

# **Horticulture Innovation Australia**

## **Final Report**

### **Asian Market Access Study Tours 2014**

Annie Farrow  
Apple & Pear Australia Limited (APAL)

Project Number: AP14701

## **AP14701**

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Fax: (02) 8295 2399

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# Contents

Summary .....3

Keywords.....5

Introduction .....6

Methodology .....9

Outputs ..... 11

Outcomes .....23

Evaluation and Discussion.....25

Recommendations.....26

Appendices .....27

## Summary

Only Tasmania can export apples to China. Mainland Australia does not yet have access to this promising market. Apples from mainland Australia are “next in the queue” once the protocol for the export of Australian nectarines is established.

This project provided for specific initiatives aimed at building and establishing relationships that will underpin securing a position for Australian apples and pears in China.

Project funding enabled APAL representatives to attend key trade events, missions and meetings with Chinese Government officials. This included attendance and participation at:

- Asia Fruit Logistica and AsiaFruit Congress Hong Kong September 2014
- Victorian Agriculture Minister Trade Mission to China September 2014
- May 2015 meetings with General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), China Entry-Exit Inspection and Quarantine Association (CIQA), Chinese Academy of Agricultural Science (CAAS), Ministry of Agriculture (MoA) and the China Apple Association (CAA);
- Asian Market Insights Conference May 2015;
- Asia Fruit Logistica and AsiaFruit Congress Hong Kong September 2015
- Fruit and Vegetable Fair Beijing September 2015

The objectives of these meetings and missions were to:

- Progress the status of the mainland Australian apple access request and seek support for a new request for access for Australian pears into China.
- Gathering intelligence and market understanding; make new connections and strengthen existing relationships with buyers, the supply chain and market knowledge experts.
- Participation in trade events such as AsiaFruit Logistica and Fruit and Vegetable Fair to showcase Australia apples and pears;
- Participate in the development and execution of a Memorandum of Understanding with the Chinese to enhance long term relationships.

Through meetings with foreign government officials and associated parties, importers, retailers, and wholesalers, this project successfully helped to shift the industry closer toward the ultimate goal of:

- Gaining market access for mainland Australian apples into China. The time frame to achieve market access is within the next 3-5 years.
- Continued growth in exports of apples from Tasmania to China;

- Identification of whether an access pathway for mainland Australian pears into China should be pursued;
- Continued growth in exports of apples and pears into Hong Kong and South East Asia;

## **Keywords**

Market Access, Market Development, China, Asia Fruit Logistica, Fruit and Vegetable Fair

## Introduction

The Australian apple and pear industry needs to become more export oriented if it is to grow in size and improve profitability. In the past, Australia has exported reasonable quantities apples and pears. For example, data indicates that in the year 2000, there were some 30,000 tonnes of apple exports and 20,000 tonnes of pear exports. Exports remained steady at these volumes until 2003, but they declined in 2004, and fell away completely by 2008; due to external factors including a very high Australian dollar.

Despite a push on exports in the current Apple and Pear Industry Strategic Plan (New Horizons), a combination of strong domestic prices, the strong Australian dollar, and our general price un-competitiveness have seen apple exports diminish to an insignificant level (less than 0.1% of fresh apple production) in 2014. Pear exports fared considerably better with renewed grower interest in trade, with 12% of fresh pear production sold overseas.

The need to export is particularly pertinent given the potential domestic over-supply of high quality Cripps Pink apples and the prospect of increased volumes from recent plantings.

At present there is no licensing of growers in Australia, and thus there is limited control on quality and availability, and therefore no ability to develop the brand. If these trends continue, and if export markets for these world class apples are not established, price pressure domestically could see this premium product becoming a commodity in Australia.

Exports of apples and pears are an important mechanism to maintain domestic prices - by tightening local supplies (assuming no imports are attracted inwards). Growers will also have better negotiating power against supermarkets if export markets offer a sustainable alternative to the domestic wholesale markets.

Whilst these basic facts about the Australian apple and pear industries are challenging, the industry is slowly changing to a more consolidated, profit focused industry with a higher level of exports.

Australia has a number of positives in its favour:

- It is the home of and arguably the best producer of Cripps Pink apples and also the owner of the Pink Lady trademark.
- It has a long history in successful exports of both apples and pears.
- It is well equipped with cold storage facilities to supply all season round.
- It has taken significant steps in productivity improvement in both the orchard and pack shed.
- It is close to Asian markets, particularly South East Asia.
- Considerable work has been undertaken on the brand attributes of Australian produce focussing on clean, green and safe produce (Austrade).

- Recent consolidation has seen a much more business-like approach to supply both domestically and for exports.

At the July 2014 Apple and Pear Key Stakeholders Roundtable renewed commitment was sought from the industry's largest operators to place 2 containers each into export markets over the coming twelve months. For the ten months January to October 2015 there were 3,160 tonnes of fresh apples exported (99 per cent higher than last season to date) and 8,915 tonnes of pears exported (40 per cent higher than the same period last year).

Reflecting the industry Strategic Plan, New Horizons 2010-2015, the Asian Market Access project was aligned with other initiatives including:

- Improving yields and pack-out rates to improve international competitiveness through the Future Orchards program (AP11017) and technical support (AP11014);
- Rapid development and/or planting of new varieties that match consumer requirements (Prevar and State based breeding programs);
- Reviewing the portion of the marketing funds directed toward exports to undertake active in-store promotional campaigns (Australia Fresh) with foreign retailers (AP11016).

Likewise, the Asian Market Access project was aligned with AP11016 (Market Development Manager), as well as previous efforts by APAL and the Victorian Government under AP11023 (Asian Market Development). In different ways each of these projects assisted to build an export culture and provide growers opportunities to develop or build their export market capability and presence.

Whilst this project principally funded travel to international meetings, missions and market access events, it was directly supported by resources and effort made available under AP12037 (Apple and Pear Industry Development).

Building industry export capability and pursuing market development initiatives in existing markets is critical, it is equally important that access to new markets is secured and that the right of entry to existing markets is maintained. Australia is well behind most major competitors – New Zealand, Chile and the US – in securing access to a number of markets and has lost others (Taiwan several years ago and Vietnam, more recently).

The apple and pear Export Strategy which is nearing completion, nominates China amongst the highest ranking access priorities. Whilst regaining Vietnam currently ranks first (to be confirmed by the yet appointed Horticulture Innovation Australia apple and pear export marketing advisory panel), the pursuit of the Chinese market remains critical. This is because securing access will take sustained effort over many years, a lesson well learned by colleagues in the stone fruit industry. It also represents a fast growing market for imported fruit that is, at the moment, insatiable if high quality premium branded apple varieties can be delivered at the right price, to the right buyer in a seasonal window that compliments other southern suppliers.

This project principally centred on driving access initiatives for mainland Australian apples into China. Australia first lodged an access request for apples and stone fruit into China in 2006. In 2010, the Australian and Chinese authorities agreed upon an orderly four by four access queue; with Australian table grapes and cherries gaining access first, followed by Australian stone fruit and then apples.

The protocol for nectarines is still being finalised but we would hope that trade could begin with the



new season in 2016. This would free up a very busy Chinese quarantine authority to spend time to assess the market access request for Australian apple and pears. Developing and strengthening relationships with the relevant quarantine officials, as well as those organisations and people that have potential influence on access issues, was a key focus of this project.

The pursuit of market access is constantly under review against emerging consumer trends in markets as well as competitor activity. This project therefore also focussed on intelligence gathering and building rapport with China and Asian market knowledge experts more generally. With rapid economic growth the imported fruit markets in Asia change rapidly and become more complex. It is important that Australian growers are kept informed of developments so that they are better equipped to pursue commercial relationships.

In line with the above, the objectives of this Project were to:

- Seek clarification with Chinese Government officials on:
  - The status of the mainland Australian apple access request lodged in 2006 and reconfirmed by the Australian Government in 2010;
  - The process that would be employed under an import risk assessment;
  - Understand any key issues of concern to the Chinese about access for mainland Australian apples;
  - Understand what the Australian apple industry could do to assist in progressing the import risk assessment
- Promote the Australian apple industry as a collaborator to agents who might influence the import risk assessment, including CIQA and government departments and agencies related to AQSIQ, by demonstrating four proposed or current initiatives that will benefit the Chinese apple industry;
- Seek support for the request for access for pears into China;
- Gathering intelligence and market understanding - through conference participation and Trade Missions including on-site meetings with importers, wholesalers, and retailers to enhance market knowledge:
  - Obtain the latest information on consumer and retail trends;
  - Gain expert insights about the imported fruit business in China, including lessons learned from the experiences of other export supply countries and other fruit commodities;
  - Understand trends about and developments in laws and regulations, including tariff and non-tariff barriers impacting on fruit trade;
- Make new connections and strengthen existing relationships with buyers, the supply chain and market knowledge experts.
- Participation in trade events such as AsiaFruit Logistica and Fruit and Vegetable Fair to showcase Australia as a source of premium apples and pears and make new business

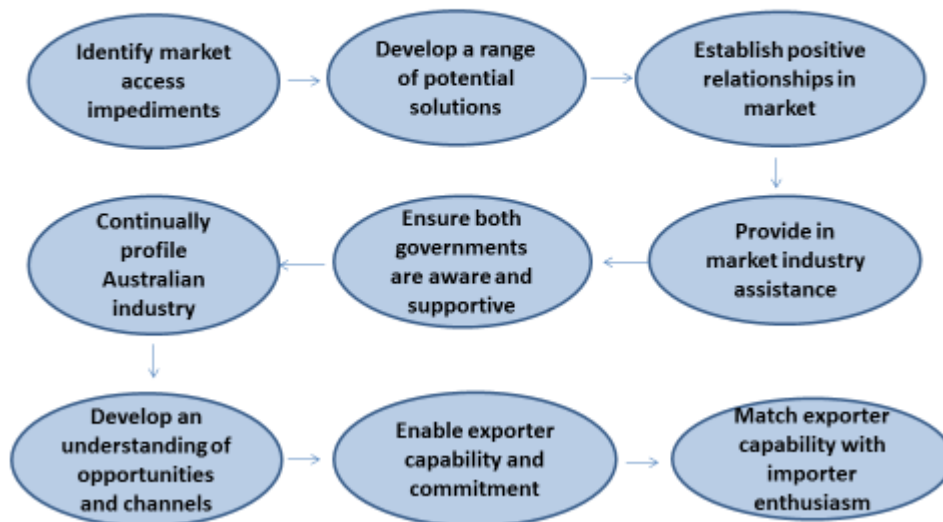
connections;

- Publication of articles and blogs on lessons learned to share knowledge with the Australian apple and pear industry;
- Provide informed yet informal intelligence back to the Australian and State government trade and market access officials;
- Participate in the development and execution of a Memorandum of Understanding with the Chinese to enhance long term relationships.

## Methodology

Market Access is often a tortuous undertaking. It involves (Figure 1) establishing an understanding of the current access impediments; developing potential solutions; securing key relationships in the market with both industry and government officials; creating and maintaining momentum in relation to industry to government as well as government to government relationships; ensuring that Australian industry has an understanding of and commitment to exporting to target markets; and profiling the industry with both government and industry (including potential importers).

Figure 1: Market Access Methodology



Consideration by Chinese quarantine officials to grant access for mainland Australian apples awaits the finalisation of trade protocols for Australian and Chinese nectarines – these are still being finalised. Whilst it is appropriate for industry to wait patiently in the access queue established by Australian and Chinese authorities in 2010, considerable effort is required to:

- Remain “in sight” of Chinese officials, to demonstrate a continued desire to access the market;

- Make new business connections and strengthen relationships with key players and officials who may have some influence on the speed of market access consideration;
- Better understand the technical pressure points so that protocols that enhance rather than impede trade can be pursued;
- Better understand how collaborative activity might accelerate access and the nature of that collaborative activity;
- Develop an on-going understanding about the market for imported apples and pears and its complexities, and to build that knowledge across potential Australian exporters so they are China-export ready when access is gained;
- Demonstrate to Australian Commonwealth and State government officials, as well as researchers, that the Australian apple and pear industry is committed to gaining access for mainland produce.

Broadly the methodology of this project centred on meetings and attendances to conferences, trade missions and trade fairs. In particular, emphasis was given to:

- Meetings with Chinese quarantine officials in Beijing to seek clarification on:
  - The status of the mainland Australian apple access request and seek support for consideration of a request for access for pears;
  - The process that would be employed under an import risk assessment
- Meetings with key influencers such as the Chinese import and quarantine association, Ministry of Agriculture, Chinese Academy of Agricultural Science; Apple Association of China;
- Gathering intelligence and market understanding through on-site meetings with importers, wholesalers, and retailers as well as with China knowledge experts;
- Participation in trade events such as AsiaFruit Logistica and Fruit and Vegetable Fair to showcase Australia as a source of premium apples and pears and make new business connections;
- Attend conferences such as Asian Market Insights and AsiaFruit Congress to strengthen relationships and enhance market knowledge;
- Participation in State Trade Missions (which achieves all of the above);
- Publication of articles and blogs on lessons learned to share knowledge with the Australian apple and pear industry;
- Provide informed yet informal intelligence back to the Australian and State government trade and market access officials;
- Participate in the development and execution of a Memorandum of Understanding with the Chinese to enhance long term relationships.

## Outputs

The principal outputs of the project include:

Date	Meeting	Australian Attendees
1st-5th September, 2014	Asia Fruit Logistica Hong Kong	John Dollisson (APAL)
21st - 26th September, 2014	Victorian Agriculture Minister Walsh Trade Mission to China 2014	Annie Farrow (APAL)
18th -19th May, 2015	Mainland Apple Market Access China;	John Dollisson (APAL), Annie Farrow (APAL) and Sam Lawrence (Hort. Innovation)
20th – 22nd May, 2015	China Market Insights China	Annie Farrow (APAL) and Sam Lawrence (Hort. Innovation)
1st September 2015	Asia Fruit Congress Hong Kong	John Dollisson (APAL), Annie Farrow (APAL)
2nd – 4th September, 2015	Asia Fruit Logistica Hong Kong	John Dollisson (APAL), Annie Farrow (APAL)
9th – 11th September, 2015	Fruit and Vegetable Fair Beijing and CIQA Meetings	Annie Farrow (APAL)

Each of these is described in more detail below.

- o **Participation in 2014 Hong Kong Fruit Asia Fruit Logistica**

Summary of Meetings held:

Date	Meeting	Attendee
1st-5th September, 2014	Asia Fruit Logistica Hong Kong	John Dollisson (APAL)
comprising	Asia Fruit Business Forum	
	Asia Fruit Congress	
	Asia Fruit Logistica Trade Fair	

John Dollisson attended the Asia Fruit Logistica Trade Fair held in Hong Kong 1-5th September 2014. Growth in fruit consumption throughout Asia continues to expand and export opportunities abound. Presentations made by importers and Asia experts were insightful. Acquaintances were renewed and new friendships developed.

The fragmented approach to displaying and branding Australian fresh fruit was of major concern: Australia had 34 exhibitors at the trade fair – in third place behind China (with 94 exhibitors) and Italy in second (with 39 exhibitors). It was disappointing to see that the Australian exhibitors were arranged under different company and association banners, with only five industries (apple and pear, avocados, cherry, table grapes and summerfruit) under the Australia Fresh arrangements.

Real presence and dominance of Southern Hemisphere supply could have been better achieved if an overarching Australian brand led traders into a designated Australian space where individual companies could then showcase their produce. This was what Chile did. Officially they only had one exhibitor but within their national pavilion many export products were on show and there was a sense of brand as well as strength in supply and capability and this was lacking across a disjointed Australian presence.

John Dollisson also attended presentations by Asian market specialists Asia Fruit Congress 2014 which preceded Asia Fruit Logistica. He also participated in the Asia Fruit Business Forum which was concurrent with Asia Fruit Logistica. Key themes centred on branding, opportunities for pears, food safety as a driver for product purchasing behaviour, the importance of packaging, understanding the emerging e-commerce phenomenon, how new technologies are making a difference to marketers and their success and the role that chefs play in fresh produce marketing in Asia. A full report is provided in Appendix 1.

- o **Victorian Agriculture Minister Walsh Trade Mission to China 2014**

Summary of meetings held

Date	Meeting	Attendee
21st - 26th September, 2014	Victorian Agriculture Minister Walsh Trade Mission to China 2014	Annie Farrow (APAL)
comprising	Guangzhou Jiangnan Wholesale Market	
	China Southern Airlines	
	Retailers/Importers: COFCO, Pagoda, Golden Wing Mau, Joyvio, Womai, SF Best.	
	Austrade (Chengdu)	
	China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)  China Entry-Exit Inspection and Quarantine Association (CIQA)	

Annie Farrow, Industry Development Manager, attended the Victorian Government Trade Mission to China from 21st September through to 26th September 2014 with Peter Walsh, then Minister for Agriculture. The horticulture group of the Trade Mission visited three cities - Chengdu, Guangzhou and Beijing. The Montague Group was represented but no other apple growers attended and this situation needs to be rectified in forthcoming Trade Missions.

The Mission enabled A Farrow to glean a number of market insights and learning lessons. Outlined in more detail in Appendix 2, discussions were held with officials from the Guangzhou Jiangnan Wholesale Market, China Southern Airlines, COFCO, Pagoda, Golden Wing Mau, Joyvio, Womai, SF Best, and Austrade (Chengdu). Principal lessons learned include:

- Chengdu, a tier two city of over 14 million (within its administrative area), is often overlooked by Australian firms in favour of more established destinations along the coast. Whilst the demand for imported fruit within Chengdu is growing rapidly, so too is demand to satisfy secondary markets in South West China.
- Chinese traders expect timely and adequate explanations about fruit quality, timing and volume availability well ahead of the commencement of trade – the poor 2014 Australian table grape season caused considerable angst.
- Australian packaging is very poor.
- Traders believe their level of influence with national market access authorities is low, though they have close relationships with provincial and city departments of commerce. Nevertheless they will recognise that greater access for Australian product represent greater trade opportunities for themselves;
- Australia should exploit its airfreight advantages over Chile for premium products;
- Pagoda fruit boutique retail outlets offer a great potential for Australian product and relationships with them should be explored in greater depth;
- Chinese customers are becoming more sensitive to others handling and touching fruit (for food safety reasons). Consequently punnets and packaging will be the “next big thing” (but this will be done in China rather than in Australia because it is considerably cheaper) according to Golden Wing Mau;
- Developing relationships with buyers in the Guangzhou Jiangnan Wholesale Market remains important, both as a source of market intelligence and as a potential entry point into the Chinese market as it is the largest fruit and vegetable distribution centre in China accounting for 60 - 70 percent of China's imported fruit.
- Food safety is a top priority and small growers don't offer the traceability and quality assurances that consumers and Chinese retailers are now demanding – Australian exporters are advised by COFCO to consolidate through sophisticated packing houses;
- More attention to the protocols is required of Australian (grape) exporters and shipping to Hong Kong with disregard to China's import requirements is not satisfactory – as learnt by the US;
- E-commerce is booming in fruit sales aided by the use of smart mobile phones.

A full report on the terrific initiatives of Pagoda was made available to Australian apple and pear growers and exporters at: <http://apal.org.au/top-chinese-greengrocer-seeks-tassie-apples/>

The horticulture Trade Mission also accompanied Minister Walsh to Beijing to meet with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the organisation responsible for undertaking import risk analyses, as well as with CIQA - China Entry-Exit Inspection and Quarantine Association. Preliminary comments were offered about the importance of trade between the two countries and the opportunities afforded by trade with Victoria which produces a significant portion of Australia's temperate fruit and vegetables.

Each of the industry delegates was invited to present their ideas about ways in which the countries could collaborate. Annie Farrow talked about two apple initiatives in China. The first related to the MoU that APAL signed with the Zhengzhou Fruit Research Institute (ZFRI) to share knowledge on

integrated pest management and possibly chemical residue systems. The second initiative relates to Pink Lady™ licensing to a Fuping Agricultural Co-operative to sell a small volume of Chinese grown Cripps Pink apples under the Pink Lady™ brand in 2014 as a trial. A marketing program will commence in early 2015 when product comes onto the Chinese market. The prospect of these initiatives seemed to be well received by the Chinese authorities.

- o **Mainland Apple Market Access China May 2015;**

Summary of meetings held:

Date	Meeting	Attendees
18th -19th May, 2015	Mainland Apple Market Access China;	John Dollisson (APAL), Annie Farrow (APAL), Sam Lawrence (Hort. Innovation) and Bin Lu (Victorian Agricultural Counsellor Shanghai)
comprising	Australian Embassy: Dr Anna Somerville, Counsellor (Agriculture-Policy), Mr Adam Balcerak, Counsellor (Agriculture-Technical), Mr Lachlan Crews, Counsellor (Economic) and Ms Susan Corbisiero, Trade Commissioner, Austrade	
	China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)  China Entry-Exit Inspection and Quarantine Association (CIQA)	
	Chinese Academy of Agricultural Sciences (CAAS) and Zhengzhou Institute Fruit Research Institute (ZFRI), a division of CAAS.	
	Ministry of Agriculture (MoA) and China Apple Association	

In May (18<sup>th</sup>-19<sup>th</sup>) 2015 A Farrow and J Dollisson travelled to Beijing with the primary purpose of demonstrating collaborative efforts being pursued by Australian apple growers to assist the Chinese apple industry and to progress the access request for mainland Australian apples. A briefing was held with the Australian Embassy: Dr Anna Somerville, Counsellor (Agriculture-Policy), Mr Adam Balcerak, Counsellor (Agriculture-Technical), Mr Lachlan Crews, Counsellor (Economic) and Ms Susan Corbisiero, Trade Commissioner, Austrade.

Adam Balcerak then accompanied us to meet with representatives from the General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) and China Inspection and Quarantine Association (CIQA). The Chinese participants included: Mr Luo Jun, Official, Biosecurity, AQSIQ, Mr Bao Junkai, Secretary-General, CIQA, Mr Feng Chunguang, Chair, Animal and Plant Health Committee, CIQA and Mr Fu Jingsheng, Official, CIQA, amongst others. The Director of Biosecurity at AQSIQ, Mr Wu Hao, was a late apology.

Following introductory remarks of welcome, APAL outlined our proposal to advance both the Australian and Chinese apple industries through a strategic partnership. APAL indicated that Australian apple growers hoped to assist China's apple growers through 4 programs:

- Improve profitability and quality of China growers via licensing Australia's Pink Lady® Brand;
- Evaluation of Australian co-owned (with Pipfruit NZ and Plant and Food Research NZ under Prevar) apple and pear varieties in China using Chinese expertise. The potential for commercialisation in China to be decided upon by Prevar;
- Seek funding to assist in the development of an Integrated Pest Management system for China apple growers as bags are removed;
- Provide Skills and technology transfer on Integrated Pest Management for Shaanxi Province via the State Government of Tasmania.

China was asked to assist Australian growers with 2 programs:

- Assist in speedy access for mainland Australian apples into China
- Consideration of access for Australian pears into China

APAL also showed a video: <https://youtu.be/l6zeyJUoa-s> which demonstrated the positive impact that licencing of a small volume of Pink Lady® to one agricultural co-operative has had on poor farmers in Fuping county, Shaanxi province. This video was exceptionally well received.

AQSIQ indicated that they have commenced the information gathering stage for the import risk assessment of Australian mainland apples into China - a terrific outcome of this short visit.

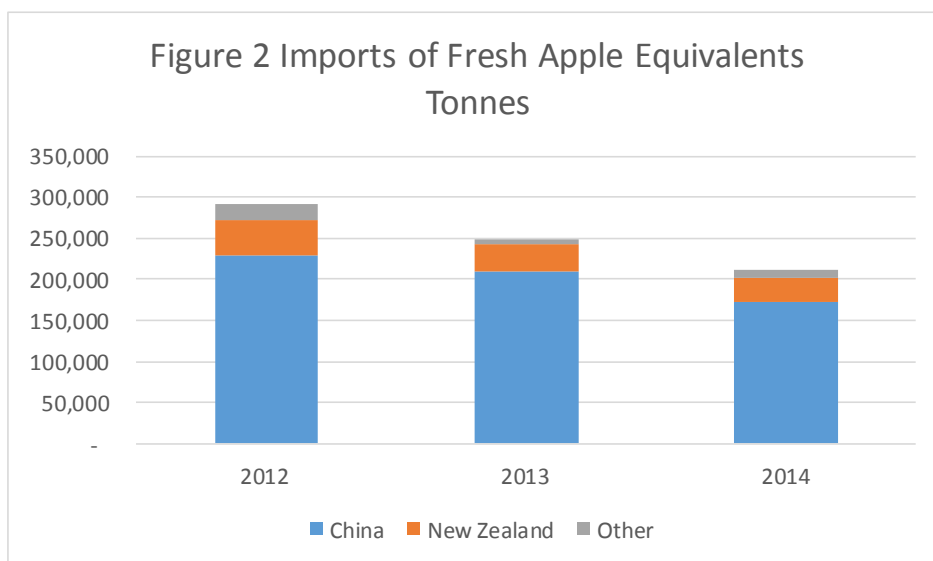
AQSIQ was also very supportive of APAL and CIQA pursuing a Memorandum of Understanding to pursue the mutually beneficial initiatives but indicated that as a government agency it could not itself enter into a joint MoU.

APAL and embassy officials then met with representatives from the Chinese Academy of Agricultural Sciences (CAAS). CAAS participants included: Madam, Feng Dongxin, Director General, Department of International Cooperation, as well as our well known friend Mr Chen Han-jie from the Zhengzhou Institute Fruit Research Institute, a division of CAAS. Presentations and discussions followed a similar format to the preceding meeting.

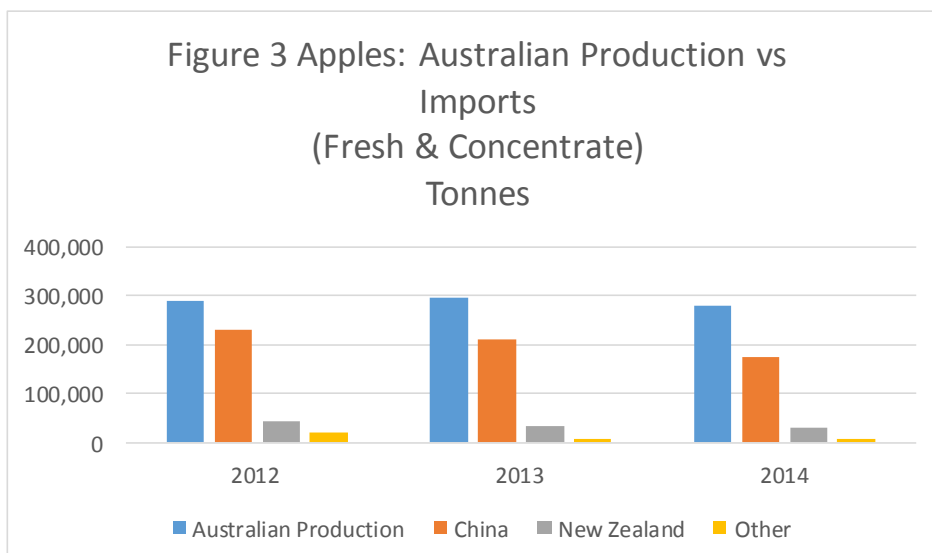
APAL also met with the Ministry of Agriculture (MoA) who were accompanied by representatives from the China Apple Association including Madam Yu Xiaoning, President, and Mr Feng Yong, Vice President. Presentations and discussions followed a similar format to the preceding meetings. However a few additional points were made:



- Exports of Australian apples to China will never be a threat to the local market as
  - Australian volumes will be small (in the scheme of total Chinese apple imports and local Chinese production);
  - Australia aims to pursue a small slice of the premium end of the market;
  - China has had access to the Australian apple market since 2010;
  - Australia imports significant quantities of juice concentrate, almost all of which come from China (Figure 2). If converted to apple tonne equivalents, concentrate imports total around about 215,000 tonnes, compared with Australian production of apples of 280,000 tonnes.



- Australia imports almost as much as it produces when one adds the imported juice concentrate equivalents to fresh imports (Figure 3).



A full report to growers on the discussions with Chinese officials was provided through Australian Fruit grower magazine: <http://apal.org.au/building-industry-initiatives-china/>

- **China Market Insights May 2015;**

Summary of meetings held:

Date	Meeting	Australian Attendees
20th – 22nd May, 2015	China Market Insights China	Annie Farrow (APAL) and Sam Lawrence (Hort. Innovation)
comprising	Insights Conference	
	New South Wales Government Trade & Investment Shanghai Office (Jack Tang Senior Trade and Investment Officer)	

Following the aforementioned visit to Beijing, A Farrow travelled with S Lawrence Trade Manager from Horticulture Innovation Australia to attend the annual Asian Market Insights Conference in Shanghai. The Asiafruit Market Insights Conference provides a platform to:

- Obtain the latest information on consumer and retail trends;
- Gain expert insights about the imported fruit business in China, including lessons learned from the experiences of other export supply countries and other fruit commodities;
- Understand trends about and developments in laws and regulations, including tariff and non-tariff barriers impacting on fruit trade;
- Make new connections and strengthen existing relationships with buyers, the supply chain and market knowledge experts.

The major themes of the Conference were:

- Shanghai's growth as a gateway to the China imported fruit market which is growing exponentially;
- The future of traditional retail channels, especially when compared with the growth of online purchasing of fresh food and groceries;

- The competitive effect of imports on local Chinese agricultural production.

Greater detail from the Asian Market Insights Conference is provided in Appendix 3. Key lessons learned included:

- Fresh fruit suppliers should focus on how to win consumers and build brand trust in tier two and tier three cities, especially those in the booming Yangtze River Delta region, where growth is being outstripped by supply from high end retailers and speciality stores, despite the considerable growth in the number of these outlets – a gap which is being fed by an explosion in e-commerce trade;
- Accumulating luxury brands was no longer important as a result of the corruption crackdown, with spending focussed on accumulating experiences – overseas travel, trying restaurants and buying imported food;
- Food safety has a direct impact on what consumers buy and they will pay a 20-30% premium for safe food;
- There is a growing understanding of the importance of nutrition but there is a considerable lack of knowledge and suppliers should focus on educating consumers about the health benefits of their produce;
- Chinese culture places considerable significance on packaging design and suppliers need to rethink their existing packing when entering China to acknowledge the design differences between China and Western countries;
- Chinese consumers are expecting faster and a more interesting engagement from produce suppliers;
- There are considerable opportunities to value add in the Chinese market, pairing with dairy products and drinks (juice, teas);
- Despite the e-commerce boom there are also some exciting growth stories in new boutique fruit retail bricks-and-mortar outlets;
- Import infrastructure is evolving rapidly with buyers chartering cargo planes and sea vessels;
- E-commerce and TV shopping channels enable retailers to provide greater information to consumers – about provenance, product attributes and recipe ideas;
- Agricultural models in China were changing, with massive vertically integrated agricultural companies emerging that compete directly with imported produce, and at the same price points;
- There is strong interest in moving away from varieties traditionally grown in China to newer varieties, including both off-shore and locally bred new varieties;
- The Modern Agricultural Policy will help the expansion of China's fresh fruit production, with its emphasis on food security and the need to improve rural economies but this will not do imported produce any favours;

- The attitude of not sharing agricultural technology with China would not be a successful one in the long term.

An article reporting on Mr Li's presentation was provided to the Australian apple and pear industry at: <http://apal.org.au/fruit-sales-via-mobile-booming-china/>

Following the Conference A Farrow and S Lawrence, together with John Moore of Summerfruit Australia visited Jack Tang the Senior Trade and Investment Officer with the New South Wales Government's Trade & Investment Office in Shanghai. We were able to brief Jack on Australia's market access priorities for pome and stone fruit and better understand NSW government activities in China.

- **Asia Fruit Congress Hong Kong 2015;**

AsiaFruit Congress was held in Hong Kong on 1 September 2015, preceding Asia Fruit Logistica. The conference was attended by J Dollisson and A Farrow. AsiaFruit Congress is a valuable conference and networking event attracting more than 400 delegates from almost 40 countries. Key learning lessons (detailed more fully in Appendix 4) included:

- Fresh produce plays a deeper and more complex role in managing health in many parts of Asia than it does in most Western countries and suppliers should exploit the health benefits that their product provides;
- With a fast-growing economy and a large population of mainly young consumers, the Philippines is an exciting emerging market;
- Most Asia countries have begun to establish their own national chemical residue standards and compliance practices and these need to be well navigated;
- There remains growth potential in some of Asia's more mature or established markets like Hong Kong.

Key learning lessons from some of the speakers from the Conference were captured for apple and pear growers and disseminated through APAL communication channels:

- <http://apal.org.au/charting-asias-rise-future-trends/>
- <http://apal.org.au/fruit-vegetable-opportunities-china/>
- <http://apal.org.au/hong-kong-emerging-trends/#sthash.133p841G.dpuf>.

- **Asia Fruit Logistica Hong Kong 2015;**

J Dollisson and A Farrow also attended AsiaFruit Logistica 2-4 September 2015. Asia Fruit Logistica attracted more than 9,200 trade visitors from 70 different countries to Hong Kong's Asia World-Expo Centre. The record attendance at Asia's leading fresh fruit and vegetable trade show was driven by a significant increase in Asian visitor numbers. Total visitor numbers rose by 14 per cent on last year's event, and 66 per cent of those visitors came from Asia, up from 58 per cent in 2014.

The APAL booth was positioned under the Australia Fresh banner, exhibiting with other industry

representative bodies, producers and exporters. The new look Australia Fresh branding, co-ordinated by Horticulture Innovation Australia (HIA), enhanced the overall positioning of the Australian presence at both events and helped to establish Australia as a major source of a range of premium quality fruits and vegetables with the capacity and ability to supply into the Asian market. The event was reported upon by Olivia Tait (AP11016) in <http://apal.org.au/promoting-australian-pome-fruit-china/>.

Asia Fruit Logistica also included a number of Business Forums. These included presentations about merchandising and the importance of repositioning your product to unlock new markets; the effectiveness of country-of-origin marketing campaigns for fresh produce to exploit concerns about food safety and the desire for high valued premium imported product; and the advancement of China's farm production systems. A full report is provided in Appendix 5.

A session of particular interest focussed on the importance of new varieties in providing growers, marketers and retailers with a crucial point-of-difference in an increasingly competitive and commodity-driven market. The speakers indicated that a multitude of new varieties are emerging from public and private breeding programmes in many produce categories. But as only a few can hope to become game-changers it is important to understand the factors that are critical to selecting and developing a winning variety.

Peter Landon-Lane from Prevar said that when developing premium, new cultivars breeding is just the beginning, with consumer, production, and post-harvest research required across the value chain. A Farrow ghost wrote an article for Peter in order to share the learnings with all Australian growers and made available in Australian FruitGrower <http://apal.org.au/breeding-market-winner/#sthash.KI989jd9.dpuf>.

Likewise, A Farrow ghost wrote an article for Andrew Maughan from Freshmax who provided a presentation on how to select and develop a winning variety. This was published in Australian FruitGrower: <http://apal.org.au/developing-winning-variety/#sthash.mI1PdPZg.dpuf>.

Although AsiaFruit Logistica is predominantly a market development rather than trade and market access related, the event provided an opportunity to:

- a) Assess the product offerings and positioning of competing suppliers. The AsiaFruit Logistica event indeed seemed to be "awash" with apples and to a lesser extent, pears.
- b) Better understand the importance of the event for Chinese buyers relative to Fruit and Vegetable Fair Beijing, in turn providing insights for the focus of apple and pear Export strategy.
- c) Better understand the importance of connecting potential buyers with Australian growers at such events, rather than simply with industry representatives or traders. This knowledge will in turn be emphasised within the apple and pear Export strategy to ensure that grower buy-in is secured for future market development events.
- d) Strengthen relationships with Chinese buyers in the lead up to gaining market access for mainland apples. Brief discussions were held, for example, with Pagoda, FruitDay, Great Wall, Yiguo, Goodfarmers, Joyvio and Golden Wing Mau. Discussions were also held with Austrade, as well as with service providers operating within Asia such as the Asia Fruit team and The Silk Initiative (providing market intelligence), Bryant Christie (providing MRL data),

and equipment suppliers.

- e) Provide advice to potential new Chinese and Taiwanese customers that mainland Australia did not yet have access. The strategy was then to make introductions for these buyers with Tasmanian exporters at the FruitGrower Tasmania stand (under the Australia Fresh banner).

- o **Fruit and Vegetable Fair Beijing 2015**

Summary of meetings held:

Date	Meeting	Attendee
9th – 11th September, 2015	Fruit and Vegetable Fair Beijing and CIQA Meetings	Annie Farrow (APAL)
comprising	Retail Reconnaissance	
	Fruit and Vegetable Trade Fair	
	Fruit and Vegetable Fair Business Forum	
	Hort. Innovation – CIQA Horticulture Co-operation Workshop	
	Australian Embassy MoU signing ceremony	
	Discussions with PipFruit NZ, discussions with NZ Exporters	
	Discussions with CIQA	

Prior to attending the Beijing Fruit and Vegetable Fair (FVF), A Farrow, Joseph Ebbage (Almonds Australia), Robert Gray (Australian Mango Growers Association) and Michael Daysh (Government of the Northern Territory) visited a cross section of retail outlets (Bravo, Vanguard, Carrefour and Umy). This afforded an opportunity to better understand the positioning of South African, US, New Zealand and European apples and pears, the positioning of the different retail types and the manner in which fresh produce, as well as juice, are showcased. Although wine, some Australian, is available within many retail stores, no cider products were on display. Whilst these insights are only snapshots they help to build a picture and inform a better understanding of market opportunities.

The Fruit and Vegetable Fair was held in Beijing on 9-11 September 2015. The Australian pavilion (organised under the Australia Fresh banner of Horticulture Innovation Australia) was opened by the Minister for Agriculture Victoria, Jaala Pulford.

Fruit and Vegetable Fair Beijing is an important event for the Australian apple and pear industry, and

horticulture more generally, providing an opportunity to showcase product and establish some new business relationships with key Chinese importers. However, coming off the back of Asia Fruit Logistica, which is significantly larger in terms of both trade displays and visitor numbers, Fruit and Vegetable Fair Beijing was not at all well attended. It would appear that most of the current and potential buyers of significance chose to attend Asia Fruit Logistica rather than Fruit and Vegetable Fair Beijing. Compared to those Chinese visiting Asia Fruit Logistica, the English language skills of most Fruit and Vegetable Fair Beijing visitors was limited. It is recommended that a local be engaged for future events to work within the Australian Fresh pavilion.

A number of business forums were run concurrently with Fruit and Vegetable Fair Beijing. A full report is outlined in Appendix 6. AQSIQ Deputy Director of Biosecurity Division of Biosecurity Mr Wu Hao said that when seeking access, exporting nations should:

- Provide comprehensive technical information in a timely manner;
- Keep a close working relationship with AQSIQ and its experts;
- Establish a co-operative mechanism by creating more opportunities to visit each other between both sides at both government and industry level.

The most important aspect of Fruit and Vegetable Fair Beijing is the opportunity to meet officials from the Chinese quarantine agency AQSIQ and a closely related stakeholder group representing quarantine inspection services (CIQA). These meetings provide an opportunity to advocate for new market access with officials and related parties.

On September 10, 2015 an Australian delegation led by Horticulture Innovation Australia met with China Entry-Exit Inspection and Quarantine Association (CIQA) for the sixth China-Australia Horticulture Cooperation Workshop. Concurrent to the activities of the China Fruit and Vegetable Fair the Hort. Innovation-CIQA event involved a technical workshop which provided a series of presentations from industry in both countries. The purpose was to expand understanding and cooperation across the horticulture sectors of China and Australia. A Farrow outlined our proposal to advance both the Australian and Chinese apple industries through a strategic partnership through four initiatives: licencing a small volume of Pink Lady® apples in China, variety evaluation, an integrated pest management system and integrated pest management training.

The Cooperation Workshop concluded at the Australian Embassy for the signing of a Memorandum of Understanding (MoU) between the Australian horticulture industries and CIQA. An umbrella MoU signed by Hort. Innovation and CIQA demonstrates the long-term commitment between the parties to strengthen relationships and create a framework for mutually beneficial engagement of horticultural trade interests between the two countries.



General Manager of Research Marketing and Investment at Hort. Innovation David Moore (right) with Annie Farrow (centre) and Secretary General of CIQA Bao Junkai, during the signing of the Australia-China MoU.

Annie Farrow, APAL Industry Services Manager, also signed the MoU on behalf of Australia's apple and pear growers. Representatives from the Australian citrus, table grape, stone fruit and cherry industries also signed the MoU with individual chapters under the banner of the principal document.

The apple and pear chapter states that the parties may encourage the development of collaborative projects to benefit the joint interests of their members and that these projects may form a separate Memorandum of Agreement. Better relationships with the Chinese industry aims to help drive access for mainland apples into China. APAL is seeking to sign an Agreement with CIQA early in 2016.

The MoU signing was reported to Australian apple and pear growers <http://apal.org.au/australia-china-sign-horticulture-trade-mou/>.

- **World of Perishables Dubai 2015;**

The World of Perishables 2015 was held in Dubai in 5-6-7 October 2015. APAL did not attend the event because it came right at the back of the Hong Kong Fruit Logistica 2-4 September and Beijing Fruit and Vegetable Fair 9-11 September. It is recommended that the 2016 event be attended with visits to the major supermarkets and importers to ascertain whether there are premium markets and the level of interest in Australian product given the degree of competition provided by South Africa.

## Outcomes

The following specific outcomes were generated by the project:

- Chinese AQIS officials provided advice (May 2015) that they had commenced the



information gathering stage of the import risk assessment for Australian mainland apples. The Australian government has not been formally notified of this, although the Australian Agricultural Counsellor Beijing was present at the meeting.

- Industry (APAL) capability to navigate China's import risk assessment was improved through increased knowledge and awareness about the process, the key decision-makers and key influencing entities.
- Relationships with key decision-makers and influencers were strengthened. There have been some personnel changes in both AQSIQ and in CIQA in the last twelve months and new relationships were forged with these people.
- The signing of an MoU between the Australian horticulture industries and CIQA. This provides the framework for APAL to progress its own Memorandum of Agreement with CIQA to advance collaborative initiatives between the apple and pear industries of both countries;
- A better understanding of the role of Fruit and Vegetable Fair Beijing compared with AsiaFruit Logistica was gained. This will enable a better allocation of resources going forward. AsiaFruit Logistica is viewed as a market development event. Fruit and Vegetable Fair Beijing on the other hand, is a market access event, though of course this may change when a protocol for Australian mainland apples draws near.
- New contacts were achieved with potential buyers and import inquiries passed on to growers. Relationships with established contacts were reinforced, an important cultural aspect to doing business with Asians who like to build trust and respect over many years;
- An improved understanding of the need for greater participation by growers in market development events such as Asia Fruit Logistica as well as participation in Trade Missions;
- Confirmation that Asian Market Insights and AsiaFruit Congress are important conferences that provides industry an opportunity to gain very useful knowledge about consumer, retail and supply chain trends in China as well as Asia more generally.
- An improved understanding of the complexity, enormity and opportunity provided by the Chinese imported fruit market;
- New learnings from developing a better understanding of the "needs and desires" of Trade Fair visitors from markets in South East Asia;
- A better understanding of what our competitors are offering the market (through Trade Fair exhibitors from competing countries as well as retail store and wholesale market visits);

The MoU creates a framework for mutually beneficial engagement of horticultural trade interests between the two countries. The apple and pear chapter states that the parties may encourage the development of collaborative projects to benefit the joint interests of their members and that these projects may form a separate Memorandum of Agreement. Better relationships with the Chinese industry will help drive access for mainland apples into China. - See more at: <http://apal.org.au/australia-china-sign-horticulture-trade-mou/#sthash.4S15t3Vg.dpuf>

The Asian Market Study Tour project involved: identification of key events and trade shows, working with key allies to establish a presence at these events; securing assistance to facilitate meetings with

key trade contacts; attending the events and meetings; preparing trip reports; and converting these into articles and blogs that communicate outcomes and opportunities to the Australian apple and pear industry.

The combined Asia Fruit Congress and Asia Fruit Logistica in Hong Kong 1-5 September 2014 attracted record numbers with 8,100 trade visitors from 64 countries, up 24% from the previous year. Australia had 34 exhibitors at the trade fair – in third place behind China (with 94 exhibitors) and Italy in second (with 39 exhibitors). Hort. Innovation co-ordinated stands at Asia Fruit Logistica under the Australia Fresh banner.

Asia Fruit Logistica provided an opportunity to network with importers and major retailers from across Asia to gain insights into major trends from prospective buyers of Australian apples and pears. John Dollisson CEO of APAL attended.

This project helped to shift the industry closer toward the ultimate goal of:

- Gaining market access for mainland Australian apples into China. The time frame to achieve market access is within the next 3-5 years.
- Continued growth in exports of apples from Tasmania to China;
- Identification of whether an access pathway for mainland Australian pears into China should be pursued;
- Continued growth in exports of apples and pears into Hong Kong and South East Asia;

## **Evaluation and Discussion**

Achieving advice (May 2015) that AQSIQ had commenced the information gathering stage of the import risk assessment for Australian mainland apples is an important step. It signifies that effort and activity should now be ramped up to maintain the momentum of both Governments to engage in the more formal risk assessment process.

Industry too must play its role. The first is to complete a document which describes the standard operating practices of Australian apple growers, especially in regard to managing pests and diseases of concern to the Chinese. This must be completed in a timely manner and provided to the Chinese to assist with speeding up their information gathering process and to provide early assurances that pests and diseases are well managed. The second is to complete a preferred hierarchy of treatments, primarily around fruit fly, to assist the Australian government to negotiate a protocol that meets the commercial needs of Australian mainland apple growers and exporters. The third is to continue to undertake visits to China to meet with CIQA and other key influencers (MoA, CAAS, CAA). These visits, and where appropriate, visits with Australian officials to meet AQSIQ, will help the Australian industry abreast of key concerns as the import risk assessment process begins and proceeds. Fourth, AQSIQ and CIQA and other key influencers should be encouraged to undertake reciprocal visits to Australia to assist in knowledge sharing about the industry.

It is hard to measure the full impact of visits to meet with AQSIQ officials and key people and entities that potentially influence protocol outcomes. Likewise it is hard to measure the value of

undertaking collaborative initiatives that are designed to benefit the apple industries in both countries. Nevertheless, the following observations can be made:

- APAL has always been able to secure meetings with high level officials and associated organisations – the Chinese appear genuine in their willingness to engage. Equally they are open to advising when they are unable to meet (for example, a planned meeting with AQSIQ in November 2014 was postponed until May 2015);
- CIQA is keen to sign a Memorandum of Agreement to progress collaborative initiatives that will benefit the apple industries in both countries;
- The key contact in CIQA established direct contact with APAL and other horticultural industries to assist with organising a reciprocal visit to Australia in 2016;
- APAL has hosted and participated in events for a number of delegations from China in recent years - Professor Han Mingyu, from North West University; Madam Guo from CIQA and Shaanxi Fruit Bureaux, all in 2015 to name a few. Relationships with these key Chinese contacts were initially forged during visits made prior to this project. Nevertheless, inbound delegations such as these demonstrate an ongoing desire to renew acquaintances, build on collaborative relationships and expand knowledge of each other's industries. As with any networking, establishing friendships and strengthening relationships through visits, trade missions and conference participation inevitably provides access to knowledge holders and agents of influence.

## Recommendations

It is recommended that:

- Industry continue to participate in Asia Fruit Logistica as a market development activity under the Australia Fresh banner to showcase Australian product offering and gather market intelligence. However, more growers should be encouraged to attend, with APAL organising grower participation in direct business matching meetings;
- Industry continue to participate in the Beijing Fruit and Vegetable Fair as a market access activity. Showcasing the Australian apple and pear product offering under the Australia Fresh banner could be undertaken more effectively and more cheaply by using a local to assist with manning the stall. This would enable a market access delegate to spend the required time with Chinese officials like AQSIQ and CIQA as well as attending the concurrent workshops to better understand market access drivers and other supply chain trends in China. It will also enable potential buyers to speak with a translator to ask questions about the Australian industry;
- Industry continue participation in Asia Market Insights Conference to obtain the latest information on consumer and retail trends; gain expert insights to growing the imported fruit business in China, including lessons learned from other export countries and fruits; understand trends about competing imported fruit products and make new connections and strengthen existing relationships with buyers, the supply chain and market knowledge experts.
- Industry continue to participate in Trade Missions led by State and Commonwealth

Government Ministers into China and other Asian markets. Ministers are better able to secure audiences with high ranking government officials that are responsible for market access and this provides an additional opportunity for APAL to put its case. Growers should also be encouraged to participate in these missions to start to understand the potential, enormity and complexity of the Chinese market as well as to start the long road of establishing relationships with key buyers. The latter needs to be done well ahead of gaining market access so that growers are export ready;

- Industry and APAL continue to participate in meetings with CIQA and AQSIQ outside of the Fruit and Vegetable Fair Beijing and Trade Mission events to update them on progress in regard to the Australian apple and pear industry's cooperative initiatives with the Chinese pome fruit industry;
- Industry, through APAL, continue to work closely with the Australian Department for Agriculture to ensure that all information requirements are provided to China's AQSIQ as early as possible to assist with the information gathering stage of their import risk assessment so that it can be progressed speedily to a full assessment. This would include completion of a standard operating practices document that describes the supply chain from growing apples to export and how pests and diseases are well managed as well as the completion of a hierarchy of preferred treatments that can be used by the Australian Department for Agriculture in their negotiations with Chinese officials about protocols around fruit fly and other pests of concern.
- APAL consider participation in World of Perishables in 2016 and extend this to include visits to the major retailers and the wholesale market to better ascertain whether the Middle East offers opportunities for premium high priced apples or whether competition from South Africa is likely to constrain Australian exports;
- The aforementioned specific activities and programs be built into both the apple and pear Export Strategy (which must be completed) and the industry strategic plan (and related R&D investment and marketing plans) when they are renewed.

## Appendices

- Appendix 1: Asia Fruit Congress and Asia Fruit Business Forum 2014
- Appendix 2: Victorian Agriculture Minister Walsh Trade Mission to China 2014
- Appendix 3: China Market Insights Conference May 2015
- Appendix 4: Asia Fruit Congress Hong Kong 2015
- Appendix 5: Asia Fruit Logistica Hong Kong 2015
- Appendix 6: Fruit and Vegetable Fair Beijing 2015

## Appendix 1: Asia Fruit Congress and Asia Fruit Business Forum 2014

John Dollisson attended presentations by Asian market specialists at the Asia Fruit Congress 2014 which preceded Asia Fruit Logistica 2014. He also participated in the Asia Fruit Business Forum

which was concurrent with Asia Fruit Logistica. Key themes from these events centred on:

- Branding: whilst playing an increasingly important role in Asia's burgeoning market for fresh fruit, brands have different meanings across the various Asian cultures; learning lessons from Zespri's experience of positioning the brand as more than just a label and creating events to build a story; suppliers need to manage intellectual property over their brands; exploiting China's love affair with social media to help build sales; branding needed to be backed up by quality and a good sized display at the retail level.
- James Sinclair of InterChina discussed the trend of "premiumisation" - rising incomes mean that the middle class Chinese consumer is trading up to imported product that is free of chemical and other contaminants. But the younger Chinese consumer is not confident in selecting fresh produce nor do they have long term relationships with their retailers and are therefore looking for brands to help them make buying decisions. They also have less trust and time for main stream media and focus on social media. But Sinclair noted that Chinese consumers are discerning, and that "trading up" did not mean purchasing higher priced commodities but an offering that represented good quality and value for that quality. Sinclair's final message was that brands need to be wrapped into a provenance story.
- Opportunities for pears: China is set to become one of the largest export markets for red d'Anjou pears since U.S. pear producers received access in late December 2012. US Pear Bureau Northwest, expects China to be within the top 5 export destinations for Northwest pears over the next 3 to 5 years with tonnages likely to reach 200,000 to 300,000 boxes within three years (out of a total of 7 million boxes of pears exported annually, of which about half go to Canada and Mexico).
- Food safety: Patrick Vizzone of National Australia Bank suggested that demand for safe and nutritious food will rise dramatically across Asia in the near term. In a recent consumer survey in China, 80% of the respondents said they were dissatisfied with domestic food safety. Vizzone believes that laws and regulations are not the issue but that implementation and enforcement are a larger challenge.
- E Commerce: E-commerce continues to grow as an important sales channel for imported fruit into China. T-Mall (a division of Alibaba) sold all of its 110 tonnes of Northwest US cherries within one week. JD.com's announcement of a direct purchase fresh produce business and the first charter flight for cherries from Chile to China by China Eastern Airlines for online sales reinforces the message.
- Loren Zhao from Fruitday commented upon the decline of the use of the PC in favour of smart phones. He reported that companies like Fruit Day are exploiting this trend through phone apps and creating highly successful social media campaigns. Fruitday is well known to Australian, particularly Tasmanian, growers. The online company was established in April 2009 and is the largest fresh fruit online retailer and most well-known fresh produce e-commerce brand in China. Their focus is on high quality fruits, 90%+ of which are imported fruits and 50%+ are imported directly by Fruitday.
- Packaging: Lisa Cork from Fresh Produce Marketing NZ and Kenneth Wee from Total Agri Marketing suggest we need to consider packaging as a key sales tool rather than just a mechanism to protect product from packing shed to the customer. They said packaging should speak with consumers and drive sales and value growth.

- Latifah Mohd Nor and Bob Shaw presented a number of case studies looking at new technologies such as managing information flows and detecting product defects. The focus was on how these new technologies make a difference to marketers and their success.
- Dutch colleagues Frits Popma, Willem Kokeel and Adriaan van Beek, discussed the latest technologies in ripening and the role that they play in improving the penetration of some fruits like avocados and bananas in Asian markets.
- A range of covered cropping systems was explored by Mathew Tang with reference to their increased importance in developing sustainable and profitable production systems world-wide.
- Leading marketers Jen Scouler and Jan Doldersum explained the role that chefs play in fresh produce marketing in Asia.

## **Appendix 2: Victorian Agriculture Minister Walsh Trade Mission to China 2014**

Annie Farrow, Industry Development Manager attended the Victorian Government Trade Mission to China from Sunday 21st September through to Friday 26th September 2014 with Peter Walsh, then Minister for Agriculture. Meetings were arranged by Austrade, the Victorian Department of Environment and Primary Industries (DEPI) and the Victoria's DEPI Trade and Investment team.

Prior to the trade mission, a horticulture sector specific pre-mission briefing was held, along with pre-mission briefings for all food and wine delegates. These pre-briefing provided valuable information about the objectives and logistics of the Trade Mission as well as insights to trading with China. The horticulture group, which visited three cities - Chengdu, Guangzhou and Beijing - comprised: 9 growers, 3 from grower representative organisations (apples and pears, stone fruit and table grapes) 1 from the Melbourne Wholesale Markets, and 5 trader/exporters. The Montague Group was represented but no other dedicated apple growers attended and this situation needs to be rectified in forthcoming Trade Missions.

### *Chengdu Opportunities*

The Mission enabled A Farrow to visit the wholesale fruit market in Chengdu, a tier two city of over 14 million (within its administrative area). As the capital of Sichuan province it is the economic, cultural, financial and political centre of Sichuan Province, but it also serves as a logistics hub for Southwest China. Chengdu has benefitted enormously from China's broad "Go West!" development plan (initially launched in 2000 and then boosted in 2010) and has undergone significant and rapid economic development over the last decade. Rising incomes are creating significant opportunities for imported fruit in this emerging market. The rapid economic development is fuelling increased expenditure on food and beverage sales. Austrade representatives in Chengdu suggest that Australian firms have overlooked the region in favour of more established destinations along the coast.

A visit to the new Wholesale Fruit Market in Chengdu enabled the delegation to observe imported fruit and talk with importers. Huang Zhi Gang, Chairman of the Chongqing Jinguoyuan Trading Co explained that traders import fruit from Guangzhou, a 36 hour road trip to Chengdu. Mr Dang, Market Manager of the Wholesale Fruit Market, explained that the market, which was opened in

November 2013 has a planned expansion to 3,000 Mu (200 hectares) in coming years. The scale of investment and size of the market is a reflection of the significant growth that is occurring in South West China.

For apples and Australian fruit more generally, Chengdu may provide significant opportunities for a number of reasons. First, turnover from fruit sales in the market is very high, currently at \$10 billion RMB pa with 4,000 tonnes per day sold on average, though this rises to 6,000 tonnes in a busy season. Of this, imported fruit comprises about 800 to 1000 tonnes a day. South East Asia is the predominant source of imports, with Australian fruit totalling about 80 to 100 tonnes per day. This includes citrus, plums, cherries and grapes. Mr Dang Market Manager reports that there are 50 distributors of imported fruit, of which 15 to 20 supply supermarkets. Dang also reported that market authorities at Chengdu are in discussions with CIQA for an inspection service to be opened onsite so that quarantine services can be streamlined (rather than being done in Guangzhou).

Second, the high volume of imported fruit sales at the Chengdu market only in part reflects the rapid increase in sales locally. Chengdu is increasingly being used by traders from more remote cities as a source of imported product. Dang estimates that around 30 of the market traders distribute fruit to secondary wholesale markets (some up to 500 kilometres away). Whilst about 50% of imported fruit is sold to buyers for the Chengdu market (almost all to the supermarket trade), 50% is sold to secondary wholesalers (for more distant markets). Third, Chengdu's market has less import penetration than more developed port cities. This provides several advantages - new imports face less foreign competition than in the developed port cities and marketing dollars go further than in the mature Tier 1 markets.

Roundtable discussions with four of the Chengdu market traders and their buyers suggested that:

- Chinese traders expect timely and adequate explanations about fruit quality, timing and volume availability well ahead of the commencement of trade – the poor 2014 Australian table grape season caused considerable angst.
- Australian packaging is very poor. Citrus was given as an example, where fruit is packed in boxes comprising four layers rather than two like our competitors. It makes the box heavy and given the poor quality (cardboard strength) of the boxes, there is considerable damage, especially during the 36 hour road trip (and humidity) from Guangzhou and then onwards to south-west secondary markets.
- Nectarines are considered a better product for Chinese consumers than imported plums. When prompted, traders suggested they would prefer white fleshed nectarines over yellow flesh because it is perceived as being sweeter. David Minnis noted that the Australian yellow flesh nectarines have low acid - high sugar content and that once legal access is granted promotions will be required to encourage consumers to try the product.
- The traders were asked if there were possibilities for them to promote a speeding up of market access with their authorities. Whilst they believed their level of influence was low, they did think they could speak with the Sichuan Department of Commerce with whom they have a close relationship. They well recognised that greater access for Australian product represented greater trade opportunities for themselves.

#### *Airfreight Opportunities*

The delegation was also provided a tour of the China Southern Airlines airfreight facilities in Guangzhou. The visit was important given the airline has now established twice daily flights between Melbourne and Guangzhou. Australia has an airfreight advantage over Chile because the latter needs to refuel in Los Angeles so timings are considerably longer and more expensive. Exporters state that there is little difference between freight costs air and sea for many commodities out of Australia. China Southern Airlines reports that it has entered discussions with AQSIQ to encourage airfreight protocols. Considerable discussion ensued about the timelines between an aircraft arriving from Melbourne and produce being placed into the cool-store facilities on-site. The Australians viewed that the time is too long and a speedier process is required, particularly given the high tropical daylight temperatures in Guangzhou.

### *Pagoda Boutique Fruit Green Grocer*

The delegation also met with Frank Hong, the Director of Overseas procurement for the Pagoda fruit shop chain. Pagoda was the first of its kind in China - a chain of small stores that specialise in fruit. With headquarters located in Shenzhen, Pagoda has expanded to nearly 850 outlets and is now opening new stores at a rate of 50 outlets per month (a total of 1000 stores is expected by year end). Pagoda (which was established in 2001) is reportedly the world's largest greengrocer chain.

Pagoda operates a two price system, one for members and one for non-members. Membership, which is "in the millions", does not require a sign-up fee but rather a mobile phone number. As part of the sale the mobile number is logged which allows pagoda to collect an immense amount of data about the consumer such as what products they buy, the frequency of sale, and the dollar spend per sale. The data is analysed and used as a marketing tool. For example, "specials" and the promotion of new season produce are advertised through SMS. Pagoda reports that the average purchase is 30 RMB (A\$5) per customer, with customers purchasing 3 to 4 times a week.

The Pagoda stores, which are located in high foot traffic areas and in residential areas, are quite small at 60-80 square metres. Stores open at 8am and close at 1am. Across China there is an even split between imported and domestic fruit in Pagoda stores. All stores comprise ambient and refrigerated displays and a mix of loose and packaged offerings. Store orders are placed online via one of the 32 Distribution Centres for daily deliveries. The sales records of all stores are benchmarked and available for each store to see on a product by product basis via a phone app. Benchmarking appears to be part of the store "culture".

A full report on the terrific initiatives of Pagoda was made available to Australian apple and pear growers and exporters at: <http://apal.org.au/top-chinese-greengrocer-seeks-tassie-apples/>

### *Golden Wing Mau*

The delegation also met with Rod Hill, General Manager – Imports and his then replacement, Roland Gels, of Golden Wing Mau. GWM is an export, import and distribution conglomerate that owns several fruit growing and packing businesses and operates within the Guangzhou Jiangnan wholesale market and sells direct to a number of supermarkets (Ito, Walmart, Sam's Club and Rainbow to name a few), through a nation-wide network across China. About 70 percent of fruit is local product with only 30 percent imported. Discussions suggested that although there are many retailers operating at the "high end" (Ito, Ole and Pagoda), fruit has to deliver on quality. GWM is training merchandisers in store about the best methods to display fruit and cutting fruit for customers to try. Chinese customers are becoming more sensitive to others handling and touching fruit (for food safety reasons). Consequently punnets and packaging will be the "next big thing" (but this will be done in China rather than in Australia because it is considerably cheaper).

### *Guangzhou Jiangnan Wholesale Markets*

Established in 1994 the Jiangnan Wholesale Markets is the largest fruit and vegetable distribution centre in China (and South East Asia). This market is the largest wholesale market in China in terms of total sales and volume of imported fruit transactions. It is estimated that 60 - 70 percent of China's imported fruits are transacted through this market, handling both direct imports and shipments via the grey channel from Hong Kong.

Following a tour of the imported fruit section of the market the delegation met with Owen Ou from Shanghai Yuqian Trade Company and Mr Luo Kun General manager of the Shenzhen Many Fruit and Vegetable Company and Shanghai Nongfu Company. The Shanghai Nongfu Company was established in 1990 with headquarters in Shanghai and branches in Guangzhou AND Shenzhen. Their business radiates throughout China with outlets established in 11 second tier cities. By 2013 import volumes had risen to 20,000 containers (valued at 0.67 billion RMB – A\$1.3 billion). They have established relationships with the international retail giants (Wal-Mart, Carrefour, Tesco, Lotus) as well as with Chinese supermarkets. A relationship has also been established with e-commerce



enterprises including yummy77.com and they have developed their own online enterprise ONE FRUIT. Imports from Australia include citrus, grapes, mango and cherries. From Chile they import blueberries, apples, grapes, kiwifruit and cherries. From New Zealand, apples, lemons and cherries and South Africa, citrus.

### *COFCO*

The delegation met with Frank Lin, General Manager of COFCO Horticulture Division. COFCO is a state owned enterprise that imports and exports as well as operating agricultural production and processing facilities in China and overseas. It is one of China's largest integrated companies.

As part of a formal presentation COFCO attributed the driving forces behind the continued increase in Chinese fruit imports as: reduction in duties and Free Trade Agreements; the appreciation of the RMB against the US dollar; increased domestic consumption; the increase in prices of domestic fruit (lowering price relativities) and food safety consciousness.

COFCO's own fruit imports have increased nearly seven-fold in recent years, from US\$3m in 2012 (US\$0.2m from Australia) to US\$20m in 2014 (US\$2.3m from Australia). Grapes account for over half (54%) of COFCO's fruit imports, with cherries (24%), citrus (12%), apples (4%), pears (3%) and kiwifruit (2%) also imported.

Informal discussions followed the presentation, with suggestions that:

- COFCO is keen to undertake more trade with Victoria;
- They are particularly keen to import cherries from Australia and met a number of contacts at Asia Fruit Logistica;
- There has been a 30% increase in their imports of Southern Hemisphere fruit imports as it is counter seasonal;
- During September/October (time of our visit) prices are low because of domestic fruit supplies but they expect that in 2 to 3 months the local fruit supplies will finish (except for Fuji apples and Ya pears) and the wholesale market will await (with anticipation) for the appearance of imported fruit.
- 90 % of domestic fruit sold by COFCO is produced by individual growers. But food safety is a top priority and small growers don't offer the traceability and quality assurances that consumers (retailers?) are now demanding - Australian exporters are advised to consolidate through sophisticated packing houses;
- Chinese ecommerce is booming and they will want to be involved. They have partnered with Womai to source and sell together and consequently have invited Womai's Mr Chenyan Jiang to this meeting.
- The growth in imports from Australia has been incredible but hopefully the A\$ will continue to fall so that trade can be increased to overcome Australia's high production costs;
- Imported fruit value for imported fruit has increased from US\$3 million in 2012 (Australia share US\$0.2 million) to US\$20 million in 2014 (Australia share US\$2.3 million);
- Much of the growth from Australia is in navel oranges and mandarins;
- The import mark-up for imported fruit is cherries - 24%; grapes – 54%; citrus – 12%;
- As a State owned enterprise COFCO only purchase fruit via legal channels and does not accept fruit brought in via Hong Kong or Vietnam through the grey channel.
- COFCO believe the protocols are difficult because shed packs for Australian grapes damage the bloom; the treatment for mangos damage both the quality and smell and the treatment for citrus makes the fruit soft;
- COFCO believes that Australian grape growers/exporters are careless and more attention to the protocols is required. In the US and Chile growers harvest and transport to the packhouse for sizing, grading/cooling and practices in Australia are very different. Australian growers/exporters are lazy and respond that they will just ship to Hong Kong but at their peril. They need to comply with AQSIQ protocols.
- The US apple situation provides good example of that attitude. In response to rot found by AQSIQ in US apples, growers/exporters just responded that the new protocol was too

- difficult and they would ship via Hong Kong. But the Chinese officials closed the HK market so that only very limited quantities were imported, and the industry expended a lot of effort to renegotiate trade. Worse, the protocol has been made tougher.
- COFCO believe that the NZ apple industry suffered a similar problem, with their access to China being suspended.
  - Perceptions around Australian fruit is that:
    - it is very expensive with an unstable quality. For importers that is a risky business as it is hard to make money but easy to lose money;
    - traders have inflexible trading terms and strict payment terms (Chile is much more flexible and trust is necessary);
  - Australian citrus is facing strong competition from South Africa as they compete in the same season. South African prices are lower and they have volumes which Australia can't match. Importantly, South African suppliers are willing to adjust prices when the market in China changes so importers prefer to deal with the Africans.
  - There has been a weak market for Australian citrus due to increased volume; lower quality (weather conditions in main growing districts) including blemished and rough skins and poor taste; reduced public spending in the mid-Autumn Festival following further anti-corruption measures;
  - Soft fruit and poor quality boxes make Chinese buyers reluctant to purchase Australian product. Buyers perceive firmness of fruit as synonymous with freshness (quality). The box quality from South Africa is much better.
  - China has reopened access for US citrus so the window of opportunity for Australian citrus is narrowing;
  - Two areas with the greatest growth opportunities for imported fruit are Xian and Chongqing.
  - For imported fruit distribution into Beijing COFCO use the Shanghai port rather than Tianjin because the latter takes longer to do the quarantine processing and logistics despite the shorter distance. AQSIQ and Customs are simply more efficient at Shanghai;
  - COFCO truck fruit from Shanghai to Shenyang in 2 days using reefer containers but overnight from Dalian;
  - COFCO plan to keep looking at retail opportunities and e-commerce;
  - COFCO policy is to source direct from growers
  - There are no intentions at this stage to further invest in farms anywhere around the world
  - Frank Lin reports that he can't influence AQSIQ as it is a Government department despite COFCO being a state owned enterprise. However sometimes he advises AQSIQ on protocols from a commercial perspective;
  - Frank Lin will introduce Australian cherries this season through Womai in 2kg gift boxes or 2.5kg boxes but not 1 kg boxes. Promotion will be through wechat, twitter, email, elevator advertising.
  - Wechat is a very powerful marketing tool in China. One employee sent through a wechat message to her 2500 friends to prebook Canadian cherries. They sold out prior to arrival of product.
  - COFCO import a lot of stone fruit from Chile though nectarines do not have access. Australian stonefruit is considered expensive, much higher than US fruit and this is a big problem.
  - All agree that the appearance and Brix for Australian grapes are better than Chile and citrus is better than South Africa.
  - Australia should note that the traders in Guangzhou are on-sellers (to secondary wholesale markets) and prefer firm fruit (to endure the further transport to market) so there are heavy discounts for soft fruit. In contrast, the Beijing market prefers riper fruit as wholesale buyers are more likely to be selling into retail. Also note that the northern Chinese market preserves red fruit and larger sizes where the south will take small fruit.
  - In regard to dried fruit Chinese do not know how to consume it
  - Chinese believe apple juice should be juice and so cider demand is growing very slowly.

Discussions with Womai indicated that:

- Womai was established by COFCO in 2009 as a business to consumer ecommerce food website and presents as a "field to fork" showcase to Chinese consumers;
- Their promise is to provide safe, nutritious and healthy food and a high quality of service.
- Womai offers 40,000 food items on their website, 80% of which is edible food and 20% which is food related (such as coffee machines);
- Womai has been rolled out across China, covering north China from 2009, east China from 2011 and southern China from 2013, covering the 31 provinces and autonomous regions as well as Hong Kong, Macao and Taiwan
- Alibaba is the platform used which has helped stores sell well;
- The target market is 18 to 45 years and highly educated. On line customers are split equally between genders. Membership is 15 million with active members totalling 1.5 million. The target high end users which have a good consumption capacity are office workers who focus on quality of life with strong economic foundations and steady incomes;
- About 90 percent of fruit sales are for personal consumption and 10 percent for gifts;
- Womai purchases the product and then sells which ensures the suppliers meet COFCO standards before being put online for sale;
- Product is purchased directly from suppliers (exporters) abroad, but establishing better direct channels with growers;
- Provenance is important supported by a Womai logo that states "fresh and original"
- Shelf life of fruit is an issue;
- Categories include 130 classes of fruit and 90 lines of vegetables;
- Delivery is free to customers if purchases are < 5kg or > 100RMB
- Compared with other ecommerce food retailers, Womai offers a unified set of safety standards, a principle of prioritisation, quality assurance, speed of delivery (in half a day, distribute at night) and after sales service;
- Statistical data evidences Womai as the largest ecommerce food retailer with strongest growth

### *JOYVIO*

The delegation met with Theresa Wang and Jerome Chen (Director Business Development). The parent company is Legend Holdings worth US\$39 billion with nearly 60,000 employees. Legend Holdings business interests cover technology (Lenovo), real estate, financial services, car hire, chemicals and now agribusinesses with Joyvio starting in 2011.

According to their website, the Joyvio Group is China's largest fruit development business and owns large-scale blueberry and kiwifruit production facilities, seedling breeding centres, sorting & processing centres, cold chain logistics platforms, and brand marketing networks at home and abroad. Joyvio Group has also been making investments and business arrangements in tea, wine, and juice. Wang reports that Joyvio is currently looking at investments in nuts and aquatic products.

Chen indicated that the fruit sector was of interest to Joyvio because of the large market size US\$92.5 billion. There is also an opportunity for Joyvio to become the market leader with the market currently very fragmented (the size of the current big players range from US\$10m to US\$200m) with no brand being dominant.

They currently own farms in Chile (5 farms at 1500 ha, with plans to increase that to 8,000 ha). There is one Chinese manager located in China who oversees each of the 5 farm managers. All product from those farms are sold to Joyvio, but only the blueberries and kiwifruit are sold to China, with the remaining products sold into the USA. Joyvio is currently looking at Australian investments, and looking to finance a local partner. Avocado and blueberries are seen as potential investments and trade from Australia into China.

During 2013 Joyvio established an alliance with Australia's Perfection Fresh which is owned by the Simonetta family and operates across fruit (grapes, blueberries, mango, stonefruit, melon, figs and pomegranates) and a large range of vegetables. Supplying major Australian supermarket chains and

export markets, Perfection Fresh owns farms, has alliances with others (contract, JVs and share farms). Chen said the Perfection Fresh agreement was similar to the Subsole (Chile) agreement but for Australia coverage focusses on grapes, cherries, oranges, mango and mandarins. The strategy behind the Perfection Fresh Alliance is to provide investment finance to help growers increase production and on the other hand to provide a platform for exports.

The concentration of Joyvio's global business in blueberries and kiwifruit fits their desire to focus on high quality premium end of fruit trade. Joyvio aims to be the fruit market leader in China in the next five years. Their strategy has three pillars: end to end operations (breeding through to retail); whole chain traceability; and globalisation. Joyvio does not source via the grey channel as they need to protect their brand.

For blueberries: 40-50% sold via the wholesale market; 35-40% to speciality stores and supermarkets and 10% through the website. Their nationwide network is available to few companies, which is their advantage.

Australian blueberries have a number of advantages, with a large size and tasty plus a good seasonal window of over 40 weeks from north to south with a good number of varieties. But quality is an issue. For avocado demand has grown very fast in China in the last two years, mainly sourced from Mexico and Chile. More and more middle class Chinese view avocados as having health benefits. But avocado has a poor shelf life which is an issue.

Joyvio intends to purchase Australian stone fruit when access is given. They imported Australian citrus for the first time this year. Jerome reports that Australian cherry fruit sets a premium position in the markets as its quality is generally very good. But Chile has a better price and can deliver with a minimum quality guarantee. They imported 60 to 70 containers of cherries from Chile last season using Guangzhou, Shanghai and Beijing ports.

Joyvio undertook an analysis of importing vegetables though there is no legal access as yet. However vegetables have a very short shelf life and the margin isn't large enough.

When asked where retail is heading Joyvio opined that speciality stores need top logistics to deliver a large range of small quantities and a strong supply chain to support that. There are many local chain stores that have 3 to 5 shops and this is fragmented and will fade over the next five years. Supermarkets have very strong supply chains and they can balance the margin across fruit, food, clothes etc. They believe most speciality stores are losing money. E Commerce is very competitive and no-one is making money in this sector. They make a lot of noise in order to attract people to their website and the "hits" rather than sales drive investment in their business.

Joyvio priorities for imported product from Australia: cherry, table grape, avocado.

#### *SF Best*

E Commerce around fruit is exploding in China, a phenomenon not occurring in Australia. SF Best (SFB) is a large e-commerce retailer (established 2012) selling fresh produce, food and drinks and related and consumer goods (kitchenware), both domestic and imported. The imported fresh fruit range covers tropical fruit as well as temperate (citrus, cherries, apples and kiwifruit) and is sourced from Chile, South Africa, Australia, New Zealand, the US and Asian countries.

SFB is owned by a courier company SF Express and so has logistics advantages over other ecommerce companies. All products are directly purchased from their origins which gives consumers full traceability. They have engaged a third party to assist product clearance through customs and quarantine, recognising that food requires specialist expertise. Imports commenced in 2013. Very few products (only oranges and lemons) currently imported from Australia. They imported NZ cherries in 2013. SFB repack what is supplied by the vendor but still use the vendor brand, not SFB.

Growth in the penetration of mobile phone usage in China is extraordinary (Author note: even street sweepers have mobile phones) and SFB has established a presence with an App for IOS and Android to improve the convenience and shopping experience for customers. SFB average between 4,500-5,000 deliveries per day, rising to 8,000 deliveries per day, during the peak buying period. The average order for food is 200 RMB (A\$38), but 35 RMB (A\$ 6.7) for fresh fruit.

SFB has a strong service commitment (promising to respond to complaints within 2 hours) and a 24 hour delivery commitment. To maintain the latter promise they have opened room temperature service all over the country, and cold-chain delivery across 54 cities. SFB have three warehouses in east, north and south china, equipped with multi-temperature control refrigeration systems. They courier product by air in their own fleet of planes and trucks and use appropriate temperature control methods (refrigerator, heat insulated box, ice slab).

In addition to regular customers SFB has a large Key Account Department that manages relationships with government offices, state owned enterprises and institutions and arranges business gift plans on a customised basis.

#### *Meetings with Minister Walsh and China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)*

From Chengdu and Guangzhou the horticulture Trade Mission accompanied Minister Walsh to Beijing to meet with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the organisation responsible for undertaking import risk analyses, as well as with CIQA - China Entry-Exit Inspection and Quarantine Association. Preliminary comments were offered about the importance of trade between the two countries and the opportunities afforded by trade with Victoria which produces a significant portion of Australia's temperate fruit and vegetables.

Selected representatives of the Australian industry initially met with The Hon. Peter Walsh, Minister for Agriculture Victoria and Dr Vanessa Findlay, First Assistant Secretary, Trade and Market Access Commonwealth Department of Agriculture. The meeting discussed the outcomes from the Australian-Chinese bilateral discussions held earlier in September 2014, including a proposed MOU in relation to fruit fly research. The status of discussions with AQSIQ about access for Australian nectarines and the likely timelines and pathway for access was also discussed.

The remainder of the delegation was then invited into the meeting where a summary of proposed collaboration with Chinese industry was provided. The delegation then met with AQSIQ and CIQA – the China Entry-Exit Inspection and Quarantine Association. Minister Walsh made preliminary comments about the importance of trade between the two countries and the opportunities afforded by trade with Victoria which produces a significant portion of Australia's temperate fruit and vegetables.

Each of the industry delegates was invited to present their ideas about ways in which the countries could collaborate. Jeff Scott from the Australian Table Grape Association outlined the possibilities of a training program for Chinese agronomists. The training program could incorporate class room and in-field lessons as well as English language training. Units and elements from the Certificates II and III in Production Horticulture could be delivered and accredited once competency was reached. Courses could include OHS practices, chemical preparation and application, transporting and handling chemicals, operating pressurised irrigation systems, implementing plant nutritional programs, controlling weeds, controlling plant pests and diseases, monitoring weather conditions, operating tractors, machinery and equipment and co-ordinating crop harvesting. A program for 200 participants would be possible.

Bryan Balmer from the Victorian Department of Primary Industry (DEPI) outlined collaboration on peach breeding between the DEPI's Bioscience Research Division and a Chinese University (possibly North West Agricultural University in Xian). The proposed collaboration might relate to the

development and application of tools for genomic selection in peaches, training of Chinese PhD students, evaluation of Chinese germplasm for application in Victoria. Discussions also referred to sharing existing research findings on harvest and post-harvest techniques and research to assess consumer preferences for summerfruit in China and in Australia.

John Moore from Summerfruit Australia Ltd described a potential collaborative effort in marketing produce. This could include proactive media outreach, point of sale material and in-store product sampling. Chinese stone fruit is likely to be imported during July to September which is outside the Australian stone fruit season. Marketing efforts could target Australia's Chinese community as well as wholesalers and greengrocers.

Annie Farrow talked about two apple initiatives in China. The first relates to the MoU that APAL signed with the Zhengzhou Fruit Research Institute (ZFRI) to share knowledge on integrated pest management and possibly chemical residue systems. The second initiative related to Pink Lady™ licensing to a Fuping Agricultural Co-operative to sell a small volume of Chinese grown Cripps Pink apples under the Pink Lady™ brand in 2014 as a trial. A marketing program will commence in early 2015 when product comes onto the Chinese market. The prospect of these initiatives seemed to be well received by the Chinese authorities.

Bryan Balmer also talked about the facilitation of bilateral cooperation with China on technical research and regulatory systems to manage fruit fly.

#### *Subsequent Trade Mission Meetings*

During the Trade Mission a number of State dinners were held in honour of Australia's Chinese friends and additional contacts were made at these events. As a follow up A Farrow was invited to attend the Australian launch (at Parliament House Melbourne) by TaoBao, an online B2C shopping platform company owned by Alibaba. The new TaoBao website will enable customers to specifically search (in Chinese) for Australian sourced fresh produce and processed foods. Subsequently, A Farrow was invited to attend a meeting with the TaoBoa to pitch Australian apples. A package of materials was presented, including fact sheets on varieties as well as stories (taken from newspaper clippings and websites) about growers and their products. It was felt that the latter important as a common theme throughout the Trade Mission was the increased desire of Chinese to know where their food comes from and building brands based on local stories.

## **Appendix 3: China Market Insights Conference May 2015**

Following meetings with AQSIQ and CIQA in to Beijing in May 2015, A Farrow travelled with S Lawrence, Trade Manager from Horticulture Innovation Australia, to attend the annual Asian Market Insights Conference in Shanghai. The Asiafruit Market Insights Conference provides a platform to:

- Obtain the latest information on consumer and retail trends;
- Gain expert insights to growing the imported fruit business in China, including lessons learned from other export countries and fruits;
- Understand trends about competing imported fruit products;
- Make new connections and strengthen existing relationships with buyers, the supply chain

and market knowledge experts.

The major themes of the Conference were:

- Shanghai's growth as a gateway to the China imported fruit market which is growing exponentially;
- The future of traditional retail channels, especially when compared with the growth of on-line purchasing of fresh food and groceries;
- The competitive effect of imports on local Chinese agricultural production.

Ben Cavender from China Market Research - a company that undertakes surveys and consumer interviews - said that although China has a population of 1.4 billion, only those earning above US\$9,000 pa were considered "in the market" to purchase fresh imported fruit. Cavendar estimates that by 2020 about 70% of Chinese households will have reached that threshold and ¾ of the urban population will have done so. He believes that the biggest growth will come from Tier 2 and Tier 3 cities rather than Tier 1 cities. He said that even now there are over 150 cities with populations greater than 1 million.

While Shanghai remains the major consumption centre of the booming Yangtze River Delta region, its growth is being outstripped by tier-two and -three cities in the hinterland. This is because the cost of doing business in Shanghai has become too high – with rents and labour costs rising rapidly. As a result businesses are migrating back to the hinterland tier-two and -three cities. Cavendar concluded that fresh fruit suppliers should focus on how to win consumers and build brand trust in the Tier 2 and Tier 3 cities.

Cavendar also reported that the corruption crackdown was impacting purchasing patterns. Accumulating luxury brands was no longer important, with spending focussed on accumulating experiences – overseas travel, trying restaurants and buying imported food.

More than 90% of those surveyed by Cavendar say that food safety has a direct impact on what they buy, especially where there is a child. His research suggests they will pay a 20-30% premium for safe food. Brand and brand origins are important considerations as are retail channels. Customers don't trust the large chains like Carrefours in the same way that they used to and are shifting to online and high end retail food outlets.

There is a growing understanding of the importance of nutrition according to Cavendar. Consumers are looking for healthy eating experiences and have improved knowledge that buying healthy food is better for you. Nevertheless there is a considerable lack of knowledge and suppliers should focus on educating consumers about the health benefits of their produce. In a related way, there has been a rapid rise in the interest in organic foods in China.

Cavendar also reported that despite the considerable growth in the number of high end retailers and speciality stores in tier-two and in tier-three cities, demand growth was outstripping supplies of imported and high quality domestic fruit. He suggested the gap was being fed by an explosion in e-commerce trade.

There are over 100 retailers selling fresh fruit online in China. According to Cavendar online fresh fruit sales amounted to over US\$200 million in 2014. Although still representing only a fraction of total fruit sales, he expects online retail to continue to rise significantly.

Andrew Kuller from The Silk Initiative said that there had been a complete change in consumer behaviour from buying fruit in wet markets to purchasing fully packed product in retail stores. He reported that natural foods was a hot topic with 41% of consumers sceptical about how “natural” food may actually be. Nevertheless 77% of consumers believe that natural foods will play a bigger role in their diets in coming years, principally to combat pollutants. To Kuller, promoting and substantiating the naturalness of fruit and connections to nature is key.

Kuller’s principal message was that suppliers need to invest in understanding the market to establish a clear product position. He also suggested that your brand may have to stand for something different in China compared with what it represents in the “home” country. He said the Chinese culture places considerable significance on packaging design. Suppliers need to rethink their existing packing when entering China to acknowledge the design differences between China and Western countries. He also said that it was crucial to determine the best distributor/retailer to deliver product to consumers and that consumers were expecting faster and a more interesting engagement.

There are considerable opportunities to value add in the Chinese market according to Kuller. For example, understanding and highlighting the herbal and plant based properties of products could add value by partnering with dairy products and drinks (juice, teas).

Kurt Huang, general manager of Shanghai Oheng Import & Export Co, spoke about trends that are emerging in the logistics of importing and then distributing fruit. He said that infrastructure was evolving rapidly in Shanghai and elsewhere to meet the challenges created by the strong growth for imported fruit. Huang reported that the newest trends included buyers chartering cargo planes and sea vessels. He reported that last year more than 8,000 pallets of cherries were shipped by air into Shanghai from the US and that more than 4,000 containers of Chilean cherries arrived in China (1/3 into Shanghai) by sea. Steven Fang from China Eastern Logistics echoed Huang’s view that airfreight will continue to play an increasingly important role in meeting the country’s surging imported fruit demand.

Huang also reported that a nation-wide cold storage network is required to support the growing fresh fruit demand. He noted there were considerable challenges in developing infrastructure that was both integrated and that could service the more distant emerging markets within China’s interior. Craig Bowyer from Swire Cold Storage reported that they have invested heavily in China’s cold storage infrastructure with plans to continue with expansion. Chris White from AsiaFruit suggested there were criticisms that the cold storage in China tended to be at the one temperature, rather than facilities with mixed temperatures to suit different commodities. This in turn means spoilage and higher costs because of waste. But it also means there is a failure to match consumer expectations.

Jason Xu, general manager of importer-distributor Shanghai Supafresh provided lessons from marketing imported avocados and green apples. He said that Supafresh was the first importer of avocados and they initially attempted to distribute the product through the wholesale market. This was largely unsuccessful because consumers lacked familiarity with the product – how to use and store it. Supafresh switched to retailing avocados, including through online sales. They tapped into and promoted the unique characteristics of the product as well as developing recipes that incorporated avocado into the Chinese cuisine. Likewise, “no-sayers” suggested that no one in China would buy imported green apples. But Supafresh identified a target market and promoted the product as a salad ingredient, as well as a juice that offered a different experience from the sweet Fuji. The key lesson from Xu is that commodities that are novel to the Chinese, even new varieties,



can find a niche market. But one has to promote it, educate consumers and find the right distribution/retail network that matches the target consumer.

Xu said that e-commerce and TV shopping channels enables retailers to provide greater information to consumers – about provenance, product attributes and recipe ideas. But it does lack the visual presence that traditional sales channels offer. Xu is confident that both types of channels will continue into the future. He talked about taste stores where consumers could taste, but not immediately purchase the product, then place an online order. A trial of the taste store concept was undertaken in Shanghai using imported citrus, earlier in 2015. They sold over 100 boxes per day.

Creativity in online fruit marketing continues to drive rapid growth in imported fruit sales according to Eric Li, Vice President of, and in charge of global sourcing for, Shanghai Yiguo, one of China's leading e-commerce companies. An article reporting on Mr Li's presentation was provided to the Australian apple and pear industry at: <http://apal.org.au/fruit-sales-via-mobile-booming-china/>

As noted by the Asia Fruit Market Insights organisers, while China's e-commerce boom has been grabbing the headlines when it comes to consumer marketing in China, there are also some exciting growth stories for traditional supermarket stores. Huiyong Yu, president of specialist greengrocer chain Pagoda, which has opened more than 850 stores over the past two years, and is targeting 15,000 stores across China by 2030.

A panel discussion about the future of online sales compared with bricks-and-mortar stores suggested:

- Online fresh fruit retailing has yet to prove profitable and sustained losses are likely to continue in the future;
- A number of retailers were selling through both channels now and in Golden Wing Mau's experience, the same price points were needed in both outlets;
- Investing in brand building and marketing makes the balance sheet of online look very positive but it was questionable whether it was yet worth it;
- The key is customer satisfaction and that isn't always about price but rather the quality of product and the service level provided.

The final session of Asiafruit Market Insight examined the impact of fresh produce imports on China's domestic fruit and vegetable industries. Lew Dagger of Yunnan Management reported that agricultural models in China were changing. He said that massive vertically integrated agricultural companies were emerging but because of their high costs they could not compete with the traditional small farmer. As a result these new companies were competing in the same market space as imported produce, and at the same price points. Dagger suggested that improving production tonnages per hectare was the biggest challenge and that there was significant investment in post-harvest facilities to meet the challenges off-farm. He reported that there was strong interest in moving away from varieties traditionally grown in China to newer varieties, including both off-shore and locally bred new varieties.

Dagger suggested that the Modern Agricultural Policy would help the expansion of China's fresh fruit production, with its emphasis on food security and the need to improve rural economies. He said that these trends would not do imported produce any favours. Traditionally production was focussed on supplying fruit to the immediate province but that the dramatic improvement in transportation

means product can now be transported more quickly throughout the country.

Dagger also suggested that the attitude of not sharing agricultural technology with China would not be a successful one in the long term. He believes that international agricultural countries and companies need to demonstrate they are good global citizens. He opined that suppliers of imported fruits need to engage more effectively with domestic industries, not only at the farm level but also at retail. Developing education and training is an important and effective means of achieving engagement.

The Pink Lady® story was given as an example of the importance of building a story around branding and developing reciprocal trade. He advised that for the past eight years Pink Lady® market development has used imported product but that in 2014 a local Chinese grower association was granted a licence to sell apples produced in China under the Australian owned, internationally focussed brand. He said this initiative provides the market with a potential 12 month year round supply of Pink Lady® apples. He said the strategy was to engage with the growers, and will include giving them access to integrated pest management techniques. Dagger said consumer events and promotion was a big investment: there was a requirement for constant and consistent store displays promoting the brand, which may vary across store types (hypermarket vs fruit shop). Promotional support to wholesalers is also important as this channel is still dominant.

Following the Conference A Farrow and S Lawrence, together with John Moore of Summerfruit Australia visited Jack Tang the Senior Trade and Investment Officer with the New South Wales Government's Trade & Investment Office in Shanghai. We were able to brief Jack on Australia's market access priorities for pome and stone fruit and better understand NSW government activities in China.

## **Appendix 4: Asia Fruit Congress Hong Kong 2015**

AsiaFruit Congress was held in Hong Kong on 1 September 2015, preceding Asia Fruit Logistica. The conference was attended by J Dollisson and A Farrow.

AsiaFruit Congress is a valuable conference and networking event attracting more than 400 delegates from almost 40 countries. In Session 1 a panel of Asia experts looked back at the changes in Asia's fresh fruit and vegetable trade over the past 20 years, and expected trends through to 2025. A summary of the discussion about past and future trends was provided to apple and pear growers: <http://apal.org.au/charting-asias-rise-future-trends/> .

Session 2 provided insights on how innovative marketing approaches can build on the Asian consumers' focus on health and wellness. Speakers indicated that fresh produce plays a deeper and more complex role in managing health in many parts of Asia than it does in most Western countries. A summary of an excellent presentation made by China expert Clint Smith was provided to apple and pear growers: <http://apal.org.au/fruit-vegetable-opportunities-china/> .

In Session 5 speakers suggested that with a fast-growing economy and a large population of mainly young consumers, the Philippines is an exciting emerging market. These sentiments echoed a market insight analysis provided earlier in the year by Wayne Prowse (MT1406) in the Australian Fruitgrower magazine: <http://apal.org.au/market-insights-philippines/>

In Session 6 experts from agricultural services companies based in the US and China discussed the importance of managing maximum residue levels in fresh produce exported to Asia. The experts

indicated that most Asia countries have begun to establish their own national chemical residue standards and compliance practices and that these need to be navigated. Preventing trade disruption and minimising the risk of losing business through non-compliance requires that grower-shippers need to be well prepared.

Session 7 provided a discussion about the growth and market potential in some of Asia's more mature or established markets. Presenters spoke about a range of developments including greater trends toward direct sourcing by retailers. A useful insight into the well-established Hong Kong market suggested that although wet markets continue to dominate fresh produce sales supermarkets are beginning to improve their market share. A summary was provided to apple growers: <http://apal.org.au/hong-kong-emerging-trends/#sthash.133p841G.dpuf>.

## **Appendix 5: Asia Fruit Logistica Hong Kong 2015**

J Dollisson and A Farrow also attended AsiaFruit Logistica 2-4 September 2015. O Tait also attended under AP11016. AsiaFruit Logistica attracted more than 9,200 trade visitors from 70 different countries to Hong Kong's AsiaWorld-Expo Center. The record attendance at Asia's leading fresh fruit and vegetable trade show was driven by a significant increase in Asian visitor numbers. Total visitor numbers rose by 14 per cent on last year's event, and 66 per cent of those visitors came from Asia, up from 58 per cent in 2014.

The APAL booth was positioned under the Australia Fresh banner, exhibiting with other industry representative bodies, producers and exporters. The new look Australia Fresh branding, co-ordinated by Horticulture Innovation Australia, enhanced the overall positioning of the Australian presence at both events and helped to establish Australia as a major source of a range of premium quality fruits and vegetables with the capacity and ability to supply into the Asian market. The event was reported upon by Olivia Tait (AP11016) in <http://apal.org.au/promoting-australian-pome-fruit-china/>.

Asia Fruit Logistica also included a number of Business Forums. Joseph Ebbage, Almonds Australia and David Smith from Naturipe China made presentations about merchandising and the importance of repositioning your product to unlock new markets. Their examples suggested that simple changes such as new packaging can help to tap into different consumer sectors, while placement in non-traditional areas of the retail store can ramp up purchasing rates.

Jeff Correa from the US Pear Bureau and Victor Sarabia from Promperu (Peru) provided success stories for country-of-origin branding. Both presenters indicated that country-of-origin marketing campaigns can be very effective for fresh produce because of concerns about food safety and the desire for high valued premium imported product. They indicated that there were many opportunities to do cross-promotions between food types using the country of origin as a focus.

A session on the advancement of China's agricultural production indicated that China's farm production systems are modernizing, driven by government support and land reforms. Representatives from Joyvio, Innofresh and Haisheng provided insights into new production initiatives in China, with direct sourcing from own farms / vertical integration an emerging trend.

A final session focussed on the importance of new varieties in providing growers, marketers and retailers with a crucial point-of-difference in an increasingly competitive and commodity-driven market. The speakers indicated that a multitude of new varieties are emerging from public and

private breeding programmes in many produce categories. But as only a few can hope to become game-changers it is important to understand the factors that are critical to selecting and developing a winning variety.

Peter Landon-Lane from Prevar said that when developing premium, new cultivars breeding is just the beginning, with consumer, production, and post-harvest research required across the value chain. A Farrow ghost wrote an article for Peter in order to share the learnings with all Australian growers and made available in Australian FruitGrower <http://apal.org.au/breeding-market-winner/#sthash.KI989jd9.dpuf>.

Likewise, A Farrow also ghost wrote an article for Andrew Maughan from Freshmax who provided a presentation on how to select and develop a winning variety. This was published in Australian FruitGrower: <http://apal.org.au/developing-winning-variety/#sthash.mI1PdPZg.dpuf>.

Although AsiaFruit Logistica is predominantly a market development rather than trade and market access related, the event provided an opportunity to:

- f) Assess the product offerings and positioning of competing suppliers. The AsiaFruit Logistica event indeed seemed to be “awash” with apples and to a lesser extent, pears.
- g) Better understand the importance of the event for Chinese buyers relative to Fruit and Vegetable Fair Beijing, in turn providing insights for the focus of apple and pear Export strategy.
- h) Better understand the importance of connecting potential buyers with Australian growers at such events, rather than simply with industry representatives or traders. This knowledge will in turn be emphasised within the apple and pear Export strategy to ensure that grower buy-in is secured for future market development events.
- i) Strengthen relationships with Chinese buyers in the lead up to gaining market access for mainland apples. Brief discussions were held, for example, with Pagoda, FruitDay, Great Wall, Yiguo, Goodfarmers, Joyvio and Golden Wing Mau. Discussions were also held with Austrade, as well as with service providers operating within Asia such as the Asia Fruit team and The Silk Initiative (providing market intelligence), Bryant Christie (providing MRL data), and equipment suppliers.
- j) Provide advice to potential new Chinese and Taiwanese customers that mainland Australia did not yet have access. The strategy was then to make introductions for these buyers with Tasmanian exporters at the FruitGrower Tasmania stand (under the Australia Fresh banner).

## **Appendix 6: Fruit and Vegetable Fair Beijing 2015**

Prior to attending the Beijing Fruit and Vegetable Fair (FVF), A Farrow, Joseph Ebbage (Almonds Australia), Robert Gray (Australian Mango Growers Association) and Michael Daysh (Government of the Northern Territory) visited a cross section of retail outlets (Bravo, Vanguard, Carrefour and Umy). This afforded an opportunity to better understand the positioning of South African, US, New Zealand and European apples and pears, the positioning of the different retail types and the manner in which fresh produce, as well as juice, are showcased. Although wine, some Australian, is available

within many retail stores, no cider products were on display. Whilst these insights are only snapshots they help to build a picture and inform a better understanding of market opportunities.

The Fruit and Vegetable Fair was held in Beijing on 9-11 September 2015. The Australian pavilion (organised under the Australia Fresh banner of Horticulture Innovation Australia) was opened by the Minister for Agriculture Victoria, Jaala Pulford.

Fruit and Vegetable Fair Beijing is an important event for the Australian apple and pear industry, and horticulture more generally, providing an opportunity to showcase product and establish some new business relationships with key Chinese importers. Coming off the back of Asia Fruit Logistica, which is significantly larger in terms of both trade displays and visitor numbers, Fruit and Vegetable Fair Beijing was not at all well attended. It would appear that most of the current and potential buyers of significance chose to attend Asia Fruit Logistica rather than Fruit and Vegetable Fair Beijing. Compared to those Chinese visiting Asia Fruit Logistica, the English language skills of most Fruit and Vegetable Fair Beijing visitors was limited. It is recommended that a local be engaged for future events to work within the Australian Fresh pavilion.

A number of business forums were run concurrently with Fruit and Vegetable Fair Beijing. AQSIQ representatives explained the role of the organisation in managing import access requests (including import risk analyses) and undertaking inspections of produce imports, both for pests and diseases as well as for chemical residues and contaminants in produce.

A familiar picture emerged with the presentation by AQSIQ Deputy Director of Biosecurity Division of Biosecurity Mr Wu Hao of the Chinese market access request process. His description suggested little difference at the very broad level, with the Australian system:



To put the workload of AQSIQ into perspective, China has approved the importation of over 100 fresh fruit varieties from 40 different countries. In the view of Mr Wu Hao, it is important when seeking access for exporting nations to:

- Provide comprehensive technical information in a timely manner;
- Keep a close working relationship with AQSIQ and its experts;

- Establish a co-operative mechanism by creating more opportunities to visit each other between both sides at both government and industry level.

Mr Wu Hao then went on to explain the inspection declaration documents required by AQSIQ including the inspection declaration form, phytosanitary certificate (which in turn needs to comply with ISPM 12, be in accordance with the protocol and indicate the container number), quarantine permit, certificate of origin, and special documents such as cold treatment temperature records and probe calibration for temperature records.

The most important aspect of Fruit and Vegetable Fair Beijing, however, is the opportunity to meet officials from the Chinese quarantine agency AQSIQ and a closely related stakeholder group representing quarantine inspection services (CIQA). These meetings provide an opportunity to advocate for new market access with officials and related parties.

On September 10, 2015 an Australian delegation led by Horticulture Innovation Australia met with China Entry-Exit Inspection and Quarantine Association (CIQA) for the sixth China-Australia Horticulture Cooperation Workshop. Concurrent to the activities of the China Fruit and Vegetable Fair the Hort. Innovation-CIQA event involved a technical workshop which provided a series of presentations from industry in both countries. The purpose was to expand understanding and cooperation across the horticulture sectors of China and Australia.

A Farrow outlined our proposal to advance both the Australian and Chinese apple industries through a strategic partnership through four initiatives: licencing a small volume of Pink Lady® apples in China, variety evaluation, an integrated pest management system and integrated pest management training.

The Cooperation Workshop concluded at the Australian Embassy for the signing of a Memorandum of Understanding (MoU) between the Australian horticulture industries and CIQA. An umbrella MoU signed by Hort. Innovation and CIQA demonstrates the long-term commitment between the parties to strengthen relationships and create a framework for mutually beneficial engagement of horticultural trade interests between the two countries.

Annie Farrow, APAL Industry Services Manager, also signed the MoU on behalf of Australia's apple and pear growers. Representatives from the Australian citrus, table grape, stone fruit and cherry industries also signed the MoU with individual chapters under the banner of the principal document.

The apple and pear chapter states that the parties may encourage the development of collaborative projects to benefit the joint interests of their members and that these projects may form a separate Memorandum of Agreement. Better relationships with the Chinese industry aims to help drive access for mainland apples into China. APAL is seeking to sign an Agreement with CIQA early in 2016.

The MoU signing was reported to Australian apple and pear growers <http://apal.org.au/australia-china-sign-horticulture-trade-mou/>



General Manager of Research Marketing and Investment at Hort. Innovation David Moore (rt) with Annie Farrow (centre) and Secretary General of CIQA Bao Junkai, during the signing of the Australia-China MoU.

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