

# Economics and Vegetables - Beyond the Farm Gate

Address to East Gippsland Vegetable Growers



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July 7, 2010

## Economics in the vegetable industry

Economics is a sub-program of the Vegetable Industry Development Program (VIDP). My role is to:

- Increase grower understanding of economic, business and market issues occurring beyond the farm gate that affects their operations.
- Undertake economic research on key issues for vegetables.
- Provide data on the industry that assists in its promotion and policy formulation and is communicated through the knowledge management sub-program of the VIDP.
- Assist in the development of a new generation of entrepreneurs and leaders in the industry linked to the people development sub-program of the VIDP.
- Promote a one industry outlook focused on markets with strong interplay with the consumers and markets sub-program of the VIDP.

## It's the economy stupid?

(Ex US President Bill Clinton)

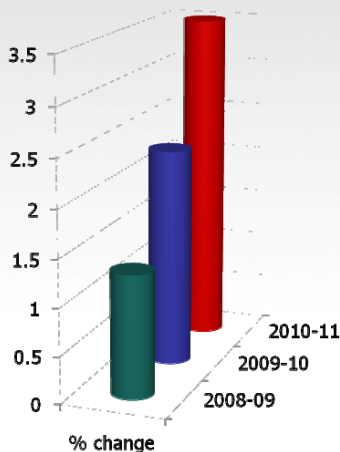
## The global economy



- Globalisation shaping the Australian economy.
- Australia dependent on foreign income and foreign borrowings.
- World policy dilemma - debt repayment v's economic stimulus with major players in conflict burdened by history.
- At present a huge wave of uncertainty driven by fears that policy makers will get it wrong.

# Australian economy

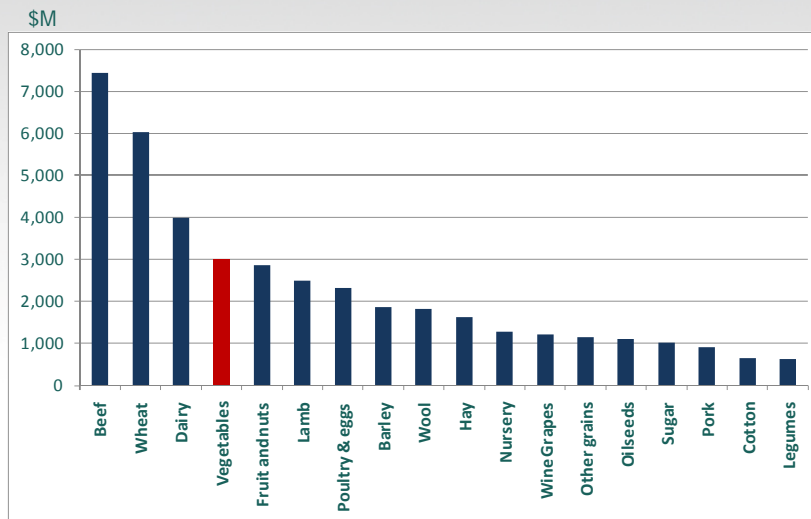
## Economic Growth



- World factors impacting on confidence levels in Australia.
- Consumers are cautious and seek value for money as households are highly indebted and sensitive to interest rate rises and loss of income.
- Some sections of small business doing it tough and credit conditions remain restrictive creating cash flow problems.
- However corporate Australia is in great shape well capitalised, high profits, low debt and beginning to invest.
- Unemployment is low and the economy is riding a mining boom.
- Economic growth is accelerating.

## Industry economic profile

# Vegetable industry: an important part of Australian agriculture



Source: Australian Bureau of Statistics

## Some data on the vegetable industry

Vegetables with value in excess of \$100M	Vegetables with volume in excess of 75,000 tonnes
potatoes	potatoes
tomatoes	tomatoes
mushrooms	onions
onions	carrots
carrots	melons
lettuce	lettuce
capsicums	pumpkins
Asian vegetables.	cabbages

- Potatoes and tomatoes are the two largest vegetable crops by both volume and value.
- Official statistics show 6,360 growers with 70% deriving the majority of their income from vegetables and 20% producing undercover.
- Queensland is the largest vegetable producing State with 30% of the national figure by value.
- Compared to other cropping industries vegetable production is domestically focused.

Source: Australian Bureau of Statistics

## Industry finances

## Financial snapshot of the industry

Variable		2005-06	2006-07	2007-08
Cash Receipts	\$	431,133	569,549	570,089
From vegetables	%	86	88	83
Cash costs	\$	303,084	397,555	403,992
Farm cash income	\$	128,049	171,994	166,097
Farm business profit	\$	46,043	82,292	74,889
Rate of return ex capital gain	%	2.5	4.2	4.0
Rate of return inc capital gain	%	9.8	7.7	4.1
Farm capital at June 30	\$	2,750,649	2,606,899	2,872,202
Farm debt at June 30	\$	164,985	262,522	378,346
Equity ratio	%	94	90	87

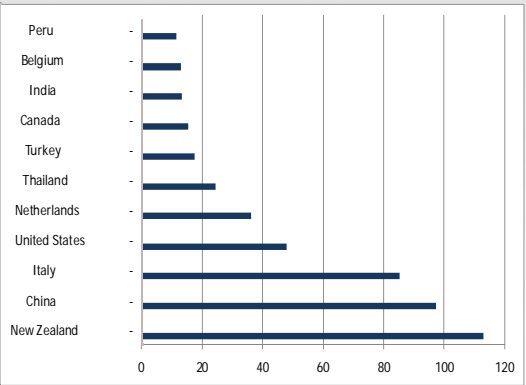
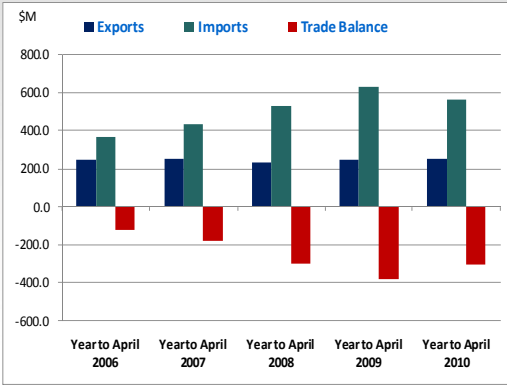
## Business sustainability

Year	Vegetable growers with negative cash income %	Average cash income per farm \$	Vegetable growers with negative business profit %	Average profit per farm \$
2005-06	18	128 049	54	46,043
2006-07	17	171,994	59	82,292
2007-08	13	166,097	56	74,889

Source: ABARE Survey of Vegetable Farms

## Threats to profitability

# Imports

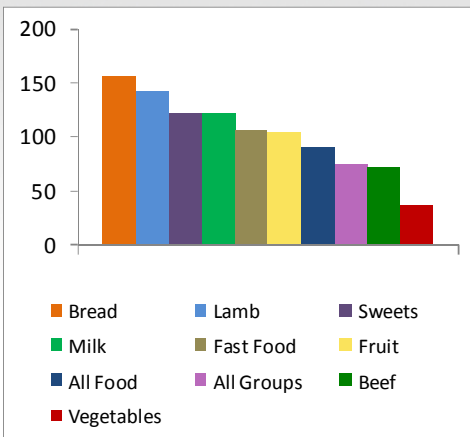


Source: World Trade Atlas

# Pricing

**% increase in retail prices September 1989 to December 2009**

%



- **Vegetables are dirt cheap and long term retail prices have not kept pace with other food and goods in the economy.**
- **Vegetable growers can provide endless supplies of vegetables at cheap prices.**
- **Vegetable growers operate in a classical economics free market where the market determines price.**
- **If anything vegetable growers are squeezed between a concentrated retail sector and near monopoly control over inputs.**
- **So vegetable growers need to look closely at markets in order to get better rates of return.**

Source: Australian Bureau of Statistics



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## Economic issues for the industry



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## Market access

- Increasing globalisation increases the threat of the incursion of an exotic pest or disease.
- Changes in bio-security regulations in overseas countries can impact on exports e.g. carrot export market to Taiwan.
- While there is open access to vegetable imports tariff barriers apply to our exports.
- The industry needs data to maintain market access, open up new markets and protect existing markets.

## Key inputs – water and labour

Produce	Cash receipts (\$/ha)	Cash costs (\$/ha)	Returns (\$/ha)
Dairy	4,636	4,741	-105
Pome fruit	17,242	9,580	7,662
Stone fruit	10,286	9,411	875
Citrus	7,920	4,634	3,287
Wine grapes	9,969	5,766	1,148
Table grapes	5,355	4,207	4,202
Vegetables	14,744	10,381	4,364
Cotton	3,696	4,982	-1,286
Rice	2,874	3,896	-1,022
Irrigated wheat	822	965	-144

Source: ABARE survey of irrigation farms in the Murray-Darling Basin 2006-07

- The vegetable industry has some economic clout on the water issue as rates of return per mega litre of water is high for vegetables.
- It has less clout on the labour issue but maintaining flexibility in labour arrangements is critical for business viability.
- In the longer term there has to be a concentration on driving down labour costs through judicial use of mechanisation and technology.

## Climate change and the carbon issue

- Forget the politics and own views on climate change. From a business perspective this is a risk management issue.
- Vegetable production has low carbon emissions although this varies depending on the nature of operations – field, greenhouse, packing houses, processing.
- If a price is put on carbon most of the impact on grower operations will be through higher input costs.
- Vegetable growers need to think about reducing carbon emissions and the potential to increase profitability by doing so.
- Carbon foot printing is likely to be an increasing requirement by retailers and consumers.

## Consumers right to know

- The fundamental economic underpinning of an efficient market is the assumption of informed consumers.
- The vegetable industry is fighting hard to have proper labelling of vegetable products so that consumers know the source of the vegetable they are buying.

## Economics of marketing

- There is a mismatch between supply and demand in the vegetable markets.
- Greater understanding of markets is required if growers are to receive better rates of return.
- Vegetable growers will gain most by a whole of supply chain approach that promotes the vegetable industry.
- At present only 10% of the population intake the recommended 5 vegetables per day, with the national average closer to 2 vegetables per day.
- Growing obesity and declining health provide a great market opportunity for the promotion of fresh vegetables.
- Vegetables are not sexy and the industry needs to promote cultural change and to consider how to do this in conjunction with health authorities which have a vested interest in promoting vegetables.
- Understanding the consumer and targeting markets will assist returns – demographics, organic, local.