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Last Summer's EU Avocado Price Dip Was Not a One-Off

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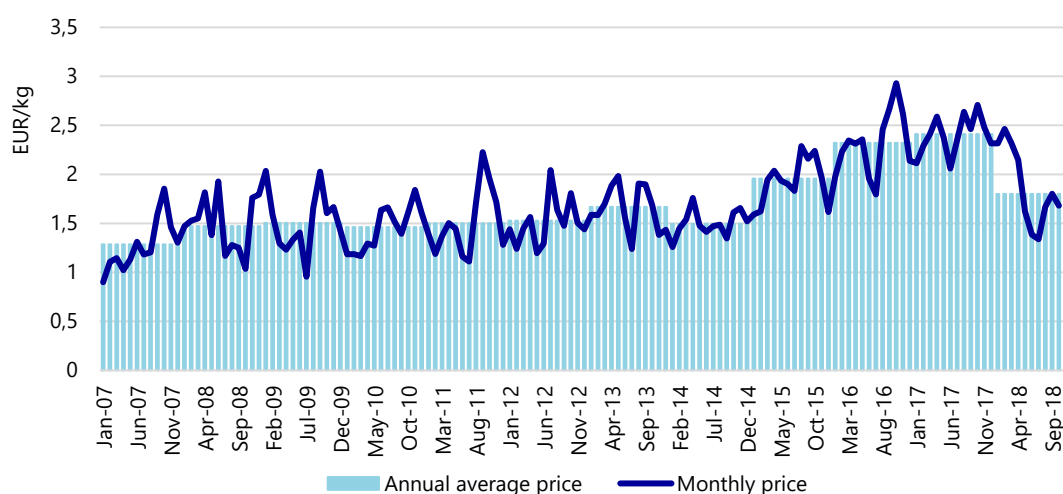
Summary

While northern Europe will remember the summer of 2018 as dry and hot, avocado prices weren't hot at all, as the EU market had some difficulties absorbing the huge spike in volumes supplied. This was the start of a new era for EU avocado prices: although the market still has potential to grow, periods of market irregularities will become more common.

EU avocado prices on a rollercoaster ride in 2018

In the last few years, the EU avocado market got used to climbing prices, but 2018 saw an end to that trend (see *Figure 1*). The 2018 price swings were among the most noteworthy of the decade. The year started with relatively high price levels followed by a steep decline leading to low prices during summer. The dramatic fall was mainly caused by a very strong rise in supply (55%) from Peru and South Africa, the two dominant EU suppliers in summer time (see *Figures 2 and 3*).

Figure 1: EU avocado price development 2007-2018



Note: Price indicator is the EU avocado CIF (cost, insurance, freight included) import value.
Source: Eurostat, Rabobank 2019

Managing mismatches in the EU market

The recent drop in prices is a serious sign that the EU avocado market is about to change. Avocado supply to the EU will continue to grow, probably irregularly. At times this will result in mismatches, just like last summer.

Industry players can limit the impact of these mismatches by more intensified and coordinated product promotions during supply peaks. Furthermore, supply chain cooperation can help to manage price volatility and oversupply. Longer-term price agreements between players can reduce price volatility and supply uncertainty. And with timely and precise forecasting and information exchange, supply chain partners can anticipate supply peaks.

Avocado production is on fire

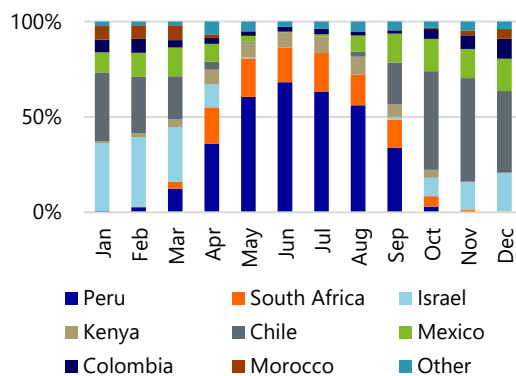
Supply peaks are caused, among others, by Peru. Peru is one of the fastest growing avocado exporters globally and is still expanding its planted areas. In only five years' time, Peruvian avocado exports have almost tripled. Other established producers like Mexico and South Africa are stepping up production, and so are upcoming producers like Kenya, Colombia, Brazil, and Morocco.

The expansion in this lucrative industry is fuelled by large-scale growers and investors, so growth is taking place in uneven, and sometimes big, spurts. Research Center FruiTrop forecasts global Hass avocado production to grow on average by roughly 230,000 tonnes a year over the next five years. Compared to global production of around 6 million tonnes per year, this is a modest volume. But these 230,000 thousand tonnes represent an additional 14% in global exports to be absorbed by import markets.

EU is a mainstay in the global avocado market

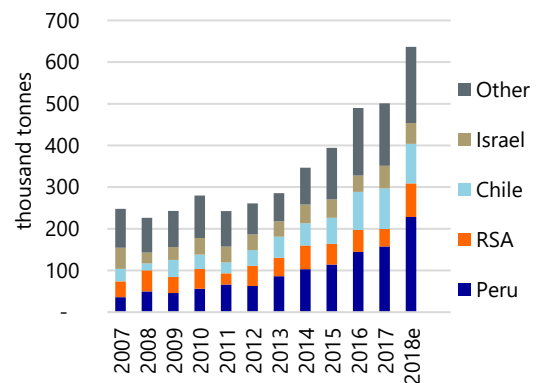
Currently, the US and the EU control about 90% of global avocado imports (re-exports excluded). On average, US and EU import volumes have grown by 85,000 and 70,000 tonnes a year respectively over the last five years. Although Asia is a fast-growing market, its avocado demand is still rather small in absolute terms, with China and Hong Kong together importing 53,000 tonnes in 2017.

Figure 2: EU monthly avocado imports by origin, 2017



Source: Eurostat, 2019

Figure 3: Annual avocado supply in the EU by origin, 2007-2018



Note: 2018 data are estimated.

Source: Eurostat, Rabobank 2019

Growth has not yet reached its limit

The EU avocado market has not yet reached its limit to growth. In 2018, avocado supply in the EU totalled 636,000 tonnes. Per capita consumption is at 1.2 kg per year, not accounting for waste. If EU consumption levels rise to the level of the Nordic countries (just over 2 kg per capita per annum), the market could grow to well over 1 million tonnes. Particularly in southern Europe, eastern Europe and Germany, avocado consumption is still rather low.

To add to this opportunity, promotion efforts in the EU have been limited, in particular compared to the US, where the Hass Avocado Board has an annual budget of over USD 55 million to spend on promotion and market research. In 2016, the global avocado industry established The World Avocado Organisation, with the goal to further encourage avocado consumption in Europe.

Imprint

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