

# **A Business Case for Change in National Avocado Levies**

- **A new levy for processing avocados**
- **A new levy for Emergency Plant Pest Eradication (EPPE)**
- **An increase in existing avocado levies (R&D/Marketing)**



**Avocados  
Australia  
Limited**

**June 2005**

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# WHAT IS THIS DOCUMENT ABOUT?

This document presents the business case for an increase for the existing Avocado levies to fund a range of activities in the areas of research & development (R&D), promotion and the establishment of an "Emergency Plant Pest Eradication" levy for emergency plant pest or disease eradication in the Australian avocado industry.

The three main issues to be covered in this document are:

1. Implementation of a reduced avocado "processing levy"
2. Implementation of a zero "Emergency Plant Pest Eradication (EPPE) levy"
3. An increased "R&D and Marketing levy" rate for fresh avocados

The levy proposal has been developed by Avocados Australia Limited (AAL) following the development of a new avocado industry strategic plan and the reviewing of the Australian avocado industry's current R&D and marketing funding levels.

The "processing levy" implementation relates to the changing environment in the value added sector of the avocado industry. The need to address an imbalance in the levy's relationship to the relative value of the processing avocado and the benefit that is attributable to the avocado processing sector.

The EPPE levy implementation is an industry commitment to the national plant health system. The agreement with the state and federal governments requires a mechanism that allows industry to commit one third of an agreed cost to an incursion event in the future.

It is important to note, that while the AAL endorses the national avocado levy changes, the AAL will not seek to impose any element of the change without the support of the majority of commercial avocado growers. That support in turn must be demonstrated through a formal ballot of all known commercial avocado growers, to be held at:

**Nambour Civic Centre, Centenary Square Building,  
Currie Street, Nambour, Queensland,  
at 2:00 pm on 24 October 2005.**

The document provides answers to the following questions:

- **why the levy change is needed;**
- **what the levy rates are now;**
- **what the levy rates will be;**
- **what the levy money will be used for;**
- **how levy investment decisions will be made;**
- **what the expected benefits of the levy change will be; and**
- **how you can find out more.**

# THE CURRENT AND EMERGING BUSINESS ENVIRONMENT OF THE INDUSTRY

## Overview of the Current Situation of the Industry

The table below presents key production, overseas trade and consumption statistics for the industry for the period 1997-98 to 2005-06. The graphs on the next page contribute further to the summary profile of the Australian avocado industry.

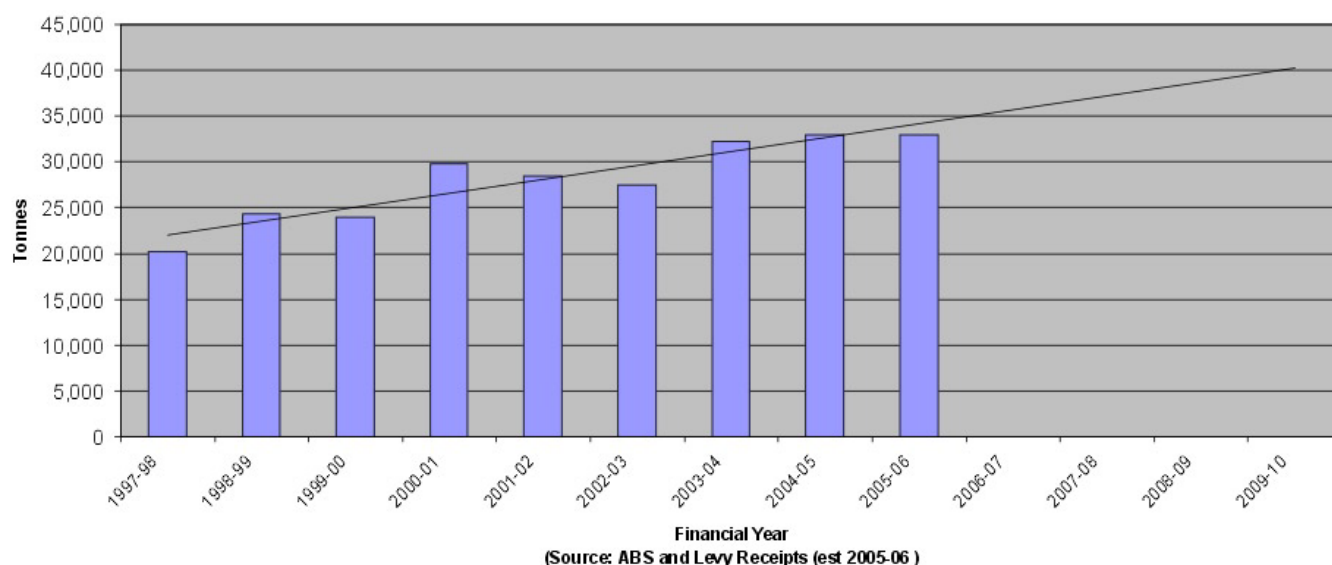
**Table 1: Australian Avocado Industry: Production, Overseas Trade and Consumption**

1997-98 to 2005-06

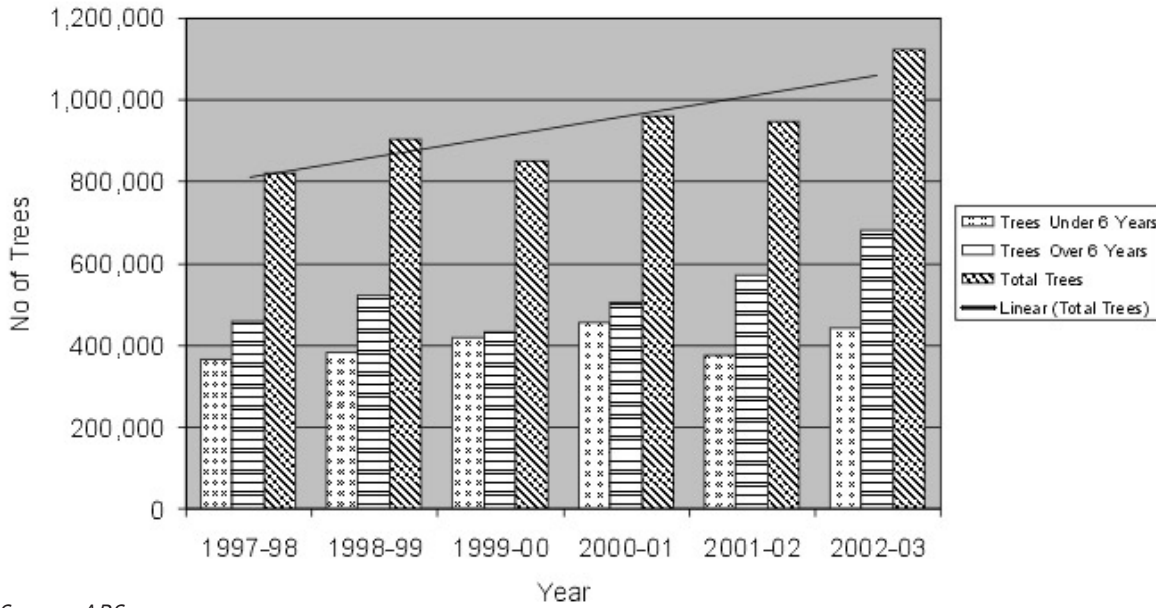
Year	Production ('000 Kg)	Imports ('000 Kg)	Exports ('000 Kg)	Consumption ('000 Kg)	Population	Consumption (kg/person)
1997-98	20,173	3,153	44	23,282	18,814,000	1.24
1998-99	24,311	5,089	85	29,315	19,038,000	1.54
1999-00	23,976	3,027	135	26,868	19,273,000	1.39
2000-01	29,834	3,083	409	32,508	19,529,000	1.66
2001-02	28,485	4,669	225	32,929	19,758,000	1.67
2002-03	30,026	4,461	393	34,094	20,009,000	1.70
2003-04	32,251	5,700	419	37,532	20,250,000	1.85
2004-05	33,000	5,000	510	37,490	20,500,000	1.83
2005-06 e	33,000	10,000	600	41,400	20,650,000	1.97
2006-07 e	35,000	12,000e	650	46,350	20,750,000	2.23
2007-08 e	37,500	15,000e	750	51,750	20,850,000	2.48
2008-09 e	39,000	17,000e	800	55,200	20,900,000	2.64

Source: ABS, HAL, AAL      e: estimate

**Graph 1: Growth in Australian Avocado Production 1997 to 2006 and Trendline for 2006 to 2010**



**Graph 2: Australian Avocado Trees**



Source: ABS

### Industry Organisation and Performance

Avocados are grown commercially by around 1,300 growers. Key production areas are north, central and south-east Queensland, northern and central New South Wales, the tri-state area (South Australia, Victoria and south western New South Wales), and Western Australia.

The industry has been undergoing significant growth for more than a decade. It is estimated that over 33,000 tonnes of avocados will be harvested in 2004-05.

Since the end of 2003, the peak industry body in Australia for avocados is Avocados Australia Limited (AAL). The predecessor organisation was the Australian Avocado Growers Federation (AAGF). AAL has a Board of Directors, a Secretariat and four standing skills-based committees. The Board of Directors sets the strategic direction for Avocados Australia Limited and the Secretariat implements that direction. AAL's Standing Committees are the Research & Development Committee, the Marketing Committee, the Varieties Committee and the Export Development Committee.

Horticulture Australia Limited (HAL) is a company owned by all the horticultural industries that have a Federal levy – this includes the avocado industry. The levies are collected for the purpose of R&D and Marketing. This includes the administration, development and promotion of these areas. **Federal Levies cannot be used for 'agripolitical' activities.** HAL administers the levies and the projects that are funded through the levies on behalf of the industries.

Currently there is no biosecurity plan specifically for the avocado industry, however, an across-commodity Horticulture Emergency Management provides a framework for responding to all types of emergency across the broader horticulture industry.

The avocado industry generally has a favourable community image. Whilst some regions are experiencing pressure to reduce usage of chemicals, the avocado industry does not specifically have a reputation of environmental damage or unsafe production systems.

### Customers and Markets

The main types farmed for market are Hass, Reed, Sharwil, Fuerte, Shepard and Wurtz. Most avocados are marketed as fresh whole fruit. Avocados also have a wide variety of uses as industrialised products. Pulped avocado is used as the base for food products such as Guacamole and "Tex-Mex". Avocado oil is used for cosmetics, and more recently as an alternative to olive oil and salad dressings.

Food service markets are becoming an increasingly important outlet for fresh product, with the food service sector worth \$30 billion per year in Australia. Food service presents the next big challenge for the avocado industry

Avocados are marketed in all states of Australia – direct to supermarket chains, through Central Wholesale Markets, at Farmers' Markets, to food processors and to the foodservice sector. It is estimated that over 60% of avocados are sold through supermarkets.

The most current consumer surveys (2005) show that 90% of the Australian population eat avocados and that they expect to discard up to one in every four pieces of fruit they purchase because of poor internal quality. The ability to produce consistent quality fruit of the size demanded by the consumer offers considerable potential for the expansion of domestic markets.

The industry is currently working together to increase consumer knowledge and demand in Australia through coordinated promotional campaigns, coupled to increased production. Key objectives are to change the consumer image of avocados from an occasional luxury to an everyday fruit, and to increase demand for avocados in line with increasing production.

To date Australia has exported only small quantities (less than 500 tonnes per annum). The main destinations have been New Zealand, South-East Asia and the Middle East. Future export development is important as substantial growth in production is forecast. The industry has received a tariff-free quota as part of the Australia-United States Free Trade Agreement (FTA), but exports cannot occur until a quarantine protocol is agreed upon. Under the FTA, the Australian avocado industry will have a yearly quota starting off at 4000 tonnes, broken in to two periods. The quota will increase by 10% annually. In year 18 of the FTA, Australian avocados will have open access to the USA.

### **Competitors and the Nature of Competition**

In both production and exports Australia is a very small player in the world avocado market – around 2% of world production and less than 0.2% of world exports in 2002-03.

New Zealand has marketed between 3,000 and 6,000 tonnes of avocados in Australia in recent years. Australia is by far New Zealand's major avocado export market. New Zealand's avocado production could rise to over 40,000 tonnes by 2012. Production in 2002-03 was said to be 14,000 tonnes.

Reports from the USA point to possible changes in market share and prices in the USA that could have spin-off effects for the Californian industry, other suppliers to USA, and in other export markets. The catalyst for the concern is a USDA-APHIS pest-risk analysis declaring that Mexican Hass avocados pose no threat to the US agriculture sector. Greater competition in the USA market from Mexican fruit is claimed to pose a threat to producers in California, Chile and New Zealand.

The South African avocado industry has expressed interest in exporting to the USA during the June to September period. Disinfestation research is said to be underway.

Due to the relatively long lead time from planting to commercial production (7+ years), growers entering the avocado industry must have access to significant amounts of funds for orchard establishment and for initial living and working expenses. Farmers in struggling industries (e.g. sugar cane, tobacco) are, however, constantly on the lookout for profitable alternatives.

Australian avocados are positioning into a number of niche 'health and well-being' markets in which they compete with some other fresh fruits and vegetables, cholesterol-reducing spreads, vitamin-enhanced and functional foods (including fruit juices, breakfast cereals and soft dairy products), alternative medicines, infant foods etc.

Alliances and linkages with Horticulture Australia Ltd, federal and state governments, universities, and other horticulture industry organisations are extremely important for the avocado industry. The industry currently has had good linkages with a number of research delivery organisations, the principal being the Queensland Department of Primary Industries and Fisheries.

### **Operating Systems**

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

Fruit quality reliability is a major challenge for the industry. The AAL Board is concerned about the industry's capability to consistently provide avocado consumers with a product of reliable quality. Dealing with the fruit quality issue is becoming more difficult as governments step away from direct control in favour of industry self-management.

# **SIGNALS OF CHANGE IN THE INDUSTRY'S FUTURE BUSINESS ENVIRONMENT**

## **Customers and Markets**

Significant demographic changes are occurring that will affect future food consumption - these include population growth, changes in family structure, and an ageing population. Governments in the USA, UK and Australia are becoming concerned about increasing percentages of obese/overweight citizens.

Changing lifestyles and interests are creating more discerning and demanding consumers. Whilst good quality and value for money are necessary basic conditions for consumers, in affluent societies where food availability is not an issue people are increasingly showing interest in emotional, ethical, aesthetic or ecological factors when purchasing food. How food is produced and how food purchases make consumers feel is becoming an influence on food purchasing decisions.

Enabled by rapid advances in technology, a raft of new food products and ideas is entering the marketplace in response to the changing benefits that consumers are seeking. For avocados, these include fresh-cut/preserved and innovatively packaged products.

What consumers say and what they do in practice can differ. Although consumers may express positive attitudes toward the attributes and benefits associated with food products, this does not necessarily translate into purchase behaviour. Additionally, people are increasingly avoiding traditional advertising because of boredom, lack of time and a growing interest in other forms of media.

## **Competitors and the Nature of Competition**

Globalisation is impacting on the nature of competition in Australia's food sector and changing the rules in international trade. New business strategies are emerging with a shift to relationship-based competition, including 'value-chain against value-chain' competition. Innovation is creating competitive advantage for food and beverage supply chains. Government is becoming more involved in issues relating to consumer protection, e.g. governments in developed countries are increasingly seeing a role in such areas as food labelling, product treatments (e.g. chemicals, irradiation), and in legislation relating to gene technology.

Large organisations are strongly focussing on productivity improvements through processes such as 'lean manufacturing'. These trends are occurring globally. New technologies are emerging that have the potential to revolutionise the way food is produced, who produces it, and the way business is carried out. Key trends are the application of knowledge to products to increase their value and the customisation of product offerings for niche customers. Changes occurring in the labour market will impact on recruitment and the customer-base of the food industry.

## **Operating Systems**

Food manufacturing, distribution and retailing are becoming increasingly dominated by a relatively small number of firms, globally and locally. As a consequence, marketing channel options for avocados are declining, particularly for small to medium-sized growers who are having increasing trouble in getting onto the radar screen of the bigger buyers.

## **Industry Organisation and Performance**

Many avocado growers are so busy with day-to-day problems that they have no time for new business projects, or to prepare for the future. As a consequence of the changes facing their members, grower organisations have started to move from a production/supply-push focus towards becoming smarter, opportunity creating, market-led, external environment-influencing businesses. This will challenge grower organisations to achieve separation of grower politics and industry management, be more professional, be more transparent, be clear as to/keep focussed on their 'core business'.

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>• United industry and good communication</li> <li>• Good market growth and investment in promotion</li> <li>• Unique and healthy product</li> <li>• Year-round supply</li> <li>• Good production systems by world standards</li> <li>• Effective peak industry body and R&amp;D and marketing programs</li> <li>• Structure</li> <li>• Communication</li> <li>• Known by growers as <ul style="list-style-type: none"> <li>- Peak industry body</li> <li>- Levies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Undisciplined marketing</li> <li>• Product quality at retail</li> <li>• Limited \$ to compete for consumer \$</li> <li>• Lack of coordination of supply (ability to hold fruit on tree is a factor)</li> <li>• Major supply in winter and under-supply in summer</li> <li>• Inconsistent quality at retail level</li> <li>• Communication (two way)</li> <li>• Key industry information (facts)</li> <li>• Service providers <ul style="list-style-type: none"> <li>- Range</li> <li>- Options</li> <li>- Integration</li> </ul> </li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>• Value adding <ul style="list-style-type: none"> <li>- Food service</li> <li>- Retail</li> </ul> </li> <li>• Health benefits</li> <li>• Export development</li> <li>• Increase domestic consumption</li> <li>• Develop new value-added products</li> <li>• Increase efficiency in supply chains (including production systems)</li> <li>• Develop relationships with <ul style="list-style-type: none"> <li>- Government</li> <li>- Industry sector partners</li> </ul> </li> <li>• Grower involvement</li> <li>• Key industry information</li> </ul>	<ul style="list-style-type: none"> <li>• Imported product <ul style="list-style-type: none"> <li>- Fresh</li> <li>- Processed</li> </ul> </li> <li>• Production/consumption imbalance</li> <li>• Poor quality reducing demand/uptake of value-added</li> <li>• Risk of over-supply</li> <li>• Risk of pest/disease incursions due to lowered bio-security standards</li> <li>• Risk of imported product from low cost producing countries</li> <li>• Bio-security</li> <li>• Lack of key industry information</li> <li>• Loss of corporate knowledge</li> </ul>

## WORLD OVERVIEW

In analysing the world situation, AAL examined current and future prospects for the avocado industry. This examination includes an overview country by country followed by analysis of those countries that are or will become Australia's main competitors.

### World Output

**Table 2: Avocado production by continent 1998-2002 ('000 tonnes)**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002*</b>
<b>Africa</b>	238	214	212	213	210
<b>Asia</b>	252	276	319	329	325
<b>Central/North America</b>	1,317	1,218	1,363	1,373	1,300
<b>Europe</b>	87	72	61	74	75
<b>Oceania</b>	27	36	38	39	38
<b>South America</b>	371	412	430	524	520
<b>Total</b>	<b>2,292</b>	<b>2,228</b>	<b>2,4236</b>	<b>2,552</b>	<b>2,468</b>

Source: Food from Britain/FAQ/Fresh Produce Desk Book \* estimate

Global production of avocados rose 15 per cent in the five-year period to 2001 to 2.55m tonnes, compared with 2.2mt in 1997. Of this, Central/North America held the largest share with 53 per cent, followed by South America on 21 per cent and Asia 13 per cent. Africa represented a further eight per cent with Europe and Oceania on three per cent and two per cent, respectively (Source: Food from Britain). However there have been production shifts. For example, in 2001, output in Europe jumped an impressive 21 per cent to 74,350t. Similarly, South American volumes rose approximately 20 per cent to 523,881t, Oceania three per cent to 38,917t and Asia by a comparable percentage to 329,262t. And further expansion is forecast on a global basis. This is in spite of poor weather in 2002 which cut production in most key areas.

**Table 3: Breakdown of avocado production in selected\* countries by final destination 1999-2003\*\* (tonnes)**

COUNTRY	FRESH DOMESTIC	PROCESSING	EXPORTS
<b>1999-2000</b>	1,163,619	59,000	224,118
<b>2000-01</b>	1,215,155	59,045	221,398
<b>2001-02</b>	1,272,045	70,000	271,936
<b>2002-03**</b>	1,250,500	60,500	269,300

Source: FAS \*includes Chile, Israel, Mexico, South Africa, Spain and the United States \*\*provisional

The long-term forecast for avocados continues to be bright indicative of growth on all fronts. For example, volumes channelled for fresh consumption on a global basis have risen by seven per cent since the late '90s, though 2002/03 saw a reduction – a consequence of lower production following unfavourable weather.

**Table 4: Avocado production in selected countries 1998-2003 (tonnes)**

COUNTRY	1998/99	1999/00	2000/01	2001/02	2002/03*
<b>Chile</b>	86,550	95,000	98,000	112,000	125,500
<b>Israel</b>	46,000	77,000	63,490	83,000	55,000
<b>Mexico</b>	550,000	876,623	898,168	941,408	952,000
<b>New Zealand</b>	5,429	8,942	11,509	14,733	17,010
<b>South Africa</b>	65,000	104,000	83,000	110,000	84,000
<b>Spain</b>	73,000	58,000	55,500	65,300	68,000
<b>United States</b>	144,469	166,287	217,100	191,700	n/a

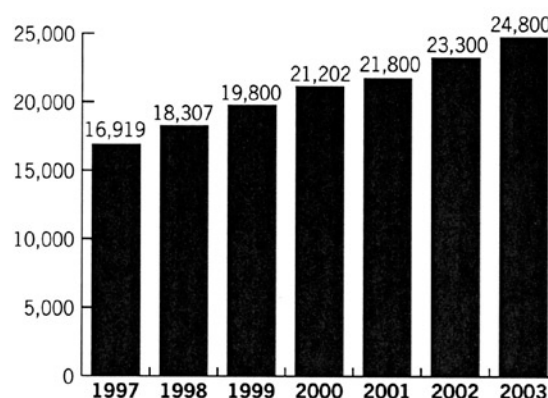
Source: FAS/Fresh Produce Desk Book 2003 \*provisional

## Countries of Strategic Importance to the Australia Industry

### Chile

Chile is fast making a name for itself as a leading producer of avocados. In fact production has risen to such an extent that the country now ranks as one of the largest suppliers in the world, with output projected at around 125,500t in 2003. This follows a 1,000 hectare increase in plantings annually since the mid '90s to 24,800ha, with 20 per cent still non-bearing. Further growth to 25,000ha is expected though the rate of expansion is expected to slow in the years ahead due to trade restrictions, especially in the US, competition and lower export prices (Source: FAS). Currently, most plantings are down to Hass, which represents 75 per cent of the total, with the highest concentrations in central regions, from IV to VI. However, the Metropolitan area, Quillota, the Aconcagua Valley, La Ligua and Petorca remain the most important, overall accounting for 85 per cent of the national harvest.

**Graph 3: Planted Area in Chile (hectares) 1997-2003**



Source: FAS/Fresh Produce Desk Book 2003

## Mexico

Mexico is by far the world's largest producer of avocados. Output reached a high of 941,408t in 2001/02, with further expansion to 952,000t projected in 2002/03 (August/July) following favourable weather, improved crop husbandry and more trees coming on stream (Source: FAS). Additional impetus has come from an ongoing rise in the area planted. Currently, this amounts to around 99,000ha, with the state of Michoacan accounting for an 82 per cent share. The balance is spread over a further 28 states. Emphasis is on Hass, though Fuerte, Criollo, San Sebastian, Bacon, Duke, Perfecto, Sinaloa and Zutano have important roles to play in the supply calendar.

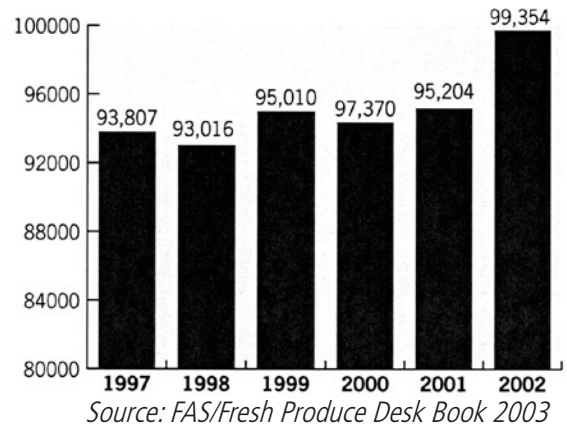
## New Zealand

Avocado production in New Zealand is booming. This has been reflected in a marked rise in planted area which has more than doubled from 1,375ha in 1994 to around 2,138ha 2004. Of more significance is the fact that most plantings are still less than five years old with further expansion of 350ha per annum forecast to 2007. A further 600-700ha was planned in the autumn of 2001. Much of this growth is indicative of the adoption of new production techniques and better crop management which, combined, have lifted yield capability from four tonnes a decade ago to 10t/ha last season. This compares favourably with average yields of 7t/ha in Mexico and South Africa, 8t/ha in Australia and 7t/ha in California (Source: FAS).

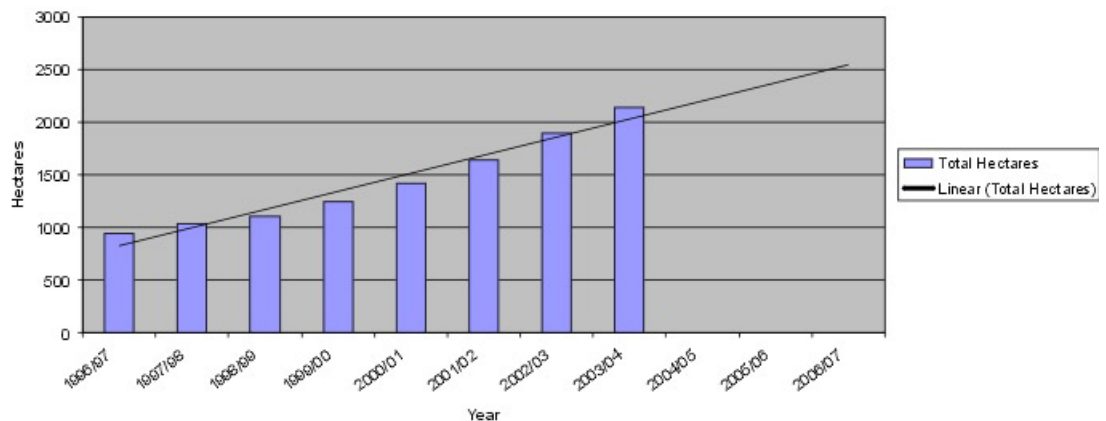
Currently, most production comes from the Western Bay of Plenty, Auckland, the far north, and the Gisborne and Opotiki regions, with the former holding a 70 per cent share overall.

Alongside this, output has more than doubled from 3,454t in 1996/97 to 13,642t in 2002/03. And further growth to a record 20,350t expected in 2005/06. In fact, overall output is projected at 34,500t by the end of the decade, of which 76 per cent will be exported.

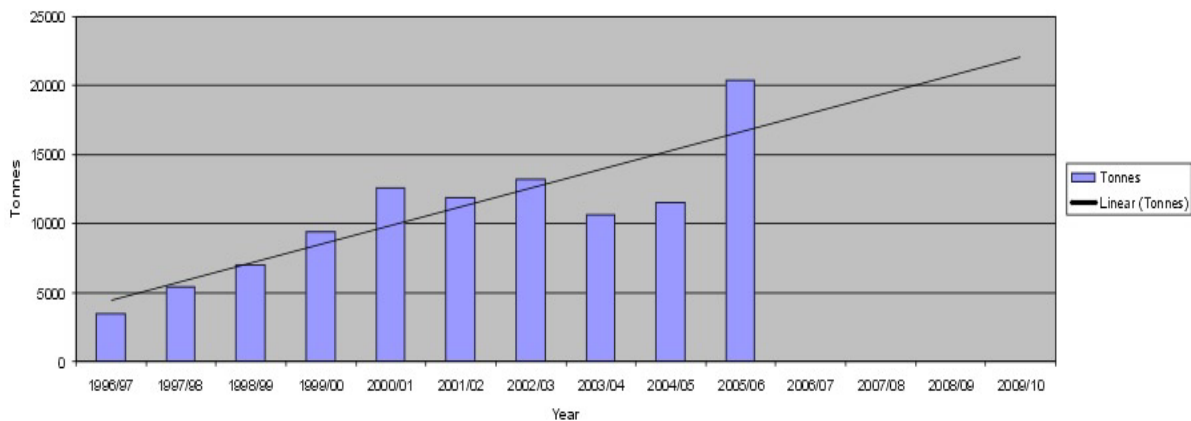
**Graph 4: Planted Area in Mexico (hectares) 1997-2003**



**Graph 5: New Zealand Industry Growth (hectares 5 year old plus trees)**



**Graph 6: New Zealand Avocado Production (tonnes, 2005/06 estimate)**



## Global Trade

World trade statistics via the Food and Agricultural Organisation (FAO) are often criticised for not being that accurate. However, in spite of this, they generally get around 80 percent plus of the trade and production statistics right, based on customs data from the respective reporting countries.

In Table 1, the volume of world trade indicates just how small Australian trade in this product is compared to other countries. Despite being a southern hemisphere producer within close proximity to the Asian market and having a product which can be transported via sea freight, we have not developed a significant export market.

**Table 5: World avocado trade (2003)**

Country	Imports			Country	Exports		
	Quantity (mt)	Value (US\$ '000)	Value (US\$/kg)		Quantity (mt)	Value (US\$ '000)	Value (US\$/kg)
<b>US</b>	141,134	186,129	1.32	<b>Mexico</b>	124,239	195,063	1.57
<b>France</b>	89,624	171,089	1.91	<b>Chile</b>	95,311	86,007	0.90
<b>Netherlands</b>	27,101	52,686	1.94	<b>South Africa</b>	38,994	23,583	0.60
<b>United Kingdom</b>	26,472	51,468	1.94	<b>Spain</b>	34,755	63,931	1.84
<b>Japan</b>	23,974	49,953	2.08	<b>Israel</b>	22,436	34,000	1.52
<b>Canada</b>	15,879	19,741	1.24	<b>Australia</b>	442	986	2.23
<b>Australia</b>	5,519	13,957	2.53				
<b>China, Hong Kong</b>	1,390	1,211	0.87				
<b>World</b>	432,499	681,997	\$1.58	<b>World</b>	414,855	546,621	\$1.32

Source: FAO <http://faostat.fao.org/faostat>

## INTRODUCTION TO LEVY ADJUSTMENT

The Australian avocado industry has performed well in recent years, withstanding the impact of increased production. Demand for Australian avocados has been good domestically. Production has grown steadily over recent years and prices have strengthened, with both avocado prices for Australian growers and domestic retail prices at increased levels.

The avocado industry has undergone a period of extensive growth over the last 10 years. Forecasts indicate that there will be further extensive investment in the industry resulting in a period of increased production and competition. So where is the market for this additional production? Increased supply could require us to sell within three years an additional 6,000 tonnes (Australian only) of avocados to our domestic and export markets. This additional 6,000 tonnes plus the increase of 7,000 tonnes of New Zealand fruit equates to 2.64 kg per capita, to domestic consumers, a 44% increase on today's consumption. Unless growth in demand for Australian avocados is commensurate with the predicted growth in production, prices and industry returns will fall.

While Australia has done well in the domestic marketplace to date, achieving further significant growth in demand cannot be assumed. Australia faces real threats from the emerging production powerhouses of Central and South America; and market access issues will have a greater impact on avocados into the future.

Further, the value of the current marketing and R&D levy arrangement have diminished by 36.3% and 19.9% since the rates were set in 1992 and 1998 respectively, and will continue to decline into the future.

With the development of a new five year strategic plan for the industry AAL was compelled to investigate the ability of industry

to progress the implementation of the new plan. Therefore the general levy consultation was a necessity in the overall process of planning.

### History of Levies for Avocados

The national (federal) levies for avocados have been in place since the early 1990s. They were put in place by growers from 1 August 1991 for R&D and 1 June 1992 for marketing. Over the intervening years the marketing levy has not been changed and the R&D levy has been adjusted twice as outline in the table below.

Table 6: Levy Type	Date of Effect	Value per Tray	Value per Kg
R&D	1 August 1991	3 cents	0.5 cents
	1 April 1995	6 cents	1.0 cents
	1 July 1998	8 cents	1.3 cents
Marketing	1 June 1992	15 cents	2.5 cents

State levies have existed in some states in the past, with only Western Australian growers currently paying a state levy.

### Why a reduced avocado "processing levy"?

When avocado levies were set in the early 1990s no processing industry existed or was even in development. It has been in the last two years that the industry has benefited from the ongoing developments of value added products.

To ensure that this section of our industry continues to grow the AAL Board propose that the levy for processed product be a very reduced rate to that for fresh product. The continued ability for processed avocados to contribute to the "on farm" effort to improve productivity means that the levy is to be set at 1.0cent/kg.

**Table 7: PROCESSING LEVY**

	Current Rate		New Levy Rate	
	2005			
Total	38.33	\$/tonne	10.00	\$/tonne
Marketing & Promotion	24.91	\$/tonne	0.00	\$/tonne
	0.02491	\$/kg	0.00000	\$/kg
Research & Development	13.42	\$/tonne	10.00	\$/tonne
	0.01342	\$/kg	0.01000	\$/kg
TOTAL	38.33	\$/tonne	10.00	\$/tonne
	0.03833	\$/kg	0.01000	\$/kg

### Why a zero "Emergency Plant Pest Eradication (EPPE) levy"?

The Emergency Plant Pest Eradication (EPPE) levy is required to fund the avocado industry's share of any exotic avocado pest or disease eradication response under the Government and Plant Industry Cost Sharing Deed in Respect of Emergency Plant Pest Responses to which the avocado industry is a signatory.

The EPPE levy is set at zero because it will only be activated in the event of an exotic avocado pest or disease outbreak to which an eradication response is considered appropriate. In the event that the EPPE levy is activated, the actual EPPE levy rate will be set according to the amount of industry money that is required to eradicate the pest or disease.

Once the eradication response is completed and paid for the EPPE levy would return to zero.

### Why the levy change is needed?

The levy change is required to secure a sustainable, long term future for the avocado industry, which faces a range of challenges including increased competition in the marketplace from other fruits and processed snack foods. Along with the ever present threat of exotic pest and disease outbreaks as well as rising crop production costs.

The avocado industry has been a market leader for much of the last 10 years. The industry has been proactive in marketing and R&D, driving productivity, growing systems and the marketing program to where today the value of the industry is the greatest

ever. Other industries are actively trying to take this “leader” position from us, if we don’t continue to grow the industry our share of the food dollar could be decreased.

Avocado levies for marketing, currently represent around 0.85% of crop value, the lowest level since the avocado industry national promotion campaigns commenced in 1992. At 0.85%, our investment is very modest in comparison to processed food marketers with whom we compete for the food dollar. Typical brand advertising allocations for major Australian food companies are around 5% of value.

Further, the value of the current levy arrangement has diminished over the years since it was set and will continue to decline into the future.

- Marketing levy by 36.3% CPI since the rate was set in 1992 (13 years)
- R&D levy by 19.9% CPI since the rate was set in 1998 (7 years)

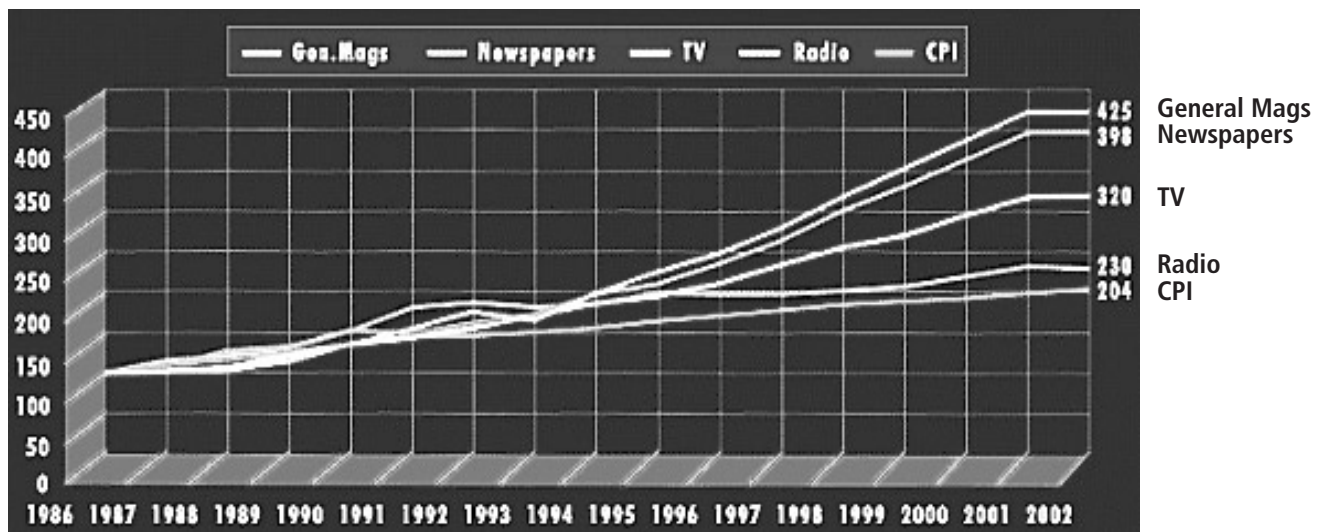
### R&D Value Erosion

Over the last 13 years the cost recovery for each of the R&D providers has increased. In 1998 the average cost of each R&D project was \$53,000, today that average cost per project stands at approximately \$95,000. This is an increase of 79% and when added to the 19.9% increase in CPI over this period it is little wonder that the ability to fund productive research has severely diminished. The contribution that is provided by the State primary industry departments has diminished from around 70% to 55% over the last seven years. Growth in production over the same period has resulted in a 43% increase in R&D levy collection.

### Marketing Value Erosion

When looking at the general rate of inflation the value of the avocado marketing dollar begin eroded, but when the cost of advertising of the last 13 years is investigated the “media inflation” is much greater than the CPI. The cost of media has risen over 52% over the period 1992 to 2005 and is estimated to rise by at least 4% per year over the next three years to 2008.

**Graph 7**



With the current levy rates the avocado industry could continue to work on behalf of all growers but with a diminishing ability to have a real impact on the profitability of the growers business. From a domestic and global position this would see a severely diminished competitive edge for Australian growers just when the global forces will begin to affect their businesses.

Only a national levy:

- can ensure sufficient funds are available to develop avocado’s position as Australia’s fruit of choice. We are facing rapidly escalating and increasingly well resourced competition from other fruit industries that are determined to increase their share of the consumer dollar. We must ensure this is not at our expense.
- can ensure that sufficient funds are available to undertake both routine and emergency avocado pest and disease surveillance research and control programs across all states and territories.
- can provide a mechanism to fund an eradication attempt in the event of an exotic avocado pest or disease incursion.
- can provide sufficient funds to undertake research that may ultimately reduce costs associated with production and develop new market opportunities.

## What levy rates are proposed under this change?

A total of four individual changes to levies are proposed for fresh product of all avocado varieties (Persea sp) at the first point of sale. Increased levies to fulfil cost of Strategic Plan utilising max. amount of matching R&D dollars.

The individual levy percentage rates applicable are outlined in the table below.

**Table 8: Individual Levy Rates**

Total	2005 Current Rate		Proposed Rate		\$1,194,050 \$1,700,000	R&D (growers) Marketing (growers)
	38.33	\$/tonne	75.28	\$/tonne		
Marketing & Promotion	24.91	\$/tonne	\$45.95	\$/tonne	37000	tonne
	0.02491	cent/kg	0.04595	cent/kg		
	0.15	cents/tray	0.25	cents/tray		
Research & Development	13.42	\$/tonne	\$29.34	\$/tonne		
	0.01342	cent/kg	0.02934	cent/kg		
	0.08	cents/tray	0.16	cents/tray		
Emergency Plant Pest Eradication (EPPE)	0.00	\$/tonne	0.00	\$/tonne		
	0.00000	cent/kg	0.00000	cent/kg		
	0.00	cents/tray	0.00	cents/tray		
TOTAL	38.33	\$/tonne	75	\$/tonne		
	0.03833	\$/kg	0.08	\$/kg		

## Domestic market

Underlying demand for avocados is predicted to increase further over the short-term, driven by a solid economy, expanding consumer spending and further improvements in avocado's quality, health image, presentation and marketing.

Maintaining avocado's share of the household meal repertoire in the face of these price increases will become increasingly challenging, particularly with increasing competition from other fresh fruit and vegetables such as apples, bananas and an increased push from vegetables along with the ever present challenge from the dip, spread and snack food industries.

**Table 9:**

Media advertising expenditure – 2003	
Kelloggs	\$36.9m
Nestle	\$20.9m
Masterfoods	\$20.7m
Uncle Toby	\$17.6m
Cadbury Confectionery	\$17.4m
Unilever	\$15.1m
Arnotts Biscuits	\$14.6m
McCain Foods	\$14.3m
Simplot	\$13.7m
Kraft Foods	\$12.4m
Source: Nielsen Media Research	

Further, food continues to lose share of disposable household income to entertainment, communications and mortgages, meaning increasing pressure on household food budgets.

Over the medium-term, some further demand growth, expanding Australian avocado supplies and a likely gradual fall in avocado prices could enable avocado consumption to expand again. The challenge, however, is to develop sufficient demand to absorb this additional volume without suffering price falls.

## How much money will be raised through the change levy?

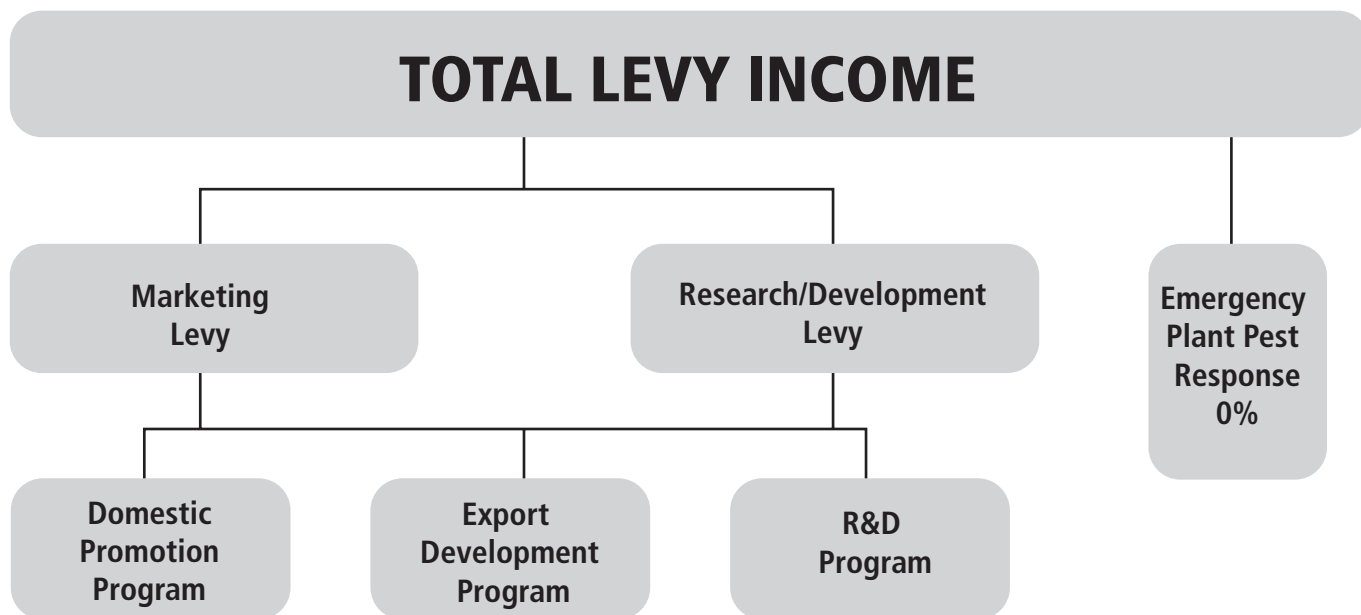
The amount of levy income raised in any one year will vary according to the quantity of avocados sold in that year at the first point of sale.

**Table 10: Levy Rate Comparison**

<b>Avocado Levies: Average 2000 to 2003</b>		<b>Weight kg</b>	<b>Levy per tonne</b>	<b>Levy income estimate per year</b>
<b>Current Avocado Levy – R&amp;D</b>	Tonnes	29,572,610	\$13.42	\$396,864
<b>Current Avocado Levy - Marketing</b>	Tonnes	29,572,610	\$24.91	\$736,653
				\$1,133,518
<b>New Avocado Levy – R&amp;D</b>	Tonnes	27,572,610	\$29.34	\$808,980
<b>New Avocado Levy - Marketing</b>	Tonnes	27,572,610	\$45.95	\$1,266,961
<b>New Avocado Levy – Processing</b>	Tonnes	2,000,000	\$10.00	\$20,000
			<b>Total</b>	\$2,075,961
<b>Total Avocado levy increase</b>				\$942,443

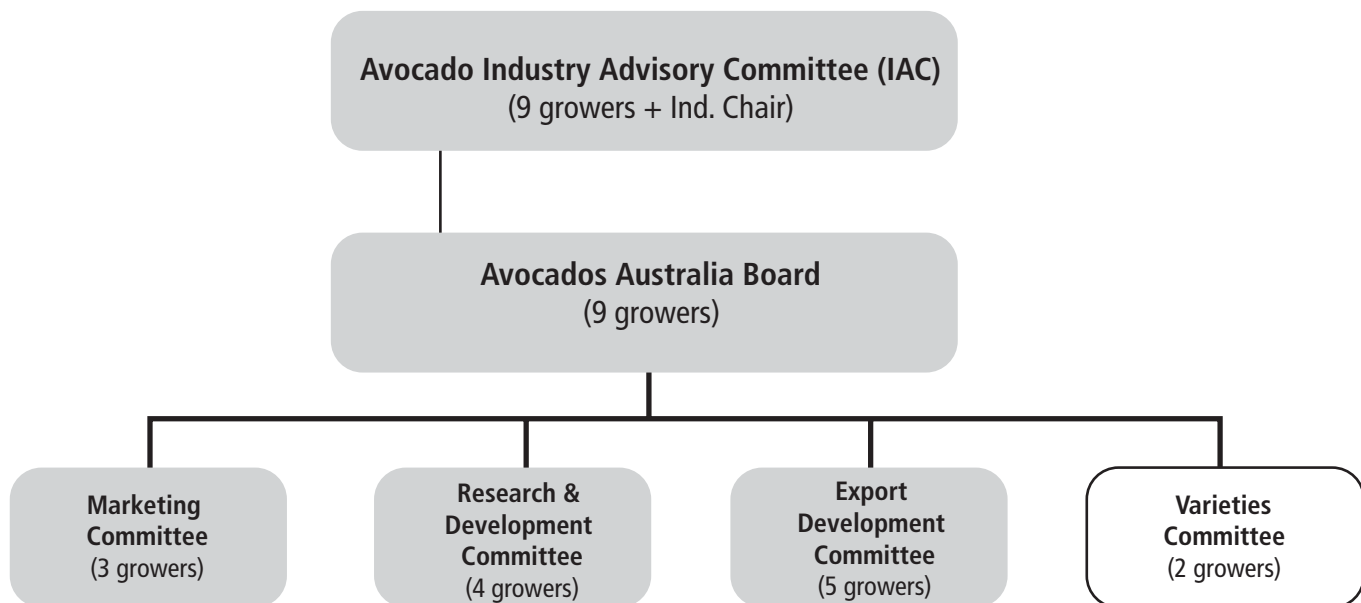
## What will the money generated by the levy be spent on?

The levy income will fund a range of promotions and R&D programs consistent with the objectives outlined in the avocado industry's strategic plan.



## Who decides how the levy money will be spent?

The short answer is avocado growers. The decision processes will remain as are currently in place. For example, the marketing committee will continue to provide the AAL Board then IAC with advice on promotion and marketing etc. The 2005-2010 Strategic Plan provides the direction for the Committees, Board and IAC to drive annual investment plans.



These plans provide the framework within which levy investment decisions are made. Preparation of an Annual Report for submission to industry and Horticulture Australia Limited (HAL) that details the outcomes achieved from the levy expenditure is also the responsibility of the IAC.

## Proposed Levy Consultation Process

The process and timeframe that has been developed by the AAL to address the Federal Government's requirements as outlined in the levy principles and to demonstrate compliance with them is outlined in the table below.

**Table 11 - Proposed levy change consultation time frame**

Stage 1	Development of a business case (discussion paper) which sets out the need for the levy change, the proposed rate, how the levy change will be managed and the expected benefit to growers from the subsequent investment.	April 2005
Stage 2	Development of a grower consultation process in consultation with the Department of Agriculture, Fisheries & Forestry (DAFF).	June 2005
Stage 3	Distribution of the levy change business case discussion paper to all commercial avocado growers.	July 2005
Stage 4	Publicise the proposed levy change business case discussion paper and advise opportunities for comment and/or attendance at regional consultation meetings.	July 2005
Stage 5	Conduct a series of 12 grower meetings in the major growing areas where growers can debate the proposal.	August 2005
Stage 6	Subject to the consultation feedback, develop an agreed formal levy proposal to put to the industry by way of a ballot at the Annual Levy Payers Meeting.	September 2005
Stage 7	Advertise the final proposal to all commercial avocado growers.	October 2005
Stage 8	Conduct a formal ballot of all commercial avocado growers.	October 2005
Stage 9	Prepare a submission in line with the Federal Government's levy principles and submit to Horticulture Australia Ltd (HAL).	November 2005
Stage 10	HAL Board approves the proposal and forwards to the Federal Parliamentary Secretary to the Minister for Agriculture.	December 2005

The levy consultation process will be managed by the AAL and will provide an opportunity for all commercial avocado growers to express their views in relation to the levy change proposal.

Written submissions in response to the issues raised in the business case are welcome however the AAL also welcomes informal feedback by way of comments made at regional grower meetings, via email, facsimile or directly to AAL Board members whose contact details appear at the end of this document.

The AAL will also maintain a page on its website where opposing points of view on the levy proposal will be posted as a part of the overall levy debate.

Following a review of the feedback received in relation to the business case discussion paper, the AAL will undertake a ballot of all known commercial avocado growers at the Annual Levy Payers Meeting in October 2005

If the ballot result indicates majority support for the levy changes then a submission will be prepared for consideration by the HAL Board. It is the HAL Board that makes the formal recommendation to the Federal Minister for Agriculture, Fisheries and Forestry that the levy changes be implemented.

# APPENDIX 1



## **2005 – 2010 Strategic Plan Costing**

**Prepared by Avocados Australia Limited**

**June 2005**

# MAKING IT HAPPEN

**Key:** Funding from levies

White background can be funded with R&D levies (matched dollars)

White text can be **partially** funded with **R&D levies** (matched dollars)

Grey background can **only** be funded with **Marketing levies**

## 4. Strategies

### Industry Priority Area 1: REVENUE GROWTH

**Goal R1:** To build strong demand for an increasing level of production at profitable prices.

**Objective R1:** By late 2005, to gain a detailed **understanding of the critical factors affecting consumption of avocados in the domestic market** - focused on fresh and processed products in the personal shopper and food service segments.

ID	Strategies	By When	By Whom	Estimated Cost \$ over 5 years
R1.1	Prepare a detailed consumer research brief highlighting the specific questions about which the industry wishes to update and expand its knowledge, regarding consumer-purchasing decisions about avocados and any products they see as substitutes.	Completed	AAL	
R1.2	Identify how much of the required information is already available/ remains current, and make arrangements for the information to be collated/analysed and for gaps to be filled.	Completed	Contractor	
R1.3	Extract the consumer priority purchasing factors and ensure they are communicated widely and effectively to participants in avocado supply chains and industry management.	Underway 2005	Contractor AAL HAL	115,000
R1.4	Undertake on-going monitoring and analysis of consumer behaviour to ensure early warning of significant changes that could present new opportunities or challenges for industry.	Ongoing	Contractor AAL HAL	225,000
<b>TOTAL</b>				<b>340,000</b>

**Objective R2:** By 2010, to successfully demonstrate the effectiveness of avocado industry systems for **maintaining a profitable balance between supply and demand**, so that annual average orchard gate returns increase by at least the equivalent of the Consumer Price Index (CPI).

ID	Strategies	By When	By Whom	Estimated Cost \$ over 5 years
R2.1	Prepare a Marketing Plan to take the industry forward over the next five years, based on the outcomes of detailed consumer research (see Objective R1 above). Areas to be specifically addressed in the Marketing Plan will include the: <ol style="list-style-type: none"> <li>Traditional market segments for Australian avocados;</li> <li>Identification and capture of new value-creation opportunities in niche domestic markets, e.g. relating to age, special needs, nutrition etc – to spread industry risk and broaden the industry’s market base through diversification; and</li> <li>Development of remunerative niche markets overseas – to spread industry risk and broaden the industry’s market base through diversification.</li> </ol>	Underway 2005	Contractor AAL HAL	60,000
R2.2	Based on the Marketing Plan, and commensurate with anticipated fruit supply, implement a portfolio of promotional and other market development programs designed to deliver the best return on the funds available for these activities.	Ongoing	Contractor AAL HAL	8,000,000
R2.3	Design and implement a market information system that, together with production forecasts (see Strategy P2.1.1, Production and Marketing Systems), will enable industry to monitor returns and assess its ability to maintain a balance between supply and demand.	Ongoing	Contractor AAL HAL	250,000
<b>TOTAL</b>				<b>8,310,000</b>

## Industry Priority Area 2: PRODUCTION AND MARKETING SYSTEMS

**Goal P1:** To ensure that consumers can confidently purchase consistently high-quality fresh avocados at retail level.

**Objective P1.1:** By 2010, 90% of commercial avocado growers will be assessing their management practices against agreed industry guidelines for **producing robust fruit with consumer-preferred characteristics**.

<b>ID</b>	<b>Strategies</b>	<b>By When</b>	<b>By Whom</b>	<b>Estimated Cost \$ over 5 years</b>
P1.1.1	Encourage widespread understanding by industry of the fruit production implications of the findings of market research into avocado consumer priority purchasing factors (see strategies in Priority Area 1 – Revenue Growth).	2006	AAL	125,000
P1.1.2	Accelerate the rate of adoption of currently available information regarding orchard management and post-harvest systems and practices for assuring that product quality meets consumer requirements, e.g. canopy management, crop nutrition management, irrigation management, disease prevention and treatment, crop protection.	Ongoing	AAL	200,000
P1.1.3	Adopt a rigorous, consumer-focused approach to commissioning appropriate R&D projects to fill knowledge gaps about the major orchard management and post-harvest determinants of fruit quality, e.g. rootstock selection, calcium uptake, varietal improvement.	Ongoing	AAL	1,425,000
P1.1.4	Create general industry awareness and rapid uptake of the successful outcomes from fruit quality improvement R&D.	Ongoing	AAL	400,000
P1.1.5	Develop and promote guidelines for use by producers in assessing their management practices for producing robust fruit with consumer-preferred characteristics.	Ongoing	AAL	450,000
<b>TOTAL</b>				<b>2,600,000</b>

**Objective P1.2:** By 2010, 90% of fruit at retail level **will meet or exceed the fruit quality expectations of consumers.**

<b>ID</b>	<b>Strategies</b>	<b>By When</b>	<b>By Whom</b>	<b>Estimated Cost \$ over 5 years</b>
P1.2.1	Develop and use good quality industry production data and forecasts for timely harvesting of fruit, management of supply to processors and retailers, and timing of promotion activities.	Ongoing	AAL	550,000
P1.2.2	Ensure widespread adoption of product-handling and conditioning practices throughout avocado supply chains, to ensure optimal fruit quality is available to consumers at the retail shelf level.	Ongoing	AAL	350,000
P1.2.3	Monitor on an on-going basis, and act upon, consumer behaviour/ experience and satisfaction levels with their purchasing of avocados and avocado products.	Ongoing	AAL	350,000
P1.2.4	Encourage the development of the processing sector to provide a viable market for fresh fruit that does not meet, or exceed, consumer expectations.	Ongoing	AAL	225,000
<b>TOTAL</b>				<b>1,475,000</b>

**Goal P2: To continuously improve the efficiency of avocado production and marketing systems.**

**Objective P2.1:** By 2010, to cost-effectively **increase average fruit yield** per production hectare to 75% of the level achieved by the highest yielding Australian avocado orchards.

ID	Strategies	By When	By Whom	Estimated Cost \$ over 5 years
P2.1.1	Develop a snapshot of current Australian yields and a system for monitoring changes over time.	2006	AAL Contractor	275,000
P2.1.2	Gain a comprehensive understanding of the yields and critical success factors for the best Australian and overseas avocado producers.	2006	AAL Contractor	125,000
P2.1.3	Accelerate the rate of adoption of currently available information regarding practices and approaches for driving yield increases cost-effectively.	Ongoing	AAL Contractor	225,000
P2.1.4	Commission the development of appropriate R&D projects to fill knowledge gaps about the major determinants of yield improvement.	Ongoing	AAL	1,500,000
P2.1.5	Create general industry awareness and rapid uptake of the successful outcomes from yield improvement R&D.	Ongoing	AAL	200,000
<b>TOTAL</b>				<b>2,325,000</b>

**Objective P2.2:** By mid 2007, the **key areas of inefficiency and waste** in avocado supply chains will have been identified and an improvement process will have been initiated.

ID	Strategies	By When	By Whom	Estimated Cost \$ over 5 years
P2.2.1	Identify the specific production and marketing systems and practices that offer the greatest opportunity for improvement in efficiency.	2006	AAL Contractor	225,000
P2.2.2	Accelerate the rate of adoption of currently available information regarding the areas identified as the highest priorities for improvement.	Ongoing	AAL Contractor	225,000
P2.2.3	Commission the development of appropriate R&D projects to fill identified knowledge gaps in the highest priority areas.	Ongoing	AAL	1,500,000
P2.2.4	Create general industry awareness and rapid uptake of the successful outcomes from the R&D into production and marketing systems improvement.	Ongoing	AAL Contractor	225,000
<b>TOTAL</b>				<b>2,175,000</b>

### Industry Priority Area 3: INDUSTRY MANAGEMENT

**Goal I1: To provide avocado producers with a range of benefits that will assist them to achieve their business goals.**

**Objective I1: To achieve and maintain a satisfaction level of at least 80% with the services and activities provided to avocado producers.**

ID	Strategies	By When	By Whom	Estimated Cost \$ over 5 years
11.1	<p>Represent industry interests domestically and internationally in regard to government and commercial policies and actions that have the potential to have a major impact (positive or negative) on avocado industry businesses, as determined by the AAL Board, e.g. areas of:</p> <ul style="list-style-type: none"> <li>• agri-politics and industry risk management;</li> <li>• market access (exports and imports);</li> <li>• bio-security (disease freedom and emergency response);</li> <li>• commercial partnerships and alliances at industry level.</li> </ul>	Ongoing	AAL	750,000
11.2	<p>Provide industry participants with better access to the knowledge and advice that will add value to their business (including information customised to the needs of particular users), e.g. information relating to:</p> <ul style="list-style-type: none"> <li>• market intelligence (volumes, flows, estimates, dynamics);</li> <li>• new technologies and practices for improving production and marketing systems;</li> <li>• government and commercial policies with implications for the avocado industry;</li> <li>• industry events and activities (domestic and international).</li> </ul>	Ongoing	AAL	550,000
11.3	Undertake on-going monitoring of satisfaction levels with the services and activities provided, and make the changes needed to deliver benefits in the highest priority areas for industry.	Ongoing	AAL	60,000
11.4	Ensure an adequate pool of expertise is available from R&D service providers to tackle the knowledge priorities of industry that arise from implementation of this Strategic Plan.	Ongoing	AAL	225,000
<b>TOTAL</b>				<b>1,585,000</b>

**Goal I2: To ensure appropriate organisation, resourcing and management of the affairs of the Australian Avocado Industry on an on-going basis.**

**Objective I2:** To have **sufficient resources available to implement all projects and activities rated annually as 'must do'** by the industry's agreed prioritisation processes.

<b>ID</b>	<b>Strategies</b>	<b>By When</b>	<b>By Whom</b>	<b>Estimated Cost \$ over 5 years</b>
I2.1	Ensure that industry organisational structures for determining and implementing industry priorities remain appropriate and cost-effective.	Ongoing	AAL	125,000
I2.2	Ensure that adequate resources (financial and other) are available to provide the benefits and deliver on the priorities for action sought by avocado industry participants in working together.	Ongoing	AAL	160,000
I2.3	Increase industry involvement in the leadership and implementation of industry affairs by encouraging the development of a culture of participation amongst all involved in the production and marketing of avocados.	Ongoing	AAL	200,000
I2.4	Conduct a yearly performance review of progress with industry programs and priorities, in conjunction with preparing the Avocado Annual Investment Plan and the AAL Annual Action Plan.	Ongoing	AAL Contractor	60,000
<b>TOTAL</b>				<b>545,000</b>

<b>GRAND TOTAL</b>	<b>19,355,000</b>
<b>Per Year over 5 Years</b>	<b>3,871,000</b>
<b>R&amp;D levies (matched dollars)</b>	<b>10,855,000</b>
<b>Marketing levies</b>	<b>8,500,000</b>