

Cobram Barooga Citrus Growers Association

Citrus Industry Inquiry Productivity Commission

Cobram Barooga Citrus Growers Association Submission Dec 2001

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Submission to the Citrus Industry Inquiry Productivity Commission

COBRAM BAROOGA CITRUS GROWERS ASSOCIATION -PAGE 1

INTRODUCTION

I would like to make a Submission on behalf of the Cobram Barooga Citrus Growers Association. The group covers growers from Cobram, Tocumwal, Barooga and Numurkah areas. We represent in excess of thirty families of citrus growers in this district.

This area, on the border of NSW and Victoria is a crucial foodbowl area supplying the Murray, Goulburn Valley, Melbourne, Sydney and Brisbane markets as well as extensive export markets.

Our members have expressed deep concern for their future survival and financial viability. The outlook is very grim, there appears to be no future in growing citrus under the current circumstances. As Stated in N & J Plumbing Earthmoving Contractors letter - Appendix 3 " In the last 3 months we have removed over 1000 trees from this area."

Some of the group are at retirement age but their children are unwilling to take on a gruelling and unrewarding business. Their properties have lost value due to the down turn in the industry and many are unable to sell their properties resulting in depression and despair. See Appendix 4 - a letter from R Morey from Cobram Barooga Real Estate Agency. "have on our books a number of citrus orchards for sale. Unfortunately there has been very little, if any, enquiry"

COBRAM BAROOGA CITRUS GROWERS ASSOC P.2.

MAJOR ISSUES

- 1.1 The way the export markets are structured is unsuitable for many growers, due to the fact that only a certain percentage of fruit meets the criteria for export quality fruit.
- 1.2 The cost involved in producing such fruit has vastly increased in the last 3 years. A comparison of costs of production since 1998 has shown a significant increase in cost, leading up to the current 2001 year. All production costs, in the months following the introduction to 10% G.S.T. on overheads, have risen dramatically.

The following comparison clearly indicates this.

		TABLE A	
		1998	2001
Fertilizer		\$405 p.t.	\$527 p.t.
Freight pe	r carton		
	Melb	\$0.75	\$0.75
	Syd	\$1.25	\$1.40
	Bris	\$2.40	\$2.50 + 3-6% FS
Power	Off Peak	3.3 kwh	3.3kwh
	Peak	16.74 kwh	17.07 kwh
Gas		\$0.35 pl	\$0.54 pl
Diesel		\$0.65 pl	\$0.84 pl
Packaging		\$1.35 p carton	\$1.56 p carton
Water		\$18.68 p meg	\$20.25 p meg
Labour		\$10- \$11 p.h. casual	\$12 - \$14 p.h. cas
Labour contract		\$18 per bin	\$21 per bin

Note: if off peak power is not available to growers after 2002 then power costs will increase by 100%...

COBRAM BAROOGA CITRUS GROWERS ASSOC - P.3.

In view of these significant cost increases, the sales value of processing fruit has declined or remained steady, i.e.

	1998	2001
Valencias	\$140 p tonne	\$135 p tonne
Navels	\$100 p tonne	\$100 p tonne

- 1.3 These prices are relevant to our local factory price, however Griffith processors recently offered \$80 per tonne delivered to Griffith, which does not cover freight and picking costs let alone return on capital out lay.
- 1.4 The prices are at the mercy of the buyers and are largely determined by the amount of fruit available where there is a light crop the prices rise slightly but in conditions of over supply such as the last 3 years prices are extremely low.
- 1.5 The fruit must be harvested whether it is sold or not which means the grower must employ pickers and sell the fruit where ever he or she can leaving them vulnerable to unscrupulous processors taking advantage of this situation.
- 1.6 Not only are the Growers adversely affected by these conditions but the entire rural community is affected. There is an increase in unemployment of pickers, there are less opportunities for young people and less money is spent in the town.
- 1.7 As stated in Appendix 1 a letter from John Shannon from Cobram Farm Equipment. "Our Company has serviced the area for in excess of 30 years and have become aware that growers are not replacing machinery i.e. tractors citrus sprayers, slashers etc.
- 1.8 In Appendix 2, Robert Love from Cobram Irrigation states that "growers are reluctant to replace or expand their irrigation systems for new citrus plantings. We have now realised that growers are facing extreme financial pressures,"

COBRAM BAROOGA CITRUS GROWERS ASSOC - P.4

- 1.9 It is difficult for growers to remain competitive without updating their machinery and planting new varieties. Despite this the growers have improved productivity and increased efficiency but are still experiencing unviable returns.
- 1.10 Another major cause of financial hardship involves the amount of imported juice concentrate used in Orange Juice. Importing of juice concentrate has increased from \$19 million in 1990/91 to \$76 million in 2000/01. We believe a formal safeguard investigation is needed. The following figures appeared in the Australian Citrus Growers News May edition.

	TABLE B	
YEAR	SA	FEGUARD
1988		35%
1996		5%
YEAR	IMP	ORTED JUICE
1989		5000 Tonnes
1999		28000 Tonnes
YEAR	FRE	SH CITRUS IMPORTS
91/92		8000 Tonnes
99/00		18000 Tonnes

1.11 Apart from the disastrous effect this has had on the citrus industry the effects on the wider community are yet to be studied. Concentrated juice is nutritionally inferior and overseas factories are not subject to the same health standards as Australia, which could result increased ill health in the community.

COBRAM BAROOGA CITRUS GROWERS ASSOC - P. 5

CONCLUSION

- In Conclusion we believe their is overwhelming evidence that a formal safeguard investigation is warranted to ensure that the industry has a future.
- We believe that tax incentives should be offered to processors to increase the amount of fresh Australian juice that is consumed by the Australian public.
- A Structural adjustment package similar to the Dairy Structural Package would help those who wish to exit the industry to do so this could include:
- A tree pull scheme
- An exit package.
- A retraining grant.
- A replanting grant.
- Our Association would be very interested in attending the enquiry and in fact would be prepared to host a community infrastructure workshop in the Cobram area
- A National Advisory Council be established to implement the findings of the productivity enquiry and develop a national infrastructure that will see the citrus industry into the future.

APPENDIX

- 1. John Shannon, Director of Cobram Farm Equipment Pty Ltd
- 2. Robert Love, Manager of Cobram Irrigation Pty Ltd
- 3. Bev Fisher, Office Manager of N & J Plumbing
- 4. Robert Morey, Peter Wilson Livestock and Real Estate Pty Ltd
- 5. Jan Sneyd, Rural Counsellor, Murray Valley Rural Industries Assistance Group Inc.

COBRAM BAROOGA CITRUS GROWERS ASSOC - P 6

Please contact us if we can be of any assistance with the Inquiry, we would be delighted to send a delegation to the hearing. We thank you for the opportunity to express our opinions in this matter.

Garry Newton

ON.K

President

Cobram Barooga Citrus

Growers Assoc.

03 58735227

Jim Brentnall

Secretary

Cobram Barooga Citrus

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COBRAM FARM EQUIPMENT PTY LTD







LOT 3, MURRAY VALLEY HWY. P.O. BOX 26 COBRAM, VIC 3644 ACN 086 668 108 Appendix

PH NO: (03) 5872 1722 FAX: (03) 5872 1231

A/H: (03) 5865 8262

ABN 71 086 668 108



12/11/2001

Citrus Industry Inquiry Productivity Commission Locked Bag 2 Collins St East P.O. Melbourne Vic 8003

As a supplier of machinery and services to the local Cobram Barooga area, we Have particular concerns regarding the financial conditions and profitability of our local Citrus producers and packers. Our company has serviced the area for in excess of 30 years and have become aware that growers are not replacing machinery i.e. tractors, citrus sprayers, slashers etc.

After much discussion with the local customers, we have learnt that growers are Fighting extreme financial pressures, especially low returns from the juice sector and Supermarket quality issues. In addition to poor returns significant costs e.g. Capital replacement, water, fertilizer, pesticides, transport and fuel have all driven upwards.

Our business is dependant on the viability of the local industry. If assistance is not Targeted at the industry, then we will certainly face extreme hardship

Yours Faithfully,

IOHN SHANNON

Director

Cobram Farm Equipment Pty Ltd



COBRAM IRRIGATION PTY LTD

"The Water Systems Experts"

Citrus Industry Inquiry Productivity Commission. Locked Bag 2, Collins St, East P.O. MELBOURNE.. VIC. _3003.

Date: 10/11/2001

To Whom It May Concern:

As a supplier & installer of Irrigation equipment & systems to the Goulburn and Murray Valley areas, we have concerns regarding the financial position and profitability of our local citrus growers and packers.

Cobram Irrigation has serviced the area for the past 40 years and has become aware that growers are reluctant to replace or expand their irrigation systems for new citrus plantings. We have now realised that growers are facing extreme financial pressures, especially from the low returns from the processing sector. To improve productivity, growers have replanted closer densities and replaced older irrigation layouts with new under tree micro irrigation technology. However if growers cannot forecast and achieve a viable return, then further expansion will decline.

Our business is dependent on a viable & sustainable local citrus industry.

Yours Faithfully,

Robert Love Manager

Cobram Irrigation Pty Ltd.

PO Box 683 Levis Street COBRAM VIC 3644

Phone: (03) 58 711 699 Fax: (03) 58 711 155

ACN 065 218 251 ABN 62 560 626 651



N. & J. PLUMBING

19 Manse Road Cobram Vic 3644 Phone: (03) 5872 2153 Fax: (03) 5872 2359

13th Nov 2001

To whom it may concern,

As earthmoving contractors, we have noticed a steep increase in the amount of requests from Orchardist to have Orange Trees removed from their properties.

It appears to us that it is no longer viable to carry trees that are not producing well and as the costs of picking the crop sometimes outways the return from the juice factory the trees are being removed.

We have spoken to some elderly growers who are wishing to retire but there is no one, in their family, who is willing to take on the job of running the orchard and as the properties are over capitalized it is impossible to sell them at a realistic price.

In the last three months we have removed at least 1000 trees from this area, and we know of other contractors who have also been pulling out trees in the area.

Yours Sincerely,

Bev Fisher

Office Manager

N & J Plumbing.

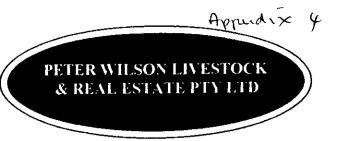
22 Punt Road COBRAM 3644

3 Vermont Street BAROOGA 3644 Main Street STRATHMERTON

3641 Phone: 03 58745733

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PO BOX 106, COBRAM 3644



Licensed STOCK AND REAL ESTATE AGENTS Member of Rural Marketing Agents

> ABN: 32 084 908 181 ACN: 084 908 181

WEBSITE: www.cobramrealestate.com.au E-MAIL: Peter Wilson Livestock@bigpond.com

Telephone: 03 58711533 Fax: 03 58711540

16 November 2001

To whom it may concern:

As I have had extensive dealings with local citrus growers over a number of years I can, with confidence state that citrus producers in this area are experiencing difficult times.

Peter Wilson Livestock & Real Estate Pty Ltd have on our books a number of citrus orchards for sale. Unfortunately there has been very little, if any, enquiry which I believe brought about by the following:

- 1. Cheap imports and lack of any excise restrictions.
- 2. Growers unable to do a proper budget as price per tonne can vary from \$40.00 to \$350.00.
- 3. Good prices have historically occurred once every six years
- 4. Price of market fruit always on supply and demand but short sale period opportunity due again to imports.
- 5. Local juice manufacturer not paying according to trading terms and irregular fruit requirement patterns.

Yours Faithfully,

Robert Morey

Peter Wilson Livestock & Real Estate Pty Ltd

PETER WILSON Mobile: 0409503317 Phone: 03 58711488 A/H



MURRAY VALLEY RURAL INDUSTRIES ASSISTANCE GROUP INC.

Certificate of Incorporation No. A00 15125Y

ABN 26 099 085 271

Jan Sneyd Rural Financial Counsellor Box 76 Cobram Vic 3644

The Chairperson
The Citrus Industry Inquiry
Productivity Commission
Locked Bag 2
Collins Street East P.O.
Melbourne Vic 8003

27th November 2001

Dear Sir/Madam

Support letter for the Cobram & Barooga Citrus Growers Association

Since 1987, the Murray Valley Rural Industries Assistance Group Incorporated has been funded by the Federal Government Department of Agriculture, Forestry and Fisheries – Australia, to appoint a Rural Financial Counsellor in the Moira Shire. The Financial Counselling Service has a history of assisting the farmers and orchardists to look at all the options regarding their future direction in agriculture.

Over the last ten years due to the onset of tariff reduction, globalisation of the citrus industry causing cheaper imports flooding the market, many citrus growers have had to reassess their position in the industry. It is unfortunate that many family orchards have been under severe pressure and either 'off farm' income or leaving the industry has been the final option.

As the Rural Financial Counsellor for this area, I encounter despair at this level on a weekly basis. I am saddened by our government policies which ignores the plight of many Australian orchardists in favour of 'world best practice' and the 'level playing field'. There has been little time for this industry to redevelop itself and whilst the 'goal posts' keep shifting in favour of overseas competitors, the fall-out continues to create further distress.

John Quiggin's submission on the Nation Competition Policy states under his heading "Market Power", "In the absence of regulation or of frameworks for collective negotiation over prices, processing firms will be able to set prices paid to farmers below the level that would prevail in a competitive equilibrium." (Attached Page 7 of Quiggin's Submission) This is a serious issue creating major hardship in our area. The Commission should seriously investigate the ability to demand a 'duty of care' in all contractual arrangements between the growers and purchaser to create a 'competitive equilibrium'.

Phone: 03.58721988 Fax: 03.58721784 Jan.Sneyd@nre.vic.gov.au This is exactly the case on the citrus industry in the Cobram/Barooga area and the upshot is less ability to employ people, less control over one's own business structure, greater overheads which finally reduces the ability of the smaller operator to compete. For every small orchard or farm removed from our area a family goes with it. There is an obvious impact on our social infrastructure within our community. This does not paint a picture of good microeconomic reform.

I support any opportunity that will help to encourage the financial growth of the citrus industry in our area. By encouraging a sustainable industry it will be easier to,

- Consider further opportunities for generating new economic links outside their already existing suppliers, thus value-adding to their core business.
- Create networks and marketing opportunities to showcase their pristine products overseas.
- Supply our school-leavers with opportunities to be employed in the citrus industry within our region, which will,
- Help to sustain the population within the communities.
- Allow the orchardists to realise their capital investment on retirement.

I support the Cobram and Barooga Citrus Growers Association submission and 1 look forward to the Productivity Commission setting recommendations that have practical and achievable goals to improve the micro economics of the industry and the morale of the operators within it.

Yours sincerely

Jan Sneyd

Rural Financial Counsellor

Con Rugd.

Phone: 03.58721899 Fax: 03.58721784 Jan.Sneyd@nre.vic.gov.au

Market power

Scale economies often extend to the point where an activity is more efficiently undertaken by a single enterprise rather than by two more competing firms. Such an activity is referred to as a 'natural monopoly'. The most appropriate solution, in many cases, is that the activity should be undertaken by a co-operative or publicly owned enterprise. Problems of market power are closely related to economies of scale. In markets where there are only a few buyers and many sellers, the buyers can use their greater bargaining power to offer lower prices to sellers. The opposite is true when there are many buyers and few sellers.

The processing of agricultural commodities is an industry characterised by scale economies and market power. The result is that large numbers of farmers deal with a relatively small number of firms engaged in processing and marketing. In the absence of regulation or of frameworks for collective negotiation over prices, processing firms will be able to set prices paid to farmers below the level that would prevail in a competitive equilibrium.

Financial market failures

The actual operation of financial markets is not as smooth and efficient as the ideal competitive model requires. The result is that market outcomes for problems involving credit, risk and insurance are rarely optimal. In some, but not all, such cases, government policies such as price stabilisation schemes may yield a superior outcome.

The fact that many markets do not satisfy the ideal assumptions of the competitive model means that social welfare may be improved by appropriately designed government policies or by co-operative action. However, the existence of so-called 'market failures' does not imply that any particular scheme of intervention will improve welfare. To determine whether this is the case, it is necessary to examine the equity, efficiency and non-economic effects of such schemes.

2.3 Competition and technical efficiency

The idea that competition will promote improvements in technical efficiency is often referred to using a distinction between the static benefits obtained from eliminating price distortions and the 'dynamic gains' claimed to be generated by competition. The dynamic gains hypothesis may be summarised by the statement that, over time, competitive markets will generate improvements in technical efficiency additional to any that might be derived directly from the removal of regulations that increase costs of production. The nature of these dynamic gains is not usually described in detail, although statements about dynamic gains are often made in terms that suggest that there is a well-developed body of theoretical and empirical work supporting the dynamic gains hypothesis. In fact, there is no such body of work.

Many claims about the existence of dynamic efficiency gains are based on the concept of X-efficiency. Leibenstein (1966) argued that firms exposed to the bracing atmosphere of competition will respond by eliminating internal inefficiency and seeking out opportunities for innovation. Leibenstein refers to the productivity gains arising from this process as improvements in 'X-efficiency'.

The idea of X-efficiency has been criticised by writers such as Stigler (1976). Stigler argues that what is represented as a gain in X-efficiency is in fact simply an increase in the intensity of work or, equivalently, a reduction in on-the-job leisure. At an empirical level, Stigler's critique has a great deal of force. In many of the recent cases where labour productivity has increased following competitive reforms, there is evidence of increased work intensity (Ganley and Grahl 1988, Australian Council of Trade Unions 1995). These observations suggest that the increased competition associated with microeconomic reform has led to a general increase in work intensity, rather than an improvement in technical efficiency.

2.4 Competition and co-operation

Societies and economies depend on a mixture of co-operation and competition. Until recently, economists have focused primarily on competition. However, over the past two decades increasing attention has been paid to the need for co-operation, and analysis of the conditions under which co-operation will emerge.

The starting point of much of this analysis is a simple example, that of the Prisoner's Dilemma. In this example, two prisoners are being held in separate cells. Each can get a lighter sentence by betraying the other but if both confess, they will both face a long prison term. The point of the example is that, even though they would both be better off if they kept quiet, the 'rational' option for each of them is to confess. Analysis arising from the Prisoner's Dilemma model shows that a society based solely on rational self-interest cannot be sustained.

On the other hand, competition is also important. Without competition, small groups can collude to benefit themselves at the expense of the broader community. The Prisoner's Dilemma example illustrates the point that co-operation is not always desirable. While we value co-operation, as a society, we also provide incentives to break down co-operation among criminals.

The problem with National Competition Policy is its one-sided nature, focusing exclusively on competition. In the view of the National Competition Council, any co-operative activity is seen as a conspiracy by a self-interested minority against the general public. Claims that professionals in areas like health and engineering have commitments to ethical standards which transcend a simple profit motive are dismissed as self-serving rhetoric. It is assumed that only the pressure of competition will produce desirable outcomes.

29/11/01