

Avocados of the Americas ... Caution: Merging Traffic Ahead

Michael A. Browne

President & CEO, Index Fresh of California; Vice President, California Avocado Society; Chairman, Advertising Committee, California Avocado Commission

Assumptions

- Trade barriers will continue to fall as global alliances and trade pacts form.
- Technology is here, now, to deliver export quality fresh avocados to anywhere in the world, from anywhere in the world.
- The consumer base for fresh avocados is strong in many parts of the world, and has huge potential for growth; however, the "buying" customer base (retailer/distributor) continues to shrink and demands market support.
- Individually, no global growing region, except Mexico, can effectively service its customer base on a year-around basis.
- World producers in every growing region will benefit from the increased demand for and consumption of fresh avocados, regardless of where the increase takes place.

The California avocado industry is scrambling for position in the transforming North American market. Since the commercial introduction of the avocado, California producers and marketers have enjoyed a captive national market share with only internal challenges of oscillating crop size and ascending costs. Producers have supported the development of the U. S. market with 33 years of multimillion dollar spending for consumer advertising, promotion, public relations, and industry issues management. The consumer-fertile American market has been an attraction for all foreign exporters for many years, but it was not until the late 1980s that the California avocado industry received its first wakeup call. Southern hemisphere positions, Chile began exporting fresh avocados to the U. S. when California supplies were low and prices were high. Initially, there was strong opposition to the imports—"This can't happen;" but it did not take the California industry long to realize that the captive market will never be the same: it will be shared by the Americas.

There are likely several untapped areas in the Americas where Hass avocados can be successfully produced: Puerto Rico, Costa Rica—maybe even Cuba, someday? However, we know today's players in the Americas; and the future success of the producers will hinge on the ability of the producing countries to cooperate and build markets. California, Chile, the Dominican Republic, and Mexico must begin now to add up the production numbers, look at the calendars, and begin a joint effort toward building an intelligent infrastructure and consumer base to handle the volume. For the producers to profit, the U. S. and Mexican markets have to be further developed but

cannot be the only destinations. Europe has many developed markets as well a great potential. Asia is clearly a land of opportunity as trade barriers fall and middle classes emerge within the economies.

Chile: Enough of a Good Thing?

Today, fresh avocados are among the most profitable crops in Chile. Because of this, vast avocado plantings (an estimated 30,000 acres) have Chile in a position of overwhelming supply by the year 2000. Coupled with the notion of losing their most profitable market in the U. S. via competition with Mexico and the Dominican Republic, Chilean producers and exporters have done the math and have estimated their future production at 300 million pounds per year within five years. Given its geographic constraints and modest populations growth, Chile has become synonymous with export in all agricultural commodities produced. This export orientation within the Chilean avocado industry has spawned the Committee de Palta, an association of exporters who voluntarily assess themselves for the purpose of promoting and advertising Chilean avocados around the world. Although the early spending of the Committee is dwarfed by the budgets of the California Avocado Commission, the infrastructure and intent are in place to cover the globe in search of market opportunities for Chilean avocados.

Within South America, Chilean producers are seeking consumers in Argentina, where the per capita consumption today is only 100 grams—3.5 ounces. An important note regarding the Chilean export infrastructure: there are four major exporters who control well over 90% of the Chilean avocado exports. Although these exporters compete feverishly, their coordination and communication on macro issues should be respected. As Chilean exporters consider markets outside the Americas, they recognize their biggest disadvantage is lack of proximity to market. Distance, time, and expense are important factors as they consider participation in Europe and Asia. Producers will also have a sobering reaction to the increased production in Chile. In the past, the domestic market was strong, due to the limited production against a strong per capita consumption (4.8 pounds). With a population of only 14 million people, it is obvious that

Chile cannot eat all of the avocados. It has often been stated that Chilean producers need to achieve very high prices when exporting to the U. S. This has been true in the past because of the strong domestic market, but with production far exceeding domestic consumption, reliance on export will become more critical even at global pricing standards.

Can Chilean producers compete in the world market? You better believe it! Low cost labor and water, with favorable climate give Chilean producers low cost average production of 12,000 pounds per acre. In addition, the few good years of the past have put producers in a low debt position. Proximity is their biggest dilemma.

Mexico, Exporter—or False Hope?

Currently, Mexico exports only 3% of its 1.5 billion pound Hass crop, while maintaining a domestic per capita consumption of nearly 17 pounds. As Mexico has embarked on the

export business, it has been interesting to observe how fast the exporters reached total saturation of destination markets and the impact this has made on producer pricing.

Canada serves as the best case study for a Mexican export market with close proximity. First of all, there are traditional exporters (about 12) shipping to Canada, as well as six to eight disinterested brokers who concentrate on volume with no regard to the producers. Second, Canada is often used for shipments of off-grade avocados, product which may have missed an overseas vessel, or shipment orders that may have been canceled in Europe and sent to Canada. F.O.B. Texas pricing often reflects approximate returns to producers of 15 to 18 cents per pound. Mexico has shipped an average of 6 million pounds per year since it took over the markets from California in 1989. Up to 1989, California shipped between six and eight million pounds per year, with returns to producers of over \$.60 per pound. The main point here is that without a fundamental marketing plan and in-market promotional activity, per capita consumption will not increase; but it is obvious that producer prices will decrease.

There are many exporters and, despite the formation of the Exporters' Association, the Mexican avocado industry has little idea of a concerted marketing plan. Though Mexico is an exporting country, no money is collected or spent by Mexican exporters to promote fresh avocado consumption in world markets. However, industry leaders are beginning to compile statistics and, more important, they are talking to each other about the market. These industry leaders are very well educated, familiar with much of the technology available, and they are becoming increasingly concerned with postharvest quality control. Individually, a few progressive exporters have lowered margins to put money with their receivers for promotion. Although this should be applauded, the effort falls far short of the job ahead for Mexico if it intends on making the producers profitable. In recent years, several California avocado marketers have engaged in the Mexican export business to aid in a year-around marketing program for their receivers.

In summation of Mexico's situation: Without a funded and coordinated marketing plan, it seems apparent that the U. S. and Chilean producers will have much more to lose than the Mexican producers will have to gain from the proposed rule allowing Mexican avocados into the Eastern U. S. in the middle of winter.

The Dominican Republic: An Emerging Hass Producer

Climate, costs, and proximity to the U. S. market are all favorable characteristics of the Dominican Republic. One very important factor, unlike any other producing nation in the Americas, is the small number of producers. At this time, there are fewer than twelve growers in the DR with future production capability of 50 million pounds of Hass by the year 2000. Superb growing conditions, plenty of affordable labor, and shipping costs congruent to California's cost to the east coast of the U. S. give the DR a long term competitive position. The geography of the DR could provide an additional advantage to producers because of the vast elevation range in which the growing of Hass has been successful. The Hass avocado is currently grown between 1,250 and 4,500 feet elevation. This will likely provide an extended season for the producers. Producers are on the cutting edge of technology, very well educated, and most comfortable in the commerce of international trading. The costs competitiveness of the DR was best

presented in 1992-93. California produced and sold a record crop of 570 million pounds at \$0.20/lb. return to the producer, while at the same time the DR profitably exported their largest volume ever to the U. S. (nearly all greenskins), over 13 million pounds. The Dominican Republic is not likely to produce near the volume of Mexico, California, or Chile; however, the DR is closer to New York than any other major Hass producing area, and their costs are in line with the most competitive nations.

The Common Thread

The avocado is a great product. It is versatile, good tasting, and even romantic. Be when shippers bury a market in avocados, all of its attributes are worthless to the producers. This concern is common among all producing countries, as is an emerging willingness to cooperate.

Yes, more fruit on the U. S. market will mean less return per pound to producers, and likely will eliminate the profitable bookends of traditional seasons. Does that mean that avocados will no longer be profitable when sold in the U. S. market? It depends. Internally for California, costs per acre must be managed, and production per acre must be maximized. Externally, maximizing the return per pound via export, niche marketing, and value added merchandising will be essential.

Amongst the producers in the Americas, work must begin today to form a multinational group for the purpose of intelligence gathering, consumer awareness, and market promotion. The leadership is in place in each country, and the leaders are educated, experienced, and willing. California has the most at stake in the value game. California also has the most experience in mounting national and international information systems and marketing plans. In an attempt to control the destiny of the California producers, maybe it is time for California to take a leadership position in gathering the industry leaders within the Americas, sit down with them, and build a plan for the future.