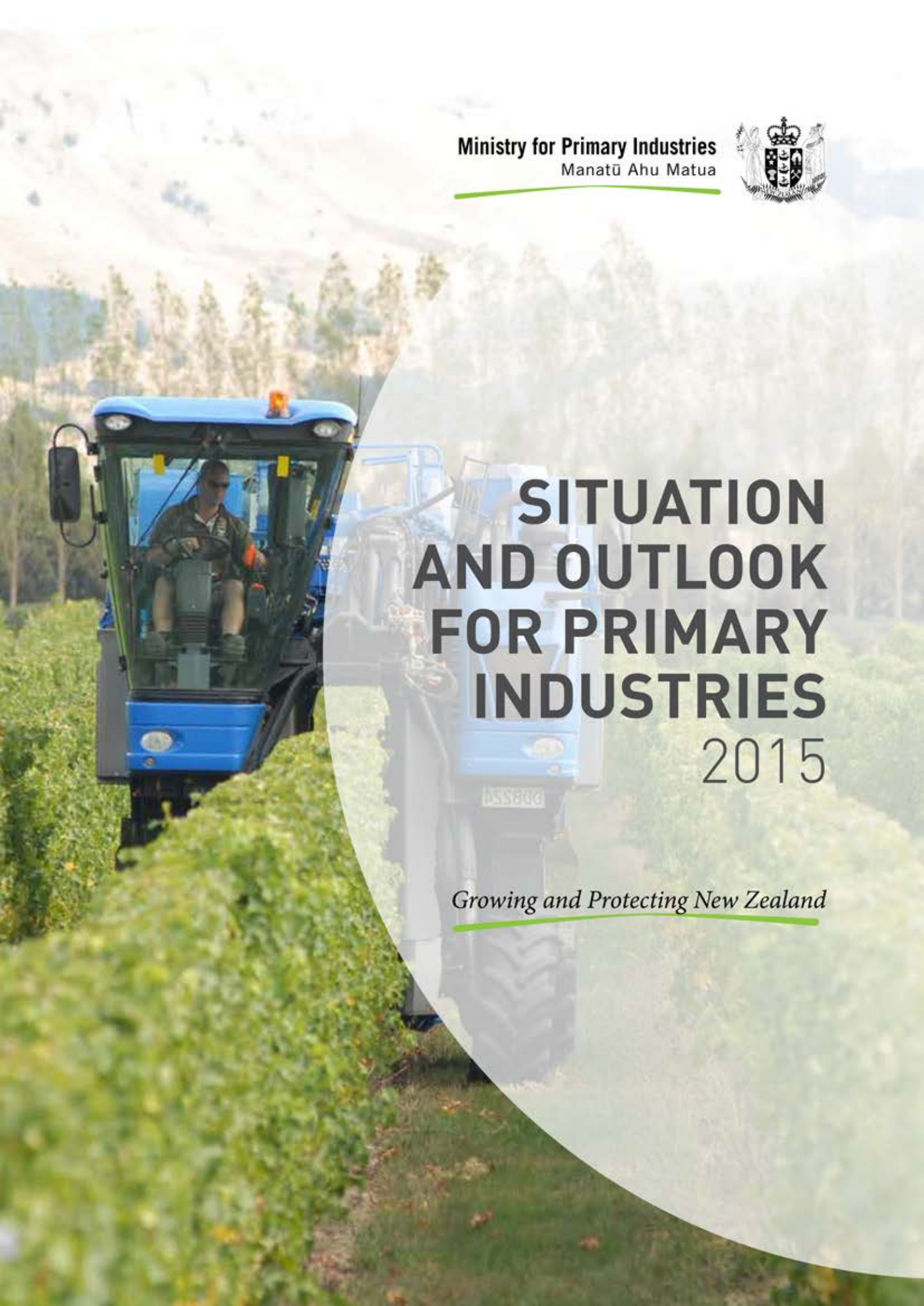
Ministry for Primary Industries
Manatū Ahu Matua



SITUATION AND OUTLOOK FOR PRIMARY INDUSTRIES 2015

Growing and Protecting New Zealand

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MINISTER'S FOREWORD

Hon Nathan Guy

Minister for Primary Industries

It gives me great pleasure to release the 2015 edition of the Situation and Outlook for Primary Industries (SOPI). The past year has been challenging for parts of our primary industries, with the recent highs experienced by the dairy, forestry and arable industries falling away. This decline was partly expected, and strong production and steady momentum from other sectors has helped cushion the overall impact.

I'm pleased to note that the current uncertainty and market volatility has not stopped the industries from continuing to invest and focus on longer-term initiatives. This will add value and grow our market presence in the coming years.

Pleasingly, New Zealand's exports of higher value products are expanding. Further improvements to market access through new and existing free trade agreements leaves New Zealand well positioned to take advantage of the long-term consumption growth trends in developing markets.

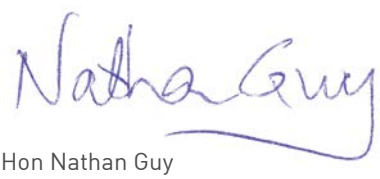
Maintaining a strong and flexible biosecurity system is critical to our future. Increasing global connectivity means there are now more risk pathways to our primary industries than ever before.

This is why Budget 2015 commits $27 million in new funding for biosecurity, which will mean more dogs, X-ray machines and resources. The introduction of an international passenger border levy to fund these services is a fair and responsible way of dealing with increasing traveller movements, and will put these on a sustainable financial footing going forward.

Biosecurity 2025 will ensure that New Zealand's biosecurity system can meet the needs of the future. Government industry agreements (GIA) for biosecurity readiness and response are a way for government and industry to achieve better biosecurity outcomes by working together. A number of GIAs have been signed and we are already seeing benefits from the joint decision-making these agreements provide.

The Government continues to support growth and innovation in the primary industries. Ongoing investment in programmes such as the Primary Growth Partnership and the Sustainable Farming Fund will ensure that through technology, market diversification and productivity, our exports will continue to grow in value.

I trust that this report will be a helpful aid to primary industries decision-makers and innovators as they continue to look for the opportunities that are so critical to our economy, society and environment.



Hon Nathan Guy

DIRECTOR-GENERAL'S INTRODUCTION

Martyn Dunne
Director-General
Ministry for Primary Industries

The Situation and Outlook for Primary Industries 2015 provides valuable insights about New Zealand's primary industries and their prospects through to 2019.

This report highlights how market conditions affecting our primary industries can vary significantly from year to year. While this means we are exposed to changes that unfold on the global stage, the report also highlights the primary sector's resilience in the face of these uncertainties. Despite a decline in overall primary industry export earnings this year, there has been growth in some sectors and longer-term prospects remain encouraging.

Storm, flood and drought events this year also demonstrated how, through strong partnerships and collaboration, industry and government can work together to mitigate these risks and enhance resilience for the future.

MPI's purpose is to Grow and Protect New Zealand and progress continues to be made on many levels towards this. A broad work programme is being delivered, even though we have also had to put significant effort into responding to the detection of a localised population of fruit fly in Auckland and a criminal threat to contaminate infant and other formulas with 1080.

Regional growth studies have been launched and there has been more investment in partnership with industry to grow future export values. We have also prioritised regulatory reform in areas that contribute most towards our purpose.

China remains important as shown by the continued growth in trade with this market. We are providing greater support for exporters by expanding our presence in China and other key offshore markets. This is one example of the progress we are making to maintain and enhance market access for primary products.

Looking out to 2019, prospects remain positive with ongoing developments aimed at maximising export opportunities, improving sector productivity, increasing sustainable resource use and protecting New Zealand from biological risk.

The success of the primary industries is vital for New Zealand's economic and social prosperity. At MPI we remain wholly committed to enabling our primary industries to succeed at home and abroad in a complex and changeable trading environment.

Martyn Dunne

1 OVERVIEW

SITUATION AND OUTLOOK FOR PRIMARY INDUSTRIES

Despite some challenging conditions over the past year, the meat, horticulture, seafood and other sectors have grown strongly, partially offsetting larger decreases in dairy and forestry. We expect market volatility and uncertainty, particularly for dairy, to continue in the short term.

For the current forecast period out to 2019, we expect earnings to reach $41.3 billion (17 percent higher than in 2015). Prospects in key markets such as China and Southeast Asia are particularly encouraging.

Global dairy prices to increase from 2015/16, although the short-term outlook is still uncertain as the global market seeks to rebalance.

Beef prices to remain strong until 2017, with sheep meat and co-products recovering from 2017. Steady growth in wool revenue.

Positive medium-term prospects for log and timber exports to China; potential for growth in the United States of America (USA) as the housing market continues to recover from post global financial crisis (GFC) lows.

Strong kiwifruit recovery from the Psa disease; positive signals for price gains and expansion of markets for wine, apples and pears.

Aquaculture will drive growth, with expansion in salmon and mussel production to meet demand from the USA, China and Thailand in particular.

Arable export revenue is down from a record high in 2014, but increasing global demand and New Zealand's reputation for high-quality seed will underpin growth to 2019.

Opportunities for strong growth of other primary sector exports and foods, largely through demand for processed foods and honey in Asian markets.

TABLE 1.1: EXPORT REVENUES BY SECTOR ($ MILLIONS)

	Actual			Estimate	Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015	2016	2017	2018	2019
DAIRY	13 659	13 441	18 068	14 174	14 813	16 579	17 451	18 429
MEAT & WOOL	7 714	7 723	8 093	8 757	8 543	8 826	8 872	8 963
FORESTRY	4 272	4 478	5 144	4 630	4 696	4 923	5 113	5 332
SEAFOOD	1 500	1 466	1 427	1 513	1 600	1 658	1 716	1 799
HORTICULTURE	3 543	3 532	3 786	3 969	4 241	4 449	4 530	4 681
OTHER	1 441	1 561	1 559	1 960	1 631	1 741	1 747	1 866
ARABLE	171	223	228	198	200	204	215	230
TOTAL	32 300	32 425	38 305	35 201	35 725	38 380	39 645	41 300

SITUATION

The past year has been challenging for our primary industries, with significant price and demand reductions in some markets, and storms and drought impacting production. However, the resilience and diversification of our primary industries is demonstrated by the fact that large downward price shifts in the dairy and forestry sectors (an expected 22 and 10 percent drop in export revenues respectively from 2014) will result in a smaller overall export earnings reduction of 8 percent. The decrease in dairy and forestry revenues are partly offset by growth in the meat (8 percent), seafood (6 percent), horticulture (5 percent) and other (26 percent) sectors.

China remains New Zealand's largest market for primary industry exports. Demand drove dairy prices high heading into 2014 and its construction boom helped lift forestry export earnings. However, excessive inventories and slowing construction have reversed these price gains for the 2015 year.

Strong demand in the USA has increased export beef prices by 22 percent. Sheep meat prices remain well below their 2012 levels, impacted by the high New Zealand dollar (NZD) and weaker than expected Chinese demand.

The horticulture grouping of sectors have maintained upward momentum, driven by high volumes of wine and kiwifruit. The strong recovery from Psa (bacterial kiwifruit vine disease) represented by our high forecast scenario last year has been realised. The seafood sector has returned to growth on the back of high prices in 2015, due to growing demand from our top seafood export destinations (China, the EU and the USA).

An expanded commentary covering "Other Primary Sector Exports and Foods" is included in this year's report. This sector has experienced strong growth over the past 10 years and will this year earn over $1.9 billion in export revenues. This sector includes honey, processed foods, and live animal exports.

OUTLOOK

In the long term, income and population growth, combined with rising levels of urbanisation are expected to increase per capita protein consumption in China and Southeast Asia. This provides an opportunity for New Zealand to broaden and deepen its customer base for sustainable export growth.

Contributors to growing international demand for our products include an expected softening of the NZD against the United States dollar (USD) and improved market access through free trade agreements (FTAs). Price volatility is expected to continue in the dairy sector in the short term and is discussed in more detail in our "Dairy price volatility" feature on pages 24-25.

Primary industries' export revenue growth is expected to be modest (1.5 percent) in 2016, to spike in 2017 with 7.4 percent growth and thereafter to resume annual growth of 3 to 4 percent through to 2019.

MACROECONOMICS

The International Monetary Fund reports global economic growth at 3.4 percent for 2014. The balance of growth shifted slightly in favour of advanced economies, primarily driven by better than expected recovery in the USA. However, emerging and developing economies continue to dominate projections for contributions to both global growth and global imports of goods and services compared to advanced economies through to 2019. Economic growth in India (7.5 percent) and ASEAN-5[1] (5.2 and 5.3 percent) are the expected standout performers for 2015 and 2016.

1 - Association of Southeast Asian Nations (ASEAN-5) countries include Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The complex economic forces that affected global economies in 2014 are expected to resonate and continue to shape growth prospects for New Zealand's key trading partners in the short to medium term. These include low oil prices over the next 18 months to 2 years driven by a combination of technological progress reducing extraction costs, and a change in the Organization of the Petroleum Exporting Countries' (OPEC) strategy to maintain current production levels despite low prices.

Low oil prices are expected to drive improvements in the terms of trade[2] for net energy importers such as the USA, China and Japan. As a result, these countries will receive some economic stimulus resulting from higher consumption. In contrast, net energy exporters such as Algeria, Russia and Canada will face a deterioration in their terms of trade and growth prospects. Overall, we adopt the Reserve Bank of New Zealand's expectation that the decline in oil prices will be positive for economic growth prospects in New Zealand's key trading partners.

EXCHANGE RATES

The Ministry for Primary Industries (MPI) forecasts use exchange, inflation and interest rate assumptions from The Treasury's 2015 Budget Economic and Fiscal Update.

The Australian economy is experiencing low iron ore prices resulting in the Australian dollar (AUD) falling against the USD and NZD. This will challenge New Zealand's exporters over the outlook period, particularly those where Australia has a large market share of total exports, such as seafood (inshore finfish and aquaculture), horticulture (fruit and vegetables) and forestry (timber, panels and paper).

In contrast, the USD is assumed to appreciate gradually against the NZD out to June 2019. The USA economy also has a positive outlook with economic growth projections revised upwards for 2015 and 2016. These upturns in macroeconomic indicators as well as sector-specific factors are expected to result in New Zealand's market share in the USA growing for commodities such beef, casein, wine and butter.

2 - A decrease in import prices relative to export prices allows a larger volume of imports to be purchased with a given volume of exports.

TABLE 1.2: EXCHANGE, INTEREST AND INFLATION RATES, 2012–2019

	Actual				Assumptions			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Trade weighted index	72.6	75	78.9	78.3	77.9	77.9	77.9	77.2
US dollar	0.8	0.82	0.83	0.78	0.74	0.73	0.72	0.72
GB pound	0.51	0.52	0.51	0.5	0.51	0.51	0.51	0.5
Australian dollar	0.78	0.8	0.91	0.94	0.99	0.98	0.97	0.95
Japanese yen	63.3	72.1	84	89.1	90.8	92.3	92.7	91.6
Euro	0.6	0.64	0.61	0.66	0.71	0.73	0.73	0.72
Interest rate (%)[1]	2.7	2.6	2.9	3.7	3.6	3.7	4.2	4.8
Inflation rate (%)[2]	2.2	0.8	1.5	0.5	1	2.1	2.1	2.1

Notes: 1 - For 90 day bank bills. 2 - As measured by the annual average percent change in the consumers price index.
* - Estimate.

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

CONTRIBUTION TO GDP FROM AGRICULTURE

Agriculture's contribution to gross domestic product (GDP) is a measure of the total value added by the sector. Agricultural GDP fell by 25 percent in the year to March 2015 as improved revenues from beef cattle, fruit and wool were not sufficient to offset the effect of sharply lower dairy prices. Production costs were largely unchanged but revenues fell by 13 percent.

Agriculture sector income is an alternative measure of value added and a proxy for taxable income. This fell by 52 percent to $2.91 billion.

Agricultural GDP is projected to recover to 2014 levels by 2018, but sector income is expected to take longer to return to 2014 levels. Major sources of growth are expected to be a slow expansion of dairy, continuing on-farm productivity growth and depreciation of the NZD.

TABLE 1.3: GROSS AGRICULTURAL REVENUE AND EXPENDITURE, YEAR TO END MARCH 2012–2019

	Estimate ($million)				Forecast ($million)			
YEAR TO 31 MARCH	2012	2013	2014	2015*	2016	2017	2018	2019
Dairy	10 567	10 386	14 823	10 341	10 670	12 606	13 575	14 418
Cattle	2 289	2 316	2 166	2 852	2 806	2 923	2 919	2 855
Sheepmeat	2 820	2 263	2 340	2 369	2 226	2 342	2 401	2 411
Wool	675	587	573	680	693	713	724	733
Deer	234	200	187	173	177	166	157	156
Poultry/eggs	185	172	186	185	199	201	203	205
Pigs	165	167	184	193	194	196	198	200
Other farming	221	216	214	250	240	251	254	252
Sales of live animals	871	866	760	885	851	891	902	894
Value of livestock change	199	–153	–77	–90	–87	–91	–92	–91
Fruit	1 979	1 998	2 371	2 568	2 734	2 969	3 080	3 145
Vegetables	1 065	987	1 053	988	974	977	1 018	1 034
Other horticulture	251	325	363	341	336	337	351	357
Crops and seeds	745	751	758	699	633	645	666	672
Agricultural services	216	220	216	187	189	210	220	227
Non-farm income	425	421	407	352	356	395	414	428
TOTAL GROSS REVENUE	22 907	21 723	26 523	22 973	23 192	25 731	26 991	27 897
Intermediate consumption	12 311	12 762	13 525	13 211	13 115	13 649	14 182	14 635
CONTRIBUTION TO	10 596	8 961	12 998	9 762	10 077	12 083	12 809	13 262
Wages	2 023	2 170	2 196	2 252	2 310	2 374	2 446	2 524
Depreciation	1 451	1 484	1 530	1 442	1 451	1 565	1 674	1 723
Net indirect taxes[1]	716	728	759	674	696	836	887	918
OPERATING SURPLUS	6 406	4 579	8 513	5 394	5 620	7 307	7 803	8 096
Interest paid	2 700	2 605	2 665	2 765	3 074	3 228	3 331	3 453
Interest received	199	207	213	281	284	286	319	364
AGRICULTURE SECTOR INCOME	3 905	2 181	6 061	2 910	2 830	4 365	4 791	5 007

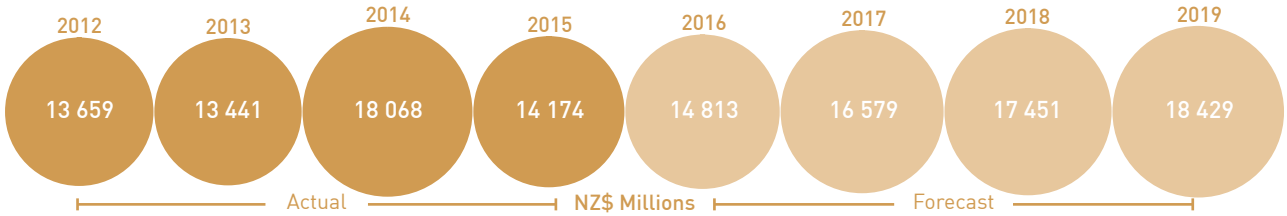
Notes: 1 - Net indirect taxes are indirect taxes less subsidies. * - Estimate.

Sources: Statistics New Zealand and MPI.

INDUSTRY SUMMARIES

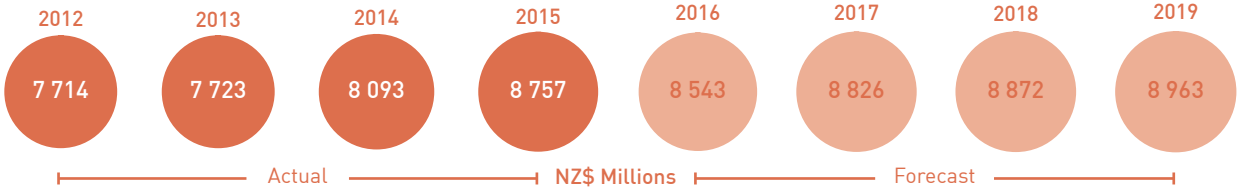
Dairy

Milksolids production for 2014/15 is forecast to increase 1.8 percent, with increased cow numbers outweighing a fall in milksolids per cow. Strong performance during 2014/15 and low milk price expectations are expected to result in a year-on-year production decrease of 1.3 percent for 2015/16. The pace of export revenue growth is expected to rise from 2016 and is expected to be primarily driven by increases in prices (5 percent) rather than volumes (1.7 percent), resulting in export revenue of $18.4 billion for the year ending June 2019. Our forecast assumes international dairy prices increase from their current trough as demand from the world's two largest importers (China and Russia) picks up during 2015/16 and supply from key export competitors moderates in response to low prices.



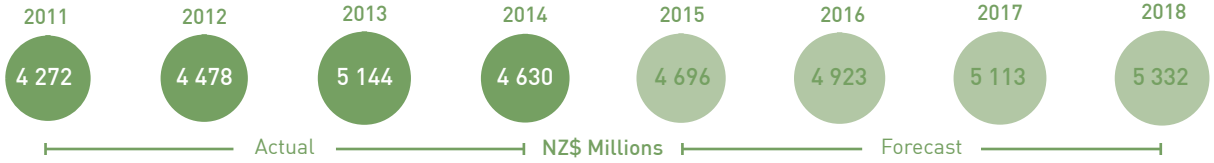
Meat and Wool

Total meat and wool export revenue to June 2019 is forecast to increase by 10.7 percent to $9.0 billion. Most of the increase has occurred in 2015 after strong beef export revenue growth (up 30 percent) masked a weakening trend for sheep meat and some co-products. Beef revenue is expected to maintain most of its 2015 gains until 2017, when global beef prices are forecast to soften as supply increases. Lower lamb production and weak demand for sheep meat, however, is expected to drive a fall in export revenue of 2.4 percent in 2016 to $8.5 billion. Growth is then expected to recover from 2017, led by recovery in sheep meat and co-products markets offsetting the softer beef prices.



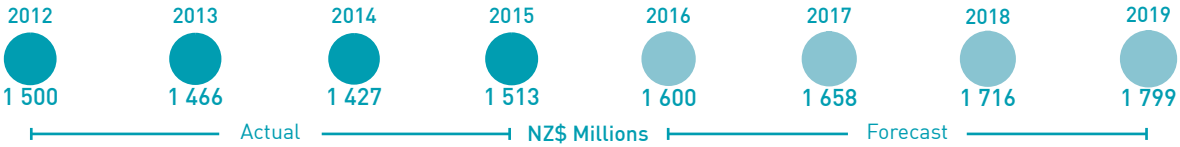
Forestry

Log exports continue to dominate trade figures, with lower prices and volumes into the Chinese market resulting in an estimated decrease of export revenue of 10 percent to $4.6 billion this year. Shipping costs are currently around USD 25/cubic metre compared to USD 40/cubic metre at this time last year, primarily due to low oil prices. This will help offset soft USD prices in our major markets in the short term. The medium-term prospects for log and timber exports to China remain positive with continuing urbanisation and economic growth. India is a market to watch, with potential for increasing log demand as their economic growth continues to gain momentum. There is potential for further growth in timber exports to the USA as the economy appears to be heading back into sustained growth mode, and with housing starts recovering from post-GFC lows.



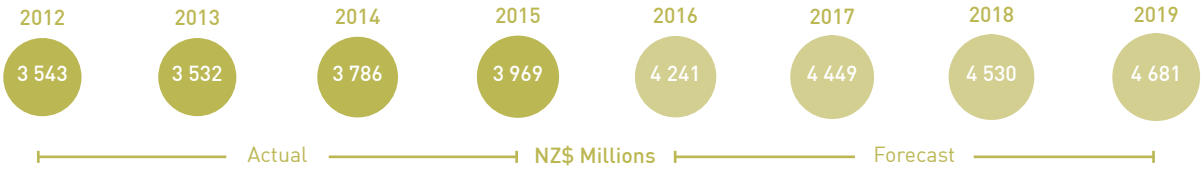
Seafood

Export earnings are forecast to reach $1.8 billion by 2019, primarily driven by increases in prices (3.3 percent per annum) with volume playing a lesser role (1.4 percent). Aquaculture is expected to drive this forecast growth, with planned expansion in salmon and mussel production complemented by a healthy demand from our key export markets (USA, China and Thailand). The majority of fish stocks are managed at their maximum sustainable yield. A small number of fisheries such as hoki and southern blue whiting have had their allowable catch levels increased in recent years. MPI's Primary Growth Partnership (PGP) is supporting export growth through programmes, such as the Precision Seafood Harvesting and SPATnz programmes.



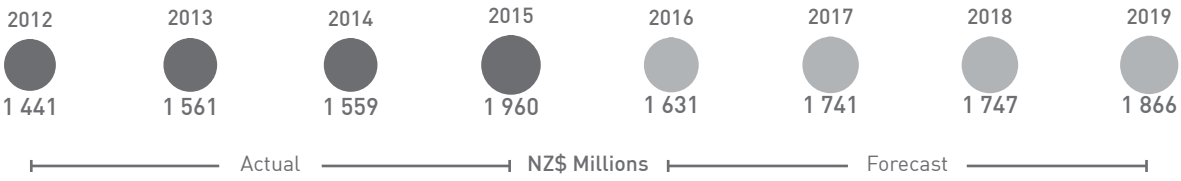
Horticulture

Kiwifruit and wine export volumes are the stand-out performers for horticulture in the year ending June 2015, driving export revenue growth of 4.8 percent to $4.0 billion. There are encouraging prospects for growth in all main horticultural industries, with strong recovery from Psa expected to continue for kiwifruit. There is also potential for ongoing market expansion in Asia from new plantings of high-value apple and pear varieties. Weaker economic conditions in key markets such as Australia and a record 2014 vintage have increased the share of bulk versus bottled wine exports in the short term. However, export growth in Germany and China is expected to both increase our export market diversification and also drive recovery in our export price outlook for wine to 2019.



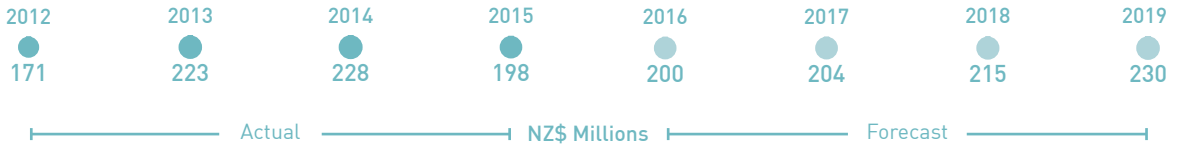
Other primary sector exports and foods

This sector covers a diverse range of processed foods, honey, confectionery and live animals, and also includes many of our higher-value manufactured products that can attract high returns in niche markets. Over the outlook period out to 2019 we expect growth to continue for most products in this sector, driven largely by strong demand for processed foods and honey in Asian markets.



Arable

Arable seed export revenue is estimated at $198 million for year ending June 2015, 13.3 percent lower than a historic high of $228 million in the previous year. This is mainly due to less buoyant sales of vegetable, ryegrass and clover seeds with overall arable export prices down 13 percent. Increasing global demand coupled with New Zealand's reputation for dependable high-quality seed production has underpinned export growth of seeds.



OUR VISION, OUR WORK: GROWING AND PROTECTING NEW ZEALAND

MPI's vision is to grow and protect New Zealand. Growing and protecting are intertwined within the complex biological and economic systems that underpin our primary industries – we cannot have one without the other.

To deliver on our vision, MPI has prioritised four key focus areas:

- Maximise export opportunities;
- Improve sector productivity;
- Increase sustainable resource use; and
- Protect from biological risk.

These guide and inform our work, providing a set of long-term objectives which shape our investment decisions and how we deploy our resources.

The following sections highlight key areas of activity MPI is pursuing to deliver on our vision and achieve our objectives. From investment in regional development, through the layers of protection our biosecurity system provides to domestic producers, to the global reach of our trade relationships, MPI is working to grow and protect our primary industries and support government's commitment to grow the value of total exports to 40 percent of GDP by 2025.

GROWING MPI'S OFFSHORE FOOTPRINT: MARKET ACCESS FOR A CHANGING WORLD

New Zealand's reputation for producing safe, high-quality food in which consumers and overseas governments have confidence and trust is a significant asset that gives us an advantage in the marketplace. MPI continues to develop and maintain positive relationships with industry, other government agencies, and with our export markets.

Since early 2014, MPI has been substantially expanding its offshore footprint from five to eighteen positions. This recognises the need for New Zealand to maintain and enhance market access for our primary products, within a complex trade dynamic.

MPI's long-term presence in our more traditional markets and posts, including the European Union (EU), USA, Food and Agriculture Organization of the United Nations (FAO) and World Trade Organization have proven to be invaluable as we have worked to secure and improve our access and wider trade policy outcomes.

Beef+Lamb New Zealand

A good example of what can be achieved is the NZ/EU Veterinary Agreement. This agreement recognises the equivalence of New Zealand's regulatory systems and provides preferential access arrangements for New Zealand animal products into the EU market. During recent food-related incidents, the response in Europe was extremely muted which reflects very well on the depth and resilience of the relationship.

Our traditional markets will continue to be critical to the ongoing success of our primary industry sectors. MPI's offshore expansion will broaden and deepen relationships with key officials in fast-growing and emerging markets. It will generate greater understanding of these markets and assist with influencing policy and regulatory developments. Most importantly, our offshore presence will maintain and enhance market access for New Zealand primary industry export products. We now have five staff based in China (four in Beijing and one in Shanghai). This includes a senior leadership (Deputy Director-General) level position, with a particular focus on strengthening high-level relationships within China's system.

New MPI positions have also been established in Indonesia and in Dubai which will support our trade initiatives in Southeast Asia and the Middle East. In addition, we have two MPI staff members undergoing Mandarin language training in Taiwan prior to their eventual deployment to roles in China.

Recruitment for the next tranche of offshore roles is underway. This will include positions in Tokyo (also covering Korea), New Delhi (also covering Sri Lanka and Bangladesh) and Latin America (location to be confirmed). The location and timing of deployment for the final four roles is still to be finalised.

MPI has also substantially increased the resourcing of its New Zealand-based market access team to ensure we keep pace with the growth in our export markets and respond to the opportunities and issues that our expanded offshore presence generates. MPI's capacity to implement and maximise benefits from FTAs has also been substantially enhanced.

This increased capacity both offshore and in New Zealand will allow us to work more closely with the primary industries, New Zealand Ministry of Foreign Affairs and Trade (MFAT) and our other New Zealand government partners to anticipate and mitigate risks to our market access, and pursue opportunities to gain new or enhanced access to the world's fast-growing and developing markets.

MPI'S LEGISLATIVE PROGRAMME

MPI's programme of legislative reform is prioritised around those regulatory regimes that contribute most towards our vision of growing and protecting New Zealand. Our legislative programme is designed to:

- Support government and industry objectives;
- Protect the productive base of our primary industries;
- Manage the risks that primary industries create to consumers, animals and the environment; and
- Build and sustain the trust of consumers, businesses and our trading partners.

This enables us to develop, test and implement a common regulatory approach across our core regulatory systems. Where possible, we intend to modernise and consolidate our key regulatory systems.

As a significant regulatory agency, MPI has a full regulatory programme. Our current priority areas of legislative work are:

- Animal Welfare Amendment Bill, which aims to improve enforceability and transparency;
- Food Safety Law Reform Bill, designed to keep the food safety system fit for purpose into the future;
- Review of the Dairy Industry Restructuring Act 2001, to ensure that the Act continues to be fit for purpose;
- Review of the export provisions of the Wine Act 2003, in response to issues identified by the wine industry and MPI;
- Review of aspects of the kiwifruit industry's regulatory framework, to maximise the industry's value and ensure a sustainable regulatory system; and
- Review of the Fisheries Act 1996, to ensure that the fisheries regulatory regime is best placed to acheive the greatest use value from fisheries resources within environmental limits

MPI has a responsibility to ensure that our regulatory systems are fit for purpose. To achieve this, our efforts to assess and enhance these systems need to create a favourable regulatory environment to enable New Zealand businesses to succeed and grow.

The Animal Welfare Amendment Bill 2013 is a good example of delivering on MPI's vision of growing and protecting. The bill changes the Animal Welfare Act 1999 to improve the enforceability, clarity and transparency of New Zealand's animal welfare system. The changes will enhance the operation of the Act, rather than alter the Act's fundamental principles. This work will enhance New Zealand's reputation as an ethical supplier of animals and animal products, and as a society that treats animals properly as part of its culture.

The review of the Dairy Industry Restructuring Act 2001 will test and confirm whether the Act remains fit for purpose in delivering the benefits which result from the efficient operation of New Zealand's domestic markets for dairy products. This work is designed to ultimately ensure Fonterra is subject to effective competition that will make it a more efficient operator within the domestic context.

MPI also has a wide range of planned regulatory activity related to legislative instruments known informally as secondary regulations. Examples include the proposed National Environmental Standard for Plantation Forestry, and new levy orders under the Commodity Levies Act to fund industry-good activities.

BIOSECURITY 2025: MAINTAINING A STRONG AND FLEXIBLE BIOSECURITY SYSTEM IS CRITICAL TO NEW ZEALAND

More than any other developed country, we depend on the success of our primary industries and the biological systems that underpin them. A key part of building a more productive and competitive economy is protecting the natural resources we rely on and our international reputation for food safety, animal welfare and sustainable resources.

New Zealand's biosecurity system is more than just protecting the border. The biosecurity system is made up of layers of protection, allowing risks to be managed at the most appropriate points — whether overseas, at the border, or within New Zealand.

Managing the full range of biosecurity activities as a single system maximises efficiency and effectiveness, and allows us to target resources to the highest risks, and to ensure that those best placed to manage risk do so.

BIOSECURITY 2025 IS ABOUT REMAINING RESILIENT TO EMERGING THREATS AND DEVELOPMENTS

Twelve years ago the government endorsed the Biosecurity Council's biosecurity strategy, Protect New Zealand Tiakina Aotearoa. The strategy recommended some urgent changes, laid out broad expectations and set the scene for significant improvements across the entire biosecurity system.

The changing nature of international travel, trade and global supply chains means that the biosecurity landscape is now more complex than ever before. We need to make sure our biosecurity system is agile enough to manage this changing environment and respond to emerging risks, threats and opportunities.

Over the last decade we have seen significant increases in all our major biosecurity risk pathways. Air passengers travelling to New Zealand have increased by almost 50 percent, the number of containers crossing our borders has increased by more than a third, and the number of mail parcels has more than doubled.

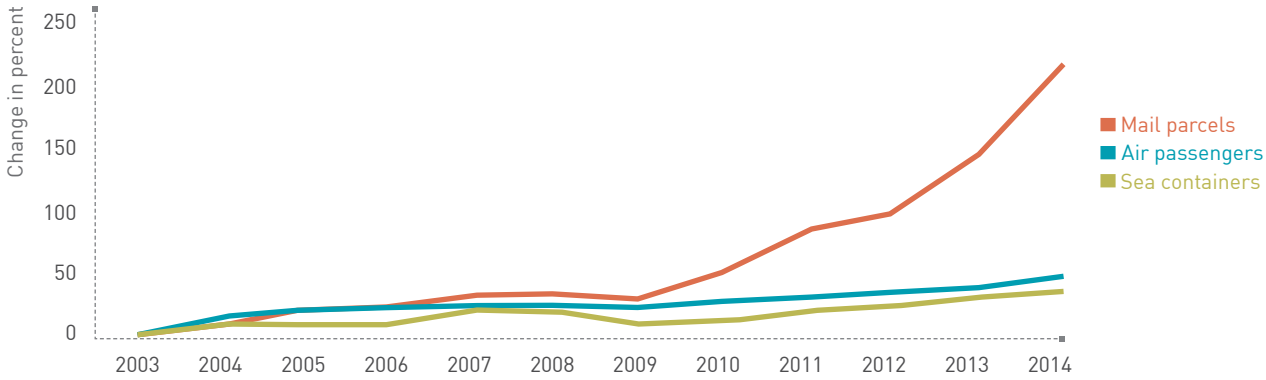
This is why the Minister for Primary Industries, Hon Nathan Guy, has called for a project to update the 2003 Biosecurity Strategy to ensure our biosecurity system remains fit for our future needs. Biosecurity 2025 will review and futureproof New Zealand's biosecurity system by taking a fresh look at the system overall.

Following broad input from stakeholders, Māori and the New Zealand public, a Biosecurity Direction Statement will be produced that will update and replace the 2003 Biosecurity Strategy.

The new statement will provide a vision for the biosecurity system, signal expectations of what the system will deliver or have in place by 2025, and identify priority areas for improvement in the short, medium and long term.

Biosecurity 2025 will build on the improvements made following the 2003 Biosecurity Strategy to ensure New Zealand's biosecurity system can meet the challenges of the future.

FIGURE 1.1: PERCENTAGE CHANGE IN TRAVEL 2003–2014



REGIONAL ECONOMIC DEVELOPMENT: GOVERNMENT'S REGIONAL GROWTH PROGRAMME

MPI, in partnership with the Ministry of Business, Innovation and Employment (MBIE), is identifying and prioritising opportunities to increase investment, employment and incomes in key regions of New Zealand through the regional growth programme.

The regional growth programme is led by the Ministers of Economic Development, Primary Industries and Māori Development. These ministers are supported by a wider group of government ministers that will drive central government agencies to deliver tangible economic and employment outcomes for the regions through the programme.

The regional growth programme has two components:

- Delivery of independent regional growth studies; and
- The implementation of agreed regional economic action plans.

Two growth studies have been released to date – the Tai Tokerau Northland Growth Study and the Toi Moana Bay of Plenty Growth Study. The Manawatū-Whanganui growth study is expected to be released in late June/early July 2015. The studies identify economic and employment growth opportunities based on in-depth discussions with local stakeholders in the region and detailed objective analysis of the region and its opportunities.

Implementing the regional economic action plans is where the real gains will be made. These plans are agreed between central government and the region (iwi/Māori, business and local government) and identify the priority actions. This will be driven by a regional governance board/group consisting of regional people with a breadth of experience and skills and one senior government official.

An earlier study with a different focus, the East Coast Potential Study, was released in 2014. As part of the regional growth programme, central government is working with the region's two economic development agencies, Activate Tairawhiti and Business Hawke's Bay, to support their respective economic development strategies.

Both the Northland and Bay of Plenty studies have identified a number of opportunities. Cross-cutting opportunities will benefit a large number of businesses and individuals across several industries (such as skills and education) and will require a co-ordinated effort.

Not all actions will require central government involvement. However, where there is a role for central government this will be implemented in close co-ordination with the region and across relevant central government agencies.

The Northland report suggests there are significant benefits to be gained across a range of opportunities over the next 10 years. The benefits identified include direct expenditure benefits of $111 million to $177.5 million, net economic benefits of $303.5 million, increased GDP of $483 million to $903 million, and the creation of between 1300 to 1400 jobs.

The Bay of Plenty report suggests that the region's economy is well positioned for sustainable growth. Benefits include direct expenditure benefits of around $329 million, net economic benefits of $1.3 billion, increased GDP of $2.35 billion, and the creation of between 1800 to 1900 jobs.

2
DAIRY

DAIRY

Dairy typically earns over 40 percent of New Zealand's primary industries' export revenue, and volatility in dairy prices has heavily affected overall primary sector revenue in recent years. World dairy prices are currently constrained by abundant milk supply from other exporting countries and depressed short-term demand from the world's two largest importers – China and Russia. Total dairy export revenue is expected to be $14.2 billion for the year ending June 2015, which is 22 percent down from the 2014 peak, but remains 5 percent above export revenue in 2013.

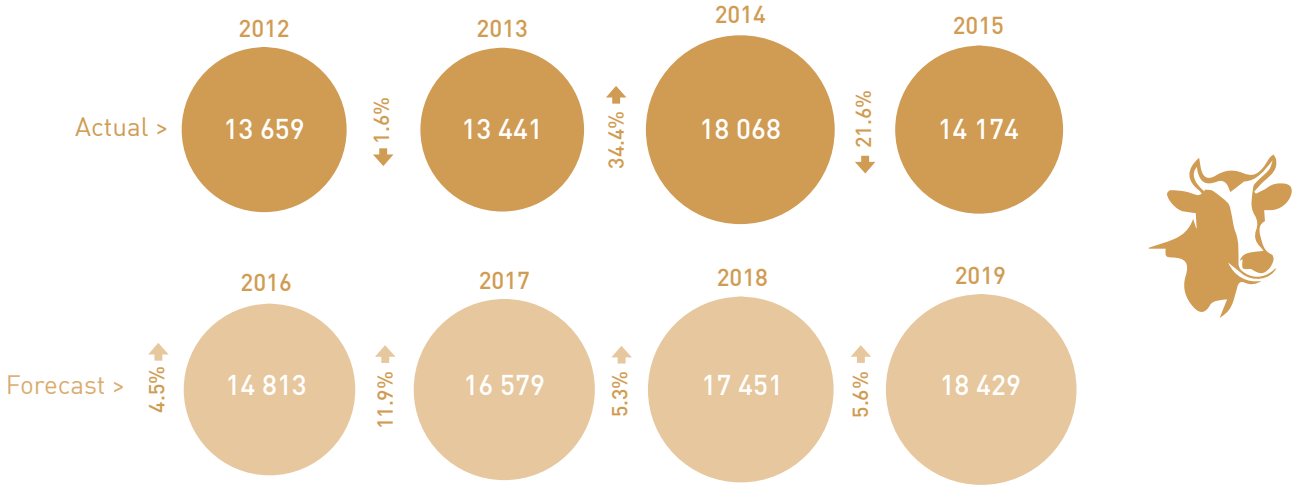
KEY FACTORS

New Zealand milk production for the 2015/16 season is forecast to slightly decrease from 2014/15 levels but return to a more modest growth path for each season out to 2019.

Dairy export revenue is forecast to grow to June 2019 at a compound annual growth rate of 6.8 percent. This will primarily be driven by increases in prices (5 percent) rather than volumes (1.7 percent). Price increases are expected to be demand-driven from rising incomes, urbanisation and associated dietary changes in China and ASEAN economies in particular.

New Zealand's global export focus has changed over the last year, with low commodity prices driving increased exports to Southeast Asia, the Middle East and North Africa.

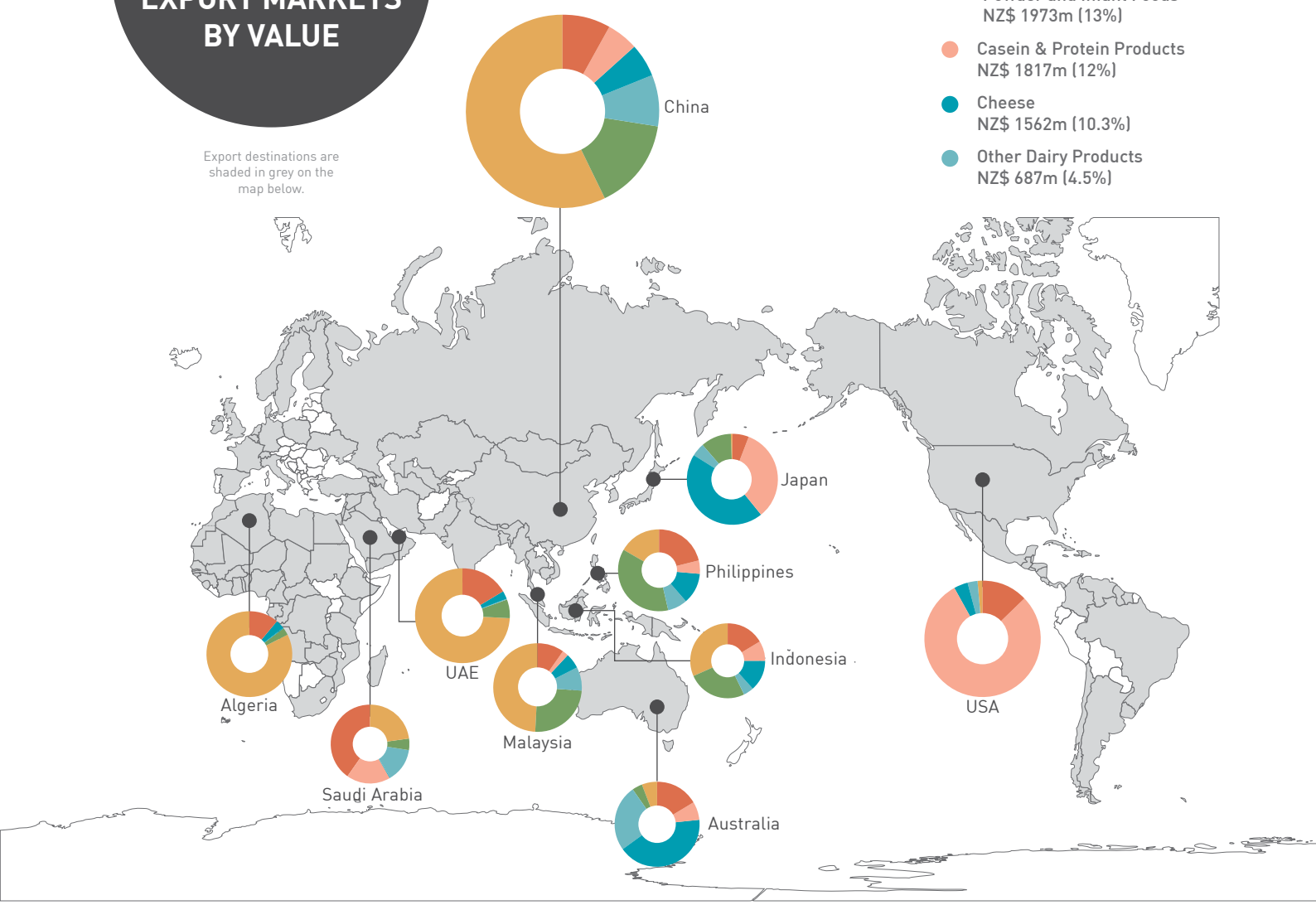
DAIRY EXPORT VALUES (NZ$ MILLIONS) 2012–2019



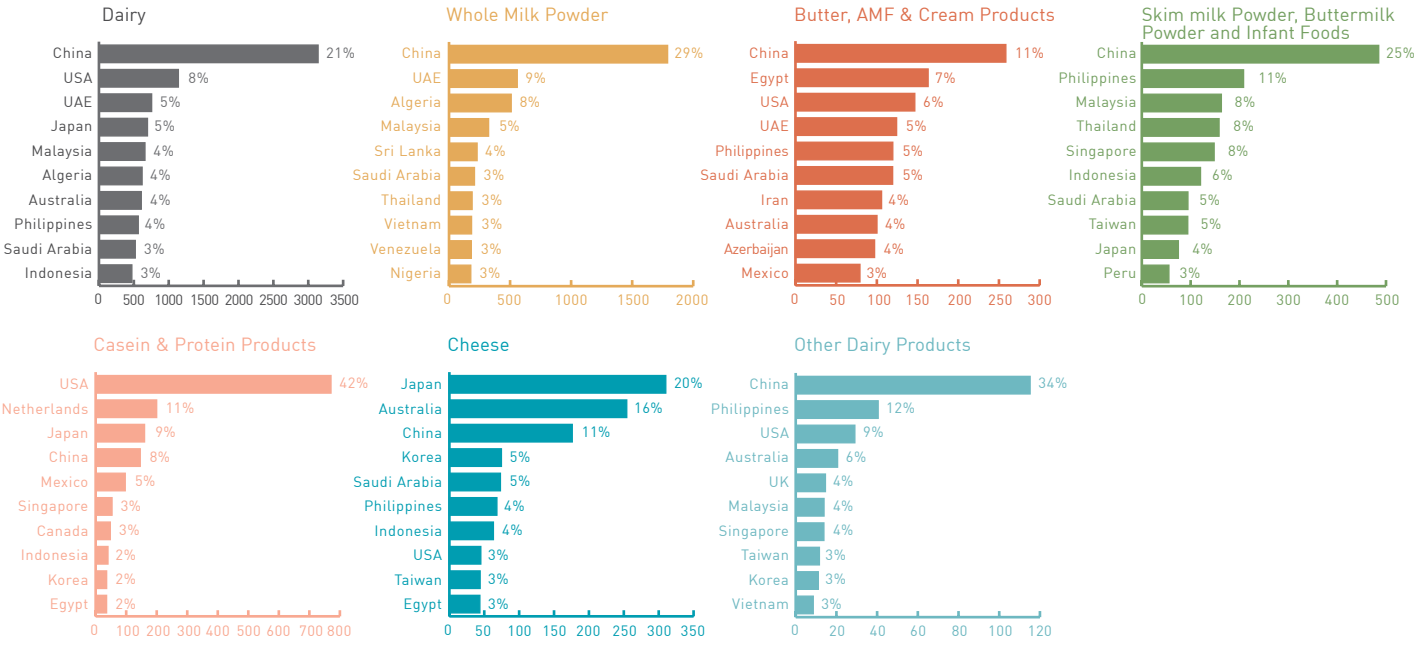
TOP 10 DAIRY EXPORT MARKETS BY VALUE

- Whole Milk Powder NZ$ 6077m (40.2%)
- Butter, AMF & Cream Products NZ$ 2396m (15.8%)
- Skim milk Powder, Buttermilk Powder and Infant Foods NZ$ 1973m (13%)
- Casein & Protein Products NZ$ 1817m (12%)
- Cheese NZ$ 1562m (10.3%)
- Other Dairy Products NZ$ 687m (4.5%)

Export destinations are shaded in grey on the map below.



TOP 10 MARKETS (NZ$ Millions)



YEAR ENDED MARCH 2015

Sources: Statistics New Zealand and MPI.

PRODUCTION

Climatic conditions for the first half of the 2014/15 season were favourable in most regions, with a mild winter and excellent spring conditions driving a record peak production of 270 million kilograms of milksolids during October.

Production from June to March 2015 was 2.8 percent ahead of the same period last year (Figure 2.1).

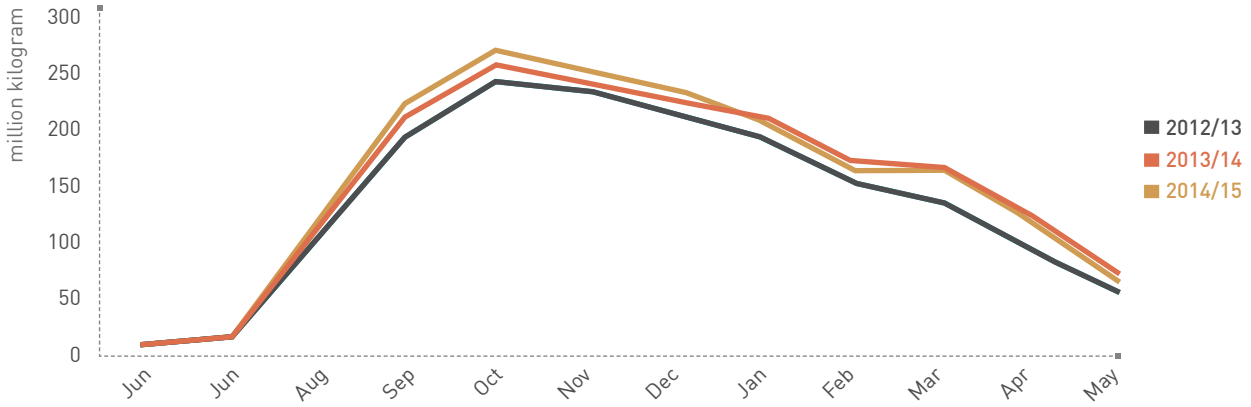
Drought in eastern regions of the South Island and drier than average conditions over most of New Zealand in January and February pushed milk flows below that of 2014 for these months. However, significant rainfall in late February and March in some regions resulted in a strong recovery in production in March. Production in April and May tailed off faster than last year as dairy farmers conserved available supplementary feed and prepared their cows for next season with the hope of improved milk prices.

Significant rainfall in late February and March in some areas lifted milk production.

Overall, milksolids production for the year ended 31 May 2015 is expected to increase by 1.8 percent to 1.86 billion kilograms. This is due to a 3.4 percent increase in cow numbers stimulated by record milk prices during the 2013/14 season, though per-cow production is down 1.6 percent.

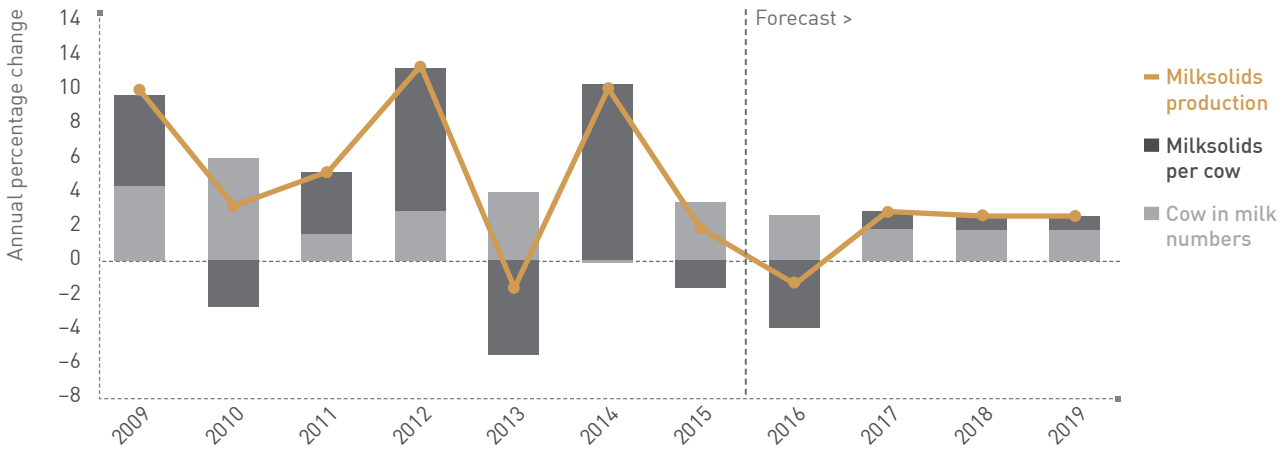
The national herd size is expected to continue growing over the outlook period. Milksolids production will fall next season as lower prices lead to cutbacks in supplementary feeding, but annual growth of 2 to 3 percent is expected to resume thereafter (see Figure 2.2).

FIGURE 2.1: INTRA-SEASON MILKSOLIDS PRODUCTION FOR 2013–2015



Sources: Statistics New Zealand, DairyNZ, MPI.

FIGURE 2.2: YEAR-ON-YEAR CHANGE IN THE NUMBER OF COWS IN MILK, MILKSOLIDS PRODUCTION PER COW AND TOTAL MILKSOLIDS PRODUCTION, 2009–2019



Sources: Statistics New Zealand, DairyNZ, MPI.

YE 31 May

TABLE 2.1: DAIRY FARM PRODUCTION, MILK PRICES AND EXPORTS, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Cows and heifers in calf or in milk[1] (million)	4.82	5.01	5.01	5.18	5.31	5.41	5.51	5.6
Milksolids production[2] (million kg)	1 685	1 658	1 825	1 858	1 833	1 887	1 936	1 987
Milk price[2] (cents per kg milk solids)	612	586	835	465	562	649	670	695
Total export value ($ million)[3]	13 659	13 441	18 068	14 174	14 813	16 579	17 451	18 429
Total export volume (thousand tonnes)[3]	2 725	3 031	3 053	3 130	3 089	3 179	3 262	3 347
Average export price ($ per kg)[3]	5.01	4.44	5.92	4.53	4.8	5.22	5.35	5.51

Notes: 1 - As at 1 July (opening numbers). 2 - Year to 31 May. 3 - Year to 30 June. * - Estimate.

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

EXPORTS

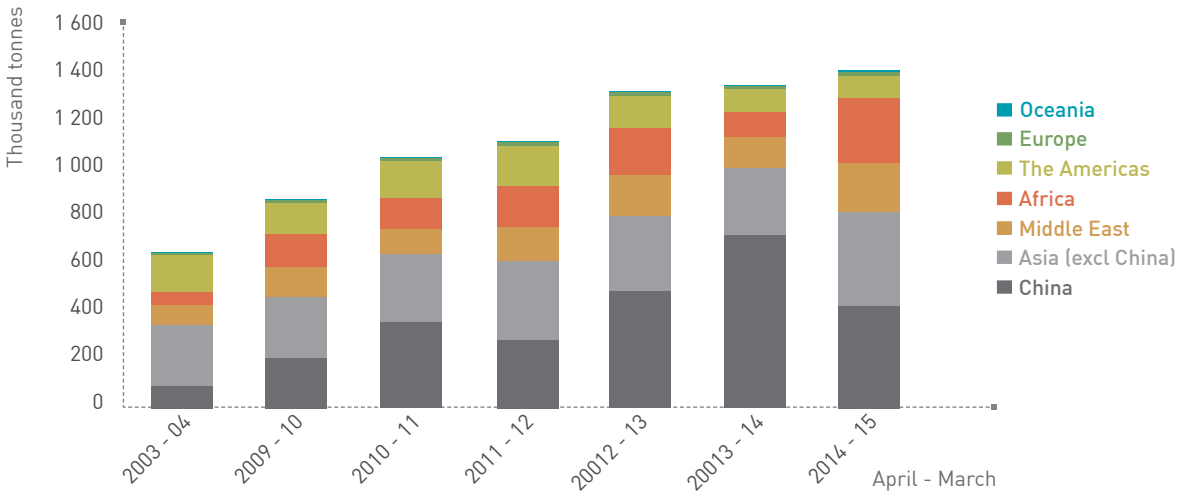
Dairy export revenue is forecast to be $14.2 billion for the year ending June 2015. This is 22 percent down from 2014, but still above average export revenues from 2010 to 2013. Very high levels of Chinese import purchasing during 2013 and early 2014 drove international dairy prices to record highs. This delivered a substantial boost last year to New Zealand's dairy export returns, driving them to a record high of $18.1 billion for the year to June 2014. A sharp reduction in export prices (23.5 percent) this season has been slightly offset by an increase in export volumes (2.5 percent). This decline in prices has shifted the export footprint of our dairy products.

Dairy export revenue is forecast to grow at a compound annual growth rate of 6.8 percent over the outlook period to 2019, with the largest lift occurring in 2017. Revenue growth is expected to be primarily driven by increases in prices (5 percent) rather than volumes (1.7 percent).

New Zealand's pattern of dairy exports has continued to evolve over the last 12 months as indicated by the whole milk powder (WMP) export volumes shown in Figure 2.3.

Lower international prices have increased the quantity demanded by Southeast Asian and North African countries.

FIGURE 2.3: COMPOSITION OF NEW ZEALAND'S EXPORT MARKETS FOR WMP, 2003–2015



Sources: Statistics New Zealand and MPI

Despite a significant 41 percent drop in export volumes to China, total WMP volumes exported increased by 4.7 percent for the year to March 2015. Lower international prices have driven a substantial increase in the quantity demanded from emerging Southeast Asian and North African countries. New Zealand suppliers have realised this opportunity, helping to offset the reduced Chinese demand. Some of this extra buying is likely to be temporary rebuilding of inventories, particularly in North Africa and the Middle East. However, Chinese demand is expected to resume growth from the start of 2016 as stocks are unwound. Overall, the long-term demand outlook for China and the Southeast Asian region appears healthy.

PRICES

New Zealand's dairy export prices are expected to remain volatile and subject to numerous influences as discussed in the "Dairy price volatility" box story on pages 24–25. Prices peaked in March and June 2014, then declined sharply reflecting a combination of demand and supply side effects.

DEMAND

- China built up stockpiles of dairy imports and increased its domestic production, reducing its purchases from New Zealand and other exporters.
- Trade sanctions imposed by Russia stopped its imports from the EU, although Belarus and Argentina have partially substituted dairy supplies to Russia.

SUPPLY

- High farm-gate prices have stimulated an increase in supply from the USA, the EU and Australia.
- Low feed costs in the USA and the EU are also contributing to increased production.

An increase in supply is also expected from the EU following the removal of milk supply quotas from 1 April 2015. There are still other market interventions in place including farm income support and private storage options, however, the EU's current policy precludes a return to export subsidies that previously resulted in dumping surplus dairy stocks on world markets.

Fonterra's GlobalDairyTrade (GDT) platform auctions dairy products every two weeks for delivery in each of six subsequent months after an auction. Our analysis of recent GDT events (currently covering a small proportion of total exports) indicates a small increase in dairy export prices for the June and September quarters in 2015.

Dairy prices are expected to recover as global supply and demand rebalances.

DairyNZ

We expect China's import demand to recover during the year ending June 2016, lifting export prices. This is not expected to support the high level of prices observed in 2014, but will help to maintain a gradual price increase as shown in Figure 2.4.

An expected rebalancing of global supply and demand underpins these projections. Demand growth is expected as a consequence of rising incomes, urbanisation and changing diets in China and in ASEAN countries. Price rises are expected as demand growth in Indonesia and Malaysia is unable to be met by their domestic production due to climatic and physical land constraints.

For the year ending May 2016, the farm-gate milk price in New Zealand is forecast at $5.62 per kilogram of milksolids. This reflects a modest recovery in international prices and an assumed 5.4 percent depreciation of the NZD against the USD. The milk price is projected to average $6.70 over 2017 to 2019 due to a rebalancing of global supply and demand and a continued gradual depreciation against the USD.

These price projections are subject to several uncertainties and risks, including upside price drivers and downside price drivers.

UPSIDE PRICE DRIVERS

- There are indications that the Russian EU import ban may not be lifted 12 months after it was imposed. However, a partial easing could induce healthy purchasing to restock in the short term, lifting demand during quarters three and four of 2015.

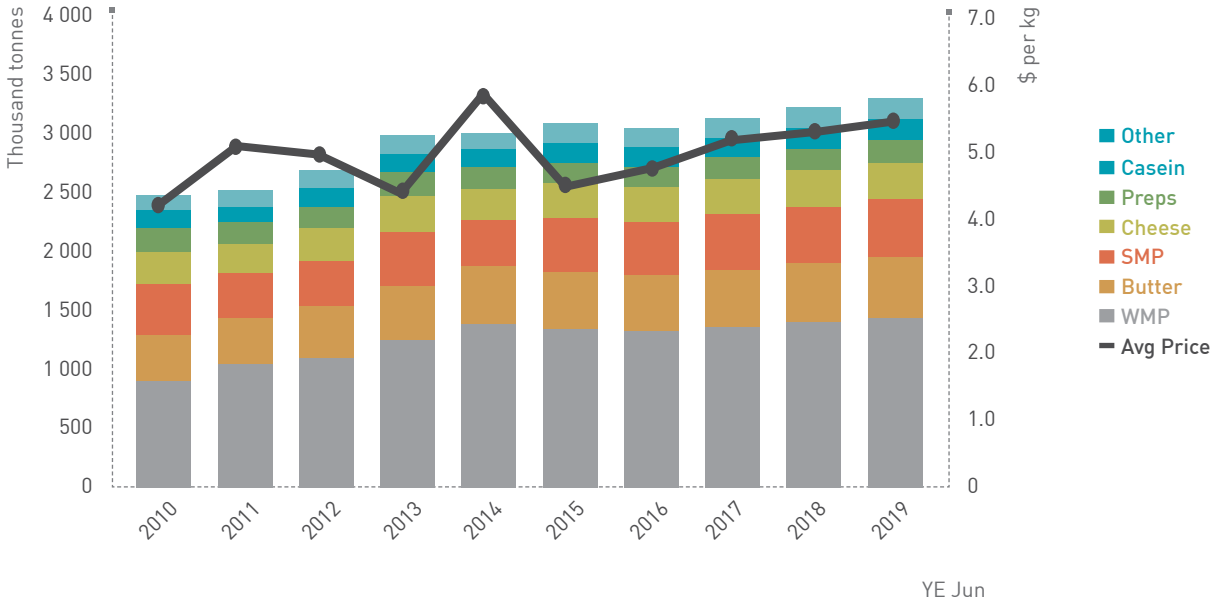
- Prices could recover earlier than expected if China's inventories of dairy products were lower than expected.

DOWNSIDE PRICE DRIVERS

- There is considerable uncertainty around the EU's production response following the end of milk supply quotas on 1 April 2015. Estimates range from 0 to 8 percent each year over several years. Lower farm-gate prices in the EU may limit supply growth but it is also possible that EU producers could cut prices, absorbing short-term losses as part of a longer-term strategy to gain market share in key future growth markets.

- Emerging market consumption growth in developing countries may be lower than forecast. This could further weaken prices for commodity milk powders in the short term in the absence of Chinese and Russian recovery.

FIGURE 2.4: ACTUAL AND FORECAST DAIRY AVERAGE PRICES AND VOLUMES, 2010–2019



Sources: Statistics New Zealand and MPI.


DairyNZ

DAIRY PRICE VOLATILITY

In recent years, global dairy commodity prices have become increasingly volatile in response to shifting international demand and supply. This causes similar fluctuations in the farm-gate price of milk received by New Zealand dairy farmers.

Large price peaks are often followed by price falls (and recoveries) as the market searches for a long-term equilibrium. Most recently, the record farm-gate price of $8.35 per kilogram of milksolids during the 2013/14 season will be followed by our estimated payout of only $4.65 for the 2014/15 season.

This was driven by strong Chinese demand in 2014, leading to a large build up of inventory. Since then demand from China has fallen as these stockpiles were consumed and local supply has grown. Global supply of dairy products has also been high due to favourable climatic conditions, lower input costs (feed), anticipation of the removal of production quotas in the EU, and geopolitical factors, such as the Russia trade ban.

The volatility of dairy prices has been high relative to other primary sector export prices such as those of New Zealand beef (see Figure 2.5). Export prices for dairy were relatively stable between 2003 and 2007, but have fluctuated extensively since then – between 2003 and 2007 the monthly standard deviation was $0.27; from 2008 onwards it was $0.83.

Large movements in dairy prices create challenges for the industry when managing cash flows. Some production decisions are made in advance, based on price expectations. High fixed and borrowing costs make financial management difficult when prices fall below these expectations. For example, high dairy prices during the 2013/14 dairy season have driven farmland prices up by 14 percent between March 2014 and 2015, increasing the cost of associated borrowing for recent purchasers.

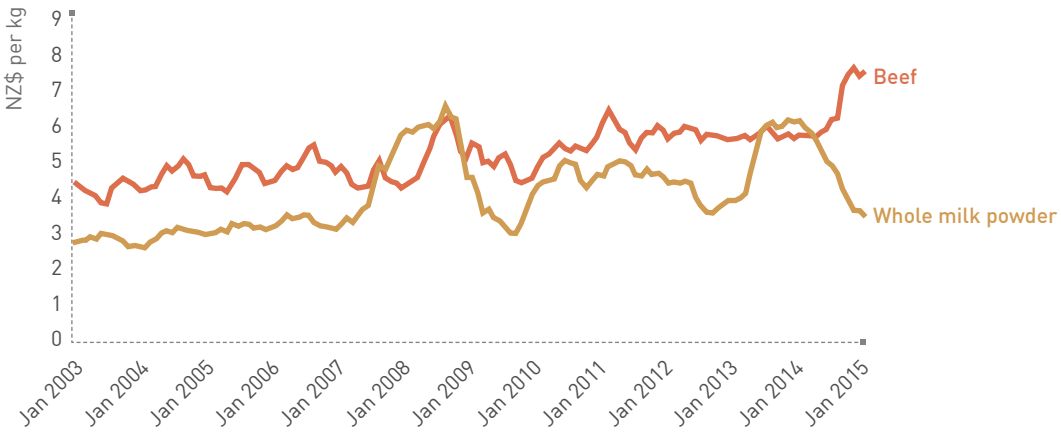
WHY DO PRICES MOVE SO MUCH?

Even though New Zealand is the top dairy exporting nation, we only account for an estimated 3 percent of the total global milk production. Global dairy markets are, in general, distorted by high tariff barriers. Many countries produce dairy products primarily for their domestic markets behind these tariff barriers, sometimes with the support of government production and subsidies.

Some of these countries contribute significant residual volumes to the export market (for example, certain EU countries), whilst others require imports to make up shortfalls. As a major exporter, New Zealand competes for a share of these global shortfalls – without domestic or export subsidies.

Fluctuations in the size of this residual can flood or drain the market, altering price. Both demand and supply respond to these price signals, albeit with a lag.

FIGURE 2.5: EXPORT PRICES BY PRODUCT (BEEF AND DAIRY), 2003–2014



Supply is inelastic in the short-term, adding to the price volatility. Prices will spike in response to a shortage. Supply responds to this price signal strongly but with a considerable lag. This can lead to excess supply in the future and sharp price corrections (see Figure 2.6). As seen this year, global markets are still working through the extra supply partly stimulated by the high prices in 2013/14.

SHORT-TERM OUTLOOK

In the short term, prices are likely to remain low due to weak demand from China and Russia. When prices fall, the quantity demanded from lower income countries increases and countries that were previously priced out of the market re-enter.

The global supply of dairy product remains strong in the short run due to increasing production from the USA and EU, which is a lagged effect of the record prices recorded in 2013/14, low feed prices and policy changes. Fortunately, global production has eased off recently as on farm production responds to lower prices at the farm gate.

LONG-TERM OUTLOOK

Despite the current low prices, the long-term demand outlook is positive. Dairy consumption is highly responsive to changes in income. For low income countries a 1 percent increase in income is estimated to increase the demand for dairy products by 0.8 percent[3]. As incomes of developing countries increase so will demand.

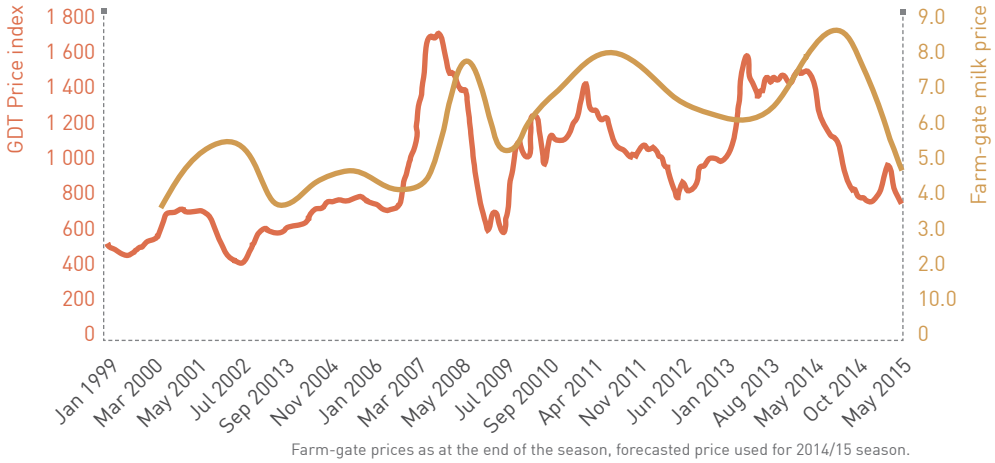
The consumption of dairy products in China and many other Asian countries remain well below global averages. Increasing incomes, growing urbanisation, relaxation of the one child policy and a growing acceptance of dairy as part of the Chinese diet will all contribute to a predicted 30 percent increase in consumption by 2024.

Chinese dairy production is also expected to increase, but more slowly than demand. By 2024, consumption is estimated to reach 63 million tonnes of dairy products compared with production of only 48 million tonnes. This estimated 15 million tonne deficit is well above the 11 million tonne import requirement in 2014[4].

The successful negotiation of FTAs helps to ensure New Zealand products can access destination markets. This allows exporters to have a range of markets to choose from and to sell in those markets where the best prices are available. This should help to reduce market volatility.

Notes: 3 - Gerosa, S. and Skoet, J. (2012). "Milk availability: Trends in production and demand and medium-term outlook." ESA Working Paper No 12–01. 4-China Agricultural Outlook 2014–2024.

FIGURE 2.6: GLOBAL DAIRY TRADE PRICE INDEX AND FARM-GATE PRICES, 1999–2015



Farm-gate prices as at the end of the season, forecasted price used for 2014/15 season.

3
MEAT AND WOOL

Beef+Lamb New Zealand

MEAT AND WOOL

The diverse meat and wool sector accounts for over 20 percent of primary industry export earnings. Total sector export revenues are expected to be 8 percent higher in the year to June 2015. This is driven mainly by very high overseas prices for beef and veal and strong New Zealand production which more than offset weaker returns for sheep meat, venison and some co-products. The expected outlook is for beef revenue to peak in 2015, with lower returns from sheep meat and co-products having a further negative impact in 2016. Overall growth is expected to resume from 2017, helped by depreciation of the NZD against the USD.

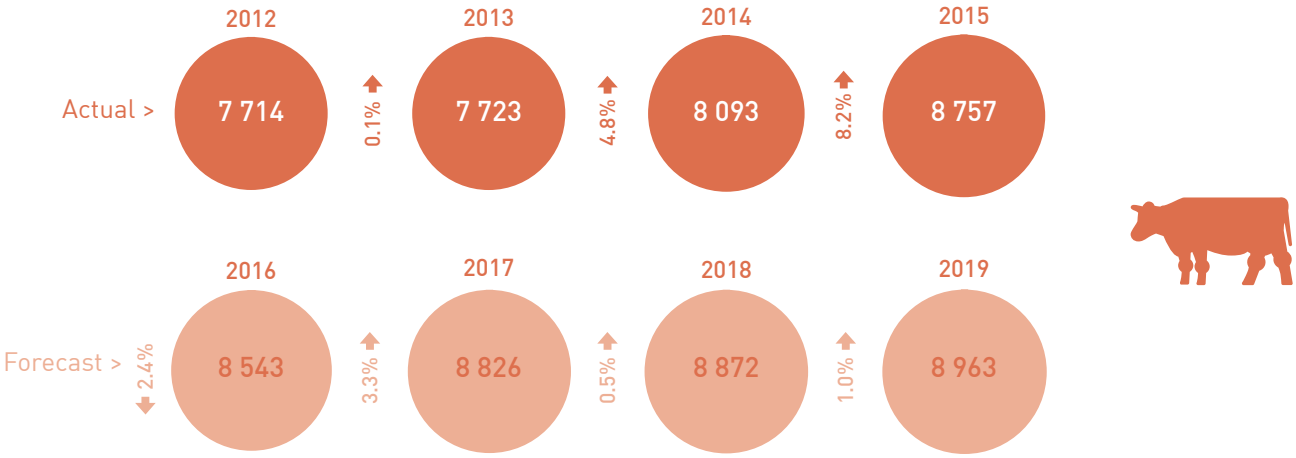
KEY FACTORS

Beef export prices have peaked in 2015 and are forecast to be broadly maintained over the next 12 to 18 months, before softening in response to global supply growth.

Sheep meat earnings are currently being suppressed by softer international prices and drought in parts of New Zealand. Growth is expected to resume in 2017.

The impact of Russian trade sanctions and the closure of manufacturing facilities in China have weakened global demand and prices for hides and skins.

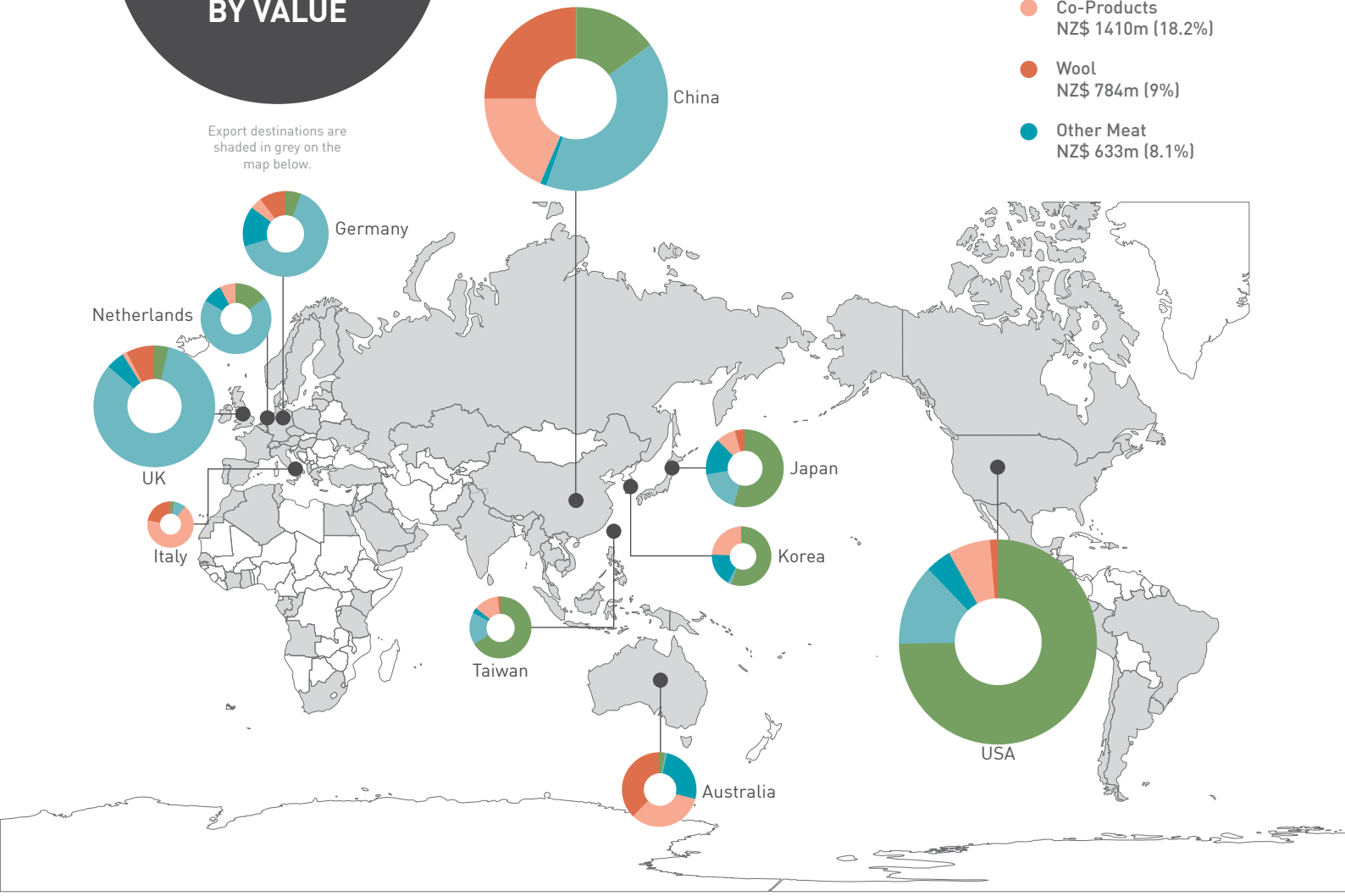
MEAT AND WOOL EXPORT VALUES (NZ$ MILLIONS) 2012 - 2019



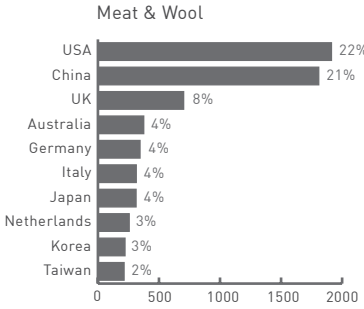
TOP 10
MEAT & WOOL EXPORT MARKETS BY VALUE

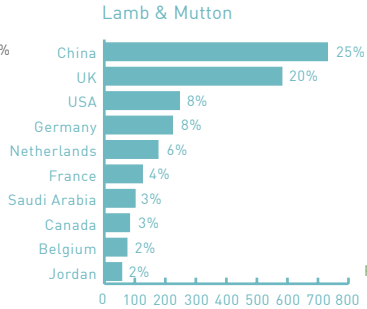
- Lamb & Mutton NZ$ 2953m (38%)
- Beef & Veal NZ$ 2772m (35.7%)
- Co-Products NZ$ 1410m (18.2%)
- Wool NZ$ 784m (9%)
- Other Meat NZ$ 633m (8.1%)

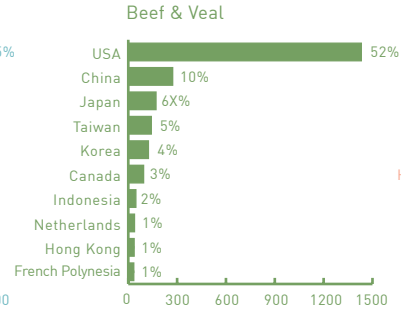
Export destinations are shaded in grey on the map below.

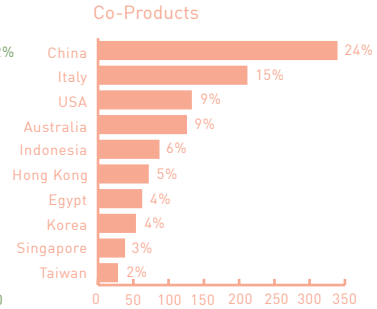


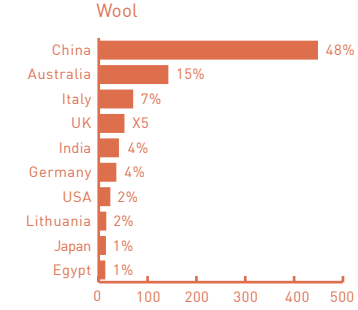
TOP 10 MARKETS (NZ$ Millions)

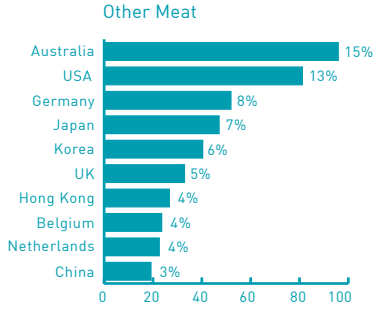












YEAR ENDED MARCH 2015

Sources: Statistics New Zealand and MPI.

TABLE 3.1: MEAT AND WOOL EXPORT VALUES (NZ$ MILLION), 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Beef and Veal	2 010	2 143	2 199	2 857	2 849	2 855	2 803	2 795
Lamb	2 310	2 263	2 485	2 489	2 405	2 582	2 596	2 626
Mutton	329	395	488	439	393	401	402	406
Venison	205	171	187	174	172	164	159	157
Other Meat	433	435	438	464	440	452	458	463
Hides and Skins	570	565	578	494	416	459	513	538
Animal Co-products	884	907	828	906	900	925	942	959
Wool	756	648	721	781	810	827	836	853
Carpets and other Wool Products	217	196	168	154	160	161	162	166
TOTAL	7 714	7 723	8 093	8 757	8 543	8 826	8 872	8 963

Notes: * - Estimate.

Sources: Statistics New Zealand and MPI.

BEEF AND VEAL

Export prices for beef have been very high due to strong USA demand, and 2015 export volumes are estimated to increase in response. Total earnings are expected to be up 30 percent in the year to June 2015 to $2.86 billion. High prices are expected to be broadly maintained over the next 12 to 18 months, then to decline gradually through to 2019. This price outlook is based on strong USA demand through to 2017 and a depreciation of the NZD against the USD. Global beef supplies are assumed to expand from 2017.

Beef prices are heavily influenced by developments in the USA market, where herd rebuilding following droughts has reduced the availability of domestic lean beef from breeding cattle. Domestic prices for lean beef in the USA increased dramatically, lifting imported beef prices as supply gaps are filled through imports. Beef export prices are forecast to decline slightly from 2017 as the USA completes its post-drought herd rebuilding phase.

Global supply remains constrained as herds rebuild in Australia and the USA.

Export volumes from New Zealand have been strong in the year to June 2015. This is aided by a combination of drought and a low dairy milk price which has led to an earlier and more prolonged dairy cow cull than normal. Beef export volumes from New Zealand are forecast to gradually increase beyond 2016 due to ongoing growth of dairy and beef cattle numbers.

There is now a looming cattle shortage in Australia as a consequence of high slaughter levels from drought over the past two years. This means that total beef export volumes from Australia, New Zealand's largest competitor in the USA market, are forecast to fall 8.5 percent[6] over the next two years before gradually increasing from 2018.

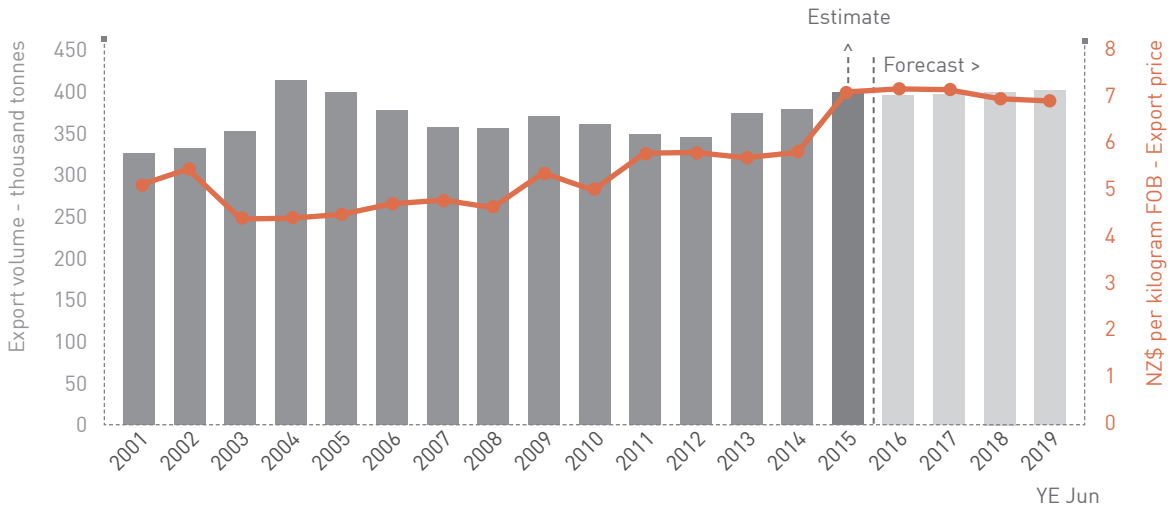
Notes: 6 - ABARES Agricultural Commodities 5:1 March Quarter 2015.

TABLE 3.2: BEEF CATTLE NUMBERS, BEEF PRICES, EXPORT VOLUMES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Total beef cattle[1] (million)	3.85	3.73	3.7	3.67	3.69	3.74	3.78	3.79
Schedule prime beef price (cents/kg)	406	400	403	461	466	463	450	447
Export volume (000 tonnes)	346	374	380	400	395	398	401	403
Export value ($ million)	2 010	2 143	2 199	2 857	2 849	2 855	2 803	2 795

Notes: 1 - Opening numbers are as at 1 July of the preceding year. * - Estimate. Sources: Statistics New Zealand, Beef + Lamb New Zealand Economic Service and MPI.

FIGURE 3.1: ADULT BEEF EXPORT VOLUME AND AVERAGE EXPORT PRICE, 2001–2019



LAMB AND MUTTON

Lamb export revenue for the year to June 2015 is expected to be largely similar to a year ago at $2.49 billion. Drought in parts of New Zealand has lowered export volume forecasts, and subdued trading conditions in key markets has lowered price expectations in the second half of the year.

Demand for sheep meat from key markets has slowed. Chinese import demand has not met expectations this year, as strong 2014 prices induced higher domestic production. This is weighing on prices in all markets for mutton and the mid to lower value frozen lamb cuts. Mutton exports for the year to date have been very weak in terms of both volume and price.

New Zealand lamb supply for the current year peaked four to six weeks earlier than normal due to drought conditions. Lambs from eastern regions of both the North and South Islands were sent to slaughter sooner than normal to free up feed for capital stock. As a result average carcass weights of lamb are lower than last year, reducing total export volume. The volume outlook is also weak, with drought resulting in poor breeding stock condition which is expected to flow through to reduced pregnancy rates of ewes and mated hoggets. Lamb production for 2016 is therefore forecast to fall a further 2.2 percent compared to 2015.

New Zealand lamb supply for the current year peaked four to six weeks earlier than normal due to drought conditions.

Export prices are expected to strengthen in 2016 and beyond (as shown in Table 3.3). This reflects a combination of a depreciating NZD against the USD (more than half of New Zealand's lamb exports are now traded in USD), recovering demand in China and lower supply expected from Australia[7]. Sheep meat production in the United Kingdom (UK) is forecast to increase 6.0 percent in 2015, which could undermine price increases.

New Zealand's sheep flock size is expected to stabilise over the outlook period as dairy conversions slow. Total sheep numbers are forecast to be 28.4 million by June 2019.

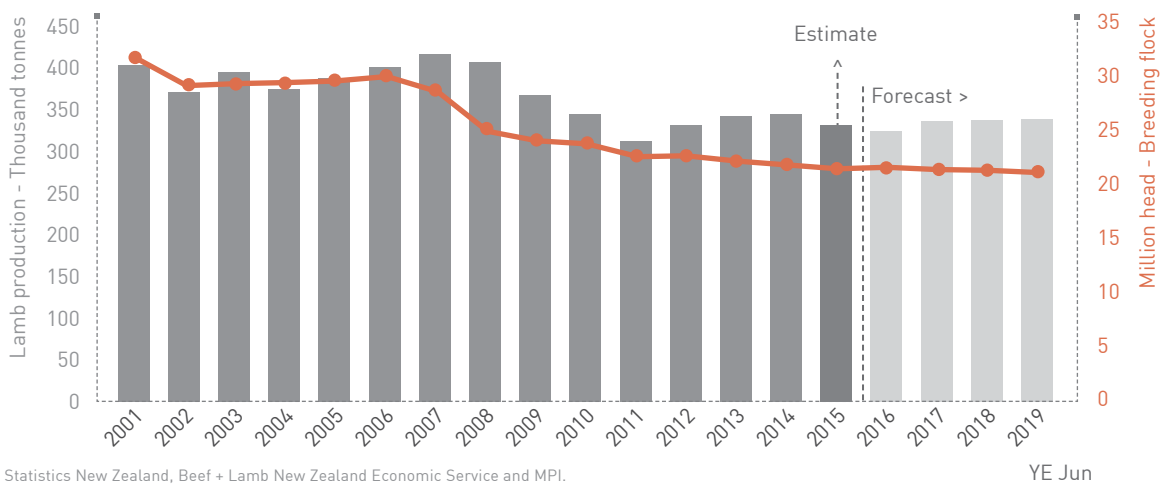
Notes: 7 - ABARES Agricultural Commodities 5:1 March Quarter 2015.

TABLE 3.3: SHEEP BREEDING NUMBERS, LAMB PRICES, EXPORT VOLUMES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Sheep breeding numbers[1] (millions)	22.5	22.8	22.2	21.9	21.5	21.6	21.5	21.3
Lamb schedule price (cents/kg)	637	477	546	539	547	593	596	606
Export volume (000 tonnes)	254	314	306	296	290	300	301	302
Export value ($ million)	2 310	2 263	2 485	2 489	2 405	2 582	2 596	2 626

Notes: 1 -Mated ewe and ewe hoggets are as at 1 July of the preceding year. * - Estimate

FIGURE 3.2: SHEEP BREEDING FLOCK NUMBERS AND LAMB PRODUCTION, 2001–2019



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

CO-PRODUCTS

New Zealand processors continue to find more value from the animal carcass through the extraction of co-products. There has been strong growth in exports of animal products for pharmaceutical and other uses, with export earnings from these products increasing from around $4 million in 2005 to nearly $14 million in 2015. Uses for co-products include degenerative disorder treatments, medical devices and dietary supplements.

Exports of intestinal products have shown strong growth, with prices for products such as tripe and bungs (parts of the intestine) increasing. This makes the extraction and packaging of these products economically viable, offsetting declines in prices for rendered co-products. Meat oil and protein prices have fallen this year as a result of lower prices for competing products such as soya meal and palm stearin. Tallow prices have weakened following lower bio-diesel demand as a result of the slump in crude oil prices.

Reduced global supplies of beef and strong demand from Asia and the Middle East have driven increases in co-product prices over the past two years. Growth in export volumes of higher-value products is expected, but will be constrained by the number of animals processed. New Zealand can continue to grow export value of these products by taking advantage of established market access and disease-free status.

Strong growth in exports of animal products for pharmaceutical uses.

Total animal co-product export revenue for the year to June 2015 is forecast to increase 9.4 percent to $906 million. Export revenue is forecast to be between $900 million and $960 million over the outlook period due to some price recovery in rendered co-products and depreciation of the NZD against the USD.

HIDES AND SKINS

The impact of Russian trade sanctions and the closure of manufacturing facilities in China have weakened global demand and prices for hides and skins. Russia is traditionally a major consumer of leather products. Trade sanctions against European manufacturers and a weaker Russian rouble has reduced the global trade of leather products. This has lowered prices for raw skins and hides from New Zealand and Australia, which are exported mainly to Chinese and some European manufacturers, often for re-export to Russia. Additionally, the Chinese government has imposed more stringent environmental regulations on tanneries, forcing both the closure of many Chinese manufacturers, and lowering demand for raw products.

Russian trade sanctions have weakened the global demand for hides and skins.

Export revenue from hides and skins in the year to June 2015 is forecast at $494 million, down 15 percent from the previous year. Further export revenue declines are expected in the year to June 2016 before beginning to recover from 2017 as global manufacturing and trade adjust to the changed market conditions.

TABLE 3.4: SHEEP NUMBERS, RAW WOOL PRICES, EXPORT VOLUMES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Total sheep numbers[1] (millions)	31.1	31.3	30.8	29.8	29.4	29.1	28.9	28.7
Average sale price (cents/kg)	669	516	579	608	636	654	664	680
Export volume (000 tonnes)	113	126	126	126	126	125	125	124
Export value ($ millions)	756	648	721	781	810	827	836	853

Notes: 1 - Opening numbers are as at 1 July of the preceding year. * - Estimate.

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

WOOL

Wool prices have risen over the last year, led by lambs wool which peaked at around 30 percent above 2014 levels. Prices for other wool styles have largely been maintained, except for fine merino wool (8 percent of raw wool exports) which has suffered from weak European demand.

Lamb's wool prices peaked at around 30 percent above 2014 levels.

Total export revenue from wool products in the year to June 2015 is forecast at $935 million, a 5 percent increase. Falling export volumes for both raw wool and manufactured products is being offset by stronger prices. Steady growth is expected in export revenue for wool products over the outlook period. These projections are based on a continuation of the recent trend towards higher prices from a lower global supply and a weakening NZD, which more than offset lower export volumes.

Export volumes of carpets and yarns are expected to fall by over 30 percent in the two years to June 2015 as a consequence of the closure of a number of domestic manufacturers. Export prices of carpets and yarn products increased over the same period, but the weak Australian currency is expected to limit any volume growth in this important market.

DEER

The New Zealand deer herd has been declining at an annual rate of 3.7 percent since 2009. This trend is expected to continue as deer breeders exit the industry in favour of alternative land use such as dairy support or deer finishing operations. The anticipated Passion2Profit PGP programme is aimed at improving venison returns for deer farmers which may stop the decline of the deer herd.

Export revenue from venison in the year to June 2015 is forecast at $174 million, a decrease of $13 million (6.8 percent) on the previous year, and further declines are projected out to 2019. Export prices fell from expected values as the Euro weakened against the NZD. Prices are expected to recover, particularly from 2018 onwards.

Velvet prices have reached very high levels this year as New Zealand velvet cemented its place as a premium product. This has gone some way to alleviate the below average returns at the farm gate for venison. The expanding Chinese market has provided strong demand for mid to lower value product. The recently signed FTA with Korea will help to further improve access to this market.

TABLE 3.5: TOTAL DEER, VENISON PRICES, EXPORT VOLUMES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Total deer[1] (million)	1.09	1.06	1.03	0.96	0.91	0.85	0.8	0.75
Venison schedule price (– AP stag cents/kg)[2]	794	689	624	635	646	651	694	760
Venison export volume (000 tonnes)	15.2	14.4	16	15.5	15.1	13.6	12.4	11.2
Venison value ($ million)	205	171	187	174	172	164	159	157

Notes: 1 - Opening numbers are as at 1 July of the preceding year. 2 - Gross net of levies. * - Estimate.

Sources: Statistics New Zealand, AgriHQ and MPI.

4
FORESTRY

FORESTRY

A build-up of log inventories and slower construction growth in China has recently depressed log prices and contributed to an expected 10 percent fall in annual forestry export earnings for the year to June 2015.

The outlook period to 2019 is expected to see some growth in exports to China and potentially India, while other key markets such as Korea, Japan and Australia should remain steady. Log exports will continue to dominate the trade figures. Approximately constant volumes of other processed products such as pulp, paper, panels and chips are expected, with prices gradually rising for these products.

KEY FACTORS

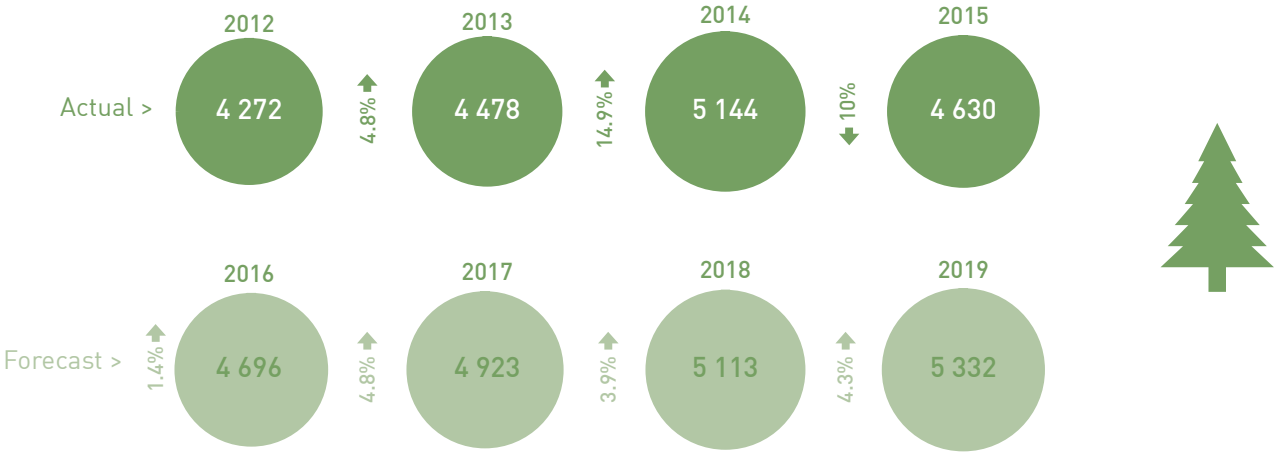
The slowing Chinese economy and real estate market, coupled with high log inventories and the potential for more Russian imports, mean that the remainder of 2015 could be tough for log and timber exports into China.

The medium-term prospects for the Chinese log and timber trade remain positive, with continuing urbanisation and economic growth – albeit at reduced rates. USA housing market recovery should stimulate timber exports.

India is a market to watch, with potential for increasing log demand as their economic growth continues to gain momentum.

Supply does not appear to be a constraint in the outlook period, with 1990s plantings available for harvesting within the next few years.

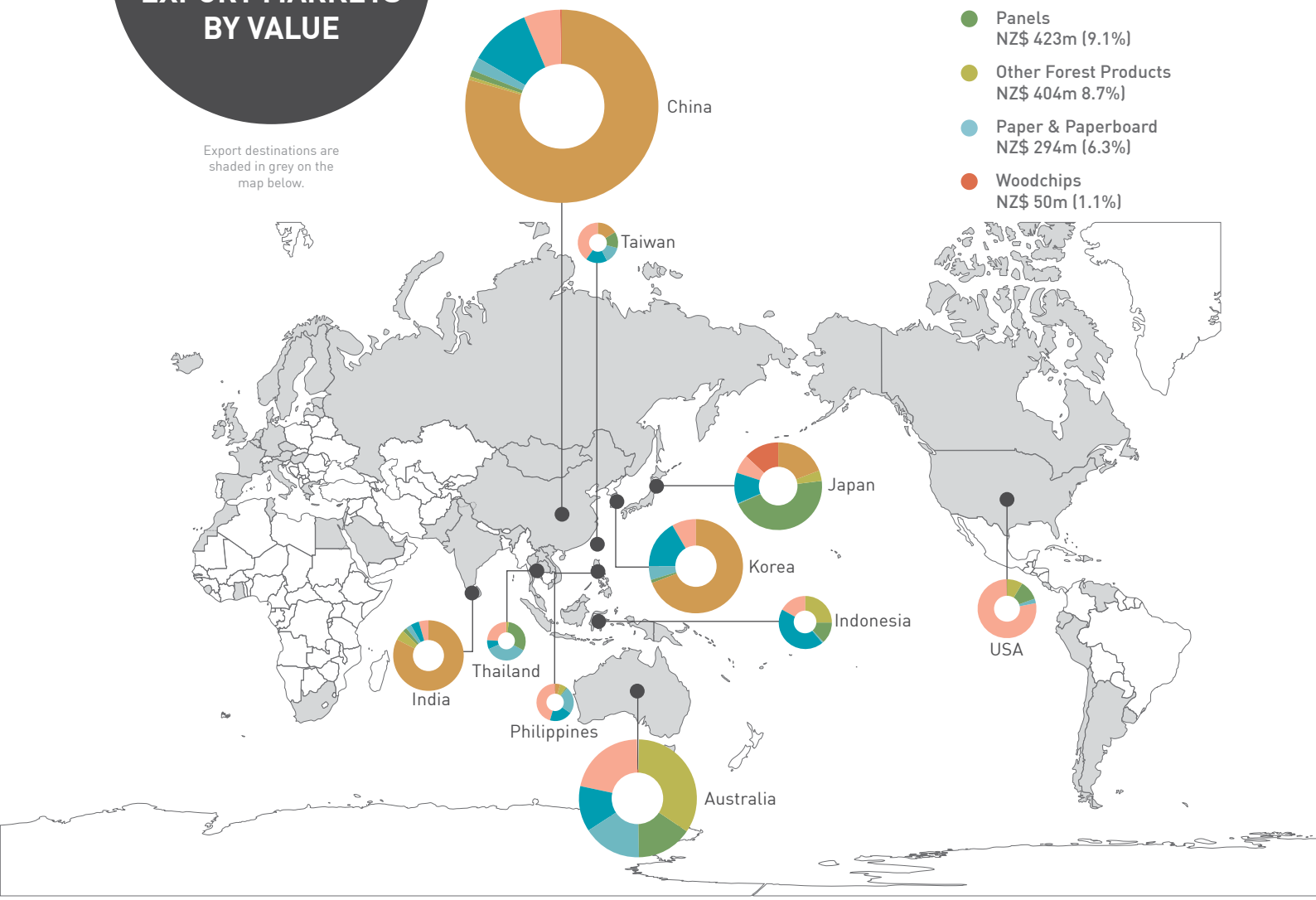
FORESTRY EXPORT VALUES (NZ$ MILLIONS) 2012–2019



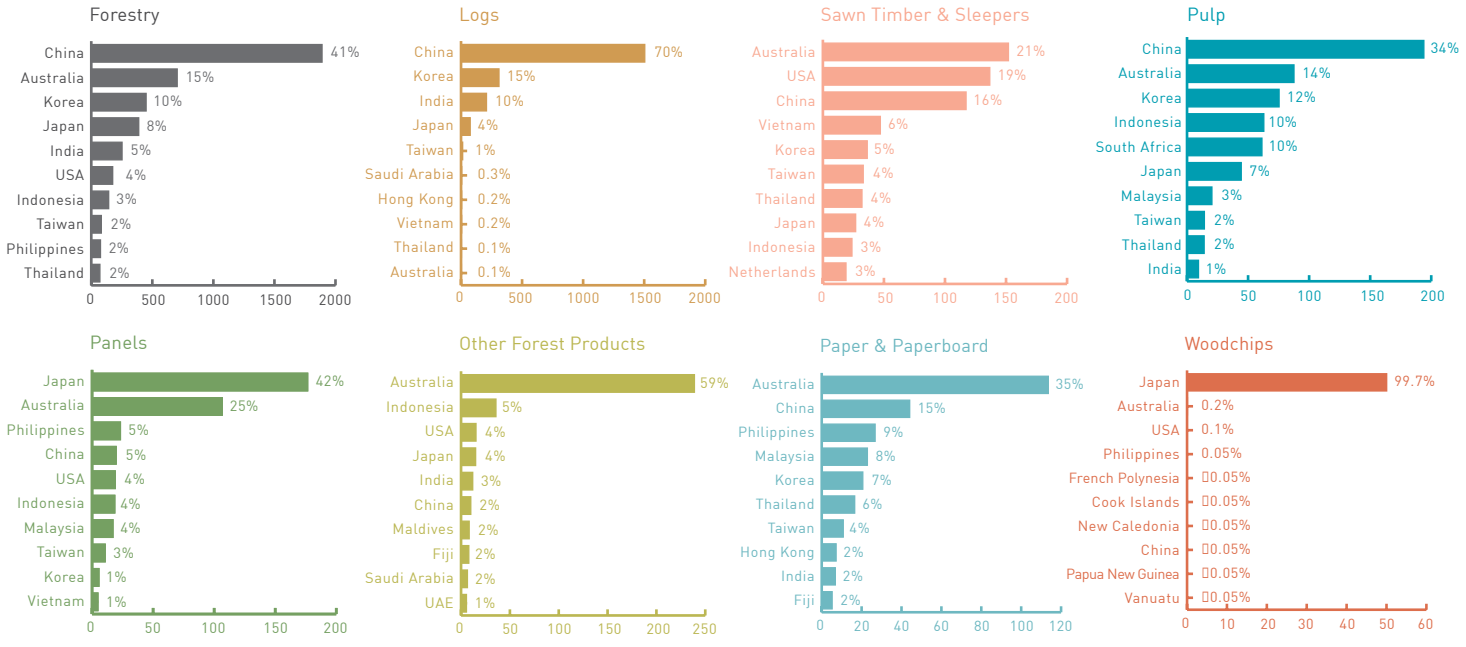
TOP 10 FORESTRY EXPORT MARKETS BY VALUE

Export destinations are shaded in grey on the map below.

- Logs NZ$ 2137m (45.9%)
- Sawn Timber & Sleepers NZ$ 738m (15.9%)
- Pulp NZ$ 609m (13.1%)
- Panels NZ$ 423m (9.1%)
- Other Forest Products NZ$ 404m 8.7%)
- Paper & Paperboard NZ$ 294m (6.3%)
- Woodchips NZ$ 50m (1.1%)



TOP 10 MARKETS (NZ$ Millions)



YEAR ENDED MARCH 2015

Sources: Statistics New Zealand and MPI.

PRODUCTION

The strong prices that saw annual harvest volumes peak in 2014 at 30.5 million cubic metres have abated. However, export log prices are around 4 percent higher than the five-year average. Slower Chinese economic growth means that harvest volumes are not expected to regain that peak over the outlook period to 2019. As forests planted in the 1990s start to mature there will be sufficient supply available to meet forecast demand levels. Some of these plantings are in more remote areas and will only be viable for harvesting if prices are sufficiently high.

Harvest volumes are down as strong log prices in 2014 have abated.

Sawmilling output is set to increase in the central North Island, with expansion of the existing Red Stag Timber mill. Much of this output will be destined for the domestic market, on the back of strong structural timber demand from construction in Christchurch and Auckland in particular. A second new sawmill is being commissioned in Rotorua which will produce squared logs for export, displacing round export logs which typically sell for a lower price.

Production capacity and output from the remaining wood processing sectors (pulp, paper and panels) is expected to remain unchanged.

Total forestry export revenues are expected to be $4.6 billion in the year to June 2015, with the bulk of this (61 percent) coming from logs and timber.

The Chinese economic expansion is slowing with real estate investment growth falling to almost half the growth rate of 12 months ago. This reduced Chinese log and timber demand and led to a build up of log inventories in Chinese ports (to 4.3 million cubic metres) in March. Finance is also tighter, with increasing reports of cash only trades. Competition from Russian exports has intensified with its lower currency value, contributing to a decline of New Zealand's share of log imports into China (5 percent decrease in the December quarter compared to the same quarter in 2013). However, domestic infrastructure constraints and rising costs in Russia will limit log volume increases from Russian exporters.

These factors will all contribute to softer log and timber volumes and prices in China in the short-term. However, we expect steady Chinese growth over the medium-term and sustained log and timber demand growth – albeit at lower levels than observed in the past.

Reduced Chinese log and timber demand led to a build up of log inventories.

TABLE 4.1: FORESTRY EXPORTS, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
LOGS								
Price (NZ$ per m^3)	114	124	147	133	136	140	144	148
Volume (000 m^3)	12 966	14 953	17 236	15 840	15 694	16 067	16 440	16 813
TIMBER								
Price (NZ$ per m^3)	373	383	417	424	417	433	445	458
Volume (000 m^3)	2 047	2 067	1 887	1 736	1 720	1 733	1 746	1 759
PULP AND PAPER								
Price (NZ$ per m^3)	781	711	722	752	764	791	812	837
Volume (000 m^3)	1 205	1 240	1 262	1 207	1 209	1 209	1 209	1 209
PANELS								
Price (NZ$ per m^3)	517	501	463	531	541	559	574	592
Volume (000 m^3)	955	870	878	833	832	832	832	832
TOTAL EXPORT REVENUE	4 272	4 478	5 144	4 630	4 696	4 923	5 113	5 332

* - Estimate.

Sources: Statistics New Zealand and MPI

India is a potential growth market. Since 2004 our log exports to India have increased tenfold from $25 million to $230 million. Indian GDP is expected to grow by 7.5 percent per annum over the next two years.

The economic outlook for Korea appears to be stable, so we assume steady log volumes into that market. Japan is another key market; however, it is difficult to see substantial growth as their economy continues to face challenges.

There is potential for further growth in timber exports to the USA as the economy appears to be heading back into sustained growth mode, with housing starts recovering from post-GFC lows. Exports to Australia are being challenged by slow economic growth and a strong NZD, which is a headwind for our main forestry exports of timber, panels, pulp and paper into that market. These factors are expected to moderate over the longer term, as the Australian economy responds to monetary stimulus and the NZD pulls back from its current highs against the AUD.

These underlying drivers all contribute to moderate longer-term growth in log and timber export volumes out to 2019, with flat demand assumed for other products. Forecast volume growth will make only small contributions to increases in future export earnings.

FIGURE 4.1: LOG EXPORT VOLUMES BY COUNTRY, 2003–2019

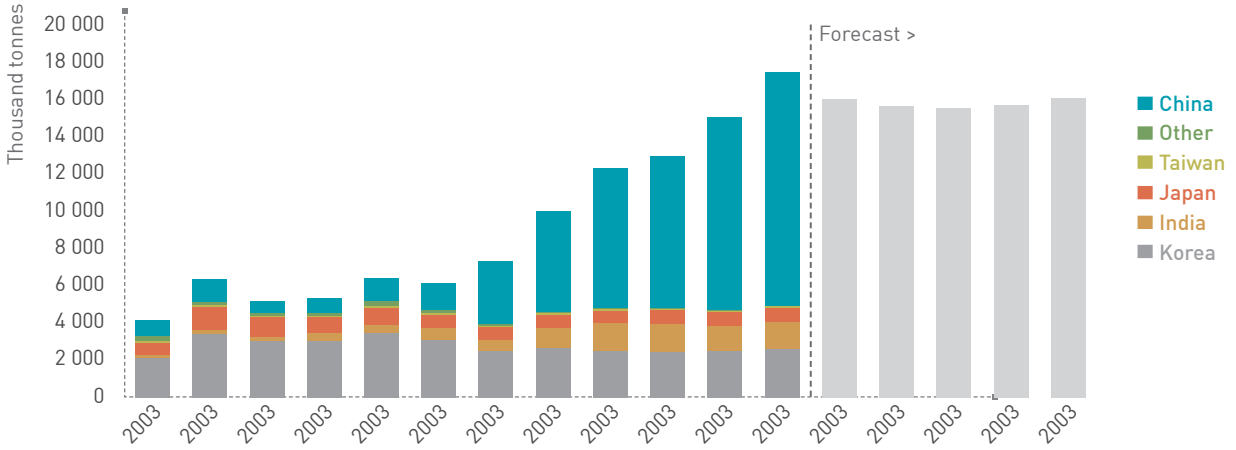
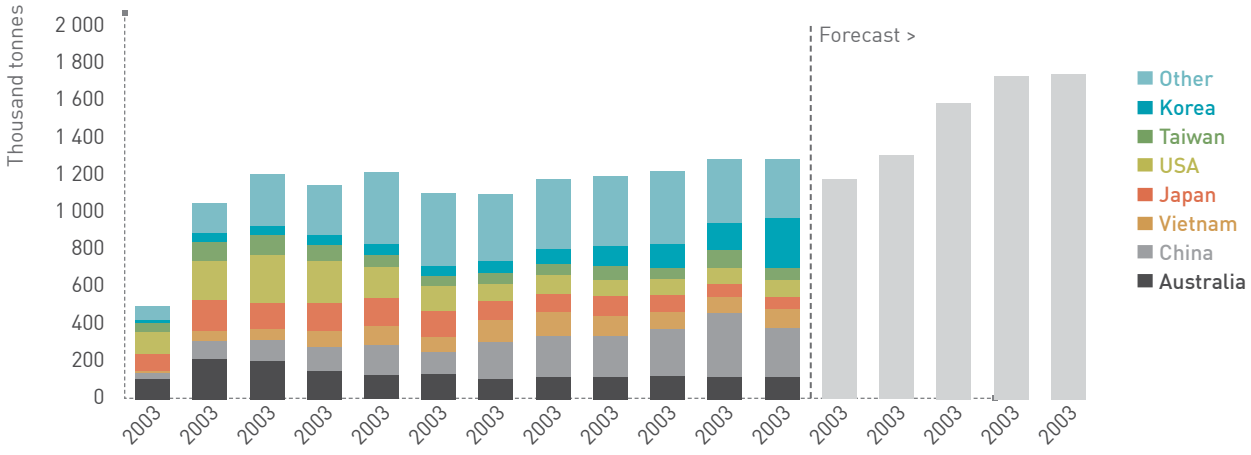


FIGURE 4.1: TIMBER EXPORT VOLUMES BY COUNTRY, 2003–2019



PRICES

The forecasts assume weakening USD prices in the short term and then from 2016 constant real USD prices for all products (~2 percent nominal growth). However, an assumed depreciation in the NZD (against the USD) is expected to more than offset the underlying price movements. The end result is a $200 million increase in export revenue from $5.1 billion in 2014 to $5.3 billion in 2019, driven primarily by exchange rate movements. Exporters are also expected to receive a temporary boost from shipping costs that are currently 30 to 40 percent lower than a year ago.

Shipping costs are currently 37 percent lower than a year ago.

FIGURE 4.2: NOMINAL LOG PRICES, 2000–2018

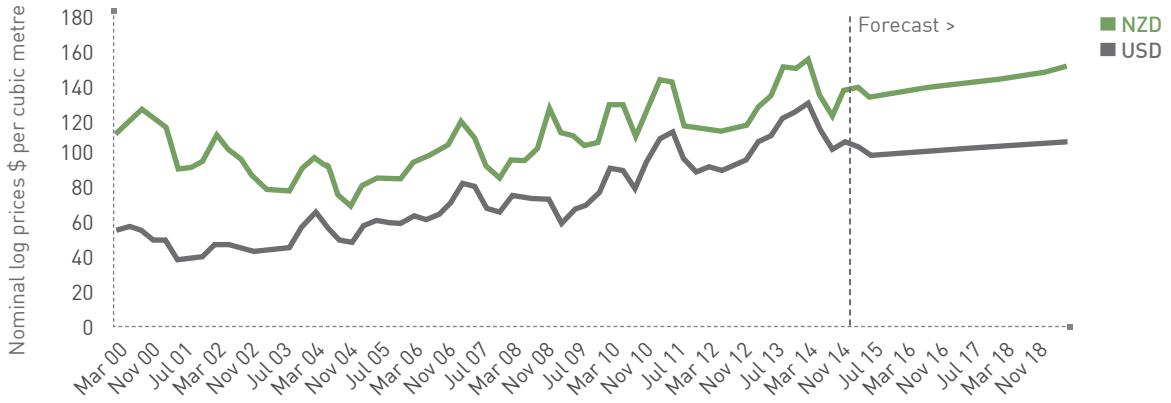
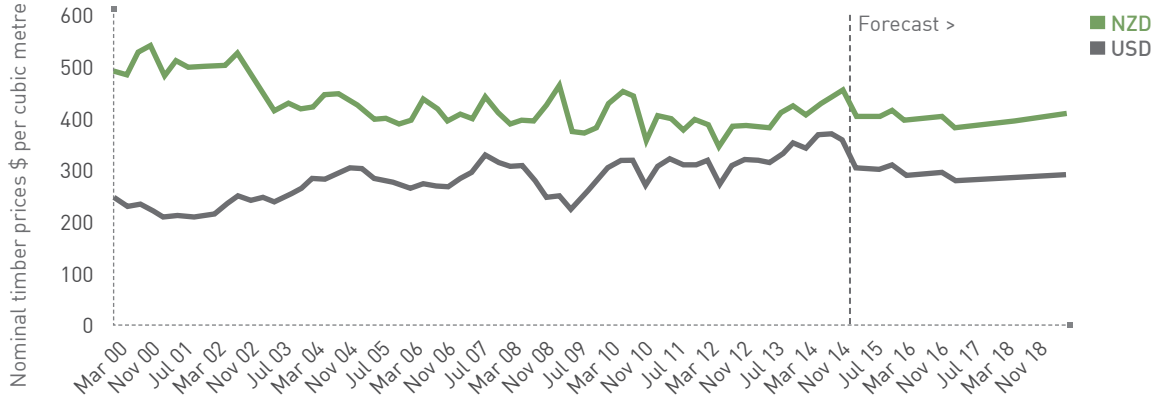


FIGURE 4.2: NOMINAL TIMBER PRICES, 2000–2018



5
SEAFOOD

SEAFOOD

New Zealand's seafood export earnings have traditionally been dominated by wild capture fish, with 81 percent of revenue coming from this component in the year to June 2015. However, aquaculture is expected to grow relatively fast over the outlook period to 2019 and benefit from higher prices. Aquaculture export revenue is expected to grow by 19 percent to 2019, lifting its total share of seafood export earnings to 28 percent.

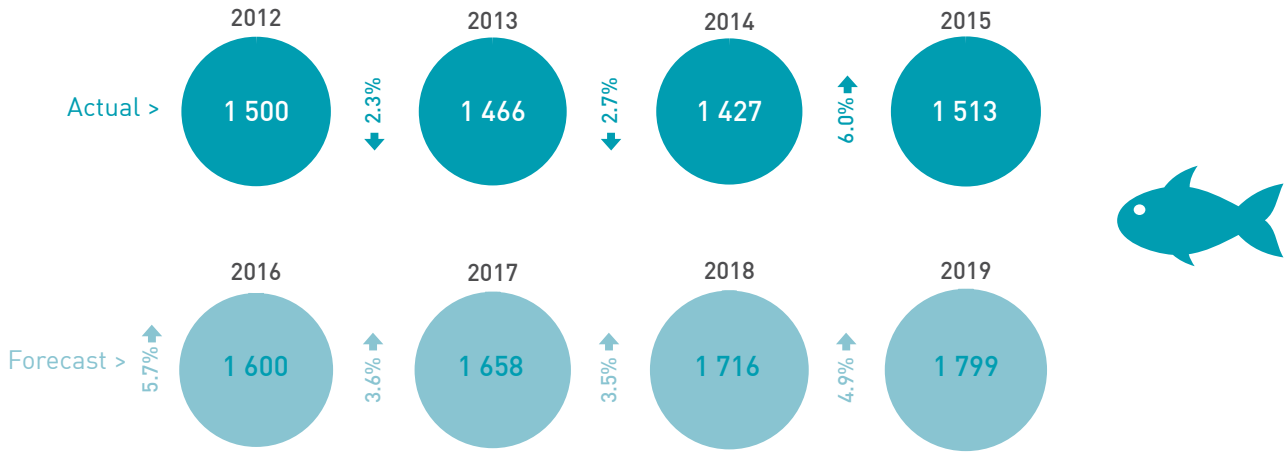
KEY FACTORS

Prices are likely to remain high due to growing demand from our top seafood export destinations (China, the EU and the USA) driven by their higher incomes, increasing middle-income consumers and depreciation of the NZD.

Australian market share declined by 4 percent in 2014, potentially due to strong depreciation of the AUD against the NZD. However, Australia is still our second-largest market, accounting for 15 percent of total seafood export value.

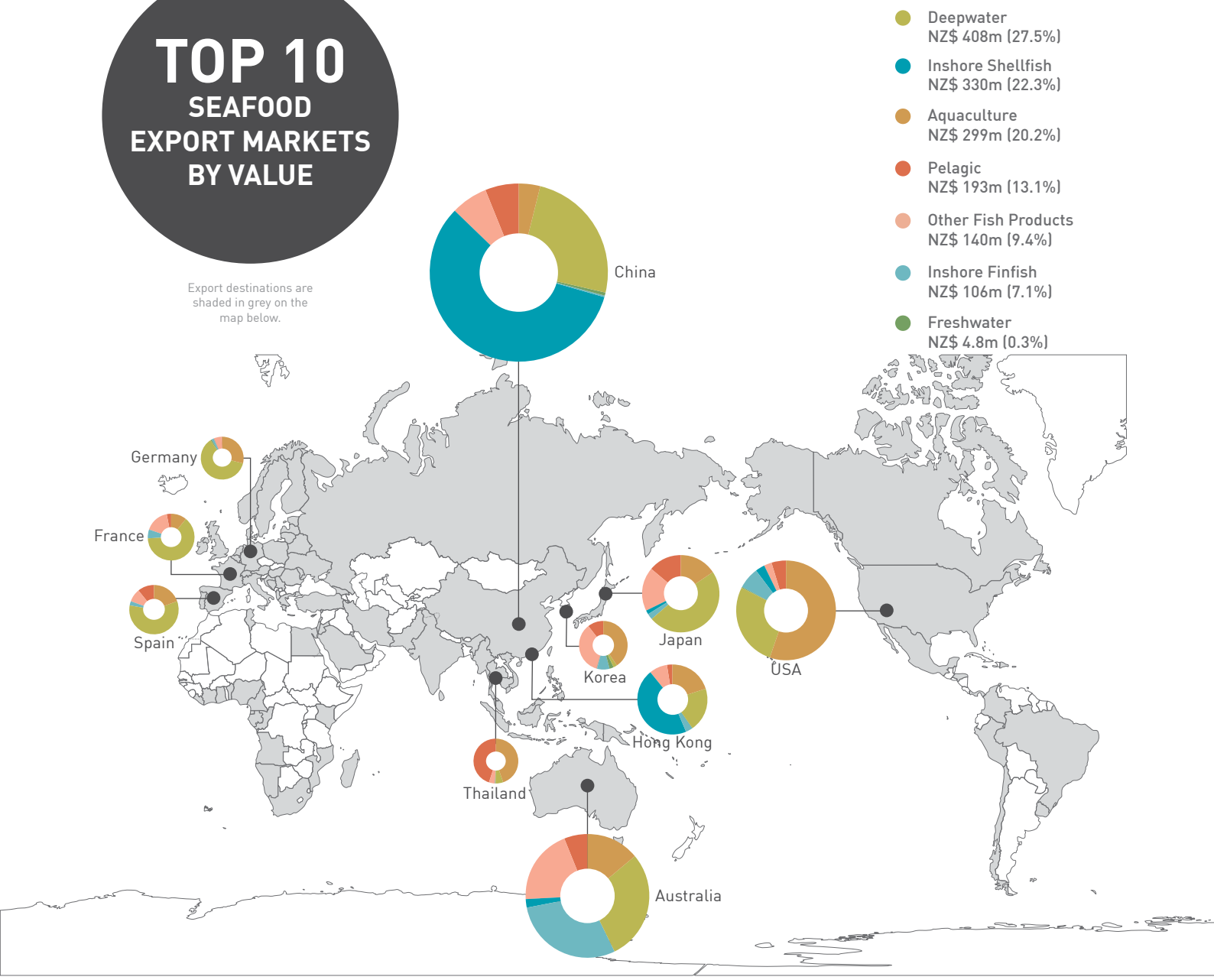
Aquaculture is expected to be a key driver of forecast growth through planned expansion of salmon farming and increasing mussel production, supported by stronger supply of hatchery-bred mussel spat.

SEAFOOD EXPORT VALUES (NZ$ MILLIONS) 2012–2019

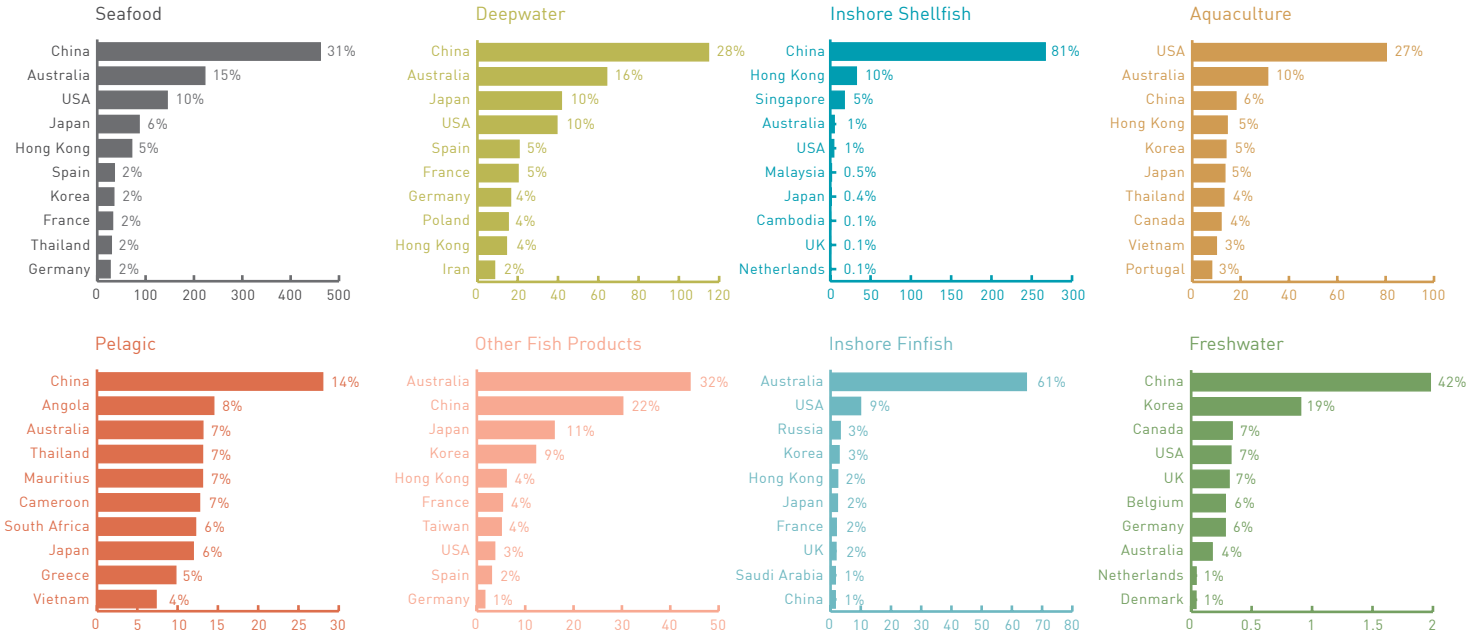


TOP 10 SEAFOOD EXPORT MARKETS BY VALUE

Export destinations are shaded in grey on the map below.



TOP 10 MARKETS (NZ$ Millions)



YEAR ENDED MARCH 2015

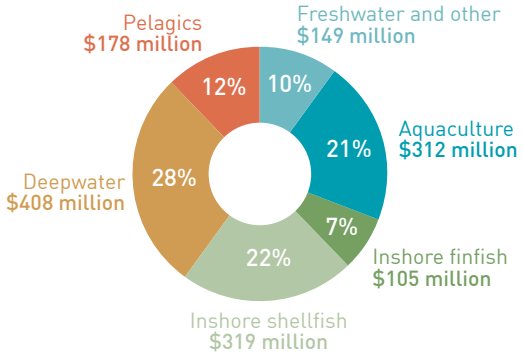
Sources: Statistics New Zealand and MPI.

PRODUCTION

Production is divided between wild capture fisheries and aquaculture. Wild capture fisheries are expected to account for 81 percent of export revenues in the year to June 2015, and comprise five species groups: deepwater, pelagic, inshore shellfish, inshore finfish, and freshwater and other seafood products.

New Zealand is a small supplier globally, with direct wild capture competitors including other colder water Southern Hemisphere countries, primarily Australia, Chile, Argentina, and South Africa. This group also competes with Northern Hemisphere colder water fisheries, including Norway, Canada, Iceland, the USA (Alaska) and Scotland.

FIGURE 5.1: SEAFOOD EXPORT VALUE BY SPECIES, YEAR END DECEMBER 2014



Sources: Statistics New Zealand and MPI

The majority of fish stocks are managed at their maximum sustainable yield under the Quota Management System (QMS), and a small number of fisheries such as hoki and southern blue whiting have had their allowable catch levels increased in recent years. Key stocks in terms of landed weight are hoki (33 percent), jack mackerel (11 percent) and southern blue whiting (7 percent). The total catch volume has been stable over time.

Mussels, salmon and oysters are the three main aquaculture species farmed in New Zealand, with mussels currently earning 81 percent of aquaculture export revenues (see Figure 5.2). The green-lipped mussel is unique to New Zealand. Until now, the mussel farming industry has relied on wild-caught spat to seed their farms. Spat availability varies with climate cycles and mussel production is expected to slow in the second half of 2015 due to low spat levels over the last year. Hatchery-bred spat is being developed through the SPATnz PGP programme and the first hatchery was officially opened at the Cawthron Aquaculture Park in April 2015. Production contribution from hatchery-bred spat is expected to slowly come on line from 2018 and will stabilise annual fluctuations in mussel production.

TABLE 5.1: SEAFOOD EXPORT VOLUMES, PRICES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
WILD CAPTURE								
Export volume (000 tonnes)	249	261	239	265	253	251	250	249
FOB price ($/kg)	4.9	4.66	4.73	4.61	4.85	4.98	5.07	5.18
Export value ($ millions)	1 221	1 214	1 129	1 221	1 225	1 250	1 267	1 288
AQUACULTURE								
Export volume (000 tonnes)	42.4	38	37	32.8	39.6	40.7	42.8	46.3
FOB price ($/kg)	6.58	6.64	8.04	8.9	9.48	10.01	10.49	11.03
Export value ($ millions)	279	252	298	292	375	407	449	511
TOTAL SEAFOOD SECTOR								
Export volume (000 tonnes)	292	299	276	298	292	292	293	295
FOB price ($/kg)	5.14	4.91	5.18	5.08	5.48	5.68	5.86	6.1
Export value ($ millions)	1 500	1 466	1 427	1 513	1 600	1 658	1 716	1 799

Notes: * - Estimate.

Sources: Statistics New Zealand and MPI

Aquaculture production will grow through expansion in capacity and innovative breeding programmes.

Climatic conditions also affect farmed salmon, with higher water temperatures this year increasing mortality rates and impacting production. Growth in salmon farming is expected from 2016 when production from New Zealand King Salmon Limited's three new farms comes on line.

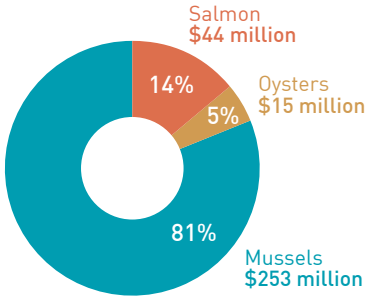
Pacific oyster production is slowly starting to recover from a herpes virus in 2010 that significantly impacted oyster production. An oyster selective breeding programme funded by MPI's Sustainable Farming Fund, combined with changes in farming techniques, is expected to rebuild production to pre-virus levels in the coming years.

EXPORTS

Key export markets for New Zealand seafood products include China, Australia, the EU, the USA and Japan. The share of seafood exports sent to China increased 2 percent in 2014, while Australian market share declined by 4 percent, possibly driven by the depreciation of the AUD (see Figure 5.3).

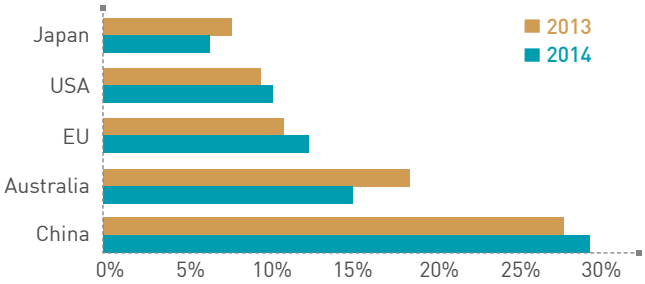
Aquaculture will account for 19 percent ($292 million) of the total seafood export value for the year ended June 2015, dominated by mussels.

FIGURE 5.2: AQUACULTURE EXPORT VALUE BY SPECIES, YEAR ENDED DECEMBER 2014



Sources: Statistics New Zealand and MPI

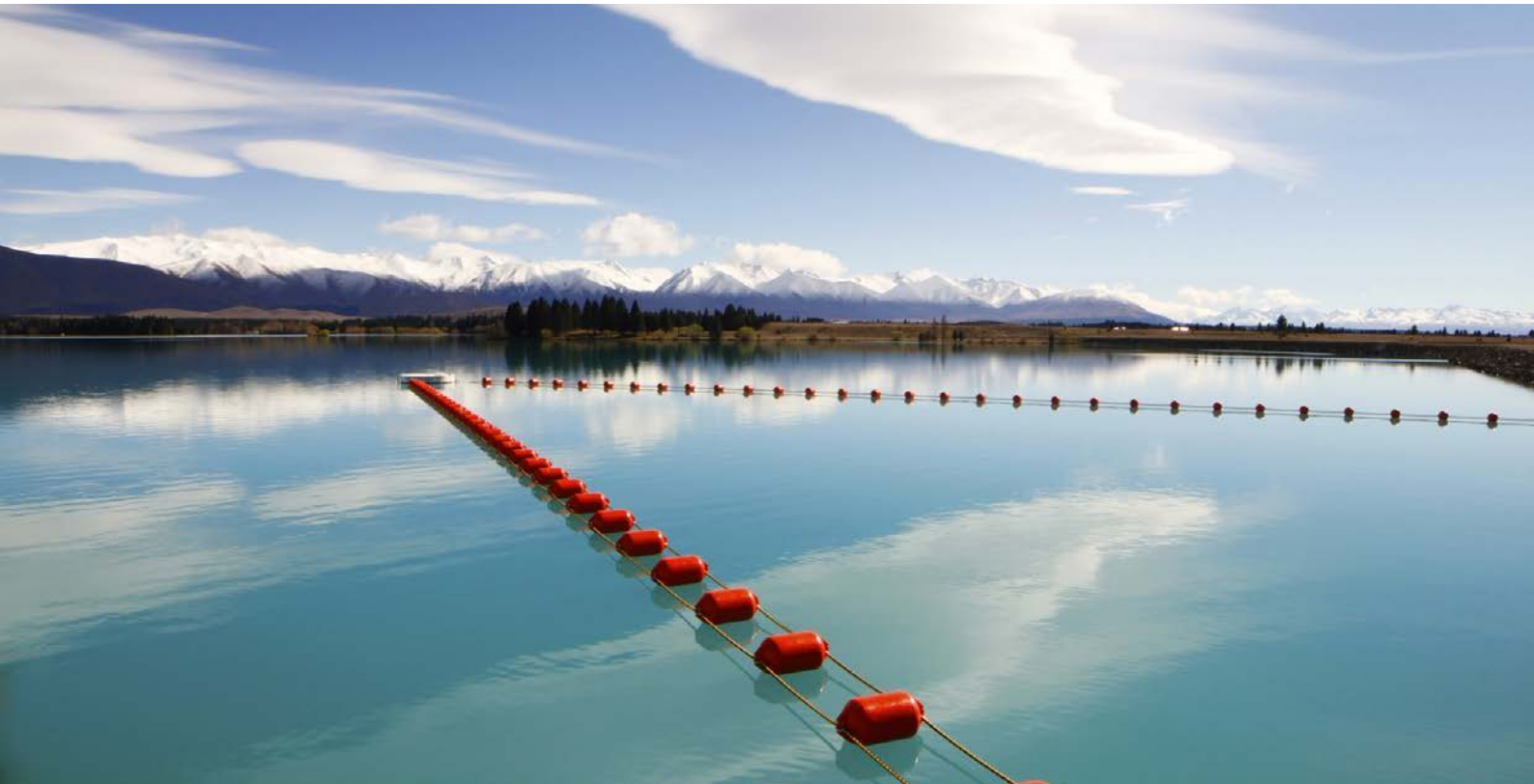
FIGURE 5.3: KEY EXPORT MARKETS FOR NEW ZEALAND SEAFOOD PRODUCTS BY VALUE, 2013/14



Sources: Statistics New Zealand and MPI

Total export values are expected to increase by 19 percent over the outlook period to 2019 (4 percent per annum compound growth) and most (76 percent) of this growth is expected to come from aquaculture.

Various research trials and initiatives into new aquaculture species are underway in collaboration with industry, research providers and the government. These include kingfish, geoduck, and hāpuku. Other species that are likely to contribute to production growth over the coming years include freshwater crayfish and pāua.



PRICES

Among the top earning wild capture fish stocks, rock lobster, hoki, and squid prices performed well this year. Prices for other key stocks such as jack mackerel, ling, and orange roughy remained stable. Tuna and pāua decreased due to increased competition in key markets such as Japan.

Aquaculture prices have a healthier outlook (5 percent growth per year) than wild fisheries (1.8 percent per year).

Export prices for wild capture fish are expected to increase by 1.8 percent per year over the outlook period. This is driven by growing demand for our wild capture fish and expectations by The Groundfish Forum[8] that landings of major groundfish (Atlantic and Pacific cod, Alaska pollock, haddock, saithe, redfish, hoki, southern blue whiting and all hake) will be slightly lower in 2015. Ongoing efforts at environmental certification are likely to help support export prices. The Marine Stewardship Council already certifies New Zealand's hoki, southern blue whiting, hake, and ling and other species are under consideration.

For aquaculture, prices have performed well in key markets such as the USA, Australia, China, Thailand and Hong Kong. Over the outlook period we expect 5 percent compound growth in prices.

Notes: 8 - This is a trade association that own the majority of the H&G ("Head & Gut") vessels in the North Pacific.

6 HORTICULTURE

HORTICULTURE

Total horticulture export revenue is estimated at $3.97 billion for the year ending June 2015, up 4.8 percent on the previous year. This increase has been driven by kiwifruit and wine exports, largely due to higher export volumes. For the outlook period through to 2019 we expect revenue growth across all main horticulture sectors.

KEY FACTORS

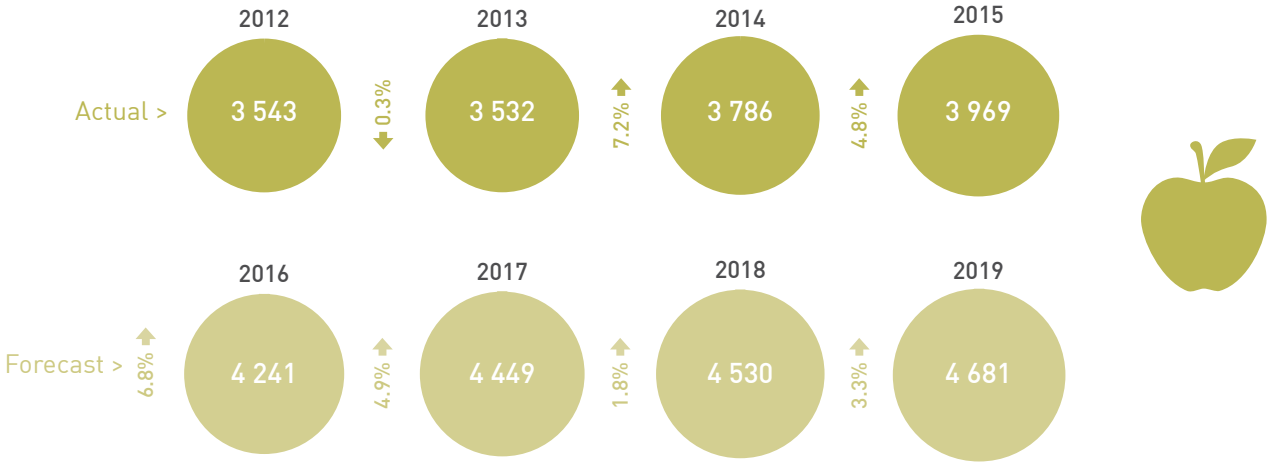
Apple and pear export revenue is expected to be down 10 percent to $493 million for the year to June 2015, due to lower prices and volumes. The outlook is positive with an increasing proportion of new high-value varieties planted and the potential for ongoing market expansion in Asia.

Kiwifruit export revenue is expected to grow by 19 percent to $1.1 billion in the year to June 2015. Export volumes are estimated to be up 15 percent, driven by strong export volumes of gold kiwifruit as the industry rebounds from the effects of the Psa disease. Volumes for gold kiwifruit are expected to increase strongly over the outlook period, while green kiwifruit volumes will fall slightly.

Fresh and processed vegetable export revenue will be down 3.9 percent to $583 million for the year to June 2015, largely due to the high value of the NZD against the AUD and the Yen, and reduced export volumes of onions and squash due to climatic conditions.

Wine export revenue is expected to be up 3.2 percent to $1.36 billion, driven by higher export volume. The lower export price per litre reflects weaker economic conditions in some markets, particularly Australia, and an increase in the share of bulk versus bottled exports. However, the outlook through to 2019 is promising for value recovery.

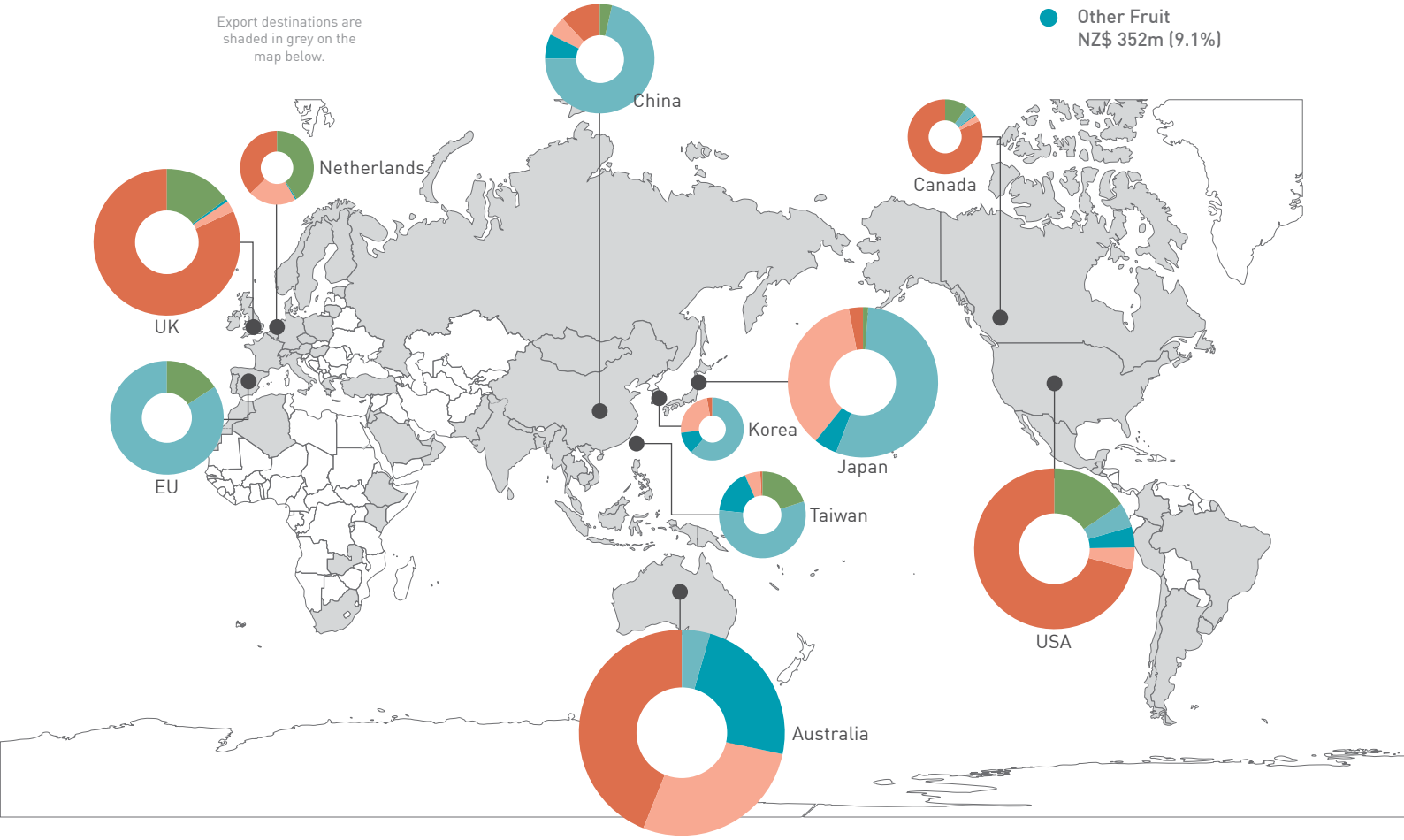
HORTICULTURE EXPORT VALUES (NZ$ MILLIONS) 2012-2019



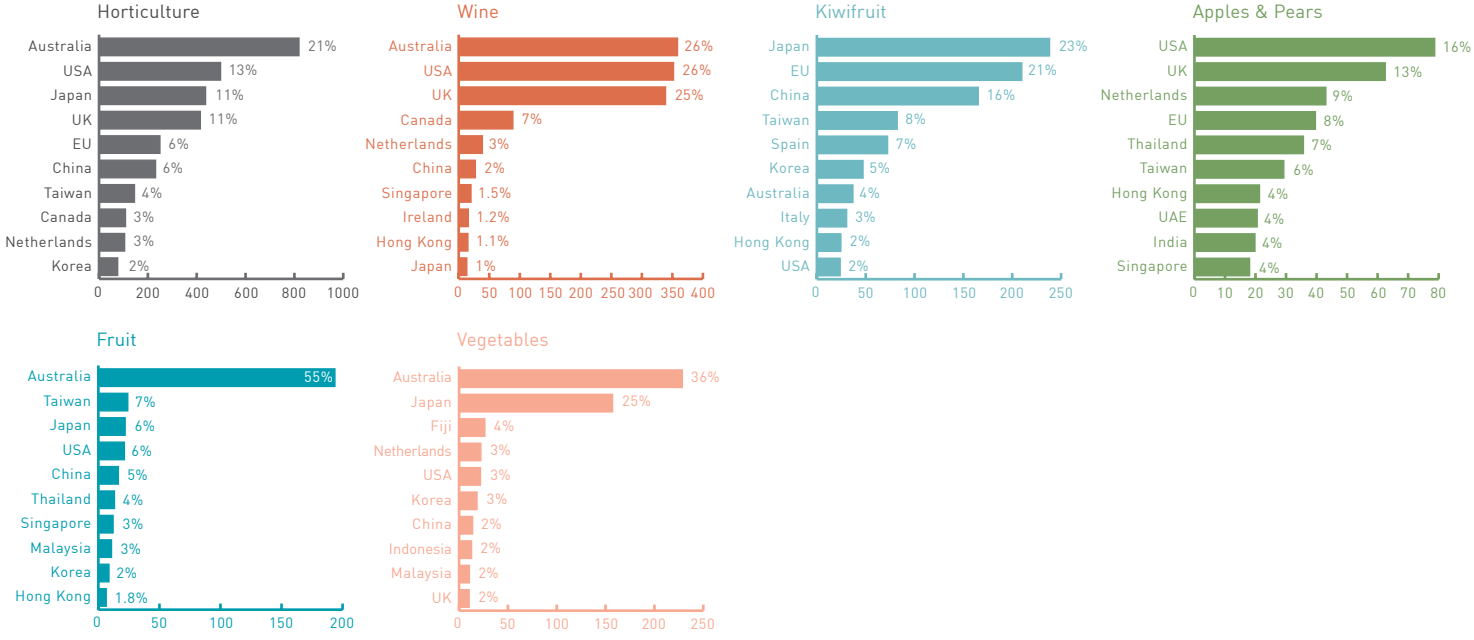
TOP 10 HORTICULTURE EXPORT MARKETS BY VALUE

- Wine NZ$ 1364m (35.3%)
- Kiwifruit NZ$ 1015m (26.2%)
- Vegetables NZ$ 641m (16.6%)
- Apples & Pears NZ$ 496m (12.8%)
- Other Fruit NZ$ 352m (9.1%)

Export destinations are shaded in grey on the map below.



TOP 10 MARKETS (NZ$ Millions)



YEAR ENDED MARCH 2015

Sources: Statistics New Zealand and MPI.

WINE

New Zealand wine export earnings are on target to reach just under $1.4 billion for the year ending June 2015, making wine our sixth largest export. A relatively small 2015 vintage is likely to result in a smoothing of supply when matched with the large wine inventories from last year's record vintage.

The outlook through to 2019 remains promising, given sustained demand for the industry's flagship wine style, Sauvignon Blanc, in both traditional and emerging markets. Volume growth will make only small contributions to increases in future export earnings.

PRODUCTION

Vintages over the last 10 years have broadly trended upwards (see Figure 6.1). The relatively small 2015 vintage, estimated to be about 320 000 tonnes (compared to 445 000 tonnes in 2014), is due to cooler spring temperatures and late frosts at flowering, drought conditions in Marlborough, and other seasonal factors.

We expect 207 million litres of wine to be shipped offshore in the year to June 2015.

The consequent lower yields per hectare, coupled with relatively static grape prices, will constrain returns for a number of vineyard owners. However, a positive outcome of the reduced 2015 vintage is that concerns about wineries selling down surplus inventory at discounted prices from the record 2014 vintage have now diminished. Future vintages could easily vary 15 percent up or down on those indicated, dependent on climatic influences.

EXPORTS

We expect 207 million litres of wine to be shipped offshore in the year to June 2015. The lower price per litre forecast of $6.59 reflects weaker economic conditions in some markets, particularly Australia, and an increase in the share of bulk versus bottled wine exports from 30 to 35 percent. A significant proportion of this bulk wine is shipped by larger wineries to their own bottling facilities offshore.

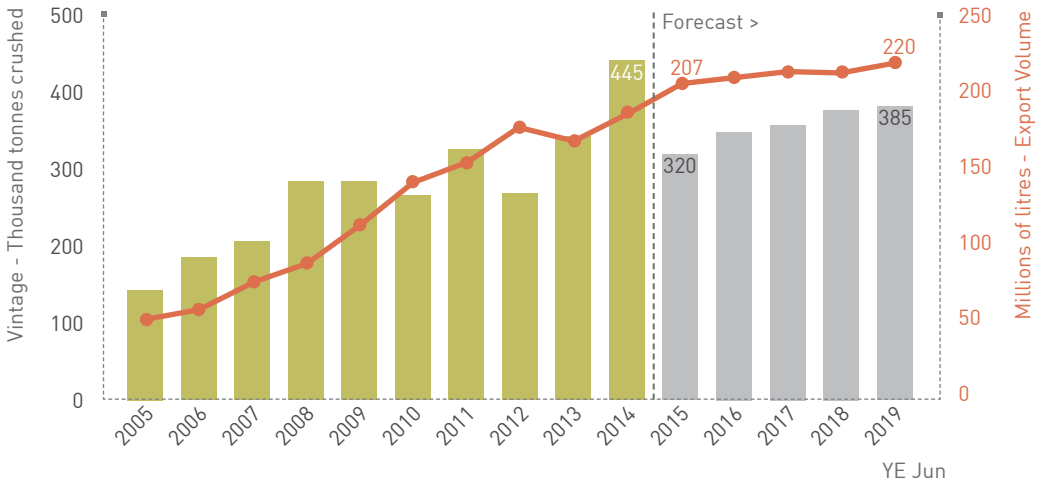
Wine export revenue should continue an upwards trend, reaching $1.6 billion by 2019. Allowance is made for growing demand for new offerings of "lifestyle wines" (naturally produced lower alcohol and lower calorie wines). The average price should marginally improve in the coming years, as industry promotion stimulates growth in both traditional and emerging markets, the proportion of bottled wine exports increases, and with depreciation of the NZD. Modest growth in domestic sales is envisaged over this time period.

Since 2005, the value of New Zealand wine exports has increased from $440 million to forecast revenue of just under $1.4 billion for the year ending June 2015 (see Figure 6.2).

Market diversification will allow more exports of higher-priced bottled wines.

Over the same time period the industry has diversified its export markets, with "other markets" now an important destination category. These markets include Canada, Germany, the Netherlands and China.

FIGURE 6.1: NEW ZEALAND WINE VINTAGE AND EXPORTS, 2005–2019



Sources: New Zealand Winegrowers and MPI market consultation.

The New Zealand wine industry has taken a long-term approach to market development in the USA, dating back to the 1980s. Intensive promotion of New Zealand wines in the premium wines category has seen export values rise markedly since 2005 (see Figure 6.2). In particular, success with marketing New Zealand Sauvignon Blanc is evidenced by the value of white wine sales forecast for 2015 (almost 250 percent increase over 2005). The USA is likely to become our top export market this year.

TABLE 6.1: WINE EXPORT VOLUMES, PRICES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Export volume[1] (million litres)	178	169	186	207	210	215	215	220
FOB[2] price ($/litre)	6.56	7.11	7.1	6.59	7	7.15	7.22	7.33
Export value ($ million)	1 171	1 202	1 321	1 363	1 468	1 536	1 551	1 613

Notes: 1 - Forecast export volume rounded. 2 - 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.
* - Estimate for current financial year.

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

FIGURE 6.2: WINE EXPORT DESTINATIONS BY VALUE, 2005 AND 2015(F) COMPARISON

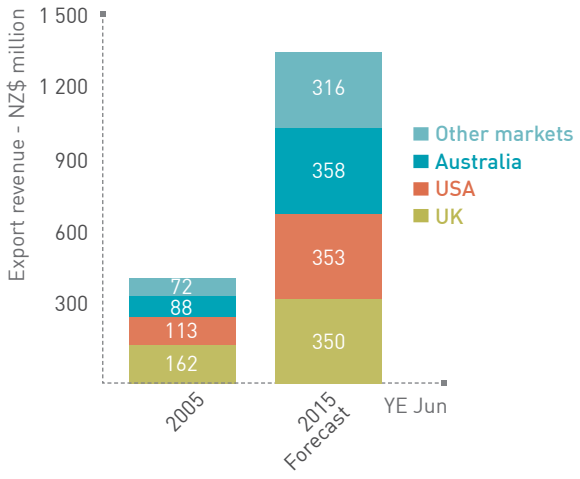
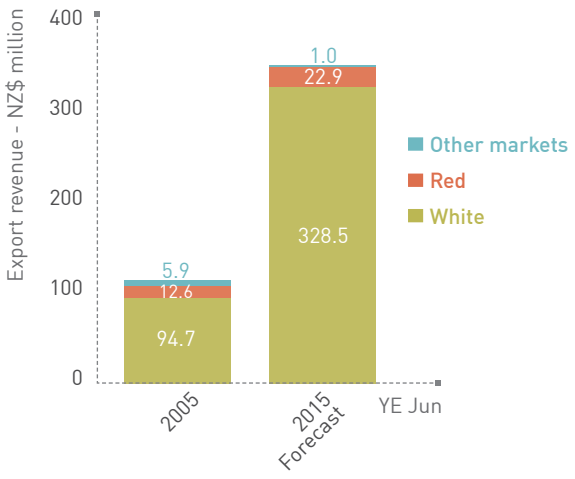


FIGURE 6.3: USA MARKET BY VALUE, 2005 AND 2015(F) COMPARISON



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

KIWIFRUIT

The New Zealand kiwifruit industry is overcoming the challenges of the bacterial vine-killing disease Psa. Export volumes are recovering (+9 percent) and export values reached over $1 billion (+24 percent) in the year ended 31 March 2015.

Gold kiwifruit production growth is particularly strong, and our forecasts indicate 50 million export trays of gold kiwifruit for the year ending March 2018 (80 percent higher than pre-Psa levels).

Export prices for green kiwifruit are expected to be stable, with gold kiwifruit prices softening as higher volumes are distributed to developing and lower value markets.

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 April 2015, over 87 percent of kiwifruit orchards are known to have the bacterium, up from 76 percent a year ago.

Hort16A, the main gold kiwifruit cultivar grown prior to the Psa incursion, is particularly susceptible. To date, over 2500 hectares (90 percent) of Hort16A vines have been removed and mostly replaced by the Gold3 cultivar. Gold3 was commercialised in 2010 before the Psa incursion. Combined with further Gold3 licence releases, the total area producing gold kiwifruit is over 4600 hectares, around 64 percent higher than prior to the Psa incursion.

TABLE 6.2: KIWIFRUIT EXPORT VOLUMES, PRICES AND VALUES, 2012–2019

		Actual				Forecast			
YEAR TO 31 MARCH		2012	2013	2014	2015*	2016	2017	2018	2019
Export volume (million trays)[1]	Green kiwifruit	83	78	77	78	80	75	75	75
	Gold kiwifruit	27	23	12	18	31	45	50	50
	Total	111	101	89	97	112	121	126	126
FOB[2] price ($/tray)	Green kiwifruit	7.7	8.1	8	8.9	8.3	8.4	8.4	8.6
	Gold kiwifruit	14.2	17.4	16.7	17.2	14.8	14.2	13.8	13.6
	Total	9.3	10.3	9.1	10.5	10.2	10.6	10.6	10.6
Export value (million)	Green kiwifruit	639	632	612	689	666	628	632	643
	Gold kiwifruit	389	405	198	315	461	641	692	682
	Total[3]	1 034	1 043	815	1 015	1 140	1 281	1 336	1 338

		Actual				Forecast			
YEAR TO 30 JUNE		2012	2013	2014	2015*	2016	2017	2018	2019
Export volume (million trays)[1]	Green kiwifruit	81	80	77	79	78	75	75	75
	Gold kiwifruit	25	17	15	28	41	49	50	50
	Total	107	98	94	107	120	125	126	126
FOB[2] price ($/tray)	Green kiwifruit	7.8	8	8.5	8.6	8.3	8.4	8.5	8.7
	Gold kiwifruit	16	17	17.2	15.1	14.3	13.9	13.7	13.8
	Total	9.8	9.6	9.9	10.3	10.4	10.6	10.6	10.8
Export value (million)	Green kiwifruit	634	636	654	677	650	629	637	653
	Gold kiwifruit	403	293	265	420	589	679	685	691
	Total[3]	1 046	934	931	1 109	1 251	1 320	1 334	1 357

Notes: 1- One tray equals 3.6kg. 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 the 'other kiwifruit' category. * - Estimate.

Sources: Statistics New Zealandand and MPI.

Gold3 is highly productive; however, it is uncertain where the long-term productivity will settle. Forecasts are based on an average of 13 000 trays per hectare, some 20 to 30 percent higher than Hort16A.

Total gold kiwifruit area is over 4600 hectares, around 64 percent higher than pre-Psa levels.

The cold 2014 spring slowed the start to the growing season. Isolated hail storms caused some severe damage on a small number of orchards in late spring. The 2015 summer was drier than normal, which should boost the quality and taste of kiwifruit this season.

Green kiwifruit production is expected to be relatively stable. Volumes may soften over the medium-term if the industry releases further new variety licences, which would see some green kiwifruit orchards convert to different varieties. Longer-term investment in greenfield orchard development is likely to occur due to elevated product prices and the future potential to convert orchards to new varieties.

EXPORTS

New Zealand exported 97 million trays of kiwifruit in the year ended 31 March 2015, up 9 percent on the previous year. Export volumes of gold kiwifruit increased 52 percent to 18 million trays. Green kiwifruit export volumes remained stable at 78 million trays, with higher productivity offsetting a smaller production area.

We expect a 150 percent lift in gold kiwifruit export volumes over the next two years.

Over the outlook period we expect a significant (150 percent) lift in gold kiwifruit export volumes over the next two years followed by constant output of 50 million trays, while green kiwifruit volumes are expected to fall slightly and stabilise at 75 million trays.

PRICES

Competition in the market softened in 2014, with Chilean kiwifruit exports down 60 percent to 80 000 tonnes due to severe spring frosts in 2013. This, matched with lower gold kiwifruit volumes from New Zealand, led to all markets being short of supply of kiwifruit, which in turn strengthened prices.

Export prices for gold kiwifruit are expected to soften as export supply ramps up.

In the medium term, export prices are expected to remain stable for green kiwifruit, aided by strengthening of the USD and Euro. Export prices for gold kiwifruit are expected to soften considerably, as volumes ramp up and higher proportions are exported to developing and lower value markets.

FRESH AND PROCESSED VEGETABLES

Total volumes of fresh and processed vegetable exports were down by 5 percent in the year to June 2015 and associated revenues were down 4 percent. Prices were slightly stronger for fresh vegetables. Over the outlook period to 2019 we expect steady growth in both these segments.

Squash exports, traditionally reliant on Japan, should start to benefit from trade agreements with China, Taiwan and South Korea.

FRESH VEGETABLES

Japan is the largest importer of New Zealand's fresh vegetables. Export volumes of onions and squash for this year have been reduced by a cool spring and dry summer in the main growing regions. Crop quality is reported as good.

Large onion crops in the UK and Continental Europe, and the high value of the NZD against the Euro, will put some downward pressure on export returns for onions from these markets in 2015. Exporters hope that a greater proportion of New Zealand onions can be sold in Asia. Longer-term, growth in onion exports is reliant on improved access to growing markets in Asia, as improved storage systems are reducing the sales window into Europe.

Squash exports, traditionally reliant on Japan, should start to benefit from recent trade agreements with China, Taiwan and South Korea. Squash exporters are working on market development and promotion plans for these markets.

TABLE 6.3: VEGETABLE EXPORT VOLUMES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 31 DECEMBER	2012	2013	2014	2015*	2016	2017	2018	2019
FRESH VEGETABLES								
Export volume (000 tonnes)	311	307	306	291	298	298	314	314
Export value ($ millions)	2134	223	217	219	225	231	246	251
PROCESSED VEGETABLES[1]								
Export volume (000 tonnes)	194	221	216	219	219	220	220	220
Export value ($ millions)	364	391	372	367	363	367	371	380
TOTAL FRESH AND PROCESSED VEGETABLES								
Export value ($ million); Year to 31 December	**576**	**614**	**590**	**585**	**588**	**597**	**617**	**631**

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
FRESH VEGETABLES								
Export volume (000 tonnes)	295	314	306	290	298	298	314	314
Export value ($ millions)	212	225	219	214	225	230	246	250
PROCESSED VEGETABLES[1]								
Export volume (000 tonnes)	203	207	224	215	220	220	220	220
Export value ($ millions)	375	375	387	369	363	365	369	376
TOTAL FRESH AND PROCESSED VEGETABLES								
Export value ($ million); Year to 30 June	**587**	**600**	**606**	**583**	**588**	**595**	**615**	**625**

Notes: 1 - Processed vegetables includes frozen vegetables, dried vegetables, dry legumes, prepared and/or preserved vegetables, and vegetable juices. * - Estimate.

Sources: Statistics New Zealand and MPI.

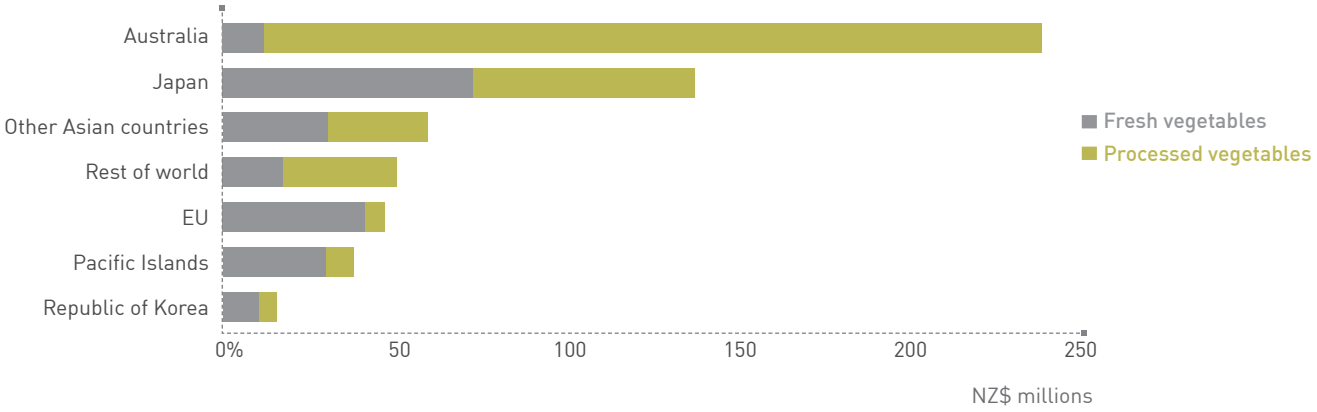
PROCESSED VEGETABLES

Average to good yields are expected for processed vegetable crops for the 2015 season, with irrigation mitigating the impact of the drought in the South Island.

Export volumes of frozen, dried and prepared or preserved vegetables (excluding potatoes) appear to have now plateaued at 125 000 tonnes, but have increased 30 percent compared with the year ended 31 December 2010. Vegetable processing capacity from Australia was transferred to the Hawke's Bay region during 2011.

In the absence of significant changes in vegetable processing capacity, total export volumes of processed vegetables are expected to remain relatively stable over the forecast period, although individual categories may vary.

FIGURE 6.4: VEGETABLE EXPORTS BY DESTINATION, YEAR ENDED DECEMBER 2014



NEW ZEALAND AVOCADOS GO GLOBAL

The New Zealand avocado industry has made a significant step towards securing its future with the commencement of a PGP programme with avocado industry stakeholders and MPI.

The New Zealand Avocados Go Global PGP programme is a five-year programme that started in June 2014. It aims to transform New Zealand's avocado industry into a globally competitive, high-value, sustainable export industry along with a dynamic market in New Zealand. It is a landmark development for the avocado industry — activity undertaken by the programme will enable the industry to triple productivity to 12 tonnes per hectare and quadruple industry returns from $70 million to $280 million by 2023.

The avocado industry has, up until now, been struggling with issues of low yield, irregular supply, reliance on the Australian market and lack of knowledge of the potential for greater efficiencies in the supply chain. This is at a time when there is a growing demand for safe and healthy food in Asian markets — avocado has been identified as a fruit that has the potential to develop significant export growth, especially in Asia.

New Zealand Avocados Go Global will enable a step change in market development and consistency of supply of avocados, in addition to benchmarking and sharing of information across the industry.

New Zealand Avocados Go Global is made up of five projects:

- Market entry and growth in Asia and New Zealand;
- Consistent and sustainable avocado supply;
- Efficient supply chain;
- Products from waste; and
- Information portal, knowledge transfer and adoption.

"New Zealand Avocados Go Global is enabling the industry to tackle its major challenges simultaneously," says NZ Avocado Growers' Association and Avocado Industry Council Chair Ashby Whitehead.

Activity achieved in year one of the programme is the development of a category story for avocados from New Zealand that can be used for promotions in New Zealand and in developing Asian markets. The export market material "Premium avocado from New Zealand" was launched in September 2014 at Asia's largest fresh produce trade show – Asia Fruit Logistica in Hong Kong. The material received positive feedback from current and potential in-market partners.

"Exporters are making good use of the New Zealand avocado category story collateral. This includes using the wonderful imagery for in-store tastings and the innovative wrapping of a van to drive the streets of Tokyo, offering avocado smoothies and samples to consumers at farmers markets and other busy weekend spots," says New Zealand Avocado Chief executive officer Jen Scoular.

This PGP programme is supported by co-investors and stakeholders across the avocado value chain. Co-investment is from growers, packers, processors and exporters and is indicative of the demonstration of cross-industry collaboration.

A total investment of $8.56 million will be made in the programme, with MPI committing $4.28 million over five years, and the balance coming from industry partners.

New Zealand Avocados Go Global will help position New Zealand's avocado industry to capitalise on the growing demand domestically and in Asia, for premium, safe, and healthy produce.

APPLES AND PEARS

Export earnings for apples and pears have fallen this year due to lower export volumes and prices.

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

Annual export volumes are expected to increase steadily reaching a milestone of 360 000 tonnes by 2019. Prices are expected to increase by almost 10 percent over this period.

PRODUCTION

Total apple and pear production in 2015 is up on the previous year due to an on-year in the biennial bearing pattern of several varieties and younger orchards maturing.

New plantings of apples and pears are expected to lift the national planted area above 10 000 hectares.

Cool weather in spring and early summer caused the harvest season to start at least a week later than normal. Favourable growing conditions over summer lifted fruit size; good fruit colour is reported for several varieties. Industry reports indicate a significant phase of orchard replanting and new plantings from 2012. This trend is likely to continue for a few more years.

These new plantings could lift the national planted area by at least 5 percent from around 9500 hectares currently.

EXPORTS

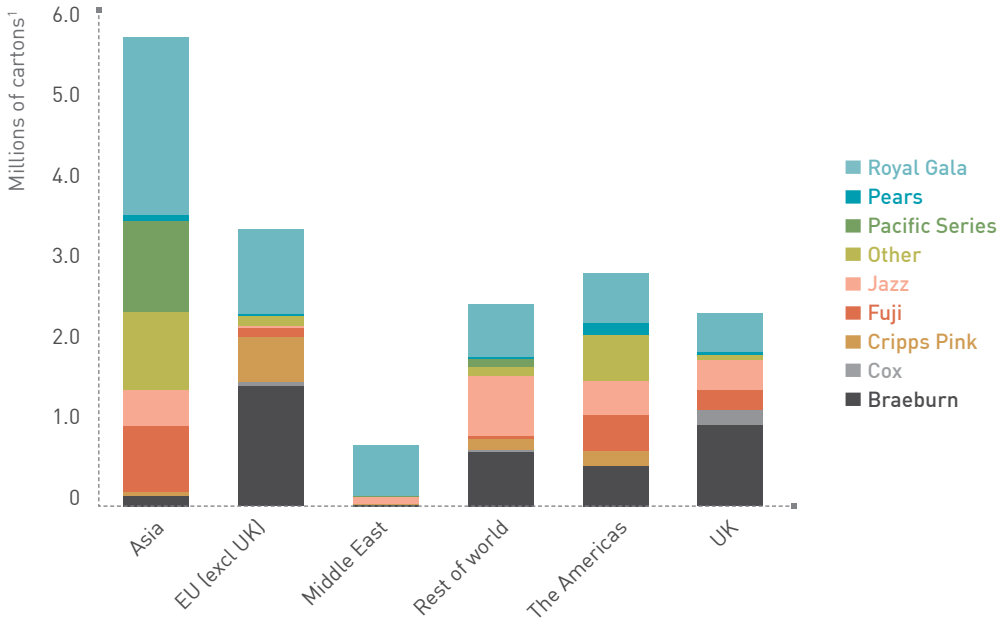
While production is up in 2015, export volumes are expected to be slightly lower than last year due to hail damage in spring/early summer in the main growing regions. The varieties most impacted by the hail are Braeburn, Granny Smith and Jazz™. An export volume of 306 000 tonnes (17 million cartons) is estimated for the year ending December 2015.

New varieties of apples and pears are being planted to match consumer preferences in important Asian markets.

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.

Asian markets continue to expand, taking 33 percent of apple and pear exports in 2014 (see Figure 6.5) compared with 15 percent in 2006. The intention to grow markets in Asia is reflected in the quality characteristics of apple varieties planted in recent years, including Pacific Queen™, high-colour sports of Fuji (including Kiku™), high-colour strains of Gala, Envy™, Smitten® and Diva™.

FIGURE 6.5: APPLE AND PEAR EXPORT VOLUMES BY DESTINATION AND BY VARIETY, YEAR ENDED DECEMBER 2014



Notes: 1 - A carton is equivalent to 18.0 kilograms.

A new government-industry research co-investment of $9 million over seven years was launched in late 2014 for the Apple Futures II Partnership. This investment aims to develop technologies and practices for the management of pests and diseases to secure market access for New Zealand apples to high-value Asian markets into the future.

PRICES

Market conditions for the 2015 season are mixed, with strong demand in Asia but weaker markets in Europe and the USA due to higher crops and Russian trade sanctions. Export prices in 2015 are expected to drop for those varieties reliant on markets in Europe such as Braeburn, Jazz™ and Cripps Pink due to lower demand and the high value of the NZD against the Euro. Elsewhere, export prices are expected to benefit from the more favourable exchange rate against the USD.

Pipfruit prices are expected to increase as exports expand into higher-paying markets.

Export prices are expected to steadily increase over the forecast period due to ongoing changes in the variety mix, further expansion into higher-paying markets (particularly Asia), and the anticipated depreciation of the NZD against the USD.

TABLE 6.4: APPLE AND PEAR EXPORT VOLUMES, PRICES AND VALUES, 2012–2019

	Actual				Forecast			
YEAR TO 31 DECEMBER	2012	2013	2014	2015*	2016	2017	2018	2019
Export volume (million cartons) [1]	16	18.1	17.4	17	18	19.5	19	20
FOB[2] price ($/carton)[3]	25	27.8	30.05	29	30	30	32	32
Export value ($ millions) [3]	400	504	522	493	540	585	608	640

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Export volume (million cartons) [1]	15.4	18	18.3	16.9	17.9	19.3	19.1	19.9
FOB[2] price ($/carton)	22.5	26.8	29.85	29.15	29.8	30	31.65	32
Export value ($ millions)	347	484	547	493	533	578	605	636

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 value for year to 31 December were modified for 2012 as industry data and MPI Pipfruit Monitoring data indicated that higher export prices were achieved. * - Estimate.

Sources: Statistics New Zealand and MPI.

7
OTHER PRIMARY SECTOR EXPORTS AND FOODS

OTHER PRIMARY SECTOR EXPORTS AND FOODS

This diverse category includes processed foods, honey and live animals. Total export revenue is expected to be $1.96 billion for the year to June 2015. This is a 26 percent increase on last year, due to growth in live animal exports and innovative foods. Over the outlook period we expect growth to continue, driven largely by strong demand for processed foods and honey in Asian markets.

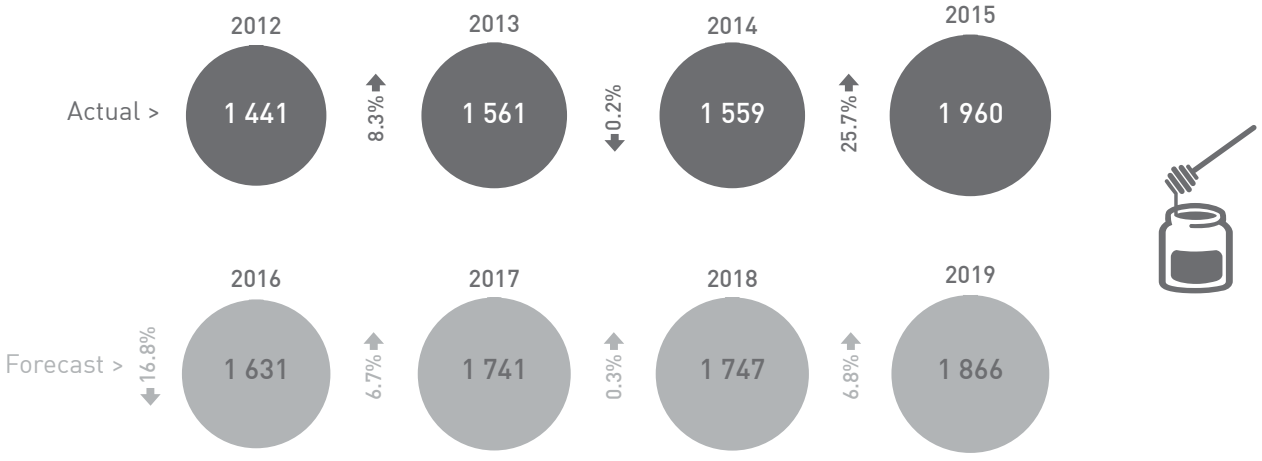
KEY FACTORS

Sustained high growth in demand for almost all products in this sector from Asian markets and steady growth in Australia.

Increasing opportunities for honey, but some short-term production constraints.

Higher export revenues for live animals in 2015 being driven by dairy cow exports to China. This is expected to return to longer-term average levels from 2016.

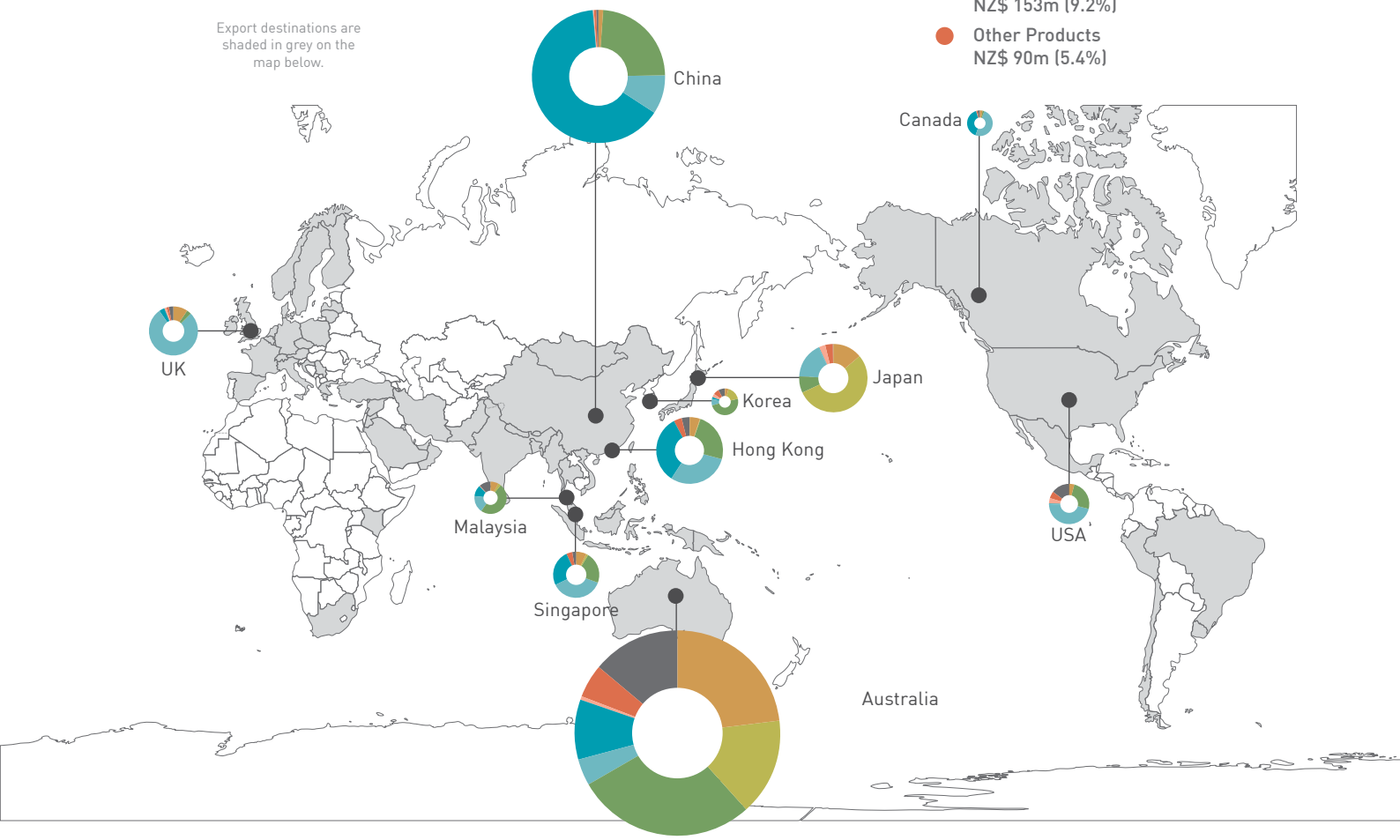
OTHER EXPORT VALUES (NZ$ MILLIONS) 2012–2019



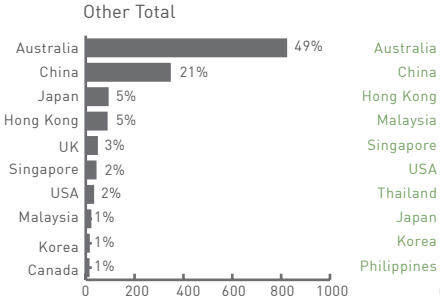
TOP 10 OTHER PRIMARY EXPORT MARKETS BY VALUE

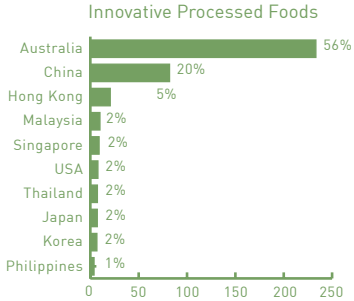
- Innovative Processed Foods NZ$ 414m (24.9%)
- Live Animals NZ$ 367m (22.1%)
- Cereal Products NZ$ 248m (14.9%)
- Honey NZ$ 210m (12.6%)
- Soups and Condiments NZ$ 181m (10.9%)
- Sugar and Confectionery Products NZ$ 153m (9.2%)
- Other Products NZ$ 90m (5.4%)

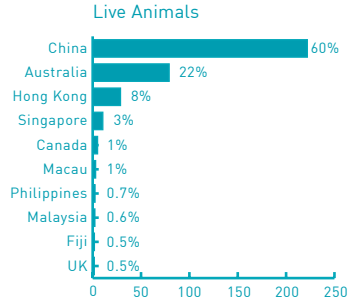
Export destinations are shaded in grey on the map below.

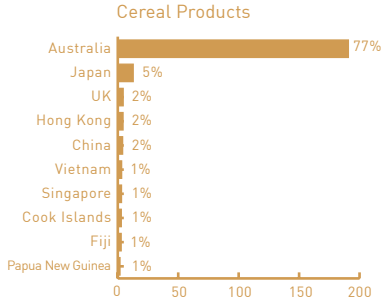


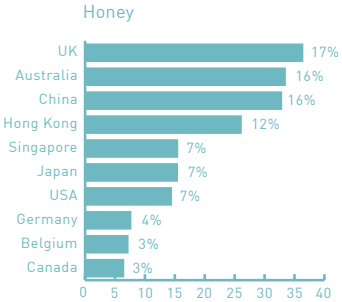
TOP 10 MARKETS (NZ$ Millions)

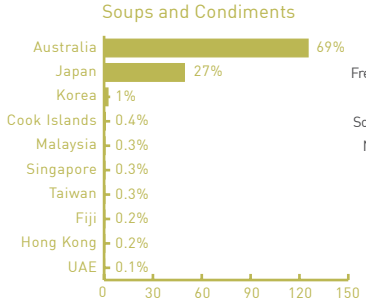


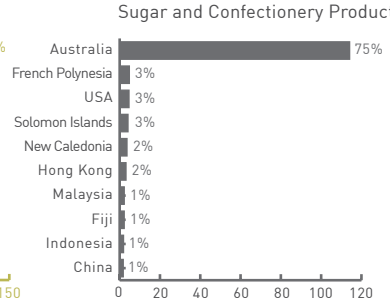


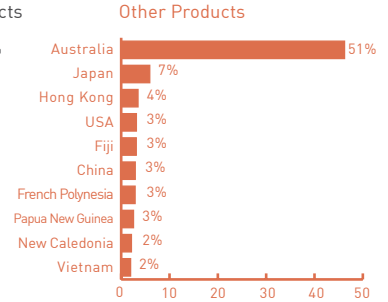












YEAR ENDED MARCH 2015

Sources: Statistics New Zealand and MPI.

PRODUCTION

This sector covers many products including processed foods (such as malt extracts, flour, sauces, confectionery and vitamin supplements), honey and live animal exports (mainly racehorses, dairy cows and bees). It comprises products primarily derived from our primary industries and subject to MPI regulation under food safety requirements.

Higher-valued manufactured products with niche markets have potential for strong growth.

In the 10 years from 2005 this sector's export revenue grew by 78 percent ($1.1 billion in 2005 to $1.96 billion in 2015 – see Figure 7.1). It covers many higher-valued manufactured products for which niche markets offer good returns, and it has potential for strong growth over the outlook period.

EXPORTS

New Zealand's export markets for this sector have diversified significantly in the last 10 years. In 2005, our main export destinations were Australia (40 percent), the USA (15 percent) and Japan (13 percent). Australia is still New Zealand's main export market for this sector (53 percent) and common regulations for food composition and labelling make exporting there relatively simple. However, Asian markets such as China and Hong Kong, while still small, are now important export destinations.

Export revenue grew by 78 percent between 2005 ($1.1 billion) and 2015 ($1.96 billion).

The main types of live animals exported from New Zealand are horses (70 percent of live animals by value), dairy cattle and bees. Most horses (60 percent) exported are thoroughbred racehorses sent to Australia. Young dairy cows are increasingly being exported to China to build up its dairy herd. Several million bees are also exported to Canada each year to replenish bee numbers as around a third of their bees do not survive the harsh Canadian winters.

We have assumed similar trends in export value growth over the outlook period as in the last few years for the key markets in Asia and Australia.

TABLE 7.1: OVERVIEW OF KEY PRODUCTS AND KEY MARKETS, YEAR ENDED JUNE 2014

CATEGORY	KEY PRODUCTS	MARKETS
INNOVATIVE PROCESSED FOODS	Sweet and savoury fillings Artificial sweeteners Mineral and vitamin tablets Prepared meals	Australia China Hong Kong Singapore
CEREAL PRODUCTS	Flour, bread, pastry Malt extract for brewing Pasta Cakes and biscuits	Australia Japan
HONEY	Extracted and comb honey in bulk and retail packages	UK Hong Kong China Australia
SUGAR AND CONFECTIONERY PRODUCTS	Sugars, e.g. processed white sugar Confectionery, e.g. snack bars Chocolate in blocks, bars or slabs	Australia
SOUPS AND CONDIMENTS	Soups and broths Mustard Sauces Homogenised food preparations[1]	Australia Japan
OTHER PRODUCTS	Extracts and essences Beeswax Coffee	Japan Republic of Korea Australia
LIVE ANIMALS	Thoroughbred racehorses Dairy cattle Bees	Australia China Canada

Notes: 1 - Homogenised food preparations are preparations that have been finely blended together consisting of two or more basic ingredients such as meat, fish, vegetables, fruit or nuts, put up for retail sale as infant food or for dietetic purposes, in containers not exceeding 250 grams.

In general, growth in Asian markets is likely to be higher than that for Australia, due to increasing demand as average incomes increase. Growing market share in Asian markets requires a long-term focus, given different taste preferences and different regulatory requirements for food labelling and composition.

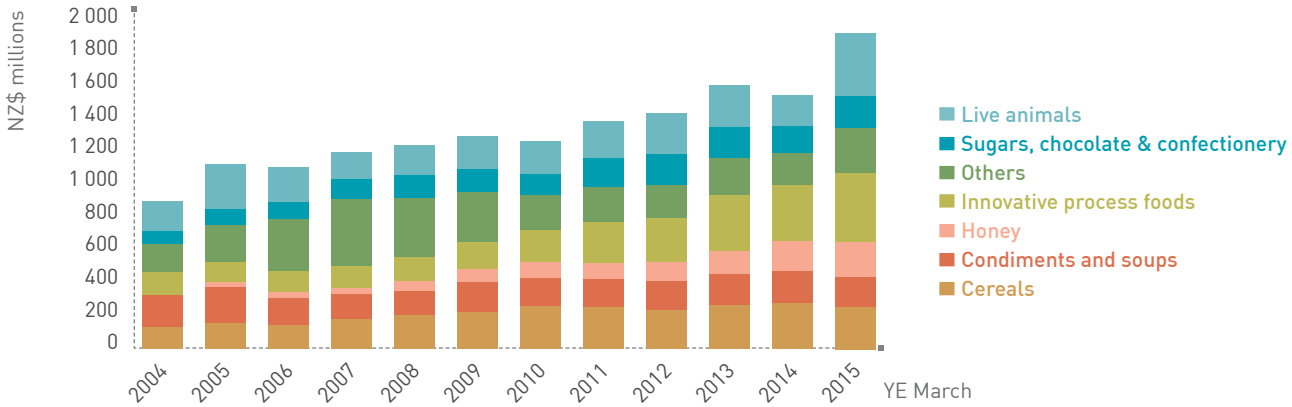
The main processed food categories (sugar/confectionery, soups/condiments, and innovative processed foods) will continue to experience steady growth over the outlook period. This will be driven by strong demand in Asian markets and Australia.

Cereal products are expected to continue with steady annual growth of around 2 percent through to 2019. Competition with other land uses in New Zealand will limit the ability to increase cereal production to meet the increasing demand for cereals from Asian countries.

Strong global demand for honey continues to drive price increases.

Recent growth of New Zealand's honey exports to Asia is expected to continue, with strong global demand for honey continuing to drive price increases. New Zealand honey continues to enjoy a price premium. Export growth may be hindered in the short-term due to supply constraints for beekeeping products and limits to floral capacity, with production per hive already falling in some areas. Good climatic conditions for honey production over the last three seasons have led to high harvests.

FIGURE 7.1: OTHER PRIMARY SECTOR EXPORTS AND FOODS, 2004–2015



Sources: Statistics New Zealand and MPI.

Live animal export revenues for the year ending June 2015 are expected to grow 96 percent from 2014 to $407 million. This increase is due to an increase in live cow exports. Almost 73 000 dairy cows are expected to be exported to China, with a further 8 000 to 10 000 to Mexico, Vietnam and the Philippines. This compares to the five-year average of 30 452 animals per year. We have assumed that levels of cows exported will return to around 30 000 per year for the outlook period.

TABLE 7.2: OTHER PRIMARY SECTOR EXPORTS AND FOODS

	Actual				Forecast			
YEAR TO 30 JUNE	2012	2013	2014	2015*	2016	2017	2018	2019
Total other agriculture	1 441	1 561	1 559	1 960	1 631	1 741	1 747	1 866
Live animals	237	238	208	407	131	141	148	149
Honey	121	145	187	217	240	254	268	283
Cereal products	231	261	253	261	281	287	290	295
Sugar and confectionery products	187	165	180	209	217	220	223	227
Soups and condiments	173	196	192	185	177	197	203	208
Innovative processed foods	289	339	330	422	380	447	428	480
Other products	203	217	209	258	205	195	187	222

Notes: * - Estimate.

8
ARABLE

ARABLE

The arable sector produces seeds and grains. Seeds deliver most of the arable export revenue, with a higher proportion of grains mainly consumed domestically (including for stock feed). Seed export revenue was down 14.6 percent in the year to June 2015 following historic high earnings the previous year and a 13 percent fall in average prices. Arable export revenue is forecast to reach $230 million by year ending June 2019, due mainly to increasing export volumes of vegetable and non-pasture seeds.

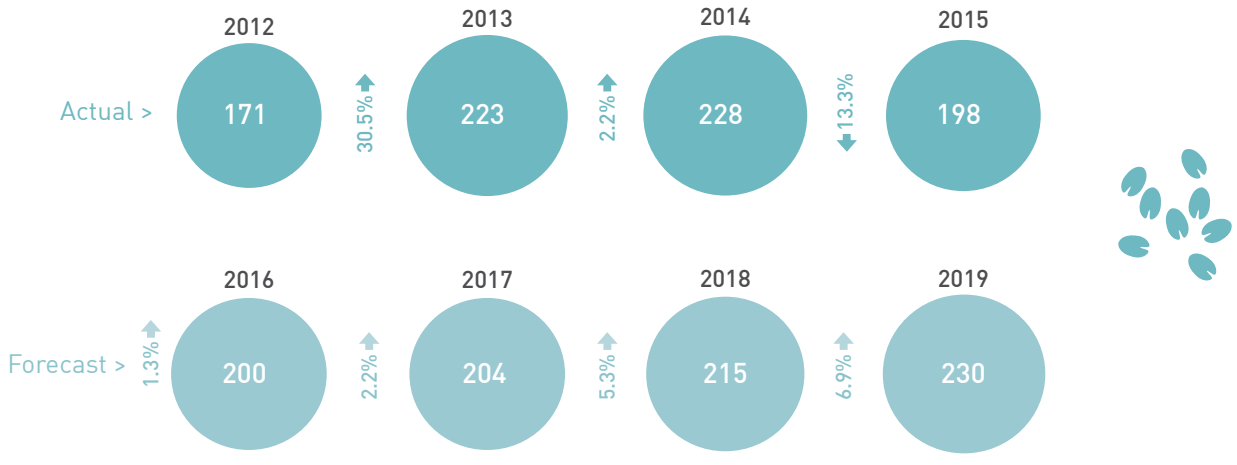
KEY FACTORS

Arable seed export revenues have grown at 7 percent per annum from June years 2001 to 2015.

Crop yields in 2015 were above average on irrigated farms, but well below average on dryland farms due to drought conditions in much of the South Island.

Increasing global demand, coupled with New Zealand's reputation for dependable high-quality seed production, underpins export growth of seeds.

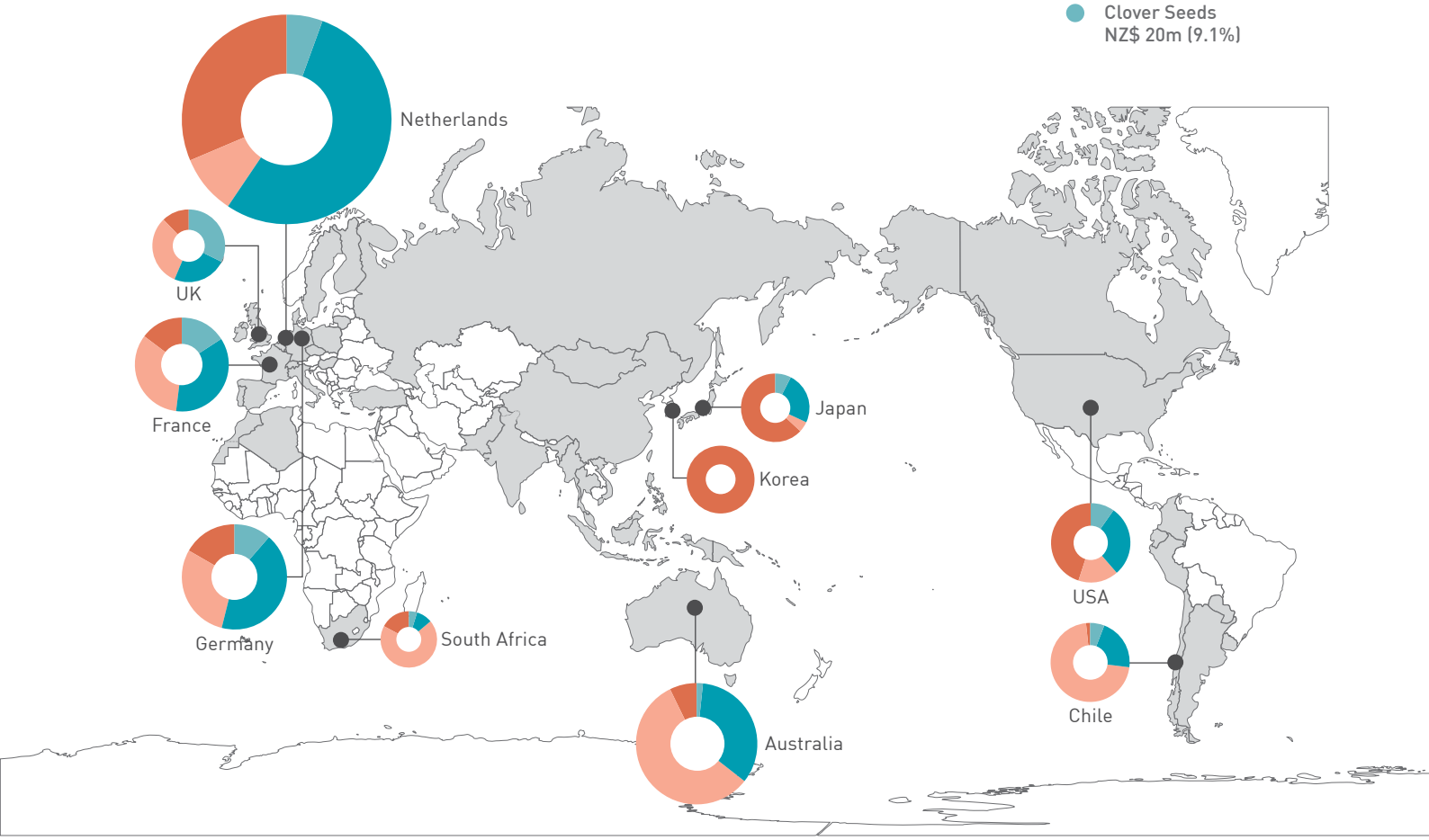
ARABLE EXPORT VALUES (NZ$ MILLIONS) 2012–2019



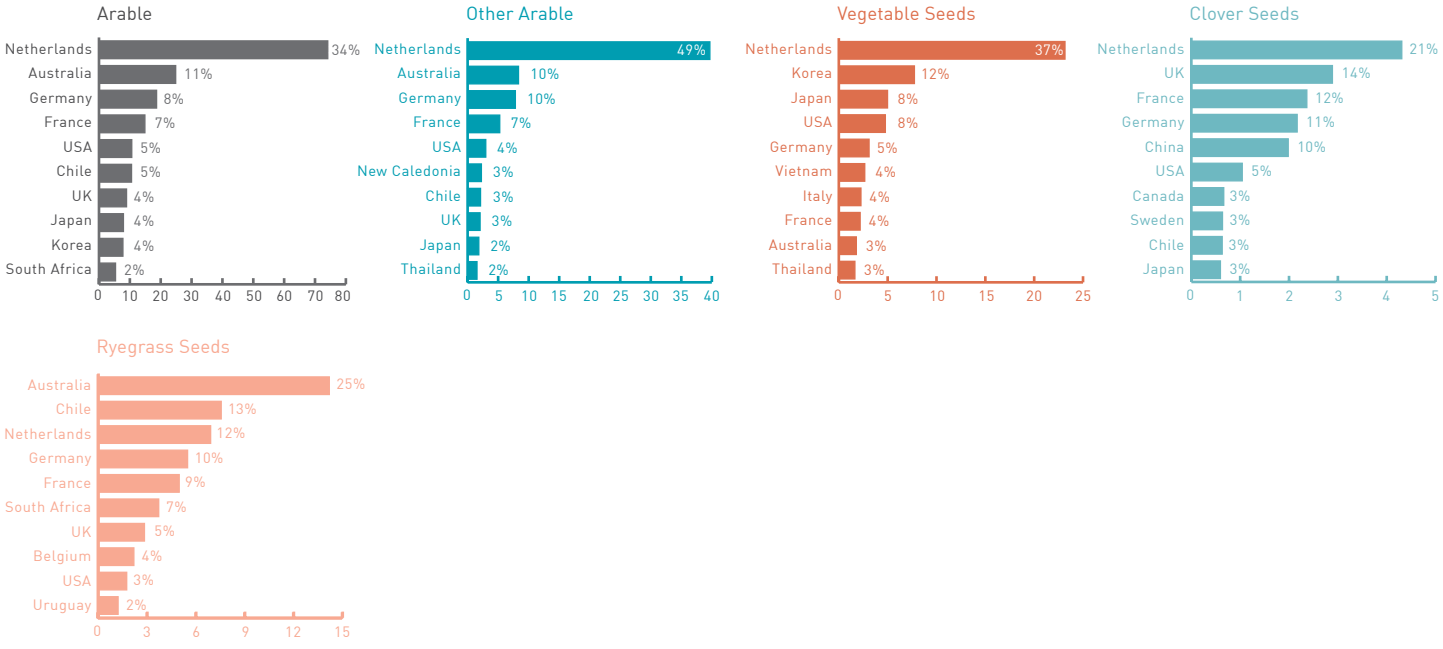
TOP 10 ARABLE EXPORT MARKETS BY VALUE

Export destinations are shaded in grey on the map below.

- Other Arable NZ$ 82m (37.1%)
- Vegetable Seeds NZ$ 62m (28.3%)
- Ryegrass Seeds NZ$ 56m (25.5%)
- Clover Seeds NZ$ 20m (9.1%)



TOP 10 MARKETS (NZ$ Millions)



YEAR ENDED MARCH 2015

Sources: Statistics New Zealand and MPI.

EXPORTS

New Zealand has a comparative advantage in seed exports, supplying over 100 different countries. The EU is the largest market for pastoral type and vegetable seeds by value. Good growth opportunities exist for vegetable seeds in China, India, Korea and the ASEAN countries.

New Zealand produces a significant portion of the world's carrot seed (65 percent), radish seed (55 percent), beet seed (50 percent) and white clover seed (50 percent). Major export earners include specialist vegetable seeds, ryegrass seed, maize seed and white clover seed. Short-term over-supply of ryegrass seed in Europe, combined with a high NZD against the Euro and AUD, weakened exports in 2015. Production contracts suggest this will continue in the 2016 year.

FTAs have lifted the seed industry's confidence in future export growth opportunities. Growers and seed companies are hoping that a reinstatement of brassica seed trade with China is imminent, once the black-leg disease embargo is lifted, following phytosanitary certification reviews (to the assurance system).

New Zealand exports seeds to over 100 different countries.

New Zealand is a world leader in seed multiplication. The arable industry has ambitions for a 50 percent production increase by 2025 led by production efficiencies, new crops, high-value speciality seed products, marketing initiatives and irrigation investment.

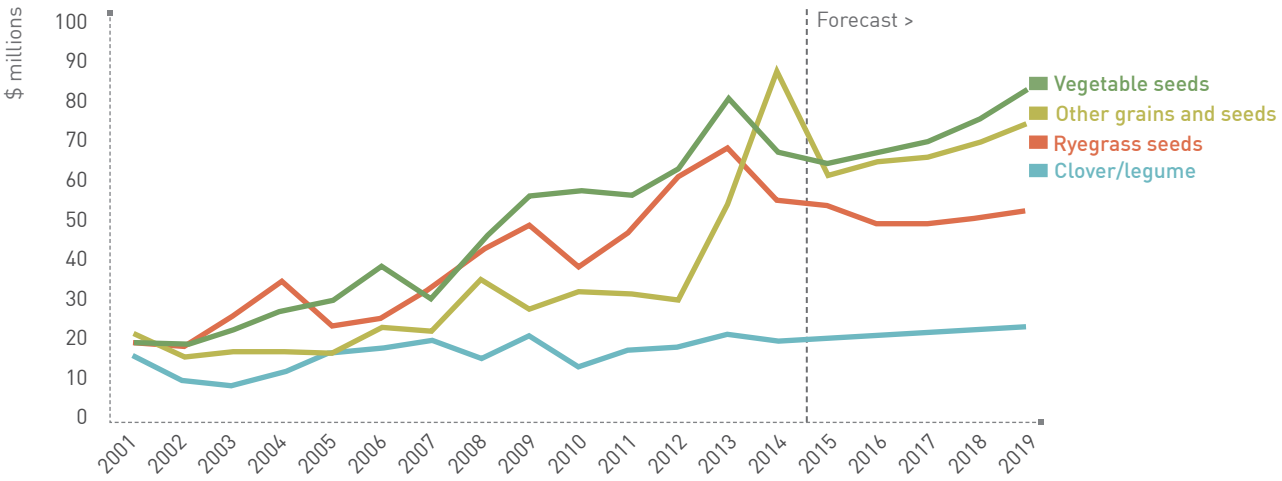
GRAINS

Dryland grain farming has suffered from drought in the eastern regions of the South Island in the 2015 season, though irrigated farms had a profitable season. Production in wheat and oat areas in New Zealand were up slightly with normal yields. Barley areas increased by 10 percent but, yields were slightly down. Maize area is down 17 percent and yields are 4 percent lower.

Crop yields were below average on dryland farms due to drought conditions.

Pig, poultry and beef feedlot demand for grain is consistent with last year, but demand from dairy farms is down due to lower milk prices. Imported palm kernel expeller (PKE) is a significant competitor to New Zealand grain producers. PKE is a lower-cost substitute for feed grain on dairy farms. The average PKE import price of $232 per tonne compares with feed wheat and barley contract prices to growers of around $380 per tonne.

FIGURE 8.1: ARABLE SEED EXPORT VALUES, 2001–2019



Sources: Statistics New Zealand and MPI.

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