

Peter Harris
Presiding Commissioner
Productivity Commission Inquiry into Imported Processed Fruit

fruit.safeguards@pc.gov.au

23 July 2013

Dear Mr Harris

Apple & Pear Australia Limited (APAL) welcomes the opportunity to participate in the Productivity Commission's inquiry into whether safeguard action is warranted against imports of processed fruit products into Australia.

Apple & Pear Australia Limited (APAL) is the peak industry body representing the interests of commercial apple and pear growers in Australia in matters of national importance including regulation and legislation, marketing, research and development. APAL also represents the industry on agri-political issues and manages a number of trademarks internationally on a commercial basis - most notably the Pink Lady™ trademark.

APAL is most concerned that the strong growth of imported fruit is placing undue pressure and hardship on Australia's pear growers, the vast majority of whom are located within the Goulburn Valley in Victoria. Significant growth in imported fruit and juices is attributable to a number of factors including: aggressive moves by supermarkets to provide the cheapest possible grocery lines to customers; the high Australian dollar driven by the mining boom; an unsustainable Australian labour market and wage system; and poor labelling laws that lack enforcement.

We are particularly concerned that unprotected exposure to international competition now and in the next couple of years will have significant impact, not only on processing pear growers but also on those that grow fruit for the fresh market. The adverse flow-on effects to fresh commodity – pears, stone-fruit and apple - markets and the longer term profitability of pome fruit production in the Goulburn Valley raises serious questions about the economic base of the area. These issues are explained more fully below.

Industry Background

Pears provide the major source of income to 567 orchard enterprises in Australia, with \$102.3 million being generated (gross value of production) in the year ended

June 2012¹. Whilst some orchardists specialise in pears many growers also grow either apples, stone-fruit or both.

Victoria is Australia's largest pear producer, accounting for around 84 per cent of total production². Almost all of Victoria's pears – both fresh and processing pears - are grown in the Goulburn Valley.

Recent figures splitting production into produce destined for processing (canning and juice), the fresh eating market and exports is not available. The Apple and Pear Survey conducted by ABS in 2007-08 indicated that just under one-third of pear production was directed into processing, with negligible amounts from all States other than Victoria³. However as the SPC Ardmona intake of processing pears has fallen in recent years, the proportion would have also declined.

The main varieties of traditional European pears grown commercially in Australia are Packham's Triumph, Williams Bon Chretien (WBC, also called Bartlett) and Buerre Bosc. These varieties represented 92% of Australian pear orchard production (in 2008).

WBC is the major canning variety but is also popular as a fresh eating variety early in the season. Packham's Triumph is grown for the fresh fruit market and is the main variety exported from Australia. Other significant varieties cultivated in Australia are Josephine, Red Anjou, Corella and Sensation. Australian pear producers continue to invest in varietal research with additional new varieties having been recently released (eh Kalei™) or currently under trial and development.

Australian Nashi pears represent an insignificant volume of the market (around 2 per cent of production), with about 80% consumed fresh and the remainder processed mostly for juice.

The Importance of SPC Ardmona

SPC Ardmona remains the last fruit processor in Australia that takes more than a negligible amount of processing pears. It is a major employer in the Goulburn Valley and provides an income to a significant number of pear and stone-fruit growers.

Since 2008 SPC Ardmona's pear intake has declined rapidly, from just over 31,000 tonnes to a forecast of 9,000 tonnes for 2014.

Impact on Fresh Commodity Markets

¹ Source: ABS 75030DO002_201112 Value of Agricultural Commodities Produced, Australia, 2011-12

² Source: ABS 71210DO002_201112 Agricultural Commodities, Australia, 2011-12

³ Source: ABS 7121055002DO001_200708 Agricultural Survey, Apples and Pears, Australia, 2007-08

APAL is concerned that the significant reduction in the intake of pears by SPC Ardmona will have a number of adverse impacts on the fresh pear as well as the fresh stone-fruit and apple markets.

In the immediate term pear growers will divert their processing pears onto the wholesale fresh markets. An increased supply will inevitably lower prices received by fresh pear growers.

The overall quality of wholesale pears will also decline because processing pears are not grown to the same specifications of fresh pears. This too will lead to a reduction in prices overall. More importantly the reduced quality can be expected to shift consumer perceptions around, and confidence in, the pear category and divert buyer preferences away to other fruits. Research indicates that if consumers have a bad eating experience it takes at least six weeks to purchase that product again.

Impact on Biosecurity

With a significantly reduced income, or with no income at all as a result of the lowered intake from SPC Ardmona, processing pear and stone-fruit growers will not be able to maintain their orchards. They will not have access to the funds required to spray, prune, weed, irrigate or harvest fruit – tasks which not only relate directly to fruit production but also to maintaining on-farm biosecurity.

Biosecurity within growing regions depends upon every grower maintaining their orchards so that pests and diseases such as brown rot, black spot, codling moth, oriental fruit moth, and Queensland Fruit Fly cannot establish. The system simply breaks down when orchards are abandoned or neglected. This in turn is likely to cause a significant growth in orchard pests and diseases.

But pests and diseases do not contain themselves to a single orchard – they travel easily by wind and flight and by other means. There is a very real threat of negative externalities arising for orchardists who do maintain their orchards and are consequently exposed to increased incidences of pests and diseases. This in turn raises a number of issues:

- Fresh commodity growers will incur higher spray and maintenance costs to overcome the increased pest and disease prevalence;
- The yield of fruit produced for the fresh market (pack-out rates) will fall as disease lowers the productive capacity of trees;
- The quality of fruit produced for the fresh market will fall as disease can mark fruit with such things as stings, core rot and larval frass;
- Access to domestic and overseas markets can be harder to achieve or is achieved only at increased cost where treatment is required.
-

Impact on Goulburn Valley

We understand that SPC Ardmona and the City of Greater Shepparton have provided you with confidential information regarding the likely impact on the local economy of the reduced fruit intake by SPC Ardmona and the longer term

consequences should SPC Ardmona close because of cheap imported processed fruit. For example, the City of Greater Shepparton has advised that if SPC Ardmona were to close the region would experience significant job losses that go beyond SPCs immediate employees. It is our understanding that in addition to 360 FTE staff employed by SPC Ardmona, a further 640 jobs in associated industries in agriculture, transport and retail would be lost. This does not include the 1050 itinerant workers engaged during peak processing periods.

It is important for the Productivity Commission to determine the full extent of job losses and the longer term ramifications for the region and its fruit growing economic base. The City of Greater Shepparton has advised that the unemployment rate would increase from about 8.6 per cent to 11 per cent if SPC Ardmona were to close. However we are concerned that these figures are conservative as they do not include the flow-on effects of industries located in the neighbouring Shire of Moira. Moreover, we are concerned that these figures may only relate to those businesses that directly service the processed fruit sector and may fail to take account of any flow on effect to the fresh fruit sector.

Businesses need scale to remain profitable and the demise of the processing sector will inevitably have an impact on those companies that service orchardists who grow fruit for the fresh market. This includes chemical resellers, agronomists, irrigation suppliers, pest management companies, netting and fencing companies, cool-store operators, transport companies as well as machinery suppliers and mechanics.

As the companies are exposed to fewer clients they too will reduce their activity and employment. This in turn will lower the supply of services and drive up the price that fresh fruit growers will bear for the cost of their inputs.

What can be done?

APAL supports a temporary safeguard tariff for processed fruit imported into Australia. However there are a number of other policy instruments that are required, including:

- Funding to enable processing fruit growers to manage pests and diseases within their orchards and funding for the removal of trees;
- Improved product labelling laws;

(i) Tree removal

Fruit Growers Victoria Limited (FGVL) has advised APAL that 61 growers no longer have contracts with SPC Ardmona for peaches, pears or both fruits. There are a further 53 growers who will continue to supply SPC Ardmona with fruit but with significantly reduced volumes.

We understand that the reduced intake by SPC Ardmona equates to around 750 to 1,000 hectares of unwanted trees. Managing these trees to prevent a biosecurity threat will be difficult. According to FGVL about 80% of the growers they surveyed are already in debt and half of those have a debt to equity ratio greater than 50%. It

is highly unlikely that the 80% cohort will be in a position to fund or access funds to cover the costs of maintaining sanitary conditions within their orchards let alone bulldozing their trees.

But the removal of the excess trees is the only practical option that will prevent a major pest or disease outbreak that poses a biosecurity threat to remaining orchardists, including those that produce solely for the fresh domestic and export markets.

APAL believes that a tree pull scheme is warranted to:

- Enable processing growers to “move on” by selling their land or switching to another agricultural pursuit. Anecdotal evidence suggests that land is difficult to sell in the Goulburn Valley if trees and tree structures are not removed. Some suggest that banks have previously indicated that growers should use water entitlements to fund tree pull which can cost around \$3,000 per hectare. However this is a short-sighted solution because growers argue that without an accompanying water entitlement the land will find no market;
- Prevent negative externalities from arising where pests and diseases establish to the significant detriment of fresh fruit producers. This is clearly an example of market failure and investment by government is required to remedy the biosecurity threat.

APAL also believes that it is possible to design a tree pull scheme that targets the objective without creating unintended signals to the fruit market. Specifically, the Government could tender tree pull activities to contractors and provide strict eligibility criteria to former SPC Ardmona suppliers. Growers would still be required to fund their own tree plantings should they decide to switch to fresh fruit production.

The cost of a tree pull scheme – of around \$3 million – is of little financial consequence. The car industry in Australia has received billions of dollars of direct funding support from successive governments without market failure cited as justification.

(ii) Labeling Laws

Over the last several years the major supermarkets have taken full advantage of the high Australian dollar and the world oversupply of processing fruit to steadily replace Australian product with cheaper items sourced from overseas. On the whole though, retailers have not sought to stock canned and packaged fruit with labels that are clearly identifiable as being imported.

Instead, there appears to have been a significant shift in policy by major supermarket chains toward increased use of private label products. A scan of supermarket shelves indicates that in the processed fruit category private label

products such as Select, Home-Brand and Coles are almost entirely sourced from overseas.

These private label products are always priced below proprietary branded equivalent items – now only SPC as the sole remaining processing pear and stone-fruit operator within the country. The use of private label products such as Select and Home-brand enable the supermarkets to provide low-priced product to consumers who supposedly remain price-sensitive in the wake of the Global Financial Crisis. Private labels also permit supermarkets to build loyalty and trust as they are exclusive to individual chains.

Whilst consumers enjoy the variety of offerings and lower price points offered by private labels they are not equipped to make informed decisions about the true source of their purchasing decisions.

The current country of origin labeling (CoOL) laws for food are simply insufficient to assist consumers in making such decisions: the font size of source of origin is minute and the terminology used to describe where ingredients are grown are confusing at best and often deceptive.

Effective labeling can assist consumers to make informed decisions about what they buy and eat based on essential information about the origins of food ingredients. Consumer surveys have consistently demonstrated strong public support for strengthening country of origin labeling arrangements⁴.

APAL believes that a simplified mandatory labeling system be established to enable consumers to easily identify whether a product is from overseas. We recommend that:

- The use of “Made in Australia”, “Produced in Australia’ and ‘Product of Australia’ to label foods, partly or wholly grown in Australia be prohibited and replaced with more meaningful and well understood terminology;
- ‘Made of Australian ingredients’ is supported as a labeling claim for packaged food, based on the total weight of ingredients grown in Australia (excluding water). Product must meet a specific threshold (90 per cent benchmark) of Australian ingredients in order to make such a claim;
- Food labeling laws are more effectively enforced.

Fruit Juice

APAL notes that the Terms of Reference for this inquiry has specifically excluded examination of the importation of fruit juice and fruit juice concentrate. We contend that there is an issue around the dumping of juice concentrate onto the

⁴ Auspoll 2005, which demonstrated 94% consumer support for regulation for compulsory CoOL packaged food labelling.

Australian market by overseas companies. This matter and the need for safeguard measures on juice should be investigated.

Conclusion

The Australian fruit sector is well placed to fulfill the expected rise in demand for food associated with the rising middle class in Asia. The industry offers high quality product that is safe and “green” and perceived to be so by Asian consumers. We are able to offer both fresh and processed product but our competitiveness must be improved. Industry is working hard to do that, by adopting new production methods, seeking new varieties and investing in research.

But Government and retailers must do their part.

Government must work harder to achieve Free Trade Agreements with the fruit importing countries in Asia. Access or improved access to Asian markets must also be attained quickly so that product from our competitors is not embedded in the psyche of Asian consumers. A significant investment by Government in orchard automation and robotics to overcome Australia’s untenable wage system is also required to improve our international competitiveness. An export oriented fruit industry for both fresh and processing fruit is necessary to ensure the longer term profitability and viability of the Goulburn Valley, as well as the Australian sector more generally.

A level playing field also needs to be applied to require foreign manufacturers that export food products to Australia to meet the same growing and processing standards – food safety, working conditions for labour including occupational health and safety, and environmental standards - that are imposed by government regulation on growers and manufactures here in Australia. These regulations come at a cost – a dear one for the many fruit processors that have now disappeared, and possibly SPC Ardmona if a life-line is not provided soon.

Safeguard tariffs are necessary but not sufficient to provide that support. Funding for the removal of processing fruit trees is necessary to protect fresh fruit growers from pests and diseases. An overhaul of the country-of-origin labelling to allow consumers to make informed decisions about their processed product purchases is also required.

Yours sincerely

Jon Durham
Managing Director