



Citrus Board of South Australia

RESPONSE TO THE PRODUCTIVITY COMMISSION POSITION PAPER CITRUS GROWING AND PROCESSING

The Citrus Board is a statutory authority established under the (now repealed) Citrus Industry Organization Act 1965 (SA) and continued existence under the Citrus Industry Act 1991 (SA) .

The Citrus Board is responsible for keeping a register of South Australian citrus growers, packers, processors and wholesalers. Its functions, as detailed in Section 14 of the *Citrus Industry Act 1991* are:

- (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.

The Citrus Board wishes to take this opportunity to make comment on the content of the position paper on the following areas.

INTRODUCTION

- The Terms of Reference of the review were to look at the citrus growing and processing sector. This position paper instead largely focuses on the export industry and lacks focus on the effects of imports on industry. Therefore the CBSA believes comments made in the position paper regarding export control powers were outside the scope of the inquiry.
- The CBSA was formed in 1965 at the request of industry to address inefficient market practices. Since its inception the CBSA has been involved in activities to improve the competitiveness of the South Australian citrus industry and to address issues relating to global change.
- Activities undertaken by the CBSA have been developed in close consultation with Government and stakeholders with many of the activities undertaken structured to address areas of market failure and to provide public good benefits. Examples include: funding quarantine/fruit fly activities, collection of production/planting statistics, facilitating food safety, promoting healthy eating via schools program and resourcing R & D activities.
- Recent NCP reforms have the potential to remove valuable powers established by industry and needed for long-term stability and growth within the citrus industry. Many of the powers established by the CBSA facilitate access too and growth of export markets. A review of the negative impact of NCP on industry is encouraged.
- Since tariffs were reduced in 1989, the South Australian Citrus Industry has made significant and often difficult decisions to move away from a reliance on the concentrate juice market. This is evident by recent reductions in Valencia plantings of 1,244,051 in 1997 to 983451 in 2002 (i.e. a 260,600 decrease) At the same time a significant increase in high quality exportable varieties have been planted. This is evident by Navel plantings, which have increased from 927797 in 1997 to 1,148,743 in 2002 (i.e. a 220,940 increase).
- Changes in the variety complex, adoption of best production practices and a greater focus on the more profitable fresh fruit export markets has not only been supported by CBSA activities, but is also largely attributed to the orderly and unified marketing of citrus under export control powers administered by HAL.

IMPEDIMENTS TO INTERNATIONAL TRADE

Draft recommendation 7.2: The Government should use the opportunity provided by the forthcoming multilateral trade negotiations in the WTO to seek reductions in overseas trade barriers faced by citrus producers.

The Citrus Board of SA supports draft recommendation 7.2

- A considerable number of countries have in place tariff barriers including Thailand (48%), Philippines (20%), Indonesia (5%), Korea (in quota tariff 50%) Japan (17.3% June-November & 34.7% rest of year) and US (ad valorem rate equivalent 1.3% navels).
- Industry support in the form of subsidies are provided in other countries including South Korea (\$246.5 million for purchase and destruction of excessive crop 2001), Italy (\$75 million various programs), Spain, Turkey, Morocco, Cyprus, Argentina etc. Some of these countries sell into the Australian market while others compete in our export markets.
- Countries such as Japan, Taiwan and South Korean continue to refuse to accept international practice, which recognizes area freedom for fruit flies. Instead these countries demand stringent and expensive disinfestations treatments for Riverland, Sunraysia and Riverina citrus. In respect to Japan, this is contrasted by Japanese acceptance of area freedom for California (a significantly smaller area), which has significant more infestation problems. At the same time countries such as the USA and New Zealand accept Australia's area freedom. Australia has been seeking area freedom from Japan for over a decade and remains frustrated by these discriminatory actions.

Draft recommendation 7.3: Biosecurity Australia (BA) should provide a schedule to stakeholders on the status of market access negotiations under way (including their anticipated completion date). This schedule should also include the timing of proposed future negotiations.

The Citrus Board of South Australia supports draft recommendation 7.3 and includes the following comments:

- It is important that industry as a whole should be kept briefed on expected timeframes in respect to market access even if these are only indicative.
- A more effective tool for information dissemination is required. Information currently supplied by BA on citrus related matters appears to be somewhat adhoc. A clearly recognized pathway for obtaining information is required including a single entry point designed specifically for matters relating to citrus. Ongoing organizational changes within BA further complicate and confuse industry communication with BA personnel.
- Reporting should also include outcomes of bilateral meetings.

Draft recommendation 7.4: If market access negotiations which are important for the future of the citrus industry are being delayed due to insufficient resources within Biosecurity Australia, the Government should consider means of augmenting Biosecurity Australia's resources.

The Citrus Board of SA supports draft recommendation 7.4 and makes the following additional comments:

- Industry has for some time been concerned about resources allocated to areas in respect to market access and has at times provided in kind help via various organizations and specialists within the citrus industry. Examples include Pat Barkley (Auscitrus) on disease issues, Andrew Green (CBSA) on pest issues. These inputs have been “stop gap” measures and better long term resourcing of BA is required.
- The supply of information on pests and diseases to potential importing countries requires coordination between State authorities and preparation of risk management details by BA. More resources are needed to ensure that BA and relevant State authorities have sufficient funds and staff to undertake required activities in an expedient manner. Examples include access to Korea in which a pest list was generated by the Korean government in 1994 but access was not available until the year 2000. A significant component of the delay could be attributed to the reliance on a limited number of State and Federal specialists.
- Another case in point is the development of documentation to support area freedom for the Tri State Fruit Fly Exclusion Zone, necessary to access several export countries. The preparation of this type of documentation requires considerable resources within BA, to ensure information is prepared in a timely manner.
- State research agency expertise is being lost in critical areas such as pest & diseases diagnosis and sufficient resources are needed to provide incentive to maintain these disciplines and develop succession strategies.
- To address these issues it is recommended that funding be supplied via Federal government budgetary allocations. A levy from industry is **not** supported due to the perceptions of overseas authorities that industry contributions compromise the scientific integrity of BA, therefore making access negotiations more difficult.

Draft recommendation 7.5: AQIS should implement its cost recovery arrangements in line with the Productivity Commission's recent recommendations on this matter. In particular, if AQIS is over-recovering its costs from the citrus industry against criteria proposed by the commission, the charging system should be changed to reflect actual costs.

The Citrus Board of SA supports draft recommendation 7.5 and makes the following additional comments:

- Recent changes in AQIS cost recovery arrangements between 2000/2001 have seen a significant increase in charges to citrus packing sheds. Specifically charges attached to phytosanitary certificates, non phytosanitary certificates and EX222 documentation have had a noticeable impact.

- One major Riverland citrus packer has reported a 35% increase in the cost per export carton relating to AQIS fees. This equates to an increase from 0.43¢ per carton in 2000 to 0.58¢ per carton in 2001.

EXPORT CONTROL

Draft recommendation 7.6: Competitive marketing of citrus products for export should be introduced except in those markets where an independent review can demonstrate, on the basis of clear criteria, that export powers generate benefits which exceed the costs.

Draft recommendation 7.7: There should be effective monitoring and review of existing export control arrangements to ensure that they remain relevant to prevailing market conditions. To improve the effectiveness of benefit-cost assessments, the Department of Agriculture Fisheries and Forestry- Australia should provide better guidance to HAL on the factors to be considered.

The CBSA believes that recommendations 7.6 and 7.7 are not within the original scope of the inquiry.

- While the CBSA supports a process of review to ensure that marketing powers provide definite benefits to the citrus industry, the CBSA believes that systems already established by HAL to provide an ongoing review process are both sufficient for industry and provide adequate public interest safeguards to ensure powers are not misused. Furthermore the mere suggestion of recommended changes in the position paper may place undue pressure on HAL when currently, adequate systems are in place.
- The current review process includes an annual review, three yearly review and a fundamental ten-year review.

Draft recommendation 7.8: HAL should give serious consideration to discontinuing the requirement that citrus exporters use a single importing agent in the USA.

The CBSA does not support draft recommendation 7.8. The CBSA believes that maintaining single importing agent arrangements for the USA is critical to the on going viability of the citrus industry. The CBSA supports current arrangements as detailed below.

- The current arrangements mean Australian exporters do not have to discount for market share in the US market, which benefits the growers with higher returns.
- The US export is market focused and the demand is for high quality larger fruit. To maintain high quality cultural practices and larger size fruit, growers incur more costs thus need higher returns. There is competition between sheds for grower's fruit and growers are able to sell to any shed that chooses to supply the US market. No restriction of trade to the USA is seen through the grower's eyes the only restriction is to supply fruit that meet market requirements. Growers supply more than one shed. For the first time growers know they will be rewarded for extra inputs in their farms. Not just good luck or someone else's misfortune, but by good management.

- If the arrangements were removed, the US retailers would benefit from being able to purchase Australia citrus from more than one source. This would allow retailers to play the exporters off against one another to obtain the lowest possible price therefore reducing returns to Australian growers and packers
- Supermarkets and retailers are always looking for cheaper alternatives but do not reduce the price to the consumer.
- Current arrangements help to facilitate the speedy resolution of quarantine issues in the USA. Because fruit is channeled through one importer (DNE), if a quarantine issue arises it can be dealt with more effectively. Because DNE use a small number of discharge points US authorities have been able to train staff and develop expertise in relation to Australian related quarantine issues. This could not be achieved with a panel of importers or voluntary arrangement.
- Track records are used to save cost and time of quarantine inspections as sheds with a history of sound fruit are not subject to the same percentage of inspection. Less time is spent on inspections and fruit is not kept for long periods out of cool rooms thus saving costs and quality.
- If exporters were able to ship produce to a number of importers scattered across the USA, the US authorities would not be able to provide adequate expertise to identify quarantine issues. This would dramatically increase the risk of misidentification leading to unnecessary use of fumigation, which is costly and adversely affects product shelf life. Pests and disease which are difficult to identify by local less qualified staff may also need to be sent away for identification therefore delaying dispatch of produce and eroding buyer confidence.
- Under current arrangements a highly efficient mechanism is provided in which a single point of contact is used to address quarantine issues. DNE feed information back to the "USA Product Champion" appointed by ACG to speak on behalf of Australian citrus producers, who then works directly with the US authorities to resolve issues. This position has been held by David Cain (retired CEO, CBSA) from 1993 to 1999 and currently John Branniff (CEO, MVCMB) 2000 to present. If there were multiple importers this function could not be performed and the USA Product Champion could not provide the same assurances in relation to the integrity of the Australian production system. In 1994, Mr Glen Lee (Deputy Administrator USDA, APHIS, PPQ) informed David Cain that the USDA was prepared to negotiate directly with one Product Champion/Industry Representative while existing arrangements remain.
- In the sole marketer arrangements sheds retain their identity and responsibility but all fruit is packed using a strict quality standard, which is monitored by both DNE staff in Australia and Riversun staff during initial packing, ensuring that retailers can obtain sufficient fruit of the same size and consistent quality. This could not be achieved with multiple importers. Some US retail chains have over 1000 stores across the US and advertise nationally; hence they want the same fruit available in each store.

- If continuous supply is broken supermarkets will quickly substitute with fruit from another country i.e. South Africa or another commodity altogether.
- Experience shows that the sole marketer arrangement has been very successful. Industry has selected a single importer, which apart from the occasional difficulty has been competent, efficient, professional and has an excellent knowledge of the US market attributed to its own background as a grower/packer. Because the importer trades on a commission basis it has a direct interest in obtaining the best possible price for fruit.
- DNE contributes together with Riversun substantial \$'s for the promotion and advertising of Australian Navels. By using category management and past history of selling, arrival of fruit is programmed for specific marketing windows to give best returns for product. Not only are economies of scale achieved in the production of promotional material through this arrangement but other advantages are accrued in respect to storage and transport.
- **US market \$'s underpin southern citrus growing regions.**
The success of the single importer arrangement has encouraged growers in the Riverland to increase navel plantings from 632,883 navels in September 1993 to 1,148,781 in March 2002 almost doubling since trade began. Concurrently total tonnes exported to the USA from the Riverland have increased from 8730 in 1994 to 10980 in 2000 and based on the last 5 years data, the US market now represents 17% of all South Australian navel exports. **US returns have enabled growers to restructure from mainly juice Valencias to premium market varieties**
- At the same time the market has provided lucrative returns to industry. In the 12 months to June 2001 the FOB value of Australian Navel oranges shipped to the US market averaged \$1748 per tonne. Large quantities of Navels supplied to the USA has also improved demand and prices for citrus supplied to other export and domestic markets.
- The single importer arrangement has also provided an extremely valuable and efficient communication channel to industry, which has allowed clear signals about market requirements to be sent to industry. This process has united industry over three states and driven packers and growers to adopt world's best practices. DNE has assisted the Australian Citrus Industry develop this new standard and continue to do so. At the conclusion of each season DNE's David Mixon, Senior Vice President – Domestic Sales, visits all regions holding meetings open to all growers, presenting reports, sales figures and any information requested to growers. This transparency does not prevail from any other export region.
- Not only has the single market arrangement galvanized industry it has also allowed Federal Government to focus R & D effort for the benefit of the larger industry.

25th March 2002