REPORT

Enhancing the performance of the citrus growing industry

Submission to the Productivity Commission inquiry into the citrus industry

December 2001

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Boxes, charts and tables

Summary

The citrus industry makes a substantial contribution to the Australian economy. It currently produces around 600 kilotonnes of fruit per year with a gross value of production of $400 million. It generates around $160 million of export income and contributes $250 million directly to value–added. The industry contributes further to GDP through value added generated beyond the farm gate in the citrus value chain and elsewhere as growers purchase inputs and the wages and profits are spent. These flow on effects have a major impact on regional economic activity and employment.

The citrus industry is an efficient user of resources. Compared to other rural industries, the effective rate of assistance it receives is low — around half that for agriculture as a whole.

For most of the last decade, earnings have been insufficient to adequately reward the investment of labour and capital in citrus growing. Growers have been forced to adjust to greater import competition — through farm amalgamations, replanting to more productive and more valuable varieties, and the development of export markets and higher quality fruit to service them.

But the capacity of the growing industry to keep on investing in better varieties, more efficient production techniques and larger scale operations to ensure ongoing financial viability is reaching its limit. Without significant policy initiatives from government, the industry's continued contribution to regional and national income is at risk.

The ACG, on behalf of its grower members, is seeking the following initiatives from government.

Negotiating domestic fruit prices

Growers must deal with highly unstable revenue flows — through price and yield fluctuations — and are at a distinct disadvantage in negotiating on an individual basis with larger purchasers. The growing industry is seeking the endorsement of the Productivity Commission in its proposal to seek authorisation from the ACCC for a collective arrangement for price negotiations. The growing industry would also welcome any government initiatives to help it deal with product price and income instability.

Addressing information asymmetry

The growing industry is seeking government support to help it develop a sophisticated and ongoing information base on the citrus value chain. By correcting the present information asymmetry in the industry, such an initiative will enhance competition and resource use efficiency.

Reducing barriers to export markets

Growers are confident of their ability to compete internationally on a level playing field. But the global citrus market remains highly distorted through:

- tariff barriers against product entry;
- phytosanitary and quarantine procedures which are frequently used as trade barriers; and
- high subsidies to competing producers.

The growing industry looks to the government for assistance to:

- put together the necessary analysis to support the case for a liberalisation of barriers to trade in citrus; and
- negotiate, in bilateral and multilateral forums, arrangements to liberalise global citrus trade.

The growing industry also looks to government to instruct Biosecurity Australia to devote more resources to assist the citrus industry in negotiating access arrangements into export markets. At present a greater amount of resources in Biosecurity Australia is devoted to facilitating imports.

Export control powers are valuable and should remain

The citrus industry uses export control powers in the *Australian Horticultural Corporation Act* to assist its marketing arrangements in a number of countries. The industry finds these powers extremely valuable in enhancing the returns from specific markets. A good example is the US market.

There is an approved regulatory regime and review process for the export control powers which provides sufficient public interest safeguards to ensure that the powers are not misused.

ACG argues strongly for the retention of these powers.

Initiatives to improve the industry's competitive position

Enhanced international competitiveness and better access to export markets are key factors in improving the industry's longer term prospects. The industry is seeking action from the government in the following areas:

- Access to casual labour needs to be improved. This issue was thoroughly conversed in the June 2000 report of the Natural Harvest Trail Working Group (2000) as a matter of urgency. This report contains many sensible recommendations on how to improve the supply and reliability of harvest labour and reduce the administrative burden on growers of its employment. ACG is comfortable with most recommendations in this report and urges that the government implement them as a matter of urgency. However, ACG rejects the second part of recommendation 10.19b which states, 'Instead DIMA consider legislation to approve significant penalties on employers who knowingly or recklessly employ a non citizen without work rights. ACG considers that it should *not* be the responsibility of citrus growers to police in any way the legal status of casual employees with respect to work rights.
- The regulatory framework for registration of agricultural chemicals is unnecessarily costly and needs reforming. For growers to remain internationally competitive, they must have access to best practice chemicals provided such chemicals do not adversely affect community health and environmental standards. Under current procedures followed by the Natural Registration Authority growers are effectively being denied access to important crop chemicals which are being used by our competitors, some of which are exporting fruit to the Australian market. The regulatory process for chemicals needs to be revamped to

ensure that Australian growers are not disadvantaged in any way relative to overseas competitors.

- Electricity prices have escalated sharply in recent years as reforms in each state to improve contestability and develop a more market-based electricity supply system have been introduced. Electricity is a significant input to citrus growing and packing activities. ACG urges the government to provide more transparency to growers on how prices are being set and regulated and to ensure more competitive outcomes for the provision of electricity.
- Further reforms to labelling laws are needed to enable the Australian grown product to be more clearly differentiated to consumers than the imported product. The proposals for further labelling law reform advocated in this submission are consistent with WTO requirements.
- Some reforms undertaken under National Competition Policy (NCP) have resulted in a big increase in administrative and compliance costs of grower organisations for no obvious gain in economic efficiency. ACG welcomes the Productivity Commission's scrutiny of this matter and requests that it endorse a more pragmatic approach to implementing NCP which allows state organisations to better work together in the interests of the growing industry as a whole.

The need for adjustment assistance is urgent

Assistance from government is urgently needed:

- as a short term measure to alleviate financial hardship; and
- to facilitate stronger production units.

The circumstances of the citrus growing industry fulfil the criteria for temporary safeguards against imports as specified under WTO rules:

- the industry as a whole is suffering severe financial hardship;
- low domestic prices particularly for the processed segment are being set by low import prices;
- imports have increased rapidly in absolute terms and have eroded domestic market share.

Whatever action the government might take on temporary safeguard action against imports, ACG considers that a tailor-made adjustment package is essential to ensure the growing industry's capacity to compete in a highly distorted global trading environment.

And in the current circumstances an adjustment package would be consistent with the Commission's broader guidelines to promote regional, social, ecological and economic goals of the Australian government.

There is a strong precedent for government direct assistance to citrus growers. In recent years, the government has provided generous packages of financial assistance to dairy farmers, sugar cane growers and pig producers.

There are a variety of existing government programs aimed at providing assistance to farmers to adjust. But for the most part, these are inadequate and do not need the special circumstances of citrus growers.

- They focus strongly on R&D and innovation initiatives.
- They generally require a significant contribution from the applicant (which is not possible given the industry's desperate financial situation) to access the funding.

For these reasons, the growing industry is seeking government endorsement for a tailor-made orange growers structural assistance package. The initiatives sought in this package are consistent with the initiatives which the government endorsed in assistance packages recently provided for other agricultural industries in need. The package would make an important contribution to ensuring the on-going financial viability of citrus growers and the economic health and social stability of the key growing regions.

1 The citrus industry makes a significant contribution to the Australian economy

The citrus industry comprises around 3000 growers Australia-wide. Around 94 per cent of production occurs in four regions:

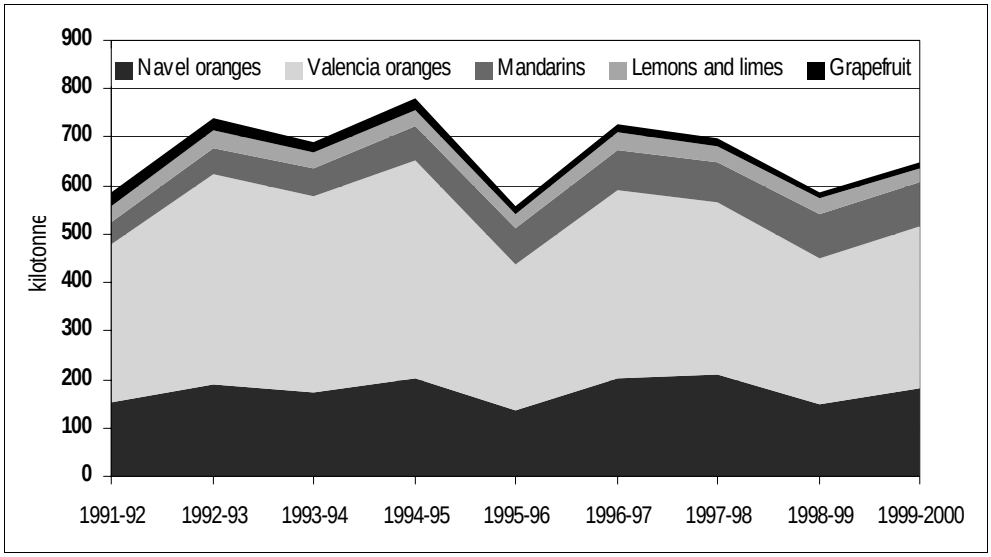
- South Australia — Riverland
- Murray Valley — Victoria / New South Wales
- Riverina — New South Wales
- Central Burnett / Central Highlands — Queensland.

This submission is made on behalf of the Australian Citrus Growers Incorporated (ACG) to cover the situation of growers in South Australia (covering around 800 growers), Victoria (around 500 growers), New South Wales (around 700 growers), Queensland (around 300 growers), Western Australia (around 100 growers) and the Northern Territory (30 growers).

Production

Citrus production in Australia is dominated by oranges which account for about 80 per cent by volume of all citrus (chart 1.1).

1.1 Composition of citrus production

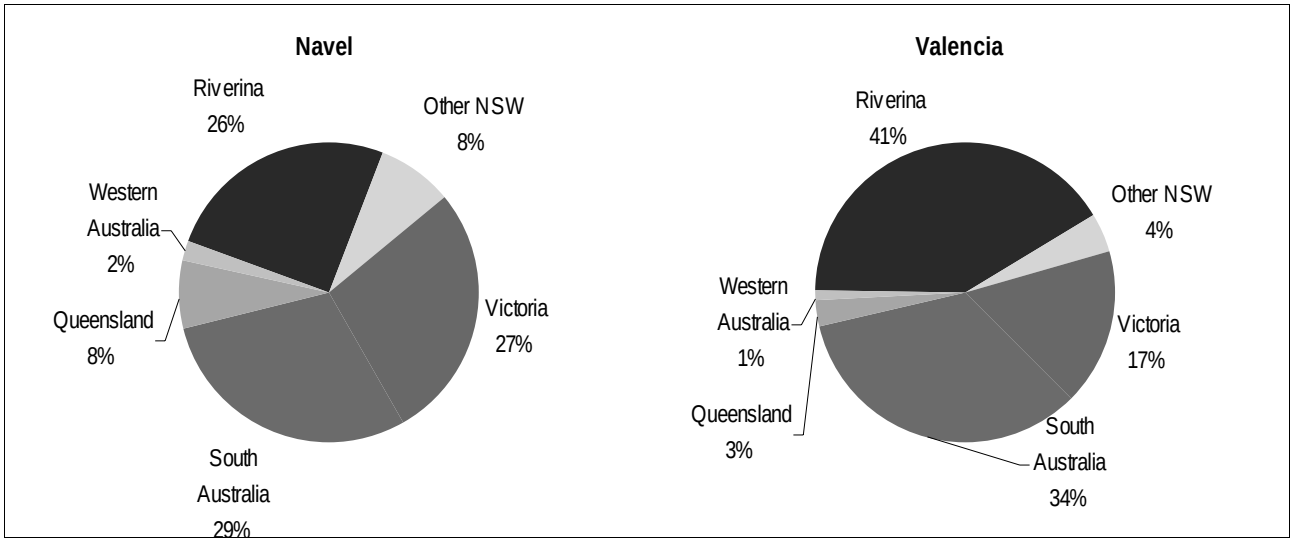


Data source: ABARE (2001).

The Riverina, Murray Valley and Riverland account for nearly 90 per cent of Australia's orange production (chart 1.2).

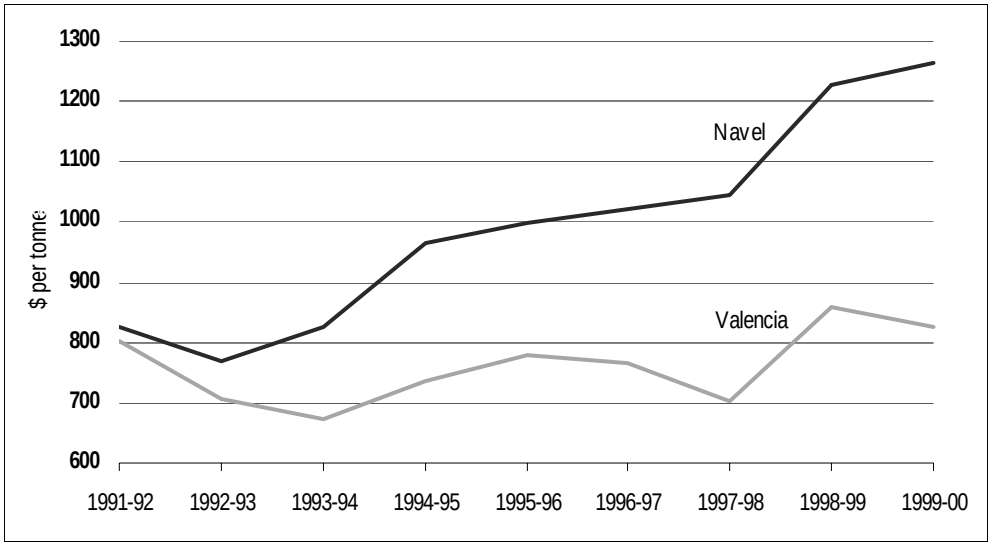
A key determinant of the profitability of citrus growers and growing regions is the mix between production of valencia oranges (which are mainly for juicing) and navels. Over the past decade the price of navel oranges has increased substantially relative to valencia, from almost parity in 1991-92 to 52 per cent higher for navels by 1999-2000 (chart 1.3).

1.2 Orange production by regions 1999-2000



Data source: Australian Citrus Industry Council (personal communication).

1.3 **Price differential between navel and valencia oranges (fob export returns)**



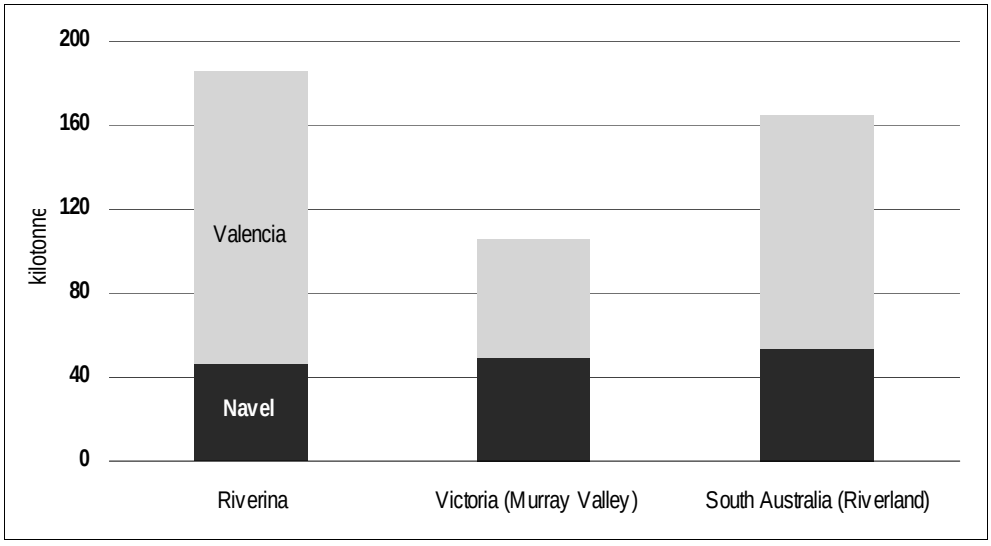
Data source: ABARE (2001).

This has encouraged a switch in plantings towards navels. But new plantings are costly and many growers have lacked the financial resources to undertake them on a significant scale.

The proportion of production between valencia and navels differs significantly between regions (chart 1.4).

Regions such as the Riverina where valencia account for around 75 per cent of total orange production, and South Australia (68 per cent valencia), have had considerably worse financial outcomes than the Murray Valley in

1.4 **Varietal composition of orange production differs between regions**
1999-2000



Data source: Australian Citrus Growers Inc (personnel communication).

Victoria where only half the production is from valencia (see later). Between 1990 and 1998 nearly 322 000 valencia trees were removed from the Murray Valley, equivalent to 27 500 tonnes of fresh fruit.

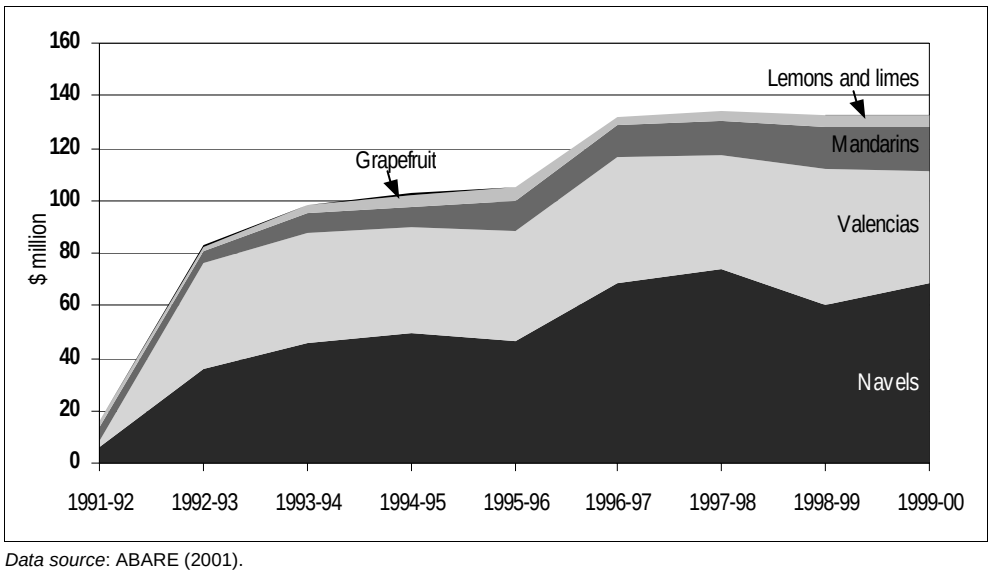
The citrus industry currently produces around 600 kt of fruit per year of which 470 kt is oranges. The gross value of production is around $400 million per year. Australia is a small and declining player in the global citrus market. Australian production is less than 1 per cent of world production. During the 1990s global citrus production increased by around 2.2 per cent per year and 1.9 per cent per year for oranges. Over the same period Australia's orange production has fluctuated considerably with production at the end of the decade similar to that at the start. Based on recent plantings orange and mandarin production will increase by around 150 kt by 2010, which will involve a considerable marketing challenge for the industry.

The Southern Hemisphere production industry is dominated by Brazil which accounts for around 85 per cent of Southern Hemisphere orange production (compared with Australia's 1.65 per cent share).

Exports

Citrus is the largest fresh fruit exporter among Australian horticultural industries with an export value of $157 million in 1999-2000. In the first half of the 1990s export earnings from citrus grew significantly though export sales have stagnated in recent years (chart 1.5).

1.5 **Export earnings from citrus**



Data source: ABARE (2001).

Significant export sales are made to a range of markets in Asian countries and the United States (table 1.6). South Africa, Uruguay and Argentina are important southern hemisphere competitors.

1.6 **Major export markets for Australian oranges**

	1996	*1997*	*1998*	*1999*	*2000*
	$ m	$ m	$ m	$ m	$ m
Navel exports					
Hong Kong	12.9	6.5	12.7	13.1	22.7
United States	18.5	21.4	39.4	37.0	20.1
Malaysia	9.9	14.2	6.1	8.5	10.9
Japan	10.6	5.2	3.9	8.1	4.6
United Kingdom	0.1	0.1	2.0	1.8	4.1
Singapore	8.6	8.8	6.6	5.5	3.9
New Zealand	3.4	3.3	3.4	2.9	2.1
Valencia exports					
Malaysia	11.0	9.1	12.0	11.2	8.8
Singapore	7.6	5.0	10.1	10.3	7.8
Hong Kong	7.2	2.5	7.2	8.4	5.0
Japan	4.1	3.6	5.2	7.5	3.6
New Zealand	1.7	1.5	2.0	1.0	1.3

Source: ABS (2001a).

Export sales fluctuate considerably between markets from year to year. Export prices also vary considerably from market to market. The United Kingdom, United States and Japan are the highest priced markets. Export prices for navel oranges are around 40 to 50 per cent higher than those for valencia.

Despite its export growth over the past decade, Australia's orange exports represent less than 3 per cent of world exports.

Contribution to value added

Value added per unit of output in citrus growing is high. This reflects the high labour intensity of citrus growing — labour costs represent around 40 per cent of total production costs. Citrus growing generates around $250 million of value added per year which represents its direct contribution to national income (GDP). The industry contributes further to GDP through value added generated beyond the farm gate — in processing, packing and domestic and export sales. In addition, there are flow on effects that increase value added in other industries as growers and processors purchase inputs to production and as wages and profits generated throughout the citrus value chain are spent.

Citrus growing is highly regionalised. The annual injection of such a large amount of spending in what are generally small regional economies has a major impact on regional economic activity and employment.

Citrus growing receives very little assistance

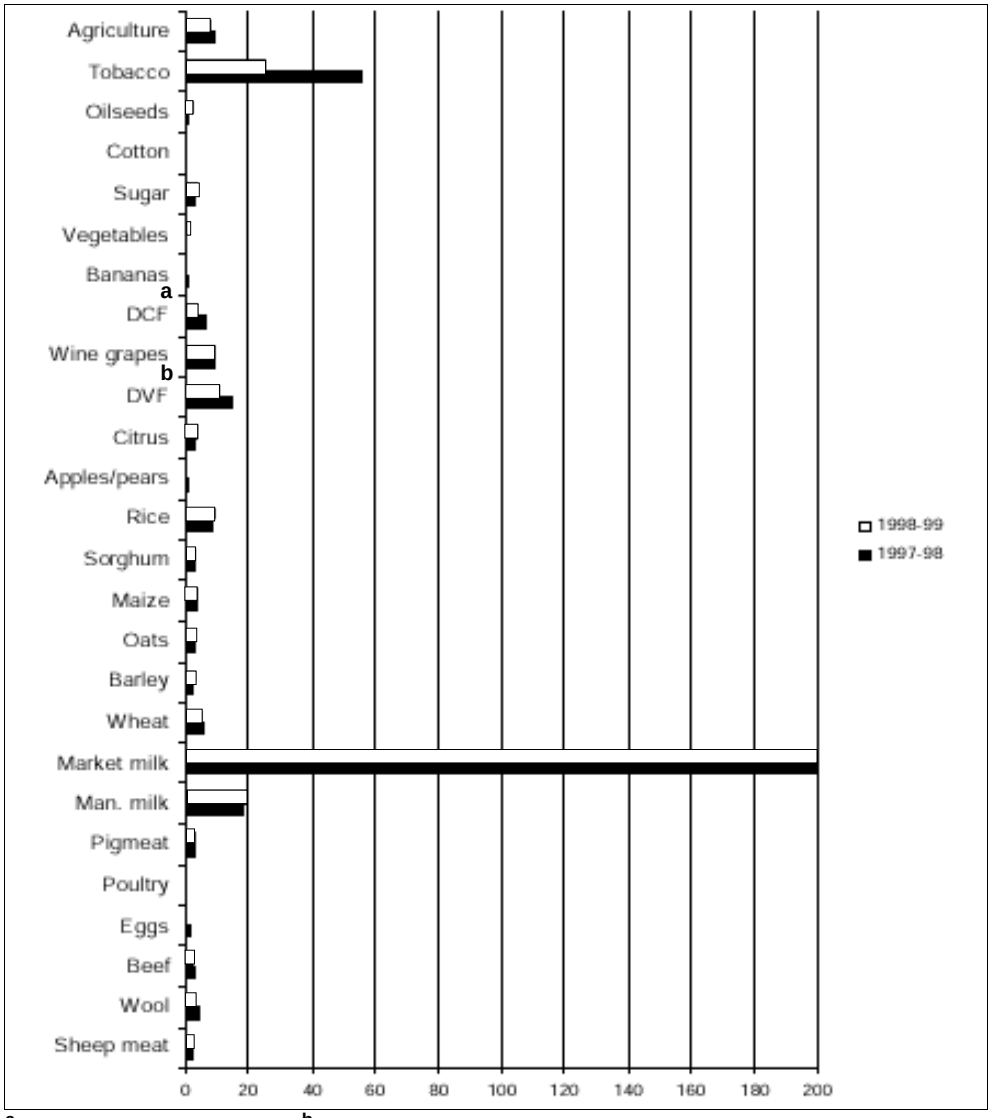
The removal of protection from imports in the mid-1990s has forced citrus growers to adapt to the full force of international competition. Estimates by the Productivity Commission are that the effective rate of assistance received by the growing industry is low (4 per cent). This is only half that for the agricultural sector as a whole (8 per cent, chart 1.7). This provides a good indication that citrus growing is an extremely efficient user of Australia's resources. It also indicates that the citrus industry is disadvantaged relative to other agricultural industries such as wine grapes and dried vine fruit with which it must compete for resources, particularly land. Both wine grapes and dried vine fruit receive much higher levels of assistance than citrus. There are strong arguments on resource allocation efficiency grounds for citrus to receive a level of assistance commensurate with that received by these closely competing sectors.

By contrast, the Australian citrus growing industry competes for export sales and for domestic sales against imports from countries whose growers invariably receive considerable levels of government assistance.

The industry's regional and national economic contribution is at serious risk

The fact that it can generate significant value added with very low levels of assistance indicates that the citrus growing industry is an efficient user of Australia's resources — labour, land, etc. But for most of the last decade earnings have been insufficient to adequately reward the investment of labour and capital in the growing industry. This is particularly the case in regions such as the Riverina which have a high proportion of orange production as valencia. The capacity of growers to invest in better varieties, more efficient production techniques and larger scale operations to ensure on-going financial viability has been seriously eroded. Without significant change in the industry's policy environment, its continued contribution to regional and national income is at risk.

1.7 **Effective rates of assistance to agricultural commodities 1997-98 and 1998-99**



a Deciduous Canning Fruits (DCF); **b** Dried Vine Fruits (DVF);

Source: Productivity Commission estimates.

2 *Financial conditions and profitability in the growing industry are poor*

Industrywide surveys of grower financial performance are not undertaken on a regular basis. There is no comprehensive up-to-date picture of grower financial performance in each of the growing regions. There is, however, some information for one region, the Murray Valley.

The Murray Valley Citrus Marketing Board has commissioned consultants Rendell McGuckian (RM) to undertake cost of production and benchmarking studies for citrus growers in the Murray Valley region. These studies, which involve benchmarking the performance of a sample of about 50 growers, provide a limited picture of the financial performance of growers in the region.

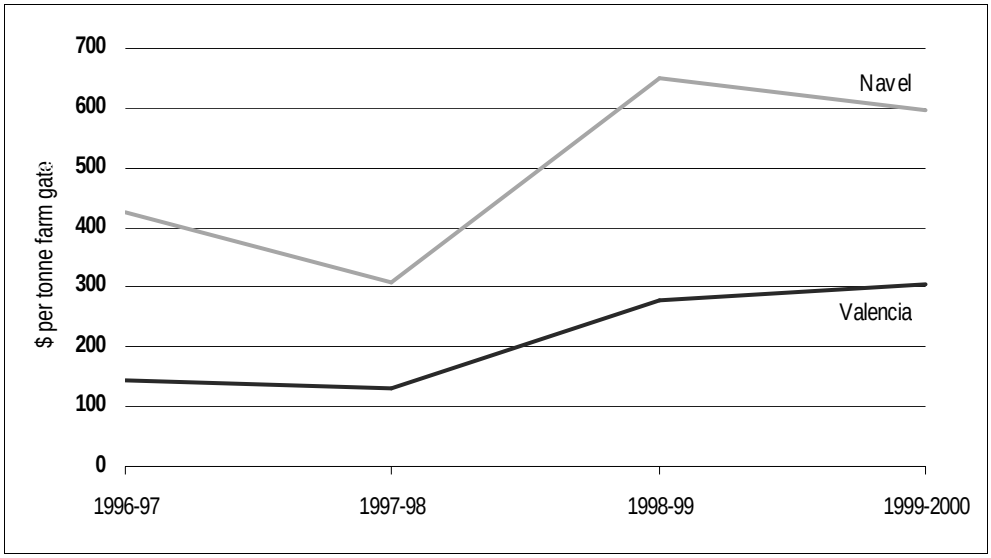
The RM survey covers citrus specialists (more than 50 per cent of farm income from citrus) from 1994-95 to 1998-99 and cost of production estimates (for oranges only) for the period 1995-96 to 1999-2000. Both surveys exclude the impact of the very low orange price year of 2000-01 which is rated by growers as one of the worst in terms of financial performance in recent years. Accurate data on the 2000-01 performance will not become available until early 2002. The results from both surveys refer to averages across participants who are believed to be above average for scale and perhaps also profitability.

It is important to stress that the Murray Valley region has a significantly higher proportion of navel fruit to total fruit than is the case in the Riverina and Riverland (chart 1.4). For this reason the results for the Murray Valley present a considerably more favourable picture of the financial performance of growers than that which is believed to exist in the other two regions.

The picture that emerges from the Murray Valley

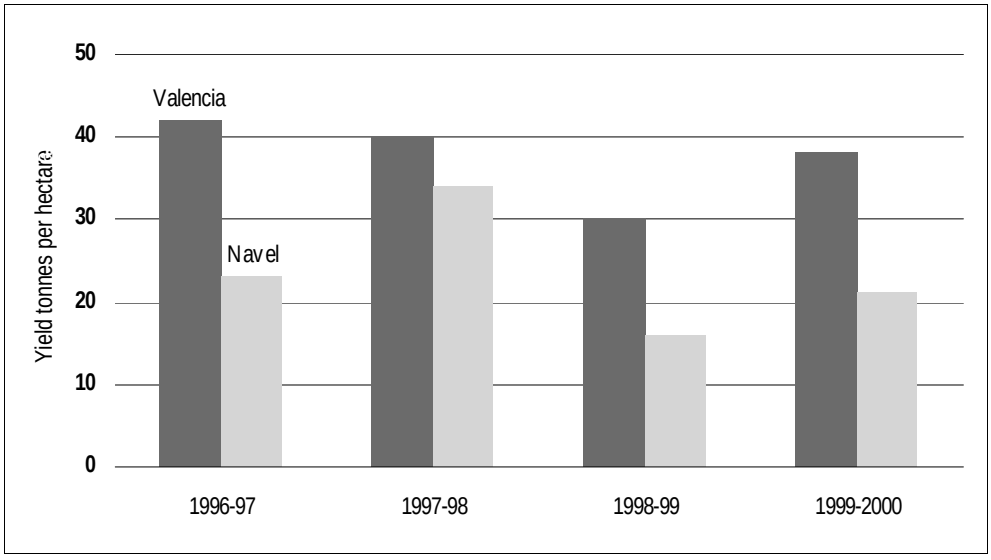
- Prices received for oranges fluctuate markedly from year to year. This combined with fluctuations in yields, results in big changes in profits (charts 2.1, 2.2 and 2.3).

2.1 **Orange prices fluctuate markedly from year to year**



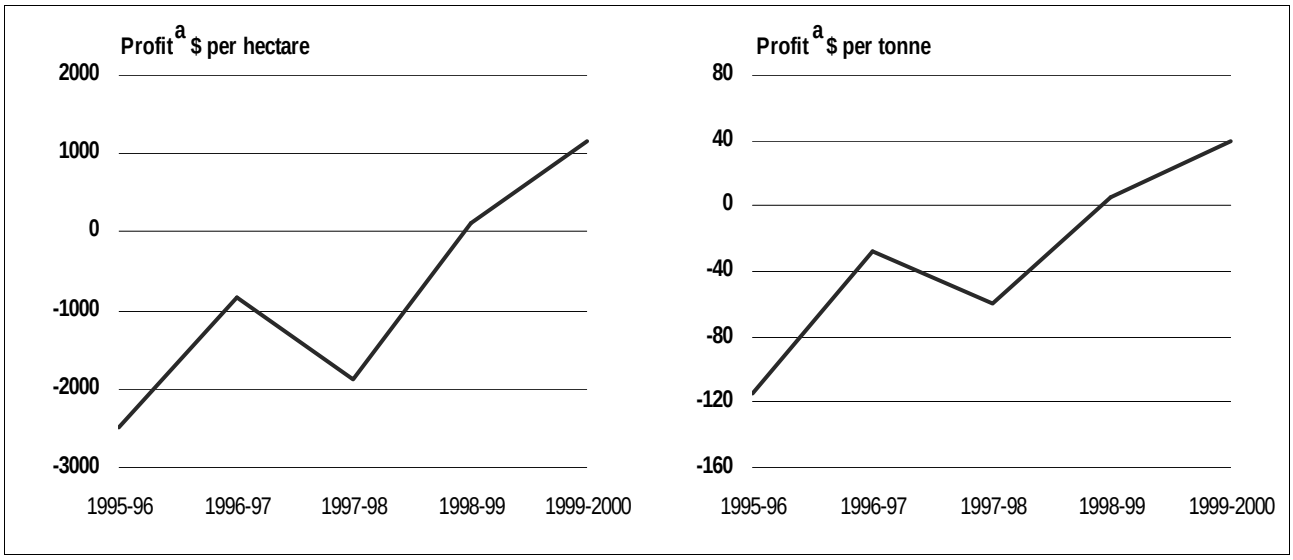
Data source: RM.

2.2 **Yields are also highly variable**



Data source: RM.

2.3 This leads to big fluctuations in profits



[a] Profit calculated as gross returns, less variable costs, less an allowance for owner operator's labour and return on owner equity.

Data source: RM.

- The return to (small) profits in 1998-99 and 1999-2000, following the recovery in prices from the disastrous losses in 1996-97 and 1997-98, is expected to be reversed in 2000-01 because of:
  - lower prices for valencia and quality problems with navels (which have reduced returns from the quality conscious US market);
  - a return to average volume crop levels; and
  - high volume/low priced FCOJ imports.
- Substantial losses are expected for 2000-01 with growers receiving an average price of around $120–150 per tonne for valencia oranges.
- Over the period 1993–94 to 1998–99 gross income from citrus averaged $6896 per tonne compared with costs (before allowances for owner–operater labour and returns on grower equity) of $5802 per tonne. This left just $1094 per tonne to reward growers for their labour and investment in citrus. According to ABS figures for 1995, 92 per cent of citrus growers had less than 20 hectares of plantings. On the basis of these average profit figures, it is clear that the vast majority of specialist citrus growers are earning less than $20 000 per year from their labour and their capital investment in citrus. This compares with average earnings of all employees in the economy (no capital invested) of around $35 000 per year (ABS average weekly earnings in August 2001).
- The RM benchmarking analysis reveals large differences in financial performance according to scale of operation. The lowest 25 per cent of

growers in the sample had gross returns of $6400 per hectare in 1998-99 and costs (operating costs plus imputed returns to owner operator labour and capital) of $10 200 per hectare. By contrast, the highest 25 per cent had gross returns of $12 400 per hectare and costs of $9700 per hectare. By and large the better performing growers have larger plantings.

- RM estimates that at average performance levels the business scale needed to support a family and generate sufficient profits to fund business growth requires gross income of more than $200 000 (at least 20 hectares of trees earning $10 000 per hectare, or more if earnings per hectare are lower). Only a very small percentage of growers are in this category. The RM analysis indicates that high profit enterprises generate gross income of greater than $7500 per tonne and have operating costs of less than 50 per cent of this.

It should be reiterated that the Murray Valley results are much better than for south eastern Australian citrus growers as a whole. A comparison of the performance of Murray Valley (Sunraysia), Riverland (South Australia) and Riverina (New South Wales) citrus growers in 1996-97 was undertaken by RM for ACG. The comparative study revealed that:

- average gross income per hectare in Sunraysia was 70 per cent higher than in the Riverina and 12 per cent higher than in the Riverland with the difference due to both higher yields and a higher proportion of navel oranges; and
- profit per hectare was negative in all regions but with much bigger losses in the Riverina (-$1570 per hectare) and Riverland (-$1967 per hectare) compared with Sunraysia (-$823 per hectare).

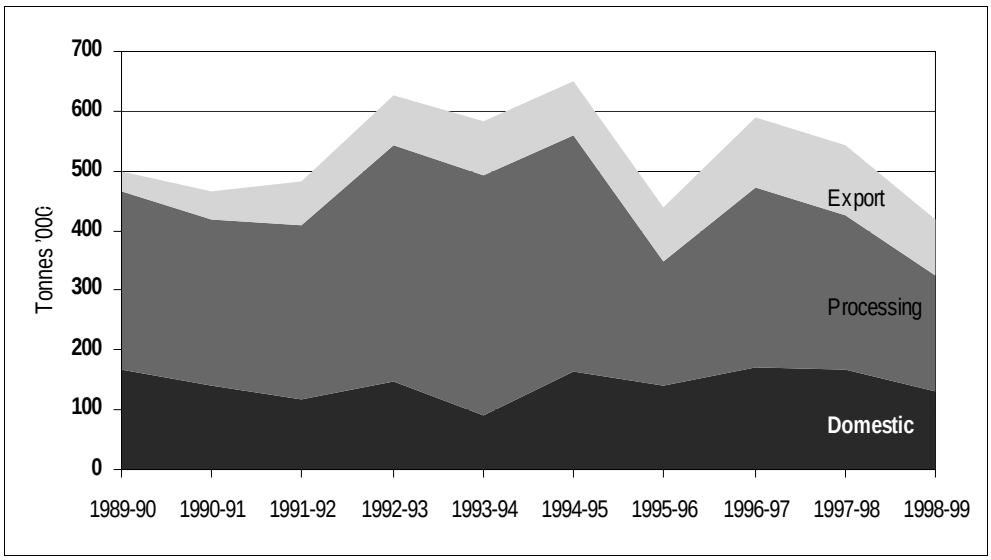
3 *Price formation and market segments*

Fruit is sold into a range of market segments depending on quality as follows:

- export fruit (highest quality)
- domestic fresh fruit
- processing (lowest quality).

Chart 3.1 shows the distribution of oranges to each segment.

3.1 **Orange crop distribution by segment**



Data source: Australian Citrus Growers Inc (personnel communication).

In 2000-01 about 23 per cent of fruit by volume was exported, 35 per cent sold as fresh whole fruit on the domestic market and 45 per cent to processors for juicing. The remainder was classified as surplus fruit.

Over the 1990s the proportion of production exported has increased significantly (from 7 per cent at the start of the decade to about 26 per cent anticipated for 2001-02). The proportion sold as fresh fruit on the domestic

market has declined modestly while the proportion processed has declined (from 60 per cent in 1989-90 to less than 50 per cent). This shift in production toward the high quality export segment reflects:

- the increased penetration of imported juice and a realisation by growers that their capacity to compete against cheap FCOJ is limited; and
- upgrading of fruit quality to target the higher priced export market.

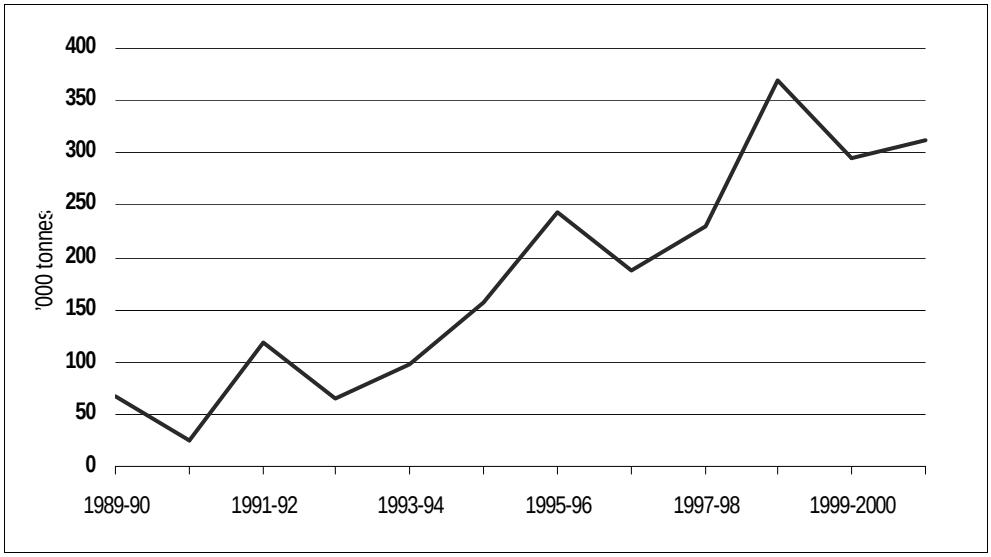
Each segment has different demand characteristics and each is subject to different degrees of international competition. There is also some substitution at the margin between segments which comes about through supply availability and demand behaviour of consumers. Because of these interactions between segments and the different demand conditions in each segment the process of price formation is complex.

The processing segment

Prices received for oranges of processing quality are dominated by import prices for frozen concentrated orange juice (FCOJ). These, in effect, set a floor price in the Australian market for processed oranges that still account for close to one half of production. Producers can get a premium over the price of imported FCOJ by differentiating their product and marketing its superior attributes (for example, domestic sales of fresh orange juice).

Brazil dominates imports of FCOJ. Brazil accounts for around 40 per cent of world FCOJ exports. Florida is also a significant producer. Imports of FCOJ on an equivalent fresh fruit basis have climbed from 67 kt in 1989-90 to 311 kt in 2000-01 (chart 3.2). In volume terms the increase in imports far exceeds the increase in exports. For example, while imports of FCOJ have grown by more than 200 kt over the 1990s the growth in exports over the same period has only been about 70 kt. And in addition, imports of fresh and dried fruit have grown by about 12 kt over the period.

3.2 **Imports of FCOJ have climbed dramatically**

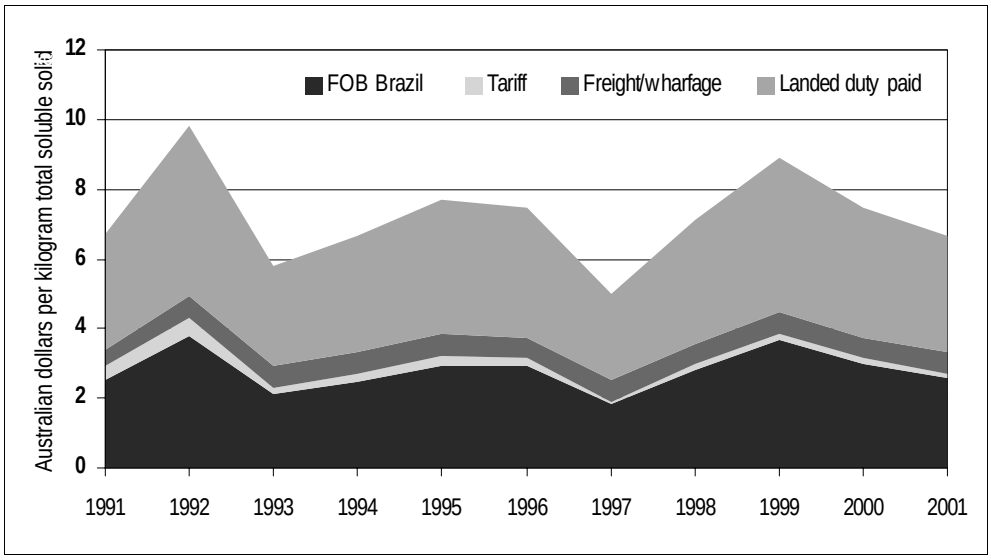


Data source: ABS (2001a).

There are several reasons for the rapid escalation of imported FCOJ (chart 3.3).

- A reduction in the level of protection afforded the domestic industry — the tariff on FCOJ was reduced from 35 per cent in 1990 to its current level of 5 per cent on 1 July 1996 and on 1 January 1995 the sales tax concession for orange juice containing a minimum level of local juice was removed.

3.3 **Price of imported FCOJ in Australian dollars**

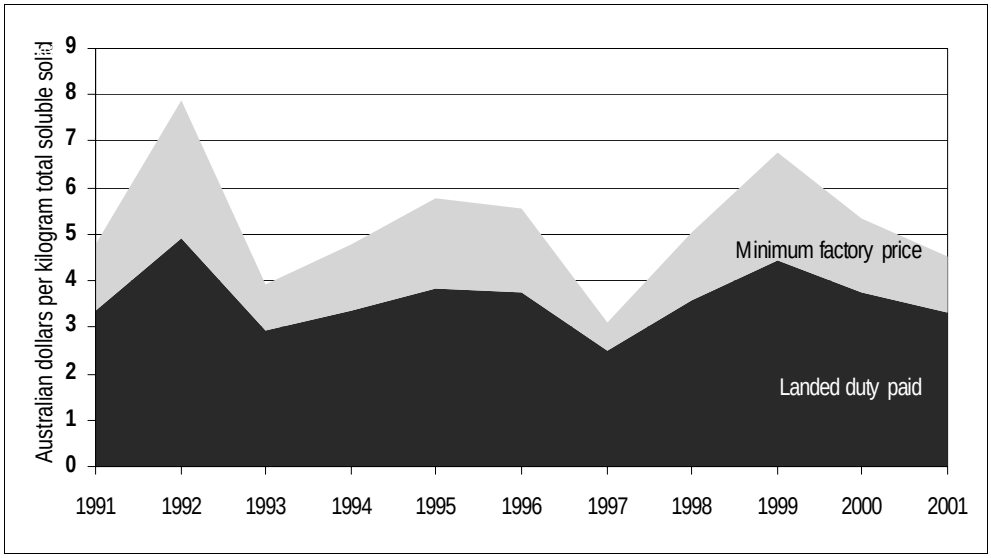


Data source: Australian Citrus Industry Council Inc. (personnel communication).

- The world price of FCOJ in US dollars fob from Brazil has fluctuated considerably around a declining trend. Prices in 2000 and 2001 were particularly low with the US dollar price in August 2001 30 per cent below (in nominal terms) its 1991 level. Despite a big devaluation of the Australian dollar over the period which has more than compensated for the lowering of the import tariff the landed duty paid price in Australian dollars in August 2001 was still marginally below its 1991 level.

The landed duty paid price of FCOJ from Brazil has established a floor price for juicing quality oranges to Australian growers (chart 3.4).

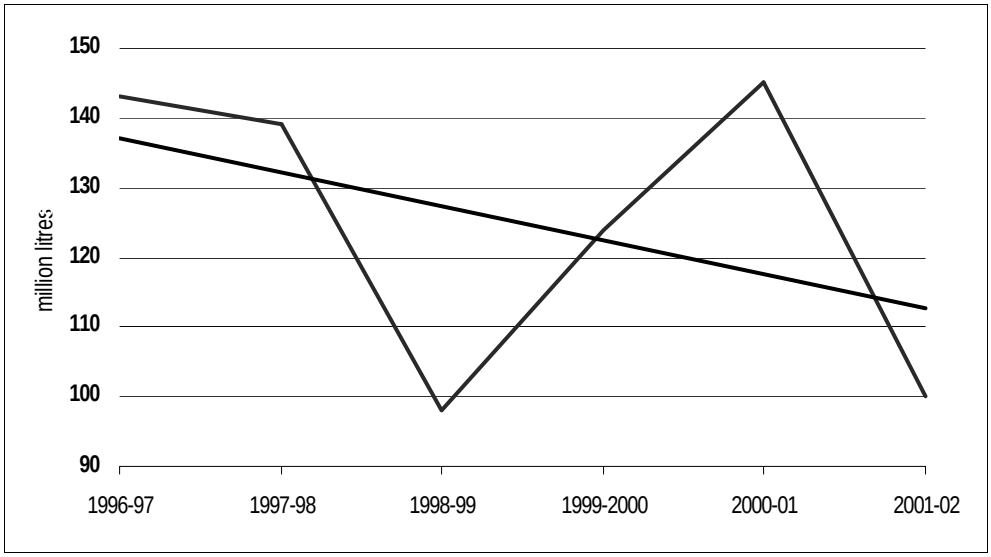
3.4 **Comparison of FCOJ import price with minimum factory price (valencia)**



Data source: Australian Citrus Industry Council Inc. (personnel communication).

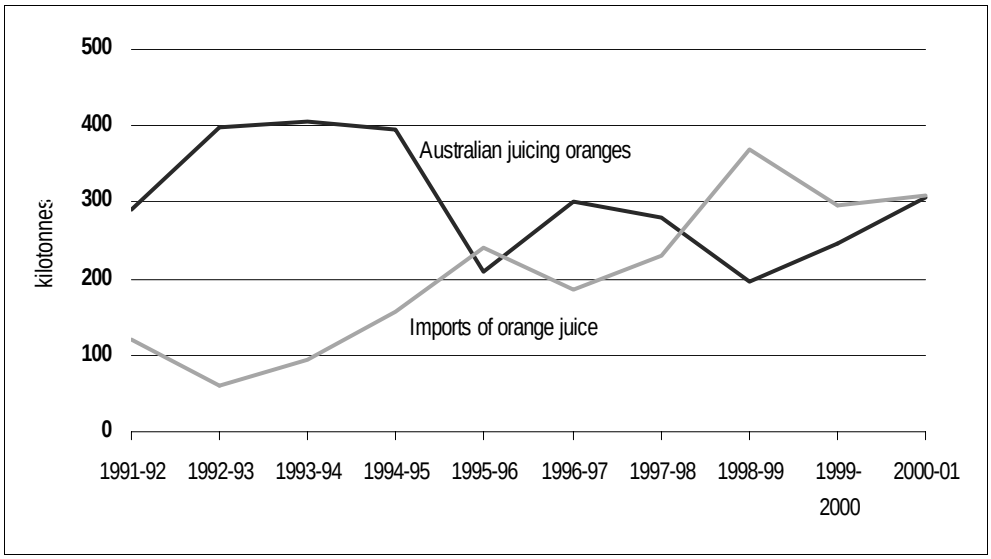
With steadily rising production costs and domestic prices for low quality fruit not increasing, growers have been forced to improve fruit quality to move into higher priced market segments. Volumes of domestic fruit processed have declined sharply from mid-1990s levels of 330 kt to current levels of around 200 kt. Imported FCOJ has displaced domestic product to gain an increasing share of this segment which is itself growing as population and per capita income growth boost demand for fresh orange juice and juice-based drinks. Australian orange juice production is declining (chart 3.5). Displacement of Australian juice with imported orange juice and the growth in the domestic market for juice are illustrated in chart 3.6.

3.5 Australian orange juice production is declining



Data source: Australian Citrus Industry Council Inc. (personnel communication).

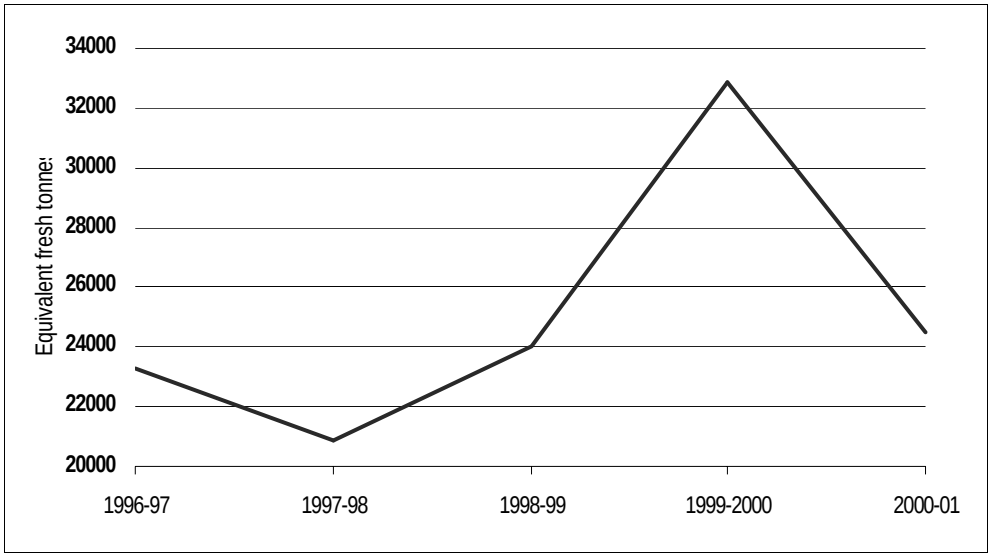
3.6 Relationship between Australian juicing oranges and orange juice imports



Data source: Australian Citrus Industry Council Inc. (personnel communication) and CIE calculations.

Australia also exports processed orange juice. Major destinations are New Zealand, Japan and Hong Kong. Exports have grown significantly since the mid-1990s to reach 34.5 kt in fresh fruit equivalent in 2000-01 (chart 3.7). Most of these exports are believed to be derived from reconstituted Brazilian concentrate and hence do not add value to the Australian growing industry.

3.7 **Australian exports of processed orange juice**



Data source: ABS (2001a).

Fresh fruit segment for the domestic market

Oranges compete on the domestic market with a large number of other fruits for the consumer's fruit dollar. And local oranges are competing with imported oranges for domestic market share. Prices for domestically marketed oranges are constrained by these factors. Imports of (fresh / dried) citrus (mainly oranges) have fluctuated considerably from year to year around a rising trend and currently represent about 3 per cent of domestic orange production (chart 3.8). Imports are currently coming in from the US, Spain, Israel and New Zealand.

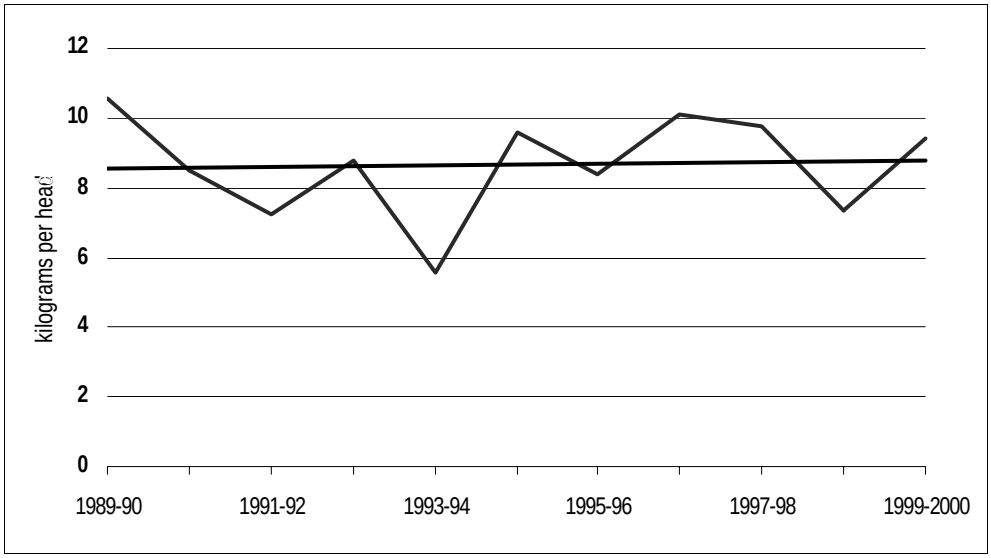
3.8 **Imports of fresh/dried fruit**

Data source: ABS (2001a).

The industry is anticipating increased pressures from imported fresh fruit in the future as a number of new potential suppliers are currently in the process of negotiating import protocols with Biosecurity Australia. Import risk analysis is being undertaken for citrus imports from Florida, Italy, South Africa and New Caledonia (limes). Import requests have been made for various types of citrus from Egypt, Israel, Japan, Korea and Mexico. Unlike the situation Australian growers face in trying to penetrate many export markets, there are no tariffs levied on imported fresh oranges.

The domestic market for fresh oranges is mature. Per capita consumption of fresh oranges is static (chart 3.9). Growth in production will need to be driven by growth in export market sales.

3.9 **Consumption per person**



Data source: CIE calculations.

The export segment

With the successful development of a large number of export markets the price received for export fruit is now exerting a significant impact on the farm gate price. Because of the small share of world exports Australia is essentially a price taker in export markets.

As noted earlier, export prices differ substantially from market to market and from year to year. Table 3.10 shows average (fob) citrus returns from key export markets.

3.10 **Export returns in key markets**

	1996	*1997*	*1998*	*1999*	*2000*
	$/tonne fob	$/tonne fob	$/tonne fob	$/tonne fob	$/tonne fob
Valencia					
Malaysia	781	673	766	763	691
Singapore	782	658	798	822	787
Hong Kong	748	675	839	848	736
Japan	1 262	1 342	1 239	1 500	1 183
New Zealand	728	664	751	745	579
Navel					
Hong Kong	938	816	1 056	1 007	904
United States	1 661	1 511	1 577	1 642	1 531
Malaysia	763	751	791	865	881
Japan	1 031	1 304	1 646	1 478	1 324
Singapore	890	883	810	788	813

Source: ABS (2001a).

In volume terms the increase in imports far exceeds the increase in exports. For example, while imports of FCOJ have grown by more than 200 kt over the 1990s the growth in exports over the same period has only been about 70 kt. And in addition, imports of fresh and dried fruit have grown by about 12 kt over the period.

Farm gate prices

Farm gate prices reflect a weighted average of prices obtained in each market segment after correcting for each of the stages of value adding between the farm gate and point of sale. Farm gate prices can fluctuate markedly from year to year depending on fruit quality (and hence segment of sale), demand and supply conditions in each market segment and mix of production between valencia and navel. This is illustrated in table 3.11 which shows movements in prices from year to year in excess of 100 per cent.

It is important to reiterate that these prices are for the Murray Valley and substantially overestimate the average farm gate prices received by the industry as a whole. This is because of the Murray Valley's much greater production share of higher priced navel relative to valencia oranges than in other regions such as the Riverina, which is more heavily reliant on valencias. The valencia price received depends on access to contracts for fresh juice, and there are limited opportunities for contracts.

3.11 **Farm gate prices for oranges fluctuate considerably**

Industry average prices[a] (Murray Valley growers)			*Australia-wide local value of production[b]*	
Year	*Valencia*	*Navels*	*Year*	*All oranges*
	$/tonne	$/tonne		$/tonne
1996-97	143	425		
1997-98	130	309	1998	394
1998-99	278	650	1999	534
1999-2000	205	596	2000	421

Source: [a] Rendell McGuckian (2001). [b] ABS (2001a).

Growers find it hard to deal with price instability

Unlike the situation in the larger agricultural industries such as wheat, wool and cotton, citrus growers do not have access to mechanisms to manage their exposure to price risk. Growers can maintain a mix of enterprises to diversify their income, but in so doing they forego the advantages of product specialisation. There are no futures contracts or other means for locking in price outcomes or insuring against price risk. This adds to the difficulties of financial management and long term planning.

Growers are forced for the most part to take spot market prices for their fruit. Some price contracts are offered by processors/packers but these are on a take it or leave it basis.

Growers perceive that they lack bargaining power with purchasers

Growers consider that they are at a distinct disadvantage in negotiating on an individual basis with the large processing companies and other large purchasers. Under section 45 of the Trade Practices Act (TPA) administered by the Australian Competition and Consumer Commission (ACCC) growers are forbidden from negotiating as a group.

The ACCC has the power under the Act to grant authorisation for collective arrangements. The ACCC is required to apply public benefit and detriment tests to authorisation applications. The ACCC has recognised a diverse range of outcomes as being public benefits including improved international competitiveness, lower unit production costs, growth in export markets and expansion of employment.

The ACCC can grant authorisation subject to various conditions. A relevant example is the application for authorisation by dairy farmers to be able to collectively negotiate contractual terms and conditions of raw milk supply

with dairy processors. In issuing its draft determination proposing to authorise the collective negotiations, the ACCC imposed two conditions:

- farmers' collectives will only be allowed to comprise farmers within particular regions; and
- common agents will not be able to negotiate between farmers and processors.

These conditions were imposed out of concern that the arrangements could result in a single national milk price. With such conditions, the ACCC considered that the detrimental effect on competition was limited, as dairy processors can source milk from different regions, and competition between processors and at the retail level will remain. Public benefits of the authorisation were seen to be easing the burden of deregulation, and ensuring that efficient dairy producers remained within the industry. This in turn was seen to benefit rural communities dependent on the industry for income. Slightly lower (unit) production costs was a further benefit.

The ACG considers its particular circumstances have close parallels with those of the dairy industry. In particular, any detrimental effect on competition between processors would be small as processors can source fruit from different regions and competition between processors would not be altered. Public benefits could potentially involve an easing of adjustment pressures on hard pressed growers with benefits to the regional economies and communities. The ACG is seeking the endorsement of the Productivity Commission in its proposal to seek authorisation for a collective arrangement.

Information asymmetry between growers, processors and marketers

Resource allocation efficiency is maximised when all participants in an industry are fully informed about what is going on throughout the value chain. Citrus growers are the first stage in a supply and marketing chain which ends with the sale of fresh fruit and processed products in domestic and export markets. Information in the citrus industry is not shared freely to all participants in the chain. In particular, growers are poorly informed about developments in the markets for their products and the cost structure in processing and other value adding and marketing activities for their fruit. As a result there is a considerable amount of suspicion among growers about whether they receive a fair share of the retail value of their fruit. These suspicions are heightened by the large and to date unexplained differences between prices for fruit at the farm gate and prices recorded in retail markets (table 3.12).

The growing industry is seeking government support to help it develop a sophisticated and ongoing information base on the citrus value chain. By correcting the present information asymmetry in the industry, such an initiative will enhance competition and resource use efficiency. It will also help all parties in the value chain understand the distribution of returns and the key drivers behind this distribution.

3.12 **Gap between retail prices and grower prices for oranges 1995–98**

Average retail price of oranges[a]		*Average return: Murray Valley orange grower*[b]		*Difference*
Year		*Year*		
	$ per tonne		$ per tonne	$ per tonne
1995	1 330	1995-96	282	1 048
1996	1 510	1996-97	241	1 269
1997	1 650	1997-98	203	1 447
1998	1 890	1998-99	437	1 453

Source: [a]ABS (2001b). [b] Rendell McGuckian (2001).

4 The industry faces a difficult global trading environment

Penetration of export markets holds the key to citrus industry growth. While the industry has successfully built up a number of export markets over the past decade export sales have stagnated in recent years. The challenge facing the industry is to meet domestic and export requirements for higher quality standards, large and consistent product lines, quality brands and traceback systems. Larger growers are better placed than smaller growers to meet these requirements.

Australia's citrus growers are confident of their ability to compete internationally on a level playing field. But while Australia adopts the level playing field approach many other countries do not. The global citrus market remains highly distorted.

- There are significant tariff barriers in many overseas countries against imported products — this contrasts with the situation in Australia where citrus can enter duty free.
- Competing producers in overseas markets are often highly subsidised — this contrasts with the very low level of assistance received by Australian growers.
- Phytosanitary and quarantine procedures are frequently used as trade barriers.
- Considerable resources are needed to facilitate export market access — the industry clearly needs government support and help to achieve this.

Barriers against Australian exports

Hong Kong and Singapore, two significant markets for Australia's citrus, have no import barriers. But many other countries have significant tariffs on both fresh fruit and juice imports (table 4.1). In addition, in some potential markets, such as South Korea, Australia is denied access for

quarantine reasons and in others access is restricted because of quarantine regulations (table 4.2).

4.1 Tariff barriers to Australia's citrus exports (selected countries)

Fresh citrus	*Tariff*
US	2 c/kg oranges (ad valorem rate equivalent of 1.3% for navels)
China	40%, but reducing with WTO accession
Indonesia	5%
South Korea	High tariff quota system with in quota tariffs of 50% and out of quota tariffs at 79.4% to 152%
Japan	▪ 17.3% (June–November)
	▪ 34.7% (rest of year)
Thailand	48%
Philippines	20%
Taiwan	Import quotas (600 tonnes) plus seasonal tariffs up to 40%
Citrus juice	
Thailand	30%
Japan	22.5% to 31.5%
South Korea	57%
India	50%+
Taiwan	40%

Source: Horticulture Australia, personal communication.

4.2 Quarantine and related barriers to Australia's citrus exports

Country	*Barrier*
Japan	Cold infestation treatment in transit now accepted but protocol still awaits implementation
	Protocol requires inspection by Japan MAFF in Australia and by AQIS in Japan (costly) and has not accepted cold disinfestation in ships (charter shipping would be a huge benefit, a Japan, South Korea, Taiwan shipment could be undertaken significantly reducing shipping costs)
South Korea	Protocol includes orchard registration, leaf and fruit testing, cold treatment on land and Korean quarantine inspection in Australia has greatly increased cost and risk and inhibited growth in market
	Yet to accept cold disinfestation treatment in transit
	No access for mandarins
Japan, South Korea, Taiwan	Yet to accept fruit fly area freedom
	Taiwan – no access for mandarins

(Continued on next page)

4.2 **Quarantine and related barriers to Australia's citrus exports** (Continued)

Country	*Barrier*
India	Lack of cold supply chain development
Philippines	Quarantine protocols require cold disinfestation and requirements for import certificates also restrict trade
US	US accepts on fruit fly area freedom only, limits other (endemic) areas looking for access
	Mandatory fumigation required only in the State of Phoenix, limits market growth in this region.

Source: Horticulture Australia, personal communication.

Subsidies to competing producers

Considerable support is given by governments to citrus industries overseas. Some of these industries are actual or potential sellers of fruit into the Australian market. Others produce for markets which Australian growers are currently exporting to or trying to open up. Some examples are given in box 4.3.

4.3 **Industry support measures to importing and exporting countries**

European Commission

1998-99

- Price support for clementines, mandarins, satsumas, oranges. Extent of assistance — €290.7 million, €183.1 million, €33.4 million and €277.3 million respectively.
- Support for citrus fruit processing, production aid — extent of assistance — €108 million.
- Support for lemons, clementines, mandarins, satsumas and oranges. Extent of assistance €407 million, €180.2 million, €62.4 million, €35.8 million, €422.6 million respectively.
- Support for citrus fruit processing. Extent of assistance — €147.8 million.
- Support for lemon processing. Extent of assistance — €41.3 million.

Italy

2001

- Support provided for a variety-renovation program. Extent of assistance — US$25 million.
- Support provided for structural enhancement, market organisation and promotional programs. Extent of assistance — US$35 million.
- Support provided to industry through purchase and processing of oranges, lemons and tangerines. Extent of assistance — US$15 million.

(Continued on next page)

4.3 **Industry support measures to importing and exporting countries** (Continued)

Spain

2001

Support provided to citrus industry through subsidies for infrastructure and exports. Subsidies will continue until 2006. Support includes:

- full cost of citrus research and extension at IVIA, the main research institute based at Valencia;
- rootstock adjustment program ($3000 per hectare subsidy to replace with tristeza tolerant rootstock);
- juice industry (there is a 75 per cent subsidy bringing the value of juicing oranges from $50 per tonne to $200 per tonne) and
- programs aimed at encouraging group farming and the establishment of grower organisations.

April: Sunkist Growers, the world's largest citrus marketing co-operative, appealed to the US International Trade Commission to investigate EU trade policies and possible unfair government subsidy practices that have allowed Spanish clementines, oranges and lemons to flood US markets in ever increasing numbers over the last four years.

Turkey/Morocco/Cypress

2001

Support provided to citrus growers through subsidies for promotional activities and in developing processing plants.

South Korea

2001

Support provided to citrus growers through government purchase and destruction of excess crops. This will prop up fruit crop prices. Extent of assistance — $246.5 million. Supplementary measures call for government-led processing and export of excess crops.

Argentina

1997

- National Citrus Health Program. Extent of assistance — $722 400.
- National Fruit Fly Control and Eradication Program. Extent of assistance — $9.8 million.

2001

Tariffs raised from 13 to 25 per cent on imported fresh fruit including citrus.

Uruguay

1999

Twenty-five per cent of the direct standard cost per hectare is refunded to small and medium fruit growers for the planting of deciduous fruit trees and citrus trees. Refund is limited to a maximum of 15 hectares per grower. Extent of assistance — US$1.067 million.

1998

Twenty-five per cent of the direct standard cost per hectare is refunded to small and medium fruit growers for the planting of deciduous fruit trees and citrus trees. Refund is limited to a maximum of 15 hectares per grower. Extent of assistance — US$576 921.

Source: Transnational Consultancy and Training Services Pty Ltd.

While some of these support mechanisms may be justified in terms of bringing about industry restructuring and alleviating financial hardship others would seem to clearly violate WTO rules.

The use of phytosanitary and quarantine procedures as a trade barriers

The Australian citrus industry is continually frustrated by the long time delays in negotiating access arrangements for fruit into overseas markets. Examples are the drawn out procedures needed to get some overseas countries to recognise area freedoms with respect to fruit fly and in gaining permission for on the water treatments.

Speeding up these procedures would enhance the export prospects of the Australian industry. Greater support is needed from the Federal Government in this area.

Negotiating market access protocols must invariably be done on a government to government basis. The Australian citrus growing industry is disappointed at the low level of resource commitment from Biosecurity Australia in this area. Biosecurity Australia devotes more resources to facilitating the import of citrus fruit to Australia than it does to assist in developing access arrangements for fruit into export markets.

Growers are concerned at the apparent weak negotiating power of Australian officials in Biosecurity Australia and the Department of Foreign Affairs and Trade with individual countries and in multilateral discussions.

Government initiatives are need to facilitate export market development

The growing industry has been forced to devote considerable resources to market access issues. This has reduced the commitment it has been able to make to improving its product R&D and marketing arrangements.

- The government should take a strong stance in bilateral and multilateral trade negotiations to facilitate:
  - a lowering of barriers to trade in export markets;
  - the removal of domestic subsidies which are inconsistent with WTO rules; and
  - the speeding up of negotiations on protocols for negotiating access arrangements for Australian fruit.

This should involve a carefully thought out strategy with clear objectives and a timetable for success.

- The government should reorder the focus in Biosecurity Australia to devote more resources to assist the citrus industry in negotiating access arrangements into export markets.

Export control powers are valuable

The Australian Horticultural Corporation Act gives Horticulture Australia Limited powers to regulate horticultural exports through export licensing arrangements. The citrus industry uses these powers as an integral part of its market development strategies. Export marketing arrangements have been implemented in the following markets:

- USA — sole importer and no product specific conditions;
- Korea — three importers plus labelling requirement;
- Thailand — 14 importers plus requirements on sweetness, carton size and weight, labelling and reporting requirements; and
- Taiwan — 14 importers plus requirements on carton size and weight and shipment by pallets.

ACG regards these statutory powers, which allow the industry to develop marketing arrangements specific to the circumstances of each market, as a means of enhancing the returns to be extracted from specific markets.

Affected parties can challenge the export control powers in the courts. In 1997 a request was received to have removed the sole importer arrangements operating in the US market. Following consultation with industry and after considering submissions the AHC Board at the time agreed to maintain the arrangements. This decision was subsequently taken to the Administrative Appeals Tribunal which upheld the AHC Board decision. The evidence presented in favour of the single importer remaining emphasised the following.

- Because the importer had a quality control program in place with known suppliers in authorised growing regions it enabled quarantine issues to be dealt with quickly and effectively and provided comfort to US quarantine authorities.
- It protects the high quality brand image of Australian oranges.
- It enables pooling of long lines of consistent high quality fruit for the premium segment.

- It removes detrimental competition (to growers) between sellers in the US market.
- It has created market strength around a strong marketing program which has delivered premium prices relative to other markets and consistent growth in sales volumes.
- It has reduced shipping costs.

There is an approved regulatory regime and review process for the export control powers. They are subject to annual performance reviews — to assess their effectiveness in providing industry benefits and to provide an opportunity to maximise the benefits from their use. After three years of use of a power in a specific market a regulation impact statement has to be prepared under Competition Policy Guidelines.

The growing industry is comfortable with this review process and believes that it provides sufficient public interest safeguards to ensure that the powers are not misused. The much higher returns being obtained for uniform high quality fruit in the US market than for similar quality fruit in other markets provides persuasive evidence to growers of the value of the marketing arrangements authorised under the Act.

5 *Measures to improve the industry's competitive position*

Despite its dismal financial performance on average over most of the past decade the Australian citrus growing industry has considerable potential. A 1995 study (Australian Horticultural Corporation 1995) concluded that in terms of comparative production costs Australia's best practice producers perform on a par with those of the US — but the majority of growers have a higher cost structure. On a total cost basis along the value chain costs were lowest in South Africa.

The benchmarking report also found that the Australian industry was less successful than the US and South Africa industries in providing consistent quality fruit to customer requirements. It noted that whereas South African and US growers exerted significant control over their fruit throughout the value chain from farm to market in the highly fragmented Australian market this is only the case for a few highly integrated larger organisations.

Enhanced international competitiveness and better access to export markets are key factors in improving the industry's longer term prospects. The government has an important role to play in improving both factors. But whereas access decisions are ultimately under the control of foreign governments, there are a number of impediments to the competitive position of growers which can be addressed directly by Australian government action. these are as follows.

Access to casual labour remains a critical issue

Labour costs (picking costs, permanent labour, owner–operator labour) are the most significant cost item for citrus growers accounting for around 40 per cent of total costs. Picking costs alone account for 20 per cent of total costs. For fruit quality reasons, the citrus industry is unable to use mechanical harvesters to pick fresh fruit destined for the whole fruit market.

Growers have a continual struggle to attract reliable casual labour during the harvest season. A highly regarded source of harvest labour by growers is working holiday makers from overseas. The supply of this labour is constrained by the number of visas issued by the Australian government — which in turn depends on the negotiation of international agreements between Australia and other participating countries. While the number of working holiday makers has risen significantly over the 1990s, the citrus industry must compete with many other industries to attract them. The growing industry would welcome the issuing of a greater number of visas to working holiday makers.

The problems of attracting harvest labour have been studied in detail and are well documented. In June 2000 a detailed report was published by the government (National Harvest Trail Working Group 2000). This report contained many sensible recommendations and initiatives on how to improve the supply and reliability of harvest labour and reduce the administrative burden on growers of employment of harvest labour. Importantly the review noted that to limit the use of illegal labour in Australia the government should not take actions that would affect the economic viability of growers. In particular, the Department of Immigration and Multicultural Affairs should not require growers to request itinerant workers to provide a passport or birth certificate before commencing work.

The government has yet to implement the findings of the report. ACG urges the government to implement in full most of the report's recommendations as a matter of priority. The exception is the second part of recommendation 10.19b which states, 'Instead DIMA consider legislation to improve significant penalties on employers who knowingly or recklessly employ a non citizen without work rights'. ACG considers that no citrus grower should be forced to act as a policeman of Australian laws on work rights for casual labour.

The current regulatory framework is impeding access to the most effective chemicals

To maximise its chances of competing on export markets with foreign suppliers the Australian growing industry needs access to the world's best growing technologies. This is not always achieved. A case in point concerns access to chemicals.

The National Registration Authority (NRA) manages the national registration scheme for agricultural and veterinary chemicals on behalf of

all governments in Australia. The NRA assesses the safety and performance of products, determines whether their use is likely to jeopardise trade and regulates their supply to the Australian market by approving product labels and specifying conditions of use.

At present under NRA procedures growers need to incur significant costs and wait considerable periods to gain access to chemicals which are being used by our competitors some of which are exporting fruit to the Australian market. The result is higher production costs as growers are forced to substitute expensive labour for cheaper chemicals, reduced international competitiveness and lower net returns and value added from the resources used to grow citrus.

5.1 The costs of chemical registration in Australia are unnecessarily high

Rugby is a nematicide used for controlling citrus nematode. The product is registered and used extensively in South Africa. But it has only just been registered in Australia in the last month. Trial work to register the product began 5 years ago. This long delay has been extremely costly to growers.

Corasil E, a plant growth regulator, is registered and used in Spain and South Africa to improve fruit size in citrus crops. The product has the ability to thin the crop when sprayed early and improve fruit size when sprayed approximately 3 weeks later. The industry has jointly funded with the chemical manufacturer, Nufarm Limited the costs to register the product. Three years of trial work is required of which one year has been completed. The product has the ability to increase returns significantly. The chemical company was approached about five years ago regarding registration. However, they were very reluctant given the large cost in having a product registered with the NRA. After many years of lobbying and with Horticulture Australia providing financial support the work has finally commenced.

Another product for improving fruit size is Maxim (2,4,5-TPA) manufactured by Dow Elanco. This product is used and registered in Spain and South Africa. The chemical company has been approached on many occasions to consider registration but has been reluctant due to the high cost.

Currently there are no chemical products available to thin citrus crops on a consistent basis. Thinning citrus crops improves fruit size. In the market place larger fruit achieves good returns, while returns for small fruit are very low and can sometimes be nil. The two products mentioned above are most suitable and have been used with a large amount of success overseas. Currently the only option to improve fruit size is to hand thin. The cost per hectare is around $1500–$2000. The cost of chemical thinning if Corasil E was available would be between $200–$300 per hectare. As well as the significant cost benefit in chemical thinning there is the elimination in the large amount of labour required, which is required when hand thinning. In regional areas finding suitable labour is becoming more and more difficult which makes chemical thinning very attractive.

As part of registering any product a large amount of residue data is required to satisfy the NRA, regardless of the results and information that can be presented from countries where the product is already registered. This residue data accumulation takes time and delays the industry in commercial use and economic benefits. Because of the high costs involved, chemical companies are reluctant to spend the money to conduct the research to register products as the citrus industry is relatively small in comparison to broadacre farming where companies make most of their chemical sales.

Box 5.1 provides a brief summary of some of the chemicals involved and the cost penalties imposed on growers from regulating arrangements which prevent their use. The citrus industry is a high user of integrated pest management techniques and needs novel uses for chemicals. Labels are often too prescriptive.

The present situation is unacceptable and needs addressing by government. The procedures followed by the NRA are in urgent need of review. To encourage companies to continue to invest in chemicals for Australian growers the costs of assessment and registration need to be reduced. Greater recognition is needed of the findings of regulating authorities overseas through sharing of data to facilitate registration in Australia. Harmonisation of standards is needed to ensure that growers are not denied access to best practice chemicals.

A more accommodating process for minor use procedures is also needed.

Electricity prices are escalating sharply

Many growers are heavily dependent on electricity to power pumps for irrigation. The newer more water efficient and environmentally desirable irrigation technologies are intensive in their use of electricity. In the Murray Valley electricity costs represents about 8 per cent of farm operating costs.

Electricity prices to growers have increased sharply since the mid-1990s. Between 1996 and 2001 electricity prices per unit of power used (excluding GST) have increased by around 70 per cent — which is a much greater rate of increase than the increase in the general cost level.

Growers are concerned at the electricity price increases. They consider that more transparency is needed in how prices are being set and regulated. More effective competition is also needed in the electricity market.

Labelling laws need further improvement

The ability to differentiate its product from the imported product on quality grounds provides one means for the industry to gain some control over price and help counteract import competition. This requires truth in labelling. Australia's citrus growing sector has a history of consistent and emphatic support for clear, unambiguous truth in labelling for both citrus juice products and fresh fruit.

The growing industry believes that promotion of its 100 per cent fresh juice product against the alternative juice product made from reconstituted concentrate will give it a competitive advantage against imports. But for this to be effective labelling laws must convey clearly to consumers the distinction between products.

The industry acknowledges the recent changes to labelling laws to assist consumers in determining the country of origin of particular products. But growers consider these changes have not gone far enough to assist consumers in determining the country of origin of particular products.

The new laws clearly set out the tests that a product must pass to qualify for country of origin status. The ACCC has determined that the reconstitution of imported concentrated fruit juice into fruit juice for sale can not be labelled as Australian product. The industry believes that these labelling requirements are not being complied with in the market place. There are many examples of non-compliant product labels. This applies also to country of origin labelling of fresh fruit, where many retailers do not comply or comply incorrectly. This then becomes a monitoring/enforcement issue, which ACG believes should be considered as part of the regulatory framework.

The industry also believes that consumers are still confused by the labels. It wants to see clearer labelling with larger font size and more transparent definitions to distinguish between fresh juice and reconstituted juice. ACG strongly supports the statement of the actual country of origin on the main label or ingredient list, in large typeface of at least 3 mm on citrus juice products.

In cases of mixed supply, ACG believes that the major (two-thirds) ingredient should constitute the country of origin, and that this be noted on the main label or ingredient — for example, Ingredients: Reconstituted Brazilian orange juice, Vitamin C (300). ACG believes that juice manufacturers/processors should be required to adjust packing (and labelling) *immediately* in line with 'seasonal availability' or breaches of the Standards or Voluntary Fruit Juice Code of Practice.

ACG also supports the ACCC determination that "100%" descriptor should not be used on any reconstituted product.

These proposals would be consistent with WTO regulations which require treatment of imports to be no less favourable then for products of domestic origin. And, consistent with WTO requirements, they could be justified on the basis of prevention of deceptive practices and/or human health and

safety considerations. The Australian growing industry urges the government to progress further the labelling laws as suggested here.

National competition policy (NCP) reforms have added to administrative costs and the compliance burden of industry associations

An unintended consequence of NCP reforms has been a big increase in administrative and compliance costs of grower organisations. This has come about through the substitution of ideology about competitive markets for practical considerations. For example, after reviews by each state of their respective citrus marketing boards, the boards must cease to be members of ACG on the grounds that statutory monies collected should not be used to fund agri-political organisations. An example is the NCP review of the Citrus Board of South Australia (CBSA). Consultation with South Australian growers has resulted in a new voluntary contribution of $0.50 per tonne to fund ACG. The CBSA now has to act as the agent for collection which will add to its administrative costs.

These NCP based requirements have caused the regional and national organisations to waste considerable amounts of resources in finding alternative ways of working together. What was a relatively simple process of national grower delegates agreeing to a small core budget for ACG funded from each state/region has now become a process of individual state negotiation over service agreements, activities and budgetary arrangements. Grower organisations run on tight budgets and this process has been unproductive. More time is now spent on administration and less on action and growers are finding it difficult to fund the increasing administrative costs imposed by NCP.

The citrus industry is already fragmented and state enforcement of NCP is making it more difficult to working together as a cohesive industry. The industry is already over-organised and conscious of the need to provide a return to growers on their investment in industry organisations.

6 *The need for adjustment assistance is urgent*

The citrus growing industry has made significant adjustments to the pressures imposed on it through the virtual elimination by the government of border protection against imported orange juice and the supply induced slump in world FCOJ prices.

- It has sought out and penetrated a number of export markets.
- It has implemented in the mid-1990s a massive valencia tree pull scheme and navel plantings to diversify away from the valencia juice market toward the navel export market and to other crops such as wine grapes. With a 15 year lag before new plantings reach maximum profitability the benefits of this switch will not be fully realised until the second half of this decade.
- Farm amalgamations have occurred to increase the scale of operations as many growers have left the industry.

But after years of disastrous returns many growers in the industry lack the financial capability to continue the adjustment process. Assistance from government is urgently needed:

- as a short term measure to alleviate financial hardship; and
- to facilitate stronger economic units which will be better able to compete internationally and prosper over the longer term.

In 1995 the industry benefited from an $8.4 million citrus market diversification program aimed at:

- driving market adjustment with a particular emphasis on exporting;
- implementing growth strategies;
- developing high priority expenditure activities; and
- reviewing the structure of commonwealth/state marketing arrangements.

While this program was valuable, particularly in developing export markets, no funding was available to provide direct grower support and on farm adjustment.

The case for short term assistance

The Australian growing industry considers that its current circumstances clearly meet the criteria for temporary safeguards against imports under the WTO agreement on safeguards. This agreement sanctions the provision of temporary assistance, and an opportunity to adjust, to an industry which is seriously injured or threatened as a direct result of increased imports.

- The evidence presented in chapter 2 shows that many growers in the industry are suffering severe financial hardship.
- Low domestic prices for around 50 per cent of domestic production (the juice market) are being set by low import prices.
- Imports have increased rapidly in absolute terms and have seriously eroded the market share held by domestic producers.
- The loss of market share, decline in prices and reduced profitability constitute serious injury in WTO safeguards language.

A direct assistance package could readily be implemented

Under the WTO agreement safeguards actions can be a tariff or quota against imports. The citrus industry understands the difficulties associated with providing assistance in these forms. It appreciates that border protection would send the wrong signals to other countries (especially Brazil) about Australia's endeavours to reduce agricultural protection in the forthcoming WTO Round and it is likely to involve retaliation. A tailor-made direct assistance package would avoid these difficulties.

With the prospect of large numbers of growers facing financial ruin and the adverse effects this would have on regional economies a financial assistance/adjustment package would be consistent with the Commission's broader guidelines to promote regional, social, ecological and economic goals of the Australian government.

There are a number of precedents for a grower structural adjustment package

The ACG recently requested the Commonwealth government to implement a grower structural adjustment package as a matter of urgency. The ACG noted the strong precedent for government direct assistance to citrus growers. In recent years the government has provided generous packages of financial assistance to the dairy industry, pork industry and sugar industry.

- The dairy industry structural adjustment package consists of:
  - a structural adjustment program of $1.63 billion to dairy farmers over the next eight years (funded by a tax on whole milk) as 'compensation' for industry deregulation;
  - the dairy exit program which provides a tax free payment of up to $45 000 for dairy farmers wishing to leave agriculture; and
  - the dairy regional assistance program which includes $45 million for regional communities that are significantly affected by deregulation.
- The integrated package of business assistance programs of $24 million for the pork industry comprises:
  - a $9 million national pork industry development plan to assist eligible industry participants to improve their competitive advantage;
  - a $2.6 million pork market alliance program to increase pork exports to the Singapore market;
  - an $8 million pig meat processing grants program to improve the international competitiveness of the processing sector;
  - a $1 million training initiative for producers to improve their business and technical skills; and
  - a $3.4 million program of grants to assist producers to exit the industry.
- The sugar industry assistance package involved $83 million over two years to provide:
  - immediate income support to eligible farmers;
  - interest rate subsidies on new loans for replanting and on existing loans; and
  - rural financial counselling services for growers.

Existing government programs are inadequate

There are a variety of existing government programs aimed at providing assistance to farmers to adjust. These include:

- MIA PowerPACT
- R&D Start, Grants and Loans
- Research and Development Tax Concessions
- Farm Innovation Program
- Farm Business Improvement Program
- Export Market Development Grants
- New Industries Development Program
- Food and Fibre Chains Program.

These programs generally focus on R&D and innovation initiatives. They also generally require a significant contribution from the applicant to access the funding. In their current precarious financial situation many citrus growers are unable to make such contributions. The current programs are inadequate for the special circumstances of growers as the following critique of MIA PowerPACT prepared by Transnational Consultancy and Training Services shows.

MIA PowerPACT

This is an initiative targeted at the citrus industry with grants for redevelopment and property expansion. Assistance available through the business and property redevelopment grants initiative is limited to $15 000. Assistance is only available to 25 per cent of the cost of the agreed development. To obtain $15 000 of funds a grower must be able to find a further $45 000, which is virtually impossible for most growers in need. Cash flows are too low and debt levels too high. For this component to be relevant to growers in need the percentage to be funded by government should be lifted to 75 per cent and the maximum amount of funding increased to $75 000.

The grants for property purchase under this program and the re-establishment grants are also unworkable. Property purchase grants are limited to $40 000, which compares with $15 000 for the price of an acre of citrus planted land. Such grants are of little assistance to financially troubled growers.

The $45 000 maximum available to growers to leave the industry provides insufficient assistance to growers wishing to leave the industry. A farmer selling up and realising cash in hand of $100 000 after debt repayment would need to raise at least a further $100 000 to purchase a house in Griffith. Given that a requirement of Farm Help is that a farmer must hold a certificate of inability to obtain finance from a financial institution and that should the farmer have over $100 000 in assets funding is reduced by $2 for every $3 over this amount it is clear that the FarmHelp program is ineffective in assisting farmers to re-establish after leaving the farm.

In its submission to the federal government for a structural assistance package, the Australian Citrus Growers Inc. proposed the addition of the following features to the MIA PowerPACT Rural Partnership Program to provide more effective assistance to orange growers to match their circumstances.

It is proposed that the Federal and New South Wales Government look at assisting orange growers in the MIA by adding the following strategies to the MIA PowerPACT Rural Partnership Program.

- Establish a grant to enable growers to redevelop their farms by funding 50 per cent of the cost of redevelopment up to a maximum of $20 000.
- Establish a Seven Year Growth Grant of 5 per cent of the cost of the redevelopment for seven years to allow for the costs of growing trees to bearing age, offset the associated loss of income and increased finance costs of the redevelopment.
- Expand the exit package available under the AAA Farm Help package to a maximum grant of $115 000. Farmers and their partners may have up to $100 000 in net assets to qualify for the maximum grant and the grant phases down as assets increase. No grant is available if assets exceed $238 000.

A proposed orange grower structural assistance package

The ACG recently requested the government fund an orange grower's structural assistance package as a matter of urgency. The package, which is well within the scope of the assistance package already given to the dairy, pork and sugar industries, proposes funding of $60 million over a three year period to cover:

- assistance to redevelop the farm (change plantings and take up new technology);
- assistance to establish new plantings; and
- assistance to exit the industry.

The initiatives proposed are set out in box 6.1.

6.1 Proposed orange grower structural assistance package

Low interest subsidies

- For replanting and variety redevelopment.
- For new/existing loans up to a maximum of $100 000 subject to an off farm net assets test

Exit/re-establishment package

- Current payment of $45 000 completely inadequate. Need realistic amount to allow for exit with dignity.
- Tree pull scheme — allowing growers to exit industry but remain on their properties.

Redevelopment program

- Replanting subsidies for 7 years to cover time not in production.
- Reworking subsidies to cover cost of reworking trees to innovative varieties.
- Tree subsidies — to purchase and plant trees.

Innovation and new technologies

- Grants to cover implementation of innovative technologies for growing, planting, harvesting and sorting machinery.
- Machinery and equipment updates — assistance in purchasing.
- Training.
- On-farm cultural practices.

Labour scheme

- Increase superannuation threshold.
- Return unclaimed superannuation money set aside for pickers to growers.

Domestic marketing campaign for valencia

- Funding to develop an identifier logo for 100% Australian products.
- Funding to develop and implement a marketing campaign to encourage consumers to buy Australian citrus products.

Expansion package

- Grants available for growers to expand their business.

Centrelink payments

- Growers to be means tested in order to receive Centrelink payments.
- Farm help scheme to be revised.

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