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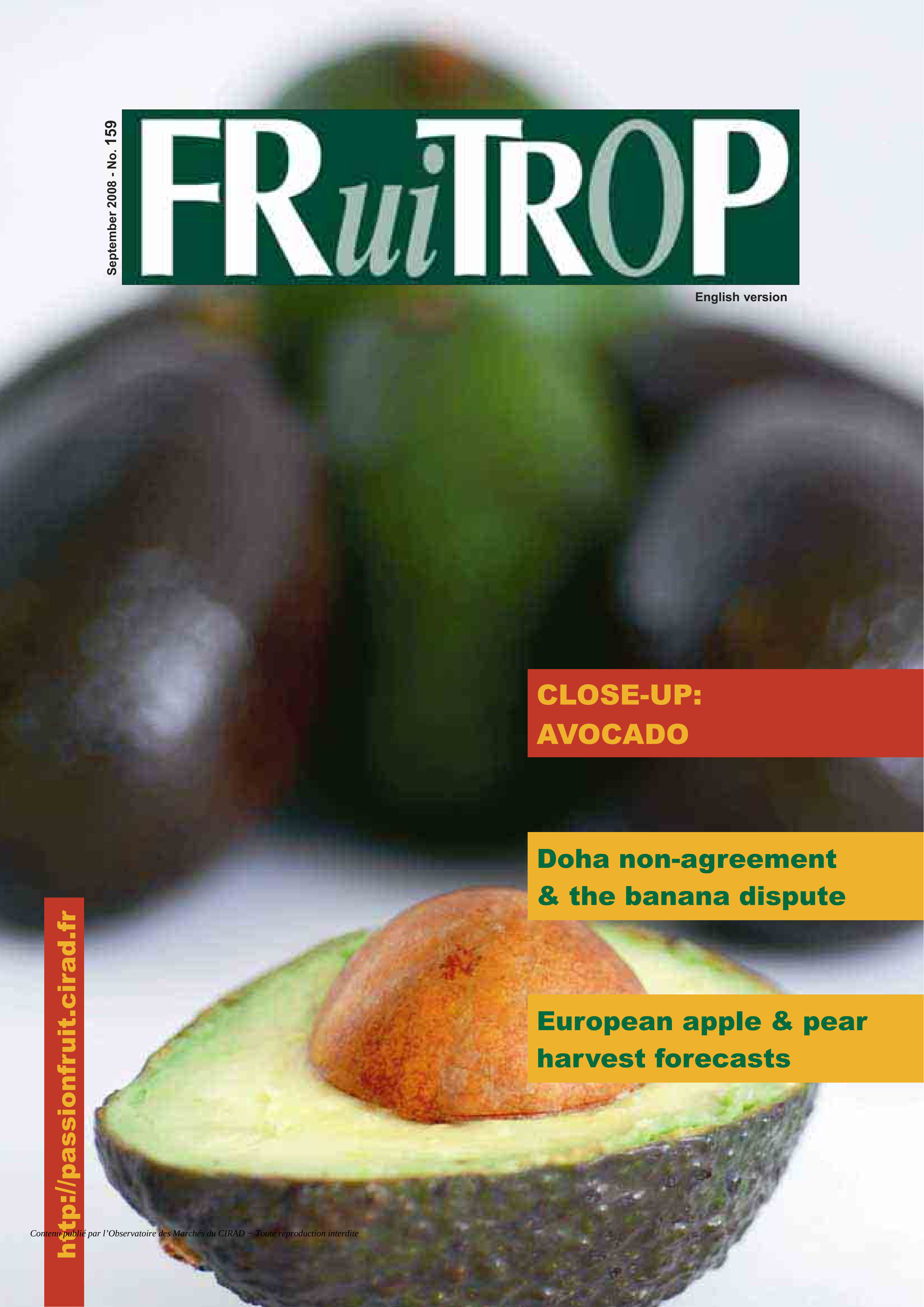

CLOSE-UP: AVOCADO

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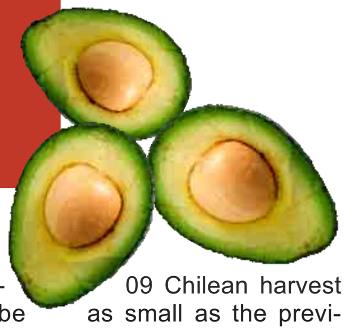
Avocado production in Chile

Continued dynamism



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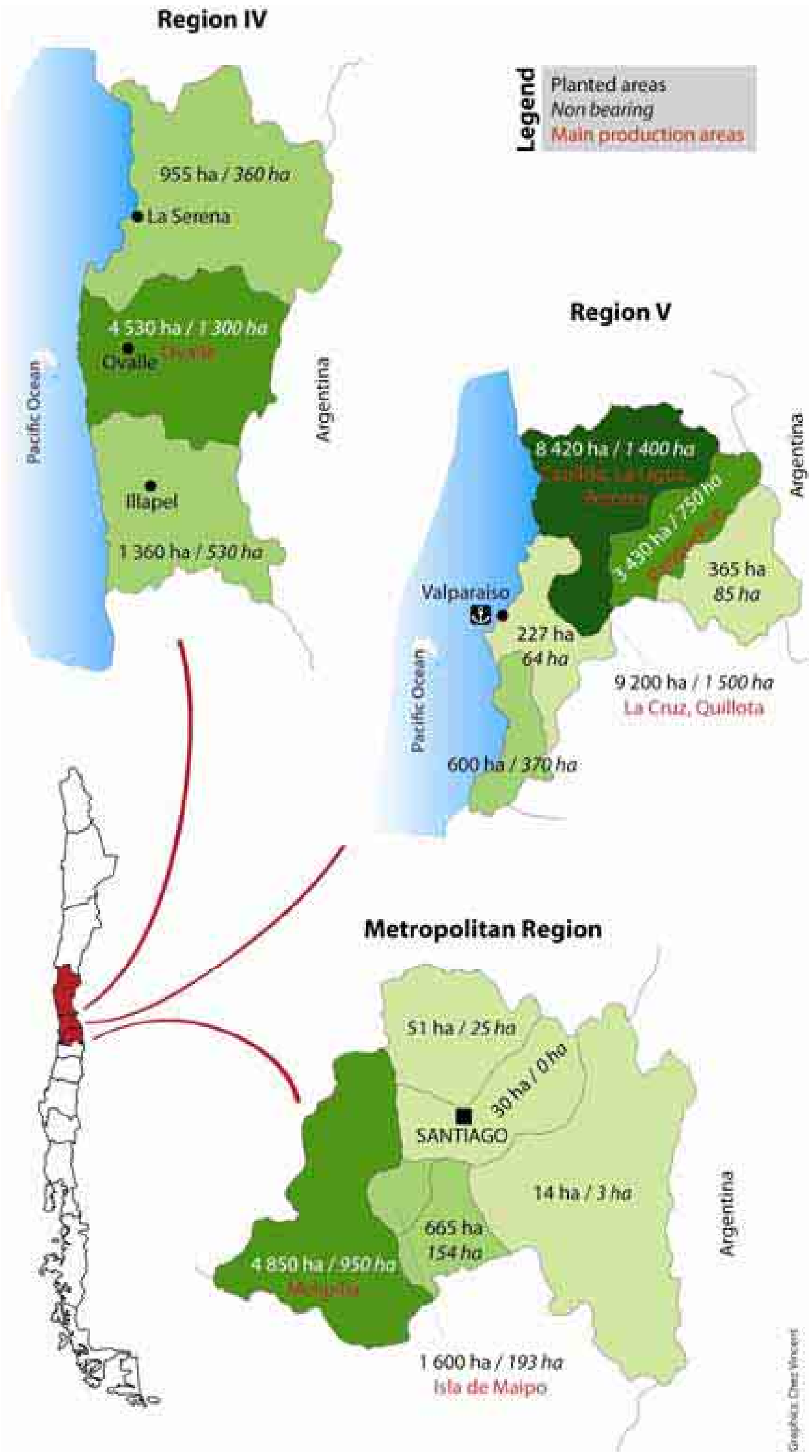

The 2008-09 Chilean harvest may well be as small as the previous one. However, errors of interpretation should be avoided. Two seasons in a row with small crops is the result of circumstances alone—three frost spells in summer 2007. Analysis of the 2007 agricultural census (http://www.censoagropecuario.cl) shows that the planted area is still increasing—and much more strongly than expected. The study shows that the total area under avocado is slightly greater than 39 000 ha. In Region V, the main production zone in Chile (Aconcagua, Petorca and Ligua valleys), the area increased from 15 000 to 22 000 ha between 2002 and 2007. Likewise, the area increased considerably in the other main production regions (+ 2 800 ha from 2005 to 2007 in Region IV and + 1 300 ha between 2004 and 2007 in the Metropolitan Region).

Some 9 000 ha of orchards are not yet harvested, including nearly 4 000 ha planted in 2007. It would seem that the areas managed by smaller and medium-sized growers have stabilised while the main producers are still planting on a fairly massive scale. Thus, in contrast with what might be imagined after the strong decrease in profitability in recent years, production is not yet stabilising. With an average yield of 8 to 10 t/ha, the harvest should exceed the 300 000-t mark during the first part of the next decade. The largest so far was some 220 000 t in the 2006-07 season. Finding a market for these large additional quantities is a real challenge. However, professionals seem fairly confident as they possess the resources to meet this—the existing organisation and dynamics.

A development model still based on exports

The strategic approach developed by professionals clearly includes exports. The domestic market probably has room from growth but it is fairly limited. Consumption has increased strongly in recent years thanks to a decrease in retail prices and promotion operations run by the Comité de Palta. However, at nearly

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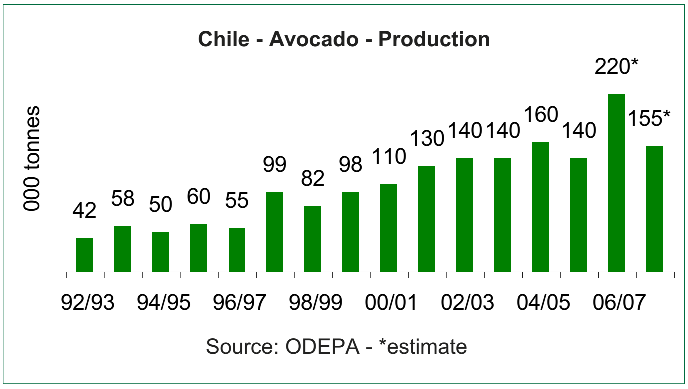
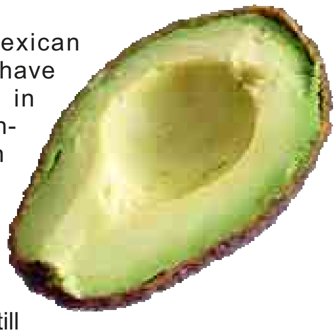


75 000 t per year (i.e. some 4.4 kg per capita), it is high, even for a producer country. It is true than consumption approaches or exceeds 10 kg per person per year in the main Central American producer countries such as Mexico and the Dominican Republic, but the climate is more favourable for avocado consumption and the fruit is much more strongly anchored in the diet.

The US market is the main axis of development in spite of Mexican competition

The comparative optimism of Chilean professionals with regard to the future results mainly from their analysis of the potential of the US market. This viewpoint might seem surprising as the increase in the strength of competition from Mexico, discussed at length in ***FruiTrop***, is real. The very favourable situation of Michoacán operators in 2006-07 and 2007-08 as a result of frost in California and then in Chile is not the only factor to account for the considerable increase in Mexican shipments: exports have increased threefold in three seasons, reaching nearly 220 000 t in 2007-08. Plantation figures show that Mexican growers probably do not intend to stop there. The planted area is still increasing, with 117 000 ha in 2007 according to USDA in comparison with 100 000 five years before. It is true that a proportion of the crop is for the still buoyant domestic market. However, the parallel increase in orchards declared free of the large avocado seed weevil and the small avocado seed weevils, the only orchards approved by USDA, shows that this is not the only objective. Slightly more than 38 000 ha of orchards were registered in 2007-08 in comparison with less than 10 000 ha at the beginning of the decade. A further increase should be seen in 2008-09 with the recent addition of more provinces in Jalisco state to the 14 already authorised in Michoacán.



East Coast consumer deserts targeted

There are no doubts with regard to Mexico's dynamism. However, Chilean professionals also have advantages—their competitiveness on the East Coast. These markets are choice targets for two reasons. First, they are avocado consumption deserts in spite of their large population. For example, the north-east is home to nearly 18% of the US population but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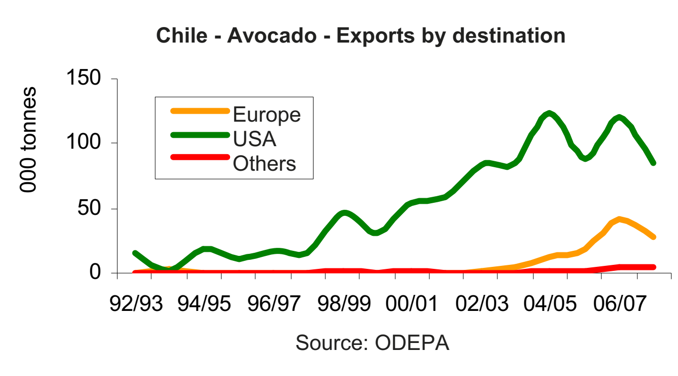
'Hass' avocado — Chilean and Mexican competitiveness compared		
	Mexico	**Chile**
Cost at production (USD/ha)		
irrigated	5 400-5 900	6 600
dry farming	4 600-4 900	
Average yield		
	10 t/ha	13 t/ha*
Average price per kg (USD cents/kg)		
	46-59	51
Freight to New York		
type	by road	by sea
cost (USD per 11.14 kg lug)	3.00-3.20	4.00-4.50
Customs dues		
	duty free	duty-free quota of some 50 000 t approx. 10 cents/kg for volumes over quota **

* approx. 8 t/ha on average in the country, but 13 t/ha on average for orchards with a high technical level
** 2008 figures. Total liberalisation in 2015 after a gradual decrease



takes only 11% of volumes. According to another, more recent (spring 2008) study, only slightly less than half of the population had purchased avocado for consumption at home in comparison with nearly 80% on the west coast. These markets are also potentially more profitable than those of the west coast as prices are markedly higher (+ USD2.40 per lug in 2006, + USD4.00 in 2007 and + USD5.50 in the first half of 2008). Finally, the 'source' aspect is probably less important than in the producer states in the west where there is a large Mexican population.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The difference in cost price between Chile and Mexico is more limited on the east coast than on the west coast

Production costs in orchards with a good technical level are fairly similar in Chile and Mexico. However, Chilean exporters must pay customs dues on most of their goods (the duty-free quota is too small) while their Mexican counterparts are exempted. This is not the most important factor as a progressive decrease is under way, with total liberalisation planned for 2015. It is transport costs that inevitably give Mexican exporters an advantage, but less so for shipments to the east coast of the USA. While Mexican exporters suffer a very strong increase in road freight costs when they ship avocados to the east coast rather than California and even more so for Texas, the increase is only moderate for their Chilean counterparts who ship fruits by sea.

It is true that Mexico benefits from other non-economic parameters. Its season is longer, thanks to four flowerings. Arrivals by road avoid the massive quantities available when a full shipload of avocados is unloaded. However, Chile is more equal to Mexico on the east coast than in the other parts of the USA.

Factors that could further reduce the difference are at the heart of discussions in Chile today. The target is an increase in the average yield from 8 to 13 t per ha. Replacing single-run picking by more selective harvesting according to size is one of the ways of achieving considerable gain, as is irrigation management according to soil type.

Promotion advantages are in position

So the potential is there and the marketing tools are lined up. The Hass Avocado Board founded jointly by Californian, Mexican, Chilean, New Zealand and Dominican producers in 2002, conducts operations to develop demand and coordinated management of the market. As an example, this impressive facility makes it possible to estimate weekly market supply in real time.

This joint procedure has many advantages. First, avocado is promoted all the year round with no breaks. Second, as unity is strength, the budget resulting from a contribution of USD0.25 for every box sold is considerable (USD25 million in 2005-06). It is widely used for the promotion of avocado in radio and TV campaigns and generic marketing or specific operations for the various participating production sources. Thus, the Chilean Avocado Importers Association, the promotion arm for Chilean avocado in the

Avocado — United States
Consumption from January to July

	Comparison		Market share by region	Population (millions)	Population share by region
	2007-06	2008-07			
North-East	- 10%	+ 15%	11%	54.6	18%
California	- 15%	+ 5%	38%	36.6	12%
Mid-South	- 16%	+ 8%	4%	36.1	12%
Total	**- 16%**	**+ 7%**	**100%**	**303.0**	**100%**
South-East	- 24%	- 3%	5%	39.7	13%

Sources: HAB - US census


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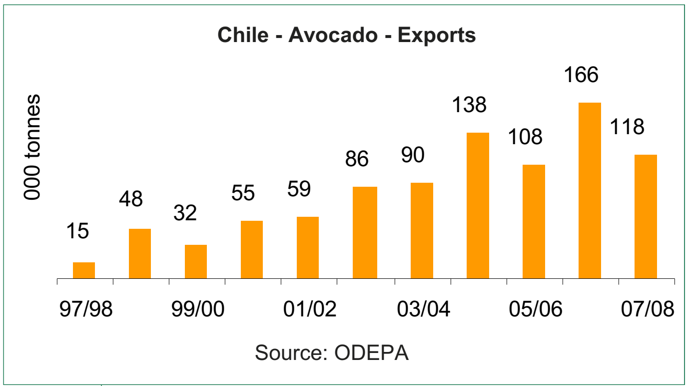
US market, should strengthen promotion on the east coast. This should correct the ignorance about Chilean avocado in the USA. A recent study showed that although Californian and Mexican avocados are known by about 60% and 40% of the population respectively, those from Chile are only known by 25%—less than Florida avocado whose production totals only some 10 000 t.



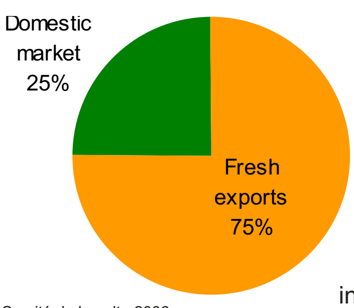
Source: ODEPA

A risky gamble?

It remains to be seen whether the receptiveness of the market equals that of the west coast. This question is justified as a major difference between these two parts of the country is the size of the Hispanic population. This is about 30% of the population in California in comparison with 10% on the east coast. This minority buys very large quantities of avocado, accounting to a considerable degree for the rocketing avocado sales in the USA. Another major difference is the hard winters in the east as these are less favourable for the consumption of salad type produce. A recent survey shows that avocado is clearly a fruit associated with summer weather.

However, the latest consumption figures published by the Hass Avocado Board are fairly reassuring as regards the dynamics of the market on the northern east coast. The decrease in the volumes marketed in the first half of 2007 in comparison with the first half of 2006 is less marked than the average for the other regions and the increase in the first half of 2008 was stronger. The performance has been even distinctly better than in California.

Chile - Avocado - Outlets



Source: Comité de la palta 2006

A new threat for imported avocados?

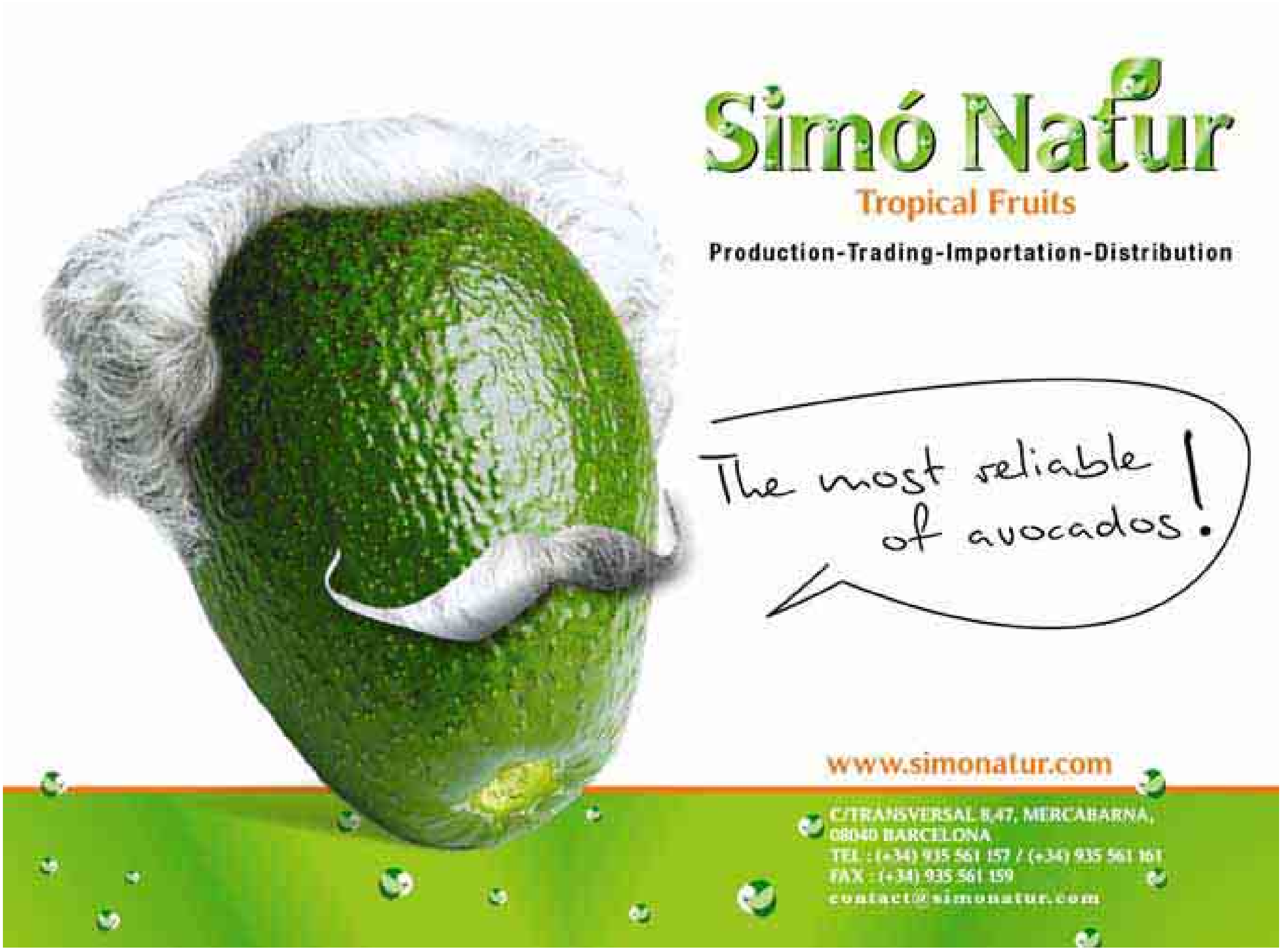
The 'eat local' movement, based as in Europe on a vague and often false vision of the product in terms of food safety, organoleptic qualities and impact on the environment could also have a negative effect on demand for imported avocado. A recent study commissioned by the California Avocado Commission shows that 58% of buyers feel that it is important to favour avocados grown in the United States. This feature was immediately incorporated in the promotion campaign run by Californian professionals, who highlighted fruit that were 'hand grown in California' and presented in TV spots by growers and their families in the good and generous Californian sunshine. Generic promotion, yes, but well ordered charity…

Large potential for development in Argentina

The Argentinian market also forms part of this strategy. Consumption is low in a country with a population of 40 million. In addition, local production is small at some 3 000 t—mainly in Tucuman province in the north-east where it is harvested during the Chilean counter-season. Exports are still moderate at some 1 300 t in 2007) but display dynamic growth.

Europe is not forgotten of course

Development on the EU market is also a priority for Chilean professionals. In three seasons, this source has done more than come out in to the open, becoming one of the three main suppliers of the EU during the winter season. Joint second largest supplier with Spain in 2006-07, Chile descended to third position in the last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season for reasons of frost. Exporters certainly do not want to stay there. The idea is to make the addressing of markets combining development potential and outlet security a priority, for example by means of supply contracts between large retail chains and importers. The latter point is of capital importance when transport time of more than three weeks exposes goods to the effects of market swings.

What markets to go for?

Although analysis of apparent consumption (imports + production – exports) is approximate for reasons of weaknesses in the identification of trans-frontier flows between EU states, it does give some interesting information about the growth potential of the various European markets. When GDP (the average price of avocado is high), the margin for increased consumption and the degree of knowledge of 'Hass' are used as population targeting criteria, the United Kingdom comes out in first place. Scandinavia (especially Norway), Spain and the Netherlands also have considerable potential and good growth dynamics. In fact, in 2008-09, Chilean professionals are to continue the operations run in the UK since 2005 and in Spain since 2006. Sweden and Denmark have just been added to the list.

France, a spot market and very competitive, is not included in spite of its leading position in terms of volumes sold. However, consumption is still distinctly smaller than in the USA even in years of plentiful supply and the tendency of the market to take large extra volumes leads to considering that a very significant margin remains.

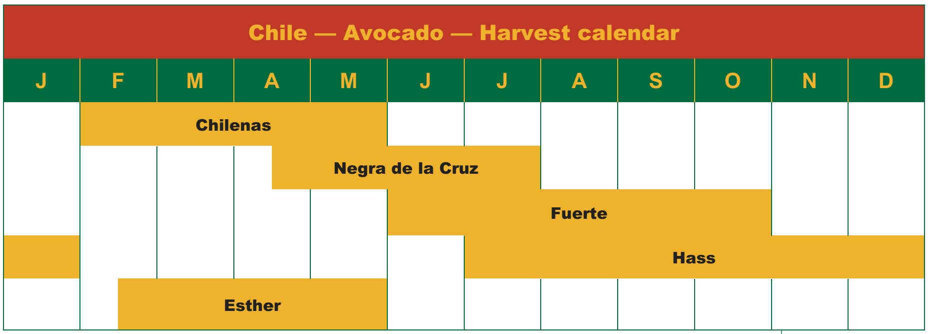
What position remains for green varieties in the face of the avalanche of 'Hass'?

The foreseeable continued increase in

Avocado — European Union — Estimated apparent consumption

	Estimate consumption in 2007-08* in tonnes	Population in millions	Volume per person (g)	Variation over 5 years (2006-08/2001-03)	GNP - PPS*** (index)
EU-27	**203 774**	**495**	**412**		**100**
EU-15	**199 200**	**391**	**509**	**+ 24%**	
France	71 952	63	1 135	+ 7%	113
United Kingdom	38 549	61	634	+ 74%	119
Scandinavia	**20 655**	**25**	**843**	**+ 70%**	**134**
Sweden	9 652	9	1 061	+ 69%	120
Denmark	6 556	5	1 214	+ 71%	127
Norway**	3 498	5	744	+ 89%	187
Finland	949	5	179	+ 24%	116
Spain	20 381	45	458	nd	102
Germany	14 392	82	175	+ 19%	114
Netherlands	12 781	16	779	+ 78%	132
Portugal	4 521	11	427	+ 23%	74
Italy	3 345	59	57	+ 31%	104
Belgium	2 316	11	218	- 14%	123
Austria	1 906	8	230	+ 83%	129
Ireland	1 819	4	423	+ 120%	143
Greece	1 800	11	161	nd	97
EU NMS	**4 574**	**102**	**45**	**+ 414%**	**54**
Poland	2 157	38	57	-	53
Baltic states	682	7	97	+ 80%	60
Czech Rep.	664	10	64	+ 202%	79
Slovakia	252	5	47	-	64
Hungary	245	10	24	+ 980%	65
Slovenia	238	2	119	+ 52%	89
Romania	231	22	11	+ 473%	38
Bulgaria	105	8	14	+ 327%	37
Luxembourg	190	1	380	+ 7%	279

*June 2007 to May2008 : import – export + production / **non EU / ***purchasing power standard / Sources: Eurostat, FAO, professional sources



Chilean avocado sales in the EU risks causing fairly deep-seated changes in market structure, as the driving force behind this ascension will not only be increased consumption but also the winning of market shares by 'Hass' rather than green varieties. British retailing is a perfect example of this as it has switched almost entirely to 'Hass'. In a more general manner, it should be remembered that the share of 'Hass' in all the avocado sold on the EU market has increased by 10% in two seasons, approaching 65% in 2007-08. This is of course a capital question for sources such as Spain and Israel that ship green varieties during the Chilean 'Hass' marketing period. Green varieties are strongly anchored in countries like France as specific market segments have been set up. However, market growth for these varieties should be sought more in Germany and eastern Europe where retailers seek avocados at attractive prices in order to develop or build up their markets. Here again, apparent consumption data show that there are enormous margins for growth. But they undoubtedly require time and costly investment in promotion.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Joint promotion required

Thus the groundwork for market growth should not be carried out by Chile alone, as it is in the interest of all suppliers of the EU market. Countries other than Chile—such as Peru, Mexico and Israel—display strong planting dynamics. It is clear that outlets must be broadened to maintain decent returns for growers. Formulas for making the market grow are extremely well known (promotion, ready-to-eat) and their results in the United Sates and, closer to home, the United Kingdom give solid assurance as to their effectiveness. It remains for the sector stakeholders to combine to find funding (here again, the tax on each box sold has proved its worth) to set up the European equivalent of a Hass Avocado Board to handle operations and work with retailers. The Spanish sector has led the way courageously by collaborating with Peru and Chile to promote 'Hass' in Spain (a campaign by companies selling avocado). It is an example to be followed ■

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Chile — Avocado — Sea freight

Market	Main shipping lines: Port of departure	Main shipping lines: Port of arrival	Shipping time	Observations	Customs tariffs
USA	Valparaiso	West coast: Los Angeles Long Beach San Diego	12 to 17 days	the bulk of US imports	45 000 t tariff free, circa EUR350 per tonne, degressive until full liberalisation in 2015
		Florida: Miami	10 to 12 days	limited quantities	
		East coast: New York Philadelphia	15 to 22 days	limited quantities	
Japan		Tokyo	25 days		
EU	Valparaiso	Dunkirk Rotterdam Algeciras Felixstowe	21 days 20 days 17 days 22 days		tariff free since 01/01/2003