

RIVERSUN EXPORT PTY. LTD.

**REPONSE TO PRODUCTIVITY COMMISSION
POSITION PAPER ON CITRUS GROWING
AND PROCESSING**

Introduction

In 1992 quarantine access for citrus was granted to South Australia to the US. Discussion took place with peak industry bodies including Australian Citrus Growers, the Australian Horticultural Exporters Association and the National Citrus Packers Association to establish the most appropriate manner in which the US market should be approached. The Industry, having decided that cooperative marketing in the USA would bring increased benefits, overwhelmingly voted to request the the Australian Horticultural Corporation to use its licensing powers in the appointment a single marketer in the USA. The resultant combination has great strengths in the areas of communication, supply, quality control, shipping, marketing and distribution.

Riversun Export Pty Ltd was formed in 1992 by a group of citrus exporters and packers based in the Riverland district of South Australia and the Sunraysia district in Victoria as an umbrella organization under which citrus fruit would be exported to the USA.

In 1996 the citrus growing regions of Victoria and New South Wales gained quarantine access to the USA market, and Riversun's shareholding expanded as exporters and packers moved to align themselves with the Riversun co-ordinated operation. The licensing arrangements have enabled Riversun members to achieve the objective to co-ordinate shipments of citrus fruits to the USA with the desired aim of achieving the greatest volume of sales for the best possible price available in the market.

The 30 member companies comprising Riversun supply fruit for export that, collectively, represent the majority of citrus exporters and packers from Australia to all markets. The composition of shareholders range in size from the largest citrus exporters and corporate farms to small family owned enterprises. Riversun accounts

for a minimum of 98% of citrus exported to the United States each year from Australia.

Benefits of the licensing arrangements for citrus to the USA

- **Industry collection of new crop information for development of marketing plans.**

The licensing arrangements allow a single importer a total view of volumes estimates and crop conditions via communication with Riversun and other Australian exporters.

This information flow commences in February. Climatic conditions, harvest timing, maturity levels are all communicated to DNE to provide the broadest possible picture in pre season discussions with customers, and development of marketing plans.

DNE is a marketer rather than an importer and operates on a commission basis, and unlike other markets the fruit is on consignment and ownership remains with packers or growers until point of sale. Commission is paid on a sliding scale according to the sale value achieved by the single importer. No commission is payable on sales below a specified value. This ensures that DNE market large volumes and are constantly looking to expand their customer base in the US.

Additionally, as the fruit is on consignment, the best interests of growers, packers and exporters are served by Riversun taking a very active role in development of marketing plans and operations on behalf of it's members. This close involvement with the single importer extends to having our own Australian personnel based in the U.S. for four months overseeing quality inspections, marketing and overall operations throughout the export program.

Riversun has a marketing committee with representatives from the three regions that meet weekly during the season by teleconference to discuss the market and direction. DNE are involved in these teleconferences, as are our personnel based in the U.S.

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- **Ability to develop shipping programs based on forecast production timing and DNE marketing plans.**

From the collated information Riversun forwards it's projections to DNE World Fruit Sales who begin work on preliminary marketing plans for the projected volume from Australia. At this time communications with customers also begin so that their reactions and requirements can be built into the plans.

Crop data gathered by Riversun assists in the development of preliminary shipping programs, which give consideration to volume, harvest and packing commencement. Because early information can change significantly due to climatic and quality issues, the program in every aspect is constantly monitored and refined.

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- **Cost effective shipping arrangements**

The market stability delivered by the licensing arrangements gives Riversun members confidence to forward contract it's own refrigerated charter vessels in accord with marketing and shipping requirements. These arrangements are made 3-5 months prior to harvest and the risk with this commitment is reduced significantly because of controlled supply and planned marketing. Other horticultural countries to their global destinations use this efficient form of ocean transport as standard, however these shipping arrangements are unique in Australian horticulture as the United States is the only market serviced by Australia with chartered refrigerated vessels.

The chartering of refrigerated break bulk vessels is a vital role performed by Riversun, without which the program would face several potentially serious impediments in the growth and maintenance of the USA market.

Charter vessels provide the most cost-effective way to move large volumes of product, especially when the marketing window is relatively short.

Charter vessels are equipped to undertake the cold treatment of fruit in transit to the market, a role, which refrigerated containers, cannot reliably undertake. This aspect becomes very significant where over the last three years, up to 30% of all product required in transit cold sterilization in accordance with protocols established for treatment of fruit from fruit fly quarantine areas.

If Riversun relied upon shipping in containers our ability to service the market would be severely compromised. In effect, our volumes would be reduced by almost one third and seriously impact on pre season commitments with customers.

Charter vessels are also served by dockside coolroom facilities in many locations not available at or generally near container terminals. As a result the discharge of vessels into storage facilities becomes very much more efficient and cost effective because, unlike containers, there is no road haulage or road weight restrictions adding delay and cost to discharge. There are no suitable facilities for large volumes of containers to be handled effectively and efficiently through customs, quarantine and other import processes.

The technology employed by modern charter vessels allows shippers to design the storage conditions most suitable to their product. Temperature, humidity, air change can be established as part of contract negotiations. Vessels chartered by Riversun provide daily reports to confirm carriage conditions are within specified criteria at all times.

The end result is greater efficiencies of transport, optimum carriage conditions, fast efficient discharge and better quality fruit with longer shelf life. Savings in shipping

costs alone equate to minimum AUD3.0m annually in comparison to shipment by containers.

In markets where there are no export powers, any cost efficiencies achieved are not always reflected in grower returns as they are generally used to obtain a very short lived competitive advantage in the market.

- **Coordinated supply to the market, providing the marketer with an advantage over the buyer.**

The licensing arrangements restrict the ability of US retailers to use their retail power to play Australian exporters off against one another.

Fragmentation within the Australian industry is overcome in respect to the export effort and grower returns are safeguarded from competition between Australian exporters. It also provides the opportunity for the marketer to continue to build new market opportunities.

Retail consolidation globally is happening at a rapid pace and is changing buying patterns, especially among the major retailers. In the United States 16 retailers became 6 in 1999; in 1994 the top 8 retailers accounted for 29% of sales, in 1998 the top 8 accounted for 42% of sales and in 1999 the top 3 accounted for 36% of sales. The enormous buying power of these retail giants requires suppliers to be able to reliably deliver, long lines of consistent quality and often single size product. There limited alternatives for suppliers because the retailers return considerable premiums over terminal market wholesalers and brokers who return lower prices and whose numbers and relevance are being eroded by the expansion of retailers. A co-ordinated program has been developed over time to meet the very exacting needs of the retailers, and to provide a timely response to challenges and changes as they occur.

Retailers presented with supply options will play suppliers against each other to arrive at the highest quality and lowest price. If two suppliers have similar quality

standards the retailer will pursue a cost advantage in the determination of preferred supplier.

The option for the non-preferred supplier is to walk away or offer a cost advantage, all of which empowers the retailer to establish the price they want. The interests of the grower are never a consideration by retailers.

Co-ordination of supply, limits the retailer's ability to play suppliers against each other, reduces speculation and provides for orderly, market responsive marketing.

Additionally, retailers take comfort in the price stability delivered through a single importer.

Riversun's experience in the US market has shown that a reduction in price to stimulate sales and volume, does not translate to a lower retail price to the American consumer as the benefit of the price reduction is used to add to the retailers bottom line. Retailers do not reduce their retail irrespective of the buying opportunity that may present and are interested in maximization of profit and not necessarily volume.

Retailers have established USD1.99 per pound as the consumer price point for imported citrus. Anything below this retail level would require aggressive promotional and price support.

- **Maximises the benefit of promotion through single brand targeting.**

Has enabled build up a consistency of product that has developed brand recognition.

Sole marketer arrangements allow for extensive marketing and promotional campaigns. The licensing arrangements provide the ability to generically promote large volumes of Australian product bringing far greater efficiencies than could be achieved if individual exporters were to conduct individual promotions of much smaller volumes. The cost / benefit ratio is improved by the ability to produce large volumes of promotional materials, and to develop similar promotional themes across the market.

- **Ability to meet specific industry and customer needs.**

The licensing arrangements in the US have fostered the development of a large supply base and in turn greater reliability to supply long lines of consistent quality product. This provides the ability to develop 12-16 week supply programs with retailers, which contributes to a premium price.

There are many instances where co-ordination of supply provides flexibility for both the grower and customer, which would not be available to the smaller independent operations. For example, where the growing season produces fruit size less desirable in the market, the single importer is able to arrange alternatives with some buyers whilst maintaining the specifications of others to balance out supply. Smaller less flexible programs would be unable to meet customer expectation in respect to size and volume.

In addition, some major retailers restrict purchases to one or two sizes. Because this size requirements varies between retailers, the single importer has the flexibility to ensure customer needs are satisfied to the maximum extent possible.

- **Prompt uniform industry response to quarantine or other issues affecting market potential.**

One of the major difficulties in Horticultural industries is the generation of a timely, uniform approach to quarantine issues when they occur. A similar problem exists when quality issues like frost or freeze damage affects regions or industry as a whole. Different perceptions of the same issue always make consensus difficult to achieve and programs difficult to implement. Through co-ordination the industry is

able to respond quickly in the development of protocols that can then be implemented efficiently throughout the industry with uniformity.

Riversun is able to call on technical advice and information from government, industry and private sources, nationally and internationally and make informed decisions about the actions necessary to resolve issues at hand.

Riversun has developed a very close and professional working relationship with the USDA and AQIS. Many of the quarantine workplans are developed in cooperation with USDA and AQIS and are adopted as the industry standard.

- **Improved communications with, and recognition by customers, regulatory authorities and service providers.**

The ability to react to challenge or change is an integral part of survival in today's volatile and competitive markets.

Because Riversun is seen to represent the greater part of the Australian citrus industry in respect of the USA market, it can provide a very efficient conduit for information transfer between industry, retail customers and regulatory authorities. By having the most direct route between the growers and the market, the accuracy of information and speed of dissemination to all parties reduces the potential for distortion of the facts, delays in information transfer and response time, resulting in total transparency.

Other benefits to industry include:

- The pooling of long lines of consistent quality fruit enabling small players to participate in a large, profitable market and share in the benefits of critical mass.
- Provides a communication link between the USA market, through the single importer, and the majority of the Australian citrus industry

And provides the catalyst for industry:

- Development of a standardized approach to quality and packing.
- Development of detailed specification and quality manual
- Quality training programs for packinghouses

Many of these benefits would not be accomplished in a less coordinated environment, and indeed export history in other markets clearly indicates a failure by industry to achieve even regionally based co-ordination, standardization or any semblance of orderly marketing.

Market Issues

Similar to some other export markets, the U.S. the market has an inability to accept small fruit, however marketing programs focus on development of small fruit sales. Supply of small fruit is shipped strictly in accord with programs and initiatives established with retailers as unrestricted volumes of small fruit destabilize the market and undermine the pricing of the other sizes, and becomes the basis for pricing larger fruit i.e. priced from the bottom up rather than priced from the top down. The same applies to second grade and lower quality fruit. Restrictions of lower grades and size have been voluntarily implemented primarily due to values for this product being lower than cost.

Oversupply and quality that is less than market expectation are situations ruthlessly exploited by the market. Riversun has experienced the effect of both oversupply and poor quality on returns to growers in not heeding the advice of the marketer. As a result Riversun ensures it's volumes and quality shipped are in accord with market requirements.

Domestic citrus throughout the United States is generally priced in the USD\$7-\$12 per carton range throughout the year, for both valencia and navel oranges.

This is indicative of the maximum values that can be expected for lesser grade or small non-preferred sizes, and are significantly lower than returns required to recover the costs of export.

The demographic composition of the market has to be taken into consideration also. There is a two tiered market of domestic and imported fruit, with a percentage of the population willing to pay the higher price for an imported summer navel eating orange as opposed to the market segment with preference for the local, cheaper and in season Valencia juicing orange that is available during the Australian marketing window. The majority of the population purchase fruit and vegetables at supermarkets (retailers).

The customer base of DNE includes every major and minor retailer in the U.S.

Of the 7 major retailers with 700 or more stores, representing 9,838 stores, DNE market to 100%

Of the 6 retailers ranging in size from 300 to 700 stores, representing a total of 3,049 stores, DNE market to 90%

Of the 27 retailers in 100 to 299 store range, representing 4,535 stores, DNE market to 75% .

Of the 15 retailers in the representing 1,167 stores in the 50-99 store range, DNE market to 60%

The balance use the cheaper domestic Valencia orange instead of the imported navel orange. A team of Product Merchandisers employed by Riversun visit 100% of

these retailers every year. Australian citrus is distributed to at least 45 states each year

In addition DNE also market to service wholesalers and/or wholesalers that supply product directly to retailers that do not buy directly form DNE.

Retailers are increasingly adopting category management and marketers with the ability to supply year round will be assured of a market for their product. The U.S. is a large market however retail consolidation continues at a rapid pace with fewer and fewer buyers as retailers rationalize regional buying operations into a centralised unit.

The market has grown significantly with the participation of South Africa however between the two countries there has been insufficient volume and we have not yet challenged the full market potential at current prices.

A risk management approach has been adopted in respect to South Africa in order the market is not oversupplied. South Africa has experienced the effects of oversupply and lower quality and in recognition of the market requirement, adopted the same disciplines as Australia. Alliances are part of the future for producers to maintain market share in the face of globalisation and supermarket consolidation.

The performance of the single importer is constantly under review by Riversun. The co appointment in 1995 of David Oppenheimer & Co. as sub agent to DNE World Fruit Sales enables effective benchmarking of performance. In addition, Riversun receives submissions and presentations from several respected large professional U.S. and international produce marketers interested in being appointed as the single importer.

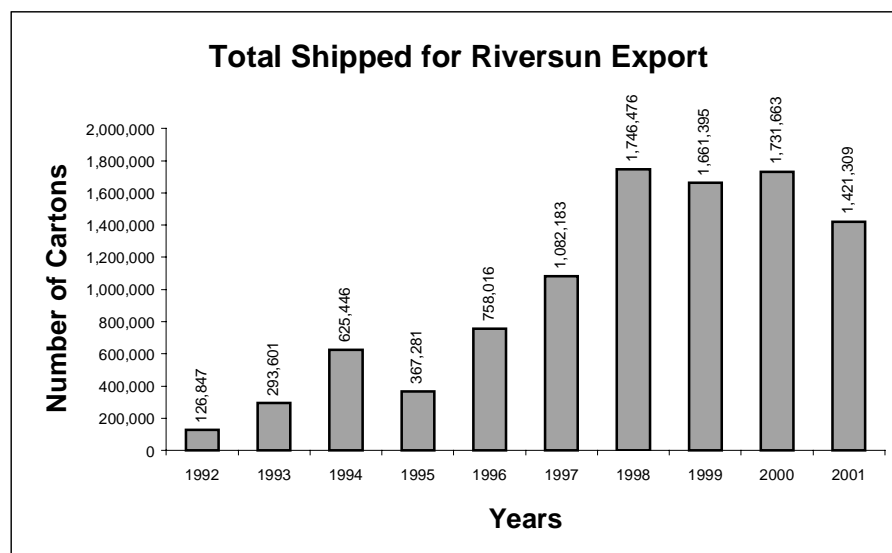
It is apparent from these frequent discussions that none of these organizations have more to offer or can enhance the prospects for Australian citrus in the U.S. than that currently performed by the licensed importer.

▪ Market Access

Australian citrus exports to the United States enjoyed strong growth from 1992 until 1998, primarily due to the absence of competition.

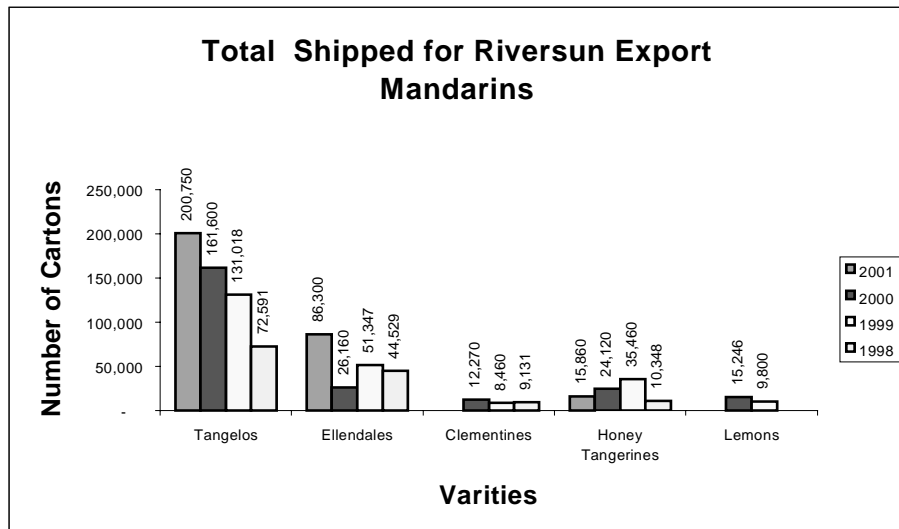
The market demand could not be satisfied in 1999 and volumes were reduced due to a light crop and fruit availability. Volume targets determined for 2000 and 2001 were not achieved either, due to a reduced crop and lack of availability of fruit of the quality standard required by the U.S. market. The 2000 season in particular was marred by losses from an exceptional amount of fruit predisposed to rind breakdown and spoiling, which only became apparent after arrival in the market.

The entry of South Africa in 2000 with unplanned and uncoordinated in volume from multiple exporters quickly led to oversupply and substantial price reductions as South African importers resorted to price discounts to secure sales for their fruit. However, Australian citrus achieved a premium of an average of USD10 per carton over South Africa.

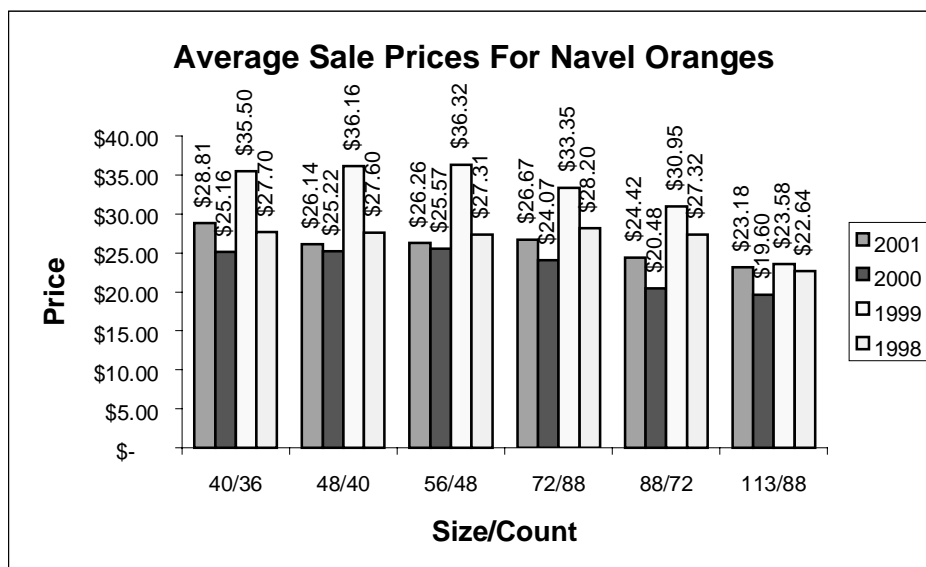


The above graph illustrates market growth and development. The licensing arrangements do not restrict a packer or exporter from exporting to the US other than consigning fruit to a single licensed importer. It is interesting to note that

several potential exporters who have provided negative submissions to the Commission have never participated in the market since access was granted in 1992.



With growers planting more "easy peeler" varieties in response to consumer preference, markets need to be developed as new plantings come into full production. The above graph illustrates development of varieties other than Navel oranges over the last 4 years.



Removal of the licensing arrangements to the United States will result in multiple sellers in the US market thus giving retailers the opportunity to play one exporter against another. There is no benefit to be identified and export returns for Australia

will suffer as exporters compete for business, or inferior quality or less preferred sizes impact upon the market. Australia would be unable to consistently supply long lines of quality product over a 12 - 16 week marketing window and would be treated as a commodity and priced accordingly.

It is a sad reality Australian exporters are fierce competitors in all other export markets, competing with each other, to the detriment of grower returns and without fully capitalizing the market or realize its full potential. The exception is, of course the very successful U.S. market where licensing arrangements are in place. The future of citrus growers and Riversun are inexplicably linked with continuation of the licensing arrangements. Co-regulation and voluntary regulation are not relevant to the market and will not enhance the viability; improve the competitiveness or performance of the Australian citrus industry in the United States.

The ability to project volumes, maintain an overview of shipment deliveries, volumes entering the market and market response would be lost resulting in the market either being oversupplied and significant losses suffered or conversely the market being under supplied and losing retailer support and the market.

The impact of multiple sellers of Australian citrus was witnessed in 1998 when 14,000 cartons of navel oranges were shipped through the "back door" to California via Canada. The fruit was handled by wholesalers/merchants who quoted existing US retailer customers of Australian citrus.

Whilst only a relatively small quantity of fruit the immediate impact was:

1. Lesser prices offered than those established by DNE.

2. Market Instability as the lower prices were offered to existing DNE customers already using Australian citrus.
3. Retailers immediately requesting DNE to match the reduced price.
4. The integrity of Australia's quarantine protocols with the US placed in doubt.

The pressure to succumb to predatory pricing and match the lower price was resisted due to the small volume, nevertheless sales and customers were lost and confidence undermined. It did, however, demonstrate DNE's coverage of the market as retailers approached by the importer were already being serviced by DNE.

Opposition to the U.S. licensing arrangements emanate from a minority within the industry who have little or no experience with the market whilst the very substantial majority exporting to the United States for a number of years that appreciate and understand the market are strongly supportive of the licensing arrangements.

Conclusion

It is unfortunate the US has been singled out in relation to the enquiry as it is the single most successful export market of the citrus industry. It is disappointing the Commission has failed to recognize the difficulties faced by the growing sector in relation to imports and the viability of growing Valencia oranges and Riversun finds the focus on the export licensing arrangements to the USA erroneous.

The licensing arrangements to the U.S. market provide a distinct economic benefit to citrus growers and the rural sector. The continuing viability of the growing sector remains dependant on continuation of these arrangements.

The exporting, marketing and distribution channels in the United States optimise returns to the Australian industry. The licensing arrangements in the U.S. have shortened the supply chain between the grower and consumer, providing growers with optimum returns and the opportunity to reinvest in equipment and technology,

adjust out of non preferred varieties, embrace cultural and irrigation techniques to grow quality and fruit size.

These benefits have made growers more efficient and competitive not only in the US but also other export markets. Packing sheds also have benefited and invested in upgrading plant, equipment and technology to world best standards.

Australia accounts for 1% of world citrus production and is essentially a niche marketer. Whilst only a small player, the achievements of the industry in the U.S. is a model much envied by other horticulture exporting countries. Riversun Export strongly supports the current US licensing arrangements, which are fundamental to the continued prosperity and export performance of the Australian Citrus Industry and Australian rural communities.

We strongly recommend the Commission reconsider it's position paper draft recommendation 7.8 and remove this recommendation from the final report.

Peter Walker
Chairman