



12 April 2013

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Secretary,

Re: Review of Citrus Industry in Australia

Please find enclosed a submission from Costa to the Senate Rural and Regional Affairs and Transport References Committee Review of the Citrus Industry in Australia.

Thank you.

Yours faithfully

George Haggard
Chief Operating Officer
Costa Group



Costa overview

Costa is one of Australia's largest horticultural companies and a major grower, packer and distributor of fresh fruit and vegetables.

Employing more than 6,000 workers during peak harvest periods, Costa has an economic presence in more than 30 regional and rural communities across every state of Australia.

The Costa business presently consists of seven fresh produce categories which include:

- Citrus
- Mushrooms
- Tomatoes
- Berries
- Bananas
- Grapes
- Avocados

Six of these categories are vertically integrated enterprises with activities spanning farming through to retail and wholesale sales. Avocados is a purely marketing enterprise.

Costa also operates a marketing alliance network with hundreds of fresh produce growers across Australia. We also have wholesale market operations in Victoria, Queensland, Western Australia and South Australia.

Costa has invested significant capital in post harvest improvements across its seven categories. Significant research and development has also been undertaken in respect to the physiology of our products and their rate of respiration in order to better understand optimal handling practices, storage temperatures and maximum storage times.

Costa citrus category

Operating under the entity of AgriExchange Pty Ltd, Costa has made a significant financial commitment to the future of the Riverland region in South Australia and owns farms at Renmark, Murtho and Solara. Costa also presently operates three packinghouses, one each in Renmark, Murtho and Solara.

AgriExchange produces in excess of 40,000 tonnes of citrus and 11,000 tonnes of wine grapes per annum on a total of 1,610 hectares/3,978 acres.

AgriExchange packs approximately 3 million 18 kg carton equivalents of citrus per annum. This constitutes approximately more than 50% of the South Australian citrus crop and 10% of the total Australian citrus production. During the harvest season, Costa provides employment for more than 700 workers in the Riverland region.

Approximately 50% of all production is marketed domestically and 50% is exported to 25 destinations of which Japan and the United States are the most prominent.

AgriExchange also packs and markets citrus under the Vitor Marketing brand for a number of local growers in the Riverland region.



Terms of reference

(a) Scale and structure of the industry

AgriExchange is a strong supporter of Citrus Australia Limited and the role that it performs. Citrus Australia is an effective representative of the interests of citrus growers and is the only citrus peak body capable of operating at a national level and dealing directly with the Australian government on behalf of citrus growers.

The South Australian citrus industry was previously represented by two peak citrus grower groups, namely the Citrus Industry Development Board and Citrus Growers of South Australia.

In 2011, the South Australian Minister for Agriculture and Fisheries commissioned Mr Alan Moss, to review and determine future recommendations on the structures within the South Australian Citrus Industry. AgriExchange fully supported the review's recommendations, including:

- That there was duplication of a number of functions described in the *Citrus Industry Act 2005* and the *Primary Industry Funding Schemes (Citrus Growers Fund) Regulations 2005*
- That citrus growers pay levies twice through the two separate mechanisms and contribute the majority of funding contributions and as such there are inefficiencies in the funding arrangements.
- The impasse that existed between the two state industry bodies was not conducive to the advancement of the citrus industry and had prevented state citrus industry participants from fully benefiting from involvement with the national citrus industry representative body Citrus Australia Ltd.
- There was a need for a strong single industry body at the state level with the ability to contribute to and benefit from national citrus industry arrangements.

Following extensive consultation with industry stakeholders, including AgriExchange, it was resolved to form one representative entity responsible for the citrus industry in the state of South Australia. This was viewed as the most efficient way to benefit the growers by way of reduced grower levies and as a united voice to communicate and collaborate with the national citrus body, Citrus Australia.

As a result of this process, SARAC (South Australian Regional Advisory Committee) was formed. In October 2012 this name was subsequently changed to Citrus Australia – SA Region as it was considered to better reflect who and what the body represents.

Membership of the committee consists of volunteers who are both growers and citrus industry participants, representing the South Australian citrus industry which generates an estimated \$90 million in sales per annum.

The new committee is funded by a state Primary Industries Funding Scheme (PIFS) levy, levied at \$1 per tonne of citrus sold by South Australian citrus growers. Similar models are being implemented in other citrus producing regions of Australia.



As per the final report of the SA Citrus Industry Transition Working Party - "A new citrus structure for South Australia", AgriExchange endorsed the following key functions to be performed by Citrus Australia – SA Region and Citrus Australia:

Citrus Australia – SA Region (formerly SARAC) functions:

Maintain a management plan: in line with the requirements of the *Primary Industry Funding Scheme Act 1998* SARAC (now Citrus Australia – SA Region) will develop and annually update a 5 year management plan that details priorities for the future development of the South Australian citrus industry. This will be available through SARAC and published on the Citrus Australia website.

Communication with contributors and the citrus industry: Using modern, low cost communication technologies, SARAC will be responsible for ensuring ongoing communications with contributors to the fund and industry participants more widely about SARAC activities. SARAC will also ensure that contributors are regularly briefed on SARAC and CA objectives and have an opportunity to provide input into any debate.

Provide information and advice to Citrus Australia: SARAC will engage with Citrus Australia to provide advice on regional priorities and ensure that South Australian issues are actively considered within the national context. The Chair or Nominee will have the right to personally represent South Australia growers and chain participants to the Citrus Australia Board. SARAC will also be responsible for engaging the South Australian industry in Citrus Australia programs.

Responding to regional issues: SARAC will have a strong role in providing advice and input into local policy and issues. SARAC is to be the South Australian citrus industry's voice on political issues and will cooperate with other South Australian primary industry bodies on cross commodity issues (e.g. water, land use, workforce availability, industrial relations).

Provision of information: SARAC will be responsible for ensuring that Citrus Australia is diligently collating national information on crop estimates and planting statistics with emphasis on the integrity of South Australian information.

Oversight of industry development activities: SARAC will be responsible for identifying, prioritising and implementing South Australian industry development projects such as extension and the provision of industry information to chain participants.

Input into research and development priorities: SARAC will be responsible for maintaining a local or regional focus on research and development priorities.

Management administration: SARAC will be responsible for ensuring that appropriate records of meetings and decisions are kept and are effectively communicated to industry and Citrus Australia.

Citrus Australia functions:

National and regional advocacy – actively lobbying on industry's behalf on issues such water, export market access and development, biosecurity and quarantine, industrial relations and truth in labelling.



Market access, development and promotion – breaking down barriers to export markets such as China, South Korea, Thailand, Japan and the United States.

Domestic promotion – liaison with consumer bodies over citrus maturity standards and implementing domestic promotion programs.

Information collection – provide information on plantings, crop forecasts and weekly market distribution through various programs including InfoCitrus.

Communication – maintain an active website and use publications such as Citrus News to communicate to growers. Convene regional and National events.

Biosecurity and Plant Health – maintain and facilitate the implementation of biosecurity plans and communicate information about key issues.

Administration of “Citrus Fund” – meet the Ministers expectations that funds collected under the Primary Industry Funding Scheme are solely directed to SARAC and its activities. It is further expected that transparency in prudential arrangements would characterise the relationship between Citrus Australia and SARAC.

AgriExchange is the largest shareholder in Citrus Australia and Citrus Australia – SA Region, and has representation on a number of sub committees associated with these organisations.

AgriExchange believes that the present structure provides for a more cost effective and efficient peak industry body structure compared to that which previously existed.

It is also critically important to allow these bodies both the opportunity and time to address the many challenges the citrus industry faces, whilst enjoying the full support and cooperation of both state and federal governments.

(b) Opportunities and inhibitors for growth of the Australian industry

Opportunities

- **Increase consumer awareness of Australian citrus through promoting health benefits**

AgriExchange supports Citrus Australia’s efforts in trying to improve domestic consumption of citrus through promotional programs and the expansion and adoption of the Australian citrus industry standards.

The various ‘Australian Made’ and ‘Buy Australian’ campaigns have also played an effective role in promoting consumer awareness of domestically grown and made products.

Country of origin product labelling has also helped consumers to identify and differentiate between domestically grown produce and that which is imported.



The absence of fruit fly and other pests and diseases from the Riverland should be used as a domestic and export marketing tool to promote the 'clean and green image' of citrus fruit grown in the region.

Promoting the health benefits of consuming citrus is another key means by which to increase consumer awareness of Australian grown citrus.

It is well established that citrus fruits have nutritious and antioxidant properties. By virtue of their richness in vitamins and minerals, citrus fruits also have many proven health benefits.

The social and economic costs of chronic diseases such as Type 2 diabetes and obesity are rising at an alarming rate. One obvious measure is to educate the general population, and in particular those in low socioeconomic areas of the benefits of healthy eating and living.

State and Federal governments have been at the forefront of doing this in recent years, through various advertising and information programs. One of the most important initiatives of recent years has occurred in the education sector, where children in many Victorian primary schools in grades prep to 3 stop at 10am every morning to have their 'brain food', which must consist of fresh fruit.

The food industry and in particular the fresh fruit and vegetable industry, has also played its part. The 'Go for 2 and 5' campaign, encouraging Australians to eat at least 2 pieces of fruit and 5 different vegetables every day has been most effective.

Government and the food industry (including the citrus industry) must play a major role in providing people with easy and accessible meal options that include healthy and nutritious food.

The Australian Government is heading in the right direction with the establishment of the National Preventative Health Agency. The Agency needs to work closely with the food production sector to develop public health campaigns and research to promote healthy eating to counter preventable illnesses such as diabetes, heart disease and certain types of cancer.

Citrus fruits can, and should play a major role in such programs.

- **Water access**

The devastating drought that impacted South Australia and the Murray Darling Basin over recent years has resulted in many citrus orchards being removed. Due to high replacement costs and the uncertain market conditions many producers have not replanted their citrus crops.

Therefore the efficient management of water resources is essential to ensuring the long term sustainability of the citrus industry, especially in the Riverland.

AgriExchange supports priority being given to targeted public investment in macro and micro infrastructure of irrigation schemes and urban diversion, water delivery and storage systems.



This includes:

- Reduction of wasteful evaporative losses from inadequate storage and transmission systems, including mandatory lining and covering or piping of all canal diversions from the river systems across the Murray Darling Basin;
- Elimination of all shallow or wasteful storage;
- Measurement of water use within crops using available technology eg, Enviroscan, neutron probes etc.;
- The delivery of water through recommended (ie. by Department of Agriculture) water conservation irrigation system(s) that is both appropriate for the crop being grown, and the soil type it is grown in. This also needs to take into account the crop water use evapo-transpiration of that crop in those conditions at peak heat, dryness and wind speed;
- Use of composts and mulch to reduce water evaporation and improve the moisture retention capacity of soils and
- Technology to identify/map soils that are best suited to certain irrigation systems and also where not to grow crops and

In developing the business rules of water resource sharing, recognition must be afforded by the Australian Government to the States (in particular South Australia) and communities reliant on the Murray Darling Basin (ie. the Riverland and citrus industry) that have historically made sacrifices by capping irrigation diversions, rationalising water delivery systems and adopting water conservation technologies in their own irrigation practices.

- **Consolidation and coordination of strategic training needs.**

The citrus industry needs government support to develop and upskill existing workers within the industry and to attract new workers. The industry's workforce is ageing and there is little if any strategy to address this by way of attracting new talent and promoting the industry as an employer of choice within the broader horticultural sector.

In order to continually meet the constant fluidity of supply and value chains, where consumer demand and preference is becoming ever more prominent, funding assistance is required in order to provide strategic training in areas that include quality assurance and accreditation, farm management and workplace health and safety.

Inhibitors

- **Trade liberalisation at the expense of biosecurity**

The Australian Government should exercise caution in the negotiation of any free trade agreements and carefully consider the potential and real impacts on the Australian citrus industry. For example, the citrus industry would potentially benefit from a free trade agreement with South Korea as there is no seasonal competition between the two countries. The case would be the opposite with respect



to countries such as Chile and Peru, where Australia is in direct seasonal competition with those countries.

Free trade agreements must operate to the benefit of all parties involved. In particular, this means all parties operating and competing on a level playing field, particularly with respect to biosecurity, environmental and labour standards.

The Australian Government's trade policy statement – *'Trading our way to more jobs and prosperity'* released in April 2011, proclaims that 'trade policy measures should not be used as a backdoor way of imposing trade barriers to protect local industries.'

In seeking to apparently justify the Australian Government's decision to allow the importation of apples from New Zealand and China, the statement notes:

'Quarantine restrictions are legitimate in reducing the risk of imported pests and diseases but should not be used as a surreptitious measure to protect domestic primary industries against competition from imports. The Gillard Government's decision to accept a World Trade Organization ruling on the importation of apples from New Zealand is testimony to its commitment not to use quarantine as an artificial trade barrier. The entry into Australia from January 2011 of apples from China is a further case in point. These decisions send a clear message to our trading partners that the Gillard Government is committed to a science-based quarantine regime that does not create artificial barriers to trade.'

It is concerning that the Australian Government believes that quarantine restrictions and legitimate biosecurity threats have somehow been used as 'surreptitious measures' to block imports.

The outbreak of devastating citrus diseases throughout the main growing regions of the world demonstrates why quarantine restrictions are not only needed, but are also absolutely necessary to protect the Australian citrus industry.

Even with quarantine measures in place, in 2011 Australia experienced an outbreak of citrus canker which cost \$19 million dollars to eradicate and caused financial disruption to the industry conservatively estimated at \$100 million plus. (Refer below for further discussion of biosecurity risks).

AgriExchange believes the potential impacts (both positive and negative) of free trade and trade liberalisation on the Australian citrus industry would be substantial, therefore the Australian Government and parliament should consider very carefully the impact of any future free trade agreements on the Australian citrus industry and the communities in which they operate.

Any free trade agreement that involved Chile and Peru (as does the proposed Trans-Pacific Partnership) would have deleterious consequences for the citrus industry with the strong likelihood that cheap oranges from Chile and Peru would further flood the Australian market. The problem also goes beyond the Australian market, for example in the last few years cheap oranges have flooded the US market, thereby greatly diminishing the demand for Australian navel oranges in that market.



It is also hoped that trade liberalisation does not lead to the activation of the citrus biosecurity levy, which is to be activated only in the event of an exotic outbreak to which an eradication response is considered appropriate.

- **Decline in research and development funding**

Research and development funding for the citrus industry has declined significantly in recent years. Governments can assist with allocating funding for rural biosecurity research and development projects, post harvest research, control of phytosanitary pests, alternative pest and disease control options as well investment in innovation in the Riverland.

An example of such innovation is the introduction of improved mandarin varieties. Such improved varieties will serve to better address issues relating to the value chain and customer demand however this innovation (and risk taking) requires the expenditure of capital, including the planting of new trees and also the reworking of existing trees. This can only properly occur through investment in research and development that is adequately supported by government policy, including appropriate tax breaks for research and development investment.

- **External factors**

As with many other Australian industries, the citrus industry is exposed to a number of external factors that impact profitability. These factors include the high value of the Australian dollar, labour costs that are higher relative to that of international trade competitors and growing compliance costs incurred through having to comply with regulatory requirements, including food safety criteria. These factors all contribute to declining returns and make the economic viability of citrus farming at best only marginal.

- **Inflexible labour market practices**

Because citrus is harvested manually and must be picked 7 days a week due to the ripening process and market demands, the sector must have access to workplace relations arrangements which provide for maximum flexibility.

As a seller in the domestic and international markets an increase in labour and production costs would diminish the competitiveness of AgriExchange in both of these markets.

AgriExchange is competing against low wage producing countries, a threat that would be further compounded by reduced labour market flexibility and increased costs.

This operating environment requires a spread of hours and shift work arrangements that enable the horticulture sector to maintain a level of flexibility and responsiveness in order to satisfy the unique seasonal operational needs of the sector and to avoid the incursion of a substantial increase in production costs.

This includes the retention of piecework arrangements which provide for greater flexibility and productivity, as they are well suited to the unique nature of the sector.



The attraction of piecework to productive pickers (and employers) is that they can work at their own pace and earn significantly higher rates than any minimum wage rate. The absence of this productivity incentive would see many pickers either leave the industry or simply not be as productive as they previously have been.

(c) Competition issues in the Australian market

Rising food prices for domestically grown food and a high Australian dollar makes competition from cheap foreign imports a very real problem in the Australian market.

AgriExchange has no issue with competition as it often provides greater consumer choice and value. However, the Australian citrus industry operates in a global market which does not provide for a level playing field. As discussed above, many of the competing markets (Chile and Peru in particular) are not subject to the same legal and regulatory requirements that Australian citrus growers are subject to. This includes less rigorous labour and environmental standards.

The citrus industry is at significant risk of being adversely affected, leading to reduced output and job losses. This would also impact local communities that are reliant upon the industry for their economic and social fabric.

A reduction in the need for labour, especially that which is required for harvesting, packing and processing would have subsequent flow on effects resulting in a reduced demand for local recruitment services and labour hire.

It would also lead to reduced lending on the part of banks and other financial institutions leading to reduced support for development and the maintenance of business activity within the Riverland.

There would also be a need for fewer inputs (including seed, fertiliser, plant protection products, machinery, vehicles, irrigation supplies etc). This would have a negative impact on local industry, suppliers and retailers.

Net migration from the Riverland region could occur, with a resultant loss of skills, knowledge and economic activity.

Government trade and biosecurity policies must at all times be aware of competition issues and the fact that a level playing field does not exist. They must ensure that locally grown and produced citrus can at least maintain price competitiveness against inferior quality imports.

(d) Adequacy and efficiency of supply chains in the Australian market

AgriExchange participated in the 'Riverland Citrus Industry Value Chain Analysis', which analysed two navel orange value supply chains (one domestic and one in Japan).

This study was a joint initiative between Horticulture Australia Limited (HAL), peak citrus industry bodies and growers. The value chain was analysed to identify potential inefficiencies and opportunities for a more 'consumer focused' and profitable citrus industry.



As part of the analysis, AgriExchange identified the opportunity to introduce NIR technology (near-infrared spectroscopy) allowing for the identification of guaranteed brix content in the supply of citrus to our largest export market, Japan.

The advantage of NIR technology is that it also allows for non-destructive instrument-based methods to be utilised in the measurement and analysis of individual fruit, resulting in a reduction of waste.

Other citrus growers and packers are installing similar technology.

The analysis report lists a number of improvements that will benefit the citrus industry with the aim of moving from a purely supply chain focus to a more value chain focus.

As HAL notes, *“By better understanding and focusing on what consumers wants, the chains can become more responsive, and improve their target marketing and engagement with consumers”*.

Unfortunately the citrus industry and many of its growers do not have the financial and human resources available to implement such improvements.

Citrus Australia, citrus growers and government must also further identify key supply chain challenges and the required resources needed in order to improve supply chain efficiency, consumer expectations and demand. This includes assistance with transport and energy costs, which could be effectively addressed by the abolition of the present price that is placed on carbon, and a reduction in the cost of quarantine inspection services.

(e) Opportunities and inhibitors for export and export growth

Opportunities:

- **Develop closer ties with South East Asian countries**

In order to develop and maintain closer ties with South East Asian countries, both state and federal governments must support and work with the industry in negotiating more practical export protocols that remove unnecessary compliance and financial burdens, including additional orchard practices and pest control programmes.

In particular, improved market access protocols for citrus exports to Korea, China, Thailand and the Philippines are required.

Inhibitors

- **Fruit fly**

AgriExchange supports the National Fruit Fly Strategy and that Australia has in place as a viable, cost-effective and sustainable national approach to fruit fly management which will place Australia in the forefront of international biosecurity.

The endemic outbreak of fruit fly in other states has significantly increased the threat and risk to the South Australian citrus industry.



One competitive advantage of the Riverland is the ability to export citrus without the need for cold disinfestation treatment in order to combat fruit fly. Not only does this present significant production cost savings, it also allows citrus growers to supply high quality fruit to export markets

It is imperative that the South Australian government continues to provide funding toward the operation of the fruit fly checkpoint at Yamba on the South Australia/Victoria border. The absence of this checkpoint would expose the citrus industry to serious risks as potential for the outbreak of fruit fly would increase and the consequences would be catastrophic.

The presence of fruit fly in the Riverland would also adversely affect any further investment in the citrus industry and the region.

- **Biosecurity risks**

The Riverland and most parts of Australia are free from Citrus Canker and Huanglongbin -HLB (formerly known as citrus greening disease). If the pathogens causing these diseases were to be introduced into Australia and the Riverland by way of weakened or less than stringent biosecurity laws, then this would have a significant impact on food security.

HLB is the most devastating of all citrus diseases. There is no cure for trees infected with HLB and the fruit produced by infected trees is not suitable for the fresh produce market or juice processing.

Citrus Canker and HLB are serious economic diseases affecting the citrus industry would not only increase production costs and in the case of HLB result in crop loss and reduced production, they would also restrict market access into key export phytosanitary markets.

END.