



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO CITRUS GROWING AND PROCESSING

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

TRANSCRIPT OF PROCEEDINGS

AT MILDURA ON WEDNESDAY, 13 MARCH 2002, AT 9.05 AM

Continued from 11/3/02 in Griffith

MR COSGROVE: Good morning, ladies and gentlemen. I'd like to welcome you to this part of our public hearings on the Productivity Commission's inquiry into citrus growing and processing taking place today in Mildura. My name is John Cosgrove. I'm the presiding commissioner on this inquiry and with me is Geoff Edwards, who is an assistant commissioner at the Productivity Commission and has been actively involved in the inquiry.

The purpose of these hearings is to facilitate public scrutiny of the commission's work to date and to receive comment and feedback on the position paper which we released about a month ago. Some aspects of that paper have attracted critical attention from industry representatives and we would welcome constructive input to assist our further consideration of those matters. Following this hearing we will also be holding hearings in Renmark on Friday this week, and in Melbourne next week. The commission will then be working towards completion of its report which is to be given to the government by the end of April. That final report will, of course, take into account all of the evidence presented at these hearings and in written submissions provided to us.

Participants in this inquiry will automatically receive a copy of the final report once it has been released by the government, which may be up to 25 parliamentary sitting days after completion of the report. We like to conduct these hearings in a reasonably informal manner, but we are taking a full transcript of the proceedings and for that reason we cannot take comments from the floor. However, at the end of today's proceedings I will provide an opportunity for anyone wishing to make a brief presentation to do so. Of course, anyone intending to make use of this arrangement should feel free to contact our staff during the day as that will facilitate the process.

Participants in the hearings are not required to take an oath - you'll be pleased to hear - but should 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 the hearing will be made available to participants and will also be available on the commission's web site following the hearings. Copies may also be purchased using an order form available from our staff today. The submissions are also available.

Without further ado I'd like to welcome our first participant today, the Australian Citrus Growers Inc, and we'd be glad to hear what you'd like to say to us.

MS DAMIANI: Thanks very much, John. I guess what I'd like to do is just start off very generally on our overall feeling of the report.

MR COSGROVE: Okay.

MS DAMIANI: Even though there's some interesting analyses in there and some interesting information in there, I have to express our disappointment on the overall recommendations. Really, what was supposed to be a citrus growing and processing inquiry has turned out to almost be an export inquiry, and that's really been the biggest disappointment for the national grower association, and many growers that we represent. I think that's our general feeling with it.

Then I'd like to go into a bit more detail about some of the areas that we highlighted in our original submission and then go through some of the areas in the draft position paper as well, if that's okay.

MR COSGROVE: That would be fine, yes.

MS DAMIANI: ACG, in its initial submission, really highlighted a couple of main points that we wanted the commission to focus on, and we feel that even though there's been some analysis of some of the issues that we raised, there haven't been any real recommendations or findings on those issues. The first one that we raised was in negotiating domestic fruit prices. We do note that in the draft position paper there is a suggestion to seek authorisation for a collective arrangement through the ACCC. This action of course will be followed up by ACG. However, there seemed to be little in terms of other initiatives to help deal with product price and income instability.

The other area we focused on was addressing information asymmetry as well. Though we note the attempt by Retailworks to identify some of the cost structures, along with the citrus value chain, we'd like to raise some of the specific price information that was obtained, and we'd like to question that as well. Really, the farmgate prices - that's what we're more comfortable addressing, and the farmgate prices which are quoted in table 2 of between \$489.50 to \$606.62 seemed to me extraordinarily high. That can be backed up by the growers in most of the regions, particularly for Valencias oranges. I know that focused on loose Valencias, but in the period of 2000-2001, I'd be surprised if 2 per cent of the growers reached those kinds of figures at all. It just seemed extraordinarily high. I don't know whether, Kevin, you want to make any particular comment on those prices.

MR COSGROVE: Judith, excuse me for interrupting. One thing that I failed to do when I called you to the microphone was to ask you each to identify yourselves, which might help our transcript recordist. Could you just do that quickly now, please?

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

MR COCK: Kevin Cock, director, from Australian Citrus Growers and a citrus grower.

MR COSGROVE: Thank you. I'm sorry for that omission.

MS DAMIANI: That's okay. Kevin, did you want to make any comments about those particular prices? I know that has raised a lot of concern with other grower submissions and my dealings with individual growers.

MR COCK: It would only be in very spot markets that those returns would be achieved, and primarily at the start of a season and the end of a season. The bulk of the crop would not go in at those returns to growers.

MR COSGROVE: Yes. This was an issue which was raised also at our hearing in Griffith and it's an area of the report which we'll obviously be reconsidering. I had a little difficulty, Judith, in tracking down in our report, in our position paper, the figures that are mentioned in this supplementary material that you provided to us a few days ago. You said - this is the first dot point on what came through as the second page of your material - "Farmgate prices quoted in table 2". Were you referring there to the - - -

MS DAMIANI: Of the Retailworks submission.

MR COSGROVE: Of the Retailworks submission?

MS DAMIANI: Yes, sorry, and then I went to highlight that that reflected table 7.1 in the draft position paper.

MR COSGROVE: Okay. We thought that our main - the purpose of using the Retailworks material was to ascertain percentage shares of the final consumer price accruing to various stages of the supply chain, and including most importantly the growers themselves, but in terms of actual prices received for different types of citrus, we have a table in chapter 2 of our report. It's table 2.3 on page 9. That shows, as you would expect, a much higher level of prices at the farmgate for navel oranges than for Valencias, with mandarins receiving even higher prices again. But let's just focus on the oranges. Would either of you like to express a view on those price figures. We have them there for four years, as you can see. Do they also look, from your point of view, to be too high?

MR COCK: They're FOB prices and I could only relate to farmgate returns, so the farmgate is at the bottom.

MR COSGROVE: Yes, the ones down the bottom. Yes.

MR COCK: Yes, okay.

MS DAMIANI: What I would say, while Kevin is looking at that, is that I would have serious reservations about ABS data, particularly when they calculate farmgate prices. I mean, what they do is use local value in which they use the gross value of production and they deduct the marketing cost from that to come down to a farmgate. Unless they have a very good understanding of what all the marketing costs are, I think their whole price series would be significantly flawed.

MR COSGROVE: Do you know how they go about estimating those marketing costs? Are they sampling a range of people undertaking those services?

MS DAMIANI: I did speak to them a while ago regarding this. This was a number of years ago. They do say that they speak to a number of people within the industry and get some sort of costings, but I know that they didn't take into account every cost - you know, the costs. They didn't even take into account levies paid by the growers: which are state levies, national levies. They didn't take into account the real cost of packing, I don't believe. That's why I have serious reservations about this ABS data. In actual fact our industry has really moved away from using a lot of ABS data, particularly on tree planting data. We use our own resources in collecting that data ourselves because we just want it to be as accurate as possible.

MR COSGROVE: Yes.

MR COCK: I'll just comment on the Valencia one. That seems extremely high. Growers wouldn't be removing Valencias at the rate they are if those returns are accurate. It also doesn't reflect the disastrous year that was had in the navel returns with the breakdown in the US. So it does do a dip there, but it does not dip to the level that growers' returns were affected. I think you get a more accurate view out of the Murray Valley Board benchmarking study. They were on actuals, off my return from my accountant. My costs, my returns from the packing sheds, the whole actuals were put in.

MR COSGROVE: Right, yes. We'll be talking, of course, to the Murray Valley Board this morning, and perhaps it's a question best left to them, but do you know if they acquire those accountants records for all of their member growers?

MR COCK: No, it's only a voluntary - - -

MR COSGROVE: It's a sample.

MR COCK: - - - group of growers.

MR COSGROVE: Yes, ABS would do the same, I suppose. Okay, thank you.

MR COCK: Can I just comment on the Retailworks chart as well.

MR COSGROVE: Yes.

MR COCK: They've got transport as one of the value chain members and I would say that transport isn't in the value chain. It's actually a service, otherwise you would have the carton manufacturer in there and you would have everyone else who provides a service. I wondered why they had transport in there.

MR COSGROVE: But presumably the cost of transport has a bearing on the price that you receive.

MR COCK: So have all the other services.

MR COSGROVE: Yes. I thought that was what they were trying to do. I may be subject to correction on this, but my understanding was that they're starting at the retail price end, and from there they are working backwards, deducting all of the costs along the way, which leaves them with a residual estimate of grower returns, or the proportion of the retail price that is received by growers. Doesn't it seem correct in that framework to deduct transport costs?

MR COCK: Yes, but I would have put them in with the packing shed costs, which is where they are.

MR COSGROVE: I see.

MR COCK: As a cost - so is the carton cost, and all the other services that are provided. They are not actually the value chain - transport. They don't purchase the fruit and then on-sell it. They only provide a service, but that's been picked up by many people who have said to me that Retailworks have got this wrong. But maybe they can justify it.

MR COSGROVE: They are providing value in that the fruit has to be got from the orchard or the packing shed - - -

MR COCK: Understood.

MR COSGROVE: - - - to a distribution point, if not a direct point of sale. Are you implying that the - looking, say, at table 7.1 - - -

MR COCK: Sorry, I'm just trying to find that chart.

MR COSGROVE: It's actually in all three tables on page 117 of our paper.

MR COCK: The table that has been referred back to me a couple of times is on page 56, which is the one that's got "Farmgate domestic supply chain for citrus in Australia".

MR COSGROVE: That figure?

MR COCK: Yes. Figure 4.1. Maybe it's a minor one and we shouldn't hold it on - - -

MR COSGROVE: Yes, but still I'm grappling to see why - - -

MR COCK: It confused a lot of people who said transport is not in the value chain.

MR COSGROVE: Okay, let's move on.

MS DAMIANI: I guess if we're still looking at table 7.1 and 7.2 and 7.3 - - -

MR COSGROVE: Yes.

MS DAMIANI: - - - I'd just like to go back to table 7.2, in that I got very confused with the assumed retail price that you were using. In table 7.1 you've got \$1.79 and then in 7.2 you've got \$1.98.

MR COSGROVE: Yes. I think that might have been an error on our part. It is dollar per three-kilo bag.

MS DAMIANI: Okay, yes. So is the actual assumed retail price in table 7.2 supposed to be \$1.98?

MR COSGROVE: I think so.

MS DAMIANI: Well, that doesn't make any sense.

MR COSGROVE: For a three-kilogram bag.

MS DAMIANI: Oh, for a three - okay. That's why I was getting a bit confused.

MR COSGROVE: I'm sorry.

MS DAMIANI: Okay.

MR COSGROVE: There are a few little slips that we're still coming across in this paper which we'll correct in the final version.

MS DAMIANI: Okay. So that will bring it back to 66 cents per kilo, yes, okay.

MR COSGROVE: That helps?

MS DAMIANI: Yes. That helps a little bit.

MR COSGROVE: Sorry again for that.

MS DAMIANI: And I guess it's quite interesting looking at those retail figures. I actually had a discussion with Martin Kneebone yesterday, to go through his figures, and it's really amazing to me that if that's an average, then you would find prices below that, going down to 50 cents per kilo, and that is really a very low price on a fresh fruit, and I think we have to look at ways of addressing that.

MR COSGROVE: Yes.

MS DAMIANI: And there wasn't really a lot of direction in helping us look at ways of addressing some of the issues in the value chain, particularly with these Valencia prices or the Valencia information presented here.

MR COSGROVE: Where would you think that the problems, if there are some there, lie? Is it because of inefficiencies in other parts of the value chain? Is it because the oranges themselves, particularly in a bagged form, might not be of a uniform quality or - - -

MS DAMIANI: It's a good question, and I did discuss this with Martin as well, and there seems to be a whole range of reasons but obviously one of the reasons is that we don't really know our value chain very well. At least this is an attempt to identify some of the costs and sectors along the chain. But there's a whole range of reasons, and I think the industry really needs to knuckle down and sort through that and work with the other sectors of the industry to help those farmgate prices in particular, or getting the grower's share of the consumer dollar, which is a real issue for our growers. I actually did provide a table in my response paper where it does show the average retail versus grower returns for oranges, between 95 and 2000.

MR COSGROVE: Yes. I'm sure you've used the ABS figures sensibly here. I was very surprised to see such a large rise in the retail price of oranges in the space of four years, up 75 per cent.

MS DAMIANI: Yes.

MR COSGROVE: That's well above the rate of growth of consumer prices in general. I didn't know whether there's something exceptional about the beginning or the end years of the period. Was the beginning year, for example, a year of large supply and 1999 a year of small supply, so that you went from a low price to a high price for that reason?

MS DAMIANI: Yes, I think it just doesn't really reflect the costings down the chain. If it has increased by 75 per cent over five years, and if you have a look at the average return for the Murray Valley orange grower - - -

MR COSGROVE: Up 30 per cent, yes.

MS DAMIANI: - - - the difference between that and the average retail price of oranges has just increased, and there's no real explanation. Even if you take into account the crop size, which I have, there's no real great fluctuations to explain that increased difference between the grower return and the average retail price.

MR COSGROVE: Would there be any complication in these figures resulting from the fact that the retail price seems to be calculated on a calendar year basis and the returns to the growers on a financial year basis? Could that confuse the comparison to any degree, do you think?

MS DAMIANI: Obviously there's a bit of difference there.

MR COSGROVE: Yes, because you've got citrus becoming available for marketing, what, as early as perhaps May, or certainly June, and running through into the early months, I guess, of the next calendar year.

MS DAMIANI: Yes, that's right. I find that, too, even when we have a look at our export figures. We utilise the ABS figures customs data for that, and that runs on a financial year as well, but that's the best we can get, and in the end there's not going to be that much difference between a financial year and a marketing year for citrus. We're just looking at the general trends here anyway, and the trends are pretty obvious, and I think that's the point that I wanted to make there.

MR COSGROVE: Okay.

MR COCK: Could I just comment on that. It would be interesting to overlay that on other fruit and vegetables, that retail mark-up, and see whether that's across all fruit and vegetables in the supermarket chain.

MR COSGROVE: Yes.

MR COCK: And it would be also interesting to look at the Murray Valley and say, "Yes, there is a 35 per cent increase," but without the US market that has been driving prices up in other markets across the board, whether that would have been 35 or it might have been a lot less, and I'd suspect it would have been less without that income from the US market.

MR COSGROVE: Yes.

MS DAMIANI: Yes. Throughout the draft report there's a lot of mention about how growers seem to be doing very well and the average share of retail price according to growers is significant for fresh fruit. Unless we can really get some hard data on that, I don't think those statements should be made because I don't know one grower who will come to me and say that they've made a significant share of the retail dollar.

MR COSGROVE: Well, this may be another interesting area that we need to look at. If you look at page 8 of our position paper, we have there a table showing, again for most recent years, the proportions of navels and Valencias going into fresh domestic or export markets and for processing, both combined - that is in the processing case on a fresh and concentrate basis. We would be interested in any reactions you have to the figures in that table. The sources for them are set out in the footnotes. It may be too detailed, Judith, to pursue at length here this morning, but if you'd like to drop us a line on the email or over the next week if you've got any queries about that, that we'd be glad to have.

MS DAMIANI: Yes. Well, I can make an initial comment on those.

MR COSGROVE: Certainly. Go ahead, yes.

MS DAMIANI: Because we tend to use percentage of particularly oranges or citrus in total, which is destined for export, fresh, domestic and processing, the figures that we tend to use are around about 20 per cent for export, 30 per cent for domestic, and the remainder goes into processing.

MR COSGROVE: Are you talking about the total of Valencia and navel?

MS DAMIANI: Yes.

MR COSGROVE: Okay.

MS DAMIANI: So those total figures - - -

MR COSGROVE: So export - we look to be more or less on the same wavelength.

MS DAMIANI: Yes.

MR COSGROVE: And I missed your next point.

MS DAMIANI: The domestic about 30 per cent.

MR COSGROVE: Pretty close.

MS DAMIANI: Yes.

MR COSGROVE: So these figures would seem to be in line with your own understanding.

MS DAMIANI: Yes, I would agree with those.

MR COSGROVE: And it's on that basis, you see, that we have - well, if I just take for the sake of illustration at the moment the final year, 2001, almost half of production of oranges is sold as fresh fruit, either domestically or in foreign markets, and we know a little bit, we think, about the proportion of the fruit going to processing which is sold in fresh form, and our understanding is that that exceeds the proportion sold for concentrate. I think that's the case.

MS DAMIANI: Yes.

MR COSGROVE: So it was on that basis really, given that as we all agree there have been quite good returns coming from export markets, that we thought there was a reasonably good story for the industry as a whole. Now, we're not saying that it's a completely good story.

MS DAMIANI: Sure.

MR COSGROVE: We know that there are parts of it where people are struggling, and that then raises these later policy issues of assistance and so on, but when you look at these figures and at the related prices, accepting that you people may rightly believe that we've overestimated to some degree the farmgate price, you don't get the impression that a really large part of production is being sold at very low prices.

MS DAMIANI: Well, I mean, just for example if you take 45 or 50 per cent of our total orange crop which goes to processing, and if you have a look at the maximum

return a grower could get on the processing market, which would be between 200 and 240 dollars a tonne, it hardly covers the cost of production, and that's half the orange crop going to processing. So I can't see how we can say that that's significant returns to the grower, because it's not, and I don't think any grower really consciously will grow for the processing market.

MR COSGROVE: No. We've been told that and I'm sure it's the case, but I would have thought that growers producing for the processing market don't have the same cost structure as growers producing for fresh fruit, especially fresh export fruit markets.

MS DAMIANI: Well, again, growers don't really grow specifically for the processing market, so they will grow to pack their fruit, and a percentage of that will go to processing.

MR COSGROVE: Yes.

MS DAMIANI: So they will still incur a lot of costs, probably not as much as a navel grower, which has put aside a crop for US - - -

MR COSGROVE: That fruit for example doesn't have to be packed. I don't know how it is transported to processing factories, but I guess in loose form.

MS DAMIANI: Okay. Well, that only really applies in the Riverina area because the Riverina is really the only area that has direct contracts with the processors. In the other areas, it's all done through the packing houses.

MR COSGROVE: I see.

MS DAMIANI: So the growers will take their fruit to the packing house and the packing house has a contract with a processor, so it's just a unique position within the industry that in the Riverina most of the contracts are done directly with the growers.

MR COSGROVE: So in the Murray Valley and in the Sunraysia area, there's very little fruit sold for processing. Is that right? I mean, there would be some, I'm sure but - - -

MR COCK: There is some direct-contracted, yes, but not as much as there was.

MR COSGROVE: We were told in Griffith - - -

MR COCK: It's off-run out of the packing shed but then is sold on to a factory, and that incurs costs in handling because it's gone through the packing plant back into the

- but the basic costs of production, your water, your fertiliser, your labour and so on, whichever orange/citrus you grow, apply.

MR COSGROVE: Apply, yes.

MR COCK: Yes, there is a bit of saving in direct supplying a factory rather than putting it through a packing shed, but again the return out of the processing sector is so much lower that you wouldn't do it if you couldn't cut your costs.

MR COSGROVE: Yes. Could you tell us what your understanding is of the proportion of fruit sold to processors here under contract. We were told by the people in the Riverina that in their case it was about 90 per cent. You seemed to be suggesting it was a lot lower in your region.

MR COCK: Some other people in the crowd might be closer to the processing and they might answer that one for us. I think Neil might be able to help us a bit on that one.

MR COSGROVE: All right. We'll talk about that later.

MR COCK: But it is a lot lower in the Murray Valley.

MR COSGROVE: Yes.

MS DAMIANI: I think we've discussed the price issue a little bit.

MR EDWARDS: Could I just ask one further question, please, Judith?

MR COSGROVE: Go ahead.

MR EDWARDS: Your table is comparing retail price of oranges at the national level with farmer returns for one particular region, Murray Valley. Is it possible to provide grower returns on a more representative basis than just Murray Valley?

MS DAMIANI: I wish we could. Unfortunately we just don't have that time series, that data, for the other areas. I think that particular project that we referred to, the Murray Valley benchmarking project, initially started off with the three southern areas, so we've got I think two years' data with the Riverina and Riverland, and then growers in the other two regions decided that there was no benefit in continuing and it just continued with the Murray Valley board and funding from - well, what is now Horticulture Australia Ltd. It would have been very beneficial if the rest of the other areas continued so we could have had that data for all of the southern areas for oranges in particular, but because we don't and we tend to look at the Murray Valley

data as an average, even though it's probably above average, considering it's a small sample size and it's a voluntary type of project - - -

MR EDWARDS: It's above average for the Murray Valley? Your sample is above average for the Murray Valley region, you'd say?

MS DAMIANI: I would say it's above average for the southern areas, taking into account - - -

MR COCK: Not for the Murray Valley; for the southern areas.

MS DAMIANI: Yes, taking into account the other two areas. The Murray Valley and the Riverland areas are very, very similar, and in the Riverina obviously you get a little bit towards processing because they've got a higher proportion of Valencias, and a lot of the processing companies have processing plants in Leeton and now a new one in Griffith, so that would sort of average out. We use the Murray Valley grower data as an average for the southern areas.

MR EDWARDS: Thanks.

MS DAMIANI: Okay. I would like to go onto one of the other areas that we highlighted in our initial submission, which was reducing barriers to export markets, and we did highlight quite a few things that have been addressed in the report. We would support the draft recommendations 7.2, 7.3, 7.4 and 7.5. The only real issue that I'd like to mention is, in terms of providing extra resources for Biosecurity Australia, we really believe that it should be the government's responsibility and not an industry levy. It raises a whole heap of interesting issues about industry paying for a government agency in terms of market access and quarantine negotiations, and I don't think we could really find an equitable way of spreading that cost between the industries involved in market access.

MR COSGROVE: What do you mean by that last comment? Why would it not be equitable? Are you saying that not all people export?

MS DAMIANI: If you just take horticultural industries, citrus is the largest fresh fruit exporting industry in horticulture, and there's a whole raft of other industries which are looking at export and putting up market access bids, and there are smaller industries, and it varies within each year about which industry is applying for access or who's calling on resources from Biosecurity or AQIS or the trade people. There's a real sort of crossover between those agencies and the horticultural industry. If anyone can find an equitable way of funding that through horticulture, I'd like to see that. But it's just too complex and I think Biosecurity Australia itself is just a bit wary that they're seen to be taking money from industries in representing Australia in

overseas markets.

MR COSGROVE: Yes. We will be hearing from them in Melbourne next week. I guess the idea in mind - and it might not well have been conscious of the sorts of points you've just made - was that in situations where a particular sector of the economy - let's say horticulture in the broad - is the direct beneficiary of such action by a government agency, then there is on equity grounds reason not to expect the tax-paying community in general to fund that benefit to a particular sector.

MS DAMIANI: I can understand that.

MR COSGROVE: I can equally see some of the problems you are - - -

MS DAMIANI: There's another interesting point about industry levies, because if you look at the beneficiaries of market access, exporters would have to be one of the biggest beneficiaries, yet an industry levy is paid by the grower. So that in itself is not equitable.

MR COSGROVE: Yes. That's what I thought you had in mind.

MS DAMIANI: Another quick point is that ACG puts a lot of its own resources into market access, and that's again coming from grower funds. We do meet with Biosecurity Australia every six months, and the trade people, and we bring along our own pest and disease advisers so that we can assist them. That's how we feel we can contribute to their resource problem or providing them with some more information and progressing things a little bit faster. We do attempt to assist in that way. Obviously it is a high priority for us, so we don't really have to be told. We know that we have to focus on our export markets, and we are attempting to do that. It's not always easy.

That brings us to the export control powers. What we put into our initial submission was that the export control powers are valuable and should remain. We didn't put a lot more information in our initial submission because we just didn't think that it was the scope of the inquiry really, because we were looking at citrus growing and processing, but that has since become a very big issue. We were very disappointed, particularly on the last recommendation. I guess you probably heard on Monday some of the reasons for it, and you'll probably hear it again today and tomorrow and Friday.

MR COSGROVE: Yes.

MS DAMIANI: But really what we wanted to say is, those review processes are in place. Continued negotiations between AFFA and Horticulture Australia Ltd and all

the industries involved in Horticulture Australia Ltd are ongoing, and I think all those processes are in place, so I don't think those recommendations really provide the industry with any more benefit. I just don't think they should be in the final report. And that includes draft recommendations 7.6, 7.7 and 7.8.

MR COSGROVE: If I might try to explain why we raised these matters: as you said yourself, quite a number of participants I think in their initial submissions to this inquiry had referred to this arrangement and I'm sure many of them told us the value that they saw in it. We also of course had ascertained that exports are now a substantial segment of grower returns, with the US market providing very good returns, and we were also trying to identify impediments to possibly greater returns to growers across all markets. I think it was for those three reasons that we felt this was worth investigating.

As you rightly said, we've heard a lot about it already, and we will hear some more. As everybody in the industry knows, there are some differences of view on it within the industry itself; indeed, within particular regional areas of the industry. But I think it's also worth pointing out some of the interpretations of our recommendation have been not completely accurate. We haven't recommended the dismantlement of this arrangement; we've recommended that consideration be given to that.

MS DAMIANI: Yes, I understand.

MR COSGROVE: We know that there are some review processes getting under way and we'll benefit from the appearance later today of Horticulture Australia, so I hope we can develop a clearer understanding ourselves of exactly what's involved, how it all works, and so on. Is there anything else you wanted to say about that particular measure?

MS DAMIANI: Really, what I want to say is, if you're looking at impediments to increasing the grower return on export markets, I don't think opening all markets is going to increase the grower return in any export market. Unless we look at orderly marketing into markets, the growers will be left with what's left after everyone else takes their bit, and we know that in Australia - we're such a small country, we've got so many exporters, and they compete in all our export markets, and it's a bit of a price war out there in many of our export markets. Kevin, can you put any light on it? But in terms of export Valencias, the returns that the grower gets compared to all the other prices - - -

MR COCK: Significantly less.

MS DAMIANI: Yes.

MR COCK: From our point of view on the report, going into that area, making recommendations on anecdotal evidence rather than on a statistical basis that, "That market can give a greater return to the grower through this, this and this," and quantifying that, would have been a far better approach than saying, "Maybe it can" or, "It might" or, "We recommend another review." We've had two. Our industry has put up a lot of statistical information, yet out of the processing, packing, exporting, you've got nothing, and I think that's the most disappointing part of this report - that you've had some essays given to you and you've picked the recommendations out of those essays, rather than out of some good statistical backing.

I would have thought the people that put up those comments on the US would have come up with market growth projections from well-quantified things - by variety, by size. They haven't got a marketing plan, and the industry has - yet - so challenge those people with a recommendation in here to come up with - - -

MR COSGROVE: We will be talking to them about this, of course - mainly in Melbourne, where they're appearing.

MR COCK: I'd suggest you challenge them - - -

MR COSGROVE: We shall.

MR COCK: - - - rather than challenge something that's working for me as a grower and actually giving me investment back into my orchard.

MR COSGROVE: Yes. As I say, this is clearly a matter still to be resolved. But I think it's worth noting nonetheless that Australia and some other countries have often used for extended periods the notion of orderly marketing, and at least in our case in some markets that orderly marketing has disappeared, and it's not evident to us that the loss of such arrangements has had the deleterious effects that the people who favour orderly marketing tend to expect. I'm not able today to give you full chapter and verse on all of that, but there are of course substantial examples in recent Australian history of attempts at orderly marketing being very damaging to agricultural producers. I think, for example, of the reserve price scheme in wool; I think of the mess that is presently under investigation in the New South Wales grains industry. So it's not a clear-cut case, in our view, that attempts to market in an orderly manner will always produce the best returns and, for reasons of that kind, we thought, well, let's think a little freshly about this.

MR COCK: Can I just give a brief comparison: our industry is unique because we've got three examples of disorderly marketing into Asia; absolute dog eat dog, cut-price marketing. As soon as you supply one orange more, down it comes. We've

got another example in Japan: a high-return market, huge potential; not organised but got some disciplines because they have to organise their freighting through cold disinfestation; slightly regulated, if you like. Then we've got the US, which has an orderly marketing system in place. So I would have thought that you had enough within our industry to make some better judgments than what you had, than just working on someone that's outside and providing - yes, just a comparison, without any data backup. We've tried to give you data backup.

MR COSGROVE: Yes, and we have some questions about that, which we'll probably come to later in the day.

MS DAMIANI: A lot of the information I will leave to Horticulture Australia Ltd and to Riversun who, I believe, will be presenting on Friday. So I'll leave a lot of the commercial-type information and the regulatory-type information to them.

MR COSGROVE: Okay.

MS DAMIANI: Again, looking through the report, a lot of the emphasis on one particular exporter was a real concern to us. Excerpts from someone called David Tayler, who's not even a citrus exporter - he had all the answers to the US market - really concerned us as well. We were wondering why there was so much emphasis on one particular exporter and so much emphasis on this area, where we felt that the biggest benefit to the industry is looking at the tough issues and the possible solutions to move the industry forward into fresh fruit, whether it is export or domestic, and there is no real direction into addressing some of those problems, other than just looking specifically at some of the export issues.

MR COSGROVE: Okay. I think we were trying at least to talk about the market situation and outlook for the industry as a whole. We will obviously have to look at whether or not we've got that message clearly expressed, but we do see reasonable opportunities and, indeed, the industry is making good progress, it seems to us, in moving away from lower-end markets into higher-value markets, whether they be fresh domestic, fresh juice domestic - and, indeed, a little bit of export in that - and fresh exports. That seems to be the trend in which you're going. It's good to see. We're not denying that there are not still some impediments to improvements in the industry's performance, and we do try to identify those. If we've missed some, we'd be glad to hear about them.

MS DAMIANI: Okay. If I can move into some of those areas that you did highlight - for example, harvest labour.

MR COSGROVE: Yes.

MS DAMIANI: Obviously we do support your first draft recommendation, 7.1, though I do believe it's very broad and doesn't give specific direction to the federal government. It's just a very broad recommendation and, as you know, it is the largest cost - and one of the largest costs - in citrus growing, and we really do need to find some solutions in improving access to harvest labour.

MR EDWARDS: Of course, it might be suggested that as a labour-intensive industry, a labour-intensive industry where it seems that you're stuck with hand harvesting, the more successful Australia is in achieving economic growth - and "economic growth", of course, means rising real labour costs - the tougher things will get for your industry. In a sense, it might even be true to suggest that the citrus industry has a vested interest in Australia not doing very well on the general economic performance criteria.

MR COCK: You're indicating availability of labour will be more difficult for our industry, and the cost of labour will go up.

MR EDWARDS: That would seem to be a consequence of economic growth, that labour-intensive industries will find the going more difficult.

MR COSGROVE: Because the costs will rise faster than capital-intensive industries.

MR COCK: Unfortunately, we can't pick up the plant and move to China. We can't do that, so we're stuck here with the labour pool and the labour costs that are imposed on us, and in other countries they are highly subsidised.

MR COSGROVE: I guess the issue in a practical sense probably boils down to finding ways in which you can raise productivity so that that helps to offset the real wage cost problem that Jeff was referring to, and also whether the industry can find ways in which to make employment, or at least labour use, more attractive to people. That's basically a management problem, which we don't profess to be expert in. But they would seem to me to be the two main areas where progress would need to be made.

MR COCK: It is 40 per cent of my costs, and as you grow a higher-grade product, that goes up, that labour cost.

MR COSGROVE: Yes, I'm sure.

MS DAMIANI: The other issue I wanted to touch on was the labelling laws. I have put in there my response, that in a recent Choice magazine they stated that 80 per cent of consumers think it's important to buy Australian, but there's confusion

about what that actually means. An abundance of labelling, claims, symbols and logos makes it difficult to identify true blue Aussie products. Our labelling laws are complex with many loopholes, and it's too easy for manufacturers and distributors to mislead consumers about the origin of their products.

I really think that even though there exists areas that we can progress with - for example, the voluntary fruit juice code of practice and the Industry Compliance Committee into which we do have input - it just seems to take forever and a day to get a simple thing looked at and complied with. On top of the labelling issues on fruit juice products, there are the labelling issues on fresh fruit, where many retailers just don't seem to label imported product, even though they're mandated to. Sometimes we see Californian navels labelled as Australian, and it's just pretty disgusting when you see that, especially in the local supermarket here in Mildura; if they can't even get that right, then there's something wrong everywhere else.

MR COSGROVE: Have you raised those types of matters under the industry code?

MS DAMIANI: We have.

MR COSGROVE: To what effect?

MS DAMIANI: That's what I mean. It just takes forever and a day to get anything looked at through that industry code and the Industry Compliance Committee, particularly because the Australian Fruit Juice Association now has the responsibility for those code and compliance issues.

MR COSGROVE: Forgive me for my lack of knowledge here, but does the code have any disciplinary or penalty provisions in it, if it can be established that it has been breached?

MS DAMIANI: Only for fruit juice products, and not for fresh fruit.

MR COSGROVE: Not for fresh.

MS DAMIANI: Yes.

MR COSGROVE: In which case I guess your other port of call would be the Australian Competition and Consumer Commission. Have you approached them?

MS DAMIANI: Yes.

MR COSGROVE: Again, with what effect?

MS DAMIANI: I think they seem to be focusing on fruit juice product labelling, and they have really targeted that, but they haven't really done anything about the fresh fruit.

MR COSGROVE: Let's say ACG was to approach the ACCC and say, "We believe there is misleading trading of fresh citrus in Australia," would they not investigate the matter?

MS DAMIANI: You'd think they would, but we never really get a response on that issue. It seems to come back to an enforcement issue, and the monitoring and enforcement, because if they don't see it, or it's not a big issue for them, it doesn't get high on their priority list. I guess it's just something that we have to keep bringing up with them because we think it's a major - - -

MR COSGROVE: I was interested in those remarks in your paper about the complexity of the laws and the many loopholes. Could you explain to me some examples of what you have in mind?

MS DAMIANI: For example, there's a lot of product out there that has on the front label of a fruit juice product something like "100 per cent fruit juice" and they will have the name of the company and it says "100 per cent Australian owned". Then you have a look at the back of the product and it says "Made from imported fruit juice". Now, a consumer buying that product only sees "100 per cent fruit juice", "100 per cent Australian owned", and they automatically assume it's a local product, so it's just simple things like that.

MR COSGROVE: It's saying on the front "100 per cent fruit juice". It's not saying "100 per cent Australian fruit juice".

MS DAMIANI: No.

MR COSGROVE: On the back it's telling you it's a mixed.

MS DAMIANI: It's a reconstituted juice product, yes.

MR COSGROVE: So the information is there if the consumer chooses to look at the back of the container.

MS DAMIANI: Yes, but they only see "Reconstituted juice". It doesn't say - - -

MR COSGROVE: It doesn't say that some of that concentrate has come from abroad.

MR COCK: Or they have a broad statement: "Made from Australian or imported ingredients".

MS DAMIANI: That's right, and we know it's all from imported ingredients.

MR COCK: Or they have nothing. McDonalds can get away with whatever they want to put in there - their specification and price. That's what they told us: if it's imported, it's imported; if it's Australian, it's Australian.

MR COSGROVE: These are matters which, as you will have seen, we discussed at a little length in the position paper. The question seems to boil down to the degree of interest in stronger or clearer, bigger-print specification of the precise constituent elements in the product. I was interested in what you were saying about the ACCC. One gets the impression that they may not be pursuing some of your requests to the extent that you would like. We felt, as you will have seen, that the existing laws were probably adequate and that it was an enforcement issue, essentially, that may be troubling people. Do you have any correspondence between ACG and ACCC on this matter that you could provide to us?

MS DAMIANI: I do have some correspondence. I don't know whether it's specifically about that specific issue, about fresh fruit. Like I said, they seem to have picked up on the fruit juice.

MR COSGROVE: Even in the case of juice I think we'd be interested, if that was the subject of the correspondence. If you were kindly able to send it to us, it would be useful to see, I think.

MS DAMIANI: We can do that.

MR EDWARDS: But do you think, Judith, the misrepresentation of the fresh fruit is occurring frequently, or is it relatively rare?

MS DAMIANI: Again, it's hard for me to say because I haven't got an objective survey which we've done that looks at the labelling. So many times people from our industry - and sometimes they're not even growers - come to me and say, "Oh, we've got Californian navels in and they're labelled Australian oranges," or, "They don't have their little sign saying, 'Imported produce'."

MR COSGROVE: I guess that's true in a lot of cases. For example, if you're in a wine shop and they've got a lot of imported spirits, or even table wines, I think typically they won't have a label saying "Imported spirits". If you pick up the bottle you'd be able to see it's made in Portugal, France, or somewhere.

MS DAMIANI: But it's actually a requirement for retailers to label imported fresh produce at point of sale, so it's a requirement.

MR COSGROVE: Under the industry code, or under other - - -

MS DAMIANI: No, under the food standards, whatever, yes, to label imported fresh produce as such, and it should actually state the country of origin.

MR EDWARDS: Have the Californian navels been portrayed as Australian oranges inside or outside the Australian navel season?

MR COCK: Outside.

MS DAMIANI: Outside the Australian navel season.

MR EDWARDS: So they're competing with Australian Valencias in the shops.

MR COSGROVE: Yes.

MR EDWARDS: The consumer is being led to believe that Australian navels are now available, when people with a little knowledge know this is outside the navel season.

MS DAMIANI: That's right. The last thing I wanted to touch on was the comments you made about adjustment assistance to the industry. Really my question was surely we can look at some sort of assistance to those growers that are genuinely in need, or need some adjustment assistance, in a way that can provide benefits to citrus growers, even though they may have wine grapes or prunes on their property, or whatever. Surely we can set up something that can tailor those growers in particular.

MR COSGROVE: Do you mean assistance related specifically to their citrus activities?

MS DAMIANI: Yes.

MR COSGROVE: I think we do see a difficulty there, Judith. Government assistance is really intended to serve a purpose of helping people, not really particular types of production or industries at large. There is some government assistance given to industries; it's highly debated in the community as to whether it's good or bad. Over the years there has been quite a bit of it, but the clear trend of government policy across both sides of the parliament has been to reduce that type of

assistance.

Now, it therefore seemed to us that if someone might be experiencing a bad patch in terms of its returns from citrus production but, as in recent years at least, might have been doing okay from wine grapes or avocados or mangoes, or something like that, then it seems sensible to look at their overall financial position. Why should somebody who is on a satisfactory total income be assisted because one component of that income happens to be low? I think that's the approach we've been tending to take.

There may well be people who are - and we know that there are - largely reliant on citrus production for their income. If it can be established that they are in some financial hardship, we have felt that there are already programs available to assist them in several ways. Because we doubt the merits of such a specific type of assistance to production of a certain product, we came to the view in the position paper that we could not support further additional assistance.

Something turns here, I think, on the extent of difficulty that exists within the industry. Your initial submission to us had proposed funding of \$60 million over three years to cover a variety of purposes: redevelopment of farms, new plantings, assisting those people who should leave the industry to do so. Yes, that was the full list. Now, if we work on the basis of roughly 3000 citrus growers in Australia, that would mean \$20,000 for every one of them. I think you would be the first to agree that not every one of those 3000 would need assistance.

We don't know how many. If you took the bottom third of growers, that would mean about \$60,000 for each of those producers. Now, you know, that's a fairly significant sum and we don't know whether the bottom third is the right proportion. Even if it was, we would still have difficulties in some cases, because they might well be earning additional income from other agricultural activities. I think that's the basis of the approach we've taken, but are you able to provide us - again, perhaps not necessarily today, but does the industry itself have any clear information on those growers that you refer to who are citrus-orientated and who have needs for assistance which exceed those forms of assistance already available to them, I guess is the information we're looking for.

MS DAMIANI: I think what we would look at are those growers, like you said, that are largely dependent on citrus for their income - - -

MR COSGROVE: Yes.

MS DAMIANI: - - - to be able to access a specific adjustment program. That could easily be done by putting that in the conditions of accessibility. Then you

would have to look at, obviously, the mix of varieties they have on their properties, the technology they have on their properties and their financial situation. I really think a lot of those growers that do rely solely on citrus, particularly Valencia oranges, are finding it very hard to retain that profitability to do that readjustment or to exit the industry. I think that would benefit all of the industry if we could get a lot of those very small patches of citrus that aren't really economic any more, and not very well looked after, removed out of the ground, and some assistance provided to those people just to give them a little bit of a push to the right direction.

MR COSGROVE: You've had recently in the Sunraysia area the Kickstart program. I know the funds have now, with the possible exception of a small remaining amount, been used. Was that not successful in - - -

MR COCK: Can I comment on that?

MS DAMIANI: You will have to.

MR COSGROVE: Yes, certainly.

MR COCK: I'm on the Kickstart board and also a recipient of some of the funds, so I've got a pecuniary interest in it. Simply approved, the current programs that are there under rural adjustment weren't pressing the right buttons, because over 800 growers came into that program. They had to jump through a lot of hoops, have a business plan, get a professional adviser, do all the things to get the benefits of that program. It was all packaged up, and the benefit back to not only the industries, but the community, has been - in a document, independently reviewed. You've probably got all that documentation from Kickstart.

MR COSGROVE: I'm not sure. We will check.

MR COCK: I'm sure that was all sent through. I believe that a similar program, a rural partnership program but an enhanced one, which was what Kickstart was, does package it up so the growers are led through certain steps to get their farms up to speed, to do the adjustment that is necessary, and I think what we underestimated when the tariff was reduced was the switching costs in our industry. No-one knew, or identified, the time it took to switch an industry over. That's what is lagging. ACG is really saying, "Let's speed up the process rapidly in the next five to 10 years." That's really the basis of that.

We've got examples of switching and how to do it. We have got an example of a rural partnership program, pilot program, that worked well. It wasn't just money for pipes, it was a lot of business decisions that had to be made on an orchard before they got anything. In fact a means test and in fact saying, "Do you really want to

stay in farming?" was also in the means test. So if you haven't looked through that program strongly I would urge that, because it does mirror an example of what does work.

MR COSGROVE: Yes. Then I mean the question remains of when does the need for that type of assistance cease? You've had one program, you don't want another one. Do we keep reviewing these needs or not?

MR COCK: I think this was a pilot on what we thought was going to be a small scale.

MR COSGROVE: Yes.

MR COCK: And it - - -

MR COSGROVE: It was \$10 million, wasn't it, the overall program?

MR COCK: That's right, yes, and there was training and all those sorts of things in there as well.

MS DAMIANI: For all of horticulture.

MR COCK: But I think the question you should be asking is, what benefit was that for the community.

MR COSGROVE: Indeed.

MR COCK: I suggest you read the independent report.

MR COSGROVE: Okay. I need to keep an eye on the clock. Was there anything else that you wanted to cover in terms of - - -

MS DAMIANI: I think I've covered all the major points.

MR COSGROVE: Okay. Let me just check to see what questions we might have had in relation to it. Yes, it's actually in your president's covering letter, Judith, but we had, I think, a section in the overview called The Year 2001 Was Unusual. Your response is that it is not unusual, because the Murray Valley growers have made a loss in four of the last six years. It wasn't so much in that context that we were trying to depict the year 2001 as unusual, but rather in what we think was an unusual conjunction of global circumstances, partly global anyway. We had massive production of oranges in Brazil, which forced quite a shake-out in their own industry, and of course resulted in a price war on concentrate that drove it down to very low

levels. Within Australia we had a pretty solid crop in that period of our own production. So the combination of those two factors was what we were thinking was unusual. We're not saying it won't ever happen again, but that it's not likely to happen every third year or something like that.

MS DAMIANI: I would say that that's a regular occurrence in our industry, the fact of the Brazilian overproduction and that we have a high crop of oranges. It's fairly regular in our industry. So much to the point that I remember - I've been in the industry for going on nine years now, and we used to monitor the Brazilian production, our production and the price of FCOJ every month, and as soon as we had an indication that their crop was going to be large, and we were coming up to a big crop, we knew exactly what kind of prices we were going to get and the effect on the industry, so it's a cyclic thing.

MR COSGROVE: Yes, I don't doubt that.

MS DAMIANI: I mean, that year was certainly not unusual for those circumstances.

MR COSGROVE: I'm just looking for our - if you look again at table 2.3 page 9 we have the CIF import price of FCOJ shown there from 94-95 up to 2001. I mean, it clearly reached a level that you would call well below trend in two years out of those seven. But the others, with a little bit of variation as you inevitably expect, are - okay, it may be another matter we come back to, but might have another look at the figures.

MS DAMIANI: I think what you might be referring to, in terms of the year 2000-2001 we have a lot of rind quality problems, which sort of exacerbated these kind of circumstances.

MR COSGROVE: Yes.

MS DAMIANI: So we had a lot of things happening in one year.

MR COSGROVE: Yes, I think there was a problem with navels in that year, yes.

MS DAMIANI: Yes, so I think that affected the returns for that year.

MR COSGROVE: Yes.

MS DAMIANI: But in terms of those two that you mentioned, the Brazilian production, the price and our production, it's a fairly regular, I would say, occurrence.

MR COSGROVE: Okay. Just a general question which I think I might have raised in Griffith as well: I mean, the industry is telling us that we have overestimated its situation and prospects, and that some apparently considerable numbers of at least Valencia growers are in real difficulty, yet we've seen now, over quite a period of time, very little in the way of exits from the industry. There have been some. The number of registered citrus establishments has fallen I think by maybe 2 or 3 hundred over the last - I'm not quite sure, but say within the last decade. Do you have any view that you might pass to us on why that is the case. If things for some people are as tough as we are being told, why are they hanging on? I was asking in Griffith on Monday why, in circumstances where the Riverina citrus growers were saying to us that their cost of production was a minimum of \$220 and the prices they were receiving on average were about 180 for processing contract fruit, which is the bulk of their production it seems - that just seems an unsustainable position and one wonders how long it can last. Is there something similar here and, if so, as I say, why are so few people not moving into other forms of production?

MS DAMIANI: I think that's a really hard one to answer but, put simply, the fact that a lot of growers find it hard to exit is because they've got no options to do something else. I mean, most of them are probably nearing retirement age, so it's an age factor, and it's very difficult for them to just leave something that they have been doing for the last 45 years or so. They probably don't have skills to go back into the workforce, and I guess perhaps they probably don't have a good superannuation nest egg. So I think it's very difficult - - -

MR COSGROVE: A lot of people are in that situation, not just citrus growers.

MS DAMIANI: That's right, and I think - - -

MR COSGROVE: That's why we have the social security net to pick them up.

MS DAMIANI: Yes, and I think that's one of the reasons why a lot of them find it hard just to get out of the industry, though it has been happening. There have been exits and we've certainly noticed our grower member numbers drop over the last 10 years. But I think we were looking at how we could help those people move into a different phase of their lifestyle with some dignity, and that's something that we also had in our assistant package in terms of exit.

MR COSGROVE: Yes.

MS DAMIANI: That's only if they wanted to do it. I mean, it was their own commercial decision if they wanted to stay on and struggle. We can't help them one way or the other. It's their own commercial decision whether to stay on or to exit.

MR EDWARDS: Judith, just following up on that: do you think a significant number of people who are battling financially have really made the decision consciously or subconsciously to stay on their acres until the last day, because they feel more comfortable with that than moving on?

MR COCK: Absolutely. You make a decision whether you're going to leave your home or not. That's really what you're saying. Growers will batten down. Their wife will go out and work, as in most cases, and preferably work for the government, as I tell my wife. It's a better, stable job. There are varying reasons why growers will stay there until the last thing, and social security is not an option when you own a business. That's really not an option, because social security means you do have to sell your business and relocate to another home somewhere, whether rented or whatever.

MR COSGROVE: Yes, but I mean that's just saying you've got assets which exclude you from eligibility, from the pension or - I mean, that's the nature of the welfare system. It assists people who are genuinely in hardship, who have no assets.

MR COCK: But 2 or 3 hundred is 10 per cent basically leaving the industry. Is that what your figures have showed up?

MR COSGROVE: Yes, about that I think, yes.

MR COCK: And Murray Valley is a little bit higher than that again, but most of them have taken the citrus out and moved into wine grapes, because of the perceived boom in wine grapes that is going to continue forever.

MR COSGROVE: Yes.

MR EDWARDS: Is it possible, for those who are at the bottom of the income scale, that even quite significant increases in exit provisions might induce very little movement off because the attraction of staying put is so strong?

MR COCK: Again I really have to focus on the Kickstart program. Those people came in the door and they had independent professional advice: "You are far better off amalgamating your farm or selling it to the neighbour and getting out with that package, getting retrained, setting up in another field." People took that option rather than staying there until they were burnt.

MR EDWARDS: That would have applied, presumably, more to younger people.

MR COCK: No, it didn't only apply to younger people.

MR COSGROVE: I would like to thank you both for taking the time to come and help us this morning. We're working hard to try to get the best story we can in the final report.

MS DAMIANI: Thanks very much, John.

MR COSGROVE: Our next participant is Mr Dudley Marrows. Would you just identify yourself and the capacity in which you appear today.

MR MARROWS: Dudley Marrows.

MR COSGROVE: And you're a citrus grower.

MR MARROWS: I have been a citrus grower for 51 years.

MR COSGROVE: Thank you. I'm afraid we haven't had a chance to read your latest submission to us, but you might like to tell us about the key points in it.

MR MARROWS: First of all, thanks for enabling me to come to this meeting. I'd like to start from a different angle if I may. What I am seeking for the industry is what was promised us - a fair go - and, if you will put it in another aspect, of reasonable handicap. Can I pass this over for just sheer interest?

MR COSGROVE: Yes.

MR MARROWS: It is not acceptable to me to see any horticultural industry unnecessarily killed. If you look at that photostat out of an atlas, you will see the amazing difference in land mass north and south of the equator. You will see the land mass to the north is far, far greater, but that's only the minor point. To the north is where the money is, where the markets are, and if Australia can't take advantage of its off-season southern latitude for the future, I think it's missing out. I would hate to see a very long-range establishing industry unnecessarily killed, which is being done - an industry which, unfortunately, has an extremely high labour content. I don't think many people look at it from a full range, from establishing the industry, the growing of, the packing, et cetera, right through to the ship side. It is one of the biggest labour-intensive industries that we could have.

Sunraysia is just striking the ill effect of what is happening. The money from grassroots employees - part-time, et cetera, packing or whatever you like, picking - that's missing from the area. I don't think corporate Sunraysia or corporate Australia realises the import of cash flow from grassroot workers. This is one industry that can give - has given.

I started off from a fair go. I heard some of the comments coming in later, but why did we hang in after FCOJ arrived? Well, I was very prominent in the industry at that time and I was tackling, as I think a lot of others were, politicians almost repetitiously. They did promise level playing fields. They did. And then they came around and said, "Well, look, there's not really a level playing field. We'll give you a fair go," right? The next thing they said was, "Fair trade." The next thing they said,

when it was obvious that they couldn't get it, was, "Equal sacrifices." Well, that's what you people are trying to do now, I think - sacrifice the industry as fairly as you can - which I say, going back to the start, is not in Australia's long-range interest.

The citrus industry is a fluctuating industry in many, many ways. I believe that we should be looking at ways and means of maintaining the industry in a position whereby, through changes of varieties, changes of markets and/or what, we can be efficient and effective enough to change to easy peels. For example, at the moment that's the flavour of the month. Well, right, you'll see in my report there, that's not an overnight thing. It takes years and it takes a hell of a lot of cash, and that's why we're all in trouble. Now, if you want to let the industry slide, well, that's a government decision. I don't believe it's your commission's decision.

MR COSGROVE: Quite right. We merely provide advice.

MR MARROWS: Well, it's tending that way, sir. I've been right through that report several times. The report is merely saying to me what Tim Fischer used to say to me: "Right, there's no such thing as a level playing field." We can't do this and that. They've just got to go slowly by. Well, if the government wants to do that, then they've got to start around thinking of the overall consequences. It's not just the citrus industry.

Recently I had a sad experience. You've all seen the Ansett employees crying. Right. Well, down at the packing shed where I work, there's no work at the moment - very little work in the dried fruit industry, very little work around. Well, some of the women citrus packers, for example, that need that two days a week work were crying. Now, they're the grassroots ones. The social impact of cutting out these high-employment industries is horrific, nationwide. I've made that point well enough I think. I'll go back to trying to hear what some of these people here were saying.

MR COSGROVE: It's going to be difficult. The airconditioning is noisy, yes.

MR MARROWS: Yes. We were induced to take up the industry. I am a soldier settler and I was required to get a loan to start off, at 5 per cent, and I was told I could only plant 25 acres and I had to plant a far greater majority of Valencias, and I was told that, "We wanted you folks up for decentralisation." We were - I was, at any rate; I'm not going to speak for others - as a returned man, I was induced to come into this type of industry and there must be some acceptance by government of that facet.

The next facet I would bring forward is, "Get big or get out." Well, as I've said a couple of times now, I tried to understand what was being said by other respected people, but when you're having prominent politicians saying to you, "Oh, we'll get a

level playing field," and then going on and on - that took two years at least. Now, you hang in. Following on some of the conversations I thought I heard, a lot of us are hanging in because they cannot believe that the government will be so unaware of the overall value of the citrus industry right through to grassroot workers, with the problem of employment these days. This applies to many industries that are let go unnecessarily.

Now, I spoke of a handicap. Let's forget tariffs at the moment; we all know about those. We're down at the bottom in those. In that recent submission of mine you will see a Victorian Farmers Federation graphical representation of assistance given. It's on an attachment at the back. It doesn't cover citrus - unfortunately it doesn't - but the point is handicap. You have placed us on a tremendous handicap - the government has, not you - relative to our other countries. Now, they have far greater production. In many cases they have far lower infrastructure costs. You will notice another attachment in there relative to the European Union, the forms of assistance that they get. In other words, they have been given a massive advantage.

What a lot of people are not understanding, even in our own industry, I believe, is the effect of - I use the expression "global supermarket" and that type of thing. Well, a little story of mine - I'm one of the people that located one of the new late navels, which extended my marketing period up to the Chinese New Year and I got five pounds for some of those early ones. And where did you get that? Our good friends, the Yanks - Californians mainly - have taken over a previous later variety, the late Lanes. Right. They're here now with supermarkets buying around about mid-December.

It killed the profit of that altogether and I want to make a point here, if I may. We are a very live industry. The varieties that we're working with now won't be the varieties that we will be working with in the main in 10 years or so. Now, our friends overseas have taken advantage of a lot of the varieties that we found in Australia - we found - particularly late navel varieties, and that is steadily increasing the availability of navels at least a month - and I say it's two months. It's not six weeks off my hoped-for profit marketing period. We will not be able, with the disadvantages we have against the advantages that the other nations have - and that is of a far greater profit margin at the destination point than we have - be able to move into these new varieties with greater ease.

MR COSGROVE: Could you explain to me, please, why these foreign producers do have that big advantage in our market? The cost of transporting fresh fruit must be reasonably sizeable and we've been told already that it is. Why can't Australian suppliers compete, given that they're much closer to points of sale in our country?

MR MARROWS: Yes, that's a very solid question. Let's come back to the

supermarkets. Let's come back to what happens here in Sunraysia. The buyer at wherever it be - say Woolworths, for example - for ease of management, the ease of price setting through the various branches, says to whoever is the supplier over in America, "We want X cartons per week of a specific range of counts" and that enables the costing person - this is my interpretation and I think it's pretty right - in Sydney or wherever it is in sending out to Mildura here, "Right, well, this is going to cost us to get it to you. You've got to sell it at" - now that's one of the worst features of the lot, to "sell it at". Here in Mildura on occasions it's pretty old before they clear their stocks and there's been a hell of a fight - and some of our industry reps here know this - even for them to put Australian fruit on - our Valencias - selling at a far lesser price. Now, that's my answer.

MR COSGROVE: Okay.

MR MARROWS: Well, I've perhaps covered the salient features.

MR COSGROVE: Okay.

MR MARROWS: I think that you are in your report virtually subscribing to the government's policy of free trade irrespective of how it's affecting various industries - various people - and not having regard to the fact that other countries are not so naive as Australia.

MR COSGROVE: Yes.

MR MARROWS: If you carry forward to the government that report, you will cause the industry positively to decline. You will not tell the government to that end. You will let the government then have the easy way out of letting it decline, because you have not put in that report anything that's worthwhile regarding the value of the citrus industry in the Southern Hemisphere, as I've covered before, it's value for employment. You haven't really covered the problems of keeping up with the particular market varieties. We've got to decide now, for instance, what is going to be required in nearly 15 years.

I can't be extremely critical of the way the commission is at this moment coming forward with its report. It will give the government the ease of saying, with its free trade philosophy, an easy way out to say, "Well, the industry unfortunately, like other industries in Australia, has gone by the board. This will have to go by the board." I ask you to read my submission. If you ever want anything more on it, I'd be pleased to have it.

MR COSGROVE: Well, thank you very much, Mr Marrows. I can assure you we'll read your submission to us very carefully, as we do all of them.

MR MARROWS: Thanks for listening to me.

MR COSGROVE: Could I just, before you go, though, make a couple of points. I'm sure that we are not trying to kill the industry. We are, in this inquiry, trying to understand its situation and prospects and to recommend to the government actions which might help it. Now, it's true to say that we and a number of other people in many parts of the world see some strong advantages to our community and the global community in terms of freer trade. I don't think there's any significant evidence to deny the fact that the move since the Second World War towards freer trade around the world has been greatly beneficial to people everywhere.

Having said that though, we are very conscious of the fact that many of the countries to which Australia can or could export citrus use barriers to those exports and that's why we have a recommendation to the government that it continue its efforts to try to reduce those barriers and there have been some reductions in them; not as great as we would like and certainly not as great as you people would like. You mentioned earlier in your remarks that the industry is being killed. Well, I mean, we have figures in the documents - and, if they're not correct, we'd be pleased to know why - showing that in fact the real value of production of citrus is increasing. Now, that may not mean that every grower is increasing his or her production but, if you look at the industry as a whole, it's growing. It's not dying.

The other question which I think you rightly express concern about is employment created by an industry like citrus, but of course the costs of protecting any particular part of the economy are borne by other people in the country applying that protection and so, if a government acts in such a way as to prop up employment in a particular sector through assistance, either the buyers of that product or the taxpayers who may be funding the assistance have less money in their pockets to spend and so they have to, through that indirect route, curb the growth of employment elsewhere in the economy.

Now, if you look at Australia's economy as a whole, what we've seen really - certainly since the late 1980s when the government began to reduce assistance to industries across the board quite significantly - is first of all a substantial increase in Australia's productivity level. You know, we make things with fewer resources than we used to or we make more things with the same amount of resources, but we're more productive, more efficient. Our economy has been growing for the last decade at a rate we haven't seen since the early post-war period, when we were bringing in many more migrants than we now do, and our unemployment level as a result of employment growth - and notwithstanding a significant increase in the participation by people, especially women, in the work force - is down. Now, it's not as low as we would like it or anybody else would like it, but it is down.

All I'm trying to say, I think, is that you need to keep in mind the broad effects of assistance rather than the way in which it has its impact on the industry or sector being assisted. The other thing with which I must say I have great sympathy for people in your position in this regard - you know, you've made great personal sacrifices for this country in terms of your war service. You've then been directed in effect to set up your production in a certain way because of government regulation, which has then been changed and changed again. Now, that's not really what governments should be doing by their citizens, in my view, and I'm afraid there is a message here that people who are relying on government policy for their profitable operation clearly see a pattern of change in government policy.

It's a risk. Citrus growers and other producers in the economy face a lot of risks: risks that your crop might fail one year; risks that the prices of foreign products with which you compete might be lower than you had expected; risks that interest rates on your debt might rise - all sorts of risks; risks of the weather. But one of those risks is that government policies will change on you, and I'm afraid it's a hard - and as I say - rather tough lesson and we do have sympathy for people in your situation in this regard, but it's inevitable I'm afraid that government policies will not remain unchanged.

MR MARROWS: Can I have the privilege of answering a few now?

MR COSGROVE: Of course.

MR MARROWS: You're a diplomat.

MR COSGROVE: Not really.

MR MARROWS: You use the expression "freer trade".

MR COSGROVE: Yes.

MR MARROWS: Freer trade - to whose advantage - us or the other countries that are given much more assistance?

MR COSGROVE: I would say that it's the countries which have moved towards freer or, if you like, free trade which have done best. One of the reasons why many of the developing countries for example around the world are as poor as they are is that they restrict trade very heavily.

MR MARROWS: I understand, I hope, some of this. You brought in a point there about increasing production. In my report there you'll see that at the end of the war

and for a certain period after, the industry was extremely profitable. Extremely - unbelievable to us now.

MR COSGROVE: Yes.

MR MARROWS: That's why the government started off these soldier settlements. That's why we came here. The increase in production to a major degree has come about by a lot of effort that takes 20 years perhaps from the time you decide to start, to coming into production, and in addition to that we're not quitters. When we saw there was need to change varieties, et cetera, change methods of irrigation, et cetera, we set in to do it.

MR COSGROVE: Yes.

MR MARROWS: And many things - better irrigation.

MR COSGROVE: That's right.

MR MARROWS: Closer-density planting, better varieties - that's coming through. Now, I used the word "killing" the industry. I didn't say "killed" the industry. But I will come back and say it is killing the industry with respect to its ability to have the volume of production that will enable it to be an efficient exporter to Australia's benefit. Another thing, your terms of reference to me, I read them very specifically as regarding the citrus industry. It's not with respect to government's policies, et cetera.

MR COSGROVE: It is, I'm afraid.

MR MARROWS: I read it there - - -

MR COSGROVE: No, if I may quote you the piece in that respect, we are to take into account the impact and effectiveness of existing and recent Commonwealth-state policies.

MR MARROWS: All right. You mentioned employment again. With the unequal trade conditions that we have what you're doing is giving the employment overseas. It's not necessarily to a poor country. European Union, for example - admittedly in Spain they've got 30 per cent unemployment in particular citrus growing areas and that's why they're promoting it. I was in South Africa and the minister of agriculture was proud to say he greatly respects the citrus industry because of its wonderful employment opportunities for coloureds.

It's okay to say that those countries that were accepting freer trade are

prospering like you inferred Australia - carry that forward to California and Spain and the European Union and it doesn't wash. We're being sacrificed, sir. At any rate you can understand that I think that your report, as it stands, is negative to the whole community, not just to the citrus industry. Thank you for putting up with me.

MR COSGROVE: No, not at all, Mr Marrows. Thanks very much for coming along. We'll take a short break now. People might like to have a cup of coffee and resume in five to 10 minutes, thank you.

MR COSGROVE: Our next participant is the Murray Valley Citrus Marketing Board. Gentlemen, would each of you identify yourself and the capacity in which you are with us today, please.

MR FARNSWORTH: Rob Farnsworth. I'm a grower and I'm also vice-chairman of the Marketing Board.

MR COSGROVE: Thank you.

MR BRANIFF: John Braniff. I'm chief executive of the Murray Valley Citrus Board.

MR COCK: Kevin Cock. I'm a board member and a citrus grower.

MR COSGROVE: Thanks very much. We received some further material from you. I guess you'd like to speak to that today.

MR BRANIFF: Yes, if I may, John. Thank you. There are a number of points that I've just picked up on in the submission to your position paper, but also there are a few additional points I'd like to make prior to us winding up our appearance here this morning. The first one I'd like to make is regarding the benchmarking study and the benchmarking information, which the commission I think has made quite a lot of throughout the report. Clearly we have been participating in this now for six years and I guess it provides the only collective aggregated factual information on financial performance of the citrus businesses in this region.

I say "this region" because the first year of benchmarking did include growers from South Australia and the MIA. However, the subsequent studies, the only participants were from the Sunraysia region. The point I'd like to make is that the participants, certainly for the last five years, have been or could be regarded as, I guess, the more proactive, above-average growers, above-average operators in the industry. Therefore their business performance and financial results, we believe, are going to be significantly above perhaps the industry average and I think to make a lot of the figures and to assume that that snapshot of growers in this region is typical of all growers - particularly those from the MIA where there is a heavy reliance on income from Valencia's production - would be a mistake. We wanted to make that point quite strongly.

MR COSGROVE: Do you have any sense of the gap between the figure shown in that study and the more typical experience of growers in the region?

MR BRANIFF: I think it varies so widely, particularly from season to season, that it is a difficult one to answer.

MR COSGROVE: Yes, and of course between growers in a particular season as the study shows.

MR BRANIFF: That's right.

MR COSGROVE: Yes.

MR BRANIFF: We don't have any factual evidence on that, apart from the market experience of the prices we see, and the marketplaces particularly around Australia where we get regular weekly reports from Sydney, Melbourne and the other major capital city markets and, I suppose, the anecdotal evidence we get, particularly from the MIA, where they do have that much higher reliance on income and returns from a much bigger volume proportionately of Valencias, and therefore their returns clearly are considerably below what we'd see here on average. I think that's just an important point to make because there are obviously quite a lot of figures quoted throughout the report.

The other point I suppose we were somewhat surprised about was to see the recommendation on the USA export arrangements. We were very concerned about that because we've seen the results from that market even in the year where we had quality problems and other issues impacting against our returns that brought the average back somewhat. Apart from that year, and even including that year, when you look at the average returns from the year they have been stand-out, above average and above every other market that we actually go to. The significant thing about the USA I believe is that it's the only market where we plan our marketing.

If I can just plant a scenario to you for this upcoming season, for example, we're working right now on crop forecasting figures, we're monitoring fruit size, we'll be communicating that to our packers over the coming days. That in turn will be communicated to DNE, the sole importer in the USA. They will be able to then work with the exporters and the packers involved back here to establish and agree on a marketing program. The basics of that program will then be detailed to all of the major customers throughout the USA - and I'm talking the very large multiple retail outlets such as Safeways and Albertsons, Walmart, et cetera. Some of these chains have over a thousand outlets across America.

It's the only market where this is done. It's the only market where we plan the marketing; we detail it to the major retail customers; where we have a prearranged promotional program which is put in place prior to the season commencing, and then during the season after it actually commences. I suppose you could say it's the only export market we go to where we actually implement a marketing plan. In every other market, even with attempts to restrict the numbers of importers and so on, I

think you'd have to define it as a market in which we simply trade and are price takers.

In the USA we are able to influence, to some extent, the pricing and I think it's important to just look at the realities of that market because generally the price range at which local Californian navel citrus would sell, ranges probably between 6 and 14 dollars US per carton. When we go in there with our reverse season situation and with the prearranged marketing program we're able to maintain prices, ranging from sort of 20 to 30 dollars US. When we attended that meeting in Melbourne with the commission, directly after the position paper was released, there was a comment made there that that market surely could be bigger and distribution could be wider and volumes into the market could be greater, and perhaps there would be an opportunity for a lesser specification, or a lesser grade of fruit.

I think the realities of that market are that it costs something of the order of \$US12 per tonne to simply get the fruit landed at the West Coast USA and to think that there would be a market for a lower grade of fruit in the US, knowing the market as I do and having been there just about every year for the last 10 years, really I think demonstrates a lack of understanding of the realities of the marketplace over there. The American consumers are certainly attuned to large-size citrus and good quality fruit and any market that there might be for a lower grade of fruit would certainly not attract the sorts of prices that we'd need to show profits, and probably wouldn't even make the cost of landing the fruit there. They're the realities of the market. Any queries on that, before I go on?

MR COSGROVE: Yes, you've touched upon one aspect which I think does puzzle us a little, and that is why it is necessary to have a licensed single importer in the United States in order to mount a well-prepared export marketing program. I would have thought in most cases that type of program - I'm talking now broadly; you know, all sorts of Australian exports - they would be done within Australia, controlled and implemented by people in the Australian production areas, or production and marketing areas, of course on the basis of market research undertaken in the proposed country of export. But I'm not quite understanding why it is that we need this particular arrangement for that purpose. It may have other purposes. I'm not saying here, since we are obviously still considering this matter before our final report - I'm not saying that this arrangement may have no benefits whatsoever but that particular aspect of it does puzzle us. Why?

MR BRANIFF: The reality is if that wasn't in place I believe it simply wouldn't happen. We've got evidence of that from all of the other markets we go to. There have been attempts by HAL, formerly the ACH, to implement marketing programs using "Australia fresh" identity and that, to a large extent, has lacked the sort of control that we're able to implement through the DNE arrangements. It doesn't work,

or hasn't worked, and doesn't get support simply because of the fragmentation amongst the exporters that go to these markets. That's the reality, unfortunately.

MR COSGROVE: Why can't the growers themselves overcome that fragmentation? They can say, "Look, we've undertaken research in country X. We want our fruit to be marketed in these particular ways, and we will use export agents, if we need them at all, who operate on the basis of that program." It rather sounds as though the industry itself can't control its own export interests, that it needs a foreign monopoly importer to do that for it. I know it's a cooperative effort.

MR BRANIFF: Growers in the industry, indeed, are not able to control their destiny at the marketing end of the business. Once their fruit leaves their farm, their property, it goes to the packing house. They're leaving it up to the packer and the marketers, or traders if you like, down the line to carry out the marketing or trading of that fruit. Now, this is where the fragmentation occurs, and this is why it hasn't been possible to do to actually hold a marketing program together through that fragmented distribution system. This is what we're able to control in America, and this is why it works; this is why we certainly don't want to lose it. Quite frankly, we believe that that recommendation should be scratched from the final report.

MR COSGROVE: Yes, I understand your position on it.

MR FARNSWORTH: Could I make a comment on that as well. Almost no industry in the world operates without local market knowledge. To go into Asian countries, particularly, and the US, where you have unique and different retailing situations, it is almost essential to have a local partner in one form or another, and we use that import arrangement in the US that provides us with the expertise in that market. It's not like selling wheat, which is sold by large shiploads to very large buying organisations, usually wholesalers and not retailers.

We have a perishable product with a finite life, and it needs to move very quickly into the retail system and it needs to be managed in such a way that our deliveries to the country are staged. To do that, the only successful formula we have found to date is to utilise the system as in the US. In our other markets, we oversupply one week - we have two ships arrive in one week - the prices crash; we go four weeks with no ships, the prices rise, but the South Africans get the benefit because they're a bit more organised. So there are a lot of benefits to growers. It costs \$A42, I think, to get a carton of fruit into America. It probably only costs - - -

MR BRANIFF: \$US12 though.

MR FARNSWORTH: That's not into America and to market.

MR COSGROVE: I beg your pardon. You're talking Australian dollars.

MR FARNSWORTH: Into Japan, it's probably the case we're getting a case of fruit into Japan for \$A12, so half the price. The return to the grower from the US market is more than double, and the only significant difference is we have an orderly process of managing our exports out of Australia, our imports into the US, and then the distribution of the imports. Our US market is also growing at approximately 12 per cent per annum, which is a very healthy growth rate. Maybe it could be better, but there's no evidence that it could be done at a greater rate and still retain the sorts of margins we're getting.

I think from a grower perspective we're seeing enormous benefits in an orderly marketing style of system. I'm sure there are some flaws in the model that's being used. Perhaps we'd be better to look at eliminating the flaws rather than throwing out the best model we currently have, because we certainly are not exporting grain products or meat products. We have a different style of problem. We can't freeze our product. Once we pack it, it has a finite life, and we need to get it there, and we have a very short bargaining time. We can't sit back.

MR COCK: Commissioner, I think there's another example looming of a disorganised, unorganised market, and that's Taiwan. There's been a restriction on volume into Taiwan - 600, went to 1200, now open - and it's all on small-size fruit, and it's been viable. But this coming season it's going to be open, and I believe the exporters will clamber over themselves to get an order, not a sale, and they will fill that market with small fruit rapidly - immature small fruit - and it will be at my cost at the end of the day.

Now, that market, I believe, with the industry funds it was developed. We've done all the work on the importers to see who was the best importer. It can be destroyed in one go through a non-coordinated effort, and what you're suggesting of us as growers should coordinate. So how would we do that - to get 3500 businessmen to coordinate into that?

MR COSGROVE: It doesn't have to be done that way, of course. That's one possibility. My question, as I say, was why we needed a foreign monopoly distributor to ensure that that occurred, when I would have thought it was ordinarily in the control of the Australian end to do that sort of work, and of course John has provided an answer to that question. When you were referring to Taiwan, you would be exporting some of your fruit to that market.

MR COCK: I have in the past, a very small amount. 800 tonne is about what I do grow in navels, so that's one grower. We've got another 3500 that have the opportunity, and did have, to put - - -

MR COSGROVE: My question really relates to your claim about if you were using normal commercial export agents for the sale of your fruit in Taiwan. Why could those agents not be made to act in your financial interest? Now, what I have in mind is that you want to get the best value - total value I mean, not price, best value - for most sold at the best price for your fruit. If you were to use the services of an export agent and establish a contract whereby the fee that he is paid for that service is a percentage of the total sales value, would he not then be likely to be acting in your interests as well as his own?

MR COCK: So he will try and sell up rather than sell down, discount. That's what you're saying? He would push the price upwards?

MR COSGROVE: Yes, that his income from this particular activity would be maximised by gaining for you the maximum sales value that he can.

MR COCK: Absolutely, but then his competitor down the road who doesn't have that system in place - another exporter says, "I have got a lot of small fruit and I want to quit it. You can have it at cost plus a small margin for me" - and that's my cost, plus a small margin - my guy doesn't get a sale. He eventually is pulled down to the lowest common denominator in that marketplace, and that happens in Asia every day of the year.

MR COSGROVE: It conveys the impression, though, that some growers don't want their export agents to be working in the growers' best interests.

MR FARNSWORTH: How would we achieve that?

MR COSGROVE: Well, as I say, it seems to me to be a fairly simple mechanism. There may be rogue growers who for some reason or other want to receive a low return for their product.

MR FARNSWORTH: But how does an industry totally change an export industry? The exporters now do not operate in that manner in horticulture at all.

MR COSGROVE: Well, there are markets, of course, where this happens and two that come to mind I think are Hong Kong and Malaysia. They're both significant and growing markets. Now, I don't know precisely what the rate of return in those markets is but - - -

MR BRANIFF: It's comparatively low. In reality, a large number of the multiple growers for a start, something over 3000. There are multiple packers and multiple - - -

MR COSGROVE: But very few of those would be exporting.

MR BRANIFF: No, most of them in fact are exporters.

MR COSGROVE: Most of the 3000?

MR BRANIFF: Sure.

MR COCK: That export, but not exporters.

MR BRANIFF: Most of them export. They supply fruit for export markets as well as domestic markets. You see, that's a product of the packing house and the exporter. The packer will grade the fruit and distribute it accordingly, so it's enormously fragmented - - -

MR COSGROVE: But I think I've read somewhere, and forgive me for failing to remember where, that a relatively small number of exporters account for a very large proportion of total Australian citrus export, so, in other words, the small exporting end of the industry - I'm not trying to belittle its significance, but it accounts for - there may be many growers involved in this but they account for a very small proportion of total exports.

MR BRANIFF: Yes, but I think what needs to be understood is that whilst the 80:20 thing might prevail as far as suppliers and exporters and packers are concerned, they are supplied by literally hundreds of growers in this region.

MR COSGROVE: Yes, of course, but insofar as they are actually undertaking the export activity, the fact that there are relatively few of them handling the bulk of our exports I would have thought would have reduced the extent of the rogue exporter problem.

MR BRANIFF: The last time I saw it I think it was over 100 licensed exporters - - -

MR COSGROVE: As I say, I can't recall the precise numbers.

MR BRANIFF: Now, sure, maybe some of those better performers would be handling the bulk of the business but the fact that you've got that many competing just causes this price competition amongst - it causes competition amongst suppliers of fruit, it causes competition amongst the packers for the export markets or whichever markets they're going to, and competition amongst the exporters themselves, whatever markets they're in, because of the pressure from their

customers, and, with the exception of the USA, the traders in all of South-East Asia and northern Asia and the Middle East, and any other market you virtually want to name are past masters at beating prices down and giving you all sorts of reasons why you can't get the price that you're looking for.

MR COSGROVE: Do we export, though, an identical quality of fruit to those Asian markets as we do in the case of the United States?

MR BRANIFF: The USA has a tighter set of specifications and there's more exacting packing.

MR COSGROVE: So you'd expect a bit more for that quality of fruit?

MR BRANIFF: Yes. There are higher packing costs and so on.

MR COSGROVE: Yes.

MR FARNSWORTH: The fruit follows the price. We will all ship our best fruit, not domestically or anywhere else, but to the US, because it offers our best return.

MR BRANIFF: I guess it concerns me that the commission doesn't seem to be grasping the realities of the structure and the nature of the industry and the way it's evolved over the last, well, 100 years, I suppose. I've only been in it for about 11 but some of it is pretty hard to understand - some aspects of it - and the reality unfortunately is that growers, when they dispatch their fruit, really rely on a consignment market principle to work for them. So they really have no control beyond the farmgate, or very little control, and that's the reality as it exists at the moment, and the trading power, the marketing power, is virtually taken out of their hands once the fruit leaves the farmgate.

MR FARNSWORTH: With multiple exporters and multiple importers in each country, there is absolutely no mechanism of control over the delivery of this perishable product and volumes into the country. Even if the country can only manage to retail 50,000 cases in a week, we might have two or three hundred thousand turn up all in the same time frame, subject to picking conditions in Australia and the lack of coordination amongst the exporters, so there is just no orderly process whatever operating in that marketplace.

MR BRANIFF: I should add, there have been attempts to try to coordinate them, put some discipline into the marketing of citrus. In my experience in the industry, it hasn't succeeded simply because of lack of support by a big enough critical mass. You might get a group of people that want to do it, but because they're acting in isolation to some extent from a large proportion of the industry outside that group, it

doesn't work.

MR EDWARDS: Well, of course, that's the traditional problem that farmers in Australia and elsewhere have faced when they've tried to exercise supply control. You've said that the traditional system is the consignment system.

MR BRANIFF: In the main, yes.

MR EDWARDS: Are there exceptions to that? Is there any sale into any of our export markets on a non-consignment basis?

MR BRANIFF: Not into the export markets themselves. There are forward sale prices to some exceptional markets. I couldn't name them off the top of my head, to be honest, because they're so few and far between. But where the forward sale prices tend to be exercised is at the weighbridge. In the MIA, for example, in New South Wales a lot of fruit is purchased simply over the weighbridge at an agreed price, and then it's up to the packer and their exporter, or the packer-exporter - whatever - to trade the fruit, to market the fruit, and to get the best price they can for it. But the grower has already agreed on the price that he will receive.

MR EDWARDS: Is it your understanding that quite a lot of that fruit is subsequently exported?

MR BRANIFF: Certainly a proportion of it would be. Sure. They purchase by the bin and then they grade the fruit, so some of it would be graded for distribution to export, some to domestic fresh, and some to processing.

MR COCK: That applies in the Murray Valley in some circumstances, too. Growers supply per tonne, per bin, or on a realisation of the return from the markets that the fruit is sent to.

MR COSGROVE: Some of these matters are ones which I guess we will pursue with Horticulture Australia after lunch. But we have figures in fact from Horticulture Australia's recent submission to us and we've been looking at movements in export volumes and values in different markets ourselves, based on US data. If I just refer to the HAL figures, they're showing that in the markets where export control arrangements are presently utilised - US of A, Taiwan, South Korea and Thailand; this is a two-year comparison, 1999-2001 - the volume of exports has actually declined from about 27,000 tonnes down to 23,000.

In the other markets where these export control arrangements do not apply, the volume of exports has increased from 109,000 tonnes to 153,000 tonnes. Our own figures suggest or the figures we've derived from USDA sources indicate that in the

US market the volume of Australia's exports has fallen over the last two to three years, and the volume of imports from South Africa has increased considerably in that period.

MR BRANIFF: I wouldn't read too much into that, commissioner. The reasons for the decline in the USA are that - I guess there are a number of factors, not the least of which in the last two years we've had substantial competition from South Africa, and they were not there prior to that. They were not directly competing with us prior to that. In the last season I think they put something like 800,000 cartons - almost 1 million cartons - into that market. Whilst we're able to hold our own and compete, it does have some impact obviously on the volumes that we can move into the market, particularly at the sorts of prices we're looking for. We've been able to maintain a premium above South African fruit of between 8 to 10 dollars US per carton, and that's going back to the marketing arrangements we have compared to them.

MR COSGROVE: I thought what matters for you, as I was suggesting earlier, is the total value of your sales to the US, not just the price. You can sell 10,000 tonnes at \$40 a carton, but if you sell 100,000 tonnes at \$20 a carton, you're going to be a lot better off. That's why I was asking really about that shift in market share.

MR BRANIFF: Yes, that's fine in theory. But the reality is that I think that market will accept a certain amount of volume at the sorts of price points we're able to achieve and, once you push that envelope too hard and pump more product in than the market will steadily absorb at the sorts of prices we've been able to maintain, the inevitable occurs and price competition between customers and so on forces the price down.

MR COSGROVE: I take it from what you've said earlier that, because our fruit as a premium over South African fruit, South African fruit is selling at a lower price in the United States than ours.

MR BRANIFF: Generally, yes.

MR COSGROVE: So why would it not be possible for Australia to export less than top premium fruit at lower prices into the US if South Africa can do it?

MR BRANIFF: They have a much lower cost of production than we do. That, I guess, is the main reason. I don't believe there would be room for - the pricing would be absolutely marginal if we put a lower-grade fruit in there, a lower grade of product in there. I think the South African fruit quality probably varies. Some of it might be comparable to ours, but generally speaking I think we have a reputation for supplying a better-quality navel product.

MR FARNSWORTH: We do actually put in a lower grade of fruit, because we put over a first-class package and a second-class - - -

MR COSGROVE: I see.

MR FARNSWORTH: - - - which is the second quality. They've almost stopped exporting the lower-quality pack because it tends to operate with a return to a grower of 1 or 2 dollars per carton, which means it's almost a loss situation, so there is no tolerance in the US.

MR COSGROVE: When you say "return", do you mean a profit of 1 to 2 dollars?

MR FARNSWORTH: Yes, well - - -

MR COSGROVE: That's a profit.

MR FARNSWORTH: Well, often a loss. One of the reasons they stopped shipping - they used to send all the sizes in firsts and seconds. They found that many of the less desirable sizes for that market were selling at a loss, so they reduced the number of cartons of that type of seconds fruit in those sizes because it was selling at a loss. So the market shows no tolerance for reduced standards at all. The difference in return to me of a perfect size in the US market between the first and second-grade fruit could be anything up to \$20 a carton, and that's the difference between them. So if we increased the volume of the low-quality fruit, which is what has happened and what happened in one of those years, the price crashes.

The whole market price just drops and comes closer and closer to South Africa and, whereas they can survive at that price rate, we can't. So the market does not tolerate large amounts of inferior fruit, and there's a fair bit of evidence for that over the years with our exporting and the fact that we've had to continually change our specifications to maintain profit share and market share, because remember there was no-one else in the market four years ago. We're now sharing that market with a low-cost producer fairly significantly.

The other factor is, in one year we had a very large crop and we had a lot less fruit that met the specifications properly, so we weren't able to export the volumes that we might have liked in that year. The quality of that fruit was inferior and almost everybody lost a significant amount of money. I think that's just more evidence that an inferior grade of fruit is not a profitable option for export to the US.

MR EDWARDS: If we had significantly more of your best navel oranges, could we then significantly increase our exports to the US?

MR FARNSWORTH: All of the evidence is that that market is growing at about 12 to 14 per cent per year. Citrus as a market segment is not growing dramatically; if anything, it's fairly stable. All of the evidence points to a 12 to 14 per cent increase per year. You might push that up a little bit some years and you might be down a bit in others. I don't believe there's any evidence that we can push beyond that sort of market limitation that seems to exist. It's your ability to expand into new regions, into new supermarket chains, to hold your old supermarket chains. It depends on the US fresh fruit crops that year - the peaches, pears and apples. If there are a lot of those out there, they reduce the space for citrus. But all the indicators to date are that around about 12 per cent per year is the market growth in the US.

MR EDWARDS: But that must depend to some extent on what's happening to prices. If we can increase, say, 12 per cent per year, if the price for the top Australian navel is at, say, \$US30, then presumably we can increase more than 12 per cent a year if the price, say, falls to \$US25.

MR FARNSWORTH: But the impact to the grower is to significantly reduce his income. We find that the margin is not that wide, and any hiccups over there - - -

MR EDWARDS: But that does depend on the relationship between price and quantity sold.

MR FARNSWORTH: Indeed.

MR EDWARDS: If they go from \$US30 to \$US25, we could significantly increase the number sold. That may well be a better deal for growers.

MR FARNSWORTH: That's a moot point.

MR BRANIFF: That's an interesting theory, but I think it needs to - - -

MR COCK: It doesn't work in Australia. When the market drops in Australia, we don't get a great demand in the Melbourne market, I can tell you that. In fact, it's the adverse; even when the price drops, the demand does not increase.

MR FARNSWORTH: The US price has come down since South Africa entered. It has pulled the Australian price down, although we still get a good margin over the South Africans, but by increasing the volume into the market I would imagine the average has dropped \$US5 - retail price.

MR COSGROVE: The figures I have in front of me show broadly stable US dollar prices for American imports of Australian oranges over the period 1998 to 2001.

There's a slight fall in 2001 of about - it looks like maybe 5 per cent perhaps. Of course, the exchange rate effect means that when you convert to Australian dollars those prices received for Australian fruit are rising still through that period, which also seems to be an important consideration.

MR FARNSWORTH: Is that a retail price?

MR BRANIFF: That's wholesale price, I think.

MR COSGROVE: It's the unit price of oranges imported by the US, so it's probably not a retail price.

MR BRANIFF: It's the wholesale price, yes.

MR COSGROVE: Well, landed price, I guess.

MR FARNSWORTH: We collectively lost massive amounts of money in 2000, and I wonder why that doesn't show.

MR COSGROVE: In the US market?

MR BRANIFF: Yes.

MR COSGROVE: It looks as though you might have to ask DNE for the answer to that.

MR COCK: No, it's the landed price.

MR COSGROVE: The landed price - - -

MR COCK: The loss came off our return.

MR COSGROVE: Yes. In 2001 the landed price in US dollar terms fell from 1200 per tonne to 1150 or thereabouts - - -

MR BRANIFF: Commissioner, what doesn't show up there is the very large repacking costs which were incurred after the landing.

MR COSGROVE: Why?

MR BRANIFF: Because of fruit quality problems.

MR COSGROVE: Okay.

MR BRANIFF: The loss would have been approaching 30 per cent - total write-off of that fruit that was landed in that year. That impacted back on the grower returns.

MR COSGROVE: That's an extraneous influence, obviously. Thank you.

MR FARNSWORTH: Also in the US the retailers, which are dominated by supermarkets, retail at a set price, generally for the whole season. They will run specials at different times. What varies and what will vary the volumes is the margin that they're allowed above normal. I think they normally operate at 50 per cent or 60 per cent margin, give them another 20 per cent. The fruit price to the customer never varies, but the returns back to us vary significantly.

MR COSGROVE: That, as I say, is the DNE part of the operation between the landed price and the retail price.

MR FARNSWORTH: I'm not sure that's correct.

MR COSGROVE: Well, it's their job to sell the produce you deliver at the West Coast at the best price.

MR FARNSWORTH: That's right. Now, if your marketing problems are as in one month where we had two major ships arrive together, the market is flooded, and the South Africans did the same. So they have to move the fruit; it can't sit there. That would happen every day in a non-orderly system. That was a unique and unusual problem in the way we'd been operating in the US but I don't understand how your figures can be so even, yet the growers in this industry can tell you that collectively they lost many millions of dollars in the US market just two seasons ago.

MR BRANIFF: Repack losses mainly. Repack losses.

MR FARNSWORTH: The facts are they were losses, and they were very, very significant losses.

MR COSGROVE: Well, this is our total exports to the US. There may be regional variations in experiences perhaps. I don't know.

MR: Could I just - - -

MR COSGROVE: No, I'm sorry, we can't take comments from the floor. If you would like to come to the microphone you can make a comment.

MR: I'll talk a bit later.

MR COSGROVE: Okay, right.

MR BRANIFF: I think I could probably just make comment on that quickly myself. The reality of that year, as I said, 28 per cent was the actual figure of fruit losses, total loss, total write-off.

MR COSGROVE: After arrival in the US.

MR BRANIFF: After arrival, and a repack rate of something approaching 60 per cent as I recall, so 60 per cent of the fruit had to be repacked, so it incurred a repacking cost of about \$2 a carton.

MR COSGROVE: Then it's understandable that the total returns to growers fell considerably.

MR BRANIFF: There were very large costs after landing, yes.

MR FARNSWORTH: The repacks of course were caused because the market would not accept that quality of fruit, which is your lesser quality. If we had been able to repack a lesser quality, or ship a lesser quality, we wouldn't have had this disaster. So I think it points again to the fact that that market does not accept a lesser standard in product.

MR BRANIFF: Can I just pick up on one point too?

MR COSGROVE: Yes.

MR BRANIFF: You mentioned a monopoly distribution arrangement.

MR COSGROVE: Yes.

MR BRANIFF: That's not quite correct - - -

MR COSGROVE: I know there is the Oppenheimer aspect, yes.

MR BRANIFF: Yes, the Oppenheimer is a co-distributor. The sole arrangement applies to the importer, the import arrangement only.

MR COSGROVE: Yes, so Oppenheimer markets fruit independently of DNE? It's not a joint venture?

MR BRANIFF: No, they coordinate the distribution with DNE and they sell their -

the marketing program is detailed in that way.

MR COSGROVE: Does that mean that Oppenheimer sells in different parts of the United States than DNE?

MR BRANIFF: They tend to - yes, Oppenheimer has strengths more down the West Coast. They're based in Seattle, whereas DNE are based in Florida.

MR COSGROVE: Yes, thank you.

MR EDWARDS: So would you say that DNE and Oppenheimer together comprehensively cover the US market?

MR BRANIFF: Definitely, yes. I mean, you may well find areas where it could be improved, and we continue to raise those issues where we are aware of them, and where we find them, with DNE. I would say they have been working quite effectively at increasing and broadening the distribution ever since we have been going to the USA. I mean, the production in volumes that the commissioner mentioned a few moments ago really was to some extent deliberate, and to some extent influenced by outside factors. You know, I mentioned the competition with South Africa. But after the 2000-2001 year where we had those significant quality outturn problems there was a deliberate move to tighten up the specifications, tighten up the packing disciplines, harvesting disciplines and everything else. So there was a cap, if you like, to some extent put on the volume that was to go to the states, because we recognised that the quality had to be at the very highest level to maintain our reputation, particularly knowing that South Africa was entering the market.

MR COSGROVE: So is it possible then that in the exporting period of this calendar year, or broadly June to September, we might see a lower volume shipped for that reason, or is that too speculative at this stage?

MR BRANIFF: The other factor that comes in is the size of our crop and the amount of product that is suitable for that US specification.

MR COSGROVE: Yes, we're jumping the gun in other words.

MR BRANIFF: We are looking at a very large crop this upcoming navel season.

MR COSGROVE: A large crop?

MR BRANIFF: Very large; probably a record.

MR FARNSWORTH: But there's generally specification. The larger the crop

usually the smaller the fruit, which means less fruit that meets US specifications. But in total volume we won't know for a while until we project out the growth figures on the fruit.

MR COSGROVE: It is possible, through orchard management techniques, to control the size of the crop more consistently across views?

MR BRANIFF: There is a lot of R and D work and resources going into that in fact, with CSIRO and with the states' Department of Agriculture and so on. The short answer, I suppose, is to some extent yes, but a lot of work still has to be done into the physiology of the tree, the development of fruits and what influences the fruit set and so on. To some extent, yes, there are treatments that can - - -

MR COSGROVE: What about by thinning? Is that not a means of doing this?

MR FARNSWORTH: Thinning is very, very labour intensive and almost not viable in Australia. Chemical thinning does work, but it's a little bit iffy. But there has actually been a massive sea change in the way growers have operated in the last five years, and predominantly that has been driven by the specifications of the US market. I would think there have been more changes in growing technique in the last five years than the previous 30 or 40. It's happening very rapidly. The research is running behind what a lot of the growers are doing. We're actually stealing ideas from Spain, from the US and from the other countries. So there is a massive effort to increase fruit size and there have been very, very significant on-farm changes to achieve that, because on-farm we know that to be profitable we must grow fruit that meets our customers' specifications.

MR COSGROVE: Yes.

MR COCK: Can I just make a comment. I think you've got a paragraph in here on registration of chemicals. I think that has been stimulated by observations in Spain and other countries that have access to economical chemicals that will crop-regulate and we can't get them registered in Australia, or the process is very costly and the regulations are very tight.

MR COSGROVE: Yes.

MR COCK: I've tried chemical crop manipulation this year and previous years, and it doesn't always mean that you grow a big orange. All you do is take the dollars off your tree. You can take the fruit off, but if the weather conditions don't prevail or are conducive to growing a big orange that tree will sit there with no crop, or a light crop, and still have small oranges. It just costs you dollars to take the fruit off and you've actually lost income, because you still have to put all the business inputs into

growing that tree.

MR COSGROVE: This happens also in Spain, for example?

MR COCK: They have access to different registered chemicals that perform better. I can't identify where that paragraph is in here.

MR COSGROVE: Yes, you're right.

MR COCK: There is a benefit for our competitors there, but we can't - - -

MR COSGROVE: Yes.

MR FARNSWORTH: But the weather would impact in Spain the same as it will here. Every day over 38 degrees a piece of fruit, instead of increasing in size, actually shrinks a bit. Last year we had our hottest summer in many, many years and the fruit growth rate - we ended up with quite a small crop of much smaller than average fruit than expected. That was an environmental factor that just wasn't manageable.

MR COSGROVE: Okay. Geoff, anything you wanted to raise?

MR EDWARDS: Not on this matter I don't think.

MR COCK: I've just got a couple of comments, and I did bring them up briefly in ACG under the financial performance of the rest of the industry. You obviously had a lot of difficulty getting any information out of the rest of - - -

MR COSGROVE: Indeed.

MR COCK: Are you going to have another go at them?

MR COSGROVE: Well, we've requested it. Whether it comes to our attention remains to be seen.

MR COCK: Okay, that's the processing, the packing and the exporters. All right, good luck with that, because we really thought that we would get a lot of information that we can then start building a national strategy on. Very disappointing.

MR COSGROVE: Yes.

MR COCK: Just on innovation, are we such a basket case that we could only get a page and a quarter on innovation in our industry? My comment to that is that the

processors that you might hopefully be talking to this evening, or whenever, might open up and say what they're doing with navel offrun into fresh juice. We know there is work being done there, and we know there is work that has to be done there, because our planting stats are ramping up. You're encouraging us to plant navels. Everyone is - - -

MR COSGROVE: No, I'm not.

MR COCK: Sorry, the commission is saying to go to export, which is navels. The more we grow, the bigger the offrun problem we have. We can do all the cultural practice to reduce that, but then labour comes into that component and you get a challenge. So innovation, I would suggest you really have another look if you can on what could be done, and give us a lead. I would steer you to one place and that's the national food industry strategy that has been released - - -

MR COSGROVE: Is it a spare copy?

MR COCK: That's your copy, yes.

MR COSGROVE: Thanks very much.

MR COCK: If nothing, tell them to get off their butt and get involved with the government. Maybe you can't do that, but it really has opportunity in there if people want to - - -

MR COSGROVE: Okay, we'll have a look at it. Thank you. The other area of your most-recent note to us was the lack of market power. This is the retail chain store argument. The first point there states that growers have a lack of negotiating power with processors, which you consider we've glossed over. Can you provide us with evidence of this claimed lack of negotiating power?

MR BRANIFF: What sort of evidence? I can tell you how it works.

MR COSGROVE: I mean, what is the real extent of the problem here? I mean, are you being offered prices below your cost of production for example?

MR BRANIFF: In the main, yes. But the reality is, that you will notice that I've - - -

MR COSGROVE: That's not in the processor's interest, because if you're not making money you're going to reduce production and he's not going to have fruit to process.

MR BRANIFF: We agree.

MR COSGROVE: I mean, there seems to be a certain commonality of interest I would have thought between growers and processors. Sure, you want to get the highest price, he wants to get the lowest price, but basically he needs your fruit.

MR BRANIFF: That's fair comment, quite fair comment. You will notice that, firstly, I've singled out processors. I haven't mentioned retailers.

MR COSGROVE: Yes.

MR BRANIFF: I don't believe it would be practicable to try to collectively negotiate with retailers. There are too many of them - - -

MR COSGROVE: I beg your pardon, yes. No, let's concentrate on the processor story.

MR BRANIFF: The processing, I think, is a different sort of situation and the reality of the way that that operates at the moment, and it varies slightly from region to region - but certainly here any contracts that are put in place in the main work through the packing sheds so that the grower is one step removed from that process if you like. But even when you look at the arrangements between the packing shed and the major processors, or any significant processor around the country, what happens is that the packing shed, or the supplier, is simply presented with a fait accompli in terms of price. There is no negotiation process, there is no negotiation offered.

MR COSGROVE: Yes, but if that price is so low, as I said, as to be below the grower's cost of production, the grower and packers - well, there's no need to pack for processing I guess - if it's not making it remunerative to the grower then the processor is querying his own pitch. He's not going to get the fruit. Why would they do that?

MR BRANIFF: It has been happening, commissioner, I can assure you, ever since I've been associated with the industry, and it continues to happen. It's probably only in the last 12 months or so that some of the major processors are acknowledging that there is a problem with the number of Valencia trees that have been bulldozed over the last few years.

MR COSGROVE: Yes.

MR BRANIFF: Now, I've been going to forums with the processors for the last seven years I think they have been running, where twice a year we get together and we have a sort of an outlook forum where we give them the Cock forecasts and so

on. We have been telling them, ever since those meetings have been happening, that Valencia trees are coming out of the ground, because growers simply can't get enough return for them.

MR COSGROVE: We will be able to speak to a processor tomorrow about this. We will question them.

MR BRANIFF: I think it has got to the point now, and by one major processor's admission I think in the meeting in Melbourne, that we're probably just now in balance, given an average Valencia production here, to supply enough fruit for the fresh juice segment if you like. We do have markets for fresh Valencias domestically and in export markets, and yet those signals have not really been heeded in terms of negotiating prices. The reason I put that in my submission is because - recognising that there was a comment about it, referring it to the ACCC, and we recognise that that's the appropriate body or authority to give some dispensation under the trade practices legislation. But I think it would be helpful if there was an acknowledgment of this issue as a problem for the industry.

MR EDWARDS: Could I ask: have there been changes in contracting over time as the supply of fruit for processing has changed?

MR BRANIFF: Slightly. There are so-called long-term contracts now, but they tend to be reviewed every three years and it's not unusual for the conditions to be changed and even for the prices to be changed within the life of the contract. So I would have to say, you know, from the grower perspective, the processor is holding all the ace cards and it really is a take-it-or-leave-it situation in terms of the prices and the amount of product that they will take up at the contract price.

MR EDWARDS: So it's not clear that it would be accurate to say that the contract situation has improved, say, over the last decade?

MR BRANIFF: I don't believe it has. It might be interesting to get a comment from my colleagues who actually supply the markets.

MR COCK: No, it hasn't changed in the take it or leave it. The "leave it" part in reality is leave your crop on the tree or send your crop through a packing shed and put it in a semitrailer as off-run; then "leave it" means high cost, dumped to the tip, down to the cattle or wherever. So once it's been handled you get something that's better than nothing at the packing shed. The "leave it" part on a direct supply is leave it on the orchard and hope to God there's a short supply that you can get it in to recoup some of your costs. On the flip side of it, when there's a shortage, the value then does go up and - out of contract - you can be penalised by having a contract because out of contract can be worth more than the contracted price.

MR COSGROVE: I suppose that's a choice one makes.

MR COCK: That's supply and demand; that's the risk you take.

MR COSGROVE: Yes, exactly.

MR COCK: But, yes, the contracted value really has actually gone down; it's not CPI indexed or anything like that. You also wait up to 90 days for your payment for your fruit at the end of it, and that's not uncommon in a lot of citrus payments.

MR COSGROVE: Yes, including in the US, I guess.

MR COCK: Yes. But it's worth waiting for; that's the difference. They pay interest on that.

MR COSGROVE: One final question which came from the submission that you provided to us recently, not in the last few days, I think. You mentioned there, getting back on to the US market issue, there is a regular review by Riversun shareholders, the major exports and DNE as to the USA retail market requirements and what can sustain returns to Australian growers. I guess that was what you were describing earlier, was it, John? This planning of the marketing program - - -

MR BRANIFF: HAL this afternoon will explain the formal review process into the licensing arrangements, but certainly at the commercial level there is - I mean, there's an annual review. Really there is - as I said, the marketing program is planned with DNE and that's done with collective input from the suppliers and the packers involved. Certainly there is always a comprehensive review of the market performance after the season concludes. Obviously people like myself and others go over there and observe what's happening in the markets, speak to customers, speak to retailers, speak to wholesalers in the markets and speak to the distributors, including DNE and Oppenheimer. I think each year there's quite a comprehensive feedback to monitor the arrangements and to make any changes or adjustments that might be required.

MR COSGROVE: Okay. I don't have any further questions.

MR EDWARDS: Could I just ask one question and maybe this would have been more logical a bit earlier, but what is the nature of the contractual arrangement between Australian growers and DNE? Do individual growers have contracts with DNE or do not?

MR BRANIFF: No, they don't. No, the arrangement works mainly through the

Riversun packer members and there are quite a number of those. There are some packers and suppliers, packers and exporters working outside the Riversun supply arrangement. There's no obligation to ship through Riversun. The obligation applies at the other end, at the import end, so it's not a single-desk arrangement obviously.

MR COSGROVE: No, Riversun does about 97 per cent, I gather, though.

MR BRANIFF: Yes, and that is because Riversun proved to be very effective at coordinating the shipments, coordinating the schedule and arranging the bulk of the marketing program with DNE. The growers then supply those packers, so there's no direct arrangement with the growers.

MR EDWARDS: So there would be contractual arrangements between the packers and DNE?

MR BRANIFF: Not individually. They are not contractual arrangements, as I understand them. They're simply agreements on the amount of product that packer A, B, C will be providing to the program, so they plan that in advance with the knowledge of the crop forecast and the fruit size and all the rest of it in their particular region, so there is some coordination in the supply arrangements to that market.

MR COCK: That's backed right down to me as a grower. I supply a form saying I can supply this exporter with so much fruit for the US market.

MR COSGROVE: When you say "this exporter", this packer you mean?

MR COCK: A packer, sorry - exporter. My packer is an exporter as well.

MR COSGROVE: Yes.

MR BRANIFF: It gets a bit confusing because not all the packers are exporters in their own right. Some export through an independent exporter.

MR COSGROVE: Yes.

MR BRANIFF: But some of the packers are exporters. It gets a bit confusing. But the arrangements tend to exist between the grower and their packer, and then the packer and Riversun, and then Riversun and DNE.

MR COSGROVE: Yes. So there's a bit of a gap in other words between the grower and DNE.

MR BRANIFF: There is a gap but then growers in the main trust the arrangements and are very supportive of them.

MR COCK: As Rob indicated, I get an annual report on the performance of that market, substantial information back from my exporter, because he knows that it's going to come anyway, so he might as well put it up front. Every other market I have to get his arm up his back to find out what's going on.

MR COSGROVE: Does that information show, for example, the price - I'm not quite sure how the system works, it may work from the DNE end back, but what I'm really interested in is whether you can identify the costs that are being incurred - - -

MR COCK: Yes.

MR COSGROVE: - - - through each stage - - -

MR COCK: Absolutely.

MR COSGROVE: - - - in delivering your market into the retail sale points in the US.

MR COCK: From the pallet costs, to the packaging costs, to the freight costs, the whole lot back to the grower - it's all available.

MR COSGROVE: Marketing costs, promotional costs, all that.

MR COCK: Promotional costs, the whole lot.

MR FARNSWORTH: It's not necessarily easy to identify but it tends to be - DNE also do a full tour where they go through the average retail price for the year and they're very, very well attended meetings that convey a lot of information on last year and the problems and things, and the next year's plan.

MR COSGROVE: You've confused me a little now. Kevin was saying he gets a fully-detailed account, if you like, that shows all the costs of the stages between his delivery of the fruit to the packer, and its ultimate sale.

MR COCK: That's from one exporter and other exporters don't do that. They have an aggregated cost, \$19.50 per box to get it to this point. That's out to their shed, but - - -

MR FARNSWORTH: Some of them just see the return.

MR COSGROVE: And from the landed price in the West Coast of the United States to the retail price - do you receive information on what happens to your fruit?

MR COCK: Each year on the national program - that's everyone's fruit, what it sells for - John - - -

MR COSGROVE: So it's aggregate information; it's not per supplier.

MR BRANIFF: Certainly there's variation in the level of detail provided by the packers to their individual growers. However, the information relating to all of the stages that you mentioned can be provided either by Riversun or DNE.

MR COSGROVE: To each grower?

MR COCK: Yes, my packer can say on the second shipment, "You had so many pallets of those sizes and the return on those were this and that."

MR COSGROVE: Yes.

MR COCK: "The US price was this, and your return out of that, was that."

MR COSGROVE: They can supply it. Do you mean that you must request it or is it supplied to you voluntarily?

MR COCK: Yes, in most cases.

MR COSGROVE: Not always.

MR COCK: Most cases. Some growers don't want to know that. They want to know their bottom line. But many growers now are seeing the value in market information because of the US. They're demanding it in Japan. They're finding out that their fruit is not going to Hong Kong, it's going to China. So they're getting far more switched on to what is needed.

MR COSGROVE: Okay. Any other points?

MR BRANIFF: I've got a couple of other points. I mentioned that I'd had a number of comments varying from angry to concerned and disturbed and disappointed, from growers about reference to the various government assistance schemes. I don't want to labour that point now but I think the comment that I've been getting mainly is saying that the existing schemes are not only not citrus specific, but they are so cumbersome and unwieldy in the amount of conditions that are imposed and the amount of bureaucratic sort of process that has to be entered into that they're

really not worth anything to the growers and don't provide perhaps the assistance that might have been intended.

MR COSGROVE: That may well be an important point for our final report. If you have clear examples that provide evidence of those problems, please if you could give it to us in the next week or so.

MR BRANIFF: Okay.

MR FARNSWORTH: It's very complex to get clear evidence, but in the year where many growers lost a great deal of money, a good example was growers who have children at university. Living in the country that's a very high cost because you have accommodation cost as well as the other costs. Most of those growers effectively could not obtain any Centrelink or Austudy payment to help through that year, although everyone was well aware that they were in a very serious situation. But the system is not designed to help anybody in a horticultural style of industry.

MR COSGROVE: Is this because of the asset test?

MR FARNSWORTH: It's a mix. It's the complexity of the asset test, and it's the complexity of proving that your income is substantially less when you're still within that season. It is the penalty of making a human error. I had a daughter at university. I assessed it and looked at it and decided I would need my accountant for three or four days and my solicitor, to even make an attempt to gain any sort of support through the season. So the system - you know, maybe a year later you could have submitted something and got some assistance, but that's too late.

MR COSGROVE: Yes.

MR FARNSWORTH: So if the other systems operate in the same way, then they're virtually useless until you are terminal; entirely terminal. That's the complaint I've had from several people. Yes, we knew we were going to lose \$20,000 or \$30,000 in that season and we'd have a taxable income of maybe 5000 or negative, which meant you don't have any money to live on, but they still could not - under these systems - obtain any support whatever. The complexity of attempting that and then the risks of being successful and then virtually prosecuted later because you - I mean, we see wage-earners in serious trouble now because they can't forecast their income accurately. But in any horticultural enterprise it's a thousand times - or any primary industry it's a thousand times harder, or business. That failed growers very seriously I think. I mean, we often see the criticism that country kids are not going on to university in the same way - well, the \$10,000 a year cost that you incur if you're in the country purely on the accommodation basis is one of the reasons.

MR COSGROVE: There is a subsidy of some form, isn't there, provided by the federal government?

MR FARNSWORTH: I don't believe there's anything unless you meet all the Austudy standards and that is now an incredibly complex exercise. I mean, we understand what the real means test is for and sadly, it was probably necessary, but it is incredibly cumbersome. Who else is asked how many videos you watch a week - and expected to provide that information? That is what is in these tests. You know, it is not a simple process to answer. Who else is asked to provide detailed bank accounts for all their children whether they live at home or elsewhere? You know, who else is asked to provide their corporate and company books and all the information? It's just excessive and it does fail many honest growers.

MR COSGROVE: Yes. Did you have another point?

MR BRANIFF: I have a couple of other points which I think we can get through fairly quickly.

MR COSGROVE: That's fine.

MR BRANIFF: I had some concerns about the farmgate prices that were charted on table 2.3 on page 9. I'll give you a handout, if I may. There are three copies there. What I've done is tracked the - we've been tracking the retail prices, as you know, for some years - back to 87. We've in fact tracked the wholesale prices in the - this is from the Melbourne markets, so it's not all markets; it doesn't take into account Sydney and other major markets, but the price variation I'd say wouldn't be very much between the two markets during that period. The retail prices are tracked on a quarterly basis, spanning those years, and we've done the same comparison with the wholesale prices.

MR COSGROVE: Is the retail price based on the consumer price index component, or is it separately derived?

MR BRANIFF: These are the figures provided by ACG, which I understand are tracked - I'm not sure what the source is there.

MR COSGROVE: I think it was the consumer price index, yes.

MR BRANIFF: Right, okay.

MR COSGROVE: Yes.

MR BRANIFF: What this demonstrates is - I guess I want to make two points

here. You can see obviously there's a rising gap between the wholesale price and the retail prices during that period of time, if you look at the trend line on the retail prices compared to the wholesales, but the other point I'd want to make is that the farmgate prices were quoted at up to - I just don't have the figure in front of me, but over \$600 anyway per tonne.

MR COSGROVE: That's correct, for navels, yes.

MR BRANIFF: Yes. And what needs to be taken into account here against these wholesale prices is the farmgate price could be roughly calculated by deducting - and it varies - between minimum 500 and, more typically, \$600 per tonne off the wholesale prices and that covers packing costs, freight costs and agent's commission. So they're the three significant costs involved below that wholesale level. So it comes back to a figure that is somewhat below the high point that was quoted in that chart. So I'd question the accuracy of that.

MR COSGROVE: Okay. This is another area that we would be looking at again. The wholesale price, could you remind me again, please, how that is obtained.

MR BRANIFF: This is the wholesale sale price from the wholesale merchants in the Melbourne markets to their customers.

MR COSGROVE: Right, okay.

MR BRANIFF: Now, they deduct an agent's commission, which is typically 15 to 20 per cent, and then there's a freight cost and a packing cost, which would probably be, in round figures, \$7 to \$7.50.

MR COSGROVE: And what proportion of fruit from the Sunraysia market would be sold in the Melbourne wholesale market?

MR BRANIFF: About 65 per cent or 70 per cent possibly.

MR COSGROVE: That's a percentage of total production, including fruit going to processors, or is this just fresh fruit?

MR BRANIFF: Fresh, yes.

MR COSGROVE: Okay.

MR BRANIFF: And that's a sort of across-the-board figure, as a guesstimate. The other point that needs to also be taken into account is that those wholesale prices, if you work them back to the farmgate prices, don't take into account the percentage of

pack-out that is actually going to the fresh markets. So these are market wholesale prices and retail prices, so they don't take into account the lower values that are achieved from processing.

MR COSGROVE: I understand that, yes.

MR BRANIFF: And that can be quite a significant percentage of the crop at any given time. If you took that into account, that green line would certainly significantly come down from where it is now.

MR COSGROVE: Okay. Thanks for that.

MR BRANIFF: Another couple of points, once again, quickly. Off-farm income was mentioned in the position paper and I would have thought that, within the terms of reference and given that it's an inquiry into the citrus growing and processing industry, off-farm income was somewhat irrelevant.

MR COSGROVE: Well, one could take that view. We have been asked, in our terms of reference, to consider the possible need for further assistance to the industry and it was in that context that we felt we needed to have a look at the overall income position of people who might be receiving government assistance. That's the essential reason, as I was explaining to the people from Australian Citrus Growers this morning when we were talking about assistance.

MR BRANIFF: Okay. The final one I have is just relating to labelling and labelling laws. I appreciate there are organisations like ANZFA and so on that are involved with these issues, but once again we've got an area that has been of great concern to the industry for many years because of the sort of misleading information which we believe compromises consumers' purchase choices in many cases. Whilst there have been some changes recently to tighten things up in terms of country of origin statements and content issues, to us the labelling requirements are still far from clear in terms of reconstituted products as opposed to fresh-style products and also the country of origin. I mean, they're still getting away with misleading statements on labels.

MR COSGROVE: Do you think this is because the regulations themselves are inadequate or because they are not being adequately enforced, or both?

MR BRANIFF: It's probably an element of both, but one of the issues, I guess, is that the country of origin statement only has to appear in 1.5-millimetre font and you've really got to read the fine print to learn whether it - - -

MR COSGROVE: Well, I do.

MR BRANIFF: - - - contains imported concentrate or not.

MR COSGROVE: Yes.

MR BRANIFF: So we'd like to see, once again, perhaps some acknowledgment that that is an issue for the industry and perhaps give us a bit more clout with the authorities that look after these matters. That was really all I had, commissioner.

MR COSGROVE: Right. Well, thank you, all three of you, for coming along and helping us with this useful information exchange. We'll of course take all the material into our next stage of work on this inquiry. Thanks very much.

MR FARNSWORTH: Just one thing. If you believe there are better ways to do things - like, you mentioned forcing exporters to operate on a percentage basis, which we think would be a great idea - maybe you would like to propose how that might be achieved.

MR COSGROVE: Well, we'll see.

MR FARNSWORTH: I mean, and other things that - - -

MR COSGROVE: No, I mean, I don't believe in compulsion, but I think it should be possible for people to formulate arrangements of that kind. Now, not everybody may wish to and that may be the essence of the problem, but I was simply wondering why it was that there was this perceived or apparent inconsistency between the interests of an export agent and the grower whose fruit he was selling. That would seem to me to be more likely to be a coincidence. I guess that was my main point.

MR FARNSWORTH: I see.

MR COSGROVE: Anyway, thank you.

MR COSGROVE: We'll continue with our next participant, which is the Mid-Murray Citrus Growers Inc. Would you please identify yourself for our transcript.

MR EAGLE: Yes, I'm Neil Eagle, chairman of Mid-Murray Citrus Growers.

MR COSGROVE: Thank you very much.

MR EAGLE: Probably to expedite matters, particularly seeing we are running a little bit behind - - -

MR COSGROVE: Well, we don't wish to shorten the time that you would like to take with us, so feel free to - - -

MR EAGLE: Well, you have an original submission to your position paper.

MR COSGROVE: Yes, I have that.

MR EAGLE: And now I've provided a submission to the draft.

MR COSGROVE: Right.

MR EAGLE: I propose that I perhaps read the response to your draft and then I'd be quite happy to answer any questions you've got on both papers.

MR COSGROVE: Thank you, Neil, that would be fine.

MR EAGLE: Okay. I'll just read this part. It's only short, so perhaps if I do that first and then you ask the questions.

MR COSGROVE: Yes.

MR EAGLE: The Productivity Commission has documented much statistical data relative to the citrus industry on plantings, production trends, markets - domestic, export and processing - grower returns and costs. This data has been primarily gathered from submissions by ACG, regional statutory authorities and grower organisations. The commission has totally rejected any form of assistance being afforded the industry, despite acknowledging that it is the second largest horticultural industry and exporter after wine grapes.

Considerable government incentives and assistance have been given to the wine grape industry, particularly taxation incentives for plantings, which citrus does not attract. I'll also mention there are other industries that have been given assistance

recently: sugar, pork and dairy. The report does not focus on the real problem of the increasing quantity of FCOJ and the decrease in its nominal average value and its impact on the financial ability of Valencia growers to move on.

The commission has also totally ignored and/or rejected addressing glaring deficiencies in government policies that are adversely affecting the citrus industry, such as the following: inadequate labelling laws that enable the processing and retail sector to keep the consuming public in a permanent state of confusion as to the content and country of origin of products, thus denying the consumer the ability to make an informed choice at purchase; labour that is essential to the future of the industry. No recommendations were put to address the availability or unavailability of potential workers; that is, no measure to prevent Australian workers opting out of the workforce and being supported by other Australian taxpayers. It is not, as suggested in the draft report, the industry's inability to compete for labour, but in many cases the lack of will of younger Australians to perform labouring tasks in the outdoors. If the government does not tackle this report, then at least it should be made more simple to employ overseas workers or visitors who appear to be willing to perform manual outdoor work.

It is incomprehensible and unacceptable that the commission has focused on the export control powers administered by Horticulture Australia Ltd as to whether the export powers deliver net public and industry benefit. Cynicism would make one question whether the commission has floated this red herring to divert attention and angst from the fact that there is nothing of benefit to growers recommended in the report. To question the benefit of the utilisation of the export control powers in the USA market beggars belief. They have been rigorously reviewed at AAT hearings in 1999 and more recently with the formation of Horticulture Australia Ltd in an RIS process. These two processes clearly documented net public and industry benefit.

To float the arguments of city based exporters that there is a market for second-grade or small-sized fruit at substantially lower prices in large volumes demonstrates a total lack of knowledge of the US market. The large lower-priced market portion is serviced by American Valencias. For Australia to compete in that market segment, prices would be below the cost of fruit landed. There would undoubtedly be undermining of the price currently achieved for the large first-quality fruit. There is regular review by Riversun shareholders, the major exporters, and DNE World Fruit Sales as to the US retail market requirements and what can sustain returns to Australian growers well in excess of landed costs. Riversun represents over 90 per cent of the shipments. This review process is right, proper and happens.

The success of the marketing into the USA has been a catalyst in focusing the growing industry towards export excellence and reliability, not only to the US market but also has had a major influence in Asian markets in raising the expectations of

achievable prices. This is the reason for the massive shift in the industry in only a few years of the 1990s. Exports have increased from 5 per cent of production to over 20 per cent of production. Citrus is second only to wine grapes in export value and volume.

The commission alleges that the benefits accruing from the use of export control powers may well be achieved by voluntary cooperation. These comments demonstrate a failure to realise the immediate impact of even small supplies of fruit outside the system, triggering major retailers to demand an immediate falling price spiral. That very same situation occurs in all our other export markets, as exporters vie with each other for market share on price. This is only to the growers' and Australia's detriment. The commission must realise that packer and exporter profitability relies on volume throughput or sales at a margin of profit, where frequently they disregard the profit level of their grower suppliers.

The commission also indicates that the benefits achieved through the export control process in appointing a single marketer can be eroded by the entry of another supplier country into the market. That is true and has been addressed by South Africa planning their forwardings with Australia, mostly through DNE World Fruit Sales, as the South Africans have realised the benefit to their growers by such a level of international cooperation. However, South Africa only has interest in this level of cooperation and coordination because Australia, through the export control powers process, has control of planning and forwarding of supplies.

Unfortunately the commission can take or make judgments that can dramatically affect the future of industries and individuals, but themselves carry no risk when recommendations that are flawed, if implemented, trigger detrimental financial consequences to that industry.

We are a small player on an international field. However, we are a major contributor to Australia's economic wellbeing. This is only achieved by successful, profitable exporting of high-value products in the face of international trade barriers such as quotas, tariffs and wastage rules. We live with many trade impediments from other countries. However, we will not stand for the destruction of a successful mechanism in our own country. There is absolutely no acceptance that the export control powers should be even considered to be eliminated. The growing industry absolutely rejects the notion and/or recommendation that the export control powers should be eliminated. It is the income and future of the Australian growers at stake.

MR COSGROVE: Thank you. I think we have some questions and maybe some observations. You're right in a sense to say that we've rejected any form of assistance for the industry, but more precisely we've rejected any form of additional assistance being provided specifically to the industry. The industry does already

have access, in other words, to some forms of assistance which may be problematic, as we've recently heard.

The labelling issue, Neil - obviously I live in a reasonably sized city, Canberra, and I'm a pretty keen consumer of citrus products and fruit generally and fruit juice, and I would say two things really about this issue. First, I can satisfy myself with the existing labelling as to what I am buying. I know if it is 100 per cent fresh juice made from Australian oranges, obviously. I can find out if it is concentrate, which I have to reconstitute with water. I can find out if it is a fruit juice which has as some of its constituents fresh fruit, some imported concentrate, some Australian concentrate. I might not always be told the proportions of Australian and imported concentrate but from my perspective that's not a terribly big issue.

The other thing that I was wanting to say is that from my cursory observation week in, week out, of the prices of freshly squeezed juice compared with that which is made from concentrate, there is a significantly higher price paid by the consumer in the retail supermarkets for the freshly squeezed product, which suggests to me that consumers know that they are getting a product which they value more highly; ie, they're prepared to pay a higher price for it. So I'm wondering really, in other words, how severe this labelling issue is. Of course I'm only one person. There may be many who have greater difficulty than I do in identifying the elements of a particular fruit juice, an orange juice in this case, but if one is prepared to look, you can find out what you're buying.

MR EAGLE: I don't argue with you. I was interested to hear you make that comment earlier, and I've no doubt that you're an astute buyer and that you would have a close look. The important information on the label is the stuff that you can't really read without a magnifying glass, when you get to my age.

MR COSGROVE: I wear glasses. I can see.

MR EAGLE: But there are problems there. I would suggest to you that the average consumer doesn't - they take what they see in the main print on the label as the facts and they don't investigate the smaller print, which is really where all the information is, readily. Now, I'm not saying that the information is not totally there. I'm saying it's confusing and the confusion also between the terminology of "Made in Australia" and "Product of Australia" - "Made in Australia" can be made in Australia from overseas product. The normal consumer would believe when they see "Made in Australia" that it's Australian. Now, I'm just saying the average consumer would think that, whereas "Product of Australia" is the only thing that really is supposed to designate it.

The print size is a factor. It's the level of confusion to the consumers, and

I think that there are a number of consumers who would lean towards the fresh juice product, because as a grower I often have people ask me, "Why can't we buy a decent fresh juice product?" and basically what they're buying is 100 per cent orange juice, but it's reconstituted and it has that burnt taste, so they haven't actually been able to - and I'm not saying that they couldn't if they looked closer - have determined which is which, and they buy and then finally are disappointed and, as a citrus grower, I'm disappointed that consumers can't readily determine which is which they're buying.

I agree with you you can do it, and a lot of people do, but we're interested in the volume of the market and growing that segment of the market because that's the only segment of the market there's any profit in for citrus growers - the fresh juice segment. Fresh fruit, export, domestic and fresh juice are the only potential profitable sectors for the market.

MR COSGROVE: Yes. I'm still wondering why, if the consumers are confused and they don't know what they're buying, they're still prepared to pay quite a bit more, as I said, for fresh juice - - -

MR EAGLE: The people who do - - -

MR COSGROVE: Well, this is everybody, you know.

MR EAGLE: No, I'm not arguing with you. They are. What I'm saying is that there are people that believe that they're picking up a fresh juice product and actually are picking up a reconstituted 100 per cent product, and do not know the difference, and that's the problem. The people that, like you, are aware, are prepared to pay extra for the product, but a lot of people buy on price. They think that they're buying a fresh juice product, and they're not, and then they're disappointed with the product, and this is the point I'm making, and that's where I'm saying that the labelling laws are confusing - not to all consumers, but to a number of consumers who are our potential clients.

MR EDWARDS: To the extent that this is an issue, that clearly applies across a range of fruit products.

MR EAGLE: Yes, for sure.

MR EDWARDS: So it's not confined to citrus.

MR EAGLE: It's not solely for citrus.

MR EDWARDS: Might we not expect that, if consumers were concerned about this in a substantial way, organisations like Australian Consumers Association would

be taking this up, on behalf of consumers concerned, across a range of products?

MR EAGLE: I'm just alerting you to the fact that there are a number of consumers that ask me as a citrus grower why we can't buy a decent product. Now, there are decent products out in the marketplace but of them that are buying product that tastes less than perfect, and that's what I'm saying. But there are people who are complaining about what they're buying. In effect, they're buying a product that they didn't think they were buying. That's all I'm stating.

MR COSGROVE: Yes. There may also be a greater role here for the industry itself. I may be wrong in this observation but my impression is that fresh fruit drinks have probably been losing market share to things like fizzy drinks and even now probably still water, which has become very fashionable for some reason. There's a marketing job to be done there, I would have thought, if market share is being lost. I see lots of advertisements on television and on street signs for various drinks. I don't tend to see a hell of a lot of those in relation to citrus drinks.

MR EAGLE: I can't give you figures on market share - - -

MR COSGROVE: No, this is a casual observation.

MR EAGLE: - - - but I can make a comment in relation to the growth. There is an actual annual growth - and Berrivale will tell you about that - in the fresh juice trade. So that is actually annually growing.

MR COSGROVE: I would agree with you, yes.

MR EAGLE: So in relation to total market share, I wouldn't like to comment on that factor, but certainly there is a growth in that segment of the industry.

MR COSGROVE: Anything more on that? You mentioned that we had made no recommendations concerning the availability or unavailability of potential workers. We do have a rather general recommendation in 7.1 which we're seeing as - - -

MR EAGLE: Could I elaborate a little bit on that?

MR COSGROVE: Certainly.

MR EAGLE: I've been in the industry actually - it surprised me this morning - longer than Dudley. But in my time I've seen the gradual - it's becoming increasingly difficult to source labour. When I was young, there were young people out in the workforce. It's almost like Dad's Army now. The only person that we've got that's under 40 that's in our labour force is our son-in-law, one about 46; all the rest are

over 50. That is general. It's very difficult. Our labour costs have increased since the 70s tenfold. Our industry is still capable of paying the going rate for labour and, like you've indicated there, we can't compete.

Our difficulty is actually to get them outdoors into the sun, and we are competing and we've had the minister acknowledge that - one of the government's ministers - that in actual fact we're competing with the dole for our labour force. There are people, there are a lot of good young workers, and I'm not knocking, but I am very disappointed that no government has been prepared to ever tackle the issue of people that actually just opt out of the workforce. Now, I know of people who have actually been employed in the workforce who have suddenly just worked out that they can make \$10 more on the dole with a family of three than they can actually working.

Now, the amount of remuneration they're being paid is still at the going rate, which is our labour rate, so I am identifying a problem, and in our last year - we're in a smaller growing area so we haven't got the moving population as much in our area - we probably lost \$40,000 last year in fruit that we just couldn't get harvested at the right time because of the unavailability of labour. Now, I've seen, in over 50 years, a gradual progression - it is a major issue for this industry in the future. The availability of suitable labour is going to be a major issue if we're going to expand this industry, and I believe it's got tremendous potential in the export field.

We actually in the Southern Hemisphere only grow 9 per cent of the fruit that goes to fresh fruit marketing in the Southern Hemisphere. There's a large amount in Brazil that goes to concentrate. We have great opportunities as Southern Hemisphere producers to supply fresh fruit to the Northern Hemisphere markets, and without the availability of suitable labour to perform the tasks, that is not going to happen, so it's a major issue and I understand it's a touchy issue, but it's something that we shouldn't sweep under the carpet.

MR COSGROVE: No, you make a good point, Neil. Do you think the introduction of Work for the Dole has had any impact?

MR EAGLE: I've seen no impact of that. I couldn't say that I've seen any impact delivered from that. I'm certainly not knocking our workforce, because there are very good workers out there, and the thing that really gets up their nose is the fact that there are other people who are making basically as much as them who are sitting in the pub playing pool and have opted out of the workforce. Now, that really gets up the nose not only of us, but of the genuine workers, and it really annoys them.

MR COSGROVE: No, I can understand why you are. Another aspect of your submission to us that I'd like to ask you about was again this issue of us floating

arguments of city based exporters that there's a market for second-grade or small-size fruit in the US. What would you say about the South African move into that market? We understand that they're selling less than at least Australian premium quality fruit, and I guess they're doing it successfully. They've certainly increased the volume of their sales, and we've lost our share of the market.

MR EAGLE: Well, let's say if there hadn't been a planned program with South Africa into that market, we may have lost the total market. They have a fruit quality - and mainly because of colour because they're actually geographically north of us - about the equivalent to Narromine, so they can't get the deep colour that the Australian fruit can get. They have probably a higher level of wind blemish - so blemished fruit - so there is a factor there that they will always probably operate 2, 3, 4 dollars below Australia, but they have significant lower costs.

They really got burnt two years ago in that market - the year that Australia did - when I was over there as president of ACG then representing - and with Riversun to talk to them, and they saw the value of planned forwardings into the market. What they've done - and they have done it again this last year - they have had lumps of fruit arrive; because they have - not like ours - multiple exporters that aren't coordinated in a single shipping program, and so one exporter doesn't know what the other is moving at any time and, in the slow-moving August marketing period, they had I think about half of their fruit arrive.

Now, that wouldn't happen under the Australian program, which is programmed to have the boats arrive in such a way that the inventory is just about depleted when the next boat arrives, and when you identified that the last year they were talking about repack - if it goes wrong and fruit starts to go off and needs repack, that is major losses - - -

MR COSGROVE: Yes, we understand that.

MR EAGLE: And that is the cause of that problem. The selling price might have been the same. It's the level of repack. This last year has been a marvellous year. The planning and the sales coincided with arrivals of fruit. South Africa didn't get it right this year, but they are planning - been over there again. They want to try to, and they're looking at how they can, emulate a Riversun-type operation to try to get more planned forwardings, but they are working with Australia. They've seen the benefit of working with Australia to try to have a planned forwarding and marketing program with agreed volumes from each country.

MR COSGROVE: An agreed volume from each country? Does that come at some cost to us?

MR EAGLE: They have agreed that - and Australia didn't supply this year the volumes they anticipated supplying because of availability. It has always got to be dependent on the availability of fruit and the size. Riversun will tell you much more about that if they do a presentation. There is a preparedness of the two countries to try to work together in planning forwardings in this market window of opportunity and, quite frankly, unless that happens, I would see that there would be no future market for Australia in that market.

MR COSGROVE: That gets back, I guess, to the base of my question. Why is it that Australia needs to reach this agreed market sharing with South Africa?

MR EAGLE: When I say that, it's not a locked-in thing. That will be negotiated as to what can be marketed at a level that is going to achieve prices. DNE has a weekly teleconference with the Australian exporters in working out how the market is flowing, how it's moving, and determining whether there should be any changes in price that they're going to be negotiating with the retail chains, so this is a continually fluid situation.

MR COSGROVE: As you say, perhaps we should pursue it with Riversun.

MR EAGLE: I think you'll get absolute accurate facts from the operator in the market, and it is much more sensible to talk to the people who are actually doing the business.

MR COSGROVE: Further down on the second page of your paper to us you talked about the success of marketing into the USA having had a major influence in Asian markets in raising expectations of achievable prices. I may be misunderstanding what is actually going on here, but I recall previous participants casting some doubt on the prices received in Asia.

MR EAGLE: We still have consistently our exporters into Asia accusing each other - and you're right in identifying that we only have a handful of major players that export 80 per cent of the fruit, but they still compete on price in that marketplace and each one will accuse the other of dropping the price. The thing that I tried to point out in the top paragraph at page 3 is that the packers' and exporters' profitability relies on a volume of throughput at a sales margin and that's the issue, that it's not necessarily in the interests of the grower. They want to make sales. They will work on a margin, and packers do the same.

I'm chairman of a packing company - that you might have picked up - and I know how it works. It's a grower-owned company, so it works for the benefit of our growers, and it has been operating for 50 years, but in general - certainly private packers - their main interest is volume of throughput through their equipment, and

that determines the profitability at a margin. The same with exporters. It doesn't necessarily mean that they are that concerned about what return in a difficult market they are going to deliver back to the growing industry.

Providing they make sales, that's their prime interest, and they will pass the disappointing result back to their growers. We do have into Asian markets fixed forward sales, but the fixed forward sales last as long as the price lasts. That fixed forward sale price can change in transit while the boat is on the water with a request from the importer saying, "Look, we can't maintain those prices that we agreed to. Can you help us?" and the exporter, if he wants to have future business, will help them, and so that fixed forward price will actually decrease even while the boat is on the water.

MR COSGROVE: Yes. If you are an exporter and you have no power to influence the price then that is the result you get.

MR EAGLE: That's exactly how it's like that - because they want a continuing business.

MR COSGROVE: Yes. I'm still a little puzzled about this argument that the exporters won't be working in the interests of the grower. I can understand that that would be the case if the exporter is paid what I would call a specific fee on, let's say, a per pallet or a per carton basis, so if I am a grower and I do a deal with an independent exporter and I say, "I am going to pay you 50 cents for every carton you sell" - on that basis of remuneration for the exporter he has no interest in what the price is.

MR EAGLE: I understand.

MR COSGROVE: His interest is in shipping as much of the stuff as he can.

MR EAGLE: Yes.

MR COSGROVE: If, on the other hand, he is remunerated on the basis of the total value of the product which he markets, his interests have to be the same as those of the growers.

MR EAGLE: Yes, well - - -

MR COSGROVE: Is it the case that there is a carton practice of fee-setting which is very common and, if so, you would wonder why, as a grower, you would allow it to take place.

MR EAGLE: Yes. It's easy to say - and I don't disagree with you. Our grower body has been grappling with this case all my lifetime. This is the first time in my lifetime - in the last 10 years with the advent of the America market and DNE - that we have started to see exporters starting to perhaps discuss these issues more with their growing and packing industry, and I am hoping to see a higher level of market planning take place into somewhere with other markets. It's the first time I have seen anything sensible happen in our industry in 50 years.

I don't argue with you about all the desirable things, but they will not be achieved easily, because you have got such a multiple number of grower suppliers, and in a high supply year, crop year, when people are trying to place their fruit, then that is where the difficulty arises. Also in a high crop year - just the same in the processing sector - where there is a little bit more fruit than is needed for the fresh juice trade, then the world concentrate price - because growers will offer the fruit into the marketplace at just above the cost of that concentrate price to actually make a sale, it actually drags the whole price structure down, and not only domestically. Because our traders in the Asian markets know that situation immediately, they will then start beating the price down, too, and so that sort of potential - if it is a high crop year and there is a chance that fruit is not going to find a home easily - will actually drag the whole market price down. That's just a fact of life. It is how it operates. The only way we can change that is with better planning of our marketing. This is the first time that I have seen in my lifetime where we are making some gains.

MR EDWARDS: But you would accept that a judgment has to be made between selling a smaller amount of fruit at a higher price into the US and selling a larger amount of fruit there at a somewhat lower or perhaps - - -

MR EAGLE: I was interested to hear your comment because you questioned that, and I didn't think it was adequately answered before. That discussion is continually taking place. When I said in here that it is right and proper that the exporters and DNE regularly discuss the volumes, a few years ago, probably three years ago, the exporters got wind in their sails - and I think we'd exported 1.8 or nearly 2 million cartons the year before - and they suddenly decided, "This coming year we're going to do 2.5." That was discussed and DNE just said, "You can do 2.5, but I do not advise that you do that if you want to maintain any sort of reasonable price. You'll end up collapsing the price completely," and they were finally convinced, so you are right. There is a relationship there.

There is a certain market that will pay the high price and there is probably a little bit more of a market that will pay a bit less a price, but it's not that tightly tied and it is necessary that the marketer - the people who are shipping there - take some notice of the people that are in the marketplace as the marketer evaluating what price you can actually sustain and for what value of fruit that you send there. That's a

judgment thing and the exporters - who are very hard-nosed businessmen that are involved in Riversun, I can tell you - took a lot of convincing that they would cut back and they voluntarily agreed within that program to cut back to maintain a level that was acceptable.

The other thing you questioned in the shipping program - and Riversun will explain it much more clearly - Kevin said that you offer an amount of fruit to go to the market, to the packer, and the packer then offers it to Riversun as part of the shipment, once that is offered and the boat has been chartered, and if people don't supply, they will pay the penalty for the non-filling of that quota. Once there is a commitment to a ship being booked it is a commitment. If people don't supply it they will pay a penalty for the shipping space. Also they will pay a penalty for the next year's quota. They can offer whatever they like but, if they fall short the year before, they will be cut back in relation to the final agreed amount that will be sent there.

So there are some disciplines that are operating very successfully in the interests of the market and of the growers back in Australia in that market. That's the thing, I guess. I was talking to Mark Hancock earlier and he said - it's an old statement - "If it's not broke don't fix it." I can understand from a philosophical point of view maybe you're questioning this, and it is right and proper that there are reviews - annual, three-yearly, 10-yearly.

MR COSGROVE: Yes.

MR EAGLE: How it was formed and the transposing of the powers from AHC over - the two bodies, the research development body, were joined together. There was a very rigorous appraisal of that and the growing industry. We accept that. That was negotiated through all the 28 industries, that those powers would be subject to those sorts of reviews, and we accept that and I don't see that that is improper. I have a bit of a problem with perhaps the frequency of it - navel gazing costs money. With the principles involved in a review I haven't a problem, but these things should be analysed - that they are providing the benefits that people believe they are.

MR EDWARDS: Do you see problems in ensuring that everyone shares fairly in the lucrative US market?

MR EAGLE: There isn't a restriction on people forwarding fruit, other than a voluntary cutback relative to price, so the market is telling you, "You can send more but, if you do, this will be the result." As the markets have been expanded and explored and the knowledge of the Australian fruit has been well received in America and is sought after, that market has grown, as you have seen by the figures. The years that it hasn't is this last year, because of - two years ago because of size of

fruit - a very big crop in size - and then unfortunately there was rind breakdown. Fruit that looked good, when it was actually packed it didn't out-turn, and there is still a scientific investigation by our scientists - and I will be involved in that this afternoon - trying to figure out what in the hell went wrong that year.

Rob Farnsworth said that that year had three months of very much above average temperature in the summer period, and we're not sure whether that was a factor that made the fruit mature more quickly that year, but it was a disaster because the fruit looked good when it was shipped, but it didn't arrive good, and there was a slowdown in the marketing because of soft fruit supplies in America, and so it compounded and there was a lot of repack. There are a whole heap of factors that impact and, in a distance market like that, it's very necessary that it is planned and programmed, or there can be absolute massive disasters and losses accruing. The South Africans this year experienced a lot of that because they ended up lumping a lot of their inventory together in a period when there was a slow market period, which is known - August is known as a slow market period - and yet they ended up lumping about half their supplies at that time, so they have learnt the hard way this year. They won't do that again, that's for sure.

MR EDWARDS: Will you see that all new growers who appear on the scene would get to share equally with other growers in the US market?

MR EAGLE: What I am saying is that there is no - when DNE is appointed as the marketer, within the Riversun organisation - it's over 90 per cent of the supplies - they apply these rigorous penalties if people play the in-and-out game, but there are people outside the system that can request DNE to take their export fruit there, and that does happen - there are people operating outside the system - so there's no restriction. The restrictions are within the group that are determined that it is in their interest to do this.

MR COSGROVE: Is it possible for trading to occur between a grower who has received an allocation from Riversun to the US market in a particular year, but whose crop for some reason falls short and so someone else can supply fruit to him to make it happen?

MR EAGLE: That will happen. Individuals will make those arrangements and packing houses, the exporters themselves, will actually make those arrangements. If they find that they're falling short they might get somebody else to cover.

MR COSGROVE: How, in that instance, is the premium quality assurance, delivered?

MR EAGLE: Riversun's - - -

MR COSGROVE: They've accredited, let's say you, with the eligibility for the US market and you've got a smaller-than-normal crop so you get some oranges from someone next door to your property - is that - - -

MR EAGLE: It's not that they would be getting them from another - the grower would have to be in the program and have actually done the - - -

MR COSGROVE: I see, it would have to be another accredited grower.

MR EAGLE: Yes, it's got to be an accredited grower to that.

MR COSGROVE: How is that policed?

MR EAGLE: The packing house is subject to the penalties if it goes wrong, so they are not keen to have a grower supply them that hasn't done the right things, like perhaps applied a GA spray.

MR COSGROVE: Self-enforcing.

MR EAGLE: It's self-enforcing.

MR COSGROVE: Is that it?

MR EAGLE: I would very much like to see you have - I've got no problems with the reference to regular reviews of the licensing powers, but to have in a report that you question the benefit of them, after the reviews, I have a great problem with because I believe that it then triggers off the government to then question. We've been through that process. It's been a very rigorous process.

MR COSGROVE: But you will be going through it again.

MR EAGLE: Yes, I've got no problem with doing that.

MR COSGROVE: Whatever we say.

MR EAGLE: But to have it triggered off - without any argument, there is an element - and I heard one on the wireless yesterday - in full flight about opposing the export control powers. We'll have a small element of exporters, one that you're quoting here, that represents a very small proportion of our Australian exports, who philosophically are opposed to it and they will never change. So I've got no problem - we'll always have some people opposed to it, but as a grower and as an Australian, I believe we should be looking at what is in the interests of Australia and the growing

industry.

Quite frankly, in my lifetime, this has been the most successful thing that has ever happened in the industry and it has been the catalyst for a very significant change in export thinking into our other markets. We've tended to, previously, be of a culture of being opportunistic as growers and packers, and if there was a light crop year you wouldn't export, you would supply the domestic market. We must look at - we've always got to be reliable. If you're going to maintain and hold export markets you've got to be reliable and not only to the US, but into our Asian markets - and that is happening now. We've got people who are conscious that you can't turn the supplies off. You might moderate the supplies to the domestic and export, but you don't supply one and not the other. That's a culture change and it's a very significant culture change.

MR COSGROVE: Would you agree that one of the instigators of that cultural change was the reduction in assistance to the industry? In other words, the domestic market became vulnerable, more vulnerable than it was previously to imported concentrate at least, and so we've got a lot further markets - - -

MR EAGLE: I couldn't say that, because I go back far enough - way back to the 50s when we had growers that were opting in and out. We supplied New Zealand. A quarter of our fruit was marketed to New Zealand in those times. We had packers and exporters who wanted to opt in and out of that market, depending upon the crop size and what the domestic market would be like. What I'm saying is that culture has changed. We now have growers and packers who are focused on our supplying the export markets and it's a very big culture change. It's been a significant mental culture change.

MR COSGROVE: Yes. I think we're not in disagreement with you really here now, but I think all we've been trying to say is that there are a number of factors which have brought about this culture change. One of them, quite clearly, is that the high value of the US dollar over what is now a fairly lengthy period, obviously produces more local Australian dollar income for someone who is selling in that market.

MR EAGLE: Could I just qualify that. Because we're a late area, we are only on the peripheral. We've only supplied a little bit to the US market from our own shed. We've exported this last year from our packing house - over 100 containers - but we're a late area. As I say that's into the Asian markets. What I'm saying is that the culture change has changed towards our other markets, not just America.

MR COSGROVE: Yes. Of course, in some of those Asian markets we've also had an exchange rate fall.

MR EAGLE: Yes, but it's the commitment of thinking towards the supplying regularly, that you can't expect a market to be there unless you're reliable.

MR COSGROVE: Yes.

MR EAGLE: And not just one year, every year.

MR COSGROVE: Sure.

MR EAGLE: That's the culture change. It wasn't there when I was younger.

MR COSGROVE: No, I can believe you. Okay, I think we need to take a break for lunch. Thank you very much for your submission to us today. We're due to resume at 1.45.

(Luncheon adjournment)

MR COSGROVE: Our next participant today is Horticulture Australia Ltd. We'd like you each to identify yourselves and the capacity in which you're here today, please, for our transcript.

MR WEBSTER: John Webster, managing director, Horticulture Australia.

MR KELLAWAY: James Kellaway, export marketing manager, Horticulture Australia.

MR COSGROVE: Thank you. Thank you for this submission which we had a chance to look at last night. We'll obviously be wanting to do it more justice than that when we have a little more time, but would you like to speak to it now?

MR WEBSTER: Thank you, John. Thank you for the opportunity. It was actually opportune in the sense that we actually had industry meetings here with the citrus industry over these two days, so opportune to the extent that it didn't require another trip; not so opportune to the extent that we didn't actually expect that we would need to be here, given the issues that we want to address. I'll just make a couple of opening comments and James and his team, who put together the submission, will talk in a little bit more detail.

MR COSGROVE: Fine.

MR WEBSTER: The point why Horticulture Australia is coming here as a company, as opposed to as part of the citrus industry in this case, is because Horticulture Australia is the prescribed body for the use of the powers - export control powers. They got mentioned in the report in a - I guess it's always a little ambiguous as to what the words mean, but certainly the reading of anybody who has spoken to me about it is that the views of the commission are negative about those sort of powers. That's certainly the impression that comes - - -

MR COSGROVE: A fair interpretation of the position paper, yes.

MR WEBSTER: - - - in general and also in the specific case of utilisation in the United States. I guess the reason why I'm surprised that we're here is that these are powers granted by the government. Horticulture Australia is a company that started just a year ago. A very, very significant government review process in association with the industry led up to the formation of the company. One key part of the government decision which had external or independent government review at the time, was the transfer of the export control powers across to Horticulture Australia.

Given that the government had reviewed these in a company that was only established a year ago, I find the fact that we need to spend resources re-arguing a

case now, fairly inefficient. Obviously we can go through the details as to why we believe the analysis in the report is not sound, and fundamentally we'd like to see any recommendations related to the powers taken out. There's already government policy that says they're in. That government policy was reinforced by the minister only last week when we sat down with him, so to me this is just a layer of effort when we should be spending our time on actually administering the powers and also the other programs we do for industry.

The other parts was that the people who responded - we had a skim through them and there was obviously no time to go through them all in detail - 88 submissions, 69 of which I don't think mention the powers; 11 said they were good; five questioned the costs of them and three were sort of in confidence. Of those who were negative, a couple had very little understanding of exporting or involvement in it. There just doesn't seem to be a huge amount of reason, unless the reason came from within the commission. If it came from within the commission then I'd expect to see a level of analysis in line with the recommendations in the draft report, and I find very little by way of analysis to support the conclusions in there. In that case I'll have to apologise, because you certainly did obviously contact Horticulture Australia for some information, and if we haven't given you enough information to make the correct judgments, I apologise, and hopefully our current submission will go some way towards rectifying that.

If I can hand over to James who, as export marketing manager, was significantly involved with the industry when these powers were being used, who has been involved - I joined the company only in May last year so I'm very much a newcomer in this. But if I could hand over to James he has much more knowledge of the use of the powers and we'll run through the submission.

MR COSGROVE: Thank you.

MR KELLAWAY: Thank you, John. The structure of the submission - if I may touch on that just for a brief moment - is one that we wanted to start at a relatively macro level, if not to consolidate the arguments within the organisation, certainly to provide it in writing through the submission in terms of the structure and, I suppose, form of the Australian citrus industry. In so doing what is outlined there is that Australia is a niche global producer of citrus products itself, as well as a relatively small or niche supplier in terms of global trade. I'd like to think that's quantified in the submission there through not only the acreage or area harvested, of citrus fruits, but also the production in terms of volumes produced, and also the amount of volume that is traded overseas at a total citrus level representing around 1.7 per cent of global trade.

In so doing that needs to be completed by the number of growers that we have

here in Australia, over 3000 - 3400 growers - and over 120 licensed citrus exporters. It's a relatively disparate group when you compare that with the competition that Australia faces in these overseas markets, principally from South Africa, as a fellow Southern Hemisphere supplier and marketer of products, but also in reference to Northern Hemisphere suppliers as well. However, we have counter-seasonal advantages over their production. It's a relatively disparate production-and-supplier approach, given those figures.

Certainly, however, the industry has adopted mechanisms within the industry to try and counter or develop forms of cohesion, not only in terms of production, but also forms of trade with overseas market. Our trade to the US market is, I would suggest, an effective effort on behalf of the citrus industry to try and become a lot more cohesive in the way it approaches a market, so limited cohesion and critical mass, if you like, leading to a lack of market power - given the face value of those former statements - relative to the competition that Australia faces in these markets, principally the US, and other markets as well where there are export control powers used, such as South Korea and Taiwan, but also in markets where there are multiple agents used, such as Malaysia, Singapore and Hong Kong, which also take a substantial volume of Australian citrus products.

I'd also suggest that it's mainly or - I suppose in essence it's a commodity industry where a sale is certainly to a larger extent - there may be other products - determined on price, largely determined on price as opposed to maybe other forms of the marketing mix that can be suggested. Net returns in Australia are around 14 per cent, or were in 1995 when the benchmarking study was done, as opposed to the US where returns are around 25 per cent and South Africa, 43 per cent. That again just shows some level of the disparate production supply approach that has led to smaller net returns than other producers or suppliers of product.

It's also worth noting that the growing sector of the industry is largely interested in returns, to the extent of "What was the actual return in value for product produced or sold in an overseas market?" Other sectors in the supply chain are more interested in the margin. They're not necessarily interested in the actual price of the product, but more the margin for what they can gain from buying in the product and maybe selling it forward throughout the distribution chain.

MR COSGROVE: If I may ask on that point, do you mean that the margin is unrelated to the value of the product?

MR KELLAWAY: It may be in some instances, yes.

MR COSGROVE: Is that typically the case or sometimes the case?

MR KELLAWAY: I think it depends also on whether a market is a fixed forward sale market, or whether it's a consignment market as well. In terms of the margins - sometimes the margins, we've found, are reflected on the supply of the product, from the supply end; other times the margins are more reflective of the demand end, in terms of feedback through the marketing chain. But given the two different types of supply I'd like to suggest that there is certainly - it will depend - that margin will depend.

MR COSGROVE: Would it be the case, if you're working back from the demand side, that the margin would be likely to be a function of the value of the product, and that if you're coming at it from the supply side it might be a fixed amount of some kind?

MR KELLAWAY: That again would depend on the actual supply - sorry, the volume of supply, given the demand in the market. So if in any one year the supplier might be relatively substantial, as opposed to previous years, then is the demand in the marketplace commensurate with that increase in supply? I think there are enough variables in there where it wouldn't be a cut-and-dried response to that.

MR WEBSTER: If I can, John, we are explicitly precluded from trading in product, so we can't buy and sell product, so everything we talk about is hearsay, if you like, to that extent in that regard. I know we're being followed in by people who are commercially exporting, so I would expect they could give you a pretty accurate answer on that.

MR COSGROVE: Okay.

MR KELLAWAY: In terms of going into the detail of the submission a bit further, I've tried to highlight certain areas that have been highlighted in the position paper concerning the use of the export control powers and maybe the questions that have been raised through their use, and one such question was, are the existing export control arrangements limiting the potential for exports by the Australian citrus industry? A statement of fact is that powers are exercised in the US, South Korea, Taiwan and Thailand and combined those markets represent about 13 per cent of total citrus exports. On that figure alone I would like to suggest that it doesn't have a major effect on limiting the potential for exports.

Greater still, though, there are other trading positions which I would suggest would be more likely to limit the potential for exports into those particular markets, such as quarantine restrictions that are imposed on the Australian industry by customer countries overseas, and that's specifically the case in the US market where Western Australia and Queensland unfortunately cannot supply due to fruit fly and other pest and predatory diseases and conditions of the fruit, and also the South

Korean trade where the import protocol to trade in that particular market, especially as demonstrated last year, was seen to be very cost-ineffective and, as a result, that curtailed the potential volumes that we could have put into that market.

Such processes as leaf sampling, leaf analysis, fruit incubation and testing, the import protocols back here in terms of pre-clearance inspection or pre-shipment inspection, cold disinfestation that had to take place prior to shipment, as well as the inspection upon product arrival in Korea, certainly puts the fruit under stress, the actual product, and as a result the consumer acceptability or customer acceptability of that product. It also curtails the potential for the Australian industry to ship, given the costs of complying with those import protocol arrangements.

On top of the quarantine restrictions, though, there are tariff implications that are certainly in effect in Taiwan, Thailand and South Korea - more so the Asian markets, where we have the exercise of the use of the powers rather than in the US trade - and also quotas. Up until recently in the Taiwanese market, for example, the Australian industry was faced with a 600-tonne quota into that market. Australia was then granted an extra 400 tonnes, so it was increased up to 1000 tonnes for the first time last season. But post-accession to the WTO Taiwan fortunately has lifted the quota, or quantitative restrictions into that marketplace, but there are certainly tariffs and quarantine restrictions still in place.

I would suggest those three mechanisms of trade, if you like, for citrus products do limit the potential for exports from Australia into those four markets. Additional export curtailment, though, I would suggest, would also include domestic support measures in overseas markets, as well as export subsidies that may be granted to not only producers or growers in those four markets that we're talking about, or the focus is on, but also maybe to competitive suppliers into those markets, which again places the competitive nature of Australian citrus products under duress.

It's also interesting to note that, on a compound annual growth rate perspective, exports to the US relative to other markets has been the largest over the last five or six years, and I think that's fairly conclusive evidence, to the extent that what we are seeing in terms of the trading platform that's been arranged in the US market is returning some benefit, not only in terms of growth in exports through volume but I'd like to also think through the returns back to the Australian industry as measured in the submission on an FOB basis. Whether the unit of measure is on a per tonne or per kilo or per carton basis, it's a moot point, but I think what is in the submission is one of returns on a per kilo basis, and it does show substantial growth in that marketplace.

You can try and compare the economic wellbeing of that market as opposed to other Asian markets, but I'd like to think that there are other economies such as Japan

- and that is also dictated in the submission - that show healthy growth but certainly not to the same extent as what we're seeing in the US. Again, I'd like to think the trading platform there is one that reflects that quite solidly. Another question was in relation to whether the export control powers generate additional benefits beyond those that may be able to be achieved through voluntary cooperation or the appointment of multiple agents. Certainly the opportunity costs, I'd like to think, of removing the single focus in the US will be loss of the compound annual growth rate that we've achieved and the price point buoyancy that's been achieved in the US market, so I think there's an opportunity cost there that the Australian industry, certainly in managing the trading platform, has considered over the recent past.

Also it's an issue of the cost of supplying lower-grade or lower-priced fruits to the US is in excess of the benefits that are achieved by solely supplying higher-grade or premium-priced product through the agreed direction - the agreed direction through the sole agent in the US, as well as the Australian industry back here - in terms of the product standards and the premium fruit quality that should be supplied in any one year and, again, that's certainly an open process through the appointment of the sole import agent and the Australian industry. It's certainly not a dictatorial approach. It's certainly one through fairly close consultation on a relatively frequent basis.

Nominated importers also set supply disciplines in close consultation with the Australian industry, as previously alluded to, and the National Competition Policy Review during 99 also concluded that, given the role of the prescribed body - that is, Horticulture Australia in this instance - under the Export Control Act, non-legislative alternatives were deemed to not be able to deliver the same benefits to Australian exporters and the nation as can be obtained through legislation, and that's certainly one of the outcomes of the National Competition Policy Review conducted in 99.

It's also interesting to note that if we look at the US market - and I'll also look at the South Korean market in the same vein - the price point that we can achieve in the US market is relatively higher than that which can be achieved through our competitors. We have seen that in the US we can return an average of \$1.22 per kilo in US currency as opposed to Argentina which is 69 cents at the same period - this is 2001 data - and South Africa at 92 US cents per kilo. That price premium status, if you like, is a reflection of not only the trading platform and arrangement but also the quality of fruit that Australia has been able to produce and supply, given the supply arrangements that are possible through the single focus that we've got.

MR EDWARDS: Would you care to comment on the breakdown there? Is it more due to the trading platform, or is the premium more due to the quality of our fruit?

MR KELLAWAY: I would hate to say it's fifty-fifty, but I certainly think there's

an influence from both areas, to the extent that the single focus provides the Australian industry with a challenge, if you like, of coming up with a supply standard which is in response to customer needs in the marketplace. I would like to also think that, seeing customers or the ultimate consumers are the people who are actually paying for the product, they are receiving the product that they actually do enjoy eating and are willing to pay for. I would like to think that the single focus provides the Australian industry with the discipline to provide through a code of practice, for want of a better term, some supply arrangements in terms of quality for supplying the US market.

MR EDWARDS: To the extent that the premium is due to the quality of the fruit, we should be able to get the premium without any export control arrangements.

MR KELLAWAY: That is true unless, obviously in a freer market or in a market where there are multiple agents, those price premiums could be traded away - yes, at least negotiated or traded away.

MR WEBSTER: Geoff, I think that's a vital point. The point is, who has the power - a bunch of small Australian exporters into that market separately or those dozen or so major supermarkets buying separately against them and competing against them? I think the answer is in that environment the price will go down, irrespective of the quality. It happens all the time. It's the difference between economics and commerce, to some extent. The economic philosophy of pure knowledge and perfect competition is fine, but when commerce applies in those circumstances it falls apart a little bit in theory.

MR COSGROVE: It's not so much just about philosophy, if it is at all; it's about incentives that can be put in place for marketers, exporters, to operate in the interests of their clients, the growers. We discussed some of this this morning with other participants, but it would seem possible for, let's say, Riversun to control the quality aspect of the matter. We've been wondering why, after that has been done, it would not be possible for exporters to be provided with a basis of remuneration which would require them in their own interests to seek the highest value of export sales for the growers, so there would be a community of interest there rather than a conflict of interest.

MR WEBSTER: There's no doubt that exporters will always try to get the highest price they can. It's about who has the market power in those negotiations. If you look at the history of Australia's exports across a huge range of commodities, evidence suggests that the importer has the market power to the detriment of the seller here, and if you look at any of our commodities and work out whether the industries have generated huge benefits when multiple exporters have been competing in some of those markets, I think the evidence probably stands that, as I

said before, the importers have probably more market power.

MR COSGROVE: What would you say about wool in that respect?

MR WEBSTER: I wouldn't say much about wool because I don't have enough detail on it.

MR COSGROVE: It seems to me it does not quite fit that theory.

MR WEBSTER: In wool, we're the major producer of the top-quality wool in the world.

MR COSGROVE: That's right.

MR WEBSTER: We're talking about something where we're a drop in the ocean around the world. I mean, we are the world leader in that one.

MR COSGROVE: Nevertheless, in the period in which we are selling into the US market, we are more significant because there is no US production.

MR KELLAWAY: I suppose the issue there, John, is then, well, what competition does Australian citrus face in the US market at the time? Yes, we're one of the largest importers over that window of opportunity we have, but we're competing against a plethora of summer fruits in the US - stone fruits which are certainly in greater demand, no doubt.

MR COSGROVE: Yes, I accept that.

MR KELLAWAY: So they are the price points that we've achieved in the US relative to the competition. In South Korea, just one of the other markets, where the exercise of these control powers is used, Australia has had access for two years, ever since being granted quarantined access under a relatively restrictive and cost-prohibitive import protocol. But the Australian industry has been able to return an average of 97 cents a kilo in that marketplace, as opposed to New Zealand at 96 - very similar prices, I grant, understandably - but South Africa at 66 cents, who are a more substantial supplier than New Zealand, and the US at 83 cents.

So certainly the price point we have been able to achieve in that marketplace, through the disciplined approach of the appointment of agents, has been such that we have been able to command a higher price point. One of the other issues raised was that it was deemed to be difficult to see how a single importer can cover all possible outlets for Australian citrus in the US market - a single importer, only appointed in the US, when there are multiple agents appointed in other markets. So it's certainly

in response to the US market only I would suggest, and not so much the other markets where there are export control powers being utilised.

But it's also the unique distribution and retailing environment, if you like, in the US market, relative to other markets throughout Asia, for example, where the vast bulk of our exports, or citrus products, are destined, in that certainly in the US market, retail consolidation is happening at pace. Yes, it's growing in Asian markets as well, but certainly the majority of fresh produce that is retailed throughout the US market is through Western-style supermarket retail chains and hypermarket stores and that retail consolidation is leading to the need to appoint category managers. Those category managers are certainly responding to the needs of retailers through the consolidation and, I suppose, as part of the whole globalisation issue in the US market.

The importer in the US that has been appointed is seen to be a category manager for Australian citrus products at a time where we have that window to supply, that six to eight-week period, and, as a result, can very effectively distribute, and merchandise if you like, Australian citrus throughout those consolidated retail outlets. The appointed US importer, for example, supplies seven retail chains that account for 9800 stores, 90 per cent of chains that cover a further 3000, 75 per cent that cover another 4500. So these are big numbers, but how big is it relative to the total retail scene in the US market? I would suggest it's relatively substantial.

The other positive about having the import agent in the US, and many exporters, if you like, back here in Australia, is that it provides feedback to that importer in the US. If there is a retail chain, a distribution outlet, or distributions channel that is not being effectively tapped or utilised, then it provides a very good focus through the 120-odd exporters back here in Australia to provide feedback to that importer if, for example, the exporter's knowledge is greater than that of the importer, in terms of the distribution channels that may not be being used at that time.

MR COSGROVE: Those figures that you've just been referring to do seem to indicate that the coverage of the marketplace by the present importer is less than universal, which seems to suggest that there may be some other opportunities that would be available.

MR KELLAWAY: That might be true. I think the question then has to be asked, "Well, at what price?" You know, at what cost is it to the Australian industry in pursuing those other distribution channels? Yes, we might get greater volume into the marketplace, but at what returns back to the growers and the industry back here? I think it has been widely noted that, through the supply disciplines that have been put in place, the supply of premium fruit to a specification is what is being demanded

out of the US market, and that particular supply comes at a premium price, at a very good price. If further channels in the US market that weren't willing to pay that premium price were exploited, then I think that that's what would be the result back here, an exploitation of the product, which is a premium-priced product, rather than the careful distribution and placement of that product in market segments in the US that are probably willing to pay the price.

MR COSGROVE: But to obtain that sort of result one would need to see a fall in price which outweighed an increase in the quantity sold.

MR WEBSTER: Yes, and the difference in the relative price and the quantity sold, because the market will clear. So it's only the premium they're going to get on that extra product into the US, not the value of that extra product into the US. The market is going to clear of product.

MR COSGROVE: Yes.

MR WEBSTER: So it's only traditional product going into the US outside of the controls, because the price difference they're going to get between that and the third market would have already gone to - - -

MR COSGROVE: Okay, I can see the way you're looking at it. I think my question is still okay, but a different one I think, which is that if you are thinking of the US market and you're thinking about it in a dynamic sense rather than what's available this single year, if we were able to sell to let's say 100 per cent of the 27 retail chains that represent approximately 4534 stores instead of 75 per cent, and if, in doing so, we were able to increase the volume by an amount which meant that even with a slightly lower price there was an increase in total value, then the growers would have more income. Now, that's an empirical question, and can only be tested in the marketplace, as you say, but we haven't been able to see that test under the present arrangement.

MR WEBSTER: And can't, without withdrawing them, I guess.

MR COSGROVE: I wouldn't think that that's absolutely essential. There could be some experimental efforts made in some of these marketplaces.

MR WEBSTER: Can I just pursue it a little, because it is obviously a very important thing. We can only theorise on the answer, as you said, because we don't have the empirics to stand behind it.

MR COSGROVE: Indeed.

MR WEBSTER: But I mean the very exporters who are exporting into the single agent are the same exporters, or type of exporter, who would be catching these other opportunities. So it would seem likely that these major exporters who really know the market are going to be the ones who will sniff out the opportunities. The arrangement, as I understand it, with the importer, is that those opportunities can be captured through our current importer or, if not, and if the benefits were great, then the exporters who were operating would move out of the arrangement and be the ones who would be standing up here now saying, "Knock these arrangements down. We're missing these opportunities." I don't know that I've seen a lot of evidence of that amongst the exporters to the US.

MR COSGROVE: No, although there do seem to be some disagreements between those who are expecting people to use DNE and some of the potential exporters who say, "We would rather use someone else."

MR WEBSTER: I'm talking about those who actually understand the market, who are exporting over there and who would be able to see these opportunities, because they still involve themselves actively in the market.

MR COSGROVE: As a test of that perhaps are you able to tell us whether, since the DNE arrangement has been in place, there have been big changes in these proportions of retail chains to which sales are made? For example, if you look at the first dot on your page 11, was the 100 per cent always there or has it built up from 50 to 100? If you have information of that kind - I don't need it today of course - that would be interesting to have.

MR KELLAWAY: I certainly don't have that information at this point in time, but my understanding is that certainly the distribution of DNE of Australian citrus has built over time. Now, to what level and at what pace we would need to look at that, but that's my understanding.

MR COSGROVE: Understand I'm not here talking about growth of exports. I'm talking about increased penetration of distribution outlets.

MR KELLAWAY: Increased distribution, yes. The other issue too is the opportunity cost of the next-best market. Certainly those who are supplying the US market, as John alluded to, are those that are also supplying other markets throughout Asia and other parts of the world.

MR COSGROVE: Yes.

MR KELLAWAY: And it's the opportunity cost of the next-best market of supplying the US as opposed to other markets.

MR COSGROVE: In a static sense, yes.

MR KELLAWAY: That is correct, yes. One of the other questions was that it was deemed to be unlikely that one importer can have a perfect knowledge of every market opportunity. Consequently, marketing fruit through a number of diverse importers may lead to the wider exploitation of market opportunities, and I certainly view the word "exploitation" in a negative sense, unlike what it may be termed here to be one of more positive sense.

MR COSGROVE: It wasn't intended as such - - -

MR KELLAWAY: No, fair point, yes. But the adoption of multiple agents will exploit the total market through a mass distribution approach, placing at risk the premium prices achieved. Certainly the comments alluded to earlier on about the commodity status of Australian citrus, relative to other products, is such that mass distribution, the one negotiating point that there will always be is price over and above other attributes of the product sale or the total offer that may take place. So I would like to think that certainly that one importer does have relatively good knowledge of the competition, of the price points being offered and, as a result, can offer a premium price to the Australian industry for the supply of what would be premium-quality fruit as well.

A single importer will approach new clients and seek new distribution if price can be maintained. The importer, or the import agent, is willing to accept any feedback from the Australian industry - and there are 120 licensed exporters - regarding any further opportunities in the marketplace. Whilst the single importer may not have perfect knowledge, I would argue that the appointment or the situation of multiple agents - neither would have perfect knowledge of the market.

MR COSGROVE: So it's a matter of relativities.

MR KELLAWAY: That is correct, but I would like to think too that certainly the industry back here, from the supply perspective, is able to provide the import agent with certainly effective feedback on other distribution channels, or other knowledge of the market, that may need to be obtained. There is also a subagent that is appointed in the US by the sole importer, Oppenheimer, and that subagent, also operating in a different geographical location in the US market, is also able to supply relatively good feedback to the import agent that has been appointed.

The National Competition Policy Review also recommended that it may be necessary to impose import controls to ensure Australia's reputation is not threatened at any stage. Certainly that was one of the outcomes that came from the National

Competition Policy Review - - -

MR COSGROVE: Rather an extraordinary one I have to say.

MR KELLAWAY: - - - given the evidence that was put in front of them.

MR COSGROVE: Are there many countries who impose controls on their exports?

MR KELLAWAY: The other issue was that some threats, however, could arise from the activities of inexperienced exporters in the marketplace, and importers similarly, where any other importers that may be appointed, or with multiple agents, the only way they could generate initial sales and market entry for product and, as a result cash flow, would probably be through a price discounting strategy initially. It has been proven through certain examples or cases that the Australian industry has had in the US market where that has been the case, where another exporter with another importer has attempted to sell product in the US market, and it just so happens that the actual price quoted was below what the Australian agreed price was with the import agent - so, again, the market entry strategy of that particular importer and trade channel to generate a position in the US trade.

In concluding though, I would certainly just like to draw on a couple of issues here in terms that there is certainly a documented history of close review and management of the export control power since 1982, not only through national competition policy reviews, but also through the Administrative Appeals Tribunal hearing that took place a few years ago. It has also been negotiated with the minister for agriculture, fisheries and forestry: guidelines, in terms of performance review, as outlined in our deed of agreement that we have with the Commonwealth, and also our memorandum of understanding which is the agreement we had with our shareholders, for an annual review process, one of a three-year review process and also, under National Competition Policy guidelines, a 10-year review. So I would like to think that the checks and balances in the legislative review process are there, let alone the non-regulated reviews, which are happening on an annual basis directly with industry with the import agent that has been appointed.

MR COSGROVE: Could I just clarify my understanding of this historical record. You had a three-year review of the general export control powers in 1993. In 1996 there was a mid-term export licensing review. Could you tell me a little of what the content of that particular review was? Was that again a very general one, or citrus export specific?

MR KELLAWAY: The history of the export control powers and the review process is one that has been under different legislation and guidelines to the annual

three-year and 10-year review. Since the commencement or, I suppose, inception of Horticulture Australia as a company it's really the annual, three and 10-year review process that has been put in place. Reviews prior to that have been - I don't think I would say ad hoc, because they certainly haven't been ad hoc. They have been legislated and documented as a result. But they have been of a different time frame than one, three or 10 years.

MR COSGROVE: And the 1996 mid-term review, was that related only to citrus exports or a broader range of horticultural - - -

MR KELLAWAY: I think it was related to a broader range of horticultural produce, but that's something that I would need to provide further information on.

MR COSGROVE: Okay. Then we come down to the AAT case in response to some people wishing to use an importer other than DNE, and then the NCP review of the act, which again of course is a higher-level review. Since then, would it be correct to say that there have been no further reviews?

MR KELLAWAY: There have been no regulated reviews, but there have been commercial reviews of it which are done annually, certainly through the appointed agent coming down to Australia and addressing the industry and providing feedback to the industry and also welcoming responses from the industry in terms of the arrangements.

MR COSGROVE: But not, strictly speaking, a review; more a discussion.

MR KELLAWAY: No, I'd argue it's certainly a review with the importers directly with the industry back here, but it hasn't been one under a regulated framework. It's certainly been non-regulated.

MR COSGROVE: Thank you.

MR KELLAWAY: I suppose that's the other point, where extensive in-market evaluations and regular performance reviews are conducted. So even prior to introducing powers into any new market or for any new horticultural product, there are certainly extensive in-market evaluations that are done on a cross-sectoral basis, where it's not only growers who actually attend or are part of these review processes. It's also other sectors of the industry, such as the packing sector, the exporting sector and also any other ancillary suppliers that may wish to be part of the review process.

It's open and fairly transparent in terms not only of the reviews of current arrangements but also any adoption of new arrangements for new horticultural products or new markets in that respect. As a result, Horticulture Australia has

implementation groups and product champions that monitor these control powers in-market. That's aside from the commercial reviews that take place on an annual basis by the import agent in the US coming down and addressing the Australian industry. So I'd like to think that there is a relatively good scope and also fairly good rigour in terms of not only regulated reviews that take place - now under the Horticulture Australia guidelines - but also the non-regulated ones that have been requested by industry and put in place as a result.

MR WEBSTER: That's it, thanks, John. That takes us through our summary.

MR COSGROVE: Thank you very much. I've got several questions here which you might be able to help us with. Some of them relate to - in fact probably quite a number of them - the way in which the DNE arrangement is operated, including some aspects of governance. I might start with the latter. Could you tell me what the respective roles of your organisation and the ACG are in the governance of the arrangement with DNE? Is it exclusively your preserve or is AGC somehow playing a role?

MR KELLAWAY: Yes, certainly Horticulture Australia, under legislation as being the prescribed body, is the organisation responsible for the management and the implementation of the powers in any one market for any product and is the only organisation that can actually exercise those powers. I'd like to think, though, that Horticulture Australia does that only with feedback from the industry at large, to the extent that Horticulture Australia is not an island in its own right and, as a result, it seeks and takes advice from the commercial operators operating in the market. If there is a need through market failure, given the disparate nature of supply out of Australia for what is a commodity product - if there is a need to strike or exercise these powers in any form, I'd like to think that that is certainly a resounding result of fairly extensive consultation with industry.

MR COSGROVE: Who determines these corporation permissions or changes to them? Is that, again, a function of your body?

MR KELLAWAY: Yes. Certainly Horticulture Australia issues those corporation permissions, but in terms of their content that again is sourced from feedback from industry, so the commercial operators in the marketplace.

MR COSGROVE: Okay. And is it you also who decides on the issue of licences to potential citrus exporters; new exporters?

MR KELLAWAY: That is correct, yes.

MR COSGROVE: Yes. You mentioned, I think, in your paper - or I've read it in

another paper - that there are performance criteria for DNE which have been agreed with Riversun. This might be a question which I should better direct to Riversun in Renmark, but are you able to say what those criteria are and, in particular, are they publicly available?

MR KELLAWAY: The criteria certainly are publicly available, but we don't have the criteria here.

MR COSGROVE: That's a Riversun matter?

MR KELLAWAY: Yes, that is correct.

MR COSGROVE: Yes, I'll pursue that with them.

MR KELLAWAY: But I suppose, John - if I may - at the end of the day, Horticulture Australia fulfils certain functions on behalf of shareholders and we really do actively seek the advice of industry in the use of these powers and, through the regulatory reviews and the commercial reviews and the plethora of comment and feedback that we receive from industry, I'd like to think that the process is fairly reflective of industry comment regarding the use of the powers.

MR COSGROVE: Okay. I understand you have an upcoming annual review or one that is due. How do you intend to assess DNE's performance in that review? Will this be on the basis of these performance criteria that have been agreed with Riversun or is it some other set of criteria that will be applied and, if so, what?

MR KELLAWAY: Given the relative recency, if you like, of the legislation that's in place, what we're doing with the regulated guidelines that are put in place with the annual three-year and 10-year review, we're talking very closely with AFFA, who is the Commonwealth body that we're contracted to under the deed of agreement - or linked with, sorry - in terms of what criteria should be reflected in that review process.

MR COSGROVE: So it's yet to be decided.

MR KELLAWAY: Yet to be decided.

MR COSGROVE: Okay.

MR KELLAWAY: I'd also like to think that what will happen is certainly again a very transparent and open review process, with all sectors of industry providing input and guidance to Horticulture Australia, who is the referee-cum-umpire in this process. So I'd like to think that we can certainly reflect industry's views and the

commercial trading patterns that have taken place to benefit the Australian citrus industry.

MR WEBSTER: The other one, John - if I can - just in discussions in AFFA, is obviously to get some sort of consistency of approach between the annual, three-year and 10-year. The set of criteria should be quite similar in effect on it and what we're trying to do is get it so that the three annual ones provide some significant input into the third year review when it has to be done rather than being quite separate.

MR COSGROVE: Okay. You've been emphasising recently your efforts to have good consultation with the industry in formulating your own approach to these matters. Could you explain to us a little the nature of that consultation process?

MR KELLAWAY: For example, with South Korea we're undertaking a review at the moment and that process has to do with seeking input, guidance and ownership of the review process among all growers that are able to supply that market, which is over 600, all packers that wish to make comment - and it's an open statement or open notice to make comment on the use of the powers in South Korea - and also the exporters. So, again, we're surveying and gaining feedback from everyone who's involved in the supply chain of product to that market, but also we're going to the market itself and seeking guidance and feedback from the importers themselves - the appointed importers in that market - and also any other ancillary suppliers who may have been involved in the arrangement and the process of putting the arrangement in place over the recent past. So logistically it's not an easy process, but it's one that's all-inclusive where all commentary and feedback is certainly taken into account.

MR COSGROVE: So you invite views and submissions, if you like.

MR KELLAWAY: That is correct.

MR COSGROVE: There's no polling of the 600 people you mentioned?

MR KELLAWAY: Well, polling to the extent where they supply answers to questions. I suppose, in some respect, that's the polling.

MR COSGROVE: And, if that person chooses not to respond, then it's assumed that they're not interested.

MR KELLAWAY: That is correct. I'd like to think that, if they're interested, they will put their best foot forward in whatever view they may have, and also the polling is not necessarily just fifty-fifty questions either. They're certainly ones that can be quite measurable, but there are also some qualitative responses there as well to try and get people's understanding of maybe answers or feedback that they may have.

They're also able to certainly provide input through industry forums or industry meetings that take place. So I'd like to think the consultation process is such that it provides Horticulture Australia with enough responsiveness to the governance that we need to show.

MR EDWARDS: So there are some 600 growers who are eligible to supply this market.

MR KELLAWAY: That is correct.

MR EDWARDS: So something like 80 per cent of growers in the industry are not eligible.

MR KELLAWAY: That is correct.

MR EDWARDS: So what is it that rules out 80 per cent of the industry from supplying?

MR KELLAWAY: Yes, fair question. That is quarantine procedures. Unfortunately, with South Korea, the imposition of the quarantine procedures needs to make sure that there's leaf sampling and leaf analysis that takes place on every orchard that wants to be part of the trade, fruit incubation and testing as well at the orchard level and then, at other levels of the packers and exporters, it's a case of pre-shipment disinfestation as well as quarantine inspection. So those 600, in other words, are those growers that have actually had leaf sampling and testing taking place in order to provide fruit to that market.

MR EDWARDS: So can that number be added to if other packers and growers accept the regime necessary?

MR KELLAWAY: Yes. The quarantine protocols that have been imposed?

MR EDWARDS: Yes.

MR KELLAWAY: Yes, that's correct. There is nothing stopping all growers putting up fruit to that marketplace; fruit that has access that is, because we're only restricted to oranges and lemons into that marketplace. Mandarins we cannot supply, because of quarantine issues. It's only those growers that are supplying those two types of products that can actually have fruit sampling or testing taking place.

MR COSGROVE: Now, in the US market - and perhaps in the other markets, subject to these special import licensing arrangements - you have your discussion. Let's just focus on the US with DNE and an amount of fruit which is suitable to be

exported to that country in a particular year, as agreed. Who decides how export sales to the US market are allocated to individual growers? Let's say you're in a situation where you have a degree of potential excess of offerings. Who decides who gets into the market?

MR KELLAWAY: You mean individual exporters or individual growers in this case?

MR COSGROVE: Well, individual growers I'm talking about really.

MR KELLAWAY: I suppose you need to look at the supply chain in context, if we're talking growers, because at the end of the day it's the exporters, in negotiations with DNE, given the exporter's supply base - whether it be 20 growers or 200 growers - in terms of what supply they may have available for the US market for a particular season as opposed to a supplier they may have for other markets or business that they may have in other markets. There may be individual circumstances where niche opportunities in South Korea or niche opportunities in Hong Kong might be more profitable for a certain size of fruit rather than the US market. So it certainly depends on the supply chain, because it's the exporters who at the end of the day are negotiating with DNE or their sole importer in the US in terms of not only price but also supply.

MR COSGROVE: It seems to be an important issue for a grower though. We're being told - and we believe it - that the United States market is the most remunerative for a grower, so presumably the biggest share of that market that I can get - if I've got the relevant quality of production - the better off I'm going to be. So the allocation issue would seem to be important and I was simply asking how is that determined.

MR WEBSTER: Correct me if I'm wrong, but that's the sort of choice many producers make when they have to decide who they sell to. Much the same as others will concentrate on the domestic market, others will concentrate on others and that's sort of a conscious choice, to some extent, where you sell your product as a producer. Not all people go to all markets.

MR COSGROVE: No.

MR WEBSTER: Sometimes you can be a bit unlucky geographically.

MR COSGROVE: Well, let's say I'm a grower with high-quality navel fruit and I'm going to the US market. Who tells me how much I can sell to that market?

MR KELLAWAY: That would really depend on the arrangement that you've got with your customer and, as a grower, your customer is the packer and exporter, not

necessarily DNE.

MR COSGROVE: Well, let me move to the packer stage.

MR KELLAWAY: Yes.

MR COSGROVE: I'm a packer. I've got these high-quality navel oranges and I want to export them to the US. Who determines how much I can sell?

MR KELLAWAY: I suppose, John, looking at the supply chain in context, the packer would then - if the packer is not an exporter - speak to their customer, which is the exporter for the supply of products to the US.

MR WEBSTER: You have to get to the exporter, that's all.

MR KELLAWAY: Yes.

MR WEBSTER: It's the exporter where the allocation is made and then you have a supply chain.

MR COSGROVE: It's the exporter? So how does the exporter know - and any individual exporter know - how much he will be able to have accepted by DNE for sale?

MR WEBSTER: I don't think we can delay this any longer. This is getting pretty close to the person who has actually got the choice now.

MR KELLAWAY: I think it's an issue there where DNE or the appointed agent in the US - their consultation is not with growers - directly, that is - or with packers necessarily, it's with exporters, it's with those businesses that have an export function. Those businesses may be growers and packers as well, but their direct line of communication in terms of negotiation of the market is directly with those businesses that have an export function. I'd like to think that the arrangements are in place in Australia where there is fairness and equity in terms of supplying to the US market, mainly through the Riversun arrangement, where there is that share of the marketplace given the supply in any one year. So certainly that arrangement is negotiated with any exporter out of Australia, but given the arrangement and the Riversun process, that arrangement is made easier, made a lot easier.

MR COSGROVE: So it's essentially a negotiation between DNE and exporters.

MR KELLAWAY: That is correct. It's certainly not a dictatorial approach from the sole importer at all.

MR COSGROVE: How is the allocation decided between DNE and the exporters? How do they carve it up?

MR KELLAWAY: You'd have to ask Riversun on that question.

MR COSGROVE: Riversun, yes.

MR EDWARDS: So it's not just a matter of discussion between DNE and the exporters. Riversun also comes into it.

MR KELLAWAY: The directors of Riversun are exporters so it's really the exporters. Riversun is representing their members, which are licensed exporters.

MR COSGROVE: Do those exporters - at the end of this process I've been asking about - have what you might call an individual supply contract with DNE?

MR KELLAWAY: Through Riversun, that is correct.

MR COSGROVE: Through Riversun, yes.

MR KELLAWAY: So again, as directors of Riversun, they have input into whatever supply contracts or arrangements may be in place. That's only through the Riversun arrangement, though. There are other exporters that can supply outside of Riversun, and are free and happy to do so - but certainly to the sole import agent, as per the powers.

MR COSGROVE: Yes, okay. We've heard - and I understand it to be a fact - that there have been instances of lengthy storage of Australian citrus in DNE's warehouses, sometimes requiring repacking of fruit and some loss of sales had there not been this period of storage. Again, I'm wondering - and again, I'm thinking of the grower - who determines whose fruit goes out quickly. Is it a first in, first out system?

MR WEBSTER: We're now talking about the fruit that is in the US?

MR COSGROVE: Yes. It's been landed in the US in good condition, but for reasons of week-to-week marketplace circumstances it gets blocked for a while in DNE's warehouse and, as I say, we've heard that there can be some significant losses on occasions as a result. Who bears those losses and how is it decided - or how is it decided who will bear such losses? Is this in DNE's hands, and if so, how do they do it?

MR KELLAWAY: Given the nature of the market being one of consignment, it's the Australian industry that actually pays for any loss.

MR COSGROVE: What do you mean by that?

MR KELLAWAY: It's the Australian industry who is given the consignment nature of the marketplace - - -

MR COSGROVE: By "industry" you mean growers?

MR KELLAWAY: Sorry, all sectors of industry; the Australian industry.

MR COSGROVE: Okay.

MR KELLAWAY: Again, in terms of who bears the loss, it's a case of the exporters are going to bear the loss, the exporters who are supplying DNE, or supplying the sole importer.

MR COSGROVE: Yes, and it would flow through back - - -

MR KELLAWAY: And then it's just a flowthrough back. So it's then the exporters who determine the packers - if they are different functions.

MR COSGROVE: Yes.

MR KELLAWAY: And the packers - again, if they're different functions - determine the growers.

MR COSGROVE: Yes, I understand that, but we are in the US, right, with this fruit and, as I said, there's a bit of a blockage of a temporary nature and exporter A has had some fruit on that ship, exporter B has had some fruit, exporter C - who decides, and how, which among those growers will bear this loss - the exporters, I beg your pardon. Is it, as I say, that it comes into a warehouse first, it goes out first; is it arbitrary; is it some sort of averaging process across the whole lot?

MR WEBSTER: Do we know, James, or would it be better to give it to Riversun to answer?

MR KELLAWAY: Certainly Riversun can respond on it as well, but I'd like to think that certainly any rejection of fruit by the sole importer is one based on the quality of that fruit not meeting market needs. If the quality is outside the code that's been set, or if the fruit is damaged in any way and not as a result of the importer's efforts, then I'd like to think that whoever is supplying damaged fruit is going to be

the person - - -

MR COSGROVE: Sorry, no, that's not the point I was trying to illustrate.

MR WEBSTER: This is good fruit which has arrived over there.

MR COSGROVE: This is fruit which has arrived in its specified condition and because fruit is perishable it gets stuck in the warehouse for a while and it deteriorates in quality, so it has to be repacked, so that you maintain the quality the market is expecting.

MR KELLAWAY: Okay, yes.

MR COSGROVE: Maybe this is best pursued with Riversun, but I thought as you were the people dealing with DNE you might have known how all this works.

MR KELLAWAY: Certainly Riversun would be able to give you a commercial response on that, because they're the day-to-day traders in that marketplace, with their directors who are exporters.

MR COSGROVE: Right. Possibly related to this question - and again, you might not be able to help us today - I noticed in the AAT 1999 decision a reference to a pooling of fruit sales in the US. I'm sorry, I'm having difficulty finding it now. It might be a matter I could follow up with you separately more efficiently.

MR WEBSTER: Can I just clarify, because I'm not too sure where the questions were going. There was a sort of logic that argues as to whether the free market forces are more efficient in determining the right allocation of things, and I can follow that line of argument, whether it applies or not. Then when it comes over to what is happening with DNE, the suggestion is at that time then a regulatory body ought to be sort of involved as opposed to the good commercial forces who are actually selling the product in, making the best decisions on the reallocation if there is a loss. Is there an inconsistency in that approach?

MR COSGROVE: That hadn't been my intention. I'm simply trying to understand what happens.

MR WEBSTER: Okay.

MR COSGROVE: The appointment of DNE - could you tell me how that was actually done? Were there tenders or was this a selection process?

MR KELLAWAY: In terms of further information, John, I'd need to get back to

you on that.

MR COSGROVE: Okay.

MR KELLAWAY: But certainly the process does involve in-market visits and evaluations of potential importers, those who may wish to be appointed the sole or one of many importers. That's certainly done with the assistance and input of every sector of industry back here. It was done that way in Korea, it's managed that way in Taiwan, but in terms of the US arrangement that's a bit historical and I'd need to get the information on that. But certainly extensive in-market evaluations are done in terms of who would best represent the Australian citrus in the market.

MR COSGROVE: Right. I need to move on because I'm holding up our next participants, but I still have a few questions here. I understand that DNE's commission is based on the prices which it receives for sales in the US market. Is that correct? I wonder why it's not on the total value of sales. This seems to be an incentive for DNE to maintain a high price, perhaps by suggesting to Riversun that it restrict the quantity of exports sold, whereas I assume - if we're talking about trying to raise growers' incomes, we would be wanting to see the total value of sales to the US maximised rather than just the price.

MR KELLAWAY: I suppose, John, at what cost though. Whilst you can raise the total value through increased volume, what is the per unit return to the grower?

MR COSGROVE: This is the total return, not the per unit return.

MR WEBSTER: No, but if the idea is you double the volume at half the price in a market that is - - -

MR COSGROVE: Then you're unchanged, but if you double the volume and cut the price by 50 per cent you're much better off.

MR WEBSTER: It depends on the alternative markets.

MR EDWARDS: We obviously have to take account of what moves in the other market.

MR WEBSTER: Yes.

MR KELLAWAY: That's correct.

MR COSGROVE: Sure.

MR WEBSTER: You can't put a market in isolation.

MR COSGROVE: But this is the most valuable market.

MR WEBSTER: Absolutely.

MR COSGROVE: The highest priced market.

MR EDWARDS: The fact that price is so much higher in the US market than in the other export markets or in the domestic market does suggest that it might be attractive from a view of total industry return, to sell somewhat more in the US market, somewhat less perhaps in other export markets and in Australia. That approach may increase total revenue.

MR KELLAWAY: I think it's also an issue that depends on obviously the size - the type of fruit being sent. If we look at oranges, for example, then there are different sizes of oranges. Certainly smaller sizes of oranges and the price they may achieve in the US may be lower than in other markets - maybe in Japan and other parts of Asia, maybe even Europe - but in terms of the larger-sized fruit and what would be classified as premium quality, certainly the US is the premium market. But I think you'd need to look at that in terms of not only different sizes, but the different quality produce or citrus fruits that Australia is producing in any one season.

MR WEBSTER: But certainly the idea of selling more at a higher price - there are no negatives on that. It's in the context of a global market. I think we're going to be followed by some exporters who probably have a better idea of the flow of those things.

MR COSGROVE: Are there exports of Australian lemons to the United States?

MR KELLAWAY: Yes, there are.

MR COSGROVE: There are. Through DNE.

MR KELLAWAY: That is correct.

MR COSGROVE: Okay. Australian exports to the US have declined in the last two or three years at a time when exports from South Africa have increased considerably. Could you tell me why we have lost market share?

MR KELLAWAY: I think also in terms of the US it's a case where, given the competition that we now face, it may be at a lower price point through South Africa, and that's indicative in the figures contained in the submission. There's certainly

more of a favourable impact for those competitors, if they can position product in that market at a lower price.

MR COSGROVE: And we don't think we can?

MR KELLAWAY: What, compete on price?

MR COSGROVE: Do what South Africa has done?

MR KELLAWAY: Through cost of production, et cetera?

MR COSGROVE: Positioning somewhat lower-quality fruit in that market?

MR KELLAWAY: No, sorry, lower priced.

MR COSGROVE: Lower-priced fruit, okay. I assume it's lower quality, but go on.

MR KELLAWAY: Lower-priced product is also a function of cost of production as well, and I'd probably suggest that our competing suppliers in that marketplace - most notably South Africa - is a lower-cost producer of the product and, as a result, they can maintain similar margins in theory to what the Australian industry could do with a lower-priced product.

MR WEBSTER: They've also, I think, got a currency that fell out of bed a bit that helps them significantly at the moment.

MR COSGROVE: Right. We were told earlier this morning that there is some sort of cooperative arrangement which has developed between Australia and South Africa for marketing into the US. Could you tell us why that arrangement has been entered into? We don't know the precise nature of it, of course.

MR WEBSTER: You'll be talking to the people who - I mean, the people who can enter into those arrangements are, as I understand, producer group to producer group, so we as an entity can't enter into a contractual arrangement, I don't think, with the South Africans.

MR COSGROVE: So who specifically would have decided on this arrangement?

MR WEBSTER: It's a grower base to grower base.

MR COSGROVE: ACG?

MR WEBSTER: Between ACG and Riversun I'm sure you can get to the answer. They're the parties that are involved in those sort of discussions.

MR KELLAWAY: I think it's also a case where the Australian industry has strengths in that marketplace and the South African industry has strengths through a lower cost structure, and I'd like to think that our interests in forming a partnership or some form of arrangement with the South African industry, on purely commercial terms, is one where we're trying to generate benefits from it, but the South Africans in coming on board are also trying to generate some form of benefit, so I'd like to think that certainly one of the benefits would be trying to maintain some form of price buoyancy or higher price point relative to what South Africa could do by themselves in that marketplace, given their cost of production.

MR WEBSTER: And, John, that sort of debate is happening now quite regularly across a range of commodities. Because our major importers want a long supply of quality product, often greater than we can supply, and the opportunities to treat people who we've I guess traditionally looked at as competitors as partners into a third market, there are quite a lot of discussions going on at the moment with both New Zealand and South Africa across a range of products along that line.

MR COSGROVE: So are we outsmarting South Africa? We can keep the price a little bit higher in our own interests by persuading them in this cooperative agreement to not press their suppliers into the market, which would have the effect of lowering the price.

MR WEBSTER: I think it's the same logic as the logic which you may or may not agree with about the sort of orderly marketing into the US from Australia. The same logic you'll either agree with or disagree with on the logic of another country also utilising the same importer, and if you think one has a flaw, you'll certainly think the combination of two has a flaw.

MR COSGROVE: Yes. Well, when we're doing it, we share any gains with the single US importer. When we and South Africa are doing it, there's more sharing.

MR KELLAWAY: And more opportunities, yes.

MR WEBSTER: You've got to look at both sides.

MR COSGROVE: I think that does me in terms of questions. Geoff, did you have any more?

MR EDWARDS: Well, I'd like to ask just one more thing if I could. In life generally we're wary about situations where one party has two masters. In terms of

the DNE situation, it's looking after the interests of both Australian citrus growers and South African citrus growers. I mean, one way to put it, I suppose, is that DNE is collecting payments from selling both South African fruit and Australian fruit. In thinking about what happens if Australia pushes more fruit in, DNE is going to be thinking about its commissions from the sale of South African fruit and from the sale of fruit from other countries.

I believe its responsibilities are not confined to South Africa and Australia but it handles imports from some other countries, and also domestic US oranges. Is there a possible problem here that DNE has an incentive in responding to suggestions from this end that we sell more fruit there to be concerned about the general downward pressure across the whole citrus market and effects on its commissions from its sales from all sources, whereas of course we in Australia would only be concerned about the impact on our own?

MR WEBSTER: It's a commercial operation so all those commercial pressures must be there. But the other thing is that it is a position that is obviously worth something to each party and so DNE - it's not something that they're entitled to; it's something they've been granted as far as being that sole importer. So if the industry believes that the sole importer is not acting in our interests, we certainly have the right to change that sole importer and replace it with another, and that provides a lot of offsetting against some of the issues which you're talking about. They have a commercial incentive to make sure it works for us.

MR EDWARDS: And for the others?

MR WEBSTER: And for the others.

MR COSGROVE: In terms of price, yes.

MR KELLAWAY: I suppose the opportunity is both ways, from both parties involved in the negotiations and the trade. We like to think we're receiving advantages from it, but I've got no doubt the South Africans probably feel the same way, but it is the commercial arrangement. It's the commercial parties who will advise accordingly in terms of - "Well, look, this is working" or "It's not working," or they'll pull out of the arrangement, and I'd like to think that Horticulture Australia as the prescribed body is certainly responding to that feedback and that industry concern if it was there.

MR COSGROVE: Just finally and quickly, a couple of factual questions that might help us to understand properly your submission to us today: on page 7 you have that table of Australia's citrus trade to the US. Are those figures, as one would imply from the heading of the table, for calendar years?

MR KELLAWAY: That is correct, yes, calendar years.

MR COSGROVE: And they're for the whole calendar year, not just the period of our exporting?

MR KELLAWAY: No, that's correct, the whole calendar year.

MR COSGROVE: Thank you.

MR KELLAWAY: And it's across all citrus, not just oranges.

MR COSGROVE: Right, good. At the bottom of page 10, you refer to some figures about the consolidation of retail trade in food sales. Do you happen to know what food means in that context? In particular is it only fresh food or is it - - -

MR KELLAWAY: No, sorry, it's groceries, yes. So it's fresh produce, including a range of fresh produce, meat, fruit and vegetables, et cetera, as well as grocery, dry goods.

MR COSGROVE: I think that's about it. Thank you very much for taking time out of your other functions. We appreciate that, and we'll make some good use of our discussion today.

MR COSGROVE: I do apologise for the delay in calling our next participant, which is EJT Packers. Take a chair, and would you identify yourself and the capacity in which you're here today, please, for our transcript.

MR BAILEY: Thank you, Mr Cosgrove. I'm John Bailey. I am the managing director of EJT Packers, a family-owned company which grows 60 acres of citrus fruits in Curlwaa, New South Wales. We also pack our own fruit for domestic and export markets and actually export in our own right and work closely with a couple of other exporters, one of whom is Sunraysia based and the other who is Adelaide based, and we are members of the Riversun organisation. We are shareholders.

MR COSGROVE: I see. What would you like to put to us today? Thank you, incidentally, for your follow-up submission to our position paper.

MR BAILEY: Mr Cosgrove, I have had the opportunity to read on the Web, of course, the documentation that has preceded this round of meetings, and I feel obligated to bring to the commission's attention a number of basic flaws in other submissions that had been made prior to me making my belated submission or response.

Basically I believe it would be a raving lunatic who would want to dismantle the arrangements we have with the single importer in the USA. It is our best result market, the one exception being the year 2000 which was not due to inability of DNE to market the fruit but due to seasonal circumstances in the growing areas of Australia, climatically which had never been experienced before in what I understand is over 50 years of collated history of weather patterns and stuff like that. It could only be described as a one-off.

In every other year of involvement in that market, it has been the premium market, and contentions by exporters who aren't involved in supplying that market and, to the best of my knowledge, not having visited that market nor had dialogue with the importers can only be construed as hearsay and not factual. If anybody wanted to try and put 15 million cartons into the US market in that three-month marketing window which is there not only because of quarantine and duty issues but because of saleability issues as well, then you would really want to be committed.

MR COSGROVE: Could you tell me how many tonnes 15 million cartons equates to?

MR BAILEY: Not off the top of my head, sorry.

MR COSGROVE: Okay, no, that's all right. I can't do it either.

MR BAILEY: Quite a lot.

MR COSGROVE: We'll work it out.

MR BAILEY: Divide 15 million by 50, yes, and you've got a lot of tonnes, and nobody could get that amount of fruit assembled or packed in Australia at that time. 15 millions cartons - yes, I can't get my head around it at the moment.

MR COSGROVE: No.

MR BAILEY: But if you tried to do it and put it all into that market in that time frame, you would end up with a hole in your wallet, because you would get nothing for that fruit, because the only hope we have of competing against other countries and the Valencia oranges which are in the American market at that time is to go to the premium end of the market, where you will get a return. Where it is necessary to service the lower end of the market, there's not a disparity of just one or two dollars. There's a disparity of 10 to 15 US dollars, and given that it costs you 16 or 17 Aussie dollars to get an orange from the packing house into the supermarket chain, there's not going to be much left if your sale price is 30 at the premium end and only 20 at the middle end, let alone thinking about the lower end of the market. So my basic contention is that anybody who wishes to dismantle the current arrangements has to be sick, mentally.

Other contentions are that the Korean market is restrictive in trade. I disagree there. The market is not restrictive. Any exporter can send to the Korean market but because it was a new market and an untried market and in fact an infantile market so far as citrus was concerned, the industry - and I'm part of the industry, of course - found by majority that it would be better to have the two commercial as well as the third importer, being the defence forces, as the only handlers of Australian product.

Unfortunately for the industry, the year 2000 was the first year of access, even though the access is restricted severely by the quarantine issues and the poor access negotiations conducted by AQIS at the time, Biosecurity now. Those access arrangements haven't changed. They're still as tedious and as cumbersome as they were in the year 2000, but we had quality outturn problems in Korea in the year 2000. 2001 naturally suffered as a result of that. The importers were hesitant to accept fruit, still having the bitter taste of substantial losses that they incurred, as well as our industry in the year 2000, so it was a lose-lose in Korea in 2000, and the very short crop that we had for the navel season into 2001.

In fact Australia shipped Valencia oranges to Korea to try and get some product in there and maintain a relationship, whereas we should have been passing navel oranges into that market for a much more considerable length of time.

Working in the industry we see 2002 navel season and then leading into the Valencia season to be a progression on a brighter note and a stronger note, which will set the base for the future.

I think the citrus industry's biggest problem, the biggest single problem, is lack of decent access arrangements to foreign countries. If we had access arrangements to Japan, Korea, Taiwan, Philippines - just to name a few - on the same basis as we have access to America - and let's face it, we export directly into the heart of the growing area, right into San Diego, California; that's where we land our fruit. The American growers aren't too far away from that unloading point, yet we have decent dialogue, we have open access arrangements; we have fall-back strategies in place should quarantine issues arise, such as fruit fly detection. If we had that same arrangement into those other countries, then none of us would need to be sitting here today. It's as simple as that, Mr Cosgrove.

My final one is that, whilst I do agree with a number of the issues, I've only brought to the commission the ones where I strongly disagree with other people's presentations.

MR COSGROVE: It was suggested by Horticulture Australia that you might be able to help us with a couple of questions we've been putting to them, in particular this question of allocation of sale opportunities in the US. In your experience, how is that done? Who tells you how much export quantity you can ship?

MR BAILEY: So far as Riversun is concerned - and we are a shareholder as I've already said, and Riversun is not the only exporter to the USA - - -

MR COSGROVE: No.

MR BAILEY: - - - so what I say applies only as I know it through Riversun.

MR COSGROVE: Right.

MR BAILEY: I also understand that other exporters negotiate volume arrangements with the importer in their own right. We are not privy to that information, but it would seem that the whole world is privy to Riversun information which we pay for as shareholders and should have some ownership over. But that's by the bye. Each year Riversun has discussions pre-season with DNE. The discussions revolve around crop size, so far as the actual size of the piece of fruit is concerned, the crop volume, the numbers that we may achieve, competition, the state of the US market. We then arrive at a figure and, on historical performance, we have an opportunity to accept a pro rata quota or put in a higher figure or a lower figure, as we see it.

As each individual exporter is concerned, you play it as you see it, and it's then, when all the figures are compiled, if we have in excess and we didn't even achieve what would have been saleable last year - and of course it has to vary every year, depending upon conditions in the marketplace and in your own backyard.

MR COSGROVE: But from what I understood you to be saying, historical sales are a close indicator of how much you will get in the upcoming year.

MR BAILEY: That's correct, and historical performance of individual exporters within the Riversun regime.

MR COSGROVE: Yes.

MR BAILEY: If I, for example, didn't meet my quota last year - which I didn't - I then relinquish as a pro-rata willingly.

MR COSGROVE: So it's quite tight in that - - -

MR BAILEY: That's right, yes. If somebody else is able to take up that, or trade-off that shortfall, then that is to their benefit.

MR COSGROVE: In the next year.

MR BAILEY: So within the regime, you sink or swim on your own abilities. There are checks and balances, so that the overall program benefits, albeit to perhaps the detriment of one or two. The majority, and that's the major majority, prevail.

MR COSGROVE: If new exporters come in, having satisfied the requirements of the corporation permission, how is their allocation determined?

MR BAILEY: You mean into the Riversun program?

MR COSGROVE: Yes.

MR BAILEY: If new exporters come into the Riversun program - - -

MR COSGROVE: Does that have a consequent reduction in the amount of exports provided by the - if I can call them - existing exporters?

MR BAILEY: Yes and no. Yes, it does have a consequence, inasmuch as it would affect the share of each individual. It would be pro rata'd back if that finite point of the supply equalling demand occurred. And no, because it is the intention that the

market be grown by 10 per cent each year; therefore there is room for new players or new participants. I hate the word "players".

MR COSGROVE: Okay. I guess in a growing market, if everybody's supply was growing - which I assume is the intention since you plan to meet growing demand - everybody would like to get as much of that growth as they can, but basically it's past performance with a bit of an adjustment for any new people who happen to come into the Riversun supply system.

MR BAILEY: Yes.

MR COSGROVE: The other question I was interested in was the one that you might have heard me raise. We understand that there are occasionally problems with moving fruit in a timely manner out of DNE's warehouses, so sometimes it gets stored for a month or two, deteriorates; has to be repacked and so on. How are such costs in that instance allocated to exporters? Is it again pro rata'd in terms of each exporter's quantity on the ship which contains the cartons that are left in storage, or is there some other way of allocating those costs?

MR BAILEY: I'm not sure whether I should answer that one, or whether I should leave that to Riversun managing director and chairman to answer.

MR COSGROVE: Riversun, that's fine - if you don't feel able to.

MR BAILEY: But very briefly, in my own experience, if my fruit doesn't arrive in decent condition, then I pay the penalty.

MR COSGROVE: Yes, I can understand that.

MR BAILEY: If my fruit arrives in like condition to everybody else in that particular ship, then I am treated equally with everybody else.

MR COSGROVE: Okay. So if all of the pallets on that ship happened to be kept in DNE's warehouse for local marketing reasons for three or four or five weeks, the cost of repacking that might be involved will be borne according to the proportions of each exporter's number of pallets in that ship. Is that what you're saying?

MR BAILEY: Given that everything arrived in prime condition, but everything was held back?

MR COSGROVE: Yes.

MR BAILEY: I do believe that the mechanisms of Riversun would be that it would

be all pro rata'd back - - -

MR COSGROVE: Across the products in that ship.

MR BAILEY: - - - across the participants in that particular ship. However, I don't think there has been an instance in the trading where good fruit has been held back. It has only been fruit that did not meet outturn requirements. Even in the year 2000, if we had have had good outturn of fruit, that would have worked for us in that very poor market situation because South Africa were there as well. It was their first year in. They came in volumes that nobody expected that they would ship. They had no marketing plan in place, and they were running around slashing each other to bits, not with sabres but with prices.

MR COSGROVE: Are you saying that fruit has not been held - kept back, I think was the phrase you used - - -

MR BAILEY: Yes.

MR COSGROVE: - - - in DNE's warehouse for longer than would normally be the case and, as a result, requires repacking because of some deterioration after arrival in San Diego?

MR BAILEY: The short answer is yes. The fruit that arrived in pristine condition on vessels in the year 2000 moved out into the marketplace without delay.

MR COSGROVE: Right.

MR BAILEY: It was the sheer volume of fruit that did not arrive in immediate marketable condition that was forced to be stored and suffer because (a) it wasn't immediately saleable in the first place and (b) it had to go through a repacking process.

MR COSGROVE: Why would it be sent in a form not suitable for sale? I know these things are sort of maturing on the boat a bit, but - - -

MR BAILEY: If we had the answer to that one, we wouldn't be sitting here either. It was one of those seasonal things - one in 20 years. I've never seen anything like it. I don't want to ever experience it again. Nobody wants to go through that sort of trauma. And it's not self-inflicted. Nobody has the answer. It's just the physiology of the fruit. It looked okay when it left; it broke down in transit and you can't sell tired, decaying and skin breakdown oleocellosis-style product into a supermarket, or any other market for that matter. Nobody will buy it, so why waste your money trying to ship it out. You're better off - - -

MR COSGROVE: I asked the question mainly because we had evidence given to us in Griffith earlier this week of the type of problem which I had described, and it's impossible for me to adjudicate between these differing views but they certainly make it difficult for us to understand exactly what's happening when we have conflicting claims.

MR BAILEY: I appreciate your problem.

MR COSGROVE: We'll see what we can do about it. Could you tell us, please, a bit about the types of links that exist between growers, packers and processors? Are you operating in the processing market yourself or not?

MR BAILEY: Inasmuch as we supply the processing sector of the industry, yes.

MR COSGROVE: Right.

MR BAILEY: We don't produce perfect fruit; I only wish we did.

MR COSGROVE: Yes.

MR BAILEY: If we were able to produce pristine plastic fruit of three-inch or 75-millimetre diameter and larger, none of us would be here today either.

MR COSGROVE: Yes.

MR BAILEY: Nature says that you produce a product, and nature governs it all long before we are able to see the fruitlet on the tree. We have to work from there at this stage.

MR COSGROVE: I think you said you were a grower yourself.

MR BAILEY: Yes, we're growers, packers and exporters. We also supply overrun from our business.

MR COSGROVE: How does that whole system work and, in particular, have there been any changes in it that have affected the packers' performance over the years - made it more difficult for you, less difficult?

MR BAILEY: Probably 20 years ago when we first came into the industry, the Valencia orange was the preferred orange. The navel orange was the poor cousin. Growers were known to receive accounts from wholesalers for their navel oranges, not returns. About then things did slowly start to change, where navels became more

acceptable, the development of the late season navel began to take effect and become popular with the public. A lot of people juiced their oranges at home and, of course, navel juice only lasts overnight - not even overnight without preservatives or de-bittering treatments.

MR COSGROVE: Yes.

MR BAILEY: It was a very gradual process, and probably 15 years ago our family recognised the need. Because of increased plantings in Australia, we were told by government that, "You've got to get big or get out." Stone fruit was pulled in the Riverina area of New South Wales, so instead of replacing it with other varieties of stone fruit they replaced it with citrus, and that meant a large volume of fruit came on stream in a very short time.

Our perception was, "Okay, we still have a home in the domestic market, but we do need to look abroad," and our direction towards the export market started 15 years ago. We currently have an output of about half a million cartons. We actually pack approximately half a million cartons of citrus fruits annually. About 50 per cent goes export and 50 per cent, by variety and volume, into the domestic market. Most of our mandarins go domestic, most of our grapefruit goes domestic, lemons go domestic, but quite a volume of our navel oranges and Valencia oranges go export. Approximately 50 per cent of our Valencia intake ends up in the processing sector, where we have fresh juice contracts. That was something we never had years ago, so there has been an evolution for the better in the industry in the fresh juice sector. To my knowledge, Mr Cosgrove, nobody has ever grown an orange solely to be put into concentrate knowingly.

MR COSGROVE: Are those contracts for your processing fruit remunerative? I mean, are you making money out of those? I ask the question again, because we were told in Griffith that that was not the case, that they weren't making money, they were making losses year in year out.

MR BAILEY: On fruit contracted for fresh juice we are recovering our costs, we're not making money, so the losses are minimised. If you're growing fruit that ends up in the concentrate market, because you haven't got a contract or the fresh juice market is oversupplied and it is forced into the concentrate market, then you run at huge losses, because the concentrate market is dictated not by the growers in Australia, but by the converters.

MR COSGROVE: I guess that's the value of having a contract. You know the price - - -

MR BAILEY: Yes, and nobody grows fruit solely for juice, whether it be fresh or

otherwise. We expect our grower suppliers, including ourselves, to hold back a small amount of their fruit to meet the later season fresh juice market, which is done willingly because that does show promise for the future and means that we honour a contract and it stands us in good stead. So it's to our own benefit that we do keep some of our crop back, even though it means we're not getting the money for it that is profitable. Usually it's 5 to 10 per cent of our crops. In our own instance we hold back about 50 per cent of our crop, but that's part of our overall strategy in meeting our commitments.

MR COSGROVE: Would you say that the supply chain between the grower and the export, the domestic fresh fruit market or, for that matter, even the processing market - has that supply chain become more efficient over time? I mean, has the introduction of new technologies for example in packing fruit helped to reduce the costs that are charged to the growers for that service?

MR BAILEY: Costs haven't been reduced. They've been maintained pretty well. They probably haven't kept pace with inflation. Growers are probably better off now with packing costs than what they were 10 years ago. Costs in the packing sector, to the best of my knowledge, and I am involved, haven't risen along with CPI. We have been able to achieve savings in packing, because of the introduction of technology, weight or density sizing, automatic packers rather than people, which is a little bit sad, because it has always been a people-intensive industry where there has been pride in what has been put into a carton by the person putting it there. Palletisation - before we used to hand-stack whole semi loads after the day's work was done. That was a little bit tiring, particular then when the transport driver had to drive 600 kilometres to the Melbourne market, or 1000 kilometres to the Sydney market. Palletisation, forklifts, mechanisation generally has helped defray a lot of costs in the packing sector.

MR COSGROVE: Plastic containers, have they come in to any extensive scale to reduce damage to the fruit?

MR BAILEY: Yes, plastic field bins. Most of the major packers have embarked on a program of replacing wooden bins with field bins. The field bins also are smaller, lower, occupational health and safety issues where the pickers don't have as laborious a task in getting the fruit into those bins.

MR COSGROVE: Has there been also some consolidation of packing sheds which might have resulted in economies of scale in production, reducing your unit costs of packing?

MR BAILEY: Yes, unfortunately there has been some attrition rather than consolidation. Some of our peers didn't make the grade. They fell off the bus on the

way to the show and that has been caused by low returns, lack of markets. It didn't help in the first couple of years where we didn't have any more markets than what we had. We were at a point where the domestic market was stagnant, the export market was stagnant. That led to overservicing of our traditional South-East Asian markets, lowering of prices. Historians and statisticians would say, "Yes, but we've exported X thousands of tonnes there at X number of dollars," but the dollars and the tonnes, when you equate them back, don't add up. They have a gap in them, which is a non-profit gap. We've exported more, but at what cost to the poor bugger that produced it?

MR COSGROVE: You mean the average price received?

MR BAILEY: The average price received, yes. We've now reached a point where thankfully the American market in particular, and the premiums coming out of that market, have helped bolster grower income. The Japanese market has shrunk because of those forwardings to the American market, but I do honestly believe that Japan has now become another premium market and the returns out of there are quite good. In our own case we have found that our returns from South-East Asia, Singapore and Hong Kong have improved considerably because we stick to that end of the market.

We also pack a class 2 fruit, which doesn't even achieve half of what the first-grade fruit achieves in returns, but keeps it away from the less profitable juice sector for navel oranges. With the Valencia oranges, because of our contracts, we are able to raise the barrier a little bit as to where we need to be with a price overseas, and therefore are quite willing to put fruit into the fresh juice sector. At times people can't understand why we prefer the fresh juice sector to the second-grade market sector, but it's just a straight case of economics. You get the best you can.

MR COSGROVE: Sure. I was asking you, John, about these increased efficiencies along the supply chain.

MR BAILEY: Yes.

MR COSGROVE: I was wondering whether the bottom line coming out of that might be that the proportion of, let's say, an export price lost by the grower, on account of those costs, might now be lower than it would have been, say, a decade or 20 years ago. Have the efficiencies shown up in that way so that, you know, the grower is getting a greater share of the pie if you like?

MR BAILEY: I can't honestly answer that one, Mr Cosgrove, sorry.

MR COSGROVE: Okay, I didn't have any further questions. Anything else you wanted to say to us?

MR BAILEY: No, I think I've made my views fairly clear.

MR COSGROVE: Yes, I think so.

MR BAILEY: And I hope concise enough on dismantling of that US arrangement.

MR COSGROVE: Yes.

MR BAILEY: I, in summation I suppose, would like to say that if we maintain controlled marketing into those other developing markets, they will become good markets. If we open those markets up willy-nilly, then we will all suffer financially, and I don't have a lot of time for people who have no investment in the citrus industry other than a telephone line. Thank you.

MR COSGROVE: Thank you. We will take a short break for a cup of coffee and then resume.

MR COSGROVE: Our final scheduled participant for today is Mr John Whyte. Could you tell us for our transcript, please, Mr Whyte, the capacity in which you're with us today? Are you a grower?

MR WHYTE: I'm a citrus grower. I suppose some people would say it's in my blood, but I was two and a half when my father moved on to a citrus property in 1930.

MR COSGROVE: I see.

MR WHYTE: I think in my original paper I said I'd been involved in the citrus industry most of my life.

MR COSGROVE: Yes, I remember reading that. I have it with me.

MR WHYTE: That's pretty factual. I have also been involved in the politics of the citrus industry at times. I see inquiries and the like and I wasn't game to have an involvement in this one, but in a weak moment I thought I'd have a go.

MR COSGROVE: In the off-season? Go ahead with what you'd like me to listen to today.

MR WHYTE: No, I'm a grower at Pomona, which is about 25 miles out from him on the Lower Darling and I'm also interested in a property further up the Darling which my wife and I bought in 1973 and my son owns now. We run these places together. We are almost entirely citrus growers now. I have had vines for dried fruit and cattle and we even meddled with wheat in our weaker moments. We came back to the industry which I think we know best. Not always the most profitable but better to concentrate on the one that you've had the experience in.

MR COSGROVE: That's probably likely to increase your chances of profits, as well, because you know a good deal about it. Please go ahead.

MR WHYTE: You want me to fire away?

MR COSGROVE: Yes.

MR WHYTE: Right, in my original submission I think I dealt with your paper as I went through it. I had never visualised you would rock the boat on the American market. Actually I was amazed so I didn't buy into it. I thought that we'd sorted that one out. I thought it was the one bright spot.

MR COSGROVE: Yes.

MR WHYTE: As far as frozen orange concentrate, we used to send most of our Valencias to the processors locally. At one stage when the tariff protection was with us, it was often more profitable than the fresh fruit market but it was quite evident this wasn't going to last. You know, industry assistance was only for a three-year period and it had a winding-down phase. We decided by 1985 we would not plant any more Valencias. I remember going to Sunraysia nurseries, the local nursery here, and saying to Peter Smith the manager, "There's one born every minute, but could you supply 800 Washington navel trees on trifoliata stock?"

Our intention was to supply fruit to the Japanese market, which wanted big fruit. People hadn't been planting navels. Old navel trees tend to grow small fruit and here we were trying to get big fruit for the Japanese market and I thought the only way we'd do that is young trees and I knew on trifoliata stock you could grow big fruit. Peter Smith said, "You'll be right; they're quite keen on Washington navels." By the time they were bearing fruit we'd written the Japanese experience off as history.

MR COSGROVE: Why was that?

MR WHYTE: They were just too fastidious and their procedures involved cold storage treatment here.

MR COSGROVE: Yes.

MR WHYTE: We were expecting too much from the orange to get it into that - John Bailey's word - pristine condition that the Japanese expected. Queenslanders stuck with the Japanese market longer than packers here, but it was a very expensive operation meeting all their commitments. Their procedures were quite difficult, to say the least, and it came back to the stage that unless a packing shed was packing a large quantity of fruit, they couldn't alter their equipment, change their dips and all that sort of thing to satisfy the Japanese requirements.

Fortunately that planting of navels and subsequent ones have been very good in the United States market; whereas at Pomona, where I have older navel trees, we appreciate the American market but they want big fruit and our old trees, which used to grow big fruit when they were young - it was too big for the local market when the trees were young. They didn't want fruit that size; no-one wants fruit that size, they used to say. We now have a problem trying to get enough size in the fruit. You end up with a pack-out of four to five cartons a bin quite often. That leaves perhaps 20 cartons of fruit, or the equivalent in volume has got to go somewhere else. When you get Barker Green and Park talking of - what was it? - 16 and a half million cartons this would be another 40 or 50 million cartons of overrun.

The problem in meeting these selective profitable markets is: what do you do with the overrun? There was a time we had a concentrate, but you'd have to make a lot of money out of the export to ever justify the rest going into concentrate, because the concentrate wouldn't even cover the picking costs. We're in a situation now - we're 25 miles out where we are - if you quoted a price of \$200 a tonne, I immediately say that's 170 because there's \$20 a tonne freight and there's \$10 levy. I'm jumping the gun a bit there.

MR COSGROVE: Okay.

MR WHYTE: I have been in the habit of going to international citrus congresses. I started in 1984 and there is one every four years. It's expensive, but it is an eye-opener. It alternates generally between hemispheres, if they can. You go to a citrus producing country and you mix with other growers and departmental people and you become part of the world scene.

MR COSGROVE: That's quite important, I would think.

MR WHYTE: We don't spend much time on holidays, by the way. That's where you compare their costs with our costs. Really, we've got to be selling very good quality fruit to make up for our increased costs. You can't just send ordinary fruit to export markets and get an ordinary price, or else you're not going to cover your costs.

MR COSGROVE: Yes. My colleague earlier in the day was saying more or less that; that this is a labour-intensive industry and Australia has real wages which are continuing to rise, so you're working under that disadvantage year in and year out.

MR WHYTE: If I can refer to the value of Australia's exports.

MR COSGROVE: Yes.

MR WHYTE: You quote a figure. Is that FOB?

MR COSGROVE: Yes, it would be FOB.

MR WHYTE: Yes, well, you see, that's got no relation to the growers.

MR COSGROVE: No.

MR WHYTE: You've got to pay what returns to the growers, as John Bailey would have pointed out.

MR COSGROVE: Yes.

MR WHYTE: We support a lot of people between the tree and the market. Exchange rates - and there again most people are critical of the United States, but at the citrus congress in Florida there were hardly any Californian growers. I didn't meet one. The reason was they were out of money. It was a difficult year that year. But they had had a freeze - and I've quoted that in this paper I just gave you - which is an historical run-down. They had a freeze in the year 1999 to 2000 and they ended up with fruit on the ground. Their packers were not able to sort out all the frosted fruit. That's not - sorting out frosted fruit is not easy. I think you've got Russ Witcombe on your program tomorrow, who is manager of MFC.

MR COSGROVE: That's correct.

MR WHYTE: I asked him today about sorting out frosted fruit and he said they could do it about six weeks after the frost, otherwise you rely on external blemish. We will be putting alarms out in our properties, where we're picking, to record the minimum temperature. When the minimum temperature gets down to a critical stage, which is minus three or something - I'm not sure what that figure is - these things start beeping, and then we have to stop picking until there's an inspection done of the fruit, an assessment. It could be we may have to stop picking for say, six weeks. That is an awful hole in your three-month window to the United States.

MR COSGROVE: Does that fruit then become unusable?

MR WHYTE: Yes. It goes dry internally.

MR COSGROVE: It can't be used for processing?

MR WHYTE: You may have struck oranges, particularly navels, which look good on the outside and you cut them open and one side of it, or the whole fruit, may be short of juice. That will be frost damage. This applied to us - our last major frost was 1982. It affected nearly all the inland areas right up to Queensland, but our packers were not able to sort out the frosted fruit to the required standard. You get a very quick response from consumers and I can understand it; I don't blame them. But it's out of our control. That will come up later - can I say we're looking straight into a drought program now.

The Californian export commitments were not met. The export market became very good for Australia. I was looking to see where you've got those figures in your book on the prices we were receiving at farmgate.

MR COSGROVE: Yes, they're based on ABS, Australian Bureau of Statistics,

information.

MR WHYTE: Yes, and I couldn't believe them, because we weren't anywhere near it.

MR COSGROVE: No, you're not the only person to have raised a question about them and we will be looking at them once again. We do know that they incorporate an estimate of packing, so if one deducted that the price would be lower, and that may be one of the main reasons why they look high to growers - at least growers who do not pack their own fruit.

MR WHYTE: Yes.

MR COSGROVE: So little angles like that we still have to sort out.

MR WHYTE: I thought they might have just worked on the PAX price, not overrun. It beat me.

MR COSGROVE: What did you estimate, incidentally - if you're able to give us this information without damaging your commercial interests - your prices to be?

MR WHYTE: I think I've put it in my response to the position paper.

MR COSGROVE: Okay. I beg your pardon, if I've missed that.

MR WHYTE: It's on page 2, down near the bottom.

MR COSGROVE: Yes, I see it here now.

MR WHYTE: The table indicated a farmgate price - - -

MR COSGROVE: 170.

MR WHYTE: - - - of \$300, and my average worked out at 170 at the farm, less \$20 freight to the packing shed and less \$10 levies.

MR COSGROVE: Do you have now exclusively navels; no Valencias?

MR WHYTE: I haven't done the sum on my navels to see how they worked out.

MR COSGROVE: So this price is for Valencias?

MR WHYTE: This was for Valencias. The \$300 a tonne for Valencias is just

(indistinct)

MR COSGROVE: Yes, I see.

MR WHYTE: The only time in my 73 years that I can remember Valencias being worth \$300 a tonne is this year. The factory price paid by MFC was \$299 a tonne, less \$20 freight, less \$10 levies. I thought I was about average, and I went to the benchmarking thing yesterday afternoon to get some more evidence to prove you wrong - - -

MR COSGROVE: Yes.

MR WHYTE: - - - and they quote here - and I understand you've been given the price of this - actual price of Valencias for the Murray Valley is \$205 a tonne. They say that was farmgate. I'm not sure where freight and levies fit in. The farmgate is gone, but when it moves off the property I write off \$30. The interesting thing is overseas the farmgates are going back and the fences are going up. I hope we don't have to do that again. Right. We were back on our original page.

MR COSGROVE: Yes, I'm with you.

MR WHYTE: The key factor influencing the success of Australia's exports is exchange rates, and I realised in California the difficulty they had buying their way back into the market with the growers' money. When one grower said to me he thought he was about average - he lost \$4000 an acre - I thought, "We didn't do so bad, did we?" \$US4000 is 8000 to ours.

MR COSGROVE: Yes, exchange rates can have a big effect.

MR WHYTE: He said, "It's much easier to restructure your finances after a freeze than it is after a marketing debacle," because their exporters had sent fruit overseas that wasn't wanted, and then the following year - there seems to be a pattern. Going back to this paper I gave you this afternoon, there seems to be a pattern that following freezes or frost damage there's a large crop of generally smaller fruit. This was the pattern in the USA. Growers wanted money and didn't want to spend money on frost protection if another freeze occurred, so they wanted to get an early start picking. They used to use oil heaters to heat their properties; can't afford to do that. They rely on wind machines and, with the fuel price going up, they didn't want to start their wind machines.

When we went through there early in December on one Sunday afternoon, everywhere we went they were irrigating, because that's one way of reducing your frost risk, and it's cheaper than running those wind machines. Pickers and packers

wanted work and shippers wanted to export. They had a very high-value dollar and they bought their markets back with the growers' money. They had to go back to their previous outlets and say, "We're sorry we sent you some dry fruit last year. We've got some good fruit this year; a bit small, but we can do you a good deal." The situation in the United States is that the packers usually arrange the picking. Here it's almost always the growers pick the fruit and we dribble into the packing shed.

In the United States the packer will send out a picking team, and trucks, and they will pick a large volume of fruit off a property so they will have a uniform line - I hope a uniform line - going through their packing shed and they will direct that to where they think the best market for it is. So that when growers want money, as they do, at the beginning of the season, they write to the packing sheds, "Let's start. Let's go." That coincided with above average crops in other countries, including Australia. In Florida we did the pre-congress tour. We spent a week looking around the producing areas there, and we went to DNE's property, which is very large and I would say very efficient, and they gave us two cartons of Thompson navels - they won't take any Thompson navels from Australia now. David Nixon said, "We didn't make anything in this past season out of oranges at all."

They do have some innovative marketing arrangements there with presentation packs and also they do a line of fruit. Where Girl Guides here might have a lamington drive, you can have a small carton of citrus fruit. At Christmas time you can arrange with the packing sheds there to send a presentation pack of citrus to anywhere in the United States, and it's a promotional move, apart from being convenient for your Christmas shopping. But they don't send perfect fruit; they can send fruit that's more typical of what they grow. It can have external blemishes but be good inside, and they hope they are educating the consumers that a piece of citrus fruit doesn't have to be perfect externally to be good inside. You can have a mixture of different varieties of citrus or all oranges or all grapefruit.

MR COSGROVE: The Americans are pretty effective marketers, I must say.

MR WHYTE: It was big business. We were amazed. Every packing shed we went to was doing it, and it's unfortunate that our Christmas is in December. I'm wandering on again, Mr Chairman.

MR COSGROVE: Could I just revert though. You mentioned that DNE doesn't accept Thompson navels from Australia.

MR WHYTE: That's right.

MR COSGROVE: Are they very widely produced?

MR WHYTE: Thompson navel is an early maturing navel. It tends to be short on juice.

MR COSGROVE: I see.

MR WHYTE: It has a very smooth rind. It looks good, and it probably deceives more buyers than it should. I have a few which I am reworking. I was working on them this morning and if I'd stayed home I would have finished them.

MR COSGROVE: So you wouldn't really see them as a big area of export?

MR WHYTE: It's not a big volume line, but people have done well out of them because they can pick them early in the season.

MR COSGROVE: Yes, when the price is better.

MR WHYTE: In a season like this, the Thompson navel will be good value - it won't be good value, but it will sell early in the season. It will tend to detract from sales later on. Where were we? I ventured into Florida then.

MR COSGROVE: Yes.

MR WHYTE: They weren't making any money, but at least they grow mandarins, what they call tangerines, and they grow tangelos. In most of the evidence that I've heard no-one has mentioned tangelos. You've only had oranges - - -

MR COSGROVE: Mandarins.

MR WHYTE: Mandarins have had a mention, have they?

MR COSGROVE: Yes.

MR WHYTE: Right.

MR COSGROVE: I think they did get a mention today briefly.

MR WHYTE: I'll go back into the early 1980s. The grower organisation here asked the New South Wales Department of Agriculture to come up with alternative citrus varieties that could be grown. We were worried about people still planting Valencia trees when the writing was on the wall and, as I said in my original submission, there were some new late navel varieties known but the growers that owned those bud lines would not let the bud wood out; they wanted to make money

out of it. There were no plant varietal rights, no legislation, so they held onto them. The nurseries were flat out growing Valencias.

The trials being done by the New South Wales Department of Agriculture were to work out the best Valencia to grow, so we asked Bruce Brown their extension officer to come up with an alternative variety that we could recommend to growers. Bruce negotiated with other departments - the South Australian department with Greg Knowles - and they both tell me that they came up with minneola tangelos as being an option, and we would have asked, "Well, what are they?" and they're a cross between a grapefruit and a mandarin. I don't know whether you know the tangelos very well.

MR COSGROVE: I do. I eat them every year.

MR WHYTE: Right. We straightaway ordered trees. You go to the nursery. You allow a couple of years for the nursery to produce trees, and we planted trees. They grew fruit, and I went up and I had a couple of bins and I picked our first crop of tangelos, wondering what to do with them. I took them into the packing shed where I took the rest of the fruit, and the packing shed manager said, "What are these? Well, what will we do with them?" He didn't know what to do with them. Anyway, he put them through the machine and put them into cartons and sent them off to Sydney.

The industry had suddenly started growing something without looking into the marketing. The same thing has happened with emus and with ostriches, and lots of other primary industries. They do this. Fortunately there was here a lady involved in the industry, Anne Orton, who took an interest in tangelos and said, "Let's market them as a specialty line. Let's not make them a commodity. As they come in, let's do special carton promotion, get growers to pay more money," which we did, and she instituted a marketing system, and South Australia did the same, and it still exists as a tangelo growers' fruit.

It didn't take long to produce enough tangelos to supply the Australian market. They're not suitable for the Asian market; there's too much acid. And fortunately the American market opened just as crunch time was going to come for tangelos, and they have been one of the most successful export lines to the United States. Russ Witcombe, the manager of MFC, said at an annual meeting of shareholders of Mildura Co-op that the best grower received \$2200 a tonne for his tangelos exported to the United States. I was not in that category, but anyway they have been good.

MR COSGROVE: Do they have any special growing requirements that make them costly to produce - relative to an orange?

MR WHYTE: You have to thin them.

MR COSGROVE: Yes, like a mandarin.

MR WHYTE: Otherwise you won't get the size.

MR COSGROVE: Yes.

MR WHYTE: No, I think you could treat them as a normal citrus line. You'll have to spray with gebralic acid to stop premature ageing of the rind. Gebralic acid is naturally in the fruit, but you've got to boost it a bit. From experience it's now been found the time to do that is early January, when the fruit is very small, and you may have to put a second spray on. The colour of a tangelo when it's ripe is quite spectacular.

MR COSGROVE: Intense, yes.

MR WHYTE: It's a bright red colour.

MR COSGROVE: Yes.

MR WHYTE: In Florida, they market them as Honeybells, but you would not want to call Australian tangelos Honeybells. I think it would be a deceptive practice.

MR COSGROVE: And is production of them now rising quickly because of the high price?

MR WHYTE: Yes, there are a lot of trees.

MR COSGROVE: Yes.

MR WHYTE: Yes, gone into full production and we have this situation that the American market last year would have taken a lot more, but we didn't have the fruit. The Asian market won't have them and we haven't really developed a market in Europe. So there's work to be done. You don't ever want to be dependent on just one market or else tangelos are going to go out with the emus and the ostriches. Anyway the returns from those have been good. The marketing system has been good. Please, please, don't jigger the marketing system for those. I think it's critical, if there's anything that can be done to get tangelos into European markets, any assistance that can be achieved is needed.

MR COSGROVE: Are there trade barriers or quarantine barriers, do you know, or is it more a question of marketing them?

MR WHYTE: I think it's marketing. In Europe, it will be marketing.

MR COSGROVE: Okay.

MR WHYTE: Getting it there in the condition that they want it. Our window in the United States is a bit short. We are always urged to pick earlier than I think we should for the United States and David Nixon, from DNE who reports on these things, always seems to be a bit critical of the acid level in our tangelos and, if we could wait another month before we picked, we would have a better product.

MR COSGROVE: I see.

MR WHYTE: We'd be getting closer to the Honeybell category. It was interesting to see that there are people in Florida who would go to a packing shed and they wanted Honeybells, not minneolas. They didn't want minneola tangelos, "No, we want Honeybells," and it's only the name. Just as well there's not someone breathing down your neck. Have you got a time on this?

MR COSGROVE: We'd like to finish around about 5.00, if we can.

MR WHYTE: About 5.00? Right. Well, I'm dealing in history then with my original submission. I then went to - on page 2 - the International Citrus Congress, which stated that our competition is not apples, bananas, et cetera, but prepared food ready to eat and, at the university at Lake Alfred, they have a machine which takes the peel off. It's much cleaner than you'll ever take it off by hand. It's a process rather than a machine. It's an enzyme which is sucked in under the rind and destroys the pith, you might say, so that then the machine can just slice the peel off.

Being good Australians, you don't see a demonstration like that without you get a souvenir or two and I managed to go out with some fruit in my pocket in containers that had already been peeled. My wife and I had it for breakfast the next day and I have somewhere in here some photos. I've heard people say it would lose its flavour. You know, people will always knock new things. Well, don't you believe it. Somewhere I have - I had - photos. I came back and I started talking about doing this and I find that it's happening in Australia or at least this process is being developed in Australia. I think those are the same. One is done up and one is in its container.

MR COSGROVE: Yes.

MR WHYTE: The evidence is that, if you have that in your refrigerator, it will be consumed willingly and in the United States they talk about dashboard dining.

People can have their breakfast in transit, because it comes with a fork, the same as you can buy prepared pineapple and other things like that in Australia, and I'm sure what we were told is right. Money doesn't seem to be the problem.

MR COSGROVE: Could be a factor, yes.

MR WHYTE: And I was talking to a grower yesterday who said he's got grandchildren living in the city and he sometimes goes there. He takes some oranges and gives them an orange and they don't know what to do with it. They don't know how to peel an orange and we have to come up to, I think, this current era of prepared food.

MR COSGROVE: Yes.

MR WHYTE: Now, there's a cost, but I think we've also got to find every market we can and, if we are not into prepared food like that, there will be plenty of other fruit that will be and we just get left behind further than ever. Domestic marketing has often been a shambles. I mean, you've got consumers who don't know the difference between a navel and Valencia or different mandarin varieties. I go to meetings and I say that and I find it very hard to get a comment even, but really, to me, that's marketing.

MR COSGROVE: Yes. Well, I happened to notice in one of your photographs the label on the carton is "100 per cent pure Florida". Now, I don't think I see anything like 100 per cent pure Sunraysia or pure Riverina.

MR WHYTE: No.

MR COSGROVE: So I think you have a point there.

MR WHYTE: It would cost nothing extra if the packer put on his label and it said "Navelina" or "Washington navel".

MR COSGROVE: Yes, you're right. The apples are much better at that now.

MR WHYTE: Yes.

MR COSGROVE: They tell you what you are getting.

MR WHYTE: Yes. Now, the retail price has little relation to the market price and there's a big gap between the two. I think the more we do to provide something to attract the consumer - whether it's that or whether it's super external quality fruit - the bigger the gap is between what they pay for it and what we receive, because we pay

the costs. We pay the costs between - you know, all the handling really to the consumer comes off what otherwise could come to the grower.

MR COSGROVE: Yes. In that respect, I wonder if you had any chance to look at the supply chain shares. Do you have our report? If you look at page 117, we have there three tables and you'll see that, depending on whether the fruit is sold per kilo or in a three-kilogram bag, we've got a range of - well, using the extremes, 27 up to 34 per cent of the retail price being received at the farmgate.

MR WHYTE: At the farmgate. Yes, that would amaze me.

MR COSGROVE: Too high?

MR WHYTE: I wonder where you got your figures.

MR COSGROVE: Well, they've come from some work which we have done based on this research company called Retailworks, which provided the basic data to us.

MR WHYTE: When I put in this first submission, I think I said we were getting \$180 a tonne for our Valencias.

MR COSGROVE: Right.

MR WHYTE: 18 cents a kilogram and that was good.

MR COSGROVE: Yes.

MR WHYTE: That was good, but the cheapest I could see in bags was out at \$1 a kilogram and I have difficulty with some of your figures.

MR COSGROVE: Yes.

MR WHYTE: They don't match mine.

MR COSGROVE: Okay.

MR WHYTE: The estimated share retail price in three-kilogram bags had, say, around 30 per cent to the farmgate.

MR COSGROVE: Around 30, yes, whereas you're saying it's - - -

MR WHYTE: John Bailey didn't buy into that one.

MR COSGROVE: No. But, on your figure, it's a bit less than 20.

MR WHYTE: I either have to say that we are being robbed or else we are growing fruit which is not in the desired size or condition that the market wants.

MR COSGROVE: Yes. Okay.

MR WHYTE: Now, I put in a comment that I wondered how much of the \$4.99 a kilogram for Pink Lady apples goes back to the grower, because that's a fabulous price. But I understand, if you grow Pink Ladys, you are doing well.

MR COSGROVE: Yes. Well, they're a very attractive apple. Good eating.

MR WHYTE: Yes.

MR COSGROVE: Although they're often available, at least where I live, for much less than \$5 a kilo.

MR WHYTE: Are they?

MR COSGROVE: I'd say the going price in Canberra is - depending again on the quality of the apple. There are really good Pink Ladys and there are somewhat soggy Pink Ladys, but I think you can get a good Pink Lady in season in Canberra for about \$3 a kilo. At 4, you'd be getting a very good one.

MR WHYTE: Yes. We are perhaps a more captive market here for Pink Lady apples.

MR COSGROVE: Maybe.

MR WHYTE: Right. Then I went into the history on the poor performance I thought we experienced from governments at a time when we wanted to make changes. We wanted to get out of growing Valencias and the options weren't there. We'd been through a 40-year quarantine. Just as well we did, or we'd have been plagued with all sorts of diseases we're lucky we don't have, but that has now changed and you can legally bring bud wood in. I put in the contentious one; that I didn't think size of property was a factor.

MR COSGROVE: Yes.

MR WHYTE: The more Valencias you had in the year 2000, the more money you lost. There is a variation in that though. If you have large-sized Valencias early in

the season, the price is quite good. But if you haven't got them, you know - - -

MR COSGROVE: It drops away.

MR WHYTE: It doesn't matter how good the price is if you haven't got them.

MR COSGROVE: Yes.

MR WHYTE: Then I went through our replanting experiences and this is ongoing, trying to find something that will be profitable.

MR COSGROVE: Yes.

MR WHYTE: As far as I'm concerned, if I can't see a line of citrus fruit which I can expect to get \$200 a tonne for at the farmgate, I wouldn't plant it, because the first \$100 goes off in picking costs and in freight and levies and I've done enough growing of citrus for nothing. Then I went on to quarantine and, when you see the problems that other countries have, we are extremely fortunate. When we were in Florida, there's no property we went onto that we didn't first have to go through an ammonia spray you walked through. The bus had to go through a dip. Every vehicle went through a dip. Their properties are fenced. The security is quite high. The gates are locked and it's to keep people out in case they have canker on them. They're trying to eradicate citrus canker.

MR COSGROVE: Yes.

MR WHYTE: At one stage the canker was only in nursery trees, but it did get out and they're growing citrus further south in Florida than they used to. It's ideal conditions for canker and I think they will be battling for a long time. Looking for trees with canker - or fruit - is ongoing. In fruit, they're watching for it in their packing sheds. If they come back and they find a tree, they clear about an acre around it. It all gets burnt and it's expensive. It's a cost which is borne by the growers. We are not in an ideal climate here for canker, but if you get some of these more exotic problems it puts you out of your export markets.

MR COSGROVE: Yes.

MR WHYTE: I did want the quarantine arrangements strengthened.

MR COSGROVE: Then you spoke of the Australian dollar. I can appreciate that point.

MR WHYTE: Well, you know, if the dollar went up to 70 cents that's the grower's

money that went. All our costs would be the same.

MR COSGROVE: Of course, it's a risk that you must be conscious of. We have now a flexible exchange rate, so it can move around.

MR WHYTE: All our primary industries, all our export industries are in the same boat. I used to say I wish we could have a 50-cent collar and we've got it.

MR COSGROVE: Some people say you might get a 40-cent dollar.

MR WHYTE: I think we've probably spent enough time there. I am very keen to see better rootstocks and I think we've got to have seedless fruit. If you're going to have prepared fruit ready to eat and there are people who have to spit the seed out, we are not there yet. We have got work to do.

Imperial mandarins, the main variety grown here, if they were grown in isolation a mile away, say, from any other citrus, they could be seedless and there would be a market. I'm sure it would be a premium, but you would need to label them "seedless Imperial" - this is on the fruit, to get that premium.

MR COSGROVE: Yes.

MR WHYTE: And you would want to ensure that someone wouldn't come along and plant a lemon tree outside your boundary, or make sure there are no rootstock suckers get away from the tree and produce a bit of fruit that is seeded, or otherwise you'll have seed in the mandarin. But there is scope for someone who is away from any other citrus, to produce - without any great delay - a line which is going to make it a lot harder to sell all the existing Imperial mandarins. There are a lot of Imperial mandarins that have been planted.

MR COSGROVE: Yes.

MR WHYTE: Anyway, then I got your position paper and oh, dear - - -

MR COSGROVE: We had noticed your reaction.

MR WHYTE: Yes. The year 2000-2001 was unusual and that is covered in the paper I did today.

MR COSGROVE: Right.

MR WHYTE: I'm sure we have to be smarter in marketing citrus fruit. Unusually hot weather in November-December 2000 caused a heavy drop of the developing

fruit on citrus trees, resulting in lower production. This past season has not been a usual season. But we've had mild weather in the same period in 2001 and there is a lot of fruit on the trees - too much, I'm afraid. Although we've spent a fortune on fertiliser to try and boost it, we're watering furiously, it's been extremely dry. Rain, wet weather will help to size fruit much better than irrigation does - and we have no rain.

The history there is that these things are out of our control - these unusual years. We're going to a situation now where the market is relatively short of fruit, the prices are good - but we haven't got any left - growers want to get income. When you've finished picking Valencias some time ago, you're wondering where the next lot of money is coming from, and I think we're looking at perfect drought conditions. If you've got drought you've got frost. So we've got potential frost damage. The pickers want to pick and the packers want to pack - that's their business - and we've got every incentive to market immature fruit, as there appear to be no effective minimum maturity standards enforced. Did ACG have any submission on that?

MR COSGROVE: No, we didn't discuss that.

MR WHYTE: Did the Marketing Board have any submission on it?

MR COSGROVE: No, not to the best of my knowledge.

MR WHYTE: Woe is me.

MR COSGROVE: No, I'm pretty sure it's not mentioned in their submission.

MR WHYTE: We are facing, as I say here, a perfect situation to turn all our customers off quickly. There was a time when there were state-enforced minimum marketing maturity standards.

MR COSGROVE: I see.

MR WHYTE: New South Wales was seven to one sugar acid ratio, which was crazy. Victoria I think was 7.5 to one. United States was eight to one. People there said it should be more. But the Marketing Board in Victoria used to try and enforce, here, a higher minimum standard. If you haven't got the people on the ground to do it, then you wave the flag.

MR COSGROVE: Yes.

MR WHYTE: We are going to quickly alienate consumers by giving them a taste of sour fruit so they won't buy again. If timing permits, the Productivity Commission

should sample Australian fruit appearing in supermarkets in April and May.

MR COSGROVE: We'll be able to try it in April. May well be too late.

MR WHYTE: I hope you can prove me wrong. If not, I ask you to come up with a workable solution because other horticultural industries have similar problems. Our grape industry - our fresh grape industry here does it every year. You know, they plead with growers, but someone will go to a vine and they will find one side of the bunch near the top is edible and they will pick the lot.

MR COSGROVE: Yes.

MR WHYTE: If you could tackle that problem everything is not in vain. But otherwise if we leave it like it is, it's ongoing and particularly in a year when you have a short crop and a bare sort of market, we will be guilty.

MR COSGROVE: But I guess you've had these circumstances in the past.

MR WHYTE: Yes.

MR COSGROVE: And yet I think our figures - which I hope in the production sense at least are accurate - do show an upward trend in consumption of fresh citrus in the domestic market. It's not a very strong trend, I think it's something like 3 or 4 per cent per annum.

MR WHYTE: Yes, and it depends what price you sell them at and when you sell them.

MR COSGROVE: Yes.

MR WHYTE: And if you are looking at that early market, at a premium price, and the oranges are dear and they're not edible, you have committed one of the marketing sins that sets the market back for a couple of months at least. Then when people have got over it and they're willing to try again, the price will be way down there and you'll be selling bargain lines.

MR COSGROVE: But the consumer resistance doesn't last. It's a temporary thing.

MR WHYTE: I wish I could agree with you. James Kellaway was here talking about this after lunch today and he said his wife - I think it was James that said it - his wife said she bought some oranges recently and they were dry and she said, "We won't buy any more." I don't blame her.

MR COSGROVE: I'm a reliable customer.

MR WHYTE: You can buy a banana that's green and you can put it on the shelf and a couple of days later it will be ripe. But you buy a sour orange and that's it.

MR COSGROVE: It won't come good.

MR WHYTE: Apples are the same.

MR COSGROVE: Yes.

MR WHYTE: Whose idea about the source of wealth - when the value of the property goes up?

MR COSGROVE: Your asset value has increased. It's the basic asset.

MR WHYTE: Beneficiaries in your will may benefit.

MR COSGROVE: Yes, it increases your equity and so enhances your capacity to borrow, if you wish to borrow.

MR WHYTE: No, I'm going to disagree. It doesn't increase your equity. Your equity may diminish. Your property is worth half a million dollars and your equity in it might have been 300,000 or something - as the value goes up it doesn't automatically give you more equity.

MR COSGROVE: I think it does. If you think of an orchard as being like a company with shareholdings then as the value of that company is raised, the value of my shareholding rises by definition. Now, in the case of an orchard, isn't it similar? The orchard was worth, let's say, half a million dollars; over a couple of years it rises to be worth \$600,000 so if you wish to realise that asset, sell it, you would be \$100,000 better off. Now, as people have pointed out to us, your rates will also go up probably. But I think on the whole it's going to put the grower or the owner of that orchard in a better financial overall position.

MR WHYTE: Better position when he goes to the bank and he wishes to borrow or to increase his overdraft to carry on.

MR COSGROVE: That's right, yes.

MR WHYTE: I don't think it necessarily increases your equity in the property; it increases your ability to raise more capital.

MR COSGROVE: Yes, I think I understand what you're saying. Your equity in the property is what it is. You know, it's 100 per cent or 50 per cent or what have you, but that 100 per cent now has a higher value, or the 50 per cent now has a higher value.

MR WHYTE: Yes. I don't look upon that, anyway, as a source of wealth while I'm a grower. I think what we are looking at is the situation for growers who are intending to stay in the business.

MR COSGROVE: Yes, for them it's essentially - - -

MR WHYTE: I would be quite entitled to say, "Enough, I've had enough and I'll get out of it." I don't intend to - much to my wife's dismay - because it's a challenge to stay in the business. I like trying these new varieties. I like trying to beat the trends and so on. I am not interested in bowls or golf. I've had a lifetime growing fruit and that's where I belong.

MR COSGROVE: Yes, I can see it.

MR WHYTE: Anyway, I was very critical of that part.

MR COSGROVE: Right.

MR WHYTE: And I am extremely critical of your US situation. I don't know whether you've met with BGP International in any of these things.

MR COSGROVE: Yes, we did. Yes, we met with a number of people.

MR WHYTE: Did they say what to do with the overrun? When you had 15 and a half million going to the United States of these large sizes - we haven't got 15 and a half million - what did we do with the rest?

MR COSGROVE: No, they did not address that and they will be appearing before us in Melbourne next week so I'll take it up with them.

MR WHYTE: Good.

MR COSGROVE: Thank you for raising the point with us.

MR WHYTE: There is some satisfaction as a grower in getting a good price any time. It's great for morale. If you're just getting enough to carry on - please don't stop that market. We've spent a lot of money trying to produce the larger fruit suitable for that market. I think it involves a lot of replanting. I think we've got to be

growing the right trees to do it. We've got to be sure that that market will remain profitable. If we're going to spend the money on it, it's got to be secure. We've got to compete with South Africa. We can't compete with their prices. Their fruit is generally bigger than ours, but its colour is yellow and ours can be orange. We have to be smarter in marketing than they are. They had a good marketing arrangement once through Outspan.

MR COSGROVE: Yes.

MR WHYTE: And it fell into pieces and they just went through a period of chaos and suddenly realised what fools they were, and that there is a rationalisation process going on.

Competitive marketing on export markets has cost growers dearly. About five years ago I went with a group of Australian growers and we looked at the markets in Malaysia, in Singapore and in Indonesia. We came across the same story: that Sunkist will send one representative to sell their fruit, and they'd sell a lot. South Africa used to send one person over who would say to the merchants, "We have a shipment arriving on such-and-such a date. Your quota is so much, and your quota is" - and that seemed to work. One previous time I went to Singapore to follow Australian fruit going through the market, and we were there for 12 days and the boat still hadn't arrived and we came home.

In the meantime a shipment of South African fruit arrived. It was labelled "Goldland" in those days. Everywhere, all of a sudden, were Goldland navels. They were big, they were good - good quality - and no country of origin, just Goldland. You'd see people with about 30 cartons carried on a trailer, or on the pushbike, you know; they could pedal that stuff around.

We would have a situation where when packing sheds had more fruit coming in the door than they could manage for the local market, they would say, "We'll have to look at export." So they'd jump on a plane and go to Singapore and they'd go around the market there and see if they could find a merchant who would buy some fruit. The common figure we used to get was 40 sellers of Australian fruit in those three markets. If you want to sell fruit to a merchant who has got that much fruit on his stand that you can hardly fit yourself into it, if the markets are jam-packed full and you want to sell them more, you've got to offer them a good deal.

Quite often it would be later in the season when this marketing shambles developed. The fruit was perhaps over the hill, didn't travel all that well, wouldn't keep. We were showing fruit that had come from Australia that shouldn't be there. We'd ask that exporter not to send any more and there it is, it's still coming. I'm no expert in marketing but - - -

MR COSGROVE: No, nor am I.

MR WHYTE: It was such a plain, simple lesson that if you sent to a market what a market could accommodate you would achieve a reasonable price. If you didn't receive a reasonable price you went somewhere else. But it's just competing with one another, it's crazy.

MR COSGROVE: Yes. There are various methods of marketing, of course, and I don't think that's one that we would necessarily have been espousing. What we had in mind more I think was the development of essentially long-term relationships between a supplier - be it a particular grower or a packer or an exporter - and an important client or set of clients. Then you can establish a basis of trust and respect for what you're getting and what is being sold on your behalf. That's not uncommon, I think, as a - - -

MR WHYTE: You've got to pick the right pair, the right two.

MR COSGROVE: You do. That's the nature of markets; they're all about relationships. They're much more human than many critics would have people believe, but I think that was more the type of arrangement which we were thinking of, rather than just going into a wholesale market or something.

MR WHYTE: I was one of the first growers of late navels. We planted Lane navels - Lane late navels in 1968-69. Once the trees were established and the fruit settled down, it was good fruit and it was no trouble to sell it. We would have merchants ringing up wanting it. I used to pack through a packing shed, a branch of Mildura Co-op. I'd take the fruit there and they would direct it to where they thought it should best go. But there was one merchant who did better than the others and he rang me up one morning and said, "Look, I've been returning you \$2 a carton more than your other merchants receiving your fruit. He is just opposite me in this market. How can I go on getting more money for you when the identical fruit is just over there a few feet away?"

I had to go to the packing shed and I had to say, "That fruit has got to go to this particular market. If you can't do that I'll have to take it to another packing shed." The packing shed manager said, "Yes, but the merchant who buys your Lane navels at \$2 more than old Bilko there, he won't take my Valencias. But if I give that merchant some of your Lane navels, he'll take three or four pallets of my Valencias." I have to say, "But I'm not picking Valencias," and if you are going to line up a grower/packer/merchant/retailer chain, you've got to get it right.

MR COSGROVE: I agree.

MR WHYTE: Otherwise it's a recipe for disaster.

MR COSGROVE: John, I'm looking at the clock and unfortunately we do have another engagement that we have to get to as soon as possible after 5.00. I have of course read your submission apart from the page you've given us today which you've been working through, but there's that little section at the bottom on water reforms. I was wondering if you could just tell me what's involved there. I haven't read it yet.

MR WHYTE: Your paper says that there's going to be enhanced supply in some areas.

MR COSGROVE: Yes.

MR WHYTE: And I wondering which areas.

MR COSGROVE: You're taxing my knowledge a little there, but I think New South Wales could be the main case.

MR WHYTE: Most citrus grown in inland New South Wales is done with high-security water. We have high-security water and low-security water.

MR COSGROVE: Right.

MR WHYTE: If you had high-security water you had water 99 years out of 100; get your full allocation.

MR COSGROVE: Yes.

MR WHYTE: You were ranked equally with towns. The townspeople always look after themselves, so they changed that. The town is highest security and we come in a bit further down the line and then people with annual crops are looking at a pretty grim picture next year if it doesn't rain. Water that comes down the Murray has a first priority to supply South Australia's entitlement, which I think in the heat of summer is 7000 megalitres a day. To do that they have virtually used the full storage capacity available to the River Murray from Menindee Lakes this year. It's now been cut off as from the end of February. What's there is for irrigators on the Lower Darling and consumers on the Anabranch. Actually they've stored the water in the wrong lake and it's an ongoing problem.

Theoretically there is enough water in Menindee Lakes to supply the Darling River downstream users for the next season. The water may not be all that flash in quality. We have been on over 600 EC quite a fair time now. All the water for

South Australia has to come from the Murray. Dartmouth is about 80 per cent full - the water is there - but you cannot get the water down the river to satisfy the Victorian, New South Wales and South Australian demand. It's always been necessary to get some water from Menindee Lakes.

Menindee Lakes - if there's no - late in the season to have heavy rain in the catchment of the Darling. If there's no significant rain there with run-off there will be no water in Menindee Lakes to supply the water for the Murray. The only way you could get the water from Dartmouth down to South Australia is flood conditions in the Murray. It's been inevitable. We've been saying it's going to happen for some time. We have every indication that 2002 would be a suitable year for that to happen.

MR COSGROVE: I think what we were meaning to refer to there was - and correct me if I'm wrong - that the process of allocation of water rights in New South Wales is not really yet settled. I think it has moved faster in Victoria. There's a bit of an issue up in Queensland, I think, of that type as well. It seemed to us that if that element of water reform was put in place, then there would be a bit more flexibility in terms of trading water property rights, if you like, or water contained in property rights.

MR WHYTE: Trading has been due to a boom in wine grapes. That bubble is very shaky and it's likely to burst any time. I don't think the demand is there for more water for wine grapes at present. People planted wine grapes thinking they would irrigate on low-security water and suddenly found out that the allocation on the Murray was nil a couple of years ago and they had to hastily try and buy water. Most citrus is grown with high-security water. We were given an allocation which could be declared generous now, because we spent a lot of money and improved our irrigation system. That gave us a little water. If we didn't use it, we could trade it on the market. It was good money some years, but now they have introduced rules - if you find anything profitable there's always someone that will upset it for you. If the allocation of low security was only 10 per cent we could only trade 10 per cent of our allocation. They also reduce your allocation by 10 per cent if you trade any. So, you know, the thing is stacked against us. Life is like that.

The situation is that in New South Wales inland if you haven't got high-security water it wouldn't be a bad idea to shop around and see if you could buy a bit, just to tide you over in case there might be three months when you've got a nil allocation, then there might be some rain and you might get some. If you were, like the New South Wales department, talking about large-scale development of citrus on the inland rivers in New South Wales, most growers there are on low-security water. There is provision for changing low security to high security and we've had to battle on that one. I was involved in trying to stop the granting of too many irrigation

licences 20 years ago. There was very little support to be made.

I went to Land Board inquiries and the thing was - it's history, but the thing was stacked against us. The situation will be that they want to reduce allocations on the Upper Darling from the Queensland border down to Menindee by 40 per cent. That's low-security water. It probably should never have been allocated in the first place, but the department made the error, not the irrigator. The department issued licences on the basis that low-security licensees would get their full allocation seven years out of 10. They also did their sums on the basis that they would only use 70 per cent of their allocation, because that was the pattern in the 1970s. Then they made water transferable - you know, temporary transferable - and it used to be fixed to the land.

MR COSGROVE: Yes.

MR WHYTE: They have made a situation of their own making, which wasn't the irrigators' fault; it's the same as if the department offered you a rise, you'd probably take it and wouldn't say, "Well, the government can't afford it." I think there's a matter of compensation required by the responsible department. They will be endeavouring to reduce the value of our water that we traded by these devices, like take 10 per cent off your allocation if you trade any. They will also increase the price of water to us. It's inevitable.

MR COSGROVE: Yes. Would you forgive me if I end the session right now?

MR WHYTE: If you will help us to meet with those challenges I would appreciate it.

MR COSGROVE: Okay. Thank you very much. That's the end of today's proceedings. We are resuming tomorrow at 9 am.

AT 5.10 PM THE INQUIRY WAS ADJOURNED UNTIL
THURSDAY, 14 MARCH 2002

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