

Submission

Review of HAL and the Horticulture Levy System

Australia's six Central Markets represent a significant supply chain in the sale and distribution of fresh produce. Market wholesalers are involved in the sale of some 50-60% of the fresh produce sold across Australia in servicing the requirements of fruit and vegetable retailers, secondary wholesalers/provedores, foodservice industry businesses, processors, exporters and the public.

The total turnover of businesses in the Central Markets exceeds some \$7 billion annually.

Central Markets' wholesalers are represented at a State level by the various Market Chambers and at a National level by The Australian Chamber of Fruit and Vegetable Industries Limited. Market Chambers are all involved in providing programs which promote the consumption and awareness of fresh fruit and vegetables and the effectiveness of the supply chains utilising the Central Markets. Collectively, these representative organisations currently expend in excess of \$2 million annually in providing these promotional/service based programs.

In contributing to the review of Horticulture Australia Limited (HAL), The Australian Chamber is providing feedback as the national body representing Market wholesalers and the Central Markets System, as one of the significant supply chain options which exist for growers.

In making this submission, we will be responding with a focus on three (3) of the objects as contained in the HAL Constitution at Rule 4 (a), (b) and (c) and as follows:

- a) To provide the Industry leadership on the provision of Marketing and Research and Development services to the Industry;
- b) to harness the Industry's collective knowledge of issues that affect the Industry value and supply chains; and
- c) to use and build on the advantages to the Industry of existing structures external to the Company and provide participants in the Industry opportunities to advice the Company or improvements to enhance the performance of the Company.

The term "Industry" is defined in HAL's Constitution means the "Australian Horticulture Industry. This definition is taken to include the broader industry and not just the growing sector.

In making our submission, and further to the discussions with Jan Paul Van Moort at the Brisbane Workshop on Thursday, 27 February 2014, we make the following comments:

1 Performance of HAL

In responding to this issue we restrict our comments to the issue of engagement and the relationship which HAL has with other sectors of the Industry. In terms of these three objectives, it is the organisations position that HAL does not actively pursue these objects and could do much more in these areas, if these objects are to remain in place.

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The general view within this sector of the industry (the Markets wholesaling sector) is that HAL could be much more proactive in engaging with the Market Wholesaling sector of the industry. Much more could be done to engage with the wholesaling sector in relation to the provision of relevant information, particularly in relation to marketing programs and initiatives and relevant research outcomes for use by wholesalers and independent retailers. This reflects the view that the Central Markets can act as an effective conduit in passing the information on to independent retailers, the food service industry, or even back to growers, and this relationship is very underutilised.

In terms of the objects of HAL, as detailed above therefore, HAL does not, in our view, do enough to engage with this sector of the Industry.

Recommendation 1. It is recommended that if the objects detailed in Rule 4 (a), (b) and (c) in HAL's constitution are retained, that the organisation is required to formalise its approaches to industry organisations and other industry sectors, beyond the farm gate.

2 Service Provision

Those businesses that are the first point of sale that do the right thing and deduct levies due are incurring administrative cost to do so and secondly, are sometimes regarded by growers negatively due to the other options available where levies are not deducted. There should be a greater priority given to engaging with industry organisations which represent businesses in the supply chain, downstream from the farm gate.

There is a tremendous resource available with the Market wholesaling sector, which we feel is largely under recognised and under utilised. This is particularly the case given that many wholesalers are also growers.

Recommendation 2. It is recommended that HAL is required to formulate and adopt as part of its Strategic Plan, a communications engagement policy serves to ensure that all industry sectors are appropriately recognised to ensure engagement across all industry sectors subject to and in accordance with the organisation's constitution.

3 Use of Levy Funds

The wholesaling sector's representative organisations across Australia are all involved in delivering promotional programs which assist retailers and promote healthy eating and the consumption of fresh produce. As a coordinating body at the coal face in providing information to independent retailers, we are always keen to access to promotional information etc. While we do get material from HAL, this could be better coordinated, particularly given the volumes of product which move through the Central Markets, to independent retailers. It would make an abundance of sense for HAL to work with all Central Markets more closely in relation to the expenditure of marketing funds and the provision and use of promotional material. This has been raised previously on a number of occasions with very limited success.

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Recommendation 3. We recommend that HAL is required to ensure that recognition is given to the level of grower support for independent retailers and foodservice sectors in how marketing and promotional funds and materials are distributed and expended.

4 Industry Representation

Given the ongoing fragmentation within the industry with growers who are committed to direct suppliers versus those who support the Central Market System, there does need to be more recognition of this in the policy settings and decisions made by HAL and its members.

There has been a perception in the past that while a significant percentage of the levy funds collected are through the Central Market System, paid by Growers who support the Central Market System, the expenditure of the funds, particularly in relation to some of the promotional/marketing expenditure, has been targeted elsewhere. With some 90% of growers using the Central Markets to sell their produce, our position is that more recognition of the independent retailing and foodservices sector is justified.

Furthermore, it is often difficult to identify when research that is relevant has been completed and gain access to the information in a manner which is effective in transmitting those results to industry. For example, in relation to consumer research, it would be of great benefit if we knew what work was being undertaken and that if it was relevant, then, we could facilitate workshops for say retailers etc.

Recommendation 4. It is recommended that HAL provide a role in managing a database of research project results and is more active in identifying and promoting the use and/or dissemination of that information within the industry.

5 Project Costs

The number and average cost of projects, as highlighted in the Consultation Paper, of 2,445 R&D projects at an average cost of \$30,299 and 757 marketing projects at an average cost of \$20,508 highlights that there are a great number of relatively low cost projects being undertaken. The obvious question is whether this is an efficient use of the funds available, particularly in relation to the marketing projects.

6 Market Based Marketing Initiatives

Collectively the members of The Australian Chamber and the Central Markets Association of Australia are contributing significant funds and resources to promote the consumption of fresh fruit and vegetables. While some material is provided by HAL in relation to these programs, our view is that much more could be achieved by HAL in promoting the use and success of the marketing programs which they conduct if they did work more closely with each Central Market and were more proactive in utilising this relationship to service the independent retailing sector.

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Recommendation 5. It is recommended that Central Markets representative organisations are utilised more effectively in providing an effective conduit to access the independent retailing sector, foodservice sector and growers.

7 Methods of Levy Collection

The current system of collecting levies and the number of different levies is unwieldy and needs to be rationalised. Businesses acting as the “first point of sale” collect levies with no reimbursement for the costs they incur. Wholesalers have continually argued that they should be paid for the work they do, that there should be greater recognition of this work/role, that the levy system could be made simpler, or that levies should be collected in another way.

8 Levy Leakage

With the stated value of horticulture production put at \$9 billion (a figure which we believe is understated), and with levy receipts of \$41 million, or less than 0.5% of this total figure, it is estimated that the levels of levy leakage could be running at between 20 – 30%.

There is an inconsistent approach to regulating levy collections, following up parties who do not pay or underpay, and there is little evidence of any levels of accountability in relation to the reconciliation of the total production figures and the levy collection amounts.

Levies are regarded as a tax, accordingly there is an argument that they should be collected by the Australian Taxation Office, based on assessment of gross farm revenues from the sale of produce. This would significantly reduce the current levels of levy leakage, facilitate a move towards a standardised approach to collecting levies and remove some of the inconsistencies which currently exist.

Recommendation 6. It is recommended that the various options available to reduce the extent of levy leakage and simplify the levy collection process are evaluated, and changes implemented.

9 Peak Industry Bodies

It has been identified in the ACIL Allen Consultation Paper that there are 43 Peak Industry Bodies (PIB's) which are the members of HAL and which drive the strategic direction of HAL. However, the majority of PIB's appear to have few formal interactions with other industry organisations beyond the growing sector.

Certainly, in terms of wholesaling sector industry organisations, they all report difficulty in engaging with all but a core group of higher profile Peak Industry Bodies. Perhaps the other PIB's are engaging with other sectors of the industry or perhaps they do not see engagement as part of their role. However, the objects of HAL do extend to other sectors of the Industry and industry engagement should be part of the process of HAL providing relevant Industry leadership and harnessing Industry knowledge.

Accordingly, it would appear appropriate that benchmarks are set which require PIB's to engage more broadly with other sectors of the industry, as required by HAL's constitution.

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Recommendation 7. It is recommended that the PIB's are required to have a function in engaging with other industry sectors, as required by HAL's constitution.

10 Priorities

The major opportunity for industry groups which has been continually raised by Government and HAL over the last five (5) years is the need to export. This is despite Australia's higher production costs when compared to the majority of other countries involved in exporting, and the strong Australian dollar. While recognising this, we do support the merits of having an export focus.

When focusing on the issues of consumer demand and opportunities for increasing sales (rather than production), consumption data within Australia has continually identified the potential to increase vegetable consumption by as much as 30-40%, just to meet recommended consumption levels of five (5) serves per day. While there are a range of marketing levies in relation to fruit, the one significant opportunity within Australia to drive production and demand in increasing vegetables consumption, appears to continually go unrecognised. The issues of undertaking marketing research which has a direct focus on increasing vegetable consumption and establishing a vegetable marketing levy needs to be explored further within the context of the opportunity which exists to increase domestic consumption and demand.

Recommendation 8. It is recommended that in providing industry leadership, that HAL does retain a focus on a broader range of industry priorities than just increasing production and exporting. There are clearly merits in having goals to raise domestic vegetable per capita consumption levels, and yet, this opportunity appears to be continually discounted as a priority.

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