



AUSTRALIAN
FOOD AND GROCERY
COUNCIL

18 December 2001

Dr John Salerian
Assistant Commissioner
Citrus Industry Inquiry
Productivity Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003

Dear Dr Salerian

Please find enclosed the Australian Food and Grocery Council's (AFGC) preliminary submission to the Productivity Commission in response to the Issues Paper *Citrus Growing and Processing*.

The AFGC intends to provide a further submission in response to the Position Paper, when released at the end of this year.

Kind regards

TONY DOWNER
A/G DIRECTOR, SCIENTIFIC AND TECHNICAL



AUSTRALIAN
FOOD AND GROCERY
COUNCIL

SUBMISSION

Submission to the

Productivity Commission Inquiry into the Citrus Growing and Processing Industry

December 2001

1 THE AUSTRALIAN FOOD AND GROCERY COUNCIL

The Australian Food and Grocery Council (AFGC) makes this submission to the Productivity Commission in response to the Issues Paper *Citrus Growing and Processing*.

The AFGC is the peak national organisation representing Australia's packaged food, drink and grocery products industry.

The membership of the AFGC comprises more than 185 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the highly processed food, beverage and grocery products sectors (A list of members is included at *Appendix 1*).

The AFGC represents the nation's largest manufacturing sector. By any measure Australia's food, drink and grocery products industry is a substantial contributor to the economic and social welfare of all Australians. Effectively, the products of AFGC's member companies reach every Australian household.

The industry has an annual turnover in excess of \$54 billion and employs 165,000 people—almost one in five of the nation's manufacturing workforce. Of all Australians working in the industry, half are based in rural and regional Australia. And the processed food sector sources more than 90 per cent of its ingredients from Australian agriculture.

The AFGC's agenda for business growth centres on public and industry policy for a socio-economic environment conducive to international competitiveness, investment, innovation, employment growth and profitability.

The AFGC's mandate in representing member companies is to ensure a cohesive and credible voice for the industry, to advance policies and manage issues relevant to the industry and to promote the sector and the virtues of its products, enabling member companies to grow their businesses.

The Council advocates business matters, public policy and consumer-related issues on behalf of a dynamic and rapidly changing industry operating in an increasing globalised economy. As global economic and trade developments continue to test the competitiveness of Australian industry, trans-national businesses are under increasing pressure to justify Australia as a strategic location for corporate production, irrespective of whether they are Australian or foreign owned. In an increasingly globalised economy, companies' ability to internationalise their operations is as significant as their ability to trade globally.

Increased trade, rationalisation and consolidation of businesses, increased concentration of ownership among both manufacturers and retailers, intensified competition and a dynamic, increasingly complex and demanding consumer are features of the industry across the globe. Moreover, the growing global middle-class of consumers is more sophisticated and discerning, driving innovation and differentiation of products and services.

The AFGC is working with governments in taking a proactive, even tactical approach to public policy to enable businesses to tackle the threats and grasp the dual opportunities of globalisation and changing consumer demands.

2 COMMENTS ON THE ISSUES PAPER

2.1 Background

The Australian Food and Grocery Council (AFGC) represents the processed food and grocery industries and does not include in its membership representatives from the citrus growing industry. This submission, therefore, addresses only the area of citrus processing.

Domestic orange growers cater for three markets:

- domestic fresh fruit;
- export fresh fruit; and
- fruit juice processing.

The market, therefore, is subject to considerable supply/demand and price volatility.

The amount of domestically produced oranges going into juice processing tends to vary depending on the size of the crop and the amount going to the fresh fruit market. Growers, unless growing under contract, tend to supply the fresh fruit market first and send the balance to processing. Thus, if the fresh price is good and demand strong, relatively little remains for processing into juice and fruit juice concentrate.

With this variation in supply comes an overall shortfall in the amount of fruit available for processing compared with the market demand for orange juice, causing the industry to be less efficient than it might be if supply were steady.

This results in the necessity to import either fresh oranges or frozen orange juice concentrate to fill this shortfall.

At the same time the export of fresh fruit is increasing, growing from 108,000 tonnes in 1994/95 to 180,000 tonnes in 2000/01. This success is due in part to the demand for fresh citrus fruit to be available all year, allowing Australia to capitalise on the northern hemisphere winter and in part on improved quality.

It is estimated that for the year 2000-2001 the total Australian orange juice market was the equivalent of 600,000 tonnes of oranges. However, only around 290,000 tonnes of domestically produced oranges were available for processing. A consequence of this was the need to import the equivalent of around 310,000 tonnes of oranges.

The domestic orange juice market is divided into two segments

- fresh (not from concentrate) orange juice; and
- orange juice which consists either of fully reconstituted orange juice concentrate or a mixture of fresh juice and reconstituted juice.

While the overall juice market continues to grow only slowly, the major growth area is in the fresh juice sector, which has increased by almost 23% over the past three years. Growth of this segment has been shown to be extremely strong overseas and it is anticipated that the growth of the past three years, although it might slow, will continue into the future, reflecting overseas trends.

This has two potential effects:

- more domestically produced oranges will be needed for processing into fresh juice, resulting in less being available for the reconstituted juice products; and
- any shortfall in availability, whether this be because of increased sales of fresh fruit (either domestically or for export), or poor growing season will affect the fresh juice processing industry, but will affect the juice/reconstituted sector even more so.

Thus there will be a continuing need to import oranges and frozen orange juice concentrate into the foreseeable future.

2.2 Competition

The citrus juice industry faces considerable competition in the marketplace, perhaps more so than the fresh citrus fruit. Fresh citrus fruit competes only against other fruits, some of them – such as the stone fruits – being highly seasonal. Citrus juice competes not only against other juices such as pineapple, tomato and apple, but also against similar products such as fruit juice drinks, fruit drinks and fruit cordials, and dissimilar products such as herbal teas, carbonated soft drinks, mineral water, milk and flavoured milks.

Orange juice tends to be perceived as a “healthy” drink and, to a large degree, is consumed with breakfast. In this situation its greatest competitor would be milk.

As a lunchtime drink or an evening drink, often as an alternative to alcohol, orange juice faces its greatest competition from mineral water.

Orange juice is not cheap and for this reason it is not perceived as a “thirst quencher” that can be drunk in quantity. In this situation carbonated soft drinks and cordial tend to be the drinks of choice. Also, because of its price some people are forced into purchasing cheaper alternatives such as fruit drink, fruit juice drink and fruit cordial.

Some processors have contractual arrangements with growers but, as stated previously, for those who do not, the market is very price sensitive. When the price for fresh fruit is good the amount of fruit available for processing is reduced. While the processors of “fresh” juice must always use fresh fruit, at these times the processors of reconstituted or part reconstituted juice resort to using more fruit juice concentrate. Often this is imported as domestic supplies are insufficient to meet demand.

At one time considerable quantities of imported orange juice concentrate were being used at the expense of some domestic supplies. However, it is understood that the industry in Brazil has ceased expanding and stocks of concentrate are down. It is likely, therefore, that there will be reduced availability of supply and the price of concentrate will rise. Although this may be beneficial to domestic growers and processors of concentrate by increasing the domestic price, it is **unlikely that the growing industry can expand sufficiently in time to take maximum advantage of the situation and meet any increased demand.**

2.3 Barriers to Entry

With regard to the processing industry, the main barrier to entry is the market itself. The main growth area is in the “fresh” juice area; however, variability in supply of fruit means that establishing new processing business of any size would be extremely risky, while for the

reconstituted or partly reconstituted products the market is relatively mature and offers little opportunity for newcomers.

At this time it appears that the major opportunity would be for currently established efficient operations to take over or ease out the less efficient.

Long term, if supplies of the most appropriate oranges for juicing (Valencia) were to become available, there may be opportunities for growth of existing enterprises or possibly for new ones.

2.4 A "Safeguard" Inquiry

Under the World Trade Organization, safeguard measures can be put in place if it can be demonstrated that imports have increased and that increase has caused or is threatening to cause serious injury to the domestic industry.

The fact that the domestic industry can supply only half of the requirement for citrus fruit means that imports must fill the other half of the supply-demand equation.

From the processors' point of view, the shortage in supply of fresh fruit means that the domestic industry cannot process enough orange juice concentrate to meet its own needs. This necessitates the use of imported orange juice concentrate for the manufacture of reconstituted type products.

The AFGC considers that although it may be possible to demonstrate an increase in imports, it is not a sudden increase and that increase cannot be shown to have caused serious injury to the processing industry.

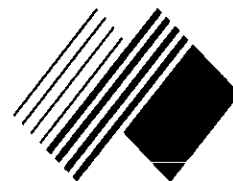
On these grounds the AFGC considers that a "Safeguard" Inquiry cannot be justified relative to the processing industry.

Appendix 1

List of Members

MEMBERSHIP

As At 23/11/01



AUSTRALIAN FOOD AND GROCERY COUNCIL

AAB Holdings Pty Ltd
Ardmona Foods Ltd
Arnott's Biscuits Ltd
The Kettle Chip Company Pty Ltd
Asia-Pacific Blending Corporation Pty Ltd
Australia Meat Holdings Pty Ltd
Beak & Johnston Pty Ltd
Berri Limited
BOC Gases Australasia Ltd
Bonland Dairies Pty Ltd
Boots Healthcare Australia Pty Ltd
Bristol-Myers Squibb Australia Pty Ltd
Bronte Industries Pty Ltd
Buderim Ginger Ltd
Bundaberg Sugar Ltd
Cadbury Schweppes Asia Pacific
Campbell Australasia Pty Ltd
Campbell Brothers Ltd
Cantarella Bros Pty Ltd
Carter Holt Harvey Tissue Aust Pty Ltd
Cascade Beverage Co
Cerebos (Australia) Ltd
Chr Hansen Pty Ltd
Christie Tea Pty Ltd
Clorox Australia Pty Ltd
Coca-Cola Amatil Ltd
Colgate-Palmolive Pty Ltd
Consolidated Foods Australia Ltd
Coopers Brewery Ltd
Cussons Pty Ltd
Dairy Farmers
Darling Downs Bacon Co-operative
Association Ltd
Demicombe Pty Ltd
Derby Industries Pty Ltd
Devro-Teepak Pty Ltd
Douwe Egberts
Dragoco Australia Pty Ltd
DSM Food Specialties Australasia Pty Ltd
Effem Foods Pty Ltd
Mars Confectionery of Australia
Master Foods of Australia
Uncle Ben's of Australia
Farm Pride Products
Faulding Healthcare Pty Ltd
Fibrisol Services Australasia Pty Ltd
Firmenich Limited
Fletchers Foods Pty Ltd
George Weston Foods Ltd
Allied Foods Co Ltd
Baking Division
Biscuit & Cake Division
Meat & Dairy Division
Weston Bioproducts
Weston Cereal Industries
Weston Technologies
Gillette Australia Pty Ltd
GlaxoSmithKline
Golden Circle Ltd
Goodman Fielder Ltd
Germantown International
GF Food Services
GF Ingredients Group
GF International
Goodman Fielder Milling & Baking Group
Bunge Defiance Pty Ltd

Goodman Fielder Mills Ltd
Leiner Davis Gelatin (International)
Meadow Lea Foods
Quality Bakers Australia Ltd
Serrol Ingredients
Starch Australasia Ltd
The Uncle Toby's Co Ltd
Green's Foods Ltd
H J Langdon & Co Pty Ltd
Hans Continental Smallgoods Pty Ltd
Harvest FreshCuts Pty Ltd
Heimann Foodmaker Group
Heinz Wattie's Australasia
Southern Country Foods Pty Ltd
Henry Jones Foods Pty Ltd
Herron Pharmaceuticals Pty Ltd
Hoyt Food Manufacturing Industries Pty Ltd
International Flavours & Fragrances
(Australia) Pty Ltd
Johnson & Johnson Pacific Pty Ltd
Kellogg (Australia) Pty Ltd
Day Dawn Pty Ltd
Kimberly-Clark Australia Pty Ltd
Kraft Foods Ltd
La Famiglia Fine Foods Pty Ltd
Madura Tea Estates
Manildra Harwood Sugar
McCormick Foods Australia Pty Ltd
Merisant Manufacturing Australia Pty Ltd
Mother Earth Fine Foods Pty Ltd
National Foods Ltd
Nerada Tea Pty Ltd
Nestlé Australia Ltd
Nestlé Beverages Division
Nestlé Confectionery Division
Nestlé Dairy Products Division
Nestlé Foods Division
Friskies Pet Care Division
Foodservice & Industrial Division
Novartis Consumer Health Australasia Pty Ltd
NutraSweet Australia Pty Ltd
Nutricia Australia Pty Ltd
Nutrinova (Australasia) Pty Ltd
Ocean Spray International, Inc
OSI International Foods Australasia Pty Ltd
P B Foods Ltd
Paper Converting Co Pty Ltd
Patties Bakery Pty Ltd
Peanut Company of Australia Ltd
Pfizer Warner Lambert Consumer Group
Pillsbury Australia Pty Ltd
Procter & Gamble Australia Pty Ltd
Quality Ingredients Ltd
Quest International Australasia Ltd
Reckitt Benckiser
Regal Cream Products Pty Ltd
Ridley Corporation Ltd
Cheetham Salt Limited
Roche Vitamins Australia Pty Ltd
S C Johnson & Son Pty Ltd
Sanitarium Health Food Company
Longa Life Vegetarian Products Pty Ltd

Sara Lee Bakery (Australia) Pty Ltd
Schwarzkopf and Henkel
Sensient Technologies Australia Corporation Pty Ltd
Sharpe Laboratories Pty Ltd
Simplot Australia Pty Ltd
Snack Brands Australia
Specialty Cereals Pty Ltd
Spicemasters of Australia Pty Ltd
Sugar Australia Pty Ltd
Sunbeam Foods
Tetley Australia Pty Ltd
Unilever Australasia
Wella Australia
Wyeth Australia Pty Ltd
Yakult Australia Pty Ltd

Associate Members

Accenture
Amcor Fibre Packaging
Australian Dairy Corporation
AWB Limited
Brands on Show Pty Ltd
Cap Gemini Ernst & Young
Chep Australia
Clayton Utz
CROSSMARK Asia/Pacific
DiverseyLever Consulting
Ernst & Young
Focus Information Logistics Pty Ltd
Food Liaison Pty Ltd
Foodbank Australia Limited
Foodsense
Freehills
IBM Australia Ltd
innovations & solutions
KPMG Chartered Accountants
Linfox Australia Pty Ltd
Maddock Lonie & Chisholm
Manassen Foods Australasia Pty Ltd
Meat and Livestock Australia Ltd
Michels Warren
Monsanto Australia Ltd
Mayne Logistics Pty Ltd
Nationwide Food Brokers Pty Ltd
Novozymes Australia
PricewaterhouseCoopers
Protein Technologies International Aust Pty Ltd
Queensland Sugar
Ronald L Cossen & Associates Pty Ltd
Strategic Horizons Pty Ltd
TMP Worldwide eResourcing Ltd
viaLink Australasia Pty Ltd
Visy Board Pty Ltd
Weekes Preston