to Psa.

The high scenario for gold kiwifruit production is based on no Hort16A production in the Bay of Plenty in 2016 (year to March 2017), and 20 percent production in other regions at the end of the forecast period. This scenario assumes a 20 percent reduction in the productivity of Gold3 due to Psa.

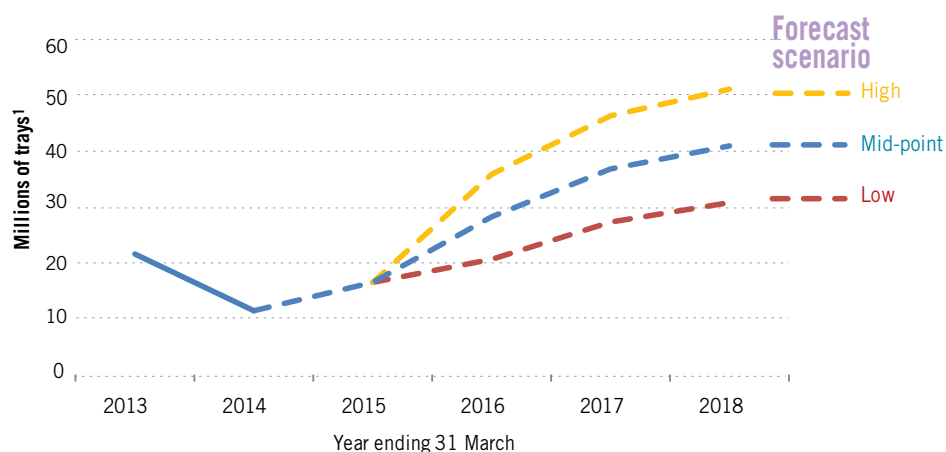
Green kiwifruit orchards volumes have also been impacted by Psa, although the variety is proving to be more tolerant of the disease. Green kiwifruit volumes have also reduced with the conversion of some hectares to Gold3 over the past few years, but are expected to stabilise.

Exports

New Zealand exported 89 million trays of kiwifruit in the year ended 31 March 2014, down 12 percent on the previous year. Export revenues fell 22 percent to \$817 million, a large impact due to the higher value of gold kiwifruit. In the year ending 31 March 2015, kiwifruit export volumes and revenues are forecast to remain at similar levels to the previous year. Volumes will be 89 million trays, with a value of \$821 million. In the medium term, export prices are expected to strengthen for green kiwifruit, and soften for gold kiwifruit, driven by changes in market composition and the volume of kiwifruit supplied.

The New Zealand kiwifruit industry continues to build confidence that it will overcome the challenges Psa has brought. Export volumes and values towards the end of the forecast period (2017/18) are expected to be similar to pre-Psa levels.

FIGURE 6.3: GOLD KIWIFRUIT EXPORT VOLUMES



Note

1. One tray equals 3.6 kg.

Sources: Statistics New Zealand and MPI.

TABLE 6.2: KIWIFRUIT EXPORT VOLUMES, PRICES AND VALUES, 2011 TO 2018

YEAR TO 31 MARCH		ACTUAL				FORECAST			
		2011	2012	2013	2014	2015	2016	2017	2018
Export volume (million trays ¹)	Green kiwifruit	78	83	78	77	72	69	69	69
	Gold kiwifruit	21	27	23	12	16	28	37	41
	Total	100	111	101	89	89	98	106	110
FOB ² price (\$/tray)	Green kiwifruit	7.9	7.7	8.1	7.9	7.9	8.1	8.2	8.5
	Gold kiwifruit	15.3	14.2	17.4	16.7	15.3	13.5	12.8	12.8
	Total	9.5	9.3	10.3	9.2	9.2	9.6	9.8	10.0
Export value (\$million)	Green kiwifruit	622	639	632	612	566	557	564	585
	Gold kiwifruit	315	389	405	200	252	378	472	522
	Total³	944	1 034	1 043	817	821	938	1 039	1 110
Export value YEAR TO 30 JUNE (\$ million)		963	1 046	934	843	921	1 020	1 093	1 146

Notes

1. One tray equals 3.6 kg.

2. Free on board is the value of the goods delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.

3. Total may not round due to other kiwifruit categories.

Sources: Statistics New Zealand and MPI.

TRANSITION TO THE NEW GOLD KIWIFRUIT CULTIVAR

The Gold3 cultivar was commercialised in 2010 in small quantities, and shows promising performance on-orchard, in the supply chain, and with consumers.

New Zealand kiwifruit growers have invested heavily in their orchards since 2012 to replace the Psa-susceptible Hort16A gold kiwifruit cultivar with the new Gold3 cultivar.

The Gold3 cultivar has replaced the area of Hort16A that has been removed. Most of the cultivar has been able to be grafted onto surviving rootstock and started to produce fruit in the 2014 harvest. Regrafted vines are out of production for at least one harvest and will take three years or more to reach mature production.

FRESH AND PROCESSED VEGETABLES

» Total fresh and processed vegetable export values are estimated to be down three percent to \$597 million for the year ending 31 December 2014 due mainly to the high NZD.

Fresh vegetables

Export volumes of fresh vegetables for the year ending 31 December 2014 are expected to be up slightly on the previous year.

Export volumes of onions are expected to be up by 10 percent on last year due to favourable growing and harvest conditions, particularly in the North Island. Onion bulb size is reported as average and of good quality. Squash exports are forecast to be down by at least 10 percent on last year because of reduced planted area.

Market conditions for onions and squash, the dominant fresh vegetable export crops, are mixed. Early demand for New Zealand onions in EU markets is reported as strong. The marketing window for New Zealand squash exports to Japan is being challenged by supplies from

Mexico. The high value of the NZD against the Japanese yen will impact on export prices for squash and capsicum.

Processed vegetables

International processors continue to reassess their global production and supply base, focusing on efficiency and growth opportunities.

Production and exports of frozen and canned vegetables increased following the rationalisation of vegetable processing facilities in Australia and the subsequent transfer of production and increased processing capacity to the Hawke's Bay region during 2011. Exports of frozen, dried and prepared or preserved vegetables (excluding potatoes) increased by around 30 percent to 125 000 tonnes between year ended 30 December 2010 and 2013.

Exports of processed vegetables are forecast to remain stable in the year ending 31 December 2014 at around 220 000 to 230 000 tonnes.

TABLE 6.3: VEGETABLE EXPORTS, 2011 TO 2018

YEAR TO 31 DECEMBER	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
FRESH VEGETABLES								
Export volume (000 tonnes)	277	311	308	318 *	293	300	300	300
Export value (\$ million)	266	213	224	227 *	217	223	227	235
PROCESSED VEGETABLES¹								
Export volume (000 tonnes)	207	195	222	226 *	227	227	227	227
Export value (\$ million)	383	364	391	370 *	371	373	381	394
TOTAL FRESH AND PROCESSED VEGETABLES								
Export value (\$ million) Year to 31 December	649	577	615	597 *	588	596	608	629
Export value YEAR TO 30 JUNE (\$ million)	611	588	600	608 *	588	595	602	623

Note

1. Processed vegetables includes frozen vegetables, dried vegetables, dry legumes, prepared and/or preserved vegetables, and vegetable juices.

Symbol

* Estimate

Sources: Statistics New Zealand and MPI.

WINE

» The medium-term outlook for the New Zealand wine industry remains encouraging with measured growth in vineyard area and a lift in export values.

» In November 2013, MPI agreed to invest in the New Zealand Winegrowers-led Lifestyle Wines PGP. The programme is the largest research and development project ever undertaken by New Zealand's wine industry and is designed to position New Zealand as number 1 in the world for premium lifestyle wines.

Production

Vineyard planted area in New Zealand now stands at just over 35 000 hectares. Incremental rises in planting are occurring particularly in the Marlborough region. Fluctuations in vintage over the next three years will occur mainly due to climatic conditions.

A record vintage of 420 000 tonnes is expected for 2014, up 22 percent year on year. Very warm conditions for bud initiation in December 2012 set the vines up for above average flowering. Growers experienced near perfect growing conditions in the weeks leading up to Christmas 2013 being warmer and drier than average. Growers used mechanical pruning, fruit thinning

and canopy management to manage the crop load and ensure quality fruit at harvest.

Warm conditions for bud initiation in December 2013 have also set the vines up for a better than average flowering and vintage for 2015. In subsequent years vintages should remain relatively stable, assuming average climate conditions.

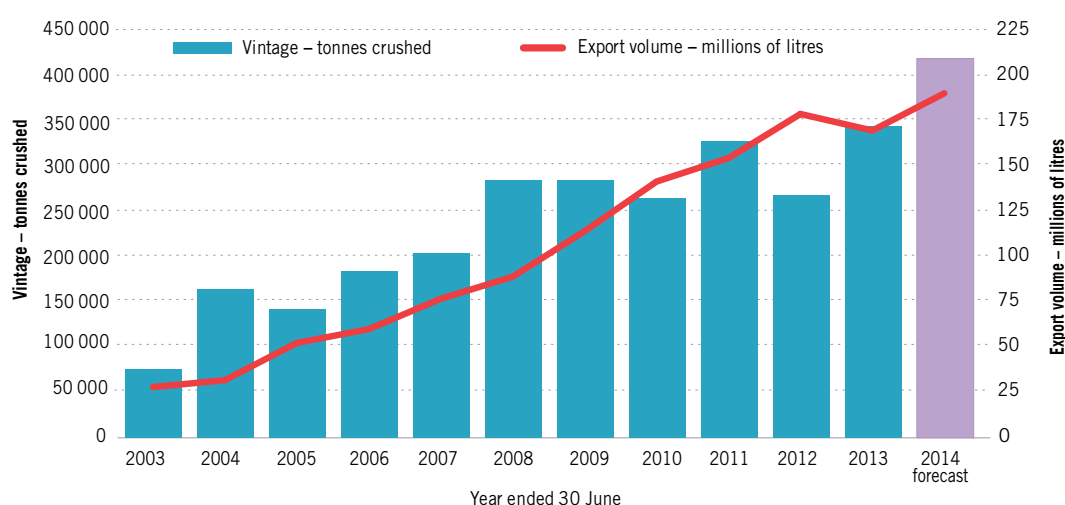
Exports

Wine export volumes in the year ending 30 June 2014 are forecast to reach 190 million litres. Continued strong demand for New Zealand's dominant variety, Marlborough's Sauvignon Blanc, and other diverse varieties means that the average price per litre should hold at \$7.10.

Export volumes for the year ending 30 June 2015 are forecast to reach 220 million litres due to the record vintage of 2014. The likely consequences of this surge in export volumes will be:

- » bulk wine increasing to 35 percent of total export volume;
- » a rise in total export value to around \$1.45 billion; and
- » some (short term) downward pressure on the average export price per litre to \$6.60.

FIGURE 6.4: NEW ZEALAND WINE VINTAGES AND EXPORTS, 2003 TO 2014



Sources: NZ Winegrowers Annual Report 2013 and MPI.

Export prices of wine over the remainder of the outlook period are forecast to improve, apart from the impact of assumed depreciating exchange rates.

Based on December year ended 2013 statistics, the dominant markets for New Zealand wine by

export value are Australia (31 percent), the US (24 percent) and the UK (22 percent). Total wine export value is estimated at \$1.35 billion in the year ending June 2014, rising to \$1.50 billion by year ending June 2018.

TABLE 6.4: WINE EXPORT VOLUMES, PRICES AND VALUES, 2011 TO 2018

YEAR TO 30 JUNE	ACTUAL				FORECAST			
	2011	2012	2013	2014	2015	2016	2017	2018
Export volume (million litres)	154	178	169	190	220	220	215	215
FOB ¹ price (\$/litre)	7.05	6.56	7.11	7.10	6.60	7.00	7.00	7.00
Export value (\$ million)	1 085	1 171	1 203	1 349	1 452	1 540	1 505	1 505

Notes

1. Free on board is the value of goods delivered to the port of export and loaded onto a vessel for transportation out of the country of origin.

Symbol

* Estimate

Sources: Statistics New Zealand, New Zealand Winegrowers and MPI.



ARABLE

7

» The arable industry contributes around \$220 million in export sales to the New Zealand economy each year. The grain and seed harvest for the year ending 30 June 2014 is closer to average than for the previous two years which had above average yields.

» Global and domestic demand for feed grain has increased due to the growth of dairy and consumer preferences for animal protein.

» New Zealand's reputation for quality, reliability, and integrity in seed production means growth in the value of seed exports is expected to continue. The seed industry is focusing on added-value seed production, such as that for oils for nutritional and skin care products.

The feed market is becoming more important in New Zealand with the growth of dairy. Following the 2013 drought, the demand for New Zealand grown feed grain has remained steady due to a high dairy pay out. The autumn spot market prices in 2014 for feed wheat and barley is around \$410 to \$450 and \$405 to \$430, respectively.

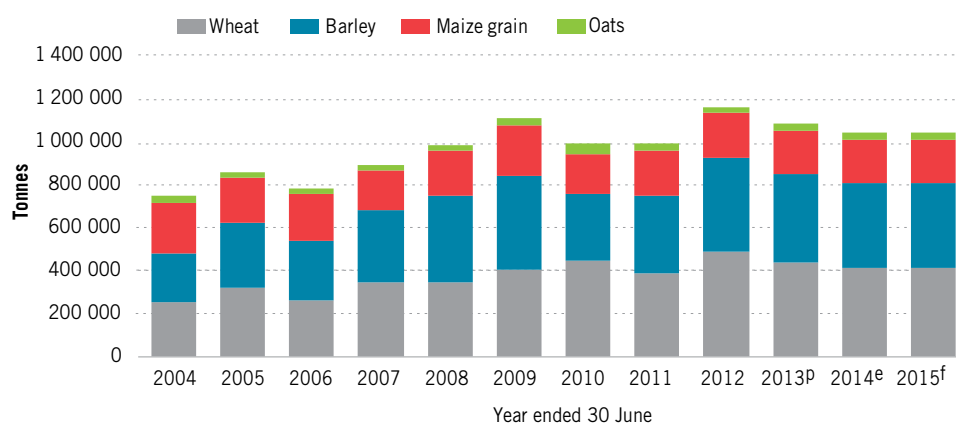
A rising demand for feed grains is projected over the medium term reflecting stronger economic growth and rising incomes in developing countries. This comes with changes in dietary preference toward consuming more meat and dairy products. Strong demand for feed grains means global corn prices are projected to rise over the next three years before easing toward 2018/19.

GRAINS

Total production of cereal grain is estimated to be down by four percent to 100 500 tonnes, due to persistent poor weather affecting the harvest of crops. The area of cereals harvested in New Zealand for year ending 30 June 2014 is estimated to have decreased 1.5 percent from the previous year to 129 000 hectares.

Global production and consumption of wheat is predicted to increase marginally in 2014/15, while corn production is forecast to drop by around two percent. This is due to reduced plantings in response to a forecast fall in price, although consumption is predicted to rise by around three percent. The increased use of grain for food is forecast to more than offset the decline in US ethanol production from corn.

FIGURE 7.1: NEW ZEALAND GRAIN PRODUCTION, 2004 TO 2015



Symbols: p=provisional; e=estimate; f=forecast.

Sources: Statistics New Zealand, Arable Industry Marketing Initiative and MPI.

The price outlook for year ending 30 June 2015, assuming normal weather patterns, is for global wheat prices to fall to \$285 US per tonne, seven percent lower than estimated for 30 June 2014 due to relatively high prices during the first half of this year. Over the medium term, prices for wheat are projected to remain unchanged in real terms with production and consumption growing at a similar rate of around one percent.

SEEDS

Despite the high cost of seed production in New Zealand, the industry has established a reputation for quality, reliability and integrity. This is reflected in the export value of seed crops which has increased significantly over the last three years, including a 20 percent increase for clover, 47 percent for ryegrass and 43 percent for vegetable seed.

Seed exports were valued at a record \$193 million in 2013, including ryegrass seed (\$70 million) and vegetable seeds (\$82 million). This was a 15 percent increase on 2012 and continues the strong growth in recent years. Persistent wet weather during the 2014 harvest is expected to reduce yields and export earnings for this year's seed.

Export prices have been affected by international exchange rates but are forecast to show steady

growth over the medium term. Since peaking in 2010, clover prices have fallen, but are now forecast to slowly recover. The 2014 planting season has seen a significant decrease in area of ryegrass planted due to a lack of contracts.

There has been an increasing trend toward vegetable seed production, particularly for Asian countries. Over half of the world's carrot seed and a significant proportion of radish seed are grown in mid-Canterbury each year. In addition to multiplication of new varieties and production of vegetable seeds, the industry plays an important role in the development, multiplication and marketing of new varieties of pasture and forage seeds for the pastoral sector and for export.

The development of high-quality specialist products, such as hemp seed oil and evening primrose oil for nutritional and skin care products, are providing added value to this industry. The potential for new seed crops and their suitability for New Zealand conditions are also being explored.

Arable farmers are also providing supplementary feed such as grass and maize silage, along with fodder crops such as kale and sugar beet, to dairy farms. The increased demand for these crops means land not traditionally cropped is being used productively.



Photo: South Pacific Seeds

Ministry for Primary Industries
Manatū Ahu Matua

P0 Box 2526, Wellington 6140
New Zealand
0800 00 83 33
www.mpi.govt.nz

New Zealand Government