



UPPER, CENTRAL AND LOWER HUME SUB-REGIONS
FOOD OPPORTUNITY STRATEGY AND ACTION PLAN
2015-2018

VOLUME 1: INDUSTRY MAPPING AND SITUATION ANALYSIS



An Australian Government Initiative



Foreword

This document, **Volume 1: Industry Mapping & Situation Analysis** is one of three reports prepared by McKINNA *et al* in the course of developing a Food Opportunity Strategy and Action Plan for the Hume Region. The three volumes are:

Volume 1: Industry Mapping & Situation Analysis

Volume 2: Strategy

Volume 3: Action Plan

This volume is presented in bullet point style for ease of reading and in order to condense the large amount of information necessary in a review of a region as large and diverse as Hume.

The authors would like to thank the following individuals for their assistance in providing both local networks and regional knowledge:

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INTRODUCTION

PART A

The Upper, Central & Lower Hume Sub Regions Food Opportunity Strategy and Action Plan aims to provide a vision for building on the region's strengths in primary and secondary food production in response to forecast growth in global demand



Section 1 | Introduction

This volume of the Hume Region Food Opportunity Strategy and Action Plan, **Volume 1: Industry Mapping & Situation Analysis**, maps out the region's agrifood sector and provides an overview of the general dynamic and profile of the main industry sectors. The analysis summarises the key performance opportunities, issues, blockers to growth and elements of competitive advantage. As such, it sets the foundation for development of the strategy.

Effective strategic planning is derived from 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 information available about the Hume Region agrifood sector, (which is very broad on the one hand but has limitations in terms of accurate and conflicting data on the other), to identify the most relevant, high level information. This process assists in extracting the critical strategic imperatives that will impact the region's food sector over the next 5-10 years. These game changing factors have been responded to in **Volume 2: Strategy**.

The authors have been mindful of the fact that there are a number of industry-specific plans in place, which have been developed by various industry bodies to guide their 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 actions that fill the gaps in these strategies, rather than duplicating existing activity.

1.1 | Project objectives

The overall aim of this project is to produce an overarching plan to grow the Hume Region's agrifood sector in order to respond to forecast rising global demand for food.

This project was initiated by Hume Regional Development Australia with the intention of developing an informed and insightful master plan that maps out a practical and collaborative approach to growing the food and beverage sector by strengthening the dialogue and action between the various industry bodies and all tiers of government.

1.2 | Report scope

The entire Hume Region comprises 12 Local Government Areas (LGAs) as depicted in the following map.

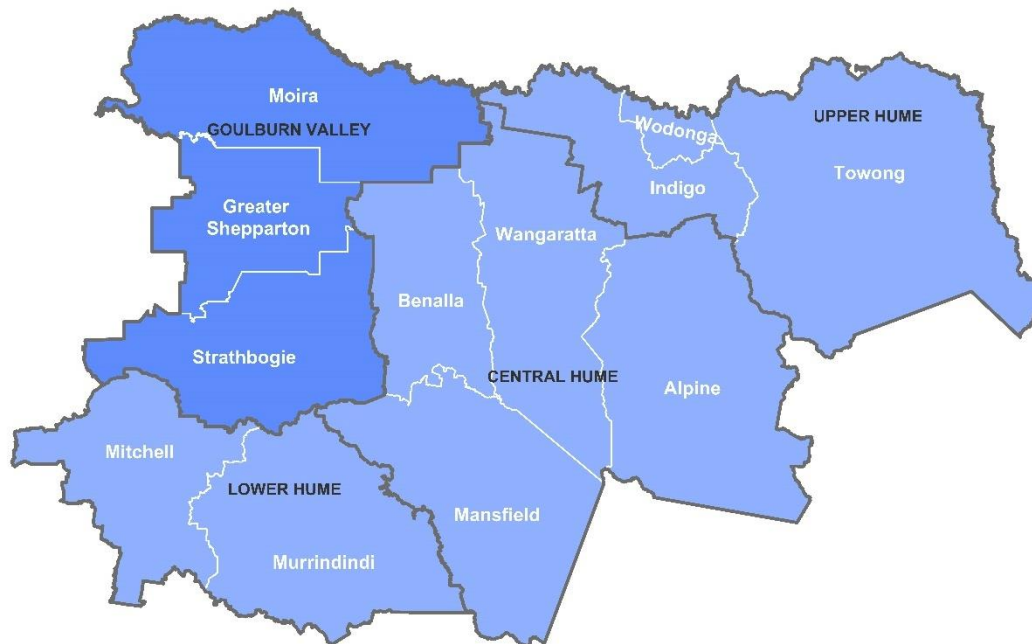
The LGAs that are covered in the scope of this study are (shaded light blue):

Upper Hume: Indigo, Towong and Wodonga

Central Hume: Alpine, Benalla, Mansfield and Wangaratta

Lower Hume: Mitchell and Murrindindi

FIGURE 1: Map of project study area within Hume region by LGA



The Goulburn Valley Sub-Region, which comprises the LGAs of Greater Shepparton, Moira and Strathbogie are included in the Northern Victoria Food Opportunity Strategy and Action Plan.

1.3 | Agrifood scope

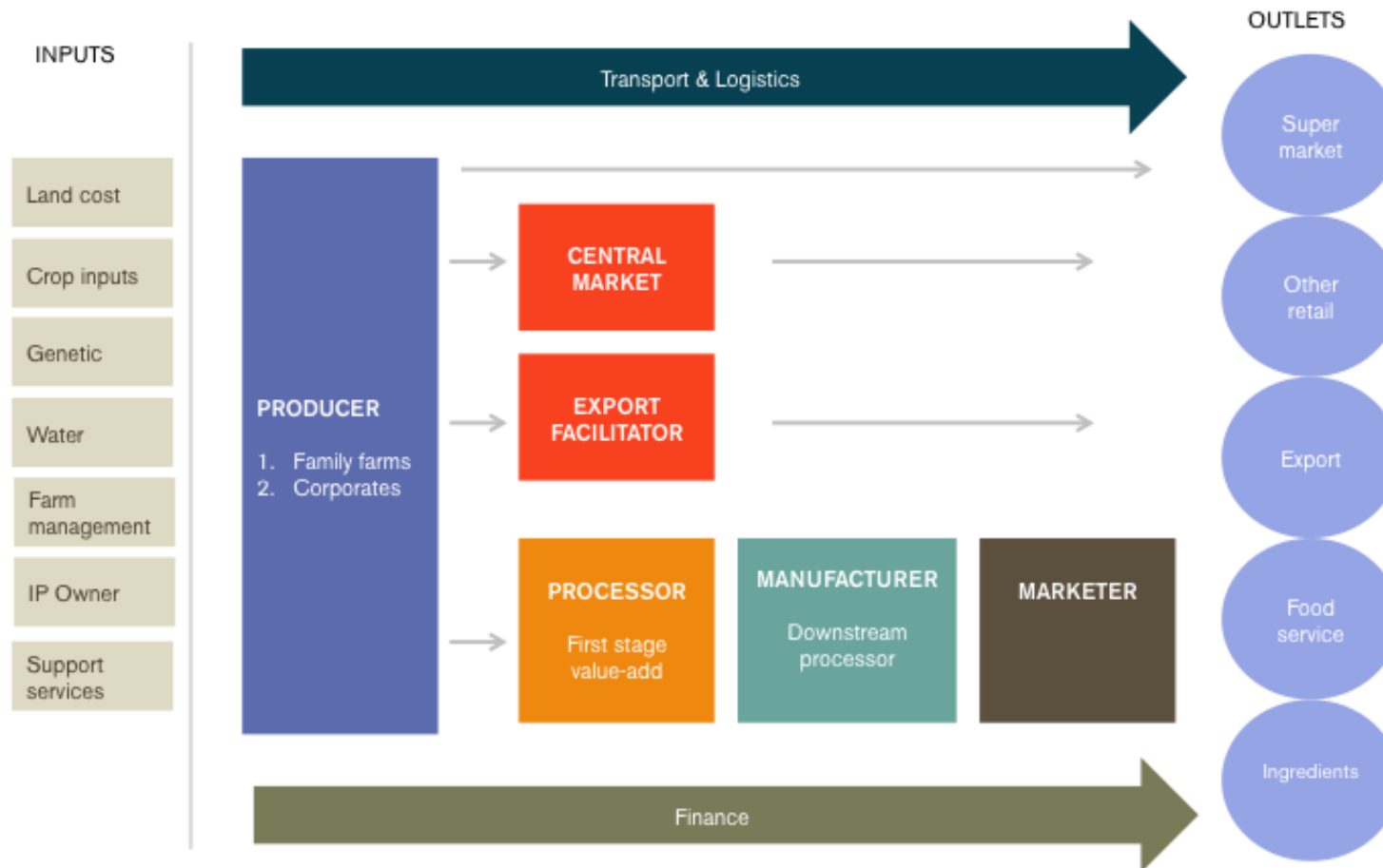
There has historically been much debate in government and industry about where the agrifood sector begins and ends. For the purposes of this plan, the agrifood sector needs to be considered as part of a total supply chain system from paddock to plate as depicted in Figure 2 (following).

However, the focus of the recommendations in the accompanying Strategy and Action Plan will centre on assisting industry engaged in on-farm, first stage value-adding, processing of finished packaged food products and logistics and distribution. This area of focus in no way denigrates the critical importance of the input end of the supply chain, including genetic technology, chemicals and fertiliser, equipment and finance.

The customers and consumers at the very end of the supply chain have also been considered in the market dynamic section of this report. High-level consumer and end-user trends have been summarised in brief in terms of how they influence regional agrifood sector demand.

FIGURE 2: Whole of value chain – agrifood sector

The agrifood sector needs to be viewed as a series of interconnecting value chains as indicated in the general illustration 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 this strategic plan must have a wide scope and consider the impact of the key strategic issues on all stages of the value chain.



1.4 | Project methodology

The methodology used to compile **Volume 1: Industry Mapping and Situation Analysis** included both qualitative and quantitative research, however, given the limitations of the available data, the consultants focused heavily on industry consultation and extensive project experience across the agrifood supply chain.

The methodology steps included:

- Desk research and document review
- Seven round-table discussion groups with key industry representative bodies
- Sixteen interviews with opinion leaders in the various industry sectors
- Demand and supply side mapping
- A process of future scanning
- Workshops with regional thought leaders and steering committee
- Strategic analysis.

THE HUME REGION AGRIFOOD PROFILE

PART B

The Hume Region's agrifood sector reflects its diverse geography and breadth of agricultural capability



Section 2 | Overview of Hume Region's agrifood sector

This section of the report provides an overview of the entire Hume Region's agrifood sector, but places specific emphasis in the commentary on the study area of Upper, Central and Lower Hume.

The geographic diversity of the Hume Region (which ranges from the flat, dry land areas in the north, to the various micro climates that exist in the valleys to the legendary high country and even semi-urban interfaces) is reflected in the eclectic mix of products and agrifood enterprises produced here.

In the Hume Region, the agrifood sector embraces everything from established mainstream sectors such as dairy, sheep, beef, cropping, fruit and wine, with the emerging niche industries including aquaculture, olives, capers, saffron, nuts, chestnuts and value-added derivatives of these. There are also pockets of activity in areas such as seed production, protected hydroponic horticulture (e.g. tomatoes), row crops and trellised crops (e.g. kiwi fruit). There is also a large processing sector focused around first stage value-adding in dairy, fruit and red meat. Processing is occurring in both large scale and small scale artisan production.

The available statistical data is largely commodity focused and as such, does not measure many of the emerging sectors in any useful detail. Likewise, available data that isolates the study area of Upper, Central and Lower Hume Sub-Regions is limited.

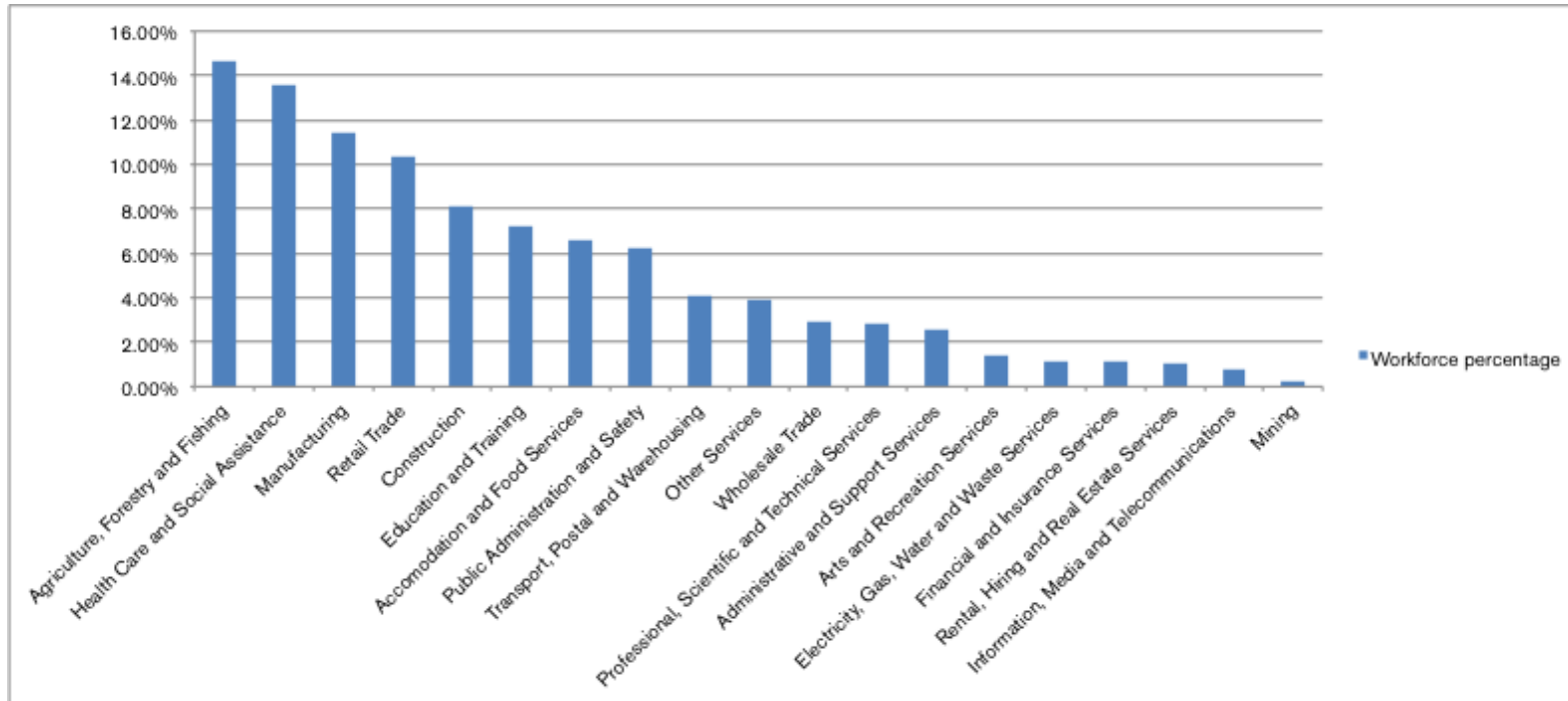
Definitions of agricultural commodities

Agricultural commodity categories as used in this analysis are defined by ABS as follows:

Livestock (grazing)	Including sheep, goats, cattle
Dairy	including milk, cream, yoghurt, ice cream
Livestock (intensive)	including chicken (layers and meat), pigs
Broad acre	including wheat, oats, corn, triticales
Pome fruit	including apples, pears, nashi
Stone fruit	including cherries, peaches, nectarines
Fruit & horticulture (other)	including hops, olives, avocados
Grapes	for table wine production
Berry fruit	including strawberries, blueberries, raspberries
Citrus	including oranges, lemons, limes, grapefruit
Nuts	including almonds, walnuts, pistachios, cashew
Vegetables	including cabbage, chilies, tomatoes, potatoes, sweet corn, pumpkin, trombone, field peas, beans

Employment overview

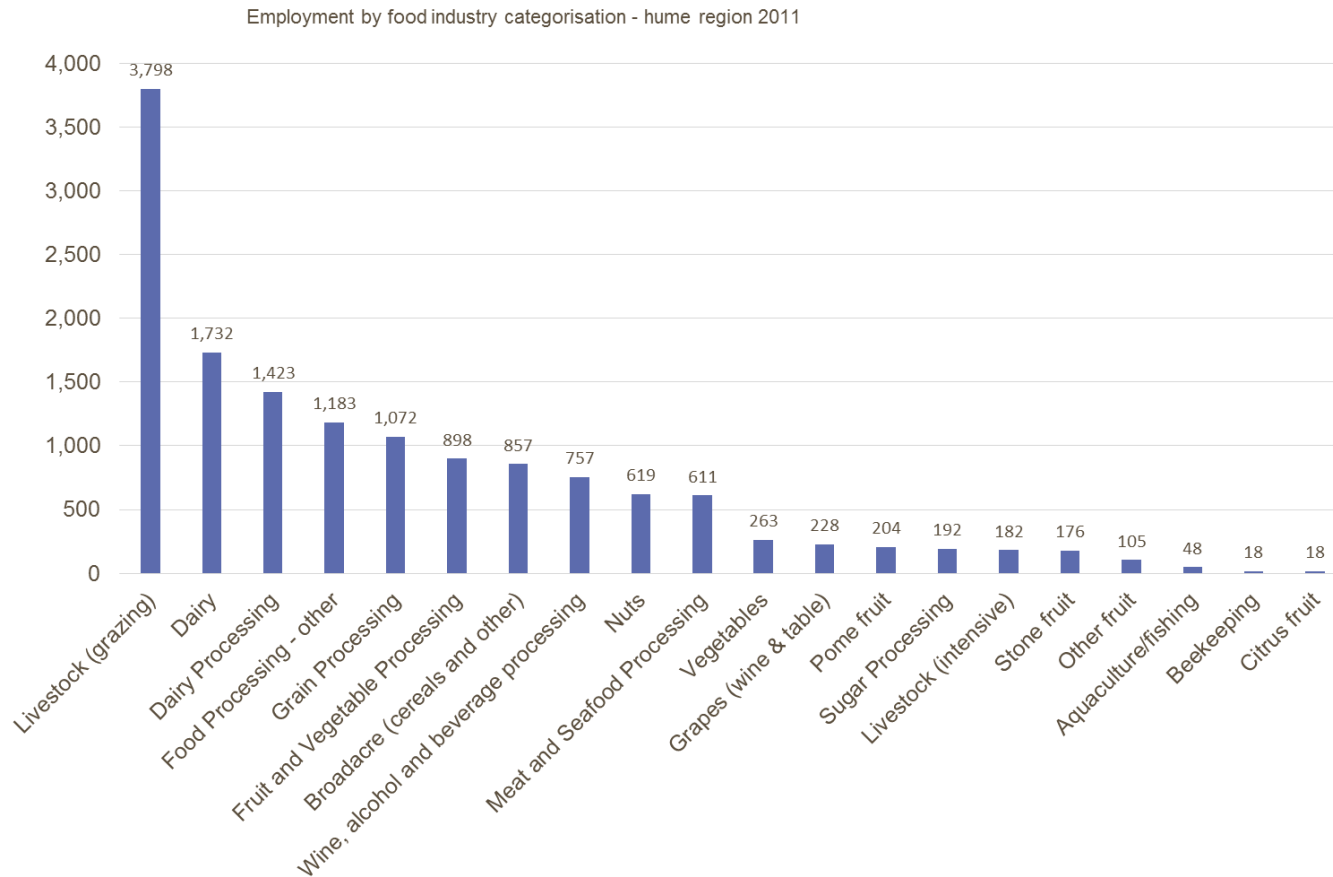
FIGURE 3: Proportion of workforce by all industries, Hume region



| SOURCE: NIEIR 2014

In 2014 data from NIEIR captured in **Figure 3** (above) the category 'Agriculture, Forestry and Fishing' was noted as the largest employer within the Hume Region accounting for almost 15% of the workforce. This employment share relates only to the on-farm section of the agrifood supply chain. When the other aspects of the agrifood value chain are taken into account including processing, value-adding, support services, contracting, logistics, etc., the agrifood sector would certainly be the largest and most significant employer in Hume Region.

FIGURE 4: Employment by food industry categorisation entire Hume Region 2011



When the various categories of food and beverage processing are aggregated it totals 6,136 employees.

This paints an important picture of the value created in post farm gate processing in the Hume Region.

| **Source:** ABS & ATO 2012, Modelled by Neil Clark, interpreted by McKINNA *et al* 2014

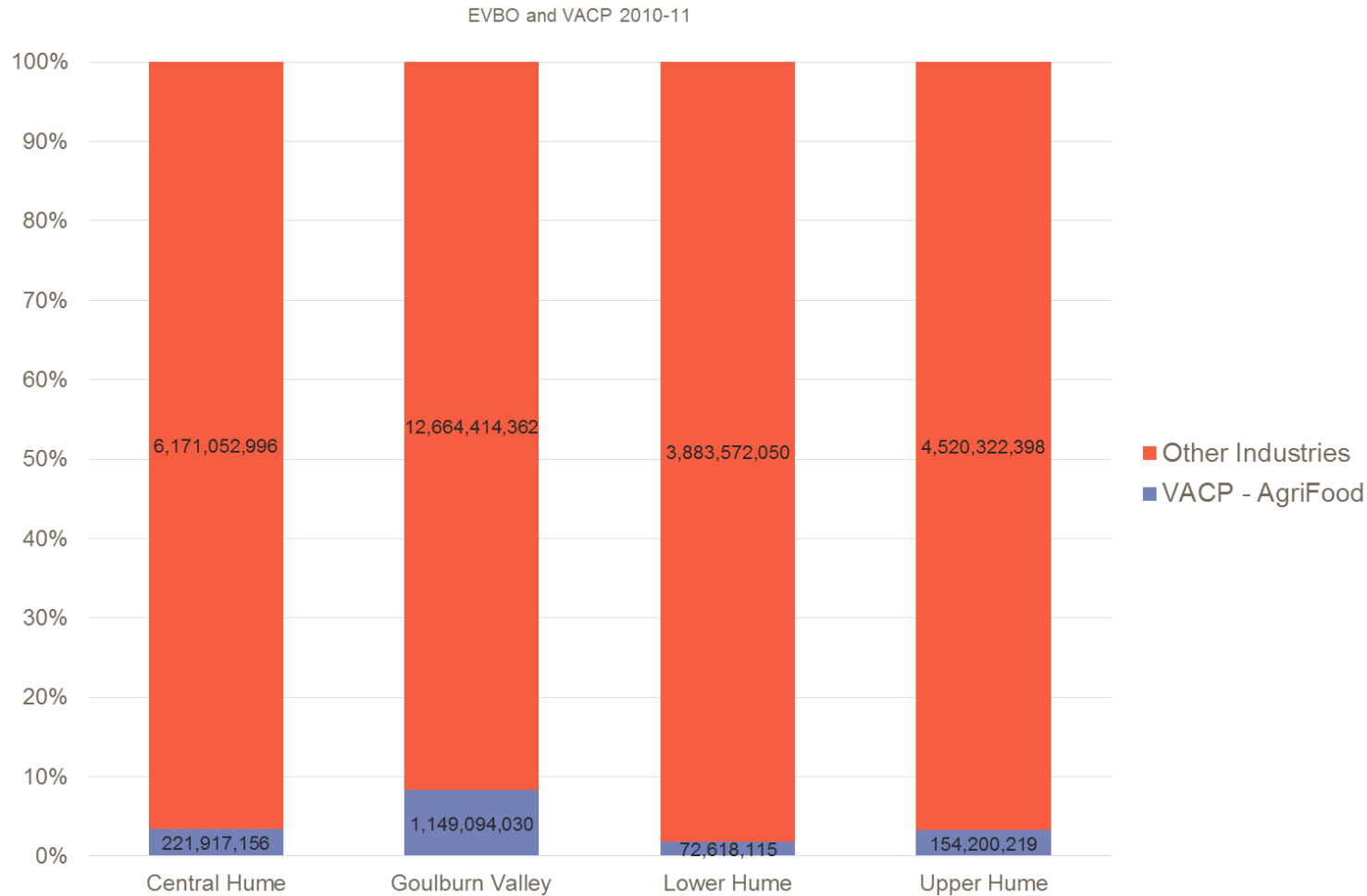
Figure 4 (above) presents a breakdown of employment in 2011 based on the best available data by industry sector for the Hume Region. This data needs to be interpreted with some caution as it is based on 2011 Census data whereby the respondents self-selected their employment status on the nominated census day. Therefore, a pruning contractor working in the fruit or wine industry could nominate either sector or contracting service even though 90% of their time is spent on one or the other, resulting in a seasonal distortion. For example, if the census coincided with peak labour time such as harvesting or pruning, the figure would differ, benefiting one industry or the other.

The authors assume that the data also underestimates the true employment situation, largely due to the heavy use of contract and casual labour and the fact that the census process does not allow for seasonal or weather considerations.

The data confirms Livestock (Grazing) as the biggest single employment category in the total Hume Region (3,798) however, collectively the various food and beverage processing categories including Dairy (1,423), Food (1,183), Grain (1,072), Fruit and Vegetable (898), Beverage (757), Meat and Seafood (611) and Sugar (192) is a significantly larger figure indicating that there are 6,136 employees engaged in food and beverage processing activity.

Industry value

FIGURE 5: Total estimated on-farm value of business operations (EVBO) and percent split by Value of Agricultural Commodities Produced (VACP)



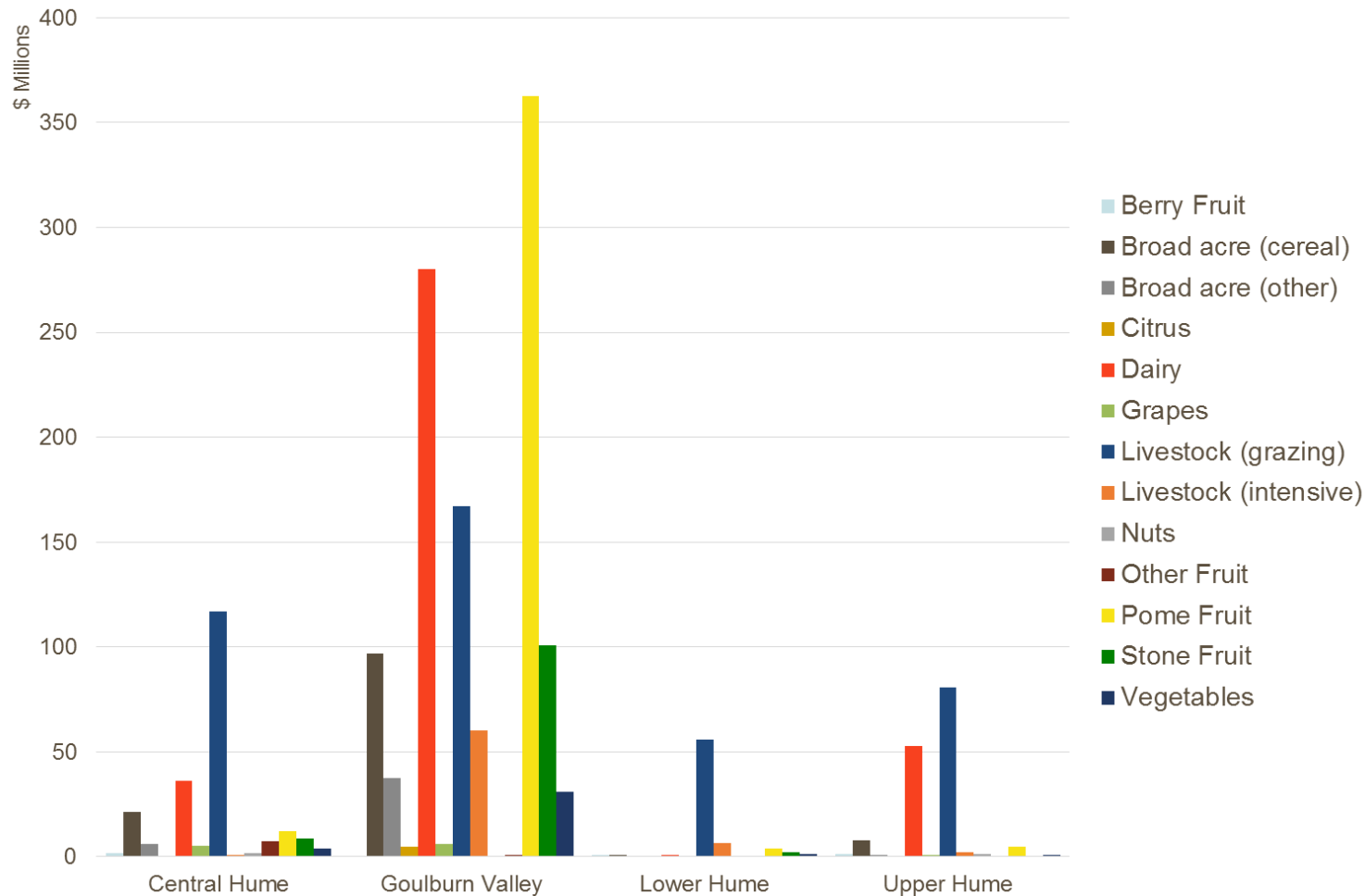
Although the agrifood sector is the largest employer, it represents only a relatively small portion of the value created in the Hume Region's economy.

| Source: ABS & ATO 2012, Modelled by Neil Clark, interpreted by McKINNA *et al* 2014

In the context of the overall commercial economy, the value of the on-farm component of the agrifood sector is relatively small, although it is far more important in the Goulburn Valley part of the total Hume Region compared with the study area.

The value of the on-farm component of the agrifood sector accounts for 4% of the total value of business operations (EVBU) for Central Hume; 9% for the Goulburn Valley; 1.6% for Lower Hume; and 3% for Upper Hume. However, once again it must be noted that these figures do not take into account the downstream elements of the agrifood value chain, including: inputs, support services, processing, transport and logistics, wholesaling, etc.

FIGURE 6: Total value of agricultural commodities by sub-region 2010-11 (VACP)



The high value for pome fruit is an anomaly for 2011 due to seasonal conditions.

Dairy is normally a larger contributor to the economy than pome fruit.

| Source: ABS & ATO 2012, Modelled by Neil Clark, interpreted by McKINNA *et al* 2014

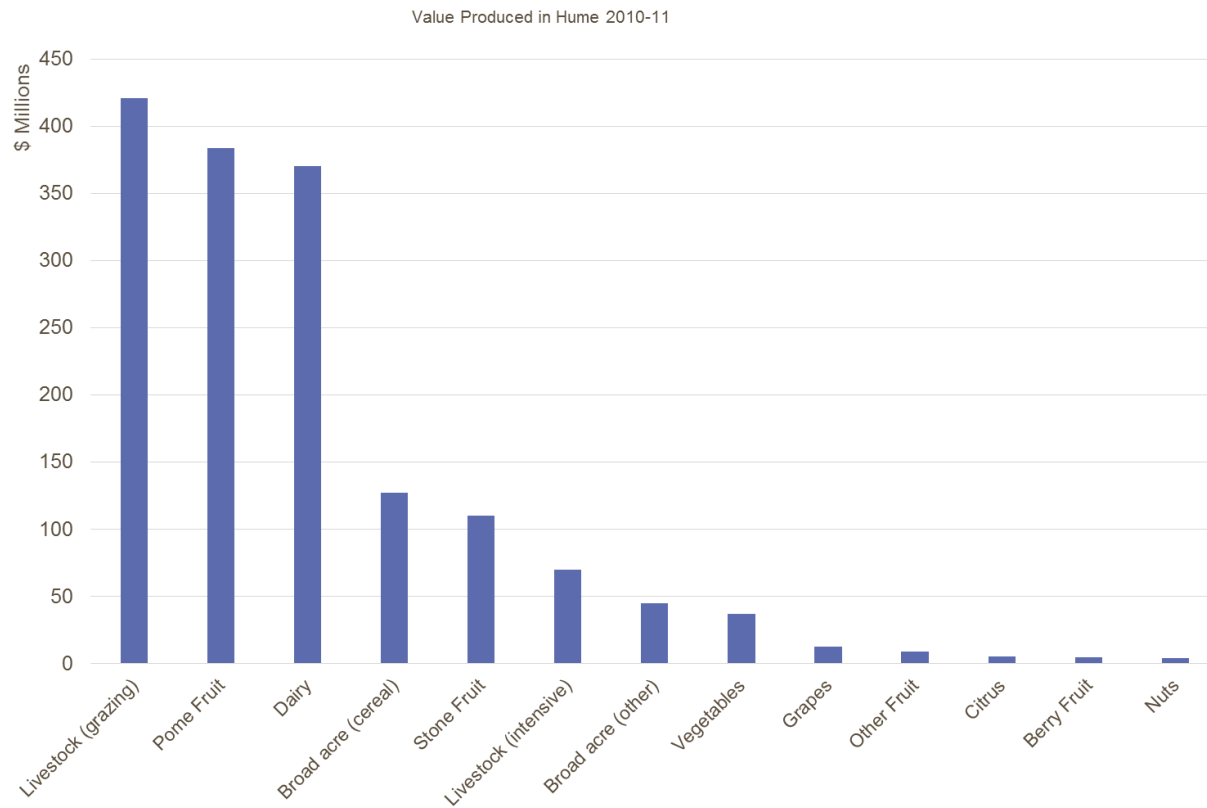
Figure 6 (above) indicates that the agrifood sector in the Goulburn Valley is substantially larger than the other three sub-regions of the Hume Region, being dominated by dairy, pome fruit, stone fruit and livestock. This is due to the presence of the Goulburn Murray Irrigation District infrastructure, which supports intensive agriculture.

It is interesting to note that in 2010/2011, the pome fruit industry was significantly larger than the dairy industry in the Goulburn Valley district. This is somewhat of an anomaly. In the 2010-2011 year the pome fruit industry had an especially strong season (particularly pears), mainly because the average unit value of fruit was well above average. The pome fruit industry benefited from the prevailing higher fruit and vegetable prices resulting from floods in other growing areas. In more normal years, the dairy industry is approximately the same value as the pome fruit industry. Unfortunately, the lack of data does not permit a longer term trend view of the situation.

Livestock (Grazing) dominates the other three districts of the Hume Region which make up the study area. Dairying is also important across Upper Hume and Central Hume. The Lower Hume Region has important activity in intensive livestock production, particularly poultry.

The farm gate output of Hume Region's agrifood economy is underpinned by livestock grazing, dairying, pome and stone fruit growing.

FIGURE 7: Commodity Value produced in Hume 2010-11



| Source: ABS & ATO 2012, Modelled by Neil Clark, interpreted by McKINNA *et al* 2014

Of all the agricultural commodities produced in the Hume Region, **Figure 7** (above) indicates that Livestock (Grazing) (beef and sheep) dominates. On the basis that the pome fruit result was extraordinarily high in 2010-11 due to extreme seasonal factors, it is likely that dairy is the second highest across the whole Hume Region. While pome fruit is still a strong economic contributor in its own right, when other tree fruits such as stone fruit, citrus and nuts are considered, the value of permanent horticulture enterprises are significant collectively.

INDUSTRY SECTOR MAPPING

PART C

The sector mapping aims to profile the key agrifood industries in the Hume Region and to highlight industry dynamics and performance issues



Section 3 | Industry snapshots

This section of the report aims to dissect and summarise the high level dynamics of each of the key industry sectors in the study area of Upper, Central and Lower Hume Sub-Regions (note: The Goulburn Valley part of the Hume Region is covered in more detail in the Northern Victorian Food Opportunity Plan). For each of the industry sectors, available data has been assembled and each has been analysed under the following framework:

1. Hume Region overview (focusing on the study area where practical)
2. Industry dynamics
3. Demand trends
4. Performance constraints
5. Opportunities

Quotations from the project consultation and research have been included to add a further dimension of insight to the reporting.

ABS data has been the initial reference for much of this analysis. Where available, insights have also been drawn from the industry sector strategies and other plans.

An important note on data:

The authors have some concerns around the accuracy of the ABS data referenced. Based on first hand commercial knowledge of some of the sectors profiled, it is apparent that some of the ABS data grossly understates the true value of the industry.

As already noted, a further limitation in the data is that ABS does not always provide sufficient granularity to make estimates of particular sectors within the study area or even the Hume Region specifically, therefore it is difficult to pinpoint the impact on the region's economy. Where possible best estimates have been calculated.

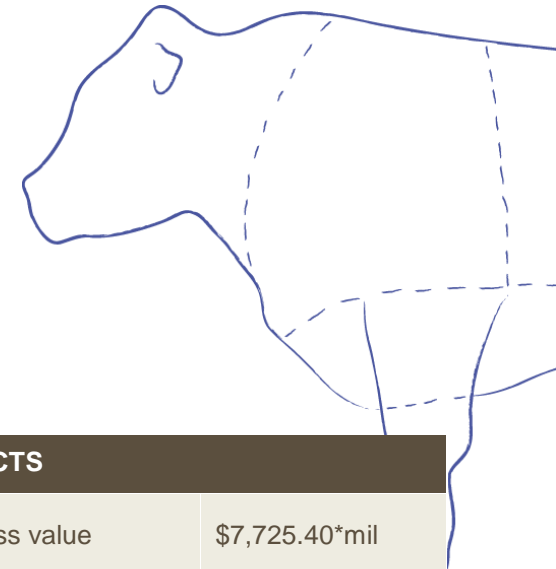
3.1 | Beef

Hume Region overview

- The study area of the Hume Region beef industry comprises breeder farms, studs, store cattle producers, finishers, feedlotter and gourmet beef producers.
- There is a growing niche of producers in the Hume Region who market direct to end customers in closed-loop supply chains. For example, Alexandra breeder David Blackmore sells his premium Wagyu meat for more than \$600 a kilo to Australia's top restaurants.
- Although production is predominately grass-fed, there is a relatively large feedlot at Peechelba (ICM) with a 20,000 head capacity. In addition there are many small feedlots in in the study area of 1,000 head capacity.
- Increasingly the region is becoming a producer of feeder stock for feedlots, for supermarkets and export markets.

Industry dynamics

- An increase in direct selling and online trading of beef means sale yards are losing their market influence.
- Growth of premium breeds and branded products is occurring across the industry with direct-to-customer closed-loop supply chains.
- There is an increasing tendency to grain finish cattle. Most supermarket cattle are finished for 40-70 days on grain.
- The processing sector continues to consolidate with four companies now dominating. Many regional processing plants have closed down and boutique operators have to ship stock long distances for service kill.
- With the rising price of beef there is talk of investment interest in recommissioning some redundant processing facilities.



FAST FACTS

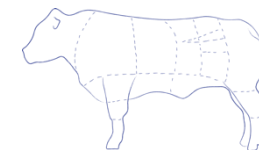
AUST gross value	\$7,725.40*mil
VIC gross value	\$1,302.78*mil
STUDY AREA gross value	\$239 mil (all grazing)
STUDY AREA share of gross value:	2.2%
HUME REGION employees (grazing - all species)	3,798

KEY PRODUCT CATEGORIES

Prime grass fed beef/finishing
 Grain feed beef
 Gourmet specialty breeds
 Breeding studs, British breeds

KEY MARKETS

Domestic
 Exports: Japan, USA, Korea, China, Taiwan, Philippines, Indonesia, Russia, Chile



- Seasonal supply factors are the greatest driver of price volatility.
- Supermarket dominance in the domestic market is creating downward pressure on prices.
- Consumer activism around animal welfare and social licence continues to influence production systems. Consumers now demand greater accountability from government, public agencies and businesses to the point of increasing bureaucracy and excessive ‘political correctness’.

Demand

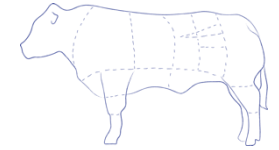
- Global demand for beef is growing. In particular, quality grass-fed beef is becoming more sought after on the basis of both eating quality and health benefits.
- The recently signed Foreign Trade Agreement (FTA) with China will facilitate increased exports and flow-through to higher farm gate prices.
- Growing demand from Asia generally will drive an upward price trend, which will ultimately impact domestic prices.
- The growing live export trade will also sustain stronger cattle prices.
- The softening \$A will grow exports.
- Consumer interest in provenance-branding is driving specialisation in boutique breeds.
- Meat Standards Australia (MSA) grading has delivered eating quality improvements and driven up domestic consumption of higher value cuts.
- Although there is a long-term decline in domestic per capita consumption, the total beef market is growing due to population growth.

Performance constraints

- Supermarket buying power is devaluing the domestic market.
- There is a shortage of short-run processing facilities for small producers who are seeking to market their beef directly to consumers. These producers are having difficulty accessing local slaughter facilities and have to transport stock for some distance.

Beef is estimated by OECD to be the fastest growing import sector in China.

Source: dfat.gov.au



- Transport costs are escalating and distances for processing are considerable due to rationalisation of abattoirs.
- Technical market access barriers are limiting exports in emerging markets.
- Energy costs are adding to the cost of processing.
- Animal rights activism is disrupting some markets.

Opportunities

- Consolidate the region's position as a supplier of quality feeder stock.
- Expand the region's position as a producer of gourmet, provenance-branded beef.
- Capitalise on global demand for premium grass-fed beef.
- Capitalise on the new FTA with China, Korea and Japan.

“The farming of Wagyu cattle has boomed in the past decade as consumers seek the prized rich, tender marbled beef with its genetic roots deep in Japan’s farming history.”

David Blackmore, Beef Producer

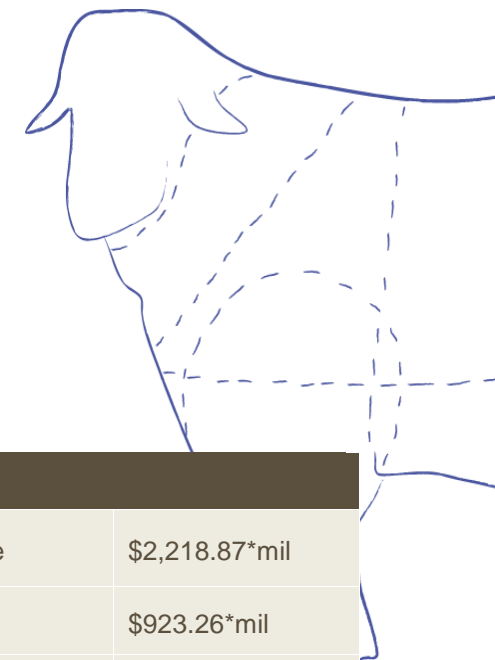
3.2 | Sheep meat

Hume Region Overview

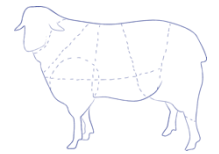
- The study area of the Hume Region historically, has had a strong prime lamb industry but in recent years sheep and lamb numbers have contracted as broad acre farms have shifted to large scale cropping due to perceived better profitability.
- Although some areas of the Hume Region are known for premium fat lamb, production is said to be declining.

Industry dynamics

- Production and prices are driven by seasonal conditions.
- There is a major trend towards direct selling to abattoirs and supermarkets thereby bypassing saleyards.
- The depreciating \$A will improve the competitiveness of Australian sheep meat which should be reflected in farm gate returns.
- Live export trade continues to come under pressure from animal welfare lobby groups. Continuation of live trade is critical to underpin mutton prices.
- While some in the study region are transitioning into Dorper breeds, the industry consultation for this study suggests that there is still much debate about the suitability of the breed for the area.



FAST FACTS	
AUST gross value	\$2,218.87*mil
VIC gross value	\$923.26*mil
STUDY AREA gross value	\$239 mil (all grazing)
STUDY AREA share of gross value:	2.2%
HUME REGION employees (grazing - all species)	3,798
KEY PRODUCT CATEGORIES	
Prime lamb	
Mutton	
KEY MARKETS	
Domestic	
Exports: USA, China, Middle East, SE Asia, Korea, Japan	



Demand trends

- Domestic per capita consumption of lamb is in a long-term decline.
- Export demand for lamb is increasing.
- Export demand for mutton is declining but the live trade is strong.
- As prices rise, lamb is being positioned as gourmet meat in the domestic market.

Performance constraints

- Supermarket power is depressing domestic prices.
- A shortage of processing facilities prepared to take short runs is problematic for boutique producers.
- Transport is a growing cost.
- Technical market access barriers exist in emerging markets.
- Energy price rises are being reflected in higher slaughtering fees.
- Animal rights activists are a particular threat to the live export trade and this is impacting prices overall.

Opportunities

- The region is well positioned to benefit from the growing global demand for premium lamb.
- Because of the region's access to grain, there is an opportunity to grow premium grain finished lamb by taking advantage of improved genetics.

Australian lamb exports to China during 2013 reached new heights at 39,535 tonnes swt.

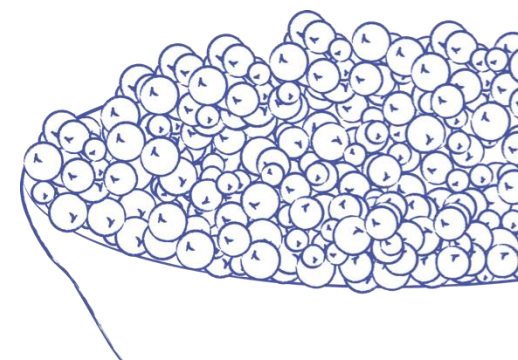
China represented 18% of Australia's total lamb exports in 2013.

Source: MLA

3.3 | Food processing

Hume Region overview

- The Hume Region has a long history in canning and large scale food processing with a number of mainstream producers resident including SPC Ardmona, Campbells, Unilever, Tatura Butter, Murray Goulburn, and others. The study area of the Hume Region that pertains to this strategic plan (i.e. excluding Goulburn Valley), is also home to a number of large and multinational food processing companies including: Mars, Uncle Ben's Pet Food, Nestle, Uncle Toby's and Vitasoy Australia as well as dairy processing including Murray Goulburn which is processing Danone yoghurt at Kiewa.
- Predominantly the food processing in the Hume Region pertains to first stage value-adding of produce from the region which is largely dairy, fruit, red meat, oil seeds and wine.
- In addition to the multinational processors, the region has a number of small to medium producers (mainly family businesses) specialising in niche products such as Dovedale bread, which produces a range of gluten free breads, distributed nationally from a Wodonga factory.
- The area of this study is also home to an eclectic array of small and micro businesses that are value-adding produce grown in the region – these are discussed in more detail under the section 'Gourmet Food'.
- Of the 6,136 people employed in food processing, 1,233 are employed in dairy processing, 898 in fruit processing, 701 in wine processing, 528 in meat processing, and 376 in cereal based products. The remainder cover all other industries.



FAST FACTS	
AUST gross value	\$26.2 bil
VIC gross value	\$6.3 bil
STUDY AREA gross value	Data not available
STUDY AREA share of gross value:	Data not available
HUME REGION employees (includes dairy, food, grain, fruit & veg, meat)	6,136
KEY PRODUCT CATEGORIES	
Breakfast cereal and snack bars	
Soy milk	
Pet food	
Dairy products	
Bottled water	
Green tea	
Meat processing	
Fruit and vegetable packing	
KEY MARKETS	
Domestic	
Exports: Asia-pacific, Middle East, Japan, USA, UK	

Industry dynamics

- Most processed food categories are facing deflationary pricing due to supermarket power in the domestic market, the growth of private label products and competition from imports driven by the high \$A.
- Exacerbating the deflationary price trend, there has been significant inflation in processing input costs, resulting in a cost/price squeeze for manufacturers. As a consequence of this cost/price squeeze, there has been a business focus on cost cutting and production rationalisation. Investment in automation to reduce labour has been a priority in order to retain some level of competitiveness.
- Unfortunately many of the processing plants in the Hume Region are old and inefficient and require major investment for upgrade and adoption of new technology. The declining profitability across the food processing sector has meant that re-investment in plant upgrade and manufacturing innovation has been delayed. Ironically, from the perspective of regional economic development, food processing businesses are now focusing any available funds for investment in technology or plant upgrades towards activity that reduces labour requirements. Without such labour reducing upgrades, there is a likelihood that these businesses would disappear due to a lack of global competitiveness.
- Labour cost is not the only concern, availability of skilled processing workers and management is an ongoing challenge for processors across the region as it has been difficult to attract experienced food processing staff to live in parts of the Hume Region perceived as remote.

Demand trends

- The demand dynamic in processed food is highly category-specific depending on competitor activity, as such it is impossible to generalise in this analysis.

Note: more detailed analysis of food trends is in Part D of this report.

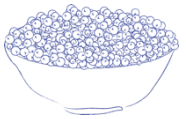
- The export market for safe, processed foods to Asia is likely to grow in line with the trend witnessed in infant formula and dairy products. However, products will need to be developed specifically for export markets, as opposed to marketing Australian packaged groceries to expat consumers across Asia, to fully leverage this opportunity.

Food processing is one of Victoria's biggest export earners, worth more than \$6.3 billion in 2010-11.

Total food exports for Victoria equated to \$8.7 billion in 2013-14 (27% of total exports for Australia).

With only 3% of Australia's land mass, Victoria houses 24% of Australia's food & beverage industry

Source: Invest Australia



- Without a point of difference, competitor countries will fill the growing global demand for safe, packaged foods. As witnessed in the Tasmanian vegetable processing industry, multinational producers are able to divert production overseas to some extent if the Australian cost of manufacturing eclipses global parity, e.g. Heinz and McCain's relocating factories from Australia to New Zealand.

Performance constraints

- Labour cost, labour availability and skills levels are a universal issue in food processing.
- Energy costs and energy capacity is a concern for processors aiming to grow their output. Likewise, capacity in infrastructure such as waste water outlets is a concern.
- Compliance and red tape is adding significantly to the cost per unit of production and impacting processor competitiveness. There is a fine line between regulation that ensures food safety and regulation that creates burdensome bureaucracy.
- Despite efforts to streamline distribution, transport costs are difficult to reduce. More efficient vehicles are one of the few remaining options to achieve quantum cost and efficiency improvements.
- While many larger manufacturers have experienced growth over recent years, the infrastructure around them has not progressed at the same rate.

Opportunities

- Because of significant global competition in food processing, opportunities for processors in the Hume Region will come from focusing on areas of competitive advantage. The areas of advantage are likely to include factors such as proximity to agricultural inputs as well as food safety and integrity of the food supply chain.
- The entire Hume Region is well positioned to benefit from the growing demand for food, however, the focus needs to be on premium, value-added and branded products, i.e. packaged foods rather than commodities, e.g. bottled wine rather than bulk bladders.

- There will be opportunities in both domestic and export food markets for niche processed food products, particularly those distributed through non-supermarket channels, e.g. premium, branded beef cuts sold online or through metropolitan farmers markets.
- The significant depreciation of the \$A will greatly benefit food processors in the region, both in terms of growing exports as well as defending domestic market share from imports.

3.4 | Dairy

Hume Region overview

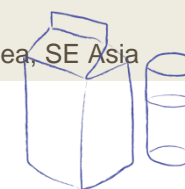
- The Hume Region has an established dairy industry, with a number of resident processors. Non-irrigated dairy farms are located largely in the Alpine Valleys while irrigated dairying is centred around the Goulburn Valley.
- The study of the Upper, Central and Lower Hume Sub Regions is essentially non-irrigated dairy businesses (due to the high rainfall), so in normal seasons the area has a cost advantage over irrigated farms further west. Conversely non-irrigated producers are adversely impacted by the dry seasons and cannot produce the same levels of feed as irrigated dairy farms. The industry perception, based on consultation for this plan, is that irrigated dairy in the Goulburn Valley has a better business case than non-irrigated in the rest of the Hume Region.
- Like other Victorian dairy areas, the Hume Region dairy industry is now in a rebuilding phase as producers try to increase volumes to capitalise on the growing demand for dairy products from Asia. In the study area of the Hume Region the industry has been attempting to recruit beef farmers to switch to dairy with limited success.
- Under the North East Dairy Regional Growth Plan 2014 and Murray Dairy's Strategic Plan, the region plans to double its dairy production by 2025, in line with the Victorian industry's aim.
- Murray Goulburn has recently entered into a joint venture to produce Danone Yoghurt under licence in Kiewa.

Industry dynamics

- Milk production dropped dramatically as a result of drought across the whole of Victoria. The processors and dairy industry bodies are driving plans to recover this loss and double production across the wider region, mainly through the expansion of existing farms.



FAST FACTS	
AUST gross value	\$2.44 bil
VIC gross value	\$1.85 bil
STUDY AREA gross value	\$89.6 mil
STUDY AREA share of gross value:	2.3%
HUME REGION employees on-farm	1732
HUME REGION employees processing	1423
KEY PRODUCT CATEGORIES	
Processed retail products: milk, UHT, cheese, yoghurt, butter, cream	
Bulk commodity powdered ingredients	
KEY MARKETS	
Domestic	
Exports: China, Japan, Korea, SE Asia	



- One of the blockers to rebuilding herd size is the cost of heifers, which has been driven up by demand from China. It is claimed that China is currently purchasing 85% of heifers offered for sale.
- Improved farm gate prices in the past few years have stimulated investment as well as growth in herd size; new investors, predominately owner/operators, but also a number of significant foreign investors, have come into the region. Some ex dairy farmers are returning as well.
- Some consolidation is occurring in the processing sector and there is scope for more.
- Competition has increased between processors of milk to secure supply from farmers however, farm gate prices are still below that required to stimulate further investment by current producers, many of whom are still trading through high debt levels from the drought.
- Export prices are highly volatile, influenced by global supply and Australian processors are exposed to this as they are largely price takers, trading mostly in commodities.
- Supermarket power is impacting the dairy sector significantly with discounted milk and private label products eroding the value of the domestic market.
- The tight ownership of land makes it difficult for new entrants but this is likely to change as farmers reach retirement age and parts of Hume Region become increasingly appealing to tree-changers.

Demand trends

- The Australian dairy industry is enjoying a resurgence due to the increasing demand from Asia, particularly China given the Chinese government endorsement of dairy for health.
- There is export demand for branded and safe dairy products, especially infant formula, cheese and yoghurt.

Performance constraints

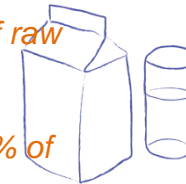
- Farm gate prices are a blocker to industry investment and processors are limited in what they can pay by global commodity prices.
- Too much focus on low value commodities by processors rather than value-adding and marketing to create strong consumer brands.

Victoria dominates the dairy industry in Australia, producing 65.6% of Australia's milk.

Victoria has 62% of the total number of dairy cows in Australia, and 69% of licenced dairy farms are located in Victoria.

Source: Dairy Australia – Australian Dairy Industry in Focus 2013

Dairy Food Safety, Victoria Dairy product manufacturers utilise around 92% of Victorian raw milk production, while the fresh milk market consumes only 8% of raw milk.



Victoria produces 75% of Australia's cheese.

Source: Dairy Australia – Australian Dairy Industry in Focus 2013

- Poor labour availability.
- High labour costs due to penalty rates and salary packaging limitations.
- Limited B-Double vehicle access to many farms adds to costs of transporting milk to processors.
- Supermarket power impacting domestic returns with price discounting and private label is keeping milk prices low.
- Lack of capital to support expansion of family businesses.
- Increasing scrutiny over feed pads by local government, Catchment Management Authorities and Environment Protection Authority.
- Compared to New Zealand, Australia is at a significant cost disadvantage in processing because of scale and cost of labour.

Opportunities

- The Murray Dairy region (which is wider than the region of this plan, extending into NSW) is well positioned to take advantage of the growing demand for quality and safe dairy products from Asia over coming years.
- The opportunity exists to attract investment in the region due to the availability of agricultural land suitable for dairying, which is still relatively affordable.
- Encouraging more dairy farmers to tap into the Alpine Valleys aquifer and shift to an irrigated model could significantly grow output from Hume.
- The FTA agreements with Korea, Japan and China all create growth opportunities for dairy. The Korean agreement will lead to full trade liberalisation over time on products other than powders.
- The Japanese agreement will improve the outlook somewhat for cheese and dairy ingredients. The Chinese agreement allows for total tariff phase out over 11 years, improving the competitive position against New Zealand.

3.5 | Cropping

Hume Region overview

- The Hume Region has a substantial broad acre cropping industry, primarily in winter cropping (wheat, oats, barley and canola), but some summer crops are planted including sorghums, corn and sunflowers.
- Many farms that were previously sheep (fat lambs) have converted to cropping (particularly canola) because of the perception of higher returns and proximity to a successful processor in the Goulburn Valley Region of Hume.
- There has been a growth in irrigated corn around the Booraham area with growers tapping into the Ovens aquifer.

Industry dynamics

- Rapid ramping up of scale in broad acre is a notable trend as farms need to get bigger to avoid over capitalising on equipment.
- Adoption of new farming systems and technology.
- Increasing use of opportunistic irrigation as opposed to annual cropping.
- Global supply volatility is impacting prices.
- Softening \$A is signalling more export opportunity.
- Deregulation of the Australian Wheat Board in particular has forced change in supply chains and marketing arrangements. Producers now need to assume responsibility for marketing their crop as a result, much market flux has occurred while new marketing alliances are being established.

FAST FACTS	
AUST gross value	\$17,050.56 mil
VIC gross value	\$2,324.64 mil
STUDY AREA gross value	\$37.1 mil
STUDY AREA share of gross value:	0.3%
HUME REGION employees	857
KEY PRODUCT CATEGORIES	
Wheat	
Oats	
Barley	
Canola	
KEY MARKETS	
Domestic	
Exports: SE Asia, Japan, Middle East, America, Africa, China	



- Heavy dependence on climatic conditions each year for good crop outcomes.
- The number of oilseed crops is growing driven by the shift away from animal fats and the need for a break crop for weed and disease control between wheat crops.

Demand trends

- Although the market is heavily commoditised there is a trend towards growing purpose specific grains for a particular customer to enhance the desired attribute e.g. high beta-glucane barley for cholesterol lowering properties.
- Greater health consciousness is driving a consumer trend towards speciality grains such as spelt, freekah, quinoa, etc. The growth in artisan breads and gluten free baking, which require premium and speciality flours, means these flours are becoming more mainstream.

Performance constraints

- Lack of rail and road capacity and ailing infrastructure is adding significantly to costs.
- Growers must now take responsibility for marketing since deregulation, however many lack the necessary selling skills. This has resulted in a rogue trader element.
- The uptake of irrigated cropping utilising the available aquifer water has been slower than anticipated due to the cost of capital required to switch to an irrigated business model.

Opportunities

- The region is well positioned to take advantage of the rising global demand for premium, speciality grains, flours and oil seeds.
- The deregulation of the industry presents opportunities for niche operators to specialise by tailoring products to suit niche export markets e.g. speciality noodle wheats.
- There is a strong consumer trend towards increased consumption of high fibre speciality grains such as freekah, quinoa, seeds such as pepita, buckwheat grouts, etc. served hot or in grain based salads.

3.6 | Wine

Hume Region overview

- The Hume Region is home to some of the oldest wineries in Australia with wineries in the Rutherglen region being established in the mid 1800s. Some of the notable family names are Morris 1859, Stantan & Killeen 1860, Campbell 1870, Brown Brothers 1889 and Baileys of Glenrowan 1870.
- The region has eight registered geographical indications (GI) (Alpine Valley, Rutherglen, Beechworth, Glenrowan, King Valley, Goulburn Valley, Strathbogie Ranges and Upper Goulburn) reflecting the diversified range of regional wine styles, from fortified wines, and Mediterranean varietals, to cool climate table wines.
- The region is globally recognised for its quality wines and is a major exporter.

Industry dynamics

- Most parts of the wine industry are experiencing difficult times due to a long standing oversupply of wine, which has resulted in heavy price discounting, even of premium wines. The legacy of an overplanting of vines in the past decade relative to demand is still lingering. Oversupply is not an Australian phenomenon – a global glut exists.
- With the recent high \$A European imports from Spain and Italy have grown and exports have declined, this trend is likely to reverse as the \$A falls.
- Australian exporters are notably shifting emphasis to higher value wines.
- As a cost reduction measure, high volume, low quality wine is continuing to be exported in bulk for bottling overseas.
- The anti-drinking lobby is becoming increasingly vociferous.



FAST FACTS	
AUST gross value	\$857.96 mil
VIC gross value	\$149.43 mil
STUDY AREA gross value	\$644 mil
STUDY AREA share of gross value:	0.6%
HUME REGION employees (processing including other alcoholic bev)	757
HUME REGION employees (all grape growing)	228
KEY PRODUCT CATEGORIES	
Red & white table wines	
Fortified wines	
KEY MARKETS	
Domestic	
Exports: China, USA, UK, Canada	



- There has been significant investment by overseas companies in Australian wineries including in the Hume Region, especially around the Rutherglen area.

Demand trends

- Cellar door and online marketing has become critical to wine companies as a way of restoring profit margins in the face of heavy discounting by supermarket controlled liquor outlets.
- Supermarket domination of the wine market has resulted in heavy discounting and devaluing of many of the Hume Region's premium wine brands.
- Improvement of quality and oversupply has given drinkers access to very drinkable wines at a much lower cost. It has allowed Australian wine lovers to experience European wines that were once unaffordable and as such has broadened tastes.
- There has been a consumer shift from beer to wine in Australia.

"Its not enough to just offer wine at the cellar door now – people want the full regional food experience."

Rutherglen wine maker

Performance constraints

- The need for wineries to build cellar door and direct-to-consumer sales is now imperative to improve overall margin returns in the face of category devaluation and chain store discounting. This requires a whole different skill set in agri-tourism.
- Wine oversupply is limiting returns to growers and therefore giving them insufficient margins to reinvest in their businesses.
- Supermarket power is keeping prices depressed if not deflationary.
- Climate change and increased bush fire and smoke taint incidence has made it difficult to successfully grow some varieties in the Hume Region.
- Availability and cost of freight, particularly for smaller shipments from areas like Myrtleford and Bright is a cost burden to smaller producers who are increasingly reliant on cellar door, online and wine club sales.



- The anti-drinking lobby is increasing in intensity and causing concern for wine producers who advocate responsible consumption of alcohol.

Opportunities

- The best prospect for the Hume Region's wine industry is to continue to focus on premium wines and pursue higher value global markets.
- Cellar door sales are now more critical to profits and there is an opportunity to grow these by building the region's agri-tourism offering through more effective cross marketing between regional tourism, food and wine. A regional promotional strategy benefits all players in the area as it makes the overall tourism product much stronger than one destination alone.
- The recently signed FTA with China that phases out duties on wine should give the Australian wine industry a boost.

“. . . the profitability of the industry and strength of the Victorian economy are intertwined.”

Damien Sheehan, Chair

Wine Victoria


3.7 | Vegetables

Hume Region overview

- The geographic diversity of the Hume Region allows it to support a diverse vegetable growing industry of both greenhouse production and row crops, which includes capsicum, pumpkin (for pepita seed), corn, hydroponic tomatoes, mushrooms and more.
- The vegetable crops produced in the area of this study are predominantly for fresh markets rather than processing, however, vegetable production does occur for the processing sector in the Goulburn Valley areas of Hume.
- The row crop infrastructure remaining in the region as a legacy of ex-tobacco farms means there is scope to grow even more and an even wider variety of vegetable row crops here.
- Murphy Fresh manage a rapidly expanding protected cropping business from the Mansfield Shire producing truss tomatoes.

Industry dynamics

- The value of many vegetable categories has been eroded due to oversupply and supermarket power.
- Central wholesale markets are becoming less relevant in the fresh sector due to the tendency towards closed-loop supply chains, which is being driven by supermarkets and corporate food service companies, such as McDonalds.
- Protected cropping is becoming more common due to higher quality expectations and the need to produce year round.
- The sector is becoming dominated by large, integrated breeder / grower / marketing companies which dominate specific categories.
- There is increasing use of exclusive varieties with Plant Breeders Rights (PBR) to secure the intellectual property behind the breeding.



FAST FACTS	
AUST gross value	\$3,769.64 mil
VIC gross value	\$984.88 mil
STUDY AREA gross value	\$5.3 mil
STUDY AREA share of gross value:	0.3%
HUME REGION employees	263
KEY PRODUCT CATEGORIES	
Capsicum	
Hydroponic tomatoes	
Mushrooms	
Potatoes	
Corn	
KEY MARKETS	
Domestic	
Exports: SE Asia, Pacific region	

- Strong competition from frozen imports is impacting processed vegetables.
- Climate volatility is resulting in increased use of protected cropping production systems, e.g. hydroponic grown greenhouse tomatoes.



Demand trends

- Export markets for fresh vegetables have all but disappeared due to the high \$A, however, this could be reversed with the weakening trend of the currency.
- Consumption of fresh vegetables is growing at the expense of processed vegetables.
- Supermarket power is particularly acute in fresh vegetable categories. Supermarkets control 80% of the retail fresh market.
- Demand for new and interesting fresh vegetables is growing, as is the Asian vegetable category and hydroponic tomatoes, particularly coloured and heirloom varieties.
- There is a growing push to promote Australian-grown fresh vegetables in the wake of consumer concern about safety and the desire to support local farmers.

“There is an untapped water resource here in our aquifer system that vegetable growers on Melbourne’s fringe are yet to discover.”

Local government officer

Performance constraints

- Vegetable growers are experiencing eroding category value due to market oversupply as a result of improved production systems. Commonly market prices are below cost of production.
- Climate variability has caused major disruptions and put pressure on grower profitability when many are running on very tight margins already.
- The high \$A has made exporting uneconomic, causing the domestic market to remain oversupplied.

Opportunities



- Opportunities exist to raise the value of vegetables by producing differentiated, branded products that can command a market premium through protectable intellectual property such as PBR. Usually these need to be marketed through closed-loop supply chains where the grower has a direct relationship with customers.
- Urban sprawl, land cost, and water limitations in the traditional growing areas of outer Melbourne is causing established vegetable growers to seek out alternate areas such as Northern Victoria and in peri-urban areas such as Kinglake Ranges, Narbethong and Buxton. Within the broader Hume Region, Moira Shire (outside this study area), it has attracted significant Greenfield investment in both row crops and greenhouse production in recent years. The Hume Region is well placed to attract these relocating growers due to the quality of soils; availability of aquifer water in the Alpine Valleys; reliable rainfall in the Murrindindi region; agricultural know-how; and the diversity of microclimates.



3.8 | Berries

Hume Region overview

- There is a significant blueberry industry continuing to expand in the Myrtleford area. Raspberries are produced by a number of blueberry growers but this has been curtailed recently due to agronomic challenges.
- Berries are also produced in the Murrindindi Shire. The former government research station at Toolangi (which has now been privatised) has a strong breeding program producing strawberry runners for the national industry.

Industry dynamics

- Despite growing consumer demand, prices have declined due to increased production in response to demand.
- Significant improvement in eating quality has occurred due to genetics improvements, largely from imported varieties.
- Most production now occurs under plastic igloos, which has minimised crop losses and improved product appearance.
- Consolidation in marketing is occurring across the sector with two big players dominating Driscolls (Costa) and Perfection Fresh. The growers in the Hume Region tend to be smaller independent growers that are not aligned to these or other marketing groups.
- Prices are highly volatile due to seasonal supply cycles. In times of oversupply fruit sells below cost of production. A unique seasonal marketing window is important for profitability.
- Supermarket power has eroded category value.
- Crop is highly vulnerable to extreme weather events.

FAST FACTS

AUST gross value	\$233.99 mil (strawberries only)
VIC gross value	\$87.78 mil (strawberries only)
STUDY AREA gross value	\$5.3 mil
STUDY AREA share of gross value:	0.3%
STUDY AREA employees	94

KEY PRODUCT CATEGORIES

Blueberries
Raspberries
Strawberries

KEY MARKETS

Domestic
Small export market to South East Asia



Demand trends

- The consumption of berries, particularly blueberries has grown exponentially due to the combination of health benefits, improved quality, reduced prices and extended seasonal availability. Berries have been designated as a ‘super fruit’ with anti-oxidant benefits and are also riding on the popularity of fresh smoothies and juice blends.
- The greater availability and affordability of berries has shifted them from being a special occasion and indulgence purchase to a regular weekly grocery purchase.

Performance constraints

- The reduced selling prices (due to supermarket price discounting) mean that scale and high performance genetic varieties with larger fruit, better storage and handling and higher yields are essential to maintain profitability. However, the larger marketing groups are first to secure rights to these new varieties leaving many smaller growers behind.
- Because a high proportion of berries are sold through supermarkets it is highly desirable for growers to be aligned to a closed-loop supply chain.

Opportunities

- There is significant opportunity to expand berry production in the Hume Region (particularly blueberries), taking advantage of the climatic conditions, on-farm irrigation infrastructure and horticultural skills.
- The smaller growers in the Hume Region could become more competitive with a cooperative marketing model that enhances their negotiating power or if aligned to a larger marketing partner.

“We have generations of growing knowledge in our family – if we find the right market for the crop, we can grow anything.”

Former tobacco grower

3.9 | Nuts

Hume Region overview

- The nut industry in the Hume Region is relatively small and lacks the scale of corporate plantings elsewhere in the state where land costs are cheaper and large-scale plantings are possible.
- Chestnuts are grown in the Ovens/Stanley areas and there is expanding walnut production in the Ovens/Buckland Valley.
- Being relatively small, nut businesses in the region are heavily dependent on the local market and value-adding as volumes are too small to sell into supermarket channels and to export.

Industry dynamics

- Worldwide demand for nuts is outstripping supply.
- The chestnut sector is experiencing rationalisation as many of the larger players have achieved economies of scale that helps to out-price smaller growers.
- Drought and water shortages in the USA has limited the ability to increase supply of almonds which has major flow on effects in world prices as California grows over 90% of the world's almonds.
- Chestnut blight has caused major problems in North East Victoria and has slowed the growth of that industry.
- Major players outside the Hume Region dominate the market and make it difficult for smaller growers from the region to enter mainstream markets.



FAST FACTS

AUST gross value	\$444.34 mil
VIC gross value	\$251.74 mil
STUDY AREA gross value	\$3.4 mil
STUDY AREA share of gross value:	1.8%
HUME REGION employees	619

KEY PRODUCT CATEGORIES

Walnuts
Hazelnuts
Chestnuts
Almonds

KEY MARKETS

Domestic
Export: China, SE Asia, India



Demand trends

- The designation of nuts as a ‘superfood’ has driven global demand. Nuts also figure strongly in Asian and Indian cuisine. As a consequence, global demand is outstripping supply.

Performance constraints

- Disease remains a threat for chestnuts.
- There is a fear of more biosecurity risks.
- Lack of investment in R&D and market development.
- Labour availability.
- Small scale of production.
- Cost of land in the region is a blocker to achieving scale.
- The nut industry in the Hume Region is limited by its lack of scale and critical mass to support a supply chain into mainstream and export markets.

Opportunities

- There is an opportunity and need to attract investment to the region to develop a large scale, efficient industry, alternatively the opportunity rests in value-adding premium nuts.
- Small-scale nut production is suited to lifestyle farming which is common in the Hume Region, but this approach requires a business model that supports direct-to-consumer marketing including value-adding.

“Our business has far too much volume for farmers markets but we are relatively small compared to the larger operators who set the pricing in our industry.”

Stanley chestnut producer



3.10 | Fruit

Hume Region overview

- Notwithstanding the stronghold of fruit production in the Goulburn Valley, the wider Hume Region, which constitutes this study area, hosts a virtual fruit salad of production including: Apples (Stanley, Buckland Valley, Wandiligong and Merton /Yarck), cherries (Warby Ranges, Chiltern, Yarck, Alexandra and Boweya districts), kiwi fruit (Ovens Valley), stone fruits (Upper Ovens Valley) and small and declining citrus production in the (Warby Ranges).
- The Wandin Valley cherry farm at Boweya is reputed to be the largest cherry farm in Australia, with 150,000 trees producing up to 1,000 tonnes per year and significant orchards exist in Murrindindi Shire including Koala Orchards.

Industry dynamics

- Major improvements in breeding has enabled climate sensitive fruits such as cherries (low chill varieties) to be produced in the region. Improved breeding has also resulted in improvements in eating quality.
- Climate change has introduced greater crop volatility with accentuated cyclic returns. Even years of good crops can result in poor returns as market gluts occur.
- Supermarket power is impacting price as buyers take advantage of the poor export returns resulting from higher \$A.

Demand trends

- Consumers have come to expect a wide choice of fruits available on a year round basis and readily substitute one for another based on price and quality.
- Market prices for fruit are highly sensitive to supply and demand pressures - it is often said that 10% over supply results in a 50% drop in prices.

FAST FACTS

AUST gross value	\$3,662.38 mil
VIC gross value	\$1,081.78 mil
STUDY AREA gross value	\$3.4 mil
STUDY AREA share of gross value:	1.8%
HUME REGION employees	503

KEY PRODUCT CATEGORIES

Hops
Kiwi fruit
Stone fruit
Cherries
Pome fruit
Citrus

KEY MARKETS

Domestic
Export: China, SE Asia



“A bumper season has caused an oversupply of most popular fruits – good news for consumers, bad for growers”

Weekly Times, Jan 2015

Performance constraints

- Farm gate prices and volatility in returns are a blocker to industry investment.
- Labour availability, penalty rates, salary packaging and reliance on 457/417 visas.
- Supermarket power is impacting domestic returns.
- High levels of crop wastage with second grade fruit as a result of high consumer expectations.
- Export markets have been suppressed by the high \$A but this is expected to ease.

Opportunities

- Given that the fruit industry is predominately comprised of relatively small scale producers, the best prospect is selling value-added and speciality varieties (e.g. white cherries) direct to the consumers via local outlets such as farmers markets, farm gate and local produce outlets, leveraging the growing interest in buying local.
- Larger scale producers in the region have further opportunities in premium fruit for exports, value-adding and premium packaging for exports.

3.11 | Intensive livestock

Hume Region overview

- The region has a relatively small egg production industry with one significant enterprise at Kinglake. Broiler production occurs in the Strathbogie Shire of Hume, but this is outside the study region for this project.
- The region has a significant pork industry with Riverlea (previously known as Bunge /QAF) having a large integrated agribusiness in the region.
- There are also a number of smaller pork producers who specialise in heritage breeds such as Berkshire operating across the region.
- There are a growing number of small producers keen to enter the industry by specialising in heritage breeds or free-range pork, poultry and eggs. Many of these boutique producers are also value-adding and selling via farmers markets and local outlets.

Industry dynamics

- Supermarket power is dictating the terms of production and adding to the cost of production, e.g. sow stalls and bans on caged eggs.
- Improved genetics in pork and chicken is improving feed conversion rates and thereby lowering feed costs.
- Inconsistent interpretation of planning schemes is limiting the expansion of existing livestock operations and the development of Greenfield sites. Industry see this as a fundamental blocker of industry growth.



FAST FACTS	
AUST gross value	\$3,800.51 mil
VIC gross value	\$899.59 mil
STUDY AREA gross value	\$9.3 mil
STUDY AREA share of gross value:	0.3%
HUME REGION employees (all species)	182
KEY PRODUCT CATEGORIES	
Eggs	
Pigs	
Chicken meat	
KEY MARKETS	
Domestic	
Limited export: Singapore	

Demand trends

- Consumption of chicken continues to grow rapidly (approx. 5% per annum) due to its price competitiveness, versatility and perceived health benefits vis-à-vis red meat. This trend is expected to continue.
- Pork consumption has also grown, albeit from a small base, largely due to TV cooking shows and promotion by Australian Pork Limited.
- The older traditional pork breeds, such as Berkshire, have made a comeback due to their juiciness and the trend back to fattier cuts such as pork belly.
- The growing Asian community in Australia is also driving demand for fattier cuts and suckling pigs.
- Egg consumption is growing steadily because of the trend toward more protein in the diet and a more relaxed attitude towards cholesterol.
- Preference for free range and organic eggs is growing rapidly across all categories.
- Community attitudes to animal welfare are targeting intensive livestock operations such as pork and poultry.



Performance constraints

- Challenges in the governance of planning schemes is limiting the ability of producers to expand their facilities or build new sites to meet growing market demand. It is also seen as a blocker to attracting new investors to what is a high growth sector.
- Lack of processing facilities in the region is a barrier to industry growth.

Opportunities

- The Hume Region is well placed to expand its intensive livestock industry because of its proximity to grains and the large areas of land which are not subject to urban tensions in the north of the region.
- The vastly superior feed conversion rate of pork, chicken and eggs will deliver greater affordability of these products relative to red meat and further grow demand.

“Our industry is growing and has huge potential but Victoria is falling behind the other states. It’s all because the planning compliance here is just to onerous. We are losing jobs interstate.”

Poultry Producer, Jan 2015

3.12 | Aquaculture

Hume Region overview

- 80% of Australia's trout is farmed in the Hume Region, largely in the Murrindindi Shire. 1,400 tonnes of Rainbow trout is grown in the region.
- 20 licence holders grow the trout and most have a component of value-adding.
- There have been few new entrants to the industry since 1993 with no new licences being issued in recent years.

Industry dynamics

- Heavy investment is occurring in R&D to increase stocking rates and feed conversion, resulting in heavier weights of fish.
- Most farms are fully integrated from hatchery to processing and value-adding including smoking. Many are also engaged in tourism activities.
- Climate change has resulted in increased water temperature, which is threatening the long-term sustainability of the industry.
- Cheap imported salmon from Norway is putting a ceiling on prices, even though the local market is undersupplied.
- Very labour intensive industry with much know-how required, limiting new entrants.

Demand trends

- 90% of the product is estimated to be sold via supermarket channels.
- Pricing needs to be globally competitive to fend off imported competitor product.
- The concern is that an increase in production would depress market prices.



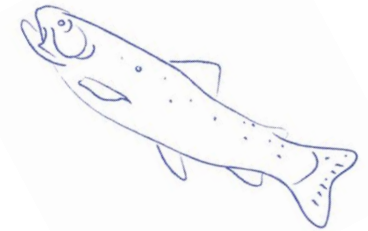
FAST FACTS	
AUST gross value	\$369,129 mil
VIC gross value	\$5,102 mil
STUDY AREA gross value	\$4,081 mil
STUDY AREA share of gross value:	Data not available
HUME REGION employees	48
KEY PRODUCT CATEGORIES	
Cold water species, mainly trout Smoked and value-added product	
KEY MARKETS	
Domestic Export: Hong Kong, Singapore, Malaysia	

Performance constraints

- Perceived excessive stringency from Environmental Protection Agency (EPA) is believed to be limiting expansion of the industry. The industry believes that vast improvements have been made in water treatment and therefore stocking rates could be much higher with out triggering risk of excessive nutrient run off.
- EPA licence fees have risen substantially adding to cost. The high cost of the EPA and diversion water licences are barriers to new entrants and investors entering the industry. Existing businesses are tightly held.
- Climate change is threatening long-term sustainability as water in the area is warming up to the point where it is thought to be at the limit of tolerance. The increased incidence of fire in the area is also removing shade over water, which is warming temperatures. Drought periods also cause spikes in water temperatures.
- Labour cost is an ongoing concern with a limited skill base in this sector.
- Industry believe that expanding production would depress prices. There is currently no industry market development activity in place as occurs in other categories with this potential.

Opportunities

- There is potential to expand the industry but this will be dependent on the issue of new permits and the relationship with EPA and will require industry level marketing expertise to be developed.



“Aquaculture is more regulated than any other industry – that is what is limiting our potential to grow.”

Alexandra producer

3.13 | Agri-tourism

Hume Region overview

- The Hume Region overlaps with three Tourism Victoria regions: Tourism North East, Murray Regional Tourism and Goulburn River Valley Tourism. However, the study area for this strategic plan is almost entirely in the Tourism North East jurisdiction with the exception of Wodonga (Murray Region), Mitchell and Murrindindi (Goulburn River Valley Region). Whilst all three tourism zones have initiatives and projects in agri-tourism as well as food and wine in their strategic and destination management plans, Tourism North East currently has arguably the strongest credentials and existing momentum in agrifood tourism.
- There are pockets of successful tourism activity built around the natural assets of the high country, wine regions, bike trails and great waterways such as Eildon and Hume weirs and the vast river system that includes Goulburn, King, Ovens, Broken and the iconic Murray River.
- Food and wine is a major visitation driver of the Tourism North East Strategy with the target market being the consumer segment referred to as ‘Lifestyle Leaders’ by Tourism Victoria.
- Tourism North East has a gourmet food advisory group that it works with. It also supports a number of regional food festivals and agrifood initiatives include King Valley’s Dolce Vita Festival, La Fiera at Myrtleford, Taste of Rutherglen and more. Non-food events such as Cycle Salute and Wangaratta Festival of Jazz and Blues also have a focus on supporting regional food producers as part of their program offering.
- Both Murray Regional Tourism and Goulburn Valley River Tourism view an opportunity in their destination plans for local produce such as farm gate sales, gourmet trails and support for stocking locally produced food and wine in local outlets. There is an acknowledgement in these plans of the need to significantly improve the food and wine offering in some areas to enhance the overall tourism offering.



FAST FACTS

AUST gross value	\$101.6 bil
Regional contribution VIC	\$368 mil
GSP contribution VIC economy	\$8.78 bil
STUDY AREA region, domestic day visitors	\$422 mil
International regional VIC visitors	300,000

KEY PRODUCT CATEGORIES

Cellar door
 Farm gate
 Home stays
 Farmers markets
 Festivals and events

- Visitation to much of the study area is driven by Hume Highway traffic and High Country activity, particularly winter sports and festivals. Nature based activity such as cycling and water sports are also critical destination drivers.

Industry dynamics

- Agritourism is becoming critical in the study area of the Hume Region for wineries, boutique breweries and smaller producers of gourmet food as an outlet to the end consumer.
- In recent years, in-bound tourism has declined in Australia and outbound tourism has increased due to the high \$A and cheap airfares.
- Tourist expectations from the visitor experience have grown but the product offering has not kept up with higher expectations. This is a particular issue in relation to the accommodation offering in the Hume Region.
- Driving international visitation is an issue in parts of the region as distance from Melbourne is a limiting factor and much of the tourism product is not geared to international visitors.
- There is a dire need for capability building with tourism operators right across regional Victoria.

Demand trends

- The high \$A has slowed in-bound and driven out-bound tourism. The softening of the \$A will hopefully reverse this trend to some extent.
- Asian visitors are looking for unique and authentic experiences and are particularly interested in local food experiences as local food is celebrated more in their own countries.
- Online shopping and booking is growing and leading people to be more adventurous in seeking out unique travel experiences. It is also a double-edged sword for operators who do not deliver on consumer expectations.



Victoria's High Country had 2.3 million visits in 2013 with 47% including an overnight stay.

Tourism North East Strategic Plan 2013

Performance constraints

- The agri-tourism product in the region generally has not kept up with the visitor experience expectations both in terms of quality and depth.
- Distance from Melbourne for areas such as Rutherglen, lack of premium accommodation across the wider Hume Region and limited public transportation are all issues in the northern part of the region. Industry feedback suggest that there is an oversupply of mediocre accomodation. The southern parts of Hume face much competition for the day tripper market from competitors such as Mornington Peninsula, Goldfields and Yarra Valley.
- Lack of integration across food, wine and tourism marketing is limiting full potential. There is a need to understand that tourism businesses are stronger when there is a depth of integrated product. In some instances, various districts within the region see themselves as competitors, rather than part of a larger picture.
- The industry notes that there is much overlap between the various tiers of government in relation to tourism marketing and development. An example was sited of tourism activity being undertaken at an LGA level that was in direct conflict with a Tourism Victoria initiative. Duplicated effort is also diluting marketing messages in some instances.
- Some good examples of regional collaboration exist e.g. the activities of many of the vigneron and wine maker groups.
- A growing dependence on cellar door sales means wineries need to present a broader retail offering. Many complain that the agrifood offering from the immediate region is not sufficiently expansive to present a strong showcase in their cellar retail displays.

Opportunities

- The region is well placed to take advantage of the growing trend toward short weekend stays and self-drive travellers. The southern part of the Hume Region is also accessible to the day-tripper market from Melbourne.
- Differentiating the Hume Region's agrifood experience from other parts of Victoria presents an opportunity.



“I think our appeal is ‘the tin shed experience’. We are more rustic rather than slick in how we present our cellar doors. Our customers like that ‘authentic farm’ experience.”

Tourism Operator, Stanley

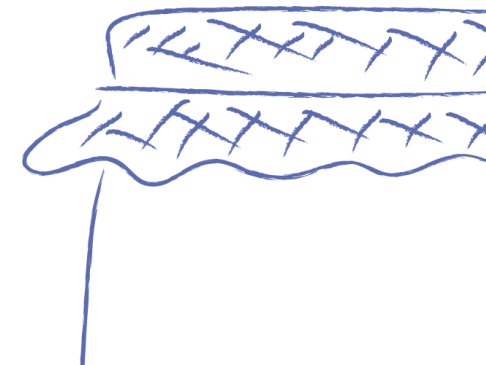
The industry representatives interviewed felt that promoting the authentic farm experience was a strong point of difference i.e. a ‘meet the maker’ experience – similar to the ‘farm stay’ product offered across Europe.

- The produce on offer for agri-tourism includes a wide variety of highly appealing gourmet foods such as trout, olives, premium beef, seasonal fruit such as apples, chestnuts and cherries (all with ‘you-pick’ potential). The broad range of wines lends itself to an itinerary of experiences extending from cool climate wines in the south to Glenrowan reds, Prosecco and Italian varieties in the King Valley through to Rutherglen’s famous fortified wines.
- There is an obvious opportunity for more integrated agrifood tourism products that showcase the region and promote the wide choice of tourist experiences that it has to offer.
- The so-called ‘grey nomad’ social phenomenon could be better leveraged through improved camping and dumping facilities and could alleviate some of the issues around accommodation shortages in the northern part of the region, particularly during festivals and events.
- The growth of premium accommodation in the high country parts of the region (e.g. Vibe Marysville and The Kilns Porepunkah) presents further opportunity in lifting the local accommodation benchmark and encouraging further investment in the sector.
- The development of the Lake Mokoan site into the Winton Wetlands Masterplan presents a once in a lifetime opportunity for tourism in Central Hume. Its location adjacent to the Hume Highway has the potential for it to be a gateway, first stop en route to agri-tourism areas further north or in the high country.

3.14 | Gourmet food and beverage

Hume Region overview

- The Hume Region is home to an eclectic mix of boutique value-adding businesses producing a smorgasbord of gourmet food and beverages including craft beers and ciders. The scale and economic value of this activity is not quantifiable by any available data source but anecdotal evidence of its growth is obvious to those consulted during the research for this project.
- The cool climate and hot summers make the region ideal for growing a range of delicacies including grapes, berries, cherries, olives, walnuts, hazelnuts, chestnuts, trout products and capers.
- Typically, enthusiastic tree changers who bring skills from another career have established gourmet food businesses in the region. Others have emerged in response to the need to value-add farm produce in order to recover the margins lost as a commodity producer, e.g. Gundowring Ice-cream. Some are simply driven by a passion for a particular product such as craft beers or wine making.
- Meat producers growing boutique breeds or producing premium cuts have also turned to direct-to-consumer models as a business focus, taking their product out of traditional distribution channels.
- A strong gourmet food cluster has emerged in Milawa and many of the other wine regions are growing as gourmet food hubs. The pattern of growth tends to be that momentum builds around one or two anchor cellar doors or retail outlets which then attracts others.



KEY PRODUCT CATEGORIES

Jams and condiment sauces
Olive products
Caper products
Gourmet cheese
Honey
Chocolate
Nut products
Craft beers and ciders

KEY MARKETS

Regional food stores
Farmers markets
Farm gate
Online



Industry dynamics

- Gourmet food stores, cellar doors and micro brewery outlets are now providing a market for small producers with unique products who do not have the scale to service supermarkets or mainstream liquor outlets. Many of these outlets attract a dedicated food tourist attracted by the appeal of interacting with the producer.
- There has also been an exponential growth in other direct-to-consumer channels, including: farmers markets, farm gate sales, you-pick, home delivery models (Aussie Farmers Direct) and online which has enabled gourmet producers to find significant volume outside supermarkets.
- Because of the small size of these operations they must be vertically integrated and sell direct to the public in order to achieve the revenue and profit margin levels necessary to be viable as a business.

Demand trends

- In recent years there has been a burst of consumer interest in the gourmet food and beverage sector driven by TV programs like Master Chef and dedicated tour operators that market to the sector, e.g. micro-brewery tour circuits.
- There is also a growing interest by consumers in authentic food produced using traditional processes with local provenance.
- Tourists to regional areas now actively seek out local foods as part of their travel experience.
- There is growing pride in one's own local produce in regional communities creating a market within the producer's own district.

Performance constraints

- There is a need for advice and networking opportunities to assist small gourmet food and beverage businesses in building successful artisan food businesses.
- Many 'tree-changers' are looking to start local food businesses with produce from their own small farms, but do not know where to start or get advice.

According to the event organisers, 70 people turned up to an information night recently held in Mansfield about producing regional produce from small land holdings.

The event was supported by Mansfield Shire Council.

Many tree changers have skills in marketing, selling and business management but need help with agronomy and production. Conversely, food producers from a farming background lack skills in marketing, packaging and selling their products.

- There is a need for a strong and integrated tourist industry to drive customer traffic. This also requires access to signage, traffic flow and parking which requires approval from VicRoads and local councils and can often be problematic.
- Access and cost of freight for small volumes is a concern for many, particularly remote farm based businesses.
- Lack of understanding of Internet trading and online marketing is common with poor broadband facilities a further blocker to online sales.

Opportunities

- The best prospect for the gourmet food and beverage sector is to build the regional agritourism trade to drive local, high margin sales. The nature of this industry is that it takes a critical mass of producers to build a tourism product. Agri-tourism businesses need to collaborate and support each other to build a regional story.
- It is important to encourage local restaurants, pubs, breweries, stores and retailers to stock and promote local produce. Tools such as local produce buyers guides can assist in this.
- Capability building, networking and collaboration would help many starting out on the gourmet food journey to learn from the mistakes of the regional food pioneers.
- An improved understanding of the mutual dependence of food and wine producers could lead to improved collaboration on regional marketing between both groups for the benefit of all.
- Access to licenced commercial kitchens and processing facilities for short runs of seasonal production would avoid many having to invest in their own commercial kitchen.



An example is the great success Moira Shire had with a joint exhibit at Fine Foods in Melbourne in 2014. The Shire is now setting up a collective commercial kitchen facility to help local businesses grow to meet the volume of demand.

Hops

- Historically there was a vibrant hops industry in the Myrtleford area. Until recent times the hops industry was relatively flat due to the declining consumption of beer, but it is now enjoying a resurgence due to the popularisation of craft beers and boutique breweries that use more hops in their production.
- Hop Products Australia (HPA) is a privately owned company producing 90% of hops grown in Australia, they have a farm at Rostrevor in the Hume Region as well as production in Tasmania.
- There is speculation of major investment in hop production in the area on the back of the increasing demand.

Green tea

- High quality Japanese style green tea is grown under contract in the Kiewa Valley to supply a processing facility in Wangaratta operated by Ito En Australia, a subsidiary of the Japanese beverage company.
- After considerable searching by Ito En, it selected the Kiewa Valley area on the basis that it has a microclimate and soil types ideal for growing the preferred variety (Camellia Sinensis), The green tea being produced in the region is now of a very high quality as the growers are mastering the production.
- The privately owned Alpine Tea Company also produces green tea in the area and had its first harvest in 2013, which is being sold online.

Olives

- Olive production in the Hume Region is usually of medium scale but premium quality. As such, products tend to be sold through boutique outlets, farmers markets and local stores.
- In Southern Hume on the inland slopes of the Great Dividing Range significant production is occurring around Strathbogie, Mitchell, Mansfield and Murrindindi Shires. A Goulburn Strathbogie Olive Growers Association operates in the area.



A number of gourmet food cluster groups are emerging across Hume Region. An example of this is 'Murrindindi Made' supported by Murrindindi Shire Council. Its aim is networking and fostering collaboration on events, promotion and cross marketing.



MARKET DYNAMICS

PART D

A summary of key market dynamics aims to highlight the supply chain issues and consumer trends impacting the sector



Section 4 | Market dynamic overview

This section of the report provides an overview of market and consumer trends. Its intention is to explore the context of the agrifood opportunities for the Upper, Central and Lower Hume sub-regions.

The authors have drawn from other relevant projects and learning's extracted from McKINNA *et al's* ongoing project work for commercial agrifood clients globally.

In the interests of distilling a vast quantity of insights into a digestible scope, the market dynamic information is necessarily presented in bullet point format as a list of significant trends.

4.1 | Structure of the agrifood market

The agrifood market is comprised of the following high-level sectors:

- Domestic:**
1. **Retail:** Products sold to consumers
 2. **Foodservice:** Products consumed out of the home
 3. **Ingredient:** Commodities sold to food processors to make finished products.

- Export:**
1. **Commodities**
 2. **Packaged groceries / products**

MARKETS	CHANNELS	
Retail:	<ol style="list-style-type: none"> 1. Supermarkets: Chains or independently owned 2. Independents: Specialty stores 3. Petrol & Convenience: Petrol stations, corner stores 4. Markets: Suburban markets, farmers markets 5. Direct to consumer: Online, home delivery 6. Farm gate: Self pick and farm gate 	
Foodservice:	<ol style="list-style-type: none"> 1. Commercial: <ul style="list-style-type: none"> ➤ Restaurants ➤ Cafes ➤ Hotels/motels ➤ Clubs and pubs ➤ QSR (Quick serve restaurants) 	<ol style="list-style-type: none"> 2. Institutional: <ul style="list-style-type: none"> ➤ Function and sporting sectors ➤ Hospitals ➤ Aged care facilities ➤ Education facilities ➤ Workplace canteens ➤ Day care facilities ➤ Prisons ➤ Military

4.2 | Channel trends

4.2.1 Retail channel trends

Supermarkets

- Coles and Woolworths control 80% of the supermarket channel.
- Aldi and Costco are growing rapidly and fuelling the discounting focus.
- Independent supermarkets are in decline.
- The aggressive price war in the supermarket category has produced a deflationary trend in food prices and has reduced returns to growers and processors.
- Private label has grown to 25% of the market and the quality has improved to the point that it now challenges proprietary brands. Private label has also contributed to the devaluation of many food categories.
- Coles and Woolworths are under pressure on a number of fronts including challenges from the ACCC, competitive pressure from Aldi and Costco and shopper protests on the grounds of their aggressive corporate behaviour.

Independent specialty stores

- Independent food retailers such as butchers, bakers, fruiter's, delicatessens etc. have declined dramatically in number due to competition from supermarkets.
- Many of the survivors have reinvented themselves to become gourmet food stores with an extended range of premium products and improved appearance and service offer. This gourmet food segment is growing.

Petrol and convenience

- The two major petrol companies Shell and Caltex have aligned respectively with Coles and Woolworths. BP has its own outlets.
- Growth of inner city mini supermarkets to cater for apartment dwellers.
- An increase in the food offer especially fresh foods, healthy snacks and convenience meals.

Markets

- Central markets such as Queen Victoria, Prahran and South Melbourne becoming stronger
- Farmers markets expanding and becoming more popular

Direct-to-consumer

- Online shopping for food is growing strongly, from a small base and after a slow start.
- Direct to consumer players such as 'Lite and Easy' and 'Aussie Farmers Direct' are expanding.
- Farm shops, farm gate sales and you-pick are becoming a growing trend.

4.2.2 Food service channel trends

Commercial foodservice

- Overall, the restaurant sector is struggling due to the intensely competitive environment coupled with increased consumer frugality following the global financial crisis. Restaurant operators are currently caught in a cost/price squeeze. Rising input costs on one hand and an inability to raise menu prices because of diner resistance on the other, mean that they are wearing significant margin losses.

- An elite group of high end signature restaurants are booming however, in general dining has become more casual with the difference between café and restaurant blurring.
- Cafes are strong and growing due to the coffee culture, casualization in dining and the trend to use cafes for business meetings.
- Clubs remain strong because of the ability to cross subsidise food with gambling.
- Independent hotels not aligned with a group are struggling.
- Independent quick service restaurants (e.g. take-away shops) are declining rapidly.
- QSRs, e.g. McDonalds are having to reinvent their menus in the light of the trend toward healthier eating. They are also facing growing competition from second tier QSRs with a more gourmet food offer, e.g. Grill'd.

Institutional foodservice

- Overall the institutional sector is growing much faster than the commercial sector.
- Hospitals, aged and retirement sectors are growing strongly because of the ageing population.
- Company canteens have grown strongly driven by the mining boom (which many Victorian food manufacturers are servicing) but this is now slowing.
- Military and prison catering is expanding.

4.2.3 Export trends

- Overall food exports have declined in recent years due largely to the high \$A, however this dynamic is changing dramatically at the time of writing this report.
- Red meat, dairy and grain exports are growing due to the increased demand from Asia accelerated by the softening \$A.
- Most industries are optimistic about the future prospects for exports due to the growing global demand, the recently signed FTAs, and the softening of the \$A.

4.3 | Consumer trends

4.3.1 Consumer attitudes

- TV cooking shows have driven a renewed interest in food and home cooking.
- Consumers are becoming more health conscious but, ironically, less healthy with a “*diabesity*” epidemic emerging.
- Social conscience is increasingly influencing purchasing decisions.
- Ongoing post GFC frugality is lingering. Consumers are now taking pride in bargain shopping and trading down more often, but the occasional indulgence is still permissible.
- Reduced brand loyalty because private label is now considered a clever purchase but only for some products and usage situations.
- Consumers are reading labels more but trusting them less.
- Increased concern about the provenance of food and ‘country of origin’.
- Growing loyalty towards Australian grown/produced.
- Growing pride in the regions and support of local producers.

4.3.2 Food styles and meal preparation

- The “meat and three veg” diet is a thing of the past. The Australian weekly meal repertoire now includes curry, stir fry, pizza, laksa, pasta and sushi.
- Meal preparation: A typical Australian home now has a wok, a microwave, a barbecue, a food processor and a slow cooker.
- Strong regional Asian influence.
- Growing preference for fresh rather than processed food.
- Preference for cleaner, simpler, authentic tastes.
- Grazing and shared plates popular i.e. ‘Social dining’.
- Frozen foods are making a resurgence based on health, convenience and flavour factors.

- Vegetarianism popular among Gen Ys and particular females.

4.3.3 Consumer Shopping patterns

- Market research data indicates that consumers now shop more frequently across a range of outlets: supermarkets for weekly convenience, Aldi and Costco as a monthly destination and gourmet food stores for special occasions.
- Online shopping and other direct-to-consumer models are growing strongly, albeit from a small base.
- Shoppers are increasingly using the Internet and phone apps to seek information and compare food products and prices.
- Farmers' markets have become a recreational experience and an important social connection in both regional and urban communities.

4.3.4 Health and nutritional trends

The majority of consumers have become more informed about what constitutes healthy diets:

- A move to smaller portion sizes, less saturated fats, sugars and carbohydrates.
- Disease of affluence epidemic, type II diabetes, obesity, cholesterol, hyper tension.
- Shift to more protein and less carbohydrate.
- Dieting: a key trend is that fad diets have given away to more balanced diets such as the CSIRO approach.
- Growth of 'free from' foods category, e.g. gluten free, dairy free due to increasing incidence of allergies, many self diagnosed.

4.3.5 High growth categories

- Food for the aged, nutrient dense, easy-to-swallow and digest, arthritis-friendly packaging, easy-to-read labels.
- 'Free from' foods.
- Low sugar foods.
- A2 protein dairy.
- Authentic ethnic foods.
- Gourmet specialties.
- Free range and organic.

Food service trends

- "Knife-less kitchen" in low end and institutional segments.
- Premium centre of plate hero with provenance branding.
- Cleaner, fresher, healthier meals.
- More sauces and flavourings made from scratch.
- Regional ethnic specialities outlets.

FUTURE SCAN

PART E

The future scan summarises the external trends and forces outside of our control that are likely to impact the region's agrifood sector in the next decade



Section 5 | 10 Mega trends

A three year strategy requires a component of future scanning to be able to forecast the longer term trends in the operating environment that will need to be considered and accommodated in the strategy and action plan. By way of succinctly summarizing those driving forces of change, the authors have highlighted 10 mega trends impacting the future of the Hume Region's agrifood sector and their consequences.

The 10 megatrends are:

1. Continued climate uncertainty
2. The growing value of water
3. Lack of global competitiveness
4. Concentration of retail market power
5. Corporatisation and globalisation
6. Declining viability of the small farm business model
7. The need for social accountability
8. Shifting global demand
9. The rising cost of compliance
10. The shift to closed-loop supply chains

These trends are not listed in any particular order. They are further explained in the following pages. For ease of reading and absorption of information the megatrends are presented in bullet point format and indicative quotes are provided by way of additional context.

Section 6 | The mega trends explored

6.1 Continued climate uncertainty

Scenario:

Respected scientists predict that by 2030, climate change will have the following consequences:

- Significant warming of temperatures.
- Longer and more frequent heat waves.
- Increase in severe weather events including more violent storms.
- Up to 25% increase in the number of days of very high or extreme fire danger.
- Up to 20% more drought including more frequent and longer dry periods.
- Changes to ground water quality and availability.
- Changed migration patterns of pests and behaviour of diseases.

Implications:

- Weather patterns become more volatile and harder to predict.
- More frequent and more extreme weather events may result in large scale crop damage.
- Greater volatility in world commodity prices because crops are more concentrated globally therefore, crop losses due to weather events have greater impact on supply.
- Increased risk to assets from fire, flash flooding, storms, etc.
- Increased insurance premiums - some assets will become uninsurable.
- A greater need to secure permanent water for permanent horticulture enterprises (increasing the capital need for these businesses).
- Greater seasonal variability in production levels, i.e. more crop failures and inconsistent yields.

“We’ve had four years out of seven with smoke taint. The micro climate has certainly warmed which means more fires – you just can’t grow some varieties here anymore.”

King Valley wine maker

- Greater crop and herd risk from new pests and diseases as insect migration patterns change.
- More heat stress on crops and livestock.
- Increased demand for regional emergency response due to more frequent and damaging extreme weather events.
- It will be difficult to grow some crops that have historically performed well in the Hume Region, e.g. wine varieties may change.

6.2 The growing value of water

Scenario

- Unlike the Goulburn Valley in the areas of this study, where irrigation has not been a part of the business model, it is hard to convince farmers to invest in the infrastructure even when water is available. It is difficult to assess the return on capital with an unproven crop. This under-valued water is reducing the economic potential of agriculture in the region. The deep lead aquifer in the Alpine Valleys offers great potential for new irrigation enterprises in the region, but existing land owners have been slow to respond to the opportunity.
- In some parts of the region, existing irrigation infrastructure is not being used due to industry shift from wine, hops and tobacco.
- Water prices will be increasingly volatile due to the impacts of climate change, more speculative water trading, as well as the general market volatility.

Implications:

- Irrigators will by necessity become more adept at managing water assets, keeping abreast of legislative change and catchment management as well as water price trends. Many will critically reassess the business case for investing in permanent or temporary water.
- Economics will force water to go where it can return the maximum dollar per megalitre.

“There’s plenty of under utilised water in this district. Local farmers are reluctant to invest in the irrigation infrastructure to grow a higher value crop”.

Local government officer

- Inevitably water will migrate to areas with better soil types and microclimates suited to high value crops.
- Increasingly, competition from urban and industrial water users will impact agricultural water use as farmers have a lesser ability to pay for it compared to householders.
- Management of ground water reserves will be crucial and areas with access to reliable aquifer systems will have a competitive advantage. The biggest issue facing farmers is whether to take the risk in investing in irrigation infrastructure for an unknown return.
- Water use closer to the source, top end of the catchment, will be encouraged to reduce losses through evaporation/seepage.

6.3. Lack of global competitiveness

Scenario

- In a free market economy with reducing trade barriers, Australian producers must be able to compete with the best in the world, in every category. Australia is seriously uncompetitive in categories where there is a significant labour component such as horticulture, food processing and other value-adding.
- On-farm productivity is relatively flat and rising at less than the rate of inflation.
- Small to medium agrifood enterprises (SMEs) have been slow to adopt new technology.
- Asia is a strengthening competitor in many categories, especially those with a high labour content such as food processing.
- Australia's minimum wage is the fourth highest among OECD countries and another contributing factor to the overall higher cost base. In addition to higher wage rates are the add-on employment costs including workplace regulations, WorkCover premiums, employee entitlements and penalty rates.

“We don’t have the land holdings here to do those large scale dairies like overseas. With the price of land here, you’d never get a return on investment.”

CEO Global Food Company

- The burden of compliance in agrifood is an additional cost disadvantage. In addition to labour compliance there are daily demands around food safety accreditation, export standards, transport, taxation, water and environment, etc. State government differences make compliance particularly onerous for Hume Region businesses located on state borders, e.g. Albury Wodonga.
- On-farm, Australia is globally competitive in large scale or high value enterprises such as cropping, red meat or dairy. In horticulture, the traditional southern hemisphere seasonal window, i.e. counter season to the northern hemisphere, is now shared with South Africa and South America who have huge cost advantages compared to producers in Hume Region who are on relatively small land holdings.
- Other factors impacting Australia's lack of global competitiveness include:
 - *Higher input, plant and equipment costs*
 - *Ageing and inadequate infrastructure*
 - *High proportion of SMEs*
 - *High \$A and terms of trade*
 - *Lack of scale*
 - *Higher transport costs over longer distances.*
- Many of Australia's trade agreements have also disadvantaged Australian exporters relative to competitors such as New Zealand or the USA. Recent FTA reviews will slowly unravel this disadvantage.
- Australia is being priced out of many of its traditional markets and under pressure domestically in some categories. While exports of agrifood are declining, local product is being displaced by imports on the domestic market.
- In some cases, natural market protection from imports exists for Australian producers either because of freight cost (e.g. fresh foods) or biosecurity trade barriers (e.g. red meat and chicken). These protections may not last forever. On the other hand, many destination markets for Australian produce utilise biosecurity barriers of their own to get around trade agreements.
- Adoption of technology and improvement in technology will be essential for Australian companies to offset costs and be globally competitive.

Australia now rates 128th in a field of 148 countries on the burden of government regulation and compliance

World Economic Forum 2014 Global Competitiveness Report

- While many Australians blame agricultural subsidies in competitor countries for the lack of competitiveness, the reality is that these are relatively small and the cumulative costs of farming in Australia is the real disadvantage.
- If Hume Region producers take advantage of the growing global demand for food, they must pursue higher value markets with premium and differentiated products. This will require new skill sets in marketing, branding and value-adding.

6.4 Concentration of retail market power

Scenario

- Concentrated supermarket power in Australia has resulted in value shifting along the supply chain from producers and processors to supermarkets and ultimately to the benefit of the consumer. In most categories the producers' and processors' share of the food dollar is declining. Typically supermarkets earn 30 - 40% of the consumer dollar and producers less than 10%.
- Aggressive price discounting by supermarkets has eroded farm gate prices for fresh foods such as red meat, dairy, horticulture and eggs.
- In processed foods, private label products are forcing branded products off the shelves and eroding category value.
- The Australian Food and Grocery Council believe that the current transfer of profit from food companies to supermarkets is not sustainable, with many producers already falling victim to this trading dynamic.
- The market power of food service distributors is also concentrating; meaning what was once a profitable alternative channel to market is also delivering lower margins.

Implications:

- With Coles and Woolworths holding 80% market share, they have massive bargaining power which is being applied in a number of ways:

“The market share of Coles and Woolworths (makes them) the 21st and 25th biggest retailers in the world”.

Dr Adrian Cameron, Senior Research Fellow, Deakin University

- *Range rationalisation e.g. dropping suppliers and delisting products.*
- *Escalating trading terms and rebates.*
- *More supplier-funded discounting and promotions.*
- *Aggressive price negotiations.*
- *Replacing proprietary brands with private label alternatives (often imports).*
- Supermarket power poses a serious threat to the long-term viability of the agrifood sector at both the farm and processing levels. The impact is hardest on SMEs that have weak brands.
- The takeover of Coles by Wesfarmers and the appointment of a UK management team some years ago resulted in an aggressive price war, which has significantly eroded category value in household staples such as milk and bread.
- Private label products (now 25% of food sales) sell at 30-50% less than the branded product with similar quality and performance. The high \$A environment drove supermarkets to source private label products through cheaper imports.
- Food prices have experienced an average annual deflation rate of 5% p.a. in recent years (i.e. an average basket of groceries now costs 25% less than five years ago), whilst cost of production has risen by 15%. This value has largely been passed down the value chain to customers and consumers, to the degree that many producers are now unprofitable.
- Many Australian agrifood businesses have fallen into receivership as producers have no profit buffer to ride out weather events or crop failures (e.g. the Queensland field tomato sector has lost two of its biggest players in recent years due to this).
- Large multinational suppliers have responded by sourcing ingredient inputs from overseas, as the raw material costs in Australia are too high to make them globally competitive.
- Low profitability is resulting in reduced investment in new plant and equipment on-farm, and reduced innovation and product development in processing. Many small businesses are surviving on their depreciation.
- Rather than relieving the competitive stronghold, the situation has been exacerbated by newcomers Aldi and Costco who are super discounters with low cost business models. Coles and Woolworths now attempt to price match Aldi and Costco, despite a much higher cost structure.

They do this by using their bargaining power to squeeze suppliers, which impacts the whole way down the value chain often resulting in de-engineering of products with poorer outcomes for consumers.

- Agrifood businesses need to pursue strategies based around vertical integration and product differentiation and reinvent their business models in order to respond to excessive supermarket power.
- The major supermarkets have countered the consumer backlash to the market power issue by running ‘farm friendly’ consumer marketing campaigns and industry promotions such as farmer of the year awards. They are also consciously reverting back to Australian-made fruit and vegetable products in sensitive categories.

6.5 Corporatisation & globalisation

Scenario

- Although the vast majority of agribusinesses are still relatively small family farms, large corporate entities are emerging in every category and every link in the supply chain. This is being driven by:
 - *Accumulated family wealth and professional management coming into family farms.*
 - *Farm rationalisation.*
 - *Investment from foreign superannuation funds.*
 - *Private foreign investment.*
 - *Investment from high net worth individuals.*
- Most cooperatives (once the backbone of agrifood marketing and value-adding) have moved to corporate structures. Likewise, statutory marketing bodies have been deregulated and privatised (e.g. Graincorp).

“Agribusiness is now a global business. If you can’t compete against the best in the world, you won’t survive.”

Agribusiness banker

- In virtually every agrifood sector the Pareto Principle now applies, (i.e. 80%+ of category production is coming from 20% of businesses).
- International companies are seeking to tap into Australia as part of a global supply chain e.g. Saputo acquisition of Warrnambool Cheese & Butter (WCB), Ito En green tea processing in Wangaratta.
- Sovereign wealth funds are buying large tracts of agricultural land as well as processing and value adding facilities for food security reasons, e.g. Bright Foods.

Implications:

- Corporatisation has a number of benefits for Australian agrifood, notably the ability to create world class, globally competitive and connected businesses by virtue of:
 - *Having the capital to invest in the latest technology.*
 - *Manageable debt levels.*
 - *Professional management.*
 - *Global connectivity to gain access to market opportunities and to locate the latest in technology and know how.*
 - *Scale.*
- Among industry analysts, there is a high level of support for the view that the Australian agrifood sector will need a major injection of capital in order to fulfil the Asian food opportunity. Capital is required for investment in:
 - *On-farm technology.*
 - *Rationalisation to achieve scale in land holdings.*
 - *Product development and innovation.*
 - *State-of-the art processing and value-adding equipment.*
 - *Infrastructure.*
- The traditional family farm with its record levels of debt cannot finance the scale of growth required to meet future food opportunities. (External sources of capital will be essential.)

“I think it is fantastic that Chinese investment has come to our region. It will be an important driver of increased international visitation from which we will all benefit.”

Rutherglen Wine maker

- There will continue to be a wave of mergers and takeover attempts by foreign investors in Victorian agrifood, however, this area of the Hume Region is less likely to benefit from this investment as it is dominated by small businesses which are not investment ready.
- More work is needed to ‘talk up’ agribusiness investment opportunities among the Australian professional investment community and the need for foreign and other external investment.
- The evolution of new farming models around share-farming, lease hold, new-aged marketing collectives, new format MIS (Managed Investment Schemes) etc., will be critical. There will be a need to advocate the merit of these new models in some farming sectors in order to gain broader acceptance of new ideas.
- To date, the Australian professional investment community, including superannuation equity managers and listed companies, have been reluctant to invest in the agribusiness sector as there is a perception of high risk relative to returns. Furthermore, products have simply not been readily available. Foreign investors however, have recognised Australia’s undervalued and stressed agribusiness assets. There are early signs that Australian investors are reconsidering.
- Larger Australian family-owned agribusinesses need to be receptive to outside equity and should start early to make their businesses investment-ready. This needs to become a realistic option embraced in succession planning of larger farming enterprises.
- There will be increased pressure for corporate agribusinesses to continue to shift to higher rainfall, or tropical areas, as evidenced by the dairy industry’s shift to Gippsland during the drought. Although this will depend on a number of other factors such as land values.
- The business case for investment in water recycling programs and wastewater capture for processors and communities will improve.

6.6 Declining viability of the small farm business model

Scenario

- The family farm has become stuck in the unprofitable middle ground of the market.
- The cost/price squeeze producers face is resulting in declining per unit margins. The consequence is that farms that trade in commodity markets need to double their size every 10 years just to maintain the same income level. Many family farms are simply reducing their earnings and wearing the margin loss.
- Despite many programs to address succession, aging farmers with no plan are still common.
- Many farmers lack the skill sets and capabilities to develop new, more profitable channels to market.
- The prolonged drought followed by floods in some parts of Hume resulted in high levels of residual debt.
- Lack of scale is a challenge for many farms without the capital to expand.
- Farm productivity is relatively flat at around 2%, less than rate of inflation on inputs.
- High debt levels, under-capitalisation and inability to raise funds to invest in new technology are common problems.
- Many traditional family farms are operating with the wrong business model for the size of their business and the changed market circumstances. These are the farms that will suffer most from the changed market conditions.

Implications:

- This force is a natural consequence of the previous one, 'Advancing corporatisation and globalisation'. The central issue is that small family farms are caught in a cost/price squeeze with commodity prices not keeping up with input cost inflation.

A small family farm needs to double its size every 10 years just to maintain its current income level.

Australian Farm Institute, 2012

With profitability per acre falling, farms need to become progressively larger or change to a niche market or higher value model in order to make a living wage. Increasingly, farms can no longer support multiple generations, forcing the next generation to move to cities or the mining areas for employment.

- Prolonged difficult trading conditions exacerbated by drought and floods in some areas have put family farms under financial pressure and debt levels have increased substantially, which has made them vulnerable to further unforeseen adverse business events.
- In some parts of the Hume Region (e.g. Mansfield), 'lifestyle migrants' are pushing up land values to the extent that mid-sized farms will never be able to acquire the land needed to achieve scale.
- Farming businesses in sectors heavily exposed to supermarkets, notably horticulture, have experienced a deflation in farm gate prices.
- Succession planning issues are escalating as the average age of farmers is rising (government forecasts a peak around 2015) and the next generation is less willing to enter the industry because of low returns or a lack of capital.
- Many family farms in the region have been reluctant to adopt new business models e.g.:
 - *Machinery collectives are common on small farms in Europe to avoid over-capitalisation (which is an issue in many small Australian farms).*
 - *Returns to small farms can be improved through value-adding or direct-to-consumer models such as farmers markets and online selling. Many of these alternative channels are now significant in size and enabling family farms to achieve turnovers in the millions of dollars. Farmers' markets now hold an estimated 7% market share of the fresh food market. Many farmers are cynical of this channel.*
- Many of these small farms have not adjusted their business model to adapt to the changed market circumstances (e.g. many smaller ex-tobacco farms have not been able to re-invent themselves). Small farms can be viable assets with the right business model or by servicing alternative higher value channels, however, many traditional farmers do not have the business management, marketing or selling skills to adapt their businesses. Many are stuck in the middle; too large to be niche, and too small to be corporate. The number in this situation will steadily increase, particularly in this study area of the Hume Region where there are many small land holdings.

6.7 The need for social accountability

Scenario

- Consumers now demand a higher level of accountability from industry, business and government, which is largely being driven by social media and Gen Y value systems. Meeting social expectations is now a condition of doing business.
- Purchasing decisions are increasingly being influenced by credence values so food and fibre marketers now need to prove they are better corporate citizens.
- Supermarkets have recognised this social trend and are proactively adopting sourcing policies that they believe will enable them to leverage this trend into customer loyalty.
- Failure to respect social accountability expectations can be very damaging to industry as evidenced by the live cattle issue.

Implications:

- Consumer and societal expectations of corporate accountability are progressively rising, due to changing value systems which are being influenced by social media. This has been reflected in animal welfare, environmental sustainability, business ethics and workplace practices.
- Technology and the rapid adoption of social media has provided consumers with a new ‘voice’ which can be used to cause great damage to businesses and industry as social media is effectively empowering people to become more involved in issues that they know very little about.
- Consumer activists now have the confidence and organisational ability to lobby against brands and corporations, acting in what they determine to be an unethical, immoral or socially irresponsible manner. Purchase decisions are being impacted by:
 - *Carbon footprint*
 - *Animal welfare*
 - *Corporate citizenship*
 - *Fair trade*

“ . . . animal activists have no idea of the damage they could do and think they are above the law”.

Poultry Farmer

VFF.org.au

- *Civil rights*
 - *Water usage*
 - *Environmental impact*
 - *Workplace practices*
 - *Food miles*
 - *Organics.*
- Agricultural industries are notoriously bad at dealing with issue management. The importance of being prepared for media issues and responding decisively has been highlighted by the recent live cattle issue. Both the live cattle trade incident and the 'super trawler' incident are examples of the power of mis-informed consumers to use social media to influence government policy.
 - The major supermarkets are leveraging potential consumer sensitivities as a marketing edge, e.g. phasing out of caged eggs, sow farrowing stalls, beef hormone growth promotants, etc. This is at a cost to producers and will ultimately push up the prices of some products.
 - Society is becoming more litigious, using class action law or social media to mandate companies to do the right thing.
 - There is growing societal pressure on industry to improve animal welfare, environmental sustainability and workplace ethics. Currently producers are trailing behind consumer expectations in this regard.
 - Ultimately, responding to increased consumer activism is adding significantly to the cost of agricultural production.

6.8 Shifting global demand

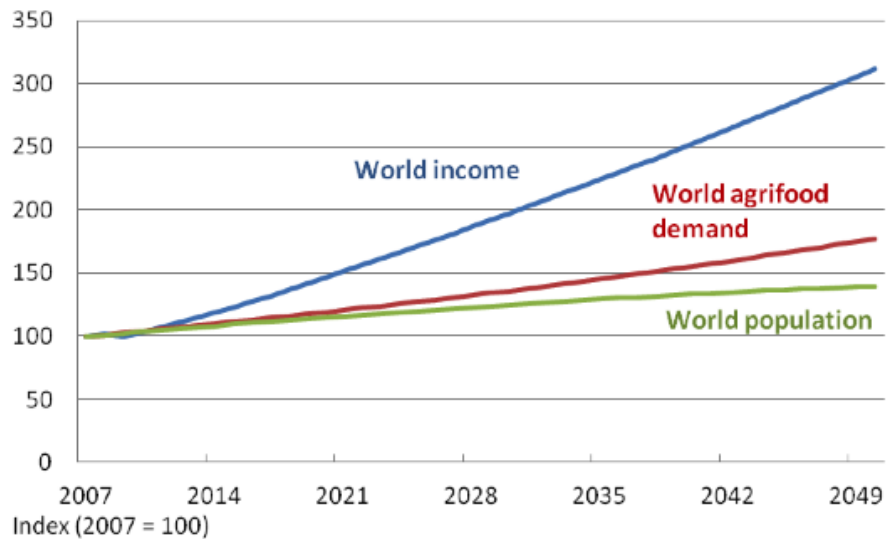
Scenario

- The growing middle and affluent classes in Asia will drive increased demand for quality, safe, branded food.
- Australian producers will need to change their business model to take advantage of the Asian food opportunity because at present, Australia is supplying the world with low value, undifferentiated commodities, which are value-added, offshore in lower cost countries.
- The best opportunity for Australia in most categories is to pursue high-value, niche markets with higher quality, differentiated products that can sustain a price premium.
- As indicated in the graph below, growth in world agrifood demand will exceed population growth. This is due to the fact that rising affluence leads to changes in diet towards high value products: fruit & vegetables will account for 33% of expected increase in food demand, meat 24%, cereals 1.1%.
- Global food output will need to increase by 110% to meet this demand.
- By 2030 there will be three billion, middle class consumers in the Asian region. Rapid economic development is creating a large and growing population of affluent families across Asia.
- The Chinese are particularly keen to buy safe foods from trusted countries (of which Australia is high on the list); they do not have faith in the safety of locally produced products.

“Far and away the greatest challenge facing humanity this century is the double global food production with less land, less nutrient, less science and in frequent drought”.

Julian Cribb, *The Coming Famine 2010*

FIGURE 8 GLOBAL DEMAND FOR FOOD WILL OUTSTRIP SUPPLY



| Source: FAO 2011

Implications

- Overall, the rapidly growing global demand is likely to result in rising of soft commodity prices which is positive for Australia on the export front but negative for manufacturers in terms of the rising cost of inputs.
- Potentially, growing demand will put pressure on the prices of fertilizers and other farm inputs as farmers worldwide are under pressure to increase productivity.
- While Australia will no doubt benefit from selling commodities, the much bigger economic opportunity is in value-adding and selling premium differentiated products that tap into the Asian consumers' pre-occupation with brands.

- Currently, Australia is predominantly exporting low value, undifferentiated commodities such as milk powder, whey, boxed frozen meat and grains, when the growth in market demand will be for premium, high-value, luxury products. Seamless traceability through all levels of the supply chain will be essential.
- The often-lauded ‘Food Bowl to Asia’ call will remain a myth unless Australia changes its business model in agrifood. Without investment in innovation and technology, Australia will miss much of the premium food opportunity and remain a producer of low value commodities, which are subject to characteristic market volatility. As a consequence, the opportunity to leverage our agrifood resources and create regional value and jobs will be lost.
- Australia’s high cost structure makes it difficult to compete with basic packaged food lines (e.g. canned vegetables or table wines). It must compete with premium quality, provenance-branded, safe food and wine and high specification ingredient components.

6.9 The rising cost of compliance

Scenario

- Australia is one of the worst countries in the world with respect to excessive compliance costs. The high overall burden of compliance is a combination of the bureaucracy around tax, Occupational Health and Safety (OH&S), export, sustainability, environment, food safety, ethics and others.
- Virtually every supermarket and major food service company has its own quality and product integrity system. This duplication adds greatly to costs. Commonly, third party contractor companies audit the same processor on almost identical factors for each accreditation code.
- The move to a uniform industry grading and product integrity platform would save the food sector millions of dollars annually. Programs to attempt to achieve harmonisation in codes are occurring in a number of industries.

- OH&S restrictions are also creating their own burdens with issues such as lifting loads continually decreasing (an issue for wine), and the legal costs of a challenge making it cheaper to pay out claims.
- Lifting weights are an issue for abattoirs also as according to ABS, the average carcass weight of animals reached a record high of 289kg in 2012. This has resulted in concerns regarding OH&S, with some abattoirs restricting the kill weights of bulls.

Implications

- The global competitiveness of all Australian agrifood businesses is disadvantaged by our higher cost of compliance than competitor countries.
- The issue is both a time cost as well as a direct cost. The red tape and paper work is a burden for small businesses where the owner usually works longer hours to complete the documentation. The direct cost is due to the rigorous processes and rising audit fees as government agencies aim for full cost recovery in all of their monitoring activity. The aquaculture sector has experienced this directly with sharp rises in fees for EPA inspections.

6.10 The shift to closed-loop supply chains

Scenario

- Increasingly, food is going to market through closed-loop supply chains meaning the product is not sold on the open market but is allocated to a market or customer as soon as the crop is in the ground.
- Supermarkets have championed closed-loop supply chains, where they have total control over the product from paddock to shelf. This allows them to have greater influence over quality, supply and price. The vast majority of red meat sold by supermarkets now moves through closed-loop supply chains.
- Increasingly, corporate food service and QSR customers are also employing closed-loop models with most locking in their own recipes and private label brands.

- There will also be opportunities to develop closed-loop supply chain models with key customers in export markets. In the wine sector, Chinese investors are buying wineries in order to supply wine to the restaurant chains they own in China through a closed-loop.
- In grains there is more 'grown to order' closed-loop production to service particular niche markets.

Implications

- Closed-loop supply chains can lock smaller producers out of mainstream markets.
- The trend makes strategic partnerships and alliances more critical with stronger mutual dependency.
- Closed-loop supply chains generally provide more stability and encourage suppliers to invest in scale and collaborate on supply chain efficiency.

SITUATION ANALYSIS

PART F

The situation analysis aims to distil and summarise the most critical information from this comprehensive mapping exercise in order to inform recommendations for the strategy and action plan



Section 7 | The strategic imperatives

The following is a list of what the project steering committee has termed the sub-region's 'Strategic Imperatives', i.e. the factors that are judged to have the biggest potential impact on the future development of the Upper, Central and Lower Hume Sub-region's agrifood sector. As such they will form the focus of the strategy and action plan to be developed following review of this document.

There are 12 generic factors that apply to a wide spectrum of industry sectors in the study area. They have been developed from insights drawn from the industry mapping and stakeholder consultation and were verified in a workshop of regional thought leaders.

Note that these factors are not intended to be ranked in any particular order of preference.

Strategic imperatives

1. Labour availability and cost
2. Energy cost and options
3. Opportunity and need for stronger agri-tourism sector
4. Importance of emerging gourmet food businesses
5. On-farm productivity
6. Capital, scale and succession planning
7. Retailer market power
8. Business culture, resources and acumen
9. Freight availability and cost
10. Compliance and government bureaucracy
11. Land use planning
12. Poor or disrupted IT connections

7.1 | Labour availability and cost

Labour is a universal issue for all agrifood industries, at every level in the value chain. The critical issues in relation to labour availability and cost are:

- Australia has the highest labour cost in the world*, making many labour intensive agrifood industries in the Hume Region globally uncompetitive.
- Producers in the region have difficulty in getting labour at all skill levels, particularly in remote areas and for seasonal needs.
- Skill levels of available staff are not appropriate to the needs of local agrifood businesses in all parts of the supply chain and at all managerial levels.
- In SMEs, skills in IT are needed to lift capability in online selling.
- Salary packaging for farm labour is problematic due to issues around provision of housing and cars.
- Uncertainty around 457 and 417 visa status is concerning producers right across the Hume Region who are now very reliant on this casual labour pool.
- Seasonal workers are a vital resource. They are the preferred employees by many businesses and yet they are often poorly treated, considered an expendable resource and not welcomed into communities.
- The cost and professionalism of contract labour companies is concerning to many using their services in terms of both ethics and liability.
- Almost all industry sectors experience difficulty in attracting youth to agricultural education pathways.
- A paradox exists with high youth unemployment in many areas of the Hume Region yet agribusinesses are having trouble attracting unskilled, casual labour which can be relatively well-paid.

* *Boston Consulting Group The Shifting Economics of Global Manufacturing Aug 2014*

7.2 | Energy cost and options

Gas and electricity prices have increased exponentially adding a further cost burden to production, particularly in energy for intensive manufacturing and food processing. Key issues in relation to this are:

- Electricity costs have significantly increased since deregulation. Some businesses report a 40% increase in energy costs in the past three years.
- Gas prices have increased and are expected to increase substantially more due to export demand for gas. Many processing plants are either not connected to gas or have insufficient capacity.
- There are also capacity issues with electricity that are constraining expansion in the processing sector. For many food businesses, 'black outs' or 'brown outs' can be highly disruptive to production e.g. during milking on a dairy or causing the shut down of a whole production line in food processing.
- The incentives for conversion to renewable energy and cogeneration are not adequate to drive investment in the technology, even at a cluster level.
- Many smaller food and beverage producers who market their products on the basis of sustainability factors, require access to affordable renewable energy which is proving difficult. Blockers in adopting all forms of renewable energy are frequent and they include both cost and planning issues.

7.3 | Opportunity and need for stronger agri-tourism sector

Wineries and smaller gourmet food businesses need increased agri-tourism customer traffic to improve their viability. Agri-tourism is dependent on a critical mass of products to build a stronger overall product. Key issues in relation to agri-tourism can be summarised as follows:

- Wineries and craft beer producers are becoming more reliant on cellar door and direct-to-consumer sales to maintain their viability in the face of deflation in selling prices and declining profit margins. They need a food offering to accompany their beverages and maintain customer interest and repeat visitation. Cellar door visits are in decline and without an improved food and produce offering the chances of reversing this trend are lessened.
- Smaller and start-up gourmet food companies need the higher margins that direct sales generate in order to be viable.
- Some parts of the region, notably in the high country, are blessed with good visitation but other parts of the region suffer because of remoteness and lack of tourism product breadth.
- Overall, in most areas of Hume Region there is not a well developed tourism offer to cater for an increasingly discerning visitor, year round.
- There is a lack of collaboration in promoting linkages between the various wine regions across the Hume Region with each region instead focusing on their own patch. Likewise vignerons groups could engage better with other tourism and food groups.
- Each LGA and most industry groups have a marketing program, which are typically under-funded. Each group is pursuing their own strategy and are often competing with each other, with resulting fragmentation of effort and budget.
- Greater collaboration could certainly occur between the nature-based tourism operators and food and wine businesses to enhance the overall experience.

- On one hand, ongoing consultation and cooperation with the relevant tourism boards in the region would allow for greater alignment of regional, sub-regional and local initiatives. However, this issue requires some balance and common sense as branding, promotion and communication strategies are also called for at a local level due to the size and diversity of the entire Hume Region and the considerable variations in industries and destinations.
- There are some regional branding challenges across Hume Region. The consultation suggests that brand awareness is poor and even tourism business operators are unsure of how to best identify their region. Operators consider the region too large for one singular tourism story and are torn about investing their marketing dollars in the local brand or the wider regional story (e.g. North East Tourism or local advertising for Milawa). This regional branding dilemma is also evident amongst gourmet food producers as well as tourism operators.
- There is a lack of professionalism evident across some tourism operators who have entered the industry for lifestyle reasons creating frustration for other operators who see tourism as a vocation rather than a hobby and are dependent on their mutual success.
- The trend towards smaller farm holdings (40 hectares or less) is likely to continue as it is being fuelled by the baby boomer demographic who are retiring in good health and with sufficient capital to invest in a small farm; a social drive to achieve more work/life balance; as well as TV programs such as Matthew Evans' program, Gourmet Farmer, which romanticise the dream of small scale farming.

7.4 | Importance of emerging gourmet food businesses

The region has a rich and emerging gourmet food sector, which needs support for it to reach its full potential. A summary of key issues here are:

- There are a large number of start-up businesses that are producing and value-adding an eclectic mix of gourmet food products.

By their own admission, many struggle with the complexity of mastering the agronomy or production challenges, running a business, working through the challenges of start-up financing, production, value-adding and marketing. These types of businesses would benefit from being able to network with others in a similar situation or tap into local business mentors.

- There are two types of businesses in gourmet food, those founded by ‘tree-changers’ who bring business skills from other industries and those developed by farmers who take on value-adding their product and are strong in production but sometimes weak in business skills. Both cohorts have skill gaps and both could learn from the other cohort.
- Many of the gourmet food businesses would benefit from being tapped into a marketing network or collective distribution, particularly one that provides a channel to market, because they lack the critical mass to be able to distribute by themselves.
- The growth of many is being limited by lack of access to registered kitchens and processing facilities – which is required to sell to the public. A collective facility would assist many to test new products.
- Cost of freight and direct-to-customer logistics is a barrier to building the online business to their fullest potential.

7.5 | On-farm productivity

Investment in on-farm productivity is essential to improve the region’s global competitiveness. Given Australia’s high cost structure, it is critical to invest in drive on–farm efficiency and lift productivity in order to compete. This entails investment in the following:

- New production and packaging technologies
- New varieties and genetics
- Yield improvement
- Labour saving technology

- Energy saving technology/ renewable energy / energy co-generation
- Risk management in the face of climate volatility and increasing market risk due to deregulation.

7.6 | Capital, scale and succession planning

- Significant capital investment is needed at every link of the value chain and in the private and public sector to drive efficiency:
 - *Scale – need bigger more efficient businesses to be globally competitive*
 - *New technology and processes*
 - *RD&E innovation*
 - *Infrastructure.*
- Some parts of Hume Region have a high proportion of small-scale farms, many of which are a result of the appeal of the area to ‘tree-changers’. A key concern for these owners of land holdings of 40ha or less, is how to use their land productively and control grass and/or weeds. Tree-changers are keen to find use for such land as evidenced recently in Mansfield Shire when 70 landowners registered for a small farm seminar.
- Succession planning is a major issue in agribusiness nation wide. The vast majority of agribusinesses in the Hume Region are small family businesses and the majority apparently do not have succession plans. Also, many lack formal structures, which spell out ownership and future entitlement. This is a cause of tension for family businesses and threatens long term sustainability. There is no shortage of advice services available for succession planning, the issue is the reluctance by families to invest in them or seek them out. Many industry bodies have been successful advocates of succession planning.

7.7 | Retailer market power

The supermarket oligopsony (dominance of buying power) has resulted in a significant profit transfer away from production and processing sectors:

- Aggressive discounting and growth of private label has dramatically reduced returns down the supply chain.
- Because supermarkets account for the majority of domestic food sales and domestic sales are a large share of total sales, it has eroded total returns particularly in red meat, dairy and horticulture.
- Historically returns from domestic sales were significantly higher than exports but this is no longer the case.
- Export markets are critical to reduce over supply on the domestic market, which depress prices. The high \$A over the past few years has made Australian exports less competitive but the currency now appears to be easing.

7.8 | Business culture, resources and acumen

Operating agribusinesses is far more complex than it used to be:

- Farming is now a very complex business involving such diverse skill areas as:
 - *Water management.*
 - *Labour, OH&S.*
 - *Environment.*
 - *Compliance.*
 - *Supply chain and appropriate business model to channel.*
 - *Marketing and sales skills.*
 - *Understanding return on capital and business management.*

- *Strategic planning.*
- *Superannuation.*
- Processing businesses have even greater levels of complexity. Small businesses and family businesses in particular struggle with managing this complexity due to lack of general business skills and the inability to grow their managerial capacity as their business expands.
- Another major obstacle to industry development is conservatism and resistance to change. Business operators aren't receptive to or accepting of advice and many do not see the value in investing in advisory services.
- There is a wide range of business support services available that aren't being utilized to the extent that they should. Part of the problem is the conservative attitude of businesses and reluctance to admit that they need help. On the other side some of the programs are not user friendly and need to be made more accessible to businesses.
- Many business operators do not have access to reliable sources of data to inform their decision making, particularly those in emerging industries and tourism.

7.9 | Freight availability and cost

The agrifood sector is critically reliant on an efficient supply chain. There are a number of issues compromising the current chain:

- Despite the proximity to the Melbourne-Sydney rail line, access to rail freight is problematic.
- Road transport efficiency is compromised by limited A & B double access.
- Over regulation and lack of interstate harmonisation of road freight contributes to increased cost.
- There is a particular issue with getting access to affordable freight for smaller shipments i.e. pallet or sub-pallet loads. Availability of sub trailer loads is an issue within the region. One operator indicated that it was cheaper to send a shipment to China than to Brisbane. Another indicated that it was difficult to get freight for sub trailer loads from Wodonga to Echuca.

- There are limited options for direct to consumer parcel freight and the cost is constraining consumer uptake.

7.10 | Compliance and government bureaucracy

Compliance and red tape is significantly adding to cost:

- Escalating customer quality and food safety requirements are adding to cost.
- Lack of harmonisation across the various accreditation schemes results in audit duplication.
- Government charges and administrative requirements are impacting on business efficiency.
- Meeting societal expectations with respect to bioethics (animal welfare, sustainable practices, GMO, labour and workplace practices) is adding another level of compliance, which further adds to costs.

7.11 | Land use planning

There is a need for better utilisation of local planning schemes as an enabler to attract investment in agriculture:

- The use of land for agriculture, particularly at the interface between urban and rural areas, requires careful guidance to enable certainty for business investment. When local changes in land use occur due to changes in land zoning (e.g. from a farm zone to an urban zone), the potential exists for issues at the interface between competing urban and agricultural needs. This manifests in conflicts such as complaints from residents about noise, odour, heavy vehicle traffic, night time activity, etc. on one hand; and complaints from farmers about their right to carry out their existing operations on the other. In managing any conflicts there is a need to ensure that the 'right to farm' is not compromised where such activity occurs in land zoned for farm use.

Using measures such as buffers, can assist in addressing interface issues such as resident amenity versus farm activity like odour, noise and unattractive shedding, which are common with industries such as livestock and food processing.

- The application of appropriate zoning provisions to any permitted use is one factor that can contribute to providing investment certainty. However, there is a need to recognise changing land use patterns and forecast these shifts. In some instances, changing local economic conditions can lead to a need for common sense in planning e.g. when a region's economy becomes more reliant on tourism than agriculture, then flexibility may be required on land use to encourage investment in accommodation or to facilitate parking for tourism activity.
- The Hume Region is grappling with a planning challenge in embracing the shift towards a 40 hectare (or smaller) farming model. While farms in other agricultural areas of Victoria are rationalising and achieving the scale required to be globally competitive, the trend in the Upper, Central and Lower Hume Sub-Regions is quite the reverse, as the area holds greater appeal to lifestyle farmers. This shift will impact both economic development strategies as well as planning strategies significantly.

7.12 | Poor or disrupted IT connections

IT connectivity is a business constraint for large and small businesses alike across the Hume Region resulting in the following challenges:

- Compounding the issues with freight and logistics is the fact that the other important point of interface with customers (the internet) is unreliable. Across many districts insufficient or non-existent internet capacity makes selling any product almost impossible in today's economy. Even cattle sales are increasingly moving to online sales. Even if selling by traditional channels, the internet is a vital source of market trend data for sellers.
- For some operators, phone connections are not even at a standard suitable to trade in a direct-to-customer business model.

- Industry report that the lack of Internet capacity can be particularly bad during business hours to the point that large multinational businesses in the region cannot communicate effectively with their colleagues in Melbourne or Sydney.
- Increasingly the operation of technology employed in Australian agribusiness is monitored offshore via the Internet. A high tech, automated dairy in Kiewa Valley or a food processing machine in Wodonga may be monitored live, online by its manufacturer in Italy or The Netherlands. An unreliable internet connection may jeopardise the functionality of equipment worth millions of dollars.
- The need for high speed, affordable broadband and mobile phone coverage remains a pressing issue as more and more businesses in the region rely on fast mobile communications and reliable access for Internet sales.

Section 8 | Situation summary

There is an enormous amount of information to consider in consolidating the trends, drivers, blockers and opportunities impacting the Hume Region's agrifood sector. This section summarises the most critical factors that need to be taken into account when formulating strategies, including noting the critical success factors and areas of competitive advantage for the region's agrifood. This summary is presented in bullet point form to capture the key insights as succinctly as possible.

8.1 | Lower, Central and Upper Hume sub-regions agrifood sector characteristics

- Diverse in terms of geographical features and enterprise mix.
- Temperate climate with many distinct micro climates that support specialty enterprises.
- Mixture of large and small scale operators including niche producers.
- Mostly non-irrigated, but some significant private irrigation schemes exist.
- Strong and growing lifestyle/tree changer element which brings new skill sets.
- A large number of small land holdings which makes the areas attractive to tree-changers but limits the potential of existing farms to achieve the scale required to be competitive.
- Under utilized water resource from the Hume/ Ovens aquifer.
- Under utilized horticultural know-how (ex-tobacco).
- Growing tourism sector.

8.2 | Forces of change

The external (uncontrollable) forces driving change in agrifood include:

- Climate change – weather patterns.
- Global economy and global geo-politics and particularly market access.
- Domestic economy.
- Government policy.
- Global geo-political issues.
- Industry deregulation.
- Demographic and social value shifts.

8.3 | Opportunities

There are many opportunities to develop the Hume Region agrifood economy including:

- Improve global competitiveness through differentiated and novel products that command a premium.
- Building regional value through a greater involvement with consumer ready products rather than commodity focus.
- Growing the agri-tourism channel.
- Expanding the gourmet food sector.
- New business models.
- Taking greater advantage of the Asian food boom.
- Improved economic return on small land holdings.
- Greater uptake of underutilised water resources in Alpine Valley's aquifers.

8.4 | Best prospects to take advantage of the Asian food boom

The Hume Region is well positioned to take advantage of the Asian food boom. In particular the following industries are already benefitting and this is likely to continue:

- Dairy
- Grass fed beef
- Lamb
- Breeder cattle
- Grains
- Wines, particularly premium quality.

There is potential to generate increased value from the commodities produced by the region by:

- Further value-adding local produce (i.e. exporting finished, branded food and beverage products rather than bulk commodities such as milk powder).
- Producing branded gourmet goods for the luxury market.
- Tapping into the high-end tourist market through offering a tourist product customized to the needs of this visitor cohort.

8.5 | The Asian opportunity

The region is well positioned to take advantage of the growing demand for premium food from Asian markets. Industries that are most likely to benefit include beef, lamb, grains, oil seeds and wine.

To take fullest advantage of the so-called 'Asian dining boom', the Hume Region needs to produce value-added, branded, consumer-ready products rather than commodities. There are a number of barriers to fulfilling the Asian opportunity. The key ones being:

- The lack of capital to develop state-of-the-art processing facilities.
- Inefficient transport infrastructure.

- A lack of understanding of doing business in Asia, customizing products to suit consumer needs, finding suitable partners, understanding the culture etc.
- The fact that many of the businesses in the region aren't export ready; lacking the scale and managerial resources and skills.

8.6 | Competitive advantage

In addition to leveraging Australia's reputation for safe foods, the agrifood sector in the Upper, Central and Lower Hume sub-regions has a number of defining features which set it apart from other food-producing areas:

- Temperate climate with many micro climates that are highly suited to specific products e.g. green tea, fruit, and particular wine varieties.
- Soils and land capability which can support a wide mix of agricultural products.
- Location within 14 hours (drivers limits) of three capital cities and 75% of population.
- Transport connectivity Hume and Newell Highways.
- Access to a residential workforce.
- A superior level of liveability, which makes it possible to attract and retain quality staff in many areas.
- Pockets of high tourism traffic.
- Access to support services and technical skills.
- Untapped subterranean water resources in King and Ovens Valleys.
- Specialist producers who are owner/operators with passion and drive.
- Agricultural know-how and experience.

8.7 | Blockers to building regional value

However, there are several blockers to be overcome, including:

- Global competitiveness:
 - *Labour availability and cost.*
 - *Energy costs.*
 - *High \$A (although this is rapidly softening).*
 - *High input costs.*
 - *Scale by virtue of small land holdings (40 hectares or less)*
 - *On farm productivity gains.*
 - *Out dated technology in processing plants.*
 - *Red tape and compliance.*
- Lack of a strong agri-tourism offer.
- Concentration of retail market power that traps mid-sized producers in a cost/price squeeze.
- Transport availability and cost.
- Capacity and capability of gourmet food businesses.
- Lack of capital.

8.8 | Critical success factors

It is essential that the food strategy and action plan for this region considers the following critical success factors:

- The need for a clearly articulated strategy based on reality.
- Culture of continuous improvement in productivity.
- Access to a pool of skilled staff.

- Access to adequate capital and funding.
- Ongoing investment in R&D and innovation at every level of the supply chain:
 - a) *Differentiated products that can command a premium*
 - b) *New processes to improve efficiency.*
- Markets and channels that are appropriate to the business model of each agribusiness.
- Viable farming models for small scale operations.
- A globally recognised regional identity acknowledged for quality and safe food and wine.
- Access to efficient infrastructure for transport, energy and communications (especially broadband).
- Access to emerging markets.

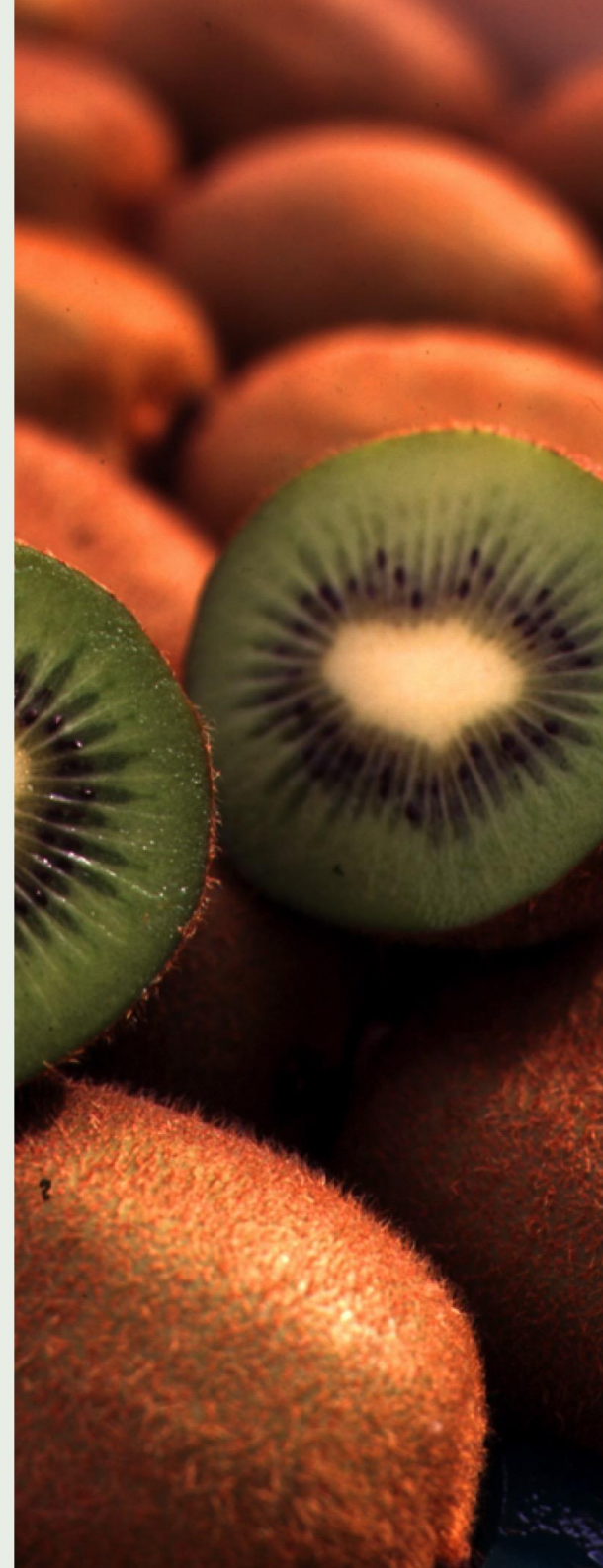
8.9 | High level SWOT analysis

<h3>INTERNAL STRENGTHS</h3> <ol style="list-style-type: none">1. Temperate climate with many micro climates2. Diverse businesses3. Global reputation for safe food4. Good location relative to markets5. Access to a residential workforce6. Great livability which attracts quality staff7. High tourist traffic in many areas8. Access to support services and technical skills9. Agricultural know-how	<h3>EXTERNAL OPPORTUNITIES</h3> <ol style="list-style-type: none">1. Ability to produce differentiated and novel products that could earn a premium2. Potential to build regional value through producing consumer-ready products rather than commodities3. Growth in the agri-tourism channel4. Capturing momentum in the gourmet food market5. Greater collaboration and new small-farm business models6. Under utilized water resource in Alpine Valleys7. Softening \$AUD
<h3>WEAKNESSES</h3> <ol style="list-style-type: none">1. Weak global competitiveness2. Undeveloped agri-tourism offer3. Supermarket power4. Transport availability and cost5. Business acumen, resources and capability6. Lack of capital7. Lack of scale8. Capacity to attract skilled staff in remote areas9. Poor IT connection10. Energy cost and availability	<h3>THREATS</h3> <ol style="list-style-type: none">1. Uncertainty around the global economy2. Declining consumer confidence3. Impact of climate change4. Sovereign risk with customer countries5. Fuel security, given Australia's reliance on imports6. Biosecurity risk and food safety compromise7. Skilled labour shortages

| Source: Situation Analysis Workshop 2014

APPENDIX

PART G



Section 9 | Reference

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Glossary of terms

Term	Description
ABARES	Australian Bureau of Agricultural Resource Economics and Sciences
ABS	Australian Bureau of Statistics
Agrifood	The entire food and beverage sector from on farm to end-user
Agri-tourism	Tourism focused on enjoying regional food production
ANZSIC	The Australian and New Zealand Standard Industrial Classification developed for use in the compilation and analysis of industry statistics in Australia and New Zealand
EVBO	Estimated value of business operations
GFC	Global Financial Crisis
GRP	Gross Regional product
GSP	Gross state product
IP	Intellectual property
LGA	Local government authority
SME	Small-to-medium enterprises
VACP	Value of commodities produced