

CHAIRMAN'S REPORT 2013



After one of the biggest volume years experienced in the last decade, the South African avocado industry has again been blessed with a very good crop of circa 11,6 million cartons (4 kg) export crop in 2013 – exceeding the budget by just over 2 million cartons (Fig.1). Looking back over historic exported volumes, South Africa has always experienced noticeable on/off-year scenarios which is not good for marketing initiatives and is most straining on farmers' sustainability and cash flows. It is most encouraging to see the band between on/off has reduced. We would like to believe that improved orchard practices, new plantings and focus on orchard productivity are paying dividends. Every indication is that the coming season could be the biggest yet and the trends are improving. The local market also continues to show exciting potential, resulting in more greenskins (previously "export" fruit) now being sold locally.

After a surplus of R1,432 million in 2012, the 2013/14 financial year is forecasted to end on an R1,1 million deficit. As discussed at last year's annual general meeting, the board is attempting to actively decrease the reserve to mandated norms by supporting research, market development campaigns and not increasing levies. The Association remains in a very healthy financial position with reserves that still exceed the mandated minimum.

Although this past season could be described as a "good season" for growers with some exceptional selling prices achieved and a weakening Rand, SA growers still experienced mid-season pressure on export prices. Peruvian volumes doubled against their

projected volumes into the EU market, causing prices to crash from sustainable levels for 'Hass' and hit the greenskin varieties particularly hard. Peru exported circa 84 000 metric tons to Europe vs. South Africa's 46 000 tons and volumes in Europe continue to grow. In addition, South African avocado growers' competitiveness is declining as administered prices such as electricity, fuel and labour costs continue to increase well ahead of inflation. Together with worldwide economic pressure, we as industry will have to make ongoing adjustments to improve orchard productivity to remain competitive.

The importance of market access into countries like USA, China and Japan needs to be fast tracked, therefore this is high on the agenda of the utilisation of available funds. The mission of SAAGA remains to act in the grower's interest to improve the economic viability of producing, packing and marketing avocados. It is the intention of this report to inform the members of how their funds are being used to achieve this (Fig. 2).

Twenty two percent (R2,3 million) of the annual SAAGA budget was dedicated to research. Bram Snijder in his technical portfolio on the SAAGA board continues to ensure that ongoing research projects are tailored towards improving orchard productivity, tree and fruit quality, future market access and sustainable profitability. The flexibility to respond to immediate industry threats is paramount and is provided for.

Market development / promotions utilised 37% of the budget in 2013 (international R2,38 million, local market R1,65 million) and R120k was spent on

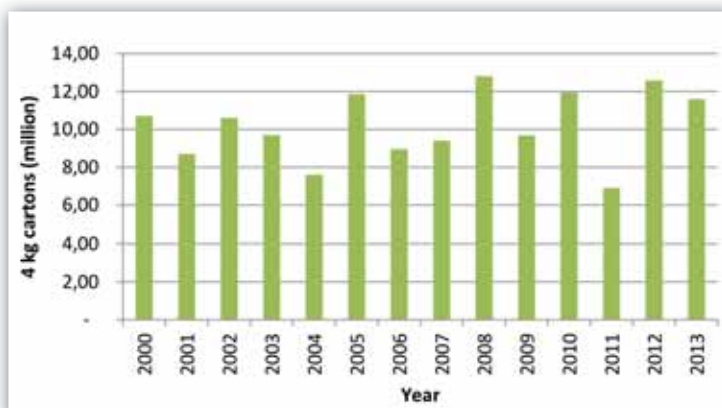


Figure 1. South African avocado exports 2000 - 2013.

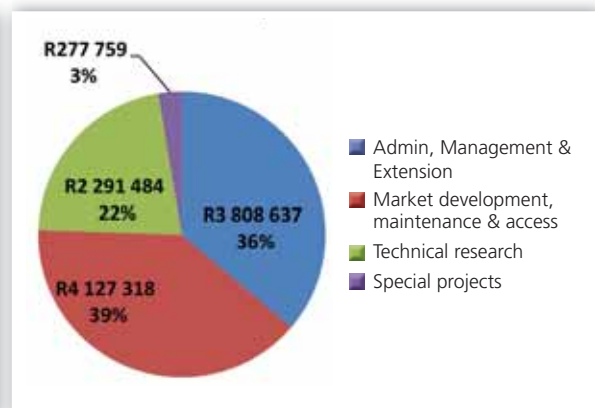


Figure 2. SAAGA expenditure 2013/14.

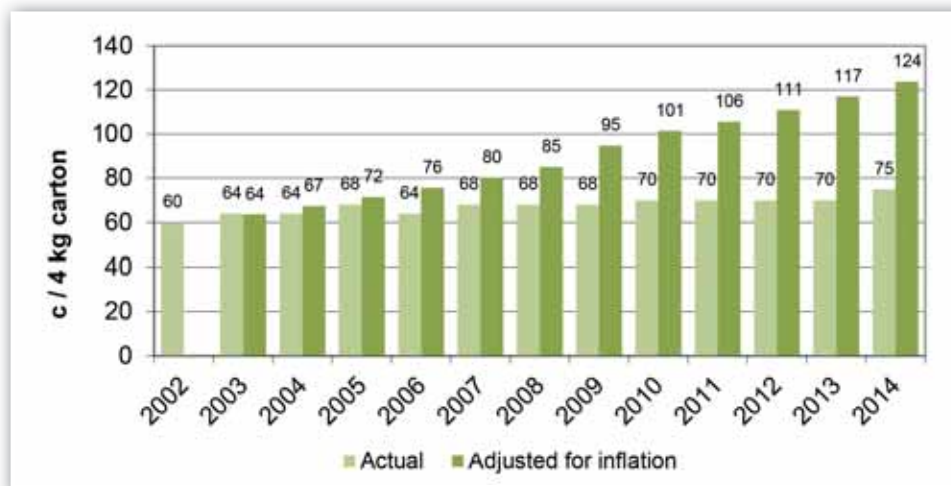


Figure 3. SAAGA levy increases 2002 – 2014.

addressing technical issues which are required for access to new markets such as the USA and Japan. Additional work on the host status of various avocados to the invasive fruit fly, *Bactrocera invadens*, was carried out. Sufficient phytosanitary research has now been done to meet the requirements of a number of potential export markets. However, the government to government processes need to run their course before access is gained to new markets. For certain markets such as the USA, the SAAGA board believes that it would be prudent to invest in politi-

cal lobbying to fast-track government to government processes. Gaining access to new markets such as the USA will have a greater impact on the profitability than low level investments in generic market development campaigns (promotion of consumer awareness and trade participation) in the EU.

On the local market, SAAGA extended its campaign from traditional consumer awareness and education campaigns, run mainly through the media, to retail promotions, media campaigns and also targeted the informal sector. The target is to increase per capita

consumption by 15% by the end of 2014, that is 750 g/person to 870 g/person.

It must be noted that during 2013, the Subtrop Market Development Manager resigned and this position has been filled by a new incumbent, Bonnie Buthelezi.

International campaigns

The UK programme was still supported with R200k during 2013. This sixteen year campaign has been reduced to maintenance mode.

For the Swedish retail promotions campaign, R1 million was spend in 2013. The supermarkets (ICA, Axfood) and suppliers (Total Produce) participated in the salad bag cross promotion campaign that has run for two years. It is envisaged that the campaign will be discontinued in 2014.

The German promotions campaign, run by the agency MK2, received R970k, which was aimed at increasing awareness and consumption. Magazines Vital/Fruchthandel, the Summer Avocado website and radio stations formed part of the campaign.

SAAGA invested R171k in a consumer awareness and educational campaign in Malaysia, run by Brand Opus Consultant Services. The campaign was based on demonstrations by two celebrity chefs and recipes in a number of media.

In conjunction with promotions in existing markets, SAAGA continues to fund research to gain market access to new markets presently inaccessible, as mentioned earlier in this report. This entails research to develop systems to deal with phytosanitary pests, as well as driving government to government communication which would be almost impossible to do without an industry body. Such market access is a long and tedious progress and often associated with a lot of frustration.

During the last quarter of 2013, the SAAGA board invited key industry role players to participate in a strategic workshop which was facilitated by business strategist Chantell Ilbury. The aim was to assess SAAGA's strategic direction and to determine focus points which would most effectively enable SAAGA to work towards improving the viability of avocado production in South Africa and global competitiveness. It was evident from the outcomes of this strategic session that market access should be elevated to high priority, as South Africa is solely dependent on Europe to market its volumes and the Peruvian volumes into the EU are substantial and growing year on year.

It was evident that very specific lobbying should be considered to gain access into the USA and a different approach would be required for Japan and China.

SAAGA's market development committee, which represents all the major exporters, met on the 11th of September 2013 in Nelspruit and proposed more emphasis on gaining market access to new markets, as opposed to international generic promotions for the 2014/15 financial year.

For many years immature fruit has been put onto the South African market early in the season, detrimentally affecting the consumer's perception of avocado. Through SAAGA's lead, the Department of Agriculture, Forestry and Fisheries (DAFF) has declared the sale of immature fruit illegal and local market regulations have been published. DAFF has appointed Prokon as an assignee for local market inspections on the Tshwane and Johannesburg markets since mid-January 2014, which has greatly reduced the trading in immature avocados on the market.

Benchmarking

The macadamia industry has introduced a benchmarking project (waste factors, causing economic losses to growers). It is proposed to introduce a similar initiative for the avocado industry in 2014 and include pack house cull factors, linked to their economic value, that could guide our future research initiatives, as well as production region specific extension projects to improve profitability.

Finances

Due to the continued support of growers, SAAGA remains financially sound going into the 2014/15 financial year with strong reserves. The board is proposing for the next budget that the export levies be increased to 75 c/4 kg carton for export fruit, 1,5% of gross selling price of the gross price obtained on the National Fresh Produce Markets, and 10 c/kg for the local direct sales. The increase is required to keep abreast with increasing costs and to provide the necessary service to members. The graph in Figure 3 shows the historical export levies versus what the impact of inflation linked may have been.

In conclusion, I would like to thank the Subtrop personnel, fellow SAAGA board members and SAAGA members for their hard work and continued support to this voluntary Association.

Mark Baker

