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The Presiding Commissioner,
Productivity Commission,
Melbourne, Vic., 8003

Dear Sir,

Public Inquiry - Citrus Growing & Processing

I am pleased to be able to provide the following comments to the Commission for consideration as part of the public inquiry.

My Company has more than 20 years experience in both export and import of citrus. For year 2001 we will handle approximately 6% of Australia's fresh citrus export volume and approximately 12% of the fresh citrus import volume.

Some General Comments

The major difficulty facing some Australian citrus growers is their unwillingness or inability to focus production on the fresh fruit market. There is no prospect that Australian growers can ever compete with dedicated juice areas such as Brazil, whereas there there is a world shortage of Southern Hemisphere navels and an expectation that this will become more acute in the future.

Protection of the citrus industry is not only unnecessary but over the past 20 years has been counter-productive in that it has delayed essential adjustment.

As with many industries, participants in citrus production include those who are very profitable and some enterprises that are marginal. Of course the area of production and farm size are important factors but so to is the willingness of of participants to change and their ability to fund change.

Some growers have made bad decisions or simply not made decisions on the best way to profitability and they will of course suffer as a result.

To witness in 2001 Valencia trees being reworked to Navels or removed is a sad indictment of the industry. The need for this change was clearly evident 20 years ago!

For many years there has been a shortage of Navel oranges for both the domestic and export markets. Over the next 5 years expected production from newer plantings is unlikely to satisfy demand.

In domestic and export markets two months marketing of navels (November, December, January) is lost because of insufficient production. New 'Summer Navels' promised domestic fruit to replace imported fruit in January - Febuary, but in reality these varieties are harvested September - October to meet production shortages.

Citrus Import

Navel oranges, lemons and red grapefruit are the main citrus fruits imported. Imports of these fruit are driven totally by the inability of the domestic industry to supply or supply in sufficient volume.

Navel imports start in December when there is no domestic production and finish in April/May when new season domestic fruit commences. Red grapefruit follows a similiar pattern. During the period December - March there is often a shortage of good quality Lemons and imported Lemons are used to keep the market supplied.

Navel import volumes have remained relatively static over the past 10 years despite significant price increases brought by a depreciating A$.

There is no liklihood that imports will increase unless there is a dramatic increase in the value of the A$.

FCOJ

The international price of FCOJ has provided a floor price for domestic prices paid by juicing companies. Despite significant devaluation in the A$ it is still not possible for second-hand fruit from fresh fruit production to fully recover production and (multiple) handling costs when priced at the international level.

Far more effort needs to be made by all producers to minimize production of fruit unsuitable for export or domestic markets.

Accurate and truthful labelling of fresh juice would assist in differentiating domestic juice but is unlikely to seriously change the economics of producing fruit unsuitable for the fresh market.

Export Market

As the statistics show Australia exports citrus to USA and most major Asian countries and more recently to Europe. With the removal of quotas in Taiwan from January 1st there are now no quota barriers in any of our main export markets.

Our main competition in these markets is from South Africa, however, in terms of quality, Australian fruit is the leader.

Exports to these markets could easily double if there was sufficient production available.

USA

This market receives about 1.5 mil cartons of large sized navels. This volume is artificially restricted by a restrictive marketing arrangement that secures 'super' prices at the expense of reasonable volume. The market has a capacity to import more than 15 mil cartons over the period of Australian availability.

Japan

Despite the state of the Japanese economy, this market has the capacity to import annually 1.2 mil cartons - almost double recent volumes.

Hong Kong / China

Since access to the USA market was gained, the Hong Kong and China market has struggled to get sufficient fruit. Prices achievable in this open market, while at good viable levels, cannot match the 'super' prices achieved in the USA and as a consequence the market has been poorly supplied. Australian navels could be marketed for two months longer given sufficient supply.

Malaysia / Singapore

This market handles the small sized fruit that should not be grown. Pricing tends to relate to juice price as there is too much small fruit being grown. The market is usually well supplied with limited scope for expansion of volumes.

Indonesia

The political problems in Indonesia that led to the devaluation of the Rupiah effectively stopped Australian citrus exports. In more recent years a relatively stable environment has allowed export to resume and to re-establish the market. This market is expected to continue its growth path.

Philippines

The market is not reflected in statistics as most fruit is shipped via Hong Kong or Singapore due to the unworkable quarantine arrangements negotiated by the Department of Agriculture, Fisheries and Forestry. An estimated annual volume of 200,000 cartons has capacity to grow strongly in the future.

Korea

Although access was achieved in 1999, the restrictive marketing arrangements imposed by Horticulture Australia Limited will severely limit growth prospects in this market.

Europe

The market for Navels has grown significantly in the past three years and has the capacity to more than double in the short-term.

Taiwan

Removal of quotas from January 1st, 2002 will see dramatic growth in this market. The fruit size required is in the medium size range and can be easily supplied from existing production.

Barriers and Problems

1. The main problem confronting the Industry is a simple lack of suitable production over the available season. For 20 years there has been no economic sense in producing valencias yet many producers particularly in marginal citrus areas are 'locked-in' as they lack the resources to relocate or restructure.

2. The restrictive marketing arrangement in the USA market has distorted navel marketing and severely damaged development of a plethora of alternative markets.

3. Biosecurity Australia has failed to gain access to the China market potentially causing the loss of a significant export market in the period following Chinese accession to the WTO. With an abysmal record in international access negotiations there is little hope that this market will continue indefinitely.

4. The extensive regulation through the industry has been largely driven by grower interests with little regard to effective export marketing. As one of the few horticultural levy paying groups, the regulations seem more designed to justify the existance of Horticulture Australia Ltd than achieve benefit for the industry.

Government Charges

While the removal of taxation on a number of export business inputs has been a positive benefit, the significant charges levied by AQIS are a burden not borne by exporters in other countries. Either the cost structure of AQIS is significantly higher than other countries, or the AQIS cost-recovery formula is far more onerous than in other countries. In either situation the result is the same - Australian exporters pay the Government a lot more money to be allowed to export.

I hope the above comments assist the Inquiry and I would be available for further discussion if required.

Yours faithfully,

Neil Barker