

**INDUSTRY  
COMMISSION**

**THE AUSTRALIAN  
HORTICULTURAL  
CORPORATION**

**Effectiveness in Increasing  
International Competitiveness**

**REPORT NO. 24  
30 June 1992**

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# INDUSTRY COMMISSION

30 June 1992

The Honourable J S Dawkins, M.P.  
Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 7 of the *Industry Commission Act 1989*, we have pleasure in submitting to you our response to paragraph 4 of the reference on Australian Horticulture.

Yours sincerely

R G Mauldon  
  
Presiding  
Commissioner

R R Piggott  
  
Associate  
Commissioner

**COMMISSIONER**

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## ABBREVIATIONS

AAPGA	Australian Apple and Pear Growers' Association
ABS	Australian Bureau of Statistics
ACGF	Australian Citrus Growers' Federation
AHC	Australian Horticultural Corporation
AHEA	Australian Horticultural Exporters' Association
AHGC	Australian Horticultural Growers' Council
AHQCS	Australian Horticulture Quality Certification Scheme
AJCE	Australian Joint Citrus Exporters
BFC	Batlow Fruit Co-op
DPIE	Department of Primary Industries and Energy
EMDG	Export Market Development Grant
HPC	Horticultural Policy Council
HRDC	Horticultural Research and Development Corporation
MAC	Market Access Committee
MVCMB	Murray Valley Citrus Marketing Board
SMA	Statutory marketing authority
TWI	Trade weighted index
UFS	United Farmers & Stockholders of South Australia
WAFGA	Western Australian Fruit Growers' Association

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# TERMS OF REFERENCE

## Horticulture

### Industry Commission Act 1989

I, RALPH WILLIS, in pursuance of Section 7 of the Industry Commission Act 1989 hereby:

1. refer the Australian horticultural industry to the Industry Commission for inquiry and report within twelve months of receipt of this reference;
2. specify that the Commission examine the production and cost structure of the Australian horticultural industry, assess the methods used by selected other countries to support horticultural exports, and identify structural and other issues which, in comparison with overseas producers, affect the competitiveness of Australian producers in overseas markets;
3. specify that the Commission report on institutional or regulatory factors subject to influence by Governments in Australia which are impeding the development of an internationally competitive horticultural industry and horticultural exports, and advise on courses of action which will raise overall economic efficiency;
4. **without limiting the scope of the reference, request that the Commission assess the effectiveness of the Australian Horticultural Corporation in increasing the international competitiveness of the Australian horticultural industry, and report on this matter by 30 June 1992; and**
5. specify that the Commission avoid duplication of recent substantive studies.

Ralph Willis

18 December 1991



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## EXECUTIVE SUMMARY

- This report addresses the question of whether the AHC has been effective in increasing the international competitiveness of Australian horticulture.
- The short period during which the AHC has been operating, the lags involved with the effects of activities designed to increase international competitiveness, and the paucity of data, do not allow for a comprehensive statistical analysis of changes in international competitiveness.
- The extent of industry participation in the activities of the AHC is not a sound test of the effectiveness of the AHC. Industries might participate for reasons other than a perception that the AHC can increase international competitiveness.
- The approach adopted by the Commission has been to determine whether activities undertaken by the AHC are consistent with increasing international competitiveness. The Commission found that several of the activities fall into this category in that they are aimed at increasing profitable exports of horticultural products.
- The Commission proposes that Commonwealth funding of AHC activities be extended until 30 June 1994, but that the purposes for which those funds are used be limited and that there be stricter reporting requirements than in the past. Any commitment to provide funding beyond June 1994 should only be made following consideration of the Commission's more general report on horticulture to be presented in December 1992.

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# **1 INTRODUCTION**

## **1.1 The terms of reference**

This report deals with one part of a broad ranging inquiry into Australian horticulture. In December 1991 the Government asked the Industry Commission to report within twelve months on a variety of matters relating to the international competitiveness of the horticultural sector. As part of that inquiry, the Commission was asked to provide a separate report by 30 June 1992 assessing the effectiveness of the Australian Horticultural Corporation (AHC) in increasing the international competitiveness of the Australian horticultural industry.

## **1.2 The Australian Horticultural Corporation**

The AHC is a statutory authority responsible to the Minister for Primary Industries and Energy. It was established in August 1988 under the Australian Horticultural Corporation Act 1987. According to the Act, the principal objective in establishing the AHC was to assist Australian horticultural industries to achieve their full potential in overseas markets. More details on the origins of the AHC can be found in Chapter 3.

Participation in the AHC by an individual industry is voluntary and is based on the decision of its peak national body which must have the support of a majority of the industry. The industries presently participating in the AHC are the pome fruits, citrus, nashi, nursery, macadamia, avocado and chestnut industries. The honey industry has agreed to participate. The dried vine fruits industry participates under a special, more autonomous, arrangement. No vegetable industries are presently participating. More details on participation in the AHC can be found in section 3.5.

Funding for the AHC is primarily by producer levies and export charges, amounting to \$2.9 million and \$0.4 million, respectively, in 1990-91. It also received a total of \$5.85 million from the Commonwealth Government over its first five years to help with establishment costs. That funding will terminate at 30 June 1993.

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### **1.3 Conduct of the inquiry**

Following receipt of the Government's reference the Commission held discussions with industry bodies and distributed an issues paper which drew attention to the Commission's perception, at that time, of the major issues which would arise during the inquiry. The issues paper invited parties to provide written submissions and to present those submissions at a series of public hearings. The Commission has received written submissions from approximately one hundred participants although not all of those submissions addressed that part of the reference relating to the effectiveness of the AHC.

In view of the limited time available, the Commission has not issued a draft report concerning the effectiveness of the AHC. Hence, the findings of this report have not been subject to the public scrutiny associated with most other Commission reports. Nor has this report examined the benefits and costs to the horticultural industries, or to the community generally, of the activities funded by industry levies and administered through the AHC. The objectives of promotion and the effectiveness of the AHC have relevance for the broader issues in the inquiry into horticulture, a draft report on which is scheduled to be distributed in August of this year. That report will consider the role of the AHC in a broader context than has been done here, and the public hearings on the draft report will provide a forum for further public submissions on the effectiveness of the AHC.

### **1.4 Structure of the report**

Because the AHC was established in response to perceived deficiencies in the horticultural sector, Chapter 2 of this report provides an overview of the Australian horticultural sector and the nature of those perceptions. Chapter 3 examines the origins and statutory basis of the AHC, while Chapter 4 reviews how, in practice, the AHC has operated. Chapter 5 addresses the issue of the effectiveness of the AHC in increasing the international competitiveness of Australian horticulture.

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## 2 HORTICULTURE

The (AHC) was established against a background of perceptions that industry fragmentation, lack of co-ordination and marketing plans, a dearth of market intelligence and general apathy with respect to exports, were responsible for poor export performance. This Chapter presents some information about the horticultural sector's performance during the 1980s, and perceptions based on that performance.

### 2.1 Characteristics of Australian horticulture

In Australia, as in most other countries, the diversity of the horticultural 'industry' distinguishes it from most other agricultural industries. Hundreds of products grown in Australia are generally classified as horticultural products, but there are no hard and fast rules as to what constitutes a horticultural product. Production occurs under a wide range of climates from tropical to cool temperate. Values of production by State and major product group are summarised in Appendix B, Table B1.

In 1989-90 there were approximately 17 500 establishments with a gross value of production of \$20 000 or more (ABARE 1992a, p.68). The majority were small. The average cash receipts for surveyed establishments were estimated at \$75 000 for 1989-90 (ABARE 1991), and 50 per cent of establishments engaged in horticultural production in the major irrigated areas had less than 10 hectares under horticultural cultivation (ABARE 1992a, p.3).

Major production differences exist between product groups. For instance, most fruit and nuts are perennial crops with long production lead times (eg, seven years for some orchard crops), while many vegetable crops have short production cycles (eg, three months) and require regular rotation to maintain yields. For some products, the geographic dispersion and seasonal variation of production mean that different regions have dissimilar marketing requirements. For example citrus growers in Queensland operate in different markets and at different times of the year from citrus

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growers in other States. Another example is tomatoes where proportions of production sold fresh and for processing differ between Victoria and the rest of Australia. Such varying marketing requirements have caused conflict between grower groups representing different regions when national bodies try to develop marketing strategies (eg, generic promotion programs).

Other areas of conflict exist between operators at different stages of the production-marketing chain (eg, growers and exporters, processors and retailers) who may have different marketing priorities. One example is the division between the Australian Horticultural Exporters Association, representing major exporters, and grower bodies such as the Citrus Board of NSW and the Mid-Murray Citrus Growers Inc on the issue of export regulation.

The widely dispersed nature of production and Australia's geographic isolation, combined with wide climatic ranges and the perishability of most horticultural products, have resulted in a highly fragmented, domestically orientated industry. In turn, the fragmentation helps explain the presence of a complex web of both statutory and voluntary public institutions and private organisations that seek to serve the needs of particular products, regions and interests.

It should not be concluded that Australia necessarily differs from other countries in relation to the diversity of the horticultural sector. For example, the contiguous area of the United States is roughly equal to that of Australia and has a climate pattern which is even more diverse. There one observes the same crops being grown in geographically diverse areas (oranges in California and Florida) while other crops (eg, nuts) tend to be more geographically concentrated.

## **2.2 Australian production and trade**

The following sections briefly summarise problems with horticultural statistics and then the main features of Australian production and trade in horticultural produce. These will be dealt with in more detail in the Commission's broader report on horticulture. Additional statistics are provided in Appendix B.

For the purposes of this report, data for horticultural products cover fruit, nuts, vegetables and nursery products (including cut flowers), and include chilled and sun-dried products. Processed

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products include juices, frozen concentrates and products which have been frozen, preserved, dried (except sun-dried), canned or bottled, but exclude wine. Throughout this section the value of production is the value placed on production at the wholesale prices realised in the market place as recorded by Australian Bureau of Statistics (ABS).

The data series for nursery plants and cut flowers are not very long. Data available to the Commission are presented in Appendix B, Table B10, together with statistics for honey in Table B11. Honey is not normally thought of as a horticultural industry, but it is expected to join the AHC in 1993.

### **2.2.1 Data problems**

Although data referred to in this chapter have been derived from official published sources, it must be recognised that recent reliable, consistent statistics are not available for many horticultural products. The data deficiencies are caused by incomplete coverage of farms and products in surveys (especially small farms and new products) and the existence of a significant cash economy for some crops, and are complicated by the wide variety of products which may be grown on a single farm.

A statistics working party established by the Horticultural Policy Council recently made recommendations to improve the accuracy and timeliness of statistics. Responsibility for implementing the recommendations has been delegated to the AHC.

### **2.2.2 Production**

In 1989, Australia accounted for less than 1 per cent of world production of vegetables, fruit and tree nuts (FAO 1991a, p.125). Over the ten years to 1989-90, the volumes of Australian production of most major fruits and vegetables increased (Table 2.1), the most significant being for bananas (45 per cent), potatoes (36 per cent), and other vegetables (50 per cent). Most other industries recorded more modest increases, except for peaches where production declined 16 per cent.

Table 2.1: Australian production of major fruits and vegetables, 1980 and 1990, kilotonnes

<i>Product</i>	<i>Average of 1979-80 and 1980-81</i>	<i>Average of 1989-90 and 1990-91</i>	<i>Change between periods</i>
	kt	kt	% increase
Vegetables (excluding potatoes)	960	1 440	50
Bananas	125	181	45
Potatoes	874	1 184	36
Apricots	28	34	21
Pineapples	123	148	20
Citrus	512	594	16
Pears	135	147	9
Grapes	831	881	6
Apples	303	313	3
Peaches	75	63	-16

Source: ABARE 1992a, p.4.

While the volumes of some products such as apples, pears and grapes increased marginally during the 1980s, the production of several newer commercial crops such as macadamia nuts, avocados and mangoes increased significantly, albeit from low bases (Appendix B, Table B2).

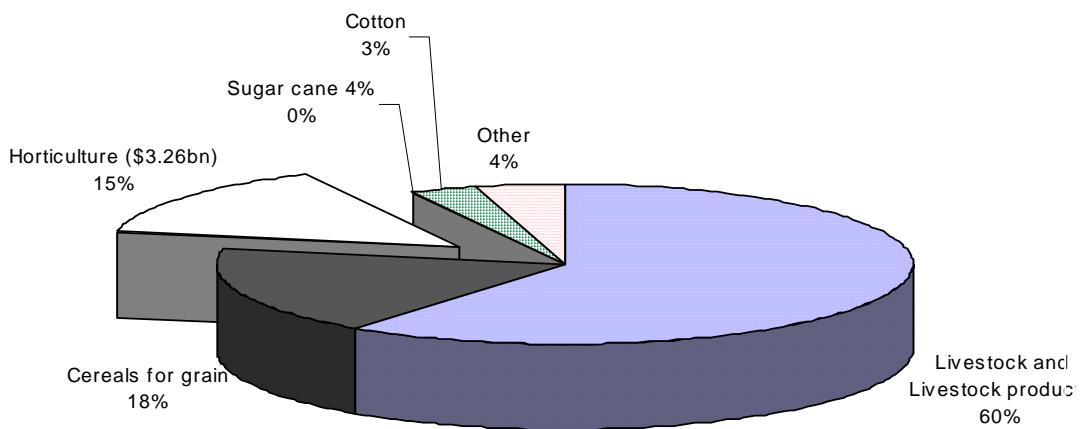
The value of Australian horticultural production, comprising fruit, vegetables, nuts and nursery products, was estimated to be \$3.26 billion in 1989-90, or about 14 per cent of the value of agricultural production (Chart 2.1).

The three largest product groups within horticulture in 1989-90 were vegetables (\$1 300 million), fruit (\$1 180 million) and nursery including cut flowers (\$444 million) (Chart 2.2). These values are comparable with those for broad-area crops such as wheat (\$2 800 million), sugar cane (\$886 million), barley (\$709 million) and cotton (\$640 million).

The real value of horticultural production increased over the 1980s by 16 per cent (Table 2.2). The increase was significantly higher for vegetables (33 per cent) than fruit and nuts (4 per cent). There were also significant differences between product groups, with changes ranging from a 322 per

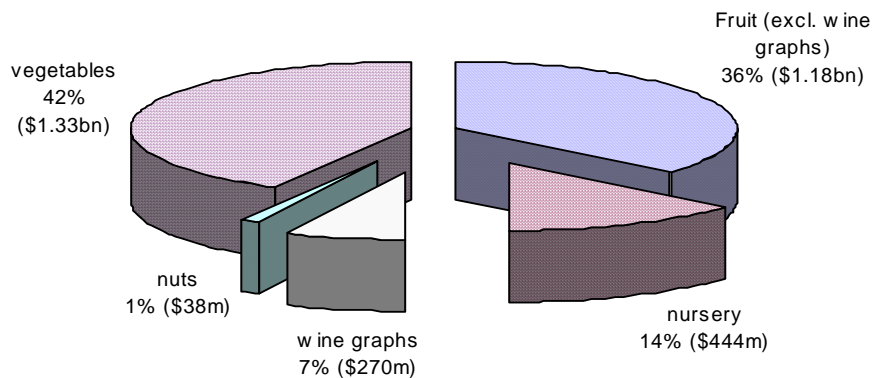
cent increase for mangoes to a 57 per cent decrease for drying grapes. With the exception of bananas, none of the major products experienced a large increase in the real value of production. Oranges and stone-fruit had only marginal increases, while the real values of apple and pear production declined. The real value of total grape production declined by 3 per cent, but with large increases for wine and table grapes, and a significant fall for drying grapes. There are also considerable year-to-year variations in the value of production for individual products (see Appendix B, Table B3).

Chart 2.1: **Relative sizes of Australian agricultural sectors, 1989-90, by value, \$ million**



Source: ABS 1991a (Cat. No. 7503.0).

Chart 2.2: **Australian horticultural production, 1989-90, by value, \$ million**



Source: ABS 1991a (Cat. No. 7503.0).



Table 2.2: Australian production of fruit, nuts and vegetables, 1980 and 1990, by value, \$ million (1989-90)<sup>a</sup>

Product	Average of 79-80 and 80-81	Average of 88-89 and 89-90	Change over nine years
	\$ million	\$ million	% increase
Wine grapes	174	268	54
Apples	240	231	-4
Oranges	174	182	5
Bananas	111	162	46
Stonefruit	135	137	1
Drying grapes	228	97	-57
Pears	83	73	-12
Other citrus	58	63	9
Table grapes	35	58	64
Pineapples	43	44	4
Berries	24	32	31
Avocados	na	23	na
Macadamias	6	20	255
Mangoes	4	14	322
Almonds	9	14	59
Other fruit, nuts	33 <sup>b</sup>	22	36 <sup>b</sup>
<b>Total fruit and nuts</b>	<b>1 380</b>	<b>1435</b>	<b>4</b>
Potatoes	313	365	17
Tomatoes	148	162	9
Onions	74	100	35
Carrots	51	80	57
Mushrooms	38	74	97
Lettuce	47	57	23
Other vegetables	293	443	51
<b>Total vegetables</b>	<b>961</b>	<b>1 280</b>	<b>33</b>
<b>Total fruit, nuts, vegetables</b>	<b>2 341</b>	<b>2 715</b>	<b>16</b>

na Not available.

a Values converted to \$1989-90 using RBA price deflators for GDP.

b Including avocados.

Totals may not add due to rounding.

Sources: ABARE 1992a, pp. 71-73; ABS 1991a (Cat. No. 7503.0), p.11; RBA 1992.

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For only a few individual horticultural products did the value of production, averaged over 1988-89 and 1989-90, exceed \$100 million. Fruits with production values exceeding \$100 million were wine grapes, apples, oranges, bananas, and stone-fruit. These five major products encompassed about 68 per cent of the estimated value of fruit and nut production in that year. Only three vegetables, potatoes, tomatoes and onions, had estimated production values of \$100 million or more. Together, they accounted for 49 per cent of the estimated value of vegetable production.

Comparison of entries in Tables 2.1 and 2.2 (excluding composite groups) shows that, with the exception of bananas, values increased less than volumes over the decade. In other words, prices of fruit and vegetables declined relative to those of goods and services in general. For the tabulated data, decreases in real prices ranged from 6 per cent for vegetables (other than potatoes) to 19 per cent for pears.

### **2.2.3 Consumption**

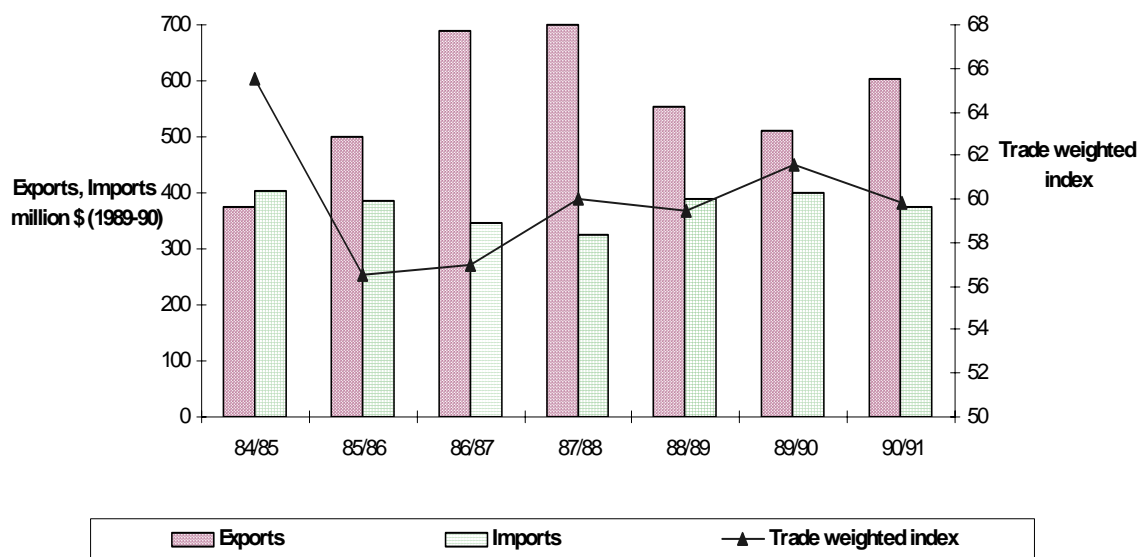
Per capita consumption of fresh fruit (including fruit for juicing) fluctuated during the 1980s but showed no significant trend (ABARE 1992a, p.25). Per capita consumption of processed fruit declined during the 1980s (p.78). However, there has been a dramatic increase in the domestic consumption of fresh orange juice in the past two years. Industry sources estimate that the use of oranges for this purpose in 1991-92 was more than double what it was two years earlier (ABARE 1992c, p.166). The per capita consumption of fresh vegetables fluctuated around an increasing trend throughout the 1980s (ABARE 1992a, p.25).

### **2.2.4 Exports**

The real value of fresh and processed fruit, nut and vegetable exports has fluctuated widely over the past few years (Chart 2.3, which is based on Table B4 in Appendix B). Exports peaked in 1987-88, then declined to 1989-90 before recovering in 1990-91. Included in Chart 2.3 exports are legumes (comprised mainly of dried, shelled peas and chickpeas) which are grown mostly as broad-area crops and have not been addressed by participants in this inquiry as part of horticulture.

They accounted for \$130 million of the \$528 million of exports in 1989-90, and similar proportions in other years. Disaggregation of the remaining exports between fruit, nuts and vegetables and between fresh and processed products is given in Appendix B, Table B5. The largest category was fresh fruit (\$189 million) followed by processed fruit (\$89 million) and fresh vegetables (\$74 million). Total horticultural exports in 1989-90, including nursery products and honey (Appendix B, Tables B10 and B11) but excluding legumes, were \$427 million.

Chart 2.3: Australian trade in fresh and processed horticultural products, 1984-85 to 1990-91, by value, \$ million (1989-90) <sup>a</sup>



<sup>a</sup> Values converted to \$1989-90 using the RBA price deflator for GDP.  
The value of the Reserve Bank trade weighted index (TWI) is taken at 30 June of the relevant year.  
Sources: ABARE 1992a, p. 6; RBA 1992.

Changes in exports arise from many factors, some of which are associated with variations in supply locally and in other countries (rain, heat, frost, drought, war) and variations in exchange rates, which are driven for the most part by non-horticultural trade. These factors can be different for each country with which Australia trades or competes. One measure of some of these effects is Australia's trade weighted index (TWI) which is shown in Chart 2.3. (It should be noted that it is

plotted with a displaced origin which accentuates its year to year variation compared with changes in exports and imports.) Changes in the TWI are a measure of the Australian dollar's purchasing power compared with the currencies of our major trading partners. Reductions in the prices of Australian exports to overseas buyers and increases in the prices of imports to Australian consumers are shown by a decline in the TWI. Demand for Australia's fresh and processed horticultural exports tends to be inversely related to the value of the Australian dollar.

**Table 2.3: Fruit and vegetable exports, Australia and selected countries, by value, \$US million (1990); and annual growth rates**

Country	Export	Annual growth rate <sup>a</sup>	Annual growth rate <sup>a</sup>
	value	(US GDP deflator) <sup>b</sup>	(local currency CPI deflator) <sup>c</sup>
	1990	1980-90	1980-90
	\$USm	%	%
<b>Australia</b>	<b>411</b>	<b>3</b>	<b>5</b>
Brazil	1778	5	14
Canada	559	2	1
Chile	1000	12	22
Indonesia	249	14	24
Malaysia	136	3	6
Mexico	1202	7	10
New Zealand	617	13	12
South Africa	629	-3	0
Thailand	1521	1	3
United States	5380	0	0

a Annual growth rates calculated by applying a log-linear regression to export values expressed in real terms.

b Current values in \$US converted to \$US(1990) using US GDP price deflators.

c Current values in \$US converted to local currency values and then converted to real terms using local CPI price deflators.

Sources: FAO 1991b (and previous volumes); IMF 1986; IMF 1991.

Table 2.3 shows that the total value of Australia's fruit and vegetable exports is small compared with that of many of its competitors and potential competitors, which are mainly southern

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hemisphere countries. Exports for 1980 to 1990, expressed in 1990 United States dollars, are presented for the same countries in Table B6 of Appendix B. These show that the real value of Australian fruit and vegetable exports declined during the first half of the 1980s, grew strongly from 1986 to 1988, then declined again. (Values in Table 2.3 and Chart 2.3 are consistent when allowance is made for the difference in currency and given that the FAO values for 1989 are the ABS values for 1988-89, and so on.)

Annual growth rates of exports, calculated by two different methods, are also given in Table 2.3. In the first, all values, which were provided in US currency, are expressed in real terms by making use of US GDP price deflators. This analysis may be overly influenced by the changes in the value of the US dollar, but does allow a comparison of Australia's export performance with that of other countries. In the second method, starting with the same set of data, real values of exports are calculated in terms of the local currency, making use of exchange rates and price deflators within local currencies, and shows what export growth performance has meant within each of the countries.

For most countries there are large fluctuations about the lines of best fit. The standard errors, supported by inspection of the data, suggest that only the larger export growth rates are unambiguously different from zero. While Australia's horticultural exports grew at an average annual rate of only a few per cent during the 1980s, there were much higher growth rates in Chile, New Zealand and Brazil. Indonesia and Mexico, which are less in competition with Australia, also had high export growth rates.

For individual products, fresh exports seldom represent more than 15 per cent of Australian production (see Appendix B, Tables B2 and B7, for volumes, and Tables B3 and B8 for values). For example, citrus exports amounted to 6 per cent of the total volume of production in 1989-90. However, there are significant differences between products, with dried fruits exporting 55 per cent of the total volume of production in 1989-90 (ABARE 1992a, pp. 13,16).

Australian exporters compete in world horticultural markets, particularly for cool climate fruits, with other Southern Hemisphere suppliers such as New Zealand (apples), Chile (grapes, apples, pears) and South Africa (apples, citrus, pears). Fresh apple exports fell from over 17 per cent of the total volume of production in 1980-81 to 7 per cent in 1989-90 (Appendix B, Tables B2 and B7).

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While some competitors (eg, Spain) have the advantage of proximity to major European markets, New Zealand, a major Southern Hemisphere apple exporter and competitor in the large European market for apples, has exported fresh around 50 per cent of all apples produced since 1989 (Sub. 24, p. 10). This success appears to have resulted from the large volume of product and the geographic concentration of production, which enable all packing and handling to occur at just a few locations and allow dedicated shipping to major markets,.

Product perishability limits the capacity to export fresh horticultural product, except where product is of sufficient value to airfreight, or is sufficiently robust to survive shipping. However, new technology is increasing storage lives, which will improve access to overseas markets. An example is 'active' packaging in which the controlled release of gases from enclosing plastic film is used to generate the optimal storage conditions for a particular fruit or vegetable (CSIRO 1992).

By contrast, perishability does not limit processed exports. A growing part of world horticultural trade occurs in product that is frozen, canned, dried or otherwise preserved. The value of Australian exports of processed fruit and vegetable products was 9.3 per cent of the value of total Australian production of these products in 1989-90, compared with 6.4 per cent in 1983-84 and 12.1 per cent in 1986-87. This proportion was higher for fruit products, 14.7 per cent, than vegetable products, 4.7 per cent, in 1989-90 (ACIL 1992).

### **2.2.5 Imports**

Imports of fresh fruit and vegetables account for only a small proportion of Australian consumption. An example is oranges, for which the volume of fresh imports accounted for 5.2 per cent of total Australian consumption in 1989-90, compared with 7.1 per cent in 1983-84 and 3.9 per cent in 1986-87 (ABARE 1992a, p.21).

Perishability and transport costs limit the extent of fresh imports of horticultural products, as well as limiting fresh exports. Typically, fresh produce is imported during the off-season when most

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Australian producers are unable to place produce in the market, and prices for available fresh produce are high. Fresh imports often do not compete with or reduce the demand for local produce. Phytosanitary barriers prevent or restrict some fresh imports. No fresh apples or pears are imported because of quarantine restrictions, mainly in relation to 'fireblight' which is present in many other countries.

Perishability does not limit imports of nuts and dried fruit or processed products such as canned fruit and vegetables and frozen orange juice concentrate. Nuts and processed products accounted for 81 per cent of horticultural imports (excluding legumes) in 1989-90 (Appendix B, Table B5). Imports of processed fruit and vegetable products were 17.9 per cent of the value of domestic sales in 1988-89, much the same as in 1983-84 (19.3 per cent) and 1986-87 (18.6 per cent). Particular items with high import penetrations in 1986-87 were crystallised and glaze fruit (77.5 per cent) and pickled vegetables (53.6 per cent) (ACIL 1992).

The volume of fresh and processed horticultural imports generally increased in the 1980s. The real value of imports of fresh and processed fruit, nuts and vegetables increased by 50 per cent over five years to \$415 million in 1989-90, then declined in 1990-91 to \$386 million. However, both the volume and value of fresh and processed imports have been volatile (Chart 2.3, and vegetable imports in Appendix B, Table B9).

### **2.3 Perceptions of horticulture**

A common perception which the Commission encountered during the conduct of this inquiry, and which has been current for a number of years, is that Australian horticulture is not realising its full export potential. That perception is based on a number of observations related to growing conditions and markets for horticulture.

Australia has an abundant natural endowment of arable land, sunshine and water, and its location in the Southern Hemisphere, combined with the seasonality of most horticultural production and its perishability, provide an opportunity to supply fresh produce to world markets in Northern Hemisphere off-seasons. Furthermore, it is in close proximity to an expanding Asian market.

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Despite these conditions, and the potential for export development which was perceived to flow from them, the level of exports is considered to be low in relation to other domestic agricultural activities, and in relation to other Southern Hemisphere producers. Indeed, in most years more than half of Australia's exports of fresh and processed horticultural products are offset by imports of fresh and processed horticultural products. The BRR noted that:

Australian industry observers project exports of fresh fruits and vegetables as the area for future growth of the Australian horticultural industries. It is a perception that stems from the low volume of horticultural products that are exported and from the increase in imports of fresh and processed fruits and vegetables. (Sub. 7, p. 1)

Many reasons have been advanced to explain the perceived poor export performance. Production decisions are said to be made on the basis of supplying the domestic market, with any product surplus to domestic requirements being exported in an opportunistic manner. Because of this, particular export markets have not been developed to the extent that they seek out the Australian product, or regard Australian supply as reliable. Most domestic producers are said not to have an export culture. The AHC said:

There is also a perception of export being short-term with only a limited number of producers focussing specifically on export, eg: the Tasmanian apple and onion industries, Victorian pears, WA apples and vegetables, dried fruits and macadamias. (Sub. 24, p. 63)

Some participants pointed to industry fragmentation and consequent poor information flows as reasons for a low level of exports while others referred to economy wide factors which affect the export prospects of both growers and processors of horticultural products. Included in this latter category were labour costs, transport systems, inter-state rivalries and the value of the Australian dollar. Another factor cited was the way in which international markets have been affected by other countries' subsidies to production and exports, and by restrictions on imports. Dr Yuen, of the University of NSW, said in relation to processing:



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Lack of value adding activities in Australia has been attributed to a number of impediments such as a lack of comparative advantage due to high input costs, poor work practices and/or management skills, obstructive government regulations, distance from markets or trade barriers. (Sub. 3, p. 14)

For some horticultural products there is a perception that a large increase in the volume of production will be a prerequisite to developing and maintaining export markets. For others the perception is that some Australian producers will soon have no choice but to seek out export markets for their produce. Current planting trends of many newer perennial horticultural products (eg, avocados and mangoes), and the view that there is limited scope for expanding sales on the domestic market, lead to forecasts of future production levels far in excess of domestic requirements. ABARE (1992a) concluded that:

It has become increasingly apparent in recent years that, because of current planting trends and forecast production increases, Australian horticultural industries will need to concentrate efforts on developing and maintaining export markets to remain viable. To do this, they will need to improve their ability to compete on increasingly competitive international markets. (p. 10)

The Government described its vision for horticulture in its Economic and Rural Policy Statement (Hawke and Kerin 1986):

The Government believes that there are opportunities for much greater export revenue from improved export performance in the horticultural industries. (p.67)

Australia has performed poorly in both traditional and newer horticultural markets in recent years. The Government believes this is mainly due to an unco-ordinated approach to export sales, the lack of an appropriate marketing infrastructure for most fresh produce and inadequate quality control, market research and promotion. (p.66)

The AHC was established to address these perceptions, with a principal objective of assisting the horticultural industries to achieve their full potential in export markets.

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## 3 AHC: ORIGINS AND STATUTORY BASIS

The Australian Horticultural Corporation (AHC) is a Commonwealth statutory authority, responsible to the Minister for Primary Industries and Energy, established in August 1988 under the Australian Horticultural Corporation Act 1987 (the Act as amended). This chapter outlines the AHC as instituted and perceived by Parliament. Additional information on the legal and operating structure of the AHC can be found in Appendix C.

### 3.1 Origins

The AHC was established as part of a package of measures "introduced primarily to enhance the capacity of the horticultural industries to expand exports" (Jones 1987, p.318). The other components of the package were the establishment of the Horticultural Policy Council (HPC)<sup>1</sup> and the Horticultural Research and Development Corporation (HRDC), as well as Acts covering the imposition and collection of levies and export charges,<sup>2</sup> and transitional arrangements. These Acts superseded the apple and pear Acts.

The AHC was established in response to perceptions about the sector's potential (see section 2.3), and the ability of existing industry structures to exploit them:

While the horticultural sector has achieved significant increases in exports in recent years, opportunities exist for further substantial increases. For the sector's full export potential to be realised, however, there needs to be a more co-ordinated and sustained activity both in horticultural products marketing and research. (Jones 1987, p. 318)

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<sup>1</sup> The HPC was established to "... facilitate the development by the Commonwealth Government of sound, consistent and comprehensive policies in relation to Australian horticultural industries, through the active co-ordinated participation of those industries in the policy formulation process" (Horticultural Policy Council Act 1987 s4).

<sup>2</sup> The horticultural Acts for the collection of levy and export charges were subsequently superseded by the Primary Industries Levies and Charges Collection Act 1991.

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Although the Government had a definite vision for a horticultural sector with an export focus, it was flexible about the steps the AHC would use to cultivate this. However, it was made clear that participation was to be voluntary, and that the AHC was to act in agreement with its participants:

... the non-intrusive and non-coercive nature of this legislation is one of its major features. (HoR Debates 1987, p. 1916)

## 3.2 Objects

The Act states:

7. (1) The principal object of the establishment of the Corporation is to assist Australian horticultural industries to achieve their full potential in overseas markets.
- (2) The objects of the establishment of the Corporation also include assisting the development of Australian horticultural industries.
- (3) It is the intention of the Parliament that the principal object of the establishment of the Corporation should be achieved through the Corporation acting, to the greatest extent practicable:
  - (a) in co-operation with all segments of Australian horticultural industries; and
  - (b) in conjunction with Commonwealth, State and Territory authorities concerned with the export of Australian horticultural products.

In relation to the AHC's principal object, the Minister stated:

To achieve this [principal object] it will encourage, facilitate and co-ordinate export activities, and provide a link from exporting and marketing back to growers to encourage production in line with market needs. It will complement, not replace, the marketing efforts of private exporters. (Jones 1987, p. 319)

With respect to the AHC's secondary object, it was said:

An important subsidiary object of the AHC is to contribute to the development of horticultural production and marketing within Australia. In particular, it will be able to undertake domestic promotional activities on behalf of horticultural industries and, in this respect, will continue to handle the extensive domestic promotion relating to apples and pears. (Jones 1987, p. 319)

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The requirement for the AHC to co-operate with industry was emphasised:

It must be stressed that no action on behalf of the industry will be taken unless there is general support from the industry sector. (HoR Debates 1987, p. 1914)

Particular reference was made to national peak industry bodies:

... at all stages the Minister is concerned to ensure that action will not take place without the co-operation of the national bodies of the industry. (HoR Debates 1987, p. 1916)

The terms of reference for this inquiry are focussed on international competitiveness, whereas the AHC's statutory objects, particularly the secondary one, cover domestic developments which may not directly affect international competitiveness. However, the objects implicit in the terms of reference are not inconsistent with those assigned by Parliament.

### **3.3 Functions**

The AHC's functions under the Act are directed at fostering improvements for Australian horticultural industries in:

- exports;
- domestic sales;
- efficiency and competitiveness;
- quality;
- production (growing, harvesting, and processing); and
- interstate marketing.

In carrying these out, the AHC is given a facilitative role, its functions being to encourage, assist, facilitate, promote, and co-ordinate. It is to co-operate with authorities of all levels of government and with representatives of the horticultural industries.

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### **3.4 Powers**

The Act gives the AHC powers in relation to negotiating freight and insurance contracts, and obtaining and disseminating information, as well as general corporate powers. The AHC is permitted to charge for services.

Regulations can be made which would empower the AHC to control, even prohibit, exports. Conditions may be applied to particular products or destinations, including licensing and conditions pertaining to price, quality or characteristics, presentation, documentation, exporters' fees and commissions and freight. Specific export trading powers -- exercisable with the permission of the Minister -- would permit the AHC itself to export produce. However, the Minister said the Government was firmly of the view that the export trading powers would only be applied in circumstances where there is general support from the relevant industry (Jones 1987, p. 318). The Minister has a reserve power to give directions to the AHC.

### **3.5 Coverage and current membership**

The Act defines horticultural products to be: fruits, vegetables, nuts, nursery products, and cut flowers and foliage; plus or minus those prescribed by regulations. This makes the AHC's coverage, in effect, quite open ended, allowing it to incorporate, for example, honey. Alternatively, particular varieties of products could be excluded. Some of these products are further defined in the Act, with a general specification that horticultural products include processed products (eg, chilling, freezing, drying, bottling, packing, canning, preserving).

The horticultural Acts make no explicit reference to industries 'joining' the AHC, or being 'members'. The Acts only refer to the Governor-General making regulations allowing levies to be collected with respect to particular products (in effect, those of the member industries) and naming industry bodies to be consulted on those levies (in effect, the recognised peak bodies). But the terms are in common use to describe industries which participate by paying a levy. A horticultural industry 'joins' the AHC by entering into an agreement known as a 'Memorandum of Understanding'. The process by which an industry arrives at this step is discussed in section 4.3.

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It was originally envisaged that not all horticultural industries would require the same services from the AHC and that, for most industries, the AHC would operate on a fee-for-service basis (Jones 1987, p. 319). This provision was to allow a group from an industry 'which does not have the benefit of full levy arrangements' to raise money voluntarily and seek the services of the AHC (HoR Debates 1987, p. 1929).

The pome fruits (apples & pears) and citrus industries were members from the commencement of the AHC in 1988. Nashi and nursery joined in 1989-90; dried vine fruits (currants, raisins and sultanas) in 1991 (with substantial autonomy under a Product Board arrangement); and chestnuts, macadamias and avocados in 1992.

Honey has agreed to join from January 1993. Kiwi-fruit and cut flowers have undertaken strategic planning workshops, but have not yet agreed to join. Table grapes are intending to undergo strategic planning. Interest in joining has been expressed by potatoes, stone fruits, custard apples and cherries.

Australian Bureau of Statistics (ABS) data on the current commodity coverage of the AHC in terms of gross production values are presented in Table 3.1.

Several difficulties arise in using ABS data for horticulture (see section 2.2.1). The AHC estimated the gross value of production of industries now participating in the AHC (including honey) at \$960 million. The gross value of production of flowers, kiwi-fruit, table grapes and stone fruits -- four potential members -- was estimated by the AHC at \$450 million. If these four industries were to join, the gross value of production of industries participating in the AHC would rise to an estimated \$1.4 billion. That amount would equal approximately one half of the gross value of production of horticulture as a whole, nearly all of the remainder consisting of vegetables. The AHC also submitted that the addition of table grapes to the present fruit membership would result in 85 per cent of fruit exports being represented in the AHC (sub. 24, p. 45).

Table 3.1 AHC industry coverage, by gross value of production, 1989-90, \$ million

	Present members gross values	Potential members <sup>a</sup> gross values	Non-members gross values
nursery <sup>b</sup>	444	potatoes 393	other vegetables 935
apples and pears	291	stone fruits 76	wine grapes 238
citrus	243	table grapes 52	other fruit <sup>f</sup> 236
dried grapes	102	cherries 17	berries 32
macadamias	22	custard apples na	almonds 14
avocados	23	cut flowers <sup>e</sup> na	other <sup>f</sup> na
chestnuts	na		
nashi <sup>c</sup>	na		
honey <sup>d</sup>	28		
Totals	1 153+	538+	1 455+
Total potential membership		1 691+	
Total horticulture		3 146+	

na not available

a Industries which have expressed interest in joining.

b Includes cut flowers.

c Included in apples and pears.

d Agreed to join from January 1993.

e Included in nursery.

f Includes some present and potential members marked 'na'.

Source: ABS publication No. 7503.0.

The blueberry industry considered participation, but rejected it; the key industry participants, located on the north coast of New South Wales, believed that their marketing requirements could best be achieved internally. Interest was also expressed by the asparagus industry, but one business came to dominate in excess of 70 per cent of the market and believed it could manage its own marketing requirements (sub. 102, p. 20).

Vegetables -- the largest commodity group with output valued at \$1.3 billion (including potatoes) -- presently have no industries in the AHC, something attributed primarily to the absence of peak bodies for almost all vegetable products. Negotiations are underway with the potato industry, which does have a peak body. Other factors impeding vegetable participation include the short production period of vegetable crops, many farmers moving from crop to crop in response to

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market conditions, and the preponderance of small scale producers making cash sales through growers' markets -- with the consequent difficulties of collecting levies (sub. 102, p. 20). The Australian Vegetable Growers Federation said:

Because of the very broad range of products represented by the vegetable industry it is likely that any future moves towards participation with the AHC will come from specific product sectors within the vegetable industry rather than from the industry in general. (sub. 86, s. 6.2)

The United Farmers & Stockholders of South Australia (UFS) stated:

Relatively few industries have chosen to join AHC at this time. However, the UFS Horticultural Executive suggests that very few industries are sufficiently well organised to permit informed debate about the advantages and disadvantages of joining AHC. Many industries are unable or unwilling to implement a statutory levy. (sub. 57, p. 35)

### **3.6 Corporate structures**

Participation in the AHC is voluntary, and the AHC is to act co-operatively with industry. Nevertheless, the rationale for instituting the AHC lies chiefly in the Government's vision for the horticultural sector. This is reflected in the corporate structures embodied in the AHC Act, which appear aimed at ensuring that the AHC is steered by its statutory objects and functions, rather than being merely a conduit for industry organisations to raise money.

However, the voluntary nature of industry participation limits how the AHC can operate. The differences between the objectives of the AHC and industry are discussed in section 4.4.2.

The Product Board for dried vine fruits (see Appendix C2.4) is constituted as a separate corporation, partly to clarify the status of its contractual relationships (Kerin 1990, p. 4), additional detail on corporate structures, and how participating industries have responded to them, are contained in Appendix C2. A discussion of the Davis Committee's recommendations for the corporate structure of a proposed horticultural statutory marketing authority can be found in Appendix C3.



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## 3.7 Finance

### 3.7.1 Industry levies

The AHC is funded chiefly from appropriations financed by levies on domestic production and charges on exports, imposed on participating horticultural industries.<sup>3</sup> Domestic levies are payable by the producer, whereas the corresponding export charge is paid by the owner of the product at the time of export. Peak industry bodies and the AHC are to be consulted in setting levies. In practice, levies are set by the peak body at its annual general meeting following discussions with the AHC (sub. 24, p. 77).

The levy base can be dollars per unit of product (eg, per tray) and/or unit of mass (eg, per tonne of bulk produce), or a percentage of value. In the case of nursery products, the leviable product is potted plants, but the levy base is the pots themselves: the levy is a percentage of the value of pots purchased by producers of potted plants, and is collected for the Commonwealth by the seller of the (empty) pots. Different rates can apply within a product group (eg, a lower rate for juicing pears than for fresh pears). Exemptions from levies can be granted (eg, for small quantities for own use). The export charge need not be equal to the corresponding domestic levy, but has been to date.

How industry funds are spent is not determined by whether they came from domestic levies or export charges, or from a particular State. The Western Australian Fruit Growers' Association complained:

... although industry must be very accountable for any funds it obtains from the AHC, they (the AHC) cannot account for a State's contribution in levies, except to estimate. (sub. 43, p. 5)

The HPC presented a suggestion for an exporter levy (as distinct from the export charge) so that exporters themselves would pay for benefits derived from AHC activities, and finance would be available for specific AHC activities which benefit exporters more than other segments of the horticultural sector (sub. 96, p. 7).

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<sup>3</sup> Under section 81 of the Australian Constitution, these moneys must be paid first into the Commonwealth's Consolidated Revenue Fund, from which amounts may then be appropriated. The AHC Act prescribes that the amount appropriated from the Consolidated Revenue Fund be equal to that received from the levies and charges.

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The levies include a contribution to the AHC's overheads (see section 4.6.2), and joint funding can be agreed between industries for particular projects, but otherwise a strict separation of industry accounts must be kept. (Industry specific programs are discussed in section 4.4.) In the case of the Product Board for dried vine fruits, levy moneys (less the Board's contribution to AHC overheads) are appropriated directly to the Board, rather than to the AHC on the industry's behalf.

### **3.7.2 Levy collection system**

The collection system is formulated by the Commonwealth Department of Primary Industries and Energy (DPIE) with the aim of optimising the trade-offs involved with minimising the number of collection points, the collection costs of the department, and avoidance of levy payment. DPIE estimated that 85-90 per cent of potential levy payments are collected. For most industries, DPIE estimated 80 per cent of production came from 35 per cent of firms. Collection costs are deducted from levies collected.

### **3.7.3 Other sources of funding**

The AHC also receives funds from charges for services, predominantly export licence fees and fee-for-service promotions.

A Commonwealth Government contribution of \$5.85 million was made to the AHC to assist with establishment costs over the first five years.

With the approval of the Minister, the AHC may borrow, or otherwise raise money.<sup>4</sup> The Commonwealth Treasurer may choose to guarantee the AHC's debts.

In December 1990 the Commonwealth Government announced a special grant of \$2 million over three years to the citrus industry for the promotion of fresh Australian juice and fresh oranges. This money will be spent through the AHC.

In 1990-91, the AHC received nearly \$241-000 from the Commonwealth Government under the Export Market Development Grant (EMDG) scheme administered by Austrade. As an 'approved

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<sup>4</sup> The Act states that raising money includes dealing in securities.

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body', the AHC is able to receive grants for eligible expenditure on export promotion up to \$250 000 per year. Any 'approved body' not currently a member of the AHC is able to apply for grants in their own right up to the \$250 000 per year limit, and may continue to be eligible if it joined the AHC, subject to the decision of the EMDG Board.

#### **3.7.4 Accountability**

The Act requires the AHC to submit an Annual Report to the Minister for tabling in Parliament, as well as to each participating industry body. Further, the chairperson must report personally to each participating industry. The AHC does not hold an Annual General Meeting of its own.

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## 4 AHC ACTIVITIES

This chapter outlines how the Australian Horticultural Corporation (AHC) has operated. The AHC Act (see Chapter 3) allows the AHC considerable discretion in how it carries out its functions. However, because participation by industry is voluntary, what the AHC can do is constrained to a large degree by the decisions of individual horticultural industries -- whether or not to join, how much to contribute, and what priorities to adopt. The Act, therefore, must be read in the light of how the AHC itself has chosen to approach its task, and how individual horticultural industries have responded. Further, how the AHC has operated, and what it has achieved, must be understood in terms of the interaction of the legislation, the AHC, and those industries.

### 4.1 Corporate plan

The AHC sees its mission as:

To assist individual horticultural industries in Australia achieve maximum net returns on their investment in production by maintaining and ensuring, where relevant, the adoption of proven modern marketing practices in pursuit of expanded markets for their products, particularly in terms of achieving their full potential in overseas markets.

This mission statement is supported by seven corporate objectives, relating to: producer returns; Australia's image and competence as an exporter; the operating environment; global orientation; communication; corporate credibility; recruitment of other horticultural industries; and accountability.

The seven corporate objectives are pursued through eight corporate strategies, each supported by a half dozen or so sub-strategies, which are operationalised and given goals and timing targets in the operating plan. This corporate and operating plan approach is required in the Act as a means of avoiding day to day ministerial oversight (Jones 1987, p. 321).

Additional detail on the AHC's corporate objectives and strategies can be found in Appendix D.

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## 4.2 Scale of operations

The AHC's budget for 1990-91 was just over \$5 million. Of this amount, \$3.9 million came from industry contributions, \$1 million from a Commonwealth appropriation and \$0.1 million from other sources. Additional detail is presented in Appendix F. To place this budget in context, the AHC compared this \$5 million with its estimate of over \$110 million of Government and industry levies being expended on horticulture annually. How the AHC arrives at this figure is shown in Table 4.1.

Horticulture has been a major recipient of grants under the Marketing Skills Program attracting 40 per cent of the \$5 million in funding provided over four years to 1991-92. Early programs concentrated on new and developing industries (eg, avocados, mangoes and flowers). Horticulture has also been a significant recipient of Innovative Agricultural Marketing Program grants, receiving about a third of total grants; in 1990-91 around \$500 000 was provided to the fruit industries and just over \$400 000 to the flower and plant industries, from total grants of slightly over \$4 million.

The AHC has a staff of approximately fifteen. The AHC espouses a philosophy of maintaining a 'lean' staff structure and utilising the services of other organisations to best advantage (eg, Austrade, Australian Quarantine Inspection Service, Australian Bureau of Agricultural and Resource Economics, and sub-contractors) (sub. 24, pp. 40,51). This approach was questioned by Western Australian Fruit Growers Association, which said:

Since one of the main aspects and activities of the AHC is promotion, it seems strange that it does not have on its staff an advertising specialist with advertising agency background to develop and co-ordinate promotional efforts. This would save large amounts of growers' funds spent on commercial agencies. (sub. 43, p. 3)

Table 4.1: Funds devoted to horticulture, 1990-91, \$ million

Organisation	Government contribution	Industry contribution	Total
Dept's of Agriculture			
Western Australia	9.8	na <sup>a</sup>	9.8
South Australia	5.9	na <sup>a</sup>	5.9
Victoria	13.4	na <sup>a</sup>	13.4
Tasmania	2.1	na <sup>a</sup>	2.1
New South Wales	19.0	na <sup>a</sup>	19.0
Queensland	10.0	na <sup>a</sup>	10.0
Horticultural Policy Council	0.4	na <sup>a</sup>	0.4
Horticultural R&D Corporation	3.0	3.2	6.2
Australian Horticultural Corporation	1.0	4.0	5.0
CSIRO	?	?	8.0
Department of Primary Industries and Energy	0.7	-	0.7
Marketing Skills Program	2.2 <sup>b</sup>	-	2.2
Innovative Agricultural Marketing Program	0.9	-	0.9
Export Market Development Grant	1.8	-	1.8
Commonwealth Citrus Grant	1.0	-	1.0
State/Regional Statutory Citrus levies	-	2.5	2.5
Queensland Fruit & Vegetable Growers	-	5.8	5.8
New South Wales Banana Industry Committee	-	0.7	0.7
Dried Fruit Research	0.5	0.5	1.0
Australian Dried Fruits Corporation	-	1.4	1.4
Grape and Wine Research	1.1	1.3	2.4
Australian Wine and Brandy Corporation	-	2.1	2.1
Western Australia Fruit Growing Levy	-	0.5	0.5
Western Australia Potato Growing Levy	-	0.2	0.2
Western Australia Banana Compensation Levy	-	0.6	0.6
Australian Quarantine Inspection Service	3.5	2.7	6.2
<b>Total</b>	<b>\$76.3 + ?</b>	<b>\$25.5 + ?</b>	<b>\$109.8</b>

a Industry contributions assumed to be covered elsewhere (eg, HRDC).

b From the inception of the program.

Source: AHC (sub. 102, p. 9).

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## 4.3 The joining process

In targeting industries for membership, the AHC considers factors such as:

- likely support and commitment to marketing programs through the AHC;
- structure and development of the industry and whether the AHC can effectively contribute to that industry;
- industry organisational structure, particularly the existence of a peak body; and
- export contribution or potential.

### 4.3.1 Strategic planning

A requirement of participation is that the relevant industry undertakes the development of a strategic plan. The costs of this are met by the AHC on the understanding that they will be recouped from levies should the industry subsequently join. The strategic planning process is used to identify the benefits of participation in the AHC. If the industry subsequently decides to join, the strategic plan would provide the basis for determining industry priorities. The format of the strategic planning process varies. For apples, State based workshops were held first as the basis for a subsequent national workshop, whereas pear growers chose a single national workshop. Industry organisational as well as marketing objectives are generally identified (sub. 24, p. 20).

The activities of the AHC in the strategic planning process were described by the Director of the Chestnut Growers of Australia in the following way:

It is difficult not to be impressed by the encouragement, facilitation and co-ordination displayed by the Corporation. Throughout the period of negotiations to become members, the Director of the AHC was always available to assist with information, address public meetings and conferences and guide the organisation toward determining a strategic plan for the next 5 years. (sub. 98, p. 9)

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### 4.3.2 Industry decision

The AHC requires a peak national industry body as a condition of membership. This is a requirement of the AHC, rather than being necessary under the Act. For an industry to join, the AHC and the Minister have to be convinced that a significant majority of producers and production support participation (sub. 24, p. 30). In practice, this entails accepting that the peak industry body's desire to join is representative of a majority of producers and production of that industry (sub. 24, Appendix 2). For example, the pome fruit industry opted to join through a vote of the Australian Apple and Pear Growers Association (AAPGA), and the citrus industry through the decisions of the Australian Citrus Growers Federation (HoR Debates 1987, p. 1908). The AHC maintains that it has always attempted widespread consultation with the diverse groupings of growers so that there is a "clear and substantial majority in support of deciding to participate in the AHC" (sub. 102, p. 3).

#### *Incentives to participate*

Although participation in the AHC is voluntary, there is no other Commonwealth mechanism for a horticultural industry to have a levy imposed to finance activities (other than research and development). An individual industry is unable to raise a compulsory national levy and spend it in its own right -- it must have the AHC spend it on its behalf. This may result in industries being members the AHC with only lukewarm support. For example, the Murray Valley Citrus Marketing Board stated:

The Murray Valley Citrus Marketing Board's position regarding the AHC could be described as one of conditional support. The Australian citrus industry is highly fragmented with growers, packers, exporters and processors frequently at odds on industry matters. The AHC at this time, is seen as the only organisation at a federal level which is empowered to influence domestic and export matters which encompass all sectors of the industry and collect levies to fund marketing activity in addition to their administration costs. (sub. 63, p. 1)

When the AHC Bills were introduced to Parliament, an announcement was made with respect to the horticultural industries which, at the time, were covered by Commonwealth statutory marketing arrangements (Jones 1987, p. 318). A decision on the future of dried fruits (particularly the Australian Dried Fruits Corporation) was deferred -- the Australian Dried Fruits Corporation



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subsequently being admitted to the AHC as a Product Board. In relation to pome fruits, it was stated: "The Minister advised the Australian Apple and Pear Growers Association in May 1987 that he considered it would be in the best interests of the industry if it were encompassed in the AHC from the outset". It was claimed by the Australian Horticultural Exporters' Association (AHEA) that the pome fruit and dried fruit industries had, in effect, been forced to participate (sub. 13, p. 7). However, the AAPGA stated:

Despite the arguments against participation in the AHC, the industry, throughout the discussions with Government, always had a fall back position of a restructured Apple and Pear Corporation or statutory marketing authority which was apple and pear specific. (sub. 5, p. 2)

However, the AAPGA did not believe the Government would support a compulsory levy for an industry operated organisation (sub. 25, p. 9).

The Australian Canned Fruits Corporation was told it would be wound up in 1989 -- with the option for the industry to join the AHC. The Canned Fruits Industry Council of Australia stated that the industry requested the Minister to extend the Australian Canned Fruits Corporation. The request was declined; the industry declined to join the AHC and now has no levy mechanism or legislative backing (sub. 52, p. 2).

The Australian Honey Board (AHB) was advised in 1991 that its enabling legislation would not be renewed when it expired in May 1994, and given the choice of joining the AHC or ceasing statutory marketing arrangements altogether. The AHB submitted: "Broadly speaking, the industry accepts these changes somewhat reluctantly" (sub. 66, p. 2). The industry has agreed to join the AHC from January 1993 for a trial period of two and one-half years, with a dedicated Honey Desk (to be known as the Australian Honey Bureau (AHB)) to continue many of the AHB's functions (see Appendix C2.5).

### *Who speaks for the industry?*

Although participation in the AHC is voluntary at the industry level, there can be considerable dissension within an industry over participation (sub. 25, pp. 1-3). The AAPGA conceded that its decision to participate in the AHC was not unanimous, with Queensland representatives 'voicing

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vehement opposition'. Opposition also came from Western Australia which, like Queensland, has State levies in addition to the AHC levy, and Tasmania which would prefer a grower organisation which passed levy money back to the States (sub. 23, p. 4). South Australia, New South Wales and Victoria strongly supported participation; together they produce 65 per cent of Australia's apple crop, whilst Victoria produces 85 per cent of the pear crop.

The Australian Avocado Growers' Federation voted to join the AHC in 1990-91. The majority of producers supported participation but the majority of production was in Queensland and their representatives, through the Committee of Direction of Fruit Marketing, did not initially support the decision. The Queensland industry subsequently agreed to support membership for a two year period.

WAFGA commented:

Western Australia, being so isolated, and because of quarantine restrictions on the import of apples and pears, gains little benefit from the AHC. One reason for this is simply because the AHC views the [Eastern] seaboard as the main production and consumption area, and therefore concentrates its main effort in those areas. (sub. 43, p. 4)

Australian Joint Citrus Exporters complained that, although the Act defined an industry broadly to include production, processing, handling, storing, transporting, marketing, etc, the AHC reacts "only to that sector of the citrus industry which they see as having given them a mandate to exercise power over all the industry", and that the industry was "defined as a majority of growers" (sub. 88, p. 4). Consequently, as exporters they felt they had no say in the decision of the industry to join, but had the export licensing system -- with its restrictions and associated charges -- imposed on them as a result.

The AHC confirmed that, so far, 'industry' decisions on participation in the AHC have been decided by growers, but submitted that it had sought the views of AHEA in the AHC's own corporate planning process; and that exporter participation has been invited in industry strategic planning processes, with exporter participation occurring in the strategic planning workshops of apples, pears, citrus, nashi and kiwi-fruit. The AHC also claimed to have 'consulted extensively' with exporters in the development of the current export licensing scheme, with some of the exporters' proposals being adopted (sub. 102, p. 11).

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The Act permits an industry to be construed quite narrowly. For example, blueberries were considering membership on their own, not as part of the 'berry industry'. Similarly, although a pome fruit, nashi was originally excluded but later became a member in its own right. Processed pome fruit products (eg, canned pears, apple juice) are not included, but their horticultural inputs are. Had the canned fruits industry joined, some fruits would have been included if canned, but not otherwise (eg, peaches). Where varieties of a horticultural product are confined to a particular region, excluding a particular variety could allow, in effect, that region to be excluded. Nevertheless, the way an industry is defined can prevent a particular State, region, or segment of an industry -- such as a sub-industry or production stage (eg, exporters) -- opting out in or out of the AHC.

The AHC acknowledged that under the all-in:all-out approach, "a small minority of producers and/or production who may be against participation can be forced to join". However, it rejected the alternative of optional membership, with the possibility for free-riding, as unworkable (sub. 24, p. 30).

The Horticultural Policy Council (HPC) also opposed individuals or groups opting out:

The Council is of the opinion that agreements to participate in the AHC should, as is the current requirement, come from the relevant individual industry's peak body. This is eminently a practical and sensible approach. Moreover, the Council rejects the notion of allowing individual growers or elements of an industry to opt out of AHC membership against the wishes of the peak industry body. This, it believes, would serve only to further fragment industries which are already highly fragmented. In any event, compulsory levy collection arrangements are predicated on all members being levied. If such opting out provisions were permitted, non-members would get free-rider benefits from AHC marketing and promotion paid for by members. (sub. 96, p. 7)

The Australian Citrus Growers' Federation (ACGF) said:

[The] majority would prefer a national citrus involvement in the Corporation but might reluctantly accept an option for a discrete part of the industry to opt out; that principal would not be seen as capable of any logical extension to individual growers within States or regions which by majority decision 'opt in'. (sub. 33, p. 4)

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The AAPGA felt that optional membership would undermine national focus:

The Association believes that it [is] a case of all in or all out in respect to membership of the Corporation. We can see no case for having an opt out option for individuals or sections of the industry. ... Even with all growers participating there is a tendency for State parochialism to dilute the effort and any moves to make participation voluntary will exacerbate this problem and make the whole concept meaningless. The lack of a national focus is probably the biggest problem facing horticulture in this country. (sub. 25, p. 3)

However, the Queensland Citrus Sectional Group Committee disputed the validity of a national focus. It claimed:

[Membership of the AHC] has caused a dissension in the industry where Queensland is often pitted against the other states because the conditions under which the industry operates in Queensland are completely different from the conditions under which the industry operates in the other states. (sub. 22, p. 3)

It proposed an optional membership arrangement:

At the present time the recognised national body for a commodity is the body which AHC recognises to speak on behalf of the industry. A more equitable way would be for the AHC to deal directly with the recognised industry bodies within each state. Those states wishing to become members of the AHC could do so on an individual state by state basis. This would allow targeted programmes to be available for those states that wish to join while also leaving those states which did not wish to join to pursue their own campaigns. (sub. 22, p. 4)

The Commission notes that, since AHC levies are a Commonwealth excise, they must be exercised uniformly across Australia. Constitutional problems could arise if levies were to be applied to some groups but not others. It should be possible, however, for a uniformly applied Commonwealth levy to be returned to State or possibly regional bodies.

### **4.3.3 Memorandum of understanding**

A decision to join the AHC is effected by the signing of a Memorandum of Understanding. This document provides the basis for the business relationship between the industry and the AHC, including the responsibilities of the parties and the financial arrangements to be observed. Appendix E shows a pro-forma draft memorandum.

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The Federal Council of Australian Apiarists Associations described the honey industry's memorandum as:

... a comprehensive document. It sets out in the clearest detail agreement on all foreseeable circumstances that need to be accommodated between the parties. (sub. 72, p. 19)

## **4.4 Participating industry programs**

Participating industry programs are implemented by the AHC in accordance with the results of the strategic planning process. They reflect the interaction between the AHC's interpretation of its powers and functions, and industry priorities.

### **4.4.1 AHC's broad strategy**

Although the AHC's principal statutory object relates to overseas markets, it has focussed its efforts -- in addition to domestic promotions -- primarily on the domestic scene. This approach reflects a belief that the domestic production and market structure must be put right before serious exporting effort can be considered:

The structure of the horticultural industry, across virtually all of its sectors, coupled with distributional systems that reflect the geographical isolation and historical origins of the industry rather than contemporary marketing procedures, is central to the industry's competitive disabilities. The resolution of these disabilities requires a long term, dedicated, and planned program of structural change and marketing reorientation if an internationally competitive industry is to develop. (sub. 24, p. 3)

### **4.4.2 Program development and negotiation**

Notwithstanding the AHC's priorities, industries are in a strong position in bargaining with the AHC on the content of industry programs by virtue of effectively controlling the size of the levies they pay. The AHC's perception is that some sections of participating industries consider that the AHC should be servant to the industry's wishes. WAFGA said:

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The AHC must remember that they are there to serve the needs of industry, not to dictate to industry ... The AHC has too much say and control over grower funds and even though directed at times by industry bodies does not necessarily use funds as requested. (sub. 43, p. 5)

Although the AHC's philosophy is to develop and implement programs derived from industry priorities, it views the relationship as one of a partnership between the AHC and the industry. The AHC believes that Government funding plays an important role in maintaining the independence of the AHC (sub. 24, p. 35).

The actions which the AHC can undertake for an industry are, nevertheless, limited by the AHC's interpretation of what is consistent with its statutory objects and functions. Whilst some participants felt that the AHC had too much power -- chiefly those who had been pressed into membership by the rest of their industry -- others complained it lacked power, or was unwilling to use it. The Australian Citrus Growers Federation (ACGF) stated:

Many of the grower-organisation representatives within ACGF consider that the major factor in the Federation's decision to join AHC was an understanding (many would say undertaking) that it would provide regulation perceived as necessary if not essential to improve/co-ordinate/control export marketing of fresh citrus. Those growers now see the export licensing system implemented by the AHC from 1 January, 1991 as a 'watered down' version of what was understood from meetings leading up to ACGF's decision to join the Corporation; many growers believe citrus export licensing lacks teeth and effectiveness. (sub. 33, p. 2)

#### **4.4.3 Program content**

Total expenses for participating industry activities in 1990-91 amounted to \$2.4 million (see Appendix F), for which the major items are presented in Table 4.2.<sup>1</sup>

Examples of program contents given in the AHC's Annual Report 1990-91 are presented below.

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<sup>1</sup> This figure excludes corporate cost recovery charges and levy collection costs (see Appendix F). the amounts in Table 4.2 do not represent full program costings, being drawn from Annual Report rather than management accounts.

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Table 4.2: **Cost of participating industry activities, 1990-91, \$ '000**

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Domestic marketing	1 677
Export marketing	288
Market research	111
Corporate communications a	175
Other	149
<b>Total</b>	<b>2 400</b>

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a Includes Apple & Pear News, industry meetings and conventions.  
Source: AHC Annual Report 1990-91.

### *Domestic promotion*

The domestic strategy is to promote individual horticultural products, but to exploit synergy by building consumer awareness of all AHC products. The focus is on educating consumers about the selection, seasonality and use of the individual fruits. Techniques used have included point of sale material, advertising on television and in magazines, and 'advertorials' (editorial style advertising). A joint nashi/Stilton cheese promotion has been conducted in stores and shopping centres. New point of sale material was developed and produced for mandarins and nashi.

### *Export promotion*

For exports, the AHC's strategy is to undertake promotion programs in selected overseas markets for individual products. Future promotional work will maintain the strategy of restricting activity to the point of sale and targeting those markets where there is a long-term sustainable opportunity for Australia to develop and maintain a reasonable market share. Once the AHQCS is fully operational, the emphasis will be on ensuring reliability of supplies and generic promotions. It is hoped to achieve some synergy in these individual product promotions by creating a favourable image for Australian horticultural products generally.

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Promotional activity for apples and pears in Singapore and Malaysia has centred on key supermarkets and market places, using point-of-sale material and other promotional aids, where possible tied into general "Australian" promotions involving other Australian food companies. Illuminated taxi roof tops signs have been used in Singapore where display advertising is restricted. An almost identical program was organised for citrus.

In Hong Kong apple and pear promotions have been organised with major retailers, again linking up with general Australian promotions, but a greater emphasis has been placed on consumer events, including cooking competitions, social club promotions, recipe sponsorship, special projects aimed at children, youth and the health conscious, underpinned by ongoing media communications.

Trade functions, attended by Austrade, key importers, wholesalers and retailers, were held in Singapore, Malaysia and Hong Kong in March 1991. The purpose of the functions was to outline industry marketing plans for Australian apples, pears and citrus with promotional support provided by the AHC. Trade promotion activity in North America involved participation in the Australian Fresh Produce exhibit at the Produce Marketing Association Conference and exhibition in New Orleans in October 1990. The exhibition was a joint initiative by the AHC, Austrade and the NSW Department of Agriculture and Fisheries.

In February 1991 the assistant editor of the major European horticultural trade publication *Eurofruit* visited Australia at the AHC's invitation, resulting in a 16 page profile of the Australian industry in the journal's March issue. Marketing of Australian pears in Europe in May and June was supported by advertisements in *Eurofruit*, aimed at the import trade. (AHC 1991, p. 25)

In the case of the nursery industry, the priorities the industry established in its strategic planning all related to the domestic market. Consequently, that industry's programs are oriented to the domestic market (sub. 102, pp. 17-18). The AHC does, however, ensure that export issues are canvassed in the development of industry strategic plans.



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### *Export licensing*

Export licensing, administered by the AHC, presently applies to apples and pears, citrus, and nashi. Under the Australian Horticultural Corporation (Export Control) Regulations, all licensees are obliged to:

- participate in approved export programs;
- actually export the horticultural products specified in the licence during each twelve month period;
- undergo assessment of financial standing;
- pay licence fees; and
- provide the AHC with periodic written export returns.

In addition, terms and conditions for export trading of particular products are laid down in the relevant Corporate Permission (an example is found in Appendix G). The application of those conditions can be confined to specific destinations. Only licensees complying with the Corporate Permission are allowed to export those products. Corporate Permissions cover such things as:

- the quality which may be traded;
- terms of sale (eg, consignment, forward, guaranteed advance);
- terms of payment (eg, timing, letters of credit);
- allowable commissions; and
- allowable importers.

### *Market intelligence*

A national trade and consumer study was commissioned by the AHC for the nursery industry. It was the first national industry study undertaken, and will be the foundation for development of plans and marketing strategies for the industry. A national consumer survey on fresh fruit and vegetables was also co-ordinated by the AHC. The pome fruit and citrus industries contributed to it.

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The AHC is using its database to develop industry profiles for participating industries, examining Australian production and distribution patterns, and industries in competitor export countries.

### *Shipping*

The AHC helped co-ordinate the negotiation of shipping freight rates to South East Asia, Europe, and North America. In response to concerns by pome fruits over service to the Northern Hemisphere, the AHC agreed to study the logistics and costs involved in chartering part or whole vessels, particularly for pears ex-Victoria.

#### **4.4.4 Funding responsibilities**

Each industry is said to be responsible for meeting the costs incurred by the AHC in implementing its agreed programs. These encompass any costs directly attributable to the industry, including salaries and on-costs of AHC marketing staff in proportion to time spent (see Appendix E). No overheads are built into the AHC's time charge.

The financial resources the industry has decided to make available (through levies) determine how much the AHC is able to do; industry objectives will be addressed only if assigned a high enough priority relative to other objectives. Industry levies to the AHC range from the equivalent of 0.13 to 1.21 per cent of gross value of production for those industries. The AHC would prefer to see a minimum levy equivalent to 1 per cent of gross value of production for each industry (sub. 24, p. 34-5).

Under Ministerial Guidelines, industry peak bodies can request funding out of the levies on their industry for the organisation's secretariat and consultations with the AHC. In the 1991-92 financial year, the Australian Nashi Growers Association received \$11 500, and the AAPGA \$46 500.

The AHC does not allocate Government funds to product-specific marketing programs (sub. 102, p. 39). Notwithstanding this, participating industries do benefit from Government funding in that their contributions to overheads are insufficient to meet the corporate costs of the AHC. The extent of this shortfall cannot be definitively determined, since these overheads also pertain to sector wide activities. The AHC stated:

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Costs are jointly incurred for both participating and non-participating industries and it is therefore inherently difficult to estimate what proportion of Corporate costs are attributable exclusively to participating industries. (letter to Industry Commission, 5/6/92)

The HPC commented:

It is not clear from [the AHC's] accounts to what extent Commonwealth funds are being spent on industries which are members and are also used in the development of organisational structures of industries that are perceived by the AHC to be potential members. (sub. 96, p. 8)

Nevertheless, were the Government's funding -- originally described as seed money -- not provided, the participating industries would have had to contribute more. The amount required would be less than the present Government funding, as participating industries would not be expected to pay for sector wide programs and costs associated with recruitment.<sup>2</sup> If the Government wished those sector wide and recruitment programs to continue, it would need to fund them specifically, incorporating an appropriate contribution to the AHC's overheads.

One approach would be to collect higher corporate cost recovery charges (in dollar terms). The AHC noted that if industries raised their levy contributions to its proposed minimum of 1 per cent of gross value of production for each industry, corporate costs contributions would amount to \$1 million, based on the present corporate contribution formula. When allowance is made for sector wide activities, this would be more than enough to replace Government funding.

Another approach would be for the AHC to recover overheads by building an overhead component into its time charges. A private consulting firm would do this on the basis of what the market would bear -- possibly charging different rates to different customers in response to different levels of competition. Given the relationship between the AHC and its participating industries, a fixed rate would be more appropriate.

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<sup>2</sup> Although strategic planning costs are recoverable from future levies, this is only if the industry decided to join. Even then, there will be a financing cost. Further, the AHC would have incurred costs in identifying and soliciting potential participants prior to the strategic planning stage.

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Although any allocation of indirect costs would be arbitrary, some method for partitioning overheads would need to be arrived at for costing Government funded programs. In this respect, the HPC remarked:

... The Council considers that more can be done by the AHC to make publicly transparent how, in particular, it spends the Commonwealth's contribution and to make an assessment as to who benefits from that expenditure, whether they be participating industries, non-participating industries or horticulture as a whole. (sub. 96, p. 8)

It is, however, unclear that participants would be prepared to meet the full costs of the AHC. The AAPGA stated:

There is concern in the industry about the AHC overheads when, and if, Government funding is withdrawn and if there are insufficient participating industries to cover them and maintain them at current realistic levels. The apple and pear industry would no doubt seriously consider its continued participation in the Corporation if overheads rose significantly. (sub. 25, p. 4)

The AHEA submitted:

Some industries, in particular apples, pears and citrus, are seriously divided as to whether or not they should continue with AHC. If government funding was seriously reduced, or levies significantly increased, we believe continuing membership of AHC by some industries would be in doubt. (sub. 13, p. 5)

WAFGA submitted:

Growers should not be expected to provide funding for the Administration of the AHC. (sub. 43, p. 6)

## **4.5 Fee-for-service**

Although it was originally intended by Parliament that, for most industries, the AHC would operate on a fee-for-service basis (funded by voluntary contributions), little use has so far been made of this facility. The extent of domestic promotion undertaken on a fee-for-service basis in 1990-91 is presented in Table 4.3.

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Table 4.3: **AHC fee-for-service work, 1990-91, dollars**

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Kiwifruit	10 888
Chestnuts	3 367
Asparagus	2 885
Mangoes	286
Total	17 426

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Source: AHC, submission 102, p. 40.

The kiwi-fruit industry has been a previous fee-for-service user, and is presently interested in joining the AHC and thereby contributing by way of a levy. The chestnut industry was unable to join in time for 1990-91, but was able to use the AHC's services for trade and consumer activities, funded by voluntary industry contributions.

The ways in which the AHC has charged for its fee-for-service work have varied, according to its commercial judgement. In anticipation of a possible increase in fee-for-service work, the AHC is currently re-evaluating the basis for its charges.

## **4.6 AHC initiated activities**

Although the Act places all horticulture within the AHC's domain, the requirement for a co-operative, industry driven approach and the need for finance have limited most activities to those sponsored by levy paying industries. Consequently, the bulk of the AHC's activities are those developed, financed and carried out in conjunction with the relevant industry.

Nevertheless, the AHC has some capacity to act on its own initiative in ways it considers beneficial to all horticultural industries. The AHC's expenditures on these 'marketing programs' are outlined below. In addition, the AHC incurs costs in fulfilling its corporate functions.

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Total AHC expenses not attributed to participating industry or fee-for-service programs amounted to \$1.75 million in 1990-91. This amount was equal to approximately 40 per cent of total expenses (see Appendix F).

#### 4.6.1 Sector wide marketing programs

The AHC gives the cost of implementing sector wide marketing programs in 1990-91 as \$653 000 (see Table 4.4).

The AHC's accounts for program costs differ in structure from those it uses for Annual Report purposes. Accordingly, program budgets supplied by the AHC do not readily reconcile with the figures appearing in Appendix F, which are based on the Annual Report.

Table 4.4: **AHC sector-wide marketing programs, 1990-91, \$ '000**

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Quality	174
Domestic marketing	99
Export marketing	40
Market research	31
Market access	20
Food safety	15
Marketing salaries and on costs	274
<b>Total</b>	<b>653</b>

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Source: AHC correspondence.

These programs have been funded from the Government's contribution -- \$1.03 million for 1990-91. (The remainder of that money helps fund corporate costs -- see section 4.6.2.) Consequently, the future of those programs is dependent on continued Government funding. Participating industries are not prepared to fund sector wide activities, being reluctant to fund even combined promotions (see section 5.8.9). The Australian Macadamia Society said:

... The Corporation, quite correctly, is active on behalf of the total industry in areas such as quality, market access and raising Australia's international horticultural image. The onus should not fall on participating industries to fully fund these initiatives. The macadamia industry, therefore, recommends that continued Commonwealth funding be made available to support the AHC's industry wide marketing programs. (sub. 99, p. 2)

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Further details of sector wide programs are outlined below.

*The Australian Horticulture Quality Certification Scheme*

Resulting from a proposal by the HPC, the AHC is developing the Australian Horticulture Quality Certification Scheme (AHQCS). The purpose of the scheme is to provide formal recognition to businesses with quality management systems conforming to the requirements of an internationally accepted quality systems standard (ISO 9002). The AHQCS is administered by the AHC through the AHQCS Management Committee. Participation in the AHQCS is voluntary.

The AHQCS is not involved in mandating specific product quality standards. Rather, it focuses on assuring buyers that a quality control system of sufficient credibility is in operation to ensure the product specifications agreed to in a particular contract can be adhered to consistently: an AHQCS logo will indicate that the supplier's quality assurance system complies with ISO 9002. How the AHQCS is applied to a business can vary with circumstances, but involves the firm's quality management system being inspected by an independent third-party and certified to a recognised standard. The AHQCS represents a change in approach from the industries' previous reliance on mandatory Australian Quarantine Inspection Service end-point inspection for quality.

The scheme became operational on 1 July 1991. Guidelines for specific horticultural industries to meet ISO 9002 have been published by the AHC, and are being used by industry. The AHC forecasts that twelve major pack-houses will participate and three will be certified in 1992 (sub. 102, p. 28).

AHQCS expenses for 1990-91 consisted of \$174 000 in establishment costs. Total establishment costs are estimated at \$400 000 over three years, over 40 per cent of which is accounted for by consulting fees (letter to Industry Commission, 5/6/92).

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### *Domestic marketing*

The AHC's expenditure of \$99 000 on sector wide domestic marketing in 1990-91 was for: public relations, travel, and representation, \$77 800; promotions, \$17 600; and corporate communications, \$3 600.

### *Export marketing*

Sector wide export marketing expenditure of \$40 000 in 1990-91 includes the costs of international travel and representation associated with the promotion of Australian horticulture (eg, participation in international trade fairs). It also includes \$11 400 for the production of a fruit and vegetable buyers' guide in conjunction with Austrade.

### *Market research*

In addition to market research undertaken as part of participating industry programs, the AHC maintains general market intelligence and statistical data for all horticulture. Most of this program's \$31 000 cost in 1990-91 consists of annual amortisation charges on horticultural database software of \$24 000. The other major component was \$5 000 for a market research project commissioned to gauge further opportunities for Australian horticultural exports to South East Asia.

### *Market access*

The Market Access Committee (MAC) was established in 1989 by the AHC on behalf of the HPC. It comprises key industry and some government representatives. The function of the MAC is to priorities efforts for market access. To date, this has meant establishing priorities where government to government negotiations on quarantine barriers offer opportunities for market access to Australian horticultural produce. As a member of the MAC, the Australian Quarantine Inspection Service has taken the recommended priorities as a guide to the expenditure of resources on negotiating with quarantine authorities in other countries. The MAC has found that trade and infrastructure impediments to imports are more significant than phytosanitary barriers in increasing exports of Australian horticultural products (AQIS sub. 51, p. 3).



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Costs of monitoring and pursuing market access amounted to \$20 000 in 1990-91.

### *Food safety*

The AHC incurred costs of \$15 000 during 1990-91 in assisting the establishment of the Fresh Product Foundation to monitor developments pertinent to food safety issues on both domestic and export markets. The AHC is on the executive management committee of Fresh Produce Foundation.

## **4.6.2 Administration**

Corporate costs were put by the AHC at \$1.1 million for 1990-91 (see Table 4.5).

Table 4.5: **AHC corporate costs, 1990-91, \$ '000**

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Board and related costs	338
Rent	183
Operations and administration	584
<b>Total</b>	<b>1 105</b>

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Source: AHC correspondence.

Industries contribute to the AHC's corporate costs through the 'corporate cost recovery charge' (see Appendix F). These charges totalled \$357 000 for 1990-91. Under the terms of the draft memorandum of understanding, the charge is equal to 12 per cent of the first million dollars of levies (net of collection costs), plus 10 per cent of the second, plus 8 per cent of any subsequent revenue (see Appendix E). This system means that industries paying a large amount of levies will contribute relatively less of their levies to corporate costs.

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The dried fruits industry pays a lower rate of corporate costs contribution, in recognition of the activities its Product Board will undertake in its own right which, for other participants, would be provided by the AHC. The Australian Dried Fruits Board pays an amount based on a proportionate share of the costs of operating the AHC Board of Directors, including the Managing Director's remuneration. The proportionate share declines as the number of industries participating in the AHC increases.

Corporate cost recovery charges are presently insufficient to cover corporate costs, the deficit being funded from the Government contribution. Government contributions to the AHC are not appropriated by Parliament for specified purposes, but are pooled with the industries' corporate cost recovery charges to form corporate funds. Therefore, it is not possible to specify how Government money is spent, other than to identify activities which do not cover their own costs.

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## 5 EFFECTIVENESS OF THE AHC

The terms of reference request the Commission to report on the effectiveness of the Australian Horticultural Corporation (AHC) in increasing the international competitiveness of Australian horticulture. The Commission interprets this to mean whether actions of the AHC result in the value of sales of Australian horticulture consistently being higher than they otherwise would have been, in the face of competition from overseas sources.

This interpretation would ideally:

- identify international competitiveness in terms of selling profitably in the face of competition from overseas sources;
  - encompassing both domestic and export sales;
  - considering volume, value and gross margins of sales; and
  - taking a long term perspective;
- focus on the extent to which changes to international competitiveness can be attributed to the actions of the AHC -- taking account of what might have happened had there been no AHC;
- consider the breadth of the sector, not simply those industries participating in the AHC; and
- address the motivation of firms in an industry to exploit profitable opportunities.

### 5.1 Identifying changes in international competitiveness

The Commission considers that sustained, profitable export selling should be the focus of this assessment. Fostering exports is the primary task Parliament gave the AHC (see Chapter 3). Moreover, many participants in this inquiry claimed that the profitability of any significant expansion in production will depend on the expansion of exporting activity. Imports of fresh

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horticultural produce are small, and generally relate to off season or niche markets. Although processed horticultural products are an important outlet for the Australian horticultural sector, the AHC's ability to influence their competitiveness is limited because no food processing industries participate in the AHC.

Competitiveness in export markets is generally harder to achieve than competitiveness against imports. A domestic producer has advantages over importers in the home market due to perishability of the product, transport costs, quarantine rules, established distribution networks and 'local knowledge'. Of course, these same factors tend to protect domestic producers in other countries against Australian exports.

However, barring a significant and broadly-based surge in exports which is demonstrably attributable to the AHC, it is difficult to envisage circumstances where the Commission could confidently make an assessment that, over its relatively short life, the AHC had increased the competitiveness of Australia's horticultural exports. The reasons for this are discussed below.

## **5.2 The measurement problem**

A critical problem lies in establishing from trade data that a sustained increase in exports has occurred.

The quantity of horticultural produce available for export from Australia, and world prices, fluctuate considerably from season to season, mainly because of supply variability. Strong harvests in Australia tend to drive down domestic prices, causing more to be exported. Similarly, a temporary surge in the value of exports could occur as a result of poor harvests overseas resulting in high export prices and causing product to be diverted from the Australian domestic market.

Conversely, an increase in Australian horticulture's underlying level of international competitiveness could be disguised. A glut on world markets would tend to reduce Australian exports and possibly increase import penetration. Although reduced production or marketing costs in the industry may moderate the setback, this is unlikely to be recognised. Also, a decline in one part of horticulture may be part of a restructuring which, in the longer term, boosts international competitiveness (eg, a movement out of 'commodity' production into higher valued product).

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### 5.3 Attributing changes to the AHC

A sustained increase in exports may not be solely attributable to the AHC. The first step in such an assessment would be to link the increase in exports to actions of the AHC which increase demand for the Australian products, reduce the costs of supplying them relative to competing sources, or otherwise facilitate supply to overseas markets.

Demand increasing activities could include product improvement, product promotion, and establishing new markets. Product improvement would be directed at making the product more attractive in itself. This could entail: a higher quality product being grown and harvested; improvements in storage and handling so as to maintain the quality of the product until it reaches the buyer; and responsiveness to market preferences for variety, appearance, taste, etcetera. By increasing the promotability of the product, such activities could be seen as a precursor for a promotion campaign.

Product promotion could entail raising the profile and image of Australian produce, emphasising features which should appeal to local tastes, or educating consumers on how to select and use the product. Development of new markets could be the result of market research, or the removal or overcoming of some previous impediment (eg, local protection, quarantine).

Supply cost reductions increase sales into a market by allowing more to be offered at a price which is profitable to sellers and attractive to buyers. Supply cost reductions can occur at any point along the production chain. Alleviating non-price obstacles (eg, unavailability of cargo space) has essentially the same effect as a reduction in cost. Sources of supply side improvements could include elimination of inefficiencies (eg, in handling), technical improvements in harvesting, storage and handling, improvements in infrastructure, and the elimination of pests through research efforts.

Were it possible to link such actions of the AHC to some increase in exports, allowance would have to be made for the contribution of others. Independent entrepreneurial effort is likely to arise as part of any development of an industry which increases production. The need to market

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production which is consistently in excess of domestic requirements might therefore create more openings for specialized exporters independently of the AHC. Alternatively, the structure of the industry might change to one more compatible with long term export commitment (eg, large packing sheds selling under their own brand).

The AHC, however, questioned the extent to which such evolution could be relied on as a means of increasing international competitiveness. Further, it claimed that even where private enterprise does make a substantial contribution, the AHC may have a role in that:

It is now widely accepted in the industry, and in Government, that the essential changes that are necessary will not occur "spontaneously" within the diversity of industry sectors. A catalyst and driving force is necessary. This is the role of the AHC. (sub. 24, p. 3)

For the AHC to be considered effective within the meaning of the terms of reference, it is not necessary for its activities to have been the unique cause of any increase in international competitiveness. Supplementing or facilitating the initiatives of private enterprise could potentially be of significant benefit. However, in using such an assessment of the AHC's effectiveness to determine the additional benefit the AHC has brought to the community, regard must be had to what may have taken place in the AHC's absence. In this respect, Australian Joint Citrus Exporters (AJCE) stated:

... the AHC claims achievements such as conducting strategic planning workshops, introduction of a quality certification scheme, seeking access to foreign markets and negotiating shipping rates. This tends to imply that until the AHC came into existence these kind of activities were not undertaken. Australian citrus was being exported for decades before the AHC was conceived, and since it is self-evident that the industry must be competitive to remain viable in overseas markets, issues such as quality, market access, shipping costs and many others have been addressed by the industry on an ongoing basis as part of our normal commercial activities. (sub. 88, p. 2,)

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## 5.4 The timing of change

For data on exports to be used to assess the effectiveness of the AHC, they would have to cover the period during which AHC activities could reasonably be expected to have borne fruit. Available trade statistics cover the period up to June 1991. The AHC, however, was only established in August 1988. The Australian Nut Industry Council submitted:

It would seem too early to expect a rational evaluation of an organisation such as the AHC with such long term and difficult objectives. They have certainly identified probably the most important strategic issues which to address, however, any programs which may have been implemented would not have had time to impact let alone be evaluated. (sub. 98, p. 9)

Moreover, the relevance of the AHC's early activities for an assessment of its present organisation was questioned. The AHC, itself, perceived that its early days were hampered by a lack of understanding of its functions: a fear that it was 'part of a plot to nationalise the horticultural industry' -- forcing it to concentrate on 'mending fences' before working on achieving benefits (AHC 1991, p. 7). The Australian Apple and Pear Growers Association (AAPGA) alluded to a 'major personality problem' -- since resolved -- in the relationship between the industry and the AHC during this period (sub. 25, p. 2). A consequence of this problem appears to have been a lack of direction from the pome fruit industry to the AHC (sub. 25, p. 6). The Western Australian Fruit Growers' Association (WAFGA) said: "The first two years of the AHC were disastrous and should not be included in any evaluation of the performance of the AHC" (sub. 43, p. 6).

The HPC said:

The Council believes that it is too early to assess the achievements and effectiveness of the AHC. The Council understands that the AHC had encountered a number of problems in its initial establishment phase due to inappropriate staff appointments and in formulating a clear definition of where the organisation was heading. This was complicated ... by the fact that there is a long lead time to establish levy arrangements in this fragmented sector. ... Nevertheless, despite the slow start, the recent work of the AHC demonstrated the organisation's effectiveness. (sub. 96, p. 10)

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## 5.5 Extent of AHC influence

It is also important to recognise the incomplete coverage which the AHC has over the horticultural sector. Whilst the AHC considers it is approaching a coverage of 50 per cent by value of all horticultural production (see section 3.5), it remains predominantly an organisation for fruit producers. The terms of reference suggest a desire for a growth in exporting which is based more broadly than on the traditional horticultural exporting industries. Although the AHC does engage in sector wide activities, it would be hazardous to attribute any changes in the competitiveness of horticulture as a whole to the AHC.

Also, the AHC's efforts are small, relative to total Government and industry funding for horticultural activities which the AHC claimed to be of the order of \$110 million (see section 4.2). On the basis of money spent, these other activities are likely to be collectively more significant determinants of the sector's competitiveness than the efforts of the AHC. Further, the AHC's impact is affected by the willingness of industries to accept AHC proposals.

## 5.6 Acceptance by industry

One alternative approach the Commission has considered is to examine the horticultural industries' acceptance of the AHC's services. The extent to which horticultural industries are prepared to pay for what the AHC does could be an indicator of its effectiveness. The AHC itself suggested this criterion as a basis for its effectiveness. However, there are a number of difficulties with this approach.

The participation of a significant portion of growers in the AHC's levy paying industries is either lukewarm or they contribute under protest. The all-in:all-out rule limits the scope levy payers have to express discontent, since parts of industries cannot threaten to opt out. Conversely, the failure of an industry to join the AHC cannot necessarily be interpreted as a vote of no confidence, since the need for a national peak industry body limits the range of industries which are eligible to participate. Although elements from non-participating industries could engage the AHC for fee-for-service work, it is often difficult to confine the benefits of such work to those who contribute to the cost, reducing the attractiveness of such arrangements.



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That being said, more industries did decide to join the AHC in its third and fourth year of operation, and several more are currently evaluating whether to do so. If the AHC's early period is ignored (as some participants suggested) then potential participants have only had those two years to observe its operations. Further, the strategic planning process entails a significant lag between first expressions of interest, and a final decision to join -- arguably an industry which is in this process is provisionally in the AHC. If the new participants' experiences are satisfactory, further recruitment could reasonably be expected. Also, other industries may be motivated to become more organised, allowing them to make use of the AHC.

However, the significance of the willingness of industries to participate in the AHC is qualified by the fact that participating industries do not meet the full costs of the AHC, and there is doubt that they would be prepared to (see section 4.4.4). Government funding of AHC overheads may make membership of the AHC attractive relative to an (hypothetical) alternative industry based arrangement. Indeed, the Government contribution was described to Parliament as "presenting significant savings for participating industries in the early years" (Jones 1987, p. 321). Another consideration is that the range of activities the AHC can engage in is broader than those addressed by the terms of reference. In particular, the major use made of the AHC has been for domestic promotion (see section 4.4.3) which is only indirectly linked to international competitiveness. The limited amount of fee-for-service work that has been done so far has also been focused on domestic promotion. Thus a willingness to participate in the AHC may not be associated with a perception that doing so will increase that industry's international competitiveness relative to similar products from overseas sources, but rather with respect to domestically-sourced substitutes.

Moreover, the AHC has a captive market for its services, given that an industry can raise a compulsory levy to finance promotion only by having the AHC spend the money on its behalf. Thus, under present arrangements an industry's willingness to pay a levy for the industry's own promotional activities cannot be distinguished from its willingness to pay for the AHC's services.

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## 5.7 Participants' views on the terms of reference

Participants generally sought to evaluate the effectiveness of the AHC by focussing on the benefits to them of particular activities (see section 5.8), finding difficulty assessing the effectiveness of the AHC in the narrower meaning addressed by the terms of reference. The AAPGA stated:

The international competitiveness of the pome fruit industry is gradually changing and there is currently more thought, and in some cases action, given to exporting. Other than in Tasmania it could not be described as a concerted export drive but rather a move to fill niche markets. Whether this develops into more consistent and a larger volume of exports remains to be seen. We could not quantify what part the AHC has played in this but we believe it has had a degree of influence. (sub. 25 p. 9)

In contrast, the Tasmanian Apple and Pear Growers Association and Tasmanian Licensed Fruit Exporters said:

Tasmania has always maintained a consistent policy that the concept of Government Statutory Marketing Authorities, or similar (eg, AHC) cannot provide any effective, real practical aid to the industry both in export and domestically. The real problems facing exporters of apples and pears from Australia are, we believe, beyond the scope of the AHC (sub. 23, pp. 3,4)

The Horticultural Policy Council (HPC) submitted:

The Council believes that some of the recent increases in horticultural exports and increased market access for Australian horticultural products overseas can be attributed to the work of the AHC, although it is not possible to identify to what extent increased export sales can be directly attributed to AHC marketing and promotion. (sub. 96, p. 10)

AJCE said:

Our submission on the specific question is that, since it was established, the AHC has achieved nothing of which we are aware which has increased the international competitiveness of the Australian citrus industry. (sub. 88, p. 2, emphasis in original)

The Australian Horticultural Exporters' Association (AHEA) said:

There has not been an improvement in our costs since formation of AHC. (sub. 13 p. 9)

In response to the AJCE and AHEA, the AHC submitted:

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The Corporation does not accept the criticism that it has been ‘ineffective’ on export markets and has outlined in considerable detail to this inquiry that *sustainable* export competitiveness can only be achieved by a substantial change in the horticultural industry’s approach to the totality of growing, harvesting, grading/quality certification and marketing of its production. (sub. 102, p. 18)

## 5.8 The Commission’s approach

The Commission has concluded that the only reasonable approach to assessing the effectiveness of the AHC in relation to the international competitiveness of horticulture is to examine whether the activities it engages in are conducive to that end. In adopting this broader approach, the Commission recognises the relatively short period the AHC has been operating, and accepts, in principle, the judgement that a long term, broadly based, improvement in international competitiveness is dependent on the existence of appropriate domestic structure and practices. Whilst not necessarily increasing sales in the immediate term, activities which promote such foundational changes increase international competitiveness in a dynamic sense.

The AHC did not offer direct evidence of its having increased the value of sales of Australian horticulture. Rather, it submitted:

Because the AHC is a *non-trading* [statutory marketing authority (SMA)], direct performance measures, such as the growth of sales in specific industry sectors or by the AHC itself, are often inappropriate and emphasis needs to be placed on indirect measures and performance indicators. (sub. 24, p. 44)

The AHC presented seventeen indirect performance indicators which it used to assess its effectiveness. These are reproduced in Appendix H. In seeking to demonstrate its effectiveness through these indicators, the AHC has relied predominantly on showing that its activities have been conducive to increasing international competitiveness.

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### 5.8.1 The AHC's broad strategy

The appropriateness of several of these performance indicators depends on the AHC's focus on an industry working nationally, through a peak body. In support of that approach, the AHC submitted: Through the strategic planning process, all participating peak industry bodies have adopted a more pro-active corporate approach and are now starting to provide a national and international focus for their industries ... For the first time industries have a vision for their future, the objectives they wish to achieve, and the strategies for their implementation. (sub. 24, p. 46)

The HPC believed that industry participation in the AHC will:

... ensure the development of common approach or direction in the Australian horticultural sector, which is presently lacking. (sub. 96, p. 7)

Some participants have indicated that they would prefer to work independently of the AHC (and, by inference, of a co-ordinated national strategy) and have demonstrated an ability to do so. The Queensland Government reported:

The existence of a peak State horticultural body has enabled a significant degree of organisation and achievement to occur at the State level, however a national industry perspective is more difficult to generate. (sub. 91, p. 21)

Batlow Fruit Co-op (BFC) questioned the need for each individual industry to have a peak body in order to be covered by the AHC, believing the role of the AHC should be expanded to cover all sections of horticulture (sub. 105, p. 8).

What is of concern to the Commission is that, in attempting to raise the international competitiveness of a whole industry, the AHC might impede the competitiveness of the most efficient producers through the burden of levies, charges and regulation. The Australian Citrus Growers' Federation (ACGF) advised the Commission:

Growers have a range of views on AHC powers. At one end of the scale is the opinion that there should be extensive powers and they should be widely used and effectively enforced. Others take the view that a deregulatory political environment is unlikely to support any heavy handed approach and on that basis go on to question involvement with the AHC. ACGF experience is that use of such powers is unequivocally rejected by most citrus exporters who assert AHC can achieve nothing they can't do equally well or better themselves. (sub. 33, p. 3)

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Regulation potentially imposes a cost on all firms, including those that already conform to the standards being regulated. While for those firms it imposes a cost with no immediate benefit, there may be an indirect benefit if others are prevented from engaging in activities which impact adversely on them. Viewed from this perspective, export licensing -- or any regulation -- might be in the broader interests of those who feel regulation harms them. But whether excluding or limiting competition from others increases international competitiveness is another matter. The case for export licensing is discussed further below.

The Commission appreciates that many of the AHC's other activities will be of little or marginal benefit for established exporters. However, the issue the Commission is asked to address is whether international competitiveness for horticulture as a whole is being increased. If the AHC's approach has a limited adverse effect on some efficient firms, this would not necessarily be inconsistent with its effectiveness in raising international competitiveness generally.

The following sections discuss the extent to which AHC activities might be conducive to increasing the international competitiveness of Australian horticulture.

### **5.8.2 Strategic planning**

Strategic planning plays a pivotal role in the AHC's approach, and was generally well received. The Australian Avocado Growers' Federation stated:

Benefits for the industry have included the fact that we are now beginning to focus beyond the farm gate. It has also provided the Federation with direction so that we are in a position to focus on the industry as a business. (sub. 44, p. 1)

The Australian Macadamia Society said:

Through the strategic planning process, which the AHC co-ordinated, the macadamia industry has been able to identify a range of objectives and priorities where the AHC has a role, including:

- implementation of market research programs at trade and consumer levels, both domestically and internationally;

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- implementation of a program to expand domestic consumption based on quality assurance to support company branding;
  - development of a cohesive export structure based and promoted around quality assurance; and
  - implementation of total advertising, promotion and PR program based on market research and quality. (sub. 99, p. 1)

WAFGA was happy with the planning stage of the strategic planning process, but expressed doubts about the prospects for its conclusions being implemented:

The Industry Workshops were successful in discerning from industry a future policy and plan, but the overall success will be gauged by the follow up action. Industry and/or the AHC will need to find enough suitable people to carry out those policies without putting the full load onto growers. Currently, the emphasis is on growers being involved at all levels, but there are too few willing to take up the load and those few have properties to maintain. (sub. 43, p. 4)

The AHC considers that strategic planning benefits individual firms. The example was given of two participants from key export businesses in one State which were led to consider merging their operations to achieve greater economies of scale and better opportunity to develop export markets (sub. 24, p. 46).

### 5.8.3 Quality

The AHC placed particular importance on the issue of quality, saying:

All participating industries now recognise that quality is an essential pre-requisite to marketing. Because Australia is a high cost producer, quality will be essential for profitable marketing. (sub. 24, p. 47, emphasis in original)

The HPC named "superior quality product" as a factor crucial to the long term success of Australia's horticultural exports (sub. 96, p. 3), a view also expressed by the AHEA.

The AHC's emphasis on fostering quality lies in its Australian Horticulture Quality Assurance Scheme (AHQCS), rather than measures to raise the quality of produce *per se*. Quality assurance need not, of itself, mean a higher quality product, since the product quality assured could be of relatively low 'budget' standard. However, effective quality assurance is an integral component of any scheme to raise quality.

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If importers see Australian produce as variable in quality, they might offer a lower price than they would to suppliers of more homogeneous produce of similar average quality, based on the need to allow for the possibility that a shipment will turn out not to be what they had wanted. Further, if foreign consumers perceive Australian produce as being of poor, or unreliable quality, they will not be prepared to pay as much for it as for produce which, although appearing similar, comes from a more reliable source.

The The Australian Horticultural Growers' Council (AHGC) saw quality assurance as possibly facilitating the introduction of 'sale by sample', thus avoiding the need to centralise produce at markets (sub. 67, s. 4.3.6). The Murray Valley Citrus Marketing Board (MVCMB) stated:

A single, commonly used logo or brand, supported by a quality assurance management accreditation is seen as essential to build a good reputation overseas. (sub. 63, p. 4)

A number of participants did not see the need for them to be involved in the AHQCS. These participants were typically established exporters who felt they were already catered for. The Queensland Citrus Sectional Group Committee said:

The Queensland industry has had its own quality assurance schemes operating in various pack-houses long before the AHC was born. Admittedly they are not "quality assurance" schemes in the true sense of today's definition, but they have a growing list of satisfied and repeat buyers to their credit. (sub. 22, p. 5)

In a similar vein, the Tasmanian Apple and Pear Growers Association and Tasmanian Licensed Fruit Exporters said that, because of the small size of their home market, they must sell into the more competitive export market and market forces -- rather than any formalised scheme -- required them to assure the quality of their product.

In replying to such comments, the AHC suggested that the concept of quality assurance and the nature of the AHQCS -- which focuses on attesting an establishment's quality assurance system -- were being misunderstood.

WAFGA remarked:

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Much emphasis is being placed on Quality Assurance, but growers are yet to be convinced that this is worth the effort and expense, although recently a representative of the AHC did address growers in WA on the matter. (sub. 43, p. 3)

The AHC responded:

Some respondents to the Industry Commission have described AHQCS as a "Rolls Royce" scheme. The fact is that to meet the increasing demand for quality assured products from international customers, programmes that can be certified under AHQCS or equivalent will have to be developed. (sub. 102, p. 26)

The Horticultural Research and Development Corporation acknowledged that the cost of implementing the AHQCS was one of the main impediments to its adoption by business. It has provided financial assistance of \$200 000 for the purpose of introducing the scheme to selected commercial establishments, covering a range of products, on a trial basis, and hopes to continue to do so.

Although the AHQCS is only one possible way of pursuing quality assurance, it does provide an important way for firms to focus on quality, and to establish a quality assurance system which complies with international standards. The existence of effective quality assurance, associated with promotion of an associated logo, can protect Australia's reputation overseas by providing a means for buyers to be confident they will get what they order.

#### **5.8.4 Export licensing**

Growers tended to favour export licensing, whereas exporters tended to oppose it. Conditions for export licensing are outlined in section 4.4.3 and an example of a Corporate Permission notice is given in Appendix G.

##### *Australia's reputation*

One possible rationale for export licensing is the potential for a 'fly by night' trader exporting poor quality fruit to harm the reputation of all exporters. The MVCMB complained of 'opportunists' exporting poor quality fruit, or poorly handled fruit, which they felt disadvantaged committed exporters.



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Prohibiting the export of lower grades of fruit, however, prevents Australia servicing markets for such produce. But an importer's main concern would not be the quality of the produce *per se*, but whether what was ordered was what would be delivered. Whether it would be economical for Australia to export lower quality grades of produce than those allowable under export licensing conditions can only be determined by the transacting parties. The development of quality assurance under the AHQCS weakens the case for export licensing for quality control. Further, committed exporters have the opportunity and incentive to develop trust with importers; their own brand names become their guarantee of quality.

New importers and consumers may be attracted by a favourable reputation for Australian produce, and may be deterred from considering it by a bad reputation. On this basis, export licensing of quality may offer benefit to Australia by facilitating the expansion of overseas markets. Against this must be weighed costs in the form of fees paid by exporters for licensing and in complying with requirements (eg, preparing returns), and the possible loss of export market opportunities in lower quality produce.

#### *Terms of sale*

Export licensing prohibits sale on consignment to most overseas markets. The MVCMB associated consignment selling with market instability and poor quality produce:

[Consignment selling has] perhaps the potential to oversupply a market [with] the effect that ... the product ... becomes old and unsightly and can spoil in the market place. (Melbourne Public Hearings 23/3/92, p. 268)

The ban on consignment selling may also reflect grower concerns that their interests are not consistent with those of commissioned exporters. Under forward selling, growers are better able to assess in advance the profitability of exporting.

However, tying exporters' hands in this way risks making them uncompetitive. If a potential buyer really is in a position to switch to a cheaper source, an exporter may do best to accept a lower price. Also, buyers in a fluctuating market may be unwilling to accept the risk of a forward sale, especially where consignments are available from other sources.

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The South Australian Government saw a degree of selling at risk as an appropriate element of an export development strategy:

A common Australian approach of selling forward on fixed prices (fob or cif) in Australian dollars does not generally foster export growth. Balanced risk sharing and commitment between exporters and importers is required. (sub. 94, p. 8)

The AHC's export licensing conditions do not generally allow consignment selling, the exception being sales to Europe where market forces oblige exporters to do so. The ACGF commented:

Supplying some overseas markets (a minority) with citrus -- and probably other produce as well -- offers no alternative to 'at risk' arrangements. Supply pressures might influence decisions to ship on those terms or -- perhaps more likely -- an historical record of satisfactory, even at times lucrative, returns. Mostly, though, 'at risk' or 'consignment' marketing is anathema to citrus growers. (sub. 65, p. 7)

Adopting a general rule of no consignment selling implies that the value of the lost opportunities is small relative to the benefits of a stable overseas market. It also assumes the presence or absence of consignment selling in those markets is determined by Australia, rather than exporters from other countries.

#### **5.8.5 Market research**

The AHC cited market research efforts initiated by it, with the support of other organisations (eg, the Horticultural Research and Development Corporation), which it believed to be the first major studies undertaken by Australian horticulture. The AHC sees these studies as providing benchmarks for the industry to address, as well as playing a role in developing an export culture by encouraging production to be driven by what the market wants rather than what growers have traditionally produced. Market research can also inform producers on likely prices (eg, in response to estimates of production from other sources), to guide their production and marketing decisions.

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The HPC considered the AHC to have been active in ‘obtaining and disseminating market intelligence’ for both participating and other horticultural industries (sub. 96, p. 5). The MVCMB cautioned:

Market intelligence comes from a variety of sources in Australia and overseas. Without additional resources it may be unrealistic to expect the AHC to be the major point of information. The specific parameters of "who does what" do, however, need to be more clearly defined to avoid duplication of effort and expense. (sub. 63, p. 4)

### **5.8.6 Communications**

Information about supply and demand characteristics is clearly important in any marketing strategy. However, some participants felt that information was not being effectively communicated. BFC submitted:

... the real area of concern is probably the dissemination of information back to industry participants, resulting in the lack of knowledge about what the AHC is achieving by those who are paying for the AHC. (sub. 105, p. 8)

The AAPGA was satisfied with AHC communications overall:

Representatives of the AHC attend all of our quarterly Executive meetings and we are well informed of their activities as they are with our requirements and activities. (sub. 25, p. 9)

In its 1990-91 Annual Report, the AHC acknowledged that there were often examples of the communication process not working as effectively as it would like, identifying the area as a major priority. In addition to maintaining close links with the executive of each participating industry peak body the AHC has established targets of visiting each major production area for each participating product as least once a year (sub. 102, p. 11).

The AHC saw industry peak bodies as also having a responsibility for AHC communications:

A challenge for many industries is communication between their peak national body and State, regional and local affiliates, with ramifications for the AHC consultative programs. (sub. 102, p. 11)

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This view was also put by the AHGC:

... to function effectively the AHC must have clear and effective communication with those product groups it is representing. The organisations themselves must have communication with grass roots growers in order to promote confidence in the proposed programs. (sub. 67, p. 7)

The AHEA was critical of the AHC's communications with exporters:

Where the AHC has got involved in export promotion, principally in South East Asia, there is never any real consultation with exporters. (sub. 13, p. 8)

In response, the AHC stated:

It has been the AHC view that the most effective means of co-ordinating promotions in South East Asia is through the importers and wholesalers in key markets in Singapore, Malaysia and Hong Kong. ... However, the AHC has noted the exporters' remarks and will consult with them, through AHEA, on recommendations they may wish to make on promotion. (sub. 102, p. 13)

### **5.8.7 Export promotion**

Notwithstanding its principal statutory objective, the AHC has not emphasised export promotion in its activities. Costs of export marketing activities accounted for only 6 per cent of sector wide marketing plans, and 12 per cent of industry specific programs.

WAFGA commented that Western Australia was heavily dependent on export, and it was disappointed with the AHC's efforts in this area:

There is an ignorance or lack of interest by the AHC as to the specific needs of the various States, especially to their priorities in the area of export. This State is heavily dependent on export and the WAFGA has funded and undertaken many exercises in evaluating overseas markets, in an effort to improve that competitiveness, be it apples, pears or stone fruit. ... There seems to be a lack of interest in overseas promotion and evaluations and these activities don't appear to be readily supported. (sub. 43, p. 4)

However, the Australian Nut Industry Council submitted that the AHC's introduction of industries to export markets was, of itself, sufficient to consider the AHC a success. (sub. 98, p. 9)

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The AHC explained the low priority given to export promotion in terms of its broad strategy for the sector:

While the role of the AHC is principally directed towards achieving a greater level of exports of horticultural products it believes that this objective cannot be effectively achieved for a primary industry by simply engaging in "export promotions". The future of horticultural marketing, both domestically and particularly internationally, requires the *sustainable* production of quality-certified goods, packaged and identified with internationally standardised descriptions, and promoted and delivered to the relevant markets at those times which secure the greatest competitive advantage for the Australian crop cycle. (sub. 102, p. 2; emphasis in original)

This attitude was supported by some participants. For example, citrus grower M Woodford remarked:

There can be no solid export performance without a properly organised local base. (sub. 2, p. 4)

Nevertheless, the HPC submitted that the AHC should still have exporting as its primarily focus:

... the Council is of the view that the AHC should concentrate its activities on export promotion; the provision of assistance to the horticultural sector to maximise export potential was the impetus for establishing the AHC and should be the principal, over-riding focus of its activities. (sub. 96, p. 10)

BFC, although a successful exporter, contested the appropriateness of the AHC's export oriented focus:

[In the AHC's corporate plan] there is an overcommitment to export markets at the expense of improving domestic market sales. Areas such as product quality, distribution and presentation require much more detailed assessment and review before such extensive attention is devoted to export requirements. We feel, that at least with the products we handle, export is an adjunct to our domestic marketing programs and will continue to be treated as such provided it is a reasonably economic alternative to our domestic market. (sub.105, p. 9)

AHEA felt the generic promotion of horticulture by the AHC was, in most instances, not an effective strategy:

We believe Australian horticultural products should be promoted individually, rather than as a group. ... The Australian percentage market share of most overseas markets is so small large scale promotional cost is frequently not justified. (sub. 13, p. 5)

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The Commission accepts that, in principle, export promotion has the potential to increase international competitiveness of Australian horticulture and the welfare of the community. The appropriate level of such promotion is, however, difficult to judge. Whereas product specific export promotion budgets are set in consultation with, and financed by, the industry concerned, this discipline does not apply with respect to the promotion of Australian horticultural exports which are not product specific. Rather, the extent of such promotions is determined by the AHC's judgements on how best to spend its Government funding. Further, because the AHC's accounts do not make an allowance for overheads in program budgets, Government funding for export promotion (or any other program) will be understated.

The Commission accepts that the AHC's priority for improving the structure and practices of the domestic industry is appropriate. However, the main competition for funds faced by export promotion is domestic promotion.

### **5.8.8 Domestic promotion**

The Commission is concerned by the extent to which the AHC is involved in domestic promotion on behalf of participating industries. Such promotion programs have the potential to displace consumption of one horticultural (or other food) product with another, rather than improving the international competitiveness of horticulture as a whole. One participant, FJ Siviter, commented:

Sales promotion or advertising is largely wasted. If the consumer buys more apples it is usually at the expense of oranges or bananas. The best sales promotion and unpaid is the present push toward more fruit and vegetables in the diet; towards less junk food, and better health. (sub. 6, p. 2)

In opposition to this view, the AHC submitted:

Market research has shown that fruits are perceived by consumers as being convenience or snack products and that this is the market they are competing with. For vegetables, they are competing with other foods. For example, potatoes are competing with pasta and rice and promotion programmes need to be developed with these factors taken into consideration. (sub. 24, p. 27)

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BFC considered the AHC should use industry funds for branded as well as generic promotions:

The generic type of promotion undertaken by the AHC, for example with apples, is an essential part of presenting the product to the public, but our outlook differs in some aspects as we have differentiated our product. Rather than generic promotion of a product, we need to extend that to provide adequate support for our own brand in the market place. (sub. 105, p. 8)

WAFGA disputed the value of the AHC's campaigns:

With the current promotional activities the AHC have been funding, a higher levy would not achieve increased net returns. There is little faith in their previous campaigns and although award winning in presentation, they did little to sell fruit. The monies spent on the national promotion campaigns to date should be redirected to consumer information, product knowledge both at retail and consumer level and user friendly quality manuals for retailers and packers. (sub. 43, p. 3)

The Commission does not dispute the legitimacy of domestic promotion of horticultural products. Such promotion can have an important informational role -- particularly for new varieties and products -- as well as balancing the effect of promotion by competing product groups. Whether it is cost effective is a matter for the industry concerned to judge. Also, the Commission notes the intention of Parliament that levy money be used for domestic promotion, and the difficulty most industries would face in raising a voluntary contribution for promotional purposes.

However, the Commission considers that the use of Government funds to subsidise such campaigns is not in the interests of Australian industry or the welfare of the community. Given that domestic promotion is the predominant component of participating industry programs, this is effectively what happens so long as those industries do not meet the full cost of the AHC (after allowing for sector wide activities).

Further, the Commission does not accept that product-specific promotion campaigns are necessarily best left to the AHC. Indeed, in Parliament it was stated that the Minister anticipated that the bulk of any activity taken on domestic promotion would be delegated to Product Group Committees (see Appendix C2.2), so as to "... free the [AHC] Board to focus on the broader, general, export policy issues" (Jones 1987, p. 320).

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Nor does the Commission accept that, given the diversity of Australian horticultural production, such campaigns are best done on a national basis. The AHC allows up to 10 per cent of the national domestic promotion budget to be reallocated to States or regions so that they can undertake specific promotions (sub. 24, p. 28). However, WAFGA remarked:

... some promotional activities can only be carried out successfully by State organisations and the AHC should foster and encourage these rather than being so blatantly negative. (sub. 43, p. 5)

The HPC said:

... the AHC should adopt a two tiered approach to promotion, concentrating its activities on overseas markets, with the aim of increasing Australian horticultural exports, and to co-ordinating domestic promotion with professionally based State/regional organisations. (sub. 96, p. 9)

Nevertheless, if the AHC is able to offer promotions which are superior, or generate cost savings through combining promotions, participating industries may find it in their interests to choose the AHC as their promotions manager. Indeed, industries such as kiwi-fruit have done so by purchasing fee-for-service promotions.

The Commission does, however, accept the need for a mechanism -- such as an overseeing body -- to ensure that industry bodies which have statutory backing, or have been given/devolved funds which are raised through a statutory levy, operate in a manner consistent with such legislation.

### **5.8.9 Sectoral and generic promotions**

The AHC supported the promotion of horticulture as a whole, partly as a foundation for more product specific campaigns:

The Corporation has also worked with the Australian United Fresh Fruit and Vegetable Association in examining the feasibility of a national "Five-A-Day" Campaign, similar to that undertaken in the United States, where the objective is to double per capita fruit and vegetable consumption to five servings a day by the year 2000. The Corporation believes there is an opportunity for the industry to maintain an overall profile for horticultural products by featuring the key consumer attributes of taste, nutrition, health and well being and combining this with the specific product profiles that are based on seasonality and key product benefits. The challenge in gaining industry support for this program is that participating industries seek that their funds are spent only on their product. (sub. 24, p. 27)



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The United Farmers & Stockholders of South Australia (UFS) submitted that generic promotion should be restricted to participating industries:

In an ideal world, the UFS Horticulture Executive would favour generic promotion of Australian horticultural products rather than generic promotion of specific products on the basis that product promotion within horticulture merely varies market mix rather than increasing market share. However, in the absence of [a sector] wide commitment to quality assurance, the AHC is only prepared to promote product groups rather than Australian horticulture. Under these circumstances generic promotion by AHC should only be available to participating industries.

The Commission does not consider itself to be the appropriate body to assess the cost effectiveness of advertising programs, but accepts that such promotions are an appropriate interpretation of the AHC's statutory functions. It does, however, note the AHC's implication that the future of sectoral promotions is effectively dependent upon Government funding and AHC initiative.

#### **5.8.10 Export trading powers**

Although the AHC's export trading powers have never been used, several inquiry participants expressed strong concern about their mere existence. The AAPGA had joined the AHC on the understanding that the power would only be used if there were general support from the industry. Notwithstanding this, the power was said to remain 'a complete anathema' to the industry (sub. 25, p. 1). The AHEA viewed the presence of the power as an obstacle to co-operation between exporters and the AHC "which has the power to put them out of business" (sub. 13, p. 4). Although there has been no evidence of any intention to do so, the AHC could use the export trading power in conjunction with its export licensing power to monopolise a market for itself.

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The AHC seeks to retain the export trading power on the basis that circumstances may arise where an importing country requires trading to be undertaken through a statutory marketing authority (sub. 102, p. 21). The HPC suggested Iran 'or other command economies' as possible cases. The HPC believed that the export trading powers may also be useful for developing specific overseas markets -- those where private Australian traders have not yet established a foothold for certain products and in which it may be difficult for individual traders to establish themselves through lack of resources, expertise, etc. The HPC's view was that the export trading powers should be retained with the proviso that the Minister consult also with exporters when assessing whether there is general support from the industry for their use (sub. 96, p. 5).

As the circumstances in which the export trading powers would be used have apparently been made clear by the Minister, the concerns of some participants about the use of those powers could be allayed by circumscribing their use in the Act.

### **5.8.11 Market access**

Participants generally considered that government negotiation for improved access to overseas markets was important for increasing exports. The AHEA said:

Access to foreign markets such as Taiwan, Korea, Philippines, Japan and China (by working with [Department of Foreign Affairs and Trade]) is another area where a statutory body could have an advantage. ... free enterprise exporters shipped pears to Taiwan as far back as 1974 but the business ceased because of Taiwanese restrictions which were largely political. (sub. 13, p. 6)

However, it did not feel the AHC had much scope for success in this regard:

If [section 7(1) of the AHC Act] is the AHC's prime objective, then it has failed to have any great impact. Exports of fresh fruit and vegetables have declined in value in real terms since. Australian industry has continued to lose market share with many products in Europe and has virtually no new markets to expand into. For instance:

- Quarantine and political issues have restricted entry into Japan, Taiwan, Korea, Canada, USA, the Philippines and Indonesia;
- Tariffs have restricted entry into Thailand, Taiwan and Indonesia;

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- Currency controls have restricted entry into the Philippines, India and Pakistan; and
  - Quotas have restricted entry into Taiwan.

All of these impediments to trade are issues that have to be raised at Government to Government level by [Department of Foreign Affairs and Trade], Austrade and [Department of Primary Industries and Energy]. While the AHC has tried to get involved in these negotiations, it can only have a peripheral impact and perhaps help to generate some commercial interest in a country where imports are restricted. (sub. 13, p. 6)

Others participants (eg, WAFGA), along with the HPC, considered the AHC had played a positive role. The Australian Vegetable Growers' Federation stated that the Market Access Committee (MAC) (see section 4.6.1) had "advised industry groups on the requirements of specific markets" (sub. 86, s. 4.3.10). The AAPGA commented that the MAC could only have a limited, but beneficial role in improving market access:

Whilst to date there may have been few successes, Taiwan is one, there is hope for the future if Government is also prepared to play its role. Most of these types of problems can only be finally resolved on a Government to Government basis. A lobby group, if it can be called that, can only hasten the process and assist. (sub. 25, p. 7)

However, the Commission was advised that some fear the MAC could favour particular interests over others:

There is a view that the influence of the AHC at a national level is detrimental to the interests of other industries and hence some states. An example of this is the Market Access Committee formed with the support of [DPIE], HPC and HRDC to advise on the priorities of quarantine issues. The Queensland industry generally considers that this group does not have adequate representation for such a role or a procedure in place to allow it to give unbiased representation to interests of all industries. (Qld Govt sub. 91, p. 21)

### **5.8.12 Shipping rates**

The AHC claimed that the apple and pear shipping negotiating committee, for which it provides the chair and secretariat, has been able to achieve savings of \$686 642 for its industry. The AHC also stated that shipping rates for pome fruits from Western Australia to South East Asia for the first time are now lower than those for vegetables.

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The HPC said:

... the Council believes that the AHC has played an important role in negotiating competitive freight rates for Australian horticultural exports. Unlike some of Australia's larger commodity exports, such as wheat and wool, the average consignment size of horticultural exports has generally been relatively small and, as a result, securing competitive freight rates has been more difficult for individual exporters. The AHC, as the single representative of the horticultural sector, has been able to present a more unified sector wide approach to freight negotiations than individual exporters were previously able to do.

The ACGF advised the Commission that, in an early confrontation, growers had wanted AHC involved in shipping rate negotiations, but exporters had not (sub. 33, p. 3). However, the AHEA told the Commission it accepted the idea of participation by some statutory body in shipping negotiations in conjunction and co-operation with the industry concerned. But they attributed reductions in some freight rates to the experience and contribution of exporters to the negotiations (sub. 13 pp. 4,9).

BGP International submitted:

Shipping discussions are generally handled by exporter bodies and the AHC has not added much in this area. (sub. 83, p. 3)

The AAPGA commented:

The AHC has played an important role in co-ordinating shipper, grower and exporter organisations in freight rate negotiations. Numerous groups have claimed success in negotiating lower shipping freight rates, including the AHC, but regardless of who achieved what, there has been a better organised effort and most of the credit for this must go to the AHC. (sub. 25, p. 7)

### **5.8.13 Food safety**

The AHC submitted that market research has identified food safety as an important issue for consumers, and one with respect to which Australia enjoys a favourable reputation.

The Australian Vegetable Growers' Federation commented:

Australia is recognised as a 'clean' country, capable of providing fresh produce free of contamination. This image needs to be reinforced and promoted as a positive selling advantage. (sub. 86, s. 4.3.11)

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In addition to its role in the Fresh Produce Foundation (see section 4.6.1), the AHC was a point of contact for the Australian Consumers Association, which subsequently signed a joint pesticides charter with the AAPGA.

The Commission accepts the benefit of maintaining and promoting food safety as an attribute of Australian horticultural production. Because the food safety issue is closely associated with those of generic promotion and quality, it is appropriate for the AHC to be involved in the Fresh Produce Foundation, provided this is in accordance with other priorities for the AHC's resources.

#### **5.8.14 Economies of size and scope**

The AHC has the potential to be involved in the marketing of a broad range of horticultural products. This prompts the question of whether the presence of the AHC is conducive to the generation of economies of size (unit marketing costs declining as the volume handled of a certain product increases) and scope (unit marketing costs declining for reasons associated with the range of activities and products handled).

The AHGC said:

There continues to be scope in many product sectors for economies of scale, especially in the areas of post harvest handling, storage, transportation and marketing. These opportunities will only be developed when there is a greater level of co-operation and co-ordination within and between sectors. (sub. 67, s. 4.1.2)

The Davis Committee considered that the small size of horticultural industries made single industry SMAs inappropriate (see Appendix C3). It is relevant to ask, therefore, whether the AHC has generated economies in administrative costs for its participating industries. To the extent that horticultural industries have aspects in common, economies can also arise from co-ordinating specific industry activities (eg, promotion).

HPC said:

Rather than having a number of smaller SMAs, the AHC was established which enabled the cost of providing common services to be shared by all member industries, while still allowing scope for the provision of industry specific services. (sub. 96, p. 6)

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The Australian Nut Industry Council said:

There are economies of scale to be achieved with an organisation extending across many organisations all in the one industry. (sub. 98, p. 9)

AHEA said:

We submit that the AHC needs more time to establish that a single national organisation will satisfy a multitude of industries. We believe it has not as yet generated any real economy of scale from a combination of industries. (sub. 13, p. 7)

In addressing the matter of economies, the AHC tended to play down the importance of administrative economies as a rationale for industries to participate:

The key issue is that there are marketing economies in increasing the number of industry participants. Export and domestic promotion are a case in point. With export promotion the AHC has been able to achieve a significant economy through combined advertising in Singapore for apples in the March-August period, followed by citrus from September through to January. These savings were achieved as a result of the combination of the two products over an extended season, rather than having to arrange the two promotions individually. ... Membership of the AHC is expanding because an increasing number of industries have identified the benefits of participation. Economies of scale are not a reason in themselves for participation, but they are one of the benefits that accrue from joining the AHC. (sub. 102, p. 4)

The Commission's view is that there are potential economies of both size and scope that can be reaped through the activities of the AHC. For example, apart from those mentioned above, reductions in transport costs ought to be possible as a result of co-ordinating shipments. Actions which might not be considered profitable for a single industry might be profitable if undertaken on behalf of several industries. An example would be retaining a representative in importing countries to facilitate market access for Australian products.

However, there may be diseconomies of scope associated with the AHC extending its activities to industries which are narrowly defined on small volume products. Certain services are as costly to provide for small volume industries as for large volume industries (eg, negotiating on quarantine requirements) and may yield a very small benefit/cost ratio when extended to small industries.

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### **5.8.15 Rationalising industry organisations**

Another possible source of economies is through rationalising and co-ordinating the numerous government, industry and statutory organisations found in horticulture. For example, the HPC considered there should be greater co-ordination and closer consultation between the AHC and the administrators/recipients of MSP grants. (sub. 96, p. 9)

However, the scope for the AHC to achieve economies in these areas is dependent on the willingness of other organisations to work with the AHC, or let the AHC take over some of their functions. The Bundaberg & District Fruit & Vegetable Growers Association said:

There is an overwhelming need for an organisation to co-ordinate a uniform approach to Australia wide horticultural matters. Unfortunately the numerous horticultural groups, throughout Australia, will work against this move to maintain their power base. (sub. 59, p. 2)

The Citrus Board of South Australia saw this as a transitional problem:

Overlap occurs where State SMAs and the AHC are reaching for similar goals independently. Once the AHC has established a permanent place in the industry and the Federal Government has acknowledged its role, it should be possible to replace duplicated effort and to develop complimentary roles. (sub. 64, p. 18)

The MVCMB, however, questioned the scope for rationalisation:

The number of organisations involved in the citrus industry does seem excessive, and whether all are necessary is constantly being questioned, especially by growers who usually fund them, either directly or indirectly. The business of growing and selling citrus, however, unavoidably involves so many issues that need attention that to dissolve any would only mean additional activities for others. Some issues are regional only and require regional bodies, while others are national. While a little overlapping does occur, every effort is made to avoid duplication. (sub. 63, p. 8)

### **5.8.16 Duplication**

Rather than viewing the AHC as a means of rationalising services to reduce duplication, some participants saw the AHC's role as being to complement existing activities whilst avoiding duplication. The UFS stated:

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... it is important that the AHC compliment the activities of participants in the food chain rather than usurping traditional roles. There is no case for duplication of effort. (sub. 57, p. 34)

UFS did, however, suggest that the AHC have "prime responsibility for establishing a global market information data base", notwithstanding the existing responsibilities of the South Australian Citrus Board (sub. 57, p. 36).

The Queensland Government submitted:

It would appear that prospects of increased participation will be enhanced if AHC is able to clearly demonstrate that additional benefits can be provided and that these will not overlap with existing activities of [the Queensland Committee of Direction]. (sub. 91, p. 21)

The Queensland Government supports the concept of AHC. There is a perceived need for a capability in tropical horticulture to be developed by AHC, and a clear role to be established, featuring exports, which demonstrates potential industry benefits and avoids organisational overlap. (sub. 91, p. 24)

The Queensland Citrus Sectional Group Committee, however, stated:

The citrus industry of Queensland firmly believes that where there is an agency or other body established at the state level for conducting the activities that the AHC now conducts, that money raised by levy and export charges should be returned to the state body to decide how best it may be expended. (sub. 22, p. 6)

Duplication of effort between the AHC and others makes it difficult to isolate to what extent any results would be attributable to the AHC. Exporter BGP International submitted:

The AHC has failed miserably in its efforts to achieve improvements in Australian horticultural exports. It has duplicated tasks being handled by other Government agencies and organisations and continually claims achievements that are not its own or that it had only a small part in. ... AHC has simply added another bureaucratic layer of people protecting their own jobs and trying to justify their activities. (sub. 83, p. 3)

Whether a decision by the AHC to enter a field will increase or decrease duplication will often depend on the response of other parties. Assessing the appropriateness of such a decision would therefore involve judgements about which organisation is best placed to address a particular matter (eg, freight rate negotiations, domestic promotions). The AHC is a small organisation, and the Commission is concerned lest, in the AHC's zeal to pursue opportunities to raise the international competitiveness of Australian horticulture, its efforts may become too diffuse.



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## 5.9 Assessment of effectiveness

The Commission has found that there is little *conclusive* evidence to show that the AHC has been effective in increasing the international competitiveness of Australian horticulture. However, many of the activities in which the AHC is engaged have the *potential* to be beneficial to Australian horticulture and are *consistent* with improving its international competitiveness.

Assessing effectiveness of the AHC in this context is not straight forward. One way of approaching the task would be to examine statistical data in an attempt to determine (a) whether Australian horticultural industries have been able to profitably expand their share of export markets and replace imports into Australia and, if that is so, (b) whether this can be attributed to the activities of the AHC. But available data are insufficient to support this approach.

Even if the data were sufficient to allow an assessment of profitable changes of export and import market shares, attributing causality to the AHC would be hazardous. A multitude of factors other than the activities of the AHC determine market outcomes. Also, the AHC has existed, in an operational sense, only for the last two years, for which no production or trade data have as yet been published. Most of the AHC's activities aimed at increasing international competitiveness, such as building customer confidence in Australia's ability to supply product meeting tight specifications, are unlikely to have had time to achieve their objectives.

Another way to assess the AHC's effectiveness would be to examine the willingness of industries to participate as members. However, some industries might choose to join the AHC for reasons other than their belief that it can increase international competitiveness. For example, joining the AHC provides a means by which industries can raise levies, the majority of which are spent on domestic promotion which is not directly focussed on increasing international competitiveness. Hence,

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preparedness to participate in the AHC's levy based activities is not a satisfactory indicator of its effectiveness in increasing international competitiveness. Indeed, industries may strongly support a national levy, but may be only lukewarm about the AHC being the body which spends the levy funds.

Alternatively, the effectiveness of the AHC could be assessed by examining the willingness of groups within industries to participate voluntarily through fee-for-service activities. Although it was initially intended by the Parliament that the AHC would operate largely on the basis of fee-for-service, the AHC has received very little support for these activities. But this may not indicate the ineffectiveness of such activities since they are probably subsumed within the services the AHC provides under its levy financed activities.

Because the Commission has not been able to use these relatively strong criteria to test the AHC's effectiveness in increasing international competitiveness it has adopted a series of weaker tests. These involved determining whether the activities undertaken by the AHC are consistent with increasing international competitiveness. Given the short time period the AHC has been operating and lack of data, this seemed to be a reasonable compromise approach.

The Commission is of the view that several activities undertaken by the AHC -- principally strategic planning, quality assurance certification, export promotion, market research, communication amongst participants, and freight rate negotiations -- have the potential to increase the international competitiveness of particular industries. The Commission considers that some other activities or approaches of the AHC are more equivocal in their effects on international competitiveness -- namely, the focus on industries through a single national peak grower body, export licensing and domestic promotion.

Of course, it should not be assumed that activities of the AHC which have the potential to increase the international competitiveness of horticulture would not be undertaken in the absence of the AHC.

The AHC's ability to be effective for horticulture as a whole is limited by the fact that as yet more than half of the production of the sector is outside its sphere of influence. The Commission is also mindful of the diversity of Australian horticulture and the parochial interests separating particular industries and producers within industries. This makes the role of the AHC in increasing international competitiveness a very difficult one.

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## 5.10 Government support

An issue which is closely related to that of the AHC's effectiveness in increasing international competitiveness is whether Government support for AHC activities should continue. At present this support takes the form of a statutory mechanism for collecting a compulsory industry levy, statutory backing for control over the terms and conditions under which exports are made, and partial funding of AHC activities.

Whether Government support should continue in the longer term, and if so what form it should take, are questions which will be canvassed in the Commission's broader report on horticulture. The terms of reference for the broader inquiry require the Commission to consider structural, regulatory and institutional factors which affect the efficiency and international competitiveness of horticulture. It would be more appropriate to discuss the future of the AHC in that general context rather than in this report.

Nevertheless, the circumstances in which the Commission has been asked to provide this early report suggest that the Commission's views on further Government funding, at least for the short term, would be relevant. When the AHC was established the Commonwealth Government provided seed funding of \$5.85 million for its first five years of operation. That commitment extends to July 1993 and it seems that, for budgetary reasons, the timing of a decision as to future funding will coincide with consideration of this report.

The level of funding which the AHC has received is not large relative to the value of all horticultural production (some \$3 billion per year) or compared with all government and industry support for horticultural production, market development and promotion programs (claimed by the AHC to be of the order of \$110 million per year).

The Commission proposes that Commonwealth Government funding of AHC activities be extended until July 1994.

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The Commission is not aware of development needs or priorities for sector wide activities for 1993-94, and is therefore unable to specify what the extent of Commonwealth funding should be for that year. However, the Commission proposes that the purposes for which the AHC uses any further funding should be limited and that there be stricter reporting requirements than in the past. Some \$1 million of the AHC's most recent budget came from the initial Government seed funding, but it is not clear from the AHC's published accounts how those Commonwealth funds have been deployed between core AHC activities, programs in support of existing industry participants, programs in support of developing new activities and participation, and sector wide industry support. The Commission proposes that in future:

- there be an explicit accounting for any Commonwealth funds used for AHC activities;
- Commonwealth funds be appropriated for specified purposes, after normal Commonwealth Budget expenditure review processes; and
- Commonwealth funds not be used to support industry specific activities of existing participants.

The Commission considers that any commitment to provide funding beyond July 1994 should only be made following consideration of the Commission's wider report on horticulture. This would enable a more thorough examination to be made of the various programs funded by the Commonwealth Government which support horticultural marketing (ie, the EMDG scheme, the MSP and the IAMP) than has been possible in this report. It would also allow a broader review of export licensing powers, the complementarities or trade-offs between research and development and promotion funding, the relative levels of spending on domestic and export promotion, and linkages between the raising and spending of levy funds.

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## **APPENDICES**

- A INQUIRY PARTICIPANTS**
- B EVOLUTION OF INTERSTATE AVIATION POLICY**
- C RURAL AIR SUBSIDIES**
- D OVERSEAS EXPERIENCE**
- E ANALYSIS OF INTRASTATE AIR FARES**
- F DEREGULATION AND THIN ROUTES**
- G PRINCIPLES OF EFFICIENT AIRPORT PRICING**

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## A INQUIRY PARTICIPANTS

This appendix lists the participants in the Horticulture inquiry. Because of the overlap of AHC and horticulture issues, no attempt is made to identify those which responded specifically to AHC matters. Participants that attended the initial public hearings to discuss their written submissions are indicated by "\*". Participants that attended the public hearings and did not submit written evidence are indicated by "#".

Agricultural & Veterinary Chemicals Association of Australia Ltd	54	
All States Group of Companies	37	*
Apple and Pear Growers' Association of SA Inc	89	
Association of Societies for Growing Australian Plants Inc	17	
Australian Apple & Pear Growers Association	25	*
Australian Avocado Growers' Federation Inc	44	
Australian Banana Growers' Council	103	
Australian Citrus Growers Federation	65	*
Australian Citrus Industry Council	93	*
Australian Dried Fruits Board	11	
Australian Fertilizer Manufacturers' Committee	12	
Australian Flower Growers' Council	74	*
Australian Honey Board	66	
Australian Horticultural Corporation	24, 102	*
Australian Horticultural Exporters' Association	13	*
Australian Horticultural Growers' Council	67	*
Australian Institute of Agricultural Sciences	20	
Australian International Business Centre	84	*
Australian Joint Citrus Exporters Pty Ltd, Central Burnett Exporters Pty Ltd Griffith Producers' Co-operative Co Ltd, and Queensland Citrus Export Committee	88	*
Australian Macadamia Society Ltd	99	
Australian Mango Exports Ltd	108	
Australian Nut Industry Council	98	*
Australian Quarantine and Inspection Service	51	
Australian Society of Horticultural Science Inc	26, 46	*
Australian United Fresh Fruit and Vegetable Association Ltd	45	*
Australian Vegetable Growers' Federation	86	*
Banana Industry Committee	77	
Barker, Green & Parke Pty Ltd	83	*
Batlow Fruit Co-operative Limited	105	
Beekeepers' Pollination Association	90	*
Better Beverages Pty Limited	18	
Bowen District Growers' Association	15	
Bundaberg & District Fruit & Vegetable Growers' Association	59	
Bureau of Rural Resources	7	*
Canned Fruits Industry Council of Australia	52	*
Carey, Mr Paul	29	
Cherry Growers of South Australia	58	*

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Citrus Board of South Australia	64	*
Coles Supermarkets	78	*
Considine, Prof John (University of Western Australia)	38	*
CSIRO - Division of Atmospheric Research	14	
CSIRO - Division of Entomology	30	
CSIRO - Division of Horticulture	34	
CSIRO - Division of Human Nutrition	27	
Curtin University of Technology	36	*
Dekeersgieter, Mr RF	5	*
Department of Agriculture (NSW)	41	*
Department of Agriculture (WA)	100	
Department of the Arts, Sport, the Environment and Territories	82, 97	
Department of Foreign Affairs and Trade	71	*
Department of Water Resources (NSW)	40	
Dunluce International Pty Limited	8	
Environmental Protection Authority (WA)	4	
Exotic Fruit Growers' Association Ltd	85	
Federal Council of Australian Apiarists Associations	72	*
Food Policy Alliance	42	*
Gerard Cassegrain & Co Pty Ltd	1	
Grow West	31	
Horticultural Policy Council	96	*
Horticultural Research and Development Corporation	47	*
Incitec Ltd	16	*
Kenez, Dr John E	9	
MacCallum, Dr DE	75	*
Marrows Estates Pty Ltd	19	
Maud Gibson Trust	81	*
MIA Council of Horticultural Associations	60	*
Mid-Murray Citrus Growers' Inc	35	*
Minnis, Mr David (Antico International Pty Ltd)	62	*
Murray Citrus Growers' Co-operative Association (Australia) Ltd	39	*
Murray Valley Citrus Marketing Board	63	*
New Zealand Fruitgrowers Federation	80	
Northern Territory Government	87	
NSW Farmers' Association	106	
Nursery Industry Association of Australia Limited	107	
Nurserymen's Association of Victoria	70	
Phosphate Co-operative Company of Australia Limited	56	
Plantex Australia Pty Ltd	101	
Presqualm Pty Ltd	10	
Qualturf Pty Ltd	#	
Queensland Citrus Sectional Group Committee	22	
Queensland Fruit and Vegetable Growers	48	*
Queensland Government	91	
Rural Industries Research and Development Corporation	104	
Siviter, Mr FJ	6	
South Australian Government	94	*
Standards Association of Australia	55	
Story Horticultural Services Pty Ltd	92	
Sumich Group Limited	95	*
Sunraysia Districts Citrus Co-operative Society Limited	49	

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Tasmanian Apple and Pear Growers Association and Tasmanian Licensed Fruit Exporters	23	*
Tasmanian Government	79	*
Tasmanian Stone Fruit Association	76	*
Tesselaar's Padua Bulb Nurseries	21	
Tree Crops Centre	73	*
United Farmers and Stockowners of SA Inc	57	*
Victorian Apple and Pear Growers' Council	50	*
Victorian College of Agriculture and Horticulture - Burnley Campus	32	
Victorian Farmers Federation – Flowergrowers Group	61	
Victorian Government	69	*
Victorian Horticultural Export Council	53	
Western Australian Fruit Growers' Association (Inc)	43	*
Wine Grape Growers' Council of Australia Inc	68	*
Winemakers' Federation of Australia	28	*
Woodford, Mr MJ	2	
Yuen, Dr Chris	3	



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## **B STATISTICS**

### **B1 Introduction**

Horticulture is a large, diverse sector of agriculture. As defined for the purposes of this report, it comprises fruit, nuts, vegetables and nursery products. Values and volumes of production and trade for the major product groups are summarised in the following tables. All production, export and import values (other than in Table B6) have been converted to 1989-90 dollars using the Gross Domestic Product deflator published by the Reserve Bank.

### **B2 Data problems**

A number of problems exist with horticultural statistics. The only Australia-wide source of statistics on production and trade is the Australian Bureau of Statistics (ABS).

The most consistent ABS data are the Input-Output Commodities Classification, used to estimate product details for the National Accounts. These allow comparisons across production, exports and imports. However, these are estimated only every few years (the last two occasions being 1983-84 and 1986\_87, with the estimation for 1989-90 not expected to be published until 1993) and they do not provide product cost data at a detailed commodity level.

There are a number of other problems with official estimates. Prior to 1986-87, the ABS Agricultural Census included all establishments with an estimated production value of \$2 500 or more. This estimated value was raised to \$20 000 for 1986-87 onwards. Because of the large number of small producers in most horticultural activities, this has a significant impact upon comparisons with subsequent statistics.

There are also some differences between industry and official estimates of production. In some cases industry data provided to the Commission are larger than official estimates. This may be due in part to the existence of a significant cash economy for many horticultural products which are not recorded in ABS statistics, and omission by the ABS of establishments with an estimated production value less than \$20 000.

**Table B1: Horticultural production, by state, 1989-90, by value, \$ million** <sup>a,b</sup>

Product	NSW	Vic.	Qld.	SA	WA	Tas.	NT	Australia
Fruit and nuts	276	233	288	138	52	34	3	1022
Grapes	86	141	5	147	11	1	2	392
Nursery production	169	105	86	18	47	16	4	444
Vegetables	191	347	389	165	110	120	6	1328
<b>Total</b>	<b>721</b>	<b>826</b>	<b>768</b>	<b>468</b>	<b>219</b>	<b>171</b>	<b>15</b>	<b>3187</b>

a Table excludes the ACT.

b Totals may not add due to rounding.

Source: ABS 1991a (Cat. No. 7503.0), p. 5.

**Table B2: Australian production of selected fruits and nuts, kilotonnes**

Product	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91
Oranges	376	410	392	445	496	523	486	409	500	465
Lemons/limes	41	36	32	47	46	45	35	37	38	40
Mandarins	29	26	36	30	34	34	35	39	41	45
Grapefruit, other citrus	31	31	31	31	35	33	33	30	31	28
Drying grapes	420	350	320	297	361	285	306	269	268	337
Wine grapes	500	431	495	559	509	506	490	609	571	516
Table grapes	23	27	26	34	38	46	49	52	48	49
Apples	295	301	267	352	288	328	305	328	330	292
Pears <sup>a</sup>	110	119	122	138	143	145	167	147	171	124
Avocados	na	9	11	17	17	9	12	13	13	14
Kiwifruit	na	1	1	2	4	8	10	3	5	5
Mangoes	na	na	7	9	13	17	8	6	10	18
Macadamias <sup>b</sup>	1	2	2	3	3	3	4	5	6	na

na Not available.

a Includes nashi.

b Year ended 31 March. Data supplied by the RIRDC.

Sources: ABARE 1992a (various tables); RIRDC (unpublished).

**Table B3: Australian production of fruit, nuts and vegetables,  
1978-79 to 1989-90, by value, \$ million (1989-90) a**

Product	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90
<b>Fruit and nuts:</b>												
Oranges	183	173	174	164	167	162	191	179	151	166	187	176
Lemons/limes	19	18	17	16	14	13	15	17	16	14	12	13
Mandarins	33	19	30	28	21	26	31	33	31	34	36	42
Other citrus	14	19	13	12	11	12	12	12	9	14	11	11
<b>Total citrus</b>	<b>248</b>	<b>229</b>	<b>234</b>	<b>220</b>	<b>213</b>	<b>212</b>	<b>248</b>	<b>241</b>	<b>207</b>	<b>228</b>	<b>246</b>	<b>243</b>
Apples	247	239	240	228	219	206	258	188	247	212	249	212
Pears b	78	81	84	56	69	70	73	86	94	89	67	79
<b>Total pomefruit</b>	<b>325</b>	<b>321</b>	<b>324</b>	<b>284</b>	<b>288</b>	<b>276</b>	<b>331</b>	<b>274</b>	<b>340</b>	<b>301</b>	<b>316</b>	<b>291</b>
Apricots	33	31	34	33	30	27	28	33	27	35	29	28
Cherries	23	13	20	24	13	13	16	13	13	16	15	17
Nectarines	8	5	7	8	7	8	8	10	12	15	18	17
Peaches	51	53	52	42	35	39	41	40	45	52	45	51
Plums/prunes	38	24	31	21	28	27	29	32	28	25	28	24
<b>Total stonefruit</b>	<b>153</b>	<b>126</b>	<b>144</b>	<b>128</b>	<b>113</b>	<b>115</b>	<b>122</b>	<b>128</b>	<b>124</b>	<b>144</b>	<b>135</b>	<b>138</b>
Table grapes	34	35	35	30	34	31	47	51	60	78	63	52
Wine grapes	173	180	168	172	147	177	193	151	141	201	297	238
Currants	15	16	11	18	11	10	11	14	11	9	7	10
Raisins	12	16	10	24	12	3	5	12	10	5	5	6
Sultanas	136	267	136	163	147	113	119	138	92	106	80	86
<b>Total grapes</b>	<b>370</b>	<b>514</b>	<b>360</b>	<b>408</b>	<b>351</b>	<b>333</b>	<b>375</b>	<b>365</b>	<b>314</b>	<b>400</b>	<b>451</b>	<b>392</b>
Bananas	125	102	120	113	116	133	135	137	156	137	142	182
Pineapples	45	45	40	38	42	40	48	44	53	48	47	41
Strawberries	20	22	17	18	18	19	19	21	23	23	24	27
Avocados	ns	ns	ns	ns	14	15	16	16	20	15	23	23
Macadamias	5	5	6	5	5	4	6	8	11	14	17	22
Mangoes	3	3	4	5	4	5	6	8	8	14	12	16
Almonds	6	6	11	9	11	8	10	15	18	19	13	14
Other fruit, nuts c	24	45	30	33	17	23	29	24	23	19	31	25
<b>Total fruit and nuts</b>	<b>1361</b>	<b>1418</b>	<b>1342</b>	<b>1260</b>	<b>1191</b>	<b>1181</b>	<b>1345</b>	<b>1282</b>	<b>1297</b>	<b>1362</b>	<b>1456</b>	<b>1414</b>
<b>Vegetables:</b>												
Potatoes	303	283	343	331	279	445	235	278	337	307	337	393
Tomatoes	142	143	152	145	160	156	154	140	141	137	152	171
Onions	59	55	92	95	53	79	68	57	70	73	111	88
Carrots	58	49	53	59	45	65	47	52	57	56	80	80
Mushrooms	36	38	37	40	45	45	53	59	63	71	69	79
Lettuce	41	44	49	41	42	44	44	49	50	50	56	58
Other vegetables	362	283	302	212	248	300	308	328	368	379	427	459

All vegetables	1002	894	1028	1016	920	1134	909	964	1086	1074	1231	1328
<b>Total fruit, nuts, and vegetables</b>	<b>2363</b>	<b>2312</b>	<b>2369</b>	<b>2276</b>	<b>2111</b>	<b>2316</b>	<b>2254</b>	<b>2247</b>	<b>2383</b>	<b>2436</b>	<b>2687</b>	<b>2742</b>

ns Not specified separately.

a Values converted to \$1989-90 using the RBA price deflator for GDP.

b Includes nashi.

c Includes avocados before 1982-83.

Sources: ABARE 1992a, p.71-73; ABS 1991a (Cat. No. 7503.0), p.11; RBA 1992.

**Table B4: Australian trade in fresh and processed fruit, nuts and vegetables, 1984-85 to 1990-91, by value, \$ million (1989-90) <sup>a,b</sup>**

Item	84/85	85/86	86/87	87/88	88/89	89/90	90/91
Exports	374	503	689	698	558	518	617
Imports	407	355	339	327	396	415	374
<b>Net [exports - imports] <sup>c</sup></b>	<b>-33</b>	<b>147</b>	<b>349</b>	<b>371</b>	<b>162</b>	<b>103</b>	<b>244</b>
Trade weighted index	65	56	57	60	59	62	60

a Legumes included.

b Values converted to \$1989-90 using the RBA price deflator for GDP.

c Net figures may not add due to rounding.

Sources: ABARE 1992a, p. 6; RBA 1992.

**Table B5: Trade in fresh and processed fruit, nuts and vegetable products, 1989-90, by value, \$ million <sup>a,b</sup>**

	Fruit	Vegetables	Nuts	Mixtures	Total
<b>Exports:</b>					
fresh	189	74	18	5	286
processed	89	13	1	7	109
<b>Total exports</b>	<b>278</b>	<b>87</b>	<b>19</b>	<b>12</b>	<b>396</b>
<b>Imports:</b>					
fresh	55	12	62	8	128
processed	68	164	3	24	235
<b>Total imports</b>	<b>123</b>	<b>176</b>	<b>65</b>	<b>33</b>	<b>396</b>

a Legumes are excluded. Fresh includes dried, fresh and chilled.

b Totals may not add due to rounding.

Source: ABS 1991d (Cat. No. 5434.0); ABS 1991e (Cat. No. 5435.0).

**Table B6: Fruit and Vegetable exports of selected countries, 1980 to 1990, by value, \$US million (1990) <sup>a</sup>; and annual growth rates <sup>b</sup>**

Country	1982	1983	1984	1985	1986	1987	1988	1989	1990	80-90
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Australia	299	288	250	238	300	409	477	453	411	3
Brazil	1030	1013	1976	1186	1070	1216	1543	1366	1778	5
Canada	446	418	406	364	389	478	528	499	559	2
Chile	370	323	422	517	679	701	786	791	1000	12
Indonesia	37	52	65	89	96	146	204	169	249	14
Malaysia	93	91	100	105	93	111	126	135	136	3
Mexico	577	478	721	696	1038	965	1013	925	1202	7
New Zealand	228	242	324	281	406	479	558	567	617	13
Singapore	207	205	214	198	181	193	222	212	219	0
South Africa	694	555	507	442	548	601	634	594	629	-3
Thailand	1468	1148	1220	1049	1211	1323	1449	1489	1521	1
United States	3708	3196	3079	2961	3218	3494	3987	4057	5380	0

a Derived by converting current values in \$US to \$US(1990) using US GDP deflators.

b Annual growth rates calculated using a log-linear regression; only larger values (say greater than 5) are significantly different from zero.

Sources: FAO 1990 (and previous volumes); IMF 1986, IMF 1991.

**Table B7: Selected fresh and semi-processed fruit exports,  
1980-81 to 1990-91, by volume, kilotonnes**

Product	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91
Oranges	25	28	21	28	32	48	47	28	33	42
Lemons/limes	1	1	1	1	3	3	1	1	1	1
Mandarins	5	4	4	2	3	3	3	2	2	3
Grapefruit, other citrus	0	0	0	0	1	1	1	-	-	-
Apples	33	33	25	19	30	29	34	18	23	28
Pears <sup>a</sup>	19	29	23	31	35	36	39	21	29	26
Avocados	na	na	0	0	0	0	0	0	0	0
Mangoes	na	na	0	0	1	0	1	0	1	1
Dried grapes <sup>b</sup>	40	58	58	56	54	58	41	53	37	33
Canned pears	24	34	17	25	23	31	26	24	23	34
Canned peaches	25	27	21	16	23	24	26	18	11	16
Canned apricots	3	2	2	1	1	1	1	1	1	2

na Not available. (-) nil (0) less than 500 tonnes.

a Includes nashi pears.

b Product weight or dry weight kilotonnes.

Sources: ABARE 1992a (various tables); RIRDC (unpublished).

**Table B8: Selected fresh and semi-processed fruit and nut exports, 1981-82 to 1990-91, by value, \$ million (1989-90) <sup>a</sup>**

Product	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91p
Citrus	21	26	20	24	32	41	40	24	27	40
Apples	35	26	21	17	24	28	31	17	19	21
Pears	26	30	25	31	38	44	39	20	28	25
Table grapes	na	na	na	na	na	35	45	22	20	17
Macadamias <sup>b</sup>	na	na	na	na	na	na	na	na	15	26
Canned peaches	27	23	20	17	26	30	31	23	12	19
Canned pears	26	26	17	26	24	38	30	25	23	36
Dried vine fruit	90	83	74	51	85	94	72	78	53	50

na Not available.

a Values converted to \$1989-90 using the RBA price deflator for GDP.

b AHC.

Sources: ABARE 1992b (and previous issues); AHC Sub. 24, p. 10; RBA 1992.

**Table B9: Fresh and processed vegetable production and trade, 1982-83 to 1990-91, by value, \$ million (1989-90) <sup>a</sup>**

	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Vegetable production	920	1134	909	964	1086	1074	1231	1328	1139
Apparent consumption <sup>b</sup>	962	1177	959	1025	1116	1093	1287	1432	1182
Imports	86	97	119	125	111	121	147	188	158
Exports	44	54	69	64	81	102	91	85	115
	%	%	%	%	%	%	%	%	%
Imports as % of apparent consumption			12	12	10	11	11	13	13
Exports as % of production	5	5	8	7	7	10	7	6	10

a Values converted to \$1989-90 using the RBA price deflator for GDP.

b Apparent consumption defined as production plus imports minus exports.

Source: ABARE 1992a (various tables).

**Table B10: Australian production and trade in nursery plant materials,  
1985-86 to 1990-91, by value, \$ million (1989-90) <sup>a</sup>**

	85/86	86/87	87/88	88/89	89/90	90/91
<b>Value of production</b> <sup>b,c</sup>	na	319	352	421	444	na
<b>Value of sales:</b> <sup>d</sup>						
Nursery plants and live plant material	na	228	na	na	270	na
Cut flowers	na	63	na	na	68	na
Cultivated turf	na	18	na	na	37	na
<b>Total sales</b>	<b>na</b>	<b>309</b>	<b>na</b>	<b>na</b>	<b>375</b>	<b>na</b>
<b>Exports:</b>						
Bulbs, tubers, cuttings, slips, live trees & plants, rhisomes etc			3.7	2.0	1.6	3.0
Orchids	1.1	1.7	1.4	1.5	1.0	1.1
Cut flowers, buds for ornamental purposes, excl. orchids			9.6	11.5	11.6	7.6
Foliage, branches etc, for ornamental purposes	0.1	0.1	1.3	0.8	1.1	2.1
<b>Total exports</b>	<b>9.0</b>	<b>15.0</b>	<b>16.0</b>	<b>15.8</b>	<b>15.2</b>	<b>13.7</b>
<b>Imports:</b>						
Bulbs, tubers, cuttings, slips, live trees & plants, rhisomes etc			1.3	1.3	2.4	3.0
Flowers, flower buds for ornamental purposes; orchids		4.4	4.7	6.6	9.5	7.5
Mosses, lichens & grasses for bouquets or ornamental purposes, foliage & branches of trees			0.2	0.4	0.5	0.5
<b>Total imports</b>	<b>7.1</b>	<b>5.9</b>	<b>6.2</b>	<b>8.3</b>	<b>12.4</b>	<b>11.0</b>

na Not available.

a Values converted to \$1989-90 using the RBA price deflator for GDP.

b Includes producing establishments with sales of \$20 000 or more.

c Excludes the ACT and Northern Territory.

d Value of nursery products sold during the period. Includes commercial establishments with sales of \$20 000 or more.

Sources: ABS 1991a (Cat. No. 7503.0); ABS 1991b (Cat. No. 5410.0); ABS 1991c (Cat. No. 7330.0).



**Table B11: Honey production and trade, 1980-81 to 1990-91, by volume and value, \$ million (1989-90) <sup>a</sup>**

	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91
	kt	kt	kt	kt	kt	kt	kt	kt	kt	kt
Production	25	22	25	28	20	19	23	23	21	na
Exports	13	15	11	17	15	12	12	14	13	11
Imports	na	na	na	0.1	0.1	0.1	0.2	0.4	0.6	0.6
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Production	33	27	29	31	34	39	38	31	26	na
Exports	20	21	17	24	23	21	19	18	16	15
Imports	na	na	na	0.5	0.4	0.4	0.7	1.1	na	na

na Not available.

a Statistics up to 1984/85 are based on operations with 40 or more hives and from 1985/86 on all returns received.

Source: Australia Honey Board 1991.

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## **C AHC LEGAL FRAMEWORK**

### **C1 Australian Horticultural Corporation Act**

#### **C1.1 Objects**

7. (1) The principal object of the establishment of the Corporation is to assist Australian horticultural industries to achieve their full potential in overseas markets.
- (2) The objects of the establishment of the Corporation also include assisting the development of Australian horticultural industries.
- (3) It is the intention of the Parliament that the principal object of the establishment of the Corporation should be achieved through the Corporation acting, to the greatest extent practicable:
- (a) in co-operation with all segments of Australian horticultural industries; and
  - (b) in conjunction with Commonwealth, State and Territory authorities concerned with the export of Australian horticultural products.

#### **C1.2 Functions**

8. (1) The functions of the Corporation are:
- (a) to encourage, assist, facilitate, promote and co-ordinate the export of Australian horticultural products;
  - (b) to improve:
    - (i) the efficiency and competitiveness of Australian horticultural industries;
    - (ii) the quality of Australian horticultural products;
    - (iii) the producing of Australian horticultural products, whether by:
      - (A) growing or harvesting; or
      - (B) processing Australian horticultural products; and
    - (iv) the handling, storing, transporting, processing or marketing of Australian horticultural products; particularly with a view to enhancing the exportability of Australian horticultural products;

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- (c) to promote the consumption and sale, both in Australia and overseas, of Australian horticultural products;
  - (d) to encourage, assist, facilitate and promote the marketing in Australia of Australian horticultural products, particularly between the States, between States and Territories, between Territories and in the Territories;
  - (e) to co-operate with:
    - (i) persons and bodies representative of Australian horticultural industries; and
    - (ii) Commonwealth, State and Territory authorities concerned with:
      - (A) Australian horticultural industries; or
      - (B) the export of Australian horticultural products; and
  - (f) such other functions in relation to Australian horticultural industries as are conferred on the Corporation by or under the Act or any other Act.
- (2) Subject to Part IV, where a Product Board has functions in relation to a Board industry or Board product, the Corporation must not perform the same function in relation to that industry or product without the Board's consent.

### **C1.3 Powers**

- 9. (1)** The Corporation has the power to do all things necessary or convenient to be done for, or in connection with, the performance of its functions and, in particular, may:
- (a) negotiate contracts for the carriage of horticultural products to be exported from Australia (including the carriage of such products within Australia);
  - (b) negotiate insurance contracts in relation to horticultural products;
  - (c) obtain and disseminate market intelligence;
  - (d) collect and publish statistics in relation to horticultural products;
  - (e) make charges for work done, services rendered, and goods and information supplied, by it;
  - (f) with the written approval of the Minister:
    - (i) form, and participate in the formation of, companies;
    - (ii) subscribe for and purchase shares in, and debentures and other securities of, companies;
    - (iii) enter into partnerships; and

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- (iv) participate in joint ventures and arrangements for the sharing of profits;
  - (g) enter into contracts;
  - (h) appoint agents and attorneys, and act as an agent for other persons;
  - (j) accept gifts, grants, bequests and devises made to it, and act as trustee of money and other property vested in it on trust;
  - (k) do such other things as it is authorised to do by or under this Act or any other Act; and
  - (m) do anything incidental to any of its powers.
- (2) An approval under paragraph (1) (f):
- (a) may be of general or particular applications; and
  - (b) may be given subject to specified conditions and restrictions.

#### **C1.4 Export trading powers**

- 10. (1)** Without limiting the generality of subsection 9 (1), the Corporation may, to the extent that it considers it necessary in the interests of Australian horticultural industries and with the written approval of the Minister:
- (a) engage in the export of Australian horticultural products; and
  - (b) do all things necessary or convenient to be done for, or in connection with, the export of Australian horticultural products;
- and, in particular, may:
- (c) buy and sell horticultural products for exports;
  - (d) enter into contracts for the carriage of horticultural products to be exported from Australia (including the carriage of such products within Australia);
  - (e) enter into insurance contracts in relation to the export of horticultural products; and
  - (f) enter into and deal with currency futures contracts, interest rate futures contracts and horticultural products futures contracts, at futures markets for hedging purposes in relation to the export of horticultural products.
- (2) An approval under subsection (1):
- (a) may be of general or particular applications; and
  - (b) may be given subject to specified conditions and restrictions.

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## **C2 Corporate structures**

### **C2.1 The Australian Horticultural Corporation Board**

The Australian Horticultural Corporation (AHC) Board membership consists of a Chairperson, a Department of Primary Industries and Energy representative, Managing Director, and six other members. In accordance with Government policy on statutory marketing authorities, the Board is not designed to represent grower or other industry interests (Jones 1987, p. 319). Rather, the qualification for nomination to the AHC Board, subject to being consistent with maintaining a balance of expertise, is experience in the horticultural industry, business management, finance, marketing, or product promotion, and knowledge of public administration and the formulation of government policy. Members of the executives of participating industry bodies are not permitted to be members of the AHC Board.

With the exception of the Managing Director who is appointed by the AHC, members are appointed by the Minister on the nomination of the AHC Corporation Selection Committee. The Corporation Selection Committee itself is selected by the Minister after calling for nominations from participating industry bodies.

### **C2.2 Product Group Committees**

The Government's original intention was that product-specific advice to the AHC would come through the formal mechanism of Product Group Committees, to which would be delegated various AHC powers -- particularly in relation to domestic promotion (Jones 1987, p. 319-20). Product Group Committees would be chaired by an AHC member, with the other members appointed by the AHC on the nomination of the relevant product group selection committee. Product Group Selection Committee procedures were similar to those of the Corporation Selection Committee. Members of the executive of a participating industry were not permitted simultaneously to be members of the AHC or a Product Group Committee. As with the AHC Board, these committees would consist of members nominated on the basis of expertise rather than as representatives of the respective industries.

The need for product specific advice in the face of the diversity of products and industries in the horticultural sector was cited in the Second Reading Speech as the rationale for Product Group Committees. Product Group Committees were anticipated for both pome fruits and citrus (Jones 1987, p. 319). The Government's intention had been for the bulk of any activity undertaken on domestic promotion to be delegated to Product Group Committees, freeing the AHC Board to focus on the broader, general, export policy issues (Jones 1987, p. 319-20). However, no participating industry ever adopted this arrangement, the peak bodies apparently preferring to advise the AHC directly through the informal structure of market liaison committees. The Government accepted this arrangement and abolished the Product Group Committee enabling provisions (Kerin 1990, p. 3).

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### **C2.3 General committees**

The Act also provides for the formal structure of the General Committee, established by the AHC to assist it in the performance of its functions and the exercise of its powers. Under this arrangement, members of the executive of a participating industry are permitted to be Committee members. However, a General Committee must be composed partly of AHC Board members. This arrangement has never been used, but remains as a more formal alternative to market liaison committees (see Appendix C2.2).

### **C2.4 Product Boards**

The Australian Horticultural Corporation Amendment Act 1990 instituted Product Boards, an arrangement designed to give greater autonomy, under the oversight of the AHC, to a particular industry than is generally enjoyed by participating industries. Product Boards members are appointed by the AHC (rather than by any Product Board selection committees), and consist of an independent Chairperson (who may be a member of the AHC Board) appointed in consultation with the relevant industry body, and five other members appointed on the nomination of the industry body (Kerin 1990 pp. 5-6). There is to be an ordinary member with expertise in the Board's products in each of: growing or processing; exporting; and harvesting, handling, storing, transporting, processing, or marketing. The other two members are to have expertise in, respectively, business management or finance, and marketing or product promotion.

There is no prohibition on industry executive members simultaneously being on Product Boards. Nevertheless, the Government expressed concern at the tendency for industry politics to have an undue influence on the selection of statutory marketing authority boards and on the manner in which they discharge their duties (Kerin 1990) and sought to ensure that the selection process for AHC Product Boards would be "a disciplined one that will withstand scrutiny" (Kerin 1990, p. 6).

Product Boards are constituted as separate corporations, partly to clarify the status of their contractual relationships (Kerin 1990, p. 4). Levy moneys (less the Board's contribution to AHC overheads) are appropriated directly to the Boards, rather than to the AHC on their account. Boards are accountable to levy payers through the annual general meeting, on a 'one levy dollar one vote' basis. The AHC Chairperson must report to a Board's annual general meeting.

In many respects, the structure and operations of Product Boards are analogous with those of the AHC, the relationship between the Minister and the AHC being replicated by that between the AHC and the Board. The functions and powers of Product Boards also mirror those of the AHC.

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However, regulations may be used to narrow the functions of a specific Board, and a Board must have regard to general guidelines issued by the AHC (s104). Conversely, where AHC functions overlap with Board functions, the AHC must only operate with the Board's consent (s8(2)).

The chief purpose of the AHC Amendment Act was to provide a mechanism which would allow the incorporating into the AHC of the dried vine fruits industry, but maintain most of that industry's autonomy (Kerin 1990, p. 1). The Amendment Act explicitly replaced the Australian Dried Fruits Corporation with an AHC Product Board called the Australian Dried Fruits Board. Dried fruits, as covered by the Australian Dried Fruits Board, means dried vine fruits (currants, raisins and sultanas) (s25(2)).

Because private industry already has an active domestic marketing program, regulations confined the Australian Dried Fruits Board to export activities (Kerin 1990, p. 4). The range of dried vine fruits export controls previously exercised by the Australian Dried Fruits Corporation are continued by the Australian Dried Fruits Board, but under the oversight of the AHC; export controls will be exercised by the Australian Dried Fruits Board as conditions of export licensing under export licences issued by the AHC (Kerin 1990, p. 5). This reflects Government concern that when monopoly export control powers are exercised, sufficient checks and balances should be in place to ensure that national interest is taken into account (Kerin 1990, p. 2).

Although provision was made for other Product Boards to be established by regulation, the Minister indicated this was unlikely to occur (Kerin 1990, pp. 2-3).

## **C2.5 Product desks**

The Memorandum of Understanding between the AHC and the Federal Council of Australian Apiarists' Associations, signed in February 1992, provides for the establishment of a "Honey Desk". Under the agreement, the apiculture industry is to fund up to one full time and one part time staff for the Honey Industry Desk (to be known as the Australia Honey Bureau) (sub. 72, appendix 2). AHC general management will conduct all external communications on behalf of the industry. The rationale for this new arrangement was given as:

- Specialist staff would develop a close understanding of the apiculture industry, and become highly skilled in the handling of industry matters to the ultimate benefit of both industry and the AHC; and
- Within the AHC, the structure would become visible to industry, and this would be a positive factor, particularly at a grass roots level.

The Federal Council of Australian Apiarists' Associations feels the AHC may well benefit through the introduction of Product Desks for other constituents where applicable (sub. 72, pp. 20-21).

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## C3 Proposed Australian Agricultural Marketing Corporation

The issue of statutory marketing arrangements for small primary industries was addressed by the Davis Committee (Davis 1990). The Committee concluded that, for small industries, a single product statutory marketing authority (SMA) was not economically viable, but that an industry's interests were not well catered for by a centralised SMA -- such as the AHC -- serving multiple industries. As a solution, it proposed an umbrella organisation to be known as the Australian Agricultural Marketing Corporation (AAMC), under whose oversight individual industry boards would operate relatively autonomously (Davis 1990, pp. 16-7):

### A Structure for Small Industries

The Committee's view is that the present standard centralised structure of an SMA which is designed to serve a single industry is not a cost effective structure for serving several small industries. A major difficulty is that it places an unsustainable burden on the chairperson and managing director of the SMA in communicating with the industries concerned and accounting to levy payers. In terms of both this burden and the effectiveness of the process, there is a strong argument for devolving the responsibility for communication and accountability.

Furthermore, the industries which are served by one SMA may have few common interests. While there may be some shared goals (eg, greater bargaining power for international transport) and some opportunities for economising by cost sharing (eg, representation overseas), most marketing programs are product specific.

In addition, small industries have shown continuing mistrust of costly centralised structures which consume their limited funds. Unless representative industry bodies and leaders are actively involved and informed, the multi-industry SMA is unlikely to sustain support from all of its industries.

As already noted, industry scale is critically important in determining the resources available to support SMA activities. While the wool, wheat and livestock industries are large enough to fund substantial individual SMAs, the smaller and more specialised industries are not large enough to do the same. The Committee noted that for the apple and pear, citrus and nursery products, honey, and dried vine fruit industries the levy income raised is insufficient to cover the direct costs of their respective SMAs and to leave sufficient funds to provide effective promotional and other industry services. There is widespread concern about the effectiveness of the AHC and its relationship with the industries it serves, and the Industries Assistance Commission recommended in its 1989 report, *The Dried Fruit Industry (IAC Report No 420)*, the incorporation of the ADFC [Australian Dried Fruits Corporation] into the AHC.



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Moreover, as mentioned previously, the indirect cost to the Government, and hence to the Australian community, of each statutory organisation is considerable. Experienced observers suggested informally to the Committee that it can cost almost as much to monitor the smallest SMA as the largest. Since the accountability to the Minister and to the Parliament demanded of an SMA is not reduced by the scale of the SMA, this raises questions as to the viability of small SMAs.

The Committee, therefore, considered the feasibility of designing an organisation which can meet the requirements of the Minister, the Parliament and levy payers for full accountability, and provide effective marketing support to meet the needs of individual industries at a modest cost.

**In this respect, the Committee recommends that the AHC, ADFC and AHB [Australian Honey Board] be reformed under one statutory body which could be named the Australian Agricultural Marketing Corporation. The corporation could act as an umbrella organisation for other small agricultural industries which wished to introduce statutory marketing and could justify such arrangements.** In the longer term, consideration could be given to incorporating the AWBC [Australian Wine and Brandy Corporation] into such a corporation, although the Committee does not consider this to be a priority as the AWBC is presently operating successfully and has widespread industry support. (Davis 1990, pp. 16-17)

The Davis Committee's model for the proposed AAMC was as follows:

### **The Proposed Australian Agricultural Marketing Corporation**

The management of an SMA serving a number of industries needs to be substantially different from that which serves a single industry. In the design of a multi-industry SMA, the critical issue is the role of the centralised structure responsible for corporate matters. One possibility is to have a strong parent body (centre) which is responsible for the overall strategies of the organisation, albeit after consultation with relevant industry groups which may be represented on product advisory committees. Another option is an organisation with more powerful, semi-autonomous divisions dealing with specific industries and a small parent body which acts more as a trustee or a passive holding company. The Committee's view is that the latter design (namely, semi-autonomous divisions under a holding company umbrella) is more likely to be effective in providing marketing support for small industries.

The Committee considers that an Australian Agricultural Marketing Corporation designed along these lines should offer each eligible industry the option of establishing its own industry board within the umbrella of the parent board, on the following conditions:

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- the industry board shall be appointed by the parent board;
  - the industry board must prepare a strategic plan and an annual operational plan which are to be submitted to and approved by the parent board;
  - the industry board may appoint a manager on terms and conditions approved by the parent board; and
  - the industry board shall be accountable to an annual general meeting of the levy payers.

Under this model, the industry board would be accountable to its industry and to the parent board for industry marketing strategies and functions. In turn, the parent board would be accountable to the Minister and the Parliament for ensuring that funds are used for statutory purposes, that industry boards have realistic strategic plans and that industry boards are constituted with commercial expertise and are accountable to their respective levy payers.

This model involves substantial devolution of both responsibility and accountability to the industry board level. The role of the parent body would, essentially, be one of providing centralised accounting, funds management and audit. In addition, it would provide common facilities such as office space and communications systems, which the Committee anticipates would be required in Sydney and Melbourne. Where it is both economic and agreed with industry boards, the parent body could also provide resources which would be shared, such as a staff member specialising in transport or market research. Under these arrangements, the senior manager of the parent body would be responsible for finance and administration, but the role would not be that of a managing director.

Levies would be paid to the account of the parent body, with a predetermined amount, which the Committee suggests should not be more than 10 per cent of the net levies collected, being retained by the parent body to cover the central administrative costs. The balance would be held for disbursement on the authorised instruction of the relevant industry board. In this context, any subsidy granted to the organisation (such as that granted to the AHC) should be earmarked for the benefit of particular industries or products and provided to the relevant industry boards. (Davis 1990, pp. 17-18)

In its response to the Davis Review, the Government decided not to proceed 'at this stage' with the AAMC proposal, but to maintain the AHC, incorporating dried vine fruits as a Product Board (Kerin 1990, p. 1).

The AHC does not favour being abolished in favour of an AAMC, considering the concept would "... effectively remove the AAMC from any real and direct influence in achieving the essential improvements to each industry's economic structure and marketing activities" (sub. 24, p. 57). Indeed, replacing an active central body with a passive one was the purpose of the Davis Committee's recommendation. The AHC submitted that a more effective arrangement now exists under the Product Board and Product Desk arrangements.

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## **D AHC CORPORATE PLAN**

The Australian Horticultural Corporation (AHC) is required under its Act to prepare a corporate plan, and revise it annually. The following material is drawn from the AHC's 1991-96 Corporate Plan

### **D1 Mission Statement**

The AHC's mission is given as:

To assist individual horticultural industries in Australia achieve maximum net returns on their investment in production by maintaining and ensuring, where relevant, the adoption of proven modern marketing practices in pursuit of expanded markets for their products, particularly in terms of achieving their full potential in overseas markets.

### **D2 Corporate Objectives**

- (i) Maximize long-term net returns to producers of horticultural products participating in the Corporation.
- (ii) Establish Australia internationally as a recognised exporter of quality horticultural products.
- (iii) Contribute, where appropriate, to a more stable market environment within which individual horticultural products are to be marketed.
- (iv) Encourage the implementation of production, quality assurance and marketing practices most suited to the needs of the global market place.
- (v) Provide effective lines of communication between the corporation, government bodies, industry organisations and those organisations responsible for the marketing, distribution and processing of the products.
- (vi) Achieve credibility for the Corporation as a successful, progressive marketing organisation and to thereby encourage additional horticultural industries to seek the marketing support it can offer.
- (vii) Effectively administer the Corporation's resources and provide full accountability of the Corporation's operations to the Government and to relevant industry organisations.

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### D3 Corporate Strategies

- (i) **Market Intelligence** Establish a national and global market intelligence and research network to provide a source of reliable information from which to prepare market forecasts and to formulate detailed marketing plans for individual products.
- (ii) **Quality Standards** In consultation with producers and other relevant parties (eg, AQIS [Australian Quarantine Inspection Service]), develop Quality Management Systems to meet appropriate standards for each product and devise means by which to ensure they are effectively implemented for export and domestic markets.
- (iii) **Marketing System** In consultation with producers and other interested parties, develop proposals to improve the existing marketing system for individual products.
- (iv) **Export Promotion** Within the resources available, undertake promotion programs in selected overseas markets for individual products, including the development of new markets, either solely or in conjunction with Austrade and exporters.
- (v) **Domestic Promotion** Undertake promotion programs in Australia (or in selected areas of Australia) for individual horticultural products, on a sole or co-ordinated basis.
- (vi) **Market Access** Actively represent the horticultural sector, particularly for products participating in the Corporation, in generating or pursuing opportunities to retain and, if possible, improve Australia's access to international markets for horticultural products.
- (vii) **Communications** Implement clear lines of communication to all parties with an interest in the activities of the Corporation.
- (viii) **Corporate Administration** Plan the consequent direction and activities of the organisation, responsibly administer its resources and ensure full accountability for the Corporation's operations.

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# **E DRAFT MEMORANDUM OF UNDERSTANDING**

A decision to join the AHC takes the form of a memorandum of understanding between the industry peak body and the AHC. The content of a memorandum of understanding is exemplified by the draft, supplied by the AHC, presented below.

## **Draft Memorandum of Understanding between Australian Horticultural Corporation and .....**

This Memorandum of Understanding is subject to the approval of the ..... and the Board of the Australian Horticultural Corporation.

### **Preamble**

This Memorandum of Understanding is an expression of interest and intent between the ..... industry and the Australian Horticultural Corporation and documents the basis of the understanding between the industry and the Corporation.

Whereas the Australian Horticultural Corporation's mission is to assist individual horticultural industries in Australia achieve maximum net returns on their investment in production by maintaining and ensuring, where relevant, the adoption of proven marketing practices in pursuit of expanded markets for their products, particularly in terms of achieving their full potential in overseas markets and the Australian ..... industry wishes to ensure that its products are marketed so that:

- (Specific clauses from industry)
- 
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it is hereby agreed that:

1. The Australian Horticultural Corporation (AHC) recognises the ..... as the peak industry body representing the Australian ..... industry while ever it demonstrates that it represents a majority of producers and production of that industry.
2. The industry, through its peak industry body and the AHC, will develop a strategic plan, with the cost of developing the plan to be met from industry levies contributed to the AHC.

Both the industry and the AHC acknowledge that a commitment to quality will be a component of the industry strategic plan.

3. The industry, through its peak industry body, will review its strategic plan on an annual basis.

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4. Prior to the commencement of each financial year, the peak industry body will, in conjunction with the AHC (with due regard to the Industry Strategic Plan), establish:
    - i) clear priorities for implementation by the AHC; and
    - ii) AHC performance indicators related to industry priorities.
  5. The AHC will consult with the peak industry body and other industry participants in the development of the AHC's Corporate and Annual Operating Plans.
  6. The peak industry body recognises, where proposed priorities impact directly on other industry sectors or organisations, that the AHC has an obligation to consult with the peak industry body of those industry sectors and industry participants.
  7. The peak industry body and the AHC recognise that priorities and budgets may be varied by mutual consent within a twelve month period.
  8. The performance of the AHC will be measured and accepted by the peak industry body against previously agreed priorities and performance indicators.
  9. The AHC will attend and report to the annual meeting of the peak industry body and such other meetings as are mutually agreed between the peak industry body and the AHC.
  10. The AHC will provide the peak industry body with an annual report which will include:
    - a) the audited financial results of the AHC;
    - b) the audited financial results of the industry component of the AHC; and
    - c) an assessment of the AHC's performance measured against agreed priorities and performance indicators.
  11. The industry agrees to a contribution to Corporate Costs on the following basis:
    - 12% of levies\* up to \$1 million;
    - 10% of levies\* from \$1 million to \$2 million;
    - 8% of levies\* above \$2 million.

*(\*net of collection costs)*
  12. The participating industry agrees to fund from levies:
    - Levy collection costs as agreed with DPIE;
    - Expenditure incurred in the implementation of agreed marketing programmes;
    - Salaries and on costs of AHC marketing staff in proportion to the time spent by those staff on the industry's activities, incurred in the implementation of industry programmes;

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- Communication costs of the AHC with the industry participants incurred in the implementation of industry programmes;
  - AHC staff (including the Managing Director) travel and associated costs allocatable to industry, incurred in the implementation of industry programmes;
  - Bank and direct charges associated with the AHC's management of industry levies; and
  - Operations and administration costs where they are specifically incurred by the product.

13. The AHC, from its Corporate division operations budget, undertakes to fund the costs and expenses of:

- The AHC Board;
- The AHC Selection Committee;
- Salaries and on costs of:
  - Managing Director;
  - Finance and Administration Staff; and
  - Secretarial Staff;
- Unallocatable salaries and on costs of other staff;
- Travel and associated costs of AHC Board Members and unbudgeted costs of the Managing Director;
- Audit fees;
- Capital equipment and depreciation;
- Other operation and administration costs including:
  - postage, couriers, telephone and fax;
  - printing and stationary, including photocopying;
  - repairs and maintenance;
  - electricity; and
  - sundry expenses -- not directly incurred on a particular product in accordance with the agreed industry budget and operating plan; and
- rent and outgoings, with a review of this policy by November 1992.

14 The AHC will assist the industry when requested to do so, to obtain or develop cost effective levy collection mechanisms, which are implemented by the Levies Management Unit of the Commonwealth Department of Primary Industries and Energy.

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15. The peak industry body will review the level and adequacy of industry levies and at its Annual General Meeting determine any increase in such levies to meet the cost of agreed programmes conducted under the auspices of the AHC.
  16. AHC will not trade in product. It will not exercise its trading powers unless it has the full support of industry and the Minister.
  17. The AHC agrees to the reimbursement of funds to the peak industry body for the purpose of consultation, within Ministerial guidelines.
  18. The AHC will only commit to the execution of programmes for which forward funds are clearly available. In exceptional circumstances, the industry may request the AHC to provide short term cash flow assistance and on such occasions will meet the interest costs of such short term bridging finance.
  19. Funds contributed by the industry will be identified, managed and accounted for on an industry basis by the AHC, with interest arising from investments accruing to the relevant industry account. The AHC is authorised to invest surplus funds in accordance with the investment policy determined by its Board and advised to the peak industry body from time to time.
  20. The peak industry body on behalf of the industry agrees that the Australian ..... industry will continue to be a participant in the AHC for an initial period of .... years.
  21. Should the ..... industry decide not to continue as a member of the AHC, the peak industry body, on behalf of the industry, will:
    - i) give the AHC at least six (6) months written notice of intention not to continue as a participant of the AHC and not contribute to corporate cost recoveries; and
    - ii) ensure that outstanding direct liabilities associated with the product will be met from levies prior to withdrawal.

In the event that the industry may decide to withdraw from the AHC, it is agreed, subject to any relevant Ministerial determination, that industry assets will revert to an organisation continuing to act in the interest of the industry.

22. This Memorandum of Understanding is subject to the approval of the ..... industry and approval of the Board of the AHC.
23. This Memorandum of Understanding is subject to change arising from Government legislation, Ministerial directions and decisions and may be varied by mutual agreement.

Signed for and on behalf

Signed for and on behalf of  
Australian Horticultural Corporation



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## F AHC ACCOUNTS

The AHC is required to keep separate accounts for participating industries. All other financial transactions are allocated to what is known as the Corporate Division. Referring to the Annual Report, items for the Corporate Division can be derived by subtracting industry accounts from the consolidated account, as presented in Table F1 for 1990-91. However, Table F1 differs from the Annual Report in the presentation of industry contributions to corporate overheads and costs of collection of levies. Restoration of items which have been netted out would increase total revenue to the Annual Report value of \$5.069 million.

In response to Commission requests for more detailed information about expenditure within broad cost categories, and allocations between participating and non-participating industries, the AHC has provided supplementary comments and disaggregated information. The values supplied do not always sum exactly to those in Table F1 because they are based on management accounts, whereas the Annual Report is presented according to statutory reporting requirements. Some items are allocated differently in the two accounting systems. For management purposes, provision for leave is allocated to particular programs and expenditure items rather than being consolidated into a single item. The costs of strategic planning workshops, which did not commence until 1991-92, will be included in marketing for management purposes, but in communications for statutory reporting purposes.

The Corporate Division column in Table F1 shows the costs of operating the AHC, excluding any expenses which are specific to participating industries and are fully paid for by those industries. Corporate Division expenditure for 1990 91 was \$1.754 million, consisting mainly of marketing (\$596 000), operations and administration (\$545 000), rent of premises (\$183 000) and costs associated with the AHC Board (\$338 000).

The AHC explains that Corporate Division expenses consist of:

- Board costs (including the Managing Director) and the provision of infrastructure which is not significantly influenced by the number of participating industries;
- rental of office premises which also is not significantly related to the number of participating industries;
- operations and administration costs which can be related to the number of participating industries; and
- industry wide marketing support programs (excluding marketing staff expenses associated specifically with participating industry programs).

Table F1: AHC Revenue and Expenditure, 1990-91 (\$000) <sup>a</sup>

	Corporate Division	Apples & Pears	Citrus	Nashi	Nursery	All Ind	All AHC
<b>Revenue</b>							
Proceeds from levies		1926	535	121	360	2941	2941
Proceeds from export charges		371	36	1		408	408
Less costs of collection		-94	-19	-5	-38	-156	-156
<i>Net proceeds from levies and charges</i>		2203	551	117	322	3193	3193
Interest	17	231	27		15	273	290
<b>Other revenue</b>							
Advertisement billings		24				24	24
Export licence fees		24	12	8		43	43
EMDG	45	151	45			196	241
From office rent & services	45						45
Promotions reimbursed	11						11
Other					2	2	2
<i>Total other revenue</i>	101	199	57	10		265	366
Commonwealth appropriation	1030						1030
Internal transfer for overheads <sup>b</sup>	357	-236	-66	-14	-41	-357	
<b>Total revenue</b>	<b>1505</b>	<b>2397</b>	<b>569</b>	<b>113</b>	<b>296</b>	<b>3374</b>	<b>4879</b>
<b>Expenditure</b>							
<b>Marketing</b>							
Domestic <sup>c</sup>	95	1243	328	97	10	1677	1773
Export <sup>c</sup>	40	205	73	8	3	288	328
Research <sup>c</sup>	31	23			88	112	143
Development <sup>c</sup>	189	48	6	5		58	247
Salaries of AHC staff	241	34	9	6	2	51	292
Total marketing expenses	596	1552	416	115	103	2187	2783
<b>Operations &amp; administration</b>							
Salaries of AHC staff	235						235
Asset utilisation (depreciation)	124						124
Travel & representation	23						23
Insurance	30					1	31
Post, courier telephone	57						57
Printing & stationery	25						25
Subscriptions	22	1	1			2	23
Other <sup>d</sup>	29	12	1	5	5	22	52
Total operations & administration	545	14	1	4	5	25	569
Rent of premises	183						183
Corporate communications <sup>e</sup>	21	158	9		7	175	196
Provision for leave	70						70
AHC Board <sup>f</sup>	338						338
<b>Total expenditure</b>	<b>1754</b>	<b>1724</b>	<b>427</b>	<b>120</b>	<b>115</b>	<b>2386</b>	<b>4141</b>
<b>Operating surplus</b>	<b>-249</b>	<b>672</b>	<b>142</b>	<b>-7</b>	<b>181</b>	<b>988</b>	<b>739</b>

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- a** Some items are dealt with differently from the AHC Annual Report. Proceeds from levies and charges are shown as net of costs of collection. Internal transfers from participating industries to the Corporate Division are shown as deductions from revenue. Expenses and offsetting contributions (\$34 000) for a visit by USDA inspectors have been netted out.
- b** Participating industry contributions to corporate overheads: 12% of levies and charges (net of collection costs) up to \$1 million; 10% on the next \$1 million; and 8% on amounts in excess of \$2 million.
- c** Expenditure outside the AHC, except for management of AHQCS program.
- d** Auditing, legal fees, bank charges, interest, storage, repairs and maintenance.
- e** Includes industry meetings and conventions \$83 000, Apple & Pear News \$84 000, payment to Apple & Pear peak body \$30 000.
- f** Includes Managing Director's salary and Board members' fees, totalling \$257 000, Board members' travel, and development of AHC corporate plan.

*Sources:* AHC Annual Report 1990\_91; correspondence and discussions with the AHC.

According to the AHC, costs in the Corporate Division are incurred jointly for both participating industries and non-participating industries and it is therefore inherently difficult to attribute what proportion of corporate costs are attributable exclusively to participating industries. Participating industries are required by the AHC to contribute specified proportions of net levies towards corporate overheads. (It is implied in such an arrangement that an industry with a lower levy rate makes a smaller call per unit sale on the Corporation's resources.) The specified proportions were established by the AHC Board in July 1989 after considering a number of options. The option implemented sought to reflect the different levels of levies for different participating industries and the balance between total horticulture costs, participating industry costs and the Government contributions. In 1990-91, participating industry contributions towards corporate overheads accounted for revenue of \$357 000 out of total expenditure of \$545 000 for operations and administration.

The AHC says that marketing support costs incurred by the Corporate Division relate to initiatives that produce benefits for all Australian horticulture, without a discernible or verifiable basis for apportioning benefits between those industries that are AHC participants and those that are not. AHC salaries accounted for \$241 000 out of total marketing expenses of \$596 000 for the Corporate Division in 1990-91, whereas they accounted for only \$51 000 out of a total of \$2187000 for the participating industries. Much of the difference in salaries as a proportion of total marketing expenses can be attributed to most corporate marketing work being handled by AHC staff, whereas domestic promotion is largely contracted out. However, there is also the possibility that a significant proportion of Corporate Division marketing staff effort is devoted to the participating industries, but without charging the industries for these services, or to industry wide programs which favour participating industries.

The AHQCS is the largest Corporate Division marketing program, and is clearly directed at all of horticulture. The program commenced in 1990-91 with establishment costs of \$174 000, of which \$148 000 was allocated to market development (including \$106 000 for consultants) and \$26 000 to AHC salaries. Over the three years to 1992-93, total establishment costs are estimated to be \$400 000, with additional advertising and promotion costs of \$189 000.

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Costs of strategic planning workshops average about \$20 000 per industry. Such costs are recovered from industries if, and when, they join the AHC, with recovery being spread over the first two years of membership. Costs for those industries which choose not to join are borne by the AHC.

The combined operating surplus for the four participating industries was nearly \$1 million in 1990-91. The AHC explains that this was due to differences in timing between receipt of levies and decisions to spend, and also delays in undertaking planned expenditure. Both the apple & pear and citrus industries have requested the Corporation to utilise significant portions of their respective reserves to augment 1992 calendar year marketing programs, because of anticipated increases in production. Planned marketing expenditure for the nursery industry was delayed until market research was completed and analysed.

The Corporate Division showed an operating deficit of \$249 000. in 1990-91. This included non-cash charges of \$182 000, consisting of \$115 000 for depreciation of furniture and equipment, \$24 000 for amortisation of computer software used for marketing research, and provision of \$43 000 for staff leave. (The remaining \$27 000 of provision for leave was paid out.) Hence the cash operating deficit was only \$67 000, which was accommodated by a cash surplus from the previous year. Nevertheless, such an operating deficit cannot be continued indefinitely because, in a continuing operation, the non-cash charges eventually have to be realised as cash payments and expenditure.

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## **G EXPORT LICENSING**

Export licensing, administered by the AHC, presently applies to apples and pears, citrus, and nashi. In addition to requirements applying to all licensees under the Australian Horticultural Corporation (Export Control) Regulations (see section 4.4.3), terms and conditions for export trading of particular products are laid down in the relevant Corporate Permission. Reproduced below is the Corporate Permission applying to pome fruits:

### **AUSTRALIAN HORTICULTURAL CORPORATION**

#### **CORPORATE PERMISSION**

Effective: 30 March 1992  
Circular No. 5

#### **TERMS AND CONDITIONS OF EXPORT TRADING FOR APPLE AND PEARS**

##### **1. ALL DESTINATIONS**

Only Extra Class and Class One apples and pears plus for the period 1 March 1992 to 31 December 1992 Class 2 apples which are certified as organic by an Approved Certifying Organisation recognised by the Organic Produce Advisory Committee (AQIS) are permitted for export to ports outside the Australian Domestic Market.

##### **2. BRITAIN/EUROPE (INC SCANDINAVIA) AND NORTH AMERICA**

- (a) Consignment.
- (b) Where forward sales are the minimum, terms of payment no less favourable than Bill of Exchange with payment at the time of delivery of shipping documents.
- (c) Maximum commission on consignment and Guaranteed Advance transactions shall not exceed 8 percent.
- (d) Apples may be exported to European destinations only for the purpose of processing between 30 March 1992 and 30 June 1992, if the following conditions are met:
  - (i) all containers of such apples must be prominently labelled "APPLES FOR PROCESSING";

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- (ii) all apples must be of a quality in accordance with the minimum requirements set out in the Export Control (Fresh Fruit and Vegetables) orders, schedule II, Clause 3.1; and
  - (iii) within fourteen days from the date of arrival at the country of destination, the exporter must produce to the AHC a certificate signed on behalf of a government or independent quality control body of the country of destination, stating that all apples so exported have been processed or supplied to a processor who will process them.

### **3. HONG KONG**

- (a) Forward Sales only.
- (b) Victorian pears may only be sold to accredited Importers on delivery terms negotiated by the Victorian Liaison Committee.
- (c) Terms of payment not less favourable than Bill of Exchange with payment at the time of delivery of shipping documents.

### **4. SINGAPORE, MALAYSIA AND PHILIPPINES**

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Bill of Exchange with payment at the time of delivery of shipping documents for Singapore and Malaysia and a confirmed Letter of Credit for the Philippines.
- (c) A maximum commission of AUD0.40 per carton will be payable to agents in Singapore.

### **5. NEW ZEALAND**

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Bill of Exchange with payment at the time of delivery of shipping documents.

### **6. ARABIAN GULF, IRAN AND MIDDLE EAST**

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Bill of Exchange with payment at the time of delivery of shipping documents.

### **7. EAST AFRICA (KENYA, UGANDA, ZAMBIA)**

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Irrevocable Letters of Credit.

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## 8. MAURITIUS AND REUNION

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Bill of Exchange with payments at the time of delivery of shipping documents.

## 9. TAIWAN

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Irrevocable Letters of Credit.
- (c) Exports of apples prohibited other than from licence holders who have been issued with an Australian Horticultural Corporation Export Certificate.

## 10. DESTINATIONS OTHER THAN THOSE INCLUDED IN 1-9 ABOVE

- (a) Forward Sales only.
- (b) Terms of payment not less favourable than Bill of Exchange with payment at the time of delivery of shipping documents.

### NOTE:

*"Consignment"* means goods forwarded to destination unsold with goods remaining the property of the seller until sold.

*"Forward Sale"* means price and delivery terms completed with buyer before shipment of goods.

*"Guaranteed Advance"* means a non-refundable payment to seller by buyer on shipment of goods.

*"Accredited Imports"* contact the Corporation for current list of Hong Kong Accredited Importers.

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## H AHC PERFORMANCE INDICATORS

The AHC maintains that, because it is a non-trading statutory marketing authority (SMA), direct performance measures, such as the growth of sales in specific industry sectors or by the AHC itself, are often inappropriate and emphasis needs to be placed on indirect measures and performance indicators. The AHC presented the following measures and indicators which it used to assess its performance and effectiveness. **The AHC's assessments of its performance and effectiveness against these measures are quoted directly below each** (submission 24, p. 44 *et seq*):

### (i) Participating industries in the AHC

*The Corporation came into being with two industries as participants. This has now grown to nine with another four industries (cut flowers, kiwi-fruit, table grapes and stone fruit) expressing interest in participation. The fact is that a significant number of industries have joined and remained in the Corporation.*

*Given the significant lead time between initial interest, the process of negotiation, strategic planning and the development and implementation of marketing programmes, this has been a significant achievement.*

*Industries with a gross value of production of \$960 million are now participating in the AHC and if the four industries outlined also agree to participation, this will increase by an estimated \$450 million. If table grapes vote to participate in the AHC then 85% of Australia's fruit exports will be represented in the Corporation.*

*The principal reasons for joining the AHC are that industries have access to marketing resources that are not available elsewhere and they also have access to an equitable statutory levy arrangement.*

### (ii) Cost savings

#### Shipping

*The apple and pear shipping negotiating committee, which the AHC chairs and provides the secretariat, has been able to achieve substantial savings for its industry. For example, the savings during the 1992 season to Europe and North America based on the initial proposals by the shipping lines amount to almost \$700, 000. In particular, the savings of over \$200,000 into North America are primarily the result of AHC initiatives to encourage exporters and growers to look at alternative shipping arrangements. The savings for pears into Europe and North America of approximately \$500,000 are in excess of total pear levy contributions by the industry to the AHC.*



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*In Western Australia the rate for apples and pears into South East Asia for the first time is now lower than that for vegetables and Chairman of the WA Fruit Exporters Committee, Mr Barry Buss, believes that the change is basically a result of the work of the negotiating committee.*

### **Promotion Savings**

*In negotiating advertising space, whether on television, magazines or elsewhere, the AHC has been able to combine the purchasing power of all the participating products. As a result, savings and/or bonuses for participating products totalled over \$300,000 in 1991.*

### **(iii) Industry changes**

*The Corporation's involvement with industry is based on two key elements -- strong peak industry bodies and strategic planning. In the case of the nashi and chestnut industries, national bodies did not exist prior to participation in the Corporation and the AHC has facilitated the establishment of national bodies in both industries.*

*Through the strategic planning process, all participating peak industry bodies have adopted a more pro-active corporate approach and are now starting to provide a national and international focus for their industries.*

*Based on the initiatives of the AHC in accountability and consultation with industry, the peak industry bodies have, themselves, undertaken a similar strategy and have joined the Corporation in its presentations and communications to members. The result is that there is a much more business-like focus by the industry and its participants and far better two-way communication within the industry. In effect, peak bodies are modelling on our best practice, -- they are professional, accountable and personalising their service as the AHC has done.*

### **(iv) Funding peak industry bodies**

*Adequate funds are essential if participating peak industry bodies are to be professional and accountable and provide the leadership required of the industry. The AHC has worked with industry, and with Government, to develop guidelines to ensure adequate funding of participating industry peak bodies. This has resulted in guidelines that are acceptable to industry and that have provided a sure foundation for their continued financial viability.*

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## **(v) Strategic planning**

*The AHC has initiated the process of strategic planning with all participating industries and potential participants. For the first time industries have a vision for their future, the objectives they wish to achieve, and the strategies for their implementation. They also recognise that strategic planning is an ongoing process.*

*The benefits of strategic planning are that each industry has "ownership" of its own programmes, and the AHC is able to implement priorities based on those programmes.*

*Important side benefits are that industry participants recognise that they, as individual businesses, also need to go through the strategic planning process. An outcome from one of the strategic planning workshops is that two participants from key export businesses in one State are likely to merge their operations to give them even greater economy of scale and a much better opportunity to develop export markets in the future.*

## **(vi) Quality**

*All participating industries now recognise that quality is an essential prerequisite to marketing. Because Australia is a high cost producer quality will be essential for profitable marketing.*

*As a result of its quality initiatives, the Corporation has been invited to participate as a counsellor on JAS-ANZ (the Joint Accreditation Scheme Australia-New Zealand) which is the peak quality certifying organisation for Australia and New Zealand.*

*No other horticultural organisations from Australia or New Zealand (including the New Zealand apple and pear or kiwifruit marketing boards) are represented on JAS-ANZ.*

*Interest has also been expressed in the Corporation's certification scheme as a basis for outside certification for other industries, including fish and forest products.*

## **(vii) Market research**

*The SE Asian fruit and vegetable trade and consumer market research as well research studies on the domestic fruit, vegetable and nursery markets initiated by the Corporation with the support of other organisations, were the first major studies to be undertaken by Australian horticulture. Not only are they benchmarks for the industry on both domestic and export markets, but more importantly they are providing a focus beyond the farm gate.*

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### **(viii) Food safety**

*Market research in Australia and Asia identified that consumers were concerned about what was in and on the foods they eat. The South East Asian research also identified that Australia had a clean and green image which was unmatched by other supplying countries. As a result, Australia's promotion of apples, pears and citrus by the AHC has been based on the line "the fresh clean taste from Australia" which has effectively differentiated the Australian product in the market place.*

*On the domestic market, the Corporation recognised as early as 1989 that a united approach to food safety issues was required by the Australian industry. It believed that such a body should be under the auspices of the Australian United Fresh Fruit and Vegetable Association. As a result, the Fresh Produce Watch was established under AUF with the AHC being invited on the executive management committee of that organisation.*

*When the Australian Consumers Association (ACA) raised the issue of food safety and pesticides they came to the AHC because of its impartial and leadership role. As a result of this initial approach the AHC has played an important part in bringing the ACA and the Australian Apple and Pear Growers Association together in a world first -- the joint signing of a pesticides charter in relation to pesticide management issues.*

### **(ix) New varieties**

*As early as February 1989 the Corporation recognised the role of new varieties, particularly in the apple industry, in satisfying changing consumer preferences.*

*Initiatives undertaken include the consumer evaluation of new apple varieties, in conjunction with the CSIRO Sensory Evaluation Unit, and the continual promotion and advice to the industry of changes and trends in consumer demands, both in Australia and overseas. Information was conveyed through the industry's Apple and Pear News as well as presentations to producers.*

*The outcome has been a much greater focus on the varietal planting mix in Australia and changes are underway with the new and more preferred varieties to satisfy both the domestic and export markets. For example, the production of Red Fuji apples is forecast to increase from 42 000 cartons in 1990 to 650 000 cartons in 1994. The Australian apple variety Pink Lady will increase from zero to 169 000 cartons over the same period and the equivalent figures for Gala are 6 000 cartons to 339 000 cartons.*

### **(x) Industry leadership**

*The AHC is increasingly recognised as the leader of, and focal point, for, the horticulture industry, both within the industry and by other sections of the community. Examples include:*

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## **Food Media**

*The Australian food media is increasingly recognising the AHC as its primary source of information on horticulture products. This is evidenced by the support given to the Corporation in promotional activities as well as the contacts made by food media representatives.*

## **National Food and Nutrition Policy**

*The AHC has been nominated by the NSW Health Department to the Oversighting Committee of the National Food and Nutrition Policy to be the horticulture representative in developing a national food and nutrition policy, on the basis that the AHC can "play a key role in developing implementation strategies which are practical and encompass a range of sectors in the food system". The benefit will be that the interests of horticulture will be represented in the establishment of a national food and nutrition policy.*

## **Invitations**

*Because staff are seen as a national horticulture resource, there are numerous invitations to be at functions. The Corporation's target of grower presentations at least once a year is being more than met because of requests that are in excess of that target. The Corporation has also been a participant in national presentations, both in horticulture and other industries including quality management.*

## **Horticultural Policy Council**

*The Corporation has played a leading role in providing direction to the Horticultural Policy Council's "Future Directions" initiative. The Corporation is represented on the Future Directions Planning Committee and experience in strategic planning with industry has been invaluable in ensuring that the Future Directions exercise is well focused and directed. The Horticultural Policy Council provides advice to the Minister on horticultural issues.*

## **(xi) Delegated authority**

### **Market Access**

*In May 1989 the Corporation recommended to the Horticultural Policy Council that a market access committee be established to focus on market and product priorities.*

*The Policy Council supported the recommendation and went further and proposed that market access was a responsibility of the Corporation. The Corporation accepted this responsibility and has been instrumental in bringing industry and Government together to focus on product and market priorities for access. The benefit has been a planned approach to market access and success in Indonesia, United States and to a lesser extent, Taiwan.*

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## **Quality**

*The AHC has always seen quality as a priority strategy. This was reinforced by the Horticultural Policy Council when it recommended that the Corporation take a leadership role in the development of a national voluntary scheme for horticulture.*

*This approach has been supported by the Standing Committee of Agriculture. The outcome has been that the Corporation has developed a national scheme that is internationally recognised "the Australian Horticulture Quality Certification Scheme".*

## **Trade Promotion**

*Initiatives by the Corporation have meant that Australia's international profile has been raised in markets where previously no activity has been undertaken. For example, the Corporation was instrumental in establishing an exhibit with other Australian organisations at the Produce Marketing Association Convention and Exhibition in the United States. Another initiative has been participation by Australia in the Taipei International Food Industry Show in Taiwan involving the Corporation and leading Australian exporters.*

## **Conflict**

*Those who stand to gain most from the existing less-than-perfect marketing arrangements have been, and will continue to be, critical of the AHC's initiatives.*

*For example, the provision of timely international market information to the wider industry is not necessarily in the interests of those exporters who operate as traders.*

*In addition, the proposal of alternative shipping arrangements such as those to the United States are certainly not in the interests of all those involved in the current shipping arrangements. However, the Corporation and the industries, through their strategic plans, identify that such activities are important for the Corporation to undertake on behalf of industry. The more successful the Corporation is in achieving those objectives, the more there will be conflict with some of those within the industry.*

## **(xii) Corporate management**

*The Corporation has demonstrated a structural flexibility that best meets the needs of industry participants. When the Corporation was first established it had a divisional structure but this has evolved to the present time where a functional structure is in place to best achieve industry objectives. There is a recognition that a divisional structure may again be appropriate as more industries participate.*

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*Regardless of structure the Corporation plans to stay small, flexible, mobile and professional. The Corporation has studied the operations of other organisations and believes that it can stay smaller, leaner and satisfy industry demand to work smart and save money. For example, the AHC has responsibility in basically the same strategic areas as the Australian Meat and Livestock Corporation. The comparison is that the AHC has 13 staff while the AMLC has in excess of 270.*

*The approach to quality within the two SMAs is another case in point. The AMLC allocates \$9 million and 62 staff to quality assurance in the meat industry through Ausmeat. The Corporation's approach has been to provide the equivalent of one and a quarter people, plus the utilisation of subcontractors as required, to more efficiently use its resources.*

### **(xiii) Staff**

*Staff are the Corporation's greatest asset in a participative and inter-active organisation. A key feature of the Corporation's staff is that they have multi-functional activities and responsibilities.*

### **(xiv) Media awards**

*During 1990 and 1991 advertisements by the Corporation on behalf of participating industries won the following awards, nationally and internationally:*

#### **National**

- *Readers Digest Ad-of-the-Month March, May and July 1990; February, May and August 1991 for pears, apples and navel oranges.*

#### **International**

- *1990 International Film and Television Festival of New York -- Bronze Medal for apple commercials;*
- *1990 London International Advertising Awards (Print) -- Finalist for both the pear and apple campaigns;*
- *International Advertising Festival of New York (Print) -- June 1990 Bronze Medal for Apple Campaign and Finalist for pears;*
- *1990 Pegasus Award -- Bronze Medal for Navel orange advertisement (Print) from 10,000 entries.*

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## **(xv) International inquiries**

*The AHC is increasingly being seen as a focus for contact by the international trade.*

*For example, over 30 inquiries have been received from Europe seeking apple and pear export contacts as a result of a shortfall in Europe this season. Similarly the Corporation was the contact point for citrus importers in Hong Kong who were seeking alternative sources of supply as a result of the freeze in California in December 1990.*

## **(xvi) International profile**

*Since its inception, the Corporation has been instrumental in co-ordinating the development of Australia's profile internationally. For example, the Assistant Editor of Eurofruit, the major trade magazine in horticulture in Europe, was brought to Australia by the Corporation in February 1991. This exercise resulted in 16 pages of editorial on the Australian horticulture export industry in that magazine. In 1990 the Corporation invited the International Manager of the Delaware River Port Authority (Philadelphia) to outline the opportunities for Australian citrus in the US.*

*Philadelphia is the key entry port for Chilean and other product and through visits to major production areas, the industry was able to gain a first hand knowledge of the US market and competitor activity.*

*Other significant trade representatives have been brought to Australia from Europe and the US. The Corporation has also been instrumental in co-ordinating Australian horticulture participation at trade exhibits in the UJS and Taiwan.*

## **(xvii) Export culture**

*The Corporation has played a leading role in the changing attitudes of producers where there is a growing realisation that export has to be a component of the total market mix.*

*Examples include, Australia's recent success in gaining access for nashi to the US and initiatives being undertaken with citrus. When the nashi industry first joined the Corporation it was unaware of which export markets needed to be developed. The Corporation provided leadership and focus for the industry and efforts were concentrated on the US market. As a result access was successfully achieved in November 1991, based on a plan to develop the market from 1992.*

*With citrus the industry had been attempting for over a decade to gain access to the market. The Corporation provided a catalyst between industry and Government to develop a strategic plan to develop the US market. By setting targets, getting the product "pushed" from Australia and "pulled" from the US, market access is much nearer. The Corporation also took the initiative of*

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*appointing a lobbyist on behalf of industry to promote the Australian case in Washington. As a result of all these initiatives, and the work by industry and the Government, access is likely for Australian Navels into the US by June 1992 and the industry has a specific plan to develop the market.*

*The Corporation has also played a role in the apple industry in South Australia and New South Wales where new export initiatives are being undertaken that could add up to \$3 million in Australia's apple export income in 1992 and higher in later seasons.*



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