

The Director
Operations 1
Anti-Dumping Commission

Received:
27 February 2015

BY EMAIL ONLY operations1@adcommission.gov.au

Dear Director

Submission concerning the investigation into the alleged dumping of PREPARED OR PRESERVED TOMATO PRODUCTS exported to Australia from Italy by Feger Di Gerardo Ferraioli S.P.A. and La Doria S.P.A. (Anti-Dumping Notice No. 2015/05)

Conga Foods Pty Ltd (ABN 96 327 180 764) (Conga Foods) makes this submission in its capacity as an importer of prepared or preserved tomato products exported to Australia from Italy during the relevant investigation period (1 January 2014 to 31 December 2014).

Specifically, Conga Foods imports from Italy tomatoes prepared or preserved in cans of 400 and 800 gram net weights under the following brands from La Doria S.P.A.

- Val Verde and
- Sole Natura

Further, Conga Foods imports the following product profiles:

- Tomatoes;
- Gourmet tomatoes;
- Tomatoes plus value added components; and
- Cherry tomatoes,

across the following cut profiles:

- Diced;
- Peeled;
- Whole; and
- Crushed.

Conga Foods makes the following comments concerning the investigation of prepared or preserved tomato products exported to Australia from Italy by La Doria S.P.A. following the application of SPC Ardmona Operations Ltd (SPCA) , and the Anti-Dumping Commission's Consideration Report (No. 276).

Conga Foods does not have any dealings with Feger DI Gerardo Ferraioli S.P.A.

The “Goods” and “Like Goods”

Conga Foods considers that there is a fundamental difference in the physical characteristics and ingredients of the imported and locally produced product, such that in some case the Australian produced product does not have characteristics that are identical or closely resembling the imported goods under consideration.

For example, the company provides the following source, size and ingredient details for the following products:

| Characteristics | Ardmona Tomato Rich & Thick Classic | Ardmona Tomatoes Chopped No added salt | Woolworths Select Tomatoes Diced Italian |
|------------------------|--|---|---|
| Country of Origin | Australia | Australia | Italy |
| Container size | 410 g | 400 g | 400 g |
| Ingredients | | | |
| Tomatoes | 60% | 60% | 60% |
| Tomato Juice | ✓ | ✓ | ✓ |
| Tomato paste | 10% | ✗ | ✗ |
| Maize Thickener | ✓ | ✗ | ✗ |
| Firming Agent | ✓ | ✓ | ✗ |
| Food Acid | ✗ | ✓ | ✓ |
| Source | NON-CONFIDENTIAL ATTACHMENT A | NON-CONFIDENTIAL ATTACHMENT B | NON-CONFIDENTIAL ATTACHMENT C |

In this example, Conga Foods asserts that the significant use of tomato paste in “Ardmona Tomato Rich & Thick Classic” changes its physical characteristics such that it has qualities more closely resembling a sauce, not prepared or preserved tomatoes. Conga Foods noted that sauces are not the goods under consideration (GUC), and as such can neither be considered “like goods”.

Accordingly, it is inappropriate for the Anti-Dumping Commission to assess material injury in terms of these products that are not “like goods” to the GUC.

Further, there is strong market identification with the “Roma” tomato which does not have characteristics closely resembling the Australian “like goods”. The quality (firmness), juice brix (sugar content) and taste are significantly different from the Australian tomato. Therefore, Conga Foods submits that the Australian “like goods” are not identical or have characteristics closely resembling the prepared or preserved “Roma” tomato product imported from Italy.

Verified cost to make and sell information

SPCA has asserted in its application, that it is the sole producer of prepared or preserved tomatoes. Conga Foods refers to the submission of Kagome Foods Australia Pty Ltd (KAGOME) to the Productivity Commission's Safeguards inquiry (18 July 2013) (**NON-CONFIDENTIAL ATTACHMENT D**), in which it made the following statements:

- Billabong Produce processes around 1,300 metric tonnes of raw tomatoes into retail packs not exceeding 1.14L in size;
- Kagome Australia produced 10,000 metric tonnes of diced tomatoes; and
- SPC Ardmona procures processed tomatoes from both Billabong Produce and KAGOME.

Kagome, in their Agricultural Competitiveness White Paper 2014 (**NON-CONFIDENTIAL ATTACHMENT E**) in fact maintain that they are the largest single grower of processing tomatoes and Australia's largest tomato processing company supplying almost 45% of Australia's domestic consumption of processing tomatoes, assisting major Australian food manufacturers including SPCA.

Whilst it is reported (**NON-CONFIDENTIAL ATTACHMENT F**) that SPCA has commenced purchasing tomatoes " for the first time in seven years " during 2014 directly from the growers, Conga Foods maintain that the Anti-Dumping Commission, in considering the cost to make and sell information, must take any third party production into account as this will impact on the accuracy and completeness of the economic injury data presented and, especially on the profit and profitability claims.

Given Kagome's statements, it is apparent that SPCA is not the sole producer of prepared or preserved tomatoes in Australia and that any supplies of processed tomatoes by Kagome to SPCA will have a direct impact on SPCA's production input costs and therefore their profitability. This also highlights a fundamental difference with Italian producers who purchase their tomatoes direct from the growers rather than through a third party processor. Surely, the Anti-Dumping Commission cannot ignore the fact that having three parties in production chain i.e. grower- Kagome-SPCA introduces competitive inefficiencies into the Australian market and must be partly to blame for the disparity in unit cost prices between Australian and Italian product.

In the white paper 2014 (**NON CONFIDENTIAL ATTACHMENT E**), Kagome also make the point that Australia represents about 1% of the world's processing tomato production and, to quote "...thus Australia is totally dependent on cost structures that operate globally and customers of Australian tomato dice, paste and passata can shop the globe for similar specifications and better prices. The key to future proofing the Australian tomato industry is managing down the in-put costs so that products are priced competitively to imported options from the USA, Europe and China unquote.

As such, unless the production and sales data of Billabong Produce (ABN 12 134 469 226) and Kagome Australia Pty Ltd (ABN 42 144 695 125) up to and including 2014 are taken into account, then the whole of Australian industry picture is unknown.

Market situation and raw materials claims

In the consideration report SPCA allege that any direct or indirect payments made to tomato growers under the EU CAP policy impacts on the normal values of tomatoes in Italy. Conga Foods asserts that any such subsidies are irrelevant to the investigation considering;

- . EU subsidies are not specific to tomatoes.
- . Australian Federal and state Governments also provides a variety of subsidies to Australian companies and farmers.
- . SPCA themselves are heavily subsidised having recently received commitments for subsidies of taxpayer funds to the value of \$22 million from the Victorian Government.

Normal Values

SPCA claims that normal values for this investigation have been established by them (Consideration report section 5.4.1) by store visits in Italy in 2013 and online shopping visits in October 2014.

Conga Foods submit as the investigation is for the calendar year 2014, store prices in 2013 are irrelevant and potentially misleading due to seasonality of crops and prices.

Online shopping is also likely to return a higher price point for a number of reasons. Firstly, prices online for grocery are often higher to account for the higher cost to serve customers (including delivery etc.). Secondly, it is more common for mainstream and premium shops to be present online but it is not generally the trend that cheap supermarket chains offer an online presence and service. Therefore, it is likely that prices online are naturally skewed to averages higher than the reality of the market.

To establish a true average price of the market, proper evidence should be provided over several months of the investigation period and in a broad range of physical supermarkets across Italy.

Injury Claims

- *Consideration report section 6.6.3. states there is no evidence to show that SPCA has suffered injury in the form of reduced sales volume. It could also be added that in 2011 (when sales volume decreased) is when the EURO exchange was particularly favourable to imports and when also SPCA costs increased (as shown in Graph 4 of 6.7)*
- *Graph 4 in 6.7 shows clearly that unit price has stay pretty flat, while SPCA unit cost has "followed a similar trend" BUT has increased more sharply and therefore opened up a gap. The Commission considers this is proof to suggest that SPCA has suffered injury in the form of price depression and price suppression. However, Conga Foods submits that;*
 - o *2014 cannot be used as a valid data point because it only includes first 6 months of 2014, and since tomatoes is a single annual crop, the market price of total market (imported + local) vs. cost price (of local) only is not a fair comparison if not done over a full 12 months...in other words, there is reason to believe seasonality is part of this analysis. An updated full year 2014 number should be demanded if this graph is to be used as evidence.*
 - o *The comparison back to 2010 is unfair because from 2011 onwards there is a great advantage to imports due to more favourable currency exchange that has caused unit price of the average entire market not to grow at the same rate as SPCA's unit cost*
 - o *Point 7.3 states that since 2010 the raw materials and labour cost for SPCA have decreased. How is it possible then that unit cost is increasing? There are two explanations: Firstly, the loss of volume in 2011 onwards established in 6.6.1 and also established by the proof of an overall declining market shown in 4.5.2. would have clearly removed scale from SPCA operations, meaning that fixed cost recovery is spread over a smaller volume, hence driving up unit cost. This is lack of scale efficiency and therefore cannot be attributed to any injury caused by alleged dumping. Secondly, increasing unit costs in the face of decreasing raw materials and labour cost could mean that the SPCA business model is inefficient – again this has nothing to do with dumping, but just implies that SPCA is the cause of its own decreasing profitability.*
- *Section 6.8 shows evidence to support that SPCA has suffered injury in the form of reduced profits/profitability. Reference to the abovementioned points of 6.7 explains section 6.8, which otherwise has introduced no new evidence to suggest this had anything to do with dumping or other competition in the market, just that SPCA is not efficient enough to compete profitably in the market.*

Factors other than dumping

(a) Appreciation of Australian dollar against Euro

The impact of the appreciation in the Australian dollar (AUD) during the injury analysis period cannot be understated. Diagram 1, below, indicates the appreciation of the period.

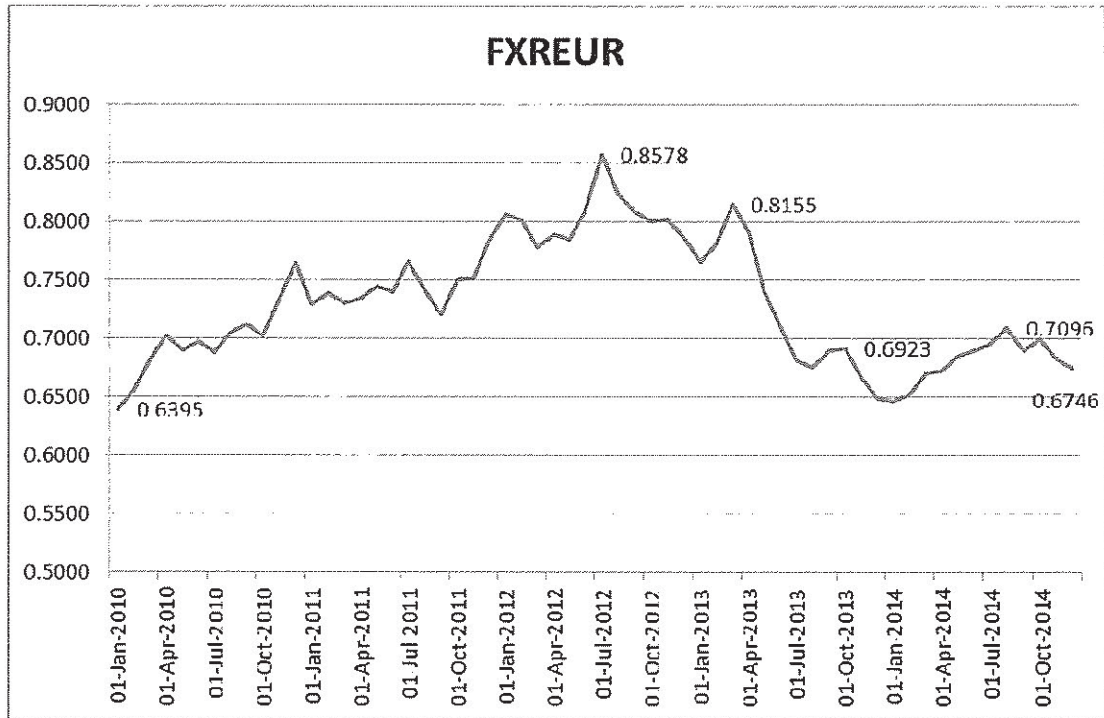


Diagram 1: AUD/EUR across injury analysis period (Source: Reserve Bank of Australia, Historical Daily Exchange Rates)

In summary, since 2 January 2010 the Australian dollar appreciated substantially over the injury analysis period resulting in a significant decline in the competitiveness of the Australian industry and correlates with the claims by the Australian industry of increased import volumes since 2010.

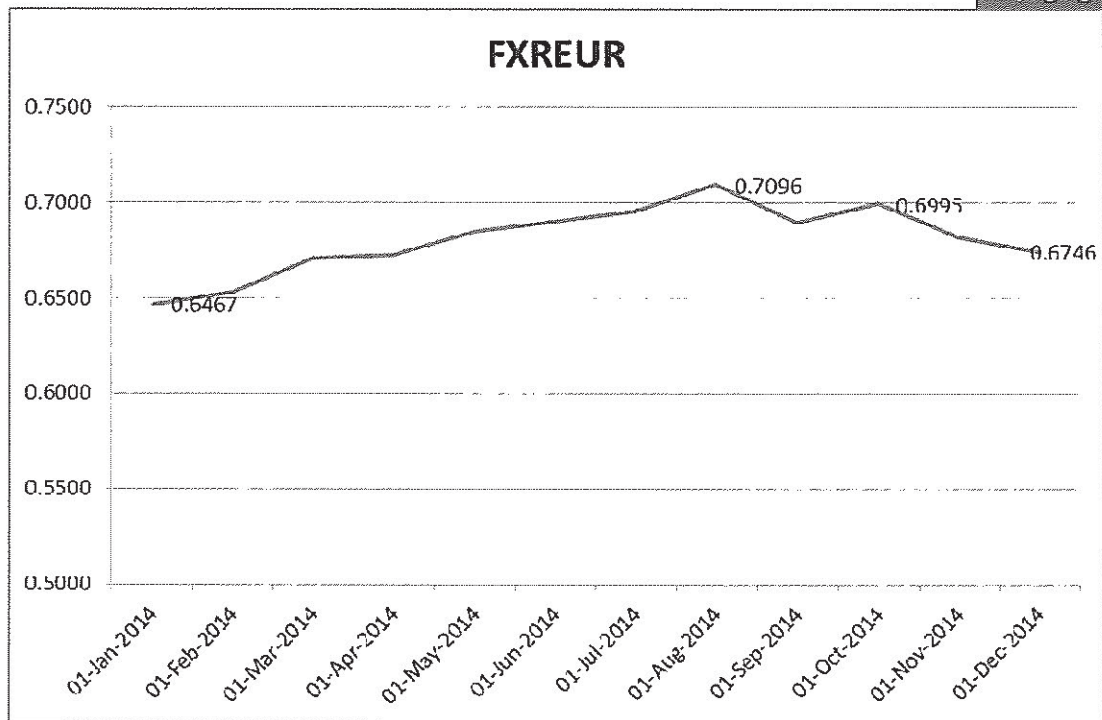


Diagram 2: AUD/EUR between 1 January 2014 and 1 December 2014
 (Source: Reserve Bank of Australia, Historical Daily Exchange Rates)

Accordingly, Conga Foods submits that any claimed economic injury suffered by the Australian industry was not caused by dumping, but by a loss of competitiveness due to the historic appreciation of the Australian dollar against the EUR during the injury analysis period.

(b) Capacity constraints

The Australian industry lacks the capacity to meet the Australian market demand for the goods.

The capacity constraints affecting the Australian industry seem largely due to the drop in the production of tomatoes for processing in 2011. This was due to adverse weather conditions, which saw the loss of a significant proportion of the crop, as Diagram 3 below illustrates:

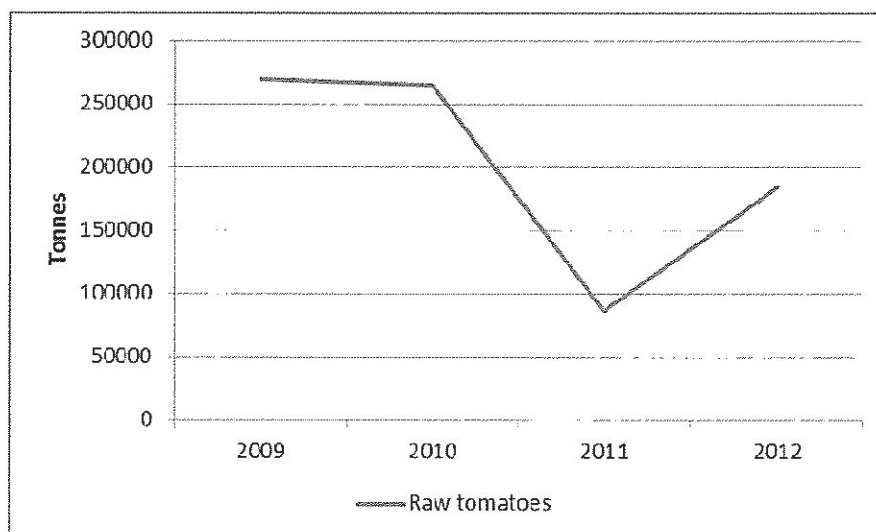


Diagram 3: Australian raw tomato production for processing (Source: Submission of the European Organisation of Tomato Industries, 17 July 2013, to the Australian Productivity Commission Safeguards inquiry)

This loss of capacity explains the significant increase in import volume reported by the Australian industry. Therefore, capacity was a significant factor causing material injury to the Australian industry.

We note that there has been a lack of examination of capacity factors in the investigation to date. This is critical to explaining import activity with the Australian market, including the import activity of the Australian industry. Conga Foods suggests that an attempt be made by the Anti-Dumping Commission to verify the grower capacity to supply the processors, including SPCA

Will the alleged injury continue?

Even if "material injury" is found to exist, which is not admitted, but expressly denied, then the decline in the value of the AUD dollar in the past year and the increases in prices of the 2013 and 2014 Italian tomato crop due to bad weather conditions and increased production costs have resulted in a rise in costs of the GUC during 2014 and 2015.

This should have resulted in a significant return of competitiveness of the Australian industry during 2014 and 2015.

Conclusion

In summary, Conga Foods submits that:

- *The Australian products are not "like goods" to the GUC, especially the prepared or preserved "Roma" tomato;*
- *Australian products containing pastes, do not have characteristics closely resembling the GUC, and should not be considered in the assessment of material injury;*
- *The Australian industry comprises of three producers (Kagome Australia, Billabong Produce and SPCA). To date, their contribution to the applicant's cost to make and sell has not been considered. The economic conditions of the Australian industry cannot be sufficiently assessed without verification of their sales, costs and production data;*
- *The appreciation of the AUD against the EUR across the injury analysis period is a factor other than dumping causing injury to the Australian industry through lack of domestic competitiveness;*
- *Devaluation in the AUD correlates with improvements in the Australian industry's economic performance;*
- *The loss of the 2011 Australian tomato crop precipitated a rise in import activity in the Australian market, including imports by the Australian industry in order to meet Australian market demand; and*
- *The reduction of the 2013 and 2014 Italian tomato crop and the devaluation in the AUD should result in a return of competitiveness to the Australian industry.*

Conga Foods asserts that the investigation should be terminated under subsection 269TDA(13) of the Customs Act 1901 (the Act), on the basis that even if there has been dumping, the injury, if any, to the Australian industry has been caused by that dumping is negligible.

Even if termination of the investigation is not made at this time, it is not appropriate in these circumstances, with the doubts surrounding the size and composition of the Australian industry to make a Preliminary Affirmative Determination under section 269TD of the Act.

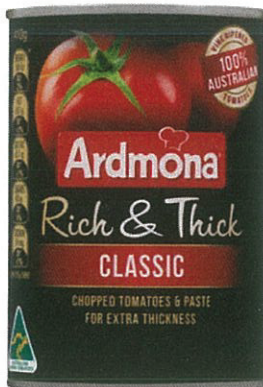
Yours sincerely



Alfred Dosa
National Purchasing Manager
Conga Foods Pty Ltd

27 February 2015

coles

TELL US YOUR LOCATION
AND GET STARTED!NO ITEMS
Your trolley is empty[View trolley](#)TOTAL
\$0.00[GO TO
CHECKOUT](#)[Home](#) ▶ [Rich & Thick Tomato Chopped Finely](#)Prices and range may differ from region to region. [Tell us your location to see your local prices](#)

Ardmona

**Rich & Thick Tomato Chopped
Finely 410g**

Code: 4515749P

Australian vine ripened finely chopped tomatoes and paste.

\$1.80

\$4.39 per 1Kg

[Add to trolley](#)[Add to list](#)[Compare](#)**Product Details****Ingredients:**

Chopped Tomatoes (60%), Tomato Juice, Tomato Paste (10%), Maize Thickener (1422), Firming Agent (509).

Servings Per Pack:

3.3

Serving Size:

125g

Storage Instructions:

Refrigerate unused contents in a sealed non metallic container.

| | Quantity per serving | Quantity per 100g (or 100mL) | % daily intake |
|---------------|----------------------|------------------------------|----------------|
| Energy | 150kJ | 120kJ | 2% |
| Protein | 1.1g | 0.9g | 2% |
| Total Fat | 0.3g | 0.2g | <1% |
| Saturated Fat | <0.1g | <0.1g | <1% |
| Carbohydrate | 6.8g | 5.4g | 2% |
| Sugars | 4.3g | 3.4g | 5% |
| Sodium | 24mg | 19mg | 1% |
| Lycopene | 21mg | 17mg | |

* Percentage Daily Intake per serving. Percentage Daily Intakes are based on an average adult diet of 8700 kJ. Your daily intakes may be higher or lower depending on your energy needs.

Usage Instructions:

Use within 5 days.

Size:

410g

Promotional Limit:

12

Country of Origin:



TELL US YOUR LOCATION
AND GET STARTED!

NO ITEMS
Your trolley is empty

TOTAL
\$0.00

GO TO
CHECKOUT

[View trolley](#)

[Home](#) ▶ [Chopped Tomatoes No Added Salt](#)

Prices and range may differ from region to region. [Tell us your location to see your local prices](#)



Ardmona

Chopped Tomatoes No Added Salt 400g

Code: 4558967P

Australian Vine Ripened Tomatoes.

\$1.40

\$3.50 per 1Kg

[Add to trolley](#)

[Add to list](#)

[Compare](#)

Product Details

Ingredients:

Chopped Tomatoes (60% Min), Tomato Juice, Firming Agent (509), Food Acid (Citric Acid).

Servings Per Pack:

3.2

Serving Size:

125g

| | Quantity per serving | Quantity per 100g (or 100mL) | % daily intake |
|-----------------------|----------------------|------------------------------|----------------|
| Energy | 138kJ | 110kJ | 2% |
| Protein | 1.3g | 1g | 3% |
| Total Fat | 0.1g | 0.1g | <1% |
| Saturated Fat | <0.1g | <0.1g | <1% |
| Carbohydrate | 6.5g | 5.2g | 2% |
| Sugars | 4.8g | 3.8g | 5% |
| Sodium | 8mg | 6mg | <1% |
| Dietary Fibre (total) | 1.5g | 1.2g | 5% |
| Lycopene | 14mg | 11mg | |
| Potassium | 285mg | 228mg | |

* Percentage Daily Intake per serving. Percentage Daily Intakes are based on an average adult diet of 8700 kJ. Your daily intakes may be higher or lower depending on your energy needs.

Size:

400g

Promotional Limit:

12

Country of Origin:


Made in Australia

NON-CONFIDENTIAL ATTACHMENT 'C'

This product is part of a [recipe](#)

Woolworths Select Tomatoes Diced Italian 400g

[Details](#)
[Ingredients](#)
[Nutrition](#)



\$4.00 / 1kg **\$1.60** 1 ea [Add](#)


While every care has been taken to ensure this information is correct, food products are constantly being reformulated and ingredients and nutrition content may change. If you have an allergy or specific dietary requirement you should always check the label of a food before consuming it. This information may not be reproduced without the prior consent of Woolworths Limited.

Tweet [g+1](#) 0 [Like](#) 0

This product is part of a [recipe](#)

Woolworths Select Tomatoes Diced Italian 400g

[Details](#)
[Ingredients](#)
[Nutrition](#)



Ingredients:
Diced Tomatoes (60%), Tomato Juice, Salt, Food Acid (330)

\$4.00 / 1kg **\$1.60** 1 ea [Add](#)


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Tweet [g+1](#) 0 [Like](#) 0

This product is part of a [recipe](#)

Woolworths Select Tomatoes Diced Italian 400g

[Details](#)
[Ingredients](#)
[Nutrition](#)



Serving size: 50.0 g
Servings per package: 5.0

| | Per serving | Per 100 g |
|--------------|-------------|-----------|
| Energy | 90.0 kJ | 112.0 kJ |
| Protein | 0.9 g | 1.1 g |
| Fat, Total | 0.0 g | 0.0 g |
| - Saturated | 0.0 g | 0.0 g |
| Carbohydrate | 3.9 g | 4.9 g |
| - Sugars | 3.6 g | 4.5 g |
| Sodium | 71.0 mg | 89.0 mg |

\$4.00 / 1kg **\$1.60** 1 ea [Add](#)

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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.

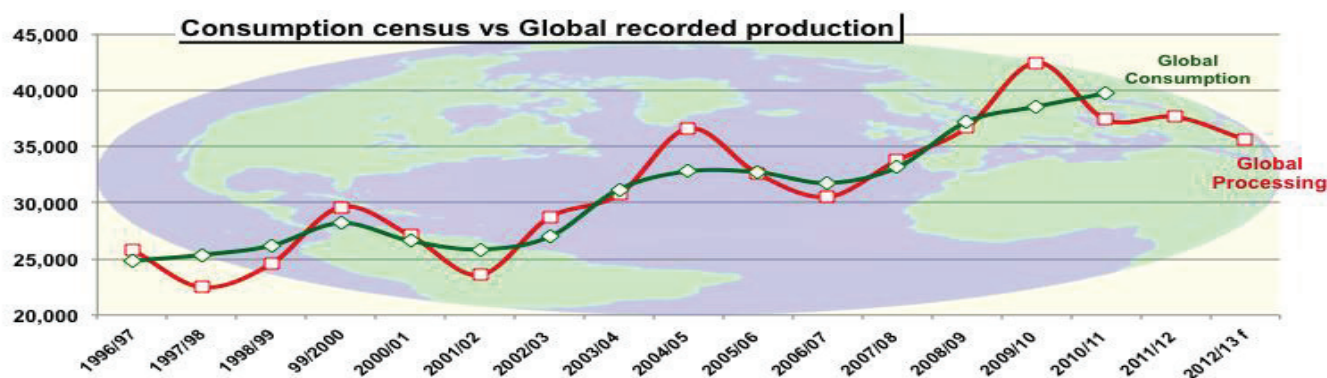


Fig. 1: World consumption Vs. Global Production for processed tomatoes

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.

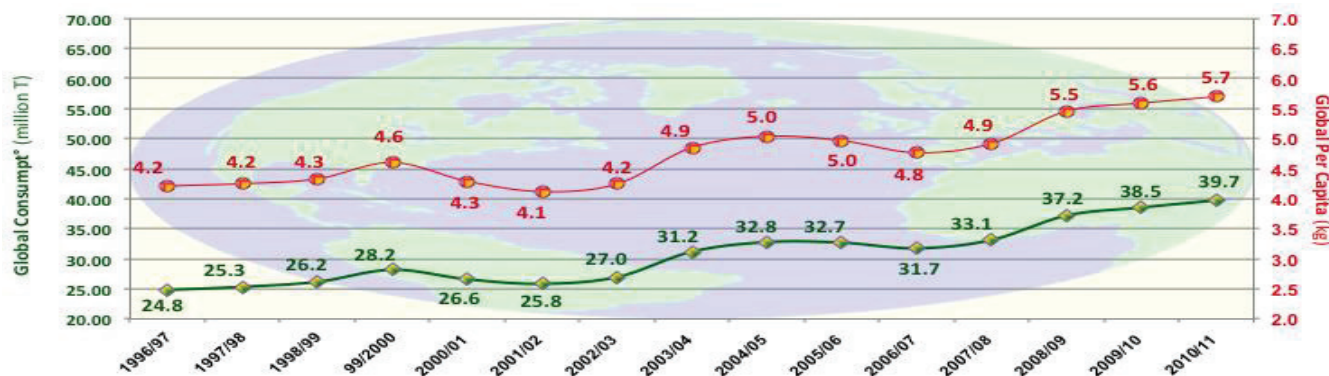


Fig. 2: World demand per capita and gross for processed tomatoes

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.

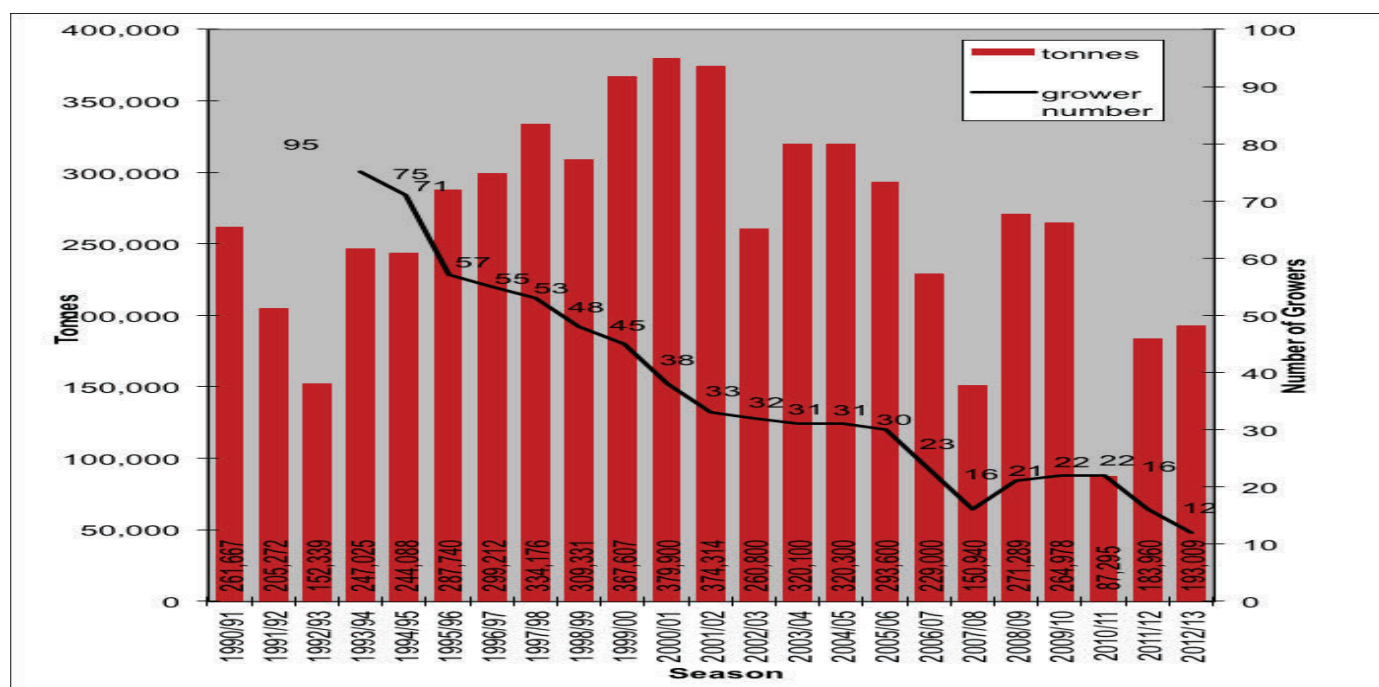


Fig. 3: Shows the decline in Grower numbers with little correlation with world production

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 KPMG 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
 • Editorial, Page 22
 • 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.

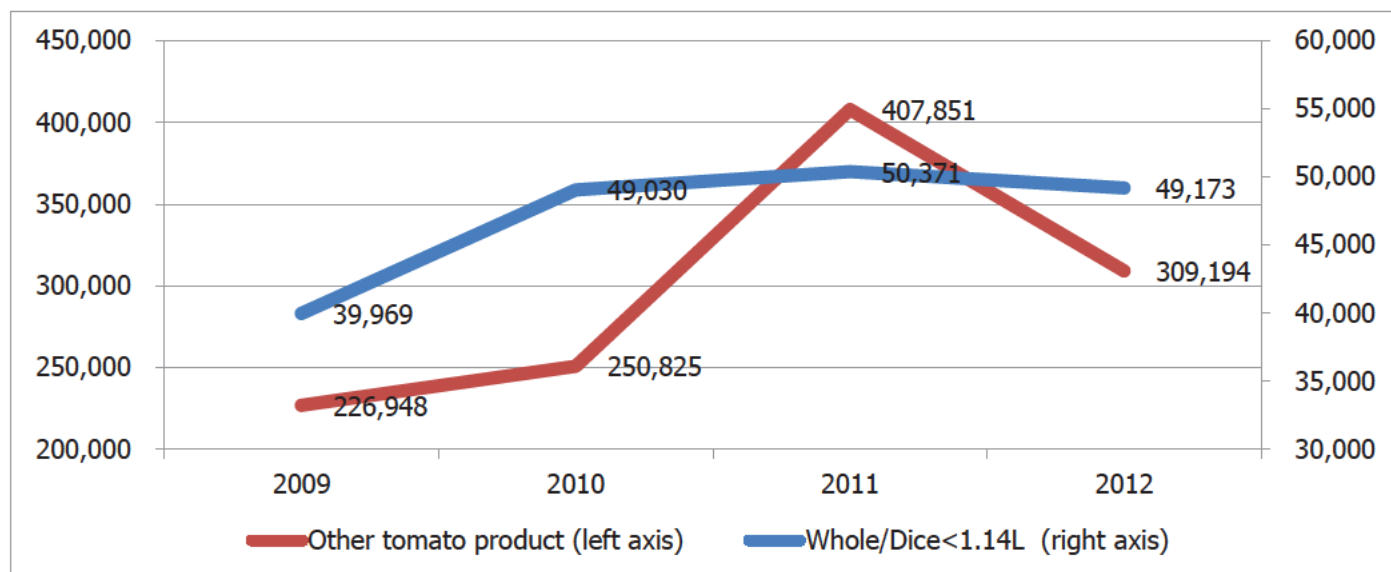


Fig 6: Imports since 2009

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**.

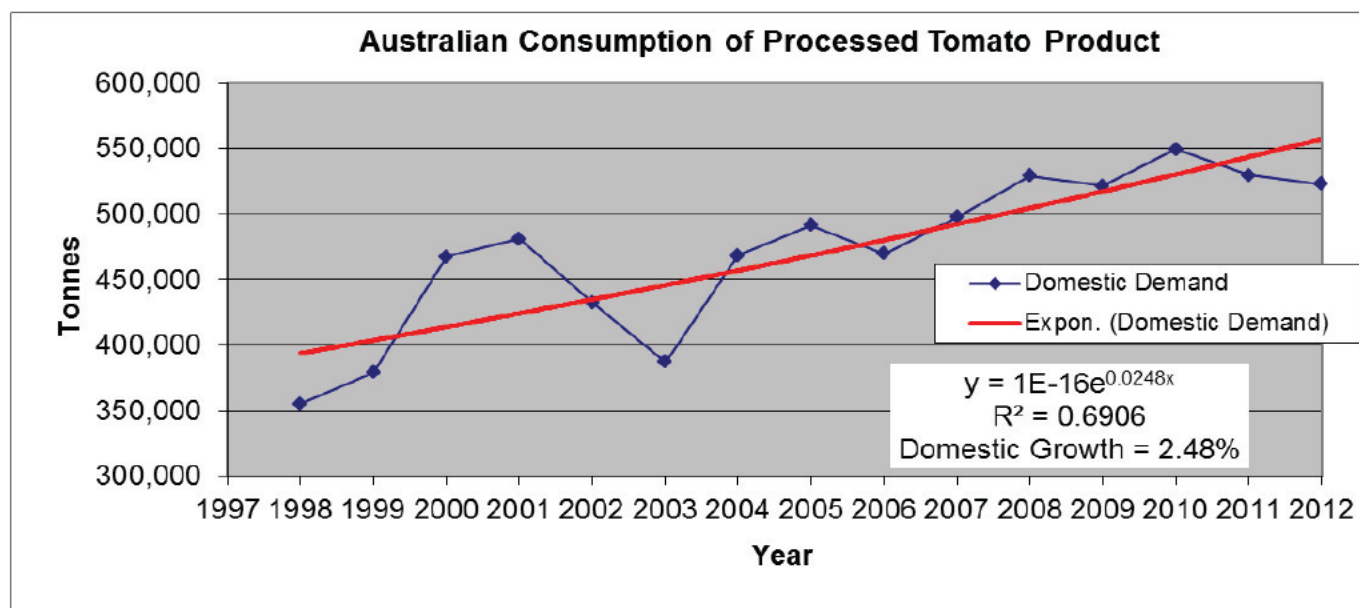


Fig. 7: Domestic Demand (Source ABS and APTRC Industry Data)

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.

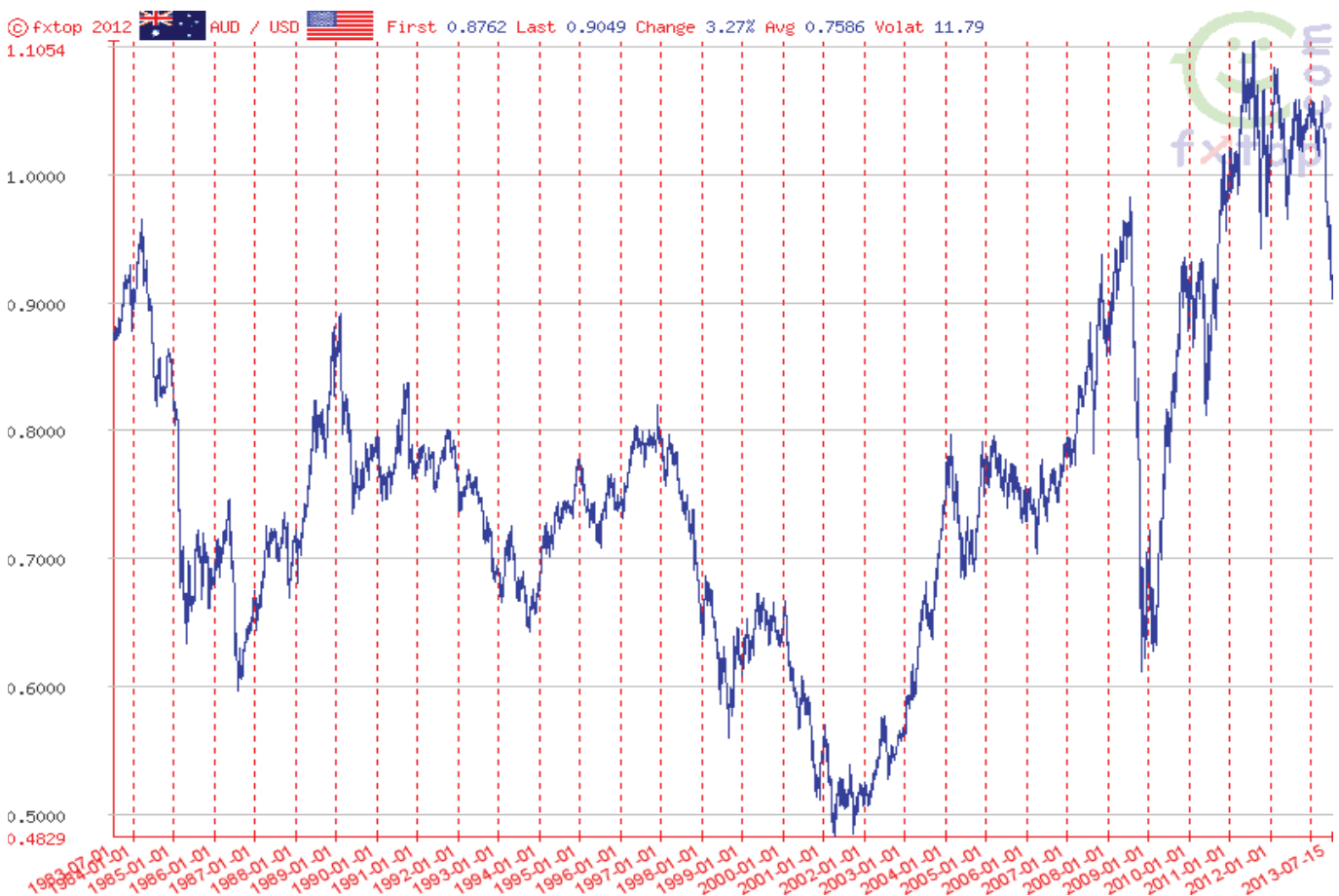
There are four unforeseen events that have driven the current crisis and these are discussed below;

1. World production

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

2. Exchange rate

- 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

- 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

- 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

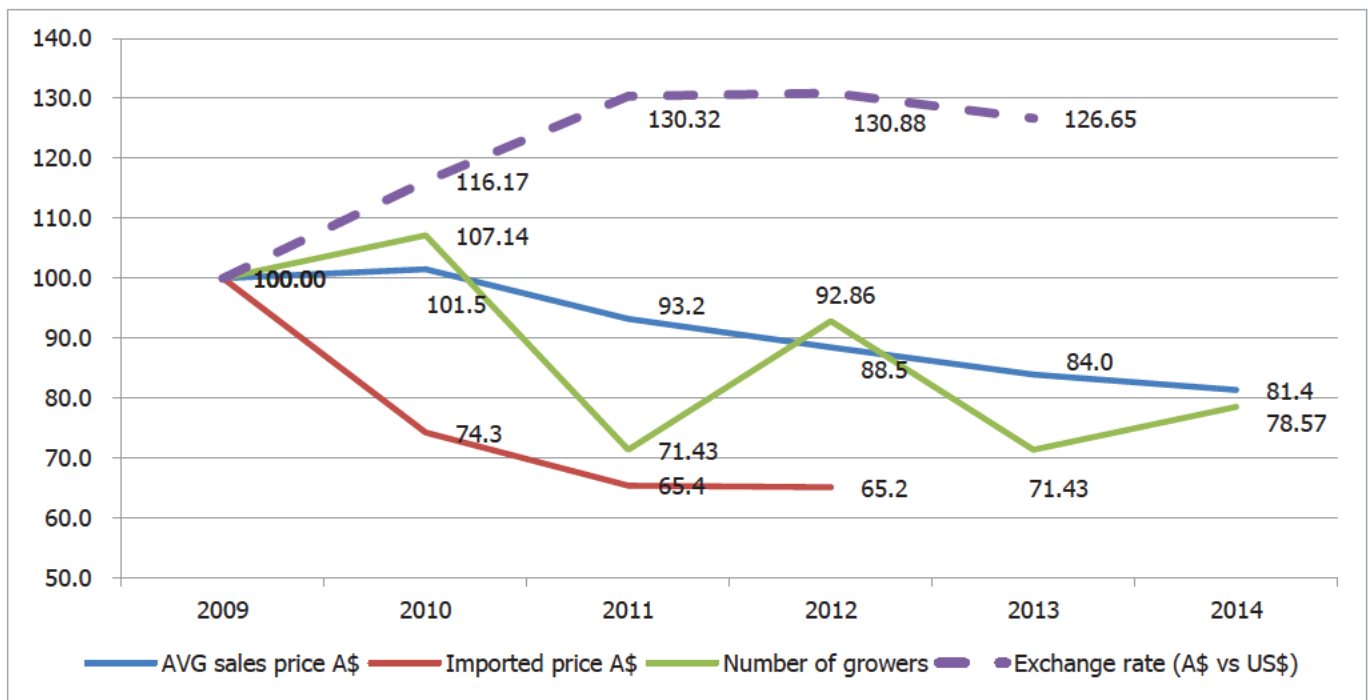


Fig. 8: US\$ currency, KAGOME Australia pricing and imported pricing indexed to 2009

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!

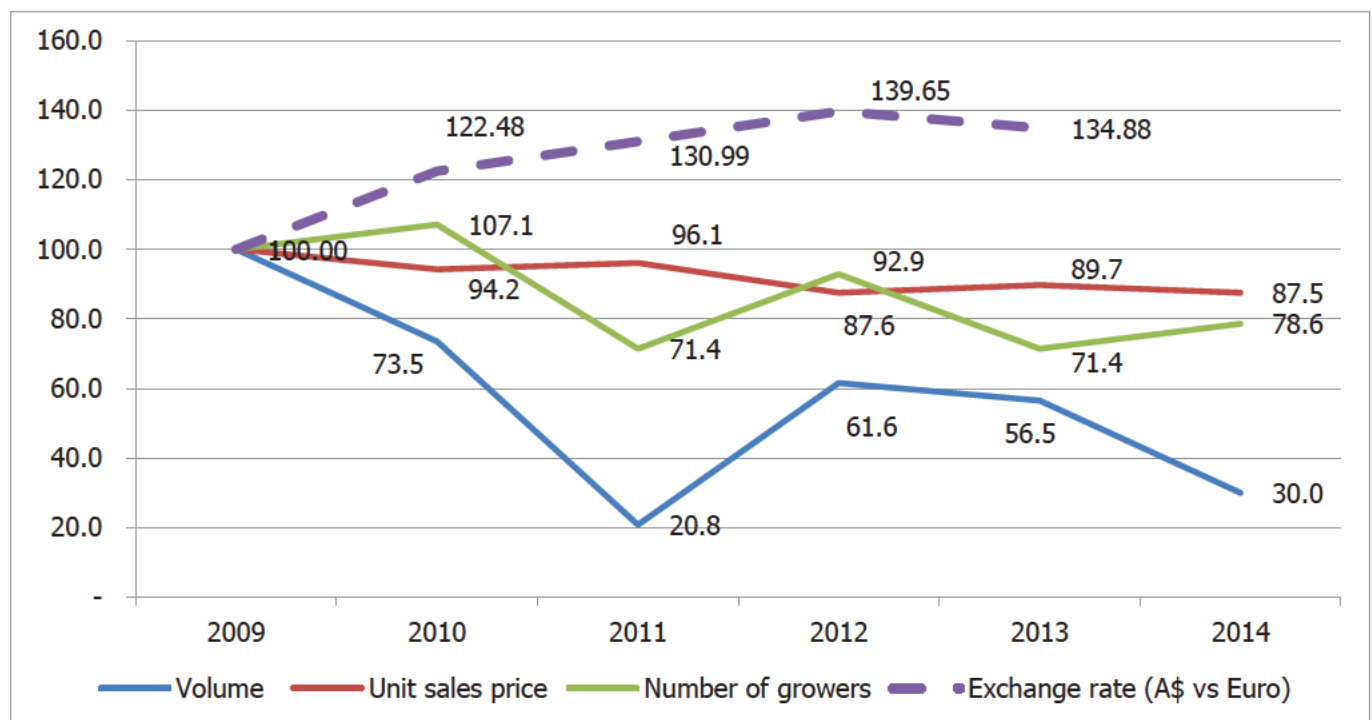


Fig. 9: Euro currency, KAGOME Australia pricing and imported pricing indexed to 2009

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

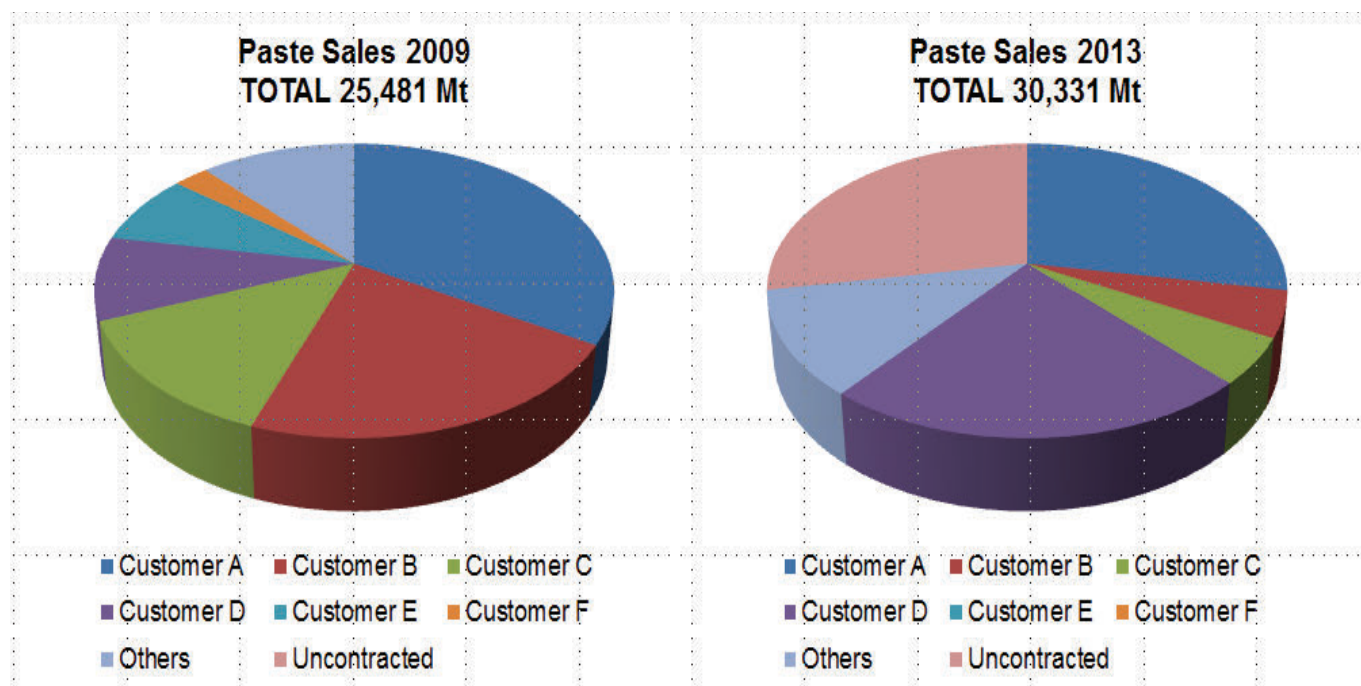


Fig. 10: KAGOME Australia Paste sales mix (June 2013) – 2009 Vs. 2013

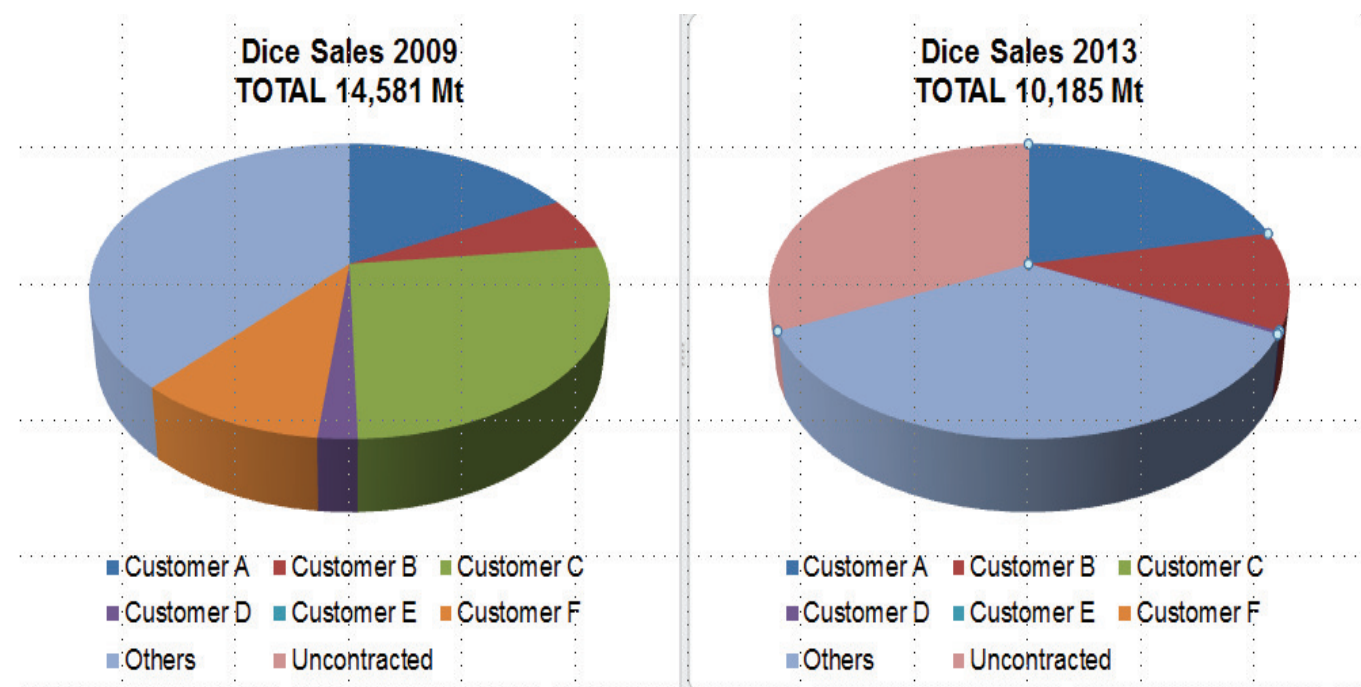


Fig. 11: KAGOME Australia Dice sales mix (June 2013) – 2009 Vs. 2013

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%.

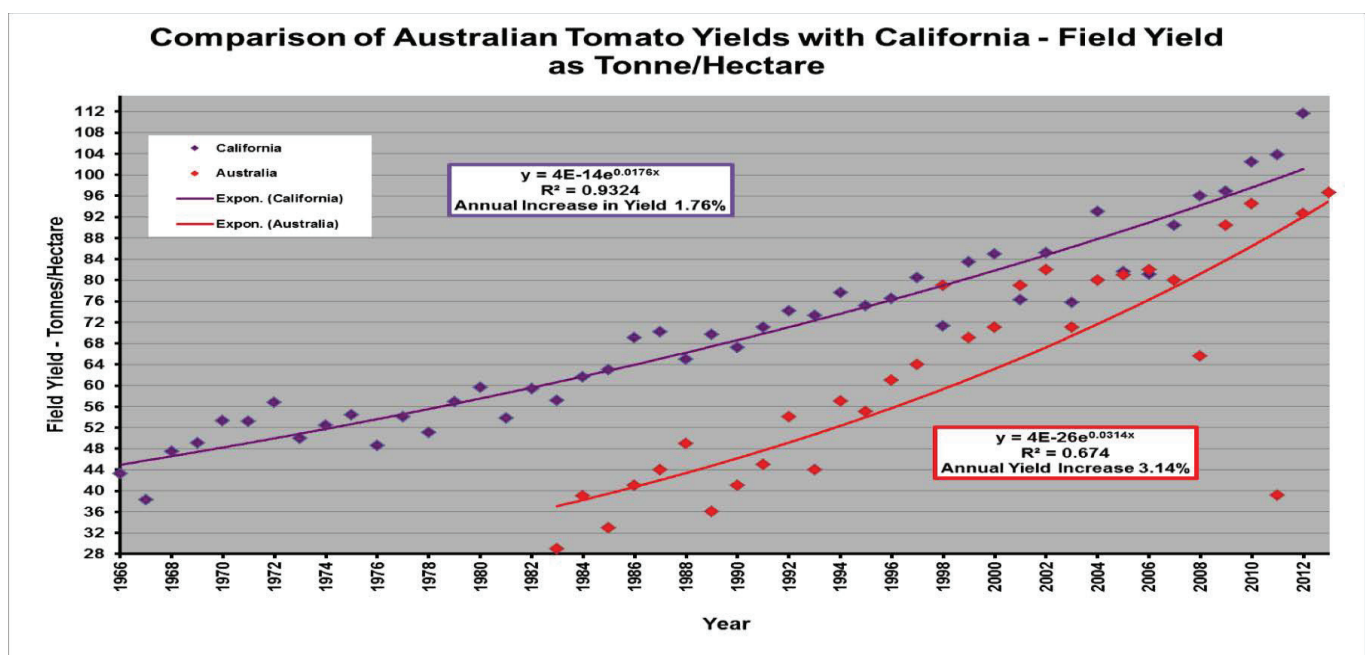
Thus the price paid to Growers for the raw material has not changed from around \$100 / Mt for nearly 30 years. The Growers have offset this decline in real terms by yield increases and enhanced scale. Similarly the processors have had to offset the real price decline by introducing new technology and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

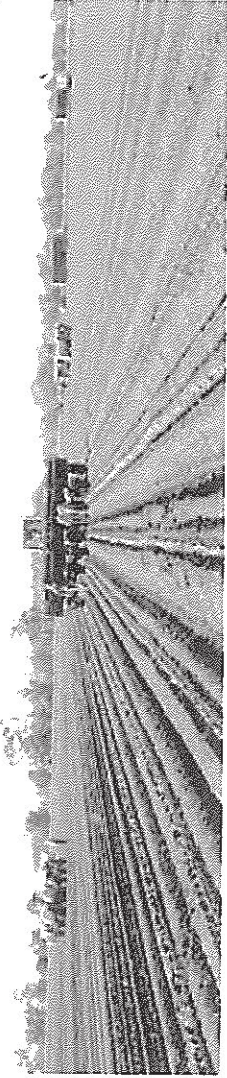
The industry has had a history of well represented groups for Growers, processors, and industry research and development. These have included the Tomato Industry Negotiating Committee (TINC), Australian Processing Tomato Industry Council (APTIC), Australian Processing Tomato Growers (APTG) and the Australian 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.

NON-CONFIDENTIAL ATTACHMENT 'E'

KAGOME
Australia
Echuca Victoria

Commonwealth of Australia
Agricultural Competitiveness White Paper 2014



SUMMARY

KAGOME Australia is Australia's largest single grower of processing tomatoes and Australia's largest tomato processing company, with operations centred in Echuca, Victoria. The company will process more than 210,000 metric tonnes of locally-grown tomatoes in 2014, as well as increasing volumes of locally-grown carrots and beetroot.

KAGOME Australia supplies almost 45% of Australia's domestic consumption of processing tomatoes, assisting major Australian food manufacturers, supply the dynamic retail and foodservice channels. It has an annual revenue of A\$50 million, of which an increasing proportion is generated by exports to markets in Asia, primarily Japan, Thailand and Indonesia.

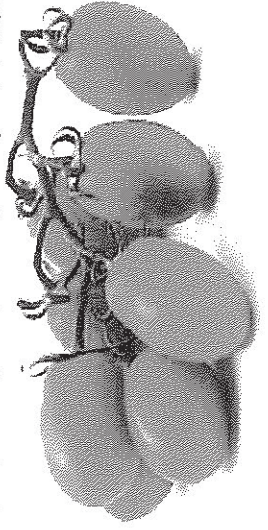
KAGOME Australia is keen to expand to 300,000 metric tonnes, increasing export revenue to 20% of annual revenue by 2020. The company is a major player in the local community of Echuca Moama, procuring some A\$22 million of services and materials from local companies, not including team member salaries or Grower payments.

KAGOME Australia welcomes the Australian Government's Agricultural Competitiveness White Paper.

The key message in this submission is that it's time for the Australian Government to act. Agriculture in Australia will not survive in the international marketplace if current conditions continue.

Serious government action is required to:

- Improve the competitiveness and profitability of Australia's agriculture
- Boost the contribution of Australian agriculture to trade and economic growth
- Build capacity to drive greater productivity and regional development





KAGOME Australia offers to work further with the Australian Government on increasing agricultural competitiveness.

TOP 5 RECOMMENDATIONS TO GOVERNMENT

- | | |
|-----------|---|
| 1. | 1. Manage water resources better |
| 1.1 | Communicate consistently the decisions on when Government is going to trade in temporary water, with sufficient lead time to allow for agri-businesses to plan appropriately |
| 1.2 | Communicate transparently the agreed guidelines on release of environmental water, if available, allowing agri-businesses to plan their seasonal crops and land preparation more accurately |
| 1.3 | Communicate early the guidelines on environmental water release in future years, if available, so as to create a more even and predictable water market, strengthening this aspect of the Murray Darling Basin Authority. |
| 2. | 2. Reduce energy costs |
| 2.1 | Establish equitable solutions to the supply and distribution of Natural Gas throughout Regional Australia, investing in delivery mechanisms that reverse the recent significant increases in Natural Gas prices |
| 2.2 | Extend the fuel tax credit rate for taxable liquid fuels (currently applicable only for off-road activities in agriculture) to heavy truck haulage, where the haulage is an integral part of the logistics of agricultural produce |
| 2.3 | Match equally the private capital expenditure in regional Australia for renewable energy generation, with Government funding – specifically supporting co-generation plants, where such projects will benefit a number of agri-businesses in a regional centre, e.g. Echuca Moama |

- | | |
|-----------|--|
| 3. | 3. Improve transport efficiency |
| 3.1 | Issue a strong commitment to (re)building fast and efficient rail freight transport networks in regional Australia, so that agri-businesses can reduce their reliance on road freight, thus reducing freight costs, improving environmental outcomes and increasing 'Paddock to Plate' capability |
| 3.2 | Standardise the road transport regulations between States, so that A-Double trucks with electronic stability controls can travel on specific and pre-defined roads in both New South Wales as well as Victoria |
| 4. | 4. Increase incentives for R&D |
| 4.1 | Change the incentive from an increment to their annual tax return, to a simple 50% of funding for capital expenditure (e.g. building laboratories) or Research fees, which deliver new learning's and improved capability for agri-businesses located in regional Australia |
| 4.2 | Assist in the creation of learning hubs or centres of excellence in regional Australia, which will attract higher proportions of Regional Developmental Funding. This concentration of resource allocation will deliver incremental improvements in health care, higher education and wireless communication. In this way more young adults and young families may decide to remain in or relocate to such centres |
| 5. | 5. Increase funding for Skill Development |
| 5.1 | Increase incentive payments for agri-businesses to employ young adults commencing their careers in regional Australia, thus enhancing skills locally and stemming the migration of such talent into the major cities |
| 5.2 | Create greater incentives for agri-businesses in regional Australia to employ mature adults looking for life-change relocations to rural areas or re-training after a life in a different industry, so that they can feel they are making a valuable contribution to their new community |
| 5.3 | Waive the HECS debt repayment for the year in which a graduate is working in regional Australia within an agri-business and cancel it completely if they remain in the industry located in a regional centre for 5 Years or more |



About this Submission

KAGOME Australia is a vertically integrated company, delivering a provenance that final consumers can enjoy, which few competitors internationally can match. It is continually developing intellectual property and advanced capability across the following areas;

Varietal R&D

Designing tomato varieties which deliver performance attributes demanded by customers in Australia and in Asia, e.g. Lycopen, Viscosity, Brix, etc. takes years to perfect, as each variety is grown and assessed for the potential to deliver against exacting standards

Planting & Growing

Whether Direct Seed or Transplants, the choice is made dependent on the customer's requirements, soil content, and timing of the harvest. All tomatoes are grown above sub-surface irrigation tape, which delivers water and nutrition direct to the plant's roots

Harvesting & Logistics

From the Australia Day weekend to mid-April, the Harvest is a 24:7 operation, with up to 13 Harvesters feeding 15 metric tonne Bins with fresh processing tomatoes day and night for 70 to 80 days every year. B-Doubles bring 3 bins each time to the Plant in Echuca

Processing & Manufacturing

4 evaporators and 3 production lines are fed by 100 B-Double trucks every 24 hours during the Harvest Season. The Plant in Echuca now has a capacity of 4,500 metric tonnes per day and will soon have its own waste water treatment facility and sauce making production line

KAGOME Australia has invested over A\$30 million in upgrading processing plant and farming operations, since 2010. It is keen to continue to invest in expanding operations, especially to carrot and beetroot, provided the operating environment is more favourable.

Australia represents about 1% of the world's processing tomato production, while California alone accounts for more than 25% of the world's total production. Thus Australia is totally dependent on cost structures that operate globally and customers of Australian tomato Dice, Paste and Passata can shop the globe for similar specifications and better prices. The key to future proofing the Australian processing tomato industry is managing down the in-pul costs, so that products are priced competitively to imported options from the USA, Europe and China.

KAGOME Australia welcomes the Australian Government's initiative to critically examine the competitiveness of Australian agriculture, and appreciates the invitation to make a Submission to development of an Agriculture Competitiveness White Paper.

KAGOME Australia has prepared this Submission with a view to horticultural industries and agri-businesses operating in regional Australia, using its experience as a reference. The Submission focuses on 5 issues, each of which has a significant impact on the future viability of the industry, because (alone or) combined they will determine competitiveness of the Australian processing tomato industry.

KAGOME Australia proposes actions and recommendations under each issue, which are within the responsibility of the Australian Government and would immediately alleviate impediments or enhance opportunities for Australian agriculture.

The 5 issues addressed in this submission are:

1. Water resources
2. Energy costs
3. Transport efficiencies
4. R&D
5. Labour and skills

The Submission makes reference (on Page 20) to some other considerations that impinge on the competitiveness of Australian agriculture. However, this submission is deliberately brief, and so additional information or extra supporting evidence can be provided at any time.

KAGOME Australia would like to work further and in more detail with the Australian Government, in the development and implementation of the Agricultural Competitiveness White Paper.

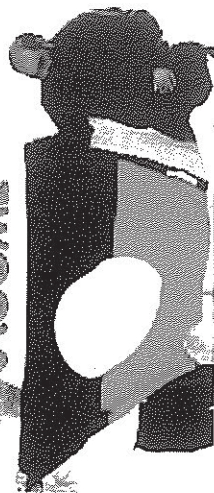
To contact us:

KAGOME Australia

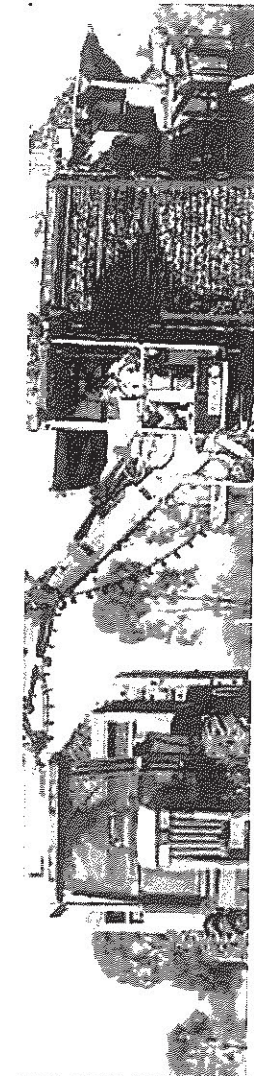
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KAGOME



ISSUE 1. WATER RESOURCES

Tomatoes, as with many of the high value annual fruits and vegetables for export, have an obligatory requirement for supplementary summer water.

A well-managed tomato crop in northern Victoria or southern NSW requires about 6 megalitres (ML) of irrigation water per hectare (Ha), delivered by sub-surface irrigation drip tape, producing about 100 metric tonnes of tomatoes per Ha, with a farm-gate value of A\$100 per metric tonne. This is world's best practice.

The **KAGOME Australia** processing plant also operates at world's best practice. Paddocks located in areas south, east and north of the Echuca Plant, deliver increased flexibility for varietal performance and reduce exposure to un-seasonal weather events that could negatively impact crops. Echuca is located on latitude 36South, while Los Banos in California (centre for processing tomatoes in the US) is 37North and Lisbon, Portugal (centre for processing tomatoes in Iberia) is 38North.

Australia has the best tomato production and processing systems in the world, and to capitalise on this, **KAGOME Australia** forward-writes contracts with reliable and long-term purchasers. In turn, it must be able to assure reliability and consistency of supply. The alternative is to take whatever the spot market offers from time to time, greatly reducing financial return to Australia.

The capacity of KAGOME Australia to be highly competitive in the international marketplace depends on the reliability and consistency of production, and this in turn relies almost totally on an assured reliable supply of irrigation water.

Water reform and management of water resources is complex, and management of Australia's water resources for irrigation has advanced greatly over the past two decades, largely on the basis of tradeable water rights. But major difficulties still remain.

The Australian Government is the largest owner of water in the Murray-Darling Basin, and too often, irrigators are left guessing as to what will be the Australian Government's action in the water market. Even with the trading of water providing the mechanism to move water to the highest value users, there is still no assurance that the required amount of water will be available at all or from year-to-year. Information on the amount of environmental water to be released, if available, for irrigation purposes needs to be released early, so that agri-businesses can plan and plant accordingly.

KAGOME Australia is not able to rationally forward plan stock-flows or adequately manage production and business risk, without such information. As a result the company is forced to take a more conservative approach to supply-chain management, sacrificing opportunity and losing international competitiveness.

One of the original principles for water trading is that the trade should be governed by an understanding of its agricultural value as well as its environmental one. River systems in temperate Australia are well equipped to accommodate highly fluctuating seasonal river flows and extended dry periods. They make best advantage of winter flows, but water is still withheld from high-value summer to supply summer environmental flows. The Murray-Darling Basin Plan ensures that 970 GL of water flows through the lower lakes. This year there has been a natural flow well in excess of this, but there has been no complementary release or storage allocation for irrigation.

Progressively over the past eight years, the Government has bought back 0.5 million ML of the 1.5 million ML of the water previously available in the Goulburn Valley for irrigation. **KAGOME Australia** proposes that this buy back of water in itself, does not create a major impediment for the competitiveness of the high-value agriculture in the international market place, provided there are sufficiently sophisticated and effective systems in place to manage the water and its release. However, the systems used by water authorities to manage the water storage and to manage the release of water for irrigation are sadly inadequate.

Recommendations to Government:

1. Communicate consistently the decisions on when Government is going to trade in temporary water, with sufficient lead time to allow for agri-businesses to plan appropriately
2. Communicate transparently the agreed guidelines on release of environmental water, if available, allowing agri-businesses to plan their seasonal crops and land preparation more accurately
3. Communicate early the guidelines on environmental water release in future years, if available, so as to create a more even and predictable water market, strengthening this aspect of the Murray Darling Basin Authority

2.

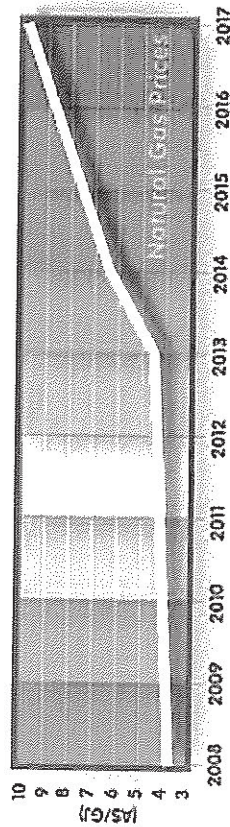
ISSUE 2. ENERGY COSTS

Food processing and value-adding along any agricultural supply chain always requires high energy input. Tomato processing as well as many agri-business endeavours requires investment in plant and machinery in regional Australia.

KAGOME Australia energy costs are the second highest input costs across the farming and processing operations. High levels of energy are required especially in the processing lines for cooking and dehydration of product.

1. Natural Gas

Natural gas is the dominant form of energy use for the processing plant at **KAGOME Australia**. The cost of this Natural Gas, however, has risen steeply over the last few years, and it is continuing to rise.



Note: The 2015 price is contracted; the 2017 price is as already notified by Natural Gas supplier

This is a staggering three-fold increase over ten years, elevating the commodity to the second highest cost in **KAGOME Australia's** operations. The company can find no evidence of anything like the magnitude of the Australian price rise in any competitor countries.

Price of natural gas in California:

| | |
|------|------------------------|
| 2000 | A\$4.40/GJ |
| 2013 | A\$4.40/GJ |
| 2020 | A\$4.60/GJ (projected) |

In real terms this is a decrease in gas costs to the Californian processing tomato industry over 20 years (US Energy Information Administration, Annual Energy Outlook 2013)

Australia is on track to become the world's largest exporter of Natural Gas in the world, but in so doing is creating a Natural Gas shortage domestically that is increasing energy costs to Australian industry. There does not appear to be a mechanism, as in the United States of America, whereby Natural Gas is not exported unless domestic demands are met first.

The extraordinary increase in Natural Gas prices in regional Australia both in real terms and relative to our competitors severely hinders the international competitiveness of Australian agriculture and food processing

At the same time Australia is providing cheap energy to the advantage of our competitor countries

KAGOME Australia is continuing to invest heavily in modifications to the processing plant to increase energy efficiencies – in an attempt to offset the rise in energy costs to whatever extent it can. But there is no way that any of the new technologies which are currently available can increase energy efficiencies to the magnitude required for the company to continue to operate on an 'even playing field' with its major international competitors.

Furthermore, as **KAGOME Australia** continues to try to expand its operations, the company has discovered that the infrastructure for supply of any additional Natural Gas to the processing plant has become inadequate. In 2013, the company was forced to spend A\$600,000 (+ GST) to build an additional spur line between the main Natural Gas line valve (on the Kyabram Road) and the processing plant entrance, to ensure reliability of Natural Gas supply and avoidance of breaching the peak volume limit.



2. Fuel for heavy vehicles

KAGOME Australia, and indeed most of the agriculture and food processing facilities in regional Australia, is totally dependent on road transport for (1) inward delivery of supplies, (2) internal movement of agricultural product (e.g. paddock to processing plant) and (3) outward delivery of the processed product.

Distance is the tyranny. The energy costs for transport are directly related to the extent to which the agricultural and processing operations are located within regional Australia, and away from city centres. Rarely are the fuel costs for heavy vehicle freight as high for our main international competitors – due to shorter distances and cheaper fuel. As with other energy costs, the high cost of truck transport in regional Australia has a severe negative impact on our agricultural competitiveness.

Trucking movement of freight is 10% of KAGOME Australia's total cost structure

Highway cost of diesel (at time of writing)
California: A\$1.05 per litre
Echuca: A\$1.63 per litre

The fuel tax credit rates for taxable liquid fuels (diesel and petrol) for heavy vehicles travelling on any public road in Australia is 12c per litre, independent of the distance travelled and independent of the proximity to city centres. The fuel tax credit rate for off-road activities in agriculture is over 3 times this amount – at 38c per litre. KAGOME Australia cannot even claim the higher fuel tax credit rate for transport of tomatoes by truck from its paddock to its processing plant.

There appear to be abundant opportunities to extend the higher fuel tax credit rate to certain trucking operations in regional Australia, in particular where those operations are an integral part of Australia's agricultural industries.



3. Electricity

In many ways, electrical energy and energy from Natural Gas are interchangeable in the processing operation at KAGOME Australia. However, at the moment there is no cost advantage to a switch to electricity. In any case, the regional infrastructure for delivery of electrical power to KAGOME Australia is not adequate for any expansion of supply.

There are precedents in regional Australia where an industry may be provided with electricity at a price that allows it to increase or at least maintain its international competitiveness. The Alcoa aluminium smelter at Portland (Vic) is provided with electricity at a price that is linked to the world price of aluminium. The Alcoa smelter uses about 10% of the total energy generated in Victoria, and electricity is delivered and available to Alcoa at a price of A\$14 per MWh. In contrast, electricity is being delivered and available to KAGOME Australia, a company that likewise is attempting to increase or at least maintain its international competitiveness at a price of A\$100 per MWh.

Independently of our efforts to decrease the costs of grid power, KAGOME Australia also sees much advantage in a greater focus in regional Australia on renewable energy. Because of the high capital costs of establishing renewable power generation, KAGOME Australia sees that Government assistance is required for the building of generation facilities for renewable energy across regional Australia, and then for the setting of cost structures for renewable power that substantially reduces the energy costs to food processing industries in regional Australia.

Recommendations to Government:

1. Establish equitable solutions to the supply and distribution of Natural Gas throughout Regional Australia, investing in delivery mechanisms that reverse the recent significant increases in Natural Gas prices
2. Extend the fuel tax credit rate for taxable liquid fuels (currently applicable only for off-road activities in agriculture) to heavy truck haulage, where the haulage is an integral part of the logistics of agricultural produce
3. Match equally the private capital expenditure in regional Australia for renewable energy generation, with Government funding – specifically supporting co-generation plants, where such projects will benefit a number of agri-businesses in a regional centre, e.g. Echuca-Moama

ISSUE 3. TRANSPORT EFFICIENCIES IN REGIONAL AUSTRALIA

Fast, efficient and effective transport is a cornerstone of profitable operations for **KAGOME Australia** in regional Australia.

Essentially all of the transport operations are by road – i.e. supply of inbound materials, internal movement of product from the paddocks to the processing plant, and outward delivery of the processed product.

KAGOME Australia would prefer to have more options for transport, so to be able to better match our transport functions with the most efficient and cost-effective means of delivering that transport. The company does not have the option of rail freight transport servicing the Echuca area.

KAGOME Australia does not agree with the argument that rail freight services are necessarily slow and inefficient. The rolling resistance of rail is one-ninth the rolling resistance of rubber tyres on road – obviously providing the potential for greater fuel and operational efficiencies.

Most businesses in Australian manufacturing are developing tighter 'just-in-time' delivery systems that appear easier to service with trucks. **KAGOME Australia** believes that this is not necessarily the case, and that effective development of rail transport, coupled with modern systems of logistic control and communication would provide just as effective and timely transport of materials as road – and probably in the longer term, more highly effective and cost-efficient transport throughout regional Australia.

Australia's rail infrastructure is well below world's standards

Standard for train freight in Canada:

| | |
|--|---------------------------------|
| | 10,000 tonnes per train |
| | 40 tonne axle load weight |
| | \$20/tonne farm to port (wheat) |
| | 2,000 tonnes per train |
| | 12-16 tonnes axle load weight |
| | \$70/tonne farm to port (wheat) |

Standard for train freight in Australia:

KAGOME Australia recognises that there are major difficulties for governments to upgrade train tracks in Australia, or to facilitate the upgrade. Most of the tracks are now owned privately by a single company within any one region in Australia. There is minimal (if any) market competition for train freight in any one region.

Nonetheless, for international competitiveness of Australian agriculture there has to be substantial upgrades and redesign of Australia's rail freight to create a number of highly efficient inland container terminals with radiating feeder lines, and fast transport from the inland terminals to the export ports. Transport from the inland terminals would be matched with shipping availability and/or timetables reducing the expensive storage bottlenecks at the port facilities.

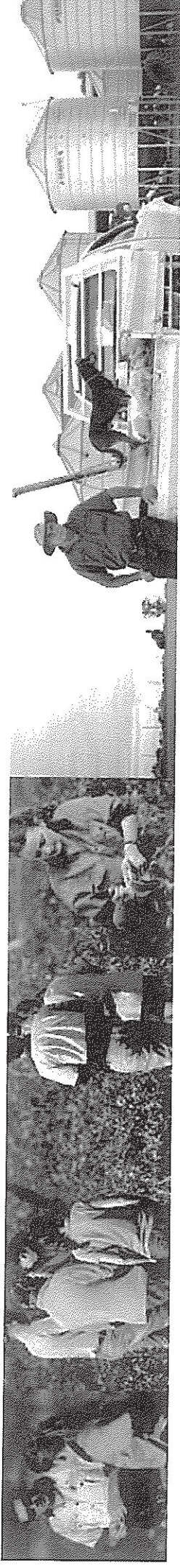
KAGOME Australia sources tomatoes from both northern Victoria and southern NSW. Our factory is only 5 kms on the Victorian side of the border. Some inconsistencies in trucking regulations between Victoria and NSW increase our transport costs.

'B-double' trucks are allowed in both Victoria and NSW, but 'A-doubles' are allowed only on NSW roads. 'B-doubles' can carry 42 tonnes per load, 'A-doubles' 54 tonnes per load, a 30% increase.

Obviously there are increased efficiencies to **KAGOME Australia's** operations with the use of larger trucks. However, when tomatoes are transferred from NSW using 'A-doubles', the trucks need to uncouple on the NSW side of the border, and re-couple as a smaller truck for a shuttle-service of product movement for the last 5 kms.

Recommendations to Government:

1. Issue a strong commitment to rebuilding fast and efficient rail freight transport networks in regional Australia, so that agri-businesses can reduce their reliance on road freight, thus reducing freight costs, improving environmental outcomes and increasing 'Paddock to Plate' capability
2. Standardise the road transport regulations between States, so that A-Double trucks with electronic stability controls can travel on specific and pre-defined roads in both New South Wales as well as Victoria



4.

ISSUE 4. R&D INVESTMENT

The capacity of **KAGOME Australia** to be competitive in the international market place is heavily dependent on its abilities implement world-best practice at all levels of its operations. This does not mean that the company can just copy the best practices from elsewhere, but rather competitive advantage relies on its ability to innovate and able to tailor the best options to local conditions.

KAGOME Australia is committed to research and development. It has a strong collaborative relationship with the Australian Processing Tomato Research Council, operating under Horticulture Australia Limited. It is also exploiting its Southern Hemisphere location to accelerate development for **KAGOME Portugal**, particularly in the area of varietal performance.

KAGOME Australia believes that agricultural research is of a higher quality, is better targeted, delivers better practical outcomes, and provides better return for the research investment when the relevant Australian agribusinesses are completely involved in the research from the outset, and at all stages throughout the research.

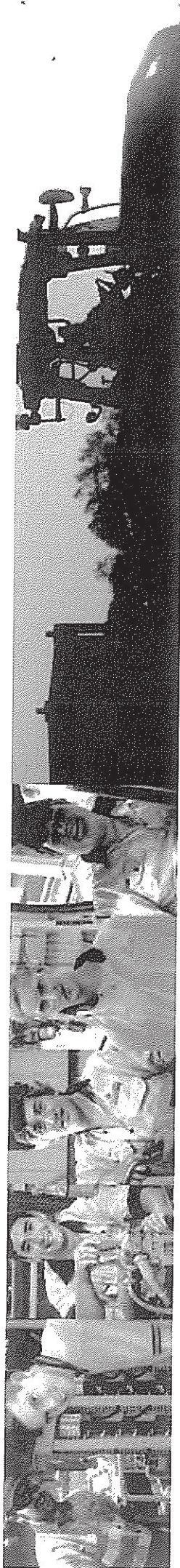
KAGOME Australia welcomes the election commitment of the Australian Government to allocate an additional A\$100 million to the rural research and development councils to increase their capacity to deliver cutting-edge technologies, continue to undertake applied research, and to focus on collaboration.

However, **KAGOME Australia** believes that to maximise the value of this additional research funding, the Government needs to create a more attractive environment for the private sector to contribute to the research – both financially and in-kind. In this way, stronger partnerships could be formed with industry in this research leading to greater long-term benefits to agriculture, to regional Australia, and to Australia's agricultural competitiveness. Indeed, the same applies for all Government investments in agricultural research.

The current tax incentive for business investment in R&D is limited to an incremental 10% deduction.

Recommendations to Government:

1. Change the incentive from an increment to their annual tax return to a simple 50% of funding for CapEx (e.g. building laboratories) or Research fees, which deliver new learning's an improved capability for agribusinesses located in regional Australia
2. Assist in the creation of learning hubs or centres of excellence in regional Australia, which will attract higher proportions of Regional Developmental Funding. This concentration of resource allocation will deliver incremental improvements in health care, higher education and wireless communication. In this way more young adults and young families may decide to remain in or relocate to such centres



5.

ISSUE 5. LABOUR, EDUCATION, SKILLS AND TRAINING

KAGOME Australia is privileged to have a highly skilled and committed workforce. Our team members are the lifeblood of our company.

Access to a strong highly skilled workforce throughout regional Australia is an essential element of Australia's agricultural competitiveness.

Decisions of employees to come to, or to remain in regional areas is just as much about lifestyle and opportunities to engage with communities outside of the work environment as it is about the job itself.

Government decisions on investments into community infrastructure are largely based on a set of demographic parameters that are applied consistently across Australia. This means that planning decisions are based on population figures within the 'catch area' for a particular service or facility (e.g. one facility per 500,000 people). **KAGOME Australia** believes that such an approach fails to adequately take into account geographic distances and accessibility of alternatives as it applies in regional Australia.

The consequence of this approach is that we have seen over recent decades (and are continuing to see) the progressive decline in government services and community facilities in many regions of Australia.

Opportunities for tertiary education are much more limited for students across regional Australia. The brightest young Australians from regional areas move to city locations for high-quality university education. The idea that these people will return to regional Australia to work in agriculture and agriculture-related industries unfortunately has a very low strike rate.

Opportunities for the best university education have to be increased for students within regional areas through a greater number of smaller centres throughout regional Australia networked through remote learning facilities and advanced communication.

There is also the opportunity to introduce an incentive to attract young people back to regional areas and agriculture after their education by modifying the Higher Education Contribution Scheme (HECS) repayment structures. The HECS debt repayment could be waived for each year that a graduate works in regional Australia in agriculture or agribusiness. This may appear only a small incentive on the surface, but the feedback we have received is that the effect could be substantial.

When a trade person loses employment in regional areas, it is much harder for them to find alternative work than it is for their city-based counterparts, simply on the basis of opportunity. Often re-training in another field is necessary. **KAGOME Australia** provides trades apprenticeships, but it is much harder for us to provide adult apprenticeships for re-training. The financial incentives we receive for adult apprenticeships are the same as for a junior apprentice, but our costs are much higher.

Recommendations to Government:

1. Increase incentive payments for agri-businesses to employ young adults commencing their careers in regional Australia, thus enhancing skills locally and stemming the migration of such talent into the major cities
2. Create greater incentives for agri-businesses in regional Australia to employ mature adults looking for life-change relocations to rural areas or re-training offer of life in a different industry, so that they can feel they are making a valuable contribution to their new community
3. Waive the HECS debt repayment for the year in which a graduate is working in regional Australia within an agri-business and cancel it completely if they remain in the industry located in a regional centre for 5 years or more



OTHER CONSIDERATIONS

There are a number of other factors that contribute to Australia's national agricultural competitiveness. While they may not be the 'cornerstones to success' **KAGOME Australia** consider them important nonetheless.

1. Continual development of Australia's port infrastructure

Over recent years there have been major improvements to the infrastructure of Australian ports, essentially all for the export of coal and iron ore. Continual upgrading of ports for export of Australian agricultural products is also needed, including the contemplation of in-land Container ports for direct rail shipment to customers overseas.

2. Even playing field for quality standards of imported foodstuffs

Australian based producers of food are required to adhere to appropriately strict food-quality standards in production of the raw material, in processing, and in packaging. But the same, quality standards don't apply to imported foodstuffs. Imported products are merchandised alongside Australia products on the supermarket shelves, and the buyer has no way of knowing that different quality standards apply. AQIS and other agencies do not have the resources capable of imposing the same quality standards on imported foodstuffs, thus such products should not have market access.

3. Accelerated roll-out of National Broadband Network in regional Australia

Improved IT and communication facilities are vital for businesses in regional Australia to compete in world markets. Preference should be given to regional Australia for accelerated roll-out of the NBN, so that agri-business can benefit from new technology and communicate across Paddocks and back into a central location. Such on-line real-time information of fact based agriculture statistics would allow agri-businesses to make more accurate decisions, more rapidly.



NON - CONFIDENTIAL Attachment 'f'

Business News

Weekly Times Now

Commodities

Tomato growers buoyed by SPC Ardmona's return to direct tomato buying through Woolworths deal

- by: CHRIS McLENNAN
- From: The Weekly Times
- August 13, 2014 12:00AM



In the can Australian Processing Tomato Group president Neil Geltch. Picture: Andy Rogers
Source: News Corp Australia

EXCLUSIVE: SPC Ardmona will deal direct with Victorian tomato growers for the first time in seven years in a major boost for the industry.

The Shepparton cannery plans to double its tomato processing over the next five years.

The direct approach to growers is a result of this year's \$7 million contract with Woolworths, which has pledged to abandon imports in favour of local produce.

"Hopefully this will help force Coles to follow suit," Australian Processing Tomato Group president Neil Geltch said.

Be The First To Respond



Boost: Australian Processing Tomato Group president Neil Geltch said SPC's decision to deal direct with growers was "the best news we have had in four years". Picture: Andy Rogers

Source: News Corp Australia

Mr Geltch said the SPC move would create greater competition for supply and ultimately prices.

SPC began sourcing its tomatoes direct from Echuca processor Kagome in 2007.

A spokeswoman for SPC said the need for more whole peeled tomatoes meant the company now had to deal direct with growers.

"It was prompted by Woolworths' decision," the spokeswoman said.

Woolworths and SPC signed a five-year deal in March to source locally grown fruit for Woolworths' Select home brand products.

An extra 24,000 tonnes of fruit, tomatoes and navy beans will be sourced locally.

Mr Geltch said most of Victoria's tomato industry was clustered on about a dozen farms around the Echuca-Rochester area with several growers also at Boort.

"It's the best news we have had in four years," he said.

Australia's Anti-Dumping Commission in February placed tariffs on processed tomatoes imported from Italy.

SPC said the domestic industry has suffered "material damage" as a result of an influx in cheap imports.

Consumer support for SPC and locally grown product had buoyed Woolworths, a spokesman said.

