



CITRUS BOARD OF SOUTH AUSTRALIA

**Submission to the Productivity Commission
Inquiry into the Citrus Growing and Processing
Industry**

December 2001

Executive Summary

The objective of the of the productivity commission inquiry into the citrus growing and processing industry is to examine whether any measures are necessary to enhance the industry's competitiveness, and whether a formal safeguard investigation is warranted.

To facilitate this process the Citrus Board of South Australia (CBSA) has in this report provided information on:

- The structure of the South Australian Citrus Industry and factors affecting competitiveness
- Activities undertaken by the CBSA to enhance competitiveness
- Provided recommendations on Government Policies and Programs to improve competitiveness

Key recommendations identified by the CBSA to improved industry competitiveness include:

- Increasing access to export markets by removing trade barriers via a stronger role-played by the Federal Government in negotiating liberalisation of the global citrus trade.
- Development and support of sophisticated ongoing information bases to supply information on the citrus chain at state and national levels.
- Strengthening of federal export control powers to facilitate improved marketing arrangements and development of a professional export-marketing ethos.
- Immediate reforms to current labelling requirements to allow clearer identification of imported products, greater penalties for breaches and improved policing.
- Improved access to important agricultural chemicals via simplification of NRA requirements for registration and use of products.
- Enhanced support at state and federal levels for research, development and extension activities which facilitate improvements in citrus production and market access / acceptance.
- Improved access to important overseas varieties and appropriate quarantine to systems to protect industry against exotic pests and diseases.
- A review of the impact of NCP on industry in respect to extra administrative burden and the ability of Board's and other similar organizations to provide non-rival and non-exclusive services considered essential for industry growth and stability.

The CBSA recognizes that industry restructuring is important to move away from the unprofitable juice concentrate market and believes that assistance from the Commonwealth Government is required to facilitate this process. The CBSA supports the use of safeguard measure as identified under the WTO agreement, which allows for the short-term use of tariff or quotas against imports when unforeseen circumstances occur.

In the event that safeguard measures cannot be imposed the CBSA requests that the Commonwealth Government provide assistance in the following forms:

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

1. South Australian Citrus Industry

The South Australian Citrus Industry is made up of approximately 850 growers who produce about 35% of the national citrus crop. Citrus plantings in South Australia total 7850 ha or 2,617,301 trees and are located predominately in the Riverland. Horticultural production in the Riverland in many cases is characterised by a large number of small growers producing a range of crops. Fifty two percent of citrus growers have less than 5 hectares of citrus and to remain profitable these growers need to increase planting size and or change varieties. Many are unable to make the change without financial incentives.

The main citrus varieties produce includes Valencia's 39%, Navels 42%, Mandarins 11%, and other citrus 8%. With respect to tree age, 23% of the plantings comprise non-bearing trees from one to six years old and 20% of the trees are over 30 years old and therefore requiring urgent removal for replanting in the near future.

Orange production in South Australia over the last five years has averaged 181,642 tonnes per annum, with sales of oranges still predominantly in the juice sector. However, compared with all other states, South Australia is the largest exporter of oranges and has continued to work towards industry growth through export development. Market outlets for Valencias comprise domestic 18%, export 20% and juice 62%. Navel market outlets consists of domestic 32%, export 37% and juice 31%.

The Citrus Industry plays a valuable role in the economy of South Australia and is a significant land user along the River Murray. The industry not only comprises a large number of growers but is supported by 27 unrestricted citrus packing sheds (able to pack for other growers), 11 restricted sheds and 8 processors. The Gross Value of Production of the South Australian Citrus Industry was \$97.2 million in 1999/00 (ABS 2001, *Value of Agricultural Commodities Produced*) and the packing and processor sector alone employs about 1,200 people.

The environment in which the South Australian Citrus Industry operates has changed significantly over the last decade and will continue to change. Consumer trends and the political climate are not conducive to industries that are non-self supporting, not consumer oriented, inefficient and not quality driven.

In this environment the South Australian Citrus Industry has experienced increased deregulation, tight economic conditions, technological improvements, product consistency and greater consumer demand for value.

To facilitate a more favourable environment for the South Australian Citrus Industry the Citrus Board of South Australia (CBSA) has operated under a philosophy of supporting greater professionalism, integration and the need to be market driven. However, in addition to the activities of the CBSA and in the face of unforeseen increases in imports, reductions in Australian tariffs, loss of sales tax concessions and difficult global trading, Federal Government assistance is required to provide short-term help to alleviate financial hardship and to produce a stronger citrus industry in future.

2. Role of the Citrus Board of South Australia

The Citrus Board of South Australia believes the Citrus Industry Mission should be to provide sound financial returns to producers and others in the supply chain by producing citrus fruits and citrus fruit products to meet market requirements in Australia and overseas. In assisting industry to achieve this competitive position, the Board has a number functions, as detailed in Section 14 of the *Citrus Industry Act 1991*. These are to:

- (a) develop policies for:
 - (i) the orderly marketing of citrus fruit and citrus fruit products; and
 - (ii) achieving and maintaining quality standards for citrus fruit and citrus fruit products;
- (b) to support and encourage the export of citrus fruit and citrus fruit products from the State;
- (c) to collect information relating to the production and marketing of citrus fruit and citrus fruit products within Australia and overseas;
- (d) to undertake, assist or encourage the promotion of, and encourage the consumption of citrus fruit and citrus fruit products;
- (e) to undertake, assist or encourage research into and development of citrus fruit, citrus fruit products and the citrus industry;
- (f) to provide information, training, review of procedures or advice to assist growers, packers, processors or other persons involved in the industry to improve the production and marketing of citrus fruit and citrus fruit products and to comply with laws of the Commonwealth, States and Territories relating to the citrus industry; and
- (g) to perform the other functions assigned to the Board by or under the Citrus Industry Act 1991 or by the Minister.

3. Enhancing Industry Competitiveness

One of the objectives of the inquiry is to assess the “competitiveness of the industry, including efforts taken by industry to enhance competitiveness.” In recent years, the activities of the Board have influenced the operation of the citrus industry in South Australia in a way that has improved its competitiveness.

In many ways, the industry (growers and all members of the value chain) has been responding to the changing global environment. The activities of the Board, which have been consistent with the functions of the Board as set out above, have facilitated the industry response to global change.

In undertaking these functions the Board, in recent years, has had significant achievement in the following areas:

- (a) Export market development. The Board facilitates new export market access and a co-ordinated approach to marketing. Key activities include:
 - Providing AQIS and Biosecurity Australia with advice on potential quarantine threats to Australia and supplying technical data to facilitate market access (i.e. USA & Korea).
 - Providing funds and technical advice to the Tristate Fruit Fly Committee to maintain area freedom.
 - Providing information to industry about market access and quarantine issues.
 - Participating as a member of the AQIS / Industry Technical team to address market access issues.

- (b) Industry information. The Board provides four weekly reports with the aim of keeping industry informed of relevant developments and to provide up to date market information to facilitate trade.

- CBSA newsletter is provided to all sectors of industry, published in regional papers and circulated to a number of metropolitan media organizations.
- The Distribution Report – details Adelaide wholesale market price information.
- The Market Report – details wholesale market information in Sydney, Melbourne, Adelaide and Brisbane.
- The Varietal Report – details weekly distribution of SA fruit & harvest progress.

The Board also collects crop density, size and planting details to help with marketing and future planting strategies. This information has been compiled over many years from all sectors of industry and is critical in respect to forward marketing decisions. This information is also supplied to ACG for national use.

- (c) Promotion activities. The Citrus Board of SA maintains a high profile particularly in Adelaide via its support of schools activities, high profile sports and promotion events, in-store demonstrations and distribution of promotional material. The Board promotes the health benefits of citrus via its “Sports Fruit” slogan and links with MVCMB and RCM to promote citrus nationally. Key activities include:

- Offers every SA primary school free oranges and healthy eating brochures for their school sports days, 223 schools were supplied with fruit in 2001.
- Major campaigns supported include 2001 Navel and Valencia season launch delivered by the Adelaide Football Club and Adelaide 36ers. Both events were backed up by print and electronic media.
- Provided promotional material for 729 stores across Australia (Woolworth’s, Coles and Independents).
- Funded in-store demonstration in stores across Adelaide and Coles 7-a-day program across a number of States.
- Sponsorship of high profile sporting events (i.e. Barossa Marathon, Triathlon, City-to-Bay Fun Run, Heart Foundation Walk to Work day).
- Sponsorship of schools Life Education Units across South Australia, which provide a health and education program.
- Promoted the SA citrus industry at the Royal Adelaide Show, Riverland Field Days and Waite Campus careers day.

Other activities include sponsorship of Southern Schools Teams sailing, SA School Surfing Association and South Australian Primary Schools Amateur Sports Association events.

- (d) Research and development. The Board supports R&D activities of direct benefit to all sectors of the SA citrus industry. Key activities include:

- Provide funding for activities undertaken by Kym Thiel (Industry Development Officer) and Toby Knight PhD scholarship in plant physiology.
- Promote better handling practices and improve fruit quality by identifying packing shed impact points using the Board’s “electronic orange”.
- Provide technical advice to chemical companies and the NRA to help with registration of beneficial pesticides.

- Develop info notes to aid packers and growers with production issues.
 - Provide advice to researchers and funding agencies to ensure R&D suits SA needs.
 - Provide training for growers and packers to improve management skills.
 - Directly support activities of researchers in the areas of post harvest research, pest and disease management and citrus production.
- (e) Regulation. To ensure the continued quality of the citrus industry, the Board now requires growers to have a 3rd party audited HACCP based food safety program by January 2002 before they can be registered. Packers were required to complete a 3rd party audited HACCP based Quality Management System by May 2001 as a condition of registration.

The Board continues to audit sheds, inspect systems for recording fruit in and packouts, payments tied to deliveries, weekly return information and details of dispatches to processors. Registration of growers, packers, processors, volume retailers and wholesalers is maintained.

- (f) Leadership strategies. The Board acts as the primary focus for all sectors of the Citrus Industry in South Australia to address industry concerns and provides a framework to improved standards of professionalism. Recent activities have included:
- The Board in conjunction with ACG, CGSA, MVCMB and RCM visited Canberra and provided information, which has led to the Productivity Commission inquiry into citrus growing and processing.
 - Convening a meeting of packers and the compliance committee to formulate new mandatory packing shed requirements to provide better reporting to growers and better handling practices.
 - Facilitating several industry meetings in conjunction with AQIS to formulate industry quarantine procedures, which have resulted in less export problems.
 - The Board registers all sectors of industry and monitors quality aspects at the Adelaide markets to ensure minimum standards are maintained.
 - The Board, via linkages to HAL and PIRSA, promotes SA R&D priorities for funding.

Each of the functions of the Board addresses some form of market failure. For almost all of those functions listed above (export market development, industry information, promotion activities, research and development and leadership strategies), the services provided by the Board have characteristics of public goods. That is to say, the types of services and activities undertaken by the Board are, to a certain extent, non-rival and non-exclusive.

The promotional activity of the Board is a good example. The benefits of generic promotion to one grower, packer or processor does not diminish the availability of benefits to others (the non-rival characteristic). The very nature of the generic promotion means that it may be 'used' by other producers at no extra cost. The second characteristic of a public good is that it is non-excludable. This means that people cannot be excluded from consuming the good or service. In these circumstances, where the service is both non-rival and non-excludable, the service may not be produced by the private sector as it would be difficult to force any individual beneficiary to pay (they will benefit whether or not they pay).

In undertaking promotion activities (and R&D, market development, leadership strategies, etc.) the Board is able to address and rectify significant 'public good' market failure and thereby enable the market to operate more efficiently.

The Board's industry information service addresses another type of market failure, that of incomplete or asymmetric information¹. If producers do not have accurate information about market prices, product quality or specific characteristics of the product, the market system will not operate efficiently. This lack of information may give producers an incentive to supply too much of some products or too little of others.

The Board's regulatory activities are in two main areas: (1) registration of parties in the citrus growing and value chain; and (2) ensuring adherence to food safety and quality standards. These regulatory functions address potential 'externalities', which are another form of market failure. The market is not working efficiently if market prices do not reflect the activities of either producers or consumers. This situation can arise in the presence of externalities.

For example, chemical residues in products or other food safety problems resulting from inappropriate production, packing or processing systems can damage the health of those consuming the products. This cost (damage to health) incurred by consumers is caused by the grower (or packer or processor). The market failure in this case is an 'externality' because the grower (or packer or processor) makes a decision on financial grounds, not taking account of the potential health effects to others. As well, an individual grower not adhering to standards could also undermine consumer confidence in the market and thereby adversely affect returns to other parties in the industry (another form of externality).

In undertaking its regulatory functions the Board is able to address and rectify the significant negative 'externalities' that would otherwise be endured by both producers and consumers. Although the benefits of a more competitive and efficient market are extremely difficult to quantify, it is certain that the Board enables the market to operate more efficiently than would be the case without its regulatory role.

4. *Recommendations on Government Policies and Programs*

Many factors impinge on the competitiveness of the industry and there are many reasons why adjustment to a changing market and regulatory environment takes time and will be ongoing. Government policies, such as tariff reductions, water reform (move to full cost recovery with respect to management of water resources and infrastructure) and privatisation of public utilities (e.g. electricity), can directly affect costs and returns,. Government policies can also affect the asset position of growers and hence their ability to adjust, restructure or exit from the industry. Seeking alternative (export) markets takes time and requires investment in marketing, QA systems, etc. This, together with the need for varietal change (valencias to navels), can also impact severely on the financial position of growers, packers and processors over an extended period of time.

For these reasons, continued support from government is required to maintain ongoing structural adjustment and ensure the competitiveness and long-term financial and environmental sustainability of the industry. The following are comments by the CBSA on the need and form of some of the government measures that could be introduced/maintained to enhance the competitiveness of the industry.

¹ The collection, collation and provision of industry information also has characteristics of a public good, being both a 'non-rival' and 'non-exclusive' service.

Export barriers

Given the response to changes in the global market in recent years, the industry in South Australia is sure it will be able to compete internationally in the long term. Currently, however, the international market is not a level playing field. This is evidenced by:

- subsidised production in some exporting countries;
- tariff barriers in importing countries; and
- the use of quarantine and phytosanitary procedures as trade barriers in importing countries. While South Australia is accepted as having fruit fly area freedom by some countries others continue to block access via technicalities.

The CBSA recommends that the Commonwealth Government take a stronger role in negotiating liberalisation of the global citrus trade.

Maintain and develop an information base on the citrus value chain

As noted earlier, an important role of the Board is the provision of up to date market information. When all parties in an industry are fully informed about market developments that affect costs and prices at each stage of the production and supply chain, competition and resource use efficiency are enhanced.

The CBSA see it as extremely important for it to maintain its existing data collection functions, where it collects information relating to the production and marketing of citrus fruit and citrus fruit products within Australia and overseas. Much of the information collected by the CBSA in respect to size, density and planting details has been collected over many years is critical to market planning. No other organizations collect this necessary information at state level. The Board is also supportive of the ACG's call for government support in developing a sophisticated and ongoing information base on the citrus value chain at a national level.

Export control powers

In many export markets an "open slather" environment exists in which often, Australian exporters compete against each other causing spiralling poor returns back along the line to growers. To compound issues further a significant number of exporters are far removed from the packing and growing process and have a poor understanding of production requirements for export and or have little contact with the packer / grower.

The citrus industry uses export control powers under the *Australian Horticultural Corporation Act* to assist with its marketing arrangements in a number of countries. These powers have been and continue to be valuable in enhancing returns to growers. The single importer arrangement established for exports to the USA is testimony to the positive impact that can be achieved on industry returns and the flow on effect such a market has in driving industry to implement best practices. CBSA not only strongly supports the retention of current powers but supports initiatives, which enhance the development of "professionally minded" exporters and integration of the sectors.

Reforms to labelling laws

The CBSA uses the labelling requirements under the *Citrus Industry Act 1991* in South Australia to ensure the correct identification of product types and varieties, the accurate specification of weights, and to ensure that minimum maturity and other grade standards are met. These labelling requirements are valuable in protecting both the industry and consumers and the CBSA strongly supports their retention.

Existing labeling laws at a Federal level do not allow Australian grown product to be properly differentiated from imported product. Labelling laws need reform so that consumers can be better informed. There are problems with compliance to existing requirements regarding the labelling of reconstituted imported concentrated fruit juice as Australian product. Investigations by the ACCC support the view that policing of labelling requirements is inadequate and penalties not sufficient to deter would be offenders.

The ACG, in its submission to this inquiry, has made a number of suggestions for reform to existing labelling requirements. The proposed reforms, involving clearer labelling, larger font sizes and more transparent definitions of fresh and reconstituted juice, are supported by the CBSA.

Reform to the regulatory framework for registration of agricultural chemicals

Under current procedures followed by NRA, growers are being denied access to important crop chemicals, which are being used by other exporting countries. To compete in the international market, growers need access to best practice chemicals. The current procedures are unnecessarily costly and need reform. The CBSA supports the call by the ACG for an urgent review of the procedures followed by the NRA.

The CBSA also calls on government to pursue more vigorously uniform legislation and regulation across all state and territories. This, together with improved access to minor use chemicals, would go some way to removing the significant delays and costs incurred by growers that are caused by unnecessary bureaucratic process.

Research, development and extension

In recent years significant reductions in state government funding of citrus industry programs has hindered the ability of industry to adjust and implement new technologies especially those of major benefit to export markets. In particular the extension services of the Department of Primary Industries and Resources have been severely cut leaving only 50% of one officer's time dedicated to citrus. While the citrus industry has moved to cover some gaps in research, development and extension, it is unable to address all issues necessary to restructure without government support.

The CBSA therefore calls on government to continue to support R & D activities of direct benefit to the citrus industry especially those activities, which relate to implementation of technologies to support export growth and extension of information via Industry Development Officers.

Citrus variety improvement

Reductions in the Australian tariff and removal of sales tax concessions in the nineties has forced industry to look harder at new fresh fruit export varieties. However a quarantine embargo on importation of citrus budwood up to 1986 has severely delayed industries ability to adjust to these sudden economic changes. Generation of commercially significant data on new varieties evaluated under local conditions requires long lead times. The process of identifying suitable overseas varieties, clearing budwood through quarantine, replicating material, establishing evaluation orchards and raising trees to produce crops for evaluation can take 7 to 10 years depending on the variety.

The CBSA therefore supports Government policies, which improve access to valuable overseas budwood but still provide appropriate legislation or protection to ensure that industry is not put at risk by quarantine diseases.

Impact of national competition policy (NCP) reforms

Concerns have been raised that NCP reforms will remove valuable powers from the CBSA as they currently apply under the Citrus Industry Act 1991. These powers have been developed over a long period of time in consultation with all sectors of industry to provide an orderly marketing system and standards for various sectors. The CBSA was first formed in 1965 at the request of industry to prevent inefficient marketing practices, which resulted in disastrous returns to industry, particularly growers. Current activities conducted and outcomes achieved by the CBSA benefit both industry and consumers. Removal of CBSA regulations could be detrimental to industry and because of their public good nature, alternatives to achieving the same objectives may be difficult to find. Experience from other states also shows that under NCP reforms increasing administrative and compliance costs have been placed back on industry organizations.

The CBSA recommends that the impact of NCP reform on industry is reviewed and due caution applied when consideration is given to removing areas of regulation linked to organizations like the CBSA.

Adjustment Assistance

Under the WTO agreement, safeguard actions can be a tariff or quota against imports. Although this sort of assistance should not be discarded as an option, it would be better from both the national and citrus industry perspectives for short-term assistance to be provided to the citrus industry through direct financial assistance.

In recent years the Commonwealth Government has provided substantial financial assistance to a range of industries with immediate structural adjustment needs. Prominent among these have been packages to the dairy, pork and sugar industries. The Citrus Board of South Australia is supportive of the recent request put to the Commonwealth Government by the ACG for a citrus industry structural assistance package. The package proposes funding of \$60 million over a three-year period to cover:

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

Details of the proposed orange grower structural assistance package can be found in the ACG submission to this inquiry.

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