

AUSTRALIAN SUMMERFRUIT INDUSTRY



STRATEGIC PLAN 2010 to 2014

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on behalf of and instructed by
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1.0 SUMMARY

The Australian Summerfruit Industry is spread across all states, however the majority of production is in Victoria, New South Wales and South Australia. The total volume of Summerfruit (nectarines, peaches, plums and apricots) harvested in recent years has been approximately 100,000 tonnes per annum, made up of:

- nectarines (approx. 40%)
- peaches (approx. 25%)
- plums (approx. 25%)
- apricots (approx. 10%).

Gross value of the national crop in recent years has been around \$300 million per annum. Key concerns for the industry include:

- Domestic markets for Summerfruit are commonly oversupplied by approximately 15% per annum. This oversupply is significantly impacting the performance of domestic markets and on the returns generated for industry participants.
- There is the possibility of a loss of registration of long term proven pest and disease control agents such as Fenthion and Dimethoate.
- There are potential impacts on the industry of future fruit fly incursions and the loss of Pest Free Area status in regions.

This Strategic Plan has been developed to guide the investment of resources of the peak industry body, Summerfruit Australia Limited (SAL), and direct the funds managed by Horticulture Australia, on behalf of the payers of the marketing and research levies and matched funds for the research program provided by the Australian Government. It is a roadmap to guide investment priorities for the industry for the next five years, based on the knowledge and analysis available at the time of authoring.

The Strategic Plan lists five major strategic objectives for the peak industry body and the Industry Advisory Committee on behalf of all industry participants, being to:

1. increase demand and improve market performance
2. reduce costs in the production and supply chain
3. improve quality and consistency of produce
4. adapt to climate and water supply changes
5. improve industry cohesion and development.

Industry consultation and workshop activities have enabled the development of investment priorities across the five major objectives. The priorities are expressed through the allocation of research and investment funds across the five major objectives. For the planning period (F2009 to F2014) Summerfruit industry research and investment funds will be invested as follows:

1. 40% to increase demand and improve markets performance
2. 15% to reduce costs across entire chain
3. 15% to improve eating quality and consistency
4. 15% to adapt to climate and water changes
5. 15% to improve industry cohesion.

Further to these allocations, it has been identified that at least 80% of research and investment funds should be invested in projects that are commissioned by the industry. The corollary to this is that a maximum of 20% of funds invested should be allocated to projects proposed by third parties and presented to ('bid to') the peak industry body for consideration (via the Industry Advisory Committee (IAC)).

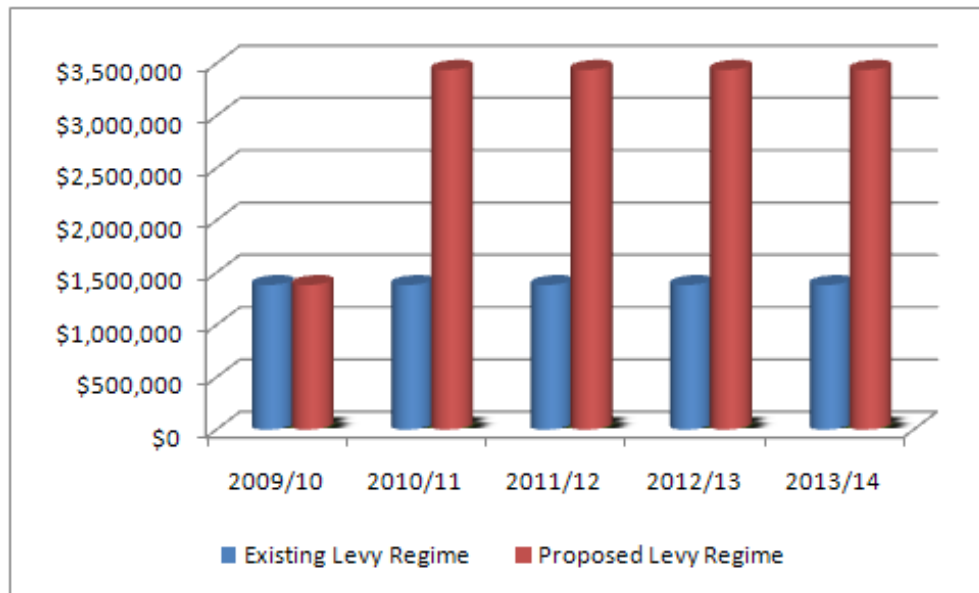
The business environment for this industry is challenging and dynamic. Volatility and unforeseeable circumstances will unquestionably be a part of the operating environment moving forward and may dictate the need to reassess priorities and redirect funds if circumstances dictate.

Concurrently with the development of the Strategic Plan, the industry is considering an increase in levy funds collected from industry participants and invested in the future of the industry, for both research and development and for marketing. If adopted, the proposed new levy regime will result in funds of approximately \$15 million being invested in the industry in the next five years.

The adoption of the proposed new levy regime would create a 67% increase in total funds available for research and development and a 269% increase in total funds available for investment in marketing of Australian Summerfruit to domestic and export markets, over a five year period.

Figure 1 illustrates the impact of the proposed new levy regime on investment funds.

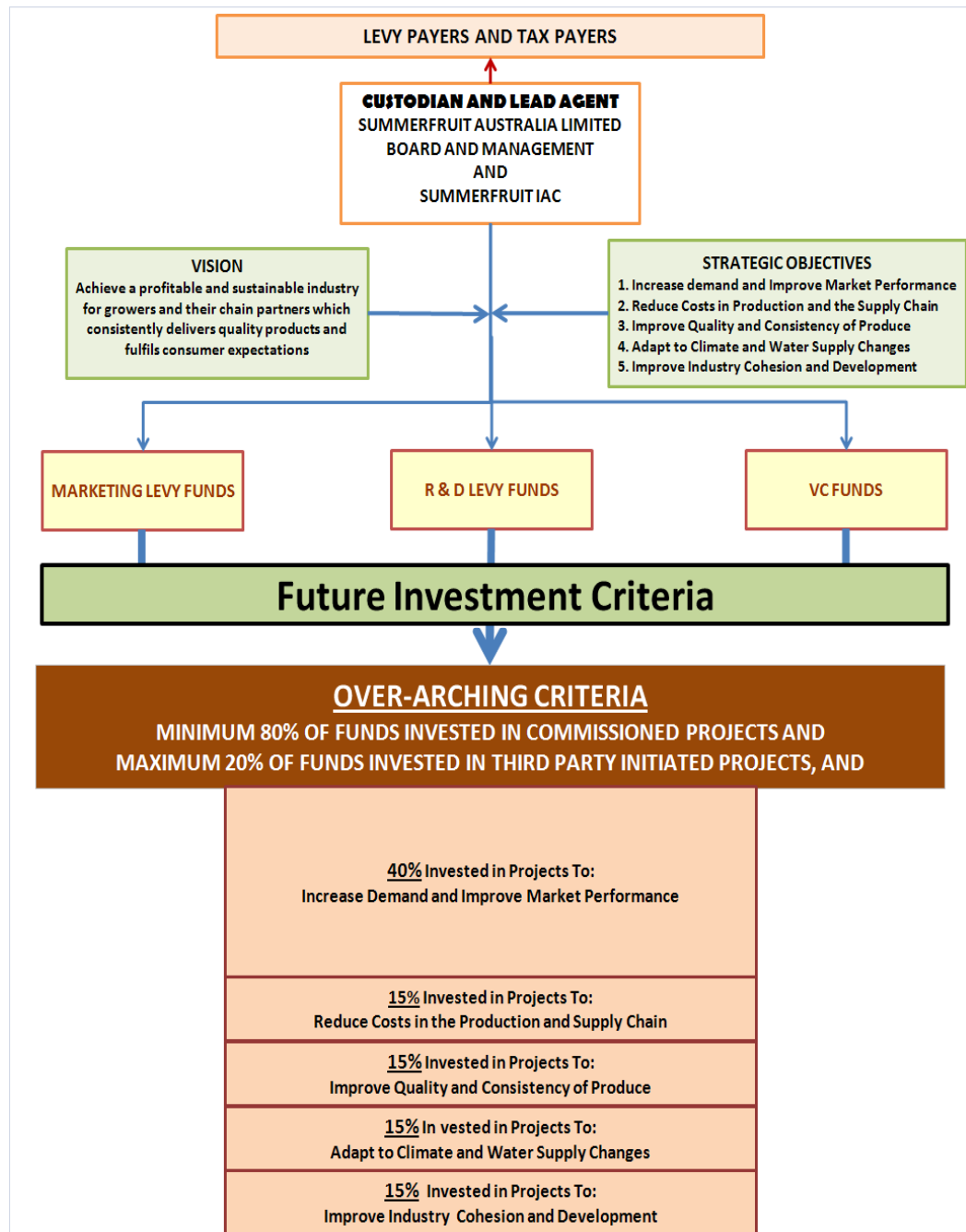
Figure 1: Impact of Proposed New Levy Regime on Investment Funds F2009 – F2014



In consideration of the historic investment on Multi Industry research and development projects by the Summerfruit industry, and the funds required to effectively run the peak industry body, the IAC, and their communication with industry, this new regime would exponentially increase funds available for marketing and for investment in projects specifically for the Summerfruit industry.

This Strategic Plan, how it is to be managed 'by industry for industry' and the intended investment criteria and outcomes are illustrated in **Figure 2**.

Figure 2: Australian Summerfruit Strategic Plan (Diagram) F2009 – F2014



2.0 PLANNING PLATFORM

2.1 Vision

“A profitable and sustainable industry for growers and their chain partners which consistently delivers quality products and fulfils consumer expectations, in Australia and in export markets.”

2.2 Mission

Summerfruit Australia Limited (SAL) is the representative organization and recognized Peak Industry Body for the Australian Summerfruit Industry. SAL is custodian and ‘lead agent’ in pursuit of the vision, for the industry.

SAL’s aim and mission in the period 2010 – 2014 is to identify and effectively manage the key issues that are impacting the viability, sustainability and relevance of the industry for its key stakeholder groups, being growers, marketers, consumers and key input suppliers and service providers.

2.3 Focus

This strategic plan has been developed to guide the investment of resources by the peak industry body, Summerfruit Australia Limited (SAL), and direct the funds managed by Horticulture Australia on behalf of the payers of the marketing and research levies and matched funds for the research program provided by the Australian Government.

The document also provides a guide to those research organizations such as state government departments, universities and industry participants that are in a position to co-invest in projects that align with their priorities.

Historically, research and development levies, marketing levies and matching funds from government have generated approximately \$1.5 million per annum which has been invested in projects of industry development, marketing and promotion. Taking into account a proposed increase in levies, in the next five years the funds invested by the Peak Industry Body on behalf of industry and the Australian Government is likely to exceed \$15 million.

This plan is the roadmap to guide investment priorities for the industry for the next five years, based on the knowledge and analysis available at time of authoring. It will not address every issue of concern to the industry due to funding constraints to undertake R&D and promote products.

The business environment for this industry is challenging and dynamic. Volatility and unforeseeable circumstances will unquestionably be a part of the operating environment moving forward and may dictate the need to reassess priorities and redirect funds if circumstances dictate.

2.4 Objectives

The outputs and the strategies to be implemented to deliver them have been identified in the Plan under five major objectives that underpin the financial wellbeing of business enterprises in the Australian Summerfruit industry. The objectives are:

1. increase demand and improve market performance
2. reduce costs in the production and supply chain
3. improve quality and consistency of produce
4. adapt to climate and water supply changes
5. improve industry cohesion and development.

In addition, the industry is in the process of considering a proposed increase in levy fees collection. This process and the perceived need to increase the funds collected and invested in the industry is referred to in this Strategic Plan and details are included in Section 6.0.

3.0 INDUSTRY SWOT ANALYSIS

Analysis of the Australian Summerfruit industry’s strengths, weaknesses, opportunities and threats is summarised in **Figure 3**.

Figure 3: SWOT Analysis for Australian Summerfruit Industry

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Favourable climate supports high sugar content and good eating quality. • Counter seasonal supply windows compared to major northern hemisphere supplying nations. • Short distances to Asian markets compared to competing supply nations. • Strong investment in and adoption of current and emerging technologies. • Existing domestic cold chain infrastructure is capable of supporting good product quality through to consumers. 	<ul style="list-style-type: none"> • High cost of production and shipping compared to (southern hemisphere) competitors. • Over production relative to domestic demand and current export opportunities. • Export culture and focus is opportunistic and commodity oriented. • Consumer dissatisfaction with product eating quality and consistency. • The supply chain not performing efficiently and allowing product to reach consumers with poor and inconsistent eating quality. • Inadequate industry data and information available to the Peak Industry Body other industry organisations, researchers and marketers. • Limited industry funds invested in future development. • Lack of industry cohesion and collaboration, and a lack of unity in support of the Peak Industry Body.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Increase export volumes to markets with existing protocols in place (predominantly Asian markets). • Improve the domestic supply chain and deliver improved product consistency and quality to consumers, and improve consumer satisfaction and consumption. • Implement a crop census and forecasting tool to assist in the coordination of marketing and promotion and improve market clearance and performance. • Achieve market access to key new international markets including Taiwan (for wider parts of the Australian industry) and mainland China. 	<ul style="list-style-type: none"> • New product imports (from USA, potentially other southern hemisphere producers). • Loss of access to proven pest and disease treatments (e.g. Fenthion and Dimethoate). • The impact of Fruit Fly incursions on export trade and the risk of regions losing Pest Free Area status. • Lack of industry research and understanding of consumer sentiment about Summerfruit. • The negative impact of climate change on farm costs and practices.

4.0 MAJOR ISSUES

4.1 Oversupply Is Impacting Industry Participants

The growth in production capacity over the past decade and the loss of key export markets have resulted in an excess of supply over domestic demand.

Supply is defined as:

$$\text{DOMESTIC PRODUCTION} + \text{IMPORTS} - \text{EXPORTS} = \text{DOMESTIC SUPPLY}$$

The following factors have contributed to oversupply in the industry:

1. **Production** growth per annum may have slowed in recent years, however the cumulative increase in tree numbers to current levels has resulted in production being too high for the efficient performance of domestic markets and the achievement of sustainable pricing levels for chain participants.
2. **Export** volumes have reduced in recent years. The strength of the Australian Dollar, limited market access (Biosecurity) into some key markets and the strength of export supply chain structures will continue as challenges to increasing export volumes.
3. **Imports** are expected to increase. US access (off-season to Australian peak marketing season) is expected by 2011. Beyond that, future access being granted for major southern hemisphere suppliers (South Africa, South America) will have greater impact during the Australian marketing season.
4. There are **no national industry data sets**. The diversity of Summerfruit products produced in Australia (peaches, nectarines, apricots, plums), including varieties within products, is significant. There is no industry wide system of collecting and using production data and forecasting to guide and coordinate major industry/chain functions, to assist with efficient product flows. These functions include but are not limited to :
 - variety development
 - new plantings
 - supply chain efficiency, knowledge and training
 - marketing and promotion.

4.2 Cost Escalation Is Impacting Industry Participants

Cost increases both on-farm and off-farm are occurring and both are impacting the viability of producers

Increasing on-farm costs include labour, inputs (including water, utilities, fertilizers, pesticides, fuel and packaging) and legislative and commercial compliance costs.

Increasing off-farm costs include labour, power, freight, infrastructure costs, legislative and commercial compliance costs.

On-farm costs may have previously been seen as the major cost management issue. Industry should reconsidered this as off-farm costs will impact producers, either directly through fees for services provided or indirectly through prices received and margins achieved.

4.3 Inconsistent Eating Quality Disappoints Consumers

Eating quality and consistency of quality is disappointing consumers.

A universal view held by consumers is that summerfruit is inconsistent and of a poor eating quality. Drivers contributing to this consumer view include:

- premature harvest to capitalize on early season prices
- premature harvest to provide requested volumes to retailers
- strip picking to reduce labour costs
- premature harvest to 'improve' transportation and shelf life and reduce through chain loss /damage
- poor varieties or variety selection
- supply chain failure and lack of product knowledge in the supply chain
- a poor supply chain understanding of storage and storage temperature requirements of Summerfruit.

Key concerns for industry to address consumer issues include:

- small fruit
- low sugar levels
- bland and hard fruit that becomes 'mealy' as it ripens off the tree
- bad consumer experiences with early season (low chill) product impacts repeat purchases and demand throughout the season. In particular, many early season / low chill varieties are perceived to be visually appealing and travel or store well when they are immature for eating quality.

4.4 Climate and Water Supply Changes Are Impacting the Industry

Changing temperature and rainfall patterns are occurring at unprecedented rates for current generations of producers and researchers and their immediate predecessors (their

knowledge sources). The speed of change is outstripping the ability of variety development and on-farm production technologies to react to the change.

In particular, changes to rainfall patterns and frequencies are impacting on-farm practices and on-farm investment requirements which in turn are impacting costs and viability.

There is minimal knowledge of how to react to such changes and knowledge needs to be developed, proven, disseminated and adopted.

4.5 Lack of Industry Cohesion Is Impacting Participant Outcomes

The diversity of products, varieties, regions and production systems (low-chill, medium-chill, and high-chill) is a fundamental attribute of the Summerfruit industry.

To date, the Peak Industry Body (PIB) and its predecessor entities have been unable to unify diverse industry participants and their regional organisations behind the strategies and activities initiated on behalf of the industry.

The resulting lack of industry cohesion and collaboration is impairing the ability of the PIB and the industry in its attempts to invest scarce industry funds effectively to mitigate key risks and capitalize on key opportunities.

The PIB needs to revisit and re-present its vision and direction to industry participants and gain industry wide support for carefully formulated strategies and initiatives. Key initiatives can then be successfully implemented which focus on addressing:

- the most universally impacting risks (for the majority of participants), and
- the most pressing opportunities for industry improvement.

Other key focus areas may include:

- establishing stable and effective leadership
- determining a clear vision and direction
- implementing effective industry wide communication mechanisms.

4.6 Current Industry Funding Is Limiting Key Investment Areas

In the 2007-2008 season, industry production was 103,500 tonnes and levies collected were approximately \$1m.

Levies are invested in research and development (55%) and marketing (45%).

Historically, of the research and development levy funds invested, approximately 53% has been invested in Multiple Industry Projects and 47% in projects specifically approved and funded for the Summerfruit Industry (Summerfruit Only Projects).

Of the Summerfruit Only Projects currently funded by research and development levies, the investment portfolio mix is approximately:

- supply management R&D (all market access) 29%
- cost management R&D (predominantly pest & disease) 20%
- eating quality 2%
- climate and water management 0%
- industry management (partnership agreements & idna¹) 49%.

Effective investment in key areas and to address major issues is limited by the amount of industry investment funds available to invest.

Given the Multiple Industry Projects that will continue to require funding, and the continued need to invest in administration, governance and communications, minimal future investment in key Summerfruit industry issues is likely with the current level of levy funding.

¹ Includes funds sourced and used to engage the Summerfruit CE, and cover operating costs for the CEO, the SAL Board and the Industry Advisory Committee.

5.0 STRATEGIC OBJECTIVES

5.1 Objective 1: Increase Demand, Improve Market Performance

INDUSTRY ENVIRONMENT

- Current estimates suggest over supply on the domestic market of 15%, equating to 15,000 tonnes per annum nationwide (prior to any new import volumes arriving).
- Distribution of the current 100,000 tonne average annual harvest is:
 - retail sector 80,000 tonnes (80%)
 - food service sector 8,500 tonnes (8.5%)
 - export sales 9,700 tonnes (9.7%)
- Current exports are predominantly to Hong Kong (ultimately China).
- Other markets with existing protocols in place include Taiwan (SA and TAS only), Hong Kong, Malaysia, Singapore, Middle East and Indonesia.
- New imports (US) of 10,000 to 30,000 tonnes are expected in May 2011.
- Concerns exist for potential future Biosecurity Australia approvals for imports from South America and South Africa, countries that produce in the same season as Australia.

STRATEGIC ACTIVITIES

1. Pursue export expansion to existing export markets.
2. Continue work on market access to key new markets.
3. Increase domestic consumer satisfaction and per capita consumption.
4. Manage the impact of increased imports, both from the US and potentially from southern hemisphere producers.
5. Develop a database and system for forecasting production data and use this system to assist in the direction of investments in marketing and clearance of the annual crop.

ACTION AGENDA

New Investment Priorities

1. Invest 40% of levy funded research and development funds in projects to address increasing demand and improving market performance.
2. At least 80% of the projects funded shall be projects commissioned and defined by the Summerfruit IAC, SAL Board or parties engaged by these bodies.

5.2 Objective 2: Reduce Costs in the Production and Supply Chain

INDUSTRY ENVIRONMENT

- Cost increases are impacting chain participants both on-farm and off-farm including:
 - recent and projected increases in the cost of fundamental utility inputs e.g. power and water
 - compliance costs, both statutory and commercial (e.g. impact of specifications, category management and RPC infrastructure costs)
 - direct costs including labour, fertilizers and chemicals, and fuel (impact on farm and on transport costs through the chain)
 - other indirect costs (e.g. scan data, construction and infrastructure costs, category management overheads and road freight overheads).

STRATEGIC ACTIVITIES

1. Research, analyse and prioritise on-farm cost items
2. Research, analyse and prioritise through chain (off-farm) cost items
3. Develop (cause and effect) an understanding and how best to address selected high priority cost items to achieve systemic (repeatable) improvement
4. Develop and implement projects to address selected target items.

ACTION AGENDA

New Investment Priorities

1. **Invest 15% of levy funded research and development funds in projects to reduce costs in the production and supply chain.**
2. **At least 80% of the projects funded shall be projects commissioned and defined by the Summerfruit IAC, SAL Board or parties engaged by these bodies.**

5.3 Objective 3: Improve Quality and Consistency of Produce

INDUSTRY ENVIRONMENT

- Consistent consumer feedback is that they are disappointed with the quality and consistency of produce purchased.
- Disappointing purchases early in the season impacts later purchase decisions as the season progresses.
- Key concerns include low sugar levels, small fruit, and hard fruit that is mealy and of poor eating quality.

STRATEGIC ACTIVITIES

No specific strategies have been identified.

There has been small investments in this area in past years.

ACTION AGENDA

New Investment Priorities

1. Invest 15% of levy funded research and development funds in projects to improve the quality and consistency of produce.
2. At least 80% of the projects funded shall be projects commissioned and defined by the Summerfruit IAC, SAL Board or parties engaged by these bodies.

5.4 Objective 4: Adapt to Climate and Water Supply Changes

INDUSTRY ENVIRONMENT

- Temperature and water supply changes are occurring at increasing frequency.
- Producers, researchers and their immediate information sources have no exposure to current climate change dynamics.
- Mid and long term impacts are expected and new knowledge and technology is required.

STRATEGIC ACTIVITIES

No specific strategies have been identified.

No investments to address climate and water supply changes have been made by the industry to date.

ACTION AGENDA

New Investment Priorities

1. Invest 15% of levy funded research and development funds in projects to address climate and water supply changes.
2. At least 80% of the projects funded shall be projects commissioned and defined by the Summerfruit IAC, SAL Board or parties engaged by these bodies.

5.5 Objective 5: Improve Industry Cohesion and Development

INDUSTRY ENVIRONMENT

- The Peak Industry Body and its predecessors have a need to overcome the legacy issues of past eras and align the industry and unify support behind the single industry body, Summerfruit Australia Limited (SAL).
- Ongoing productive relationships and initiatives of regional organisations and special interest groups need to be acknowledged and managed into a unified approach to benefit of all industry.
- The benefits of unified industry support behind SAL need to be acquired and delivered upon, including:
 - efficiencies in administration
 - securing matching Australian Government contributions
 - synergies and “best bang for the \$” from coordinated marketing, research and development and industry development spend and activities.

STRATEGIC ACTIVITIES

1. Pursue a cohesive and coordinated approach to managing the impact of impending US imports, and potential imports from major competitor nations (e.g. South Africa, South America).
2. Conduct a National Crop Census and identify forecasting tools to assist industry, particularly in the management of oversupply.
3. Coordinate support for a levy increase and an agreed investment strategy for the additional funds (including additional matching Australian Government contribution). Refer to Section 9 for details.

ACTION AGENDA

New Investment Priorities

1. Invest 15% of levy funded research and development funds in projects to improve industry cohesion and development.
2. At least 80% of the projects funded shall be projects commissioned and defined by the Summerfruit IAC, SAL Board or parties engaged by these bodies.

6.0 INCREASE INDUSTRY INVESTMENT FUNDS

INDUSTRY ENVIRONMENT

- Current levels of levy raised along with matching government funding are 1 cent levy per Kg harvested, of which:
 - 55% of this is allocated to research and development
 - 45% of this is allocated to marketing.
- Matching government funding applies to the research and development levy only.
- Historically, of the research and development levy and matching government funding raised:
 - approximately 50% or more has been invested in Multi Industry Projects
 - approximately 35 – 40% has been invested in industry communication and supporting the functions of the Peak Industry Body and the Industry Advisory Committee
 - only approximately 10-15% has been available for investment in projects to specifically assist the Summerfruit Industry.

STRATEGIC ACTIVITIES

1. Continue to develop a new levy regime to propose to industry of 3 cents per Kg harvested, of which:
 - 1 cent is allocated to research and development
 - 2 cents is allocated to marketing.
 - matching government funding is to apply to the research and development levy only.

Note: A forward projection model of funds available for levy funded research and development and levy funded marketing indicates an uplift in funds available for investment as outlined in **Table 1**, **Table 2** and **Table 3**.

ACTION AGENDA

1. Proceed with the process to seek industry approval of the proposed new levy regime as soon as possible.

Table 1: Projection Model – Future Levy R&D Funds under Different Levy Regimes

	CURRENT LEVY REGIME	PROPOSED LEVY REGIME
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Australian Summerfruit Industry – Strategic Plan 2010 - 2014 -

Average annual funds able to be invested in Levy Funded R&D in 2010-11 to 2013-14 after collection and other costs	\$1,025,000	\$1,880,000
Future R&D marketing investments possible with funds available*		
Communication and admin. functions	\$300,000	\$300,000
Multi Industry Projects	\$500,000	\$500,000
Summerfruit Industry Specific Projects	\$225,000	\$1,080,000
TOTAL	\$1,025,000	\$1,880,000
Note:		
*Assumes similar future investment in Multi Industry Projects and communication and administrative functions to 2009-10 figures.		

Table 2: Projection Model – Future Marketing Funds under Different Levy Scenarios

	CURRENT LEVY REGIME	PROPOSED LEVY REGIME
Average annual funds able to be invested in Levy Funded Marketing in 2010-11 to 2013-14 after collection and other costs	\$357,000	\$1,590,000
Future marketing investments possible with funds available		
Domestic	\$357,000	\$559,000
Taiwan	\$0	\$350,000
Hong Kong / China	\$0	\$300,000
Middle East	\$0	\$250,000
Others	\$0	\$100,000
TOTAL	\$357,000	\$1,559,000

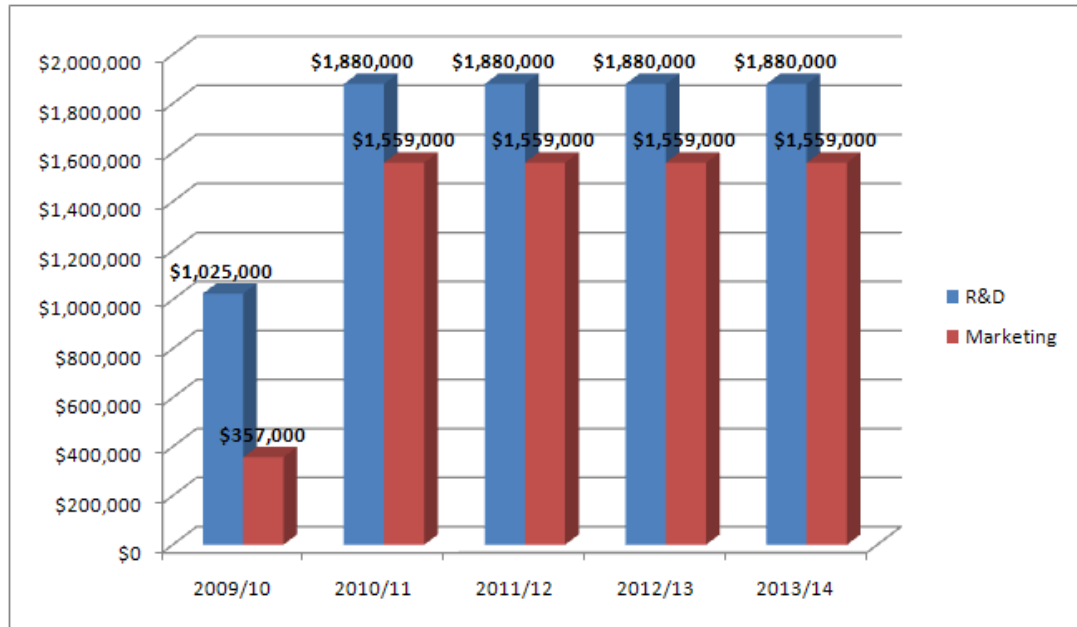
Table 3: Projected Funds Invested 2009-10 to 2013-14 under Proposed Levy Regime

Year	R&D (\$'000)	Marketing (\$'000)	Total (\$'000)
2009-10	\$1,025	\$357	\$1,382
2010-11	\$1,880	\$1,559	\$3,439
2011-12	\$1,880	\$1,559	\$3,439
2012-13	\$1,880	\$1,559	\$3,439
2013-14	\$1,880	\$1,559	\$3,439
5 YEAR TOTAL	\$8,545	\$6,593	\$15,138

7.0 FORECAST INDUSTRY INVESTMENT F2010 – F2014

The forecasted industry investment in marketing and research and development over the next five years is illustrated at **Figure 4**.

Figure 4: Forecast Investment for the Australian Summerfruit Industry F2010 - F2014 (*)



Note:

(*)Assumes proposed new levy regime is adopted by the industry in 2009-10 and assumes total harvested volumes remain static at 110,000 tonnes per annum.

8.0 ACTION PLAN

Following the completion of this Strategic Plan, the Board of SAL have developed and agreed an action plan and have specifically commenced action agendas for key areas of this Action Plan including;

1. Commenced a specific project to propose and seek industry agreement on the proposed new levy regime. This is a substantial process of communication and consultation with the industry participants. (See Appendix Item.)
2. Commenced a project to assist in the export of Australian stonefruit. (See Appendix Item).
3. Completed a 3 year Export Strategic Marketing Plan. (See Appendix Item)

Further to the above the Domestic Marketing Plan is currently being developed (in line with seasonal cycles) and will be ready for the next domestic marketing season in late 2010

9.0 APPENDICES

9.1 Extract - Project SF09033: Levy Consultation Project

9.2 Extract – Export Communication and Process Project

9.3 Extract – Strategic Export Marketing Plan 2010 - 2013

10.0 REFERENCES AND INFORMATION SOURCES

10.1 Taking Stock and Setting Directions

10.2 Summerfruit Industry Business Case to Underpin Strategic Direction

10.3 Annual Investment Plan Summerfruit July 2009 – June 2010

11.0 SUPPLEMENTARY DOCUMENTS

HAL BACKGROUND DOCUMENT FOR ADVISORY COMMITTEES

SUMMERFRUIT MARKETING AND R & D LEVY GRAPHS