Required Report: Required - Public Distribution **Date:** August 17,2020

Report Number: AS2020-0021

Report Name: Stone Fruit Annual

Country: Australia

Post: Canberra

Report Category: Stone Fruit

Prepared By: Zeljko Biki

Approved By: Levin Flake

Report Highlights:

A recovery in Australian stone fruit production is forecast in marketing year (MY) 2020/21, after MY 2019/20 was impacted by challenging seasonal conditions. Despite higher production, MY 2020/21 exports of peaches and nectarines are forecast to decline due to anticipated continued disruption to air freight as a result of the COVID-19 pandemic. This situation will likely have a smaller impact on cherry exports due to their higher value. The combination of larger expected crops and logistical obstacles to export are anticipated to cause domestic consumption of stone fruit in MY 2020/21 to rise.

Executive Summary
Stone fruit production in Australia is forecast to increase in marketing year (MY) 2020/21, following a MY 2019/20 season that was impacted by challenging seasonal conditions. Cherry production is forecast to increase by 14 percent, and peaches and nectarines by four percent. The disruption to international air freight caused by the COVID-19 pandemic is expected to have a significant impact on MY 2020/21 exports of stone fruits. The federal government has created an International Freight Assistance Mechanism (IFAM) program to support exporters secure air freight as well as support the shipping costs. However, even with government support freight costs for exporters are still more than double the levels pre-COVID. As a result, exports of higher-valued fruit such as cherries are expected to be less impacted than lower-valued fruit such as peaches and nectarines. Exports of peaches and nectarines are forecast to decline by 17 percent in MY2020/21. This is primarily due to lower peach exports, a higher proportion of which are shipped by air compared with nectarines due to their softer flesh. Cherry exports, however, are forecast to increase by 12 percent because of the larger expected crop and the high value of the product. The combination of larger expected crops and logistical obstacles to export are anticipated to cause domestic consumption of stone fruit in MY 2020/21 to rise.

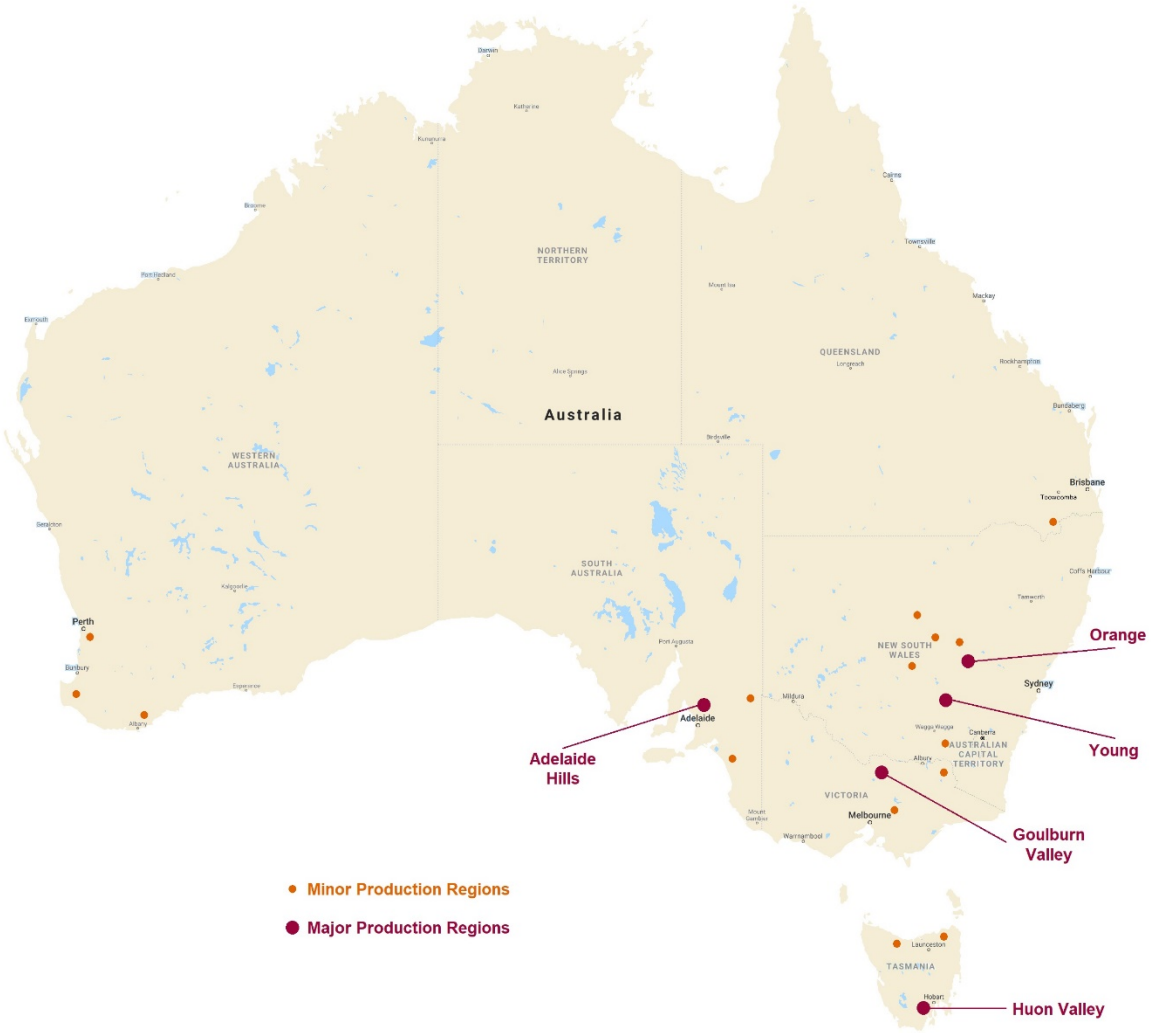
CHERRY

Overview

The main growing regions for cherries in Australia are the Huon Valley in Tasmania, the Goulburn Valley in central Victoria, Young and Orange in central eastern New South Wales and the Adelaide Hills in southeast South Australia (see figure 1). Smaller production regions include Stanthorpe in southern Queensland, the southeastern corner of Western Australia, Yarra Valley in Victoria, and pockets in central New South Wales. Tasmania is the southernmost region and has the coolest climate most suited to growing cherries. The more northern regions have a warmer and less optimal climate, but harvest commences in late October aligning with the prime period of domestic demand leading up to Christmas.

The harvest season for the producers in the warmest climates of Queensland, New South Wales, South Australia and Western Australia typically commences in mid to late-October and is completed by mid-January. A little further south in Victoria the harvest period generally commences in early to mid-November and finishes in mid to late-February. All of these regions are able to take advantage of the period leading up to Christmas when cherries are in the greatest demand domestically. The southernmost producing region with the coolest climate is Tasmania where harvest commences in late-December and is typically completed by mid-February. As the majority of Tasmanian cherries are exported, harvest timing typically aligns well with strong Chinese New Year demand in China and Hong Kong.

Figure 1 – Cherry Growing Regions of Australia



Source: Information from Cherry Growers Australia Inc

Sweet cherries are typically more sensitive to climatic variables than other fruit crops. The most important climatic conditions for growing cherries are:

- Sufficiently low temperatures during winter to accumulate adequate chilling units (dormancy period), typically over 800 hours at temperatures between 2°C and 12°C (36°F to 54°F) ensure even and full bud break in spring.
- During the blossoming period, temperatures are needed above 13°C (54°F) to ensure bees are active and support an optimized pollination process.
- No severe frosts between bud swell and shuck fall (when flower petals have fallen away from young fruit).

- Low rainfall when trees are in blossom (typically late-August to late-October) as rain can cause reduced pollination and blossom infection by bacteria and fungi, hindering fruit set.
- Low rainfall and no hail during ripening is also important to minimize fruit damage and reduce disease pressure. Rainfall during warmer temperatures when fruit is ripening tends to create a humid environment, conditions which enable pests to proliferate.
- Low humidity throughout the growing season to minimize disease outbreaks.
- Low to moderate winds are important to minimize physical injury to trees and fruit, typically from rubbing against tree limbs. However adequate wind is important to ensure sufficient aeration in the orchard to minimize humidity within the crop, particularly after rainfall.
- Sufficient water for irrigation to meet tree water demands.

Some of the growing condition issues can be mitigated via tree trellising support system designs, and pruning techniques, along with hail netting structures over the orchard.

Cherries are predominantly eaten fresh with relatively small quantities sold as frozen, dried or canned. Cherries are used to produce a range of products such as jams, liqueurs, brandy, ice cream and confectionaries.

Production

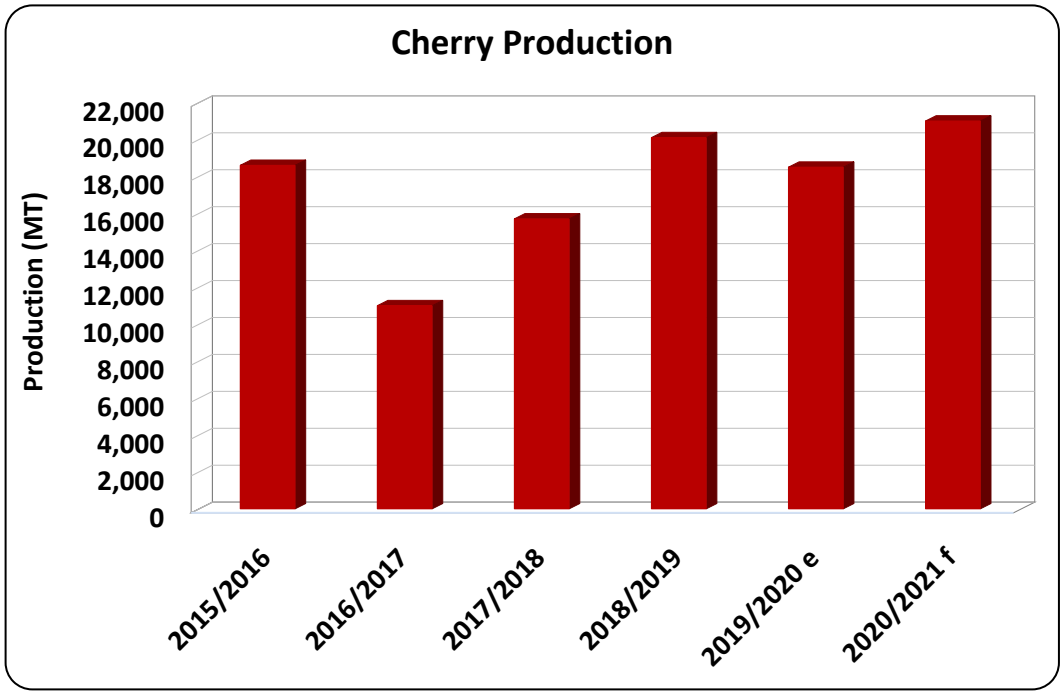
MY 2020/21 production for cherries in Australia is forecast to increase to 21,000 metric tons (MT) from the revised MY 2019/20 estimate of 18,500 MT. This forecast is influenced by the gradual increase in cherry tree area coming into production as well as improved varieties. However, this forecast is based on typical seasonal conditions in the lead up to harvest. Adverse conditions such as frosts at bud break, above-average hail events, and rainfall and humidity prior to harvest can have a major impact on production.

Similar to other horticulture industries, the cherry industry is exposed to the risk of a shortfall in labor availability to harvest the upcoming MY 2020/21 crop. The majority of pickers in recent years are temporary visa holders supported by government initiatives. Due to travel restrictions caused by the COVID-19 pandemic the federal government has extended these temporary visas by six months to enable these workers to stay and support the needs of the horticulture industry. There are reports that large numbers of temporary visa holders have and are leaving Australia since the pandemic outbreak. The horticulture industry has raised the issue with the federal government and is seeking early intervention measures to ensure that there will be an adequate labor force at the time of harvest. This remains a risk to the cherry industry for the upcoming MY 2020/21 crop.

Cherry production varies considerably from year to year, primarily due to its sensitivity to climatic conditions in the lead up to harvest, which affects fruit quality. Large variances over the last five years are evident with production ranging from 11,000 MT to 20,100 MT (see figure 2). The MY 2019/20 production estimate has been revised upwards from the previous forecast from 18,000 MT to 18,500

MT. This revision is based on discussions with industry sources. However, the final season result is yet to be published by industry. The MY 2019/20 crop was affected in some regions by sub-optimal growing conditions resulting in an eight percent decline in production from the prior MY 2018/19.

Figure 2 – Cherry Production



Source: PSD online and FAS/Canberra estimates and forecasts

Consumption

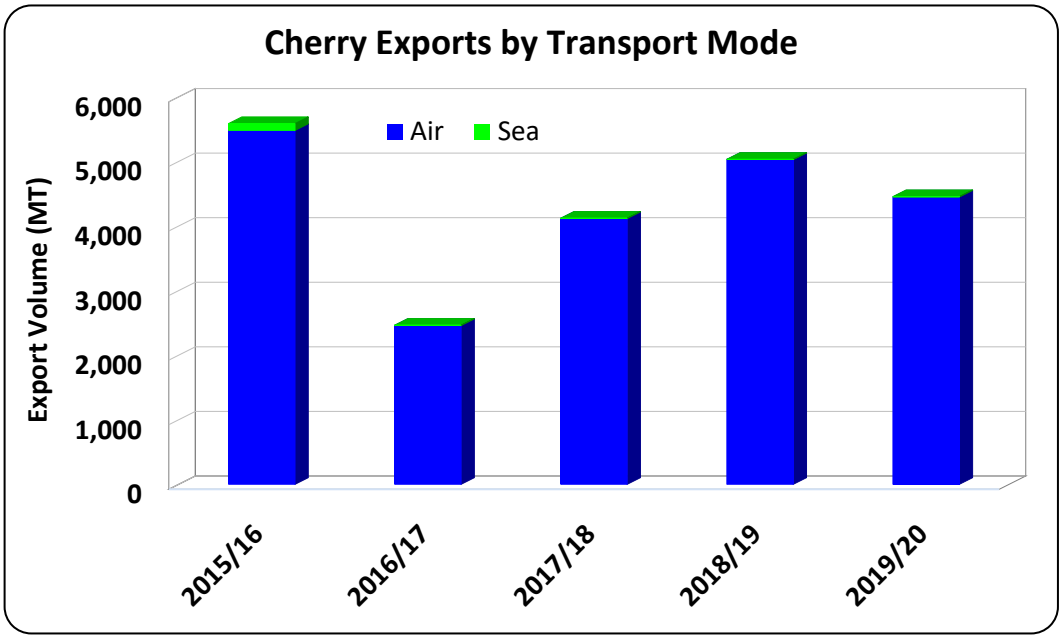
Larger expected production, along with air freight export challenges due to COVID-19, has led to a large forecasted increase in domestic consumption of cherries to 18,500 MT in MY 2020/21, from an estimate of 16,050 MT in MY 2019/20. If realized this would be even larger than the previous peak consumption year of MY 2018/19, when late in-season rains and quality issues impacted exports.

Of the total production each year, only around five percent is processed for consumption and has little impact on fresh cherry consumption.

Trade

Fresh cherry exports are forecast to moderately increase to 5,000 MT in MY 2020/21, from 4,550 MT in MY 2019/20. Despite the anticipated increase, exports are still expected to be impacted by logistical challenges. Cherries are almost exclusively shipped via air freight, with on average less than one percent moving via sea freight over the last five years (see figure 3). The industry is very reliant upon air freight to reach export markets, and these logistics have been heavily disrupted by the impacts of the COVID-19 pandemic.

Figure 3 – Cherry Exports by Transport mode

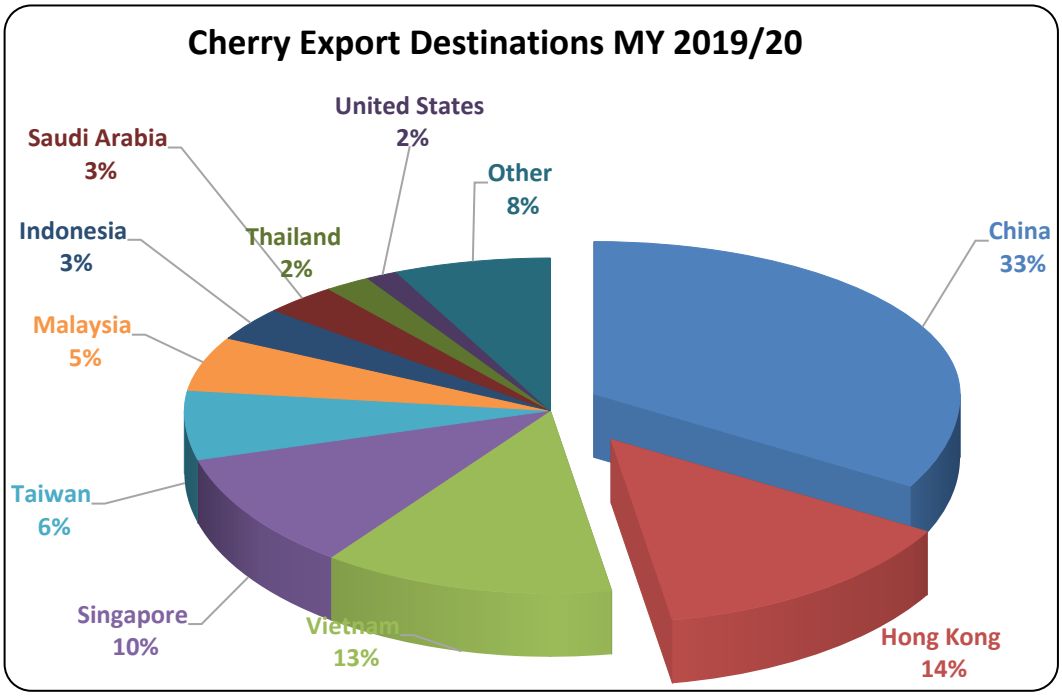


Source: Australian Bureau of Statistics

According to industry sources, the Australian cherry industry is working with growers and the federal government in preparation for the MY 2020/21 export season commencing in November 2020. One of the support package programs offered by the federal government is the International Freight Assistance Mechanism (IFAM) to assist producers of perishable goods such as cherries to reach export markets. The IFAM program is an air freight cost sharing arrangement between eligible agricultural product exporters and the government, and its goal is to ensure continued flights to provide a way for products to continue to be exported. Industry sources indicate that even with the support, the air freight cost to exporters is around double that of the pre-COVID-19 rates, whereas the government incurs the balance (which is significantly higher than the share paid by exporters). The shortage of available air cargo space is of concern for the cherry industry as the export period is a relatively small window and cherries are very perishable. Cherries for export in the pre-pandemic period were typically air freighted via passenger flights which were readily available.

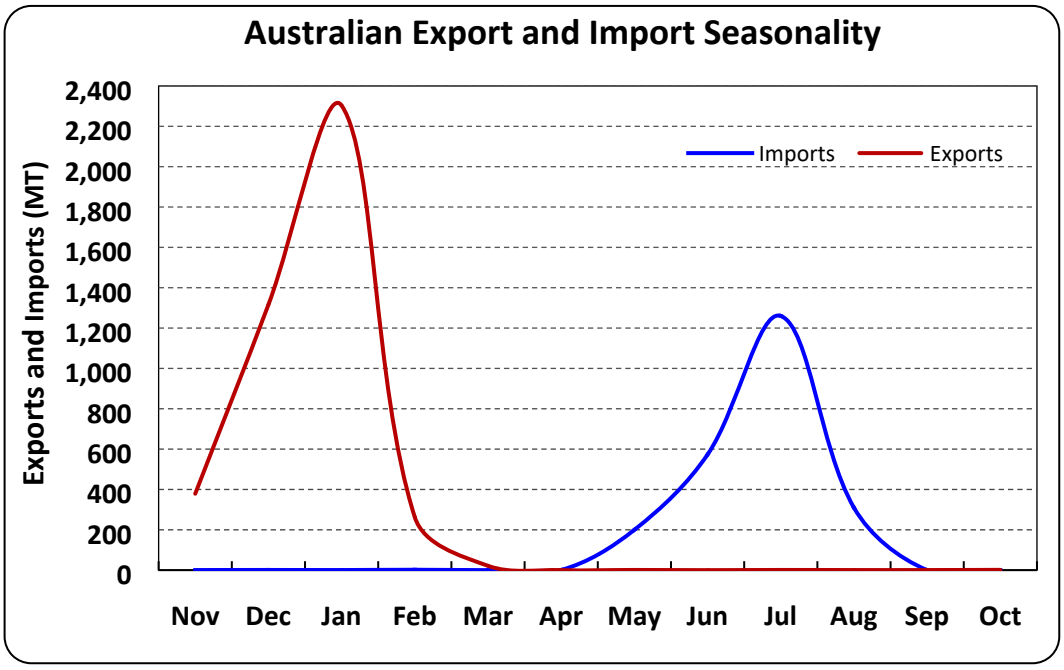
An important factor in determining the impact of logistical obstacles to different exported products is the value of the goods and proximity of the major destinations, which influences the overall cost and availability of cargo flights. Of the range of products supported by IFAM, cherries are a relatively high-value product particularly compared to peaches and nectarines, making it a more cost-effective option for industry's use of the IFAM program. The majority of export destinations are in Asia (see figure 4) which are in relatively close proximity to Australia, enabling air freight to be more cost effective compared to longer haul destinations.

Figure 4 – Cherry Export Destinations



Source: Australian Bureau of Statistics

Figure 5 – Cherry Export and Import Seasonality



Source: Australian Bureau of Statistics

Note: Five year average from 2015/16 to 2019/20

Cherry exports from Australia in MY 2019/20 were largely unaffected by the impacts of COVID-9. The majority of exports (93 percent) typically occur from November to January, with substantially reduced volumes in February, and very little or no shipments in March (as per figure 5). As a result, the cherry export season was largely finished before COVID-19 had a major impact on air freight. The lower MY 2019/20 export figures were largely a result of smaller production, rather than logistical issues.

Cherry imports are forecast at 2,500 MT in MY 2020/21, a 25-percent increase from a revised estimate of 2,000 MT in MY 2019/20, and a return to a more typical level. The import estimate for MY 2019/20 is revised down to 2,000 MT as a result of the slow pace of imports in May and June 2020 (down 27 percent compared to the same period the previous year). Imports of cherries into Australia are counter-seasonal from the United States and occur from May to August each year and are via air freight. According to industry sources, the lower import results so far in MY 2019/20 are due to the challenges associated with air freight caused by the significantly reduced number of passenger flights around the world as a result of the COVID-19 pandemic.

Cherries (Sweet&Sour), Fresh	2018/2019		2019/2020		2020/2021	
Market Year Begins	Nov 2018		Nov 2019		Nov 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	3300	3300	3300	3300	0	3400
Area Harvested (HA)	3100	3100	3100	3100	0	3200
Bearing Trees (1000 TREES)	5900	5900	5900	5900	0	6000
Non-Bearing Trees (1000 TREES)	800	800	800	800	0	800
Total Trees (1000 TREES)	6700	6700	6700	6700	0	6800
Commercial Production (MT)	17000	20100	18000	18500	0	21000
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	17000	20100	18000	18500	0	21000
Imports (MT)	2700	2700	3000	2000	0	2500
Total Supply (MT)	19700	22800	21000	20500	0	23500
Dom. Consumption (MT)	14700	17800	15000	16050	0	18500
Exports (MT)	5000	5000	6000	4450	0	5000
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	19700	22800	21000	20500	0	23500
(HA) ,(1000 TREES) ,(MT)						

PEACH/NECTARINE

Overview

Around three-quarters of the peaches and nectarines grown in Australia are in Victoria in the key regions of the Goulburn Valley in central Victoria and Sunraysia in north-western Victoria. Around one-eighth of the total production is in New South Wales in multiple locations with no predominant region. Peaches and nectarines are also grown in southern Queensland, Adelaide Hills in southeast South Australia and the south-eastern corner of Western Australia (see figure 6). Unlike cherries there is very little production of peaches and nectarines in Tasmania.

In general the more northern warmer production regions have an earlier commencement to harvest. This provides a marketing advantage to growers, but also tends to result in the fruit from these more northern regions having a lower sugar content and therefore less flavor compared to regions further south. The

harvest period for the more northern warmer regions is from October to March and for the more southern growing areas harvest is typically from November to April.

The growing conditions required for peaches and nectarines are similar to those of cherries. A key difference is that the cold chill requirements are typically lower than for cherries and as a result peaches and nectarines tend to be grown in somewhat warmer regions. Industry sources indicate that there is no significant expansion in planted area coming into production. However, some gradual growth in production in the coming years is anticipated from the replacement of old trees with new improved varieties with higher yields.

Figure 6 – Peach and Nectarine Growing Regions of Australia

Source: Information from Summerfruit Australia Ltd

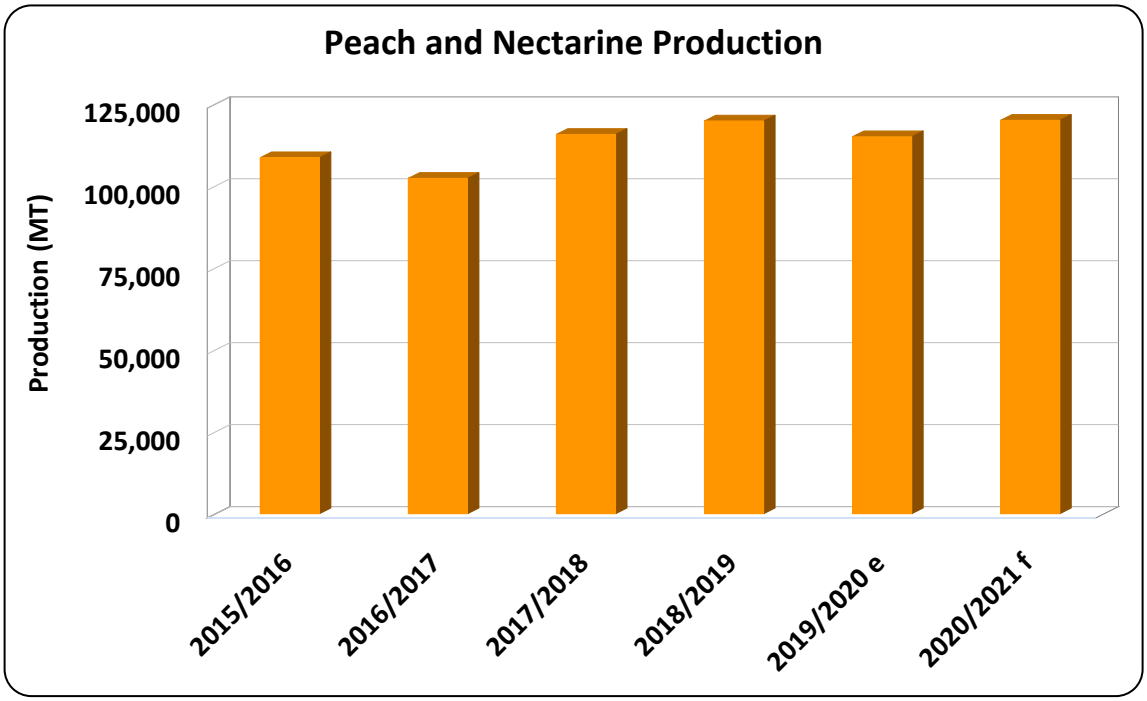
Production

MY 2020/21 production of peaches and nectarines is forecast to rise to 120,000 MT, an increase of 5,000 MT (four percent) from the MY 2019/20 estimate. The MY 2019/20 estimate and production data for prior years have been revised to more clearly reflect industry data and methodology.

The broad production trend for Australian peaches and nectarines is relatively flat (see figure 7). Industry sources indicate that there has been very little increase in planted area, but there is expected to be moderate yield growth in the coming years from older trees being replanted with newer improved varieties with higher production potential. In addition, for MY 2020/21 the winter chill period to date is reported to have been adequate to anticipate a good bud burst. Conditions in general for the upcoming crop have been good so far and strong rains in early 2020 and lower irrigation water prices are also expected to support higher yields. However, many factors such as frosts at pollination, hail in the fruit growing period and rain/humid conditions near harvest can all have significant negative impacts on yield and quality.

Similar to the cherry industry, peach and nectarine growers are at risk of having a shortfall of available pickers for the upcoming MY 2020/21 harvest. The government has been alerted to the loss of a large number of temporary visa holders who have left the country. This group make up the majority of pickers for the harvest of horticultural produce in Australia. There is at this point no stated strategy to ensure there is an adequate workforce for next seasons harvest.

Figure 7 – Peach and Nectarine Production Trend



Source: PSD online and FAS/Canberra estimates and forecasts

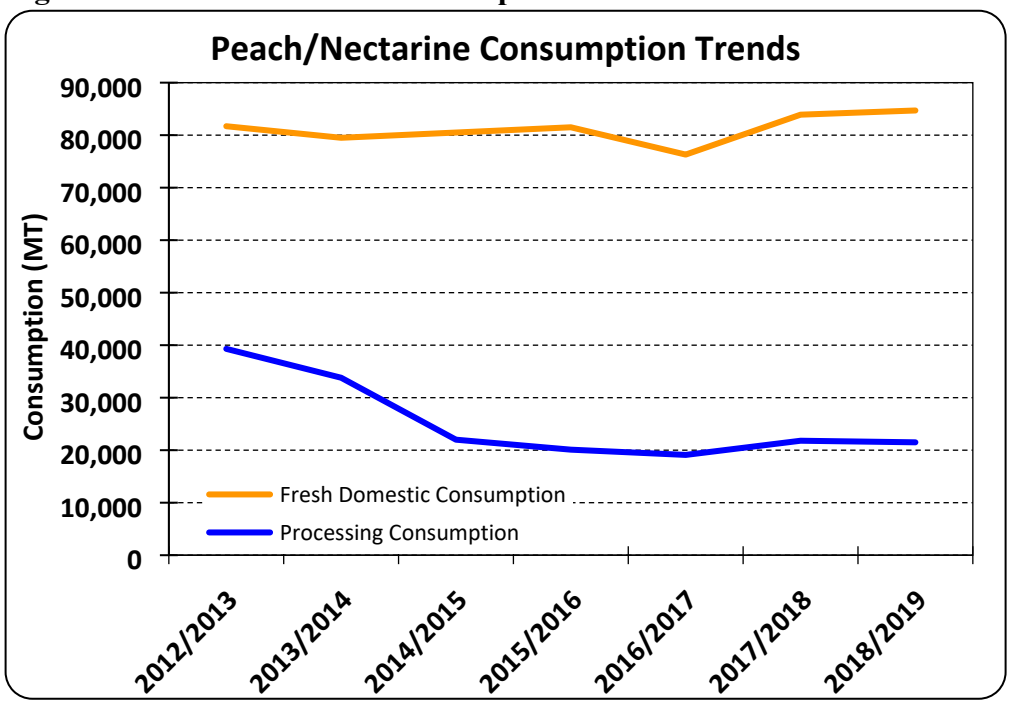
MY 2019/20 production is estimated at 115,000 MT, down 4 percent from the previous year. The decline in production in MY 2019/20 from the previous year is attributed to a two-year drought in the key growing regions which had a dramatic impact on irrigation water prices which influenced grower decisions particularly after the MY 2018/19 harvest was completed. According to industry sources, some growers opted to lower costs post-harvest by reducing irrigation levels at a time when it is important to provide trees with nutrients and water for their uptake to initiate improved tree health for the subsequent crop. This subsequently impacted MY 2019/20 production.

Consumption

Domestic consumption in MY 2020/21 is forecast to rise to 109,300 MT from the MY 2019/20 consumption estimate of 101,300 MT. A recovery in production along with anticipated challenges associated with air freight of peaches and nectarines, are expected to increase volumes on the domestic market and boost domestic consumption. The decline in consumption in MY 2019/20 was directly related to the decline in production, while exports were maintained at similar levels to the prior year.

Peach and nectarine processing is expected to remain relatively low. There was a steep drop in the volume of peaches and nectarines processed (predominantly peaches) from around 40,000 MT in MY 2012/13, down to around 20,000 MT in the MY 2014/15, and it has remained low (see figure 8). This was associated with the major fruit processor in the Goulburn Valley region significantly reducing processed fruit supply quotas.

Figure 8 – Peach/Nectarine Consumption Trends



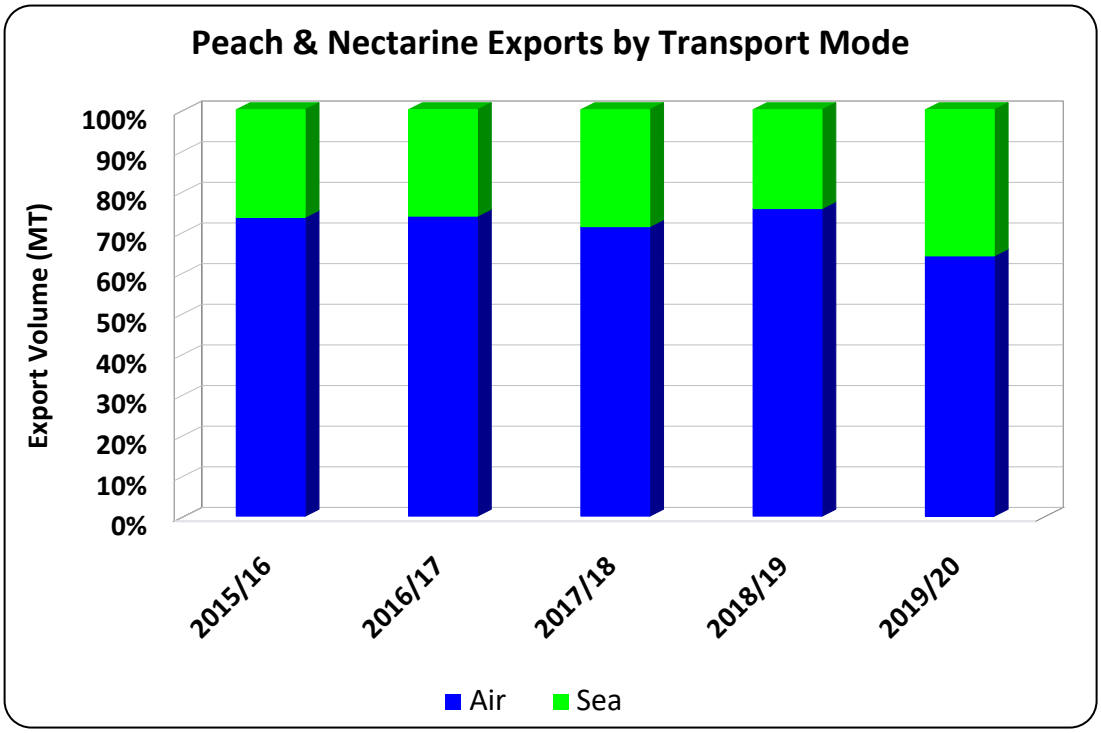
Source: Horticulture Innovation Australia Limited

Trade

Fresh peach and nectarine exports are forecast to decline to 12,500 MT in MY 2020/21, from 15,100 MT in MY 2019/20. This decline is primarily related to the expected upcoming challenges associated with air freight access and increased costs caused by the COVID-19 pandemic and reduced passenger flights.

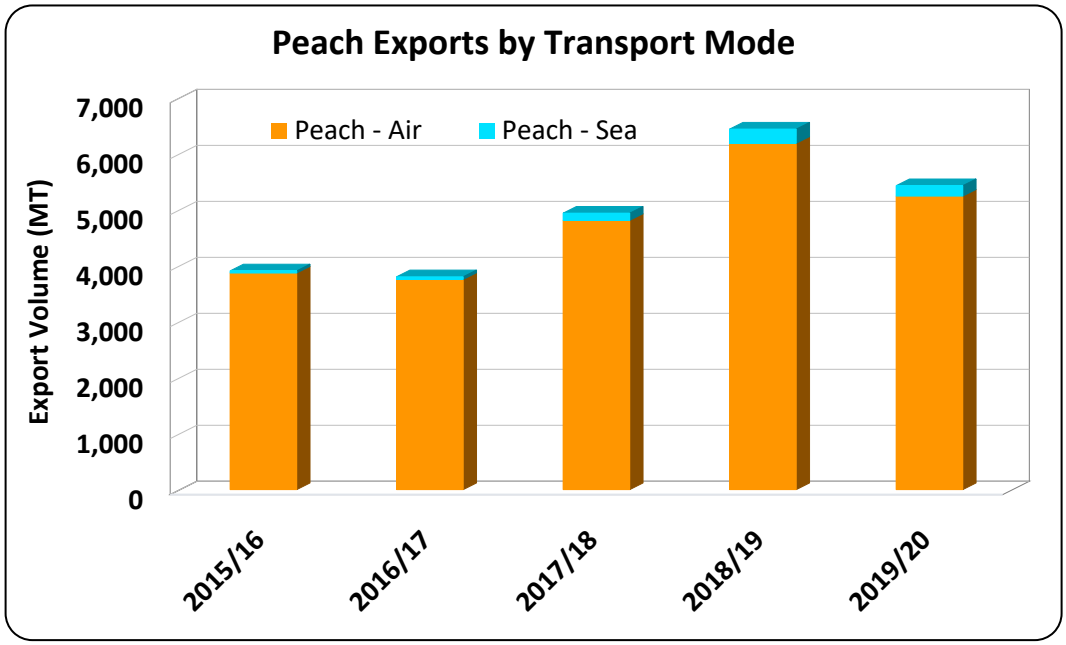
Exports of peaches and nectarines over the last five years on average have been 71 percent shipped via air freight and 29 percent shipped via sea freight (see figure 9). There is a substantial difference in the volumes and mode of transport between exported peaches and nectarines. Peaches have a softer flesh and have a shorter storage life than nectarines and as a result almost all Australian peach exports are via air freight (see figure 10). Meanwhile, about half of nectarines go via air and half go via ship (see figure 11).

Figure 9 – Peach and Nectarine Exports by Transport mode



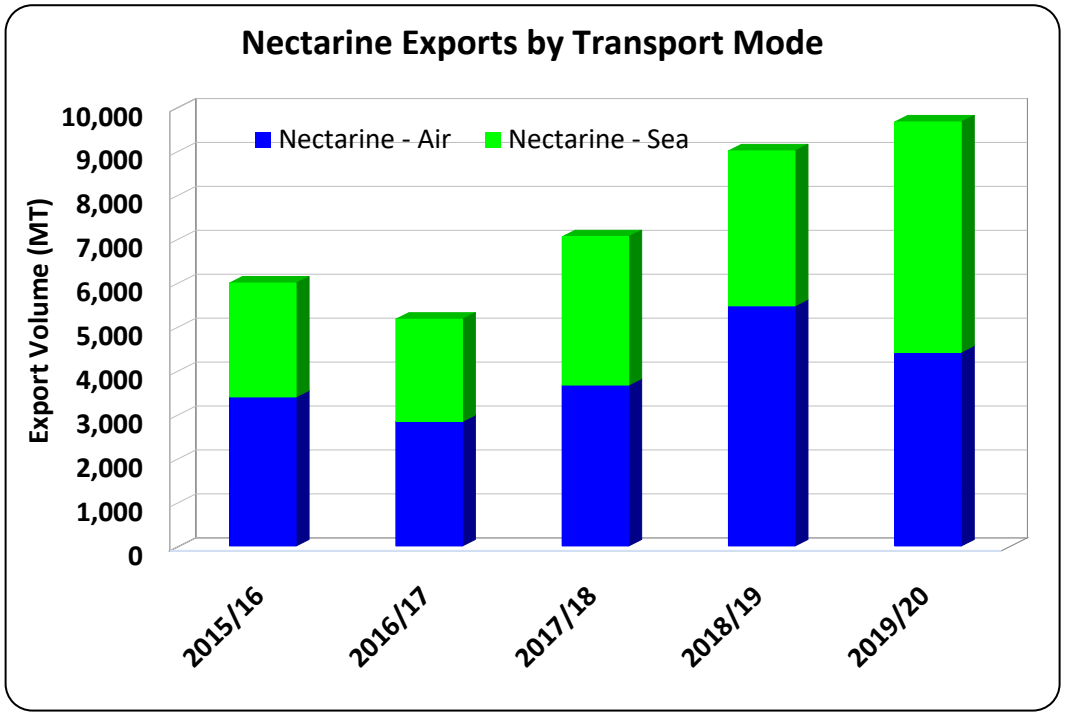
Source: Australian Bureau of Statistics

Figure 10 – Peach Exports by Transport mode



Source: Australian Bureau of Statistics

Figure 11 – Nectarine Exports by Transport mode



Source: Australian Bureau of Statistics

Of total peach and nectarine exports, around one-third are peaches by air freight, about one-third are nectarines by air freight, and the remaining one-third are nectarines shipped by sea freight. This balance is an important consideration in expectations for MY 2020/21 exports.

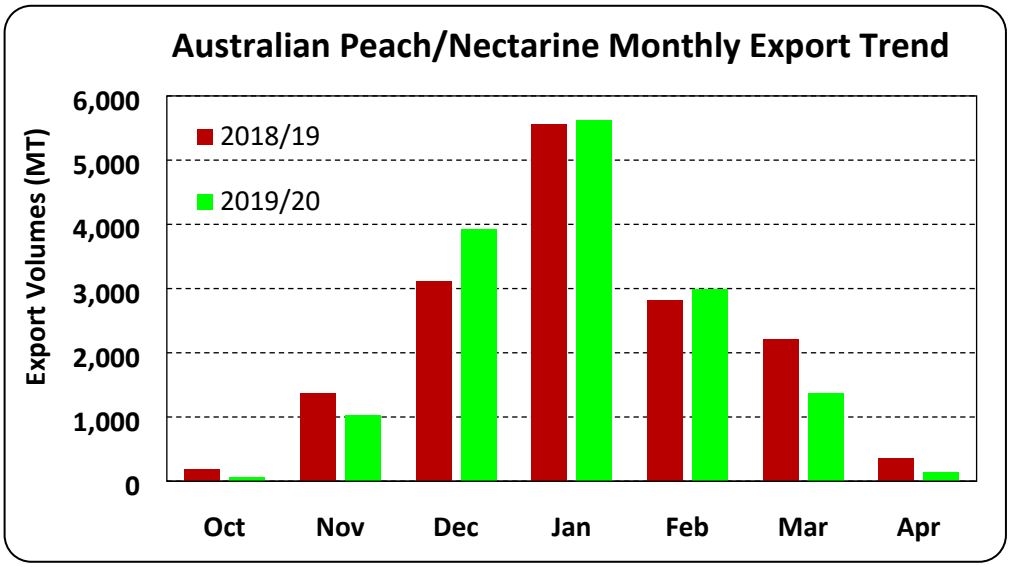
The federal government's IFAM program which supports agricultural product exports via air freight is due to expire in February 2021, towards the end of the typical export season for peaches and nectarines. A range of industries are working with the government to extend the program beyond February 2021, while also highlighting that during the peach and nectarine harvest period is when the IFAM program will be in greatest demand in Australia.

Industry sources indicate that the users of the IFAM program are paying air freight transport cost rates of around double that of the pre-COVID-19 period, while the balance of the current costs are paid by government via the IFAM program. The primary users of the program to date are high-value fresh meat, fresh seafood, milk, and mangos. The unit value of peaches and nectarines fall in at the mid to lower end of the products using the IFAM program, and therefore will be more impacted by the higher freight costs.

Nectarine exporters have scope to increase the proportion sent via sea freight and focus on higher quality and higher value nectarines for air freight. As a result, nectarine exports are expected to remain largely stable with a significant shift away from air freight to increased sea freight. Peach exports, however, have more limited scope to switch to sea freight as a result of them being more perishable with softer flesh. As a result, the overall decline in the forecast for exports of peaches and nectarines is primarily a reflection of lower expectations for peach exports.

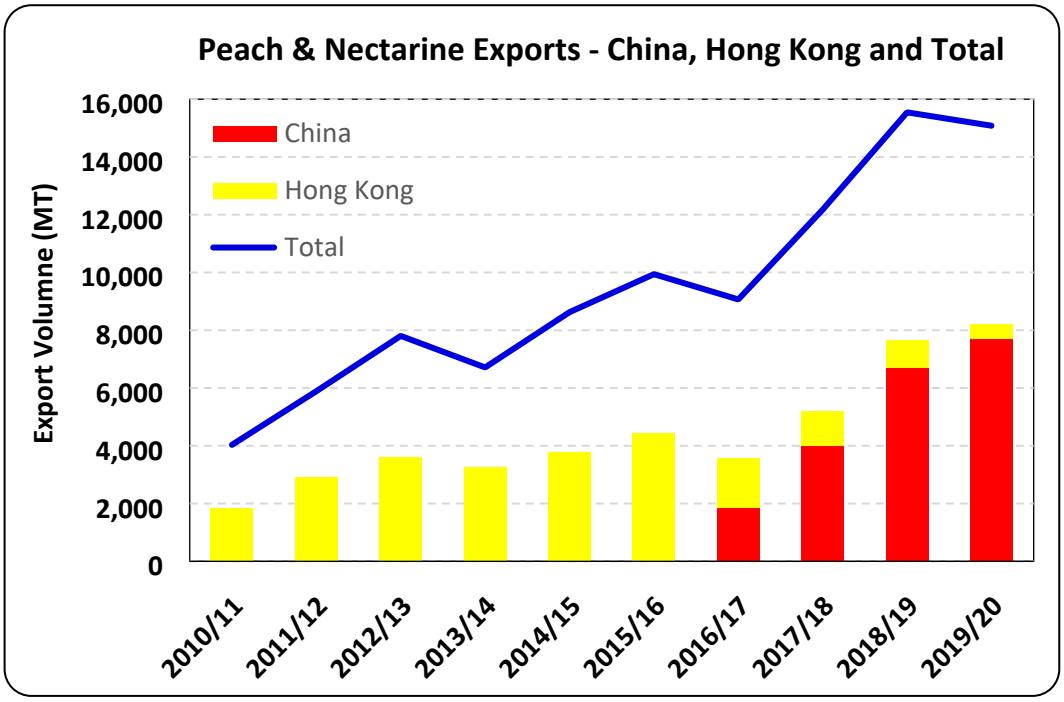
Total exports in MY 2019/20 declined slightly to 15,100 MT from 15,500 MT in the prior year. Exports started the season strong but then slowed dramatically at the end of the season. Monthly exports from October through to February in MY 2019/20 were tracking 580 MT (over four percent) above the same time prior year (see figure 12), and on track to exceed the prior year export result. However, in March 2020 there was a significant drop off in exports compared to the prior year, correlating to the commencement of border and internal restrictions due to COVID-19 in many countries around the world. The fall in export via air was only partially offset by an increase in the proportion of exports via sea freight. According to industry sources this relates to the large decrease in available passenger flights to export destinations beginning in March 2020, which forced exporters to turn to the increased use of sea freight at the tail end of the export period.

Figure 12 – Australian Peach/Nectarine Monthly Export Trend



Source: Australian Bureau of Statistics

Figure 13 – Peach and Nectarine Exports to China/Hong Kong



Source: Australian Bureau of Statistics

In general, peach and nectarine exports have been trending higher in the past decade. Exports from MY 2007/08 to the MY 2018/19 increased by almost four-fold from 4,000 MT to 15,500 MT (see figure 13). The increase has primarily been driven by the combined increased demands from Hong Kong and

China. Prior to MY 2016/17, Australian peaches and nectarines were exported to Hong Kong as an avenue for entry to China. After that direct access to China was granted for Australian peaches and nectarines, enabling a rapid increase in exports to China while exports to Hong Kong have diminished considerably.

Imports are forecast to increase to 1,800 MT in MY 2020/21, partially returning to more average levels. MY 2019/20 imports are revised down to 1,400 MT as shipments have been slow so far this season, with imports for May and June 2020 down 29 percent from the same period the previous year. Peach and nectarine imports are counter-seasonal and entirely from the United States via air freight. According to industry sources the decline in imports to date for MY 2019/20 is directly related to the reduction of passenger flights.

Peaches & Nectarines, Fresh	2018/2019		2019/2020		2020/2021	
Market Year Begins	Nov 2018		Nov 2019		Nov 2020	
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted (HA)	1800	1800	0	1800	0	1800
Area Harvested (HA)	0	0	0	0	0	0
Bearing Trees (1000 TREES)	3700	3700	3700	3700	0	3700
Non-Bearing Trees (1000 TREES)	250	250	250	250	0	250
Total Trees (1000 TREES)	3950	3950	3950	3950	0	3950
Commercial Production (MT)	94000	119800	96000	115000	0	120000
Non-Comm. Production (MT)	0	0	0	0	0	0
Production (MT)	94000	119800	96000	115000	0	120000
Imports (MT)	2200	1900	2200	1400	0	1800
Total Supply (MT)	96200	121700	98200	116400	0	121800
Dom. Consumption (MT)	80700	106200	81200	101300	0	109300
Exports (MT)	15500	15500	17000	15100	0	12500
Withdrawal From Market (MT)	0	0	0	0	0	0
Total Distribution (MT)	96200	121700	98200	116400	0	121800
(HA) ,(1000 TREES) ,(MT)						

Attachments:

No Attachments