Summerfruit

STRATEGIC INVESTMENT PLAN

2017-2021

Hort Innovation
Strategic levy investment

SUMMERFRUIT FUND

Content

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Introduction

This Strategic Investment Plan (SIP) is the roadmap that helps guide Hort Innovation's oversight and management of individual levy industry investment programs. The SIP lays the foundation for decision making in levy investments and represents the balanced interest of the particular industry from which the levy is collected. The very important function of the SIP is to make sure that levy investment decisions align with industry priorities.

Hort Innovation is the not-for-profit, grower-owned research and development (R&D) and marketing company for Australia's $9 billion horticulture Industry.

As part of the role Hort Innovation plays as the industry services body for Australian horticulture, the Australian Government tasks the organisation with working alongside industry to produce a strategic plan for investment of levies in industry R&D and marketing activities.

Each individual levy industry investment strategy also speaks to the future growth and sustainability of the Australian horticulture industry, as a whole. The SIPs are produced under the umbrella of the Hort Innovation Strategic Plan, which takes a whole of industry view in setting its direction, as it considers broader agriculture government priorities for the advancement of Australian horticulture.

The process in preparing each SIP was managed by Hort Innovation and facilitated in partnership with Industry Representative Bodies and Strategic Industry Advisory Panels (SIAP). Independent consultants were engaged to run the consultation process, to gather the advice from stakeholders impartially and produce a plan against which each levy paying industry can be confident of its strategic intent.

Hort Innovation has valued the support, advice, time and commitment of all stakeholders that contributed to producing the SIPs, especially summerfruit growers.

The summerfruit SIP

Producers in the summerfruit industry pay levies to the Department of Agriculture and Water Resources (DAWR), which is responsible for the collection, administration and disbursement of levies and charges on behalf of Australian agricultural industries.

Agricultural levies and charges are imposed on primary producers by government at the request of industry to collectively fund R&D, marketing, biosecurity and residue-testing programs.

Levy is payable on summerfruit that are produced in Australia and sold by the producer. The levy rate on summerfruit is 1 cent per kilogram.

Hort Innovation manages the summerfruit levy funds with proportions directed to R&D and marketing investments (0.98 cents per kilogram), while separately, Plant Health Australia (PHA) manages plant health programs (0.02 cents per kilogram). In 2015/16, total summerfruit levy receipts were approximately $984,000; $547,000 of R&D levies and $437,000 of marketing levies.

Hort Innovation has developed this SIP to assist in strategically investing the collected summerfruit levy funds in the priority areas identified and agreed by the summerfruit industry.

This plan represents the Australian summerfruit industry's collective view of its R&D and marketing needs over the next five years (2017 to 2021). This plan has been developed in consultation with Australian summerfruit levy payers through direct consultation and workshops with Hort Innovation's summerfruit SIAP.

The process to develop this plan is described in ***Appendix 1***, which also lists the people consulted in the preparation of the plan. The documents referred to are listed in ***Appendix 2***.

The summerfruit SIAP has responsibility for providing strategic investment advice to Hort Innovation. Both Hort Innovation and the panel will be guided by the strategic investment priorities identified within this plan. For more information on the summerfruit SIAP constituency, please visit Hort Innovation's website at www.horticulture.com.au.

Summerfruit

STRATEGIC INVESTMENT PLAN 2017-2021 AT A GLANCE

POTENTIAL IMPACT OF THIS PLAN

$26.4 Million

Based on an estimated investment of $6.40 million over the next five years

Major opportunities

- Growing demand in Asian markets
- Close proximity and good connectivity to Asian growth markets with a southern hemisphere seasonal advantage
- Potential to leverage the recently granted workable protocol for nectarines into China for other summerfruit
- To grow skills within the industry
- To value-add through varieties, packaging, branding and marketing
- To leverage Australia's reputation for safe food and supply chain integrity
- Recognised pest-free/fruit fly-free status in some growing regions.

Major challenges

- Climate variability and more frequent and more damaging adverse climatic events
- Potential pest and disease outbreaks compromising market access
- Higher input costs relative to international competitors
- Increasing competition from other southern hemisphere producers
- Lack of workable market access for all summerfruit into the higher returning export markets
- Flat domestic consumption
- Supply is subject to a seasonal flush that puts downward pressure on prices.

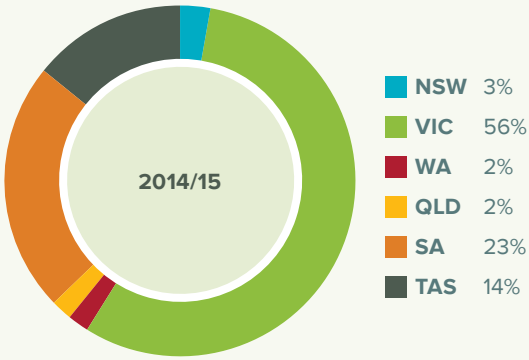
OUTCOMES	STRATEGIES
Industry has developed a diversified export market portfolio to absorb growing production volumes	Develop a five-year holistic and diversified export market development plan
	Develop and agree a market access pathway plan and business cases
	Continue to invest in export readiness and capability focusing on high-priority markets
	Conduct R&D on variety selection to ensure the fruit meets the preferences and expectations of overseas customers
The value of fruit sold on the domestic market is increased to restore grower margins	Develop a domestic marketing strategy with a focus on building consumer engagement through product differentiation and usage information
	Engage with supermarkets on category management to improve the consumer experience and reduce wastage
	Conduct supply chain efficiency R&D to improve both the eating experience and pack-out rates
	Implement a domestic product food safety and traceability program with a view to then applying it to export supply chains
	Scope out a new generation of processed products and opportunities to use processing-grade fruit

Summerfruit
STRATEGIC INVESTMENT PLAN 2017-2021 AT A GLANCE

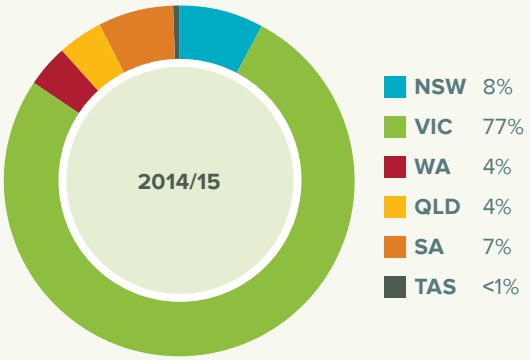
OUTCOMES	STRATEGIES
Costs have reduced at every level of the supply chain to grow industry profitability	Develop industry financial management skills to enable better understanding of costs and profitability drivers
	Continue with a prioritised R&D program to manage pest and disease challenges and threats
	Raise orchard and pack house management skills by introducing a Future Orchards®-type extension program based on the model used by the apple and pear industry
	Encourage development of regional orchard improvement groups by producing a guide to establishing one
	Develop a program to improve pack house efficiency

OUTCOMES	STRATEGIES
An industry culture of continuous improvement has been embedded to support long-term economic sustainability	Introduce a workable production and crop forecasting system (potentially in collaboration with cherries)
	Provide a scholarship for participation by industry leaders in industry management and governance development programs (Pool 2)
	Introduce a young leaders overseas studies program
	Introduce short course leadership training modules for orchard and pack house supervisors/managers (Pool 2)

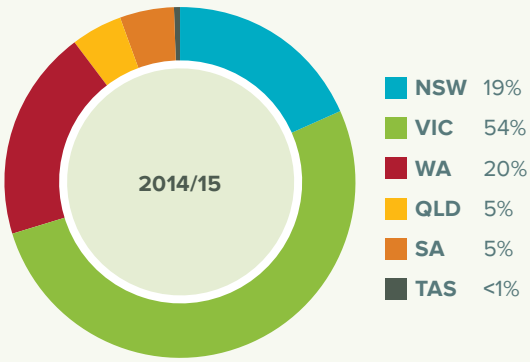
Apricot industry size and production distribution



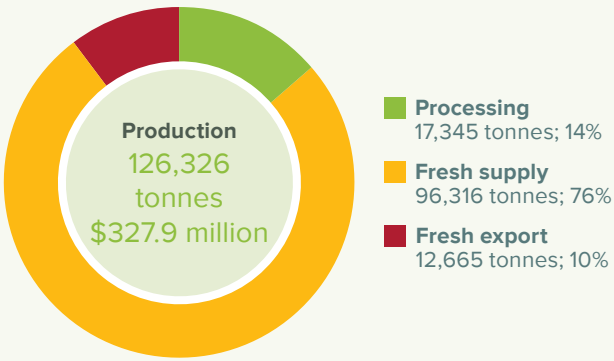
Nectarine/peach industry size and production distribution



Plum industry size and production distribution



Summerfruit supply chain and value 2014/15



2015/16 Approximately 1,200 growers

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SECTION ONE

Context

The Australian summerfruit industry

Table 1: Industry snapshot for year ending June 2015

Production	126,326 tonnes (2016)[A]
Producing trees	3,315,000 trees[A]
Production value	$327.9 million[A]
Wholesale value	$354.3 million[A]
Number of enterprises	1,200[B]
Exports (value)	$38.7 million (fresh)[A]
Exports (volume)	12,665 tonnes (fresh)[A]

SOURCES:
A Australian Horticulture Statistics Handbook 2014/15
B summerfruit.com.au, 2014/15

The Australian summerfruit industry consists of peaches, nectarines, apricots and plums, of which nectarines are the most frequently purchased. Annual production of summerfruit is highly dependent on seasonal growing conditions.

The summerfruit industry is undergoing a transition. While it was once heavily reliant on the processing sector, today over 70 per cent of production is sold as fresh fruit. In more recent years, the industry has gradually become more export-oriented. The rising demand for Australian summerfruit in the Asian and Middle Eastern markets, which has been fuelled by the favourable exchange rate, has given the industry a great amount of optimism for the future export growth. However, success in exporting will be heavily reliant on gaining favourable market access protocols into more markets. The prospects for the processing sector are limited, with further decline in processing intake being forecast by the processors, although this is uncertain.

Production

Summerfruit production in the year ending June 2015 (the 2015 season) was 126,326 tonnes, of which approximately 100,000 tonnes was supplied to the fresh market[1]. It is estimated that production in 2015/16 will be about 134,000 tonnes.

Australian summerfruit production declined from 2006/07 to 2011/12 (***Figure 1***) due to the downturn in the processing industry. Overall, production recovered somewhat in 2011, mostly in nectarines and peaches. Apricot production is on a downward trend and plums are relatively flat.

Up until around 2000, processing accounted for about 50 per cent of summerfruit output. In the consultation for this SIP, industry members indicated that processing volumes had dropped from 60,000 tonnes to 10,000 tonnes in the last decade (between 2006 and 2015), although this observation was anecdotal and requires further investigation. The *Australian Horticulture Statistics Handbook 2014/15* estimates processing to be about 20,000 tonnes. Since that time, the processing sector, which primarily takes peaches, declined because of a consumer swing away from processed foods, and then from 2006 to 2012, the appreciation of the Australian dollar that caused an influx of imports of canned fruit. The majority of canned fruit market share is supermarket private label, much of which is imported. This dynamic may change if the Australian dollar remains low and the anticipated demand for Australian processed fruit that some processors are forecasting eventuates.

1 Hort Innovation, *Australian Horticulture Statistics Handbook 2014/15*

Figure 1: Summerfruit production for 20 years, 1997 to 2016 *(Source: ABS data via FAOSTAT; Fresh Intelligence analysis)*

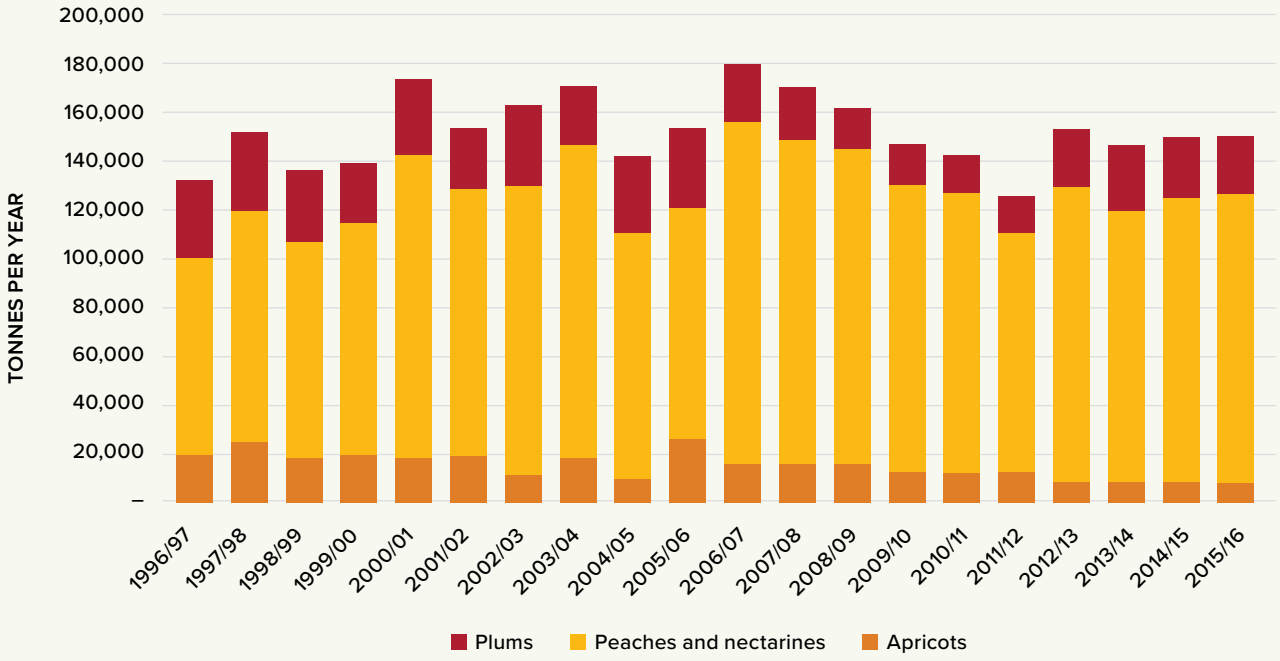
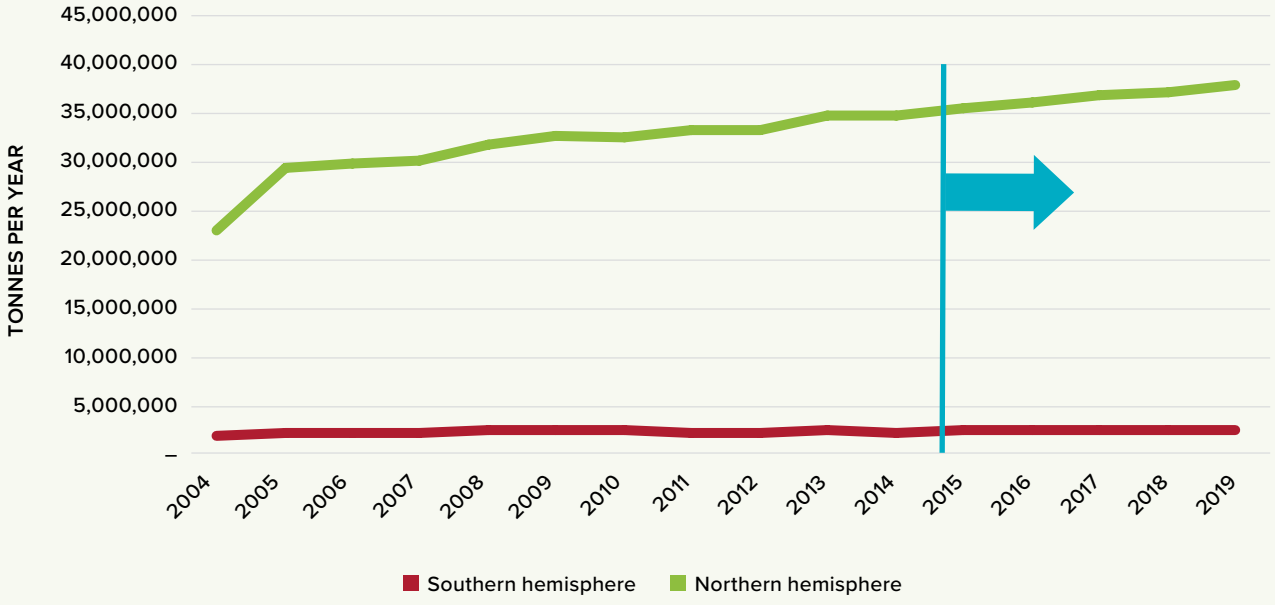


Figure 2: Global summerfruit production and estimated forecast, 2004 to 2019 *(Source: FAOSTAT, ABS; Fresh Intelligence analysis)*



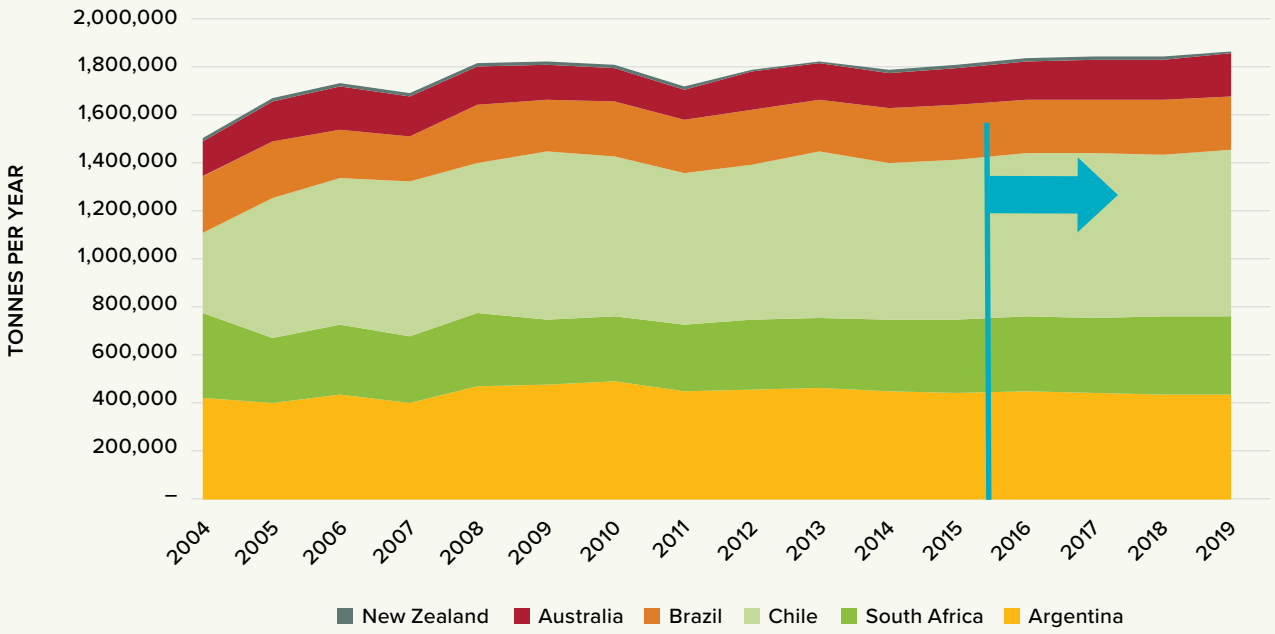
Australian summerfruit industry in a global context

The Australian summerfruit industry is a minor player in the global market for summerfruit, with the majority of global production being in the northern hemisphere (***Figure 2***). Northern hemisphere production continues to grow, whereas the southern hemisphere, by comparison, is relatively flat. Much of the northern hemisphere fruit goes to processing, some of which ends up in the Australian market.

Even within the southern hemisphere (***Figure 3***), Australia is a relatively small player, accounting for around one per cent of the total southern hemisphere production, where Chile, Argentina, Brazil and South Africa are the biggest contributors. However, production in these countries appears to be relatively flat while Australia is showing steady growth, albeit from a very small base.

Figure 3: Southern hemisphere summerfruit production and estimated forecast, 2004 to 2019

(Source: FAOSTAT, ABS; Fresh Intelligence analysis)



Forecast future production

Based on current production it is expected that total production will trend upwards, as immature trees reach maturity. ABS statistics suggest that fifteen percent of trees are currently non-bearing and yet to reach full production. Growth in production assumes no further tree removal. However, depending on the future of the processing sector, more processing varieties may be removed.

Summerfruit value chain

Domestic fresh consumption is the largest single channel for summerfruit (approximately 70 per cent), followed by processing and export (from the *Australian Horticulture Statistics Handbook 2014/15*).

Processing volumes are likely to decline further, and exports are expected to increase. Much of the fruit destined for processing has been diverted to the fresh market, which is likely to have depressed prices. On a volume basis, processing channels are dominated by nectarines and peaches.

In the five years from 2010/11 to 2015/16, total summerfruit exports (volume) have been growing by a compound annual growth rate of 13.3 per cent (based on IHS Global Trade Atlas data). This is a turnaround from a period of decline to 2010/11. Peaches and nectarines have increased their share of summerfruit exports (by volume) from 52 per cent in 2010/11 to 70 per cent in 2015/16, largely taking over from plums. As such, the turnaround in total summerfruit exports is reflective of increased peaches and nectarine exports and export dominance.

In the five years from 2010/11 to 2015/16, peach and nectarine exports grew by a compound annual growth rate of 20.4 per cent. In the same period, plum exports grew by a compound annual growth rate of 1.9 per cent. Also in the same period, apricot exports grew by a compound annual growth rate of 14.1 per cent.

The majority of summerfruit imports in 2014/15 (4,215 tonnes)[2] were from the United States in the Australian off-season, although there was a small amount of imports from New Zealand.

Domestic market distribution channels

Although domestic supply is dominated by local production (about 95 per cent), it is anticipated that recently opened United States imports are likely to increase. Distribution through the retail channel is dominant (70 to 80 per cent), with the remainder of production split between foodservice and export markets; for retail channels 60 to 70 per cent is sold through major supermarkets and 30 to 40 per cent through green grocers[3].

It should be noted that the food service usage of summerfruit is not captured in the industry data and, as such, is probably underestimated. A high, but unquantifiable, percentage of food service product is supplied through retail channels via retailer/provedores who source out of the wholesale fresh markets.

Yields

Meaningful data on summerfruit yields is not readily available, which is a significant gap identified later in the plan. Yield varies from season to season because of the biennial bearing tendency of some varieties. Factors influencing yield include the following: variety; soil quality; climatic conditions, especially chill factor; weather conditions, particularly around harvest; whether any crop protection is in place; pest and disease; pruning skill; and grower skill.

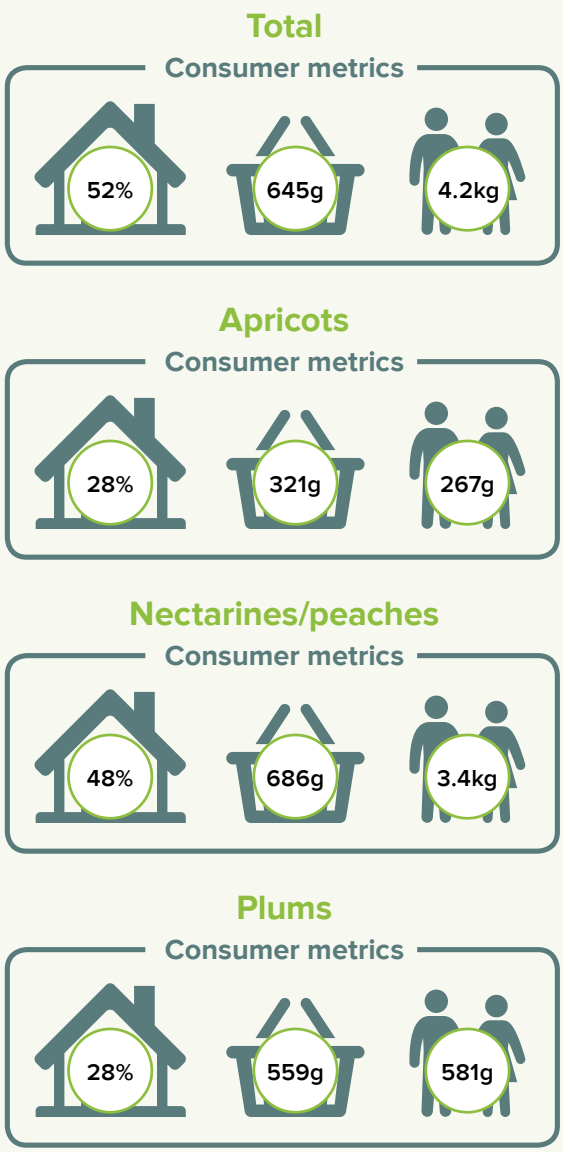
Cost of production and profitability

Rigorous information on cost of production and industry profitability is not readily available. There are some learnings that can be gained from other tree crop industries with similar cost components, for example, apples. In apples, the industry benchmarking study[4] indicates that Australia is among the highest cost producers in the world[5]. The reasons include the fact that Australia has a lower average yield, but most notably Australia's high labour costs are a key contributor to cost. Summerfruit is also highly labour intensive, particularly with picking, pruning and grading/packing. In the apple example, 38 per cent of the total cost of growing (not including packing cost) was accounted for by labour[6].

The high award and penalty rates are seriously eroding profitability in all fruit enterprises and damaging Australia's global competitiveness. Apart from cost, there are also issues around labour availability (especially given the political uncertainty around 417 and 457 visa labour at the time of writing this plan) and skill levels.

2 IHS Global Trade Atlas
3 Freshlogic, from *Australian Summerfruit Industry Strategic Investment Plan 2015-2020*
4 *Australian Pomefruit Industry Orchard Business Analysis Report 2014, 2015* forecast
5 apal.org.au/how-does-your-orchard-stack-up
6 APAL benchmarking study, 2015

Figure 4: Consumer metrics



(Source: Australian Horticulture Statistics Handbook 2014/15)

In the absence of specific summerfruit industry data, parallels with the other tree crop industries are relevant. As noted in the apple benchmarking study above, the costs of production and packing have risen exponentially in recent years, whereas prices and returns have been relatively flat. This cost of production is highly likely to apply to summerfruit as well. Electricity costs, in particular, have increased significantly; the industry is a significant user of power in the pack house. The bottom line is that industry profitability has fallen.

Domestic market

Consumer behaviour

The domestic market for fresh summerfruit appears to be relatively flat. Summerfruit household penetration is 52 per cent, with an average weight of purchase of 645 grams per shopping trip. ***(Figure 4)*** Consumption per capita in 2014/15 was 4.2 kilograms (based on the volume supplied). The dominant peach/nectarine segment drives category trends. Plums and apricots have lower household penetration and weight of purchase.[7] Household penetration during the seasonal flush rivals all fruits, particularly nectarines.[8]

The increasingly time-poor consumer is shopping more frequently in smaller 'top up' quantities. This buyer behaviour is more susceptible to impulse purchases, thus providing an opportunity for summerfruit during the summer months, but at the same time exposing summerfruit to competition from other fruit. In addition, snacking 'on the go' is increasing, which apricots, nectarines and plums can exploit, but peaches are messier to eat and have less opportunity in this area.Specialist greengrocers provide more direct-selling opportunities for small- to medium-enterprise (SME) growers who do not have the clout to deal directly with supermarkets. With greater operational flexibility, it may be easier for these outlets to participate in promotions and use seasonal signage than large retailers.

Competitive set

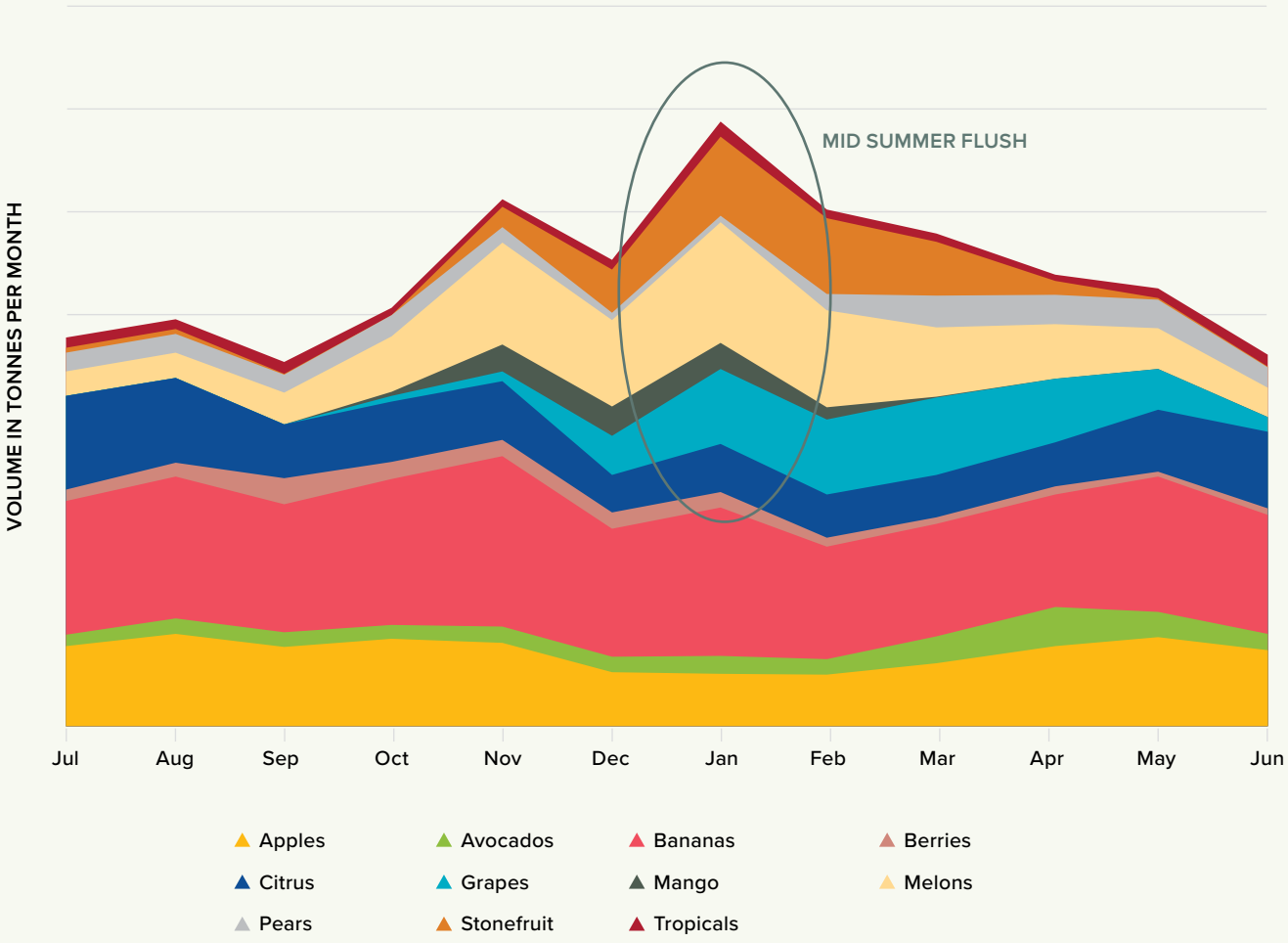
The summerfruit category competes strongly against other fruit categories as it is part of the peak fruit season (***Figure 5***). Competitor fruits, including berries, grapes, melons and tropical fruits, all peak at the same time, and many promote heavily.

The critical importance of quality

In the domestic market, it is critically important that the summerfruit industry continually improves the eating-quality and consistency of its product to meet the expectations of an increasingly discerning consumer. Because of the step change in improvement in the quality of most fresh food categories, consumers have come to expect that the food they buy will meet their high expectations. Categories that do not meet their expectations are penalised through loss of share of the food wallet, through less consumption and a reduced willingness of consumers to pay a premium.

7 *Australian Horticulture Statistics Handbook 2014/15*
8 *Australian Summerfruit Industry Strategic Investment Plan 2015-2020*

Figure 5: Fruit volume and typical seasonal flow *(Source: Australian Summerfruit Industry Strategic Investment Plan 2015-2020, 2014)*



Consistently delivering a high eating experience is critical to stone fruits because they face heavy direct competition during the summer flush. The quality of products in the summerfruit competitor set is progressively improving, and the variety of choice increasing. The quality of strawberries, for instance, has improved through breeding varieties with enhanced brix and improved appearance through increasingly sophisticated grading equipment.

Summerfruit is harvested to deliver optimum eating-quality and it has a relatively short storage life. Getting product quality right is difficult given the highly variable nature of the fruit and its susceptibility to weather conditions. Supply chain bottlenecks can be caused by combinations of supply flushes, changes in trading patterns in holiday periods, or loss of consumer confidence, which can all escalate rapidly into supply pressure on price. Compounding this, there can be a corresponding decline in product quality, particularly when brown rot incidence is high, as product banks up along the supply chain.

Unlike staple fruit products that are available year round, summerfruit has to restart each season and regain consumer confidence. With the restart, it is critical to deliver great eating-quality early in the season.

The practice of marketing immature fruit early in the season to take advantage of higher prices damages the industry. Retailers are torn between the desire to satisfy the consumer excitement factor for new season fruit and the longer-term damage caused by people having a poor eating experience from immature fruit. Unsatisfactory early-season eating experiences damage repurchase intent. One major retailer consulted during this study indicated that their consumer research showed that a poor early-season eating experience can take a consumer out of the market for at least six weeks, which for summerfruit can mean the rest of the season.

Throughout the industry engagement, a number of stakeholders strongly suggested the need for formal industry quality standards. Governments have pulled back from mandatory quality standards, so any scheme would need to be voluntary.

Because quality is critical to the industry, this SIP must include R&D aimed at achieving a better understanding of factors that affect eating-quality at any point in the supply chain. Such factors might include variety selection and require a whole-of-supply chain review of issues that affect quality, from the orchard through to the packing shed, transportation and retailer handling. The challenge for the summerfruit industry is that supermarkets prefer to handle fruit that has not fully ripened. This results in poor consumer eating experiences because people who are not educated about summerfruit might attempt to eat before it is ripe.

Pricing

Pricing of summerfruit is highly volatile, largely based on supply. Early-season fruit enjoys a strong premium but it steadily declines later in the season as supply increases

The commoditisation of summerfruit

A lack of product differentiation at a retail level serves as a hurdle to earning premiums and adding value to the summerfruit category. It also removes incentive to produce the higher eating-quality products consumers prefer.

Summerfruit is rarely marketed by variety, size or quality at retail in the Australian market. It is predominantly sold loose and priced by the kilogram. At best, there is a differentiation between white and yellow flesh but little more. This lack of differentiation leaves the category exposed to commodity behaviours, which are driven by price. This removes the opportunity to engage consumers and pique their interest and curiosity about food.

The apple industry has taken advantage of the opportunity to differentiate by introducing so-called 'club varieties'. They are 'plant breeder right' (PBR) varieties marketed under brands that offer a unique eating experience. This allows them to employ brand-focused marketing programs to achieve a significant price premium and obviate the need for excessive price promotion. The summerfruit industry has a similar opportunity to improve its returns from the domestic market by marketing by variety, fitness-for-purpose (for example, salads or poaching) and engaging consumers in-store through packaging, merchandising and consumer communications. This approach needs to be considered in the domestic marketing strategy. While there are some licensed PBR varieties in summerfruit, they do not enjoy the same marketing support as those in apples.

There is a growing trend for retailers to sell prepacked summerfruit. These prepacks often sell for similar price per kilogram to loose fruit, but have the advantage of reducing retail wastage and driving up the sale volume. The industry is not keen on packaging because of the cost. However, the cost can be offset by leveraging the opportunity for branding and labelling, which can help gain a higher price. Prepackaging also offers a platform to develop brands and communication with consumers.

Retailer promotional activity

Retailers commonly promote on price during the peak season to move volumes and to clear supply bottlenecks, which are common for summerfruit.

While these promotions are important to clear volumes, they tend to have a price dilutive effect over the season with prices steadily stepping down. They also drive commodity consumer behaviour, such that consumers have no reason not to buy on price. Repeated price promotions devalue products in the consumers', mind making them reluctant to pay full price. However, the summerfruit industry does get a chance to reset the consumer-value proposition every season. Again this situation highlights the critical importance of the de-commoditising the category as has been highlighted earlier.

Australian trade in summerfruits

Australia is a net summerfruit exporter by a significant margin (***Figure 6***). In 2013/14, Australia began importing peaches and nectarines from the United States, accounting for the drop in international trade levels in ***Figure 6***. Apricots are the only segment in which Australia is a net importer, with product primarily coming from New Zealand.[9]

Australian exports

Australian exports of summerfruit have been highly volatile over the past 20 years, peaking in 2002/03. Since 2011/12, exports have shown a strong recovery trend (***Figure 7***), largely driven by a return to favourable exchange rates, together with growing demand from Asian markets, particularly China.

Figure 7 illustrates the Australian summerfruit export volume (tonnes) for year ending June 2000 to year ending June 2016 (IHS Global Trade Atlas data).

Currently, the largest export market is nominally Hong Kong. The next biggest market is the Middle East as a whole, but significant quantities also go to Singapore, Malaysia and Thailand. Industry reports that The Philippines and Indonesia were emerging as important secondary markets but this is not yet reflected in the above data. The detail of exports for individual fruits is presented in ***Appendix 4***.

9 IHS Global Trade Atlas

Figure 6: Net fresh summerfruit international trade *(Source: Australian Horticulture Statistics Handbook 2014/15)*

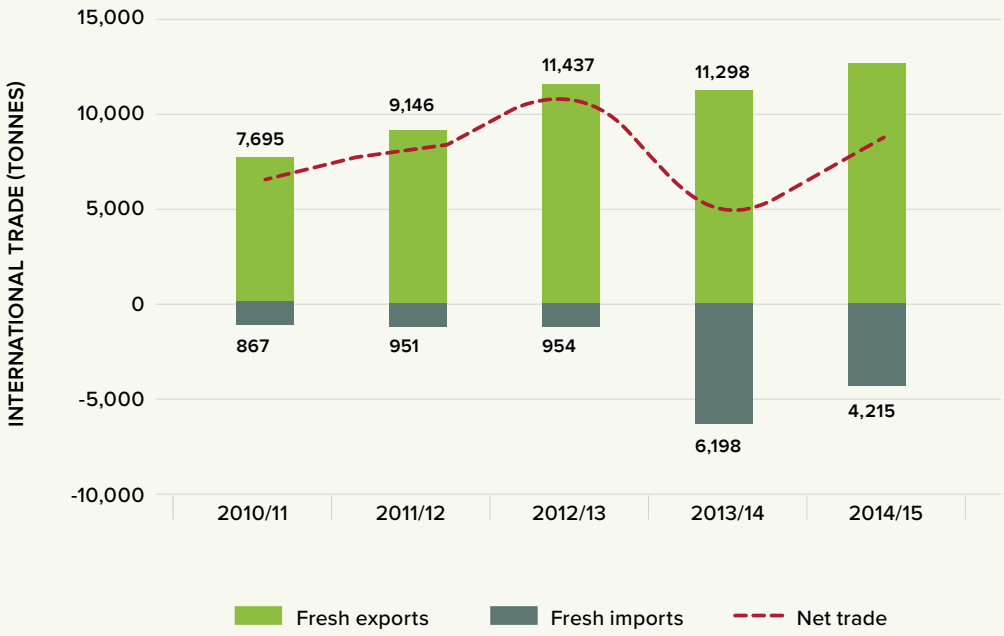


Figure 7: Australian summefruit export volumes (tonnes), year ending June 2000 to year ending June 2016
(Source: IHS Global Trade Atlas)

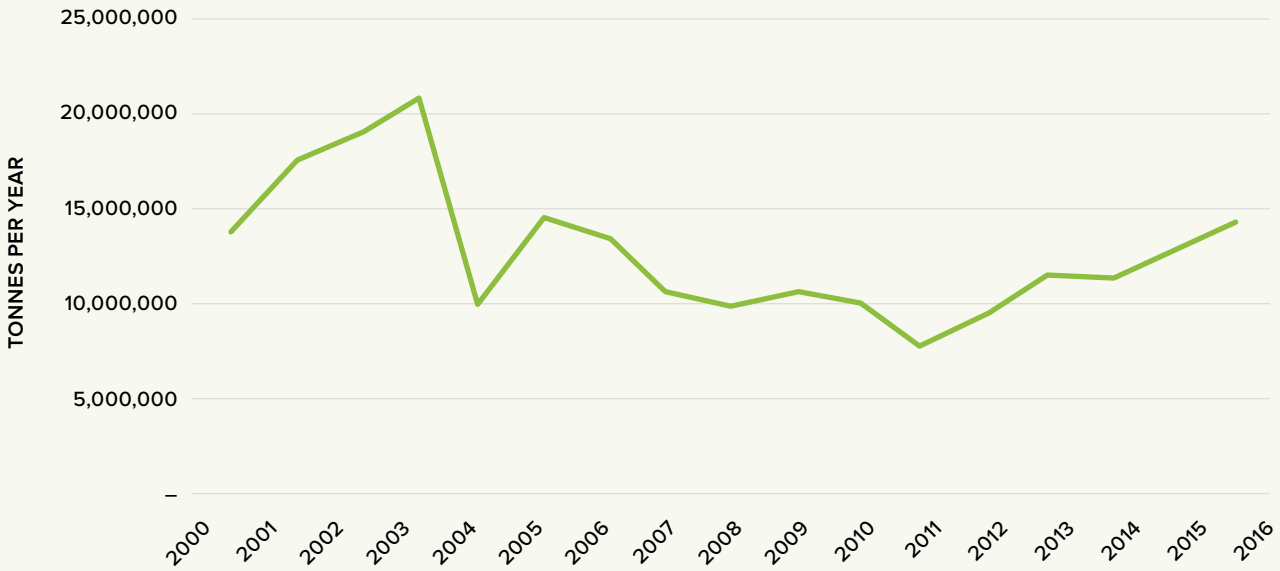
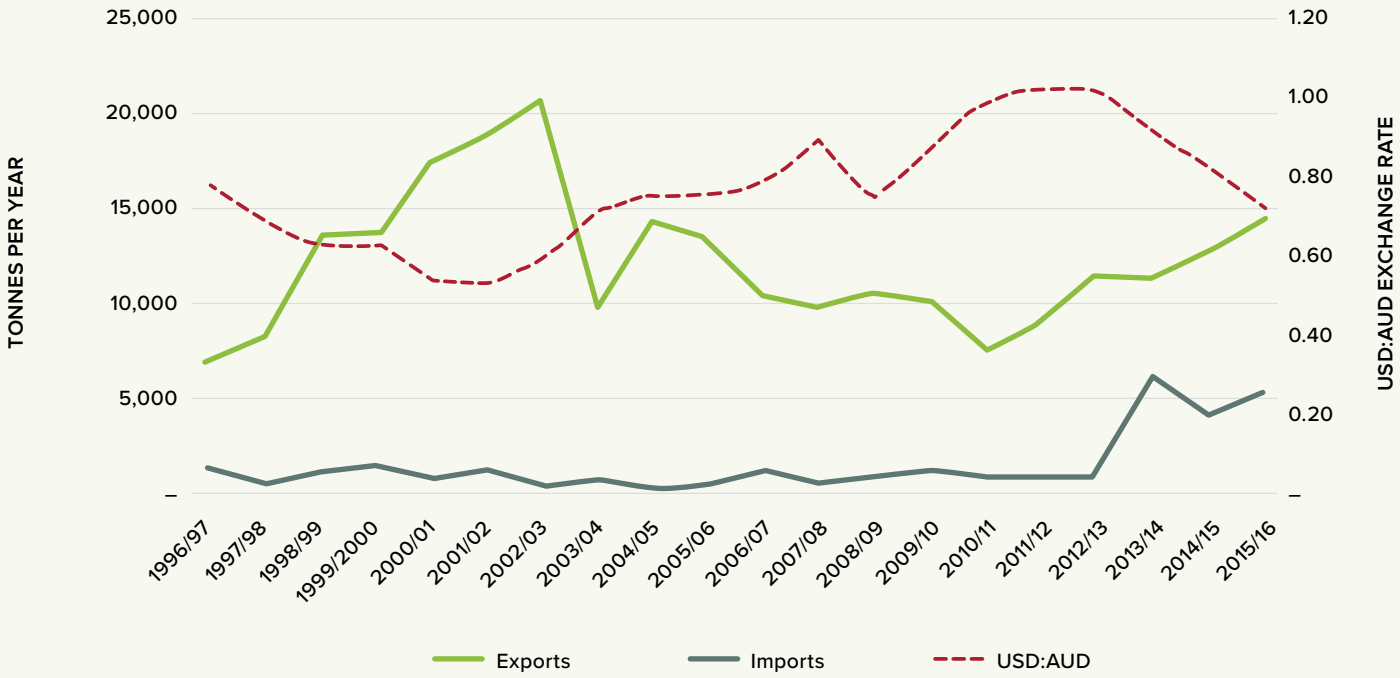


Figure 8: Summerfruit export vs import volume summerfruit (total) with USD exchange rate

(Source: ABS via IHS Global Trade Atlas; Fresh Intelligence analysis)



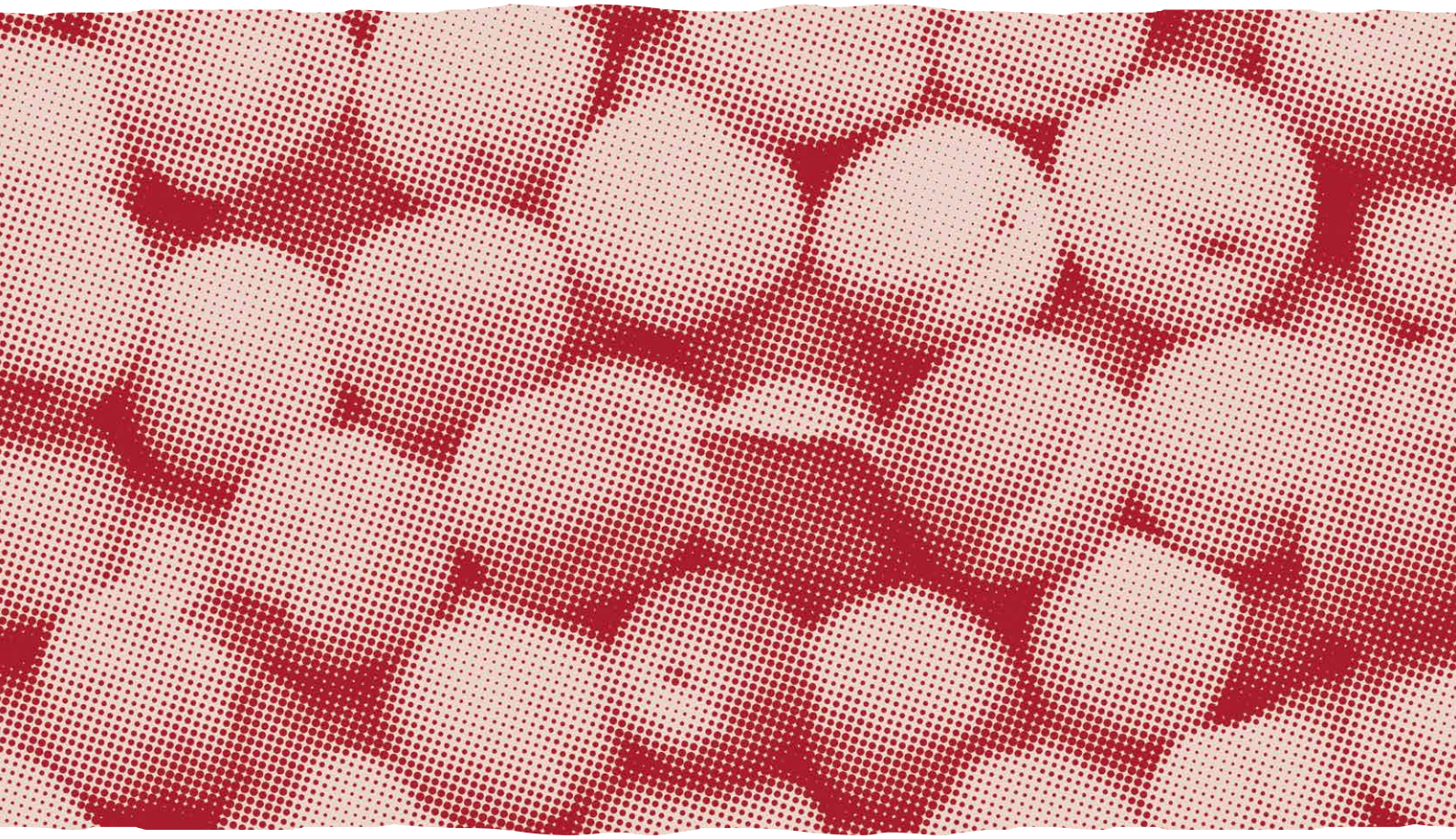


Figure 9: Summerfruit exports by type, 1997 to 2016 (20 years) *(Source: ABS via IHS Global Trade Atlas; Fresh Intelligence analysis)*

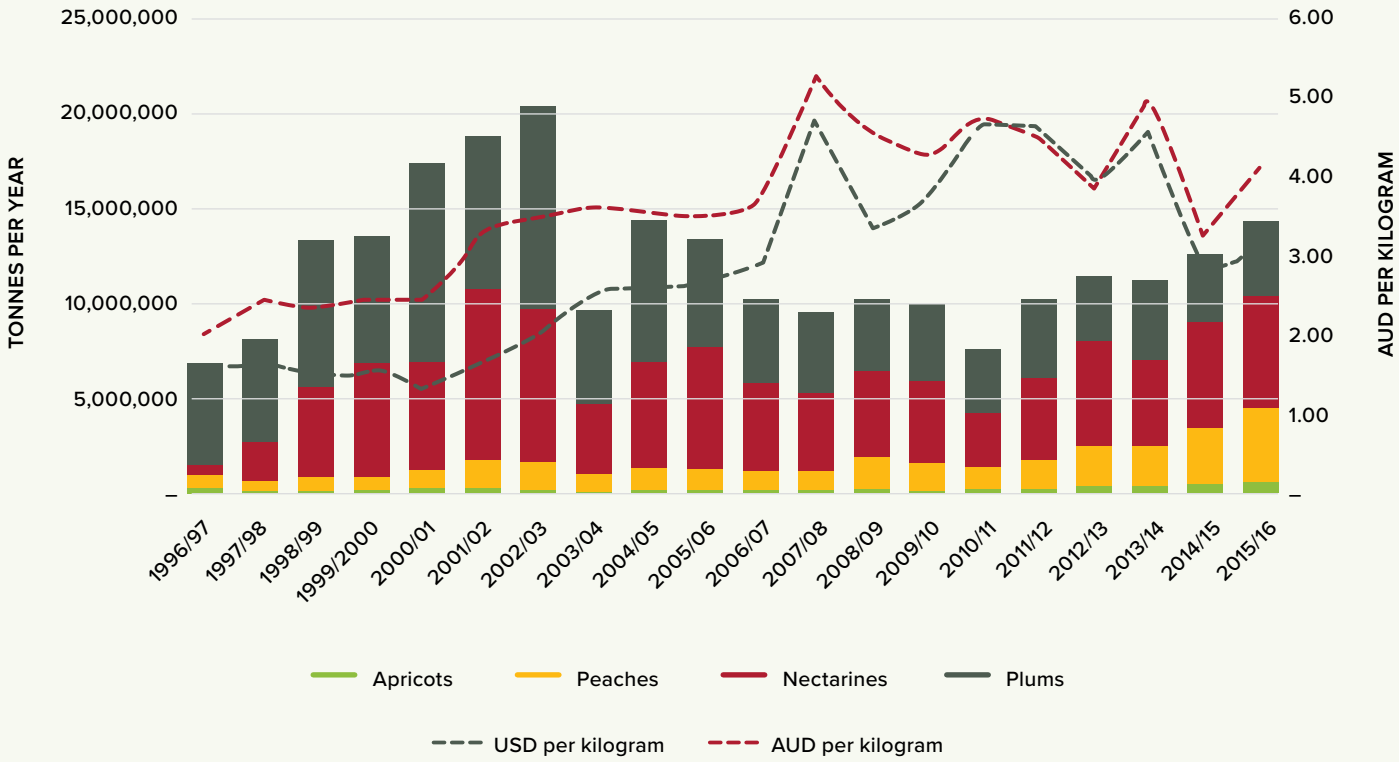


Figure 8 indicates the extreme sensitivity of Australian exports to the exchange rate.

Figure 9 indicates that up until 2004, plums were the dominant export category, but since then nectarines have grown the most, followed by peaches and, to a lesser extent, apricots.

Exports by state

Victoria is by far the largest exporting state for summerfruit, accounting for around 80 per cent of total export volume and showing the fastest growth. New South Wales is the second largest, followed by Western Australia, with small quantities also exported from South Australia and Tasmania.

Nectarines account for the dominant share of exports from Victoria, following peaches, plums and relatively small quantities of apricots. Plums dominate the exports from Western Australia, South Australia and New South Wales, whereas nectarines are the largest export category from Tasmania.[10]

Export market competitor set

Table 2 indicates the competitor set in the key markets. By far the biggest competitor is Chile, which has a substantially lower cost of production (although arguably lower quality fruit), but also a location disadvantage for Asian markets as it has a significantly longer shipping time, which affects cost and delivered quality. Australia's key point of competitive advantage into Asian markets is time. Leveraging this advantage is dependent upon the ability to get airfreight market access without extended cold treatment time in storage. Airfreight is not cost effective for Chile on summerfruit, given the distance, and the fact that Chile does not enjoy the back-loading freight advantage that Australia does. However, this season Chilean growers have been trialling a sea/air freight option whereby they ship summerfruit by sea to the United States and then fly it to China. This could greatly reduce the speed to market and cost because the United States has more favourable airfreight rates to China. This recent development is also likely to improve the quality of Chilean fruit.

10 ABS via *IHS Global Trade Atlas*; Fresh Intelligence analysis

Table 2: Competitor export volume

(Source: ABS data via IHS Global Trade Atlas, WTO Tariff Database, DFAT, MICoR; Fresh Intelligence Analysis)

	Competitors		
	Chile (tonnes)	South Africa (tonnes)	New Zealand (tonnes)
UNREGULATED MARKETS			
Hong Kong	6,316	950	35
Singapore	44	429	38
Malaysia	519	1,658	–
Sub total	**6,880**	**3,037**	**73**
State share			
REGULATED PROTOCOL MARKETS			
Indonesia	–	–	–
Thailand	0	–	–
India	104	652	–
Taiwan	5,815	–	1
Canada	1,081	330	–
Philippines	5	–	–
Vietnam	–	–	–
China	30,121	–	7
Korea, South	–	–	–
Japan	20	–	–
United States	69,502	–	72
Sub total	**106,649**	**983**	**80**
OTHER MARKETS – PHYTOSANITARY			
MIDDLE EAST			
United Arab Emirates	1,455	11,552	89
Saudi Arabia	1,321	5,190	1
Kuwait	–	345	–
Qatar	92	74	–
Bahrain	75	177	–
Oman	75	165	–
Sub total	**3,018**	**17,504**	**90**
State share			
EUROPE	30,668	56,533	110
Russia	4,286	1,494	9
all other	48,447	8,256	881
WORLD	**199,947**	**87,808**	**1,242**

Imports

Historically, small import volumes from New Zealand have coincided with the Australian season; in most years these have been in the vicinity of 1,000 tonnes[11]. Since 2012, when the United States gained market access to Australia, imports have been coming in the Australian counter-season at about 5,000 tonnes per year. Opinions differ on whether the counter-seasonal imports help or hinder the Australian industry. One point of view is that it keeps summerfruits in the usage repertoire for longer, which builds consumption levels. The counter argument is that it dampens the new season's excitement factor, plus there is a risk that poor-quality imported fruit will dampen consumption.

Potential export blockers

The SIP needs to anticipate and address potential blockers to export. The achievement of the target volumes indicated in the forecasts could be derailed by factors including:

- The lack of progress with market access negotiations, particularly disruption caused by regional geopolitics
- Loss of access to existing markets or the introduction of unworkable protocols
- The appreciation of the Australian dollar to uneconomic levels
- Exporter capacity and capability, particularly dealing with the cultural challenge of new markets, such as China
- Airfreight capacity during the peak season with future capacity unlikely to be able to handle the forecast volumes
- Stronger competition from other southern hemisphere countries
- Serious pest and disease outbreaks
- Unfavourable weather conditions from climate change
- A serious food safety breach, particularly around Maximum Residue Limits (MRLs).

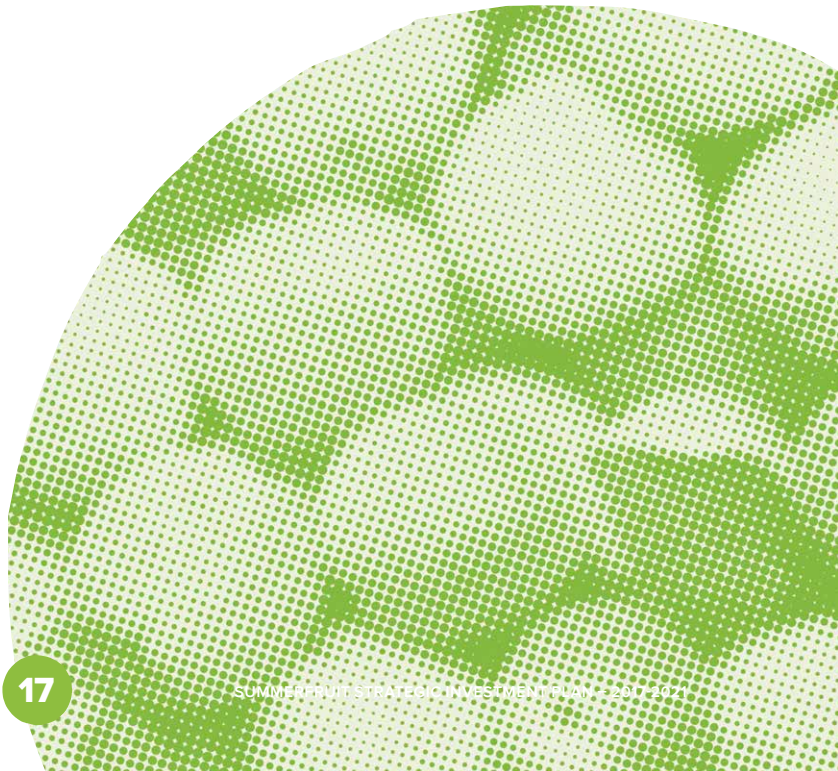
Victoria is by far the largest exporting state for summerfruit...

11 Fresh Intelligence analysis commissioned for this SIP, 2016

The need for an integrated export development strategy

The previous analysis highlights the critical importance of a holistic and balanced export marketing strategy. A key element of this SIP is the recommendation for the development of a five-year export strategy. Without trying to pre-empt what the plan should contain, the following strategic points are worth considering:

1. There is considerable merit in the current industry approach focusing on leveraging China nectarine market access to build markets for the other fruits. However, gaining market access is not an end in itself. The industry needs to maximise the China market access opportunity by:
   - **Ensuring that it understands the market: needs preferences, purchase and usage behaviours**
   - **Building quality standards and systems to ensure that market expectations are fulfilled**
   - **Ensuring adequate levels of exporter capability to meet market expectations**
   - **Building efficient supply chains that ensure delivery of consistently high-quality product and reliable service levels**
   - **Building and maintaining strong relationships with key supply chain partners**
   - **Engaging consumers and building the 'Brand Australia' value proposition in summerfruit**
   - **Ensuring that the industry has access to commercial-grade market intelligence, including competitor dynamics**
   - **Managing the biosecurity risk.**
2. At the same time, it is critical that the industry pursues a market diversification strategy for several compelling reasons:
   - **To mitigate the substantial risks associated with an overreliance on one market, particularly China, which is notoriously fickle and volatile. As other industries have found at their peril, the overnight loss of the China market would have disastrous consequences if the industry became too reliant on this one market**
   - **That not all fruit across the industry, or in any one season maturity is suited to one market**
   - **To protect existing markets because the failure to service a market will lead to the loss of the supply chain, but worse still, the loss of market access, which is extreme difficult and costly to regain**
   - **To ensure there are also markets for second-grade fruit. While the Middle East has filled this need, industry also reports opportunities in The Philippines and Indonesia (which has no quota for summerfruit).**
3. The diversification component of the export strategy should include:
   - **Maintaining exports into open markets even if the returns are lower**
   - **Developing a prioritised market access and improvement plan**
   - **Investing in whatever R&D is required to provide the evidence to support the protocol pathways**
   - **Developing a Biosecurity Management Plan to cover the next likely markets**
   - **Conducting supply chain scoping work in the next most likely markets**
   - **Building export readiness resource materials for the next most likely markets**
   - **Supporting markets for second-grade fruit**
   - **Building long-term strategies to develop markets, such as South Korea and India, where protocols are needed.**



Situation summary

The previously presented data analysis highlights the following key points:

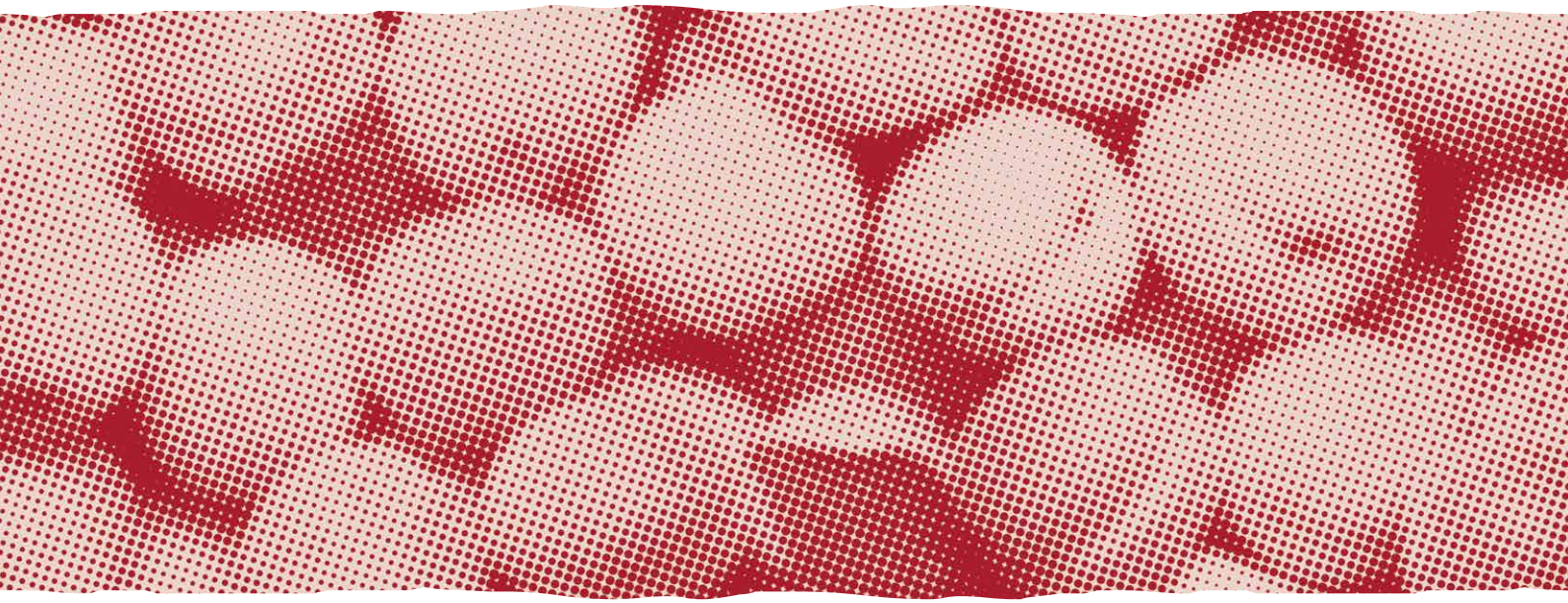
1. In the global context and even in a southern hemisphere context, Australia is a minor player
2. The industry is transitioning from a strong reliance on processing to a predominantly fresh category with a growing reliance on export growth to maintain profitability
3. Production is now starting to rebound after a period of decline, due largely to lower intake of processing fruit. Production is forecast to increase by 20 per cent over the next five years based on the timing of current immature trees reaching full bearing
4. The domestic market, which is currently the dominant channel, appears to be relatively flat and subject to sporadic oversupply during the summer flush when price promotions by supermarkets are needed to clear gluts. This causes an erosion of prices that spiral down as the season progresses
5. Summerfruit is heavily commoditised with under-emphasis on product differentiation. Consumers need to be more strongly engaged through effective domestic marketing programs
6. Present domestic consumption levels will not be able to absorb the forecast production increases without significantly depressing local market returns. It will be imperative, therefore, to significantly increase exports, particularly to the more profitable markets of North Asia
7. Australia's exports have grown steadily in both value and volume since 2011, largely due to more favourable exchange rates
8. It is critical to the future success of the industry that the mainland gains workable access into the more profitable markets, which are currently restricted or prohibited. The currently available end treatment options do not allow practical airfreight access, which is critical to Australia's competitiveness against Chile.

Data gaps

After an exhaustive interrogation of the accessible databases followed up with enquiry with industry, some significant data gaps have been identified that have compromised this analysis. In particular, the following significant gaps are highlighted:

1. Confidence in the current and future production-capacity data, including hectares planted, age of trees, and yields
2. Detailed information on cost of production, business profitability and profit drivers.

It is critical to the future success of the industry that the mainland gains workable access into the more profitable markets, which are currently restricted or prohibited



Environmental scan

The purpose of the environmental scan is to identify the factors in the external operating environment that could affect the industry's opportunities and risks. The analysis is based on a PESTEL framework that systematically reviews the external market forces through Political, Economic, Social, Technological, Environmental and Legal lenses:

Political impacts

FACTOR	IMPLICATIONS	RISK/OPPORTUNITY
1. Domestic regulation		
Backpacker tax	Potential impact on casual labour supply	Higher labour costs Labour shortages in peak season
Review of horticulture award	Increased penalty rates	Higher labour costs
2. Global geopolitics		
South China Sea tension	Disruption to world trade	Potential loss of China market Disruption to global trade Losses in transit if disruption occurs during peak season
Brexit	Depreciation of English pound	
New American president	Growing protectionism in trade globally, and potential tensions with China based on Australia/United States alliance	

Economic impacts

FACTOR	IMPLICATIONS	RISK/OPPORTUNITY
1. Domestic economy delicately balanced		
High levels of household debt	Household spending significantly affected by any interest rate rise	Erosion of industry profitability at every level of the supply chain Less consumer spending on summerfruit
Increasing current account deficit	Strong likelihood that Australia's AAA credit rating will be downgraded	
Housing market bubble	Shift away from discretionary purchases	
Economy not responding to low interest rates	If central banks change strategy and increase interest rates, the cost of borrowing will increase and credit become harder to secure	
Heavy reliance on Chinese economy	A downturn would reduce consumption of luxury foods such as imported fruit	
2. Rising costs		
Rising costs of doing business	Difficult to pass on price increases in current environment	Reduced profitability and viability of farming businesses
3. US economy is recovering		
Employment rate rising	USD likely to appreciate	AUD likely to depreciate again, which will be favourable to Australia in Asian markets
4. European economy is faltering		
Major economies in Europe delicately balanced	Further devaluation of Euro	Depreciation of Euro against AUD will drive imports generally

5. Food deflation		
Food prices have declined in real terms in most categories: » **Global oversupply** » **Supermarket power** » **Impact of cheap imports** » **Growth of private label**	Returns to suppliers at every level of the supply chain are not keeping up with cost	Declining industry profitability
6. Supermarket dynamic		
Dominance of Coles and Woolworths is under threat from Aldi, Costco and new entrants	Aggressive price war	Increased downward pressure on selling prices Increased price discounting erodes category value
7. Concentration among global agribusiness supply/technology companies		
Recent merger and acquisitions: » **Bayer and Monsanto** » **Dow and DuPont** » **China National Chemical Corporation** » **Syngenta**	Inputs and technology will become more expensive and availability more restricted Shift from chemicals to genetics to control pest and disease	Higher import costs Australia may get secondary access to latest technology
8. Sea freight rationalisation		
Overcapacity in global sea freight has led to bankruptcy among shipping companies, such as Hanjin	Rationalisation within the sea freight sector Increased shipping costs	Increased freight costs will deter imports Export rates may become less competitive

Social impacts

FACTOR	IMPLICATIONS	RISK/OPPORTUNITY
1. Social licence		
Changed community attitudes empowered by social media are demanding more accountability from corporate Australia	Greater accountability required in: • Use of chemicals • Labour practices • Workplace safety • Food miles • Environmental sustainability	Adverse social media reaction can be potentially extremely damaging to agrifood industries
2. Provenance		
Consumers are interested in where their food comes from: » **Where it was grown/made/who by/how?** » **The story behind it**	Pressure for more detailed food labelling Pressure for increased whole-of-chain traceability Growth of organics	Added cost and regulation burden Increased support for Australian grown
3. Declining national health		
Australia is in the middle of a health epidemic: » **Obesity** » **Type 2 diabetes** » **Cardiovascular disease** » **Increased cancer rates**	Increasing pressure by governments to change lifestyle and eating habits because of the spiralling health costs	Could favour higher fruit consumption

Technological impacts

FACTOR	IMPLICATIONS	RISK/OPPORTUNITY
1. Emerging technologies		
Game-changing technologies: » **Sensing** » **Big data** » **Robotics** » **Drones** » **Radio frequency identification (RFID)** » **Near-infrared (NIR)** » **Smart packaging**	Will drive efficiency and speed of change	Opportunity for Australia to improve its global competitiveness by reducing labour cost or increasing productivity and yield Failure to keep up with technology will increase import threat
2. Disruptive technologies		
IT is allowing the entry of disruptive technologies: » **Smartphone connectivity** » **Direct-to-consumer and business-to-business**	Disruption to traditional business models Increased competition Regulators cannot keep up with the pace of change	Increased competition Greater scrutiny and accountability

Environmental impacts

FACTOR	IMPLICATIONS	RISK/OPPORTUNITY
1. Climate change		
Less/reliable rainfall	More reliance on water markets	Higher cost of water
Higher temperatures	Potential harvest damage Changed and disease profile	Lower and more variable yields
More extreme weather events	More catastrophic harvest failures or fruit damage	Increase in isolated summer storms with heavy rain/hail/wind could damage harvest
2. Water cost and availability		
Impacts of climate change: » **Less run-off** » **Environmental water buy-backs** » **Lowering of underground water table** » **Declining water quality** » **Stricter Catchment Management Authority (CMA) regulations**	Restricted water availability Higher cost of permanent water	In some catchments, permanent water may be too expensive and the availability of temporary water limited during extreme droughts put orchards at risk

Legal impacts

FACTOR	IMPLICATIONS	RISK/OPPORTUNITY
1. Increased red tape		
Increased red tape and compliance burden: » **Increasing public pressure** » **Political correctness** » **Social accountability**	Increased cost of doing business	Threat to viability of marginal agribusinesses Reduces Australia's competitiveness

Strategic risk

The following strategic risks to industry have been identified, together with the required R&D response.

STRATEGIC RISK FACTOR	R&D RESPONSE
Reduced consumer confidence in quality results in fewer repeat purchases during the season	Improve eating-quality
Commodity pricing	Market differentiating factors, such as variety or packaging
Short- and long-term risks associated with climate change	Improve orchard management skills Address through variety selection
Biosecurity incursion	Monitoring program Risk plan
Appreciation of the Australian dollar	Improve global competitiveness
Reliance on China market	Trade development strategy that emphasises market diversification

Performance issues

Following a process of filtering the previous strategic analysis, the following factors have been identified as being the most critical performance issues facing the summerfruit industry and, as such, should be responded to in the SIP:

1. Declining industry profitability because selling prices are not keeping up with the cost of production
2. The domestic market is subject to oversupply during the peak season, which is depressing prices
3. There is strong competition during the peak summer season from other fruits
4. Consistency of eating experience affected by handling at every level of the supply chain
5. The lack of consumer engagement and the commodity status of summerfruit restrict the ability to grow value
6. The likelihood of a pending future oversupply will depress domestic prices unless markets can be found
7. The need to gain workable market access protocols into emerging markets
8. The need for a balanced and diversified export market development plan to drive profitable export demand in key markets where there is market access to relieve the likely oversupply in the domestic market
9. The lack of accurate intelligence relating to current and future supply and demand
10. The lack of understanding of costs and the drivers of profitability at a business level
11. The pivotal issue of labour availability, cost and skill levels
12. Inconsistent eating-quality (particularly early-season immature fruit) is discouraging repeat purchase.

Operating environment

The summerfruit industry SWOT analysis	
Strengths	• The ability to produce high-quality summerfruit • Some state-of-the-art packing facilities • Close proximity and good connectivity to Asian growth markets with a southern hemisphere seasonal advantage • Recently granted workable protocol for nectarines into China, which could lead to workable protocols for other summerfruit • Recognised pest-free areas (PFAs)/fruit fly PFAs in Tasmania and Riverland South Australia • Global reputation for safe food with integrity in supply chain
Weaknesses	• Higher input costs relative to competing countries, particularly in labour • Lack of workable market access for all summerfruit into the higher returning markets • Flat domestic consumption due to the commoditisation of the category and the high level of seasonal competition • Supply subject to a seasonal flush that dilutes selling prices
Opportunities	• To take advantage of the growing demand from the Asian markets • To leverage the recently granted workable protocol for nectarines into China for other fruit • The potential to leverage Australia's horticultural levy system to grow skills • To value-add through de-commoditising and differentiating fruit through varieties, packaging, branding and marketing
Threats	• More frequent and more damaging adverse climatic events due to climate change • Pest and disease outbreaks compromising market access • Domestic oversupply with more production volume growth forecast • Sudden loss of market access or disruption to trading (particularly with China) • Availability of affordable air freight into key export markets during peak season • Appreciation of the Australian dollar, which would impact on price competitiveness in the more price-sensitive markets as it would make Australian fruit more expensive relative to fruit from other countries • Increasing competition from other southern hemisphere producers, particularly Chile • Abrupt disruption to the China market and deterioration of market access conditions in key markets • Food safety or MRL incident damaging export markets

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SECTION TWO

Summerfruit industry outcomes

Industry outcomes

For reasons explained in the previous analysis, the strategic imperative of the R&D investment needs to be structured around guiding the industry evolution from a commodity/processing focus to a marketing and exporting focus in order to restore industry profitability and decommoditise summerfruit categories.

It should be noted that, compared to other summerfruit SIPs, this plan has significantly less focus on scientific R&D. The feedback from the industry consultation process was strong and consistent – the next SIP needs to focus heavily on the demand challenges facing the industry.

The SIP is structured around four outcomes that directly respond to the strategic need identified in the list of Performance Issues acknowledged by the SIAP.

OUTCOME 1

Industry has developed a diversified export market portfolio to absorb growing production volumes

- Given the projected increase in production due to recent plantings and the fact that the domestic market is relatively flat, it is essential that export growth be at least 20 per cent over the life of this plan
- The top export priority is to secure workable airfreight market access into the China market (for peaches, particularly), which offers the greatest potential in volume and returns. Therefore, work is needed to support the market access process. The starting point is for industry to agree the priorities in the preferred protocols and support it with a Biosecurity Management Plan and robust data
- Market access work needs to be followed up with a comprehensive export market development program that covers the following as a minimum: in-market research, supply chain development, relationship building, in-store category management, promotion, and market intelligence
- The plan also needs a balanced strategy with a diversified approach to market development so as to minimise the risk associated with an overreliance on one market, and to take into account that not all fruit will suit the China market requirements. Export markets for second-grade fruit also need to be developed, such as the Middle East, The Philippines, India and Indonesia
- It is also essential to build exporter capability within industry, including broadening the understanding of the cultural and business aspects of each market (particularly the complex Chinese markets), the administrative requirements, supply chain dynamics, and the supply criteria needed to meet differing customer expectations
- As part of the export market development plan, consideration should be given to the feasibility of adopting an online export registration system of the type used successfully by the citrus industry
- It is also essential for long-term success (given strong competition from other southern hemisphere suppliers) that the Australian industry ensures it is developing the varieties, quality standards and supply chain disciplines needed to meet export market expectations, which may vary from market to market.

OUTCOME 2

The value of fruit sold on the domestic market is increased to restore grower margins

- Although there is a strong focus in the SIP on building export markets, it is critical the industry does not turn its back on the domestic market. The domestic market appears to be relatively flat, and subject to a large amount of price erosion as the season progresses because of oversupply and price promotions
- Summerfruit faces extensive competition during the peak season from other products, including table grapes, berries, melons and tropical fruits. Against this competition, summerfruit must develop a selling proposition. Summerfruit enjoys a natural marketing advantage due to the new season novelty factor, which can be better leveraged
- Part of the problem for summerfruit is that most products are sold as a category without variety or packaging differentiation. This naturally leads to commoditisation and price-driven buying. This can be addressed by novel packaging, or provenance, or variety promotion that accentuates the characteristics and fitness-for-purpose of each variety
- It is essential that the industry ensures it presents the consumer with optimal eating-quality product. Given the perishable nature of summerfruit, this is challenging and, hence, R&D must examine factors that affect quality along the supply chain as well as opportunities to merchandise fruit at optimum eating-quality
- Because supermarket rejection rates of summerfruit are higher than other produce, it is essential to work with retailers, particularly supermarkets, to address this problem. Collaboration is needed to improve the way the category is managed to ensure product consistency and to drive more profitable sales for all. A supply chain analysis is needed to understand where the product failures occur so they can be addressed
- Considerable material damage is done to the industry by immature, early fruit that disappoints consumers and causes them to become lapsed purchasers or to abandon the category for an extended period
- It is important to find new and profitable outlets for processing-grade fruit because in any season a significant volume cannot be sold as fresh fruit. Product development needs to move beyond the old era of canned fruit to develop a new generation of value-added products that meet modern consumer needs, such as frozen cubes for smoothies, and functional or nutraceutical foods
- To build a sustainable summerfruit industry that operates at global best practice, attention also needs to be given to the post-harvest links of the supply chain. These links include logistics, supply chain management, traceability, food safety, packaging and marketing. Given the forecast growth in export markets and continually rising quality assurance (QA) demands of domestic supermarkets, traceability and food safety should be particular priorities in the short-term.

OUTCOME 3

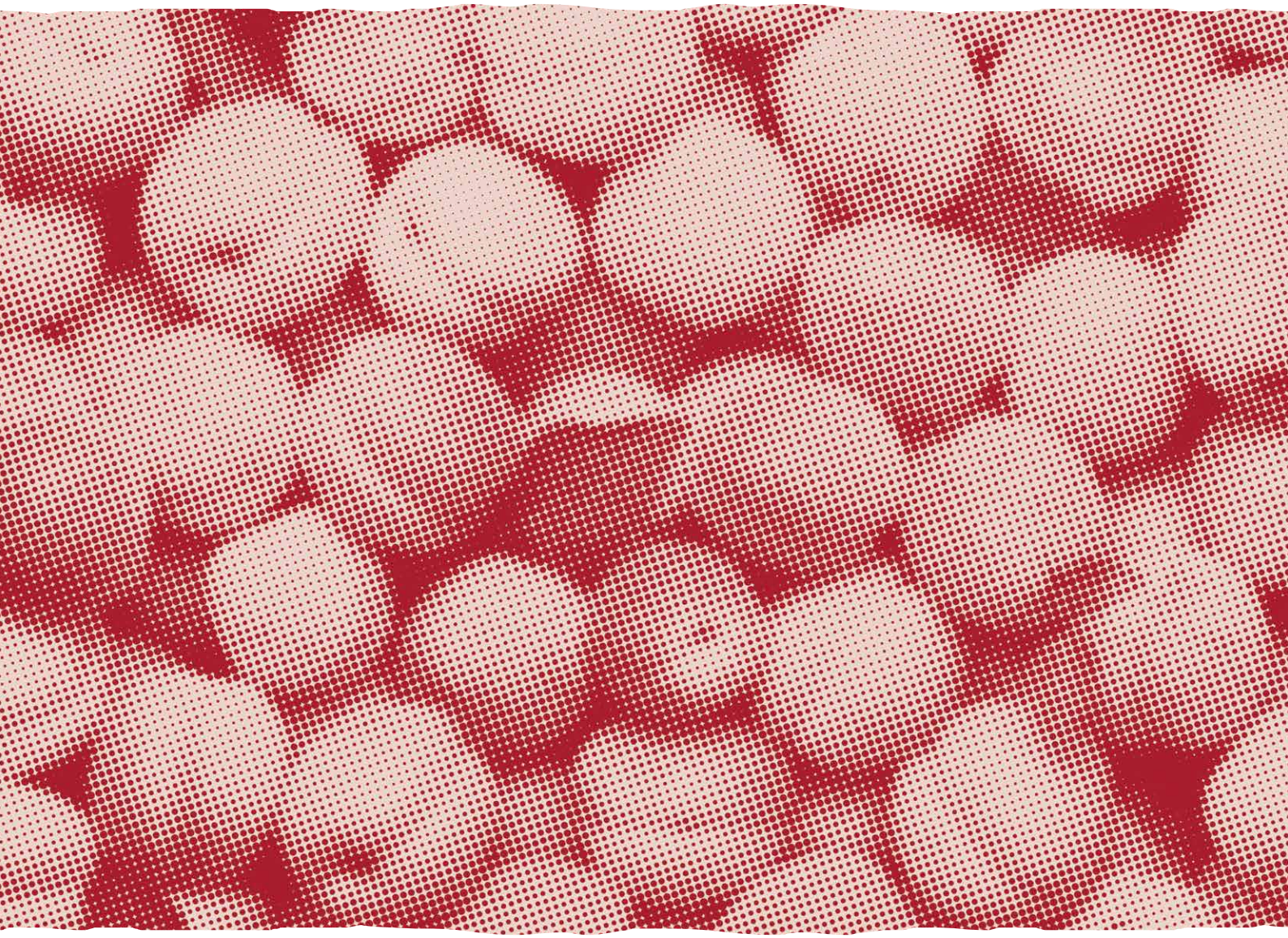
Costs have reduced at every level of the supply chain to grow industry profitability

- Every effort must be made for Australia to be competitive in export markets. This is despite the fact that Australia is one of the highest cost producers of fruit in the world, largely due to high labour costs. It is however unlikely that Australia can ever reduce its cost to the same level as its overseas competitors
- One of the best ways to improve cost is to increase yield and pack-out rates to get more-valuable fruit from the same input costs. This needs to be achieved at a reduced cost through activity such as managing the pest and disease risk by using less chemicals, integrated pest management (IPM) and improved soil health. As pest and diseases are regionally specific, a region-by-region priority approach is required. Orchard management skills could be elevated by applying global best management practice (BMP) through an effective extension program delivered in regions
- Work is also needed in the pack house to cut costs, improve pack-out efficiency, increase the pack-out rate, and improve the quality of fruit as it enters the supply chain.

OUTCOME 4

An industry culture of continuous improvement has been embedded to support long-term economic sustainability

- It is essential that the industry develop a culture of continuous improvement, given the rapid development of other southern hemisphere competitors
- Currently, the summerfruit industry does not have a clear understanding of current production, yields, new plantings and forecast future production. Summerfruit businesses are making decisions based on incomplete and sometimes misleading information, which is highly risky. The situation is limiting external investment in the industry. The introduction of a forecasting system would rectify this situation. In this era of big data and technology, there are likely to be cost-effective ways to achieve this aim
- Critical to the longer-term success of any industry is the need to encourage young and talented people to the industry and expose them to modern ideas and global best practice. The introduction of a scholarship program to support overseas study tours will make a big difference to the next generation of growers
- The industry must have efficient and progressive leadership and governance. Many available programs provide suitable training, and the benefits would filter right through the industry
- The industry consultation identified the need for training modules for orchard and pack house supervisors and managers in specific areas. These programs need to be customised to suit the special needs of the summerfruit industry. A Registered Training Organisation could be commissioned to develop and deliver such programs.



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SECTION THREE

Summerfruit industry priorities

Industry investment priorities

OUTCOME 1 – Industry has developed a diversified export market portfolio to absorb growing production volumes	
STRATEGIES	**POSSIBLE DELIVERABLES**
1.1 Develop a five-year holistic and diversified export market development plan	1. Export market development plan 2. Market access business cases 3. Export capability building project 4. Export variety selection
1.2 Develop and agree a market access pathway plan and business cases	
1.3 Continue to invest in export readiness and capability focusing on high-priority markets	
1.4 Conduct R&D on variety selection to ensure the fruit meets the preferences and expectations of overseas customers (current project)	

OUTCOME 2 – The value of fruit sold on the domestic market is increased to restore grower margins	
STRATEGIES	**POSSIBLE DELIVERABLES**
2.1 Develop a domestic marketing strategy with a focus on building consumer engagement through product differentiation and usage information	1. Domestic marketing plan 2. Industry traceability program
2.2 Engage with supermarkets on category management to improve the consumer experience and reduce wastage	
2.3 Conduct supply chain efficiency R&D to improve both the eating experience and pack-out rates.	
2.4 Implement a domestic product food safety and traceability program with a view to then applying it to export supply chains	
2.5 Scope out a new generation of processed products and opportunities to use processing-grade fruit	

OUTCOME 3 – Costs have reduced at every level of the supply chain to grow industry profitability	
STRATEGIES	**POSSIBLE DELIVERABLES**
3.1 Develop industry financial management skills to enable better understanding of costs and profitability drivers	1. Industry-wide financial training program with benchmarking component 2. Pest and disease R&D projects 3. Extension program 4. Guide to establishing orchard development groups 5. Pack house improvement training project
3.2 Continue with a prioritised R&D program to manage pest and disease challenges and threats	
3.3 Raise orchard and pack house management skills by introducing a Future Orchards®-type extension program based on the model used by the apple and pear industry	
3.4 Encourage development of regional orchard improvement groups by producing a guide to establishing one	
3.5 Develop a program to improve pack house efficiency	

OUTCOME 4 – An industry culture of continuous improvement has been embedded to support long-term economic sustainability	
STRATEGIES	**POSSIBLE DELIVERABLES**
4.1 Introduce a workable production and crop forecasting system (potentially in collaboration with cherries)	1. Crop production and forecasting system 2. Scholarship package 3. Overseas study project 4. Leadership project
4.2 Provide scholarship for participation by industry leaders in industry management and governance development programs (Pool 2)	
4.3 Introduce a young leaders overseas studies program	
4.4 Introduce short course leadership training modules for orchard and pack house supervisors/managers (Pool 2)	

Aligning to Hort Innovation investment priorities

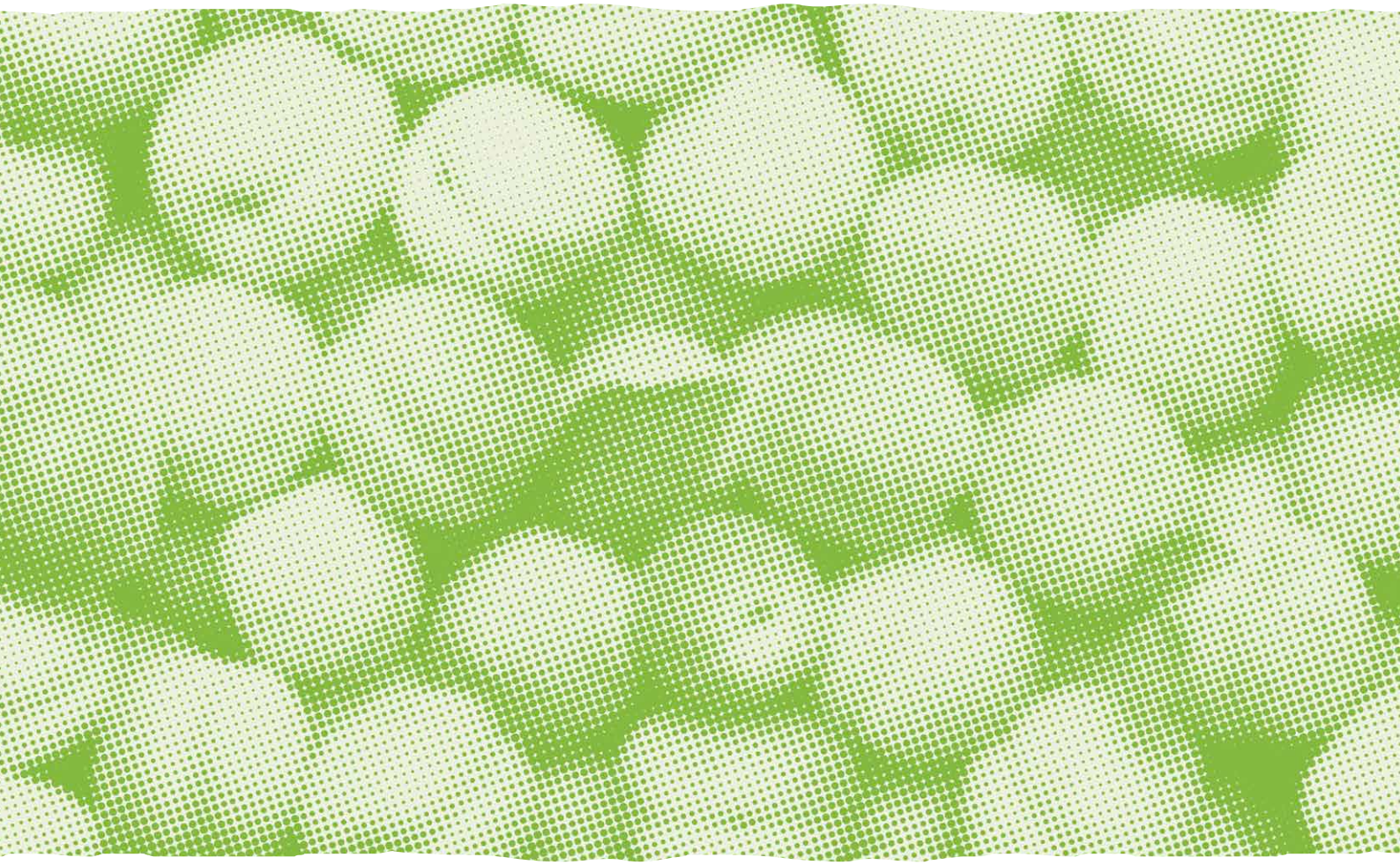
In establishing investment priorities, Hort Innovation analysed both historical and current levy and co-investment portfolios and priorities. From this analysis, we identified 11 cross-sectoral investment themes. We consolidated these themes further and considered their alignment with the Australian Government's Rural RD&E Priorities and National Science and Research Priorities, to arrive at five investment priorities outlined in ***Figure 10***. ***Figure 10*** also shows how each cross-sectoral investment theme relates to the five investment priorities.

Figure 10: Hort Innovation's investment priorities

The alignment of summerfruit SIP outcomes to the Hort Innovation investment priorities and, as a consequence, the Australian Government's Rural RD&E Priorities and National Science and Research Priorities is shown in ***Table 3***.

Table 3: Alignment of the summerfruit SIP outcomes to the Hort Innovation priorities

Hort Innovation investment priorities	Summerfruit SIP outcomes
Support industry efficiency and sustainability	**OUTCOME 3:** Costs have reduced at every level of the supply chain to grow industry profitability
Improve productivity of the supply chain	**OUTCOME 3:** Costs have reduced at every level of the supply chain to grow industry profitability **OUTCOME 4:** An industry culture of continuous improvement has been embedded to support long-term economic sustainability
Grow the horticulture value chain capacity	**OUTCOME 2:** The value of fruit sold on the domestic market is increased to restore grower margins
Drive long-term domestic and export growth	**OUTCOME 1:** Industry has developed a diversified export market portfolio to absorb growing production volumes **OUTCOME 2:** The value of fruit sold on the domestic market is increased to restore grower margins
Lead strategically to enhance the development of the Australian horticulture industry through operational excellence	Enablers



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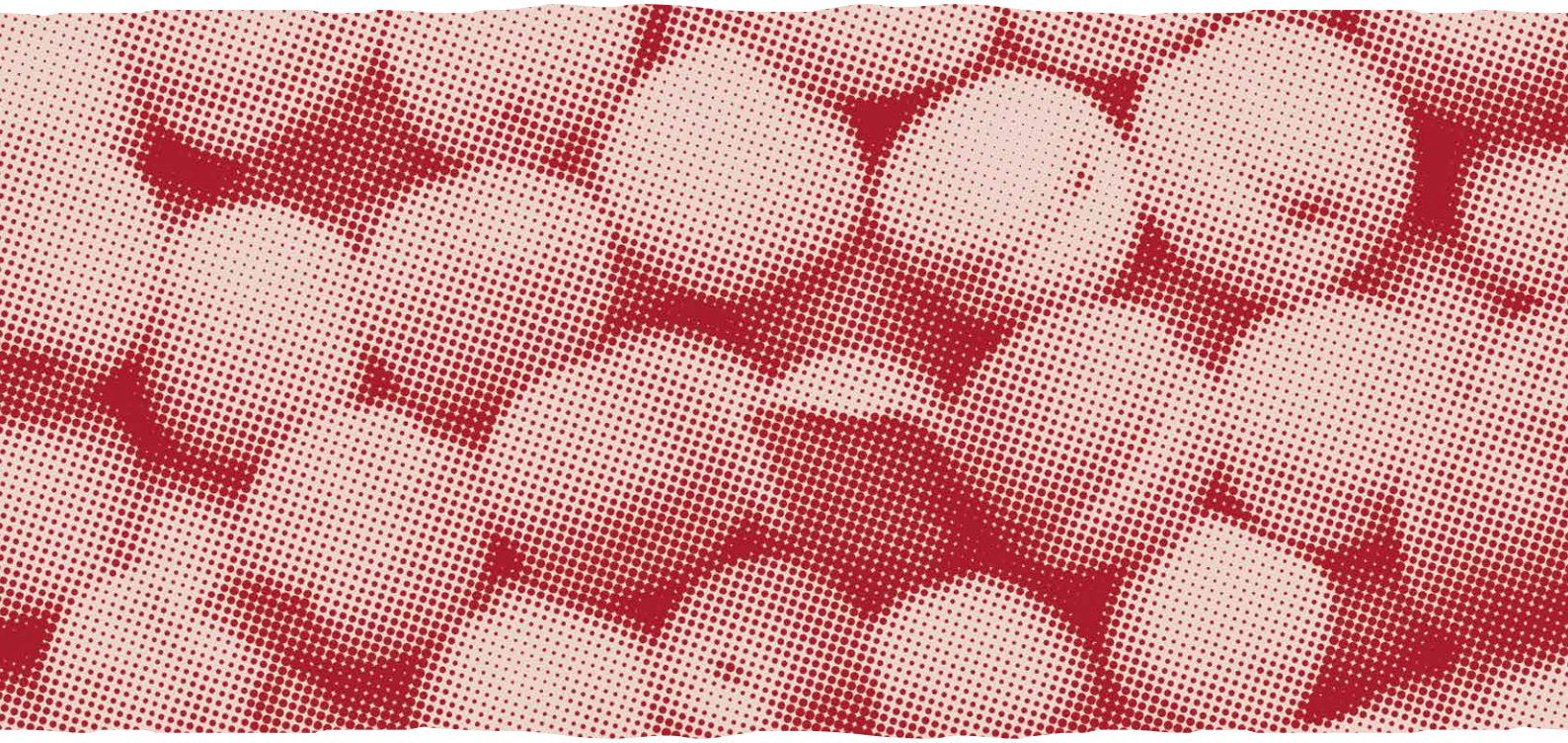
SECTION FOUR

Summerfruit industry monitoring and evaluation

Summerfruit SIP monitoring, evaluation and reporting

A SIP program logic and monitoring and evaluation (M&E) plan has been developed for the summerfruit SIP. These are informed by the Hort Innovation Organisational Evaluation Framework. The logic maps a series of expected consequences of SIP investment. The M&E plan shows the performance measures to demonstrate progress against the SIP and the data to be collected. Progress against the SIP will be reported in Hort Innovation publications and at industry SIAP meetings.

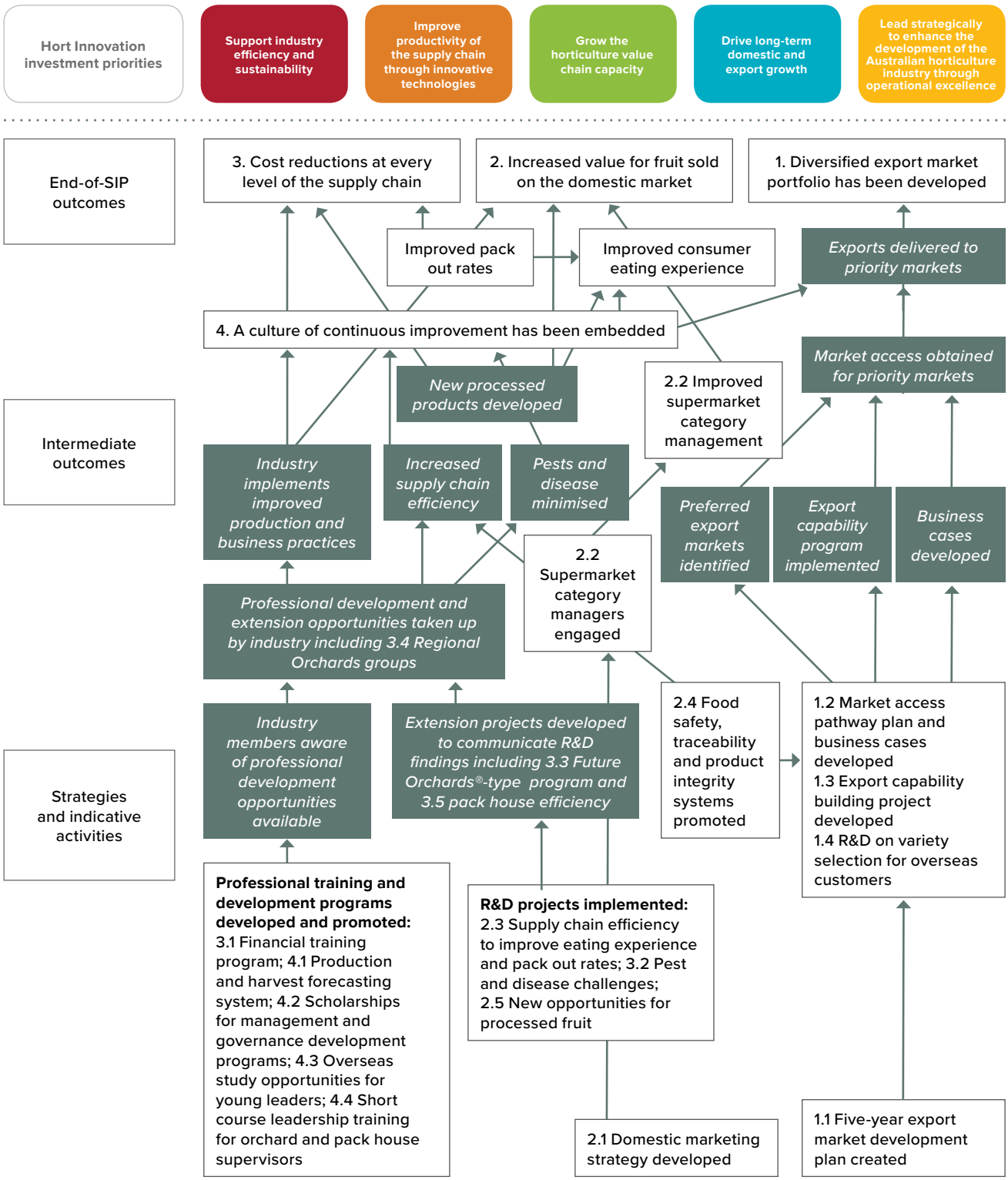
The SIP outcomes and strategies will be used to inform investments in individual projects to deliver the SIP. The results of M&E will be used to reflect on the results of investments and in decision making. Hort Innovation will facilitate the regular review of SIPs to ensure they remain relevant to industry.



Summerfruit SIP logic

An indicative summerfruit SIP program logic is shown below in ***Figure 11***. The logic is based on the Hort Innovation SIP logic hierarchy (***Appendix 3***). The shaded boxes are not fully explicit in the strategy but necessary conditions for the achievement of expected outcomes.

Figure 11: Summerfruit SIP logic



Summerfruit SIP M&E plan

The summerfruit SIP M&E plan is shown in ***Table 4***. The table includes key performance indicators (KPIs) and data collection methods both at a macro/industry (trend) level and at more specific SIP level/s.

Table 4: Monitoring and evaluation plan for the summerfruit SIP

Outcomes	Strategies	KPIs	Data collection methods and sources
OUTCOME 1: **Industry has developed a diversified export market portfolio to absorb growing production volumes**	1.1 Develop a five-year holistic and diversified export market development plan 1.2 Develop and agree a market access pathway plan and business cases 1.3 Continue to invest in export readiness and capability focusing on high-priority markets 1.4 Conduct R&D on variety selection to ensure the fruit meets the preferences and expectations of overseas customers (current project)	• An increase in summerfruit exports with a target of a 20 per cent increase in total exports by 2021 • Workable airfreight market access protocols for peaches, plums and apricots into China • Export market development plan developed and evidence of implementation • Evidence of increased export readiness and capability • R&D report identifying variety selection and customer	• Trade data • DAWR data • R&D and marketing project records • Grower/exporter feedback
OUTCOME 2: **The value of fruit sold on the domestic market is increased to restore grower margins**	2.1 Develop a domestic marketing strategy with a focus on building consumer engagement through product differentiation and usage information 2.2 Engage with supermarkets on category management to improve the consumer experience and reduce wastage 2.3 Conduct supply chain efficiency R&D to improve both the eating experience and pack-out rates 2.4 Implement a domestic product traceability program with a view to then applying it to export supply chains 2.5 Scope out a new generation of processed products and opportunities to use processing-grade fruit	• Domestic marketing strategy developed and evidence of implementation • Evidence of engagement with supermarket category managers • Report on supply chain efficiency • Evidence of implementation of product traceability program • Report identifying new generation of processed products	• Retail data • Wholesale price data • R&D and marketing project records • Retailer feedback • Industry feedback

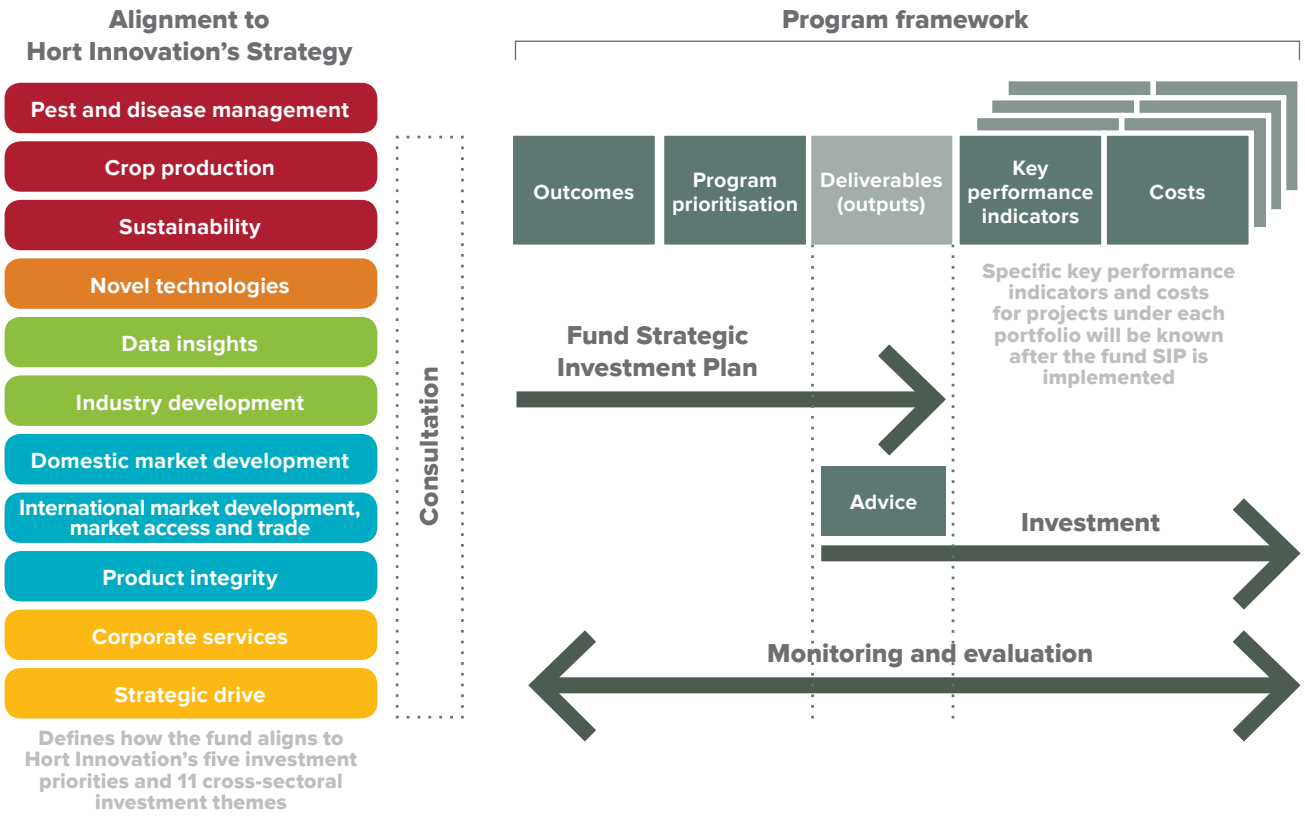
Outcomes	Strategies	KPIs	Data collection methods and sources
OUTCOME 3: **Costs have reduced at every level of the supply chain to grow industry profitability**	3.1 Develop industry financial management skills to enable better understanding costs and profitability drivers 3.2 Continue with a prioritised R&D program to manage pest and disease challenges and threats 3.3 Raise orchard and pack house management skills by introducing a Future Orchards®-type extension program based on the model used by the apple and pear industry 3.4 Encourage development of regional orchard improvement groups by producing a guide to establishing one	• Number of growers/pack houses participating in extension and training events and evidence of uptake • Successful identification of opportunities to reduce costs	• Industry records • R&D project records • Extension event feedback and industry surveys
OUTCOME 4: **An industry culture of continuous improvement has been embedded to support long-term economic sustainability**	4.1 Introduce a workable production and crop forecasting system (potentially in collaboration with the cherry industry) 4.2 Provide scholarship for participation by industry leaders in industry management and governance development programs (Pool 2) 4.3 Introduce young leaders overseas studies program 4.4 Introduce short-course leadership training modules for orchard and pack house supervisors/ managers (Pool 2)	• Successful introduction of forecasting program and evidence of uptake • At least five successful overseas funded study tours by 2021 • At least two participants in leaders program by 2021 • Successful completion of one short-course program by 2021	• R&D project records • Industry records • Training/overseas study participant feedback

Reporting

The program framework in ***Figure 12*** is the mechanism that links Hort Innovation's strategy and investment priorities to the investment process through the industry SIP. SIPs assist Hort Innovation to prioritise based on advice and available resources to implement the specific industry R&D, extension and marketing programs.

Hort Innovation will use dynamic reporting against our monitoring and evaluation framework to report on investment progress. The contribution of investments to each industry outcome will be reported regularly, including through industry Annual Reports, Hort Innovation's Annual Report and Hort Innovation's Annual Operating Plan.

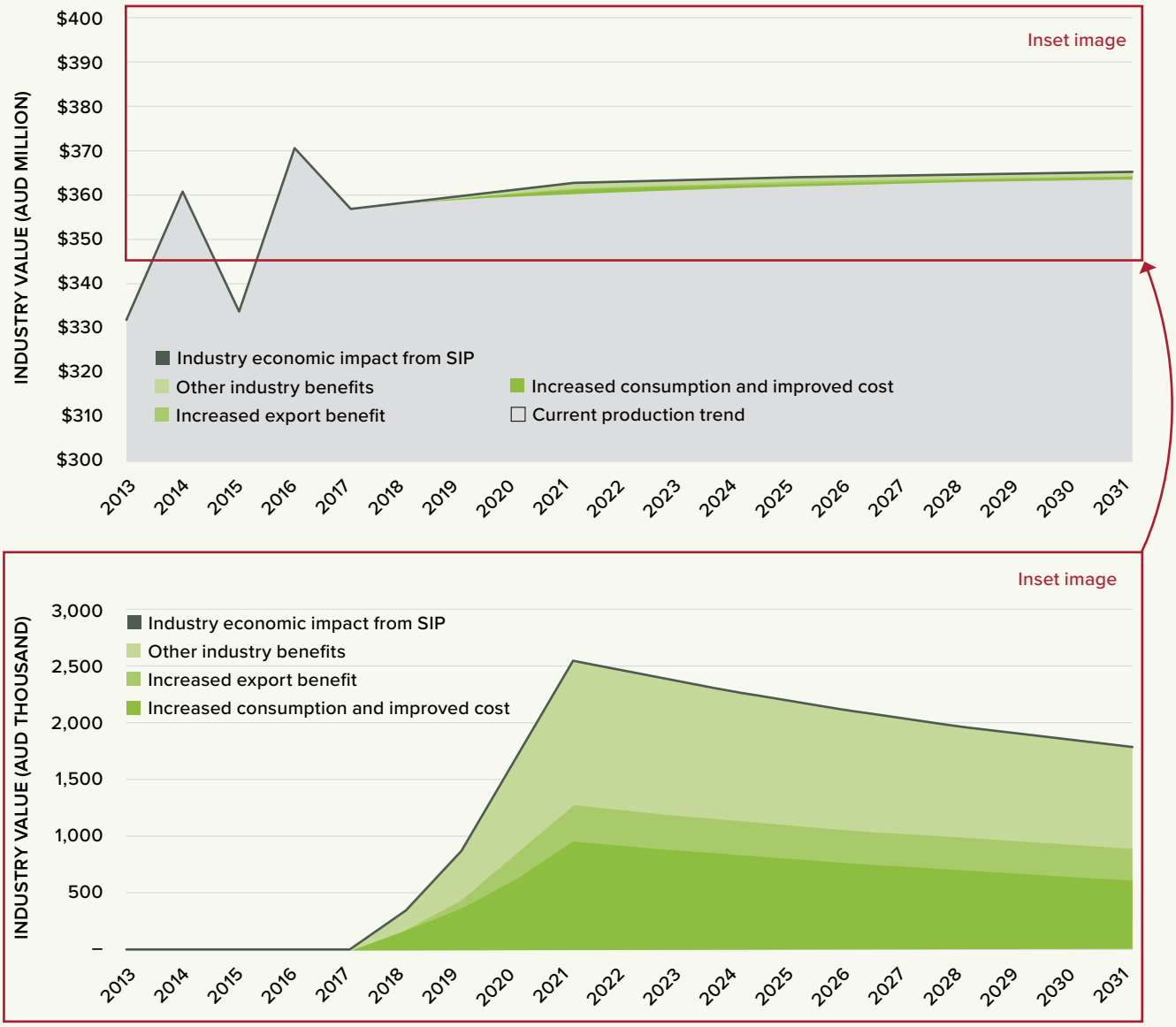
Figure 12: Hort Innovation's program framework



SECTION FIVE

5 Impact assessment

Figure 13: Economic benefit from investment in the summerfruit SIP



An independent assessment of the potential economic impacts from investment into the summerfruit SIP indicated a positive return on investment for the industry (***Figure 13***). The anticipated investment of $6.40 million over the next five years in R&D, extension and marketing activities is expected to generate $26.39 million in net benefits for the industry, representing a benefit cost ratio of 4.12 times to growers and service providers along the value chain.

The assessment draws from a wide range of available data sources, and projects economic impacts over a 15-year period starting from 2016/17. A five per cent discount rate has been applied and all values are adjusted for inflation and presented in 2016/17 dollar terms. Usage costs have been estimated at 5 per cent of benefits achieved. The assessment takes a highly conservative approach and the presented figures have been adjusted to account for risks associated with achieving research outputs, expected adoption and impacts.

Table 5 provides a summary of the impacts assessed for the SIP, their corresponding outcomes, net economic benefits and benefit cost ratio.

Table 5: Overview of impacts assessed and alignment with SIP outcomes

Outcome	Impacts	Anticipated five-year SIP Investment	Net benefits (over 15 years)	Benefit cost ratio
(1) Industry has developed a diversified export market to absorb growing production volumes	Increased export volumes, with premium over domestic value	$2,133,921	$7,105,865	3.33
(2) The value of fruit sold on the domestic market is increased to restore grower margins	Increased industry value consumed	$2,133,921	$11,856,548	5.56
(3) Costs have reduced at every level of the supply chain to grow industry profitability	Cost reductions	$2,133,921	$7,427,651	3.48
(4) An industry culture of continuous improvement has been embedded to support long term economic sustainability	Will aid in delivery of above impacts	Incorporated in above benefits	Incorporated in above benefits	N/A
	All impacts	**$6,401,762**	**$26,390,064**	**4.12**

The impact of Outcome 1 was quantified using:

- An increase in exports by an additional 20 per cent volume in 2021 over the baseline growth in exports.

The impact of additional exports was valued at the difference between export value and local farm-gate value to determine the marginal benefit of exporting. Additional exports are necessary to absorb additional supply expected in 2020.

The impact of Outcome 2 was quantified using:

- An increased in per capita consumption
- Consequently, an increase the volume of fresh supply consumed at projected prices.

Additional consumption per capita is necessary to absorb additional supply expected in 2020. A higher probability of success was attributed to increasing nectarine/peach consumption, based on industry consultation.

The impact of Outcome 3 was quantified using:

- A conservative 10 per cent reduction in pack house costs through 2021; based on similar industries' achieved reductions in costs.

This impact may be considered conservative as the SIP will develop outputs not only aimed at improved orchard and pack house management.

Outcome 4 compliments the adoption and implementation of R&D from Outcomes 1 to 3 and thus contributes to the delivery of all quantified impacts.

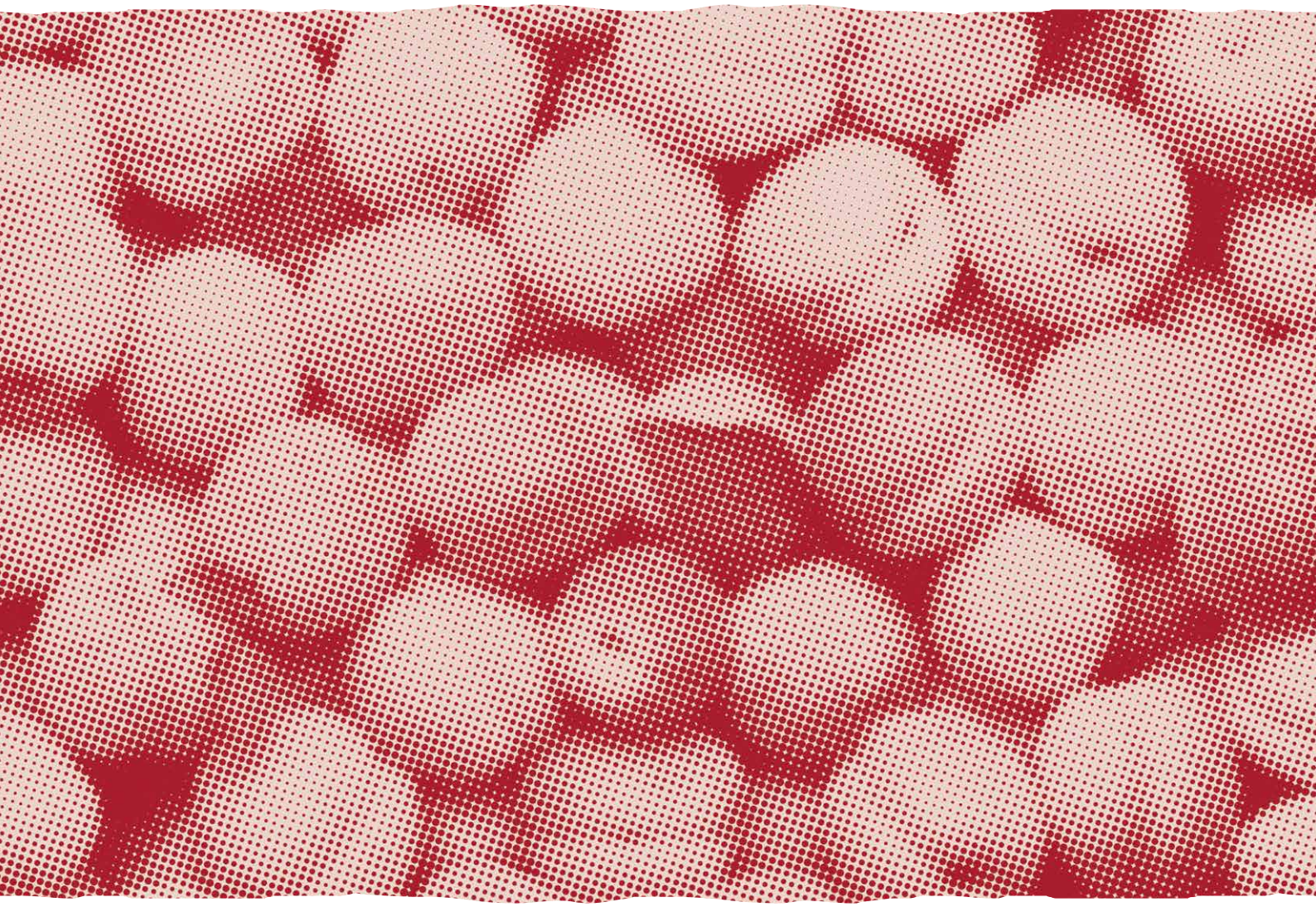
6

SECTION SIX

Risk management

The purpose of this risk section is to highlight any unique or specific risks that qualify the SIP. This is not intended to be an exhaustive risk review of the industry risks that are, in part, considered in the SWOT. This is also not general investment risks that will be considered in the project investment process.

No significant or specific risks were found that may qualify this SIP. However, there is a risk of a lost opportunity to leverage industry R&D funds more effectively if this SIP is not effectively aligned with the SIPs for other temperate fruits where opportunities exist.



APPENDIX 1: SIP development process, consultation and validation

This process for the development of this SIP was as follows:

1. A presentation was prepared to outline a suggested approach to the SIP advisory panel and to stimulate discussion on the key external factors affecting the industry
2. A workshop was held with the SIAP to approve the project approach and consultation reach
3. Interviews were conducted with the suggested stakeholders, including retailers
4. Telephone and in-person interviews were held with suggested growers across a number of key growing regions
5. A draft SIP was prepared for consideration by the SIAP
6. SIAP members provided more feedback to the draft SIP.

In addition to consultation with the summerfruit industry SIAP, discussions with growers at Fruit Logistica and informally with industry members, the following groups and individuals were consulted. Their assistance is gratefully acknowledged:

Name	Organisation
Andrew Finlay	Chair, Summerfruit Australia
John Moore	Summerfruit Australia
Warwick Hope	Woolworths
Brendan Hayes	Coles
Pam Pace	Aldi
Michael Young	Grower (Victoria)
Peter Hall	Integrity Fruit
Bruce Tonkins	Department of Economic Development, Jobs, Transport and Resources (DEDJTR)
Scott Coupland	Australian Blue Bird Brand
Brendan Larkin	DEDJTR
Bryan Balmer	DEDJTR
Scott Montague	Montagues
Ian McAlister	Sunfruit Orchards
Michael Trautwein	Zest Fruit

APPENDIX 2: References

Title	Author
ABS data	ABS
FAQSTAT	
Fresh Intelligence analysis	Fresh Intelligence
Australian Horticulture Statistics 2002	Horticulture Australia Limited
Australian Industry Strategic Investment Plan 2015-2020	
Australian Horticulture Statistics Handbook 2014/15	Horticulture Innovation Australia
Australian Summerfruit Industry Strategic Investment Plan 2015–2020	
Sydney market reporting service data	
Freshlogic Adwatch service	
IHS Global Trade Atlas	ABS
WTO Tariff Database	
DFAT	
MICoR website	

APPENDIX 3:
Logic hierarchy

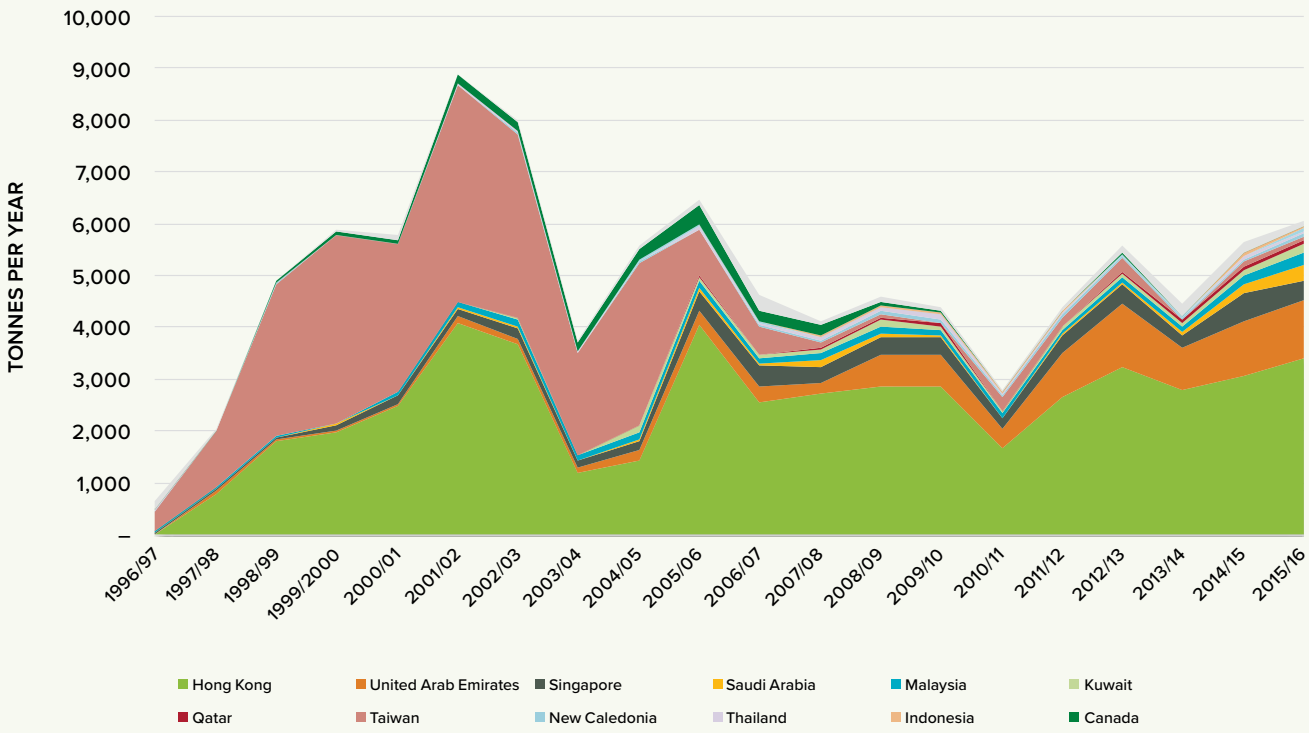
Vision			To grow the future of Australia's horticulture industries			Common for all Investment
Mission	Increased profitability of Australia's horticulture industries		Increased productivity of Australia's horticulture industries		Increased global competitiveness of Australia's horticulture industries	
Hort Innovation end-of-strategy outcomes	**Support industry efficiency and sustainability**	**Improve productivity of the supply chain**	**Grow the horticulture value chain capacity**	**Drive long-term domestic and export growth**	**Lead strategically**	
End-of-SIP outcomes	*The industry-specific outcomes of the SIP. The final desired result of SIP investment but may be achieved after the SIP time-frame. SIP investment may be just one contributing factor to the achievement of these outcomes. For example, incremental productivity, profitability and competitiveness improvements stimulated through R&D, changes in consumer awareness, marketing campaign reach and influence and increased recognition of Australian horticulture products.*					SIP specific
SIP intermediate outcomes	*Short- to medium-term changes brought about through the SIP, which will support the achievement of end-of-SIP outcomes. For example, practice changes, adoption, changes in grower knowledge, attitudes, skills and aspirations (KASA) and marketing reach.*					
SIP activities and outputs	*What is directly delivered by the SIP (R&D, extension and marketing activities and outputs, for example, products and services, and events and engagement) across the 11 horticulture cross-sectoral investment themes: Pest and Disease Management, Crop Production, Sustainability Improvements, Novel Technologies, Data Insights,Industry Development, Product Integrity, International Market Development, Market Access and Trade, Domestic Market Development, Strategic Drive and Corporate Services.*					
Foundational activities	*Preliminary or preparatory activities that are conducted before and during SIP delivery. Includes industry processes, infrastructure and resources that enable the SIP to be developed and delivered. Includes SIP planning, consultation, advisory meetings etc.*					

APPENDIX 4: Supporting data

The following graphs provide further data on exports by summerfruit commodity.

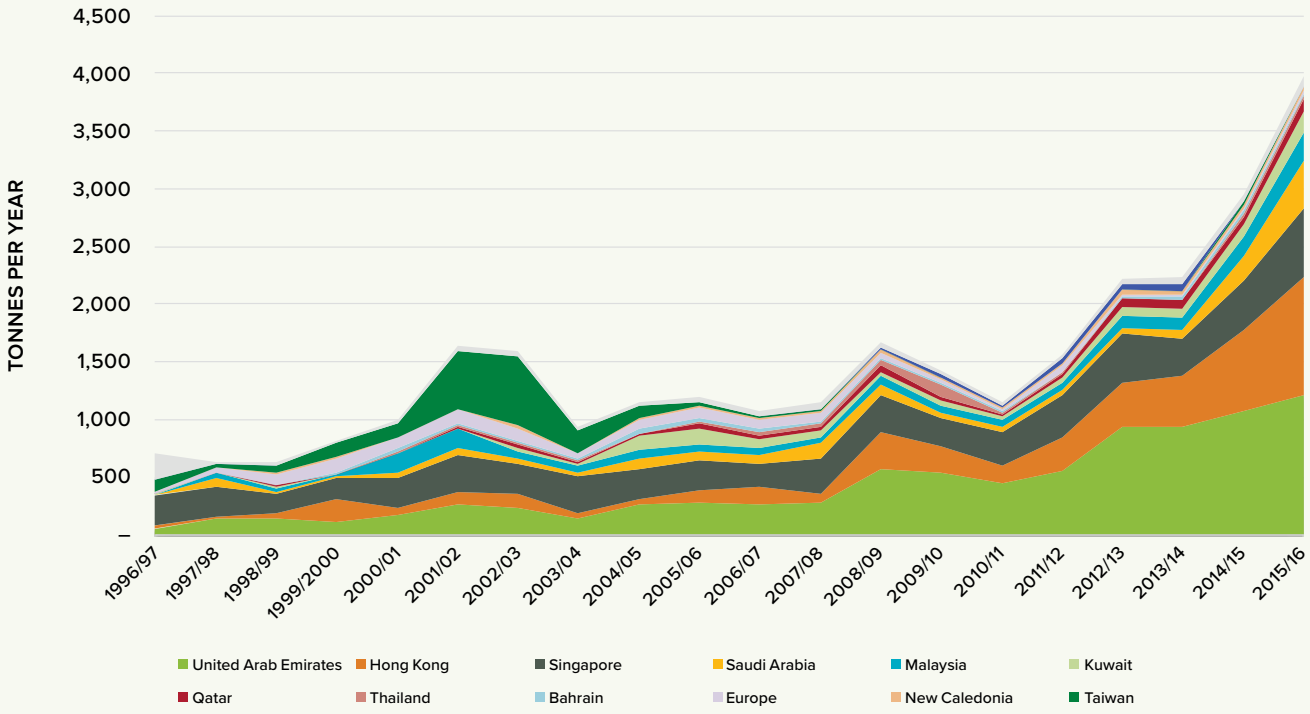
Nectarine

Fresh nectarine exports by market, 1997 to 2016 (20 years) *(Source: ABS via IHS Global Trade Atlas, Fresh Intelligence analysis)*



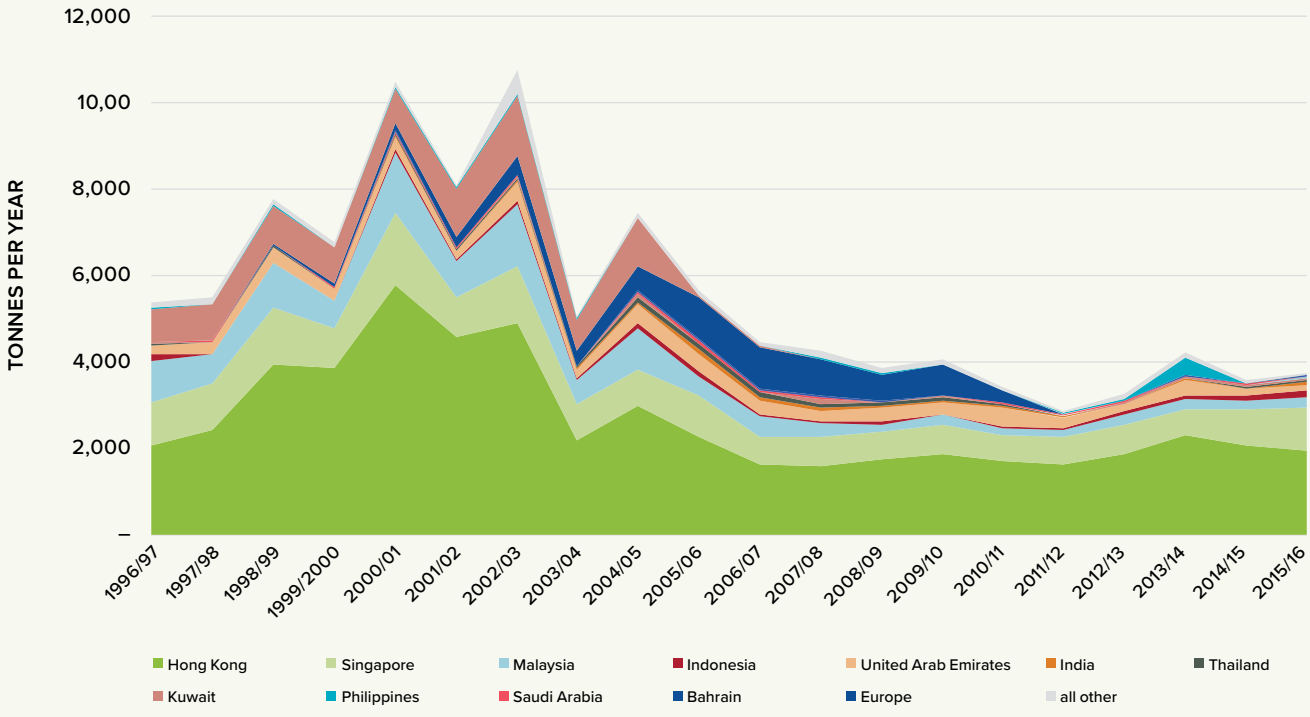
Peach

Fresh peach exports by market, 1997 to 2016 (20 years) *(Source: ABS via IHS Global Trade Atlas, Fresh Intelligence analysis)*



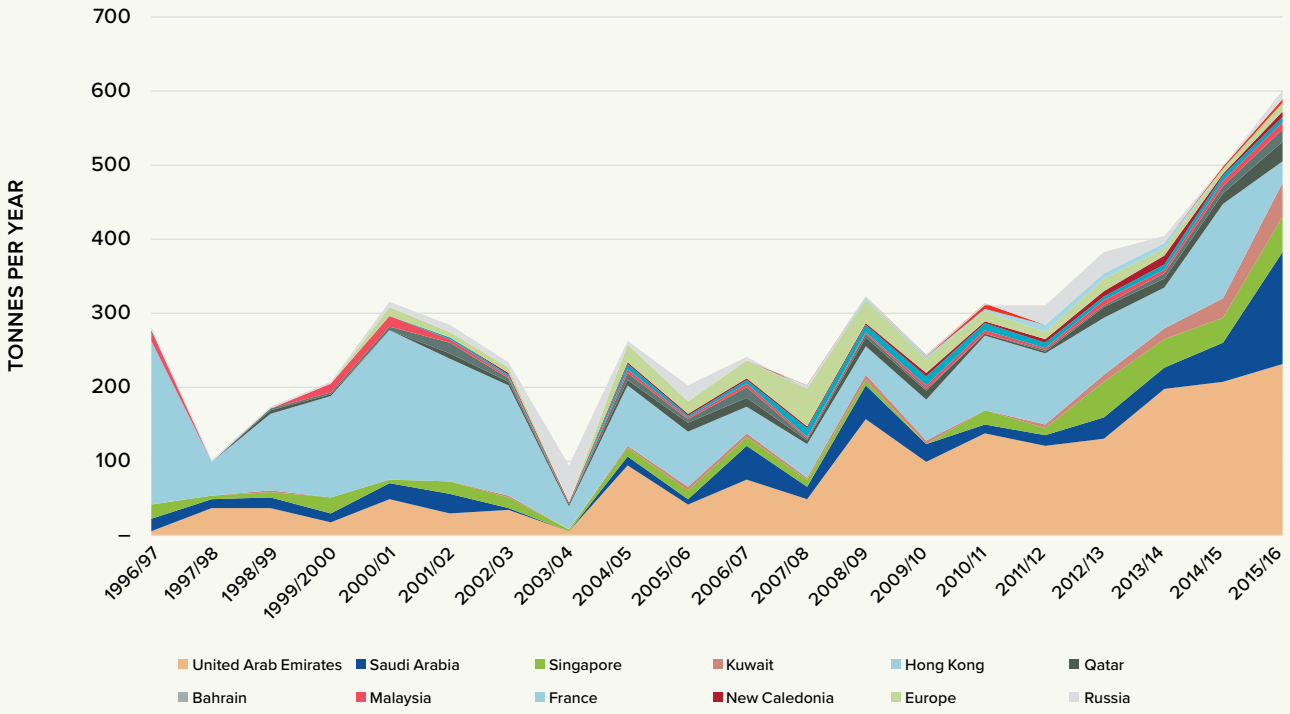
Plum

Fresh plum exports by market, 1997 to 2016 (20 years) *(Source: ABS via IHS Global Trade Atlas, Fresh Intelligence analysis)*



Apricot

Fresh apricot exports by market, 1997 to 2016 (20 years) *(Source: ABS via IHS Global Trade Atlas, Fresh Intelligence analysis)*



APPENDIX 5:
Australian summerfruit market access (as at 2015/16)

Table 5 provides a detailed outline of the market access situation for Australian fruits, as at November 2016. It should be noted that because the situation is highly fluid, it could change at short notice.

The previous analysis has highlighted the critical importance of achieving workable market access protocols for mainland growers. Realistically, this means achieving protocols that will allow fruit to be exported by air within a few days of harvest. As explained below, access is currently possible after on-shore cold treatment, which is not considered to be viable because of the impact on fruit quality.

The table is colour coded for ease of interpretation:

- Light green = unregulated
- Dark green = access permitted without treatment from the Pest-Free Area
- Pink = a protocol with specific conditions that must be met
- Orange = that only a phyto certificate is required
- Red = prohibited.

Australian summerfruit export market access

(Source: ABS data via IHS Global Trade Atlas. WTO Tariff Database. DFAT. MICoR. Fresh Intelligence analysis)

	Export volume (tonnes) 2015/16 season											
	National (tonnes)	share	VIC (tonnes)	NSW (tonnes	WA (tonnes)	QLD (tonnes)	SA (tonnes)	TAS (tonnes)	Other* (tonnes)	FTA	Tariff	Market access conditions
UNREGULATED MARKETS												
Hong Kong	6,413	45%	5,071	815	209	138	111	12	57		Nil	Open/unregulated
Singapore	2,022	14%	1,152	177	528	85	53	4	24	AANZFTA	Nil	Open/unregulated
Malaysia	702	5%	513	56	91	10	22	5	5	AANZFTA	Nil	Open/unregulated
Sub total	**9,137**	**64%**	**6,736**	**1,048**	**828**	**234**	**185**	**21**	**86**			
State share			*74%*	*11%*	*9%*	*3%*	*2%*	*0%*	*1%*			
REGULATED PROTOCOL MARKETS												
Indonesia	228	2%	147.7	7.7	67.5	2.6	0.7	1.0	1.3	AANZFTA	Nil	PFA (Tas/Riverland) cold treatment or fumigation or irradiation (other)
Thailand	115	1%	64.4			8.6	41.5			TAFTA	Nil	PFA (Tas/Riverland) cold treatment (other)
India	84	1%	3.7	0.5	79.8	–					30% (25% plum)	Med Fly PFA (all except WA) fumigation or cold treatment (WA)
Taiwan	61	0%	60.8								20%	PFA (Tas/Riverland) cold treatment (other) (plums from PFA only)
Canada	59	0%	49.4	8.5		1.1	0.0				Nil	Fumigation for LBAM (all)
Philippines	40	0%	32.7			7.3				AANZFTA	Nil	PFA (Tas) cold treatment (other)
Vietnam	0	0%	–	–	–	–	–			AANZFTA	7% (nil 2018	Currently closed and under negotiation
China	–									ChAFTA	Apricots 15%, other 6% (nil 2019)	Nectarines only – PFA (Tas and Riverland SA) cold treatment (WA) fumigation or cold treatment (other) (Other summerfruit type prohibited)
Korea, South	–									KAFTA	Nil	Prohibited
Japan	–									JAEPA	Nil	Prohibited
United States	–									AUSFTA	Nil	Prohibited
Sub total	**587**	**4%**	**359**	**17**	**147**	**20**	**42**	**1**	**1**			
			61%	*3%*	*25%*	*3%*	*7%*	*0%*	*0%*			
OTHER MARKETS – PHYTOSANITARY												
MIDDLE EAST												
United Arab Emirates	2,718	19%	2,262	64	77	96	–		220		Nil	Phytosanitary certificate
Saudi Arabia	879	6%	804	58		4	3		12		Nil	Phytosanitary certificate
Kuwait	409	3%	361	26		17	2	1	3		Nil	Phytosanitary certificate
Qatar	222	2%	192	19		2	–		9		Nil	Phytosanitary certificate
Bahrain	97	1%	85	–	12		–		0		Nil	Phytosanitary certificate
Oman	48	0%	33	15					–		Nil	Phytosanitary certificate
Sub total Middle East	**4,830**	**30%**	**3,736**	**181**	**89**	**119**	**4**	**1**	**244**			
State share			*85%*	*4%*	*2%*	*3%*	*0%*	*0%*	*6%*			
EUROPE	57	0.4%	51	4			2				Nil	Phytosanitary certificate
Russia	–	0%	–	–	–	–	–	–	–		5%	Currently banned under sanction by Russia
all other	205	1%	84	63	240	48	10	0	2			
WORLD	**14,366**	**100%**	**10,966**	**1,313**	**1,068**	**420**	**244**	**22**	**333**			
State share	*100%*		*76%*	*9%*	*7%*	*3%*	*2%*	*0%*	*2%*			

The table indicates that, due to its PFA status, Tasmania has airfreight market access into most markets except Russia (banned for all agriculture) and Vietnam (under negotiation), but volumes are small. Australian mainland states have highly restricted access to the higher returning markets of North Asia, and are limited to the more competitive, non-protocol and price-sensitive markets of South East Asia and the Middle East. The industry consultation suggests that the Middle East is an important market for second-grade fruit, which otherwise might not have been sold.

Although mainland fruit does, theoretically, have market access into markets such as mainland China, Taiwan, Thailand, Indonesia and the United States, it requires 21-day cold treatment, which significantly affects fruit quality and adds to risk of product losses. In a practical sense, this means that the fruit must be sea freighted with cold treatment, which negates the competitive advantage for Australia of being able to have summerfruits in a premium market within 48 hours of harvest. Sea freight adds to risk quality and market risk. There is also the risk that if a number of sea containers arrive at the same time, they could flood the market and significantly depress prices, although with good industry coordination, this possibility could be managed.

Nectarines and plums are more robust and can better handle the longer cold treatments, whereas peaches and apricots are far more susceptible and pose an unacceptable risk. Therefore, it is critical to obtain airfreight treatments for peaches. However, because of their volume and the strong demand in China, it would make sense to leverage the nectarine precedent for all other summerfruits.

Airfreight access for mainland growers is also critical because it allows Australia to land fruit early in the season when prices are generally higher, and before the Chilean sea freight fruit arrives. It also enables fruit to be in market to take advantage of celebration periods such as Chinese New Year festival, which falls at a slightly different time each year towards end January.

A bigger issue for exports in the future will be the availability of airfreight capacity. At present, almost all of the airfreight is carried in the holds of passenger planes, which have limited capacity – and passengers and luggage take priority. At some times of the year, particularly the peak summer season, airfreight availability is limited in some ports due to demand pressure from higher value freight categories, including fresh dairy products, seafood, red meat and online orders. The other factor affecting airfreight is that many international carriers are moving to A380 planes, which are more passenger oriented and have even less cargo capacity.

It is highly likely that if the projected exports of both summerfruit and cherries were achieved, there would not be sufficient airfreight capacity to handle the proposed volume during the peak season. This means that charter freight would be required, which presents its own set of challenges, including timing, capacity and cost. Charter freight often becomes uneconomic without back loading, which has been a barrier to its adoption in the past. This issue must be thought through by industry as a part of the export strategy.

Market access pathways

Given the scale of forecast production increases, achieving workable market access protocols for summerfruit is already a high priority for industry. Clearly, the domestic market does not have the capacity to absorb the expected volume of supply about to come on board without seriously eroding returns. The following information is a brief overview of the market access situation.

The pests of greatest concern in gaining access to the target markets are Qfly and Medfly.

Unregulated markets are free from phytosanitary restrictions, while regulated markets fall into three categories of phytosanitary pathways:

1. Area freedom
2. End-point treatment
3. Systems approach.

International recognition of a particular pathway must occur before trade protocols and work plans are developed. As such, an export pathway must be first endorsed by the government and then put forward for international negotiation and acceptance. As a general principle, in the negotiating process there is usually mutual acceptance of the pathway, meaning that the importing country can export to Australia under the same protocol conditions.

The establishment of PFAs, Pest-Free Places of Production (PFPP), and Areas of Low Pest Prevalence (ALPP) can facilitate export for commodities that have phytosanitary issues. The advantages in establishing areas such as these include improved market access, better marketability of the product provenance, less pesticide use, and the removal of postharvest end-point treatments. Encouraging the development and maintenance of areas such as these will benefit the Australian summerfruit industry.

Across the summerfruit production regions, several areas are already internationally recognised as fruit fly PFAs: Tasmania and the Riverland. Sunraysia has been in outbreak since 2012 and could be unlikely to be reinstated depending on future resources by states to manage it. In Victoria, the Yarra Valley has recently been designated domestically as a PFPP. The industry is seeking market improvement to existing protocols based on recognition of the PFA status of these areas.

End-point treatment options for fruit fly include cold treatment, methyl bromide fumigation, and irradiation. Cold treatment schedules are heavily dependent on achieving recognition of the so-called 'east/west' differences across Australia in trade negotiations. As data demonstrates, the Medfly (predominantly in Western Australia) requires longer treatment than Qfly (prevalent in eastern states). Acceptance of the east/west protocol would allow for a shorter treatment schedule (3˚C for 14 days) rather than 21 days for Qfly. The longer treatment is scientifically proven to be detrimental the fruit and is therefore unacceptable.

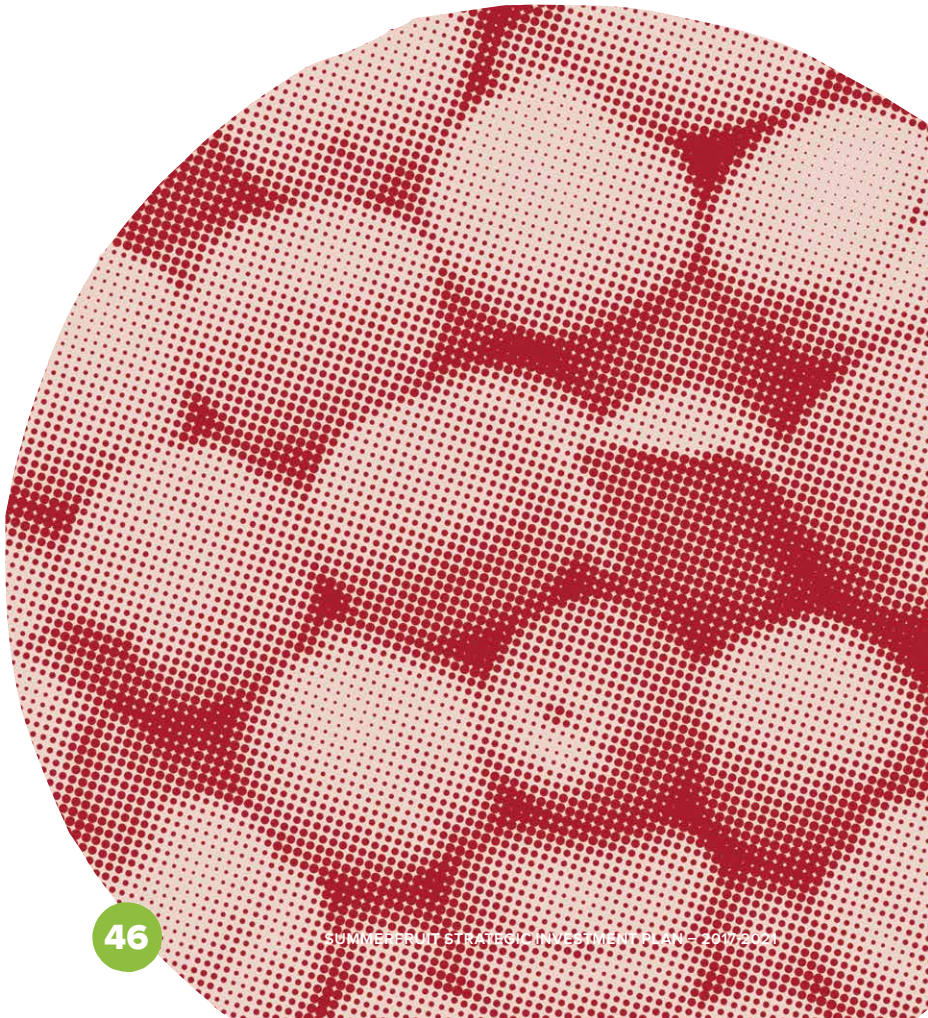
Of all the options, most in the industry believe that irradiation is preferred. Irradiation is currently accepted only for Indonesia, and is being considered by Vietnam. Although it is proven to be safe for consumers, there is a stigma associated with it for health reasons. If market access were to be granted for irradiation, investment would be needed to build the chamber capacity to treat the volumes of fruit involved closer to the point of exports (Melbourne). Currently, the only commercial irradiation facility is in Brisbane (operated by Steritech), although Sydney has some limited capacity.

Methyl bromide is also a contentious option. In markets where it is allowed, it affects fruit quality, and longer term, is being phased out under the Montreal Protocol for environmental reasons. Research is currently being conducted on low-dose methyl bromide fumigation that needs to be closely monitored.

There are strong hopes that the Hort Innovation Sterile Insect Technology (SIT) program will have benefits in the near future.

The 'systems approach' to achieving market access is a management pathway designed to integrate several measures for pest risk management. While recognising its potential, the consultation for this SIP indicated that most in the industry believe that it does not provide a short-term solution to market access, but is worth pursuing in the longer term.

The critical point is that the SIP must include elements to facilitate advancement of all market access pathways, especially in providing the scientific evidence required to support the negotiations and the preferred pathway strategy.



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