



Citrus Australia Ltd
Po Box 5091
MILDURA VIC 3502

**Submission to Productivity Commission
Inquiry into the Australian Government
Rural Research and Development
Corporations Model**

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Judith Damiani

CEO

Background

Citrus Australia is the national peak industry body for the Australian citrus growing industry. There are approximately 2,000 citrus growers based in every mainland state and territory, but concentrated in the Murray Darling Basin regions of SA, VIC, NSW and the Central Burnett region of QLD.

The Australian citrus industry is one of the largest fresh fruit industries in Australia, and certainly the largest fresh fruit exporter with an annual average export volume of 170,000 tonnes and a value of \$190 million. Citrus is also one of the largest fresh import categories in Australia, with annual volume of around 23,000 tonnes valued at \$33 million. The Australian citrus industry produces only around 1% of the global citrus production and competes directly in export markets with lower cost southern hemisphere citrus exporting countries such as South Africa, Chile and Peru.

Why should government provide funding support for rural R&D?

It is interesting to note that agriculture has been the outstanding performer with regard to Australian industry productivity growth over the past 10 years. Australia's biggest industry, finance and insurance, came in at number 5 and mining in fact had a negative result (ABS and IBISWorld, 10 year growth to F2009, %pa).

The horticulture sector is the third largest agricultural sector in Australia. ABARE estimated the Gross Value of Production (GVP) of horticulture sector was \$8.6 billion in 2008/09, up from \$6.5 billion in 2004/05. The sector accounts for an estimated 23% of the estimated 305,763 persons working in the agriculture sector in 2007/08 (AEC, 2009).

The national citrus R&D program commenced with the establishment of the Horticultural R&D Corporation (HRDC) and has successfully assisted industry development for the last 20 years. Horticulture Australia Ltd (HAL) is the industry owned R&D and marketing services company established during the merger of the HRDC and Australian Horticultural Corporation nearly ten years ago.

The citrus industry comprises around 2,000 citrus growers. A large number of these are small to medium businesses; are important to many regional communities and economies of Australia; provide Australian consumers with fresh citrus fruit and juice; and provide important export dollars to the Australian economy. More importantly government funding and direction assists in investing R&D dollars into areas such as biosecurity, climate change, water management and off-farm projects.

Significant public contributions are justified as benefits accrue to levy payers, regional/rural communities, associated value chain (nursery, packers, processors, marketers, wholesalers, retailers, exporters, consumers) and the environment.

The citrus R&D program is one of the largest R&D programs managed by HAL with the levy funded program supplemented by a program based on voluntary contributions of nearly equal size. In 2008/09 HAL invested \$1,812,156 in matched levy projects and a further \$1,794,126 in matched voluntary contribution projects.

Two per cent of the value of these programs has been invested by HAL in the across industry program in projects that provide a generic benefit to Australian horticulture.

The citrus R&D program covers:

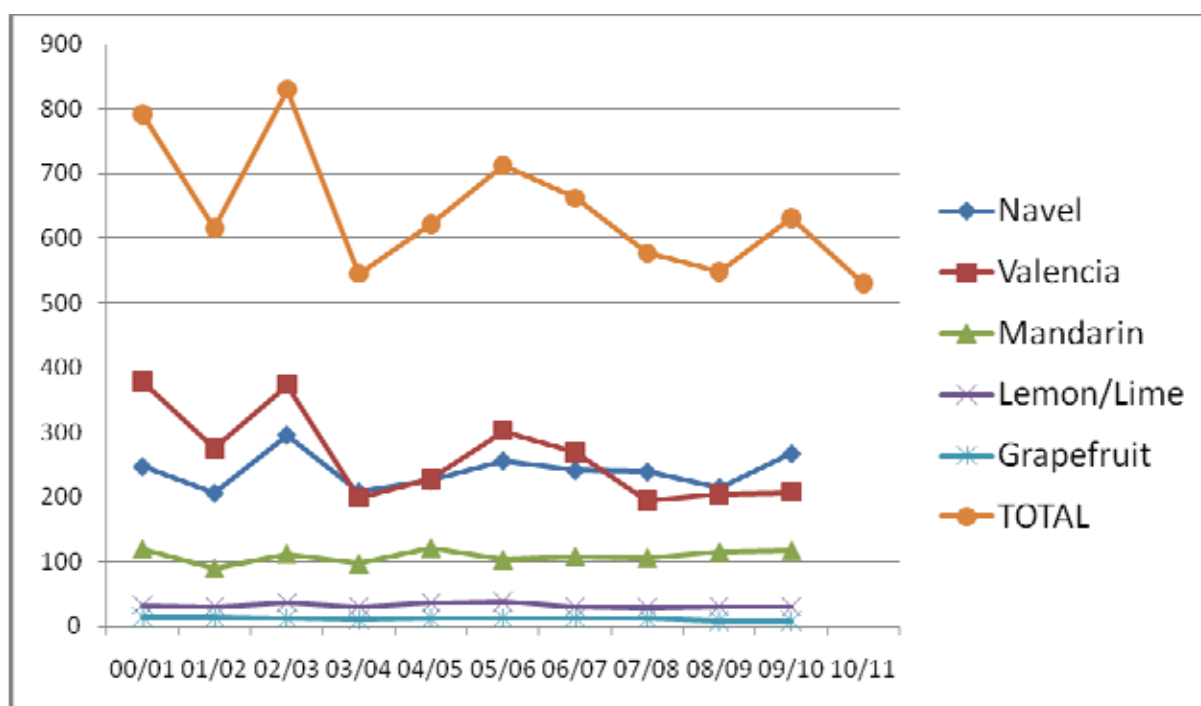
- citrus varietal and rootstock breeding and evaluation
- irrigation and fertigation
- postharvest and food safety
- fruit quality
- Various fruit fly projects eg sterile insect technique, verification trials
- Biosecurity
- Market access/MRL's
- Consumer research
- Industry information, communication and extension
- Industry capacity and leadership

The voluntary program attracts investment from regional organisations and commercial entities from the citrus value chain.

Recent internal HAL cost benefit analysis on mandarin commercialisation projects conclude that each dollar worth of investment would generate benefits worth between \$2.06 and \$2.90 during the project period.

The citrus industry has used the generally available assistance programs to increase investment in research and development and market development, addressing possible market failure. Productivity Commission Inquiry Report April 2002 "Citrus Growing and Processing"

The squeeze for value



Citrus production during the last ten years has seen a gradual decline, resulting from the varietal change away from Valencia oranges to higher valued fresh market varieties such as navel oranges and mandarins. The drought and years of low water allocations particularly in the Murray Darling Basin has also impacted.

As all citrus levies are tonnage based this has resulted in a decline in industry resources and R&D. Costs have increased without changes to the levy rates, diminishing the value of industry programs.

A reduction in government matching funding, and/or continued reduction in state government contributions or capacity in citrus R&D, will have a severe negative impact on individual producer's collective willingness to offset these reductions.

A focus on skills, governance, markets/value chain and grower investment

The industry has responded to the decline in part by a concerted effort into reviewing its strategies and structures, commencing in 2005.

In 2008 the national peak industry body Australian Citrus Growers Inc was wound down to make way for a new company limited by guarantee with direct grower members and a skills based board (including independent directors). This successful outcome was the result from years of intense industry consultation, independent reviews and a final grower ballot.

Grower membership is voluntary and is based on their investment in the industry (\$20 per hectare). Voting has been structured to reflect their investment and is based on one vote for every dollar paid in membership fee.

Though the company is only 18 months old, nearly 200 growers have voluntarily joined from every citrus growing region of Australia, with Australia's largest privately owned orchard AgriExchange Pty Ltd its top shareholder. Forty affiliate members have also joined, representing companies from across the value chain:
www.citrusaustralia.com.au/aspdev/about/structures.asp

Membership is growing strongly each year – we forecast an annual growth (based on actual and forecast) in membership of between 20 and 25 per cent over the initial five year life of the company.

Citrus Australia continues to review the multiple state and national citrus structures and levy rates with a view of reducing duplication and administration and providing greater value to citrus growers/levy payers.

- Radically changing RDC's to address governance and duplication issues and increase off-farm investment will not work unless there is a similar change to primary industries and their leaders/representatives/structures, due to their intrinsic linkages.
- Citrus Australia Ltd is a work-in-progress, demonstrating fundamental and significant change, and a positive role model, to industry leadership and representation.

Should the level of public funding have any regard to government support for rural industries in other countries?

The level of public funding should have some regard to government support for rural industries in other countries. There is significant level of federal and state government funding for R&D and marketing programs in the USA and Spain for example. Direct southern hemisphere competitor countries such as South Africa also enjoy centralised and subsidised research programs. Some countries still enjoy high tariffs such as South Korea. The Australian government on the other hand have been quick to reduce citrus tariffs to be either zero (fresh fruit) or 5% (citrus juice). It is imperative that matching government funds continue for citrus R&D, as it already represents a low subsidy model.

Is the RDC model fundamentally sound?

Yes. The RDC model has provided essential R&D to support the citrus industry adapt to changing policy and market conditions to be more fresh fruit marketing and export oriented. There has been continual improvement in governance and operational framework for horticultural R&D with the changes from HRDC to HAL

and there exists agreed plans within the HAL corporate and member base to continually improve.

How effective is the current rural R&D and extension framework?

Per head of population, Australians are probably over governed. There are too many local, state, territory and Commonwealth governments, primary industry departments, research institutes, industry organisations and commercial providers vying for limited rural R&D dollars.

Though sound, the R&D framework could potentially be made significantly more effective by greater (and genuine) collaboration and coordination between state-based research agencies, as well as international agencies and partners.

The Primary Industries Ministerial Council has called for the development of a national strategic framework for primary industry RD&E. We understand that the National Horticultural Research Network is currently reviewing an improved model for horticulture, and citrus/HAL is trialling a nationally coordinated pathology program using the 'lead agency' approach with varied success.

Greater access and linkages with past and current R&D both nationally and globally will be essential in increasing performance.

A more proactive process of strategic planning and prioritisation, and tendering for programs/projects, with market-focused performance outcomes would also improve the R&D and extension framework.

How effective are current industry consultation protocols?

HAL should continue consulting with their peak industry members and support their members in industry specific consultation activities. The peak industry body is responsible for representing its levy payers and should be supported, and encouraged, to adopt good governance and practices. It is important that peak industry bodies and HAL grow stronger together.

Significant, and ongoing, consultation results in key industry priorities and stronger R&D programs

A comprehensive industry strategic planning process was conducted in 2005/06, with support from DAFF, which resulted in a 5 year industry strategic plan. This plan was used by HAL in 2007 to review the 5 year citrus R&D strategic plan to align R&D investment.

In 2009 HAL, in conjunction with Citrus Australia (and independently facilitated) conducted a comprehensive industry needs assessment review in order to confirm industry priorities and direct national R&D investment in these areas. The process involved:

- Meetings with major regional organisations

- Individual in-depth interviews with key industry development people
- An on-line and mail survey of all citrus growers – with a pleasing 300 participating
- Individual in-depth interviews with 18 key value chain representatives
- Planning workshop

The recommendations included the need to develop stronger national programs in market development; information and data management; communications and capacity building.

Citrus Australia, has aligned its own strategic and annual operating plans as a result of this comprehensive review, and through the national citrus R&D levy program and its own funding base, is implementing these recommendations to benefit all levy payers.

To complement the industry plans and reviews the Citrus Australia board has appointed export marketing and domestic marketing skills-based advisory committees, with representatives from the citrus value chain. Citrus Australia also employs a Technical Advisor (biosecurity/market access) and contracts specialists as required. These committees assist in prioritising projects and workplans for Citrus Australia employees, based on industry needs and plans.

Citrus Australia also conducts an annual regional visitation program, in conjunction with board meetings, to consult with industry. A national conference is held each year in a different location, allowing local growers and industry personnel the opportunity to participate.

Are there unrealised opportunities for greater sharing amongst RDCs?

We believe there are unrealised opportunities in sharing skills and experiences amongst RDC's. For example export market access, development and promotion. This is a small part of the HAL business, and for an export oriented horticultural industry such as citrus we require more inspiration to excel. How can we collaborate, or share resources, with wine, meat, grains or seafood to become more internationally competitive or develop world class export programs?

Are the processes for amending levy rates unduly cumbersome?

There currently exist guidelines for levy consultation with respect to new or amending existing levy rates. The process for comprehensive consultation with levy payers and industry is extremely resource intensive, rather than solely cumbersome, and is faced with many challenges including:

- Difficulty in securing a comprehensive database of levy payers
- Multiple state and national levy system in the citrus industry, creating confusion in levy payers (for example state statutory levies exists in SA, Murray Valley and NSW Riverina, with a fee-for-service in WA)

- Ballot-style voting. The Australian Government agreed that a simpler consultation process and vote from a Peak Industry Body meeting was sufficient to create an Emergency Plant Pest Response Deed levy. This process is certainly less challenging than an independent postal ballot of known levy payers.

There are also costs involved in levy collection, by DAFF's Levy Revenue Service, which need to be considered when structuring a levy rate.