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Customers, clients, business partners, ingredients, and most importantly, juice - handled with care. ACN 010 896 509

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Productivity Commission
LB2 Collins Street East
Vic 8003

Inquiry into Citrus Growing and Processing
Email: citrus@pc.gov.au

Grove Fruit Juice is a Queensland family owned company engaged in the production and distribution of chilled fruit juice products with annual sales exceeding $10 M and supporting 50 employees.

The company's principal focus is on high quality unpasteurized fresh and fresh style citrus juices with brands that compete for chilled shelf space at major retail supermarket and general food service levels. Although a relatively small operation Grove is the clear no2 player in the Queensland chilled juice market. The company also manufactures a range of products made from concentrate.

We chose not to forward our own submission in the first instance but supported the position of the AFJA. However, the release of the commission position paper has prompted us to congratulate the commission on achieving a sound global understanding of the citrus industry and its various sectors and to make the following observations.

Grove's interest is to promote an environment that can achieve a viable and sustainable industry for the benefit of all stakeholders. Without growers there would be no juice-processing industry, and without processing, growers would not be able to realize returns for their whole crop – only that which is suitable table quality. Clearly these sectors are interdependent and in utilizing pack-houses as the facilitating link growers can maximize their potential for higher farm gate returns whilst processors have access to cheaper over run fruit.

FCOJ

Grove supports the view that FCOJ pricing no longer has an impact on Australian fruit, processing into concentrate is now only an opportunity to soak up surplus tonnage in high volume years. However it must be uniformly accepted that values can only be in line with world parity pricing. As such perhaps it would be appropriate for the various marketing and statutory authorities to exempt fruit processed into concentrate from levies ($5 per tonne deducted from grower returns in the Riverina).

The grower sector must also realize that high sugar levels are required to make this a viable option for processors – low sugar values require more fruit input to achieve appropriate brix levels. Informed decisions need to be made early in the season that surpluses will occur and a cooperative approach made. Surplus fruit keeps market prices low and if it cannot be harvested at all will stress trees and may effect future yields. It is therefore in the interest of growers to remove surplus fruit from the market early in the season and accept the low return, even if that return only covers picking costs.

Fruit Contracts

The commission hypothesized the average farm gate return for Valencia oranges for the period 1996/7 to 1999/2000 to be $295 for growers accessing all sections of the market. A price well above recognized production cost. In contrast the commission also recognized efforts by Berri Limited to stabilize pricing through contract arrangements. However as these contracts are signed directly with growers and give Berri pre-emptive rights over all citrus on the farm not otherwise contracted, they severely restrict grower ability to access all sections of the market and therefore the higher returns as described above. In practice during light crop years many growers will not meet their tonnage quotas and as a result their entire crop will be harvested at the contract juice price of between $170-$240. Similarly fruit surplus to contracted volumes must be offered to Berri first and last before a third party sale can be conducted. We believe contracts of this nature are both anti-competitive and predatory as they also severely restrict buyer access to surplus fruit not contracted (packing quality inclusive) and provide the potential for selective stifling of supply and the ultimate elimination of competitive juice processing operations. Furthermore under the terms of these contracts some of the quality parameters will often be almost impossible to meet resulting in penalty deductions and hence lower than stated returns. It has also been reported that farm property sales in the Riverina district have been overturned as the direct result of these contracts being too restrictive.

Grove's position is to offer contracts only through pack-houses. Using a benchmark price of $180 we pay 50 % of each load at the benchmark price and 50% at spot, the principal being to remove extremes whilst still maintaining a relationship with annual harvest variances. (Current spot price is $300-$320 and our average return on contracted fruit for March 2002 purchases will be $240) In trading only through pack-houses our contracts provide the opportunity for growers to maximize returns on the assumption that table quality fruit can be packed off.

Financial performance of the processing sectors.

The financial performance of processor and juice converter operations has been historically poor as evidenced by the number of businesses, large and small, exiting the industry either by take over or by closure. By it's own admission Berri Limited has not posted a profit in over 5 years. However we absolutely reject Berri's comment that opportunistic processors have undermined their efforts by purchasing off contract fruit and undercutting fresh juice pricing. During the light crop season of 1998-99 when Valencia orange prices were at almost record levels Berri's fresh juice flagship brands "Daily Juice" and "Pure and Fresh" were heavily discounted to levels approaching 25% off at store level. In an almost one week on - one week off rolling program throughout the entire season the average consumer price per litre of their products reduced. Opportunistic processors were not present in that market. Berri is undoubtedly the market leader (by volume) but it's thirst to maintain that position has continued to suppress prices for premium quality juice to levels that cannot provide acceptable returns to growers if their produce is sold entirely for juice processing. Meanwhile their Valencia contracts are pushing growers into that corner.

Deep discounting and bonus pack offers have continued to be their market strategy even after the take over of the national no2 Juice brand "Australian Fresh", whilst in the same market Grove premium lines have enjoyed strong growth at higher average per litre prices. We agree that consumers are sensitive to pricing within the total beverage market but they also recognize and will pay a premium for quality. Continued discount activities have relegated high quality juice products to commodity status with resultant low margins for juice operations

Valencia Fruit Outlook

Reductions to bearing Valencia tree numbers as recognized by the commission has reached the point where, on an average crop year, available fruit just meets demand for fresh fruit and fresh juice. If we consider the fact that fresh juice/NFC sales are continuing to enjoy growth then shortfalls will occur (as we are experiencing in the current light crop year). To meet demand product compromises will ultimately follow (generally in the form of NFC cut back with imported concentrate) or high retail prices will be imposed that slow growth - perhaps a combination of both. Once compromised it is difficult to regain consumer confidence and the risk of them switching alternative beverages would become reality.

The notion that fresh juice is “import proof” is extremely short sighted. Import NFC is currently being offered at $1.40 per single strength litre FIS, and whilst not a commercially viable proposition at present, a return to previous Australian currency exchange rates around US 70c would place it firmly in line with Australian single strength juice costs for many smaller enterprises located outside the fruit growing regions. Bulk transportation, handling and storage facilities have the potential to reduce costs further and we cannot ignore the potential production capabilities of emerging nations at our back door. China is the world’s third largest producer of citrus fruit, harvesting around 7 Million tonnes annually, mostly from uncultivated trees. They have the potential to dwarf Brazil in output and present a real long-term threat to international NFC and FCOJ pricing. We only need look at FCAJ pricing over the last 5 years to appreciate the effect China has had on the global Apple industry.

Australia can avoid these outcomes with a common sense approach to pricing and continuity of supply, but urgent attention must be given to encourage growers to increase Valencia production, something current juice contract arrangements do not provide. Until recently Grove purchased fruit at spot prices, ranging from $75 to $340, and over the last 5 years have paid an average shed door price of $165 per tonne. We are offended at the accusation of being opportunistic and point out that Berri have also purchased fruit off contract at prices below the minimum paid by Grove and other processors. It should be taken into consideration that Berri’s stated contract-pricing policy has been effective only from the current season. It would be a distortion of the facts to assume that those prices have been paid historically.

Conclusion

As recognized by the commission, the industry has seen many changes over recent years and if we are to move forward, growers pack-house and processors must cooperate more closely to maximize efficiencies and economic outcome for all players involved. In simple terms we must:

- Encourage processors to source supply only through pack-houses.
- Encourage growers to deliver only through pack-houses.
- Citrus Marketing committees must channel available levy funds towards promoting fresh table fruit to consumers. We consider juice sampling exercises as a waste of limited grower funds – leave that burden to juice manufacturers. We cannot understand the principal behind growers spending funds to promote low value off run fruit. They must market their premium line to maximize returns. Fruit should be grown firstly to eat. Juice fruit is essentially a by-product that juice processors add value to. Let them promote their product.
- Encourage increased production of Valencia and mid season varieties supported by responsible and value added marketing practices targeted at increasing demand for table and export fruit.
- Exempt fruit processed into concentrate from citrus marketing, DPIE and HRDC levies

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