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Agricultural Competitiveness Taskforce
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Dear Sir/Madam,

Thank-you for the opportunity to provide comment on the Agricultural Competitiveness Issues Paper.

Apple & Pear Australia Limited (APAL) is the peak industry body representing the interests of commercial apple and pear growers in Australia in matters of national importance including regulation and legislation, marketing, research and development.

Whilst the Australian apple and pear industry has been consolidating over recent years (with grower numbers and production declining overall), there is evidence of confidence in longer term profitability and sustainability of the industry:

- Larger enterprises are investing in multiple orchards, often spread across a number of different growing regions;
- Older trees and varieties are being replenished by medium sized and larger enterprises as they continue to plant new varieties using dwarf root-stocks under modern trellis production systems;
- Research into new varieties and their suitability to Australian growing conditions continues to attract support from the grower base. At the same time there is an increased focus on developing new varieties that match consumer tastes and requirements (both domestic and export markets);
- Recent trends toward the introduction of club varieties into Australia is expected to continue;
- Integrated grower-packing enterprises are taking a greater interest in developing export capabilities;
- Pack-house and cool-store consolidation is starting to take place. For example, a State Government grant has enabled the construction in Tynong in Victoria of Nine Mile Fresh, a joint venture to establish a state-of-the-art apple sorting, grading and packaging facility.

Despite the confidence there are many challenges that lay ahead, primarily because Australian apple and pear growers face high production costs relative to our international competitors. APAL believes that there are a number of policy levers that government can pull to increase the competitiveness of the apple and pear industry and thereby improve grower profitability and sustainability. It is opportune then that the Issues paper has been

released prior to the formulation of agriculture policy through the Green paper – White paper mechanism. APAL's comments on the issues raised by the Issues paper are outlined below.

1. Ensuring food security in Australia and globally

A clear message coming out of the trade mission to China 7-11 April 2014 was the importance of both food safety (the most important issue among families) and the recognition that China can no longer maintain food self-sufficiency and needs to import food. They see Australia as one of the safest food producers in the world.

With the right market access to Asian markets, the apple and pear industry has the capacity to double production over 20 years with all the increase going into effectively managed export programs. For security of income it's important that the exports be spread over a number of markets, particularly given the ease with which markets can close. All of the issues raised in this submission would need to be addressed: ensuring water access, market access, supply of skilled labour and access to safe, efficacious chemicals would be needed to achieve this.

With changing climatic conditions we need to protect the livelihood of the better, high altitude growing areas to ensure fruit has the necessary cool hours to grow.

2. Farmer decisions for improving farm gate returns

Continued dissemination of research outcomes from the investment of R&D levies in Australia and of international research findings is fundamental to improving grower decision-making. In the apple and pear industry research findings are distributed to growers and the supply chain through a number of avenues:

- A technical magazine;
- An internationally regarded extension program Future Orchards™
- A website with articles, videos and blogs;
- Field-trial discussions;
- Research updating events;
- Post-harvest seminars;
- A biennial fruit conference;
- Levy-payer meetings; and,
- Ad-hoc regional based information events.

Participation in overseas study tours also enables growers to:

- Learn the techniques and orchard practices employed by our competitors;
- Discover new varieties and their success or otherwise in varying growing conditions;
- Acquire knowledge about solutions to post-harvest issues;
- Gain a better understanding of export market requirements

Funding support to enable these communication pathways must be sustained. Most activities are funded via the compulsory levy matched with Commonwealth funds. As outlined in Section 6 APAL believes that this funding system has served apple and pear growers well. APAL also believes that the government and the Department need to

acknowledge the important role that peak industry bodies play in providing knowledge transfer and related services.

Many of the activities outlined above relate to continuous improvement in a grower's technical capabilities around growing, sorting, grading and storing fruit. APAL believes business skills are also important. In 2013 APAL launched an agribusiness leadership course aimed at improving the skill set of the industry's emerging leaders (and that of the cherry and stone-fruit industry). But more needs to be done, especially in regard to up-skilling apple and pear growers to improve their negotiation skills and marketing expertise. APAL is seeking to work with the Commonwealth and state agencies to assist in this endeavour.

APAL also believes that good business and farm planning requires access to accurate, relevant and timely data that enable growers to understand their industry and product operating environment. In contrast, great business decision-making - a necessity in a highly competitive globalised trading world - requires a level of detail that enable growers to understand their operating environment on a product rather than on a commodity basis. That is, growers need to be able to understand supply, demand and trade by variety because an analysis of the situation in apples does not provide an adequate or accurate assessment.

The lack of data to enable good business decision-making is severely lacking within the apple and pear industry. APAL recently made a submission to the National Agricultural Statistical Review and recommended that government review the cost and level of detail of data collected by the ABS and ABARES. It appears that considerable more effort is expended in delivering data to the grains, dairy and livestock industries that is afforded to horticulture.

3. Enhancing access to finance

Alternative business structures

In response to the question about alternative farm business structures, APAL is not aware that there is any documented research to suggest that family business structures are working against agriculture and that the sector needs to undergo structural adjustment.

As the Australian Farm Institute has recently noted, one explanation for the dominance of the family business model in farming lies in the intricacy of the factors that need to be managed in a successful farm operation¹. Like most in horticulture, apple and pear growers manage complex, interacting and often counteracting variables: weather and seasonal conditions; pest pressures and plant diseases; water availability and soil health. These, together with the varietal mix and tree-age composition under orchard, will influence decisions about inputs like chemicals, fertilisers, water and capital inputs like netting, platforms and irrigation/fertigation systems. Apple and pear growing remains largely un-mechanised, with major activities of thinning and pruning done by hand, and often by family members or by semi-permanent contractors. The peak harvest period (from late January through to early May depending upon region and variety mix) is generally the only the period in which family labour is augmented in a substantial way. The reality of decision-

¹ Source: http://www.farminstitute.org.au/_blog/Ag_Forum/post/family-farm-is-far-from-dead

making within apple and pear growing (and agriculture in general but horticulture in particular) is very unlike manufacturing or mining where “technology can be used to create repeatable and predictable outcomes”². These in turn lend themselves to corporate structures which can then more easily harness access to capital through equity markets as well as debt markets “to scale up the size of production units”³.

Nevertheless, some apple and pear orchard businesses within parts of our industry are too small and this is clearly unsustainable. The market has seen consolidation over recent years, with a large number of growers exiting orchards or switching commodities (many into cherries). At the same time a number of the larger corporate style but still family owned businesses are expanding their holdings, particularly across a number of growing regions.

APAL is particularly keen to investigate whether there are opportunities for more family farm businesses to form co-operatives for grading, packing and storing fruit as well as developing joint marketing initiatives. For example, the vast majority of growers still own and operate their own sheds and are reluctant to rationalise because of the capital tied up in the infrastructure. The return on capital is unlikely to be economic and the situation is untenable for a profitable future.

The major supermarkets are increasingly buying from a limited number of growers in order to simplify their supply chains and minimise buying prices. But smaller pack-houses simply do not have the scale to be able to supply the major supermarket chains. Likewise many smaller orchardists have not been able to afford the capital infrastructure needed to meet the quality and packing requirements of the major supermarkets. The lack of infra-red technology to detect internal fruit defects is one example.

APAL would welcome a government initiative to assist the apple and pear industry to assess alternative farm business structures, particularly in regard to the pros and cons of integrating orchard production with the next step in the supply process – sorting, grading and storing fruit. The key question is whether growers in particular regions or districts would benefit from decommissioning their own sheds and jointly building new facilities that employ world’s best technology. This would help reduce the level of fragmentation within the supply chain and allow groups of smaller orchardists to scale up. This should also assist them in being an effective export source which requires both volume and consistency of supply during the season.

A government initiative that identifies the number, size and location of existing facilities, outlines the business case for rationalisation and co-operative marketing, reviews alternate ownership structures, and evaluates alternate financing opportunities would go a long way in addressing the needs of many apple and pear growers. Rationalisation is one possible way of ensuring that these businesses concentrate effort in what they do best – grow fruit - and support the on-going viability of their preferred business model, the family farm.

² Source: http://www.farminstitute.org.au/_blog/Ag_Forum/post/family-farm-is-far-from-dead

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Foreign investment

Accessing capital funds to achieve growth and/or modernisation both on-farm and for grading, packing and storage facilities is often a lament of apple and pear growers.

APAL supports the view that there are many advantages of foreign investment in Australian horticulture through:

- Greater availability of capital to invest in “state of the art” pack-house and cool-store facilities as well as modern orchards. Growers suggest that intensive orchards on dwarf rootstock trellis systems now cost around \$50,000 per hectare, with environmental netting costing an additional \$50,000 per hectare. Given that growers generally replenish about 5-7 per cent of their blocks in any given year – to ensure that fruit under orchard will meet evolving consumer tastes, produce high yields of Class 1 product, and input costs are minimised - access to low cost capital is fundamental to ensuring a profitable on-going operation.
- The potential for enhanced international market access. Foreign companies operating in Australia can often form better direct links between growers here and the importers/retailers from the home country. A better understanding of the overseas customer also enables them to focus on delivering product that will consumer needs. Additionally, the foreign investor may have links with officials in the source country, potentially influencing access and improving protocols.

APAL believes that the purchase of the Mildura Fruit Company by Bright Foods (a company reportedly owned by the Shanghai Provincial Government) is inexorably linked to the exponential increase in citrus exports in the past twelve months or so.

APAL is keen to develop greater ties with Asian and Middle Eastern companies that may be interested in investing in orchards, pack-houses, cool-stores and fruit processing facilities in Australia. We understand that foreign investment is an issue of concern with many growers (and many Australians) and propose that full transparency foreign ownership is required. A commitment to establish a register of land and irrigation water ownership was made by the previous government in October 2012 but progress appears to have stopped. We note also that in New Zealand foreign ownership must be registered for holdings above five acres and a similar rule should be applied to Australia. APAL does not have a view on the financial threshold required for approval by the Foreign Investment Review Board.

4. Increasing the competitiveness of the agriculture sector and its value chains

Issues relating to the competitiveness of the apple and pear industry are addressed in Section 6 in regard to inputs and Section 8 in regard to trade.

5. Enhancing agriculture’s contribution to regional communities

Apple and pears are a major employer in all the growing districts, with over 30% of the agricultural production in Goulburn Valley coming from the industry. Key to their survival

and creating the next farming generation is addressing not just the broader cost issues of labour, transport, utilities etc. but assisting in local issues such as transportation from Tasmania to the mainland, water supply in Stanthorpe and Adelaide Hills, support to offset climatic conditions such as hail, excessive heat in all parts of Australia. More progress on opening export markets will also assist to address the declining domestic demand, so the next generation sees a great future ahead.

6. Improving the competitiveness of inputs

6.1 Labour costs

The high cost of labour and the ability to attract and retain appropriately labour is a major concern to the apple and pear industry.

Labour currently accounts for about 30-35% per cent of orchard gate costs in the apple industry (with about 50% of that is in harvest).

Unskilled labour deployed in orchards costs \$24 per hour (comprising \$20.30 per hour wage plus \$2 per hour in superannuation plus \$1 per hour in payroll tax and a further \$0.75 for workers compensation). The Horticulture Award specifies that the wage rate will increase for the next couple of years. For one orchard this equate to an additional \$500,000 in the wage expense by 2016, for the same man hours.

The minimum wage rate of \$24 per hour for Australian unskilled orchard labour compares very poorly with New Zealand which has a flat minimum wage of \$13.81/hour (NZ \$15), and the USA at less than less than \$9.63/hour (US \$9). APAL also believes that Australian wage rates for unskilled farm labourers are about ten times more than the cost incurred by a Chilean apple grower and twenty times that of a South African.

In the short term this means that Australian producers must continually strive for world's best pack-out rates to maximise the percent of Class 1 fruit that is packed for customers.

It also means that significant investment in mechanisation and automation is required now to ensure a longer term solution to high priced labour. APAL commends HAL's initiative to invest in mechanisation, automation, robotics and remote sensing (MARRS) in horticulture. However the success of this initiative will require greater leadership and support from the Commonwealth to help drive and fund the required transformational research. HAL simply does not have the ability to raise adequate funds for an across-horticulture project of the scale required.

APAL believes that investment by the Commonwealth in mechanisation, automation, robotics and remote sensing for horticulture activities like thinning, pruning and harvesting would have a greater payback for the wider Australian economy. First, it could soak up some of the now-displaced technicians that were previously employed in car manufacturing. Second, it could place Australia at the forefront of technology which it could then on-sell to other parts of the world. For example, the recent announcement of the closure of three major automobile manufacturers in Australia, all with major robotics expertise, suggests

there is a pool of talent which could be employed in a robotics centre of excellence with a focus on agriculture, particularly horticulture.

Nevertheless there are a number of issues to be addressed in the short term. First, the horticulture sector must be protected from any expansion of penalty rates and/or public holiday rates to casual labour in horticulture. Most of the labour engaged to undertake the harvest are casual employees and picking fruit on weekends and public holidays is largely unavoidable because the activity is driven by fruit maturity. Extension of penalty rates to casuals would be financially crippling to most apple and pear businesses.

Second, the modern award should provide greater flexibility to meet the unique labour and seasonal needs of the apple and pear industry and horticulture sector generally. Some pack-houses for example are covered under the Food, Beverage and Tobacco Manufacturing Award. A number of employees at one pack-house have applied to change to the Horticulture Award which is used by many other packing operators, but this move is opposed by the union. The pack-house estimates that the move would save \$1.60 per hour for a full time and \$2 per hour for a casual employee. That would represent total saving of around \$100k per annum for the business. A saving of this sort would significantly improve the shed's ability to compete in international markets.

Other casual employment options need to be considered to provide cheaper/more productive labour to assist the general horticultural sector to get more competitive in the export markets.

6.2 Career Pathways

There is a strong and urgent need to improve agriculture skills and career pathways within the apple and pear industry and in horticulture generally. Recent research by the Australian Farm Institute suggested that production in the agriculture sector is at risk of being severely inhibited by an undersupply of appropriately skilled labour over the next ten years if no action is taken. For example, the Australian Farm Institute found that Australian production horticulture currently has a deficit of 8,300 full-time employees and that this will increase to 17,800 by 2018.

Within the apple and pear industry there is a critical need for training in specific skill sets for growers and their employees, for example, workplace supervisor skills and mechanical maintenance.

Continued investment in horticulture support roles is also important. A snapshot prepared by the National Horticultural Research Network (NHRN) indicates a continued decline in capability investment in horticultural by state and commonwealth agencies. For example, in 2012/13 some 466 agency staff (FTE basis) were applied to horticultural RD&E across Australia, 6% fewer than in 2011.

Given the shortages in skilled labour APAL believes that it is important that certain occupations remain on the Australian ANZSCO Skill Occupation List for priority migration. They include: fruit grower, agricultural scientist, agricultural technician and agricultural

consultant. APAL would be keen to see a boost in government efforts overseas to attract candidates that match these occupations.

6.3. How can rural industries and governments better identify, prioritise and fund research, development and extension?

APAL believes that the current system of identifying, prioritising and funding research, development and extension within horticulture works very well.

There are a number of features of the system that enables RD&E activity to be targeted to areas that will deliver the greatest return for growers and their regional communities. Those pillars include:

- Levies are applied to all growers to prevent “free-riders”
- Government matches grower levies to overcome market failure;
- Levies are established at rates agreed to by levy payers themselves (organised through the prescribed industry body);
- Funds are distributed to the research and development corporation Horticulture Australia Limited (HAL) to ensure good governance around the investment of grower levies and government funds;
- HAL membership comprising the peak industry bodies which represent the interests of all their grower constituent, irrespective of size, location and propensity to participate in debate about the investment of levy funds;
- HAL assists industries to develop their Industry Strategic Plans (ISPs) and Strategic Investment Plans (SIPs) which are used to guide RD&E priorities in parallel with the Commonwealth government National R&D spending priorities and the Rural R&D spending priorities;
- HAL works in concert with the horticulture industries recognising that the peak industry bodies are uniquely positioned (with their intimate knowledge and contact with the industry) to:
 - Consult with growers and the supply chain about their RD&E needs;
 - Communicate the outcomes of research to growers and the supply chain to improve uptake of new knowledge and know-how;
 - Communicate with growers about how their levies were invested;
 - Deliver services (especially in the important areas of extension and industry development). In most cases such services are either no longer provided by state governments. In horticulture (and especially in apples and pears the private sector is immature and very small and is not able to deliver services across all growing regions.

APAL has provided a number of recommendations to the current independent review of HAL to improve decision-making and delivery of research, development and extension within horticulture generally and the apple and pear industry specifically. These include:

- HAL taking a greater leadership role in setting the vision for horticulture as a whole, through the establishment and implementation of an industry wide strategic plan. This should be done with extensive consultation with industry, especially PIBs.
- HAL taking ownership of cross-horticulture investment;

- The adoption of a risk management approach to the administration of industry programs with more oversight for risky projects and poor performing service delivery agents. An accreditation system for service providers would assist. This needs to be accompanied with a tougher stand by HAL with any organisation that breaches the rules.
- A greater focus on commissioning programs rather than reacting to competitive calls (the consequence of which is a series of disjointed smaller projects) to extract:
 - Administrative efficiencies.
 - “Tie in/buy in” amongst disparate researchers to belong to a larger holistic approach to industry R&D needs to realise research synergies;
 - An opportunity for growers to participate in the extension of results;
 - Removal of duplication of activities and effort of industry specific projects;
- The creation of knowledge hubs through the recruitment of greater technical expertise to mine world’s best practice in R&D and extension delivery to up skill Australian service providers and to assist in the cross-fertilisation of R&D outcomes (from both HAL and non-HAL including international research)
- A greater focus on developing SMART outputs and outcomes for projects and programs.
- Greater measurement of the outcomes of R, D&E investments including return on investment

APAL has also supported the Government’s confirmation in November 2013 that it had committed to providing an additional \$100 million in funding for agricultural research and development – bringing the 2013-14 funding for Research and Development Corporations (RDCs) to almost \$250 million. Increased investment of this size is required to make ‘game changing’ investments to improve the competitiveness of the Australian agricultural sector. However APAL does not believe that the additional \$100 million in R&D funds should be redirected from existing agricultural agency programs and resources - that simply doesn't count as being additional.

Further, APAL believes that much of the additional \$100 million funding should be directed to transformational research in the horticulture sector to overcome our cost disadvantages in comparison to other exporting nations. Horticulture is Australia’s fastest growing sector – one that employs the most people and contributes significantly to Australia’s GDP (gross domestic product). A significant boost to the existing horticulture transformational fund should seek to invest in research that: opens up a new field of technology; lowers the risk of embryonic technology to a point where industry can invest in further development and deployment; or overcomes technical barriers that currently prevent wider industry adoption of the transformational technology.

6.4. What irrigation, transport, storage and distribution infrastructure are required to support the food and fibre production systems of the future and how should this be funded?

Productivity growth and global competitiveness in the food industry needs to be supported by investment in infrastructure, including telecommunications.

APAL believes that affordable access to broadband is critical as is adequate mobile phone coverage. Many apple and pear growing districts are located within mobile and internet black spots. Significant investment in mobile applications for farm management has been undertaken by the private and some public sectors in recent years. This includes weed control and weather applications, chemical label readers, moisture probes, crop data instruments and GPS devices. These tools are specifically designed to improve the in-field productivity of growers but there is little point in including them into good farm practice if growers cannot obtain reliable access to the telecommunications network. In addition, there must be adequate funding to support the education of growers in how smart phone technology and the broadband infrastructure can be exploited to maximise productivity, lower on-farm costs and improve marketing opportunities.

Like most industries in horticulture, the apple and pear industry is dependent upon a secure source of water and infrastructure that can deliver that water. APAL supports the Commonwealth Government's March 2014 initiative of establishing a ministerial working group to consider options to fulfil the government's commitment to build and extend water infrastructure. Accelerating investment in water infrastructure, particularly in dam construction should be a high priority.

Too often infrastructure is caught up in planning and environment processes creating long delays and missed opportunities. The proposed Emu Swamp Dam in Stanthorpe is a case in point. The dam has been under consideration for nearly ten years and the township of Stanthorpe is facing critical water shortages. Much of the discussion around the dam construction has centred on meeting urban needs and those of the horticulture community have not been fully addressed. Until growers have a clear understanding of the likely cost to them of accessing irrigation water from the proposed dam they are not in a position to determine the impact on their own viability. However without government funding for the dam it is highly unlikely that an expansion in the apple production capability would be possible within the Stanthorpe region. Additionally, any passing on of the costs to growers would act to detract from rather than improve the international competitiveness of the Stanthorpe apple industry.

Water trading rules and the lack of co-ordination between governments also create difficulties amongst some apple growing regions. In Batlow for example, water trading is difficult at the top of the catchment as there are rules including flow rates that must be achieved before water can be harvested. However this timing does not coincide with the times water is required on orchard. Consequently on-farm water storage is required before a grower can buy more allocation. The Federal Government could change policies employed by the Murray Darling Catchment Authority but it would also need to encourage the NSW Government to allow off-stream storage for top of catchment areas like Batlow.

Further pressures for on-farm storage arise as orchards increasingly shift to high intensity systems. The need to reduce weather risks like frost overhead sprays and heat stress overhead sprays together increase water storage requirements from 5 megalitres per hectare to around 9 megalitres per hectare. The cost of the increase storage needs to be added to the already significant investment of approximately \$100,000 per hectare (including netting) for new orchards. With gross returns of between \$125,000 - \$200,000 per hectare, depending upon the season, intensive orchards represent a very high value use

for water. Governments need to recognise this. Recognition should be provided by simplifying and rules and speeding up processes to enable growers to achieve approval for increased and new dam storage and to purchase more water allocation to replenish dams.

In the case of Tasmania the uneconomic cost of shipping fruit from Tasmania to the mainland needs to be addressed if it is to be other than a domestic market. At present the cost to ship fruit from Tasmania to Brisbane is about A\$7 per 18kg box compared with A\$5.60 for an 18kg box to Shanghai.

7. Reducing ineffective regulations

APAL believes there are a number of regulations and government processes that constrain the apple and pear industry including the regulation of agricultural chemicals and country of origin labelling. Regulations imposed upon the employment of labour are addressed in Section 9.

Agricultural Chemicals

Ready access to low priced, modern, clean, safe and efficacious chemicals is of key concern to the Australian apple and pear industry. Growers note that a number of developments and interactive forces are stifling access and use.

Governments need to better understand the market failures within the chemical registration and permit application process in Australia.

There is a market failure in the generation of new production tools by international chemical companies to create solutions to Australian pest management – this is partially a result of Australia’s relatively small size, particularly in relation to indigenous pests that have no relevance to the larger European, US and Asian markets.

As a regulator the APVMA requires a great deal of data to support a registration or permit approval. Required data generally pertains to the application of the chemical to Australian growing conditions or against Australian production/growing patterns, or to Australian indigenous pests.

Much of the data is specific and does not have application elsewhere. Data generation is therefore very expensive. However, the market for chemicals in Australia is very small and chemical companies have little opportunity to recover the costs of data generation and the associated research. The result is that chemical companies do not invest in the development or registration of chemicals for minor crops or for usage against minor pests. The resulting market failure is detrimental to Australian growers.

One solution is a requirement for the APVMA to take greater consideration of the approval of chemical registrations accepted by our peers, such as the USA and New Zealand. Whilst we accept that Australia has different growing conditions than other countries, applicants should not be required to unnecessarily generate new data that could equally apply to Australian conditions. A suite of criteria that is pre-specified and transparent, could be used

by the APVMA to justify the need for new data generation could help reduce the burden of registration costs.

The timelines involved in chemical registration also need to be reviewed. We understand that Australia takes considerably longer than both New Zealand and the USA to register products and this disadvantages growers who do not have the ready access that our competitors have.

The on-going availability of alternative classes of product is crucial to the management of the integrity of any one chemical product. Continued use of one product can lead to pest and disease resistance. It is APAL's understanding that this has become a major issue overseas. Additionally, the increasing use of soft chemicals in response to environmental concerns and a move away from broad spectrum chemicals can mean that minor pests can become major ones.

Furthermore, APAL believes there must be a national co-ordinated technical approach to spray drift regulation. The regulatory system must be based on science, especially science that is based on the Australian environment and the crop application. For example, there is a belief that some spray drift regulation employed in Australia is based on the USA and in regard to field crops rather than tree crops. This has a particularly adverse impact on horticulture production in peri-urban areas. APAL also believes that the regulatory system must recognise the use of drift reduction technologies as well as better education and practice to enable the use of smaller, more practical buffer zones.

Heavy Vehicle Use

APAL welcomes recent moves toward the national harmonisation of heavy vehicle road transport laws. The aim of harmonisation has been to remove differences between the heavy vehicle road transport laws operating in each state and territory. Such differences have made it difficult for apple and fruit packers to navigate the rules and comply with inconsistent jurisdictional requirements. The establishment of the Heavy Vehicle National Law (HVNL) and a national regulator should in theory reduce the compliance burden for business, increase industry international competitiveness, and make it easier for apple and pear businesses to operate across state and territory borders.

However a number of states, such as NSW, have introduced variations to the national model. This simply defies the point of harmonisation. Operators from Batlow and Orange that choose to trade interstate will continue to face the paperwork juggle to ensure that compliance with both state and national laws are met. APAL believes more effort by governments are required to ensure seamless consistency between states on transport and other matters.

Country of origin food labelling

APAL believes that country of origin food labelling laws need to be strengthened so that consumers can make informed decisions when shopping. The Government needs to take decisive action and introduce legislative change so that consumers can easily identify the source of the fresh and processed foods they purchase.

Despite recent positive moves by the major retailers to stock processed fruit from SPC Ardmona, there continues an underlying trend by the major retail chains to ramp up their overseas sourcing. Imported processed products including juice, canned and tetra packed fruit sell at significantly cheaper price points than locally produced fruit. This is not helped by the fact that Australia's confusing labelling laws help hide this information from consumers. This is helping to push Australian products from supermarket shelves and consumers are none the wiser.

The current 'Made in Australia' label can be a little confusing, if not outright misleading. For example, 'Made in Australia' can actually mean that all the ingredients are imported, and simply mixed or packaged in Australia. Worse, under current legislation 'Made in Australia' can be used in labelling processed fruit or juice if more than 50 per cent of the value of the product is added in Australia, regardless of where the fruit comes from. This can even include the cost of the container and the cost of labelling or the cost of the water. Hence, the fruit could actually be sourced from overseas and the label can still read 'Made in Australia.' Consumer advocacy group CHOICE has also found that 90% of Australians are not clear on where their food comes from. In APAL's view this is unacceptable.

Consumers depend on information about country of origin to make informed purchases, and one of the factors affecting growers' ability to compete on a level playing field is consumer difficulty in differentiating between local and foreign produce.

This unfair competition from imports has a significant impact on growers and the rural communities that support them. Fruit displaced from the processing and the juice sectors generally finds its way to the fresh wholesale market. The increased supply inevitably lowers prices received by those apple and pear growers who grow for the fresh market.

The overall quality of wholesale fruit also declines because processing and juicing fruit are not grown to the same specifications of fresh fruit. This too leads to a reduction in prices overall. More importantly the reduced quality can shift consumer perceptions around, and confidence in, the apple and pear category and divert buyer preferences away to other fruits. Research indicates that if consumers have a bad eating experience it takes at least six weeks to purchase that product again.

Consumer surveys have consistently demonstrated strong public support for compulsory country of origin labelling and strengthening of the labelling arrangements would be popular. Research has found that 80 per cent of consumers surveyed agreed with the statement "I purchase Australian produce because I want to support our farmers and for Australia to have a viable industry."

It is disappointing that the Government has referred the issue of country of origin labelling laws to yet another inquiry. Findings from the Blewett report into labelling laws released in November 2012 foreshadowed changes to standards for nutrition and health claims on food labels, but many of the recommendations made concerning country of origin were rejected. The Greens introduced a Bill into Parliament in 2013 which supported tighter controls over labelling but this lapsed when the 2013 election was called.

APAL urges the Government to use their recently announced House of Representatives Standing Committee on Agriculture and Industry inquiry into country of origin food labelling as a means of improving the system to benefit Australian food producers once and for all.

Legislative change to establish a simplified country of origin system that will enable consumers to easily identify whether a product is from overseas, or in the case of a mixed processed product, that the product must meet a 90 per cent threshold of Australian ingredients. Labelling laws must adopt a water neutral position with regard to processed products. Labelling be in a font of significance to be easily read Food labelling laws are more effectively enforced. A key finding of a 2005 survey by AusPoll was that 94 per cent of consumers would support a regulation for compulsory labelling for packaged food indicating the country the food was grown in.

Compliance

Compliance is the most expensive overhead incurred by the industry and is generally considered to be a massive burden by apple and pear growers. One major grower from Western Australia experiences 10 different audits each year needs to a person 3 days a week to ensure all compliance policies are met.

Some of these audits are driven by retailers and other by import countries as part of protocols. There is a desperate need for industry to work more closely with the major supermarket chains and with the Department's Trade and Market Access division to determine ways to achieve commonality so that one comprehensive industry-wide standard can be developed. Also the costs charged by the departments need to be reviewed as they are often a significant determinant as to whether a grower exports. Consideration should be given to contracting out these services given the very high cost recovery basis of the Department.

8. Building Exports

Issues Paper Item 8 – Enhancing Agricultural Exports

The apple and pear industry recognises that a strong export culture is fundamental to the long term viability of the industry: domestic consumption per capita is falling (with increased competition from snack foods as well greater year round supplies of other fruits); processing continues to move off-shore; and, aggressive retail competition within Australia forces farm-gate prices to unsustainable levels.

There is a now a strong desire to enhance Australia's export capability amongst key stakeholders and industry leaders within the apple and pear industry. More of the grower's marketing levy (which is unmatched by the Commonwealth) is being diverted toward export initiatives. Likewise, market access and biosecurity (which is generally about market access) continues to take a significant portion of R&D levies.

APAL has established a Team Australia approach to exports, with major exporters and pack-houses working collaboratively to develop market and promotional priorities, canvassing export impediments and identifying industry development needs to build capability.

The Australian apple and pear industry is currently a very small exporter – both relative to other Australian horticultural produce and relative to our southern hemisphere competitors (New Zealand, Chile, South Africa). This wasn't always the case. Indeed, Australia was a large apple exporter prior to the UK joining the European Common Market and the advent of the Common Agricultural Policy. Unfortunately the subsidies of other nations created a major catalyst for an inward focus for Australian growers and a generation of export competent business operators was partially lost.

To assist Australian apple and pear growers (and those of horticulture generally) to take full advantage of the opportunities presented by the growing demand for niche and high end-value products within Asia and the Middle East, industry and governments need to work together to address a number of export hurdles. These are outlined below:

FTAs and Protocol Negotiations:

The Government needs to elevate the horticulture sector's level of importance to that of other key industries like grains, livestock and dairy when conducting trade negotiations.

From a national perspective the finalisation of the Free Trade Agreements with Japan and South Korea are welcomed. However the apple and pear industry gained little from either of these negotiations. The tariff on Australian apples into Japan will continue to remain at a high of 17.5% and only progressively moved lower over a period of 10 years. **But this is only part of the story.** Only apples from Tasmania have access into Japan and apples from mainland Australia have no access entitlements at all. Likewise, on the surface, Australian pears appear to have benefitted more favourably, with tariffs of 4.5 per cent progressively being eliminated over a period of five years. The fact that Australia does not have access for pears from Tasmanian or the mainland is a major oversight.

The same situation applies to South Korea. The Free Trade Agreement negotiations excluded apples and pears and tariff rates will remain at the extraordinary rate of 45 per cent. But that doesn't seem to matter to policy makers and negotiators because Australian apples and pears simply do not have access to the Korean market.

So while APAL welcomes the Government's commitment to negotiate a FTA with China by the end of 2014 and looks forward to similar initiatives with Indonesia, India and the Gulf countries to remove tariffs and quotas for all horticulture commodities, more must be done.

Free Trade Agreements can only deliver returns to Australian growers if they have access to the markets in question. This is particularly so for China where apples and pears from mainland Australia are not permitted entry into China. While apples are second in the list of horticultural commodities for China, pear are not even on the horizon.

APAL also seeks a faster process to finalise phytosanitary and sanitary protocols, including:

- Increased frequency of bilateral negotiations end the employment of transparent milestone commitments to help drive effort and activity. Allowing industry (from both countries) to more actively participate in bilateral trade events may also help ease trade tensions and provide for a better exchange of information;

- The appointment of dedicated horticultural Trade Attache's to follow up with, and maintain pressure on, foreign officials to progress access and protocol deliberations between formal trade negotiation events;
- The recruitment of high quality negotiators with commercial acumen to achieve better outcomes for Australian horticulture;
- Increased resources for the Market Access Division to enable the Department of Agriculture to negotiate several commodities with one country simultaneously, rather than one product at a time, and enable DAFF to work concurrently on free trade and multilateral trade agreements as well as phytosanitary access issues;
- Engaging with industry collaboratively before embarking on negotiations to develop the strategy to be employed – identifying the best treatment options (and fall-back positions) and the data and other reference points that can be put to the foreign government to advance trade and access for industry. Working collaboratively with industry during these negotiations would also assist in speedier resolutions regarding the commercial veracity of proposed protocol solutions;
- Achieving greater acceptance of the authorised officer system by foreign officials;

Access Priorities

The Issues Paper sought views on how engagement between industry and government on market access priorities for Australian agricultural products can be improved.

A system to prioritise market access for horticulture is currently required partly because the Department of Agriculture simply lacks the resources to attend to the requests from the many different commodities within the horticulture sector. The limited Departmental resources are stretched between addressing new market access and improvements to the protocols governing trade whilst at the same time trying to maintain access (when importing countries propose to adopt new access or trading rules). APAL believes that a significant boost to the number and quality of resources within the Department could effectively address these issues as outlined above.

Nevertheless, constraints also exist because some importing countries lack expertise and the resources to undertake the necessary import risk analyses associated with addressing Australia's and other nation's requests. This often results in on-going and seemingly never-ending technical discussions around biosecurity assessments and the merits of alternate phytosanitary measures. APAL suggests that the Government consider providing training and know-how in biosecurity and protocol development to a number of Asian countries as a means of developing better pull from the markets concerned.

For example, a request for access for stone-fruit and apples into China was first lodged in 2006. However resolution of the import risk assessment for nectarines from Australia remains unresolved. Apples from mainland Australia are currently next in the queue but little can be done until access for nectarines is granted. Meanwhile China has free access to the Australian market for its apples and apple juice concentrate.

Reducing export compliance costs

The shift to a user pays system for export compliance has deterred many sheds from registering their premises. The \$8,500 registration fee for protocol markets is excessive, particularly as some growers only export 1-2 containers per year. Demand and product

quality can shift throughout the season making it difficult for growers to know whether to commit to export registration at the start of the season. The high cost is a disincentive to export which is counter-productive to industry goals.

Phytosanitary export requirements

The phytosanitary export requirements imposed upon Australian exporters appears to be much tougher than those imposed by some of our competitors. For example, Australia requires that exporters apply a universal standard that consignments are free from pests, soil, weed seeds and extraneous material⁴. This minimum standard applies to all export destinations including those countries that do not possess individual phytosanitary importation requirements.

In contrast, New Zealand, provides for tolerance limits for pests and soils in plant exports in cases where the importing country does not apply specific phytosanitary measures⁵. This means that New Zealand growers do not bear the burden of additional compliance costs that are imposed upon Australian grower / exporters. The lower standard (compared with Australia) does not appear to have damaged the reputation of New Zealand as a source of high quality and food safety.

Branding:

APAL believes that Australia needs to shift its image from a low-cost supplier of cheap bulk commodities to a higher-cost source of premium quality, safe, environmentally friendly food.

It is reassuring that the message heard from Asian importers and Asian analysts is that Australia is recognised as being clean, green and safe. But this message is equally attributed to a number of our competitors, especially New Zealand and to a lesser extent Chile. It is imperative that an effective Australian brand is developed quickly and implemented across the globe in a co-ordinated well-resourced approach. The 100% Pure New Zealand branding that crosses both tourism and food is an excellent model to emulate. But unlike New Zealand Australia is burdened by the uncoordinated activities of State and local Governments which are seemingly intent on running their own State and regional brands. This adds confusion in overseas markets and detracts from building the national image of “clean, green, safe”. APAL welcomes the work Austrade is doing on branding Australian produce focussed around clean, green and safe.

Interstate Trade

APAL also believes that domestic trade barriers must also be reviewed, with a number of impediments hampering the trade of horticultural products across state and territory borders:

- The lack of recognition for industry accreditation of phytosanitary or biosecurity risk management practices; and
- The lack of country-wide harmonisation in state trade codes adds red-tape to businesses that wish to trade.

Biosecurity- Import issues

⁴ MICoR 2013

⁵ Biosecurity New Zealand Export Certification Standard, 2006

Protecting the Australian apple and pear industry and horticulture generally from the entry, spread and establishment of exotic pests and diseases is fundamental to ensuring the long term productivity and sustainability of the apple and pear industry. Australia does not have many harmful diseases like fire-blight and European Canker and pests such as apple leaf curling midge. In their absence Australian growers do not need to apply chemicals to manage them, including antibiotics in the case of fire-blight, nor incur the costs of tree, crop and fruit quality damage. The absence of many destructive pests and diseases not only reduces costs and improves our comparative advantage in fruit production, it also eases the burden of accessing a number of export markets which are also free.

APAL believes that Australia's reliance on a scientific approach to assessing the risks posed by potential imported fruit and other products is appropriate. However there are a number of areas where the Australian system could be improved.

Most importantly the role of the Eminent Scientists Group (ESG) in reviewing draft import risk assessment report prior to the release of a provisional or final import risk assessment (IRA) should be expanded. APAL believes that the Government should make provision for an ESG that:

- enables affected parties to provide “new information” including that which counters the science upon which a draft IRA Report was based;
- requires the ESG to demonstrate the rigour of their assessment on whether the issues raised by stakeholders have been properly considered, the conclusions of the draft IRA are scientifically reasonable and the superiority of scientific views where there is conflict;
- requires the ESG to provide transparency about the scientific materials they use in making their determinations.

APAL believes that the Government should make provision for an appeals process that can challenge the decision not just the process employed in deriving a decision.

APAL agrees that the use of an IRA should be retained as the primary tool when assessing import applications and that Australia should remain compliant with the World Trade Organisation guidance of countries utilising an ‘Appropriate Level of Protection’ in regard to accepting imports. However greater clarity is required over what constitutes an ‘Appropriate Level of Protection’; specifically it is unclear what “providing a high level of sanitary and phytosanitary protection, aimed at reducing risk to a very low level, but not to zero” actually means.

Biosecurity – Export issues

At the same time Australia has a number of pests that act to impede the export trade. Biosecurity arrangements could also be improved to enhance global trade.

Fruit Fly is the primary issue for countries undertaking risk assessments on proposed imports from Australia. The protocols imposed to manage the risk of fruit fly are often difficult: in apple and pear for example, some countries require product to be treated with methyl bromide which can cause internal deterioration of fruit quality. This is not a good solution, particularly when Australia is trying to target the very high end premium market.

Other importing countries require cold treatment which is generally not a problem if the period is short enough to fall in line with shipping times.

In the short term, the decision created much angst amongst certain growers who relied upon cover sprays to control fruit fly. As the APVMA does not have a role in considering available alternatives and because of a lack of consultation with industry (see below), considerable anxiety was created (which remains) about the availability of tools to manage pests that are endemic within growing regions;

In the short and medium term, greater awareness of area wide management systems is required. More funds need to be diverted to improve the level of awareness, not only amongst growers, but with local and State governments because systems approaches require a concerted effort by all parties, not just commercial apple and pear and other fruit growers.

The longer term requires greater effort in developing management tools to control fruit flies which act not only as production pests but hamper the freedom and cost competitiveness of domestic and international trade. The recently announced decision by the South Australian government to invest in a Sterile Insect Technology facility for Queensland fruit fly goes some way toward addressing the issue. Nevertheless industry will first need to redirect considerable R&D levy funds to support the research that will be undertaken within that facility to breed sterile insects and understand the most effective release mechanisms. Fair, equitable and cost effective mechanisms for growers and governments to purchase the sterile flies for release for fruit fly management control will also eventually need to be developed.

Managing fruit fly has become significantly harder in recent times due to a perfect storm of events: the loss of dimethoate and restrictions upon fenthion as chemical control agents; adaptation of the insect to colder climates; warming with climate change increasing its geographical range; and the withdrawal of State Government support for population control. For example Victoria and NSW have in the last twelve months pared back their management effort over fruit fly. One consequence is that the pest status of a number of areas that are currently considered to be fruit fly free (e.g. Yarra Valley) are now rather opaque.

APAL welcomes the recent initiative by the South Australian Government to build a sterile insect technology (SIT) facility (A\$3 million) in Port Augusta to produce sterile, male Queensland fruit flies. APAL also supports the proposal by Horticulture Australia (HAL), the CSIRO Biosecurity Flagship, Plant and Food Research Australia (PFRA) and Primary Industries and Regions South Australia (PIRSA) to jointly address a number of gaps in the information and tools required to develop a fully integrated SIT Q-fly management program.

The SIT outcome is some time off, at least five years. More importantly, whilst SIT is a proven method for suppressing fruit fly populations and can be used to manage incursions, it will not provide the ultimate solution of complete eradication. Growers and governments (State and local) will need to employ SIT as part of a wider systems approach to manage populations in endemic areas.

However there is still much work to be done in systems approaches or area wide management systems. The National Fruit Fly Strategy was developed in 2008 and an implementation plan was released in 2010. However implementation has been erratic and many of the projects nominated in the strategy and implementation plan have not yet commenced, let alone been completed. It is imperative that industry and governments work together to update, re-prioritise and execute the National Fruit Fly Strategy. This will take strong leadership and funding.

APAL calls upon the Commonwealth government to demonstrate leadership by:

- Developing a terms of reference to be put to the market for the delivery of certain elements of the National Fruit Fly Strategy (with those elements being “low hanging fruit” and “high priority areas”);
- Lodging a formal project funding proposal to the HAL Board (with copies provided to each of the horticulture PIBs) for the redirection of funds from the across-industry funding pool to augment those funds which will be met by the States and the Commonwealth using the one-third/one-third/one-third formulae.

9. Assessing the effectiveness of incentives for investment and job creation

Seasonal Worker Programme and Harvest Labour Services

In response to questions about the effectiveness of visa arrangements and programs like the Seasonal Worker Programme and Harvest Labour Services, APAL notes:

- Both the Seasonal Worker (416 visas) and Working Holiday (417 visas) programs appear to be working well with growers generally reporting an adequate supply of fruit pickers during the peak seasonal period between late January and May. Labour supply does become a bit tighter in the months of April and May as temperatures in northern Queensland start to decline and backpackers start the march north;
- The harvest labour service operated through the Harvest Trail program is to be commended. APAL frequently refers phone and email inquiries to the service which enables growers to advertise positions and job seekers to readily locate fruit picking opportunities across the country;
- Growers are of mixed opinion about the relative efficiency of seasonal workers (sourced from Timor-Leste, Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu or Vanuatu) versus those that follow the harvest trail – grey nomads, holiday-makers, international backpackers and permanent-itinerant workers;
- Many growers prefer to use harvest labourers that are able to return each year because they have developed a base level of skills and do not require as much training upon placement;
- Some growers believe that seasonal workers cost more to employ because of the additional charges imposed upon growers by employment sponsors (contract hire firms);

- Other growers point out that the requirement for work teams employed under the 416 Seasonal Worker program to have a set start and end date is too rigid. Whilst harvest will generally commence at roughly the same time each year, weather conditions leading up from bloom through fruit set through fruit ripening can play havoc with dates. This means that growers bear the risk of engaging 416 Seasonal Workers too early, before the fruit has matured or too late after the fruit has matured.

Likewise, harvest is not necessarily continuous. It is not always possible to move immediately from one crop into the harvest of the next variety. Bad weather may also interrupt the harvest of the crop. Under the 416 Seasonal Workers scheme, however, growers would be required to employ and pay workers irrespective of delays in crop harvest times.

APAL believes that the Government needs to revisit the inflexibility around the employment date/period rules.

The payment of superannuation to international backpackers is a perennial and contentious issue within the apple and pear industry (see Box 1). Australian law requires that an employer, regardless of whether they are a small or large business, must contribute the equivalent of 9.25% of an employee's salary (effective July 2013) rising to 9.5% from July 2014.

The Superannuation Guarantee Scheme was introduced to assist Australians to prepare for their retirement and reduce the long term burden on tax-payers generally. As the scheme is compulsory, superannuation contributions are made irrespective of whether the employee is Australian or foreign. The compulsory nature of the superannuation contribution is not unreasonable; if contributions were not compulsory for foreign employees their employment costs would be much lower, artificially enhancing their attractiveness relative to local labourers.

The rub, however, is that foreigners are able to access their superannuation entitlements upon departure from Australia. Australians meanwhile are required to await their preservation age (55 to 60 years depending upon date of birth). More importantly, since the entitlement is paid upon departure, it is not possible for foreigners to spend their entitlements within Australia – a leakage that means the Australian economy is worse off.

Box 1: Superannuation – this apple harvest we will pay over \$160,000 in superannuation payments to our largely backpacker workforce. The workers are able to access that money at the international airport when they leave Australia. 80% of our pickers would spend that money in Bali on the way home. Therefore there is ZERO benefit to Australian economy. Why can't overseas worker superannuation be put into an industry fund dependent on the sector the superannuation was earned? I would much rather see our \$160,000 go towards the Manjimup apple breeding program than pay for our backpackers to have another couple weeks holiday in Bali. This a massive pot of gold we are letting slip through our fingers.PG, Western Australia

APAL urges the Government to review the application of the superannuation scheme to workers employed under temporary visa arrangements (backpackers and seasonal workers). As previously argued to the then Treasurer Wayne Swan, APAL recommends that the compulsory contribution paid on foreign labour be diverted to the Horticulture Australia Limited to be pooled with grower R&D levies.

An additional concern of growers relates to the paperwork surrounding superannuation for casuals. Each employee has the ability to nominate a superannuation fund of their choice. However this means that growers have to complete a lot of paperwork for many different funds for a workforce that is employed for a very short period of time. APAL believes that the government should establish one single collection point for employer superannuation contributions for all casual employees within horticulture with a requirement that workers then redirect funds from that collection point to a recognised superannuation fund.

The imposition of visa checking responsibilities is another concern for growers. Farmers are required to check visa entitlements within 48 hours of an employee commencing work to avoid penalties. The Visa Entitlement Verification Online (VEVO) facility established by government has assisted employers enormously as they are now able to check the eligibility of their workers and receive an immediate response.

However, many growers now use hire labour firms in order to reduce their paperwork. This is particularly the case for Seasonal Workers (416 visas) as there is much paperwork for the employee's sponsor. In such cases growers are paying the contractor to check visas of the workforce they engage on the grower's behalf. Despite this there remains a legal obligation for growers to check each and every visa, which undermines the use of contract labour firms.

Depreciation

Shorter tax depreciation periods would also significantly assist with investment in the industry. Accelerated depreciation or investment allowances would encourage growers to bring forward or increase their commitment to the industry. These kinds of provisions are necessary for growers to consider undertaking on farm improvements even though these investments often have strong payoffs. APAL believes that shorter tax provisions be accessible to all growers, particularly for investments in environmental netting, computerised irrigation systems, mobile orchard platforms and the renewal of unproductive trees.

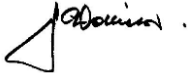
For example, many growers report that they would invest more in netting to overcome birds, bats and hail if the tax write down period was much shorter. Greater investment in netting would have the obvious advantage of greater regional employment in netting production and installation. Netting would also potentially save growers thousands of dollars in lost crop and the resulting income could provide a greater source of equity to reinvest within the orchard and supply chain.

Trademark Registration

The apple and pear industry also seeks formal patenting arrangements for Australian PINK LADY apples. To date, APAL has found it difficult to register the PINK LADY Australia brand because IP Australia recognises PINK LADY as a variety rather than a trade name. This is

despite the fact that APAL has been able to register the trademark in over 70 countries internationally. Commonwealth government cooperation may assist the industry to successfully register the brand.

Yours sincerely



John Dollisson
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