

# **Horticulture Innovation Australia**

## **Final Report**

### **Vegetable Industry Export Strategy**

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Project Number: VG15052

## **VG15052**

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## Summary

This report is **Volume 1: Background Analysis** of a three volume series culminating in the Australian Vegetable Industry Export Strategy. This document profiles the state of current Australian vegetable exports, outlines the top line opportunities, summarises the export market potential and the strategic situation facing the industry. This report is structured in 3 parts:

Part A Overview of Australian vegetable exports

Part B Industry consultation findings

Part C Opportunity assessment summary

Part D Conclusions

The **Volume 2** in this project series presents the profiles of key export markets, maps out the main export categories and presents the market potential index analysis for key Australian vegetable exports. **Volume 3** presents the Vegetable Industry Export Strategy and recommended response programs.

## Keywords

CIF	Cost, insurance, freight (i.e. delivered cost)
FOB	Free on board (essentially price at port)
GDP	Gross Domestic Product
GFC	Global Financial Crisis
Hort Innovation	Horticulture Innovation Australia
HACCP system	Hazard and Critical Control Point – now a generic term for quality assurance systems
MPI	Market Potential Index (see explanation of key measures)
PFA	Pest Free Area
PPP	Purchasing Power Parity (i.e. equalisation of the purchasing power between currencies)
QA	Quality Assurance
R&D	Research and development

## Introduction

This document is **Volume 1** of 3 volumes that outline the Vegetable industry Strategic Plan and its supporting data. This document presents the background information from the desk research and industry consultation as well as the top line findings from the Market Potential Index.

## Project objectives

The objectives of this project are to help Horticulture Innovation and vegetable industry members to:

1. Create a single, authoritative resource to identify vegetable industry export priorities ☒
2. Identify the long-term, strategic export objectives for the vegetable industry ☒
3. Identify and rank market access and market improvement priorities for each market and each commodity to guide investment of effort over a two-year time-horizon ☒
4. Identify market development priorities by market, and by commodity ☒
5. Produce business cases for submission to the Trade Assessments Panel for each priority category.

## Methodology

The project methodology for this reporting phase of the project (**Phase 1**) has included the following planning research and analysis steps:

Step 1 | Project planning

Step 2 | Desk top review

Step 3 | Stakeholder engagement

Step 4 | Market potential assessment

Step 5 | Market development cycle analysis

Step 6 | Market access review

Step 7 | Situation analysis & recommendations

The key output of this project, the development of the resulting strategy (**Phase 2**) will be reported separately in **Volume 3** and will include recommendations and strategy design produced from the following steps:

Step 8 | Development of 10 year strategy platforms

Step 9 | Commodity program

Step 10 | Country program

Step 11 | Three year investment program

Step 12 | Market access program

Step 13 | Business case for priority projects

Step 14 | Finalisation of reporting

## Explanation of key measures

The analysis in this Volumes 1 and 2 draws heavily on a number of analytical tools, the most critical being the Market Potential index. This particular tool and the basis of the other measures utilised are explained below:

The project methodology utilised an assessment tool developed by MCKINNA *et al* called the Market Potential Index (MPI) <sup>TM</sup>. This is a market mapping tool used to provide a standardized score and ranking of a set of markets. It involves building an algorithm that weights the key factors that are judged to be the drivers of demand for each category. The factor selection and weightings are based on feedback from engagement with industry as well as drawing on MCKINNA *et al*'s extensive experience in export market development.

The MPI formula developed for vegetable exports is shown in the following table:

ELEMENT	WEIGHTING
<b>Demographics and social economics</b>	<b>25/100</b>
Household disposable income	5
Population	10
PPP the big mac index	5
GDP growth	5
<b>Propensity to consume</b>	<b>30/100</b>
Per capita consumption	7
Per capita import trend	8
% sold through modern trade	5
Import Volume	5
Reliance on imports	5
<b>Australia's competitiveness</b>	<b>45/100</b>
Total imports market share (AU share)	10
Growth trend of Australian exports	5
Export Volume	5
Australia's price competitiveness	10
Market importance (share of exports)	10
Sea freight sailing days/ cost	5
<b>SCORE</b>	<b>100</b>

The MPI has gone through several iterations in its development with various factors and weightings being tried, resulting in a version that produced the greatest sensitivity with respect to market potential.

### Demographics and social economics

This measurement factor focuses on the size of the population, their purchasing power and income growth. The Big Mac Index developed by The Economist magazine was used to derive a measure on the relative purchasing power of each country. GDP growth was also used as a good indicator of the state of the economy.

### Propensity to consume

This group of measures captures the size and growth trend of the market for each category. It covers per capita consumption and trends. It includes the share of the category sold through the modern trade (i.e. supermarkets, hypermarkets and high end food service outlets) and the rationale for this is that for almost every category, Australia is a higher cost producer and competes on the basis of its quality and safety - these are attributes, which are more valued by modern trade buyers and their customers and would be hard to leverage in wet markets and traditional food outlets.

Current import levels and reliance on imports were also considered important measures. It is more difficult for Australia to compete in countries with a strong domestic production sector.

### Australia's competitiveness

This set of measures takes into account the following measures: Australia's total exports, market share of total imports and market share trend. It also includes a measure of market performance i.e. the share of Australia's total exports of that particular product going to that market. Australia's price competitiveness is also benchmarked against the lowest cost supply country, be it domestic or imported product. The sea freight factor takes into account sailing times and freight cost relative to the main competitor.

### Market access

The MPI scores do not take into account market access status, which is reported separately. The reason for this is that one of the objectives of the project is to identify the priorities for market access negotiation for the vegetable category. Categories with a MPI high score that do not have market access present a clear case for market access priority.

### Interpreting the MPI

The MPI is designed as a tool to rank export opportunities for the Australian vegetable industry as whole, as well as for developing market development strategies for particular industries and setting market development priorities. It is based on an assessment of the overall industry competitive situation. A low MPI score should not be interpreted as meaning that there are no opportunities for individual businesses. It could be that a business may have a point of difference that puts it apart from the industry as a whole (e.g. unique packaging, organic, etc.). It must also be stressed that the MPI is based on an assessment made at a certain point in time (August 2016). Given the highly dynamic nature of the global vegetable industry, such circumstances could change very quickly.

**In reading the MPI, focus should be on the yellow bars, which indicate Australia's competitiveness.** Realistically, if Australia is not competitive, either in terms of price or a significant non-price point of competitive advantage (e.g. quality, product integrity or seasonality), it is unlikely to succeed; regardless of how good the market macros look. For this reason, in selecting the markets to profile, we have eliminated any with a low score on competitiveness, even if there was a high total score.

New Zealand was eliminated from the MPI altogether on the basis that it is effectively an extension of the Australian domestic market and trade is already very open.



The following is a rough guide to interpreting the scores:

MPI SCORE RANGE	DEFINITION
<b>MPI score of &gt; 50</b>	Markets or categories with good potential for sustainable exports and worthy of industry investment
<b>MPI score of 40 -50</b>	Markets or categories with opportunistic or small/ seasonal niche markets which may be worth pursuing but probably do not justify industry investment at this point in time
<b>MPI score of &lt; 40</b>	Markets or categories with opportunistic or small/ seasonal niche markets which may be worth pursuing for individual businesses with a unique proposition but in general have limited prospects

#### **Caveat**

The MPI is designed as a tool to help inform industry investment in market development activities with the underlying intent of focusing strategic investment in categories and markets that represent the best potential returns for the overall industry from the investment. The market/category matrix developed for this analysis has over 250 cells meaning that it is necessary to identify and prioritise the best opportunities to focus industry investment.

The authors note that the MPI tool is an 'imperfect science' and is simply a means to assist industry in prioritising resources in the face of much complexity. The fact that a market/category scores relatively poorly, does not mean that there is not a good opportunity for an individual business. For this reason, some businesses might challenge the MPI scores on the basis that they are already doing good trade in a particular market. Again it must be emphasised that the MPI is designed to inform industry-wide investment decisions.

The methodology for this analysis is based totally on desk research and is therefore limited to the accuracy of the data. The authors are confident that the best available data sources have been used. The findings of the MPI analysis do need to be validated by empirical data based on in-market research.

#### **The price competitiveness measure explained**

The price competitiveness measure expresses Australia's average CIF (i.e. landed price) as a percentage of the average selling price for all products at the market for the same period. A value judgement has been applied that if Australia's price is more than 20% higher than the average (an index of 120%) Australia is not competitive in this market and must compete on non-price factors such as premium quality or product integrity.

## **Outputs**

This report is one of three volumes in this series, the first two of which will document the research findings and contribute to increased knowledge on the export potential for Australian vegetables; the third which will outline the export strategy.

## **Outcomes**

The intended outcome for this project is an increase in the export sales of Australian vegetables as a result of industry having a clearer understanding of market potential.

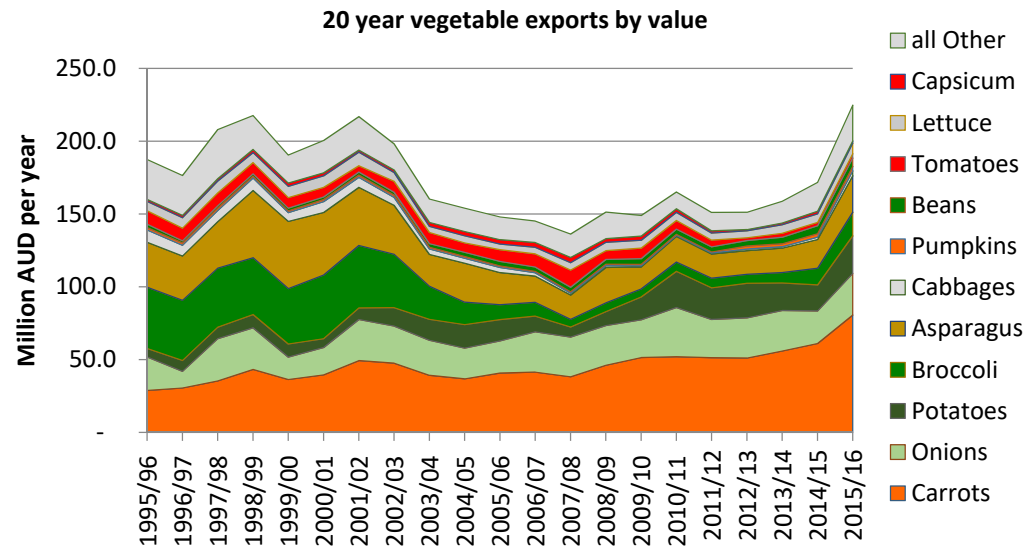
# Part A

Overview of Australian  
vegetable exports

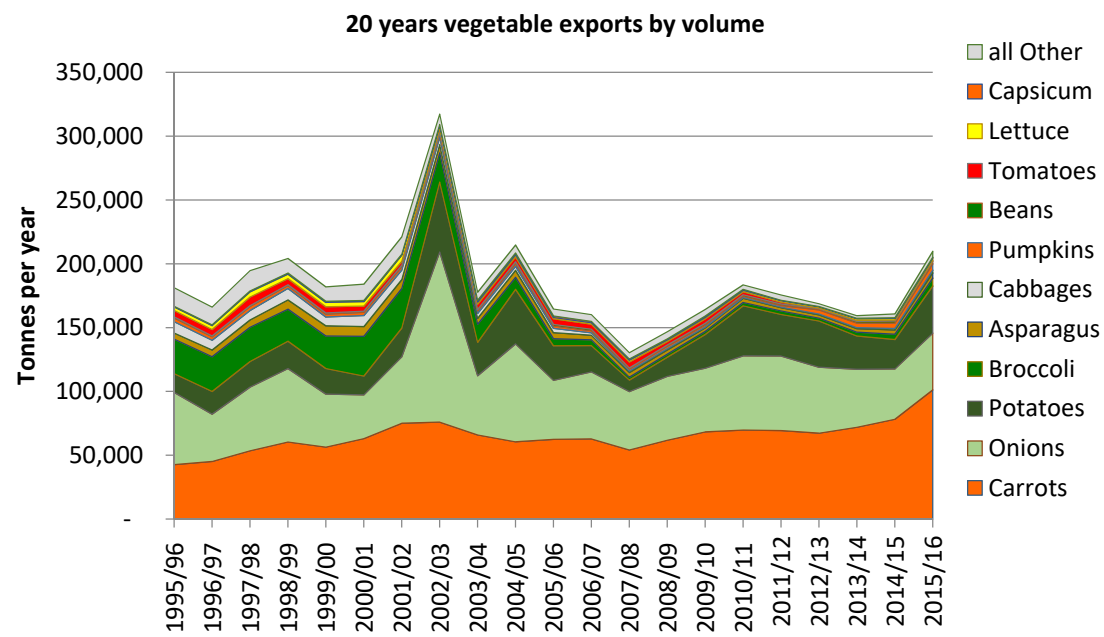
# 1. Vegetable export snapshot

## 1.1 Market overview

Australian vegetable exports in 2015 were tracking at approximately the same value and volume that they were in 1998, albeit with considerable fluctuations in the interim. In the 2015/16 financial year, Australia exported **209,871 tonnes** of vegetables valued at **\$226.5 million**. Fluctuations during these decades were largely a result of currency movements, although a large volume of very low value onion sales influenced a spike in 2001/02.



Source: ABS Data, Fresh Intelligence analysis, 2016



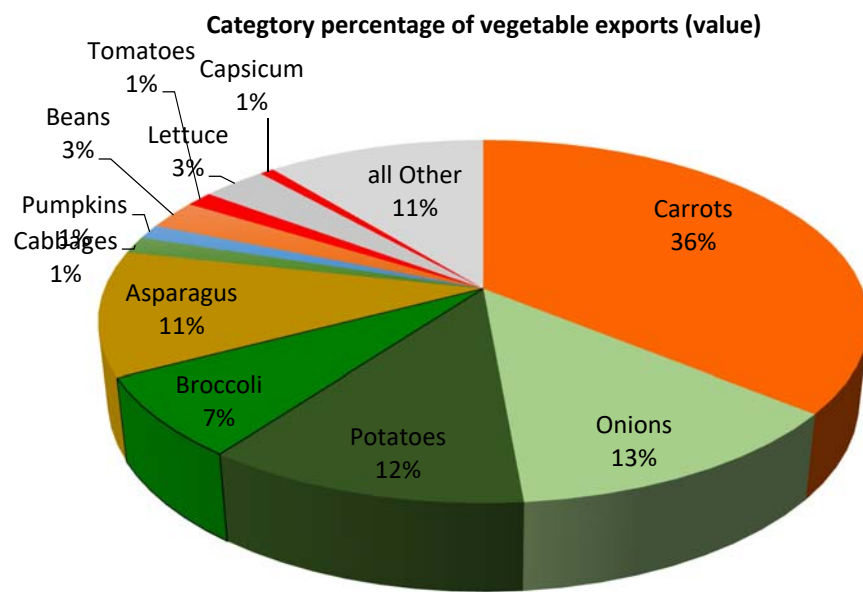
Source: ABS Data, Fresh Intelligence analysis, 2016

Australia's failure to gain any real traction in global market share in vegetable exports (despite growing global demand) is largely due to a high cost structure, primarily from high labour costs. Because vegetables are extremely labour intensive, Australian growers usually need low cost labour models to be globally competitive.

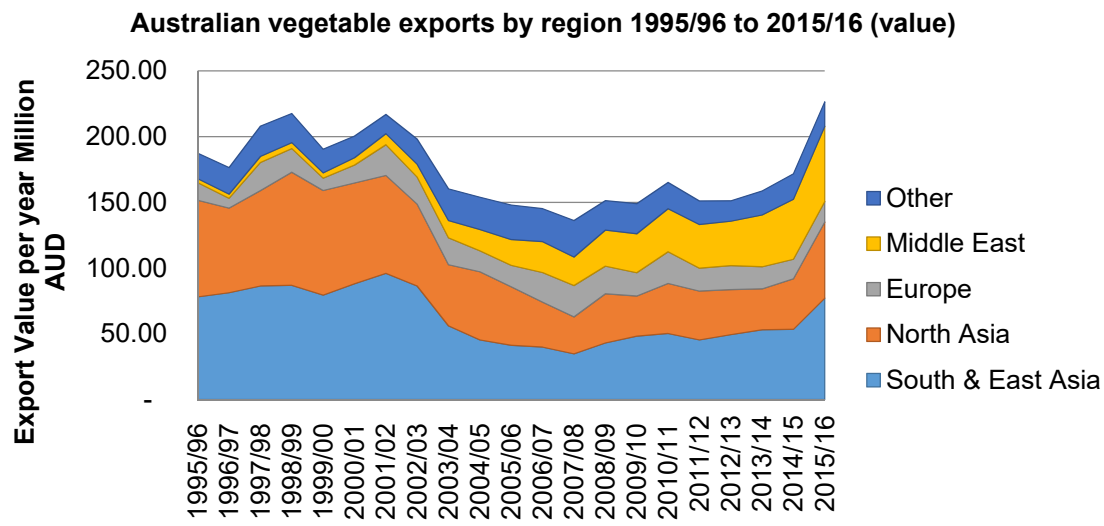
A major factor accounting for Australia's inability to grow its share of global vegetable trade, was that in 2002 China was accepted into the WTO and the trade sanctions that were in place up until that time were lifted, giving China access to Australia's key markets. China is a very low cost competitor in most vegetable categories.

Despite intense price competition from China, Australian vegetable exports have made a resurgence in the past two years, largely as a result of the depreciation of the \$A against the \$US and the currencies of our major trading partners, which are either pegged or are closely linked to the \$US. The spike in 2002-2003 sales coincided with a period when the \$A was sitting at an historic low of US 55c. Similarly, the spike in 2010-11 was due to the temporary depreciation of the \$A following the GFC. Realistically, the \$A needs to be in the mid to low US 70c range for Australia to be a contender in the international export arena for horticultural products.

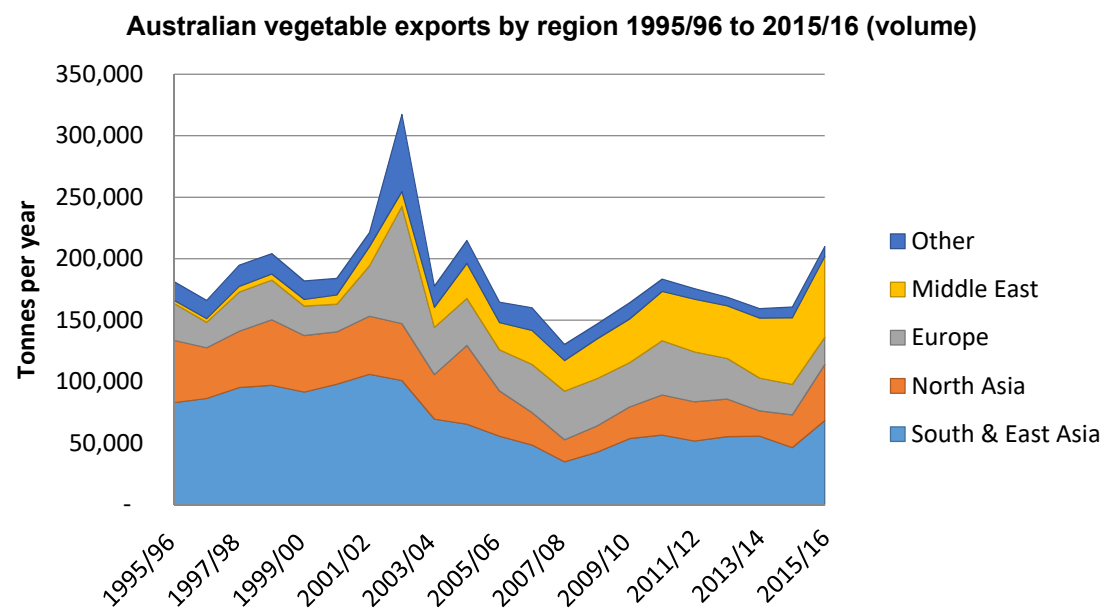
In most horticultural categories, Australia cannot compete on price and can only export in higher value, niche markets, segments and channels where there are customers who are prepared to pay a premium for Australia's superior quality and/or reputation for safety and product integrity. Even in highly automated categories such as carrots, onions and potatoes (where Australian growers have a higher likelihood of cost competitiveness), Australian products trade at a premium. In some cases, (e.g. onions to Europe or crisper potatoes to South Korea), Australia can be competitive for certain months of the year because of a southern hemisphere seasonal window advantage.



Source: ABS Data, Fresh Intelligence analysis, 2016



Source: ABS Data, Fresh Intelligence analysis, 2016



Source: ABS Data, Fresh Intelligence analysis, 2016

South East Asia and the Middle East are Australia's largest vegetable export markets. The South East Asian market is strong for Australia because of proximity, airfreight advantage and Australia's reputation for quality in those countries. South East Asia is a key destination for carrots, broccoli, lettuce, celery and brassica. This region is extremely price sensitive and therefore, exchange rate sensitive. Most of the South East Asian markets were until recent times 'free trade' markets meaning that Australia competes against the full force of global suppliers. The Middle East is an equally important trading zone for Australia including a number of growing markets for carrots. Buyers here are prepared to pay a premium for Australia's superior quality to a certain extent.

In volume terms, Australia's vegetable exports are dominated by hard vegetables particularly carrots, onions and potatoes. In higher value, more perishable lines, broccoli and asparagus are the best performing commodities.

Australia's presence in North Asia is dominated by potato sales to South Korea (for processing) as well as broccoli and asparagus into Japan. Market access is currently a significant blocker to Australia's trade in this region, limiting the volume and variety of produce accepted.

Australia's trade into Europe is almost all accounted for by onions, where Australia enjoys a short seasonal supply window before the local season begins.

**With the exception of carrots, over the past 20 years Australian vegetable exports have remained relatively flat**

# Part B

Industry consultation  
findings



## 2. Consultation findings

Extensive industry consultation was conducted to inform this study consisting of Interviews in NSW, VIC, TAS, QLD, SA and WA with growers, exporters and wholesalers of a wide range of vegetable categories. The breadth of industry participants spanned experienced, new and aspiring exporters. The authors also attended the Horticulture Innovation Export Symposium at the 2016 industry conference and export seminars at Asia Fruit Logistica, 2016 to interview growers and program speakers.

It is important to note the comments below reflect grower opinion and perceptions, not hard facts. This type of qualitative research is important to assess industry needs and culture.

A series of 12 key themes emerged in the interviews, which are briefly outlined below:

### **THEME 1 | Most are optimistic about the scale of opportunity in export markets**

- There is widespread optimism within industry about the scope of export opportunities for Australian vegetables. Those that are currently trading are receiving positive signals from their overseas buyers about the extent of opportunities in the pipeline. In some instances, exporters are simply not able to produce enough to fill market demand.
- It is frustrating to growers that many of the export opportunities are unable to be exploited due to market access blockers or unworkable protocols. Many report repeatedly turning away enquiries at trade shows on the grounds of market access.
- Many in the industry believe that market access to China will present a quantum shift in export potential. Even at a premium of 3 times above the price of domestic Chinese vegetables, growers and traders believe that there are sizable premium, niche markets in China offering great potential for Australian producers. Growers commonly referred to the success of Australian fruit exporters over the last season as a good omen.
- There is a view amongst some in the industry that the extent of the potential of export markets for Australian growers is such, that industry should be considering a marketing levy to drive this opportunity.

### **THEME 2 | Exports offer relief from tough domestic conditions**

- Despite the acknowledged risks and additional efforts required to export, growers are proactively undertaking export market development work because they can foresee oversupply on the domestic market and continued margin pressure from supermarkets. Larger growers who are already exporting are experiencing the benefits of having an alternative volume channel to market. Reducing dependence on domestic supermarkets means that growers have less pressure to participate in no or low-margin retail price promotions and can reduce reliance on one or two dominant customers.

- The other side of the supermarket story is that opportunities are being afforded and realised by the Australian buyers from the global supermarket chains (e.g. Aldi and Costco) to tap into export markets through introductions to their colleagues in other countries.

**THEME 3 | The direct trade business model is ideal but most find it easier with agents**

**“Look at the table grape guys, they’ve been able to tell the supermarkets what their price is this year”**

Grower

- There were varying views amongst growers about the merits of shipping direct versus trading via agents/wholesalers/importers. The obvious disadvantage of trading via agents is the dilution of margin as every trader takes their share of the sale. For Australian products, every percentage point saved in the supply chain goes towards addressing the disadvantage of higher production costs; so direct trading is the preferred model for most high volume, experienced exporters.
- Aside from greatly simplifying the process, other advantages of dealing through agents is that they can achieve efficiencies through freight consolidators; they can quickly find alternative outlets in the case of a shipment being rejected; and risk is somewhat minimised if the relationship is sound. If a direct shipment is rejected, supermarkets can enforce discounts for damage or even charge disposal costs, which increases risk.
- For some growers it was considered much easier to trade via either exporting or importing agents. These growers did not feel that they had the time or expertise to build direct relationships with customer’s in-market and thought this was best left to agents so that they could concentrate on growing.
- It was common for growers to trade direct with retailers or food service customers in some markets and trade through an agent in other markets. In some instances this was due to loyalty to an agent or a deliberate strategy as a means of breaking into a new market. Often trading via an agent to break into a new market was an effective, low cost marketing exercise. Some growers noticed a spike in enquires for direct trade from that country following early export deliveries. The theory behind this was that once buyers noted the grower’s cartons in that market they made a direct approach.
- Increasingly wholesalers based on the fresh wholesale market trading floors in Australia are taking on roles as export consolidators. The advantages of exporting via Australian wholesalers are that growers can export smaller quantities in pallet loads rather than container loads and they have more assurance of payment. However, the disadvantages of this export business model are that usually the grower receives the domestic market price (or lower) and does not receive market signals back about how to improve their product offering for export. Because wholesalers are often buying off the market floor, examples were quoted where growers were not aware that they were in fact exporting until they were told their product had been seen in an overseas retail outlet. This was problematic when trademarks had not been protected in that country and there are also biosecurity implications.
- Another exporting business model in play is grower collaboration where a number of growers work together in either the same product across a geographic spread or non-competing product. An example of the latter is occurring in Victoria where a group of growers are pooling staff and marketing resources to export under a common brand. Other opportunities are presenting where current

exporters are getting enquiries from their customers for mixed orders with products that they do not currently grow so they are able to open up trade for products from their neighbours.

- Many of those working with collaborative export models indicate that they are finding industry culture a frustrating blocker to growth.

#### **THEME 4 | Ultimately the \$AUD will make or break vegetable exports**

- Long-term exporters noted fluctuations in their trade over the years in line with currency movements. Those who had suffered margin loss during the years when the \$A was high so that they could retain customers, were then able to recover some of this investment as the \$A fell in more recent years. These larger, more experienced exporters viewed currency fluctuation as a necessary part of the export business model, which presented an opportunity as well as a risk. Other growers had abandoned exporting altogether during the high currency years or had lost customers to lower cost Chinese or South American growers.
- With Australia's high cost of production, favourable currency fluctuations represent the difference between premium pricing and unaffordable pricing. Most exporters estimate that the dollar needs to be under US0.80c for them to be viable exporters and preferably below US0.70c to secure ongoing profitable trade.

#### **THEME 5 | The export business model needs to be either 'high volume/low margin' or 'low volume/high margin'**

- The vast majority of exports are in high volume lines, carrots, potatoes, onions and pumpkins, which are highly mechanised and have relatively low labour intensity. Margins are relatively low and export profitability is volume driven. High volume, low margin business necessarily involves a high level of risk. High volumes mean that more can go wrong and low margins mean that there is less profit pool to cover losses.
- In contrast the emerging opportunities are in the lower volume higher value lines such as lettuce and leafy vegetables, broccoli, capsicum, etc. Because these lines are labour intensive, Australia cannot compete head-to-head on price and must achieve a significant price premium (commonly two or three times the average market price) based on superior grades, product integrity, clever packaging, etc. Being premium priced, these low volume lines are more heavily exposed to exchange rate appreciation.

**“It is the size of export markets that excites me. If I could win just .01% of the Japanese market, it would be more than I can grow”**

Experienced exporter

## THEME 6 | Labour is the insurmountable drain on Australia's cost competitiveness

- Without exception, the single most significant issue impacting Australian vegetable exporters is the high cost of labour. Most exporting growers believe that labour cost is the primary blocker to ever becoming globally competitive and building a sustainable vegetable exporting sector.
- Uncertainty around future legislative changes such as the so-called 'Backpacker Super Tax' and the review of the Horticultural Award was causing concern for growers that they would not even be able to maintain their current export markets due to rising cost and poor availability of workers. (The Backpacker Tax issue has since been resolved.)

**"Its not just the cost of labour itself in Australia, its all the other on-costs that come with it"**

Grower

## THEME 7 | Australia's competitive advantage of 'safety and integrity' is not assured

- While Australian vegetable exports are currently able to justify a price premium on the basis of food safety and product integrity, the experienced growers interviewed are concerned that this competitive advantage may be eroded as other countries rapidly improve their HACCP systems, cold chain logistics and general operating standards.
- Growers relayed anecdotes of corporate foreign investment in vegetable production in areas such as Malaysia's Cameron Highlands and developing countries such as Laos, Cambodia and Myanmar suggest that there is rapid improvement in production standards occurring worldwide. A further example is the claim that China has the largest number of university educated farmers in the world.
- Feedback from growers attending Asia Fruit Logistica 2016 also noted that there has been significant investment in greenhouse production across China and South East Asia, indicating increasing production sophistication and use of technology. Because more and more of these growers in less developed nations are now trading with international supermarket chains, they are rapidly adopting world-best standards and certification in programs such as Global G.A.P.
- Some experienced exporters are of the view that the 'clean and green' terminology frequently used by Australians oversells the Australian offering and is not sustainable because of rapid improvements in agricultural systems in Asia.

**"I've seen some of that product coming out of the Cameron Highlands. Its hard to beat that quality."**

Agent

## **THEME 8 | Views are mixed on the importance of a 'brand Australia' message**

- The Brand Australia proposition in the eyes of most exporters is one of product safety and for some it extends to superior flavour and quality.
- Australia Fresh is not considered to be a highly relevant brand to most exporters.
- For some growers 'AUSVEG' is the preferred brand for raising awareness of Australia being a significant vegetable producing nation.
- Most growers interviewed referred to New Zealand as setting the benchmark for national agrifood branding. The consistency of message and delivery was noted. New Zealand's ownership of the word 'Pure' in the minds of buyers was seen to be effective.

## **THEME 9 | There are 2 exporter types – experienced pragmatists & enthusiastic optimists**

- Successful exporters acknowledge that building export markets takes many years, a great deal of investment and much patience. All experienced exporters interviewed in the study pointed out that they had been through a huge learning curve – they had invested a great deal of 'leg work' and money in-market to conduct meetings with potential buyers and trying to understand the culture, competitors and product requirements. While realistic about the difficulties of being globally competitive (given Australia's high cost of production), most remained confident that they could still achieve growth. The experienced exporters were pragmatic about building markets slowly and in a manner that minimised risk; as well as the importance of taking a long-term view and cultivating long term trading relationships. Even experienced exporters were still wary of the risk of non-payment and larger players were careful to not become too reliant on one customer or market.
- New and first time exporters were much more enthusiastic about the scope for growing exports in their business. Buoyed on by examples of seemingly 'overnight success stories' within the industry (the citrus and table grape examples were often mentioned), many had overly optimistic aspirations. First time exporters were often frustrated that they were unable to open doors easily to get started and secure first orders.
- An important characteristic of the experienced exporter group is that they are committed to exporting and have built their business model around this. They recognise the importance of building long term relationships based on loyalty and mutual success; and are adapting their value proposition (product, packaging, supply chain, etc.) and their employee skill base to meet the needs of their export customers. In contrast, some prospective exporters see exports as an opportunistic secondary channel to move surplus product and have a 'trader' rather than 'exporter' mindset.

**“Some of these blokes think it’s just a matter of putting what you already grow in an AV.**

**You have to produce a product tailored to each export market ”**

Wholesaler

## **THEME 10 | Capability programs have made a big difference, but industry needs to be warned of the risks**

- The quality and professionalism of industry export capability building programs has never been better and those who have availed themselves of the training and travel opportunities provided by both industry and government have endorsed their effectiveness. However, there are still many in the industry that have not taken the time to self-educate and still believe they can export.
- Some new exporters underestimate what is involved in running a viable export business and the time, capital and risk mitigation required to build one from scratch. The long-term commitment to relationship building is not a natural cultural fit with many Australian business operators, many of whom are accustomed to the immediacy of cash trading on the wholesale market floor.
- There is a lack of worldliness by many new exporters and some are unaware of the need to accommodate cultural differences in each market on both a product development and business operations level.
- Feedback from those delivering the export development programs is that most new exporters are unaware of the additional costs in exporting including inspections, accreditation, insurance, marketing (trade shows, market visits, website, gifts, promotional material, etc.) debtors payment terms and the capital required to ensure the business is able to weather the risks associated with non-payment.
- The industry research indicated that there is a very real danger of pushing an inexperienced exporter into exporting prematurely and causing business failure, as the risks are too great for them to finance should a problem occur. As discussed with a number of participants in the consultation, a better pathway to building export capability may be to link new exporters with larger, more experienced growers or agents in the first instance to 'learn the ropes' and master the basics of growing, packing and tailoring their products for export orders before entering into risky export strategies in their own right. A number of existing collaborative models were identified in the consultation.

## **THEME 11 | Market information is lacking**

- The consultation indicated that there is a lack of credible, reliable and commercial market information available to vegetable exporters. For a start, the quality of global vegetable statistics is not as accurate or timely as data for FMCG products, which is derived from retail, scan data.
- Most growers do not know where to go to get market research information and few have the marketing resources in-house to be able to interpret the data if it was available.

- While many reports have been written on market opportunities, growers indicate that very few of these reports have been helpful in building export business. Most of the reports lack answers to the practical question that growers need answered, i.e.:

- *What product attributes are consumers in these markets looking for?*
- *Which agents can I trust?*
- *What are the best shipping options?*
- *How does the supply chain work in each market?*
- *Who are the key players in retail and foodservice?*
- *What are the cultural issues I should be aware of?*
- *How is my product used in this market?*
- *Who are the key competitors and what is my point of difference to them?*

**“I’ve read all those reports but none of them tell me how I’m going to get paid”**

Grower

- A great deal of export growth is being driven by agents, but historically collaboration between agents and growers in building export markets did not work well in the interests of either party and there is often mistrust. Consequently, when product is exported via agents, often market signals back to the growers can be very poor (or non-existent) so there is no improvement or responsiveness to customer needs. It is difficult to build on-going trade relationships in these circumstances.
- Market information about the Middle Eastern countries in particular seems to be lacking across the vegetable industry. While Australians now have much improved market and cultural knowledge about China and South East Asian countries, there appears to be a limited or very general understanding about Middle Eastern supply chains and the nuances of cultural differences across the various Middle Eastern nations.

## **THEME 12 | The government is sending mixed messages to exporters**

- It is frustrating to some growers that government is sending mixed messages to industry. On one hand there is investment in trade development and then on the other, governments are putting up perceived roadblocks to prevent this happening. For example, industry feels that it is a double standard for politicians to be spruiking free trade agreements and berating industry for not taking advantage of them, yet not assisting by playing their part in removing real blockers to trade i.e.:
  - *Improving global competitiveness through addressing labour costs*
  - *Speeding up market access negotiations*
  - *Reducing the costs of inspections in line with productivity gains on farm*
  - *Opening doors for trade and promoting Australian product themselves.*
- The other aspect of government’s role in export market development that is frustrating for industry is the duplication of resources. Government at local, state and federal level are all attempting to get



involved in export activity, which is diluting efforts. Furthermore, it is sending confusing signals in market whereby supermarket and other buyers are inundated with meeting requests from Australia and there is not one consistent message about Australian vegetables.

- For growers located across or near state borders, the state based trade activity does not always line up with other trade projects they are involved in and the cost of participating on all the activities adds up.
- In general, many growers believe that there needs to be far greater coordination across the various government and industry agencies.

# Part C

## Opportunity assessment summary

### 3. Opportunity assessment summary

The table presented in the following pages provides an overview of the opportunity markets for each category. Further detail on each category and each market is provided in Volume 2: Country & Category Analysis. By way of explanation, the scores have been broken into three classifications based on a value judgment (as explained in the introduction). **Note:** the categories listed in this table are not presented in order of opportunity.

#### MPI SCORE 50 or above

This score is judged to be categories/ markets where Australia is competitive to the point of being able to be a sustainable player in mainstream market segments. These categories/markets can justify market development investment.

#### MPI SCORE 49- 40

This score is judged to be categories/ markets where Australia is not price competitive in the mainstream market segments but there is an opportunity to pursue higher end niche market segments where there is a cohort of customers who are prepared to pay a premium for Australian product because of perceived superior quality or product integrity or where there is a seasonal window. Generally, the volumes are quite small but with strong growth potential. These categories/markets deserve targeted market development investment.

#### MPI SCORE below 39

This score is judged to be categories where Australia has little in the way of competitive advantage with limited market prospects. This is not to say however, that there may not be opportunities for periodic trades for example when there is a supply shortage. These categories/markets do not justify development investment.

CATEGORY	MPI SCORE: 50 + <i>Good potential for sustainable exports</i>	MPI SCORE: 40 to 49 <i>Opportunities for niche/seasonal market</i>	MPI SCORE: < 39 <i>Opportunistic/ limited prospects</i>
<b>Carrots</b>	United Arab Emirates Saudi Arabia Qatar Singapore Bahrain Kuwait Malaysia Indonesia Oman	Brunei Darussalam Thailand Hong Kong South Korea	Japan China Vietnam Myanmar Sri Lanka
<b>Broccoli</b>	Singapore	Saudi Arabia Bahrain Japan Brunei Darussalam Malaysia Hong Kong South Korea	Kuwait Indonesia Qatar United Arab Emirates Thailand Oman China Sri Lanka Myanmar Vietnam

CATEGORY	MPI SCORE: 50 + <i>Good potential for sustainable exports</i>	MPI SCORE: 40 to 49 <i>Opportunities for niche/seasonal market</i>	MPI SCORE: < 39 <i>Opportunistic/ limited prospects</i>
<b>Onions</b>	Singapore Malaysia	Japan Qatar Bahrain South Korea Kuwait China Saudi Arabia Hong Kong United Arab Emirates Thailand	Sri Lanka Oman Brunei Darussalam Vietnam Indonesia Myanmar
<b>Pumpkin</b>	Singapore Indonesia	Saudi Arabia Qatar Bahrain China Japan Hong Kong South Korea	Kuwait Malaysia Oman Thailand United Arab Emirates Brunei Darussalam Sri Lanka Myanmar Vietnam
<b>Cabbage / Kale</b>	Singapore	Indonesia Japan Hong Kong Kuwait Malaysia	Vietnam Thailand South Korea Brunei Darussalam Saudi Arabia United Arab Emirates Oman Bahrain Myanmar China Sri Lanka Qatar
<b>Peppers / Capsicum</b>	Japan	Saudi Arabia	Bahrain Brunei Darussalam Hong Kong Malaysia Qatar Singapore Kuwait United Arab Emirates South Korea Thailand Oman Myanmar China Indonesia Vietnam Sri Lanka

CATEGORY	MPI SCORE: 50 + <i>Good potential for sustainable exports</i>	MPI SCORE: 40 to 49 <i>Opportunities for niche/seasonal market</i>	MPI SCORE: < 39 <i>Opportunistic/ limited prospects</i>
<b>Lettuce</b>	Singapore Indonesia	Hong Kong Saudi Arabia Kuwait	Brunei Darussalam Malaysia United Arab Emirates Bahrain Oman Qatar South Korea Japan Thailand Vietnam China Myanmar Sri Lanka
<b>Celery</b>	Singapore Malaysia United Arab Emirates	Japan Thailand Kuwait Qatar Hong Kong Indonesia Saudi Arabia Bahrain	Brunei Darussalam Oman South Korea Vietnam China Myanmar Sri Lanka
<b>Garlic</b>	Indonesia	Saudi Arabia United Arab Emirates Japan South Korea Qatar Malaysia Singapore Bahrain	Thailand Hong Kong Brunei Darussalam Kuwait China Oman Sri Lanka Myanmar Vietnam
<b>Cucumber / Gherkins</b>	Indonesia	Japan Qatar Singapore	Hong Kong Malaysia Saudi Arabia South Korea United Arab Emirates Brunei Darussalam Bahrain China Kuwait Oman Thailand Vietnam Myanmar Sri Lanka
<b>Sweet Potato</b>	United Arab Emirates Singapore	Indonesia Bahrain Hong Kong Kuwait South Korea	Saudi Arabia Japan Thailand Qatar Malaysia China Brunei Darussalam Oman Vietnam Myanmar Sri Lanka

CATEGORY	MPI SCORE: 50 + <i>Good potential for sustainable exports</i>	MPI SCORE: 40 to 49 <i>Opportunities for niche/seasonal market</i>	MPI SCORE: < 39 <i>Opportunistic/ limited prospects</i>
<b>Beans</b>		Japan	Hong Kong Saudi Arabia Bahrain Kuwait Oman Indonesia Singapore Brunei Darussalam Qatar Myanmar South Korea China Thailand Sri Lanka United Arab Emirates Malaysia Vietnam
<b>Potatoes</b>	South Korea	Malaysia Bahrain Saudi Arabia Singapore Japan Brunei Darussalam Hong Kong Kuwait	United Arab Emirates Oman Qatar Vietnam Indonesia Sri Lanka Myanmar Thailand China

# Part D

Conclusions

## 4. Conclusions

The prospects for Australian vegetable exports are more optimistic than they have been for at least 20 years. Provided the A\$ stays below US 80c and with the right trade development strategy, there is no reason why Australia could not double its current vegetable exports. However, success in this endeavour will require a change in industry culture, to one where export is treated as a critical long-term channel to market rather than an opportunistic dumping ground i.e. a 'marketing culture' rather than a 'trading culture'. Businesses that have made this change are already enjoying success.

The following conclusions can be drawn from the research and analysis undertaken in Volumes 1 and 2 of this study. These are the issues that will need to be responded to in the resulting strategy in Volume 3.

1. The opportunity for exports is being driven by a number of factors, the key ones being:
  - *The depreciation of the Australian dollar and the likelihood that it will remain in a favourable range for the next few years augurs well for vegetable exports, making many categories more price competitive. History has shown that exports of most categories are highly sensitive to the exchange rate. The \$A needs to be below US 80c for Australia to be competitive globally, even in premium niche segments.*
  - *Global demand for vegetable categories is showing strong growth due to rising health consciousness, the ageing of the global population and changed eating patterns. The growing westernization of global diets is driving demand for vegetables that are widely grown in Australia such as leafy greens, celery, kale, broccoli, beetroot and beans.*
  - *Increased consumer demand for higher quality, safer, vegetable products from trustworthy sources is being driven by the rising middle and affluent classes in Asia and the Middle East as well as increasing rates of tourism to developing countries. The lack of trust in product from China in particular, remains high (despite obvious advances in production systems). Conversely Australia has an image of being clean, safe and having robust regulatory systems. In some markets there are segments that will pay 300% + premiums for the assurance that comes from Australian products.*
  - *Australia is well located and connected to the growing markets of Asia and the Middle East. In most cases Australia is closer to the growth markets and has shorter shipping times and more favourable freight rates. Airfreight rates in particular are more favourable than those available to northern hemisphere competitors and connectivity is generally good into the high prospect markets.*
  - *Australia has benefited from recent incidences where competitor supply to export markets has been disrupted by crop failures from extreme weather events (e.g. Californian drought and Chinese storms). These events have provided an opportunity for Australian growers to enter that market and establish their credentials in order to build more lasting trade relationships.*
2. There is a growing interest by Australian growers in exporting, which has been driven by the dual forces of the above optimism and the depressed and oversupplied state of the domestic market. Some growers have also been buoyed on by export success stories from fruit sectors. Many first time exporters that have participated in trade shows and in-bound missions have been

encouraged by the enquiries and the outcomes of their early trades. Most are finding returns to be equal to or considerably better than domestic market returns and this provides some bargaining power against supermarkets.

3. Within the next five years (the time horizon of this strategy), the best prospects for Australian vegetables are likely to remain in South East Asia and the Middle East, where Australia's proximity currently provides it with a competitive advantage. There are also some potential opportunities in North Asia particularly Japan, Taiwan and South Korea for selected products, but in many cases these will be subject to gaining market access or workable protocols. Although on paper China offers seemingly enormous potential, due to its rapidly growing upper middle class and the urbanisation of tier 2 to 5 cities, in reality this will remain a difficult market because of the market access restrictions and because of strong growth in local production. This is not to say that there may not be niche market opportunities for certain products in certain ultra-premium markets that have not been mentioned in this analysis.
4. In volume terms, potatoes, carrots, onions and broccoli are likely to continue to be the mainstream of Australia's vegetable exports. Australia can be competitive in these categories because of non-price advantages including quality and seasonal windows. All of these categories have considerable growth potential. In the case of potatoes, opportunities are in processing, seed and packed specialty fresh varieties. There is also considerable potential in other categories where Australia can be a successful niche market player. Such categories include lettuce, salad mix, leafy greens, pumpkin, cabbage, kale, capsicum celery, cucumber and garlic.
5. Because of its high cost base, for most categories and markets Australia must compete on non-price factors such as quality, product integrity, as well as seasonality and location advantages. Critical to Australia's success in vegetable exports is maintaining this edge through continuous improvement. In this regard Australian growers cannot afford to be complacent as competitors are steadily improving. In particular, China, which is a major producer and exporter, is steadily improving quality and product integrity systems. Australia's mythological "*clean and green*" edge, is grossly overstated and is inclined to give growers a false sense of security. Furthermore, for most categories the seasonal window advantage is narrowing or disappearing as breeding and global category management improves. This is not to say that there will not be niche market opportunities in some categories. Similarly Indonesia has scored poorly on the analysis, despite Australia's location advantage. This is largely because it is heavily self-sufficient and a restricted market subject to quota or other import restrictions in most categories.
6. The report has identified a number of situations where there is excellent market potential, but Australia's lack of access or unworkable protocols are blocking this opportunity. This dynamic makes a strong business case for negotiated market access or market improvement. The Hort Innovation trade team is acting the key opportunities identified in this study on.
7. For Australia to be a sustainable long-term exporter and withstand any future appreciation of the \$A, growers in most categories will need to find a point of competitive advantage based on product differentiation. It will be important to conduct research to identify opportunities for Australia as a brand to create a point of difference in its market positioning and for growers through new and novel varieties, packaging, branding or some other form of value-adding.



8. If Australia is to become a successful long-term vegetable exporter, the industry will need to make some adjustments in terms of its capability and business models. There will need to be serious commitment to exporting as a skill set so that growers treat it as a core business rather than an opportunistic outlet for product that is surplus to the domestic market. This commitment may even need to go as far as an industry marketing levy as some growers suggested in the consultation. Many growers will need to adjust their business models to accommodate more collaboration and clustering to generate scale, critical mass and the continuity required to be an exporter.

## 5. Intellectual Property/Commercialisation

The Market Potential Index is a model developed by MCKINNA et al and while the findings of the analysis may be referenced, the model remains the property of MCKINNA et al.

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US Department of Agriculture website

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## **Appendix**

See following pages for the market access summaries.

LEGEND

Open
Conditional
No access

### Appendix 1: Middle East market access summary

	Bahrain	Brunei	Oman	Kuwait	Qatar	Saudi Arabia	UAE
Asparagus	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Beans	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Broccoli	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Cabbage/Kale	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Capsicum	Phyto Cert	<u>Protocol (Fum)</u>	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Carrots	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Celery	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Cucumbers	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Garlic	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Leeks	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Lettuce	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Onions	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Potatoes	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Pumpkin	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Sweet Potato	Phyto Cert	<u>Protocol (Fum)</u>	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert
Tomatoes	Phyto Cert	<u>Protocol (Fum)</u>	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert	Phyto Cert

## Appendix 2: Asia Market Access Summary

	China	Hong Kong	Indonesia	Japan	Malaysia	South Korea	Singapore	Thailand	Vietnam
Asparagus	Phyto Cert 7.8% nil by 2019	Open	Phyto Cert	Phyto Cert	Open	Phyto Cert	Open	Phyto Cert	Phyto Cert
Beans	No access	Open	Phyto Cert	Phyto Cert (TAS only)	Open	No access	Open	Phyto Cert	Phyto Cert
Broccoli	No access	Open	Phyto Cert 4% tariff	Phyto Cert	Open	No access	Open	Phyto Cert	Phyto Cert
Cabbage/Kale	No access	Open	Phyto Cert 4% tariff	Phyto Cert	Open	Phyto Cert 15.4% nil by 2020	Open	Phyto Cert	Phyto Cert
Capsicum	No access	Open	PFA TAS & Riverland or Protocol IRR, CT, Fum - 4% tariff	Phyto Cert (TAS only)	Open	No access	Open	No access	No access
Carrots	No access	Open	Phyto Cert 25% tariff reduces to 12.5% in 2025	Phyto Cert	Open	Phyto Cert TAS only - 12% tariff nil by 2018	Open	Phyto Cert	Phyto Cert
Celery	No access	Open	Phyto Cert 4% tariff	Phyto Cert	Open	Phyto Cert 10.8% nil by 2018	Open	Phyto Cert	Phyto Cert
Cucumbers	No access	Open	PFA TAS & Riverland or Protocol CT IRR or Fum	Phyto Cert (TAS only)	Open	No access	Open	No access	No access
Garlic	No access	Open	Protocol IRR	Phyto Cert	Open	Phyto Cert 360% tariff	Open	Phyto Cert	Phyto Cert
Leeks	No access	Open	Phyto Cert	Phyto Cert	Open	Phyto Cert	Open	Phyto Cert	Phyto Cert
Lettuce	Phyto Cert 6% nil by 2019	Open	Phyto Cert 4% tariff	Phyto Cert	Open	No access	Open	Phyto Cert	Phyto Cert
Onions	No access	Open	Phyto Cert	Phyto Cert 5.1% nil by 2019	Open	Phyto Cert 135% tariff	Open	Phyto Cert	Phyto Cert

	China	Hong Kong	Indonesia	Japan	Malaysia	South Korea	Singapore	Thailand	Vietnam
Potatoes	No access	Open	Phyto Cert 25% reduce to 18.75% in 2025 and beyond	No access	Open	NSW, TAS, SA only 304% reducing by 2028. Crisping season exempt Dec to Apr.	Open	Restricted to processing only	Phyto Cert
Pumpkin	No access	Open	Protocol IRR, CT or Fum	Phyto Cert	Open	No access	Open	No access	No access
Sweet Potato	No access	Open	PFA TAS & Riverland or protocol CT IRR or Fum	Phyto Cert 10.24% tariff, nil by 2024	Open	No access	Open	Phyto Cert	Phyto Cert
Tomatoes	No access	Open	PFA TAS & Riverland Protocol IRR, CT, Fum 4% tariff	No access	Open	No access	Open	No access	No access

Current as at January 2017

**Note:** While every attempt has been made to verify the above information across multiple sources there are a number of ambiguities and discrepancies within the various published documents and the status of the above can change at short notice. Some of the rulings are open to interpretation, for example, access to China still rests on the interpretation of definitions within the trade documentation so the status of access is unresolved for some categories but recorded above as 'no access'.