Issues facing the New Zealand avocado industry

Discussion Document

April 2010

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The Coriolis name

The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. *To us it means understanding the big picture before you get into the details.*

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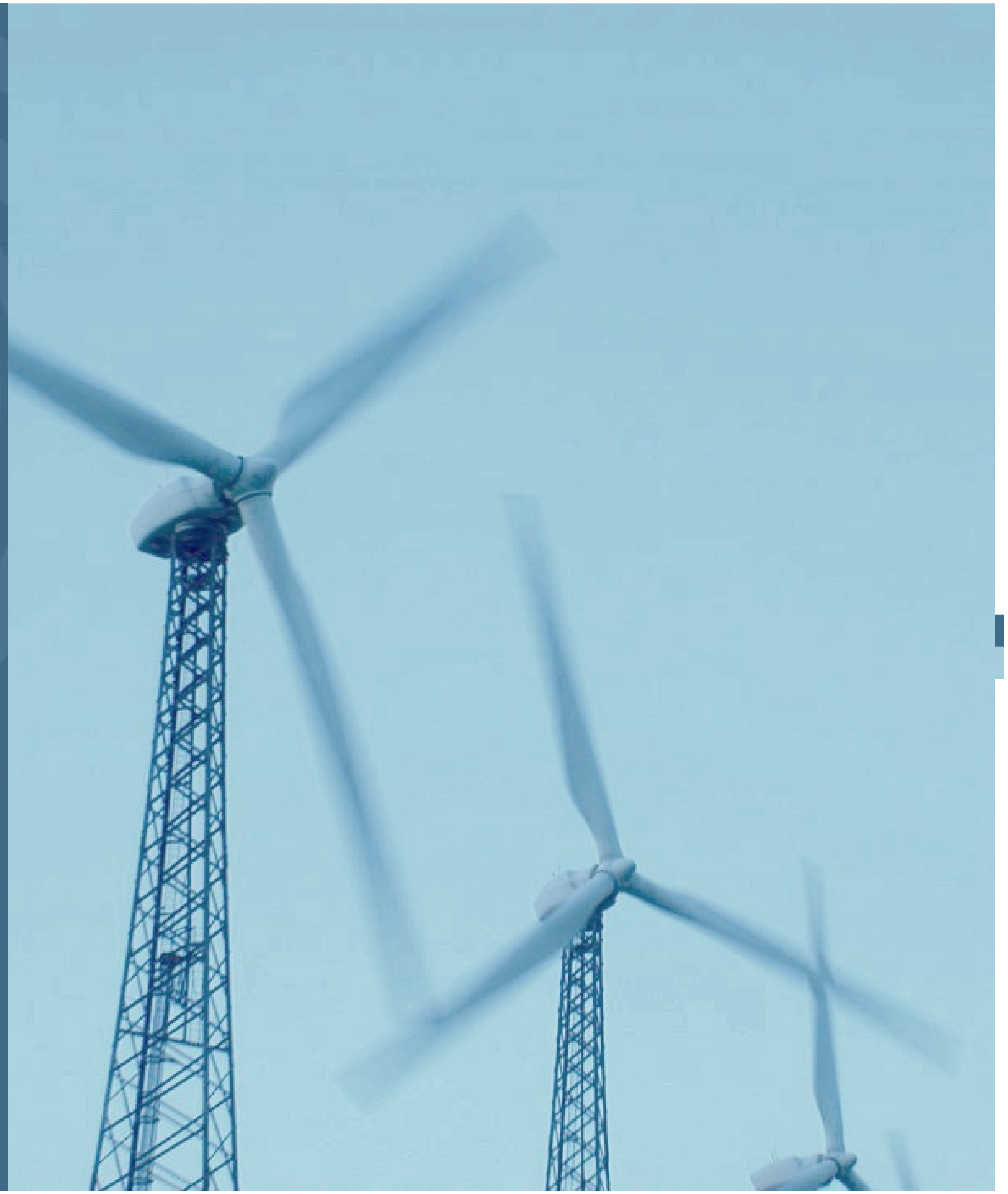

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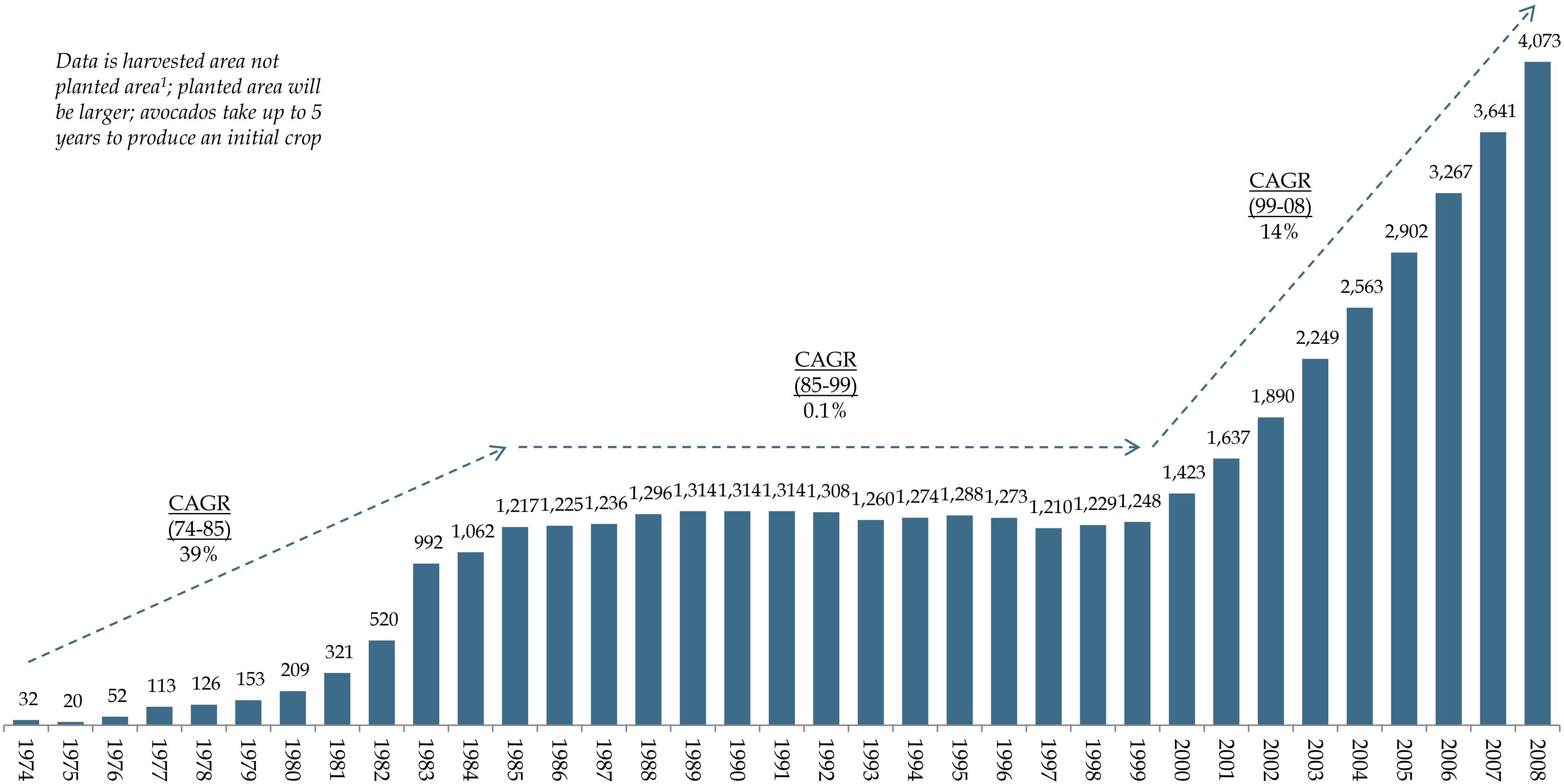
DOCUMENT STRUCTURE

HARVESTED AREA

Following a period of flat growth during the 80's and 90's, harvested avocado area has been growing strongly since 1999

Harvested area of avocados in New Zealand
(hectare; actual; 1974-2008)

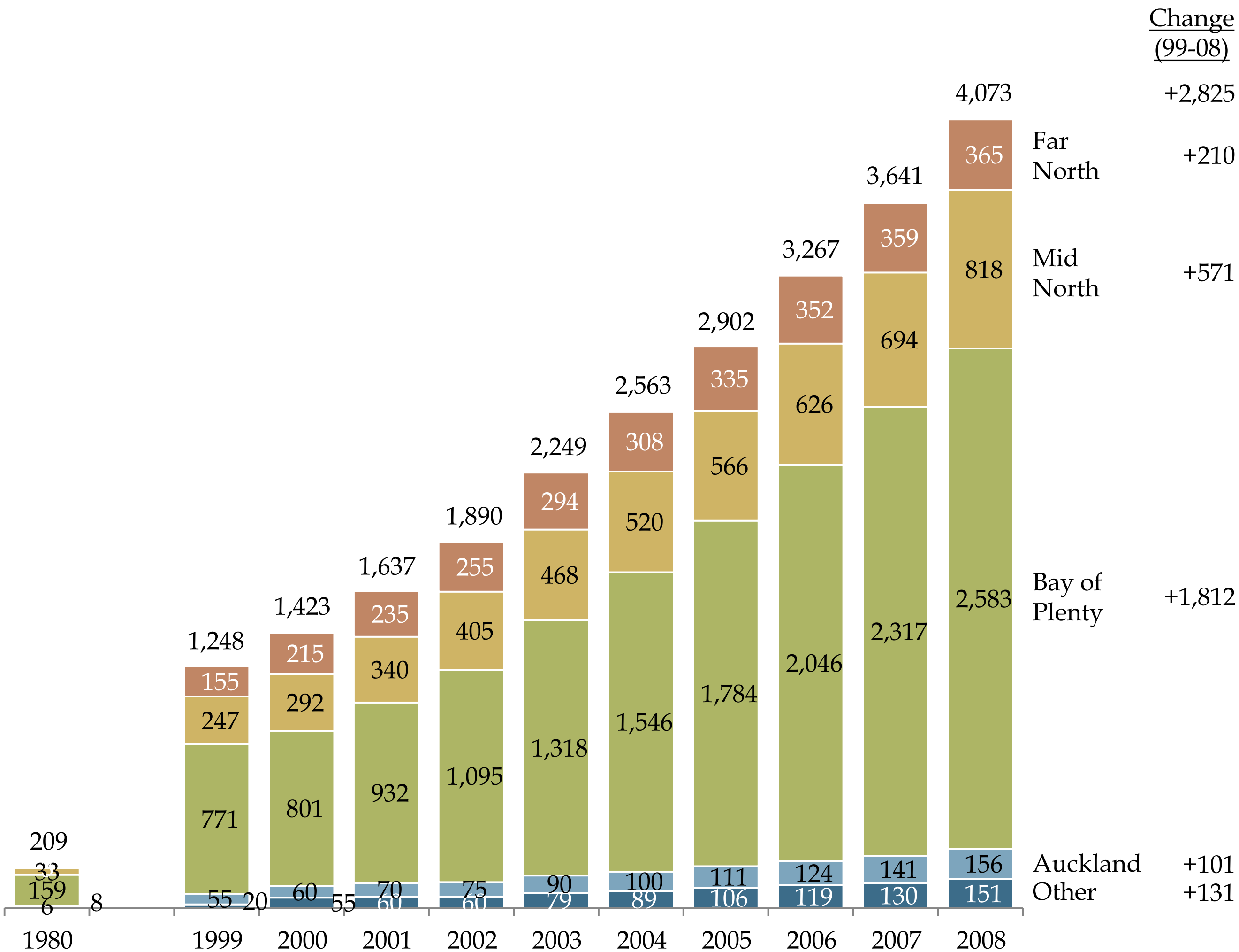


1. Unclear whether some historical data pre 1998 is harvested/planted; Source: FAO; MAF; NZAGA; Coriolis analysis and estimates

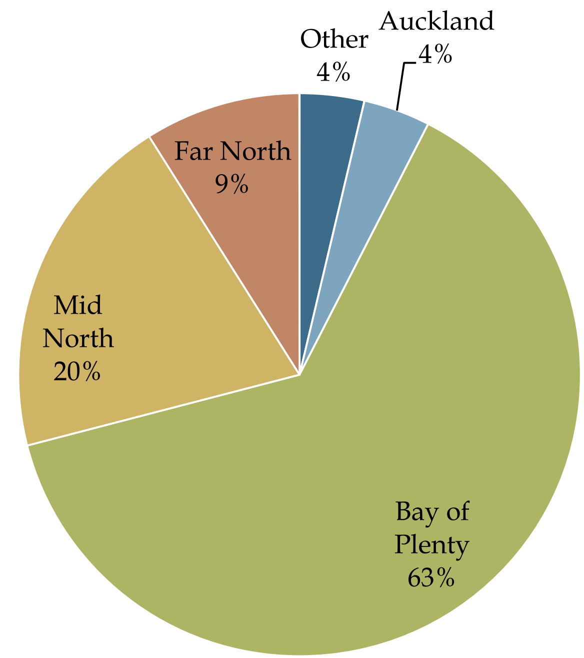
AREA BY REGION

Area growth is primarily coming from the Bay of Plenty and the mid/far North; very roughly speaking 2/3 of area is in the Bay and 1/3 in the mid/far North

Harvested area of avocados in New Zealand
(hectare; actual; 1980, 1999-2008)



% of harvested area
(% of hectare; 2008)

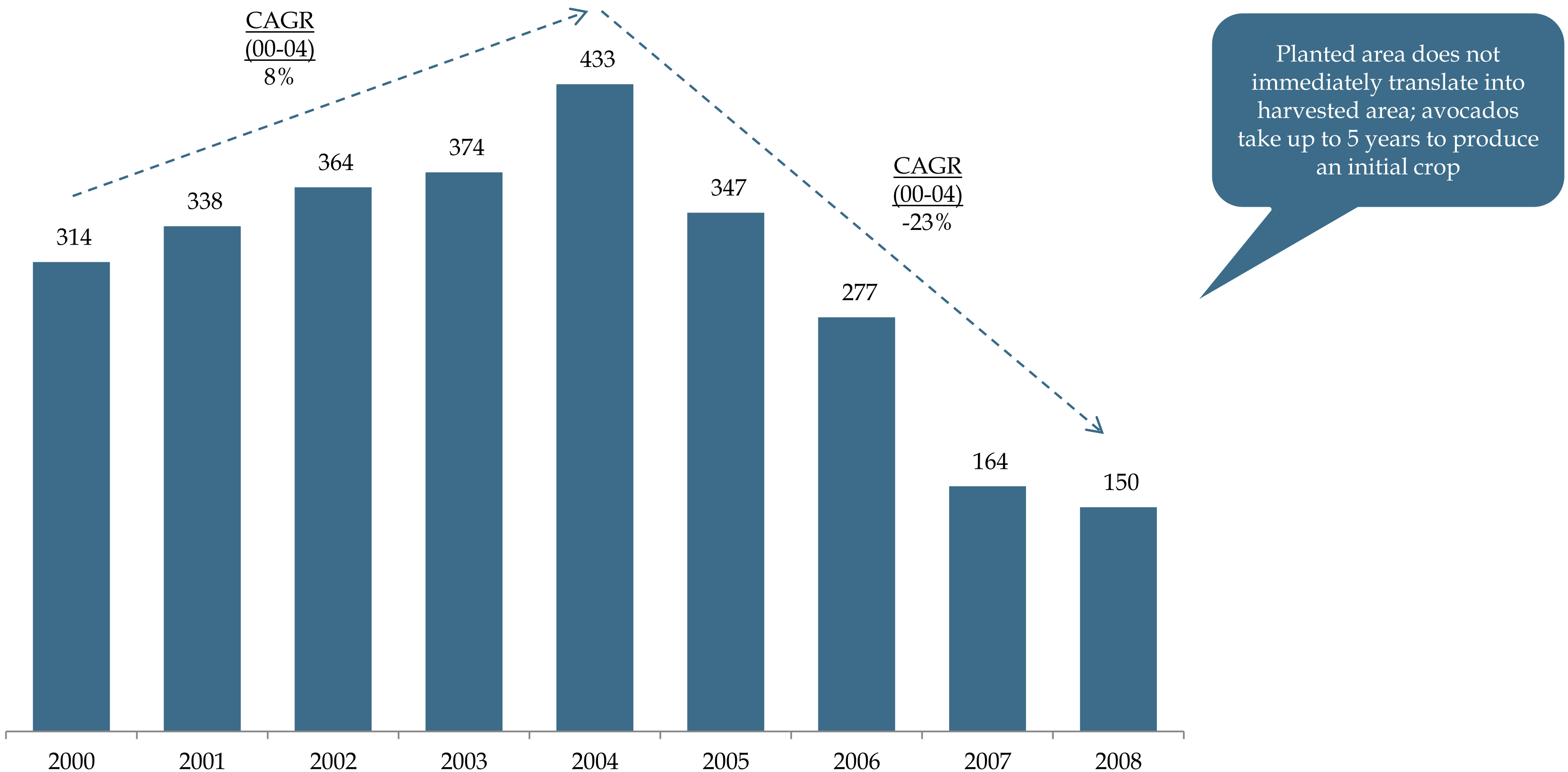


Source: Department of Agriculture (1980); NZAGA; Coriolis analysis

NEW AREA PLANTED

New area planted into avocados peaked in 2004 and has been declining since

New area planted into avocados by year
(hectare; 00-08)



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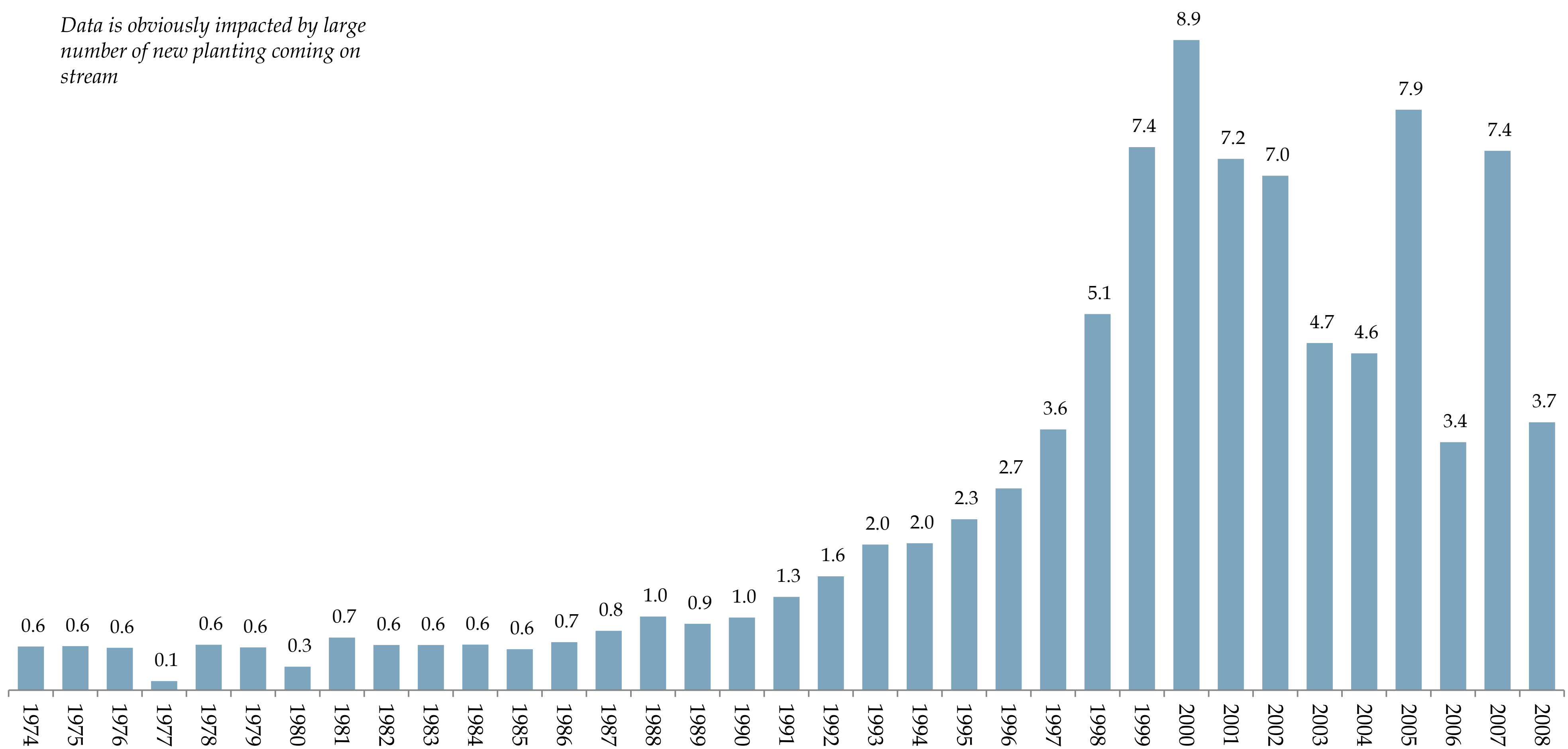
YIELD

New Zealand yield per hectare is highly variable year-on-year

Yield in tons per harvested hectare of avocados in New Zealand
(mt/hectare; actual; 1974-2008)



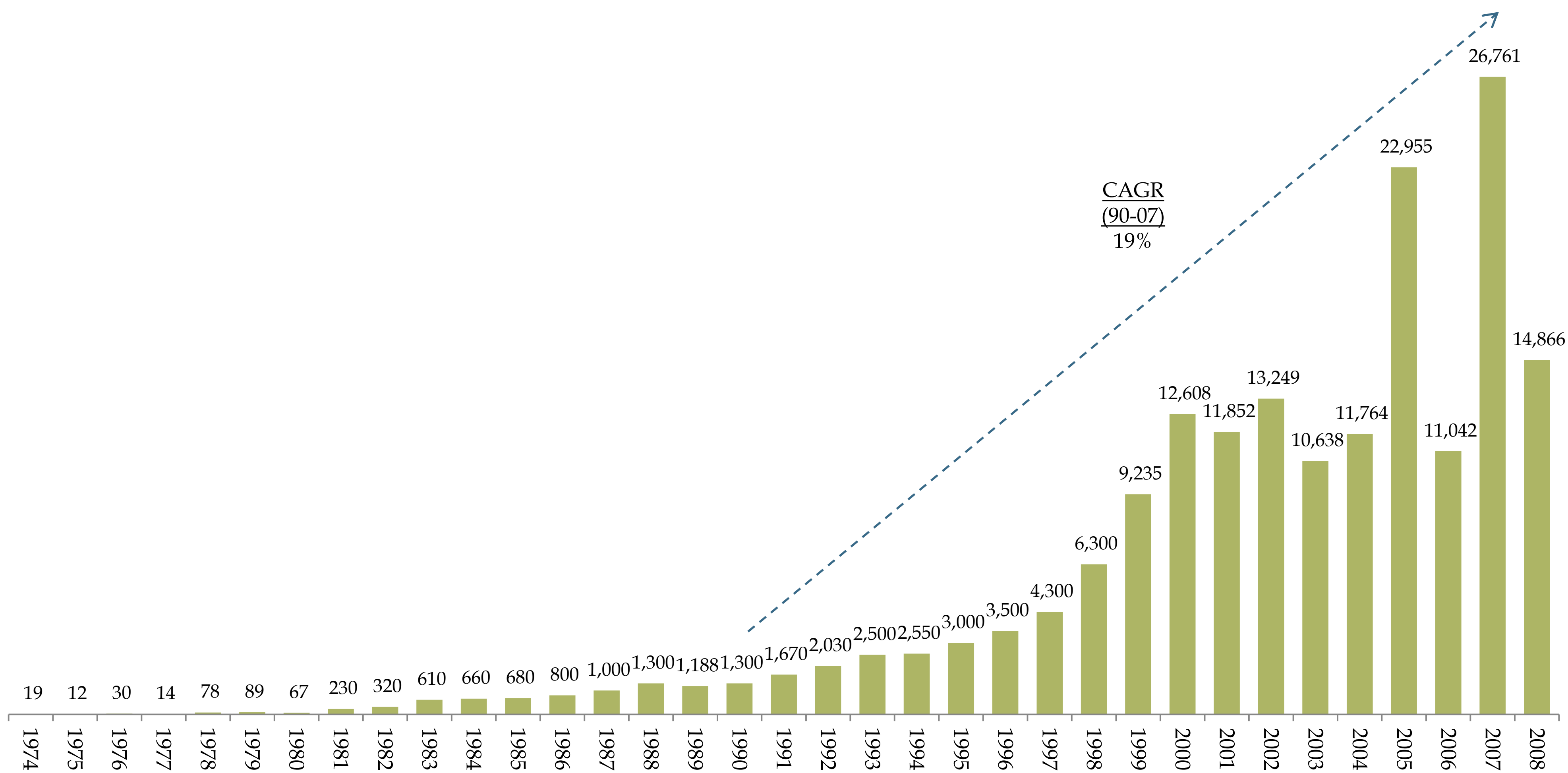
Source: FAO; MAF; NZAGA; Coriolis analysis and estimates

PRODUCTION

Avocado production has grown strongly, though with strong ups and downs due to big swings in yield

Total production of avocados in New Zealand

(mt; actual; 1974-2008)



Source: FAO; MAF; NZAGA; Coriolis analysis and estimates

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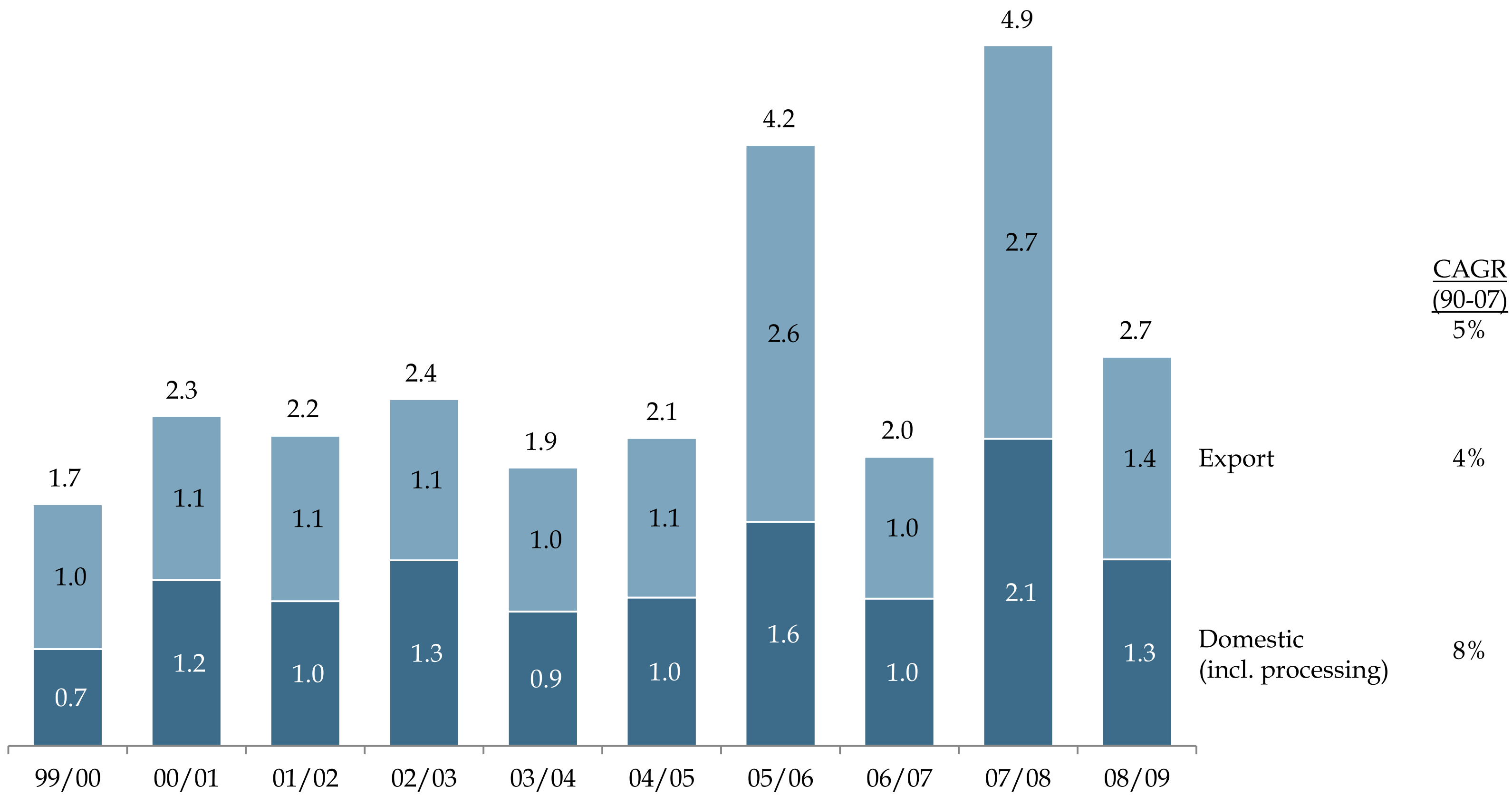
INDUSTRY VOLUME BY MARKET

Both the domestic and export markets are important; the impact of yield surges are evident

Sales of avocados by market: export, domestic and processing
(kg; m; 99/00-08/09)

Note: YE April
& NZ$



Note: uses SNZ export volumes 00-05; Source: SNZ Infoshare database (custom job); NZAGA; Coriolis analysis

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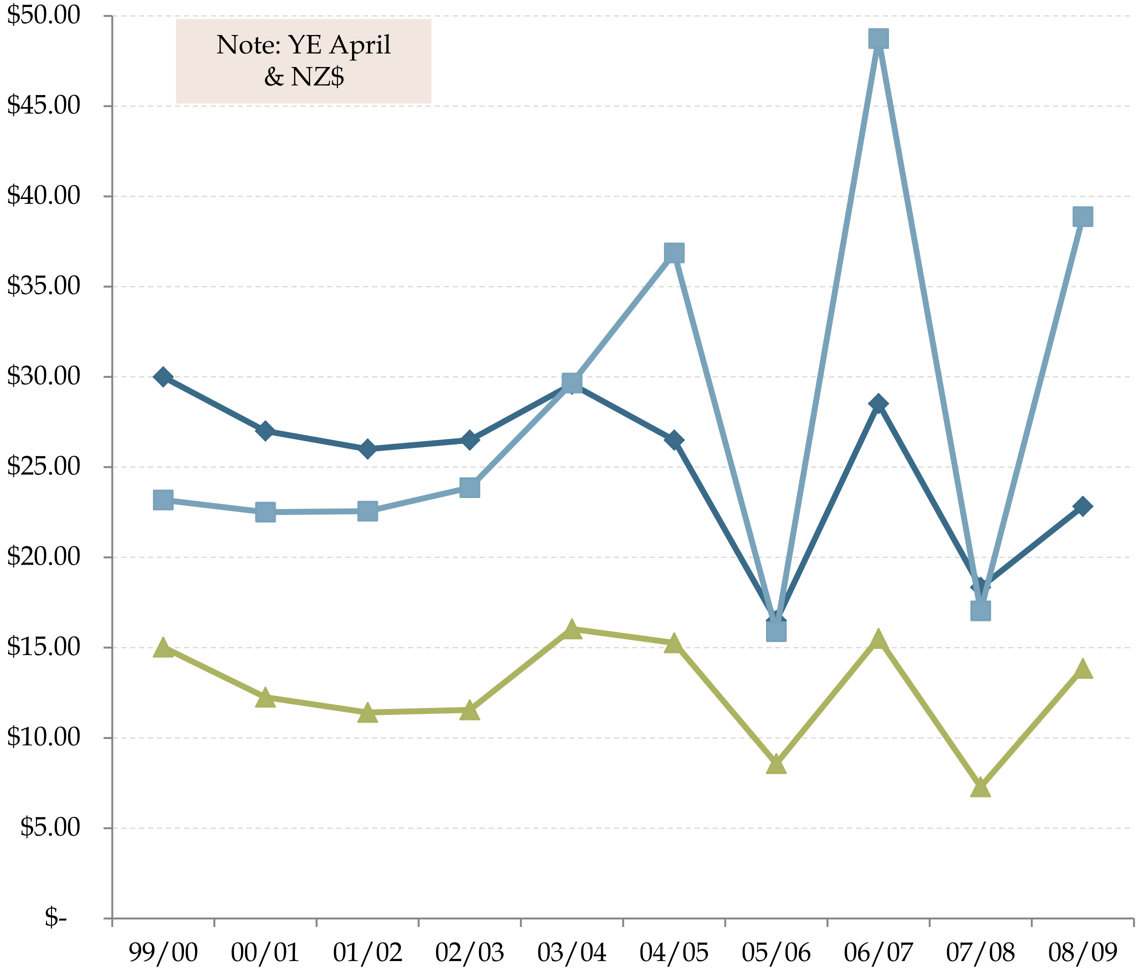
VALUE PER TRAY

There is a wide discrepancy between what NZ customs data and NZAGA believe is received per tray

FOB or wholesale sales value per kilogram of avocados by market: export and domestic
(NZ$/kg; actual; 99/00-08/09)



	CAGR (99/00-08/09)
FOB/tray (NZ customs)	6%
FOB/tray (NZAGA)	-3%
Domestic (incl. processing)	-1%

Issues

- Some fruit sold on consignment (e.g. by a wholesaler to greengrocers)
- Exporter must assign a "value" for the fruit when it is exported but before it is actually sold
- When fruit is exported on consignment, the value entered will be an estimate of what the exporter believes they will receive
- One way to read this chart would be that in recent low volume years, exporters have believed they would receive more than they did
- Alternatively the numbers being reported to NZAGA are incorrect/wrong

Source: SNZ Infoshare database (custom job); NZAGA; Coriolis analysis

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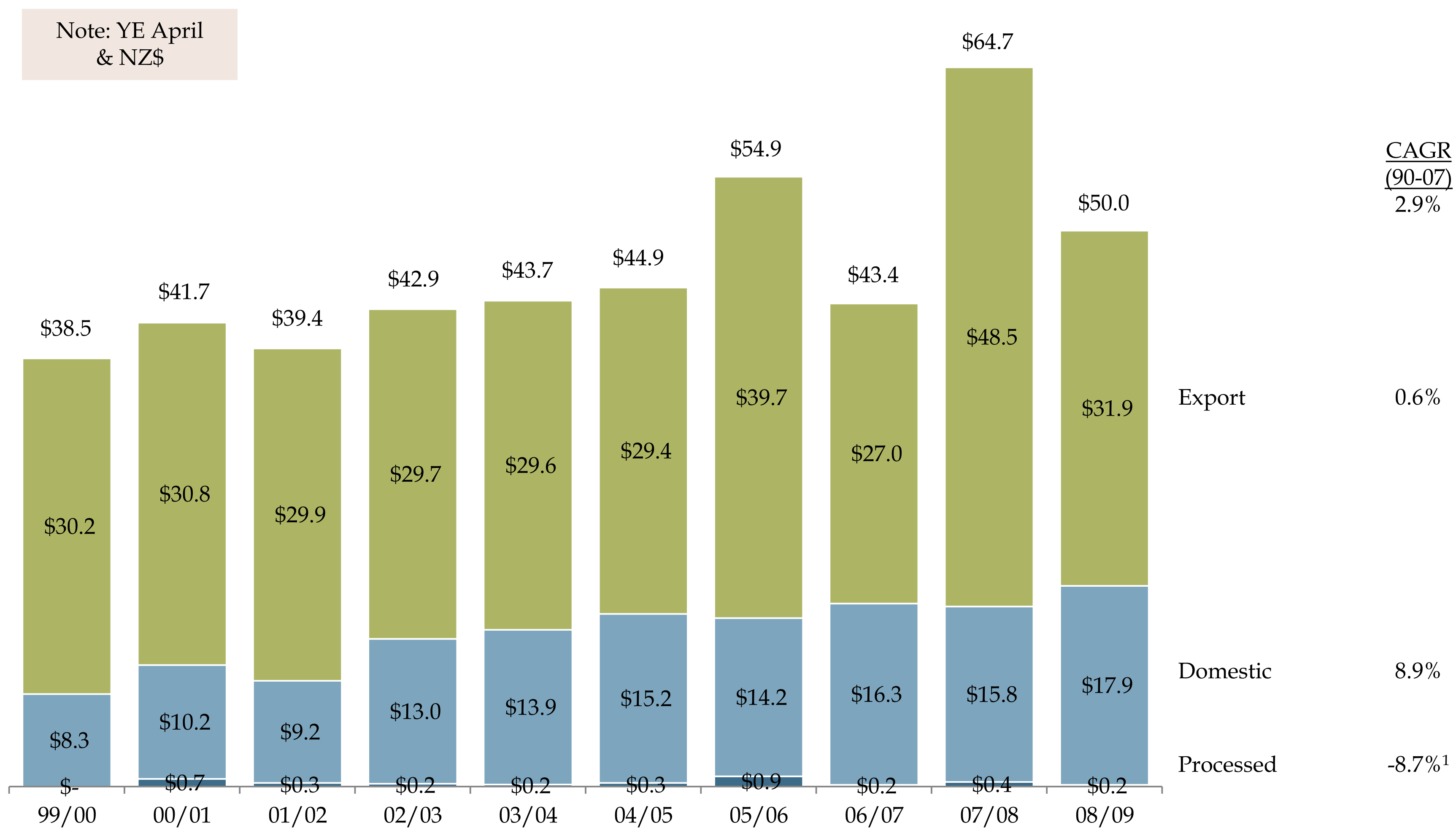
INDUSTRY SALES BY MARKET IN NZ$

Industry sales are achieving little total growth; the domestic market is growing faster (and more predictably) than exports

Sales of avocados by market: export, domestic and processing
(NZ$m; 99/00-08/09)



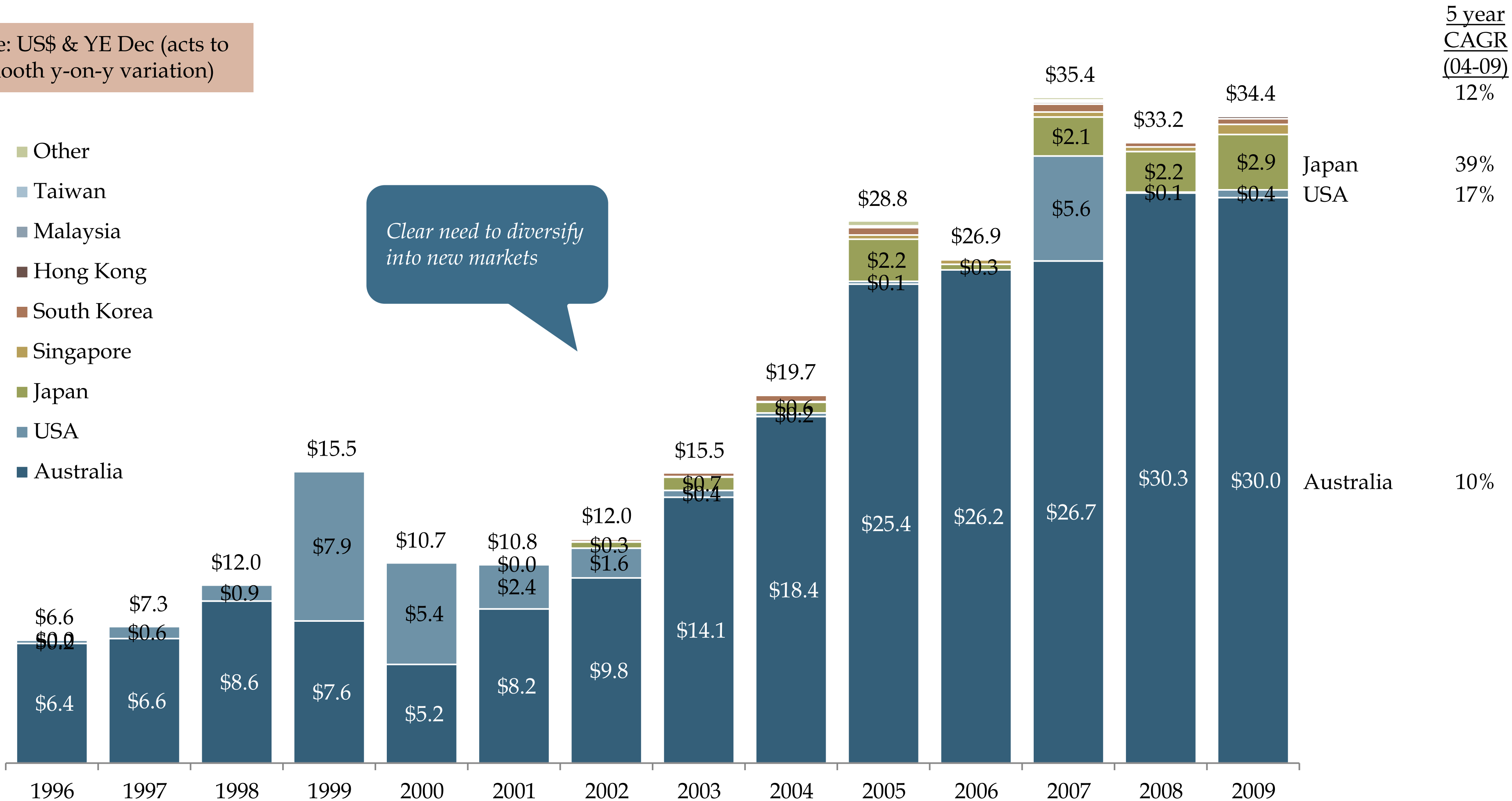
Note: domestic sales measured at first point-of-sales (not to final consumer); uses SNZ volumes but NZAGA value per tray for 00-05; 1. Uses 01/02-08-09; Source: SNZ Infoshare database (custom job); NZAGA; Coriolis analysis and estimates

EXPORT VALUE IN US$ BY MARKET

Australia is currently the key market for New Zealand avocados, however Japan has shown strong growth over the past few years; performance in the US market appears erratic

New Zealand avocado export FOB value in US$ by destination
(US$m; 1996-2009)

Note: US$ & YE Dec (acts to smooth y-on-y variation)



Source: UN Comtrade database (custom job); Coriolis analysis

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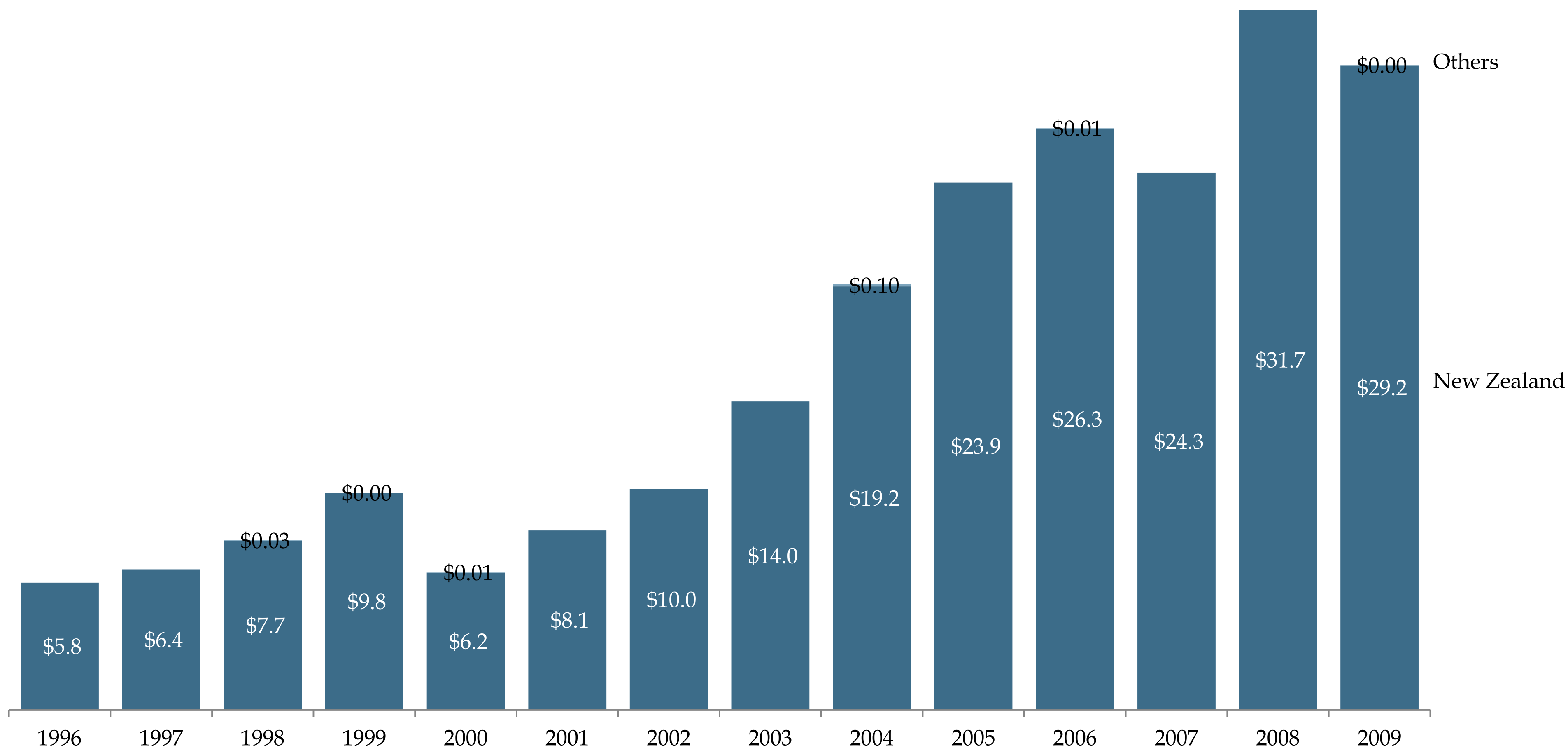
AUSTRALIAN IMPORT VALUE IN US$

New Zealand is succeeding in the Australian market partially because it is the only supplier allowed past the phyto-sanitary barriers

Australian avocado FOB import value
(US$m; 1996-2009)

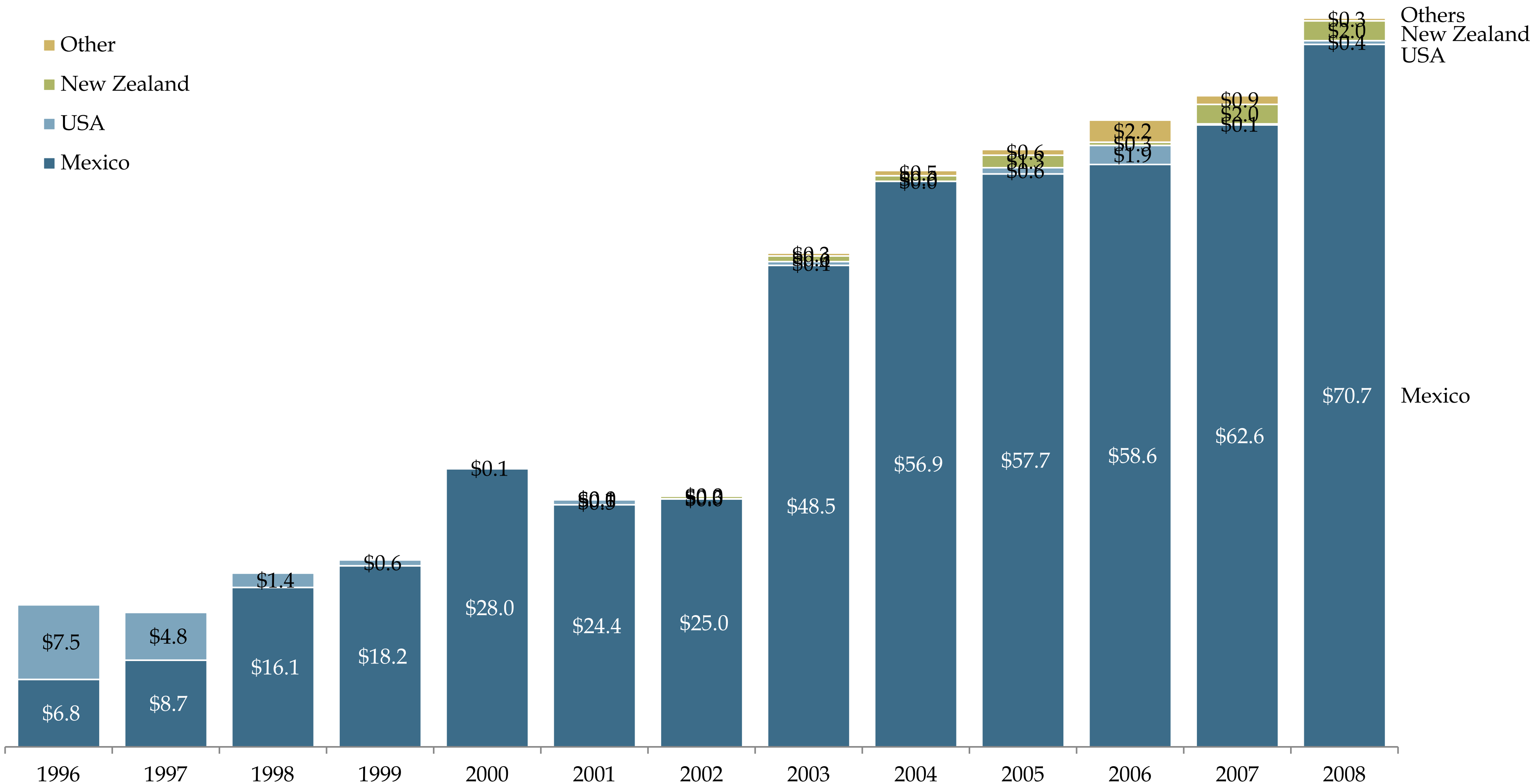


Note: Import and export values do not match for a range of reasons (e.g. timing, reporting); Source: UN Comtrade database (custom job); Coriolis analysis

JAPANESE IMPORT VALUE IN US$

Since beginning to export to Japan in 2001, New Zealand has grown to become the second largest avocado supplier; there would appear to be large potential for future growth in the Japanese market

Japanese avocado FOB import value
(US$m; 1996-2009)



Note: Japan, like Australia, has phyto-sanitary barriers (both formal and informal); Source: UN Comtrade database (custom job); Coriolis analysis

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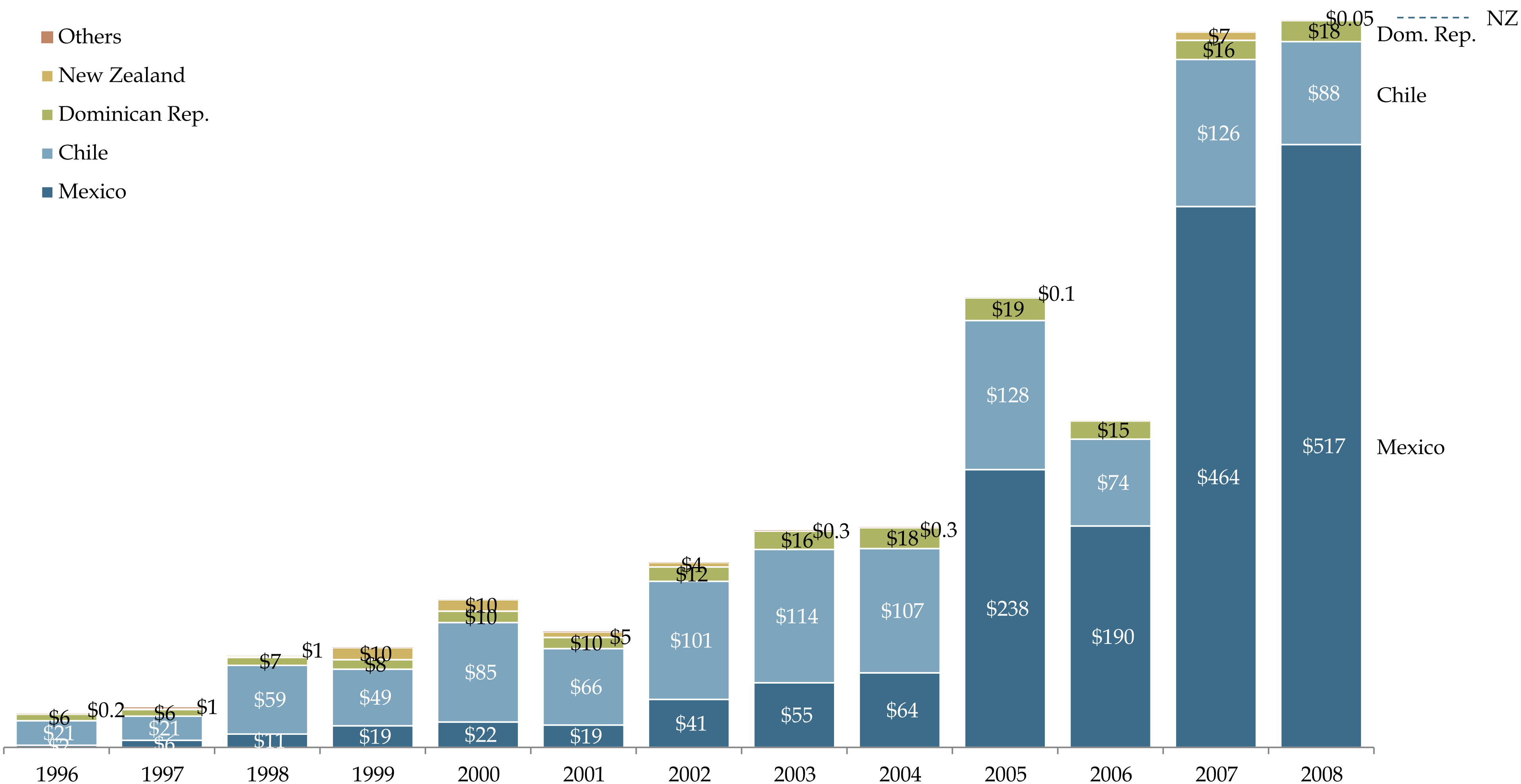
UNITED STATES IMPORT VALUE IN US$

New Zealand has been the forth largest supplier of avocados to the United States over the past decade, however volumes have been erratic

United States avocado FOB import value
(US$m; 1996-2009)



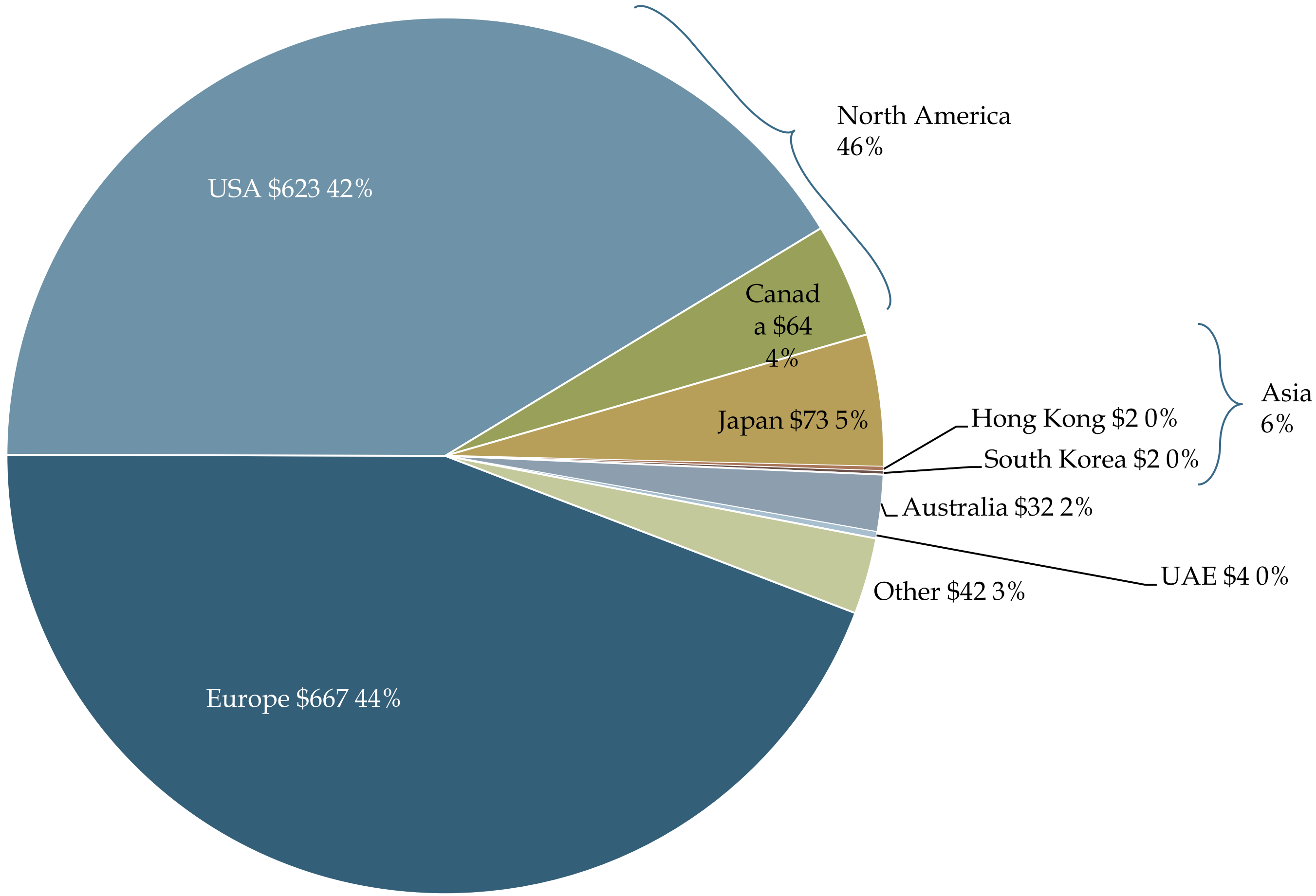
Note: other displayed but not labeled for legibility; Source: UN Comtrade database (custom job); Coriolis analysis

TOTAL WORLD IMPORT MARKET

Turning to the total world import market, we find North America and Europe are the key global markets for avocados

Total global avocado import FOB value by country/region
(US$m

New Zealand is weak in the two largest markets representing 90% of global imports; what is required to improve performance?

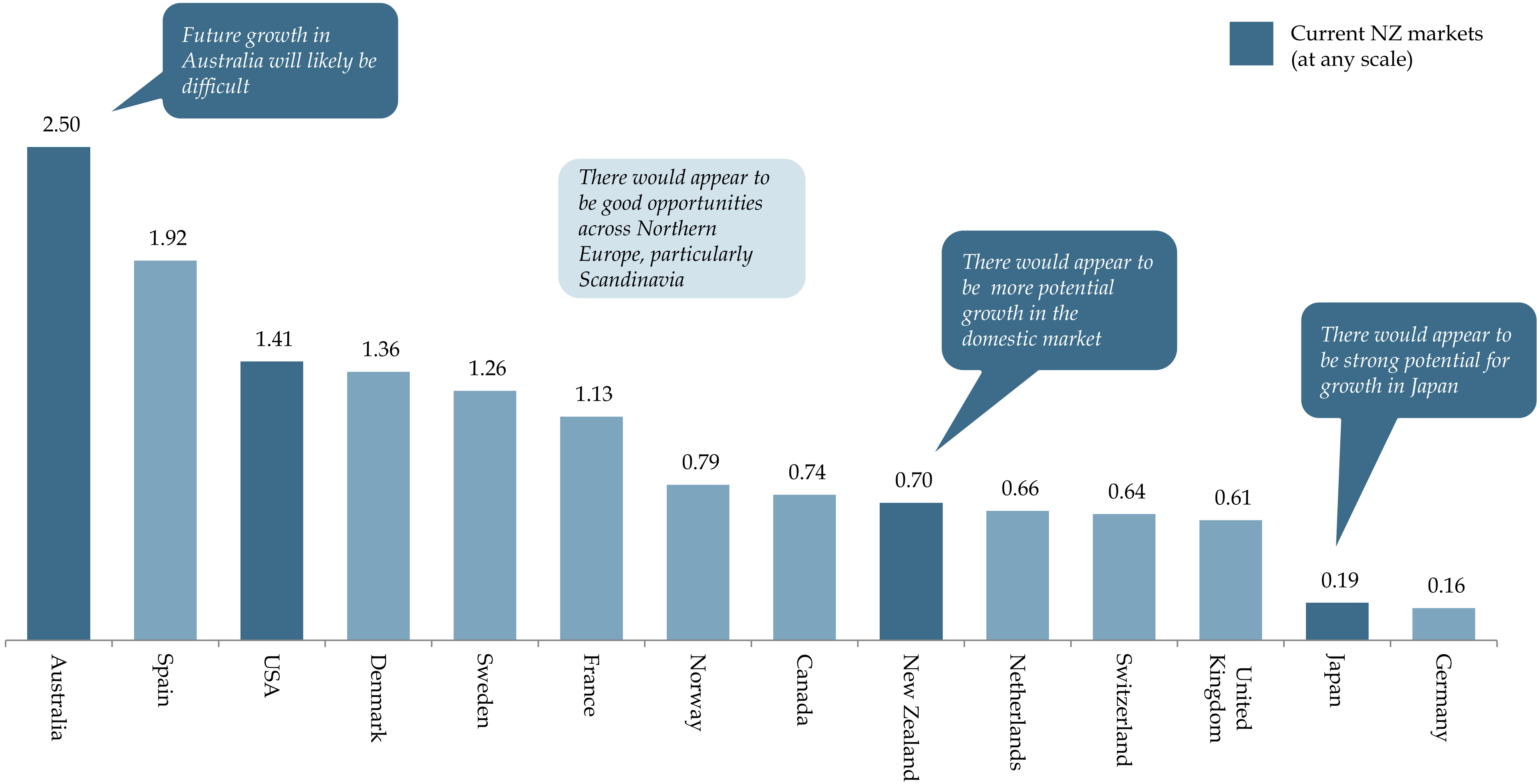


Note: Europe will include inter-EU trade (e.g. Spain to France); Source: UN Comtrade database (custom job); Coriolis analysis

CONSUMPTION PER CAPITA: SELECT COUNTRIES

Looking a consumption per capita highlights both opportunities (Scandinavia, Japan and NZ domestic) and challenges (Australia)

Avocado consumption per capita: NZ/AU vs. select peers
(kg/person; 2008)

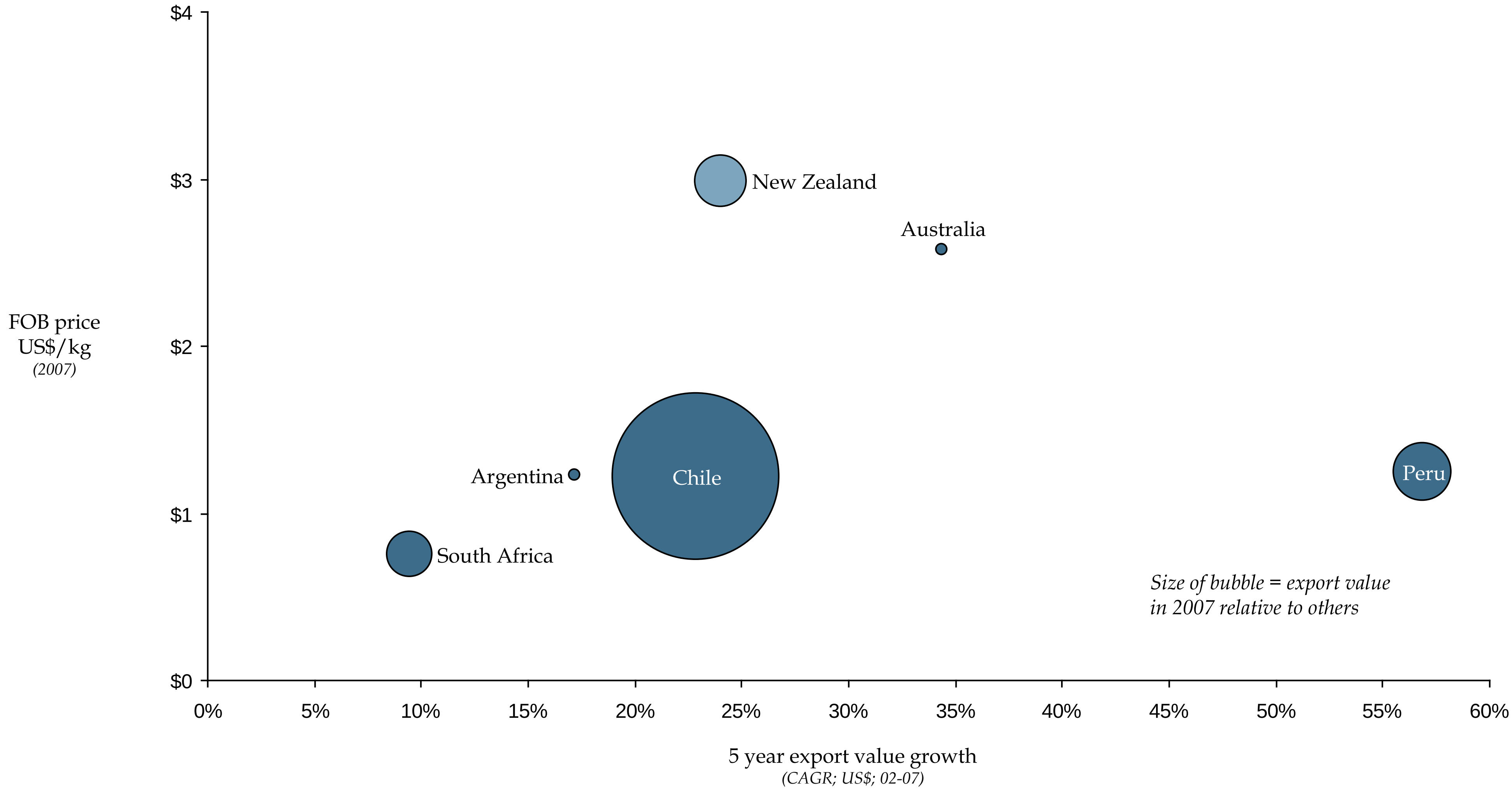


Note: data is apparent consumption ((production+imports-exports)/population) [aka disappearance]; Source: FAO database (custom job); UN Comtrade (custom job); CIA World Fact Book; Coriolis analysis

SOUTHERN HEMISPHERE EXPORT GROWTH MATRIX

New Zealand achieves a price premium for its avocados relative to other Southern hemisphere competitors

Export growth matrix: NZ vs. other key Southern hemisphere countries
(US$; various; 2002-2007)

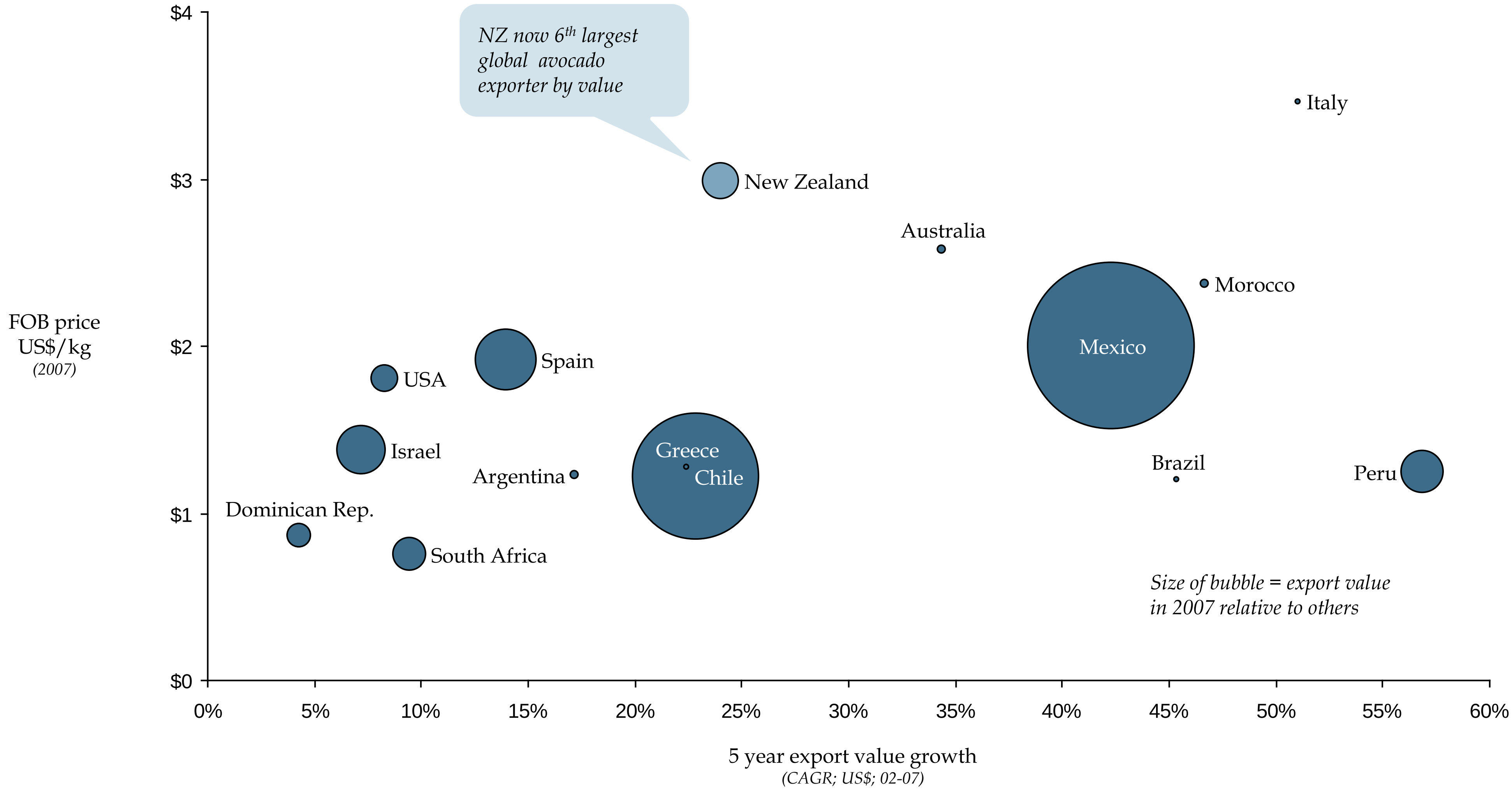


Source: UN Comtrade database (custom job); Coriolis analysis

TOP 15 COUNTRIES EXPORT GROWTH MATRIX

Bringing in key Northern hemisphere countries as well confirms the current price premiums New Zealand receives (it is unclear whether these are warranted or a function of Australian protectionism)

Export growth matrix: NZ vs. top 15 global avocado exporters
(US$; various; 2002-2007)

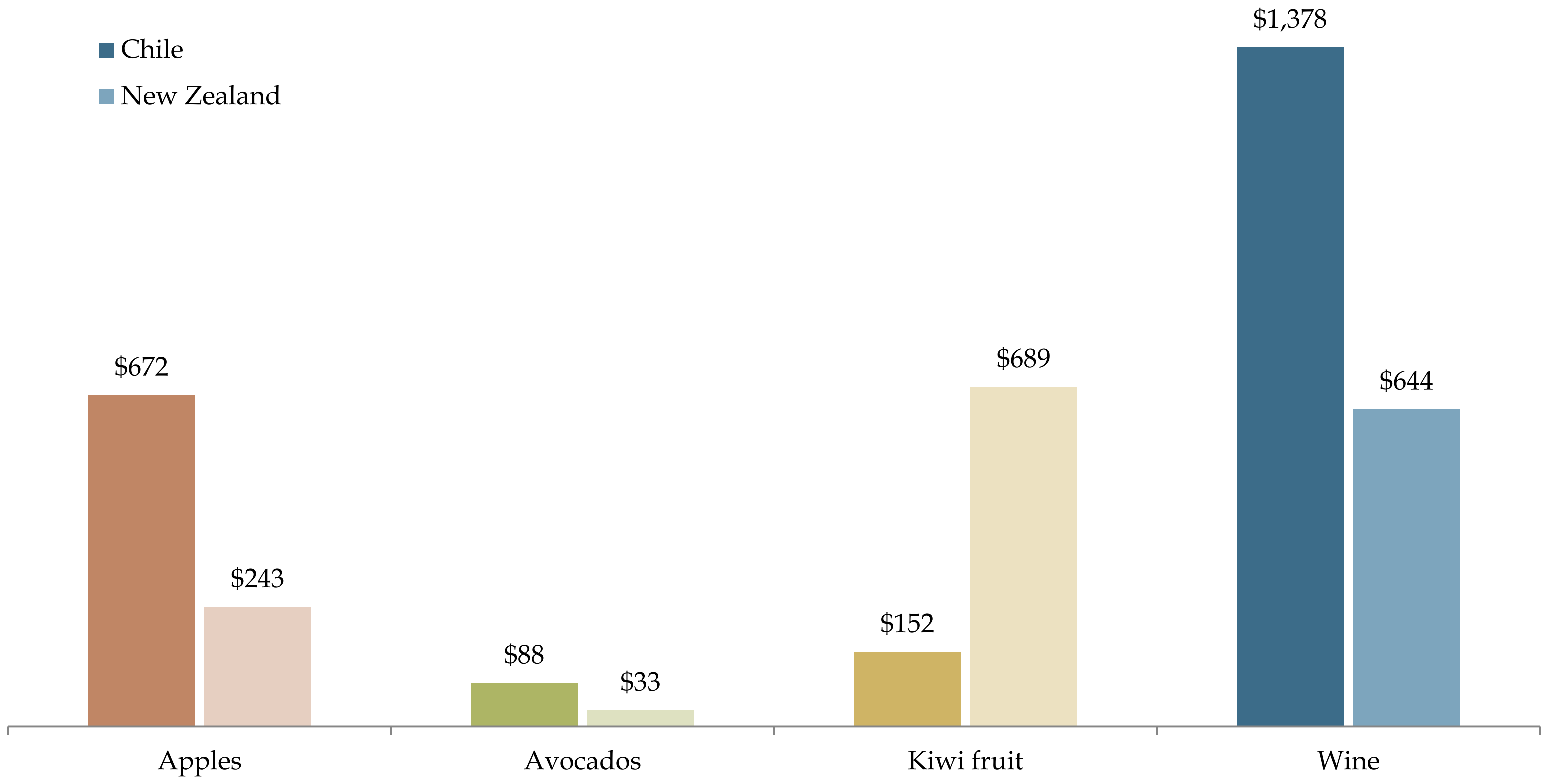


Source: UN Comtrade database (custom job); Coriolis analysis

EXPORT VALUE - NZ VS. CHILE

A quick benchmarking of NZ with Chile across a range of horticultural exports suggests there is more potential for growth, however the industry will need to evolve more like kiwifruit than apples

Benchmarking total export value by select products: Chile vs. New Zealand
(US$m; 2008)



NZ exports $ as a % of Chile	*36%*	*38%*	*454%*	*47%*

Source: UN Comtrade database (custom job); Coriolis analysis

DOCUMENT STRUCTURE

INDUSTRY STRUCTURE OVERVIEW

While there are a large number of growers, the supply chain narrows into 20 export packhouses and only 12 registered exporters

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PACKERS - KEY FIRMS

A handful of key firms pack New Zealand's avocados

Key firms involved in avocado packing
(various; 2009/2010)

In progress

Firm/org	Avocado vol/ export share	Parent Firm(s)	Ownership	Total firm turnover	Location(s) packing avo	Fruit packed	Notes/comments
Primor apata	760k trays exp 34% exports	apata	Cooperative (260+ shareholders)	$43.4m (09)	BOP Northland	Kiwifruit Avocados	JV with Primor
	22% total mkt	Trevelyan's Pack and Cool Ltd.	Private - Trevelyan family	~$20m	BOP	Kiwifruit Avocados	Avos sold via Primor/Apata
		Primor	John Carroll Edward Long; others	n/a	-	Range	Sales & marketing org; imp/exp Based in Auckland
AvoFresh	Seeka ? HP 100k	SEEKA Kiwifruit Industries Limited HukaPak	NZX (SEK) (former coop)	$108m (09) (x HP)	BOP	Kiwifruit Avocados	Launched AvoFresh brand Built avocado oil extraction plant Dec 09 acquired HukaPak (K/A) HukaPak was 100k tray avo Also Peninsula & KiwiProduce
BRAVO Avocado Company	???	Satara	Cooperative	$58m (09)	BOP	Kiwifruit Avocados	JV with Aongatete formed 06 Works with Team Avocado in NZ Exports with Intermax & Freshco
Team avocado	71k trays exp (aero only)	aerocool	Public (grower-owned) (John Anderson 43%) (Birley family 28%)	$21.6m (09)	BOP	Kiwifruit Avocados	70 avo orchards supplying Recently installed new invision system and waterblaster
		KauriPak New Zealand Kiwifruit Limited	Moore family 100%	n/a (small)	BOP	Kiwifruit Avocados	25 years in avocado industry
		GMF Golden Mile Fruitpackers Ltd	Jeeves family 50%+ Others	n/a (small)	Northland	Avocados	Recently installed new washer
		Far North Packers Limited	Clark family 100% (James & Gillian)	n/a (small)	Northland	Avocados	21 years in avocado industry
		colespackhouse	Coles family	n/a	Auckland	Avocados	

Source: various company websites; various company annual reports; published articles; Coriolis analysis

PACKERS – SECONDARY/TERTIARY FIRMS

There is also a group of smaller, secondary firms packing avocados

Secondary/tertiary firms involved in avocado packing
(various; 2009/2010)

In progress

Firm/org	Avocado volume & export share	Parent Firm(s)	Ownership	Total firm turnover	Location(s) packing avocados	Fruit packed	Notes/comments
Secondary							
DMS		-	Paul Jones ~25% Robert Greenlees ~25% *Others*	$25m	BOP	Kiwifruit Avocados	Owns 25% Birchwood DMS Progrower owned by growers and DMS Group (Jones/Greenlees)
Birchwood	Tot 77k trays 14k TE export	-	DMS 25% *Others*	$5m	BOP	Kiwifruit Avocados	Small kiwifruit packer
Deltapac		Deltapac	Gregg family 100%	n/a	Gisborne	Citrus Avocados Melons Squash Kiwifruit	Primarily Gisborne citrus
Kerifresh FINEST NEW ZEALAND PRODUCE		Turners & Growers	NZX listed GPG 65% Noboa 12% *Others*	$590m (09)	Northland	Apples Citrus Avocados *others*	Acquired ENZA in 2000 Acquired Kerifresh in 2007 Formed Delicia in 2007
Tertiary							
Natural Touch		Natural Touch	Wells family 90%	n/a	Northland		*Listed on NZAGA*
R&S Bailey		-	?	n/a	?		*Listed on NZAGA*
Tandara		-	?	n/a	BOP		*Listed on NZAGA*

Source: various company websites; various company annual reports; published articles; Coriolis analysis

EXPORTERS - KEY FIRMS

A related, but somewhat different group controls exports…

Key firms involved in avocado packing
(various; 2009/2010)

In progress

Firm/org	Avocado export share	Ownership	Total firm turnover	Fruit Exported	Domestic/ Imported	Key brands	Notes/comments
Primor		John Carroll Edward Long; others	n/a	Avocados Kiwifruit (AU) Blackcurrants	Avocados Citrus Grapes Vegetables Others	?	Sales & marketing org; imp/exp Based in Auckland
Turners & Growers delica GLOBAL		NZX listed GPG 65% Noboa 12%	$590m (09)	Apples/pears Citrus Kiwifruit (AU) Avocados Blueberries Others	Bananas Tomatoes Vegetables Many others	ENZA Jazz / Envy Kerifresh Bonita (NZ) Sunfirst *Others*	Acquired ENZA in 2000 Acquired/formed Delicia in 2008 Owned 12% by Noboa/Bonita www.turnersandgrowers.com www.delica.co.nz/
Freshco		John Mangan Greig Taylor	n/a	Apples/pears Avocados Blueberries Kiwifruit (AU) Others			Grower pipfruit JV Freshco Nelson and Freshco Hawkes Bay
freshmax HOLDINGS LIMITED		Wolseley PE (AU) David Smith Others		Apples Kiwifruit (AU) Citrus Vegetables Others			Originally domestic wholesale in NZ AU PE bought into business in 2007 Acquired Holman Fresh (AU) sales/mar Acquired Panda Ranch (AU) stonefruit
SEEKA		*See previous page*					
Team avocado		*See previous page*					

Source: various company websites; various company annual reports; published articles; Coriolis analysis

EXPORTERS - KEY FIRMS

… continued

Key firms involved in avocado packing
(various; 2009/2010)

In progress

Firm/org	Avocado export share	Ownership	Total firm turnover	Fruit Exported	Domestic/ Imported	Key brands	Notes/comments
fresh direct / JP Exports Ltd		Jeffery & Peter Turner (ex T&G)	n/a	Avocados Kiwifruit Berries Stonefruit *Others*	Avocados Greens Summerfruit Vegetables *Others*	Purefresh Org. Mr Jacks Hao Hao Go Fresh	Split of from FreshDirect (domestic supply) in 2006; same shareholding www.freshdirect.co.nz www.jpexports.co.nz
Chevalier		Ranji Chhita	n/a	Apples/pears Stonefruit Berries *Others*	Apples/pears Berries Vegetables *Others*	?	Started as greengrocer in Pt. Chevalier
Carter & Spencer group		C&S AU 64% Allan Macdonald	NZ $6.9m AU n/a	Australian produce	Range	C-lect Early Bird *Others*	NZ imp/exp arm of AU wholesaler 64% owned by C&S Australia (major AU Wholesaler)
NZAML / zavo NEW ZEALAND AVOCADOS		Cooperative (numerous growers)	n/a	Avocados	Avocados	Zavo	Formed 2008 as grower coop Export to CalAvo (US) & Costa (AU)
mg marketing		Cooperative (numerous growers)	NZ$297m (09)	Wide range	Wide range wholesaler	Dole (jv) various	Owns LaManna (Australia)

Source: various company websites; various company annual reports; published articles; Coriolis analysis

DOCUMENT STRUCTURE

KEY QUESTIONS

We propose the following preliminary key questions for the New Zealand avocado industry

1. New Zealand yields per hectare are currently significantly lower than key competitors. How quickly can this be fixed?

2. New Zealand's current on/off year swings in production are massive compared to competitors leading to huge swings in industry turnover and capacity/capital utilisation. Can this be fixed through better farm management? Why do other countries have much smoother year-on-year production?

3. Avocados are typically being packed in kiwifruit pack houses as they mature at a different point in the year and, hence, can use the same facility.
   a) Will the industry likely end up controlled by the key kiwifruit packers?
   b) Chilean avocado packers pack a much wider range of fruit (due to climate/environment); does this make their fixed costs lower?

4. Following from (3), if the key challenge for the industry going forward is selling to the rest of the world (other than Australia), isn't the most sensible solution (politics aside) to leverage the existing Zespri global sales and marketing infrastructure?
   - Alternatively, it can easily be argued that the existence of Zespri is retarding the growth of the NZ avocado industry (as Zespri eliminated the presence of a range of global kiwifruit exporters who could move avocados through their existing sales and marketing structure)

5. Are the high returns currently achieved in Australia purely an artifact of Australian protectionism, rather than the reward for superior New Zealand quality? If so, (1) this will disappear if/when other countries gain access to Australia and (2) can New Zealand compete outside Australia? [Alternatively, can we use Australia as a nursery to get to scale?]

6. The typical model for successful New Zealand fruit exports (particularly kiwifruit and apples) is (1) achieving higher yields per hectare than competitors, (2) superior quality, (3) NZ-developed IP controlled varieties and (4) efficient post-harvest operations. It arguable whether the NZ avocado industry is currently delivering on any of these.