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## **Productivity Commission**

**Import of Processed Fruit Products**

**Import of Processed Tomato Products**

**July 2013**

**NSW Farmers' Association  
Level 6, 35 Chandos Street  
St Leonards NSW 2065**

The NSW Farmers' Association is Australia's largest state farming organization representing the interests of commercial farm operations throughout the farming community in New South Wales. This representation includes tomato, citrus, pear, apple, apricot and peach (and nectarine) growers across New South Wales. Through its policy forming and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public.



## General Comments

NSW Farmers appreciates the opportunity to present our comments with regard to the two Productivity Commission safeguard inquiries into the import of processed tomato products and processed fruit products. We have examined the issue papers released to the public in July 2013 in conjunction with the World Trade Organization (WTO) safeguard investigation procedures published in the *Gazette* of S297 of 25 June 1998, as amended by GN39 of 5 October 2005 and provides the following comments and information to assist the Productivity Commission's inquiry.

NSW Farmers believes a safeguard investigation into processed tomato products and processed fruit products is indeed warranted and hopes that this submission aids the Productivity Commission's determination process. We recognize that the outcome of safeguard provisions is reliant on meeting very strict guidelines and procedures outlined by WTO jurisprudence.

NSW Farmers would like to note that we are aware that Australia was one of ten delegations who submitted a joint statement to the World Trade Organisation (WTO) Committee on Safeguards. The delegations believed there were systemic concerns with certain safeguard proceedings. The joint statement was circulated on the 3<sup>rd</sup> of October 2012 and stressed the importance of clear evidence and the necessity of a rational and consistent argument being put forward. NSW Farmers believes that the Productivity Commission is more than capable of examining the evidence presented, as well as utilize its powers of inquiry to attain further evidence in order to test reasonable hypotheses put forward on behalf of impacted industries and articulate a strong and reasonable argument that warrants the imposition of safeguard measures. We support the process that is currently being undertaken to investigate the provision of safeguards.

NSW Farmers is aware that the terms of reference for the Import of Processed Tomato Products indicated that the inquiry relates to imports of processed tomato products falling within tariff subheading 2002.10.00.60 of the Australian Customs Tariff. The definition of which is:

*Tomatoes prepared or preserved otherwise than by vinegar or acetic acid: Tomatoes, whole or in pieces, in packs not exceeding 1.14L*

NSW Farmers believes the additional products indicated in the Issues Paper are sufficient. However with regard to the terms of reference for the Import of Processed Fruit Products which indicated that the inquiry relates to imports of processed fruit products falling within the following tariff subheadings of the Australian Customs Tariff:

- 2008.30.00 Citrus Fruit;
- 2008.40.00 Pears;
- 2008.50.00 Apricots;
- 2008.70.00 Peaches, including nectarines;
- 2008.97.00 Mixtures; and
- 2008.99.00 Other,



NSW Farmers believes that the following product falls within the tariff classifications:

- Apples; including prepared as slices or purée, which are typically used in baking or as condiments.

## Defining the Industry

As noted in both issue papers it is necessary when defining the relative industry to perform a vertical analysis of the production chain.

In terms of processed tomatoes defined under tariff subheading 2002.10.00.60 of the Australian Customs Tariff, SPC Ardmona is the only producer of this specific product. SPC Ardmona has three processing facilities which are located in Victoria at separate sites in Shepparton, Kyabram and Mooropna. The processed product is derived from raw agricultural goods (fresh tomatoes) sourced exclusively from Australian suppliers in Victoria and in New South Wales (principally in the Finley and Berrigan areas)<sup>1</sup> which are close to the processing facilities in Victoria.

Whilst this is not a close processed agricultural product, because tomatoes are not grown exclusively for processed tomato products, access to processed tomato markets is a key determinant in the production decisions of tomato growers. These production decisions are often made up to 3 years in advance and incur significant upfront costs in their establishment and equally as significant costs in their disestablishment.

It is important to note the severity of losing access to these markets is exacerbated once you recognize the diminishing number of alternative processed tomato markets available to growers. A clear example is the tomato sauce market where companies like HJ Heinz Company Limited have moved their production to New Zealand with the closure of their factory in Grigarre, Victoria, in January 2012 and Rosella Groups' factory at Seven Hills in March 2013. It is important to note that many horticultural businesses are viable due to the transport efficiencies gained by having processing facilities located in and near the production areas of raw agricultural goods.

Without these alternative markets to absorb the excess supply of tomatoes in the market, a depression in tomato prices in both fresh and processed markets will occur whilst the industry undergoes a restructure and production decisions are adjusted in subsequent periods. Safeguards are temporary measures which were conceived to assist transition of an industry in situations like this.

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<sup>1</sup> Economy: Agriculture – Fruit and Vegetables, Atlas of NSW. Tony Moody – Industry and Investment NSW  
<http://atlas.nsw.gov.au/public/nsw/home/topic/article/agriculture-fruit-and-vegetables.html>



## Important Considerations:

### Injury to Industry

The reduction in grower numbers is, as those that are unsupportive of the current investigation will profess, a natural outcome of industry transition and consistent with long term trends. NSW Farmers does not deny that the agricultural sector has been experiencing long term adjustment. However where these reductions are accelerated it is clear the industry is facing unreasonable pressure. Under these circumstances growers incur significant short term losses to the extent that they are otherwise unable to transition to an alternative operation where they may remain competitive, forcing them out of the industry. Horticulture is a 'sticky' industry where there are inevitable lags in production and demand cycles. We have received anecdotal evidence from our growers that the decline in grower numbers has recently accelerated.

The Australian Bureau of Statistics (ABS) releases an annual count of businesses sourced from the Australian Bureau of Statistics Business Register (ABSBR) which indicates the number of entries and exits specific sectors face<sup>2</sup>. The product is defined by catalogue number 8165.0 and is released in the first quarter of each year dating back to 2007. The rate of compression and expansion within an industry is often used as an indicator of the health of an industry. The current ABS summaries available are aggregated and do not provide the level of detail necessary to support a safeguard claim against the WTO guidelines however NSW Farmers believes through the exercise of the Productivity Commission's powers of enquiry a data set of sufficient detail may be obtained to support current anecdotal evidence.

The number and rate of closures to processing facilities is identified in both issue papers as evidence of injury. NSW Farmers would like to express the importance of examining the closure of facilities in areas with no other alternative facilities with greater weight. As previously mentioned many operations are viable due to the transport efficiencies gained by having processing facilities located in and near the production areas of raw agricultural goods. This is due simply to the perishable nature of fresh produce and the high logistics costs in Australia. There is a critical point where by which closure of a processing facility will make production of the raw agricultural good unviable.

NSW Farmers would like to draw attention to the Productivity Commission the substitution effects of the demand for fresh produce. Fresh produce has a low price elasticity and an increased supply leads to decreased gross margins. A 2006 study conducted in Carnarvon in Western Australia; which supplies 70% of the domestic capsicum market during July-December, investigated the impact of increasing the production of capsicums<sup>3</sup>. The study determined that a 5-10% increase in production at Carnarvon reduced prices to the extent that gross margins were zero. The study supported the theory that the domestic market for fresh produce cannot support significant increases in supply<sup>4</sup>. Whilst these results may not be observed as definitive for fresh produce other than capsicums they are certainly indicative of broader relationships in

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<sup>2</sup> 8165.0 – Counts of Australian Businesses, including Entries and Exits, Jun 2008 to Jun 2012.  
<http://www.abs.gov.au/ausstats/abs@.nsf/mf/8165.0>

<sup>3</sup> Hickey, M., Hoogers, R., Singh, R., Christen, E., Henderson, C., Ashcroft, B., Top, M., O'Donnell, D., Sylvia, S. and Hoffman, H. (2006), "Maximising returns from water in the Australian vegetable industry: national report", Horticulture Australia pp. 1-41.

<sup>4</sup> Ibid.



the horticultural industry. Some growers devote large portions of their total production for processing. These are generally enterprises that have ideal geographic proximity to processing facilities. When these processing facilities are forced to either relocate offshore or close down

An examination of price determination in the Australian food industry indicates that there is a potentially strong impact of imports in certain areas which is currently adversely affecting confidence for further investment to maintain economies of scale in production enterprises<sup>5</sup>.

## Short-term and Long-term Horizon

Two of Australia's largest trading partners are the European Union and the United States of America. It is important to acknowledge that significant reforms are being made by both legislative authorities that will either go into effect later this year or early next year.

The *US Farm Bill* is the primary legislative tool of the United States federal government which is responsible for delivering the generous farm subsidies the agricultural industry in the United States receives notoriety. It is reviewed every 5 years and amended accordingly before being passed by the US Congress. The current bill is before Congress and is expected to be passed this year. The *Common Agricultural Policy* like the *US Farm Bill* is the primary legislative tool of the European Commission for the Agricultural industry. The CAP has recently gone through significant economic reform with political agreement reached on the 26<sup>th</sup> June 2013, it is anticipated that reforms will be in place from the 1<sup>st</sup> of January 2014<sup>6</sup>.

NSW Farmers would like to draw attention to these developments as much of the debate regarding the importation of cheap processed fruits and tomato products focuses on the level of subsidization products from importing nations receive, which unfairly alter the level of competition between Australian and foreign producers. This is currently the subject of inquiry by the Australian Government Anti-Dumping Commission with regard to prepared or preserved peach products exported to Australia from South Africa<sup>7</sup> and prepared or preserved tomato products exported from Italy<sup>8</sup>. Any modeling or analysis that the Productivity Commission undertakes should recognize the impact of proposed legislative amendments. If outcomes of these amendments should fall below the level expected by international growers or vice versa this will affect a significant portion of global supply in the short term and potentially result in structural change in the medium to long term.

## Factors Impeding the Industry

NSW Farmers believes it is important for the Productivity Commission to understand the current issues facing the horticultural industry which are exacerbating the impacts of imports. It is the

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<sup>5</sup> Spencer, S 2004, *Price Determination in the Australian Food Industry, A report*, Australian Government Department of Agriculture, Fisheries and Forestry, Canberra, p.55.

<sup>6</sup> The Common Agricultural Policy after 2013, European Commission.

<http://ec.europa.eu/agriculture/cap-post-2013/>

<sup>7</sup> Dumping Investigation ADC 216 – Prepared or preserved peach products exported from South Africa.

<http://www.adcommission.gov.au/cases/ADC216.asp>

<sup>8</sup> Dumping investigation ADC 217 – Prepared or preserved tomato products exported from Italy.

<http://www.adcommission.gov.au/cases/ADC217.asp>



vulnerability of the industry arising from the following factors which is permitting the level of injury to the industry arising from a recent increase in imports. NSW Farmers requests that the Productivity Commission recognizes that the impacts of increased imports likely inhibit non-linear behavior. By this we mean that when an industry is under severe pressure the injury arising from an increase in imports is likely to be more severe than periods when the industry is under minimal pressure.

NSW Farmers would like the Productivity Commission to recognize that in non-linear systems there are critical points when injury to an industry becomes irreversible. The ability of the system to respond to shocks, which can be viewed as its resilience, has limits. To speak in layman's terms, this could be the proverbial straw that breaks the camel's back, especially once you consider the number of processors that remain and the rate at which they are either closing their facilities or moving off shore.

### *High Australian Dollar*

The Industry was under a prolonged period of pressure resulting from the appreciation of the Australian dollar which was no doubt reflective of the resource boom and Australia's economic performance relative to other economies globally. Whilst the recent depreciation of the Australian dollar is welcomed the associated benefits are not instantaneously realized but rather delayed due to the 'sticky' nature of the industry. Production decisions and agreements that went into effect before the recent depreciation prolong the pressure experienced by the industry.

### *Wholesalers, Retailers and the Supply Chain*

NSW Farmers wishes to make the Productivity Commission aware of the significant inefficiencies in the horticulture supply chains that growers have to deal with in order to get their produce to market. There are ongoing large-scale market failures in the central wholesale markets and major retailers for fruit and vegetables which stems from an abuse of market power arising from a lack of transparency.

The Horticulture Code of Conduct was introduced on the 14<sup>th</sup> of May 2007 in response to these concerns and established a mandatory code with a mandate to ensure transparency and clarity of transactions and provide a fair and equitable dispute resolution procedure for growers and traders<sup>9</sup>. The effectiveness of the code is questionable due to inherent provisions within the code that permit exemptions and dispute resolution procedures more suited in situations where both parties have equal resources and capacity to negotiate. More detail is available in NSW Farmers' submissions in other inquiries however this level of detail should demonstrate the contextual environment our growers operate in.

Further the market concentration of Coles and Woolworths has risen from 35% in 1975 to over 80% since 2007<sup>10</sup>. This clear dominance has led to competitive behavior which has adverse

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<sup>9</sup> *Trade Practices (Horticulture Code of Conduct) Regulations 2006, Part1:2*

<sup>10</sup> Pricewaterhouse Coopers 2007, The economic contribution of small to medium-sized grocery retailers to the Australian economy with a particular focus on Western Australia. Report to the National Association of Retail Grocers of Australia



fresh produce in Australia. This impure duopsony<sup>11</sup> creates an imbalance of market power which depresses prices available to producers of fresh and processed fruit and vegetables.

In many cases our growers have indicated that prices at retail are below the cost of production. Clearly market inefficiencies exist. It is difficult to ascertain the extent of inefficiencies due to the lack of price transparency. NSW Farmers believes these to be serious issues impeding the efficiency of the supply chain in the Australian market and ultimately inhibits the ability of the industry to adjust to increases in imports.

### *Dumping*

The ability for Australian growers to compete against international growers, particularly those based in the southern hemisphere, is inhibited by anti-competitive behavior from the importation of products below its production cost. NSW Farmers realizes that this is separate to imports considered under the current inquiry however we believe it to be of contextual relevance.

The Brumby Anti-Dumping Review determined, dumping into Australia is highly likely to increase and this will continue to be an issue facing producers in Australia.

### *Biosecurity*

Australia is fortunate in its geographic isolation which inhibits the ability of many pests and diseases found in other countries from breaching our borders; mitigating potential impacts on human health, the environment and agricultural production. The global marketplace however is forever expanding; connecting regions and cultivating markets historically estranged by location, custom and lack of international exposure.

In a globally integrated environment even our own world renowned quarantine systems are not impregnable to biosecurity incursions; incursions supported by increasing volumes of trade, movements of people and the ability of pests to be transferred by various climactic elements.

Preventing incursions from external threats at a national level is one component of an effective biosecurity system. The mitigation of existing threats and new threats that have breached Australia's borders relies crucially on the management practices of property owners.

The threat of a biosecurity incursion is a significant component of the decision making process to both fruit and vegetable producers and processors. It is a component of risk in the production system that influences decisions in production and ultimately the level of supply throughout the product transformation chain. Mitigating risk or uncertainty has a value and similarly any increases in the level of risk are associated with a cost.

Biosecurity threats are not isolated to an individual property or orchard. The mobile nature of vectors that spread pest and diseases requires the continual management of incursions on a property otherwise the problem may accumulate resulting in a significant unmanageable growth in pests and diseases.

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<sup>11</sup> A duopsony is where two buyers substantially control the market as major purchasers of goods and services.



Abandoned orchards are a significant threat to an industry's biosecurity which is why the *Plant Diseases Act 1924* grants the Government power to destroy plants in an abandoned orchard at the expense of the property owner. Our members have expressed anecdotal evidence that the number of abandoned orchards has increased in recent times and that the Government's intervention in this space has significantly diminished. It is important to realize that there are significant externalities attributed to orchards when they are abandoned or neglected.

Growers that are forced to abandon production due to the loss of access to processing markets and the associated increases in supply face extreme disestablishment costs and may not be in a position to prepare their properties. Tree removal is incredibly expensive and whilst maintaining sanitary conditions in the short term is less expensive it is only a short term solution.

When determining the impact of increased imports it is necessary to examine the flow on effects to those sectors that may be impacted by increased risk attributed to biosecurity threats resulting from production declines.