

Ministry for Primary Industries
Manatū Ahu Matua



2015 PIPFRUIT MONITORING PROGRAMME

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Key results from the Ministry for Primary Industries 2015 Pipfruit Monitoring Programme.

BACKGROUND

The MPI pipfruit monitoring programme was reviewed in 2013 leading to modifications to the Hawke's Bay and Nelson pipfruit orchard models for 2013 and 2014 actual and 2015 budget years. Direct comparison with previous years' models is not advised.

KEY POINTS

- » The New Zealand pipfruit industry performed well again in 2014 with average production and good fruit quality aligning with strong demand and good prices in all the main markets. Most growers achieved a second consecutive year of substantial profits. This outcome is particularly significant for growers in the Nelson region after three to four year-on-year trading losses.
- » Export production in 2014 was down on the previous year. Export production was down 5 percent in Hawke's Bay following a bumper crop in 2013. Export yields in Nelson were down 1 percent. The warm spring meant an earlier than usual harvest in Hawke's Bay allowing early season sales into Asia. Favourable growing conditions led to good fruit colour and high export recovery rates in both regions.
- » Consumer demand for New Zealand apples in 2014 in traditional European and US markets remained strong. This was despite supply-demand imbalances and lower in-market prices in Europe in the later part of the southern hemisphere selling season. Demand from Asian markets increased, in particular from Taiwan, an important market for the Fuji variety.
- » Growers in both regions used the orchard profits from the 2013 and 2014 seasons to reduce overdrafts, pay down term debt, upgrade or replace orchard machinery, catch up on deferred orchard repairs and maintenance, and invest in new or replacement orchard plantings.
- » Export production in 2015 for the orchard models is variable between the regions. Export production is up slightly (1 percent) for Hawke's Bay, whilst export yields in Nelson are expected to be down 11 percent, due to significant hail damage in spring 2014.
- » Orchards in both regions had the potential to carry large crops in 2015 following lighter crops in the previous year, and younger orchards reaching maturity. Orchards in the Riwaka and Moutere areas of the Tasman District were impacted by a devastating hail storm on 5 November 2014. Two further hail storms of lesser intensity in November/December affected additional orchards in the Tasman District. Orchards in the Hawke's Bay region were also impacted by hail storms in late October, November and in January to varying degrees.
- » Hail damage in both regions, combined with poor colour development for some later varieties in Hawke's Bay resulted in the lowest export recovery rates recorded for the pipfruit models in recent years. Fortunately, export returns for the 2015 season are much higher than anticipated at the start of the season. This should buffer the reduction in orchard yields for the Nelson model.
- » Prices received by growers for apples sold in Europe and the US were similar to last year despite larger domestic crops and the import ban by Russia on fresh produce from these countries. The weaker New Zealand dollar in 2015 assisted. Demand from Asian markets for New Zealand apples increased in 2015, lifting prices for Pacific Queen™ and Envy™ in particular.
- » Orchards profits before tax in 2015 are budgeted to increase by 63 percent for the Hawke's Bay model and by 4 percent for the Nelson model. The budget result may be weaker or stronger for individual growers depending upon variety mix and the severity of hail damage.
- » Morale amongst pipfruit growers is good despite a challenging climatic season in 2015 due to increasing global demand for high quality New Zealand apples, improved market and variety mix, and improved productivity. Both owner operators and larger corporate growers are feeling positive about the prospects for their businesses and the wider industry.
- » Growers and post-harvest operators are investing in technologies and practices to continually improve fruit quality to satisfy consumer demand and maintain price premiums. Such investments include the use of reflective orchard mulches, the judicious use of SmartFresh™ and modern fruit sorting systems. Adequate seasonal labour for harvesting fruit at optimal maturity is also critical; the sector acknowledges the significant contribution that the Recognised Seasonal Employer (RSE) scheme makes in this regard.
- » Improved confidence in the New Zealand pipfruit industry has seen significant investment in the Hawke's Bay region and nationally, especially by the integrated grower-packer-marketer businesses who are keen to secure supply of higher value apple varieties.
- » The most commonly cited perceived threats to the pipfruit industry include (i) potential restrictions to the RSE scheme, (ii) loss of access to key markets and (iii) biosecurity breaches. There is also a recognition that increasing global apple production will put downward pressure on prices. Growers in the Nelson region cited European canker disease as a significant threat and want to see further investment in the scientific research of this disease in New Zealand.

Table 1: Key Parameters, Financial Results and Budgets for the Pipfruit Orchard Models

Year ended 31 December	2013	2014	2015 Budget
Hawke's Bay model			
Planted area (ha)	40.0	40.0	40.0
Owned area (ha)	24.0	24.0	24.0
Leased area (ha)	16.0	16.0	16.0
Total TCE ¹	145 925	127 390	148 575
Export TCE	96 615	92 200	93 015
Weighted average return (\$/export TCE) ²	24.45	26.80	29.45
Net cash income (\$) (at FAS) ²	2 646 400	2 631 000	2 966 100
Orchard gate return (OGR \$)	1 585 300	1 602 900	1 906 000
Orchard working expenses (to orchard gate \$) ³	1 026 400	1 008 900	1 059 100
EBIT (\$) ⁴	514 900	538 000	788 900
Orchard profit before tax (\$)	377 700	410 000	666 900
Orchard cash surplus/deficit (\$)	251 700	136 000	334 900
Orchard working expenses / OGR	65%	63%	56%
EBIT/Total orchard assets	19.1%	18.2%	25.6%
Percentage equity	60%	70%	75%
Nelson model			
Planted area (ha)	40.0	40.0	40.0
Owned area (ha)	32.0	32.0	32.0
Leased area (ha)	8.0	8.0	8.0
Total TCE	129 340	123 135	123 340
Export TCE	97 565	96 350	85 775
Weighted average return (\$/export TCE)	25.50	25.65	26.70
Net cash income (\$) (at FAS)	2 607 800	2 532 000	2 491 400
Orchard gate return (OGR \$)	1 545 400	1 572 500	1 597 700
Orchard working expenses (to orchard gate \$)	1 060 000	1 132 700	1 158 600
EBIT (\$)	425 400	379 800	379 100
Orchard profit before tax (\$)	289 000	251 800	261 100
Orchard surplus/deficit (\$)	149 000	41 800	76 100
Orchard working expenses / OGR	69%	72%	72%
EBIT/Total orchard assets	11.8%	9.4%	9.2%
Percentage equity	56%	63%	67%

Notes

The pipfruit orchard models are representative of export pipfruit orchards and based on a company structure.

The pipfruit orchard models were modified substantially in 2013 following a review of the MPI pipfruit monitoring programme. Hence direct comparisons with prior models are not recommended.

Figures may not add to totals due to rounding.

1 Tray carton equivalent is a measure of apple and pear weight. A TCE is defined as 18.6 kg packed weight which equates to 18.0 kg sale weight.

2 Returns per export TCE are expressed at free alongside ship (FAS return). This is the value of the product at the ship's side net of commission, additional packaging costs and controlled atmosphere or SmartFresh™ costs.

3 Orchard working expenses include wages of management.

4 EBIT = earnings before interest and tax. The lease arrangements in the orchard models are permanent leases of land. Because of this, lease expenses are treated like interest expenses (i.e. cost of capital) for reporting purposes.

INFORMATION ABOUT THE MODELS

The MPI pipfruit models are orchard production and profitability models representative of export pipfruit orchards in the main pipfruit growing regions of Hawke's Bay and Nelson.

The model parameters of orchard size and variety mix are guided by regional statistics from Statistics New Zealand's Agriculture Production Survey and Pipfruit New Zealand Inc.

Production, income and expenditure information is collected from a monitored panel of contributing orchards, representing a cross-section of orchards in each region. Specifically the monitored panel includes representative orchards from each of the main supply chain categories, namely grower suppliers, grower-packers and grower-packer-marketers.

Data from the contributing properties are averaged, adjusted as necessary and used to create the orchard models.

Income figures include income from pipfruit, other pipfruit orchard income and new borrowing. Expenditure figures include post-harvest expenses, orchard production costs, overheads, debt, leasing, development, and capital purchases. Labour expenses include wages of management.

The model business structure is a limited company. The value of land and buildings in each model is attributed to the owned title area, including a dwelling and is an estimated market value.

The pipfruit model budgets are prepared using a 31 December balance date.

Disclaimer

The information in this report by the Ministry for Primary Industries is based on the best information available to the Ministry at the time it was drawn up and all due care was exercised in its preparation. As it is not possible to foresee all uses of this information or to predict all future developments and trends, any subsequent action that relies on the accuracy of the information in this report is the sole commercial decision of the user and is taken at his/her own risk. Accordingly, the Ministry for Primary

Hawke's Bay pipfruit model

The Hawke's Bay pipfruit model is 40 hectares planted, with 24 hectares owned and 16 hectares leased. The model is based on data from 24 orchards located in the Heretaunga Plains. Royal Gala is the predominant apple variety in the model, accounting for 32 percent of the planted area. The planting density distribution of the orchard model, guided by the monitored panel and based on the 2014 variety mix, is:

- » 55 percent planted area is at standard density (<1000 trees per hectare);
- » 25 percent planted area is at semi-intensive density (>1000 and <1800 trees per hectare);
- » 20 percent planted area is intensive (>1800 trees per hectare).

Nelson pipfruit model

The Nelson model is 40 hectares planted, with 32 hectares owned and 8 hectares leased. The model is based on data sourced from 20 orchards. Braeburn, Royal Gala and Jazz™ account for similar planted areas in the model at around 20 percent each. The planting density distribution of the orchard model, guided by the monitored panel and based on the 2014 variety mix, is:

- » 35 percent planted area is at standard density (<1000 trees per hectare);
- » 5 percent planted area is at semi-intensive density (>1000 and <1800 trees per hectare);
- » 60 percent planted area is intensive (>1800 trees per hectare).

For further information on these models contact:

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