

Economic review

of the seafood industry

Welcome to the latest edition of Seafood New Zealand's economic review. This edition provides data for the first six months of 2013. The review is intended to provide readers with an update of what's happening in the seafood industry balanced with some general information about the economy. We hope you find the content useful, interesting and informative. We welcome your feedback and suggestions, please email: info@seafood.org.nz

IN THIS EDITION

- The rock lobster fishery has been the stand out for the first half of 2013 with export sales growing by 14 percent in volume and 18 percent in value.
- Several new harvesting areas were introduced on 1 April this year for clam stocks as a result of abundance surveys bringing positive economic benefits to the west coast of the North Island.
- Recent research about the fishing industry shows that fishing sustainably is the most important issue for the New Zealand public.

THE ECONOMY

The global financial sentiment continues to be buoyant and the medium term outlook for New Zealand's main trading partners remains firm. The global outlook remains mixed with disappointing data in Europe and some other countries, but more positive indicators in the United States and Japan.

Despite having fallen over the past few months, the New Zealand dollar remains overvalued and continues to be a headwind for the tradables sector, restricting export earnings making it a difficult environment for New Zealand seafood exporters to operate in.

The high New Zealand dollar has negatively affected the New Zealand economy through a number of channels, including dampening export receipts. While increases in global export prices have provided dairy exporters with some insulation from recent strength in the New Zealand dollar, global prices for other commodities have been largely steady. Strength in the New Zealand dollar has eroded returns to these exporters.

New Zealand Dollar – Trade weighted index 2012-2013



Source: Reserve Bank of NZ.

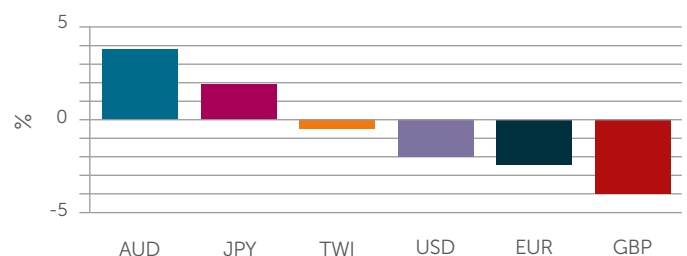
The New Zealand dollar trade weighted index (TWI) has recently been driven by some large opposing forces. The Australian dollar and Japanese yen have been two of the weakest major global

currencies recently, while demand for the United States dollar has increased. The net result has been a flat New Zealand dollar TWI.

The weakness in the yen reflects the aggressive policy stance of the Bank of Japan, with the scale of quantitative easing surprising the market. For Australia, falls in commodity prices, reduced Australian mining investment, a modest global growth outlook, and the reduction in the policy rate by the Reserve Bank of Australia triggered a significant downturn in sentiment for the Australian dollar. Consequently, the NZD-AUD cross rate rose to a three and a half year high, above the AUD 0.84c mark.

The graph below highlights the increase in the AUD and the yen but the decrease in other major currencies. The increase in the Australian dollar and the yen are reflected in seafood exports data (see Exports by Country section overleaf) which has seen low to negative growth in seafood exports to these two countries.

NZD movements against selected currencies since March 2013



While overall global activity has been recovering at a moderate pace, the composition of global growth has changed since before the financial crisis. New Zealand has benefited from its close and growing ties with faster growing economies in the Asia-Pacific region, which now make up a larger share of global trade. In Asia, growth has stabilised after it had slowed markedly over the past 18 months. Encouragingly for New Zealand's commodity exports, domestic demand in the region remains firm. This is particularly true for seafood exports to China which has seen consistent growth in the last few years.

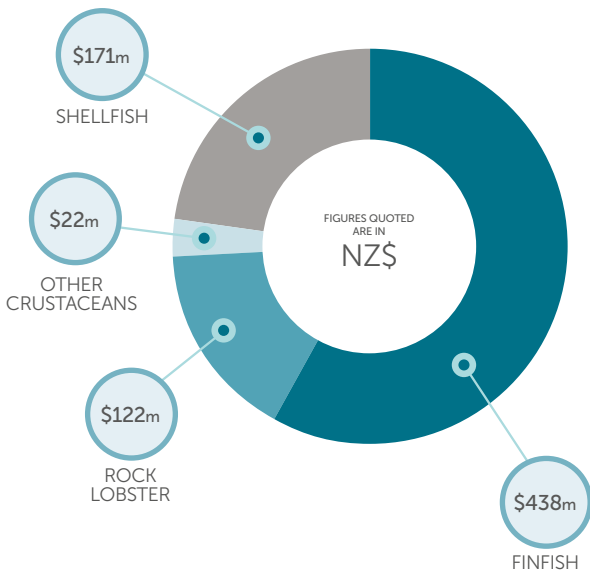
Sources: Reserve Bank of NZ, Monetary Policy Statement, June 2013.

EXPORT STATISTICS

EXPORT NZ\$ FOB*

All figures in this section are based on export data provided by Statistics New Zealand and analysed by Seafood New Zealand for the first six months of 2013 (H1).

Export value (H1 2013) = NZ\$753m

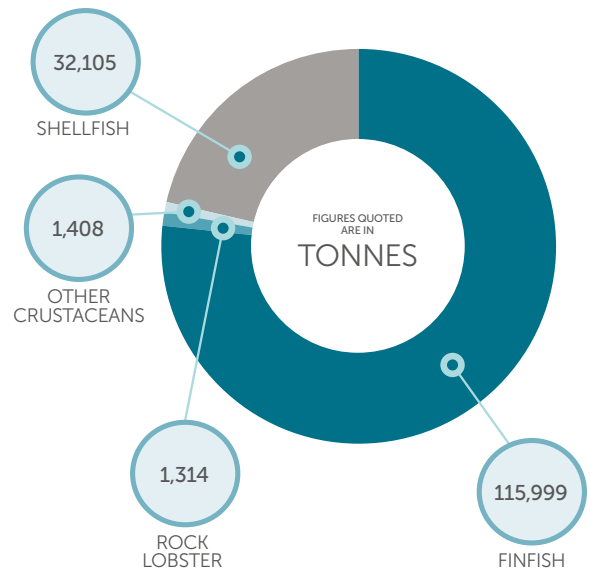


EXPORT TONNES

Total seafood exports for the first half of 2013 totalled NZ\$753m with over 150,000 tonnes exported.

Finfish species accounted for over three quarters of export volume and shellfish just under a quarter. Rock lobster and other crustacean make up a tiny proportion of export volume. However, rock lobster contributes an increasing amount of export earnings, now up to 16 percent of the total value.

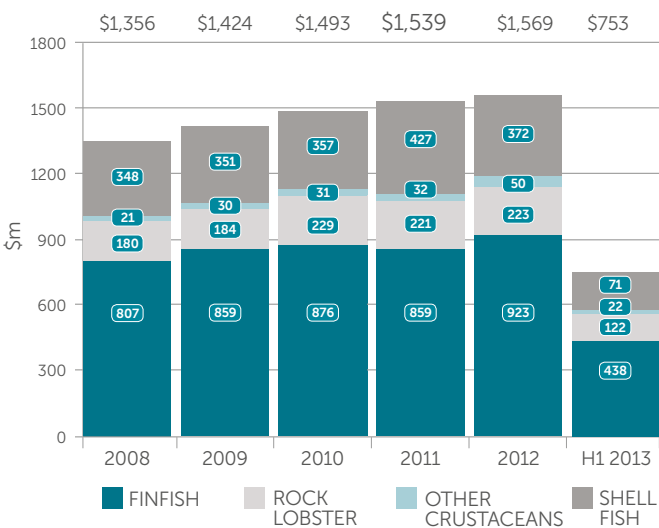
Export volume (H1 2013) = 150,826 tonnes



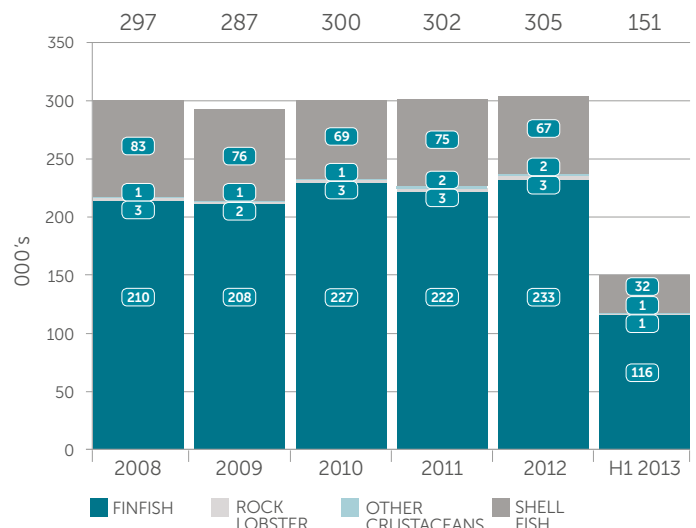
Compared with the first half of 2012, export volume decreased by over 1,600 tonnes (or 1.11%). Export value was also down slightly from NZ\$781m to NZ\$753m, a decrease of 3.59 percent.

While the sale of most categories had fallen compared with last year, rock lobster sales were positive, up 14.3 percent in volume and 18.2 percent in value.

EXPORT NZ\$ FOB*



EXPORT TONNES



Source: Export data, Statistics New Zealand, Seafood New Zealand.

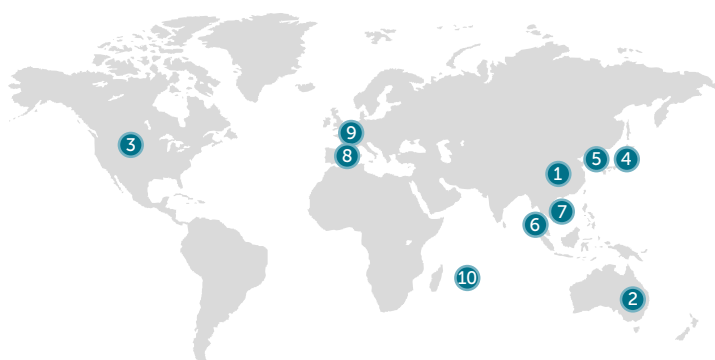
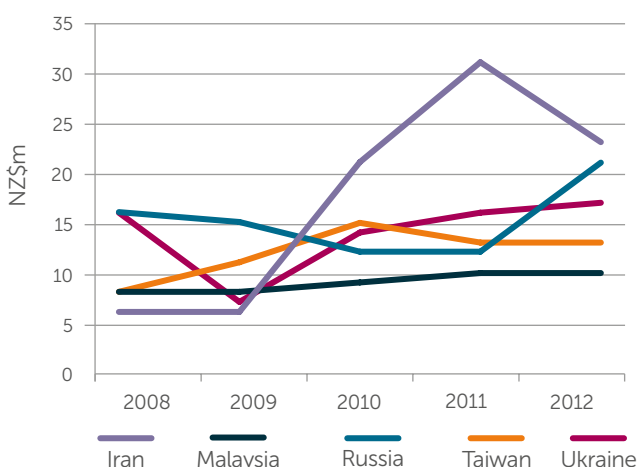
* FOB = Free on board. The value of export goods, including raw material, processing, packaging, storage and transportation up to the point prior to loading on board ship.

EXPORTS BY COUNTRY

There have been some significant developments in seafood exports to some major countries over the last six months. In the first six months of 2012, New Zealand exported NZ\$81m of seafood to Hong Kong, yet in the six months to June 2013 we only exported \$21m – a decrease of 74 percent. This illustrates the trend for exports to go direct to China (instead of via Hong Kong) with exports to China growing by 42 percent.

The graph below shows several new or emerging markets that have seen growth in recent years.

Exports to emerging markets 2008 – 2012



| TOP 10 EXPORT VALUES (NZ\$) | H1 2012 | H1 2013 | % Change |
|-----------------------------|---------|---------|----------|
| 1 China | 138m | 196m | ▲ 42 |
| 2 Australia | 137m | 139m | ▲ 1 |
| 3 United States | 79m | 77m | ▼ -3 |
| 4 Japan | 82m | 62m | ▼ -24 |
| 5 South Korea | 32m | 23m | ▼ -28 |
| 6 Thailand | 16m | 22m | ▲ 38 |
| 7 Hong Kong | 81m | 21m | ▼ -74 |
| 8 Spain | 19m | 17m | ▼ -11 |
| 9 France | 14m | 16m | ▲ 14 |
| 10 Mauritius | 15m | 14m | ▼ -7 |

EXPORTS BY SPECIES

As mentioned earlier, rock lobster exports have shown significant growth over the last year with export earnings growing by 18 percent. The export value of the next five top species; hoki, mussels, tuna and squid all dropped. However, there was growth in the returns for salmon and ling.

Paua, which is usually in the top 10 exports dropped off the list to NZ\$9m in sales.

| TOP 10 EXPORT VALUES (NZ\$) | H1 2012 | H1 2013 | % Change |
|-----------------------------|---------|---------|----------|
| Rock lobster | 103m | 122m | ▲ 18 |
| Hoki | 81m | 72m | ▼ -11 |
| Mussels | 108m | 94m | ▼ -13 |
| Tuna | 60m | 55m | ▼ -8 |
| Squid | 60m | 44m | ▼ -27 |
| Jack mackerel | 33m | 35m | ▲ 6 |
| Salmon | 23m | 32m | ▲ 39 |
| Ling | 16m | 21m | ▲ 31 |
| Snapper | 18m | 16m | ▼ -11 |
| Orange roughy | 12m | 13m | ▲ 8 |

Source: Export data, Statistics NZ.

EXPORTS OF MAIN COMMODITIES

Exports of primary processed fish, crustaceans and molluscs totalled \$671m in the first half of 2013, a slight decrease of five percent compared with the same period in 2012.

The seafood industry also contributed a further NZ\$82m in elaborately processed products such as capsules, powders, fish cakes and fingers.

| NZ EXPORTS OF MAIN COMMODITIES (NZ\$) | H1 2012 | H1 2013 | % Change |
|---------------------------------------|---------|---------|----------|
| Milk powder, butter & cheese | 6,038m | 5,939m | ▼ -2 |
| Meat & edible offal | 3,095m | 3,189m | ▲ 3 |
| Logs, wood & wood articles | 1,524m | 1,738m | ▲ 14 |
| Fruit | 1,185m | 1,103m | ▼ -7 |
| Crude oil | 927m | 780m | ▼ -16 |
| Fish, crustaceans & molluscs | 705m | 671m | ▼ -5 |
| Mechanical machinery & equipment | 616m | 517m | ▼ -16 |

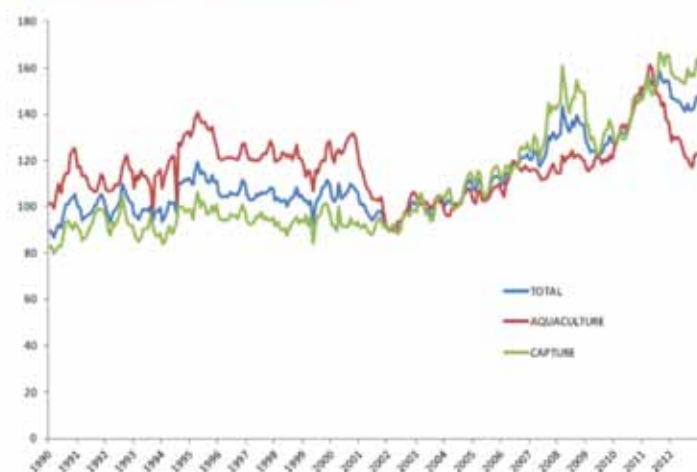
Source: Overseas merchandise trade, June 2013, Statistics NZ.

INTERNATIONAL STATISTICS

EXPORT UPDATE

- The overall supply of fish and fishery products continued to rise in the 2012 figures. Rising aquaculture production boosted overall supply to a new record of 157 million tonnes. The value of trade was also up by 1.5 percent to a record of USD \$129b.
- Seafood trade to China is growing strongly again as evidenced by the strong growth in New Zealand exports to China. This is a positive sign showing the strong underlying trend in growing fish consumption worldwide.
- As a whole, demand for seafood in 2012 fell slightly which led to a drop in prices for a number of species and products. As shown in the graph below, aquaculture prices were particularly hard hit as long term production decisions make it more difficult to adjust production volumes to market conditions. The long term total trend however, has been positive.

The FAO Fish Price Index (100=2002-2004)



Data Source: Norwegian Seafood Council.

- The recent spotlight on food safety, here and overseas, has seen increasing attention given to traceability of the food. As supply chains become longer, reliable traceability systems (i.e. the capability to trace goods along the distribution chain) have become crucial to assure product integrity from point of origin to point of consumption.
- According to the FAO's Globefish report, the necessary legislation for traceability is already in place and the technology widely available; what has been lacking is the necessary focus by operators to ensure compliance with the rules.
- In New Zealand, while the seafood industry already has traceability systems in place, we are in process of developing best practice guidelines to ensure the industry is equipped to manage future traceability demands.

SPOTLIGHT ON THE NZ CONSUMER



- Sealord recently conducted a survey with New Zealanders about their perceptions of the local fishing industry. The key findings were:
 - Fishing sustainably is the most important issue for New Zealanders. Seventy nine percent of New Zealanders considered this to be the primary issue for the fishing industry.
 - The impact of fishing on other sea life ie. bycatch was important for half of New Zealanders (51%), followed by the safety of fishermen on boats (45%) and the damage caused by fishing to sea beds (40%).
 - A quarter of New Zealanders (24%) said the most important issue was the over exportation of New Zealand seafood but over time this has become less of an issue (37% rated this as important in 2011).
- Research conducted by Seafood NZ in 2009/10 showed that over 80 percent of New Zealanders buy seafood. Of those, two thirds of people were concerned about the sustainability of seafood that they buy.
- Only six percent of New Zealanders felt that all of the species caught or harvested in New Zealand waters were done so sustainably.

CATCH INFORMATION

The table below shows the fish species with the largest Total Allowable Commercial Catch (TACCs) levels for the October and April fishing years*. The species shown below are not necessarily the most caught but those species which are considered to be the main 'targets'. Hoki has the second highest total TACC (ie. when each species fish stock is added together) of the October year stocks. The hoki fishery has a seasonal peak between July and September. Squid is a highly seasonal fishery in the late summer and autumn. It has wide naturally occurring fluctuations in annual abundance.

Other than southern blue whiting, the stocks with an April fishing year are shellfish and crustacean stocks.

As shown in the opposite column, a range of clam stocks (DAN, MMI, PDO and SAE) had their TACCs dramatically increased this year as abundance surveys identified new areas for potential harvesting.

In line with the drop in squid exports, the catch of squid has dropped by 30 percent compared with the same time last year. This is not unusual as the squid fishery does vary from year to year depending on summer to autumn climate conditions.

*October and April are the two months traditional fishing years begin from.

THIS YEAR:

The following stocks had their TACCs changed from 1 April 2013:

- Spiny rock lobster (CRA3, 4 & 7) - from 724 tonnes to 769 tonnes
- Ringed dosinia (DAN8) - from 33 tonnes to 214 tonnes
- Large trough shell (MMI8) - from 25 tonnes to 589 tonnes
- Deepwater tuatua (PDO8) - from 1 tonne to 262 tonnes
- Triangle shell (SAE8) - from 8 tonnes to 1,720 tonnes
- Scallops (SCACS) – from 22 tonnes to 100 tonnes.

For more information go to www.fishserve.co.nz/news

The table below shows actual catch figures against Total Allowable Commercial Catch Levels (TACCs) for the latest full fishing year (up to either April or October 2011). The columns on the right show figures between the current fishing year and the previous fishing year to allow comparisons over time.

| Most commonly NZ caught seafood species (in tonnes) managed under the Quota Management System for a full fishing year | | | | Catch 2012/13 fishing year | | |
|---|---------|---------|-------------------------|----------------------------|------------------------------|----------|
| | | | | Same period 2011/12 | Latest catch figures 2012/13 | % change |
| October stocks (1 Oct 2011-30 Sept 2012) | Catch | TACCs* | % of catch against TACC | 1 Oct 2011-30 Jun 2012 | 1 Oct 2012-30 Jun 2013 | |
| Hoki | 130,106 | 130,010 | 100% | 56,397 | 58,227 | 3% |
| Jack mackerel | 40,261 | 60,547 | 66% | 32,411 | 38,897 | 20% |
| Squid | 35,207 | 127,332 | 28% | 34,402 | 24,080 | -30% |
| Barracouta | 26,433 | 32,672 | 81% | 18,515 | 22,312 | 21% |
| Oreo | 13,088 | 18,860 | 69% | 12,226 | 10,497 | -14% |
| Snapper | 6,535 | 6,357 | 103% | 5,141 | 4,929 | -4% |
| Orange roughy | 5,835 | 6,941 | 84% | 3,939 | 2,803 | -29% |
| Blue cod | 2,214 | 2,331 | 95% | 1,450 | 1,479 | 2% |
| Paua | 944 | 1,058 | 89% | 826 | 782 | -5% |
| April stocks (1 Apr 2012-31 Mar 2013) | | | | 1 Apr 2012-30 Jun 2012 | 1 Apr 2013-30 Jun 2013 | |
| Southern blue whiting | 29,906 | 47,394 | 63% | 21 | 17 | -19% |
| Rock lobster (spiny, packhorse) | 2,807 | 2,896 | 97% | 683 | 758 | 11% |

Source: The Blue Book, FishServe.

More information on the QMS can be found on our website: www.seafoodnewzealand.org.nz/qms

* TACCs = Total Allowable Commercial Catches.

THE SEAFOOD INDUSTRY – AN OVERVIEW

The cornerstone of New Zealand's fisheries management is the quota management system (QMS) which was introduced in 1986. Under the QMS an annual catch entitlement is set for each fish stock. By controlling the amount of fish that can be taken from each stock, the QMS sets the foundation for ensuring the sustainability of New Zealand fisheries.

4.4 million km²

AREA - Exclusive Economic Zone (EEZ) and territorial sea

15,134 km

Length - New Zealand coastline

631,791 tonnes

Total allowable commercial catch (as at December 2012)

446,945 tonnes

Total landed catch (as at December 2012)

600,000 tonnes

Total seafood harvest (including aquaculture)

636

Number of stocks in the QMS

NZ\$1.57 billion

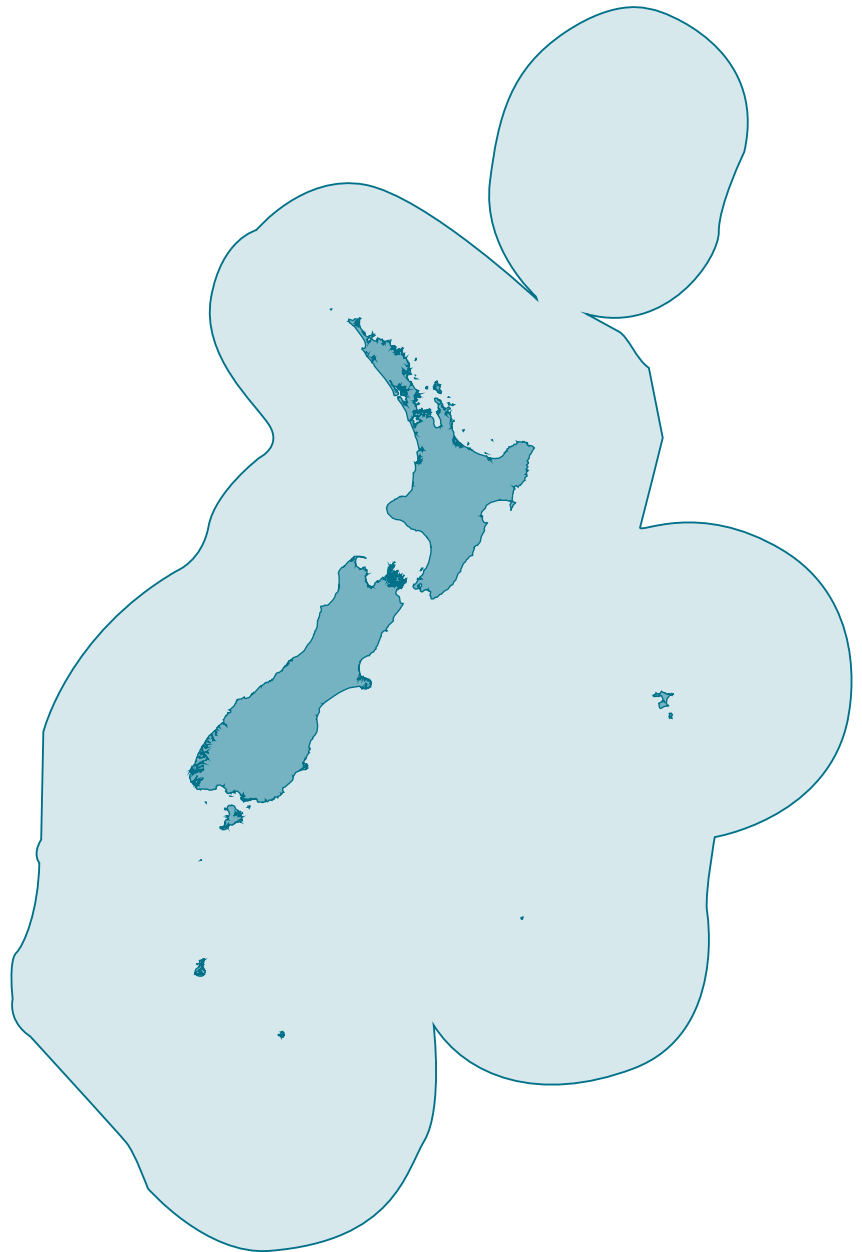
Exports in 2012

25,000 FTEs

Estimated direct and indirect employment

1,412

Number of registered fishing vessels



NEW ZEALAND'S EXCLUSIVE ECONOMIC ZONE

More than 90 percent of New Zealand's exclusive economic zone (EEZ) has never been bottom trawled and 30 percent of the EEZ is completely closed to bottom trawling – one of the largest bottom trawl closures within an EEZ in the world.

Ensuring that impacts on the marine environment caused by fishing activity are kept within acceptable levels is a priority for the New Zealand seafood industry and the Ministry for Primary Industries (MPI). Regulations and industry agreements are in place to reduce the impact of fishing on protected species such as the New Zealand sea lion, fur seals and seabirds. Restrictions are also in place to protect Hector's and Maui's dolphins, the world's smallest dolphins.

Source: MPI, Seafood New Zealand.

Nature's gift, harvested with care.