

Executive Summary

THE 2001/02 FOOD SOUTH AUSTRALIA SCORECARD

- South Australian Food Revenue Surges to \$9.8Billion

The Food South Australia *ScoreCard* measures and evaluates the contribution to the South Australian economy of food (and beverages) at each stage of production, processing, trade and consumption. In this way the *ScoreCard* measures the value of the industry as food goes from the “paddock (or ocean) to the plate.”

During 2001/02 South Australia’s food industry grew in most of the key performance indicators. A surge in exports supported by above average growth in the value of domestic consumption lifted gross state food revenue by \$1.49 b (18%) to reach \$9.82 billion¹. However, strong rises in imports led to a smaller than otherwise increase in the net state food revenue measure, up 16% to \$8.62 billion.

Over the last year substantial growth and record levels were achieved in all areas, with:

- o farm gate values increasing by \$593 million (up 21%) to a record \$3.38 billion;
- o food processing up \$263 million (8%) to 3.72 billion;
- o overseas exports (processed foods and commodities) up \$827million (38%) to \$2.98 billion;
- o imports up by \$316 million (36 %) to \$1.19 billion;
- o retail and food service sales up by \$596 million (12%) to \$5.69 billion;
- o total food industry employment remains unchanged around 141,000;
- o new capital expenditure (excluding primary production), \$427 million, down \$221 million (34%).

The exceptional growth in South Australian food revenue over the past few years has propelled the food industry above the required growth level to reach the food target of \$15 billion by 2010. When the State Food Plan was developed in 1996, the South Australian food industry needed to grow at an average annual rate of 7.9 percent or around \$650 million per year to reach this target. In 2001/02 the actual growth of \$1.49 billion (or 17.9%) was more than double the required rate. The South Australian food industry is currently more than a year ahead of the required schedule to meet the 2010 target.

Caution in interpreting these latest trends is required. An analysis of the factors driving the growth in food revenue over the past two years suggests that these levels of growth may not be sustainable. With an average harvest during the current 2002/03 season, a decline in the headline food revenue for next year is anticipated.

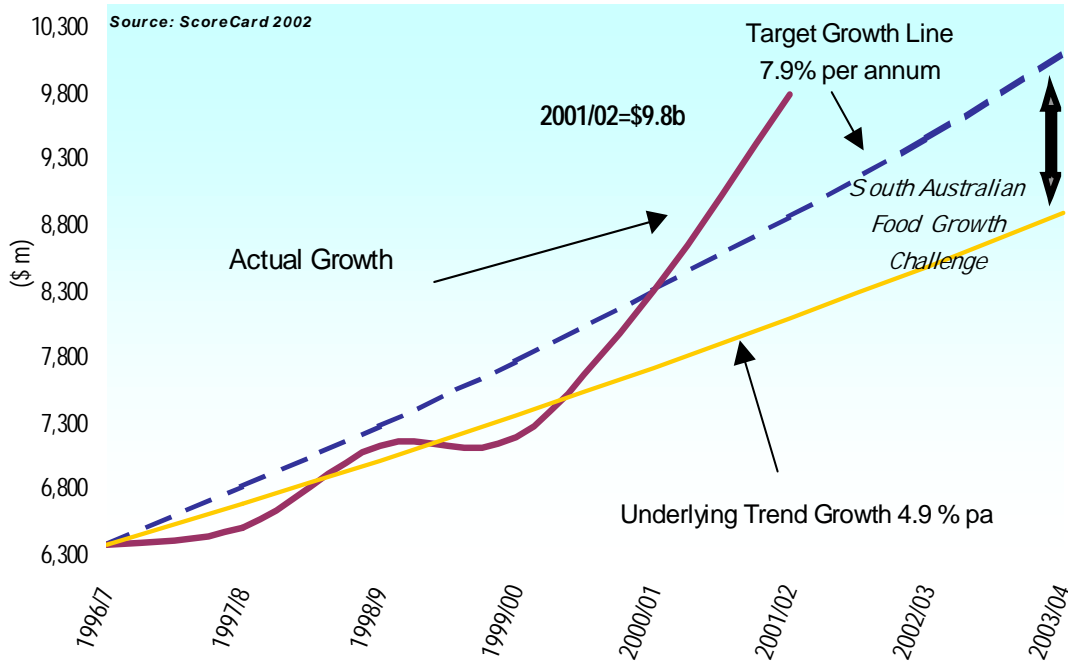
Figure 1 (over page) shows the extent of the *Food South Australia’s* challenge as the difference between the underlying or historical *trend* growth in gross food revenue and the *target* growth line. To illustrate the exceptional growth achieved over the last two financial years, *actual* performance, as shown in figure 1, has leap frogged the required rate to meet the Food Plan target. Since the development of the Plan and target in 1996/97, the State’s food revenue growth has lifted to an average of 11.8 percent per annum². The underlying trend growth of the food industry in the decade prior to the development of the food target was 4.9 percent per annum.

¹ Wine exports and local consumption (revenue) not included. Wine revenue in 20001-02 is \$2.4 billion.

² When food industry price trends are removed from the data, the real growth in gross food revenue is 4.4% per annum.

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Figure 1: Above Target To Reach \$15 billion By 2010
 - Gross State Food Revenue, Target, Underlying Trends and Performance to Date, 1996/7 to 2001/2002



The impact of the exceptional 2001/02 seasonal growing conditions is estimated to have lifted gross food revenue by almost \$550 million. In addition, higher than average export prices, combined with continuing strong domestic demand, has influenced food performance. These factors may be short-term in nature, and do not necessarily represent a permanent or structural change to the State's food prospects. While the record levels of export earnings, continued growth in value-added processing, and stronger industry wide demand chain focus are evident, a sober assessment of the underlying shifts in South Australia's food sector suggest that the industry still has much work to do before it can claim to have breached the target trend line in a structural and sustainable way.

**THE 2001/02 FOOD SOUTH AUSTRALIA SCORECARD
- South Australian Food Revenue Surges to \$9.8Billion**

1. Overview

Table 1 shows that the South Australian gross state food revenue³ for 2001/02 is \$9.82 billion⁴, an 18 percent or \$1.49 billion increase over the previous year. This consists of all food including commodity and other food products sold either overseas, interstate⁵ or for local consumption (shaded area of Table1). The net food revenue for 2001/02 is \$8.62 billion or 16 percent higher than last year's figure. The lesser growth in this figure is due mainly to strong growth in net interstate and overseas imports from \$0.88 billion to \$1.19 billion (a rise of 36%).

Table 1: SA Food *ScoreCard* by Industry 2001/02, \$ million.

Industry	Farm Gate Value ⁶	Processed Food Value	Overseas & Interstate Exports	Retail & Food Service	Net Food Revenue	Gross Food Revenue
Field Crops	1,353	770	1,948	1,429	3,225	3,378
Livestock	865	1,101	867	1,411	2,163	2,277
Dairy	208	291	143	447	544	589
Horticulture	475	811	445	1,123	1,382	1,568
Seafood	480	688	670	185	707	856
Other	0	62	58	1,092	602	1,149
Total	3,380	3,723	4,130	5,687	8,623	\$9,818

Figure 2 shows how each of the major food industries have contributed to the \$1.49 billion growth in gross food revenue over 2001/02. Almost three quarters of the total growth in the *ScoreCard* was due to rises in the field crop industry (up 41%), and meat and livestock industry (32%). In both these industries, rises in average prices, combined with excellent seasonal growing conditions, were key factors influencing growth.

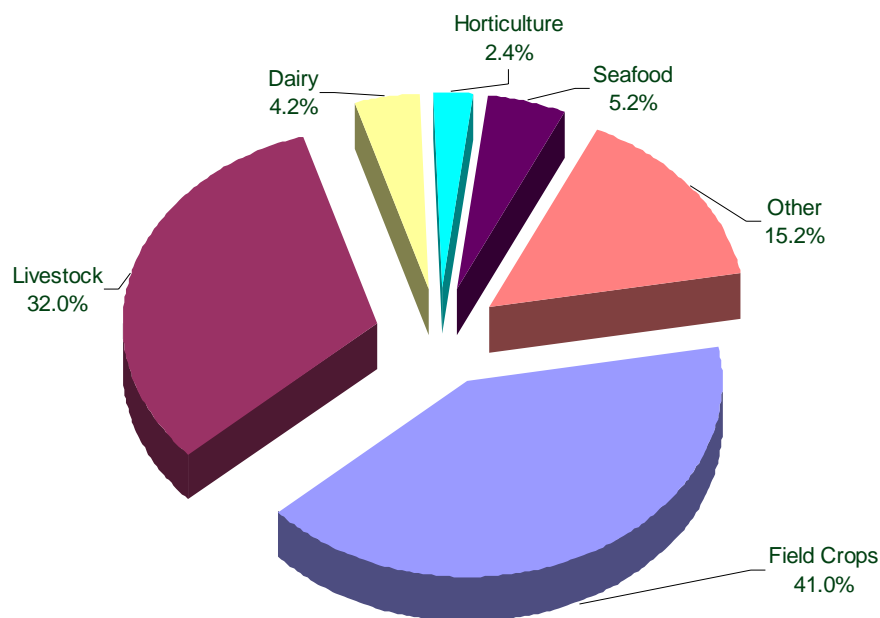
³ This will be referred to as gross food revenue or food revenue for the remainder of this paper. Gross food revenue is the sum of exports and domestic food sales.

⁴ This excludes the contribution made by the wine industry, which is estimated to have Gross State Food Revenue valued of \$2.4 billion in 2001/02.

⁵ Interstate exports include commodities and products that have been produced or manufactured in the given period, but have not been sold locally or overseas.

⁶ Farm Gate Value measured as the value of commodities produced for human consumption, valued at the farm gate or wharf. In addition to the \$3.38 billion under this category, there was \$1.79 billion worth of other non-food agricultural commodities produced in South Australia during 2000/2001. This included feed grains (\$488 m), wool and skins (\$451 m), wine grapes (\$830 m) and seafood (\$2.5 m) Food and non-food farm gate value totals \$5.17 billion.

**Figure 2: - Grain and Meat Products Key to \$1.49 billion Food Revenue Growth
Industry Contributions to 2001/02 Food Revenue Growth**



Source: Scorecard 2002

Table 2 shows how each of the two components of gross food revenue, exports and consumption, contributed to the 2001/02 record level food industry revenue.

Table 2: ScoreCard Comparisons, 2000/01 and 2001/02, \$ million.

	2000/01	2001/02	Absolute Change	Percentage Change
Exports				
Overseas	2,157.0	2,983.3	826.3	38%
Interstate	1,079.0	1,147.1	68.1	6%
Total Exports	3,236.0	4,130.4	894.4	28%
Consumption				
Retail Sales	3,799.0	4,214.7	415.7	11%
Service Sales	1,292.0	1,472.6	180.6	14%
Total Consumption	5,091.0	5,687.3	596.3	12%
Gross Food Revenue	8,326.0	9,817.7	1,491.7	18%
Less Imports	880.0	1,194.8	316.3	36%
Net Food Revenue	7,449.0	8,622.9	1,173.9	16%

Plainly the key driver was overseas exports, where annual percentage growth (of 38%) was more than 2 times the increase in domestic consumption (which on its own rose by 12%, the

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highest annual level of growth in over 10 years). This remarkable coincidence of record export growth coupled with twice the average growth in domestic consumption, propelled gross food revenue up by almost \$1.5 billion, a growth of 18 percent over the year.

Table 2 also shows that the sharp rises in exports and consumption were accompanied by an equally strong rise in imports (up \$316 million or 36 %). The rise in imports is largely a product of strong domestic demand coupled with rising import prices. The recent appreciation of the Australian dollar, suggests that as imports become relatively cheaper, domestic consumer demand will increase, leading to continued import growth. While rising imports may appear to be of concern, the value of imports is relatively low when compared with exports.

2. Overseas Exports Drive Growth in 2001/02

South Australia exported almost \$3 billion of food products to over 120 countries during 2001/02. This is \$826 million (38%) more, than exported in 2000/01.

Figure 3 demonstrates the surge in exports over the year. The value of commodity exports grew 55 percent while processed exports rose 21percent.

Figure 3: The Surge in Overseas Exports - SA's Commodity and Processed Exports 1996/7 to 2001/02, \$ million

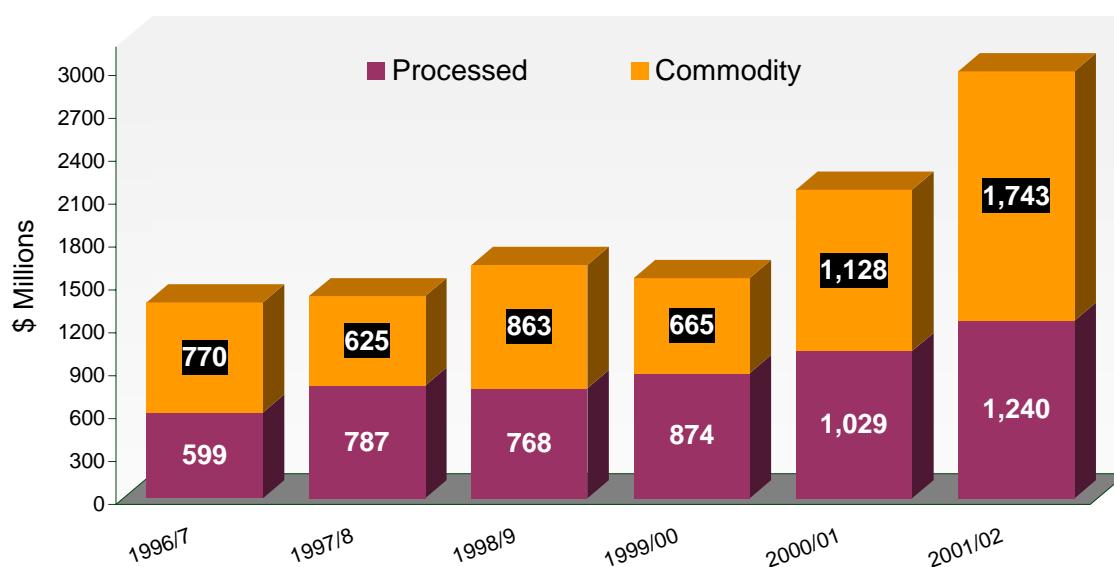


Table 3 (over page), provides a more detailed breakdown of commodity and processed exports over the year. Within commodities, the most marked improvements were in livestock (160% off a low base) and cereals (up 51%). Processed food export growth was strongest in meat (up 49%), and dairy products (29%)⁷.

⁷ In addition to food exports of \$2.98 billion, non food exports include other field crops including feed grains, fodder and seed (\$0.34 billion), wool & skins (\$0.26 billion) and wine (\$1.36 billion). Total agriculture related exports therefore total \$4.94 billion - more than half (54%) of the State's merchandise export value of \$9.2 billion.

Table 3: South Australian Food Exports (overseas), \$millions.

	2000/01	2001/02	Absolute Change	Percentage Change
Commodity Exports				
Cereal Grains etc	1,088	1,639	551	51%
Livestock	40	104	64	160%
Total Commodity Exports	1,128	1,743	615	55%
Processed Exports				
Grain Products	93	99	6	7%
Fruit & Vegetables	110	115	5	5%
Seafood	450	476	26	6%
Meat	299	445	146	49%
Dairy Products	44	57	13	29%
Other	32	48	16	49%
Total Processed Exports	1,029	1,240	211	21%
Total Exports	2,156	2,983	827	38%

Forward estimates of South Australia's population growth suggest that only limited opportunities exist for growth in domestically derived food consumption. Therefore, for the food industry's \$15 billion target is to be met by the end of this decade, substantial and continuous export growth is required. While the 2000/01 increase in exports put the food industry on target, the latest performance has resulted in the South Australian food industry exceeding the average growth to target trend. However, as Table 3 indicates, the bulk of export growth over the past two years is shown as commodity trade driven by both cyclical influences on price as well as seasonal effects flowing from two consecutive record field crop seasons.

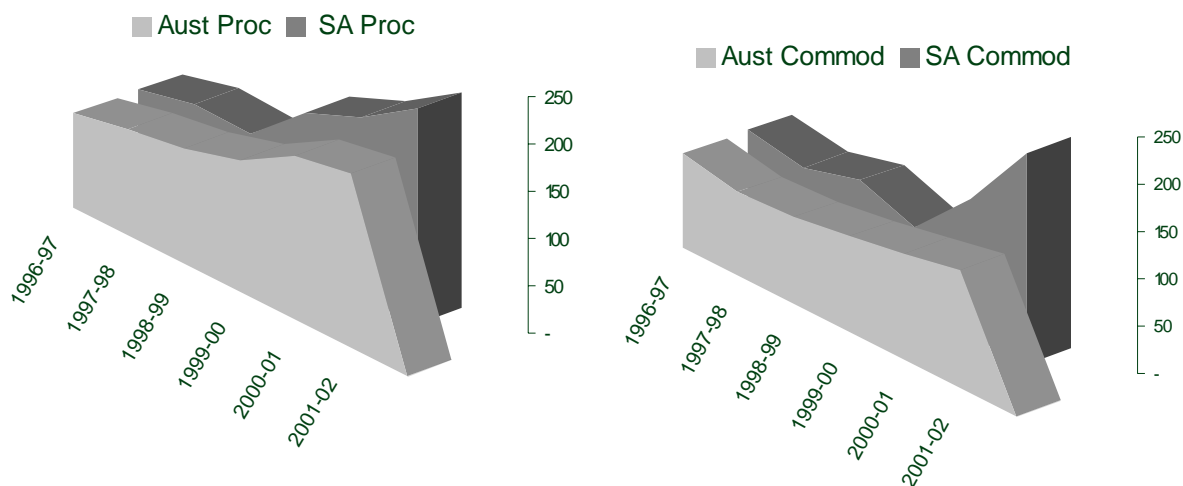
2.1. South Australia's Comparative Food Export Performance

With less than 8 percent of the nation's population, South Australia's food industries account for almost 14 percent of national food exports.

Over the last two years, South Australia's food exports almost doubled from \$1.54 billion to \$2.98 billion, with our growth outperforming all other Australian States and Territories. Indeed the growth in South Australian food exports over the last year accounted for more than half (54%) of total national growth.

Since the inception of the State Food Plan, on average, annual food exports in South Australia have grown at 16.9 percent compared to the national average of 9.6 percent. Comparisons between the relative performance of South Australia and Australia are shown in Figure 4 (over page), where index numbers (based on 1996/97 levels) show relative movements in the value of food exports. Earlier, figure 3 showed that the bulk of State food export growth is occurring in commodity (or lower value-added) food products. Figure 4 shows that South Australian commodity exports have grown at almost 4 times the growth at the national level over the past 5 years. Processed (or higher value-added) food exports have grown by 18.1 percent, considerably above the 13.1 percent growth trend in national processed exports.

Figure 4: -South Australian Food Export Growth - Twice the National Average – SA and Australia, Commodity and Processed Indexed Growth, 1996/7 to 2001/02,



(base period 1996/97 =100)

South Australian food exporters have managed to outperform the national average, despite having a relatively higher composition of smaller and medium enterprises (SME's). Enterprises with less than 50 employees comprise 20 percent of South Australia's food and beverage enterprises, compared to 15.6 percent at the National level.

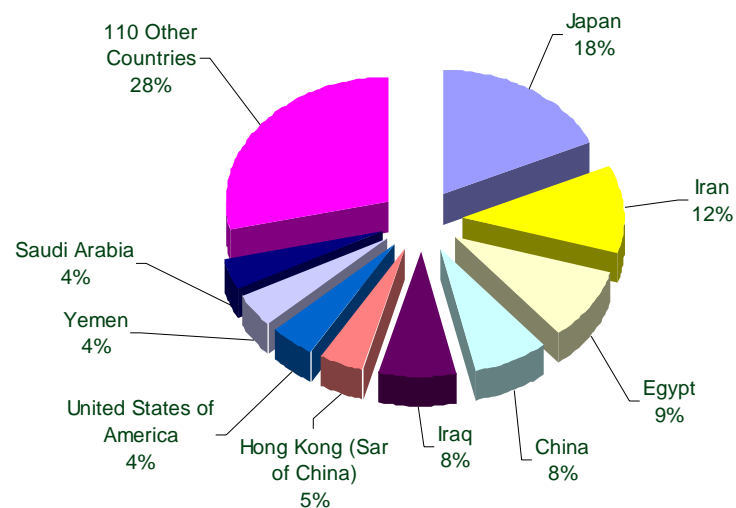
While South Australia's share of SME's are higher than the national average, since 1996/97 they have accounted for around 21 percent of export growth, compared to only 15.7 percent at the national level.

2.2. Export Trade – South Australia exports food to over 120 nations

Over the financial year, South Australia exported food to around 120 nations. Figure 5 (over page), shows that our food export destinations are widely spread, with key partners in Japan, the Middle East, China/Hong Kong, and the United States of America.

Figure 5 shows that the combined Middle Eastern markets make up over one-third of all South Australia's food exports. This is primarily due to commodity trade in wheat and other cereals. Of the other important markets, tuna accounts for almost half of all South Australia's food exports to Japan. Lobsters, abalone, shrimps and oranges comprise the largest value of products exported to Hong Kong, while malting barley, canola seed and abalone are amongst the main South Australian food exports to China. The main South Australian food exports to the United States of America include lamb, beef, oranges, abalone and tuna.

Figure 5: South Australia Processed Food Exports by Destination, Percentage of Value, 2001/02



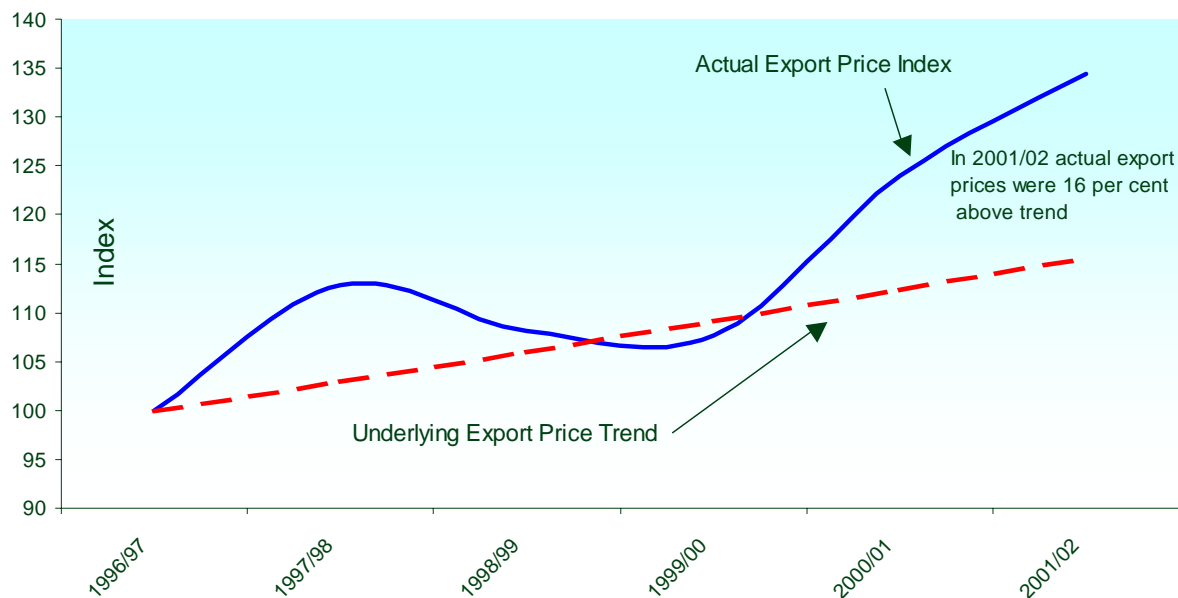
2.3. Export Prices

Australian food and beverage exporters have continued to take advantage of a low Australian currency over 2001/02. Figure 6, (over page), shows that the food and beverage export price index has risen sharply above the underlying long-term trend⁸. Although the price index is influenced by various factors, the recent appreciation of the Australian dollar suggests that the export price index will decline in coming months. This could lead to a softening in overseas demand for Australian agriculture and food products in the short to medium term.

Over the year, the strongest rises in export prices were in live animals (up 38%) and meat (up 18%), with the dairy product, vegetable and the cereal indices experiencing more modest rises of around 10 percent. The seafood export price index decreased slightly.

⁸ Analysis of food export prices over the last 20 years shows an underlying average trend growth of 3% per annum

Figure 6: Changes in Food and Beverage Export Prices, 1996/97 to 2001/02, base = 1996/97



Source: ABS Export Price Index

3. South Australia’s Farmers Produce a record \$3.38 billion of Food

While some horticulture crops including citrus and cherries experienced poor growing conditions, the 2001/02 season delivered almost ideal field crop growing conditions. When combined with higher than average produce prices, the year yielded record level food production values of \$3.38 billion (up by \$567million or 20.3%).

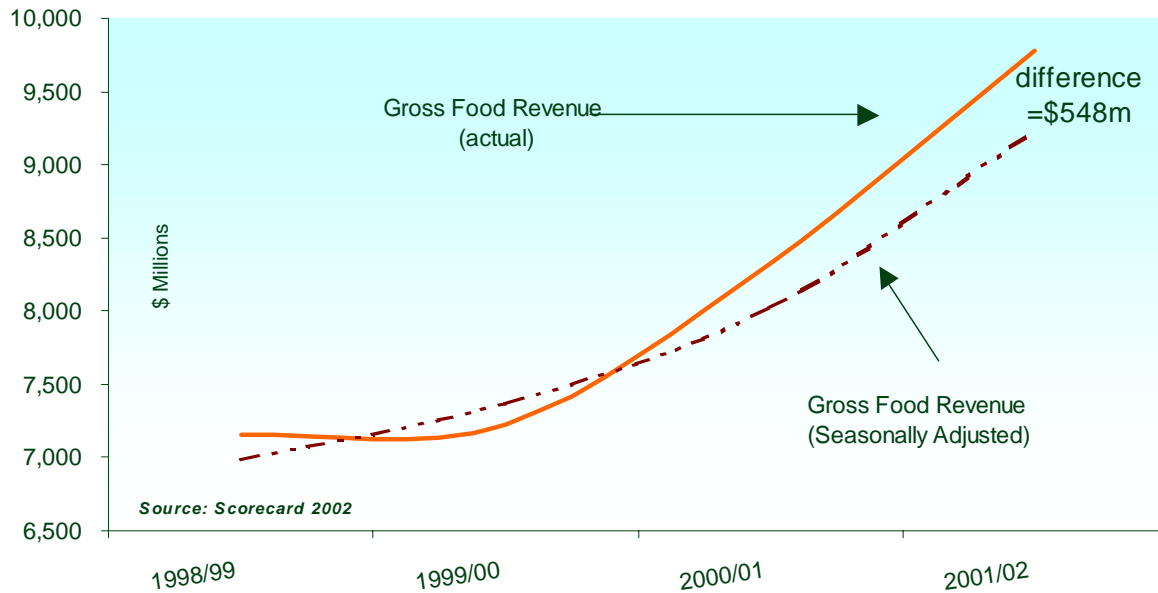
Around two thirds of the gains in farm gate value was derived from growth in food based field crops. In total 9.4 million tonnes⁹ of various grains, pulse seed and oilseed were produced, far exceeding the five year average production level of 6.5 million tonnes. Allowing for this effect, South Australia’s food revenue would still have grown (up 11.3 % to \$9.3 b), above the trend growth required to meet the 2010 Food Plan target.

Figure 7 (over page) highlights the seasonal impact on the field crops contribution to the State’s economy. When compared with an average season, 2001/02 delivered an additional \$548 million to food revenue. This is similar to 2000/01, when seasonal conditions had an estimated \$300 million positive effect on gross food revenue¹⁰.

⁹ This includes both food and animal feed field crops. Food grains represent around 72% of the total crop.

¹⁰ Notwithstanding seasonal influences, the field crop industry has undergone continuing growth attributed to increases in productivity, plantings, and export prices.

Figure 7 – Season Adds \$550m To 2001/02 Farm Incomes - Actual And Seasonally

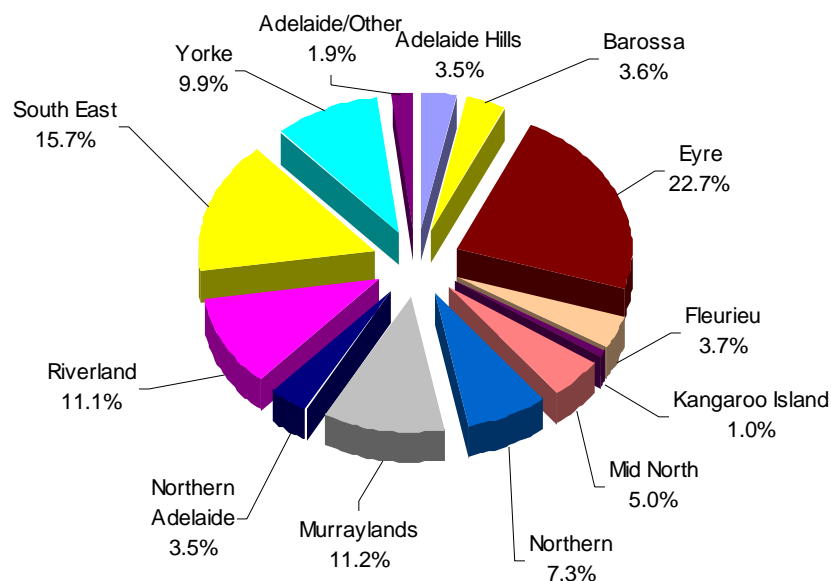


Adjusted Gross Food Revenue 1998/99 To 2001/02.

3.1. Regional Food Production

Figure 8 shows how the State’s regions contributed to food production over the year¹¹. The Eyre region (contributing almost one-quarter of State food production value) made the largest value contribution, followed by the South East, Murraylands and the Riverland.

Figure 8: South Australian 2001/02 Food Production by Region, Percentage of Value (\$3.38m), Measured at the Farm Gate



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4. Adding Value to our Food

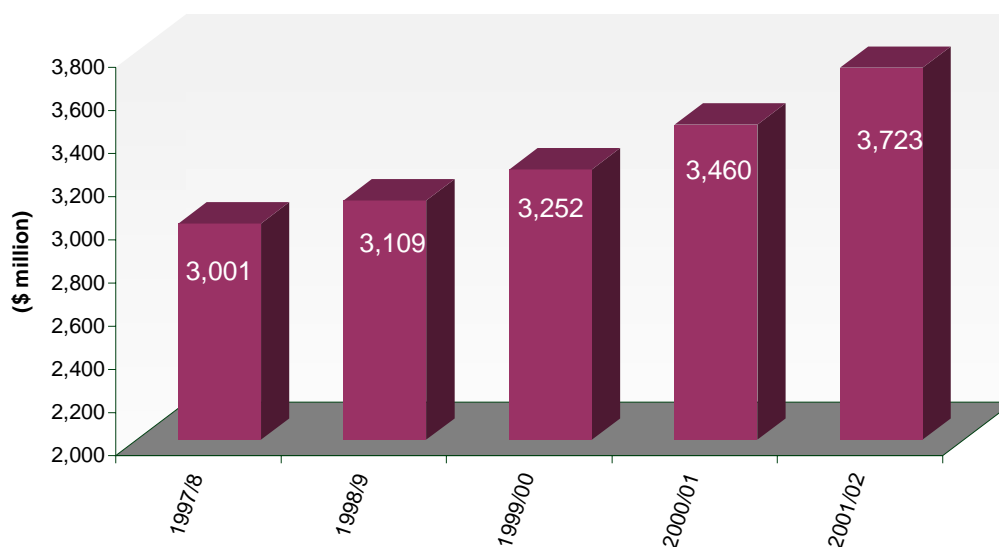
A key *ScoreCard* performance measure is the value of food industry processing. This is measured at an intermediate level, before a product is either traded or consumed. Processed foods may be minimally or highly processed, with their value expressed in wholesale prices, to derive a turnover value.

Food manufacturing turnover, as measured by the *ScoreCard* includes value-adding which occurs outside the traditional manufacturing sector, for example, on-farm or on-boat processing by both the horticulture and seafood industries¹².

The value of South Australian processed food increased¹³ by \$263 million (7.6 percent) in 2001/02 to reach a record level of \$3,723 million. This annual increase compares favourably with a longer-term average increase of 4.0 percent per annum recorded over the past decade.

Figure 9 shows the steady increase in the value of food processing¹⁴ turnover in South Australia between 1996/97 and 2001/02.

Figure 9: Adding Value to Food
- Growth in the Value of SA Processed Food turnover, 1996/7 to 2001/02



Source: ABS Manufacturing & Scorecard 2002.

¹¹ Regional Food Production data are preliminary estimates.

¹² With the production of fresh food in the horticulture and seafood sectors, premiums are obtained for less processed but perhaps higher value-added foods. For example, the live-lobster trade may be considered a commodity export. However, the whole of chain management (value-add) and resulting market premium show that average live lobster exports value at \$75 per kg, greatly exceed frozen lobster meat (a processed product) at \$30 per kg.

¹³ Processed Food Turnover excludes excise and other duties (such as the GST) collected on behalf of governments. Therefore, the net impact of the GST on Processed Food Turnover (for example, via adjustments to input costs) figure is expected to be fairly minor, in the order of 1 to 2 percent.

¹⁴ Derived from a combination of ABS Food manufacturing Turnover 1990-2001 and *ScoreCard* estimates 1996-2002.

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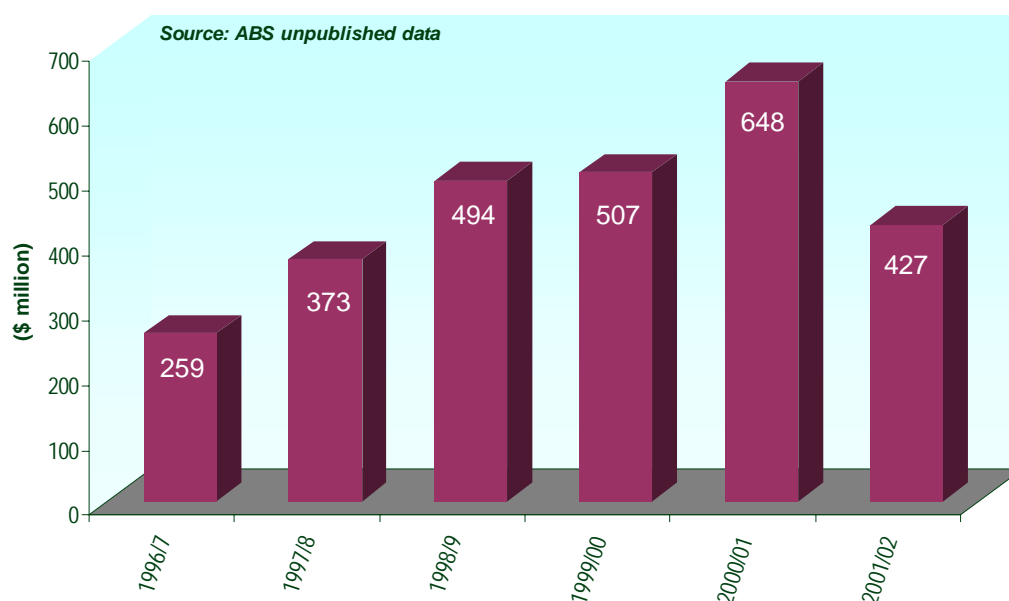
Despite this steady growth, the *ScoreCard* shows that the relative share of processed food turnover to gross food revenue has declined over the past four years, falling from 45.9 percent in 1997/98 to 38 percent in 2001/02. This is largely due to the substantial increase in the value of commodities over the past two seasons.

4.1. Private New Capital Expenditure (excluding primary production)

Over 2001/02 an additional \$427 million dollars of private new capital was invested in SA's food industries (including food manufacturing and wine, food retail and food service). This was a decline of \$221 million (down 34%) over the year, reflecting in part slowdowns in winery expansion, and potential uncertainty in global economic conditions.

Despite the decline over the year, figure 10 shows steady growth over the past 5 years. This growth is mostly due to investment within the wine industry, but also reflects some new investment in capital in the food and hospitality service area.

Figure 10: Food Industry Investment
-Growth in the Value of Private New Capital Expenditure, 1996/7 to 2001/02, \$ million



5. Concluding Comments

The South Australian food industry performed strongly in 2001/02 with the main drivers of growth being favourable seasonal conditions improving supply, improved commodity prices lifting exports, and record growth in the value of domestic consumption.

The above factors also resulted in higher farm gate and processing turnover values, although there is still potential for a stronger increase in food processing turnover particularly in more elaborately transformed processed foods.

The following issues emerge from the latest *ScoreCard*:

- There remains heavy reliance on commodity exports and there is scope for greater value adding;
- Though increasing, food processing would be further strengthened by addition of new value export chains, including better integration between production, processing and marketing;

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- Employment in food manufacturing is not showing growth commensurate with increased value of exports and sales in domestic markets;

The heavy reliance of the South Australian food industry on commodity and lower level value adding (eg grains, packed meat and fresh seafood and horticulture products) indicates that there will continue to be volatility in revenues due to seasonal and price influences.

It is noted that the South Australian food industry has relatively more small to medium enterprises (SME's) than the nation as a whole. With more SME's and fewer larger food companies, the Food Plan and the Food South Australia program is seeking to encourage development of new value chains incorporating value adding for export markets. With the *ScoreCard* showing strong export performance by the State's food SME's, this strategy appears to be correct.

South Australia's prosperity depends to a greater degree than the other States on the food industries, as demonstrated by our high dependence on food and agri-food exports. Relative to the national average South Australia has a predominance of commodity exports. Notwithstanding the above average growth in South Australia's processed food exports, the State continues to rely on strong primary industry exports, with a heavy emphasis on commodities.

Issues such as resource constraints, consideration of Environmental Sustainable Development (ESD), strategies for branding and marketing according to food integrity, and a 'clean green' image are not considered in this paper nor are they incorporated in the growth target (\$15billion). However, over the next twelve months the *ScoreCard* will be broadening the scope of the target to incorporate Triple Bottom line and other additional measurements.

Projects underway in *Food South Australia*, as part of the State Food Plan are addressing the issues indicated above with work proceeding in the areas of demand chain analysis, demonstration projects, export facilitation and increased global competitiveness.

ScoreCard Team
Corporate Strategy and Policy Branch
September 2002

Attachment 1 - What is the Food *ScoreCard*?

What is the Food South Australia *ScoreCard*?

In 1997 the State Government implemented a strategy to expand the revenue generated by the South Australian Food industry to \$15b by the year 2010. As part of achieving this goal, the Food South Australia Program introduced a *ScoreCard* to measure and evaluate the value of the contribution made by food and beverage to the economy, through the value chain from production to consumption.

The stages of production include primary production (fishing and farming), secondary manufacturing (or processing), overseas and interstate exports and the tertiary sectors of retailing and consumption. By measuring the outputs of the value chain, the *ScoreCard* tracks the value of the industry as food goes from the paddock (or ocean) to the plate.

For analysis purposes, the food industry is split into five broad areas (producing categories): field crops, horticulture and livestock including eggs and dairy and seafood. In the process, the *ScoreCard* measures value-chains of over fifty individual food sectors, which together comprise the 5 broad industry groupings.

Performance of the Food industry is measured by: local value farm production values; value-added processing; overseas and interstate trade exports and imports (at both a commodity and processed level); as well as consumption through food retail and food hospitality. The *ScoreCard* analyses both the volume and value of sales at each stage, as well as looking at associated indicators of economic performance such as employment and capital investment. The key measures used in the *ScoreCard* are described further below.

Sources of information used in deriving the *ScoreCard* include ABS, ABARE, Australian Horticultural Corporation (AHC), South Australian Government agencies (such as SARDI), industry bodies, and importantly specific key industry and regional sources.

Successful outcome of the analysis depends to a large degree on the cooperation of industry and its willingness to provide required data. Industry sources are generally forthcoming in providing information although sometimes for commercial reasons, information cannot be shared.

Frequent consultation occurs with industry leaders however and in this way development of the *ScoreCard* is a collaborative effort.

Attachment 1 - What is the Food *ScoreCard*?

Glossary of Terms

Value of Production (Farm Level)

A measure of the value of a commodity at the local level of production (ie. farm gate). Farm value is calculated by multiplying the volume of production by the price received and, therefore, represents the value of production to the farmer or fisher person. This measure can also be used as a benchmark for estimating the additions to the price of a product (and through this, its value) as it moves through the value chain from production to consumption.

Value of Processed Food (measured in wholesale or free on board prices)

This captures the value of foods and beverages that are processed (at their highest level of processing) within South Australia. This excludes the value that is added to the product by the retailer. Processed foods include those either minimally or highly processed, and the value is represented by their wholesale price into the South Australian retail or export markets.

Overseas Export Values– Commodity and Processed

Consists of the value of overseas exports of food and agricultural products sold overseas (measured in free on board prices). These are categorised by the *ScoreCard* into either raw commodity exports or processed exports depending on the level of value-added processing, which occurs prior to Sales overseas.

Net Interstate Trade– Commodity and Processed

Represents the difference in the value of goods exported interstate from those imported from interstate.

- (a) A positive value represents net exports. (i.e. exports exceed imports)
- (b) A negative value represents net imports. (i.e. imports exceed exports)

Overseas Imports– Commodity and Processed

Goods purchased from overseas, categorised into either raw commodity or processed imports. Import volumes and values are quantified at their South Australian landed value (at the port of shipment).

Food Retail Sales

Comprises the value of Sales (turnover) of food made through all retail stores including supermarkets and grocery stores, takeaway food retailing, fresh meat fish and poultry retailing, fruit and vegetable retailing, liquor retailing, bread and cake, and specialist food retailing.

Food Service Sales

Sales of food and beverages through restaurants, hotels, and tourism operations within South Australia.

Net State Food Revenue

A measure of the food revenue derived within South Australia.
It is calculated by subtracting food and beverage imports from the Gross State Food Revenue.

Gross State Food Revenue (excluding wine)

Measures the value of food and beverage retail and service sales and food and beverage exports contributing to the South Australian economy.