SUNRAYSIA CITRUS GROWERS INC.

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SUBMISSION TO THE

Senate Standing Committees on Rural and Regional Affairs and Transport

Review of the Citrus Industry in Australia

Submitted by:
Sunraysia Citrus Growers Inc.

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About Sunraysia Citrus Growers Inc.

Sunraysia Citrus Growers Inc (SCG) is an Agri Political body, which represents citrus growers from the South Australian border to Boundary Bend in Victoria. Most of our 180 grower members are located within a100 km radius of Mildura in both Victoria and New South Wales.

SCG is funded by voluntary, grower production-based subscription and has been representing the interests of citrus growers for over 60 years.

Scale and Structure of the Industry

The citrus industry in the Murray Valley is made up of a mixture of small to medium family enterprises and larger corporate farms, including skeletons of former MIS.

The Citrus Industry is an export reliant industry. It experienced significant growth between 1998 and 2008 due to export market demand in the United States and mass plantings by Managed Investment Schemes (MIS). These plantings are now in full production, but the US market has since diminished due to competition from lower cost producers and the difficulty of exporting under the current exchange conditions. New markets have not developed fast enough to offset this lost market. This has resulted in a significant oversupply of Navel oranges on the domestic market, with returns well below the cost of production.

The previous two seasons have placed the citrus Industry under extreme financial pressure. Rapidly escalating local production costs such as wages and electricity as well as downstream processing costs have combined with the high $A to produce the worst financial performance in living history.

This has compounded the consequences of the Millennium drought which were particularly harsh for growers of permanent plantings.

Recent expansion into the Chinese Market offers potential for significant growth – particularly for medium sized first grade oranges. China will be a growth market for oranges as well as other varieties but requires extensive and expensive on property management and extreme diligence in meeting protocol requirements throughout the supply chain.

There is a global trend to seedless mandarin or 'easy peel' varieties. The Australian Industry has commenced this transition – notably with plantings of the Afourer variety. This is very much a work in progress and will be a structural challenge for the industry over the next few years

There is significant fracturing of organisations within the Southern Australian Citrus Industry. SCG is disappointed that this has occurred. In particular we are disappointed at the vendetta against State Based Boards undertaken by Citrus Australia. The State Boards have the ability to collect funds in an equitable manner for industry development. As an example, this has been critical for managing recent QFF outbreaks and gives the industry credence when negotiating with Government on such issues.

SCG supports the continuation of the Murray Valley Citrus Board (MVCB) and believes that they will be constructive participants in the future evolution of the Citrus Industry in this region.

Opportunities and Inhibitors for Growth of Industry

New Varieties

Varietal change is an integral part of any horticultural industry.

Easy Peel Seedless Mandarins currently provide the greatest opportunity for growth in the citrus industry. Such structural change is very costly and involves long lead time. There is significant risk that some varieties (often heavily marketed by Private owners), may not be suited to Australian growing or market conditions.

It is crucial that independent research by Government agencies is maintained to evaluate the many new varieties and facilitate informed investment.

Queensland Fruit Fly

Queensland Fruit Fly (QFF) is the greatest regionally sourced cost penalty imposed on the Southern Australian Citrus Industry.

The direct cost to growers in this region is in the vicinity of $50/tonne of fruit picked with total direct costs estimated to be in the order of $6m in this region. This is incurred in meeting cold disinfestation and associated protocol based charges.

Additional costs are incurred in regionally based control measures such as those undertaken by the Murray Valley Citrus Board. There are also indirect costs associated with marketing fruit which is perceived as being of lesser value due to the requirement for cold treatment.

The Citrus Industry in this region has a long track record of contributing financially to Fruit Fly control through the activities of the MVCB. Unfortunately, other fruit industries have not contributed financially, largely due to an absence of structures able to equitably raise industry funds.

The introduction by Government of a National Fruit Fly Management Levy on all host produce would provide necessary and equitable funds for the management, eradication and research into QFF. Such a levy would be welcomed by other industries as they also suffer significant economic losses due to QFF.

Biosecurity Threat of HLB

The greatest disease risk to the Australian Citrus industry would be an incursion of Huanglongbing (HLB Citrus Greening). This disease would decimate our industry as evidenced by outbreaks overseas. The biggest risk of HLB entering Australia is through the illegal importation of Curry Leaves from many Asian countries. Curry leaves are a known host of the disease and have already been detected by Australian customs. Biosecurity and Quarantine must be focused on preventing this disease from entering our shores and learn from the failings that led to the Queensland Canker Outbreak.

Spiralling Electricity Costs

Electricity is a major cost of citrus production through irrigation, packing, storage and processing. Water and nutrient efficiency is dependent on acceptable and sustainable electricity costs. The cost of Electricity has risen to a threatening level and citrus producers, along with other small businesses, received no compensation to offset the Carbon Tax.

Competing Directly with Lower Cost Producers

Our industry has developed many strong markets and fostered new growing technologies. Despite this, lower cost producers such as Chile and South Africa have been able to erode our markets through strong price competition. A reduction in export compliance costs would allow our product to be more competitive. The removal of the 40% rebate on export charges by AQIS two years ago came at the worst time for our industry. This rebate should be reinstated immediately to provide some relief to our export trade.

High Wage costs

Our industry is a large employer of seasonal skilled and unskilled labour. Wages would be the largest single item of business expense for every citrus grower in the region – often approaching 40% of total costs.

Like many regional agricultural industries, the citrus industry has seasonal labour demand and has to contend with the vagaries of climate and markets. This inevitably requires flexibility in working hours and conditions.

SCG is disappointed that recent and proposed changes to award conditions are limiting that flexibility. Examples include increases in penalty rates and restrictions on working hours. Packing sheds will often operate two shifts to manage fruit volumes during the peak of the season. These shifts may be outside the permissible normal hours or fall on a Public Holiday, thus attracting significantly higher rates under the Horticulture Award. These higher costs result in lower returns to growers.

The growers we represent have no ability to pass these costs onto anyone else and in recent years, a casual fruit picker would be receiving greater payment than the owner of the business.

Water Security Concerns

The Murray Darling Basin Plan has done little to provide our industry with the water security and reliability required for citrus production. Interruption to water supply can lead to crop failure and/or long term crop loss. Uncertain water security limits the growth potential and investment decisions of our industry. The operation and integrity of High Security/Reliability water licences must be guaranteed by the Government.

Citrus growers are now highly reliant on water trade, many having sold down water licences for financial survival. Water trade continues to be complicated with varying state costs, carryover provisions and season closure dates. The greatest risk in the water trade market is the lack of licensing requirement for water brokers and no legal obligation for them to operate trust accounts. The Government must act immediately to fix this issue before growers suffer severe financial loss.

Competition Issues in the Australian Market

The Dominance of Supermarkets

The Supermarket duopoly in Australia limits the alternatives to supply and consequently creates downward pressure on fresh citrus and juice products. Domestic prices are determined by the supermarkets and our industry remains a price taker whilst oversupply continues. Retail prices are often highly inflated and don't reflect the return to growers.

Labelling Laws on Orange Juice

Consumers continue to complain about the ambiguity of orange juice labelling. A clear standard must be imposed highlighting the actual quantity of fresh or concentrate juice in the product and the countries in which the fruit was grown by proportion.

Minimum Australian Juice Content

A guaranteed minimum Australian juice content of 25% would give consumers confidence in the product. A minimum content would also underpin our industry by providing an economic outlet for lower grade fruit thus reducing pressure on domestic fresh markets.

A Case Study of Unfair Policy - Contaminated Juice

Our overseas competitors often operate under less stringent regulatory arrangements.

An example of this is the permits and residue limits of some chemicals. A case in point involved the chemical Carbendazim last year. This chemical has been banned from use in Australia for a number of years with a zero tolerance. Last season, Carbendazim was found in Brazilian Orange Juice concentrate imported into Australia by a large multinational beverage company. Use of this contaminated product had been banned in the United States but was allowed in Australia
This double standard is not acceptable. There is a serious credibility and integrity issue around the decision. It is a blight on our chemical registration system and a fraud on Australian consumers.

Adequacy and Efficiency of Supply Chains in the Australian Market

High Transport Costs Due to Increasing Fuel and Registration.

Increasing fuel and road transport registration costs are decreasing returns to growers. Rail freight alternatives are often slower due to poorly maintained infrastructure and are not always practicable. Improved rail infrastructure and standardisation of gauges would allow greater use of 40 foot containers, higher speeds and better cost efficiency. Like all costs, freight is ultimately borne by growers.

High Cost of Cold Storage Due to Carbon Tax Impact on Electricity and Refrigerant Gas.

Cold storage and treatment are crucial to the citrus industry. Following the introduction of the Carbon Tax, the cost of running cold storage facilities has escalated due to higher electricity and refrigerant cost. These additional costs were not compensated and are being carried directly by growers.

Opportunities and Inhibitors for Export and Export Growth

China, Korea and Thailand Markets

The export markets of China, Korea and Thailand provide the greatest opportunity for export growth in the future. These markets have been developed over the past few seasons and will continue to grow with careful management. The current system of Horticulture Australia Limited (HAL) regulated price control for the Chinese Market, must be maintained to prevent Australian exporters competing aggressively for market share. Such competition would erode margins and returns to growers.

Difficult Market Access and Protocol Arrangements

The emerging export markets listed above are relatively costly to supply due to more stringent market access and protocol arrangements. These impediments are both at a production level and at a regulatory compliance level. Revised protocol arrangements similar to those with many of our existing export markets would allow more rapid growth in the emerging markets. Unfortunately, we do not enjoy similar protocol arrangements to those of many of our competitors. This places us at a distinct disadvantage. Government assistance in negotiating more favourable trading arrangements would be highly beneficial to the industry.

Commercial Issues relating to Trade with China

The Chinese Market has great potential for Australian product. There are however commercial , legal and cultural issues in trading with China which present challenges for the Australian Industry.

Credit insurance products which are available in most other markets are not available for trade into China. This risk is enhanced by the high cost of destinating product into China

AQIS Charges

Despite huge increases in AQIS fees to export establishments, industry has not received improved or more efficient service. Due to the nature of our industry, late orders and logistics delays are often inevitable. AQIS operations are often not flexible enough to work concurrently with our industry needs. Whilst there have been some improvements, such as the registration of in-house inspectors, more measures are needed to achieve optimum efficiency.

Exchange rate

The high Australian dollar has had a significant and detrimental impact on the export of Australian Citrus. Whilst our dollar continues to gain value, many of our competitors are having currencies manipulated by their Governments to support and promote export. The Australian Government should be acting with similar intent and self-preservation to protect our exports, industry survival and jobs.

Related Matters

Industry Representation and Levy Funds

Unfortunately, the citrus industry is not unified behind Citrus Australia Limited (CAL)(the peak national body), with a relatively low number of voluntary grower members. Growers in the Murray Valley voted last year to retain the Statutory Murray Valley Citrus Board, despite a concerted campaign against the Board by Citrus Australia.

We have significant concerns relating to decision making around the allocation of the National R&D Levy. SCG believes that high standards of governance are mandatory particularly as half of the funds come from general taxpayers.

Current practises on the IAC do not meet this expectation.

Members of Citrus Australia dominate the recommendation process. Citrus Australia is the principal recipient of the R&D funding and the approved projects are the principal source of income for Citrus Australia. This is a blatant conflict of interest.

SCG believes the IAC must be able to function with anyone perceived as being associated with Citrus Australia 'out of the room' with a declared Conflict of Interest whenever an application from Citrus Australia is being considered. The current membership of the IAC does not allow this. This also raises issues as to the selection process for the current IAC members.

A consequence of current funds principally going to Citrus Australia is that applications from other entities can be sidelined by the dominant CAL membership of the IAC with the consequence that the only available funds then go to CAL applications.

Citrus growers demand strong industry representation that is transparent, well governed and consults with all industry stakeholders. Citrus Australia and all other representative bodies must work together to achieve efficient outcomes that add value and profit to our industry now and into the future.

Recommendations

1. Introduce a National Fruit Fly Management and Research Levy on all host produce.
2. The Government support and maintain independent Research and Development agencies.
3. Ensure Biosecurity can prevent incursion of Citrus Greening (HLB).
4. Review Electricity, Fuel and refrigerant costs.
5. Review Penalty Rates and allow flexible work hours.
6. Ensure Secure and Reliable water supply to licence holders.
7. Immediate Regulation of Water Brokers.
8. Improve Juice labelling and introduce Minimum Australian Juice content law.
9. Review inequitable standards for chemical use and limits.
10. Maintain price guidance in emerging markets.
11. Facilitate improved trading protocols and market access to China, Korea and Thailand.
12. Facilitate the development of Credit Insurance for exporters to China.
13. Ensure AQIS is more efficient and flexible.
14. Require significant improvements in the Governance standards in the allocation of the National R&D levy.

Conclusion

The Australian Citrus Industry is experiencing its most difficult trading conditions in its long existence. The high Australian dollar, increasing costs, lost markets and competition from lower cost producers are all taking a toll on our industry. Despite this, emerging markets such as China provide great opportunity for future growth.

A will by Government to facilitate strategic and logical changes can ensure that the Citrus Industry can survive, prosper and grow.

We hope that the Committee seriously consider our recommendations and would be pleased to provide further details or clarification. We would also welcome any opportunity to appear before the Committee.

Vince DeMaria
Chairman
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