

Import of Processed Tomato Products

KAGOME Australia (together with Billabong Produce, the APTG and the APTRC)

Submission to the Productivity Commission's "Safeguards Inquiry"

18th July 2013

Introduction

The Australian Government has asked the Productivity Commission to undertake a 6-month inquiry into whether safeguard action is warranted against imports of processed tomato products falling within tariff subheading 2002.10.00.60 of the Australian Customs Tariff. The inquiry is to be undertaken in accordance 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.

The Commission is to report on:

- whether conditions are such that safeguard measures would be justified under the WTO Agreement
- if so, what measures would be necessary to prevent or remedy serious injury and to facilitate adjustment
- **whether, having regard to the Government's requirements for assessing the impact of regulation which affects business, those measures should be implemented.**

In undertaking the inquiry, the Commission is to consider and provide an accelerated report on whether critical circumstances exist where delay in applying measures would cause damage which it would be difficult to repair. If such circumstances exist, and pursuant to a preliminary determination that there is clear evidence that increased imports have caused or are threatening to cause serious injury, the Commission is to recommend what provisional safeguard measures (to apply for no more than 200 days) would be appropriate.

This submission to the Productivity Commission is a consensus document, incorporating the following organisations:

- Australian Processing Tomato Research Council (APTRC)
- Australian Processing Tomato Growers (ATPG)
- Billabong Produce
- KAGOME Australia

Whilst the Productivity Commission Inquiry is concerned only with imports of a finished product ready for consumption, the supply of the raw material and the bulk product availability for its manufacture is part of the larger **"Processing Tomato"** sector.

Any injury to SPC Ardmona associated with the imports of canned tomato products must also be considered in the context of its impact on the wider Processing Tomato sector.

This submission attempts to directly respond to the questions raised by the Productivity Commissions Issues Paper.

Question 1: Defining the industry: who are producers of 'like' or 'directly competitive' goods?

Only SPC Ardmona produces "directly competitive" products to Tariff Code 2002.10.00.60; the Processing Tomato sector has a number of players which are impacted by any negative influence on SPC Ardmona

1.1 The Processing Tomato sector - today

Billabong Produce

- Small family owned company located in Jerilderie, New South Wales. It grows its own tomatoes (has a capability to deliver 20k Mt) and processes around 1.3k Mt into retail packs not exceeding 1.14L in size.
- Historically it has processed some 6k Mt into Foodservice size 3kg cans for SPC Ardmona and a further 6k Mt to 7k Mt for sale through other Foodservice channels.
- Lower demand levels from both SPC Ardmona as well as the Foodservice market, has led to reduced output. **Inclement weather conditions have also hampered the company's ability to increase volume.**

Independent Growers

- Some 10 Independent Growers produced circa 100k Metric tonnes (Mt) in 2013, achieving 100 Mt / Ha. These Growers are family owned businesses, employing 3 to 6 people in the business directly. Tomato growing is the dominant enterprise in their business.
- However, Growers are nervous about the industry and its future; they have only invested in sub-surface drip irrigation technology as a result of the On-Farm Irrigation Efficiency Program, funded through the Federal Government's 'Water for the Future' initiative.
- There are 5 ex-Growers, still involved in assisting and directing the sector, but they have effectively ceased to grow processing tomatoes. Regretfully they were significant in the volume they produced, efficient in the land they utilised and experienced in the global trends for improving yields. Their sub-surface irrigation infrastructure now assists in the growing of lower value crops, such as maize.

KAGOME Australia

- Company grew 100k Mt of processing tomatoes in 2013 on leased land and processed some 182k Mt, managing the harvest logistics and transportation across Grower properties as well as its own leased paddocks.
- It has 47 team members, employed full-time as well as up-to 15 contractors on-site most of the year. During the harvest season (January to April) numbers swell to 320 in order to assist the Farming Operations group as well as the Processing Operations team.
- KAGOME Australia has an annual turnover of A\$50m and produced in 2013 some 30k Mt of Paste (factor of 6.0 to convert back to raw tomatoes), 10k Mt of Dice (factor of 1.1) and 300 Mt of Passata (factor of 1.3). It delivered 18k Mt raw tomatoes to SPC Ardmona for processing into 'whole peel' and other products.
- Investment since purchasing Cedenco in July 2010 has exceeded A\$30m, upgrading the plant and farming operations so that it can achieve its strategic goal of satisfying 60-70% of **Australia's** consumption.

SPC Ardmona

- Large processing company in Shepparton, owned by Coca Cola Amatil, primarily involved in the canned fruit industry, with tomatoes playing a critical role.
- It processed some 18k Mt of raw tomatoes supplied by KAGOME Australia in 2013. SPC Ardmona also procures processed tomatoes from both Billabong Produce and KAGOME Australia.

Food Manufacturers

- Processed tomatoes are a critical ingredient in many of the foods Australian consumers consider as staples. Simplot, MARS Foods, General Mills as well The Green Group are just a few of the companies delivering processing **tomato based products under familiar brands; e.g. Leggo's Pasta Sauce, Masterfoods Tomato Sauce, Latina Pasta Sauce, MON Tomato Sauce, etc.**

Foodservice Industry

- Processed tomatoes are a core ingredient in the Quick Serve Restaurant sector. Using tomato based sauces **the following companies are reliant on processed tomatoes; Domino's, McDonald's, Subway, etc.** Independent restaurants and Snack Bars will also have a need for tomato based sauces.
- Large Catering companies which provide meals at locations such as sporting, educational and institutional are significant users of processed tomatoes, in order to build menu options around as well as enhance nutrition performance.

Supermarkets and Independent retail stores

- The supply chain which commenced with planting seeds or transplants in the paddocks, finally delivers a consumer friendly finished goods in retail stores for consumers to buy and enjoy at home or on the move.

1.2 Industry Background

The Processing Tomato industry (as indicated above) is comprised of a number of players, and their interaction is critical to the delivery of products into the consumer food-manufacturing sector. The following information provided is to enable the linkages and performance of these different players to be clearly understood in order to substantiate the injury. Further background and history of the Tomato Processing sector is provided in the Appendix.

Fresh and Glasshouse Tomatoes Vs. Processed Tomato – very different

Tomato Growers in Australia fall into two main categories, **"Fresh Tomato Growers"** and **"Processing Tomato Growers"**. **"Fresh Tomato Growers"** primarily grow varieties familiar to consumers in retail stores. Some use Glasshouses and some even hydroponic processes to grown tomatoes year-round. They are continually picked by hand and are green when on the vine so that they meet the red colour desired, when on display in-store. The product purchased by consumers is used in prepared meals as an ingredient in salads, sandwiches, etc.

"Processing Tomato Growers" focus on derivatives of the Roma-type tomato, due to its high pulp content, good lycopene value and field-holding capability. The plants are sitting on prepared beds in broad-acre paddocks that are rotated with Wheat and Canola every two to three years. All plants are removed during the annual Harvest, which is done mechanically. These tomatoes are exclusively used for processing into Paste, Dice and Passata, under tight specifications for later use by the food manufacturing sector in the production of Pasta and Pizza Sauce, Tomato Sauce and Ketchup, Juices and Soup, etc. This Safeguards inquiry is understood to be only relevant to the Processing tomato industry.

Paste or Whole Peeled?

Paste

- Used by food manufacturers as a key ingredient for Sauce, Juice, Soup, etc. It takes some 6.0Kg of raw tomatoes to produce 1.0Kg of Paste

Whole Peeled

- Sold into Retail or Foodservice in a package as Whole Peeled or further processed into Dice or Passata which food manufacturers will use as a premium ingredient in Sauce. Some 1.1Kg of raw tomatoes is required to produce 1.0Kg of Dice and 1.3Kg to 1.0Kg of Passata

Due to its relative density, bulk Paste (in 1,500Kg and 250Kg aseptic bags, packed in drums) is easily transported cost effectively, across markets and indeed across the planet. The main bulk Paste suppliers from overseas are California in the US and Xinjiang Provenance in China.

Whole Peeled, due to the fragility of the product is not suitable for freight transportation and is either packed on-site or processed further into Dice or Passata. Even these products (due to their low Brix and high water content) are not transported at competitive freight rates over long distances. Whilst this Safeguards Inquiry is focused on Whole Peeled products, Growers and Processors are **integrated and don't** define their business to reflect end-market products.

Location of the industry – northern Victoria

The processing tomato Growers are primarily located in northern Victoria (Shepparton to Kerang / Boort and Echuca / Rochester to Colbinabban) as well as Jerilderie in New South Wales. The location has optimum growing conditions; long hot summer days, cooler evenings and minimal rainfall. The latitude (36 South) is similar to Los Banos, California – 37 North (the centre of processing tomato growing in the US) and Lisbon in Portugal – 38 North, where most processing tomatoes are grown in Western Europe.

At present the processing facilities are in Jerilderie (Billabong), Shepparton (SPC Ardmona) and Echuca (KAGOME Australia). The Paste, Whole Peeled, Dice and Passata products delivered by these facilities, are sold to food manufacturers across Australia, including; Simplot, MARS Foods, General Mills, Symington's, The Green Group, Vesco Foods, and many others.

Processing Tomatoes is a world industry

Australia produces less than 1% of the world's production. Total output in 2013 is forecasted to hit 34.5m Mt (ref; World Tomato News June 2013), of which California will account for 12.0m Mt, while Europe will produce 8.0m Mt, of which Italy is 4.0m Mt.

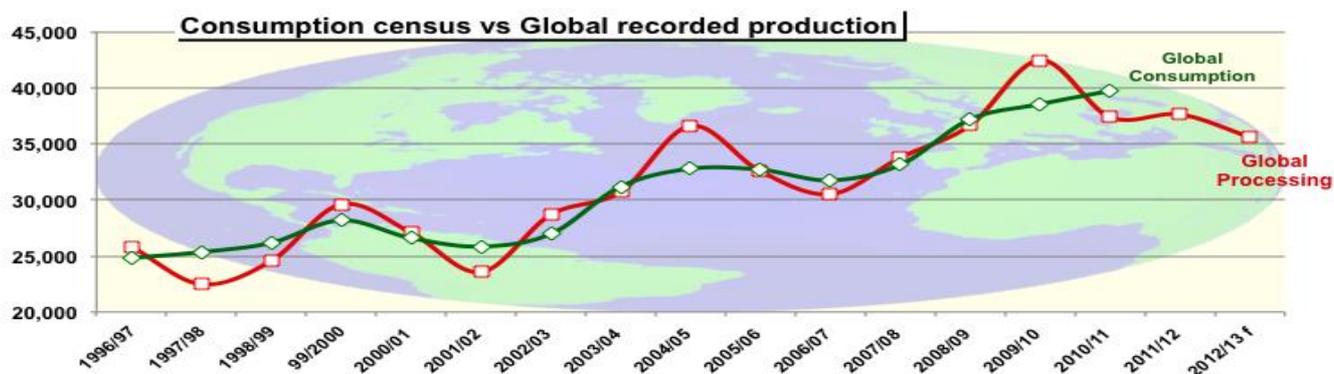


Fig. 1: World consumption Vs. Global Production for processed tomatoes

The cyclical nature of production globally is evidenced by the graphs, with the last peak in processing tomato output in 2009. Consumer consumption continues to grow and there seems little evidence to suggest that this long-term trend will not continue.

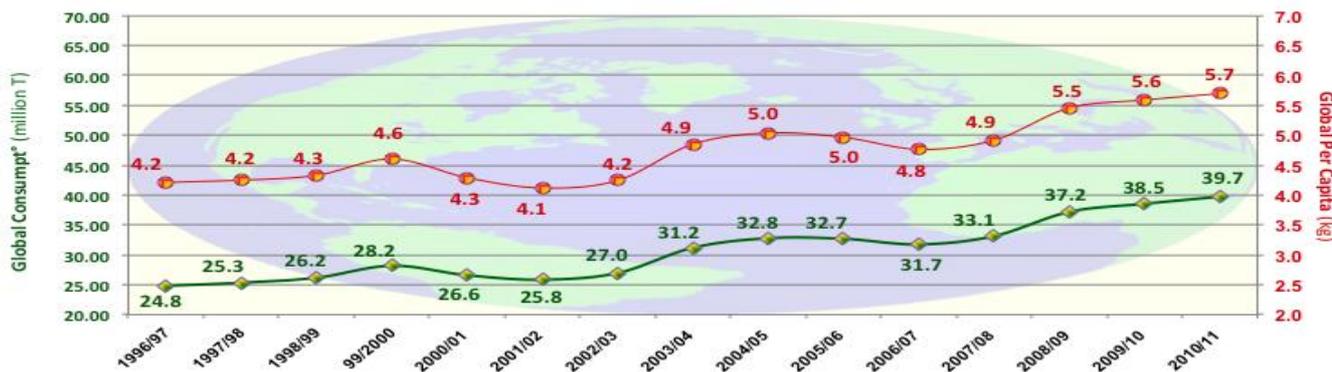


Fig. 2: World demand per capita and gross for processed tomatoes

Australian Production

Process tomato data is collated annually, by the Australian Processing Tomato Research Council (APTRC). Total harvested field-tonnes are reported in the *Annual Industry Survey* contained within the annual publication, *Australian Processing Tomato Grower*. This does not detail the field-tonnes processed into tomatoes nor the finished goods output, e.g. whole or in pieces, in packs not exceeding 1.14 L. separately to that processed into tomato products that fall within other categories as identified by other Australian Custom Tariffs.

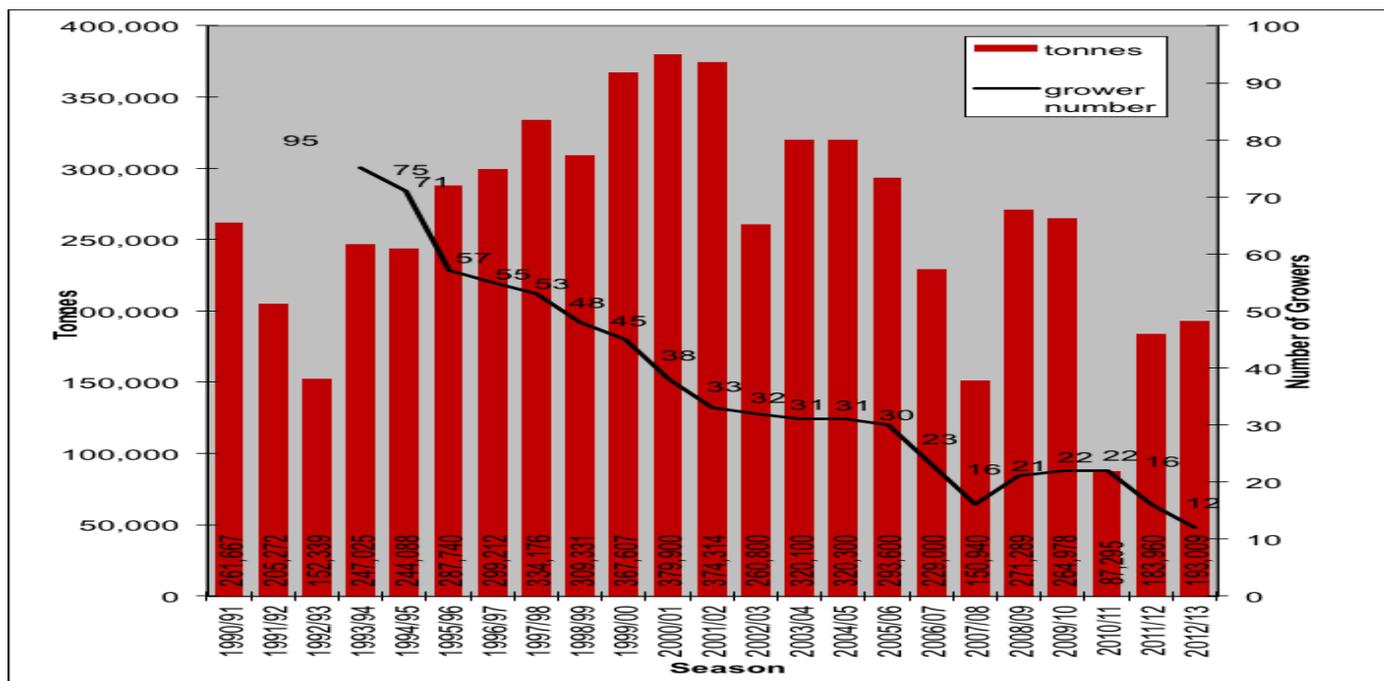


Fig. 3: Shows the decline in Grower numbers with little correlation with world production

Australian processing tomato production peaked in 2000/01 at 385k Mt. At that time there were five major tomato processors; Ardmona, Heinz, SPC, and Cedenco and Unilever, as well as a number of smaller processors; Berri, Cowra Export Packers, Chapman, Goman Farms, MON, Sundown, Fawcett, Billabong and Pommodore.

The 200k Mt in 2012/13 was processed by three; SPC Ardmona, Billabong and KAGOME Australia (previously Cedenco). Further details of the Australian Industry are found in the Annual Industry Survey 2013 available from the APTRC – contact Liz Mann; +61 (0)427 857 578 lizmann@aptrc.asn.au www.aptrc.asn.au



BLOOMIN' MARVELLOUS

Bert Rijk of Healesville has found his niche in growing gerberas. His 12,000 sq m glasshouse holds 60,000 plants. Report, Page 27.
Picture: GREG SCULLIN

More pain for horti processing Growers canned

SPECIAL REPORT

By ALEX SAMPSON

THE Australian horticulture industry has hit rock bottom with processing losses of more than \$800 million.

It comes as the final Australian-owned vegetable canner went into administration last week.

A *Weekly Times* investigation can reveal that since 2009: MORE than 1230 horticulture processing jobs have been lost along Australia's east coast.

ELEVEN fruit and vegetable processors have closed.

HUNDREDS of tonnes of fruit and vegetables have been dumped or left to waste.

THOUSANDS of dollars have been spent harvesting fruit that never reached consumers.

Figures compiled by financial specialists RISMG and the Australian Food and Grocery Council last year revealed Australia's net trade surplus of food and groceries had crashed from \$4.5 billion in 2004-05 to a deficit of \$2.7 billion in 2010-11.

Australia's last major canning company, Windsor Farm Foods, took millions of dollars worth of debt into voluntary administration last week.

Continued Page 6
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Rule's View, Page 23

Growers canned in horti demise

From Page 1

The food processor has had to terminate the jobs of 80 workers without pay at its Cowra NSW factory.

Food processing has shed 849 Victorian jobs in the past two years alone, after Heinz, SPC Ardmona, McCain and National Foods closed six factories nationwide.

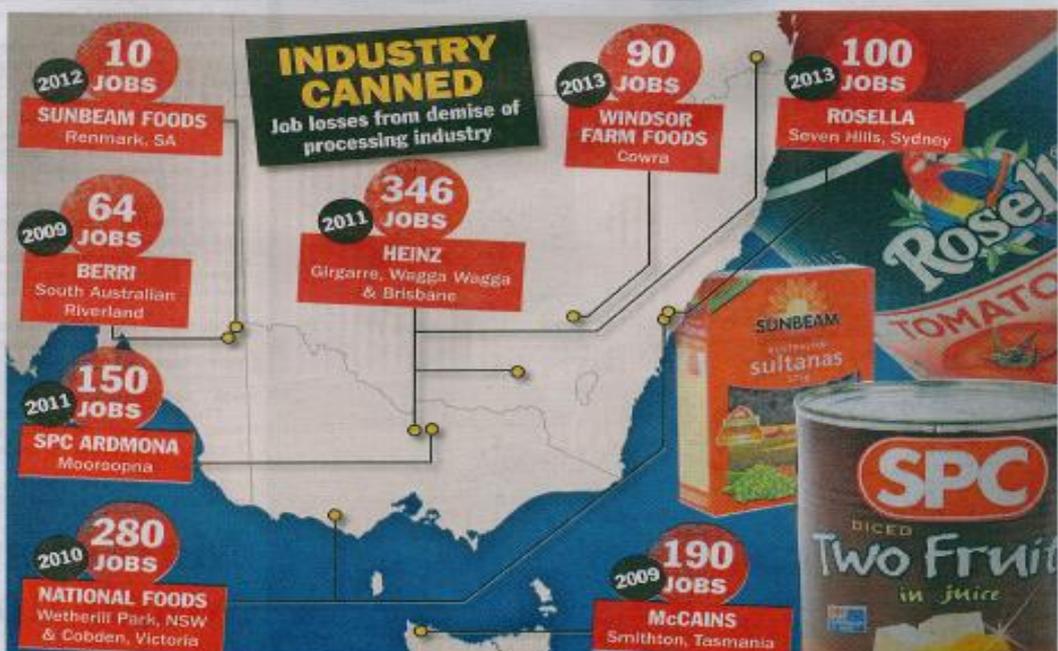
Windsor Farm had been operating since 1975, growing from a small canned mushroom range to a wide range of vegetable products, dried herbs and spices.

Administrator Grant Thornton Australia Limited is trying to stop the company from falling into liquidation.

A Grant Thornton spokesman said Windsor couldn't afford to pay farmers contracted to grow vegetables for the plant unless they had already been delivered.

Locals have called on entrepreneur Dick Smith to help out in the hope that he can convince Aldi to purchase the canner, a move he alluded to in a radio interview last Wednesday.

SPC said it needed "all Australians" to support the horticulture industry.



"We are currently undergoing what is a once-in-a-lifetime appreciation in the Australian dollar that has made cheap imported food even cheaper," an SPC spokesman said.

"This cheap product inevitably makes its way into private-label products in the supermarkets at very low prices, making it difficult for our branded products to profit-

ably compete. If nothing changes our industry will be significantly weakened and it may never be able to recover when the dollar returns to more normal levels."

SPC has called for government to intervene to break the cycle.

"We also need help every day from Australian consumers to get out and support the

branded Australian grown and produced products," he said.

Pressure has been compounded by major supermarkets failing to source local fruit for their own-brand canned and bottled fruit lines.

Secretary of the canned fruit industry council John Wilson estimated the losses at more than \$800 million.

"(Supermarkets) have used

copyright packaging to mimic the Australian product and they have been very careful to not draw attention to country of origin."

He said the majority of canned product was imported from South Africa, Greece and Spain. There were also vegetables that masqueraded as New Zealand vegetables but were really from China.

Fig. 4: Weekly Times article - demonstrates the changes in the food manufacturing associated with Processing Tomatoes.

1.3 Industry relative Performance

Growing costs

Australia compares favourably in Yield with the best growing areas in the world (i.e. California) and the cost of raw tomatoes is less than Italy, which is the source of so much of the imported products under Inquiry.

Fig. 5: Comparison of cost of raw tomatoes throughout the world.

Processing tomato price comparison in 2012 (at field)

A\$=US\$, A\$=0.78 Euro

	Quantity (Mt)	Currency	INDEX Price	Convert to A\$	Yield Mt / Ha	
USA	11,952,000	US\$	76	76	106	
Italy	4,500,000	Euro	85	109	71	
China	3,230,000	US\$	55	55	65	
Spain	1,935,000	Euro	75	96	88	
Turkey	1,750,000	US\$	122	156	60	
Portugal	1,190,000	Euro	75	96	94	
Chile	668,000	US\$	91	91	90	*2013
Australia	216,000	A\$	103	103	103	*2013

Resource : Tomato News

Australia performs well compared to Europe but is more expensive than California in growing costs at the recent exchange rates. At the current exchange rate of (A\$0.90 to US\$1.00) Australia will perform relatively better, as imports from California are 13% more expensive than they have been for the last two years.

Processing Costs - Paste

A recent cost comparison (by KAGOME Australia) prior to the recent exchange rate decline, indicated that the production of Australian Paste was 15% higher than California landed cost. The company knows that aseptic Paste (under tariff code 2002.90, which is not the subject of this Inquiry) has been imported at cheap prices, affecting the overall Australian industry, as well as the cheap imports of the canned tomato.

Whole Peel Processing

The relativity of the cost of production of the whole peel product is not something that KAGOME Australia or their Growers can comment upon. However it is worth noting that the Australian cost of raw materials for the canned tomato is comparable to the Italian cost and thus it is difficult to understand how the imported product appears to be much cheaper than the Australian product.

The industry kept excellent data on the relative amounts of the quantities of Australian production processed into Paste versus whole peel products. Unfortunately this information is not so readily available since 2003. The industry data around 2003 indicated that the whole peel component of the industry was approximately 50-70,000 field tonnes. Our understanding is that this volume remained at 2009 but has declined significantly since due to increased imports.

Question 2: Have imports increased?

Yes, imports have increased and the industry data supports this as follows.

Total imports, exports and Australian production are reported in the APTRC Annual Industry Survey and these indicate that total industry imports have increased from 266,916 Mt in 2009 to 358,367 in 2012 peaking at 458,223 in 2011.

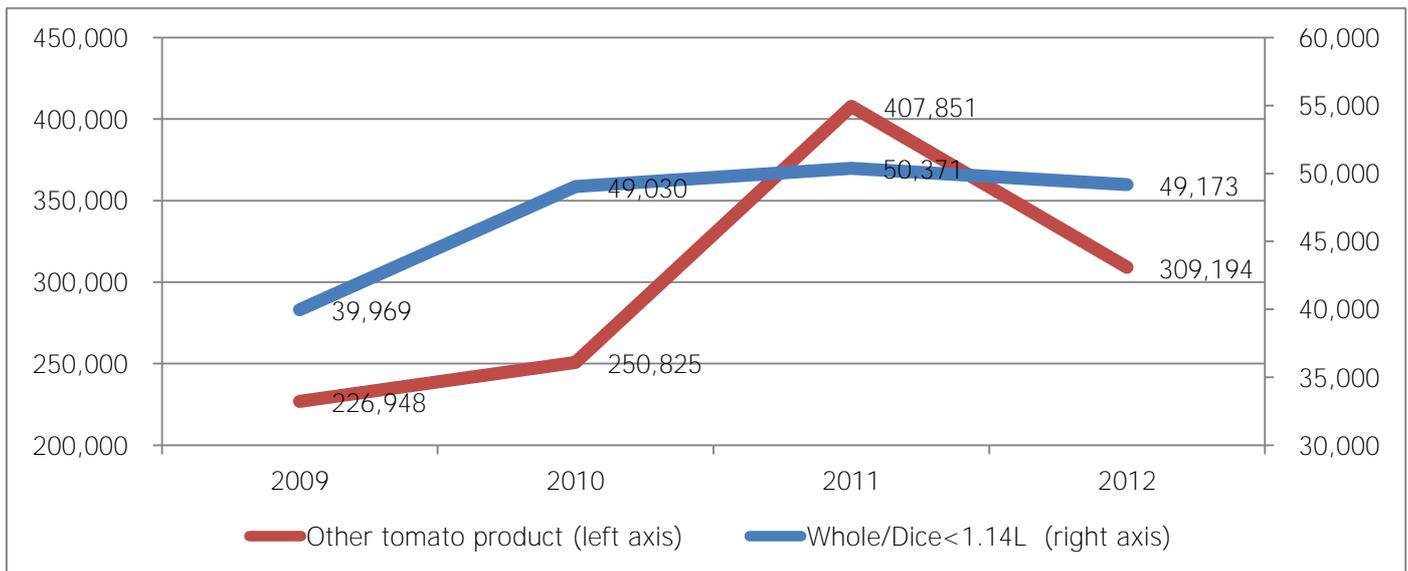


Fig 6: Imports since 2009

It is understood that SPC Ardmona will provide more details of the components of these imports. Further explanation of the APTRC data can be obtained from Liz Mann.

The Annual Industry Survey 2002 (Commissioned by the Australian Processing Tomato Industry Council) also reports on domestic demand. The figure is calculated by adding production and import volumes which provide an idea of the gross demand for Australian processed tomato. The domestic market size is this total less exports. The analysis is crude as year-end inventory levels are not known and crop years do not exactly coincide with calendar years. The domestic demand calculated using this method is shown in **Fig. 7**.

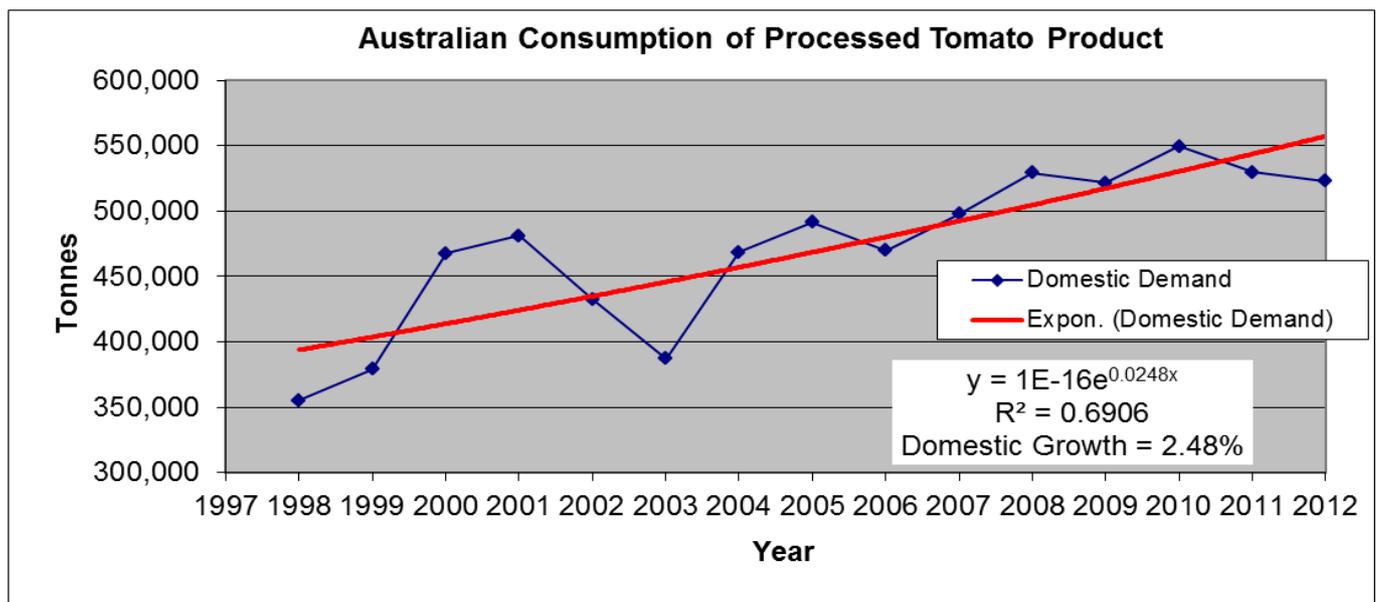


Fig. 7: Domestic Demand (Source ABS and APTRC Industry Data)

Question 3: Was the increase in imports the result of unforeseen developments and the result of [WTO] obligations incurred?

Yes, the increase in imports is the result of unforeseen developments and the result of (WTO) obligations being incurred.

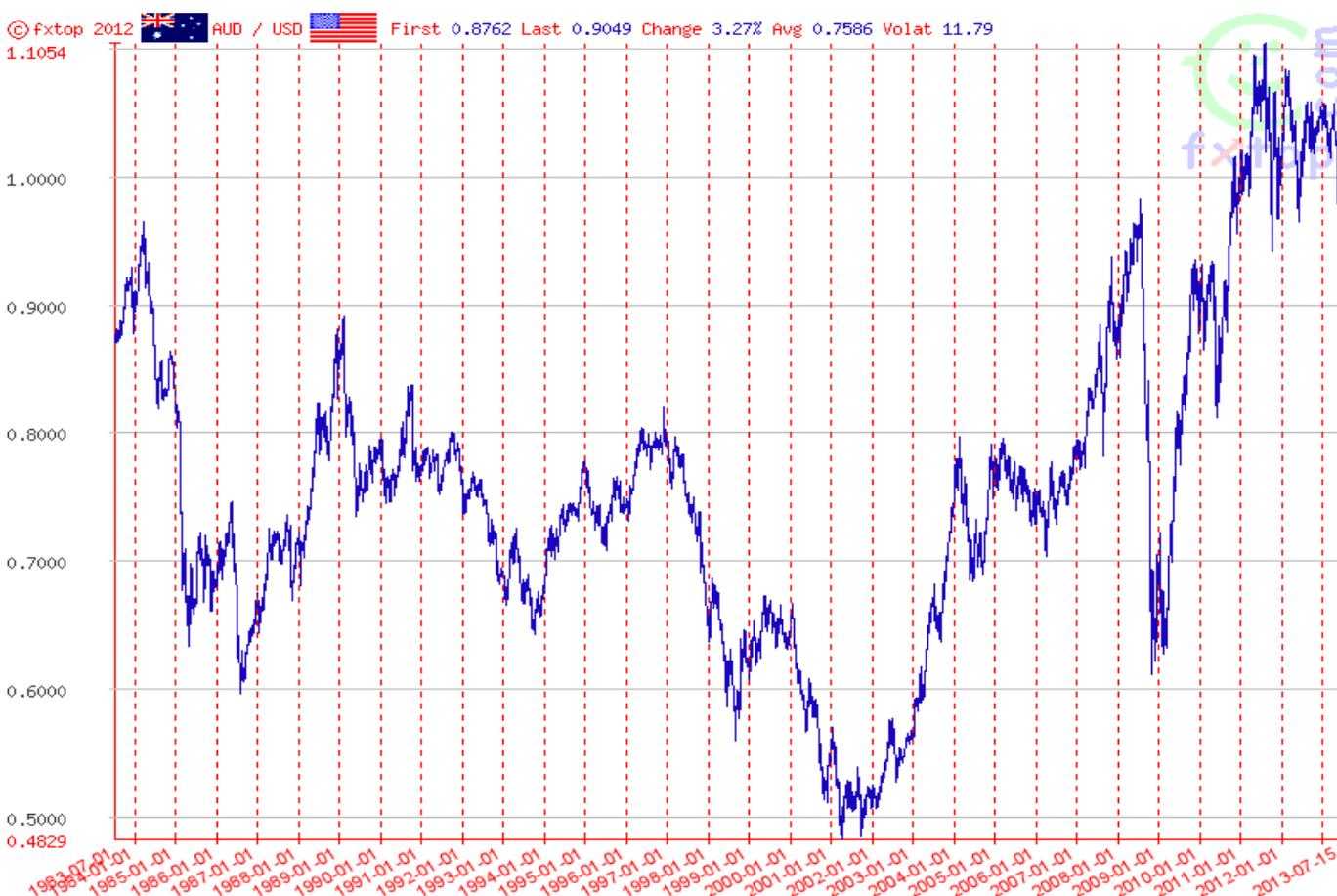
There are four unforeseen events that have driven the current crisis and these are discussed below;

1. World production

- o It peaked in 2009 (ref; Fig 1) and surplus volumes were available for the Australian market

2. Exchange rate

- o Over the last decade, the A\$ exchange rate Vs. the US\$ has doubled from A\$0.50 to over \$1.10. During this time the industry has declined from its peak production level of 10 years ago.



3. GFC

- o Food manufacturers in Europe experienced a sudden decline in sales and had excess capacity and large inventories of finished goods. Liquidating stock to markets outside of Europe became a priority.

4. Severe weather conditions

- o Process tomato Growers in Australia faced some extreme and unseasonal weather events;
 - 2007/08 - drought and production decreased due to high price of temporary irrigation water
 - 2010/11 - flooding and a significant portion of the production area was affected
 - 2011/12 – heavy rain in the key growing areas resulting in localised flooding

The sector was hit by the 'perfect storm' of four simultaneous events which was not and could not be foreseen.

Question 4: Has the industry suffered, or is it likely to suffer, *serious injury*?

Yes, the industry has suffered and is likely to further suffer serious injury.

Each of the processing tomato players have been seriously injured, the details of which are outlined below;

Billabong Produce

1. Suffered a loss of production of some 12k Mt from their normal 15k Mt for the last two years
2. Compromised their ability to market their product next year and they do not expect to be able to compete with the imported product
3. Lost market share with the brand of canned product they directly supplied to Supermarkets - now removed from the shelf

Independent Growers

1. Industry production has declined from the 375k Mt to under 200k Mt and Grower numbers have declined
2. Remaining Growers have lost confidence in expanding production to meet the demand i.e. only 10 Independent Growers growing the same tonnage (per Grower) as they did 10 years ago. The injury is that whilst their profit per tonne has either stayed the same or reduced in nominal \$, their business profit has declined with CPI over the period 2002 to 2013 by 34.5%.
3. Price received by Growers has declined by \$20 / Mt for the whole peel component of the industry which used to be over 50k Mt in 2009 and was 28k Mt in 2013. This premium and quantity has been removed from the industry.
4. No reinvestment in irrigation infrastructure except for that installed under the On-Farm Irrigation Efficiency Program funded through the Australian Government's Water for the Future initiative where farmers have to forego Water entitlements in return for funding to upgrade their irrigation infrastructure. As a result of that program the industry is well placed to quickly increase production to the available level that may arise when exchange rates and world stocks return to normal. However without that program the industry would have declined further.
5. There are 5 ex-Growers who have invested in drip irrigation through the farm efficiency grants for but have opted to grow maize at about 30-40% of the gross income of tomatoes.

KAGOME Australia

1. Lost customers (refer to fig 4 - The Weekly Times article) e.g. Rosella went into Receivership, Unilever sold their three sauce food brands and Cerebos as well as Campbell's have significantly reduced their volumes. This leads to a concentration of the market and reduced bargaining power.
2. The price received for Paste products has declined as is evident in Fig. 8 on the following page;
 - a. US\$ rate has gone up 130% since 2009
 - b. Imported price has gone down to 65% since 2009
 - c. Sales price has gone down to 81% since 2009, even though all costs have gone up
 - d. Income from Paste since 2009 has declined by A\$6m (because of price alone) in total
 - i. 10% of the volume results from reduced sales to SPC of Dice which had to be converted into Paste, which delivered a lower return and is still in KAGOME Australia inventory

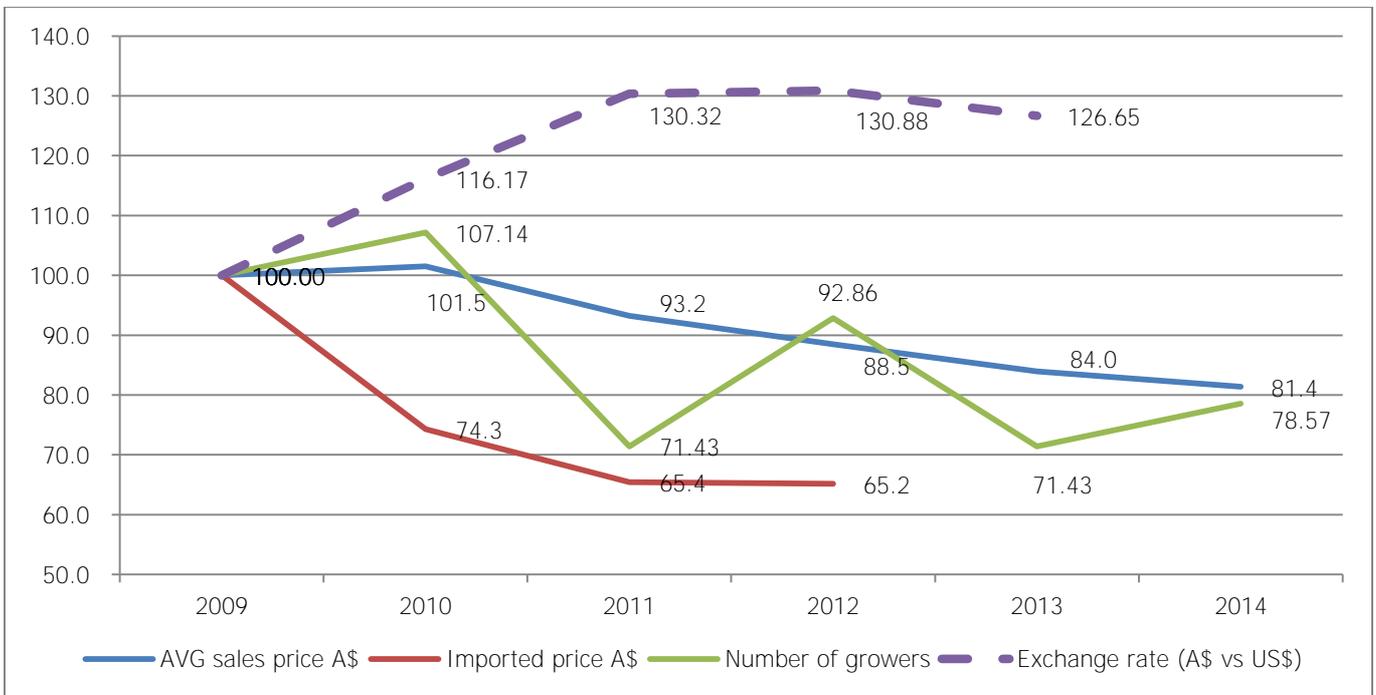


Fig. 8: US\$ currency, KAGOME Australia pricing and imported pricing indexed to 2009

The sales to SPC Ardmona (of processed tomato Dice and Paste as well as raw tomatoes) have reduced in volume and price as evidenced in Fig. 9

- Exchange rate has gone up 134%
- Volume to SPCA has dropped to 56% maybe 30% in coming season
- Unit price to SPCA has dropped to 87% even though all costs have gone up!

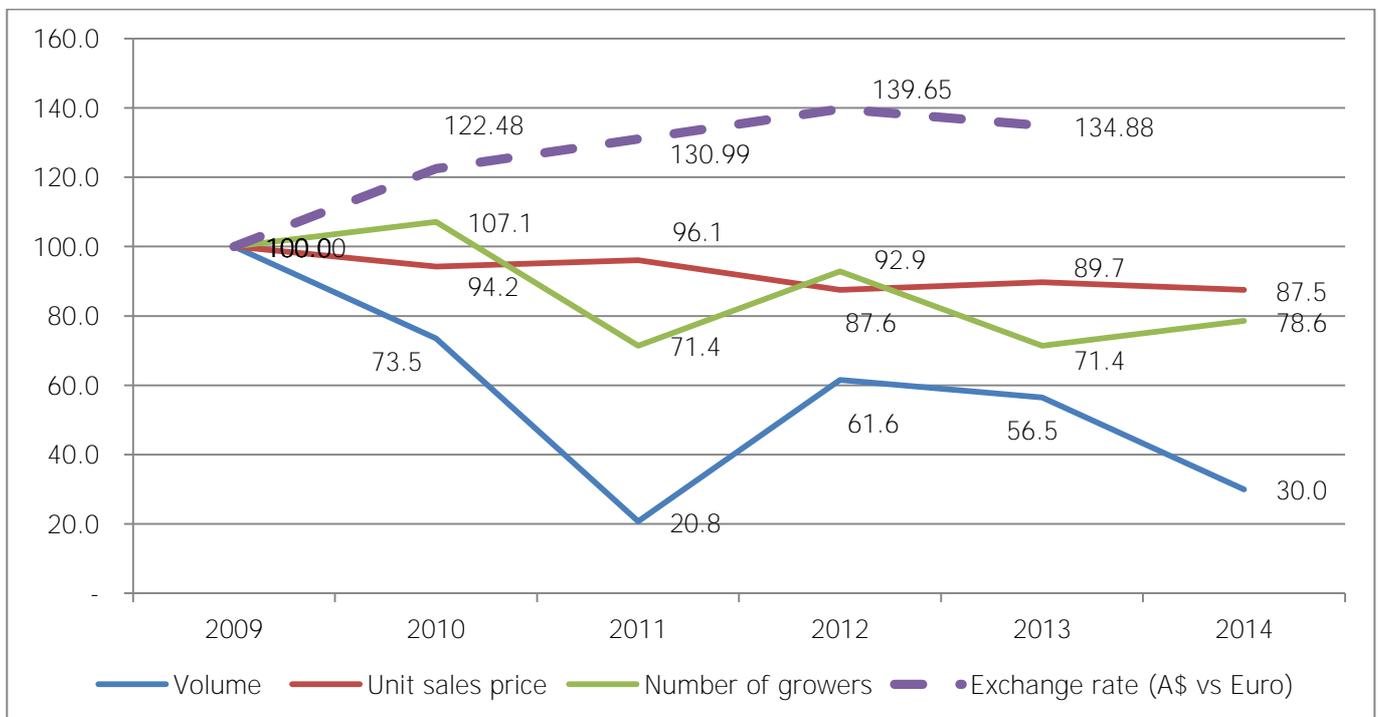


Fig. 9: Euro currency, KAGOME Australia pricing and imported pricing indexed to 2009

The injury on KAGOME Australia is clearly illustrated by **Fig. 10** and **Fig. 11** below;

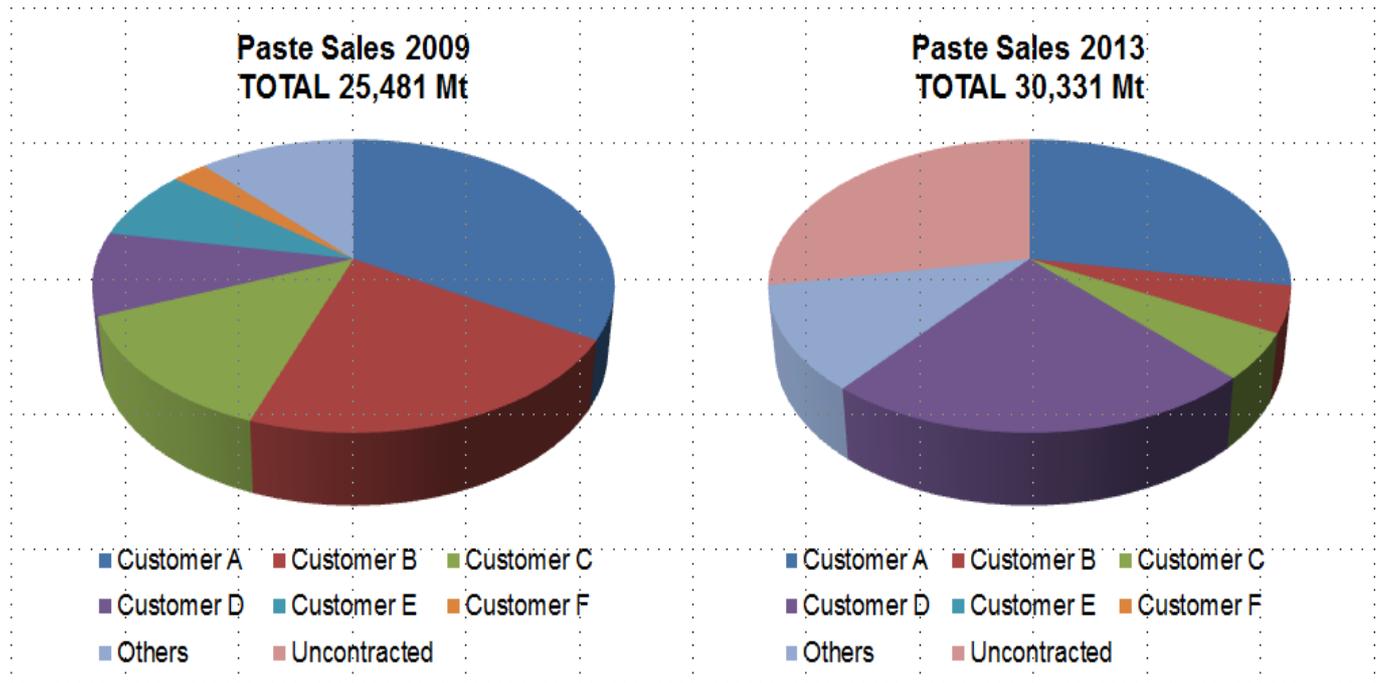


Fig. 10: KAGOME Australia Paste sales mix (June 2013) – 2009 Vs. 2013

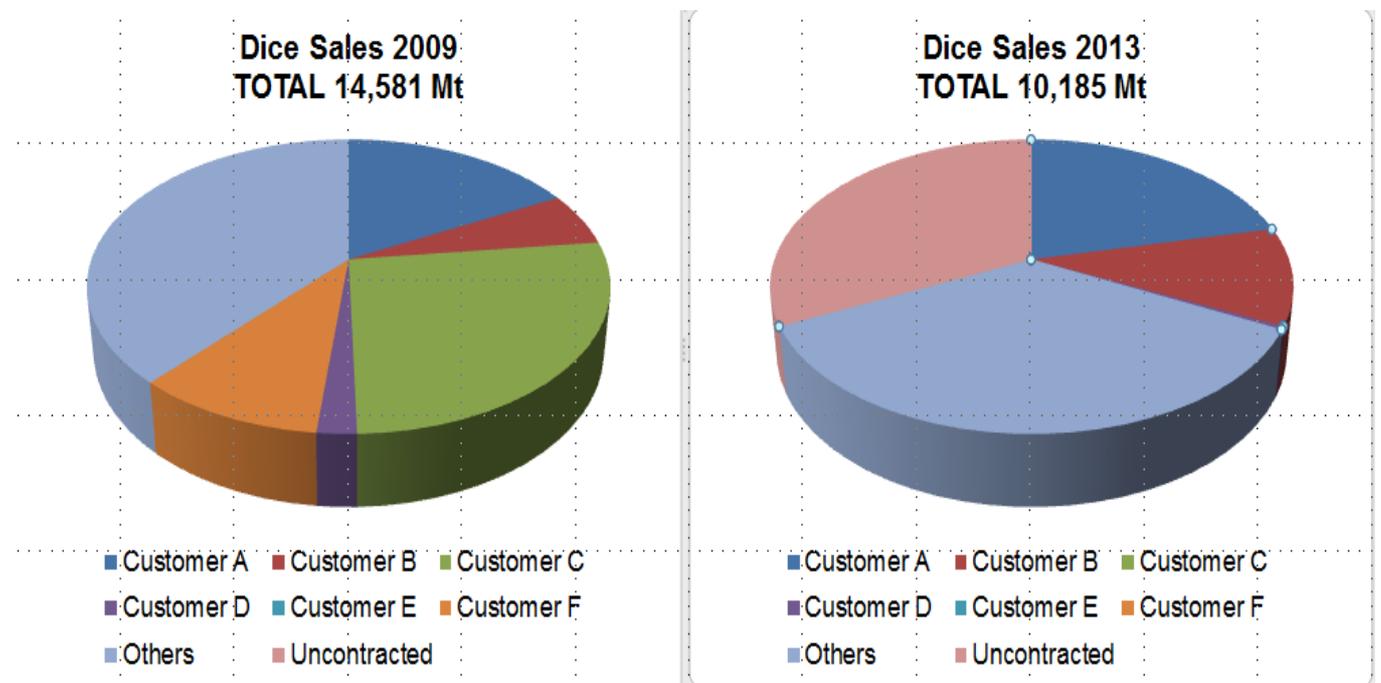


Fig. 11: KAGOME Australia Dice sales mix (June 2013) – 2009 Vs. 2013

Finally, KAGOME Australia commenced the growing of processing tomatoes in 2004 (then Cedenco), not by choice – but through necessity, in light of the falling number of Independent Growers and thus raw tomato volume availability. The significant investment in people, agriculture equipment (including a fleet of 11 Harvesters) as well as expenses in building experience has exceeded A\$15m.

Question 4A: Do critical circumstances warranting a provisional safeguard determination exist?

Yes, critical circumstances do exist and the critical circumstances that warrant a provisional safeguard determination are

Billabong

Unless billabong can be assured of being able to find a domestic market at the normal long-term industry price it will be unable to continue.

Independent Growers

They lack the confidence to invest in the required irrigation infrastructure to maintain the long-term production base of the industry. Plantings decisions are made prior to spring each year and thus installation of irrigation infrastructure must commence during the previous season. So to ensure next seasons crop, confidence must be obtained otherwise the investment will not happen.

There are 5 ex-Growers who have substantial investment in irrigation infrastructure on land that is suitable for tomatoes (there is limited suitable land) but have chosen to grow maize or other low value crops. The weed control chemicals used for maize are not compatible with the tomato plant and thus if next year the area is sown to maize and not tomatoes then these Growers and this infrastructure will be lost to the industry for an additional season.

KAGOME Australia

Has invested and planned to increase production back to around 70% of the **Australia's** domestic consumption ie about 400-500,000 tonnes or a doubling of current processing capacity. Already Kagome has invested \$30million (since 2009) in developing the processing and farming operations. It is critical that Kagome have Growers to produce the required tonnage and also have the market price to justify that investment. Clearly at long-term industry price the investment is sustainable but at the current import price, which is a result of unforeseen circumstances, is at risk.

SPC Ardmona withdrawal

If SPC Ardmona were to withdraw their business as Kagome believe they most likely will without safeguards then the impact on the industry (beyond the direct impact on SPC Ardmona) is as follows:

- Industry will lose iconic Australian grown canned tomato.
- Industry will lose about 30,000t of tomato which represents 13% of total volume
- Industry will lose \$ 4M as Sales revenue
- Industry will lose about 300ha of tomato field where we invested \$1.8M (@6,000x 300ha)
- This will cause inefficient farming, processing and huge impact on overhead cost

This is based upon the current volumes

Raw material volume in 2013	216,000
Sales to SPC Ardmona as raw material equivalent in 2013	28,266
Share (%)	13.1

Question 5: Are increased imports *causing* serious injury?

Yes, the increased imports documented in our answer to question 2 have caused and will continue to cause serious injury. It is our contention that the injuries outlined in question 4 are the result of increased imports.

The Commission has requested that submissions should identify and assess a range of factors, which may be affecting the industry's performance, and our responses (excluding those related specifically to SPC Ardmona) are as follows:

- Performance of the economy generally – this is considered to have little effect other than the normal cost increases of power and labour
- Exchange rate changes – this has been considered as one of the unforeseen circumstances and discussed previously
- Weather conditions, such as droughts or flood - this has been considered as one of the unforeseen circumstances and discussed previously
- Changes in consumer preferences, such as a switch to fresh tomatoes or different types of processed tomato products – the increased consumer demand identified in fig 8 suggest that this is not a factor
- Changes in productivity and product quality – there have been substantial improvements in productivity in the industry and these are discussed in detail in the background. Despite the improvements in productivity the unforeseen circumstances were unable to be withstood without serious injury
- Costs of inputs including water, fresh tomatoes, labour and capital – the cost of inputs have been continually increasing as they have always done in the industry. The key increases have come from a) water and the impact of the Murray Darling Basin Plan which has seen prices rise as water has been returned to the environment, b) gas and electricity price rises and c) labour. However the cost of fresh tomatoes has in real terms actually declined as the price paid to Growers has remained static for Paste and declined for whole peel.
- Other factors affecting the supply of inputs – none of note known
- The impact of changes in the prices of substitutes, such as fresh tomatoes – this is not known to be relevant
- Investment/management/marketing strategies within the industry – Kagome has brought to the industry a definite strategy of returning the industry to processing 60-70% of the Australian demand.
- Regulation of the industry – as discussed in the background the industry is now fully deregulated
- Industry structure and supply chains – the structure of the industry has completely changed and is now able to be extremely efficient in the processing and growing sector as a result of the restructure

Question 6: What safeguard measures would remedy serious injury?

This submission outlines the serious injury as a result of imported goods directly affecting SPC Ardmona, which then has flow on effect to Billabong, Growers and KAGOME Australia. The Safeguard measures required to remedy serious injury are as outlined in the SPC Ardmona submission and are supported by this document.

Question 6A: What provisional safeguard measures would remedy serious injury?

Refer to answer to question 6.

Question 7: What are the impacts on other parties?

The impact on other parties if Safeguards are implemented is an increase in the price at retail of imported products. However this would allow consumers to make a more balanced choice between imported canned Diced Tomatoes and SPC Ardmona canned Diced Tomatoes, sourced and processed locally from Growers and KAGOME Australia respectively.

History would suggest that the price paid for processed product does not increase to match the relative increase in the world market price that may subsequently occur. This is demonstrated by the fact that over the last 30 years the growers have never received a significant increase, even though the world price has fluctuated considerably in that time. The Growers price has remained in nominal \$ around \$100 per tonne for nearly 30 years.

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Appendix 1 – Background information

History of Australian Industry

Early History

An article by Tony Biggs in the Good Fruit and Vegetables magazine April 1992 edition sets out the industry's early history - starting with a small amount of tomato sauce manufactured near Bendigo in the **1920's**. The **Rosella factory** at Tatura was built in the 1949/50 after which processors such as Campbells and Heinz began to concentrate their operations in the region.

1970's – a time of rapid change

The industry started the 1970's as a very labour intensive industry with over 1,400 Growers producing 100k Mt of tomatoes. The 3 wet years of 1973, '74 and '75 coupled with the advent of mechanical harvesting, saw the Grower numbers decline rapidly to 400 producing 150k Mt. Whilst the industry was regulated since 1944 in Victoria, a new Tomato Processing Act came into play in 1976.

1980's and early 90's – continued change and evolution

This period saw continued rationalisation of Growers to less than 100 and production increased to 200k to 250k Mt / annum. Field yields increased rapidly also at 2 Mt / Ha per year rising to 50 Mt / Ha in the early 90's. A modern Heinz Paste factory opened in Girgaree in Feb 1990.

Anti- Dumping, Deregulation and Benchmarking in the early 90's – more change

The Biggs article documents the "anti-dumping investigation" finding in 1992 that products from Thailand, Italy, China and Spain had been dumped, corresponding with a temporary surplus in world production in the early 90's.

The industry was given notice that it had to deregulate and part of the process was for the industry to undertake a benchmarking study to identify ways it could sustainably be world competitive.

In 1995 the growers had further declined to 71 with the production stabilizing at 250k Mt. Rationalising and reorganising of the processing industry occurred with 8 processors operating across the region. Trickle irrigation was replacing gravity irrigation obtaining significant water and labour efficiencies but involved significant capital and technology change.

Yields continued to improve but the study identified that;

- Field yields still were not competitive with California though exceeded European yields
- Farm and processor scale were relatively small and drove cost inefficiencies
- Higher value adding whole peel industry needed developing to make the industry more economically viable
- Provided an enormous base of data which the industry could use to drive change

Mid 90's to 2001/'02 saw expansion

The industry changed during this period and became world competitive; the development of a Cedenco Plant (now KAGOME Australia) in 1997 at Echuca was the most modern Paste production plant. The design and frame came from New Zealand and was reassembled in Echuca. Bulk handling was introduced in mid '90's and this immediately drove improved handling efficiencies.

The production increased and peaked for 3 seasons at around 375k Mt. Industry field yields continued to increase at the same rate to 80 Mt / Ha, almost double that of 10 years earlier, with trickle irrigation being extensively adopted along with transplants which precipitated much of that yield increase

Grower numbers continued to decline while farm size continued to increase with only 33 Growers remaining. However these increased their scale to grow on average over 11k Mt each. Processing companies remained static over this period aside from the Cedenco expansion.

The price negotiations between Growers and processors were completely deregulated in this period and individual contracts were negotiated. Generally the industry peaked at this time and world production was at a low point.

Droughts floods and contraction but relatively stable period of 2003 to 2010

The industry stabilised at around 250k Mt for this period despite the droughts of 2003 and 2006/'07 when the industry maintained its production albeit at extra cost to obtain the necessary water. However, the wet summer of 2007/'08 had a very negative impact on the whole industry.

There was a large decline in processing capacity in this period with Unilever, Berri, Cerebos and several other smaller processors exiting the industry. Further, Cedenco in Echuca went into liquidation and only after a year did KAGOME Australia purchase the factory. SPC and Ardmona combined at the end of 2001 with 2001/02 the first season tomatoes were delivered to SPC Ardmona.

This period saw a significant change in growing, due to Cedenco in 2004 started growing some of its own tomatoes **and whilst early production was very poor the shift to "corporate farming" in tomatoes has continued with KAGOME Australia taking over that approach and expanding on it. KAGOME Australia initiated the concept of "contract harvesting"** to reduce the number of harvesters and to improve logistics.

Thus in this period the decline in Grower numbers continued to 22; while those that remained retained their paddock sizes, KAGOME Australia expanded rapidly. Yields continued to increase – reaching 95 Mt / Ha.

Last 3 years – things have changed

The wet summer harvest of 2010/'11 was an extremely difficult time and production dropped dramatically. However despite this, the industry was almost able to maintain the necessary supply of the raw product for the higher value whole peel and Dice

Grower numbers have continued to decline to 12 and the independent Growers now only produce about 100k Mt compared to 375k Mt 10 years ago. On average the independent Grower is still producing on average the same tonnage as they did 10 years earlier. This lack of increase in scale by these Growers has restricted their ability to maintain their profit margin. In contrast KAGOME Australia now produces about half of the industry field tonnes.

With the closure of the Heinz factory and the consolidation of SPC and Ardmona - the industry changed. It now has only one major processor (KAGOME Australia), dealing directly with Growers and one small vertically integrated processor (Billabong Produce) as well as SPC Ardmona receiving raw tomatoes via KAGOME Australia. This consolidation has changed the industry dynamics.

In the last year yields have again returned to nearly 100t/ha or very close to Californian yields. It is this increase in yields that has enabled growers to maintain profits. KAGOME Australia has shared with Growers its advances in technology (e.g. 2 meter Beds, Robo-cropping, etc.) and encourages Growers to garner innovations from overseas.

There has been significant investment in the trickle irrigation in the industry (\$15.97 Mill as a result of the On-Farm Irrigation Efficiency Program funded through the Australian Government's Water for the Future initiative This

investment has assisted to maintain the Growers in the industry, though a significant number of recipients have chosen not to grow tomatoes because of the uncertain and lower income

The harvesting and transport of the industry is now streamlined and efficient as a result of the industry consolidation and KAGOME Australia investing in RFID technology as well as GPS in Tractors, Harvesters and Trucks.

The food manufacturers segment of the industry has seen enormous change with significant closures of manufacturing plants as shown in the Weekly Times article - 11 closures and 1230 jobs since 2009.

World Paste price drives Australian industry

The Australian industry has been driven by the world Paste price since the mid 70's but more so as deregulation and globalization became part of the tomato industry. In general world Paste prices have remained at \$1,000 / Mt (landed) for many years. The raw material makes up 50% of the cost and processing plus freight the other 50%.

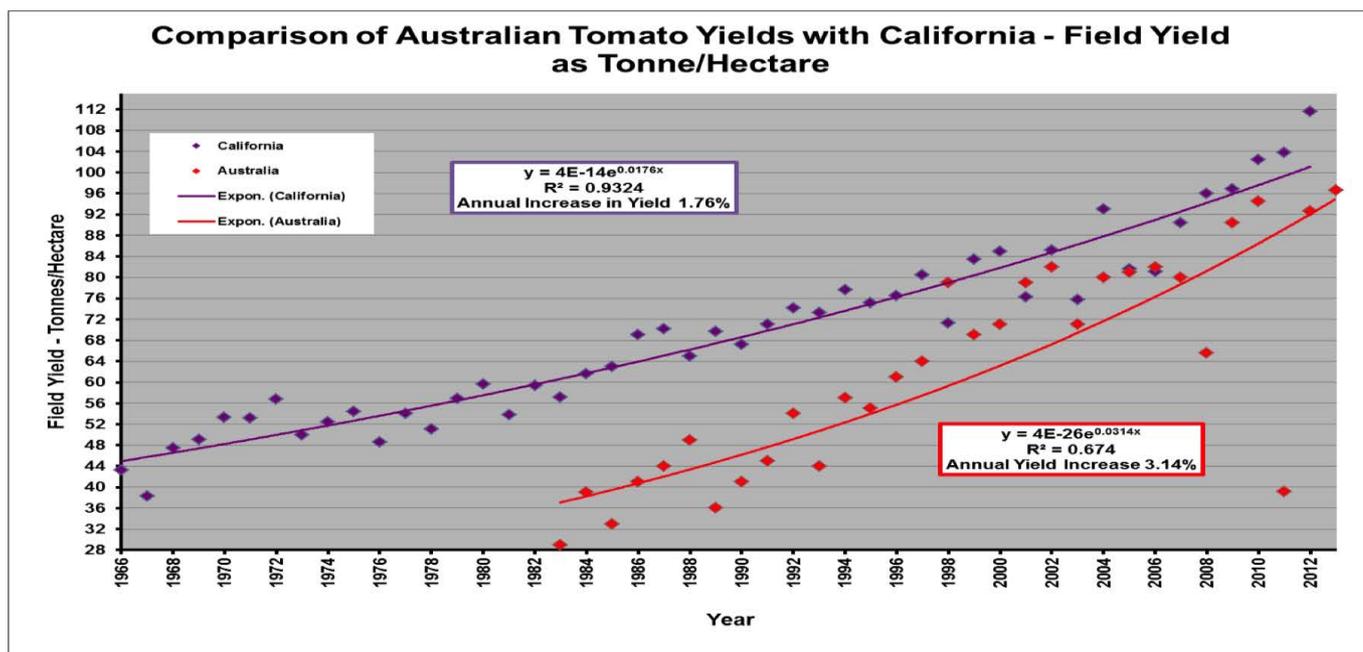
Thus the price paid to Growers for the raw material has not changed from around \$100 / Mt for nearly 30 years. The Growers have offset this decline in real terms by yield increases and enhanced scale. Similarly the processors have had to offset the real price decline by introducing new technology and building larger scale plants.

While the Australian industry has traditionally grown for the domestic market, the industry has evolved in order to compete with imported Paste and Diced products. This is a challenge whenever the world production exceeds demand and/or when the exchange rate increases. Having set prices against imported products, the market price has never appeared to increase when the world market changes. The price is then set by the domestic consumer.

The raw material price paid for tomatoes has traditionally been higher for the whole peeled products because the tomato is considered to be of the highest quality. Generally the price paid was of the order of \$10-25 more than paid for the Paste product. Growers used to supply a mix of processors and therefore managed their crop to supply both Paste and the whole peel processors. In the case of the whole peel, the tomato is a much smaller component of the final product cost compared to Paste.

Field yields

The increase in field yields has been a key reason for the Australian industry remaining competitive and these are shown below relative to California.



Drip Irrigation

The two key technologies that have been introduced to Australian growing are drip irrigation and transplants, which are both very expensive. Transplants account for 10% of the annual growing costs and drip irrigation costs the equivalent in capital of \$6,000 / Ha but because of rotations Growers require 2 Ha of drip for every planted Ha.

Life expectancy of drip tape is some 10 to 15 years, plus an annual cost of about 15% (interest and depreciation). Thus the decision to invest in drip irrigation is a major farm decision. Over the last 10 years Growers have maintained their drip area but not expanded it, in many cases lived off the depreciation of their investment prior to 2009.

The investment in the trickle irrigation in the industry, beginning in 2010 (\$15.97 Mill as a result of the On-Farm Irrigation Efficiency Program funded through the Australian Government's Water for the Future initiative has enabled Growers to install new irrigation systems on previously furrow irrigated ground.

Season	Hectares (Excl Market Growers)	Hectares Harvested	% Surface Under Drip	% Surface Transplants
1998/99	4,328		48%	21%
1999/00	5,108		49%	25%
2000/01	4,779		53%	33%
2001/02	4,486		55%	43%
2002/03	3,648		62%	46%
2003/04				
2004/05				
2005/06	3,500		65%	45%
2006/07	2,860		68%	55%
2007/08	2,308		74%	66%
2008/09	3,000		76%	57%
2009/10	3,442	2,806	80%	65%
2010/11	2,850	2,074	88%	79%
2011/12	2,366	1,962	90%	81%
2012/13	1,999	1,999	98.5%	72%

Penetration of Drip Irrigation and Transplants

Source: - Industry Survey & Horn, B (2000, 2001, 2002, 2003)

Ability for Growers to exit and re enter the industry is very difficult

Processing tomatoes is seen as an annual crop and thus it appears that a Grower can readily change from year to year – unfortunately this is not the case.

Growing requires substantial investment in drip irrigation (around \$6,000 per ha compared to a gross income of \$10,000 per ha per year but because of rotation requirements, the area developed must be twice the annual area)

The planning cycle is a 10 year program, and specialist equipment is required – capital of the order of \$7,000/ha. Further, specialist growing skills is required and once lost to the industry rarely do people return.

Industry data – extensive data over many years

The industry has always had relatively a large amount of data – this has been one of the reasons it has managed to transform itself and continually obtain efficiencies. This data is collected on an annual basis and includes information relating to domestic production, details of imports and exports, and also a comparison against the Californian processing tomato industry.

The data is readily available from its Industry Development Manager – Liz Mann ph 0427 857 578

There has also been numerous cost of production surveys – though now with so few Growers the data is limited, with the last publically available report compiled in 1997.

The annual industry survey data provides a comprehensive review of information and can be provided and is not repeated here.

The Australian Processing Tomato Research Council Inc. (APTRC Inc) also publishes an annual magazine titled: **“Australian Processing Tomato Grower”**, and a quarterly newsletter **“Tomato Topics”**.

Industry organisation

The industry has had a history of well represented groups for Growers, processors, and industry research and development. These have included the Tomato Industry Negotiating Committee (TINC), Australian Processing Tomato Industry Council (APTIC), Australian Processing Tomato Growers (APTG) and the Australian Processing Tomato Research Council (APTRC). As the industry has changed the needs for these groups has changed and the main industry group now is the APTRC, which fulfils a number of roles. The APTRC formed as a non-profit association in October 2001, and appointed the first Industry Development Manager at the same time. The current Industry Development Manager is Liz Mann.

The APTRC is a “B Class” member of Horticulture Australia Ltd and is responsible for collecting a voluntary research and development levy from both Growers and processors. Although this levy is voluntary all Growers and processors do contribute as they are aware that ongoing industry research and development is essential if the Australian processing tomato industry is to remain competitive in a global market.