

MID - MURRAY CITRUS GROWERS INC

RESPONSE TO:

PRODUCTIVITY COMMISSION ISSUE PAPER -
October 2001

CITRUS GROWING AND PROCESSING
INQUIRY

October 2001 - MMCG Inc

AUSTRALIA'S TRADE IN CITRUS PRODUCTS:

1. AUSTRALIA'S IMPORTS

- a. Primarily the Australian imports are in the form of Citrus Concentrate (FCOJ) from Brazil. That is 22,000 tonnes Concentrate or approximately 295,000 tonnes Fresh Fruit equivalent.
- b. Navel Oranges from California in our December to April period are counter seasonal.
- c. Likewise Grapefruit from California and others is also in our December to April period is also counter seasonal.

NOTE:

- i. Recent World FCOJ process equated to between A\$30 - \$60 , which is between half and the full cost of picking in Australia.
- ii. The cost of shipping Concentrate is only approximately 1/16th the cost of Fresh Fruit Freight.
- iii. Labour is by far our Citrus Growers major cost input, having risen 10 fold in 30 years.
- iv. As our Australian Citrus Industry **MUST** aim for Maximising Fresh Fruit Marketing, both Export and Domestic - fruit must be carefully Hand Picked. Mechanical Harvesting (by tree shakers or air blast following release sprays) is **NOT** an option.
- v. Our Factory Fruit **MUST** be a bi-product of the Fresh Fruit Market. That is fruit that is blemished, off colour or under/oversized.

2. AUSTRALIAN EXPORTS - Factors Influencing success or otherwise.

- a. We are a Southern Hemisphere producing country, wherein lies approximately 9% of the Worlds Fresh Fruit Supply. (This excludes Brazil, which is geared to FCOJ Marketing).
- b. Our location is very favourable to the Asian and New Zealand markets, and in future India and adjoining countries.

The USA, Middle East, Europe and UK have closer suppliers so our opportunity is for small market windows into these markets with high value fruit.

- c. The Exchange rate is currently assisting our exports, this advantage could change!

- d. Almost all the markets we supply Fresh Fruit into, have other Tariff Protection levels or very restrictive quarantine provisions, or as in the USA a variable waste policy.
- e. ACG Inc's main thrust and policy has been Market Access - to new Markets and the reduction of protection mechanisms in existing markets, with some success.

CHARACTERISTICS OF AUSTRALIA'S CITRUS MARKETS:

3. COMPETITION IN CITRUS MARKETS - Fresh & Concentrate.

- a. Obviously carbonated water, milk and reconstituted citrus concentrate and other juices and fruits compete against our Fresh Fruit and Fresh Juice products; as the consumer will only spend so much on food items.
- b. Very importantly a Low World FCOJ Price has the effect of bringing down both Fresh Fruit & Fresh Juice prices on a year of large Australian Crop supply; when fruit will be offered into the fresh fruit or juice market at just above the relative World Price equating from a Low World FCOJ Price.

Questions Response:

- 1. The main domestic markets are the Major Retail Chains, which are supplied either from agents in the major metropolitan markets or in a number of cases supplied direct from the packinghouse.

There are also a number of specialist fruiterers sourcing fruit from the top metropolitan agents.

The major Retail Chains now represent approximately 80% of the market.

NOTE: Growers / Packers supplying direct to Retail Chains have the effect of undermining the Wholesale Markets and price setting mechanisms. This will inevitably transfer total power to the retail chains and provide the climate for growers returns to be driven below cost of production - this will have NO benefit for the consumer.

2. The main Export Markets are our Asian Markets of Singapore, Hong Kong, Malaysia, Japan and to a lesser extent Korea, Thailand, Indonesia, Philippines, Bangladesh, and India. Taiwan still on a small quota, will become more important when the quota is lifted. And closer to home, exports go to New Zealand and the Islands of the Pacific and Indian Oceans.

The more removed markets - most important for Navel exports only is the USA market and more recently the UK and Europe and occasionally the Middle East.

3. The Industries main focus is on:

- i. Fresh Export - where the highest returns are possible
- ii. Fresh Domestic - where returns can also be favourable
- iii. Fresh Juice - where the returns are always above FCOJ returns but still only salvage at approximate cost of production for fruit that is better not on the fresh market due to blemish, colour or size.

4. a. The main measure Growers can take to minimise price fluctuations is to grow a range of varieties, coupled with the major factor of growing the size and quality of fruit that the market desires.

b. The ability of growers / packers to reduce supply and thus influence prices is totally limited by the fact that there is NO mechanism to achieve such unison, with such a vast number of packers and growers.

c. The only long term contracts of 3 to 5 years, is for supply of fruit to the fresh juice processors.

4. FINANCIAL PERFORMANCE

The financial performance varies widely between growers due to the following factors:

- mix of varieties
- size of fruit & quality
- volume of production per hectare
- age of trees
- containment of costs.

Also how close the supply / demand factor is in balance in any given market, with Export Fresh, Domestic Fresh or Fresh Juice and lastly even FCOJ.

5. COST STRUCTURE AND PRODUCTIVITY

- a. Always the main cost driver is Labour, in either the growing or packing process and to a lesser extent in processing.
- b. All costs are finally related to the movement in labour costs, which have escalated 10 fold in 30 years.

That escalation of labour costs is of NO benefit to the 80% of workers receiving below the mystical average wage upon which CPI cost increases have been based. This has been the single MAJOR impediment to all Australian Industries, including Citrus, and has been a major fraud inflicted on the average worker. Governments of all persuasions have also been culpable winners in the fraud due to the Tax bracket creep.

6. HORIZONTAL AND VERTICAL LINKAGES

- a. I agree there is benefit in this concept. In our Barham area of Mid-Murray, the growers own the packinghouse 'Border Packers P/L', whose packing costs are at least \$1 per carton below most other packers. The packinghouse has been operating since 1952.
- b. We also have a Joint Venture Fresh Juicing operation at our Shed with Berrivale Orchards. Wherein our growers guarantee total supply of their processing fruit to the Joint Venture and Berrivale guarantees to market the total resultant processed product.

7. BARRIERS TO ENTRY OR EXIT

- a. The sheer cost of establishment and time delay of 6 - 10 years before profitable production, is a real impediment to new young growers entering the industry.
- b. For much the same reason it is difficult for older growers to realise in a sale, the real cost of their investment.

8. INDUSTRY RESTRUCTURING AND COMPETITIVENESS

The 1995 AHC commissioned Benchmarking Study of the Australian, USA and South African Citrus Industries is still relevant, to a great extent.

9. EFFECTIVENESS OF GOVERNMENT POLICIES

- a. The effect of the whole COAG Water Pricing Policies will flow on to be a cost burden on producers.
- b. Regarding the Labour market - as I have stated before, Labour is our major cost item, and most difficult to procure. We are really competing for our labour with the 'dole', as many potential employees have simply opted out of the workforce for an easier and paid lifestyle.
- c. The cost of Superannuation, at now 8% is a major burden contributed solely by the employer. It does nothing to encourage employees to save money or prepare for their retirement. Also with many casual moving employees it will finally be of no benefit to those employees. Many employers whilst contributing to employees funds, have then not got the resources to fund a scheme for their own retirement.

Note: Currently our Packinghouse has additional Labour Expenses valuing \$50,000 Superannuation, \$20,000 Workers Compensation and \$5000 Payroll Tax. As a Grower, our own additional costs are \$20,000 Superannuation and \$13,000 Workers Compensation.

- d. We see the Government Competition Policy as making it increasingly difficult for our Industry to adequately fund our Peak National Body ACG Inc, and even more so for a Peak Body - HAC Ltd for all Horticulture.
- e. We have witnessed NO action by Governments of any persuasion, to grapple with the skyrocketing costs of Insurance, particularly Workers Compensation, driven by those workers who are rorting the system, often aided and abetted by doctors giving soft options of time off work, and further compounded by ridiculous court judgements.

Public Liability Insurance has gone the same way, with our increasing litigious society aided by the courts, where people now seem to believe that if something goes wrong it is not their responsibility, but someone else's.

It is these unfair and unnecessary costs, as a labour add on cost, and the threat of litigation that are real impediments to businesses in Australia.

10. MEASURES TO ENHANCE COMPETITIVENESS

In view of the stated Government position, of NOT to impose an increased TARIFF Level or Quotas as a legal WTO Safeguard Measure; measures of direct assistance will be largely limited to the following:

- a. Low Interest Loan Facility - to enable growers to more rapidly redevelop their orchard to varieties more suited to export opportunities. This is through either replanting or grafting / budding current trees; any option is extremely expensive, coupled with a long delay period before the trees are back into profitable production.
- b. Financial Packages - to enable smaller unviable growers to exit the industry and for other growers to be able to increase property size to achieve long term viability.
- c. That Government and its Agencies, exert maximum pressure on the countries that we are trading with in relation to:
 - i. the Market Access process
 - ii. the dismantling of protection measures both tariff, quota and improper quarantine regulations imposed by other countries.
- d. That Government take note that Labour availability and its rapidly escalating cost and on costs, are major impediments to the world competitiveness of our industry.

Labour will always remain the major industry cost input, as mechanical harvesting is not an option, and our industry's future must of necessity be geared to fresh fruit marketing.

- e. Relating to import applications from other countries and the IRA Process, handled by Biosecurity Australia, we have a number of points of principle:
 - i. that the issues must solely be determined by a proper scientific process.
 - ii. that the level of risk tolerated for any application should be proportionate to the level of threat to our Australian Industry, from the resultant establishment of any disease or pests in our country.
 - iii. that our Industry be involved with a reputed scientist of our choosing, in an evaluation of any proposal from another country (if so desired), and that our scientist have access to the scientists and their data from the applicant country.

Our Industry has a justified expectation that the issues listed above will be properly addressed by Government.

Neil J Eagle
Chairman - Mid-Murray Citrus Growers Inc

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