



**Submission to the
PRODUCTIVITY COMMISSION**

**In response to the Citrus Growing and Processing
Position Paper**

**MIA PowerPACT Rural Partnership Program and
MIA Council of Horticultural Associations Inc**



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RESPONSE TO POSITION PAPER

The Productivity Commission 2002 Citrus Growing and Processing Position Paper makes comment on a variety of factors affecting the citrus industry and makes various conclusions on appropriate measures to assist the industry. The following additional information on the nature of the citrus industry and the MIA PowerPACT program highlight that an appropriately structured and managed program of assistance is needed by the industry and can be successful in encouraging industry reform

1. CHARACTERISTICS OF CITRUS GROWING IN AUSTRALIA (SECTION 3.1)

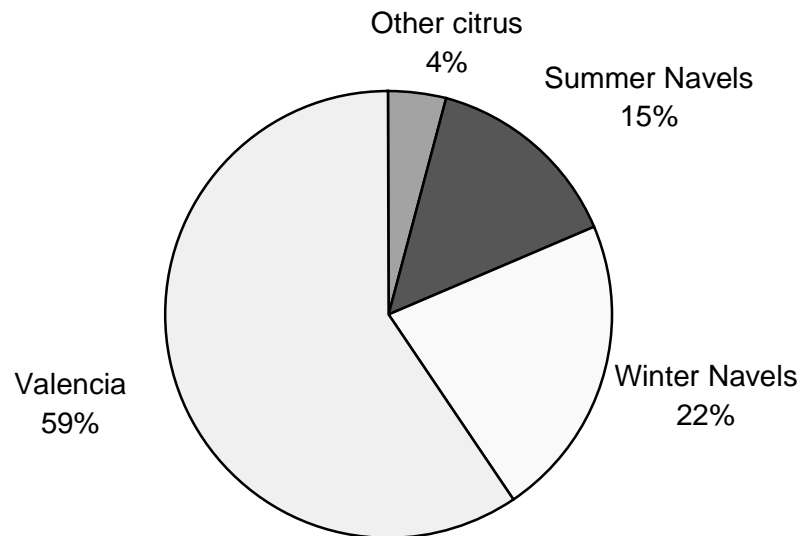
The Productivity Commission 2002 Citrus Growing and Processing Position Paper (Productivity Commission) makes comments on the product diversity of citrus establishments in Australia stating that "Very few growers appear to specialise entirely in the production of citrus" Statistics collected from the MIA horticulture database contradict this statement indicating that in 2002, 56% of growers in the MIA have a strong reliance on citrus income with over 90% of the plantings on their farm dedicated to citrus. Only 20% of the industry in the Riverina have less than 50% of the plantings on their farm dedicated to citrus. The Riverina differs significantly from the Murray region and South Australia in this regard.

There are also significant regional differences in the size of citrus establishments. The productivity commission states that half of all orchards in the Murray Valley are less than five hectares in size. In the Riverina however, only 20% of all orchards are less than five hectares. There are 26 growers with citrus holdings over 50ha, eight of these with orchards over 100ha. (MIA Horticulture Database 2002).

2. FINANCIAL PERFORMANCE (SECTION 3.2)

MIA PowerPACT supports the view of the AGC in stating the Murray Valley region has a significantly higher proportion of navel fruit to total fruit. In the Riverina 59% of all plantings are Valencias. The Riverina has a smaller proportion of navel and mandarin varieties which have higher potential for profit. In line with Australia wide trends, highlighted in Figure 3.2 of the Productivity Commission a high percentage of these navels are non-bearing providing no income for growers and increasing the reliance on Valencias.

Figure 1.1 Citrus Plantings in the Riverina 2002



MIA Horticultural Database 2002

3. FACTORS AFFECTING GROWER PERFORMANCE (SECTION 3.3)

3.1. Diversification

The Productivity Commission highlighted that diversification was a way to decrease risks and increase profits for individual growers. Diversification is not without additional costs. Having a range of crops can result in decreased buying power of specialist inputs, lower bargaining power when entering contracts or selling crops and the need for specialist equipment for each crop grown. Growers need to make substantial investment to diversify away from a citrus only enterprise, with ongoing low returns from citrus this is difficult.

Earning off farm income and diversification does nothing to improve the viability of the citrus proportion of the enterprise or raise the profitability of citrus growing.

4. MEASURES TAKEN BY GROWERS TO ENHANCE COMPETITIVENESS (SECTION 3.5)

Identified in the productivity commission were four measures that growers could take to increase competitiveness classified under four broad categories;

- Response to changing consumer preferences;
- Quality of produce
- Risk management; and
- Productive efficiency

Growers are responsive to change and have taken up a number of measures to increase profitability. It is important to recognise that these measures are not without cost to growers. Lack of redevelopment and change in management practices is not related to grower apathy. Lack change to effective and modern management practices is a result of many years of low returns resulting in no funds available for redevelopment and consequently reduced borrowing ability.

5. IMPACT AND EFFECTIVENESS OF PROGRAMS TO FACILITATE ADJUSTMENT AND ECONOMIC CHANGE (SECTION 5.4)

Farm Bi\$ incentives to undertake training make it far easier for growers to take up training courses to improve fruit quality and management practices. Training is an ongoing need and Farm Bi\$ is recognised as increasing the number of people who have undertaken training courses. Training courses in isolation do not allow citrus enterprises to improve profits as changes in management practices identified often require further investment at a high cost.

The Farm Help – Supporting Families Through Change program provides assistance for families to re-establish outside of farming. The Productivity Commission states that

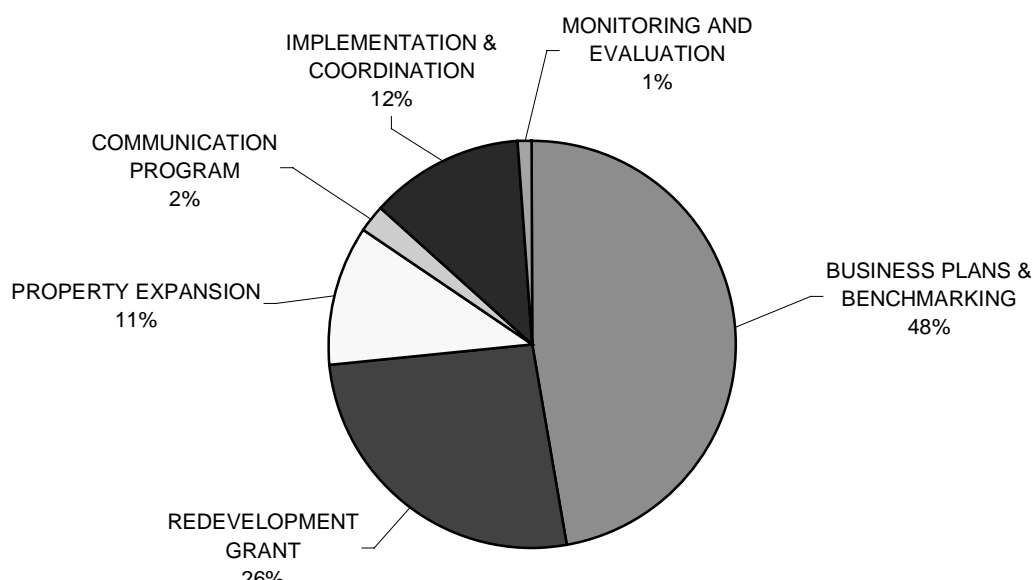
re-establishment grants are designed to be an incentive for farmers in financial difficulty, who are judged to be unviable in the long term, to leave the industry (p 90)

The Productivity Commission is critical of statements made by the citrus industry that indicate that the aim of re-establishment assistance is, or should be to allow farmers to leave their farm and purchase a comfortable house in the nearest town. MIA PowerPACT would suggest that unless government grants for re-establishment allow growers to at least maintain their standard of living, particularly in relation to standard of housing, they will not be any incentive what so ever for families to leave the industry.

5.1. Rural Partnership Program - Business Planning Assistance

The MIA PowerPACT program has a strong business planning and benchmarking focus with 48% of total funding and 56% of direct assistance to growers dedicated to these program items. Business planning is the first step in the program, growers have to complete a business plan before they can apply for other grants.

Figure 1.2 MIA PowerPACT Funding Elements



The citrus industry, like most rural industries and other small businesses lacks a business planning focus. Business planning is not recognised as being a priority for the farming community. It is the role of Rural Partnership Programs to change this attitude.

The initial view of most growers is that business plans are undertaken in order to access funding for redevelopment or property expansion. In the review of Kickstart Sunraysia Rural Partnership Program, Sunrise 21 stated:

Overwhelmingly, growers agreed that they would not have undertaken the Business Planning process had it not been a requirement for accessing Kickstart Redevelopment Assistance. (p 17)

Though MIA PowerPACT is still in its early days the attitudes of growers to the Kickstart Sunraysia Program are echoed in our experience. Eighteen growers who had enrolled in the program to do business planning have since dropped out upon realising that because of their individual circumstances they would not be able to access grants. After business plans are completed the attitude changes with growers overwhelmingly in support of business planning.

The MIA Rural Partnership program faces a significant marketing challenge in encouraging growers to participate in business planning when they will not get grants highlighting the need for additional funding.

5.2. Redevelopment Grants

MIA citrus growers have identified two areas of concern with the redevelopment grant component of the program, firstly the total amount of funding available through the grants for the industry and secondly the ability of growers to access the funding.

The Kickstart Sunraysia Program is substantially larger than MIA PowerPACT with program funding of \$10,080,000 versus \$5,000,000. With a higher level of funding Kickstart approval rates for applicants for redevelopment grants was 90%. With redevelopment and property expansion grants for a total of only 107 growers we not will achieve the same approval rate, and with business plans enrolment so closely linked to the availability of redevelopment grants the program may not be successful in achieving targets in this area.

5.3. Access to Funding

The commission seeks information on whether citrus growers who meet the relevant eligibility criteria face any impediments to gaining access to government programs which facilitate adjustment. The MIA PowerPACT program is only in its early stages but with a total of 1900 farmers across the region one would suggest that there are many more than 107 (5.6% of total) growers that are in need of assistance. Many needy citrus growers are expected to miss out.

The eligibility criteria for the Kickstart Sunraysia program has allowed a higher number of growers to access grants as it did not have a specific needs criteria. The MIA PowerPACT guidelines state that the grant must be necessary to undertake the redevelopment and that the business must demonstrate potential for ongoing viability. The MIA PowerPACT program therefore can only offer assistance to a small window of growers, those who are unable to undertake any redevelopment without a 25% grant yet still have potential for future profitability. For example a grower looking to undertake replanting at a total cost of \$10,000 will need to demonstrate that without a grant of \$2,500 the redevelopment will not be undertaken. The grower must also demonstrate potential for ongoing viability regardless of the fact that they cannot beg borrow or steal \$2,500.

6. IMPEDIMENTS TO IMPROVED PERFORMANCE OF CITRUS PRODUCERS AND INDUSTRY ADJUSTMENT (SECTION 7.2)

The Productivity Commission lists a number of avenues from which citrus growers can access funding for redevelopment. Unfortunately many growers experiencing low returns and with low equity have little access to traditional sources of finance through banks. The other finance option listed also seems fanciful, if a grower is unable to access finance from a bank why would a private enterprise or individual be willing to enter into partnership with them. The long time from citrus planting to break even,

recognised by the Productivity Commission, also impedes access to finance and can make financial institutions wary about lending for horticultural redevelopment. Government programs such as the MIA PowerPACT program are not available to every grower in the citrus industry and tight eligibility criteria that apply to the grants will mean that for the majority of growers the program cannot be looked upon as a source of finance.

7. ARE FURTHER MEASURES NEEDED (SECTION 8)

The Productivity Commission concludes that a specific industry adjustment practice is not needed stating:

Assistance that focuses narrowly on commodities, such as citrus can distort farm business decisions, with possible adverse effects on the efficiency of the sector. It can also result in inequities, delay inevitable adjustment, and be costly to administer. (p XLII)

Rural Partnership Programs are designed to build capacity and to a lesser extent encourage structural adjustment.

Assistance through the program is unlikely to distort farm business decisions and have adverse effects on efficiency. The program is aimed at increasing the efficiency of growers by allowing them to adapt their management practices. Before grants are approved they must be supported by a business plan which identifies how the redevelopment will improve efficiency. This supports rather than distorts business decision making. Growers involved in the program may not always focus on redevelopment. One family enrolled in the program to get redevelopment grants realised after business planning that their priority should be debt reduction rather than redevelopment and equipment purchase.

The MIA PowerPACT program is considered to speed adjustment by making growers aware of their true financial position through the business plan. The speed of inevitable adjustment is also increased through the redevelopment grant process which helps fund necessary adjustment faster than would otherwise occur.

Administrative costs for the MIA PowerPACT program, including necessary communication and review program costs total 15% of total program funds. Administrative costs can be reduced by adding funding to existing programs. Additional grants delivered through the MIA PowerPACT program would involve a lower overall administrative cost. Administrative costs are lower in a locally based program. The MIA PowerPACT program makes use of a variety of communication methods such as industry funded newsletters, free news stories and local grower meetings to reduce overall communication costs. The hosting of the MIA PowerPACT program in the offices of the MIA Council of Horticultural Associations has also resulted in significantly lower

administrative and establishment costs and much higher exposure than if the program had to be separately located or administered from a capital city.

The Productivity Commission argues that the variation in grower performance and diverse nature of many of the farms growing citrus increase the risk that a citrus specific assistance package would fail to focus assistance only on those genuinely in need. The Productivity Commission has highlighted the differences in the nature and size of citrus enterprises. Clear eligibility criteria can ensure that those who are most in need of assistance are the ones in receipt of assistance. For example the proposed MIA PowerPACT Enhancement Strategy recently put to both the Federal and NSW Government suggests incentives are restricted to growers with citrus plantings greater than 50% of total plantings. The business plan accompanying the application allows for a lot of information to be provided in support of the application to ensure that only targeted applicants receive assistance.

8. CONCLUSION

The specific size and characteristics of the Riverina Citrus industry make it significantly different to the other Citrus growing areas in the country. The higher proportion of total citrus plantings on farms, higher level of Valencia plantings, and larger orchard size make the areas growers particularly vulnerable to the low Valencia prices. Growers in the area have accessed incentives available to undertake change independently and through the MIA Rural Partnership program. Specific programs to aid the citrus industry are warranted to aid in structural reform which can be enhanced by business planning. Measures can be targeted to bona fide citrus growers in need through the use of criteria based on planting size or proportions of income from citrus. The administrative costs of targeted programs can be reduced when program management is located in citrus growing regions and delivered through existing establishments. Assistance to the citrus industry in a form that specifically targets the citrus industry is superior to generally available measures of assistance. Specific industry measures when properly designed and implemented are more effective in bringing about structural reform that the citrus industry is in need of.

9. REFERENCES

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APPENDIX ONE - CONTACT DETAILS

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