2006/07

AUSTRALIAN AGRIBUSINESS GROUP

MARKET OVERVIEW – THE AUSTRALIAN ALMOND INDUSTRY

Independent Assessment –February **2007**

Industry Snapshot

- The Australian almond industry is concentrated in Victoria and South Australia, accounting for 93% of the total area of almond plantings (Section 2).
- The USA is the world's largest producer of almonds, accounting for 79% of global almond production and almost three-quarters of the world export market (Section 3).
- World production of almonds has trended upwards over the past decade; this trend is forecast to continue along with increased affordability of almonds to a larger proportion of the world's population (Section 3).
- Almond establishments have grown significantly in Australia over the past 15 years with almond acreage increasing fivefold since 1999, production is now set to take off as new plantings begin to reach harvesting age (Section 4).
- The export market is the future focus of the Australian almond industry through both value added exports and direct exports with high quality, counter seasonal production providing Australia with a highly competitive advantage on the global market (Section 4).

1 Introduction

The almond nut is the fruit from a small tree from the *Prunus* family of deciduous and evergreen trees and shrubs. The almond is native to western Asia and during history has adapted to the warmer areas of the Mediterranean, western United States and southeast Australia [1].

Almonds are an extremely versatile nut that can be consumed in their raw form as well as in a variety of processed forms including blanched, roasted and smoked. They can also be used for cooking and are found in a variety of confectionary, cereals and baked goods [1].

Research has shown almonds to be an extremely nutritious nut. Almonds are high in protein and dietary fibre and contain 'healthy' mono-saturated fat which is known to reduce bad cholesterol in the body [2]. In addition, almonds are a good source of vitamin E, an antioxidant nutrient that is needed to maintain healthy heart function, blood vessels and circulation [2].

As almonds are highly susceptible to waterlogging, they require deep well drained soils. The preferred climate for almond production is one with relatively mild winters with no severe spring frosts and warm dry summers [3]. Although almonds are drought resistant, irrigation is essential for economic viability [3].

Australia is very well suited to the production of almonds with Australian almonds regarded highly overseas. This is due primarily to the large size, flavour, light colour and consistent quality of nut produced [2].

Although Australia is a minor producer on a global scale, production levels have increased significantly over the past 15 years. This growth has been dominated by large-scale Managed Investment Scheme (MIS) funded operations. These operations bring a professional edge to the industry, incorporating the latest technologies and management practices.

The Almond Board of Australia (ABA) was formed in 2002 and is the peak almond industry body. Acting on behalf of stakeholders in the industry, the Almond Board develops and implements strategic research and marketing initiatives in the best interests of the almond industry [4].

2 Producing Regions In Australia

The Australian almond industry is concentrated in Victoria and South Australia, with 66% of the total area planted located in Victoria and 27% in South Australia. New South Wales and Queensland have much smaller almond bases, accounting for 6% and 0.1% of the area planted respectively (Figure 1).

Both the Victorian and New South Wales almond industries are characterised by large-scale and large investment operations. The South Australian Adelaide district is characterised by smaller and more traditional operators while the Riverland District is recognised for its large scale operations.

Beckmont Pty Ltd trading as Australian Agribusiness Group A.B.N 50 056 592 708
Level 7, 99 Queen St, Melbourne, 3000 Australia **ph** +61 3 9602 6500 **fax** +61 3 9642 8824 **email** info@ausagrigroup.com.au

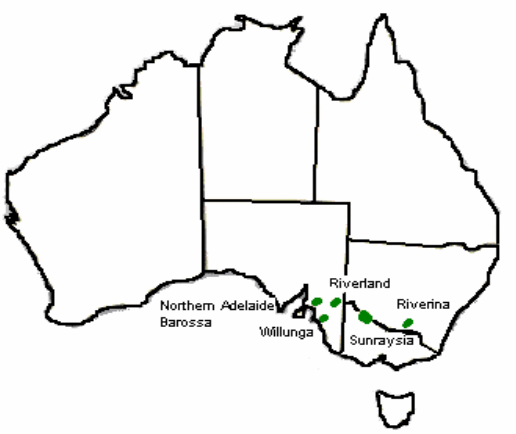

Figure 1 Australia's main regions of almond production [4].

Between 1960 and the late 1990's, the establishment of almond trees in Australia grew at a moderate rate of approximately 96 hectares per year. However since 2001, the Australian almond industry has expanded rapidly with 14,202 hectares planted since 2001. In 2006 there was a total of 5,299 hectares planted throughout Australia (Figure 2) [4].

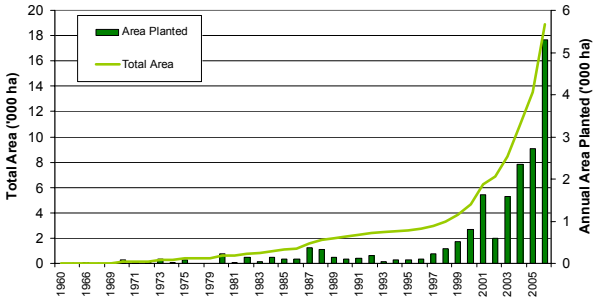

Figure 2 Annual almond plantings and the total area planted from 1960 to 2006 [4]

3 International Supply and Demand

Although tending to fluctuate from year to year, world production of almonds has trended upwards over the past decade (Figure 3), with improvements in efficiency and technology in the major producing countries being the primary reason [5].

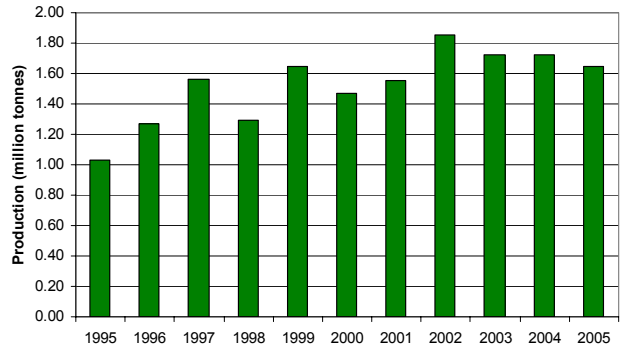

Figure 3 World production of almonds (in – shell) (1995-2005) [5]

The USA is the world's largest producer of almonds accounting for 79% of global almond production in 2006 [6]. Interestingly, 98% of the entire US almond crop is produced in California. Spain is the next largest producer with 11% of world production followed by Australia and Greece who each account for 3% of world almond production (Figure 4) [6].

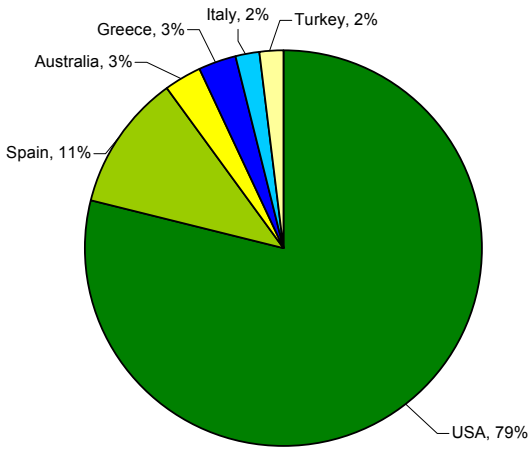

Figure 4 2006 World Almond Production [6].

As the USA exports over two-thirds of its domestic production, a large proportion of global production is exported, with approximately 61% of almonds produced globally being placed on the export market. Behind the USA, who account for 71% of the world's almond exports, Spain is the only other notable exporter accounting for 11% of the market (Figure 5). As expected, Australia is a minor exporting nation, accounting for 0.5% of world exports.

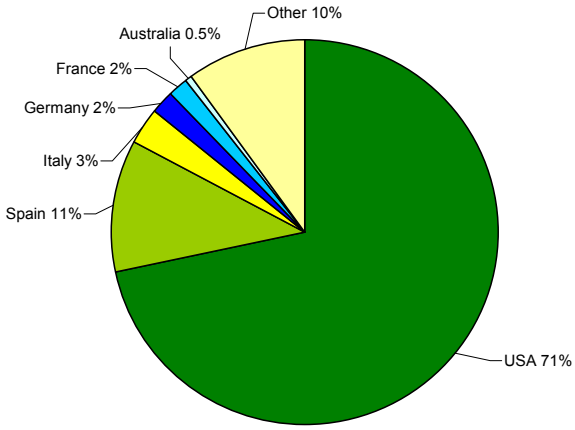

Figure 5 Leading exporters of almonds (in – shell), 2004 [5]

Almonds are imported into many countries, however Germany and Spain are the two major importers accounting for 16% and 14% of global imports respectively. France (7%) and Italy (7%) are the other major importers. Australia is a minor player on the world import market contributing to only 0.5% of world imports (Figure 6) [5].

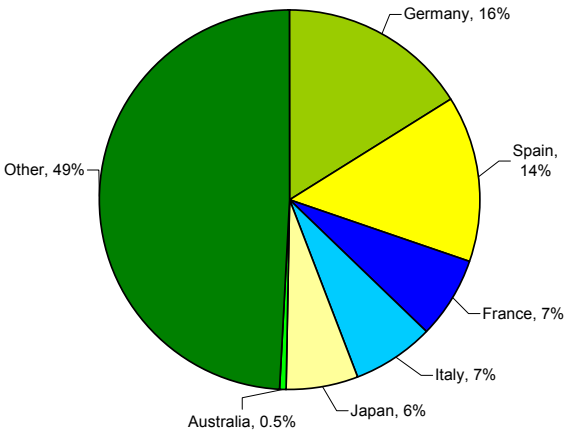

Figure 6 ***Leading importers of almonds (in – shell), 2004 [5]***

Over the past ten years, global supply of almonds has outpaced demand by roughly 100 pounds annually [6]. Supply is expected to continue increasing however demand is also expected to increase primarily due to forecast growth in middle class populations over the coming decade [1]. Almonds are prominent in low to middle class diets, making demand for almonds highly elastic. In recent years, demand has been stimulated by lower prices and an increase in global consumption. This is particularly true in Asian countries such as China, where demand is being driven by increasing average incomes and almonds being seen as a prestige symbol.

4 Australian Supply and Demand

Australian almond production has increased three-fold over the previous decade, with current production approximately 16,000 tonnes (Figure 7) [4]. The rapid increase in production over the previous two years is due to newly established almonds coming on line.

The rate of almond establishment in Australia has grown significantly over the past five years (Figure 2) with 14,200 hectares planted to almonds since 2001 [6]. In 2006, almond plantings occupied 18,887 hectares [7]. Due to the rapid increase in recent plantings, 55% of current almond plantings are non-bearing as they have not yet reached harvesting age. When these non-bearing trees reaching maturity it is forecast that Australian almond production could reach over 50,000 tonnes by 2012 [4].

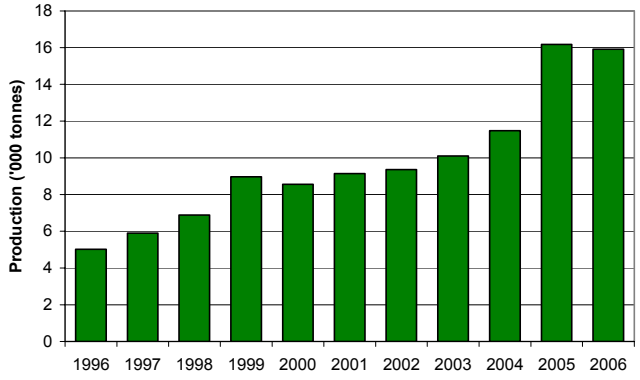

Figure 7 ***Australian almond production 1996 - 2006 [4].***

The volume of Australian almond exports fluctuates regularly, with exports in 2004 at 3,419 tonnes [5]. Irregular export levels are primarily because of the lack of buyer loyalty in international almond markets. Australia's major almond export destinations include India, New Zealand, and Spain (Figure 8).

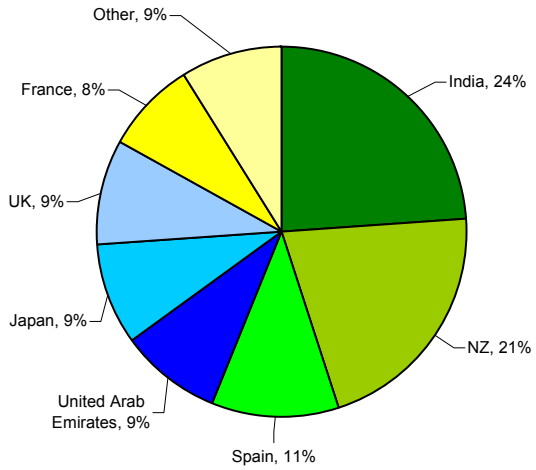

Figure 8 ***Australia's top 10 almond export markets 2006 [6].***

Like Australia's almond exports, imports too have fluctuated considerably over the past decade. In 2000, 562 tonnes of almonds were imported into Australia whilst in 2003, 3,123 tonnes of almonds were imported. In 2004 total almond imports were 1,646 tonnes [5].

The export market is the future focus of the Australian almond industry through both value added exports and direct exports. Counter seasonal production is Australia's main competitive advantage with Australian almonds coming on stream when the major producing countries such as the USA and Spain have low stocks of fresh nuts.

5 Price and Yield

The price of almonds in the export and domestic market is essentially determined by the USA, with the regular fluctuations in price a direct result of changes in the USA almond market. It is not likely that any other producing countries will challenge the USA in terms of output volume in the near future. However, market access maybe gained by competitors through product differentiation in terms of quality, variety or price.

The recent positive USD:AUD exchange rate and the increasing demand for quality almonds produced counter seasonally to the USA, has resulted in the gradual increased competitiveness of the Australian industry [2]. Australian almond producers are now able to produce almonds at a lower cost per kilogram than US producers [8]. Australia is also able to produce higher quality almonds translating to a higher average price.

The average price received by Almondco growers in Australia over the decade preceding 2004, is A$5.57 per kilogram. Over this time US producers received US$3.15 per kilogram [9] (equivalent to A$4.75) [10].

Domestically traded Australian almonds currently receive a premium price due to imported almonds being subject to a 5% import duty, freight and handling costs. In the next ten years it is likely that the import duty will be gradually and completely reduced, due to free trade agreements.

In 2000 to 2003 almond prices for US producers reached the lowest in almost a decade as a result of an abundant supply (Figure 9) [5]. Since then, prices have recovered slightly, with increasing prices forecast for the fifth consecutive year in 2007 [11].

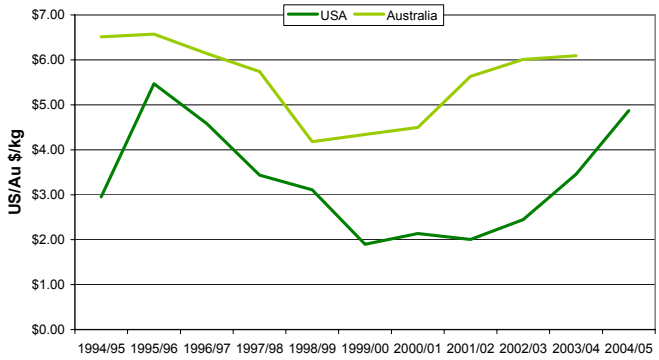

Figure 9 ***Australian Almondco grower prices and US farm prices - Seasons 1994-95 to 2004-05*** [1,9]

US almond production is currently in a slow growth phase, which is a phase it has regularly gone through following rapid expansions. This has allowed world wide demand to catch up to supply levels leading to higher producer prices over the past couple of years as seen in Figure 9.

The Australian almond industry is committed to ongoing improvements in research and development within the industry. A domestic levy or export charge is payable on almonds to provide funding for research and development to be carried out via Horticulture Australia (HAL). These levies are administered by the Australian government at the request of the industry with the government matching R&D contributions generated by the levy program.

Trials invested in by the Australian almond industry have identified means to improve irrigation, fertigation and tree management leading to increased yields and growth rates. The outcomes of these trials are now working their way into commercial orchards with results allowing a typical well managed orchard to achieve yields of 18-20 kg per tree. Latest indications from new plantings are demonstrating that it is possible to achieve these higher yields without sacrificing nut size or quality [13].

6 Future Outlook and Conclusions

Australian almond acreage has increased fivefold since 1999 making it a world competitive almond producer and demonstrating that the industry is very likely to continue expanding into the future.

The domestic industry is also in a very competitive position on the world market being the largest southern hemisphere producer of almonds. This enables it to deliver fresh almonds counter seasonal to the major world almond producers [8]. Australia's close proximity to expanding Asian markets, along with the possibility of the USA experiencing unfavourable exchange rate relationships with this market, suggests that further competitive advantages may be gained in the almond industry [1].

International consumption trends also suggest that the almond market is likely to remain stable and continue improving. Most consuming countries of almonds are reporting on going consumption growth with firming prices for all tree nuts indicating strong demand [8].
The price of almonds is set to become even more affordable to a higher percentage of the population due to an increase in the size of the middle class, as suggested by economic development forecasting and rising per capita incomes in developing countries. Global and domestic demand for almonds should therefore increase.

Growing awareness of the health benefits offered by almonds along with increased marketing activity along the theme of 'good taste' and 'good for you' have boosted demand [8]. The continued development and promotion of the Australian almond industry is aided by the major strengths that it contributes to the global market, such as quality, supply reliability and environmentally sound production processes [2].

Gaining and protecting market access, protection from exotic disease threats and the development of new varieties are all key issues for the future success of the Australian almond industry along with maintaining our 'clean and green' image.

In general, Australian almonds are of a higher quality and value when compared to the almonds that are entering Australia. Consequently, imports are little threat to domestic production.

The Australian almond industry should continue as a successful, though minor world player, especially with further production development and the forging of closer long term relationships with key export customers.

7 References

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