

Additional Comments by Senator Nick Xenophon

1.1 There is no doubt that Australia's citrus industry is world class. Our producers pride themselves on their quality products and it comes as no surprise that demand for Australian citrus is expanding throughout Asia, the Americas and Europe. However, the industry is on shaky ground. Increasing input costs, the power of our supermarket duopoly, woeful food labelling laws, barriers to export and cheap orange juice concentrate being dumped on our market have all contributed to a reduction in the size of this citrus industry.

Export Issues

Access to export markets

1.2 It was clear from submissions to this inquiry that access to export markets needs to be improved. As the committee noted, citrus has been Australia's highest value fresh horticulture export for the past three years, accounting for 31 percent of exports with a value of \$162 million per annum. In the Murray Valley approximately 50 per cent of all citrus produced is exported. As the Riverina Citrus Growers explained:

Australia has a reputation of producing some of the best citrus (especially Navel oranges) for the fresh fruit market. We are known for our “clean and green” image and export markets are willing to pay a premium for it.¹

1.3 I agree with recommendation 6 made by the committee that the Federal Government must allocate more resources into finalising trade agreements with export destinations. In particular, attention must be paid to drafting trading terms which are more beneficial to our citrus exporters:

(China, Korea and Thailand) are relatively costly to supply due to more stringent market access and protocol arrangements. These impediments are both at a production level and at a regulatory compliance level. Revised protocol arrangements similar to those with many of our existing export markets would allow more rapid growth in the emerging markets. Unfortunately, we do not enjoy similar protocol arrangements to those of many of our competitors. This places us at a distinct disadvantage. Government assistance in negotiating more favourable trading arrangements would be highly beneficial to the industry.²

Export fees

1.4 Following the massive increase in export fees, many producers were forced to consider whether it was economically viable for them to export. Mr Michael Punturiero, who runs a citrus orchard in South Australia's Riverland told the committee that he was unable to afford to pay the new export fees which rose from \$550 to \$8,530 per annum, even if a rebate was available. It was not practical for Mr

1 Riverina Citrus Growers, *Submission 43*, p 7.

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

Punturiero to have such a large sum of money withdrawn from his cash flow.³ Furthermore, it was not clear to Mr Punturiero what additional benefits he was receiving as a consequence of this massive fee hike:

Senator XENOPHON: Basically, you have got the same packing shed, which is accredited, but the fees for accreditation have just skyrocketed. Your packing shed has not changed—you are export accredited.

Mr Punturiero: Nothing has changed. It is only two-hour service we are talking about—two hours is \$450 and now they are wanting \$8,530 for the same two hours for registration on my shed.

Senator GALLACHER: Can we just put on record what the \$8,000 actually means? What do you see for the \$8,000?

Mr Punturiero: I have asked that question and they cannot give me an answer. They are just saying it is policy. It is the new cost recovery.

Senator GALLACHER: What was costing you \$450, there is no difference in attendance, inspection or—

Mr Punturiero: It is exactly the same.

Senator GALLACHER: You get the same certificate.

Mr Punturiero: The same surface, same certificate, same everything; no change.

Senator GALLACHER: But now it costs you \$8,500.

Mr Punturiero: For exactly the same thing.⁴

1.5 The committee's recommendation on export charges goes nowhere near far enough. It is intolerable that small and emerging exporters have such disincentives and obstacles placed in their path. At the very least there should be a sliding scale of fees and charges based on volume. The user pays approach is a failure when it comes to small exporters, and is in fact counterproductive in terms of Australia's long term export income.

Recommendation 1: The current 'user pays' approach for small and emerging agricultural exporters be scrapped and replaced with a sliding scale in order to encourage growth in export markets, particularly niche markets.

Domestic Market Issues

Local market conditions

1.6 A large focus of this inquiry was the effects of export issues on Australia's citrus industry. Spiralling electricity, transport, storage and labour costs are pressures faced by all citrus growers. As a result, growers are concerned that Australia is a competitive disadvantage in comparison with other citrus producing countries like Brazil and the United States. The Committee was told:

3 Mr Michael Punturiero, *Committee Hansard*, 4 July 2013, p 3.

4 Mr Michael Punturiero, *Committee Hansard*, 4 July 2013, p 4.

Employment and on costs contribute to approximately 60% of the businesses costs. This is higher than many other crops and puts the grower at a competitive disadvantage to international business who have lower labour costs.⁵

Supermarket duopoly

1.7 We cannot overlook the home grown challenges facing citrus growers, not only in terms of input costs but also access to the domestic market. The South Australian Murray Irrigators Inc. told the committee:

Concern was raised here with respect to access to markets and this differed depending on the scale of the business. The emergence of citrus production in South America and South Africa, and the domestic squeeze created by two distributors, (Coles and Woolworths) holding 80% of market access. The competition to supply to the other 20% is fierce and many have missed out being unable to supply their fruit to any market at all. These businesses have lost out financially. Fruit was not harvested at all as the cost of production (i.e. labour to harvest) is higher than the price received.⁶

1.8 The bargaining power market imbalance between growers and the two major retailers cannot be underestimated and places growers in serious financial hardship:

Farmers enter contracts with juice processors for supply for up to 3 years. These contracts are not negotiated as a group of suppliers, but are given to growers individually to sign. Growers can feel intimidated by this process and feel as though if they voice concerns that their contract simply won't be accepted.

Citrus like all crops can have yield variations between seasons, in an "on" year growers with excess to their contract are at the mercy of a spot price, which can be 1/3 of the contract price. It seems unfair that the grower gets such a low price when the majority of excess fruit still ends up in the same bottle and the same shelf at the same price as contracted fruit. There needs to be some sort of contract class for over contract fruit that correlates to its final retail use.⁷

1.9 It is clear Australian growers will continue to be at the mercy of our major retailers until the Federal Government is equipped with divestiture powers to break up this duopoly where there is evidence of anti-competitive conduct.

Recommendation 2: That competition laws be amended to provide for a divestiture power to break up a company where there is evidence of anti-competitive conduct, including the imposition of unreasonable contract terms.

5 South Australian Murray Irrigators Inc, *Submission 33*, p 3.

6 South Australian Murray Irrigators Inc, *Submission 33*, p 2.

7 Riverina Citrus Growers, *Submission 43*, p 10.

Food Labelling

1.10 One of the biggest threats to the ongoing viability of Australia's food production and manufacturing businesses is our manifestly inadequate food labelling system. There are serious concerns about our current labelling regime and the extent to which it allows foreign imports to be classified as 'Made in Australia'. Currently the test for a product to achieve this classification is that it must either be 'substantially transformed' in Australia or 50 percent of the total cost of producing or manufacturing the good is attributable to processes that took place in Australia. We now have a situation where imported orange juice concentrate is being passed off as 'Made in Australia' after it is mixed with water and packaged in Australia, despite the concentrate originating overseas.

1.11 Citrus Australia Ltd summarised the shortcomings of our labelling laws:

Consumers also have a fundamental right to know where their food comes from.

It was disappointing to see the government's lack of support for a new country of origin framework, as recommended in *Labelling Logic: a review of food labelling law and policy 2011*. 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.⁸

Recommendation 3: The Federal Government initiate an overhaul of Australia's country of origin food labelling laws to provide truthful and useful information to consumers.

Importation of Orange Juice Concentrate

1.12 The importation of cheap orange juice concentrate ('OJC') being passed off as 'Made in Australia' has been the source of much anxiety for many citrus growers in Australia. Furthermore, the Murray Valley Citrus Board also raised concerns with the committee that OJC was entering Australia at lower than cost price. I share their belief the onus needs to be on the country exporting OJC to Australia to prove that they are not selling it at less than the cost of production.⁹

Recommendation 4: Amend the Customs Act 1901 reverse the onus of proof so as to require an importer to prove the imported goods have not been dumped or subsidized for export.

8 Citrus Australia Limited, *Submission 15*, pp. 18 and 19.

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

Carbendazim

1.13 In 2012, OJC containing the chemical carbendazim was dumped on the Australian market. As explained by Sunraysia Citrus Growers Inc:

This chemical had 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.¹⁰

1.14 The former Government's haphazard response to concerns about carbendazim is symptomatic of the lack of understanding about the threat to the industry and human health posed by the chemical. The Coalition Government should seize the opportunity to correct the errors made by the previous Government and ban the importation of OJC which contains carbendazim.

Recommendation 5: That imported juice of concentrate containing any level of carbendazim be banned.

Conclusion

1.15 I welcome and support the recommendations of the committee in relation to this inquiry. As a nation I believe it is not too late to address the issues facing our citrus industry, however action must be taken as a matter of urgency. With Australia's manufacturing industry already in crisis we must act now to ensure our food production industry does not face a similar fate.

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

