INQUIRY INTO REVIEW OF THE CITRUS INDUSTRY LN AUSTRALIA

TO THE Committee Secretary

Senate Rural And Regional Affairs And Transport References Committee

PO Box 6100

Parliament House

Canberra ACT 2600

SUBMISSION

REVIEW OF THE CITRUS INDUSTRY IN AUSTRALIA

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I am a 3rd generation citrus farmer in the Murrumbidgee Irrigation Area of NSW.

My wife Katheryne and I farm two properties with a total citrus area of 45 hectares (ha).

We employ 2 full time contract pickers and 1 casual labourer to operate our business.

Our properties have a mixture of plantings with a dominance of Valencia oranges approximately 1,000 tons contracted to Berry Ltd and a local packing shed F & E Naimo and Sons (Naimo) for fresh domestic market.

We also produce navel oranges approximately 500 tons for the fresh markets and these are all supplied to Naimo.

Naimo do not export as it is too costly for them as a small operator. They have in the past and have found the extra effort, risks to export for 3 months over the navel season are not enough to justify the costs to continue. They need continuity to improve the costs over a larger part of the year.

Our farm also has one ha of mandarins which we are expanding with a new variety .

In spring 2013 we will expand this area to 5 ha with another 2,000 trees @ $13.5 + GST = $29,700.

In spring 2014 we will plant 1,000 trees with another mandarin @ $13.5 for trees and $4 royalty +GST = $19,250.

Also in spring 2014 we will plant 1,000 Valencia trees to replace some older plantings @ $13.5 per tree + GST = $14,850.

We have removed navel trees to do this which has cost $1,200 per ha to push and stack trees ready to burn and rip ground.

Now I have to prepare the ground for planting with laser levelling $500 / ha followed by mounding $600 / ha and then plant the tree $600 / ha.

As you can see this is a substantial investment of $63,800 over the next two years for the trees and extra $10,000 for the ground works and incidentals along with the lost production (150 -200 tons) from the trees we had to remove as well as wait 5 years for production to commence.

The total area to replant will be 8 ha or 17% of our planted area. As you can see the impact on our cash flow will be significant. At 58 years of age I ask myself why am I doing it. The only reason is that I hope it will make the property more saleable as well as more profitable long term.

In five years we will have to look again at the planting mix to evaluate whether to do nothing or to replant more area to new varieties. This will depend on the potential income and the state of the economy at that time.

I am a past chairman of the Riverina Citrus Committee and a past president of the Leeton Citrus Growers Association. I am a current member of the Riverina Citrus Committee in liquidation and Deputy President of the Riverina Citrus growers Inc who service members in Hillston, Griffith and Leeton .

SUBMISSION

INCLUDING

a) SCALE AND STRUCTURE OF INDUSTRY.

The Australian citrus industry in NSW is in turmoil. There is now no leadership at state level in NSW and there is limited leadership from our federal body Citrus Australia (CA). Growers in the Riverina are drowning in debt, low pricing for produce and many have no sustainable future.

Those who voted out the Riverina Citrus committee clearly did not think of what they lost or what the future cost would be on the local industry.

Citrus Australia made pledges of support in March 2012 before growers voted on a poll to wind up Riverina Citrus but this has been limited and as yet unmeasurable.

Even though $127,000 was awarded to each the Leeton Citrus Growers Inc (LCG) and Griffith Citrus Growers Inc (GCG) by NSW State Government they have no staff to administer and extremely poor membership base to decide on best outcomes from impending dowry handed to them.

What have each of these organisations done to support growers in the past 5 years?
They are a meeting place to discuss ideas and formulate policy but not to manage or run as a business which they now must.

2 grower associations and the Riverina Biosecurity Committee will all be looking for grower funds to continue. 3 bodies each with staff and costs with more duplication than ever.

I would be very disappointed if any of the funds received from Riverina Citrus were to be transferred to the federal body CA. The funds were accrued through a *compulsory charge* on growers and as such the funds should stay in the Riverina

The Riverina Citrus committee strongly recommended to NSW Department of Primary Industries and the Minister The Hon. Katrina Hodgkinson that the funds of nearly $1,000,000 should have been returned to the growers who contributed to the Committee in the past 12 months.
Instead the State Government chose to fund only 2 of the 3 local Grower Associations and a committee to manage Queensland Fruit Fly (Riverina Biosecurity Committee) with funds accrued through a compulsory charge on growers.

The control of Queensland Fruit Fly (QFF) in the Riverina is now predominantly funded by growers but overseen by Department of Primary Industries (DPI) staff as advisors.

DPI has failed the citrus industry in NSW and the community by withdrawing services and funding on the management and control of QFF.
It is wrong that citrus growers be held to pay all the ongoing costs and the community who are a major contributor to the pest problem as well as other industries such as wine grapes and stone fruit free ride.

The NSW Government decision was particularly unfair to several growers from Hillston and Darlington Point who contributed $30,000 to $60,000 in RC levees individually and will receive little or no benefit from the money distributed.

Citrus Australia (CA), the federal industry body which was set up to be funded by grower membership has failed to attract growers in the Riverina.
I myself was a member for two years but did not renew this year as I felt I was not getting the support in the Riverina that we should as the largest grower region in Australia.

Riverina Citrus had offered CA assistance for managing projects to reduce duplication. We offered our staff to gather and disseminate

information to assist the industry nationally but this was refused. We offered funds for promotion but this was rejected also.
There was a reluctance to co-operate with regional bodies for the better good of our industry.

Citrus Australia has become reliant on project income from Horticulture Australia Limited (HAL). This is then administered by Citrus Australia who appoints its staff to be project managers.
A problem arises when the Industry Advisory Committee (IAC) who say what our priorities are as growers and what we need for our industry to function effectively were predominantly directors of Citrus Australia.
A direct conflict as it would appear they were approving their own projects. This has changed recently but were CA the best organisation to manage those projects?
Probably, but there must be good governance and transparency.

Citrus Australia is good at Federal issues. However they perform very poorly on State and Regional issues. All states have different perspectives on the same issues.

An example is water policy. All regions even within states have very different views on water allocation and water rights and who has priority.

Citrus Australia say that they will not get involved in state issues as it could be in conflict with other regions, yet they supported the removal of Riverina Citrus and the Citrus Board of South Australia as they were hopeful the growers would pass on the accrued funds to CA.

We need a federal body but we also need effective regional representation to deal with local issues. In the Riverina we lost that.
We are now faced with full time farmers becoming part time administrators to try and manage local industry issues through multiple grower groups.

- Citrus Australia should have regional field representatives to liase with growers and act as a point of contact. To be a peak body for all growers they have to be more accessible.

b) <u>OPPERTUNITIES AND INHIBITORS FOR GROWTH OF THE AUSTRALIAN INDUSTRY.</u>

The average citrus farm size in Griffith and Leeton area 18 to 20 hectares. (every farm is different in planting breakup)

There are some very large corporate farms to the west and south of Griffith up to 400 ha in size which have a strong influence on the Riverina production.

The Riverina is the largest producing area of citrus in Australia with approximately 120,000 tons + or – 20,000 tons depending on seasons of Valencia and 55,000 to 65,000 tons of navels and a small area of lemons, grapefruit and mandarins.

Small farm size is an inhibitor in the Riverina.
With small farms it is difficult to remove older plantings to change to new varieties when prices are low and debt is an issue.

Low prices and reliance on the fresh juice industry have restricted growth somewhat compared to other citrus states of Victoria and South Australia where land for development was available and large corporate packers (Mildura Co-op and Vitor) encouraged growers to export and to change varieties for this growth with high returns.

Navel plantings began to expand in the Riverina during the late 1990s due to good export returns. This continued through to mid

2,000s when A$ was around $0.50 to $0.65 compared to the US$.
This was at the expense of older plantings of Valencia where production was over supplied and has reduced from a peak 200,000 tons in 1990s with low prices to current 120,000 tons.
Valencia prices are still under pressure as the fresh juice market is diminishing due to price barriers and also small operators undercutting the larger processors.
Consumers are reluctant to purchase @$6.50 /2 litre carton of fresh juice. It is a price barrier.
This along with fresh juice seen by nutritionists as having high sugar content and high in kilojoules giving fresh juice a poor image in a society which is more health conscience.

High value mandarins and navel varieties have been planted predominantly by large corporate growers in South Australia and Victoria aiming exclusively at export markets. Another reason for this is that the climate is warmer than the Riverina where we have less heat units over the growing season particularly for mandarins.

The Riverina region struggles to achieve optimum size in some mandarins due to insufficient heat units and heavier soil types.

Queensland is the largest supplier of mandarins in the Australian market and increasing annually. The trend for easy peel, seedless and sweet is putting pressure on growers in the southern states to change.

Queensland growers also have an advantage with large scale operations where many have other enterprises such as cattle to support them.

The Queensland mandarin industry being the first citrus to be marketed each season at the start of April also gives them better returns. They are in the market first and finish first just as the southern regions volume peaks in June July.

I am concerned that the Queensland mandarin volume has not yet reached its peak tonnage. There are still large plantings still to come into production.

What will be the impact of this and the southern regions changing to more mandarins on future returns?

Most growers in the Riverina rely on the services of local packing houses which are predominantly owned by larger growing families to pack for export and domestic markets.

Export requirement are strict for a grower.

- Fruit must be picked during warmer part of the day (winter only) with no moisture on fruit.
- Fruit must be delivered to packhouse and dipped in fungicide within 24 hours of harvest.
- Fruit graded, waxed, packaged ready for shipping.
- Fruit freighted to port.
- Fruit containerised and cold treatment commenced for USA, Japan and other Phyto Sanitory markets at 1 to 3 degree temperature for 16 -21 days for QFF control.
- Shipping by sea freight.
- Port inspection on arrival. If fruit accepted then continue to agent for receival and distribution. Payment to shipper
- Rejection on port inspection then remedial action required. Fumigation (cost to shipper/ grower) or redirect to another market (more freight and less money to shipper /grower) or dump at sea. No value, total right off and bill to shipper / grower. Rare but does happen.

Packing sheds and ultimately the grower pay for all costs of the product until accepted at export destination. Growers are usually paid on a pack out basis where the grower wears some of the risk and shares in the rewards.

Growers on pack out have to wait until all payments have been received as well as all costs deducted. This is substantial and payment to the grower could be several months and more before completion.

The other method is on a per ton basis to grower over the weigh bridge (fruit purchased by packer) for and agreed price.

Packing sheds doing export rely on large line of credit and domestic market payments for fruit not of export grade and sold locally in domestic markets (paid 14 days to 30 days) to subsidise the costs incurred for processing and weekly expenses such as:

- Labour
- Cartons
- Freight
- Power
- Wax
- Chemicals
- Interest and bank fees on overdraft facility
- AQIS charges.
- Market access costs and fees.
- Quality assurance and food safety audits

c) <u>COMPETITION ISSUES IN THE AUSTRALIAN MARKET</u>

Coles and Woolworths have a strong downward impact on prices received by growers.

Their policy in the fresh juice category of having home brand which sells cheaper than all the branded products has biggest impact on grower prices for 100 % fresh Valencia juice.

Home brands are usually filled by smaller processors with low cost operations with fruit that is acquired cheaply from growers with surplus fruit to contracts from main processors **B**erri, Golden Circle and Real Juice who contract approximately 100,000 tons in the Riverina.

The home brand is priced much cheaper than branded lines which compete against them. Home brands also have a much lower cost structure with operational overheads much lower than the major branded lines. Smaller factories, small work force, no promotion expenses or premium shelf space costs.

Yet it is the branded lines which support the majority of Valencia growers in the Riverina and Murrumbidgee Irrigation Area. Our future is being undermined by Coles and Woolworths promoting their own home brand in favour of competitors who are supporting the majority of growers.

Contract prices have been reduced to growers. Prices for Valencia oranges for fresh juice have reduced by $17 per ton in 2013 by Berri to compensate for lost sales due to lower priced home brands of Coles and Woolworths.

High shelf space costs, rising cold chain costs, increased freight and distribution costs as well as need to show a return to their shareholders as other reasons.

In fresh fruit section the consumer is trained to pay high prices year round. High prices relate to low volume sales and high profit for supermarket.

Growers are receiving 12 to 15 cents per kilo for navel oranges and consumer being charged $2- $3 per kilo and sometimes more.

Grower pays:

- Water, power, chemical, fertilizer, machinery, farm labour, fuel, rates, insurances.
- Grower pays for picking $80 per ton or 8 cents per kg of net return.
- Packer pays packing and freight to market, approximately $8.50 per 19 kg box before sale in wholesale markets or to supermarket.
  $11.00 net sale price - $8.50 packer costs = $2.50 per box times 52 / ton = $130 per ton return to grower net or 13 cents per kilo which is obviously lower than cost of production.
  A minimum sale price $16 - $8.50 = $7.50 x 52 = $390 net or 39 cents per kilo is needed as cost of production minimum return to me as a grower.

$20 per box needed to encourage growth and security in citrus where I can invest in energy savings as well as update machinery and in new varieties and farm improvements.
Our farms would again be a sailable if there was profitability.

Returns in fresh navel prices in the past 3 years 12 cents to 15 cents per kilo minus 8 cents picking = 4 to 7 cents per kg to pay all expenses, loan repayments plus living costs. It doesn't add up.
Everyone along the chain has been paid:

- Cartons
- Labour for picking and in packing sheds
- Wax and chemical for packing
- Profit margin for packer
- Power costs for packing
- Freight charges to market or distribution centre, fuel and tyres on trucks plus driver wages
- Agent in markets takes a % which is not always transparent.

<u>MYSELF AS A GROWER IS LEFT WITH THE SMALLEST SHARE, NO PROFIT BUT INCREASING DEBT.</u>

d) <u>ADEQUACY AND EFFICIENCY OF SUPPLY CHAINS IN THE AUSTRALIA MARKET.</u>

Freight and distribution is efficient until the product reaches city markets or a distribution centre.
Supermarkets order daily and do not in the case of citrus dispatch full pallets of juice. They dispatch a number of cartons which go as a pallet space not always to full capacity which is very expensive.

The same applies with fresh citrus. Rarely are full pallets shipped from distribution centre to stores. Stores have several thousand lines of product and do not have storage space to accumulate prior to sale so high cost to transport per unit tray or box on regular basis

e) OPPORTUNITIES AND INHIBITORS FOR EXPORT AND EXPORT GROWTH.

The biggest inhibitor currently is high A$
This is followed by AQIS charges and shipping costs

Deregulation of the USA market will impact with more competition and loss of single importer will drive prices lower and render that market too risky under the current value of the A$. More importers relates to lower return to grower.

Japan is growing in volume but has reduced in price since the USA market reduced in volume due to high A$ as well as competition from Chile supplying citrus well under our prices.

Large corporate farms such as the failed Timbercorp and other similar companies planted large areas of citrus in South Australia and Victoria with export in mind in past 10 - 15 years. These companies had the advantage of significant tax breaks at the development stage which gave them enormous advantage over the average citrus farmer.

However, their expected returns did not eventuate partially due to the drought and low market prices.

This has left the small or average sized grower to wear the impact of over production of many varieties over the main supply months May through to November on the domestic markets in Australia. In particular, early, mid- season and late navels.

The Australian Supermarket chain can handle 2,000 tons per week according to Citrus Australia. Any supply above this will result in reduced prices to growers.

This has occurred in the past 3 seasons where supply has gone above demand due to reduced export sales and high A$.
Large corporate growers have been a major contributor to this.

Citrus Australia has said that there is currently an over supply of approximately 50,000 tons on the domestic market through the main supply months.
To reduce this over supply there are many options.

- Government intervention to compensate growers for the damage done to the industry by corporate production that is causing our over supply in Australia.
- Export protocols with countries such as China, Korea be negotiated to remove or reduce importance of Fuller Rose Weevil as a pest.
- Remove navel trees from ground and plant different variety of citrus such as mandarin. Very high cost outlay and loss of production 5 to 6 years before crop yields begin to increase annually.
- Topwork navels to other varieties. Lowest cost option but still out of production 2 to 3 years.

- Remove citrus and change crop type. Not always viable option due to location and small area.
- Remove citrus and leave ground vacant. No income, no future.
- Sell off water assets and let citrus die. This allows grower to stay on farm or sell property dry. Not always viable or favoured by growers as their life's work is in the farm.

  Water value is now $1200 per megalitre, less than half compared to 5 years ago and there is only one buyer in the market. Not a viable option in the Riverina as the Government has purchased very small portions of High Security water from within the Murrumbidgee Irrigation Area.

Our children do not want to carry on as there is no financial incentive for them and city jobs and lifestyle are more attractive.

Succession planning is a real problem in the citrus industry.
Who will be our growers in ten or 20 years time?

- We need Citrus Australia to set up regional offices in all major growing areas with liaison staff to support all growers and not be seen travelling the globe and the country for our benefit on our Research & Development levy.
  Citrus Australia do not a have a feel of the industry pain or the costs of change.
  They must show leadership, achieve measureable results in each region and then maybe growers will support them financially.
- We need Coles and Woolworths to remove all home brands from shelf.
- We need a pricing structure that is transparent along the chain onto to final consumer. All we need is *another* $0.30 / kg of the final sale price to $0.45 / kg net to grower to be sustainable