The high Australian dollar and agrifood export
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February 2014

RIRDC Publication No. 14/009
RIRDC Project No. PRJ-007898
Foreword

The high Australian dollar has been frequently highlighted as a major impediment to strong export growth in the agrifood sector. Despite this, export of agricultural produce from Australia has continued to grow into Asia and many other developing countries which theoretically should be more sensitive to the value of our dollar. In 2011-12 the value of Australia’s food and fibre exports was over $31 billion, having continued to rise since the significant jump in exchange rates between the United States dollar and Australian dollar in 2010. While there have clearly been some affected industries, the export environment continues to change with market access conditions, continued economic growth in many Asian markets and seasonal production around the world masking any real conclusions which can be drawn. The complete picture with regard to the impact of the high dollar on our dynamic agrifood industry remains to be told.

This report has gathered qualitative information from exporters of Australian agrifood and importers in Australia’s key markets to determine what impact the high Australian dollar is having on trade and how some businesses are learning to manage and adjust. It establishes that there has not been a comparable period of a high exchange rate since the float of the Australian dollar however, there were a number of lessons learnt from the few periods of elevated exchange rate. Some industries and companies are also more affected by the high dollar than others, and there are some differences in the impact of the high dollar between export markets. So sharing these lessons will be most important for vulnerable industries and will assist in making necessary changes.

The report also describes the impact of changes to industries under differing exchange rate scenarios and the responses industries are likely to take. This can be used in the formulation of policy by government and industry for initiatives that help maintain our export markets through such measures as trade promotion, product development and targeting the most appropriate markets. The longer the Australian dollar remains strong, the more relevant this information will be to ensuring Australian agrifood industries remain strong export performers.

This project was funded from RIRDC Core Funds which are provided by the Australian Government.

This report, an addition to RIRDC’s diverse range of over 2000 research publications, forms part of the Global Challenges R&D program, which aims to collectively address challenges, whether impediments or opportunities, to improve the profitability and sustainability of Australian agriculture.

Most of RIRDC’s publications are available for viewing, free downloading or purchasing online at www.rirdc.gov.au. Purchases can also be made by phoning 1300 634 313.

Craig Burns
Managing Director
Rural Industries Research and Development Corporation
Abbreviations

ABARES  Australian Bureau of Agricultural and Resource Economics and Sciences
ABS    Australian Bureau of Statistics
A$     Australian Dollar
CNY    Chinese Renminbi
DPI    Department of Primary Industries (Victoria)
GTIS   Global Trade Information Service
RBA    Reserve Bank of Australia
KRW    Korean Won
USA    United States of America
US$    United States of America Dollar
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Executive Summary

What the report is about?

The Victorian Department of Primary Industries and Rural Industries Research Development Corporation are seeking to explore what impact, if any, the sustained high value of the Australian dollar (A$) will have on the Australian agrifood sector. This report examines the qualitative impact of the high A$, both historic and predicted, under three future scenarios. This value of the A$ is measured by the exchange rate against other major currencies, particularly the United States dollar (US$). In this report the impact under three exchange rate (US$/A$) scenarios are examined, namely low (0.80 to 1.00), medium (1.00 to 1.20) and high (over 1.20).

The report also details strategies which may be used to manage the impact of a sustained high A$, which will be most important if Australia is to remain export competitive for agrifood produce.

Who is the report targeted at?

This report aims to influence government policy and industry strategies by providing information on the implications of a sustained high A$ against other major currencies, particularly the US$. Therefore the report is targeted at those who develop agricultural policy, as well as industry organisations responsible for advising exporting businesses and farmers.

This research will benefit exporters of agrifood produce across Australia and extend to farmers supplying produce and relying on export markets for their livelihood.

Where are the relevant industries located in Australia?

There are over 120,000 Australian businesses with agriculture as their main activity. New South Wales and Victoria are the largest two states by number of agricultural businesses with 39,000 and 29,000 respectively. Two thirds of Australia’s agricultural commodities produced are exported. Exporters, both city based and rural, exported $31 billion of food and fibre in 2011-12, mostly to Asian markets. Japan and China are the largest by value. Victoria is the dominant state, exporting $9 billion of food and fibre in 2011-12.

Background

The Australian economy has been experiencing a period of high currency value as judged by the exchange rate of the A$ against the US$. The US$ is the major currency used in international trade and its lower value means that Australian exporters receive fewer Australian dollars in return for US dollars. The Australian dollar has appreciated by 20% against the US$ between September 2008 and February 2013, but also against most of the currencies of our trading partners such as China, South Korea, Indonesia and Japan.
Aims/objectives

The project aims to inform government and industry policy regarding the implications of a sustained high Australian dollar and other major currencies, with a focus on micro or firm level impacts. The project will also:

1. Raise awareness of the implications of a sustained high A$ to the food industry by providing case studies.
2. Provide a summary of possible company strategies developed in response to the scenarios detailing how companies are dealing with the high A$.

Methods used

This report draws upon interviews with Australian agrifood exporters and overseas importers in key export markets, to determine the possible impact of a higher exchange rate. Eight Australian companies were interviewed covering the meat, dairy, horticulture, grains and branded food product industries; and ten overseas importers were interviewed in Indonesia, South Korea, China and Vietnam. The interview questions focused on extracting observations from exporters and importers about the impact the high A$ was having on their business, the lessons learnt from previous periods of sustained high A$ and the strategies they have put in place, if at all, to manage the high A$.

Results/key findings

The interviewees’ opinion of the influence of exchange rate and its impact under three different US$/A$ exchange rates are summarised and recorded in Table 1. These have been combined with comments from industry experts about the impact of the US$/A$ exchange rate under the scenarios.

The influence of the exchange rate varied across agrifood industries and export markets. The most significant influence related to whether the export item was a (differentiated) product or a (generic) commodity, the latter being more susceptible to exchange rate movements as it is more substitutable. Perishability was also an issue, as some commodities and products can be stored for sale when prices are more favourable.

In terms of relative importance, currency volatility and market access were raised as issues which may be just as important as a sustained high A$ in influencing export price and profitability. A volatile currency increases hedging costs and inhibits planning. Lack of market access is a major concern in most export markets, reducing volume traded and price competitiveness. This may involve the imposition of barriers such as tariff rate quotas and prohibitive sanitary and phytosanitary requirements.

Some interviewees recalled periods of a ‘high’ A$ in the 80s, 90s and more recently in 2008. Lessons from this period were to ensure there was communication with producers about the impact of exchange rate and to avoid too much speculation on currency movement when hedging. An impact on grain grower behaviour was also observed, namely a reluctance to sell when the A$ was high. In general, however, there were few comparable periods to present where the high A$ had such a significant impact.
Management Strategies

There were many strategies used or suggested by the interviewees, for how they are managing the high A$, their suitability often depending on the product exported and the target market. The strategies were broadly focussed on:

- price and currency hedging and managing the timing of currency conversion back to A$
- pricing methods and price negotiations with buyers and suppliers
- communicating with suppliers on currency impact and managing their quality
- focussing on strengths and company structure to mitigate the impact
- differentiating production or creating a product
- investing in product promotion in the export market to raise the brand profile
- reducing value chain costs or shifting costs to the target market to reduce product price
- taking a short term loss in the market.

Three case studies were developed using information from the exporter and importer interviews; meat to Indonesia, dairy to South Korea and fruit to China. These case studies identified the detailed considerations given by companies when exporting Australian produce. They point to key differences between these markets, such as the price sensitive nature of the Chinese market for fruit, the more resilient approach of South Korean importers to building markets for dairy produce and the market access issues in Indonesia.

Consideration of strategies to manage the impact of the high A$ may assist companies to improve their overall competitiveness (not simply price) in international markets.

Implications for relevant stakeholders

The implications of a sustained high dollar to the Australian agrifood industry depends on the industry concerned and the influence exchange rate has relative to other factors, such as market access. Specific industry impacts of a high A$ are:

Horticulture - The high A$ has a significant influence on the horticulture industry. At a rate of 0.8-1.00 ($US/A$) Australian exporters compete on price for most fruit, although pears struggle to compete at the high end of this range. At rates of 1.00-1.20, the industry needs to undertake significant measures such as cost cutting and differentiating fruit to maintain markets. The implications of an exchange rate of over 1.20 (US$/A$) is that horticulture will need to focus heavily on product differentiation, better timing of export and may only export for shorter periods, resulting in more product being supplied domestically, depressing prices and impacting industry viability.

Meat – Meat exporters find difficulty competing on price when a rate of 1.02 to 1.05 ($US/A$) is reached and they need to focus on higher value cuts or renegotiate prices to compete. The impact of a high A$ on the lamb industry is difficult to ascertain due to continuing increased demand in Asian markets, while the beef industry will suffer with much lower stock prices.

Dairy - The dairy industry indicates a movement of 1% in the value of the $A affects processor margins by 5-6 %. Competitive in the range 0.80-1.00, dairy companies need to manage their farm pricing and currency hedging carefully in the 1.00-1.20 range and companies may look to product
development and differentiation. The dairy industry will increase their focus on the domestic market and product development.

**Grains** - The grains industry is less influenced by exchange rate compared to other factors such as world supply, although exchange rate movements strongly affect prices when they occur. An A$ in the 1.00 to 1.20 ($US/A$) range prompts better currency management and price hedging and farmers tend to increase grain storage, anticipating a fall in the A$ but making sourcing for export difficult.

**Branded food products** - Exporters compete well on price in the 0.8 -1.00 ($US/A$) range, some price sensitive markets take less product in the 1.00 to 1.20 range and spending money on promotion is needed to maintain sales. Companies manufacturing these products may increase the use of imported ingredients, while some costs may be shifted to target export markets by various means.

Policy makers may need to focus on the impact of the high A$ for the horticulture industry, which appears to be most vulnerable. There may be an opportunity to support and guide product development, retail promotion and skills development to assist companies to better manage currency and pricing issues.

**Recommendations**

It is recommended that industry and government policy makers make use of the strategies identified in this report that could be used to help manage the impact high A$ directly, or through other measures such as focussing on low cost improvements to produce quality. Consultants and the banking industry may also find this report useful in providing information to assist clients severely impacted by the high A$, or in situations such as closing unfavourable hedge positions.

**Table 1. Qualitative impact of the exchange rate on the agrifood sector under three scenarios of Australian dollar exchange rate (US$/A$).**

<table>
<thead>
<tr>
<th>Industry &amp; relative exchange rate influence</th>
<th>Low Exchange rate (0.8 to 1.00)</th>
<th>Medium Exchange rate (1.00 to 1.20)</th>
<th>High exchange rate (1.20 and above)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horticulture</td>
<td>Competitive in key export markets with other southern hemisphere suppliers.</td>
<td>Export volumes decrease in some markets particularly for lower value fruit and commodity produce. Focus on reducing through chain costs to maintain quality and profitability. Better targeting of key markets with differentiated product required.</td>
<td>Can’t compete with suppliers of low value fruit such as pears. Export of high value fruit for shorter periods may still be occurring. Product differentiation and timing of export improves competitiveness. Increase domestic volume, depressing prices and industry viability.</td>
</tr>
<tr>
<td>High</td>
<td>Commodity prices set internationally.</td>
<td>Commodities less price competitive. Dairy companies focus on farm milk pricing and currency hedging where appropriate. Companies look to develop and supply products rather than commodities.</td>
<td>Product switch to domestic market. Value added and branded products maintain market demand. Commodity and generic products even less competitive.</td>
</tr>
<tr>
<td>Dairy</td>
<td>Globally competitive.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product category</td>
<td>Low Exchange rate</td>
<td>Medium Exchange rate</td>
<td>High exchange rate</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------</td>
<td>----------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td><strong>Meat</strong></td>
<td>Commodity products like offal are competitive. Higher value products compete well with other suppliers.</td>
<td>Some difficulty when the exchange rate reached the range 1.02 to 1.05, but product specific. Commodities are less competitive. High value cuts maintain competitiveness. Exporters may need the ability to renegotiate prices in this range.</td>
<td>High value cuts may maintain competitiveness, but may depend on other suppliers. Farmers may face lower stock prices in order to maintain international competitiveness.</td>
</tr>
<tr>
<td><strong>Grains</strong></td>
<td>Commodity price set by global market. Australia is competitive. Automatic pass through of exchange rate changes to grower price if not contracted.</td>
<td>Better currency management and price hedging by exporters and farmers emerging, especially to manage volatility. Some additional storage of grain by farmers occurring in anticipation of exchange rate fall. Lower prices received by farmers as exchange rate changes passed on.</td>
<td>Difficult to deliver product on global market because of delays in growers selling and delivering grain. Export still a priority for the industry. Lower prices received by farmers as exchange rate changes passed on.</td>
</tr>
<tr>
<td><strong>Branded food products</strong></td>
<td>High product volume sold to a greater range of markets.</td>
<td>Product is more costly and some price sensitive markets no longer take product. Sales of products fall, except for 'best sellers'. Increase investment in product promotion to maintain sales. Better targeting of consumer segments may be required through, e.g. product development.</td>
<td>Product promotional support is required. Companies substitute locally produced ingredients for imported ingredients to reduce costs. Some items may be exported as commodities and packaged into products in target market, thereby shifting cost and keeping price low.</td>
</tr>
</tbody>
</table>
Introduction

Australian farm exports were worth $39.8 billion in 2011/12. This represented 15.0% of all Australian merchandise exports and 12.6% of total goods and services export value (ABARES, 2012). Exports are highly sensitive to currency fluctuations and if the Australian dollar (A$) remains above parity with the United States dollar (US$) for the near term, the implications for producers, exporters and the broader agrifood industry could be significant. This project seeks to understand what these implications are, inputting into policy and decision making by governments and industry organisations.

There are over 120 000 Australian businesses with agriculture as their main activity. New South Wales and Victoria are the largest two states by number of agricultural businesses with 39 000 and 29 000 respectively (ABS, 2012). Two thirds of Australia’s agricultural produce is exported (Austrade, 2013). Exporters, both city based and rural, exported $31 billion of food and fibre in 2011-12, mostly to Asian markets. Japan and China are the largest by value. Victoria is the dominant state, exporting $9 billion of food and fibre in 2011-12 (GTIS, 2012).

A recent report by the Australia Institute estimates the cost of a ‘reduction in rural exports because of the high value of the dollar over the eight years from 2003-04 to 2010-11’ to be $43.5 billion (Grudnoff, 2012). The possible strategies to manage this impact therefore warrant investigation.

This project, delivered by the Victorian Department of Primary Industries (DPI) with funding from the Rural Industries Research Development Corporation (RIRDC), consists of four phases, detailed in the Methodology section.
Background

The Australian economy has been experiencing a period of high currency value as measured by the exchange rate of the US$ against the A$. The US$ is the major currency used in international trade and its lower value means that Australian exporters receive fewer Australian dollars when converting the payment received. The A$ exchange rate against the US$ is shown in Figure 1. Between September 2008 and February 2013, the A$ has appreciated by 20% against the US$.

The Australian dollar has also appreciated against most of the currencies of our trading partners, meaning that either Australian product is more expensive or Australian exporters receive less in return. It has risen 8% against the Chinese Renminbi, 18% against the South Korean Won, 25% against the Indonesian Rupiah and only 0.9% against the Japanese Yen between September 2008 and February 2013.

Figure 1. Value of the US$ per one A$ from 1966 to 2012.


A literature review conducted for this project (Kearns, Marks and Fraval, 2012) established that the export value of food and fibre products to Asian destinations of China, Indonesia, South Korea, Malaysia, India and Thailand rose over the period 2005-6 to 2010-11 and in the 12 months to 2010-11 despite a rising dollar during this period. Export value to the USA fell over this period and only rose slightly to New Zealand, indicating that increasing demand in Asia had a greater impact than a rising A$ against the US$.

In terms of impact for major food sectors, Figure 2 demonstrates that there is also no evidence of an impact of the rising A$ value against the US$ for various food sectors. The value of grain exports, for example, rose in 2010-11 and 2011-12, despite the high dollar, most likely due to a production increase.
Figure 2. The export value for five Australian food sectors and value of the US$ for one A$ from 2005-6 to 2011-12.

Objectives

The primary objective of this project is to influence government policy and industry strategies through an enhanced understanding of the implications of a sustained high A$ against other major currencies, particularly the US$. The focus of this analysis is to understand the firm level and industry impacts of a protracted high A$. The focus is not on understanding the macro impacts and the global repercussions which is another project in itself.

Sub-objectives include:

1. Raise awareness of the implications of a sustained high A$ to the food industry by providing case studies.
2. Provide a summary of possible company strategies developed in response to the scenarios detailing how companies are dealing with the high A$.

Explanation of terminology

This project examines the qualitative impact of a sustained high A$ across a range of agrifood industries. It is therefore important to explain more fully the terms ‘high’ and ‘sustained’ so that the impacts and lessons identified by the project are better understood.

Sustained

There is some flexibility in the term ‘sustained’ and in most instances in this report, it depends on the perception of the interviewees, who are asked to recall previous periods of a sustained high A$. However, a reasonable period could be assumed to be twelve months or more, given that this is a typical period over which exporting companies plan their exports and over which producers plan their production. In many cases, there is a lag between preparing and planning for production of, for example, fruit, grain or lambs, and their marketing, which occurs six or more months later. Fluctuations in exchange rate during a marketing period are not assumed to comprise a ‘sustained’ period of high value, but more like ‘exchange rate volatility’.

High

Likewise, what is regarded as a high A$ also depends on the perception of the interviewee. In this paper three scenarios are given for the A$ exchange rate against the US$ which are labelled: low (0.80 to 1.00); medium (1.00 to 1.20), and high (over 1.20). The A$ value for the ‘low’ range is still historically high.

Exchange rate format

The exchange rate nomenclature US$/A$ is used throughout the report, consistent with RIRDC requirements. It denotes the value of the US$ per one A$. The Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES) also uses the same nomenclature in such publications as their Agricultural Commodity Statistics (2012). However, most popular media swap the numerator and denominator, showing this as A$/US$ or AUD/USD and reading it as ‘one A$ to the US$’.
Commodity and product

Commodities and products are often referred to in the report. A commodity is a good that is interchangeable with others of the same type\(^1\), for example Australian milk powder and New Zealand milk powder. They often tend to be used in the production of other goods, and price is the major factor differentiating one commodity from another of the same type. Products are usually consumer goods which are differentiated from similar products by factors other than price, such as taste, packaging or reputation for safety. Some products may be considered ‘high value’, therefore having attributes relative to other products which allow a higher price to be charged. Generic products are those which are more easily substitutable than others.

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\(^1\) Interviewees referred to commodities and products consistent with this definition. A common explanation of these terms can be found in references such as the web based Investopedia (http://www.investopedia.com/terms/).
Methodology

This project was conducted in four phases, with this report the final phase. The first phase resulted in a literature review which examined where else in the world, and when in Australia, a high currency impacted on agrifood exports. Government strategies/policies implemented to respond to this were also examined. This report was reviewed by DPI experts.

The second phase consisted of conducting face-to-face interviews with Australian agrifood exporters and overseas importers in key export markets. Summaries of these interviews are included in this report. The interviews informed Phase 3 of the project, which consists of three case studies drawn from the interviews conducted in Phase 2, to develop a depth of understanding of the impact of the high A$ and how importers and exporters responded. Each of the case studies has a sectoral theme (horticulture, grains, dairy and meat) as well as a regional theme.

Interviews with exporters and importers

Exporters

The project team used a semi-structured interview process with senior staff in Australian companies that hold positions of responsibility for export. These companies were exporters of dairy products, grain, meat, horticulture produce and branded food items. The interviews were conducted over the period May to October 2012. Each of the eight companies was asked in depth questions covering the following topics:

• the nature of their business and importance of exports to their business
• lessons learnt from previous exposure to periods of a sustained high A$
• current impact of the high A$ and where in the business the impact is occurring
• the strategies they have in place to manage the impact of the high A$
• the impact and management strategies under different exchange rate scenarios.

As part of the interview process DPI agreed not to disclose any identifying details, including the individual interviewed or commercial activity which could readily identify the exporter.

Importers

Using the networks of the Market Access and Competitiveness team within the DPI, ten companies were interviewed in the key export markets of Indonesia, China and South Korea, with an additional interview conducted with a visiting Vietnamese importer of Australian grain.

The focus of the questions was the same as for the exporters, with more emphasis on the business they were conducting with Australia. The interviews were conducted by DPI contracted staff in selected markets and Austrade.

Supplementary information

In addition to the interviews, the project sought consultation with experts such as industry commentators, academics, and industry representatives. Consultation was undertaken with the Australian Horticultural Exporters Association, Dairy Australia, Meat and Livestock Australia, the
Australian Farm Institute and the University of Sydney. Their role was to comment on the conclusions reached as to the impact of the high A$ under the low, medium and high exchange rate scenarios, suggest any alternative outcomes for the industry and supporting work such as reports or analysis which their organisation had done.

In addition, observations from a recent market visit by DPI Market Access and Competitiveness staff to China in October 2012 were also used. These observations, gained from discussion with importers, DPI’s in-market representatives and Australian exporters present during the market visits, focused on the impact of the high A$ on trade activity. Relevant points gained from the visit are included as a section in the report following the summary of interviews.

**Case study development**

The importer and exporter case studies and the information sought from the industry experts were combined to construct case studies covering three of the most important industries for Australia, namely meat, dairy and horticulture. These were matched with three of Australia’s important Asian markets, Indonesia, South Korea and China respectively.

The names in the case studies are fictional to protect the identity of those who supplied information. Information from all interviews relevant to that market is included, so as to highlight a range of important points relevant to impact and management of the high A$ in these markets.

Information in the case studies are therefore from the companies interviewed or where appropriate from the additional information supplied from industry experts. All case studies were reviewed by the DPI market experts.
Australian agrifood exporters

Overview

In order to assess the impact of the high value of the A$ against other major currencies, particularly the US$, Australian exporters to key major Asian countries were interviewed. The purpose of the interviews was to determine the impact of the high A$, strategies to manage this impact and longer term implications under exchange rate (US$/A$) scenarios of 0.80 to 1.00, 1.00 to 1.20 and above 1.20. Qualitative interviews were undertaken with eight companies, representing exporters of horticulture, meat, dairy, grain and branded food products.

Horticulture

Profile of interviewed companies

Three Australian horticultural exporters were interviewed - a regionally based citrus packer/exporter, a small exporter of meat and horticulture and a capital city based exporter of a variety of fruit sourced Australia wide. All companies were highly export focussed.

Findings

There has been a significant impact on the horticulture industry as a result of the high dollar over the last two years to the extent that the industry has lost export markets, particularly for varieties that have no clear marketing advantage. An example provided was pears, which can be supplied by other competitors more cheaply for the same quality. Previous experience of a sustained high value A$ could not compare to the current impact. One lesson from a previous period in the late 1980s was not to ‘talk up’ a good season without considering the possible effect of the exchange rate. Managing grower expectations and encouraging them to focus on low cost measures to improve fruit quality was important.

While business is done in both A$ and US$, the companies interviewed were well aware of the impact of the high A$. According to one interviewee, a 14c upward movement in US$/A$ exchange rate (0.91 to 1.05) reduced citrus grower returns by 39% in that year (2010 to 2011). In the Asian market, the high exchange rate can cost exporters ‘$2-3 per box’ (about 5-10%). The exchange rate was considered the single biggest influence on grower returns. Other important influences were market access and weather. Market Access in particular was most important, given that some of our competitors have preferential market access arrangement with our key Asian markets.

One exporter reported taking a loss in some markets because arranging transport protocols when re-entering a market was difficult, however this loss cannot be sustained for long. The packer/exporter reported that some farm overhead costs are not covered with export to some markets such as India. The low price received will cover variable costs such has labour and packing, but will not contribute to the fixed or overhead costs of running the entire operation.

Current strategies for managing the high A$ included currency hedging (but not where payment is in A$), extending low cost management messages to farmers for improved fruit quality, negotiating supply of composite grade fruit (i.e. slightly higher blemish rate) and using competitive advantages, such as using air freight, which is cheaper for Australia than competitors per unit, with the high A$. Branch pruning, skirting and trunk barrier spraying were three low cost management options.
mentioned which improved fruit quality but sometimes neglected. The improvement of quality, often resulting in larger fruit, gave more marketing options, so that fruit could be exported to destinations that pay for quality, rather than being restricted to a small number of destinations.

A strategy for the exporter/packer was to charge for a packing service and export on behalf of the grower. For many exports, the company receives a payment in US$, but also hedges the exchange rate, protecting the grower against a rise in the A$. The company pays the grower when its charges have been deducted and also gives the growers an advance, if needed to cover picking costs. While careful to maintain conservative charges, this model will ensure company survival as long as the industry is producing fruit for the export market. The company and fruitgrower therefore share the risks – the company managing currency risk for the producer and assisting with cash flow, while the grower bears the risk of price changes.

Interviewees indicated that in the long term, horticultural industries will need to adjust by:

- growing differentiated varieties which don’t have direct competition from other suppliers; and/or
- produce and supply fruit with superior eating quality; and/or
- supplying fruit to market earlier/later to take advantage of differing supply windows; and/or
- focusing on reducing other value chain costs and increasing economies of scale (‘moving volume’).

Horticultural industries will therefore benefit by continuing to build a diversity of market options so that exporters can better match market requirements with available varieties and supply.

Australia is facing strong competition from other southern hemisphere countries, particularly Chile, Peru, Argentina and South Africa. Their lower cost of production relative to Australia provides a competitive advantage. Interviewees stated that the price of Chilean cherries in China was recently below Australian suppliers’ ‘shed door price’ and pears supplied by South Africa into Indonesia were ‘half the price of ours’. Chile and Peru also have Free Trade Agreements with China and South Korea. This provides improved market access.

**Exporter opinion on exchange rate scenarios (US$/A$)**

0.80 to 1.00  This range was even a little high, as exporters indicate that the industry was ‘doing well’ at 0.75, although still price competitive at 0.90.

1.00 to 1.20  The industry cannot compete with the exchange rate at 1.10 and was very worried by earlier forecasts of 1.10 to 1.20.

Above 1.20  Australian horticultural products cannot currently compete in export markets at this rate particularly with increasing competition from South American nations.

This exporter opinion therefore indicates that a sustained high A$ will drive significant adjustment in the horticultural industry, including different grower-exporter arrangements, adjusted timing of exports and a diversity of product specifications and export destinations. Some industries, such as export pears, worth A$9 million to Australia in 2011-12 (GTIS, 2012) may need to drastically reduce or cease export.
Meat

Profile of interviewed companies

Two meat exporting companies were interviewed. Both companies were solely focused on meat exports with one large regionally based company dealing mostly in lamb and offal, and the other a smaller exporter of offal and beef.

Findings

The meat export trade is conducted in US$ and interviewees reported that the high A$ was significantly impacting offal exports because fewer A$ were received from the buyer. The impact on lamb exports was not considered a major concern as the industry has been responding to increased export demand over the last two years. For the trade of beef, issues related to market access were, at the time of interviewing, of higher priority and concern than the exchange rate. The recent moves by the Indonesian government to reduce quotas for beef was one example provided.

Pricing, hedging and opportunistic conversion of US$ back to A$ were three mechanisms or strategies which the meat industry can use to manage the A$. Re-pricing every 2-3 months to account for exchange rate movements was considered an important part of the pricing strategy.

For offal exports into markets such as Indonesia, where the product is usually sold in wet markets, trade will not occur unless prices are competitive with other meat supplied in the market. This is not the case for Australian beef, which is sold at a much higher price than local beef. It is therefore important for exporters to source market information and be in a position to match the market prices if trade is to take place. The quota system can disrupt some strategies for exporting as it restricts the ability to lock in longer term supply arrangements and prices. Trade often occurs one consignment at a time with payment on receival.

The longer term impact of a high sustained A$ will result in lower prices for farmers and margins for processors. Offal exporters were assessing the sustainability of exporting at the current rate. It appears that the impact of the high dollar is minimal for lamb at present with increasing production and low competition, but significant for beef, especially offal, where there are competition and quota issues. One company indicated having to take a loss in a market whilst establishing trade there, but since discontinued supplying this market. They may try again if the A$ falls.

There does not appear to be any long term strategic approach of managing the high A$, given the impact of other factors, such as market access and supply are arguably more significant risks on the competitiveness of the meat industry.

Exporter opinion on exchange rate scenarios (US$/A$)

0.80 to 1.00 Export, particularly for offal was competing well when in the 0.85 to 0.95 range, but very difficult around 1.00. Supply of lamb is harder to assess at this range given that export volumes and supply were still increasing.

1.00 to 1.20 It is very difficult to supply offal product when the exchange rate is in this range, given that offal is price sensitive and local offal is cheaper. For consignments to be received, the price quoted must be competitive with the local product. Margins for exporters will therefore be slim.
Above 1.20 Difficult to assess as this rate has not been reached. Export would not necessarily cease if realistic prices can be passed back to the farmer, ensuring that product can be sold competitively into Indonesia.

Exporter opinion indicated that the impact of a sustained high A$ is more significantly felt for offal and lower value cuts than higher value cuts, worth a combined $A7.9 billion to Australia in 2011-12 (Figure 2). In some important markets, growing demand for higher value cuts and shortages caused by quotas have lessened the impact of higher prices caused by the high A$. Longer term, a high A$ will most likely lead to lower animal prices to farmers.

Dairy

Profile of interviewed companies

Two large Australian exporters of dairy produce were interviewed, both exporting half or more of their product to many overseas destinations. One company produced a range of dairy products and commodities, while the other was more focussed on exporting commodities, but aiming to export more products in the future.

Findings

Trade was mostly conducted in US$ and both companies had currency/hedging policies in place when undertaking export. As a result of managing the exchange rate in the 90s and prior to the 2008 Global Financial Crisis both companies had learnt a lot about managing exchange rates and this was evident in their current strategies. In particular, they did not hedge their currency too far in advance and were conservative and cautious when setting the opening season milk price.

The impact of the high A$ was well understood by the companies, following research undertaken by Dairy Australia\(^2\). This research was extended to dairy farmers and indicates that a 1% movement in the A$ affects processor margins by 5-6%. The high dollar also reduced the volume exported by one company over the last financial year by 6-7%. However, commodity prices are not always directly correlated with the value of the A$, and seasonal supply is also an influence. Prices in the export market are set internationally for all of the major dairy commodities, and are usually quoted in US$, so that a high A$ relative to the US$ will result in fewer A$ received by exporters.

In addition to ensuring a tight adherence to the hedging policy, usually involving avoiding too much speculation, both companies reported that they had also been careful to communicate impact to farmers. This has been considered an important activity given any impact of currency movements is usually passed onto farmers. While one company had reported having to take a loss in one market to maintain its presence, this is not common. Longer term, a high sustained A$ will drive the development of products, which are less susceptible to currency movements, such as a rise in the value of the A$.

\(^2\) This was unable to be referenced in a report but comprised of a Dairy Australia presentation handout which the company had retained.
Exporter opinion on exchange rate scenarios (US$/A$)

0.80 to 1.00  The exchange rate will not inhibit export in this range. Actual rate is not important, especially with currency hedging.

1.00 to 1.20  Still no definitive impact on export activity in this range, however there were comments about being uncompetitive with Europe for some commodities.

Above 1.20  Exports will be hit hard and companies will probably put more focus on domestic markets and product development.

Opinion from these exporters indicated that a sustained high A$ at a 1.00 to 1.20 (US$/A$) will not threaten the viability of the export industry. While there may be some loss of export volume in the short term, companies will manage a high A$ and increase focus on product development. A high A$ above 1.20 (US$/A$) will have a more significant impact and threaten exports worth $A2.2 billion to Australia in 2011-12 (Figure 2).

Grain

Profile of interviewed company

One major grain exporter was interviewed. This company is a major trader across all grain producing states with links through to accumulators in grain growing regions for sourcing of grain, mostly wheat, barley and canola. It indicated that around 60-70% of their business was export, with most of their trade being conducted in US$.

Findings

Currency management and hedging of grain price (wheat and canola) is an integral part of their business and is always used. From previous times of high A$ the company has learnt that there is an impact on grower behaviour – they tend to store, hoping for a fall in the dollar. Sourcing grain is therefore more difficult. The impact of a high A$ does not affect its margin and price is set on the world market. The volatile dollar is more of a problem than a high dollar as it increases hedging cost (increases the cost of a call option when hedging currency). Any movement in the dollar is passed directly on to the farmer through price.

The company interviewed reported that their current strategy to manage the high dollar was to hedge for current sales and not to speculate too much. They also spend time examining grower behaviour at different price levels. In the longer term, the market is likely to innovate with different kinds of foreign exchange products in order to reduce the cost of managing risk. Impact on the amount of wheat and other grains grown is not known, but difficulty in sourcing may mean that exports would not occur as smoothly in terms of farmers being willing to release grain for export.
Exporter opinion on exchange rate scenarios (US$/A$)

0.80 to 1.00 The rate in this range does not greatly impact the amount of grain exported. Volatility does increase costs however, namely through increased currency hedging costs.

1.00 to 1.20 Still no major impact on exports. Growers may tend to store grain if a fall in the A$ is expected, making sourcing harder.

Above 1.20 Sourcing would be difficult, because farmers may continue to store grain, hoping for a fall in the dollar, with the effect that shipments would be delayed.

Exporter opinion suggests that there would be little impact of a high A$ on export value, the volatility being more difficult to manage. However, farmers would be more greatly impacted by a sustained high A$.

Branded food products

Profile of interviewed company

One major Australian food consolidator was interviewed, exporting a range of branded products such as breakfast cereals to many Asian markets and the Middle East. All business is export, and conducted almost totally in A$. This has been the toughest period the exporter has seen, with the A$ much higher than previous periods and sustained for longer.

Findings

The impact has caused the company to stop supplying some markets such as the Philippines and to reduce volume in some newer markets. Although no losses are made on individual consignments, overheads are not covered in some markets. To clarify this further, no shipments will be sent without having the selling price cover the variable costs such as ingredients, processing and packing. However, some of the overheads associated with a market such as office expenses will not be covered. Over the long term, some markets may not be viable.

The major strategy for managing the currency has been to invest in retail promotions with the supermarkets supplied. This has helped to better target customer segments. It has worked well and the plan is to continue. Currency hedging is not a strategy utilised by the interviewed company given they trade in A$.

Longer term, the plan is to source ingredients for products internationally and develop their own branded products, targeting a specific consumer segment.
Exporter opinion on exchange rate scenarios (US$/A$)

0.80 to 1.00  The specific exchange rate is not critical, but the lower the better, especially for some Asian markets.

1.00 to 1.20  Needs retail promotion programs to maintain export in some markets or volumes exported will be impacted.

Above 1.20  Would still be in export, but at this level, there will be a lot of international sourcing of product ingredients.

Prepared foods (which includes branded products) are worth $A1.8 billion to Australia and the opinion of this exporter indicated that a high sustained A$ would result in reduced export to lower value markets, increased promotional expenditure and at levels above 1.20 (US$ to A$), import of ingredients.
Indonesian agrifood importers

Overview

Indonesia is a net importer of food and a price sensitive market. Australia exported $1.85 billion of food to this market in 2011-12, the major categories being grains, $1.2 billion, meat, $407 m and dairy $152 m (GTIS, 2012).

The A$ has appreciated substantially against the Rupiah in recent years, increasing by 90% since 2001 and 18% over the last two years (RBA, 2012). Imports grew over this time period, although not uniformly, peaking at A$2 billion in 2010-11 (GTIS, 2012).

Three importers of Australian products were interviewed. Items imported consisted of beef, seed potatoes, fruit and gourmet food products such as confectionary, biscuits, dairy and meat. The following is a summary of how Indonesia and the interviewed importers are responding to the high A$, their observations of how others in the market are responding and the strategies being implemented to maintain imports of Australian produce. These are considered for horticulture, meat and retail produce.

Horticulture

Importers of seed potatoes and fruit indicated a significant impact of a high A$ on the importation of these products over the recent two-three year period. Because transactions are conducted in US$, the relative appreciation of the A$ against the US$ resulted in a shift to cheaper produce from China and Argentina.

As Australia is the only supplier of seed potatoes to the Indonesian market, there were no strategies to maintain imports for the potato importer, so as the A$ appreciated imports tapered off. The fruit importer responded by purchasing composite grade fruit from Australia. Fruit is sold by this importer in the wet market where price is transparent and highly competitive, making it more difficult to pass on appreciation in the A$ and therefore squeezing importer margins. Another strategy suggested by the importing company was for the exporter to concentrate on supplying different (i.e. from competitors) varieties of fruit with higher prices, hence a strategy of differentiation.

Meat

The meat importer interviewed purchased beef and offal from Australia, New Zealand and the USA. A Government policy push in Indonesia to increase domestic food production has led to a decline in market access through the use of import quotas. All business is done in US$ and the market is not considered currency driven. The impact of the high A$ could be masked by quota factors. Meat prices have risen, but this has been due to higher ‘selling margins’ as a consequence of a reduced quota. There was no need for currency management due to all business being done in US$ and the Rupiah being relatively stable against it. If there was an impact on price, the importer would look for a cheaper product from New Zealand or the USA.
Food retail products

An Indonesian importer of gourmet food products (i.e. biscuits, dairy, confectionary, beverages) was interviewed, sourcing products from Australia, Europe and the USA. In this case, the importer was invoiced in A$, and there has been a significant decline in the volume imported with the increase of the A$ against the Rupiah. The importer considered the exchange rate as having a moderate to high impact on sales, mainly for “best seller” (leading) products. The importer has renegotiated price and trading terms as a strategy to manage the high exchange rate. To maintain market access, the importer indicated he requests discounts, free goods and promotional support. Longer term, commodity products rather than brands may have to be supplied and the company can arrange portioning/packaging to be done in Indonesia, while still maintaining the integrity of the source country.

Summary of Indonesian importer opinion on exchange rate scenarios (US$/A$)

0.80 to 1.00 There is little consequence for meat imports, and there are also cheaper sources of seed potato even at this level. However, more food products and fruit will be imported than current, as import price from Australia will be cheaper

1.00 to 1.20 The volume of food products imported will be reduced, especially for non-best selling products and brands. Import of composite grade fruit will also increase because the price is slightly cheaper.

Above 1.20 Large reduction of food and fruit imports from Australia.

Summary of impact

In summary, the higher A$ has had minimal impact for imports of products like meat and bulk dairy where Australia has a major market share in Indonesia. However for products like fresh fruit and food retail products where Australia is a niche supplier, cheaper products are increasingly being sourced from other suppliers, such as southern hemisphere countries for fruit and the EU and USA for food retail products.
Chinese agrifood importers

Overview

China is an increasingly important market for Australia across most major food industry sectors. Currently it is Australia’s fifth largest export food market, taking $1.6 billion (2011/12), with the major categories being grains, $647 m, meat $340 m and wine $204 m (GTIS, 2012).

The Australian dollar (A$) has appreciated substantially against the Renminbi (CNY) since 2001, increasing by 54%. However, it has been relatively stable, falling slightly by 1% over the last two years (RBA, 2012).

Two horticultural importers and one meat importer were interviewed, all taking some produce from Australia. The following is a summary of how they are responding to the high A$, perceptions of how other importers are responding and the strategies companies are using to maintain imports of Australian horticultural produce.

Horticulture

Two fruit imports/retail distributers were interviewed, both very large companies, one claiming to be the largest importer and seller of fruit in China. When asked the percentage of business conducted with Australia, the response varied from ‘very small’ (but still 40 containers per year) to ‘20% of business’. Business for both companies was conducted in Australian dollars and the current impact of the high dollar was that business has been ‘flat’ and not growing as quickly as it should, for what was considered by one interviewee as new business.

The exchange rate in general had a very high impact on the amount of fruit imported from Australia as an appreciating A$ results in high prices relative to countries such as Chile, South Africa and Argentina, as well as local production. The strength of the A$ simply results in less fruit being imported. However, high costs, particularly labour, were raised as an issue more important than exchange rate, perhaps reflecting the little change that has occurred in exchange rate over the last two years and perhaps higher asking prices.

Looking for alternative suppliers appears to be the most common strategy for importers attempting to manage a high A$. One interviewee indicated that ‘asking growers if they can assist with losses’ was a strategy if the market was ‘poor’. Therefore, in an importer agrees on a higher price to satisfy the impact of a high exchange rate for the exporter and the product spoils before it is sold, or needs to be sold cheaply, the buyer will expect a discount.

Both consumers and buyers purchase fruit based on quality and price. One interviewee expressed that there was no advantage of remaining in a market and making a loss for the reason of maintaining market presence. Offering fruit at the right quality and price is the best approach.

Meat

The meat importer imported large volumes of red meat, chicken and poultry, sourcing beef from Australia over the last year. The volume imported had been increasing along with increasing demand. All trade was conducted in US$ and while the company indicated that exchange rate in general was a significant influence on the business done, the high A$ had not impacted current meat trade.
No strategies to manage the high A$ were expressed or needed by the company, given the use of US$ transactions and the company indicated that higher prices would be passed on to the consumer. There was ‘not yet’ a need to consider such strategies. At this stage, the interviewee considered the impact of different US$/A$ exchange rates was unknown due to increasing consumer demand.

**Summary of Chinese importer opinion on exchange rate scenarios (US$/A$)**

- **0.80 to 1.00** A drop to this rate will result in higher volumes of fruit being moved, and possibly meat depending on consumer sensitivity.

- **1.00 to 1.20** At this level, the fruit market will remain flat, with strong competition from other Southern Hemisphere countries for supply of fruit. Impact is uncertain for meat as exports from Australia to this market are only recent.

- **Above 1.20** Large reduction in fruit import from Australia.

**Summary of Impact**

The Chinese fruit market is a high volume, price sensitive one, with strong competition from other countries and the Chinese domestic market. The current stability of the CNY against the A$ indicates the exchange rate is not a major influence on trade at present, but indications are that currency movements are likely to have a large impact.

Export of meat from Australia into China is relatively new and with a recent stable exchange rate and increasing consumer demand, the impact of a future rise will be uncertain.
South Korean agrifood importers

Overview

South Korea is an important market for Australia with a demand for both value added and commodity imports. Australia exported $1.7 billion of food to this market in 2011/12 with the major categories being grains, $776 m, meat $762 m and dairy $101 m (GTIS, 2012).

The A$ has appreciated substantially against the South Korean Won in recent years, increasing by 82% since 2001 and 5% over the last two years (RBA, 2012).

Four importers were interviewed, all taking some produce from Australia. Items imported were beef, wheat flour, fruit and dairy produce. The following is a summary of how the importers are responding, their observations of how other importers are responding and the strategies companies are using to maintain imports of Australian produce. These are considered for horticulture, meat and dairy products.

Horticulture

The fruit importer interviewed indicated the high A$ has had a very significant impact on imports of Australian fruit, particularly over the recent 2-3 year period. All trade was conducted in US$. Australian fruit imports had fallen as a result of the high A$ and inability to source supply. Market access is not a significant impact for fruit, except for better access for the USA. However, the actions of competitors are important with regard to price and supply. The company had reacted to the high A$ by absorbing increased cost, renegotiating price and also by importing less, in favour of Chile and South Africa. They were also looking at new business models such as on-line marketing to customers. Longer term, imports will not be maintained. The interviewee reported that another company had already asked suppliers not to deliver their ‘commitment’ of produce because it cannot be sold at the agreed price.

Meat

Two companies interviewed imported meat, mostly supplied from Australia, with New Zealand also an important supplier and the USA a minor supplier. Both indicated an increase in imports over the last 2-3 years, although there has been a recent decline for one importer. Australian beef is now more expensive and New Zealand beef is more price competitive. The dollar was the most important factor determining beef price and although business was done in US$, the high A$ makes negotiation difficult. Import quotas for beef were also an important influence as access is limited.

One importer indicated that his customers were committed to Australian beef due to a reputation for consistent supply of quality, safe product. The meat importers interviewed said that different business models had been considered in order to maintain the relationship with suppliers. For example, passing a high price on to the consumer, using different meat cuts and timing the movement of currency were strategies to manage the impact of a high A$. In the end, this impact may result in fewer Australia imports suggesting a loss of market share due to an inflated A$.
Dairy

An importer of dairy produce (cheese) was interviewed, sourcing mostly from Australia. Business was conducted in both A$ and US$ with import volumes recently declining by 60% due to both the high A$ and the fact that there is no Free Trade Agreement (FTA) with Australia. The importer considers the exchange rate as having a moderate to high impact on business, indicating that their margin had reduced due to an increase in import price of 15%. Reducing margin had been a strategy to maintain imports, but they also intend replacing some Australian cheese with EU and USA product, which have a better brand profile and lower import tariff due to an FTA. Longer term, the company is still committed to Australian cheese, so they intended absorbing the high cost, buying A$ when the rate dips so that product is more affordable, diversifying to a low tariff product range and asking exporters for retail promotion support. In the end, they may simply have to purchase less.

Other Produce

One importer interviewed also sourced organic wheat flour from Australia. As a specialist product, the price had risen along with the high A$. Negotiating a lower price was difficult, but the company was looking to diversify its product range imported from the Australian company, in order to obtain a better negotiating position with the Australian company.

Summary of South Korean importer opinion on exchange rate scenarios (US$/A$)

0.80 to 1.00 This is the preferred range for meat and organic flour imports. Imports of dairy from Australia are price competitive at 0.8 to 0.9 and for fruit, 0.8 to 0.95.

1.00 to 1.20 Meat importers will undertake careful market monitoring at this range, horticultural importers will look for other supply and there will be a decrease in import volume and a loss of market share for Australian dairy products (cheese).

Above 1.20 Large reduction in import from Australia.

Summary of Impact

The South Korean market is being significantly impacted by the high A$, with Australian product being less price competitive and therefore losing market share. This is despite the significant commitment to Australian product by Korean importers. The situation is complicated by the lack of an FTA with Australia, unlike Europe and the USA which will have increasingly more favourable tariffs in future years.
Vietnam agrifood importer

Vietnam is a growing market for Australia, with exports almost trebling over the last five years. Australia exported $898 million of food to this market in 2011/12 with the major categories being grains, $748 m, seafood $60 m and meat $29 m (GTIS, 2012).

The A$ has appreciated approximately 14% over the last two years against the Vietnamese Dong (RBA, 2012).

Only one importer was interviewed, the company importing Australian grain for flour milling. In the brief interview, the importer expressed that the company conducted all business in US$ and the exchange rate had no impact on the amount of wheat purchased. As the wheat price was set on the world market, Australian exporters had to match it. The importer was not aware of any concern about exchange rate by his Australian suppliers.

In effect, the high A$ was incidental to wheat trade into Vietnam.
Industry consultation

Comments on the interview findings relating to the impact of the low, medium and high exchange rates, was gathered from industry experts, academics and DPI Market Access and competitiveness staff. The key points were:

- The horticultural industry is more price competitive with a US$/A$ exchange rate of 0.75. At rates around current (December 2012) levels (1.02 to 1.05), Australia is less competitive in more price sensitive markets.

- There have been some reported issues with export customers demanding discounts, stalling on payments and asking for money to be sent over by the supplier of horticultural produce in response to the high exchange rate.

- Exchange rates in the vicinity of 1.10 to 1.15 (US$/A$) would relegate Australia to only having a short supply window; and ultimately to a low volume supplier of fruit. Exports would probably be limited to only the best quality, via air freight.

- The supply of horticultural produce such as table grapes to China holds great potential, despite our high A$ exchange rate. Market access arrangements now allow products to be sent to mainland China, landing in Shanghai and Dalian. These cities have different requirements for premium fruit in relation to factors such as colour, crunch and bloom. Greater prices can be achieved once growers learn to segregate based on these requirements. The size of the Chinese market also offers great potential.

- Feedback from the dairy industry indicated that the high A$ had some impact in large markets such as Japan, where Australian product such as processed cheese is a major ingredient. However, Australia holds a large market share. Europe is stronger in the branded market and the US is increasingly price competitive. As a stronger currency, the Yen is less impacted by movement in the A$ against the US$, unlike less developed Asian economies which experience a greater impact from US$ movement. Relativity of currencies is important to dairy trade.

- The dairy industry body representative consulted also observed a greater differentiation of commodities in response to the high A$ through a broadening of categories (e.g. milk powders) manufactured in Australia over recent years.

- Feedback from the meat industry indicated that supply difficulties due to the value of the A$ occurred when the exchange rate reached the range of 1.02 to 1.05 (US$/A$).

- The Australian Farm Institute had heard greater concern from exporters about the exchange rate volatility rather than a sustained high A$. Movements of up to 15c over a short period of time caused difficulties in reacting to this movement. With a consistently high exchange rate, industries are able to develop management strategies.

- Academic comment received was that there needs to be greater macro-economic input into the impact of the high A$. This includes demand and supply modelling and a consideration of the importance of the domestic market and its growth potential.

These points have been considered and included where appropriate in the case study and report summary.
Results

In addition to the scenario plan for each sector (contained in the Implications chapter), there were key observations taken from the interviews and industry specialists consulted during the process. These relate to the generic impact of the exchange rate and the strategies used to manage the impact across all sectors as described below.

Exchange rate influence

The influence of the exchange rate between the A$ and other currencies, particularly the US$, on prices achieved by Australian agrifood exporters varies depending on the commodity or product concerned and the export market. Exchange rate impact on prices and export activity was most evident for horticultural produce, mostly because they faced strong competition from countries whose currency did not appreciate against the US$ as much as the A$. The dairy industry also indicated some correlation between farm prices and the exchange rate in addition to the impact on processor margins, indicating a sharing of impact. Although there was a close correlation between exchange rate movements and grain prices, other factors such as world production had a greater influence on grain prices. In general, the influence of exchange rate depended on:

- Whether the item of export is a commodity or a product - interviewees described a greater impact of exchange rate on commodities. Differentiating commodities and developing products lessened the exchange rate impact as customers were not buying an easily substitutable item.

- Perishability of the item - grain exporters and farmers were able to store grain in anticipation of a fall in the exchange rate. They could also spread sales over a long period of time. Dairy and meat products are more perishable, but can be stored. Horticultural produce is generally less able to be stored than other commodities and products. Supply is therefore more seasonal and more bargaining power is held by the buyer.

- Industry and company structure – industries comprising of farmers who regularly supply processors/exporters such as the dairy industry, have a greater opportunity to adjust or renegotiate sales, the output mix, input cost and prices. This is much less the case where product is supplied in one short period, for example with horticulture. Short term losses can be tolerated if this can be compensated for at a later time. Similarly companies with high turnover, regular sales and expert staff with skills in areas such as currency management, are less impacted by a high A$ than smaller, seasonal exporters with less expertise in critical areas.

Interviewees expressed that exchange rate is only one influence. Other influences on price and profitability that may be just as important as exchange rate include:

- Currency volatility – this was raised by an industry expert and the grain exporter interviewed as having a more significant impact than a sustained high exchange rate, particularly if fluctuation occurs in a range as high as 15 cents. Planning becomes difficult and the cost of currency hedging increases with increasing currency volatility.

- Target market – Importers interviewed from South Korea appeared willing to absorb costs, pass on price movements, consider new business models and diversify purchases from the Australian suppliers to give them more bargaining power for the major product. This was in contrast with Chinese and Indonesian importers who mentioned the need for the supplier to share the cost of low sales, sought discounts, free goods or promotional support. This may reflect an inability of
consumers to bear cost, a difference in competitive environment or perhaps a different business culture.

- Market Access – while a concern for all industries and most markets, this was raised as a major influence for meat exporters into Indonesia, dairy exporters to South Korea and fruit to China and Indonesia. Issues ranged from a requirement for import permits, quotas and high tariffs to technical market access. The presence of market access restrictions had effects such as higher market prices for premium quality meat into Indonesia due to lack of supply. A lack of price competitiveness for dairy into South Korea relative to other countries with a Free Trade Agreement and therefore lower tariffs was also highlighted.

- Seasonal conditions – this has a strong influence on production volume and quality both in Australia and overseas. In turn, there is a significant impact on commodity and product prices, particularly for the dairy and grains industry.

- Market competition – Horticultural exporters have to compete with low cost countries such as South Africa, Chile, Argentina, Peru and Brazil. Lamb exporters only had New Zealand as a significant competitor. Therefore customers have less choice if they want to consume lamb and a higher exchange rate will only make one competitor’s product more attractive.

Strategies to manage the exchange rate

There were many strategies described by the interviewees which were adopted in order to manage the influence of the exchange rate or mitigate its effect by focussing on improving other aspects of the value chain. Some of these were learnt in previous periods of ‘high’ A$, in the 1980s and 1990s and 2008. Key strategies were:

- Hedging price and currency – a grain exporter interviewed described hedging as a vital tool in their industry. This is done through use of futures and options for some grain prices but also currency, where an exchange rate can be locked in for a future date. Most often used to manage short term exchange rate volatility, it only has a limited use over the longer term with a sustained high dollar.

- Timing the movement of currency – where payment is received by an exporter in a foreign currency (usually US$) timing the conversion back to A$ to take advantage of a more favourable exchange rate can be of benefit. As with hedging, this is of little use if the A$ is consistently high.

- Account for exchange rate in pricing – some food product exporters use through chain models to ensure their target price accounts for fluctuations and volatility in exchange rate, particularly where currency hedging is not used.

- Drive out other costs – tight margins caused by the high A$ can necessitate a focus on driving out other costs along the value chain. It may come in the form or changing packing practice or logistics. Citrus growers have been encouraged to focus on low cost production improvements, in order to produce larger and sweeter tasting fruit relative to competitors.

- Differentiate – considerable price increases have been achieved by better targeting consumer tastes by differentiating products and even fresh commodities, thereby achieving higher prices. It also reduces the substitutability of competitor products. This needs to be balanced against the costs of differentiating and risk if focussing too much on a single market.

- Company structure and focus – findings from the interview indicated that smaller companies with few overheads can often compete in low price environments as they can survive on tighter
margins. However, the larger companies interviewed indicated that they can bear a short term loss and have access to staff with expertise relevant to managing the high A$. Horticulture companies providing a packing and exporting service rather than purchasing the product can reduce their exposure. The growers exposure may increase, but better market signals and possibly higher prices for quality fruit result. Meat processors can do the same if they have the ability to contract process as well as export.

- Re-negotiating with suppliers – when the high value of the A$ results in high prices by suppliers, interviewees and industry experts indicated that they attempt to re-negotiate price, expect a discount, re-consider delivery or even payment if they perceive quality and value are a problem.

- Re-negotiation with buyers – supply contracts for products such as lamb should allow some re-negotiation of price after a period of time. Re-setting of prices can therefore account for the changes in the AUD. Negotiating on acceptable product standards is another strategy. Horticulture exporters are often able to supply a ‘composite’ grade of fruit with slightly more imperfections, with a minor impact on price and almost negligible quality difference.

- Focus on using advantages – examining the advantage the business holds and how this may relate to a high AUD can be beneficial. For example, Asian fruit markets can pay higher prices at season opening and targeting this period as a point of difference from competitors which supply later, can help maintain a higher price. With a high AUD other options such as air freighting fruit becomes more economic as this high cost is cheaper for an Australian exporter relative to many competitors, given that it is paid in US$.

- Communicating the impact – findings from the interviews indicated that the horticulture and dairy industries both saw this as vital so that suppliers realise the impact of currency movements and are therefore less aggrieved by price falls, helping the exporter to maintain a positive reputation

- Investing in marketing activities – one interviewee saw benefits of increasing brand awareness by undertaking promotions with retailers in store. Understanding the consumer better has also been a catalyst for developing a brand to better suit a certain consumer segment in the market and gaining an advantage over competitors.

- Investing in the target market – for some commonly purchased products that are preferred by consumers for their unique taste or other characteristics such as safety, changing brands is often resisted. One importer was considering a strategy of importing an item as a commodity and transforming it into a product by portioning and packaging in order to keep prices low for their customers. Another was considering on-line marketing to reduce costs. Exporters may also be in a position to invest. This can be a broader strategy of reducing cost by investing in, or reconfiguring the value chain.

- Accept a loss in the market – this may be an option in the short term and was highlighted by interviewees in situations where a currency hedge was misjudged and where a company was attempting to gain a ‘foot in the door’ for meat export. However, this strategy is not sustainable.
Case Studies

The following case studies use fictional names to protect the identity of the companies who were interviewed. They use information from more than one interview in order to combine useful strategies and observations in the one case study.

Case Study 1 – meat to Indonesia

Background

*PT Java* is an Indonesian based meat importer, supplying supermarkets and high end convenience stores in all major cities across Java. Fresh and frozen meat and offal is sourced from Australia, the United States and New Zealand. They are a large company with a 20 000 million Rupiah (A$2 million) turnover per annum, and have been operating since 2000.

The Indonesian company deals with a small number of Australian exporters, including *Plains Meat Exports*, who sources boxed beef from meat processors based in New South Wales and Victoria.

Competitive environment

The Rupiah has remained relatively steady against the US$ over the past two years, placing little pressure on the cost of importing produce and requiring little negotiation with the retailers supplied by PT Java. All payments to suppliers are made in US$. However, the company is aware that the A$ has risen against the US$ and is expected to remain above parity for the foreseeable future. Price quotations from Australian meat suppliers have often been higher initially, but clear market feedback on current prices by passing on written market reports, has helped maintain prices comparable to competitors.

The Indonesian government’s self sufficiency strategy and the tightening of import quotas on boxed beef from 140 000 tonnes in 2010 to 35 000 tonnes in 2012 (*Morey*, *Pers. comm.*), have reduced the amount of beef the company is able to source. Price is not a concern at present as any rise can easily be met by their customers. In fact their margins have increased on Australian beef recently, but they could easily sell more. Import from New Zealand may be an option, but since the quota, the market share of Australian beef has actually increased.

A typical trade conducted between PT Java and Plains Meats is 50 tonnes of boxed, chilled beef per month. It consists of various cuts from sirloin steak to off-cuts such as cheek and knuckle, often six types per consignment. PT Java submits the order via email and receives an itemised quote in US$. Payment terms are 60 days and this starts from when the importer receives the goods. The Australian exporter is not able to negotiate a more secure payment by a Letter of Credit. Payment on receipt of goods is the preferred way of doing business in this market. The trade is based around establishing a good relationship. Plains Meats visits the market often and PT Java are well known to them.
**Strategies implemented by the importer to manage the high A$**

A number of factors need consideration when the purchasing manager of PT Java is sourcing product from Australia. The first strategy is to purchase the produce at the same or better price than the previous order, particularly if increased sales can be guaranteed. If this is not possible, PT Java consider whether the price increase can be passed on to the customer.

PT Java know that charging a higher price will not be an option for common products with close substitutes, but that a higher price for beef can be passed on to their retailer customers, within limits, especially since the beef quota has caused some restriction on beef availability from Australia. Many importers have actually been buying higher prices cuts like tenderloin, passing on the higher price and making a better margin.

Where passing on a price is not an option, PT Java has sometimes asked for a one-off discount, provision of some free items, promotional material or pushing out payment terms from 60 to 90 days. This is commonly done and if agreed by the exporter, another invoice is emailed through.

If PT Java has the meat, but knows that it is a little expensive because a few shipments of slightly cheaper New Zealand beef had come in, they will consider other action. If they are struggling to sell it, they will stall payment. If they are going to lose money, maybe they just won’t pay.

Currency movement is generally not a problem with boxed beef imports and buying more expensive cuts can result in a higher margin. However, buying cheaper offal cuts may be an option if cost does become an issue. If PT Java’s retailer cannot move the higher priced tails, they may purchase a cheaper cut such as cheek next time.

If supply from Australia cannot be maintained, the company may try to source product from New Zealand. However, Australia is the preferred supplier and this is the least likely option. Supply from the USA is currently difficult to source.

**Strategies implemented by the exporter to manage the high A$**

In the event of an increasing exchange rate, Plains Meat Exports need to firstly consider if the price levels indicated by the market and buyer be accommodated. They understand from market feedback, that the prices quoted need to be in line with competitors from New Zealand, the USA and the local market, particularly for offal.

The risk of a higher price causing problems with payment is always a concern. Plains Meat Exports therefore value the ability to be paid earlier (say 30 days) or the possibility of being paid in Australian dollars, a request which some importers indicate has been made by Australian exporters. Both have the potential to reduce cost to the exporter. For large orders over an extended period, Plains will also need to ensure they have the ability to re-negotiate price if cattle price moves against them in coming months. However, since quota introduction, orders have been one at a time.

Currency hedging is another important consideration, As Plains Meat Exports will receive an amount of about US$350 000 for 50 tonnes of produce exported, a rise in the A$ will reduce the amount of money received when it is converted back to the A$. Plains Exports has a policy of protecting any trade over US$50 000 with a call option as close as possible to the current exchange rate. Gains from a fall in the value of the A$ may be possible, but the option ensures losses from the A$ rising above a pre-determined rate will be mitigated.

If currency movements cause a significant loss of income, Plains Meat Exports will need to consider if maintaining presence in a market such as Indonesia will be for the long term benefit of the company.
Competition, ease of doing business, growth potential of the market and many other factors will be considerations. Specifically, Plains will be considering if market access will ease or continue to be difficult in the future.

Similar to PT Java considering other products, Plains can try and re-negotiate the next order with PT Java, highlighting those that could be supplied, or different specifications of products (e.g. lower grade mince) which will be more cost effective than the current order.

In the current economic and trade environment, the exchange rate for the A$ against the US$ or Rupiah is not a major factor for the export of beef to Indonesia. If Java PT can access enough of the beef quota and Plains Meat Exports meets the expected price, trade can occur. Given the tight supply of Australian beef, PT Java can extract an increased margin from their retail customers by supplying higher value product.

**Future scenarios**

With the Australian dollar around parity with the US$, PT Java and Plains Meat Exports have given some thought about likely purchasing behaviour under two scenarios, bearing in mind that they conduct business in US$.

If the US$/A$ exchange rate falls back within the 0.80 to 1.00 range – Although there is an increase in potential bargaining power, PT Java does not consider that a fall in the exchange rate will impact their imports of beef. Quotas are more important in allowing access of Australian beef. An exchange rate within this range will be more favourable to order Meat Exports.

If the exchange rate stays strong, within the 1.00 to 1.20 range – Little would change in the current marketing environment with an exchange rate within this range. Quotas would still be restricting availability of beef to PT Java, but there would still be an opportunity for supply of beef from Australia.

If the exchange rate extends over 1.20 – Australia has a dominant market share in the Indonesian beef market. While such a high exchange rate would make Plains Meat Exports re-consider their export strategy, it would depend on the supply of beef from farms and the willingness of other high value markets to pay the higher prices Plains Meat Exports would be asking.
Case Study 2 – dairy to South Korea

Background

Seoul Foods is a South Korean based exclusive importer of dairy products from Australian dairy company Jack River Corporation. Seoul Foods has been importing dairy products from Jack River since 2006 and distributes them to major food service and retail supermarkets including Emart, Lotte Mart and Homeplus (Tesco Korea).

Seoul Foods imports 90% of its total product range from Australia and the appreciation of the Australian dollar has had a noticeable impact on its business. Seoul Foods sales turnover has declined 15-20% in 2011/12 compared to 2010/2011 levels, of which 60% is attributed to the higher dollar.

Competitive environment

South Korea is an important and valuable market for Australian dairy exporters. Australian dairy exports to South Korea were valued at $101 million in 2011/12, making it the third most valuable food and fibre export commodity behind grain and meat.

The Australian dollar has appreciated rapidly against the Korean Won over the past decade from KRW/A$ 620 in 2001 to 1130 in 2012 (RBA, 2012). This 82% appreciation of the Australian dollar against the Korean Won has made it challenging for Australian dairy exporters to remain price competitive against European and US competitors whose currencies did not appreciate as much. However, factors other than the exchange rate are also contributing to the reduced competitiveness.

The South Korean economy has been suffering from a retail slowdown, similar to that currently being experienced by retailers in Australia. Consequently, despite the import prices for Seoul Foods increasing by 15% over the past 2 years due to exchange rate movements, they have been unable to pass this cost increase onto consumers, who have become more cautious with their spending. Instead, Seoul Foods has had to absorb this cost increase through reduced profit margins to match their competitors pricing.

The South Korean Government has signed multiple Bilateral Trade Agreements in recent years including one with the European Union which was ratified in July 2011 and one with the USA which was ratified in March 2012. As part of these agreements, tariff rates for the importation of cheese products are scheduled to decrease approximately 3.6% (cheddar) to 2.4% (other cheese) per year (Australian cheese exports are currently at 36% tariff rate). US and EU dairy exporters get the added advantage of increases in the ‘tariff free quotas’ for cheese such as 4560 tonnes for EU exporters and 7000 tonnes for US exporters in 2012. These also apply to products such as milk powders and butter.

Seoul Foods believes that the combination of the lower tariff rates and increases in tariff free quotas is responsible for 40% of the reported decline in their sales turnover. They expressed concern that unless Australia signs an equivalent trade agreement with South Korea as the EU and US have, then their price competitiveness will be further eroded even if the Australian dollar depreciates due to the growing disparity in tariff rates.
**Strategies implemented by the importer to manage the high A$**

Seoul Food’s business model is based on its exclusive arrangements importing dairy products from one single Australian dairy company and has spent six years promoting and establishing its brand in the Korean market. Consequently, Seoul Foods cannot readily substitute the Australian dairy products for ‘cheaper’ US or EU dairy products as it would undermine their current business model and take many years to implement. Therefore, Seoul Foods has had to look for ways to minimise the impact of the higher Australian dollar to remain price competitive in the market place as well as be sufficiently profitable for the business to remain viable.

Seoul Foods has proactively attempted to communicate the current challenges facing the business to Jack River regarding the higher exchange rate, increased competition from the EU & US and general retail slowdown impacting on its lower sales turnover. The purpose for doing this is to avoid any potential breakdown in the relationship due to issues of perceived non-performance and to collaboratively work together to address them.

Furthermore, Seoul Foods have been monitoring the exchange rate movements more closely to try and lock-in more favourable valuations when the Australian dollar depreciates against the Korean Won.

**Strategies implemented by the exporter to manage the high A$**

Jack River Corporation has had to balance its pricing expectations for exports to Korea with its internal operational costs and price paid to milk suppliers. The reduced dairy product sales in Korea has put downward pressure on the prices it can afford to pay dairy farmers for milk and squeezed operating margins. Jack River was in discussions with Seoul Foods about strategies to increase sales volume by 20%, however, due to the impact of the exchange rate and depressed retail conditions, this ambition has been moderated in the short term. Instead, Jack River has supported Seoul Foods in implementing promotional strategies with retail partners to drive sales through discounting and taste demonstrations.

Jack River has partly reduced the management burden of the exchange rate movements by shifting its pricing and payment system with Seoul Foods from US$ to A$. The benefit in doing this is not having to actively hedge all US$ payments from Seoul Foods into A$, thus reducing risk on the business. However, this responsibility has simply been shifted onto Seoul Foods who now have to actively ‘lock-in’ KRW-A$ exchange rates at more favourable times.

**Future scenarios**

If the US$/A$ exchange rate falls back within the 0.80 to 1.00 range –
If the A$ fell back to between 0.80 – 1.00 US$ then Jack River dairy products would be more price competitive in the Korean market against US and European competition. Jack River would be able to increase sales volume and Seoul Foods profit margins would increase between the US$0.80-0.90 range. However, if the A$ remains in the US$0.90-1.00 range then the benefit of the lower exchange rate would be mostly mitigated by the advantageous tariff rates US and EU exporters have secured as part of the Bilateral Trade Agreements.

If the exchange rate stays strong, within the 1.00 to 1.20 range –
The competitiveness of Jack River dairy products in the Korean market is being challenged at the US$1.05 mark. Consequently, the combination of the unfavourable exchange rate and higher tariff rates will continually erode export sales over time within this exchange rate range.
If the exchange rate extends over 1.20 – Seoul Foods has indicated its business model importing exclusively from Jack River Corporation would be unviable at these levels. Seoul Foods would pursue alternative suppliers from countries with lower tariff rates and lower costs of production that would be more price competitive in the Korean market. Jack River would have to rely more on domestic market sales and only be competitive exporting high-value niche products in selected export markets.
Case study 3 – fruit to China

Background

Golden Panda is a Guangzhou based Chinese importer and supplier to supermarkets and the wholesale market. The company sources a variety of horticultural produce from supplier countries such as Chile, South Africa, Peru, Brazil and Argentina and more recently Australia, with improved market access. They are a large company with a 500 million Renminbi (CNY) turnover, and have been operating since 2005.

The Chinese company deals with Australian exporter Sunny Grange Pty. Ltd. who source product such as mangoes, mandarins and table grapes from suppliers in Victoria, New South Wales and Queensland.

Competitive environment

The Renminbi has remained relatively steady against the Australian dollar over the past two years, depreciating slightly over recent months. All prices are negotiated with exporters in US$. Payments to suppliers are made in US$ or sometimes A$. The company is aware that the Australian dollar (A$) has risen against the US$ and is expected to remain above parity for the foreseeable future. Golden Panda likes to deal with large suppliers like Sunny Grange as China is a high volume market.

Market access into China by Australian exporters attracts import tariffs. Despite the high prices for Australian fruit, export volumes have been increasing steadily over recent years.

Golden Panda imports as much as 50 containers of fruit per year from Australia, consisting mostly of mandarins table grapes and mangoes. They consider this a small volume. A price per box is agreed via email and all quotes are in US$, although the company has agreed to pay Sunny Grange in A$. Golden Panda have quoted a firm price, but if the quality is not what is expected, they always seek to pay less for the product if they receive less in the market. At the very peak of good seasons, some export from Australia is conducted ‘on consignment’, meaning that there is no firm price agreed before it is exported from Australia, however this is rare for Sunny Grange and they usually hope to avoid this.

Import duty (13.5%) needs to be paid on the invoiced amount, whether firm or not. Importers pay this; and Golden Panda are conscious that they will need to cover this expense as well as make a margin. Payment on receipt of goods is the preferred way of doing business in this market, with 30 day terms for payment. Much of the product exported by Sunny Grange is sold in the Guangzhou wholesale market.

Strategies implemented by the exporter to manage the high A$

Golden Panda, like other Chinese importers use price and quality as their major parameters. They agree on a price with Sunny Grange, one which they expect will result in sales, given the quality agreed upon and expected exports by Australia’s competitors. They also have to build in their margin of about 10-15%. If the A$ appreciates against the US$, this will result in a higher asking price in the local currency. Given this scenario, Golden Panda considers whether the customer will consider this price good value if it is up to the usual standard supplied.

The price offered for the quality of fruit supplied always depends on other competition in the market. The company knows that moving large volumes of Australian product is difficult at times given higher asking prices. There is a risk that enough fruit may not be sold at the asking price. If Golden Panda
makes a judgement that it cannot be sold at the current asking price, they will suggest a lower price in US$. They know they have the upper hand here as it is a buyers’ market.

Golden Panda wants to maintain a relationship with Sunny Grange as they are a major supplier from Australia with good quality fruit. They may therefore agree to a higher price, but be prepared to communicate the unacceptable arrangements if the trade does not work out. If the quality of fruit is not what they expect, they will re-negotiate price. They may also consider paying late, if cash flow is a problem. Stalling on payment will give a signal to Sunny Grange that the deal did not go well and little profit was gained.

If the currency movement results in a higher asking price for the Australian fruit which simply cannot be accommodated, supply from Australia is simply too expensive, Golden Panda will look for an alternative supplier. South Africa and Chile are good suppliers of table grapes. Oranges can be supplied from the United States or Chile.

**Strategies implemented by the exporter to manage the high A$**

Sunny Grange visit the market often and are aware of the price, quality and supply pattern of their competitors. They want to negotiate a good price for their farmers, but understand that with a higher dollar, they may have to take what they can. They quote a price which will just achieve what they need.

A low risk option for Sunny Grange may be to accept a lower price which Golden Panda offers, but provide a response indicating that will not cover the farmer’s total costs. They may request that in exchange for a firm, lower cost, they may insist on earlier payment (say 30 days), knowing that if the fruit does not ‘move’, Golden Panda will try and reduce the amount paid, indicating that they had to discount the fruit in order to achieve sales.

Fruit that is directly comparable with those of their competitor will result in direct competition and low prices as a result. Sunny Grange may have an opportunity to better differentiate their fruit and offer better size or higher quality at a premium price. They use their knowledge of the market and Chinese consumers to negotiate a higher price for their ‘premium’ grade fruit.

Such a strategy will mitigate the effect of the higher value A$ rather than manage the exchange rate directly.

**Future Scenarios**

With the Australian dollar consistently above parity with the US$, Golden Panda and Sunny Grange have given some thought about likely purchasing behaviour under two scenarios.

**If the US$/A$ exchange rate falls back within the 0.80 to 1.00 range** – This will provide a boost to Sunny Grange by allowing them negotiate a better price. This will simply allow them to export move volume and better compete into this price sensitive, competitive market.

**If the exchange rate stays strong, within the 1.00 to 1.20 range** – Although China have still been increasing their import volumes from Australia, an exchange rate maintained at this level will restrict the volume exported. At the high end of this range, greater differentiation of fruit will be required and the market may only be suited to larger traders which have the volume to cater for this. It may also result in more air freight of fruit when there happens to be a shortage in the market.

**If the exchange rate increases above 1.20** – Such high exchange rates may cause a cessation of trade, although the companies know that the expanding China market may still offer some opportunities and
volumes Golden Panda consider small are large for Sunny Grange. Exchange rates between the AS and CNY may also not reflect the US$/AS exchange rate. However, trade will most likely be much reduced.
Implications

The implication of a sustained high dollar to the Australian Agrifood industry depends on the industry concerned and the influence exchange rate has, relative to other factors. It also depends on the strategies the industry, exporters and farmers have in place, or could use to manage the high A$. Other factors such as market access and seasonal conditions may be just as important as the influence of the high A$ on price and profitability.

The implications for horticulture, dairy, meat, grains and branded food products have been constructed from the interviews and expert input, and are presented in Table 1 of the Executive Summary. The relative exchange rate influence and impact under three scenarios are described.

Australia’s dairy, horticulture and prepared food industries are all valued at over A$1 billion, with meat almost A$8 billion and grain over A$11 billion. (Figure 2). These export values have been relatively stable over the recent period of a strong $A. In fact grain exports have risen. Consistent with observations from the interviews, the impact of the high A$ therefore must be born on exporter and producer margins and profitability.

Horticultural industries would appear to be the most affected, with pears cited as one example of an industry that will not be able to compete with an exchange rate of over 1.20 (US$/A$) and which cannot compete in some markets such as Indonesia at current (2012) exchange rates.

Implications for the dairy industry are less severe than for horticulture, with medium exchange rates (1.00 to 1.20 A$/US$) reducing Australia’s export competitiveness, processing margins and farm gate prices. Higher rates will influence the focus of the industry back to domestic markets and drive the production of value added and branded products.

The meat industry is impacted by the high A$ most acutely in export markets for offal and low value cuts. High value cuts maintain competitiveness but exporters have some difficulty exporting with rates around of 1.02 to 1.05 (US$/A$). They may still be competitive at rates over 1.20 ($US/$A), but production may fall as prices pass through to the farmer. High growth in demand in some markets such as China, import quotas in Indonesia and growth in production and demand for lamb appear to be stronger influences than exchange rate at present.

The grains industry is less impacted by the high A$ than other the other primary industries mentioned, however currency movements pass through to cash grain price. The industry has tools to manage currency and price movements, but the cost of using them increases with volatility. A sustained high A$, even at rates of over 1.20 (US$/A$) will not greatly affect the export performance of the grain industry – exporters may simply find it harder to buy grain from farmers if a fall in currency value is expected.

For the branded product market, a high A$ of 1.00 to 1.20 ($US/A$) results in the loss of some price sensitive markets, but sales of some best selling items can be maintained. Implications of rates over 1.20 (US$/A$) are not good for the export value from Australia, as import of ingredients and some processing and packaging overseas may result.

The case studies presented in an earlier chapter draw on some of these factors, but also include influences such as market access and competition for export into Indonesia, South Korea and China. These impacts can be very significant for the industries examined.
Recommendations

The high Australian dollar is a macroeconomic phenomenon and this project does not attempt to offer macroeconomic solutions which will reduce the value of the A$. It offers a qualitative observation of the impact the high A$ is having, or will have, on agrifood industries under three scenarios of exchange rate. This may be useful for government policy makers to understand which industries are the most vulnerable and the point at which the industry may need attention.

It is recommended that industry organisations and policy makers make use of the list of strategies that could be used to manage the impact high A$ or compensate through such measures as focussing on low cost management options which improve product quality, through for example, trunk spraying fruit trees. Wider audiences such as consultants and the banking industry may also find this report useful, particularly if they have clients severely impacted by the high A$ or in situations such as closing unfavourable hedge positions. Providing information on other improvements that clients could make to their business may be a positive contribution.

Some of these other strategies may offer part solutions for dealing with a high A$ or indicate the direction which the industry is likely to take to respond the high A$, such as product development and retail promotion. This may in turn have synergies with current or proposed government or industry assistance programs or policy, reinforcing the benefit of these programs.

The report indicates that there is a range of companies (usually large) that actively hedge against movements in exchange rate and in limited instances commodity price. Smaller companies often do not. The demand or need for greater financial and/or currency management skills among smaller exporting businesses is one area that could be investigated further.
References


The high Australian dollar and agrifood export

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Pub. No. 14/009

The high Australian dollar has been frequently highlighted as a major impediment to strong export growth in the agrifood sector. Despite this, export of agricultural produce from Australia has continued to grow into Asia and many other developing countries which theoretically should be more sensitive to the value of our dollar.

This report has gathered qualitative information from exporters of Australian agrifood and importers in Australia’s key markets to determine what impact the high Australian dollar is having on trade and how some businesses are learning to manage and adjust.

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