



**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 THURSDAY, 14 MARCH 2002, AT 9 AM

Continued from 13/3/02

MR COSGROVE: Good morning, ladies and gentlemen. We're resuming our hearings in Mildura this morning with the Mildura Fruit Co. Russell, would you mind identifying yourself and explaining the capacity in which you're here today for our transcript, thanks.

MR WITCOMBE: My name is Russell Witcombe. I'm the managing director of Mildura Fruit Co.

MR COSGROVE: Thank you very much, and thanks for the note you provided to us on the position paper. Would you like to make any remarks about that?

MR WITCOMBE: Perhaps if I can work through the brief comment I made here.

MR COSGROVE: That would be fine.

MR WITCOMBE: Mildura Fruit Co appreciates the opportunity to respond to, in particular, the draft recommendation 7.8, being that Horticulture Australia Ltd should give serious consideration to discontinuing with the requirement that citrus exporters use a single importing agent in the United States. Mildura Fruit Co does not support this draft recommendation and, in fact, we hold the view that the single-importer arrangements in the United States of America deliver benefits to growers and packers that would not be possible if single-importer licensing arrangements were in fact removed. There are three points which I wish to cover in support of Mildura Fruit Co's position.

MR COSGROVE: Right.

MR WITCOMBE: Mildura Fruit Co is of the view that single-importer arrangements allow the importer to control the volume of Australian citrus delivered to the market and in so doing achieve a farmgate fruit value which is typically superior to the returns for equivalent fruit in any other world market. What I have with me is an analysis of the citrus that Mildura Fruit Co supplied to the American market last year in comparison with the returns from all other world markets, and if I can just make that available.

MR COSGROVE: Yes.

MR WITCOMBE: Perhaps just to put this information in context, Mildura Fruit Co is the largest orange packer in Australia and we are the largest exporter of oranges to America, and we are a member of Riversun and supply America in that capacity. More than 90 per cent of the oranges that Mildura Fruit Co packed last year went to overseas markets, and for the class 1 category large size, being 88s and larger, I would estimate that probably in excess of 98 per cent of the oranges that the

Mildura Fruit Co packed, the navel oranges that Mildura Fruit Co packed, went overseas. So we really are in this analysis comparing the performance of the American market with the performance of all other overseas markets on a weighted average basis.

MR COSGROVE: Weighted by the volume of exports to each market?

MR WITCOMBE: If I can just explain the process: Mildura Fruit Co receives citrus from our grower suppliers and the fruit is packed and Mildura Fruit Co declares the price it will pay for that fruit, and we declare that price by class and by size. The price that we pay is determined by Mildura Fruit Co's estimate of what we will sell that fruit for and, in this case, essentially for 88s and larger, it's overseas markets. Every week we conduct a trading analysis which determines on a weighted average basis the fruit value that we receive by class, by size, from all markets.

In my capacity as managing director I'm determining the price that we will pay for the fruit. Whilst that price is influenced by what we expect to sell that fruit for, I am if you like checking that that price forecast matches what has been experienced the previous week with the trading analysis.

MR COSGROVE: If I could come back to the weightings, it may be the case then that these exports to your different markets are weighted by value.

MR WITCOMBE: No. The weighting is by the quantity.

MR COSGROVE: Quantity, okay. Thank you.

MR WITCOMBE: So if 10,000 cartons go into Hong Kong and 5000 go into Singapore, it's on that proportional basis.

MR COSGROVE: I understand, thank you. In the case of the prices that you decide to offer your growers - we know that the exports to the United States market are sold on consignment.

MR WITCOMBE: Yes.

MR COSGROVE: How do you determine a price to growers, given the consignment price arrangement?

MR WITCOMBE: When growers supply Mildura Fruit Co with navel oranges for packing for America, for all the sizes out of that bin that is packed for America we just pay an advance of \$5 a case.

MR COSGROVE: I see.

MR WITCOMBE: Growers have signed a contract with Mildura Fruit Co for the supply of their citrus to us, and in that contract we've specified that there will be three payments - the first will be five, the second will be a different number, and there will be a final payment for the residual amount. The American market is the only market in which Mildura Fruit Co ships on a consignment basis. It's the only market in which Mildura Fruit Co doesn't have ownership of the fruit, so for all other markets, because we own the fruit and because we ship on a firm price, we can declare the price we're paying.

MR COSGROVE: So in the other markets Mildura Fruit Co carries the price risk once you have paid the grower.

MR WITCOMBE: Exactly. That's right.

MR COSGROVE: That's a manageable arrangement, in your experience?

MR WITCOMBE: Yes, it is. We carry the price risk and the quality risk.

MR COSGROVE: Yes.

MR WITCOMBE: So if the market moves against us, then we have that exposure; if we deliver fruit that has a quality problem on arrival, that is also our exposure. We have the opportunity in packing the fruit to reject fruit that we believe is potentially a quality risk. But the quality problems that we would encounter in the marketplace I believe would be unfairly passed back to the grower; it's probably unfair the packer has to carry it also. But, yes, I don't think there's a good case that they be passed back to the growers, so we incur that cost.

MR COSGROVE: You have high confidence in the quality of your packing.

MR WITCOMBE: Yes. The three graphs that I've just circulated relate to three sizes - size 56, size 72 and size 88. The line with the squares connected shows the price that Mildura Fruit Co actually paid to suppliers last season for deliveries of navel oranges that were packed for America, and that's based over seven charter vessels. At the end of the season when the final prices were realised - and that is normally during November - this was the return expressed in a C6 carton, which is a common unit that we use in our pack house.

The bottom plot is the price that Mildura Fruit Co paid for exactly the same quality fruit, exactly the same carton weight, but as a weighted average to all other export markets other than USA. You'll see that we started off at \$18 a case, we

increased the price to 20, and we retained that for most of the period we were packing for America, with just a small increase towards the end. That was a case full of 56s. For the 72s, likewise, and 88s, a little bit more movement, but for all three sizes, which are the main sizes that are supplied to America - and to give you some perspective, Mildura Fruit Co shipped about 270,000 cases to America last year and, in the count range, 56, 72, 88, I would say there were probably about 230 to 240 thousand cartons. So most of what we shipped would be in that category.

For the same size that didn't go to the USA and went to other export markets, I would estimate there were probably about 70 to 80 thousand cartons. So for all three sizes over the duration of the US navel packing, same quality, same carton weight, for that entire period, the US market returned better and, for most of that period, significantly better.

MR COSGROVE: These are prices received by Mildura Fruit Co.

MR WITCOMBE: These are the prices that we're paying the grower.

MR COSGROVE: Paid to the grower. I see.

MR WITCOMBE: This is the farmgate fruit value, so all costs have been deducted. If you look at, say, the first week of June, size 56 navels that were supplied to Mildura Fruit Co in the first week of June 2001, if that fruit was packed for America as a size 56, the grower would have got over \$34 a case. If that same case had gone to Hong Kong or Singapore or Malaysia or Japan, it would have returned \$20.

MR COSGROVE: Which means of course that the actual export price received would have been higher to cover your own margins - transport costs and what have you.

MR WITCOMBE: Yes.

MR COSGROVE: It's interesting that in this year at least there is quite a bit of fluctuation in the US market price in whatever size of fruit one looks at. Could you tell us why that happened - it started high, then fell substantially and then recovered partially towards the levels received very early in the exporting period?

MR WITCOMBE: My view of the reason for the fall in the price is, a decision was made by the marketing subcommittee of Riversun to allow DNE as the sole importer to reduce the price to retailers substantially because of unexpectedly high volumes of South African citrus that were coming into the market. Whilst there was an arrangement with South Africa to work cooperatively on volumes - and I don't

think South Africa in the total season exceeded that volume - their management of the shipping program left a little bit to be desired and they shipped a lot of fruit in a short period of time. In the knowledge that South Africa were struggling to clear the inventory already in America and in the knowledge that they had heavy volumes on the water and because of the pressure that South Africa was applying in reducing the prices of their product to clear the inventory, we needed to go some way to retain retail support.

MR COSGROVE: I see.

MR WITCOMBE: DNE were able to lift the price later in the program, once the South African fruit had arrived, and we were aware that there was no further substantial volume either on the water or to be shipped.

MR COSGROVE: Okay. That's very interesting material. Thank you.

MR WITCOMBE: If I may just continue, in addition to limiting the supply of Australian citrus to achieve predetermined price targets, the single-importer arrangements enabled the importer to have a strong influence on other conditions of supply, such as fruit quality, packaging, the count distribution in the manifest, supply schedule, et cetera, so that the US market is supplied with Australian citrus of a quality, size, distribution and delivery timing that best meets the demand to US customers.

The control and influence that DNE world fruit sales can exercise over the Australian citrus program to America is more easily managed with the concentration of greater than 95 per cent of Australian citrus exports to the USA through the single coordinating organisation, Riversun export. Importantly, Riversun can only deliver the superior pricing to growers from the USA market because of the benefits of single-importer licensing in the USA. Mildura Fruit Company is strongly of the view that Riversun could not achieve this result by coordinating supply to a deregulated market of multiple importers.

Secondly, the superior prices that Australian growers have received from the US market over the past 10 years of supply provide DNE as the sole US importer of Australian citrus with the leverage to negotiate conditions of supply with the citrus industry in other Southern Hemisphere supply countries when citrus access to the USA is granted. This was achieved with South Africa with their industry last year by the formation of an alliance. This alliance arrangement covered an estimated 70 per cent of the South African navel volume destined for America. DNE in fact became one of three major importers for South African citrus in 2001.

The 2001 US market was serviced by three major importers of Southern

Hemisphere navels in 2001. Because DNE handled greater than 65 per cent of the combined South African and Australian navel volume in that year and because demand exceeded supply for most of the season, the loss of single-import arrangements for Southern Hemisphere oranges - that is, pre-South African navel supply - only had a minor downward impact on pricing. The ability to form an alliance with competitor supply countries to manage volume, size, quality and importer arrangements to achieve mutually agreed target price levels would not be possible if the Australian industry supplied the US market through multiple importers.

I guess the greatest fear that the Australian industry has had about the continued strong returns from the American market has been the manner in which South Africa would supply fruit to that market, and we had the experience in season 2000 when, for the first time, South Africa delivered substantial volumes of navels into that market. Prior to that date, prior to sanitary limitations, had meant their supply was mainly clementines. As an easy peeler there had been very little direct competition navel with navel in that market.

In season 2000 our industry was unlucky enough to have one of the worst seasons we've encountered with rind breakdown. Our fruit just didn't have shelf life and in all markets there were say four or more weeks away from the packing shed in terms of shelf life requirement. There was a significant problem. And in season 2000 the Australian industry had major repacking because of our own rind problem, and South Africa had very good quality fruit, and it was quite surprising that, despite their very good quality and our quality difficulties, South Africa was selling at what we considered to be very low prices.

So the Australian industry, I think to their credit, sought to share information with our competitor so they had a better appreciation of what we felt the opportunities were for South Africa to achieve better prices in the market and, through cooperation, manage the volume that was shipped to that market, and managed the timing of the shipments to that market so that we were able to deliver a total program that met our combined price expectations, and the notion of working with your competitors to achieve a result collectively that is not possible individually is I guess the principle on which Riversun works, in that we are predominantly exporters working cooperatively with a common goal. In all other markets, just about, we are pretty fierce competitors, and as exporter packers we are also competitors back here trying to source fruit.

So in the marketplace, both sourcing fruit and throughout Asia we are strong competitors in Riversun. Surprisingly we work very cooperatively because we can all recognise that through our cooperation, as I said, we can achieve collectively what individually is not possible. To then extend that model to really embrace South

Africa as your competitor is a pretty bold move and, apart from a dip in a graph that was evident last season, I think it really was a much better result than we could have hoped for.

Certainly the experience that we encountered in season 2000, where South Africa with good quality fruit sold very cheaply, indicated to us that unless some action was taken to correct that position we could find that South Africa, if they didn't apply some control to their supply, could deliver quality navels to that market and remain as a viable supplier at price levels that would force us out of the market.

MR COSGROVE: Why then would the South African exporters have agreed, if I've understood you correctly, to accommodate Australia's export interests? What's in it for them?

MR WITCOMBE: There was not unanimous agreement. A number of the exporters elected to remain independent. My understanding of the process - and I'm not a director of Riversun - - -

MR COSGROVE: We can ask them tomorrow.

MR WITCOMBE: - - - but Mildura Fruit Company has a director on the board - my understanding is that the process of discussion was really Australian Citrus Growers, who obviously in a consignment market are the ones that benefit from the high prices - it was Australian Citrus Growers working with Riversun in appealing to the South African growers to work with their exporters to operate in a cooperative sense, so the appeal wasn't so much to the exporters; it was to the owners of the fruit, to the growers and to the packers.

The approach was sufficiently successful to get an estimated 70 per cent of the navel from South Africa being supplied through this alliance, and I believe the added benefit is that because DNE is the sole importer of Australian navels into the US, and was also a major importer of the South African navel, you've got an opportunity to, at the very least, be aware of the pricing expectations of the South African shippers, at the very least be able to feed back the sort of price returns that are possible through greater patience, more control, and I believe that because the market for most of last year was in fact undersupplied, through DNE's joint role as an importer of Australian and South African navels, DNE was able to in the marketplace achieve price levels that put pressure on the other importers to reach those levels and likewise protected the price level for Australian product.

In just reading the material that is in the position paper, I notice that quite often the remark is made that the American market is a much bigger market than we're currently supplying and that it's a real shame that Australia hasn't been able to deliver

more fruit into that market. I understand Riversun is giving evidence tomorrow.

MR COSGROVE: Yes.

MR WITCOMBE: It's my understanding that for the past two seasons Australia has not been able to supply the volume of navels that certainly DNE as the sole importer has requested from Australia.

MR COSGROVE: Yet total production has increased considerably - - -

MR WITCOMBE: Yes.

MR COSGROVE: - - - and we have at the same time as our exports - I'm talking here now of volume - - -

MR WITCOMBE: Yes.

MR COSGROVE: - - - to the US has declined, there has been more or less a corresponding increase in markets where we apparently receive lower returns, in particular to Hong Kong and Malaysia.

MR WITCOMBE: Yes.

MR COSGROVE: Why should that have happened if the US market is more remunerative for us? We had the suppliers, in other words. We chose to tell them elsewhere.

MR WITCOMBE: I don't believe we've had the volume. I know from my experience certainly last year the volume of navels that DNE wanted to receive from Australia to manage the program that they had in place with retailers - it was agreed by Riversun, because it was considered the return to premium price levels that we knew our shareholders and the growers that supplied them expected - it just was not delivered. Australia fell short of delivering the quantity that Riversun committed to and DNE expected, because the fruit literally was not there.

The market in America is taking the premium sizes, 88s and larger, and it's taking class 1 fruit, but that's no different to other premium markets like Japan, like United Kingdom, and I believe the season we're about to enter will be another season where Australia will not be able to deliver the volume of class 1 count 88 and larger navels that the American market will be looking for, and we will potentially lose market share to South Africa because of our inability to supply.

Just as a matter of interest, to answer your question, how can it be that

Australia is increasing its total citrus exports yet its volume to America in the last couple of years has declined, we've conducted our own evaluation of how we foresee the coming crop, and we would estimate that out of potentially 85,000 bins of navels, which is about 36,000 tonnes of navels, Mildura Fruit Company will pack nearly 1.4 million cartons of fruit, and that's our very early season estimate, and it's not clear what will happen with fruit size but we do have some concerns about a heavy crop of smaller-sized fruit, but we're forecasting at this stage with navels we'll pack 1.4 million cases and of that 1.4 million cases I would guess right now that 1.35 will leave the country, so it's mainly for overseas markets.

We would see half of that volume will be a class 2. Obviously the other half therefore is class 1. Of the half that's class 1, half of that is going to be size 113 and smaller, so it's going to be too small for the American market. It will go mainly to Malaysia, some to Singapore, some might go to Italy, the Middle East, other markets like that. So only a quarter of the fruit that will come into Mildura Fruit Company will be class 1, size 88 and larger, which is the count range that America can take.

MR COSGROVE: How does that compare with the situation in the 2001 season? What proportion would have gone to America?

MR WITCOMBE: In 2001 it was much cleaner fruit - there wasn't as much wind damage - probably a little larger. So in Mildura Fruit Company's case the percentage may have been closer to say 30 per cent class 1, 88 and larger. But we've got potentially only 340,000 cases at 1.4 million that are available for world markets of size 88 and larger, and that's for a navel season that will go late May through to late October, bearing in mind the US packing is only going to be late May to late August. If we meet our requirement for America of 270,000 cases we would think that probably 250,000 cases will be 88s and larger. Without confusing the commission, that's a slightly smaller carton, so converting it back to the carton unit I'm working here, it's 190,000 cartons. So of all the 340,000 cartons of 88 and larger class 1, 190,000 cartons will go to America.

We've got a commitment to a major Asian supermarket for class 1 fruit, 88 and larger, which will be about 80,000 cartons. It really means that Mildura Fruit Co will only have 70,000 cartons of class 1, 88 and larger, from late May through to November to supply to all world markets outside our US commitment and commitment to a major Asian supermarket chain, which is not a lot of fruit for supposedly the largest citrus packer and citrus exporter in this country. The challenge for us really is in exporting the small-sized fruit and the class 2 fruit. The class 1 fruit, 88 and larger, is not a burden for us to find a home for.

To answer your question "Why wouldn't more fruit be sent to America?", based on that price information it certainly is the best returning market. We do have

a lot of navels that we can't pack in the period of time that America will take the fruit, and we need to retain a presence in other markets because those other markets take fruit from September through to April, when America doesn't. I think for that reason Australia will probably fall short of the opportunity to supply the American market for a number of years to come in class 1, 88 and larger.

MR COSGROVE: Okay, thank you. If I could, while I have the point in my mind, just go back to your charts, Russell, would it be correct to say that one of the reasons why there is a gap between the prices in the US market and in other markets would be the high value of the US dollar relative to our dollar?

MR WITCOMBE: It is a factor. But we supply the Japan market in US dollars. In other markets we are dealing in their currency, but our strong competition in many of those markets - even though it's counterseasonal - is US citrus. Whilst we're not clashing Aussie navel with US navel, the choice that many importers have is to buy either Australian navel, South African navel or Californian Valencia. The strong US dollar is assisting both Australian and South African exporters, really in all of our markets because the competition that we have - being the US product - is dearer for that reason.

MR COSGROVE: What about other places? Do you export to Malaysia, for example?

MR WITCOMBE: Yes, we do export to Malaysia.

MR COSGROVE: There wouldn't have been - I haven't looked at that particular exchange rate recently, but I would expect that there hadn't been nearly as much movement between Australia and Malaysia.

MR WITCOMBE: No, they peg their ringgit to the US dollar.

MR COSGROVE: I didn't think so. I thought it was a variable exchange rate up there. Hong Kong fixes on the US dollar, certainly, so exports there would be rather close to the US in terms of exchange rate effects.

MR WITCOMBE: I thought the ringgit was pegged to the US.

MR COSGROVE: No. Well, I need to check.

MR WITCOMBE: Yes. But once again the strong US dollar is certainly favouring the imports from both Australia and South Africa in that country.

MR COSGROVE: Yes.

MR WITCOMBE: It's been a factor in improving returns out of America, but I believe it's been a factor in all the markets we've been trading in.

MR COSGROVE: Thank you.

MR WITCOMBE: A third point I wish to make is that single-import arrangements deliver benefits to the Australian industry as a result of the importance of the Australian business representative DNE, as USA's leading citrus category manager. DNE supplies US supermarkets with year-round citrus. The Southern Hemisphere supply from Australia is critical to this continuity of supply. This sharpens DNE's commitment to work with the Australian industry to deal with major problems that threaten quality and/or supply. This has been evident during past seasons with the response by DNE to fight sanitary problems and in particular to the organisation and management of large-scale repacking programs following major problems with orchard freeze damage in 1998 and skin breakdown in season 2000.

In a deregulated market the delivery of citrus with the arrival problems encountered in the US market in season 2000 would have probably resulted in the importer rejection for delivery of out-of-specification product. This was Mildura Fruit Co's experience in many other markets in season 2000. The special position of sole importer carries a responsibility and commitment to the supply country to work through product difficulties. In 2000 DNE arranged repacking of all citrus showing rind breakdown, 42 per cent of all pallets, and in so doing protected the market from substandard product and preserved the reputation of Australia as a supplier of quality citrus in appearance and flavour.

MFC's experience in deregulated markets in season 2000 is that importers would have quit the stock at market value if a single-import arrangement was not in place in the USA. This would have delivered a reduced price to the grower and certainly damaged Australia's reputation as a supplier of quality citrus.

MR COSGROVE: Okay, thanks very much. I might just trail our way through some of your points. The first one, in fact the beginning of your first point, was that the single-importer arrangement allows the importer to control the volume of citrus delivered to the market to achieve superior prices. Do you think that could not have been achieved - that control, I mean - at the Australian end by Riversun in this case? Why is it that the single importer is so critical for that particular role? You see, if we have market intelligence - and I'm sure your company is working hard at that - could not Riversun be equally as conscious as DNE of suppliers coming from other countries into that market and deliver Australian exports in such a way that the price is the best that can be achieved or, I would have thought more importantly, that the value - the total value - is the best that could be achieved?

MR WITCOMBE: That may well work. All I know is that the current arrangements are working very satisfactorily. If it was able to work it's only because you've effectively got a voluntary arrangement through Riversun that enables that to work.

MR COSGROVE: I guess that could be made a compulsory arrangement as presently exists with DNE.

MR WITCOMBE: Yes.

MR COSGROVE: In other words, if someone tried to export to the US market outside Riversun, they could be thrown in the slammer, just as anyone who tries to sell outside DNE in the US can be thrown in the slammer.

MR WITCOMBE: Yes. I guess Mildura Fruit Co's argument is that what we have been able to achieve in America is through limiting the volume, and not just limiting the volume, agreeing to a volume that has given DNE - or whoever that sole importer is - the certainty of the supply and an extension of that is everything that goes with that in terms of the manifest and the arrival of the vessels and the packaging and the quality standards and all the assurances that DNE needs in going to the retailers. DNE is able to go to the retail customers as a category manager of citrus, as somebody who has now established, as I understand it, the leading business in America of supplying citrus to the supermarkets.

It's able to go there and say, "I want to talk to you now about the navels that could be coming from Australia and South Africa this coming summer. This will be the volume. This is what the quality is like. This is what the size distribution is like and this will be the price." DNE can do that with confidence because they know they're not going to get any more fruit than we've agreed to sell. The worst that can happen is that we will fall short - as we did the last two years - and falling short, that information becomes apparent as the season progresses. DNE can then adjust the program accordingly and because we're talking Southern Hemisphere citrus there might be opportunity, now that they're marketing South African as well, to fill the gap with South African. So because of the control and the confidence that that control delivers to DNE they're able to market programs to retailers, and retailers know that if they want to buy Australian navels - as they do - then DNE is the party they need to be speaking to.

MR COSGROVE: Yes, let me look at some data here. In 2001, according to some information we've compiled based on US Department of Agriculture statistics on imports of citrus to the US - in fact of oranges to the US - imports from South Africa were very similar in volume to those from Australia. Australia might have been

slightly greater but there's very little in it. You have told us this morning that DNE in that year handled more than 65 per cent of the combined South African navel volume in that year. That suggests that the great bulk of the South African navels are actually sold by people other than DNE.

MR WITCOMBE: That's my understanding.

MR COSGROVE: Yes.

MR WITCOMBE: DNE is the minor importer of South African navel.

MR COSGROVE: Of South African, yes. Right. I guess an implication of that may be that other distributors than DNE can do the sort of job that DNE is doing, at least so far as South African fruit is concerned.

MR WITCOMBE: I don't disagree with that at all, and I believe that the level of deregulation that the commission is proposing in its position paper already exists. If you take the view that citrus is a commodity and there is no intrinsic difference between a South African navel and an Australian navel, and both countries are able to pack to the same class and the same weight, then there is no reason why a consumer would pay a different price for a South African navel to an Australian navel, when it's the same size. So in some senses we shouldn't be looking at South Africa and Australia in terms of single-importer arrangements. Effectively, the Southern Hemisphere is a supplier of navels to America. If the Southern Hemisphere is one supplier, you have already got multiple importers.

MR COSGROVE: But we have only one.

MR WITCOMBE: We have only one but in terms of the propositions that have been put forward by the commission in the position paper, if you take the view that it is not Australia supplying the USA, it is the Southern Hemisphere supplying navels to the USA, you have already multiple importers. So the arguments of, "How can one importer penetrate the market?" et cetera I don't think are valid if you take the view that oranges are a commodity.

MR COSGROVE: Yes.

MR WITCOMBE: The fact that Australia is required to supply one importer by law I don't believe is a disadvantage in that situation at all.

MR COSGROVE: It may not be, and that's a matter of course which we need to give further thought to; but the claims that have been put to us, not merely by your company, that DNE has the capacity to cover the marketplace more or less totally,

seem to be subject to a degree of reservation when one sees that the other major South African exporter of navel oranges to this market in fact uses DNE for only a small proportion of its sales in that market. When I say small, I haven't calculated precisely. It might be 20 per cent, I'm not sure.

MR WITCOMBE: Yes, and we'd be uncomfortable if DNE probably had a larger share of the South African crop. I don't think the argument that DNE has not - and obviously it can't supply every single retailer with Australian navel oranges - has any weight to the argument when Australia is not able to supply sufficient volume already to meet the market requirements. We are already shortshipping the program that DNE has in place in retailers.

When I was in America last year, when the second to last charter vessel arrived, there was already a problem with inventory. Australia was falling short of the market requirement so I don't believe that at present, nor in the coming season, will the supposed inability of a single importer to give adequate penetration of the US market be in any way at all a disadvantage to Australian suppliers.

MR COSGROVE: You may well be right. I guess the question is, "Is the single importer in the very circumstances you just mentioned - where fruit is in scarce supply, or at least, not in abundant supply - able to achieve the best returns for growers, not merely satisfactory returns?"

MR WITCOMBE: Yes, and I guess that really is the issue; that we've got a situation here where very, very clearly, based on the experience of the growers that have delivered a lot of fruit to Mildura Fruit Co this past season, the American market has been an outstanding success for them financially, an outstanding success. I appreciate there is an argument that says that maybe in a deregulated market the returns could be even better; but why would you risk a market that is returning such excellent prices for the sake of possibly doing better when there is a real risk of doing worse? I think the risk is that in testing the unproven hypothesis the latter will happen, that we'll do significantly worse. Right now, as you can see from that information, the returns are substantially better.

MR COSGROVE: Thank you. Could I ask you what is essentially a philosophical question? Do you think it really is fair or equitable to apply criminal penalties to people who would like to export to a distributor other than DNE?

MR WITCOMBE: That's not a position that Mildura Fruit Co really wishes to debate.

MR COSGROVE: Okay. Moving on to your second dot point, then, Russell, I wonder if you could explain to me the point at the end of the first paragraph in that

dot. You say that:

DNE as the sole importer of our citrus has leverage to negotiate conditions of supply with the citrus industry in other Southern Hemisphere countries when citrus access to the USA is granted.

I'm not quite sure what that - - -

MR WITCOMBE: Sorry, this is my second dot point?

MR COSGROVE: Yes, the first paragraph.

MR WITCOMBE: Okay. What I'm saying in that remark there, that comment there, is that DNE can demonstrate to South Africa through its 10 years' experience that it has been able to deliver to the Australian industry for most of those years excellent returns and that it has been able to develop a program with retailers in America that have already given the Australian industry the confidence to develop that market.

So when DNE as Australia's sole importer works with us to try to achieve a more cooperative arrangement with other Southern Hemisphere suppliers, they can do so with a track record of excellent prices. So the leverage I'm talking about there in a loose sense is just the weight of argument in favour of giving substantial value to Australia's position because of our experience through DNE and the excellent returns that have been received.

MR COSGROVE: I'm not quite sure I follow the leverage point. "DNE has leverage to negotiate conditions of supply with other Southern Hemisphere countries" - that's what I'm not quite following. You mean DNE has leverage to somehow or other restrict supply from other countries to keep prices up?

MR WITCOMBE: No, I just mean that DNE's achievement - we're talking about countries that are just gaining entry to supply America with navels and I guess "leverage" is a loose term there. I'm just referring to the fact that DNE through its performance history can demonstrate that greater cooperation will add significant value and that prices often well in excess of what we understand the South African growers expected are possible through cooperation in the marketplace. So the leverage is really reference to DNE's experience.

MR COSGROVE: Thank you. Then towards the end of your third dot point, the reference to the difficult circumstances in the year 2000, with DNE arranging repacking of all citrus showing rind breakdown - I take it, incidentally, that that particular problem was or could have been expected at the time the fruit left

Australia?

MR WITCOMBE: No. It was a shock.

MR COSGROVE: No? Why did it happen then? Because of lengthy storage in the American market?

MR WITCOMBE: It certainly wasn't expected to be a problem. When we moved from Washington navels to Lane navels, we were certain that there wouldn't be a continuing problem and there was. So when the product was shipped nobody anticipated there would be a problem with arrival condition. It was really just a weakness in the rind condition that particular season and there's not a single factor that explains it.

MR COSGROVE: I see. But we couldn't foresee it?

MR WITCOMBE: No.

MR COSGROVE: But it emerged during transit or once the fruit had arrived.

MR WITCOMBE: It became apparent about the time of the third vessel arriving. By the time the third vessel had arrived, the fourth was on the water, the fifth was about to sail out of Adelaide and we were probably pretty well advanced packing for the sixth. So the program was two-thirds if not three-quarters through.

MR COSGROVE: But it was a problem that didn't emanate from what I might call prolonged storage of the fruit at the American end.

MR WITCOMBE: No.

MR COSGROVE: Now, 42 per cent of pallets needed to be repacked. Are you able to tell me what proportion of that volume of fruit had to be wasted or sold at what you later referred to, to market value?

MR WITCOMBE: The approach that was taken was that DNE and Riversun agreed that we needed to protect that marketplace from product that had skin breakdown. We needed to - - -

MR COSGROVE: Maintain the quality.

MR WITCOMBE: - - - maintain the quality, so the high level of repacking was a reflection of the extent to which a lot of the fruit had this rind breakdown condition. I believe the repacking program successfully ensured that the fruit that was delivered

to all retail customers met their expectations of quality. The fruit that was rejected in repacking was dumped. So the fruit that had the rind breakdown was dumped.

MR COSGROVE: But it's not possible for you to tell us what proportion was dumped.

MR WITCOMBE: No, but it was significant.

MR COSGROVE: I just have a few other questions if you can bear with me for another few moments. You mentioned that we haven't been able to supply in the last year or so the quantity of navels that might have been able to be sold in the United States. What's your impression of the prospects in coming years for growth in the supply of navels in particular and I guess even for Valencias in this region?

MR WITCOMBE: I think the prospects for increased navel packing and marketing activity are very strong. Certainly at Mildura Fruit Co we're confident that the growers that we're currently dealing with will have increasing volumes of navels for packing and marketing. We would forecast that our own packing activity of all citrus varieties will increase by probably 40 to 50 per cent over the next five to six years. We wouldn't see a significant increase in Valencia packing. We would see it being principally with navels and easy peelers.

MR COSGROVE: In terms of processing of Valencias for juicing purposes, what's the outlook there in this region?

MR WITCOMBE: I find it difficult to answer that question because our own experience at Mildura Fruit Co has been of wild fluctuations over the last three years. This season we will have barely 4000 tonnes of Valencia overrun. Last year it was 14 and a half thousand tonnes. The season before that it was 9 and a half thousand tonnes. So I'm finding it pretty difficult to determine what sorts of commitments we should be making for fresh juice commitments to processors when there are such wild fluctuations in volumes, but certainly many of our growers have removed Valencias or reworked Valencias and the plantings, we know from our own supply basis, is reduced on what it was a number of years ago.

MR COSGROVE: I understand the point about variations in the supply of Valencias for processing. Would you say though that, if one thinks of fresh juice, there are profitable opportunities for Valencia growers if they were able to supply a constant - - -

MR WITCOMBE: I am not the best to comment on that, being a packer and marketer. We're not involved in growing or processing.

MR COSGROVE: Thank you. Let me just revert back to our US market arrangement again, if I may. Given that the South African exporters are not required to sell exclusively through DNE, is it possible that this alliance which was formed last year between Australian and South African growers might ultimately prove ineffective? In other words, some part of the supply - that part of the South African supply not sold through DNE - might grow to a degree which Riversun and whoever is the main South African body dealing with DNE might not have anticipated?

MR WITCOMBE: That may well happen, yes. It would be regrettable, but that may happen.

MR COSGROVE: I think we heard an answer to this question yesterday, but I would just like to check with you. Your allocation of exports to the US market, delivered to you from Riversun, is somehow based on your previous year's level of exports. Is that how it works basically?

MR WITCOMBE: It is based on historical supply. It is based on, I think, from memory, supply in season 1998-1999. That determined the allocation. When packers fall short in supply and they offer their shortfall to others, those that pick it up have the opportunity of adding to their allocation.

MR COSGROVE: I see.

MR WITCOMBE: The packer falling short is otherwise exposed to dead freight.

MR COSGROVE: And if your growers happen to supply you with more fruit than the amount Riversun had allocated to you - what happens in such a situation if it occurs? Would you then face a decision as to how you apportioned supplies between your own growers?

MR WITCOMBE: Mildura Fruit Co manages the packing and marketing of citrus to USA through Riversun, with our growers, with a special US supply agreement and that agreement is a fairly lengthy document and it details the way in which Mildura Fruit Co will respond to situations that you are describing and, in that contract, we say that if for some reason a grower delivering Mildura Fruit Co citrus for packing for America - none of that fruit can be packed for America, then we would advise the grower within, I think, 24 hours of that situation, and that grower would then decide what he or she wished to do with that fruit.

We would certainly be prepared to pack it for other markets, but we don't want a situation where they're supplying Mildura Fruit Co for the American market and we can't pack it for that market. However, in a situation - which more commonly occurs because of volume limitations per charter because a lot more fruit might be

picked in, say, a 10-day period than could be accommodated on that vessel - where Mildura Fruit Co doesn't wish to pack too far ahead for the following vessel, we may elect of the five or six sizes we are packing for America to only pack, say, three of them.

There is some discretion; for example, on 113s you can have a limit of 10 per cent 113. We might elect to pack that fruit for other markets in the knowledge that that is the size that is probably going to be under greatest price pressure in America, so there are things we will do that ensure that, as best we can manage it, all growers over that period of time get an equal share of US packing activity, but in a situation where something was to happen and we couldn't pack any of their fruit for America, our contract says that we need to advise them of that. Just to add to that - the real experience has been for the last two years we have been short of fruit, so having too much hasn't been an issue.

MR COSGROVE: I understand. Do you happen to pack lemons for export from this region?

MR WITCOMBE: Yes, we do.

MR COSGROVE: Where do they go?

MR WITCOMBE: We pack lemons for Japan, for Hong Kong. We've had limited experience in the US.

MR COSGROVE: Are many sold to the US, or when was that happening?

MR WITCOMBE: I think we supplied limited lemons a couple of years ago.

MR COSGROVE: While we are on the topic, the US market of course is not the only one subject to export control arrangements. How do you find those arrangements in the other markets where they apply, which I understand to be in Malaysia, Singapore, Indonesia and Hong Kong?

MR WITCOMBE: I would rather just address the issues of this particular draft recommendation. That is the one I am most comfortable with.

MR COSGROVE: All right.

MR WITCOMBE: I really wish to emphasise, if I can, the last dot point I made about what Mildura Fruit Co considers to be the very substantial benefit that the single-import arrangements afford the Australian industry. I know from season 2000, where there were significant rind breakdown problems and, having

shipped navels all around the world, the problems we encountered in other markets were very difficult to manage indeed and the position that most importers took was that they would get a survey done of the product; they would claim for the reduction in market value and they just quit the fruit at best price.

Mildura Fruit Co is strongly of the view that if there had been multiple-import arrangements in place in America it would have been impossible - if not very, very difficult - to achieve the result that was achieved in season 2000. It was very difficult for our growers, as it turned out, with very disappointing returns following repack losses. The returns in the market were good. The fruit was repacked and sold at good prices, but the repack losses were extensive and the cost incurred in shipping that fruit and then having it repacked and then dumped was considerable, but the fact that there was a single importer, who really gains very significant commercial advantage out of the relationship with Australia because of their category management and the volume of citrus they handle from Australia - to the great credit of DNE they embarked on a huge program of repacking the bulk of the Australian volume of citrus to the United States.

I think that that is a very, very important point - that the single-importer arrangements afford to DNE a privileged position - that they have become, I believe, the biggest category manager of citrus in the US. They can go to the US chains and say, "We can supply you with navel oranges all around the year, from all around the world," and Australia is very, very important to them in the position they take with their customers, so when we have a problem - be it mealy bug or snail or light brown apple moth, or where there is a major seasonal disaster, as there was in season 2000 - DNE work as I have never seen any other importer work to try and deliver the best result for the shipper.

I have got no doubt at all that if we were to lose the single-importer arrangements in America the importers in America would become just like the importers were in the UK, and then Hong Kong and throughout the rest of the world. We had a problem in 2000. They just claimed and they took the view, "Well, we'll go to a country that can supply fruit that hasn't got that problem." In season 1999 we encountered problems in Japan that were similar to the problems we encountered in 2000 in America and, to supply Japan, we need to cold sterilise here in Australia.

When the fruit arrives in Japan it is seven weeks off the tree - seven weeks old - and in season 1999 there was a freeze in California - the market was really short of fruit - and in all markets as soon as the fruit arrived it was sold, but because Japan required cold sterilisation here in Australia the shelf life of fruit was tested and when it arrived - the Japanese are often slow to move fruit anyway - it sat in coolrooms for a while. There were significant problems with the fruit quality. Because there were multiple importers there was no arrangement in place to repack that fruit.

Individual importers claimed on the Australian exporters, and claimed very heavily. Fruit was supplied to the market. Some was repacked, some wasn't repacked. The image of the Australian navel was so damaged that in season 2000-2001 we have not regained anything like the volume we shipped in 1999. What DNE were able to do was manage a huge repacking program and deliver to customers fruit that met their requirements.

The customers probably never knew that the fruit had been repacked and never knew that the Australian industry in all other markets around the world had major problems. We repeated the benefits as you can see. In 2001 we were able to start off at very high prices and retain those prices because DNE successfully protected the image of Australian citrus, despite the inherent problems that season. I know if there had been multiple importers that would not have occurred.

MR COSGROVE: Just two final questions, if I may. Have there been any instances when Australian exporters and DNE have not been able to reach a commercial agreement for the sale of their fruit, in your experience obviously?

MR WITCOMBE: We're the largest shipper to America through Riversun and I am certainly not aware of any situations at all where there have been any issues that we haven't been able to resolve.

MR COSGROVE: I understand there is shortly to be an annual review of DNE's performance.

MR WITCOMBE: Yes.

MR COSGROVE: Have you views on the criteria that you would like to see used for the undertaking of that review? Would your company be able to have some input into the determination of those criteria before the review beings?

MR WITCOMBE: We haven't talked about this issue as a company, but from my experience in marketing - and marketing is many things and one of the really important things about marketing is the relationship you have - - -

MR COSGROVE: Indeed.

MR WITCOMBE: - - - and I really feel that whilst there is merit in the annual review we give DNE entirely the wrong signal. Here we have a company that has for 10 years been the sole importer of Australian citrus. It is a company which 10 years ago was very different to what I understand it to be now; a company that has managed its business - and certainly Australia has supported them to a large extent in

this, but they have managed their business now to be the leading citrus category manager in America.

We benefit richly from the position they have been able to achieve, but we are very, very important to them and I think that to have a customer as important as DNE and to have them on sort of a one-year licence is pretty unsatisfactory. I really think that the Australian industry ought to recognise how critical the relationship is with DNE; to recognise how good the job that DNE has done really is, and to say to DNE, notwithstanding some of the licensing issues involved, "We want to cement this relationship for the next 10 years. We will commit to supply DNE exclusively as a country for the next 10 years.

MR COSGROVE: So you would favour, say, a review after 10 years.

MR WITCOMBE: Yes. You could include some protection mechanisms in that arrangement, but I believe that the excellent returns that our growers are receiving out of the American market are a result of both single-importer licensing and the fact that DNE is that single importer and that DNE has realised the opportunities that they have been given as the only American company to initially be able to supply Southern Hemisphere navels to that market, and they've embraced it and they've done it very profitably from their point of view, but we're likewise sharing in their good management and good fortune. I'd be saying whilst there are some arguments that would support an annual review, I think it gives the wrong signal to DNE and my judgment, having been to America a number of times - and I was over there last October and I was really, really impressed with DNE's operation and, having been all around the world and visited customers all around the world, I put DNE well up the top. I think we're very fortunate that we have a sole-importer arrangement and that that sole importer is DNE.

MR COSGROVE: Thank you very much. Thank you for all your evidence today. We're very grateful.

MR WITCOMBE: Thank you for the opportunity.

MR COSGROVE: Our next participant is Sunraysia Citrus Growers Inc. Would each of you please identify yourselves and the capacity in which you're here today?

MR CRISP: Peter Crisp, chair of Sunraysia Citrus Growers.

MR COCK: Kevin Cock, a director of Sunraysia Citrus Growers.

MR COSGROVE: Thank you. What would you like to tell us today?

MR CRISP: Commissioner, probably initially I need to get a couple of things off the chest on behalf of citrus growers. In opening I think what growers are seeking from the commission is a way of improving their returns; that the financial plight of growers has had its difficulty in the last decade and the issues that are listed and coming up are all about, I think, how to improve returns back to growers. I think most growers have chosen citrus growing because that's their calling in life. Most are reasonably well educated, hardworking and attempting to be professional.

However, circumstances that have befallen the industry have made many of us look shabby and unprofessional and that causes a great deal of stress. It means we've had to change the focus of our businesses, that they - as many of us embarked on them we wished to be full-time farmers and we've had to restructure our businesses to afford off-farm income or come to other arrangements and this has caused considerable stress because most farms are full-time and when you start to juggle more balls than you can handle, things happen. There have been considerable personal stressors out there and it has led us, at various times, to be highly involved with rural counsellors. I think to our industry's credit, we've not had anyone take a one-way walk to the bottom of the farm yet, but a couple of times I know it's been close and it's been very difficult at times to try and ensure that doesn't happen.

To be humorous about it, it was necessary at some stage to shift the blame and I am appreciative to a former Deputy Prime Minister for leading with his chin during a very difficult period and continuing to lead with his chin so we could externalise some of the blame. I don't know whether Tim Fischer had planned to do it that way but it was certainly extremely convenient that he did. It enabled us to externalise that.

I think how we come to be where we are - there was an underestimate of the time and difficulties in restructuring that occurred back in the last 80s. I was only on the fringe of the citrus industry at that particular stage but my hindsight view of that particular period was that to shift an emphasis in Australia from using Valencias for juice to pursuing exports would be good for the country's current account deficit and good for regional employment because there is more employment in packing than there is in converting to juice.

However, about that time, too, there was an underlying change in consumer preference to navels and because of the way product was managed - a navel is a delicate orange. I've got some Valencias in front of me but they travel particularly well, and in the days of not much refrigeration and difficulties, you and I could throw this in our briefcase and cart it around for three or four weeks and it would still be edible. A navel has to be picked under certain conditions and handled in a particular way otherwise it just loves to go rotten on you as soon as you look at it. But consumers had a preference for that taste and at the same time as that restructure was occurring the consumer tastes were shifting. That meant we had to restructure our farms, not just our marketing. That really did catch our guys out. It's was very difficult.

Restructuring in the citrus industry, or redevelopment in the citrus industry is something we've traditionally done out of our own returns. Because of the long lead times - although banking was fairly heady in the late 80s, early 90s period - even I wasn't game to go to the bank manager and say, "Look, I need a loan to redevelop my citrus farm. I don't want any repayments for 10 years and then I'll do the principal from - I'll do interest only from 10 to 15 and we'll look after the principal for 15 to 20." Business doesn't work like that. It's on a 10-year basic repayment cycle.

Most growers had to undertake the restructure out of their own resources. That meant a lot of things had to change in order to do that. A rearguard action on Valencias had to be run and I think that the fresh juice industry is a very successful measure that helped us with our rearguard action. Without that "not from concentrate" sector emerging, being supported and developed in that period I doubt if we'd have a citrus industry today because the returns from concentrate would have just meant farms would have been abandoned and we would have had a lot more ugliness than we have had. That's where our growers are struggling.

Something that they do find difficult as well is that it appears the rest of the marketing chain seems to be doing fairly well. There don't seem to be difficulties in packing sheds obtaining bank loans or investment capital to carry out expansion of their businesses, the exporters still seem to arrive in their BMWs and Mercedes-Benz and take you to lunch anywhere in town at any price and so it goes on. We're stuck trying to duck and dive to keep the roadworthy up on a farm ute because we've spent all our money and our resources elsewhere. So they're the issues that bite hard into growers' hearts. Then we're trying to find a balance for our industry that will give us returns that enable us to undertake the restructure that's been set for us and to in fact get a return on our investment, raise our families and have a standard of living that we desire.

MR COSGROVE: May I just ask for my own understanding - forgive my ignorance: is your company, or the growers who form your company, predominantly or even solely producing Valencia oranges, or are there also navel producers?

MR CRISP: Yes, navel producers - Sunraysia Citrus Growers is an agri-political group that represents all growers. We're funded by a voluntary levy that growers can choose to have their packing sheds deduct or not deduct for us. So we are made up of growers who have got mixtures on their farms.

MR COSGROVE: I see.

MR CRISP: From our view in Sunraysia, we would be halfway through the restructure on our farms, as far as physical trees go, and probably a little better than halfway through in marketing terms; the difference being that some are - there will be no doubt - we're taking Valencias out and replacing them with other citrus lines. We might be close to market balance in this area, I think, between the ratio of navels to Valencias. However, our Valencia trees are older, so there's going to be a continuing replacement of trees just through the natural cycle.

The other thing that has made it a little more difficult, the life of a Valencia tree was typically 50 years and we'd structured our industry and the way we replanted on about a 50-year life of trees. It's becoming very apparent to grow larger fruit that you need to lower the average age of your trees. The figure that's broadly banded around amongst growers - it looks like to be about 25 years for navels, although that's yet to be bested because so many of our trees are young, but experience on the navels that we had prior to this restructure is that rather than plodding away at 2 per cent a year, we're going to have to plod away at 4 per cent a year as well.

The real difficulty is that I anticipate it will take us about 20 years to undertake the restructure. However, at the very end of that, some of those trees we planted first off are not going to be far, so when you're looking at how much of your farm is out of production, the numbers have changed, which further complicates that long-term financial strategy of replacement and keeping the trees there now. It may well be that we will figure out ways to get big fruit off old trees, but I don't think so. We do a lot to try and play with nature and work it at the edges, but nature will be nature, and we all grow old and so do our trees. We do represent that broader group and, as you can see from the Murray Valley statistics that are there, our profile of growers is very similar to theirs because we have a very high membership rate amongst the producers in the Sunraysia area.

MR COSGROVE: Right, thank you.

MR CRISP: I'd like to then move on and give you a thought about pricing and the markets. I know what economics tells us about marketing and returns and first I think about lies, lies and true lies. In table 2.3 in your footnotes you talk about a 15 per cent commission from agents. I don't know how you're going to get to the bottom of this because for the 50 years that my family has been involved we haven't got to the bottom of it. If you do try too hard to get to the bottom of it you then have to often decide about the wisdom of pursuing it much further with the trading relationship. Although I have to admit our family hasn't been threatened for 20 years about prices - but as my father said, he did receive a note informing him of his children's funeral when he did push someone too far many years ago. In the domestic market - - -

MR COSGROVE: It might have been a matter for the police.

MR CRISP: His wisdom was that it was better to leave that alone, but there was and still is a great deal of mistrust in growers about the prices in the market. I brought some of my returns along for you guys to have a look at, and Kevin has as well, so that you can just work back the difference. It's been a long-held suspicion, but unable to be proven, that the domestic market operates on a far higher margin than 15 per cent, and also every now and then you take an unexpected fall. It is what is called "your turn" and you have to make a very difficult judgment about whether you wish to go to Melbourne and argue over some fruit that is suddenly found to be inferior or whether you just simply accept that it's been dumped or discounted off or whatever.

I think in many ways growers have been relieved to be moving away from that domestic market situation. Because it's less of a factor in our business we have to worry less about these moral and ethical issues about what's happening in the market and why many growers, although taking less, have entered into direct contracts to supply either supermarkets or wholesalers. I'll use the example of Costas who are Blue Bay packers, because it's one that we know who deal directly with those people. Even though it's for less than what you may hear on the radio on the market, it's actually what - the return to grower has improved because there's not this slippage in between.

MR COSGROVE: Are you able to say incidentally, Peter, what proportion of your growers' production would now be sold under such contract arrangements?

MR CRISP: No, I don't know. I would handball it to the Marketing Board to see if they are or not. It's difficult, because some of the stuff is actually on farm, pre-sized, isn't it, Kevin? Some of the guys are involved in this bulk production, which is a feature more of the MIA than here - that there is on-farm sorting and supplying in bulk. That does happen, but to what level it is I'm not sure.

MR COSGROVE: Do you think it would be increasing over time?

MR CRISP: I think so. That's only anecdotal, from my observation - that there appears to be less citrus going through the Melbourne market, and they may well be able to comment on that, than there was 20 years ago. However, there is a possible constraint there; that in the past there was a great deal of exporting done by agents off the floor some years ago, whereas now export markets have become more sophisticated. A domestic market pack is not what is required for export, although I understand some of it still does happen and it causes great pain in those markets when it does, but I think it's diminishing because people do get burnt.

The economics of dealing with export - and I'll use South-East Asia as an example. I have four oranges here, commissioner, and you and I know that what ought to happen in economics is that each one of these should stand on its own merits in its own market for what the returns ought to be. But this piece of fruit here has no blemishes on it, because we're all about appearance in this world, so he can go off to the United States, if he was a navel, and because we have a single-importer arrangement over there, if the customer doesn't want to pay it, they will find someone else who will but there will be no argument about this.

The rest of these, because they're a little bit smaller, can go off. This one can go off to Asia - he's only got one little mark on him and the wax will cover him up. This one has a bit more of a mark on him; probably go to a net bag at the supermarket. This one has a few nasty marks on him and he had the centre pulled out when he was picked, so he's going to go to juice. However, when we get to Asia, what Leung says to me up there is, "Pete, I know you've got your quality control and this is a lovely orange," he said, "but I'm only going to pay you what it's worth. If I don't buy it, what are you going to do with it?" and what I say is, "If I don't send it to you, I've got my local market fully covered already, we've got the fresh juice side fully covered already, so he's going to end up in concentrate." So Leung says to me, "Well, in that case, I'll pay you the concentrate price, plus what it costs to get up here," and because it's a commission-plus arrangement, everybody else up the chain says, "That's fine. I'm getting my money," and that's why there has been so much emotion - the concentrate orange is dictating what's happening up there because these people are very shrewd at business and we give them the opportunity.

What further aggravates growers is that we see our major competitors, being South Africa, United States and Europe, with different arrangements to control this. We have one with the United States that allows us to control that activity. However, elsewhere we don't. They only have to do this once a season, and once you've gone down to that price you can't build it back up again. It really is difficult. So what the industry has said is that although it's bummer all fruit going to concentrate, it's

wagging the tail of the rest of the Asian market chain in particular and bringing down our returns, and it really irks us to find a solution to that problem and also because of biannual bearing and nature - for the entire citrus industry's history, I think, we've been trying to work out how to manage nature - that problem is always going to be there. It's going to be less some years than others, but it's always going to be there and this act is always going to get pooled. So we've been looking to do that.

I know there's a great deal of evidence in your report suggesting that this ought not happen, but in experience in the industry that's what happens, and it doesn't have to happen very often to bugger a season up, net your returns, your restructure goes out of whack because you have to plan and you're in financial trouble again, and rather than out in the paddock being a farmer you're down at the bank, hassling your marketer, having stress attacks, just trying to get everything back on track. I've got my nurseryman on the phone this morning saying, "Well, your order for next year is and your deposit is," and I'm saying, "Yeah, the deposit's due, and that's fine, and everything goes well, we can meet this," but then you suddenly find that you haven't got the money and the restructure is in danger and the stress rises. So they're four oranges, and that's our problem.

MR COSGROVE: I can understand the stressful situations that you find yourselves in and I have great sympathy for all people marketing rural produce. I know it's not an easy task. We have in our position paper some figures on what we call average unit values received in a variety of export markets. Of course average unit values are not quite a measure of price because you've got different qualities of fruit being sold in each market and that's all mixed up in the average unit value.

MR CRISP: Which page are you on, commissioner?

MR COSGROVE: This is on page 17. Now, even in the Asian markets - and I'm not quite sure where your Mr Leung operates from - you'll see there in table 2.4 that the lowest average unit value received - admittedly here I'm talking navels rather than Valencias - I was about to say the lowest price paid in that year, or the lowest unit value, was \$A814 per tonne from New Zealand. That seems to be a long way above the concentrate price.

MR CRISP: Certainly, and it's the matter of the mix in your bin that went to those markets in that particular year.

MR COSGROVE: Yes.

MR CRISP: Which does tell there. With navels, they've been less likely to pull this stunt over time, although as we increase our navel production and there are more of these - which is inevitable, although we do the quality - there's going to be a

percentage that will be overrun fruit. The wind does blow, the hail does fall, the dust storms do come, and you've been very lucky to have missed all of those. That does affect the quality. In fact, this particular spring, as is evidenced on this, commissioner, it was extraordinarily windy and I have concerns.

It's hard until they start to colour up to see it, but I have concerns for the forthcoming navel crop that we'll have high overrun. That's probably just a leaf blowing on the juvenile fruit in the wind and we've had an extraordinarily windy time. The equinox gales lasted until Christmas, rather than for three or four days. The difficulty we've got - and in my submission I talk about concerns over navel overrun and for juice - is that this scale may not be able to be held. Growers have been shifting to navels - - -

MR COSGROVE: I guess the good stuff - you know, that end of your orange stream - sent to the export markets would presumably still attract reasonably good prices, but yes, you would have more going into the concentrate end.

MR CRISP: There is a reverse to this which is equally difficult. It's when, out of desperation, someone tries to do that - pack fruit that ought not be packed - and send it away in the hope to just - if they're going to pay concentrate price for it, they will get concentrate fruit. For those of us who don't do that, it means that it further complicates and that can actually be stimulated in the Asian market by requests for a composite pack or a juice pack, and there is a small fresh juice segment where fruit is sent from Australia in cartons to South-East Asia for juicing, with those small juicing plants which you often see as a feature in our supermarkets, and there's always the concern that, in looking for a bargain, that fruit will stray into the fresh table market and, because of its poor appearance, cause consumer rejection or prices to fall, and a lot of guys who do home-pack or whatever, the pressure to go this way and push everything up is enormous. But those tables for navels - and that works out with my returns fairly well, but it's the - - -

MR COCK: Can I just ask a question on that. They're a farmgate price?

MR COSGROVE: No. They are derived from trade data, so they're a price - - -

MR COCK: You've got to have freight and all that in there - - -

MR COSGROVE: I think they're probably calculated on an FOB basis - that is, landed at the Australian wharf.

MR COCK: The other question I have is, are they for the export component of the product? Our prices remember take in not only the export component but the local market and the juice component. That's all the figures that we'll give to the

commission shortly. So we've got a total picture. Is this the total - and I don't know where AB would have got the total picture and put it in that table.

MR COSGROVE: The total picture, which has been questioned by some people during the course of these hearings, is actually presented in the table that Peter was referring to earlier. That's table 2.3 on page 9. In terms of farmgate returns, the series at the bottom of that table, as you'll see from the footnote, they're based on ABS data which some people have questioned and which we certainly would be looking at again. But this table 2.4 - I think I'd be right in saying - is the price, the average unit value more specifically, of navel exports as measured before they get onto the boat. Well, they might be on the boat, but they haven't had the insurance and the freight paid yet.

MR CRISP: And it is correct - the footnote at the bottom - that the year before that was a far better year, which you will pick up in our figures that we present to you, too.

MR COSGROVE: Okay.

MR CRISP: But it's not clear on how many costs have got to come out of there before it gets to the grower return.

MR COSGROVE: To the grower.

MR CRISP: Yes.

MR COSGROVE: At that point it would essentially be your packing, your transport - that would be about it, I would think.

MR CRISP: Kevin and I just had a side discussion suggesting that your grower return would be, I would say 50, Kevin says 55 per cent lower.

MR COSGROVE: Of this. Really?

MR CRISP: It tells you the health of the chain from the farmgate to the wharf.

MR COCK: That season wasn't the best season they could have picked, I can tell you. If they'd gone the next one - sorry, the previous year 99-2000, it looked a lot healthier as you pick up again.

MR CRISP: I think I'll walk through a couple of the issues now, commissioner, that are on the second page there. The future worries growers a great deal, because we are changing and we're shooting over the horizon, and there is a great deal of

angst now about profitable opportunities for current Valencia growers to get into. The wine-grape option has departed, so now growers are looking at continuing to restructure their property. Yes, navels are currently profitable, but in five, six, seven years will there still be profitable opportunities. Of particular concern to us is, with the MIA, they're about to embark on that restructure and, to defend the MIA growers, they're later entering the restructure phase compared to Murray Valley and South Australia but their trees were younger. Much of Murray Valley was established in the 50s as World War II soldier settlers.

MR COSGROVE: Yes.

MR CRISP: Then there was a step taken in the 60s at Nangiloc, just south of Mildura, where there were some extensive groves planted, and then we've more or less been stable, with some modest expansion. The MIA responded to some conditions in the 70s, and therefore when the 90s came they had trees that were 20, 25 - or under 25 years old, in the peak of production. Our trees were older, 20 years older than that. They were still growing big fruit. They were getting good production figures; we weren't. So we had to start. They could sit and, at that stage, with lower-cost water than we had here they could sit it out longer than we did. Now their trees are older, the cycle has not really turned for Valencias yet, they're now looking at starting to change, and we've got a great deal of concern if they wholesale jump into navels. As well as what's happening here, are we going to be able to sell that in the future?

MR COSGROVE: Well, I don't think you were here earlier in the day, Peter, but Mildura Fruit Co was telling us that they see very good prospects for navel exports, especially to the United States, so that might not be a problem area.

MR CRISP: That, I think, would be short term with what trees are in the ground.

MR COSGROVE: Yes.

MR CRISP: With the restructure, we're just starting to ramp up our production now of navels out of Sunraysia.

MR COSGROVE: Right.

MR CRISP: It's been improving, but I expect the rate of increase will become fairly dramatic now that there's quite a few trees getting to that six, eight, nine years old.

MR COSGROVE: Yes.

MR CRISP: So I think Mildura Co-op would be basing it on this area, what they know from their relationship with their growers, what's in the ground. Our concern is the larger one; that, as the MIA start to change, what impact in seven, eight, nine - - -

MR COSGROVE: I see.

MR CRISP: We're planting now too and it's what to plant for the future and that's very difficult, because it requires you to take a big look at the world and try and get a snapshot of that. Something I would like to see the commission address is to put your view into the debate of the future, because we've got to think 10, 20 years ahead, and that's really difficult. Something we've had when dealing with politicians is that politicians think to the next election and I think there's only, if I recall right, two members still left in parliament - when the decision to restructure or change the citrus industry - and we're only halfway through and most of those guys are off on their super. That doesn't add much to our stress levels either.

MR COSGROVE: Incidentally, before we leave that point, could I ask you whether you feel that there are profitable opportunities to use Valencias for processing as fresh juice or is that not an opportunity for good returns?

MR CRISP: Personal experience, it costs me \$252 a tonne to grow Valencias on my place with a mix of older trees that I have and so on. So therefore a contract for between 160 and 240 for the overrun - - -

MR COSGROVE: It's not profitable.

MR CRISP: - - - is not profitable, but it's a heck of a lot better than \$30 a tonne which has been my return out of concentrate prices for more years in the last 10 than I really would like to remember. So it's a defence strategy with the overrun and also if I say to Mr Leung that, rather than taking \$30 a tonne, I'm actually going to get 240, that does help in a rearguard action on Valencias. To answer your question, I think - in point 6 of my submission - the future for fresh juice lies in the labelling laws. Australian consumers have gone to great lengths, when asked, to support Australian produce and have certainly supported fresh juice. However, there are still cheats out there and they are very clever cheats and they know how to operate.

Although you try and make a law black and white with a fine line, someone finds a way to sit on it and that's very frustrating. We do note that, at long last - but with some satisfaction - the ACCC have in fact gone past warnings and have started to show that the tiger has grown a few teeth and has started to bite in this. However, we had a very frustrating five years where, yes, it looked like it certainly had a prima facie case - that there was an abuse of the labelling laws - but, "No, we're not going

to do anything about it," and that frustrated us enormously, particularly in a difficult period when we're trying to grow that fresh juice market.

MR COSGROVE: Well, I guess the past is the past - sadly so, from what you're saying - but would you say now that ACCC is likely to be able to apply whatever penalties exist under this part of the act to stop misleading advertising?

MR CRISP: Yes, I think they can. The difficulty is the laws, as such, still have a marvellous out for them and the out is that it has this category that says, "Made from a blend of imported and local juices, depending on seasonal availability."

MR COSGROVE: Yes, I've seen that.

MR CRISP: And that, I think, is a major impediment to consumers when they're looking at it and the modern consumer doesn't understand seasonality, because of transport and handling; we've done a lot to remove seasonality from the bank of knowledge of our consumers.

MR COSGROVE: Sorry to interrupt again. If you look at it from the point of view of the processor, it could become fairly expensive for them to be showing more precisely what proportion is from Australian concentrate, let us say, and what proportion is from imported concentrated, if that proportion - as I imagine it does - is varying perhaps on a weekly basis. Then of course, depending on the degree of competition in the market, there might be some passing on of that additional cost to the consumer, which in turn might reduce demand and, you know, that end of your production is not as highly in demand as it would otherwise be. So there probably are some reasons why that particular problem that you identified has not been solved.

MR CRISP: The segment of the market that we're having the most difficulty with is the 100 per cent juice end that may be made from concentrate or may be made from fresh. Now, the 25, 35 per cent \$2 to \$3 belly-wash end of the market we're not particularly interested in, because - although it's the tail that's wagging our dog - no-one is growing fruit for that.

MR COSGROVE: Yes.

MR CRISP: So we're looking and have been trying to pursue with politicians for some time to get more - labelling laws allow consumers to make a far more informed choice about what they have, which then gives us somewhere to target our marketing. When you've got some of these grey areas, then you don't know whether you're helping or hindering and also, for companies that have been with product lines that are friendly to us that we do want to support - and ACG have moved that way with a logo to endorse that - there's still that difficulty that there are some misleading

areas and I think, until those misleading areas are cleaned up, we are going to have difficulty domestically expanding that fresh juice market.

Similarly, as Berri did point out in their submission, there is some - again, I say - cheating going on that, when I've sold this for concentrate, it ends up as fresh juice and that does cause disruption in the market chain and it irks us greatly. If we had a solution to it, we would have implemented it and it's one of the problems in the industry. No company is going to tell you whether they're doing it or not. However, at times we've been highly suspicious of how the numbers for fresh juice add up - that sometimes there is far more fresh juice out there than we've been paid for - and that's very profitable and you understand why people do that. You know, the usual corporate pecking order is shareholders, customers, suppliers. We're suppliers, so if they can give us the rough end of the orange we'll get it.

MR COSGROVE: Well, they need you, if we're talking about fresh juice.

MR CRISP: Certainly. One thing that we are very pleased with is some of the hard work that's been done by - in this area, we have a very strong relationship with The Original Juice Co and the work that they did in developing fresh juice for export, because it did not go well early for them, but they've persisted and I notice in the figures that it's a very small base, but it is growing.

MR COSGROVE: It is growing, yes.

MR CRISP: And that's an area we'd like to pursue as well, particularly in the way that that is prepared. It's the storing of the surplus that gets in our way from one season to the next and, if there is an acceptance of 100 per cent fresh juice in a septic packaging or as frozen slurry, that's a way of taking the oversupply and undersupply out of year to year in order to keep the chain stable. And we'd very much like to see you guys put some of your minds into that sector to see what you come up with, because we've been working on it a long time and haven't generated solutions, but you have a different view and that's what we'd - I guess the gist of this is to encourage you guys to bring your resources to bear on some of this.

MR COSGROVE: Could I just come back to the labelling issue again briefly. In the case of the 100 per cent juice bottle that you referred to as being another particular problem, that would I expect have on the back of it either "100 per cent juice made from fresh Australian oranges" - ie, 100 per cent fresh juice - or it would have "100 per cent juice made up entirely of concentrate" or a mixture of the two. So what do you see as the inadequacy of that labelling requirement?

MR CRISP: It's the size and position of that consumer information.

MR COSGROVE: Okay. Yes.

MR CRISP: You and I both have got glasses, but we'd need a magnifying glass and 10 minutes sometimes to find it. Like, the marketing people are highly skilled at doing it that way, when they want to.

MR COSGROVE: I don't agree. I drink a lot of orange juice - and the fresh juice I think is a very fine product - and I look at the labels and, even with my specs, I can find out very quickly what I'm buying. The other point I was making to some other participants yesterday is that the market - ie the consumers - are clearly distinguishing between fresh juice and non-fresh juice, insofar as they are paying more for the former than for the latter; quite a bit more. You know, in my supermarket-watching, I would guess something like 4 and a half dollars for a two-litre carton of fresh juice and maybe 3 for a concentrate carton that you reconstitute with water at home. So that, I think, is important information. It's not as though the consumers are so confused that they are paying the same price for very different products. They know - most of them - I would say, that these are different products.

MR CRISP: It's the educating process of the new consumer. Once you've sorted it out, people are very loyal, unless they're tempted away by a bargain.

MR COSGROVE: Yes. May well be, yes. There will be competition between brands of fresh juice, I'm sure, but, yes, I think the distinction between truly fresh and made from non-fresh products is important.

MR CRISP: I'm not debating we haven't had some success. We'd like to move it to one level higher and we look in the United States; that the not-from-concentrate market has evolved there and it's quite strong and it just seems to be more clear than it is in Australia and we see that as a - to move one more step down that line to give us added market advantage and thus be able to expand that fresh juice market even further.

MR COSGROVE: Okay.

MR CRISP: Competitiveness is another issue which is our benchmarking, which I guess leads into an area where you may well have been as well. Looking internationally where we are, it's been some time since we've had a benchmarking study to see where we sit and the last benchmarking study very much confined it to growing and could not get a handle on the difficult part of what governments do do and what inherent advantages are in certain economies and how that translates across. The previous study was Barraclough in 1992.

MR COCK: Around then.

MR CRISP: And it looked at just on-farm input costs and so on. However, a considerable time has elapsed since that, and it would be really nice to know how we're going, because in the marketplace we get the distinct feeling that the South Africans are catching us in quality, despite some very flattering stuff that our quality is better than South Africa, but our product sells at much the same price, or so we're told, as the South African.

MR COSGROVE: We've had other evidence that suggests we're still above them but the gap may be narrowing, yes.

MR CRISP: It's also that truthfulness in the information back from the market to growers that comes back saying, "We're having trouble selling yours, Peter. The South Africans are here. We need to take a buck," you know. "Cut the price by a dollar and we can keep it moving," which brings me to another aside which is the length of our supply chain. Exporting our fruit out of the southern ports to South-East Asia gives you a three-week lead time, and that's my hard part.

If Leung says, "Oh, it's not going well, Peter. Don't send me any more," I think, "Cripes, I'll stop now but there's six more containers on the water, all arriving in the next three weeks," and he'll say, "I've got them plugged into my front yard. You're going to have to cut the price," and so it goes down from your packers. So we do look forward to - however it occurs - the opening of a gateway that allows us to export through northern Australia and could considerably cut that lead time and make our management of this oversupply problem and undersupply problem so much better.

MR COSGROVE: How long does it take for road transport of oranges from here to, let's say, Darwin, if that's an export port?

MR COCK: 35 hours. I'm going to drive it in a couple of weeks' time.

MR COSGROVE: So a couple of days, say.

MR CRISP: And given that with handling we see the possibility that our freight times could drop from some three weeks down to a week or just a little more, and if things are going wrong there we can retain control by simply holding the fruit in refrigeration, and we know it keeps, and to try and run - we will then expect our exporters to be able to farm-manage this undersupply/oversupply problem that happens with those long lead times.

MR COSGROVE: But, at present, is it the case that fruit from this region is

shipped out of Adelaide or Melbourne?

MR CRISP: Adelaide and Melbourne would be the key points.

MR COSGROVE: Rather than Darwin?

MR CRISP: I think there's both port facilities - - -

MR COCK: It's the backloading from Darwin. There's nothing to bring back.

MR COSGROVE: I see.

MR CRISP: However, the things that are occurring which give us hope but are not part of the solution, of course, are that if the railway line is completed there might be more freight activity that will allow things to come backwards and forwards. However, it's how we are rating with our competitors because despite what's happening in Australia with such a high component of export, it's what South Africa, the United States and Europe are doing and, as the world gets smaller, doing in our markets that's ever so important to us, and the bottom line at which they can sell is very important, and we've had a long-held belief - and I see Dudley Marrows has joined us, and I know Dudley has done quite a deal of work on this - to try and look at what assistance measures citrus growers achieve within the EU, within the United States - and we've just had a new farm bill there and we're still waiting to see what that washes through - and within South Africa, and naturally they're not going to tell you, and it's been very, very difficult for us to see what advantages they have, because in the longer term some of us were making decisions some years ago as to whether to stay in the citrus industry or whether to get into some other form of horticulture, and that was important information, because in the long term if there are considerable structural supports then for our own good we would need to be lowering our exposure to the citrus sector, and that information wasn't available, and you can only make so many leaps of faith before you end up in big strife.

We managed to glean from some of our travelling citrus growers titbits of information. One which comes to mind is that Spain offers considerable incentives to growers as far as the supply of small trees, and I don't know whether that's been presented in any of the submissions as yet, but our understanding from travellers but unable to be substantiated is that the government there is highly involved in supplying new trees to growers free of charge, pick them up at a nursery, to help maintain that momentum for structural change, and when you're dealing with that sort of competition and you're struggling to afford your structural change, they're key strategic factors in planning your future, and we would really need to know where it was, and we've worked very hard with AFFA, and they struggle to find out, and it's been a sore point between AFFA and SCG in particular because of the importance of

that strategic information.

Similarly with the US farm bill: what that means for the citrus industry relies on the Americans telling us or their citrus industry telling us how they're going to use it, and they're not going to do that, so we have to have ways of finding out, and that's important to us - - -

MR COSGROVE: I would have thought in that particular case you should have no difficulty at all in obtaining the information from the licensed importing company, which we're told knows all about the United States market.

MR CRISP: Yes, because I think one of the simple divisions that appeared in the media was that I think assistance was capped at \$253,000 a US farmer. Now, for citrus growers a tenth of that in Australia would have meant that we would have been through our structural adjustment by now. So it's a request that we can probably make to DNE. Whether they choose it to be within their interests to divulge that to us would be an interesting exercise.

MR COSGROVE: It's factual information. I would have thought if you can't get it from DNE, you could certainly get it from somebody else in the United States.

MR CRISP: It's proved to be more difficult than you might think for people to divulge that support. Similarly the citrus industry in Italy seems to be thriving and seems to have some minimum price for juice arrangement there within the EU, which then makes Australian growers feel quite annoyed because we're out on the free trade line and these guys have got arrangements inside and the perceived injustice within the WTO - what they have been doing is allowed, and what we might want to do cannot be, and it's very difficult for growers to understand why we're left without an explanation about structural support within our competing countries, and if we do raise it - well, we can't do that because it's contrary to WTO - are all perceived hypocrisies that complicate confidence within the industry.

MR COSGROVE: I'm sorry, you mentioned they're contrary to WTO. What did you mean?

MR CRISP: Well, when we've identified a measure, then the response out of Canberra appears to be, "Well, we can't do that because it's an issue that would be contrary to WTO guidelines." It would be challenged, but as an existing measure that was there when someone signed a WTO, you can maintain it as being the lines that are used, so I think if the commission would put some resources into figuring out the facts on this, because we've not been at all comfortable with the explanations offered by AFFA, because it doesn't lead us to an understanding of industry, so we'd really like you to go and see what you can find out about the structural support

measures within our competitors, to see whether - and what impact that has on us, and then we can work out what we can do about it, but you may have more ability to extract that information than we have.

And, similarly, 4 leads on with innovation, as to just how we compare with our competitors. I think the Australian citrus industry has a good record in its investment in R and D, but I think we do need to have someone look at what we do versus what the rest of the world is doing in R and D to make sure that we are in fact competitive in the way we structure our R and D, our innovation, and how it's managed. There are a number of - - -

MR COSGROVE: I don't mean to be impertinent with this question but several of these matters that you're raising seem to me to be matters that a body representative of growers would be active in obtaining information on. Yes, government agencies can always be fallen back on if industry bodies are not pursuing this sort of information, but does not, for example Australian Citrus Growers - there are levies on growers. How is that money used if not in these ways?

MR CRISP: Yes, it is used in these ways, but these are some of the difficulties that have been encountered over time in being able to particularly penetrate within the fortress of the EU or the fortress of the United States as to what assistance growers are getting.

MR COSGROVE: I know from my own experience working overseas for the Australian government that we have people in our embassies in all of the European countries and pretty much a large number of other countries, and it's not uncommon for those people to be requested by their department in Canberra, in turn at the request of let's say the ACG, for the sake of argument, to ascertain the information on the level of assistance provided to growers in a particular country in this case. Has that not been pursued?

MR CRISP: It has been pursued but not to our satisfaction, which leads us to the inevitable conclusion that, due to the economic philosophy in our government, they don't want to tell us the answer because it's embarrassing.

MR COSGROVE: Well, I'm not sure about that but - - -

MR CRISP: That's the conclusion we have got to. It's now whether that's a correct conclusion and whether the Productivity Commission wish to go there and explore that.

MR COCK: Can I just comment on innovation within the growing sector. Yes, we have a levy and, yes, we have control of what that's spent on, and a lot of input there,

and our investment in that is up to the top. It's after the farm that we've got some concerns of innovation, and I think we talked about it yesterday, and maybe when you're talking to the processing sector or the exporting sector there might be a question there for them, you know, and if you're confident that it's on track, we'll take your word for it.

MR COSGROVE: Okay.

MR CRISP: And I think then number 7 has become an issue, which is that the choice between redeveloping your farm and going to a greenfield site is one that certainly growers - we've all started to redevelop our farm. However, I believe the economic choice might be we should have gone to a greenfield site. If greenfield sites are better, then you've got to come up with an exit package for what to do with the existing properties. Along the way this has partially been explored, and I hope that there's been a crossover between the commission - and in New South Wales Aurora Consultants out of Dubbo have been doing some work on this.

MR COSGROVE: Yes, we have met.

MR CRISP: You have met, so that's a tick-off, because they're doing some work in this area.

MR COSGROVE: Yes, we're hoping to receive a submission from them shortly.

MR CRISP: As we go over the page on some of the issues, the safeguard issue again is one that I alluded to earlier about what our competitors are doing. If our competitors do have an advantage I would like to have seen the commission home in on safeguard, and I noticed that you avoided it in the text by more looking that the safeguards would be to deal with a redundant sector rather than where we're going. I'd better get the page number.

MR COSGROVE: No, if I'm thinking of the section you have in mind, we felt that an approach of that kind would not really provide effective assistance to growers in difficulty.

MR CRISP: A tariff is not the only form of assistance that growers could in fact benefit from.

MR COSGROVE: Well, it's possible under the safeguards clause of the WTO to apply quotas, but again we don't think that would help.

MR CRISP: The dairy industry restructure package that was offered also had a cash-out, which was an exit strategy, and would a safeguards inquiry enhance the

development of an exit strategy?

MR COSGROVE: No. A safeguard inquiry would simply have to ascertain in the first place whether the prices of imports had fallen substantially and, if they had, it would then need to establish whether that fall was responsible for material - I've forgotten the precise wording - it might be "serious injury" to the industry in question. So exit strategies don't form a part of that process. There is, of course, under existing Australian government programs, scope for exit payments to be made to citrus growers who satisfy certain criteria. It's been suggested to us, not least by the ACG, that the level of that exit assistance is too low.

MR CRISP: Yes, I'll support that.

MR COSGROVE: But what we have not been provided with a great deal of persuasive information on is why the exit package required by citrus growers should be greater than that required by other Australian agricultural producers in difficulty.

MR CRISP: Personal comment - you know, the figures that are on offer, if I let my business get that bad - you've got to do something before it gets to that. To walk for 40,000, 50,000 dollars - - -

MR COSGROVE: 45,000, yes.

MR CRISP: - - - is catastrophic on the level of investment that most growers have. I would suggest that it's probably inadequate right across Australia, rather than just inadequate for the citrus industry.

MR COSGROVE: Of course, there are many businesses in the non-farm sector which exit year in year out and receive no exit assistance whatsoever. One needs to keep that in mind, too, I think.

MR CRISP: Many agents have exited the business with my money as well.

MR COSGROVE: I don't doubt that.

MR CRISP: Which has been a considerable cause of pain as well. Also, some of those businesses, one would argue whether the role of government in setting that restructure task, whether they fully evaluated that, what was before us. In your overview on page XI, I find that second paragraph on the formal safeguards one difficult to swallow. I think we'll probably agree to disagree on safeguards for quite some time, commissioner.

MR COSGROVE: Just let me - that paragraph on page XI, you said?

MR CRISP: Yes. Sorry, my apologies. My Roman numerals - XXXI.

MR COSGROVE: Okay. They are not always easy to use. Which particular paragraph?

MR CRISP: It says, "In seeking to address the terms of reference, the commission did not evaluate a safeguard inquiry" et cetera.

MR COSGROVE: Yes, well, we were not, I think, required to do so. Our terms of reference say we have to, "Report on whether the circumstances are such that measures are necessary to enhance the competitiveness of the industry and if so, what measures would be necessary including whether a formal safeguards investigation is warranted," so we are not required to decide that such an investigation is warranted or to undertake one.

MR CRISP: Yes, and you've made your decision. We're disappointed.

MR COSGROVE: Yes.

MR CRISP: The Retail Grocery Codes - this alludes to the issue of how the many deal with the few and we'd love a plan on how to use that because it is one of the ongoing industry difficulties, small players dealing with big players. The only effective model we've been able to put up has been questioned by the commission, which is to look at that US arrangement of trying to band together to be strong but to have some sort of support in that strength.

MR COSGROVE: Yes, that's another area that I'm a little puzzled about. I mean, I understand your point here about many growers or packers trying to sell to the two big retail chains in particular but a few others as well, perhaps not nearly so many as there are growers. Yet in the case of the US market, there is no opposition to an arrangement in which a number of Australian exporters are dealing with a single buyer. There seems to me to be a lack of total consistency there. I mean, it's not Riversun which deals with DNE. It's exporters and there are quite a number of them.

MR CRISP: Yes, and they can behave very well when you have the right carrots and the right sticks. I think you would have heard considerable comment about the US?

MR COSGROVE: I have, yes.

MR CRISP: And that mixture of carrot and sticks, it's just like parenting. One must have the stick and the carrot works every time. It's no different in marketing.

Where we've had open markets, the exporters do compete amongst themselves for their commission, which is secure, at growers' expense. That's been a very, very costly exercise to us over time. It's a structural hazard in the industry and the US offers a model that we can evaluate over time to be an alternative to that.

Similarly, I think we've looked at and discussed previously as I look at some of the other issues there, No 5, being ripped off in the marketing chain. I think you've probably had a fair bit about that as well. The other one is the participation. In looking at this, there's been some participation in the exporting areas but are they baring - or, further up in the market chain, they're baring their soul with their finances and so on to allow scrutiny because normally what we find in this situation, growers will - as Kev and I have brought along today, we'll show you what we're getting and how our businesses work.

Our observation is that these guys are very reluctant to produce the paperwork that shows just what they're doing. Given that, yes, there were some submissions, I just get the feeling that the growers have got the most to gain or lose by this and everyone else is doing pretty well and just wants the status quo to continue because they're on a sure thing making money.

MR COSGROVE: I think one of the difficulties the commission has in this particular inquiry is that so many participants - whether they be growers, packers, market agents of one kind or another, exporters - are private businesses. So they have no public disclosure obligations. There are a couple of public companies who have made submissions to us and yes we can obtain information of a financial kind from them but unless these people willingly choose to provide details of their financial circumstances which they, as I say, are not obliged to do, it's not easy for us to say, "Give us that information."

MR CRISP: Yes, I understand that. I was hoping you may have had more success than we have over the years.

MR COSGROVE: Well, we'll try. We have to keep trying.

MR CRISP: Similarly, I think, my comments there about where you feel that FCOJ is only marginally affected, the effects on fresh at the figures and the levels that you're using, I can see how you've come to that conclusion. Our experience in reality, as we'll show with some of our figures, at farmgate is that we've had an awful lot of these prices out of the chain. Again, whether we're exploited in years when the crop is a little higher - that everybody decides to screw us down - it is really difficult then, to stabilise our production. It's an impossible task and we're not even asking you to tell us how to do that because it just can't be done. Nature will be as nature will.

MR COSGROVE: No, I'm sure in years of large production - obviously in any market if there's an abundance of supply, prices will fall and nobody is going to be able to countermand that market law; but it does seem to us, and as I mentioned earlier we'll be looking further at the average farmgate prices in our position paper to make sure we're not misleading people about the level of those; but even on evidence which has been given to us during these hearings, where people have argued that the prices for Valencias in our paper is too high, they have pointed to levels which I would say are of the order of twice the price paid for Brazilian concentrate imported into Australia. So there still seems to be a significant gap across a period of time, at least. As we said in the paper, we don't doubt that movements in your farmgate prices are influenced by the price of that imported concentrate but the levels are another matter.

MR CRISP: The only comment I have is that I did look with some interest at one of the submissions - which is page XXVI.

MR COSGROVE: Yes, I have it.

MR CRISP: That processors are keen for navel oranges for cordial and soft-drink categories. I view that with some scepticism. It's been my experience of this industry that processors are not all that interested in navel for overrun and that's what's concerning us as the navel production increases, that we're leaving ourselves open to this particular difficulty occurring there, and that's of interest; so much so that I will certainly be visiting your web site and figure out personally how I can get hold of one of these contracts.

It just seems a little too optimistic a thought about navel overrun. I don't want anyone to ignore, based on that, the possibility of difficulties. So I wish Interaust the best of - I don't wish to dispute them too heavily on some of the stuff they've presented but just that particular part runs contrary to my experience, so much so that the paragraph is circled and got, "Rubbish" next to it. That was my comment as I was reading this. As Kevin has just added to the side, at what price?

MR COSGROVE: One of things that I did find interesting during our preparation of this paper is that the proportion of navel production used for processing is high, higher than I would have expected. According to estimates which have come to us from the ACG, in the most recent year - 2000-2001 - it was about 30 per cent, which may be a little higher than normal but, you know, it seems that 20, 25 per cent of navel production goes to processing and I would have expected that not to be the case. It may have some relevance to the quotation you were referring to.

MR CRISP: I think it's the tonnages which are difficult. In the previous year, I

don't know whether Murray Valley got hold of all of it but there was a considerable quantity dumped. I'm not suggesting that there was - 25 per cent last year was taken up for processing but it might be a fixed tonne market rather than a percentage market. In years of higher supply - quite a lot was eaten by cows in the year before, which is very difficult to get good data on, what's going to the cows, because it's disposed of in a way that often no-one is inclined to record because there's no value in doing that; but many a truckload - - -

MR COCK: And levies aren't paid on it, so it's not recorded.

MR COSGROVE: No, we'd be the first to agree that price matters just as much as volume does.

MR CRISP: Very good. I think, unless the commissioner has some more questions, that's me.

MR COSGROVE: Thank you very much indeed for taking the time to come in and help us with some useful information.

MR COCK: We have got some information that you requested yesterday. That was for the information flow from the exporter on the US market back to the grower.

MR COSGROVE: Yes.

MR COCK: I've documented that from two exporters: reports on the returns from all three markets from 99 through to 2000 and also I've looked at contract harvesting because 40 per cent of our costs are labour costs, so there's all their costs, a quote from the contract harvester to harvest citrus, and also the requirements to meet all the markets that we supply, so you're more than welcome to those.

MR COSGROVE: Thank you very much. Is that a spare copy?

MR COCK: That's my original and I've got copies of it. Peter, my comment on RAS scheme and your experience with a grower with his mortgage and how he had to adjust his mortgage, that was a bit of a challenge.

MR CRISP: Yes, New South Wales has a structural difficulty. The New South Wales Rural Assistance Authority insists on a first mortgage to upgrade your irrigation system. Banks like first mortgages too.

MR COSGROVE: Yes, but they will give second mortgages.

MR CRISP: Yes, but often not easily and it's very difficult when you're locked in

with a state government authority that for a lesser amount - normally one would expect that the greater amount of money would be on the first mortgage and a lesser amount on the second - insisting on that one for dollars to improve your on-farm technology and the costs are then changing and inevitably, yes, you have to move to a second mortgage with the bank but because the second mortgage has a higher risk margin attached to it, so your costs are creeping up in a time when you're in difficulty. So there's a structural inequity that exists in New South Wales. I was rather hoping it might have turned up in the MIA as they were starting to move to upgrade the irrigation technology up there.

MR COSGROVE: No.

MR CRISP: For most people, life's difficult enough and you start to pile up these little bits and pieces. It really does irk you and it just affects your performance as a manager that you're running around doing this, which are the structural issues rather than the growing issues.

MR COSGROVE: Thank you very much for your evidence today.

MR COSGROVE: If you'd like to come to the microphone, Mr Marrows, we'd be able to hear from you - if you can get to the microphone.

MR MARROWS: Thank you for this privilege, sir.

MR COSGROVE: Not at all.

MR MARROWS: I want to speak up with some pride in the industry. In practical effect, all of a sudden our industry - just citrus we're speaking of at the moment - was pushed down into a hole compared to all our competitors. Our competitors did not adjust their tariffs, adjust their forms of assistance so dramatically as we were forced to cope with.

We are doing a wonderful job, climbing out of that hollow with severe problems, being what we should be able to be, a very - income export earner for Australia. I understand what is behind the idealistic free-trade issue. If I can come back and use what you spoke of yesterday - fairer trade - my question is, fairer to whom? Fairer to us or fairer to the European Union or California, our competitors or, to be brutal, fairer to those people that are still trying to substantiate into practical effect the application of free trade.

There are very, very many that are unwilling to accept that that objective cannot be reached within a reasonable period of time with a reasonable degree of fairness. Now, I go back to, fair to who? Fair to us? Fair to the European Union? Fair to California or fair to those who still strongly espouse free trade? Thank you very much. It wasn't long, was it?

MR COSGROVE: No. Thank you.

MR MARROWS: You got my report yesterday that - welcome any visit or inspection.

MR COSGROVE: Yes.

MR MARROWS: Thank you.

MR COSGROVE: Thank you very much, Mr Marrows. Is there anyone else who would like to speak today? Then I am adjourning this hearing and we are going to resume our hearings in Renmark tomorrow.

AT 11.35 AM THE INQUIRY WAS ADJOURNED UNTIL
FRIDAY, 15 MARCH 2002

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