

Australian vegetable export opportunities



Introduction

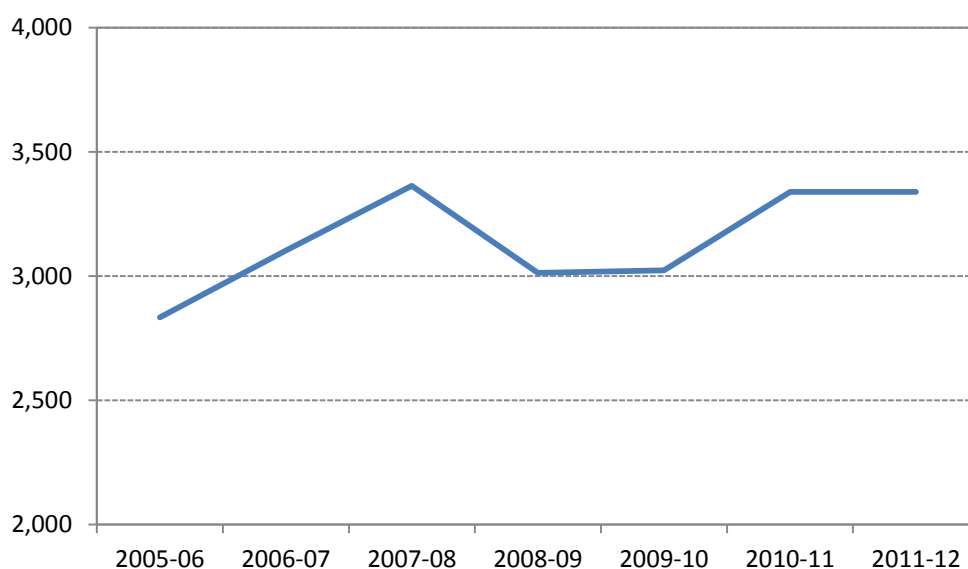
Trade is becoming an increasingly important issue for the Australian vegetable industry as global trade in food products increases. The vegetable industry has undertaken research analysing the effect of imports on the industry, however, there has been little work conducted on exports.

This discussion paper will explore Australian vegetable exports, in particular vegetable export opportunities for Australia in the future. The research examines the current state of the vegetable export market by analysing individual vegetable commodities and growth markets. The paper also draws upon the findings of Australian Government reports and information obtained via AUSVEG trade missions in compiling its findings.

The Domestic Market

The Australian vegetable industry has enjoyed slow but steady growth in recent years, with the gross value of vegetable production increasing from \$2.8 billion in 2005-06 to \$3.3 billion in 2011-12¹.

Figure 1: Gross value of vegetable production, 2005-06 to 2011-12 (\$m)



Source: ABS, Catalogue 7503.0 Value of Agricultural Commodities Produced, 2011-12

The majority of Australian vegetable production is sold in domestic markets. Australian grown vegetables account for 85 per cent of vegetable products sold in Australia, with the remaining 15 per cent imported².

Vegetable produce is primarily distributed to local fresh produce wholesalers, retail chains and vegetable processors. These distribution channels account for around 92 per cent of production³, while exports make up around 7 per cent of production and 1 per cent is sold direct to consumers⁴.

¹ ABS Catalogue 7503.0, Value of Agricultural Commodities Produced, 2011-12

² AUSVEG, Australian Vegetable industry Strategic Investment Plan 2012 – 2017, 2012

³ IBIS World, Industry Report AO113, 'Vegetable Growing in Australia', February 2011, p.18

⁴ ABS Catalogue 5465.0, International Trade, Australia, 2011-12

The high levels of produce sold locally have led to the majority of resources being allocated to cater for the domestic market. Much of the research and development work undertaken by the industry has been focused on increasing production productivity and understanding domestic consumer habits and preferences.

The focus on the domestic market has benefited vegetable growers by informing them about domestic market conditions and preparing them to meet changing consumer needs.

However, the focus on the domestic market has contributed to an oversupply of vegetable produce, with an estimated 25 per cent of vegetable production going to waste each year⁵. This in turn reduces vegetable prices to levels that may not be commercially sustainable and leads to an increase in unsold product through wastage.

Growers operating in the domestic market also face pressure due to the market dominance of the major retailers. The major retailers' share of Australian food consumption has increased in recent years, allowing them to demand lower prices and higher quality standards⁶. The retailers are increasingly looking to foreign suppliers for vegetables in an effort to raise operating margins and supply fresh produce all year round. This puts pressure on farm returns as Australian growers struggle to compete with cheaper imports⁷.

The over-reliance on the domestic market leads to short-term problems with oversupply and lack of control of the supply chain. In the longer term, it inhibits the industry fulfilling its potential and limits future growth opportunities.

Looking Abroad

While issues with oversupply and pricing pressure are causing concern for vegetable growers, it also creates opportunities, as evidenced by the numbers of growers turning their attention abroad⁸.

In the past, vegetable growers have been reluctant to expand beyond Australian shores. Most growers have a limited experience of international trade and believed that the development of export markets was too difficult or time-consuming⁹. These impediments reduce export growth as there are few growers with the knowledge and expertise to share with growers looking to export.

However, attitudes are shifting. In May 2013, the Australian Government released the National Food Plan outlining a vision to grow food-related exports and build stronger trade and investment relationships¹⁰. The Asian Food Markets Research Grants program was launched offering funding for research and development projects designed to take advantage of new agriculture and food export opportunities arising from growing demand in Asia.

⁵ Rogers, G. Identifying new products, uses and markets for Australian vegetables: A desktop study, 2013

⁶ Inside Retailing, Duopoly dominates food spend, 2012

⁷ IBIS World, Outdoor Vegetable Growing Industry in Australia, 2013

⁸ AUSVEG, Australian vegetable growers ready to rise to the global food challenge, 2013

⁹ ABARES, Australian vegetable growing farms: An economic survey 2010-11 and 2011-12, 2012

¹⁰ DAFF, National Food Plan, 2013

The 2013 AUSVEG National Convention saw a large number of growers attend the Exporting to China Symposium. Many growers expressed an interest in exporting, but lacked the knowledge and capability to do so.

Research shows that export markets offer the greatest opportunity to Australia's vegetable industry. Modelling undertaken by the Centre for International Economics suggests that the gains from increases in exports offer the greatest potential returns on research and development investment¹¹. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) predicts that world demand for fruit and vegetables will increase significantly over coming decades¹².

The growing demand from international markets and freeing of trade barriers will present growers with opportunities that did not exist before. Strong economic growth in developing countries is likely to spur demand for vegetables. Developing countries are growing at more than 5 per cent per year, with East Asian countries growing at 7 per cent¹³. These high growth rates are projected to continue, leading to an increase in demand for quality food commodities.

Some vegetable growers are recognising these opportunities. ABARES found that the more profitable vegetable growers are more likely to export¹⁴. These growers recognise that expansion to overseas markets mitigates the risks of the domestic market and increases the scope for future growth.

Providing growers with an understanding of export markets is crucial to success in international markets. It is vital for growers to build an understanding of specific export markets, their opportunities, and the capacity to establish and grow in these markets over time.

State of the Export Market

Vegetable exports make up a very small proportion of Australian agricultural exports. Only 4 per cent of growers currently sell vegetables for export¹⁵.

Vegetable exports (excluding dried vegetable exports) have remained flat in the last seven years, totalling \$252 million in 2011-12¹⁶. Dried vegetables contributed an additional \$248 million in 2011-12. However, dried vegetables are excluded from the report as they are not included in the Australian Bureau of Statistics measure of 'vegetables for human consumption'.

¹¹ AUSVEG, Australian Vegetable industry Strategic Investment Plan 2012 – 2017, 2012

¹² ABARES, Food demand to 2050: Opportunities for Australian agriculture, 2012

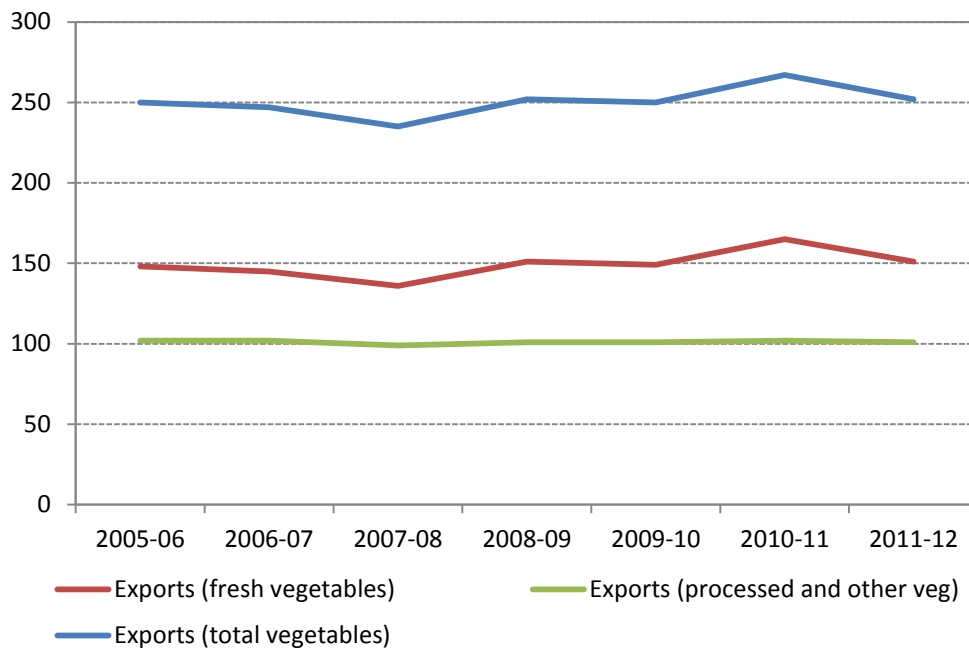
¹³ IMF World Economic Outlook, April 2013

¹⁴ James, I. 'The other side of the coin', Vegetables Australia, January/February 2011

¹⁵ ABARES, Australian vegetable growing farms survey, 2012

¹⁶ ABS Catalogue 5465.0, International Trade, Australia, 2011-12

Figure 2: Value of vegetable exports, 2005-06 to 2011-12 (\$m)

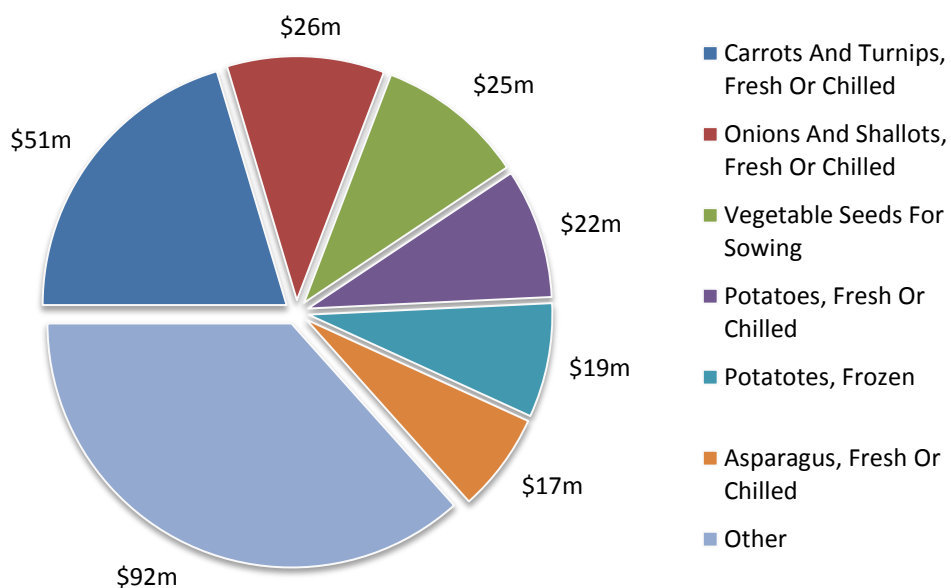


Source: Global Trade Information Service, sourced from ABS International Trade data, 2011-12

Vegetable exports have held steady despite the strong appreciation of the Australian dollar from US75c in 2005-06 to US\$1.03 in 2011-12. Had the dollar not increased as strongly, it is likely that exports would have been higher.

The bulk of vegetable exports were fresh vegetables, which comprised \$151 million of total exports in 2011-12. Fresh carrots and turnips were the largest vegetable commodity exported, followed by fresh and frozen potatoes, and fresh onions and shallots.

Figure 3: Vegetable exports by vegetable commodity, 2011-12 (\$m)



Source: Global Trade Information Service, sourced from ABS International Trade data, 2011-12

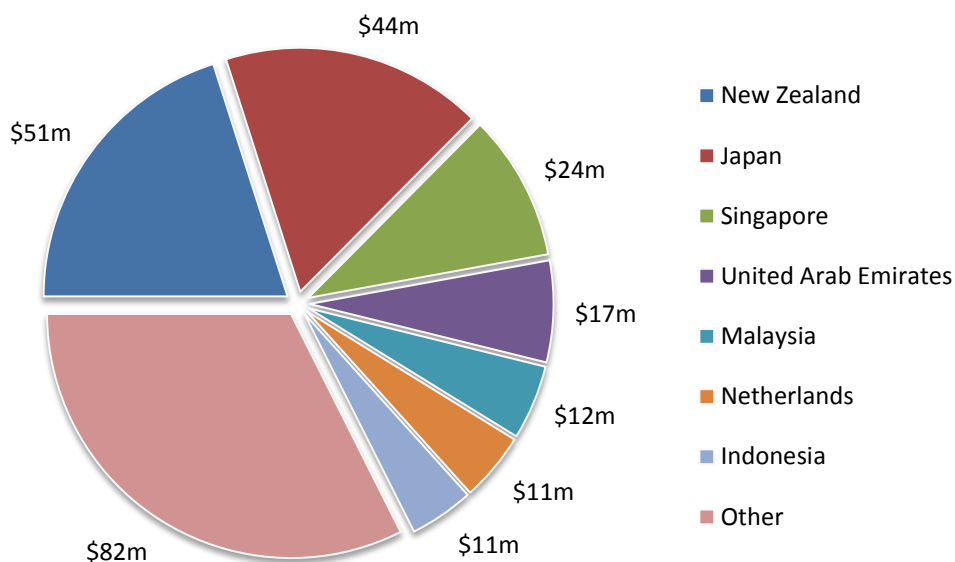
New Zealand was Australia’s largest export market in 2011-12, with a total value of \$51 million. However, vegetable exports to New Zealand have been declining across a range of vegetable products, including frozen potatoes and fresh tomatoes¹⁷. It is expected that Japan will overtake New Zealand as Australia’s largest export market in 2012-13. Exports to Japan have experienced solid growth in recent years, in part due to the recovery in the Japanese economy.

Besides New Zealand, most of Australia’s export markets have seen moderate to high growth. Vegetable exports to Australia’s northern neighbours have experienced sustained growth over recent years and this is likely to continue. In the last five years, exports to Indonesia have increased from \$6 million to \$11 million and exports to Papua New Guinea have grown from \$3 million to \$7 million. Both Indonesia and Papua New Guinea have experienced strong economic growth in recent years, which has in turn led to an increase in vegetable consumption.

Demand for vegetables in Asia has been increasing and has led to strong export growth in these markets. Exports to South Korea and China have more than doubled to \$9 million and \$2 million respectively in the last five years. China, in particular, has enormous future potential for Australian vegetable growers, considering that it presently makes up less than 1 per cent of total vegetable exports (see Box 1: The Emergence of China).

The rising affluence of Asian consumers is leading to demand for quality vegetables. These consumers have demonstrated a willingness to pay higher prices for quality produce and pre-packed products that offer greater convenience.

Figure 4: Vegetable exports by country of destination, 2011-12 (\$m)



Source: Global Trade Information Service, sourced from ABS International Trade data, 2011-12

Australia’s vegetable trade balance has been deteriorating for more than a decade, as exports have not kept up pace with imports. The trade balance has dramatically reversed from a net surplus in 2002-03 to a deficit of \$452 million in 2011-12.

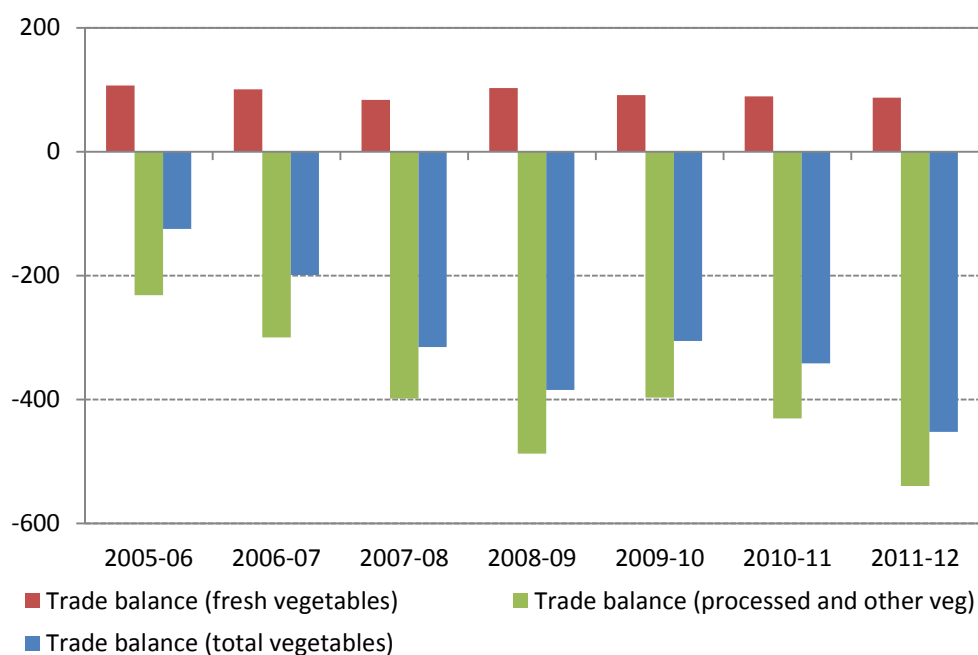
¹⁷ Global Trade Information Service, sourced from ABS International Trade data, 2011-12

The decline in the trade balance is largely attributed to the increased imports of frozen and processed vegetables to Australia. Imports of frozen and processed vegetables have increased by 93 per cent and 42 per cent respectively in the five years to 2011-12, driven by a doubling of imports of prepared potatoes and mixed vegetables¹⁸.

It is likely that imports of processed and frozen vegetables will continue to grow, due to the lower prices of imported product and a change in consumer preferences that favour frozen vegetables¹⁹.

Fresh vegetable imports have also increased in recent years, primarily in garlic and asparagus. As a result, the trade balance of fresh vegetables has experienced a small decline. Despite the decline, the trade balance of fresh vegetables remains in surplus.

Figure 5: Vegetable trade balance, 2005-06 to 2011-12 (\$m)



Source: Global Trade Information Service, sourced from ABS International Trade data, 2011-12

Vegetable exports composed a mere 0.8 per cent of the \$30.6 billion value of Australian food exports in 2011-12. In comparison, grain and meat exports are more than 25 times larger than vegetable exports and are worth \$8.8 billion and \$7.2 billion of the Australian food export market respectively²⁰.

Given the success of other Australian agricultural exports, there is no reason why vegetables should be left behind.

¹⁸ Global Trade Information Service, sourced from ABS International Trade data, 2011-12

¹⁹ Global Industry Analyst, Frozen Fruits and Vegetables A Global Market Perspective, 2012

²⁰ ABARES, Agricultural Commodities, 2012

Opportunities and challenges

Growing populations, rapid urbanisation and industrialisation in Asia is leading to a loss of agricultural land²¹. This has led to higher food prices and an increase in food shortages globally²².

Australia is likely to benefit from an increase in food demand due to its proximity to Asia. Rising incomes across the Asia Pacific region have led to an increase in consumption of vegetables and Australian exporters are well positioned to target these growing consumer markets. It is predicted that higher income consumers in Asia will spend up to five times more on high quality food products compared to the lowest income brackets²³. This is evidenced in Singapore, where Australian carrots hold the largest market share despite costing almost 90 per cent more than carrots from China²⁴.

Australian vegetable growers have comparative technological advantages. The mechanisation of vegetable growing has reduced labour costs and improved productivity. Technological developments have improved fresh vegetable shelf life, enabling fresh vegetables to be shipped to a larger number of destinations. To become a key supplier of vegetables in export markets, Australian producers must continue to adopt new farm technologies to increase efficiency and reduce the industry's dependence on labour²⁵.

Growers have the opportunity to take advantage of seasonal conditions to export vegetables to overseas markets during times when overseas production slows. This strategy has been successful for other vegetable exporting countries.

While opportunities for exports are opening up, there are challenges too.

One of the major challenges that growers will have to contend with is competition from other vegetable exporting countries. There is a high level of global self-sufficiency in vegetables and some Asian markets that have traditionally imported Australian vegetables are becoming net exporters of vegetables²⁶. The opening up of trade barriers will further intensify competition. This will be particularly challenging for Australian growers, given high input costs and limited investment capital in the industry. Australia's labour and marketing costs are among the highest in the world.

Australia's isolation also means higher transport and logistics costs. Domestic trucking and freight costs are comparatively high in Australia. However, transportation of fresh vegetables is improving and Australia's proximity to Asia results in lower shipping costs and delivery times. Despite this, growers still face transportation issues in securing freight capacity and ensuring the proper handling of produce. For growers to succeed at exporting, it is essential that the supply chain infrastructure is efficient and cost-competitive.

Another challenge vegetable growers face is the high Australian dollar. The Australian dollar traded at historical highs during 2011 and 2012, reducing the competitiveness of Australian vegetables on

²¹ Wee, R. Cold Chain Best Practices – Difficulties and Opportunities in Asia, 2013

²² FAO Food Price Index, 2013

²³ Bryant, G. Opportunity Enormous for Australian Agriculture Exports to Asia, 2013

²⁴ Bensley, T. Exporting Vegetables to China: Examining Opportunities and Barriers, 2013

²⁵ Australian Government, Australian farms and farming communities, 2011

²⁶ AgEconPlus, Domestic and Export Market Access and Trade Viability Issues, 2013

the global market. However, the decline in the Australian dollar in the last six months to US90c in August 2013 is expected to benefit vegetable exporters.

Other impediments to export include a lack of understanding regarding crop scheduling, a lack of knowledge and relationships in export markets, trade barriers in foreign markets, an absence of local agents, and lack of competitive scale.

Box 1: The Emergence of China

Australia's trade with China has surged in recent years, spurred on by China's strong economic growth. Vegetable trade is no exception. Vegetable exports to China have risen strongly from - \$690,000 in 2006-07 to \$1.9 million in 2011-12²⁷.

While vegetable exports to China have been growing, they represent less than 1 per cent of Australia's total vegetable exports and only a fraction of Australia's \$1.9 billion agrifood exports to China²⁸. Reasons for this may be that growers see the Chinese market as too hard, too time consuming, tariff and nontariff barriers, and lack of market information²⁹.

China is becoming a major player in the international trade of vegetables as both an importer and exporter. Vegetable production in China is significantly higher than in Australia, with China producing 561 million tonnes of vegetables in 2011³⁰ compared with 3 million tonnes in Australia³¹.

However, there exists scope for Australian growers to pursue export opportunities with China. The urbanisation of China is reducing farming land. Its exports to Australia are primarily more labour-intensive crops, such as garlic and mushrooms³². Furthermore, China's increasing population and wealth are driving demand for high quality food products.

Increasing household income and vegetable prices in China should encourage vegetable growers looking to export to the Chinese market. While vegetable consumption in China has remained steady over the last decade, China's vegetable imports have tripled over the past 10 years to around \$100 million³³ and research has shown that China's consumption of vegetables increases with higher incomes and urbanisation³⁴.

Food safety concerns in China have led many higher income Chinese households to purchase quality produce from overseas suppliers. Chinese customers have shown a propensity for paying a premium price for quality vegetables. Estimates show that 83 per cent of Chinese middle-class consumers are willing to pay more for safe food products³⁵.

²⁷ Global Trade Information Service, derived from ABS International Trade data, 2012

²⁸ DFAT, Feeding The Future, 2012

²⁹ Bensley, T. Exporting Vegetables to China: Examining Opportunities and Barriers, 2013

³⁰ ChinaAg, Market Intelligence on China's Agriculture & Food Industry, 2011

³¹ ABS Catalogue 7121.0, Agricultural Commodities, Australia

³² ABS Catalogue 5465.0, International Trade, Australia, 2011-12

³³ Get Farming, Chinese vegetable imports have tripled, 2011

³⁴ DAFF, Food Consumption Trends in China, April 2012

³⁵ A.T. Kearney, Food Safety in China: What it means for global companies, 2007

Growth in Australian vegetable exports to China is expected to be helped by the completion the Australia-China Free Trade Agreement and the establishment of stronger business relationships with Chinese importers.

Tackling the Export Market

A team effort

Collaboration is the key to tackling the export market. Vegetable growers interested in exporting are encouraged to work with other growers across various agricultural commodities in order to share ideas and knowledge.

Building and enhancing relationships between growers will be integral to increasing vegetable exports. For growers new to exporting, it will be invaluable to access the knowledge of other growers who have been through the process before. There are many issues that a grower new to exporting will have to deal with. These include selecting which vegetables to supply, regulatory and logistical hurdles, identifying trading partners, building relationships with importers, and packaging and delivery. Collaboration is key to overcoming these hurdles and delivering benefits that may not be achieved individually.

Similarly, it is beneficial for growers to partner with overseas importers. These relationships are immensely valuable for growers as it helps them understand the customer's needs and work out how to meet them. Importers can also help build relationships with other customers and retailers.

AUSVEG conducted a Reverse Trade Mission in June 2013 hosting 20 importers, retailers and chefs interested in purchasing local produce. All the importers mentioned that they enjoyed meeting and networking with vegetable exporters to discuss opportunities for doing business together.

Developing a good understanding of cultural backgrounds and objectives is crucial to building these business relationships.

Growers are encouraged to utilise the resources and programs available through the vegetable industry and government. Austrade provides growers with a range of services including market research, business introductions and funding.

Building trust

It is a common misconception that it is quick and easy to establish an export operation. However, growers looking to export have to take on additional operational requirements in conjunction with current business operations.

Current Australian vegetable exporters say that consistency, reliability, and trust are key to tackling the export market. Trust takes time to build and it is vital that growers do their research and get to know their customers, their market, and their needs. It requires an ongoing interest in working with the customer, understanding of their culture, and open communication regarding any issues that may arise³⁶.

³⁶ Lee, T. Doing Business in China, 2013

Meeting the demands of overseas customers is an important component of developing export supply chains. Growers should look to offer products that cater towards the needs of the market and deliver on quality and time expectations.

Another element of building trust is through the branding of Australian vegetables. An objective of the Government's National Food Plan is to promote Australia as a globally recognised food brand that is synonymous with quality, innovation, safety and sustainability³⁷. According to the OECD, Australia ranked equal first with Denmark and the UK for food safety performance in 2010³⁸.

Future success in vegetable exporting will depend heavily on the ability to deliver produce of consistent quality³⁹. Given Australia's reputation for food safety and quality, it makes sense for Australian growers to compete on quality as opposed to price.

The AUSVEG Reverse Trade Mission demonstrated that there is potential for premium quality and niche Australian foods, as well as staples such as carrots and broccoli. ABARES notes that for many growers, exports remain low because they aim to compete on selling prices, which are not high enough to justify the degree of difficulty, time and cost associated with expanding markets abroad⁴⁰.

Many consumers in Asia regard the origin of their food as an indicator of quality. Australian producers can enhance the reputation and appeal of their product by promoting the sustainable attributes of their products and Australia's superior food production regulations. This can be done via branding, packaging and information presented on grower websites.

To assist growers, the government is working to reduce trade barriers and negotiate access to global markets and by working with businesses to sell their produce overseas. Expanding access to export markets is essential for supporting Australian growers and manufacturers as reducing tariffs and other trade barriers will improve the competitiveness of Australian exports.

Research and development work

It is recommended that research be undertaken to develop better approaches to export markets. These include looking at other countries that are successfully exporting vegetables, strategies to build connections with overseas customers, and training programs to assist growers in becoming export ready.

Countries that successfully export vegetables can provide plenty of insight for Australian vegetable growers. The Netherlands is the largest exporter of vegetables worldwide. A reason for their success has been their ability to effectively utilise growers associations and marketing organisations to enable more efficient picking, handling, and marketing of vegetables⁴¹.

A common theme among leading vegetables exporters is the ability to provide high quality products to countries in their off-season. This is common for places like Spain and Mexico which supply

³⁷ DAFF, National Food Plan, 2013

³⁸ DFAT, Feeding The Future, 2012

³⁹ IBIS World, Outdoor Vegetable Growing in Australia, 2013

⁴⁰ ABARES, Australian vegetable growing farms survey, 2012

⁴¹ Trade Nosis, Global Foreign NCE Trade Edible vegetables and certain roots and tubers, 2012

tomatoes nearly year-round to countries that do not have a suitable climate to grow tomatoes themselves⁴².

Australian growers can also look to successful domestic vegetable exporting industries. The carrot industry makes up 20 per cent of Australia's vegetable exports by successfully differentiating itself from overseas competitors on the basis of quality, safety, and reliability.

Other Australian agricultural industries provide lessons too. The Australian lamb industry was in a similar position to the Australian vegetable industry 20 years ago, but now exports \$1 billion of product per year⁴³.

It would be valuable for the vegetable industry to conduct research into Australian agricultural industries that have had success with exporting and investigate whether there are lessons can be applied to the vegetable industry.

Conclusion

The growing global demand for vegetable products, rising global population, and increased incomes of Asian countries have simultaneously combined and present Australian vegetable growers with unprecedented opportunities.

Traditionally, the vegetable industry has relied upon the domestic market for its sales. However, in the last decade, the domestic market has been eroded by competition from cheap foreign vegetable imports. In particular, processed and frozen vegetable imports have surged, leading to a widening of the vegetable trade deficit.

As trade barriers continue to decline, international trade will play an increasing role in vegetable sales. Countries that are not export competitive will ultimately become targets for exporting countries.

Growth in vegetable exports has been stagnant in recent years, hurt by a strong Australian dollar and high input costs. Despite these challenges, vegetable exports to Asian markets have increased substantially, led by a shift in consumer preferences towards quality and safe food products. This trend is likely to continue with the increasing affluence of Asian countries and the recent decline of the Australian dollar enabling Australian produce to be more cost competitive.

Many growers are beginning to realise that the future viability of the industry lies in its ability to build exports. The key to this is building relationships and trust between domestic growers and overseas customers. The vegetable industry and government have an important role to play in working together with growers to deliver research and development work that supports the development of export opportunities.

⁴² AUSVEG, Australian Vegetable industry Strategic Investment Plan 2012 – 2017, 2012

⁴³ ABC, Lamb's lessons for vegetable exporters, 2013