

Without Prejudice

NSW  
4 December 2001

Citrus Industry Inquiry  
Productivity Commission  
LB2 Collins St, East PO  
Melbourne Vic 8003

Dear Commissioner,

### **Introduction**

This is a submission to the Productivity Commission's Citrus Industry Inquiry.

It presents information on the situation which currently prevails in the export of Australian Citrus to the United States. The current situation is controlled through a '*monopoly*', otherwise referred to as a single desk market, which has been put in place by Horticulture Australia Limited and one of its members (shareholders) the Australian Citrus Growers Association. The writer views the current practice as significantly limiting the potential of the citrus industry in Australia.

### **Background**

My background includes a fifteen year period (1975-90) in which I managed a 20 hectare orchard in the Hawkesbury district of NSW, with 10,000 citrus trees, 8,000 of which were lemon trees. The annual production of the orchard was of the order of 30,000 cartons, sent to Sydney and Interstate markets and 150 tonnes to juice factories. I was a major supplier of lemons to the Sydney Fresh Fruit Market. In addition, I bought and marketed fruit from other orchards. I have qualifications in agriculture, BScAgr (Syd) and business, MBA (UWS). I am currently a director of 2 agricultural production companies and a start-up biotechnology company.

The submission is composed of two parts. The first part is a narrative on the response received from apparent key people working in the citrus industry in NSW following a strong request to supply lemons to the west coast states of the USA. The second part is an analysis of some of the controlling players and highlights a number of anomalies associated with the prices received for Australian citrus in a number of export markets. In addition, the second part clearly shows how citrus growers are being undersold when an export monopoly is imprudently kept in place by the apparent leaders in the industry.

Information regarding the SC Distribution Group are provided on a commercial-in-confidence basis.

### **Part Two - an Analysis of the US Export Market**

- 1 DNE is an import company. It does not sell the fruit. It traditionally leaves this activity to Oppenheimer Inc. Between the two companies they purport to have client base covering all of the US. If this is true this is one hell of a distribution company in the fresh fruit and vegetables business and would make it absolutely unique anywhere in the world. I understand that this relationship is currently under stress.

- 2 DNE also imports South African Navels<sup>1</sup> and Argentine lemons<sup>2</sup> into the United States. Both of these products are sold in competition with Australian products. DNE is not, the writer understands, importing any lemons from Australia in 2001 and yet Horticulture Australia Limited (HAL) has entered into an exclusive agreement with DNE for all citrus product originating in Australia. The Australian industry has essentially put its export business into the US into the hands of DNE. DNE, an American company, controls the import of citrus into the US from Australia. The lack of lemon export to the US is evidence of this control. DNE prefers Argentine lemons to Australian, with the result that because of the limiting agreement put in place by HAL, the lemon growers in Australia have a potential market closed off by an external party.
- 3 DNE's business practices and operations with the Australian Citrus Industry must be viewed with transparency and accountability. It seems incredible that the single desk contract between DNE and HAL is now 9 years old and due to the recent incorporation of HAL a public review of the performance of this single desk marketing concept does not need to take place for another 10 years, thus there will be a 19 year period with no independent assessment even when predicated on a somewhat vague national competition notion. It is not my place to question how DNE operates in the US. What is being question is the monopolistic trading position which has been put in place by HAL. The commercial and political trend has been to encourage competition in all industry sectors. The Federal Government, for instance, has spent billions of dollars de-regulating the dairy industry. A regulated citrus industry defies this trend.
- 4 How does the Australian Citrus Industry know that DNE is achieving the full market potential for Australian products in the US? According to a recent ABC Radio report<sup>3</sup>, South African citrus growers have not been satisfied with the performance of DNE. Why did representatives of the Australian company, Riversun Ltd, urgently fly to South Africa to convince the South Africans to remain faithful to DNE<sup>4</sup>. Does this indicate that horticultural industry decision makers view citrus produced in the Southern Hemisphere as a homogeneous product?
- 5 What is the potential import market for lemons in the US. The US production of lemons is 52.6 million cartons and according to the Citrus 2000-01 Summary, published by the Florida Agricultural Statistics Service, lemons are the only citrus crop showing increased production and higher prices<sup>5</sup>, and please refer to point 9 below. That is, there is a strong demand trend.

Lemons are imported in the summer off-season when the local production is characterised with small numbers of poor quality fruit. The quantity of lemons imported into the US in this 3-month off-season, according to USDA statistics, was 30,000 tonnes, or an estimated 1.65 million cartons in 2000-01 (Table 2), ie about 3% of total production. There is no reason to believe, however, that this is the full

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<sup>1</sup> DNE completes citrus category loop, 05/23/2001, The Produce News (<http://www.producenews.com/FramesNews.cfm>)

<sup>2</sup> Argentine lemon season commences for Ocean Spray, 06/14/2001, Opcit

<sup>3</sup> ABC Regional News, 27/11/01, 1.44pm AEDT

<sup>4</sup> ABC Regional News, 4/12/01, 12.51pm AEDT

<sup>5</sup> Citrus 2000-01 Summary: Production, Price, And Value Production By Counties And Per Tree, September 20, 2001, Florida Agricultural Statistics Service, Orlando, Florida.

potential market. (In fact on the contrary, the SC Distribution Group believe it is not being met.)

Table 1 Imports of Lemons/Limes into US\* (all countries of origin)

Year	Tonnes	Cartons**
1998-99	24,000	1,320,000
1999- 00	17,000	935,000
2000-01	30,000	1,650,000

\* World Horticultural Trade & US Export Opportunities, USDA, August 2001, p22  
\*\* Assumption 55 cartons/tonne

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- Some of the total US production is consumed fresh, some is processed. The writer was unable to find appropriate statistics indicating how the lemon crop is utilised and has estimated that 50% of the crop is consumed fresh. An analysis (Table 2) of the lemon supply model in the US shows that the average monthly consumption of fresh lemons could be as high as 2.19 million cartons per month. Interpolating this demand over the 3-month summer period, the potential demand for imported lemons could be up to 6.5 million cartons.  
In 1999-2000, Australian growers supplied 0.16% of the potential demand in the US for lemons. Exporting an additional 500,000 cartons to the US, would only bring this to 7.76% of the demand being met.
- 7
- "Ocean Spray" lemons, the Argentine product being imported by DNE into the US, to the exclusion of Australian lemons, are being distributed only throughout the northeastern and midwestern United States this 2001summer<sup>6</sup> A quarantine issue restricts the distribution of lemons to all US states. DNE's distribution, thus, is not all encompassing as many Australian decision makers would have us believe.

Table 2 Lemon Supply/Demand Model

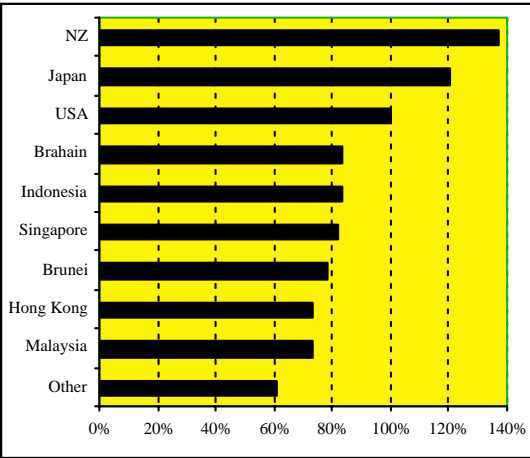
US Production 2000/01 (cartons)		52,600,000*
Estimated proportion consumed as fresh fruit (50%)	(a)	26,300,000
Average consumption per month (cartons) (a/12)	(b)	2,192,000
Off-Season Import Potential		
For 3 months of year (cartons) (b x 3)	(c)	6,576,000
Exports from Australia in1999-00 (cartons)	(d)	10,395**
Australian export in 1999-00 as proportion of potential US market (d/c)	(e)	0.16%
Impact of additional export cartons	(f)	500,000***
Proportion of Australian exports in potential US market ((d+e)/c)		7.76%

\* Statistics at a Glance, Fruit and Nut Highlights, USDA, October 16, 2001, [www.nass.usda.gov/ca/rev/frt&nut/](http://www.nass.usda.gov/ca/rev/frt&nut/)  
\*\* Major Export Markets - Lemons/Limes, 2000-2001 Statistical Year Book, Horticulture Australia Ltd, p63 (assumes 55 cartons/tonne)  
\*\*\* Expression of purchase by SC Distribution Group

- 8
- A review of the Australian Bureau of Statistics published data (Table 3) for 1999/2000 shows that on a per carton bases the US is one of the better
- Figure 2
- Lemons - Percent of US Prices Achieved

<sup>6</sup> Argentine lemon season commences for Ocean Spray, 06/14/2001, The Produce News

destinations for lemons. An estimated 71,000 cartons of Australian export quality lemons were directed and sold into overseas markets for which a significantly lower price is received, eg nearly 45,000 cartons of lemons were sold in Hong Kong for about 73% of the US price (Figure 2). This does not make any commercial sense. The SC Distribution Group want these lemons to sell in the US. The DNE arrangement



- prevents this happening and Australian growers benefiting from US sales of lemons.
- 9 The high prices being paid for US produced lemons in Los Angeles as at 28 November 2001<sup>7</sup> are shown in Figure 3. The average price being paid for 1<sup>st</sup> grade lemons over the size range of 75s to 140s is US\$29.88 or AUD\$56.83 (based on an

Table 3 Export Prices received for Lemons, 1999/00

	(tonnes)	Cartons	(\$'000)	\$/tonne	\$/case
Other	26.0	1,430	23.0	884.62	16.08
Malaysia	107.0	5,885	113.0	1,056.07	19.20
Hong Kong	817.0	44,935	865.0	1,058.75	19.25
Brunei	6.9	380	7.8	1,130.43	20.55
Singapore	301.0	16,555	357.0	1,186.05	21.56
Indonesia	10.0	550	12.0	1,200.00	21.82
Bahrain	21.0	1,155	25.3	1,204.76	21.90
USA	189.0	10,395	273.0	1,444.44	26.26
Japan	2,908.0	159,940	5,049.0	1,736.24	31.57
NZ	4.5	248	8.9	1,977.78	35.96
Total	4,390.0	241,450	6,734.0	1,533.94	27.89

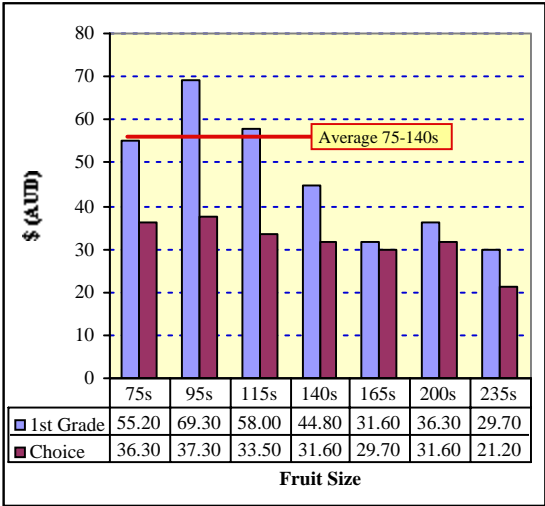
exchange rate of \$0.53). These prices are higher than the prices obtained by DNE in 1999-00, and clearly demonstrate that, given the low exchange rate for the AUD relative to the USD, Australian lemons can compete in the US with the local product.

Figure 3: Los Angeles Terminal Prices for Lemons, 28 November 2001

- 10 A similar question could be asked about the potential import market for navels oranges in the US. A similar situation occurs with the orange supply and demand situation in the US. Total US orange production (Table 4) in 2000 - 01 was 570.87

<sup>7</sup> LOS ANGELES Terminal Prices as of 28-NOV-2001 Provided by: Fruit and Vegetable Market News, Federal-State Market News Service, USDA

million cartons. According to the HAL's 2000-2001 Statistical Year



Book,14 % of the US crop is consumed as fresh fruit - mostly navels as they are the preferred eating variety. The monthly consumption of oranges as fresh fruit could be up to 6.7 million cartons. As locally produced navels are not available over the summer months, the demand for a 3 month summer period could be up to 20 million cartons, subject to price variations. Australian exports in 1999-2000 supplied 7% of the potential demand for oranges. Exporting an additional 2 million cartons to the US, would only equate to 17% of the US demand.

- 11 A review of the Australian Bureau of Statistics published data (Table 5) for 1999/2000 shows that on a per carton basis, the US is the best export market for oranges. An estimated 4.65 million cartons of Australian export quality oranges are sold into overseas markets in which a significantly lower price was accepted, eg 1.2 million cartons of navels were sold in Malaysia for about 48% of the US price (Figure 4). This appears to be commercial naivety and represents poor returns to the growers.

Table 4 Orange Supply/Demand Model

US Production 2000/01 (cartons)	(t)	570,870,000*
Proportion of production consumed as fresh fruit	(u)	14%**
Production consumed as fresh fruit (cartons) (t x u)	(v)	80,442,000
Average consumption per month (cartons) (v/12)	(w)	6,704,000
Off-Season Import Potential		
For 3 months of year (cartons) (w x 3)	(x)	20,112,000
Exports from Australia in1999-00	(y)	1,452,440***
Proportion of Australian export in 1999-00 in potential US market (x/y)		7.22%
Impact of additional export cartons	(z)	2,000,000****
Proportion of Australian exports in potential US market ((y+z)/x)		17.17%

\* Statistics at a Glance, Fruit and Nut Highlights, USDA, October 16, 2001, [www.nass.usda.gov/ca/rev/frt&nut/](http://www.nass.usda.gov/ca/rev/frt&nut/)  
\*\* Supply and Utilisation, Selected Countries - Fresh Oranges, 2000-2001 Statistical Year Book, Horticulture Australia Ltd, p67  
\*\*\* Major Export Markets - Oranges, 2000-2001 Statistical Year Book, Horticulture Australia Ltd, p62 (assumes 55 cartons/tonne)  
\*\*\*\* Expression of purchase by SC Distribution Group

Table 5 Export Prices received for Oranges, 1999/00

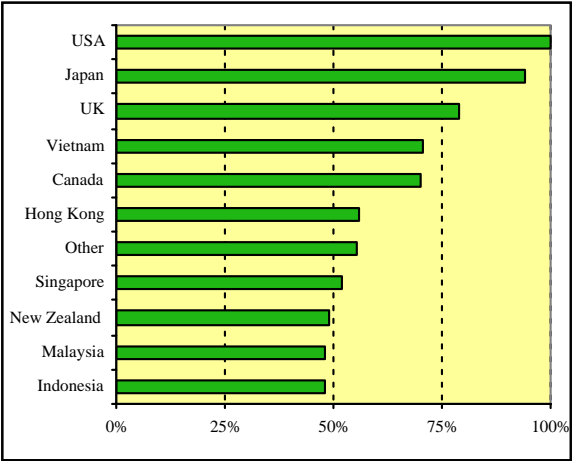
	(tonnes)	Cartons	(\$'000)	\$/tonne	\$/case
Indonesia	2,198	120,890	1,710	777.98	14.15
Malaysia	22,582	1,242,010	17,697	783.68	14.25
New Zealand	3,938	216,590	3,125	793.55	14.43
Singapore	15,921	875,655	13,385	840.71	15.29
Other	6,511	358,105	5,853	898.94	16.34
Hong Kong	21,336	1,173,480	19,450	911.60	16.57
Canada	242	13,310	276	1,140.50	20.74
Vietnam	243	13,365	278	1,144.03	20.80
UK	1,373	75,515	1,762	1,283.32	23.33
Japan	10,191	560,505	15,561	1,526.94	27.76
USA	26,408	1,452,440	42,916	1,625.11	29.55

- 12 "For North American retailers, Australian citrus has become a staple. A high percentage of the major retailers in US are marketing it," said Mr. David Mixon, Vice President of DNE, who goes on to say that Australian citrus "is an item consumers look for every year for their summer citrus needs."<sup>8</sup>
- 13 On May 14 (2001), in an industry newspaper, DNE disclosed new arrangements for exporting South African citrus to North America<sup>9</sup>. This South African sourcing news comes on the heels of the firm's announced finalization of plans for its second year of importing Argentine citrus. DNE in its first year of South African involvement has become one of the major importers of South African citrus. The Australian program includes Navel oranges, along with Minneola tangelos, Ellendale mandarins, Honey tangerines, and clementines. " The volume on our Australian specialties will be up this year," he said.

Again, no mention of Australian lemons in this DNE press release.

- 14 Over the near decade long association of Australian citrus industry with DNE World Fruit Sales, David Mixon, vice president, has lauded the growing market acceptance of the fruit. .... "It is simply superior in taste and looks to what it replaces in the citrus cycle. However, the role of the retailer cannot be underestimated."<sup>10</sup>

Figure 4 Oranges - Percent of US Prices Achieved



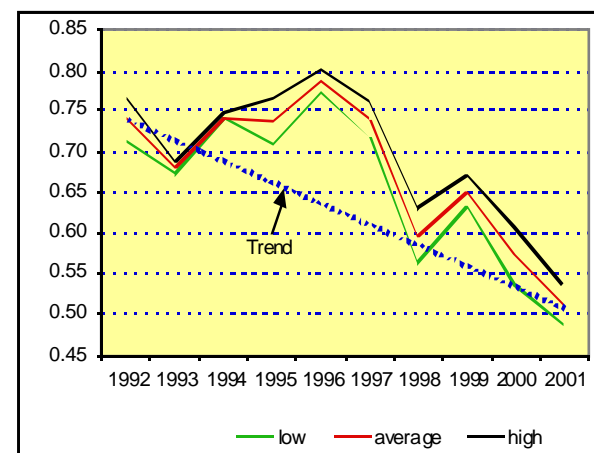
- 15 It is understood that the SC Distribution Group want to import more navels into the US. They have customers in addition to those of DNE. The fruit is available.
- This poses the question as to whether the Australian industry is maximising its opportunities and returns to growers, or alternatively is it confining its activities because it is acting with insufficient market information and not adopting an

<sup>8</sup> Australia citrus moves to U.S. packaging standard, 06/05/2001, The Produce News  
<sup>9</sup> DNE completes citrus category loop, 05/23/2001, Opcit  
<sup>10</sup> Australian citrus distribution begins week of July 17, 07/17/2000, Opcit

innovative strategic position. The export results show that in order to protect a monopolistic relationship in the US, HAL/AGC are prepared to undersell it's fruit elsewhere in the world.

- 16 In the US, much of the recent success from selling greater quantities of citrus to US customers for better returns to the Australian growers would be a consequence of the lower value of the AUD relative to the USD. Please note, that in the early 1990's the exchange rates were in the mid 70 - 80 cent range (Figure 5). Exports to the US represented about 1% of the Australian citrus export trade<sup>11</sup>. Today, exports to the US amount to nearly 30% of the Australian citrus export trade, but the AUD is valued some 30% lower.

**Figure 5 US\$/AU\$ Exchange Rates for the months, July to October, 1992 -2001**



Source: Reserve Bank of Australia

- 17 The USDA, in its Fresh Citrus Situation report, attributes the lower value of the Australian Dollar to improve returns for exports to the United States in April 2001 to March 2002. Industry sources anticipate excellent export prospects in 2001/02 due to the improved quality of the crop and the low value of the Australian dollar<sup>12</sup>.

That many in the citrus industry attribute the current success of Australian citrus export solely to the single desk marketing arrangement with DNE tends to demonstrate an unsophisticated and unrealistic view of world trade, and is short-sighted.

- 18 There is a need for a viable alternative supplier into the US to ensure that the market is being serviced to maximise returns for Australian growers. HAL (Mr James Kellaway) claim that there is no other alternative importer in the US. HAL claim that all other importers want to undercut the DNE price. With a demonstrable lack of strategic focus, HAL and its acolytes appear ready to sell short the Australian industry with such generalisations. Like nearly all generalisations, this is not necessarily true and the industry is being sold short. WHY?.
- 19 Much is made of the proposition that the US market wants Australian citrus. The industry limits its potential to that of one importer/marketing company. Predicated on this assumption, the Australian industry decision makers appears to be assuming that DNE has a distribution system capable of accessing all 285 million US citizens.

<sup>11</sup> Ibid.

<sup>12</sup> Fresh Citrus Situation, World Horticultural Trade & U.S. Export Opportunities, USDA, August 2001, p11, [www.fas.gov/http/circular/2001/01-08/citrusfeat.htm](http://www.fas.gov/http/circular/2001/01-08/citrusfeat.htm)

- 20 Based on forecasts of market demand prepared by SC Distribution Group, I am being encouraged to conduct a feasibility study to establish more lemon and orange groves in Australia. These forecasts of US demand and SC Distribution Group's own selling base appear to have the base to justify such a development. The current DNE arrangement absolutely prevents this from proceeding.
- 21 Clearly, DNE has no focus on Australian lemons, but under HAL's Corporate Permission has been given monopoly power over this sector of the citrus industry. Why should DNE/HAL obstruct an export trade in lemons

The *Australian Horticultural Corporation Act 1987* has provided the legislative backing to enable Horticultural Australia Limited, a public company no longer within the review audit process of the Commonwealth Auditor General, to establish a supply monopoly. All growers, packers and exporters are now held to ransom and innovation is squashed. The management elite of HAL together with DNE and the Corporate Permission provided by HAL to DNE obstructs an export trade and denies Australian citrus growers healthy returns from a buoyant market.

I hope the Productivity Commission find value in this submission and respond to the issues raised. I would be pleased to discuss the issues further. Please do not hesitate to contact me on 0413 466 989, or email [dwtayler@aol.com](mailto:dwtayler@aol.com)

The member companies of the SC Distribution Group have been included for the benefit of the Commission, but are provided on a commercial-in-confidence basis to the Commission only.

Yours sincerely

David Tayler