

The Commissioners

The Citrus Inquiry

Productivity Commission

Dear Sirs,

Re: Citrus growing and Processing Position Paper

I wish to make a submission on the Position Paper, and especially on the contents relating to export controls.

My wife and I have a citrus and avocado orchard at Palinyewah, NSW on which we have 85 acres of citrus and 30 acres of avocados.

Our citrus was planted at various stages between 1985 and 1994 and comprises 4 acres of Imperial Mandarins, 15 acres of Minneola Tangelos, 64 acres of various navels and 2 acres of valencias. Most of the tangelos and navels are exported, with about half going to the US in recent years.

I am a strong supporter of export control powers, not so much on controlling the number of exporters but certainly on controlling the number of importers.

Possibly the same level of effective marketing could be achieved by limiting the exporters and letting market forces determine how many importers they retained, but I would prefer the freest possible market forces in Australia and would not propose a limit on the number of exporters.

My experience has been that it has been necessary to have some limit or control at one end or the other.

I have become so tired over the years of having various packers report back that the market had suddenly slumped in one or other of the Asian markets because exporter X had dumped a larger than expected consignment on the market or because its fruit was of lesser quality or of smaller counts and the price was dropped to quit the fruit and consequently brought down the whole market.

As you have noted in the Position Paper, citrus exporters are "price takers" in many markets and that effectively means that everyone in the chain above the growers takes their respective slices and leaves the growers to be the most vulnerable to diminished returns.

We welcomed the development of the US market with the export control powers exercised to limit the importers to DNE and its affiliate, Oppenheimer.

I wholeheartedly agree with the submissions already made as to the value and effectiveness of the US program.

I am at a loss to understand how you came to Finding 7.3 especially as many of the observations made on Pages 145 and 146 are unsubstantiated or just inaccurate. You appear to have been overly influenced by submissions 40 and 74 from BGP and AHEA respectively who were obviously pushing vested causes and appear to have made unsubstantiated assertions which you seem to have accepted.

Firstly, you assert on Page 145 that in "price taker" markets, "export controls designed to exercise market power are ineffective and are unlikely to provide benefits to the industry - a strategy that maximises the volume of Australian exports is more likely to be effective".

In my submission the US experience negates that assertion emphatically.

DNE and Riversun have established protocols designed to guarantee the highest quality fruit being exported to the US, designed to maximise returns to Australian growers by capturing the market window of

opportunity available to southern hemisphere countries, but captured particularly by Australia, at the expense of South Africa, only because of the higher quality.

When the quality of the Australian fruit was diminished in 2000 (with poor out-turns on arrival of ships, believed to be due to growing problems peculiar to that year) the Australian fruit not only lost its premium status and higher returns but joined the large volume of fruit of indifferent quality and paid the price of being subjected to the unregulated laws of supply and demand. We were back to the same bad experience we had had in so many years in Asian markets.

Secondly, on Page 145 you asserted that "even in markets where Australian citrus exporters are "price makers", formal export control powers may not be required to generate nett industry benefits" What is the basis for that assertion?

I would have thought that there was widespread domestic and international experience to make it clear that good and profitable markets are often destroyed because of others "jumping on the band wagon" and altering the supply and demand ratios and especially where there is not any agency or process to guarantee maintenance of high quality.

Thirdly, on Page 146 you properly note that a key question is whether export control powers generate additional benefits beyond those achievable through voluntary co-operation, multiple agents or well informed growers and exporters making commercial business decisions.

With great respect, it does not follow, as you have asserted, that the cost savings effected by Riversun are a result of voluntary arrangements, not export control. They have resulted from a combination of the voluntary arrangements and the export control of the single importer.

Fourthly, you assert on Page 146 that "restrictions on exports can also impose costs on the industry primarily through the loss of market opportunities and/or the loss of flexibility and choice in marketing and distribution".

This assertion would only have validity if there were not proper objective mechanisms for performance assessment and review and I would submit that, especially with reference to the US program, the Australian Horticulture Industry Memorandum of Understanding provides more than an adequate mechanism, especially with parties having the opportunity to challenge the conditions of specific export controls in the AAT where there is always a greater objectivity in the analysis, free from political colouring.

Your own imposition of political colouring has caused your draft recommendation 7.7 to be flawed.

In my submission it is ridiculous that the whole range of factors and circumstances which may obtain at any particular time could not be taken into account on any monitoring or review of existing export control arrangements, and yet if the Department of Agriculture Fisheries and Forestry provided "better guidance to HAL on the factors to be considered" it would be introducing an element of inflexibility or blinkering to the process.

Such "guidance" would reflect Government policy at the time, and Government policy could not necessarily be said to reflect the best interests of an industry, or the communities or regions in which they operate. The fact that Australian Government policy has dictated that our tariff barriers be dismantled faster than those of our competitors or trading partners is adequate testimony to that.

Your argument at the foot of Page 148 that limited information providing specific guidance about the conduct of reviews and what factors should be considered in assessing public benefits may undermine the effectiveness of reviews and consequently decisions about the desirability of the continued use of arrangements led to your Draft Recommendation 7.7 that there be less than the widest possible analysis of all factors which at any particular time may be considered relevant.

There should only be agitation for change to the existing review mechanism if you can point to evidence that establishes that the current regime is inadequate or unsatisfactory or unfair and not in the interests of the Australian community as a whole.

It would be appropriate for the Commission to look at its own status and purported independent *modus operandi*, with the second page of the Position Paper asserting that the Commission's "processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole". Are not the existing processes for review referred to herein adequate and appropriate and sufficiently open to public scrutiny to ensure that the processes are sufficient to ensure the wellbeing of the community as a whole?

I would now like to comment on some of your assertions in relation to the US program specifically.

You have noted, if not recognised or accepted, the benefits attributed to single importer arrangements on pages 150 and 151 but then, in an academic approach, ignoring practical realities, you suggest that the link between those benefits and the single importer arrangement is not always clear.

Whilst the single importer condition might not place formal restrictions on the quantity supplied into the market, DNE certainly works with Riversun to impose a restriction on the quantity supplied to the US market, and has ensured high quality of product exported, and high returns for what is exported.

I question your assertion that benefits from any timing advantage are likely to be eroded over time because of increasingly important competition from suppliers in other countries, and I would point to the South African competition referred to above in answer to your assertion, but even if over time your assertion does have some validity, the fact is that the single importer condition has maximised the returns to growers for the longest possible time.

You then note that alternatives to the single importer arrangement could potentially achieve similar benefits and, with some naivety, you suggest that the benefits derived from single importer arrangement could be achieved through voluntary co-ordinated arrangement and you state that it is not clear why exporters would be unable to extend the Riversun Co-operation further along the import and distribution chain.

The US experience is successful because everyone in the chain, being growers, packers, Riversun and DNE assume substantial risks and have much at stake, whereas the greater the number of "players" at the marketing level the less each marketing player has at stake and the less focussed and effective the overall export program.

Again, I point to the Asian experience as clear evidence of the harsh reality in the market place which you do not seem to have understood or recognised or given appropriate weight in your deliberations and observations and recommendations.

On Page 151 you note that "in some cases, the potential benefit from the single importing arrangements accrue to particular growers or exporters at the expense of others. For example, adhering to strict quality standards, to meet both US quarantine standards and strong US consumer preferences for high quality fruit, may have assisted the development of the premium export market for Australian citrus. However, this may be at the expense of the untapped potential market for non-premium fruit".

Have you identified any "untapped potential market for non-premium fruit"?

My understanding from the DNE briefings I have always attended at the end of each season has been that there is plenty of fruit, especially from South Africa, which is non-premium, and such as is already in the market, without shipping further fruit of that quality, usually has some effect in diminishing returns that might otherwise be paid for premium fruit. In my experience, domestically and with export, the greater the volume of fruit of indifferent quality the greater the likelihood of diminution of returns for premium quality fruit.

However, with their being no fetter on exporters, in my proposal, it is always open to any exporter to identify and establish a new market for fruit, without it being in competition with premium fruit in a market like the US. For example, last season one of the two packers that we use found new markets for our fruit direct into Canada, the UK, Sweden and Italy, albeit on a relatively small basis, but greater than a mere trial.

Further on Page 151 you also note that it has been suggested (without you acknowledging the veracity of the suggestion) that "supplying non-premium fruit to the US market can adversely affect the pricing structure established for premium oranges. However, it is difficult to see how imposing additional quality requirements provides nett benefits more broadly Restricting the exports of lower grade fruit ... and having no alternative importer could lead to missed opportunities for profitable export sales into lower grade markets".

Confining the exports to the US to high quality fruit produced only those by growers prepared to make the commitment to excellence (and that certainly is not all growers) has meant the establishment of a lucrative market (tangelos, for example, returning us up to \$66 per carton this year) which would simply not otherwise exist if all Australian fruit on the US market did not have the reputation and recognition of being superior to South African fruit.

Some years ago a grower-controlled company, Unsurpassed Australian Grown Ltd, failed in its first year of operation, and the management of UAG asserted that one of the main reasons for its failure was that growers hedged their bets unduly and committed the better quality fruit to other exporters and gave fruit of indifferent quality and count sizes to UAG in spite of the growers, in theory, working towards single-desk marketing of all of their citrus through UAG.

The message we kept getting from DNE, which I regarded as valid, was that any diminution in quality would bring us back to the pack with South Africa and have us all struggling for market share of a comparable product, with the inevitable price cutting to the greatest disadvantage, as usual, to the growers and all those in their communities who rely on a profitable citrus industry.

Perhaps the US market is unique in this respect, although I doubt it. If it is, then let exporters use the existing adequate channels to ensure that export control powers are not used as a means of preventing the establishment of appropriate markets, and effective marketing strategies, for different qualities of fruit in different countries or different areas of countries.

You then state on Page 152 "the arrangements also rely on the ability of the single importer (in this case DNE) to identify and pursue effectively every potential opportunity for Australian exports. It is difficult to see how a single importer can cover all possible outlets for Australian citrus in the US, given the size of the market.

"In addition, it is unlikely that one importer can have a perfect knowledge of every market opportunity. Consequently, marketing fruit through a number of diverse importers may lead to a wider exploitation of market opportunities.

"The lack of alternatives is a particular concern in markets where Australian exporters are "price takers" not even a plethora of importers in any country would effectively exploit every potential opportunity for Australian exports".

The real question is whether the interests of the citrus industry as a whole, and the communities and regions in which they operate, are better and more effectively and more economically served by being forced to exploit to the greatest possible extent the totality of world markets, by means of recognising the counts and quality preferred by individual countries.

We believe that our interests, and the profitability of our enterprise on which many others rely (including packers and pickers) have been enhanced by the two packers we use packing our fruit discriminately for particular markets, with only our top quality and top counts going to the US.

In our submission that is a much better strategy, and in the best interests of everyone in the chain, and in the communities and regions in which the citrus industry operates, than letting everyone have a go in every market with all types of fruit.

You then state on Page 152 "the lack of alternatives for marketing and distribution may create similar problems for exports of non-premium oranges (as suggested by Craig Mostyn and Co, AAT 1999). In these, markets, strategies that maximise the prospects for profitable opportunities are more likely to be effective".

I struggle to understand what your general assertion means, but if it means that everyone should have the opportunity to market all fruit of all qualities and counts anywhere they like, then I seriously doubt that that would "maximise the prospects for profitable opportunities".

Indeed, there has to be a limit to the quality and counts of fruit which are sought to be marketed for fresh fruit, as most players in the chain recognise, although there are obviously always some opportunists who would threaten one sort of market by attempting to exploit or cater for another market, and that does not only apply to "fly-by-night" traders.

It was of interest that you quoted Craig Mostyn and the AAT hearing in 1999, for you will no doubt be aware that Mostyn had its opportunity to present its case to the AAT in the fullest possible way, and a proper deliberation after consideration of all of the relevant issues (but not coloured political considerations) ruled against Mostyn being able to dismantle for the time being the US marketing strategy with DNE as the single importer.

You then assert on Page 152 that "even in markets where Australian producers are "price makers", it is difficult to see how requiring that exporters use a single importer will provide any additional benefits to the Australian citrus industry - if DNE is delivering value to exporters, then its services would be used without legislative backing".

This is another naive observation on your part flying in the face of practical market realities of which you need to be aware, or to which you need to give more appropriate weight.

Again, I refer back to Asian experience and would query whether the US market would be so successful if it was subject to the marketing regime obtaining in most Asian countries, and I would query whether the problems I have described in various Asian markets would be as bad if there had been put in place a marketing regime comparable to the US single importer structure.

It is only because of legislative backing that the US regime is so successful, and without it Mostyn would have been into the US, with adverse consequences, at least for Australian citrus growers, this conclusion being necessarily inferred from the AAT decision to block Mostyn from entering the US market in the manner it proposed.

It is therefore abundantly clear that legislative backing is needed for DNE to deliver value to exporters, and especially to the growers comprising part of that definition.

It is certainly recognised, as you have pointed out on Page 153, that "the potential for conflicts of interests reinforces the importance of putting in place effective performance incentives (including the independent assessment and review of arrangements) to ensure that DNE provides the best possible service".

I would respectfully submit that the current review mechanism is more than adequate to achieve that purpose.

I certainly believe that Riversun and growers like us make their own assessment every year and I am more than satisfied with the performance of DNE to date which has delivered extremely comprehensive briefings at the end of each export season.

As I have mentioned earlier, DNE is one of the players which has assumed significant risk and commitment, in the hope of reaping the rewards on an ongoing basis because it is "all or nothing".

In my view the high stakes for which DNE is playing should normally be an adequate safeguard of the interests of Riversun and its growers, and to ensure that their interests are not prejudiced by DNE having a conflict of interest, but, again, the review mechanism in place is more than adequate.

The fact that you have made the comment referred to above is suggestive that you do not believe that the existing mechanisms are satisfactory, although you have adduced no evidence to support your position.

In summary, I would respectfully submit that your Position Paper and the particular Draft Findings and Draft Recommendations referred to herein, are potentially destructive of some of the better things happening in the marketing of Australian citrus, with particular reference to the US, but without you having established a firm factual basis for your positions.

I respectfully suggest that you take into account the matters contained herein, which no doubt would have been put to you in recent times much more cogently and with more detailed factual supporting evidence of their submissions by officers of Murray Valley Citrus Marketing Board and Australian Citrus Growers.

KEITH E RICHARDS