

Australian Manufacturing Workers' Union

Submission

*Productivity Commission Inquiries into Import of
Processed Fruit Products and Processed Tomato
Products*

July 2013



The Australian Manufacturing Workers' Union (AMWU) represents approximately 100,000 members working across major sectors of the Australian economy. AMWU members are primarily based in the manufacturing industries in particular metal, vehicle and food manufacturing, but also in the industries of mining, building and construction, printing and graphic arts, repair and service and laboratory and technical services. We have large numbers of members employed in the processed fruit and vegetable sector, particularly in the factories of SPC Ardmona, Simplot and Heinz.

We welcome the opportunity to make submissions to the Productivity Commission's Inquiries into the possible implementation of safeguard action under the World Trade Organisation (WTO) Agreement on Safeguards in the processed tomato and canned fruit industries. We note that the Productivity Commission has been asked to undertake two separate inquiries on tomatoes and fruit. We recognise that from a horticultural perspective the two need to be dealt with as distinct matters. Our interest, however, is in the impact on the local labour market that cheap imports of either product group are having. Therefore, this submission constitutes our contribution to both inquiries.

INTRODUCTION

The processed fruit and vegetable industry in Australia is in crisis. Like much of the manufacturing sector it is suffering from a combination of factors that are putting pressure on our local processors to remain competitive. The food processing sector faces particular issues given the low cost of imports and an increasingly concentrated retail sector. Downsizing and closures are increasingly occurring in the industry and the loss of employment is having a devastating effect, particularly on regional communities.

SPC Ardmona's call in April for the government take emergency action under the WTO Agreement was welcomed by the AMWU. The rationale for such action is to provide a short-term measure to allow an industry to adjust where there is serious damage caused by an unforeseen increase in imports. It allows for the implementation of provisional safeguards prior to an investigation. The Australian government has gazetted that in either case there must first be an inquiry by the Productivity Commission into whether the safeguard measures are warranted. We are disappointed that the government took this approach, as we believe it doesn't match the spirit and purpose of the Agreement, and is particularly concerning given the immediacy and seriousness of the pressures facing the domestic industry. The aim of such a process is to expedite action to alleviate pressure in the short term while an investigation is undertaken into whether further intervention is required.

Leaving this aside, we believe there exists a strong argument for the immediate implementation of provisional measures under the Safeguard Agreement for the products in question as well as definitive safeguard measures in the longer term. SPC is the last major tomato and deciduous fruit cannery in Australia. Failure to take action to protect the industry threatens the ongoing operations of SPC in Australia. The closure of SPC would effectively result in the end of the Australian tomato and fruit processing industry. In terms of "injury" to the industry, this is as serious as it gets.

To ensure this capacity is not lost we support SPC's call for the immediate imposition of temporary tariffs on imported products. The three-month timeline that has been proposed for the 'accelerated' report on intermediate measures is far too long when it has already been eleven weeks since the initial request was made, and in the meantime growers have begun destroying their crops and eliminating the capacity for future production. As the union representing the interests of processed food workers, our concern is the impact that a failure to implement these measures as soon as possible will have on the employment of our members, their families and communities.

INCREASE IN IMPORTS

There has been a significant and damaging increase in cheap imports across the processed fruit and vegetable sector in recent years. Across all areas of the sector, imports are estimated to make up around a third of domestic consumption. According to SPC, market share of imported private label canned fruit has grown to 58% today, while SPC's own canned fruit share has declined to 33%. Export market volumes for SPC products have declined by 90% in the past five years

SPC are providing evidence to these inquiries that import penetration is on the increase and that it is substantially affecting the profitability of the company, to the point where – if no action is taken – their operations in Australia will be unsustainable.

All projections indicate an ongoing increase and this flood of cheap imports will, if left unchecked, continue to account for a greater and greater proportion of the domestic processed fruit and tomato market. SPC have forecast a reduction of up to 50% in intake tonnages for some fruit categories for the 2014 season.

UNFORESEEN DEVELOPMENTS

SPC have pointed to a combination of factors that are causing the surge in imports. These are the same factors that are facing the rest of the industry:

- The inflated currency increasing the attractiveness for retailers to source from overseas suppliers.
- An aggressive retail strategy – “price war” - within a heavily concentrated retail sector. The supermarket “duopoly” predominantly source their private label processed fruit and tomatoes from abroad and encourage their own private label sales to boost margins. (The legality of some of these practices is currently under investigation by the ACCC.) The supermarkets have made clear their intention to increase private label sales.
- The fact that imports of processed fruit and tomatoes are being dumped. This is being dealt with a separate inquiry.

Other industry players who have been forced to implement rationalisation measures due to the inability to compete with low-priced imported product have pointed to these factors. Heinz, upon the closure of Girgarre and resultant loss of 150 jobs in January 2012 blamed the “hostile” retail environment for the flood of cheap imports. Upon the closure of Rosella’s tomato sauce factory earlier this year, AusVeg CEO Peter Mulcahy stated that “Rising levels of imported product are threatening the viability of Aussie growers and placing our ability to feed ourselves as a nation in the future in danger.”¹

NON-ATTRIBUTION OF OTHER FACTORS

SPC cannot be accused of sitting idle by and allowing their business to become uncompetitive. They have spent substantial sums in recent years to enhance efficiency and reduce waste, including equipment upgrades, packaging innovation and investment in consumer insight.

The AMWU have worked closely with the company on upgrading the skills of their employees through skills assessment programs and formal on-the-job training. This process has been undertaken in collaboration with the National Food Institute (NFI), a Registered Training Organisation offering vocational training specific to the food processing industry. SPC have recognised – as has been highlighted by the Prime Minister’s Manufacturing Taskforce and the Food Processing Industry Strategy Group among many others – the productivity benefits that result from having a skilled, engaged workforce.

SERIOUS INJURY

Employment in the processed fruit and vegetable industry is in decline nationally. There has been around a 20% reduction in employment in the industry nationally since 2009-10, as companies consolidate their operations and ongoing job losses are expected.²

This is an industry on the verge of extinction. Recent closures include:

- The Heinz factory in Girgarre closed its doors in January 2012 with 146 jobs lost and moved production of tomato sauce to New Zealand.
- The Rosella sauce factory in Seven Hills costing 100 jobs.
- The closure of SPC’s Mooroopna factory the previous September resulted in 150 jobs lost.

AMWU members in these factories have reported immense difficulty in finding work once their employers closed down. Employment in this sector, unlike other areas of manufacturing, is concentrated in regional areas, especially the major horticultural centres of the Goulburn Valley and the Murrumbidgee Basin, where alternative work is much harder to find. The

¹ AusVeg Press Release, 4 March 2013.

² See, for example, Australian Food and Grocery Council, *2020: Industry at a Crossroads* (2011).

skills set of a food process worker – even where it has been recognised with a formal qualification - is not easily transferrable, and the factories where it would be valued are full.

Around 1,000 employees and another 1,000 seasonal/casual workers are expected to be directly impacted should SPC have to close down operations. However, the flow-on effects to other industries are even more significant. At one end of the supply chain, Kagome is highly dependent on SPC to supply tomatoes, as are the fruit and tomato growers across the region. At the other end, packaging companies such as Visy who make the cans for SPC product would also be affected should one of their major clients close down. Extensive analysis of the supply chain has not yet been done, but for comparison the Heinz closure in Girgarre resulted in an estimated 700 additional jobs in the town were affected, besides the 150 at the factory itself. The impact of the closure of the much larger SPC factory in Shepparton could be expected to be correspondingly more significant.

Moreover, the city of Shepparton has built a large part of its infrastructure and services – including construction, retail and business services - on the assumption of the ongoing presence of the factory and the pay packets it contributes to the community. It is not an exaggeration to say that SPC are integral to the economy of the Goulburn Valley and its loss will have massive flow-on effects to the entire community.

The unemployment rate in Shepparton is already significantly higher than both the national (5.7%) and Victorian (5.8%) rates at 8.7%. Moreover, this rate has been consistently high for several years. A DEEWR report in September 2012 found that there had been a marked decline in local employment opportunities in the Greater Shepparton area since 2011, especially in manufacturing and retail. The Department's survey of employers in the area showed the expectation was that the high level of competition for vacancies, especially in low-skilled roles, was expected to continue. Only 31% of employers in the area anticipated recruiting any staff in the coming year.³

The Commission should be under no illusions that alternative employment will be easy to come by for SPC employees should the company shut up shop. On the contrary, this is one of the most challenging regions in the country for low-skilled labourers to be seeking work.

MEASURES

We support SPC's call for an immediate, temporary tariff on the products specified. The tariff should reflect the price difference between domestic products and their cheaper imported competitors. The safeguard measures are designed to give 'breathing space' the industry while it builds the capacity to compete on a level playing field.

The critical circumstances exist to warrant emergency intervention. Day-by-day company losses are compounded by continual drop-off in sales. More importantly, it has been well-

³ Department of Education, Employment and Workplace Relations, *Greater Shepparton Local Government Area: Survey of Employers' Recruitment Experiences* (September 2012).

publicised that growers who supply the company are already pulling up their trees or withdrawing from the industry altogether, eroding their ability to supply SPC even if safeguards are put in place.

IMPACTS ON OTHER PARTIES

As mentioned above, this issue goes far beyond merely the company and the employees themselves. The failure of this industry will have catastrophic effects for Australia's regional communities and economy. Food processing is the largest of our manufacturing industries and fruit and vegetable processing is a significant contributor to that. Moreover, the loss of local production of tomatoes and fruit has dire implications for food sovereignty and security – two issues that were central to the government's recent National Food Plan. Australia wants to be the "food bowl of Asia" but this can only happen if the government is prepared to support local food companies in the face of unforeseen competitive pressures. Without government intervention to support our local industry, we are not going to be able to feed ourselves, never mind Asia.

CONCLUSION

Cheap imports are threatening to eradicate our local processed tomato and fruit industry. The WTO's emergency safeguards are a simple, common sense measure to eliminate the immediate pressure on the industry while the situation is reviewed. The time for action is long overdue.