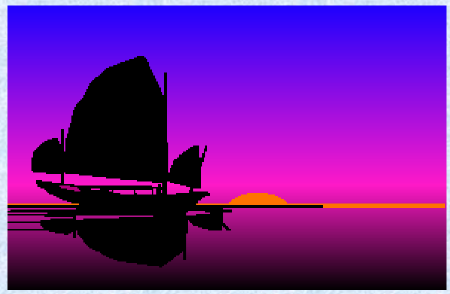
EXPORT OPPORTUNITIES TO ASIA FOR LOW-CHILL STONEFRUIT

A.P. George, Roger Broadley, R.J Nissen and D. Bruun,
Department of Primary Industries and Fisheries, Maroochy Research Station



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GLOBALIZATION

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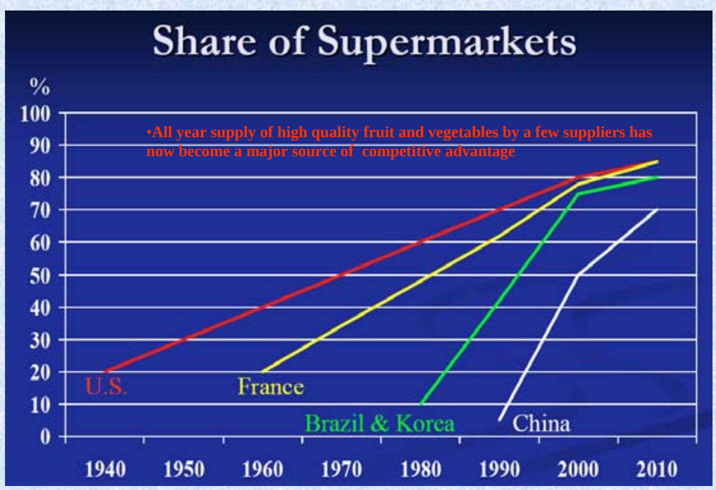
GLOBALIZATION

KEY DRIVERS

- WTO - 1995
- FTAs (130 since 1995)
- TRADE LIBERALIZATION
- EMERGENCE OF CHINA AS A GLOBAL POWER
- RAPID EXCHANGE OF TECHNOLOGY/INFORMATION
- GLOBAL SOURCING
- FOREIGN DIRECT INVESTMENT/OUTSOURCING

POWER OF THE SUPERMARKET CHAINS IS INCREASING



Reardon, Michigan State University, 2005

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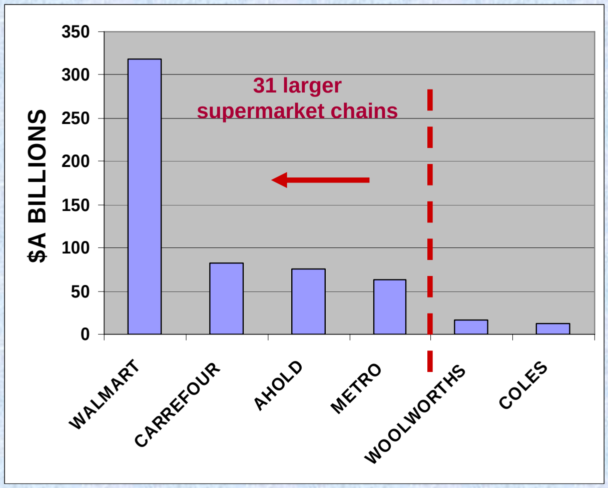
GLOBAL SUPERMARKET CHAINS



Cook, 2002

CONSOLIDATION OF GLOBAL SUPPLY (100 MILLION TRAYS)

CAPESPAN INTERNATIONAL	- SOUTH AFRICA
CARMEL	- ISRAEL
DEL MONTE	- WORLD WIDE
CHIQUITA	- WORLD WIDE
DOLE	- WORLD WIDE
ENZA	- NEW ZEALAND
ZESPRI	- NEW ZEALAND
UNIFRUTTI TRADERS	- CHILE
RIO BLANCO	- CHILE
COOPEFRUT	- CHILE
FRUSAN	- CHILE
CP	- THAILAND

WHERE IS AUSTRALIA???

GLOBAL SUPPLY COMPANIES HAVE HUGE DISTRIBUTION NETWORKS

Source: Dole Annual Report 2003.

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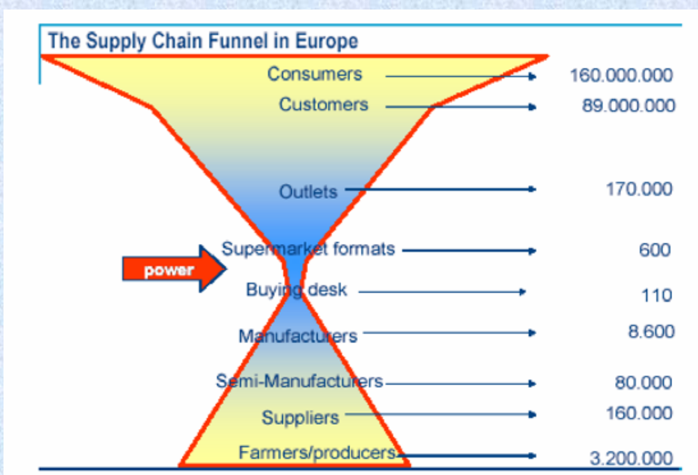
IN EUROPE, POWER IN THE SUPPLY CHAIN RESIDES WITH THE SUPERMARKET CHAINS - SIMILARLY IN AUSTRALIA



source: J Grievink Cap Gemini / OECD 2003

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TRANSNATIONALS VERSUS FARMERS

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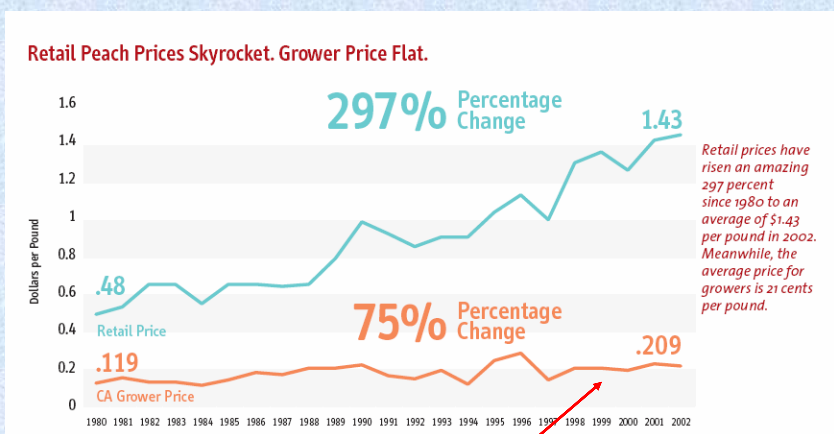
US PEACH PRICES REFLECT BARGAINING POWER OF THE SUPERMARKET CHAINS



DESPITE $7MILLION OF DOMESTIC MARKET PROMOTION AND NEW VARIETIES !!!

SOURCE: CFTA, 2004

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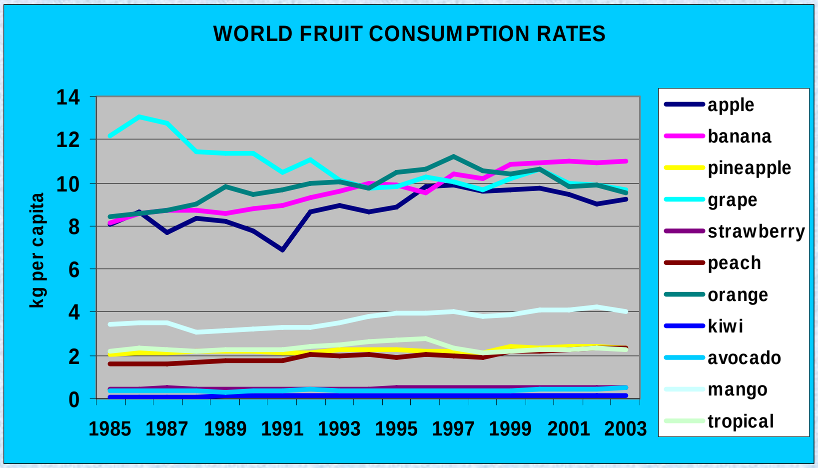
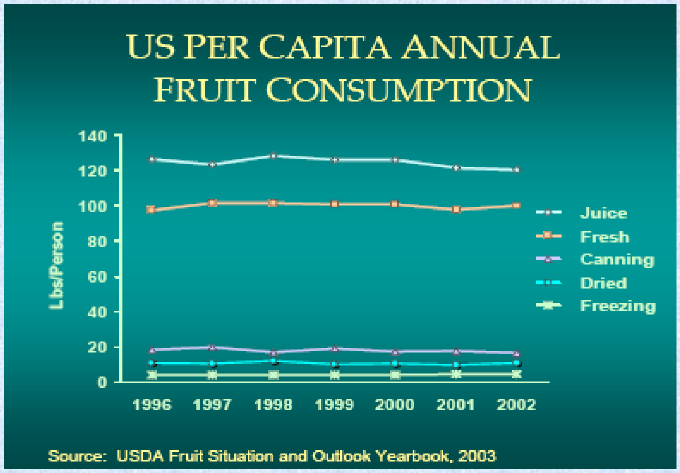
FRUIT CONSUMPTION PATTERNS AND PRICES

WORLD FRUIT CONSUMPTION STATIC (EXCEPT FOR DEVELOPING COUNTRIES)

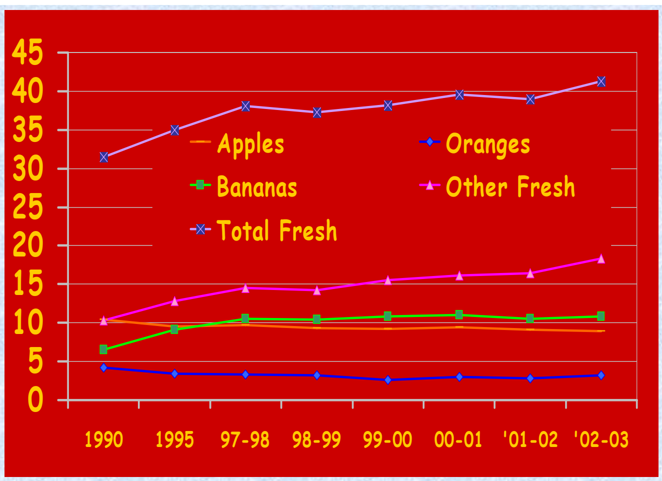


Source:FAOSTAT

US FRUIT CONSUMPTION STATIC

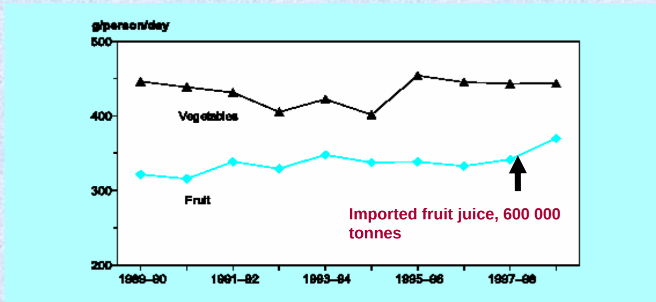


United Kingdom static: per capita consumption of fresh fruit (kg)



Source: Roberta Cook, UC Davis, 2005; World Apple Review 2005

AUSTRALIAN CONSUMPTION OF FRUIT AND VEGETABLES STATIC

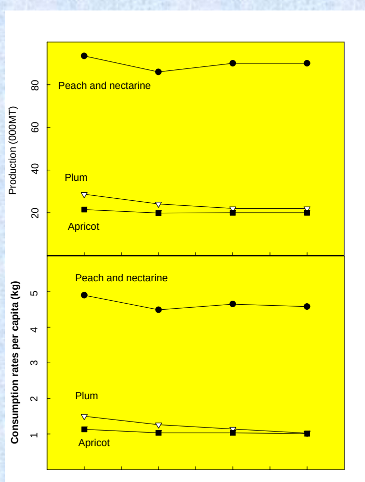


	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99
Fruit g/person/day	321	316	339	329	348	337	339	333	342	370
Vegetables g/person/day	446	439	431	405	422	402	454	445	443	444

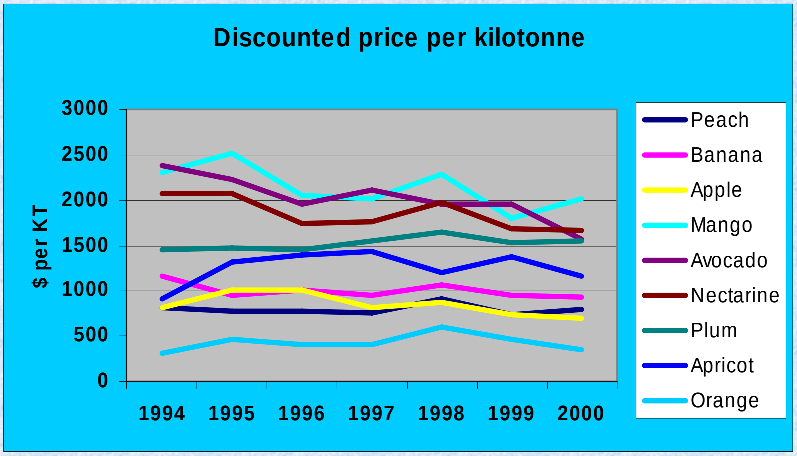
Note: The data given are for fresh fruit and vegetables plus the fresh equivalent weight of produce used in processing, such as canning and juice. The data include allowances for non-commercial production, such as fruit and vegetables grown at home.

Source: ABS Cat. No. 4306.0 (various years).

TOTAL AUSTRALIAN STONEFRUIT PRODUCTION AND CONSUMPTION PER CAPITA STATIC



PRICE TRENDS – SELECTED AUSTRALIAN FRUITS



Source: ABARE, 2003

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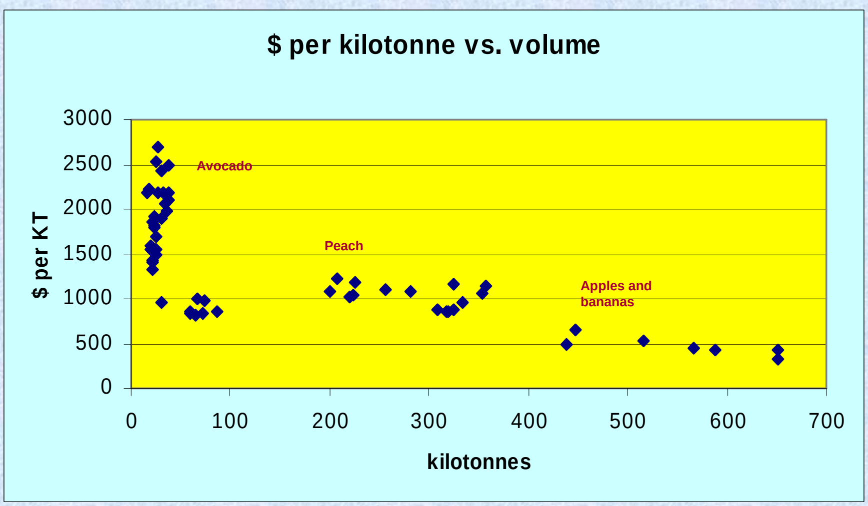
EFFECTS OF SUPPLY ON PRICE



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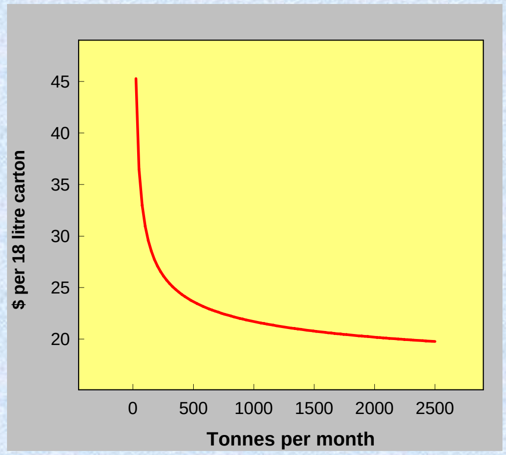
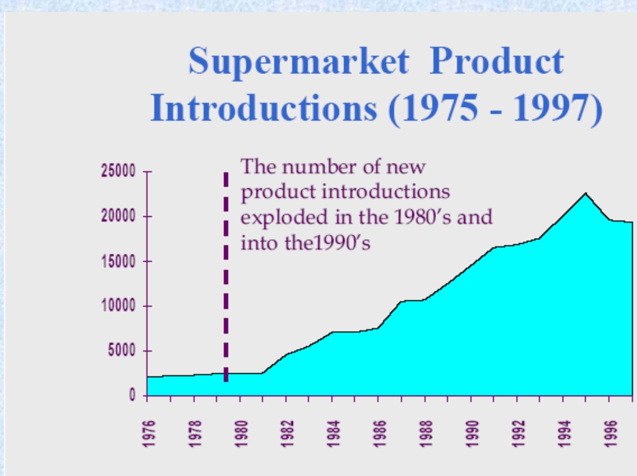
EFFECTS OF STONEFRUIT SUPPLY ON PRICE - BRISBANE MARKET

SATURATION AT 75 000 TRAYS PER MONTH (2003)



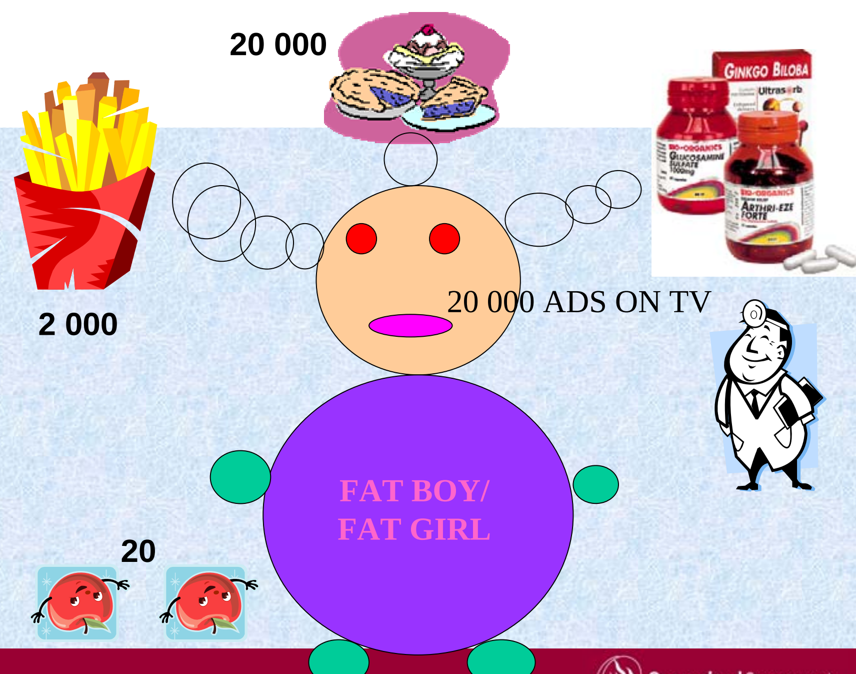
FRUIT AND VEGETABLES COMPETE AGAINST OTHER SNACK FOODS AND FOOD ITEMS



DOMESTICALLY INCREASE FRUIT AND VEGETABLE CONSUMPTION THROUGH EDUCATION PROGRAMS

EDUCATION PROGRAMS TO INCREASE FRUIT AND VEGETABLE CONSUMPTION

- IS THIS WORKING? NOT IN THE USA?
- EDUCATION OF CHILDREN A BETTER APPROACH!!!!



FARM INCOMES

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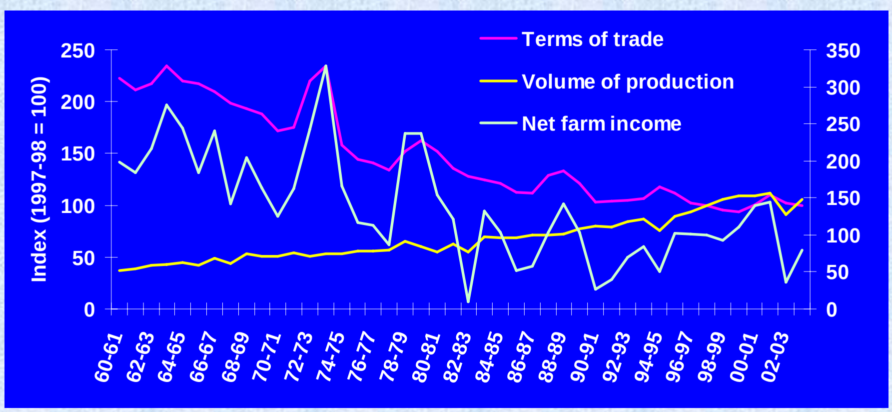
Australian agriculture



ABARE

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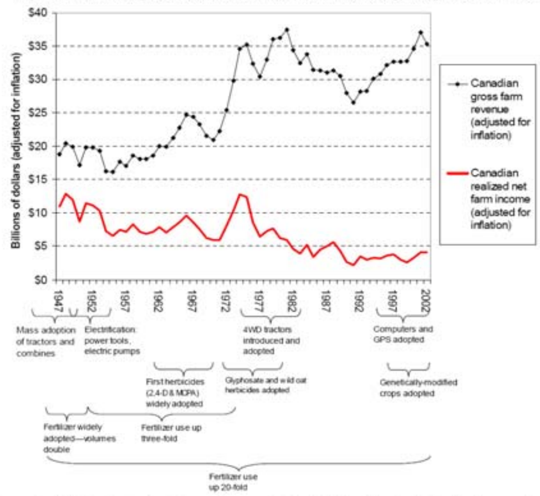
IN CANADA, DESPITE THE USE OF NEW TECHNOLOGIES FARM INCOMES HAVE DECLINED!!!

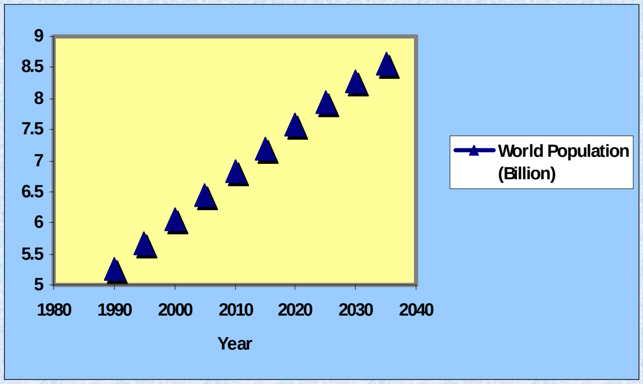
Figure 3: Farmers' gross revenue, net income, and technology adoption: 1947-2002



Sources: Statistics Canada, *Agriculture Economic Statistics*, Cat. No. 21-603; Statistics Canada, *Canadian Economic Observer*, Cat. No. 11-210. Technology adoption periods are estimates based on a range of sources and are for illustrative purposes only.

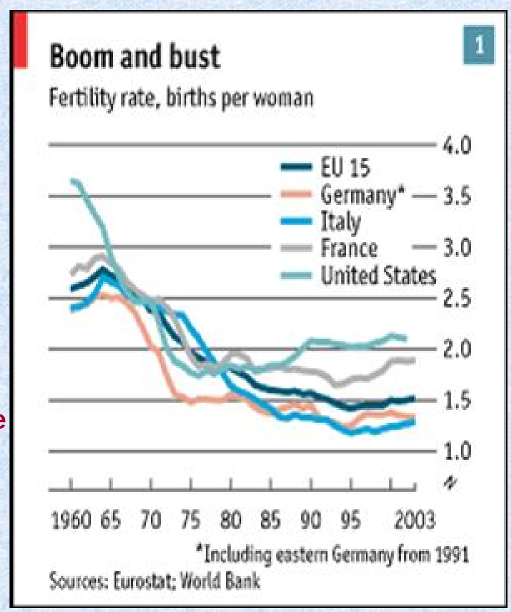
THE OPPORTUNITY!!!!

WORLD POPULATION GROWTH

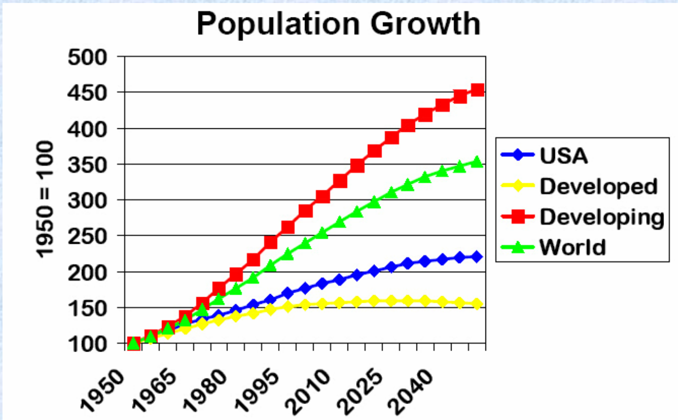


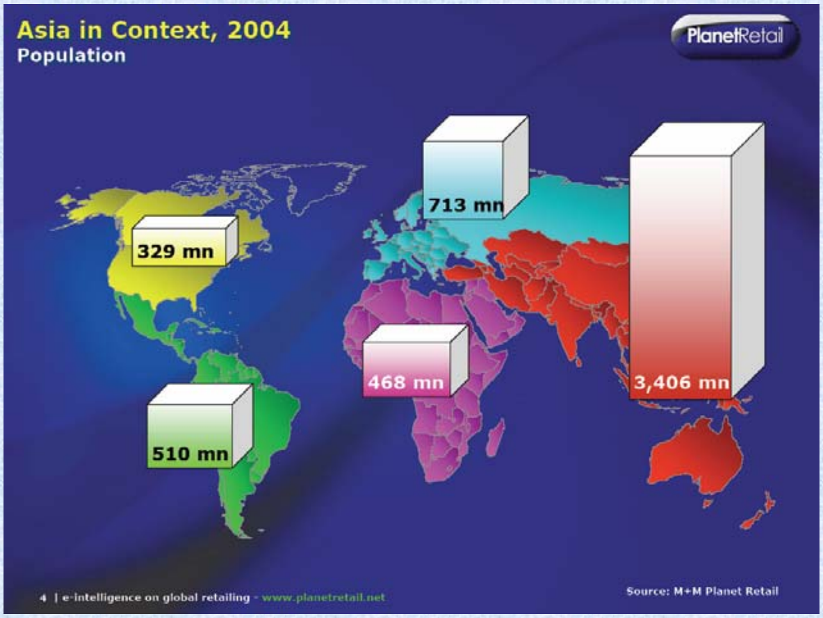
POPULATION GROWTH RATES IN DEVELOPED COUNTRIES HAVE SLOWED

Just one great-grandchild produced per eight people in Europe !!!

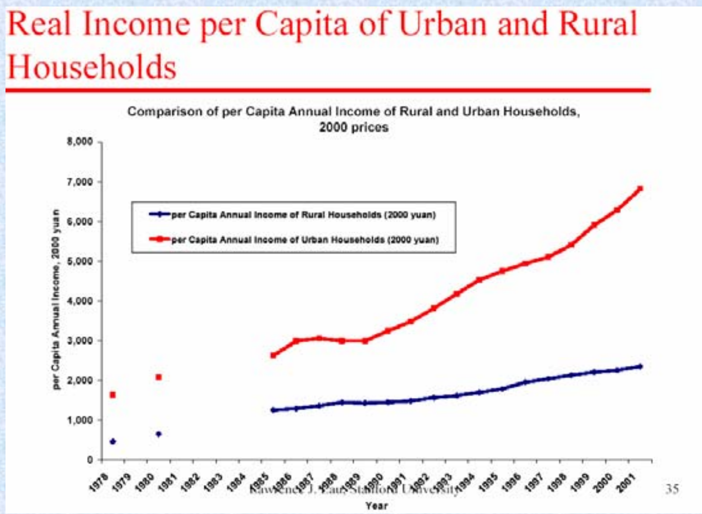


WHERE IS POPULATION CHANGING?





INCREASED INCOME FOR URBAN CHINESE



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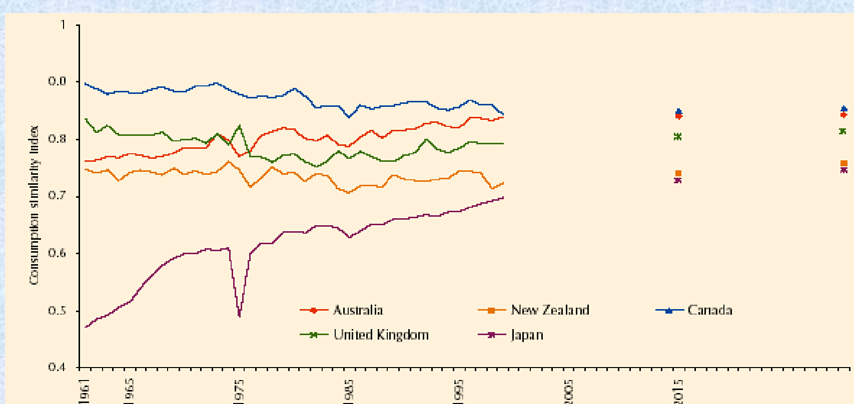
FOOD CONSUMPTION CONVERGENCE
Everyone will be eating the same type of food!!



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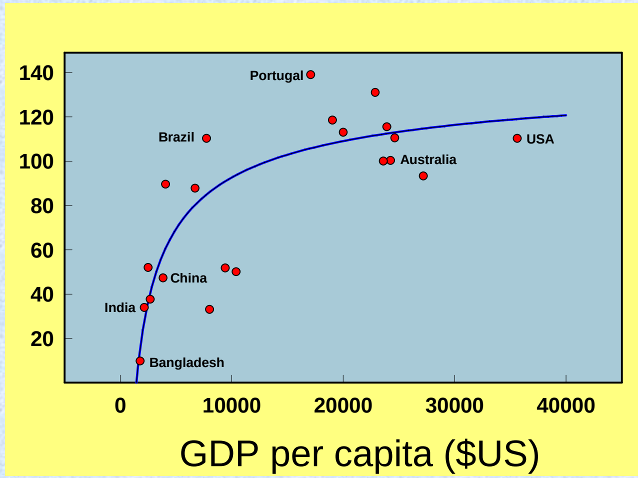
FASTEST GROWTH IN FRUIT CONSUMPTION OCCURS UP TO $10 000 US INCOME



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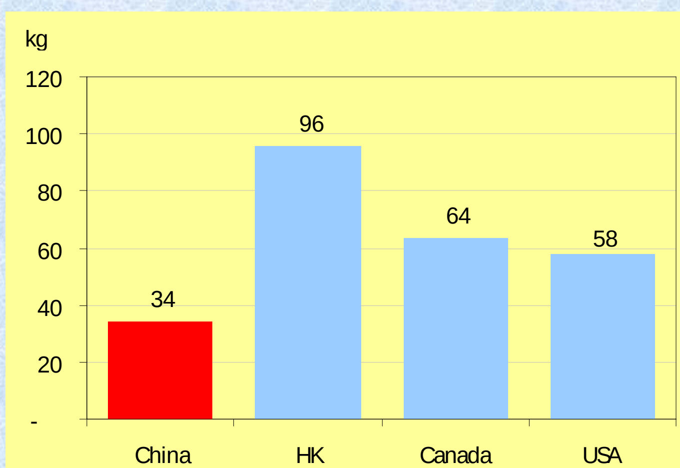
Opportunities to increase fruit consumption in Asia e.g. China

Kg per capita



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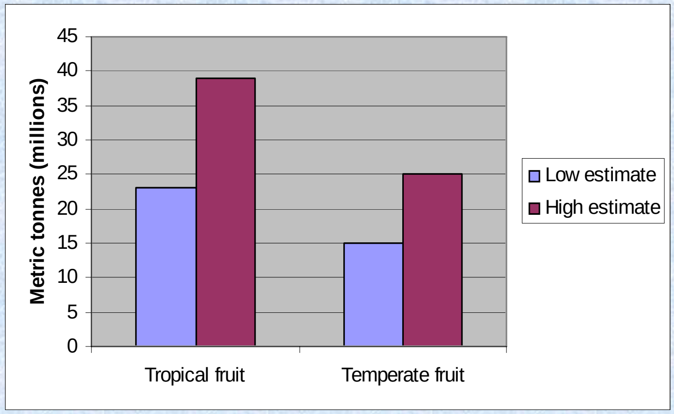
PROJECTED DEMAND FOR FRUIT IN ASIA



ANU, IFPRI, 2003

CHINA ONLY!!!

Opportunity?

- 4.5 kg x 1.3 billion = 5.85m tons
- Assumption – 15% needs to be imported
- 5.8m x 15% = 870,000 tons
- = 43,500 x 40ft. containers

Only for those with vision!

Noel Shields, Metspan, 2005

POTENTIAL COUNTER-SEASONAL VALUE OF ALL TEMPERATE FRUITS TO ASIA - 2010

BASED ON COUNTER-SEASON – 4 MONTHS PER YEAR

20% OF POPULATION MIDDLE CLASS AND ABLE TO AFFORD IMPORTED FRUIT

LOW-ESTIMATE - 250 MILLION TRAYS= $2.5 billion

HIGH ESTIMATE - 416 MILLION TRAYS = $4.2 billion

A.P. George, 2004

43 500 CONTAINERS

ASIAN EXPORT FOCUS FOR LOW-CHILL STONEFRUIT?

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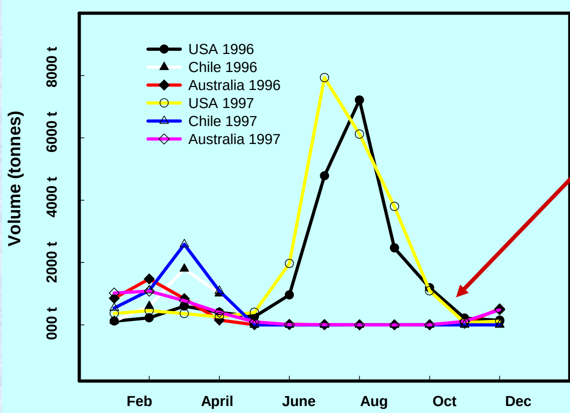
MUST GET TIMING RIGHT!



Seasonal changes in volumes for stonefruit in Hong Kong in the 1996 and 1997 seasons.

OPPORTUNITY FOR AUSTRALIAN STONEFRUIT EXPORT IN THIS WINDOW

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MUST CONTROL VOLUME AND PRICE

RELATIONSHIPS BETWEEN PRICE PER KG AND MONTHLY VOLUMES, HONG KONG

SATURATION AT 500 000 TRAYS PER MONTH

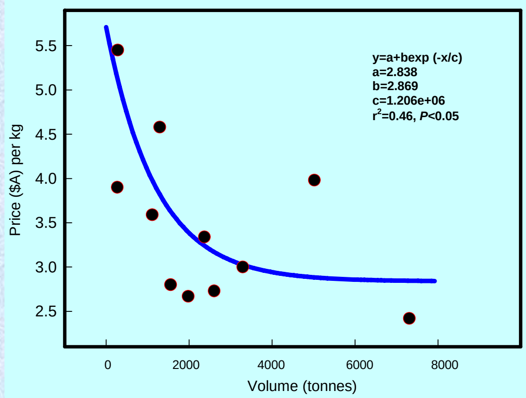
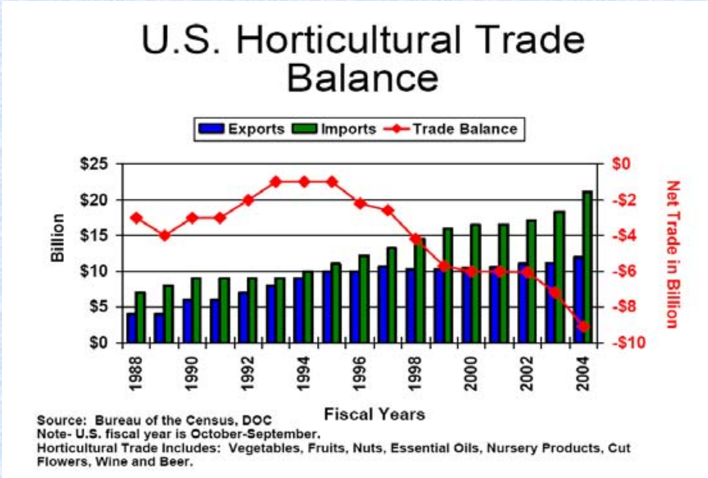


Figure 3 The relationship between price per kg and monthly volumes of stonefruit traded on the wholesale market in Hong Kong in 1996.

WORLD EXPORT PATTERNS

USA BALANCE OF TRADE IN HORTICULTURAL PRODUCTS HAS DECLINED SHARPLY DUE TO IMPORTS OF PROCESSED PRODUCTS



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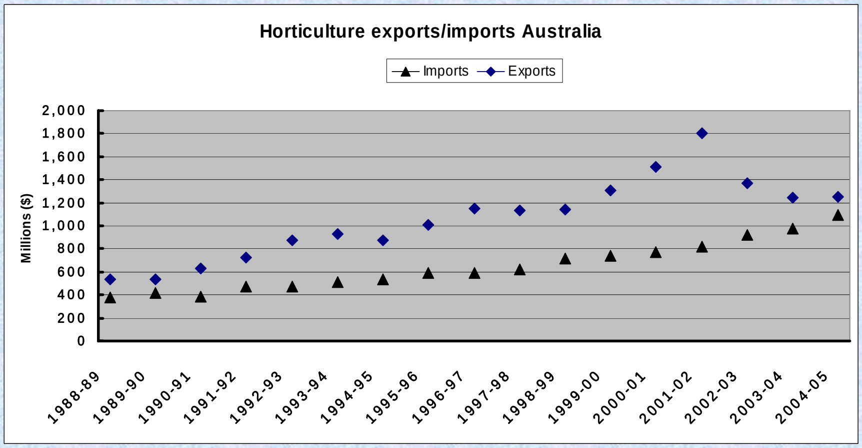
TOTAL AUSTRALIAN HORTICULTURAL IMPORTS AND EXPORTS



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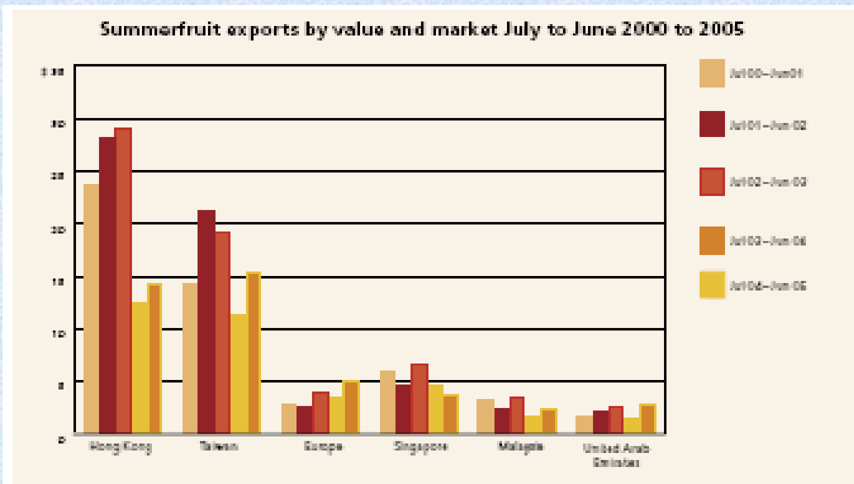
AUSTRALIAN STONEFRUIT EXPORTS STATIC/VARIABLE



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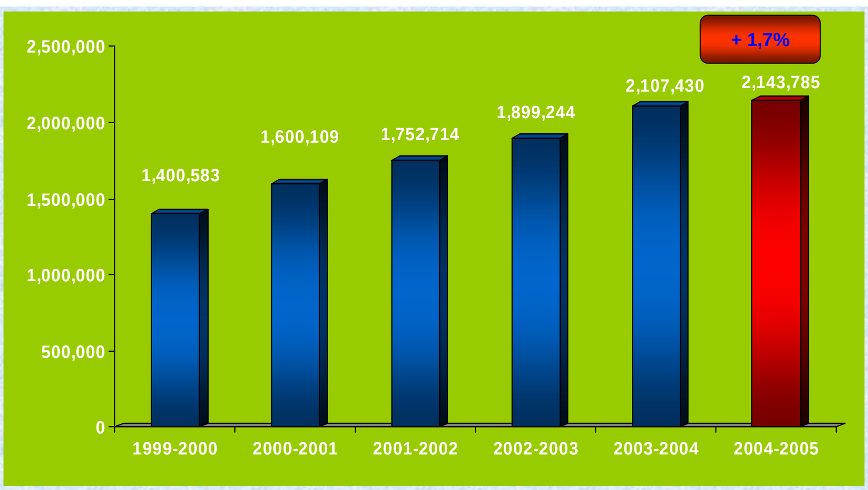
EXPORTS OF FRESH FRUIT FROM CHILE TO THE WORLD OVER THE LAST SIX SEASONS (tonnes)



SOURCE CONVENIO ASOEX/SAG

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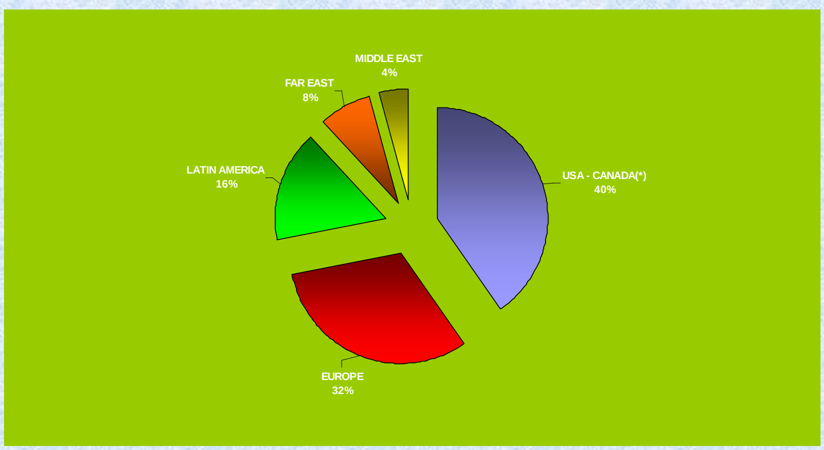
MAIN SPECIES EXPORTED FROM CHILE TO THE WORLD (Tones)

SPECIES	2003-04	2004-05	% VAR
TABLE GRAPES	703.865	754.292	7,2
APPLES	731.029	636.290	-13,0
AVOCADO	92.592	143.940	55,5
KIWIS	130.055	133.934	3,0
PEARS	117.105	115.941	-1,0
PLUMS	105.684	97.378	-7,9
NECTARINES	56.739	62.860	10,8
PEACHES	52.849	57.762	9,3
LEMONS	34.424	35.607	3,4
OTHERS	83.089	105.780	27,3
TOTAL	2.107.430	2.143.785	1,7

SOURCE CONVENIO ASOEX/SAG

EXPORTS OF FRESH FRUIT FROM CHILE BY EXPORT MARKET (Tonnes)



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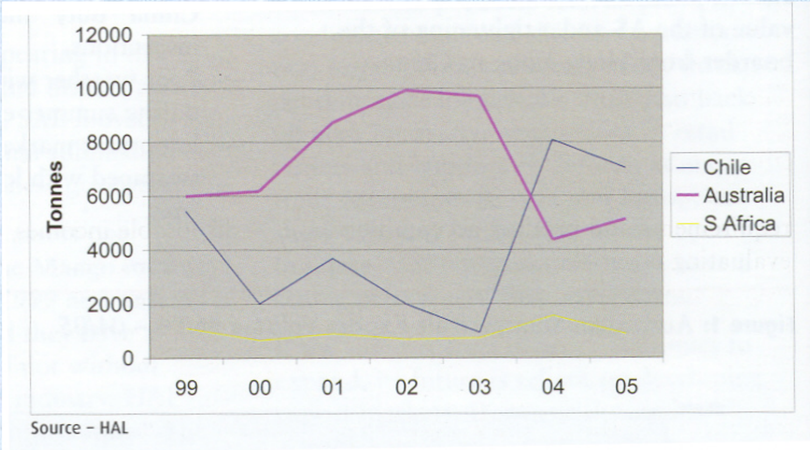
EXPORTS OF STONEFRUIT INTO HONG KONG FROM AUSTRALIA, CHILE AND SOUTH AFRICA



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AUSTRALIAN LOW-CHILL STONEFRUIT SECTOR

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LOW-CHILL SECTOR

- LOW–CHILL SECTOR - 3 MILLION TRAYS?
- PRODUCTION STATIC?
- VALUE - $45 MILLION
- WELL BELOW SATURATION
- COULD EASILY SUSTAIN PRODUCTION OF ANOTHER 2-3 MILLION TRAYS ?

  = 400 000 TREES

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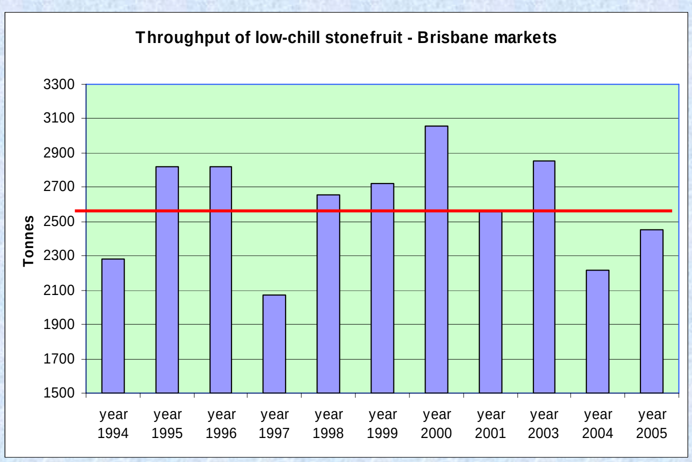
THROUGHPUT OF LOW-CHILL STONEFRUIT - BRISBANE MARKETS STATIC



= 700 000 TRAY EQUIVALENTS

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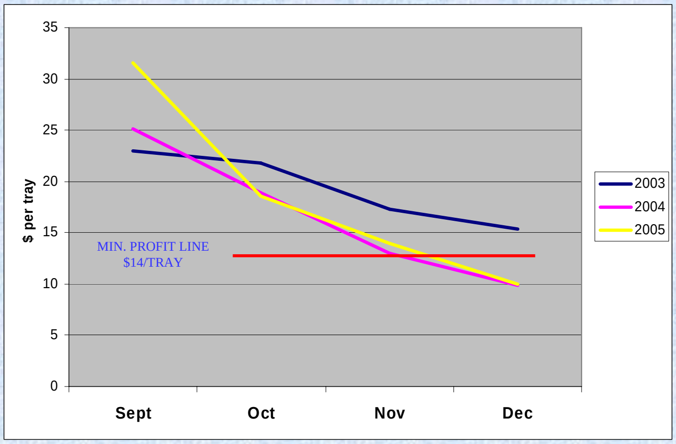
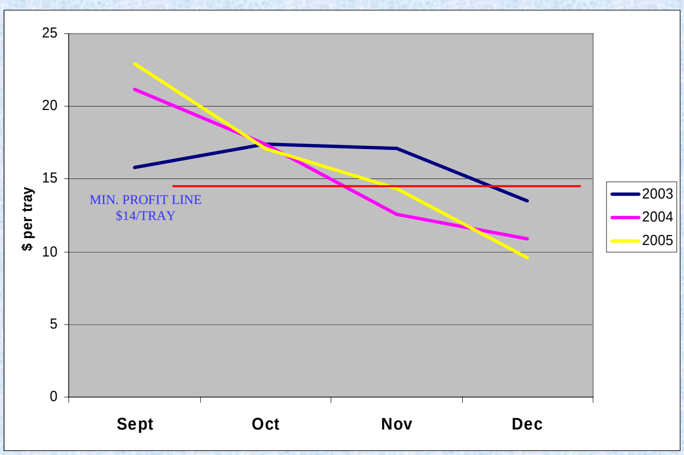
PRICE FOR NECTARINE ON BRISBANE MARKETS

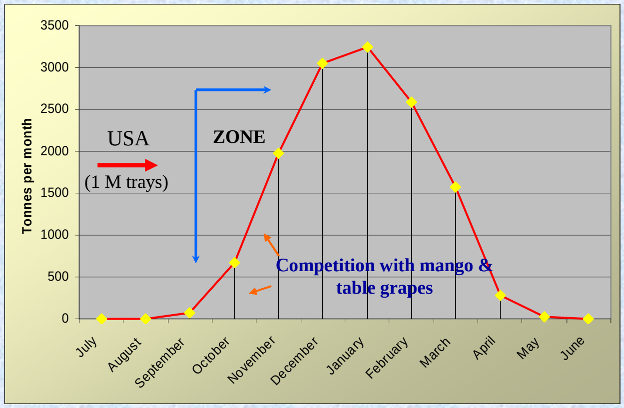


COMPETITION FROM GRAPES AND MANGO?

PRICE FOR PEACH ON BRISBANE MARKETS



MONTHLY STONEFRUIT THROUGHPUTS BRISBANE MARKETS - 2005



ESTIMATED THAT AUSTRALIAN LOW-CHILL MARKET COULD ABSORB ANOTHER 2 MILLION TRAYS TO REACH SATURATION

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NEW RISKS

- PRICES ARE FALLING – COMPETITION/VOLUMES?
- LIKELY IMPORTS FROM USA WILL DROP EARLY- SEASON PRICES
- LARGE CORPORATE PLAYERS MAY ENTER THE INDUSTRY
- NOT LIKELY TO EXPORT IF PRICES >$15
- INITIALLY ONLY LATE SEASON GROWERS WILL BENEFIT MOST FROM EXPORTS

BUT THIS COULD CHANGE IF THERE ARE SUBSTANTIAL NEW PLANTINGS AND IMPORTS FROM THE USA!!!!

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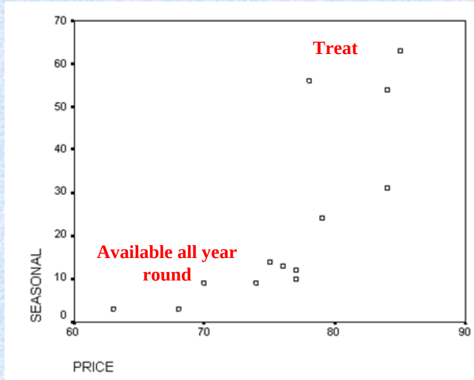
EFFECTS OF SEASONALITY ON PRICE

% BUYERS SEEING PRODUCT AS BEING SEASONAL



PRICE

Pearson, 2005

PROBLEMS THAT NEED ADDRESSING IF WE ARE TO INCREASE EXPORTS!!

RANKING OF SPECIES - CHILE

SPECIES	S.HEM	WORLD
TABLE GRAPES	N° 1	N° 1
APPLES	N° 1	N° 4
PLUMS	Nº 1	Nº 1
PEACHES / NECTARINES	N° 1	N° 5
PEARS	N° 1	N° 6
KIWIS	N° 2	N° 2
AVOCADOS	Nº 1	Nº 2
BLUE BERRIES	N° 1	Nº 5
RASPBERRIES	N° 1	N° 3

CHALLENGES AND OPPORTUNITIES FOR THE FUTURE (Ron Bown, 2006)

- CONCENTRATION OF BUYING POWER
- STATIC FRUIT CONSUMPTION
- PERMANENT NEED TO INNOVATE IN:
  - *PACKAGING*
  - *MEAL SOLUTIONS*
  - *NEW VARIETIES*
- FACING NEW TRADE BARRIERS
- EMERGING FRUIT MARKETS (CHINA, EASTERN EUROPE, INDIA)
- INCREASING COMPETITION (BRAZIL, USA, SOUTHAFRICA, ARGENTINA, ITALY, INDIA, AUSTRALIA, NEW ZEALAND, CHINA).
- CONSUMERS EVER MORE DEMAND FOOD SAFETY, HYGIENE AND QUALITY. NEW SECURITY DEMANDS.
- LACK OF HARMONIZATION REQUIREMENTS. ADDITIONAL COSTS BEEN PAID BY THE SUPPLIER

ESTIMATED EXISTING PRICES FOR EXPORT SUPPLY CHAIN

COMPONENT	PRICE THROUGH THE SUPPLY CHAIN ($)
FARM GATE PRICE	16
AGENT/EXPORTER	19
FREIGHT FORWARDER	24
IMPORTER	27
RETAIL PRICE	45

- reduce costs
- disintermediate
- reduce freight costs
- negotiate better prices

COMPARABLE COSTS PER TRAY OF STONEFRUIT –

Country	Farm Size	Labour cost per day (A$)	Estimated cost of producing a tray of fruit
Australia	Small grower with less than 10 000 trees	146	10
Australia	Large grower with more than one million trees	146	5.3
Chile	Small grower with less than 10 000 trees	15	4.3
China	Small grower with less than 10 000 trees	2	3.0

- can't compete with Chile on price
- maximum price that Asians will pay for even high quality fruit
- must reduce costs of production to at least $8 per tray?

SEA FREIGHT COMPETITIVENESS BENCHMARK EXAMPLE

21ft Container Brisbane to Bundaberg by Rail	$ 400
Truck Container lifter off rail to pack house	$ 150
Truck Container lifter from pack house to Rail	$ 150
Bundaberg to Brisbane by Rail	$ 400
Domestic Logistics	**$1 100**
Sea Freight to Malaysia	$ 600
Total Freight Logistics Cost	**$1 700**

US California competitor total freight logistic **$ 900**
40ft container – twice the distance to Malaysia

MAJOR HORTICULTURAL EXPORTING COUNTRIES IN SOUTHERN HEMISPHERE

Country	Value (million $A)	Number major exporters
Chile	2 500	25
South Africa	1 000	5
New Zealand	2 000	2
Australia	350	180 (2 100)

TOO MANY SMALL EXPORTERS!!

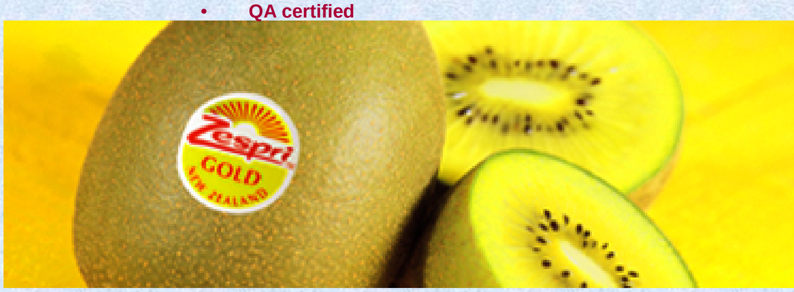
EMERGING GROWER-OWNED GLOBAL CO-OPERATIVES AND COMPANIES

CO-OP \COMPANY	COUNTRY OF ORIGIN	PRODUCT	NO OF FARMERS	ANNUAL REVENUES	GLOBAL ALLIANCES
Fonterra	NZ	Dairy	13 000	$12.5 billion	yes
Greenery International	Netherlands	Fruit and vegetables	13 000	$1.8 billion	yes
Sunkist	USA	Citrus	6 000	$1.3 billion	Yes
Zespri	NZ	Kiwifruit	2 500	$800 million	Yes
Capespan	South Africa	Fruit	6 000	$350 million	Yes
Riversun	SA, NSW, Vic	Citrus	1 300	$45 million	No
Gaypack	Queensland	Citrus	37	$30 million	No

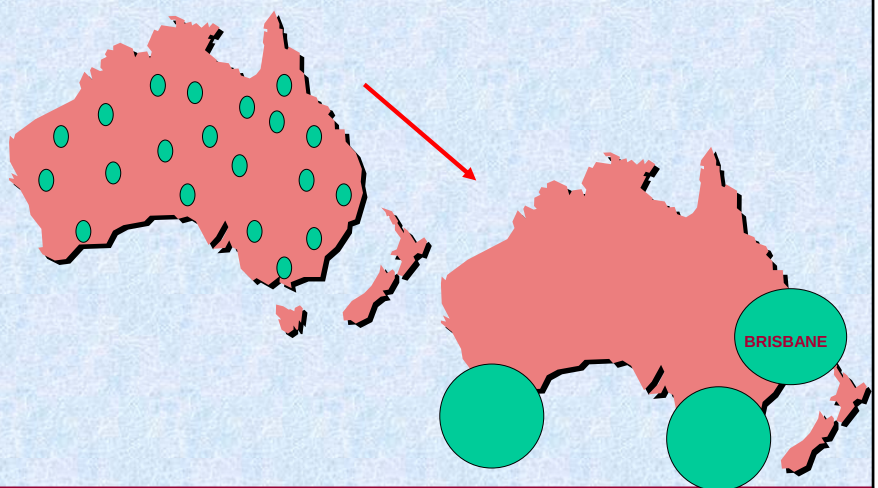
MODELS OF SUCCESSFUL GLOBAL COMPANIES

ZESPRI

- $A 900 million exports
- grower-owned company
- markets from a single desk
- represents 90% of New Zealand kiwifruit growers
- licensed growers in NZ, Italy, California
- demands on farm best practice
- QA certified

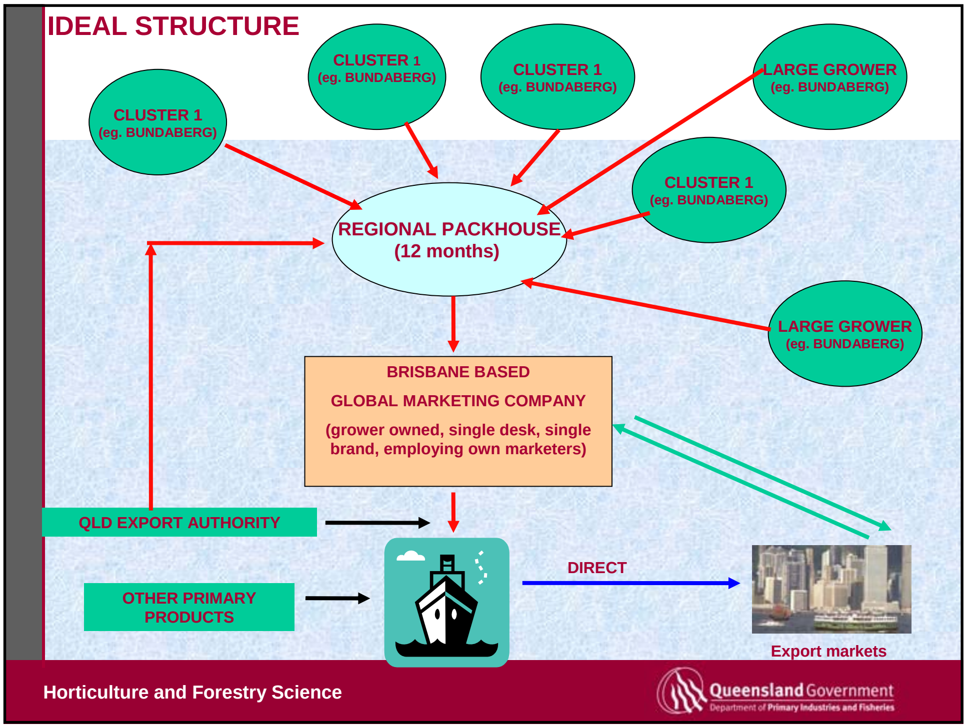


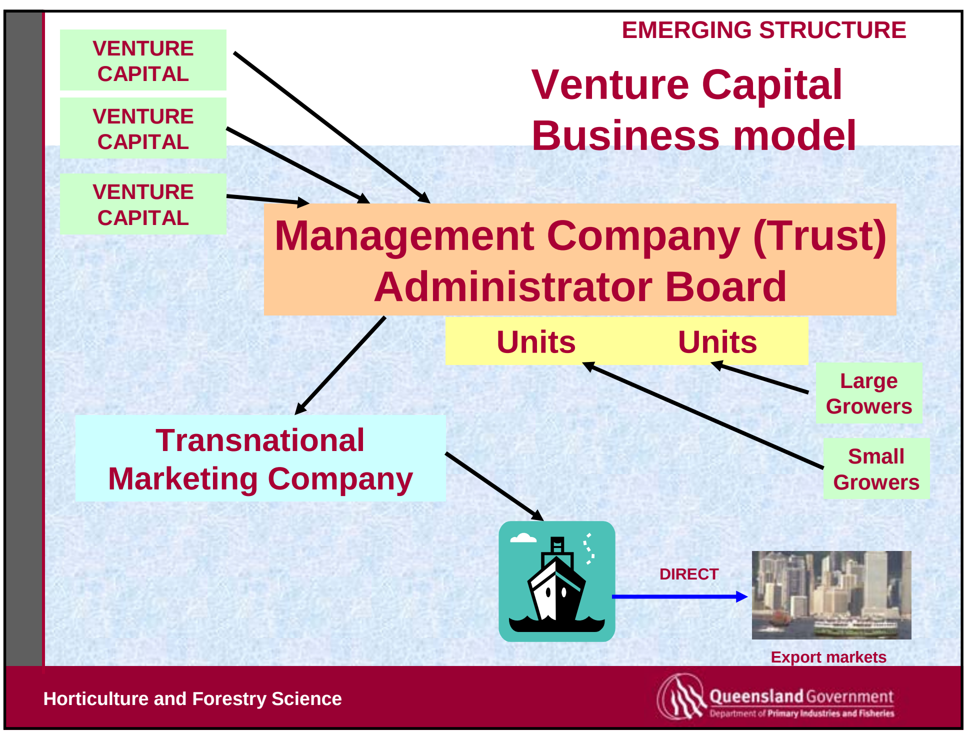
• IN 2003, 2100 COMPANIES REGISTERED TO EXPORT
• MAJORITY UNDERTAKEN BY 180
• AIM FOR 3 TO 5 GLOBAL MARKETING COMPANIES

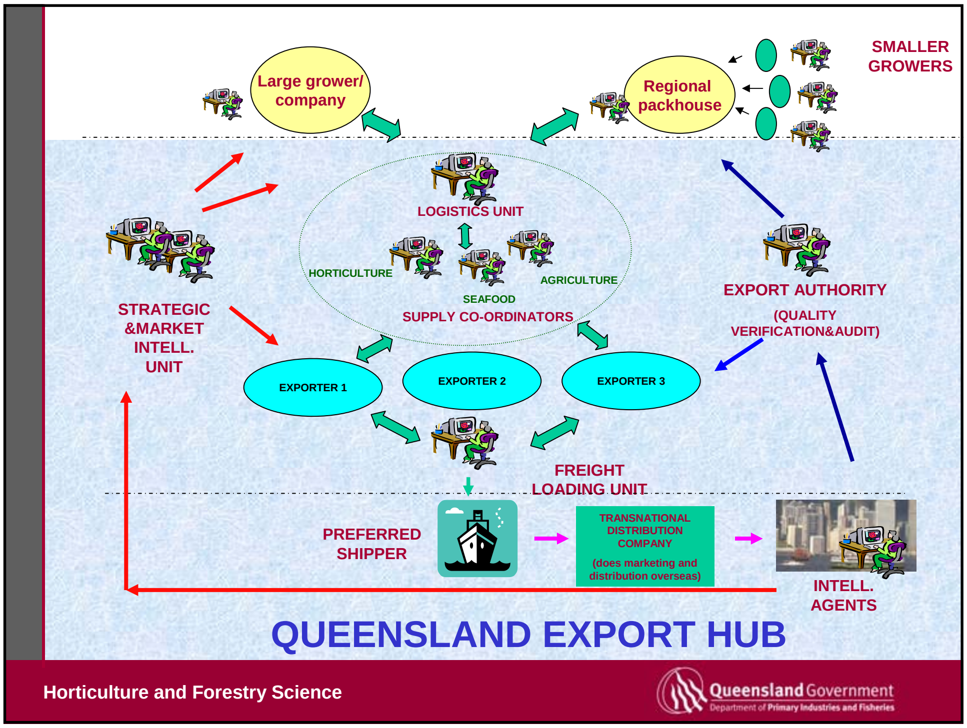


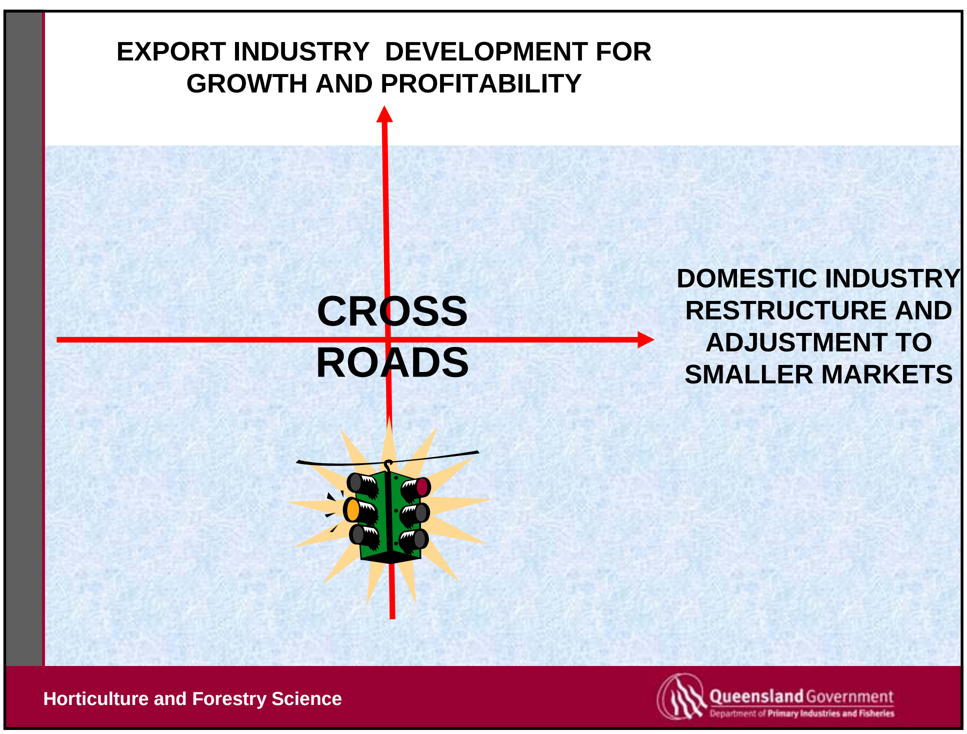
GLOBAL CLOSED LOOP MARKETING

- DURABLE COMPETITIVE EDGE (OLIGOLIPOLISTIC)
- LICENSE VARIETIES GLOBALLY
- LICENSE MARKETING GLOBALLY
- NORTHERN AND SOUTHERN HEMISPHERE ALLIANCES
- ECONOMY OF SCALE
- ALL YEAR-ROUND SUPPLY


IDEAL STRUCTURE
CLUSTER 1
(eg. BUNDABERG)
CLUSTER 1
(eg. BUNDABERG)
CLUSTER 1
(eg. BUNDABERG)
LARGE GROWER
(eg. BUNDABERG)
CLUSTER 1
(eg. BUNDABERG)
REGIONAL PACKHOUSE
(12 months)
LARGE GROWER
(eg. BUNDABERG)
BRISBANE BASED
GLOBAL MARKETING COMPANY
(grower owned, single desk, single brand, employing own marketers)
QLD EXPORT AUTHORITY
OTHER PRIMARY PRODUCTS
DIRECT
Export markets
Horticulture and Forestry Science
Queensland Government
Department of Primary Industries and Fisheries


EMERGING STRUCTURE
Venture Capital
Business model
VENTURE CAPITAL
VENTURE CAPITAL
VENTURE CAPITAL
Management Company (Trust)
Administrator Board
Units
Units
Large Growers
Small Growers
Transnational Marketing Company
DIRECT
Export markets
Horticulture and Forestry Science
Queensland Government
Department of Primary Industries and Fisheries


Large grower/ company
Regional packhouse
SMALLER GROWERS
LOGISTICS UNIT
HORTICULTURE
AGRICULTURE
SEAFOOD
SUPPLY CO-ORDINATORS
STRATEGIC &MARKET INTELL. UNIT
EXPORT AUTHORITY
(QUALITY VERIFICATION&AUDIT)
EXPORTER 1
EXPORTER 2
EXPORTER 3
FREIGHT LOADING UNIT
PREFERRED SHIPPER
TRANSNATIONAL DISTRIBUTION COMPANY
(does marketing and distribution overseas)
INTELL. AGENTS
QUEENSLAND EXPORT HUB
Horticulture and Forestry Science
Queensland Government
Department of Primary Industries and Fisheries


EXPORT INDUSTRY DEVELOPMENT FOR GROWTH AND PROFITABILITY
CROSS ROADS
DOMESTIC INDUSTRY RESTRUCTURE AND ADJUSTMENT TO SMALLER MARKETS
Horticulture and Forestry Science
Queensland Government
Department of Primary Industries and Fisheries

43 500 CONTAINERS