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Mr J. Cosgrove  
Presiding Commissioner  
Productivity Commission  
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Dear Mr Cosgrove

## **CITRUS GROWING AND PROCESSING - POSITION PAPER**

The Western Australian Citrus Industry is small in comparison to the national industry. Western Australia accounts for around one per cent of the national crop. The industry consists of relatively small holdings which extend from Carnarvon in the north to Donnybrook in the south, a distance of some 1500 km.

Due to its size the industry has not traditionally played a significant role in national policy. However, the State does have extensive expertise in horticultural export marketing. Calling on our experience especially in the market development of Pink Lady, and management of biosecurity we offer the attached comments on your draft position paper.

Yours sincerely

Kim Chance MLC  
**MINISTER FOR AGRICULTURE, FORESTRY AND FISHERIES**

## COMMENTS ON PRODUCTIVITY COMMISSION

### DRAFT POSITION PAPER ON CITRUS GROWING AND PROCESSING

#### BACKGROUND - AUSTRALIAN PINK LADY™ EXPERIENCE

The Western Australian apple export industry traditionally shipped Granny Smith apples to Europe and South East Asia. Over time the industry became unprofitable and commenced to contract. The release of Pink Lady™ gave the industry an opportunity to develop a marketing plan that maximised returns.

After considerable consideration a marketing plan was developed that limited the number of exporters and importers. Exporters that join the scheme undertake to cooperate in shipping arrangements, fund promotion, ensure a flow of information back to growers and implement quality standards.

The management of the scheme is now done by the Australian Fresh Fruit Company (AFFCO). AFFCO coordinates all aspects of the Pink Lady™ Program and has been able to maintain a stable price premium in export markets. The premium has been maintained despite other countries entering the market.

To ensure maximum return was achieved from Pink Lady™ one United Kingdom importer was appointed to handle imports. This strategy, which is in line with broader non-horticultural industry practices, was one of the keystones in the marketing plan.

As with the present citrus review a range of criticisms were raised at the time when it was proposed to appoint one importer in the United Kingdom. A summary of these criticisms is given below and where appropriate cross referenced to the Productivity Commission draft report.

#### DRAFT RECOMMENDATION 7.8

**Horticulture Australia Limited should give serious consideration to discontinuing the requirement that citrus exporters use a single importing agent in the United States**

***Appointing one agent does not ensure “additional benefits, beyond those achieved through voluntary cooperation” (page 146 para 1).***

Traditionally the horticultural industry has shown little propensity to cooperate in exporting produce to maximise industry returns. In recent years there has only been a few examples of cooperation between all sector of industry aimed at implementing a marketing plan. Pink Lady™ is one such example. In general the industry has to evolve considerably before cooperation is common across a range of horticultural products. In the meantime other mechanisms need to be invoked.

From the Pink Lady™ experience cooperation between all sectors of industry in implementing quality and packing standards was important but the appointment of one importer in the United Kingdom ensured a greater control over the marketing chain than otherwise would have occurred. If exporters were permitted to use a range of importers the impact of the marketing strategy would have been diluted. Because of past allegiances

many exporters preferred not to have the one importer restriction and pressure was placed on growers to drop this requirement. Due to circumstances this did not occur and the program has succeeded.

***“It is unlikely that one importer can have perfect knowledge of every market opportunity” (page 152 para 3)***

In mature retail markets such as the United Kingdom, the United States of America and Australia there is a limited number of retailers. In these markets the four largest retailers account for the vast majority of sales. The concentration of outlets means that significant opportunities are known by all participants. It is not in the interest of large supermarkets to be obscure regarding the types of marketing opportunities they want to pursue. For example when Woolworths introduced the Fresh Food People concept the company ensured the market was well informed so suppliers would bring forward ideas.

The United Kingdom importer used by AFFCO has a turnover in excess of the majority of Australian exporters. Some European and United States importers/wholesalers have turnovers in excess of the value of fresh fruit exported from Australia. These companies are professional marketeers and are fully aware of opportunities that exist in their market.

In the past retailers sourced their fresh fruit and vegetable requirements in-house, this function has now been out sourced. Retailers are increasingly relying on importers/wholesalers to source their total fresh fruit and vegetable requirements. These import/wholesale companies have extensive networks to ensure that they fully understand the supply and demand opportunities. Any argument that implies that they are not aware of a range of marketing opportunities is not sustainable.

In less mature retail markets such as in some South East Asian countries the small independent retail outlet (wet market) accounts for a significant percentage of sales. In these markets importers need good networks to maintain a knowledge of all the significant opportunities. The proposition that appointing more than one importer would open more opportunity may be valid in these circumstances. However, the disadvantage of a particular exporter appointing more than one importer in a market is similar to the situation in Europe and the United States of America; the effort by importers in promoting your produce diminishes as you increase the number of agents.

***“Restrictions on exports can impose costs on the industry, primarily through the loss of market opportunities” (page 146 para 2). Niche markets such as non-premium fruit may be missed (page 151)***

As explained earlier this has not been the experience with Pink Lady™. There has not been a study of the success of the marketing plan of Pink Lady™ completed so only qualitative conclusions can be offered.

The way the fresh fruit and vegetable trade now operates in Europe and the United States of America has become very sophisticated. Some import/wholesale companies specialise in one line of fruit or vegetable, as is the case with DNE that handles citrus.

***“Because Australian citrus exporters are price takers ... a strategy that maximises the volume of Australian exports is more likely to be effective” (page 145 para 4).***

The proposition that Australia has to be a price taker is rejected. The experience of Pink Lady™ demonstrates that Australia is able to add value to its horticultural exports by innovative marketing. To consider Australian horticultural export industry as commodity trader does not focus the industry on the task of adding value to its produce.

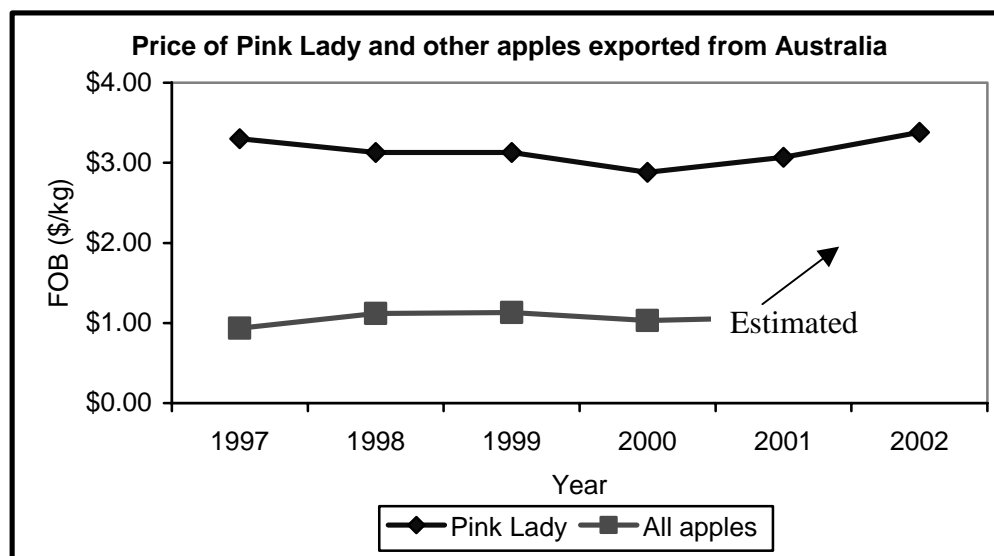
The other aspect to the argument is the limited size of the export industry. In most horticultural lines Australia is not a dominant world player, this is true especially in the United States of America and Europe. There are a few exceptions but these are limited to South East Asia (for example, carrots and cauliflowers out of Western Australia into Singapore and Malaysia).

Instead of focusing on maximising export volume to increase profitability a more realistic approach is to introduce strategies to increase size of production units. The experience in Western Australia is that increasing production size would improve the profitability of many horticultural industries. Governments may have a role in facilitating increasing profitability by promoting increasing scale of production.

***Using one importer will not result in true market value for the product being realised (page 150 submission Tayler).***

This assumes that competing importers will realise higher returns than appointing one importer. From the experience of the Pink Lady™ Program one importer is prepared to invest heavily in promoting and marketing the product because the potential gains are substantially higher. Importers try and leverage off having an exclusive arrangement/product. It allows them to more readily identify themselves in the market and hence gives them an advantage in their other product lines. They therefore are keen to maintain the exclusive arrangement and promote your product to ensure the highest price is obtained.

The returns from Pink Lady™ exports show the similar trends as the citrus exports to the United States of America. The Australian industry has been able to maintain a premium return despite other Southern Hemisphere countries commencing to ship Pink Lady™.



The premium that Pink Lady™ has in the market place is due to several reasons. It was a new apple that was initially launched very successfully with strict quality standards. However, these factors have applied to other products but they have not enjoyed the same price premium as Pink Lady™. It is our feeling that one very significant factor that contributed to the Pink Lady™ success was the disciplined marketing approach which included appointing one importer to handle the product in the United Kingdom.

*The selected importer would not work in the best interest of the industry... “importer’s objectives are out of line with actions in the best interest of Australian exporters” (page 152 para 6) and competitive selling arrangements would not result*

This criticism is more a commentary on selecting the correct importer than on the principle. The specialist Australian horticultural exporters and grower associations are professional organisations that have the skills to select a partner with similar marketing objectives and philosophies as theirs. They also have the skills to ensure that competitive terms of sales are realised.

A review of all marketing arrangements, be they controlled by legislation or not, must be undertaken periodically. However, in some instances quantitative information is not readily available and there must be a reliance on qualitative information. Conclusions reached by using qualitative information will always be controversial and opponents will be vocal in their opposition. Under such circumstances detailed knowledge of the markets operations is needed to make a sound judgement.

### **DRAFT RECOMMENDATION 7.3**

**Biosecurity Australia (BA) should provide a schedule to stakeholders containing information on the status of market access negotiations under way (including their anticipated completion date). This schedule should also include the timing of proposed future negotiations.**

Understanding that information on the status of market access negotiations can date very quickly, we suggest that BA develop, promote and maintain that information on a website available to stakeholders. While there are concerns relating to the “...wider public dissemination of detailed technical access discussions...” (Submission DR94, Biosecurity Australia), safeguards may be developed to prevent sensitive information reaching particular regions.