

Citrus Industry Inquiry
Productivity Commission
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Single desk marketing arrangements for citrus exports to USA

Agricultural returns doubled in six years. Unemployment halved over the same period. Too good to be true?

Agricultural returns in the Riverland have increased from an estimated \$230 million in 1992-93, to over \$550 million in 1999-2000. Unemployment rates in 1992-93 were between 15 and 16 percent. As at Sept 2001 the unemployment rate is 5.9 percent.

The wine industry is leading the way in this economic boom. Expansion has also occurred in the citrus, apple, vegetable, olive, almond and stone fruit industries.

The above is an extract from promotional material developed by the Riverland Development Corporation. While in recent years major economic growth has occurred in the wine industry, the citrus industry and in particular the US export program has been instrumental in providing a sound and sustainable base for this growth since 1992-93, five to six years prior to the wine boom. It is also worth noting that this growth has occurred during years when the Australian dollar was as high as US\$0.85, normally a barrier to export growth and lower real returns.

The Riverland Development Corporation (RDC) was formed in 1985 in partnership with State and Local Government to facilitate the continuing economic development of the region. The RDC provides four key mechanisms for doing this: strategic initiatives, business development, export market development and employment enhancement. The board of RDC consists of the Mayors of the three local councils and seven high profile business representatives.

The success of the Riversun program I believe is 100% attributable to the single desk marketing arrangements. There is no other citrus market domestically or globally that is as lucrative at the moment (and for previous years) as the US citrus export program. This market has also assisted in balancing the demand and supplies equation domestically and in other export markets for the majority of the Australian navel season, therefore stabilising and in some instances increasing prices for these markets as well.

Coordination of this market reaches beyond the cooperation of packers and growers. It helps to simplify the negotiation process between Australian and US authorities. It increases the power of local packers during price negotiations through consolidation. It increases the pressure on the US marketer to achieve the best possible returns and to care for the product throughout their end of the supply chain.

The Riversun program is successful through the ability to provide consistent supply and quality. The Riversun Directors over time have developed an internal operations manual including share structures, policies and objectives, a packer documentation and procedures manual and a quality and tolerance guide for packers participating in the program. All packers participating in the program have agreed to adhere to the policies, objectives, quality and packing standards as described in this documentation even though it has the potential to decrease pack out percentages and increase packing costs. Independent quality auditors throughout the packing program regularly and randomly inspect fruit.

Comparing this market with markets where there is little or no coordination is difficult as they are vastly different. The largest export market for Australian citrus is South East Asia. In this market Australian citrus competes with itself, driving prices down to the absolute minimum, regularly resulting in losses to packers and growers. Domestic standard fruit is regularly purchased from the domestic market by exporters and exported to this market again reducing prices and with long term detriment to the reputation of the quality of Australian citrus. The packing standard for this market is an over pack of anything up to an extra layer of fruit in the carton, resulting in more weight per carton and regular damaged and cubed fruit. This 'standard' is a result of packers trying to gain a market advantage by increasing the fruit weight per carton. Buyers in this market visit a number of agents to get the best deal for their customers, resulting in agents reducing prices to secure the sale. This effectively diminishes the ability for Australian exporters and packers to determine and set a fair price for their product.

To dismantle the single desk marketing arrangement for citrus exports to USA I believe at best will lower Australian quality standards, reputation and returns. At worst it could result in the USA refusing to import Australian citrus, particularly if snails, fruit fly and other pests are regularly detected.

From what I understand, packers will not be refused membership of Riversun, providing they pay the appropriate guarantee (shares) and agree to abide by the rules and standards developed over many years by Riversun members. I personally cannot understand why packers would not want to be part of this group that has provided the best returns for citrus for so many years, unless they intend to export a lower standard of product or have had difficulty achieving the quality standards demanded by the program.

There are a number of local and interstate citrus packers who are current members of Riversun and participate in the US export program that would not have the ability to export in their own right under their own label, mainly due to the inability to supply the quantity required to research, establish and supply the market. These packers currently

reliant on this program I fear may cease to exist if the single desk arrangement were to be dismantled, resulting in loss of jobs and having an overall detrimental economic affect on the regions in which they currently trade.

The Riversun model has been used by other local industries in establishing a cooperative approach in their marketing. The most notable recent initiative is in the stonefruit industry where a number of large growers and packers formed the Quality Fruit Marketing Company. This company since its formation a few years ago has multiplied their export quantities a number of times, expanding their markets through the ability to consistently supply quality product over a longer period of time. It is worth noting that this group has membership requirements, internal operations manual including share structures, policies and objectives, a packer documentation and procedures manual and a quality and tolerance guide for packers participating in the program. An independent quality auditor is also engaged to randomly inspect packed product and packing establishments. These are all initiatives developed by Riversun.

In summary I would hope that this submission be given careful consideration before a decision is made to dismantle the current single desk marketing and single importing agent in USA arrangements.

Yours sincerely

RIVERLAND DEVELOPMENT CORPORATION

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