SUBMISSION TO THE PRODUCTIVITY COMMISSION

Citrus Growing And Processing: No. Citrus C2

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Contents

1.0 Overview and Conclusions

Introduction

Berri Limited (Berri) welcomes the opportunity to make this submission to the Productivity Commission on Citrus Growing and Processing.

Berri is a major citrus and fruit processor in Australia, employing 1500 Australians and processing up to 150,000 tonnes of Australian citrus annually. Berri's main focus is the juice industry, however market dynamics in packed fruit and export markets directly impact the juice market, and Berri.

Berri has a large stake in the future competitiveness of the citrus industry and will be heavily impacted by any related changes in legislation. This submission provides Berri's perspective and supporting information on the following issues:

- Financial conditions and industry profitability
- Trends in consumer demand and supply factors
- Competitiveness of the industry and efforts taken to increase competitiveness
- Impact and effectiveness of Government policies and programs.

Overview

Financial Conditions (refer section 2.0) - As with much of the Australian Juice Industry, Berri has yielded poor financial returns over recent years with accumulated net losses during the past five years and has undertaken a number of initiatives to improve stability of supply and improve margins across the industry. (refer section 2.0)

Consumer Demand (refer section 3.0) - The overall fruit juice and drink category has grown by 9% sales volume in the last 12 months, including the fresh fruit juice segment which has grown by 17%. This growth has been due to significant promotional activity for the category and marketing of the fresh juice segment.

International growth of the juice market has been through value added fortified products, but in Australia, similar development has been limited due to overly restrictive health claims legislation. Further, initiatives to value add concentrate juice products via 100% Australian content have failed as Australians will not pay more for Australian concentrate.

Consumer demand for fruit juice products is in delicate balance with substitute beverages (milk, carbonated drinks) and is impacted by pricing relativities and a high level of promotional activity (discounting). As a result, the category is undervalued and margins are low.

Given current trends in consumer demand and tree plantings, Berri expects the local supply of Valencia oranges for fresh juice requirements to meet demand. However, to meet all of Australia's juice requirements, would take many years and even then, local prices are not likely to be competitive with imported prices.

Industry Competitiveness (refer section 4.0) - Economies of scale are crucial to sustained competitiveness in the citrus industry however it is unlikely that Australia can ever compete on this basis. However, due to seasonality and climate issues, Australian producers can compete successfully in the fresh fruit category in the US and Asian markets and benefit from consumer preferences which are driving the fresh juice segment in Australia.

Government Policy (refer section 5.0) - From Berri's perspective the Citrus Industry is moving in the right direction towards better efficiencies but is still adjusting as a result of previous legislative changes to trade barriers and taxes.

Impacts from Government policy and legislation have been both positive and negative. The rationalisation process initiated by Government deregulation is well progressed with the Citrus Industry focussing on value added fresh fruit and fresh juice market development, and only relying on concentrate manufacture as a last resort. GST changes have impacted negatively on the fruit drink category and some policy changes have led to increased costs. Funding support has been positive but more is needed.

Conclusions

To enhance competitiveness within the citrus industry, government policy should encourage investment in Australia's fresh fruit (for local and export use) and fresh juice production (not concentrate) and maintain low trade barriers.

In Berri's view, tariffs/quotas are not the right solution to making the Australian Citrus Industry more sustainable and competitive. Tariffs will not encourage focus on Australia's true competitive advantage in fresh fruit and fresh juice markets nor will they overcome the tremendous cost advantage the world's major concentrate producers have achieved.

Instead, tariffs will reduce Australia's ability to compete internationally and increase local inefficiencies, potentially undoing much of the hard work that has been achieved over recent years.

Berri would strongly support government initiatives that encourage:

- A more coordinated approach to marketing of raw materials (ie. fruit)
- Production of citrus varieties to meet consumer and market demands
- Fresh fruit production efficiencies
- Export market development
- Less restrictive health claims legislation in line with international standards

2.0 Financial Conditions

The Citrus Industry as a whole is not doing well.

As with much of the Australian Juice Industry, Berri has yielded poor financial returns over recent years with accumulated net losses during the past five years and has undertaken a number of initiatives to improve stability of supply and improve margins across the industry.

Within the juice market, a key issue is that prices are pegged at very low levels compared with overseas markets due to the pricing of substitute products such as carbonated beverages.

2.1 Berri Profitability

Despite Berri's leading position in the juice processing industry in Australia, margins are relatively low, mainly due to the high cost of raw materials, excess industry capacity and low priced consumer substitutes.

As with much of the Australian juice industry, Berri has yielded poor financial returns over recent years with accumulated net losses during the past five years alone exceeding $17m.

Substantial rationalisation of the company's manufacturing, procurement, selling and administrative activities has been undertaken during this period to improve the company's competitive position and future financial results.

Much of this rationalisation process has accompanied Berri's acquisition of what was previously the country's number 2 juice packaging business, National Foods Juice Ltd.. The low financial returns earned across the industry have contributed to an ongoing consolidation of industry participants.

Despite these efforts to improve operating efficiencies, profit margins remain below international benchmark levels.

2.2 Category and Segment Profitability

One of the key profitability challenges for the fruit juice/drink category is that prices (and margins) are low. Although Australian prices are low compared with overseas markets for fruit juice, the opportunity to increase fruit juice prices within Australia is limited because substitutes are also priced at relatively low levels.

For example, comparisons with the UK show that Australian prices are significantly lower:

- Australian 2 litre Coke prices are 71% of UK Coke prices
- Australian 1 litre milk prices are 50% of UK milk prices

2.3 Local Grower Profitability

Berri has recognised that its own viability in the fresh juice market is strongly linked with grower profitability and has initiated a number of programs aimed at stabilising grower profit related factors. In high crop years this approach has been undermined, at great expense to Berri, as opportunistic processors purchase non contracted fruit for $60 - $80/tonne and undercut selling prices for fresh juice by over 50% (ie. compared with contracted prices of $170-$240/tonne). Although the full potential of the initiatives is yet to be realised, to date Berri's initiatives have resulted in increased stability in prices for participating growers.

Berri's Initiatives to Stabilise Grower Profitability	
Initiative	**Impact**
Long Term Contracts	Provision of revenue security, 3 year rolling contracts for 100% of Berri's Valencia (fresh juice) requirements.
Guaranteed Prices & Quantities	Margin protection and minimum pricing ($170 - $240 per tonne).
Surplus Fruit Processing in high crop years	Fruit will be processed at pricing above world parity concentrate pricing to reduce competitor threat to undercut pricing for fresh fruit and retail fresh juice pricing.

3.0 Trends in Consumer Demand

In the last 12 months, the fruit juice and drink category has grown by 9% (sales volume) and fresh fruit juice has grown by 17%. This has been due to heavy marketing of the fresh juice segment in particular and other promotional activity.

International growth of the juice market has been through value added fortified products, but in Australia, similar development has been limited due to restrictive health claims legislation. Further, initiatives to value add concentrate juice products via 100% Australian content have failed as Australians will not pay a premium for Australian concentrate.

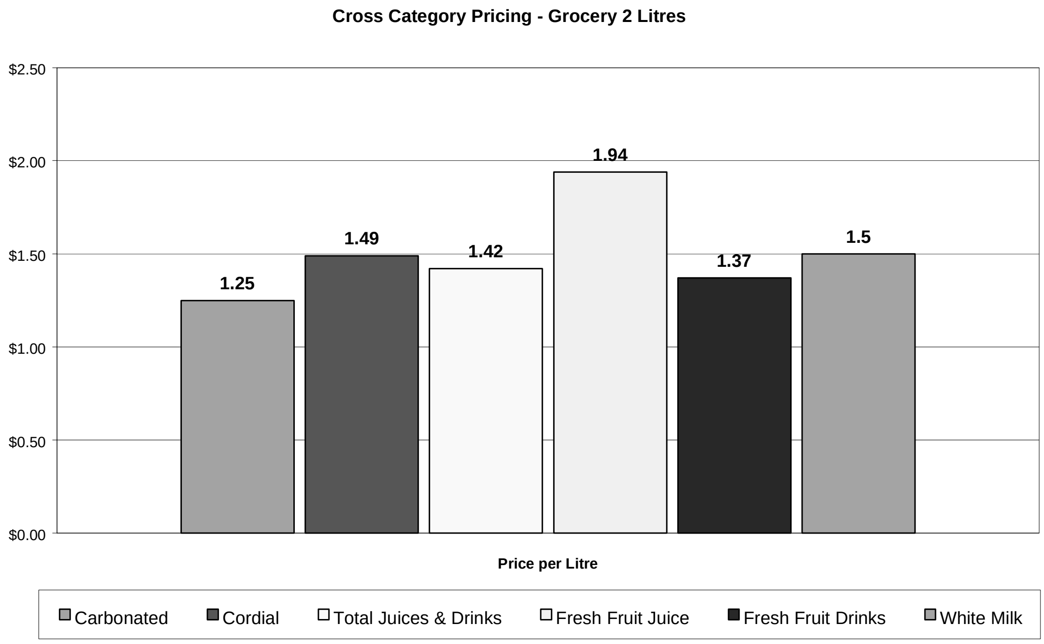
Demand for fruit juice products is in delicate balance with substitute beverages such as milk and carbonated drinks, which are priced lower and have much higher volumes than fresh juice. There is also a high level of promotional activity (price discounting) in the juice and drink category and substitute categories that consumers respond to. As a result, the category is undervalued and margins are reduced.

Given current trends in consumer demand and tree plantings, Berri expects the local supply of Valencia oranges for fresh juice requirements to meet demand. However, to meet all of Australia's juice requirements, would take many years and even then, local prices are not likely to be able to compete with imported prices due to lower economies of scale.

3.1 Market Segmentation

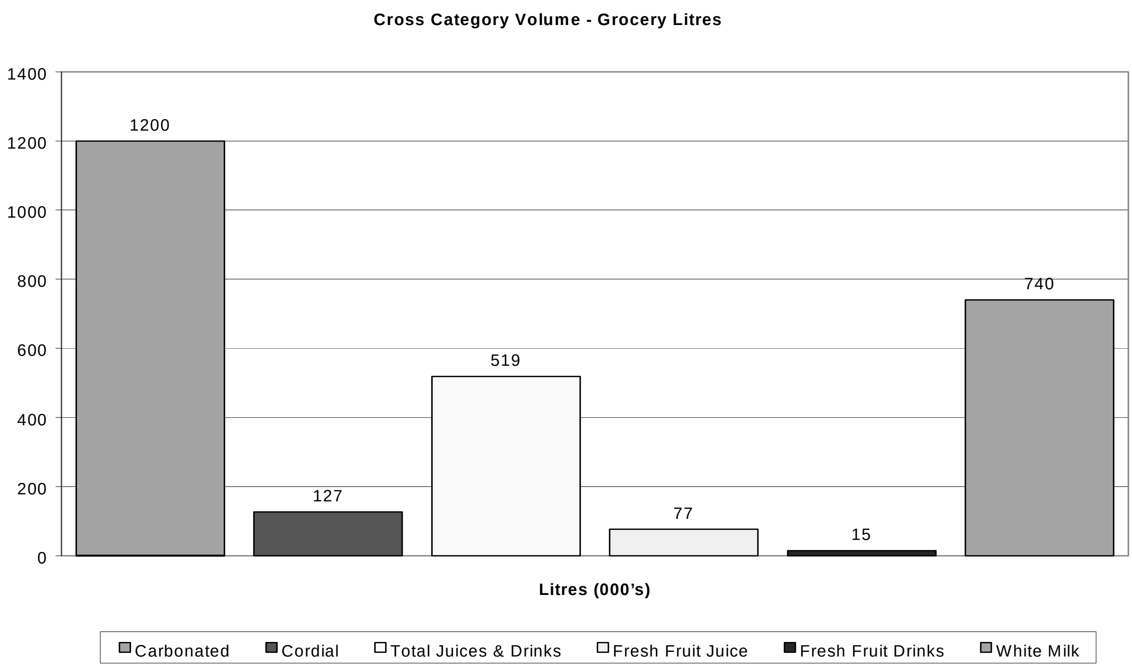
Berri's consumer research highlights that consumer beverage preferences are in delicate balance and that fruit juice competes with the water, milk and carbonated beverage categories for market share and when price relativities change, consumers switch between categories.

Fresh juice must remain competitive against other beverages. Fresh juice is currently 30% more expensive than milk and 55% more expensive than carbonated beverages. It is also a much smaller volume category than either milk or carbonated drinks.



Any attempt to significantly increase this price differential further between fresh juice and substitutes will result in a loss of market share which will have a significant impact on all sectors of the Citrus Industry.

Further, the volume of product sold varies significantly between categories. Compared with fruit juice, carbonated drinks have 15 times the volume, milk has 10 times and cordial has twice the volume.



Within the juice category there are four main segments that are divided between fresh and long life products, and between 100% juice and juice drinks (with less than 100% juice content) as illustrated below.

Juice/Drink Category Segments	
Segment	**November 2001 Year to date Litres %**
Chilled Fresh Juice	15%
Chilled (recon) Juice	4.3%
Chilled drink	20.9%
Long Life Juice	42.5%
Long Life Drink	17.3%
Total Litres (‘000)	*521713.2*
Source: Aztec Grocery Sales Data	

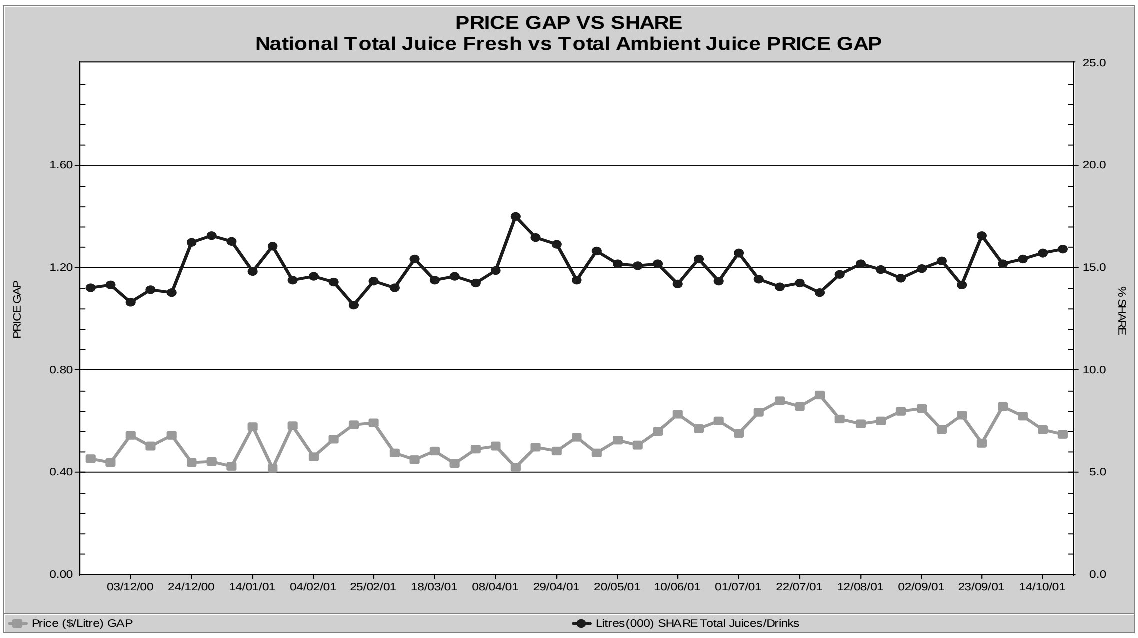
3.2 International Juice Market Trends

Internationally, juice market growth has been driven by the development of high value fortified juice products and not from concentrate (NFC) products. However, Australia’s “food laws” legislation is less liberal than overseas in terms of health and fortification of fruit juice products and related health claims. This has restricted local development into fortified juice products and the ability to value-add and grow the segment in this way.

3.3 Domestic Juice Market Trends

Domestically, the juice market has grown in recent years. For example, juice sales through grocery outlets have grown 9.2% in the last year. Much of this growth has been driven by growth in the fresh juice segment, which has grown 16.9% in the last 12 months. (Source: Aztec Grocery Sales Data – available on request)

Consumers switch their purchases between all forms of juice. For example, Berri's research shows that significant proportions of households buy both fresh and long life juice and that these consumers account for most of the total juice consumed. Despite this, Berri's retail data (shown below) demonstrates that there has been continued growth of fresh juice regardless of the pricing gap between fresh juice and long life orange juice.



This growth is in part due to Berri's marketing activities, which have been geared to convert consumers to fresh juice from other juice products and substitute beverages. Activities have included a $15m investment in advertising (along with other promotional activities) to build segment and brand equity.

In summary, the low international prices for concentrate have not impacted on the continued growth in the 100% Australian fresh orange juice sector.

Berri has found that consumers are not prepared to pay more for juice made from 100% Australian concentrate than for juice made from imported concentrate. Berri has attempted two separate (unsuccessful) launches of Australian long life products where the product was test marketed at a higher price point that other long life products.

This trend of growth for fresh juice is positive for local growers, because they receive higher margins for fresh juice produce than for concentrate based produce.

3.4 Consumer Price Issues

Berri's experience is that consumer price sensitivity is high within the total beverage market, which leaves the juice industry vulnerable to price changes (increases) or changes in relativities (eg. higher juice prices cf soft drink prices). Consumers are aware of and are highly responsive to price/value changes, and readily switch between juice and other substitute categories such as milk and soft drinks.

Further, as previously discussed (section 3.1) given the current price relativities where juice is already significantly more expensive than milk or carbonated drinks, any price increases will result in juice buyers switching categories.

To combat price driven category and segment switching by consumers, individual manufacturers engage in a high level of promotional activity (ie. price discounting). For example, in the 12 months to November 2001, 65% (dollar value) of one major long life juice brand was sold on promotion. This is typical of the category (more data available on request).

The high level of promotional activity within the juice and drink category has created a consumer who readily switches between brands and between segments. For example, consumers of one of the major fresh juice brands in Australia devote 57% of their consumption to other fresh juice brands. This is typical of the category (more data available on request).

3.5 Fruit Supply Trends in Australia

The longevity of the Australian citrus industry depends on growers' profitability. Growers make choices based on expected returns and many are opting to substitute orange crops with other crops that achieve higher prices and quicker turnaround time on their investment.

As a result of the rationalisation process which has been occurring over the last five to ten years there has been a significant change in the number of tree plantings for valencias and navels (not grown for juice). Navel tree plantings have increased to capitalise on the high returns from the fresh fruit market whilst Valencia tree numbers have reduced to a point where supply equals demand for fresh fruit packing and fresh juice requirements. For example, from 1995 to 2001:

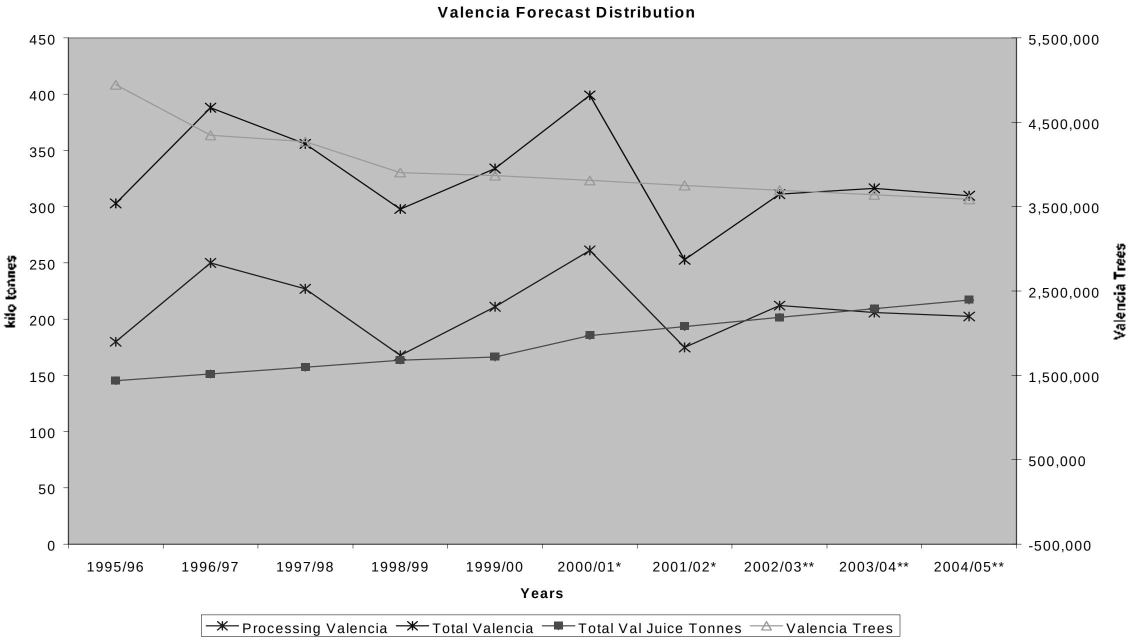
- there has been a 72% reduction in non bearing valencia trees, a 19% reduction in bearing trees and total reduction of 23% in all valencia trees. This change is a result of growers planting summer navels and wine grapes for greater financial returns.

- total winter navel tree numbers have reduced by 10% with the profitable US export program providing the relative stability in tree numbers.

- the total summer navel tree numbers have increased by 44% as a result of good returns as the reliance of valencia fruit for the domestic summer market has reduced.

Citrus crops are cyclic by nature and even though various horticultural practices are employed (ie. thinning, hedging etc.) to even the crop tonnages out there are invariably periods of over and under supply. This has been the case over the last two years for both navels (252KT in 2000 and 178KT forecast in 2001) and valencias (399KT in 2000/2001 and 253KT forecast in 2001/2002).

The graph below shows the reduction in valencia trees over recent years, and details of valencia processing, the Australian Valencia Fresh Juice market tonnes and Berri's forecasts.



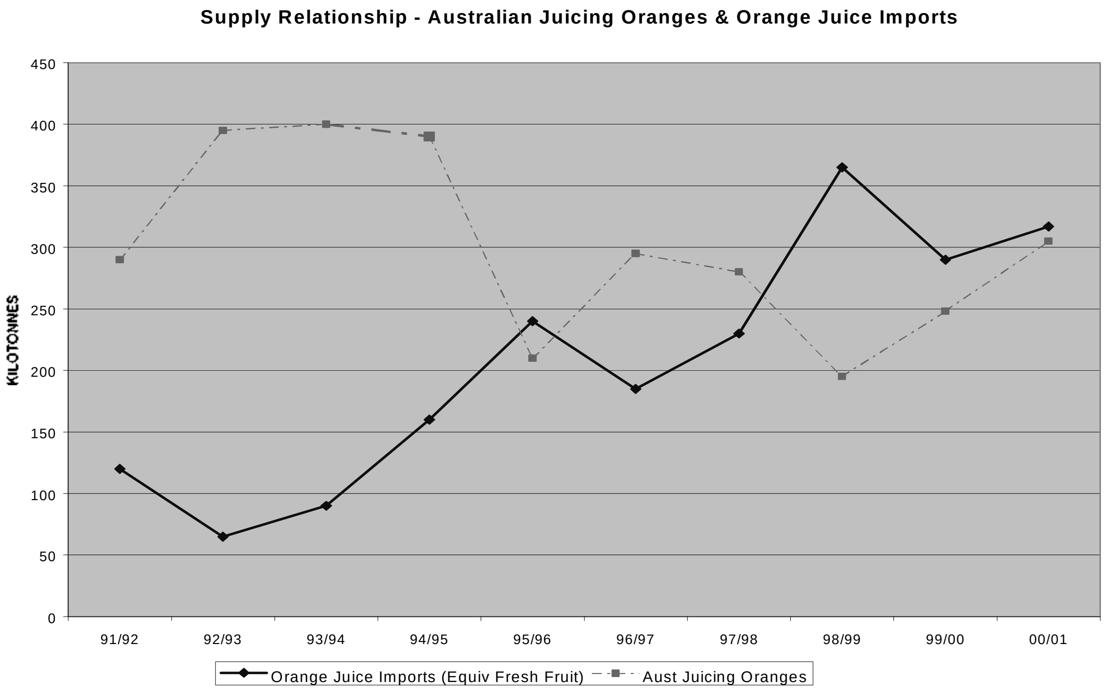
With the reduction in valencia tree plantings and the development of the fresh juice market sector in Australia, valencia fruit supply/demand is in balance on an average crop year (as illustrated below).

Valencia Fruit Supply and Demand	
Export fresh fruit	50,000T
Domestic fresh fruit	75,000T
Fresh juice	200,000T
Concentrate	-
Total tonnes required	**325,000T**
Forecast production	**325,000T**
Source: Industry Statistics	

Given the current trends in valencia tree numbers and the continued growth in fresh juice it is highly unlikely that there will be another surplus on valencias and prices are expected to remain in the $170 - $240/T range. This range is believed to be at an appropriate level to maintain grower profitability.

As the demand for fresh juice continues to increase growers will be encouraged to increase plantings of fresh juice fruit varieties under contract at sustainable price levels for both grower and end consumer.

The Australian market for orange juice is approximately 600,000T fresh fruit equivalent. The processing sector has continuously demonstrated that all fruit surplus to the fresh fruit market is used in the juice sector and the shortfall is imported. In a typical year the Australian crop supplies 250,000T, and a 350,000T fresh fruit equivalent is imported.



For Australia to be 100% self sufficient in orange juice requirements it would need to grow an extra 350,000T of valencias which would take up to 10 years for trees to become full bearing. In the current international environment, it is unlikely that growers or processors will invest to this level.

Navels are primarily grown for fresh fruit and the main source of income is from fresh fruit packing. Any navel processing (of pack house over-runs) only returns cost of production at best, depending upon prevailing international concentrate prices. In some instances, a small amount of navel fruit is required for blending into juice products which is generally subject to contract pricing.

With the increased navel tree plantings and subsequent increased tonnages of fruit it is critical that quality fruit and sustainable fresh fruit markets are developed and maintained as the processing sector has little requirement for navels for fresh juice or concentrate, due to the excessive bitterness, should there be a crop oversupply.

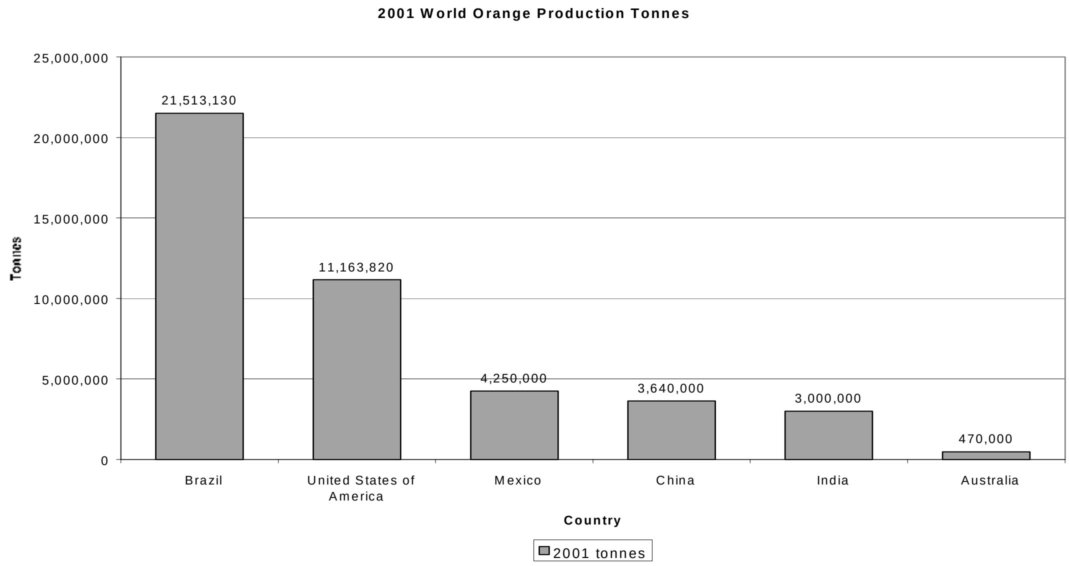
3.6 International Fruit Supply Trends

Recent large crops in Brazil and USA have resulted in 20 year low international prices for concentrate, which has put pressure on all citrus growers and processors world-wide. The forecast lower crops in Brazil and USA for the upcoming 2001/2002 season has seen FOB Brazil prices for concentrate increase from US$750/MT to US$1200/MT.

World climatic conditions have historically resulted in the Australian crop being low when Brazil/USA are low and vice versa. As a result, this has not allowed Australian citrus growers to capitalise on high world prices when we have a large local crop. For example, the Australian record crop in 2000/2001 coincided with record low world prices, which were due to world over-supplies.

The strength of the $US against most world currencies is a major driver in the Australian cost for Brazilian concentrate. The value of the $A vs $US therefore needs to be considered when evaluating the viability of concentrate manufacture in Australia (ie US$1,000/MT FOB equals AUS$100/T Fresh Fruit at 50c FX rate and $60/T at 70c FX rate).

Australia only produces 0.7% of the world orange production (nb. figures don't include non-orange citrus products).



Source: FAOSTAT

4.0 Competitiveness of the Industry

Economies of scale are crucial to sustained competitiveness in the citrus industry however it is unlikely that Australia can ever compete on this basis.

Instead, due to seasonality and climate issues, Australian producers can compete in the fresh fruit category in the US and Asian markets and benefit from consumer preferences which are driving growth of the fresh juice segment in Australia.

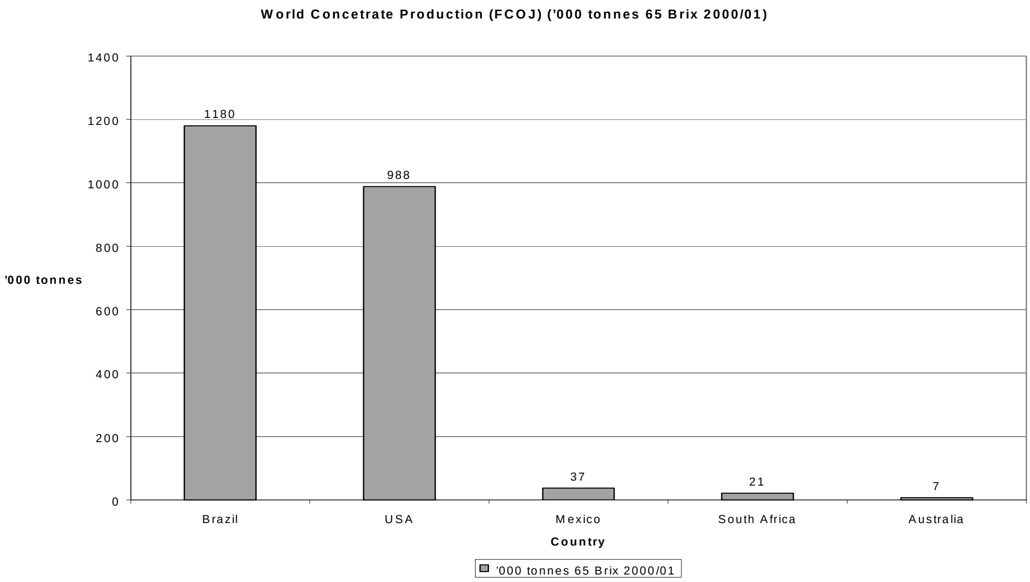
Australian growers are focussed on fresh fruit production (not concentrate):

- **Fresh fruit** yields relatively higher prices for growers but the market is undermined by lack of marketing coordination and over-supply of packing houses
- **Fresh Juice** provides higher returns than concentrate, and Berri initiatives have been focussed on shoring up valencia supply for fresh juice processing
- **Concentrate** (Australian) will never compete on price against imported product and yields relatively lower prices for growers.

To improve competitiveness, the Citrus Industry needs to focus on export and domestic fresh fruit markets and the Australian fresh juice market rather than on low margin juice concentrate markets.

4.1 Global Production of Concentrate

Significant economies of scale are achieved in countries such as Brazil (1,180,000 tonnes) and USA (988,000 tonnes) in the production of the world's concentrate. However, Australia is a very small player, producing only 7,000 tonnes of the world's concentrate.



Given economies of scale issues in the growing and processing sector, Australia has never been and never will be an internationally competitive producer of concentrate and should channel its resources into the more value added market sectors of fresh fruit and fresh juice.

4.2 Local Industry Structure

In stark contrast to global trends towards building economies of scale, Australian fruit growers are focussed on fresh fruit and not on concentrate production. In an effort to preserve their profitability, they currently divide their production between more profitable fresh fruit for domestic and export markets and contracted fresh juice, and less profitable processing – non-contract fresh juice and concentrate (least profitable).

Fresh Fruit:

- A coordinated marketing program is a key requirement to allow growers to maximise their returns.

- Generally there are too many citrus packers selling into the market which invariably leads to low prices and poor quality as they chase market share and capacity utilisation at the expense of grower returns.

- The domestic and Asian export markets are typical of an unregulated market environment where potential profits (returns to the grower) are compromised. The following quote from the Growers Newsletter, Oct 2001 illustrates this:

> *"At the urgent request of our Malaysia representative, <> our marketing manager made a brief visit to South East Asia last week visiting Singapore and Malaysia. Paul confirmed that:*
>
> 3. *While we are palletising our fruit most Australian exporters are not and many are packing in excess of 23 kg of Valencias into a carton designed for 18.5kg. We <> were packing 21.3 kg carton and told by importers that our cartons are too light*
>
> 4. *Mildura packers are especially competitive selling well below our price ($2-$4) a carton making sales at a realistic price very difficult. Our buyers will pay more for our brand but this margin is too high"*

- These low prices in the fresh fruit market then puts extra pressure on growers to seek greater returns from the fresh juice and concentrate sectors where they are not sustainable.

- Australia's fresh citrus exports have proven to be internationally competitive for a number of market window opportunities (ie. USA navels).

- The US navel export program is an excellent example of controlled marketing where all the fruit is marketed by one agent and maximises the market opportunity for all Australian navels. This marketing system is under threat by some self interested Australian packers and if they are successful in "deregulating" the US market then eventually Australian suppliers will compete against each other and returns will fall and the viability of navel orange growing will be under threat.

- Domestic fruit pricing has been affected by world concentrate pricing historically. The concentrate parity pricing has been allowed to set the base price for fresh fruit market returns due to weak selling into the domestic market and this nexus needs to be broken by improving fresh fruit marketing.

Fresh Juice:

- The emergence of the fresh juice sector has developed a market niche which can provide higher returns for citrus compared with concentrate which competes directly against international like material.

- A significant amount of effort and money has been invested by the Citrus Industry and individual companies to develop this segment which can provide returns to growers for valencias in the range $170 - $240/T.

- There is a strong international trend towards not from concentrate (NFC) fresh juice where it has been demonstrated that consumers are prepared to pay more than for concentrate based juice.

- The viability and continued growth of the fresh juice sector is reliant upon a quality supply of fruit at sustainable prices to growers and consumers.

- The logistics of supplying NFC from Brazil/US into Australia has provided the Australian Citrus Industry with a natural barrier against imports. However it should be noted that as major international suppliers move to bulk NFC in ships and China develops as a major citrus growing nation, Australia will need to ensure that it maximises the efficiencies of local NFC production and processing.

- The continued growth and rationalisation of the Australian fresh juice industry will lower unit costs, create greater efficiency and it will increase its ability to compete in world markets.

- There are concerns that the fresh juice prices paid by processors to growers (through packers) have not always been passed back to growers which undermines their returns. It is important that processors ensure that returns to growers are maximised.

Concentrate:

- Concentrate production in Australia is not viable due to the lack of critical mass to give the economies of scale required to meet international best practice, as can be seen in the table below.

Concentrate Production	
FOB Brazil FCOJ Price	Duty required to equal A$190/T fresh fruit equivalent
US$750 (2000/2001)	120%
US$1200 (2001/2002)	30%

- From 10 major citrus concentrate processors, there are now only three companies in Australia which actively process concentrate in any meaningful quantity (Mildura Fruit Juices, Berri Limited and Excello Co-op) and this is only done when fruit is surplus to fresh requirements.

- There has been no investment into citrus concentrate production for at least 10 years and it is even less likely in the future with the continued growth of the fresh juice sector. In fact, there has been a significant reduction in citrus concentrate production over the last decade. Citrus processors have either left the industry or their processing activities have been directed to other products (ie. apple, carrot).

- Even if trade barriers or other such devices where introduced to artificially inflate the cost of imported orange juice it is unlikely that growers and/or processors would make long term investments into producing FCOJ in fear that if/when the barriers are removed then their investment would be worthless.

4.3 Berri Initiatives to Enhance Competitiveness

Berri has a significant stake in the competitiveness of the citrus industry and has recently undertaken a number of initiatives with growers to facilitate longer term stability and planning.

Initiative	Impact
Industry Citrus Forum	Berri has facilitated and funded an Industry Citrus forum in Canberra so that the future of the citrus industry could be discussed. The aim was to consolidate thinking and drive long term planning.
Long Term Contracts	Growers' competitiveness enhanced via long term contracts, fixed prices and quantities which in turn has enabled grower investment in greater efficiencies and new technologies.
High use of Australian Valencias	On average Berri consumes between 25 – 30% of all valencia and navel oranges grown in Australia, depending on crop size, with typical direct or indirect (via contract processors) tonnages of 110,000T of valencias and 40,000T of navels processed each year.
Industry Code of Practice	Over the last seven years Berri has been instrumental in establishing an Industry Code of Practice through the Australian Fruit Juice Association to monitor and enforce truth in labelling and product authenticity. Berri continues to contribute $50,000 - $75,000 per year to maintain this program as adulterated and poor quality juice will restrict the growth and profitability of the fresh category.
Capital Investment	Over the last 12 months Berri has invested $3m in up-grading its fresh juice processing facilities in South Australia and NSW to ensure that we have best practice quality and productivity to maintain the growth in the fresh juice sector.
Export market Development	Berri has been developing export markets for 100% fresh Australian juice to provide additional outlets for fruit and improve returns.
Crop Surplus Commitments	Berri has committed to process surplus fruit in high crop years to stabilise the fresh juice market. Fruit will be processed at pricing above world parity concentrate pricing to reduce competitor threat to undercut pricing for fresh fruit and retail fresh juice pricing.
$15m in advertising investment	Over the last five years Berri's advertising of its fresh juice brands (Daily Juice and Australian Fresh) have increased the brand equity in fresh juice products so that higher prices can be sustained against competitive products and ultimately permit higher fruit pricing to be sustained.
Consumer Marketing	Berri is proactively investigating and developing opportunities to market value-added juice and drink products.

4.4 Berri's Recommendations to Improve Competitiveness

To improve competitiveness, the Citrus Industry needs to achieve increased volume and profitability through export and domestic fresh fruit and the Australian fresh juice markets rather than on juice concentrate markets. Berri's suggestions are that the citrus industry should focus on:

- Grower based funding to promote fresh fruit and juice, following the "Florida" example.
- Continued development of domestic and export fresh fruit markets, particularly through coordinated marketing programs to ensure maximised returns.
- Co-operative development of NFC domestic and export (Asia/Pacific) markets.
- Continued promotion of quality and health aspects of NFC by processors to increase brand equity and maximise returns.
- Grow varieties to optimise quality and reduce cost of production and meet market demand.

5.0 Impact of Government Policies

The rationalisation process initiated by Government deregulation is well progressed with the Citrus Industry focussing on value added fresh fruit and fresh juice market development, and only relying on concentrate manufacture as a last resort when fruit supply exceeds demand.

From Berri's perspective the Citrus Industry is moving in the right direction but is still adjusting as a result of previous legislative changes to trade barriers and taxes.

Impacts from Government policy and legislation have been both positive and negative:

- GST changes have impacted negatively on the fruit drink category
- Policy changes have led to increases in costs; funding support has been positive but more is needed.

Berri would strongly support government initiatives that encourage:

- A more coordinated approach to marketing of raw materials (ie. fruit)
- Production of citrus varieties to meet consumer and market demands
- Fresh fruit production efficiencies
- Export market development
- Less restrictive health claims legislation in line with international standards.

5.1 Background to Government Policy Impact

In the 1970's and 1980's the Australian Citrus Industry was predominantly focused on producing winter navels for fresh fruit packing and valencias for processing into concentrate.

Orange concentrate production viability was underwritten by high import duty (up to 35%) and the Sales Tax Requirement of 25% Australian juice to qualify for 10% sales tax relief.

As a result of these Government introduced protective measures the Citrus Industry had no real incentive to become more efficient in growing, packing, processing and marketing of fruit and juice products. Over the last ten years Australian Governments have been committed to making the industry internationally competitive. The subsequent removal of the 25% Australian juice content requirement and reduction of import duty to 5% has forced the Citrus Industry to rationalise growing, packing, processing, converting and marketing of citrus products, to enable the industry to be internationally competitive in market segments it chooses to compete in.

The outcome of this rationalisation, which is not yet complete, has seen growers consolidate to larger land holdings, implement best practice horticultural practices, produce the correct varieties and improve quality to meet market demand. There has been ongoing rationalisation in the packing and processing sectors to consolidate critical mass and attain economies of scale. Markets have been developed where there are sustainable returns in an international market environment, such as mandarins, the US winter navel program, summer navels and fresh juice.

5.2 Taxation Related Impacts

The changes to price relativities in the beverage market introduced with the GST has had a massive impact on processors. With GST related tax changes, carbonated beverage taxes were reduced to the same levels as fruit drinks, making fruit drinks less competitive.

5.3 Impact of Government Legislation Initiatives

The industry is still adjusting from previous government changes to legislation and taxation policy. From Berri's perspective the Citrus Industry is moving in the right direction but is still adjusting as a result of previous legislative changes to trade barriers and taxes. It is worth noting that continued policy review and the potential for further significant change has also contributed to industry destabilisation.

The table below summarises a number of Government initiatives and the impact on the industry to date.

Impact of Government Initiatives	
Initiative to Date	**Impact**
Support US navel program	Positive
R&D funding support for new citrus varieties and orchard development in mechanical harvesting	Positive – but the (low) level of funds has limited development
Support for growers to restructure varieties and orchard practices	Positive – monies contributed to growers in the past, but limited
Export market development support for fresh fruit and fresh juice in Asia/Pacific	Government provided support via Austrade/Food to Asia
PAYE Tax change on contract fruit picking costs	Negative – Increase in harvest costs. It is difficult to get pickers and costs are too high
AQIS inspection charge	Negative - Adds to costs – decreased profitability in the export market
Removal of 25% Australian fruit requirement	Negative – reduced industry incentive to use low grade Australian concentrate from pack house over-run (of navels)
GST	Negative – imposition of GST on fruit drink

5.4 Berri's Recommendations for Government Initiatives to Support the Citrus Industry

Berri believes there are a number of government measures that need to be put in place to enhance competitiveness within the citrus industry. Broadly, the government should encourage investment in activities in which the Australian Citrus Industry has a competitive advantage (fresh fruit and juice) and maintain low trade barriers. Berri would strongly support government initiatives that encourage:

- A more coordinated approach to marketing of raw materials (ie. fruit)
- Production of citrus varieties to meet consumer and market demands
- Fresh fruit production efficiencies
- Export market development
- Less restrictive health claims legislation in line with international standards.

The suggestions below relate to development assistance, cost reductions, more liberal health claim legislation and development of an industry code of practice.

Suggested Government Initiatives	
Initiative	**Comment**
Health Claim Legislation	Eliminate (internationally) unfair and inconsistent labelling laws that discourage growth of value added Australian juice market
US navel program	Maintain support US navel program of single agent as marketer of produce
High Year Crop Fund	Fund to absorb "one in ten year high crop". Provide funding to processors to process excess crop
New Citrus Varieties R&D	R&D funding support for new citrus varieties and orchard development in mechanical harvesting via one off grants
Grower Support	Support for growers to restructure varieties and orchard practices
Export Development	Export market development support for fresh fruit and fresh juice in Asia/Pacific – eg Austrade, Food to Asia
PAYE Tax for Pickers	PAYE Tax change on contract fruit picking costs has made it difficult to get pickers and costs are too high
AQIS	Reduce AQIS inspection change
ANZFA/ACCC	Optimise ANZFA/ACCC unity and clarification of requests – changes to legislation and unnecessary costs
GST	Review GST for fruit drinks
Industry Code of Practice	Support industry code of practice development to minimise opportunistic pricing and undercutting in the industry by ensuring truth in labelling.

6.0 Berri's Response to Proposed Import Tariffs

In Berri's view, tariffs/quotas are not the right solution to making the Australian Citrus Industry more sustainable and competitive. Tariffs will not encourage focus on Australia's true competitive advantage in fresh fruit and juice markets nor will they overcome the tremendous cost advantage the world's major concentrate producers have achieved.

Instead, tariffs will reduce Australia's ability to compete internationally and increase local inefficiencies, potentially undoing much of the hard work that has been achieved over recent years.

In summary:

- Tariffs/quotas are not the right solution to making the Australian Citrus Industry more sustainable, and will only postpone the inevitable adjustments the industry needs to make.

- Tariffs will reduce Australia's ability to compete internationally, which is an important opportunity for the industry.

- Australia cannot compete with international suppliers of concentrate – large tariffs would be needed to counter the cost advantage large producers from Brazil and the USA have achieved.

- Australian growers/processors need to focus on product marketing and quality of produce. This will lead to increased consumer demand and subsequent improved profitability for Australian fruit and not from concentrate (NFC) products.

- A duty on imports will only result in consumers paying more for reconstituted juices, without providing any real assistance to the fresh fruit or NFC markets.

- Any attempt to inflate juice pricing by tariff introduction without the support of marketing and quality development will result in lost sales which will be detrimental to both growers and processors.