

REPORT

CITRUS INDUSTRY REVIEW

July 2011

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FOR THE HONOURABLE MICHAEL O'BRIEN,
THE MINISTER FOR AGRICULTURE AND FISHERIES**

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INTRODUCTION

The Citrus Industry is an important contributor to South Australia's economy. According to the Primary Industries and Resources SA (PIRSA) latest Food Score Analysis, the industry's gross contribution to food revenue was \$357 million, while the value of citrus exports from the State is approximately \$66 million, which represents about half of all of South Australia's horticultural exports.

On any basis the citrus industry is important, not only to industry participants, but also to the people of South Australia and the government of the day. Historically, governments of all persuasions have attempted to assist agricultural industries within the reasonable constraints of their budgets.

In the latter half of the 20th century Governments sought to assist agricultural industry by regulation and by the creation of "orderly marketing schemes" which tried artificially to control markets to ensure fair returns for the various sectors of an agricultural industry and in particular, a fair return for growers and producers.

The most common bureaucratic machinery to achieve this was the creation of industry boards which were empowered by their own Acts and Regulations to impose quite draconian restrictions on participation in the industry, other than on terms set by the Boards and to fix prices and market conditions. The Egg Board and the Potato Marketing Board are good examples of these agencies. These Boards were, for all intents and purposes, arms of Government and were never designed to be peak industry representatives, or industry lobby groups.

Sometimes, where the peak industry body was weak, or non-existent, a Board might step into the vacuum and perform work for the industry which fell outside its legislative mandate.

The citrus industry was an example of this. The Citrus Industry Act of 1991 created a new Citrus Industry Board which policed provisions in the Act and Regulations which required registration of industry participants, imposed restrictions on the transport, packing and sale of citrus and empowered the board to make certain orders in relation to the marketing of citrus.

This new Citrus Industry Board proceeded to stabilise an industry which had previously been somewhat chaotic and was generally welcomed and respected by the industry participants. The Board was also blessed with a number of very able chairmen and chief executives who not only brought order to the marketing of citrus, but also introduced research and development initiatives to assist the industry and established new markets, both interstate and overseas.

The efforts of the Board in this respect were, in part, the cause of the South Australian citrus industry changing from a boutique domestic supplier into a large export commodity based industry. Most South Australians will be surprised to learn, as I was, that only some 6% of the citrus grown in South Australia is consumed in this State, the rest is exported interstate and globally, or made into juice.

While historically these new markets helped the citrus industry to expand, engagement in overseas exportation has its own problems, as the international commodity market is fickle and demanding, with issues of international competition and currency fluctuations to contend with.

By the late 1990's Government policy towards the regulation of markets had undergone a significant evolution. Rather than impose restrictive, anti-competitive regimes on industry, Governments were coming to the view that industry becomes more productive and efficient when competition and market forces are allowed to do their work, unrestricted by government rules and regulations.

This new approach required Governments to help to create a landscape in which industry was free to get on with the job, to provide things which only a Government can provide, for example certain quarantine and disease controls, and not to restrict competition by legislation unless it could be demonstrated that the benefits:

- to the community as a whole, outweighed the cost of the restriction; and
- of the legislation could only be achieved by restricting competition.

The South Australian Government entered into a Competition Policy Agreement with the Commonwealth Government which required the States to bring their legislation into line with the Commonwealth's competition policy.

As a result and after very lengthy consultation with the citrus industry, a new Citrus Industry Act was passed in 2005. The Board's former role as a market regulator was abandoned, but the Board was retained in a new guise as the South Australian Citrus Industry Development Board (CIDB). The provisions of the Act and the CIDB's current role are considered below.

The retention of the Board was, however, unusual. As far as I am aware, the CIDB is the only board which survived the competition policy initiative and all the other industry boards were abolished and replaced by industry based bodies, or associations.

There are, from a South Australian perspective, two such industry based bodies, namely:

1. Citrus Growers South Australia Inc (CGSA); and
2. Citrus Australia Limited (CAL)

CGSA is the latest incarnation of a long established grower based industry association and is currently supported by a modest levy on growers under the auspices of the Primary Industries Funding Scheme Act 1998 (PIFS).

CAL is a relatively new, membership based, national industrial body. It is still an immature organisation with slightly more than 250 members, but is growing slowly and steadily. CAL replaces a former national body, Australian Citrus Growers Federation (ACG) which was wound up by its members in 2008 in favour of CAL.

CGSA has links to CAL and is a supporter of it. The attitude of CIDB towards CAL is hostile. These three bodies, CAL, CGSA and CIDB are all competing for influence within the South Australian citrus industry.

This has led to an unacceptable level of tension and friction between the bodies, which is not in the best interest of the industry which they purport to represent. In 2005, when the new Citrus Industry Act was being formulated, the potential for conflict between the various citrus industry bodies was recognised.

In a South Australian Citrus Industry Strategic Plan (McFarlane 2005), it was observed that a key condition for the efficient implementation of this plan would be the preparedness of the three industry bodies (CIDB, CGSA and ACG, as they then were) to work cooperatively, share resources and avoid duplication of effort. Unfortunately that key condition has not been achieved.

This Review has occurred at a time of considerable stress and challenge for the citrus industry. Growers have suffered several years of severe drought with associated water shortages and although the drought has now broken, they are still not permitted to access their full irrigation water entitlements. The fruit juice industry has contracted in recent times, as consumer fashions have changed resulting in a reduced demand for Valencia oranges. Although the 2011 navel orange crop is plentiful, fruit is small and this may have led to some market resistance.

Far more seriously for the South Australian sector of the citrus industry, which as already noted, relies heavily on exporting overseas, the Australian dollar is trading very strongly on the international money market which greatly increases the cost of Australian oranges to the overseas consumer. Australian growers are also competing with South American and South African producers, whose labour costs are low and whose currencies are relatively weak, making their fruit much cheaper on foreign markets.

The dramatic concentration of market power by the national supermarkets has also seen fundamental market changes over the past decade. This has given immense market power to the supermarkets and has resulted in reduced farm gate prices and increased margins for retailers. It is inevitable that the supermarket sector will be dominated by national suppliers and this is increasingly the case in the citrus industry.

Approximately one half of all the citrus grown in the Riverland is sold to one big pack-house/supplier. Such big suppliers also have the power to deal directly with foreign supermarket chains. The economies of scale and elimination of “middle-men” also means that they can land their exported fruit more cheaply, but still profitably, than is possible for the small growers and suppliers. There is nothing wrong with this, it is simply the operation of the market-place and is probably the way of the future.

The citrus industry undoubtedly faces a period of structural adjustment being imposed upon it by irresistible outside forces. To survive in good shape the citrus industry will need strong leadership and unity. Government cannot legislate to

provide these essential things, but it can construct policy and enact legislation which creates an environment in which they can grow.

I consider that this Review affords an opportunity to look over the horizon and to help the citrus industry establish a healthy and functional industrial structure to face the challenges of the years ahead.

TERMS OF REFERENCE

This review, commissioned by the Minister for Agriculture and Fisheries, is the sixth review or initiative into or affecting the South Australian citrus industry in the last decade.

Previous reviews have been:

- National Competition Policy Review of the Citrus Industry Act 1991 conducted by PIRSA in 2001.
- Citrus Industry Implementation Committee, 2004/2005 to advise on introduction of a new Citrus Industry Act and on revised industry structures.
- SA Citrus Industry Strategic Plan 2005 (McFarlane, referred to above) and subsequent Implementation Strategy 2005 (PIRSA).
- Joint PIRSA, CGSA and CIDB Strategic Plan Implementation Team, post 2005.
- Review of the operation of the Citrus Industry Act 2005 conducted in 2008-2009 (McFarlane Strategic Services).

While the reviews and initiatives post 2005 have achieved pockets of success and the participants have worked hard to achieve useful changes within their respective visions for the industry, progress has been limited and disjointed because the industrial structure of the industry is fundamentally unsound and itself promotes disunity and duplication of effort.

The Minister has recognised this in the terms of reference for this review, which I now set out:

Review of South Australian Citrus Industry Structures

Background

The South Australian citrus industry is currently represented by two industry organisations:

- The South Australian Citrus Industry Development Board (SACIDB); and

- Citrus Growers South Australia (CGSA)

Under the current structure the:

SACIDB ('SA Citrus Industry Development Board') is funded by payments it receives from the Citrus Industry Fund, established under the *Citrus Industry Act 2005*. Citrus growers, packers, processors and wholesalers contribute to this Fund. This Fund is managed by the SACIDB and used to execute its functions under the Act.

CGSA ('Citrus Growers of SA') is funded by payments it receives from the Citrus Growers Fund, established under *Primary Industries Funding Schemes (Citrus Growers Fund) Regulations 2005*. Only citrus growers contribute to this Fund. The contributions are collected by SACIDB and then transferred to CGSA via PIRSA and used to execute its functions defined under the Regulations.

There are inefficiencies in the current legislative funding arrangements:

1. there is duplication of a number of functions described in the *Citrus Industry Act 2005* and the *Primary Industries Funding Schemes (Citrus Growers Fund) Regulations*. This means that the SACIDB and CGSA hold responsibilities for, and are operating within similar areas and it is possible that the organisations' views with respect to these areas may in fact not align.
2. the citrus growers pay levies twice through the two separate mechanisms. Whilst growers have direct influence on the application of the PIFS levy, the growers' influence over the application of the Citrus Industry Fund is diluted given the contributors to the Fund extend to the whole of chain and the managing organisation SACIDB has an appropriately broader representation.

Both organisations agree that the inefficiencies must be addressed with one consideration being a single industry structure. However there is no agreement regarding the process for moving forward nor the structure, role and function of the single body.

The Minister for Agriculture and Fisheries is the Administrator of both the Citrus Industry Act 2005 and the Primary Industries Funding Scheme Act 1998 and associated Regulations. This Review has been commissioned to advise and recommend to the Minister the preferred citrus industry funding arrangements, structure and transition process.

Scope of the Review

The Review will examine and make recommendation on:

1. the appropriateness and operational effectiveness of the Acts and associated Regulations in relation to:

- a. the apparent duplication of functions between the Citrus Act and PIFS regulations for which the levies collected can be applied.
 - b. the contributions by citrus growers to both the PIFS levy and Citrus Industry Fund.
2. the current structure of the South Australian citrus industry and alternative structures to address the inefficiencies of the current dual structure. This will include a recommendation regarding a transition process.
 3. the most appropriate funding and structural arrangements to enhance future productivity, profitability and competitiveness of the citrus industry.

Issues for Consideration

The following key issues need to be considered:

- intent of industry participants to request refund of voluntary contributions; and
- the structure of both entities and their ability to benefit the SA citrus industry now and into the future, and the relationship with Citrus Australia Limited.

Methodology

The Review will include consultation with and invite submissions from:

- members of SACIDB
- members of CGSA
- other interested parties and industry participants

Report

The Consultant must provide a written report to the Client by 3 June 2011 containing his findings and recommendations from the Review.

As the Reviewer, I take these terms of reference to indicate that, without in any way limiting the extent of my discretion, the Minister, has arrived at the position that the time has come to fix the problem and that doing nothing, in the hope that the various bodies may work harmoniously together is no longer an option.

As the Reviewer, I was able to reach the same position quite early in the review process and have therefore concentrated my considerations upon what the architecture of a new structure should be, rather than whether there should be a new structure at all.

METHODOLOGY

The methodology indicated by the Terms of Reference is a consultative one. My initial thoughts on this process included the possibility of inviting participants to a

public meeting to air their thoughts and concerns. A brief examination of the history of the situation, however, dissuaded me from that course as I thought it might provide an occasion for conflict.

Instead, I instructed PIRSA to advertise the review and to invite interested parties to attend to see me for an interview and/or to make written submissions to me.

PIRSA placed the following advertisements:

- Adelaide Advertiser Saturday 26 March 2011
- Renmark Murray Pioneer Friday 25 March 2011

During the review process, I conducted 62 interviews and I received 22 written submissions.

As required by the Terms of Reference, I met with the Chair and some members of CGSA and met other members individually and I received a written submission from CGSA.

I also met with the Chair and Chief Executive of CAL and I received a written submission from CAL.

As required by the Terms of Reference, I met with the CIDB. I met with the Board on two occasions.

I was keen that the people I spoke to should feel comfortably able to tell me their thoughts. I therefore advised everyone to whom I spoke that the details of the interview would be kept confidential and, subject to some remarks which I will make below, I will adhere to that.

The personalities and abilities of the various interviewees varied greatly. Some were able to assert their position confidently, while others needed some encouragement.

Occasionally I challenged people on views which I thought were difficult to maintain and sometimes tested my emerging thoughts with people whom I thought would offer useful criticism. I kept the interviews informal and relatively unstructured and extensive notes were made of all interviews.

I am confident that, by the end of the process, I had received a wide range of views on the subject matter and that everybody who had indicated a desire to speak with me had had the chance to do so.

It is important to note that there were some industry participants who were critical of my methodology and abilities in conducting the review. I mention this to ensure that I do not give the impression that everyone was satisfied with the review process.

THE LEGISLATION

In conducting this review I had regard to the following legislation:

- the Citrus Industry Act 2005
- the Citrus Industry Regulations 2005
- the Primary Industry Funding Schemes Act 1998
- the Primary Industry Funding Schemes (Citrus Growers Fund) Regulations 2005
- the Primary Industry Funding Schemes (Citrus Growers Fund) Variation Regulations 2009
- the Primary Produce (Food Safety Schemes) Act 2004
- the Primary Produce (Food Safety Schemes) (Citrus Industry Advisory Committee) Regulations 2005
- the Primary Produce (Food Safety Schemes) (Citrus Industry) Regulations 2006
- the Plant Health Act 2009
- the Plant Health Regulations 2009

The significant parts of that considerable body of legislation are, for the purposes of this review, as follows:

The Citrus Industry Act 2005

The Act establishes the CIDB and Section 5 sets out its functions, which are briefly summarised as being:

- to administer the Citrus Industry Fund;
- to promote the citrus industry and its products;
- to plan, fund and facilitate research relevant to the citrus industry;
- to collect and analyse data relating to the citrus industry;
- to disseminate technical, scientific, economic and market information to the citrus industry;
- to collect voluntary contributions on behalf of a citrus industry association;
- to provide advice to the citrus industry;
- to provide advice to the Minister in relation to the Primary Produce (Food Safety Schemes) Act 2004 and the Plant Health Act 2009
- to monitor the citrus industry and advise the Minister; and
- to undertake other (undefined) functions.

Section 6 of the Act provides that the CIDB is subject to ministerial direction.

Part 3 of the Act establishes the Citrus Industry Fund which consists of:

Section 15(2)

- (a) contributions from citrus industry participants paid or collected in accordance with the regulations; and

- (b) income of the Fund from investment; and
- (c) other sums received by the Board.

Sections 16 and 17 provide for the application of the Fund and for management plans for the Fund.

Section 17(4) provides:

The Board must ensure that industry members are consulted during preparation of a management plan.

Parts 4 and 5 of the Act provide for what is in effect, registration with the CIDB of all industry participants and empower the CIDB to collect a wide range of information from those participants, including (refer to Section 21(2) of Citrus Industry Act 2005):

- (a) particulars of citrus trees planted or removed or otherwise lost or destroyed, or of the area planted with citrus trees, by reference to age, type or variety, within a specified period or at a specified date;
- (b) particulars of citrus fruit by reference to type, variety, size, grade, quality, quantity or any other factor, produced, delivered for sale, purchased, sold or processed within a specified period;
- (c) an estimate of citrus fruit or citrus fruit product that a person expects to produce for marketing within a specified period;
- (d) particulars relating to food safety, food safety arrangements and auditing of food safety arrangements;
- (e) particulars relating to citrus pests and disease and prevention or control measures;
- (f) particulars required to determine the amount of the participant's contributions to the Citrus Industry Fund.

Failure of participants to comply with Parts 4 and 5 amount to criminal offences penalized by fines ranging from \$5,000 to \$10,000 (Expiation fees of \$350 can be levied).

Citrus Industry Regulations 2005

The Regulations have two main functions. The first is the creation of a selection committee which has the task of selecting and recommending persons for appointment to the CIDB by the Minister. The members of the selection committee are appointed by the Minister from a panel of persons nominated by bodies or organisations which are representative of the citrus industry. While in no sense a democratic procedure, this rather clumsy process does allow the citrus industry to have some indirect input into the ultimate appointment of CIDB members.

The second function of the Regulations is to fix rates of contribution by the various industry participants namely:

- citrus growers
- citrus packers

- citrus processors
- citrus wholesalers

Citrus growers, packers and processors all pay a flat, non-refundable fee and a variable, refundable fee calculated upon the tonnage of citrus they grow or handle. The packers are responsible for deducting the grower's variable fee from the monies due to them for their fruit and for forwarding those fees to the Citrus Industry Fund.

Citrus wholesalers simply pay a flat fee regardless of the tonnage of fruit they handle. The fees were fixed when the regulations were made in 2005 and although the CIDB has power to increase these fees, this has never occurred.

The fees fixed by Schedule 1 are:

(2) For the purposes of determining the contributions payable on or before 30 April 2006:

(a) the flat component is, in each case:0;

(b) the citrus grower rate is –

- (i) for oranges - \$3.20 per tonne;
- (ii) for other citrus fruit - \$2.20 per tonne;

(c) the variable component for a citrus packer is to be determined according to the following scale:

- (i) for 500 tonne or less - \$500;
- (ii) for more than 500 tonne but not more than 1 000 tonne - \$1000;
- (iii) for more than 1000 tonne but not more than 5 000 tonne - \$1500;
- (iv) for more than 5000 tonne but not more than 15 000 tonne - \$2000;
- (v) for more than 15000 tonne - \$2500;

(d) the variable component for a citrus processor is to be determined according to the following scale:

- (i) for 5 000 tonne or less - \$1000;
- (ii) for more than 5 000 tonne - \$2000;

(e) the variable component for a citrus wholesaler is to be taken to be \$2000 regardless of the number of tonnes of citrus fruit sold by the wholesaler.

It can easily be seen that the rate for growers is much higher than the rate for other industry participants and indeed growers contribute by far the greatest proportion to the Fund (approximately 90%).

The fees for wholesalers are particularly problematic. \$2000 is an insignificant amount of money for the larger wholesalers, but is large enough to deter small entrepreneurial operators (eg. organic growers) from acting as wholesalers. This is not beneficial for the industry and while I recognise the need to deter unscrupulous, or unsafe operators, I consider it would be beneficial for the industry if the wholesale section was opened up to allow competition by boutique producers.

Primary Industry Funding Schemes Act

This Act allows for the establishment of agricultural self-funding schemes. The purpose of such schemes is to allow any primary industry in South Australia to establish an industry fund. Monies accumulated under the fund are available for expenditure by a body representing the particular primary industry upon projects and activities which are for the good of that industry and to help the industry favourably position itself in the national and international market places.

In December 1996, the Minister for Primary Industries sought responses from some sixty organisations on the merit of establishing a legislative based generic self-funding capability for the State's primary industry sectors.

The responses received made it clear that the primary industry sectors favoured such a scheme provided that industry take a lead role in the development and implementation of the self-funding scheme and that, after establishment, Government involvement should be kept to a minimum and that each industry sector which participates in a funding scheme must retain control over the funds collected from participants in that industry. The Act was presented to Parliament and passed on this basis.

This Act and the Citrus Industry Act are designed to prevent contributions or levies, from being categorised as taxes.

Section 90 of the Commonwealth Constitution gives the Commonwealth exclusive power to impose excises – a tax on goods at any step in the production, or distribution, to the point of consumption. States do not have the ability to impose excise.

At this time, these Primary Industry Funds (PIFS) have not been challenged in the High Court and their constitutionality is not certain. It is hoped that the voluntary nature of the funds and relative lack of Government involvement would avoid the levies, or contributions, being categorised as “excise”.

Interestingly, the monies levied under the Citrus Industry Act would be more likely to be found to be “excise” because they are collected and expended by the CIDB, which is an arm of government and subject to ministerial direction and failure to comply with the Act amounts to an offence. The Primary Industry Funding Schemes Act has a much lighter touch.

The Governor may make regulations for the establishment of a primary industry fund, but this can only be done after the Minister has “consulted widely” with industry members (Section 4).

The Minister may manage the fund, or approve a society or association, or Board of Trustees, to manage the fund and methods of contribution to the fund and the subsequent application of monies are wide and flexible (Sections 6 & 7).

Section 9 provides safeguards in that it requires the body administering the fund to prepare a 5 year management plan in consultation with industry members and the

plan must be revised every 12 months. The plan must be available for public inspection.

The Act also provides for annual audit of the fund and for the publication of an annual report (Sections 10 & 11).

In my opinion this Act is good, modern industrial legislation. It limits the direct involvement of Government in the management of industry and provides an environment which helps an industry manage its own affairs.

Primary Industry Funding Scheme (Citrus Growers Fund) Regulations 2005

The Regulations establish the Citrus Growers Fund which, in the case of this fund, is managed by the Minister.

Regulation 5 fixes the contribution payable by citrus growers at 65 cents per tonne of fruit produced and sold. The CIDB acts as collection agent for the Minister and the contributions are paid either directly to the CIDB or, if the fruit is sold to a citrus packer or processor, by that packer or processor on behalf of the grower out of the monies payable to the citrus grower for the fruit.

The regulation also provides for refund of contributions upon request.

Regulation 6 provides for a wide range of applications of fund monies, as contemplated by the Act and reads:

The Fund may be applied by the Minister for any of the following purposes:

- (a) payments to Citrus Growers of South Australia Incorporated for 1 or more of the following purposes:
 - (i) the reasonable operating and management expenses of the body;
 - (ii) fees for affiliation of the body with regional, State or national citrus or horticultural industry bodies;
 - (iii) promoting the South Australian citrus industry, including through industry field days, conferences and other events;
 - (iv) undertaking or facilitating research and development, or the collection and dissemination to citrus growers of information, relevant to the citrus industry;
 - (v) representation of citrus growers, or participation of the body, in regional, State or national citrus or horticulture industry forums;
 - (vi) programs designed to encourage communication and cooperation between citrus growers, citrus packers, citrus processors and persons marketing citrus fruit or citrus fruit products;
 - (vii) other purposes of the body;
- (b) payments for other purposes for the benefit of citrus growers;
- (c) payment of the expenses of administering the Fund;

(d) repayment of contributions to the Fund under Regulation 5.

Regulation 7 provides for a person who is in default in relation to contributions to the fund to be excluded from direct benefits or services funded by payments from the fund.

Regulation 8 creates an offence for making false or misleading statements in respect of records kept for the purpose of these regulations. I do not understand the reason for Regulation 8. It is unnecessary and detracts from and potentially weakens what is otherwise excellent legislation. Its only real purpose would seem to be to punish persons who provide false information which affects their contributions. As the contributions are wholly returnable upon request, the regulation seems to be pointless. In any event such a person would probably be caught by Regulation 7 and become liable to exclusion from the benefits of the fund. In my opinion Regulation 8 should be revoked.

Plant Health Act and Regulation Primary Produce (Food Safety Schemes) Act 2004 and Regulations

I mention these pieces of legislation for completeness because they are referred to in Section 5 of the Citrus Industry Act which gives the CIDB, inter alia, the function of advising the Minister on the operation of this legislation.

An examination of the two pieces of legislation reveals, however, that the function in Section 5 of the Citrus Industry Act is merely enabling and does not actually require the CIDB to do anything. Both the Plant Health Act and the Primary Produce (Food Safety Schemes) Act and their associated regulations are silent on the CIDB and give it no work to do.

THE INDUSTRY BODIES

As I mentioned in the introduction to this report, there are three industry bodies of particular relevance to the South Australian Citrus Industry. They are:

- Citrus Australia Limited (CAL)
- Citrus Growers South Australia Inc (CGSA)
- South Australian Citrus Industry Development Board (CIDB)

I shall now proceed to briefly examine the structure, functions and operations of each of those industry bodies and set out a summary of the submissions which they each made to the Review.

Citrus Australia Limited

As previously mentioned, CAL is the successor to the long standing national industry Australian Citrus Growers Inc (AGC), which in 2008 was wound up by its members in

favour of CAL, a company limited by guarantee and incorporated under the Corporations Act 2001 (Commonwealth).

In 2006, ACG had commissioned a report from Concept Consulting which ACG adopted as the "Citrus Industry Strategic Plan". It was and still is a most useful document.

The report's examination of domestic and global markets revealed that, although Australia averages citrus production at 680,000 tonnes per annum, Australia is a niche player in the global market with 0.6% of global production.

Australia has, however, a strong export history, shipping approximately 180,000 tonnes per annum. Australian citrus is counter-seasonal for the Northern Hemisphere and is regarded as high quality fruit.

The report took the view that the citrus industry was essentially sound, but faced significant problems. Grower numbers had been steadily declining and industry profitability had fallen with many growers claiming current fruit prices were below the cost of production.

Other key industry issues identified in the report were that:

- Competition is increasing in all markets.
- Citrus marketing is under resourced and uncoordinated.
- The industry is uncoordinated and fragmented, being represented by some 15 industry bodies.

The report recognised a number of strategic imperatives for the citrus industry including:

- Developing and encouraging investment in technology.
- Focus of whole of supply chain productivity improvement.
- Enhance environmental sustainability and "image".
- Add value to citrus products and by-products.
- Monitor markets and competitors.
- Improve industry leadership and representation.

While all of these things are important at a State level, commonsense dictates that a national approach would be more effective.

In 2008, subsequent upon a report on restructure options for the industry prepared by Deloitte, ACG prepared a white paper recommending a single structure representation for the citrus industry.

This option potentially offered integration of all existing grower bodies into one national body responsible for all industry policy and service delivery functions. This new body would have a regional presence, be membership based and supported by national levies, and the State bodies would gradually cease to exist through a staged process.

This was the basis upon which ACG members wound the body up to form CAL. CAL has two categories of membership: grower members (who vote) and affiliate members. CAL encourages value chain stakeholders to join as affiliate members.

CAL currently claims that it is active in the following areas:

- **Public Affairs**
 - Actively lobbying, on industry's behalf, on issues such as water, export market access and development, bio-security and quarantine, industrial relations and truth in labelling.
 - Citrus Australia's Chief Executive Officer, Judith Damiani expects to further drive these actions as we deal with a minority federal government which was forced into a renewed focus on regional Australia.
- **Market access, development and promotion**
 - Breaking down barriers to export markets such as China, South Korea, Thailand, Japan and the United States.
 - Facilitating new National Internal Maturity Standards for the whole of industry.
 - Developing more effective domestic promotion programs, such as the "Give me a Mandy mum" campaign trialled last year.
- **Information**
 - Providing information on plantings, crop forecasts and weekly market distribution through InfoCitrus.
- **Communication**
 - Using Citrus Australia's key regional personnel, through the popular industry magazine Australian Citrus News, on a new-look interactive website, at regional events and national conferences.
- **Bio-security/plant health**
 - Bio-security plans, awareness posters, study tours for canker and Huanglongbing.

CAL also employs, or funds, experts in areas of marketing, market development, bio-security and industry development. CAL employs a value chain coordinator in partnership with CIDB and CGSA to deliver both national and regional services. The coordinator is a very competent operator, but the partnership is under some stress.

I met with the Chair and the Chief Executive of CAL. I was very impressed by their energy and determination. I formed the impression that they have a clear vision for the future and clear plans to achieve their goals.

Support for CAL in the eastern states is strong, especially amongst Queensland growers. CAL is physically based in Mildura. Membership take-up in South Australia has been slow and is relatively small. Interestingly, however, CAL

members operate some 40% by area of all citrus plantings in the State, which suggests that the larger operators are supporters of CAL. This was borne out in my discussions with the larger and more progressive growers and packers who see a strong peak national body as essential for the future of the industry.

Only a small percentage of the smaller South Australian growers are members of CAL. As they already pay levies for CIDB and the PIFS, cost may be a factor. Some industry members are parochial and see CAL as being focussed upon the eastern states and fear that South Australia won't get fair representation, or services, from CAL. The simple answer to this of course, is that if more South Australian growers joined CAL the State would have a stronger voice.

CGSA is a supporter of CAL and agrees that, ultimately, there should be one peak national body which has regional representation, and that CGSA and the CIDB should cease to exist.

CIDB publically asserts its support for CAL. Privately, however, the Board is extremely negative about CAL. The relationship between CAL and CIDB has also recently been marred by tension between the respective executive officers.

CAL's proposal for this review is as follows:

“There are current inefficiencies in the dual structure in SA. This is widely accepted without adding the national statutory levies that all SA citrus growers pay and Citrus Australia's voluntary membership that some SA citrus growers pay. It is no wonder that many growers are confused and frustrated or just dismiss as 'too hard'.

The multi-structure nature of the citrus industry will only continue to erode value, as demonstrated in the Deloitte Business Case (2008). It is imperative that we act now based on years of extensive consultation, independent review and cost.

The industry's broad restructure agenda requires the following action:

- Dissolve the SACIDB and CGSA
- Citrus Australia to open a branch office in Berri, SA. Value chain coordinators or industry development officers can be fully funded through national R&D levy projects with regional and national responsibilities. Citrus Australia Mildura office can support all administrative requirements. The branch office may be co-located with the Almond Board of Australia (preliminary positive discussions have been held). Other project staff can be contracted as required.
- Citrus Australia appoints a skills based regional advisory committee to advise the CA Board, and HAL, on regional priorities including R&D and marketing.
- Citrus Australia maintains the SA grower database for communication and data collection purposes.

- Citrus Australia maintains the current crop estimates committee to confirm annual crop estimates.
- Citrus Australia continues to contract service providers to continue crop forecast measurements (annually) and planting survey (every 3 years).
- Citrus Australia is rolling out its weekly online information system InfoCitrus. A recent SA packer visit has indicated that the majority will participate for this season. An 85% voluntary participation is required.
- Citrus Australia will consult with growers around Australia for an increase in the national R&D, marketing and plant health levies to capture industry investment lost in the states. We believe an increase of \$3.50 is required to run effective programs for the Australian citrus industry. Any increase in the national R&D levy attracts matching Commonwealth contribution – a simple way to double the money. Citrus Australia is accountable to all levy payers, not just members, with respect to national R&D, marketing and plant health funded programs.
- This provides a model for Victoria (Murray Valley) and NSW (Riverina).

Strong and adequately resourced national levy programs should cover:

- Product Development – new varieties through breeding, importation, evaluation, commercialisation, new products.
- Securing our production base – bio-security¹, national fruit fly management, natural resource management, climate variability.
- Production efficiency and innovation – crop regulation, increasing yields, best practices, lower costs, new technology.
- Market Access & Development – new/improved export quarantine protocols, domestic trade, market and competitor analysis.
- Product enhancement – national quality standards, taste, safety
- Promotion – national domestic category management, export promotion.
- Information – plantings, crop forecasts, production, market intelligence, trend analysis.
- Communication – regional/national forums, publications, media, web, value chain networks.
- Leadership – strategy, structures, skills, leadership programs.”

Whether the South Australian citrus industry is quite ready for so complete a transformation is discussed below.

Citrus Growers South Australia Inc (CGSA)

¹ National Biosecurity Program – Citrus Australia is a signatory to the Emergency Plant Pest Response Deed (EPPRD) and a member of Plant Health Australia. The EPPRD is a legal document which shares eradication responsibility between plant industries, state and federal governments. This program will ensure greater awareness, prevention and control, and capacity to react quickly and effectively in the case of an incursion.

CGSA is an incorporated association pursuant to the South Australian Associations Incorporation Act, 1985. CGSA was apparently incorporated in 1994 and is governed by a constitution. While no doubt adequate for the time, the constitution is badly out-dated and in need of re-drafting.

Membership of CGSA is extended to any citrus grower registered under the Citrus Industry Act 2005 and who has not made application for refund of charges imposed by the Minister for Agriculture, Food and Fisheries.

Associate membership is limited to retired growers, or to persons CGSA considers have made a contribution to the citrus industry.

The objects of CGSA are:

The Association is a non profit organisation and any surplus assets are put back into the Association to further the objectives of the Association.

- (1) To act as a grower representative group which exists for the purpose of promoting the common interests of all citrus growers who are members of the Association and to secure for the benefit of all members the advantages of unity of action and making representations in matters affecting citrus growers with a single voice and to seek representation on all boards, commissions and committees if it is in the best interests of members to do so.
- (2) To raise and obtain monies for expenditure in accomplishing the objects of the Association, provided that no such monies shall be used for party-political purposes.
- (3) To hire and employ the necessary labour for carrying out the work of the Association.
- (4) To ensure the industrial interests of members are represented before courts, boards, commissions, committees and other tribunals or bodies, and at conferences with trade unions and other bodies of employers and employees.

CGSA is administered by a committee. There is no restriction on the number of terms, or consecutive terms, the Chairman may serve.

In the last twenty odd years, CGSA has had, except for a break of one year, the same Chairman. That does not, of itself, imply any criticism of the Chairman.

In rural communities there will often be a limited number of people who are prepared to do the "heavy lifting", but the longevity of the Chair does suggest that the members of CGSA are not particularly involved in their Association. I was informed however, that CGSA's meetings are reasonably well attended and sometimes the forum for lively debate.

CGSA is a democratic organisation, however, the voting power is apparently based on the size of a members citrus plantation, although the constitution does not make this completely clear.

The constitution reads:

(1) Subject to these rules each member present in person or by proxy shall be entitled in a General Meeting to exercise a vote or number of votes up to a maximum of 5 in accordance with the following formula:

Up to 5 hectares	= one (1) vote
Over 5 and up to 15 hectares	= two (2) votes
Over 15 and up to 30 hectares	= three (3) votes
Over 30 and up to 50 hectares	= four (4) votes
Over 50 hectares	= five (5) votes

The reader is left to make the assumption that the areas are areas planted to citrus. (This is an example of the many points of poor drafting in the document.)

As previously mentioned, CGSA is funded by its own PIFS and its total PIFS funding for 2009/10 was \$104,000.

This is far too small a sum to run an effective industry organisation. CGSA is staffed by a part-time executive officer and its office hours are limited. It also contributes to the funding of the value chain coordinator who is accommodated in its office.

Notwithstanding its paucity of resources CGSA is an active body at a grass roots level and its primary activities are providing representation on industry bodies, advising members on industrial matters (eg. employment awards) and lobbying Government.

In addition to CGSA's contribution to the value chain project and its recent contribution to the supply chain code of conduct, CGSA is actively represented on:

- Tri-State Fruit Fly Committee
- SA Fruit Fly Committee
- Horticultural Plant Health Committee
- SA Horticultural Coalition
- SA Citrus Improvement Society
- SA Horticultural Industry Charges Panel
- Riverland Horticultural Reference Forum
- SA River Communities Group
- CAL Export Marketing Committee
- CAL Domestic Marketing Committee
- SafeWork SA – Model Work Health and Safety Laws Project

CGSA has a clear vision for the future. It believes that, ultimately, a national peak industry body with regional representation is the best model and CGSA is a strong supporter of CAL. It accepts, however, that at this point in time, South Australian citrus growers would not feel comfortable without a South Australian industry body.

CGSA's proposal is:

“Citrus Growers of SA (CGSA) believes that there is a need to eliminate a two-tiered local structure and to have one organisation in South Australia that would integrate and be linked with the national body. It is proposed that the organisation be called

“Citrus Australia SA”. CGSA believes the office of the new body should be located in the Riverland Growing region.

Formation of a single industry body would:

- Eliminate duplication resulting in considerable cost savings.
- Increase programs such as R&D and promotion as a result of cost savings.
- Ensure grower funds are used to advance the needs and requirements of the grower who is the foundation of any industry and the supply chain.
- Result in much needed industry efficiencies.
- Eliminate unnecessary legislation.
- Meet the current and future needs of all industry within South Australia.
- Provide a single message/position on SA citrus industry regional issues working through groups such as the SA River Community Group and the Horticulture Coalition of SA on issues such as:
 - State biosecurity
 - Water
 - Local government issues
 - Other relevant current issues that arise.
- Fit within the current and future national requirements of the Australian Citrus Industry.
- Is industry owned.
- Have a skills-based committee representation which will feed into the national organisation.
- Have ability to co-opt additional expertise and skills.
- Utilise the appropriate state/national structure, programs and resources to have input into all industry and supply chain issues undertaken by the national industry body including:
 - Biosecurity
 - Export Market Development
 - Information Services
 - Collection of Statistics
 - Promotion
 - Industry Development
 - Research and Development
 - Labelling

The new body would continue to access funding through the Primary Industry Funding Schemes Act but with a reduction of contributions by growers.”

It follows that CGSA would support repeal of the Act and the winding up of the CIDB.

The South Australian Citrus Industry Development Board (CIDB)

I have already outlined the history of the CIDB and its enabling legislation earlier in this review.

The CIDB is currently composed of a Chairman and six members. These are paid positions. Total board fees for 2009/10 were \$94,264 and the board's expenses were an additional \$7,730. The CIDB has a full time executive officer and there are three support staff, making a total of 2.5 full time positions. Their salaries and associated employment expenses, when added to the board fees, gives a total employee benefit expense of \$305,568.

Total supplier and services provided to the CIDB in 2009/10 were an additional \$261,304. Without being in any way critical of these expenses, it can be seen that the CIDB is not cheap to run. The CIDB's Annual Report for 2009/10 reveals that total revenue was \$627,276 and total expenses were \$632,919, leaving an operating deficit of \$5,643. The Annual Report discloses the CIDB's total financial assets to be \$587,135, a drop from \$633,848 in 2007/08, because of operational deficits over the last two years.

Levies on citrus growers account for approximately 80% of the CIDB's total revenue while registration fees from packers, processors and wholesalers account for only 12% of total revenue. Almost all these registration fees are charged back to the growers meaning that the growers contribute approximately 90% of the CIDB's total revenue and the other industry participants receive the benefits of CIDB services without cost.

During the review process this inequity was the source of considerable complaint. The McFarlane review, previously mentioned, urged that this situation be rectified and a government review in 2009 re-enforced this message, but nothing has been done.

The CIDB has a management plan which requires it to focus upon the following matters:

- Bio-security
- Support for Export Market Development
- Information Services
- Food Safety
- Industry Development
- Issues Management
- Management and Administration
- Promotion
- Research and Development

I do not intend to repeat the details of the annual report for 2009/10, but it is fair to say that the CIDB reports activity in all of the above areas. The annual report claims particular success in areas of bio-security (fruit fly control) and export market access.

The annual report is not, however, generally available to industry participants leading to justified complaints that CIDB's operations are not transparent.

The executive officer of CIDB is a qualified entomologist and a busy and competent worker, with a wide range of industry contacts within Australia and overseas. He is well respected within the citrus industry and the annual report mirrors his activity in providing technical advice and opinion across a wide range of relevant areas.

The CIDB also reports considerable promotional activity. These promotions are, however, all aimed at a South Australian audience which, given the low proportion of South Australian citrus actually consumed in the State, I thought curious. During the review it was suggested the advertising was more about promoting the CIDB to its constituents than it was about promoting the product.

The CIDB claims it was active in making representations to State and Federal governments on issues around availability of irrigation water to citrus growers during the recent drought. Not all industry participants agree with this claim.

The CIDB claims two particular strengths which it says are not replicated by any other organisation.

Firstly, it claims that it represents the whole value chain and that it is the voice and supporter of all citrus industry participants. Secondly, it claims that its legislated power in the Citrus Industry Act 2005 to collect and maintain a grower, packer, processor and wholesaler data base enables it to offer vital information to industry participants.

In particular it provides, on a weekly basis:

- A Newsletter published in three Riverland papers, on the SA Citrus Board website, circulated to other state media organisations and key horticultural organisations and direct emailed to SA growers, packers, processors and wholesalers.
- Market price report, which briefly reports on wholesale produce market conditions in Melbourne, Brisbane, Sydney and Adelaide, emailed direct to all SA Citrus Industry Stakeholders.
- Varietal distribution report, which shows how much fruit, was harvested in the previous week, what varieties and where the fruit was marketed. The report also shows current harvest against the crop estimate and what crop remains in the field. Emailed direct to all SA Citrus Industry Stakeholders.

In 2009, the CIDB conducted a survey of growers on the current state of citrus plantings to provide an overall picture of the industry and it contracts out collection of data on fruit size and crop density within the Riverland.

The 2009 Government Review (previously referred to) provided an extensive list of recommendations that urged the CIDB to work cooperatively with CAL and CGSA. Although the CIDB claims to have attempted to do so, it says that it has been

frustrated by the attitude of those bodies. However, both CAL and CGSA assert that CIDB has been hostile and uncooperative and is largely responsible for the current impasse that exists.

In November 2010, CIDB issued a survey to its constituents and achieved about a 20% response, which is quite good. CIDB claims that the survey:

“confirmed strong support for the *Citrus Industry Act 2005*, primarily because the Act ensures all SA citrus industry stakeholders contribute to funding industry good activities in SA and provides unique abilities to collect essential industry information from all stakeholders.”

I regret to say that, the survey does no such thing and is virtually worthless. Essentially the survey questions ask respondents to confirm that they wish the CIDB to be active upon issues which are important to industry.

Here are some examples:

The respondents are asked if they wish CIDB to:

- Monitor management of pest and disease risks for SA citrus.
- Enhance exports through better industry coordination.
- Communicate latest research and strategies to assist exporters and growers access markets.
- Maintain complete SA industry statistic capturing all SA stakeholders in supply chain
- Seek government funding for development programs.
- Consult with governments on serious industry issues (eg. water, quarantine, etc).

Not surprisingly, an agreement rate of over 90% was achieved. The only surprising thing is that some respondents disagreed. The only issue which attracted significant dissent was the value of CIDB’s statistical publications.

At the time the survey was issued, CIDB was well aware of a significant level of industry dissatisfaction with its structure and performance. Some growers were indicating that they would be seeking refund of their levies. It is difficult to avoid seeing this survey as a rather amateurish defensive mechanism.

The CIDB makes the following recommendations to the review:

- “1. A single, incorporated citrus industry body covering the whole citrus supply / value chain in South Australia.
2. The South Australian citrus industry to retain its own Industry Act via the *Citrus Industry Act 2005* and associated Regulations, to ensure all beneficiaries contribute to industry good activities (not just growers).
3. The *Citrus Industry Act 2005* continues (specifically section 20 & 21) so that collection of critical industry information from all stakeholders occurs to

support the entire industry in this State and ensure that the national industry body is able to deliver key outcomes, in particular under its Export Market, Information Service and Collection of Statistics' goals.

4. Maintenance of the Board's Advisory Committee role on food safety under the *Primary Produce (Food Safety Schemes) (Citrus Industry Advisory Committee) Regulation 2005* that provides for members of the SA Citrus Board to provide advice to the Minister on the administration of the *Primary Produce (Food Safety Schemes) (Citrus Industry) Regulation 2005*.
5. Utilisation of the powers of the *Citrus Industry Act 2005* and whole of South Australian supply chain representation to assist Citrus Australia (CA) with its national objectives.
6. The South Australian industry body to operate under a Memorandum of Understanding (MOU) with CA, to ensure efficient and coordinated program activity and so minimise duplication.
7. The South Australian industry body to comprise 4 growers and 3 marketers plus one independent Chairperson.
8. The Board of Management of the South Australian industry body to be supported by advisory committees including the growers, packer, processor and wholesaler sectors to assist with priority setting and planning.
9. Cost savings provided by the formation of the single body used to reduce grower contributions."

Whilst the SA Citrus Board supports the principle of having a strong, national peak industry body supported and enhanced by a single industry body in South Australia, it strongly disagrees with the model as proposed by Citrus Australia (CA) and Citrus Growers of SA (CGSA), which is to operate as a branch of CA without the backing of the *Citrus Industry Act 2005* or similar. The SA Citrus Board believes this proposal is simply not practical and would be counterproductive to the best interests of the SA citrus industry, and indeed most SA citrus industry stakeholders."

THE INTERVIEWS

The interview process and my considerations of the written submissions produced continually repeated themes. There were not, however, many areas of consensus. People were either in favour of CGSA, or in favour of the CIDB. There was no clear majority for either side. A small group were prepared to see both sides of the argument and these people impressed me as ones who had given significant thought to the industry's future and who offered me valuable insight into the problems and possible solutions.

In-fighting

Many people expressed concern at the level of in-fighting within the citrus industry. They are concerned that the industry faces challenges on many fronts and that the industry will go through fundamental change over the next few years. Many people see the days of the small growers and pack-houses as being numbered and think that, to survive the citrus industry will have to move towards larger, more efficient operations and that this is already happening.

The strong view was expressed that the industry needs unity and strong leadership to see it through the times ahead. Many people believe the in-fighting is preventing this from happening and that it is damaging the industry and must stop.

Some see the in-fighting as being the by-product of “agri-politics” and driven by personal ambition and the personalities involved.

Others see it as a struggle for limited resources and influence and an attempt to maintain the status quo in the face of inevitable change to a more nationally based industry structure.

There is a strong consensus that the South Australian industry is too small a player to allow diminution of its already comparatively small influence.

Citrus Australia Limited

There is very strong support for a peak national body for the citrus industry. The overwhelming majority of industry participants see the issues facing the industry as being, more and more, national ones and the individual state bodies as having less and less relevance.

While some people, notably from CIDB, expressed strong criticism of CAL, most see it as work in progress and offer their guarded support. Considerable parochialism was evident around this discussion and many smaller operators, while expressing support in principle for CAL, are in fact quite regionally focussed.

I often heard the view that CAL is too Queensland focussed and that South Australia’s interests are not in the foreground of CAL’s efforts. This partly accounts for slow take-up of CAL membership in this State which has the circular effect of reducing South Australia’s interest in the body. A small number of people are also concerned that CAL cannot provide the same level of services as they currently receive from CIDB, however those who have received services from CAL are pleased with the services they received. A large majority of those interviewed expressed the view that a State based body is necessary in the short to medium term.

CGSA is seen as a supporter of CAL while CIDB is seen as an opponent of CAL.

Citrus Growers South Australia

CGSA has very strong support from a minority of industry participants. The pack-houses, processors and wholesalers are not generally supporters of CGSA although the larger operators in all areas, except wholesalers, see CGSA, or an industry membership based body like it, as the way of the future, if there is to be a State body at all. I found a small, but vocal, body of persons strongly opposed to CGSA and some of its board membership, but the majority of people expressed guarded support for CGSA.

Their concerns revolve around its inability to make real progress due to a lack of funding although the commitment of its board and executive to do the best with what they have was generally acknowledged.

CGSA is seen as democratic and transparent, although there is concern about the adequacy of its constitution, its acreage based voting model and the apparently entrenched nature of its leadership.

CGSA is valued in particular for its advice and action on industrial matters and because it is “a friend of the industry and not a government regulator”. The fact that CGSA is based in the Riverland is also seen as important.

I formed the clear impression that CGSA is attractive to the large operators, the younger and more technically attuned operators and to people who believe that market forces are the best force for constructive change.

The Citrus Industry Development Board

There is no doubt that there is great historical respect throughout the industry for the former Citrus Industry Board. I often heard that, without the Board’s efforts in the 1980’s and 1990’s, the citrus industry would not be where it is today. The former Board is credited with establishing foreign export markets and with good achievements in research and development and in bio-security.

For some operators, growers in particular, the change in functions between the former Board and CIDB is not clearly understood and some see the CIDB as having inherited the mantle of the former Board, leading them to recite the achievements of by-gone days and then saying things such as: “So, if you get rid of the Board the industry is shot”.

In the same vein it was apparent to me that many industry participants do not have a clear idea of what the CIDB does, or what its achievements have been since 2005.

Supporters of the CIDB consistently told me that it was of critical importance that “the Act has teeth and is the envy of all other States”. Several people expressed the view that people won’t contribute, (money or information), unless they are forced to by threat of penalty.

Industry participants supportive of the CIDB continually cited the following matters as the CIDB's strong points:

- collection and publication of data.
- promotion (particularly at the Royal Adelaide Show and the City to Bay Fun Run).
- maintaining fruit fly free status.
- representing the whole value chain (although questioning often revealed an uncertainty about the meaning of this phrase).
- good technical advice from the Executive Officer.
- foreign countries are given confidence because the CIDB speaks for the South Australian government. (This is a matter of some concern. The CIDB should not hold itself out as speaking for the government without clear authority to do so. I believe the CIDB encourages this perception and if so is misleading its constituents.)

Criticisms of the CIDB were numerous and varied. It was commonly reported that the CIDB is not democratic or transparent, that it is elitist and that the best people are not on it. Some people see the CIDB as being an arm of government and "in PIRSA's pocket" and not prepared to do things which might attract government displeasure, for example, not being prepared to "go in hard on water".

It was a common criticism that the CIDB is expensive to run and is not good value for money. The CIDB does have arguments that it has saved the industry a lot of money. These arguments largely turn around the Executive Officer's prompt response to disease out-breaks. Leaving the validity of these arguments aside for the moment, the CIDB has clearly failed adequately to inform its constituents of its work.

I gained the clear impression that CIDB tends to be supported by the more conservative cohort of the industry. Interestingly, while most would claim to be supporters of free enterprise and "free marketeers" they are patently anxious about the industry being opened up to more competition and look to the State government for regional protection.

Levies

Many growers feel that the current CIDB levy is unjust, because they effectively pay 90% of the costs of CIDB, while the other industry participants receive services from CIDB at little, or no, cost. Many consider that, if the CIDB is to continue, that the structure of levies and fees should be dramatically overhauled to ensure that all industry participants pull their weight.

The citrus growers pay levies twice through two separate mechanisms (ie. The CIDB levy and the PIFS levy).

Some growers find this confusing and are unclear what they are paying for and how to seek refunds if they are not satisfied. One large grower has already sought refund of the CIDB levy and three others told me that they have decided to do so. Some

others told me that they will await the outcome of the review before making a decision about seeking a refund.

It was suggested to me that CIDB is passively resistant to applications for refund, however CIDB denies this. The CIDB takes the position that the fact that only a few growers have sought refunds over the past few years indicates that the vast majority of growers are satisfied with CIDB's services. The interview process revealed to me that that was clearly not the case.

Duplication

As recited in the Terms of Reference, there is a duplication of functions described in the *Citrus Industry Act 2005* and the *PIFS (Citrus Growers Fund) Regulations*. This situation inevitably results in the inability of the citrus industry to speak with one voice.

The existence of the CIDB and CGSA in the same industrial space means that the cost of provision of services to the industry greatly increases. There are two executive officers, two sets of staff members and two office premises, all for the purpose of providing one set of services.

When it is remembered that CAL also provides some of these services then the situation is even more incongruous. Many interviewees expressed frustration at this situation.

Bio-security

The CIDB holds itself out as having an important role in bio-security matters and many industry participants interviewed obviously believed that to be the case. My reading of the Emergency Plant Pest Response Deed (EPPRD) details provided by Plant Health Australia led me to doubt that and closer questioning drove me to the conclusion that the interviewees were unclear, or mistaken, about this. My discussions with Bio-security SA (BSA) confirmed my view.

Bio-security issues, including fruit fly in South Australia, are wholly the province of BSA and other PIRSA sections. The Plant Health Act is the key act in this respect and the Act gives BSA powers to act and respond in relation to pest outbreaks. This is linked to the EPPRD to which the South Australian Government and CAL are signatories: CIDB and CGSA are not. In the case of fruit fly, BSA will liaise with the Tri-State Committee of which both CGSA and CIDB are members. BSA advised me that CIDB does not have much of a role in the Fruit Fly Program except as a stakeholder. In so far as is necessary, BSA will liaise with CGSA, or directly with growers. The program is managed independently of the CIDB.

The Whole Value Chain

Supporters of the CIDB continually repeated that CIDB was important because it represented the whole value chain. It almost became a mantra and the concept bears some brief examination.

It is common place in industries today, including agriculture, to speak about the importance of the “whole value chain”. It is an obvious truth that, if the various links in the chain work to produce, or process, their products in a way that make them more valuable and attractive to those further up the chain and ultimately to the consumer, then financial benefits can find their way back down the chain to the original producer. It does not, however, always work this way in the real world, as the interests of the links in the chain are often not aligned. The situation of the supermarket duopoly is a case in point.

It is in the financial interests of the supermarkets that farm gate prices remain low and that many “middle-men” as possible are cut out of the chain. This allows them to maintain a good profit margin while still selling to the consumer at low cost. This already happens in the citrus industry.

Usually the best that can be done from the farmers, packers and processors point of view is to provide good information to the early links in the chain about the nature, quality and quantity of product wanted by those higher up the chain and to identify other markets for those unable to produce the ideal product.

Research and development results inserted into any stage of the chain can have benefits both up and down the chain. CAL, CGSA and CIDB jointly fund a “value chain coordinator” to work on these things and it is a good initiative.

To assert that the CIDB represents the whole value chain means no more than that some of the board members are packers, wholesalers and marketers and so CIDB can ascertain their views when formulating policy – but the CIDB should be doing that anyway!

Market forces and conditions are of paradigm importance in formulating industry policy. It is, of course, very difficult to truly represent all the links in the value chain. The CIDB’s South Australian focussed promotional campaigns are an example. Those packers and wholesalers whose businesses are locally orientated are full of praise for CIDB’s promotions.

Many growers would prefer promotions to be organised on a national basis, so as to target consumers in the localities where their fruit is actually sold.

Data and Information

The CIDB collects extensive data through its coercive powers and provides the regular information previously outlined. Many growers and packers informed me that they value that information, however, a significant number did not. Most of those

said that the CIDB data was irrelevant to their business and that they needed national, or even international, information.

A few doubted the accuracy of the data collected by CIDB and some more computer and technically literate growers told me that they could easily find much better and more useful information on the internet.

CAL is developing a voluntary, confidential data base which is available to members and has also begun contracting services to provide annual crop forecast measurements and to conduct three-yearly planting surveys. Most interviewees were not aware of these services and in any event are not members of CAL.

Research and Development

Most growers and other industry participants are aware of research and development by the South Australian Research and Development Institute (SARDI) in areas of quarantine barriers and the control of quarantine pests. CIDB has also partly funded research and registration of a post-harvest oil formulation and other post-harvest research. In my view this is the sort of work which is best done by governments, even if some of the cost is recovered from industry.

Small agricultural sectors cannot really be expected to fully fund significant research and development programs, rather it is the job of government to provide the “landscape” in which the sector has the potential to succeed. It is the function of industry bodies to lobby for this sort of assistance, however with governments moving more and more to user pays models, these lines are becoming blurred.

Miscellaneous

Interviewees mentioned a number of other matters which require only brief mention:

- The high Australian dollar damaging export markets. There is little that anyone, including the Australian Government, can do about this. It is the intermittent downside of a freer global marketplace.
- Water allocation. Many thought that the various industry bodies and the State Government had not done enough on this issue.
- BRIX testing. This is testing of sugar / acid ratio in fruit. Equipment and instruction is available from CAL and CIDB. It is also available commercially. CAL has developed voluntary national standards in this respect. Some people thought the proposed standards are good, others that they are too high.

DISCUSSION

Globalisation was always going to have a marked effect on Australian agriculture. Our relatively high costs of production place us at a disadvantage on the world stage. These disadvantages are being tackled by increased efficiencies created by economies of scale, shortening of supply lines, concentration on quality and added value and development of markets. It is easier to achieve this in large industries than smaller ones.

The Australian grains industry is a good example. Its massive production from large, technically advanced, farms, its high quality control and sophisticated bulk handling enables the grains industry to be a seriously competitive world player.

The citrus industry, by comparison is relatively small. Australian citrus accounts for less than 1% of the world's production and South Australia's production is only a small percentage of that. Accordingly it is more difficult to achieve the improvements and efficiencies necessary to maintain viability in the national and international market place.

Today a lot of citrus fruit and products consumed in Australia come from overseas, notwithstanding that we already produce 30% more citrus than we can consume domestically.

Looking over the horizon it can be seen that it will become increasingly difficult for small citrus industry participants to survive except in niche, specialised and novel markets. The future lies with large farms, linked to large national packers and exporters which deal directly with national and international retail organisations. This is already happening in South Australia and will continue to do so.

State industry bodies will be largely irrelevant to these corporations, although they may wish to continue to support them in their role as good corporate citizens. It is the balance of the South Australian citrus industry which is going to need a strong industry body to represent it, to lobby governments, to design and lobby for strategies to help viable operators to stay in the industry and non-viable ones to leave it.

The issues facing the citrus industry are increasingly national issues as opposed to state ones and state industry bodies are likely to become increasingly irrelevant. Such things as quality standards, disease control, research and development, quarantine and market development are primarily national issues and best dealt with on a national basis. The overwhelming majority of citrus industry participants share this view and consider that a strong national body is essential for the future.

My own view is that the model of a strong, membership based national body with regional representation is by far the best one and the sooner the state bodies, with their baggage of regional jealousies and self interest cease to exist, the better it will be for the industry as a whole. My experience in conducting this review has shown me that this change will not happen overnight, but the outcome of the review ought to be one which facilitates movement towards a national model.

In CAL there is already the foundation of a strong national body with sound and realistic visions for the future. True, it has some initial fragilities and its fair share of critics and detractors in South Australia. I am reasonably confident that CAL will survive and South Australian industry participants should be encouraged to join as members, or affiliated members, as it is patently in their long term interest to do so. Increased South Australian membership will lead to greater state representation on CAL and dilute the present parochial concerns that our State will not “get a fair go”.

In the meantime, as previously noted, the industry would not be comfortable without a state based industry body and except for a few fence sitters, or hopeless optimists, everybody believes that there is room for only one. There is, however, no clear body of opinion as to which body, or what type of body it should be.

Doing nothing is not an option, because the situation will only deteriorate and expectations that something will be done are high. Any decision is certain to be accompanied by a measure of political noise and discomfort.

Modern industrial thought dictates that, in the absence of a requirement for direct regulation, industry bodies should be owned by, supported by and answerable to the industry itself. As I said at the outset, it is not the function of government to run industry, or to establish and control peak industry bodies.

One of the most important functions of an industry body is to represent its members in dealings with government and it is hopelessly compromised if it is, like CIDB, appointed by government, to some extent constrained by government policy and ultimately subject to government direction.

This was initially recognised in 2003 and the initial proposal was to abolish the old Board and to strengthen the industry based body. The then Minister however, became convinced that the industry wanted to retain a legislatively backed Board. I strongly suspect that a particularly vocal section of the industry convinced the Minister that this was the case and that the domination and success of the old Board had led to a culture of dependency on a Board and a consequential timidity toward participants taking control of their own industry.

Whatever the reason, a Citrus Industry Implementation Committee was formed and its terms of reference were predicated upon the assumption that there would be an Act and a Board. The Committee’s job was to work out what the content of the Act and the functions of the Board would be. The question of whether, or not, this was a desirable model was not considered.

In one sense this can be seen as a failure of policy formulation, however, I understand that some of the Minister’s senior advisers, probably sensibly at the time, saw this as being an achievable transitional step and hence the review provisions in Section 27 were written into the Act. I shall not comment upon that review, except to say that it projected a sanguine view of the industry.

Since that time, the establishment and rise of CAL, supported by CGSA and the tension created by CIDB adopting, what I consider to be, a clearly defensive attitude, has greatly detracted from Parliament’s intention “to provide a fresh emphasis on

citrus industry development to enhance growth of this important horticulture industry”.

While the Bill went through unopposed in Parliament, it is interesting that the comment was made, “Obviously, the citrus industry is moving away from a regulated marketing situation and I must admit that I find it rather strange that we are developing a new act for the citrus industry: I cannot understand why the citrus industry has not stuck with the original intention, that is, to go for total deregulation” (See Hansard 24 May 2005, 2 June 2005 and 4 July 2005). This review offers the opportunity to reconsider that 2005 decision.

At its most basic, the current decision involves either getting rid of CIDB, or CGSA.

CIDB’s submission that it either continue, or be replaced by another statutory body supported by a new act, would probably be a recipe for disaster. CIDB suggests that the PIFS for CGSA be ended, which would almost certainly lead to CGSA’s demise. This would leave CIDB, or its successor emboldened by a new act, in direct conflict with CAL. CIDB’s submission makes it clear that, while it supports the notion of a national body in principle, it is strongly opposed to CAL.

I find it impossible to see how this could be to the benefit of the South Australian citrus industry. Any suggestion of a hybrid body established by an act which required it to support a national body and subordinate itself to it, would be unworkable and an unacceptable interference in the political workings of the industry.

It is also difficult to see how the Government could cancel the PIFS for CGSA. The funding scheme was established at the request of the industry and after extensive consultation by the Minister. CGSA has not done anything which would justify the cessation of the fund and it is hard to see how the Minister could be satisfied that it is in the best interests of the industry that the fund be wound up, within the meaning of Section 13(1) of the PIFS Act.

On the contrary, in my opinion the citrus industry needs a membership based body, in which the office holders are elected and which is directly responsible to the industry for its services, policies and performance and which is prepared to work with CAL.

There is no reason why CGSA could not become such a body. It would need greater funding and its constitution would need to be reworked to:

- allow for better governance;
- avoid entrenched leadership;
- reconsider the basis of the voting franchise; and
- establish classes of membership for all industry participants and realistic fees for those memberships.

CGSA would need to increase and up-skill its staff.

If the *Citrus Industry Act 2005* was repealed and the CIDB was wound up, there would appear to be sufficient assets to pay the staff, the growers would no longer

have to pay the levies and the other industry participants would not have to pay registration fees. It would seem very likely that growers would agree to a higher PIFS levy, providing they end up paying less than they currently pay for the two levies combined.

There would seem to be no reason for registration of other industry participants other than for identification (for food safety and disease reasons) and for extraction of fees. I would suggest that non-grower participants which joined CGSA would not need registration. Those which chose not to join could register with PIRSA and pay a fee somewhat higher than CGSA membership (to cover PIRSA's expenses) and those monies, after expenses could be transferred to CGSA.

The local wholesalers support the current registration scheme, but I suspect that is because they believe it limits participation. CGSA might choose to have differing classes of wholesaler membership which would open up the wholesale market for the small boutique producers, which is probably overdue.

Before making a decision to repeal the *Citrus Industry Act 2005* it must first be asked: is there anything which CIDB currently does, which is not already being done, or which could be done by another body?

I refer to Section 5 of the Act and to the 9 core focus areas identified by CIDB and comment briefly on each focus area:

- Bio-security - CIDB has little, or no, role to play. Anything it does do can be done by CGSA.
- Support for Export Market Development - Better done by CAL.
- Information Services - CAL can provide better and more useful information. CGSA and PIRSA could provide local input.
- Food Safety - A matter for government agencies. CGSA could identify industry participants.
- Industry Development - Most is done by national bodies. CAL and CGSA can contribute and lobby.
- Issues Management - CGSA is better placed to represent the industry than CIDB.
- Management and Administration - Repealing the Act would greatly reduce red tape and administration costs to industry.
- Promotion - Better done by CAL. Local promotion could be done by CGSA.
- Research and Development - Most is done by SARDI or national bodies. CAL and CGSA can lobby and contribute.

The answer to the question posed above is: "No".

I see the effects of the repeal of the *Citrus Industry Act 2005* as ultimately being:

- The creation of one effective body (an enhanced CGSA) which represents all industry participants.
- CGSA would be democratic, transparent and answerable to industry.
- CGSA supports CAL. The industry would be moving in the right direction, that is, towards having a strong national body.
- Overall costs to growers would be less.
- Fees to other industry participants could be adjusted to deliver greater equity in contributions.
- There would be less red tape.
- There is potential for better services in areas of promotion and market development, without significant loss of other services.
- Local wholesale market could be opened up.

What are the risks?

- CAL might fail.
- CGSA might not attract industry support.
- In-fighting might continue and disgruntled CIDB supporters might seek refund of their PIFS levies.

The response to these three risks is the same. It is a matter for the citrus industry. If the industry truly wants a strong national body then CAL will survive. If, after the CIDB ceases to exist, industry wants CAL's services then they will have to join.

Similarly, if local industry participants actually want a strong State body, then they will support CGSA. If they choose to withdraw their levies and be excluded from the benefits CGSA will offer, that is a matter for them.

Hopefully, notwithstanding the considerable ill-feeling the in-fighting has caused, commonsense and common interest will prevail.

At the end of the day government will have done its work. It will have provided a landscape in which industry can move forward. It will then be up to industry to get on the job.

CONCLUSION

Prompt and decisive government action is required. The current situation is untenable and inimical to the interests of the citrus industry. If nothing is done the situation will only get worse. Some growers have already sought refunds of their CIDB levies and I believe that more will follow.

There is no good reason to retain the CIDB. The citrus industry does not require a Board-style regulator which collects fees and information backed by threat of criminal penalties. The structure of the CIDB means that it cannot be an independent industry representative and there is nothing which it does which is not already being done, or able to be done, by other organisations.

CGSA needs to be enhanced and strengthened. In return for increased PIFS funding, CGSA would have to agree to amend its constitution to include all industry participants. It would then have the opportunity to be a democratic, independent, representative of the whole citrus industry and answerable to the industry for its performance.

It is obvious from what I have written that I consider that there is only one correct policy formulation and that is to repeal the Act, wind up the CIDB and to enhance CGSA by increasing the PIFS levy.

The potential benefits for the citrus industry are significant. The focus for in-fighting will be removed and hopefully the industry participants will be more united and realise that it will be in their interests to support their industry body.

The industry will be positioned to move towards supporting a peak national body which everyone thinks is important. Costs and red tape will be significantly reduced. CAL and CGSA are more likely to become truly effective bodies once they have a clear field in which to operate.

The benefits of this policy setting clearly out-weigh the risks.

I suspect that some members of the CIDB and some of its supporters have the potential to create some political discomfort, however this would be minimised by a prompt and firm announcement of the decision.

RECOMMENDATIONS

I make the following recommendations:

- (i) The *Citrus Industry Act 2005* be repealed and its associated regulations revoked.
- (ii) An Administrator be appointed and the CIDB be wound up.
- (iii) PIRSA assist CGSA to amend its constitution in the manner suggested above.
- (iv) The Minister should embark on the process prescribed by the PIFS Act with a view to increasing the levy. The new levy should be less than the two combined levies currently paid by growers.
- (v) PIRSA plans for a registration scheme to accommodate other industry participants which do not join CGSA. Legislation may be required.
- (vi) Regulation 8, PIFS (Citrus Growers Fund) Regulations, be revoked.