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AUSTRALIAN AGRIBUSINESS GROUP

MARKET OVERVIEW – THE AUSTRALIAN AVOCADO INDUSTRY

Independent Assessment – **November 2006**

Industry Snapshot

- Native to the rainforests of Mexico and Central America, the avocado tree is now grown in most regions of the world.
- Global production of avocados grew by approximately 47% in the decade leading to 2003, largely due to increased plantings across most of the largest producing countries as a result of increased global consumer demand for avocados.
- Mexico is the dominant producer in the world accounting for 34% of world production, followed by the USA (6%), Indonesia (6%), and Brazil (6%).
- World trade in avocados is quite limited, with only 13% of avocado production in 2003 placed on the world market, with most of the world's production consumed domestically
- The Australian avocado industry has been undergoing significant growth in the past decade and this is set to continue. Nevertheless, Australia is only a minor producer on a world scale, accounting for 1.3% of the world's production.
- The major determinant of price of avocados in Australia is basic 'supply and demand' dynamics, where consumer demand for avocados is largely influenced by the volume and quality of fruit available on the market.

1 Introduction

The avocado tree is a large subtropical tree that originated in the rainforests of Mexico and Central America [1]. Highly regarded as an important fruit for food and nutrition, the avocado tree is now grown in most regions of the world [1].

Avocados are one of the most nutritious fruits known to man. They are high in vitamins A, B (including B6, niacin and riboflavin), C and E; copper, magnesium, potassium and zinc and kilogram for kilogram contain more fibre, folate, niacian, thiamin and riboflavin than any other commonly eaten fruit [2]. Rich in monounsaturated (good) fats, avocados can also help lower cholesterol and assist to reduce the risk of heart disease.

Being a subtropical plant, avocados require protection from the wind and need temperatures above 10˚C at night and between 20 and 30˚C during the day at flowering [1]. Because avocados have a shallow and inefficient root system, avocado trees are very susceptible to Phytophthora root disease which thrives in wet soils. As a result, one of the key requirements for avocado trees is a deep, well aerated and well drained soil [1].

Preferring relatively flat land, avocados need a regular supply of water during the dry months in order to produce good crops of large fruit. This means that most avocado crops in Australia require irrigation of between 8 to 12 ML/ha in some drier growing regions of Australia [3].

In Australia, there are more than 70 avocado varieties of which Hass, Reed, Sharwill, Fuerte, Shepard and Wurtz dominate [4]. The majority of avocados produced in Australia are sold as a fresh whole fruit, with the balance used as pulped avocado and avocado oil.

The peak industry body for Australian avocados is Avocados Australia Limited (AAL), which in 2003 succeeded the Australian Avocado Growers Federation (AAGF) as peak industry body [4]. AAL works in conjunction with Horticulture Australia Limited (HAL) to collect levies from the farmer for the purpose of avocado research and development and marketing programs designed to develop the industry.

2 Producing Regions In Australia

Avocados were first recorded growing in Australia as early as the mid-eighteenth century, however it wasn't until the late 1920's that an industry was established [5]. The Australian avocado industry initially developed on the sub-tropical eastern coast of Australia at the NSW-QLD border and has since spread to all mainland states [5].

Up until the 1960's, the avocado industry was considered a 'backyard enterprise,' where it grew as a result of the fruit becoming a popular food item. In 1974, the Australian avocado industry was decimated by an outbreak of root rot due to abnormally high summer rainfall, but soon recovered, with the subsequent high market prices in the late 1970's, resulting in a large number of trees being planted [5].

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Figure 1 Australia's main regions of avocado production [6]

At present, avocados are grown commercially by around 1,300 growers across Australia, with the key production areas of Australia being north, central and south-east Queensland, northern and central NSW, Western Australia and the Sunraysia and Riverland regions of Victoria, NSW and South Australia (Figure 1).

As is evidenced in Figure 1, avocado production in Australia enjoys a wide geographic distribution, which combined with selected varieties, gives fresh fruit to markets on a year-round basis. Production in Australia peaks from June to November, with lighter supplies occurring in the summer months [5].

3 International Supply and Demand

Figure 2 shows that global production of avocados grew by approximately 47% in the decade leading to 2003, before dropping slightly in 2004. This increase in the past decade has largely been due to increased plantings across most of the largest producing countries as a result of increased global consumer demand for avocados. This is particularly true in the Western world, where the promotion of avocados for its apparent health benefits has increased demand significantly.

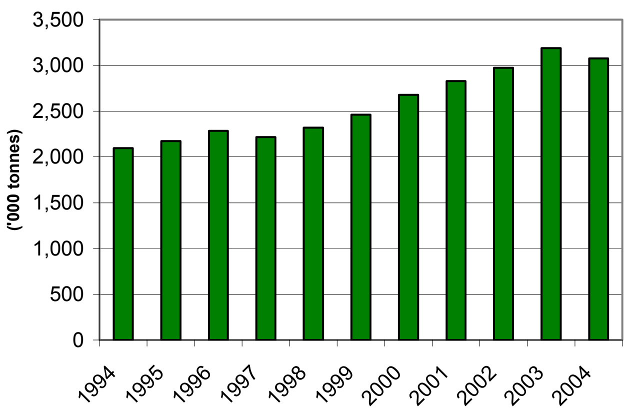

Figure 2 World Production of avocados 1994 – 2004 [7]

As Figure 3 suggests, Mexico is the dominant producer of avocados in the world, accounting for 34% of production, followed by the USA (6%), Indonesia (6%), and Brazil (6%). Other leading producers of avocados, albeit at a smaller levels, include Columbia, Chile and the Dominican Republic, each accounting for 5% of world production. Australia is a small producer on a world scale recording approximately 1.3% of world production in 2004 (Figure 3).

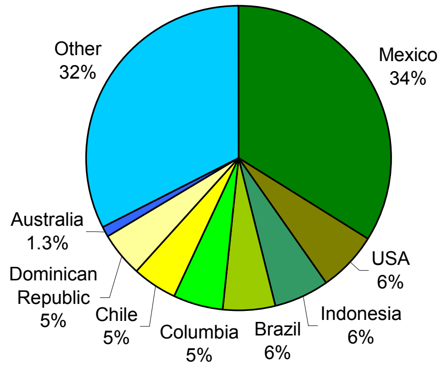

Figure 3 Leading Producing Countries of avocados in 2004 [7]

The majority of avocados produced in the world are sold fresh. World trade in avocados is quite limited, with only 13% of avocado production in 2003 placed on the world market, with much of the world's production consumed domestically [7]. Not surprisingly, Mexico is the leading exporter of avocados, accounting for 31% of the world's exports, with Chile (23%), South Africa (9%) and Spain (8%) the other leading exporters (Figure 4). Australia is a minor exporter, accounting for 0.1% of world exports in 2003.

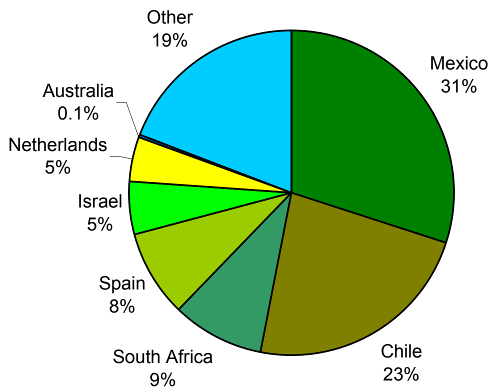

Figure 4 Leading exporters of avocados 2003 [7]

Figure 5 illustrates the fact that the USA and France are the dominant importers of avocados, accounting for 32% and 21% of imports respectively [7]. Other leading importers are the EU and Japan, with production in these countries limited due to climatic conditions in these regions. Australia is currently unable to meet domestic demand from local production and is a net importer of avocados, accounting for 1% of world imports in 2003.

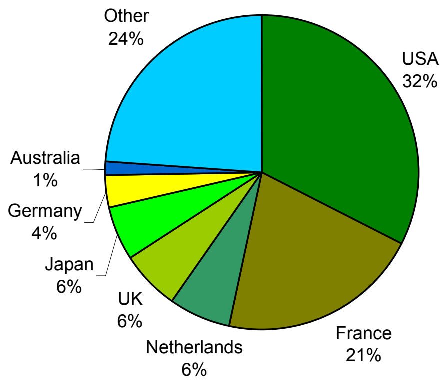

Figure 5 Leading importers of avocados 2003 [7]

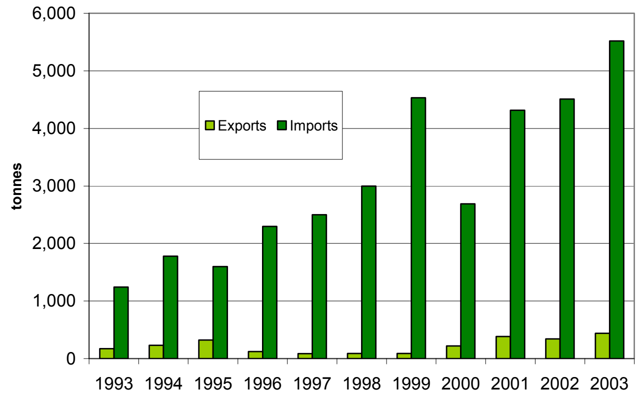

Figure 7 Australian avocado exports and imports 1993 – 2003 [7]

4 Australian Supply and Demand

Australian avocado industry has been undergoing significant growth for the past decade which is set to continue (Figure 6). Between 1994 and 2004, Australian production grew by 190% to 40,531 tonnes [7]. This has been mostly due to the increased plantings across Australia, resulting from escalating domestic and international consumer demand for avocados.

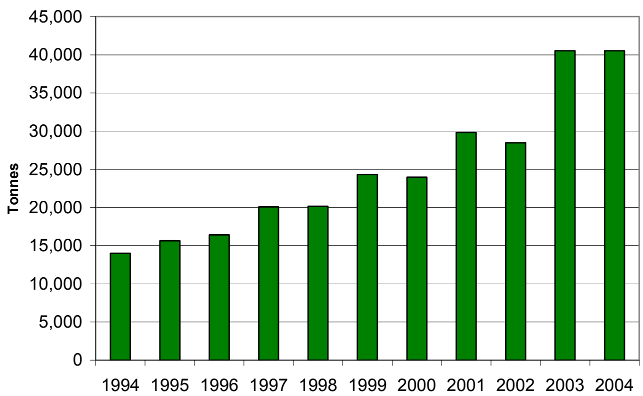

Figure 6 Australian avocado production 1994 – 2004 [7]

Although Australia's production of avocados has been increasing rapidly, it has not kept up with Australia's expanding consumption rate, resulting in increasing imports of the fruit into the country (Figure 7). Between the period of 1993 and 2003, Australia's imports of avocados rose in-excess of 340%, with New Zealand being the sole provider [7].

Although Australia is a minor exporter of avocados, Australian exports grew by over 385% between 1997 and 2003, from 87 tonnes to 442 tonnes respectively, representing 1% of production (Figure 7) [7]. Australia's predominant avocado exporting partners in 2003 included Singapore, Indonesia, Malaysia and Hong Kong.

With substantial production coming on line in the not distant future, developing export relationships may be crucial to Australia's industry. Recently, the Australian avocado industry received an important tariff-free quota as part of the Australian – United States Free Trade Agreement [4]. Once a quarantine protocol has been agreed upon, the Australian avocado industry will have a yearly quota into the USA, starting at 4000 tonnes and increasing annually by 10%.

Australia must ensure that it continues to develop more export market relationships where it has a competitive advantage in e.g. Europe. In this market, Australia has a counter-seasonal window of opportunity for it to supply during the months of September and October, at a time when supplies in that continent are soft [6].

The Australian industry also has much potential in the Asian market where demand is currently low, but increasing quickly as direct result of Asia's growing interest in western-style foods [6]. With a significant share of the existing market in Asia, the Australian industry is well positioned to benefit.

Nevertheless, to develop and maintain these markets, it is imperative that the Australian industry can show that it can consistently supply high quality avocados. In addition to developing international relations, it is crucial that the Australian avocado industry maintains a competitive advantage over importing countries in the domestic market through ensuring year round availability of quality fruit.

5 Possible Price Scenarios

Avocado producers are predominantly price takers. Although there are several major avocado packers in Australia, the industry is currently dominated by smaller growers who pack their own fruit and market them through wholesalers [4].

According to AAL, price information is very difficult to find and verify due to the large price fluctuations which occur in Australia's avocado market from year to year and during the months of each year [8].

The major determinant of the price of avocados in Australia is basic 'supply and demand', where high demand=higher price, supply short=higher price [8]. In this case, consumer demand for avocados in Australia is largely influenced by the volume and quality of fruit available on the market.

For the benefit of this report, AAG has sourced *actual* price data from one of Australia's largest avocado marketing companies – Chiquita Foods Pty Ltd. This data which is shown in Figure 8, illustrates the full season average wholesale avocado price for the Hass variety between 2002 and 2003 for the major cities of Australia.

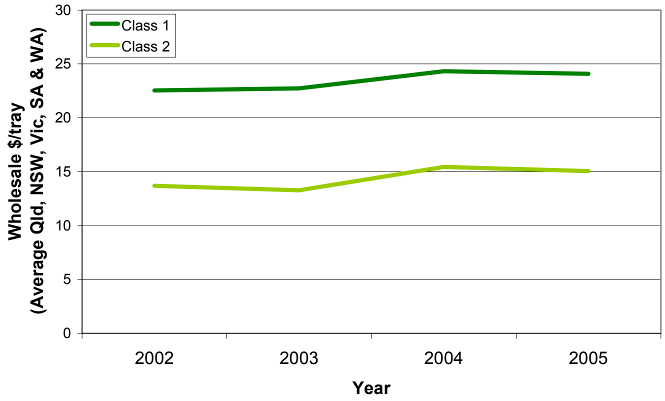

Figure 8 Full Season Hass Avocado Price Trend (2002 – 2005)

As the lines in Figure 8 suggest, the prices for Class 1 and Class 2 generally fluctuate in unison. Although prices for both Class 1 and Class 2 avocados increased between 2002 and 2005, in real terms they declined slightly.

6 Future Outlook and Conclusions

With Australia's rising production set to continue into the future as a result of increased plantings coming on line, it is evident that the Australian avocado industry has a positive future outlook. Having said this, the Australian avocado industry must work hard to grow existing and create new markets for the predicted increased supply of avocados.

On the domestic front, promoting avocados as an everyday fruit rather than as a luxury item and ensuring that producers are constantly producing quality fruit at the size demanded by the consumer is vital for expanding this market.

With rapidly increasing production, developing an export program that exploits Australia's competitive advantages is a strategic priority for the Australian avocado industry. Taking advantage of the recently signed free trade agreement with the USA, utilising the counter seasonal window of opportunity Australia has with Europe and maintaining the relationships with growing Asian markets are part of this process. However to develop and maintain these markets, it is imperative that the Australian industry can show that it can consistently supply high quality avocados.

AAL has documented that inconsistent quality of fruit at the retail level as been the greatest weakness of the Australian avocado industry [4]. The Australian avocado industry has a strategic plan for the future and a strong research and development program that is strongly supported by AAL and Horticulture Australia, using funds provided by the industry levy. Utilising this program to combat the weaknesses of the Australian avocado industry is vital to the future of the industry.

Ensuring that consumers can confidently purchase high-quality fresh avocados at the retail level is not only vital to increasing consumer demand domestically, but for developing and maintaining future international export markets.

7 References

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