

VENTURA & SANTA BARBARA COUNTIES

THE GLOBAL FOOD & AGRICULTURE ECONOMY

A REPORT FROM THE OXNARD WORLD TRADE CENTER



Agribusiness in Ventura and Santa Barbara counties is a driver of the Central Coast economy, generating more than \$6 billion in annual economic activity and employing more than 45,000 workers. The local food systems economy is characterized by extraordinary diversity in crop production, innovation in resource management and extensive global distribution networks.

This report from the Oxnard World Trade Center, developed in partnership with California Lutheran University School of Management and the Economic Development Collaborative-Ventura County, EDC-VC, focuses on the international trade activity of agribusiness in Ventura and Santa Barbara counties.

The analysis concentrates on the trade activity of the top 40 firms that contribute over 90% of the region's international trade in food and agriculture.

The report's findings are informed both by publicly available trade data and by field interviews, which give attention to the challenges and opportunities faced by these firms in the global market place. The analysis centers on the larger take-aways from the research, so as not to reveal specifics gleaned

from the small number of major exporters in the interview pool. This report summarizes the current export activity and environment, addresses some of the critical challenges, and highlights opportunities for supporting the region's food and agriculture exporters.

The report's key findings are that our region's exporters enjoy extraordinary strength in brand recognition, face challenges in high shipping costs, and may find opportunity for additional market share and revenues through a growing demand for processed food. The report concludes with a recognition of the fast-evolving opportunities and challenges presented by e-commerce.

EXPORT TRENDS

Volatility in the export data suggests both risk and opportunity for local food and agriculture exporters.

For trend data, we reviewed available export data relating to the region's 40 largest export firms. The data doesn't disclose a complete picture, but it is useful for insight into the fast-changing global economy.

Ventura and Santa Barbara counties' agricultural products are distributed worldwide. Asia is currently the largest importer region, in 2016 receiving 68 percent of our region's export volume. Exports to Central and South America are growing fast, nearly tripling from 2013 to 2016.

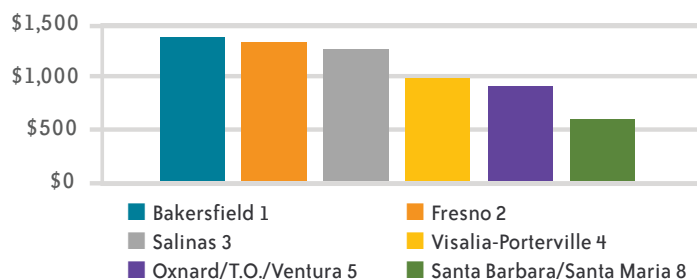
Forty-eight countries imported products from Ventura and Santa Barbara counties in 2016, down slightly from 55 in 2013. Taiwan

is the largest importer by value, though exports to mainland China have grown by more than 80 percent since 2013, placing China in second. More impressive is the growth in exports to Hong Kong, increasing by 410.5 percent since 2013. Offsetting some of this growth is a decline in exports to Japan, down by 46.6 percent since 2013.

Our analysis further shows that year-over-year changes in volume exported, as well as by destination, are volatile, reflective of fast-changing global markets. This volatility represents both risk and opportunity for local food and agriculture exporters.

Brookings Institute, Metro Area Export Profile Nation's Largest Export Markets for Agriculture

In Millions



BRAND STRENGTH

Of the companies we surveyed, one of the common themes was that Central Coast exporters have very strong brand names locally and internationally. The brand recognition is based on a reputation of quality, which has facilitated entry into global markets and helped secure higher prices than competitors.

The brand strength, however, does not mean that there is not further opportunity with marketing and messaging in global markets. Many of the companies we interviewed were open to support and assistance to promote their brands in foreign markets.

To this end, there is an opportunity for local authorities, as well as the state of California, to further engage with agriculture exporters to promote their brand strength to foreign markets. This is an opportunity for the Port of Hueneme, World Trade Center and EDC-VC to act as liaisons with the World Trade Center Network, the state of California, and U.S. Departments of Commerce and Agriculture for identifying and attracting buying delegations interested in high-quality agricultural products.

SHIPPING COST CHALLENGES

As much as the Central Coast represents one of the leading export regions in the state of California, local exporters face challenges in shipping costs. These challenges may also be opportunities for improvement, resulting in increased export volume as well as lower import costs.

Agricultural products present unique challenges in shipping. For example, fresh produce must maintain a cold supply chain from producer to the destination of the international buyer, to ensure product quality.

Maintaining quality often requires the exporter to use refrigerated containers and specialty packaging, and have detailed inspections of the supply chain and its vendors to maintain superior quality. At the same time, many of the companies we interviewed occupy the same competitive space.



There were several indications that local exporters would be open to opportunities for consolidating or leveraging their resources in order to reduce costs and maintain their competitive edge. Increased volume of activity through the Port of Hueneme also represents opportunity for cost savings.

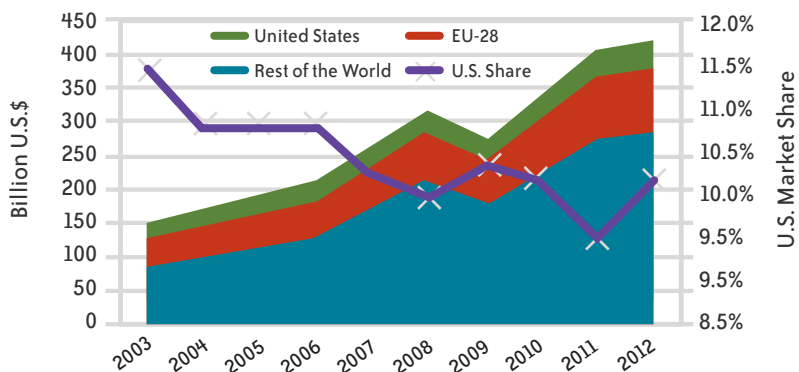
OPPORTUNITIES IN PROCESSED FOOD

“Agriculture has long been a characteristic component of the Ventura County economy. However, as with many economic sectors, agriculture must evolve to meet constantly changing market challenges. The report identifies the need and opportunity to increase the level of value added processing in the county to better support the farming community and a comprehensive food systems strategy.”

In December 2015, the Economic Development Collaborative of Ventura County released a research report on the importance of enhancing the food processing capability throughout the region.

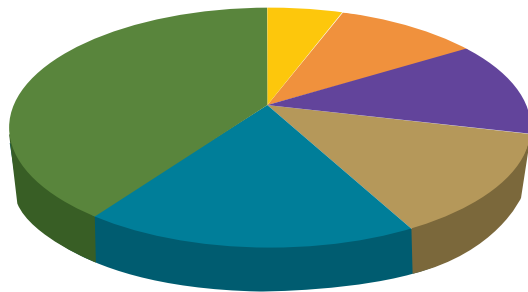
This finding is particularly relevant in terms of our region’s agricultural export strategy. According to the US foreign agricultural service, processed food exports set another record in 2014 with 2 percent growth rate in sales, exceeding \$46 billion. This was the fifth straight year of increased growth.

Global Processed Food Exports & U.S. Export Market Share



Source: EDC-VC, “Food Processing in Ventura County,” December 2015.

California Agricultural Exports by Distribution



- Vegetables, fresh
- Vegetables, processed
- Fruits, processed
- Fruits, fresh
- Other plant products
- Tree nuts

At the same time, our agricultural exporters observed that foreign sales grew at a faster rate than their sales in domestic markets.

The pie chart labeled “California’s Agricultural Exports by Value” displays the state’s six highest value export products.

Ventura and Santa Barbara counties’ exports track closely to these high value products, with the exception that we are locally under-represented in the processed fruit and vegetable categories.

This further demonstrates the significant opportunity for local exporters to capture greater market share in these growing markets.

And these markets, importantly, include nearby countries not currently among our highest export destinations, plus several with whom we already enjoy significant trade relations. Canada and Mexico, which are not currently among our top destination countries for food and agriculture, made 13 and 16 billion dollars’ worth of processed food purchases, followed by Japan and China, which are already major importers of our agriculture products, with \$6.2 billion and \$2 billion, respectively.

According to the agricultural exporters we interviewed, and supported by U.S. foreign agricultural service data, the demand for processed food exports was driven by the following factors: increasing global demand, high commodity prices and urbanization and middle class growth.



Increasing global demand

High global demand was cited as a key factor that drives processed foods among the companies we interviewed. In fact, the market research firm, Euromonitor, forecasts that “the retail value of packaged food will increase by \$316 billion over the next five years to \$2.6 trillion.”

One of the challenges faced by our counties’ exporters is how to capture a greater share of these export opportunities. As the recent EDC-VC report showed, our region is under-represented in food processing in large measure owing to the high cost of land and the shortage of industrial acreage available for processing activity. To capture a larger share, it will be important to address those barriers, supporting a diversification of revenue streams in our food systems economy.

But while our local exporters may be looking to participate in these fast-growing markets, they’ll be facing strong competition from the European Union, the world’s leading processed food exporter, and by increasingly aggressive entry into markets by Thailand and China. Like those from the United States, EU’s processed food shipments are highly diversified geographically and categorically.

The good news is that U.S. market share has decreased only marginally in the past decade because of this top-tier competition, and U.S. exporters have managed to respond to global demand, expanding exports by 143 percent over that same period.

High commodity prices lead to increased value

Over the last 10 years, bulk commodity prices have accounted for an enormous increase in the value of agricultural exports. However, in the same amount of time, commodity exports have actually declined by 9 percent. This is contrasted against food exports that have increased over 143 percent in value and 48 percent by volume. This represents an emerging opportunity for exporters of processed food products.

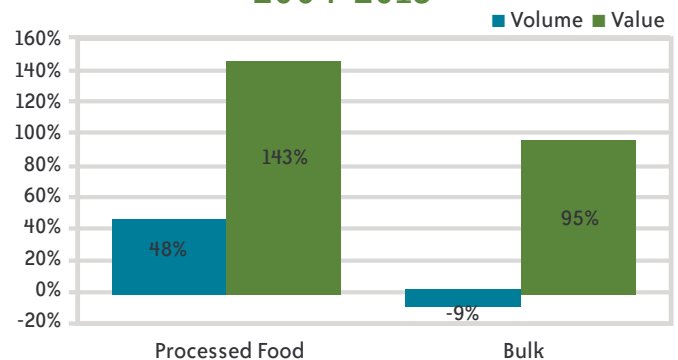
Urbanization and middle class growth driving demand

In 2015, the Brookings Institute reported that over 65 percent of the world’s middle class will be located in Asia within the next decade. According to OECD, all throughout the world, the middle class has a forecasted increase to 3.2 billion people by the year 2020. Further, IHS Global Insight data suggests that middle class households (with incomes greater than \$20,000 per year) will increase by 54 percent by the year 2020.

This growth in the middle class and urbanization will drive increased demand for processed food products throughout the world.

Any steps our food exporters can take in developing our Central Coast food processing capacity will help to ensure our future export competitiveness. This realization has led many Central Coast exporters to develop and innovate not only various types of processed food products, but also new innovative types of renewable packaging, organic choices, and individual packaging configurations.

Comparison of Change in Value & Volume of U.S. processed Food vs. Bulk Exports 2004-2013



EMERGING IMPACT OF E-COMMERCE

One of the less anticipated findings from the interviews is that agricultural businesses are becoming increasingly involved in e-commerce. According to the U.S Department of Commerce, there are currently over 200 million online consumers of agricultural goods in the Americas, with an additional 400 million in China alone. In 2013, online sales of grocery items exceeded \$42 billion. Findings from a report by the international data firm Amber Road predict that e-commerce will continue to expand tremendously. See box below for details.

The E-Commerce Explosion – Predictions

- The web will account for **12.8%** of global retail sales in early 2019
- Global cross-border B2C E-Commerce sales are forecast to hit **\$1 trillion** in 2020
- E-Commerce sales will outpace brick-and-mortar sales growth
- E-Commerce will eclipse **\$3.5 trillion** by 2020
- **40%** of consumers have purchased goods from another country
- **48%** of companies now do business in more than 50 countries
- **35%** of companies now realize more than half of their total sales from international markets



In a separate study of six key markets by PayPal and Nielsen, it is estimated that by 2018, there will be 130 million cross-border shoppers who will be spending more than \$300 billion annually. These trends reinforce the opportunities for the food and beverage industry to take advantage of the growing demands of the worldwide urban middle class.

These trends have also caught the attention of government agencies such as the foreign agricultural service and partnership with TMALL and the Shanghai Agricultural trade office. To give an indication of the scope of the e-commerce opportunity, in 2014, a two-week promotion with TMALL sold over 168 metric tons of cherries to 84,000 foreign online shoppers. According to a report from the U.S Foreign Agricultural Service, this two-week sales activity represented 9 years of sales in a single, medium-sized supermarket. Opportunities like this can be found in multiple markets throughout the world including Japan, United Kingdom, Brazil and other heavily urbanized countries.

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SUMMARY

Ventura and Santa Barbara counties' food and agriculture exporters are competing for market share and profitability in a fast-changing global environment. Data published by the Brookings Institute shows Ventura County as the nation's 5th highest value agriculture export region, followed closely by Santa Barbara County as the nation's 8th highest value agriculture export region. But that strength alone does not and will not buffer our exporters from global trends in finance, emerging markets and changing market tastes, resulting in volatility in both the volume and destination of exports.

The data is clear that an increasing share of food and agriculture company income will be derived from global markets, exceeding the rate of growth in domestic sales. The two counties' continuing competitiveness in the food and agriculture economy—which represents \$6 billion in total value and more than 45,000 jobs—will require increasing savvy and preparedness for adapting to the fast changing global markets.

Our research identifies strengths and opportunities in global brand awareness of our exports and products, our diversity of food products, and, potentially, in taking greater advantage of growing markets for processed foods. Additionally, as e-commerce is becoming the platform of choice for trade transactions, our local exporters are strategically pursuing means to find advantage in it.

The findings begin to inform an action plan for the Oxnard World Trade Center and its partners, which may concentrate on:

- Facilitating lower shipping costs
- Providing technical expertise to help ag exporters navigate the export process and minimize risk
- Increasing volume of agriculture and food exports and imports at the Port of Hueneme
- Improving networking with federal, state and local agencies for promoting brand awareness
- Identifying new markets
- Supporting innovation in food processing and greater engagement in global e-commerce

Foreign Trade Zone #205



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