

Submission to the Australian Productivity Commission Processed Fruit Safeguards Inquiry

Introduction

Thank you for the opportunity to present a Submission.

I am a retired man, but still continue own approximately 200 Ha of horticultural land. My wife and I have three sons, all of whom are in the business, and one daughter. Our eldest son, who lives in Melbourne, is establishing a new business for us there, leaving his two younger brothers to manage the orchards. Our family have been growing fruit in Ardmona since 1892.

Some seven years ago we farmed in excess of 300 Ha of orchard. We have since sold two orchards totaling approximately 100 Ha. Since then, nearly half of the 200 Ha of land we still own was cleared of our canning pear variety, because of the age of the trees and subsequent diminishing yield, matched with diminishing returns from the sale of the crop, rendered them unviable.

A lot of the land we still own is awaiting replanting, which is going ahead slowly with fresh market varieties of fruit.

We were recently told by SPC Ardmona (SPCA) that they would no longer be taking peaches from us, making redundant approximately 14 Ha of relatively young peach blocks capable of producing approximately 700 tonnes of high quality peaches annually. Most of these plantings were on, "state of the art" open Tatura trellis systems. Some of these blocks had only just reached full cropping capacity, so orchards in which we had invested close to \$1 million will be ripped out. As well as being a businessman, I am a horticulturist and, it's heartbreaking to see this happen.

Most fruit growers, including ourselves, invest as much emotional capital as we do financial capital in our businesses and, despite being financially prudent, we do love what we do. We take a lot of pride in the challenge and the skills required to grow fruit well, but we all know it is the "bottom line" that ultimately determines our success or failure. The sad part is that most of the difficulties we face are issues that we have no control over. Macro issues, like currency values that have a dramatic effect on our returns as do employment costs that continue to rise to match "community standards".

Nevertheless, this is not the first time difficulties like this have confronted us and we continue to grow fruit with "eyes and minds open".

Our business still has a contract to supply SPCA with canning pears, albeit a very reduced tonnage at close to unviable prices. We will be supplying these from 10 year old trees planted on the open Tatura trellis system. These trees in 2013 produced their first payable crop and we will use this "new" planting to supply the cannery as well as have a proportion of the crop sold in the, now, oversupplied, fresh market.

Fifteen years ago we owned and operated over 300 Ha of orchards, annually yielding approximately 13,000 tonnes of fruit and employing up to 400 people during the peak of the harvest, predominately supplying Ardmona Foods Limited.

I was Chairman of Ardmona Foods during the 1980's and 1990's and, with very good management we built the company into a profitable business on the back of innovative packaging, being the first in the world to pack fruit in juice, fruit into plastic snack packs and larger packs, to support our popular and market leading "Goulburn Valley" brand. Our other popular brand was "Ardmona", which was sales leader in the canned tomato category. We strongly promoted and advertised both brands. (Some may remember the Oarsome Foursome ads)

With SPC also being progressive in the Australian marketplace, the per capita consumption of processed fruit during the 1990's was increasing, albeit at minimal rate. This was in contradiction to virtually all of the rest of the Western World, where supermarket brands dominated, not supported by promotion and advertising, only by competitive pricing. Consumption rates in those countries were low and declining.

Due to the huge upward surge in the relative value of the \$A and the consequent surge in imports, our two major supermarket chains have followed their international "brother's" push into their own brands on the back of cheap product and very low shelf prices. In my view, if they continue this activity, they almost certainly will significantly injure the category, because without quality advertising and promotional support

and, product and packaging innovation, per capita consumption will decline. I suspect that the decline is already occurring. It could be a repeat of the fate of the over aggressive predator!!

Tariffs on unfairly priced imports could arrest this decline, but it will require SPCA to grab the opportunity to "innovate and educate".

In 2001 Ardmona Foods merged with SPC to form SPCA, a listed company of which I was deputy chairman. Some four years later, we were taken over by CCA (Coca Cola Amatil) and my long career as a Canner was over.

The case for a Review of the damaging effect on Australian deciduous fruit processing industry and other Industries directly exposed to the value of the \$A

The Australian deciduous fruit processing industry desperately needs tariff relief and Government support.

Tariff relief is only available after substantial market damage has occurred and is, I understand, temporary.

Australia needs a constant, long term mechanism that continually adjusts to provide effective but fair competition in our markets.

Industry problems

Australia's monetary system is currently dominated by the need to keep inflation under control by the use of continuous reviews and adjustments of interest rates by the Reserve Bank of Australia (RBA) and, by the Government making our markets accessible to imports of products from foreign producers through the means of minimal tariff protection.

This technique has been substantially successful in controlling inflation, keeping consumer prices down and, via tariff reductions, exposing our manufacturers and food producers to international competition.

This benefit has come at a cost, with the closure or reduced output of many segments of our manufacturing and food production industries, resulting in the loss of jobs. Because of the flow on effect

of these closures and job losses, many communities are suffering and, overall it is having a growing negative impact on our economy.

We are effectively exporting much of our manufacturing and food production capacity and jobs for the benefit of foreign countries, many that have either controlled economies, and/or cheap labour, and/or some form of Government support.

Australia's "open market" system is a long way from being "Open".

Our manufacturers and food producers, as a result of our competition policy, are selling into markets that are open to competition, including our national market, but have many of their cost inputs controlled by a "closed and protected market" for our labour and other protected components of our system. Our cost of labour and working conditions, are set by social criteria and upward wage pressures from the industries that are not exposed to international competition. Not by open market forces. (I am not suggesting that we should dramatically change our wage fixing system, I am just pointing out the reality of, and the difficulties faced by internationally exposed businesses as a result of our current system).

This is a recipe for failure and we are now witnessing that failure.

In summary, manufacturing and food production, are generally labour intensive industries (I understand that fruit grower submissions are indicating that the cost of labour accounts for approximately 70% of their total production costs). Businesses that are struggling, have the option of, scaling down of their operations, closure of their business or moving of their operations offshore.

SPC Ardmona's (SPCA), one of the most efficient innovative canners in the world, having invested many hundreds of millions of dollars in the fruit industry simply could, and possibly will without support, close their fruit processing operations in Australia and import the requirements to satisfy the market demand for their "Goulburn Valley", SPC "and "Ardmona" labels.

Under this scenario, the canning fruit growers (who are also world class and cannot move their operations offshore) would close their orchards and employees of both the orchards and SPCA factories would lose their jobs. The effect on the local community would be devastating. It would be unlikely that canning varieties of peaches, apricots and pears would be planted again the foreseeable future.

A suggested Solution.

If we accept that we have a problem, and I certainly do, then we need to approach developing a solution with a "can do" attitude.

As I see it, a reduction in the value of our currency is the only practical method of reducing our relative cost of labour, because most other methods that I am aware of are highly emotive, disruptive, divisive and difficult to achieve, as we saw in the election campaign leading up to the 2007 federal election and, not in the best interests of Australia.

The value of the \$A, that was mainly influenced in the past by trade factors is now significantly volatile, influenced by the international movement of large sums of money to "safe haven" and relatively high interest rate destinations, eg Australia, pushing up the value of our currency. (I understand that in excess of 60% of Australia's rapidly growing Govt. debt in 2012 was foreign owned)

The demise of manufacturing and food production has been substantially brought about by the relative value of the \$A, which has in the last 7 or 8 years increased in value in relation to the \$US by approximately 30% to 40%. (I suspect that many investments in manufacturing and food production were made with a volume of export production expected and with import competition at an acceptable level, on the basis of an \$A buying approximately 70 -75 US cents)

The use by the RBA of interest rate adjustment to control the money supply, hence inflation works, but it can have an unwanted influence on the value of our currency.

The best interests of the value of our currency and the setting of interest rates have a level of incompatibility.

I believe that RBA needs an additional “tool” to be able to better manage our economy.

I suggest that the Federal Government consider providing the Reserve Bank of Australia with the authority to impose a limited, calculated, temporary and variable level of consumer levy, additional to, but to operate under the same rules and conditions as the current GST and, to be used in conjunction with interest rate adjustments to control inflation.

The money collected from this levy should go into a fund controlled by the RBA.

Critics of this proposal will point out the inflationary effects of such a levy. As we saw with the introduction of the GST, the effect is a “one off” event.

I see the RBA, under this proposal, being able to reduce interest rates to stimulate the economy, and controlling any consequent inflationary pressures with the levy.

Lowering interest rates would have the required effect of reducing the value of the \$A for the benefit of manufacturers and food producers and job creation.

I have chosen a consumer levy as the preferred additional “tool” to help to control the money supply because it is a simple mechanism levy with an almost immediate and substantial cash impact, a levy operating with an established set of rules, and levying all Australians, who are the beneficiaries of our “open market” system, bearing some of the cost of maintaining manufacturing and food production and the consequent jobs.

Personal/family hardship resulting from this levy could be dealt with by adjustments to welfare arrangements.

I raise this matter resulting from my concern at loss of manufacturing and food production capacity and jobs that is currently occurring in Australia. When we lose the skills, the capital, and the infrastructure associated with manufacturing and food production, it is unlikely to be replaced under the current volatile currency environment.

Investment in manufacturing and food production (including orchards which have a lead time of 5 to 10 years to get into full production) requires long term stability and a level of surety and I cannot see that possible with our current monetary system.

Ross Turnbull

23/7/2013