Australian Government
Anti-Dumping Commission

INVESTIGATION 216

ALLEGED DUMPING OF PREPARED OR PRESERVED PEACH PRODUCTS

EXPORTED FROM SOUTH AFRICA

VISIT REPORT - AUSTRALIAN INDUSTRY

SPC ARDMONA OPERATIONS LTD

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF ANTI-DUMPING COMMISSION

August 2013

CONTENTS

ABBREVIATIONS

$	Australian dollars
The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	SPC Ardmona Operations Ltd
CFR	Cost and freight
COGS	Cost of goods sold
the Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
SPCA	SPC Ardmona Operations Ltd
the Minister	the Minister for Home Affairs
CCA	Coca-Cola Amatil Ltd
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 17 June 2013, an application was lodged by SPC Ardmona Operations Limited (SPCA) requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of prepared or preserved peach products exported to Australia from South Africa.

SPCA alleges the Australian industry has suffered material injury caused by prepared or preserved peach products exported to Australia from South Africa at dumped prices.

The applicant claims the industry has been injured through:

- loss of sales volume;
- reduced market share;
- reduced revenues;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced return on investment and loss of economies of scale associated with processing operations; and
- reduced capacity utilisation.

Public notification of initiation of the investigation was made on 10 July 2013 in *The Australian* newspaper and Australian Dumping Notice No. 2013/54.

1.2 Purpose of visit

The purpose of the visit was to:

- obtain general information about the Australian market for prepared or preserved peach products;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain additional financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports had caused material injury to the Australian industry.

1.3 Meeting details

Company	SPC Ardmona Operations Ltd 50 Camberwell Road, Hawthorn East Melbourne, Victoria
Dates of visit	22 – 25 July 2013 and 12 – 13 August 2013

The following were present at various stages of the meetings.

SPCA	Shalini Valecha Strategy Manager Steve Mickan Sales Director (in part) Simon Behan- Sr Commercial Manager (in part) Jo Foley- Sr Commercial Manager (in part) Kylie Merigan – Financial Controller (in part) Ian Simmons- Production planner (in part) Peter Holland-Solution Delivery Manager (in part) Alastair McMillan (in part) Damian De Napoli- Category Manager (in part)
Consultant	Selwyn Heilbron (22/7/13 & 25/7/13)
The Commission	Paul Benussi: A/g National Manager Operations (22/7/13) Scott Wilson: A/g National Manager Policy (22/7/13 – 25/7/13) John Bracic: Director Operations 1 (25/7/13) Tom O'Connor: Manager Operations 1 (22/7/13 – 25/7/13) Nicole Platt: Manager Operations 2 (22/7/13 – 25/7/13, 12/8/13 – 13/8/13) Joanne Reid: Director Operations 2 (12/8/13 – 13/8/13)

1.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 July 2012 to 30 June 2013.
- The injury analysis period is from 1 January 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (8 September 2013) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

  The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.

This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.

- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 28 October 2013, or such later date as the Minister for Home Affairs (the Minister) allows under s.269ZHI of the *Customs Act 1901* (the Act).

  The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister.

  This final report is due no later than 12 December 2013, unless an extension to the SEF is approved by the Minister.

1.5 Visit report

We explained to the company that we would prepare a report of our visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are:

> Prepared or preserved peach products either whole (peeled or unpeeled) or in pieces (including halves, slices, diced), with or without added sugar or other sweetening matter or spirit, prepared or preserved in container sizes from 300 grams up to and including 1.5 kilograms.

Goods excluded from this application are:

- Individually packed prepared or preserved peach products of less than 300g which are sold for snacking purposes;
- Peaches mixed with other fruit types such as pears, apples or nectarines;
- Sizes greater than 1.5kg, which are more common in the food service channel; and
- Multiple packs of individual packs of prepared or preserved peach products, each less than 300g, which are sold together to aggregate to greater than 300g.

The application stated;

> The goods under consideration (GUC) are generically called prepared or preserved peach products.
>
> SPCA understands that imported peaches are commonly packed in different containers such as cans, glass jars, pouches, plastics or Tetra packs[1]. These are often referred to as "multi serve prepared peach" products as well. The present application covers all containers, in sizes from 300g to 1.5kg inclusive.
>
> The imported multi serve prepared peach products can be labelled with a generic, house brand or private label for the retailer or a proprietary label. The imported prepared or preserved peach products that are the subject of the application cover all imported prepared or preserved peach products regardless of how labelled

2.2 Tariff classification

The goods are classified to the following tariff subheading 2008.70.00 in Schedule 3 to the *Customs Tariff Act 1995* with statistical code 51.

The general rate of duty is currently 5 per cent for goods imported from South Africa.

[1] Tetra packs are proprietary packaging mediums produced, under copyright, by the Tetra Pak company.

3 THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

The company commenced commercial trading as SPCA in 2002, following the merger of two previously unaffiliated commercial entities – Shepparton Preserving Company (SPC) and Ardmona Fruit Products Co-Op (Ardmona).

SPCA is currently a wholly owned subsidiary of SPC Ardmona Ltd which is wholly owned by Coca-Cola Amatil Limited (CCA) following completion of commercial acquisition of SPC Ardmona Ltd by CCA in 2005.

SPC Ardmona Ltd is made up [redacted] of which SPCA is one. These other entities are not involved in the manufacture or distribution of the goods in Australia. SPCA currently has three operating manufacturing sites in Australia. Fruit products are solely processed at the Shepparton manufacturing site. We were informed there is a manufacturing operation in Spain that does manufacture the goods.

We were informed SPCA incorporates a number of distinct commercial operations related to the production of food products sold into retail and food industry markets in Australia under a number of different proprietary labels. At the meeting SPCA provided a company overview and noted there are two main brands and their sub brands are used to market the goods, being SPC and Goulburn Valley. The Ardmona brand is also used to market peaches on a much smaller scale to particular retail outlets.

3.2 Accounting structure and details of accounting systems

SPCA has an accounting year that runs from 1 January to 31 December and, as a subsidiary of CCA, is audited annually. Financial statements are compiled in accordance with the Australian Generally Accepted Accounting Principles. SPCA provided CCA's audited financial statements and annual reports for 2011 and 2012 with the application.

We were informed that the company uses MFG Proto capture the financial records of operations. This is an ERP system, however due to the complexity of the rebates and commission structures, SPCA use Promax to record the rebates and commissions. Each system's data is matched at the end of each day and reconciled.

3.3 Relationship with suppliers and customers

SPCA indicated that none of its sales are to related customers. SPCA advised that the majority of sales are to public companies and if it did have any significant ownership, this would be evident in the annual report of these entities. We checked CCA's annual report and examined the list of top 20 registered shareholders and none of SPCA's customers were listed. We checked the annual reports of these customers and found SPCA not to be in the top 20 list of shareholders. With regard to suppliers, SPCA again indicated there is no ownership or control with regard to suppliers. The main suppliers of the goods are local farmers for raw peaches and [redacted] for cans.

3.4 Manufacturing facilities and product range

3.4.1 Manufacturing facilities

At the verification visit we did not see the manufacturing facilities but saw a presentation prepared by the applicant. We were advised that due to the seasonality of the peach canning, we would not be able to observe the canning as it is off season. The manufacture of the goods occurs at its facility in Shepparton, Victoria from January to March with occasional flow over into early April depending on the season. We were informed this is the only manufacturing facility for the goods the subject of the investigation.

There are two main processes in manufacture, being the canning of the goods and labelling and packing. Goods are manufactured up to the 'bright can' stage, ie no labels, and then warehoused. They are then released to the labelling facility approximately six weeks before they are sold. SPCA indicated this helps to manage changes in label design and minimise excessive labelled stock.

[redacted]. Therefore, labelling to order six weeks before delivery allows flexibility to use the same recipe but different labels.

The machinery in the manufacturing facility can be broken into three broad categories;

- Individual fruit lines
- Joint processing (pasteurisation)
- Labelling and packing

When peaches are not being processed, the Shepparton facility will manufacture other products using the joint multi-function facilities. It is also the site of the baked beans and spaghetti canning. A copy of the factory layout was provided by SPCA showing the different canning lines and facilities (**confidential attachment 1**).

Within the Shepparton facilities SPCA are able to use the pasteurisation facilities for more than just peaches. Multiple fruit products flow through this facility. The labelling facility is jointly used by many products.

3.4.2 Product range

The applicant makes a range of goods for sale under its own labels and that for private and generic labels. The broad categories are:

- Halves
- Slices
- Diced

There are two typical can sizes, however the can weight differs due to the density of peaches and volume inserted into the can. A typical can's net weight will be approximately plus or minus [redacted] 400g and plus or minus [redacted] of 800g. In addition to cans, peach products may also be sold in plastic containers, usually with a 1-1.2 kilogram capacity. SPCA indicated it was not aware of any can or plastic container size greater than 1.2 kilogram sold into the retail market segment.

SPCA indicated it used the 1.5kg cut off for the application as it is within with the statistical code used in the Harmonized System. Further, SPCA indicated the container size above this volume would typically be used in food service channel.

3.5 Production process

SPCA advised that the production process in relation to prepared or preserved peach products is standardised for all products with marginal differences made to specific production stages depending on specific product variables (such as cut profile and container type).

SPCA indicated that it undertakes more than one substantial process of manufacture in the production of like goods and since 2005, over [redacted] has been spent improving the production facilities.

In its application SPCA provided a production flow diagram which is summarised as:

1. Raw material delivery

The growers deliver the raw peaches to the processors on the same day they are picked. The processors aim to process the fresh peaches to the bright can stage as close as possible to within 24 hours of delivery time.

2. Sorting

The first process within the factory is to sort the fresh peaches by size and colour, damaged and undamaged stock. Fruit unsuitable for canning is used for juice or pulped for use in other products.

3. Washing, peeling and second sorting

After sorting, the peaches are transported on conveyor belts to a machine which halves and destones the fruit. The peaches are washed with caustic soda to remove the skins. Further sorting and inspection ensures the correct quality of product is produced.

4. Filling and liquid adding

Perfect halves of peaches are canned immediately and the remaining peaches are sliced and diced. The peaches are put into cans, plastic jars or cups of various sizes then a ‘liquid medium’ of natural juice, light juice, light syrup, water or other juices and syrups are added.

5. Cooking, cooling and labelling

Once filled to product specifications, cans are sealed and cooked to provide commercial sterility and to maintain the eating texture and preserve the product.

Once cooled, all unlabelled cans are moved to a warehouse until time of sale.

Cans are labelled on an as-needed basis, depending on specific order requirements and customer demands.

4 Like goods

SPCA stated that it produces peaches matching the goods the subject of its application in that they are identical to, or very closely resemble, the imported peaches. The basis for this claim is that:

- The products have similar composition and ingredients;
- The products are directly substitutable;
- The products compete directly in the same markets; and
- The products have the same end-uses.

SPCA submitted that:

(a) Physical likeness

SPCA's peaches and the imported peaches are available in the same size packaging range. The majority of products are available in sizes 400g, 800g, and 1kg packaging. Both imported products and SPCA's peaches are available in the same cuts with the majority of peaches being in the sliced format.

SPCA's locally produced peaches and the imported goods are processed using the same key ingredient – fresh peaches - and the preserving liquids are also similar, such as juice, syrup or water.

SPCA produces peaches in the form of slices, halves, and diced products. Around 95% of the current products in the category are sliced. SPCA's peaches are currently packed into cans and in rigid plastics. Packaging does not alter the essential characteristics of the product.

(b) Commercial likeness

Australian industry peaches compete directly with imported products in the same retail sales channels in the Australian market (discussed further below) and are purchased by similar end users – individual consumers for home consumption. SPCA claim that consumers switch between SPCA's products and imported products with the key purchase criterion being price. SPCA provided a copy of the shelving layout plan (**confidential attachment 2**) for one of the major supermarkets showing placement of its products in comparison with other ranges of prepared or preserved peach products.

(c) Functional likeness

Both the locally produced and imported peaches have comparable or identical end-uses and are interchangeable. Both domestic and imported peaches are used by consumers in similar occasions and for similar meal types. SPCA provided a summary table of consumer uses of their products by occasion and packing type as part of their application.

4.1 Employment numbers

SPCA employs approximately [redacted] staff throughout the year for total production of all products. As a seasonal operation this equates to approximately 840 full time equivalent staff. Specifically for the goods a typical day is [redacted] [Number of shifts and staff] On top of this is the maintenance staff and general office administration staff.

4.2 Annual turnover

Annual turnover in 2012 for peach products [redacted] the year before and [redacted] down on the turnover achieved in 2009, being the commencement of the injury analysis period.

4.3 Capacity

Annual capacity is [redacted] tonnes; however the production of the goods has been significantly below capacity with fruit volumes of approximately [redacted] tonnes respectively being processed for the last three years to 2012 (**confidential attachment 8**).

SPCA indicated that production capacity has been taken from a historical perspective and an examination of the amount of product produced when the plant has previously run at full capacity. We were informed that to reach this capacity, many factors are involved which includes weather, farm access, the smooth and constant stream of raw peaches ripening over the season and then the efficiency of production.

5 AUSTRALIAN MARKET

5.1.1 Background

SPCA indicated the Australian market is divided into two main segments. The first main segment is sales to major supermarkets and the second main segment is sales to smaller food stores, green groceries and distress channels. A greengrocer is a retail trader in fruit and vegetables. Distressed channels are clearance stock stores where excess supply of particular products is often sold. The goods are purchased by these main channels for on-sale to consumers. In addition there is a small proportion of sales to the food service industry. Whilst we identified small volumes of the goods being sold to the food service market segment, the vast majority was sold to the retail sector.

In this regard the retail sector is dominated by [redacted] which based on SPCA's market intelligence would account for [redacted] of the total volume sold. The remaining [redacted] of the volume will be sold via smaller food stores and distressed channels.

5.1.2 Market segmentation

SPCA indicated that the market segment can be considered by either product type (whole, sliced or diced) or by label type (private or proprietary). A private label is a product manufactured and sold with the label of the retailer, whereas generally the proprietary label is the manufacturer's own label.

5.1.3 Label segmentation

Within the retail market of the major supermarkets, there are three identifiable tiers based on retail selling price. At the high end of price is the Australian industry products, next are the private labels of the major retailers, and the bottom level in price are the tier 2 private label brands such as [redacted].

SPCA informed us that at every opportunity it will tender to supply major supermarkets with their private label products in addition to its own proprietary labels. During the 2012 calendar year SPCA sold approximately [redacted] by volume as private labels.

5.1.4 Product Segmentation

The three products are whole, diced, and sliced peaches. In terms of volume, 825g sliced peaches in a can is the most popular, with the 1 kilogram plastic container of sliced peaches being the next most popular product. These two products combine to make up approximately [redacted] of SPCA's total sales, based on the verified sales data obtained at the visit.

5.1.5 Marketing and distribution

SPCA indicated that the majority of goods sold are to four major retailers via the grocery sales channel. From its A4 appendix, we calculated this to be [redacted] of total sales. To sell the goods to this group, SPCA employs a sales team that makes contact with the appropriate officer in each of these companies. For private label sales, a tender process is usually undertaken. For proprietary label sales it is a discussion around price point, volume and marketing strategy.

The lead time between production forecast and delivery can be as much as two years. During the budgeting process SPCA estimate production volume and standard cost to help it determine the cost of manufacture. SPCA typically need to forecast a volume of production that represents 14 to 18 months of projected sales. We were advised that the extra months of budgeted production above one year was due to the hope of increased sales and to help drive the unit cost of production lower.

SPCA has undertaken its own analysis (**confidential attachment 28**) and it confirms the goods are highly elastic to price movements. Therefore to drive volume growth SPCA indicated it needed to promote the goods to reduce the relative price margins between its goods and other labels.

Once a private label sale is confirmed, SPCA manufactures the goods according to the product composition and quantity required then arranges delivery using [redacted]. All goods are sold on FIS terms, however, when dealing with sales to [redacted], even though the terms are FIS, [redacted] collects the goods with its own transport fleet rather than using SPCA's carrier and then charge SPCA for the transportation costs.

SPCA indicated the higher the promotional spend, the higher the volume sold. To manage the promotional spend SPCA accrue the promotional spend in its accounts, setting a budget that has been negotiated with the retailer. A significant effort is required to reconcile the promotional spend with the volume of goods sold. A typical practice of customers when making invoice payments is to deduct the trading terms and promotional spend before making payment for the goods. The terms and rebates to be deducted are outlined in the supply contracts (**confidential attachment 4**). Due to lead times and the availability of scan data this only compounds the reconciliation problem.

SPCA provided a copy of its promotion spend work sheet for February 2012 and February 2013 to indicate the manner in which it keeps track of these payments (**confidential attachment 5**).

5.1.6 Scan data

To manage the promotions payment system, scan data is paramount. SPCA purchases the scan data from the retailers, which is then processed by a third party, Aztec. This data provides point of sale information from [redacted] [3 or tht 4 main retailers]. SPCA uses this data to confirm volume throughput and to monitor sales and volume activity of the major retailers. A copy of the Aztec data that was used to formulate the application was provided (**confidential attachment 6**).

SPCA used the scan data to develop the Australian market size and developed an estimate of [redacted] [retailer] volume based on past tendering activity and other market intelligence.

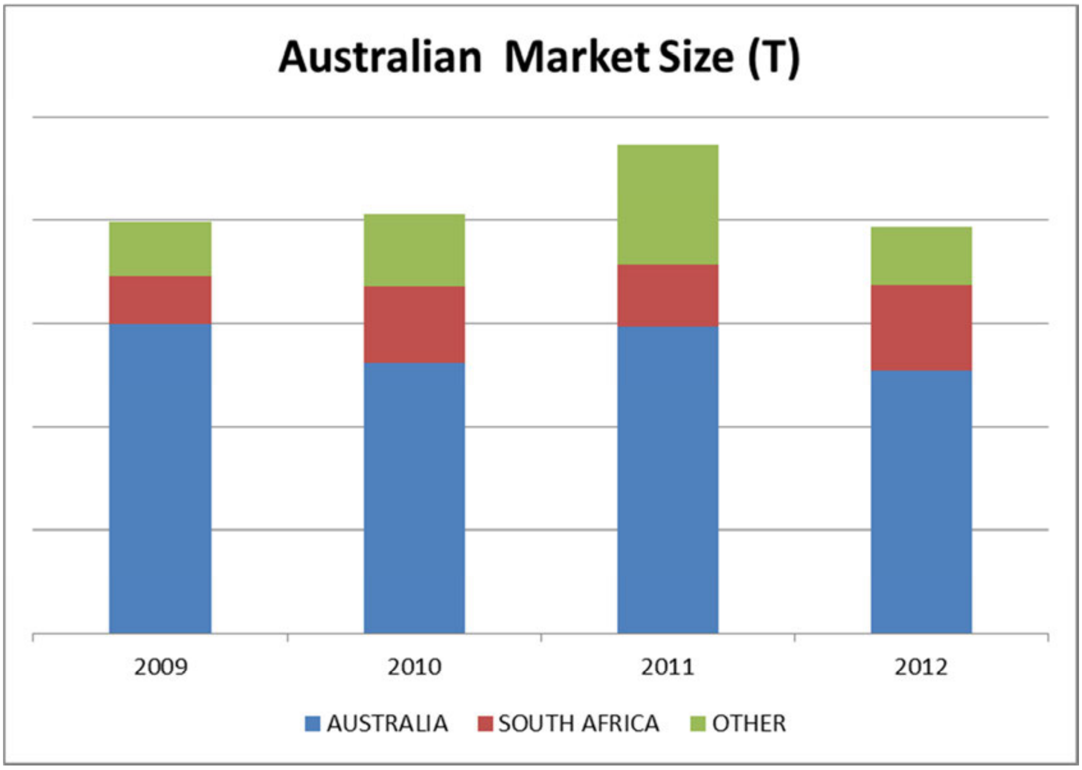
5.1.7 Imports by applicant

During the investigation period SPCA imported [redacted] of the goods from Spain and China. SPCA advised that these importations were as a result of particular requests for sample products from the sales and marketing division and that importation of peach products is not part of the normal course of business.

5.1.8 Market size

In its appendix A2 to the application SPCA indicated the market size to be approximately [redacted] tonnes. The calculation was based on the Aztec data and an estimate of Aldi's sales volume. SPCA then checked their results against the Australian Bureau of Statistics volume data to ensure that the estimates used were reasonable. SPCA used its knowledge of its own market share, tender processes it had been involved with and sales data obtained from Aztec to calculate a volume with the difference to ABS data being estimated Aldi sales. The Commission notes that in its calculations SPCA only estimated based on retail sales data obtained for the major retailers, not the entire market.

The Commission calculated the Australian market for the goods in 2012 to be approximately 19,000 tonnes. This is based on the Australian industry's sales volume and data from Customs and Border Protection's import database.



This graph indicates that in 2010 the volume of imported prepared or preserved peach products increased at the expense of the Australian industry growth. As imports from other countries increased between 2010 and 2011, it was the import levels from South Africa that were negatively affected before recovering in 2012 and regaining market share from other imported products. While the size of the Australian market fluctuated over the injury analysis period it remained relatively constant from 2009 to 2012.

6 SALES

6.1 General

Within the Australian market for prepared or preserved peach products, SPCA sells to the retail sector and to a lesser extent to the food sector industry.

SPCA supplies private label group (PLG) products to the major retailers in addition to its own label products. In 2012, [redacted] of total sales volume sold by SPCA was for PLG products. Within this PLG category SPCA supplied the following retailer private labels during 2012:

[redacted]

The Australian industry sales value for the goods in 2012 was [redacted]. This was based on sales to all segments of the market excluding container sizes above 1.5 kilograms and excluding snack packs (typically individually packed products less than 300g). Although SPCA's application was constructed around its sales to the four major customers – [redacted] – it did have a small sales volume to other smaller retailers and food service industry.

In terms of the pricing structure, sales in the Australian market are broken into three tiers with the SPCA proprietary labels being the highest and [redacted] and similar brands the lowest:

- Premium (SPCA proprietary labels)
- Private Labels (Woolworths Select, and Coles)
- Black and Gold, Smart Buy and Homebrand

Regardless of the pricing structure the most popular selling product from the three general types of prepared or preserved peach products is the slices in 825g can.

SPCA indicated that due to their share of the overall market the pricing of the private labels drives the prices of all categories. SPCA submitted that the volume share of private label sales was [redacted] in 2012, based on information obtained from [redacted]. After analysing the Aztec data provided, we observed that [redacted] private label sales of peaches in various sizes represents [redacted] of total volume of the goods sold. For [redacted] it represents [redacted] of the total volume of the goods sold. For independent retailers that participate in the Aztec sales data collection, private label sales represent only [redacted] of total volume sold. See confidential attachment 6.

When the price negotiations commence shelf placement is a very important component in achieving sales targets and brand survival. The shelves in the major supermarkets are typically six tiers high. SPCA indicated the preferred position on the shelves is at eye height. Above and below this position is considered less favourable. The bottom shelf is reserved typically for bulk packs and the top shelf for speciality brands where buyer preference will seek out these brands in favour of others.

Since 2009, SPCA indicated its facings (total cans on front of shelf being displayed) has dropped from approximately [redacted] of shelf layout in 2009 to less than [redacted] in 2012 for [redacted]. See confidential attachment 2.

6.2 Ordering, invoicing and delivery arrangements

Ordering is done one of two ways. SPCA has an electronic sales and invoicing portal system with [redacted]. These customers can place orders directly in the SPCA system with order, invoicing and delivery being automated.

Other customers simply call, fax or email their orders through to SPCA and those orders are then transcribed into the SPCA system.

When an order is taken, the invoice is raised against the distribution centre to which the goods are to be delivered. Apart from [redacted] all goods are delivered to central distributions centres for each of the main customers. SPCA advised that it uses a third party company for distribution. [redacted] collects the goods from SPCA's facility using its own transport.

Although the sale is invoiced at dispatch, this revenue is not recognised until all discounts and promotional spend has been calculated and recorded against the invoiced revenue.

6.3 Pricing

The lead time between production forecasting and delivery can be as much as two years. During the budgeting process SPCA develops a production volume to help it determine the cost of manufacture cost that feeds into the selling price projections. SPCA typically needs to forecast production that represents 14 to 18 months of projected sales.

SPCA indicated the goods have a high price elasticity of demand. That being the case any price movement, or relative price movement between the different tiers of peach product categories impacts on sales performance. SPCA advised that the different tiers compete on the following levels:

- [redacted].

Therefore to drive volume growth SPCA indicated it needs to promote the goods to reduce the relative price margins between its goods and other labels. Any major decrease in price in one brand or tier will result in a substantial increase in volume. As a result of the price elasticity with regard to demand response, SPCA needs to follow major pricing trends of the competitive products particularly within its product tier to maintain sales volumes. Some levels of price change can cause consumers to switch purchasing from the price tier they usually buy from.

To follow price trends, SPCA undertakes price reductions through promotional activity to maintain the pricing differentials observed by the consumer to ensure it can maintain budgeted sales volumes. SPCA indicated the higher the promotional spend, the higher the volume sold. SPCA demonstrated the effect of case and coop promotional discounts on profit margins for themselves and the retailer **(confidential attachment 7).**

6.3.1 SPCA's Pricing system

SPCA indicated that its fundamental pricing philosophy was to [redacted].

Proprietary Label

Before making a sale, each retailer (other than [redacted]) will seek trading terms. These trading terms amount to a discount for various activities associated with the delivery, stocking and payment of the goods. These trading terms amount to approximately [redacted] off the invoice price. The trading terms are deducted from the invoice value when paid. SPCA informed us that with the array of discounts and promotional spend, the payment for the goods tends to be determined sometime after the goods are finally sold by their customers. A typical practice when paying the invoice is to deduct the trading terms and promotional spend before making payment for the goods.

As part of the sales negotiation, SPCA will develop a marketing/promotional strategy that includes inter alia, print or electronic media. The strategy may be up to twelve months with the greatest detail provided for the beginning of the year. SPCA informed us that these strategies are often broken into 13 week periods which have detailed the promotional spend. When an SPCA item goes on promotion in three of the four major retailers, the promotion is effectively funded by SPCA through the promotional spend identified in the marketing strategy.

To manage the promotional spend, SPCA accrue the promotional spend in its accounts setting a budget that has been negotiated with the retailer. A significant effort is required to reconcile the promotional spend with the volume of goods sold. As part of the reconciliation process to calculate the promotional spend, point of sale scan data is required. Due to lead times and the availability of scan data this only compounds the reconciliation problem.

Promotional spends are allocated through the Promax accounting system. Promax takes into account the promotional spend plan then increases or decreases accruals for promotions if variances are detected. Each month promotional amounts are allocated by pack group customer at a SKU level.

SPCA provided a copy of the February 2012 and February 2013 Promotions Spend Accruals worksheet to demonstrate how they keep track of the promotional spend. See confidential attachment 5.

Private Label

Private labels do not incur the same pricing structures. Pricing levels are established during the tender process. Tenders are sought usually once every one or two years. SPCA advised that in submitting its price offering it considers the economic impact of the tender on the business as well as prices of the imported products.

The invoiced price is the price paid, based on the terms agreed to in the tender process.

6.3.2 Discounts and rebates

We were informed that the rebates, commissions and promotions fell into three categories for SPCA's proprietary labels:

- Percentage discount after invoice (Rebates)
- Case deals; and
- Co-operative Payments (Co-op)

Percentage discounts

For the per cent discounts SPCA indicated that [redacted] generally receive between [redacted]. Within this group can be a range of discounts including but not limited to:

- Warehouse trade discount
- Quantity buy
- National Rebate
- Redistribution allowance
- Ullage Allowance
- Coop promotional allowance
- General allowance
- Early payment
- Volume etc

Case Deal

As part of the forecasted promotions, the price discounts on the shelf are managed via a reduction in the case price. Typically the invoiced case price is reduced by an amount that would equate with the price discountd on the shelf when considered on a case basis.

Co-op spend

Co-op spend is a miscellaneous promotional/rebates system that does not fall into the other two categories. Coop typically but not exclusively, relates to a marketing activity both parties mutual agree to participate in.

6.3.3 Distressed sales

As part of its Appendix A4, SPCA provided sales of distressed stock. We were informed that this category of sales typically is a response to the goods' use-by-date. Although the goods may last many years its use-by-date is approximately 18 months from the date of manufacture. Further, most retailers will not accept stock where the use-by-date is within six months of the delivery date.

An examination of Appendix A4 indicated the volume of distressed sales as a percentage of total sales was approximately [redacted] in 2012.

6.4 Level of trade and related vs unrelated customers

The appropriate level of trade is direct sales between SPCA and its customers. Since its customers are also retailers, SPCA indicated that it is also important to examine the pricing behaviour from the retailer to its customers to fully understand pricing strategies and the manner in which they filter down to the Australian industry and the pricing strategies within the different label tiers.

6.4.1 Verification of sales data to audited financial statements

To assess sales data for completeness and relevance, verification to audited financial statements was undertaken.

SPCA informed us that the revenue for all product lines is captured in one revenue account. The chart of accounts provided with the application confirmed this. As part of its application SPCA also provided a copy of its consolidated income statement that identified relevant account numbers (**confidential attachment 8)**. We identified that all income is recognised in the one sales account. SPCA informed us that the consolidated financial income statement is the same used by the auditors for the 2012 CCA annual report.

We asked SPCA to prepare the same revenue results and extract it from its Business Objects data warehouse to demonstrate the filtering it used when preparing the application appendix data, to ensure that all products from the peaches category were correctly included.

SPCA demonstrated the process displaying reports showing different category levels recorded for sales revenue. Beginning with the total company revenue which matched the management reports provided for the year ended 31 December 2012, SPCA then filtered the data to the fruit category and finally specifically for peach sales revenue which confirmed the total amounts recorded in A6. The total revenue amount recorded in the system also corresponded with the figures provided in the A4 data (see **confidential attachment 9 and confidential attachment 10**).

6.5 Verification of sales data to source documents

To assess sales data for accuracy, verification to source documents was undertaken.

Prior to the verification visit we sent SPCA a request for invoices of sales identified from its Appendix A4 sales listing.

SPCA provided these together with evidence of payment and delivery docket. We checked these details to the Appendix A4 and confirmed the details agreed to the Appendix A4 (see **confidential attachment 11**).

The selection of sales was based on obtaining examples of sales across the range of SPCA customers to examine the different trade rates and rebates recorded for each of them. For each bundle of documents both the invoice amount, discount and rebate terms were cross-checked to the data provided in appendix A4 and was found to be complete and accurate.

SPCA demonstrated how the data provided in appendix A4 of the application matched the data recorded in the Business Objects system by obtaining a download of sales from Business Objects then filtering the report by product and customer. The Commission witnessed the data figures correlating with the information provided in A4 and then matching to specific invoices.

6.5.1 Export sales

SPCA indicated that export sales were [redacted] tonnes during 2012. These export sales consisted mostly of the smaller multi-serve fruit packs outside the scope of this investigation. Some amounts of canned peaches and plastic container packs are exported to New Zealand, South East Asia and the Middle East. The biggest export market for SPCA is Japan. SPCA advised that most export sales were made at a loss and that the company was moving away from this avenue of sales.

The Commission did not examine these sales however SPCA interrogated its Business Objects data warehouse to demonstrate the levels of international sales since 2009. The sales volume over this period was insignificant.

6.5.2 Completeness and relevance of sales data – conclusion

We consider that SPCA's sales in Appendix A4, is a complete, relevant and accurate reflection of the sales of prepared or preserved peach products during the investigation period. Following the verification visit, SPCA provided sales information to June 2013 in the same format as that verified.

Accordingly, we consider the SPCA's sales data is suitable for analysing the economic performance of its prepared or preserved peach products operations from 1 January 2009 to 30 June 2013.

7 COST TO MAKE AND SELL

7.1 General

SPCA uses standard costing for the production of the goods. Due to the goods manufacturing occurring over a three month period, the standard costs are set once based on the past year's performance and anticipated prices for inputs and budgeted volume.

The standard cost is broken into two distinct parts. The first part is the manufacture of the bright can, and the second is the labelling process. The standard cost represents the costs of goods manufactured.

We were advised variances are charged to the balance sheet and reversed and charged to the goods when sold. SPCA indicated that in recent years the input costs have been relatively stable. The biggest issue indicated by SPCA is the reducing volume, which increases the overhead unit cost allocated in the bill of materials.

7.2 Verification of cost to make and sell data to audited financial statements

To assess cost to make and sell data for completeness and relevance, verification to audited financial statements was undertaken. Data extracted from SPCA's Business Objects system was produced and cross matched to the consolidated income statement at confidential attachment 8. SPCA demonstrated further filtering of the business objects system to obtain the data specific to peaches that was included in appendix A6 and how amounts were allocated to remove other products from the data provided.

Further analysis was then conducted on a more detailed level. Within each cost specific category, transactions and amounts were selected, and SPCA was asked to provide source documents to support the particular figures. Individual CTMS categories and the verification applied to them are examined below.

7.3 Production volumes

SPCA prepared the cost to make in Appendix A6 using the Australian sales volumes. We asked to confirm actual production volumes. SPCA provided a breakdown of total fruit production by variety for the years 2009 to 2012 downloaded from Business Objects. (**confidential attachment 12**). This report provided total BQs which the Commission then converted to tonnes using the required formula.

SPCA indicated that each time a production run of a particular good is made it becomes a work order. During 2012, the production volume was [redacted] tonnes (confidential attachment 12). SPCA also advised it uses another measure in the production process – BQ. BQ is an industry standard volume used throughout SPCA's accounting system. It is based upon twenty four 825g cans, which totals 19.8 kg. At confidential attachment 12 we saw a total of [redacted] BQs manufactured in 2012.

7.4 Raw materials

SPCA advised that it had prepared the data in Appendix A6 using standard costs. To test the standard costs presented we asked SPCA to show us a Bill of Materials (BoM) for the 825g can, which is the biggest seller by volume, so that we could test the reasonableness of the standard costs.

SPCA provided two BOMs (see **confidential attachment 13)** as follows:

Style	Bright CTM / can	Finished CTM / can
Sliced 825g	[redacted]	[redacted]
Sliced 1kg plastic	[redacted]	[redacted]

The BoM showed that the most significant raw materials by value are the raw peach purchases and the tin cans. We chose to focus our verification on the 825g can.

<u>Peaches</u>

The BoM showed that one 825g can of processed peaches requires [redacted] of raw peaches, including the weight of the stone, skin and other waste product. The scrap factor used by SPCA to account for these waste items is [redacted].

The BoM for the 825g can for 2012 showed that the cost of peaches was [redacted] per tonne. We confirmed that the unit cost of peaches shown in the BoM is the application of the formula for the weight of peaches required ([redacted])).

SPCA showed us the spreadsheet used to determine the [redacted] per tonne rate (**confidential attachment 14**). The total price is comprised of the price paid to the grower plus transfer costs plus storage costs. SPCA do not pay for damaged fruit. At the point of tipping the fruit at the SPCA manufacturing plant, the total volume is entered into the accounting system. When the fruit is removed from cold store a variance is raised for issues such as undersized fruit, discoloured or blemished fruits and evaporation.

During 2012, SPCA purchased [redacted] tonnes of peaches. Peaches are sourced from multiple farms throughout the production season. SPCA provided a snapshot from the delivery growers report for the years 2009 to June 2013 which corresponded to the figures provided in appendix A7. See **confidential attachment 15.**

To demonstrate the volumes purchased, we asked SPCA to provide a schedule of total peach purchases during the year and to provide evidence of one purchase and evidence of payment. We selected the month of February 2013 to examine peach purchases, a delivery docket for that month was selected and we asked to see the the corresponding purchase invoice. We were informed that SPCA prepares the invoice in these circumstances, it is a recipient created invoice within their system. We were able to trace the delivery docket number from the intake report to the invoice. See **Confidential Attachment 16**. The Commission notes that the cost recorded on the supplied invoice per tonne was [redacted] plus [redacted] cartage. This was very close to the standard cost used of [redacted].

Containers

SPCA has one supplier for all cans – [redacted] – and requires 12 different vessel types. The types include unlined, ring pull tops, standard tops and 410g and 825g size cans, together with 1kg plastic containers. SPCA pay suppliers directly for the materials required and Visy only carry out the manufacture. The price of cans can fluctuate due to currency exchange rates and commodity prices for the raw materials.

The standard cost of the can on the BoM includes an allowance for scrap due to damanged cans. The standard cost is determined by the Procurement department ahead of the production season and a purchase price variance is maintained to account for any differences between planned and actual costs.

To verify containers we asked SPCA to provide a schedule of can purchases incurred during the investigation period. SPCA provided this. From this we selected three can purchases and asked to see the invoice and evidence of payment. SPCA provided copies of tax invoices from the supplier, delivery dockets and evidence of the receipted entries being entered into their system. See **confidential attachment 17**.

Juice

The juice used in canned peach products is usually [redacted], although it can contain some [redacted] and very occasionally [redacted]. SPCA advised that [redacted] so this assists in being able to produce juice when required. The juice is produced from non-canning grade fruit and re-graded fruit (ie fruit that was not suitable for use as the primary product).

Juice has its own BoM as it is a product in its own right. The cost of juice on the peaches BoM represented approximately [redacted] of the total cost to make so we did not pursue any further verification of the juice cost.

7.5 Overheads

SPCA showed us the spreadsheet it uses to allocate overheads against all production (**confidential attachment 18**). All deciduous fruit is allocated the same overhead rate per unit. SPCA recovers [redacted] of its overhead costs at bright stage and the remaining [redacted] at the packing stage. This historical apportionment is based on the actual costs incurred at each stage.

Overhead is allocated based on the estimated volume of throughput for each product. We worked through the spreadsheet and could see how overhead was built up for peaches by each overhead item. We could match the total overhead rate for peaches from the spreadsheet to the overhead rate shown in the BoM.

7.6 Direct Labour

SPCA advised that the labour BOM standard has been revised for the 2013 rates. The need to review the standard has arisen because of lower volumes being produced in recent years. Throughputs have decreased therefore work centres have been revised. SPCA feels that it is not utilising capacity and so the labour rate per unit has increased. The labour standard rate in the BoM is based on the number of hours consumed per can produced. SPCA showed that the current rate the plant is running at for production purposes is [redacted] hours per unit, which translates to a labour standard amount of [redacted] per can.

To make the goods to the bright can stage, SPCA indicated [redacted] staff are required for each of the shifts, either or two or three per day depending on production demands. We were informed additional staff are employed but due to their specific functions being applied across many products, the actual staff required was not easy to identify. These activities include for example maintenance staff, labelling staff, R&D to name a few.

SPCA explained there are three drivers to establish direct labour rates:

1. fruit tonnes, which is used for costs associated with the fruit preparation;
2. throughput for processes that are specific to an output line in the production process; and
3. BQs, which is used for labour costs that are shared across multiple products.

Pay rates and throughput are reviewed and updated each year to update the standards to ensure they are as accurate as possible and variances are minimal.

7.7 Depreciation

The depreciation charge for the 2012 calendar year was [redacted] See **Confidential Attachment 19**. SPCA provided a reconciliation of this depreciation to the balance sheet for 2012.

Not all assets can be distinctly identified as belonging to a manufacturing process for an individual product. SPCA allocates assets individually to the extent it can. For those assets that are common across a number of products, depreciation is allocated based on production volume.

Confidential attachment 18 shows the various allocations of depreciation made to each product. We traced the standard values in this schedule back to the BOM at confidential attachment 13.

7.8 By products

SPCA indicated that due to the manufacture of the goods an amount of by-product is created after the removal of the stone and skins of the fruit and partially re-introduced in the form of juice, and or paste. Not a lot of peach by-product gets reintroduced in the production process. Stones and peel are pure waste product and can't be reused. Stones are sent back to farms. The peel is unrecoverable as it has been through a caustic peeling process so it is sent to waste. Usuable peach by-product is sent for juicing. Usuable peach product includes small sized fruit and discoloured peaches.

7.9 Variances

SPCA demonstrated how variances are calculated and recorded to adjust standard costs when calculating actual costs for reporting. SPCA provided a copy of variance to standard costs summary for 2011 to 2013 for peaches (**confidential attachment 20**).

As discussed above, SPCA reported its costs on Appendix A6 at standard. The only variance incorporated into Appendix A6 is overhead variances. SPCA demonstrated, by reference to different efficiency variance reports, how the other variances to standard were calculated. The variance components that contribute to the variance total are:

- material efficiency variance;
- labour efficiency variance;
- labour rate variance;
- peach purchase price variance (PPV);
- cans & ends PPV;
- jars, cups & caps PPV; and
- peach disbursement.

SPCA took us through the calculation of the main variances for 2012.

<u>Material efficiency variance</u>

This variance item excludes any PPV and Weighted Average Cost Variance (WAC). WAC relates to if a decision is made to change location of the production of a product from one site to another and the standard costs are different. This did not apply to production of the GUC at any time during the injury analysis period.

The total material efficiency variance in 2012 was [redacted]. The amount allocated to actual production of canned peaches was [redacted].

<u>Peach PPV</u>

By filtering on the total variance data SPCA demonstrated that the total of the three codes used for peaches was [redacted] variance of [redacted]. SPCA demonstrated that it took in [redacted] tonnes of peaches for use in all peach products it produced. A further filter showed that of this, [redacted] tonnes related to the GUC. This represents 41.5% of total intake. Therefore [redacted] variance of around [redacted] relates to the GUC.

<u>Cans and ends PPV</u>

SPCA showed us that the total cans and ends PPV in 2012 was [redacted] variance of [redacted]. From another report SPCA demonstrated that the total volume of cans consumed during the period was [redacted] units. By using a filter we could see that the volume related to the GUC was [redacted], or [redacted]. Therefore [redacted] variance of around [redacted] relates to the GUC.

Jars and cups PPV

SPCA showed us that the total jars and cups PPV in 2012 was [redacted] variance of [redacted]. From another report SPCA demonstrated that the total volume of jars and cups consumed during the period was [redacted] units. By using a filter we could see that the volume related to the GUC was [redacted], or [redacted]. Therefore [redacted] variance of around [redacted] relates to the GUC.

Labour

The actual total labour spend in 2012 was [redacted] to bright stage and [redacted] to packed stage. Actual labour spend is booked to individual work orders based on what has been booked to each work centre.

The labour variance comprises two items – efficiency variance and rate variance. By filtering on the data in the variane report we could see that the total labour variance relating to the GUC was around [redacted]; however the efficiency variance component of this is already picked up in work orders that were used to apportion it directly to the GUC. The labour rate variance to be allocated was demonstrated as [redacted].

Disbursement

When peach product is received at the manufacturing facility it is sampled. Some is rejected and some is re-graded to non-canning fruit. The grower is paid at this point based on an assessment of the fruit quality and the fruit is sent to cold store. When the fruit is removed from cold store and tipped at production point, the actual canning/non-canning weight is calculated. The payment resulting from this assessment is compared to the original payment and the difference is sent to a Disbursement Variance account.

SPCA showed us that the disbursement variance is coded to accounts 3526 and 3527 in the chart of accounts. The total disbursement variance in 2012 was around [redacted]. By filtering on the data SPCA showed us that the total for all peach products was around [redacted] (canning and non-canning peaches). SPCA multiplied this by [redacted] (proportion of GUC) to arrive at an unfavourable disbursement variance of around [redacted] for the GUC.

Subsequent to the visit SPCA provided an analysis of the variances during the injury analysis period. Although the net variances in each year are minor in nature when compared to actual costs, because SPCA has prepared the data for variances in each year we consider it appropriate to apply those variances to the standard costs presented in Appendix A6 to determine a more accuate measure of actual costs.

7.10 Accuracy of production costs - conclusion

Having regard to all of the above we consider the production cost data provided is a reasonably accurate account of the actual costs to manufacture prepared or preserved peach products during the period from July 2012 to 30 June 2013.

7.11 Verification of selling, general and administration costs to source documents

To assess selling, general and administration cost data for accuracy, verification to source documents was undertaken together with upwards verification to the financial statements.

7.11.1 Direct Marketing Expense

We were informed this expense category relates to branding for the company as a whole rather than specific promotion of the goods. SPCA, through its Business Objects, showed all the costs associated with this category. See **Confidential Attachment 21.** Due to the nature of the expenditure, SPCA apportioned this as a per cent of net sales revenue and demonstrated on their system how the amounts were calculated and allocated. See **confidential attachment 22.** The total expenditure of this category was reconciled to the consolidated profit and loss statement for 2012. The figures match to **confidential attachment 23**.

SPCA advised us that it only recently started to capture this expenditure by brand, hence for the purposes of the Appendix A6, a percentage methodology was applied.

7.11.2 Distribution

SPCA sells the goods on FIS terms. To calculate the distribution expense in Appendix A6, SPCA applied the standard rate and applied an adjustment to reflect the variance to standard costs and multiplied the adjusted standard rate by the volume of BQ's.

During 2012, [redacted] BQs were sold. The standard distribution rate was [redacted] per BQ but [redacted] variance of [redacted] (**confidential attachment 24**) was applied bringing the actual distribution rate per BQ to [redacted].

7.11.3 Indirect expenditure

Indirect expenditure is a number of expenses occurred mainly at the head office. SPCA again used the net sales revenue approach to apply the indirect expenses. We examined the total expenditure and found more than half to be [redacted]. SPCA provided a print out from the Business Object system showing an example of indirect expense categories and how they reconcile to the trial balance. (**confidential attachment 25 and 26**).

7.11.4 Finance

Finance expenditure relates to bank charges and interest amounts and are provided by the parent company CCA then applied based on NSR. Other expenses include corporate charges and foreign exchange variances. SPCA advised that CCA hedge some product purchasing, on items such as sugar or tin plate for the canning requirements. Hedging activities conducted by the group's head office within CCA and not by SPCA and are based on total product needs not by product level.

7.11.5 Accuracy of selling, distribution and administration costs - conclusion

Having regard to all of the above we consider the selling, distribution and administration cost data provided is a reasonably accurate account of the actual costs to sell prepared or preserved peach products during the period from 1 July 2012 to 30 June 2013.

7.12 Costs to make and sell – conclusion

We consider that SPCA cost to make and sell data in Appendix A6, is a reasonably complete, relevant and accurate reflection of the actual costs to manufacture and sell prepared or preserved peach products during the period from 1 July 2012 to 30 June 2013.

Accordingly, we consider the SPCA cost to make and sell data in Appendix A6 are suitable for analysing the economic performance of its prepared or preserved peach product operations from 1 July 2012 to 30 June 2013.

8 ECONOMIC CONDITION

8.1 Applicant's injury claims

SPCA alleges it has suffered material injury caused by prepared or preserved peach products exported to Australia from South Africa at dumped prices.

SPCA claims it has been injured through:

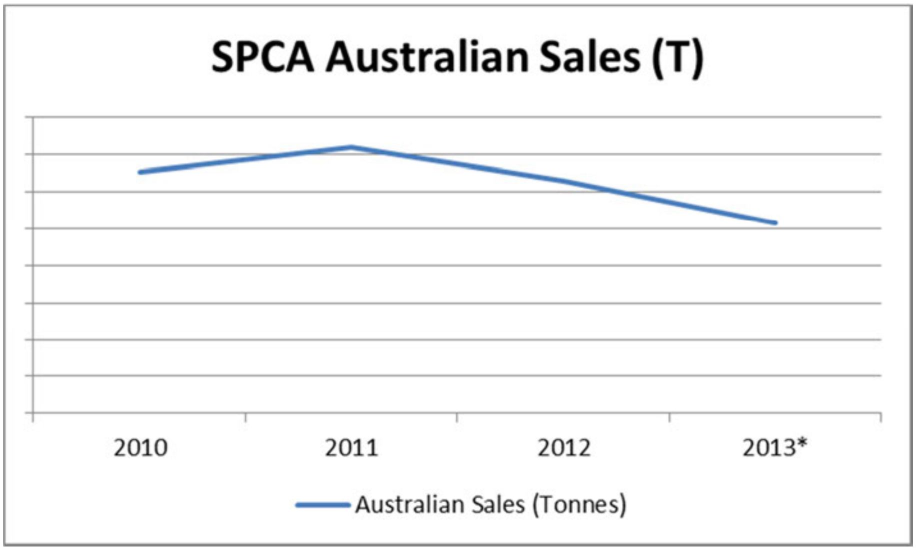
- loss of sales volume;
- reduced market share;
- reduced revenues;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced return on investment and loss of economies of scale associated with processing operations; and
- reduced capacity utilisation

8.2 Commencement of injury, and analysis period

SPCA indicated the that injury has been occurring since the 2009 calendar year.

8.3 Volume and market share trends

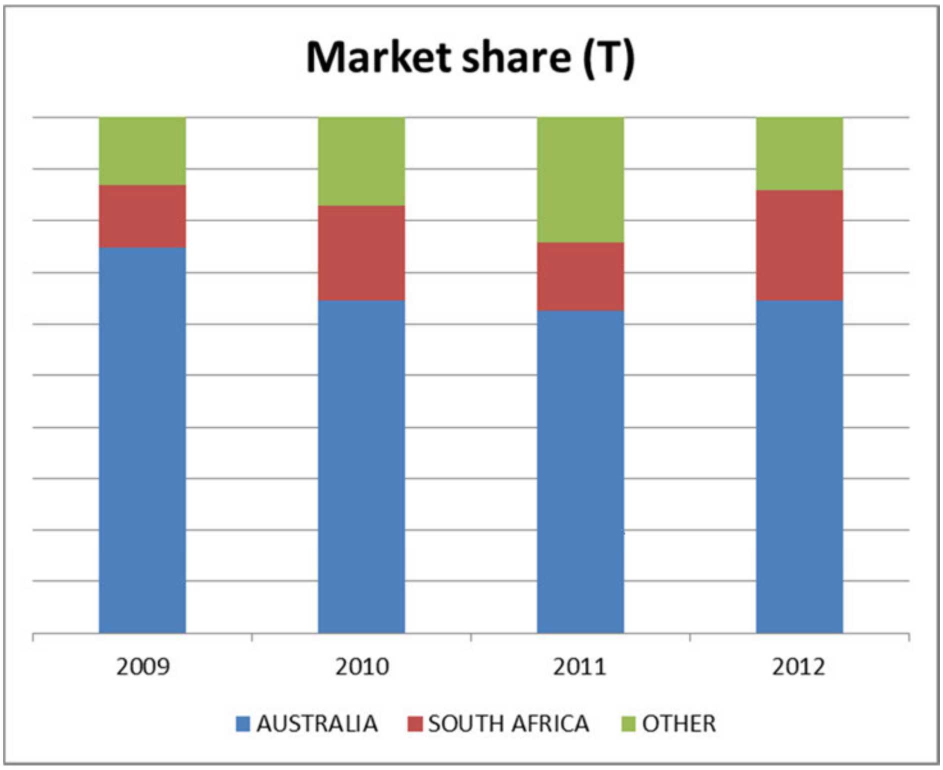
The following graph shows SPCA's domestic sales volumes for peaches for calendar years 2009 to 2013.



* 2013 figure has been annualised as data obtained only available to June 2013

This graph shows that SPCA's domestic sales volumes of peaches have decreased overall over the injury analysis period.

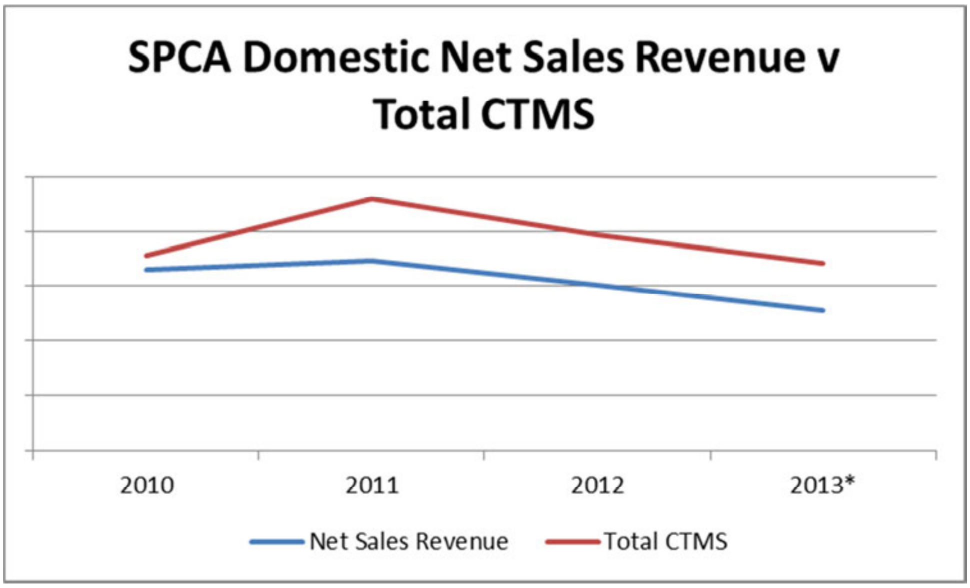
The following graph shows SPCA's market share over the injury analysis period. The graph shows that SPCA has lost market share over the period, although its market share between 2010 and 2012 has remained relatively constant.

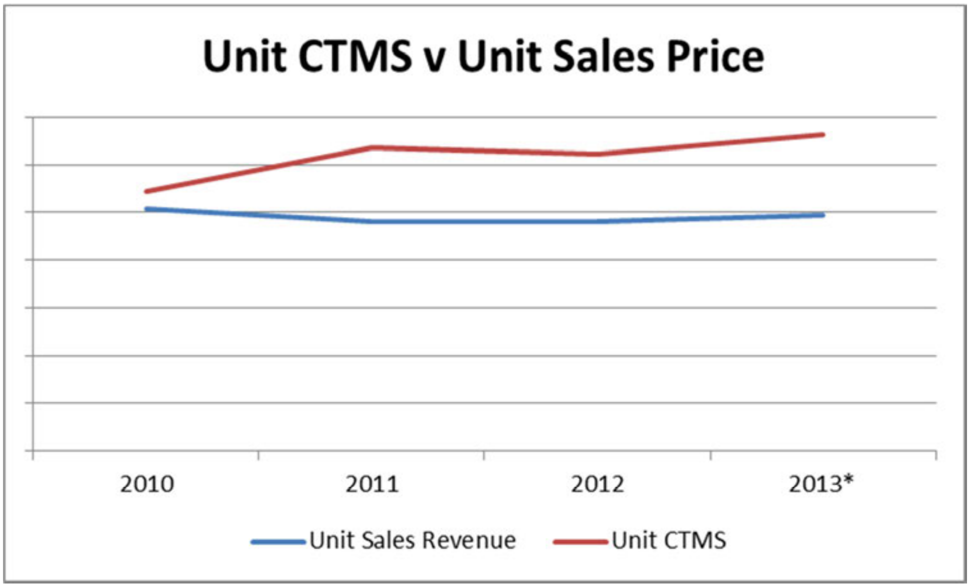


8.4 Price suppression and depression

Price depression occurs when there is a reduction in prices. Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

The following graphs show the movements and relationships of SPCA's net revenue and cost to make and sell (CTMS) for peaches from CY 2010 to 2013. The first graph depicts total net revenues and total CTMS, while the second shows unit prices and unit CTMS.





*2013 figures have been annualised as data was only available to 30 June 2013.

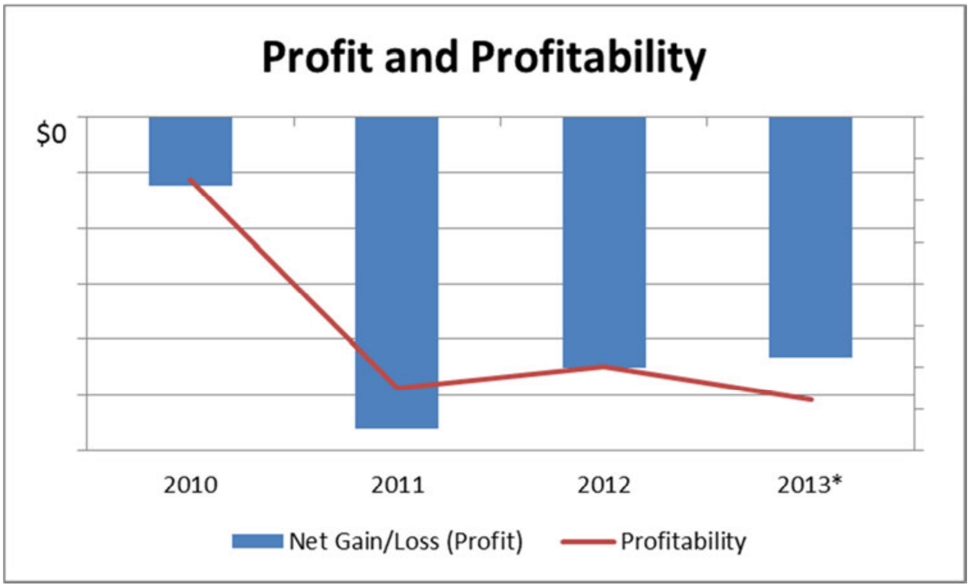
The graphs show that unit prices have remained relatively constant over the investigation period while total net revenues have fallen. Unit costs have increased and total costs have remained in excess of total revenue. The graphs support SPCA's claims of price suppression, however, given the relatively stable unit price demonstrated in the graph above, the Commission cannot conclude a finding of price depression on this basis. SPCA did however provide evidence of contract negotiations it has had with [redacted] [details of contract negoitations – customer and outcome] as contracts were renewed. SPCA also stated that in 2013 it has reduced its spending on promotional activities, which has the effect of increasing the net price received per unit. The Commission will continue to analyse data relating to unit pricing as the investigation continues.

8.5 Price undercutting

Price undercutting occurs when imported product is sold at a price below that of the Australian manufactured product. SPCA's claim of price undercutting will be assessed when visits to importers are completed.

8.6 Profits and profitability

The following graph shows movements in SPCA's total profits and profitability (profits measured as a percentage of revenue) for peaches from CY 2010 to 2013 (note that 2013 figures have been annualised as the data provided was to June 2013).



This graph shows a significant increase in SPCA's losses between calendar years 2010 and 2011 with some improvement in 2012 and 2013. Profitability has declined in 2013.

8.7 Other economic factors

SPCA completed an Appendix A7 for prepared or preserved peach products from calendar years 2010 to 2013.

<u>Assets</u>

SPCA indicated the value of assets in the production of prepared or preserved peach products decreased during the calendar years 2010-2013.

The value of the assets presented in the Appendix A7 represents the whole company. Whist the Commission can see a reduction of assets from a company-wide perspective; SPCA could not separate the specific assets for the production of the goods. Accordingly the Commission cannot confirm if injury has occurred in the form of reduced assets.

<u>Capital investment</u>

SPCA indicated the value of capital investment in the production of prepared or preserved peach products decreased during the calendar years 2010-2013.

The value of the capital investment presented in the Appendix A7 represents the whole company. Whist the Commission can see a reduction in capital investment from a company-wide perspective; SPCA did not separate the specific components for the production of the goods. Accordingly the Commission cannot confirm if injury has occurred in the form of reduced capital investment.

Revenue

Revenue from prepared or preserved peach products decreased overall from 2010 to 2012.

Capacity

The production capacity in relation to peaches remained constant over the period. The Commission asked what the basis for the capacity figures provided. SPCA advised that this data has been provided using historical information as a basis factoring in the number of lines available within the plant and amounts that SPCA had been able to produce in the past.

Capacity utilisation

Capacity utilisation in relation to production of peaches fluctuated over the period but decreased overall. SPCA supported the figures provided for capacity utilisation with evidence of actual fruit quantities that had been delivered and processed over the injury analysis period (confidential attachment 15).

Employment

SPCA advised that it previously ran the production shifts at Shepparton with [redacted] staff employed each shift. That number has been reduced to [redacted] per shift due to increased efficiency and increased reliance on automated sorting technology. In 2011, [redacted] permanent staff were made redundant as a result of restructuring operations. SPCA provided a copy of the notes from the board meeting as evidence of these layoffs (**confidential attachment 27**).

Stocks

SPCA indicated decreasing stock with the value falling approximately [redacted] since 2010. SPCA explained that it has been forced to write off increasing levels of stock over the injury analysis period. SPCA has a sales strategy which centres around the retail sales level, then if there are excess stock supplies, SPCA looks to distress channels to sell excess stock amounts. When they have reached sales capacity to that market segment, SPCA will then donate product to local pig farmers before being forced to plow out of date stock that cannot be sold or donated into the ground, creating massive stock write offs. SPCA advised that an amount of [redacted] of stock has been written of over the last [redacted].

8.8 Conclusion

Based on an analysis of the information obtained and verified during our visit, we consider that the company has experienced injury in the form of:

- loss of sales volume;
- reduced revenues;
- price suppression;
- reduced profits;
- reduced profitability; and
- reduced capacity utilisation.

9 CAUSAL LINK

We discussed with SPCA whether the alleged dumping of imported prepared or preserved peach products can be demonstrated to be causing material injury to the Australian industry.

9.1 Price effects

The market in which the goods are sold is dominated by four large supermarket chains. Approximately [redacted] of the goods are sold to the retail consumer via this supply chain. Given the volume of retail customers, the major supermarkets dominate the marketing of the goods. In recent years the major supermarkets, in particular [redacted] have increased the proportion of goods sold under their own label. SPCA is able to determine from the Aztec data that the volume sold under these private labels is a significant portion of supermarket sales. The Commission also observed this finding upong reviewing the Aztec data supplied.

SPCA advised it is fully aware of the pricing dynamics, including price setting criteria, limitations and required margins, of the supermarkets as it tenders for business to supply the supermarket's private labels. On the occasions that SPCA does not win the tender, it analyses the failed tenders via an examination of the final shelf prices of the winning tender and a deduction for supermarket margins and logistics. Price analysis and feedback often has been that the price offer by SPCA as being too high. It has been advised by the supermarket chains that quality is not an issue.

<u>Tenders</u>

SPCA provided copies of both successful and unsuccessful tender bids it has participated during the injury analysis period. SPCA provided tender documentation (confidential attachment 4) for the following products:

[redacted]

Of these products tendered for, SPCA was successful for all except the Coles Smartbuy and Woolworths Homebrand range.

SPCA also provided documents for an older tender it had provided to Coles in February 2009 which showed SPCA had been successful in tendering for supply of the following products to Coles:

[redacted] SPCA no longer supplies the [redacted] These products are now sourced from overseas, as is the [redacted] peach range.

Shelf Positioning

Shelf location on the supermarket shelves is of paramount importance. Top and bottom shelves are inferior to the middle shelves, which are at eye height. SPCA products have slowly been moved to either the top or the bottom shelf and are being replaced by the supermarket's private label goods. When negotiating sales contracts with the major supermarkets, companies have limited say on where their product will be placed on a shelf. SPCA feel that this removal of their products from the mainstream shelving levels has contributed to falling sales volumes.

As the supermarkets have increased the presence of its private labels they have also dominated the marketing of the goods by label, location and price.

From the Aztec market data, SPCA has provided the following graphs showing the difference in price between the Home Brand/Smart Buy level 825g peach cans and the SPCA 825g peach cans, and the 1kg plastic peach containers sold by SPCA and the private label brands. SPCA maintain that supply of generic brand labels is being lost to imported products because SPCA is unable to compete with such low prices. SPCA claims the product cannot be manufactured in Australia for the price the imported products are being sold at on the shelves.

> [Confidential graphs shows retail price of imported peach products significantly below that of the SPCA product throughout the injury analysis period.]

Due to the pricing structure and the price elasticity of the goods, any price movement in one of the price categories will impact the volume sold in another. SPCA argues that the pricing categories are set around the premium private labels of the supermarkets.

SPCA submitted that there is no significant geographic or product segmentation of the GUC. Price is the key purchase criteria. SPCA provided [redacted] scan data showing the comparison of price versus units purchased of several different peach products (confidential attachment 3). The data showed a direct correlation between reduced prices by way of weekly specials and increased sales, indicating consumers switching between SPCA's peaches and imported peaches based on price.

To compete in the supermarket retail space SPCA need to spend a significant amount on promotions. To this end SPCA's promotional spend has increased from [redacted] in 2010 to [redacted] in 2012. Each promotion helps improve sales volumes, but it erodes the margins achieved on the goods.

9.2 Volume effects

SPCA indicated that the falling sales volumes it has experiencd is a reflection of the increase in cheaper priced imported goods being obtained by the supermarkets instead of sourcing SPCA products.

As the overall market size increased over the 2010 and 2011 period, SPCA's share of that market decreased from [redacted] in 2009 to [redacted] in 2011. SPCA retained its market share during the 2012 calendar year.

9.3 Factors other than dumping

SPCA indicated that the exchange rate has also had an impact on its sales. A stronger Australian dollar has made it more attractive to seek supply from overseas. SPCA considered that the import volume from countries other than South Africa has declined due to the competitive pricing of the South African prepared or preserved peach products. Customs and Border Protection's import data indicates that whilst imports from other countries increased at the expense of South African imports during 2011, imports from South Africa regained those sales volumes from other countries during 2012.

As previously discussed, sales of peaches at the retail level are highly sensitive to price movements. In SPCA's view, significant price reductions on certain labels are more attributable to the import prices being dumped than the effect of the exchange rate.

10 UNSUPPRESSED SELLING PRICE

At the verification meeting we informed SPCA of the Commission's approach to establishing an Unsuppressed Selling Price (USP), which follows one of the following methodologies:

1. market approach – industry selling prices at a time when the Australian market was unaffected by dumping;

2. construction approach – the Australian industry's cost to make and sell plus a reasonable rate of profit;

3. selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates a Non-Injurious Price (NIP) by deducting the most efficient importer's costs incurred in getting the goods from the FOB point at export (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, duty, insurance, into store costs and amounts for importer expenses and profit.

SPCA advised the Commission that it would provide a response at a later date with regard to the most appropriate method to calculate the USP. Following the visit SPCA provided a submission, which is available on the public record, that the USP should be based on cost to make and sell plus profit.

11 GENERAL COMMENTS

SPCA decided to pursue an anti-dumping application in response to the increasing levels of imported producted being purchased by the major supermarkets and the effect it is having on its ability to compete on the supermarket shelves. Falling demand of the SPCA peach products is having a flow on affect to SPCA's suppliers of raw peaches. Growers are predominantly located in the Shepparton region. SPCA noted that this is a critical time in the production cycle as it is approaching the time in the season when farmers must decide whether to invest funds into maintenance of their fruit trees for the next season, or whether to remove them to prevent pest disease and further financial loss.

SPCA believe that the price gap created by the cheaper imported product is too great for them to be competing against and the demise of SPCA would have a negative affect on the wider community and the region, not just SPCA employees.

SPCA acknowledges that the imposition of anti-dumping measures will not be the only action that needs to be taken in order ensure the longevity of the company, however, it does believe that by seeking anti-dumping measures, if dumping is found to be present in the market place it will greatly assist with providing reassurance to growers that SPCA can continue with the possibility for increases in the demand for and prices of raw peach product in the future.

12 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Factory layout diagram
Confidential Attachment 2	Woolworths shelving layout plan
Confidential Attachment 3	NAT Woolworths scan data showing correlation between price reductions and increased sales volumes
Confidential Attachment 4	Supply contracts
Confidential Attachment 5	Promotional spend documents – Feb 2012 and Feb 2013
Confidential Attachment 6	Aztec Peach data - sales market share proportions
Confidential Attachment 7	Case & Coop discounting effects example
Confidential Attachment 8	Consolidated income statement
Confidential Attachment 9	Business objects revenue report
Confidential Attachment 10	Business Objects report for peaches COGS & distribution by BQ
Confidential Attachment 11	Selected domestic sales invoices
Confidential Attachment 12	Total fruit production by variety
Confidential Attachment 13	Bill of Materials
Confidential Attachment 14	Standard cost of peaches
Confidential Attachment 15	Fruit intake report – delivery by growers
Confidential Attachment 16	Delivery docket for peach purchases
Confidential Attachment 17	Evidence of can purchases
Confidential Attachment 18	Manufacturing overhead applied
Confidential Attachment 19	Depreciation charge
Confidential Attachment 20	Variance to standard costing summary
Confidential Attachment 21	DME total spend 2012 reconciled to trial balance total
Confidential Attachment 22	Direct Marketing Expense
Confidential Attachment 23	SPCA consolidated income statement to year end 31 December 2012
Confidential Attachment 24	Total company P&L showing A6 calculations & variances
Confidential Attachment 25	Indirects reconciliation to trial balance

Confidential Attachment 26	Indirects total O/H spend 2012 reconciliation to trial balance
Confidential Attachment 27	Board meeting lay off memos
Confidential Attachment 28	Price Sensitivity analysis