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A Business Case to review two proposed restructure options for the Australian Citrus Industry

Prepared May 2008



Notice

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Australian Citrus Growers Incorporated (ACG) has asked that we provide you with access to the Business Case 'A Business Case to review two proposed restructure options for the Australian Citrus Industry' dated May 2008 (Business Case). This notice sets out the terms on which we are prepared to allow you access to the Business Case:

If you do not agree to the terms of this notice you may not read the Business Case and you must return the Business Case to ACG at:

Australian Citrus Growers Incorporated

Level 1/51 Deakin Avenue

MILDURA VICTORIA 3502

We are prepared to allow you access to the Business Case on the following terms:

1. Our work was performed and the Business Case was prepared for ACG:
 - at the request of ACG based on information provided by ACG, regional grower bodies, the state statutory authorities in South Australia, Victoria and New South Wales and the Queensland horticulture association, Growcom;
 - in accordance with our engagement letter with ACG dated 4 February 2008;
 - solely for the benefit of ACG and not for any other person; and
 - for no other purpose.
2. You may only have access to and use the Business Case to consider the potential restructure options for ACG only (the Purpose) and not for any other purpose.
3. Our work or the Business Case may not be sufficient or appropriate for your purposes. The Business Case may not address or reflect matters in which you may be interested or which may be material to you (Additional Matters). You are responsible for verifying the accuracy and completeness of its content. We have no responsibility to advise you of any Additional Matters and we are not responsible to you (whether for our negligence or otherwise) if any Additional Matters are not included in the Business Case.
4. Events may have occurred since we prepared the Business Case which may impact on the information contained in the Business Case and on your decision in relation to the potential restructure options for ACG.

5. We are not responsible to you or any one else for any loss (however caused, including as a result of our negligence) you or any one else may suffer or incur in connection with your access to, or if you rely on the Business Case.
6. You may not rely on the Business Case for any purpose. You should seek your own advice in relation to the matters covered by the Business Case.
7. You will not acquire any rights in connection with your access to the Business Case. We have no duty of care to you or your advisors for the work we have performed or for the Business Case or anything in it. You are responsible for making the decision about whether or not to support the potential restructure of ACG. In providing you with a copy of the Business Case we do not accept any responsibility to you or anyone else in that regard.
8. The Business Case is confidential information and must be treated as such by you. It must not be used for any other purpose, disclosed to anyone or referred to in any report or document. You must not make copies of the Business Case without our Consent.
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10. You will not make any claim or demand or bring any proceedings against us in connection with the Business Case or your access to it.
11. You acknowledge that damages may not be a sufficient remedy for any breach of these terms.
12. In this letter the following terms have the following meanings:

Consent means prior written consent which may be granted at our discretion and subject to conditions.

Statement of Responsibility

This Business Case to review two proposed restructure options for the Australian Citrus Industry was prepared for Australian Citrus Growers Incorporated solely for the purpose of providing comparative cost-benefit analysis of the relative advantages and disadvantages of the two options identified for the restructure of the Australian citrus industry as set out in our engagement letter dated 4 February 2008.

In preparing this Business Case we have relied on the accuracy and completeness of the information provided to us by Australian Citrus Growers Incorporated, regional grower bodies, state statutory authorities and from publicly available sources. We have not audited or otherwise verified the accuracy or completeness of the information. We have not contemplated the requirements or circumstances of any one other than Australian Citrus Grower Incorporated.

The information contained in this Business Case is general in nature and is not intended to be applied to anyone's particular circumstances. This Business Case may not be sufficient or appropriate for your purposes. It may not address or reflect matters in which you may be interested or which may be material to you. You should seek your own independent advice in relation to matters covered by the Business Case.

Events may have occurred since we prepared this Business Case which may impact on it and its conclusions.

No one else, apart from Australian Citrus Growers Incorporated, is entitled to rely on this Business Case for any purpose. We do not accept or assume any responsibility to any one other than Australian Citrus Growers Incorporated in respect of our work or this Business Case.

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It has been necessary to make many assumptions in performing financial analysis of the Current Structure, the Single Structure Option and the Multiple Structure Option. These assumptions have been made following discussions with, and agreement by, ACG management. We have not detailed all of these assumptions in this Business Case, however, we have outlined some of the major assumptions and refer the reader to Appendices 2 to 4.

In relation to the Proposed Structural Options that form the basis of the cost benefit analysis in the Business Case it is important to note the assumed organisational structures for the Proposed Structural Options are assumed structures based on information made available to us and assumptions made upon receipt of this information. Deloitte has not verified and does not provide an opinion on the accuracy or reasonableness of the assumptions explicitly or implicitly underlying the cost benefit analysis. Deloitte also expresses no opinion and makes no representation or warranty, express or implied, as to the accuracy or reliability of the projections used as the basis for the cost benefit analysis of each structural option or whether the projections will be achieved. We therefore accept no responsibility for the projections.

Financial models were constructed specifically for Deloitte's use. These models are not to be considered fully operational models that could be relied upon for any purpose other than that for which they were constructed. As the specifics of the proposed restructure and the assumptions are yet to be finalised, significant changes may need to be incorporated into the financial models.

It should be noted there will usually be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material and this could have a significant impact on the outputs of the models.

It should be noted, as with any model, that changes in assumptions can have a significant impact on the models and should be reviewed in detail to ensure that the results reflect the change of assumptions. Further, significant changes in assumptions, which fall outside the parameters of the models design, can yield inaccurate results.

Deloitte reserves the right to review all calculations included or referred to in the financial models and if we consider it necessary, to revise the models in light of any information existing at the date of the models, which becomes known to us after the date of the models.

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1 Executive Summary

1.1 Overview

Australian Citrus Growers Incorporated (ACG), Australia's peak citrus industry body, aims to promote the common interests and financial and environmental sustainability of all Australian citrus growers.

In 2005, Australia's citrus growers collectively requested that ACG undertake a review of the existing structure of Australia's citrus industry to determine whether alternative structures would better meet the needs of a modern, export orientated industry. The existing industry structure involves interaction between ACG, state statutory bodies and regional grower bodies.

An independently commissioned report, 'Citrus Industry Review', prepared by KPMG (the KPMG report), proposed two new structural options that are intended to better meet the needs of the Australian citrus industry.

The two structural options proposed by KPMG (the Proposed Structural Options) are identified as follows:

- the Single Structure Option
- the Multiple Structure Option.

While the KPMG report was being prepared, ACG commissioned an industry strategy report, 'Citrus 2015', which concluded that the structure and interrelationship between existing citrus grower bodies and ACG must be improved to expand the capability of the national citrus industry.

The Citrus 2015 report outlined four key strategic imperatives to be addressed by ACG. The four strategic imperatives focused on:

- consumer demand for Australian citrus
- industry competitiveness
- information and communications systems
- the capability of citrus industry leadership.

Feedback from citrus growers (and other industry stakeholders) in relation to the key elements of the Proposed Structural Options proposed by KPMG (and discussed in broader detail in the ACG Restructure Taskforce 'Green Paper') and Citrus 2015, clearly identified that a cost benefit analysis of the Proposed Structural Options was required before an informed decision regarding the selection of a specific structural option be made.

In response to this feedback, ACG appointed Deloitte Touche Tohmatsu (Deloitte) to prepare a business case (the Business Case), which includes a comparative cost benefit analysis of the relative advantages and disadvantages of the Proposed Structural Options.

1.2 The Proposed Structural Options

In relation to the Proposed Structural Options that form the basis of the cost benefit analysis in the Business Case it is important to note the following:

- the structural options which were initially presented to Deloitte lacked a significant amount of detail in relation to how the options were actually proposed to work in practice. In particular, there was very little information available in relation to the organisational structures that would be put in place to support each of the structural options
- ACG advised Deloitte that the organisational structures associated with the Proposed Structural Options provided in the Green Paper were conceptual structures only. Accordingly, for the purposes of the cost benefit analysis, these organisational structures required review by and comment from the state statutory authorities and regional grower bodies. ACG also advised Deloitte that various assumptions would be made in order to develop the details of the organisational structures that would be put in place to support each of the structural options
- based on the following:
 - the organisational structures for the Proposed Structural Options provided in the Green Paper
 - comments received from ACG, state statutory bodies and regional grower bodies
 - the objectives of the Australian citrus industry described in Citrus 2015
 - other information provided to us during preparation of the Business Case

the assumed organisational structures for each Proposed Structural Option for the purposes of the cost benefit analysis are illustrated at Section 5.1 and Section 6.1 of this Business Case

- it is important to note that the assumed organisational structures for the Proposed Structural Options represent ***assumed organisational structures only*** and, accordingly, the cost benefit analysis we have prepared is based on a series of assumptions that have been agreed with ACG as part of the process of preparing the Business Case
- the assumed organisational structures for the Proposed Structural Options:
 1. do not represent recommended organisational structures
 2. do not represent the only potential organisational structures based on the information provided to us
 3. are not ready for implementation by ACG. ACG should consult widely regarding the assumed organisational structures and the cost benefit analysis relating to each of the Proposed Structural Options before considering any changes to the current structure of the Australian citrus industry
 4. only provide indicative organisational structures to facilitate the preparation of the cost benefit analysis and consideration of the financial viability of each of the structural options. Qualitative objectives of the Australian citrus industry should also be considered in assessing the viability of each structural option.

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1.3 Understanding the Proposed Structural Options

Understanding the key similarities and differences between the Proposed Structural Options is critical to consideration of their relative advantages and disadvantages.

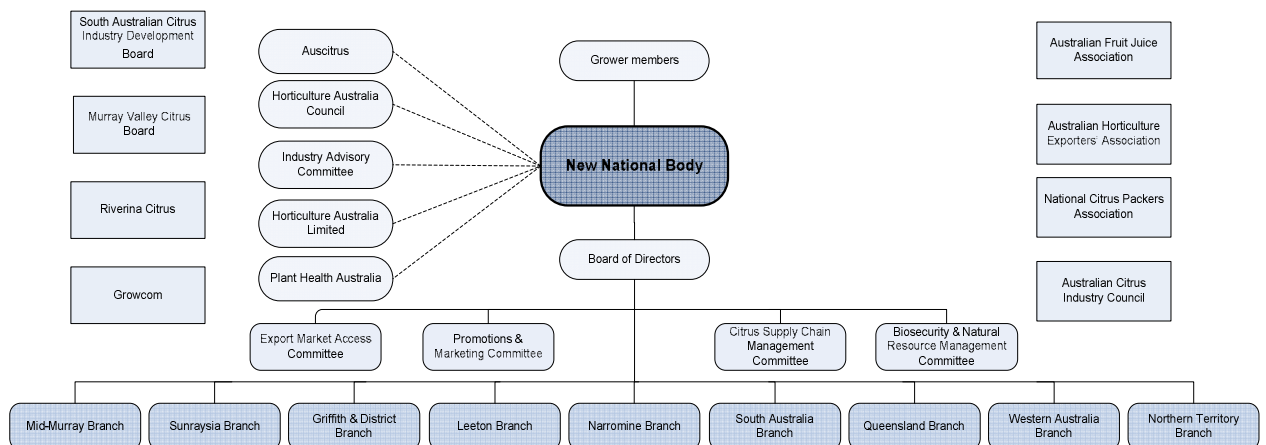
Below we have set out the key similarities and differences between the Proposed Structural Options under the headings:

- assumed organisational structures
- memberships
- delivery of key objectives.

Assumed Organisational Structures

Illustration of the assumed Single Structure Option

The assumed Single Structure Option is illustrated in the diagram below.

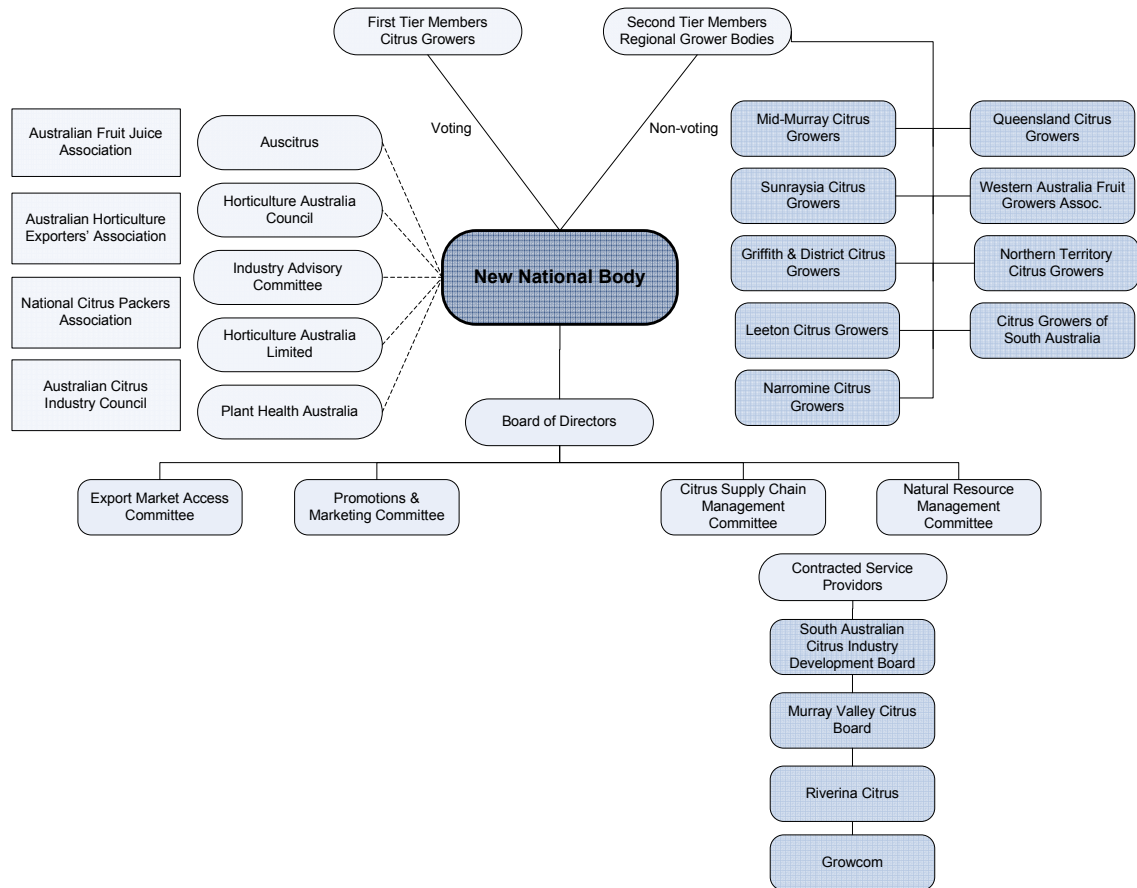


NB: A dotted line represents a commercial relationship between the New National Body and the entity.

Executive Summary

Illustration of the assumed Multiple Structure Option

The assumed Multiple Structure Option is illustrated in the diagram below.



NB: A dotted line represents a commercial relationship between the New National Body and the entity.

Similarities in the Assumed Organisational Structures of the Single Structure Option and Multiple Structure Option

The structure of the national body under both the Single Structure Option and the Multiple Structure Option is assumed to comprise two levels:

- the first level being a national board of directors, comprising two grower members and five independent specialists
- the second level, being four separate issues committees, which would provide advice to the national board of directors on initiatives and programs focussed on specific operational areas. It is assumed that the committees will consist of four grower members, one representative from the national board of directors and two independent specialists
- the growers own all voting shares in the new national body.

Differences between the Assumed Organisational Structure of the Single Structure Option and Multiple Structure Option

Executive Summary

The differences in the organisational structures assumed for the Proposed Structural Options relate to the existing state and regional bodies.

Under the Single Structure Option:

- regional grower bodies are substantially “scaled down” in their resources and scope of activities and would become branches of the national body to deliver national body services to regional growers
- state statutory authorities would continue to operate, albeit in an altered state from their current form, potentially operating on a fee for services basis.

In broad terms, regional branches would submit annual operating budgets, including funding requests for regional projects, to the national board of directors for approval. The amended state statutory authorities would also submit fee for services funding requests to the national board of directors for approval.

Under the Multiple Structure Option:

- regional grower bodies would continue to operate in their current form with the amalgamation of regional grower bodies operating in close proximity being encouraged
- state statutory authorities would also continue to operate in their current form.

State statutory authorities and regional grower bodies could enter into service agreements with the national body. The service agreements would involve the provision of funding to the national body for marketing, promotional and market access activities.

Memberships

Single Structure Option

Under the Single Structure Option, growers would become direct members of the national body and pay associated membership fees, while regional grower bodies would become regional branches of the national body. The modified state statutory authorities would not be members of the new national body.

National membership would involve a voluntary levy per tonne (which would be the same amount across all states and be the same for all fruit growers, which for financial modelling purposes has been set at \$4.50 per tonne) being paid by citrus growers, with voting rights allocated to growers based on the number of citrus bearing hectares under management.

All current state and regional fees and levies would be abolished.

Multiple Structure Option

Under the Multiple Structure Option the membership structure of the national body would be split into two tiers:

- First tier - individual growers would have the option of becoming direct voting members of the national body. National membership would require a voluntary levy per tonne to be paid by these members. Voting rights would be allocated to growers based on the number of citrus bearing hectares under management.
- Second tier - regional grower bodies would hold non-voting membership of the national body.

The state statutory authorities would be contracted service providers to the national body.

Executive Summary

Membership and fee structure of regional grower bodies and state statutory authorities would remain unchanged.

Delivery of key objectives

Single Structure Option

Key objectives identified from the Citrus 2015 report for the citrus industry under the Single Structure Option would be delivered by the national body, modified state statutory authorities and the regional branches as follows:

Key Objective	National Body	Modified State Statutory Authority	Regional Branch
Agri-Political Representation	√		
Export Market Access	√		
Citrus Promotion and Marketing	√		
Citrus Supply Chain Management	√		
Natural Resource Management	√		
Biosecurity	√		
Data Collection and Dissemination	√	√	√ *
Grower Support	√		√

* Regional Branches in Queensland and Western Australia only.

Multiple Structure Option

Key objectives for the citrus industry under the Multiple Structure Option would be delivered by the national body, state statutory authorities and the regional grower bodies as follows:

	National Body	State Statutory Authority	Regional Grower Body
Agri-Political Representation	√		
Export Market Access	√		
Citrus Promotion and Marketing	√		
Citrus Supply Chain Management	√	√	√ *
Natural Resource Management	√	√	√ *
Biosecurity	√	√	√ *
Data Collection and Dissemination	√	√	√ *
Grower Support	√	√	√

* Regional Grower Bodies in Queensland and Western Australia only.

1.4 Construction of the Business Case

This Business Case has been prepared on the basis of the following information:

- the Proposed Structural Options identified in the KPMG report
- the strategic imperatives outlined in Citrus 2015
- the Green Paper relating to the Proposed Structural Options
- various discussions with and information provided by ACG, regional grower bodies and state statutory authorities
- information relating to comparable horticultural and agricultural industries
- financial models prepared by Deloitte to consider the financial viability of the Proposed Structural Options.

Financial models

Three financial models were constructed to facilitate the cost-benefit analysis of the Proposed Structural Options. The three financial models are as follows:

- the current structure model, which examines the financial performance and viability of the structure currently in place (the Current Structure)
- the Single Structure Option model
- the Multiple Structure Option model.

The inputs for the financial models were derived from the following sources:

- relevant historical and forecast financial information provided by ACG, regional grower bodies and state statutory authorities
- information detailed in the Green Paper
- discussions held with ACG, regional grower bodies and state statutory authorities.

1.5 Financial viability of Structural Options

The financial viability of the Proposed Structural Options has been considered using the financial models described above.

Current Structure

The net present value of the Current Structure is set out in the table below:

Executive Summary

	Year 1	Year 2	Year 3	Year 4	Year 5
	\$	\$	\$	\$	\$
Revenues	3,449,424	3,365,367	3,432,674	3,501,328	3,683,031
Expenses	(4,338,242)	(4,406,048)	(4,475,210)	(4,545,755)	(4,617,711)
Earnings before tax, depreciation and amortisation (EBITDA)	(888,818)	(1,040,681)	(1,042,536)	(1,044,427)	(934,680)
Add/(Less): Movement in working capital	104,652	6,341	76	78	(4,615)
Cash flows from operating activities	(784,166)	(1,034,341)	(1,042,460)	(1,044,350)	(939,295)
Less: Capital expenditure	-	-	-	-	-
Free cash flow	(784,166)	(1,034,341)	(1,042,460)	(1,044,350)	(939,295)
Terminal value					(10,134,499)
Free cash flow plus terminal value	(784,166)	(1,034,341)	(1,042,460)	(1,044,350)	(11,073,794)
Discount factor applied (WACC of 12.0% p.a.)	0.945	0.844	0.753	0.673	0.601
Discounted free cash flows plus terminal value	(740,967)	(872,643)	(785,261)	(702,397)	(6,649,903)
Net Present Value	(9,751,172)				

Note: Subject to rounding differences

The Current Structure produces a negative Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) result for each forecast period.

The major drivers of the negative EBITDA result are as follows:

- no annual net membership fee income growth in years 1 to 4
- high costs associated with industry data collection and dissemination
- duplicate administrative expenses.

The projected negative EBITDA result produces net cash outflows for each year in the projected period examined.

Assuming a Weighted Average Cost of Capital (WACC) of 12.0% and a Terminal Growth Rate of 2.5%, the Net Present Value (NPV) of the Current Structure is significantly negative.

The negative NPV suggests that the Current Structure is **not financially viable** without a significant increase in revenues or a substantial reduction in expenses.

The table below provides an analysis of the sensitivity of the NPV of the Current Structure to changes in the projected citrus tonnage and forecast operating expenses.

		Citrus Tonnage⇒						
		-20.0%	-10.0%	-5.0%	0%	+5%	+10%	+20%
Expenses⇒	-20.0%	(7,338,712)	(4,809,289)	(3,544,578)	(2,279,866)	(1,015,155)	249,556	2,778,979
	-10.0%	(11,074,364)	(8,544,942)	(7,280,231)	(6,015,519)	(4,750,808)	(3,486,097)	(956,674)
	-5.0%	(12,942,191)	(10,412,768)	(9,148,057)	(7,883,346)	(6,618,634)	(5,353,923)	(2,824,500)
	0%	(14,810,017)	(12,280,595)	(11,015,883)	(9,751,172)	(8,486,461)	(7,221,749)	(4,692,327)
	+5%	(16,677,844)	(14,148,421)	(12,883,710)	(11,618,998)	(10,354,287)	(9,089,576)	(6,560,153)
	+10%	(18,545,670)	(16,016,247)	(14,751,536)	(13,486,825)	(12,222,114)	(10,957,402)	(8,427,980)
	+20%	(22,281,323)	(19,751,900)	(18,487,189)	(17,222,478)	(15,957,766)	(14,693,055)	(12,163,632)

Executive Summary

The sensitivity table demonstrates that the NPV of the Current Structure is highly sensitive to changes in the levels of citrus tonnage and operating expenses. This is to be expected as citrus tonnage is the key revenue driver for the national citrus industry grower bodies. Similarly, as service provider bodies, the grower bodies incur considerable levels of operating expenses.

In order to enable the collective citrus grower bodies to breakeven under the assumed Current Structure either the operating expenses of the grower bodies would need to decrease by 26.1% or the citrus tonnage would need to increase by 38.5%. Alternatively, membership fees and levies paid by citrus growers would need to increase by 38.5%.

Services to growers would have to reduce considerably to enable a 26.1% reduction in expenses. It is highly unlikely that citrus growers would continue to hold membership in citrus grower bodies at the current fee and levy charges if services were significantly reduced and/or membership fees were increased by close to 40%.

Single Structure Option

The net present value of the assumed Single Structure Option is illustrated in the table below:

	Year 1	Year 2	Year 3	Year 4	Year 5
	\$	\$	\$	\$	\$
Total revenues	3,438,810	3,277,378	3,342,926	3,409,784	3,589,337
Total expenses	(3,341,596)	(3,392,543)	(3,444,509)	(3,497,514)	(3,551,579)
Earnings before tax, depreciation and amortisation (EBITDA)	97,213	(115,165)	(101,583)	(87,729)	37,758
Add/(Less): Movement in working capital	64,717	8,728	(548)	(559)	(5,144)
Cash flows from operating activities	161,930	(106,437)	(102,131)	(88,288)	32,614
Less: Capital expenditure	-	-	-	-	-
Free cash flow	161,930	(106,437)	(102,131)	(88,288)	32,614
Terminal value					351,889
Free cash flow plus terminal value	161,930	(106,437)	(102,131)	(88,288)	384,504
Discount factor applied (WACC of 12.0% p.a.)	0.945	0.844	0.753	0.673	0.601
Discounted free cash flows plus terminal value	153,010	(89,797)	(76,933)	(59,380)	230,898
Net Present Value	157,797				

Note: Subject to rounding differences

Relative to the Current Structure, the Single Structure Option produces a comparatively high positive EBITDA and free cash flow in the first forecast period.

The major driver of the fluctuating cash flows over the projection period is the movement in projected net membership fee income.

The comparatively high free cash flow in the first period combined with the positive free cash flow in the final forecast period produce a positive NPV for the Single Structure Option.

The NPV is calculated based on an assumed WACC of 12.0% and a Terminal Growth Rate of 2.5%.

The positive NPV suggests that the Single Structure proposed is a **financially viable structure over the longer term**, provided that the projected cash flow deficits in years 3, 4 and 5 can be funded.

The table below provides an analysis of the sensitivity of the NPV of the Single Structure Option to changes in the projected citrus tonnage and operating expenses.

Executive Summary

		Citrus Tonnage⇒						
		-20.0%	-10.0%	-5.0%	0%	+5%	+10%	+20%
Expenses⇒	-20.0%	3,549,321	6,043,376	7,290,404	8,537,431	9,784,458	11,031,486	13,525,541
	-10.0%	(640,496)	1,853,559	3,100,586	4,347,614	5,594,641	6,841,669	9,335,723
	-5.0%	(2,735,404)	(241,350)	1,005,678	2,252,705	3,499,733	4,746,760	7,240,815
	0%	(4,830,313)	(2,336,258)	(1,089,231)	157,797	1,404,824	2,651,851	5,145,906
	+5%	(6,925,222)	(4,431,167)	(3,184,139)	(1,937,112)	(690,085)	556,943	3,050,998
	+10%	(9,020,130)	(6,526,075)	(5,279,048)	(4,032,021)	(2,784,993)	(1,537,966)	956,089
	+20%	(13,209,947)	(10,715,893)	(9,468,865)	(8,221,838)	(6,974,810)	(5,727,783)	(3,233,728)

The table above indicates that the assumed Single Structure Option is highly sensitive to changes in the citrus tonnage and operating expenses.

Multiple Structure Option

The net present value of the assumed Multiple Structure Option is illustrated in the table below:

	Year 1	Year 2	Year 3	Year 4	Year 5
	\$	\$	\$	\$	\$
Total revenues	3,449,424	3,365,367	3,432,674	3,501,328	3,683,031
Total expenses	(4,611,096)	(4,680,106)	(4,750,495)	(4,822,293)	(4,895,527)
Earnings before tax, depreciation and amortisation (EBITDA)	(1,161,671)	(1,314,739)	(1,317,821)	(1,320,966)	(1,212,496)
Add/(Less): Movement in working capital	115,834	6,421	127	129	(4,594)
Cash flows from operating activities	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(1,217,090)
Less: Capital expenditure	-	-	-	-	-
Free cash flow	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(1,217,090)
Terminal value					(13,131,755)
Free cash flow plus terminal value	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(14,348,845)
Discount factor applied (WACC of 12.0% p.a.)	0.945	0.844	0.753	0.673	0.601
Discounted free cash flows plus terminal value	(988,223)	(1,103,790)	(992,590)	(888,354)	(8,616,598)
Net Present Value	(12,589,554)				

Note: Subject to rounding differences

The Multiple Structure Option produces a negative EBITDA result for each projected period.

The major drivers of the negative EBITDA result are as follows:

- ‘flat’ annual net membership fee income growth in years 1 to 4
- high costs associated with industry data collection and dissemination
- duplicate administrative expenses.

The ongoing negative EBITDA results lead to free cash outflows in each period examined and a negative Terminal Value.

Based on an assumed WACC of 12.0% and a Terminal Growth Rate of 2.5%, the NPV of the Multiple Structure Option is significantly negative.

Executive Summary

The negative NPV suggests that the Multiple Structure proposed is both **not financially viable** and inferior to the Current Structure from a financial perspective.

The disparity in the NPV outcomes of the Multiple Structure Option and the Current Structure largely reflects the costs associated with funding the four issues committees created under the Multiple Structure Option.

The table below analyses the sensitivity of the NPV of the Multiple Structure Option to changes in the projected citrus tonnage and operating expenses.

		Citrus Tonnage=>						
		-20.0%	-10.0%	-5.0%	0%	+5%	+10%	+20%
Expenses=>	-20.0%	(9,797,078)	(7,267,655)	(6,002,944)	(4,738,233)	(3,473,522)	(2,208,810)	320,612
	-10.0%	(13,722,739)	(11,193,316)	(9,928,605)	(8,663,894)	(7,399,182)	(6,134,471)	(3,605,048)
	-5.0%	(15,685,569)	(13,156,147)	(11,891,435)	(10,626,724)	(9,362,013)	(8,097,301)	(5,567,879)
	0%	(17,648,399)	(15,118,977)	(13,854,266)	(12,589,554)	(11,324,843)	(10,060,132)	(7,530,709)
	+5%	(19,611,230)	(17,081,807)	(15,817,096)	(14,552,385)	(13,287,673)	(12,022,962)	(9,493,539)
	+10%	(21,574,060)	(19,044,638)	(17,779,926)	(16,515,215)	(15,250,504)	(13,985,792)	(11,456,370)
	+20%	(25,499,721)	(22,970,298)	(21,705,587)	(20,440,876)	(19,176,164)	(17,911,453)	(15,382,031)

The sensitivity table demonstrates that the NPV of the Multiple Structure Option is highly sensitive to changes in the projected citrus tonnage and operating expenses. This is to be expected as citrus tonnage is the key revenue driver under the Multiple Structure Option and, similarly, as service provider bodies, grower bodies incur considerable levels of operating expenses.

To enable the collective citrus grower bodies to breakeven under the assumed Multiple Structure Option, either operating expenses would need to decrease by 32.1% or citrus tonnages would need to increase by 49.8%. Alternatively, membership fees and levies paid by citrus growers would need to increase by 49.8%.

Services to growers would have to reduce significantly to enable a 32.1% reduction in operating expenses. It is highly unlikely that citrus growers would continue to hold membership in citrus grower bodies at the current fee and levy charges if services were reduced and/or membership fees were increased by close to 50%.

1.6 Summary of Business Case results

A summary of the Business Case results is as follows:

Current Structure

Based on the information provided and the assumptions underlying the associated financial model, the Current Structure is projected to provide ongoing cash flow deficits in the order of \$0.75m to \$1.0m per year during the next five years. This result is likely to make this structure not financially viable.

Executive Summary

Assumed Single Structure Option

Based on the information provided and the assumptions underlying the Single Structure Option model, the Single Structure Option yields a positive NPV, which would suggest that the assumed structure is financially viable.

Assumed Multiple Structure Option

Based on the information provided and the assumptions underlying the Multiple Structure Option model, the Multiple Structure Option is projected to generate ongoing cash flow deficits in the order of \$1.0 to \$1.3m per year during the next five years. This outcome yields a significantly negative NPV, which would suggest that the assumed structure is not financially viable.

2 Business Case Background

2.1 Business Case Background

In May 2005, Australia's citrus growers requested that ACG undertake a broad review of the existing structure of the Australian citrus industry to determine whether the industry could be restructured to better meet the needs of a modern, export orientated industry.

As a result, ACG secured Commonwealth Government funding and commissioned an independent report into possible structural options available to Australia's citrus growers such that the needs of a modern, export orientated industry are met.

The report, prepared by KPMG, suggested three structural options for citrus grower bodies, as follows (Section 7 of the KPMG report describing the three structural options is attached at Appendix 5):

- a Single Structure Option
- a Multiple Structure Option
- the status quo (i.e. the Current Structure).

The Single Structure Option suggested that the national grower body and the regional grower bodies merge, with regional grower bodies operating as regional and state branches of the national body. The state statutory authorities were assumed to cease to exist.

The Multiple Structure Option suggested that the national body increase its role as a national coordinating body. The current grower bodies were assumed to maintain their operations.

The status quo assumed no change from the current operation of the citrus grower bodies.

In April 2006, additional funding was secured by ACG from the Commonwealth Government to commission a report into the development of citrus industry strategic guidelines. This report, the Citrus 2015 report, found that the structure and interrelationship between the existing citrus grower bodies and ACG must be improved to expand the capability of the national citrus industry.

The Citrus 2015 report outlined four key strategic imperatives that were required to be addressed for the national citrus industry to achieve its mission of a profitable Australian citrus industry. The four strategic imperatives focused on:

- consumer demand for Australian citrus
- industry competitiveness
- information and communications systems
- the capability of citrus industry leadership.

In May 2007, ACG formed a Restructure Task Force to address the recommendations of these two reports. ACG concurrently formed the National Citrus Strategy Leadership Group, which includes supply chain representatives. The National Citrus Strategy Leadership Group was formed to help drive the implementation of the Citrus 2015 strategic imperatives.

Business Case Background

In October 2007, the Restructure Task Force distributed the Green Paper to citrus growers and members of the Australian citrus industry asking industry stakeholders to provide feedback on the Proposed Structural Options.

The Green Paper provided information on the current operations of the citrus grower bodies. The Green Paper then outlined the Proposed Structural Options and the perceived advantages and disadvantages of each option (see Appendix 6 for an extract from the Green Paper outlining the Proposed Structural Options).

Feedback received by ACG from these stakeholders recognised that a cost benefit analysis of the Proposed Structural Options was required before an informed decision could be made about the relative merits of the proposed structures.

In February 2008, ACG appointed Deloitte to prepare a Business Case including a cost benefit analysis that examines the relative advantages and disadvantages of the Proposed Structural Options from a financial perspective while acknowledging the primary objectives for the industry as identified in the Citrus 2015 report.

3 Our approach to preparing the Business Case

3.1 Background

Deloitte was requested to undertake a cost benefit analysis of the two structural models outlined in the KPMG report.

It is important to note that the KPMG report only provided a high level outline of the structural models. In particular, the description of the two models provided by KPMG included very little detail in relation to how the two structural models would actually operate in practice. In particular the KPMG report did not include details of the organisational structures that would be put in place for each of the structural options. Additionally, the KPMG report did not include estimates of the future revenues and expenses associated with each structural model.

Accordingly, in order to estimate the future revenues and expenses associated with each structural model, we were required to make a large number of assumptions about how the two models would operate in practice.

In order to develop the relevant assumptions the work we performed included the following:

1. familiarising ourselves the current citrus grower bodies in Australia including the structure and operation of the statutory boards that operate under state legislation in New South Wales, South Australia and Victoria
2. identifying, collecting and quantifying key financial and production data from the grower bodies
3. considering published information provided to us in relation to each structural option
4. interviewing ACG, the regional grower bodies and state statutory authorities to document key qualitative information and to understand their organisational, operational and financial requirements for each structural option
5. based on discussions/interviews with existing grower bodies, capturing and documenting information not currently collected or published
6. documenting the assumed levy and voluntary contribution basis for each structural option
7. considering the human and other resources required for each option, and reflecting the associated assumptions in the costings.

Based on the following:

- the organisational structures for the two structural options outlined in the Green Paper
- comments received from ACG, state statutory authorities and regional grower bodies
- the objectives of the Australian citrus industry described in Citrus 2015
- other information provided to us during preparation of the Business Case.

Preparing the Business Case

the assumed organisational structures for the Single Structure Option and Multiple Structure Option (for the purposes of the cost benefit analysis) are as illustrated at Section 5.1 and Section 6.1 of this Business Case.

It is important to note the Single Structure Option and Multiple Structure Option organisational structures are ***assumed structures only*** and, accordingly, the cost benefit analysis we have prepared is based on a series of assumptions that have been agreed with ACG during preparation of the Business Case.

Deloitte does not express any view in relation to the assumed structures. The assumed structures:

1. do not represent recommended structures but merely assumed structures based on the information provided to us
2. do not represent the only potential structures based on the information provided to us
3. do not represent structures ready for implementation by ACG. ACG should consult widely on the assumed structures and the cost benefit analysis associated with each structural option before considering any changes to the current structure of the Australian citrus industry
4. are assumed structures based on information made available to us and assumptions made upon receipt of this information.
5. only provide indicative organisational structures to facilitate the preparation of the cost benefit analysis and consideration of the financial viability of each of the structural options. Qualitative objectives should also be considered in assessing the viability of each structural option.

Further details as to the limitations of the work we have undertaken are contained in the Disclaimer at the beginning of this Business Case.

In accordance with ACG's request, the Business Case does not represent an exhaustive analysis of the financial viability of the Proposed Structural Options. We reconfirm ACG's instruction to us that "ultimately, the board and management of a new entity would need to complete such analyses when making decisions about investment of funds".

3.2 Discussions with current citrus grower bodies

Initial discussions were held with ACG to gain a preliminary understanding of the operations of ACG, the citrus grower bodies in Australia and the current commercial and financial state of the national citrus industry.

Based on the information provided to us in these initial discussions, we sent a detailed information request to citrus grower bodies asking that we be provided with historical and forecast financial data as well as specific operational, commercial and human resources information.

The citrus industry grower bodies who received the information request are listed below in four distinct categories:

Preparing the Business Case

National grower body	Regional grower body	State statutory authority	Horticulture association
Australian Citrus Growers	Citrus Growers of South Australia	Riverina Citrus	Growcom
	Queensland Citrus Growers	Murray Valley Citrus Board	
	Western Australian Fruit Growers Association, Citrus Council	South Australian Citrus Industry Development Board	
	Northern Territory Citrus Growers		
	Mid-Murray Citrus Growers		
	Narromine Citrus Growers		
	Sunraysia Citrus Growers		
	Griffith & District Citrus Growers		
	Leeton Citrus Growers		

We subsequently contacted representatives from each of the citrus grower bodies listed above to discuss the information request they each received. The initial interview with each grower body provided us with key qualitative information and allowed us to develop a deeper understanding of the services provided by each citrus grower body.

After consultation with ACG Chief Executive Officer (Ms Judith Damiani) and Growcom Chief Executive Officer (Ms Jan Davis), we were instructed not to include the Queensland Horticulture Association (Growcom) in the determination of the Business Case (Growcom operates on a fee for service basis on behalf of the whole of the Queensland horticulture industry).

3.3 Information gathering

The Business Case for each of the Proposed Structural Options was prepared as follows:

Documentation of the current citrus industry

The current financial, commercial, operational and functional status of the industry bodies that are associated with the Australian citrus industry were considered based on information provided by the relevant industry bodies and the initial and subsequent discussions described in Section 3.2.

The interrelationship between ACG, the citrus grower bodies and other key stakeholder bodies was mapped to understand the depth of the service offerings provided to individual citrus growers and to the national citrus industry as a whole.

Preparing the Business Case

Consideration of comparable industries

We briefly considered at a high level, the organisational structures of a number of comparable international agricultural and horticultural industries.

Analysis of key objectives of ACG and the citrus industry growers

The key objectives of ACG identified in 'Citrus 2015' were used to aid our consideration of the financial viability of the Proposed Structural Options.

The key objectives of ACG considered in the construction of the Business Case were as follows:

- to be the national agri-political body for the Australian citrus industry. ACG aim to represent the citrus growers of Australia to all forms of government and representative bodies
- to create and implement national policies for the betterment of the Australian citrus industry in consultation with the citrus growers of Australia
- the collection, collation and distribution of citrus industry statistics and data
- to be the peak representative body for Australian citrus growers to the wider community, including commercial bodies
- the development and promotion of the Australian citrus industry both domestically and internationally
- to be the peak coordinating body for citrus research and development. ACG seek to ensure that programs are undertaken for the betterment of the national citrus industry, and that the knowledge developed by these programs is transferred to the citrus growers of Australia.

Consideration was also given to the maintenance of the current levels of grower services and the participation of citrus growers in the national body.

To understand the structural, financial and operational frameworks of the Proposed Structural Options for the purposes of our cost benefit analysis we examined information obtained from the following:

- all information and research obtained from the steps described above
- the strategic imperatives outlined in Citrus 2015
- discussions with ACG, state statutory authorities and regional grower bodies.

As a consequence of the above we adopted the assumed Proposed Structural Options set out in Section 5.1 and Section 6.1 as the basis for our comparative cost-benefit analysis of each option.

3.4 Preparation of Financial Models

Information provided by the representatives of each citrus grower body was analysed and used to populate financial models built to examine the financial viability of each Proposed Structural Option.

Initially, a financial model was prepared which was based on the Current Structure of the Australian citrus industry. The Current Structure was then considered in light of the differences with the Proposed Structural Options. Assumptions were made to address the structural differences between the Proposed Structural Options and the Current Structure. The financial models were then populated based on information obtained from all citrus grower bodies.

The purpose of the three financial models is described below.

3.4.1 Development of the Current Structure Model

We initially created a financial model based on the Current Structure. The model was built utilising historical and forecast financial information provided by all grower bodies. The Current Structure model allowed us to identify the services that each citrus body provides to the Australian citrus industry and to identify specific areas of duplication within the industry.

The Current Structure model was also used as a basis for creating the financial assumptions underlying the models built for each of the Proposed Structural Options.

Importantly, we have assumed the methodology used to calculate income earned under each structural option will be comparable to enable direct comparisons to be made between the Current Structure, the Single Structure Option and the Multiple Structure Option.

3.4.2 Development of the Proposed Structural Options Models

The structural and operational assumptions underlying the Single Structure Option and the Multiple Structure Option models were based on the structures outlined in the Green Paper.

The financial information provided by the citrus grower bodies, together with the Current Structure model, formed the basis for the assumptions made in relation to the annual revenues and expenses that may be incurred under each of the Proposed Structural Options.

3.5 Cost Benefit Analysis

Estimated revenues and expenses associated with the Current Structure and the Proposed Structural Options were then considered based on the results derived under the three financial models.

3.5.1 Financial comparison of the Proposed Structural Options Models

The financial models were used to calculate the NPV of each proposed structure and thereby consider their financial viability. Additionally, we considered the sensitivity of the NPV of each of the Proposed Structural Options to changes in the underlying assumptions.

The NPV of the Proposed Structural Options was also compared to the NPV of the Current Structure.

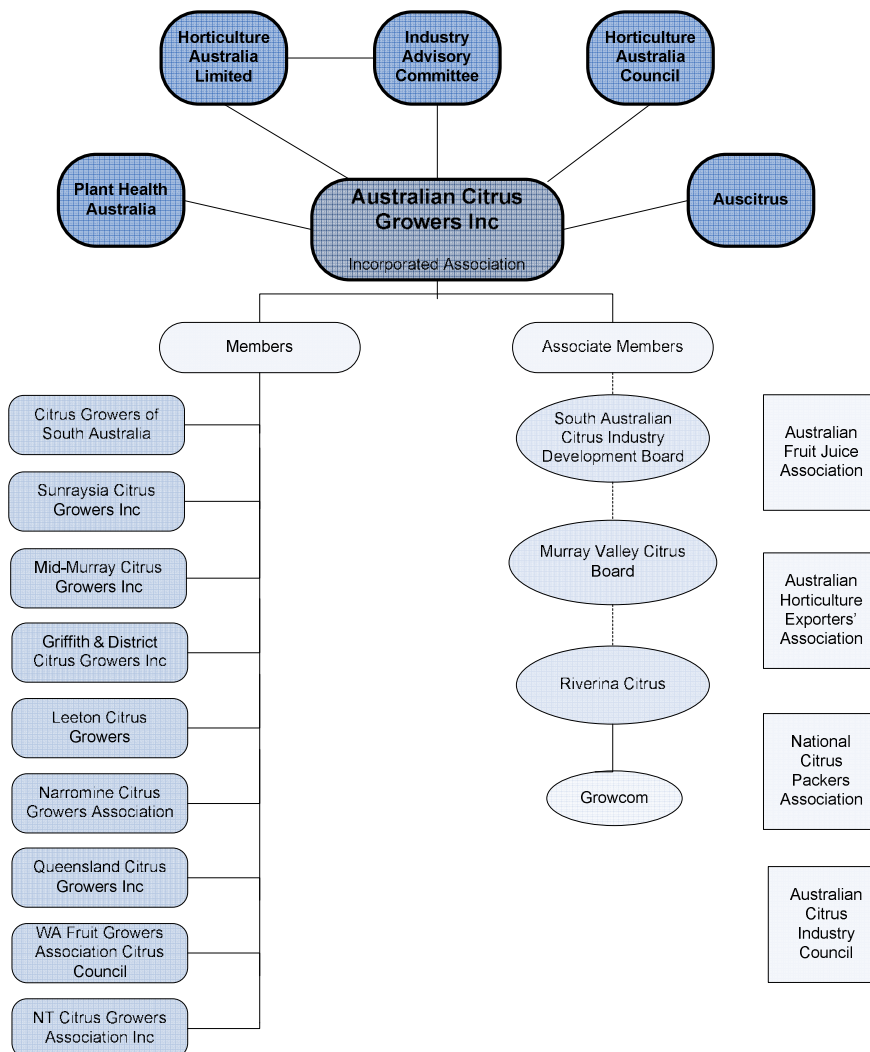
3.6 SWOT Analysis

We also prepared a SWOT analysis to examine the financial and non-financial costs and benefits of the alternative structures.

4 Current Structure of the Grower Bodies of the Australian Citrus Industry

4.1 Diagrammatical representation of Current Structure

The diagram below portrays the Current Structure of the grower bodies involved in the Australian citrus industry. Further information in relation to the Current Structure is provided in Section 4.2.



4.2 National citrus industry operational structure

4.2.1 National peak industry body – ACG

ACG was established as the peak national citrus grower body for Australia in 1948 and is incorporated under the *South Australian Associations Incorporation Act, 1985*.

ACG represents approximately 2,300 commercial citrus growers across Australia.

4.2.2 ACG board of directors

ACG currently has a ten member board of directors, all of whom are commercial citrus growers. These members are nominated by the nine regional grower body members of ACG.

The geographic representation of ACG board of directors is currently as follows:

State	Number of Directors
South Australia	Two
New South Wales	Two
Victoria	Two
Queensland	Two
Western Australia	One
Northern Territory	One

4.2.3 Voting rights

Voting rights for general meetings are held by each state based on a production formula.

Each state is responsible for electing delegates who will hold the voting rights for their state. There is a minimum of two delegates per state, excluding Western Australia and the Northern Territory.

4.2.4 ACG membership

Direct membership of ACG is held by the nine regional grower bodies listed in Section 3.2.

Citrus growers who are members of these regional grower bodies are automatically affiliated with ACG as a result of their membership of the regional grower body.

Non-voting membership is held by the state statutory authorities, also listed in Section 3.2. Growcom, a Queensland based horticulture association, is also a non-voting member of ACG.

4.2.5 National citrus levies

Australia's citrus growers currently pay four mandatory national citrus levies for specific services necessary to support the national citrus industry. These levies are administered by relevant national bodies.

These statutory levies are collected at the point of sale by packers, agents or processors and remitted to the Commonwealth Government's Levies and Revenue Service. These levies are then forwarded to the appropriate levy administration body.

Current Structure of the Grower Bodies of the Australian Citrus Industry

The four mandatory national citrus levies and their related levy administration body are shown in the table below:

National Citrus Levy	Levy Administration Body
Research and Development Levy	Horticulture Australia Limited ¹
Marketing Levy (Oranges Only)	Horticulture Australia Limited ¹
Plant Health Levy	Plant Health Australia ²
Biosecurity Levy	Plant Health Australia ²

Note 1: Refer to Section 4.2.6 for information in relation to Horticulture Australia Limited

Note 2: Refer to Section 4.2.6 for information in relation to Plant Health Australia

A description of each levy is provided below:

Research and Development Levy

- commercial citrus growers pay a statutory Research and Development Levy of \$1.97 per tonne of citrus
- the funds collected from this levy are equally matched by a contribution from the Commonwealth Government
- the funds are used to finance citrus research and development programs.

Marketing Levy (Oranges only)

- commercial orange growers pay a statutory Marketing Levy of \$0.75 per tonne of oranges
- the marketing levy is not matched by the Commonwealth Government
- the funds are applied to domestic and export focused marketing of Australian Oranges.

Plant Health Levy

- commercial citrus growers pay a statutory Plant Health Levy of \$0.03 per tonne of citrus
- the Plant Health Levy is not matched by the Commonwealth Government
- the levy contributes to ACG's membership of Plant Health Australia ('PHA'). The levy is also used to develop national initiatives for plant health and biosecurity.

Biosecurity Levy

- the Biosecurity Levy is currently set at nil. The levy will be activated in the event of a biosecurity outbreak, where an eradication response is deemed necessary under the Emergency Plant Pest Response Deed
- the levy will provide funding to support the citrus industry's share of costs incurred to eradicate exotic diseases and/or pests, including reimbursement to growers for any citrus trees destroyed.

For completeness of understanding, all of the above levies paid by growers are expected to continue irrespective of any decision to restructure to one of the proposed options. Accordingly, these levies do not form part of the Business Case analysis and the financial modelling we have performed.

4.2.6 National horticulture bodies

ACG, in their role as the peak citrus industry body, hold membership of the following national horticulture bodies:

- Horticulture Australia Limited ('HAL')
- PHA
- Horticulture Australia Council ('HAC')
- Auscitrus.

A brief description of each body and their direct relevance to supporting ACG and the national citrus industry is provided below.

HAL

HAL is a horticulture industry owned research, development and marketing service body for the horticulture industry in Australia, responsible for the administration of the statutory Research and Development Levy and the Marketing Levy described in Section 4.2.5.

ACG is recognised by the Commonwealth Government as the eligible peak citrus industry body in relation to the national Research and Development Levy and the Marketing Levy collected for the citrus industry. As the peak industry body, ACG recommends to HAL, membership of the Citrus Industry Advisory Committee ('Citrus IAC'), a HAL sub-committee.

HAL, in consultation with the Citrus IAC, is responsible for the selection and approval of funding for research and development and marketing projects. Project investment is guided by the Citrus IAC Strategic Five Year Investment Plan. The five year investment plan and annual operating plan are created by the Citrus IAC taking into consideration ACG's strategic plan.

Projects funded by these statutory levies are either citrus industry approved projects or projects commissioned by the Citrus IAC.

HAL annually request public submissions in relation to citrus industry projects. These projects may either request 100% funding from HAL, or may be Voluntary Contribution Projects where the applicant will supply 50% of the funding.

The project submissions are reviewed by HAL Professional Services, the Citrus IAC and expert panels. Recommendations are made as to which projects should be supported, which should be rejected and if more detail on a project is required. The final approval for these projects rests with HAL.

In the event that there are insufficient acceptable projects submitted to HAL, the Citrus IAC may request that specific projects be commissioned.

The selection of projects for the citrus industry is guided by the strategic direction of ACG. This helps align the funding of research and development projects and marketing projects to the development areas of the national citrus industry. ACG effectively guides the use of the Research and Development and the Marketing Levies for the benefit of the Australian citrus industry.

Current Structure of the Grower Bodies of the Australian Citrus Industry

PHA

PHA is the peak national coordinating body for plant health in Australia.

PHA commissions projects that enable the coordination and development of national policy in the area of plant health. Policy is used to ensure that the Australian horticulture industry can effectively respond to plant pests, weeds and diseases.

PHA is responsible for the administration of the citrus industry Plant Health Levy.

ACG are entitled to make submissions to PHA ensuring that policy developed by PHA meets the requirements of the national citrus industry.

HAC

HAC is a national horticulture agri-political body.

HAC represents the Australian horticulture industry to the Commonwealth Government on various cross-industry issues.

ACG work with HAC to ensure that submissions made to the Commonwealth Government consider the impact the issues may have on the national citrus industry.

Auscitrus

Auscitrus is the entity responsible for the commercialisation and supply of citrus budwood and seed in Australia. Auscitrus members comprise citrus growers and citrus nurserymen from each state in Australia. Auscitrus is also responsible for researching and testing new types of citrus for the Australian market. Auscitrus maintains a stock of virus free and immunised citrus trees, so that there are uncontaminated plants available in the event of a pest outbreak.

ACG work with Auscitrus to ensure new citrus types being researched and developed meet the future requirements of the Australian citrus industry.

Other key relationships with ACG

In addition to ACG's membership of the above bodies, ACG, in their role as the peak national citrus grower body, work in consultation with the following bodies:

- Australian Citrus Industry Council
- Department of Agriculture, Fisheries and Forestry
- Biosecurity Australia
- Australian Quarantine and Inspection Service
- Australian Horticulture Exporters Association
- Australian Fruit Juice Association
- National Citrus Packers Association.

ACG's work with the above bodies is principally to develop relationships between citrus growers and other citrus supply chain members.

Current Structure of the Grower Bodies of the Australian Citrus Industry

4.2.7 Levies and fees paid to citrus grower bodies

In addition to the four national citrus levies paid by Australia’s citrus growers outlined in Section 4.2.5, Australia’s citrus growers pay a combination of regional, state and national levies and fees for membership of various citrus grower bodies.

As shown in the table below, the amount paid per grower varies depending upon which state a grower may operate in.

Grower Body	State Statutory Levy	Voluntary membership levies/ fees
South Australia		
South Australian Citrus Industry Development Board	\$3.20 per tonne (oranges) \$2.20 per tonne (other citrus)	
Citrus Growers of South Australia		\$0.65 per tonne
Australian Citrus Growers		\$0.50 per tonne
Victoria		
Murray Valley Citrus Board	\$5.50 per tonne	
Sunraysia Citrus Growers		\$0.50 per tonne
Mid-Murray Citrus Growers		\$30 per annum
Australian Citrus Growers		\$0.50 per tonne
New South Wales		
Riverina Citrus	\$4.50 per tonne	
Narromine Citrus Growers		-
Queensland		
Queensland Citrus Growers		\$3 - \$6 per tonne*
Western Australia		
State Government	\$10 per tonne **	
Northern Territory		
Northern Territory Citrus Growers		\$110 per annum

* Citrus Growers in Queensland have the option of paying membership fees based on a charge of \$120 per hectare or \$0.05 per carton of citrus. This equates to a charge of \$3 to \$6 per tonne of citrus.

** In Western Australia, the state government collects a mandatory levy from citrus growers. Funding is then provided to the regional grower body, the Western Australian Fruit Growers Association.

Current Structure of the Grower Bodies of the Australian Citrus Industry

The table below shows:

- the estimated levies paid and
- the estimated tonnage that grower bodies received fees and levies in relation to for the 2006/07 financial year.

The estimated total levies paid and the estimated membership tonnages have been used to calculate the estimated levy per tonne paid by citrus growers in each state.

Grower Body	Total levies paid 2006/07 financial year	Membership tonnage (2006/07 season)	Estimated Levy per tonne
South Australia	\$650,000	170,000	\$3.82 per tonne
Victoria	\$913,000	155,000	\$5.90 per tonne
New South Wales	\$855,000	190,000	\$4.50 per tonne
Queensland	\$190,000	35,000	\$5.42 per tonne*
Western Australia	\$175,000	18,000	\$10 per tonne
Northern Territory	\$1,320	500	\$2.64 per tonne
TOTAL	\$2,784,320	568,500 tonnes	\$4.90 per tonne

* Citrus Growers in Queensland have the option of paying membership and research and development fees based on a charge of \$140 per hectare or \$0.06 per carton of citrus. This equates to a charge of \$3 to \$6 per tonne of citrus depending of the variety of citrus produced.

Notwithstanding that membership fees and levies charged in each state may be charged on a voluntary basis, the estimated levy per tonne calculated for growers operating in different states of Australia demonstrates the disparity in the estimated levy per tonne paid in each state.

Importantly, for the purpose of this Business Case and the key objectives of ACG, the Single Structure Option seeks to address this imbalance.

4.3 State statutory authorities

4.3.1 South Australian Citrus Industry Development Board

Overview

The South Australian Citrus Industry Development Board ('SACIDB') is a statutory body formed under the South Australian *Citrus Industry Act (2005)*. The SACIDB represents citrus growers, packers, processors and wholesalers in South Australia.

SACIDB is a state body whose aim is the promotion and development of the whole of the citrus industry within South Australia.

The SACIDB employ two full time staff members and one part time staff member.

The SACIDB is a statutory authority and is therefore unable to function as an agri-political body.

SACIDB operates a seven member board of directors. The members of the board are chosen by a selection committee that is appointed by the Minister for Agriculture under the *Citrus Industry Act*. The board of directors comprises one chairman, three registered South Australian citrus growers and three independent directors who must have proven experience in marketing.

Funding

The SACIDB is funded via a subscription levy of \$3.20 per tonne of oranges and \$2.20 per tonne of citrus, excluding oranges and is refundable on request. This levy is collect by SACIDB from the citrus packing sheds. In addition, SACIDB collects membership fees on behalf of the South Australian regional grower body, Citrus Growers South Australia.

4.3.2 Murray Valley Citrus Board

Overview

The Murray Valley Citrus Board ('MVCB') is a statutory authority operating under the Victorian *Agricultural Industry Development Act (1990)*.

The MVCB has extraterritorial jurisdiction in the Murray Valley region of New South Wales.

MVCB operates to provide resources for the development of the Murray Valley region. The MVCB currently employs two full time staff.

The MVCB is a statutory authority and is therefore unable to perform any agri-political activities.

The MVCB operates a nine member Board of Directors. The directors consist of one representative appointed by the Victorian Minister for Agriculture, one representative appointed by the New South Wales Minister of Agriculture, four Murray Valley citrus growers and three members recommended by a selection panel who have proven experience within the citrus supply chain.

Funding

MVCB is funded via a statutory levy of \$5.50 per tonne of citrus produced. This levy is collected from packing houses. MVCB also collects membership fees on behalf of the regional grower body, Sunraysia Citrus.

4.3.3 Riverina Citrus

Overview

Riverina Citrus ('RC') is a state statutory authority constituted under the New South Wales *Agricultural Industry Services Act (1998)*.

RC is charged with providing services for citrus producers in the New South Wales local government areas of Carrathool, Griffith, Leeton, Murrumbidgee and Narrandera. RC currently employs two full time staff members and one part time staff member.

RC is a statutory authority and is therefore unable to function as an agri-political body.

RC operates a nine member board of directors. The directors consist of six Riverina citrus producers (three from Griffith and Carrathool and three from Leeton and Narrandera) and three independent members who have proven experience in marketing, management, finance, law or fruit processing.

Funding

RC is funded via a statutory levy of \$4.50 per tonne of citrus produced. This levy is collected from packing houses.

The levy collected by RC is also provided on a fee for service basis to the Riverina regional grower bodies, Griffith & District Citrus Growers and Leeton Citrus Growers.

4.4 Regional grower bodies

4.4.1 Citrus Growers of South Australia

Overview

Citrus Growers of South Australia ('CGSA') is the regional grower body for South Australia. CGSA represent approximately 680 citrus growers.

CGSA operates as a first point of contact for growers within South Australia.

CGSA is the regional agri-political body and represent grower's issues to the South Australian Government and ACG. CGSA provides funds for local projects including the South Australian Industry Development Officer project.

CGSA operates a ten member board of directors comprised solely of regional growers. CGSA employ one part time employee.

Funding

CGSA is funded via a voluntary contribution levy of \$0.65 per tonne of citrus produced. This levy is collected by the SACIDB of behalf of CGSA. Growers are able to ask for a refund of levy amounts paid during April of each year.

4.4.2 Sunraysia Citrus Growers

Overview

Sunraysia Citrus Growers ('SCG') is the regional grower body for the Sunraysia region of Victoria and New South Wales, a region that stretches from the South Australian border to Boundary Bend in Victoria. SCG has approximately 300 citrus grower members.

SCG operates as an agri-political body representing the citrus growers from the Sunraysia region. SCG is recognised by the Victorian and New South Wales Government as the point of contact for growers within the Sunraysia region and acts as an information dissemination point for the MVCB.

SCG operates a seven person board of directors comprising citrus growers from within the Sunraysia region. SCG employ one part time employee.

Funding

SCG is funded via a voluntary contribution levy of \$0.50 per tonne of citrus produced. This levy is collected by the MVCB on SCG's behalf. As this is a voluntary system, in some instances packers do not remit the levy to the MVCB and, as such, SCG do not receive the levy funds.

4.4.3 Mid-Murray Citrus Growers

Overview

Mid-Murray Citrus Growers ('MMCG') is a regional grower body that represents approximately 12 citrus growers in the Barham region of the Murray Valley.

MMCG operates as the representative body to ACG for growers within the region. MMCG does not undertake any agri-political or marketing activities.

MMCG operate a voluntary twelve member board of directors, comprising local growers. MMCG has no employees.

Funding

MMCG grower members pay a \$30 membership fee each year. MMCG's operations are largely funded via interest revenue received from invested funds.

4.4.4 Griffith & District Citrus Growers

Overview

Griffith & District Citrus Growers ('GDCG') is the regional citrus grower body for the Griffith region of the Riverina. GDCG have approximately 320 citrus grower members. GDCG operates under a Services Agreement with RC.

GDCG is the representative body for growers in the region and an important information dissemination point for RC. GDCG is responsible for raising local grower issues with RC and ACG.

GDCG has no employees and operates a 15 member committee. The Chairman, Treasurer and Secretary of the board are provided with an annual allowance of \$1,000.

Funding

GDCG currently receive \$15,000 per year under a Services Agreement with RC.

4.4.5 Leeton Citrus Growers

Overview

Leeton Citrus Growers ('LCG') is the regional citrus grower body for the Leeton region of the Riverina. LCG have approximately 220 citrus grower members. LCG operates under a Services Agreement with RC.

LCG is the representative body for growers in the region and an important information dissemination point for RC. LCG is responsible for raising local grower issues with RC and ACG.

LCG has no employees and operates a three member executive. The Chairman, Treasurer and Secretary of the board are provided with an annual allowance of \$1,000.

Funding

LCG currently receive \$15,000 per year under a Services Agreement with RC.

4.4.6 Narromine Citrus Growers

Overview

Narromine Citrus Growers ('NCG') is the regional grower body for the Narromine region in New South Wales.

NCG has approximately three grower members. The members of NCG meet as required.

NCG does not have a board of directors and does not employ any staff.

Funding

NCG members provide funding for activities on an as needed basis.

4.4.7 Queensland Citrus Growers

Overview

Queensland Citrus Growers ('QCG') is the regional citrus grower body in Queensland.

QCG has approximately 64 members.

QCG operates as an agri-political body and represents Queensland citrus grower issues to the Queensland State Government, the Commonwealth Government and ACG.

QCG fund and coordinate local marketing for Queensland citrus and fund local research and development projects. The collection and dissemination of Queensland citrus industry statistics and data is performed by QCG.

QCG operates a seven person board of directors who represent growers from within the Queensland citrus producing regions. QCG employ one full time staff member.

Funding

QCG is funded via a two tier voluntary membership system. Growers can elect to pay a lump sum of \$120 per hectare annually or contribute \$0.05 per carton of citrus sold on a monthly basis. Additionally growers pay a voluntary lump sum of \$20 per hectare annually or \$0.01 per carton of citrus sold on a monthly basis for citrus Research and Development. QCG collects these fees directly from growers.

4.4.8 Western Australia Fruit Growers Association

Overview

The Western Australia Fruit Growers Association ('WAFGA') is the representative body for the citrus, apple, pear and stone fruit industries in Western Australia.

WAFGA operates a Citrus Council that deals with specific citrus industry issues.

WAFGA have approximately 200 citrus grower members.

The WAFGA Citrus Council operates an eight member council, who represent the different citrus producing areas within Western Australia.

WAFGA operates as the peak citrus agri-political body in Western Australia. WAFGA is the first point of contact for citrus growers in Western Australia and provides funding for industry

Current Structure of the Grower Bodies of the Australian Citrus Industry

research and development projects. WAFGA undertakes citrus promotion and marketing for Western Australian citrus growers.

WAFGA employs two full time employees whose cost is shared by the citrus, apple, pear and stone fruit grower members.

WAFGA collects and disseminates statistics and data in relation the Western Australian Citrus Industry.

Funding

WAFGA are funded via a state government based fee for service of \$10 per tonne of production.

4.4.9 Northern Territory Citrus Growers Association

Overview

The Northern Territory Citrus Growers Association ('NTCG') is the regional grower body representing citrus growers in the Northern Territory.

NTCG has approximately twelve members.

The Northern Territory Citrus Industry represents a very small industry with no major growers.

The NTCG is provided with services and agri-political representation by the Northern Territory Horticulture Association.

Funding

NTCG members pay a \$110 membership fee annually, which provides membership to both NTCG and the Northern Territory Horticulture Association.

4.5 Horticulture association

4.5.1 Growcom

Growcom is a Queensland based horticulture association. It is a privatised body created from the former Queensland state statutory body.

Growcom operates as an independent commercial body providing services to horticulture growers and associations on a fee for service basis.

Growcom apply excess operating funds to support research and development projects in the horticulture industry in Queensland.

Due to this difference in focus, Growcom has a notably different operational focus to other regional and state statutory citrus bodies. Growcom has therefore not been included in any financial or non-financial analysis for the Proposed Structural Options.

Funding

Growcom members pay an annual membership fee based on the different classes of membership of Growcom. Growcom receives the majority of their funding from the fee for service work performed for members of the Queensland horticulture industry.

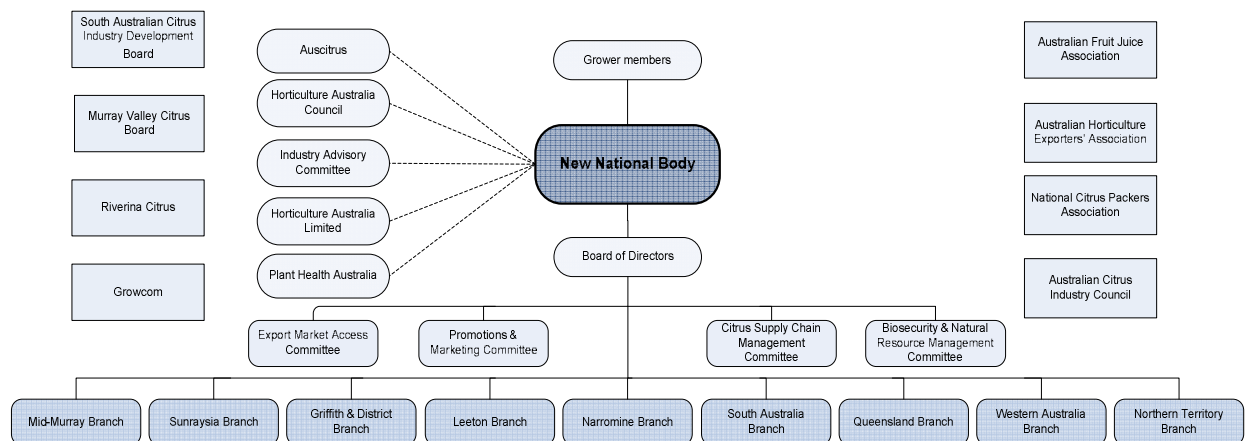
5 Single Structure Option - Cost Benefit Analysis

5.1 Assumed Single Structure Option organisational structure

The assumed Single Structure Option, illustrated in the diagram below, is principally based on the structure outlined in the Green Paper. We adopted the Single Structure Option proposed in that document and, as a consequence of additional information provided to us by the various industry bodies, assumed the Single Structure Option is constructed as shown below for the purposes of preparing the comparative cost-benefit analysis of this structural option.

To estimate the revenues and costs associated with the implementation of this structural option we adopted a number of assumptions based on:

- information provided by ACG, the state statutory authorities and regional grower bodies
- discussions with representatives of these industry bodies and
- high level information relating to comparable citrus, horticultural and agricultural bodies.



NB: A dotted line represents a commercial relationship between the New National Body and the entity.

Note: The assumed Single Structure Option illustrated above is an assumed organisational structure only for the purpose of conducting the cost benefit analysis and considering the financial viability of this option. The assumed Single Structure Option illustrated above is not a recommended organisational structure for this option. The detailed discussion of items from Section 5.1.1 to Section 5.1.11 below are similarly not recommendations but represent possible descriptions of these items for this option. Please refer to Section 3.1 for further discussion in relation to this structure.

Single Structure Option - Cost Benefit Analysis

5.1.1 The role of a new national citrus grower body

Under the assumed Single Structure Option a new national body would be given responsibility for all national industry wide activities and areas of operation.

It has also been assumed that the new national body would delegate authority to regional branches and amended state statutory authorities where appropriate.

The key operating aspects of this assumed structural option will involve a new national body being the sole body responsible for the following aspects of the national citrus industry (In order to develop the operating aspects detailed below, a number of assumptions have been made as detailed in Section 3.1):

- *Export Market Access*

Access to international export markets is an industry wide issue. The new national peak body would be the point of contact within Australia for all citrus growers and represent all Australian citrus growers in international markets providing the Australian citrus industry with the opportunity to establish a more concerted presence in international markets.

- *Promotion and Marketing*

Promotions and marketing campaigns would be coordinated by the new national body, with funds provided for regional campaigns where necessary. The citrus industry would thereby have the opportunity to optimise the efficient use of resources by having one body responsible for promotion and marketing activities in Australia and international markets, thereby facilitating more coordinated marketing and promotional activities.

- *Agri-Political*

Agri-political activities would be coordinated by the new national body. National coordination has the potential to provide the Australian citrus industry with a more united approach to government lobbying at both local, state and national levels.

- *Citrus Supply Chain Management*

The national citrus industry would have the opportunity to present a unified front to addressing supply chain issues. A national unified front would impress upon citrus supply chain companies that they are dealing with the entire industry not just a number of regional growers. As such, the cooperation of all citrus grower bodies may provide citrus growers with greater bargaining power in contract negotiations and service provision within the citrus supply chain participants.

- *Natural Resource Management*

The management of natural resources is a cross border issue. Issues such as drought and water restrictions have an impact on almost all citrus growers, although each region will always have specific areas of concern. Representations on behalf of the citrus industry may be coordinated by the new national body.

- *Biosecurity*

Biosecurity is also a citrus industry wide issue. Although issues differ between regions, biosecurity could be coordinated at a national level. Regional branches would be responsible for presenting local issues to a national body so that the most appropriate

Single Structure Option - Cost Benefit Analysis

course of action can be determined after taking into consideration the needs of the industry as a whole.

5.1.2 The role of a state statutory authority

The state statutory authorities within South Australia, New South Wales and Victoria currently undertake vital data collection and collation roles within the citrus industry.

These state statutory authorities have the infrastructure and systems for the effective collection of citrus industry data. Currently the national body does not have the capacity to operate and administer a national data collection and collation system.

The other operations of the state statutory authorities, namely citrus marketing and promotion, export market access, biosecurity, research and development and citrus industry data dissemination, may be roles more appropriately managed at a national level.

The key operating aspects of this assumed Single Structure Option will involve state statutory authorities being responsible for citrus industry data collection and collation only. The amended state statutory authorities could enter into service level agreements with the new national body under which the new national body would pay the amended state statutory authorities for the data collection and collation services provided.

5.1.3 The role of a regional grower body

Regional grower bodies provide a day to day point of contact for local growers.

From discussions held, it is clear that this grass roots contact is seen as essential for the citrus industry. However, to enhance the unity of the Australian citrus industry's grower bodies, the structure of the regional bodies could be aligned with a national body.

The regional bodies could also work with the new national body to implement national strategies in regional areas.

Under the assumed Single Structure Option, regional grower bodies would become part of a new national body and effectively operate as branches of the national body (e.g. CGSA would become the South Australia Branch). Regional branches that operate within the same regional area would be encouraged to merge.

The regional branches would continue to provide a point of day to day liaison with the growers and be seen as a first point of contact for growers.

Regional branches would be funded by the new national body.

5.1.4 Definition of a grower body's responsibilities

There is currently significant duplication of roles within the Australian citrus industry, leading to the inefficient use of resources. A clear definition of roles between national, state and regional bodies would help eliminate these inefficiencies.

Under the assumed Single Structure Option, a new national structure would be developed, outlining the responsibilities of each grower body. The separation of responsibilities under the Single Structure Option would be based on the outline provided in Sections 5.1.1 to 5.1.3. The

Single Structure Option - Cost Benefit Analysis

performance of a grower body would be monitored by key performance indicators reported to citrus growers on an annual basis.

5.1.5 Membership structure

Membership of a national body may provide growers with a greater sense of ownership of and influence on the national direction of the Australian citrus industry. Providing direct membership to a national body may also allow growers to influence the strategy of the national body at the annual general meeting and the governance of the national body via the appointment of directors.

Under the assumed Single Structure Option, each grower would have the opportunity to become an individual member of the national body. This membership would also provide access to regional branches.

Members would include growers who manage bearing and non-bearing hectares of citrus.

5.1.6 Membership fees

Membership fees paid by growers currently vary significantly from state to state. Fees for membership of a national body could be designed to facilitate greater equity among members.

The fee structure could also be designed such that the system of collection does not place undue financial hardship on a grower.

Under the assumed Single Structure Option, a single, voluntary, national membership levy based on a set fee per tonne is assumed (which would be the same amount across all states and be the same for all fruit growers, which for financial modelling purposes has been set at \$4.50 per tonne). All regional and state levies would be abolished.

Such a levy could improve the equity between growers as the levy would vary in-line with production. The membership levy would also be collected at the point of sale to packers and in-line with a grower's cash flow.

Members who manage non-bearing hectares of citrus would pay no membership fees to a national body but would receive non-voting membership benefits.

5.1.7 Voting rights

The voting right of members would ensure appropriate representation at the national level is provided to all members. Voting rights would vary in-line with a citrus grower's membership contribution.

Under the assumed Single Structure Option, member voting rights would be based on a weighted system whereby the weighting of each member's vote would be determined based on how many citrus bearing hectares a member manages.

Members who manage non-bearing hectares of citrus would therefore become non-voting members of the new national body.

As the number of hectares managed does not fluctuate greatly year to year, this would provide a relatively stable voting basis.

Single Structure Option - Cost Benefit Analysis

5.1.8 Funding arrangements

Under the Single Structure Option all state and regional levies and membership fees could be abolished. The new national body would therefore be required to fund the amended state statutory authorities and regional branches.

Regional branches would submit an annual operating budget including funding requests for regional projects to a national board of directors for approval. The amended state statutory authorities would submit 'fee for services' funding requests to the national board of directors for approval.

The national board of directors would be responsible for ensuring that regional branch budget objectives are in-line with national objectives. The amended state statutory authorities and regional branches would be able to submit funding requests for special projects throughout the year. These requests would be subject to national board approval.

5.1.9 A national board of directors

Australia's citrus producing regions currently operate largely independently of one another.

This separation of interest may prevent the current ACG board of directors from achieving desired outcomes for the national citrus industry.

Under the assumed Single Structure Option, a new national board of directors would be incorporated to make decisions in the best interests of the national citrus industry. The board would be comprised as follows:

- two grower representatives
- two independent financial/ commercial representatives
- one independent legal representative
- one independent export market representative
- one independent marketing representative.

A board nominating committee would be created, the members of which would be elected directly by citrus growers. This panel would evaluate and select potential independent directors.

Grower representatives would be nominated by the grower members of the national body. Voting on directors would take place at the national body's annual general meeting, with the term of office being three years.

5.1.10 Regional branch committees

A regional grower body's board of directors often represents the first point of contact for local growers, providing support and advice to local growers. Based on our discussions with stakeholders, this daily contact is vital.

Under the assumed Single Structure Option, regional branches would operate as a seven member committee, comprised of local citrus grower members. The regional branches would be funded by the national body.

Single Structure Option - Cost Benefit Analysis

The regional branch committee would be responsible for presenting regional issues to the national body and applying for funding from the national body for regional projects.

5.1.11 Issues committees

Under the assumed Single Structure Option, 'issues' committees would be established to focus on the development of the Australian citrus industry.

The role of the issues committees would be to advise the national board of directors on projects and strategies designed to address particular areas of focus.

An issues committee would be charged with presenting proposals and recommendations to the national board of directors for the development of the national citrus industry.

Initially the following issues committees would be created:

- Export Market Access Committee
- Marketing and Promotions Committee
- Citrus Supply Chain Committee
- Biosecurity and National Resource Management Committee.

Growers would be voted onto an issues committee at the national body's AGM. Committee members would hold office for three years. Each committee would have one director representative from the national board based on the alignment of that director's skill set with the issues committee's area of specialisation. The issues committee would have the following composition:

- one representative from the national board of directors who specialises in the issues committee's area of focus
- one Navel Orange grower representative
- one Valencia Orange grower representative
- one Mandarin grower representative
- one grower representative who specialises in either Lemons, Limes or Grapefruit
- two independent representatives who specialise in the issues committee's area of focus.

By virtue of the issues committee's, growers of each citrus variety would therefore be represented at the executive level of the new national body.

5.2 Cost Benefit Analysis of Single Structure Option

5.2.1 Benefits

Strategic alignment

Under the assumed Single Structure Option, decisions could be made by a national board of directors in the best interests of the Australian citrus industry as a whole.

These decisions would then be implemented by the national body with the assistance of the regional branches.

This coordinated approach could help to ensure all citrus growing regions are aligned.

More efficient use of resources

Implementation of a Single Structure Option, with one national membership levy for all growers, would provide the national body with the opportunity to eliminate the current duplication of costs and services in the industry (particularly between ACG, the state statutory authorities and the larger grower bodies) thereby enhancing the efficient use of the industry's scarce resources and leading to economies of scale.

Improved accountability to growers

The roles and responsibilities of the new national body, its regional branches and the amended state statutory bodies would be more clearly defined leading to greater accountability to growers. The performance of these bodies could be monitored by specific key performance indicators reported to growers on an annual basis.

Enhanced grower participation

The assumed Single Structure Option would provide individual growers with direct membership of the new national body. Individual growers would be entitled to vote on the strategic direction and priorities of the national citrus industry as well as the composition of the national board of directors and issues committees, together with the regional branch committees. This may lead to increased grower participation and a greater sense of ownership of the national body. Through the issues committees, growers could also work actively with the national body to develop the citrus industry thereby creating the potential for greater alignment between the operations of the national body and citrus grower priorities.

5.2.2 Potential Issues for further discussion

Perceived competition between regions

We understand that a degree of competition currently exists between the citrus growing regions, with each region striving to promote and differentiate themselves from other citrus growing regions within Australia.

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Lack of grower support for ACG

The interviews we have conducted have revealed that growers are unsure of the value ACG provides to the Australian citrus industry. This may be due to a lack of effective communication by ACG to growers and the absence of clearly defined roles and responsibilities within the national industry.

Potential loss of regional focus

There is a potential risk that with the reduced roles of the state and regional bodies, the day to day grass roots contact and local focus within the citrus industry may deteriorate.

Grower representation on national board of directors

Discussions held with regional grower bodies have indicated that the grower bodies are concerned that citrus growers may not be adequately represented on the national board of directors. The regional grower bodies have intimated that without appropriate representation by growers the connection and relevance of a national body to the citrus industry may be lost.

State statutory authorities legislative requirements

The state statutory authorities in South Australia, Victoria and New South Wales currently operate under legislative authority. The proposed reduction in the operations of these bodies may not be in line with their legislative mandates.

National levy collection

Currently, each state operates a different levy collection system. In South Australia, New South Wales and Victoria the levies for both the state and regional bodies are collected by the state statutory authorities. In Western Australia, a state based body collects levies on behalf of WAFGA from stone fruit, apple, pear and citrus growers. In Queensland and the Northern Territory the levies or membership fees are collected directly by the regional grower bodies. The disparity in collection methods may make it difficult for a national body to transition the industry to a national membership levy.

Implementation costs

The Single Structure Option proposes structural changes to current citrus industry bodies, in particular the state statutory bodies. Accordingly, there will be costs associated with the implementation of these structural changes.

Revised membership fee

The Single Structure Option involves the implementation of a single national membership levy based on a set per tonne fee. In some regions, this may result in growers incurring a higher membership fee. This is likely to be opposed by those growers who may believe they already receive the suite of services to be provided by the national body at a lower cost.

Employees of state statutory authorities

Under the Single Structure Option, the employees of each state statutory authority would be reduced to one employee. The industry specific knowledge of these employees may therefore be lost to the citrus industry.

Single Structure Option - Cost Benefit Analysis

South Australian Citrus Industry Development Board supply chain representation

The SACIDB operates on behalf of South Australian citrus growers, packers, processors and wholesalers. Under the assumed Single Structure Option, SACIDB would lose their principle source of income and therefore be unable to operate on behalf of citrus packers, processors and wholesalers.

Western Australia Fruit Growers Association shared services

WAFGA, as the peak industry body for citrus, stone fruit and apples and pears in Western Australia, is able to achieve economies of scale by providing shared services across these three industry sectors. Under the assumed Single Structure Option, these economies of scale would reduce given the absence of funding from the citrus industry.

Northern Territory Citrus Growers membership of Northern Territory Horticulture Association

Citrus grower members of NTCG currently receive membership of the Northern Territory Horticulture Association as part of their membership fees. The assumed Single Structure Option may result in NTCG members losing their membership of the Northern Territory Horticulture Association as membership fees would no longer be paid to NTCG. Currently the Northern Territory Horticulture Association provides Northern Territory citrus growers with meeting rooms and local representation.

5.3 Financial analysis of Single Structure Option

5.3.1 Financial model assumptions

The Single Structure Option financial model is based on historic and forecast data provided by ACG, the state statutory authorities and regional grower bodies.

Assumptions were made to estimate the projected income and expenses of the national citrus industry under the assumed Single Structure Option.

A full list of these assumptions and a copy of the Single Structure Option financial model is provided in Appendix 3.

A brief overview of the key assumptions underlying the Single Structure Option financial model is provided below:

Citrus tonnage

The forecast tonnage for the 2007/08 season is based on crop estimates provided by regional grower bodies and the state statutory authorities. The projected tonnages for the 2008/09 season through to the 2011/12 season are based on projected estimates provided by Judith Damiani, Chief Executive Officer of ACG.

Operating expenses

We obtained copies of the latest available financial statements and budgets from ACG, the state statutory authorities and the regional grower bodies. These operating expenses were then used as the basis for estimating the annual operating expenses of each entity under the assumed Single Structure Option.

Mandatory national levies

For the purposes of the Single Structure Option model, we have excluded the income received as a result of the mandatory national levies, as outlined in Section 4.2.5.

Grower body reserves

The reserves held by grower bodies have been excluded from the Single Structure Option model.

Membership

We have assumed that all citrus growers who are currently members of a regional grower body would become members of the new national body.

National membership fee levy

We have assumed a national membership levy of \$4.50 per tonne of citrus. This membership levy was set so that the forecast annual membership levy income under the assumed Single Structure Option would be equivalent to the forecast annual membership income of the citrus industry under the Current Structure. The consistency in income between the Proposed Structural Options and the Current Structure was designed to facilitate comparisons between these structures.

Single Structure Option - Cost Benefit Analysis

5.3.2 Net Present Value

The NPV of the assumed Single Structure Option, based on the structural, operational and financial assumptions is **\$157,797**. This positive NPV outcome indicates that the assumed Single Structure Option is financially viable, assuming that the operating cash flow deficiency in years 2, 3 and 4 of the projected period can be funded.

Key points

- Included within the Single Structure Option financial model is an allowance for the expenses associated with the four issues committees. The financial model also provides for an additional 4.5 fulltime equivalent staff for the new national body.
- The increase in employees for the new national body may be offset by the decrease in staff at the state statutory authority level.
- The major area of financial gain under the assumed Single Structure Option is from rationalisation of the regional and state grower bodies.
- Citrus grower bodies operate as service providers to citrus growers and accordingly a major cost of grower bodies relates to their administration and management.
- The Current Structure comprises 13 separate citrus grower bodies providing similar services to growers.
- The Single Structure Option is assumed to minimise the administrative costs of the separate grower bodies by virtue of the national body becoming the sole body responsible for the management and administration of the national citrus industry.
- The regional grower bodies and state statutory bodies continue to exist but with a lower cost base.

The NPV of the Single Structure Option is based on a WACC of 12.0% and a Terminal Growth Rate of 2.5%.

The sensitivity of the NPV to changes in both the WACC and the Terminal Growth Rate is shown in the table below:

		Weighted Average Cost of Capital ==>				
		8.0%	10.0%	12.0%	14.0%	16.0%
Terminal Growth Rate ==>	0.5%	164,341	138,302	117,641	101,026	87,524
	1.5%	193,274	160,993	135,806	115,818	99,742
	2.5%	229,922	189,024	157,797	133,428	114,084
	3.5%	277,847	224,529	184,961	154,744	131,159
	4.5%	343,198	270,959	219,369	181,076	151,828

Single Structure Option - Cost Benefit Analysis

5.3.3 Sensitivity analysis

The table below provides an analysis of the sensitivity of the NPV of the Single Structure Option to changes in the projected citrus tonnage and assumed operating expenses.

		Citrus Tonnage==>						
		-20.0%	-10.0%	-5.0%	0%	+5%	+10%	+20%
Expenses==>	-20.0%	3,549,321	6,043,376	7,290,404	8,537,431	9,784,458	11,031,486	13,525,541
	-10.0%	(640,496)	1,853,559	3,100,586	4,347,614	5,594,641	6,841,669	9,335,723
	-5.0%	(2,735,404)	(241,350)	1,005,678	2,252,705	3,499,733	4,746,760	7,240,815
	0%	(4,830,313)	(2,336,258)	(1,089,231)	157,797	1,404,824	2,651,851	5,145,906
	+5%	(6,925,222)	(4,431,167)	(3,184,139)	(1,937,112)	(690,085)	556,943	3,050,998
	+10%	(9,020,130)	(6,526,075)	(5,279,048)	(4,032,021)	(2,784,993)	(1,537,966)	956,089
	+20%	(13,209,947)	(10,715,893)	(9,468,865)	(8,221,838)	(6,974,810)	(5,727,783)	(3,233,728)

The above table indicates that the NPV of the Single Structure Option is highly sensitive to changes in the projected citrus tonnages and operating expenses.

5.3.4 Limitations of the Financial Analysis

The financial data provided by citrus grower bodies varies in terms of the level of detail provided. Consequently, we were required to make assumptions regarding the allocation of costs to different operational areas to enable comparisons between the separate grower bodies. Grower bodies were also requested to make best estimate assumptions regarding the split of employee time between these operational areas.

In so far as our work related to the projections underlying the financial analysis, those projections, including their basis and assumptions, have been prepared by us based on financial information provided by ACG, the state statutory authorities and regional grower bodies.

We accept no responsibility for the projections, or the ultimate accuracy and realisation of the projections. We have not verified and do not provide an opinion on the accuracy of the assumptions explicitly or implicitly contained in the projections. Projections relate to events and actions that have not yet occurred and may not occur. There is therefore a considerable degree of subjective judgement involved in preparing projections as the underlying assumptions are subject to risks, uncertainties and contingencies that are often outside the control of the preparer. Indeed, the sensitivity analysis set out in this section demonstrates the impact on the projections of changes in key assumptions.

The projections are therefore only indicative of the financial performance that may be achievable. While evidence may be available to support the assumptions on which the projections are based, the assumptions are generally future-orientated and therefore speculative in nature.

Accordingly, there will usually be differences between the projected and actual results, as events and circumstances frequently do not occur as expected, and those differences may be material. For this reason, Deloitte expresses no opinion and makes no representation or warranty, express or implied, as to the accuracy or reliability of the projections or whether the projections will be achieved.

5.4 Single Structure Option strategic alignment

5.4.1 Single Structure Option SWOT analysis

Detailed below is a high level SWOT analysis of the assumed Single Structure Option.

Strengths	Opportunities
<ul style="list-style-type: none"> • National strategic alignment. • Committee led focus on national priorities. • Potential elimination of duplicated activities leading to more efficient use of scarce resources. • Enhanced sustainability and viability of industry. • Greater accountability to growers. 	<ul style="list-style-type: none"> • Growth in export market opportunities. • Ability to create an ‘Australian citrus’ brand in international markets. • Potential for increased grower participation. • Enhance agri-political lobbying. • Improved bargaining power with citrus supply chain participants. • Ability to manage natural resources and Biosecurity issues on a national basis in the best interests of the Australian citrus industry as a whole.
Weaknesses	Threats
<ul style="list-style-type: none"> • Current lack of support from growers for ACG. • Reduced regional focus. • Implementation costs. • Loss of industry knowledge associated with potential redundancies. • Potential loss of grower members due to change in membership fee structure. 	<ul style="list-style-type: none"> • Legislative requirements of state statutory authorities prevent restructure from succeeding.

Single Structure Option - Cost Benefit Analysis

5.4.2 Single Structure Option’s strategic alignment with Citrus 2015

The alignment of the Single Structure Option with the key strategic imperatives of Citrus 2015 is outlined below:

Citrus 2015 Strategic Imperative	Strategic alignment of Single Structure
1. Increase consumer demand for Australian citrus	<ul style="list-style-type: none"> • the Single Structure Option may facilitate more coordinated and effective marketing both domestically and internationally • cost savings due to eliminating duplication across the industry may free up resources for increased marketing • nationally coordinated international marketing may raise the profile of Australian branded citrus.
2. Improve industry competitiveness	<ul style="list-style-type: none"> • cost savings associated with eliminating existing duplication across the industry could fund a range of programs. These programs could include increased research and development, natural resource management and Biosecurity thereby enhancing industry competitiveness in international markets • nationally coordinated negotiations with supply chain participants may increase the collective bargaining power of growers.
3. Improve industry communication and information systems	<ul style="list-style-type: none"> • the regional branches and issues committees would be charged with ensuring local issues are escalated and addressed and that all growers are provided with a voice • nationally coordinated external communications with customers, suppliers and governments would help to ensure a consistent message is presented that aligns with the strategic direction of the industry nationally and is in the collective best interest of growers.
4. Enhance capability of our industry and leadership	<ul style="list-style-type: none"> • elimination of the current duplication of full and part time resources across the industry and the aggregation of revenues nationally provides the opportunity to meet the needs of the industry by employing the most appropriately qualified personnel on a full time basis thereby enhancing the leadership and capability of the industry. The same opportunity would exist in relation to non-executive industry roles.

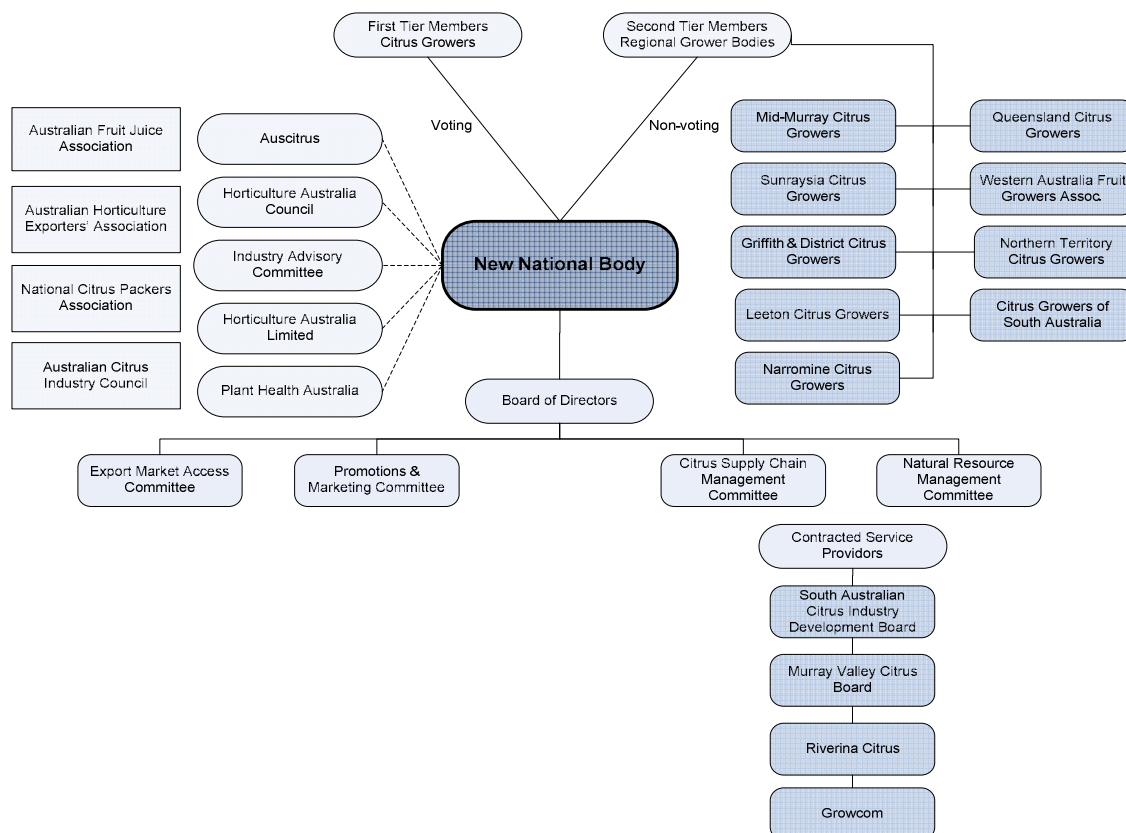
6 Multiple Structure Option - Cost Benefit Analysis

6.1 Assumed Multiple Structure Option organisational structure

The assumed Multiple Structure Option, illustrated in the diagram below, is principally based on the structure outlined in the Green Paper. We adopted the Multiple Structure Option proposed in that document and, as a consequence of additional information provided to us by the various industry bodies, assumed the Multiple Structure Option is constructed as shown below for the purposes of preparing the comparative cost-benefit analysis of this structural option.

To estimate the revenues and costs associated with the implementation of this structural option we adopted a number of assumptions based on:

- information provided by ACG, state statutory authorities and regional grower bodies
- discussions with representatives of these industry bodies and
- high level information relating to comparable citrus, horticultural and agricultural bodies.



NB: A dotted line represents a commercial relationship between the New National Body and the entity.

Multiple Structure Option - Cost Benefit Analysis

Note: The assumed Multiple Structure Option illustrated above is an assumed organisational structure only for the purpose of conducting the cost benefit analysis and considering the financial viability of this option. The assumed Multiple Structure Option illustrated above is not a recommended organisational structure for this option. The detailed discussion of items from Section 6.1.1 to Section 6.1.10 below are similarly not recommendations but represent possible descriptions of these items for this option. Please refer to Section 3.1 for further discussion in relation to this structure.

6.1.1 The role of a new national citrus grower body

Under the assumed Multiple Structure Option a national peak citrus grower body would be ultimately responsible for decision making on the national issues outlined in Section 5.1.1.

The new national body would work in consultation with the state statutory authorities and regional grower bodies with a view to coordinating and aligning the actions of all bodies.

6.1.2 The role of a state statutory authority

Under the assumed Multiple Structure Option the citrus marketing and promotion, export market access and Biosecurity activities undertaken by the state statutory authorities would be coordinated at a national level.

The state statutory authorities would enter into service level agreements with the national body to provide funding for national marketing and promotion activities as well as and export market access initiatives.

6.1.3 The role of a regional grower body

Under the assumed Multiple Structure Option the current regional grower bodies would be maintained, with the amalgamation of multiple grower bodies in single regions encouraged.

The regional grower bodies would act solely in a grower support capacity and as an information dissemination point. All other activities such as agri-political lobbying, marketing and promotion activities and export market access initiatives would be ceded to the national body.

Regional grower bodies that currently have operations in addition to regional grower support and information dissemination would enter into service level agreements with the national body and provide the funds formerly used for these activities to the national body.

6.1.4 Definition of a grower body's responsibilities

Under the assumed Multiple Structure Option the responsibilities of each grower body would be based on the outline provided in Sections 6.1.1 to 6.1.3.

6.1.5 Membership structure

Under the assumed Multiple Structure Option citrus growers would be given the option to join the national body individually and thereby become a 'first tier' member of the national body with direct voting rights in relation to the national board of directors, issues committees and at annual general meetings.

Multiple Structure Option - Cost Benefit Analysis

The regional grower bodies would form a second tier of non-voting membership. The regional grower bodies would have a right to raise issues with the national body, but would not obtain any voting rights.

The state statutory authorities and the horticulture association would become contracted service providers to the citrus industry. This would provide state statutory authorities with a right to raise issues with the national body, but would not provide them with any voting rights.

6.1.6 Membership fees

Under the assumed Multiple Structure Option there would be minimal change from the levy structure associated with the Current Structure. In addition to the current state and regional fees and levies, citrus growers holding direct first tier membership of the national body would pay a voluntary levy based on a set fee per tonne. The first tier membership levy would be collected by the new national body at the point of sale from packers and in-line with production. The membership levy would be collected inline with a grower's cash flow.

The current membership fee of \$0.55 per tonne for voluntary membership of ACG provides regional bodies with membership of ACG. This membership fee is effectively paid by the growers, however the growers do not individually obtain direct membership of the national body.

Under the assumed Multiple Structure Option, regional grower body membership fees for the new national body would be based on a fee per tonne of citrus produced by the regional grower body members.

Members who manage non-fruit bearing hectares of citrus would pay no membership fees to the national body but would receive membership benefits.

6.1.7 Voting rights

As with the Single Structure Option, first tier members voting rights would be based on a weighted system whereby the weighting of each member's vote would be based on the number of citrus bearing hectares managed.

6.1.8 A national board of directors

Refer Section 5.1.9 for the Single Structure Option.

Grower representatives would be nominated by:

- regional grower bodies and
- 'first tier' grower members of the national body.

6.1.9 A regional grower body's board of directors

The current boards of the regional grower bodies would be maintained and funded by the regional grower bodies.

6.1.10 Issues committees

Refer Section 5.1.11 for the Single Structure Option.

6.2 Cost Benefit Analysis of Multiple Structure Option

6.2.1 Benefits

Strategic alignment

Under the assumed Multiple Structure Option, the new national body would be responsible for national policy setting. Funding would be provided by state statutory authorities and regional grower bodies for marketing and promotional activities and export market access initiatives under specific service level agreements.

National coordination of industry wide issues could improve alignment of the operations of the various grower bodies.

More efficient use of resources

Service level agreements that clearly define which entity is responsible for the provision of services to growers could help reduce the current duplication of services between the national, state and regional bodies. The cooperation between the national body and the state and regional bodies on national priorities may also result in funding being able to be used more effectively.

Enhanced grower participation

Refer Section 5.2

Minimal change to current structure

The assumed Multiple Structure Option would involve minimal changes from the Current Structure and thereby minimal implementation costs.

6.2.2 Potential Issues for further discussion

Limited efficiency gains

Under the assumed Multiple Structure Option, the existing citrus grower bodies would continue to operate resulting in resource 'wastage' for the industry as a whole due to the administrative costs of continuing to operate each individual grower body.

Inequity of membership fees between growers

Each regional and state body has their own membership and levy structure. Under the assumed Multiple Structure Option, these membership fees and levies would be maintained thereby continuing the current inequity between growers.

No significant increase in funding for the national body

Under the assumed Multiple Structure Option, the national body would not receive a material increase in funds.

Currently the operations of the national body are limited by the funding it receives. If the new national body does not receive a material increase in funding the ability to implement significant initiatives for the Australian citrus industry (such as those outlined in Section 5.1) would be limited.

Multiple Structure Option - Cost Benefit Analysis

Additional Membership fee

Under the assumed Multiple Structure Option growers would be required to pay an additional levy to become direct members of the national body. This is likely to be opposed by growers who believe they already receive the suite of services that would be provided by the national body under the Multiple Structure Option.

Representation on national board of directors

Refer Section 5.2.2.

Efficient collection of membership fees for QCG

In Queensland, the regional grower body, QCG, collects membership fees direct from citrus grower members. This membership collection process is costly and time consuming. This membership fee system would be maintained under the assumed Multiple Structure Option potentially preventing QCG from maximising the services it is able to provide to its growers.

6.3 Financial analysis of Multiple Structure Option

6.3.1 Financial model assumptions

The Multiple Structure Option financial model is based on historic and forecast data provided by ACG, the state statutory authorities and regional grower bodies.

Assumptions were made to estimate the future income and expenses of the national citrus industry under the assumed Multiple Single Structure Option.

A full list of these assumptions and a copy of the Multiple Structure Option financial model is provided in Appendix 4.

A brief overview of the key assumptions underlying the Multiple Structure Option financial model is provided below:

Citrus tonnage

Refer Section 5.3.1.

Operating expenses

Refer Section 5.3.1.

Mandatory national levies

Refer Section 5.3.1.

Grower body reserves

Refer Section 5.3.1.

Membership

We have assumed that all citrus growers who are currently members of a regional grower body would remain members of that regional grower body under the assumed Multiple Structure Option.

No assumption has been made in relation to the number of direct members of the new national body. Rather it has been assumed that the total membership fee income received by the new national body from the combination of direct first tier grower members and second tier regional grower bodies would be consistent with the current membership fee income received by ACG.

Membership fees and levies

We have assumed that the current membership fees and levies would be maintained by each citrus grower body under the assumed Multiple Structure Option. This assumption was made to enable comparison between the Current Structure and the assumed Single Structure Option and the Multiple Structure Option.

Multiple Structure Option - Cost Benefit Analysis

6.3.2 Net Present Value

The NPV of the Multiple Structure Option is **negative \$12,589,554**. This NPV compares negatively with the Current Structure NPV of **negative \$9,751,172**.

Key points

- The disparity between the NPV of the Current Structure and the assumed Multiple Structure Option largely reflects the funding required for the four issues committees to be set up by the national body under the Multiple Structure Option. Funding for the issues committees was included to help the assumed Multiple Structure Option meet the key objectives of ACG.
- The NPV of the assumed Multiple Structure Option indicates that this option is not financially viable.
- The assumed Multiple Structure Option assumes minimal change from the Current Structure. Accordingly, the continued operation of the 13 grower bodies currently serving the national citrus industry is assumed.
- The citrus grower bodies operate as service providers to citrus growers and, as such, a major cost of each grower body is the administration and management of each organisation. The administration and management costs of each citrus grower body are assumed to remain largely constant under the Multiple Structure Option. *Accordingly, the assumed cost savings associated with this structure are negligible.*
- The current duplication of services could be reduced via the implementation of service line agreements between the citrus grower bodies and the national body. The funds released may enable the national citrus industry to devote more resources to developing the industry.

The NPV of the Multiple Structure Option is based on an assumed WACC of 12.0% and a Terminal Growth Rate of 2.5%.

The sensitivity of the NPV of the Multiple Structure Option to changes in both the WACC and the Terminal Growth Rate is shown in the table below:

		Weighted Average Cost of Capital ==>				
		8%	10%	12.0%	14%	16%
Terminal Growth Rate ==>	0.5%	(13,293,205)	(12,087,751)	(11,091,015)	(10,252,943)	(9,538,307)
	1.5%	(14,372,911)	(12,934,548)	(11,768,926)	(10,804,944)	(9,994,252)
	2.5%	(15,740,539)	(13,980,591)	(12,589,554)	(11,462,088)	(10,529,491)
	3.5%	(17,528,975)	(15,305,579)	(13,603,272)	(12,257,579)	(11,166,680)
	4.5%	(19,967,752)	(17,038,256)	(14,887,314)	(13,240,244)	(11,938,014)

Multiple Structure Option - Cost Benefit Analysis

6.3.3 Sensitivity analysis

The table below provides an analysis of the sensitivity of the NPV of the Multiple Structure Option to changes in the assumed citrus tonnage and operating expenses.

		Citrus Tonnage==>						
		-20.0%	-10.0%	-5.0%	0%	+5%	+10%	+20%
Expenses==>	-20.0%	(9,797,078)	(7,267,655)	(6,002,944)	(4,738,233)	(3,473,522)	(2,208,810)	320,612
	-10.0%	(13,722,739)	(11,193,316)	(9,928,605)	(8,663,894)	(7,399,182)	(6,134,471)	(3,605,048)
	-5.0%	(15,685,569)	(13,156,147)	(11,891,435)	(10,626,724)	(9,362,013)	(8,097,301)	(5,567,879)
	0%	(17,648,399)	(15,118,977)	(13,854,266)	(12,589,554)	(11,324,843)	(10,060,132)	(7,530,709)
	+5%	(19,611,230)	(17,081,807)	(15,817,096)	(14,552,385)	(13,287,673)	(12,022,962)	(9,493,539)
	+10%	(21,574,060)	(19,044,638)	(17,779,926)	(16,515,215)	(15,250,504)	(13,985,792)	(11,456,370)
	+20%	(25,499,721)	(22,970,298)	(21,705,587)	(20,440,876)	(19,176,164)	(17,911,453)	(15,382,031)

The sensitivity table demonstrates that the NPV of the Multiple Structure Option is highly sensitive to changes in assumed of citrus tonnage and operating expenses.

To enable the collective citrus grower bodies to breakeven under the assumed Multiple Structure Option either operating expenses would need to decrease by 32.1% or the citrus tonnage would need to increase by 49.8%. Alternatively, membership fees and levies paid by citrus growers would need to increase by 49.8%.

Services to growers would have to reduce significantly to enable a 32.1% reduction in operating expenses and it is highly unlikely that citrus growers would continue to hold membership in citrus grower bodies at the current fee and levy charges if services were reduced and/or if membership fees were increased by close to 50%.

6.3.4 Limitations of financial analysis

Refer Section to 5.3.4.

6.4 Multiple Structure Option strategic alignment

6.4.1 Multiple Structure Option SWOT analysis

Detailed below is a SWOT analysis of the assumed Multiple Structure Option.

Strengths	Opportunities
<ul style="list-style-type: none"> • Minimal change for growers. • Committee led focus on national initiatives. • Improved national strategic alignment. 	<ul style="list-style-type: none"> • Growth in export market access. • Ability to create an ‘Australian Citrus’ brand in international markets. • Potential increased grower participation.
Weaknesses	Threats
<ul style="list-style-type: none"> • Requires full cooperation of state statutory authorities and regional grower bodies to succeed. • Fails to deliver on member requests in May 2005 for a review of the Current Structure. • Inequalities among growers in terms of membership fees and levies remain. • Limited efficiency gains or economies of scale. • No increase in funding for national body to apply to industry-wide issues. • Inefficiencies regarding collection of QCG membership fees remain. • Financially unsustainable. 	<ul style="list-style-type: none"> • Legislative requirements of state statutory authorities prevent elements of restructure from succeeding.

Multiple Structure Option - Cost Benefit Analysis

6.4.2 Multiple Structure Option’s strategic alignment with Citrus 2015

The alignment of the Multiple Structure Option with the key strategic imperatives of Citrus 2015 is outlined in the table below:

Citrus 2015 Strategic Imperative	Strategic alignment of Multiple Structure Option
1. Increase consumer demand for Australian citrus	<ul style="list-style-type: none"> refer Section 5.4.2.
2. Improve industry competitiveness	<ul style="list-style-type: none"> refer Section 5.4.2.
3. Improve industry communication and information systems	<ul style="list-style-type: none"> the role of the national body and its issues committees would provide the opportunity for improved communication to growers around matters of interest to the industry as a whole both domestically and internationally.
4. Enhance capability of our industry and leadership	<ul style="list-style-type: none"> service line agreements may be put in place between citrus grower bodies to improve the alignment of the strategies of all organisations within the citrus industry. Increased alignment and cooperation among the grower bodies would enhance the capability of the industry in meeting the needs of growers and responding to and driving demand for Australian citrus both within Australia and abroad.

7 Comparative analysis

7.1.1 Financial comparison

The projected revenues and expenses associated with the Current Structure and the Proposed Structural Options are outlined below.

Current Structure

	Year 1	Year 2	Year 3	Year 4	Year 5
	\$	\$	\$	\$	\$
Revenues					
Net Membership Fee Income	2,382,227	2,281,514	2,327,144	2,373,687	2,530,570
Other Income	1,067,197	1,083,853	1,105,530	1,127,640	1,152,461
Revenues	3,449,424	3,365,367	3,432,674	3,501,328	3,683,031
Expenses					
Board of Directors Expense	(422,829)	(431,285)	(439,911)	(448,709)	(457,683)
Issues Committee's Expense	-	-	-	-	-
Marketing Expense	(390,546)	(396,750)	(403,078)	(409,532)	(416,116)
Market Access Expense	(245,239)	(248,335)	(251,492)	(254,713)	(257,998)
Agri-Political Expense	(86,781)	(87,230)	(87,688)	(88,155)	(88,631)
Industry Data Collation and Dissemination Expense	(803,790)	(816,942)	(830,357)	(844,040)	(857,997)
Grower Support Expense	(467,209)	(474,165)	(481,260)	(488,498)	(495,880)
Biosecurity Expense	(101,744)	(103,270)	(104,827)	(106,415)	(108,035)
Administrative Expense	(1,820,105)	(1,848,071)	(1,876,597)	(1,905,693)	(1,935,370)
Expenses	(4,338,242)	(4,406,048)	(4,475,210)	(4,545,755)	(4,617,711)
Earnings before tax, depreciation and amortisation (EBITDA)	(888,818)	(1,040,681)	(1,042,536)	(1,044,427)	(934,680)
Add/(Less): Movement in working capital	104,652	6,341	76	78	(4,615)
Cash flows from operating activities	(784,166)	(1,034,341)	(1,042,460)	(1,044,350)	(939,295)
Less: Capital expenditure	-	-	-	-	-
Free cash flow	(784,166)	(1,034,341)	(1,042,460)	(1,044,350)	(939,295)
Terminal value					(10,134,499)
Free cash flow plus terminal value	(784,166)	(1,034,341)	(1,042,460)	(1,044,350)	(11,073,794)
Discount factor applied (WACC of 12.0% p.a.)	0.945	0.844	0.753	0.673	0.601
Discounted free cash flows plus terminal value	(740,967)	(872,643)	(785,261)	(702,397)	(6,649,903)
Net Present Value	(9,751,172)				

Note: Subject to rounding differences

The Current Structure produces a negative EBITDA result for each projected period.

The major drivers of the negative EBITDA result are as follows:

- no annual net membership fee income growth in years 1 to 4
- high costs associated with industry data collection and dissemination
- duplicate administrative expenses.

The projected negative EBITDA result produces net cash outflows for each year in the projected period examined.

Assuming a WACC of 12.0% and a Terminal Growth Rate of 2.5%, the NPV of the Current Structure is significantly negative.

The negative NPV suggests that the Current Structure is **not financially viable** without a significant increase in revenues or a substantial reduction in expenses.

Comparative analysis

Assumed Single Structure Option

	Year 1	Year 2	Year 3	Year 4	Year 5
	\$	\$	\$	\$	\$
Revenues					
Net Membership Fee Income	2,420,920	2,239,131	2,283,914	2,329,592	2,487,540
Other Income	1,017,890	1,038,247	1,059,012	1,080,193	1,101,796
Total revenues	3,438,810	3,277,378	3,342,926	3,409,784	3,589,337
Expenses					
Board of Directors Expense	(443,700)	(452,574)	(461,625)	(470,858)	(480,275)
Issues Committee's Expense	(323,340)	(329,807)	(336,403)	(343,131)	(349,994)
Marketing Expense	(315,026)	(320,126)	(325,328)	(330,634)	(336,046)
Market Access Expense	(173,556)	(175,596)	(177,677)	(179,799)	(181,964)
Agri-Political Expense	(49,596)	(50,045)	(50,503)	(50,970)	(51,446)
Industry Data Collation and Dissemination Expense	(551,549)	(559,715)	(568,044)	(576,539)	(585,204)
Grower Support Expense	(499,609)	(506,288)	(513,100)	(520,048)	(527,136)
Biosecurity Expense	(76,500)	(78,030)	(79,591)	(81,182)	(82,806)
Administrative Expense	(908,720)	(920,363)	(932,238)	(944,352)	(956,707)
Total expenses	(3,341,596)	(3,392,543)	(3,444,509)	(3,497,514)	(3,551,579)
Earnings before tax, depreciation and amortisation (EBITDA)	97,213	(115,165)	(101,583)	(87,729)	37,758
Add/(Less): Movement in working capital	64,717	8,728	(548)	(559)	(5,144)
Cash flows from operating activities	161,930	(106,437)	(102,131)	(88,288)	32,614
Less: Capital expenditure	-	-	-	-	-
Free cash flow	161,930	(106,437)	(102,131)	(88,288)	32,614
Terminal value					351,889
Free cash flow plus terminal value	161,930	(106,437)	(102,131)	(88,288)	384,504
Discount factor applied (WACC of 12.0% p.a.)	0.945	0.844	0.753	0.673	0.601
Discounted free cash flows plus terminal value	153,010	(89,797)	(76,933)	(59,380)	230,898
Net Present Value	157,797				

Note: Subject to rounding differences

Relative to the Current Structure, the assumed Single Structure Option produces a comparatively high positive EBITDA result and free cash flow in the first forecast period.

The major driver of the fluctuation cash flows over the projection period is the movement in projected net membership fee income.

The comparatively high free cash flow in the first period combined with the positive free cash flow in the final projected period produces a positive NPV for the assumed Single Structure Option.

The NPV is calculated based on an assumed WACC of 12.0% and a Terminal Growth Rate of 2.5%.

The positive NPV suggests that the Single Structure is a **financially viable structure over the longer term** provided that the projected cash flow deficits in years 3, 4 and 5 can be funded.

Comparative analysis

Assumed Multiple Structure Option

	Year 1	Year 2	Year 3	Year 4	Year 5
	\$	\$	\$	\$	\$
Revenues					
Net Membership Fee Income	2,382,227	2,281,514	2,327,144	2,373,687	2,530,570
Other Income	1,067,197	1,083,853	1,105,530	1,127,640	1,152,461
Total revenues	3,449,424	3,365,367	3,432,674	3,501,328	3,683,031
Expenses					
Board of Directors Expense	(570,729)	(582,143)	(593,786)	(605,662)	(617,775)
Issues Committee's Expense	(323,340)	(329,807)	(336,403)	(343,131)	(349,994)
Marketing Expense	(239,579)	(242,887)	(246,261)	(249,703)	(253,213)
Market Access Expense	(112,225)	(113,857)	(115,522)	(117,219)	(118,951)
Agri-Political Expense	(49,596)	(50,045)	(50,503)	(50,970)	(51,446)
Industry Data Collation and Dissemination Expense	(793,697)	(805,830)	(818,204)	(830,827)	(843,701)
Grower Support Expense	(550,941)	(558,917)	(567,053)	(575,351)	(583,816)
Biosecurity Expense	(101,744)	(103,270)	(104,827)	(106,415)	(108,035)
Administrative Expense	(1,869,246)	(1,893,350)	(1,917,937)	(1,943,016)	(1,968,596)
Total expenses	(4,611,096)	(4,680,106)	(4,750,495)	(4,822,293)	(4,895,527)
Earnings before tax, depreciation and amortisation (EBITDA)	(1,161,671)	(1,314,739)	(1,317,821)	(1,320,966)	(1,212,496)
Add/(Less): Movement in working capital	115,834	6,421	127	129	(4,594)
Cash flows from operating activities	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(1,217,090)
Less: Capital expenditure	-	-	-	-	-
Free cash flow	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(1,217,090)
Terminal value					(13,131,755)
Free cash flow plus terminal value	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(14,348,845)
Discount factor applied (WACC of 12.0% p.a.)	0.945	0.844	0.753	0.673	0.601
Discounted free cash flows plus terminal value	(988,223)	(1,103,790)	(992,590)	(888,354)	(8,616,598)
Net Present Value	(12,589,554)				

Note: Subject to rounding differences

The assumed Multiple Structure Option produces a negative EBITDA result for each projected period.

The major drivers of the negative EBITDA result are as follows:

- the creation of issues committees expenses
- high costs associated with industry data collection and dissemination
- duplicate administrative expenses.

The ongoing negative EBITDA result produces free cash outflows for each period examined and a negative Terminal Value.

Based on an assumed WACC of 12.0% and a Terminal Growth Rate of 2.5%, the NPV of the assumed Multiple Structure Option is negative.

The negative NPV suggests that the assumed Multiple Structure Option proposed is not financially viable.

The lower NPV of the assumed Multiple Structure Option compared to the Current Structure largely reflects the costs associated with funding the four issues committees.

7.1.2 Structural alignment

The ability of the Proposed Structural Options to address the key objectives of the national citrus industry and ACG provides an indication of the suitability of each structural option.

As stated on ACG’s website, the key objectives of ACG are:

- to be the national agri-political body for the Australian citrus industry. ACG aim to represent the citrus growers of Australia to all forms of government and representative bodies
- to create and implement national policies for the betterment of the Australian citrus industry in consultation with the citrus growers of Australia
- the collection, collation and distribution of citrus industry statistics and data
- to be the peak representative body for Australian citrus growers to the wider community, including commercial bodies
- the development and promotion of the Australian citrus industry both domestically and internationally
- to be the peak coordinating body for citrus research and development. ACG seek to ensure that programs are undertaken for the betterment of the national citrus industry and that the knowledge developed by these programs is transferred to the citrus growers of Australia.

In addition to the key objectives of ACG, to enable the proposed restructure to succeed, consideration should be given to the maintenance of the current levels of grower services, the participation of citrus growers in the national body and the financial viability of the Proposed Structural Options.

We have discussed the Proposed Structural Options with ACG and have endeavoured to summarise in the table below the information and other feedback we have received in relation to how the Proposed Structural Options address ACG’s key objectives and the fundamental considerations of the restructure. This information can be considered subjective and should be further analysed and verified as part of ACG’s decision making process.

	Single Structure Option	Multiple Structure Option
Effective Agri-Political Representation	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • National body would be the sole body responsible for agri-political activities. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Possibility the new national body may not be recognised by government bodies. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • National body would be the sole body responsible for agri-political activities. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Success is dependant on the cooperation of the regional grower bodies.

Comparative analysis

<p>National Policy Creation and Implementation</p>	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> Policy would be set nationally and implemented regionally by the regional branches. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> Relies on the regional grower bodies effectively transitioning to regional branches. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> National policy would be set in consultation with the regional grower bodies and state statutory authorities. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> Reliant on state statutory authorities and regional grower bodies working collaboratively with the national body.
<p>Citrus Industry Data Collection and Dissemination</p>	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> Has the potential to enhance the data collection and dissemination system that is currently used by the Australian citrus industry. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> The legislative requirements of the state statutory authorities may prevent them from operating on a fee for service basis. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> The current system of data collection and dissemination is maintained. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> The inefficient data collection systems in Western Australian and Queensland (where there are no statutory authorities) would remain.
<p>National Peak Representative Body</p>	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> The national body would be the sole peak representative body whose operations would be enhanced by the focus of the Supply Chain Management Committee on the development of relationships with citrus supply chain members. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> Citrus supply chain members may not recognise the new national body as the peak representative body. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> The Supply Chain Management Committee may enhance the current focus on the development of relationships with members of the citrus supply chain. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> The contribution of the national body could be constrained by the continuation of the state statutory authorities and the regional grower bodies, leading to potential duplication and inconsistent messages.
<p>Development and Promotion of the Australian Citrus Industry</p>	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> Potential to nationally coordinate programs and increase focus on 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> Potential to nationally coordinate programs and increase focus on

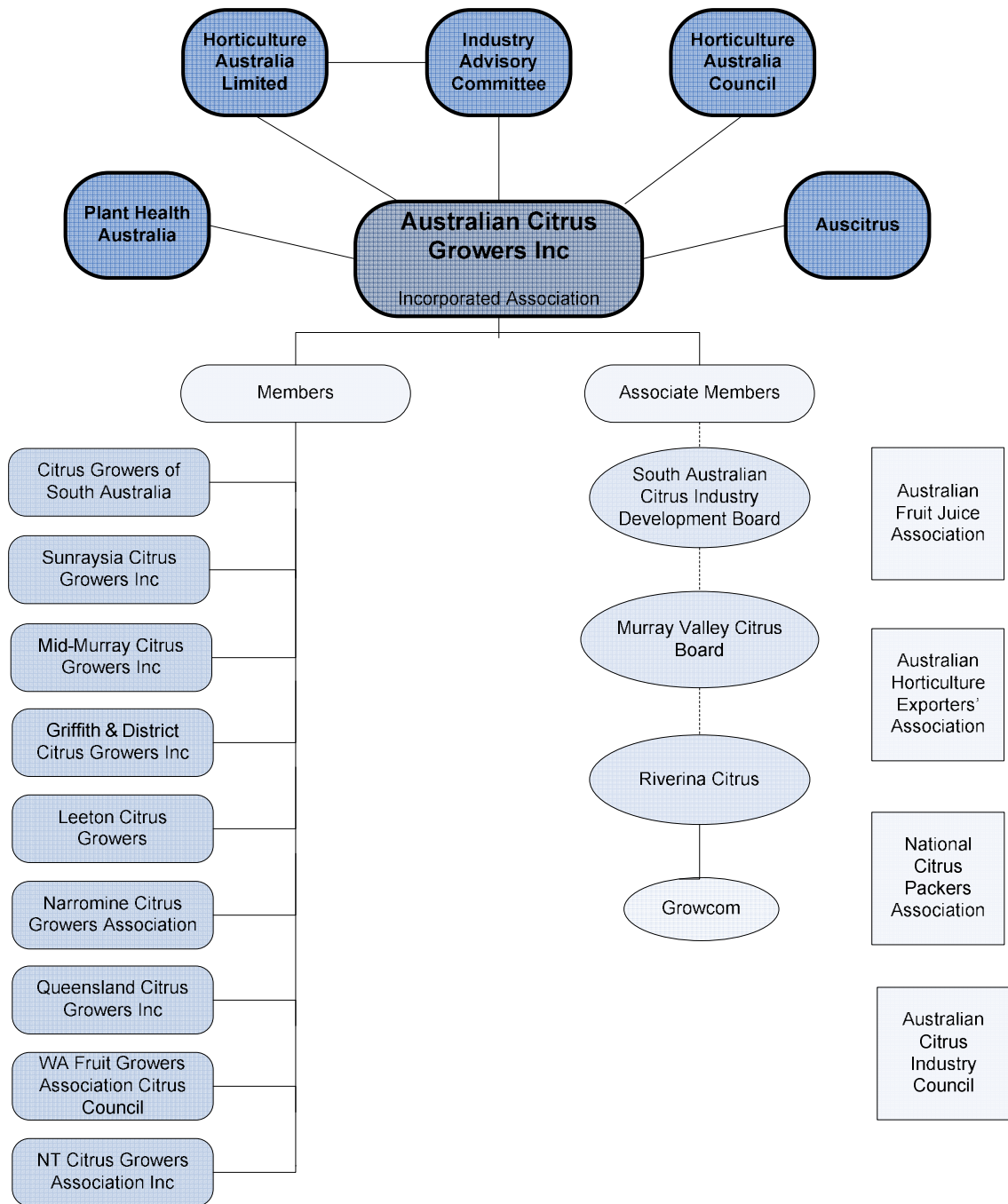
Comparative analysis

	<p>internal and external markets via the issues committees.</p> <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Potential loss of regional focus. 	<p>internal and external markets via the issues committees.</p> <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Success is dependant on cooperation of regional grower bodies and state statutory bodies.
Peak Research and Development Coordinating Body	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • The new national body would have sole responsibility and increased funding to dedicate to research and development activities. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Government bodies may not recognise the new body as the peak industry citrus grower body. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • Maintenance of current recognition by government bodies as peak citrus grower body. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Duplication of services may restrict funding available for industry-wide research and development spending.
Increased Grower Participation	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • All growers would become direct members of the new national body. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Grower may not wish to become members of the new national body. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • Growers provided with the option of becoming direct members of the national body. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Growers may not wish to pay additional membership fees to become a direct member of the new national body.
Maintenance of Grower Services	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • Regional grower bodies' service provision to growers maintained via national body and regional branches. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Perceived reduction in grower services due to diminished role of state statutory authorities and regional grower bodies. 	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> • Current levels of services to growers maintained. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> • Inefficient use of resources.

Comparative analysis

<p>Financially Viable</p>	<p>Objective achieved Y/N? YES</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> Assumed structure provides a positive NPV, indicating a financially feasible structure. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> Accuracy of underlying assumptions. 	<p>Objective achieved Y/N? NO</p> <p>Major Benefit?</p> <ul style="list-style-type: none"> N/a. <p>Possible Weakness/ Threats?</p> <ul style="list-style-type: none"> Structure is not financially viable.
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Appendix 1 – National Citrus Industry – Current Structure



Appendix 2 – Current Structure model

Current Structure model																																																																																											
DATA ASSUMPTIONS																																																																																											
1.0	GENERAL ASSUMPTIONS																																																																																										
1.01	<p>Model Term Assumptions It is assumed that the term of the model is 5 years and that the start date of the model is 31 Dec 2007. It is assumed that the model will be calculated on an annual basis.</p>																																																																																										
1.02	<p>Conversions Assumes that each carton weighs 15kg, therefore conversion into tonnes is 15/1000</p>																																																																																										
1.03	<p>Employee Assumptions Is assumed that all bodies do not exceed the payroll tax threshold, hence payroll tax has been excluded as an on-cost for the purposes of this model.</p>																																																																																										
2.0	ECONOMIC ASSUMPTIONS																																																																																										
2.01	<p>Inflation assumptions For the purposes of the model an annual inflation rate of 2.0% has been assumed. For the purposes of the model an annual employee wage inflation rate of 0.0% has been assumed.</p>																																																																																										
3.0	INCOME ASSUMPTIONS																																																																																										
3.01	<p>Citrus Tonnage Membership tonnage for 2006/07 and 2007/08 sourced from 2007 member contribution budget provided by Raylene Kemp (Finance and Project Manager, ACG) State bodies tonnage for 2006/07 and 2007/08 sourced from 'Australian Citrus Production' Forecast for 2007/08 provided by Raylene Kemp (Finance and Project Manager, ACG) Tonnage for State bodies post 2007/08 is based on estimate of total tonnage provided by Judith Damiani (CEO, ACG) and weighted based on previous years. Oranges tonnage for State Bodies is based on the average percentage of oranges to total crop for the 2006/07 and 2007/08 seasons, applied to the estimated total tonnage Tonnage for member bodies post 2006/07 is based on the estimated percentage change in the national tonnage for that year, with the exclusion of WA who provided their own crop estimates. The annual citrus tonnage forecast for each regional grower body based on 3 March 2008 estimates is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>MMCG</th> <th>SCG</th> <th>GDCG</th> <th>LCG</th> <th>NCG</th> <th>CGSA</th> <th>QCG</th> <th>WAFGA</th> <th>NTCG</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>FY 07/08</td> <td>10,000</td> <td>125,000</td> <td>120,500</td> <td>69,500</td> <td>6,000</td> <td>162,000</td> <td>100,000</td> <td>17,500</td> <td>500</td> <td>611,000</td> </tr> <tr> <td>FY 08/09</td> <td>8,550</td> <td>106,873</td> <td>103,026</td> <td>59,421</td> <td>5,130</td> <td>138,508</td> <td>85,498</td> <td>20,000</td> <td>427</td> <td>527,434</td> </tr> <tr> <td>FY 09/10</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> <tr> <td>FY 10/11</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> <tr> <td>FY 11/12</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> </tbody> </table> <p>The annual citrus tonnage forecast for the state statutory authorities is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>RC</th> <th>MVCB</th> <th>SACIDB</th> </tr> </thead> <tbody> <tr> <td>FY 07/08</td> <td>190,000</td> <td>135,000</td> <td>170,000</td> </tr> <tr> <td>FY 08/09</td> <td>125,000</td> <td>131,000</td> <td>144,000</td> </tr> <tr> <td>FY 09/10</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> <tr> <td>FY 10/11</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> <tr> <td>FY 11/12</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> </tbody> </table>		MMCG	SCG	GDCG	LCG	NCG	CGSA	QCG	WAFGA	NTCG	TOTAL	FY 07/08	10,000	125,000	120,500	69,500	6,000	162,000	100,000	17,500	500	611,000	FY 08/09	8,550	106,873	103,026	59,421	5,130	138,508	85,498	20,000	427	527,434	FY 09/10	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263	FY 10/11	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263	FY 11/12	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263		RC	MVCB	SACIDB	FY 07/08	190,000	135,000	170,000	FY 08/09	125,000	131,000	144,000	FY 09/10	128,257	108,306	127,850	FY 10/11	128,257	108,306	127,850	FY 11/12	128,257	108,306	127,850
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3.02	<p>Citrus Grower Members It is assumed that the regional grower bodies have the following members:</p> <table border="1"> <thead> <tr> <th>Regional grower body</th> <th>Number of members</th> </tr> </thead> <tbody> <tr> <td>Mid-Murray Citrus Growers</td> <td>12 members</td> </tr> <tr> <td>Sunraysia Citrus Growers</td> <td>300 members</td> </tr> <tr> <td>Griffith & District Citrus Growers</td> <td>320 members</td> </tr> <tr> <td>Leeton Citrus Growers</td> <td>220 members</td> </tr> <tr> <td>Narromine Citrus Growers</td> <td>3 members</td> </tr> <tr> <td>Citrus Growers of South Australia</td> <td>680 members</td> </tr> <tr> <td>Queensland Citrus Growers</td> <td>64 members</td> </tr> <tr> <td>WA Fruit Growers Assoc - Citrus Council</td> <td>200 members</td> </tr> <tr> <td>NT Citrus Growers Assoc</td> <td>12 members</td> </tr> <tr> <td>Total Members</td> <td>1811 members</td> </tr> </tbody> </table>	Regional grower body	Number of members	Mid-Murray Citrus Growers	12 members	Sunraysia Citrus Growers	300 members	Griffith & District Citrus Growers	320 members	Leeton Citrus Growers	220 members	Narromine Citrus Growers	3 members	Citrus Growers of South Australia	680 members	Queensland Citrus Growers	64 members	WA Fruit Growers Assoc - Citrus Council	200 members	NT Citrus Growers Assoc	12 members	Total Members	1811 members																																																																				
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4.0	BALANCE SHEET ASSUMPTIONS																																																																																										
4.01	<p>Balance Sheet Assumptions For the purposes of the model only the balance sheet of ACG has been included.</p>																																																																																										
4.02	<p>Interest Rate Assumptions For the purposes of the model a Cash at Bank interest rate of 6.5% has been used. For the purposes of the model an overdraft interest rate of 9.5% has been used.</p>																																																																																										
4.03	<p>Tax Rate Assumptions It is assumed that ACG will retain its tax exempt status for each forecast period. For the purposes of the model an tax rate of 0.0% has been used.</p>																																																																																										

5.0 VALUATION ASSUMPTIONS

5.01 Valuation Assumptions

For the purposes of the valuation a Weighted Average Cost of Capital of 12.0% has been used.
For the purposes of the valuation a Terminal Growth Rate of 2.5% has been used.

6.0 SENSITIVITY ASSUMPTIONS

6.01 Sensitivity Assumptions

Sensitivity assumptions have been included for Citrus tonnage volume assumptions, membership fee assumptions and expenses assumptions.
Employee benefits are not subject to a sensitivity analysis.

6.02 Assumptions Sensitivity Analysis

The table below provides an analysis of the sensitivity of the NPV of the Current Structure to changes in the forecast citrus tonnage and forecast operating expenses.

		Citrus Tonnage==>							
		NPV	-20%	-10%	-5%	100%	+5%	+10%	+20%
Expenses==>	-20%		(7,338,712)	(4,809,289)	(3,544,578)	(2,279,866)	(1,015,155)	249,556	2,778,979
	-10%		(11,074,364)	(8,544,942)	(7,280,231)	(6,015,519)	(4,750,808)	(3,486,097)	(956,674)
	-5%		(12,942,191)	(10,412,768)	(9,148,057)	(7,883,346)	(6,618,634)	(5,353,923)	(2,824,500)
	100%		(14,810,017)	(12,280,595)	(11,015,883)	(9,751,172)	(8,486,461)	(7,221,749)	(4,692,327)
	+5%		(16,677,844)	(14,148,421)	(12,883,710)	(11,618,998)	(10,354,287)	(9,089,576)	(6,560,153)
	+10%		(18,545,670)	(16,016,247)	(14,751,536)	(13,486,825)	(12,222,114)	(10,957,402)	(8,427,980)
	+20%		(22,281,323)	(19,751,900)	(18,487,189)	(17,222,478)	(15,957,766)	(14,693,055)	(12,163,632)

The breakeven point for the Current Structure holding the forecast citrus tonnage constant is that forecast operating expenses will be reduced to 73.9% of the current forecast level.

The breakeven point for the Current Structure holding the forecast operating expenses constant is that forecast citrus tonnage will be increased to 138.6% of the current forecast tonnage.

The breakeven point for the Current Structure holding both the forecast citrus tonnage and forecast expenses constant would require an 38.5% increase in the membership fees paid by citrus growers.

6.03 Valuation Sensitivity Analysis

The table below provides an analysis of the sensitivity of the NPV of the Current Structure to changes in the assumed WACC and the Terminal Growth Rate.

		WACC==>					
		NPV	10%	11%	12%	13%	14%
Terminal Growth Rate==>	0.5%		(10,296,571)	(9,365,059)	(8,594,667)	(7,946,764)	(7,394,162)
	1.5%		(11,129,840)	(10,018,579)	(9,117,848)	(8,372,774)	(7,746,039)
	2.5%		(12,185,313)	(10,825,868)	(9,751,172)	(8,879,928)	(8,159,112)
	3.5%		(13,565,548)	(11,848,434)	(10,533,514)	(9,493,852)	(8,650,866)
	4.5%		(15,447,687)	(13,185,636)	(11,524,480)	(10,252,229)	(9,246,148)

Current Structure model
GROUP SUMMARY

Start	31-Dec-07	01-Jan-08	01-Jan-09	01-Jan-10	01-Jan-11	01-Jan-12	
End	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	
2.0 INCOME STATEMENT - GROUP							
2.01 Income							
Membership Fee Income	12,709,391	-	2,556,600	2,439,631	2,485,261	2,531,804	2,696,096
Less: Membership Fees Paid to ACG	(814,248)	-	(174,372)	(158,116)	(158,116)	(158,116)	(165,526)
Net Membership Fee Income	11,895,143	-	2,382,227	2,281,514	2,327,144	2,373,687	2,530,570
Service Fee Funding	159,244	-	30,600	31,212	31,836	32,473	33,122
Less Service Fee Funding Paid to Regional Bodies	(159,244)	-	(30,600)	(31,212)	(31,836)	(32,473)	(33,122)
Net Service Fee Funding	-	-	-	-	-	-	-
Publications Income	-	-	-	-	-	-	-
Industry Project Funding	3,938,259	-	756,770	771,905	787,343	803,090	819,152
Other income	1,598,421	-	310,428	311,948	318,186	324,550	333,309
			1,067,197	1,083,853	1,105,530	1,127,640	1,152,461
NET INCOME	17,431,824	-	3,449,424	3,365,367	3,432,674	3,501,328	3,683,031
2.02 Expenses							
Board of Directors Expense	(2,200,418)	-	(422,829)	(431,285)	(439,911)	(448,709)	(457,683)
Marketing Expense	(2,016,023)	-	(390,546)	(396,750)	(403,078)	(409,532)	(416,116)
Market Access Expense	(1,257,777)	-	(245,239)	(248,335)	(251,492)	(254,713)	(257,998)
Agri-Political Expense	(438,484)	-	(86,781)	(87,230)	(87,688)	(88,155)	(88,631)
Industry Data Collation & Dissemination Expense	(4,153,125)	-	(803,790)	(816,942)	(830,357)	(844,040)	(857,997)
Grower Support Expense	(2,407,012)	-	(467,209)	(474,165)	(481,260)	(488,498)	(495,880)
Biosecurity Expense	(524,291)	-	(101,744)	(103,270)	(104,827)	(106,415)	(108,035)
Administration Expense	(9,385,836)	-	(1,820,105)	(1,848,071)	(1,876,597)	(1,905,693)	(1,935,370)
TOTAL EXPENSE	(22,382,966)	-	(4,338,242)	(4,406,048)	(4,475,210)	(4,545,755)	(4,617,711)
EBITDA	(4,951,142)	-	(888,818)	(1,040,681)	(1,042,536)	(1,044,427)	(934,680)
Depreciation Expense	(3,665)	-	(733)	(733)	(733)	(733)	(733)
EBIT	(4,954,807)	-	(889,551)	(1,041,414)	(1,043,269)	(1,045,160)	(935,413)
Net Interest Income (Expense)	(197,324)	-	-	(19,162)	(39,332)	(59,922)	(78,907)
Net Profit Before Tax	(5,152,130)	-	(889,551)	(1,060,576)	(1,082,601)	(1,105,083)	(1,014,320)
Tax (Expense)/Benefit	-	-	-	-	-	-	-
Net Profit After Tax	(5,152,130)	-	(889,551)	(1,060,576)	(1,082,601)	(1,105,083)	(1,014,320)

Current Structure model
VALUATION

1.0 DATES AND FLAGS

Start	31-Dec-07	01-Jan-08	01-Jan-09	01-Jan-10	01-Jan-11	01-Jan-12
End	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12

2.0 FREE CASH FLOWS

2.01	Free Cash Flows					
	Net Cash Flows	-	(784,166)	(1,053,502)	(1,081,792)	(1,104,272)
	Add: Interest Repayments	-	-	19,162	39,332	59,922
	Less: Interest Received	-	-	-	-	-
	Less/Add: Tax on net interest	-	-	-	-	-
	Free Cash flows	-	(784,166)	(1,034,341)	(1,042,460)	(939,295)
2.02	Terminal Value					(10,134,499)

3.0 VALUATION

3.01	Net Present Value					
	Present value factor	1.000	0.945	0.844	0.753	0.673
	Present value of cash flows	-	(740,967)	(872,643)	(785,261)	(702,397)
	Present value of terminal value					(6,085,849)
	Net Present Value		(9,751,172)			

3.02 Project IRR

NO IRR CALCULATION CAN BE PERFORMED AS THERE ARE NO NET CASH INFLOWS.

Appendix 3 – Single Structure Option model

Single Structure Option model																																																																																											
DATA ASSUMPTIONS																																																																																											
1.0	GENERAL ASSUMPTIONS																																																																																										
1.01	<p>Model Term Assumptions It is assumed that the term of the model is 5 years and that the start date of the model is 31 Dec 2007. It is assumed that the model will be calculated on an annual basis.</p>																																																																																										
1.02	<p>Conversions Assumes that each carton weighs 15kg, therefore conversion into tonnes is 15/1000</p>																																																																																										
1.03	<p>Employee Assumptions It is assumed that all bodies do not exceed the payroll tax threshold, hence payroll tax has been excluded as an on-cost for the purposes of this model.</p>																																																																																										
2.0	ECONOMIC ASSUMPTIONS																																																																																										
2.01	<p>Inflation assumptions For the purposes of the model an annual inflation rate of 2.0% has been assumed. For the purposes of the model an annual employee wage inflation rate of 0.0% has been assumed.</p>																																																																																										
3.0	DATA ASSUMPTIONS																																																																																										
3.01	<p>Financial Input Assumptions The data used for all citrus grower bodies is based on the Current Structure model.</p>																																																																																										
4.0	INCOME ASSUMPTIONS																																																																																										
4.01	<p>Membership Fees Assumptions New National Body Membership fees have been calculated based on the following: - All members of the regional bodies become members of the new national body - One flat per tonne fee is paid by all members. - For the purposes of the model the flat fee per tonne has been estimated as shown below:</p> <table border="0"> <tr> <td>Net Membership fees, Australian Citrus:</td> <td>2,382,227</td> <td>[per Current Situation Model for the 07/08 financial year]</td> </tr> <tr> <td>Total citrus tonnage FY08, members only</td> <td>527,434</td> <td></td> </tr> <tr> <td>Estimated levy per tonne to maintain current income levels</td> <td>\$ 4.52</td> <td></td> </tr> <tr> <td>ACG membership levy charged</td> <td>\$ 4.50</td> <td></td> </tr> </table> <p><u>State Statutory Authorities</u> It is assumed that there will be no membership fees or levies paid to state statutory authorities.</p> <p><u>Regional Branches</u> It is assumed that the membership fees paid to the new national body will provide membership to regional branches. No additional membership fee will be paid to regional branches.</p>	Net Membership fees, Australian Citrus:	2,382,227	[per Current Situation Model for the 07/08 financial year]	Total citrus tonnage FY08, members only	527,434		Estimated levy per tonne to maintain current income levels	\$ 4.52		ACG membership levy charged	\$ 4.50																																																																															
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4.02	<p>Citrus Tonnage Membership tonnage for 2006/07 and 2007/08 sourced from 2007 member contribution budget provided by Raylene Kemp (Finance and Project Manager, ACG) State bodies tonnage for 2006/07 and 2007/08 sourced from 'Australian Citrus Production' Forecast for 2007/08 provided by Raylene Kemp (Finance and Project Manager, ACG) Tonnage for State bodies post 2007/08 is based on estimate of total tonnage provided by Judith Damiani (CEO, ACG) and weighted based on previous years. Oranges tonnage for State Bodies is based on the average percentage of oranges to total crop for the 2006/07 and 2007/08 seasons, applied to the estimated total tonnage Tonnage for member bodies post 2006/07 is based on the estimated percentage change in the national tonnage for that year, with the exclusion of WA who provided their own crop estimates.</p> <p>The annual citrus tonnage forecast for each regional grower body, based on 3 March 2008 estimates, is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>MMCG</th> <th>SCG</th> <th>GDCG</th> <th>LCG</th> <th>NGC</th> <th>CGSA</th> <th>QCG</th> <th>WAFGA</th> <th>NTCG</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>FY 07/08</td> <td>10,000</td> <td>125,000</td> <td>120,500</td> <td>69,500</td> <td>6,000</td> <td>162,000</td> <td>100,000</td> <td>17,500</td> <td>500</td> <td>611,000</td> </tr> <tr> <td>FY 08/09</td> <td>8,550</td> <td>106,873</td> <td>103,026</td> <td>59,421</td> <td>5,130</td> <td>138,508</td> <td>85,498</td> <td>20,000</td> <td>427</td> <td>527,434</td> </tr> <tr> <td>FY 09/10</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> <tr> <td>FY 10/11</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> <tr> <td>FY 11/12</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> </tbody> </table> <p>The annual citrus tonnage forecast for the state statutory authorities, based on 3 March 2008 estimates, is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>RC</th> <th>MVCB</th> <th>SACIDB</th> </tr> </thead> <tbody> <tr> <td>FY 07/08</td> <td>190,000</td> <td>135,000</td> <td>170,000</td> </tr> <tr> <td>FY 08/09</td> <td>125,000</td> <td>131,000</td> <td>144,000</td> </tr> <tr> <td>FY 09/10</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> <tr> <td>FY 10/11</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> <tr> <td>FY 11/12</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> </tbody> </table>		MMCG	SCG	GDCG	LCG	NGC	CGSA	QCG	WAFGA	NTCG	TOTAL	FY 07/08	10,000	125,000	120,500	69,500	6,000	162,000	100,000	17,500	500	611,000	FY 08/09	8,550	106,873	103,026	59,421	5,130	138,508	85,498	20,000	427	527,434	FY 09/10	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263	FY 10/11	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263	FY 11/12	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263		RC	MVCB	SACIDB	FY 07/08	190,000	135,000	170,000	FY 08/09	125,000	131,000	144,000	FY 09/10	128,257	108,306	127,850	FY 10/11	128,257	108,306	127,850	FY 11/12	128,257	108,306	127,850
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Single Structure Option model

DATA ASSUMPTIONS

4.0 INCOME ASSUMPTIONS

4.04 Other Income Assumptions

It is assumed that the new national body will receive all 'other income' that is received by the grower bodies under the Current Structure model. The other income currently received by State Statutory Authorities and Regional Grower Bodies under the Current Structure model is shown below:

Grower body	Project Income	Other Income
CGSA	43,606	-
QCG	22,325	-
SCG	-	35,000
SACIDB	-	76,000
MVCB	233,000	100,000
Total	298,931	211,000

It is assumed that under the proposed Single Structure Option these funds will be received directly by the new national body.

ACG currently receive \$433,000 in Project Income and \$45,000 in Other Income.

With the additional of the funds from the State Statutory Authorities and the Regional Grower Bodies, under the Single Structure model the new national body will receive at total of \$741,931 per annum in Project Income and \$256,000 per annum in other income.

5.0 OPERATING EXPENSES ASSUMPTIONS

5.01 Board of Directors Assumptions

New National Body

It is assumed that the new national body board of directors will comprise of seven members

It is assumed that Directors Fees will be paid as listed below:

Chairman Fee	50,000
Director Fee	30,000

The Chairman and Directors fee have been set based on an approximation of market levels.

It is assumed that the travel, allowances and other expenses incurred by the directors will be based on what is currently incurred by ACG directors.

The current 10 member ACG Board of Directors incur approximately \$0 in directors allowances, \$60,000 in travel expenses and \$35,000 in other expenses.

As such we have assumed that as the number of directors has decreased by 30%, these expenses will decrease by at least 30%. It is assumed that the new national body board of directors will incur, \$0 for members allowances, \$45,000 in travel costs and \$25,000 in other expenses.

State Statutory Authorities

It is assumed that the state statutory authorities do not operate a board of directors.

Regional Branches

It is assumed that each regional branch will operate a committee.

The new national body will provide funding for the regional branch committees.

Each regional branch committee will consist of seven members, each who will receive a directors fee as shown below:

Chairman Fee	3,000
Director Fee	2,000

The Chairman and Directors fees for the regional branches have been set at a level that is in the mid-range of current director fees paid by the regional grower bodies.

It is assumed that the travel, allowances and other expenses incurred by the regional branch committee members will be covered by their directors fee.

5.02 Issues Committee's Assumptions

New National Body

It is assumed that the new national body will operate four separate issues committees each comprising of seven members.

It is assumed that the chairman of each committee will be the new national body director who sits on the issues committee.

It is assumed that the issues committee members will be paid as listed below:

Chairman Fee	5,000
Member Fee	3,000

The Chairman and Member fees have been set at a level that is in the mid-range of current director fees paid by the regional grower bodies.

Please note that it is assumed that the issues committee chairman will only receive an additional \$5,000 as they are already receiving a national body board of directors fee.

It is assumed that the travel, allowances and other expenses incurred by the members will be equivalent to what is currently incurred by each individual ACG directors. It is also assumed that the travel and other costs of the new national body director who is a member of the issues committee will be covered under the new national bodies board of directors expenses.

As such it is assumed that the four issues committees will in total incur, \$0 for members allowances, \$140,000 in travel costs and \$85,000 in other expenses.

State Statutory Authorities

It is assumed that the state statutory authorities do not operate issues committees.

Regional Branches

It is assumed that regional branches do not operate issues committees.

5.03 Marketing Assumptions

It is assumed that all marketing will be conducted by new national body.

Regional Branches

It is assumed that regional branches will incur no direct or employee benefits expenses in relation to Marketing.

State Statutory Authorities

It is assumed that State Statutory Authorities will incur no direct or employee benefits expenses in relation to Marketing.

New National Body

It is assumed that new national body will retain the current level of marketing within the industry.

The current level of Marketing expenditure, excluding HAL funded marketing per current model for FY08 is \$390,546

Provided below is a split of the current expenditure by Grower Bodies on Marketing and Promotional activities for FY08, as provided in the Current Structure model:

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split	
		Direct Funds	Employee expenses
ACG	(16,929)		
CGSA	(761)		
LCG	(204)		
QCG	(19,425)		
WAFGA	(33,375)		
SACIDB	(133,833)		
MVCB	(88,933)		
RC	(97,086)		
Total	(390,546)	(310,191)	(80,943)

It is assumed that the new national body will spend an additional \$250,000 per year on direct marketing in addition to the current funding for marketing provided by HAL.

In addition it is assumed that the new national body will employ an additional staff member who will focus solely on Marketing and Promotional Activities. This employee will be paid an annual salary of \$50,000.

This annual salary has been based on an average full time employee salary for employees of citrus grower bodies.

Single Structure Option model

DATA ASSUMPTIONS

5.0 OPERATING EXPENSES ASSUMPTIONS

5.04 Market Access Assumptions

It is assumed that all Market Access activities will be conducted by the new national body.

Regional Branches

It is assumed that regional branches will incur no direct or employee benefits expenses in relation to Market Access.

State Statutory Authorities

It is assumed that state statutory authorities will incur no direct or employee benefits expenses in relation to Market Access.

New National Body

Currently, ACG receive funds from HAL (\$40,000) to support a part time employee whose sole focus is Export Market Access.

Provided below is a split of the current expenditure by state statutory authorities and regional grower bodies on Market Access for FY08, as provided in the Current Structure model:

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split	
		Direct Funds	Employee expenses
SACIDB	(17,649)		
MVCB	(72,015)		
RC	(71,280)		
QCB	(7,770)		
WAFGA	(5,100)		
Total	(173,814)	(113,985)	(60,194)

Market Access Activities are labour intensive. A large portion of the direct costs of market access are incurred in relation to attendance at conferences and meetings and the travel expenses associated with these conferences and meetings. ACG, currently already attend a majority of these conferences and meetings. As a result we believe that the new national body will be able to make cost savings in this area via the removal of the duplication of conference, meetings and the associated travel expenses. In addition, under the Single Structure Option the new national body will form a Market Access Issues Committee who will provide direct focus on market access issues.

To approximately maintain current levels of effort it is assumed that the new national body will spend an additional \$100,000 annually to fund market access activities.

It is assumed the time being spent on export market access issues by employees of the state statutory authorities and regional grower bodies will be taken on by the new national body's Market Access Employee. As a result of this it is assumed that the new national body's Market Access Employee will become a full time employee (currently at 0.5 workload). This will require the new national body to fund the increase in salary.

The new national body's additional voluntary contribution for the Market Access Employee Salary, so that this position will become a full time position is \$40,000.

5.05 Agri-Political Assumptions

It is assumed that all Agri-Political activities will be carried out by the new national body.

Regional Branches

It is assumed that regional branches will incur no direct or employee benefits expenses in relation to Agri-Political Activities.

State Statutory Authorities

It is assumed that state statutory authorities will incur no direct or employee benefits expenses in relation to Agri-Political Activities.

New National Body

The current expenditure on Agri-Political Activities for FY08 per the Current Structure model is shown below:

Grower Body	Current Expenditure per Current Structure model
CGSA	(9,158)
QCG	(3,885)
WAFGA	(8,325)
MVCB	(11,655)
SCG	(4,163)
Total	(37,185)

All Agri-Political expenditure noted above is in relation to employee benefits.

It is assumed that the current employees of ACG will be able fulfill all Agri-Political duties under the new national body. This will be made possible, due to the increased staff of the new national body who will directly focus on market development areas, thereby freeing up other staffs time.

5.06 Industry Data Collation & Dissemination

It is assumed that this role will be shared between the state statutory bodies, and the regional bodies, where a state statutory body is not present. This role will be largely filled via a voluntary contribution to the CITT Group and Industry Development Officer Projects, currently undertaken in conjunction with HAL.

It is assumed that the new national body will provide the funding for these voluntary contributions currently undertaken by the state statutory authorities and regional grower bodies.

Each state will be provided with funds for the Industry Development Officer and CITT Group Projects. From discussions with grower bodies, it is estimated that the annual voluntary contribution per state is approximately \$60,000. In addition it is expected that the executive officers of the state statutory bodies will devote approximately 50% of their time to Industry Data Collection and Dissemination activities.

It is assumed that the new national body will provide each state with \$70,000 in funding, as shown below:

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split		Funds to be provided by ACG
		Direct Funds	Employee expenses	
SACIDB	(73,470)			70,000
MVCB	(346,106)			70,000
RC	(146,480)			70,000
CGSA	(35,711)			-
QCG	(78,780)			70,000
WAFGA	(63,975)			70,000
Total	(744,521)	606,331	138,931	350,000

Regional Branches

It is assumed that regional branches will receive funding as listed below:

Grower Body	Funds to be provided by the new national
QCG	70,000
WAFGA	70,000

State Statutory Authorities

It is assumed that state statutory authorities will receive funding as listed below:

Grower Body	Funds to be provided by the new national
SACIDB	70,000
MVCB	70,000
RC	70,000

New National Body

It is assumed that the new national body expenditure will remain consistent with current levels.

It is assumed that the new national body will employ an additional staff member who will be in charge of the administration of the national industry data collection and dissemination. They will collate information from all states and maintain the national citrus data base.

It is assumed that the annual salary for the Industry Data Collection & Dissemination employee will be \$50,000.

This annual salary has been based on an average full time employee salary for employees of citrus grower bodies.

Single Structure Option model

DATA ASSUMPTIONS

5.0 OPERATING EXPENSES ASSUMPTIONS

5.07 Grower Support Assumptions

It is assumed that this role will be shared between the regional branches and the new national body. Activities currently undertaken by the state statutory authorities will be undertaken by the relevant regional branch. It is assumed that grower support will be funded based on number of members of each body. The current funding per state is shown in the table below (please note that Victoria includes the MVCB, SCG and MMCG):

State	Current Expenditure per Current Structure model	Number of members	Average expenditure per member
South Australia	(143,946)	680 members	(212)
New South Wales	(86,797)	543 members	(160)
Victoria	(114,885)	312 members	(368)
Queensland	(9,300)	64 members	(145)
Western Australia	(12,975)	200 members	(65)
Northern Territory	-	12 members	-
Total	(367,902)	1811 members	(158)

Regional Branches

Under the proposed Single Structure Option, growers will become direct members of the new national body. In addition, there will be the removal of the duplication of services currently provided by the state statutory authorities and the regional grower bodies to growers within the same region. It is anticipated that this will enable cost savings to be made in the area of grower support.

Based on the above calculation and assuming a small cost saving in operations, it is assumed that the new national body will provide regional branches with \$140 in funding for each member.

It is assumed that regional branches will receive funding as listed below:

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split		Funds to be provided by ACG
		Direct Funds	Employee expenses	
CGSA	(55,983)			95,200
GDCG	(2,176)			44,800
LCG	(9,517)			30,800
MMCG	(153)			1,680
MVCB	(102,227)			-
NCG	-			420
NTCG	-			1,680
QCG	(9,300)			8,960
RC	(75,105)			-
SACIDB	(87,963)			-
SCG	(12,505)			42,000
WAFGA	(12,975)			28,000
Total	(367,902)	(273,366)	(96,003)	253,540

State Statutory Authorities

It is assumed that state statutory authorities will incur no direct or employee benefits expenses in relation to Grower Support Activities.

New National Body

It is assumed that the new national body will maintain its current level of Grower Support expenditure.

In addition it is assumed that the new national body will employ an additional staff member who will focus solely on Grower Support Activities. This employee will be paid an annual salary of \$50,000.

This annual salary has been based on an average full time employee salary for employees of citrus grower bodies.

5.08 Biosecurity Expense Assumptions

It is assumed that all Bio-security matters will be managed by the new national body.

It is assumed that the new national body will provide funding for the tri-state fruit fly program to replace the funding currently provided by the state statutory authorities.

The current funding provided by the state bodies is shown below:

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split	
		Direct Funds	Employee expenses
SACIDB	(32,985)		
MVCB	(19,715)		
RC	(49,044)		
Total	(101,744)	(76,325)	(25,673)

Regional Branches

It is assumed that regional branches will incur no direct or employee benefits expenses in relation to Biosecurity.

State Statutory Authorities

It is assumed that state statutory authorities will incur no direct or employee benefits expenses in relation to Biosecurity.

New National Body

It is assumed that the employee benefits associated with Biosecurity will be able to be absorbed by the current staff of the new national body.

The new national body will maintain current level of direct funding for the Tri-State Fruit Fly Program and will annually donate \$75,000.

Single Structure Option model

DATA ASSUMPTIONS

5.0 OPERATING EXPENSES ASSUMPTIONS

5.09 Administration and Operating Assumptions

It is assumed that due to the streamlined operations of the state and regional bodies, their administrative expenses will decrease. The new national body will provide funding to each of the state statutory authorities and regional branches to fund their administrative requirements.

Regional Branches

The current expenditure on Administration for regional grower bodies is provided below:

Grower Body	Current Expenditure per Current Structure model	Number of members	Current Expenditure split		Average direct expense per member	Funds to be provided by the new national body
			Direct Funds	Employee expenses		
CGSA	(53,326)	680 members				25,000
QCG	(53,706)	64 members				3,200
NTCCG	-	12 members				600
WAFGA	(65,652)	200 members				10,000
SCG	(25,025)	300 members				15,000
NCG	-	3 members				150
LCG	(2,905)	220 members				11,000
GDCG	(4,734)	320 members				16,000
MMCG	-	12 members				600
Total	(205,348)	1811 members	(122,009)	-	(81,091)	(89)

We note that the average direct expense per member for QCG is significantly higher than other bodies. This is largely as a result of QCG being required to collect their membership fees directly from their members. If QCG direct cost per member is excluded then the revised average direct administrative cost per member would be \$40.

In addition, that the average direct expense per member for WAFGA is also significantly higher than other bodies. This is largely as a result of WAFGA operating on behalf of Apples, Pears, Stone Fruit and Citrus. If the WAFGA direct cost per member is excluded in addition to the QCG direct cost per member, then the revised average direct administrative cost per member would be \$30.

Under the proposed Single Structure model, the operations of the regional branches will be streamlined and it is assumed that there will be a small reduction in the administrative requirements of the regional branches.

Based on the above analysis, it is assumed that the new national body will provide \$50 of direct administrative funding per member, for each regional body. This funding will be capped at \$25,000.

State Statutory Authorities

The altered role of the state statutory authorities will reduce the administrative requirements of these state bodies.

It is assumed that the funding provided for the Industry Data Collection and Dissemination also covers the administrative requirements of this area.

The administrative requirements of the state statutory authorities outside of the Industry Data Collection and Dissemination will be minimal. It is assumed that the new national body will provide annual administrative funding of \$30,000 to cover rent, admin and operating expenses.

This administrative funding level has been set based on estimated expenses to be incurred outside of the requirements of the industry data collection and dissemination role. It is assumed that all of the direct administrative costs of the industry data collection and dissemination project will be covered by the funding provided by new national body. This additional funding is provided solely for the operation of the state statutory authorities offices.

New National Body

As a result of the increased workload of the new national body, the administrative requirements will increase.

It is assumed that the new national body will employ an additional Administrative Employee at the same salary as the current Administrative employee. The current Administrative Employee salary is \$36,000.

Currently ACG spend \$254,166 on direct administrative and operating expenses annually. It is expected that this direct expenditure requirement will increase under the proposed Single Structure Option.

For the purposes of the model, it is assumed that the new national body will incur an additional \$150,000 in direct administrative and operating expenditure per annum.

5.1 Employees Assumptions

Regional Branches

It is assumed that regional branches will maintain their current staffing and that their time will be split 60% grower support and 40% administration.

State Statutory Authorities

It is assumed that each of the state statutory authorities will be staffed by one full time staff member. This employee will be responsible for the administration of the industry data collection and dissemination role (50%) and general administrative duties (50%).

It is assumed that the state statutory authority employee will be paid \$50,000 per annum.

This annual salary has been based on an average full time employee salary for employees of citrus grower bodies.

New National Body

Based on the assumptions made above, the new national body will employ the following additional staff:

Staff Position	Annual salary
Marketing and Promotions	50,000
Market Access	40,000
Industry Data Collection & Dissemination	50,000
Grower support	50,000
Administration	36,000

6.0 BALANCE SHEET ASSUMPTIONS

6.01 Balance Sheet Assumptions

For the purposes of the model only the balance sheet of ACG has been included.

6.02 Interest Rate Assumptions

For the purposes of the model a Cash at Bank interest rate of 6.5% has been used.

For the purposes of the model an overdraft interest rate of 9.5% has been used.

6.03 Tax Rate Assumptions

It is assumed for the purposes of the model that the new national body will have a tax exempt status.

For the purposes of the model an tax rate of 0.0% has been used.

7.0 VALUATION ASSUMPTIONS

7.01 Valuation Assumptions

For the purposes of the valuation a Weighted Average Cost of Capital of 12.0% has been used.

For the purposes of the valuation a Terminal Growth Rate of 2.5% has been used.

Single Structure Option model

DATA ASSUMPTIONS

8.0 SENSITIVITY ASSUMPTIONS

8.01 Sensitivity Assumptions

Sensitivity assumptions have been included for Citrus tonnage volume assumptions, membership fee assumptions and expenses assumptions. Employee benefits are not subject to a sensitivity analysis.

8.02 Sensitivity Analysis

The table below provides an analysis of the sensitivity of the NPV of the Single Structure Option to changes in the assumed citrus tonnage and operating expenses.

		Citrus Tonnage==>							
		NPV	-20%	-10%	-5%	0%	+5%	+10%	+20%
Expenses==>	-20%	3,549,321	6,043,376	7,290,404	8,537,431	9,784,458	11,031,486	13,525,541	
	-10%	(640,496)	1,853,559	3,100,586	4,347,614	5,594,641	6,841,669	9,335,723	
	-5%	(2,735,404)	(241,350)	1,005,678	2,252,705	3,499,733	4,746,760	7,240,815	
	0%	(4,830,313)	(2,336,258)	(1,089,231)	157,797	1,404,824	2,651,851	5,145,906	
	+5%	(6,925,222)	(4,431,167)	(3,184,139)	(1,937,112)	(690,085)	556,943	3,050,998	
	+10%	(9,020,130)	(6,526,075)	(5,279,048)	(4,032,021)	(2,784,993)	(1,537,966)	956,089	
	+20%	(13,209,947)	(10,715,893)	(9,468,865)	(8,221,838)	(6,974,810)	(5,727,783)	(3,233,728)	

The breakeven point for the Single Structure Option holding the forecast citrus tonnage constant is that forecast operating expenses will be increased to 100.4% of the current forecast level.

The breakeven point for the Single Structure Option holding the forecast operating expenses constant is that forecast citrus tonnage will be decreased to 99.4% of the current forecast tonnage.

The breakeven point for the Single Structure Option holding both the forecast citrus tonnage and forecast expenses constant would require an 0.6% decrease in the membership fees paid by citrus growers.

8.03 Valuation Sensitivity Analysis

The table below provides an analysis of the sensitivity of the NPV of the Single Structure Option to changes in the assumed Weighted Average Cost of Capital and the Terminal Growth Rate.

		WACC==>					
		NPV	10%	11%	12%	13%	14%
Terminal Growth Rate==>	0.5%	164,341	138,302	117,641	101,026	87,524	
	1.5%	193,274	160,993	135,806	115,818	99,742	
	2.5%	229,922	189,024	157,797	133,428	114,084	
	3.5%	277,847	224,529	184,961	154,744	131,159	
	4.5%	343,198	270,959	219,369	181,076	151,828	

Single Structure Option model

GROUP SUMMARY

1.0 DATES AND FLAGS

Start	31-Dec-07	01-Jan-08	01-Jan-09	01-Jan-10	01-Jan-11	01-Jan-12
End	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12

2.0 INCOME STATEMENT

2.01

Income

Membership Fee Income	11,761,097	-	2,420,920	2,239,131	2,283,914	2,329,592	2,487,540
Less: Membership Fees Paid to ACG	-	-	-	-	-	-	-
Net Membership Fee Income	11,761,097	-	2,420,920	2,239,131	2,283,914	2,329,592	2,487,540
National Body Funding	6,654,446	-	1,278,708	1,304,282	1,330,367	1,356,975	1,384,114
Less National Body Funding paid to grower bodies	(6,654,446)	-	(1,278,708)	(1,304,282)	(1,330,367)	(1,356,975)	(1,384,114)
Net National Body Funding	-	-	-	-	-	-	-
Services Fee Funding	-	-	-	-	-	-	-
Publications Income	-	-	-	-	-	-	-
Industry Project Funding	3,938,259	-	756,770	771,905	787,343	803,090	819,152
Other income	1,358,879	-	261,120	266,342	271,669	277,103	282,645
NET INCOME	17,058,235	-	3,438,810	3,277,378	3,342,926	3,409,784	3,589,337

2.02

Expenses

Board of Directors Expense	(2,309,033)	-	(443,700)	(452,574)	(461,625)	(470,858)	(480,275)
Issues Committee Expense	(1,682,674)	-	(323,340)	(329,807)	(336,403)	(343,131)	(349,994)
Marketing Expense	(1,627,160)	-	(315,026)	(320,126)	(325,328)	(330,634)	(336,046)
Market Access Expense	(888,593)	-	(173,556)	(175,596)	(177,677)	(179,799)	(181,964)
Agri-Political Expense	(252,559)	-	(49,596)	(50,045)	(50,503)	(50,970)	(51,446)
Industry Data Collation & Dissemination Expense	(2,841,051)	-	(551,549)	(559,715)	(568,044)	(576,539)	(585,204)
Grower Support Expense	(2,566,180)	-	(499,609)	(506,288)	(513,100)	(520,048)	(527,136)
Biosecurity Expense	(398,109)	-	(76,500)	(78,030)	(79,591)	(81,182)	(82,806)
Administration Expense	(4,662,380)	-	(908,720)	(920,363)	(932,238)	(944,352)	(956,707)
TOTAL EXPENSE	(15,545,066)	-	(3,341,596)	(3,392,543)	(3,444,509)	(3,497,514)	(3,551,579)
EBITDA	32,603,301	-	97,213	(115,165)	(101,583)	(87,729)	37,758
Depreciation Expense	(3,665)	-	(733)	(733)	(733)	(733)	(733)
EBIT	(173,169)	-	96,480	(115,897)	(102,316)	(88,462)	37,025
Net Interest Income (Expense)	317,190	-	72,887	61,276	58,597	57,020	67,410
Net Profit Before Tax	144,020	-	169,367	(54,622)	(43,719)	(31,442)	104,435
Tax (Expense)/Benefit	-	-	-	-	-	-	-
Net Profit After Tax	144,020	-	169,367	(54,622)	(43,719)	(31,442)	104,435

Appendix 4 – Multiple Structure Option model

Multiple Structure Option model																																																																																											
DATA ASSUMPTIONS																																																																																											
1.0	GENERAL ASSUMPTIONS																																																																																										
1.01	<p>Model Term Assumptions It is assumed that the term of the model is 5 years and that the start date of the model is 31 Dec 2007. It is assumed that the model will be calculated on an annual basis.</p>																																																																																										
1.02	<p>Conversions Assumes that each carton weighs 15kg, therefore conversion into tonnes is 15/1000</p>																																																																																										
1.03	<p>Employee Assumptions It is assumed that all bodies do not exceed the payroll tax threshold, hence payroll tax has been excluded as an on-cost for the purposes of this model.</p>																																																																																										
2.0	ECONOMIC ASSUMPTIONS																																																																																										
2.01	<p>Inflation assumptions For the purposes of the model an annual inflation rate of 2.0% has been assumed. For the purposes of the model an annual employee wage inflation rate of 0.0% has been assumed.</p>																																																																																										
3.0	DATA ASSUMPTIONS																																																																																										
3.01	<p>Financial Input Assumptions The data used for all citrus grower bodies is based on the current situation model.</p>																																																																																										
4.0	INCOME ASSUMPTIONS																																																																																										
4.01	<p>Membership Fees Income It is assumed that each regional grower body and state statutory authority will maintain its current system of membership fees and levies. It is assumed that the membership fee income received by the new national body will be equivalent to the net membership fee income received by ACG under the Current Structure model.</p>																																																																																										
4.02	<p>Citrus Tonnage Membership tonnage for 2006/07 and 2007/08 sourced from 2007 member contribution budget provided by Raylene Kemp (Finance and Project Manager, ACG) State bodies tonnage for 2006/07 and 2007/08 sourced from 'Australian Citrus Production' Forecast for 2007/08 provided by Raylene Kemp (Finance and Project Manager, ACG) Tonnage for State bodies post 2007/08 is based on estimate of total tonnage provided by Judith Damani (CEO, ACG) and weighted based on previous years. Oranges tonnage for State Bodies is based on the average percentage of oranges to total crop for the 2006/07 and 2007/08 seasons, applied to the estimated total tonnage Tonnage for member bodies post 2006/07 is based on the estimated percentage change in the national tonnage for that year, with the exclusion of WA who provided their own crop estimates. The annual citrus tonnage forecast for each regional grower body, based on 3 March 2008 estimates is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>MMCG</th> <th>SCG</th> <th>GDCG</th> <th>LCG</th> <th>NCG</th> <th>CGSA</th> <th>QCG</th> <th>WAFGA</th> <th>NTCG</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>FY 07/08</td> <td>10,000</td> <td>125,000</td> <td>120,500</td> <td>69,500</td> <td>6,000</td> <td>162,000</td> <td>100,000</td> <td>17,500</td> <td>500</td> <td>611,000</td> </tr> <tr> <td>FY 08/09</td> <td>8,550</td> <td>106,873</td> <td>103,026</td> <td>59,421</td> <td>5,130</td> <td>138,508</td> <td>85,498</td> <td>20,000</td> <td>427</td> <td>527,434</td> </tr> <tr> <td>FY 09/10</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> <tr> <td>FY 10/11</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> <tr> <td>FY 11/12</td> <td>7,553</td> <td>94,411</td> <td>91,012</td> <td>52,492</td> <td>4,532</td> <td>122,356</td> <td>75,529</td> <td>30,000</td> <td>378</td> <td>478,263</td> </tr> </tbody> </table> <p>The annual citrus tonnage forecast for the state statutory bodies, based on 3 March 2008 forecasts, is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>RC</th> <th>MVCB</th> <th>SACIDB</th> </tr> </thead> <tbody> <tr> <td>FY 07/08</td> <td>190,000</td> <td>135,000</td> <td>170,000</td> </tr> <tr> <td>FY 08/09</td> <td>125,000</td> <td>131,000</td> <td>144,000</td> </tr> <tr> <td>FY 09/10</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> <tr> <td>FY 10/11</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> <tr> <td>FY 11/12</td> <td>128,257</td> <td>108,306</td> <td>127,850</td> </tr> </tbody> </table>		MMCG	SCG	GDCG	LCG	NCG	CGSA	QCG	WAFGA	NTCG	TOTAL	FY 07/08	10,000	125,000	120,500	69,500	6,000	162,000	100,000	17,500	500	611,000	FY 08/09	8,550	106,873	103,026	59,421	5,130	138,508	85,498	20,000	427	527,434	FY 09/10	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263	FY 10/11	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263	FY 11/12	7,553	94,411	91,012	52,492	4,532	122,356	75,529	30,000	378	478,263		RC	MVCB	SACIDB	FY 07/08	190,000	135,000	170,000	FY 08/09	125,000	131,000	144,000	FY 09/10	128,257	108,306	127,850	FY 10/11	128,257	108,306	127,850	FY 11/12	128,257	108,306	127,850
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4.03	<p>Citrus Grower Members It is assumed that the regional grower bodies have the following members:</p> <table border="1"> <thead> <tr> <th>Regional grower body</th> <th>Number of members</th> </tr> </thead> <tbody> <tr> <td>Mid-Murray Citrus Growers</td> <td>12 members</td> </tr> <tr> <td>Sunraysia Citrus Growers</td> <td>300 members</td> </tr> <tr> <td>Griffith & District Citrus Growers</td> <td>320 members</td> </tr> <tr> <td>Leeton Citrus Growers</td> <td>220 members</td> </tr> <tr> <td>Narromine Citrus Growers</td> <td>3 members</td> </tr> <tr> <td>Citrus Growers of South Australia</td> <td>680 members</td> </tr> <tr> <td>Queensland Citrus Growers</td> <td>64 members</td> </tr> <tr> <td>WA Fruit Growers Assoc - Citrus Council</td> <td>200 members</td> </tr> <tr> <td>NT Citrus Growers Assoc</td> <td>12 members</td> </tr> <tr> <td>Total Members</td> <td>1811 members</td> </tr> </tbody> </table>	Regional grower body	Number of members	Mid-Murray Citrus Growers	12 members	Sunraysia Citrus Growers	300 members	Griffith & District Citrus Growers	320 members	Leeton Citrus Growers	220 members	Narromine Citrus Growers	3 members	Citrus Growers of South Australia	680 members	Queensland Citrus Growers	64 members	WA Fruit Growers Assoc - Citrus Council	200 members	NT Citrus Growers Assoc	12 members	Total Members	1811 members																																																																				
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4.04	<p>Other Income Assumptions It is assumed that all grower bodies will retain their other income, consistent with the Current Structure model.</p>																																																																																										

Multiple Structure Option model

DATA ASSUMPTIONS

5.0 OPERATING EXPENSE ASSUMPTIONS

5.01 Multi-Structure Assumptions

It is assumed that the new national body will have sole responsibility for the following areas:

- + Agri-Political representation;
- + Export Market Access Issues; and
- + Citrus promotion and marketing.

For the purposes of the financial model it is assumed that, any direct expenditure currently undertaken by state and regional bodies in the above areas will be supplied to the new national body under a services agreement.

The other areas of operation, as noted below, will remain the responsibility of both the new national body, the state statutory authorities and the regional grower bodies:

- + Board of Directors
- + Industry Data Collation and Dissemination
- + Grower Support
- + Biosecurity
- + Administration and Operating Expense

The assumptions made in relation to these areas are outline in sections 5.05 to section 5.10.

5.02 Agri-Political Assumptions

It is assumed that all Agri-Political activities will be carried out by the new national body.

Provided below is a split of the current expenditure by State Statutory Authorities and Regional Grower Bodies on Agri-Political activities for FY08, as provided in the Current Structure model. The expenses incurred are split between direct expenditure and employee benefits. In addition the Agri-Political expense as a percentage of the total expenses incurred by each body is provided.

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split		Percentage of Total Grower Body Expenses
		Direct Funds	Employee expenses	
QCG	(3,885)			2%
WAFGA	(8,325)			4%
SCG	(4,163)			8%
CGSA	(9,158)			5%
MVCB	(11,655)			1%
Total	(37,185)	-	(37,186)	

As there is no direct expenditure on Agri-political activities by regional grower bodies and state statutory authority, there will be no transfer of funds to the new national body.

It is assumed that the Agri-political role currently undertaken by the employees of the state statutory authorities and regional grower bodies will cease. This employee time will be reallocated to grower support.

5.03 Market Access Assumptions

Provided below is a split of the current expenditure by State Statutory Authorities and Regional Grower Bodies on Market Access for FY08, as provided in the Current Structure model. The expenses incurred are split between direct expenditure and employee benefits. In addition the Market Access expense as a percentage of the total expenses incurred by each body is provided.

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split		Percentage of Total Grower Body Expenses
		Direct Funds	Employee expenses	
QCG	(7,770)			4%
WAFGA	(5,100)			2%
SACIDB	(17,649)			3%
MVCB	(72,015)			6%
RC	(71,280)			7%
Total	(173,814)	(113,985)	(59,829)	

It is assumed that the state statutory authorities and the regional grower bodies will transfer 100% of their direct expenditure on market access activities to the new national body.

The new national body will therefore receive an additional \$113,985 in funding. It is assumed that part of this funding will be used to increase the current ACG Market Access employee to a full time position.

It is assumed that the new national bodies additional expenditure on Market Access will be as follows:

Additional Funding for Market Access Employee: \$40,000

Market Access Issues Committee Funding: \$75,000

It is assumed that the Market Access role currently undertaken by the employees of the state statutory authorities and regional grower bodies will cease. The time currently spent by employees in this area, will be removed from the employees responsibility. In each of the above bodies the major employee who undertakes market access work is the Executive Officer of the grower organisation.

It is assumed that as the state statutory authorities and regional grower bodies executive officer will no longer be required to undertake market access activities, that their salaries will decrease by the employee expense amounts shown above.

5.04 Marketing Assumptions

It is assumed that all marketing will be conducted by the new national body.

Provided below is a split of the current expenditure by state statutory authorities and regional grower bodies on Marketing for FY08, as provided in the Current Structure model. The expenses incurred are split between direct expenditure and employee benefits. In addition the Marketing expense as a percentage of the total expenses incurred by each body is provided.

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split		Percentage of Total Grower Body Expenses
		Direct Funds	Employee expenses	
CGSA	(761)			0%
QCG	(19,425)			9%
WAFGA	(33,375)			16%
SACIDB	(133,833)			23%
MVCB	(88,933)			7%
RC	(97,086)			10%
Total	(373,413)	(297,584)	(75,829)	

It is assumed that the state statutory authorities and the regional grower bodies will transfer 100% of their direct expenditure on marketing and promotional activities to the new national body.

The new national body will therefore receive an additional \$297,584 in funding and utilise it as follows:

Direct Marketing Expenditure: \$150,000

Marketing and Promotions Issues Committee Funding: \$75,000

It is assumed that the Marketing activities currently undertaken by the employees of the state statutory authorities and regional grower bodies will continue to occur, but that there time will be directed by the requirements of the national initiatives implemented by the new national body.

Multiple Structure Option model

DATA ASSUMPTIONS

5.0 OPERATING EXPENSE ASSUMPTIONS

5.10 Administration Expense Assumptions

It is assumed that due to the streamlined operations of the state and regional bodies, their administrative expenses will decrease. The current administration and operating expense incurred by grower bodies is shown below. The expenses incurred are split between direct expenditure and employee benefits. In addition the administration and operating expense as a percentage of the total

Grower Body	Current Expenditure per Current Structure model	Current Expenditure split		Percentage of Total Grower Body Direct Expenses
		Direct Funds	Employee expenses	
SACIDB	(192,196)			32%
MVCB	(593,124)			47%
RC	(469,700)			49%
CGSA	(53,326)			29%
GDCG	(4,734)			37%
LCG	(2,905)			20%
MMCG	-			0%
NCG	-			0%
NTCG	-			0%
QCG	(53,706)			26%
SCG	(25,025)			47%
WAFGA	(65,652)			31%
Total	(1,460,368)	(1,144,214)	(316,154)	

It is assumed that the administration expenses of the above bodies will decrease inline with the decrease in responsibilities in the Agri-political, Export Market Access and Marketing Expense areas as outlined in Sections 5.02 to 5.04.

The percentage decrease for each body is shown in the table below:

State Statutory Authorities	Total Decrease in expenditure for Agri-Political, Market Access and Marketing	Percentage of Total Grower Body Expenses
SACIDB	(130,559)	22%
MVCB	(139,342)	11%
RC	(157,266)	16%
Average percentage decrease		16%

Regional Grower Bodies	Total Decrease in expenditure for Agri-Political, Market Access and Marketing	Percentage of Total Grower Body Expenses
CGSA	(761)	0%
GDCG	-	0%
LCG	-	0%
MMCG	-	0%
NCG	-	0%
NTCG	-	0%
QCG	(7,770)	4%
SCG	-	0%
WAFGA	(35,700)	17%
Average percentage decrease		2%

It is therefore assumed that the administrative and operating expenses of the state statutory authorities will decrease by 16%.

As a majority of the regional grower bodies operations will remain unchanged, it is assumed that the regional grower bodies administration and operating expenses will remain consistent with current levels.

6.0 BALANCE SHEET ASSUMPTIONS

6.01 Balance Sheet Assumptions

For the purposes of the model only the balance sheet of ACG has been included.

6.02 Interest Rate Assumptions

For the purposes of the model a Cash at Bank interest rate of 6.5% has been used. For the purposes of the model an overdraft interest rate of 9.5% has been used.

6.03 Tax Rate Assumptions

It is assumed that the new national body will be tax exempt for each of the forecast periods under the proposed Multiple Structure Option. For the purposes of the model an tax rate of 0.0% has been used.

7.0 VALUATION ASSUMPTIONS

7.01 Valuation Assumptions

For the purposes of the valuation a Weighted Average Cost of Capital of 12.0% has been used. For the purposes of the valuation a Terminal Growth Rate of 2.5% has been used.

8.0 SENSITIVITY ASSUMPTIONS

8.01 Sensitivity

Sensitivity assumptions have been included for Citrus tonnage volume assumptions, membership fee assumptions and expenses assumptions. Employee benefits are not subject to a sensitivity analysis.

8.02 Assumptions

The table below provides an analysis of the sensitivity of the NPV of the Multiple Structure Option to changes in the forecast citrus tonnage and operating expenses.

Citrus Tonnage=>		-20%	-10%	-5%	0%	+5%	+10%	+20%
Expenses=>	NPV							
	-20%	(9,797,078)	(7,267,655)	(6,002,944)	(4,738,233)	(3,473,522)	(2,208,810)	320,612
	-10%	(13,722,739)	(11,193,316)	(9,928,605)	(8,663,894)	(7,399,182)	(6,134,471)	(3,605,048)
	-5%	(15,685,569)	(13,156,147)	(11,891,435)	(10,626,724)	(9,362,013)	(8,097,301)	(5,567,879)
	0%	(17,648,399)	(15,118,977)	(13,854,266)	(12,589,554)	(11,324,843)	(10,060,132)	(7,530,709)
	+5%	(19,611,230)	(17,081,807)	(15,817,096)	(14,552,385)	(13,287,673)	(12,022,962)	(9,493,539)
	+10%	(21,574,060)	(19,044,638)	(17,779,926)	(16,515,215)	(15,250,504)	(13,985,792)	(11,456,370)
	+20%	(25,499,721)	(22,970,298)	(21,705,587)	(20,440,876)	(19,176,164)	(17,911,453)	(15,382,031)

The breakeven point for the Multiple Structure Option holding the forecast citrus tonnage constant is that forecast operating expenses will be reduced to 67.9% of the current forecast level.

The breakeven point for the Multiple Structure Option holding the forecast operating expenses constant is that forecast citrus tonnage will be increased to 149.8% of the current forecast tonnage.

The breakeven point for the Multiple Structure Option holding both the forecast citrus tonnage and forecast expenses constant would require a 49.8% increase in the membership fees paid by citrus growers.

8.03 Valuation

The table below provides an analysis of the sensitivity of the NPV of the Multiple Structure Option to changes in the assumed Weighted Average Cost of Capital and the Terminal Growth Rate.

WACC=>		10%	11%	12%	13%	14%
Terminal Growth Rate=>	NPV					
	0.5%	(13,293,205)	(12,087,751)	(11,091,015)	(10,252,943)	(9,538,307)
	1.5%	(14,372,911)	(12,934,548)	(11,768,926)	(10,804,944)	(9,994,252)
	2.5%	(15,740,539)	(13,980,591)	(12,589,554)	(11,462,088)	(10,529,491)
	3.5%	(17,528,975)	(15,305,579)	(13,603,272)	(12,257,579)	(11,166,680)
	4.5%	(19,967,752)	(17,038,256)	(14,887,314)	(13,240,244)	(11,938,014)

Multiple Structure Option model

GROUP SUMMARY

1.0 DATES AND FLAGS

Start	31-Dec-07	01-Jan-08	01-Jan-09	01-Jan-10	01-Jan-11	01-Jan-12
End	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12

2.0 INCOME STATEMENT - GROUP SUMMARY

2.01		Income						
	Membership Fee Income	12,709,391	-	2,556,600	2,439,631	2,485,261	2,531,804	2,696,096
	Less: Membership Fees Paid to ACG	(814,248)	-	(174,372)	(158,116)	(158,116)	(158,116)	(165,526)
	Net Membership Fee Income	11,895,143	-	2,382,227	2,281,514	2,327,144	2,373,687	2,530,570
	Service Fee Funding	2,343,902	-	450,400	459,408	468,597	477,968	487,528
	Less: Service Fee Funding Paid to Grower Bodies	(2,343,902)	-	(450,400)	(459,408)	(468,597)	(477,968)	(487,528)
	Net Service Fee Funding	-	-	-	-	-	-	-
	Publications Income	-	-	-	-	-	-	-
	Industry Project Funding	3,938,259	-	756,770	771,905	787,343	803,090	819,152
	Other income	1,598,421	-	310,428	311,948	318,186	324,550	333,309
	NET INCOME	17,431,824	-	3,449,424	3,365,367	3,432,674	3,501,328	3,683,031
2.02		Expenses						
	Board of Directors Expense	(2,970,095)	-	(570,729)	(582,143)	(593,786)	(605,662)	(617,775)
	Issues Committee Expense	(1,682,674)	-	(323,340)	(329,807)	(336,403)	(343,131)	(349,994)
	Marketing Expense	(1,231,642)	-	(239,579)	(242,887)	(246,261)	(249,703)	(253,213)
	Market Access Expense	(577,774)	-	(112,225)	(113,857)	(115,522)	(117,219)	(118,951)
	Agri-Political Expense	(252,559)	-	(49,596)	(50,045)	(50,503)	(50,970)	(51,446)
	Industry Data Collation & Dissemination Expense	(4,092,259)	-	(793,697)	(805,830)	(818,204)	(830,827)	(843,701)
	Grower Support Expense	(2,836,077)	-	(550,941)	(558,917)	(567,053)	(575,351)	(583,816)
	Biosecurity Expense	(524,291)	-	(101,744)	(103,270)	(104,827)	(106,415)	(108,035)
	Administration Expense	(9,592,144)	-	(1,869,246)	(1,893,350)	(1,917,937)	(1,943,016)	(1,968,596)
	TOTAL EXPENSE	(22,076,843)	-	(4,611,096)	(4,680,106)	(4,750,495)	(4,822,293)	(4,895,527)
	EBITDA	39,508,666	-	(1,161,671)	(1,314,739)	(1,317,821)	(1,320,966)	(1,212,496)
	Depreciation Expense	(3,665)	-	(733)	(733)	(733)	(733)	(733)
	EBIT	(6,331,358)	-	(1,162,404)	(1,315,472)	(1,318,554)	(1,321,699)	(1,213,229)
	Net Interest Income (Expense)	(275,912)	-	(4,481)	(29,424)	(55,019)	(81,160)	(105,827)
	Net Profit Before Tax	(6,607,269)	-	(1,166,885)	(1,344,896)	(1,373,574)	(1,402,859)	(1,319,056)
	Tax (Expense)/Benefit	-	-	-	-	-	-	-
	Net Profit After Tax	(6,607,269)	-	(1,166,885)	(1,344,896)	(1,373,574)	(1,402,859)	(1,319,056)

Multiple Structure Option model
VALUATION

1.0 DATES AND FLAGS

Start	31-Dec-07	01-Jan-08	01-Jan-09	01-Jan-10	01-Jan-11	01-Jan-12
End	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12

2.0 FREE CASH FLOWS

2.01	Free Cash Flows						
	Net Cash Flows	-	(1,050,318)	(1,337,742)	(1,372,714)	(1,401,997)	(1,322,917)
	Add: Interest Repayments	-	4,481	29,424	55,019	81,160	105,827
	Less: Interest Received	-	-	-	-	-	-
	Free Cash flows	-	(1,045,837)	(1,308,318)	(1,317,695)	(1,320,836)	(1,217,090)
2.02	Terminal Value						(13,131,755)

3.0 VALUATION

3.01	Net Present Value						
	Present value factor	1.000	0.945	0.844	0.753	0.673	0.601
	Present value of cash flows	-	(988,223)	(1,103,790)	(992,590)	(888,354)	(730,872)
	Present value of terminal value						(7,885,726)
	Net Present Value		(12,589,554)				

3.02 Project IRR

NO IRR CALCULATION CAN BE PERFORMED AS THERE ARE NO NET CASH INFLOWS.

Appendix 5 – KPMG report extract

The following report extract is taken from:

KPMG, July 2005, 'Citrus Industry Review', Department of Agriculture, Fisheries and Forestry, pages 86-88.



7 Analysis and recommendations

7.1 Introduction

The analysis to date has considered:

- The structure and performance of the Australian citrus industry, specifically in comparison to the citrus industries in South Africa, Spain and the United States;
- The ‘optimal’ characteristics of an industry organisation structure that will enable it to achieve high performance outcomes for its members; and
- The views of the members and industry stakeholders with regard to the current organisational structure of the citrus industry in Australia.

Based on this work, it appears that the organisation and operations of the current Australian citrus industry does require some improvement in order for it to achieve its goal of enhanced industry competitiveness.

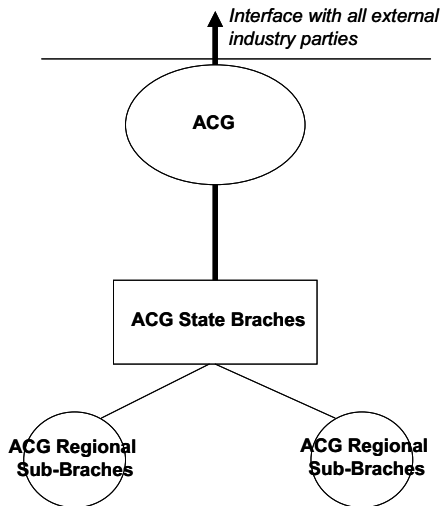
This section of the report considers three different broad industry structuring options, and identifies which of these best meets the theoretical, practical and commercial outcomes required of an effective industry organisational structure. We then consider what changes are necessary within the ACG itself in order for it to achieve the outcomes required of it by its members and industry stakeholders. Within this analysis we also consider the issue of funding, and present a case study of another horticultural industry that has recently implemented substantial structural change to its peak body (which has been recognised as a positive step forward for that industry). Finally, we propose a set of actions / tasks that we consider vital in order for the ACG to take this initiative forward.

7.2 Broad structuring options

Within the context of existing industry organisational structures, comments received from stakeholders, and our analysis of the ‘optimal’ characteristics of industry organisational structures, we have considered three options for organising the Australian citrus industry going forward. These are:

- Option 1 - Single peak body with state branches / regional sub-branches;
- Option 2 – Coordinated peak body with statutory boards and state branches / regional sub-branches; and
- Option 3 – Status quo.

7.2.1 Option 1



This option represents the industry structure that could be implemented should the industry choose to ‘effectively start again from a blank sheet of paper’. Key points of this industry structure are:

- Removal of all state statutory boards;
- Strengthen ACG to be an all encompassing peak industry body, both doing and coordinating all aspects of citrus industry development in Australia; and
- Establishing a state branch / regional sub-branch structure.

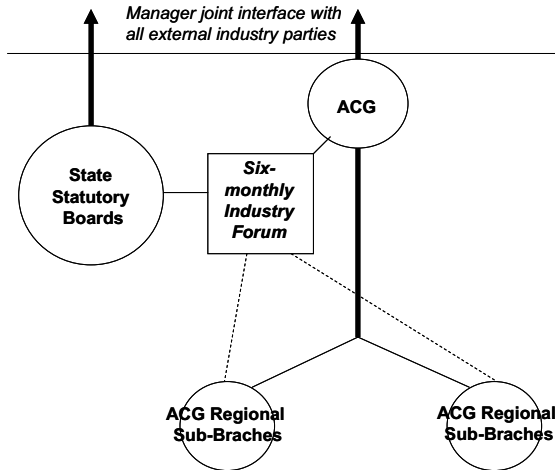
Such an approach would create a highly coordinated industry structure, thereby minimising (if not eradicating) duplication of activities by industry participants. It would also facilitate improved communication, allowing the industry to better innovate, educate and achieve positive market outcomes. By strengthening the national peak body it would be anticipated that a range of additional resources could be employed to ensure communication flows effectively up and down the industry structure (ie: from growers to the ACG and back down to the growers).

One aspect of the proposed structure is the adoption of a state branch / regional sub-branch approach. This re-organisation would assist in reducing the primarily perceptual problem currently faced by the ACG that growers at a grass roots level do not understand how the current industry structure works (ie: who is responsible for what, and why). By effectively renaming the current grower associations to be state branches / regional sub-branches of the ACG, and then providing *effective* additional support / coordinated information with the branches, the ‘problem’ of growers not knowing who does what in the industry should decline.

7.2.2 Option 2

The second potential structuring option considered for the Australian citrus industry is one where the ACG takes on a more active coordination role than it does presently. It does this by a range of activities, including:

- The coordination and hosting of half-yearly industry forums where the short, medium and long term direction of the industry is re-confirmed / re-set, and work priorities / activities are delegated to those industry organisations with the most appropriate and available resources;
- Providing tangible support to sub-regional grower groups to ensure information flows are adequate up and down the industry structure; and



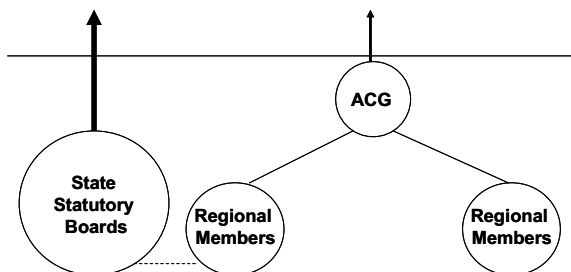
- Managing all newsletters / information dissemination within the industry. This includes placing a heavy focus on the electronic delivery of information to growers.

As with Option 1, we would recommend the adoption of a branch / sub-branch structure to assist in reducing the perceptual problem noted above.

Relative to the status quo, this option would require, at a minimum, an additional two positions within the ACG. These two roles would be responsible for the industry forum and an improved ‘development’ extension program with grower sub-branches.

7.2.3 Option 3

The final option to consider is a continuation of the status quo. Under this option the problems and issues identified throughout this assignment would remain, and potentially worsen over time.



That is, the confusion existing about the roles and responsibilities of the current industry organisations would be maintained, and it would be expected that the problem of duplication would probably worsen rather than improve.

7.3 Practical and commercial issues

While we have presented various structuring / re-structuring options above for the industry to consider, KPMG note that a range of practical and commercial issues influence whether a ‘pure’ outcome could be achieved. Further, based on the feedback received during the consultation phase we consider the ‘grassroot’ industry participants are essentially seeking improvements in three fundamental issues, being:

- Coordination;
- Communication; and
- Transparency.

Appendix 6 – Green Paper extract

The following report extract is taken from:

Australian Citrus Growers' Restructure Task Force, October 2007, 'Restructuring the Citrus Industry's grower bodies Discussion Paper', Australian Citrus Growers Incorporated, pages 15-22.

5. A NEW BODY TO REPLACE AUSTRALIAN CITRUS GROWERS

Regardless of the Option chosen, the new citrus peak body must be a Company Limited by Guarantee under the *Commonwealth Corporations Law*.

Levy payers (growers) would be the members of the new peak body upon payment of an annual membership fee.

The Board

The seven (7)-person Board would be elected by the levy payers (growers) and include at least four (4) grower members and a maximum of three (3) appointed for their commercial skills or supply chain experience.

The role of the Board will be to:

- Action the priorities spelt out in the Industry's direction – Citrus 2015
- Deal with the major issues facing the Industry
- Be the public face of the Industry
- To consult with levy payers on the appropriateness of the current levy rate and, if required, make representation to the Government on behalf of Industry
- Liaise with the Federal Government on matters that affect the future of the Industry

- Ensure effective relationships and coordination with the supply chain

Appointment of Directors

A transparent process for appointing Directors is essential to ensure a high-level of industry ownership and the best possible mix of expertise and experience.

A process will be designed to appoint the new Company's first Board of Directors. Once the new Company is incorporated, its constitution will establish the rules for the appointment of the future Directors as positions become vacant.

The Restructure Task Force recommends that:

- Selection of Directors for the inaugural Board will be managed by an implementation team and endorsed at the first AGM by grower members
- Directors for subsequent boards will be recommended for appointment at AGMs
- The Directors of the new Company to select the Chair from within the group
- The new Directors will appoint the Chief Executive Officer for the new Company
- Payment of the Chair and the Directors will be at market rates,

taking into account Remuneration
Tribunal guidance

Future election of Directors

Director nomination and selections will be undertaken through a transparent process by a Director Selection Committee. This committee would use strict selection criteria and scrutinise all nominations.

Those individuals that satisfy the selection criteria would be put forward at the AGM for election by the grower members.

Membership

Growers (levy payers) would become the **PRIMARY MEMBERS** of the Company. Each grower could register as a member, through the payment of a national membership fee. Votes would be allocated based on planting area (hectares). It is essential that a simple and equitable voting system is adopted.

Grower members would utilise their voting power:

- At the Company's AGM or any special general meeting
- To elect the Board of Directors
- In setting and/or altering National Levies

AFFILIATE MEMBERS (with a determined membership fee) would not vote at AGMs, special general meetings or vote on Director elections.

Affiliate members could provide advice to the Board and could be eligible to be a Director.

The Restructure Task Force considers it important for the Company to embrace all sectors of the Industry.

Therefore firms and organisations from throughout the production to the customer supply chain could become financial members.

Partnerships

The Company would be recognised by the Federal Government as the eligible peak industry body for the Citrus Industry in relation to national statutory levies.

There would remain four (4) national citrus levies:

1. Research and Development
2. Marketing
3. Plant Health
4. Biosecurity (remains at zero until required)

The Industry-owned Research and Development and Marketing Services Body, Horticulture Australia Limited, would consult with the new company before it makes a recommendation to the Government concerning statutory levies for the Citrus Industry.

The Citrus Industry Advisory Committee would provide recommendations to Horticulture Australia Limited in regard to the allocation and management of the National

Research and Development and Marketing Levies.

The Company would nominate the Citrus Industry Advisory Committee which would be a committee of Horticulture Australia Limited. The role of the Industry Advisory Committee would be to provide a five year strategic and annual operating plan to direct expenditure of the National Levies.

Expenditure of the National Research and Development Levies would be matched dollar for dollar by the Federal Government.

Levy funds also would be provided to the peak body under stringent guidelines for consultation with growers (levy payers) and Horticulture Australia Limited.

The new peak body, in partnership with Plant Health Australia, would assist in the management of the National Plant Health and Biosecurity Levies.

The new peak body also would work closely with the peak horticultural body, Horticulture Australia Council, to lobby and liaise with government(s) on key industry issues.

Funding

The new peak body would need proper resources.

This could include:

- Membership fees
- Levy funds to be provided under stringent guidelines for consultation with growers (levy payers) and Horticulture Australia Limited
- Project work

- And other forms of income determined by the Board

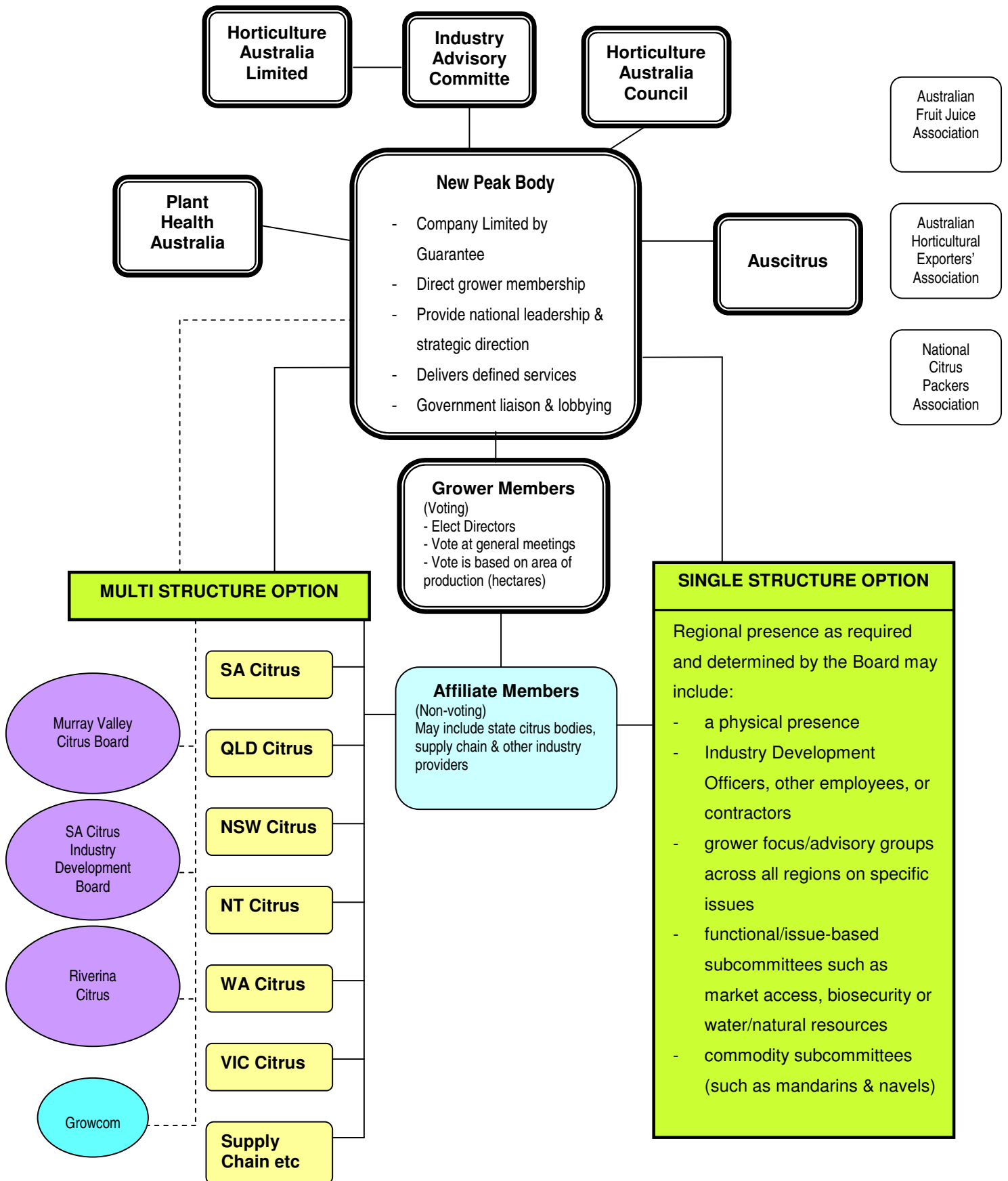
Major Features

- Direct grower membership
- Accountable to its members
- Action the priorities spelt out in the Industry's direction – Citrus 2015
- Nominate a Citrus Industry Advisory Committee to provide recommendations to Horticulture Australia Limited in regard to the allocation and management of the National Research and Development and Marketing Levies
- Advise the Industry's plant health and Biosecurity responsibilities, in partnership with Plant Health Australia
- High industry and government confidence and support
- Provide strong leadership
- Create a positive future for the Citrus Industry
- Deliver value for money for members (growers)

From these major features, the Restructure Task Force used the requirements to identify two realistic options for the Industry to consider.

Given your feedback, the Restructure Task Force recognised that the current structure is not an option.

Figure 2: THE NEW PEAK BODY & THE OPTIONS



Multi Structure Option

(Refer to Chapter 5 (page 15) for a description of the new peak body as a Company.)

A new peak industry body established as a Company:

Regional bodies

- Non-voting members
- Amalgamation of regional bodies would be encouraged

For example:

- Victoria – Mid-Murray and Sunraysia
- NSW – Leeton, Griffith, Narromine and the rest of NSW
- Maintain and manage specific regional projects
- Offer an advisory role to the new peak body
- Be possible service providers for the new peak body

Statutory Authorities

Victoria, South Australia and New South Wales would retain their respective State Statutory Levies.

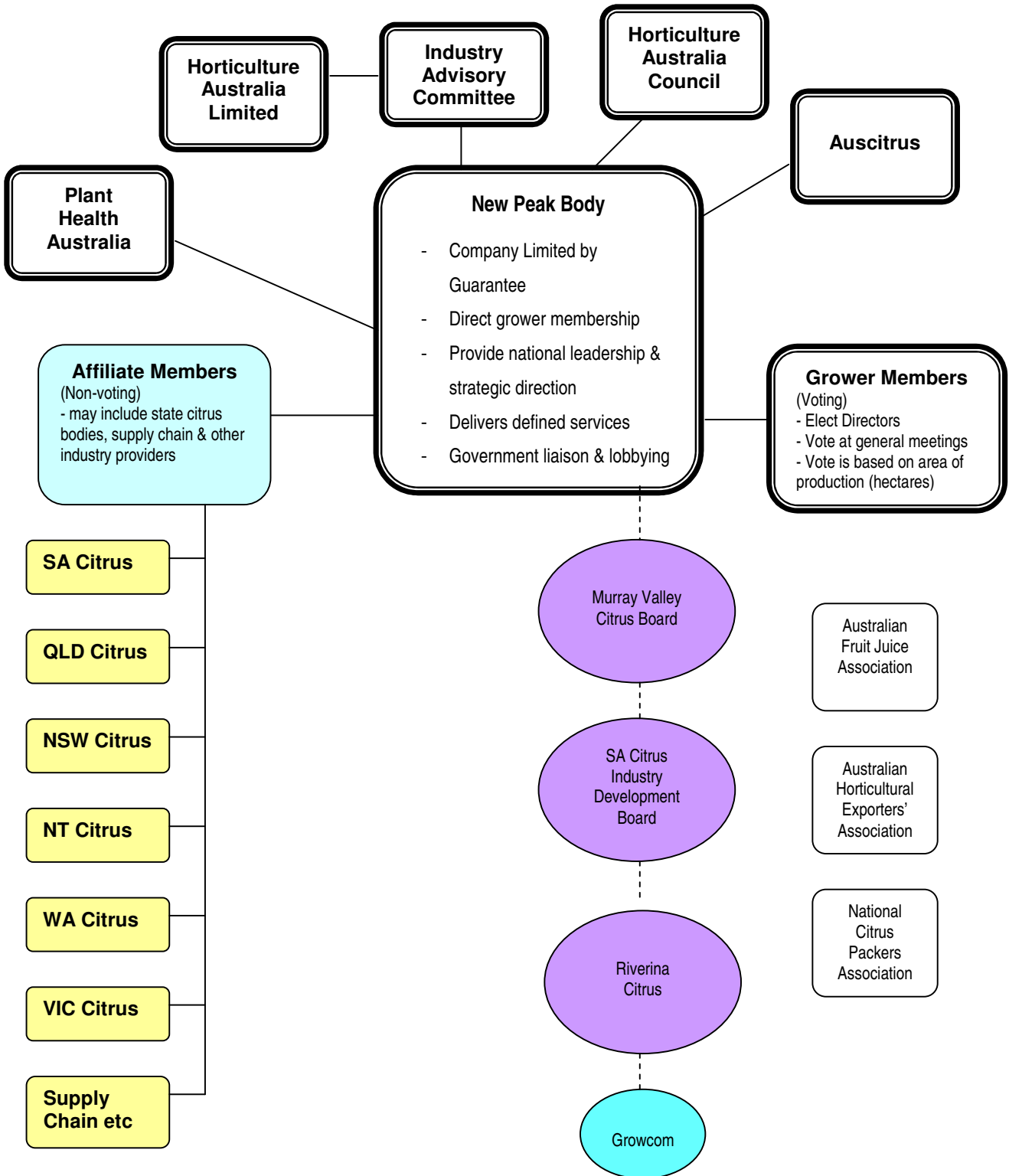
Due to the inability for Statutory Authorities to become members of the Company, specific performance-based contracts would be implemented to deliver the needs of levy payers (growers).

A regular formal line of communication would be established between the peak body and the State Authorities to prevent the duplication of services.

Overview of this Option

- Minimal change from the current arrangements
- Growers continue existing memberships and payments, plus pay to join the new company directly
- Maintains offices and representation at a regional level
- Formalising of delivery of defined services through contracts between the new company and the State Statutory Authorities. These contracts would be two-way, with various bodies providing complementary services to the industry
- Implementation phase relatively straight forward

Figure 3: THE NEW PEAK BODY & THE MULTI STRUCTURE OPTION



Single Structure Option

(Refer to Chapter 5 (Page 15) for a description of the new peak body as a Company.)

A new peak industry body established as a Company:

Regional Presence

National programs to be delivered through various means to maximise efficiency and effectiveness, and may include:

- A physical presence
- Industry Development Officers, other employees, or contractors
- Grower focus/advisory groups across all regions on specific issues
- Functional/issue-based sub-committees such as market access, biosecurity or water/natural resources
- Commodity sub-committees (such as mandarins and navels)

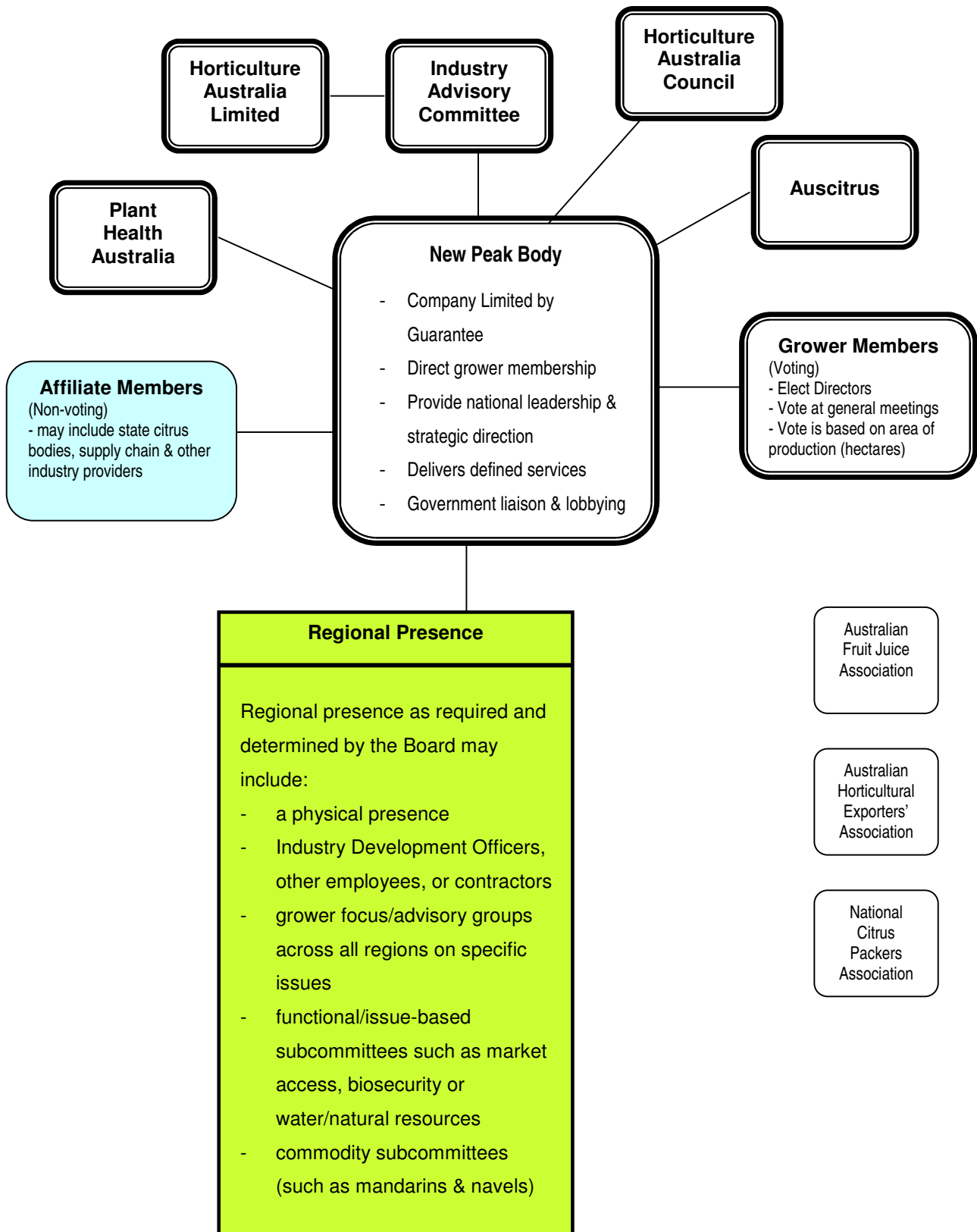
Under this option, the State Grower Bodies and the Statutory Authorities would be phased out.

Overview of this Option

- It potentially offers a full integration of all existing grower bodies, involving one board responsible for all industry policy and service delivery functions
- A new national peak body with a regional presence

- Simplify the current collection of national and state levies and voluntary contributions into one set of national levies and voluntary membership fees to provide greater value for money for the Australian citrus grower
- A single national entity provides the industry, governments and the citrus marketplace with one contact point
- With the phasing out of the State Statutory Authorities (Victoria, NSW and South Australia), the State Statutory Levies would no longer exist
- Consequently, an increase in the National Levies would be required to maintain services
- This implementation phase will require more management:
 - The wind-up of current state/regional grower bodies with differing financial years
 - The wind-up of the Statutory Authorities which would involve state government liaison and a separate ballot and voting process in each statutory authority area

Figure 4: THE NEW PEAK BODY & THE SINGLE STRUCTURE OPTION





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