Exporting Australia's vegetables to the Middle East & Asia

Market analysis & overview

AUSVEG

Horticulture Innovation Australia

Introduction

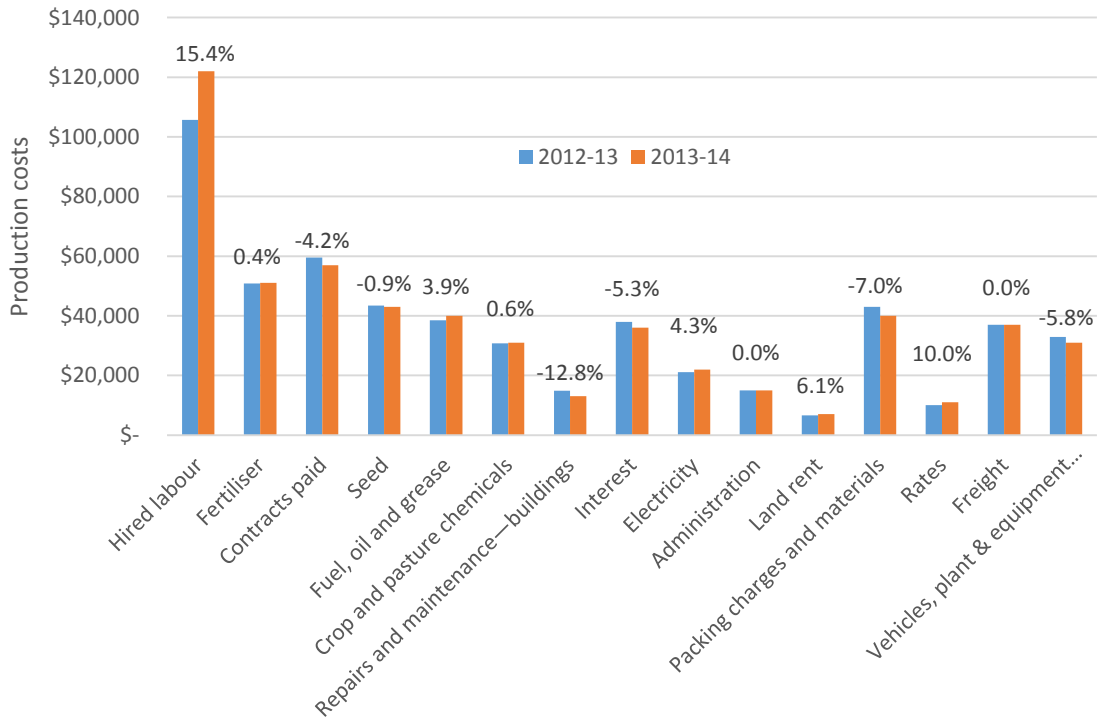
Australia's vegetable growers face a challenging business environment in the domestic market, with rising production costs and lower prices resulting in decreasing farm profitability. The Middle East and Asia could act as key export markets for Australian vegetable growers as these countries are experiencing high population growth as well as increased wealth. The proximity of Australia to the Middle East and Asia also increases the viability of vegetable exports, which are currently low relative to domestic vegetable sales.

This discussion paper will provide an overview of Australia's domestic market, as well as provide market snapshots on the Middle East, China, South Korea and Japan, examining their domestic markets and vegetable trade with Australia.

Australia's Domestic Market

The Australian vegetable growing industry contributed around $3.7 billion to the gross value of agricultural production in 2013-14, which was a 12 per cent increase from 2011-12.[1] Despite this, vegetable growers have been faced with increasing production costs, particularly labour, which is the largest production cost on average for Australian growers.

Figure 1: Average Production Costs



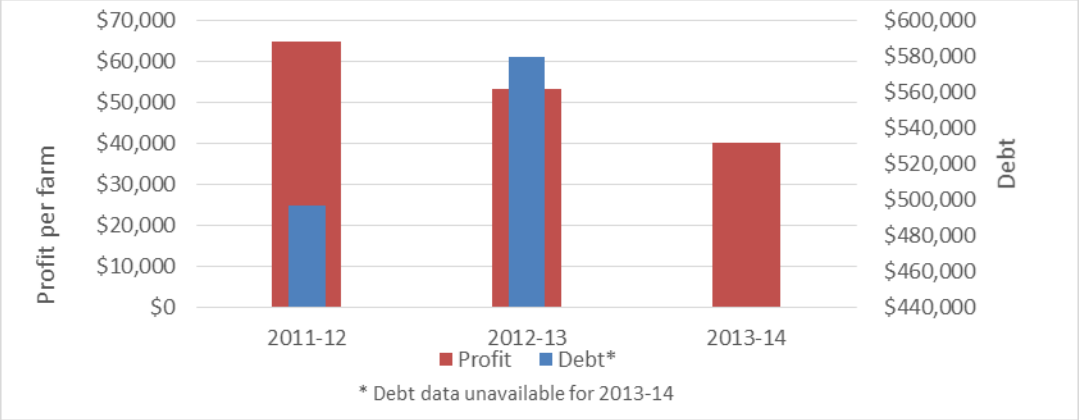
***Source**: ABARES Australian vegetable growing farms: An economic survey 2012-13 and 2013-14*

[1] ABARES Australian vegetable growing farms: An economic survey 2012-13 and 2013-14

This increase in labour costs has contributed to an overall increase in production costs, which have a larger impact on smaller growers who do not benefit from economies of scale. It is important for smaller growers to focus on input productivity and efficient use of their capital, as vegetable growers tend to be price takers and therefore have a limited influence on revenue through vegetable sales. Even though seasonal conditions were above average in 2013-14, higher yields have a downward effect on vegetable prices which can reduce margins.

The higher yields have traditionally caused an oversupply of vegetables in the domestic market, leading to large amounts of waste per year. Average profits for National Vegetable Levied farms have declined by 25 per cent over the last financial year, with debt increasing by 17 per cent from 2011-12 to 2012-13.

Figure 2: Farm Profit and Debt



***Source**: ABARES Australian vegetable growing farms: An economic survey 2012-13 and 2013-14*

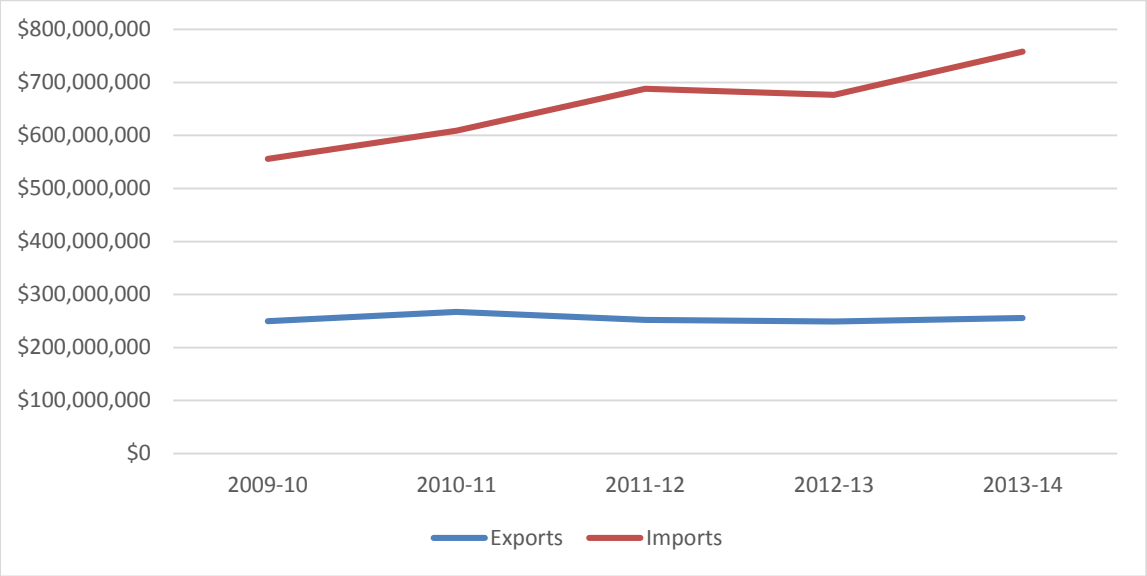
This oversupply of domestic production could open up opportunities for produce to be directed overseas to new export markets, with Australia's vegetables traditionally of a higher quality which is conducive to the growing middle class, especially in Asia. For this to occur, growers could start strengthening overseas ties and relationships to induce exports, with support from the government e.g. DFAT and Austrade. However, this may take some time as the protocols for exporting are quite different relative to producing for a domestic market.

Australia's Export Market

Australian vegetables are mostly grown for the domestic market, with only 7 per cent of the value of gross vegetable production exported in 2013-14[2]. The value of total exports has remained relatively stable over the past few years, amounting to almost $256 million in 2013-14.[3]

[2] GTIS total export data as a proportion of the gross value of vegetable production. $256m / $3.7b. Please note that this figure could be overstated due to storage, transport, insurance and other costs which can increase export prices.
[3] Dried vegetables are excluded as they are not counted in the Australian Bureau of Statistics category of 'Vegetables for Human Consumption.'

Figure 3: Value of exports and imports in AUD



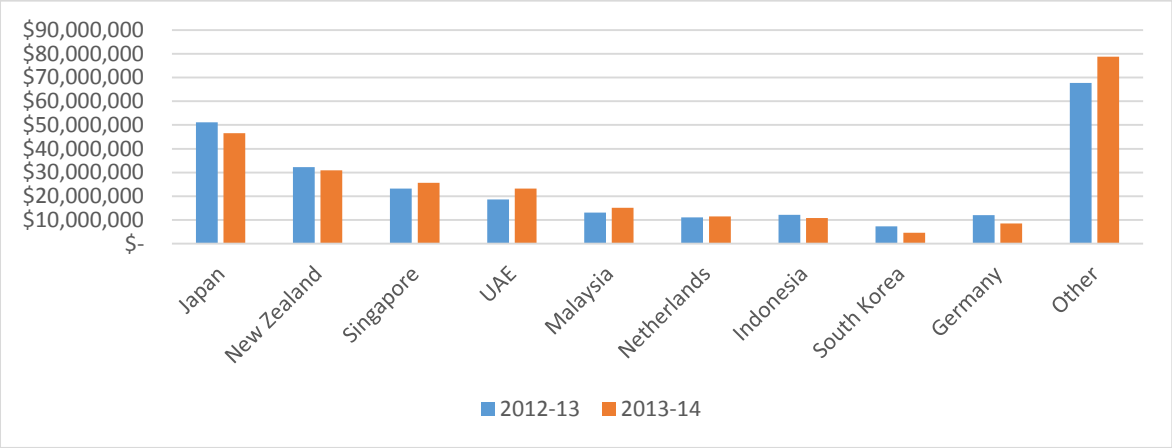
***Source**: Global Trade Information Services*

Despite exports slightly increasing from the previous financial year by 3 per cent, imports also increased by 12 per cent which has widened the trade deficit. This increase in imports relative to exports over time can put pressure on domestic vegetable growers, who face competition from overseas growers which can drive down prices.

Japan was Australia's largest export market in 2013-14 with a total value of $46.5 million, which was 9 per cent lower than the previous financial year. However, exports to Japan have steadily increased on average since 2009-10, surpassing New Zealand as Australia's number one export destination for vegetables in 2012-13. In fact, vegetable exports to New Zealand have declined annually for four years, more than halving in total value since 2009-10.

Despite being one of Australia's largest trading partners, total export value to China totalled around $2.5 million in 2013-14 which comprised of only 1 per cent of total world vegetable exports.

Figure 4: Export destination of vegetable exports in 2013-14

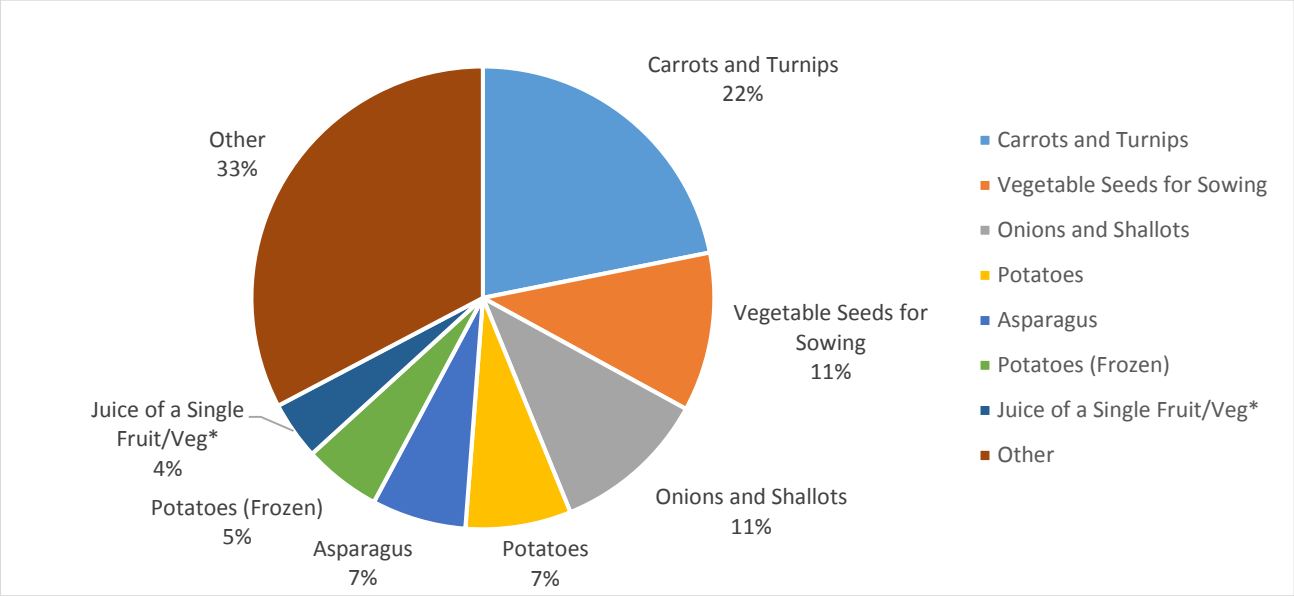


***Source:** Global Trade Information Services*

Carrots and turnips were the largest commodity group that contributed to Australia's export value in 2013-14, continuing to be Australia's largest vegetable export in terms of value. As a proportion of total exports, Carrots and Turnips amount to approximately 20 per cent of total vegetable exports every year.

Figure 5 shows the breakdown of export value for particular commodities; it should be noted that all vegetable exports are either fresh or chilled, unless otherwise stated.

Figure 5: Per cent composition of $256 million AUD value of vegetable exports in 2013-14



*Juice of Any Single Fruit or Vegetable (Excl. Orange, Grapefruit & Other Citrus Fruits; Pineapple; Tomato; Apple; Cranberry; Grape and Grape Must), Unfermented and With No Added Spirit, With or Without Sugar or Other Added Sweetening Matter

Source: *Global Trade Information Services*

Carrots and Turnips accounted for 22 per cent ($56 million) of total vegetable exports in 2013-14. In comparison to the vegetables that fall under the National Vegetable Levy, carrots alone accounted for a much higher proportion, making up 75 per cent of total leviable export value in 2012.[4]

Australia's vegetable exports remain low due to a number of reasons. Historically around 80 per cent of vegetable growers believed development of export markets was too difficult or time-consuming. Inadequate prices for exported vegetables and shipping costs were also commonly stated impediments.[5]

However, Australian vegetable growers possess significant strengths in their businesses and products that can be of advantage in the export market. Strengths include high food safety standards, a perception of having premium products and counter seasonality to the northern hemisphere.[6] More information to increase the knowledge base for growers could be of great benefit and make Australia's vegetable export industry much larger.

[4] AgEconPlus 2014: Malaysia & UAE Analysis and Strategy – Carrots & Sweet Corn
[5] ABARES Australian farm survey results: 2011-12 to 2013-14

[6] AgEconPlus 2014: Malaysia & UAE Analysis and Strategy – Carrots & Sweet Corn

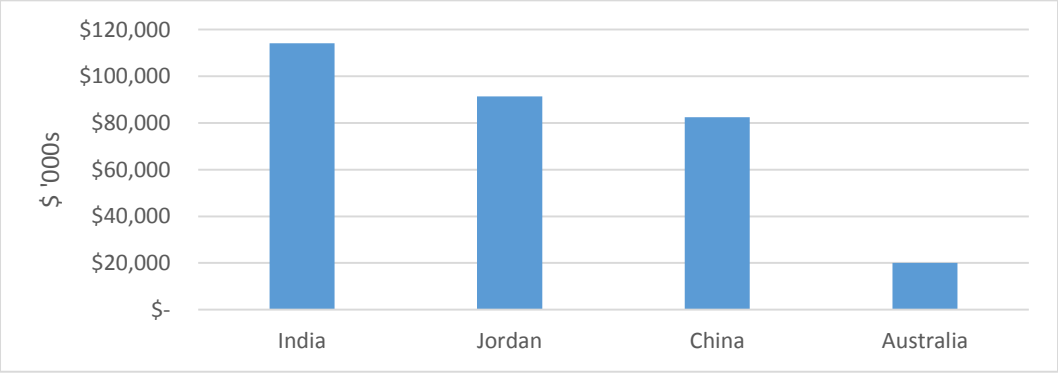
AUSVEG believes there are significant opportunities to build profitability through exports and is actively working with growers to improve export readiness, promote export opportunities (including through business matching activities with growers) and communicate information about the exporting process. Examples of this include an export readiness checklist on the AUSVEG website and setting up various conferences and symposia pertaining to vegetable export opportunities.

Market Snapshots

The Middle East

The Middle East has a population of approximately 400 million people, with the region best known for producing and exporting oil. The GDP per capita varies dramatically from country to country, varying from approximately $1,000 to $100,000 USD per capita. The Middle East had a 16 per cent share of Australia's vegetable exports to the world in 2013-14, increasing slightly from the previous financial year. This section will have a focus on the United Arab Emirates (UAE), Saudi Arabia and Qatar as these countries accounted for 85 per cent of Australia's vegetable exports to the Middle East in 2013-14.[7]

Figure 6: UAE imports of vegetables (excluding dried and legumes) in 2013



Source: *International Trade Centre - Trade Map*

India, Jordan and China were the biggest import sources for the UAE in 2013. Onions and garlic were the main vegetables being imported, with tomatoes also a key import.

Figure 7: Australian Carrot and Turnip exports - percentage out of all vegetables; and value

	2011-12	Value (USD)	2012-13	Value (USD)	2013-14	Value (USD)
UAE	77%	$12,994,829	77%	$14,347,370	74%	$17,331,329
Qatar	86%	$3,345,913	87%	$3,811,785	82%	$3,793,894
Saudi Arabia	96%	$7,188,768	96%	$5,505,000	95%	$6,684,993

Source: *Global Trade Information Services*

As shown above, carrots and turnips dominated Australia's exports to Middle Eastern countries, with carrots comprising the majority.[8] It is clear that carrots are Australia's top export prospect and could

[7] Global Trade Information Services
[8] AgEconPlus 2014: Malaysia & UAE Analysis and Strategy – Carrots & Sweet Corn

be a focus of future growth in this market, in addition to other vegetables which are exported at vastly smaller amounts but have potential to increase.

Western Australia is Australia's main carrot exporting state, accounting for over 90 per cent of carrot exports due to its closer proximity to the Middle East (and Asia). As mentioned earlier, domestic production has an advantage and therefore trades successfully on quality and food safety, as opposed to price.[9] This means that consumers overseas are seeking better quality products (note the stronger colour of Australian carrots on the right in Figure 8). However, China remains the main competitive threat for Australian carrot exports to the Middle East with their lower cost carrots.

Figure 8: Chinese, US and Australian carrots (left to right) in a UAE retail store

Source: *AgEconPlus 2014: Malaysia & UAE Analysis and Strategy – Carrots & Sweet Corn*

Despite this, Saudi Arabia and Qatar imported almost four times as many carrots from Australia than they did from China in 2013 by value. This trend has remained stable since 2008. The UAE was the exception, importing more carrots from China than from Australia as shown below.

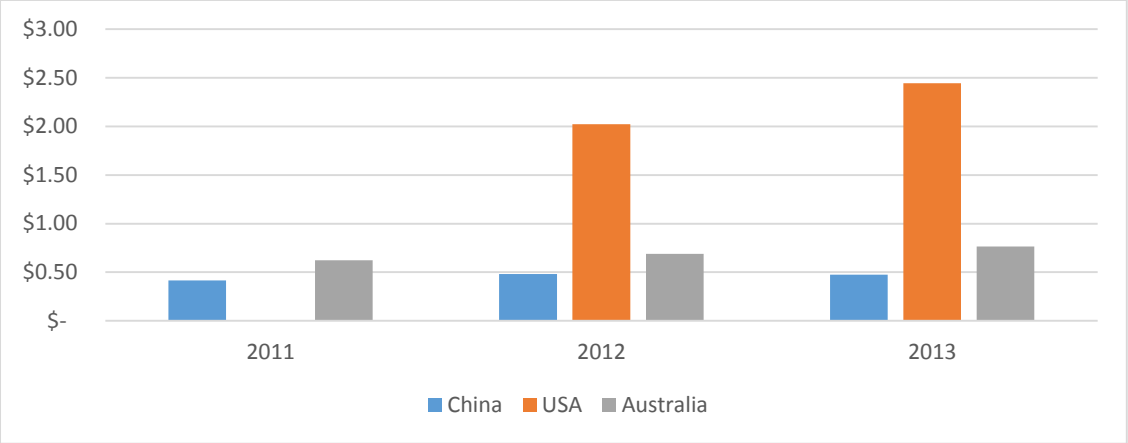
Figure 9: UAE imports of carrots by value, quantity and price

Source: *International Trade Centre - Trade Map*

[9] Department of Agriculture and Food, Government of Western Australia ; Carrot exports from Western Australia https://www.agric.wa.gov.au/carrots/carrot-exports-western-australia

The UAE is Australia's main export destination for carrots, as shown by Figure 7. Nearly all fresh vegetables consumed in the UAE are imported, with 100 per cent of fresh vegetables imported in the hotter months of June to September. In addition to carrots, the UAE imported vegetables from the US and other low cost suppliers such as India, South Africa and Iran.[10]

Figure 9: Saudi Arabian prices of imported carrots per kilo



Source: *International Trade Centre - Trade Map. Figures derived using import values and weights.*

Figure 9 above shows how much more expensive USA sourced carrots are than Australian and Chinese in Saudi Arabia. The average Australian price of around $0.70 per kilo is similar in the UAE as well. It is interesting to note that according to one of Dubai's largest fresh produce importers, Australian carrots are commonly used by the juicing industry, whereas Chinese carrots are usually only sold fresh in retail markets.[11] The carrot market is undersupplied in the UAE which gives Australia an opportunity to invest and expand its export markets. Australian carrots remain competitive due to their quality, taste, reliable supply all year and colour, however, price remains much higher than lower quality Chinese carrots. Price levels of carrots can decrease as the Australian dollar weakens, however, increasing output to push prices lower could be an avenue to securing greater market share as well as demand from the Middle East. A big threat for Australian carrot exporters is the increasing quality of cheaper Chinese carrots. Therefore Australian growers must ensure their carrots are of the highest quality, which can be achieved by investing in product development.

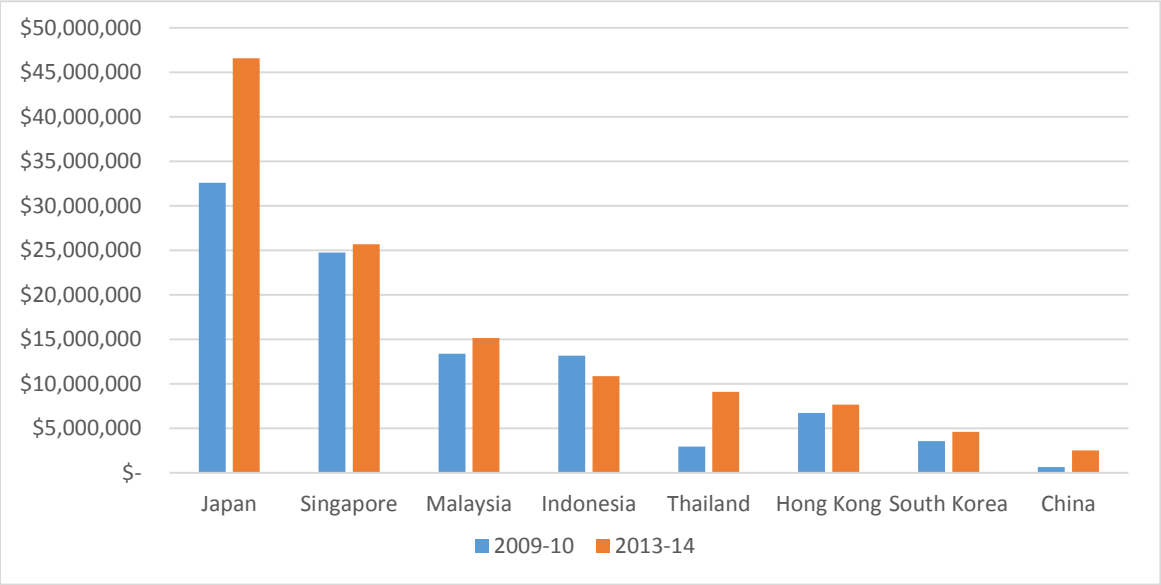
Bilateral relations between Australia and the UAE are growing rapidly, arising from extensive people to people contacts due to a large population of expatriate Australians living and working in the UAE.[12] Growth in the food sector in the UAE is forecast to grow at 20 per cent per annum through to 2018,[13] with an expanding hospitality sector and increasing emphasis on healthy eating.

[10] WOP Dubai 2013 – International Perishables Expo Middle East
[11] African Agribusiness Academy – Fresh Produce Market in Dubai http://www.aa-academy.org/sites/default/files/resource/dubai_bulletin.pdf
[12] DFAT – UAE Country Brief
[13] AgEconPlus 2014: Malaysia & UAE Analysis and Strategy – Carrots & Sweet Corn

Japan

Japan has the third largest economy in the world and is Australia's second largest trading partner, with a population of approximately 130 million. Japan is the leading export destination for Australian vegetables in Asia, accounting for almost 40 per cent of its export value to Asia in 2013-14.[14]

Figure 10: Australian vegetable exports to Asian countries over time (AUD)

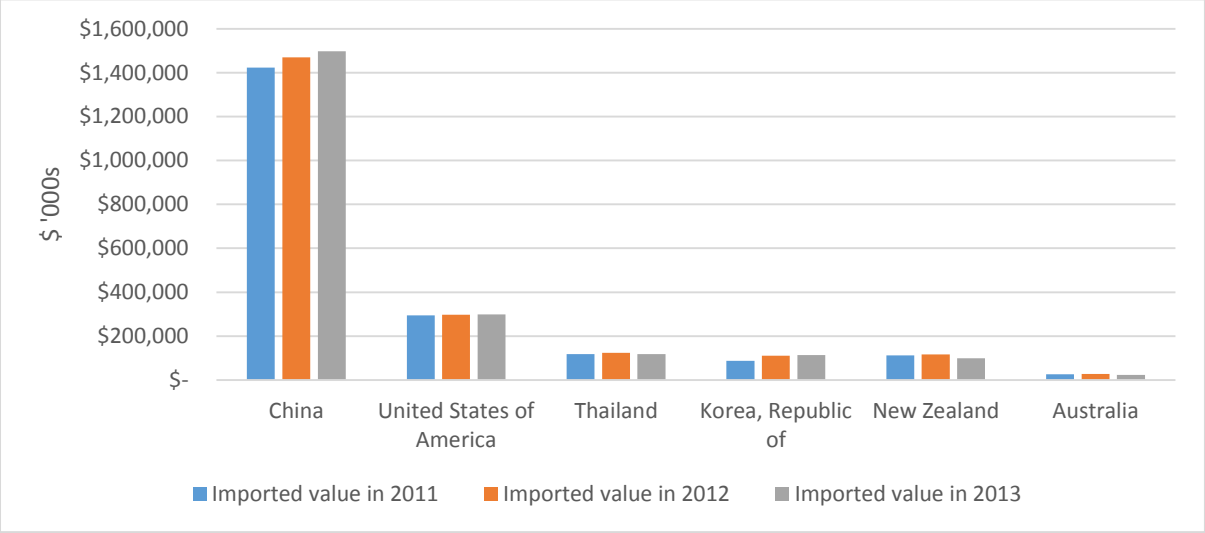


Source: *Global Trade Information Services*

Since 2009-10, Australian vegetable exports to Japan have increased by 43 per cent. Vegetable production is the third biggest sector in Japanese agriculture, which has traditionally been protected and highly subsidised with the Japanese Government favouring small scale cultivation, leading to Japan having one of the world's highest crop yields per unit area.[15] Japanese vegetable consumption exhibits a seasonal pattern, with peak consumption occurring from March to June, and September to December. Most Japanese vegetable imports comprise vegetables to fill off-season supply such as asparagus, which cannot be grown in those times. Some vegetables such as Carrots and Broccoli are imported all year round.[16]

[14] Global Trade Information Services
[15] New Welfare States in East Asia: Global Challenges and Restructuring – Gyu-Jin Hwang p64
[16] Protected Agriculture: A Global Review, Volumes 23-253 - Merle H. Jensen, Alan J. Malte p148

Figure 11: Japanese imports of vegetables

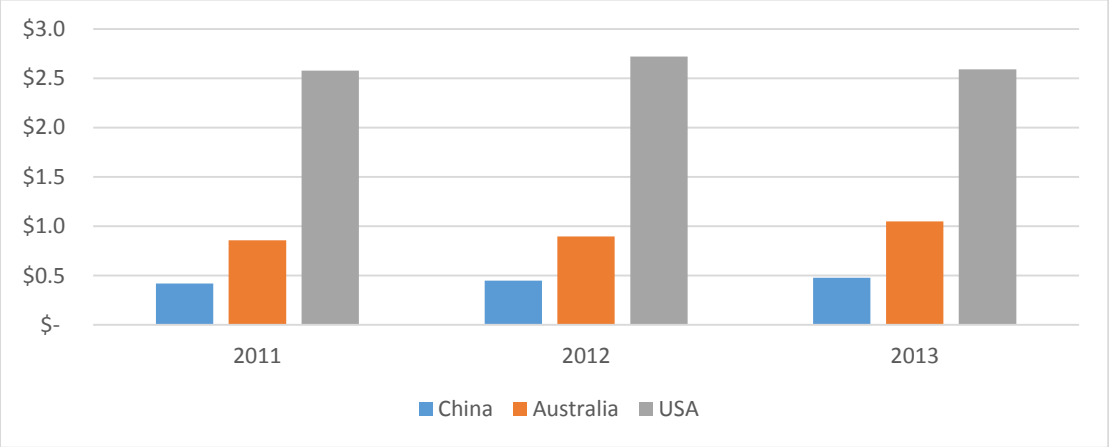


Source: *International Trade Centre - Trade Map*

Asparagus, juice of single/mixed fruits and onions accounted for the majority of Australia's exports to Japan. Carrots and sweet corn accounted for approximately 7 per cent of exports to Japan in 2013-14. China remains Japan's biggest import source, with USA and other southern hemisphere countries becoming major suppliers of vegetables to Japan. Despite China being a low cost supplier, there have been instances of Chinese vegetables being restricted or banned due to food safety issues, giving Australia an advantage due to higher food standards and low chemical usage.[17]

Japan's dependency on imported vegetables has increased over time due to lower production volumes and smaller sizes of land area. In addition, the 2011 tsunami induced food safety concerns which gave Japanese consumers a negative perception on domestic produce; therefore Japanese consumers are seeking higher quality imported vegetables.[18]

Figure 12: Japanese prices of imported carrots per kilo



Source: *International Trade Centre - Trade Map. Figures derived using import values and weights.*

[17] Austrade – Japan Profile, Fruit and Vegetables to Japan
[18] Ibid

Despite Australia's strong trade with Japan, agricultural tariffs have increased by up to 219 per cent over time as a result of Japan's heavily protected agriculture market.[19]. The Japan-Australia Economic Partnership Agreement (JAEPA) was implemented on 15 January 2015 and has reduced tariffs on the vast majority of Australia's vegetable and juice exports. Carrots, broccoli, cauliflower and cabbages are just some of the vegetables that have had tariffs immediately eliminated. Other vegetables like broad beans will have their tariffs gradually reduced over time.[20] This will increase the competitive advantage for Australian vegetable exporters to Japan and pave the way for increased exports for key export vegetables. In addition, Japan signed on to the Trans-Pacific Partnership (TPP) in 2013 which aims to enhance competitiveness and forge closer linkages between Australia and Japan.[21]

South Korea

South Korea has a population of almost 51 million and is Australia's third largest export partner. Despite the export value to South Korea having increased since 2009-10, exports in 2013-14 were almost half the value of exports in 2011-12.

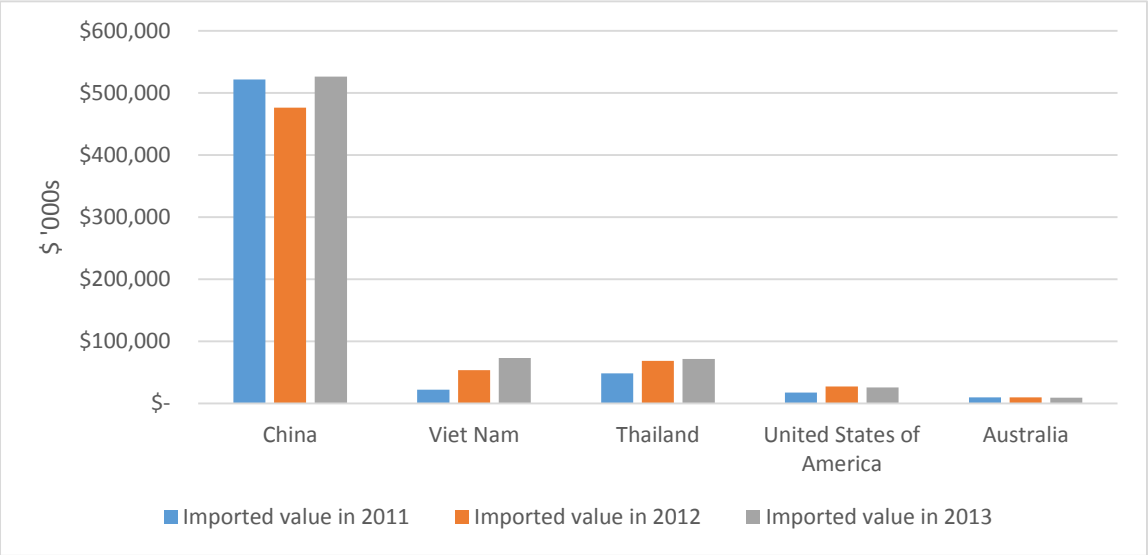
Figure 13: South Korean prices of imported potatoes per kilo

Source: *International Trade Centre - Trade Map*

Nearly 90 per cent of Australia's vegetable exports to South Korea are potatoes, with asparagus comprising approximately 5 per cent. The main sources of South Korean fresh vegetable imports are China and the United States, with increased demand for processed vegetables due to changing lifestyles.[22] Yams are also in high demand, comprising a large part of imports from Vietnam and Thailand.

[19] DFAT – Japan-Australia Economic Partnership Agreement
[20] Ibid
[21] DFAT – Trans-Pacific Partnership Agreement
[22] United States Department of Agriculture – Economic Research Service - Fruits, Nuts & Vegetables

Figure 14: South Korean imports of vegetables



Source: *International Trade Centre - Trade Map*

A key development in Australia's agriculture trade with South Korea has been the formation of the Korea-Australia Free Trade Agreement (KAFTA) which came into effect from December 2014. The KAFTA will be significant for Australia's vegetable exporters as it will eliminate tariffs and therefore ensure Australia is on a level playing field with other regions such as the US, EU and Asian countries which already have existing free trade agreements with South Korea.[23] Examples include the 30 per cent tariff on carrots and most fruit juices which will be progressively eliminated by 2018 and the 45 per cent tariff on tomatoes which will be progressively eliminated by 2020.[24] The Korea United States Free Trade Agreement (KORUS FTA) came in to effect in 2010 and diminished South Korea's high tariffs for the US, making them instantly more competitive.[25]

China

China has a population of over 1.3 billion people and is Australia's largest trading partner. As of 2011, China became the largest consumer market for food and beverage, with food consumption changing drastically as increasing living standards lead to more people seeking foods with a higher nutritional value, better quality and freshness.[26] However, as mentioned earlier, Australia's exports of vegetables to China comprised of less than 1 per cent of total vegetable exports in 2013-14.

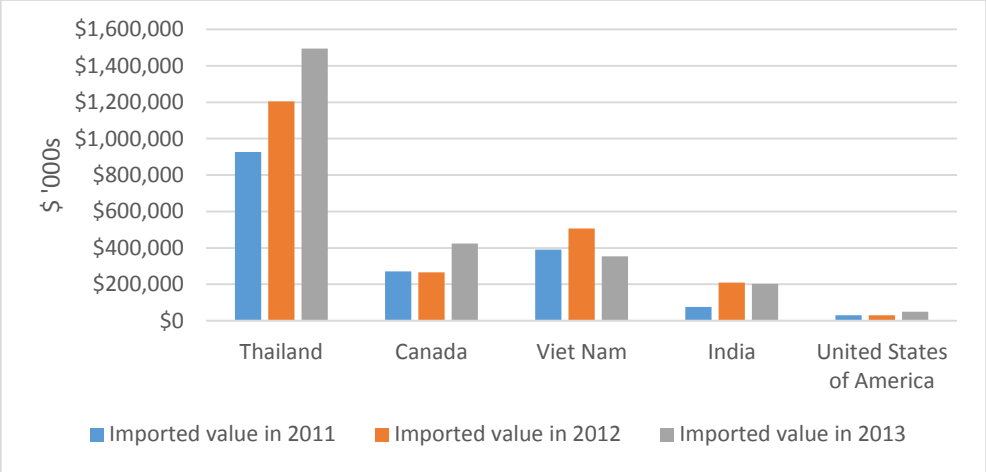
The increasing middle class and rapid population growth have resulted in increasing urbanisation, altering food consumption patterns. In addition, the tastes of younger consumers in China are said to again alter consumption patterns, with the likely effect of younger generations having more exposure to foreign food and therefore a greater mix of vegetables.[27]

[23] DFAT – Korea-Australia Free Trade Agreement
[24] Ibid
[25] The Prospective Free Trade Agreement with Korea: Background, Analysis, and Perspectives for California Agriculture - Hyunok Lee and Daniel A. Sumner 2009
[26] AusTrade – Food and Beverage in China
[27] University of Sydney – Exporting to China, A symposium for Vegetable Growers. Professor Hans Hendrischke

China produces almost half of the world's fresh vegetables which may explain how Australian exports to China are so low. It is interesting to note that for processed vegetables, China is the third biggest export destination for Australia but for fresh vegetables it is 17th (based on 2013-14 figures). The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) predicts that China will account for 43 per cent of global growth in agricultural demand by 2050.

By value, China receives significant vegetable imports from Thailand, Canada and Vietnam, with a high demand for yams and dried vegetables. Australia's contribution of vegetable exports to China comprises only 0.14 per cent of the total it receives. Australia's exports to China have remained steady since the 2011-12 financial year.

Figure 15: Chinese imports of vegetables



Source: *International Trade Centre - Trade Map*

Some impediments to Australian growers exporting to China are market access and information. Chinese export markets are deemed to be extremely time consuming and complex, especially for smaller to medium sized growers who have limited resources. There is said to be little information or protocols on how to export particular vegetables to China and market access for Australian produce is poor. China remains a net exporter of vegetables.

A big discrepancy between China and Australia is that Australian vegetable exporters face tariffs of between 10 to 25 per cent, whereas vegetable imports from China enter Australia duty free.[28] However, the new China-Australia Free Trade Agreement (ChAFTA) which will come in to effect in 2015 is set to address China's high tariffs on horticulture products, with all tariffs set to be eliminated. The key outcome for vegetable growers in Australia is the elimination of the 10 to 13 per cent tariff on all fresh vegetables within four years.[29]

[28] Exporting Vegetables to China: Examining Opportunities and Barriers – Tegan Bensley
[29] DFAT – China-Australia Free Trade Agreement

Conclusion

Australian growers have the opportunity to take advantage of overseas vegetable markets, which would curb issues of oversupply which lead to lower prices domestically. The increased wealth and population growth in the Middle East and much of Asia has resulted in increased demand for a diverse range of high quality vegetables which Australia can supply.

More information is being provided to growers by AUSVEG to assist them with exporting. Considering only 4 per cent of Australian growers produce vegetables for export, and only 1 per cent of this value is exported to China, there are many opportunities to tap in to overseas markets where Australian growers potentially have an advantage selling premium and safe vegetables.

Carrots are a relatively large export to the Middle East but are in competition with cheaper Chinese produce. Research and development on consumer trends in the Middle East needs to be further analysed and conveyed to growers. For example, juice consumption (e.g. carrot juice) increases dramatically during the time of Ramadan which Australian growers could take advantage with their premium carrots.

The biggest developments for vegetable exports have been the recent free trade agreements with Japan, South Korea and China, which should hopefully result in a sustained increase in momentum for exports due to lower tariffs and therefore a more level playing field with other competitors. More information and better market access should be developed, especially to China where there is a lack of expertise and protocols for vegetables. Greater investment in these areas could be costly in the short term but over time produce an increase of vegetable exports, making the short term investment worthwhile.