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Australia

Stone Fruit Annual

2017

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Report Highlights:
Post forecasts Australian cherry production to rebound to 16,000 metric tons in 2017/18, after adverse seasonal conditions sharply reduced output to 10,000 MT in 2016/17. Exports are expected to recover to 5,000 MT in 2017/18 after contracting to 2,500 MT in 2016/17. Production of peaches and nectarines is forecast to increase slightly to 92,000 MT in 2017/18 after similarly poor seasonal conditions the previous year. Exports of peaches and nectarines are forecast by Post at 12,000 MT in 2017/18, up from 9,000 MT in 2016/17. Counter-seasonal stone fruit imports, mainly from the United States, are forecast at 3,000 MT in 2017/18, revised down from the previous year, partly due to low prices in the Australian domestic market.

EXECUTIVE SUMMARY

Post forecasts cherry production in Australia at 16,000 MT in 2017/18 after sharply falling to 10,000 MT in the previous year as a result of unfavorable seasonal conditions. Exports of cherries contracted to 2,500 MT in 2016/17, 50 percent below the official estimate as a result of adverse weather events including heavy spring rainfall. Imports of cherries mainly from the United States fell to 2,200 MT in 2016/17, but are forecast to recover to 2,700 MT in 2017/18.

Post forecasts production of peaches and nectarines to increase slightly to 92,000 MT in 2017/18, assuming more favorable weather conditions. Post forecasts exports of peaches and nectarines in 2017/18 at 12,000 MT, up from 9,000 MT in 2016/17, which was 40 percent below the official estimate due to lower production and the impact of adverse seasonal conditions on fruit quality. Imports of peaches and nectarines in 2017/18 are forecast by Post at 3,000 MT.

The stone fruit industry in Australia is dominated by cherry, peach and nectarine production, with smaller apricot and plum orchards. The industry is labor-intensive and mostly seasonal. It comprises many small-scale family farms, although there is a growing trend towards medium to larger scale operations. Victoria, New South Wales (NSW) and Tasmania are the major stone fruit producers. Most of the harvest occurs during summer, with nectarines available from November to April, peaches from September to May and cherries from November to February.

Around 80 percent of stone fruit are sold fresh to the metropolitan wholesale markets in Brisbane, Sydney, Melbourne and Adelaide. Smaller quantities are marketed in Perth and Hobart. A small but increasing quantity of stone fruit is exported at prices considerably above those in domestic markets. Counter-seasonal stone fruit imports from the United States began in mid-2013 and now include apricots, nectarines, peaches and other stone fruit varieties.

A notable change has been the trend away from production and consumption of processed peaches and nectarines and towards consumption and export of fresh fruit. One reason is the cost of local processing compared to imports, while another is the shift in consumer preferences towards fresher fruit.

Between 2002 and 2015, apparent per capita domestic consumption of processed fruit decreased by around 40 percent, while per capita consumption of fresh fruit such as cherries, peaches and nectarines increased by over ten percent. In addition, better storage and transportation methods have facilitated sales of fresh fruit. The volume of stone fruit processed by the cannery industry has declined from over 60,000 MT in 2005/06 to a forecast of 10,000 MT in 2017/18.

Commodities:

Fresh Cherries,(Sweet&Sour)

Fresh Peaches & Nectarines

CHERRIES

Production

Post forecasts cherry production in Australia at 16,000 MT in 2017/18 after sharply falling to 10,000 MT in the previous year as a result of unfavorable seasonal conditions, including heavy spring rainfall. Exports of cherries contracted to 2,500 MT in 2016/17, 50 percent below the official estimate, as a result of adverse weather conditions. Imports of cherries mainly from the United States fell to 2,200 MT in 2016/17, but are forecast to recover to 2,700 MT in 2017/18.

The Australian cherry industry is comparatively small and accounts for around one percent of world output. There are over 500 cherry growers in Australia with an estimated 3,300 hectares under production. Modern production systems are used in orchards with most of the newer plantings being trained to open bush systems and orchards are often irrigated using low flow systems. Seasonal factors such as rainfall, humidity and frost can significantly affect the volume and quality of cherry crops. A recent development has been the establishment of greenhouses in Tasmania and Victoria as insurance against seasonal variations and to extend the harvest time for cherries to enable Australia to supply the Chinese market during the Chinese New Year period.

Australian cherries are available from mid-to-late October to late February and are produced in six states, with New South Wales (NSW), Victoria and Tasmania the three largest producers. Both Western Australia (WA) and Queensland are relatively small producers primarily focusing on the domestic market. NSW, Queensland, South Australia and Victoria are the first to supply the market, followed by WA and Tasmania in December and January.

Tasmania has expanded plantings in recent years with a strong export focus, enhanced by its relative pest and disease free status. It has the shortest harvest window at around eight weeks, with the other states having three to four months of harvest. Tasmanian growers have expanded their plantings in recent years and the state accounts for one third of the national harvest.

Consumption

Post forecasts cherry consumption in Australia at 13,700 MT in 2017/18, the same as the official estimate for the previous year. However, Post estimates that consumption in 2016/17 fell to 9,700 MT due to a fall in both production and imports, which significantly reduced the supply volumes of fruit to the domestic wholesale and retail markets. Lower fruit quality as a result of weather damage is also likely to have reduced domestic consumption.

Locally produced cherry sales occur mainly during the months of December through to February, while imported cherry sales occur during the months of May through to November. Retail sales include both loose self-select cherries and pre-packed cherries, with the majority of sales volumes and value from loosely sold fruit. Pre-packed cherries earn a premium over loose product.

Average consumption of fresh cherries in Australia is around 0.5-0.8 kilograms per person. The seasonal availability of cherries limits the range of consumption. Traditionally, households have

considered cherries as a Christmas food, with consumption sensitive to the prices of other summer fruits available during this season. Cherries are usually consumed fresh at home or used to make a dessert.

The cherry industry's marketing approach is to increase the consumption of fresh Australian cherries by encouraging the impulse purchase of the fruit and by promoting the health credentials of cherries. The industry has used the campaign Cherish the Moment to help maintain domestic consumption. Over 20 percent of cherry purchases are traditionally made in the week leading up to Christmas although the availability of counter-seasonal imports may gradually lower this share as around-the-year consumption increases.

Consumer research suggests that cherries are largely an impulse buy. The key drivers for purchasing cherries are quality and price, followed by the firmness of cherries, whether the fruit is blemish-free and the color is good. Research by the industry has found that 90 percent of cherries are consumed fresh. Most consumers buy cherries in summer while the Australian fruit is in season and tend to buy smaller quantities of cherries during winter. Supermarkets are the usual retail outlet for buyers of cherries.

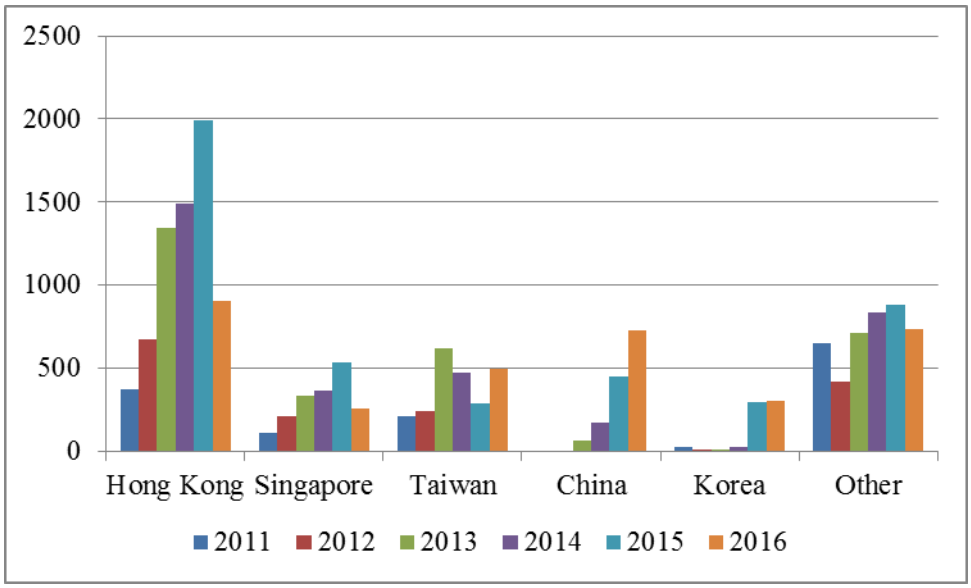
Trade

Post forecasts exports of cherries for the 2017/18 season at 5,000 MT, recovering from the sharp decline of the previous season when exports fell to 2,500 MT. The domestic market has traditionally accounted for over two thirds of production, but exports provide higher returns for growers. A 2016 survey found that the average domestic cherry price for growers was A$7.00 for the domestic market and A$17.00 for exports. Almost all cherries are exported in the three months from November. Immediately after harvest cherries are hydro-cooled and packed into 2 kilogram and 5 kilogram cartons designed to meet market protocols.

Tasmania has a strong export focus, with over 90 per cent of the harvest exported. The state is internationally accepted as a fruit fly free area and has significant market access advantages into various countries. As a result, Tasmanian cherries do not need to be fumigated and can more easily reach export markets such as Japan, South Korea and Taiwan. Hong Kong has been the major export market for Australian cherries partly as it does not require stringent import protocols for biosecurity. In recent years, Hong Kong and China have accounted for around half of Australian cherry exports, with the latter market increasing its relative significance as more direct exports occur under new import protocols. Exports to South Korea have increased to around 300 MT with the phasing out of tariff duties under the Korea-Australia FTA (KAFTA).

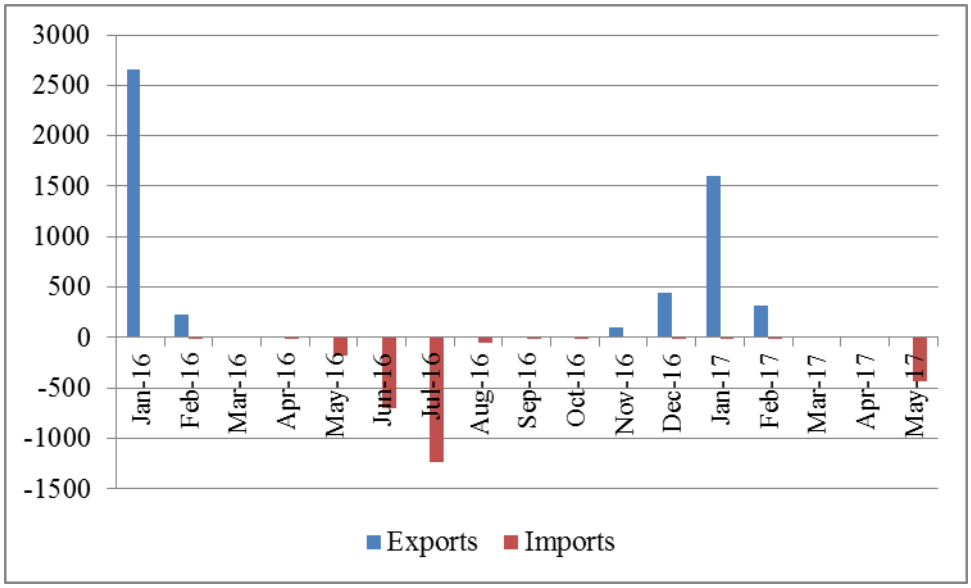
Australian cherry exports to the United States market are possible under an existing biosecurity protocol but are not commercially viable due to airfreight costs. Almost all cherry imports into Australia are from the United States and from California in particular. They are mostly marketed from July to September and therefore do not compete directly with Australian grown cherries but provide consumers with a more continuous supply of fruit through the year.

Chart 1: Australian cherry exports by country, 2011-2016 (MT)



Source: Global Trade Atlas (2016).

Chart 2: Australian monthly exports and imports of cherries, 2016-17 (MT)



Source: Global Trade Atlas (2017).

Countries with protocol agreements with Australia have specific requirements for importing Australian cherries. The table below shows the requirements for exporting cherries to countries with protocol conditions.

Table 1: Market access and protocol requirements for Australian cherry exports by country

		Country protocol requirements for exports of cherries				
Entity to be registered	Protocol	China	Taiwan	Thailand	Japan (TAS)	Korea (TAS)
Orchard	Area freedom	Yes	Yes	Yes	Yes	Yes
	Cold treatment	Yes	Yes	Yes	N/A	N/A
Pack house	Area freedom	N/A	Yes	Yes	Yes	Yes
	Cold treatment	Yes	Yes	Yes	N/A	N/A
Treatment facility	Area freedom	N/A	N/A	N/A	N/A	N/A
	Onshore cold treatment	Yes	Yes	Yes	N/A	N/A

Source: Australian Department of Agriculture (2017).

Table 2: Production, supply and demand table for cherries
(Production year from October to February)

Fresh Cherries (Sweet and Sour)	**2015/2016**		**2016/2017**		**2017/2018**	
Market Begin Year		Nov 2015		Nov 2016		Nov 2017
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	3,300	3,300	3,300	3,300	0	3,300
Area Harvested	3,100	3,100	3,100	3,100	0	3,100
Bearing Trees	5,900	5,900	5,900	5,900	0	5,900
Non-Bearing Trees	800	800	800	800	0	800
Total Trees	6,700	6,700	6,700	6,700	0	6,700
Commercial Production	16,000	16,000	16,000	10,000	0	16,000
Non-Commercial Production	0	0	0	0	0	0
Production	16,000	16,000	16,000	10,000	0	16,000
Imports	2,700	2,700	2,700	2,200	0	2,700
Total Supply	18,700	18,700	18,700	12,200	0	18,700
Fresh Domestic Consumption	12,700	12,700	13,700	9,700	0	13,700
Exports	6,000	6,000	5,000	2,500	0	5,000
For Processing	0	0	0	0	0	0
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	18,700	18,700	18,700	12,200	0	18,700
(HA), (1000 TREES), (MT)						

Note: 'New Post' data reflect author's assessments and are not official data.

FRESH PEACHES AND NECTARINES

Production

Post forecasts production of peaches and nectarines to increase slightly to 92,000 MT in 2017/18, assuming more favorable seasonal conditions. Post forecasts exports of peaches and nectarines in 2017/18 at 12,000 MT, up from 9,000 MT in 2016/17, which was 40 percent below the official estimate due to lower production and the impact of adverse seasonal conditions on fruit quality. Imports of peaches and nectarines in 2017/18 are forecast by Post at 3,000 MT. This represents a significant drop on the official estimate, which Post attributes to slower imports in response to low prices in the domestic market.

Post's forecast of gradually rising production of peaches and nectarines reflects an expected improvement in seasonal conditions and lower water costs for producers, which should also increase yields. In the previous season, adverse seasonal conditions in eastern Australia over the spring period affected fruit production and quality. In particular, cold periods and heavy spring rain delayed fruit maturing and kept sugar levels low. Notably, these conditions also coincided with the beginning of Australian nectarine exports to the Chinese market which negatively affected trade promotion in that market.

In recent years, the peach and nectarine industry has been significantly affected by adverse weather patterns, a lack of export markets, the high Australian dollar and changing consumer preferences away from canned fruit. With revenue continuing to decline due to low domestic prices, many smaller fruit growers chose to leave the industry, while others decided to pull up older trees to lower costs. A further problem has been the closure of a number of established markets such as Vietnam and Malaysia, while increased regulatory barriers have affected exports to Hong Kong and indirectly to China. The lack of export market access has contributed to lower domestic prices for growers.

Up until around 2000, processing accounted for about half of Australian production of fresh peaches. However, processing volumes fell from over 60,000 MT in 2006 to around 10,000 MT in 2016. The processing sector declined due to a change in consumer preferences from processed fruit and competition from imported plain brand canned sold as private label products by supermarkets. A number of processing varieties are being removed by growers as processing volumes are likely to decline further.

Three quarters of peach and nectarine production occurs in Victoria in the Goulburn Valley and Sunraysia areas. Other producing areas include Young and Orange in NSW. Early season stone fruit comes from sub-tropical Queensland and northern areas of Western Australia and NSW and are followed by crops from areas such as mid to southern NSW, parts of Victoria such as Swan Hill and the Riverland of South Australia. Yields of peach and nectarine trees vary significantly from season to season, partly due to the biennial bearing tendency of some varieties. Other factors influencing yield include the variety of stone fruit; the cost and availability of irrigation water, soil quality; climatic conditions and prevalence of pests and disease.

Consumption

Post forecasts domestic consumption of peaches and nectarines at 73,000 MT in 2017/18, the same as the official estimate for the previous year. Post estimates that consumption rose slightly in 2016/17 to 74,000 MT due to the fall in exports and the impact of greater domestic supplies in lowering prices for stone fruit. Private surveys suggest that around half of Australian households purchase peaches and nectarines, with an estimated average annual consumption of 3.4 kilograms per capita.

There is a trend for retailers to sell prepacked summerfruit which typically sell for similar price per kilogram as loose fruit, but reduce retail wastage and increase sales. Another notable change has been the trend away from production and consumption of processed peaches and nectarines and towards consumption and export of fresh fruit. One reason is the cost of local processing compared to imports, while another is the shift in consumer preferences towards fresher fruit.

Between 2002 and 2015, apparent per capita domestic consumption of processed fruit decreased by around 40 percent, while per capita consumption of fresh fruit such as cherries, peaches and nectarines increased by over ten percent. In addition, better storage and transportation methods have facilitated sales of fresh fruit. The volume of stone fruit processed by the cannery industry has declined from over 60,000 MT in 2005/06 to a forecast of 10,000 MT in 2017/18.

Trade

Exports

Post forecasts exports of peaches and nectarines in 2017/18 at 12,000 MT, up from the figure of 9,000 MT in 2016/17, which was 40 percent below the official estimate due to lower production and the impact of adverse seasonal conditions on fruit quality. Most of Australia's peach and nectarine exports are yellow-fleshed varieties, although white-fleshed fruit are exported to certain markets, particularly at the beginning and end of the season. Over the last 5 years, over 60 percent of Australian fresh nectarine and peach exports have gone to Hong Kong and the United Arab Emirates, with Singapore another important market.

In 2016, a breakthrough occurred with China approving market access for Australian nectarines, following 13 years of negotiations. Exports of nectarines commenced in late 2016 under a strict biosecurity protocol. China recognizes Tasmania and the Riverland region of South Australia as approved fruit fly pest free areas, so that fruit grown and packed in Tasmania and the Riverland does not require treatment. To secure market access to China, nectarines being exported outside of Tasmania and the Riverland must adhere to stringent fruit fly treatments. Nectarines from eastern states can be shipped using cold treatment at 3°C for 18 days or with methyl bromide.

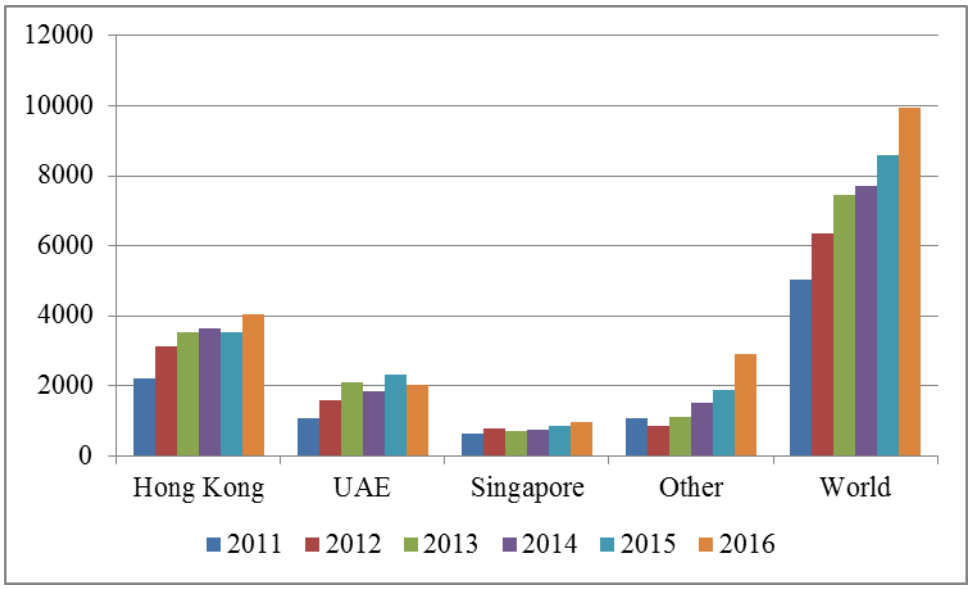
Chinese biosecurity authorities have agreed to a new treatment using a low dose of methyl bromide, which reduces the potential for damage to the fruit by the treatment. Under the protocol, China has agreed to a new low dose methyl bromide fumigation treatment for Queensland Fruit Fly, which was developed using grower levies. The new treatment will reduce the risk of fruit being damaged by the fumigation treatment. The Chinese tariff on nectarines fell from 6 percent to 4 percent in January 2017,

will fall to 2 percent in 2018 and will be eliminated in January under the China-Australia Free Trade Agreement.

Imports

Post forecast that imports of peaches and nectarines in 2017/18 at 3,000 MT, sharply down on the official estimate partly due to the very low prices in the domestic market in recent years. Almost all imports of peaches and nectarines into Australia are from the United States. These exports must be airfreighted and producers in California typically ship stone fruit until mid-September. Both peaches and nectarines are sold by Australia's largest retailers, Coles and Woolworths, through mid-October when local production is unavailable. Surveys have found that Australian demand for stone fruit is considerably lower during winter than in the summer, but demand is expected to gradually increase.

Chart 3: Australian exports of peaches and nectarines by country, 2011-2016



Source: Global Trade Atlas.

Table 3: Production, supply and demand tables for peaches and nectarines (Marketing year from November)

Fresh Peaches and Nectarines	**2015/2016**		**2016/2017**		**2017/2018**	
Market Begin Year		Nov 2015		Nov 2016		Nov 2017
Australia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,700	1,700	1,700	1,700	0	1,700
Area Harvested	0	0	0	0	0	0
Bearing Trees	3,400	3,400	3,400	3,400	0	3,400
Non-Bearing Trees	250	250	250	250	0	250
Total Trees	3,650	3,650	3,650	3,650	0	3,650
Commercial Production	90,000	90,000	90,000	90,000	0	92,000
Non-Commercial Production	0	0	0	0	0	0
Production	90,000	90,000	90,000	90,000	0	92,000
Imports	6,000	6,000	8,000	3,000	0	3,000
Total Supply	96,000	96,000	98,000	93,000	0	95,000
Fresh Domestic Consumption	76,000	76,000	73,000	74,000	0	73,000
Exports	10,000	10,000	15,000	9,000	0	12,000
For Processing	10,000	10,000	10,000	10,000	0	10,000
Withdrawal From Market	0	0	0	0	0	0
Total Distribution	96,000	96,000	98,000	93,000	0	95,000
(HA) , (1000 TREES) , (MT)						

Note: 'New Post' data reflect author's assessments and are not official data.