

The effect of the international financial and economic crisis on the fruit and vegetables sector in developing countries

Summary

The financial and economic crisis has already had a significant negative impact on export levels, profit margins and employment in the fruit and vegetables sector in developing countries. Exports from developing countries (DCs) are under pressure, especially from importers in Europe using their market power to cut prices. However, the sector is also suffering from declining demand for more expensive varieties of tropical fruit and vegetables, off-season products and recently introduced varieties. The decreased demand for products produced outside the European growing season may face further pressure from European consumers and their growing awareness of the carbon footprint of these products. Some export companies, furthermore, notably those with a focus on the UK market, have been hit by exchange rate fluctuations. Local markets are only a partial substitute for export markets due to their limited size or the limited alignment between the products on offer and local demand in terms of price and quality.

As production prices are not going down, margins are under pressure. However, the effects on employment appear to be limited so far. The longer-term effect of the crisis on employment will depend on the composition of exports (which products), the structure of production (perennial crops or one-year crops) and the target destinations selected by exporters and their countries (e.g., the West European market is performing better than the North American and East European markets).

Obtaining credit is among the most pressing issues facing companies in DCs, especially small producers. Respondents to the questionnaire indicate that since the onset of the crisis obtaining credit for working capital, investments and export financing has become more difficult. Access to credit for working capital poses the greatest difficulties, but financial institutions have also become increasingly reluctant to provide investment capital or to finance trade. European buyers are unable and/or unwilling to completely fill this gap. Many exporters of fruit and vegetables are therefore struggling with liquidity problems.

According to the CBI experts and several BSOs approached for this survey, investing in quality, certification, logistics and market entry activities is vital to retaining existing buyers and/or finding new ones. Export companies, they suggest, must focus on their core competencies and follow a long-term strategy centred on innovation and cooperation. Also, both exporters and BSOs should seek to increase awareness among buyers of the potential and products of their countries. Specific opportunities may exist for cheaper alternatives for exclusive fruit and vegetable varieties already being marketed in the EU.

Introduction

Exporters in the fruit and vegetables sector, like many others, are worried about the effects of the credit crisis. Insurance firms are nervously reviewing credits. Exporters fear lower revenues for their products; the pressure on exotics and/or luxury products, especially, is high. Although short-term turnover statistics in most West European countries do not suggest a severe downturn, the concerns are real. In Great Britain and Ireland, for instance, consumers have become distinctly more price-conscious.

This report offers an overview of the impact the financial crisis is having on fruit and vegetables exporters in DCs and the consequences for European imports from these countries.