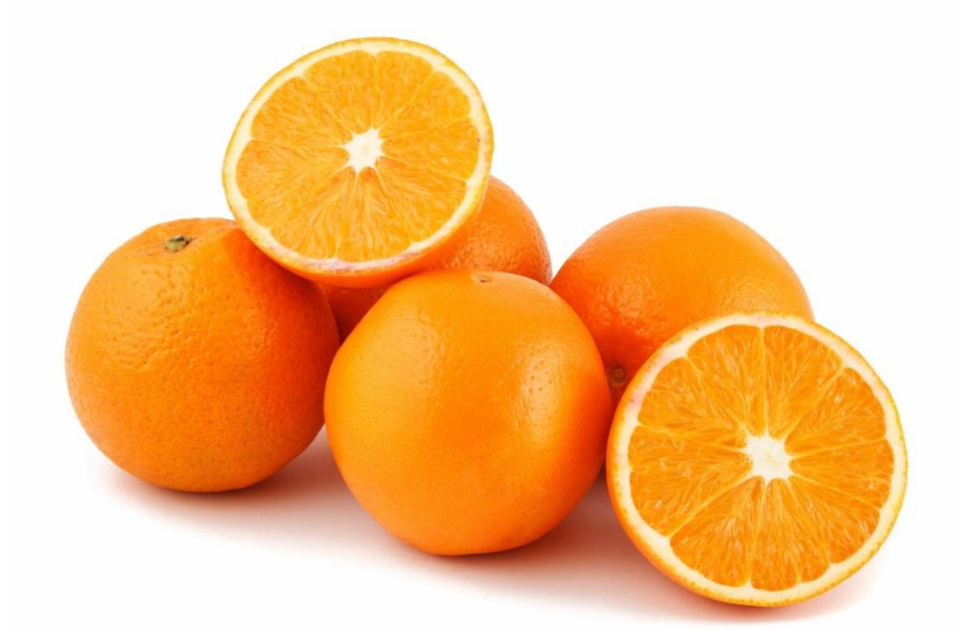


# **NORTHERN VICTORIAN FOOD OPPORTUNITY STRATEGY and ACTION PLAN**



**VOLUME 1 – SITUATION ANALYSIS**



**An Australian Government Initiative**



# **1. Introduction**

## **2. Industry Sector Dashboards**

## **3. Common Themes**

## **4. Strategic Analysis**

# Introduction

This document is Volume 1 of three reports prepared by McKINNA *et al* in the course of developing the Northern Victorian Food Opportunity Strategy and Action Plan. The three volumes are:

Volume 1: Situation Analysis

Volume 2: Strategy

Volume 3: Action Plan

The aim of this document, Volume 1 Situation Analysis, is to capture and order the key findings identified in a process of desk research and consultation with representative industry bodies and industry thought leaders. The purpose of the Situation Analysis process is to provide a foundation for the development of the strategic plan.

Effective strategic planning is informed by structuring and filtering the available information then identifying the handful of issues that will make the biggest difference. This situation analysis attempts to distil the available information about the Northern Victorian agrifood sector (which has limitations due to inaccurate and conflicting data), down to one page of high level insights for each industry (industry dashboards). This process assists in extracting the most critical burning issues that will impact the region's food sector over the next 5 years. The burning issues identified here have been responded to in Volume 2.

The authors have been mindful of the fact that there are a number of industry strategic plans in place which have been developed to guide industry's own strategic directions. While these have been reviewed for this study, the intention here is to identify the most common issues across all agrifood industries and propose strategic action that fills the gaps in these strategies, rather than duplicate existing activity.

# Methodology

The methodology used to compile this Situation Analysis report included a stage of desk research, but focused heavily on industry consultation including:

- *7 round-table discussion groups with key industry representative bodies*
- *24 interviews with thinkers and opinion leaders in the various industry sectors*

The desk research exercise reviewed the previous research and analysis undertaken specifically for this project by Deloitte Access Economics in the 2013 report '*Food Opportunities in Northern Victoria*'. The Deloitte Access Economics report summarised all relevant state and federal government food plans. The burning issues in this Situation Analysis report are cross-referenced with emerging issues from the Deloitte report and also considered relevant Victorian government plans as well as the Commonwealth government's *Agricultural competitiveness green paper*.

This Situation Analysis report was presented to a mix of industry and government stakeholders for validation in an industry workshop in October 2014.

**1. Introduction**

**2. Industry Sector Dashboards**

**3. Common Themes**

**4. Strategic Analysis**

The following dashboards present a snapshot of each of the key industries in order to assist in identifying common themes and issues.

Each dashboard is followed with a list of the burning issues impacting that particular sector. On review of all the industry dashboards, a number of common 'overall burning issues' were identified.

These issues were validated in a workshop with industry and government stakeholders.

**Note:** more detailed industry analysis is included in the Deloitte Access Economics report 'Food Opportunities in Northern Victoria', which formed stage 1 of this project.



# Citrus

TREND Export Growth



AUST gross value: \$483 mil  
Total exports value: \$196 mil

VIC share: 25%  
VIC export share value: \$147 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Navel oranges Valencia juicing fruit Easy peelers	China South Korea Japan SE Asia USA	South Africa South America

INDUSTRY TRENDS	DRIVING FORCES
<ul style="list-style-type: none"><li>• Strong growth in demand from China but vulnerability in other markets due to competitor strength</li><li>• Flat domestic market</li><li>• Move to late season navels</li><li>• Growth of 'easy peeler' demand</li><li>• Reduction in Valencia juicing market due to import competition of juice concentrate</li></ul>	<ul style="list-style-type: none"><li>• High volume growth in China market</li><li>• Biennial bearing and weather impact cause significant fluctuations year-to-year in supply and quality</li><li>• Strong competition from other southern hemisphere countries</li><li>• High \$AUD impacting competitiveness</li><li>• Limited labour availability and high cost</li></ul>

## REFERENCES

Australian Citrus Strategic R&D Plan 2012-17  
Australian Food Statistics 2011-12 & 2012-13 Australian Government  
Value of export \$ includes Riverland areas of SA & NSW



# CITRUS: Burning Issues

- Fruit fly infestation requiring treatment prior to export:
  - *adds to cost*
  - *increases time in supply chain*
  - *impacts fruit quality and shelf life*
- Supermarket power eroding returns in domestic market.
- Market access protocol adds to cost and compliance complexity.
- Exposure to the risks of a reliance on 457 and 417 visas.
- Lack of capital required to fund the expansion needed to meet the growing demand from Asia.



# Table Grapes

TREND Rebuilding



AUST gross value: \$303 mil  
Total exports value: \$100 mil

VIC share: 58%  
VIC export share value: \$58 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Red and white table grape varieties	Domestic China South Korea/Japan SE Asia USA	Chile Peru South Africa

## INDUSTRY TRENDS

- New plantings are happening and some dried fruit and wine plantings being converted to table grapes
- Many table grape growers are growing grapes for wine and dried fruit as well
- On-going investment in breeding programs
- Recently obtained market access into Indonesia and Korea (42% tariff reducing over 5 years).

## DRIVING FORCES

- High susceptible to weather events
- Subject to biennial bearing
- Prices highly volatile driven by supply and quality
- Growing demand from China
- Typically get a price premium in the market for better quality than competing countries
- Falling \$AUD impacting returns
- Over-supply in domestic market depressing prices.

## REFERENCES

Australian Table Grape Association Strategic Plan 2002-8 & 2012-17 Horticulture Australia  
 Australian Food Statistics 2001-12 & 2012-13 Australian Government  
 Mildura Development Corporation, Grape Industry Analysis for Investment and Redevelopment Final Report 2014

## TABLE GRAPES: Burning Issues

- Fruit fly infestation requiring shed packing and cold treatment prior to export adds to cost (double handling), increases time in supply chain timing and impacts fruit quality and shelf life.
- Fruit fly cold storage means air freight not feasible into most markets (except Hong Kong & Singapore) denying access to peak demand/high prices.
- China protocol has zero tolerance to fruit fly increasing trading risk and requiring field packing and double handling.
- Fumigation is not an option as it compromises clean and green image, impacts quality and adds to cost.
- As much as 90% of product going through the Hong Kong channel despite FTA.
- Market access protocol adds to cost and compliance complexity. Industry would like to be more engaged in the trade negotiations.
- Supermarket power and price discounting eroding returns in domestic market.
- Need to build export market to take volume off the oversupplied domestic market in order to improve prices.
- Exposure to the risks of a reliance on 457 and 417 visa labour.



# Pome Fruits

TREND Stable



AUST gross value: \$556 mil  
Total exports value: \$15 mil

VIC share: 53%  
VIC export share value: \$8 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Apples Pears Nashi	Domestic UK Canada Asia	Nauru Malaysia New Zealand

## INDUSTRY TRENDS

- Production in decline but value growth occurring
- Adoption of more licensed varieties is raising category value
- Industry consolidation in growing and packing sectors with increased automation requiring more capital
- Fresh market increasing, processing in decline
- Many growers financially stressed after series of bad seasons and profit margins are thin
- Apple exports are declining
- Aging farmer base
- Bio-security threats and threats to bee population impacting pollination

## DRIVING FORCES

- High susceptible to weather events
- Subject to biennial bearing
- Prices highly volatile driven by supply and quality
- Growing demand from China
- Typically get a price premium in the market for better quality than competing countries
- Falling \$AUD impacting returns
- Over-supply in domestic market depressing prices.

## REFERENCES

Australian Table Grape Association Strategic Plan 2002-8 & 2012-17 Horticulture Australia  
Australian Food Statistics 2001-12 & 2012-13 Australian Government

## POME FRUITS: Burning Issues

- Fruit fly infestation requiring treatment prior to export, which adds to cost, increases time in supply chain and impacts fruit quality and shelf life.
- Labour availability and cost.
- Supermarket power and price discounting eroding returns in domestic market.
- Lack of industry renewal with an aging farmer base and need for investment in new varieties.



# Dried Fruit

TREND Declining



AUST gross value: \$43 mil  
Total exports value: \$10 mil

VIC share: 72%  
VIC export share value: \$10 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Dried peaches, pears, apples, apricots, nectarines, sultana grapes, currents	Domestic China South Korea/Japan SE Asia USA	Turkey Chile USA

## INDUSTRY TRENDS

- Production has dramatically declined due to drought and depressed global prices
- Market demand is flat
- Exports have declined as cannot compete with Turkey at the commodity end of market
- Processors cannot get the supply volumes required to achieve economies of scale in processing

## DRIVING FORCES

- High production cost due to labour intensity
- Volatile global market
- Highly susceptible to weather events
- Changed consumer behaviour
- High \$AUD having reduced impact but still undermining returns
- Competitive with lighter, higher quality fruit (season dependent)

## REFERENCES

Horticulture Australia Dried Grape Industry Strategic Investment Plan 2004-9  
Australian Food Statistics 2011-12 & 2012-13 Australian Government

## DRIED FRUIT: Burning Issues

- Not globally competitive, largely due to high labour cost in a labour intensive product.
- Returns have been impacted by cheap imports.
- Supermarket power, private label and price discounting are eroding returns in domestic market.
- Need to build export markets to take volume off the oversupplied domestic market in order to improve prices.
- Exposure to the risks of a reliance on 457 and 417 visa labour.
- Most Australian growers are small and lack scale efficiencies.



# Summer Fruit

TREND Declining



AUST gross value: \$458 mil  
Total exports value: \$60 mil

VIC share: 37%  
VIC export share value: \$22 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Fresh: Peaches, apricots, nectarines, plums, cherries  Processed: Peaches, apricots	Domestic China SE Asia Singapore, Malaysia, Thailand Vietnam Middle East	New Zealand Chile South Africa

## INDUSTRY TRENDS

- Industry consolidation
- Processing intake has declined
- Methyl Bromide policy impacting export potential
- Domestic over-supply following loss of export markets
- Industry initiatives to address poor variety selection and improve fruit quality

## DRIVING FORCES

- Climate change has introduced greater volatility including increased pest and disease risk (in local & competitor markets)
- Supermarket power impacting pricing
- Ex-processing fruit being diverted to domestic fresh market and depressing prices
- Fruit fly restricting market access and adding to cost
- Non-technical trade barriers and phytosanitary market restrictions
- Restrictions on chemical use adding complexity to orchard management
- Potential of increased PVR production to grow crop value

## REFERENCES

MT12009 Export Market Intelligence – Australian Summerfruit Exports, March 2013  
Australian Food Statistics 2011-12 & 2012-13 Australian Government



# SUMMER FRUIT: Burning Issues

- Supermarket power is impacting domestic returns.
- Labour availability and critical reliance on 457/417 visa workers.
- Over supply on domestic market due to ex-processing fruit diverting to fresh market.
- Fruit fly impediments to exports including Methyl Bromide versus cold treatment and the impacts on export quality.
- Increased production of PVR protected varieties and the need to market these effectively and protect the IP.
- Industry profitability is challenged due to a combination of the above factors.



# Processing Tomatoes

TREND Recovering



AUST gross value: \$22 mil  
Total exports value: \$16 mil

VIC share: 86%  
VIC export share value: \$14 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Bulk pulp and paste for ingredient market Retail canned tomato products	Domestic	Spain USA Europe China

## INDUSTRY TRENDS

- Production has dropped substantially from the 2001 peak but is now expanding, largely driven by Kagome investment
- Increased acreage under production with less growers
- High debt levels with farms operating on tight margins
- Global competition requires a constant focus on cost reduction at every link in the supply chain

## DRIVING FORCES

- Cheap bulk paste and canned product imports undermining farm gate prices

## REFERENCES

APTRC Inc TM12009 Processing Tomato Strategic Investment Plan Final Report 2013  
Australian Food Statistics 2011-12 & 2012-13 Australian Government

# PROCESSING TOMATOES: Burning Issues

- Water policy.
- Transport logistics is costly due to inability to get B Double access to farms.
- Labour shortages and skill levels both on farm and within processing.
- Payroll tax.
- On farm RD&E.
- Power (Gas).



# Processed Fruit

TREND Recovering



AUST gross value: \$1,359 mil  
Total exports value: \$143 mil

VIC share: 43%  
VIC export share value: \$61 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Canned peaches and pears	Domestic – branded and private label New Zealand and Pacific	Spain USA Turkey China

INDUSTRY TRENDS	DRIVING FORCES
<ul style="list-style-type: none"><li>• Fruit intake for processing has dramatically dropped due to import competition, particularly in supermarket private label</li><li>• ‘Buy Australian’ campaigns are helping to recover lost sales</li></ul>	<ul style="list-style-type: none"><li>• Cheap imports</li><li>• Change of supermarket strategy to leverage demand for ‘Australian grown’</li><li>• Changing consumer preferences and usage behaviour away from processed and fresh fruit</li><li>• High \$AUD</li><li>• High seasonality</li></ul>

## REFERENCES

APTRC Inc TM12009 Processing Tomato Strategic Investment Plan Final Report 2013  
Australian Food Statistics 2011-12 & 2012-13 Australian Government

# PROCESSED FRUIT: Burning Issues

- Supermarket power.
- Water policy.
- Changing consumer preferences.
- Outdated technology.
- Minimal on-farm productivity gains.



# Dairy

TREND Recovering



AUST gross value: \$3,687 mil  
Total exports value: \$2,244 mil

VIC share: 66%  
VIC export share value: \$1,930 mil

## KEY PRODUCT CATEGORIES

Processed retail products: milk, UHT, cheese, yogurt, butter, cream

Bulk commodity powdered ingredient

## KEY MARKETS

Domestic  
Japan  
SE Asia  
China  
Korea

## COMPETITOR SET

New Zealand  
USA  
Europe

## INDUSTRY TRENDS

- Milk production dropped dramatically as a result of the drought and water buy-back.
- Industry now in a state of re-building supply.
- New investors and increase in herd size.
- High debt levels for many as a drought legacy.
- Consolidation in the processor sector.

## DRIVING FORCES

- Competition between processors for supply of milk.
- Export prices highly volatile, influenced by global supply.
- Supermarket power, the \$1 milk and private label have eroded the value of the domestic market.
- NVIRP irrigation upgrade has driven industry adjustment and changed farming practice.
- Increasing interest in sector by overseas investors both at farm and processing level.

## REFERENCES

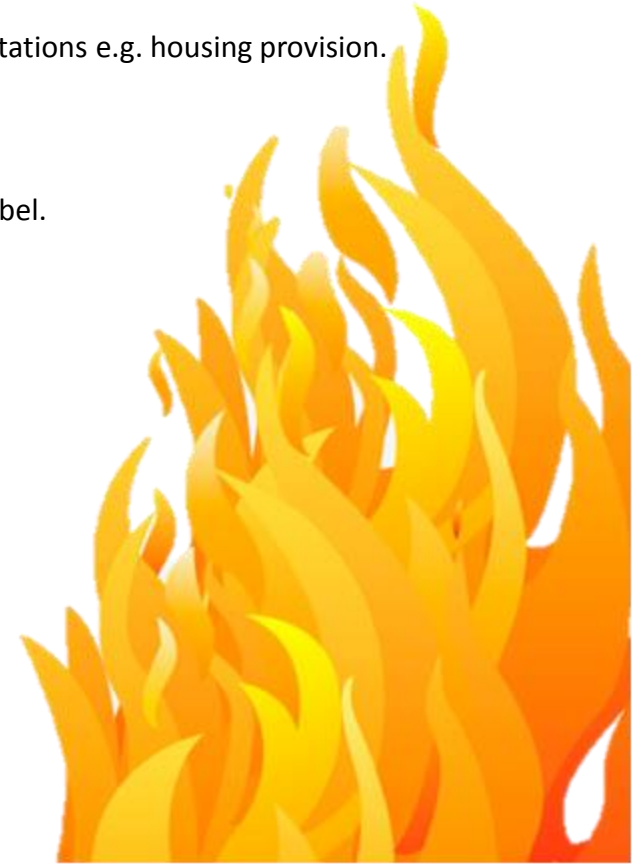
Murray Dairy / Dairy Australia, Workforce Development Strategy 2013 to 2016

Murray Dairy / Dairy Australia, Strategic Plan 2013-2016

Australian Food Statistics 2011-12 & 2012-13 Australian Government RMCG – Water Plan: Dairy sector affordability March 2012

# DAIRY: Burning Issues

- Farm gate prices are a blocker to industry investment but processors are limited in what they can pay by global commodity prices.
- Processing sector would benefit from further consolidation.
- Reliance on low value commodities rather than value adding by processors.
- Water pricing policy is adding layers to the cost of water.
- Poor labour availability and a high cost due to penalty rates and salary packaging limitations e.g. housing provision.
- Limited B-Double access to many farms.
- Succession planning.
- Supermarket power impacting domestic returns with price discounting and private label.
- Lack of capital to expand family businesses.
- Local government planning issues around feed pads.
- Water delivery share effectively devaluing land.



# Cropping

TREND Cyclic



AUST gross value: \$17,050 mil  
Total exports value: \$9,992 mil

VIC share: 14%  
VIC export share value: \$1,399 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Cereal Canola and oil seeds Corn	Global	North America Russia/Eastern Europe

## INDUSTRY TRENDS

- Rapid ramping up of scale.
- Adoption of new farming systems and adoption of technology.
- Adoption of irrigation on what were traditionally dryland farms.
- Formation of marketing groups and regional R&D clusters.
- GM-free debate continues.
- Growing recognition of health benefits of seed oils.

## DRIVING FORCES

- Global supply volatility impacting prices.
- Overall, increased global demand.
- High \$A.
- Deregulation of the AWB has forced change in supply chains and marketing.
- Further global market liberalisation

## REFERENCES

Producing irrigated cereal grain & fodder in northern Victoria – Victorian Irrigated Cropping Council, 2011  
Australian Food Statistics 2011-12 & 2012-13 Australian Government



## CROPPING: Burning Issues

- Rail and road infrastructure.
- Growers must now take responsibility for marketing since deregulation which has resulted in a 'rogue trader' element and industry adjustment.
- Water pricing policy adding layers to cost of water.
- Irrigation upgrade delays and uncertainty causing businesses to stall planning.
- The quality of some grain has declined since deregulation.



# Red Meat

TREND Growing



AUST gross value: \$10,040 mil  
Total exports value: \$7,592 mil

VIC share: 23%  
VIC export share value: \$1,746 mil

KEY PRODUCT CATEGORIES	KEY MARKETS	COMPETITOR SET
Grass fed and grain fed beef Lamb Mutton	Domestic Global	Beef: South America Lamb and Mutton: New Zealand USA

## INDUSTRY TRENDS

- Increase in grain feeding
- Increase in direct selling and online sales meaning sale yards losing influence
- Growing global demand for quality grass-fed
- Increasing popularity of provenance branding
- Consolidation of processing sector: 4 companies now dominant and many regional plants have closed down
- Growth of premium breeds with direct-to-customer supply chain

## DRIVING FORCES

- High \$AUD impacting exports
- Supermarket dominance in domestic market
- MSA grading has driven quality improvement
- Growing demand from Asia forcing an upward price trend domestically.
- Animal welfare focus means producers require a social license to operate.
- Processing costs much higher in Australia than USA or South America.
- Export markets aiming for self-sufficiency

## REFERENCES

Red Meat Advisory Council Ltd, Meat Industry Strategic Plan 2010-2015  
 Australian Food Statistics 2011-12 & 2012-13 Australian Government

**1. Introduction**

**2. Industry Sector Dashboards**

**3. Common Themes**

**4. Strategic Analysis**

# Common Themes

On review of each of the industry sector dashboards and consideration of the other high level themes that emerged in the roundtable discussion groups and interviews, 12 overall 'burning issues' for agrifood in Northern Victoria have been identified. These high level burning issues were validated at a Situation Analysis workshop.

The essence of effective strategy is to focus on the hand full of factors, which if effectively addressed, will have the biggest impact in terms of achieving the desired mission. The burning issues identified capture what the consultants judge to be the most important for this plan. The Northern Victorian agrifood industry is predominantly based on mature, commodity sectors which in a macro sense, offer the greatest opportunity for future economic development. Although there are opportunities in some emerging enterprises\*, in a regional strategic context these have a lower priority. This is not to say that these opportunities will be ignored, it is just that they wont be a strategic priority. The strategic challenge and the biggest opportunity in Northern Victoria is about making the existing large scale, commodity sectors more productive and globally competitive.

As indicated later in this report, these 12 burning issues impact each of the established industry sectors to varying extents. Fruit fly is the most industry-specific issue and, although it does not impact sectors such as dairying directly, it does have a significant effect on the whole Northern Victorian agrifood economy and as such, it is included in the list of burning issues.

The 12 overall burning issues are explained further in the following slides and then a strategic response is outlined in Volume 2: Strategic Plan.

*\* Note: new industry development in Northern Victoria is unlikely to be in the form of small scale, boutique, artisan foods or from family farming enterprises. It is most likely to come from large scale corporate investment as seen in the olive, almond and more recently, pomegranate industries.*

# Overall Burning Issues

1. Water efficiency
2. Rail and road infrastructure
3. Labour availability and cost
4. Energy cost and connectivity
5. Retailer market power
6. On-farm productivity
7. Succession planning
8. Market access
9. Capital and scale
10. Compliance and bureaucracy
11. Fruit fly infestation
12. Business acumen



# 1. Water Efficiency

Water policy must be aligned with the economic imperative of leveraging a return on investment in water and water infrastructure:

1. Water pricing policy needs to drive efficient use
2. Delivery share charges increase the fixed cost component of water inputs. They are effectively devaluing land in some regions.
3. GMW Connections (NVIRP) slowness and uncertainty around connections means businesses are 'on hold'.
4. Environmental water holdings are distorting the water market. Water prices are staying artificially high, despite high rainfall.
5. Irrigators are questioning the return on investment of on-farm upgrades and concerned about the life of the infrastructure.
6. There is a need to continually drive on-farm water efficiency.
7. Irrigators need to be up-skilled in water management as this is now such an important part of the farming business case.

*NOTE: Issues 1 to 5 above primarily relate to the Goulburn Murray Irrigation District (GMID). It is also important that there is a continued investment in water efficiency initiatives in the private irrigation systems that operate across the Loddon Mallee region.*

## 2. Rail and Road Infrastructure

Transport infrastructure is hampering global competitiveness:

### 1. Rail:

- Many production areas for bulk commodities do not have direct access to Portland and Geelong ports due to lack of gauge standardisation.
- Capacity and availability issues abound.
- Reliability and weight limits are slowing supply chains.

### 2. Road:

- Poor B-double access to farms and secondary roads is adding to costs.
- Lack of access to A-doubles is preventing cost savings.
- Although interstate harmonization in transport regulation has improved, there are still challenges.

### 3. Labour Availability and Cost

Labour is a universal issue for all agrifood industries in Northern Victoria at every level in the value chain:

1. Difficulty in recruiting labour.
2. Low skill levels.
3. The inability to offer salary packaging with house and car for farm managers increases cost.
4. The uncertainty over the future of 457 and 417 visa labour is concerning given the high reliance on these workers and their highly-valued work ethic.
5. Cost, professionalism and ethics of contract labour companies is wanting.
6. A paradox exists with high youth unemployment in many areas of Northern Victoria where wages for seasonal work are high.
7. It continues to be difficult to attract youth to agricultural education pathways – teachers, career advisors and parents are key blockers.



## Case Study: Summer Fruit

*“I don’t want to employ locals here. The backpackers I have are great young people – they are hard workers, they turn up every day and respond well to incentives. As a result, they take home good money.”*

This horticultural business is typical of many in Northern Victoria who are totally reliant on a stream of backpackers to fill their seasonal worker needs. The backpacker cohort is performing a critical role in such businesses who once struggled to get their fruit off the trees in peak period. Many growers are worried that sudden moves by the Federal Government to change this scheme could put their harvest at risk.

In instances like this case study, the backpacker program is having a very positive effect in cultural exchange, although many growers acknowledge that this is not always the case. Some farmers are concerned that a few unethical growers are exploiting workers and damaging the future of the program as well as our reputation as a nation.

**Note:** There are an estimated 27 backpacker hostels in the Mildura area alone, indicating the significance of the economic flow-on effects of working holidays visas and the 88 day scheme right across Northern Victoria.

### Key Learning:

There is now heavy reliance on both 417 and 457 visas in Northern Victoria. Any changes to these visas will have widespread impact.

## 4. Energy Cost and Connectivity

Gas and electricity prices have increased exponentially:

1. Electricity costs have increased exponentially since deregulation.
2. Gas prices have increased and are expected to increase further due to export demand.
3. Many processing plants are either not connected or have insufficient capacity.
4. There are also capacity issues with electricity which are constraining expansion in the processing sector.
5. Despite rewind of carbon tax, costs have not reduced.

## Case Study: Food Processing

*“Every year, its harder to find cost savings to offset the rise in energy prices. Our global competitors are not facing this issue.”*

A constant concern for processors right across Northern Victoria is energy – capacity and cost. Processors by nature are adept at analysing their cost of production and the rising cost of energy is one they monitor closely as it is usually the one they can do least about. Unless energy co-generation is an option, processors are being forced to find other means of offsetting the high cost of energy.

One highly efficient processor in the region was trading in a commodity which cost them \$2,600 per tonne to produce compared to the \$2000 per tonne price of imports. Like others have done before them, their solution was to import the lower cost commodity themselves before their global competitors had a chance to do more damage.

Fortunately this company was able to differentiate their own product from the imported commodity and earn a small premium for the ‘Australian made’ goods due to a visibly superior product. (Others are not so lucky, for example, Victorian olive oil is vastly superior to many imports but this cannot be seen when the oil is in the bottle and many consumers still believe that European is best).

### Key Learning:

Unless costs rises of key inputs such as energy can be contained, processors will resort to switching their core business capability from that of processing to that of importing in order to survive.

## 5. Retailer Market Power

Supermarket oligopoly power has resulted in a significant value transfer further up the supply chain away from the production and processing sectors:

1. Aggressive discounting by the supermarkets and the growth of private label products has dramatically reduced returns for producers.
2. A dynamic where supermarkets account for the majority of domestic food sales (and domestic sales are a large share of total sales); has eroded total returns to growers, processors and marketers.
3. It used to be that margins from domestic sales were significantly higher than exports, but this is no longer the case. In many instances, where export markets have slowed due to a high \$AUD, supermarkets have exploited the subsequent domestic oversupply and sold products below production cost. Export markets are critical to reduce potential over supply on the domestic market which depresses prices.
4. Channel diversification is vital for all industries to reduce exposure to the price diluting effect of trading exclusively in the domestic supermarket arena.
5. While the Australian retail supermarket sector is one of the most concentrated in the world, this issue of excessive supermarket retail power is a global one, as a number of multi-national retail brands emerge.
6. Although much of the dairy produce from Northern Victoria is destined for export markets, the domestic market was once where processors made a significantly higher margin. The advent of \$1 supermarket milk and price pressure on branded dairy foods has eroded this.

## 6. On-Farm Productivity

Investment in on-farm productivity is needed to improve the region's global competitiveness. Given Australia's high cost structure, it is critical to invest in technology to drive on-farm efficiency.

This includes:

1. New varieties (requiring investment in both breeding and marketing).
2. Yield improvement.
3. Labour saving.
4. Water management.
5. Energy saving/ renewal energy.
6. Risk management.
7. Market intelligence.

## Case Study: Olives and Almonds

*“This facility and the jobs it creates certainly wouldn’t be here if it wasn’t for MIS”*

Olives and almonds are relatively new industries in Northern Victoria, but their economic influence on the region’s economy is increasing as the legacy plantings of MIS are now reaching full bearing. These new industries present interesting case studies in retrospect. While the economic model was clearly flawed in execution, MIS was successful in driving the large scale investment that has given birth to two global competitive sectors with much potential for export growth.

Investment in scale and world’s best practice production facilities in these new industries has been critical in achieving the productivity levels needed to be globally competitive. This investment was made possible due to the corporate structure that enabled a large external investment to be drawn from a wide pool of investors. While it is important not to lose sight of the losses incurred by investors in these schemes, there is potential for an improved MIS model to provide adequate returns to investors and to add much value in permanent horticulture industries where the start up costs alone are a barrier to investment by individual farmers. The necessary changes to such schemes could easily be accommodated by a review of the associated legislation.

### Key Learning:

While MIS is widely criticised, it bought globally competitive agricultural investment to Northern Victoria that would not have otherwise transpired.

## 7. Succession Planning

While awareness of the issue has improved, a high percentage of farmers are still approaching retirement without a succession plan:

1. A Swinburne University study found that 81% of Australian baby boomer business owners don't have a succession plan. In agrifood, the next generation either do not want or cannot afford to take over the family farm.
2. Many farmers want to continue to live in the family home, without farming the adjoining land.
3. Farmers are usually 'asset rich but cash poor' so need an income stream in retirement.
4. New farming and land ownership models are needed. Great 'corporatisation' of farming businesses is an important aspect of this. Family farms can still operate in a corporate structure.
5. Many farmers in irrigation areas have sold water to retire debt and fund retirement – some of this land has become completely unproductive.

## 8. Market Access

Although there is an increasing number of FTAs being signed off, technical and non-technical trade barriers still pose a major blocker to trade:

1. Many emerging markets are still subject to import tariffs.
2. Zero tolerance protocols from export countries make trade excessively restrictive.
3. Product treatment is required in many markets which adds to cost and impacts on quality/shelf life.
4. Even where there is legal market access, because of the challenges involved with the restrictive trade protocols, much product is still trading through the grey channel into China (which is highly risky).



## 9. Capital and Scale

Capital investment is needed at every link of the value chain:

1. Scale is needed for bigger, more efficient businesses that can reduce cost to be globally competitive.
2. New technology and processes must continually evolve.
3. RD&E innovation required.
4. Infrastructure required.
5. Traditional family farms need to adjust their business model if they choose to remain small scale.

## Case Study: Dairy

*“How do I find the right investor to grow my business? I don’t know where to start looking”*

A common theme across small scale dairy farms is the need for capital to grow.

The case study farm was started by a young dairy farmer with next to no seed capital. Through sheer hard work, this farmer now in his 40s, has built up a profitable dairying business with a herd of around 450 cows. He has enthusiastically participated in every program made available by industry to develop his business, farming and personal skills. He now has a sophisticated understanding of the drivers of profit in dairying and is realistic about the fact that the only way he will be able to grow his business and achieve greater economies of scale is with external investment.

Despite this willingness to take on an investor, the farmer does not have the networks or contacts that could connect him to potential partners. Meanwhile there is significant capital in the market looking for a place to invest (e.g. DIY Super funds). Many small scale investors are willing to invest in agriculture (as evidenced by the rush to MIS projects), but don’t know where to find the right investment vehicle.

### **Key Learning:**

**There is a need for a facility to match small scale farms with small scale investors.**

## 10. Compliance and Government Bureaucracy

Compliance and red tape is significantly adding to cost:

1. Escalating customer compliance requirements are adding to costly lack of harmonisation across accreditation schemes resulting in duplication of auditing.
2. Government charges and administrative burdens are impacting on business efficiency and adding to cost to the extent that Australia has one of the highest burdens of compliance in the world.
3. Lack of harmonisation across state regulation is improving but still restrictive.
4. Social accountability is adding to the compliance burden.
5. Variability in local government land-use planning and lack of responsiveness in some instances, is frustrating industry.
6. There is considerable overlap in agrifood industry assistance programs as all tiers of government now engage in economic development activity.

# 11. Fruit Fly Infestation

Fruit fly infestation is limiting market access and adding to cost:

1. Fruit from 'fruit fly-declared areas' needs to be treated which:
  - *Adds to cost*
  - *Increases supply chain time*
  - *Impacts on shelf life*
  - *Impacts on eating quality.*
2. Air freight is not feasible when fruit has to be cold treated so producers miss out on peak demand/ premium pricing spikes such as Chinese New Year.
3. Shed packing rather than field packing, is now required for table grapes due to fruit fly declaration which substantially adds to cost and impacts on fruit quality.

## 12. Business Acumen

The business of farming has drastically changed:

1. Once farming was focused on agronomy/animal husbandry. Marketing and sales were handled by the co-op or the single desk.
2. Business complexity has increased:
  - *Water management*
  - *Labour*
  - *Environment*
  - *Compliance*
  - *Supply chain and appropriate business model to suit the channel*
  - *Marketing and sales skills now required*
  - *Assessing return on capital*
  - *Strategic planning*
  - *Superannuation*
3. Business skills are now required in an agrifood farming enterprise and most family farms are lacking the full breadth of skills which is limiting performance.

## Case Study: Row Crops

*“It’s much more stressful farming these days – once I only had to worry about the weather, now there’s tax, OH&S, water, marketing, HACCP, supermarkets and everything else.”*

This case study presents a common story of transition from family farm to a multi-million dollar business.

As farming businesses grow, business complexity increases. Often the skill sets required to manage more complex businesses do not exist within the family. In this case study, the family skill set was very strong in agronomy and machinery. Recognizing their own limitations and the importance of understanding imperatives such as return on investment in irrigation water, the family invested in business analysis advice to dissect their costs in detail. They began to identify which crops were giving the best return on investment and the new data improved their pricing negotiations with key customers.

Seeing the impact of external advice, the family then went on to engage a business excellence coach to guide them through a strategic planning process. They now have an agreed vision for their business for the future which has also assisted in improving family relationships.

Many industry bodies in agriculture are now assisting their members to develop business skills outside of agriculture through activity such as confidential benchmarking, seminars and workshops.

### Key Learning:

General business management is a skill gap for many SME farmers who have focused on building production skills.

# Burning Issues by Industry Sector Overlay

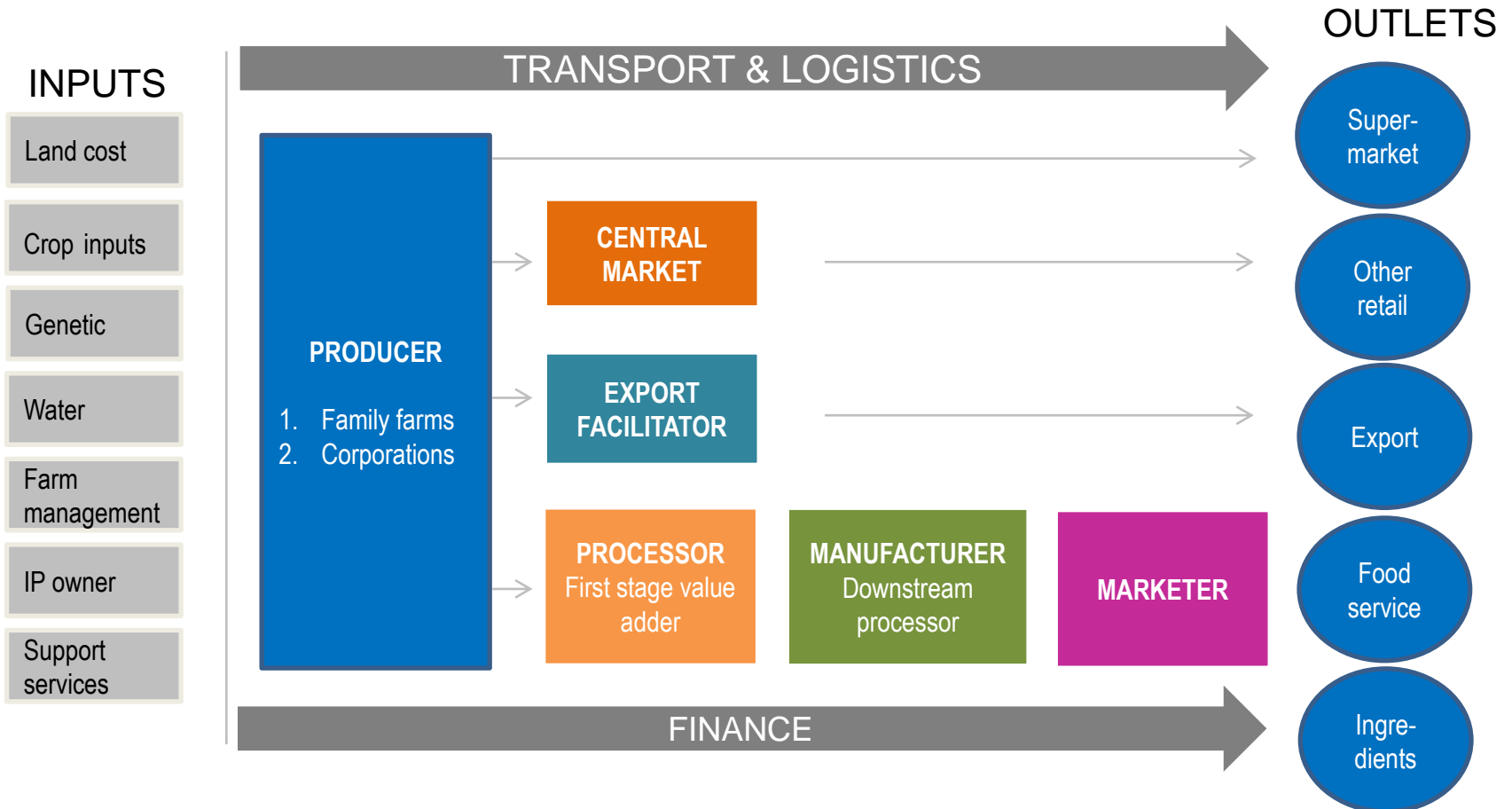
The table below indicates which of the 12 burning issues apply to each specific industry sector. The table below was reviewed at the industry 'road test' workshop which was held to review the draft strategy and serves to indicate the process of cross-referencing the burning issues to assess their commonality.

	Water policy	Rail & road infrastructure	Labor availability & cost	Energy cost & connectivity	Retailer market power	On-farm productivity	Succession planning	Market access	Capital	Compliance & bureaucracy	Fruit fly infestation	Business acumen
Citrus	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Table Grapes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Pome Fruit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Summer Fruit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dried Fruit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Processed Tomatoes	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓
Processed Fruit	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓
Dairy	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
Cropping	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓
Red Meat		✓	✓	✓	✓	✓	✓	✓	✓	✓		✓

Source: Industry workshop, Bendigo October 2014

# Agrifood Supply Chain Map

The agrifood sector needs to be viewed as a series of interconnecting value chains as indicated in the general map below (there are many industry-specific variants). Any force which impacts at a certain point in the value chain, ultimately reverberates throughout the entire value chain, therefore the strategy must consider the impact of the key strategic issues on all stages of the value chain (see next page).





## Burning Issues by Supply Chain

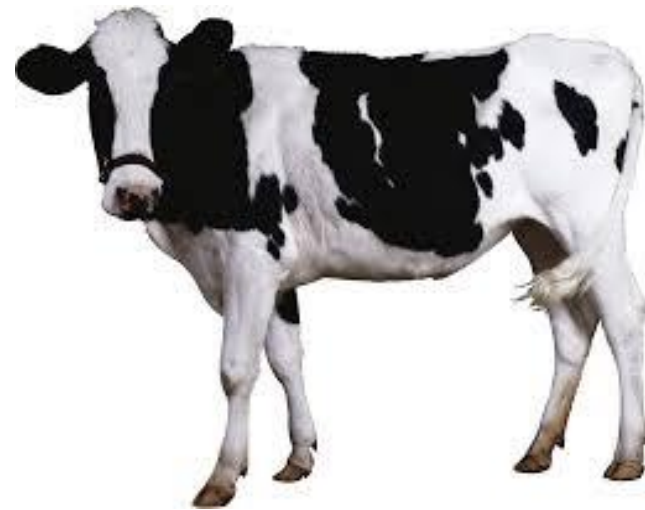
A review of the 12 burning issues against each link in the value chain indicated that these issues are universal. The table below was reviewed at the industry 'road test' workshop which was held to review the draft strategy and serves to indicate the process of cross-checking the burning issues for each industry sector and each link in the supply chain.

	Water policy	Rail & road Infrastructure	Labor availability & cost	Energy cost & connectivity	Retailer market power	On-farm productivity	Succession planning	Market access	Capital	Compliance & bureaucracy	Fruit fly infestation	Business acumen
Farm	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1 <sup>st</sup> Stage value-adding	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Processing	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Distribution	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Export	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: Industry workshop, Bendigo October 2014

- 1. Introduction**
- 2. Industry Sector Dashboards**
- 3. Common Themes**
- 4. Strategic Analysis**

The strategic situation analysis section of this document attempts to focus the information identified in the industry consultation and draw specific conclusions that will be responded to in Volume 2.



# Forces of Change

A review of the agrifood sector's operating environment indicates that the external forces driving change in agrifood include:

1. Climate change – weather patterns
2. Global economy
3. Free trade agreements
4. Domestic economy
5. Government policy
6. Global geo-political issues
7. Industry deregulation
8. Global competition
9. Market access
10. Consumer preferences
11. Concentration of retail market power.

# Free Trade Agreements

A number of advancements in Free Trade Agreements (FTAs) have occurred recently, of which the agreement with China is likely to be the most significant to Northern Victoria due to its focus on red meat, horticulture, dairy and wine.

In November 2014, Australia signed an historic FTA with China which will be of particular benefit to agricultural and food processing businesses over coming years as the new protocols are phased in.

The key elements of the China FTA as it relates to agrifood in Northern Victoria are:

- Removal of all tariffs on dairy foods within 4 to 11 years (currently 20% tariff)
- Removal of tariff on beef over 9 years (currently 12 - 25% tariff)
- Removal of tariff on live animal trade within 4 years (currently 10%)
- Removal of tariff on Sheep meat over 8 years (currently 12 - 23%)
- Removal of tariff on wine over 4 years (currently 14 – 20%)
- Removal of tariff on horticultural products (up to 30%)
- Immediate removal of tariff on barley (3%)
- Removal of tariffs across a range of processed foods.

FTAs were also signed this year with South Korea and Japan which together with China, account for 61% of Australia's exports. China alone accounts for 19% of Victoria's exports.

*Source: Commonwealth of Australia, Minister for Trade and Investment Press Release, Nov 2014*

# Main Opportunities

as identified in supporting report by Deloitte Access Economics

The report titled, 'Food Opportunities in Northern Victoria' highlighted the following as the main opportunities for the agrifood sector in Northern Victoria:

- Rising wealth and population growth in many countries (especially Asia) which is likely to increase demand for Australian food products.
- Increased certainty and consolidation of water availability for irrigated agriculture.
- Australian domestic tastes are changing with greater value placed on fresh and healthy produce.
- Potential for increased productivity and further innovation in many food groups.

In addition, there are a number of industry-specific opportunities of note.

# Emerging Trends

as identified in supporting report by Deloitte Access Economics

The emerging trends and issues noted in the Deloitte Access Economics report were:

1. **Global economy:** rising wealth, population growth, market liberalisation, increasing investment in agriculture.
2. **Domestic economy:** continued market concentration in food retailing and processing, increasing access to finance.
3. **Skills and labour:** aging labour force, migration to urban centres, high wage costs.
4. **Consumer food preferences:** increased desire for fresh and healthy foods, focus on ethical production.
5. **Science and technology:** biosecurity threats, increasing adoption of bio-technology, digital revolution, increasing productivity and innovation.
6. **Infrastructure:** irrigation modernisation, improvements in Victorian transport and logistics infrastructure.
7. **Environment:** climate change, environmental management.
8. **Policy:** federal and state government, implementation of Murray Darling Basin Plan, increased competition for competing land uses.

# Agricultural Competitiveness Green Paper

In October 2014, the Commonwealth Department of Agriculture released a green paper on agriculture which was drawn from over 700 submissions.

The green paper provides an overview of the status quo in Australian agriculture nationally and the issues in agribusiness. It summarises submissions from industry to the 10 category areas noted on this page. It aims to generate a discussion with industry stakeholders.

The next state in the process is the production of a white paper which will outline policy frameworks. The white paper is due for release mid-2015.

*Source: Commonwealth of Australia, Agricultural competitiveness green paper, 2014*

**Infrastructure**—building efficient and cost-effective transport and communications infrastructure that will support the movement of farm inputs and outputs, reduce costs and open up new markets; and facilitating new or intensified agricultural production.

**Working with the States and Territories**—to deliver improved outcomes for Australian agriculture, including by tackling deregulation through the Council of Australian Governments (COAG) agenda.

**Competition and regulation**—giving farmers the best chance to earn a fair return on investment by ensuring fairness and transparency in the supply chain; and making sure that unnecessary red and green tape is removed and that necessary regulation creates the least possible costs for business and individuals.

**Finance, business structures and taxation**—improving access to finance; providing access to reliable independent business information and advice; and ensuring that the tax system appropriately encourages investment.

**Foreign investment**—encouraging responsible foreign investment to build new production capacity; and ensuring the foreign investment regulatory framework takes into account the needs of the agriculture sector.

**Education, skills and training, and labour**—ensuring agriculture is well covered in our education system; making education more accessible for children in remote areas; increasing skills of new and existing workers; enabling access to a flexible workforce; and attracting new entrants into agriculture.

**Drought**—building resilience and risk management capability; and providing appropriate support to farm families and otherwise viable farm businesses suffering severe droughts.

**Water and natural resource management**—identifying and building the water infrastructure needed for Australia's future water supply needs; ensuring sustainable and productive use of natural resources for economic growth and development; improving our knowledge of sustainable resources use; and managing weeds and pests.

**Research, development and extension (RD&E)**—boosting productivity through strategic and coordinated research and development; and making sure that farmers can apply the latest innovations through ensuring effective extension of new knowledge and technology.

**Biosecurity**—protecting our favourable animal and plant health status to maintain productivity and access to export markets.

**Accessing international markets**—giving our exporters the best chance of capturing high-value markets through addressing technical barriers to trade and ensuring trade negotiations deliver real commercial benefits for the sector; and, by doing so, contributing to global food security.



# Agricultural Competitiveness Green Paper

The key points made in this situation analysis document are also noted in the green paper. In addition, the green paper provides commentary on issues such as:

1. The growing Asian food opportunity and the importance of agricultural exports to Australia's overall economy.
2. The low profitability of farming, rising debt levels, and the fact that profits in agriculture have moved further along the supply chain.
3. The challenges facing family farms and the impact of the family farm on sustaining regional communities.
4. National challenges around overlap and inconsistency regarding infrastructure, environment, communications, state legislation and regulation.
5. The need for taxation reform to encourage investment and assist farm businesses to manage the cyclic nature of returns.

# Opportunities

The following are notable opportunities identified in this analysis for the agrifood sector in Northern Victoria:

1. Improving global competitiveness through developing differentiated and novel products that command a price premium.
2. Improving global competitiveness through adoption of new processes.
3. Building regional value through shifting focus to consumer-ready products and relying less on commodities.
4. Diversifying and developing new channels-to-market.
5. Developing new business and asset ownership models.
6. Capability building to grow overall performance right through the supply chain.
7. Capitalising on Australia's global reputation for safe food and sustainable production systems.

# Competitive Advantage

The analysis identified the following areas where Northern Victoria agrifood producers have a distinct competitive advantage:

1. A state-of-the-art, gravity-fed irrigation system with reliable water on command.
2. Mediterranean climate which supports a wide range of agricultural enterprises.
3. Soil and land capability that can support a diversity of agricultural activity.
4. Location within 10 hours (drivers limits) of three capital cities and 75% of Australia's population base.
5. Availability and cost of land.
6. Transport connectivity via the Hume, Newell and Calder highways.
7. Access to a residential workforce.
8. Livability – which is important for attracting quality staff.
9. Relatively affordable land.
10. Access to support services and technical skills.
11. Global reputation of safe food from the region.

# Blockers to Building Regional Value

The following list by no means exhaustive. It presents the high level blockers to agrifood sector growth.

- Water efficiency (the upgrade still has some way to go).
- Concentration of market power in domestic and increasingly export retail channels.
- Global competitiveness:
  - *Labour availability and cost*
  - *Energy costs*
  - *High \$AUD (forecast to remain around low 80s USc to \$A)*
  - *High input costs*
  - *Scale*
  - *On-farm productivity*
  - *Out dated technology in processing plants*
- Transport infrastructure.
- Market access (technical and non-technical barriers).
- Capital.
- Business skill levels.

# Critical Success Factors

The strategic situation analysis concluded the following were the most critical factors impacting industry success:

- A clear strategy based on reality.
- Culture of continuous improvement in productivity.
- Access to a pool of skilled staff.
- Access to capital and funding
- Ongoing investment in R&D and innovation at every level of the supply chain including:
  - *Differentiated products that can command a premium*
  - *New processes to improve efficiency*
- Markets & channel diversification.
- A globally recognised regional identity for Northern Victoria.
- Access to efficient infrastructure.
- Access to emerging markets.

# SWOT Analysis for Northern Victorian Agrifood

## STRENGTHS

1. A strong, diverse and vibrant food sector
2. Gravity-fed, state-of-the-art irrigation network
3. Location relative to markets
4. Mediterranean climate
5. Fertile soils suitable for a wide range of uses
6. Affordable, available land
7. Global reputation for quality, safe food
8. Large residential workforce
9. Strong array of support services
10. Liveability
11. Highly supportive state and local governments

## OPPORTUNITIES

1. Maximising the Asian opportunity through marketing safe food
2. The potential to grow the sector through:
  - Improving the global competitiveness
  - New and differentiated products produced through investment in R&D
  - New channels to market to reduce dependence on supermarkets
  - Developing new export markets
  - Pursuing new business models

## WEAKNESSES

1. High cost base relative to export competitors
2. Exposure to cheaper imports domestically
3. Under-investment in R&D needed to improve processes and create differentiated products
4. Culture resistant to new ideas
5. Lack of business acumen in an increasingly complex market.
6. Fruit fly
7. Fuel security

## THREATS

1. Further strengthening of the \$A.
2. Another downturn in the global economy.
3. Declining consumer confidence
4. Impact of climate change.
5. Sovereign risk or biosecurity issues within customer countries

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