

Agricultural Competitiveness White Paper Submission - IP442
Australian Horticultural Exporters Association
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Formal Submission

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For the
Department of Agriculture

In regard to the
Agricultural Competitiveness Issues Paper

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EXECUTIVE SUMMARY

The Australian Horticultural Exporters Association (AHEA) welcomes the opportunity to submit comment on the Agricultural Competitiveness Issues Paper.

Australia was built on the foundations of agriculture and has sustained itself as a viable industry into the 21st Century. With the decline of manufacturing industries and mining, Australia is struggling to strategically position itself with viable industries that will uphold the lifestyle Australians are accustomed to. Agriculture is a key employer in regional Australia and with a solid foundation will be a major contributor to the economy into the future.

The importance of Horticulture

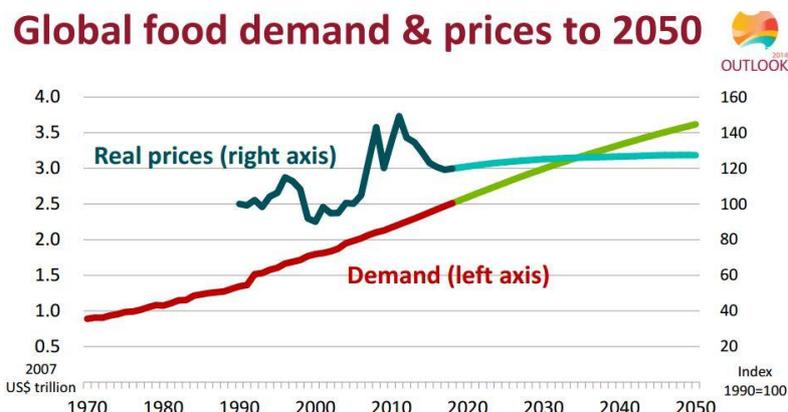
It is understood that agriculture is one of the nations 'five pillars'. Australia's horticultural industry is the nation's third largest agricultural industry—based on gross value of production. Australia's horticulture industry comprises of fruit, vegetables, nuts, flowers, turf and nursery products. The industry is labour intensive and mostly seasonal. It comprises mainly of small-scale family farms—however, there is a growing trend towards medium to larger scale operations. Australia's horticulture industry has long enjoyed a domestic and international reputation for quality and taste —primarily due to our high standards across all stages of the supply chain, from farm to consumer, and due to our climate.

The horticultural industry contributes significantly to the prosperity of people living in rural and regional Australia. There are 63,300 people employed in Australia to grow fruit, vegetables and nuts for the domestic and export markets, spread mostly down the Eastern Seaboard, inclusive of North Queensland and Northern Territory. A further 9,800 are employed in fruit and vegetable processing (excluding wine manufacturing) (source: DAFF Australian Food Statistics 2009-10).

AHEA and Horticulture Exports

Trade and Market Access is the key focus of the Australian Horticulture Exporters Association (AHEA); to represent industry in the complex area of trade policy negotiations which is important to the future viability of exports and imports of horticultural produce. The AHEA acts on behalf of the horticultural industry as a peak body, to provide leadership, and support to the trade and influence decisions affecting Australia's trade in horticultural produce. The AHEA holds Australian membership of 85% of horticulture exporters by volume.

Issue 1: Ensuring food security in Australia and globally



(i) Food Security

Food security for Australia is paramount, to ensure we can feed our communities in the event of any global crisis, and Australian Governments cannot work on the basis of reliance on imports of food in any crisis situation. Our trading partners will always put their populations first when it comes to sharing food and exports will come last.

(ii) National Resources Act

Australia's position as the food bowl of Asia requires a legislative framework to ensure continuation and growth in this sector. A National Resources Act that protects Australia's resources and enhances foreign investment whilst limiting foreign land ownership should be enforced to ensure that a minimum of produce that is produced remains in Australia. It is the only way we can guarantee food security and resource supply in Australia for all Australians. This includes produce produced on foreign owned land in Australia. This would negate most foreign ownership fears currently held by the wider Australian community. Ideally, a move to leasing land similar to the process in the Pacific Islands e.g. Vanuatu should be considered. This leasing structure needs to be in conjunction with a local Australian business and could be bound by a 99 year lease as a foreigner.

(iii) Climate Change and Variability

Climate change and variability are clearly recognised as major threats to agriculture. Over the coming decades, Australia is expected to experience increases in average temperatures and see daily temperature extremes producing more hot days (above 35oC) over summer and fewer cold days (below 0oC) in winter. This will also impact on average rainfall patterns and increase the frequency of extreme weather events.

Such changes are likely to affect crop/pest interactions. However the extent that it will affect most pests and their hosts are not yet clearly understood.

Pest outbreaks occur when changes in climatic conditions such as temperature and moisture are most favourable for pest growth, survival and dispersal. A predictive study of the potential distribution of Citrus Canker should it enter and become established in Australia under current and projected climatic conditions, has demonstrated that with increasing temperatures there would be a significant shift in distribution patterns and an increase in the total area potentially affected by the pest.

Similarly, a recent preliminary analysis showed that climatic conditions in central NSW could become more favourable for the spread and reproduction of fruit flies with climate change. Increasing temperatures, decrease in cold stress and milder winters would create more favourable overwintering conditions and a subsequent increase in the number of fruit fly generations that could occur each year.

(iv) Mitigating Drought

Drought has had devastating consequences for the livelihoods of those within the agriculture industry and is a key contributor to the lack of profitability in agriculture. It also threatens the fragile ecosystems of the dry areas. Due to climate change this threat is expected to increase in coming decades. Agriculture needs to look for ways to prepare for and to mitigate the effects of drought and climate change through proper management of water and land resources under current and future scenarios. This would include:

- Developing methodologies for characterising drought in the major dry area environments as predicted in the future.
- The assessment of existing community, national and regional strategies and policies for the preparedness and mitigation of drought and climate change.
- Evaluation of germplasm for adaptation to drought and climate change and the assessment of other options and strategies for the preparedness and mitigation of drought at various levels.
- Enhancing linkages and cooperation between countries on drought preparedness and mitigation.
- Better understanding of the potential impacts of climate change, and prediction (modelling) of the effects of adaptation systems such as supplemental irrigation.

(v) Water

Water is a fundamental requirement and is important to horticulture's future. Without clean and accessible water, much of Australia's rural land is limited in its production. Drought affects fruit size and marketability of

produce and affects farm gate returns unless have reliable access to water. Most horticulturalists irrigate. Government programs need to invest in non-farm water storage and to growers having easy access to water supplies.

Southern areas of WA need access to northern regions to expand. Rising salinity levels in water resources and dry land salinity are the biggest environmental problems facing Western Australia and pollutants from mining and gas in Queensland are also a growing concern of ensuring enough fertile land is free from resource exploration.

The key to controlling the salinity problem is to get the water balance back into equilibrium. That means using more water; lowering the watertable and getting the salt back down to where it is harmless. The main way to do this is to plant trees and deep-rooted perennial crops to take water from the soil. This is a huge task. It has been estimated that \$3 billion will be needed over the next 30 years to fix the problem in Western Australia alone, and over 3 million hectares of appropriate trees and shrubs will have to be planted.

(vi) Introduction of New Pests

With ever increasing and more rapid movement of people and produce across state and national borders, the nation's Biosecurity is being tested and challenged. The number of travellers each year to Australia is increasing. These travellers and the aircraft and ships bring with them potential carriers of pests. The rate of people and produce movement growth is predicted to continue and the risk of the introduction of new pests is greater when trade vessels with more than 1.8 million containers of cargo and the 150 million mail items arriving into Australia annually needs to be considered. Recently State border Biosecurity control funding has been reduced. This needs to be re-instituted and current systems maintained with regular monitoring of effectiveness.

(vii) Agriculture Technology & Expertise

Australia can export its agriculture technology, marketing skills and expertise to improve global food security outcomes however there needs to be some assessment on what gaps we have in Australia to ensure that the exchange benefits our nation into the future.

We would rather use our expertise in Australia and gain the returns and point of difference, hence the need to support R&D in Agriculture with organisations such as CSIRO. Whilst there is commendable depth of expertise throughout agriculture science, some areas are beginning to experience shortages of people with the appropriate skills and

knowledge. This is compounded by the current difficulties in attracting and retaining people to the agriculture sector. The use of foreign partnerships to capitalise on appropriate Australian research can maintain integrity of supply within Australia.

A number of recent studies have identified these emerging trends. Work undertaken by the Australian Council of Deans of Agriculture (ACDA) indicates a continuing fall in Australian graduates from university agricultural programs. Furthermore, estimated demand already exceeds the current supply of agricultural graduates by a factor of three and trends indicate that they were likely to leave employment in these disciplines within ten years. The factors driving this loss of expertise include retirement, a desire to change career and concern about job security, highlighting dissatisfaction with current terms of employment in the sector.

(viii) Emergency Response Systems

The lack of robust emergency response systems leaves the horticulture and other agricultural industry vulnerable. Long term plant quarantine incidents have the potential to significantly impact not only directly on industries and communities but to the Biosecurity systems.

(ix) Workable Protocols

With the predicted world's population increase, there will be many nations that won't be able to feed themselves. As their income increases they will want to buy more imports from a prestige and health and safety point of view. This potential demand can be met provided we negotiate workable protocols of commercial value.

(x) Waste Streams

Food production in Australia is still extremely wasteful. Australia needs to look to ways in which it can use 100% of produce. Many agricultural commodities' yield is as low as 25-30% in production and lower grade produce is often physically buried. Horticulture and fisheries suffer the most in this area. Food innovations need to be encouraged and supported. Australia has virtually lost its processing sector and what is left is not internationally competitive. There will always be 20% horticulture production that isn't appealing to retail buyers. Most farmers need to convert this 20% produce into returns in order to obtain a positive bottom line e.g. processing paste, canning etc. Without this return, it places the industry under enormous strain. The processing sector is important. Australia only has one fruit processing cannery left – SPC and a small number of vegetable processing factories e.g. Bathurst, Davenport etc. We used to have a vegetable processing plant owned by Simplot which is now closed. There are many examples where this has already happened: Cauliflowers were grown in Western Australia. Supermarkets and the export market only take premium produce. In order

to manage the lower grade produce and wastage, produce was sent to a pickle factory. When the factory closed, the economies didn't stack up and the cauliflower industry declined dramatically.

Australia needs a tiered approach to address this issue:

- a. Regional produce channels facilitating and promoting B2C and B2B outcomes are needed to create regional jobs. These would include local markets, value adding and promotion of local produce. Having these smaller regional processing plants and sales channels, would enhance regional industry.
- b. Medium size food manufacturers exist in Australia that has creative innovations and processes to convert lower grade produce into retail and hospitality products. These food manufacturers need easier access to investment streams or be hired to act as consultants with primary producers/farmers/growers to create higher value waste stream conversion. In the past, projects have been put up to government departments and not financially supported to develop products for export to under developed countries with food security issues. Responses received have included "Australia would rather invest money and technology into those nations". Why aren't we investing in ourselves to improve food security issues? This could be enhanced with a more focussed approach on the R&D levy application to food manufacturing of by-product.

These micro solutions as a collective would resolve most of the macro issue of food security.

(xi) Transparent Research Projects

Some relevant and timely research has been conducted by consultants, universities and scientists that can assist primary production and overcome many issues however the information is always difficult to find and often not released for extended periods of time due to IP. Government funded initiatives used to have to be registered in the National Library of Australia however this process seems to be failing and industry cannot get access to the knowledge in a timely fashion. Government departments and many research facilities have had a high turnover which has meant that knowledge is lost to industry and often also means that many projects are redone and/or not utilised commercially.

Issue 2: Farmer decisions for improving farm gate returns

(i) Access to Low cost Lenders

Farmers need access to low cost, future focussed lenders. The four pillar banking system has failed our primary producers and don't understand the industry, particularly horticulture. Government needs to address these inadequacies if Australian farming is to have a future. Access to low cost, partially secured funds is imperative. This could be achieved through investment partnering that could involve foreign investment. This would operate along similar lines to crop share. Fund managers and agricultural specialists working within a set framework could enlist investors via the ASX or through private equity to 'farm share' with farmers and further promote and support primary industry.

(ii) Business Support

Farmers/growers need more access to regional business programs under initiatives such as Rural Business Support that can assist them not only in running their businesses profitably but also assist them achieving financial support through drought, floods, other disasters and economic downturns.

(iii) Export Strategies

Export needs to form a part of agricultural businesses strategy to increase bottom lines to farm gates. When the dollar varies, supply needs to be maintained in order to keep market channels open.

(iv) Export Premium Grade Produce

Premium produce needs to be exported to maintain the positioning of 'premium produce that tastes good'. Sugar levels in produce should be monitored to ensure that this is also maintained and benchmarked against competition.

(v) Consistent Quality Production

Returns from the sale of horticultural products are dependent on market conditions whether they are local or export markets. Decisions on the selection of commodities to grow and sell will impact on farm gate returns. I.e. Variety, quality, specification and presentation will impact on returns. Horticultural products are sold as commodities, and it is difficult to differentiate product between the many small and large growers that make up each sector. Inconsistency and variation in quality and specification work to undermine improving returns to growers.

(vi) Supply Systems

Over supply is detrimental to profitability. There needs to be a supply system where supply is managed (not regulated) to offer the best returns to growers. (e.g. Grower regional marketing co-ops could manage supply). Currently exporters rely on their importers for supply and demand and price information which is biased towards lower prices not higher prices. In Chile for example, the Fruit Export Association collects data on each and every export shipment and publishes price, quantity, supplier, customer, quality, specification, shipping dates and ship name. If supported by industry, the AHEA could provide similar data.

(vii) Outsource Export Process

If the trend continues where entire crops (including lower grade produce) are sold direct at farm gate at the beginning of the season for export to Asia without reference to quality, price returns to the entire commodity will drop and Australia will lose the position of quality produce. Exporters should be properly regulated with quality standards in place to ensure this does not occur to protect markets. Outsourcing to exporters also reduces risk to farmers/growers as exporting mistakes can range from \$50 - \$500,000+ depending and put them out of business in a single transaction. Government departments often are seen to promote that the farmers/growers export directly and bi-pass the exporters which is dangerous if they are inexperienced.

(viii) Innovations

Knowledge sharing of innovations, research projects and access to food processors through low cost, regional commercial hubs in each state will assist primary produce in value adding and being proactive in response to changing market needs. There are existing hubs and food processors that are being under-utilised.

(ix) University Horticulture Programs

New Farmers/growers need to be attracted into agriculture. University programs such as Master of Agriculture Science are currently expanding in enrolments however it appears that the depth of lecture/tutor knowledge is waning and is often being imported. Specialist programs have been dropped over the years e.g. Horticulture at Gatton. If this is considered to be an industry of the future, these types of specialist educational programs need to be reconsidered and local, educated and experienced industry members encouraged to become involved in passing down knowledge.

Issue 3: Enhancing access to finance

(i) Easy Access to Finance Specialists

The banks have failed the horticulture industry. The banks are not adequately supporting farm loans.

It is reported that many growers who have weathered the 10 year drought, market access barriers, and market over supply, bad debts etc are now indebted up to 100% of their equity and cannot borrow anymore. There are reports of exporters paying growers up front so that they can pay pickers so they can supply the fruit to the exporter. It is not an over statement that the Australian horticultural industry in many instances is near or close to bankruptcy. Many exporters operate beyond their financial capacity often under pressure from growers to move their product once its harvested and if a shipment goes wrong they cannot pay their grower and the problem shifts back down the line, where everyone in the supply chain is affected. There needs to be improved access to finance for those involved in the horticultural sector if the government wants a viable and growing horticultural industry. Currently growers in many cases cannot borrow any more money and exporters have only limited equity in their businesses to put up to borrow money for working capital. As a result the horticultural industry suffocating and financial recovery and growth is being held back.

Private capital available for farm investment needs closer connection with industry. The big accounting firms need to have more specialised knowledge in agriculture and connection with services such as Rural Business Support in order to support these transactions.

There is also greater difficulty for producers, particularly young producers, in obtaining the capital they need to fund or expand their operations.

(ii) Government Drought Relief

\$60 million low interest loans have been made available to the agriculture industry as drought relief funding. It is understood that farmers/growers have to put up their title to property which jeopardises other bank loans. Finance specialists who also understand the industry (especially horticulture) are needed to creatively assist the industry.

(iii) Alternative Business Structures

Alternative business structures need to be developed for farming that also retains ownership with farm families for industries such as Dairy in Queensland. The model in NSW appears to have worked and Queensland dairy farmers appear to need assistance. States need to

work closer together to achieve national results and learn from one another.

Australia needs to stop thinking at State level on agriculture production and in exports as it fragments industry at all levels.

(iv) Foreign investment

Foreign investment can best contribute to the financing and productivity growth of Australian agriculture by aligning with the banks as farmers/growers find it difficult to connect and understand how to progress foreign investment opportunities. International investment is critical to increase competition and the price paid to growers. The capital bucket is just not enough domestically, so foreign capital allows the investments to be made.

Issue 4: Increasing the competitiveness of the agriculture sector and its value chains

(i) Marketing

There are massive opportunities for Australia to undertake some generic marketing to promote Australian horticultural produce as superior to cheaper supply from other countries, but this must be done collectively through AHEA or Austrade, and someone other than the growers and the exporters. Austrade, Department of Agriculture or HAL would need to provide the bulk of the money (because as suggested above both growers and exports are in many cases just surviving financially and do not have additional funds to promote their products). At the moment the marketing is often State or Commodity driven and the marketing messages have become diluted.

(ii) Consumer Demand

Agricultural based businesses need to grow what is in demand in the marketplace and pick up on market signals. Pick and pack it in the way consumer's want. Listening to consumers is important if they are going to succeed. If farm businesses are going to remain viable given the increase in domestic competition, they will need to export more. Invariably the export market will bring them greater returns. Farmers need to produce for export and include it within their strategic planning process.

(iii) Competitiveness

Competitiveness in terms of quality, specification, packaging, consistency, taste, flavour and texture is considered equal or better than many of our global competitors. However our cost structures are a very long way from competitive internationally where in many cases Australian horticultural products are 150% the cost of a similar product shipped from a competing country, such as Chile, Peru, and South Africa etc. As a result Australia is increasingly a seasonal exporter and ships only when there are opportunities ie the particular market is short.

To increase competitiveness, service level agreements are needed as the current controls are not working. The industry needs to utilise R&D, conduct business smarter, reducing labour inputs, mechanisation and quality systems.

- a. *Overheads*: We need to help agriculture reduce overheads. Horticultural exporters need access to the previously available Energy Efficiency program or energy prices reduced. Carbon tax is 'apparently' forecasted to be removed however has not yet

flowed down to energy billing. Electricity bills are also inclusive of charges to have energy 'on hand' E.g. on an \$11k electricity bill \$5,100 is for electricity actually used; \$4,600 is for a premium on provision. This is for power that has been allocated via spike and not used. \$1,300 on top of this is for carbon tax. This is a ridiculous scenario for anyone having to run coolrooms and freezers to hold produce contributing to unsustainable overheads.

- b. *Labour:* Labour in Australia is expensive and the main inhibitor to profitability and competitiveness on a global scale with logistics following closely behind. Programs such as WWOOFing give international visitors the opportunity to work on Australian Organic Farms, exchanging 4 - 6 hours work per day for your meals and accommodation, usually in the family home. Why can't this be extended to the whole of Agriculture?
- c. *Logistics:* Logistical routes need improvements such as train routes between Melbourne and Mildura, Eden and Sydney and Northern Territory and Brisbane in order for reliable, cost effective transport to be encouraged.

Trucking, airline and shipping lines need to be monitored with Service level agreements to maintain competitive rates and timelines.

Proximity is the main point of difference for Australian exports. Unless services are accessible 7 days, extended hours and at competitive rates, customer demands cannot be met.

- d. *Market Concentration:* A consistent complaint across agriculture is that, at various stages of the food chain, market concentration is a major concern across commodities as there are only a handful (if that many) of buyers or sellers, resulting in a lack of options for producers and lower prices for their commodities or higher prices for supplies. Producers often contrasted today's concentrated markets with the more atomized markets of past years, recalling times when they had plentiful trading partners. Price levels have decreased domestically due to the monopoly of retailers and competition from imports. The industry has become 'price takers' with pricing controlled by the supermarkets. Supporting new channels eg. Regional Farmers Markets and Export will assist in raising returns to the farmers.

These high cost structures and limited access to finance reduce the ability of growers to invest in technology to improve productivity and hold or reduce costs in an often labour intensive industry which continue to further reduce the competitiveness of farmers/growers.

Issue 5: Enhancing agriculture's contribution to regional communities

- (i) Improved profitability of farmers/growers is shared by the whole regional community when the money is spent in the community.
- (ii) Employment in rural townships is difficult. Public transport has decreased from nearby regional centres and highways have bi-passed the townships reducing local services and population.

Issue 6: Improving the competitiveness of inputs to the supply chain

(i) Highlighting the Need for Airfreight Protocols & Strategy for Proximity to Asia

Australia's horticulture industry has long enjoyed a domestic and international reputation for quality—primarily due to our 'perceived' high standards across all stages of the supply chain, from farm to consumer.

Banana, pineapple, mandarin, avocado, mango, fresh tomato, capsicum, zucchini and beetroot production is concentrated in Queensland; stone fruit, oranges and grapes in New South Wales, Victoria and South Australia; processing potatoes in Tasmania; fresh pears, canning fruit and processing tomatoes in Victoria; and apples and fresh vegetables in all states.

While the bulk of Australia's horticultural exports are shipped by sea, air transport is also an integral part of the export trade for the industry. It allows horticulture to move highly perishable products that cannot sustain the longer sea freight time as well as take the up the opportunity for any immediate trade that may be in demand from the importing countries. Airfreight also enables exporters to commence an export program with seasonal fruit or vegetable shipments by air when supplies are limited and the buyers have to gain confidence in the product followed up by sea freight. It is part of our overall export strategy particularly throughout Asia, the Middle East and the South Pacific countries. Noting, air cargo rates ex-Australia are the cheapest in the world, which will pave a positive future into the emerging Asian markets. It is important for exports that these rates remain competitive.

Data shows that the majority of air freighted exports are out of Sydney, Melbourne, Brisbane and Adelaide. Freight capacity is greater out of Sydney due to the international tourism industry. However, 24 hour access in Melbourne and the growth of Brisbane airport capacity means there will be shifts in these statistics over time.

22% of horticulture exports, \$145M is by airfreight (2012/13) across the following top commodities by value:

- Table Grapes
- Cherries
- Stonefruit (including plums)
- Asparagus
- Mangoes
- Avocados
- Melons

- Broccoli
- Cauliflower
- Strawberries

This highlights the importance of an export strategy for airfreight to be linked into tourism. Exports are on the same outbound flights as tourists. The more flights that are inbound to Australia, the more availability for airfreight. The proximity of the Australian market to Asia by airfreight, allows product to arrive before competitors with longer shelf life, can address market shortfalls and for some commodities, is the only means of transport eg Strawberries, asparagus and cherries.

Analysis of Australian horticulture exports by volume and value, air and sea										
		Value	Volume	\$ per kg	Growth trend	Share Vol	Share Val	% Air	% Sea	Comments
		A\$ million	Tonnes	A\$	7 years CAGR					
* Top 95% Volume	Oranges	130.3	133,074	0.98	0%	20.0%	29.2%	0.2%	99.8%	Mostly sea
	Grapes	180.2	72,409	2.49	10%	27.7%	15.9%	21.0%	79.0%	Some air
	Carrots	51.1	67,334	0.76	1%	7.9%	14.8%	0.8%	99.2%	Mostly sea
	Onion s	27.6	51,578	0.53	0%	4.2%	11.3%	0.2%	99.8%	Mostly sea
	Potatoes	23.8	36,369	0.65	10%	3.7%	8.0%	5.5%	94.5%	Mostly sea, air in small mixed loads
	Mandarins	55.0	32,940	1.67	10%	8.5%	7.2%	2.4%	97.6%	Mostly sea
	Pears	10.3	10,286	1.00	9%	1.6%	2.3%	4.3%	95.7%	Mostly sea
	Peaches & nectarines	22.3	7,786	2.87	5%	3.4%	1.7%	56.3%	43.7%	slightly more by air
	Melons	12.1	7,139	1.70	-9%	1.9%	1.6%	93.3%	6.7%	Question data - air seems too high
	Mangoes	16.0	4,604	3.47	4%	2.5%	1.0%	91.7%	8.3%	Mostly air
	Apples	7.2	3,907	1.85	-9%	1.1%	0.9%	6.3%	93.7%	Mostly sea (in mixed loads to PNG)
	Plums	9.0	3,268	2.77	-5%	1.4%	0.7%	58.2%	41.8%	slightly more by air
Cherries	31.4	2,888	10.86	15%	4.8%	0.6%	91.2%	8.8%	Mostly air HK/Taiwan	
Bottom 5% Volume	Asparagus	16.2	2,525	6.43	-5%	2.5%	0.6%	98.8%	1.2%	Mostly air to Japan
	Cauliflowers broccoli	6.2	2,287	2.70	-11%	0.9%	0.5%	88.2%	11.8%	
	Avocados	8.1	1,976	4.08	12%	1.2%	0.4%	98.2%	1.8%	Mostly Air
	Beans	3.8	1,052	3.60	-3%	0.6%	0.2%	99.8%	0.2%	
	Lettuce	4.7	1,015	4.62	-2%	0.7%	0.2%	87.5%	12.5%	
	Strawberries	5.3	788	6.71	-17%	0.8%	0.2%	99.8%	0.2%	
	Tomatoes	2.0	439	4.51	-30%	0.3%	0.1%	76.0%	24.0%	
	Kiwifruit	1.1	397	2.75	-4%	0.2%	0.1%	93.8%	6.2%	
	Sweet Potatoes	0.4	385	1.10	-6%	0.1%	0.1%	96.7%	3.3%	
	Apricots	1.5	382	3.86	8%	0.2%	0.1%	92.9%	7.1%	
	Capsicum	0.8	182	4.44	-26%	0.1%	0.0%	45.3%	54.7%	
Blueberries	1.0	62	15.86	-28%	0.2%	0.0%	91.0%	9.0%		
all other	23.3	10,872	2.14		3.6%	2.4%				
Total	650.5	455,945	1.43	2%	100%	100%	82.1%	17.9%		
<i>Source: World Trade Atlas, EKDOC, DA MCS analysis</i>										
Top 95% volume	576.3	433,584	1.33	3%	88.6%	95.1%	8.6%	91.4%	Low value, high volume, sea dominates	
Bottom 95% volume	74.2	22,362	3.32	-7%	11.4%	4.9%	94.5%	5.5%	High value, lower volue, air dominates	

Airfreight to Asia and the Middle East is commercially viable from Australia early in the season for many commodities, or to fill a market shortfall between sea freight deliveries. It is one of the few advantages Australia has over Chile, South Africa or Peru given our closer proximity to the market.

(ii) Restricted Capacity for Airfreight

Despite being geographically close to these major South East Asian markets, exports of perishables eg horticulture continue to have ongoing and serious problems with airfreight at certain times of the weekend and year despite the air cargo industry being in the doldrums. There is for example restricted capacity for air freight to Asian destinations ex

Melbourne and it is not uncommon for exporters to chase flights out of Sydney to provide air cargo for Asian destinations.

(iii) DAFF Services to Support Export

Furthermore, the increasing complexity and reduced capability of DAFF to service exporters at airports is a serious impediment to our "just in time" exports of fresh produce to Asian markets which was **the only major advantage** the Australian horticultural export industry has over our competitors which allowed growers and exporters to get higher prices for premium quality produce.

This advantage has been taken away by the bureaucracy increasing regulatory and compliance requirements imposed by DAFF while at the same time a reduction in inspectors available to undertake inspections, and prohibitive charges for overtime and out of hours inspections including weekends and at holiday times which means that the export industry effectively closes down over Christmas, New year, Easter and weekends etc. when it is 'business as usual' in Asian markets.

The current service level agreements between industry and Department of Agriculture need to be reviewed to service current and future market needs.

The situation demands an urgent fix which can only be fixed by in the first instance removing the monopoly on quarantine inspections currently held by DAFF. Australian Government Authorised Officers (AAO's) may go part way to improving this problem but privatising quarantine inspections would seem to be the only solution long-term.

(iv) Airline Security Regulations

The much discussed new air cargo security regulations which were supposed to be imposed from July 2014 will dramatically reduce Australia's capability to export via air cargo even further (particularly for fresh produce) by increasing costs and increasing the time required to process a shipment for export. Although AHEA has submitted proposals, it appears training programs have already been drafted for a system yet agreed by industry. No clear direction has been discussed and funding for the transition has been removed. The agriculture industry involved in export has been left very nervous about its future. A practical outcome is needed for the implementation of increased security for air cargo.

(v) Sea Freight

We understand that through the work of Australian Peak Shippers Association (APSA) and its members including AHEA, which Australia continues to enjoy regular sea freight services to all major ports in

Australia at competitive charges. While freight rates remain low and competitive, shipping lines continue to invent new additional surcharges which contribute to costs increasing for exporters. This needs to be tackled by the Government by ratifying past productivity recommendations to prohibit Discussion Agreements between Shipping Lines.

Under Part X of the ACT, the AHEA is a secondary peak shipping body and has to be consulted about rate rises and charges. We need to continually remind the shipping companies about this.

The shipping lines are able to negotiate freight rates as a consortium under the ACT, on the understanding that they provide a level of service. What that level of service is for exports is a little grey and needs review.

For instance, all vessels from Melbourne to Hong Kong have been late this season. The service used to be 16 days. The OOCL California arrived into Hong Kong 10 days late recently. It took a month virtually from the time of loading in Melbourne to arriving in Hong Kong.

So what should the level of service for sea freight be?

1. Capacity – enough container/reefer slots and vessels
2. Shortest voyage – capitalising on Australia's close proximity to Asia
3. Regularity of Service – at the moment Hong Kong has 5 vessels arriving in 21 days. The vessels left late and are bunched up which means the market will be oversupplied, reducing returns to farmers/growers.

There needs to be more cohesion with the shipping lines to ensure appropriate service levels are met to enhance the proximity of Australia to the Asian markets.

Issue 7: Reducing ineffective regulations

(i) Registered Establishment Fees & Charges

There is a need to reduce the over regulation that occurs in the case of quarantine which continues to stifle exports not enhance them. Exporters suffer continued increases in government regulatory costs to enter export markets. Tier 3 costs will next year be at 'full cost recovery': \$8,750 p.a. to enter protocol markets. This cost is currently being reviewed however needs conclusion before June 2014 when invoices will begin to be dispatched to exporters. The cost is a fair increase from the \$550 charge several years ago.

The annual charge for Tier 3 is considered unsustainable by industry. If the Department of Agriculture is not proactive in adjusting the fee structure to ensure it is sustainable, the risk is that industry will deregister or not pay invoices and the Department of Agriculture will then in turn not meet budgets.

The charge should be based on the volume exported and support small and medium exporters to enter export markets. Supporting horticultural exports increases profitability to farm gate and keeps supermarkets honest. The recommended fee structure is an annual fee no greater than \$1,000, plus annual audit costs and perhaps a minimal extra charge to phytosanitary certificates i.e. if a tonnage fee is not permissible.

All of the major exporting product groups are now producing for and relying on significant export sales - market maintenance and new market access will be the only way to provide completion and viability into these markets. If Vietnam and Malaysia get serious about their Phytosanitary controls, Australia will have just about every major volume market being a protocol destination - requiring constant and significant resource from the Department of Agriculture to maintain these markets.

Timely progress into these markets will not be achieved and maintained with a small group of nine working in Department of Agriculture for the whole of Horticulture. Industry and the Department of Agriculture need to work together in a team-like manner to resource what will need to be achieved into the future for the horticulture industry.

BACKGROUND

Registration charges relate to the management and administrative activities associated with the implementation and maintenance of policy and technical objectives to support the ongoing export eligibility of products from registered establishments, as required by Australia's trading partners. These charges cover the programs standing costs, i.e. the Canberra office, IT systems etc.

The original cost for registered export establishments for horticulture was based on a tonnage fee similar to grain and then moved to \$550 p.a. This was then replaced with a tiered registration structure in 2011 as it was believed that a single rate of charge would not deliver an equitable imposition of costs as not all were deliverable.

Export registration is currently charged to companies or individuals that occupy premises intended to be used for the production, preparation, handling or storage plant and plant products for export at the point of inspection. This definition is under question which makes industry nervous that it will be expanded to all groups involved in export and make exporting of horticulture produce unaffordable. Facilities are registered with the department to ensure that the premises construction, equipment and processes are suitable for the preparation of prescribed goods for export.

The revised Horticulture export fees and charges were to allow the department to fully recover the costs of its operation. They were to be a 'simplified fee and charge structure for the recovery of costs and facilitates administrative efficiencies that will continue to reduce costs for horticulture exporters'.

AHEA undertook a survey with industry regarding establishment (shed) registration fees with a representative sample of Australian horticultural exporters. 48% of those surveyed were in Tier 3 – protocol markets. 21% of Tier 3 stated they intended to deregister. Comments included 'depends on whether China opens stone fruit market', 'depends on whether the registration fees are adjusted', 'the system is inequitable', 'registration equals \$1 per box', 'the system prevents new or emerging exporters from entry', the issue is not about payment, it is about an equitable system that works on a pro rata scale – if we allow small business to grow and prosper it becomes a big business'.

It was also noted through the survey question responses that under the current fee structure, 73% had been invoiced for registered establishment and only 60% had paid.

Service efficiencies, the use of co-regulatory agreements and industry based quarantine inspectors have not yet been realised. Since the reform process was initiated, the horticulture industry have seen higher costs in the form of establishment registration charges, higher inspection and documentation charges and increased auditing regime.

The Authorised Officer (AAO) program, a key feature of the export reform has had little or no acceptance by overseas authorities and has therefore yielded no benefit to many commodities. The Department of Agriculture need to place greater effort on gaining import country acceptance of the Authorised Officer program.

(ii) Service Charter

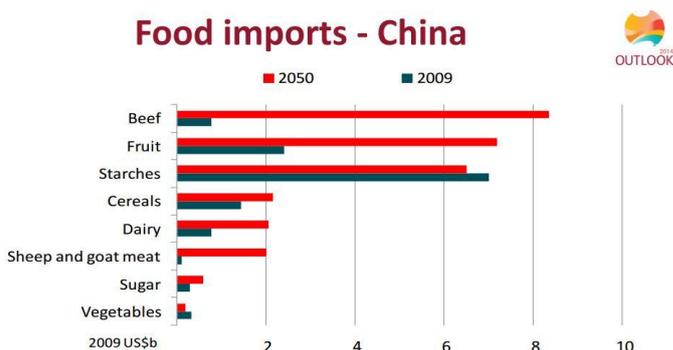
The Service Charter Guidelines for horticulture have been combined with grains and do not meet current and future market requirements.

The Service Charter is an agreement by the Government to industry on the service levels it provides. Over the twelve years since the guidelines were put in place, the industry commodities, market environment and

customer expectations have changed. Australia has entered into a global market focus where it is competing with nations that are half the cost. Proximity and taste are the key selling points. This means that industry needs need to be identified and reviewed against the Service Charter to identify gaps. This will ensure that all the needs are being met now and into the immediate future.

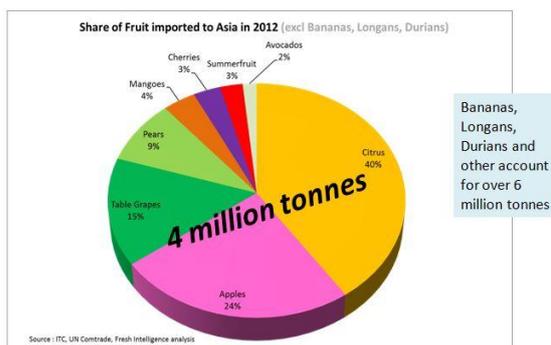
Issue 8: Enhancing agricultural exports

Food imports - China

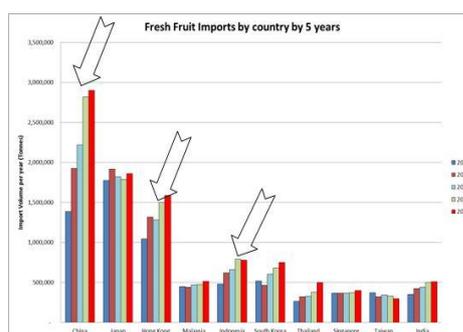


Recent demand for food imports, particularly horticulture is predicted by ABARES (see above graph from Outlook 2014) to show the strongest in demand growth, outstripping other agriculture products. Whilst this trend has been predicted, it was disappointing that the ABARES reports and the recent Outlook Conference lacked depth on the emerging opportunities and forecasts in horticulture.

Citrus, apples and table grapes account for 80% of temperate fresh fruit imports

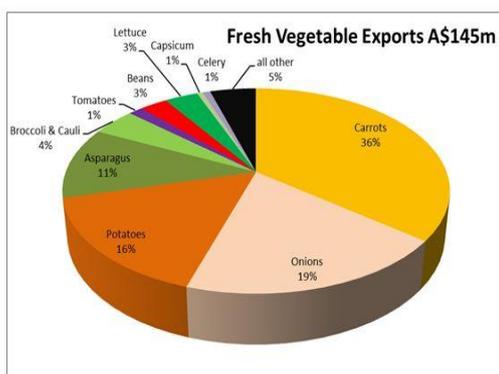


Fresh Fruit growth trends in Asian markets China, Hong Kong and Indonesia lead



Australia exports more than 90 fresh fruit and vegetable products to more than 60 countries and was worth \$672M in 2012/13. The largest destinations are Hong Kong, Japan, USA and Singapore; although many other countries and regions such as Middle East, Pacific Islands and Europe are also key markets.

Australian fresh vegetable exports 2012/13 by product value



Trade is hampered by difficult quarantine conditions, excessive compliance costs and high tariffs. For the export industry to remain profitable, improvements are urgently required.

Market access restrictions are wide and vary according to the product and range from quarantine access for many fruits to high tariff restrictions into potentially high volume markets. Despite all efforts to expand the export markets, the overall export volumes of fresh fruit and vegetables have declined through the decade contributed by high operating costs, a strong Australian dollar and increasing competition of significantly lower priced produce out of Chile and South America. Recent increases have been through direct market access into China.

(i) Exporter representation

Exporters understand commercial needs and real market access issues that range from quality produce, innovation, packaging, supply chains, retail/wholesale relationships and merchandise. Government fail to fully support and utilise this resource.

National industry and government strategies need to include funding of activities of national importance through these national advocacy associations by project - rather than seeing them as having 'commercial interests' yet still expecting them to provide consultation services free to the consultants contracted. Without this kind of additional funding from industry members, they will not survive into the future. The current process takes an immediate 20% out of industry funding. Outputs would increase if this process was adjusted and data retained within industry. Whilst it is recognised that there may be too many segmented associations across agriculture and they need to be structured under a sustainable business model, national associations offer a combined voice to channel a collective approach in making decisions and submissions towards policy that affects national interest. The collective representative approach for industry saves Government time and money. By reducing revenue uncertainty, the associations can focus consistent energy towards improving industry and providing government with facts and figures to assist in market access issues.

(ii) Government Processes

Government processes for improving market access are cumbersome and the industry suffers extensive delays in achieving improvements.

(iii) Fruit Fly

Fruit Fly is the key impediment to horticultural exports. Australia needs a national approach with assistance also from community driven programs in order to reduce fruit fly in backyards and interstate via the movement via tourism. The current state by state approach is not working.

Other countries eg Chile, NZ and US have insects and 'get over the line' with protocol discussions through a systems approach and sufficient controls and inspection techniques with grade standards. These may include:

- a. R&D focuses on reducing and controlling FF eg male lure and increased tracking. This is not an impossible approach and it has worked in other countries eg USDA eliminated fruit fly outbreaks in California, as a result of infested fruit being imported from South America, by swamping the infestation with sterile male flies and Japan was able to eradicate fruit fly in Okinawa.
- b. Regulation by councils and State Authority to minimize the spread of fruit fly in community backyards.
- c. The development of ISO Standards to support process. AHEA proposed a project to the Department of Agriculture to develop these standards. The standard can be used as the basis of all discussions internationally enabling more productive negotiations that industry can comply against, resulting in more workable protocols.

Any strategy for fruit fly eradication/suppression in Australia must be supported by a strong local government commitment and State Governments that are also firmly behind the monitoring, trapping, controlling and eradication of fruit fly – particularly in areas of horticultural production with an export focus e.g. Sunraysia.

(iv) Development of International ISO Standards

There is a lack of benchmark standards developed to support and qualify the quality of Australian produce. There is little to no documentary evidence e.g. standard that is auditable to substantiate the perceived 'superior quality' of Australian produce to justify the 1.5x competitor pricing. The lack of restricted access controls, procedures and hygiene within industry in turn reduces trade opportunities and gives preference to other countries produce in market access protocol discussions.

The Department of Agriculture has no benchmark standard for horticulture which it can take to the bi-lateral discussion table and say 'this is what industry does as a process in Australia'. Standards would offer a transparent document on process which provides consumer confidence domestically and internationally.

AHEA has put forward proposals to address this gap and is waiting funding to be approved by the Department of Agriculture.

(v) Prioritising commodities that bring returns to industry

In certain horticulture products e.g. navel oranges, honey murrill mandarins, cherries, stonefruit and grapes; Australia has enormous potential to expand exports due to the high demand for these specific products. These will form our export base and from these, we will expand exports of other items such as avocados, blueberries, persimmons, lychees, mangoes, asparagus, onions and potatoes. Focus and priority should be placed on produce with the most returns to industry. The prioritisation process needs to include an analysis of investment in market access versus return on investment. The process needs to provide supportive information on why a decision was made.

(vi) Team Horticulture

There must be a Peak Horticultural Body or Council to present and represent the across industry issues from all key stakeholders. Under this concept, a 'Team Horticulture' could be created. The format could be a body, council or forum. The primary objective would be to create strategy for horticulture and address market failure.

AHEA would like to table the Team Horticulture approach as a forum with representation from:

Government (DFAT, DAFF State Bodies, Department of Agriculture)
OMAH
HAL
R&D
Industry Bodies
AHEA

It would develop a mechanism for the priorities set in a yearly forum and agree industry strategies to ensure all of industry is 'on the same page'. This will enable stronger communication, considered advice, collaborative approach and faster response times. The Custodian Committee for the forum would set the priorities and review projects.

There needs to be industry strategic plans developed by each commodity group not consultants, analysing what their government needs are, identifying new and emerging markets, internal demand drivers and communicating their priorities. Industry money and knowledge needs to be managed by industry NOT losing 20% to consultants to get projects completed. The 20% can go towards supporting industry bodies as an

opportunity to improve their effectiveness otherwise they are not going to survive into the future (ref. The Australian Farm Institute 'Opportunities to Improve the Effectiveness of Australian Farmers' Advocacy Groups – A Comparative Approach', March 2014).

Team Horticulture would feed into a National Agricultural Committee to develop country based strategies across all commodities so everyone can tell the same story about Australia's priorities. This joined approach may prevent some of the disjointed nature within agriculture. This fragmentation often is further dysfunctional due to the differing priorities and strategies coming from the various state governments.

(vii) Workable Phytosanitary Protocols

Lack of market access restricts growth and trade. Industry needs more involvement upfront and linkage into bi-lateral and multi-lateral discussions and negotiations to ensure the protocol issues are overcome and work plans are commercially viable.

Industry, in conjunction with the Department of Agriculture need to resolve the details of the export pathway and bring them into a negotiation at the very beginning of the market access process. The way in which industry can begin to do this is by supporting the development of standards which are self-regulated. The Department of Agriculture then has an agreed position it can take into discussions.

Whilst Australia may recently have gained an FTA agreement with Japan and South Korea, the market access issues for key commodities still require high priority for discussion to take advantage of the level playing field of reduced tariffs.

(viii) China FTA

Australia needs to be more strategic and culturally aware in its interactions with China. Conclusion of the Chinese FTA will make significant difference to exports of fruit produce and legitimise trade.

(ix) Access to Knowledge

Growers need to know where to look for information and work with reputable trading companies that give them the information they need to make sound choices in what they grow, what markets to target and what hindrances are ahead in exports. Information is currently difficult to find and government is now supporting horticulture growers to deal through exporters to reduce risk.

(x) Pre-clearance Programs

To ensure Australia is delivering produce that meets the complex needs to protocol countries, pre-clearance programs are supported. Whilst they may add cost to the process, they reduce the risk of costly rejections overseas and protect market access.

(xi) Lengthy Protocol Discussions

Need faster negotiating to achieve faster outcomes in protocols. Some protocols have taken some fifteen years to achieve. Compared to competitive nations such as NZ, Chile and Argentina, these discussions are extremely lengthy and put Australia at a disadvantage.

Currently key markets such as China, Korea, Japan, US, New Zealand and Taiwan require protocols to be in place in order to trade. There is a growing trend for other countries in Asia to move to phytosanitary restrictions eg Malaysia, Thailand and Vietnam which will hinder trade.

To address this trend and the threat of access to China via Hong Kong closing prior to the FTA & relevant protocols being finalised, the Department need to ensure it is resourced sufficiently with consistent staff to manage the negotiation strategically.

(xii) Methyl Bromide (MeBr) Data

The industry needs data to support treatments for a range of pests e.g. stonefruit (peaches and nectarines). MeBr fumigation clearly works on a wide range of external pests and Australia has data that it is efficacious for a small number of internal feeders in some commodities. China & Thailand and other countries have concerns about the use of MeBr per their obligations and commitments under the Montreal protocol and consequently Australian horticulture exporters face difficulty overcoming their domestic policy objections.

R&D investment is needed to address this concern due to the data being absent for methyl bromide treatments for a number of common pests and extrapolation of the existing data is under greater scrutiny by many of our markets (e.g. NZ).

(xiii) Desktop Study of Competitive Nations

Analysis of other country strategies/processes eg New Zealand, Chile needs to be conducted as a desktop study to determine if there is anything Australia can learn and apply.

- (xiv) Acceptance by the importing country of the East-West distribution of fruit.
In Australia, Queensland Fruit Fly occurs only in Eastern Australia, and Med Fly is endemic only to Western Australia. Some countries (e.g. Japan) have concerns with the evidence by which we pursue acknowledgement of the absence of Medfly in eastern Australia. Fruit fly freedom is difficult to verify if we don't have effective grid trapping and control systems in place. The horticulture industry needs to take all opportunities to verify the efficacy of their production systems (not just in terms of the absence of fruit flies) and the fruit fly radius needs to be tightened.

- (xv) Acceptance of irradiation by importing countries as a means of treatment against Fruit Fly and other insects/diseases.

Irradiation as a treatment is backed by international standards along with food safety trials. There is a lot of efficacy data however some countries will not accept it e.g. China and Thailand. Some countries maintain policy objections or utilise technical barriers such as the absence of domestically approved MRLs.

The treatment needs to be promoted to consumers by industry as there is currently resistance to buying irradiated tomatoes and capsicum (e.g. NZ). Investment is needed from Department of Agriculture and Austrade to strategically address market perception of irradiation.

Ramifications of import restrictions need also to be considered and how they affect exports supported by irradiation.

- (xvi) Agreed inspection regime for the importing country to be a set at 600 pieces or 2%, whichever is smaller.

This is an issue for smaller shipments and so, does not support small and medium exporters or new/growing markets.

When the Department of Agriculture conducts 2% inspections, it can involve a large number of cartons and these cartons never repack well. This often leads to importer complaints. New options need to be considered.

- (xvii) Temperature Probes in Containers

In all protocols, the industry need to see allowance that 2 of the 3 probes must pass protocol, it seems particularly into Thailand that 1 of the 3 seems to fail. So, like other protocols we must urgently try to get amended the Thailand protocol from 3 of 3, to 2 of 3.

Issue 9: Assessing the effectiveness of incentives for investment and job creation

- (i) Investment in agriculture in Australia has attracted a good deal of public debate. In 2011/12, of the total approved foreign investment in the economy of \$170 Billion, investment in agriculture was \$3.6 Billion. The share of agriculture in total foreign investment had risen from 0.1 per cent in 2006/07 to 2.1 per cent in 2011/12. The biggest investors in agriculture were countries with mature agriculture sectors, able to bring the latest technology and management skills for the sector. The highest investment was from Canada, with nearly a quarter of the total, followed by the UK and the US. Data on foreign ownership of land shows that 11 per cent of Australia's agricultural land is foreign owned, with the highest proportion (24 per cent) in the Northern Territory.

Much of the funds available for investment globally come from sovereign wealth funds, which are controlled by governments and may not have simple commercial aims. This poses particular issues for regulators.

There are complex relationships between two-way trade and investment. For example, Australia's major trading partners, the US, the UK and Japan, tend also to be our largest foreign investors. It may be expected that the current high level of trade between China and Australia may generate interest in investment and this often complicates FTA agreement discussions. The future economic relationship may depend on how well Australia's regulatory regime can manage investment from China.

Australia's regulatory framework for foreign investment is restrictive. Among the 34 OECD member countries, Australia was assessed as the seventh most restrictive overall for foreign direct investment, and the tenth most restrictive in agriculture.

It is understood that there are specific criteria by which the Government assesses whether proposals for investment in agriculture are in the national interest. The criteria needs not to be just around funds but inclusive of access to new technology, opportunities to improve the skills base, and the links built with global supply chains.

The general public and industry have grave concerns about foreign investment in agriculture, including the increasing number of takeovers of agricultural processing businesses, the fears that foreign owners can avoid tax, and concerns about food security. A review of the framework and lower levels of scrutiny in some areas is required with input from the agriculture industry.

Greater transparency in the operations of the regulatory institutions, such as the Foreign Investment Review Board, the Australian Competition and Consumer Commission and the Australian Taxation Office is needed. An option would be the possibility of a national register of land and water assets, and of foreign ownership of them.

CONCLUSION

The agriculture industry is meeting its challenges with vigour and resolve, just as the generations have throughout Australian history however the structure is waning and needs support.

Among many examples, Australian farmers/growers are thinking about ways to add value to their products, exploring new marketing channels, and considering ways to open new markets. This is crucial because a healthy, competitive agricultural sector is vitally important to our nation's economy as well as a matter of national security and public health. We live in a world with essentially no borders. Government and industry need to work together closely to ensure we meet domestic and international consumer needs now and into the future.

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