



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO CITRUS GROWING AND PROCESSING

MR J.H. COSGROVE, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT RENMARK ON FRIDAY, 15 MAY 2002, AT 9 AM

Continued from 14/3/02 in Mildura

MR COSGROVE: Good morning, ladies and gentlemen. I would like to open this public hearing in Renmark on the Productivity Commission's inquiry into citrus growing and processing. My name is John Cosgrove and I am the presiding commissioner on this inquiry. The purpose of these hearings is to facilitate scrutiny of the commission's work to date and to receive comment and feedback on the position paper, which was released just over a month ago. Some aspects of that paper have attracted critical attention from industry representatives and we would welcome constructive input to assist our further consideration of those matters.

Following this hearing there will also be a hearing in Melbourne next Wednesday, after which the commission will be working towards completion of its report, which is due to be given to the government by the end of April. That final report obviously will take into account all the evidence presented to us at these public hearings and in the written submissions which are provided to us. Participants in the inquiry will automatically receive a copy of the final report after it has been released by the government, which may take up to 25 parliamentary sitting downs after completion of the report.

We like to conduct these hearings in a reasonably informal manner, but we are taking a full transcript of proceedings and, for that reason, we cannot take comments from the floor. However at the end of today's scheduled proceedings I will provide an opportunity for anyone wishing to make a brief presentation to do so. Participants are not required to take an oath, but should be truthful in their remarks. They are welcome to comment on matters raised in other submissions if they wish, as well as on the position paper itself.

The transcript of the hearing will be made available to participants involved in the hearing and will also be available on the commission's web site following completion of the hearings. Copies can also be purchased and our staff have order forms for anyone wishing to use that means. Submissions are also available. I would now like to welcome our first participant today, Riversun Export Pty Ltd. Gentlemen, I will be glad to hear from you.

MR WALKER: Good morning. My name is Peter Walker and I am the chairman of Riversun. My role is as an independent chairman. I'm a grower by nature and by occupation. The company is structured as such that it has a board of exporters and, for transparency and accountability to industry, they employ an independent chairman.

MR COSGROVE: Before you move on perhaps we should take the opportunity to get Steve on the tape, as well.

MR ALLEN: Steve Allen, managing director of Riversun Export.

MR COSGROVE: Thank you.

MR WALKER: My other role in industry is that I served four years on the board of HRDC as a director and deputy chairman. I am also a current member - in case there is any conflict of interest I need it to be noted - of Horticulture Australia, which administers the export control powers.

MR COSGROVE: Fine.

MR WALKER: Riversun Export Pty Ltd is here today to discuss the inclusion of the recommendation 7.8 in the draft position paper. In a nutshell, Riversun is disappointed that part of this Productivity Commission is looking at the export control powers. We feel it wasn't part of the terms of reference. I know you were looking at government policies, et cetera, but we sort of felt that that was looking at WTO incursions and all those sorts of things. We didn't put an initial submission in because we felt that it was in relation to Valencia citrus growing and the processing industry; not so much the marketing - successful side of the market.

MR COSGROVE: I see.

MR WALKER: We perhaps thought we would cut to the chase and answer any questions perhaps from yourself in relation to that. I can go to the conclusion which indicates that we are disappointed with the tack which the commission has taken in relation to export control powers, but that would take time which is perhaps better spent answering questions.

MR COSGROVE: Okay. I guess initially, in response to your observation about whether or not we should have touched on this matter, I think we did so for a couple of reasons: first, because submissions had been sent to us which had raised this as an issue. As we became more familiar with the use of Australian citrus production during the early stages of our inquiry it quickly became apparent that exporting is now an increasingly important market for the industry and therefore the arrangements governing exports seemed worth having a look at.

That said, I mean we have been hearing a good deal about this, as I am sure you know, and it is obviously a matter which we will be better positioned, I think, to take a final view on with the benefit of all the information which has now been provided to us and I am sure I can learn some more from you people today. I did have several questions that you could perhaps help me on, Peter. The first one was - I understand that you have agreed on some performance criteria under which DNE operates. I had posed this question yesterday in Mildura with Horticulture Australia and they seemed to say yes, that was the case, but they didn't seem to know what the criteria were. I hope I am not misrepresenting them on that particular point. If you

know what those criteria are and, in particular, whether they are publicly available, in which case we could have a look at them - is that possible?

MR WALKER: DNE's performance - some time ago there was a question whether or not DNE was acting in the best interests of our company and obviously the grower sector, so what was happening is that they implemented, through AHC at the time, a subagent called Oppenheimer, and that was sort of a benchmark of DNE's performance. Each year under our arrangements or agreements with DNE they are to get a certain proportion of the fruit, a certain amount of the customers and a certain amount of - by size and by variety - all the product that Australian growers send. Then, at the end-of-the-season report, we get a report from Oppenheimer and we get a report from DNE World Fruit Sales, which we can then evaluate the sales and, even though it goes through DNE, we still have that as a benchmark of their performance.

MR COSGROVE: But apart from that there is no further criteria used to evaluate their performance?

MR ALLEN: We have specific criteria for evaluation, which would go into sales, market penetration, the development of sales with certain customers, with the market, with the volumes - we're looking for market growth. I guess, the standard or the normal parameters that I guess you would use to evaluate any marketer or agent.

MR COSGROVE: As I was asking, are those various parameters or criteria available to the public?

MR ALLEN: We could make them available to the commission because those parameters are included in the agency agreement that Riversun has with DNE, which I guess we consider a commercial document but we could certainly provide a summary to the commission of the criteria that we apply.

MR COSGROVE: If you wouldn't mind doing that, I would be glad.

MR ALLEN: Certainly.

MR COSGROVE: If you could perhaps provide it to us next week that would be fine. Thank you. We have also been interested in the process of allocation of the aggregate volume of navel exports going into the US amongst the various exporters. Could you tell me how that is done?

MR ALLEN: Just to clarify: the allocation between the Riversun members?

MR COSGROVE: Yes.

MR ALLEN: I guess firstly there is a determination made by the marketers on what is I guess an appropriate or a marketable volume that the market can handle.

MR COSGROVE: I am sorry to interrupt, but when you say "determination by the marketers", do you mean DNE and/or Oppenheimer make that determination?

MR ALLEN: Yes, an assessment of the market conditions and the volume that they believe the market will be able to handle to our price expectations, and that is done in dialogue with Riversun. With respect to the allocation I guess between the Riversun members, that is determined on past history, past performance, and is basically a percentage of that volume.

MR COSGROVE: As simple as that.

MR ALLEN: Yes.

MR COSGROVE: So if a large, new, potential exporter of navels was to come on the scene - and we've heard for example that there is some significant new activity developing in New South Wales and further possibilities are still under exploration. I think Aurora is the name of the company which is shortly to provide a report - I think during the course of April - to the New South Wales government, but let's just say for the sake of argument that a really significant new source of supply of high-quality navels was to come on board, how would that fit in with the quota arrangement? They have no previous export record, so how in that situation would the allocation alter, or how would they obtain access?

MR WALKER: The membership of Riversun - they would have to demonstrate to Riversun what they can contribute to the company. It's not just: put your shareholder money up and you're in. They have to come before the board and demonstrate their intent to the company - whether they are going to pack correctly, et cetera, et cetera.

MR COSGROVE: Sure.

MR WALKER: As a consequence of that, that area has been discussed by the board and that area is earlier than when we normally fit into our marketing window, so effectively that wouldn't be an impost to the company. We would just ship earlier.

MR COSGROVE: Yes, but let's say that the aggregate quota is not growing rapidly - - -

MR WALKER: The aggregate quota is for a 12-week period.

MR COSGROVE: Yes.

MR WALKER: I am saying it is going outside that.

MR COSGROVE: So they would not have access to - - -

MR WALKER: No, no, no.

MR COSGROVE: Sorry, I am misunderstanding.

MR WALKER: That area in Bourke - it comes in earlier in the season.

MR COSGROVE: I see, okay.

MR WALKER: That's their strength - that's why they have gone there - so effectively we would ship - if it is a significant volume of fruit we would start the program earlier.

MR COSGROVE: Yes, okay, so you would sell more in aggregate?

MR WALKER: Yes. Effectively DNE believes they can sell X amount of pallets per week in the economic climate of today, so if it is over a greater period they can sell more.

MR COSGROVE: Yes.

MR WALKER: And to those numbers which we have supplied you - I think it has only been one year that we have actually peaked on those numbers - 99. Every other year we have not shipped what we said we were going to ship.

MR COSGROVE: Every other year since the early 90s?

MR WALKER: No.

MR ALLEN: In the early 90s, I guess at that point we were still trying to - like, the market was growing. We started off very small. There was I guess dramatic growth from 96 to 98, and I guess where we stand at the moment, particularly in 2000-2001 - we have not been able to supply the market with the volume targets that were determined by the marketers, and I guess in respect to new volumes becoming available - I mean, the example you cite is probably eight to possibly 10 years away.

By that time I would expect the market would be fully developed and explored and I would say that that would be accelerated by South Africa, who have been a

major player in the market in the last two years. We would welcome any additional quality volume that is going to expand the window into the United States, and that is one of the tools that I guess has been used. As our volumes have increased, we have pushed our window out into October and we are continually striving to get fruit into the market earlier than what we were traditionally doing say three years ago.

MR COSGROVE: So there is scope to use an earlier period.

MR ALLEN: Definitely.

MR COSGROVE: So the American navels disappear from the scene earlier.

MR WALKER: Yes, they're out of navels at the moment. The market is out of navels at the moment, so even now you could - if you could get the product.

MR COSGROVE: As early as March.

MR ALLEN: At the moment that gap - I guess it's South Africa who seasonally can be anywhere from four to six weeks earlier than Australia, so they have that ability or advantage, I guess, to be in the market up to a month before Australia.

MR COSGROVE: Okay, thank you. Could you tell me who was responsible for deciding on the promotion campaigns undertaken in the US market for our navels? Was that DNE or - - -

MR ALLEN: Yes, the promotion campaign is entirely undertaken or is the responsibility of DNE, but because Riversun and its members, I would say, are significant stakeholders in the US market we obviously have a reasonable amount of input or discussion with DNE in just exactly what it is they're proposing and the direction they're going. I mean, we just want to be satisfied that the promotional dollars are used effectively and for the maximum benefit to promote Australian navels.

MR COSGROVE: Is the cost of that program shared between the US marketer and your members or others - any others?

MR ALLEN: There used to be a sharing of - well, a contribution I guess by DNE. That was back in the days when there were some industry funds available for promotions. But at the moment it is funded by Riversun and I guess all participants, and there is a contribution to that by DNE.

MR COSGROVE: How are those costs covered? Is this pooled on an equal basis according to your export allocations to individual exporters for example?

MR ALLEN: Yes, I guess that is - I guess it's just an internal thing within Riversun, but whatever the total expenditure is then Riversun would - if we're 99 per cent of the volume that is shipped to the US in a particular year, then we would expect to be charged for 99 per cent of the promotional activity and, as far as Riversun is concerned, we just then charge that on a similar basis to our members.

MR COSGROVE: So it would be a function of the amount of exports that they had shipped, or the value of exports there.

MR ALLEN: The volume.

MR COSGROVE: Volume, I see, right.

MR ALLEN: By pallet.

MR COSGROVE: So the growers know about that; they get the information from you with that particular charge identified, right.

MR WALKER: I don't know if the growers specifically know what they're being charged. We would make a public announcement, "We spending \$US1 million on promotion." If it's not used we rebate that back to our exporters who then rebate that back to growers, as in extra returns. Specifically the dollar-dollar, where it's going and what the spend is, no, they wouldn't know.

MR COSGROVE: Is it easy for a grower to ascertain that type of information from an exporter?

MR ALLEN: I think it's just a matter of requesting that information.

MR COSGROVE: You'd have to ask.

MR WALKER: We could say it's X amount of dollars per pallet and that exporter sends X amount of pallets, so that's the equation, sort of thing.

MR COSGROVE: Yes. We've heard, for example, from several people in this inquiry - and we may hear it again today - that there's not always what you might call fully transparent information along the supply chain and many growers, for example, feel - I think the term "ripped off" is often used - by people such as packers and exporters and whoever else they have to deal with to get their fruit to market. That's the purpose of my question: how easy is it for a grower to obtain information on the basis of which he could go to a packer or an exporter and say, "Hey, you've duded me for some money here"?

MR ALLEN: I guess that's an issue between the grower and the packer.

MR COSGROVE: Yes.

MR ALLEN: Because that would also not involve just a US market, which we are specifically involved in.

MR COSGROVE: Of course.

MR ALLEN: But I would say every other export market that Australian citrus exporters are involved in, as well as the domestic market. But to speak specifically to the US and the availability of information to growers, part of the licensing arrangement with DNE is that they - what occurs is that every year they will give a season review to growers, as well as exporters. They are public meetings. They are open to anybody. They are very, very comprehensive presentations of the season and included in those presentations are details of where the promotional dollars were spent, what were the activities of the promotional campaign and they are extremely detailed. As I say, they are available to any grower in Australia. I mean, if a grower makes the effort to go to these meetings which are publicly advertised, they have been occurring every year for the last - certainly that I know of, for the last seven years. I would suspect a full 10. I personally find it difficult for growers, particularly with the US market, to claim ignorance on certain aspects, because the information that they receive or is available to them on the US market is significantly greater than what they receive on any other export market that Australia has.

MR WALKER: Putting my grower hat on for a second, effectively this is the only market as a grower I get enough transparency to get some sort of cultural practices and what I attain as to what I want to do on my property. If I send to Malaysia or I send to Hong Kong or Philippines through my packer, I very rarely get anybody from those countries coming to tell me what's wrong with my product, what I need to do to improve it and what they're doing in relation to promotions. So equally as you had someone complain about the transparency of this market, there is no transparency - I mean none - on any other market. That is, I think, an area that the commission needs to probably investigate more, with specifically city based exporters.

MR COSGROVE: Yes. I take it that the US marketer would provide Riversun with reports on what's happening over there and perhaps even if we're thinking about an end of season review, especially, does Riversun send copies of those reports automatically to your members?

MR WALKER: To our shareholders?

MR COSGROVE: Yes.

MR WALKER: Yes.

MR COSGROVE: Okay, thank you. Is it possible that sometimes DNE keep some fruit in storage in order to maintain the desired level of price because of temporarily adverse market conditions there? Does that happen or not?

MR ALLEN: I guess the short answer to that is no. There are periods where fruit is in storage that we would be comfortable with, but that would be as a result of either, I would say, quality considerations, competition considerations - particularly with South Africa, the first year they entered the market in volume - and I would say they would be the main reasons why, but it is not deliberately held back to maintain the price. In our response to the submission we make reference to our experiences with lower-quality fruit and less than desirable sizes. We have actively I guess encouraged DNE to, in those situations - I guess basically we've gone out and done deals to move volume so that we don't get into that situation.

We had a disastrous season in 2000 where I guess that there may have been that perception - that fruit was held in storage - but the reality was that we had an unprecedented amount of fruit that arrived not in a marketable condition. The fruit had to be reconditioned and because of the sheer volume - it was something like 30 or 40 per cent of what was shipped which had to be reconditioned before it was sent out - and just the sheer logistics of that and organising that was greater than what we would have desired.

MR COSGROVE: But in the case of some competition from alternative countries, alternative exporters like South Africa, what might be the period that you would be comfortable with fruit being held by DNE?

MR ALLEN: Our criteria is - our objective is three weeks from arrival.

MR COSGROVE: Three weeks, okay. Is it then a question - again, I'm interested in who bears the cost of those sorts of conditions - is it just, if I can use the phrase, the luck of the draw? You know, you happen to have your pallets on a boat which are the pallets that are actually kept back for a while?

MR ALLEN: No, the criteria we have is that the oldest fruit is sold first.

MR COSGROVE: I see.

MR ALLEN: I won't say it's a problem, but it's something that we very much recognise and monitor daily - that the response time we have to market conditions in the US is something like about four to five weeks. Say, for instance, South Africa comes in and floods the market with fruit, we probably have two boats on the water

and we are in the process of loading one, so we then have to make a determination, or how best do we manage the future or the sale of that fruit without impacting on price too much. We know that we have potentially 400,000 cartons of fruit on the water with 200,000 in storage or whatever. Any decisions, I guess, that are made are always made not with consideration for what is physically in stock in the US, but also what is on the water and what we've got coming.

MR COSGROVE: Okay. In your planning each year for the US navel market, is the - I should say potential trade off between price and volume considered with a view to maximising the overall returns to growers, or are you working to an objective of achieving a specific price and for that reason deciding that the volume must be the residual? I wonder if you could explain to me how that all happens.

MR ALLEN: Prior to 98, when we had the market to ourselves - I think it was 1999 which was just an exceptional year pricewise for us - I mean, it was a situation of just demand far exceeding supply. So up until that period we were growing - we had no competition, the prices were high, extremely high. Now that South Africa is in the market and prior - they were granted access in 1996, so we were aware that it would not be long before we would have competition in volume from South Africa. But it wasn't really until 2000 that they overcame their quarantine problems and came in with volume.

One of the considerations in order to secure our position in the market was to - you know, we want to grow the volume because we know that production in Australia, particularly in navels volumes is increasing. The US market has to be developed in accord with that increase in production. We continued - it is always a consideration on our part, and we have discussed it. There have been years where we've wanted to send 2.3 million cartons and that was the plan - we ended up shipping 1.4 million because we just couldn't supply to the quality standard that was required. I recall another year where we had agreed, or we had said to DNE, "We want to ship 2 million cartons." We fell short and I think we shipped about 1.4 million in that particular year. So, I mean, we have not really challenged, or have the ability to challenge the market with any volume at the current prices that we have.

It's something that we - you learn as you develop, but at the end of the day the risk I guess is - it's in our interests to take a very strong and keen interest in the pricing. The alternative is the domestic market price, and the domestic market price does not go anywhere near covering the cost of our recovery. That's why I guess we're extremely aware of the risk; that if we get it wrong, that if we put just that too much into the market, the results can be catastrophic for us. We're looking to increase 10 or 20 per cent every year like a balanced growth rather than just put - you know, double our exports in one year. As I was saying before, we don't have the

ability, or haven't had the ability up to this point in time, to supply the market.

MR COSGROVE: So it's going to take several years now to rebuild our volume of exports to the level which prevailed prior to South Africa's entry to the market?

MR ALLEN: Well, I don't believe that the level of our exports has diminished all that much since the entry of South Africa. We may have been - well, we were down 85,000 cartons on what we had intended shipping, and I believe South Africa was down two to three hundred thousand.

MR COSGROVE: Is this last season?

MR WALKER: Yes.

MR ALLEN: But I guess what I'm saying is that Australia volumes have been reasonably stable, but what we've seen in particularly 2001 - the American market has doubled in the volume that it has handled.

MR COSGROVE: The US market - do you mean the US market for foreign suppliers?

MR ALLEN: Correct.

MR COSGROVE: So imports have doubled.

MR WALKER: And we have a sliding scale with DNE on a commission basis for incentive, then obviously they make more money if they sell it at a higher price.

MR COSGROVE: Yes. I'd like to come back to that in a moment. But while we're on this import story into the US, I think we may have sent to you some material which we derived from the US Department of Agriculture source. If you just look at the first table, which is the tonnage of oranges imported into the US during the period June to September for quite a number of recent years, that seems to show a decline in the total volume of imports, certainly in 2001 and in 2000. The peak seems to have been in 1999.

But what is also interesting in that table, which gets back to what I was asking a moment ago about the volume price trade-off, is that our exports seem to have fallen considerably in 2001, while imports from South Africa have increased considerably in the last two years, as you said, from almost nothing. So really what I'm trying to ascertain, I guess, is how easy is it now with South Africa in the market for Australia to increase the volume of its exports and at the same time maintain the sorts of prices that you've been receiving?

MR ALLEN: Okay. Well, firstly, just in respect to the table that you have here, the figures for 1999, US imports or other, I would very much have to question. I would appreciate if we could know what the source of that information is because in that particular period in that year there were no other imports into the United States, apart from those from Australia. So that can make that graph or that assumption probably somewhat misleading.

MR COSGROVE: Well, as you should have seen, I think, from the cover page it's US trade data obtained from the US Department of Agriculture's web site. Maybe they can't count the number of imports going into the US, but if you have any other information that portrays a different picture, we would be glad to have it.

MR ALLEN: I would certainly like to access that same information and research that - - -

MR COSGROVE: Well, you might like to speak to our staff in Melbourne and have a sensible discussion about where it's come from.

MR ALLEN: I certainly will, because in figure 9, and I'll just raise this now, the value of - - -

MR COSGROVE: This is in your submission or in ours?

MR ALLEN: In these graphs - again we would very much question the value of fresh navels exported by Australia. Our figures show 28.6 million was the CIF value of Australian exports, whereas your graph is showing, I believe, around 15 million, which again has a significant bearing on the interpretation of this data.

MR COSGROVE: Yes.

MR ALLEN: But getting back to your question in respect to the impact of South Africa and the ability for Australia to grow its market, it's not going to be easy, it's always difficult, and I think it just gets back to a supply and demand situation. The market has never been tested, and I guess that's the \$64 question for us, that we certainly intend increasing our volume into that market. Now, whether that can be sustained at the current prices that we have really remains to be seen, but I think with the promotions program that we have in place, Australia has a track record over 10 years, we have a reputation for quality, certainly reliability with the US retailers. That could very well give us an advantage over South Africa in developing that market, but the market will experience quite an increase in volume to be able to accommodate the desire of Australia to grow, and I'm sure South Africa would be looking to capitalise the market as well.

MR COSGROVE: Right. Another request about some of your documentation: would it be possible for you to provide us with I guess a pro forma copy of a contract between Riversun and an exporter? Obviously no figures in it. We don't want to have anyone's market intelligence being breached, but just the standard form, if you could send us one.

MR ALLEN: So you're looking for the agreement, the contract between Riversun and its shareholders.

MR COSGROVE: Yes, just a typical empty form, except with, I assume, some questions or indications as to what is likely to be available, what sort of quality requirements it might contain.

MR ALLEN: Okay, all right. Are you able to elaborate exactly on what it is that you would like us to provide because quality specifications and so on are not in the contract arrangement with our packer.

MR COSGROVE: All I'm simply looking for, I think, is a copy of the documentation that you send to an exporter at the beginning of a season, I guess - you know, "Here is what we require you to do under this contract."

MR WALKER: We have a manual - an export manual that they have to adhere to in relation to colour plates, colour of fruit, pack size, et cetera, et cetera. And then the market is still determined between DNE and ourselves in relation to what we send of certain sizes, et cetera.

MR COSGROVE: Yes, but is there not some sort of documentation that you provide to an exporter to inform them of what you are expecting them to supply for the US market?

MR WALKER: That would be the freight rate.

MR ALLEN: Yes. I mean, it would involve an extensive search because that sort of information or the details of the program I guess are communicated to the packers probably from - we've started already. It would commence from February and go through till June, so it is a progressive - as it develops - - -

MR COSGROVE: I understand that, but I'm just thinking of the normal sort of documentation that is usually exchanged between.

MR WALKER: We go out to the exporters and ask them what volumes they want to send.

MR COSGROVE: Yes, sure.

MR WALKER: So we get their side of it, and then we get from DNE what they expect, and then we work between the two to get to a percentage.

MR COSGROVE: Right. So it's after that point that I'm interested in. You've worked all that out. Now, is there no indication then to one of your shareholders, an exporting company, as to what you're expecting them to do thereafter?

MR ALLEN: Well, I don't think it's a matter of what our expectation of them is. It's what their expectation of us is. Riversun is owned by these people, and we take our direction I guess from the shareholders.

MR COSGROVE: Yes, I'm sure, but they've agreed with the aggregate program formulated between yourselves and DNE in consultation with your members, and then you have to actually get about the business of exporting that fruit to the United States, and you have an allocation system. As you explained to me earlier, each particular packing member gets a certain quantity to be supplied. Now, it's that latter type of documentation that I was thinking existed, you know, that with the aggregate market determined, you then say to member A, "We're expecting you to supply this amount of fruit to us in this particular period," members B, members C, so on - those sorts of, in effect, I would have thought, contractual arrangements. Is that not the case?

MR ALLEN: Well, they're commercial arrangements between Riversun and its shareholders.

MR COSGROVE: Yes, and I was just simply thinking that there might be a fairly standard piece of paper that documents those commercial arrangements.

MR ALLEN: Well, there are several, I would say, that are developed throughout the course of the season, because I guess every season is different. There has not always been an allocation. That has only really come into play since the entry of South Africa in the year 2000, where the market was oversupplied. We would envisage that that will not be the situation this year.

MR WALKER: There is an allocation sheet that goes out to the exporter in question, and that's what you're after?

MR COSGROVE: Yes, I think that's essentially it.

MR WALKER: And then he will determine on what boats he wants to put his allocation and then we match the shipping program to his allocation.

MR COSGROVE: I'm happy to leave it.

MR ALLEN: If you can let us know specifically what it is that you want, because I feel that these are just beyond the scope of the inquiry. These are commercial arrangements by a company and its shareholders, and I feel they have no bearing or relevance on the inquiry.

MR COSGROVE: Okay. I'll consider it further and perhaps get in touch but, as I said, I'm certainly not seeking information on any individual marketing details. I'm just looking for the empty form. If I could come back to the South African picture - and, incidentally, as I said, I think it would be very useful, Steve, to have a discussion with our staff. We'll seek to get in touch with you if you wish - - -

MR ALLEN: I'll certainly do so.

MR COSGROVE: It's important that we see eye to eye on the facts of the situation. We don't want to mislead people.

MR ALLEN: Yes.

MR COSGROVE: That would be good. We understand, and I think it's mentioned in your submission to us, that there has emerged an alliance between Australia and South Africa in the US market. Could you tell us anything about the nature of that alliance.

MR WALKER: Sure. The company, in relation to its risks and its risk strategy, always looks to see where there can be threats to the company, and on the entry of South Africa into the market we could see that they would have significant volumes, uncontrolled volumes, and also the rand to the US dollar was obviously more attractive than the Australia dollar so they could get it there a lot cheaper and do a lot of damage. The only thing we had in our favour was a long-term history with the supermarkets, but they're only loyal to their pocket profit.

So effectively what we decided was we needed to have dialogue with the South Africans as a risk strategy. We spoke to the grower group. They were having a torrid time. They'd just come through deregulation, and all the exporters and such were coming out of Europe and offering great money and paying them nothing, and they were in a fairly difficult financial strait. But they did look to the USA as an opportunity, and they have the ability to put about four million units into that market, which would devastate the market because their quality is not the same level as ours, and that's recognised. It's not my statement, it's fact. And as a consequence they're pitched a little bit lower at the supermarket level.

So we travelled to South Africa and met with them and we took our marketer DNE with us to show them what the Australian grower was receiving, and the returns, and as such we entered into dialogue with them and in relation to transparent shipping, volumes, varieties and stuff like that, and tried to match what the market could handle in any given year, and that's done with their exporters over there and the exporters here. So we had this sort of loose MOU with them, and there was an MOU with the grower associations because it has to be grower to grower, because of legal restraints, and so effectively all we get out of that arrangement is transparency. We know when they put all their product on the ship, we know what volumes and we know what varieties and we know the ETA of it arriving, and then we have a little bit more dialogue through our importer, being DNE, and Fisher Capespan, the other half of the South African - - -

MR COSGROVE: So it's an information exchange basically.

MR WALKER: Absolutely, and it's like airlines have alliances, like supermarkets are having alliances and we feel that this is a way we have to proceed.

MR COSGROVE: So there's no attempt made to share the market somehow or other between each country.

MR WALKER: No, there's no split down the middle of the USA or anything like that. The volumes are determined by the marketers to keep the returns at a significant level, and we can all put more product in there of a class 2 or an inferior line and just destroy the market and never get it back.

MR COSGROVE: Okay. One of the aspects of all this, if my understanding is correct, is that the South African growers or exporters sell into the US through more marketers than we do, ie, DNE is not their sole marketer. Is that correct?

MR WALKER: That's correct.

MR COSGROVE: I therefore wonder what even information exchange might over time achieve if you have other sources of supply going to the US which aren't a part of your information exchange arrangements. In other words, is it not going to be the case that in the end the force of market supply and demand will determine the price outcomes in the United States, whether we might like it otherwise to be the case?

MR WALKER: I think DNE and Fisher Capespan - whilst there was the honeymoon period there, I think they have their moments. It's just like they have their customers, and they have their customers, and each customer is trying to get that price down. Take my word for it, if you get two sellers you are going to get the

price down.

MR COSGROVE: That seems to be the implication, yes.

MR WALKER: It just goes down.

MR ALLEN: And I think the experience of the South Africans - yes, they do have more than one marketer but it would only be two or three. In the year prior to that they had something like about 20.

MR WALKER: They're trying to get it down too.

MR ALLEN: It was because of that experience, where you had uncoordinated supply and volume into the market - nobody knew what was coming, there was no marketing, when the fruit got there, "Right, well, we'd better sell it now." There was no planning whatsoever, so the growers suffered negative returns out of the US as a result of that, so they're looking to consolidate not only their marketers, but I think they recognise the need to supply the market in accord with the market requirement.

MR COSGROVE: If I could revert now to that point you touched on earlier, Peter, about the basis of DNE's commission, would you like to explain that for me now, please?

MR WALKER: Effectively, a long time ago in the negotiations for Riversun, they felt that there needed to be a performance criteria attached to the commission structure and, as such, at a certain trigger point there is no commission paid. So if the sales start to get pretty low they don't get paid, so there's always their incentive for them to get to the next tier.

MR COSGROVE: To increase sales. So it's effectively a commission based on the total value of the sales.

MR WALKER: Yes, that's correct.

MR COSGROVE: With quantity sold being as important a factor as the price they're obtaining.

MR WALKER: Yes.

MR COSGROVE: I'd like to pick up a few parts of your submission to us so that I can make sure I've got the facts properly understood. Yes, one is a point I have. We're working off similar pages. We've been working with emails which don't always print out in exactly the same page numbers, but at the top of my page 6 it's

just before a heading which reads Coordinated Supply to the Market. Got it?

MR WALKER: Yes.

MR COSGROVE: You say there that in markets where there are no export powers, any cost efficiencies achieved are not always reflected in grower returns as they're generally used to obtain a very short-lived competitive advantage in the market. Could you give me a few examples of what you've actually seen happening, going in particular markets, in that respect?

MR ALLEN: I think the most common one is if there is a reduction in freight rates; that in a very short period of time, if a freight rate is reduced by \$200 a container, for instance, that is very soon used as an advantage in the market, so therefore a price advantage. As a result the market is then set according to that price reduction. We had an instance here, particularly in South Australia, where we were able to maximise the efficiency of 40-foot containers in respect to road restrictions here in South Australia. We were able to ship overweight containers down to the port of Adelaide. By achieving that, that saved significant costs of virtually double-handling down to Adelaide. That initiative was achieved by the grower body but the savings that derived from that exercise were soon given away in the market as price advantage against another Australian exporter.

MR COSGROVE: One other point I wanted to ask you about - it's come up in the course of our hearings and in some submissions, and that is that the arrangement into the US market with DNE is by way of sale on consignment. Obviously this leaves the price risk in the hands of the exporters and their grower members. Again I've been told - I hope correctly - that in all other markets this is not the case; that prices are in fact fixed at the time the grower supplies the fruit, and then I guess the exporter is relying on his relationship with an overseas buyer. But why is it that, in the US market, consignment selling is the only model available?

MR ALLEN: It's not the only model available. We were selling on a fixed-price basis to DNE in the early years. I guess there are obviously the discussions and negotiations in respect to price. The industry here was quite happy to agree on a price of, say, \$US20, which was probably higher than was being achieved at the time in other markets. As it turned out, DNE as a buyer were sold that fruit at a much higher price than what they paid for it; I mean, a significantly higher price. Again, as a result of that, in the following year there was still a fixed price but a profit-sharing arrangement on anything over a set figure.

MR COSGROVE: I see.

MR ALLEN: That again turned out to be very successful, where the fruit was

actually sold in the market at a higher price than the fixed price that was agreed. So from that experience, certainly the Riversun members felt that the best way to maximise the market would be to work on a consignment basis. Even though it is on consignment, risk rests with the grower or the packer. What greater incentive can you have to be directly involved and take a greater involvement in the marketing of your fruit when the risk is borne directly by you? You are having to take some responsibility for that fruit.

MR COSGROVE: But if I have market intelligence on a regular basis - I mean, these days we're probably capable of having it hourly, certainly daily - why can't I remove that risk? I know what prices are being paid. If somebody is prepared to offer me a price which is satisfactory to me, then I'll take that price.

MR WALKER: We have a structure; we have a teleconference around Australia every week where we bring DNE in, and the prices are on a spreadsheet in front of every director or committee panel, and it's effectively almost fixed prices anyway because the price very rarely moved. Once it's pitched at a price we either put promotion dollars towards it, to keep it - maintain it at that. So the prices are always pretty well maintained throughout the season; it's only at the end of the season or the trough if there's an oversupply. So this consignment market is the word, but effectively the decision is made by the exporters on that sale, almost.

MR COSGROVE: I was provided with some information, which I won't take time to grab now, by someone in Mildura in the last day or two, which showed - I think for the most recent season - quite a lot of fluctuation in the price during the season, which apparently was a function of high supply from South Africa during certain months.

MR WALKER: We can probably supply you with information.

MR ALLEN: I think the price - well, certainly from what we experienced - was reasonably stable throughout the course of the season.

MR COSGROVE: But what you seem to be saying, Steve, if I interpret you correctly, was that you actually have some flexibility in your approach to the pricing arrangement and that, for example, if in the future there was to be increased competition on a more or less sustained scale from South Africa which resulted in some decline in prices, then it would be quite possible that you would go back to some sort of fixed-price arrangement.

MR ALLEN: Most definitely, and fixed-price arrangements are something that is discussed with DNE every year.

MR COSGROVE: Right.

MR ALLEN: We have that option, I guess, or we explore all options in respect to pricing. And if I can just add that now that South Africa is in the market, it's probably more difficult - it is not impossible but it's probably more difficult to obtain a fixed price to some extent, because the retailers are not going to commit to a fixed price themselves when they know that they have an alternative in South Africa.

MR COSGROVE: Okay, thank you. My next question is a sort of general one. It's relating to the section which you call "Cost-effective shipping arrangements" and I guess it also applies, in a sense, to the next section, "Coordinated supply". You mentioned there that if Riversun was to rely upon shipping in containers, the volumes would be reduced by about one-third. I just take that as one of the types of points you're making through there. I wonder though, in this connection, why it is essential to have a single importer in the US market. Would it not be possible for, say, Riversun itself to put in place such arrangements for the shipping of fruit to the US?

MR ALLEN: Sorry, if I can just clarify, you're talking Riversun making its own arrangements in the US in respect to - - -

MR COSGROVE: No, I'm talking about several things really, although I haven't mentioned them. Obviously premium quality is important to obtain high returns from the US market, so that has to be assured somehow or other. There are, it seems, some efficiencies available through a coordinated shipping program using charter ships. There may be other points of that kind that you've made through these few pages, but what's not entirely clear to me is why one needs to have a single importer or marketer in the foreign market in order to ensure quality and to arrange the most efficient form of transportation.

MR ALLEN: With the charter vessel, the conventional vessels that we charter, as we say, it is unique. This form of transport is unique in Australian horticulture, so it's not as if these vessels are just sitting off the coast. I mean, they've got to come in from Europe, so we have to commit three to five months in advance to a contract. We commit ourselves to freight for 3 or 4 million or more US dollars, and the terms of the contract are very specific and have quite severe penalties for us. We have, I guess, the security of knowing - you know, in order to go and commit to that sort of volume for six or seven or eight sheds, we know that the volume is essentially going to the one marketer, and we can commit to these vessels and these contracts basically in the knowledge that we don't have exporters sending volume into the market which could be detrimental to our freight arrangements.

MR COSGROVE: I see. Thank you.

MR WALKER: The situation in America with the supermarket consolidation and category management is one of the reasons DNE has been chosen, and chosen alone, because the demographics of the market are you just have to have long lines of large volumes of fruit to service those markets. That's why this market is quite unique in relation to that. So if you start fragmenting your suppliers, all you're doing is beating yourself up in your own market. The industry has chosen, and Riversun just uses that person that the industry has chosen, and they've chosen wisely, because as you see in our report they effectively service most of the major chains either as a category manager or as an approved supplier to those markets.

We have a benchmark, as I mentioned earlier, about Oppenheimer, which have their own customer lists, and those customer lists are very important to these people and they don't hand them out willy-nilly. I think you need to understand the demographics of this market. It's a huge volume, a huge population, but only a small part of the population can handle the volumes of our premium sizes, so we have to pick the right locations and the right parts of the market.

MR COSGROVE: Okay. I need to keep an eye on the clock, I'm afraid. Just a couple of other points: you say - and this is on my page 7 - shortly above the heading Maximises the Benefit of Promotion Through Single Brand Marketing, there's a paragraph there that talks about your experience in the US market, showing that a reduction in price to stimulate sales and volume doesn't translate to a lower retail price to the American consumer because the retailers grab that saving. I've lived in the United States. It's a country with extremely competitive marketing and I might have thought that if a particular retailer tried to pocket that kind of gain, someone else would quickly enter and say, "I'm prepared to sell your navels at a lower price and pass more of the gain on to you." Does that happen?

MR WALKER: No, it doesn't.

MR COSGROVE: It seems to me to suggest a surprising absence of competition.

MR WALKER: They just take the money.

MR ALLEN: I guess there are several factors there, but with the consolidation that has taken place within the US retail industry they are looking to maximise their profits to pay for that consolidation. We mentioned the \$1.99 per pound considered by most retailers and used by most retailers as the consumer price point. We ship in a 33-pound box, so you multiply that roughly by two, they're retailing it for 66 or 65 US dollars per carton. We're selling at, say, between 25 and 30, so their mark-ups are 100 per cent. They're making huge margins. So if the value of the export trade to the United States is \$A50 million, their profit margin is the same.

So on that basis there is no incentive whatsoever for them. They're quite happy to lazily make that locked-in profit and then they've got all the other items - the peaches, the nectarines, the melons, the what have you's. They're the summer fruits that are in season; they're the ones that they use as the loss leaders, et cetera, whereas with the Australian program they know that for three or four months they can lock in their Australian program in April or May and they know they can forget about it basically, and then they will concentrate on all the other commodity-type fruits and vegetables which they use for that price advantage.

As we say, below that price level, to stimulate or to encourage the retailers to increase their volumes, it requires aggressive promotions and, in some instances, price support. That's one of the biggest challenges that we face - is getting the supermarkets to actually get out there and increase their volume.

MR COSGROVE: One potential disadvantage we had thought about the present arrangement is that it precludes the development of a direct relationship between an exporter - perhaps even between some growers - and a final buyer. You're always working through an intermediary. Do you have any view on that?

MR ALLEN: I don't think that what takes place in the US is different from any other market in the world. If an exporter wants to deal directly with the end user, in the US case it is the consumer or you could say the supermarket - Riversun, we have relationships, or we certainly try to develop relationships with our retail customers in the US and any other Australian exporter has the same opportunity if they wish to take that initiative.

MR COSGROVE: Do you mean by that that if they did they could require DNE to have their fruit, the exporter's fruit, sold to a particular retailer? I thought that was in the hands of DNE.

MR ALLEN: Yes, that's correct. This gets into the category management side of it. Category management is something that has been embraced and adopted by supermarkets in the US, particularly in the last two or three years with consolidation. I guess they have preferred suppliers, but what they want is - in respect of, say, citrus, they don't want to just deal with Australian citrus, Californian citrus, Florida citrus, Spanish citrus; they want one person, and to say to them, "You manage my citrus category for 12 months of the year, and it's up to you to source it, et cetera," and that's a trend that is being taken. You can supply a supermarket, but unless you can supply them 12 months of the year, they're really not all that in favour of that type of arrangement.

There have been several instances in the US - and I refer to a huge lettuce producer that was in business for 75 years. The retailers had a very strong, solid

relationship. They were a profitable organisation, this particular lettuce producer, but the retailers said, "If you want to supply me with your lettuces for six months of the year US production, then you supply me for the other six months. I don't care where you get it from, but you supply me 12 months of the year, otherwise you don't do business with me." That particular lettuce producer evaluated their options and they shut the business down after 75 years. That is one of several instances that have occurred in the US.

MR COSGROVE: That was another point which quickly I'd noted in your market access section where, as you say, volume targets in the last couple of years haven't been achieved. Does that not raise a question from the point of view of the reliability of supply matter? We haven't been reliable; we haven't been able to meet our targets.

MR ALLEN: No, and we're in the hands of mother nature to a large extent. It's really been quality and season factors where we have not been able to supply what the - - -

MR COSGROVE: Yes, but from the category - I've forgotten the phrase.

MR WALKER: Management area.

MR COSGROVE: Management people's point of view, they don't care what the reasons were for a shortfall in expected supply. Does that not - - -

MR WALKER: There's an alternative now called South Africa.

MR COSGROVE: Yes, that's true.

MR WALKER: And that's what we have to protect.

MR ALLEN: That's what happened last year. We're only down, in terms of percentagewise, 5 per cent, so not significant, but the point we make is that the volumes that we target to ship, we still haven't been able to challenge the market.

MR COSGROVE: I think, finally, you have a statement which is on my page 15. I don't think you need to identify it. I'll read it for you. It says:

The future of citrus growers and Riversun are inexplicably linked with the continuation of the licensing arrangements.

Could you explain to me why you feel that way? The US export market is obviously a very remunerative one, or it has been pricewise - it may be less so in the future; we don't know for sure. Exports going to the United States, as your own

figures show, depending on whether one looks at volume or value, are something of the order of 15 to 20 per cent or thereabouts of total exports, and we know total exports are roughly one-quarter of total production. So why is this relatively small market for Australian navels so critical to the overall - I've forgotten the phrase you used - viability, indeed. It would suggest that without it the industry would be gone.

MR WALKER: If I could take a couple of minutes, if I may.

MR COSGROVE: Yes, sure.

MR WALKER: I've been growing oranges now for 35 years. Effectively, we've come through a period where we were encouraged to grow Valencia oranges because there was a belief that there was a market there for the juice. People were coming out of cans of juice into new type of packaging, et cetera, and then there was becoming a fresh-style product. Then we went through the 80s where we had world parity prices and when you grow a Valencia there were low input costs and there were low returns so you could just maintain your living. Coming into the early 90s we had tariff protection up to that stage and we also had a thing called sales tax concessions - - -

MR COSGROVE: Yes.

MR WALKER: - - - which enabled the juice companies to use 25 per cent of our product to get sales tax concessions. On our own farms we had to, in 92 when we hit the wall, make some decisions whether we were going to stay in the industry or change our varieties. Some areas didn't change the varieties and that's why we've got this Productivity Commission. Effectively what has happened is that about two years after the WTO findings we had a CMDG funding where the government granted us \$9 million, and I sat on the CMDG. They took \$600,000 back after the first election, so it was only 8.4. At the same time they also propped up Kodak for about \$60 million, if you recall.

MR COSGROVE: Yes, I do.

MR WALKER: Then what happened was we restructured on our farms and, because our reserves were low because of world parity pricing through the 80s, the farms had no money. We were just maintaining. What we were trying to do was get into new varieties and to maintain, and all this time the USA - we had the control powers through AHC holding this thing together by - not the exporters; like in every other market in the world, rogering it virtually to our demise. The late 90s we get to now and we were finally getting some returns out of this because we've got high inputs because we have to thin, we have to put more sprays on the trees, et cetera, to grow this navel for this market. If we open this market up to a multitude of

exporters, or importers - and you must remember it is not anticompetitive in Australia; every exporter in Australia competes for my fruit - it's only anticompetitive in America. You need to remember that; it's quite important.

MR COSGROVE: Yes.

MR WALKER: We've also survived an AAT hearing on this issue. We went through an RIS in relation to the formulation of Horticulture Australia and now we're going through a Productivity Commission. I think we've sort of done the deal on America a bit actually. I think there are issues in relation to looking at how Horticulture Australia issues licences not just to America, but to anywhere in the world, because it's just - probably the only person who won't get a licence at the moment is the governor-general. Effectively I think there's an issue there we need to deal with. That's the reason why we need this market. It underpins the whole year's structure of the finances of farms in the southern growing regions.

Even though it's only 10 per cent, it's such a high dollar value and it's encouraged - because there are restrictions of supply to other markets because we haven't been able to supply America, it takes fruit away from the other South-East Asian markets and then the exporter says, "Well, if you want, I can send it to America or you can pay more here." So it raises the bar.

MR COSGROVE: Okay. Thank you very much for this extensive discussion. It has been helpful to me. We will be obviously giving further consideration to the matter before we finalise our report. Thank you both.

MR ALLEN: Thank you.

MR WALKER: Thank you.

MR COSGROVE: We should resume now and our next participant is the Citrus Reform Association. Gentlemen, would you each identify yourselves and indicate the capacity in which you are here today.

MR KRIX: My name is John Krix, and I'm the chairman.

MR GRAY: I'm Ron Gray and I'm the treasurer of the Citrus Reform Association.

MR COSGROVE: Thank you.

MR KRIX: Let me just explain: the Citrus Reform Association was set up - if we turn the page at this later submission you'll see - - -

MR COSGROVE: The one you were showing to me.

MR KRIX: Yes, not that one, but the second one, if you wouldn't mind. There are some attachments there showing the evidence. If we just turn over to the third page, the attachment A we'll call it, and you'll see that it began from a group of growers in the South Australian Farmers Federation. They felt that - the governance of the industry, we thought, wasn't good enough. We endeavoured to make those changes. We were unsuccessful so we employed advice. We sought advice and we received a 38-page one, a fairly costly exercise - 38-page advice in relation to that. That's not all in there because obviously some is confidential and it might be used eventually.

MR COSGROVE: I understand.

MR KRIX: But it did say to us that there were a lot of things that were wrong. In that first page that we've put here we've tried to indicate the areas in the constitution that were identified which indicated that the governance of the industry is in fact in error. Well, when I say "fact", that hasn't been challenged in the court, but they did bring forward a lot of cases that supported the case - in chapter 1, chapter 3, chapter 4 and chapter 6 of the constitution - and we've identified the different sections that we believe could be challenged in relation to the governance particularly in South Australia.

MR COSGROVE: What particular aspect of the governance is it that you are unhappy about?

MR KRIX: I think we believe that - how can we describe it?

MR GRAY: I mean, a harsh way to describe it is compulsory unionism to its worst. I've been growing citrus now for 20-odd years with my father, who is now retired. There is a peak body which you are well aware of called the Australian Citrus

Growers Federation. My money is taken from me after I filled out a freedom of information application to the state board, asking to see the document which give them permission to pass that money on. There was no such document, it was just a verbal agreement that this money was passed on. So to follow on, to circumvent that - only the federal government could tax people - the arrangement they're trying now to put in place, I still have never received a bit of paper from the Australian Citrus Growers Federation; I've never given permission for them to take my money - and now we're at the point where they're going to hand the money to the state body, which breaks all these acts that we've paid over \$33,000 worth of advice to see where we could get to - is now going to pass that money to the stated supposed grower body on to a federal body, and I still haven't been touched, approached.

I would say 90 per cent of growers in the Riverland wouldn't know, when the board collects a parcel of money, and is passing this money on, it's the worst case of compulsory unionism, and everybody knows. John and I have been fighting this for years but now with the changes in - and the legal advice we've got and the chance to come before you today to say the reason - and we've tried to highlight more on the juice side of the industry. Like was mentioned before, it used to be quoted on a world parity price, so John and I then did some work - mainly John - on the formula. I then tried to get quotes on Brazilian orange juice. We got statements from our local board saying the price was \$17.95. What we're trying to say is the governance isn't working because, as a small group of growers, we got together and we got quotes from Brazilian orange juice, and it was printed.

MR KRIX: If we could go through that soon, that would be good.

MR COSGROVE: Yes.

MR KRIX: We believe the vertical integration that takes place within the industry is in the worst nature of vertical integration. Vertical integration of some corporate structures is, we believe, valuable. But vertical integration when it involves the political as well as the private, et cetera, then it becomes untenable and unworkable. We believe it's existed for so long within the citrus industry, more than 35 years, approximately 50 years, where the organisation is supposed to represent us, I think - has been described as not having pith nor substance nor form. Now that's wrong and it is objectionable to the Australian constitution, as a nation, as a formed nation and of each person having rights within that constitution. We believe, and the advice is, that it has done that. If we could move on to juice we could actually see - - -

MR COSGROVE: If I could just ask you one question on the governance, John.

MR KRIX: Yes.

MR COSGROVE: I understand that the South Australian legislation which you are unhappy about has been subject to a National Competition Policy Review.

MR KRIX: Yes.

MR COSGROVE: But the results are not yet available. What's the state of play there?

MR KRIX: The state of play seems to be that the government says - now it's changed and for whatever reason, even though we've had a Liberal government, they seem to object to the word - calling it compulsory unionism and we believe that it's the worst kind of compulsory unionism you can ever see because - obviously under the Privacy Act or Freedom of Information - sorry, confidentiality rules - the names of the people that are involved in the citrus industry that are registered under the board cannot be transferred over to another organisational structure. Therefore that organisation doesn't have the ability to be able to have names, income and all of those things that are prescribed under the Industrial Relations Act, or in other areas of the law relative to Australia. We believe that that is a very serious thing. The Commonwealth government has taken action under the Industrial Relations Act about freedom of association, and we believe that's a very strong thing.

MR COSGROVE: Yes.

MR KRIX: Also, the act does seem to impact adversely against other things, like the Export Control Act. I think our previous speaker spoke about - that's HAL now - horticulture. They allow licensing. That has occurred to me because I challenged the board in a couple of areas. They say I'm not registered, and yet I am registered to export. So I'm on a list to say that I've passed all the requirements to export, and yet they're endeavouring to make sure that I can't pack oranges. But fortunately most packers - - -

MR COSGROVE: Why is that the case? Do you know?

MR KRIX: The circumstances arose because previous to us taking legal advice, I in my fervour, wrote to the board saying I object to carrying out certain duties because the only way that I can protest - I haven't got an organisation I can protest in. The only way I can protest is to challenge and, in other words, not abide, not agree to their demands.

MR COSGROVE: Yes.

MR KRIX: So that under the act it says that I've committed an offence. I believe that if you commit an offence then the board - if that's true - should take me to court.

The court then would be the only place that I could have a say and then maybe have it aired, because the organisation is not taking any notice of me. I've written to them twice, registered letters, and I get no answers.

MR COSGROVE: Yet you might have heard Riversun earlier this morning telling me that because they had not been able to meet targets - are you a producer of navels or only Valencias?

MR KRIX: Yes, and we complained about the treatment to independent growers. Yes, obviously from that.

MR COSGROVE: But they were saying there was plenty of scope at the moment for increased Australian navel exports to the United States, so why are they denying potential exporters entry to that market?

MR KRIX: I'm not denied in the sense - because of the horticultural or federal - the federal controls. There is an endeavour to deny me an access to a packer in South Australia.

MR COSGROVE: I see.

MR KRIX: To be able to export.

MR COSGROVE: A separate matter.

MR KRIX: Yes, but there's a conflict there. Is the Export Control Act or HAL dominant or is the Citrus Board dominant? It shows up in a variety of ways where one is imposing or attempting to impose penalties but doesn't seem to impose the penalty, because I've never - that happened six years ago and I haven't gone to court yet except I'm initiating a case. I think that's a very serious position for me to be in, to try and initiate something when, if I've committed an offence, they should have taken me to court. I am an ex-serviceman and I believed that I lived in a community that says that I am not guilty until proven. But the board is saying, "No, John Krix, you cannot export." Or I cannot deliver fruit into that company, so we have a conflict between the Australian constitution and the laws prevailing, against a law that's operating in South Australia.

MR COSGROVE: In South Australia, yes.

MR KRIX: But there are more conclusions, and I don't know whether I want to air them too much, but we have under this - - -

MR GRAY: Just to highlight what John was saying about his situation, because he

is going to court soon, so we've had to do a lot of research and we've actually found out there are other growers who again have refused to fill out the forms. This is the previous season. So they haven't done it over a six-year period, they've only just started saying, "I don't want to fill this out," and the board then sends them a threatening letter, and the letter they've got now said, "You are no longer a citrus grower." This guy is one of the most - I wouldn't have thought he would have been a bit of an agitator. He wrote back to the board, "My position has not changed. I am still a citrus grower."

He faxed that back last season and he was able to carry his business out all season with no penalty, no threat, the packers still took his fruit and yet John was actually stopped from delivering fruit to a packing shed because he did exactly the same thing six years ago. Why they didn't act straightaway we don't understand. But it gets back to this almighty powerful mini-government within government. These people seem to have their own laws.

MR KRIX: That's what we say - the limit is on the ability of the state government to delegate its power. Our information is that it has gone too far in the delegation of power. It has extended its rights to do that, to giving virtually unlimited power in relation to excise and all sorts of matters and areas and licensing and they're not carrying out their function.

But if we can go a little bit further in relation to Ron, as a grower: he receives no information because of the board's inability - the money is flowing without any agreement or signature from any grower - flowing into these organisations. From freedom of information, as Ron said, there is no agreement, so \$100,000 on average has been going to the Australian Citrus Growers Corporation without any authority or negotiation from the board to pay that money, so there is a question mark about a fiduciary duty.

MR COSGROVE: Yes.

MR KRIX: Ron doesn't get any information - his father does. We know of other people that - as an executive of this association he doesn't get any. He has been a grower for about 40 years, but his grandfather who has been dead for 30 years, is the only recipient of any information.

MR GRAY: So he is still getting information and he is dead?

MR KRIX: He's been dead for 20 or 30 years, so it is rather a mockery of democracy which in this community.

MR COSGROVE: Could it be said - of course I think the Citrus Board of South

Australia is appearing before us today - that they could argue that there is support for the present arrangement on the basis of perhaps a meeting of members at some point, which said, "Yes, we are happy for you to pass these contributions on to ACG"?

MR KRIX: How do they arrive at that conclusion? If you have an organisation which doesn't really have even any pith without any substance - - -

MR COSGROVE: Yes.

MR KRIX: If there is no knowledge of who as a grower how do you find out from that organisation whether there is - there has been criticism of the Farmers Federation. They only exist on membership basis.

MR COSGROVE: Yes.

MR KRIX: They subscribe to the law in everything - keep the books and everything - but how can they - this is not made lightly. Later on if we look at the juicing industry we can find - because the juicing industry is complicated - there are so many anomalies within that - and we've tried over a period of about 10 or 12 years to get it benchmarked, but the problem with it, under these structures the fresh marketing has been benchmarked, but if you look and analyse it - and I didn't bring all the figures - you'll find that simplistic, economic statements such as, "Get big or get out," or "economies of scale in packaging", up until this stage aren't valid, because there have been lots of reports even outside of that one which suggest that smaller packers pay growers more money, but the summaries don't support the substance of the findings and, as in the benchmarking report, the summaries don't actually always highlight the findings - the substance of the investigation.

One of those is that the cost of packing for fruit for juice is almost a dollar a case. That's \$50 a tonne, which is more than the growers got in some years, although if you start looking at the figures that have been produced - that people base economic data on - we find there are anomalies and there is not a consistency. What we believe is, how can you progress an industry, how can you have productivity, unless you have consistency of knowledge, of data, of fact, so it can be embarked on, but then again once you have that you have to have around the table people that are responsible for the sector that they are responsible for, but if you have vertical integration of the political and not set out correctly, well, how then can you have a proper ability to be able to resolve the problem? If we look back to 95 when that benchmarking report came out, I have seen no evidence to say that in actual fact any of those recommendations have been finalised, and we believe that it is because the organisation structures that were representing us were ineffective and were, I could say, challengeable.

MR COSGROVE: Okay, thank you.

MR KRIX: It we could just go simply through - and we have tried in detail in this second one here. If we look at the top, 1999 - AG 99 - the first attachment shows a public statement from ACIC and it says:

The FOB price of Brazilian frozen concentrated orange juice FCOJ imported into Australia was maintaining the level of \$US1550 per tonne.

That's FOB, so that's before tariffs, but before we actually embark upon this we should all understand what orange juice is. Citrus fruit is very easy to identify. You look at it. It has been tested. It comes to a test and it is marketable because it is deemed to be ripe, but when you start looking at juice it becomes very complicated because the product obtained from an orange is very diverse - very diverse - and also the identification of that product is technical, very technical, because sugars aren't just sugars. That is number 1.

They are identified as brix but sugars can come from beet, they can come from oranges, they can come from grapes, they can come from any variety of product. If you start calling orange juice orange juice, it should be in fact sugars and the colourings and all of that out of the orange, but it is so easily adulterated that it then becomes complicated. Also where you get the juice from needs to be understood, and what TSS means, where they get the juice - because there are varieties of juice, a variety of methods of extracting the juice. There are reamers and there are FMCs. The reamers are the ones that produce the quality and, if they are set properly they won't include anything from the skin, because the skin is identified as not technically as a juice, but there are ways of getting that juice out of the skin.

MR COSGROVE: Yes, I think I have been told a little about that.

MR KRIX: You can pulp it. In the olden days that was called "pulp wash" but, in Australia, we developed what they call "thermal screws" - that's in the technical sense and not in a physical sense, but they're thermal screws. The orange skin goes up that way and when it comes out the end it looks grey, but the warm water takes - and it forms a WESSO, which is a wet extracted soluble solid - water extracted soluble solid. The water goes that way, takes it out, but you need complicated machinery to actually do it.

MR COSGROVE: Yes.

MR KRIX: But that is part of the product and we have tried to identify - not in the current position, but back in the - here, how much of that actually is around the place. One year, 29 million from Australia, single-strength litres, and 13 million from

Brazil. It's identified in the sheets at the back here. None of the things that we are bringing forward are of our imagination, and we tried to produce the proof attached to that.

MR COSGROVE: Right.

MR KRIX: So if we can move the - the first one. When we talk about \$US1500 per tonne of fruit concentrate, that's concentrate. Now, that can be a whole variety of concentrated levels. In any of these tables there is no identification of the concentrate levels, number 1, nor of the quality, nor of where it comes from - whether it is pulp wash or whether it is orange juice. Now, \$US1500 - and in that year 1999 - that's a way that I can trace it accurately because that was a public statement, 1550, but in that year the exchange rate was 62.5. That's on the Reserve Bank average for the year.

MR COSGROVE: Right.

MR KRIX: And I tried to set in that second page what that means. That's 1550 at 62.5 - brings that figure up to - it's down on number 4. US1500 at 62.5 translates to \$A2400. Now, that is before duty.

MR COSGROVE: Yes.

MR KRIX: If we go back to the third evidence, which is item 3, we see that the ACG stated that the price per kilogram AC to Brazil is \$A2.12. If you go to US2400 into Australian dollars and divide that by - the appropriate way is \$660, because total soluble solid is a solid. There's no liquid in it. It's a dry matter. So 660 becomes \$US3.60 - sorry, \$A3.60, not 2.15. That's a big error and that error can translate to over \$1 per kilogram, which can be 60 or 70 dollars a tonne. There are so many errors in this because it is complicated, but the figures we had start to give you a headache when you start looking at them and try to analyse them.

MR COSGROVE: Yes.

MR KRIX: Now, that's a public statement from ACG. When we turn over the page to the evidence given to you at 14, that - from ACG, the same line, it is suggested in that graph at the bottom - that's number 4. It suggests to me that ACG says that that's true - that looks like about \$3.60 peak 99 - in 99 that appears to be that - so that substantiates that, so that is different to the published statement. This could be called a covert statement and the other one could be called an overt statement.

So overtly you can make a public statement which is incorrect, and this one

here for you to look at, they're maybe telling the truth. That's damaging. How can we arrive at a conclusion of operating our juicing industry if we don't know what we're talking about, but subsequently ACG have to - no. To make sure that it's right, behind number 3, 3(a) - I call that 3(b) - we find that their calculations are on 52 kilograms, so if you take the total of the juice imports of 20 million kilograms and divide that by the tonnage they said was imported, you get an answer of 52 kilograms per tonne, so they have used that statement, whether it was total soluble solids and not the concentrate level, but if you look at the calculation - at the \$2.12 - it would appear that they have used the full - the concentration, meaning 100 kilograms as the yield instead of the 660.

MR COSGROVE: Right.

MR KRIX: But how much of that concentrate should have been divided by 40? How much of it should have been divided by 50 or 60? How much should have been identified as pulp wash? How much of that is finding its way into a market in Australia that our consumers want? We want that. We don't want oranges necessarily. We want the product. So if our business, our productivity and our prosperity are going to move, we need to know what we are talking about. If we go over the page then - the same one, the same graph that has been presented before, says then that landed, duty paid, is over \$8 a kilogram - in that graph at the bottom, the solid one, \$8.

MR COSGROVE: This one?

MR KRIX: That's right.

MR GRAY: Page 14.

MR COSGROVE: I beg your pardon. Yes, okay.

MR KRIX: That's the one. You can see that it says there that landed, duty paid, is over \$8.

MR COSGROVE: Yes.

MR KRIX: You multiply \$8 by 52 and you get an answer well in excess of 400. Not 100.

MR COSGROVE: Yes.

MR KRIX: And if you go back to where the Citrus Board made a statement, a public statement, which challenges - the second attachment, where we've got the

figures supporting 52 kilograms being the translatable method - we find that they've gone into a formula that the Citrus Board can't know anything about. It's not a producer of oranges - orange juice juices - so how can it interfere in the market? Then it went on in the third column to say that currently the price to growers should be what - \$17.16.

If you go back and start looking at some of these other figures of our land costs, one could say quite firmly, I think, that there is not only confusion but there is a misleading statement in the market, which is damaging everybody, so everybody is believing that all this stuff coming out of here is so cheap - and that graph supports that. I mean, the other graph in the ACG one, when you start looking at the figures, it suggests that we were getting those big prices - ACG - that is supposed to be our representative body - and yet publicly it's not saying that.

MR GRAY: When they made that public statement obviously I, and a few others, jumped up and down, but then three of us formed a fake company and we approached major importers in Sydney and Melbourne. I said, "Does it matter on the volume?" They gave me written statements, "You can have it for this price" and then explained to me this US Diego concentrate, which doesn't contain pulp wash, or I can have one with pulp wash in, but even using the worst one - so then we went to a food technologist and said, "Righto. We're going to import this stuff. Give it away on the steps of Parliament House in Canberra and make a noise, and that young lad said to me, "You just be careful here. Let's go through the figures."

The board said it was 17 - this is how cheap it is - 17, equivalent in fresh - so I got the freight quotes. I did the whole exercise, and we were going to bring it in and give it away on the steps of Canberra. The only problem was I was already up to \$240 a tonne to land it in the freezer - at that stage it was Golden Choice in Loxton - then my technologist said, "You can't just add water, Ron. You're still going to have to bring the acid up and you're going to have to bring the colour up. The cheapest way to do is buy some good old cheap Australian orange juice to bring the acid" - so here we are. We had a public statement of - and not just South Australia. The Victorian board prints that as well. And that's the cheapest I could land it in the Riverland, which acid and sugar - depending which way I went - would have brought the price up to around \$260 a tonne.

So you can see why we wouldn't be competitive. It's frustrating just sitting here because most people - and I'd like you to give a test on everybody who sits in front of you, because it was - if you were to look at juice and ask them - everybody that sits here claims that they under - it's taken me a long time to learn from this bloke but I've done - I've worked out what they - and where they used to quote the futures market, it was only John who kept niggling them that - because when we got a graph we never got paid. You had the two lines and always the Brazilian growers

got more than us, because they were using and misusing this, but they stopped that.

You know, if you could test people to understand orange juice - the inside, the outside of orange juice, whether adulterating with sugar; whether they're using pulp wash with sugar. To me, to have a good industry - let's not throw out the orange juice and just say it's a waste product because my friends in Adelaide love drinking orange juice and they like a premium product.

MR KRIX: If I could just reiterate, too, some of the information I did get from that industry magazine was that I found that in Sao Paulo and in America they have universities looking at the juice industries all the time, and I did include at the back - just a forerunner right at the back - how the Americans - and it was only a precised thing, and I've got the full thing at home - how the Americans go about testing their juices. You know, they will not tolerate beet juice, they will not tolerate gordo sugars, they will not tolerate other sugars adulterating their product. If you start calling it orange juice, it must be orange juice and it must specifically come from the right end of the product. I think we owe our consumers because my family live in Adelaide, they haven't got time to eat an orange, so they buy juice. They should buy what the label says.

MR COSGROVE: You've obviously drawn to my attention a good deal of complexity in this area.

MR GRAY: Has anybody up until now pointed out that there's a Mercedes-Benz and there's a Mini Minor in the orange juice industry? We're getting paid for a Mini and they're flogging off our good orange juice.

MR COSGROVE: Certainly there have been discussions about the differences between a genuine fresh-squeezed orange juice and a run-of-the-mill juice based on concentrate, but I think you've taken the matter to a much higher level of sophistication.

MR GRAY: But there are extras.

MR COSGROVE: I'm not sure I can get across - - -

MR GRAY: But there's still more; there's the oils that come from the skin. I've got a little jar at home that's worth over \$150. That's just the oil that comes out of the skin. No mention of that in the returns to grower. You know, every 20 or every 30 dollars a tonne that we get, we don't need to go to government and ask for a tariff because we've had tariffs which only represent \$2 to me. If we could police this industry, have an understanding of the industry - what's going into the carton - and it also helps break this nexus between juice and fresh fruit.

MR KRIX: If I could just elaborate a bit more, in 1994 I did take that to an ACGF conference. I had a whole argument and it wasn't taken up to have the industry benchmark. Now, that's where the frustration has crept in. We've tried to do it correctly. In other words, what we'd better do in the Citrus Board - we got 70 growers to send down a form to the board to say that we want this - not to pay your money over there but to an organisation of our choice, and that was refused but not only by the board but by the government. We find that very strange and very untenable. We tried to do it covertly in a sense, to make sure that these things are resolved in a quiet fashion, rather than a loud noise.

MR COSGROVE: There is one point; in fact a couple that I would like your assistance on. First of all, in our own calculations for converting import data for foreign concentrate orange juice to a per-tonne equivalent of Australian fruit, we have used 47 kilograms of total soluble solids as being equivalent to one tonne of fruit. Now, from what you've told me, there may be many elements of detail in this that might make such a simple conversion questionable but, if we're able to leave those complexities to one side, does that conversion ratio - 47 kilograms of solids to one tonne of fruit - seem to you to be okay or inaccurate?

MR KRIX: I haven't delved into the accuracy or otherwise of that. I've used what the industry has said in converting 500 yield single strength at 10-degree brix and obviously there are a lot of variables in that.

MR COSGROVE: Yes.

MR KRIX: Also, brix doesn't ascertain acid, so acid has got a weight. Acid is not a thing that floats away in the air and dissolves. Acid is a solid and it's a vital part of the complexity of an orange juice. The sugar, the brix and the acids are needed. I mean, if you don't have acid you don't have taste - sorry, if you just have straight plain white sugar without any - not brown sugar but straight plain sugar, then the flavour is good but it needs support. Brix needs the support and other dry flavonoids, so I've taken on board that in actual fact that acid and the flavonoids and everything would carry a weight in the total soluble solids. So that could lift it into the 52 area. But I haven't tested the accuracy by weighing those things out. If there's an error in that, it's reasonably minor, I would think.

MR COSGROVE: Okay. Well, that's encouraging. The other point was one that I wanted to ask you about. It's from your first submission to us and towards the end - it's an attachment. It's a letter from you, John, to the manager of industry development at an organisation called PIRSA, John Cornish. You've made some comments there on the American market. Because of time I won't pursue all of it but I was intrigued by your final observation in this matter, which was this:

Citrus growers with adequate market intelligence and a procompetitive environment could improve the negotiated price for the American market by \$600 per tonne.

You had been critical of the present arrangement but on what basis did you form that view?

MR KRIX: Only from published statements. I think the Grower picked up the first one that alerted us that growers in the MIA were receiving \$2000 - farmgate - from the American market.

MR COSGROVE: When was that?

MR GRAY: Three years ago.

MR KRIX: Three or four years ago.

MR GRAY: Four years ago probably.

MR KRIX: And if you look at the current one, the statement was - last crop - that it was \$US26, the price in America. Now, we have achieved all the costing factors that move up into the American market. \$US26 - for simplistic reasons we used 50 cents for the conversion rate. That converts to \$52.

MR COSGROVE: Yes.

MR KRIX: If you start taking those off we see that the residues that should be coming back to the farm, if all those other costs were accurate, would be substantial. Now, if you're packing out, say, 30 per cent and then if the markets into Asia were not polluted by structures that - I think it pointed out in the benchmarking report 1995 they were getting about 15 per cent out of that market, whereas South Africa achieves 55 per cent to the grower. It's got nothing to do with cheap labour or anything. If you start looking at those figures, and they were average figures - not the prime one; average \$26.

MR GRAY: Average \$US26.

MR KRIX: 52, so there are variations in that, but the highest price that I've seen growers get here for the top line only on those selected counts is 1400 and sliding back to \$400, so there are big discrepancies. If you haven't got an organisation that is responsible to us, because that's a monopoly, if we're not getting market intelligence and we haven't got that organisational structure, how on earth can you protect the grower that isn't a part of that system? In other words, I think I described

them there as an independent grower. How can you get that sort of money out of it?

MR COSGROVE: Are you talking about an independent grower who exports - - -

MR KRIX: No.

MR COSGROVE: - - - under the arrangement which you discussed with Riversun?

MR KRIX: Yes.

MR COSGROVE: Because you can't export it.

MR KRIX: He's not a registered packer, he's not a part of this structure; you know, not a part of the governance area. He knows all the things that are happening. Two years we got from a person that worked in a pack house all the things that went wrong, and it seemed to be that it was a pack house problem and a delivery problem, rather than a grower problem or a DNE problem.

MR COSGROVE: Yes. I want to make sure I'm understanding you properly. Are you saying that for a given price in the United States market more income should be coming back to the grower?

MR KRIX: That's what we believe.

MR COSGROVE: You're not saying that the price in the US market can be raised?

MR KRIX: No, no, we're not disputing that. We're just saying if that did prevail - - -

MR COSGROVE: There are problems in the supply chain.

MR KRIX: That's right, because of the mechanism. The governance of the industry is not set in accordance, we believe, of the Australian constitution and the rights of individuals. That's what we're saying.

MR GRAY: Just on one point: you highlighted the American market. I mean, it's keeping us afloat. We're desperately hanging onto that because there's a few dollars in it. During that season - because John and I make a few noises - I had a petition sent to me from New South Wales; will I go round getting growers to sign it because DNE is not doing the right thing and we're not getting all the money we should, and this is one of the better years. He said, "Well, you know, we were getting up to 2200" - that's in his pocket and obviously he was a packer-grower. When I told him

the best I got that season was 640, he offered to freight my fruit into New South Wales and pack it for me. But, you know, I don't want to see the US market close because that's all we're hanging onto.

MR COSGROVE: Well, thank you both for coming along and providing us with this information today and for your earlier submissions, too, which we found helpful.

MR KRIX: We appreciate the chance and we're hoping that - we wish you success because productivity and prosperity we believe go hand in hand.

MR COSGROVE: They do indeed. We'll take a short break now.

MR COSGROVE: Our next participant, the Citrus Growers of South Australia. Would you each please identify yourselves for our transcript and indicate the capacity in which you are here today.

MR CHOWN: Mark Chown. I'm chair of Citrus Growers of South Australia.

MR THIEL: And Kym Thiel. I'm a citrus industry development officer, as which my main role is to work with growers, addressing cultural practices.

MR COSGROVE: Thank you. I guess you'd like to run through your recent submission to us.

MR CHOWN: Yes. Just before we do, I've had some time to think a little bit about it and I'm not just too sure how blunt you can be at times. I think you've heard this before. I was in Canberra when this was announced: we were, in the industry, looking for a package for the industry to either rework their trees or maybe to exit the industry. I think it's a little disappointing in some respects that it doesn't sort of go into those areas but people of course, to say the least, were excited about the prospect of the Productivity Commission hearing and I suppose my opinion is that some of these - the report is quite a list of ramblings by quite an independent group of people who probably have a very strong view either for their own gain or what have you. I also feel that the report - I was looking forward to the report actually being a way forward for the industry, a report that we could actually use as a document for the future.

I think the draft report at this stage falls short of that. I hope that in the final report the areas, and all these discussions you're having with different grower bodies, marketers, pre-sellers and the like will in fact come out of that report of what - as a grower myself, my opinion is that that would be a useful document. I think that the criticism I've heard about some of the facts and figures is probably difficult inasmuch as - I guess it's what you had to work with and I hope that those areas that have been shown to be somewhat inadequate in some area and/or have been spoken about can actually be addressed. So I guess, getting that off my chest - I had a lot more written here but I don't think you need to hear about all of it.

MR COSGROVE: That's fine, Mark. We're listening of course very carefully and we'll be reviewing the transcript when we're back in our offices. One of the benefits, I think, of the process we go through is that we don't simply rush to a final document without providing opportunities like this at which people can air their reactions to our work to date. So we see this position paper - sometimes we call them draft reports - as a very important document for the people who are interested in the inquiry and indeed for us. It's, if you like, a kind of quality check on our own work and we then go on, as I said at the beginning of our hearing this morning, to do the best we can

with the final report having had this benefit of a round of reaction to our initial work. So I just wanted to give you that assurance, that this is not the final product.

MR CHOWN: No, I accept that. I guess what I had to say was just personal opinion. As I said, I was built up to be - and, you know, obviously the chance to redress that is here today for South Australia and we've heard from a range of people. We certainly concentrated pretty heavily on one market.

MR COSGROVE: Yes.

MR CHOWN: I think that there's an opportunity to look at all the markets. The previous speakers were speaking a fair bit about the juice industry and I guess you've got that chance to listen to them at some other stage. In our response so far, we've got the areas of market access, export control powers, impact of national competition policy and so on and so forth. The areas of market access - it's of concern that - and, look, it may have been a fault of ours there wasn't originally a hearing here in the Riverland. It was held in Mildura. Of course, it was, I guess, the first round.

MR COSGROVE: Yes.

MR CHOWN: But we have an area here which is actually free of fruit fly. It doesn't recognise, I don't believe, in there that we have some unique opportunities here in South Australia to ship fruit out of South Australia using the area freedom. We certainly are part of a tri-state fruit fly exclusion zone, which covers the Sunraysia and the Riverina. We certainly worked very hard with government and obviously the incoming government to maintain the free area here in South Australia. The industry currently has put some money on the table to fund some random roadblocks to count the fruit that's actually coming back to the Riverland, to check that fruit is not coming from the Adelaide areas. To us it has a huge potential for market access and I just feel that that needed to be raised.

MR COSGROVE: In that connection - I assume here we're talking pretty much about navels, are we?

MR CHOWN: No, we're talking the Riverland. I mean, we're a bit parochial. I guess we're South Australia here today. We're not talking navels, we're actually talking the whole Riverland as a group of horticulturalists but as this is a citrus inquiry, it is not just navels. It is mandarins, it's lemons, it's Valencias, it's everything. If we were to lose our area-free status, it would cause significant grief for want of a better word to actually shipping fruit not only to overseas - there are some overseas markets that have fruit fly - they don't have Queensland fruit fly, by the way - therefore it would cause problems. It would also cause problems within - to ship to New Zealand, Tasmania and also not - bearing in mind our own domestic

market if we were to get an outbreak of, say, med fly, we would have extreme cost and difficulties.

If you look at the way the industry is positioning itself now, a lot of fruit moves between districts and towns. Not unlike other countries, we probably have a very close relationship with our Waikerie cum Renmark, Cadell, Berri, Barmera, Loxton areas - but fruit by growers is brought out of the Renmark district to Waikerie, Waikerie to Renmark, for instance. So if there was an area that had an outbreak of fruit fly that would cause a great amount of grief for people trying to ship fruit to their packer, which may be up or down the river. So it doesn't affect just navels, it affects our whole industry.

MR COSGROVE: Yes. Thank you.

MR CHOWN: Also I think we've touched a little bit about other countries getting farm subsidies, like the US bill. High tariffs is another one. We certainly enjoy a lower tariff on oranges than we do on mandarins and we've spoken with government and I think that you'd have been made aware that some of these tariffs, although they have come down, are still in excess of 150 per cent in some countries on certain varieties which of course they grow. They're prolific growers of their own product and of course the Asian market certainly prefers the brightly coloured mandarins and oranges that we produce here and we certainly are sometimes at a great disadvantage, bearing in mind that we have high tariffs.

Also, the buyer security you touched on, and you also mentioned there about some more money going to buyer security and we would obviously support that as well. The export control powers: the recommendation in 7.6 has already been used for export control powers and is used in some countries. We believe too much emphasis has been placed on the US market, as you're aware that this protocol is used in other countries as well.

MR COSGROVE: Yes.

MR CHOWN: Yes, it does in some areas stipulate packaging and size. I guess that was set up when it was originally started and that's what the market is requiring. I think if we had our way, we would have licensing arrangements in every country. I think that's probably a bit of a bold statement and there would be some who'd disagree with that, but certainly in those areas - I heard some figures before and this might be a good opportunity to discuss that. I'm not for a moment disagreeing with the previous speakers about the returns they got. Whether I'm in the right club or not, I can't quite tell; but my return is sitting on this piece of paper, which happens to be public. I'm not sure - I presume it's not a closed document.

Prices I received range from \$26 to \$34 a carton returned to my farm in Renmark, on navel oranges shipped to the US by Riversun through DNE. I think if you hit the numbers in the calculator, \$2000 comes out pretty strongly as an average price. I was also just made aware the small count sizes are restricted so it actually makes it a better result. As far as other varieties go - and I don't have the figures in front of me because I don't grow minneolas, tangelos or Honey Murcotts - but some of those prices had over \$3000 a tonne.

MR COSGROVE: Yes, I know the tangelos are valuable.

MR CHOWN: I don't mind getting out of bed for that sort of money. If you need to have a copy of that just to say that this was a marketing company, I also have my own pack-outs here from the packing house which I supply and I don't for a moment think that they restrict the fruit through the shed, so the prices are there and if I was to look at a figure - I could probably give it to you, actually, if you've got a minute, just out of your interest, talking about the export control powers and the advantages it has. You're very welcome to have a copy of this one if you'd like it.

MR COSGROVE: Yes, we would.

MR CHOWN: Wrong one - that one is better than the one I was going to show you, actually. If I was to take a figure out of the US market, bearing in mind this is only preliminary prices - those prices I've just given you, if I looked at another market where we don't have the same opportunity - I'll get to it eventually - the prices for the same sized piece of fruit, the price on mine is \$22 returned to my farm and over here the price is a return of \$34.

MR COSGROVE: So as well as being the same size this would be the same quality of fruit? So we're making a like-to-like price comparison?

MR CHOWN: All class 1. If you want class 2, I can give you that too. It doesn't look good. Obviously, I didn't do a good job there. Certainly, as I said, the information is available. It just does highlight the advantages of that working relationship. As I said before, Citrus Growers of South Australia would certainly like to see it spreading. I think that's probably why we're quite passionate about these export control powers and, all right, we've concentrated quite heavily this morning on the US but Korea and Thailand, Taiwan - I mean, obviously there are some challenges there as well. Korea has been two years of very opposite ends of the scale and I don't believe any of my fruits have actually even been to Korea, of any volume; and I don't have an accurate figure but certainly we've had two dynamic years and this year I think will be the test because we've obviously got a good supply this year. It will be interesting in Taiwan, where there is a panel of the levy importers. This year they had no restriction on tonnages.

MR COSGROVE: Yes.

MR CHOWN: We've gone from 600 to 1000 now. It's an open market. It will be interesting to see just what those sorts of returns are with the increased volume but certainly there we'd - I guess if, on a personal - if we have it again we'd probably be a lot less than 11. Also we've got a section here on the impact of the National Competition Policy Review. We're supportive of where we're going, the collection of planting statistics, monitoring crop estimates, requiring growers and packers to have a food safety program in place, requiring packers to provide information of pack-outs and collect statistics. Setting minimum market standards I think is - if all goes well - our industry a bit over 12, 18 months ago looked at where we could go with our growers as far as food safety goes.

We embarked on a fairly ambitious task I think at the time - and looking back it's certainly had its ups and downs - of actually having all growers to a level of Codex HASAP on their farm. All of our packing houses had it and it did seem a bit silly not to have it on the farm. We were able to negotiate a rate for that training. We were able to access as a group of growers - that's the growers who are members of Citrus Growers of South Australia - a program for about half a million dollars to have these training programs up and running and also negotiated a rate for that where they're paying about 30 per cent of the cost of that or a little less.

Also as far as the ongoing auditing costs, we've been able to prune somewhere close to say 40 per cent and now there's a bit of competition in that market so we believe that will probably maintain. We've written letters to all of our terminal markets and a number of exporting markets and had a very good response that it's good that industries are progressing forward. So as a group, that's what we're doing. Any questions on those lines before we turn the page?

MR COSGROVE: I do have a few. While we're on the National Competition Policy, though, do you have any reaction to the points put to us by the Citrus Reform Association before the break, about the levying on a statutory basis of growers with part of that levy being passed on to the Australian Citrus Growers?

MR CHOWN: I really wasn't listening that intently. I was actually doing some work at the back. So maybe I might pass on that one. The history I suppose is that the board did that on behalf of growers and that was obviously allowed under the act of the board. If they chose at the time to pass those dollars on and to have a peak body interest - if you look at what ACG is doing as part of its work, I mean, look at the US program. So has that been worth it? I guess you've got to make your own mind up on that; but I'm sorry, I wasn't really listening intently. I was actually writing away here.

MR COSGROVE: That's fine. There were a couple of other - you didn't speak directly this morning to the government assistance packages element of your response to us, although I have read it. Thank you for giving it to us in time for me to read it. There under the FarmBi\$ dot, you say that the Riverland has the lowest uptake of FarmBi\$ funds of any rural area in this state. Do you know why that should be the case?

MR CHOWN: I might have to pass to my learned colleague here to save me there.

MR THIEL: Perhaps I can comment on that one. It seems to be a very historical thing, that within the horticultural growing regions of the state, not only here but also down the Adelaide Plains, with FarmBi\$ or those sorts of training packages, education packages, there has been less uptake. I've since clarified those figures. The actual figures by dollar value actually look quite healthy in the Riverland.

Due to the big uptake there have been approximately 620 growers access through the quality assurance training, of which they're probably accessing nearly 750 to 1000 dollars a head. The figures therefore actually look quite good, but that's forced training or forced change, I guess. When you look at voluntary change or voluntary training, that's when the uptake has actually been very low. So when you're looking at issues that effect their long-term viability, their business planning principles, their session planning, et cetera, it's actually been quite low.

MR COSGROVE: Do you think that reflects the fact that they already have good business plans or are there other reasons why it might be the case?

MR THIEL: I think it might be actually the pressure just placed on them day to day. If you look at where the industry has been over the last couple of years, season 2000 for a lot of people was simply survival mode, and looking at long-term training, education packages, I don't think was on their daily agendas.

MR COSGROVE: Insufficient time to think about them.

MR THIEL: Basically.

MR COSGROVE: I see. And then the next dot refers to the RPP redevelopment grant of \$5000. You say it wasn't utilised by many growers but in any event 5000 bucks, you know, doesn't cut much mustard - seems to be the story-line here.

MR THIEL: Yes.

MR COSGROVE: I was wondering, though, whether - and correct me if I'm wrong - I thought it was the case that if you had been declared eligible for such a

grant, you had been through a process of evaluation of your business prospects, the outcome of which was that the assessor, whoever it was - might have been a consultant - had decided that you, in fact in order to be eligible for the grant, had viable prospects as a business enterprise. So I was wondering whether there's any spin-off, if you like, from receipt of the grant, even if it is regarded as small, in terms of enhanced capacity to borrow - assuming of course that a grower was willing to borrow. Does that occur, in your experience, or not?

MR THIEL: I guess I'm not aware of individually what people have actually put that \$5000 towards, but my initial perception of the program was that that was initially meant to be a kick-start to help increase the overall viability of a property. Yes, they do have to undergo a full business plan, prepare a business plan, to show long-term viability, to show that basically the money isn't going to basket cases, I guess you'd say.

MR COSGROVE: If you're dealing with a set of creditors or an individual creditor, a bank or what have you, has it had any benefits of that kind in terms of enabling them to gain access to additional capital?

MR THIEL: I wouldn't be aware of that detail.

MR COSGROVE: Okay.

MR CHOWN: I think, though, commissioner, just following on from that, I guess if we try and look at what we've been able to achieve as a group of people - I mean, at the end of the day this is a voluntary organisation. If you don't want to be a member, please don't pay the bill. If you don't want to be part of Citrus Growers of South Australia, don't be one. I'd like to say we don't have many people who aren't members.

But in relation to food safety, we ourselves put a project up. I think this is where it was working as a group. Individually I believe the business planning was quite well undertaken. I must admit I for one did the business planning one. The food safety issue was, as I said, a half a million dollars, which is spread across 500 enterprises, so therefore each individual - well, more than half our growers have accessed some form of that funding to the tune of about \$1000 per farm, and also we've currently got another program running, some additional work for some growers and also some of their own staff, to actually pruning of their citrus trees. Some years ago some of this money was used to bring a South African out to run some workshops. He now resides in Loxton, and we are able now - I think 250 growers through that course - 250?

MR THIEL: Yes, 250.

MR CHOWN: Whatever the amount of money is - so it's another amount of money we've been able to access as a group. So individually maybe they haven't been, but as a group they have, sort of thing.

MR COSGROVE: For those who have made use of these programs, are you able to tell us how effective they have been? Have people gained a lot of additional knowledge that helps them to make a better fist of their businesses?

MR CHOWN: On pruning, I'll let Kym do that. As far as the food safety goes, we were probably all doing something. We all had to have spray diaries to supply packing sheds. We had some agreements with our sheds as far as the accuracy of those chemical usages and what have you, but again being a market-focused state, very much focused on export opportunities, and if you're looking at domestically, Woolworths, Coles, Safeway, Bi-Lo, if they're still around, also have got their own programs or else are looking at the sorts of generic ones which Codex HASAP is. We selected SQF 1000. There were already a number of packing houses doing the higher course, which was SQF 2000, so it seemed to dovetail pretty well.

It's a bit like having leprosy being the person who actually has to tell people they're going to have to do this course but at the end of the day I think we've had very little resistance, if any. Growers have all realised that their pack houses are saying, "Well, look, your markets around the world are requiring some traceability," and what it's done is actually I guess moved us all forward from some bits of paper in a diary or in the back of a notebook pad somewhere, to some real third party audit credibility. We've got a company which audits for us - both of the companies we have. There are two companies or maybe even three now who are internationally recognised. We use a company which is.

It's been very good for the US program, and they can now trace back obviously from the marketplace back to the farm. This has all happened in a very short space of time. Our packers are now saying to growers, "Because this is in place, either you must or we can't." We can't say to people we're doing it and not comply. So I think from that respect - I don't want to use the word "professionalism" because that could be seen as putting us down, and we're not that way at all, but as far as the food safety goes I think it's been a great step forward. I'm sure there are people that have probably still got some reservations about it but when you've come through your second audit you get a fuzzy feeling that actually you've done it right and, as I said, with confidence now.

That also encompasses a three-yearly chemical residue on all of our farms, so again, when you go and buy a piece of fruit from our state, you can rest assured that someone is looking over my shoulder, so from that point of view, there's training and moving the industry forward. We've moved forward in the last 10 years something

you wouldn't believe with this export business, with them coming here discussing with us what the market requires each year, the workshops we've been able to conduct, people we've brought from overseas.

We've had numbers from overseas we've brought out for different areas of tree and on-farm work. The 2 or 3 million dollars we've spent on R and D are a fair bit focused on that market. I read a funding proposal, and they have these key words, "US market", all the time, because everything hinges on that for us and this is just another progression in the train, so by having these workshops again for pruning workshops, it might seem mundane but you've got a lot of staff that work on these farms, and if we're able to access some government funding to do it, well, why shouldn't we? It's sitting there, and we may as well utilise it.

By the way, other industries in the area are also now picking up on food safety and, I suppose, in some ways following what we've done. So I think from that point of view the growers here have benefited greatly, and let's hope we can continue doing that. And Kym can answer the next one, which he's probably forgotten.

MR THIEL: No, but I would just like to follow up and make one quick comment there. My issue with a lot of these assistance packages has been that they provide a lot of education, they're education-style based programs, et cetera, besides the Rural Partnerships Program, which is the only one that actually gave some funds to be able to create on-ground change, which is the only thing that will actually add to long-term viability. I've seen so many people go through these education programs and come out very frustrated at the end. They now know what they want to do, they know where they want to go, but at the end of the day they've got no more funds to access to be able to go ahead and do something about it.

MR COSGROVE: So in your view it's essentially a question of the amount of resources available?

MR THIEL: Yes.

MR COSGROVE: Okay.

MR CHOWN: We've got three others - we've got government assistance, the package we talked about. We've got reduced state government and also farmgate returns, so I think we've probably done the government assistance packages pretty well. I guess there's frustration with the original CMDG funding, which ended up being 8.4 million, and a lot of that money of course was in administration and what have you, and it certainly did kick-start the export here, there was no doubt. We went out and looked at new export opportunities. In some of these markets we're still struggling a bit with volume due to phytosanitary or tariff protection, but if you look

at that, I had the opportunity to look at India and Pakistan, and they're two countries we really haven't done much with, mainly because of our higher costs to compete against their local product, but Taiwan was one of these markets that developed out of CMDG, so there's been some good benefit out of that.

The other one, the reduced state government assistance - I guess the reason Kym is sitting next to me here is because industry has looked for a period of time - and a lot of us joined the industry - in the Riverland towns we all had Primary Industry people in those days able to come out and visit farms, and some of them are sitting in the room that used to come and visit me, and we've moved on a fair bit from there, but as government has had to reduce its costs, we've lost these one-on-one situations, and it was very obvious to us six or seven years ago that we actually needed an industry development person.

Kym also runs the CIT groups, which was initially started here in Berri in South Australia and now spreads all over Australia. It's about farmers talking together and helping farmers on issues, and they've also been funded out of the industry contributions that we get. Again we get some government assistance to pay for Kym's role. That's an area where we're not blaming anyone in the room or anything else, but that's where we've had to pick it up, mainly because of the reduction in those areas. We've had to invest money in those areas and ask growers to have contributions to that.

Under the federal government funding, of course, with Kym's position, there's no-one excluded from participating in those areas. I always find it quite cheeky, people that criticise - aren't available to access information. It's interesting, because they've all got the opportunity to turn up at some of these meetings and often the ones that have the most amount of criticism around the place are the ones that should be going and don't, and so therefore I guess it's the same in any walk of life, but it's always interesting, you get the same group of people turning up, and if they're going to progress and move forward as a group, well, best of luck to them.

And the other one, the farmgate return for Valencias - you did question the Australian citrus supply chain profile, December 2001. Citrus growers in South Australia returned an average of \$215 per packed tonne and \$125 in the year 2000, and their submission - there could be again some discussion by others that are here that - incorrect, but that was an average we looked at.

MR COSGROVE: Incidentally, that was one of the questions I was going to ask you about shortly, but I see here you have effectively answered it. That was a study undertaken by Primary Industries South Australia, was it? In your original submission, you had an appendix which presents quite a bit of interesting material actually, this one, citrus gross margin, Valencia oranges, navels, and then some

material on budgeting for each of those. Was that all done by Primary Industries South Australia? I was wondering what the source was.

MR CHOWN: Yes.

MR COSGROVE: Thanks. Well, there's just a couple of other areas where we might be able to get some assistance from you. This is on the last page of your response to the position paper and it relates to what we were discussing earlier in the morning in terms of the exporting activity. You say there in the comments on our recommendation 7.8 that we've placed too much emphasis on one particular submission. Well, be that as it may. The point I want to ask you about, though, was - you were referring there to a person you described as an exporter who has little regard to the wider industry's viability or survival.

Now, I'm not seeking to obtain views from you on the quality or otherwise of that exporter. I want to discuss this in general terms. We heard clarification from Riversun this morning that the present US marketer is rewarded for its efforts in terms of the actual total value of our navels which it sells there, and other forms of citrus. I've always wondered why it wouldn't be the case that whichever person or firm was used to sell in foreign markets or, for that matter, in domestic markets, would not operate on that basis and therefore be acting in a way which is consistent with both his interests as a marketer and the growers' interests.

In other words, if you are able to ensure that the return received by the marketer is some sort of proportion of the total value of sales that he makes, then that will obviously help him to maximise his income, but it should also mean that the grower's income is maximised because the total income from the product sale is highest. Am I missing something here? I mean, there's an implication here - well, more than an implication, it's a statement - that these marketers just act in a manner which is contrary to the growers' interests.

I can see one circumstance, anyway, in which this could be the case, and that is if a grower or a packer or exporter, what have you, was to hire the services of a marketer and reward the marketer on the basis of the volume sold. In that case clearly there can be a conflict of purpose. The marketer's interest then lies in selling as much fruit as he can at whatever price he can obtain, so that the return to the grower could then be lower than would otherwise be achieved. But if a marketer is operating on the basis of commission related to total sales value, it seems to me that they're almost automatically acting coincident with the interests of the grower. Am I missing something here?

MR CHOWN: This is going to be a hard question to answer because I'm not a marketer or shipper but, based on what we've said, from time to time we visit

markets and we visit exporters, and it's interesting that when they introduce themselves, on their business card they have "trader". That conjures up different things to different people. They don't have the word "marketer", and I guess a trader is exactly that, a trader.

I think stepping back just a little bit for a moment and trying to collect my thoughts and actually trying to get round that long question, we've always had a problem where we used to sell oranges - just for argument's sake, oranges and mandarins. We used to sell oranges and mandarins. When we got involved with this lucrative market in the US, actually it was called marketing, and it stunned most of us because suddenly we got information about market trends, sizes, price points and all the rest, and it was all about marketing, and that marketer comes out every year I presume as part of his arrangement with the industry and also the willingness to get to the growers, and actually spends time in all the towns and probably knows Renmark as well as he knows his own backyard these days, and actually puts a presentation.

We vary between 15 and 50 growers, in fact 80 or 90 some years, in a room at Berri. We had two meetings late last year, so it was split, but we still get 70 or 80 growers turn up and ask questions of the marketer. You can't get that with a trader because the trader doesn't know what he's going to be doing next week in lots of cases. There is pre-planning for them, sure there is, but it's all about trading. We also find an opportunity in particular - one of them - but we also find as growers we have somewhat of a relationship with our local packers here that pack domestic and export. Invariably, funnily enough, some of the biggest packers happen to be some of the biggest growers. That has to tell you something, doesn't it?

Maybe you've got to pick the winners and maybe there is some strength in being with some of the bigger operators, because obviously they've got a big parcel of fruit themselves to sell, as well as yours. It's that sort of pull-through action that I believe works well. But if you go around the Riverland, these people all live here and they've also got fair responsibility, and you just saw and heard before with the previous speaker about competition. Maybe he's not on the winner, and that's something he has to work out for himself. From where we sit, as South Australians go, we tend to strongly support our local packing houses, and they are either the exporter themselves or they work closely with a group who does an export, and I think that's an explanation, if I've answered the question.

But we don't have much to do with traders and we always seem to find that traders are traders and they'll source the fruit off the market floor, which is not presented for export quite often, and that will then ultimately reflect in my price because we had to put a lot of effort into palletising, marketing, shipping to get our fruit there and we're undercut by a trader, for want of a better word, for some market

floor fruit which may not be presented correctly. That does bring us all down. I'm sure the trader operates in his own environment and does that, but that's certainly been an argument from this end of the Riverland to North Queensland; that's always been a problem. Is that answering your question? I'm not sure.

MR COSGROVE: We'll have an opportunity to take this matter up with some of the traders, or whatever name they deserve, in Melbourne next week.

MR CHOWN: That's what they call themselves.

MR COSGROVE: Again, from our interest in understanding what's going on in particular citrus-growing regions, could you tell us - I'm focusing here only on oranges for the moment - what proportion of production in the Riverland would be navels compared with Valencias? Do you have a feel for that? I don't need absolutely precise material, but the best you can give us of course would be useful. If it's necessary to drop us a line next week, then that would be fine.

MR THIEL: If you look at last year's simple production figures, the navel crop was approximately 65,000 tonne, opposed to an exceptionally low Valencia crop which we're currently finishing, of which we're up around 80,000 tonne.

MR COSGROVE: A bit more Valencias usually than navels?

MR THIEL: Always historically, and this coming year - - -

MR COSGROVE: But the pattern is now changing, I believe.

MR THIEL: Changing, but still slowly, before it comes into - - -

MR COSGROVE: Okay, that's fine. Can you also tell us the proportion of oranges destined for fresh fruit markets, vis-a-vis processing juice.

MR CHOWN: Probably 80 per cent.

MR COSGROVE: Which is the 80 per cent?

MR CHOWN: Fresh.

MR COSGROVE: The fresh?

MR CHOWN: Yes.

MR COSGROVE: I see - notwithstanding the higher proportion of Valencias.

MR CHOWN: I'm sorry. Oranges, navels or - - -

MR COSGROVE: No, sorry - - -

MR CHOWN: Sorry. I thought you - - -

MR COSGROVE: You are saying you export 80 per cent of your navels?

MR CHOWN: No, I'm sorry. We're probably packing that sort of - I would suggest probably Valencias would be somewhere around the 50 per cent.

MR THIEL: 40 to 50 per cent.

MR COSGROVE: For fresh fruit.

MR CHOWN: Depending on the crop, I suppose. This year 39 per cent of navels went to juice and 61 per cent of Valencias. You can have that.

MR COSGROVE: That would be very helpful to us.

MR THIEL: It's also important to follow up there to underline the importance of the US market. On an average year, or average across the last three or four years, it's only 10 to 14 per cent of the state's navel crop actually ended up in the US. So if you look at the value of it, you will see the significance of it.

MR COSGROVE: Yes. In the same region - factual question - what proportion of growers would pack their own fruit, as distinct from going to a specialist packer? It may be a difficult question for you to answer.

MR THIEL: I think there are approximately 27 grower-packers.

MR COSGROVE: 27 grower-packers. Out of how many growers?

MR THIEL: 840-odd, 800.

MR COSGROVE: That's useful.

MR CHOWN: The board can answer that question better than we can, but we've obviously got Anne giving us statistics here. While we're on that production level, and bearing in mind the importance of what we're here today for, and looking at market trends of why we do what we do, you would be interested to know that early navels which we pick from, say, Anzac Day - just to take a figure; it's close to that - that are under six years old in this state represent 76 per cent of that particular

variety, with 24 over seven years of that early variety, which is a Spanish variety. Winter navels are 18 per cent under six years old, so the big turn-up has been in early navels aimed at export markets in the US to fill that early slot. Summer navels are 45 per cent of our under six-year-old plantings, which means that we're also targeting the other end, if we get an opportunity in that market to target into it, and also bearing in mind that no-one else in the world can produce a navel like we can at that time of the year. I don't think anyone else can produce a navel as good as we get at any time of the year.

MR COSGROVE: I agree.

MR CHOWN: I hope you agree with that. It might be of interest that under six years old, 3 per cent of our plantings are Valencias; out of a total of 3274 hectares of Valencia trees, 3 per cent of them are six years old. I think that gives you a fair indication of where we're moving on.

MR COSGROVE: Yes.

MR CHOWN: It's still very large, but our winter navel crop covers 1983 hectares, of which 17, 18 per cent is - so we've really targeted. We've got the middle, and we're just concentrating on the beginning and the end.

MR COSGROVE: Those tables that you've been drawing this information from sound as though they would be of some interest to us, so perhaps if you're able and willing to pass them on to our staff, we'd be very glad to have them. Just a couple of other matters: one was again I think contained in your original submission to us. Just bear with me a moment. Yes. In that submission you were talking about the citrus packing industry in this state and you said, "In most cases packers sell fruit on consignment," and you went on to say that:

Under such an arrangement there is little product differentiation or branding to achieve added value and price differentiation. It's sold as a commodity and hence exposed to commodity prices.

Is this a general concern of your growers - selling on consignment? It goes on to say, "Growers are very often frustrated by returns due to consignment sales and slow payment," and a number of other things that are listed there which I won't read out.

MR THIEL: I certainly think so. I think it highlights as much as anything the lack of feedback that individual growers get from the various markets, other than the US again.

MR COSGROVE: Okay.

MR THIEL: It makes it very hard to plan long term where they're going. A large percentage of the fruit is still not going to the US and never will, and there are earlier markets to service, yet it's very - yes, lack of information.

MR COSGROVE: In the case of the US market you would say that these concerns expressed about limited product differentiation and lack of transparency and so on don't exist.

MR CHOWN: No, it's false. The strength you've got there is the fact you've got one carton. We own the brand called Riversun and of course the end panel of the carton has the pack house on there so, as you said before, buyers can obviously have a relationship direct with the packer if they choose to have that. But consignment is not a problem because we've got one importer, so therefore there's no advantage to do what others do, and there's transparency. As I said, we have a presentation every year to growers. The information is all made available. If people don't want to attend, well, that's their own choice, but when it comes to some of the markets where there's obviously fruit sold - look, I might add, not by all exporters; in some cases by others - it's a difficult thing to plan.

Some growers supply multiple packing sheds, which of course is difficult sometimes when one is playing itself against another, bearing in mind we're 2 or 3 per cent of the world production. Why are we doing it to each other? What we gain out of one market we would like to spread to all of them. It would be great to bring down the Asian importer, the European importer and all the rest, have them all lined up in the front of this room downstairs, and have them go through the whole lot. It would be bloody fantastic, but how do I bring them all out? They're all in business for one thing, and I can't get them all to talk to us, so it's always difficult. We've learned a lot and I think we're going forward in that respect. Obviously some packing houses close because of throughput and people aligning themselves with the winners, and more information is becoming available. There are some people who have very strong groups in respect to that information flow, and I guess that's where others will end or else they'll make their own arrangements.

MR COSGROVE: My final question was about the availability of orchard labour in your region. Do you have problems in that area? We did hear of what appeared to be significant difficulties I think at the Mildura hearing.

MR CHOWN: I think one of the other speakers is going to talk on orchard labour.

MR COSGROVE: Yes.

MR CHOWN: But, yes, it is a problem. I don't want to take away from the people who speak next. It is a problem, inasmuch as you have a very short period of time to harvest a big percentage of your crop. Weather plays a big part.

MR COSGROVE: Yes.

MR CHOWN: Years ago I remember they used to go down to the orchard and light a little fire to keep warm before the sun came up. Now they can have lunch some days before they start picking watching television, because with weather conditions we might not harvest. The Queenslanders, for argument's sake, are in a situation where there's a very light crop of lemons at the moment on the market. They would love to pick lemons at 50 to 60 dollars a case, domestic market, but it rains every now and then so it puts it off for three days, so you can see the frustration. Therefore we've got an opportunity to supply these navel markets. The fruit must be dry before it's harvested, otherwise it deteriorates very rapidly, so there is a need for more people and we're also expecting quality labour with skills, which we probably didn't need in the past but now you do.

MR COSGROVE: Yes.

MR CHOWN: You can't afford to fill a boat up with fruit and drop it in the harbour at the other end after all the cost, because the cost of the oranges is actually not considerable when you consider all the other costs involved. So it is a major issue and obviously that has to be addressed. But we're a very labour-intensive industry.

MR COSGROVE: Indeed. That was all I had to ask. Do you have any other points you wish to make or not?

MR CHOWN: No, thank you very much.

MR COSGROVE: Thank you. We're very grateful to you for your various inputs to the inquiry.

MR COSGROVE: Our next participant is the Citrus Board of South Australia. Would you two please identify yourselves and the capacity in which you're here today.

MR ANGOVE: My name is Ted Angove. Essentially I'm a bona fide citrus grower with 22 years of experience in the industry. Prior to that I had 13 years as a mixed fruit grower; chairman of the Tangelo Growers Unit Trust; immediate past president of the Murray Citrus Growers Cooperative Association, and I sit here as deputy chairman of the Citrus Board of South Australia. My presentation was really pitched from a grower point of view. This is why I've asked permission for Andrew Green to be up here because he's the executive officer of the Citrus Board.

MR COSGROVE: Thank you. Your name is one I usually associate with wine. Is that part of a family activity?

MR ANGOVE: They got the money, I got the name. We live at alternative ends of the Riverland.

MR COSGROVE: Right.

MR ANGOVE: Did you have questions you wanted to ask me or will I pitch away?

MR COSGROVE: Would you like to take me through some of your points or not? I have read your earlier document, but I'm not sure whether the one you've just given me differs in any respect.

MR ANGOVE: Basically in the early stages of this we're really addressing what has already been put through to you before - that the terms of reference of the review were to look at the citrus growing and processing sector. This position paper largely focuses on the export industry and lacks focus on the effects of imports on the industry and therefore the Citrus Board believes comments made in the position paper regarding export control powers are outside the scope of the inquiry. We go on and talk about the history of the Citrus Board. The role of the board is really statistical collection, registration, market development and supporting research and development.

Activities undertaken by the Citrus Board have been developed in close consultation with government and stakeholders, with many of the activities undertaken structured to address the areas of market failure and to provide public-good benefits. Examples include funding quarantine and fruit fly activities, collection and production and planting statistics, facilitating food safety, promoting healthy eating via a schools program, and also resourcing R and D activities. The

recent National Competition Policy reforms have the potential to remove valuable powers established by industry and needed for long-term stability and growth within the citrus industry. Many of the powers established by the board facilitate access to and growth of export markets. A review of the need and impact of the National Competition Policy is encouraged.

Since tariffs were reduced in 89, the South Australian citrus industry has made significant and often difficult decisions to move away from reliance on the concentrate juice market, and we go on and talk about changes in tree numbers and what have you. But there's a standard comment around the mainstream growers that anybody who's growing fruit to service the juice industry is doomed to failure.

Changes in the variety complex, adoption of best production practices and a greater focus on the more profitable fresh fruit export markets have not only been supported by CBSA activities, but is also largely attributed to orderly and unified marketing of citrus under export control powers administered by HAL. Then I've got a list of some of my own perceptions about what the various areas in Australia do, recognising that South Australia has always been the leader in citrus exports from Australia, and the Riverland brand used to be well known in South-East Asia and used to be as well known as the brand Sunkist. The question I would pose today is: what happened to that brand and why? I think in answering that question you will see why we're so keen on retaining a single-desk into the United States.

When tariffs were reduced and subsequently removed from growers in South Australia in 89, they reacted by changing from Valencias to navels and mandarin varieties. With the advent of the United States market, the future of the citrus industry in South Australia became much more secure. Growers came to realise that if they managed their cultural practices properly they would obtain good returns and maintain a viable future. South Australia, because it's so far from the terminal markets in Australia, has always been the leader in Australian citrus exports. Historically our main destination has been South-East Asia. With the competition amongst exporters for market share it has never been very profitable.

We recognise that the reliance on the United States is not very wise, but it is doing three things: it is managing to keep the citrus industry viable; it's underwriting the ability of growers to change varieties from Valencia to more profitable alternative varieties and it gives us breathing space while we develop other export markets. The comment off the radio in the last two days from Austrade is that one in three jobs in South Australia are dependent on South Australian export endeavours, as opposed to the rest of Australia being one in five dependent. I thought that was a fairly significant number and that again highlights the need for us to maintain our export destinations.

We then go on and talk a little bit about why we're looking at the whole industry as opposed to just the Valencia industry which I thought was supposed to be part of the terms of reference of this inquiry. In your paper that - I picked it up off the web site prepared by Retailworks it cites the returns per kilogram in the eastern states in the range of 49 cents to 61 cents per kilogram returned to the grower. I thought that was a pretty interesting number and I thought if that was the number I was getting there wouldn't be any inquiry; I'd be laughing all the way to the bank. So by way of enunciating where my difficulties came with that, I listed my own returns over the last six years. I obtained these numbers by simply taking the gross tonnage delivery and dividing it by the dollars that I received for that commodity. Over the last six years, out of Valencias, starting with this year I got 23 cents a kilogram, 10 cents last year, 25 the year before, 27 the year before, 14 the year before and 18 the year before that.

But the interesting ones are over on the navel side where this year I got 56 cents a kilogram, last year was 25 and last year was a lousy year, 70 cents the year before, 56 on the fourth year back and then the two years prior to that were 18 and 23 cents. The question I posed out of that was: how was a grower supposed to survive in these massive fluctuations in commodity returns? The other point I want to make out of that is that at the start of that 98-99 season it was the year that Peter Walker took over as chairman of Riversun. He went into there with this very, very bold broad statement that Riversun was going to be transparent; that everybody would know what was going on in there and consequently you got that massive change in return. I think that is a real credit to Peter and to what Riversun have done.

MR COSGROVE: Could I ask, among your Valencia returns, are you selling most of your Valencias as fresh fruit or for processing?

MR ANGOVE: It goes on later in this paper.

MR COSGROVE: Sorry.

MR ANGOVE: It delineates how Valencias are delivered. In my case I harvest my whole crop and I deliver it to a packing shed. The packing shed then has the opportunity to break that fruit down into export quality, local market and juice fruit, and for years and years and years, as far as Valencias were concerned, we ran on 30 per cent pack-out, 70 per cent juice. It couldn't matter less whether you delivered high-quality or low-quality fruit, that's the way the numbers came out because we were servicing the juice industry. Today it has become far more important that we get a return for our crop and probably you're getting up closer to fifty-fifty. It is changing, but at the same time we're all pulling Valencias out as fast as we can anyway.

It goes on to say there was an air of doom and gloom at the end of 97-98 and even the packers began to realise that and that's what I highlighted before, that there was a very definite change in the industry at that stage. The other thing I wanted to highlight is that Berri offers a contractual return in the range of \$170 to \$140 a tonne. That's 17 to 24 cents a kilogram. So going through my numbers in here and out of that it cost me nine cents a kilogram, \$90 a tonne to get the fruit off the trees and delivered to the packing shed. It cost the packing shed another three cents to get it through the shed, so that's 12 cents out of a potential 17 cents. That leaves me five cents to run the rest of the block on. I think it highlights the fact that there is just no future in the Valencia industry.

Berri is the largest processor in Australia and it's positioning itself to be taken over by one of the big two - either Coca-Cola or Frutesco. They're thinking is that once we only have two major players in Australia, growers may have a real chance of getting a reasonable price for their product. I put that in there hoping that you'll ask them when you get around to interviewing them one day.

MR COSGROVE: We're going to see them in Melbourne.

MR ANGOVE: Make no mistake, this industry is probably one of the most convoluted industries you can find. Most other commodities are sold farmgate to the processor for a fixed price, then value-adds and sells on to a third party. It doesn't quite happen this way here. By way of quantifying this United States one again, I found it somewhat bemusing under your finding 7.8 that "Horticulture Australia Ltd should give serious consideration to discontinuing the requirement of citrus exporters use a single importing agent into the United States" - Retailworks, section 5 subsection (1) last sentence reads:

High levels of competition in the retail sector will increase the pressure on grower returns as the retailers negotiate for every advantage.

Subsequently in the position paper, page 62 from submission 80, page 15:

There are too many packers selling into the market which invariably leads to low prices and poor quality as they chase market share and capacity utilisation.

That last bit "capacity utilisation" is where the real problem lies.

Most problems faced by growers emanate from the packing sheds who act not only as packers but also marketers. Packers take delivery of the fruit, sort it into export, local market and juice. They pack the export and local market into boxes or bags and onsell to the market. Packers make

their money from putting fruit into boxes.

That's important.

They sell for the best price as long as it covers packing and freight costs and the growers get the rest. In a high production year where marketing is more difficult prices are reduced and a lot more fruit is diverted to the juice market. In other words, the packers always get paid; it's the growers returns that suffer.

I also query the fact that there are no packers or processors giving evidence here today, but I assume they're giving evidence elsewhere. Second to last comment, but I thought I'd throw this in on a lighter note. On a personal note, I noticed under J.V. Whyte's submission 37, page 2, that he was talking about value adding and peeled citrus. That was a pet project of mine four or five years ago. I got really keen on it and developed my own vacuum tank, found the enzyme, went to work and could perform the exercise very well. The only trouble was that I ran into so many patents, so much patent protection on a worldwide basis that you couldn't climb over it. Went off and spent \$400 with a patent attorney trying to find my way around it and he said, "You're belting your head against a brick wall. Forget it." But at the end of the day one of the most intriguing flavours I found out of the whole thing were peeled segments of grapefruit - absolutely delicious.

MR COSGROVE: Yes.

MR ANGOVE: So in the summary, what needs to be said is that South Australia is booming along quite nicely; that the USA is underpinning our chains to new and better varieties and allows us the opportunity to develop new markets; there is a lot of rationalisation going on with bigger, more modern packing sheds and fewer of them; and vertical integration is really starting to get under way where growers and packers are starting to work far more closely together and you're seeing contractual arrangements coming into place. So the final statement is: let us keep what we have, single-desk into the United States and let us get on with the job.

MR COSGROVE: Thank you. For my own education, could you tell me how your board is appointed? How it's constituted is perhaps more relevant question. Who are the members and how are they appointed?

MR ANGOVE: There is a selection committee which is appointed by the minister of agriculture and that selection committee is made up of nominations from throughout industry. That selection committee then calls for nominations to the board and people from right across the whole walk of the industry can put their names forward as being candidates for the board. Then the selection panel makes the

decision on who the members of board will be. It's a fairly convoluted exercise but it's very fair.

MR COSGROVE: I guess the appointments are for a certain period of time.

MR ANGOVE: The appointments are for three years.

MR COSGROVE: Thank you.

MR ANGOVE: The chairman is a direct appointee of the minister.

MR COSGROVE: Right. You've outlined for us your major responsibilities and you will have heard perhaps earlier this morning the Citrus Reform Association raising some concerns. Your main responsibility appears to be the maintenance of the register of citrus growers, packers, processors and wholesalers. What is the basis for your registration of someone in those various roles? What do you have to do to become a registered grower, for example?

MR ANGOVE: Registration is a requirement under the act and if you are a citrus grower you simply ring up the board and ask for a registration form and they'll send you a registration form. You fill in your name and address and the area and number of trees that you have.

MR COSGROVE: I see. So it's very straightforward.

MR ANGOVE: There's no cost involved as far as the grower is concerned.

MR COSGROVE: Right.

MR GREEN: The onus is actually on the grower to contact - in any of these cases - the board if they want to be registered, but obviously we send out information annually to them.

MR COSGROVE: The related matter - were you here when the Citrus Board were speaking?

MR ANGOVE: Yes.

MR COSGROVE: Of their concern about - at least under existing legislation - moneys compulsorily levied being passed on to the national association. Do you have any reaction to that?

MR ANGOVE: Funding under the arrangement is that there is a compulsory levy

payable to the Citrus Board. That's there under the act. CGSA and ACG have voluntary levies. I think the one that the Reform Association were talking about was prior to - going back to prior to this NCP review getting under way. At that stage the board - because the board felt that it was important that if we have the national organisation, the board chose to pay South Australia's share of the national funding arrangement.

Now that the NCP review has come through and they're requiring that it be more open and whatever, as they say, the board acts as an agent for CGSA to collect CGSA's funds and also ACG's funds. But there is a mechanism in place whereby if a grower does not wish to be a member he can register his desire not to be a member of those two organisations and at the end of the year he will be refunded the levies that have been deducted by the packer to those associations. It is a requirement under the act that packers show the levies that they are deducting from the payments to growers, whether they be levies for ACG, CGSA or the Citrus Board.

MR COSGROVE: If a grower chose to take advantage of that arrangement you just described, they would still be eligible - in fact, required I guess - to be registered as a citrus grower.

MR ANGOVE: Yes.

MR COSGROVE: They wouldn't be disadvantaged in that respect.

MR ANGOVE: No.

MR COSGROVE: Is the NCP review now finalised? I had no - - -

MR ANGOVE: No. It's still getting under way.

MR COSGROVE: Under way.

MR ANGOVE: In South Australia.

MR COSGROVE: But these arrangements have been put in place independently of it.

MR ANGOVE: Yes.

MR COSGROVE: Right, okay. You mention that one of your functions is the collection of information relating to production and marketing of citrus. Do you publish that information?

MR ANGOVE: Very widely, yes, and that's why I asked for Andy to come because he is - - -

MR COSGROVE: Yes, because it might be of material interest to us in the finalisation of our report.

MR GREEN: I just also want to make a point in that regard, that at the last meeting of Horticulture Australia they arranged national meetings and market intelligence was listed as the number 1 thing that growers wanted and the board has been doing that ever since we were put in place.

MR COSGROVE: Established, yes.

MR GREEN: But basically the sorts of information we would feed back is, on a weekly basis we feed back to packers the split in terms of where product goes in terms of export markets for the state, domestic and interstate, et cetera, and the juice component; plus we feed back plantings statistics on an annual basis once they're tallied. We have a newsletter as well, which is weekly, in which we detail information we receive. We have an officer who collects fruit sizing data and crop density data and we feed that back to our packers and through the newsletter. That information is very important in terms of marketing, whether it be Riversun, in terms of working out how much crop they're going to have for that market or whatever. Plus we do a few other things, like report on just general market prices for the state markets.

MR COSGROVE: In wholesale markets - - -

MR GREEN: Wholesale markets, Sydney, Melbourne, et cetera.

MR COSGROVE: Do you collect information on prices in export markets, as well?

MR GREEN: Not as such, but we keep an eye on any correspondence and anything of a general nature we report back to industry.

MR COSGROVE: Thank you. I know you have some other spokesmen today and I'm not sure whether this is the right question to put to you two people, but I am now looking at your remarks about what we had to say about Biosecurity Australia and, in particular, the flow of information from Biosecurity about market access negotiations and so on. You said on page 3 of your previous paper to us, "A more effective tool for information dissemination is required and a clearly recognised pathway for obtaining information is required, including a single entry point designed specifically for matters relating to citrus."

I am now familiar with the change that BA made in its own internal structure, which has shifted them to a regional basis rather than a product basis structure, but I was wondering if you could expand a little on that suggestion. Do you have any view or ideas about the nature of such a more effective tool for information dissemination? We'll need, Amos, to get you to identify yourself and your capacity also for the transcript.

MR WEIGALL: Amos Weigall. I am a Citrus Board member and am also involved in the industry as an employee of Vital Marketing and marketer for Yandilla Park and Vital Growers.

MR COSGROVE: That's fine, thank you. Reverting to my question, are you able to help me there?

MR WEIGALL: Yes, I think so. We put this question actually to ACG and to Biosecurity, who were attending the meeting in November. A lot of the information is disjointed. It comes out through various organisations. As an industry player we would be getting information from the AHEA, Australian Horticultural Exporters Association, via Riversun, via the Citrus Board of South Australia, via CGSA, via ACG, via AQIS, and via various other subgroups within AFFA. To get access happening in various markets I think the industry has to have a clear indication of where their targets are and where we're going and what these time frames are in the market so we can focus behind that and if necessary support that, whether that be financially or with information. There isn't a piece of paper or a goal that you can pick up that says, "This is where we are going." I think that is certainly lacking within Biosecurity Australia. They also have very much a technical brief rather than a trade brief, as well, whereas certainly we recognise that there is a technical aspect and a sort of trade aspect related into these negotiations.

MR COSGROVE: Yes. Our suggestion in the position paper, as you have included in your own document here, is that BA provide a schedule to stakeholders by which, I guess, we meant essentially say ACG and maybe state grower bodies, as well. On the status of any negotiations under way, including a target completion date and also an indication of the timing of proposed negotiations of a new kind, from your perspective would that be sufficient, do you think, or is more needed?

MR WEIGALL: I think that probably needs to be expanded on. I think we need to understand the nature of the difficulty. Quite often we are at a disadvantage with many of our competitors from the Southern Hemisphere or the Northern Hemisphere countries in the markets that we're trying to access. They certainly enjoy some distinct advantages which - we're often left wondering why we don't have them. I think they perhaps need to be addressed in the context that Biosecurity's information doesn't really address - - -

MR COSGROVE: So you would like more information on trade barriers, whether they're actual tariffs or phytosanitary types of barriers - - -

MR WEIGALL: More than the phytosanitary - for example, the Japanese market - area freedom is recognised by the Japanese market and we're in - from California. We have area freedom, which is recognised by many countries around the world that is not recognised in Japan. That is not necessarily communicated by Biosecurity or taken into consideration in their purview in developing access, because I think they're not really looking at trade elements on a WTO type basis. They're just looking to develop the access that the industry has put forward to them or - - -

MR COSGROVE: Yes. I'm not quite sure I am following what you are saying there. Do you mean that Biosecurity Australia should be more active in trying to remove such barriers, or that Biosecurity Australia should provide industry stakeholders with more information about them?

MR WEIGALL: No. I think the question was: what information would the industry like? I agree with the information that the Productivity Commission has suggested that we need, but in addition to that I think that information should be referenced against progress that our competitors are making in other markets.

MR COSGROVE: I see, yes. I suspect - although we'll speak to them next week - that Biosecurity Australia's response to that suggestion might be, "Well, that's a matter for the Department of Foreign Affairs and Trade," which is formally responsible for trade negotiations. Anyway, I now understand what you are saying.

MR WEIGALL: Yes, I think that is probably the industry's point. When you're looking at the area of Biosecurity and market access they are defined as separate points, but really they overlap and I think the government needs to take heed of that - - -

MR COSGROVE: More coordination.

MR WEIGALL: - - - disunity and lack of coordination and bring it together because currently it is left up to industry, if they are aware of it, whereas it could be ordered in a much more coordinated fashion.

MR COSGROVE: Thank you. I don't think I had any further questions on those matters. You do have some other speakers though, I gather, who you would like to bring forward. Perhaps this might be a good time to do that.

MR AMOS: Okay, fine, thank you.

MR COSGROVE: I don't wish to cut the people who are presently at the table out of an opportunity to say more to us, of course. We still have time for that. Would you please identify yourself and your capacity?

MS WALKER: My name is Carole Walker and I am here representing the Citrus Board as the grower representative. Previous to that I was working for the board, collecting statistics and doing fruit measurements and things that they were mentioning before. Also, I am a citrus grower for 29 years; married into a family of citrus growers of 35 years. We also are sole citrus growers. We have no other crops. Basically the points I am presenting - 7.6 and 7.7 - I believe are fairly self-explanatory. 7.8, I believe, has been discussed at great length.

MR COSGROVE: Indeed it has.

MS WALKER: I would just like to point out that I have actually been involved - by working for the board I have worked in the packing sheds with quality control responsibilities; I have also been to the wharves to see the fruit loaded and all the processes from there; I have also been to the states to watch the fruit being unloaded, watched the office working, the quarantine inspection - just the whole ins and outs. Also we've done an exercise of going to the supermarkets, talking with the category managers, talking to consumers about our fruit. One thing we did notice over there - this was last year when we had a bit of a breakdown with one of the boats and fruit was delayed a little bit - the supermarkets just slotted South African fruit straight in under the Australian sign - didn't remove it; didn't drop the price.

MR COSGROVE: I see.

MS WALKER: Didn't do anything. That was an interesting - - -

MR COSGROVE: Misleading their consumers.

MS WALKER: I believe when our fruit did then become available it was then replaced, but supermarkets are not worrying about the cost factors to growers. I am not going to go through it point by point, but an interesting point - I will give you this newsletter which the Citrus Board put out every week. It gets faxed out to anyone that wants it - packing sheds and the like - but it also is reproduced in the Riverland newspapers as well, so every grower has the opportunity to read it. A lot of this information comes down from the product champion to the board, so that everybody is getting the same information. He gets his information from Riversun on the American export scene.

Through product champion - David Cain, the CEO of our citrus board, was the original product champion - the quarantine issues - and it highlights in here an

instance in 98 where there was an insect found in one of the inspections. Because they couldn't identify the species, it was going to mean 30 semitrailer loads of fruit were going to have to be fumigated at a cost of \$US200,000, and through the product champion the information came back to Australia, went to our now CEO, Andrew, who was our technical officer then, who identified the bug as not being quarantine actionable and saved the growers all that money and San Diego all that fumigation fumes.

MR COSGROVE: Yes.

MS WALKER: That was just one instance where in a normal case if that couldn't have been fast-tracked back the fruit would have been fumigated and that cost would have directly gone back to the growers because that would have been an ongoing cost through that situation. That is one quarantine issue that highlights the significance of working together and having a product champion for the industry. Another point that I was going to tell you, just about our personal farm, in 92 we had 20 per cent navels, 80 per cent Valencias. We're now the opposite.

MR COSGROVE: A big shift.

MS WALKER: We have been replanting, yes, and that has been due to the returns from the US so that we could afford to do that because you can't just pull out crop. We have to wait seven years to get income from our investment, so it's very expensive and if you don't have the income to back it up, you can't do it. That's all due to the American - - -

MR COSGROVE: Could I ask you about this USA product champion role now performed by John Braniff who, of course, we met in Mildura and had met previously. Is it necessary to have the single importer arrangement in the US to have a product champion? Couldn't someone based in Australia but perhaps visiting San Diego or wherever relatively frequently been used to play that role, regardless of what the importing arrangement was, or is there some essential connection here?

MS WALKER: I think it's not only to do with quarantine. I think it's basically someone that can be - he disseminates all the information out to other people and then handles the initial inquiry rather than going to one board or another board.

MR COSGROVE: Yes.

MS WALKER: We're trying to consolidate the industry. In past years it has been very fragmented, and this is one way we see of - it came about through the American exports, but it has been a very good thing for the industry to consolidate. As I said, any information coming in goes to him and then he sends it out to the other bodies,

rather than every board having to ring Riversun every week and get the information and then someone getting some information and someone else not getting the other information. It just means that everybody is getting the same information.

MR COSGROVE: Yes, I can see the efficiency of that. Is this role used also in some of your other markets where you have licensed importers, or is it just in the case of the US market?

MR WEIGALL: My understanding of product champion is it's totally unrelated to the licensing condition, so it has nothing to do with it at all.

MR COSGROVE: That's what I thought.

MR WEIGALL: Product champions are industry-appointed persons with specific liaison tasks, and John just happens to be the one for the USA. There are other product champions in other areas where this type of role is taken on.

MR GREEN: Can I make a comment?

MR COSGROVE: Yes, of course.

MR GREEN: I think the important point here is that the person that's nominated by ACG as the product champion - in this case John Braniff - his position is almost elevated to equivalent, say, with AQIS in terms of the linkage with government. You'll see in the documentation we supplied that back in 1994 Glenn Lee, who was the deputy administrator of USDA, actually approved that arrangement that one person would be the voice point. I think it's important that that voice point is located here in Australia, and I think the issue about having a central point is important in that he's speaking on behalf of the whole export community per se.

MR COSGROVE: That's sensible.

MR GREEN: If that was split up, that wouldn't be able to occur.

MR COSGROVE: Okay, was there anything else you want to say to us, Carole?

MS WALKER: These statistics of tree planting that have just been compiled come about through information given to us by registered growers, so they're not complete because there are trees out there in the ground that aren't on this sheet. The board can only do what they can with the information they're supplied.

MR COSGROVE: If I remember rightly from what I think Ted was saying, it's a requirement that growers of citrus be registered but there are some growers who are

not registered. Are those people prosecuted? And if not, why not? Or what is the sanction applied to them for not registering as producers - as growers?

MR GREEN: We don't necessarily know whether a grower exists unless they notify us per se, because the onus is on them, but we're able to deregister as part of the act and I think that's the normal process that would probably occur.

MR COSGROVE: You can deregister? If they're not registered how can you - - -

MR GREEN: If a registered party doesn't perform what they're meant to under registration.

MR COSGROVE: Sorry, if they don't - - -

MR GREEN: If they don't undertake the conditions of their registration, basically.

MR COSGROVE: And what are they? I thought there were none; you simply registered.

MR GREEN: For growers' registration, part of the process is supplying statistical information, for instance.

MR COSGROVE: I see.

MS WALKER: Yes, on a yearly basis.

MR GREEN: On a yearly basis.

MS WALKER: They must do it yearly so we can keep our statistics - - -

MR GREEN: Processes, et cetera.

MR COSGROVE: And that's the only condition of registration, is it?

MR GREEN: There's a range of conditions, depending on what sort of sector they are - but that's just an example of one.

MR WEIGALL: A large number of growers with the resources of the board - the board has tended to try and address grower registration through packers, and actively pursuing that. It's meant probably spending more resources on that in recent years perhaps in terms of determining whether growers are registered or not and, generally speaking, a matter of trying to find out that perhaps small percentage that is possibly out there, and getting them to become registered growers, I think. In terms of

growers that are registered and may be known to the board, they may not be sending their fruit to packers in South Australia, which is not something that the board can control but in those cases the government's direction to the board has been that they're not really of a view to pursue prosecution of growers, so I think in that case that's - yes, the direction from the government is perhaps to overlook that point also, because it's such a minor part of the industry.

MR COSGROVE: Yes, I wonder why growers choose not to register. I mean, I understand, I think, in broad terms at least, the points made by the Citrus Reform Association, although your evidence to us today suggests that now it is possible to make use of an arrangement whereby they don't have to make compulsory contributions to the national body. If we leave that to one side, the only effective obligation seemed to be the provision of annual statistical information. Is it just that they're not aware of the reconciliation arrangements?

MR WEIGALL: A minority of growers that are probably choosing to do that would be trying to make a political statement and might not necessarily want to conform to the laws of the day. I think that, on the whole, the majority of growers certainly are happy with the status quo.

MR COSGROVE: Does Ted want to speak again on this?

MR ANGOVE: Yes. What I wanted to say was that of all the numbers that Andrew has produced - and I think there's 892 registered citrus growers in South Australia - only about seven of them are choosing not to be members of the CGSA. So it is a minority group and the short answer to the question you're posing is you have to go back in history. Now, I don't know whether you want a history lesson here or not, but it's a long, long, convoluted answer.

MR COSGROVE: I think I'll pass it up, thank you. Is it the case, though, that to move along the production chain towards domestic or export markets you have to be a registered grower?

MR ANGOVE: Yes.

MR COSGROVE: So there's an incentive to be registered.

MR ANGOVE: There certainly is, because every registered grower is given a number and licensed packing sheds may only take delivery from a registered grower.

MR COSGROVE: I see, okay.

MR ANGOVE: So if you choose to grow fruit in South Australia and not be

registered, your outlet is to send it interstate.

MR COSGROVE: Thank you. Right, now I think, Amos, you were about to speak on this.

MR WEIGALL: We touched on the Biosecurity issue but there were some other points that we put to you in our response, which I'd just like to go over again. Recommendation 7.2, that the government should use the opportunity provided by the forthcoming multilateral trade negotiations with the WTO to seek reductions in overseas trade barriers placed by citrus producers. The board strongly supports that and I think all the industry players have had a great deal of contention about that issue.

We have highlighted a considerable number of countries having placed tariff barriers, including Thailand at 48 per cent; Philippines at 20 per cent; Indonesia at five per cent; and we've listed Korea as an inner quota tariff of 50 per cent in 2000. The outer quota percentage I believe was 75 per cent. The quota was actually - that reduction to the 50 per cent tariff - traded by importers within that country. It may be at 50 per cent but you'll also be providing the importer in that country with recompense in the funds for the outlay that he's had to buy that additional quota. In Japan there's a variable quota, from 17 to 34 per cent for the rest of the year. We also note that there's a variable rate in the US.

The next point was the industry support in the form of subsidies provided in other countries, including South Korea 246 million to purchase and destroy excessive crop in 2001; Italy 75 million in various programs. Spain, Turkey, Morocco, Cyprus, Argentina have all undertaken to invoke similar sort of measures and these are occurring all the time. The boards monitor these and publish these, and growers are aware of that but I think the perception certainly is that they're perhaps not taken on board in consideration of trade negotiations and furthering our position.

We go on to say that countries such as Japan, Taiwan and South Korea continue to refuse to accept international practice which recognises area freedom from fruit flies. Instead these countries demand stringent and expensive disinfestation treatments for Riverland, Sunraysia and Riverina. In respect to Japan this is contrasted by Japanese acceptance of area freedom of California, a significantly smaller area than the whole United States and, notably, this area in California has significantly more infestation problems than some areas that we have in South Australia, particularly the Riverland. At the same time countries such as the USA and New Zealand accept Australia's area freedom, and Australia has been seeking area freedom from Japan for over a decade and remains frustrated by this discriminatory action.

An additional comment there which we haven't put to you in the paper is that I think if Australia were able to compete on equal terms with other supplying countries, we'd see immediate export growth by a factor of - probably two to five times would be quite likely, and the additional time frames that we have to do through disinfestation on land prior to meeting that market and being able to respond to the market is a huge disadvantage to us when we're competing with other suppliers.

MR COSGROVE: How does South Africa rate in this particular context? Is it in fruit fly free area status?

MR WEIGALL: With the appraisal which we're looking to pursue on an industry level, the board is proceeding next week with various trade offices and AQIS. We were there in 1997 and there was an overview of what the requirements were for South Africa. I believe they're given area freedom recognition for Mediterranean fruit fly and I believe they also have the option of in-transit cold treatment for Japan. That was as at 97 and their positions may have improved since then; I'm not aware. It's one of the issues that's difficult for individuals to keep a tab on but certainly would be something that the trade office or Biosecurity office really need to keep abreast of and keep industry abreast of.

MR COSGROVE: Of course in these negotiations, which are often very difficult, there can be obstinacy on the part of a potential export market negotiating authority, or sometimes perhaps it can be a question of the priority and skills attached to, in our case, Australia's negotiators. Do you have any feeling on whether or not BA might be perhaps not doing quite as much as you would like to see them do, but that they're sort of trying to beat their heads up against a bit of a wall? Although the fact that these other countries seem to have better or easier quarantine access I guess poses a question as to why they - in this case Japan, say - would be so reluctant to allow similar treatment of our citrus?

MR WEIGALL: My personal opinion or observation is there's probably been a failure by government to push these trade levels forward and other countries have a lot freer access, even New Zealand and countries quite like ourselves. Perhaps South Africa has been considered in world circles as getting less trade privileges than other countries and has probably previously been considered as having a lesser trade status than Australia; it had more sanctions in Australia and other markets. We've recently seen some WTO actions occurring in relation to Australia but also in relation to Japan. I don't think we necessarily have to jump to a WTO action but I think we could perhaps be a little bit more focused and coordinated and apply some resources to where we can get some benefit in the future.

MR COSGROVE: Sometimes in these types of negotiations the importing country

might seek some concession in the exporting country, you know, whether it be, "This market for you guys but we want your market." It might be the motor vehicle market for all I know. Are you aware of any difficulties of that kind from your discussions with BA?

MR WEIGALL: Yes, Biosecurity has certainly related those to us, and I suppose where those issues come up a decision has to be made whether the WTO rules have to be tested or invoked in those cases, whereas I think perhaps we've met those before and chosen not to forward that further. But as to whether industry has always been aware of that or only loosely aware of those things happening is probably where we have some weakness.

MR COSGROVE: Okay.

MR WEIGALL: I won't come around to 7.3, the information supplied by - - -

MR COSGROVE: Yes.

MR WEIGALL: We've fairly well covered that and probably similarly the market access was covered quite well. Certainly draft recommendation 7.5, "AQIS should implement its cost recovery arrangements in line with the Productivity Commission's recent recommendations on this matter," and in particular if AQIS is able to recover its costs from the citrus industry, again the criteria proposed by the commission in the charging system should be changed to reflect the actual costs. The Citrus Board of South Australia supports this draft recommendation and certainly says it's been a bone of contention in the industry for quite some time in terms of developing those charges and it's very disappointing that it seems to have shifted where the charges are around the industry, rather than actually providing some benefit, particularly when a lot of the functions have now been taken on by industry in terms of certificate of assurance arrangements and other quality assurance arrangements to support - which AQIS audit - and there hasn't been much cost benefit in that area. Certainly from an industry perspective I think generally the local responses are good, of the people in the field, but AQIS is a four-letter word in the eyes of many of us in the industry, I think.

MR COSGROVE: I think that was a matter about which we invited information containing examples of the problem. I guess one way of envisaging such information might be if you were able to tell us how much AQIS is charging for a particular inspection service. I'm not knowledgeable enough to know exactly what's involved has changed over, say, a period of three or five years. I don't expect you to give me an answer now, but if any of you from the board have - or for that matter, from the other people who have spoken to us - have any information of that kind or - - -

MR WEIGALL: Certainly the National Citrus Packers in conjunction with the board have been looking at that issue and they would be happy to provide the information.

MR COSGROVE: Okay. If you have some it would - I mean, we've heard the complaint but at least up to the date of our position paper we had no real evidence of the extent of the problem. Yes, if you've got something of that kind, that would be good. How do we stand now with your evidence to us? Have we further areas to cover?

MR GREEN: I think the only other issue that we probably want to mention is that we're not - definitely not in favour of industry funding to boost resources in BA, because in the eyes of our people we're trying to gain access to, that wouldn't be on basically. It would be compromising of their scientific abilities, so it should come out of the federal arrangements - budgetary arrangements. That would be our advice.

MR COSGROVE: If I may just pursue that a moment, if the government was to decide eventually that funding for that purpose was not necessary, would you still feel that an industry contribution was best avoided - ie, no more resources for BA at all?

MR GREEN: I think the resources that we put in currently are relatively significant for those putting them in and it would be difficult for industry to sustain that sort of input.

MR WEIGALL: I think historically if that was the situation, industry would be looking to the importing businesses in that particular country - looking for funding from the importing businesses because otherwise it would just be perceived as untoward.

MR COSGROVE: Yes. Good. Anything else? No? Thank you very much for coming along and giving us some further information. That brings us up to a luncheon break. We're due to resume at 1.45.

(Luncheon adjournment)

MR COSGROVE: Our next participant today is Mr Papageorgiou. Would you please, for our transcript, identify yourself and the capacity in which you're here today.

MR PAPAGEORGIU: Yes, my name is Jack Papageorgiou, and I represent Citrus Growers of SA. I'm on their committee. Just to elaborate a bit more: I've been a citrus grower in the Riverland for almost 30 years and have been involved in water management and boards for over 15 years. I'm currently a board director of Central Irrigation Trust, and I've been in local government for over 10 years. I wish to raise the importance of water and supply to the citrus industry in both South Australia and other regions on the Murray-Darling Basin, because on the Murray-Darling Basin that's where we grow citrus.

MR COSGROVE: That's right.

MR PAPAGEORGIU: The first slide I've got up is - the auditing was done in 1999 on salinity. You've got the basin there and where you see the yellow lines under the current management those rivers will die back within 50 years. So we can see one enormous challenge we've got - government, the whole community, as a nation - what challenges we've got in front of us with salinity and other water management of our system.

Just a bit more on that. I'll just give you some of that back again. Just to give you a few salinity - I'll leave that information after with you. Just in South Australia here alone currently the salinity today is around about 500 in Renmark. For the year 2050 it will go up to 650, in Morgan - that's where we actually pump in on the west coast - salinity will rise to 790, but if you go across to Victoria, to Avoca, by the year 2050 the salinity will go from 900 to 1500 EC units. If you go up to New South Wales to the Lachlan, from 530 it will go up to 1150; the Bogan from 700 to 1900; Namoi from 680 to almost 1300; and if you go to Queensland it's even worse - up the top. Warrego, you will go from 210 to 1270 by the year 2050, and Condamine from 210 to 1040 and border rivers was from 300 to 1100. So you can see the enormous challenge that we have to combat salinity, and I think that, although this is the citrus industry productivity inquiry, citrus can't grow without water. You need high-quality water to grow high-quality citrus and all those sort of things.

MR COSGROVE: I read that point. Could you explain to me why it is that high-quality water is needed.

MR PAPAGEORGIU: In my experience of 30 years - and I'm sure the other citrus growers in this room - if you've got quality water you will grow beautiful oranges and it's only when you get an inch of rain or two, it makes an enormous change to the orange, the size and quality, and just boosts the size and the actual

appearance of the tree. It picks up the colour, it changes. In the Murray if you've got high salinity, if you haven't got a different type of irrigation - particularly overheads - you get saline water and you defoliate trees. But fortunately in South Australia we're well in advance with irrigation practice. In actual fact we are leading in water management, and with the things we have in place we can handle slightly high salinity because of the technology out there, and growers become better irrigators overall and manage soil and water and the crops.

MR COSGROVE: I ask because in metropolitan areas at least these days we're being told about the good sense of using what is called "grey water" - stuff that might have come through the washing machine. That doesn't work with citrus?

MR PAPAGEORGIU: No, it's totally different. Although while appliances still need good quality water so you keep those washing machines and others for the long term, but it's paramount to horticulture, not just citrus, that you have reasonable water quality and low salinity. I'll just go onto some of the things to highlight. Under the current management system, 3 to 5 million hectares of land will become salinised during the coming 100 years. To expand, there will be substantial impacts on the water quality, productivity, the environment and built infrastructure. Salinity in the Lower Murray will increase by approximately 50 per cent in the forthcoming 50 years.

Damage to agriculture, productivity and infrastructure in the basin - examples of this are roads, buildings - caused by salt will increase to an estimated cost of between 600 million to 1 billion dollars a year during the next 100 years. So we have a challenge. But what can we do to combat the problems? There has been in the past salt interception schemes, and we have one at the moment looking to be developed at Chowilla which is close to Renmark. The River Murray needs 85,000 megalitres of water for three weeks every three years as an additional water flow to dilute salt and flush the floodplains to keep a healthy river. You need that flow of water at least every three years.

While we're here in Renmark, right now, today, approximately 3000 tonnes of salt goes past Renmark every day. This was provided to me by a local Riverwatch identity who is well known in the district. I tried to count how many semitrailers of salt, but it was too many to count. Salinity impacts must be fully considered in the assessment of new irrigation developments. What I mean by that is, when you're looking at future development, everything has to be taken into consideration. I have recently in the Riverland raised over the last couple of years a future horticultural development plan for our region, and the Riverland Development Corporation, together with local government, catchment boards, irrigation trusts and Primary Industry, is to sit down and look at future horticultural development within our region.

Although the region is progressing quite well, we can't take it for granted that our region will keep on progressing economically as well, so the region must take its own initiatives, and I raised this with the former premier Rob Kerin and he was fully supportive. He supports the idea that something needs to be recognised at a local level and regions take things in hand in addressing the things that are relevant to them. There is only discussion at the moment, but I think we as a region, as the Riverland, should work collectively to look at our future direction, to encourage new developers but we should never forget our current developers.

So once you identify, "Where can we have land?" - because you've got two key resources; you have land and water. Where we can we have sustainable horticultural development within our region?. We need to identify where this land is sustainable and have a low impact long term on the environment. You have to look at the long term. I think this is where the region looks after its own resources and, as a region, we have to work collectively on the national issues but looking at the state level as well.

All irrigators must achieve irrigation efficiency of 85 per cent for highland irrigators and 70 per cent on reclaimed swamp by the year 2005. I'm currently involved in a \$2.7 million project, which has been set up by the Murray-Darling Basin, looking at water efficiency. There's a project in Sunraysia; there's also a project here in the Riverland. It will be working on water management initiatives. The future of a healthy river system is paramount to the future of the citrus industry. Citrus requires high-quality water to produce high-quality fruit and size. Size is a key part of our markets. It doesn't matter where you go - and I've been to Hong Kong, China, Singapore, America - it's all about size. If you have size, you have quality; you've got a market.

The irrigators in this state are a leading example of water use and practice, but we also need the federal government to introduce tax incentives for water monitoring systems. We have today good water monitoring systems and the technology is out there, so governments need to play a role in addressing - I raised the issue on salt, the environment and soil and all that, and I think this is where the government can assist irrigators, not just citrus growers; where irrigators put this technology in place, to assist them to use it to the best advantage.

Economic impact on salinity is the greatest on the gross value of agricultural products in the Riverland and Lower Murray. Approximately 25 per cent of the state's total revenue comes from the Riverland and the Lower Murray. Rehabilitation in regions along the Murray-Darling Basin is imperative to manage and save water resources. The benefits of rehabilitation have been enormous in this region, to both grower and irrigation authorities, on many levels such as management service of water, economic benefit, Water on Order - an Internet service - and environmental

benefits.

Particularly with Water on Order on the Internet, as an irrigator and you have a computer on the premises, you just flick the operation and get onto the Internet and you can order the water according to the supply within the system. So you have full control and knowledge of where you can irrigate, whether it's 12 o'clock, 1 o'clock, 5 o'clock; get into the computer and schedule your water according to your needs. So you become a better irrigator and it's all about saving dollars.

Finally, we should agree on limits placed on the basin's natural resources, strengthen links between land users, planning, and catchment planning, make sure that the cap stays in place - and I hope Queensland signs on the dotted line; they're now part of Australia - get the Commonwealth and the states to commit adequate resources to improve the River Murray system.

MR COSGROVE: That's it?

MR PAPAGEORGIU: Yes.

MR COSGROVE: Thank you. The picture you're painting on the face of it would seem to pose quite a threat - long-term threat at least - to the viability of citrus growing in this basin system. What would you expect to happen? Presumably the price of water is likely to rise considerably and the price of land with access to that water to rise as well, so you've got increased investment costs in terms of land prices and increased running costs for the water. It's perhaps still a little too far down the track for anyone to be able to foresee what might happen, but could you envisage, for example, a shrinkage of activity in the citrus industry in the Riverland as a result of all this?

MR PAPAGEORGIU: No, I don't believe that. I have confidence in the citrus industry. Every industry has its ups and downs. As long as we can manage, address it as an industry, if we can sit down and address things that matter to us, and it's all about planning and working together and addressing the issues. Sure, certain things are beyond our control. You rely on other influences to come in and whatever - it's international - and then you have climatic conditions, but I do believe that water will become such an issue to the general public - as we have been seeing with the fuel price - in the next 10 years and 20 years. It's such a valuable resource and the market will determine the price. This is where we're going to find it difficult to compete on an international market because of our high cost of this resource. The former parliamentarian Ian McLachlan made a statement in Mount Gambier a couple of years ago, "Water will become such an issue, there will be farmer against farmer arguing about water resources and how we're going to manage."

MR COSGROVE: You mentioned the need to increase the efficiency of water use and that's surely right. There might be quite a bit of scope, though, to do that. I happen to have driven to Renmark from Canberra and so, as you go across the Murrumbidgee River area you see still open canals where, at least in the summer months, the rate of evaporation must be quite considerable. Of course, I guess there's soakage into the floor of the canal as well. It's going to be expensive, of course, to put in place water canals that are free of those leakages but there may nevertheless - you know, technology advances all the time and there may be some scope to improve efficiency considerably, one would hope, in 10 years - much less than it might have cost 10 years ago.

MR PAPAGEORGIU: 10 years ago here in the Riverland it was agreed both between - this is where partnerships do work; when you approach state and federal on a partnership approach. We had a formula, 40:40:20, which is 40 by the Commonwealth, 40 by the state and 20 per cent contribution by irrigators. We had seven years' contribution to rehabilitation and this is where we need to expand this sort of collective partnership to interstate. Last year we had a delegation from Houston Irrigators and we were trying to convince them that you can put the same volume of water through a pipe and a channel. We took them around and showed all our technology and irrigation practice; now they're putting in pipes in Houston.

We encourage Irrigation Trust authorities and irrigators to move around, go to conferences, talk to whoever is relevant to your industry and collect as much information as you can, but we need to address the issue of rehabilitation, particularly in New South Wales and Victoria. They've got an enormous challenge out there. Sure it takes a lot of money to do it but we've got to start today. I mean, we can't wait for another 10 or 20 years because we're going to have this huge land, particularly in dairy - I've been up at Shepparton and other areas, and they have huge land that's going to become unproductive because of high salinity and the soil is just not going to be viable to produce any crops at all, not even grass. And dry salinity is even worse; I wouldn't like to start on that.

MR COSGROVE: Could you tell me, before we move on to other people, in South Australia are water property rights clearly established in terms of their attachment to particular parcels of land, or is that still a matter which needs to be sorted out?

MR PAPAGEORGIU: In South Australia you've got a couple of different trust authorities. In Central Irrigation Trust there are nine districts under that trust. The irrigators have an allocation of water and that remains with those growers, those irrigators. Any changes that have to be made have to be voted by irrigators. They can lease water to their fellow growers, they can transfer 25 per cent of their water allocation, but it must remain 75 per cent of that water allocation on that property.

MR COSGROVE: I see.

MR PAPAGEORGIU: So if someone comes along and buys that land it's got sufficient water there to develop and make use of that land. You've got other trusts that work totally differently, so I can only talk about the trust that I'm involved in. The irrigators are quite happy under current arrangements because they have an input to what happens to their water use, and they're very happy with their current services. Sure there are always issues to improve, like Water on Order, and then introduce Internet water order. There are other things we're looking at at the moment but as long as we can work together and address issues that relate to industry and irrigation practice, we can achieve a lot if we work collectively.

MR COSGROVE: But at present would you say, if I'm a citrus grower in one of these Irrigation Trust areas and I have a need for that 25 per cent leasable quantity of water from one of my neighbours, that works okay?

MR PAPAGEORGIU: Yes. You can do it individually or you can do it through the trust that we have set up. We have a water exchange system, so you can create a small revenue. Sometimes they might pay you 20 per cent of your water bill or a water lease you can arrange. If you decide to sit on it, you sit on it.

MR COSGROVE: That's a matter for negotiations between the parties.

MR PAPAGEORGIU: Yes, it's up to you as an irrigator, but if you're astute enough to use your resources and create a small revenue in return it's an investment and you've got to treat - just because you're a citrus grower - I treat it as a small business, no different than anybody else.

Just before I finish, back in the early 90s I used to go down to Adelaide selling citrus on the streets to survive. When the US program came along it took me 24 years to get a return of \$1200 a tonne. I'm not prepared to wait another 24 years for that return, so although the US market - I've been to the US and I saw the program in full, total. It's the only market where we get all information, whether it's good, bad, whatever. It's a small window of opportunity, it's a niche market where we have a small window that we can target and market our fruit and get a premium on that fruit, and we need that premium.

If we don't get a premium for our fruit, for the citrus - that small volume that we can get - that keeps the citrus at least viable. It's paramount that we extend that sort of arrangement in other markets but we've got to do it collectively and, therefore, to me, the US is a very important market to us. Sure there's always a few things we can address. Nothing is perfect these days. To me it's paramount - I don't want to go back on the streets selling citrus. I need to grow high-quality citrus for all export

marketers, including the US and Asia, Europe - you name it.

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

MR COSGROVE: Our next participant is Mr Kent Andrew. I understand you're a grower in this area. Is that correct?

MR ANDREW: Yes, thank you. Kent Andrew is my name. I'm a third-generation citrus grower from Waikerie. I've historically had a range of industry and community responsibilities, personally been directly involved with growing citrus for over 25 years, and currently hold the position of deputy chairman of the South Australian Citrus Growers Association, so I'm here in that responsibility. I guess I'll proceed on the basis, Mr Commissioner - - -

MR COSGROVE: Yes, go ahead.

MR ANDREW: You'll notice in my comments that I raised three areas that I thought were pertinent that need to be reinforced.

MR COSGROVE: Yes.

MR ANDREW: Perhaps if I just address them one at a time, the first you'll note is with respect to product labelling. From my perspective as a grower I just want to initially make the comment that I'm here to endorse, reinforce and support the submissions that you would already be well aware of that have been made by Australian Citrus Growers and the formal submission by Citrus Growers SA. Suffice to say, with respect to those, there are number of issues with respect to product labelling, but of course the overriding area that we think is significant and important is the distinction that must be drawn between 100 per cent orange juice as a pure product and that which is reconstituted and has reconstitution from particularly an imported product.

Now, I can come back to that and we may go into a little more detail on that subsequently, but I am very strong on that area as a grower in terms of its significance because - and a little bit of background, which I'm sure you may appreciate from the other submissions, is that there is a distinction in terms of value to the grower in terms of what goes into fresh product, in terms of what he arguably receives as a premium, in terms of the return he gets as a farmgate price - or as any price to that grower - as distinct to the percentage of product that otherwise, even though off his trees, goes into the concentrate percentage of a particular retail product.

By way of a little bit of background in that regard that I think it is important to reinforce, traditionally and historically for the industry at large, whether it be since juicing was first introduced in the 60s effectively, there is a nexus between juice price and fresh price, as in fresh fruit product. That is something that arguably is still there in the marketplace and, although we as growers are continuing the trend and do

our utmost - and we are as growers, as you would have heard from other evidence, actually moving away from juicing-type fruit or quality. But the reality is - and you would note from the figures - that here in South Australia, and of course it's a bigger percentage interstate, still 65 per cent of the trees in the ground are Valencias. We would expect and presume that although that trend will move away from Valencias, that still is a significant volume and a large percentage of the crop that in fact is Valencias. I beg your pardon, 65 per cent finishes up in juice out of that. I stand corrected on that but that's the order.

MR COSGROVE: Out of the Valencias?

MR ANDREW: Out of the Valencias, finishes up in a juice-type product. So the reality is that of the Valencias that hit the marketplace, whether they be in a local market or whether they be in an international market on an export scene, because of the way the growers sell through their packer-marketer on a consignment basis, the juice price effectively sets the floor price for the value of the fruit sold in the marketplace. This is what I wanted to reinforce so that you can see the total perspective of the nexus that is there. So arguably the packer-marketer will sell down to that juice price, so long as he's recovered his packing charge or maybe a little extra on top of that packing charge for what he would call his surplus or profit as well.

So that's why, in terms of just to relate it back to the labelling issue, the growers believe very genuinely that they deserve an appropriate and fresh share of the proportion of their product that finishes up in a fresh juice product, as distinct from the proportion that finishes up in a concentrate-type product. Because we believe and understand - and I don't have the figures per se, but as growers we were led believe that the fresh juice-type product is continuing to grow in the marketplace, be it at a small rate, but it is where there is a growth market. The growers believe that they deserve an appropriate share of that growth market in terms of the return because, as you'll see from my figures, the dollars that the growers receive that finish up in the fresh juice are significantly higher than those that finish up in the concentrate-type product.

MR COSGROVE: Yes.

MR ANDREW: So that's why we as growers believe that from a labelling point of view, as I say, we need to ensure that we maximise the percentage factor that we can get from that premium juice-type percentage. Now, arguably, in any processed product, once we've given away control or sold our product, one would say that we've lost control of that and it's not ours anyway. But at the same time we would say that there are regulations that do exist there at the moment and, to reinforce the issue that's been put up by the industry organisations - ACG and Citrus Growers SA -

there is the 100 per cent fresh juice issue and it's the country-of-origin issue, as I've stated.

I just want to reinforce, with respect to that, that as I understand it at the moment there are a couple of relevant factors with that in terms of fair and reasonable labelling. The first is that, as I understand it, the ACCC do in fact insist that if the "100 per cent juice" label is used, it can't have reconstituted product in it, but my understanding - or our understanding - is that this is not policed appropriately or effectively and it only operates under a voluntary code of practice through the Australian Fruit Juice Association. I just want to reiterate that point: that we, as growers, don't believe that it is effectively or actively policed, even though that determination has been made by the AAAC.

MR COSGROVE: So you are worried about the enforcement of the law as distinct from the law itself?

MR ANDREW: Yes, that's right. As I say, there are two issues: one is enforcement and two is the actual law itself in terms of - - -

MR COSGROVE: In terms of the requirements for labelling.

MR ANDREW: - - - the distinction and the delineation between what is 100 per cent fresh and what has reconstituted product in it. I will give you an example of the type of thing that - can I just go back half a second, where I indicated before about the difference in price and premium. I checked on the supermarket shelf early in the week somewhere - and these may not be the correct prices to the exact cent but, as an order of magnitude or comparison, a pure fresh juice product in a two-litre form on a supermarket shelf may retail today in the order of anything from 2.60 to 2.80 or a little more.

MR COSGROVE: Of fresh juice?

MR ANDREW: Of fresh juice.

MR COSGROVE: I wish I could get it at that price where I live.

MR ANDREW: I beg your pardon, the other way around. I stand corrected. A concentrate-base type product is in that order.

MR COSGROVE: Yes.

MR ANDREW: Whereas a fresh juice, wholly 100 per cent fresh juice, would be more likely to retail in the order of 3.60 to 3.80.

MR COSGROVE: As I say, it is more expensive where I buy it.

MR ANDREW: But there is a significant difference on the shelf between that type of product.

MR COSGROVE: Yes. I would say in the market where I buy my orange juice it is of the order of 50 per cent more for the truly fresh juice.

MR ANDREW: We get a bonus here in the local supermarkets, I guess. I just want to come back to another example in terms of how things are labelled in that regard. I give an example of a product on the shelf that is headed Australia's Finest Orange Juice, and then when you look at the small print - and it is small print, and it's on the back of the carton or whatever - it says, "Made from a blend of reconstituted (local or imported concentrate, depending on seasonal availability) and fresh orange juice," so in other words it is a blend of local and imported concentrate juice and fresh juice, with of course no percentages either way and it could be, just from a description like that, arguably, at worst, from a grower's point of view, 99 per cent reconstituted imported concentrate. Just to put it in perspective.

MR COSGROVE: Yes.

MR ANDREW: As a side issue, the other thing which is relevant from the labelling point of view is that you may or may not be aware at the moment that all imported fresh fruit needs to be labelled as imported or country of origin, and so we believe because that is a requirement it is only fair and reasonable that, similarly, even though it is a manufactured product and it is fresh juice - because arguably the fresh juice product is nothing but fresh juice - is that all it is is the same product without the skin, in a different form.

MR COSGROVE: I think I was suggesting in Mildura in the last day or two that there may be a significant difficulty for a juice processor in being required to be truly accurate about the domestic and imported elements of a product because, over a period of time, which might be quite short, although I don't know what actually is the case, but if you were required to say that this orange juice contains 45 per cent Australian concentrate, 25 per cent imported concentrate and 30 per cent fresh juice, then that might be true, let's say, for a couple of weeks, and then the various - - -

MR ANDREW: Yes, we understand the dilemma in that regard, but I guess if it falls back to a line in the sand somewhere - and I am sure this is the Australian Citrus Growers approach and endorsed by Citrus Growers SA - particularly with the concentrate, if it is more than two-thirds, and that is the line we draw in the sand, well, then that is the country or origin or the majority that should be stated accordingly.

MR COSGROVE: Yes.

MR ANDREW: I guess to some extent we believe we are giving some ground in saying it's not more than 50 per cent but more than two-thirds, so that it is a realistic assessment in that regard.

MR COSGROVE: I see. If I might just go back to your price information - the prices returned to the growers. We seem to be more or less in agreement that at the retail level the truly fresh juice sells at a price, let's say, 50 per cent above the price of - - -

MR ANDREW: A significant premium. That's what matters.

MR COSGROVE: Yes, but these prices that you were referring to earlier show that a grower receives more or less twice the price if he sells his fruit for fresh juice than if he sells it for concentrate, so that seems to suggest to me that the grower is actually getting a pretty good share of the final retail dollar.

MR ANDREW: Yes, in theory I guess you are right, but the grower has no control or knowledge of what percentage of his product finishes up in a blended product. I mean, it may only be 10 per cent of his fresh juice in terms of what he is paid for in a carton that may have 90 per cent effectively reconstituted concentrate product, and so although the price area is greater that doesn't necessarily to me reflect on a pro rata for what that proportion might be in a retail pack.

MR COSGROVE: I see what you are saying, yes, but what it seems to be saying nevertheless, is that on average the prices received by the grower for fresh juice are double.

MR ANDREW: Certainly greater, yes, and although I guess we talked as low as 50, and although - - -

MR COSGROVE: I was looking not so much at that but at the 80 to 100 compared with 150 to 220 or 110 actually at the lower level, so it is very close to twice the price that you obtain on average for fruit to be used as concentrate.

MR ANDREW: Yes, I concede that but, at the same time, that hasn't necessarily reflected the proportion of a particular grower in terms of the tonnes he may supply.

MR COSGROVE: Yes, there could be quite a diverse pattern of fruit sold, fresh or concentrate.

MR ANDREW: Exactly, and his average may be significantly on the concentrate

side, depending on the arrangement or the market conditions at the time, and that is the dilemma we have been in for the last number of years. Is there anything else you wanted - - -

MR COSGROVE: Thank you, no.

MR ANDREW: The second one I raised was farmgate negotiations, and I just wanted to raise that on the basis that over recent years - and I reflect on the fact that packer-marketers make their income, make their profit, out of throughput and the number of packages packed over the packing line, and that's - - -

MR COSGROVE: Not affected by the price paid for these products?

MR ANDREW: That relates again to the fact that we have heard here a number of details this morning - and that you would have heard over time - the consignment basis, on the basis that the larger percentage of growers' fruit is sold on consignment and therefore what I wanted to allude to in here was that there have been options available over recent years whereby the purchase arrangements from the packer-marketer to the grower have had a number of alternatives: one, for example, may well be a totally transparent pack-out arrangement, whereby the grower can see by size, by grade count, whatever, whatever that return would be less an appropriate or a respective packing charge/marketing charge - I use packing and marketing in there together.

Alternatively there has been a trend in some instances - and to some extent when times have been less buoyant - and I suspect there has been greater attraction for some growers to accept a farmgate price, and sometimes there are variations in the farmgate option whereby the farmgate price may be a minimum and may be topped up or bonused by premium for quality above or on top of that, but I wanted to reference this issue particularly with respect to the very poor year that happened in year 2000. We have got no insurance that it won't happen again, or that same type of scenario may develop whereby packer-marketers purchase fruit from growers on a contractual basis, and the contracts vary from a simple agreement of less than a page to a formal contract that may be four or five pages or whatever.

I suspect you would be aware that particularly for the year 2000 the majority of those contracts were not honoured and it was arguably on the packer's defence that because of the poor outturns from the America situation that limited their ability to pay the agreed price. I wanted to reinforce the fact that the growers feel very much at the mercy and very limited in their options in dealing with these scenarios in these situations because, although they may feel as though they have had a legal agreement, in most cases they have turned out to be pretty worthless as a legal agreement, and notwithstanding the excuse or the option that was offered there - but

in some cases fruit wasn't accepted under the contractual arrangement because it didn't meet quality standards, but that is a very grey area because in terms of contract clauses, unless every defect option is defected to a particular standard - and it can arguably get very pedantic to do that - it generally becomes arguably an objective but, in reality, a subjective decision by the packer.

It becomes almost a fighting game between the grower, supplier and the packer as to whether that quality standard has been met or not, and without me sounding pedantic, a simple line in the sand of quality standard could be - and I can't recall that this would apply - that I have seen it written, but I can imagine because the contracts were many and varied - is that it might have been a percentage pack-out. It is very easy, without being too denigrative to the packers, for them to - I use the word respectfully - orchestrate what the percentage pack-out may have been, and so in a lot of cases, as I have referred to earlier, the quality standard may not have been met and therefore it gave a relatively easy let-out for the packer not to have to pay the contracted or the agreed price.

In most cases they were always individual arrangements. The court costs, or the legal costs, to fight that - arguably many growers believed was too big a risk, and particularly given the example of the very poor year in 2000, there is no doubt, and it would be publicly acknowledged by many growers, particularly here in the Riverland, that - and I use the word "threat" - not so much threat, but say the counter that came back from packers was that if you did attempt in a legal sense to enforce the contract or the agreement, well, they, the packer, may not be there tomorrow and they would get less than they already receive. I just pose that as a scenario - a real, real scenario - of what growers are faced with, and there is no guarantee that that scenario may not continue to happen.

MR COSGROVE: It might be worth considering whether taking a stand with the result that a packer was declared in receivership or bankrupt to establish an example, in effect - - -

MR ANDREW: Easier said than done when growers' cash flow is critical in circumstances like that and, I mean, it is no secret that there are major packers in the district - some have gone into receivership, a couple in particular in the last two or three years, and over this period and since that period another one was in administration, so it really backed up a scenario that it wasn't an isolated, individual packer case. It was an industry-at-large problem but, at the same time, I recognise and acknowledge that there were other packers at the other end of the scale, who, arguably, were very successful and very profitable. It is easy to use the excuse that a grower could easily change or should have been somewhere else but, in the real world, it isn't quite as simple as that.

MR COSGROVE: Would it be possible for - I guess it might be a role for the Citrus Board in this state - to run a system of spot checks? You mentioned a problem of orchestration of pack-out rates. If they were able to have a roving inspector or two - I don't know whether that's constitutionally available to them but - - -

MR ANDREW: One thing that I understand has developed from this is that the Citrus Board is now - as part of a requirement of licence of registration for the packers, there is a new requirement - I think it's starting on 1 May this year - whereby packers are under, I presume, a legal obligation to supply a specific pack-out within 14 days or whatever, because that's been an historic issue as well. The packer may have always committed to supplying a pack-out but the fact that it was delayed limited the options of the grower in terms of their choice to change packers or whatever, so the board is working very positively in that regard, which as growers we commend them for.

MR COSGROVE: I raised that suggestion with some hesitation, I must say, because it seems to me that what we're dealing with in this whole area is a set of commercial relationships, and it's essentially I think the task of the people engaged in those relationships to find partners in whom they have confidence, and one would think that a packer wanting to obtain a good income - - -

MR ANDREW: Build a good relationship.

MR COSGROVE: - - - would need a good grower so that he's packing good fruit. The idea which I've tended to pick up during this week that there's sort of a race to the bottom on the part of the packers and the merchants seems a little counter-intuitive.

MR ANDREW: I'm not sure what you mean by "race to the bottom".

MR COSGROVE: Well, everybody is trying to drive the price received by the grower down to the lowest level possible.

MR ANDREW: But that's reflective of the consignment nature of the business because, as I said initially or very early - - -

MR COSGROVE: That's not the case. You say the US arrangement is different, I suppose.

MR ANDREW: The packer makes his income from putting fruit over his packing machine and putting it in a box.

MR COSGROVE: And selling it for more than he's paid for the fruit, yes.

MR ANDREW: Yes, exactly, and the grower gets arguably what's left over.

MR COSGROVE: Well, I can see that the ultimate determinant of price in most markets is what the consumer will pay.

MR ANDREW: Yes, but then it's a matter of how it's split up subsequent to that.

MR COSGROVE: Yes, exactly, you're working back from there. But it still seems to me that if I'm in the packing game, sure, I need to make a profit, but my chances of making a profit are likely to be improved if I'm dealing with producers of good fruit.

MR ANDREW: I can't deny that, but if you're a packer you want to maximise the volume over that packing plant, so that you can take back a maximum number of packing charges per unit packed.

MR COSGROVE: Sure.

MR ANDREW: And that's where the profit arguably is obtained because, as a separate operator, they've built into that packing charge whatever that profit factor is.

MR COSGROVE: Do people in this region have much in the way of choice of packers? I think I remember being told before lunch that there were 27 independent packers.

MR ANDREW: That was individual. I stand corrected on that. But there's something like half a dozen or more, six or eight, major packers, where there is quite reasonable choice.

MR COSGROVE: And is it an expensive proposition to redirect your business from an existing packer to another one? Increased transport costs, for example: is that a consideration?

MR ANDREW: It can be, but generally there is reasonable flexibility to change packers. I mean, my cliché for many years has been that you can never have enough packers because more packers will breed efficiencies in packing but the dilemma is every packer wants to be a marketer, and the more marketers you've got just weakens the selling arrangements or the selling options, whether it be for packers and ultimately for growers, because the more you've got - - -

MR COSGROVE: I would have thought it increased the selling option.

MR ANDREW: You've got more sellers in the market. The more sellers in the

market, the more the price tends to be driven down.

MR COSGROVE: Well, maybe.

MR ANDREW: History has proven that, and that's the history of the industry.

MR COSGROVE: On the other hand, if I had only a single seller, he could pretty well charge me what he wanted to, as any monopoly can.

MR ANDREW: That's why there needs to be enough to breed efficiency without there being too many to breed competition that then - - -

MR COSGROVE: Yes.

MR ANDREW: We understand.

MR COSGROVE: Then off-farm and other horticultural was your other point.

MR ANDREW: Just a quick comment, just meant to reinforce the message that while there has been an ability from some in the citrus industry I guess with the extra cash flow that's been available from the success of the American market to redevelop over the last six or eight years or whatever, I would say quite confidently that the redevelopment that has happened at large in citrus plantings and change to appropriate and new varieties has largely come from off-arm income and in particular the buoyancy of the wine grape industry, and arguably that buoyancy is now certainly over or certainly past its peak or prime, and so for the citrus industry to have a future and to continue that restructuring process, there is not going to be the cream there as an example from the wine industry, which is work allied, and you would have the figures and I don't, but certainly a significant percentage of citrus growers are wine grape growers as well, or a large percentage anyway, and I don't believe that that excess cash, if we can call it that - the wine grape growers would arguably say it's not excess cash because it's - - -

MR COSGROVE: No, it's another form of income.

MR ANDREW: Well, another form of income but their buoyancy of the last few years is still going to repay the development that they've had to do in terms of replanting and redevelopment in the wine industry anyway. But, as an example, that cash flow won't be there to support the continued restructure in the citrus industry, and that's why we need the viability from the other requirements that are being put up through the commission to continue to provide that medium to long-term viability.

MR COSGROVE: Okay. Thank you very much. Interesting points.

MR COSGROVE: Now, Mr Armstrong. Our final scheduled participant for today is Mr Armstrong. Would you please identify yourself and tell us the reason you're here today.

MR ARMSTRONG: Ian Armstrong. I am a grower. I am also the treasurer of the Citrus Growers of SA. I also sit on the committee of the Riverland Horticultural Council and also am involved with the Fruit Fly Standing Committee and the Tri-State Fruit Fly Committee.

MR COSGROVE: You sound a busy man.

MR ARMSTRONG: The two things that I'm talking to today are power costs and labour costs. I've seen a submission that somebody submitted or from ABARE information that the cost of power is only 2 per cent of the costs of production. I argue that the cost of power is a lot greater. I'm, by the way, a private irrigator, and there is a tie-up between electricity and water supply. In my situation I don't pay for water but I pay for power to pump the water.

On the Central Irrigation Trust, which has been alluded to by Jack, they pay for the costs of the delivery of water to their properties, and it varies from place to place and it's so much a megalitre. My cost to irrigate my property is tied up in the actual cost of irrigation, all power, and I have got examples of my own bills here to substantiate that. What we've done pre-history to try and become more efficient is that some years ago Murray Citrus Growers, which was before Citrus Growers of SA, had a man there who fought strongly that we would get cheaper rates of power at night-time after 9 o'clock until 7 o'clock in the morning, and it changes of course with daylight saving but also then cheaper power becomes available on the weekend.

That's quite fine generally for private irrigators. People who are on the Central Irrigation Trust system, as they've got the closed pipe system it's become better for them where they have to relift their water if they're not running their low-flow sprinklers or drippers off the irrigation system that's supplied to them. There are different pressures in the system, and in cases where they go to overhead sprays, which is a less efficient form of irrigation, they then have to pay for power to lift it. And I presume - I could be wrong - that the actual 2 per cent will be in the cost of relifting the water to pump, but I'm not sure where that comes from.

MR COSGROVE: I'm not sure either, but I think the best explanation I can give is that it is an item, whatever the activity undertaken in the use of this power, which represents 2 per cent of the total costs of production. So if you look at a grower's costs structure - and I think we have a table somewhere in the paper - labour is a very big chunk, typically about 40, sometimes higher, per cent. Then you'll have fertilisers, chemicals, management costs and power costs and water costs.

That's where this 2 per cent comes from. We're not saying that the 2 per cent is the rate - it's hard to conceive this - the rate of increase or charge for power. It's that when you break up the pie of the total costs of a grower, water, according to this information which was used, represents 2 per cent of those total costs. That proportion of course will change over time, depending obviously on the price of power, and also on whether power becomes a more significant factor in the growing of citrus, so that the weight of that particular item of expense would grow.

MR ARMSTRONG: Well, commissioner, on my figures, my property, labour is certainly the highest level. The next level on my property is power, then comes fertiliser and so on down the list. So the thing is that on mine I've worked out it's about 10 per cent of the cost, and with the change in the electricity distribution costs as of next year, we're looking at a minimum of 30 per cent increase - that's estimated - so it will be 30 per cent on top of the costs. That 30 per cent will be spread across also to the people in the Central Irrigation Trust here in the Riverland, so all people's power will increase by that amount or whatever is set down.

MR COSGROVE: So in your case, with a 10 per cent share of power costs in your total, a 30 per cent increase would increase your total costs by 3 per cent.

MR ARMSTRONG: That's right.

MR COSGROVE: Okay. I understand.

MR ARMSTRONG: So my power will be then 13 per cent of my production cost.

MR COSGROVE: That's right.

MR ARMSTRONG: So it's something that concerns us greatly because that's an increased cost that we weren't foreseeing a couple of years ago that we're going to get, an increase in power, and I just wanted to make it clear that I believe that the draft report is wrong, about 2 per cent, because if I - and the other thing is, I suppose - I don't know where that came from, but it is certainly much cheaper irrigation, as you mentioned, on your way over from Canberra that you'd seen flood irrigation in the MIA which is a very low distribution cost, in some places it gets very low.

As you get further down the river and we've got higher lifts - and Renmark is one of the lower lifts in the CIT - and there are graphs available that show the increasing cost, and also we have different schemes and there are cooperative schemes let's say down at Waikerie, which are private irrigated but run by an irrigation company, the Sunlands Irrigation Trust, and you have to factor into that also the redistribution, and it's been good that in these areas there's been change in the cost of redistribution, 40 per cent by the state government, 40 per cent by the

federal government, and 20 per cent by the growers.

In the case of me as a private irrigator, all my infrastructure has got to be factored in, and that's not factored into the costs, and I'm not sure how many private irrigators of citrus there are in South Australia, but there are quite a few, and if you include the ones that are included in the Sunlands and the Golden Heights Irrigation Trust, there would have to be a fair few growers up there which are affected by this because they have actually had to pay for the infrastructure costs and the ongoing maintenance and repair, which I am also up for as well, which hasn't been factored into these costs. I can't tell you exactly what the costs are. I can tell you what the capital cost was and maybe it could be worked back from there, but to put a pump into place and a motor and so on and the pipework, et cetera - it's borne by a private irrigator, and that's not factored in. I didn't see it anywhere in here.

We have some figures here which I can give to you. The costs of power, water, to a private irrigator is about \$495 per hectare, and irrigation schemes is about \$650 per hectare, and the pressurised water includes power costs, infrastructure. Power is a hidden cost in the delivery of the water, so we don't know - most probably the people from the CIT here will be able to tell you exactly what their power costs. But there's another thing that comes into it as well with power costs. The bigger users of power - and I will give you some examples of the power costs - the power costs during the daytime are about 16.4 cents a kilowatt, and it drops down to 7.4 at night-time. Now, what happens is that private irrigators or smaller consumers of power cannot use enough in a month of metering to get them into the cheaper rate, like using it in the daytime, if you understand.

MR COSGROVE: Yes, I do.

MR ARMSTRONG: But if you get somebody that's a huge consumer, they get past so many kilowatts and then it comes down, and it steps down until after a certain time they're not too much above the night rate, which is fine for CIT and the other big consumers, but for a smaller consumer my costs are certainly high, and that's the reason why I explained it, and I would say anybody that's a private irrigator and has between 20, 30 or 40 acres - talking in acres now of citrus - that the power cost is possibly number 2 to number 3 on the list of that.

MR COSGROVE: Yes. 2 per cent I guess is a nationwide figure and obviously there can be variations above and maybe below that as well in particular locations.

MR ARMSTRONG: Are there any other questions you have?

MR COSGROVE: No.

MR ARMSTRONG: I'll move on to the other point that I had: labour costs. I think it's been touched upon that citrus is a very labour-intensive commodity and we have other commodities like grapes and almonds and olives that are moving rapidly to mechanisation, just about all fully mechanised. I think it's a point that hasn't been raised, that it doesn't seem like an efficient method. It's been tried in America, and it's reasonably okay in the juice industry to shake the trees but it doesn't do a heck of a lot of good to the trees, and you've only got a very short window of opportunity in which to shake the trees without shaking next year's fruit - and we're talking about Valencia oranges as juice - before you start shaking off the green fruit as well.

So we will always obviously, unless some magical thing happens, be tied up with people picking it off physically, and that puts us at a disadvantage against our competitors, because our prices that we pay - and Ted alluded to the fact that he worked out his costs for picking a tonne of citrus at \$90 a tonne. I've been able to get away a little bit cheaper because I've gone to a labour hire firm, and about the only efficiency I can see in the picking industry is to go to labour hire firms. I have been very happy with that.

The other thing we have is a shortage of labour, and I think that has been alluded to, and the one thing I would propose is that we need reliable harvest labour and, as has been spoken about, we have got a fairly short window in which to pick, especially for the USA market and, because of your weather factors, et cetera, that come in, it means that you have a very, very short number of hours in a day. In fact some days if it is raining you get no fruit picked and other days you might only have three or four hours in a day in which to pick fruit, and about the longest time you can get in a day to pick fruit to quality is about six hours, so consequently you need more hands on deck.

One of the things we're looking at or we would like to see done is the government, the federal government, to allow more backpackers from the country, or maybe some other countries, to be given passports to come in to work and possibly for a longer period, to give them a bit of an opportunity. The other thing is the superannuation guarantee eligibility. That's something that needs to be raised higher because what is happening is that people, because of the nature of the industry, don't pick for a very long period of time. If they earn more than \$450 in a given period of time then the levy has to be taken out, and we would like to propose that it went to \$1000 a month rather than 450 a month.

The reason why we pose this is that the money is not actually going to the people that it should go to, but it finishes up deposited away somewhere, or frittered away by some of the superannuation companies. We have had plenty of people come to us and all of a sudden they might have got a few hundred dollars in their account for the superannuation guarantee and they don't work for a couple of years

and then all of a sudden it's gone. That's a real concern, and so we are asking that payments for working holiday-makers be exempt from the superannuation guarantee requirement.

That would give them more of an incentive to work. I believe it is unfair that they never see that money again. The reliability of harvest labour is something that's difficult - it says so. We would like to see a few changes in the way those people are allowed to work, and the one thing I see is that we've got changing values of age of people travelling around the world and I think they have a cut-off period at 26 years of age and I believe it needs to be raised to about 30, because I don't think anybody would like to be called old at 30. We find plenty of people who are backpacking and basically they can't get a permit to work because they have gone past that 26 years of age.

I think if that was changed to another four years - a person is still very fit at 30 years of age and some people have just found the means and have decided before they settle down - because what is happening all over the world is that people are delaying longer before they get married or make strong commitments, and therefore they want to travel beforehand, and all of a sudden we are impeding them by the fact that that hasn't been changed for a number of years. It is only 26 and it should be 30.

MR COSGROVE: Your point about exemption of working-holiday people from the superannuation guarantee charge - that would provide the growers with increased reason to seek out these people, wouldn't it, but it wouldn't necessarily - - -

MR ARMSTRONG: It certainly would.

MR COSGROVE: - - - encourage those people to seek work. They would be forgoing a potential benefit. I have been told in this inquiry that many of them aren't interested in it - I guess because they feel it is a relatively small amount of money - but nevertheless it is meant to be a benefit for them. It has been legislated as such. I mean, obviously there can be financial investments which go sour, but I was working recently on an inquiry into superannuation legislation and if a person has a balance in a superannuation fund of less than \$1000, under law, that balance must be protected against administrative costs. In other words, if it is costing that fund, let's say, \$20 a year to maintain an account with \$1000 in it, it will never drop below \$1000. The \$20 has to be absorbed by other superannuation contributors which is, in one sense, an unfair arrangement.

As I said, there can of course be funds that fail, but the experience, to date, on the whole has been very good. We've had some failures in the superannuation fund area, but not many. Your suggestion about the age limit - I hadn't been aware of that. It is useful to know. Also the raising of the monthly eligibility limit to \$1000 per

month warrants a bit further thought, I think. We did, as you probably know, include in our position paper a general recommendation, which was designed to ensure that governments at least give some serious consideration to the problems of industries where seasonal workforces are large, but some of these points you have given to us today we should think about some more to see if we can put a bit of meat on the bone.

MR ARMSTRONG: Could I make one more point about the superannuation guarantee levy. What happens for the grower - the cost of actually administering \$450 against 1000 is where we run into trouble. If you have quite a few people working for you and they just come up to that \$450 a month - because we must get back to the fact that a lot of people are employing these people on a contract basis at so much a bin, and it depends how hard they work as to what they earn in a month and some might just go over the \$450 and, all of a sudden, you've got a stack of paperwork to do, and the reason why we would like at least \$1000 - - -

MR COSGROVE: I can understand that would be very expensive, yes.

MR ARMSTRONG: - - - is because hopefully that would cut back on administrative costs for the grower and also it would make the whole exercise a lot better. All that happens in my case is, I know that a lot of my ex-workers over the years have got 30, 40, 50 dollars - just small amounts that are deposited away somewhere - and it has just become absolutely ridiculous that that sort of thing has happened and obviously they've changed the legislation, but up until two or three years ago the small amount of money that was there disappeared. It's a bit like people who put \$50 in a bank account and they come a year later and it isn't there. That's the sort of thing to look at. What I am trying to say is that it is all about trying to save costs for the grower. I mean, we have got enough paperwork to do as it is without paperwork being added to us, and it is just about helping the grower.

MR COSGROVE: That's a fair point. I was interested in your remarks about the labour hire firm that you have been using. I gather you have found that quite satisfactory as an arrangement, have you?

MR ARMSTRONG: I found it very satisfactory because they found the people. They train the pickers. They do all the administration costs. They pay the superannuation guarantee, the tax and so on, and they charge us so much per bin.

MR COSGROVE: A fee, yes.

MR ARMSTRONG: A fee to pick them, and everything is covered and we just pay them one lump sum cheque for whatever those people who work for us harvest.

MR COSGROVE: So it relieves you of a lot of administrative effort.

MR ARMSTRONG: It relieves us of a fantastic lot of administration and we have been very happy with that position and that is one thing that can only happen if labour hire firms can access enough people to do it. I think it's a step forward and it gives them the onus to train the people properly and it takes a little bit of pressure off the grower because, I mean, we've got a lot of other things that we're concerned with other than worrying about labour.

MR COSGROVE: Of course.

MR ARMSTRONG: Also what it does is that labour hire firms are collectively able to - if we want six, eight or 10 pickers, whatever we might need - get those together as a work team, whereas we find in a lot of cases that private growers - I've always had the problem of getting people to turn up for work on time and getting enough people to get a crop off when you need to get it off.

MR COSGROVE: That's interesting. Are there any drawbacks associated with the use of these labour hire arrangements?

MR ARMSTRONG: It's only for my Valencia crop I have used them. I haven't used them before. I haven't seen any drawbacks to this time. The people who were employed were very obedient to the instructions they were given as regards when to pick fruit and when not to pick fruit and in fact it was up to their discretion, I suppose, on a particular morning when it rained. They could have actually started picking about two hours before they did, but they left enough period of time, and as far as cleanliness, picking and what they did, I had no problems.

I think that if people are trained there are no drawbacks. I could see there would be some drawbacks if you had people who hadn't had training, but if the training is there then there is no problem. I can't really foresee any other problems, although I accept that there may not be going to be enough people around for these labour hire firms.

MR COSGROVE: And the charge which you pay to the labour hire firm is quite acceptable from the point of view of your costs?

MR ARMSTRONG: I found it quite acceptable because they charge an on-cost, as well. The administration fee is only about 7 per cent, or something like that - I haven't got the exact figures in front of me - but it just takes away all the hassle and the headaches and I would rather do that and pay a few extra dollars to have it done. Ted mentioned \$90 a tonne. I think that my costs per tonne were around about 75. I don't know why the discrepancy, but that's what I come out at.

MR COSGROVE: Has the introduction of Work for the Dole had any impact on the availability of seasonal workers?

MR ARMSTRONG: Unfortunately, Work for the Dole - and I am involved with a Centrelink agency in Waikerie, so I know first-hand what is happening - is definitely not working. People that don't want to work seem to find every way they can to get out of it, even though they get penalised for not turning up and that sort of thing. They would prefer to do that than work for the dole. Unfortunately, Work for the Dole doesn't translate to picking oranges. Work for the Dole is doing community-type things: cleaning up the town or the gutters, and those types of things that they set them to do.

MR COSGROVE: Yes.

MR ARMSTRONG: If Work for the Dole was set up where they came out to pick oranges and you made up the difference of their labour cost per week and the dole made up the rest, that would be fantastic. Unfortunately, the thing I see that falls down in that whole scenario is whether the workers would be committed to the job they're set, because it's too easy for them to cop out.

MR COSGROVE: Yes, but there is no formal reason, I take it, why these people could not be asked to work in orchards?

MR ARMSTRONG: I'm not aware of the reason why they're not doing it. I question it myself, but the powers that be haven't put it into place. I think the thinking is that somehow the growers - whether they be wine grape growers or citrus growers - would be getting some cheap or unfair advantage against somebody else, so Work for the Dole always seems to work into some community-type thing.

MR COSGROVE: Not for profit actually.

MR ARMSTRONG: Yes, not-for-profit action. As you know, there's not very much of it out there for them to do, so it's a bit of a farce.

MR COSGROVE: Okay. Thank you very much for coming along and providing that information to us. As I said, that completes our scheduled list of participants today. Is there anyone else wanting to make a brief presentation before we close? No. I will adjourn this hearing. We are resuming in Melbourne next Wednesday at 9 am. Thank you.

AT 3.05 PM THE INQUIRY WAS ADJOURNED UNTIL
WEDNESDAY, 27 MARCH 2002

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