

# Second Annual Review of Export Efficiency Powers

## REPORT

For  
Horticulture Australia Limited

May 2004

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in association with



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### **Abbreviations used in this report**

|      |   |
|------|---|
| APAL | Apple and Pear Australia Limited  |
| AAT  | Administrative Appeals Tribunal   |
| ACG  | Australian Citrus Growers   |
| AHC  | Australian Horticultural Corporation (now HAL)                              |
| AHEA | Australian Horticultural Exporters Association Inc.                         |
| CP   | Corporate Permission  |
| DAFF | Agriculture Fisheries and Forestry (Australian Government<br>Department of) |
| ECP  | Export Control Powers   |
| EEP  | Export Efficiency Powers (new name for Export Control Powers)               |
| FOB  | Free on Board   |
| HAL  | Horticulture Australia Limited  |
| LCD  | License Condition Document  |
| PC   | Productivity Commission   |
| PLU  | Price Look Up   |
| QA   | Quality Assurance   |
| QC   | Quality Control   |
| RSA  | Republic of South Africa  |
| ROK  | Republic of Korea (South Korea)   |
| WTO  | World Trade Organisation  |

# **1. INTRODUCTION**

## **1.1 Purpose of the Review**

The purpose of this Review is to assess the implementation of recommendations following the first annual review of Export Efficiency Powers (EEPs) and to analyse the effectiveness of EEPs in 2003.

This Review does not set out to analyse the pros and cons of EEPs. Rather, it will provide an assessment of how effective the application of EEPs has been in 2003 in providing benefits to the Australian horticultural industry. If relevant, recommendations are to be made into how EEPs can maximise benefits to industry. Alternatively, if the Review finds that EEPs were not providing benefits, recommendations are to be formulated to address this issue.

The Second Annual Review of EEPs is required to:

- Assess the implementation of recommendations from the first annual review
- Review the outcomes from the adoption of the recommendations of the first review
- Review the key characteristics of each market covered under the powers
- Assess the benefits and shortfalls in the 2003 Export Licence Conditions Document (LCD)
- Provide suggestions for changes to improve outcomes

At the onset, the Hassall team understands that the tonnage of fruit available for export was lower than previous years and market conditions have been difficult in the three most important citrus markets affected by EEPs. The Korean market was effectively closed on phytosanitary grounds, Taiwan imported only 340 tonnes of fruit and returns from the USA market were adversely impacted by high repack volumes and a stronger Australian dollar. These factors are an important backdrop to this Review.

The Hassall team completed the Second Annual Review of EEPs during March and April 2004.

## **1.2 Review Methodology**

The Second Annual Review was completed primarily as a desk based exercise. It is only twelve months since comprehensive industry and importer consultations were completed as part of the First Annual Review. With this said, some consultation was undertaken by the consultants for this Review. These consultations included – meetings with the EEP Steering Committee (31 March 2004) and telephone interviews with Riversun, DNE, Oppenheimer and other EEP stakeholders (mid April 2004). A short telephone/email based survey was also completed with Taiwanese importers of Australian oranges. A list of persons contacted is included as Chapter 10.

### 1.3 Report Structure and Context

The report is set out using the same structure as the first Annual Review of Export Control Powers. Each major product and market affected by an EEP is addressed in a separate report chapter. Each chapter includes a summary of recommendations made, the extent of their implementation, outcomes from adoption of recommendations, key characteristics of the market supplied, benefits/shortfalls in relation to the LCD and suggestions for change. Other current EEPs are reviewed in Chapter 7 and a synopsis of a proposed EEP – Apples to India - is presented in Chapter 8. An overall conclusion is drawn in Chapter 9 and a list of persons contacted is provided in Chapter 10.

To provide a context for the report Australian citrus production and exports over the last five years are summarised in the table below.

#### Australian Orange Production and Exports (tonnes)

| Year      | Production | Exports |
|-----------|------------|---------|
| 1999/00   | 515,000    | 112,026 |
| 2000/01   | 616,000    | 149,497 |
| 2001/02   | 436,000    | 134,185 |
| 2002/03   | 633,000    | 133,121 |
| 2003/04 f | 410,000    |         |

Source: HAL and ACG, includes both navels and valencias, f= forecast

Over 85% of Australian orange exports are sold to Malaysia, Hong Kong, USA, Japan and Singapore, with Taiwan and Canada emerging as growth market opportunities. The major markets with highest returns are USA and Japan (HAL Citrus Industry Export Marketing Plan 2004/05).

#### Australian Orange exports

| Top export destinations | 1999/00 | 2000 / 01 | 2001 / 02 | 2002 / 03 |
|-------------------------|---------|-----------|-----------|-----------|
| MALAYSIA                | 22,582  | 34,044    | 35,424    | 30,421    |
| HONG KONG               | 21,336  | 45,002    | 39,198    | 29,640    |
| USA                     | 26,408  | 19,187    | 16,478    | 20,504    |
| SINGAPORE               | 15,921  | 16,969    | 17,064    | 13,754    |
| JAPAN                   | 10,191  | 6,482     | 6,100     | 8,069     |

Source: ABS data, Horticulture Australia analysis (tonnes)

Only one of these major citrus export markets, the USA, has an EEP.

## 2. USA ORANGES

### 2.1 First Annual Review Recommendations and Adoption

First Annual Review recommendations in relation to the supply of Australian oranges to the USA, the extent of their implementation and relevant comments on the recommendation are summarised in the table below.

#### Oranges to the USA – Recommendations from First Annual Review of EEPs

| Recommendation Made   | Implemented?  | Causality/Notes   |
|---|---------------|---|
| 1. Retention of Single Importer DNE-Riversun alliance with a single sub agent (Oppenheimer)                       | Yes           |   |
| 2. Marketing Strategy   | No            | <ul style="list-style-type: none"> <li>• A marketing strategy encompassing the points recommended last year was not prepared for 2003</li> <li>• However, a marketing plan is prepared by Riversun (98% of the trade with USA)</li> <li>• AHEA representatives on EEP Steering Committee have commenced formulation of an industry disposal plan for 2004</li> <li>• The IAC (HAL + ACG) prepare a 'Promotional Plan' for all export markets</li> </ul> |
| Trial a shipment of bulk product for 'value packs' in east cost USA markets (currently dominated by South Africa) | Yes – in part | <ul style="list-style-type: none"> <li>• Idea was canvassed with DNE who recommended that Australia should concentrate on premium end of the market</li> <li>• Riversun undertook market research and found the proposal was not viable</li> </ul>  |
| Regional supermarket strategy with DNE or second importer   | Yes – in part | <ul style="list-style-type: none"> <li>• Idea was canvassed with DNE who offered to manage product for importers/retailers not already serviced. The Review was advised this offer was not taken up</li> </ul>  |
| Exploration of alliances with Costco and Wal Mart to meet their requirements for direct grower linkages           | Yes           | <ul style="list-style-type: none"> <li>• DNE-Riversun confirm Costco's commitment to continue to purchase Australian navels</li> <li>• Costco's representatives visited Australia; Australian growers/packers/exporters would have to give firm commitments eg quality, timing, size. As far as is known no Australian firm is pursuing the Costco offer</li> </ul>   |
| 3. Meet with Uruguayan growers to explain importance of (informal) collaborative marketing                        | Yes           | <ul style="list-style-type: none"> <li>• Peter Davidson, (ACG) Steve Allan (Riversun) visited producers in Uruguay and Peru</li> <li>• Meetings were positive. It is possible that fruit will be cleared for importation into the USA within 2 years time</li> <li>• Uruguay/Peru are interested in exchanging information about the market</li> </ul>  |

The LCD requires that exporters of oranges to the USA trade only with a single designated importer and specifies the districts from which fruit can be sourced for shipment to the USA. The recommendation to retain this arrangement was implemented. No change in the LCD was made.

The Review was advised that there are illegal exports of fruit outside the EEP system. The Review did not pursue this advice. However the Review understands that exports undertaken by Riversun account for some 98% of the trade.

Market research into new options for marketing citrus particularly small sized fruit through alternative market channels does not appear to have been initiated by HAL. Some HAL promotional funding is proposed for this year and a marketing plan is prepared by Riversun-DNE each year for the 98% of the trade that passes through this channel. These actions are ancillary to the recommendations made in the First Annual Review.

Recommendations for trials and market research were made by the Review team so that future reviews would be better informed about the range of marketing options that may be open for Australian citrus exports to the USA. The recommendation was designed to assess alternative/additional approaches without dismantling the relationship with DNE.

The EEP Steering Committee believes it is remiss that these recommendations have not been addressed.

The recommendation for representatives of the Australian citrus industry to meet with Uruguayan growers and explain the importance of (informal) collaborative marketing was fulfilled. The outcome of the meeting was agreement to continue to exchange information and work collectively to maintain the premium prices Australia has achieved.

Comments received from ACG and Riversun following field investigations in South America indicate that the threat from Uruguay and Peru might not be as significant as first believed. See section on key market characteristics below.

## **2.2 Outcomes from Recommendations Adopted**

### **Retention of a Single Importer**

The most substantive recommendation adopted from 2003 was the retention of the single importer arrangement. The outcome of that decision has to be assessed in terms of the performance of DNE as the single designated importer during the 2003 shipping year.

- The designated single importer, DNE, marketed the entire Australian offering of navels that met agreed specifications at prices fully firm on previous years

- DNE offers to expand the market for this fruit by 10% per year while maintaining premium (US\$) price levels
- DNE offers to supply Australian fruit to any other distributors claiming to have customers currently not served by DNE, at the same prices as charged by DNE. The designated importer met with some Australian exporters outside the the Riversun arrangement to see if a marketing plan could be developed for them in 2003
- DNE is selling most of the Australian navel imports west of the Mississippi and most of the Republic of South Africa (RSA) imports to the East. Limitations on shelf life and transport costs dictate this marketing strategy. (However, 5-10% of Australian fruit ends up in East Coast markets where premium buyers will bear the additional distribution cost)
- DNE is currently one of four importers that RSA has designated for 2004; this number is down from nine in 2003. DNE claim to have been the second largest importer of RSA navels in 2003 and to have paid the highest return
- DNE in collaboration with Riversun “spent 2-3 months” in 2003 looking for opportunities to import and market smaller, off grade Australian navels in the US. They confirm their earlier conclusion that a commercially viable trade cannot be achieved. The cost of packing and shipping fruit to the US is calculated to be \$A15-16 per carton and the price attainable for lower grades is no more than \$US8-9 per carton. This class of fruit has to compete with lower priced local valencias
- Some growers persist in representations that trial shipments be permitted to allow smaller, off grade fruit to be marketed through importers other than DNE
- Costco continues to be a major and highly valued buyer/merchandiser of Australian navels supplied through DNE

### **Exchange of Market Information with Potential Competitors**

- The First Annual Review of EEPs identified Uruguay as a potential source of competition for Australia. USDA acceptance of Uruguay, Chile and Peru as sources of oranges for the US remains pending
- Uruguay and Peru are reportedly able to land product in the USA at \$US6 per carton. The Australian supply cost (pre-grower return) was estimated at \$A15-\$18 in the First Annual Review
- In 2003 ACG and Riversun completed field investigations in Uruguay and Peru and a useful dialogue was established with South American growers and exporters with the intention of persuading these potential suppliers not to become weak sellers

- South American exporters are now conscious of the need to 'market' and maintain the prices achieved by South Africa and Australia. Uruguayan and Peruvian exporters are prepared to work in a coordinated fashion with Australia and not exploit their cost of production advantage
- The volume of navel oranges available for export to the USA from Uruguay and Peru may not be as significant as indicated in the First Annual Review. Reportedly, Uruguay might be able to export up to 100,000 cartons (2,000 tonnes). However fruit quality is lower than that achieved by Australia and it has no experience in cold sterilising fruit for export. Peru has just 11,000 tonnes in total and supply comes from 'jungle farms' on the east side of the Andes
- Representatives from Australia will maintain a dialogue with this group of countries

## 2.3 Key Market Characteristics

### Market Fundamentals

Key characteristics of the USA market for counter seasonal navel oranges were addressed in the First Annual Review of Export Efficiency Powers and the following summary points provide a basis for further analysis:

- The market is for large unblemished navel oranges; count 113 per C31 carton and smaller are generally unacceptable
- Price paid is consignment based and part payments are made to growers on vessel departure, arrival in the USA and when fruit is sold
- The single USA importer, DNE World Fruit Sales, is the second largest citrus category manager in the USA
- Sales are mainly to supermarkets that dominate USA fruit retailing

When the EEP was first established Australia was a monopoly supplier of off-season navel oranges:

- In 2004 Australian oranges compete with navel oranges grown in South Africa. The volume South Africa is able to grow and export is reportedly no more than 19,000 tonnes per annum. Australian and South African export performance to the USA is summarised in the table below.

#### USA Orange Imports (tonne)

| Year    | Australia | S Africa | Total Imports |
|---------|-----------|----------|---------------|
| 1999/00 | 26,408    | 1,009    | 48,000        |
| 2000/01 | 19,186    | 9,852    | 54,000        |
| 2001/02 | 16,478    | 18,186   | 60,000        |
| 2002/03 | 20,486    |          | 55,000        |
| 2003/04 | 19,206 P  |          | 40,000        |

NB: Other large volume exporter to USA is Mexico with 15,000 to 16,000 tonnes per annum  
P = provisional data (includes both navel and valencia)

## **Market Performance in 2003**

The following points summarise market performance of Australian navel oranges in the USA in 2003.

- The volume of navel oranges exported by Australia to the USA (19,000 tonnes) is consistent with the recent performance to the market; an average of 20,000 tonnes per annum has been exported since 1997/98
- The 1.25 million cartons exported in 2003 was, however, substantially lower than quantities shipped in a number of years in the late nineties
- DNE/Riversun report that this lower volume in 2003 undersupplied the market; on two occasions fruit was unavailable for distribution because of shipping delays and the season finished 4 weeks early
- Prices realised in the USA by the single importer were more consistent and slightly higher than those achieved in previous years
- Grower returns across all shipments were lower than achieved in previous years. Grower returns were the equivalent of \$A1.79/kg in 2003/04 compared to \$A2.04 in 2002/03
- Lower grower returns were the result of the appreciation of the Australian dollar and a high carton repack rate. Approximately 3000 out of 18000 pallets shipped had to be repacked. The causes were blemish, excessive skin breakdown and moulds evident at outturn in the US. Research resources have been directed into investigation of these problems
- The costs incurred in repacking are borne by the packers/exporters of the fruit involved
- Despite the problems with repack and a higher Australian dollar, sections of the industry report that prices achieved in the USA were higher than any other market (possible exception of Japan for a short period)

## 2.4 Benefits, Shortfalls and Suggestions for Change

- The designated single importer marketed all the fruit offered at \$US prices fully firm on previous years
- There is no evidence suggesting that prices realised in the US could have been higher
- With a high \$A DNE's strategy of seeking and holding the premium end of the market is even more valuable
- Arguably the cost of repacking a significant proportion of fruit on arrival in the US, jointly agreed by DNE and Riversun, averted a greater loss of value for the shipments involved and generally protected the reputation of Australian citrus in this market
- Notwithstanding the strong appreciation of the \$A, market circumstances in the US and the Australian supply situation, the trade has not changed significantly since the first EEP review when more extensive investigations concluded a sufficient net benefit for the retention of the single importer arrangement
- With this said, HAL needs to do more to address critiques of the US EEP. A risk/benefit analysis needs to be completed along with the marketing/business plan recommended in the first EEP review. The marketing/business plan needs to include KPIs that facilitate future EEP reviews. Relevant KPIs might include 'maintenance of \$US price' and 'sales volume increases at the rate of 10% per annum'.
- In addition it is most important for the integrity of the EEP arrangements that HAL investigate all reports of alleged exports outside the approved Riversun-DNE channel and initiate disciplinary action as necessary.

### 3. USA MANDARIN, TANGELO, GRAPEFRUIT, LIME AND LEMON

#### 3.1 First Annual Review Recommendations and Adoption

First annual Review recommendations in relation to the supply of other Australian citrus to the USA, the extent of their implementation and relevant comments on the recommendation are summarised in the table below.

##### Other Citrus to USA – Recommendations from First Annual Review of EEPs

| Recommendation Made  | Implemented?   | Causality/Notes  |
|--|--|--|
| 1. Retention of EEP.   | Yes, EEP retained in current form but still no strategy for tangelo supply increases | <ul style="list-style-type: none"><li>• EEP for mandarins, tangelos, grapefruit, limes and lemons may be retarding market initiatives.</li></ul> |
| 2. Development of a strategy for dealing with supply increase of tangelos.                 | No   |  |
| 3. Changes to 'EEP other citrus' need to move in parallel with changes in EEP for oranges. | Yes  |  |

The first annual Review of the EEP to manage the marketing of other citrus into the US did not find evidence of any significant benefit to Australian industry. However the Review concluded that any dismantling of the EEP should only be in line with changes to the EEP relating to oranges. The shipment of the relatively small tonnages of these other citrus products found advantages in the shipment arrangements for oranges.

The first annual Review recommended the development of a strategy for dealing with the anticipated increase in supplies of tangelos for which the US is the only likely market.

In response to these recommendations the EEP has been retained but no resources or effort has been applied to the development of a strategy to assess future supplies of tangelos and their future marketing in the US.

#### 3.2 Outcomes from Recommendations Adopted

Riversun stipulate minimum sugar levels for tangelos and limit small fruit.

#### 3.3 Key Market Characteristics

Australia has limited opportunities for 'other citrus'. Australian lemons are not of the required quality, grapefruit and lime are limited in volume and only small volumes of mandarin and tangelo 'piggyback' on orange shipments. Never the less this market is high value and accounts for the majority of Australian easy-peeler exports from the southern producing region. Supply is managed by DNE through the imposition of firm quality conditions encompassing colour, size and eating quality. The Review was advised that the attractiveness of

the market has prompted new plantings with the expectation of additional supplies in coming years; in particular Queensland grown fruit will need to be addressed.

**USA Mandarin and Tangelo Imports from Australia (tonne)**

| <b>Year</b> | <b>Mandarins</b> | <b>Lemons/Limes</b> | <b>Grapefruit/Other</b> |
|-------------|------------------|---------------------|-------------------------|
| 1999/00     | 2,359            | 191                 | 251                     |
| 2000/01     | 2,140            | 393                 | 0                       |
| 2001/02     | 2,499            | 0                   | 329                     |
| 2002/03     | 2,548            | 46                  | 0                       |

Source ABS. Figures are for the twelve months July to June

### **3.4 Benefits, Shortfalls and Suggestions for Change**

Unlike navel oranges, the case for retention of an EEP on these products is not as persuasive. On the one hand the retention of the EEP would appear to benefit prices paid for available volumes of “easy peelers”. On the other hand continued application of this EEP may be retarding exporter marketing initiatives without disturbing the advantageous marketing arrangements through Riversun/DNE. These conflicting considerations warrant further investigations and a detailed review of the ongoing retention of this EEP should be included in the terms of reference for the Third Annual Review.

Further, the EEP is irrelevant to Lemons/Limes and Grapefruit/Other as the volumes shipped are negligible. There is no basis for the retention of the EEP for these products

## 4. TAIWAN ORANGES

### 4.1 First Annual Review Recommendations and Adoption

First Annual Review recommendations in relation to the supply of Australian oranges to Taiwan, the extent of their implementation and relevant comments on the recommendation are summarised in the table below.

#### Oranges to Taiwan – Recommendations from First Annual Review of EEPs

| Recommendation  | Implemented?  | Causality/Notes  |
|---|---|--|
| 1. Abolition of the panel of twelve importers   | Yes, panel abolished  |  |
| 2. Replace panel with a listing by HAL of all Taiwanese importers   | Yes, all Taiwanese importers must be registered. HAL has gone further and the LCD requires importers to complete an Importer Registration Form and sign a Deed of Agreement with HAL (2 yr trial) | <ul style="list-style-type: none"> <li>Only 6 importers active in 2003 – names and contact details provided</li> </ul>                                 |
| 3. Importers to be removed from list if inappropriate business/marketing activities   | Yes   | Not yet tested   |
| 4. Removal of palletisation and carton requirements   | Yes   |  |
| 5. Resist calls for brix-acid and colour proscription in the EEP.   | Yes–Steering Committee agreed to, but did not implement a 9:1 ratio (easy to comply with)   | Diverting oranges from this market was considered a risk to the industry's overall interest – but this has not occurred because low prod'n             |
| 6. Product description language – develop as part of business/marketing plan Descriptors for brix, brix-acid, colour, variety | Description language has been developed but not implemented. Could be applied in the 2004 season  |  |
| 7. Business/marketing plan  | <ol style="list-style-type: none"> <li>Requirement of the LCD; plan has been developed</li> <li>Convening of an export workshop to advance the above</li> </ol>                                   | Promotion Plan, proposed but not agreed, has been formulated that projects 3,000 tonnes of 'Late Lane' navels between August and September – voluntary |

LCD = Licence Condition Document

The First Annual Review could find no evidence that the terms of this EEP provided benefits to the Australian industry and was concerned that the panel of twelve importers could be working to the industry's disadvantage. It therefore recommended the abolition of the panel. The recommendation was adopted by HAL.

Another recommendation was that a simple register of Taiwan importers be kept, mainly to facilitate the exchange of market data and intelligence, but also to publicise any that might be "struck-off" for poor performance. HAL has

taken this recommendation much further and requires formalised registration that involves a Deed of Agreement. This has not been well received by importers.

Members of the Steering Committee believe that contrary to the recommendations of the First Annual Review a brix-acid ratio of 9:1 was agreed by them for inclusion in the new LCD but that this did not eventuate. (A brix acid ratio of 9:1 is considered not hard to comply with and therefore is a weak quality constraint on exports to this market.) The First Annual Review was persuaded by exporter opinion that if minimum standards were prescribed for Taiwan it would force non-complying fruit onto other markets (Singapore and Malaysia) and reduce overall industry returns. Instead of imposing mandatory standards, the development and implementation of a product description language was recommended to enable exporters and importers to better specify the fruit they are trading.

A product description language suitable for use in Taiwanese, Korean and other markets was incorporated into the LCD.

The recommendation received no support from exporters but because it is part of the LCD exporters agreed to participate in the development of the language.

Exporters believe that a product description language is simply a tool for importers to use against them; that importers simply use it as a measuring stick for product deficiencies especially when the market weakens. Exporters claim that they should each be left to have an enforceable agreement with importers and that a product description language doesn't add to grower returns or the trade.

Exporters are therefore not keen on adopting a product description language. The ACG has requested that its implementation be put on hold. Promotional material advocating the (voluntary) use of the language could be made available for a trial in the 2004 season if agreed by HAL.

HAL and the Citrus Export Committee have developed a promotional plan for this market aimed at restoring importer confidence after poor performance of Australian fruit in 2002. The Plan has just been reviewed by the Citrus IAC which is reported to have agreed its merits but do not plan to make funding available in 2004.

Representatives from AHEA are working with HAL to formulate a marketing/business plan for this market. This plan should incorporate a draft plan formulated by Hassall & Associates in late 2003.

## 4.2 Outcomes from Recommendations Adopted

The volume of shipments to Taiwan in 2003 was a negligible 340 tonnes. This level compares with around 6,000 tonnes the year before when oversupply of the wrong type of fruit threw this market into disarray leaving the future for Australian imports very uncertain.

The consequences of the adoption of the LCD provisions are therefore impossible to identify with any accuracy or clarity. However a number of observations are made:

Six importers registered.

To assess the impact of the requirement for importer registration, this Second Annual Review undertook a survey of 10 Taiwan businesses that had imported Australian oranges in 2002

- Of the 10, only 4 purchased Australian oranges in 2003 while 9 imported oranges from competing nations
- 2 importers indicated that the requirement to sign a deed of agreement and complete an importer return sheet might deter them from trading with Australia – it should be noted, however, that neither of these importers had actually seen the agreement
- All importers indicated that price and quantity were the major determinants for trading with Australia
- Over half of those who did not purchase oranges from Australia last year indicated price as the primary factor
- Generally importers suggested that if required they would sign the deed however, it was not preferred as they do not understand why it is required
- Some felt that the information required in the importer return sheet is too great, however, those who have actually traded with Australia felt it was information that they collected anyway
- The biggest gripe with the importer return sheet is that HAL does not provide any market information in return, in particular supply conditions in Australia. This was also a common suggestion for improving the trade. It seems to be an issue to importers arising from the oversupply of Australian oranges a couple of years ago. The US apparently supplies good market intelligence to the Taiwan importers
- It is unclear if competing supplying countries require the same level of disclosure as some importers said yes and others said no. It was said that no other country requires a Deed of Agreement. A couple of importers suggested HAL provide a marketing budget to build Australian brand awareness in Taiwan

Another observation is that price of Australian fruit in 2003 was unattractive to Taiwan importers, regardless of the adverse trading reputation that Australia appears to have generated the year before.

The conclusion of this Second Annual Review is that requirements of registration and entering into a Deed of Agreement has probably acted as a minor deterrent to potential importers trading Australian fruit but that the aftermath of a disorderly market in 2002 in addition to unattractive supply/price offerings out of Australia in 2003 were the main causes of negligible shipments.

### 4.3 Key Market Characteristics

#### Market Fundamentals

Small sweet fruit is strongly preferred. The market is said to complement the US and Korean markets for Australian packers/exporters. Both these markets require large fruit. The fruit is consumed both as an item and as juice.

In 2002, large tonnages of acidic fruit with poor market appeal were imported from Australia causing acrimonious disputes. Many importers lost money when the market became oversupplied.

There are a large number of citrus importers, of the order of 50. Many import an array of products. Many are opportunistic and may import Australian fruit for a single season only. Imports were tightly regulated until Taiwan joined the WTO in 2001 so that many importers are inexperienced. Seven of the top ten importers were not on the former Australian panel.

The US is by far the largest supplier of citrus. In the 12 week period to end September, the period for Australian imports, Australian navels compete with valencias from California and navels from South Africa.

The table below shows Taiwan imports of oranges from Australia and South Africa since 1999.

#### Taiwan Orange Imports (tonne)

| Year    | Australia | S Africa | Total Imports |
|---------|-----------|----------|---------------|
| 1999/00 | 635       |          |               |
| 2000/01 | 598       | 2,136    | 23,472        |
| 2001/02 | 1,465     |          |               |
| 2002/03 | 5,872     |          |               |

NB: USA seasonal supply dominates this market but does not compete directly with Australia and South Africa

## **Market Performance in 2003**

- The collapse of exports to Taiwan paralleled those to Singapore, Hong Kong and Malaysia, although the decline to Taiwan was much more pronounced
- The market was dominated by an abundance of low cost and palatable USA valencias that constituted strong competition for Australian fruit for in-store juicing
- The Australian navel crop was very small and therefore produced large fruit. Taiwan requires small fruit and there was no production pressure to supply this market with Australian fruit

### **4.4 Benefits, Shortfalls and Suggestions for Change**

Clearly no benefit was realised from the LCD provisions in 2003 but neither is there any evidence of shortfalls it may have produced. The trade was impacted by other overwhelming influences. If these influences are repeated this year then the LCD remains largely irrelevant. However, in anticipation that the influences are temporary the following suggestions for change are made:

- Review the terms of registration and the Deed of Agreement required of Taiwan importers to remove any provisions that are not clearly advantageous to the Australian industry
- Identify and commit to the provision of market data and intelligence to those importers that enter into the registration requirement
- Promote the advantages of adopting the voluntary product description language to registered importers; at the same time negotiate with Australian exporters the advantages of this practice compared with an LCD that prescribes quality attributes (brix) and shipping dates.

## 5. REPUBLIC OF KOREA ORANGES

### 5.1 First Annual Review Recommendations and Adoption

First Annual Review recommendations in relation to the supply of Australian oranges to the Republic of Korea (ROK), the extent of their implementation and relevant comments on the recommendation are summarised in the table below.

#### Oranges to Korea – Recommendations from First Annual Review of EEPs

| Recommendation   | Implemented?  | Causality/Notes   |
|--|---|---|
| 1. Abolition of the panel of two importers and replace with a listing of importers | Yes, panel abolished  | One panel member very upset and indicated that he will only buy South African oranges in future |
| 2. Marketing/business plan including product description language                  | Yes, crop disposal plan under development but not funded. Product description language developed but placed 'on hold' | Market effectively closed by phytosanitary restrictions   |

### 5.2 Outcomes from Recommendations Adopted

The key recommendation of the first Review of EEP was to terminate the panel of approved importers and allow free rein for exporters. It was also recommended that importers be requested to register and provide details of import transactions completed.

The Review was advised that the implementation of the change was initially favourable with sales of twenty containers early in the season. However, subsequent to these shipments Korean inspectors located in Australia rejected many containers on quarantine grounds. These rejections effectively stopped the trade for the remainder of the season.

The above development would have undermined any trade interest in the development of strategic/business plans for the development of exports to this market. For the immediate future the key issue for the industry in this market is the phytosanitary requirements.

The Hassall team has reviewed the promotion program for implementation when the phytosanitary requirement issues are resolved.

### 5.3 Key Market Characteristics

#### Market Fundamentals

USA is the dominant seasonal supplier of oranges to ROK. Details are set out in the following table.

#### Korean Orange Imports – Counter Season and Seasonal Supply (tonne)

| Year    | Australia | S Africa | NZ  | USA**<br>(seasonal) | Total Imports* |
|---------|-----------|----------|-----|---------------------|----------------|
| 1999/00 |           |          |     | 18,771              | 31,853         |
| 2000/01 | 1,245     | 2,133    | 131 | 95,493              | 100,017        |
| 2001/02 | 1,132     | 846      | 397 | 88,975              | 93,483         |
| 2002/03 | 1,983     |          |     | 78,034              | 102,669        |
| 2003/04 |           |          |     | 113,493             |                |

NB: USA seasonal supply dominates this market but does not compete directly with Aust and South Africa

In the past, Australian exports have been dominated by large premium navel oranges. Smaller size fruit is also acceptable. Exports are sourced from the Riverland, Sunraysia, Riverina and Queensland. Queensland is active in this trade.

Fruit size is the same as USA market but has a higher tolerance for smaller sized fruit. All fruit exported to Korea must undergo a period of cold disinfestation supervised by a Korean official inspector prior to export. During this period there is a risk of product breakdown and discovery of the presence of proscribed infestations. The most problematic of which is Fullers Rose Weevil.

Price received by exporters must be attractive enough to cover this cost/risk and the opportunity cost of exporting to alternative markets such as Japan and the US. Korea is considered by the Australian industry to be as profitable a market as Japan and better than Taiwan. During the Australian supply season of August to November, Australia receives the highest market price.

#### Market Performance in 2003

As noted above exports to ROK were initially significant – 20 containers – in the early weeks of 2003 season. But container after container was rejected on grounds of the presence of Fullers Rose Weevil. The net outcome was that the trade fell over for the season. A number of exporters have commented that the volume that might have been shipped might have been as much as 3 to 5 times the quantities shipped in previous years.

### 5.4 Benefits, Shortfalls and Suggestions for Change

In the absence of a significant trade in 2003 it is difficult to access benefits and shortfalls of the existing arrangements and those which would accrue from retention of previous arrangements.

As the dominant constraint to the future development of citrus exports to ROK is phytosanitary restrictions these should be the centrepiece of HAL and the citrus industry's activities for this market. These must include:

1. Work with Biosecurity Australia to establish an acceptable phytosanitary protocol that includes permitted fumigation of fruit on arrival
2. Work with Departments of Agriculture to establish a Pest Scout program to prevent fruit from identified Fullers Rose Weevil infested orchards being packed for Korea.

In the interim no changes should be made to the EEP requirement for importers to register their intention to import Australian fruit and participate in an information exchange arrangement designed to keep both importers and exporters better informed about developments in the trade.

Finally, as with all other markets there is an urgent need for the preparation of a strategic plan. The developments in ROK in 2003 resulted in an urgent need for outlets to be found for fruit that had originally been intended for Korea. Fortunately this occurred in a light crop year. The industry needs to know in advance what possibilities might exist, the requirements of the import protocols for these markets and likely returns from different grades of fruit. The purpose of this plan is to generate some advance thinking and not to tie the hands of the trade to particular markets/courses of action.

## 6. THAILAND ORANGES

### 6.1 First Annual Review Recommendations and Adoption

First annual review recommendations in relation to the supply of Australian oranges to Thailand, extent of implementation and relevant comments in relation to the recommendation are summarised in the table below.

#### Oranges to Thailand – Recommendations from First Annual Review of EEPs

| Recommendation  | Implemented?  | Causality/Notes  |
|---|---|--|
| 1. Abolition of the panel of 14 importers and replace with a listing of importers. Develop and implement a quality description language | 1. Yes, panel abolished<br>2. Yes, all Thailand importers must be registered. HAL has gone further and the LCD requires importers to complete an Importer Registration Form and sign a Deed of Agreement with HAL (2 yr trial)<br>3. Product description language developed but not implemented | 1. No imports to Thailand – phytosanitary concerns<br>2. Tariffs to be abolished under Free Trade Agreement<br>3. EEP not effective in past due to tariffs and porous southern border<br>4. EEP form did not influence the trade in 2003 |

LCD = Licence Condition Document

### 6.2 Outcomes from Recommendations Adopted

Consistent with recommendations for Taiwan and Korea recommendations were made in the first annual Review of EEPs for the abolition of the Thai panel of importers and its replacement with an importer listing. A recommendation was also made in relation to development and implementation of a quality description language. Consistent with the recommendation the panel has been abolished.

Imports of Australian oranges to Thailand have been on hold since June 2003 due to Thai phytosanitary concerns. Earlier this year the Australian and Thai governments signed a free trade agreement and tariffs on imported Australian fruit are to be abolished. The industry is confident that the trade will be resumed in 2004.

The absence of a trade for most of 2003 prevents further comment on outcomes from recommendations adopted.

## **6.3 Key Market Characteristics**

### **Market Fundamentals**

The Thai market preference is for small sweet fruit (like Taiwan) but other market segments exist for medium to large oranges. For example, supermarkets prefer large fruit while wet markets accept small oranges. In the past, Thailand has imported equal volumes of navels and valencias from Australia.

Historically Thailand has been a small market for Australia, say 15 containers per annum, and this is expected to continue in the future. Sales occur equally through supermarkets and wet markets. In the past, the illegal trade in Australian oranges sourced through Malaysia to avoid Thai tariffs has thwarted attempts to use an EEP.

Australian oranges compete against local mandarins (low cost and high quality) as well as Australian mandarins and oranges smuggled in from Malaysia.

### **Market Performance in 2003**

There was no trade for much of 2003; the market was closed on phytosanitary grounds.

## **6.4 Benefits, Shortfalls and Suggestions for Change**

The Review team recommend no changes to this EEP. Rather we recommend monitoring of current developments in relation to the phytosanitary protocol and the development of a marketing strategy when the protocol has been successfully negotiated.

## 7. OTHER CURRENT EEPs

In addition to the application of EEPs to citrus exporting in the USA, Taiwan, Korea and Thailand, a number of additional EEPs are used by Australian horticulture. Other current EEPs are reviewed in this chapter.

### 7.1 General Provisions – Oranges, Pears and Apples

#### Other EEPs – Recommendations from First Annual Review of EEPs

| Recommendation  | Implemented?   | Causality/Notes                                   |
|---|--|---|
| 1. <b>Oranges</b> all destinations – no changes (provides data and capacity to de-register exporters)   | 1. Yes<br>2. Requirement that export marketing/business plan be formulated for Taiwan, Korea, Thailand, Hong Kong, Singapore, Malaysia and Indonesia to comply with Deed of Agreement with the Australian Government | Draft marketing plans currently under preparation |
| 2. <b>Pears</b> all destinations – no changes (provides data and capacity to de-register exporters)   | 1. Yes<br>2. Requirement that export marketing plan be formulated for Taiwan, Korea, Thailand, Hong Kong, Singapore, Malaysia and Indonesia  | Marketing plans not yet prepared                  |
| 3. <b>Apples</b> all destinations – no changes (provides data + capacity to de-register exporters)  | 1. Yes<br>2. Requirement that export marketing plan be formulated for Taiwan, Korea, Thailand, Hong Kong, Singapore, Malaysia and Indonesia  | Marketing plans not yet prepared                  |
| 4. Apples to Taiwan – abolish the EEP. It is redundant post Taiwanese WTO entry and duplicates benefits achieved by apples all destinations EEP | Yes  |   |
| 5. Stonefruit to Taiwan – abolish the EEP if it cannot be expanded to encompass all stonefruit to all destinations.                             | Yes  |   |

Remaining EEPs are minor provisions only and permit collection of statistics and de-registration of exporters. To comply with the Deed of Agreement with the Australian government governing the use and application of EEPs a marketing/business plan is required and this has not been completed for these minor provisions.

## 7.2 Dried Grapes

The current Licence Condition Document includes provisions in relation to dried fruit not present in the previous document. Details are presented in the table below.

### Other EEPs – License Conditions of Export Trading for Dried Grapes

| <b>Recommendation</b>                             | <b>Current Requirements</b>  | <b>Causality/Notes</b>   |
|---|--|--|
| Dried Grapes – not covered in First Annual Review | <ol style="list-style-type: none"><li>1. Licence required for exporters who have exported 100 t plus of dried grapes in the last 12 months</li><li>2. Exporters must meet processing standards and trade descriptions outlined in the Act</li><li>3. Must be approved drying facility</li><li>4. Exporters must provide statistics</li><li>5. Purchasers must be financially secure or have EFIC cover</li></ol> | Separate arrangements existed pre-HAL. New EEP provision simply roles these over and removes redundant clauses left over from the Australian Dried Fruits Board. |

The LCD requirements are not considered to be onerous. Provisions were developed by consensus between grower representatives (the Australian Dried Fruit Association) and exporters. By design provisions only apply to the two large exporters – Sunbeam Foods and Angus Park Fruit Company. The Angus Park Fruit Company has since been acquired by Sunbeam Foods. Sunbeam Foods are reportedly in favour of retention of the provisions.

This review recommends no change to this industry consensus position.

## 8. EEP PROPOSAL – INDIA APPLES

Until 1999 the Indian market was substantially closed to imports of Australian apples. In the intervening years the market has expanded to the extent that in 2003 it will probably be Australia's major market by volume but not by value. The growth in the trade has not been without major difficulties, the most significant being disruption by opportunistic importers, prosecution of Indian importers for alleged invoicing irregularities and refusal to accept individual shipments of Australian apples on grounds that they had been coated in Canauba wax. (This latter practice is actually encouraged by the Indian Government for local production).

Some 80% of the apples exported to India are sourced from Tasmania; 10% are sourced from Western Australia. While these two States are not the biggest producers of apples, they do have the largest tonnages available for export. The viability of future production in these States based on export outlets is in severe doubt unless early action is taken to reduce the impact of opportunistic involvement by importers and exporters and conscious efforts made to coordinate and improve sales volume, timing and price information for exports to the market.

Against this background an EEP application has been prepared. The EEP would make use of a panel of registered importers. There would be no limit on the number of panel members. Panel members would be removed if inappropriate market practices were proven. The objective of the EEP is to:

- Seek greater stability for the apple industries in Tasmania and Western Australia;
- Prevent opportunistic importers from participating in the market; and
- Provide scope for greater coordination among exporters on information about product flows and timing and, as appropriate, pricing.

The application demonstrates that implementation will result in an overall net benefit for the industry.

The application is being advanced after the concept has been initiated by the Australian Apple and Pear Growers Association (APAL) and discussed extensively with growers and exporters in Tasmania, Western Australia and Victoria. The application has the strong support of growers.

Most exporters – at least 75% of those involved in the trade - also see merit in the proposal. Exporter opposition to the proposal is primarily based on the principle that any form of quasi regulation will infringe on their flexibility. This proposal does not limit their freedoms with regard to whom they sell to or at what price.

## **9. OVERALL CONCLUSION**

The most contentious component of the 2003 LCD is the continued application of EEPs to the export of oranges to the USA. In relation to this EEP the Review team finds no reason to change its finding from the first annual Review. That is, on balance, the EEP provides a net benefit to the Australian horticultural industry when applied to the export of oranges to the USA. A number of recommendations are made in this Review to assist with the Three Year Review of EEPs.

The Review team concludes that in relation to changes made to the LCD relating to export of oranges to Taiwan, Korea and Thailand that there was clearly no benefit but that this was a function of 'other factors' rather than changes to the EEP. Specific recommendations are made for each of these markets.

Other EEPs largely function to facilitate administration and information collection. The application for a new EEP (apples to India) has been noted and is supportable. However it is too late for a meaningful scheme to be implemented for the 2004 season.

## **10. PERSONS CONTACTED**

Mark Napper – HAL, New Business and Industry Liaison  
Wayne Prowse – HAL, Export Marketing Manager  
Steve Allen – General Manager Riversun  
David Mixon – DNE World Fruit Sales Fort Pierce Florida  
Ross Skinner – HAL, Dried Fruits

## APPENDIX 1 – TAIWANESE IMPORTER QUESTIONNAIRE

1. Did you purchase Australian oranges last year?
2. If not, why not?
3. What did you think of the requirement to sign a deed of agreement and complete an importer return sheet
4. If you purchased Australian oranges, were you able to provide all the information required in the importer return sheet?
5. Did you feel that the importer return sheet asked for too much information?
6. Was the requirement to sign a Deed of Agreement a problem?
7. Did you purchase oranges from one of Australia's export competitors, eg South Africa or the US?
8. If so, were you required to complete importer return sheets of a similar nature for these countries?
9. Can you suggest ways to improve the importer agreement between Horticulture Australia and yourself
10. Will you purchase Australian oranges next year?

### Importers Interviewed in First Annual Review and Status in 2003

| Importer  | Status in 2003  |
|---|---|
| 1. Thomas Lui, Kingo Fruits   | Lisa Lui, Thomas' assistant interviewed, 20/04/04                                       |
| 2. Lu Brothers  | Mr. J. C. Lu, President, interviewed 20/04/04 (Mr. Lu and Mr. C. T. Kiang are brothers) |
| 3. John Kuo, World Partner Trading *  | John Kuo, interviewed 1/04/04   |
| 4. Casey Shih, Crown Fruits Enterprises Co                                  | Casey Shih, President, interviewed 19/04/04   |
| 5. Jane Brother Enterprises/Pomina *<br>Judy (employee of Jane's Brother):  | Ms. Carol Wu, Manager, interviewed 19/04/04   |
| 6. Brian Lee, Walker Grow-Rite  | Mr. Brian Lee, Manager, interviewed 19/04/04  |
| 7. Cary Chen, Holy Union Corporation *                                      | Cary Chen, General Manager, interviewed 20/04/04  |
| 8. Nancy Lan, Shine Food Corporation *                                      | Nancy Lan, interviewed 31/03/04   |
| 9. Jack Huang, Rekan Trading (Also known as Issue Fruit Trading Co., Ltd) * | Mr. Jack Huang, General Manager, interviewed 20/04/04                                   |
| 10. Norman Tang, Coverings Industrial *                                     | Norman Tang, interviewed 31/03/04   |

\* On Panel