

6 December 2000

Citrus Industry Inquiry
Productivity Commission
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MELBOURNE VIC 8003

Following is the submission to the citrus industry on behalf of MIA PowerPACT Rural Partnership Program and MIA Council of Horticultural Associations. MIA Council of Horticultural Associations is the peak industry body representing the Citrus, Winegrape and Prune Industries.

The MIA Council of Horticultural Associations administers a \$5 million Rural Partnership Program which is funded by the NSW and Federal Governments. The purpose of this submission is to increase the awareness of the programs objectives and to highlight the impact and effectiveness of this program.

Please feel free to contact me for further information.

Yours faithfully

Carmen Formosa
Executive Officer



SUBMISSION TO THE

PRODUCTIVITY COMMISSION

Citrus Growing and Processing

MIA Council of Horticultural Associations Inc



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1. EXECUTIVE SUMMARY

The Australian Citrus industry has been in crisis for some time. Particularly affected by the crisis are the citrus growers of the MIA.

The aim of this submission is to make the Citrus Growing and Processing Productivity Commission aware of the various programs of assistance available to the citrus growers of the MIA and their potential failings. It is hoped that this will provide some information that will be of assistance in the development of a revitalisation strategy for the Citrus Industry.

The MIA PowerPACT program currently running in the area has assistance available for all MIA farmers in the areas of

- Business planning and benchmarking
- Redevelopment and uptake of new technologies
- Property expansion
- Referral to training assistance
- Referral to exit packages

Growers in the area need assistance in a variety of areas to undertake structural reform in order to reposition themselves to take advantage of new market opportunities. Government packages available to growers in the region in their current form are insufficient and do not provide enough assistance for those growers in dire financial circumstances.

There are four key areas where additional assistance is necessary is to assist the MIA Citrus Industry

- Farm redevelopment (change plantings and take up new technology)
- Planting establishment
- Assistance to exit the industry
- Assistance to increase property size

Additional initiatives will allow growers to exit the industry or to undertake replanting or redevelopment works to adapt to the changing the face of the industry and enable them to access new markets and enter a new period of productivity.

2. BACKGROUND

2.1. MIA PowerPACT Vision and Mission

MIA PowerPACT's mission is to develop a self reliant, forward looking, market oriented, prosperous rural community, providing the foundation for a strong and sustainable regional economy in the MIA.

We aim to achieve this by fostering a business approach to rural enterprise, ensuring skills development and removing problems that stifle the ability of rural enterprises to reach their full potential.

2.2. History of the MIA PowerPACT Program

In late 1996 the citrus industry sought action on tariff changes and sales tax changes that were having serious effects on their profitability. In February-March 1997, the Prime Minister of Australia and the Premier of NSW exchanged correspondence about a potential Rural Partnership Program for the MIA as a way of delivering some assistance to the citrus industry. From 1997 to 2000 the MIA Sustainable Development committee and the MIA Council of Horticultural Associations with a great deal of community and industry support campaigned and negotiated to establish a \$12.6million program to revitalise the region. Various rounds of negotiations continued and in September 2000 the NSW and Federal Governments signed off on a \$5 million Rural Partnership program for this region. The breakdown of the funding items can be found in appendix one.

The development of a Rural Partnership Program in the area was initially focused on aiding the ailing citrus industry. Under the Rural Partnership Program model, assistance available is generally directed at a region rather than a specific industry so the program was extended to involve all primary producers within the MIA. Redevelopment and property expansion grants are only available to citrus growers in the first year of the program.

2.3. Program Objectives

The MIA PowerPACT program has the following objectives

- (a) fostering a business approach to rural enterprises by assisting the development of accredited, and substantiated, business enterprise plans (including skills audits and benchmarking) that aim for achievable outcomes under a range of market conditions;

- (b) encouraging business and property redevelopment, and the uptake of appropriate technologies, where rural enterprises identify, through their own accredited business plans, that these measures are integral to the success of their businesses;
- (c) facilitating farm build-up where rural enterprises identify, through their own accredited business plans, that increased production area is integral to the success of their businesses; and
- (d) referring program participants to the NSW FarmBi\$ program for training needs, as appropriate and to the Farm Family Re-start program, as appropriate.

2.4. Current situation

The program commenced its implementation stage in January 2001 with the appointment of the programs Executive Officer. The program was officially launched in July 2001 and business planning commenced at this stage.

The program has achieved overwhelming support from growers in the area. Approximately 180 farm businesses have enrolled in the program to date. Of these 80% are citrus growers.

The Federal government is currently considering an appeal for additional funds for exiting the industry and redeveloping on farm to assist the citrus industry through the MIA PowerPACT program.

The program compliments other programs within the area including the MIA and Districts Community Land and Water Management Plan and the proposed HortVision 2010 program. These programs are detailed in appendix two.

3. LEVELS AND TYPES OF ASSISTANCE AVAILABLE

3.1. Business Planning and Benchmarking

Subsidies are designed to encourage the preparation of a comprehensive business enterprise plan and ongoing benchmarking by primary producers as the first steps to adoption of best practice management. They are provided in order to undertake a strategic assessment of the financial position of the farm business enterprise and to identify training requirements and activities for development to secure financial viability and sustainability. A satisfactory business benchmarking plan provides the basis for accessing other programs under the PowerPACT Program. The business plan must be done through the accredited business planning firm, Resource Consulting Services (RCS). Assistance for business planning equates to 90% of the cost of the business

plan up to \$2700. Assistance available for benchmarking equates to 20% of the cost of the benchmarking up to \$400 a year for two years.

This program item accounts for 48% of the program funding available.

3.2. Grants for redevelopment & New Technology

Grants are provided to facilitate the improved productivity, viability and sustainability of farm business enterprises in the Murrumbidgee Irrigation Area, by encouraging the development or redevelopment of farm infrastructure. This, for many citrus growers, involves the changing of plantings on the farm or taking up new technology such as plastic fruit bins to increase quality. These grants do not cover irrigation systems and other land management type activities as these are covered through the MIA and Districts Community Land and Water Management Plan which is being managed by Murrumbidgee Irrigation.

Grants of up to 25% of redevelopment costs up to a total maximum grant of \$15,000 are available provided a satisfactory business enterprise plan has been developed for the business and the business enterprise plan demonstrates an improvement in long term viability as a result of the redevelopment. The grant must be necessary to undertake the redevelopment.

87 grants are available at an assumed adoption rate of \$15,000 per grant.

3.3. Grants for Property expansion

Grants are provided to facilitate the improved productivity, viability and sustainability of primary production enterprises in the Murrumbidgee Irrigation Area, by encouraging primary producers to increase the size of their properties. Grants of up to 50% of the costs of borrowings supplied by a commercial institution, vendor or by private arrangements, for the purpose of financing the property build-up, up to a maximum of \$20,000 per year for a maximum of two years are available.

The grant is contingent on the development of a business plan and that business plan demonstrating an improvement in long term viability as a result of the property build up.

20 grants are available at an assumed adoption rate of \$28,000 per grant.

3.4. Assistance for training

The assistance for training component of the grant refers to the Funding available through the Farm Bi\$ Program. It is thought that as more people identify their training needs through the business planning process a number of tailored courses could be run in the area. The assistance available is 75% of the cost of the training activity, financial assistance for each farm enterprise is limited to a maximum of \$2000 for each activity. Each farm enterprise will be eligible for a maximum of \$6000 of assistance over the life of the scheme.

3.5. Assistance for exit

MIA PowerPACT offers a referral service to the Agriculture Advancing Australia Farm Help Package. If the farmer, in conjunction with the business planning process, evaluates that they are not viable in the long term PowerPACT can organise referrals to the farm help program. This can provide a package of measures of up to \$45 000 per farm family to aid in re-establishment outside of the farming enterprise. This program has strict eligibility criteria and additional information on this program is available through the Department of Agriculture Fisheries and Forestry and Centrelink.

4. MIA POWERPACT STRUCTURE

The MIA PowerPACT program is overseen by an implementation committee which is made up of representatives from the key industry groups in the area as well as funding bodies and the other stakeholders.

The program is managed by the MIA Council of Horticultural Associations who are responsible for the communications and implementation of the program.

The Rural Assistance Authority are responsible for the approval of grant applications and the distribution of grant funding.

5. EFFECTIVENESS OF THE PROGRAM AND AREAS FOR PROGRAM IMPROVEMENT

The MIA PowerPACT program is in its early stages and has not yet been formally reviewed however some areas of concern have already been identified.

5.1. Insufficient redevelopment incentive

Growers have identified that the 25% grant available through the MIA PowerPACT program for redevelopment is not sufficient to encourage redevelopment as many will be unable to raise enough capital to cover

the other 75% of the cost. Without further assistance they will remain trapped by the unprofitable plantings on their farm.

With 10 years in crisis many growers face a difficult situation.

On some farms regular replanting as a matter of course has not been undertaken due to lack of income. The balance of plantings on farms is older and less productive than is advisable. Machinery updates have also not occurred and growers are unable to adopt new methods of production for new crops such as navels without access to new technology.

Many of the growers that remain in the industry are in levels of debt that will not allow them to borrow further to replant. Current prices will not allow them to fund redevelopment on farm with nil retained earnings.

5.2. Insufficient amount of assistance available across the region

The MIA PowerPACT program has a total of 87 \$15,000 grants available for redevelopment and 20 grants of \$28,000 available for property expansion. These are not exclusively for citrus growers in the region but are for farmers across all of the MIA. There are approximately 1,900 farmers owning 2,200 farms across this area. On a per capita basis only just over one grower out of twenty five will be able to access grant funding through the program.

Assistance for redevelopment for 107 growers is thought unlikely to result in structural reform across the industries of the MIA.

Additional funding for the citrus industry will allow much of the grant funding to be spread over the MIA and give more of the eligible primary producers in the area an opportunity to access the funding.

6. MEASURES TO ENHANCE COMPETITIVENESS THROUGH STRUCTURAL REFORM

Three key areas have been identified as important in enhancing the competitiveness of the citrus industry through structural reform. They are encouraging planned redevelopment on farm, removing barriers to exit and increasing farm size.

6.1. Encouraging planned redevelopment

The length of time to positive cash flow on a development proposal is a significant disincentive to structural reform for the citrus grower. Orange

trees do not bear fruit until approximately five years after planting and will not come into full production until nine or ten years after planting.

Elton et al 1997 indicates a net positive cash flow 5 years after planting with a break even point of nine years assuming a price of \$350 per tonne.

Growers therefore are trapped by their current plantings, unable to enter into debt or sacrifice the current cash income from the present trees. The situation gets progressively worse as growers are unable to adapt to market signals and change current plantings.

The situation varies for growers diversifying into wine grapes with positive cash flow in two years and onwards although the establishment costs are somewhat higher so the breakeven point is further from the date of planting. However, the grape industry is going through great change at the present time and market indicators suggest that red grape prices especially will fall in the next two to three years.

Growers who do decide to redevelop are limited in the percentage of farm area that they can redevelop due to the immediate reduction in cash flow. Growers then face the problem of financing debt for redevelopment as well as the cost of growing the trees until they begin to bear in five to seven years.

MIA orange growers have identified that the current redevelopment grant available through the program is insufficient assistance or incentive for growers to redevelop. This is due to the lack of access to finance, the cost associated with redevelopment and the ongoing establishment and finance expenses associated with replanting into more profitable varieties of fruit.

6.2. Proposed strategies to address increasing planned redevelopment and adopt new technology

A 50% grant for the cost of redevelopment up to a maximum of \$20,000 per farm business would enable an increased number of growers to undertake redevelopment and take up new technology.

In addition a "Growth Grant" of 5% of the total cost of development should be provided for 7 years to offset the cost of growing trees to bearing age, the associated loss of income and the costs of finance until crops are produced. It is hoped that the Growth Grant, in conjunction with the redevelopment grant and business plan will improve ability of growers to access finance from traditional sources.

6.3. Barriers to exit

It is acknowledged that some growers in the industry have very low equity levels and unprofitable farms and even with redevelopment assistance will not be viable in the long term. There is a definite need for an effective assistance package to aid growers to exit the industry and move into jobs or businesses in town.

Growers in the area are currently able to access the AAA Farm Help Farm Family Restart Scheme.

The present grant is subject to an assets test and farmers and their partners may have up to \$100,000 in net assets to qualify for the maximum grant. No grant is payable if net assets exceed \$167 500.

Local growers have identified that the present assistance available is uncomfortably low due to the high reestablishment cost within the MIA. The cost of housing in the area has been identified in the Premiers Five Point Plan for Griffith as a major impediment to the growth of Griffith.

The current level of the grant does not allow the farm family to re-establish themselves outside farming without taking on significant additional debt. With an average age of 54 for farmers in the industry two key problems are faced. Firstly the ability to get a mortgage to pay for a house in town when you are 54 with no job or part time work is difficult. Armitage 2001 states that those aged 35 to 54 are unemployed for more than twice as long as those aged 20 to 24 and that trying to place someone 60 to 65 in a job is virtually impossible. Secondly the equity built up in a farm over a lifetime of work represents grower's savings for retirement. The grant was obviously intended for towns and regions in dryland areas with low farm and housing prices and not for the MIA.

Sale of the farm and re-establishment for older farmers should allow for the purchase of a home in town with some allowance for living expenses before work is found.

The value of the reestablishment grant is further reduced by the income support that the farmer may take before the farm is sold.

6.4. Proposed Strategy to address barriers to exit

In addition to the existing Federal funded AAA Farm Help – Re-establishment Grant program the farmer should receive an additional grant.

The maximum proposed grant including the Farm Help Grant available for reestablishment is \$115,000. Farmers and their partners may have up to \$100,000 in net assets to qualify for the maximum grant with no grant payable if net assets after the sale exceed \$238,000.

It is proposed that 15 grants of \$115,000 and 10 grants of \$57,500 will be a significant incentive for many growers to leave the industry.

6.5. Expansion of property size

Property size is a major impediment to farm profitability in the area. Encouraging expansion of property size provides a dual benefit of allowing other growers to exit the industry.

6.6. Strategies to encourage the increase of property size

The MIA PowerPACT program has assistance available for growers to increase their property size. These are calculated based on 50% of the interest cost of the loan for two years. Expanding this grant to cover 50% of the interest cost of the loan for three to four years would provide more incentive for growers to expand their property size and allow them to undertake necessary development on their new farms.

Stamp duty exemptions for property expansion may also provide another incentive to growers to increase property size.

Increasing the amount of grants available in the program from 20 grants to 40 grants across the MIA will allow more citrus growers to expand their landholdings and undertake true structural change.

7. INDUSTRY SUPPORT

Two growers meetings were held to discuss what types of industry assistance would be of most benefit to them and have the most positive outcomes for their industry.

The grower meeting were well attended with over 100 participants from both Griffith and Leeton.

The growers identified that assistance to update machinery and plantings on farm to enable them to produce quality fruit would be of great assistance. The growers also identified that the current exit packages were not enough to encourage people to leave their farms or to enable them to establish themselves elsewhere.

Details of the strategy areas identified by growers can be found in appendix four.

8. REFERENCES

Armitage, C., 2001, *Will you still need me*, The Weekend Australian, August 25 –26 pg 23

Elton, K., 1997, *Farm Budget Handbook 1997 NSW Citrus*, NSW Agriculture, Yanco Agricultural Institute

9. APPENDIX ONE – FUNDING BREAKDOWN

PROJECT	COMMONWEALTH	STATE	TOTAL
PROJECT ONE			
Business Enterprise Plan and Benchmarking Subsidy	\$ 472,974	\$ 1,891,896	\$ 2,364,870
PROJECT TWO			
Improved farm productivity by encouraging development or redevelopment of farm infrastructure	\$ 1,307,435	- \$	\$ 1,307,435
PROJECT 3			
Improved regional viability and sustainability by increasing property size	\$ 552,435	- \$	\$ 552,435
PROJECT 4			
Communication Program	\$ 20,700	\$ 82,800	\$ 103,500
PROJECT 5			
Implementation and Coordination	\$ 134,456	\$ 477,304	\$ 611,760
PROJECT 6			
Monitoring and Evaluation	\$ 12,000	\$ 48,000	\$ 60,000
TOTAL FUNDING	\$ 2,500,000	\$ 2,500,000	\$ 5,000,000

10. APPENDIX TWO - PROGRAMS AVAILABLE FOR CITRUS GROWERS IN THE AREA

10.1. Land and Water Management Plan

The MIA and Districts Community Land and Water Management Plan is a regional natural resource management plan aimed at maintaining and enhancing the sustainability and profitability of agriculture in the area.

In addition to regional activities the plan has a number of incentives available for farmers to improve their water and land management on farm. This includes irrigation technology and equipment, property management plans and an education program.

The incentives are not asset tested or income tested and are available for all farmers in the area on a per farm basis.

10.2. Proposed Program - HortVision 2010

A **proposed** program based on a water for technology swap whereby growers will be able to transfer some of their high security water savings for an on farm irrigation system. The water savings will be used by the Snowy Entity to return flows to the Snowy, Murray and other montane rivers.

11. APPENDIX THREE – INDUSTRY STATISTICS

Number of growers in the industry	600
Number of farms	638
Farms with plantings 100% citrus	380 farms or 59.6% of the industry
Farms with plantings greater than 51% in citrus	488 farms or 76.4% of the industry

12. APPENDIX FOUR - STRATEGIES IDENTIFIED BY GROWERS

12.1. Notes from Meeting in Leeton - 12 September 2001

CRITERIA

- Business Plan
- Should be based on the farm income and not effected by any off farm income. All growers to be able to access.

CONTENTS

- Decent Exit Package – growers should be given the market price
 - **Tree Pull Scheme** – allowing growers to exit the industry but remain on their properties.
- Redevelopment programs – low interest subsidies
 - **Replanting** – subsidise growers for the years that the block replanted are not in production
- Innovation and New Technologies -low interest subsidies
 - **Machinery and Equipment Updates** (forklifts, plastic bins, computers, purchasing of hi-tech equipment)
 - **On farm cultural practices:** Money to assist with pruning, spraying in order to produce a higher quality crop.
- Labour Scheme
 - Subsidise picking costs
 - Superannuation policies for growers with government contributions
 - Increase the Superannuation threshold
 - If money set aside for pickers superannuation is not claimed it should be returned to the grower
- Domestic Marketing Campaign for Valencias within Australia, buy 100% Australian products.
- Expansion package for those growers who would like to buy more properties

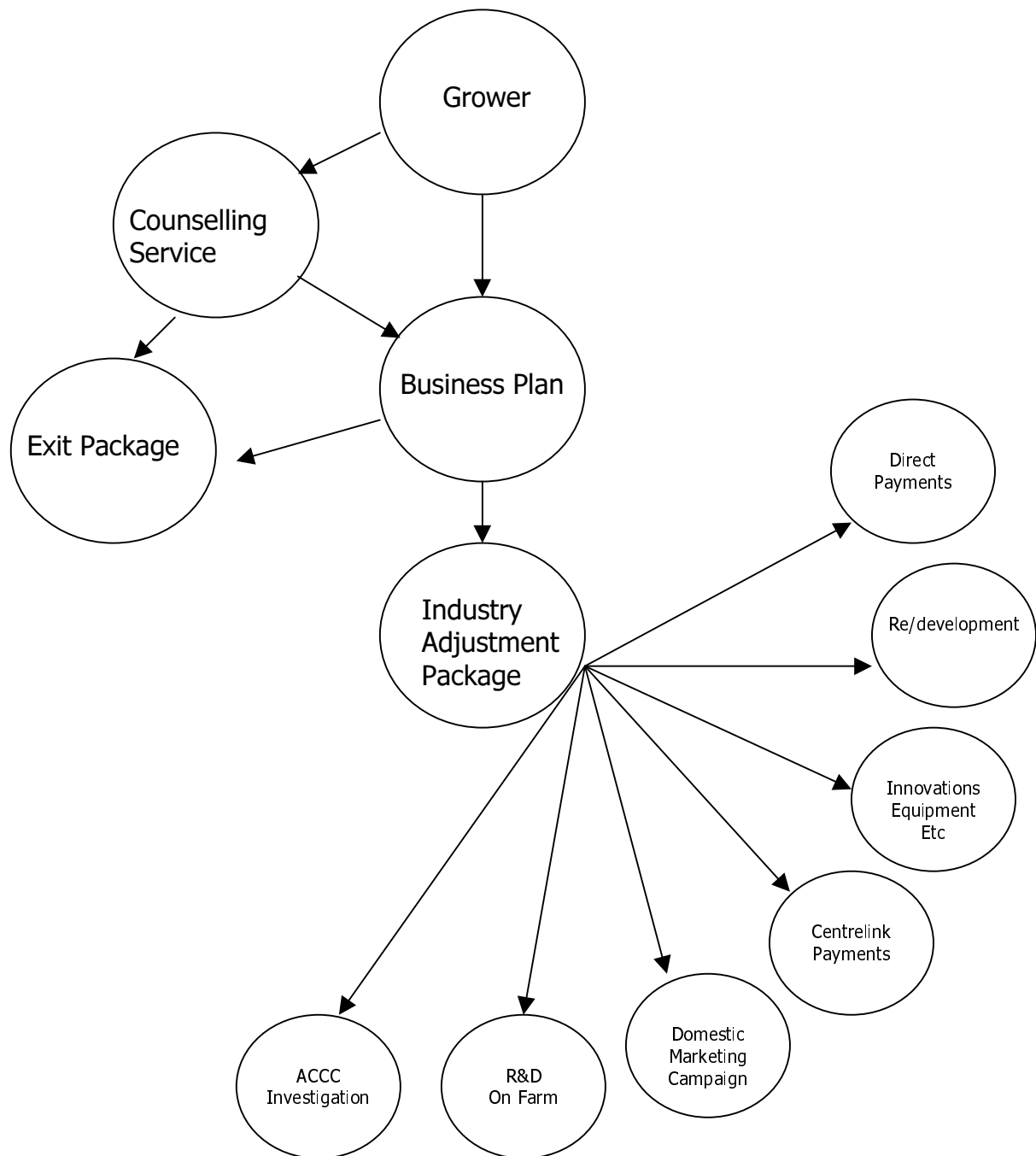
12.2. Notes from Meeting in Griffith - 11 September 2001

CRITERIA

- Business Plan

CONTENTS

- Decent Exit Package – something that will allow a grower wishing to exit the industry buy a decent property in town.
- Direct Payments – for such things as water bills, farm operating costs, superannuation
- Redevelopment programs – low interest subsidies
 - **Replanting** – subsidise growers for the years that the block replanted are not in production
 - **Reworking**
 - **Tree Subsidies** – direct assistance to buy trees
- Innovation and New Technologies - low interest subsidies
 - **Irrigation System Subsidies** (on top of those being offered by other packages such as LWMP and Hortvision 2010)
 - **Machinery and Equipment Updates** (forklifts, plastic bins, computers)
 - **Training:** off farm income such as welding which can be on and off farm, and computer training on farm to allow for better management practices.
- Centerlink Payments – no means test required
- Domestic Marketing Campaign for Valencias within Australia, including an identifier logo for 100% Australian products.
- Research and Development on-farm
- ACCC investigations into retailer's → growers receiving greater share of consumer dollar.



13. APPENDIX FIVE - CONTACT DETAILS

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