

New Zealand Seafood Exports

New Zealand Seafood Exports (1)

Curriculum and assessment links: Level 3 Economics:

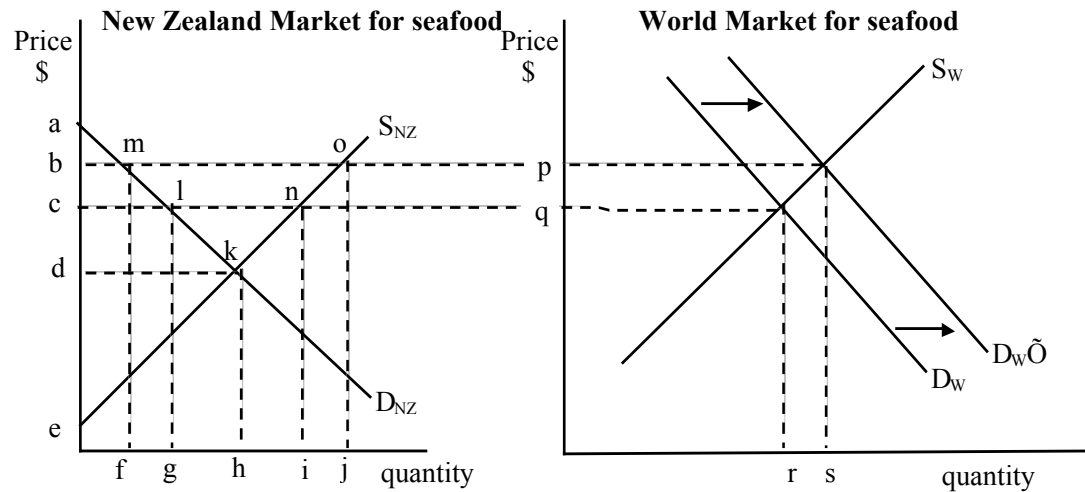
Achievement standard 3.2 Describe and illustrate the market and allocative efficiency

- ...the market for an internationally traded commodity with exports and imports.

In just 20 years New Zealand's seafood industry has tripled annual exports from about \$500 million to \$1.4 billion. It has developed inshore, mid and deep-water fisheries and pioneered a \$200 million a year aquaculture sector.

Growth in the last decade has been influenced by change in international seafood markets. Strong demand and strengthening prices in the early 1990s resulted from concern that leading Northern Hemisphere capture fisheries were declining due to over-exploitation.

Extract from New Zealand Seafood Industry Council. The New Zealand Seafood Industry Economic Review 1997 - 2001. November 2001. p1.



The diagram above illustrates a change in the world market and New Zealand market for seafood.

- 1 State the change in the world market for seafood and the impact of this on the New Zealand exports of seafood.
- 2 Use the letters in the diagram to identify the impact of this change on the New Zealand market for seafood. Identify the change in:
 - a) New Zealand price
 - b) consumer surplus
 - c) producer surplus
 - d) New Zealand exports.
- 3 Indicate whether the following are true or false. An increase in the world price of seafood will lead to...
 - a) a loss of consumer welfare
 - b) a loss of allocative efficiency

c) an increase in profits of New Zealand fishers.

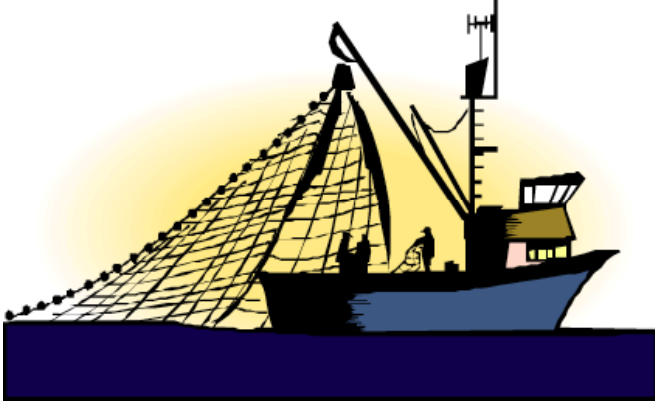
4 Explain your answer to 3 b and c above.

Curriculum and assessment links: Level 3 Economics:

Achievement standard 3.4 Describe and illustrate aggregate economic activity

External Influences:

- components of balance of payments on current and capital account



Exports of New Zealand seafood (2)

1. Each the transactions (1 to 10) from the Seafood industry will affect New Zealand's Balance of Payments statistics. For each identify how they will be accounted for in the BOP statistics.

1. A Nelson fishing company exports 10 containers of hoki to Europe
2. NZ seafood company borrows \$10m from overseas
3. Dividends paid to US shareholders by New Zealander fishing company
4. Maori fishing company buys shares in an overseas fishing venture
5. Japanese tourist has a meal in a New Zealand fish restaurant
6. Samoan fisherman comes to live and work in New Zealand bringing life savings
7. An Auckland based fishing company uses a Russian shipping company to transport fish to its customers overseas
8. New Zealand fishing company pays interest on its loan from an overseas bank
9. Amaltal Ltd. buys large fishing vessel from US owners in Samoa
10. New Zealand fishing industry consultants receive payment for a contract advising overseas governments about fisheries resources
11. New Zealand fishing company repays its overseas bank loan
12. A local firm sells rights to a US firm to begin production of its new mooring systems overseas

	Current Account		Capital Account		Financial Account	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
1						
2						
3						
4						
5						
6						
7						
8						

9						
10						
11						
12						

Exports of New Zealand Seafood (3)

Curriculum and assessment links: Level 3 Economics:

Achievement standard 3.4 Describe and illustrate aggregate economic activity

External Influences:

- supply and demand analysis of the foreign exchange market
- impact of exchange rate changes on trade
- terms of trade

Seafood industry in kiwi 'crisis'

The soaring New Zealand dollar is costing Nelson-based exporters millions of dollars and has created a crisis for the seafood industry, key players say.

Sealord chief executive Doug McKay said his company was cost-cutting wherever possible and was continually reviewing labour expenses as it bore the brunt of the appreciating kiwi.

The New Zealand dollar (NZD) was yesterday trading at over 67USc after posting a 25 per cent gain against the greenback last year.

Sealord was getting about 50 per cent less for every kilogram of fish it sold to America than in 2001, he said.

The global fish export trade deals largely in US dollars and the current exchange rate has had a bad impact on Sealord's bottom line.

'It's made at least something like \$5 million difference to our bottom line in the last year,' he said.

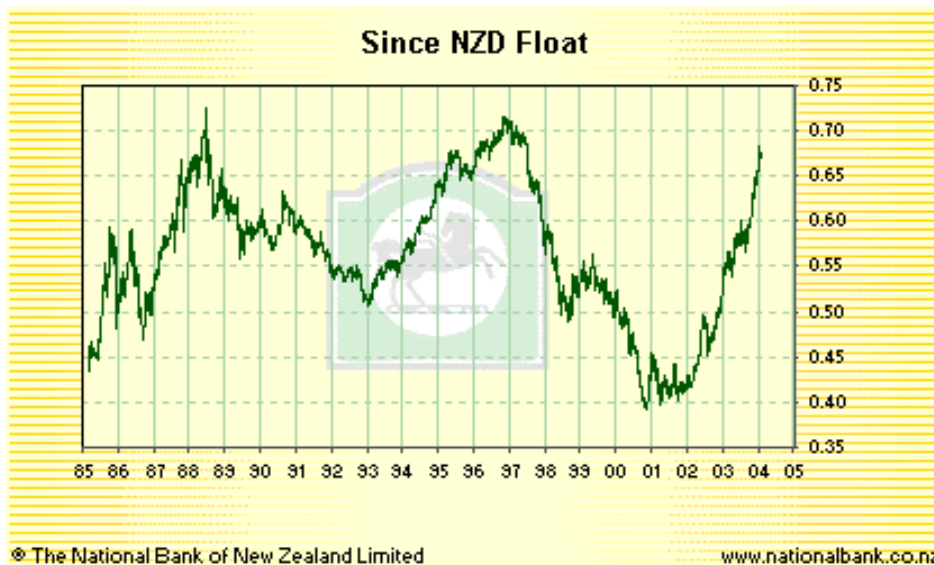
It had been particularly annoying because the catch quality had been good and demand had been strong.

'The values of our products have been severely diluted. Every time we are able to achieve a premium it just gets frittered away,' Steere said.

Market watchers have predicted the New Zealand dollar will hit as much as 72USc by the end of this year.

(Adapted from New Zealand Herald 09.01.2004

<http://www.nzherald.co.nz/business/businessstorydisplay.cfm?storyID=3542641>)



1. Suggest why most international trade in seafood is in US dollars (USD).
2. Define the following terms:
 - a. exchange rate
 - b. NZD float.
3. Refer to the graph above. Describe the trend in the NZD/USD exchange rate from 2001 to the start of 2004.
4. Calculate the percentage change in NZD/USD exchange rate from 2001 to the start of 2004.
5. Explain the effect of an appreciation of the NZD on each of the following:
 - a. Price of seafood exports in USD
 - b. Returns to New Zealand seafood exporters in NZD
 - c. Cost of imported fuel
 - d. Profitability of local fisheries company exporting overseas
 - e. New Zealand's terms of trade.
6. In January 2004 the Reserve Bank of New Zealand increased the official cash rate (NZ interest rate) from 5 to 5.25% and on the same day the Federal Reserve left US interest rates unchanged at 1%. Suggest what will happen to each of the following as a result of the increase in NZ interest rates:
 - a. The NZD/USD exchange rate
 - b. Receipts from NZ seafood exports
 - c. NZ balance of payments.
7. Draw a diagram to show the foreign exchange market for the NZD with the change in interest rates indicated in question 6 above.
8. Draw an aggregate demand and aggregate supply diagram to illustrate how an appreciation of the NZD will impact on the price level, the level of employment and national income.

9. Explain your diagram in 8 above.

Exports of New Zealand Seafoods (4)

Curriculum and assessment links: Level 3 Economics:

Achievement standard 3.4 Describe and illustrate aggregate economic activity

External Influences:

- other factors which impact on trade
- the effect of net exports on balance of payments and aggregate demand.

New Zealand's seafood export markets include Australia, Asia, Europe and the United States. The table below shows the value of seafood exports increasing while the tonnage exported is decreasing. This increase in value has occurred because the seafood receives more processing before it is exported and increases in the world price of seafood. Exports are projected to reach NZ\$2b by 2010.

New Zealand Seafood Exports

year ended December	EXPORTS	
	Tonnes (000)	Value (\$m)
1990		749
1991		961
1992		1217
1993		1201
1994		1166
1995	322	1238
1996	328	1179
1997	338	1125
1998	327	1136
1999	323	1340
2000	279	1436
2001	283	1465

(Source: SeaFIC)

Activity

1. Explain how the New Zealand seafood industry been able to record an increase in value (\$m) of seafood exports even though there has decline in volume (tonnage) in the period 1996 to 2001.
2. State how an increase in receipts from NZ seafood exports will be accounted for in New Zealand's Balance of Payments statistics?
3. Draw a circular flow diagram to illustrate the effect of an increase in receipts from NZ seafood exports on the New Zealand economy.
4. Read the following extract and answer the questions that follow:

New Zealand Seafood Industry Council spokesman Simon Thomas said that the industry was watching with bated breath as the lucrative Asian market continued to be hit by the spreading severe acute respiratory syndrome (SARS) problem.

Wednesday, April 23, 2003 <http://english.peopledaily.com.cn>

- a. Suggest why SARS had a negative effect on exports of seafood to Asian markets.
- b. List factors other than the exchange rate that can affect the demand for NZ seafood exports.