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The Impact of the Development of the Chilean
Kiwifruit Industry on New Zealand Kiwifruit

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**THE IMPACT OF THE DEVELOPMENT
OF THE CHILEAN KIWIFRUIT INDUSTRY
ON NEW ZEALAND KIWIFRUIT GROWERS**

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TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

- 1.1 Background
- 1.2 The Growth Of The Chilean Industry 1988-1994.
- 1.3 The Impact Of Chile On New Zealand
- 1.4 Conclusion

2.0 INTRODUCTION

3.0 KEY STATISTICS

- 3.1 Global Plantings 1988/1994
- 3.2 Global Production 1988/1994
- 3.3 Chilean Production and Exports 1998/94
- 3.4 New Zealand Production and Exports 1988/1994

4.0 COMPETITIVE ANALYSIS CHILE vs NEW ZEALAND

- 4.1 Analysis Of New Zealand and Chilean Grower Returns 1994/95.
- 4.2 Chilean Returns 1994/95
- 4.3 New Zealand Returns 1994/95
- 4.4 Projected Chilean Returns 1994/95
- 4.5 Political Situation In Chile
- 4.6 General Information
- 4.7 The Economy
- 4.8 Employment
- 4.9 Financial Legislation

5.0 CHILEAN KIWIFRUIT INDUSTRY

- 5.1 Background
- 5.2 Exporters
- 5.3 Market allocation 1992-1994
- 5.4 Market Returns.
- 5.5 Trends 1989 to 1995.

6.0 SWORT Analysis Chile and New Zealand.

LIST OF TABLES

- Table 1. Global Plantings 1988-1994
- Table 2. Global Production 1988-1994
- Table 3. Chilean Production & Exports 1998/94
- Table 4. New Zealand Production & Exports 1988/94
- Table 5. Average Chilean production per hectare.
- Table 6. Chilean Fruit Exports September 94 - June 95
- Table 7. Top 10 Fruit Exporters by Volume 1994.
- Table 8. Top 10 Kiwifruit Exporters by Volume 1994.
- Table 9. Market Allocation 1992-1994.
- Table 10. Kiwifruit price comparisons in Japan Market.

1.0 EXECUTIVE SUMMARY

1.1 BACKGROUND

In my role as a Director of the New Zealand Kiwifruit Marketing Board I have visited Chile on three occasions, March 1989, September 1993 and March 1994. The purpose of these visits was to obtain knowledge of the Chilean kiwifruit industry in order to assess it's competitive position relative to the International Kiwifruit market.

Since 1990 I have also been involved in similar projects in Italy and to a lesser extent in Japan.

During the 1993 visit I attended the annual International Kiwifruit Organisation (I.K.O.) conference in Santiago, the Chilean capital.

I have also attended two other I.K.O. meetings, Venice Italy September 1991 and Rotorua N.Z. 1994. I also visited Japan in October 1995.

It is from information obtained from these visits and conferences that I have developed this report.

1.2 THE GROWTH OF THE CHILEAN INDUSTRY 1988 - 1994

Since 1988 Chile has emerged as New Zealand's major competitor in the International Kiwifruit market.

This has resulted from a rapid increase in Chilean kiwifruit production an increase of 900% from 9,200 tonnes in 1988 to 92,000 tonnes in 1995.

Chile is now well established in all of the major Northern hemisphere markets Europe, North America, Japan and is currently expanding into Northern and Southern Asian markets, as well as the adjoining South American markets.

Chile uses a multi-exporter system with little or no co-ordination between exporters in terms of quality, promotion or market development.

As a result, price competition is created between Chilean exporters and Kiwifruit prices overall drop with the lower Chilean prices used to lever down New Zealand prices. This competition has grown with the increasing volumes of Chilean product.

1.3 THE IMPACT OF CHILE ON NEW ZEALAND

Chile is New Zealand's only major Southern Hemisphere competitor and therefore provides direct in market competition during our selling season from April to December.

New Zealand no longer enjoys an exclusive market window from June to late October.

Before the entry of Chile into the market, New Zealand's only direct kiwifruit competition was from Northern Hemisphere producers (Italy, France, Japan and U.S.A) at the start of the selling season - April/May - and the end - November/December.

Chile gained entry in 1991 to the Japanese market, which is by far New Zealand's most profitable. This has resulted in New Zealand losing market share (3 million trays) together with reducing prices.

In 1995 New Zealand kiwifruit was sold at significant premiums over the Chilean product, New Zealand fruit at wholesale averaged 269 yen per kg compared with 90 yen for Chilean product.

It is quite difficult to protect any market against this extreme price competition.

Between 1988 and 1994 New Zealand kiwifruit growers have faced significant changes:

- * Global market share has dropped from 48% to 28%.
- * Grower returns have dropped from \$6.46 per tray to \$4.66 per tray.
- * Over this period the volumes of exports have ranged from 184,700 tonnes in 1988 to 255,900 tonnes in 1990, but then dropped to 183,600 tonnes in 1994.
- * The planted area has dropped from 15,896 hectares to 10,161 hectares.
- * The number of growers has reduced from 4154 to 2298 .
- * There has been a significant drop in kiwifruit orchard property values.
- * There has been a significant reduction in the cost structure of the Industry at all levels - orchard operating, post harvest, and market related costs.
- * The productive capacity of New Zealand orchards has been in excess of profitable marketing opportunities. The Industry has adopted a crop management policy in order to match exports with market capacity.

1.4 CONCLUSION

The International fruit market, due to massive increases in production, has become very competitive over the last seven years.

Chile, in my opinion has been the single most important factor which has impacted on the profitability of the New Zealand kiwifruit Industry.

New Zealand enjoys a number of **significant competitive advantages over Chile**, the main one of which is our single desk structure with a strong market focus.

This makes it possible to co-ordinate the production and marketing activities at all stages along the chain.

In my opinion New Zealand can effectively counter Chilean competition (this has already been demonstrated in Europe).

This can be achieved by the maintenance and enhancement of our existing Industry structure and a market focus which, clearly differentiates New Zealand as the markets preferred supplier of quality Kiwifruit.

The continuing development of successful strategy to counter the further expansion of Chile into established New Zealand markets (Japan in particular) and the corresponding erosion of profitability is critical to the future of the New Zealand Industry.

Chilean expansion into the Japanese market has been driven by Chilean desire to obtain a share of the highest returning Kiwifruit market Internationally and facilitated by Japanese importers offering firm CIF prices.

Increasing Chilean volume into Japan (see Appendix 7) has been at the expense of price (see Table 10 and Appendix 8) To date Chilean Exporters and Growers have been protected from the rapid drop in the wholesale value of their fruit by the guaranteed prices offered by Importers.

Japanese Importers suffered some losses in the 1994 season from the sale of Chilean fruit but in 1995 these losses (conservatively estimated at in excess of \$US5.7 million) were significant.

As a result of the 1995 season I do not believe that the current Chilean return out of Japan is sustainable.

This would in my opinion have a significant impact on the Chilean Industry as Japan has offered them the best opportunity to increase the volume of trays sold at prices significantly higher than their main markets of Europe and North America.

2.0 INTRODUCTION

In my opinion it is very important for New Zealand to have a clear understanding of the structure of the Chilean Industry.

The following areas need to be considered and are covered in this report:

- * The Chilean fruit industry in general.
- * An understanding of the Chilean political situation.
- * The economic environment.
- * The Chilean Kiwifruit Industry in detail.
- * Accurate information covering production costs.
- * Grower returns and profitability.
- * An assessment of the market returns from various markets and are their sustainability.

In my experience the most successful way of obtaining this information is by visiting Chile, and meeting with growers, postharvest operators and exporters in order to gain a cross section of data and opinion. As a result of these visits the NZKMB now has a very good level of information covering the Chilean Kiwifruit Industry.

The process I have followed in preparing this report is :

- * Review the statistical information available.
- * Analyse data obtained from the Chilean visits.
- * Establish the factors which are of importance to New Zealand.
- * Identify the trends which have developed since 1988.
- * Make comparisons with New Zealand data.
- * Carry out a SWORT analysis - Chile and New Zealand

3.0 KEY STATISTICS

3.1 GLOBAL PLANTINGS 1988/1994

Between 1988 and 1994 global plantings reduced slightly from 64,500 hectares to 63,200 hectares.

In the Northern Hemisphere plantings increased from 35,800 hectares to 40,900 hectares mainly due to a 3,800 hectare increase in Italy.

In the Southern Hemisphere the area reduced from 28,700 hectares to 22,300 hectares mainly due to a reduction of 5,700 hectares in New Zealand.

Full details are provided on table 1.

TABLE 1 - GLOBAL PLANTINGS 1988 - 1994
(in thousand of hectares)

	1988	1989	1990	1991	1992	1993	1994
NORTHERN HEMISPHERE							
EUROPE							
ITALY	15.9	18.1	19.8	19.1	19.2	19.5	19.7
FRANCE	4.6	4.6	4.6	4.6	4.6	4.6	4.6
GREECE	3.1	3.6	3.8	3.8	3.8	4.0	4.0
SPAIN	0.7	0.9	0.9	0.9	0.9	0.9	0.9
PORTUGAL	0.6	0.7	0.9	1.0	1.1	1.1	1.1
EU TOTAL	25.0	27.8	29.9	29.4	29.6	30.1	30.3
USA	3.7	3.0	2.9	2.8	2.6	2.6	2.6
JAPAN	4.5	4.3	4.1	3.9	3.8	3.8	3.7
OTHERS	2.6	3.7	4.3	4.3	4.3	4.3	4.3
NH TOTAL	35.8	38.8	41.2	40.4	40.3	40.8	40.9
SOUTHERN HEMISPHERE							
N Z	15.9	15.9	15.7	15.0	14.6	12.3	10.2
CHILE	10.9	11.8	12.3	12.6	11.5	10.0	10.0
AUSTRALIA	1.1	1.0	1.0	1.0	1.0	1.0	1.0
OTHERS	0.8	0.9	1.2	1.1	1.1	1.1	1.1
SH TOTAL	28.7	29.6	30.2	29.6	28.2	24.4	22.3
GLOBAL TOT	64.5	68.4	71.4	70.0	68.5	65.2	63.2

Sources: NZKMB, IKO, CIK-Italy, BIK-France, ANPKC-Chile, AKGA-Australia, Nichienren-Japan.

3.2 GLOBAL PRODUCTION 1988/1994

Between 1988 and 1994 global production in tonnes increased from 455,900 to 780,400.

Northern Hemisphere production increased from 220,600 to 473,400.

This increase was mainly the result of increased production from maturing vines in all producing countries and additional plantings.

Southern Hemisphere production increased from 235,200 tonnes to 307,000 tonnes. New Zealand production stayed static at around 220,000 tonnes while Chile increased from 9200 tonnes to 83,400 tonnes.

Global production peaked in 1992 at 883,100 tonnes this coincided with "bumper crops" for all types of fruit resulting in over supply and price collapse.

In 1992 the majority of the world's fruit producers traded at a loss.

Full details are provided on table 2.

TABLE 2 - GLOBAL PRODUCTION 1988 - 1994
(in thousand of tonnes)

	1988	1989	1990	1991	1992	1993	1994
NORTHERN HEMISPHERE							
EUROPE							
ITALY	112.5	210.0	250.0	235.0	330.0	270.0	250.0
FRANCE	27.0	36.0	45.0	45.0	60.0	58.0	60.0
GREECE	8.0	11.2	25.2	29.7	46.68	39.4	40.0
SPAIN	1.0	1.7	2.5	3.2	3.3	5.6	5.5
PORTUGAL	2.0	2.7	2.5	5.0	10.0	9.0	10.0
EU TOTAL	150.5	261.6	325.2	317.9	449.9	382.0	365.5
USA							
USA	26.7	31.7	28.2	22.8	40.8	37.4	38.8
JAPAN	42.5	38.5	54.7	31.0	45.7	53.8	54.1
KOREA	1.0	2.5	3.5	5.5	7.7	5.4	10.0
OTHERS	0.0	2.0	2.5	3.0	4.0	5.0	5.0
NH TOTAL	220.6	336.6	414.1	380.3	548.0	483.6	473.4
SOUTHERN HEMISPHERE							
N Z							
N Z	220.0	187.9	281.5	234.7	265.0	216.0	217.0
CHILE	9.2	14.4	24.6	46.2	62.7	80.0	83.4
AUSTRALIA	6.1	7.2	4.3	5.4	5.4	4.3	4.3
OTHERS	0.0	0.0	1.4	1.9	2.0	2.1	2.3
SH TOTAL	235.2	209.5	311.8	288.2	335.0	302.4	307.3
GLOBAL TOT	455.9	545.8	726.0	668.5	883.1	786.2	780.4

Sources: NZKMB, IKO, CIK-Italy, BIK-France, ANPKC-Chile, AKGA-Australia, Nichienren-Japan.

3.3 CHILEAN PRODUCTION AND EXPORTS

Table 3. provides details of Chilean production and exports between 1988 and 1994 together with planted area and trays per hectare, calculated on trays produced and not those exported.

The area of Chilean plantings peaked in 1991 at 12,560 hectares and has declined since then. Vines continue to be removed from marginal growing areas due to a combination of unsuitable climate and soils resulting in uneconomic returns from low yields and reducing market returns. Volumes have continued to increase due to the maturing of vines planted in the late 80's and early 90's. Production per hectare is increasing as a result of improved production systems and the removal of low producing orchards.

It is important to note that planted area data is based on Chilean Government statistics and not on the accurate Industry data base maintained by the NZKMB in New Zealand.

TABLE 3 - CHILEAN KIWIFRUIT PRODUCTION & EXPORTS
Tonnes (000's) Trays (millions)

		1988	1989	1990	1991	1992	1993	1994
Production	Tonnes	9.2	14.4	24.6	46.2	62.7	80.0	83.4
	Trays	2.9	4.5	7.7	14.4	19.6	25.0	26.1
Exports	Tonnes	8.3	13.1	22.9	35.4	57.9	75.8	73.6
	Trays	2.6	4.1	7.2	11.1	18.1	23.7	23.0
Domestic /loss	Tonnes	0.8	1.3	1.8	10.8	4.8	4.2	9.8
	Trays	0.3	0.4	0.5	3.4	1.5	1.3	3.1
Plantings (000's Ha)		10.88	11.81	12.26	12.56	15.50	10.04	10.04
Trays/Hectare		263	381	628	1,149	1,703	2,490	2,596

Sources: NZKMB, IKO and ANPKC Chile

3.4 NEW ZEALAND PRODUCTION AND EXPORTS 1988/1994

Table 4. shows the comparable New Zealand data to that of Chile shown in table 3.

The New Zealand data is from the NZKMB data base which is a central Industry data base updated on an annual basis. New Zealand production is now concentrated in the Bay of Plenty with over all production been maintained by higher production from the remaining plantings. Total production peaked in 1990 at 281,500 tonnes off 15,744 hectares which was also close to the peak planted area.

TABLE 4 - NEW ZEALAND KIWIFRUIT PRODUCTION & EXPORTS
Tonnes (000's) Trays (millions)

	1988	1989	1990	1991	1992	1993	1994
Production (tonnes)	220.0	187.9	281.5	234.7	265.0	216.0	217.0
Trays	61.1	52.2	78.2	65.2	73.6	60.0	60.3
Exports (tonnes)	184.7	172.2	255.9	196.9	187.0	177.2	183.6
Trays	51.3	47.8	71.1	54.7	51.9	49.2	51.0
Domestic tonnes /loss	35.3	15.8	25.7	37.8	78.8	38.8	33.4
Trays	9.8	4.4	7.1	10.5	21.7	10.8	9.3
Plantings (000's Ha)	15.86	15.89	15.74	14.98	14.59	12.25	10.16
Trays/Hectare	3,851	3,284	4,967	4,352	5,043	4,896	5,932

Source: NZKMB.

4.0 COMPETITIVE ANALYSIS CHILE AND NEW ZEALAND

4.1 Analysis of New Zealand and Chilean Grower Returns 1994/95.

The purpose of the following exercise is to establish comparable production costs and grower returns in order to assess current profitability for growers in both countries.

This analysis was carried out in March 1995 and uses data current at that time.

In order to use a common benchmark the \$US is used for comparison purposes. The exchange to the NZ \$ at that time was 0.64.

4.2 Chilean Returns 1994/95

Based on the March 1995 ANPKC report (see Appendix 2) and NZKMB visit reports, the following can be established for the 1994/95 Chilean season.

Total production: 83,400 tonnes = 26 million Chilean trays

Grower return : \$0.23/kg (ANPKC) \$0.27 (NZKMB). \$0.27/kg has been used for the purpose of this analysis.

Production costs: \$2,500/hectare adjusted to \$2250 per net canopy hectare based on 90% utilisation.

Production/Ha : Appendix 1. shows a range of net grower returns based on the above costs and production ranging from 9 to 30 tonnes per ha. This gives a range of growing costs of \$0.08/kg to \$0.25/kg and net income of \$180 to \$5850 per Hectare.

Average production per hectare: Based on the orchards visited in 1994 I have calculated the following average level of production in tonnes per hectare.

TABLE 5 - AVERAGE CHILEAN PRODUCTION PER HECTARE

RANGE PRODUCTION	AVERAGE/RANGE	% OF AREA	TONNES
00-10 tonnes/ha	5 tonnes	25% =	1250
10-15 "	12.5 "	55% =	6875
15-20 "	17.5 "	15% =	2625
20-25 "	22.5 "	5% =	1250
	Total	100%	12,000
		=====	

Total planted area: Due to a high level of uncertainty regarding the total planted area in Chile I have come to the following conclusion.

Based on the assumption that the orchards visited in Chile were a representative sample of orchards in 1994/95 and taking the total production of 83,400 tonnes divided by 12 tonnes per hectare I arrive at an effective area of 6,950 hectares.

I have great difficulty in accepting that in 1994 it required 10,000 hectares to produce 83,400 tonnes and while the above contains a certain amount of guess work the answer is a lot more accurate than the official statistics.

4.3 New Zealand Returns 1994/95

These are based on the following:

Cash return: of \$4.80 NZ per tray.

Picking and packing costs: \$1.95 per tray.

Orchard gate return: \$2.85 NZ or \$0.791 per kg = \$0.51 US.

Production costs: \$7,500 per Hectare (\$1.50 NZ per tray).
This equals \$0.27US per kg at a production of 18 tonnes or 5,000 trays per hectare.

Appendix 1.a. provides the net grower return over a range of production levels 9 tonnes hectare to 30 tonnes hectare.

The return ranges from -\$210 to \$10,500 per hectare.

Comparison between Chilean and New Zealand Returns 1994/95.

Based on the assumptions detailed above:

	Chile	New Zealand
Orchard gate return kg	\$0.27	\$0.51
Less growing costs kg	\$0.19	\$0.27
Net grower return kg	\$0.08	\$0.24

Therefore New Zealand growers enjoy a significant return advantage over their Chilean counterparts.

4.4 Projected Chilean Returns 1995/96

Projecting the Chilean situation for the 1995/96 season based on the following:

Production: 10% increase $83.4 \times 1.1 =$ say 92,000 tonnes.

Planted area: 15% reduction $7000 \times .85 =$ 5950 hectares.

Average yield per hectare: $92,000/5950 =$ 15.4 tonnes.

Orchard gate return: 10% reduction = $\$0.27 \times .9 =$ \$0.243

This would provide the following net grower return:

Orchard gate return kg	\$0.245
less growing costs kg	\$0.150
Net grower return kg	\$0.095

4.5 Political Situation In Chile

Recent Chilean political history has been dominated by the right wing Pinochet Government which came to power in a military coup in 1973 ousting Socialist President Salvador Allende.

Free democratic elections were held in 1990 with President Aylwin elected March 1990.

The PDC is the largest and most popular party with approximately 30% support appealing to both the left and right.

There is also a number of other parties - 17 plus - covering the whole political spectrum from extreme right to extreme left.

4.6 GENERAL INFORMATION

- * Rapid urbanisation since 1950's, currently urbanisation at 84%.
- * Population - 1992 13.5 million. Projection for 2000 = 15.2 million.
- * Climate - mostly temperate, but hot desert areas in north and damp cold areas in the south.

4.7 THE ECONOMY

- * The early 70's witnessed "hyper-inflation" the apex of which was in 1973 the figure reached 508% (Reuters 1995). This was due to the policies of President Allende.
- * Throughout the period 1974-1983 the Pinochet government aided by Chicago trained economists created a new "free market, export led" economy.
- * Current economic situation reasonably positive.
- * Inflation target for 1995 = 4%.
- * Exports ahead of last year in terms of both volume and value.
- * The Chilean peso is strengthening against the USD.
- * Current account deficit may go into surplus this year.
- * According to Citibank (May 1995) the economic outlook for this year is positive.
- * Appendix 3 shows Chilean inflation rates 1986-1984. Revaluation of debt - borrowings in Chile are indexed to the rate of inflation for example \$100,000 in 1986 has now increased to \$319,097.
- * Appendix 4 shows New Zealand inflation rates over the same period.

4.8 EMPLOYMENT

- * In 1992 the labour force was 4.91 million, or 37.1% of the population.
- * Unemployment was 4.4% at first quarter 1993.
- * Real wages halved between 1972 and 1975.

- * Between 1975 and 1982 the government inflation adjusted wages
- * In 1982 the government stopped the inflation adjustment of wages which then fell sharply until 1986. After 1986 there was a slight improvement in the situation.
- * Under President Aylwin, real wages have risen rapidly (4.9% in 1991 and 4.5% in 1992).

4.9 FINANCIAL LEGISLATION

- * Chile's financial markets are under going a period of profound restructuring now that the capital markets bill that widens financing options for companies has been approved (Reuters 7-April 1995) .
- * Rules governing export companies - which control the timing of the return of export receipts on shore have been reviewed. Exporters can now keep a larger share of their revenues abroad. (Citbank Emerging markets Bulletin - May 1995)

5.0 CHILEAN KIWIFRUIT INDUSTRY

5.1 Background

The Chilean Kiwifruit Industry started development in the mid 1980's and was stimulated by the success of the New Zealand Industry at that time.

Large scale plantings took place peaking at 12,560 hectares in 1991 (table 3). The effective planted area is now estimated at between 6,000 to 7,000 hectares.

These plantings took place over a wide geographical area ranging from the hot dry environment north of Santiago to the more suitable area of Curico, some 400 km's to the south.

Growing conditions in Chile are very different to those experienced in the main growing areas in New Zealand.

Normal summer temperatures are in excess of 30 degrees with low rainfall and a high dependence on irrigation.

As a result productions levels, fruit size, fruit quality and keeping ability is on average inferior to that of New Zealand.

About 80% of Chilean kiwifruit growers grow more than one crop on large scale properties, typically 150-250 hectares.

The combination of poor returns (which are the result of falling market returns) and uneconomic production levels in the poorer growing areas has driven significant restructuring in Chile since 1992.

Chile is one of the major Southern Hemisphere fruit exporters. The 11 main fruit crops exported from Chile are shown on table 6.

TABLE 6 - Chilean Fruit Exports September 1994-May 1995)

Table grapes	62,070,408
Kiwifruit	16,311,642*
Apples	12,302,686
Plums	7,657,090
Pears	7,898,922
Nectarines	5,351,040
Peaches	4,458,270
Avocados	623,904
Raspberries	1,081,051
Sweet cherries	974,748
Asian pears	957,748

Total	119,687,509
	=====

Source ASOEX, June 1995 * Note the kiwifruit exports do not cover a full season. Figures given are in boxes.

5.2 EXPORTERS

The Chilean kiwifruit industry is dominated by exporters in the following ways:

- * Exporters provide large amounts of seasonal finance to growers who in many cases become suppliers captured by the exporter.
- * By direct purchase and as consideration for bad debts exporters now own approximately 30% of Chilean orchards.
- * Exporters dominated all of the operations post orchard - packing, coolstorage and transport.

As a result of this situation there is a significant level of concern from independent growers about their ability to obtain a "fair deal from exporters". This situation has added to the fragmentation in the Chilean industry.

TABLE 7 - TOP TEN FRUIT EXPORTERS BY VOLUME 1994

TOTAL RANKING	EXPORTER	TOTALS*	KIWIS*

1	Dole Chile	13256	889
2	David de Curto	12614	799
3	Tandem	11311	738
4	Unifrutti	11102	1998
5	UTC	9137	446
6	Frupac	3786	257
7	Copefrut	3661	999
8	Rio Blanco	3162	391
9	Nafsa Exp	2499	372
10	Aconex	2303	317

Source : Eximfruit 1994 * Thousands of boxes.

TABLE 8 - TOP TEN KIWIFRUIT EXPORTERS BY VOLUME 1994 -

TOTAL RANKING	EXPORTER	TOTALS*	KIWIS*
4	Unifrutti	11102	1998
7	Copefrut	3661	999
1	Dole Chile	13256	889
2	David de Curto	12614	799
3	Tandem	11311	738
5	UTC	9317	446
27	Trinidad Trading	517	393
8	Rio Blanco	3162	391
9	Nafsa	2499	372
10	Aconex	2303	317

Source: Eximfruit 1994 * Thousand of Boxes

These top ten exporters exported only 7.342 million boxes which was 28.2% of the crop in 1994.

In total there are 138 kiwifruit exporters of which 36 export in excess of 20,000 trays.

These figures I believe clearly illustrates the fragmented state of the Chilean Industry.

5.3 MARKET ALLOCATION

Due to a number of factors there has been a significant redistribution in the market allocation of Chilean product between 1992 and 1994.

TABLE 8 - MARKET ALLOCATION 1992-1994

EXPORTS	1992		1993		1994*	
	Tonnes	% share	Tonnes	% share	Tonnes	% share
Europe	41,449	71.5%	28,434	37.5%	30,200	36.2%
Nth America	11,185	19.3%	18,301	24.1%	25,900	31.1%
Middle East	335	.6%	899	1.2%	692	.8%
Japan	1,824	3.1%	3,634	4.8%	5,452	6.5%
Rest/Asia	183	.3%	160	.3%	310	.4%
Sth America	2,957	5.1%	13,171	17.4%	10,022	12.0%
Domestic	N/A		11,200	14.8%	10,824	13.0%
Total	57,931	100.0%	75,800	100.0%	83,400	100.0%

Source: IKO (ANPKC- Chile August 1995)

Factors driving change:

Reduction in volumes sent to Europe - 71.5% share 1992 to 36.2 % 1994.

- * Poor returns from Europe 1992.
- * Change in policy from NZ resulting in very aggressive campaign against Chile from 1993 on.
- * Reduced competition in North America from NZ due to anti dumping action from USA against NZ.

Increased volumes to North America 19.3% - 31.1%

- * as per the European situation.

Increased volumes to Japan 3.1% - 6.5%

- * Opening of Japan to Chile 1991. Japan is the highest returning market for kiwifruit.

Increased volumes to South America 5.1% - 12.0%

- * Dumping ground at lowest possible cost for poor quality fruit.
- * Home for some of the reduced volume out of Europe.

5.4 MARKET RETURNS

The reported US\$/FOB return in 1994 was \$0.66 per kg or \$2.11 per 3.2 kg tray. This is equal to \$NZ 3.30 per tray. This average figure varies widely between exporters. For example the average grower payment of \$US0.23/kg was the result of payments ranging from \$US0.10 to \$US0.55/kg.

European and North American markets:

Returns from these markets would be close to average Chilean return. These markets are now well established and should be substantial at close to the current returns in the immediate future.

In the North American market there is real potential for Chile to improve performance due to the lack of New Zealand competition (anti dumping).

But due to extremely tough Chilean vs Chilean competition and perceived poor Chilean quality the Chilean's are "their own worst enemy"

South American markets:

Returns from these markets are poorer as they are lower paying and take a high percentage of Class II product. These markets are very valuable to Chile and are continuing to be developed.

Japan:

This market is Chile's highest paying markets with orchard gate returns in 1995 close to **\$US.62/kg** which is considerably higher than the average of **\$US.25/kg**.

The Chilean business in Japan to date has been done on the basis of firm (guaranteed) CIF prices.

These averaged in 1995 475 yen per tray while the actual average weighted selling price is estimated to average 290 yen per tray.

This has resulted in estimated Japanese importer losses of **\$US5.7 million** for this season.

If Chilean exporters were to receive the actual market return (290 yen) grower orchard gate payments would be a **deficit of \$US.31 /kg**.

TABLE 10 KIWIFRUIT PRICE COMPARISON IN JAPAN MARKET

Wholesale market prices expressed in Japanese yen per Kg.

YEAR	DOMESTIC	CHILE	NEW ZEALAND
1992	261	210	290
1993	235	200	273
1994	219	140	279
1995 est	200	90	269

Source NZKMB Japanese Wholesale market statistics

JAPANESE MARKET 1995 CHILE VS NEW ZEALAND SUMMARY OF KEY FACTS.

Volume 1994 VS 1995

Total Market - 2%

New Zealand - 18%

Chile + 80%

Price 1994 VS 1995

Total Market - 19%

New Zealand - 6%

Chile - 44%

5.5 TRENDS 1989 to 1994

I have observed the following trends in the Chilean Kiwifruit Industry since my first visit in 1989:

- * Reduction in the area of poor low producing orchards.
The majority of the remaining orchards tend to be in the better growing areas south of Santiago.
- * There has been a significant improvement in the quality of fruit seen on the vine.
- * More importance now been placed on quality as opposed to volume.
- * The majority of the remaining growers are not only successful growers of kiwifruit but also of a range of other crops.
- * Successful Chilean growers also tend to be linked to successful exporters who have volume and a range of other fruit products to sell.
- * Chilean exporters have also become significant growers controlling an estimated 30% of orchards.
- * Yields per hectare have increased due to improved management practices. Resulting in an effective reduction in the cost per kilogramme or tray produced.
- * Chilean growers enjoy a production cost advantage over New Zealand growers and this tends to be growing.
- * New Zealand growers enjoy a higher net return than Chilean growers due to higher market returns. This differential is at least been maintained in favour of New Zealand, if not increasing.
- * There has been a marked increase in the cost of labour.
- * There has been a significant increase in the amount of both Government and exporters involvement in promotion.
- * The extent of any industry wide co-operation will be very much governed by the "Latin" (we don't like to co-operate) approach to business.
- * The successful introduction of controlled atmosphere storage has improved the quality of fruit later in the marketing season.
- * Overall the Chilean kiwifruit Industry is now far more competitive, better structured and organised. But it still suffers from the disadvantages of the Multi-exporter system.

6.0 SWORT ANALYSIS CHILE AND NEW ZEALAND

CHILE

STRENGTHS:

- * Cheap growing costs.
- * Strong economy.
- * Anti dumping advantage in North America.
- * Most growers grow a range of crops-spread risk.
- * Can "piggy back" on New Zealand promotional efforts.
- * Developing South American market next door.

WEAKNESSES:

- * Multi exporter system lack of Industry co-operation.
- * Dependence on guaranteed returns from Japan.
- * Seen in market as having poorer quality and uniformity.
- * Poor grower returns.
- * High debt costs crippling for many growers.
- * Moves volumes at expense of price and grower returns.
- * High level of exporter control.
- * Chile is it's own biggest competitor.
- * Tough climatic conditions.
- * High exchange rates.

OPPORTUNITIES:

- * Expansion in Asian markets and other markets.
- * Use of promotion for all Chilean fruit.

THREATS:

- * Increased New Zealand competition.
- * Inability to develop the required in market systems.
- * World economy/recession and increased power of large supermarkets.
- * Increasing labour costs.

NEW ZEALAND

STRENGTHS:

- * *Strong market recognition of a quality product.*
- * *Co-ordinated Industry approach - single desk.*
- * *Has developed or is developing in market structures.*
- * *Good research and development support.*
- * *Well established in most markets.*
- * *Favourable growing climate giving the ability to grow high volumes of good quality fruit.*
- * *Ability to manage volume and price.*
- * *Strong grower control and support.*
- * *Low inflation - strong economy.*
- * *Higher grower returns compared with competitors.*

WEAKNESSES:

- * *Reliance on Japan for a high proportion of revenue.*
- * *High exchange rates.*
- * *Inability to develop new markets fast enough to cope with increasing volumes*
- * *Lack of full access to the USA market - anti dumping.*

OPPORTUNITIES:

- * *Increase sales in existing markets.*
- * *Increase sales in new and developing markets.*
- * *New varieties.*
- * *Further development of in market distribution systems.*

THREATS:

- * *Loss of single desk structure.*
- * *Increased Chilean competition especially in Japan.*
- * *World economy - recession reducing the demand for fruit in general.*
- * *Increased power of large supermarket groups.*

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INTERNATIONAL FRUIT WORLD 2-1995.

NATIONAL KIWIFRUIT ORGANISATIONS

ITALY - **CIK** Consorzio Italiano dell'Actinidia.

FRANCE - **BIK** Bureau National Interprofessional de Kiwi.

USA - **CKC** Californian Kiwifruit Commission.

JAPAN - **NICHIIENREN** Japanese Fruit Growers Co-op Assoc.

CHILE - **ANPKC** Assoc Nacional de Productores de Kiwi.

New Zealand- **NZKMB** New Zealand Kiwifruit Marketing Bd.

INTERNATIONAL KIWIFRUIT ORGANISATION - IKO

IKO is an organisation comprising national representatives
of producers and shippers.

Current members NZKMB, CIK, BIK, CKC and ANPKC.

APPENDIXES:

- Appendix 1. Chilean Returns 1994/95*
- Appendix 1.A. New Zealand Returns 1994/95*
- Appendix 2. A.N.P.K.C. Report 21/03/95.*
- Appendix 3. Inflation Rates - Chile : 1986/1994*
- Appendix 4. Inflation Rates - New Zealand : 1986/1994*
- Appendix 5. Japan Total Fruit Imports: 1988-1995*
- Appendix 6. Kiwifruit Supply - Japan: 1989-1995*
- Appendix 7. Kiwifruit Price Comparisons - Graph*

Appendix 1. Chilean Returns 1994/95

YIELD TRAYS/HA	YIELD KG HECTARE	GROWING COST (US\$)		ORCHARD GATE PAYMENT	NET PAYMENT	
		HECTARE	KG		HECTARE	KG
2,813	9,000	2,250	0.25	0.27	180	0.02
3,125	10,000	2,250	0.23	0.27	450	0.05
3,438	11,000	2,250	0.20	0.27	720	0.07
3,750	12,000	2,250	0.19	0.27	990	0.08
4,063	13,000	2,250	0.17	0.27	1,260	0.10
4,375	14,000	2,250	0.16	0.27	1,530	0.11
4,688	15,000	2,250	0.15	0.27	1,800	0.12
5,000	16,000	2,250	0.14	0.27	2,070	0.13
5,313	17,000	2,250	0.13	0.27	2,340	0.14
5,625	18,000	2,250	0.13	0.27	2,610	0.15
5,938	19,000	2,250	0.12	0.27	2,880	0.15
6,250	20,000	2,250	0.11	0.27	3,150	0.16
6,563	21,000	2,250	0.11	0.27	3,420	0.16
6,875	22,000	2,250	0.10	0.27	3,690	0.17
7,188	23,000	2,250	0.10	0.27	3,960	0.17
7,500	24,000	2,250	0.09	0.27	4,230	0.18
7,813	25,000	2,250	0.09	0.27	4,500	0.18
8,125	26,000	2,250	0.09	0.27	4,770	0.18
8,438	27,000	2,250	0.08	0.27	5,040	0.19
8,750	28,000	2,250	0.08	0.27	5,310	0.19
9,063	29,000	2,250	0.08	0.27	5,580	0.19
9,375	30,000	2,250	0.08	0.27	5,850	0.20

Appendix 1.A. New Zealand Returns 1994/95

YIELD TRAYS/HA	YIELD KG HECTARE	GROWING COST (US\$)		ORCHARD GATE PAYMENT	NET PAYMENT	
		HECTARE	KG		KG	HECTARE
2,500	9,000	4,800	0.53	0.51	-210	-0.02
2,778	10,000	4,800	0.48	0.51	300	0.03
3,056	11,000	4,800	0.44	0.51	810	0.07
3,333	12,000	4,800	0.4	0.51	1,320	0.11
3,611	13,000	4,800	0.37	0.51	1,830	0.14
3,889	14,000	4,800	0.34	0.51	2,340	0.17
4,167	15,000	4,800	0.32	0.51	2,850	0.19
4,444	16,000	4,800	0.3	0.51	3,360	0.21
4,722	17,000	4,800	0.28	0.51	3,870	0.23
5,000	18,000	4,800	0.27	0.51	4,380	0.24
5,278	19,000	4,800	0.25	0.51	4,890	0.26
5,556	20,000	4,800	0.24	0.51	5,400	0.27
5,833	21,000	4,800	0.23	0.51	5,910	0.28
6,111	22,000	4,800	0.22	0.51	6,420	0.29
6,389	23,000	4,800	0.21	0.51	6,930	0.30
6,667	24,000	4,800	0.2	0.51	7,440	0.31
6,944	25,000	4,800	0.19	0.51	7,950	0.32
7,222	26,000	4,800	0.18	0.51	8,460	0.33
7,500	27,000	4,800	0.18	0.51	8,970	0.33
7,778	28,000	4,800	0.17	0.51	9,480	0.34
8,056	29,000	4,800	0.17	0.51	9,990	0.34
8,333	30,000	4,800	0.16	0.51	10,500	0.35

Appendix 2. A.N.P.K.C. Report 21/03/95.

COUNTRY: CHILE

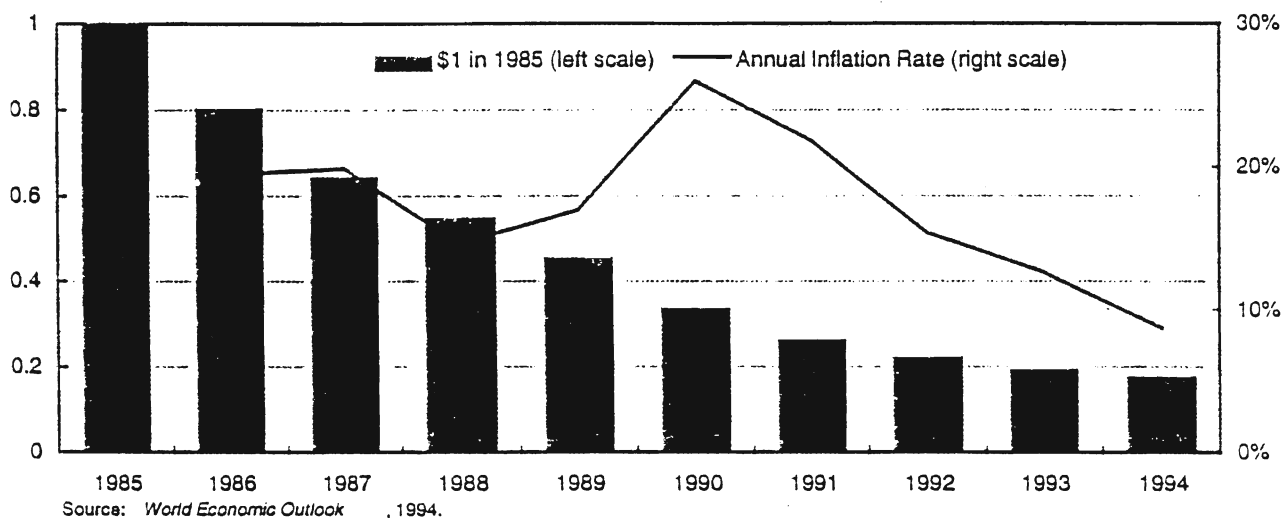
COMMERCIAL PRODUCTION (000t)

CLASS	1993	1994	1995(E)
CLASS I	67,9	75,4	81,2
CLASS II	7,5	8,0	8,8
CLASS III	0,0	0,0	0,0
OTHER	0,0	0,0	0,0
TOTAL	75,4	83,4	90,0

REGION	1993	1994	1995(E)
EC	28,3	29,2	32,1
OTHER EUROPE	0,7	1,0	1,4
FAR EAST	3,7	5,8	6,3
NORTH AMERICA	19,3	25,9	28,4
SOUTH AMERICA/OTHER	23,8	21,5	21,8
TOTAL	75,8	83,4	90,0

FINANCIAL	1994(E)
NET MARKET RETURN	US\$ 55 MILLIONS (US\$/FOB 0.66/KG)
GROWER	US\$ 19,1 MILLIONS (US\$ 0.23 /KG)

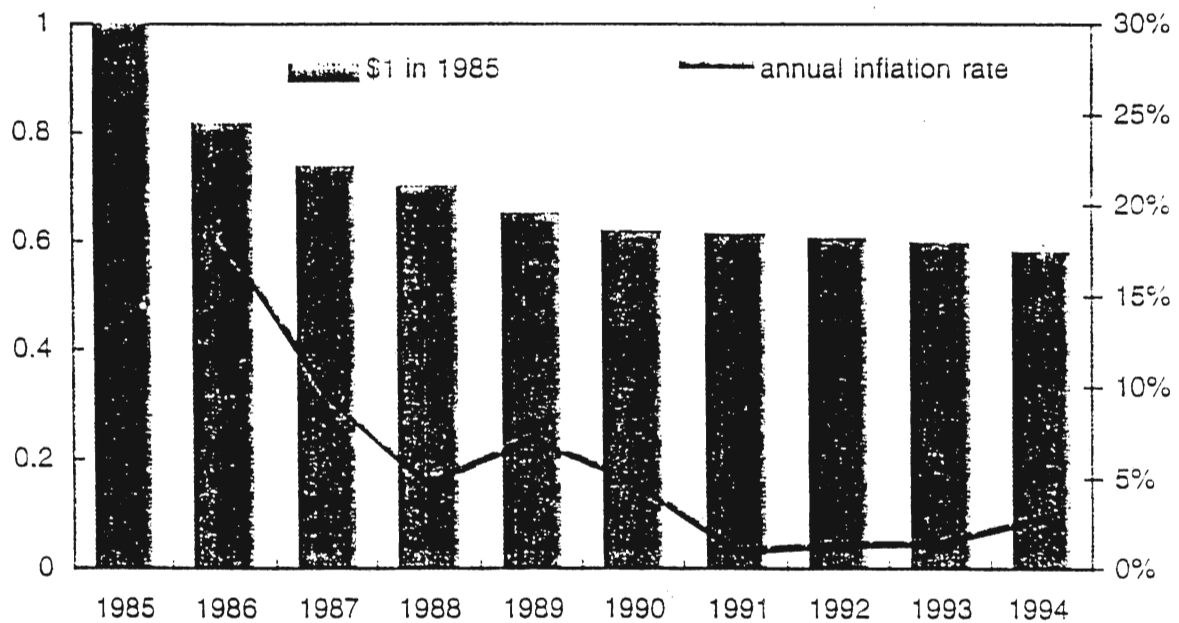
Inflation Rates - Chile: 1986 - 1994



Example of revaluation of debt - e.g. US \$100,000

1986	1987	1988	1989	1990	1991	1992	1993	1994
100,000	119,900	137,525	160,904	202,740	246,937	284,965	321,156	349,097
		100,000	117,000	147,420	179,558	207,209	233,525	253,842
				100,000	121,800	140,557	158,408	172,189

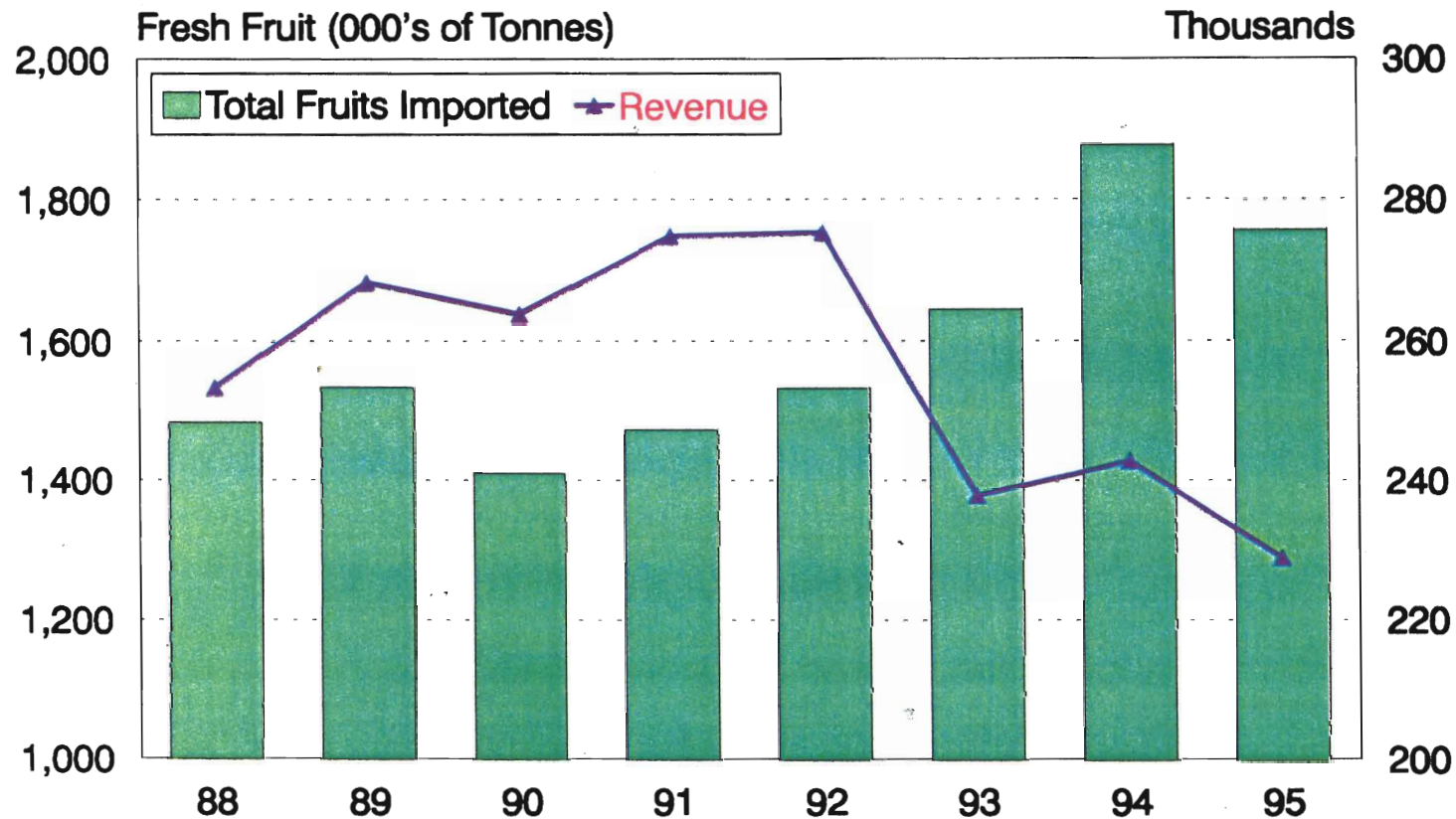
Inflation Rates - New Zealand 1986 - 1994



Source: NZ Department of statistics, 1995

Japan Total Fruit Imports - Volume & Revenue

1988-1995 (Estimate as of July 95)

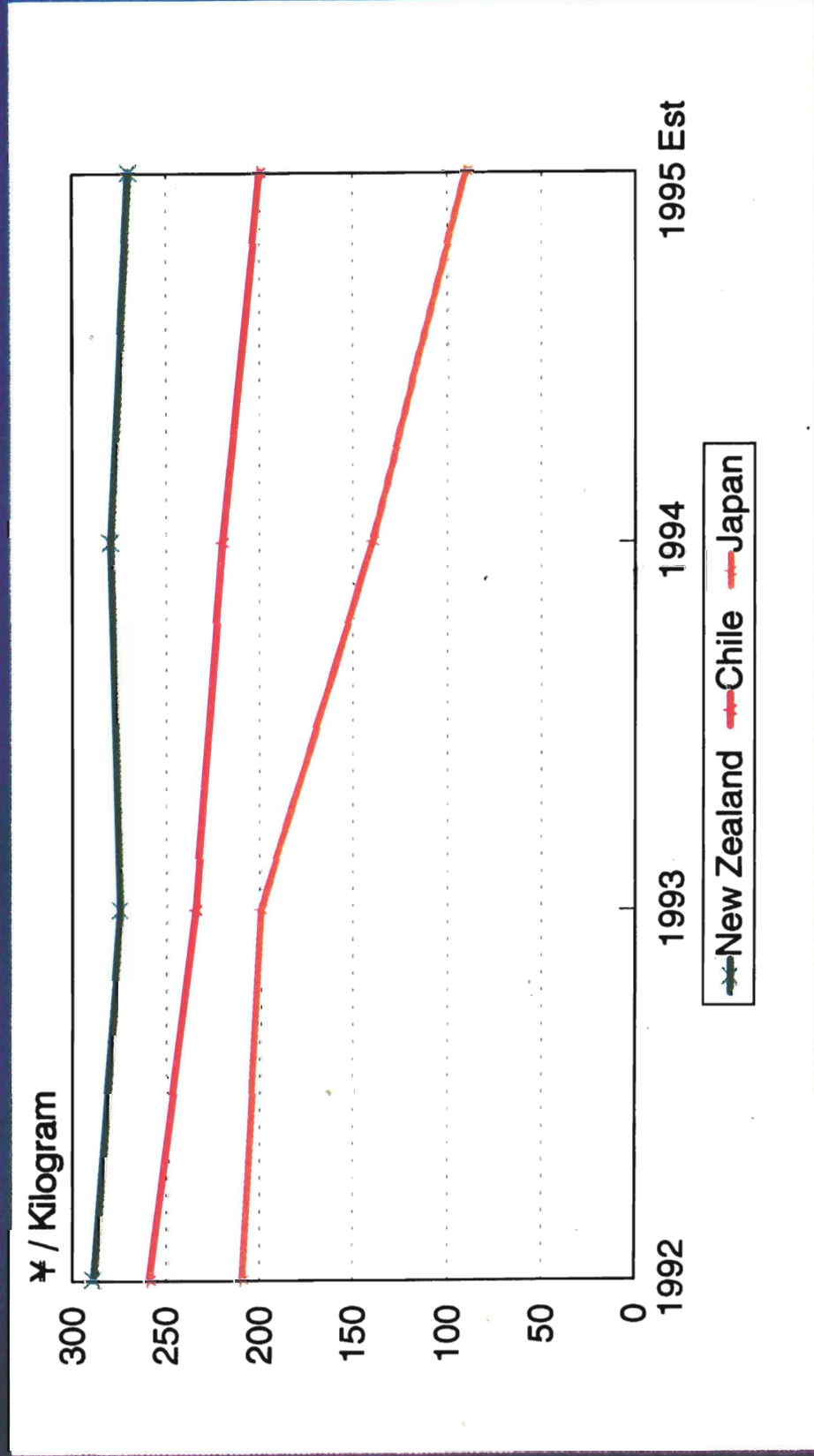


Source : Customs Bureau Ministry of Finance - Japan (Estimated 1995 imports)



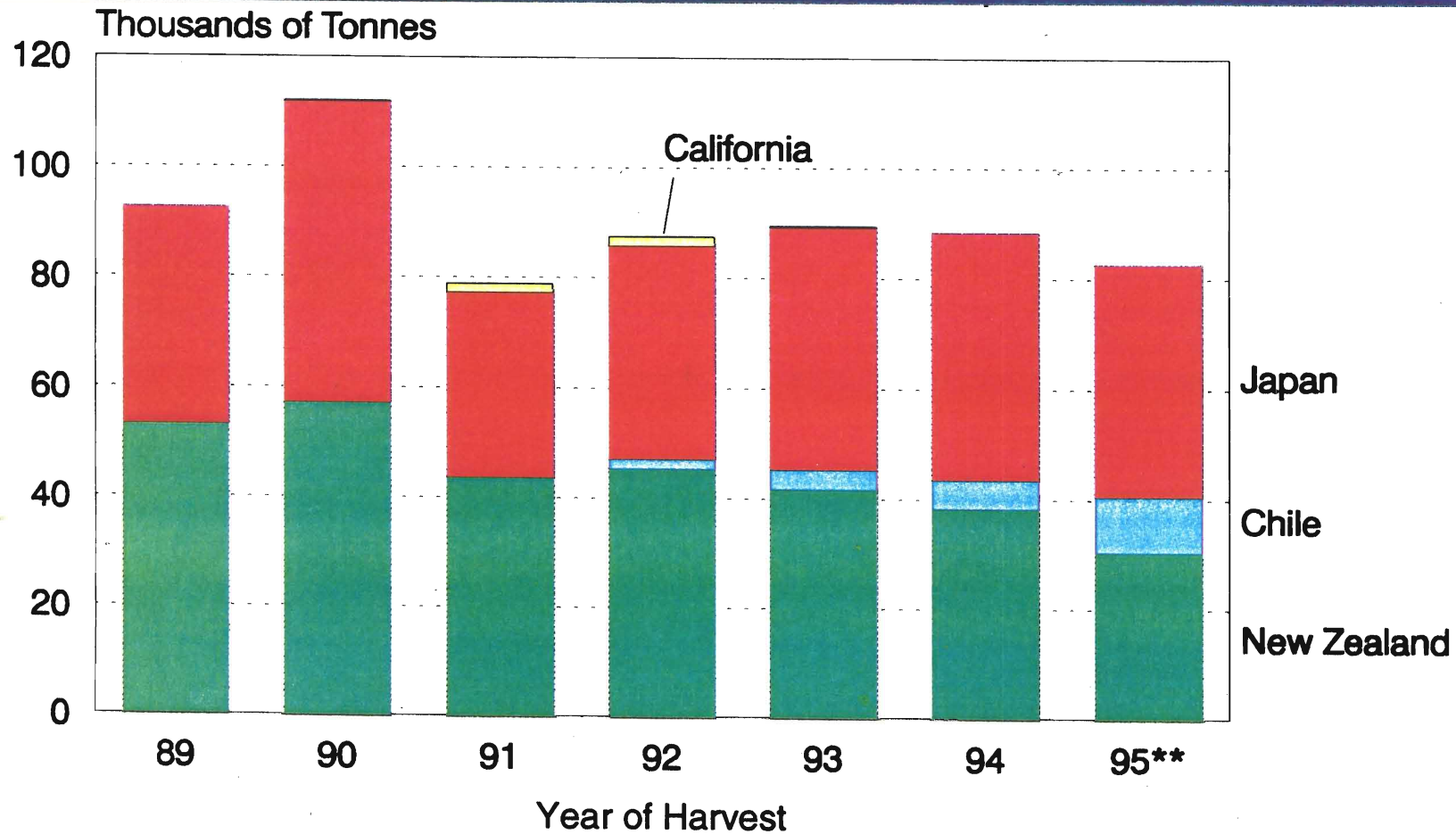
Kiwifruit Price Comparison in Japan Market

Wholesale Market Prices



Kiwifruit Supply - Japan

Based on Year of Harvest - Not Year of Consumption



**'95 Figures are estimates from the respective grower organisations in the country of origin.

Sources : NZKMB, Nischenren, ANPKC, CIK.