Citrus Australia - SA REGION

Con Poulos
Chair

To The Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
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SUBMISSION

INQUIRY INTO REVIEW OF THE CITRUS INDUSTRY IN AUSTRALIA

Introduction

As the peak body for the citrus industry in South Australia we thank the Rural and Regional Affairs and Transport References Committee for the opportunity to provide you with a submission.

Our submission will cover issues outlined in the Terms of Reference, and will have a focus on the citrus industry in South Australia.

Background on the Citrus Body

Citrus Australia – SA Region is a relatively new body that was officially formed in October 2012.

Previous to the establishment of our committee South Australia had two citrus groups representing the industry and growers namely - The SA Citrus Industry Development Board and Citrus Growers of South Australia.

After a period of consultation with all stakeholders it was resolved to form one entity to be responsible for representing the citrus industry in our state. The benefits of that included a much reduced levy for growers and one voice with a clear strategy of working with the national citrus body, Citrus Australia based out of Mildura in Victoria.

On formation we were called SARAC (South Australian Regional Advisory Committee) but have since changed our name to Citrus Australia – SA Region as to more accurately reflect what the body represents.

We are funded by the Primary Industries Funding Schemes Act (PIFS) at a contribution of $1 per tonne of citrus sold by South Australian citrus growers. We work under a five-year management plan that was developed with growers and industry which outlines what programmes and initiatives the $1 contribution is to be spent. The management plan will be reviewed annually.

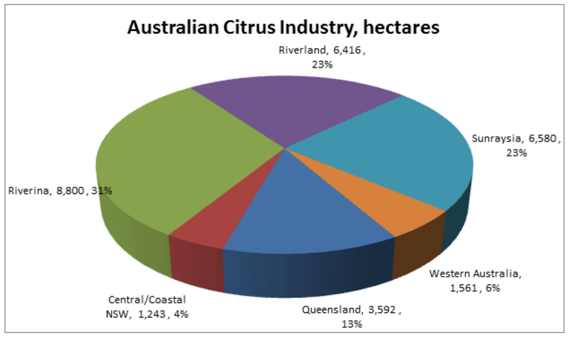
The committee is made up of volunteers who are both growers and citrus industry participants and are responsible for representing the views of the $90 million annual SA citrus industry.

Yours sincerely,
Con Poulos
Chair
Citrus Australia – SA Region

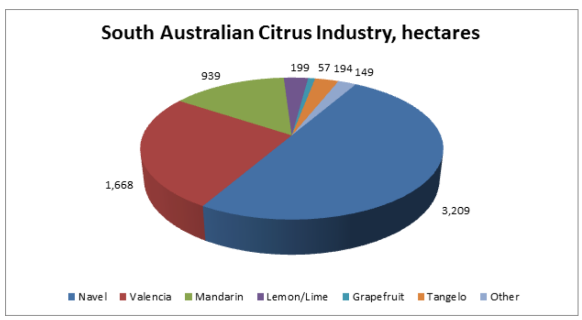
On behalf of the committee.

a) ***Scale and structure of the Industry***

The Australian citrus industry is one of the largest fresh fruit industries in Australia. The 28,000 hectares of citrus planted on some 1,800 properties represent capital investment of about $700m (excluding land costs) and additional supply chain investments in packing houses, cool stores and transport are significant. The industry produces around 600,000 tonnes annually, with a farm gate value of $450m and retail value approaching $1b annually.



The South Australian industry represents in excess of 450 growers with production on average around 150,000 tonnes annually. The farm gate value is estimated at $90m and a retail value of $350m with the majority of citrus in this state produced in the Riverland. The Citrus Industry has been and is vital to the region, providing jobs and is a major part of the Riverland economy.



Citrus is also Australia's largest fresh fruit export, with around 165,000 tonnes annually shipped to over 30 export destinations. Important markets include Japan, USA, Hong Kong, Malaysia, the Middle East, New Zealand and Indonesia. A more recent focus has been placed on the developing markets of China, Korea and Thailand. The industry has fully embraced the Asian Century initiative, and is investing heavily in developing new markets and trading relationships in the region.

The industry is a significant employment provider in regional Australia, with major production regions in South Australia, Victoria, New South Wales and Queensland. There are also plantings in Western Australia and the Northern Territory.

Navel orange plantings make up a substantial portion of the Australian citrus industry – 12,000 hectares out of a total of 28,000 hectares – and are by far the largest fresh citrus product. Valencia oranges are the next biggest variety, and form the basis of a domestic fresh orange juice sector. Lemons, limes and grapefruit make a lesser but important contribution to the citrus domestic market offer. But recent plantings are mainly mandarins, a trend that is predicted to continue in line with consumer preferences. The industry invests heavily in variety improvement, with an eye on better meeting future consumer demands. Oranges for processing (juice) make up around 28 % of the national crop.

The industry's peak body is Citrus Australia, which was established in 2008 following a decision by growers across the country to create a new centralised industry body.

The shift to a central peak body has seen the establishment of regional advisory committees in its major growing areas including South Australia, the Riverina, Sunraysia and Queensland. Further advisory committees cover the key issue of export marketing, domestic marketing and variety development. These committees form a strong consultation network, linking the peak body to all sectors of the industry. The new structure needs time to develop further. To have a central organisation coordinating efforts for marketing, biosecurity and industry lobbying makes sense.

Having state based committees representing the individual views of their state to the national body is the first time the industry has become united in this way and being a relatively new structure needs time to develop and be supported. In the short time the new SA Citrus body has operated most of the services previously offered to the industry continue despite a significant reduction in levy's paid by growers.

The peak body is funded by grower and affiliate membership and applies for project funding from the national R&D levy.

As stated in the introduction previous to our committee's formation South Australia's citrus industry was represented by two organisations. One was legislated and the other a voluntary grower group. In many instances they had differing ideas and programmes, which resulted in fragmenting the industry in this state.

One of the issues that the new committee faces is that are we are now a volunteer based committee with no staff or office.

The $1 per tonne levy is collected by Primary Industries and Resources SA (PIRSA) on behalf of the Minister of Agriculture who is the administrator of PIFS funds in South Australia. PIRSA, who on behalf of the Minister, also keep an administration fee for the pleasure of collecting grower contributions into the fund. Out of an available estimated budget of $150,000 we lose around $25-$30 000 to administration.

We have found that we are unable to access details of our grower base due to privacy laws. These details were previously held by the SA Citrus Board under the requirement to be registered under the Citrus Industry Act. We are provided with the details of growers who have requested a refund but are unable to access the details of growers who contribute. This restricts our committee's ability to contact the actual people we are representing.

A further issue relates to industry statistics which were also collated by the SA Citrus Board. This includes size, type and age of plantings which are not allowed to be released to the new committee as they were collected under legislation which again is protected by the Privacy Act. This situation is ridiculous as the new committee represents the growers who pay the levy. We have been fortunate to have been provided with a reasonably detailed list of growers from the previous grower body Citrus Growers of SA who were also unable to obtain the information from the SA Citrus Board.

Whilst growers have welcomed the reduced contribution rate the industry has lost some benefits of having at least a full time employee to lobby on the South Australian citrus industry's behalf.

The ways in which Government can help address scale and structure issues facing the citrus industry include:

- Ongoing support of the current structure of a central peak national body with state based committees.
- Releasing statistical information from the previous body.
- Subjecting PIRSA to competition policy in regards to levy collection.

b) <u>Opportunities and inhibitors for growth of the Australian citrus industry</u>

In order to achieve growth, the Australian citrus industry must find increased markets for its produce. Unlike most horticultural industries in Australia the citrus industry is highly geared to export trade, with approximately 45% of all fresh product shipped overseas. This means that increasing our share of existing export markets and finding new ones is critical.

Regardless if the Australian dollar weakens, we can still expect serious competition from our main competitors South Africa, Chile and Peru. Unless we can get better market access and tariff conditions to China, South Korea and more markets in other Asian countries, we are going to be under a lot of pressure in the foreseeable future.

Factors that inhibit growth of the Australian citrus industry also include:

Labelling Laws

Knowing what they are purchasing is extremely confusing to the consumer. The citrus juice industry could benefit from clear and easy to read labels that would allow consumers what juice they are purchasing; if it is “Australian”, “fresh” or imported reconstituted concentrate.

Labour

Australia has some of the highest labour costs in the world. In addition to that we have very high compliance costs, and labour laws which all contribute to a very high cost of doing business when competing on a world scale.

Labour costs make up 40-45% of the input costs for citrus growers.

Water

Security of water has been a huge issue for all primary producers and in particular citrus growers. In recent times Australia suffered through the worst drought on record resulting in some citrus growers having to walk off their properties. With restrictions on how much water was available to keep permanent plantings alive many growers had no choice other than to watch their orchards die.

Water costs have increased dramatically in the last decade and in the peak of the drought primary producers allocations were reduced to as low as 18% for the year, not enough to keep their citrus planting alive and produce a crop at the same time. This forced growers to buy in temporary water with prices on the market increasing from around $50 a megalitre to over $1500 a megalitre.

Many growers borrowed heavily to keep their business afloat and are still suffering from the debt load they carry from those times. With the release of the final Basin Plan water security has not really improved as the new rules are still very unclear. There is no environmental watering plan, there is no undertaking to run the river in the next drought from CH & EW water. Growers justifiably fear that in the next drought they will once again be an easy target to source water from not only to supply “Critical Human Needs” but also the ambitious environmental targets which the Water Act gives priority to.

Power

As we are all aware power costs have increased dramatically and will continue to do so. The carbon tax has added to already increasing power costs due to other factors. This affects the entire supply chain with the increased costs being passed on to consumers. The problem for citrus growers is the price they are getting for their citrus has not reflected the increase in costs. With growers trying to find efficiencies in their businesses most have converted their plantings to drip irrigation.

This type of change improves the water security of their business but has increased the consumption of electricity. In simple terms the amount of water used has decreased but in turn pumps to run the new irrigation systems must be on for many more hours.

Transport Costs

With distances from our regional areas to the major markets transport has always been a large part of the citrus industry. This is another cost that steadily increases each year and is a fact of life of a primary producer in Australia.

One issue that will be a huge factor in the cost of transport is the transport industries’ fuel tax credit will again be reduced in July 2014 due to the current government’s carbon tax. This cost increase along with the increase in “B” Double registration is another inhibitor to our industry and all of regional Australia. An increase such as this can potentially have a huge impact on the entire supply chain affecting businesses that are already running on small margins.

The ways in which Government can help grow the Australian citrus industry include:

- Allocating more resources to achieve quicker results from market access negotiations
- Speeding up Free Trade Agreement negotiations which will reduce tariffs on our export products
- Reducing costs of inter-state movement of citrus products by standardising and streamlining the quarantine regulations of each state and territory
- Confirming the Murray Darling Basin Plan, which will improve the water security of our growers and give them the confidence to invest in the future?
- Reducing the production costs facing growers, carbon tax increases in electricity and fuel costs

c) Competition issues in the Australian market

Labelling Laws

Whilst country of origin information on whole oranges (and other fruits) has improved unfortunately labelling on packaged and bottled foods has not. A company can get around the Food Standards Code by calling itself "Australian-owned", but it could be making its products offshore. It may also be stating something is "Made in Australia", when it is made from mainly imported foods that are then packaged here.

The industry is increasingly alarmed at how confusing and misleading labelling on fruit juices can be for consumers. We are renewing our calls for simpler and more accurate product information. Whilst previous Inquiries have looked at labelling laws and country of origin labelling, we are still looking for a solution that is fair to growers, processors and retailers. Most importantly these laws need to be addressed in order to give consumers the clear choice to know that what they are purchasing is a product that is grown in Australia and is supporting Australian growers and industries. Fair laws would allow Aussies who want to be patriotic and buy the best quality food in the world to do so. The very least this Inquiry could do to help our industry is to address the inequity in labelling laws.

Duopoly

With the size and strength of the retail duopoly increasing each year this has an effect on many primary producers including citrus growers. The citrus industry's reliance on the two major retailers means we are now price takers, not price makers. A member of our committee recently saw Valencia oranges for sale in one of the duopoly's stores for $5.99 kg. The farm gate price paid to growers in the same period was 5–18 cents per kg. With cost of production for oranges estimated at around 30 cents per kg this sort of ridiculous price increase from farm gate to retail will force more growers off their farms.

The competitive trade police, the ACCC, are obsessed with providing "competition" while watching farmers endure all sorts of angst and not ensuring a "fair" price for food produced. We have "fair trade" programs for coffee growers in third world countries but not for our own farmers. If growers are unable cover their cost of production then their viability is threatened.

Supply

The window of supply for Australian grown citrus is also under threat. Northern hemisphere citrus producers are continually increasing their range of citrus varieties imported into Australia. What this has done is increase their window of supply whilst at the same time reduce the window of Australian grown citrus on the shelves of our supermarkets.

As an industry we must change to meet the demand for new varieties focusing on what our competitors are doing and preparing accordingly. The national body has a keen focus in this area and has recently held regional forum and variety days around the country to discuss this key area.

The ways in which the Government can help combat competition issues facing Australian citrus include:

- Increase consumer awareness of country of origin – Australian produced/grown.
- Encourage support and compliance with the voluntary fruit juice industry code of practice.
- Address the issue of the duopoly on the profitability of Australian producers.

d) <u>Adequacy and efficiency of supply chains in the Australian market</u>

The citrus industry's main production regions are remote from capital cities and export ports – the increasing cost of freight to these destinations is a serious supply chain inhibitor.

Our packing sheds and irrigation pumps are heavy users of electricity – huge power cost increases are a drain on production and processing (electricity costs have risen by 25 per cent due to the introduction of the carbon tax alone).

Certification of export consignments in Australia is also expensive compared to that of our competitors – efforts need to be made to streamline these processes.

<u>Code of conduct</u>

Another issue that needs to be looked at is the voluntary code of conduct between growers and citrus packers. In the supply chain a citrus grower who sells directly to a wholesale market or retailer is somewhat protected by a mandatory code of conduct. When the packers sell the growers fruit to the market they are also protected by a code of conduct.

The failure in the supply chain is as follows. When a citrus grower supplies their fruit to a packer, which is how the majority of citrus is sold in Australia, there is no mandatory code of conduct to protect the grower. In most cases the fruit is picked, sent to the packer with no guarantee of the price paid being above cost of production. There is no set time for the grower to know what price they will be paid for their fruit or what the mix of their fruit is going to export or domestic market. With no mandatory code of conduct in place across the board, each pack house has a different system in place which not only varies from packer to packer but may vary from season to season. The main issue with this is a grower who is informed in a timely manner of what price their product is realising they can make the decision to stop picking or seek another buyer. In some cases the entire crop of citrus has been picked and sent to a packer to find out weeks later that they have not covered their cost of production and have lost money harvesting their citrus crop.

Whilst many packers do the right thing and have systems in place that they have developed with their grower suppliers it is a voluntary code. Growers must be protected by a mandatory code of conduct as this is a massive failure at present in the supply chain.

This must be addressed.

The ways in which the Government can help improve the supply chain issues facing Australian citrus include:

- Assistance around cost of freight
- Reducing taxes on fuel and electricity
- Streamline the certification of export consignments to help make our export sector more competitive
- Facilitate growers and packers to develop a mandatory code of conduct

e) ***Opportunities and inhibitors for export growth***

Citrus is the largest exporter of fresh horticultural product, exporting around 45% of our crop. We need to maintain and grow that percentage to prevent flooding the domestic market with citrus. Every carton we send off shore is a carton we don't need to sell here, easing supply issues domestically and price pressures.

Asia is the most promising market for Australian citrus, but many countries which currently accept Australian citrus demand export protocols that are difficult and expensive to meet.

Recently, Australia gained access to the Philippines, which is likely to become a good market for Class 2 fruit. However, major new markets for Class 1 fruit, such as China, Korea and Thailand are required to absorb the production that was previously exported to the United States pre 2009.

Other issues affecting export growth include:

High Cost for Small Exporters

Recently the extraordinary decision was made federally to increase the Australian Quarantine and Inspection Service (AQIS) fees from $500 to over $8000. These fees apply as export inspection fees.

This fee does not take into account the size of the business exporting and is an across the board fee to all exporters. This has put in jeopardy a considerable amount of small citrus export businesses. Many of the small exporters have worked hard for years to gain access into overseas markets and have now stopped exporting as they cannot cover this increase in costs.
If this terrible decision is not rectified soon many will lose the markets they worked hard to gain entry into and will not only impact their own business but has the potential to see this previously exported fruit get dumped on the Australian domestic market affecting the entire supply chain.

High shipping container costs for all exporters also has an impact on the viability of the Australian citrus export industry. This makes the Asian markets all the more important for our future of exporting and gives us a small advantage over our competitors into these markets.

Biosecurity

This is the single biggest threat the citrus industry faces.

Managing biosecurity risks is increasingly falling on growers, who are already struggling with increased production costs. Threats such as Huanglongbing (citrus greening) have the potential to wipe out entire orchards and regions that become affected. The disease has been found in close northern neighbouring countries and spreads rapidly.

It is a constant battle keeping out fruit fly in the state with South Australia being the only mainland state to be classified as fruit fly free. The SA Region committee has focused on lobbying the state government to do all it can to maintain our status and are involved with PIRSA and Biosecurity SA in educating all South Australians on how important it is to be vigilant.

With each state responsible for its own biosecurity campaigns there is a need for the entire industry to look at the National Fruit Fly Strategy that was developed in 2008 which has largely sat idle since being formed.

Tariffs

We continue to hear of high tariffs being imposed on our exports of fruit into Asia in the name of protecting their local growers. Australia allows imports tariff free, this is not free trade. All fresh citrus imported into Australia comes in tariff free.

This is a list of some key export markets that currently apply a tariff to Australian citrus entering their markets.

China	Oranges	- 11 %
	Mandarins	- 12 %
Republic of Korea	Oranges	- 50%
	Oranges Outside of Quota	- 144%
Japan	Oranges	- 16% - 32%
	Mandarins	- 17%
India	Oranges	- 30 %
	Mandarins	- 30 %

Market Access

The national body Citrus Australia has a programme in place for increasing market access in new and emerging markets and have recently created a further market access position.

In recent years individual packers have been largely left on their own to work on market access. DAFF play a key role in assisting to help agriculture open up trade opportunities for Australia's agricultural exporters and maintain existing trading relationships. Questions can be asked, do we have people in DAFF specifically looking at the citrus industry. Do we have the right people in DAFF that are looking at specific citrus varieties into specific markets to benefit the citrus industry? As Australia's largest fresh produce export item is enough funding and time being spent by DAFF on the citrus industry?

These questions may best be answered by others in this Inquiry as market access is not a key responsibility of this SA committee who work on a shoe string budget to look after the industry in South Australia.

The ways in which the Government can help grow citrus exports include:

- Devoting resources to opening up priority markets.
- Assistance in developing export protocols that are uniform and which will improve our access to Asian markets.
- Partnering with industry to find solutions to market access obstacles – we are ready to invest and commit to finding and adopting ways of increasing trade.
- Trade between countries can be progressed through government building relationships with appropriate officials in corresponding countries. This can be achieved through the organisation of and participation in trade visits or through specific wording in trade agreements. Trade can only progress where mutual respect is built and a relationship developed.
- Progressing Free Trade Agreements which will provide us with a level playing field with our competitors in our key Asian markets.
- Reducing the cost of quarantine inspection services.
- Supporting the National Fruit Fly Strategy
- Review of DAFF citrus export staff.

f) Other related matters

We take this opportunity to summarise what we have attempted to address in our submission.

The Australian citrus industry is an important domestic and export industry for the country. As an industry and complete supply chain, it is a significant employer and is the backbone of many regional towns and economies.

For too long citrus growers have battled ever reducing bottom lines and have had years of drought also to contend with. If the trend continues unfortunately many more traditional small growers will be left to the wayside unable to compete with the larger economy of scale producers. It is not viable to sell your produce at, or below cost of production for an extended period.

Input costs for industry are increasing unabated each year and citrus growers, at the very least, need issues such as water security addressed now and not later.

There needs to be a shift in what varieties we are growing to meet the changing market and it seems the industry is listening with moves in that direction already occurring. Government can assist primary producers in this aspect by helping with the huge cost of replanting a citrus orchard.

There has been an abundance of grants in recent years across the irrigated areas of Australia of water license buybacks from the government. Almost all of these schemes have involved producers changing their irrigation setup to find water efficiencies and reduce the burden on the Murray Darling Basin.

South Australian growers are amongst the most efficient irrigators in the world and maybe it is time government looked at these types of schemes with redevelopment of plantings in mind. It takes around 5-7 years to begin producing from most citrus plantings.

The entire industry would benefit with the removal of aged and non-productive trees from the supply chain that tends to oversupply the market with smaller fruit that brings down the entire pricing structure of the industry. Worse than that is this fruit is either dumped or taken at a price which barely covers cost of production.
There are many smaller producers in the citrus industry that cannot afford to replant citrus and are switching to other crops such as wine grapes. These producers will be lost from the industry and will not return.

In our submission we touched on the issue of the high Australian dollar on the returns on our exports. This is one of the biggest pressures we face as an industry. The problem being neither we as an industry or this Senate Committee can change this.

Australia represents less than one percent of the world citrus industry. We have the highest input costs to grow our product and everything we export around the world is either shipped or airfreighted. We are competing with countries working off a much lower cost of production and more favourable exchange rate.

What our advantage is over most other producers is we grow some the best and cleanest fruit available. We must continue to market our citrus as clean and green and in turn we will be able to command a higher price on the world market.

We must also as an industry along with the help from government continue to promote domestic consumption of our own citrus.