

IMPROVING INDUSTRY AND

GROWER

PROFITABILITY

THROUGH ORDERLY

MARKETING

**A Submission to the Productivity Commission Inquiry
into the Citrus Industry**

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Background to Submission

Australia is a small producer in international terms with limited market power. This is made worse as many of our exporters compete for a limited market share with multiple brands in a single market. This seriously disadvantages Australian growers resulting in a diluted promotional effort, price-cutting, no effective brand recognition, over weight cartons and product dumping. Subsequently Australian Growers receive lower prices, than many of our key competitors ie (Sunkist which utilizes orderly marketing program concepts in most of its markets).

Many of our small packer/exporter operations are of a high standard but too small to effectively promote, market and value add Australian produce in the International and Domestic market places. However operating collectively in a consortium or preferably within an orderly marketing program. All of these very critical elements of competing in a truly global market can be successfully achieved.

The process of the orderly marketing of Citrus Produce has been extremely successful in the United States and is generally very strongly supported by growers and their agri political organizations. However orderly marketing only formally applies to one export market at this time and even this is under threat.

Unfortunately there are vested interests who would feel unable to compete or be threatened by an orderly marketing program. I believe a great deal of their concern would be allayed by the establishment of a transparent industry agreed process for the establishment of orderly marketing programs for major markets.

The highly successful Riversun / DNE export program to the United States has delivered enormous benefits to the Citrus Industry, and with the establishment of other orderly marketing programs we could expect many more. Not the least is significantly improved profitability for growers.

- Significantly improved returns for growers
- Unify and strengthen grower and industry power in negotiations
- Retain freedom of choice and diversity for growers and packers
- Enable focused long term marketing "DNE style" sales programs in the building up of existing and new markets
- Provide strong Australian Brand, recognition which is a major industry failure at this time in many markets
- The establishment and enforcement of proper grower / packer protocols and fruit specifications relevant to each export market
- Reduces the chance of long term market dominance by vested interests, retailers or major market players
- Reduced cost of freight, shipping, handling and packing of Citrus produce
- The implementation of consistent appropriate standards and protocols into grower operations rather the confusing and inefficient multitude of add hoe standards, QA systems, and specifications that exist now
- Will ensure that we maintain a significant number efficient and progressive independent packers, processors, and industry innovations in the long term
- Provide a counter to the power of a few retailers in both the domestic and export markets
- Enable and ensure a consistent standard of supply that meets market specifications and customer requirements
- Enables co coordinated and effective promotional and marketing programs that benefit the Australian industry and it's growers
- Lead to the implementation of standard cartons, weights and sizes
- Stop over packing of cartons (ie 22.5kg of fruit in 20kg carton) which currently occurs in several export markets
- Reduced risk of damage to exports by quarantine failures or chemical residues

Current Concerns and Issues – Orderly Marketing

There is currently no formally established or transparent process in place for the selection, licensing and regulation of export facilitators, market coordinators or importers. Good governance or fair and equitable business practices cannot be assured under these circumstances.

It is paramount that we ensure good governance of any orderly marketing structure whilst at the same time protecting our innovations and market pioneers. Without a formally established tender process for selection and review of any orderly marketing arrangements, then this process is fraught with danger and has serious exposures that must be addressed.

- Not seen as legitimate by many markets, importers, exporters and therefore subject to attack and continued risk of challenge by competitive or competing forces
- No competitive Pressure to operate in a timely, professional or efficient manner
- No accountability to growers or the industry
- Can enable monopoly operations to severely restrict grower and packer options
- No grower empowerment
- No incentive or pressure to improve performance or grower returns
- No assessment of most appropriate organizational structures, partnerships or arrangements
- Not transparent
- Un-representative board and structure
- Can operate high internal cost structures
- No review process
- Cosy old boys clubs develop and thrive to the detriment of the overall industry and growers in particular
- Unethical operations can and have occurred
- Continuation of arrangements can be subject to political whim
- Can discriminate against individual suppliers, packers and growers
- No requirement to operate equitably or fairly
- Disadvantages can ultimately out weigh any received benefits due to lack of governance
- No requirement to have a plan, vision or even a strategy for market development
- Can transfer grower profit to import/export partners and third parties
- No independent scrutiny, no appeals process or transparency in decision making or operations
- Could be overturned at anytime by ACCC

Some key Issues and Proposed Solutions for a Successful Orderly Marketing Program

Process of Selection

- Appointment of importer, exporters or export facilitators by a competitive tender process

Who should choose and industry representation

- “Market Access Committee”
Newly established committee with independent chair including Grower, Packer and processor representatives, HAL, Import/Export bodies and market specialist for country or areas under consideration
- Regulation by market access committee

Time Frame

- 3 years with up to 2 years extension without further tendering subject to satisfactorily meeting all contractual commitments and prior agreements

Review Process

- Annual review against tender response, agreed objectives and specific deliverables included in contracts and agreements

Method of evaluation

- By market access committee against specific deliverables in agreement and in light of market conditions applying for previous year

Legitimacy

- Provided by tender processes of selection and formal appointment by the market access committee

Number of players in each market place

- The ideal number of licenses for each market would be established by the market access committee, based on the size of each market and the coverage/market penetration of the submitted tenderers

Equity and fairness

- Provisions included in tender process and subsequent agreement to ensure market access to all packers and growers the international accepted protocols and market specifications
- Inclusion of independent appeal process in agreement

Licensing Arrangements

- Industry export agreement, HAL export license and importing Country agreement

Financial Viability of tenders

- Subject to financial and probity checks by market access committee as part of tender process

Selection Criteria

- To be established by “market access committee” prior to tendering process

Some issues that would need to be addressed in any tender

- Proposed structure and governance
- Market penetration strategies - to 5 years
- Local partnerships, consortiums or other arrangement including domestic shipping and export market distribution
- Cost structures including marketing and sales promotions, shipping, commissions and packing charges
- Detailed marketing plans – by variety, market segment, areas
- Sell prices and proposed grower returns
- Packing standards and fruit specifications
- Grower / Packer protocols for market
- Major competition and barriers to market growth
- Co operative arrangements
- Annual growth by market segment
- Financial structure of organisations
- Proposed grower/Packer/Importer/exporter agreements
- Independent appeals process

Summary

I believe the benefits of orderly marketing programs for citrus are clearly established and could be easily verified by the Commission. An Orderly Marketing Program as proposed does not require any additional Government regulation or involvement, including financial support. It would be entirely self sufficient, driven by market forces and foster strong competition. Further, if properly implemented it does not require any tariff or other protection, contravene any WTO or other trade agreements.

It would however significantly enhance Australia's ability to compete profitability in the Global Market place and do more for the long-term viability of the Industry than any other practical measure.

Therefore despite likely opposition from some vested interests, this process should be put into place ***now for all new markets*** and ***introduced over 5 years for all established mature markets***. Serious consideration ***should also be given to suitable orderly market structures for the domestic market*** to ensure competition, enable growers and packers to compete with organized importers. This would also significantly enhance grower/packer power in dealing with the major supermarkets and buying agents. In fact this may be the most effective method of addressing the existing serious imbalance of power that currently exists between the grower and the rest of the Industry including retailers.