

Chapter 3

Issues facing the Australian citrus industry

3.1 In addition to the concerns raised regarding the current industry structure, regional representation, and the allocation of levy funds, the committee received evidence in relation to a number of other issues of concern – both to individual citrus growers and the citrus industry more generally.

3.2 The following chapter outlines some of the issues currently facing the Australian citrus industry. These issues include the increasing costs of production and the impact of export fees and charges and imported juice concentrate on the viability of Australian producers. Also discussed is the intransigent problem of Australia's food labelling laws – specifically in relation to orange juice and juice products.

3.3 This chapter also outlines the problems raised by growers in relation to Australia's export markets. In particular, it discusses the extent to which Australia is encouraging and facilitating exports (and the development of new export markets) and what can be done to remove any impediments to Australian producers growing overseas markets.

Production costs/competition from lower-cost offshore producers

3.4 Over the past 30 years, the price per tonne of juice fruit has varied considerably. Recently, citrus growers had become hopeful that at some point the floor price of the industry would increase as Brazil planted more sugar cane, and both Brazil and Florida experienced problems with citrus disease.¹ However, this has not proved to be the case, and in the last season growers received an average return from the United States of \$215 per tonne. This scenario is problematic as 'growers need \$250 per tonne (based on 40 tonne per ha) just to cover costs.'²

3.5 Australian producers – particularly small producers – have been finding it increasingly difficult to compete with large, commercial organisations. Over recent years, additional competition – particularly from large juice importers – has increased the strain on small producers.

3.6 The committee was told that in order to compete with international imports, Australian growers have started to target their efforts more toward premium markets, which in turn has resulted in increased production costs.³

3.7 Over recent years, there have been general increases to costs such as chemicals, packaging, fuel and freight. However, it has been significant increases to the cost of labour, electricity (particularly for irrigation) and water which have been having a major impact on growers' ability to compete.

1 Mr Ron Gray, *Submission 12*, p. 1.

2 Murray Valley Citrus Board, *Submission 9*, p. 2.

3 South Australian Murray Irrigators, *Submission 33*, p. 2.

Labour costs

3.8 The committee heard that because it is difficult to automate the production and processing of citrus to market, labour is the single largest business cost for citrus growers. It was also noted that market variability is one of the 'realities of farming' and that, at times, with market prices of \$100 per tonne, there is little or no incentive for producers to grow or harvest a crop.⁴

3.9 The committee was told that labour costs – and more specifically recent changes to employment conditions – are major reasons why the cost of production is currently higher than returns. Sunraysia Citrus Growers (SCG) argued, for example, that changes to employment conditions are reducing the ability of growers to cope with irregular working hours:

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.⁵

3.10 This view was shared by the Costa Group (trading as AgriExchange). It was explained that citrus is harvested manually and, due to the ripening process and market demands, it must be picked seven days a week. It was argued that, for these reasons, the sector needs to have flexible workplace relations arrangements. It was also argued that:

As a seller in the domestic and international markets an increase in labour and production costs would diminish the competitiveness of AgriExchange in both of these markets.

AgriExchange is competing against low wage producing countries, a threat that would be further compounded by reduced labour market flexibility and increased costs.

This operating environment requires a spread of hours and shift work arrangements that enable the horticulture sector to maintain a level of flexibility and responsiveness in order to satisfy the unique seasonal operational needs of the sector and to avoid the incursion of a substantial increase in production costs.

This includes the retention of piecework arrangements which provide for greater flexibility and productivity, as they are well suited to the unique nature of the sector.

4 South Australian Murray Irrigators, *Submission 33*, p. 2.

5 Sunraysia Citrus Growers Inc., *Submission 20*, p. 3.

The attraction of piecework to productive pickers (and employers) is that they can work at their own pace and earn significantly higher rates than any minimum wage rate. The absence of this productivity incentive would see many pickers either leave the industry or simply not be as productive as they previously have been.⁶

3.11 In evidence, Griffith grower, Mr Frank Battistel indicated that whilst he had no issue with the money pickers were being paid, it needed to be acknowledged that, comparatively, Australian production costs are very high. Mr Battistel told the committee that, for example:

We [Australia] pay \$30 a bin; in South Africa, they pay \$3. Even in America, which is supposed to be a developed country or is a developed country, they pay about \$8 a bin. In South America, again, it is probably about \$3 or \$4. So you can see the difference. Then we have to go and compete in Asia and the rest of the world with those sorts of price differences.⁷

3.12 Mr Louis Sartor told the committee that high cost is relative, and can also be viewed as a proportion of what growers receive:

If we are paying \$90 or \$100 a tonne to have our fruit harvested and we are only receiving \$120 a tonne, it equates to 90 per cent of our total return. What we are not trying to do is reduce the cost as a percentage of our return. We are trying to increase our return so that we can go out there and pay fair market price for labour.⁸

Electricity and water costs

3.13 The costs associated with both electricity and water were described by a number of growers as being an ever-increasing burden.⁹ Mr Robert Smyth told the committee that his family citrus business currently collaboratively irrigates with 'approximately thirty other irrigators, with technology which allows us all to irrigate our trees to the trees requirement, to the extent we can pulse irrigate (several times a day)'. Mr Smyth indicated that with the cost of electricity for the pumping of water at today's prices, some growers are questioning whether they should have invested \$6 million in the irrigation system approximately fifteen years ago.¹⁰

3.14 Griffith grower, Mr Peter Taprell argued that increasingly, farmers are finding it more difficult to cover basic farm input costs such as rates, water charges and

6 Costa Group, *Submission 13*, pp 9–10.

7 Mr Frank Battistel, *Committee Hansard*, 3 July 2013, p. 14.

8 Mr Louis Sartor, *Committee Hansard*, 3 July 2013, p. 15.

9 See, for example, Mr Phillip Blacker, *Submission 10*, Sunraysia Citrus Growers Inc., *Submission 20*, Griffith City Council and Leeton Shire Council, *Submission 21*, Pinnacle Accounting Partners, *Submission 28* and Mr Graham Eipper, *Submission 40*.

10 Mr Rob Smyth, *Submission 6*, pp 2–3.

electricity, and as a result they have 'been forced to obtain off farm employment to survive and provide food for their families'.¹¹

3.15 Representative body CAL submitted that, in terms of production costs:

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).¹²

3.16 Fruit West's submission also noted that irrigation pumps are particularly heavy users of electricity, and argued that running costs have risen by as much as 25 per cent 'without the capacity or market mechanism to pass on these costs through the supply chain'. Fruit West also argued that due to the impact of rising input costs, the long term financial sustainability of the industry is at crisis point.¹³

Water security

3.17 In addition to the cost of water, submitters also raised concerns about water security and water trading. The committee was told that uncertain water supply and the complications associated with water trading can cause significant problems for producers. The committee was also told that the efficient management of water resources is essential to ensuring the long term sustainability of the citrus industry – particularly in the Riverland.

3.18 The Costa Group noted, for example, that the drought that has impacted South Australia and the Murray Darling Basin over recent years has resulted in a considerable number of citrus orchards being removed. It was also noted due to high replacement costs and uncertain market conditions, many producers have chosen not to replant citrus crops.¹⁴

3.19 The Costa Group argued that targeted public investment in infrastructure (including irrigation schemes, urban diversion, water delivery and storage systems) should be a priority and recommended investment in the following project areas:

- the reduction of wasteful evaporative losses from inadequate storage and transmission systems (including mandatory lining and covering or piping of all canal diversions from the river systems across the Murray Darling Basin);
- the elimination of all shallow or wasteful storage;
- the measurement of water use within crops using available technology;

11 Mr Peter Taprell, *Submission 11*, [p. 1].

12 Citrus Australia Limited, *Submission 15*, p. 23.

13 Fruit West, *Submission 36*, p. 3.

14 Costa Group, *Submission 13*, p. 6.

- the delivery of water through recommended water irrigation system(s) that are appropriate for the crop being grown, and the soil type it is being grown in;
- the use of composts and mulch to reduce water evaporation and improve the water retention capacity of soils; and
- technology to identify/map soils that are best suited to certain irrigation systems.¹⁵

3.20 The Costa Group also argued that, in developing the business rules of water resource sharing, the Commonwealth Government should give recognition to the states (in particular South Australia). It was further argued the Commonwealth should recognise those communities reliant on the Murray Darling Basin – for example the Riverland and citrus industry – that have historically made sacrifices by capping irrigation diversions, rationalising water delivery systems and adopting water conservation technologies in their own irrigation practices.¹⁶

3.21 SCG also raised concerns in relation to water security, arguing that interruptions to water supply can lead to crop failure or long term crop loss and that uncertain water security can limit the potential for growth and have a negative impact on investment decisions.¹⁷ SCG told the committee that:

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.¹⁸

3.22 SCG also told the committee that the Murray Darling Basin Plan had 'done little to provide our industry with the water security and reliability required for citrus production', and argued that the operation and integrity of high security, reliable water licences should be guaranteed by the Government.¹⁹

Export and export growth

3.23 Submitters noted that opening up priority markets was essential so that products could be marketed internationally in an affordable and achievable manner. For example, Redbelly Citrus raised concerns at the absence of a trade agreement between Australia and Japan for citrus fruits, for example blood oranges, resulting in

15 Costa Group, *Submission 13*, p. 7.

16 Costa Group, *Submission 13*, p. 7.

17 Sunraysia Citrus Growers Inc., *Submission 20*, p. 3.

18 Sunraysia Citrus Growers Inc., *Submission 20*, p. 3.

19 Sunraysia Citrus Growers Inc., *Submission 20*, p. 3.

complex arrangements for citrus imports, driving up costs and reducing competitiveness.²⁰

3.24 CAL argued that improvements to trade relationships can only be achieved by building an atmosphere of mutual respect and creating equal opportunities with competitors, particularly in relation to Asian markets. CAL told the committee that the Commonwealth government could assist the development of relationships and improved trade agreements by increasing Australia's level of participation in, and organisation of, trade visits (and other forums for discussion).²¹

Background - export markets²²

3.25 Over the last three years, citrus has been Australia's highest value fresh horticulture export product and accounted for 31 per cent of the total value of fresh fruit and vegetable exports (or A\$162 million) per annum. Although export markets are important to the Australian industry, the United States, South Africa, and more recently Chile and China, supply the bulk of citrus to international markets.

3.26 Australian citrus currently competes with citrus from South Africa, Chile and Peru during the southern hemisphere season (which is between June and November) and the United States which has a significant impact in the early part of the season.

3.27 Oranges account for approximately 80 per cent of Australian citrus exports, mandarins 19 per cent, and the balance of Australia's citrus exports are small volumes of lemons and grapefruit. In 2012, Hong Kong and Japan were the major export destinations for Australian oranges (Hong Kong 22.9 per cent of exports, 30,900 tonnes and Japan 22.1 per cent of exports, 29,800 tonnes). Significant volumes of Australian oranges were exported to Malaysia (8.6 per cent, or 11,600 tonnes), the United States of America (8.3 per cent or 11,200 tonnes) and Singapore (7.8 per cent, or 10,400 tonnes) with the remainder of Australia's oranges exported to smaller markets throughout the world.

3.28 Australia is one of Japan's major suppliers of oranges, particularly during the southern hemisphere export season. In 2012, Australia accounted for 21 per cent of all orange exports to the Japanese market and was the second largest supplier of mandarins (accounting for 10 per cent of all exports to the Japanese market). A growth in exports – particularly mandarins – into the Japanese market is a major priority for the Australian citrus industry.

3.29 There has been a significant decline in the export of Australian oranges to the United States market over recent years. Currently, the majority of oranges exported to the United States are navels, which are primarily exported between May and September (the non-producing months in the United States).

20 Redbelly Citrus, *Submission 37*, [p. 6].

21 Citrus Australia Ltd, *Submission 15*, p. 24.

22 This section is based on information provided in Department of Agriculture, Fisheries and Forestry, *Submission 35*, pp 7–9.

3.30 In the 1990s, Australia dominated the market for imported out-of-season oranges in the United States. The United States' imports of Australian navel oranges peaked at around 30,000 tonnes in 2007. By 2011, Australia's share of the US market had declined to 8,000 tonnes, due largely to competition from South Africa and, more recently, Chile.

3.31 The change over time in the value of the Australian dollar has also had an impact on the export of Australian citrus. Between June 1990 and June 2001, the depreciation in the real exchange rate of the Australian dollar, contributed significantly to the growth of exports in Australian citrus. However, the ten years from 2001 to 2011, saw the Australian dollar appreciate by 53 per cent against a number of international currencies. As consequence of this appreciation, the average unit export returns for Australian oranges declined by 38 per cent during this period, despite international prices rising in 2006, 2007 and 2010.

*Export market access*²³

3.32 Gaining access to export markets with strict phytosanitary conditions, such as Japan, China, the USA and Korea, can only be gained through bilateral government to government negotiations. DAFF undertakes the negotiations through which protocols are established and has responsibility for ensuring that exports of Australian products satisfy the mandated conditions imposed by the importing country.

3.33 Protocol conditions for entry into markets such as Japan, China, the USA and Korea tend to be stringent due to the trading partners' concerns about the risks posed by the introduction of pests and diseases. For example, most of Australia's trading partners have serious concerns regarding the risks associated with fruit flies, particularly the Queensland fruit fly (*Bactrocera tryoni*), which is endemic to eastern Australia and is considered to be one of the world's worst horticultural pests.

3.34 Different varieties of citrus have differing susceptibilities to fruit fly, which in turn influences the mandated conditions for trade. Protocol markets will typically impose mandatory risk mitigation measures to be implemented against fruit fly and other quarantine pests and diseases of concern before citrus is allowed to access the market.

3.35 The type of import conditions imposed by protocol markets may include some, or all, of the following requirements (which add to the complexity of access):

- mandatory registration of orchards by industry and/or government;
- mandatory integrated pest management, and the associated keeping of records;
- specifications for shipping containers in terms of their construction and the technical specifications of its integrated temperature sensors and recorder;

23 This section is based on information provided in Department of Agriculture, Fisheries and Forestry, *Submission 35*, pp 13–14.

- calibration of temperature sensors to record cold treatment temperatures by a suitably qualified technician;
- supervision of the placement of temperature sensors by a government official;
- verification of the cold treatment records performed by a government official;
- government registration of facilities involved in the export pathway; and
- government oversight of integrated pest management for pests of concern to importing country.²⁴

3.36 Other markets, such as Vietnam, Indonesia and the United Arab Emirates have essentially functioned as open markets with few requirements beyond a phytosanitary (ie. plant health) inspection by Australian authorities to ensure freedom from pests, soil, weed, seeds and other extraneous material. However, a number of markets (eg. Thailand and Vietnam) are currently transitioning to a far more rigorous system of quarantine management, which will involve the negotiation of new protocols (if Australia is to maintain access to these markets).

3.37 Australian citrus exports are currently split between protocol and non-protocol markets. In 2012, 65 per cent of Australian citrus exports were shipped to protocol markets, and 35 per cent were shipped to non-protocol markets.

The role of Citrus Australia and the Australian Government

3.38 Industry representatives argued that the opening up of markets – particularly priority markets – is essential if Australia is to successfully market its product internationally (in an affordable and achievable manner).

3.39 When the issue of market access was raised with representatives of CAL, Ms Judith Damiani indicated that the market access plan was on foot and included areas such as market maintenance, market improvement, market development and quarantine and non-quarantine issues. Ms Damiani also indicated that CAL was currently targeting the Asian markets – particularly China, Korea and Thailand.²⁵

3.40 CAL's Chairman, Tania Chapman indicated that the peak body's focus is currently on China. Ms Chapman told the committee that, three years ago Australia exported approximately five containers to China (some via Hong Kong). Last year that figure increased to one hundred containers and this year it is likely to be somewhere between 300 and 400 containers – which represents a huge growth for the Australian industry.²⁶

3.41 Ms Chapman also indicated that export protocols required to be met by growers represented one of the key barriers to doing more trade in China:

24 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 13.

25 Ms Judith Damiani, Citrus Australia Limited, *Committee Hansard*, 4 July 2013, p. 79.

26 Ms Tania Chapman, Citrus Australia Limited, *Committee Hansard*, 4 July 2013, p. 80.

As a grower, it costs me about 2½ thousand dollars more per hectare to be able to prepare my orchard to send to somewhere like China, Korea or Thailand. So having to get past those stringent protocols is one of our biggest barriers, and they are the things we really need to work on.²⁷

3.42 The SCG submission agreed that the export markets of China, Korea and Thailand do represent the best opportunity for future export growth. SCG noted that these markets 'have been developed over the past few seasons and will continue to grow with careful management'. SCG also noted, however, that these emerging export markets are also relatively costly to supply due to more stringent market access and protocol arrangements.²⁸

3.43 SCG noted that there are currently impediments both at a production level and a regulatory compliance level. It was suggested that revised protocol arrangements – similar to those with many of our existing export markets – would allow more rapid growth in the emerging markets. Further, SCG argued that Australia is currently at a disadvantage because it does not enjoy similar protocol arrangements to those of many of its competitors, and called for government assistance to negotiate more favourable and less costly trading arrangements and revised protocols.²⁹

3.44 RedBelly Citrus, one of Australia's largest producers and marketers of blood oranges, told the committee that Australia currently has no agreement with Japan under which blood oranges can be exported. It was argued that way in which the current arrangements are framed is very complex and causes considerable problems for exporters:

In a brief example on how different access arrangements can be: In markets like the USA, it is accepted that cold dis-infestation procedures will work on all types of 'Orange' so no matter on what type of orange variety, such as in my case, Blood Orange, the access arrangement will allow for it. For the case of Japan, the arrangement is vastly different, the acceptance of cold dis-infestation is per variety.³⁰

3.45 It was argued that there are a number of things the Australian Government could do to improve relationships with importing countries and to create a more level playing field (particularly with Australia's competitors in Asian markets). CAL recommended, for example, that in addition to increased participation in trade visits and devoting additional resources to trade negotiations, the Government:

- devote additional resources to opening up, or improving, priority markets;
- assist in developing export protocols that are uniform and which will improve our access to Asian markets;

27 Ms Tania Chapman, Citrus Australia Limited, *Committee Hansard*, 4 July 2013, p. 80.

28 Sunraysia Citrus Growers Inc., *Submission 20*, p. 5.

29 Sunraysia Citrus Growers Inc., *Submission 20*, p. 5.

30 Redbelly Citrus, *Submission 37*, [p. 6].

- partner with industry to find novel solutions to market access obstacles;
- progress trade between countries through building relationships with the appropriate officials and industry sectors in corresponding countries;
- progress Free Trade Agreements;
- reduce the cost of quarantine inspection services; and
- continue to support a two year transition from export regulations.³¹

3.46 DAFF indicated that there are limitations to what can be done in terms of improving market access, and told the committee that despite the availability of high quality data, reliable treatment options, and efficient export certification systems 'in the end, under the international phytosanitary rules, the resolution of market access and market improvement requests is ultimately determined by the importing country, and not the country initiating the request.'³²

3.47 However, DAFF also indicated that it was undertaking a number of projects under the Export Certification Reform Implementation agenda which 'will deliver more efficient export certification and inspection services'.³³ The Department noted that as part of its work in this area, a horticulture exports industry consultative committee was to be established. It is proposed that the committee (which includes representation from the citrus industry) will consult widely with industry stakeholders and provide advice on ways to improve both the export certification process and service delivery.³⁴

3.48 In terms of future improvements, DAFF argued that:

These changes provide a strong foundation for Australia's exporters, securing and improving market access and positioning Australia's inspection and certification processes and the forefront of export industries worldwide.³⁵

Inhibitors to export and export growth

Export fees and charges

3.49 The issue of export certification fees and charges has been covered extensively by the committee in several previous inquiries.³⁶ For the purposes of this

31 Citrus Australia Ltd, *Submission 15*, pp 20 and 24.

32 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 14.

33 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 19.

34 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 19.

35 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 19.

36 See, for example, Rural and Regional Affairs and Transport References Committee, *The removal of rebate for AQIS export certification functions*, September 2009; Rural Affairs and Transport References Committee, *Biosecurity and quarantine arrangements, Interim report: the management of the removal of the fee rebate for AQIS export certification functions*, December 2011, and Rural and Regional Affairs and Transport References Committee, *Australia's biosecurity and quarantine arrangements*, April 2012.

report however, it is relevant to note that DAFF has operated some forms of cost recovery for export certification since 1979. Under various Federal Government policy decisions since then, the costs for most activities have been recovered from users. Cost recovery in relation to export fees began in 1979, with 50 per cent cost-recovery; 60 per cent from 1 July 1988 and 100 per cent cost recovery (for recoverable programs) from 1 January 1991.

3.50 DAFF operated under a full cost-recovery arrangement until 1 November 2001, when the government implemented a temporary rebate on export certification to the value of 40 per cent of the invoiced costs. The citrus industry (among others) returned to a full cost recovery system in 2011, although the impact of that has been offset by a fee rebate, diminishing over time and set to vanish completely in 2014.³⁷

3.51 The submission provided by Redbelly Citrus put a compelling case about the impact of increased fees which it recounted that 'under the new cost structure, certification for a Category 3 country which includes the vast majority of our Asian and North American trading partners increases from \$550 per annum to \$8,530 (with a transitional period where the fee is increased to \$6,730)!'.

3.52 Redbelly Citrus told the committee that:

This is a tenfold increase in fees which to a newly established business, in the current business and export environment, represents a huge barrier to contemplating an export program. How many other businesses such as ours, that were going to register to test overseas markets will not do so now? How many export dollars are being kept out of the country because of this decision?³⁸

3.53 DAFF indicated that there were numerous reasons behind the decision to remove the fee rebate and move to full cost recovery in relation to export fees and charges. The committee was told:

Increasingly, Australia's trading partners are seeking to protect their phytosanitary status by imposing more stringent import conditions. Accompanying these reforms, Australia is experiencing a significant increase in the demands from our export markets to justify Australia's claims regarding its pest status and the competence (efficacy) of the treatments we offer to manage pests of concern, particularly Queensland fruit fly.

In the face of these pressures, DAFF has expended significantly more effort to maintain existing market access and to protect the commercial viability of the Australian citrus industry. The maintenance of market access in the face of changes by a foreign government has been a priority for the department.

37 For further detail on the history of the fee structure, and rebates provided, see Department of Agriculture, Fisheries and Forestry, *Submission 35*, pp 17–19.

38 Redbelly Citrus, *Submission 37*, [p. 3].

Given the large number of horticultural commodities exported from Australia, the department's market access responsibilities extend to delivering outcomes for the broader horticultural community. There is a high degree of competition for access to the department's resources to pursue and improve market access.³⁹

3.54 The Murray Valley Citrus Board (MVCB) noted that approximately 50 per cent of the fruit grown in the Murray Valley region is exported. It was argued, therefore, that export market access is 'absolutely vital to citrus growers in the Murray Valley'⁴⁰. It was also noted that whilst they have access to a number of markets, the protocols which they are currently required to meet are onerous and costly to implement – both on-farm and post-harvest.

3.55 MVCB argued for improved protocols and additional market access to enable the industry to be more competitive with other southern hemisphere producers and exporters. It was also noted that, in terms of expenditure:

The cost of compliance through government charges such as those imposed by AQIS are stifling export opportunity. With recent moves to full cost recovery by AQIS, growers are now less inclined to send product to an export destination, and this at a time when Australia needs more export income not less. Export licence fees have also recently risen.⁴¹

3.56 SCG also raised concerns about export charges, and argued that, to date, the industry has seen very little benefit in return for the fee increases:

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.⁴²

3.57 DAFF told the committee that the new cost recovery arrangements were based on an option put forward by the Department (and which had the support of some industry sectors). DAFF submitted that this particular option was implemented on the basis that it:

- represented the most equitable distribution of costs across all horticulture exporters;
- is financially stable and will be able to respond to changes in the demand for services; and

39 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 14.

40 Murray Valley Citrus Board, *Submission 9*, [p. 3].

41 Murray Valley Citrus Board, *Submission 9*, [p. 4].

42 Sunraysia Citrus Growers Inc., *Submission 20*, p. 6.

- complies with the requirements of the Government's Cost Recovery Guidelines.⁴³

3.58 DAFF argued that the new fees and charges which were implemented on 1 July 2012 'corrects significant under-collection in previous years and addresses complaints from export certification users about the previous service delivery arrangements'.⁴⁴ DAFF also argued that the new arrangements provide more streamlined export certification arrangements which, in time, will reduce the cost of export certification.⁴⁵

3.59 At the same time, however, DAFF acknowledged that not all benefits of the new system would be available immediately. It was noted that, to offset registration charges, \$6.5 million in transitional funding had been made available to horticulture exporters until 2014. DAFF argued that this funding would assist the industry to move to the new fee structure, give exporters the opportunity to get used to the new arrangements and, if necessary, make adjustments to the way they do business.⁴⁶

3.60 The committee was told that the transitional funding is being provided through a \$6 million fee rebate over three years (\$2.7 million for 2011–12, \$2.2 million for 2012–13 and \$1.1 million for 2013–14). The department also indicated that:

For the transitional funds in 2011–12, approximately \$1.7 million was used to erase the operating deficit of the Horticulture Export Program, with the remaining \$1 million being applied as a retrospective rebate to all fees and charges collected in 2011-12.

The \$2.2 million for 2012–13 will offset the establishment registration charges for all three tiers to a common base level of \$1800, with the \$1.1 million to further offset registration charges in 2013–14. This means an exporter who may face a tier three \$8530 annual registration charge will receive a rebate of \$6730, reducing their fee to \$1800.⁴⁷

Australia's food regulation system and food labelling

3.61 The issues associated with food labelling have been of particular concern to the Australian citrus industry for a number of years. At the same time, industry has raised concerns about the problems associated with the regulation of imported OJC, quality testing and possible chemical contamination.

Background

3.62 DAFF and the Department of Health and Ageing (DoHA) work collaboratively with New Zealand and Australian state and territory governments,

43 Department of Agriculture, Fisheries and Forestry, *Submission 35*, pp 18 and 19.

44 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 18.

45 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 18.

46 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 19.

47 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 19.

through the COAG Legislative and Governance Forum on Food Regulation (the forum), to develop food regulation policy. Food Standards Australia New Zealand (FSANZ) is responsible for developing agreed national food standards, having regard to policy guidance from the forum. State and territory governments develop and administer food legislation, which gives legal force to the requirements of the Australia New Zealand Food Standards Code (the Code). State and territory governments, together with local governments, are responsible for monitoring compliance of food (with legal requirements within their jurisdiction) and responding to food safety incidents.⁴⁸

3.63 DAFF is responsible for the administration of the relevant legislation (the *Quarantine Act 1908* and the *Imported Food Control Act 1992* (IFC Act)) at the border. All imported food must meet Australian biosecurity requirements first, before then being subject to the requirements of the IFC Act. The Imported Food Inspection Scheme (IFIS), administered by DAFF under the IFC Act, is a risk-based inspection scheme that aims to ensure that imported foods comply with the code. If unsafe or non-compliant imported food is identified, it is re-exported or destroyed or, in some cases, treated in order to bring it into compliance.⁴⁹

3.64 Country of origin requirements in the Code have been designed to impose a positive, mandatory obligation on food suppliers to label (with the country of origin) most food products for retail sale in Australia. This requirement applies equally to both domestically produced and imported foods. The standard requires a country of origin statement on most packaged food and on unpackaged fresh and processed fruit, vegetables, nuts, fish, fresh pork and preserved pork products. From July 2013, country of origin labelling is also required on unpackaged beef, sheep and chicken meat. Country of origin labelling is enforced by the states and territories, and by DAFF, for imported foods at the border.

3.65 Under the *Competition and Consumer Act 2010* (CCA), a good (including food) must pass the following tests to use a 'Made in' claim:

- the good must have been 'substantially transformed' in the claimed country; and
- at least 50 per cent of the cost to produce the product must have been incurred in that country.⁵⁰

3.66 In accordance with the CCA, goods are 'substantially transformed' in a country if they undergo a fundamental change in that country in form, appearance or nature such that the goods existing after the change are new and different goods from those existing before the change. The ACCC is of the view that the reconstitution of imported concentrated fruit juice into fruit juice for sale—whether or not Australian

48 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 20.

49 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 20.

50 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 20.

water, sugar preservatives and packaging is used, may not constitute substantial transformation.⁵¹

Health, nutrition and labelling

3.67 CAL argued that as the problems associated with poor nutrition and obesity continue to grow, Governments have a role to play in encouraging the increased consumption of fruit and vegetables. CAL pointed to an opportunity for Governments to take advantage of the health benefits of citrus fruit in particular. It was argued that clearer policies around health claims would also assist food industries in promoting the consumption of their products.⁵²

3.68 CAL argued that consumers have a 'fundamental right to know where their food comes from', and expressed disappointment that there had been a lack of support shown for a new 'country of origin framework' as recommended by the 2011 review of food labelling law and policy (the Blewett review).⁵³

3.69 It was further argued that:

Unfortunately, as country of origin information on whole oranges (and other fruits) has improved, 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 and then packaged here.⁵⁴

3.70 CAL told the committee that the opportunity exists for governments to work with industry to create less confusing and misleading labelling (particularly on fruit juices). The opportunity also exists for governments to assist industry with health claims and country of origin labelling on packaged products and encourage the increased consumption of fruit and vegetables.⁵⁵

Domestic consumption of citrus

3.71 CAL told the committee that it has been using promotional programs in an effort to increase the domestic consumption of citrus. It was argued that targeted promotional programs, coupled with the expansion and adoption of the Australian Citrus Quality Standards, are positive steps toward improving consumer perception and repeat purchase of fresh fruit.⁵⁶

3.72 The Costa Group indicated that it was supportive of CAL's efforts to increase the domestic consumption of citrus – including its use of various promotional

51 Department of Agriculture, Fisheries and Forestry, *Submission 35*, p. 21.

52 Citrus Australia Limited, *Submission 15*, p. 18.

53 Citrus Australia Limited, *Submission 15*, p. 18 and 19.

54 Citrus Australia Limited, *Submission 15*, p. 19.

55 Citrus Australia Limited, *Submission 15*, p. 19.

56 Citrus Australia Limited, *Submission 15*, p. 20.

programs and the adoption of the Australian Citrus Industry Standards. In addition, the Costa Group argued that:

- the various 'Australian Made' and 'Buy Australian' campaigns have been effective in promoting consumer awareness of domestically grown and made products;
- 'country of origin' labelling has helped consumers identify and differentiate between domestic produce and that which is imported;
- promoting the health benefits of citrus consumption is a key way to increase consumer awareness of Australian grown citrus; and
- the National Preventative Health Agency should work closely with the food production sector to develop public health campaigns and promote healthy eating (to counter preventable illnesses such as diabetes, heart disease and certain types of cancer) – citrus fruit can, and should, play a major role in such programs.⁵⁷

Country of origin labelling framework

3.73 As noted previously in this chapter, the issue of food labelling has been an area of some concern to the citrus industry for some time. Whilst the issue has been considered in some detail by various organisations, government departments and parliamentary committees over recent years,⁵⁸ issues surrounding country-of-origin labelling are complex and have yet to be resolved.

3.74 DAFF's submission to the inquiry outlined the current position in relation to food labelling:

Mandatory country of origin labelling statements required by the code must be consistent with the general prohibitions on false and misleading claims in the Competition and Consumer Act 2010 (CCA). If a food supplier chooses to make a 'Made in', 'Grown in' or 'Product of' claim, the claim must be consistent with the country of origin representation safe harbour provisions of the CCA.

The Australian Consumer Law, which forms Schedule 2 of the CCA, contains prohibitions against misleading or deceptive conduct and against false or misleading representations, including in relation to the place of origin of goods.

The CCA specifies that, where goods satisfy certain requirements, it is permissible to make specific origin claims in relation to those goods

57 Costa Group, *Submission 13*, p. 5 and 6.

58 See, for example, Senate Economics Legislation Committee, *Food Standards Amendment (Truth in Labelling Laws) Bill 2009*, November 2009, *Labelling Logic: Review of Food Labelling Law and Policy (2011)*, Department of Health and Ageing, January 2011, Senate Select Committee on Australia's Food Processing Sector, *Inquiry into Australia's food processing sector*, August 2012 and Senate Rural and Regional Affairs and Transport Legislation Committee, *The Competition and Consumer Amendment (Australian Food Labelling Bill 2012)*, No. 2, March 2013.

without contravening the law. Claims in relation to which requirements have been specified include 'Product of', 'Grown in', and the general origin claim (usually referred to as the 'Made in' claim). The CCA is enforced by the Australian Consumer and Competition Commission (ACCC).⁵⁹

3.75 During this inquiry, the committee took specific interest in labelling of orange juice and juice products, and in particular the extent to which consumers could be misled by the name of a product, notwithstanding that its country of origin labelling, though inconspicuous, may be clear and accurate.

3.76 Griffith citrus grower, Mr Frank Battistel indicated that labelling has been an issue of ongoing concern for the industry. Mr Battistel referred to the Blewett Review⁶⁰ – a review of food labelling law and policy completed in January 2011 – and noted that very few, if any, of the review's 61 recommendations had been implemented. Mr Battistel argued that processors were still being allowed to blend imported products with Australian products and call it 'made in Australia' and that current labelling laws continue to mislead consumers into thinking they are buying an Australian product when that is not the case.⁶¹

3.77 The MVCB also suggested that Australia's labelling laws 'urgently need overhauling' and argued that:

... Currently labelling laws provide manufacturers with the opportunity to state that their product is 'manufactured in Australia with local and imported product'. There is no requirement to provide consumers with more information about how much of it is imported and how much is Australian grown.⁶²

3.78 Griffith and District Citrus Growers (GDCC) told the committee that because the Australian market for grocery products is highly competitive, it is increasingly important for producers to 'deliver a point of difference to survive'. GDCC also argued that the lack of progress in improving Australia's labelling laws – particularly in relation to identifying the country of origin – is an ongoing concern.⁶³

3.79 CAL argued that, in relation to the issue of food labelling, consumers 'have a fundamental right to know where their food comes from',⁶⁴ and pointed to a number of the current problems associated with food labelling:

59 Department of Agriculture, Fisheries and Forestry, *Submission 35*, pp 20–21.

60 On 23 October 2009, the Ministerial Council announced that former Australian Health Minister, Dr Neal Blewett, AC, would head up a panel which would undertake a comprehensive examination of food labelling law and policy. The panel's report, titled *Labelling Logic: Review of Food Labelling Law and Policy (2011)* was publicly released on 28 January 2011.

61 Mr Frank Battistel, *Submission 2*, [p. 2].

62 Murray Valley Citrus Board, *Submission 9*, [p. 2].

63 Griffith and District Citrus Growers Inc., *Submission 41*, [p. 4].

64 Citrus Australia Ltd, *Submission 15*, p. 18.

Unfortunately, as country of origin information on whole oranges (and other fruits) has improved, 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.⁶⁵

3.80 CAL expressed support for a new 'country of origin' framework – as recommended in the Blewett Review – and suggested that government support and assistance should be provided to assist industry with health claims and country of origin labelling on packaged products.⁶⁶

Local content/minimum content

3.81 The citrus industry continues to debate these issues and has been giving consideration to several systems designed to strike an appropriate balance between providing consumers with sufficient information to make informed purchasing decisions; meeting Australia's international obligations and minimising adverse impacts on compliant food producers and traders.

3.82 The GDCC told the committee that Australia's current position in relation to labelling has been allowing manufacturers to 'take the easier adoption of labelling practice to confuse the shopper'. It was argued that including the packaging (as well as the product it contains) to prove a product to be proportionally an Australian product, does not reflect the true percentage of the actual, consumable product which is contained in the package. The practice of including the packaging was described as very misleading – particularly when the product derives a significant proportion of its contents from an imported source.⁶⁷

3.83 The MVCB noted that in the past, and prior to free trade agreements, the citrus industry had benefited from local content laws which required that any juice sold in Australia had to contain a certain amount of Australian grown product. It was argued that:

A return to this local content requirement would provide a significant outlet for citrus fruit that has not met the high standards required for the fresh fruit market. Currently much of this fruit is dumped for stock feed with no financial return to the grower.⁶⁸

3.84 The committee was told that consumers continue to raise concerns about the ambiguity of orange juice labelling. SCG argued for a clear standard to be imposed:

65 Citrus Australia Ltd, *Submission 15*, p. 18. See also Mr Frank Battistel, *Submission 2*, [p. 2].

66 Citrus Australia Ltd, *Submission 15*, p. 18.

67 Griffith and District Citrus Growers Inc., *Submission 41*, [p. 5].

68 Murray Valley Citrus Board, *Submission 9*, [p. 3].

which highlights the actual quantity of fresh or concentrate juice in a product, and the countries in which the fruit was grown, by proportion. SCG also suggested that:

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.⁶⁹

Impact of imported fruit juice concentrate

3.85 Industry representatives also expressed concerns about the impact the importation of cheap orange juice concentrate (OJC) – particularly from Brazil – is having on the industry.⁷⁰

3.86 The committee was told that the Australian fruit juice industry requires approximately 500,000 metric tonnes of citrus annually, and that currently Australia's citrus industry can only supply approximately 250,000 metric tonnes of valencias. To cover the annual shortfall, Australia imports OJC from a range of countries, including Mexico, the United States, Israel and the Netherlands. However, the Australian Beverages Council indicated that Brazil is currently the largest exporter of OJC and noted, for example, that in 2010, imports from Brazil consisted of 89.6 per cent of the total OJC imports for that year.⁷¹

3.87 The committee was told that Brazil's competitive advantage over Australia in the production of OJC is largely due to lower input costs – particularly in relation to labour and transport. Brazil also enjoys better growing conditions and larger-scale growing operations with lower unit production costs.

3.88 The MVCB indicated that it had major concerns about the levels of OJC currently being imported into Australia and argued that:

- a significant amount of OJC is currently entering Australia at lower than cost in order to move stock from these countries which produce it; and
- the onus should be on the country exporting OJC into Australia to provide that they are not selling it at less than the cost of production.⁷²

3.89 Submitters expressed concerns about Brazil's labour practices, Brazilian processors' 'cartel behaviour', and questioned how Brazil is able to sell concentrated juice so cheaply. Mr Frank Battistel argued, for example:

Only recently a Brazilian judge has ordered four of the major processors in Brazil to pay \$227 million in compensation for a decade of illegal labour

69 Sunraysia Citrus Growers Inc., *Submission 20*, p. 4.

70 See, for example, Mr Frank Battistel, *Submission 2*, [p. 3], Murray Valley Citrus Board, *Submission 9*, [p. 2], Griffith City Council and Leeton Shire Council, *Submission 21*, [p. 11], Pinnacle Accounting Partners, *Submission 28*, p. 1 and Redbelly Citrus, *Submission 37*, [p. 7].

71 Australian Beverages Council, *Submission 8*, p. 6 and Mr Geoff Parker, Australian Beverages Council, *Committee Hansard*, 3 July 2013, p. 35.

72 Murray Valley Citrus Board, *Submission 9*, [p. 2].

practices. In the 90's Brazilian major processors also took part in a cartel formation and price fixing to their suppliers for fruit and on this occasion paid \$100 million to their government to prevent further investigations, and agreed to stop anti-competitive behaviour of price fixing. The investigation appropriately named (Operation Fanta) while all this was taking place we the Australian Citrus farmers were asked to compete with cheap imported concentrate ...⁷³

3.90 Similar comments were also made by Mr Bart Brighenti who noted that the same Brazilian companies involved in cartel behaviour have also been found to have been in breach of their own country's labour laws. Mr Brighenti suggested that Australian citrus growers should be compensated for having to compete with imported OJC from Brazil, and questioned the cost of Brazilian concentrate:

There is also enough evidence supplied to show the cost of growing Brazilian oranges to be around AUD\$190/ton [sic], so it is beyond me how it can be delivered here as concentrated juice for such low prices without dumping.⁷⁴

3.91 Citrus Growers Graham and Barbara Eipper summarised the views of a number of industry representatives when they argued that:

The competition for Australian juice is always shadowed by the importation of Brazilian concentrate – not only is this an insult to our industry it is bitter as reflected in the taste of the re-constituted drinks for sale to the public. Coupled with this importation there is always the fear more juice factories in Australia will close doors leaving no option but to bulldoze trees which have taken 20 years of care to reach their prime.⁷⁵

Chemical contamination

3.92 A number of submitters also raised concerns about the amount of a particular chemical found in imported juice concentrate. The committee was told that in 2012, cheap imported OJC was being dumped on the Australian market because it was found to have to contain traces of a chemical called carbendazim. In his submission to the inquiry, citrus producer Mr Frank Battistel argued that both the 'USA and Europe had rejected this concentrate, but it was below the Maximum Residue Level (MRL) set by Australia'.⁷⁶ Mr Battistel also argued that because the orange concentrate was being offered at a cost below the cost of production, an anti-dumping case should have been investigated.⁷⁷

3.93 At the committee's hearing in Griffith, Mr Battistel restated his opinion that there should have been an investigation into dumping – particularly in 2012 when

73 Mr Frank Battistel, *Submission 2*, [p. 3].

74 Mr Bart Brighenti, *Submission 30*, p. 8.

75 Mr Graham and Ms Barbara Eipper, *Submission 40*, [p. 2].

76 Mr Frank Battistel, *Submission 2*, [p. 3].

77 Mr Frank Battistel, *Submission 2*, [p. 3].

there had been 'Brazilian concentrate basically being offered to processors only for refrigeration costs and transport'.⁷⁸

3.94 The committee asked Mr Battistel whether he had any knowledge of the cost of the concentrate and whether he was aware of CAL being involved in dumping cases – or cases against Brazilian OJC. Mr Battistel responded by saying that because he was not interested in purchasing the OJC, he did not actually ask about the price. However, he went on to argue that:

As to the other part of the question, I was going to say that it is a typical example of our peak body asleep at the wheel. Who else should be putting a dumping case in: us as an individual farmer or the peak body who represents everyone? I know the majority of their big levy payers – their members – do not grow valencias, and maybe that is the issue, but last year we dumped a hell of a lot of fruit on the ground for no other reason than that the stuff coming in was cheaper to use.. There was fruit being dumped left, right and centre. We had no access to use it whatsoever. ... Why didn't we investigate a dumping case? It was a perfect opportunity last year. I think we could have won the case.⁷⁹

3.95 SCG also felt very strongly about overseas competitors which 'often operate under less stringent regulatory arrangements'. SCG raised the issue of what it described as a 'double standard' – particularly regarding permits and residue limits in relation to specific chemicals. It was submitted that, for example, there is currently a zero tolerance for the use of carbendazim within Australia.⁸⁰ However this same chemical appears to have been allowed in imported juice:

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.⁸¹

3.96 Following the hearings, the committee sought clarification from FSANZ about the process that preceded the decisions and/or recommendations regarding the removal of a maximum residue level (MRL) for carbendazim in imported OJC.

3.97 FSANZ indicated that whilst it is the organisation responsible for developing standards for all food sold in Australia (whether imported or produced domestically) it

78 Mr Frank Battistel, *Committee Hansard*, 3 July 2013, p. 19.

79 Mr Frank Battistel, *Committee Hansard*, 3 July 2013, pp 19 and 20.

80 Sunraysia Citrus Growers Inc., *Submission 20*, p. 4.

81 Sunraysia Citrus Growers Inc., *Submission 20*, p. 4.

had not at any time, recommended the removal of an MRL for carbendazim, specifically for imported OJC.⁸²

3.98 FSANZ told the committee that the 'questions might be directed to a proposal that was made, in November 2011, by the Australian Pesticides and Veterinary Medicines Authority (APVMA) to amend the relevant food standard to remove MRLs for carbendazim for some foods'. FSANZ also advised the committee that:

- the APVMA has had a limited statutory power to amend the MRL Standard in the Food Standards Code (if it is considering an application or variation in relation to a chemical product and considers that it is likely that an amendment of the MRL in the Food Standards Code will be required) since 1 March 2011;
- on 8 November 2011 the APVMA sought public comment on its proposal to amend Schedule 1 of Standard 1.4.2 of the Food Standards Code to remove some maximum residue limits for carbendazim, including the maximum residue limit for citrus fruits, and to include a maximum residue limit for onions;
- the APVMA proposal followed a review by the APVMA of the use of carbendazim (the APVMA had previously varied the relevant MRLs in the APVMA's MRL Standard);
- in early 2012, the fruit juice industry advised FSANZ that removal of the MRL in the Food Standards Code for carbendazim for citrus fruits could adversely affect the importation of frozen OJC to Australia and threaten supply of orange juice and orange juice products to the domestic market; and
- given the limitation on APVMA's statutory powers when amending the Food Standards Code, including a limitation on its power to consider trade issues or the desirability of an efficient and internationally competitive food industry (matters that FSANZ is required to consider), FSANZ and the APVMA agreed that the APVMA would discontinue its proposal to amend the Food Standards Code and that FSANZ would prepare a proposal to consider the variations.⁸³

3.99 FSANZ acknowledged that officers met with citrus juice industry representatives to discuss their concerns regarding 'the APVMA proposal to remove the carbendazim maximum residue limit for citrus fruits'.⁸⁴ Subsequently, the Australian Beverages Council wrote to FSANZ and provided a technical report, which

82 Food Standards Australia New Zealand, Responses to Written Questions on Notice (following public hearings held 3 and 4 July 2013), p. 1.

83 Food Standards Australia New Zealand, Responses to Written Questions on Notice (following public hearings held 3 and 4 July 2013), p. 1.

84 Food Standards Australia New Zealand, Responses to Written Questions on Notice (following public hearings held 3 and 4 July 2013), p. 2.

FSANZ took into consideration when assessing information provided as part of Proposal M1008.⁸⁵ It was also noted that:

During 2012 FSANZ developed a draft variation of the Code that included certain MRLs for carbendazim (Proposal M1008). The draft variation was, in accordance with procedures established in the *Food Standards Australia New Zealand Act 1991*, sent to the Council of Australian Governments Legislative and Governance Forum on Food Regulation convening as the Australia and New Zealand Food Regulation Ministerial Council (Forum) on 6 November 2012. FSANZ was advised on 3 January 2013 that the Forum had agreed not to seek a review in relation to Proposal M1008 and, accordingly, the variation was gazetted on 18 January 2013.

The effect of the variation in relation to most citrus fruits was to reduce the MRL from 10 milligrams per kilogram of food to 0.2 milligrams per kilo of food.⁸⁶

3.100 A panel of Griffith citrus growers were also asked about the issue of carbendazim and the Government's policy in relation to this chemical:

Senator XENOPHON: ... if the government had followed through its ban on carbendazim, which it overturned last year because of the lobbying from some of the multinational processors, what difference would that have made to your industry? In other words, if there were a level playing field and you could not bring in concentrate with carbendazim, what would that have done to your industry locally?

Mr Mancini: About a year before this whole carbendazim issue, valencia growers were getting up to \$550 a tonne. There was a severe shortage of valencias at that time. That price became eroded basically overnight once that whole issue of carbendazim came around. It had a significant impact.

...

Mr Battistel: Last year we dumped, for just this reason, about 20,000 to 25,000 tonnes of basically navels and some old season valencias. Previous to that, we dumped very little. We actually sold it. We did not get much for it. I think we used to get about \$50 a tonne, which was about half the picking cost, but it was always used. The processors always used that 'You've got to compete with the Brazilians and this is the figure you need to be at,' but they bought it. Last year, they did not even buy it. They did not want it for nothing. So we basically dumped it. That is the difference the carbendazim made. They did not want it for \$0 last year. In other years, they wanted it but they wanted it for nothing. But last year they did not want it at all. Like I said, it was even cheaper than getting the oranges for

85 Food Standards Australia New Zealand, Responses to Written Questions on Notice (following public hearings held 3 and 4 July 2013), p. 2.

86 Food Standards Australia New Zealand, Responses to Written Questions on Notice (following public hearings held 3 and 4 July 2013), p. 2.

free, because the processing costs were more than what they were buying the concentrate for.⁸⁷

3.101 Ms Judith Damiani indicated that, as peak industry body, CAL had raised concerns regarding the importation of OJC containing carbendazim residue:

... When we found out that the United States had banned imports while they were testing for this product that was coming in from Brazil, we went out to the media and asked for the testing to be increased at the Australian border. We called that because we recently had carbendazim, the fungicide, banned for use in Australia – which is fine. The inequity of it is to still allow the imports to come in.⁸⁸

3.102 Ms Damiani also indicated that CAL had raised the issue of carbendazim with the then Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Joe Ludwig (and the previous Minister) and had been told that the issue 'is between APVMA⁸⁹, which looks after the chemical registrations in Australia, and FSANZ⁹⁰, which looks at keeping importer trade going'.⁹¹

3.103 Ms Damiani went on to tell the committee that when discussing the issue with FSANZ, she had been told that:

... their main priority – unlike APVMA, that do their registrations in Australia – is to not disrupt trade. So they had to work around it to make sure the imports were still coming in because that particular juice services a particular segment of the market.⁹²

3.104 Mr Geoff Parker, Chief Executive Officer, Australian Beverages Council acknowledged that the Council had lobbied for the maintenance of the MRL in relation to carbendazim. Mr Parker argued that had carbendazim been decreased to a zero MRL, 'within a very short period of time the ambient juice in the supermarket aisle – there is chilled juice or ambient, shelf-stable juice – would have disappeared quite literally overnight'.⁹³

3.105 Mr Parker told the committee that because of the Australian juice industry's reliance on imports, there would be a very swift decline in the supply of ambient juice. Mr Parker added that the reason the industry is so reliant on imported OJC is:

Because there are not enough valencia oranges. We do unfortunately hear a lot from citrus growers and Citrus Australia, and we see on current affairs programs trees being bulldozed or fruit being left on the tree. Unfortunately the vast majority of that, to our knowledge, is navel oranges which cannot

87 Mr Vito Mancini and Mr Frank Battistel, *Committee Hansard*, 3 July 2013, pp 20 and 21.

88 Ms Judith Damiani, Citrus Australia Ltd, *Committee Hansard*, 4 July 2013, p. 66.

89 Australian Pesticides and Veterinary Medicines Authority.

90 Food Standards Australia New Zealand.

91 Ms Judith Damiani, Citrus Australia Ltd, *Committee Hansard*, 4 July 2013, p. 67.

92 Ms Judith Damiani, Citrus Australia Ltd, *Committee Hansard*, 4 July 2013, p. 67.

93 Mr Geoff Parker, Australian Beverages Council, *Committee Hansard*, 3 July 2013, p. 36.

be used in juice. Only a very small amount of navel orange juice can be used in a juice blend because it is too bitter. So the supply of valencia oranges is not enough to meet the demand ...⁹⁴

3.106 Mr Parker indicated that it was the Council's understanding that the citrus industry's peak body had made recommendations to growers to move from planting valencias to navel oranges. The committee then questioned the CEO further in relation to the Council's position on aseptic juice:⁹⁵

Senator RUSTON: What is your organisation's position on aseptic juice or Australian concentrate? Would you consider it to be something positive to be marketed in the marketplace if you could get the consistency of product that you need with aseptic juice or concentrated Australian juice? Would you actively support that on behalf of the growers?

Mr Parker: Absolutely. For the senators' information, we are trying to move away from the term 'aseptic juice' because, again, it has a negative connotation. We are moving to 'cold stored juice', which has a slightly more positive spin. We have tried to commence discussions with Citrus Australia around what we term to be a 'commitment to crop' – and that is a commitment to the local crop. We have got very large processors and very small processors. We need to have that dialogue with the citrus growers, which, up until now, has been significantly lacking.⁹⁶

Opportunities for growth

3.107 CAL submitted that there are a number of opportunities for growing the Australian citrus industry, and a number of ways state and federal governments could assist in the process.

Developing new, high-value export markets

3.108 The Queensland Department of Agriculture, Fisheries and Forestry (QDAFF) noted that the high Australian dollar, increasing cost of production, recent natural disasters and competition from low cost economies have been major impediments to export. The committee was also told, however, that over recent years the Queensland citrus industry has continued to pursue export opportunities and new markets – particularly in relation to high value citrus. QDAFF also indicated that businesses have been encouraged to take 'a whole-of-value chain approach and focus on understanding and meeting consumer needs.'⁹⁷

94 Mr Geoff Parker, Australian Beverages Council, *Committee Hansard*, 3 July 2013, p. 36.

95 Aseptic processing is the process by which a sterile (aseptic) product (in this case fruit juice) is packaged in a sterile container in a way that maintains sterility.

96 Mr Geoff Parker, Australian Beverages Council, *Committee Hansard*, 3 July 2013, p. 40.

97 Queensland Department of Agriculture, Fisheries and Forestry, *Submission 1*, pp 2 and 3.

3.109 Whilst industry fragmentation and past biosecurity incursions⁹⁸ had reduced the capacity of the industry to export, there are currently export opportunities for high value, high quality mandarin product in both Asia and the Middle East. The Queensland citrus industry is also focused on building export markets for mandarins in Thailand and exploring the economic viability of the European market. It was argued that, in addition to securing export markets, consistency in supply and quality of product are crucial to meet market requirements. QDAFF also stressed the importance of research and development:

The development of new varieties tailored to the export market is required to move the industry forward. The limited shelf life of mandarins and inconsistencies in flesh quality are issues that need to be addressed. Effective breeding programs and research facilitated by government are paramount to addressing these issues.⁹⁹

Export trade

3.110 The committee was told that unlike most Australian horticultural industries, the citrus industry is geared to export trade – with around 45 percent of all fresh product shipped overseas. CAL argued that owing to the importance of increasing the industry's share of existing markets (and finding new ones), it is currently working toward the development of increased exports to Asia and increasing market share in China, South Korea and Thailand.¹⁰⁰

3.111 Whilst it is seen as a positive sign that the industry recently gained access to the Philippines' market, CAL argued that there is a need for reform in the area of export certification and inspection and that the Government should work toward improving market access into other key export destinations such as China, Korea, Japan, Thailand, Indonesia and the United States. CAL also suggested that the Government should commit to export fee reforms with government assistance while new efficiencies are rolled out or approved by protocol markets.

Committee comment

3.112 The committee notes the concerns of a number of individual growers and industry representatives regarding the high costs of production. The committee acknowledges that in comparison to their overseas competitors, Australian growers face greater costs in relation to electricity, water, regulation and labour. The committee acknowledges that for some years growers have also faced the additional problem of a high Australian dollar.

3.113 The committee is aware that, in addition to the high cost of water, growers have concerns about both water security and water trading, and recognises that an

98 For example, the 2004 outbreak of citrus canker which resulted in approximately 490,000 citrus trees being destroyed by the National Citrus Canker Eradication Program (NCCEP) in an area of around 3,000 square kilometres centred around the town of Emerald. The NCCEP also destroyed 175,000 native citrus or citrus glauca which are hosts to citrus canker.

99 Queensland Department of Agriculture, Fisheries and Forestry, *Submission 1*, p. 3.

100 Citrus Australia Limited, *Submission 15*, p. 16.

uncertain water supply and complications associated with water trading are causing problems for some producers.

3.114 The committee notes the views expressed by growers and industry groups in relation to inhibitors to export and export growth. It is clear to the committee that the export protocols producers are currently required to meet can be onerous, financially costly, and time consuming. The committee also acknowledges that a number of producers are finding the increased export certification fees and charges a considerable burden. Given the importance of export to the Australian industry, the committee shares the concerns of producers and notes that, to date, the industry has seen very little benefit in return for the increased fees.

3.115 The committee recognises that the issues associated with food regulation and labelling have been of particular concern to the citrus industry for some time. The committee is also aware that these issues have been considered in some detail by various organisations, government departments and parliamentary committees (including this committee) over recent years. Unfortunately, the issues surrounding food regulation and country-of-origin labelling are complex, and have yet to be resolved.

3.116 The committee also shares the concerns of growers about the impact the importation of cheap fruit juice concentrate – particularly from Brazil – has had on the Australian citrus industry. It is clear that, due to lower regulation, labour and transport costs, Brazil has a competitive advantage over Australia in the production of juice concentrate. The committee also notes the evidence which points to some Brazilian companies being involved in cartel behaviour and in breach of their own labour laws.

3.117 The committee is also concerned about the importation, in 2012, of cheap orange juice concentrate which was found to contain traces of the chemical carbendazim. The committee notes concerns raised by producers who argued that overseas competitors operating under less stringent regulatory arrangements have an unfair advantage – particularly when there is currently a zero tolerance for the use of carbendazim within Australia.

3.118 The committee is pleased to note that there are new opportunities for export growth in the Asian markets. The committee supports the increased efforts being made by the industry in relation to market access planning, market improvement, and market development – particularly in relation to China, Korea and Thailand.

3.119 The committee supports the industry's recommendation that Australia increase its participation in trade visits and trade negotiations. The committee also supports the industry's call for additional resources to be devoted to trade negotiations, to opening up and improving access to priority markets and to finalising free trade agreements with Australia's Asian trading partners.

Recommendation 5

3.120 The committee believes that DAFF needs to be more responsive to the needs, and more understanding of the capabilities, of the industry. Therefore, the committee recommends that, in its negotiations for market access on behalf of the Australian citrus industry, DAFF consult more closely with industry across

the supply chain regarding protocols and work to better align protocols in new or emerging markets with existing/established markets.

Recommendation 6

3.121 The committee recommends that the Australian Government put more resources into finalising trade agreements with export destinations for Australian citrus, particularly those with considerable potential such as China.

Recommendation 7

3.122 The committee recommends that the Australian Government encourage small and emerging citrus exporters by addressing the costs of compliance and establishment registration charges.

Recommendation 8

3.123 The committee recommends that the Australian Government take steps to discourage the dumping of imported fruit juice concentrate, and reverse the onus of proof onto importing countries to ensure local Australian citrus growers are not discouraged from bringing cases to the relevant authorities – for example, the Anti-Dumping Commission.