



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO CITRUS GROWING AND PROCESSING

**MR J.H. COSGROVE, Presiding Commissioner
MR G. EDWARDS, Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON WEDNESDAY, 20 MARCH 2002, AT 9.02 AM

Continued from 15/3/02 in Renmark

MR COSGROVE: Good morning, ladies and gentlemen. This hearing in Melbourne today will complete a series of public hearings on the Productivity Commission's position paper on citrus growing and processing. My name is John Cosgrove and with me is Geoff Edwards. I'm the presiding commissioner on the inquiry. Geoff is an assistant commissioner in the Productivity Commission.

The purpose of the hearings today, as with the others, is to facilitate public scrutiny of our work to date and to receive comment and feedback on the position paper which was released last month. Some aspects of that paper attracted critical attention from industry representatives and we've found it valuable to have these hearings to understand some of the reasons for reactions to part of it, and of course we welcome today further constructive input to assist our subsequent consideration of those matters. After this hearing we will be working towards completing our report, which is due to go to the government by the end of April, and of course in that report we'll be taking account of all the evidence provided to us at hearings such as this one and in written submissions, which we are continuing to receive.

Participants in the inquiry will automatically receive a copy of the final report after it has been released by the government, which may take up to 25 parliamentary sitting days after we hand the report to the government. We like to conduct these hearings in a reasonably informal manner but we are taking a full transcript of proceedings. For that reason we cannot take comments from the floor, but at the end of today's scheduled proceedings I will provide an opportunity for anyone wishing to make a brief presentation to us to do so.

Participants in the hearings are not required to take an oath but we do ask them to be truthful in their remarks. They're welcome to comment on matters raised in other submissions if they wish, as well as on the position paper itself. The transcript of our hearing will be made available to participants and will also be available on our web site shortly after each hearing. Copies can also be purchased using an order form available from our staff today. I would now like to call our first participant today, which is the Australian Horticultural Exporters Association. Gentlemen, would each of you identify yourselves and the capacity in which you're here today please.

MR MINNIS: My name is David Minnis. I'm a member of the association executive.

MR OATES: My name is David Oates. I'm also a member of the association executive.

MR SUMMERS: My name is Maxwell Summers. I'm the executive officer of the association.

MR COSGROVE: Thank you. We'd be glad to hear your submission to us now.

MR SUMMERS: Perhaps it's appropriate for us just to introduce ourselves, who we are as an association. This has certainly been described in our initial submission, but the Australian Horticultural Export Association is a nationwide organisation representing about 70 national professional exporting bodies involved in fruit and vegetable exports and, according to statistics from AQIS, the association members represent about 80 per cent of the total volume of exports that exit the country.

The citrus industry has three main interest groups, if you like: broadly speaking, growers, packers and what we might call independent exporters. The Australian Horticultural Exporters Association includes a cross-section of the latter two, packers and independent exporters.

MR COSGROVE: Could I just ask, Max, at this point: membership, I take it, is open to anyone. Are there any criteria for membership?

MR SUMMERS: Membership is open to interested parties involved in the horticultural industry and particularly in the export of horticultural produce. We do have some organisations that are really service providers rather than direct exporters, but primarily the interest of the association is what people become members for, but certainly a voluntary business and there are obviously a large number of exporters that aren't members or directly involved with association activities, but certainly we, from AQIS statistics, believe that the majority of major exporters are involved with our association.

MR MINNIS: So we have full members and associate members, and we undertake activities, particularly in organising inspections by overseas inspectors, on behalf of all the industry, not only our exporter members.

MR COSGROVE: Thank you.

MR SUMMERS: Perhaps it should be appropriate to focus some brief comments also on the citrus industry, as we're here to talk about that. With respect to that it would seem that about 80 per cent of total citrus exports are represented by independent exporters as distinct from possibly grower packer groups such as the Riversun group or consortium.

MR MINNIS: You have our submission. Perhaps we could work our way through those - - -

MR COSGROVE: That would be fine. We have some questions we'd like to ask you about it. You could either take us through the main points of it - we have had a chance to read it, of course - and then we could pose some questions to you or we

could raise questions.

MR MINNIS: We've provided comments on certainly draft recommendations 7.2 and 7.3 in relation to market access and Biosecurity. I think if one looks at the record, it isn't a good one for Australia in terms of gaining market access. We've been particularly slow. Our competitors have got an advantage over us, and I think of Chile and South Africa in the Southern Hemisphere, and we would believe that Biosecurity has been - it was AQIS policy before that. It's a department or section of a department that is under-resourced. It has a range of commodities it has to look at, not only horticulture, but time and time again the horticultural industry feels that we're frustrated in our attempts to gain market access to proceed with negotiations at a bilateral or multilateral level quickly enough and that the organisation fails to take into account commercial realities and to discuss with the commercial operators how they will proceed in negotiations.

There are numbers of examples not only in citrus but in other products where they've negotiated market access which in the end has resulted in an access which is not commercially viable: we've agreed to requirements which are just punitive and impossible to comply with. Once you open up a market and you establish the ground rules, it's often very hard to change those ground rules. In the case of citrus, we started trading in Japan in 1984. We were the second cab off the rank to America in getting citrus into Japan, and yet we're now the last country waiting for the acceptance of in-transit cold treatment. All our competitors have got that method of treatment agreed to by the Japanese authorities and we're still waiting to clarify the exact arrangements. That's not because industry has been disinterested in in-transit cold treatment. In other words, what we're doing is cold-treating the oranges here in Australia before we ship them to Japan, but of course they're already five weeks old by the time they get to the Japanese market, so if we could do it in-transit the fruit would arrive fresher and hopefully we would be in a better position to compete against South Africa and other countries, Israel, that are putting citrus in there that way.

MR COSGROVE: Is that partly a function of Australia's proximity to Japan? I understand a boat can get there faster than the required in-transit cold treatment period.

MR MINNIS: That was the reason that AQIS said that they didn't pursue it in the first place. We recognise, just as South Africa has to, that we start the in-transit cold treatment here in the wharf, so although it's only 12 days to Japan and we require, depending on the product, 14 or 16 days, we can commence the treatment here in Australia, provided our logistics and our ability to monitor temperatures is good enough. We believe it is, and so we would commence the treatment prior to loading the containers on the vessel, so that way we would comply with the requirement of 14 or 16 days, depending on the product at below one degree. All of our competitors

only have to ship at 1.6 degrees. We did all the trial work at one degree, and that's infinitely harder to achieve in integral unit containers. So we already made it more difficult for ourselves, but certainly we're disappointed that it's taken the best part of the last three years to get in-transit cold treatment finally accepted by the Japanese, and they've put requirements on us that already, if the protocol stays as it is, it is commercially non-viable, because they require us to have all the phytosanitary certificates signed off in Japan by an AQIS officer.

MR COSGROVE: Yes, is that not the case in respect of exports to Japan of citrus from other countries.

MR MINNIS: Initially that requirement prevailed for Israel and for South Africa and they were able to utilise someone from their local embassy. We're not able to do that in Australia. We have to fly someone from Australia to sign off on the paperwork, and a round trip will leave us with no change out of \$7000.

MR COSGROVE: But Israel and South Africa still have to use a locally-based Tokyo officer?

MR MINNIS: No, no, they've negotiated a more favourable receipt of the fruit. But that's an example of the slowness that occurs in negotiating market access, and we believe that for us to truly be able to move a range of products, particularly citrus, into new markets, we need to be able to take - well, we need to have an attitude by security that they need to discuss the issues well in advance of bilaterals and multilaterals. They need to, if possible, take commercial players with them so that during negotiations they can break at times during discussions and confer with the commercial partners so that we don't agree to requirements that are punitive and non-commercial. As I say, that's been the case in the past. Now, they've resisted this all along the way. They've resisted the commercial interaction with AQIS too closely. I suppose they feel as a government they've got to be above the commercial players, but that's the way America does it.

MR COSGROVE: It might also be the case - I'm not sure whether you're arguing that this should take place - but it might be the case that the counter party in the case we've been discussing, Japan, might be unwilling to allow that kind of role.

MR MINNIS: Yes, that's true, they may be. But, I mean, that's constantly put forward as the reason why commercial players can't get close to discussions. I don't believe in bilaterals we are strong enough or push hard enough for Australia's position, and we are too readily accepting of their requirements, without question.

MR COSGROVE: Yes.

MR MINNIS: I think all commercial players are constantly disappointed by some of the protocols - we negotiated grapes into America years ago, and it was a non-commercial protocol and no-one's ever shipped grapes to America.

MR COSGROVE: So the HMAC arrangement, which I understand your association is involved with, has some substantial weaknesses from your point of view. You cannot through that channel persuade Biosecurity Australia about the importance of these commercial aspects of quarantine protocols with other countries.

MR MINNIS: HMAC has been a failure, basically because, well, I think the committee is unwieldy. There's too many people sitting around the table. It's a wish list from industry, and HAL generally agrees to the wish list and puts submissions through to Biosecurity so that you have a list - and I think we've faxed that through to you - - -

MR COSGROVE: Yes, I've seen that.

MR MINNIS: This is the latest list of the status of various products to various markets around the world, and in our view as exporters, there are many products here nominated for particular markets, which already the world's passed them by. There's no commercial opportunity any more, it doesn't exist, and yet the Biosecurity which is undermanned and has a lack of resources has still got a wish list here submitted by industry which in many cases the products have no commercial opportunities, nor do we have the volume to support worthwhile exports. So my view, and I think the view of our association would be that at the end of the day, all it requires is to say to industry, if this is how HMAC is to truly operate, how are you going to get the product to the market in sufficient volume to generate worthwhile sales, how easy will be the protocol to comply with - in some cases it's impossible to comply with. For instance, avocados, you can't fumigate, so if the protocol is fumigation of avocados for fruit fly, forget it, you can't do it. Is there sufficient volume in Australia, or could we have that production in Australia in a relatively short period of time?

MR COSGROVE: By which you would mean, what? What's a relatively short period of time?

MR MINNIS: Within five years, and if we're going to move volume, generally it means we have to go by sea. Now, there are a large number of products out there, fruit and vegetables, which we can't move by sea, we have to move by air because of their perishable nature. Well, since September the 11th we've seen a number of changes and an increased cost structure in air freight out of Australia, and that is only going to get worse. So a lot of those highly perishable products at this stage are looking at a hard future in terms of export, unless we can develop sea freight technology which will enable us to ship under modified atmospheres or using smart packaging. Citrus of course is a product that can be easily shipped by sea, oranges. We do use air freight for mandarins, but certainly out there we've got the volume in citrus. It's a product in demand. It's got a seasonal advantage, which is all important, and so it has been one product that we've pushed to expand into new markets, and all of those new markets will be phytosanitary markets. There's very few out there that won't be. So there will be protocols to be developed, and if we're going to take 5, 10,

15 years to negotiate new protocols and new market access, I mean, we'll all be dead before we get access to some of these markets.

MR COSGROVE: There are, I think you'd agree though, some constraints which may not be within Biosecurity Australia's control. I understand for example that China will only deal with two access requests from Australia. I don't mean two citrus requests, I mean two agricultural produce requests at any one time. That clearly constrains our ability to open up markets more broadly there. But apart from the Japan case which you referred to, what would you nominate as the principal phytosanitary barriers to exports of citrus that Australia presently faces? In which countries, I mean, particularly.

MR MINNIS: Well, China will - I mean, there's plenty of oranges going into China.

MR COSGROVE: Through Hong Kong, yes.

MR MINNIS: Through Hong Kong. So in terms of quarantine integrity, really we're looking at artificial barriers in the bilaterals with China. Their quarantine integrity has already been broken. If fruit fly was going to establish it would already be in China and it would already be in Korea. Korea has allowed citrus from America and other countries in through their bases since 1951 and yet we have to go through this charade of gaining access, and having leaf analysis for diseases and submitting pest risk assessments. Yet, as I say, in terms of their quarantine integrity, it's well and truly been breached for a long, long period of time, but if they're the rules, then we have to comply with them. I suppose exporters are a bit ambivalent about China. We can get it in without duty at the moment, and we'll probably have to go legally the right way in, in the future but how long that situation exists I don't know. Fruit fly is the main pest in citrus. There are some diseases, various fruit and leaf diseases that various countries put up so in many cases we have to submit a complete list of pest and diseases for that particular product which we want to get into a market. I use an example of cherries into America, the US authorities came back and said, "We haven't got time to look at your list at the moment. We will come back to you in 12 months' time."

MR COSGROVE: Yes, I imagine that's, as I said, often going to be part of the problem, the attitude of the other country involved in these market negotiations.

MR MINNIS: Sure.

MR COSGROVE: Are there any other general points that you'd like to make to us before I raise some of the areas of your submission that we have an interest in understanding better?

MR MINNIS: We've raised those particular issues because they've been raised in your report and we agree that there needs to be a sense of urgency within Biosecurity

and if we applied those criteria that I outlined: the volume available, the means with which to get into a market, the ease with which the protocol could be complied with and the value of the prospective trade, a lot of this wish list you'd cross off immediately. Why waste your time? If you've only got four people working on horticulture, why have a wish list of 48 or 50 or 60 different products to different markets just to keep industry happy? Someone has got to bite the bullet and say, "Look, rambutans to this particular market. We haven't got the volume, I'm sorry. At the moment we've got limited resources, we have to concentrate on oranges to China." That hard decision has to be made. Someone has to bite the bullet.

MR COSGROVE: That is a decision made by Biosecurity Australia in the end, is it? In other words - - -

MR MINNIS: Well, Biosecurity doesn't make a decision, they rely on HMAC because - - -

MR COSGROVE: HMAC is the decision-maker.

MR MINNIS: Yes.

MR COSGROVE: Okay.

MR MINNIS: They await advice from HMAC and particular individuals, if the exporters association tried to push a particular product into a particular market AQIS would tell us to refer it to HMAC for their recommendation to Biosecurity.

MR COSGROVE: I see.

MR EDWARDS: I can readily accept the general thrust of your argument here on commercial realities and benefit to Australia. It seems sensible to give priority to the bigger lines. But can you accept that from the point of view of a small industry it might say, applying your proposed approach, "This is just one more way in which our little group is being neglected by the government in order to give priority to the bigger more influential organisations."

MR MINNIS: The government has signalled loud and clear that industry is to pay for its own R and D. They match it dollar for dollar but the money has to come initially from industry. To get a new product into the Japanese market, to do the disinfestation work you would need half a million dollars. So that's about \$250,000 from industry. There are a lot of industries out there, if you tried to get \$250,000 from them, it just wouldn't happen. I admit that smaller industries can be disadvantaged, but that's life. At the end of the day there are still other markets there. There are major markets in Asia that have no phytosanitary requirements, Singapore, Hong Kong, Malaysia, to a large extent Indonesia and Europe, Middle East. They can generally access those markets. It is if they're growing a particular product that might be in demand say in Korea or Japan that they could be disadvantaged but, as I say, the government has said loudly and clearly, "R and D and marketing on behalf of industry, industry has got to put up the money and we'll match it in terms of

R and D but industry has got to pay its own way." So they've established the rules.

MR COSGROVE: Anything else before we press some issues?

MR OATES: On Biosecurity I think we've finished.

MR COSGROVE: Okay. I wonder if you could help us to understand what goes on in the world of exporting citrus. The first question is: on what basis are exporters of citrus paid for the service they provide to growers or packers? In other words, are they paid according to the volume of cartons shipped or according to the value of the produce in those cartons? This is an issue which has cropped up earlier in our hearings and seems to have some bearing on the consistency between the interests of growers and exporters. Do you have any comment on that for us?

MR OATES: Ordinarily, in most forward sale markets the exporter will offer a packer a shed-door price or a landed port price and he will sell that on a CIF basis and there will be a margin between the CIF basis and its costs and the FOB price.

MR COSGROVE: So that's a margin based on value of the produce?

MR OATES: No, it's not in there as a percentage generally speaking. I would say that most exporters work on around a dollar to \$1.50 per carton as a margin.

MR COSGROVE: So it's a volume-based measure?

MR OATES: Yes.

MR COSGROVE: Okay. In which case the interest of the exporter would be to sell the maximum number of cartons.

MR OATES: In most cases, yes.

MR COSGROVE: Not to increase the total value of the exports?

MR OATES: Well, ordinarily if the packer is unhappy with the price that he is getting he won't supply. That's the commercial reality.

MR COSGROVE: He would be able easily or with some difficulty to use the services of an exporter who was prepared to charge a value-based fee or is that a quite uncommon practice?

MR OATES: I think that is quite uncommon as far as independent exporters are concerned.

MR COSGROVE: That seems to be an important point because it implies that there can be a lack of consistency between the interest of the grower in terms of achieving the maximum income in export sales of his fruit and the interest of the independent exporter who is aiming to increase the volume of shipments. Is that

correct interpretation?

MR OATES: That's a fair assumption, yes.

MR COSGROVE: Okay.

MR MINNIS: But can I add that most packers have a number of exporters that they serve, so it's not a single relationship between a grower-packer and an exporter with the exporter setting the price. That grower-packer has a number of people that they're servicing and if you, as an exporter, are offering less money, you don't get the fruit.

MR COSGROVE: Yes, I understand there's competition.

MR MINNIS: There's no compulsion to sell.

MR COSGROVE: No, but it seems to be, well, "uncommon" was your word that a grower would be able to find an independent exporter who would offer him a service remunerated on the basis of the total value of export sales.

MR MINNIS: But you have no control over the total value of the export of the sales because you're dealing in an international marketplace where there are a number of international players and so the price is set by the overseas market.

MR COSGROVE: Yes.

MR MINNIS: You can't just say, "Look, I'm going to sell oranges for \$35 a box," and go to a grower and say, "That's what we're going to sell in Singapore for," and then offer them into Singapore if the existing price for South African citrus and American citrus is well below \$35. You won't sell.

MR COSGROVE: No, but I thought independent exporters were accepting fruit from on the basis of a fixed price and then selling that. In other words, their market intelligence - I'm talking here about the independent exporter - gave them probably day-to-day, if not hour-to-hour understanding of prices in citrus export markets and on the basis of that they were prepared to assume the risk which, under a consignment method of selling is assumed by the grower, that prices might actually fluctuate a bit from the fixed price offered to the grower. That is a separate point, I think.

MR MINNIS: That is a separate point because by and large I certainly, as a trader. I go to a grower and offer a fixed price, and that's the price I pay the grower. Now, if there's a quality problem that's related back to grower activities, that's their problem.

MR COSGROVE: Sure.

MR MINNIS: If it's a marketing problem, the market is changed, that's my problem.

MR COSGROVE: Yes, so you are offering them a fixed price - - -

MR MINNIS: At that particular point.

MR COSGROVE: Subject to quality problems, and you are charging them a fee for your service based on the volume of cartons that you sell.

MR OATES: No, it doesn't work like that.

MR COSGROVE: No?

MR OATES: We would be buying fruit as a principal, right? That means that aside from quality problems, we would be responsible for that fruit as soon as it comes into our possession, which normally is either at the shed door or in the terminal, depending on the terms of the sale with the producer.

MR COSGROVE: Yes, so you - well, let me put it another way. Would you accept unlimited quantities of fruit at the price that you're offering the grower? No, you would have regard to the state of export markets and their capacity to absorb Australian citrus, and on the basis of that you'd be offering the grower a price.

MR OATES: Yes.

MR MINNIS: We don't buy fruit unless we have an order.

MR COSGROVE: Right.

MR MINNIS: So if we don't have orders, we don't buy fruit. There are some cases where, you know, an importer is in a position of market dominance and they will order so many containers a week and it's a regular program, and the exporters will be offering the grower a price probably on a weekly basis. We don't sell on consignment. Unlike America, we don't sell on open consignment.

MR COSGROVE: Yes.

MR MINNIS: We have to sell on a forward fixed price.

MR COSGROVE: Right.

MR MINNIS: So that the buyer at that end knows what they're going to have to pay for, and provided the quality is okay on arrival, that's what we get paid, and on that basis, that level of trust between the importer, the exporter and the grower is maintained. If I'm as an exporter constantly changing the price to a grower, the grower can go to another exporter. He can say, "Look, David, I'm not happy with our arrangements. You're constantly downgrading my product. I don't believe you're

operating in my best interests." That's what a grower can do, or a packer.

MR COSGROVE: Yes.

MR MINNIS: Remember in the citrus industry the grower loses control of their product a bit earlier in the marketing chain compared to many other horticultural products where the grower do their own packing. In that chain, the packer always earns their \$6 a carton. The grower gets what's left, the exporter gets a margin, but the packer always gets that fixed cost.

MR COSGROVE: Why is that? We've been told, for example, that if anything there are too many packers in this country in the citrus industry, in which case you would expect there to be quite a bit of competition for fruit among packers. How can they maintain a fixed price of the kind you were just mentioning? Just as there's competition in your area - - -

MR MINNIS: There's competition, yes, there is competition, but there's not a large number of packers really that can handle volume. How many sizeable packing sheds, large packing sheds in south-eastern Australia are there, you know, there's probably 10.

MR COSGROVE: Is it not possible to use smaller packing sheds to arrange fruit export sales.

MR OATES: Absolutely.

MR COSGROVE: It is possible?

MR MINNIS: Yes.

MR OATES: Our company would probably use 15 different packing sheds, all of different sizes, from very large to some smaller packers that might only be able to pack 1000 boxes a week. They all have their place.

MR COSGROVE: So again my question is why can't that packing charge be competed downwards? Why is it that the packers have seemingly so much market power? There are quite a number of them.

MR MINNIS: Well, in many cases they can place the fruit in a number of markets, so they've got access, you know, they're selling to exporters. They're exporting in their own right. They're selling on the domestic market. They've got allied processing arrangements, so often they offer to a grower the ability to take their entire crop, whereas the smaller packing shed might be packing for export and the orders for Hong Kong, and it's only 72s and 80s and 88 sizes.

MR COSGROVE: So that might be an arrangement, in other words, which a

grower was happy with for reasons of convenience, selling his total crop.

MR MINNIS: Yes.

MR COSGROVE: Okay, you make some remarks about our recommendations particularly in relation to the single importer arrangement in the US market, could you say that returns to growers exporting to the US under that arrangement are greater than returns they receive for sales in other countries, and if there is such a difference, what does it principally reflect? Is it a difference in the quality of fruit sold to the US relative to other markets, or are there other factors that result in these high returns? Clearly in respect of some markets the strong value of the US dollar has been a factor. I'm happy to leave that to one side for our discussion.

MR OATES: I think you'll find if you speak to the people that have participated in the USA market, on some occasions their returns are very poor. On other occasions they're very good. In 1998 there were a number of producers who got extremely poor returns out of that market and better returns out of other markets such as Canada and Hong Kong.

MR COSGROVE: Was that a function of quality problems in fruit in the US?

MR OATES: It could have been a function of the market, or quality problems, or a number of other things. It might have been a case that the sole importer had too much fruit in a poor market and wasn't putting it through the system quick enough. I don't know that you can generalise when comparing one market with another market in a certain year.

MR COSGROVE: But if you took a span of years, you know, say three or four years, I mean, the trade data, the Australian trade data show a markedly higher unit value for citrus sold in the US compared with sales in other markets.

MR OATES: Can I ask what the source of that data is, how that comes about?

MR COSGROVE: That would be ABS trade data.

MR OATES: Well, from where I sit, if it is shipped to America, when filling in your customs declaration form, the value of the product can only be an estimate, because it is shipped on consignment, so when it is shipped, you do not know what you are actually going to get for the fruit. So that could be between nought and \$50. So I would say that the information from ABS is perhaps not something you can rely on.

MR COSGROVE: Well, I think a similar story is conveyed by US data on imports of citrus, for example, from South Africa and Australia. The South African average unit value is below ours. Now, that's just in the US market. That's not telling you what we get in non-US markets. So you are doubting that there is a difference.

MR OATES: Even on entry, if it is sold on consignment, how would anyone know what the value of that product is going to be when it's sold?

MR COSGROVE: Okay.

MR OATES: Because if you shipped on consignment, the person who is shipping those goods would put in a nominal value because that would be unknown, because the fruit is not forward-sold, it's consigned.

MR COSGROVE: Without wishing to prolong this point, there are other indications, for example, reports provided by the US single importer to our exporting and growing industry that appear to show that the prices received there are pretty high. One can argue that the ABS might not be getting the prices right in some cases, but you would say despite that that there can be similarly high prices achieved in non-US markets by Australian citrus growers?

MR OATES: Yes, I think so.

MR COSGROVE: On a consistent basis? I don't mean every year in, year out but across a range of years.

MR OATES: But are the prices in America consistent? It's very difficult to say - - -

MR COSGROVE: As I say, I'm looking for an average over a period of years, not a particular year.

MR OATES: Some years other South-East Asian markets are better than the US, after you take into consideration that some product has to be repacked, some product is rejected. I think you'll find that there's been a number of packers that have opted out of USA to supply markets such as Singapore principally because it gets there faster, there are less problems and the quality of fruit that they are able to sell into that market are both class 1 and class 2 lines of fruit. Overall, their returns are a good without having the risk of shipping it on consignment.

MR COSGROVE: When you say "returns" do you mean average price or - - -

MR OATES: Dead prices, yes.

MR MINNIS: It is very difficult to just look at one single trade, the US market, and say, "The return out of that is this." You've got to look at where the crop was marketed for that season, because when we pack fruit what do you do with the small fruit? What do you do with the sizes that America doesn't want? For many of the

large exporters involved in the American program that small fruit has to be put into South-East Asia at very low prices, because they've got to keep it moving, the smaller fruit. So you've got to look at the returns that they could have achieved out of Asia and balance that with the returns that they're achieving in America, so it's not just America per se.

MR COSGROVE: So what you're saying is that there are significant differences in the quality of fruit going to the Asian markets. It's not the same as that going to the US market.

MR MINNIS: The best of the crop is picked out for the US market, and for a market like Japan, which requires the same counts as the USA and where market returns have been very rewarding also, we've had difficulty in supplying that market, and we've allowed South Africa into the Japanese market because we've undersupplied the Japanese market in recent years.

MR COSGROVE: And the US market, as I understand, where again South Africa has been taking a share of the market from us.

MR MINNIS: They will continue to take an increased share because they can do it more cheaply than we can.

MR COSGROVE: Again, let's contemplate say five years ahead. If we were able to maintain the quality of the fruit which the US market wants, what would happen to grower returns, by which I mean price and income, I guess, if we were to increase the supply of that fruit going to the US significantly? Would you expect any - - -

MR OATES: Would that be under the sole market arrangements or - - -

MR COSGROVE: Yes.

MR OATES: From where I sit the sole market arrangements have worked well up to a point. I think the sole marketer can only really handle probably not much more than 2 million cartons efficiently. If you gave them - - -

MR COSGROVE: Why is that, because of its infrastructure or - - -

MR OATES: I just don't think that one company can cater to the entire market, and I think there are opportunities that Australia has missed - well, I know that there are opportunities that Australia has missed.

MR COSGROVE: There are now two companies involved. Oppenheimer has been subcontracted by DNE to assist the marketing of the fruit. Would that change your view?

MR OATES: Is that arrangement still in place, do you know?

MR COSGROVE: We've been told it is.

MR OATES: I still think that they struggle.

MR COSGROVE: And you mentioned you're aware of orders coming from the United States which have not been met?

MR OATES: On a number of occasions we've had very strong interests from the United States for smaller sized fruit than has been traditionally shipped to the United States. We've had interest for lemons which the sole marketer has not been interested in, I think perhaps because they also are importing Argentinean lemons.

MR COSGROVE: Although we've also been told that they sell Australian lemons.

MR OATES: I don't think they sell them in very large volumes.

MR COSGROVE: No, that may be. So what sort of quantities were you offered to sell?

MR OATES: It's very difficult to say what sort of quantities. You never can tell until you actually have the opportunity there to do it, because most of the time we get these inquiries and we have to drop them because you can't do this business through the sole marketer. It just won't work.

MR COSGROVE: Yes, I understand that.

MR OATES: In some cases the people that we've been contacted by are competitors of the sole marketer, so the last thing they will do is deal with a sole marketer where they have a controlling interest in the product.

MR COSGROVE: Are these substantial importers or marketers of fruit or small.

MR OATES: They are very large marketers of fruit.

MR COSGROVE: Would you argue that Australia is missing out on, assuming we had the volume of course, and in the last couple of years that doesn't seem to have been the case, we could increase total exports to the US?

MR OATES: Absolutely.

MR EDWARDS: Do you think there would be some impact on prices obtained for

the fruit sold through DNE in the event that independents were allowed to sell citrus into the US?

MR OATES: I think you might even see that the independents would retain better returns for growers. In fact, I understand that one Canadian company shipped from Canada to the USA Australian fruit and the return to the grower in 1998 was much better than the return that he got from DNE.

MR COSGROVE: I think we've heard a little about such a sale. I'm not quite sure it's the same one as you've been referring to. Perhaps after the hearing we might get in touch with you and show you the information provided to us by another participant and see if you have any views on that.

MR EDWARDS: Could I just ask a follow-up question there. Would you envisage that if the independents were allowed into the US market they would be selling fruit of similar count to that sold through DNE, or would you see it being smaller or in other ways different?

MR OATES: I would see it being an opportunity to expand the count range and perhaps ship a lesser quality, of course at a somewhat lower price, a price that would be in line with the quality of the fruit.

MR EDWARDS: But you still think sales of that different count fruit would result in increased overall export income?

MR OATES: Yes.

MR EDWARDS: Would you see the export of that fruit into the US having an impact on the price in other markets, whether it be the domestic Australian market or in other export markets?

MR OATES: It may actually increase the prices on the domestic market because it will take some smaller fruit or some poorer quality fruit off the Australian market. I see it as being an opportunity that Australia can't afford to overlook.

MR EDWARDS: Do you have any feel for whether that effect on the domestic market or in third country export markets would be significant?

MR OATES: It really would depend on how much could go there. I think that until there's an opportunity to try something you'll never really know.

MR COSGROVE: Our understanding is that DNE is obliged to handle any volume of fruit that we offer for sale in the US by any licensed exporter subject to agreement on commercial terms and conditions. Are you aware of any licensed exporters who

are in a position to supply the US market but who have been unable to gain access to the single importer arrangement?

MR OATES: I'm not aware of anybody who's been told that they cannot deal with the single importer. Do you have any experience, David?

MR MINNIS: When the arrangement with DNE was set it up, it was certainly done in a lot of secrecy and - - -

MR COSGROVE: Is that correct? I thought there were meetings at which growers and packers and exporters were invited to discuss the proposal and in fact to agree on it.

MR OATES: In May 1992, yes, there was a meeting, which consisted largely of South Australian grower, packer exporters and the AHC at the time, without any representatives of the AHEA and that meeting agreed to appoint DNE, and it also says in the meeting notes it was agreed that the Australian Horticultural Exporters Association be advised of the consultations undertaken and DNE sales be advised of the decisions taken. So the decision was made without any AHEA involvement.

MR COSGROVE: I don't think we've seen those notes. Are they publicly available documents?

MR OATES: Yes.

MR COSGROVE: Could we have a copy?

MR OATES: I can give you a copy, yes.

MR COSGROVE: Thank you. Now, a large number of participants in this inquiry have stated that the sole importer arrangement has a number of benefits. Just to give you a few, they think it enables the industry to deal more quickly and effectively with any quarantine issues that might arise. It's protecting the quality brand image of Australian oranges, navels. There are distribution links with retailers who are supplying wealthy customers. They feel that it enables a degree of countervailing power against what we're told are increasingly consolidated large retailers in the US; reduced shipping costs, because they are able to arrange charter vessels at a saving of some million dollars per season; there's an improved information flow back to the growers, and it's argued that those types of benefits would be vulnerable, and possibly even lost, if the sole importer arrangement were not in place. Do you have any comment on that line of argument?

MR OATES: Well, I think that in respect to the quarantine issues, I mean, I think that the Australian government and the US government deal with the quarantine issues, irrespective of whether it's one importer or whether it's several. I hardly think

that makes any difference at all. The shipping costs - - -

MR COSGROVE: Is it not easier though if you have a single import arrangement to be aware of the quarantine issues. In other words, everything is coming in through a single point rather than - - -

MR OATES: Okay. My only experience in exporting to USA was a number of years ago on pears, okay, and the industry managed to ship significant quantities of pears to America, and avoided what I believe would be significant quarantine problems. Any quarantine problems that arose were handled on a government to government basis, and in those days there was perhaps anything up to 12 importers. So I really don't see that as an issue.

MR COSGROVE: There are a number of points which have been raised, and we probably don't have time to go through all of them, although again with your indulgence we might, after the hearing, give you a list of these and you might like to comment on them separately to us. But let me just take one or two more. First, the idea that because of the substantial power in the marketplace of these large retail supermarkets that there is value in having a single marketer dealing with them, a large marketer who can resist any pressure that might come to bear for a reduction in the prices of navels with a view, presumably, either to passing them on to the ultimate consumers or to adding to the bottom line of these powerful retailers. What's your view on that?

MR OATES: Well, my opinion is this that the sole marketer cannot possibly have good relationships with every retail organisation in the United States. My view is also that there are other companies in the United States that have probably got stronger relationships with some of the chains where DNE isn't as strong. Ultimately, if there are a number of importers, I think there are a number of, or increased opportunities for Australia to export its fruit to the USA and do so on a profitable basis.

MR COSGROVE: On a more profitable basis, ie in this case, I guess you would be arguing that more fruit would be sold - - -

MR OATES: Sure.

MR COSGROVE: But perhaps at a lower average price?

MR OATES: Well, it's very hard to second-guess what may or may not happen.

MR COSGROVE: Yes, I know.

MR OATES: I mean, how does the industry know that DNE is achieving the best price in the market? It doesn't know, and it would be very easy for me to sit here and say, "Well, if we got David here as the importer in the United States our returns

would be so much better."

MR COSGROVE: Yes.

MR OATES: Because David is a much better operator than the current sole marketer.

MR COSGROVE: Okay, well, as I say, we might seek your assistance on that after the - - -

MR MINNIS: You did ask the question, what if we crystal-ball gazed, what would happen in 5 years time?

MR COSGROVE: Yes.

MR MINNIS: I mean, the opportunity that arose in America is somewhat unique. In marketing horticultural products, seldom do you get an opportunity to be the sole supplier in a large market like the USA with no competition, and so that's how we operated initially. To sell on consignment in that situation is, you know, to my mind, not a wise move. But anyway that's what the industry chose to do. Now of course there is South African fruit on the market, there's Argentinian fruit on the market, and there's no doubt that the people in South America who have strong commercial ties with the USA. They've invested down there for counter-seasonality, they're closer to the market therefore they would be planting navel oranges. So we could see increased quantities from other countries.

All of them have quarantine problems. All of them have got fruit fly, except Chile hasn't, and Japan accepts Chile as free from fruit fly, even though it's got a little bit of fruit fly up the top end. But Japan has accepted it as an area free of fruit fly. But Chile doesn't grow a lot of oranges at this stage. But as I'm saying, the message must be out loud and clear of the success that Australia has achieved, so therefore the circumstances are changing in the USA, with increased competition, increased volume and as a fact of life, a lower price. So there will be more competition in the marketplace, and DNE is also the importer of South African citrus. We get the impression that so far our quality has been superior to South Africa but that doesn't necessarily mean that it's going to continue. South Africa is our strongest competitor now in South-East Asia and has reduced our market share in Japan, and is also where we have a two-importer arrangement for citrus in Korea. One of the importers in Korea is a major handler of South African citrus.

So overall the world is dynamic, it's changing. The percentages coming in from various countries are altering. There are market opportunities for Australia at times because of a disaster or a climatic effect in another country. But as a general rule we are the most expensive supplier of any horticultural product to any market.

MR COSGROVE: You mean our costs?

MR MINNIS: Our costs are higher, fact of life. The apple and the pear industry is in a lot of trouble now because of the emergence of China, which is now exporting large volumes. So it's a dynamic place there. It's hard to say what will happen in five years time but my suspicion is what I've just outlined, that the returns out of America will be tougher and therefore the arrangement that's in place now, there will be more and more question marks.

MR EDWARDS: An argument that's been put to us that I think goes a bit beyond the ones John has mentioned are the capacity through the present arrangements to integrate the logistical facilities with orderly flow of fruit onto the US market. It's his has been emphasised to us in a number of places and it's been suggested that this even flow of fruit on to the market means that we'll keep prices up, whereas it's been suggested that if we let the independent exporters in they will all do their own thing without any coordination and there will be times when you have too many fruit arriving in one period and perhaps other times when there's a shortage.

MR OATES: I think it's fair to say that that's already happened with the sole-importer arrangement because in 1998 DNE had navels in their coolstores for over six weeks only because they couldn't sell them quickly enough and that resulted in some pretty horrific quality problems and there are a number of producers who got very poor returns that year.

MR EDWARDS: So are you not seeing any point in the argument that the shipping arrangements that have been entered into are very helpful?

MR OATES: That's exactly my point. I mean, the shipping arrangements are such that at the start of the season Riversun negotiates with a charter company to have a vessel in and then a following vessel, then a following vessel, then a following vessel. If the market is very, very poor I don't think for one moment that if they're committed to those vessels and they have the fruit available they're going to pay the fees to cancel those vessels. So all it means is that the product in the USA that goes into coolstore just banks up. I don't think it is as quite as controlled as what people would have you believe. I mean, Riversun has to commit to those vessels, if I'm not mistaken, a long time out and I think there are substantial penalties for cancelling.

MR EDWARDS: So would you say that with the independents playing a bigger role the shipping could be more flexible?

MR OATES: I think it's a case of rather than looking at the logistics you should be looking at what the market is able to absorb and with some independent importers with their finger on the pulse they will say, "Load 10 containers this week, 10 the next week and on the third vessel load less because we see the markets not starting to - or fruit starting to bank up rather than being committed to full charter loads of navel oranges."

MR EDWARDS: Are you suggesting that it would be less likely that we would have a fruit piling up in storage in the US if the independents were in there?

MR OATES: I think there's a lesser risk of that happening.

MR MINNIS: We have exported 830,000 cartons by containers to Japan in a good year. We export 14,500 tonne of oranges to Hong Kong by containers. Containers may be more expensive, it just depends on the volume of the trade, but they do give you that flexibility. Charters can give you a cost advantage, but the down side is you've got to deliver.

MR COSGROVE: A lot of volume, yes.

MR MINNIS: You've got volumes, you've made a commitment, they've got to reposition the vessels here. I don't know what sort of demurrage charges they charge in South Australia, given the citrus industry's importance in South Australia probably the port of South Australia gives them a very free hand. I don't think we've got facilities in Melbourne that could handle those sort of charters any more in Melbourne. But in Adelaide I'm sure that there are favourable political circumstances which enable, if we get wet weather and growers can't pick and it takes a week and a half to load a vessel then they're not penalised. So there's a number of advantages that are in play there that make that charter arrangement very workable.

MR COSGROVE: Could I just come back on to the point to which you referred a moment or two ago about DNE now marketing non-Australian fruit as well as our own in the US market. Do you think that poses any problems for our growers in terms of the efforts made by the sole importer to market our fruit relative to someone else's fruit? In other words, is there a potential here for conflict of interest on the part of the single marketer?

MR OATES: I think there's great potential for conflict of interest. One of the importers that we talk to fairly regularly in the states mentioned to me one day they'd been to the local supermarket and Australian oranges were mixed up with South African oranges on the same stand and selling for the same price. So they were using the good quality of the Australian oranges - - -

MR COSGROVE: That could have been a practice of the retailer as distinct from the independent marketer.

MR OATES: I don't know.

MR MINNIS: I just wanted to make the point that industry is very keen on setting up controlled marketing arrangements but I don't believe that they've really put in

place an effective means of monitoring the performance of the importers. In the case of citrus to Korea we've got two importers and the exports involved in the trade are not particularly happy with the current arrangement. After the first 12 months we asked for review and HAL wouldn't agree to that, they said that the original arrangement was for two years. After two years there is a review going on in place now. The review committee is always dominated not by the commercial players but by the growing packer fraternity and there obviously won't be any change in the arrangement this year.

So we will again be dealing with two importers and we look at a situation last year - in the first year that we dealt with Korea we only exported 93,000 cartons. Last year with the USA having a small crop, with us having much better quality we did 75,000 cartons. So there is always a possibility that importers are into dealing in minimal quantity and maximum profit for themselves and that's not in the long-term interests of the Australian industry. My view is that if you want to have an importer panel, you don't have 14 like you've got in Taiwan or Thailand which is unworkable, you might have a panel of four or five people and you constantly review their performance so that they know that they're being reviewed, that they're on trial and if someone doesn't perform they're dropped off the list and someone is added to it.

That is exactly the sort of arrangement that the New Zealanders used in their marketing of kiwi fruit in Europe. So I believe that we are very comfortable in putting in these sole or dual-importer arrangements for various products in Australia, but we don't have in place a proper review process that enables us to come to grips with whether they're performing in the best interests of the Australian industry.

MR COSGROVE: When you say "we don't have in place a proper process" do you mean that the review is unlikely to be genuinely independent or that it is independent but that they're doing the job properly?

MR MINNIS: They're not close enough to the action.

MR COSGROVE: Who are "they"?

MR MINNIS: It's usually convened by HAL and there's growers and packers involved there and there will be one AHEA representative. We will express our points of view, but generally the committees go ahead and do what they decided to do because we're always in the minority.

MR COSGROVE: Of course, each of those people, including independent exporters have some sort of vested interest in the arrangement or in changing it.

MR MINNIS: Of course.

MR COSGROVE: Might it not be better to have a review undertaken by someone without any direct interest in the matter?

MR MINNIS: Yes, that could be useful.

MR OATES: It has to be somebody who knows quite a lot about the business, and the ideal person would be somebody who's really at the coalface of the trading in that country.

MR COSGROVE: Such as?

MR OATES: I've got no idea. But it would be hard because the people who are doing the business on a regular, day-to-day basis have a vested interest.

MR COSGROVE: As do those who wish to change it.

MR OATES: That's right.

MR MINNIS: In Korea we've had a situation where the importers have cancelled at the last moment. They've cancelled fruit that has already been cold treated for entry into Korea. It's been packed into cartons with Packed for Korea all over them, and then that fruit has to go somewhere else or on the domestic market or be repacked, at considerable cost to the exporter.

MR COSGROVE: That would not occur with let's say an open market arrangement?

MR OATES: Your options are limited. In Korea you have one of the two importers to sell to. If they decide to cancel the order, you've really got nowhere else to go. You've got no opportunity to sell it to another importer in Korea.

MR COSGROVE: Why is that?

MR OATES: Because there are only two that are approved to import Australian fruit.

MR COSGROVE: So you've got another one.

MR OATES: Yes, I know you can go to the other one, but by and large what tends to happen is if you deal with one you don't tend to deal with the other. It's quite an odd situation. We had a number of containers that we had to divert from Korea into Hong Kong, and again we don't like doing that because the fruit has been treated for Korea at considerable cost and the guys in Hong Kong really don't care whether it's sat in coolstore for 16 days or not. In fact, they normally complain that it's lost quite

a bit of shelf life. If you had the opportunity to have an open market situation in Korea, it is highly likely you would resell it to another player in the Korean market.

MR COSGROVE: Okay, thank you. I have to keep an eye on the clock, I'm afraid, and again there may be some opportunities to pursue a few matters separately, but could I just ask a few quick factual questions for you. The attachment to your most recent submission you describe that as a wish list but in commenting on our recommendation 7.3 you've said that, where we had suggested that Biosecurity Australia should provide a schedule of information on the status of market access under way, you understand that that document is already available.

MR OATES: That's the document.

MR COSGROVE: I thought it might be, yes, thank you. You also mentioned on page 2 of your submission under 7.6 what I take to be a body called National Citrus Packers. Could you tell me who that is?

MR OATES: National Citrus Packers is a body of I'm not sure how many packers but largely it's the other group that sits on the committees such as the Korean implementation committee, which is the body that's looking at the Korean market and reviewing the Korean market conditions. It's made up of Australian citrus packers. I'm not quite sure how long it's been in existence and I'm not quite sure of the make-up of that body, but they are the national body for representing citrus packers.

MR COSGROVE: Okay, thank you. Again, just a point of clarification: the tail end of your submission had a bit to say about the growing problems you face with insurance, cost of credit and inherent vice insurance, and you ended up in that section saying that these costs will force exporters to contract their business to the least risky markets and could make citrus exports commercially unsustainable in the longer term. I wondered how seriously we should take that remark, because at the bottom of page 3 you had presented a pretty optimistic view of opportunities for export sales at profitable prices.

MR OATES: The problem with the insurance market in Australia for horticultural produce is there are two players, and those two players have increased their rates significantly in the last two years and they're even starting now to say, "If you export to Japan the rate is this." Going back a few years ago the rate for a full inherent cover was about 1 and a half per cent. It's now at 3 and a half per cent.

MR EDWARDS: Of the CIF value?

MR OATES: The CIT value plus 10 per cent. If they had a bad year and, for instance, took it from 3 and a half to 5 per cent, that is what we are meaning by, "it

would be unsustainable to ship citrus to Japan." We could not compete or even come close to competing with South Africa, or alternatively we would ship without insurance, which is pretty risky.

MR COSGROVE: Would that concern apply to markets other than Japan as well?

MR OATES: It depends on what the underwriters view as a risk, that is to say, if for instance all of the sudden there were a lot of poor out-turns in Singapore, they might decide to take Singapore out of the general South-East Asian premium and put it by itself at a much higher premium.

MR COSGROVE: I think we might leave it at that for today and perhaps follow up separately some smaller points. We do now have, of course, a submission from effectively Biosecurity Australia. It's number DR94, actually under the AFFA label but it's about BA's work. If you have any interest in reviewing that and passing on any reactions, that too would be helpful to us. Is there anything else you wanted to say to us? I'm conscious also - incidentally I'm addressing this to David Oates - that we had Craig Mostyn and Co listed. Is there anything that you wanted to say in connection with that?

MR OATES: No, I'm quite happy to just leave it as we've left it at the moment. Do you want a copy of the notes?

MR COSGROVE: Yes, we'd be very glad to have that set of meeting minutes. You might pass a copy to our staff. Is there anything else you wanted to say to us before we move on?

MR OATES: I think we're all done.

MR COSGROVE: Thank you very much

MR COSGROVE: I should introduce you as our next participant which is Berri. I understand you might also be speaking on behalf of the Australian Fruit Juice Association. Is that correct?

MR BALDOCK: That's correct.

MR COSGROVE: You plan to do that jointly rather than severally? Whatever you wish to do.

MR BALDOCK: Probably a little bit separately.

MR COSGROVE: Okay, fine. In that event I think it would be worthwhile, Kim, if you just identified yourself and explained the capacities in which you plan to speak.

MR BALDOCK: Certainly. Kym Baldock from Berri Ltd. I'm the general manager technical and raw materials supply. I'm representing Berri Ltd but also will be discussing the submission on behalf of the Australian Fruit Juice Association which I will do separately. Firstly, thanks very much to the commission for giving this opportunity to reply to the paper. Just a little bit of background in support to our submission and some of the findings. In summary Berri Ltd support generally the findings and conclusion of the position paper.

However, one of the main things that Berri Ltd do not support is the draft recommendations on the export controls of recommendation 7.8, that is that Horticulture Australia Ltd should be giving serious consideration to discontinuing the requirement that citrus exporters use a single importing agent in the US. I guess whilst we're not directly involved in the outcome of such a recommendation, indirectly we see that it could have some serious effects on the industry and ultimately to Berri Ltd. We are a little bit surprised by this recommendation with respect to the original document being requested or was originally raised by ACG in relation to the challenges facing the growers and grower returns and in relation to the issues paper that was put forward by the minister, we're just a little bit surprised that this is one of the findings that we don't see this as a benefit to the growing industry or the industry in general.

Perhaps I will elaborate a little bit on some of the things that were discussed and then come back to that point and why we see that. Certainly Australian production is in the range of 450 to 650 kilotonnes per year. Valencia production in recent years has varied between 300 to 400 kilotonnes and we see this - and in a number of areas this seasonal variation in production is perhaps one of the major or the major single factor influencing the industry, whether that be from the growing, processing, packing or fresh fruit marketing for export or domestic markets. It's this wider fluctuation and a number of other factors that got us to the position that we're

in that indeed raised this inquiry in the first place.

The other comment that was made was that the 2000-2001 year was an unusual year. Certainly there's been a difference of opinion on this but from the point that it was unusual is that we did have a record Valencia crop and given the trends - and certainly it was put forward in our paper where we see the Valencia trees being removed over a period of the last 10 to 15 years and we got basically out of that a record Valencia crop. However, this coincided also with a very high Brazilian crop, high international frozen concentrated orange juice stocks and record low pricing because of a combination of those factors. But also what needs to be recognised is the two major FCOJ marketers in Brazil basically were competing for market share and they drove that price down perhaps at a lower level than they would have reasonably liked to have done themselves. This did have an impact internationally on all world markets, just not on the Australian market but internationally.

So that's just in support of what was said in the position paper but it's what brought us to this position of having this inquiry or party for having the inquiry. Moving on to the some of the other parts, this impacted significantly on the changes that have been introduced to the industry over a number of years. The paper reported on the tariff reductions, we've seen to 1989 to 1996 35 down to 5 per cent. We've seen a significant change in the production mix and certainly those numbers of trees of Valencias have come out of the ground and increased plantings of navels and other varieties, easy peelers or mandarin fruit. The market focus, I guess that we've seen where there's been a huge focus on export and none less so than the American market where it was reported of some 2400 tonnes originally in the first year up to some 26,000 tonnes of fruit exported to the market.

If you look at the history over those times, yes, there's been a couple of difficult years, but in general that export program has been all good news for the industry across a number of sectors. It certainly wasn't good news for Berri a couple of years where the quality of the fruit wasn't too bad and we had navel contracts and we basically took the brunt of it. But, anyway, beside all that the industry has done fairly well out of it. One of the other things that perhaps wasn't highlighted as much in the report but certainly has done is also the development of the fresh juice market and Berri has certainly been at forefront, not the only people involved in it, but certainly at the forefront of that market where we believe that somewhere in the order of 200,000 tonnes of oranges, Valencias and navels would be used for and that market is still growing.

Certainly from Berri's point of view where we've put some resources into that market in recent years by way of marketing funds. We've seen quite significant continued growth in that market and we would see that that will continue into the future. One of the other things that the report found was that there was no impact on the prices between FCOJ and fruit pricing. We found this a little bit strange in that

we often get the brunt of it in terms of how we structure our pricing for fruit other than fresh juice. I guess we would believe that it's very well known by growers, packers and marketers would know that once there's one tonne of surplus oranges to the market requirements basically the reference point then is the world parity FCOJ price.

So whilst you're looking broadly at a number of figures and the prices and returns paid to growers you won't note the effects directly, certainly statistically, but if you take out the surplus and look at what price is paid for them, that is the benchmark and I guess that's one of the biggest concerns and one of the things that Berri raised in the submission is that weak marketing has often contributed to poor grower returns by dropping price to that lowest common denominator. So we would take a little bit of issue with that.

MR COSGROVE: Presumably the surplus is a relatively small part of the total crop?

MR BALDOCK: In some years, yes.

MR COSGROVE: We have had discussions last week about whether or not the prices for certain types of oranges in our position paper are accurate or not and, as I've explained before, that's something we're looking at again.

MR BALDOCK: They seem a little high.

MR COSGROVE: But I don't think anybody has told us that the average price received for the Valencias is anywhere near the price of FCOJ concentrate.

MR BALDOCK: Certainly, and we would agree with it.

MR COSGROVE: That's not to say that some Valencias are sold at a price quite close to the FCOJ import price.

MR BALDOCK: Correct. I guess the point I'm trying to make is that there have been a number of structural changes within the industry and a number of people have taken advantage of that by way of planting navels or contracting for fresh juice requirements or what have you. Where there have been some growers who have been most affected are the ones that don't have those - whatever those are, or haven't adapted to those changes. They are the ones that have been hurt the worst; they are the ones that have got the low return for their fruit and that's part of the problem of why this - you know, why we're here today, that in the large year, there were a lot of uncontracted tonnes of fruit available and they were paid about world parity price and that dragged the average down.

MR COSGROVE: Would you say that those types of growers are concentrated in any particular region or is there - - -

MR BALDOCK: Certainly if you looked, you would have to say they are concentrated in MIA.

MR COSGROVE: Okay, thanks.

MR BALDOCK: Just returning now to some of the other parts of the paper, the formal safeguards area, Berri agree with the commission finding that an increase in the barriers would not serve as an effective response to the industry. In low market conditions, the tariff required would be exorbitant, up to at the lowest level last year of some 120 per cent to have an effect and this would impact the market. It would distort the signals, reduce incentives. We see that there would be so many challenges, we fully support the commission with that finding.

In terms of some of the impediments to performance, generally Berri would agree with the findings there. However, in terms of some of the things that have been stated and reading some of the material and hearing some of it this morning, we certainly believe that marketing could be improved, the marketing of citrus, by negotiating power. We believe that the labelling issues that were raised there have been addressed adequately by a number of areas. We would support any additional R and D into new varieties, new methods of growing citrus or what have you. We also agree with respect to the key imports being perhaps water power labour as a major impediment.

However, we get back to one of the key issues that continually faces the industry and perhaps needs a lot more work done in terms of how this can be improved and it's this crop variation. If you can level out the crop variation, not all, but many of the other problems will go away.

So in summary, we very certainly recommend most strongly that the USA program is retained. One of the recommendations put forward of the funding to develop fresh juice programs we would still recommend most strongly. The development of the export and domestic fresh markets through coordinated marketing, the promotion and the benefits of citrus all round, whether that be citrus fruit or citrus juices, and growing to meet market requirements.

There was another issue that was raised in the paper with respect to government initiatives. I've only highlighted a few that we put in the submission but one of them was with respect to health claims. We're seeing internationally the development of fortified products where overseas a number of companies can make claims, whether that be with respect to vitamins and minerals or fibre or calcium being added to orange juice in a number of areas, we would strongly support any moves to have the regulations changed within Australia with respect to that.

MR COSGROVE: Calcium is now available as a component of fresh orange juice.

I don't know about the other fortified vitamins and so on.

MR BALDOCK: Theoretically in Australia you can't add it to orange juice. You can't add any - - -

MR COSGROVE: Calcium, no.

MR BALDOCK: But it's on sale in my supermarket.

MR COSGROVE: Yes, and Berri manufacture the product.

MR BALDOCK: We had to find ways and means to manufacture that around the regulations with respect to a mixed food. So yes, we do it, but it's not actually orange juice, it's a mixed food.

MR COSGROVE: Okay.

MR BALDOCK: However, in other countries, it can still be called orange juice. It contains orange juice, and we would support you to continue to drink that product of course. The other initiatives would be to support the grower restructure in terms of managing your farms so that they are more profitable. One of the other issues we raised was the GST on fruit drinks which has distorted the market and depressed the sale of fruit drinks. This also has a benefit to growers ultimately in that that traditionally has taken a lot of the off-run of the navel, the more bitter product, which now is a lesser part of the market. We also support what the industry is trying to do in terms of inspection charges with AQIS in the reduction of those.

So generally, that's a bit of a wrap-up of Berri's position. Basically we support most of the positions, but we certainly don't support the potential impacts of changing to the USA program. If that structure does fall apart, we run the risk of - you know, why fix something - if it ain't broke, why fix it, type of thing. There has been very good returns to growers. There has been a case where this market has been very well developed over a number of years and where there could be potential to break down some of that, the effect of that is that there is more navels that then go off any market, any fresh fruit market, and are pushed into processing, and the fact of the matter is now that with the large crop of navels that are out there, the industry doesn't need that much fruit. There isn't a home for it. It can't go into fresh juice at reasonable returns. There is a limited drink market. The returns that would be paid for that fruit would be at world parity prices. The other problem which was also raised is there isn't the capacity left for evaporation in Australia to handle the large volumes of that fruit within a short period of time. So we would caution the commission very much in terms of progressing that recommendation without thinking about the possible ramifications.

MR COSGROVE: What about other export markets? Could not navels, which might no longer be sold in the United States - although as you would have heard this morning, that's not a uniformly held view - but leaving that to one side, could they

not be absorbed in other markets?

MR BALDOCK: I guess that was an interesting thing. It was quite interesting to hear some of the comments made by the gentleman up here this morning, one arguing that they need to get into the USA market and then arguing that they don't really need to get in there because the markets in north Asia are much stronger and give better returns, so I was a little bit perplexed at their argument. However, from my knowledge of the marketing and those areas, yes, there are certain times when the South-East Asian market does pay very good returns and I think that most exporters - grower/packer exporters - would retain some of their eggs in that basket in the market and would be seeking to develop those markets further. However, those same exporters that have originally developed through Riversun in most cases and in most years would say that the returns and the manner in which that has been handled has provided a much higher level of return than would have otherwise been the case.

MR COSGROVE: But it does seem that that market is going to come under increasing pressure of supply.

MR BALDOCK: Certainly.

MR COSGROVE: In which case, one would expect normal market effects to occur, ie, the price received on average will decline. So it's not necessarily going to be the case that a single marketing arrangement can resist those kinds of market pressures which could in the end result in the sort of adverse consequences that you were suggesting in respect of difficulties in disposing of navel oranges.

MR BALDOCK: Yes, it could in the end. The arguments that you are using here now, John, are what could happen and what might happen and some possible outcomes. I guess what I'm saying on behalf of Berri and personally is that I would caution anybody making some fairly radical changes to something which is providing a huge benefit to the industry right now. If you did go and dismantle all that structure which has proved to be fairly successful in a short period of time, you're just undoing a lot of good, and for sure, you will present with the other problems. Now, what you're offering is that there could be other opportunities out there but you're not really saying that there will be any benefits. Nowhere have I seen stated, whether it's from the commission or whether from the other interested parties that are looking to have other exporting arrangements, where they have actually come up with solid evidence to show that there will be benefits, and the benefits that I'm talking about in relation to what the commission was asked to do was make this citrus industry more productive with giving better returns back to growers. There is no hard evidence to support that by adding one extra importer will provide that benefit.

MR COSGROVE: Yes, and there won't be unless that is actually put into practice, so we don't know - - -

MR BALDOCK: Well, I guess we could use your argument that you stated earlier,

that Oppenheimer had been added as a second subimporter, and perhaps there are other ways and means that you can extend that market without destroying the benefits that are already there.

MR COSGROVE: Okay, thank you, Kym.

MR BALDOCK: So I guess that's on behalf of Berri. The AFJA one will be fairly quick in that basically it's supporting that similar position .

MR EDWARDS: Perhaps before you go on to wear your other hat, could I ask if you would like to say something about the options you see for addressing this problem of fluctuations in supply.

MR BALDOCK: Certainly. Some of the options that Berri Ltd would see - if you go back to the large crop, there's a number of factors that do affect it. There is the cyclic nature of citrus anyway. However, that can be exacerbated by holding fruit on the trees very, very late. Certainly in high crop years there isn't the capacity now to take all that fruit off and process it. If you do, you've got the problem of what do you do with the concentrate and how do you use it, so invariably what happens is it stays on the trees later. That impacts at least the next season, and recent history is showing that it's probably going to impact on the next two seasons, in that this coming Valencia season that we're about to go into next year is also affected.

One of the things that we could see of benefit is by reducing that back so that the fruit is harvested during its optimum maturity. From a processing point of view the problem that Berri Ltd has is that then we've got a window of opportunity of only navels available, which don't make the best fresh juice. However, there are some other new varieties that are now coming into Australia that could be planted up during that period to reduce the reliance on Valencias late. That's one of the options.

Some of the other options - not being a horticulturist I'll perhaps leave that up to some of my other learned colleagues or what have you, but I certainly think the industry needs to address what other means are possible to reduce the serious fluctuations that we get, to narrow the gap down.

MR COSGROVE: Is there any role in terms of prices in this matter?

MR BALDOCK: In terms of prices?

MR COSGROVE: Yes. I mean, do changes in orchard management practices mean that processors such as your company might need to be offering a higher price to growers to enable them to provide a more reliable year-to-year supply to you?

MR BALDOCK: Yes.

MR COSGROVE: Can the final market bear such an increase in prices paid for Valencias for processing?

MR BALDOCK: Certainly Berri is looking at a range of options at the moment along those lines in terms of what price we pay for contracted Valencias. We've taken a position of contracting all of our requirements for fresh juice and we would be looking to develop new varieties and they would have to be based on a reasonable price because they would be specific for the processing. So, yes, price will be a major consideration in determining what we offer to growers.

However, having said all that, I think one of the other criticisms that have recently been levelled at Berri is that we've never been in a position of suggesting that we are the only part of the industry. We realise our position in the whole chain, that fruit should be marketed for export and domestic and you need a viable fresh juice and processing sector for the balance of the fruit, and that's what we seek to provide.

MR EDWARDS: Can processors help with this problem through the way that contracts work?

MR BALDOCK: Certainly in the longer term that's what we're looking to do, without sort of discussing all of our plans. You're putting the heat on me here a little bit with respect to some of our opposition, but we would be looking to have a range of fruit supplied for the fresh juice market at reasonable returns back to the growers to support their cost of production.

MR COSGROVE: So would you say that production of Valencias for fresh juice of itself is a profitably activity for growers, or would in your view they need to be also gaining returns from domestic or export market fresh fruit in order to make overall profits?

MR BALDOCK: I would expect that a citrus orchard would be a balanced orchard with navels, Valencias, and they would have a marketing program structured around export, domestic and fresh juice.

MR COSGROVE: So an orchard which let's say for the sake of argument had 100 per cent Valencias which were going solely to processing would be unlikely to be profitable?

MR BALDOCK: I see in the near future that that's not necessarily the case because there could be opportunities where you don't have quite as strict a program as if you're growing for the export and domestic markets, and in some areas where you could grow it directly under contract. But your cost of production would have to be

lower than market costs.

MR COSGROVE: Yes. Could you tell us a little about the links that exist between growers and processors other than the mention you just made of your efforts on the contract side. For example, one point which we're interested in is the costs involved in transporting fruit from growers to a processing plant. Are those costs borne by the grower? I guess the packers wouldn't be involved in that type of activity, would they? Fruit for processing would not ordinarily be packed, in other words?

MR BALDOCK: There's a number of arrangements - - -

MR COSGROVE: We'd be interested to hear about that. The other part of my question is whether the processor in fact pays the transport costs from the orchard.

MR BALDOCK: Ultimately, yes, but it's a matter of how that might be paid and how it becomes transparent. If you look at the major way that fruit moves, navels or Valencias - and it varies from area to area, but in most cases in the Riverland and Sunraysia the fruit would go to a packing shed, in which case it would be delivered under whatever arrangements the packing shed has, and then the off-run or the non-packed fruit would then go on to a processing plant. The arrangements that Berri has at the moment for Valencia is that it's a delivered price.

MR COSGROVE: A delivered price.

MR BALDOCK: So you could argue whichever way you like in terms, but that pricing has been structured to include the freight. There have been some other arrangements where we have paid freight from either the shed door or the farm gate, but our current arrangements are that it's a delivered price, which includes an average freighting price from the farm.

MR COSGROVE: Has that type of arrangement changed over time at all or has it been pretty much the same?

MR BALDOCK: If you're asking with respect to our recent contracts, yes, it changed recently.

MR COSGROVE: Okay. What proportion of the fruit that you require for processing is acquired under contract? Is it now, I think you said, the whole lot?

MR BALDOCK: We've had navel contracts in existence - this will be the third season, which is all under contract from the packing houses. We receive maybe 5 per cent non-contracted. On Valencias, previously we would have been in a position of around about 80, 85 per cent. Currently we're at 100 per cent contract.

MR COSGROVE: How do those arrangements affect your performance as a processor? Is it a significant improvement for you to have contracted supply rather than buying on a spot basis?

MR BALDOCK: That's a good question. It could be argued that in some years it's a very good thing and in years of low supply we get severely criticised for it. So I don't know. I feel the bruise is just right at the moment - from both sides, by the way, not only the bruises from the growers that are telling me they should get more money but when I rock up to work, "Where is all this fruit that you contracted? Why haven't you got it?" Unfortunately you're asking the person that's right in the middle of it.

MR COSGROVE: Do you have an active effort in terms of exchanging information on market conditions and developments with the growers who are your suppliers?

MR BALDOCK: Yes, we do, although perhaps it's an area we could see improved. We've recently set up a committee, if you like, in the MIA, with our contracted growers, where we'll be meeting on a regular basis to provide this information, not only on the market but on how Berri is going and what we're doing in the future and raising any issues that they may have had with the structure of the contracts and what have you. In fact, the one that we had recently, we took on board a number of the comments and made some subtle changes to the manner in which we were handling the receipt of the fruit.

MR COSGROVE: We have a few questions on labelling arrangements. You mentioned, I think, that you felt the present arrangements governing labelling were satisfactory.

MR BALDOCK: We think the arrangements are. We think that there are some instances whereby there are some people that are not abiding by the regulations and this is one of the issues which we agree with, with industry.

MR COSGROVE: There are in place, you know, sanctions of one type and another at the federal level and at the state level and there's the retail industry code I think as well. You feel that these are not sufficient to prevent such noncompliance with the laws?

MR BALDOCK: I think that what has been brought before the commission and if you go out there, there are times when there are some of the smaller players in the industry that have not abided by the regulations. You know, certainly Berri has been pulled up from time to time as regulations have changed and we're very much under the spotlight of the ACCC. However, I think that in general the regulations as they exist are satisfactory for our requirements, for the industry requirements. If you're

getting to something specific, because there's been a whole range of different issues relating to labelling, whether it's how you describe Australian and imported, freshly squeezed, and pure - - -

MR COSGROVE: Country of origin.

MR BALDOCK: - - - and country of origin and what have you.

MR COSGROVE: And whether the size of the print is sufficiently large and those sorts of issues. No, I was more interested in why it is that people who believe they have found instances of noncompliance with those laws don't take the measures available to them to stop that noncompliance.

MR BALDOCK: Well, certainly the measures are there through the industry code of practice or through the ACCC if they don't want to go through the industry or directly with the Health Departments. So we would encourage anybody up there that if somebody is completely doing the wrong thing and it's affecting our market - - -

MR COSGROVE: I mean, one aspect of this, I guess, is are there any substantial costs involved in trying to make use of those measures to stop people who don't comply with the law. Are you aware of any problems there?

MR BALDOCK: Generally most of those costs would be handled by the industry. I'm not aware of any substantial costs, no. The impact on the business is substantial. I mean, the cost for Berri to have changed the labels and the number of regulations that have changed in recent years has run into millions of dollars. So the cost from a company such as ours is significant.

MR COSGROVE: Is that a once and for all cost or a continuing cost for you?

MR BALDOCK: Continuing because the regulations continue to change or what have you.

MR COSGROVE: Are you aware of any evidence that the existing labelling arrangements of citrus products are of major concern to consumers? Does your marketing research shed any light on that?

MR BALDOCK: No, not from our marketing research, no.

MR COSGROVE: I wanted to run through a few matters in relation to your original submission to us, Kym, if you wouldn't mind bearing with us again. I need to keep an eye on the clock.

MR BALDOCK: Sure.

MR COSGROVE: You cited these new contract price arrangements with the growers in a range of 170 to 240. Would it be right or correct for us to interpret those as being minimum and maximum prices or are sometimes prices outside that

range?

MR BALDOCK: Prices could be outside that range.

MR COSGROVE: Under contract?

MR BALDOCK: Under contract with respect to quality because we pay on quality.

MR COSGROVE: I see, right.

MR BALDOCK: If, for example, the grower delivered fruit and it was very low brix, low yielding, it could fall outside those markets.

MR COSGROVE: What would induce a price above say the 240?

MR BALDOCK: The same thing. If it was excellent quality - high yielding, high brix.

MR COSGROVE: Okay. Are different contract prices used in different growing regions - or again, perhaps the quality might be - - -

MR BALDOCK: Basically the timing is different because of the maturity but the structure is the same.

MR COSGROVE: The price range is the same, okay, thanks. I was surprised to see the grocery price of two litres of fresh fruit juice - it does say fresh fruit juice. I'm not quite sure whether that's fresh orange juice or whether it's got apple juice in there and pineapple juice as well, and that may be the reason, if it is covering more than citrus, that you are showing a price of \$1.94 for a two-litre container which I'd like to be able to get my orange juice for but do you know if that in fact picks up some other non-citrus juice which might be cheaper in price? Is that the answer?

MR BALDOCK: That's a good question.

MR COSGROVE: It's on page 7 of your - - -

MR BALDOCK: Yes, I should have brought my marketing friends along with me, shouldn't I?

MR COSGROVE: Maybe it's something you might be able to send us an email on when you've been able to check with your - - -

MR BALDOCK: This is the price per litre. So it's \$1.94 per litre.

MR COSGROVE: I beg your pardon.

MR BALDOCK: So that's \$4.

MR COSGROVE: I understand that. That makes sense. The chart below that is rather telling in a sense. It's showing the share of different types of drinks sold and sadly, relative to carbonated drinks and milk, fresh fruit juice is a pretty small proportion of total sales. Does that in your view reflect the need for more marketing of fresh fruit juices?

MR BALDOCK: Certainly from our company's point of view, and it's one of the things that we have said in here, that we believe we can grow that market by adding marketing funds. I mean, part of the whole problem with the industry from a converting side or from the retailing side of the industry has been the amount of competition over a number of years. With Berri's critical mass now, we believe that we're able and have been able to put marketing funds back into growing that market and as we said last year, there was some 15 per cent growth in fresh juice.

MR COSGROVE: So you feel you're making reasonable headway in increasing your market share?

MR BALDOCK: In recent years, yes. That is still backed up with grower returns and contracting 100 per cent of the fruit.

MR COSGROVE: On page 13 of that original submission at the top there you pointed out that as a result of lower crops in Brazil and USA the price of Brazilian concentrate has in fact already increased in this season considerably. Could you give us an update on what has happened since, I guess, the date of this submission, December.

MR BALDOCK: Certainly. Basically, if you look at the FOB Brazil prices, they had risen from around about that \$750 per metric tonne to - - -

MR COSGROVE: 1200.

MR BALDOCK: Yes, at the moment they're around about 1275 - 1250, 1275.

MR COSGROVE: Right, thank you.

MR BALDOCK: So that's a significant increase and in terms of how that would impact on the Australian market, I guess it has pushed prices up - if you're talking in a cents per litre - somewhere in the order of where it was perhaps a little bit below 30c per single strength litre up to in the order of about 47 to 48, 49 cents, depending on the exchange rate.

MR COSGROVE: One of the stories we've heard about the industry structure, and it's reflected on page 15 of your original submission, is that there are too many citrus packers selling in the market which invariably leads to low prices and poor quality as they chase market share and capacity utilisation at the expense of grower returns, in other words, the story seems to be that one way or another, the growers are always losing out. Could you explain a little more why that is the case? A simple-minded question that I have is that if there are a lot of citrus packers, then growers have a fair

degree of choice as to which packer they use. There might be some constraints associated with regional variations, but if a grower feels that a packer is not really working in the best interests of the grower, why can't that grower take his produce elsewhere and achieve a higher return?

MR BALDOCK: Certainly they can to some extent. However, at the end of the day, it's not necessarily going to be dictated by the packer or the marketer, it's more dictated at the market end in terms of depressing the price. So it's not necessarily that you've got one guy, say, in the Riverland in Berri competing with someone in Renmark, it's more across the whole regions, and ultimately the whole pricing is depressed, so by shifting to another packer, you're not necessarily going to increase your - - -

MR COSGROVE: Sure, that's the nature of the market, yes.

MR BALDOCK: The fact of the matter is that you've got a number of marketers out there selling through the market chain or direct to supermarkets who have a dominance and can push that pricing down.

MR COSGROVE: You would expect that kind of dominance if you have a single packer; you know, he's got total control of the supply and he can - - -

MR BALDOCK: Then you would push the - - -

MR COSGROVE: - - - as a typical monopolist, maximise his returns at the expense of others, in this case, growers. But in a market where there is increased competition, then that power obviously doesn't exist. That's what I'm having trouble understanding, why it is that in competitive market, there's problems still.

MR BALDOCK: No two seasons are the same. If you look at this season, fruit supply is very, very short. Typically, there is high demand, therefore prices have increased - not a problem. Growers are getting good returns in this market no matter what packer or marketer there is. If you go back to last year where it was a very big crop and there was surplus fruit to the requirements, then there is no such thing as orderly marketing. It's a matter of how much fruit you can push - - -

MR COSGROVE: That's a function of excess supply rather than particular power among packers, isn't it?

MR BALDOCK: It's a factor of a range of those things and it gets back to the cyclic nature of our industry and the huge high crops and the low crops, and all of that combined is one of the major problems facing the industry.

MR COSGROVE: Okay. On the next page I was somewhat puzzled by your first dot point which says that the concentrate parity pricing has been allowed to set the base price - admittedly base price - for fresh fruit market returns because of weak selling in the domestic market, yet the puzzle for me was what you'd said at the bottom of page 9 or near the bottom:

In summary, the low international prices for concentrate have not impacted on the continued growth in the 100 per cent fresh orange juice sector.

Now, you're talking there about orange juice, but I would have thought the prices paid for fresh fruit marketing would have been higher than those for fresh juice, on average. So why is it that you're saying on the top of 15 that the concentrate parity pricing is determining, somehow or other, fresh fruit prices or at least a base price for them?

MR BALDOCK: Certainly. It is difficult to look at one year and say that all of these things apply every year because things change so much, but in terms of the low international prices, the comment that we made on page 9 is that we've gone out there and contracted fruit for the fresh juice market and continue to pay those returns. The development in that market - and because it's fresh juice and the appeal of the taste of the product, consumers will continue to buy that, even though if you walk around on the ambient shelf, there will be huge competitive in selling it at \$1, \$2 a litre cheaper. So at a retail end, Berri has found that we're able to continue to support that fresh juice market and pay reasonable returns back to the grower and get increasing market, so that's in relation to page 9.

In relation to the comments made on page 16 - and these go over a broader range of time with respect to in the instances where there has been surplus fruit, and it doesn't need to be that much surplus, but any surplus fruit - the base price typically discussed within the industry, whether it's by somebody working in the markets here at Footscray or up there at Flemington or wherever, that the price that they talk down to is what's the price for concentrate; this is historically. What we've also argued, looking into the future with a number of trees that have come out, the development in the fresh juice industry, this will become less important because we are nearing a balance in supply and demand. However, traditionally and historically, that has been the case, and that brings the price down.

MR COSGROVE: Are you saying that - - -

MR BALDOCK: It doesn't bring it down to that level but it talks the price down. The guy will say, "You can get \$100 a tonne for your concentrate," that equates to so much a box, "We'll give you \$1 a tonne more," or \$2 a tonne more. That's the thought process that happens in terms of oversupply.

MR COSGROVE: But is it a marginal influence or is it applying across the board, across the fresh fruit market?

MR BALDOCK: It has applied across the board. I am saying that as we are getting less and less Valencias and the dominance of the fresh juice market, it will become of less importance.

MR COSGROVE: Right. On this same page - no, I beg your pardon, page 19, yes,

your first dot point there in your recommendations to improve competitiveness in the industry, you refer to grower based funding to promote fresh fruit and juice. Is it your understanding that many growers would have the capacity to fund that kind of promotion?

MR BALDOCK: Certainly through the industry they would have, yes.

MR COSGROVE: You mean through the ACG, for example.

MR BALDOCK: Yes, some industry body like the ACG. What Berri is saying is not that they should be funding all of that.

MR COSGROVE: No.

MR BALDOCK: Berri is going out and has made a position and will continue to fund development, but one of the other things is that the industry could also do it on a generic basis, similar to the Florida example.

MR COSGROVE: You also have a set of suggested government initiatives near the end of your submission, page 22. A number of those would obviously involve cost to taxpayers. Have you formed any view on what that cost might be or is that not something that you've spent time on?

MR BALDOCK: No, I haven't spent time on all of those, but not all of them would necessarily have a cost to the taxpayer.

MR COSGROVE: I was looking at the fund to absorb the one in 10-year high crop, the next three, and a couple later on about reducing AQIS charges and reviewing the GST on fresh juice. There would be revenue costs associated with that.

MR BALDOCK: The high crop issue was - I mean, basically someone is going to have to fund something along the way if you're going to put a tariff or some other arrangements or some other safeguards which will distort the whole of the industry. What we are suggesting here is that perhaps it would be more efficient just to fund the surplus crop so that it could be used at a later point in time, so that the growers got a reasonable time. I mean, if you look at what history tells us now on the last big crop, if everybody had a little bit of Australian content, then it would be much more valuable in today's terms than it was 12 months ago.

MR COSGROVE: Now if I could just raise a couple of points with your other hat on, the Fruit Juice Association, and here again I think I am referring to the original submission from that association in part. If you look at the bottom of the second page there, you've said:

The demand for fresh juice will continue to increase and growers will be encouraged to increase plantings for that purpose under contract -

as you've explained to us:

At the same time, apart from adverse seasonal circumstances, processors must be able to rely on growers to supply at the original contract price, which has not always happened.

Is this again referring back to your point about the seasonal variations in supply from year to year?

MR BALDOCK: Certainly that was well put in by Ralph in December, but with respect to that, we're seeing it to some extent in this year, where supply is tight. Where we would have contractors and packers, we believe they are making every endeavour to supply to the contractual obligations. However, there are some people that do play the market and will supply to packers or what have you, and they will tend to draw fruit away from the contract supply and chase the price.

MR COSGROVE: Are they subject to penalties under your contracts?

MR BALDOCK: If they don't have a contract with us it's very difficult to - - -

MR COSGROVE: If they don't, yes, but if they do and they don't meet the contracted supply - - -

MR BALDOCK: Yes, we'll be looking to penalise them.

MR COSGROVE: On the brief follow-up from the Fruit Juice Association, the third paragraph there, it's said:

The US market arrangement -

which we discussed before -

has achieved outstanding returns for the growers -

fine -

and the flow-on effect is substantial with high returns in other export markets and in the Australian domestic market.

What is the mechanism that lies behind that statement? Is it that there has been a reduced supply in the domestic and third country markets so that prices have tended to be higher in those markets for that reason, or is there something else that you have in mind?

MR BALDOCK: No, if all of that fruit went into one market it would depress the prices. The benefit has been that the export market in the US has developed over a period of time. It's taken not all but a significant part of the increased volume of

production and we've still been able to maintain levels to the other export markets.

MR COSGROVE: Okay, thanks, Kym. I think that's all in the way of questions that I had, but you might take the time, if you wouldn't mind, to have a look at a recent submission which has come our way from what I imagine is one of your competitors, Grove Fruit Juice Pty Ltd in Queensland.

MR BALDOCK: I had a quick look at that this morning, yes.

MR COSGROVE: You have, have you. Yes, well - - -

MR BALDOCK: Very, very quick. It was part of the reason I was a little bit late this morning. I apologise.

MR COSGROVE: I think with an eye to the clock now I'd probably invite you, if you wouldn't mind, to send us any reactions that you have to some of the points in that paper, especially what they're saying about contracts and about the financial performance of the processing sector. We don't like to rely on a single view of the world. We'd like to allow people to react to anyone else's views that they take seriously.

MR BALDOCK: Certainly. Vic and John are not available at the moment, but certainly after I've had time to talk to them I'll provide a response.

MR COSGROVE: Okay, thank you. Anything else that you wanted to say this morning?

MR BALDOCK: No, that's pretty much it. Thank you very much for your time.

MR COSGROVE: Thanks very much for coming along and the further information that you've provided to us. We'll take a short break now for people to have some tea or coffee and resume in about 5 or 10 minutes if we can.

MR COSGROVE: Our next participant is Biosecurity Australia. Chris, would you identify yourself for the transcript and indicate the capacity in which you're here today.

MR HOOD: Certainly, thank you, John. My name is Chris Hood. I work with the plant buyer security portion of Biosecurity Australia which is part of market access in Biosecurity which is an AFFA group. I'm a senior manager in this unit and I handle, in particular, multilateral issues but also bilateral issues, particularly market access and import assessments.

MR COSGROVE: Thank you, and thank you for your submission which we've had a chance to read. Are there any points you wanted to make about it or not?

MR HOOD: Thank you for the opportunity to make a submission. I know that the commission sought information on the fresh product market access process of which of course Biosecurity Australia is a part of, along with other government agencies such as the Department of Foreign Affairs and Trade, AFFA's food group which I know the commission has had a lot of input from in relation to this particular inquiry, but most importantly of course, the market access arrangements involve peak industry bodies and peak sector representatives through the horticultural market access committee process that is chaired by HAL, originally chaired by its predecessor, the AHC, a component of HAL, but they also had an important contribution from the Horticultural Research and Development Corporation.

MR COSGROVE: Could you tell me who the other members of HMAAC are? I understand peak bodies are on it. Does that mean peak bodies on a regional or state basis?

MR HOOD: The original incarnation which goes back to 1988-1989 was that there were peak grower bodies such as the Australian Citrus Growers Federation at the time, the Apple and Pear Growers Association, there were also representatives and continue to be representatives from the Australian Horticultural Exporters Association. The membership has expanded somewhat, as I understand it, in recent years with additional parties and perhaps that's related to the initiative to seek funding for participation on the committee, but the original incarnation was peak grower and sector bodies such as packers and shippers.

MR COSGROVE: So is it the case now, for example, the citrus industry is represented only by ACG and not by, let's say, the Citrus Growers Association of South Australia?

MR HOOD: My understanding is that it is normally peak bodies but I think membership through the funding arrangement is probably open to anybody who would be willing to participate in that fashion. One would expect that regional industry bodies would be well represented by their national arm.

MR COSGROVE: You have government agencies on it, I understand, such as

AFFA and DFAT at the federal level, Commonwealth level. Anybody else at the Commonwealth level?

MR HOOD: AFFA under its food group, which used to be a commodity based group in its first incarnation. There are also state governments represented through at least one representative to cover all the state representatives.

MR COSGROVE: Right. The Horticultural Exporters Association?

MR HOOD: That's correct, they're a participant.

MR COSGROVE: Is that it in terms of members?

MR HOOD: I'd need to get the full list from HAL, but I think it has grown. There are some representatives, for example, from a particular technology company who's looking to pursue a particular form of technology for disinfestation purposes in the future and that company, while it solely represents itself, it actually represents a potential new technology that would facilitate export enhancement.

MR COSGROVE: Thank you. I probably interrupted your line of presentation.

MR HOOD: That's fine, John. I guess the main thing from our point of view is that you sought information on the process and in particular, our role, in addition to a couple of the draft recommendations impacting upon the draft recommendations impacting upon the activities that we participate in.

MR COSGROVE: Yes.

MR HOOD: One of our main roles of course is in the government-to-government negotiations for quarantine market access for fresh products as the conduit for both the requirements of importing countries and the conduit outwards of the preparation of expert market access submissions. One of the points I guess we wanted to make in relation to this exercise was to note that, you know, we're a client of the information providers largely. We have a significant role of course in the compilation of information but we don't actually generate research data ourselves, and so in that regard, that is one of the aspects that impacts very directly on the rate or perceived rate of progress with a lot of market access submissions on the quarantine side.

Another major aspect of that is the perceived shortcomings of resources in relation to Biosecurity Australia and its ability to move market access submissions along. As we say, we're a client of the information providers. Another significant element is the actual ability of importing countries to service our market access aspirations. One example that was given to me recently by the Chinese quarantine agency was that it has four people to process all incoming market access bids from all countries. Now, I'm not quite sure how qualified that information should have been when it got to me, but it is an example of one of the rate determining steps that's involved in this

area of the business. I might move to some of the draft recommendations specifically; we can return to some of the more general points through questioning or lines of interest.

MR COSGROVE: Sure.

MR HOOD: In particular, there was one request for how we might better disseminate information. It's an old chestnut of course because the horticultural industry has been quite a disparate group; it may well receive information through some well-structured approaches and well-structured mechanisms like HMAC, for example, but you're always open to the criticism directly from other parties in the chain that they would prefer to receive the information directly. Now, that is possible within the structure of the kind of organisation that we are that we can do that through direct queries or we can do it through general output of information through our Biosecurity News magazine or through a certain amount of information on the Internet, but for us to become a publishing house to get information out to effectively everybody involved in the business would require a lot more resources than we currently have or would certainly be ever envisaged for us to have, which is one of the incentives for having set up the horticultural market access committee process in the first instance, was that if we could report to a structure of that kind on all levels of our business, where market access bids are up to or what might be on an agenda for a bilateral discussion, then those members could then disseminate through their normal and regularised communication mechanisms that those peak bodies and sector groups have themselves to get that information spread more widely. That worked initially quite well. There would likely be a range of factors to explain why that might have broken down or perceived to have broken down since the initial formation of that group, but we're always open to suggestions as to how we might better communicate and get information out within the bounds of the resources that we do have.

One of the things that would concern us, however, having said that, is that with the explosion of the Internet and the ability to put information on the Internet, there's a bit of a two-edged sword because whilst it might be fine for our domestic stakeholders to receive more detailed information as to progress with our market access discussions with overseas counterparts, equally the domestic stakeholders in those countries would be able to obtain that information. We are aware of some government organisations in certain overseas locations that would specifically trawl for that kind of information and potentially it could be used either against us in terms of explanations that we use as to where we might be up to or it could be alarmist in some countries for their domestic stakeholders, so there is just the wider considerations that need to be given to the possible implication of Internet dissemination of detailed - - -

MR COSGROVE: That was a point I wondered about. You seem to favour an approach whereby you sort of sneak up on some market access difficulties rather than parading openly Australia's own objectives. Is there really a big distinction to be drawn between those two types of approaches?

MR HOOD: Certainly the approach we would prefer is in the middle. It's a managed approach as opposed to sneaking up on some aspects. But certainly there is a need to be aware of sensitivities. I mean, we may well have an open and transparent and frank approach to our own communications in Australia and that's quite appropriate for our circumstances, but it's not an approach that exists globally and it's not an approach that actually sits well in certain locations and I have particularly in mind north Asian locations. Part of the reason I guess we would be sensitive about how we approach our discussions and the appearance of our discussions in those locations is for the very reason that the industry tells us that these are locations of prime interest to them and so any discussion that is too frank or too quick or too loud on our part that might impact on the industry's aspirations in that regard is something that we are quite cautious about.

MR COSGROVE: Are you aware of actual instances in which - maybe not because you've haven't adopted the approach that some might favour - but has there been any suggestion, if not evidence, that an open exposure of our own request for access to a particular market had led to outrage from the growers in that country thereby setting back in time the process of trying to gain market access or is this just a worry?

MR HOOD: Probably some of the best examples come from the way we approached discussions with our counterparts first of all at the government level and then some instance in relation to other domestic stakeholder reaction in those locations. It was normal for us when we set up technical discussions with countries to have processes that included the writing of minutes of meetings and the exchange of that information and, from our point of view, the publication of that information. Now, that was extremely sensitive with the Japanese, for example, in the 80s. The mere idea of recording the discussions in some way, even if it was outputs, was not something that they were comfortable about.

When I say that they may not be comfortable about certain aspects, I mean, clearly there are those aspects for which we just have to accept that they're going to be uncomfortable. We insist of having minutes and we insist on disseminating the parts of those that are a real use to the stakeholders. But certain product lines have had the tendency in north Asian locations to cause some disturbance. Apples to Japan, for example, did have the ability to cause mass demonstrations by apple growers in front of the Ministry of Agriculture and there has been on the live animal side also some instances in Korea where animals have actually been pulled off trucks after being imported and killed. So the potential for these types of actions to arise is not one for us to be concerned about, other than if it is the direct result of our liaison of our national plant protection organisation counterparts and how we handle the information we provide.

MR COSGROVE: But did such events delay market access?

MR HOOD: Usually delays in market access have been technical ones. Primarily most of the delays I've seen over the last 15 years or so have been the result of unfortunate omissions from submissions that have been made from the Australian end, the unfortunate inappropriate analysis of data from the Australian end, elements of that kind come back after what is clearly a quite comprehensive review of the information we've provided to the overseas authority. Now, that could be something that could be addressed quite quickly and usually we hope so if it's an analysis technique that simply needs to be reapplied or an alternative found.

Others have been major omissions of data that it has then had to have research projects go out and collect additional information. So we do need to bear in mind that when we're talking about any delays or perceived delays in market access that usually they do cut to the quick of the business we're in which is the technical information.

MR COSGROVE: Okay.

MR HOOD: In relation to the other draft recommendation which we have touched on slightly, deals with resources and how, if resources were the issue for us, how that might be augmented. The only comment I guess we would make is that our current funding is direct government budgetary allocation and if there was any need to augment that, that would continue to be the most appropriate process for that to happen. Again, part of the rationale for that links to the comments we just had earlier about our perceptions as to how we're seen. A levy, for example, might be perceived by our counterparts overseas as somehow less than government funding. It might have some implications for our standing or the integrity that we do have with those overseas agencies, probably unfairly so but nevertheless if those kind of mechanisms don't exist or don't exist in a transparent manner in the markets that we're trying to get access to, we will just be again highlighting these kind of sensitivities and hoping to factor it into the analysis.

MR COSGROVE: In your experience are industry levies used by any other country for this particular purpose?

MR HOOD: Often not transparently so. If there were levies or moneys extracted from some mechanism, it would be generally pooled into government budgetary arrangements and then redispersed for that purpose so they wouldn't even be able to track it. Nevertheless, we're aware of some arrangements in other countries or recent arrangements where industry moneys have been used to augment a university perhaps undertaking a part of a technical submission or an evaluation or preparation of the technical submission. The integrity issue is removed one step there, that obviously it's clearly in the interests of the university arrangement that is consulting in that line of business to maintain their integrity and it always has been traditionally accept that universities do have funding mechanisms through that kind of

arrangement so the impact is somewhat less.

But the contribution by research organisations and others that prepare components of the material is one thing. The compiler and the conduit and the government to government representative is quite another so the impacts would vary depending on the perceived location of that participant in the process. I guess before perhaps moving on to questions that you might have - - -

MR COSGROVE: Yes, we have some.

MR HOOD: - - - there's just a couple of things that we would like to say. It has been highlighted in the position paper that of course we do expend a lot of resources on the import risk analysis process. We acknowledge that that is the case. We've not necessarily done any comparison as to what the balance would be other than to say that the balance probably represents the requests that are made of us. So we respond to requests for export market access development and we respond to import risk assessment. Of course, with import risk assessment we have the sole responsibility to do that, as do our counterparts in the overseas locations that we're sending export market access bids to. It is solely their responsibility to do that work and if in Australia, as we do, we have a very structured and quite resource-intensive process to do that and so that we therefore necessarily must expend those resources if we're going to undertake those activities.

We don't have a reputation for being the fastest import risk analysis operating unit globally so in one sense resources are not necessarily something that's purely monetary or people on seats doing work. I mean, the process can absorb resources just as actual work can. But, as we've highlighted in the points that we've made to you, the relevant point for export market access work is whether the resources that are being expended are appropriate and sufficient to get the job done. A number of the comments that have been made, particularly by industry organisations in the position paper I would find easier to accept if they referred to horticultural market access more generally. But in the specific case of citrus, it is less easy for us to see that those comments would apply. We are not aware of any particular citrus market access proposal that is being delayed solely by our activities alone, as opposed to our activities to collect information from other parties or the rate at which that material has been reviewed by overseas agencies.

Finally of course we would like to point out that many of the markets that are highlighted in the paper as being highly significant to the export fresh fruit industry are often markets that have been obtained through quarantine discussions, but if they are sufficiently historical, that fact doesn't seem to figure highly in a number of the minds of people with more immediate issues in front of them at this point in time. If there is any other way in which we could help the commission address the issues that have been raised in this situation, we are more than happy to try to do that.

MR COSGROVE: Well, let's try. If I could just come back to HMAS briefly, we were told this morning by the Horticultural Exporters Association that it is in fact the decision-making body. In other words, it tells you what you should be trying to do. That's correct, is it?

MR HOOD: That's certainly the way it would like to perceive itself. We would take a more qualified approach to that and say this, that historically priorities for horticultural market access were set by governments, which of course in this day and age is seen as most inappropriate. What was attempted to be done by creating this structure was to have industry determine its own priorities based on information that is best obtained from industries and suggest that to government to factor into a number of our own considerations. So I mean on balance if historically we have always accepted a horticultural market access committee priority, it simply reflects the fact that it is most appropriate to do so.

There is one instance for easy peel citrus style to a particular Asian location where it was highly recommended by government, participants in HMAS that that particular initiative not be pursued at this time, given the sensitivity of that product into a particular market. So it has worked the other way round too, rightly or wrongly in that particular instance, but that government has been able itself also to guide the industry's decisions on priorities.

MR COSGROVE: But that happens within the committee?

MR HOOD: Within the committee, so it is a decision-making body, but it's not one that we would lamely accept their prioritisation without our own input.

MR COSGROVE: Thank you. On the question which you referred to about improved communications with interested parties in the industry, you discussed this a little bit, but you don't have any bright ideas for us on how best to improve those?

MR HOOD: It has been an issue that has been on the table for a long time and as things evolve and change, different permutations of this problem continue to arise and it is a result of the fact that there are an enormous number of stakeholders at all sorts of points in the chains of activities that we deal with that might feel aggrieved if they don't receive information directly, or through a source that they are aware of that we are not aware of. The only answer to it I think is a more regularised throughput of information from us to, say, HMAS and dissemination through the members of HMAS.

MR COSGROVE: Is this a matter which was discussed at all by HMAS itself?

MR HOOD: It certainly was in the early years. I don't believe that it has been

discussed in quite this fashion for a while, which probably also reflects the fact that the committee members have changed quite a lot as individuals, even individuals representing their respective constituents, but it is a lot easier for people to say that it is the government's job to disseminate this information, rather than their own, but ownership of this problem is something that needs to be had before the answers will be found.

MR COSGROVE: A related matter is the misunderstanding you perceive within the industry about the overall process. Could we take some steps to try to improve that misunderstanding or to address it, I should say? Do you have information brochures that are available for people to read so they can understand that it is a pretty complex process with a lot of parties involved?

MR HOOD: One of the things we used to prepare for again earlier versions of the HMAC committee was for each market that they had an aspiration in, we could lay out the steps that would be involved in that market access process and we tried to do that in particular for those locations that were perceived as being the most untransparent, if you like, without sort of resorting to a cookbook as to how the process would go. I would be more than happy to reinstitute a stepwise or at least an outline of the process involved with certain markets into the HMAC material that could then be dispersed elsewhere if it was desired as well. But that particular formulation dropped off once committee members became familiar with the steps involved and it has become a problem again as individuals have been replaced in the system.

MR COSGROVE: I take it from your earlier remarks that you might take the view that HMAC is a reasonably effective mechanism for the determination of the setting of priorities?

MR HOOD: It is certainly the best that has existed to date. As I say, in the past, governments used to do this and they used to make priorities like Granny Smith apples to Japan, without any kind of commercial influence on a decision of that kind other than the domestic surplus. The model of HMAC for horticulture is also now being adopted by the grains industry for example, who see a lot of merit in this kind of approach. I think as the HMAC process has matured, there have been those who have noticed more cobwebs in corners and have been able to raise issues that perhaps the HMAC process doesn't address as well and maybe that is a set of issues to be put on the table in relation to HAL's current review of the HMAC process, which is very timely, particularly in relation to this discussion.

MR COSGROVE: Has the arrangement helped to bring about situations or I should say avoiding situations in which there is no commercial take-up of market access?

MR HOOD: Certainly there were more situations of that kind in the past.

MR COSGROVE: When the government was determining?

MR HOOD: When the government was determining, or where the government was unilaterally with a particular industry growing group or a particular industry commodity sector that would raise market access aspirations and in those days I think the government's perception of that is, "Well, if this is being brought to our attention it must be true", which of course is a fundamental problem with the operation of government. It gives you the better ability now in a committee process to actually get cross-fertilisation as to whether statements of that kind have merit or don't. So I think we have probably seen the HMAC committee - again it is trying to prove a negative. HMAC committee has likely avoided a lot of situations that you describe.

MR COSGROVE: We heard, as I mentioned earlier today, from the Horticultural Exporters Association. I don't know whether you have had a chance to look at their latest submission to us.

MR HOOD: I have seen their original.

MR COSGROVE: There is a new one which we might provide a copy to you of. It does raise some questions about the more arduous requirements placed on citrus growers to certain markets. They mention in particular the Japanese market, where according to evidence they supplied to us this morning - for example they say that Australia alone is still required to have fruit inspected on arrival in Japan, that South Africa and I think Israel they said no longer had to do that. Assuming their evidence to us was correct, why is that the case? Why hasn't Australia been able to put in place that type of easier arrangement?

MR HOOD: Our immediate response to that is that there is no discriminatory activity between Australia and any other location.

MR COSGROVE: By Japan?

MR HOOD: In that market in particular. What I think they are referring to is that sometimes with experience of trades over periods of time, different formulations for achieving the same outcome might be agreed on a bilateral basis, but under the Japanese legislation there would be no substitute for inspection possible. A lot of the trade from those countries that they're referring to now goes under an in-transit treatment arrangement. We now have the provision for that treatment for the first time, but it has not been used as yet. So the particular arrangements for that trade that have come to the attention of industry do seem more onerous than they would prefer, including the need for an AQIS inspector to fly with product to Japan and

participate in the data downloading and phytosanitary certification process.

I myself in Yokohama have seen out-turns of other countries' citrus products and I've seen the equivalent of inspections being undertaken, so I'd really like to have the opportunity to looking at the detailed wording of what the AHC have - - -

MR COSGROVE: Yes, as I say, we'll provide you with a copy of it. But from my understanding today, if Australia was to use the in-transit cold treatment disinfestation process we would not have to go through the business of having an AQIS inspector at the point of arrival, or would that still be required?

MR HOOD: That would still be required, basically because the protocol hasn't been used yet. So it's newly formulated and would need to be used and demonstrated that it worked.

MR COSGROVE: In which case the requirement would then be eased, would it?

MR HOOD: In which case you would then be in a better position to seek equivalent formulations of processes. In the case of one country who has a long-term experience of in-transit treatments into Japan, they actually have an officer present on location in Japan that can be folded into part of the processes that are required. So if those kinds of components were available for us to advocate to the Japanese authorities, then they would be obliged and more than willing to look at different formulations. But the current formulation that is, as I say, untested is the only one possible given the information we've been able to provide the Japanese as to how our process would operate.

MR COSGROVE: Similarly another submission which, again with your indulgence, you might have a look at is number DR89. It's from EJT Packers. They said that they think the arrangements for access to Korea were not well negotiated, resulting in extremely harsh access arrangements. I don't know whether you're able to comment on that today. It might be another matter that you might want to have a look at in terms of the wording of their own submission to us, but - - -

MR HOOD: In detail certainly, yes. I would say though as a general point that we agree fundamentally that the conditions that enabled the trade to be initiated are not the same conditions that we would like to see applied to future trade. There are elements of those arrangements that allowed the trade to be initiated that we believe we have now collected sufficient data against to be able to argue for the removal of certain requirements, and in fact we've done so. We do have an approach before the South Korean authorities to review again particular production testing aspects of the protocol that is in place, because we believe with hindsight and experience in the trade that those are now redundant.

MR COSGROVE: If I could come back to the resource constraint issue. If we focus purely on citrus - and I heard your remark that you think a lot has already been achieved but clearly there is still more to be done - would you say that you think you have enough resources to address those further, more difficult quarantine access issues?

MR HOOD: A lot of the resources that have already been expended historically have now given us components or packages of information that can be used for additional discussions. What I mean by that is we have now put a lot of resources into preparing disinfestation research submissions or fruit fly area freedom applications, and they will be reusable over time and those resources don't need to be expended again. So it's really going to depend now on the future mix of export market access aspirations and what particular quarantine concerns the national plant protection organisations in those locations have and therefore whether those concerns can be matched by the existing packages of information that we have. That's one of the responses to that aspect.

The other would be, clearly if a country was to identify new concerns or concerns which we believe are either inappropriate or that we haven't got existing material for, that could represent a resource issue for us and we may need to look at augmenting our own resources through liaison with state departments or the universities or the industry in that particular case to see what would be required. A good example of that would be if the industry was to become interested in irradiation as a technology to enable phytosanitary treatments to be done. That would clearly be a situation where we would be totally dependent on the information providers to provide disinfestation research data demonstrating irradiation treatments, because it's not the business that we're in. So that would be a resource issue for the market access bid but not necessarily a resource issue for us until that data package became available.

So we'd often prefer to look at the issue of resources as not one necessarily belonging to organisations such as ourselves in isolation but resource issues that constrain an actual export market access proposal.

MR COSGROVE: Yes, and subject to that caveat you probably recall that our recommendation in this area was cast in conditional terms, that is, if market access negotiations which are important for the future of the citrus industry are being delayed. Are you able to shed any light on that conditional aspect of the recommendation? Do you know whether there are any important potential sales volumes that are being held up by the lack of access to some markets?

MR HOOD: There's one example that's very topical that I think we should explore. Over 10 years ago the citrus industry from the Riverland region of South Australia, the Sunraysia region and the Riverina in New South Wales gained access to the

United States for a number of species of citrus through area freedom for fruit flies with a fall-back in-transit disinfestation treatment should there be an outbreak of fruit flies, and other requirements. Now, it's the other requirements that over the 10-year history people have not focused on, but they need to be focused on if in the future there is to be interest on the part of the Queensland and north New South Wales industries in exporting into the US market.

10 years ago when the final rule came out for the regions that I mention, it had in it requirements for area freedom for certain diseases. It was only possible to gain access for the entire Australian citrus industry but limited to those three regions on the basis that they could be demonstrated as free of those particular diseases. In other words, Queensland and northern New South Wales were excluded, through consultation with the industry, in order to get that access settled on.

Those requirements were established and agreed with the United States authorities in what we call the pre-SBS climate. It was pre-1 January 1995. There are now a number of standards that have been developed under the international phytosanitary community through the international plant protection convention that would apply to the kind of decisions that were made by the USA authorities and ourselves in discussing the original market access for the three south-east regions. If we were to advocate to the US that they should now consider again the issue of those diseases, and area freedom or other requirements for them, for the Queensland and north New South Wales industry, the US would be very likely obliged to review again those same diseases in relation to the current access that is experienced by the south-east regions. Now, we would say that in order for people to appreciate the implications that might have if, under the new standards that apply for pest risk analysis and demonstration of pest-free areas, it could impact on the current arrangements that are in place for the trade.

So that's the kind of input we would prefer to have if we could to the industry, particularly in Queensland, that believes somehow it missed out on market access for the US. It hasn't been discriminated against other than in a technical sense, that it does have certain diseases. The requirements for demonstration of freedom or management of those diseases are not the ones that they imagine them to be. They have selected certain technical specialists that have said the right thing to them and so they believe that there is an opportunity for them and I think it would be in the interests of the industry generally to look again at that entire issue of advocating access for those regions, given the possible implications it could have for the current trade.

MR COSGROVE: If we focus however on the south-east, are you able to say anything about possible export opportunities of a significant kind that are being constrained by quarantine restrictions?

MR HOOD: Certainly one market of big interest to the industry is China. What

has been done for China at the moment is offered them the information that they require to do a pest risk analysis. They are doing that. Once they identify the pests of concern to them, we believe that there's not going to be any surprises in that we would have information relatively available to us to provide to the Chinese authorities to attempt to address their concerns through proposed pest risk management procedures.

Part of the reason I say that is with trades that we already have into a number of major markets in that location that have similar pest and disease status themselves, it would be difficult to imagine the Chinese coming up with something that they could justify over the long term that would be a surprise to us. So I see the biggest constraint in access to China is actually the fact that the quarantine authorities in those locations lack experience in the kinds of processes that need to be applied in these cases. They certainly tell me they lack staff so some of the things that we need to think about is how we might be able to help do their job for them in terms of provide information or draw our conclusions from information to try to fast-track that process and that's a discussion we would hope to have with them when we next meet.

In direct answer to your question, I can't think at this point in time - I'm happy for anybody to offer me an example if they have one of something that is being solely delayed by us in terms of our resource regime.

MR COSGROVE: Thank you.

MR EDWARDS: Yes, could I ask a question which I suppose is stimulated by the export association people earlier. They suggested and obviously you won't necessarily accept this, that your work was done without always say sufficient commercial reality to it and that some access arrangements have been negotiated which weren't practical. So that leads to the question, I guess in deciding which ones to advance and in talking with the foreign people about access, is there input? Is there routinely input from the industry people and I suppose the exporters?

MR HOOD: There is input at any step in the process in which we can encourage that input to apply. Through the market access committee in the first instance, when proposals are first put on the table, all commercial input is encouraged to the best extent that it is available in order to decide on priorities. There would be a couple of examples that I'm assuming will be in the latest AHEA submission but I'll use one myself and that's the "in transit" provisions for citrus to Japan. Clearly there are elements of that protocol that are not preferred by industry. That's recognised. What is in that protocol is exactly the same protocol that applied or applies to every other country that uses that particular mode of entry for their product into Japan.

So in that sense there were no surprises in relation to the protocol that was

eventually decided on. That was entirely known, on the basis of the Israeli and South African examples that we had at the time of the original discussion in the horticultural market access committee and so all of those elements that are currently in our protocol, for a first-time protocol that is currently untested, is exactly as it was anticipated to have been a couple of years ago when the issue first came up. Now, if other countries have managed through participating in the trade and providing data or other information that allowed a review of those conditions to the authorities in Japan and those reviews have taken place and some different formulation has been agreed to meet quarantine arrangements, that would be the kind of point that we would also hope to get to with participation in the trade and collection of appropriate information to do that into the future. The fact that those formulations are not in the first time protocol is of no surprise and would be unprecedented for any other country.

The major difficulty with our particular protocol is not in all of those elements itself but in the case treatment that has been incorporated in the paper and in the protocol and that base treatment is one degree C and no more for 16 days. That particular treatment is in - - -

MR COSGROVE: We were told that some of the countries use 1.6 degrees.

MR HOOD: That is correct, and the reason they use 1.6 degrees was when they first entered into discussion about export of their citrus to Japan and those treatments were undertaken at point of origin and subsequently converted to an "in-transit" process, their base research demonstrated a treatment of 1.5 or two or any other figure. So given that the Australian research that first enabled approval of point of origin or in Australia treatments was one degree C, that translates automatically across to an "in transit" proposal. That's nondiscriminatory. It's based on that was the treatment that was agreed for Australia in the first instance. Now, we have the opportunity, if we want to provide date for other treatments, to do that and to subsequently get that protocol adjusted that would give you a more flexible temperature regime but it was not possible to have done that at this point in time.

MR COSGROVE: Why did we go for one degree rather than 1.6 in the first instance? Again, AHEA seemed to be saying there was more substance in the difference between one and 1.6 than, you know, ordinary mortals might expect. That was a substantial disadvantage for them.

MR HOOD: Yes, it is and the original decision to go with a one degree C treatment dates back into the very early 80s. I'm not privy to the exact decision-making that went on at the time but it was certainly my understanding that there was a thought that the quality out-turn of fruit treated at one degree, given a good input you got a very good output. Whatever the rationale behind one degree as opposed to 1.5 or 6 is not available as far as I understand it. But just to augment that response, I mean, there is research under way as I understand it, in the relevant state departments that

conduct fruit fly disinfestation research to provide data packages for higher treatments. Once those data packages are available and if the agreement of the parties involved can be obtained, that data can be sent to Japan and asked for review and acceptance and subsequent inclusion in the "in-transit" process.

MR COSGROVE: I have one final question and it comes from in fact a submission given to us by our next participant who noted that Australia does not have access to the China market other than through Hong Kong. Do other countries have access to China proper, mainly in China or whatever the phrase is?

MR HOOD: There is certainly one country that is known to us that does and that is the United States and we're aware that their discussions in relation to access for citrus dates back quite a number of years. It relates to their ability to have rolled into the WTO accession discussions with China the existing status of their quarantine discussions on citrus and some other products which were technically close to finalisation which is a major distinction between their process and the history of our interest in that market, but we had not had priorities set for the China market or work done on those or negotiations in place that enabled a roll into the accession arrangements. So it is historical; it's based on also the different phytosanitary status that United States citrus has relative to ours which enabled easier discussions on the quarantine requirements that would apply and the timing of that, with the actual accession process itself.

MR COSGROVE: So you wouldn't feel that Australia is a less-effective opener of markets than some other exporting countries?

MR HOOD: In terms of our technical discussions, we could very quickly point to any lack on our part or any discrimination that might be being applied to us, and in that sense, you can adjust or equilibrate what you see. Often the examples that are cited, whether it be access to China or for Chile's access into Japan - any of these things, and there are a lot of these examples that get bandied about, the devil is in the detail and once you equilibrate the different phytosanitary status that US oranges might represent or Chilean grapes might represent, you can see that the apparent differential ability to get market access bids moving evaporates pretty quickly but that sobering situation is not very desirable and doesn't sell copy.

MR COSGROVE: That's all in the way of questions I had. Chris, do you have anything else you wanted to say to us?

MR HOOD: The only other thing I wanted to point out that wasn't included in our submission and I only noticed on the plane coming down is that there is apparently a lot of discussion about quality requirements relating to the citrus to the US and in some instances, for example page 151, the second-last paragraph from the bottom and the last paragraph from the bottom, talks about the issue of quality requirements for example through quarantine restrictions. What I would like to point out is there are no quality disciplines within quarantine requirements. The particular issues that have been referred to in relation to the United States market are marketing orders that are constructed by the agricultural marketing service, which is another United States

Department of Agriculture agency. It has a separate inspectorate and separate regulations and it has no relationship to quarantine activity or quarantine protocols.

MR COSGROVE: So what, it's more a consumer regulatory type of body, is it?

MR HOOD: What type of body it is is quite a good question. I'm not sure that I could answer it. I would suggest that AFFA's food group would probably be the most appropriate body to address that question to.

MR COSGROVE: Thank you very much for responding to our questions and for your submission.

MR HOOD: Thank you for the opportunity. If there's any further questions you might have, please - - -

MR COSGROVE: As I say, the submission I was referring to by the AHEA I now see is in fact number DR116. You could pull that off the Web site but if it's more convenient we will give you a copy.

MR HOOD: If there was a spare one here today - - -

MR COSGROVE: There almost certainly is one around in the bowels of the ship here today but I think we should also try to provide you when the transcript is available, of some of the evidence they gave us which you might also like to review.

MR HOOD: Sure, thank you.

MR COSGROVE: Good afternoon. Our next participant is BGP International. Would you mind for our transcript identifying yourself and the capacity in which you appear.

MR BARKER: Neil Barker, from BGP International in Melbourne.

MR COSGROVE: Thank you. What would you like to tell us, Neil.

MR BARKER: I was very interested to read the report, and congratulations to the authors. I thought it was certainly well researched. No doubt, as in any of these things, there are elements that may be missing or be given too much weight but I thought it was an excellent public presentation. I was wanting to perhaps clarify or elaborate on some of the areas that I thought needed clarification. One of them is my contention that navel production within Australia is not sufficient to meet the demands of the Northern Hemisphere, of our major markets. I wanted to emphasise and perhaps explain my concern about the volume of fruit that is sold in the US market in particular and I note in that sense that there has been a fair bit of discussion about the marketing arrangement, although I don't want to enter so much into that area, merely to perhaps point out that there is more than one view of the size of the US market.

I suppose all of that is leading to a basic premise which I start from today, that the existence of the US market and the premium returns that are achieved in the US market has naturally distorted navel harvest and navel marketing and has impacted severely on other available markets that we might have.

MR COSGROVE: Could you explain what you mean by distorting the navel market.

MR BARKER: If you look at the US navel marketing program, basically the volume of fruit needs to be harvested from probably the first week of June or end of May and through until the first or second week of August. Here in Australia with late Lanes and summer navels, we're well able to be harvesting navels suitable for export through until the end of November but of course once all the large good quality fruit has been harvested for the American market, then past the middle of August or say the end of August there is a dearth of fruit available for the other markets that we should be supplying.

It's not only a question of having fruit available but if you're harvesting navels you simply can't harvest the large class 1 fruit from the tree and leave the rest on the tree to market when you feel like it. It means that from the first week of June we're obliged to market all the smaller fruit, all the class 2 fruit, all the other fruit that comes off the tree at the same time as the American program. So that's what I mean by distorting the market. We simply focus entirely on the US market as if it's the only market available to us. I'm not saying that that's wrong, given the pricing that has been achieved in the US. All I'm saying is that this distortion has meant that there is plenty of opportunity for navel marketing in the period September, October,

November, into December if we had the fruit.

MR COSGROVE: Why don't we? It has all gone, it has all been picked earlier. Is that what you are saying?

MR BARKER: A significant majority of the fruit has been harvested earlier, yes. I come back to my suggestion in terms of the size of the US market. At the moment our accessibility of that market, the volume that has been sent has sort of pushed the limit of available production each year and probably in the last three or four years been dictated more by the fruit available for the US rather than anything else, the size of the market. My suggestion is that we haven't even touched the limit of volume that that market can handle with what we have shipped so far. So if you take both these suggestions of mine on board, then you can say that not only are we picking and harvesting and sending everything we can to the US, we could be sending more and we could also be sending more fruit to other markets in the period post the US season.

MR COSGROVE: Do you mean that the total demand for this type of product in the US market is not being satisfied, or that we are capable of taking market share away from somebody else within a given total market demand?

MR BARKER: I'm saying it's not being satisfied at the moment and given the quarantine regulations that exist in relation to South African fruit, I don't know for how long, but there will be an inability of South Africa to also be a strong competitor in that market in the short term anyway. But if you take a market that can consume 10 million boxes of navels in their domestic season and compare that with our offering of 1.5 million or thereabouts over three months, then there is a significant disparity.

MR COSGROVE: What is the basis of the 10-million carton figure?

MR BARKER: They are domestic production of navels from California and there is not a great deal out of Florida, is in the vicinity of 75 to 85 million cartons per year and that fruit is marketed basically a little bit in November, basically December through till June. There is fruit still exported at beginning of June, but they finish their domestic production about the end of May, end of June. So if you take that six-month spread, their export of navels totals about 25 million cartons I think. These are rough figures. So in a normal year and this year they have a short production year, but in a normal year they would have 50 million cartons of navels available from California for domestic marketing. I don't know the proportion of that goes to juice, but I understand very little.

MR COSGROVE: So you are saying that when they are not producing, the market could absorb that amount - - -

MR BARKER: Somewhere between what we are shipping and that amount and of course the price will be a factor and a consideration. I suggested in my submission that even if we could make 5 million boxes a month, which is half of what they would be supplying domestically, then you are still talking 15 million, which is 10 times what we are shipping at the moment.

MR COSGROVE: I guess in the Northern Hemisphere season within which Australia would be exporting, there is quite a bit of other fruit available - - -

MR BARKER: Yes.

MR COSGROVE: - - - against which citrus competes. There might be a natural inclination to want to eat naval oranges, let's say during a winter season and to eat other types of fruit during what you might call a summer season. Would that dilute your estimates to any degree?

MR BARKER: It would certainly dilute the 10 million. How far it dilutes it - we have grapes, stone fruit; peaches, plums, nectarines. A wide range of summer fruits are available and possibly brought in with citrus as well and a number of other factors that - - -

MR COSGROVE: You are probably aware that this particular part of your earlier submission to us has been greeted with astonishment by people who are knowledgeable about the industry. Why do you think you are right and they are wrong?

MR BARKER: I don't necessarily believe that they are wrong. I think that the existing volume market is probably more determined by a requirement to come from the market at a price and without taking into consideration the ultimate size of the market, or actually without necessarily looking at alternative supply price-type scenarios, or even to a certain extent supply quality-type scenarios.

MR COSGROVE: We did ask HAL specifically about that and their response was that they did in fact take into account trade-offs between greater volume and lower price, but eventually came to a view which was the view that prevailed in any particular year and it is the case I think that the evidence suggests that a lot of emphasis has been placed on price, but nonetheless, it is not the sole criterion that they say they apply.

MR BARKER: I come back to my earlier remark in that we have exported fruit to the US pretty well to the capacity of the industry and the consideration of whether it is 1.5 million or 5 million a month is irrelevant, because we can't produce 5 million a month at the moment to supply to the market.

MR COSGROVE: Yes, although I think in that connection there might still be some staff work going on this front, but we did look at some US data that seemed to suggest that although we had sold a smaller quantity of navels to the US market in the last year or perhaps two years, we had actually increased the volume of exports of navels to some Asian markets, I think particularly Malaysia and maybe Hong Kong. So if that information is right and I say, it may still be being checked out, it seemed to suggest that we could have put more into the US market recently than we in fact did.

MR BARKER: Yes and no. The Malaysian market and the US market co-exist together in the sense that the Malaysian market takes smaller fruit and the US market takes larger fruit. Hong Kong, since 1992 I believe, when there was a freeze in California and they really had to start looking at other sources, Hong Kong has been moving towards more acceptance of a lower quality if you like, not necessarily class 2, but a lower quality and even an acceptance of maybe some smaller fruit. That is not a particularly desirable position from the point of view of Hong Kong or China, but they are prepared to accept that, because that is all that is available. The fruit that they really want has all been shipped to the States. So, yes, we can grow but we have had to overcome, if you like, the market preference and keep supplying them something which is, if you like, second best.

MR EDWARDS: But do you think we could sell some of this fruit for higher prices in Asia than in the US?

MR BARKER: No, I don't. I'm not actually talking about marketing so much today the crop. I'm not saying that it is wrong that we should be doing this; I'm saying that we are doing this and we are leaving our markets in Asia undersupplied - - -

MR COSGROVE: With better quality fruit.

MR BARKER: We are leaving the market, I believe, in the US undersupplied at economical prices, and as a consequence the potential growth in navel export is quite significant if we had more fruit. This is all in the context of growing and processing and whether the citrus industry has a viable future. I believe it has a strong and vibrant future. We've got so much scope there in terms of expanding our exports given an increased volume of navels.

MR EDWARDS: But presumably there would be downward pressure on prices for the best orange in Hong Kong if we put more there. Presumably there would be downward pressure on prices for the best oranges in the US if we put more oranges there.

MR BARKER: Clearly if we double our volume into the US, then we're not going to be able to achieve \$US30 a carton or whatever we're getting for it.

MR EDWARDS: But it's not a doubling or nothing. Any increment, say a 10 per cent increase in any market, will surely put downward pressure on the price.

MR BARKER: I don't necessarily believe that. The market penetration, given the existing structure, is of necessity limited. There are aspects of the US market that I don't believe have been fully explored and there is some scope to grow that market with a better penetration.

MR EDWARDS: So you have in mind there an alternative marketing arrangement?

MR BARKER: No, I don't. It's just - - -

MR EDWARDS: You're not necessarily suggesting moving away from the single importer arrangement when you say - - -

MR BARKER: I'm not saying yes or no to that situation. I think more astute minds than mine can be applied to reviewing that situation.

MR COSGROVE: But do you have any evidence of its being a failure on the part of the present arrangement to exploit sales?

MR BARKER: I am involved in a significant amount of import from US in terms of citrus and am constantly talking to people in the US about Australian oranges, when we're selling Australian oranges and how they're going and what they're like, and I've been surprised at the limited outlets that they can be purchased and the sometimes lack of availability at some of those outlets. I would suggest that there are aspects of the market that are not being addressed.

MR EDWARDS: But we've been given evidence that DNE and Oppenheimer have very high penetration into the major supermarkets.

MR BARKER: Yes, well, the major supermarkets represent a proportion of the market. What's their penetration like of the other sectors of the market?

MR COSGROVE: Do you have information on the penetration rates?

MR BARKER: No, I don't have the information on them. I would be just suggesting that more astute minds than mine could perhaps examine that situation. I would find it difficult conceptually to believe that they could cover the US market, one particular person could cover the US market.

MR COSGROVE: But I guess the question is - and it's one that can only be tested in the marketplace and at present that may not be being fully tested - is whether the decline in price - I know you just said you're not necessarily agreeing that there would be a decline in price, but if there were the question becomes: is the increase in volume sufficient to offset the decline in price? Again is there any evidence that that would be the case? As I say, it's difficult because you're not able to test the US market in that way except through the existing single importer who might be asked to push another 10 per cent in one year and see what happened, or over a couple of years perhaps even would be a better test. Any other comment on that issue?

MR BARKER: No.

MR COSGROVE: Okay.

MR BARKER: I'd like to perhaps move on to one small area, and I think that you've raised the situation of an independent review of the marketing arrangements and that's what I was referring to a moment ago. At the moment basically reviews of the marketing arrangements have been done by what I consider to be basically in-house with a very closed structure. I would think that if the single desk for US or any other arrangement that might be proposed is to be considered, it should be reviewed and it should be reviewed independently. That would be almost outside the structure of HAL.

MR COSGROVE: Some people have said that it would be important in such an independent review, though, to have somebody very knowledgeable about the industry.

MR BARKER: Absolutely, yes.

MR COSGROVE: But you think someone not party to the existing governance arrangements for the arrangement?

MR BARKER: I would have thought so, yes. I think in that situation if the arrangement is good it will stand up and if it's not so good it will perhaps come out with a different result. Perhaps I haven't alerted you but, if I might, I was interested to hear some of Chris's comments earlier. Can I make a little response?

MR COSGROVE: Yes, of course.

MR BARKER: I think a lot of the comment has been discussion about market access and priorities, and to me discussions about priorities is really a question of rearranging the deck chairs on the Titanic. The basic consideration is whether or not Chris and his colleagues are actually achieving access for horticultural produce and

in particular citrus in a timely way. Most in the industry would seem to think that there is significant delay in achieving that access, and I'd suggest in an overall sense maybe if the commission could have a look at the last two or three years of Biosecurity News and read for yourselves the outstanding achievements of Biosecurity Australia in that sense, they might be interesting. If you do read those magazines, you'll find that there's probably only one or two achievements in the last couple of years that have been reported in the magazines, which I think is really an abysmal record.

One of the things that have been done is to blame other countries' phytosanitary organisations and say that the response from them is not adequate or not on time or we're waiting for them. We could be spending all our time waiting for someone else to give us a response to our request. That may be the case, but I seem to think that if we are spending so much time waiting, we should be perhaps spending a bit more time trying to exert some pressure on those authorities to respond to our requests and give us some form of priority or some form of consideration.

MR COSGROVE: Is there any indication that that is not the case, that BA is failing to prompt its interlocutors on matters under discussion?

MR BARKER: No, I don't have a specific one. I had a meeting with one of the organisations in China about two years ago - it's not the Beijing organisation, it's the South China quarantine part of it - who, when questioned about the delay in terms of access for Australian citrus into China, totally blamed AQIS as it then was and it was quite amusing if it hadn't been so serious that the terminology used was exactly the same as we get fed here in Australia, "That is all the other party's fault." Probably between the two extremes is an answer and unfortunately the industry, whether it be the citrus industry or other industries are the ones that are suffering.

If I can perhaps also add a little bit in terms of advice to industry, if I'm a stakeholder, identify myself as a stakeholder in relation to an ongoing import application, then I will receive an email on a regular basis about what is happening with consideration of that application. I will get an invitation to a growers' meeting in north Queensland. It will all come on the email. I can't see any reason why the same couldn't be utilised, the same system couldn't be utilised for export market access issues. The system is in place. It wouldn't rely on publication in the two-monthly magazine and would be quite immediate.

MR COSGROVE: But the concern that Biosecurity Australia expressed about that then diffusing around the planet and creating potential problems in terms of our efforts to obtain market access in the countries.

MR BARKER: I don't share those concerns. If, for instance, there is another meeting with Korean people - I think there was one a little while ago, I heard on the

grapevine that there was - but if there is another one being planned to discuss certain aspects of the protocol then the fact that the industry in Australia was aware of that I can't see it would be of significant import to others overseas. It might actually assist in providing some feedback in terms of the issue being discussed. I would be surprised if it didn't.

MR COSGROVE: So you're not wary about scaring the horses, as they say, overseas?

MR BARKER: No, I don't believe so. There's a meeting, for instance, in southern China again on 24 June with the same people I referred to earlier. There will be about 20 Australians there and we will be in the room with some senior quarantine people and one of us will know anything about where the negotiations are with Beijing. None of us will be able to talk sensibly to the people but the meeting has been arranged anyway. I just don't think that is an appropriate position to be in.

MR COSGROVE: Okay. Anything else that you were wanting to raise, Neil?

MR BARKER: No.

MR COSGROVE: I wonder if I could just take a little bit of time and I do need to keep a very close eye on the clock, I'm afraid. These other markets, the non-regulated markets, if I can call them that, we were told by people this morning from AAGA about the basis on which export agents, if that's the right work, collect their fees and it seemed to be, if I understood them correctly, essentially a value-based arrangement, even though it might have been ostensibly based on per carton sold but they seemed to then say that the price was nevertheless a part of the deal. Is that your own experience as well? I ask the question because there have been arguments put to us quite strongly that people in a role such as yourself don't necessarily have the interests of the growers in mind, that the maximisation of your income, because of the way you earn your fee might not result in the maximisation of the growers income. Do you have any comment on that point?

MR BARKER: I suppose there's always a contest between selling more and thereby earning a greater fee or commission and holding out and trying to achieve a higher price. I don't like to speak for others. My arrangement is such that I agree a fee at the start of the season and it hasn't changed for some time and we're continually trying to maximise the price. In fact we, with my major supplier ended up the season, the last navel season thinking that we'd achieved too much money for the early season navels that had impacted adversely on our customers and that in some way we should try and make sure that didn't happen again for the next season. So to me marketers should be aware of what the market is doing, what it's prepared to be paying and if you're running proper export programs then the market price is really the last consideration of what you're going to achieve.

MR COSGROVE: In the sense that you don't really have any control over it, you're a price taker or?

MR BARKER: Given the competition from South Africa and other sources, Australia to a certain extent is a price taker in South-East Asia until we get to a situation where South Africa is really finished and we've got the market to ourselves and then we can become a price maker. That only lasts for a short time anyway. By that stage we normally haven't got much fruit left anyway. I would suggest that we are generally price takers. The price that we can achieve is relevant to - - -

MR COSGROVE: In which case you try to sell more.

MR BARKER: Yes.

MR COSGROVE: That's the basis on which you are usually remunerated yourself?

MR BARKER: Yes.

MR COSGROVE: Per carton sold?

MR BARKER: Per carton sold. I have a commitment to sell a proportion of a crop and to achieve maximum benefit for it. If I don't achieve maximum benefit for it and I don't achieve the proportion that I want, then maybe I won't have a job next year. I would suggest that there's a fair bit of competition in terms of exporters. Some packers want to play around with exporters and not work closely with them, then they've got half a dozen exporters to choose from if they're not comfortable with the price they're getting. I don't see that as a valid consideration.

MR COSGROVE: Okay.

MR BARKER: I see more a situation in the US where packing sheds are adjudged on their performance for the year and grower's crop will go to one packing shed or another, depending on that packer's performance in packing, marketing and achieving a net return. If the net return for the grower isn't sufficient from that particular packer then the fruit will be taken elsewhere for the next season.

MR COSGROVE: Just a couple of quick questions to finish if I may. The story that you were portraying about the shortage of Australian navels for global demand is a part of that story an upward trend in the price paid for navels in the markets around the world?

MR BARKER: I believe that the export markets have become more viable over the

last few years for Australian navels.

MR COSGROVE: I was thinking more globally, if you think the US market is unsatisfied in their off season, if you think we can also increase our sales substantially in some Asian markets, it would seem to suggest that the overall aggregate global demand for these things is not being satisfied, in which case the price tends to rise. Is that showing up in figures?

MR BARKER: I think in terms of, for instance, the Hong Kong-China market, once we get into the end of August when fruit supply is not sufficient the price tends to rise. Every year you see that happening until you haven't got navels left to sell.

MR COSGROVE: Finally, I regret to say given the time constraints we have, you mentioned at the end or towards the end of your submission to us that you don't think there's been much sense in growing Valencias for 20 years. I wonder a little about that, at least in the sense that there was a substantial tariff protecting the domestic industry 20 years ago and of course more recently than that, which might have clouded the market signal as to which variety should be being invested in. What was your foresight at that time?

MR BARKER: I mean, historically the domestic market has preferred navels. I recall when I was more involved in wholesale, if you could judge the volumes consumed domestically from when the supermarkets changed from navels to Valencias, then in the space of two to three weeks, the volume of fruit marketed domestically would decline by almost - more than half. I think that speaks for itself in terms of the domestic market preference for navel or Valencia. The export market certainly has been very strongly demanding navels. There is a market for - - -

MR COSGROVE: But could you have foreseen that 20 years ago?

MR BARKER: The same trend was there domestically 20 years ago, absolutely.

MR COSGROVE: I'm talking about export markets.

MR BARKER: Export market. We weren't selling to the US. I believe that the same trend should have been there 20 years ago.

MR COSGROVE: You went on to say that many producers nevertheless, particularly in marginal citrus areas, are locked in because they lack the resources to relocate or restructure. Do you have in mind any solution to that problem?

MR BARKER: You know, from my understanding a number of smaller citrus producers simply don't have the financial backing to change what they're doing now and reinvest in a larger more effective farm, perhaps even relocate in terms of areas, but that's simply not on the financial horizon, if you like. I don't have any magical wand as to how that might be resolved and I am loath to suggest that the government

might fund it or otherwise assist. That's not my area but if you go to some areas there are some people who simply can't move, who can't change. They can't do what they want to do and even with the best intention they can't do it.

MR COSGROVE: So they might have to leave is one option.

MR BARKER: Unfortunately that might be the situation. If you're going backwards today - I mean, how long do you continue to go backwards before you decide that you're never going to get it into forward gear.

MR COSGROVE: Thanks very much for coming along and adding those thoughts to our pot.

MR BARKER: Deliberations.

MR COSGROVE: Yes.

MR BARKER: Thanks very much and wish you the best with the final report.

MR COSGROVE: Yes, thank you. We've got a busy four or five weeks ahead of us. Thanks very much.

MR COSGROVE: I know that we are under some time pressures because of people's travel arrangements so I wonder if our next participant, Murray Valley Citrus Marketing Board, could come forward. I think again, as we did in Mildura, we'll need to get you to identify yourselves and the capacity in which you're here today.

MR BRANIFF: I'm John Braniff. I'm CEO of the Murray Valley Citrus Board. I also have a couple of handouts from the Sunraysia citrus growers and also Mr Dudley Marrows who you met in Mildura so I'll hand those out shortly.

MR BARRETT: Michael Barrett is my name. I'm a member of the Murray Valley Citrus Marketing Board and have been a member for almost six years and my other job is that I'm the senior lecturer in marketing in the school of marketing, faculty of business, RMIT. So I guess I would be the sort of non-aligned member of the board and I must say it's been a very interesting six years. I would like to think that I've made some positive contribution to the citrus industry and I must remark on the report you've done. It's probably the first time I've been able to capture a lot of the culture of the industry and a lot of the dynamics of the industry in one document. So that has been quite a task in itself and I congratulate you on that one.

MR COSGROVE: I had been, yes, in a short period.

MR BARRETT: That's an academic comment rather than a practical comment.

MR COSGROVE: John, we heard from you in Mildura but I gather you want to make some further suggestions to us.

MR BRANIFF: Can I just say first at the outset I may have to excuse myself prior to the discussions finishing because I have a plane to catch so if I do leave I'm not being rude.

MR COSGROVE: Yes, I understand that.

MR BRANIFF: With regard to the USA arrangements, I just want to make a couple of brief comments because my colleague Michael will be perhaps presenting a different perspective on that shortly and you are aware of my views or our views. We've put the submission to you on that particular issue but we would argue quite strongly that irrespective of how you interpret the terms of reference, that we believe the strong focus on the export arrangements, and particularly the export licensing arrangements in the United States, are really outside the intended scope of this inquiry. We believe that so I would just like to leave that message strongly with the commission.

The other points I want to focus on, perhaps the financial performance, and in one of the findings of the findings page of your report, there's a statement that:

Although growers receive a low price for oranges supplied for processing into FCOJ the average price received by growers for their orange crop is substantially above the FCOJ food equivalent price and the price levels prevailing in domestic and overseas markets for fresh fruit and fresh juice also appear to be comfortably in excess of the total cost of production and processing in Australia.

That last sentence I would just like to take some issue with. I've got some factual information from a fairly sizeable grower who does his own packing and it's not always easy to get factual information because of the different organisations or the different businesses involved in growing and packing. What I've got here is the actual packing and market distribution performance for the years 2001-2002, the most recent complete year, and also the previous year, 2000-2001. If you look at the navel varieties - I'll give you just percentages. I won't bore you with the figures and tonnages but I will leave you with these figures.

MR COSGROVE: Thank you.

MR BRANIFF: What I'm sort of alluding to is the price tables that are quoted in the report where it is quoting either farm gate prices or FOB export type prices, I just want to demonstrate that those are somewhat misleading because they don't really take into account the fruit that goes to other purposes - either processing or being dumped, and it doesn't take into account the actual packout of the total crop going through the packing house. So this is factual information from the 2001-2002 year, which was quite a short year in terms of navel and Valencia crops. We had 67 per cent or 67.6 per cent of navels were actually packed. 24 per cent were sent to juice and just over 8 per cent were dumped.

If you look at Valencias in the same year, 31.1 per cent were packed; 63.5 per cent went to juice and 5.2 per cent were dumped. As I said, they were very short crop years and of the navels in the previous year, 60.5 per cent packed, 37 per cent to juice, 1.8 per cent dumped and in Valencia, 33 per cent packed, 61.5 per cent juice and 4.7 per cent dumped. If you look at the Valencias for both years, the contract in the short crop year just about took up most of the available crop in this particular packhouse's experience. So he had 467 tonnes available for processing and 426 tonnes of that went to contract pricing. So the returns as far as product to juicing is concerned, are obviously better than going to the spot market or for FCOJ processing but generally they still don't cover the cost of production.

MR COSGROVE: Is this information for the Murray Valley as a whole, for just one - - -

MR BRANIFF: This is one large packer and grower but it is, I'd suggest, quite typical of the sort of market distribution and pack-out that would be achieved by an average sort of shed. Some of my colleagues may wish to comment on that, but I'm pretty sure it's a fairly reasonable average sort of number.

MR EDWARDS: You've spoken of the year 2001-02. What's the precise coverage of that period?

MR BRANIFF: The full financial year.

MR EDWARDS: But we're not to the end of the financial year.

MR BRANIFF: Well, it takes into account all the navels and all the Valencias of those particular years, of those two seasons in each year. I just wanted to make the point that in the previous year, where there was a much larger volume of Valencias available, just around about half went to contract processing and the other half would have been sent to the spot market, which was quite low, probably around the 60, 70 dollars a tonne. So I'll leave these figure with you. I think it just demonstrates that some of those figures quoted in the tables are certainly misleading. I know that a lot of industry have made comments that they seemed very high, and I suggest that's the reason.

MR COSGROVE: It could be, okay.

MR BRANIFF: The other point on financial performance is that we've just completed our crop forecasts for the upcoming navel season, and certainly in South Australia and in our region we're facing a very, very large crop of navels and very, very small fruit once again, so we're almost back to a couple of years ago, where we had very big volumes of small fruit. So that's going to present a real marketing challenge for us and I'd suggest that the financial performance benchmarking that we've been doing in the Murray Valley for five years - when we go into year 7, it will be, that we could well be facing on average only two profit years out of seven. They're average performances. Obviously there are some that are better than that, but they're taking average performance.

MR COSGROVE: But what's the message coming out of that fairly dismal profit performance? Why are people continuing and obviously making losses?

MR BRANIFF: Obviously we're releasing information wherever we can to growers to point out to them, because the benchmarking does identify profit drivers and areas of problem and opportunity if you like. So that's one of the reasons it was undertaken. But equally many things come into it. One is the lack of access to capital to redevelop their properties; the other is - scale does come into it to some extent, and we have quite a number of small growers. So the intent in future is to try to get growers to address their problem areas and to improve their business performance, and that's the whole purpose behind the benchmarking studies.

But I suppose the overall underlying message there is that statements that

growers seem to be doing okay or words to that effect can be questioned, I think, because of the average performance of the growers that have been participating in that benchmarking study. As we've said before, they tend to be the better performers in the industry as well, so it's reasonable to assume that there would be many, many growers performing a lot worse in their financial result.

The only other point I wanted to reiterate was that the reference to off-farm income we felt was a little irrelevant because of the intent of the inquiry to focus on citrus growing and processing. We felt that, whilst it's certainly a fact that some growers do have off-farm income, it was somewhat irrelevant to this particular inquiry.

MR COSGROVE: Yes, although as I think I explained, I've forgotten whether in Mildura or elsewhere, we have been requested also to report on whether measures are needed to enhance competitiveness and, if so, what measures would be necessary and appropriate, including whether a formal safeguards investigation is warranted. We're also supposed to take into account the impact and effectiveness of government policies and programs, and in that context and given that the ACG itself put forward an assistance package proposal, it seemed to us that it's not really correct to focus only on citrus income if you're trying to assess the need that people in the industry might have for additional government-funded assistance.

Ordinarily in such circumstances if assistance was to be provided, you would want to have a look at the overall financial position of that person, and that obviously includes income derived from sources other than citrus growing. I think that was the way we approached it, and I think if you look at even existing programs available to provide assistance to growers, they too have within their coverage assets or income from sources other than citrus growing. I think that's the logic we've been trying to employ. I think it's correct but - - -

MR BRANIFF: I can only say I guess we would argue that if you're looking at citrus growing as a viable industry, or whether it is or is not a viable industry, we feel that the off-farm aspect is not relevant.

MR COSGROVE: They may be two separate issues I think, John, yes.

MR BRANIFF: Commissioner, that's really all I wanted to say and I'll hand over to Michael.

MR BARRETT: First of all, there's a couple of opening comments I'd like to make and then sort of develop an argument around the need for the single desk or orderly marketing operation. I don't really want to get into any other areas, and the reason is because over the years I've done a certain amount of research on this. I haven't published but I've read most of the current literature on the area of what we'd call

networking, and I'd like to introduce that as a part of the argument that you really leave quite open to come into this.

The other assumption is that - I'm well aware of the economic argument that's put forward, the fairly dry economic argument, but I'm wanting to look at this from a strategic perspective, from a corporate or industry strategic perspective rather than give consideration just to the basic economic argument. Being one of Prof Snape's former students in the late 60s I'm disappointed he's not here to have a rap with.

MR COSGROVE: Unfortunately his poor health intervenes.

MR BARRETT: Yes, that's right. The other thing too is that expansion of the citrus market is dependent on exports because domestic consumption is really at a static level, and a little bit of tweaking at the sides with maybe things like cut fruit and that will add little bits of value added operations but it's really - - -

MR COSGROVE: Or fresh juice seems to be growing market.

MR BARRETT: Fresh juice, but that's a substitution effect taking place. But really in the overall beverages market you're probably getting static consumption as well and the opening up of export markets due to the WTO, the Uruguay round presents to the industry the greatest opportunity for us to really do something positive for the industry. The other thing too is that on page 151 you actually don't assist with the argument about the single-desk operation and all the other sort of benefits of it. So that is really where I am pitching this argument, not necessarily the rational economic approach which you have taken. The other thing too, on page 56 you mentioned a distribution system or what I might term as a value chain and I would actually dispute the way that has been put together, from first of all the relationship between some of the entities in that distribution system doesn't really match up to my analysis. When I first joined the industry I actually went through this sort of process.

The second thing is I would question that transport is not actually a step in the value chain, but rather facilitation to the value chain and therefore if you actually eliminate various steps in this value chain, what you can start to get is more efficient methods of supply chain management. So that is just another question of it and I guess it is up to you good selves to actually decide how you want to pitch this report. That is just an area that I would just ask you to have a closer look at in the analysis. In fact I did take the liberty of ringing the guy at Retailworks when I first saw the report and I did say to him that I didn't quite agree with his analysis and he said, "Come around for a cup of coffee and we will have a talk about it." So that's where we have really left it. But to clarify the information and how we make decisions, that needs to be worked on a little bit more.

MR COSGROVE: This is a point which had come up previously in our hearings.

I'm a little puzzled by it in the sense that you could equally say that a packer is a facilitator, not a value adder, but in fact he is a value adder.

MR BARRETT: He is a value adder, but I wouldn't suggest a transport - - -

MR COSGROVE: And a transport person is as well I would have thought. The fruit has to be got from the orchard to a packing shed or to a processing plant and that has value.

MR BARRETT: In the strict marketing sense or sort of what you call a value chain definition, you probably wouldn't put in a transport company as a part of the value chain, they are a facilitator in the process. I guess that is open to debate. It doesn't match the model that I worked. The other thing too is that in this industry there is not a high level of vertical integration and I think that leads to some source of problems as well. Some of the major players are both packers and growers, or grower packers, but outside that you don't see organisations that are complete owners of their own value chain, or a total value system. So it does depend on a high level of cooperation between the entities.

The next point I would like to make here and something that the report doesn't bring out very clearly, is there is a high level of horizontal integration or cooperation at different stages of the value chain, more particularly at the production end, at the grower and the packer level. There are high levels of this integration as I would call it. The other thing I would like, sort of just setting up a scenario for you, is that with the growers and the packers there are high levels of switching cost out of what they are doing. You just can't walk off your citrus plantation as the previous speaker was talking about. A lot of them are actually locked in there because of either bank loans or whatever it might be, "What else am I going to do after three generations of citrus growing?" The same goes for packers. They really don't grow a lot of other products in that area that they could easily switch across, so there is a switching cost.

Exporters are opportunists by nature and the switching cost in and out of the export of a particular commodity is relatively low. The only costs you have is an investment in a bit of air fares and hotels and a lot of documentation, but it doesn't have that same sort of psychological or financial switch in cost that I think you need to take into account. The other thing too about exporters is they tend to be sales driven rather than marketing driven, right, asking the customer what they want. They actually get it and will flog it and this is a characteristic of the entire industry. Yes, it is supply driven and I will explain later why we are trying to change this, but it does tend to be sales driven, like, "We will get it, we will flog it."

This is probably one reason why branding hasn't been a high priority on the exporter merchant groups priority list and you only need to go to several citrus conferences that I have been to which it is a bit of back to home town type thing,

because the industry is relatively small and everybody is sharing their ideas for the future. But we often roll in people from outside, from overseas, to talk about and the single message they keep telling us every time is, "If you guys could have a sole Australian brand, supported by consistent quality, you would have a really good crash hot marketing campaign, because you can deliver quality when you want to."

I can see one of my colleagues in the industry, Neil Eagle, he has been in the industry a long time and branding has always been on the tip of Neil's tongue and you can always get into a good argument with Neil over branding and get some good support from him. So branding is something that we recognise needs to happen and by having this orderly market campaign, it really sort of prevents us from having a better brand pitch against global brands compared to what we are doing at the moment. I hope I am being clear on that,.

MR COSGROVE: Sorry, did I understand that orderly marketing is - - -

MR BARRETT: The orderly marketing has a favourable disposition towards branding if we get our act together as an industry, rather if we fragmented it by having an unregulated situation, I don't think that branding will come out of that. I think it will be even adverse. We have actually got the conditions to actually push this branding notion forward.

MR COSGROVE: I think our experience on visits around the industry would indicate that the larger packing houses do operate strongly with their own brands.

MR BARRETT: Yes, they do. Like the Vitals and those people. They have their act together in branding, but there is probably still a need to have one single or a half a dozen national Australia brands and leave it at that. I don't support the proposition that we need to have multi-branding of - - -

MR COSGROVE: Why not? If you look at other industries, branding is an important means of differentiating your product from somebody else's and enabling you to acquire a loyal set of customers.

MR BARRETT: Fine, if I could pitch that one. I don't know if you know the work of George Yip, but he actually has a four-dimensional model that sort of measures the potential for industries to globalise. If you were to look at this you would say this is a global industry. The characteristics of the citrus industry is a global industry. I know I have got up at citrus conferences and said, "Listen guys, we have to get global" and they will say, "Barrett's off his tree again." But it is, it meets the conditions of being a global industry.

So global industry means global competition and my later argument will be that our industry is behaving as a network. In other words, one single entity. So it is

the Australian industry versus the South African industry, versus the Californian industry. So this is like a nouveau multinational corporation type approach where we are seeing head on international brand competition.

MR COSGROVE: It's a bit like the United Nations I think, rather than a global corporation. Motor vehicle production is a global industry by your definition and I agree - - -

MR BARRETT: Yes.

MR COSGROVE: - - - but you have I don't know how many car companies competing against each other. They are differentiating their products, they are pitching their sales at different price levels - - -

MR BARRETT: With all due respect, since the WTO came in, those brands are shrinking very rapidly. Look at Daimler Chrysler, Mitsubishi for instance and so forth.

MR COSGROVE: Yes, there is consolidation occurring.

MR BARRETT: There is a huge consolidation of branding and - - -

MR COSGROVE: Yes, there is consolidation, but not of the brands. You will still see Mazdas and Fords marketed separately, even though Ford now owns a large chunk of Mazda I think. You still see Rovers, even though they are owned by BMW. I'm not sure that a single brand precludes you from augmenting your income.

MR BARRETT: No, you are probably right. In the markets we serve there is not a high level of differentiation of preference patterns with consumers. In the citrus industry we are yet to get to that point where there is a high differentiation, therefore the argument for a multi-brand sort of approach to a single customer profile really wouldn't be that efficient.

MR COSGROVE: Well, as I say, the big packing houses seem to take the opposite view. They are not putting it out as Australian citrus, they are putting it out as - - -

MR BARRETT: Well, I guess I don't have a brief for a packing house, I have a brief for the industry as a whole and that's why I would like to pitch it that way, rather than see it as a - there is a homogenous demand versus a differentiated supply pattern. In the citrus industry where we have a flipside of that, the differentiated demand, where a homogenous supply picture coming in in the automotive industry. So it is really two different scenarios that we could count there.

What I've just sort of gone into then tends to translate into probably almost an abuse of market power at the front end of the value chain, in other words, the

exporters. They tend to use their market power to influence what they want done and sometimes they do not promulgate information back to the grower. That information sometimes is just not available to the grower. He's producing really with a wet finger in the air and in isolation, and there is some evidence to support that.

MR COSGROVE: We'd be interested to see that evidence.

MR BARRETT: It's anecdotal evidence but I'll give you one case. When I first joined the citrus industry we tried to sort of formalise our strategic planning in the industry - this is through the Murray Valley Board and I'm really speaking on behalf of the board - and we had two sessions of about 65 members of the industry, where we presented what we wanted to do and sort of workshopped the whole thing up. One thing that I've been very keen on is doing sensory perceptual work in the industry to ensure that every local market and export market - we actually know exactly what the customer wants in terms of fruit type, fruit size, fruit flavour, sugar-acid ratios, the whole bit, in the same way that multinational food marketer would do. They go to great lengths of doing this sensory perceptual work.

There seemed to be considerable amount of sort of discouragement from the people further down the value chain, saying, "That work has already been done," and no evidence was produced. "You can get it off the web," was one excuse. I guess I was just a little bit more rigorous in the way I went about it and I have not seen any evidence up until this. If the grower actually knew what the market wanted, they could actually have a greater level of control through knowledge of what the market was all about. So that's anecdotal evidence that I see that the grower tends to be - this power. Lack of knowledge of the market does tend to take place.

MR EDWARDS: But could it not be suggested that a particular grower who is tuned in to those desirable market characteristics under our present arrangements is able to grow oranges to the specification and guarantee them through his own brand?

MR BARRETT: Yes, okay. So there are lots of grower packers. Some larger grower packers obviously do roam around the world markets and they have their sales managers, international sales managers, who can feed this information back. But the bulk of the industry - and if you look at the profile of the industry, it's still the bulk of the industry - really don't have access to that information on a free basis. Our board tends to go out of its way to try to disseminate that intelligence to the whole growing community, and I might touch on that a little bit further.

So what I'd like to do is to sort of advance this argument a little bit and talk about the use of a horizontal industrial network as an alternative way of industrial organisation compared to the vertical systems that exist. There was quite a good book written by a guy called Gerillo, who advances three cases and says that in many ways a network is a more efficient sort of mini-market within itself because of the

optimisation or sharing of activities between the entities in this network. Organisations like ourselves, the Murray Valley Board or the ACG for instance, become nodes in that network where growers and packers tend to gravitate for information, for technical information, for market intelligence or sharing of ideas. We actually play quite an important role in all that.

I would like to think that you agree that Australia does not have an absolute advantage in any area of production of citrus, and that tends to drop us behind the eight ball.

MR EDWARDS: Do you mean absolute advantage or comparative advantage?

MR BARRETT: No, an absolute advantage. I don't think we can beat anybody in the world. However, we do have a comparative advantage in the production of high quality fruit. Our guys know how to grow good product, clean and green fruit. It may not be the cheapest in the world to produce, but we do have a comparative advantage in high-quality table fruit. I think we would all agree that the Brazilians can do it cheaper, and probably that's the argument pitched all the time.

The other thing too is we don't achieve economies of scale producing around about 1 per cent of the world production of citrus. There is no way we can actually achieve high levels of economies of scale. We flip-flop around that family farm to corporate farm, where the curve tends to sort of shoulder and then drop away, but we really don't have that economic grunt in the world market to make any sort of impact whatsoever.

This was shown up in the Barraclough study. John Barraclough did a benchmarking study and he looked at South Africa, I think some of the South American operations, and at Australia, California and I'm not too sure whether John did Florida. But it was probably one of the best studies I've seen done in the citrus industry since I've been in it, and really there are people in the industry globally that are operating against us. You've got the South Africans who get an advantage over water, the Brazilians get an advantage over labour and water, but we actually pay total full cost on everything and we're still there. So we must be doing something right in producing this high-quality fruit. So I think that's why we're not looking for handouts but we're looking for the industry to give us some strong support on that comparative advantage that we hold in terms of producing high-quality fruit that is clean and green and demanded by the world market, and there are areas such as organics where they get premium prices that we're producing quite well in as well. I'm sure you're aware of Prof Michael Porter and his argument.

MR COSGROVE: Yes.

MR BARRETT: I'm trying not to be an academic here but it's the only tool that I

have. I would suggest that in the Michael Porter box we're producing in the bottom right-hand corner, being a focus producer with limited market access on the differentiated end of the scale, so we're really right at the top of that long-run average cost curve to start with. We would probably end up moving up towards the full cover box, which is sort of a vertical movement up one of those four boxes there - if I had a whiteboard I could show you all of this - due to our market access efforts. I think that the harder we should be on market access the greater the level of market coverage, but at the end of the day covering a couple of markets and couple of seasonal windows would only put us in the focused area, not necessarily in the full coverage area.

So I think that needs to be given some assistance in making sure what box we sit in. Your report, where you extend out the argument, doesn't sort of go into those esoteric areas and I'd really encourage you to sort of put some reservation and maybe consider that for next time - I hope we don't have another inquiry, but consider that. These areas probably need a closer scrutiny in that we are a focus producer with a differentiated product range.

If I could just bring in this whole idea of networks and the way the industry operates. The industry really is operating in many ways as a perfect market, and when I joined the citrus industry I discovered this very quickly after people like Kevin Cock and John drove me around to meet everybody and went to lots of meetings. They're great ones for talkfests in the citrus industry, I can guarantee you that, but it operates as a network where they share. They share production, they share knowledge, they share market intelligence at the production end. There is a high level of sharing among producers, and the Murray Valley Board plays quite a significant role in that as a facilitator, because what we do is we take that \$7 a tonne levy and we conduct things like citgroups and we may go from things like chainsaw practice and all those sort of things, which are fairly basic to the common or garden person walking down Collins Street, but to somebody up in Mildura to know what to prune properly at the right time of the year becomes very important to their business and their productivity. So I think we add some value through that levy, that system.

So this network tends to operate in very much a multinational corporation sense in that, "This is the Mildura producers' area" or "the South Australian producers' area," as this very integrated network. Through our levy we're funding R and D, not that the individual grower could under but that our board undertakes on behalf of the growers. One of the things that we've got on the agenda at the moment is to develop an integrated crop forecasting system, and this actually is halfway through. I'd say we've sort of completed stage 1 of a three-stage project, where we've done the GPS study and we've looked at all the aerial surveys, done the field surveys. We've really done the census of the industry. The next step is to integrate this into some sort of economic forecasting model, right, which is done on a fairly basic way at the moment but with the support of the ACG and HAL and a few other groups,

what we hope to do is to come up with a more robust sort of forecasting model. Then the next step is to publish that for use by the industry. The idea is that we know exactly what's in the ground in the terms of bearing and non-bearing trees, the scientific method we would go about, we would know what the crop is going to be sized up at.

So in other words we are in a position now to market our product rather than just a push-type sell operation, we can actually market our product under brand because we actually know what's going into the marketplace.

MR COSGROVE: Is this a medium-term forecast?

MR BARRETT: There are two parts of that, it splits in a Y. The first one would be the seasonal by season by season forecasting and then the longer-term one would be look at the actual yields in a long-term trend pattern because of the problems of tree ageing and all these other issues that we get and also the number of non-bearing trees in the ground and reworks and all that. So there are really two sort of submodels built on the same database. The other one is that we've got Auscitrus and there's a big movement - and I know the Murray Valley board is very keen to do something about this to measure the area of perceptual mapping or sensory perception and the idea is, as I mentioned to you before, is we can actually find out what customers want in different countries of the world and our own and start to recommend to growers varieties at times of the year that they could satisfy that market.

This is a bit of a vision, but we've gone a fair way there and RMIT have actually been involved in this and I have actually asked some of our people in another school, the food science area, to look at some sensory perceptual work but we might not do it through RMIT, but we may do it through a competitive tender process but it is done, it's done in the multinational food industries. But the idea is that we can send messages back to the growers to say, "Well, look, this is what's needed for the Korean market versus Taiwanese market, the Thai market and all those sort of things," and it may not necessarily be navels. The exporter will just flog navels into the market whereas you might find that you're going into somewhere like Thailand where the tariff is still considerable high at about 46 per cent, they prefer Honey Murcotts because the King of Thailand likes Honey Murcotts and they all eat Honey Murcotts and it's got a high sugar level and all the other characteristics.

The other one is strategic planning. I know when we started on a mission to improve out strategic planning at the citrus board after I joined is that what we've hoped to do is sort of bring that across into the industry generally, sort of have a national coordinated strategic plan that can actually take that crop forecast and start to see how this all projects itself out. The whole point behind this is that it's operating as a network and without that network the whole thing is going to collapse.

If we want to leave it up to market forces to rip each other's heads off which is pretty dry economics, I don't think we're going to get this level of risk reduction and increased capital expenditure to bring about crop renewal, crop renewal in terms of existing markets that are changing, but also crop renewal in terms of the production base where we're switching from juice fruit to eating fruit.

As we continue to get higher levels of market access through the long and protracted WTO procedure, we can actually start to get some real investment in the industry. But this real investment, I suggest to you, would come about a lot faster if we could reduce the level of risk reduction. I see the level of risk reduction in maybe the next 10 years and maybe if I'm standing here in 10 years' time I wouldn't be saying the same things, but I really do believe that this period of risk reduction will into new markets guarantee some surety that we're actually going to have market access, that we're going to have a common supply, it's going to be a very efficient way of getting our product into those markets to overcome this adjustment period, so that is an important point.

The single best approach, if it was to be withdrawn, then all these activities I don't think would happen very much at all and I think that it would lead to somewhat of a destruction of the whole network. I do believe that as long as we try and support this idea of having a networked industry with fairly predictable market access through single desk or orderly marketing then I believe that branding will be able to differentiate the Australian product against the Californian product against the Israeli product and - - -

MR COSGROVE: Could I ask, why do you need a single importer into the US market to be the basis of a domestic network? Can't you have a domestic network without that?

MR BARRETT: I wasn't in the citrus industry when they decided on a single-desk importer but maybe we should flip back to a single-desk export operation and I'm not too sure about that. The thing too that I didn't bring up and I should have is that about a dollar a tonne is invested in merchandising by DNE. That gets charged back to the grower. I would defy you to prove that some of these exporters would actually spend that same dollar a tonne to merchandise the product. This is paying slotting fees to actually do in-store displays and do all the other merchandising activity such as throwing out crook fruit or something like that.

I don't see that we could support that high level of merchandising that takes place in the US if we didn't have that single-desk type operation because DNE are not only just sort of doing the documentation and organising the shipping, they're actually running a fairly sophisticated merchandising operation and in fact it's second to none and it's a good as anybody gets in the grocery industry what they're doing over there and I think that's that value adding. If we were selling common or garden

fruit then we probably wouldn't need to merchandise it, we could sell on price. But, see, we're not selling on price we're selling on consumer value and we want to invest more in getting consumer value and therefore we'd need to support it with promotion such as merchandising and DNE are the type of organisation that could support that.

MR COSGROVE: Yes, but as you say, the growers pay that bill so your argument seems to be that it's done more efficiently by a single importer than it would be done by a larger number of exporters.

MR BARRETT: Yes, I believe so because we've got low volume into the States. I really don't think that the mere fact that you're selling a lot of fruit into the US market is a clear argument for a country that only produces 1 per cent of the world's fruit. We are a "niche". We are a specialised producer and if we get into this sort of - I heard the figure of 10 million tonnes versus the current a little over a million - if we got into that \$10 million figure I don't believe that we could support it with the same level of promotional activity and the same level of quality as well. We just don't have that capacity to supply that market with that level of quality. So therefore the single-desk operation does tend to manage it and manage it more like a multinational corporation because we're a networked industry.

I have worked in several agricultural industries and I've worked in the manufacturing industry and I've never seen an industry that is so closely knit in terms of their dependence on each other to optimise what they're doing. Thank you very much.

MR COSGROVE: Thank you.

MR BARRETT: Have you got any more questions? We've had a good old discussion here.

MR COSGROVE: No, we will have a look at the transcript when it's available and - - -

MR BARRETT: I would really like you to see it from that more strategic perspective rather than that dry economic argument. Thank you very much.

MR COSGROVE: Thank you.

MR COSGROVE: That completes the list of scheduled participants that we had for today, but as ever if anyone wants to make a brief presentation to us before we break for lunch, then now is the time. Judith, would you identify yourself please and indicate the capacity you're with us.

MS DAMIANI: Sure. Judith Damiani, executive director Australia Citrus Growers Inc.

MR COSGROVE: Thank you.

MS DAMIANI: I would like to start off - because I have a plane to catch soon - with just a few quick comments on some of the interesting issues I heard today and I would like to clarify - I will just go to them as they were spoken to this morning, in no particular order. First of all there were comments by the exporters about the research and development which is paid for by industry and I would just like to clarify that the research and development levy is actually paid by the growers and the growers fund a lot disinfestation research, market access-type research, fruit fly field research. The exporters don't contribute to that at all, yet the growers are seen to have to fund that kind of work which supports all the other sectors of the industry. The growers are quite prepared to do that but I think that the other sectors of the industry have to realise that the extra contribution that the growers make to that work that supports market access, progress of market access issues.

The other interesting point was the fact that each sector of the industry seems to have a set price. That is to say the packers make \$6 to 7 per box, the exporter is looking to make a dollar to \$2 per box and that's their take in the cost along the chain. The growers are never ever guaranteed a price per box and I think that's a real difference. What we try to organise with the industry is some sort of guarantee back to the grower and that's what they do have in the US market, very definitely a guaranteed return back to them.

MR COSGROVE: What do you mean, a minimum price?

MS DAMIANI: I'm not saying there's a minimum price but what I'm saying is that because the cost structure is very transparent that the grower is assured a greater percentage of the return than any other market and that's just the comments from what we heard today.

MR COSGROVE: Could you provide us with any information on what you were just describing about this US transparency?

MS DAMIANI: Sure. There's a really good presentation by DNE World Fruit Sales which they give to the industry every year and the recent one I'm sure which is available publicly, we can provide to you. There's a lot of price information and

market distribution information, the promotions they do and how it's all very transparent and how they report back to the industry and that's not just to growers but that's to everyone who is involved and available to come to these meetings. So I can certainly provide you with a CD of that presentation because it's a large - just quickly going through, there was a couple of comments made about the Korean access and the exporters made a comment that the review group is dominated by growers in the packing sector and that is so untrue because the review group is made up of four people, one representing the grower sector, one representing the packer sector, one representing the exporter sector and one which is Horticulture Australia Ltd. So how they see that they only have a minority view in that review is beyond my understanding of that review process. So they certainly do have a view and are certainly involved a lot in those review processes.

The other point they made was that there was a rejection of some consignments to Korea and that was due to quarantine, not to the importer. The importer didn't reject the consignment. It was the actual Korean inspector, due to quarantine reasons, that rejected that. Unfortunately it had implications to all the other containers in that lot so it was a quarantine issue, not due to the marketing arrangements at all. Very interesting argument about the 10 million cartons into the US. If we use that same argument for a California grower who is supplying the Australian market, if they have a look at our current supplying to our own domestic market, which, take a conservative figure of 100,000 tonnes, they should be saying the same thing, "We should be able to supply 100,000 tonnes into the Australian summer of our navels," and we know that they're only sending about 15,000 at the moment so how the argument stacks up, I don't quite understand but anyway it's an interesting one. I think they were the main points I did want to make on some of those points.

The last one quickly on the branding issue that was mentioned there. The industry does use brands. They're more trade brands than consumer brand, and we work with those brands in a cooperative way in terms of our export promotion. So we do acknowledge that there is a space there for trade brands but the industry's lack of understanding of the consumer is something that we're trying to address and I think that industry really has to grasp those opportunities as well because we have to supply what the consumer wants, not what the trade customer wants all the time. So I'll just leave it and I'm sure Neil and Steve Allen would like to make a few comments. Thank you very much for your time.

MR COSGROVE: Thanks, Judith. We hope you catch your plane.

MR COSGROVE: Anyone else? We need you to identify yourself.

MR ALLEN: Steve Allen, Riversun Export. Yes, I too would just like to respond to some of the comments just briefly. I hope I won't be too long. Firstly, just in response to the 10 or the 15 million cartons that the US is supposedly able to handle, I think we need to remind ourselves that our competition, apart from all the summer fruits in the US at the particular time of the year that we go in there is also from Valencia oranges which we point out in our submission to your position paper is generally or always around the \$US7 to 10 mark. We need at least \$15 or 16 a carton just to break even in that market so, you know, I think it's a bit of a fallacy or an unsubstantiated statement to say that a market can handle that type of fruit. If that was the case, I would like to know why the South Africans haven't poured 10 or 15 million cartons into the market themselves because as we've pointed out, they've experienced the ramifications of oversupply in that market the same as what Australia has.

There's also the contention that the supply to the US market is detrimental to the supply of other markets of Australia. Again, we say that the US market has been undersupplied the last two years, as have other markets, as has been suggested. However, I would say that five of the largest packers, exporters within the Riversun group, are certainly aware of the importance of other markets and they certainly supply and support those other markets - essentially do not supply the US to the detriment of other markets so it's spreading the volume and I guess that may be another reason why the volumes - I mean, certainly the volumes have grown to the US market but we have also or they, particular exporters, also continue to support those other markets rather than rely on one single market.

MR COSGROVE: Could you tell us what proportion of the Riversun exports actually go to non-US markets?

MR ALLEN: As I understand it, it is around 80 per cent of exports from Australia, of citrus exports.

MR COSGROVE: The non-US markets.

MR ALLEN: The members that comprise Riversun account for 80 per cent of citrus exports from Australia, from southern Australia.

MR COSGROVE: Of citrus exports, including those that go to the US?

MR ALLEN: Yes.

MR COSGROVE: My question was: what proportion of the Riversun exports, the 80 per cent of the total, go to export markets other than the US?

MR ALLEN: The US would account for 20 per cent so the balance would go to

other markets. In speaking of the other markets, I think we certainly need to remind ourselves that Australian exporters compete with one another in virtually every other export market that we have and this is always at the detriment of the grower.

MR COSGROVE: Why do you say that? Why is it to the detriment of the grower? If I have more people competing to sell my produce, I tend to think that I'm going to get a better price.

MR ALLEN: No, but you also have quite a large number of sellers in that market as well and probably more sellers than you do have importers or buyers and the importers are presented with offers from a number of Australian exporters and they just resort to price in determining who their supplier will be. It happens quite frequently and we have sort of had similar experience in the Korean market where if you resist resorting to price discounts in the market, well, you don't get any sales. So after a two or three-week period and particularly I guess when you are dealing with a perishable product, the market has been set by the weakest seller and it only takes a small amount of fruit to set the market and that is the situation.

MR COSGROVE: You seem to be saying that somehow or other the Korean buyers can restrict the quantity of citrus imports?

MR ALLEN: No, not restrict, I'm using Korea as an example, because that is the only experience that we directly have in, say, Asian markets, but it is exactly the same situation in Singapore, Malaysia and Hong Kong.

MR COSGROVE: Let me put it another way, Steve. Let's say that in Korea in any particular season, there is a demand for 100,000 cartons of Australian navels - purely a figure plucked out of the air - and there are 10 Australian exporters seeking to supply that 100,000 cartons into the market. Why, from a grower's point of view, am I going to be better off if I had a single exporter, than if I had 10 trying to sell that 100,000? Aren't the 10 going to compete against each other in order to satisfy that market?

MR ALLEN: Yes, but the experience is that they are competing on price. In order to get a competitive advantage, Australia resorts to price discounts. As a result of that, I mean it really doesn't take very long for a market to decline overnight to a certain level and it is very much a supply and demand situation.

MR COSGROVE: Yes, that is what I was thinking it was, but I'm not sure I'm grasping the point. You seem to be saying that exporters have in the end only one client and that is the foreign buyer and they will accept whatever the buyer demands in order to move the produce. But I would have thought another part of an exporter's market relationship is with his supplier and as we had suggested earlier today, if a particular grower or packer feels that an exporter is not providing the sort of returns

that the grower expects to get, then that exporter is going to be losing some business. That is market demand and supply.

MR ALLEN: The effect is not upon a single exporter, it is across the board, it affects all, it affects the entire market. The buyers are very skilled at playing one off against another.

MR COSGROVE: And the sellers are not skilled?

MR ALLEN: No. I mean you resist. It just means that you essentially lose market share.

MR COSGROVE: Maybe.

MR ALLEN: Yes, just following on in respect to I guess the exploration of the full market potential, as we mentioned at the hearing in Renmark, I mean we certainly undertake those sort of activities with DNE each and every year. There certainly have been instances where they have found and brought forward new markets or new buyers or what have you, however the price that they are prepared to pay - there are certainly buyers there, but not at the level that we require to cover the cost of export in that market. This consumer buying trend in the US, a very high percentage is through US supermarkets, the rest are basically wholesalers and brokers that are supplying the supermarkets.

Getting back to the comment, the fruit that was shipped into Canada, where we described the impact of that on the market in our submission, I totally disagree with the comment that the returns to the grower were higher. I fail to see how that can be, when we know we purchased some of the fruit ourselves at prices much lower than we were being quoted by DNE and as we pointed out, the customers that this particular importer approached were already using Australian citrus which certainly demonstrates to us that DNE have covered the majority of the market. As we mentioned, we are very much involved in the marketing and take a very strong involvement in conjunction with DNE in the development of marketing plans in the market, continually looking to expand and explore the market potential.

Benchmarking of DNE, as we said, we will get the evaluation and the criteria that we certainly apply in evaluating DNE and certainly we would be looking to improve that. I mean we have, in doing a full assessment, come to the conclusion that we don't necessarily have the expertise to do that and we probably might have to look at one of the major accounting firms, PriceWaterhouse and what have you, somebody like that to conduct that, but that would come at considerable expense I would think. Therefore, I guess we still apply that criteria, but we also look at the performance of the previous year in respect to market growth with particular customers, the prices that are returned.

With the volumes, I mean we have looked at the exercise - 1.5 million cartons is the volume that is going in there at the moment - of 1.5 million cartons at \$25, you could send 2 million at \$20, you could send 3 million at \$15 a carton. The upshot of all that is that if we were to send 2 million cartons in there at, say, \$20 a carton, the extra half a million cartons that we are sending in there are effectively earning \$5 a carton. So on that basis we feel that we are better off sending that volume to the South-East Asian markets where they will achieve a higher return. Therefore, we would prefer to grow the market and develop the market through the use of promotions and promotional activities and try to maintain the same sort of pricing level that we have in the market at the moment.

MR COSGROVE: Those prices you mentioned with increased volumes, how do you know they would be the prices received? They are just assumptions?

MR ALLEN: They are basically assumptions, but we are also guided by what we see with imports from other countries and particularly with the volumes in the domestic market. I mean the domestic market moves around a million cartons a week, but that is at prices of under \$10 a carton. We have tested the volumes from time to time and as a result of that we have been in over-supply situations for a period of time but we did so understanding the risks associated with that but certainly with the endeavour to try and grow the market. I think there was also a reference in 1998 as being a terrible year. I think I should qualify that by saying that was due to quality issues. We had freeze-damaged fruit that arrived in the US and fruit that is freeze-damaged is just unmarketable and unfortunately had to be dumped.

MR COSGROVE: Can I just backtrack to what you said about DNE's coverage of the market. You said that it covers a majority of the market. Could you give me some feel for what majority means?

MR ALLEN: The majority, I think we've got figures there on the supermarket - - -

MR COSGROVE: Yes, but it's very difficult on the basis of those to gain an overall impression. I mean, is "majority" 80 per cent, 95 per cent - how do you know?

MR ALLEN: The price that is required for imported citrus, I would say it would have to be at least 90 per cent. I mean, there is a greater market there but they're not interested in imported citrus. They will use the cheaper Valencia orange that is in supply at the time that we're supplying the navel oranges.

MR COSGROVE: Is there not a consumer preference for navels over Valencias, in which case the navels might be able to gain market share even at a higher price?

MR ALLEN: Yes, and that really gets back to the price point at which the retailers

are setting for say imported citrus or certainly Australian citrus and they're doing the same with South African citrus. Whether they buy it at \$10 a carton or \$30 a carton, the retail price point for the consumer remains the same.

MR COSGROVE: I find that very hard to believe.

MR ALLEN: I can assure you that is the case, from experience, where we have reduced the prices with the objective of - - -

MR COSGROVE: Price reduction of one-third has no effect on the price charged by the supermarket?

MR ALLEN: No, not at all.

MR COSGROVE: It suggests a very uncompetitive market which I find hard to believe, especially in the United States.

MR ALLEN: Unfortunately I guess that is the reality of the market and I think just the strength and the domination that the supermarkets have. Their mark-ups are basically - - -

MR COSGROVE: But there's more than one supermarket. I mean, in any part of America there's at least two or three. If I'm interested in selling a bit more fruit, I can buy it from Australia for a third less than my competitor. I'm going to be pretty happy, I would have thought, to offer it to my consumers for let's say 10 per cent less and increase my sales.

MR ALLEN: Yes, and I mean that does occur.

MR COSGROVE: But I thought you were saying it didn't.

MR ALLEN: No, with production - sorry, with promotion. With promotional support they will feature the product but otherwise they - and some just will not even promote the product and just put unrealistically high retail prices on the product and as a consequence of that they're moving much less fruit than their competitor but then again, you know, the US summer fruits, particularly the melons, the stone fruit, they're the loss leaders. They're the ones that they're really looking for volume on and they get down to retails of 29 and 39 cents a pound versus \$1.99 up to \$2.49 for Australian citrus. So they're prepared to take their margins or their volume on those particular traditional items and it's not just the lament of either DNE or the Australian citrus industry. I mean, you look at any domestic supplier in the US of a fruit or vegetable and they will have the same complaint of the supermarkets, that they are more interested in maximising their profit to pay for the consolidation that has taken place in that market rather than concentrating on volume.

But just in conclusion, you know, I'd just like to reiterate that we strongly believe that the viability of the citrus industry is linked to the arrangements that are in place in the US. I guess if you really wanted a view of - if the arrangements were removed, if you wanted a view of where the citrus industry would be, I think you would only have to look at where the Valencia industry is right now at this point in time and I mean, it is something that has been very successful for the Australian industry and I think there certainly needs to be consideration - I would like to know who is going to underwrite the industry for the tens of millions of dollars that stand to be lost. By industry I mean the growers because the packers and the exporters are still going to be there. There is still going to be that exportable volume there. It is just not going to receive as much as what it does at the moment and you know, a lot of the detractors - I guess, we're experimenting potentially with the most successful market that we've had at the expense of the growing industry.

MR COSGROVE: Let's just assume that, you know, the same amount of exports - Australian navel exports went into the US market without the single importer arrangement. Can you be confident as to the extent of the price fall that would occur, if any? I assume you would argue that it would occur because again at the poor capacity, the poor marketing skills of people other than, you know, Riversun, DNE. I don't know whether you've got - - -

MR ALLEN: How certain - yes. I mean, we've seen it with Australian - - -

MR COSGROVE: Would it drop by 25 per cent, 50 per cent?

MR ALLEN: I think it would drop - depending on the volume but I think it would drop to the point where the market would no longer be viable for Australia.

MR COSGROVE: So we would lose all exports to the United States?

MR ALLEN: That is - potentially.

MR COSGROVE: Are you serious?

MR ALLEN: Yes, I believe so. I mean, you've just got to look at Canada. We've had instances where we've had to re-export fruit from the US. We've looked at Canada and we always look at Canada as an option. We've sent fruit to Hong Kong rather than send it to Canada because we can get a better return out of Hong Kong and Canada - you know, you've just got that border but Canada is just like the US domestic market. It has been supplied by South Africa in the past, at prices again below the cost of export and I think the South Africans, they put a million, one and a half million cartons into Canada. It gets rid of a bit of second-grade fruit but I think they've just averaged that out over their 50 or 60 million carton citrus export program.

But look, we've seen it. We've seen it occur with Spain where they've had

large volumes come in with multiple exporters and it's not necessarily the marketing skills of particular exporters. It just gets back to the tremendous, the enormous buying power and strength that these retailers have in the US and not in the US - I mean, very strong in the US but it's the same in Europe and it's a trend that's developing in Asia.

MR COSGROVE: I may have asked you this in Renmark and if I did I apologise but we've heard criticism about the problems that growers face in the Australian market in dealing with large retail chains who again are said to have enormous buying power and the sellers don't. Why is the industry worried about that problem yet is so in favour of having a single marketer in the US.

MR ALLEN: The single marketer in the US overcomes to some extent or to a large extent that problem of the domination of the retailers. Instead of having 30 exporters from Australia, there is really just one handler of Australian citrus who has the ability or has control to some extent. It gives them an advantage with the retailer. I mean if we were to take a fragmented approach to the US you would have 30 exporters all sending 10 containers.

MR COSGROVE: No, you said we would have none a moment ago, there would be no exports.

MR ALLEN: Yes, that would occur just after the 30 exporters have supplied - I would give it one year.

MR COSGROVE: For a total collapse of our sales?

MR ALLEN: Yes, I believe so. I think it would give a very strong foothold to South Africa. We competed with South Africa in the year 2000. We were able to maintain a premium on our quality and reliability, but the South Africans did the same thing. Nobody knew what was coming, they had no plan in place whatsoever and it just becomes virtually distressed cargo in the eyes of the market. They got down to ridiculous prices that would not have even covered the freight to get the fruit there. But the retailers know and we have been in a similar situation where we have had 7000 or 8000 pallets of fruit sitting in a coolroom and they come down and have a look at it and there is a lot of fruit there and they will try to use some leverage to get - - -

MR COSGROVE: That's the way the market works. If there is a lot of fruit around the prices will fall.

MR ALLEN: Particularly when you have a perishable product. They know that they can hold back for one or two weeks and then it would not be all that long before you capitulate and you are better off getting something - it is just a question of the degree of the extent of the loss that you wanted to take, whether it is a total loss or

partial loss.

MR COSGROVE: But the retailer is also acquiring a product which is in a poorer state of condition than it would have been had he taken it when it was fresher.

MR ALLEN: That's right, he will just pick the eyes out of it and we will recondition the fruit, which is what we did a couple of years ago when we had quality problems. I can assure you they are ruthless.

MR COSGROVE: Is that it?

MR ALLEN: Yes, thank you.

MR COSGROVE: Thanks, Steve.

MR COSGROVE: Anyone else who would like to speak? For our record, Neil, would you identify yourself?

MR EAGLE: Yes, I am Neil Eagle, I am chairman of the Mid-Murray. I will make the comment that I haven't made before I'm the immediate past president of the ACG and unfortunately Peter Davidson couldn't be here today, so I have come here and I will speak from Mid-Murray directly. But as the immediate past chairman of ACG I have been involved in the formation of HAL and in the negotiation with the government in relation to setting those powers in place.

I totally agree with the comments that have been made. I was in Mildura and I heard the comment made by John Bailey who is a very professional packer, grower, exporter and his comments about what he feels would happen in the US if we dismantled it. You have had Kym Baldock - there are a whole heap of very professional people that have made comments about what their view would be if the recommendation that you have put in that report, in the draft, actually finally was carried through to fruition.

You have had Steve, who is the manager of the coordinating company that goes into the US, hands on, knows exactly what is happening in that market and the implications if we had a total fragmentation of suppliers and marketers in that market. I am totally convinced that in the event of you having multiple marketers in that market, that within one year we would probably lose that market totally. That is my firm belief and I made a comment in my Mid-Murray report about the possibility - I don't know if you referred to it - somebody making recommendations that if were implemented could have devastating effects on our industry and on our growers and can then walk away from it and I am very concerned and that is really what I have come down here today for, presented it at Mildura and I had no intention really of coming down, but I felt that in listening to the conversations that day, that you weren't convinced of the issues that we are raising and the implications, if implemented, of what you are recommending.

I can assure you I am absolutely convinced and I am sure that the people here that have presented today and in other days, supporting those powers, are totally convinced of what the implications would be if they were removed. We have had others, exporters, making presentations and making claims, extravagant claims as to what will happen. One of them who has not shipped any fruit to America is making these claims, extravagant claims. It has been pointed out by others that the interests of an exporter and a packer is basically on making profit through volumes of sales or throughput. That's the key to their business and it does not necessarily translate that that's to the interests of the growers.

I am involved in a packing company as chairman for over 30 years of a packing company that is owned by growers, we are involved in a joint venture with

Berrivale in processing, so we have a fair understanding of what happens and what drives a packing house. I understand the volume of throughput is the key to us containing costs in our packing house, the same as it is for an exporter, that he wants volumes for sales and in effect are prepared to achieve that in a difficult market that is being oversupplied by discounting to achieve sales. That is all there is about it. That has a spiralling downward effect.

If we have people talking about - and I heard one in full flight from Griffiths - about the consignment selling. There could be some reservations about that if you didn't have a single marketing chain, but as Judith has indicated, there is predictability in what happens there, unless there is like happened as quoted by one of our exporters today about the problems and low prices received in 1998. Quite frankly, they were low prices received, because there was frosted fruit got over into the market and as Steve has indicated, it was a bloody disaster. So consequently there were very dismal returns received for people involved with that fruit that had a repack situation. The very same area, the early shipments before those frosts took place, actually had good returns in some earlier ships. Steve would verify that. But after the frosts and there was fruit sent there that should not have got there and that's the reason for those low returns.

I would want to indicate I am totally supportive of what you are putting forward, that there should be rigorous reviews and analysis of the success of the utilisation of these powers. I believe that that has truly been put in place with the formation of HAL. There is an annual review, contrary to what has been claimed today. I think it is really more external. In that annual one it is probably a bit closer to internal, but certainly there is appraisal in the three-yearly review, very clear appraisal at government level of how the performance is going. Then there is a 10-yearly review that is an extremely rigorous review.

I am not opposed and our growing industry is certainly not opposed to those reviews taking place. They are a cost to the industry that has been borne and we understand will be borne by the industry because of the fact that it is the utilisation of government backed powers. So that we haven't got a problem with that but to have a recommendation in your final report questioning the worth and the value of those powers, I believe would be very, very destructive to our industry; would fuel the fires of the few people who are opposed to them and you can see there are people opposed to the utilisation of powers. They represent less than 2 per cent of the exports, the people that are opposing - - -

MR COSGROVE: That may be because they don't wish to sell on consignment, for example.

MR EAGLE: Could I just put that furphy to bed about the consignment. There is no such thing as a fixed-forward sale when the pooh hits the fan. Into an Asian

market where they're fixed-forward sales that they've been so keen to quote, if there's a depression of the market takes place because of an oversupply, even while the boat is in-transit you will have frantic calls back to the exporter by the importer, "Will he accept a reduction in price?" and that will take place invariably. The exporter then will tell his suppliers, "I'm afraid the market is collapsing and that the price, instead of it being A, it will be B."

MR COSGROVE: Yes. So in that case - - -

MR EAGLE: Fixed-forward sale is a furphy. It's a fixed-forward sale as long as nothing goes wrong. If anything goes - - -

MR COSGROVE: That's true of any market.

MR EAGLE: Yes, but what I'm saying, people are quoting that they can today make an arrangement for a fixed-forward sale that will hang together. All I'm saying is that it will not hang together in the event of any change in the marketplace. So the idea of talking about fixed-forward sales that's absolutely fixed is a nonsense. It doesn't happen in the real world.

MR COSGROVE: That I'm sure occurs but we had evidence this morning that under such an arrangement it is the exporter who carries that risk of the market turning sour - - -

MR EAGLE: No way.

MR COSGROVE: - - - in a different case as a consignment case it's not the exporter.

MR EAGLE: That's where I differ, that the exporter might say that but in actual fact if the importer has indicated to the exporter that the prices can't be sustained and the price will have to come down, that exporter will invariably contact his supplier, tell them the facts of life and if that supplier wants to continue to do business he will make an arrangement with the exporter. I tell you, the price reduction goes back to the grower invariably. Now, no matter what they say, I'm just saying that's what happens. I'm close enough to the business to know what happens. It's happened to us plenty of times. So that's the facts of life. The consignment selling situation that's been trotted out as the detriment to the American arrangement in actual fact is not a threat and the reason the growers support that American market is because they don't perceive it as a threat, right, or they wouldn't send the fruit there. So those are the facts.

If I can just make a comment about Neil Barker talking about there's a market for a whole heap more navels. There will be a whole heap more navels this year, so

that will be tested. But prior to the American market there was great difficulty in any year that was a non-crop year in placing the Washington navel variety that came on in big numbers in that period that we supply America. So there is an acknowledged spreading market window for our late navel varieties which are coming on and he's claiming that we haven't got enough. We haven't got enough yet, but we soon will have. There's a very high proportion of our navel plantings of the late navel variety which will supply that latent market window that he's saying is being undersupplied now in all of our export markets.

So just fortuitously, probably somewhat by luck than good fortune, we have plantings in the ground that are going to be very helpful in supplying what has been identified as a good market window. But I can assure you if we lost the American market we would have in our traditional export markets and our domestic markets a disaster in the marketing of Washington navels which are a large part of our navel plantings. The American market, as I said originally in the first submission, has been a tremendous catalyst in refocussing the industry and achieving a much better export market outcome than has been in the past.

Finally, I've come down today - it's been a long drive - to really put to you that in the interests of the citrus industry I've got no problem that you have in your final report a recommendation that the powers that are utilised under government backing have a rigorous and regular review, I've got no problem that that's in there. I have a great problem in you putting any reference to the fact that there is a severe question about the worth of those powers being utilised at the moment because I believe that the overwhelming evidence coming from a vast-ranging sector of the industry has, in both growing, packing and processing, clearly demonstrated that these powers are working to the benefit of not only the growers in the industry, but to the benefit of Australia as a whole. It would be very destructive of our industry, I would suggest to you, if there was any reference made in your final report that there was a severe questioning of the worth of those powers being exercised at the moment. That's really what I plead with you to really - because, as I said, it's very easy to make recommendations but if they finally become implemented and they turn out to be a disaster, the growing industry will wear the problem.

I suggest to you that it will be, as has been claimed just recently by Steve - and I know the others will back me up and Michael Barrett who is a step away further from the industry - but because he's observed it, firmly also believes that that would be highly destructive of our industry.

MR COSGROVE: Your view is very clear. I can assure you that we won't be making any final recommendations lightly. We will certainly have the interests of the industry in our minds. Could I just ask you one question though: South Africa, unlike Australia, does not rely on a single marketer in the United States - - -

MR EAGLE: No, that's right.

MR COSGROVE: - - - yet its sales to that market appear to be increasing. How does that square with - - -

MR EAGLE: Can I just comment about the South African situation. I've been over there and discussed it with their growers with a representative from Riversun. Two years ago when we first went over there they had had a terrible experience, as Steve has indicated, in America with returns well below their cost of landing fruit. In fact, as Steve had indicated, around the cost of them actually shipping and they were astounded when they had put in front of them what were possible achievable prices in America and they were very keen then to see whether they could work more cooperatively with Australia in planning forwardings. They still haven't achieved it in the second year because they've got - - -

MR COSGROVE: Incidentally, I might just interrupt, we were told - I've forgotten by whom - that there was no such planning of forwardings, it was an information exchange only between two countries.

MR EAGLE: What I'm saying is that they're wishing to get to the stage, like Riversun does, where there can be program that they know that the arrival of the next volume of fruit will coincide with about the depletion of the previous. Now, they haven't achieved that and it is difficult, but they have been having discussions and meetings over there, their growing industry, to see whether they can end up with some vehicle that will plan the forwardings of their multiple exporters, so they do not have the disaster where they had the previous year of I think it was about half their volume, Steve, turned up in the August dead-marketing period, because one exporter didn't know what the other exporter was doing.

So they are moving, they have had their statutory marketing arrangement dismantled after 1995, which was probably the envy of the world in marketing and they are looking at ways where they can achieve the benefits of working more cooperatively together. They will not get statutory powers in South Africa to do anything, but the growers, which the only ones which supply to America are from Citrus Dale, that is just about a 70-kilometre long valley where there is a couple of hundred growers and about 13 or 14 packers. They are in a fairly tight-knit group, so there is the possibility of them getting together with better planning and that's what they are planning to achieve, to plan their forwardings to the market and liaise information with Australia in trying to achieve that.

MR COSGROVE: That's okay, I understand that, but they would still, unless they changed their present practice, be using more than one distributor in the US.

MR EAGLE: Yes, I can't - - -

MR COSGROVE: That's the circumstance in which - - -

MR EAGLE: I know that they do - - -

MR COSGROVE: - - - we were being told would result in the total loss of the market for Australia, but it doesn't seem to have had that effect in South Africa's case.

MR EAGLE: Well, South Africa is not doing as well as Australia in that market I can tell you.

MR COSGROVE: For sure, statistics show that.

MR EAGLE: They are doing a hell of a lot better - - -

MR COSGROVE: But they are still selling - - -

MR EAGLE: - - - because they have got a significant amount of their supplies going in a planned way through a single marketer. They are doing infinitely better than they were.

MR COSGROVE: I actually thought it was a small proportion going through the single market, but anyway - - -

MR EAGLE: I haven't got the figures at my fingertips.

MR COSGROVE: We did have a look at it.

MR EAGLE: Their aim is to move towards trying to achieve what Australia has achieved, that's for sure. They have seen the benefits of it, the hard-nosed businessmen in South Africa, they are major world exporters from that country in volume, vastly more than Australia and they see the benefit of working with Australia and trying to mimic the planning that goes on with Australia. For that to happen with South Africa who are major export players in the world as against Australia, is very interesting.

MR EDWARDS: Clearly, although they may wish to control the flow of supplies into the US, they will wish, I take it, to increase their total marketings in the US. As representative of Australia selling through the same agent that they are using, do you have any concerns that DNE might not be looking after just the Australian interest?

MR EAGLE: I am pragmatic. I see that working cooperatively with South Africa and where both countries are analysing what they believe is the market opportunities

there and coming to some sort of agreement, which has been done, enables both countries to be in that market successfully. Otherwise, if there was a price war situation, I believe that both countries would get massacred. That's what would happen. They have seen that, they have already been down that path, so they are very receptive to looking at ways where they can plan a marketing program into America and with a level of interaction with Australia.

MR EDWARDS: Experience in other areas where groups of countries have cooperated to restrict of supplies have not usually lasted well. The various countries have not been able to maintain discipline over an extended period and the arrangements have fallen through. That is a fairly typical experience.

MR EAGLE: I haven't got a crystal ball. I know the dangers, I know the alternative. The alternative is for us to lose the market. That's the alternative. Quite firmly, absolutely believe that. So it may not be the perfect scenario, but the alternative is untenable and it is through goodwill and commonsense on the part of both countries. If that can be exercised, I believe that the arrangements of a form of cooperation can continue to take place. It is always subject to human nature and other forces, but you have to deal with what you have today and if something changes, you deal with that then when it arrives. The industry here has addressed the current circumstances and I believe sensible and sanely they have done that to the benefit of our industry.

MR COSGROVE: But we have to of course have regard to emerging circumstances and in this particular case you have just mentioned to us that South Africa is a larger supplier than we are of citrus - - -

MR EAGLE: Wait a minute, can I just - they are in the world market context from all the areas, there is a large section of the South African industry that cannot go into the US market. It is only the Citrus Dale - - -

MR COSGROVE: For quarantine reasons?

MR EAGLE: Because of quarantine reasons and they will not get - there are too many diseases in the other areas.

MR COSGROVE: The other point I was going to make - - -

MR EAGLE: It's confined to that section.

MR COSGROVE: They have a cost advantage compared to us. If they are able to supply the kind of premium fruit that we have been supplying and I gather that is a possibility - - -

MR EAGLE: Could I just make a comment there? I think it has been analysed that always Australia will have an advantage in quality, through - - -

MR COSGROVE: Forever, or for the next - - -

MR EAGLE: Yes, just because of the location where their production area is. Their production area is the size equivalent to about our Narromine - it is getting up to the northern part. It is almost subtropical. Whereas here, our production supply area is from the south and will produce a higher coloured fruit and less blemish.

MR COSGROVE: But despite that, we won't be able to sell in the US.

MR EAGLE: Well, there will be a margin there, but our costs are higher than theirs for sure. There will always be a margin between the price of Australian fruit as against South African.

MR COSGROVE: I guess I'm wondering why it would be in South Africa's interest to accommodate us? They would seem to be denying their own market growth opportunities in order to keep us happy.

MR EAGLE: I think that Steve has indicated before that there has been an analysis by the people from both countries that it is better to grow the market at the prices that are currently being enjoyed, instead of endeavouring to actually buy market share and destroy the market price. That's what has happened previously, so they are receptive to growing the market share in a sensible, orderly way and endeavouring to achieve market returns that are profitable to their growers.

MR COSGROVE: Anything else, Neil?

MR EAGLE: No, I have come just to - - -

MR COSGROVE: As I say, your views are very clear - - -

MR EAGLE: - - - exhort you to be very careful about - - -

MR COSGROVE: We will be.

MR EAGLE: Could I just make one last comment, because it is not just to the government that the report - if there is a statement that is destructive of our industry in the report in the end, it will flow on, not just to the government, but be utilised by others to endeavour to dismantle something that perhaps they do not agree with. So our growing industry sees that this is a vital issue. If such a recommendation was included in the final report, I see it as a very destructive thing for our industry in the long term and that is the point I am making.

MR COSGROVE: Okay, thank you. Is there anybody else who wants to speak? If not, then I think it is time for lunch and our hearings are now complete, so the commission adjourns.

AT 2.46 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY

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