Australian Government
Anti-Dumping Commission

INVESTIGATION 216

ALLEGED DUMPING OF
PREPARED OR PRESERVED PEACH PRODUCTS
EXPORTED FROM SOUTH AFRICA

VISIT REPORT - EXPORTER

RHODES FOOD GROUP (PTY) LTD

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

October 2013

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ABBREVIATIONS

$	Australian dollars
The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	SPC Ardmona Pty Ltd
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
FOB	Free On Board
GAAP	Generally accepted accounting principles
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
REQ	Response to exporter questionnaire
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Minister	the Minister for Home Affairs
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 17 June 2013, SPC Ardmona Pty Ltd (the applicant) on behalf of the Australian industry manufacturing prepared or preserved peaches (peaches) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of peaches exported to Australia from South Africa.

The application alleges that peaches have been exported to Australia from South Africa at prices lower than its normal value, and that this dumping has caused material injury to the Australian industry producing peaches.

Following consideration of the application, the Anti-Dumping Commission decided not to reject the application. Public notification of initiation of the investigation was made in the Australian newspaper on 10 July 2013.

Anti-Dumping Notice (ADN) No. 2013/54 provides further details on this investigation and is available at www.adcommission.gov.au.

1.2 Purpose of visit

The purpose of the visit was to verify information submitted in the Rhodes Food Group (Pty) Ltd (RFG) exporter questionnaire response. Information verified during the visit has been used to make preliminary assessments regarding:

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

1.3 Meeting details

Company	Rhodes Food Group (Pty) Ltd
Dates of visit	11-13 September 2013 at company 17 September 2013, phone link up 1:00 to 3:30 pm

The following were present at various stages of the meetings.

Rhodes Food Group	Gerhard Kotze – Managing Director – RF - Operations Deane Hill – General Manager – Tulbagh - Operations Bernadette Lakey – Divisional Finance Manager - Operations

	Annemarie Bamm – Cost Accountant - Operations Adri Both – Central Finance Manager – Central Finance Annelize Swart – Accounts Receivable – Central Finance Richard Phillips – Commercial Director - Commercial Mathew Bird – Commercial Finance - Commercial Tertius Nel – Commercial Manager - Commercial Edwin Kriel – International Customer Manager - Commercial William Benjamin – Shipping Manager - Commercial
Trade Law Chambers	Rian Geldenhuys, Director
Anti-Dumping Commission	Geoffrey Gleeson , Director, Capability Cathy Cole, Supervisor, Operations 1

1.4 Investigation process and timeframes

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

- The investigation period is 1 July 2012 to 30 June 2013.

- The injury analysis period is from 1 January 2009 for the purpose of analysing the condition of the Australian industry.

- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (9 September 2013) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

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

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

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

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

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

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

1.5 Visit report

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

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

2 COMPANY INFORMATION

2.1 General

RFG can trace its history back to the late 1800s. Cecil John Rhodes (English businessman, mining magnate, politician in South Africa and founding chairman of De Beers) and his partners purchased former grape producing farms in the Stellenbosch, Wellington and Groot Drakenstien areas and planted deciduous fruit trees in place of the vines that had to be destroyed due to the phylloxera epidemic. For over 100 years the company known as Rhodes Fruit Farms Ltd (Rhodes Fruit Farms) sold fresh deciduous fruits, canned products and jams.

In 1999 Rhodes Fruit Farms was sold to a privately owned food group the Ivor Ferreira Trust and RFG was established, incorporating Rhodes Fruit Farms, Wonderland foods and Swazican. In October 2012 the executive team and senior managers bought out the Ivor Ferreira Trust.

RFG manufactures deciduous fruit products, ready meals, pies and pastries in the Western Cape, vegetables products in Limpopo and other fruit products as well as fresh pineapple in Swaziland. RFG also owns a dairy producing high end cream and cheese for supply of Woolworths (South Africa) and last month purchased a meat cannery in Johannesburg.

RFG advised that 70% of overall sales are to the domestic market and that its international markets include the United States, the United Kingdom, Europe, Africa, Asia and Australia.

RFG informed us that over the last 10 years the company has shifted its focus towards building local market brands and moving away from private labels. RFG’s product mix is about 60% long-life and 40% fresh.

2.2 Corporate, organisational and ownership structure

RFG operates three divisions: Rhodes Foods Operations which manufactures canned fruit, canned vegetables as well as a range of by-products such as jam and puree; Fresh Foods which manufactures ready meals, pasta, pies and a range of dairy products; and Rhodes Foods commercial which is responsible for marketing and sales.

2.3 Related parties

Note 30 (Related party transactions) to the Annual Financial Statements, 30 September 2012:

> “The group and company, in the ordinary course of business, enter into various transactions with related companies.
>
> The Ivor Ferreira Trust (IFT) is a related party as it is the holding company of Rhodes Food Group Holdings (Pty) Ltd, which owns 100% of Rhodes Food Group (Pty) Ltd (RFG). Both entities are incorporated in South Africa.

IFT is also the holding company of Fertrade Swaziland (Pty) Ltd (FSC) which owns 100% of Fernlea Marketing (FMC). During the prior year, RFG purchased 81,6% and 10,0% of the equity shares in Swaziland Fruit Canners (Pty) Ltd from FSC and Matsapha Pineapple Growers (Pty) Ltd (MPG) respectively. The acquisition was financed through loans from these companies. SFC, FSC and MPG are incorporated in Swaziland and FMC the Isle of Man.

Peatty Mills PLc is a related party as Richard Phillips, a prescribed officer of RFG is a director of Peaty Mills Plc.

Magpie Foods (Pty) Ltd and Tradecor SA (Pty) Ltd are 100% owned subsidiaries of RFG and are incorporated in South Africa. Both companies are dormant in the current year."

RFG stated that it is not related to its suppliers or customers. RFG explained, in relation to canned peaches, that all the supplier peach farmers are independent of RFG, and that none of its customers of the finished product are related to RFG.

2.4 Accounting structure and details of accounting system

RFG's accounting period is 1 October to 30 September.

RFG operates an integrated accounting system, (used for costs, sales, inventory) called SYSPRO.

RFG's accounts are maintained in South African Rand (ZAR). For export sales RFG transacts in Australian dollar (AUD), Canadian dollar (CAD), Euro (EUR), British pound (GBP) and United States Dollar (USD). Each month RFG accounts for variances between the spot exchange rate and the actual exchange rate.

RFG uses a standard costing system where variances are reconciled at the end of the financial year. Profit centres in the cost accounting system are: 1. Fruit plant in Tulbagh; 2. Vegetable plant in Limpopo; and 3. Jam plant in Groot Drakenstein. Peaches are processed at the Tulbagh plant.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods

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

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

Goods excluded from this application are:

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

3.1.1 **Tariff classification**

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

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

3.2 Product range and manufacturing facilities

3.2.1 **Product range**

In relation to the goods under consideration RFG explained that it manufactures and sells a variety of canned peach products with differing attributes in terms of can size, grade, cut, syrup, count. It provided a list of product codes and characteristics, which is at **confidential attachment GEN 1**.

3.2.2 **Manufacturing facilities**

The deciduous food group plant is located at Tulbagh, the heart of the deciduous fruit growing area and second oldest town in South Africa. Since purchasing the plant from Del Monte Fruits South Africa (Pty) Ltd in 2010 fruit production has increased by about 30%.

The Tulbagh plant processes [redacted] [actual figure used which is several thousand] tonnes of raw materials. Fruit production runs from the end of November though to late April. Apricots are processed in December, peaches January through to late February, fruit cocktail early February through to early April and pears from late February to late April.

RFG sells the manufactured products before the season and produces to a production plan.

Details of the Tulbagh Plant capacities are included in **confidential attachment GEN 2**.

3.2.3 Production process

In its REQ, RFG provided a flow diagram of its production process for canned fruit.

At the meeting, it described the following the production process:

- upon delivery at the Tulbagh plant raw peaches are weighed, graded and stored in the cold room;
- at the commencement of the canning process the raw peaches are washed, peeled and the stones removed;
- the raw peaches are then inspected and depending on the quality they are machine cut in half, sliced, diced or pureed;
- cut peaches are graded for consistency in size, colour and blemishes;
- the can is filled with the cut fruit and either syrup or juice;
- a lid is applied, the can sealed and a “BRITE” code printed on the can;
- the sealed can is cooked, cooled and air dried following an application of an anti-rust solution; and
- the cans are then palletized and warehoused at either the Tulbagh Plant or Groot Drakenstein, prior to labelling and despatch.

3.3 Goods exported to Australia by RFG

RFG explained that all of the canned peach exports to Australia in the investigation period were 825gram cans, standard grade, sliced. These were said to be in either normal syrup (17-19 Brix) or light syrup (14-16 Brix). The export sales verification confirmed this to be the case. The following table shows the product codes and brief goods description in relation to the goods exported to Australia.

Product code	Brite can	Customer	Label	Syrup
3044L	3044	GAF	Smartbuy A2.5 Peach Slices	Normal
3044GASB00	3044	Coles	Smartbuy A2.5 Peach Slices	Normal
3044GHSB20	3044	Coles	Smartbuy A2.5 Peach Slices	Normal
3044MCNF10	3044	Metcash	No Frills A2.5 Peach Slices	Normal
3244MCBG10	3244	Metcash	Black & Gold A2.5 Peach Slices	Light

PUBLIC RECORD

3.4 Like goods sold domestically by RFG

RFG considers that it is important to distinguish between standard grade and choice grade peaches. RFG explained that the South African Perishable Products Export Control Board (PPECB) monitors these standards through a PPECB representative stationed at each factory. In its REQ, RFG submitted the specification sheets for standard and choice grade peach products. It is evident that the standards differentiate on a range of characteristics such as appearance, quality, and count (pieces). RFG also demonstrated the difference by opening, displaying and counting pieces for the contents of standard and choice grade brite cans.

RFG advised that it does not distinguish between the costs of the standard and choice grade products as the cost of fruit, and sorting, is the same. However, RFG advised that the price difference is significant. We noted that for RFG's domestic sales of 825g canned peaches, the net price paid per can was consistently higher for choice grade, as shown in the summary table below.

Can size	825		
Row Labels	Sum of Quantity (Cans)	Sum of Net price paid (after Terms) ZAR	Sum of WA Price per can
CHOICE	[redacted]		
Qtr 1			
Qtr 2			
Qtr 3			
Qtr 4			
STD			
Qtr 1			
Qtr 2			
Qtr 3			
Qtr 4			
Grand Total			

RFG also explained that the specification sheet identifies the labelled products that accord with the specification of standard grade, which listed the 825g standard grade peaches specification as pertinent only to the labels of:

- SHOPRITE HOUSEBRAND (Domestic);
- SHOPRITE RITEBRAND (Domestic)
- COLES SMARTBUY LABEL (Australia);
- METCASH: BLACK & GOLD LABEL, NO FRILLS LABEL (Australia)

Accordingly, RFG submitted that 825g, standard grade, sliced peaches are the most comparable like goods that are sold domestically, and it directed us in particular to domestic sales of product codes 3042SH and 3042HB for comparable sales of like goods. These product codes accord with the two Shoprite labels listed above.

However, during the visit RFG confirmed that the prices of halves are usually the same as that for slices where the can size and grade is the same, and sales are made at the same time. The sales data summarised below shows this to be the case (product code prefix 20 indicates halves, while prefix 30 indicates slices): [the table below details quantities, total net price and weighted average prices per can of choice and standard grade 825g domestically sold canned peaches]

PUBLIC RECORD

STD	[redacted]
Qtr 1	
2042HB	
2042SH	
3042HB	
3042SH	
Qtr 2	
2042HB	
2042SH	
3042HB	
3042SH	
Qtr 3	
2042HB	
2042SH	
3042HB	
3042SH	
Qtr 4	
2042HB	
2042SH	
3042HB	
3042SH	

We considered that the most comparable like goods to the goods exported to Australia were therefore all 825g, standard grade, slices and halves. This includes product codes 2042HB, 2042SH, 3042HB, 3042SH.

3.5 Like goods – preliminary assessment

While we consider that all 410g and 825g canned peaches sold domestically by RFG are like goods in terms of s. 269T(1) of the Act, we consider the most comparable subset of like goods that are suitable for direct comparison with the goods exported to Australia are the 825g, standard grade canned peaches, in halves and slices, in syrup.

4 SALES TO AUSTRALIA

4.1 Sales to Australia

During the investigation period RFG exported canned peaches on a contract basis to GAF, and Metcash Trading Ltd (Metcash) and Coles Supermarkets Australia Pty Ltd (Coles).

The table below is a summary of the peach products exported to Australia during the investigation period.

Product Code	Description	Common Cases	Kilograms
3044GASB00	SMARTBUY-A2.5 PEACH SLC IN SYR	[redacted]	[redacted]
3044GHSB20	SMARTBUY-A2.5 PEACH SLC IN SYR	[redacted]	[redacted]
3044L	A2.5 PEACH SLC IN SYRUP ST	[redacted]	[redacted]
3044MCNF10	NO FRILLS-A2.5 PEACH SL IN SYR	[redacted]	[redacted]
3244MCBG10	BLACK GOLD-A2.5 PCH SLC IN SYR	[redacted]	[redacted]
Total		[redacted]	[redacted]

RFG explained that it commenced exporting canned peaches to Australia in 2003 in response to a request from GAF. At that time RFG understood this to be a one-off opportunity, but RFG's current understanding is that Australian customers do not want to be restricted to a single supplier.

At that time, sales to GAF were on a CFR basis and RFG paid a commission to GAF as its agent. GAF had many warehouses around Melbourne and operated as an importer and distributor for Coles.

RFG advised that in 2012 it completed its contract with GAF and commenced exporting directly to Coles. The FOB contract with Coles is for specific volumes for delivery at specific times.

RFG also advised that in 2011 Metcash approached RFG to supply canned apricots due to a shortage of apricots in Australia. RFG explained that Metcash was unable to take a full container of apricots and would request a mixed container of fruits including apricots, peaches, pears, fruit cocktail and 2 fruits.

RFG provided us with copies of its current agreements with Coles and Metcash (refer **confidential attachment EXP 1 and confidential attachment EXP 2**).

In its REQ, RFG provided an export sales spreadsheet listing each sale of canned peaches made to Australia during the investigation period.

The spreadsheet included line-by-line information relating to:

- customer
- level of trade
- product code
- product description
- invoice number and date
- order number
- date of sale
- shipping terms
- payment terms
- sales quantity in cases
- gross invoice value (ZAR)
- gross invoice value (AUD)
- ocean freight
- inland transport

We sought to verify the export sales data contained within the export sales spreadsheet during our meetings with RFG. We noted some errors with the amounts for inland freight and RFG provided us with a revised export sales spreadsheet, refer **confidential attachment EXP 3.** For further discussion of the verification process refer to section 4.3.

4.1.1 **Export sales process**

RFG described its export sales process as follows:

- during November RFG commences the negotiation process by offering new season prices and contract volumes.
- following a negotiation process customers and RFG agree a contract with volumes, price and shipment periods;
- each month the customer sends a purchase order (PO) via email and requests a date of shipment;
- the RFG warehousing department will confirm stock, labels and vessel;
- RFG confirm the PO and courier commercial invoice to the customer;
- the RFG warehousing department will arrange labelling and packaging of cans into cartons that are shrink wrapped and loaded onto a pallet;
- prepared pallets are loaded onto a flatbed truck and transported to the South African Container Depot (SACD) in Cape Town;
- SACD stuff the cartons into shipping containers; and
- sailing time to Australia is about 6 to 7 weeks with vessel stopping at a number of Australian ports.

Prior to export all fruit production in South Africa is graded by a third party inspection. RFG noted that every export shipment is certified by a Perishable Products Export Control Board (PPECB) inspector at each of its sites.

4.1.2 **Currency**

RFG invoices its Australian customers in AUD. For accounting purposes RFG converts the AUD sale to ZAR at the spot rate of the day.

RFG advised that it transacts in a number of currencies for its export sales and imports of raw materials. RFG hedges these foreign transactions and foreign exchange gains and losses are accounted for in the management accounts on a monthly basis.

4.1.3 Terms of trade

RFG explained that during the investigation period its sales to GAF were on a CFR basis (with no commission paid to GAF), and that sales to Coles were on a FOB basis, and sales to Metcash were on a CFR basis.

4.1.4 Payment terms

RFG advised that its payment terms applicable to GAF and Metcash are [redacted] days from date of B/L and for Coles [redacted] days from date of B/L.

4.1.5 Discounts, rebates and allowance

RFG advised that it does not provide any discounts, rebates or allowances for export sales to Australia.

4.1.6 Date of sale

RFG explained that technically the date of sale is the bill of lading date. However, it further explained that for accounting purposes it records the invoice date as the date of sale, which is generally only a day or two different to the bill of lading. We indicated to RFG that we would regard the invoice date as the date of sale, which RFG agreed was appropriate.

4.2 Verification of export sales and domestic sales to audited financial statements

Prior to the visit we sought to reconcile the sales value and volumes in the export sales and domestic sales spreadsheets to the volumes and values in the turnover summary; and figures in the turnover summary to those in the income statement.

We were able to match the gross sales in the income statement with the total company turnover for the investigation period. The turnover summary provided as part of the REQ split the domestic market into two categories: RFA (which represented sales by Rhodes Foods Africa) and RFI (which represented sales by Rhodes Foods International). Prior to the visit RFG revised the turnover summary to correct the inclusion of some African sales (i.e. outside of South Africa) in the “domestic market”. RFG also combined the RFA and RFI categories so that there was a single line for domestic market with regard to turnover of the goods. The revised version of the turnover summary is at **confidential attachment GEN 3**).

In conjunction with the revised turnover summary statement, mentioned above, RFG provided us with a revised domestic sales spreadsheet. A copy of the revised spreadsheet is at **confidential attachment DOM 1**.

Prior to the visit RFG updated the export sales spreadsheet to include ocean freight for all FOB sales. During the visit it provided a further revision to show the formula for the inland transport calculation. The latest version of the export sales spreadsheet is at **confidential attachment EXP 3**.

After receipt of the revised turnover statement and domestic and export sales spreadsheets, and prior to the visit, we were able to match the gross invoice value (ZAR) in the revised export sales spreadsheet to the export to Australia sales figure in the revised turnover summary, for the investigation period. We were also able to match the net sales value figure in the domestic sales spreadsheet with the turnover of the goods figure in the turnover summary for the period of the investigation.

At the visit we sought to verify the figures provided by RFG in the income statement, the revised turnover summary and the export sales spreadsheet and the domestic sales spreadsheet.

Total company turnover

During the visit RFG generated from SYSPRO a total company turnover GL report for the 12 months ending September 2012. From that report we were able to sum the figures for turnover and foreign exchange variances and match that figure with the total company turnover figure in the revised turnover summary.

We are satisfied that the total company turnover for the 12 months ending September 2012 includes all sales.

Turnover of the fruit plant

With regards to verifying the turnover of the fruit plant RFG generated from SYSPRO a total fruit plant turnover (GL R11RASA3000) report for the 12 months ending September 2012 and filtered out all third party product bought from Swaziland. From that report we were able to sum the figures for net sales and foreign exchange variances and match the total with the fruit plant turnover figure in the revised turnover summary.

RFG then generated a SYSPRO report for RFI sales that displayed currency, net sales value and mass and a RFA sales report that displayed net sales value and kilograms, for the 12 months ending September 2012. We were able to match Australian currency sales volumes and values in this report to the turnover summary for fruit plant sales for “exports to Australia” and the sum of “other” currency sales values and volumes to the turnover summary for “exports to other countries”.

With regard to domestic sales we were able to match sales volumes however there was a minor difference (-0.20%) between the sales values of the GL reports to the figure in the turnover statement. RFG explained that the value for domestic sales was calculated by subtracting export sales from the total plant turnover because historically sales of domestic puree are accounted within the RFI group.

We have examined RFG’s methodology for determining the domestic sales volume and value for the fruit plant and we have found it to be reasonable.

Turnover of the goods

With regard to verifying the turnover of the goods RFG generated SYSPRO reports for the Tulbagh fruit plant, filtered for product classes, for the 12 months ending September 2012. These reports also distinguished between export and domestic sales. The reports listed sales value and volumes which were reasonably consistent with the net sales and volumes figures in the turnover of the goods for exports to Australia and domestic sales (allowing for the removal of sales data for 8oz and A10 products).

In summary, we were satisfied that the turnover summary of the goods, for the 12 months ending September, includes no irrelevant sales and all relevant sales of the goods and like goods.

Audited Accounts

We then sought to trace figures in the income statement for the financial year ending September 2012 to the company's audited accounts. RFG generated two GL reports from SYSPRO for the 12 months ending September 2012. The total for both these reports matched the revenue figure in the audited accounts.

RFG explained that the difference between revenue figures in the audited accounts and the management accounts is the treatment of some selling expenses. From the first report we were able to sum the GL accounts for these selling expenses, and were able to match the difference in revenue between the audited accounts and the management accounts. From the second report the sum of net sales and exchange gains and losses matched the value of turnover of the fruit plant in the turnover summary for the period ending September 2012.

We were satisfied that for the 12 months ending September 2012 we can reconcile the management accounts to the audited accounts.

Supporting documents are at **confidential attachment GEN 4**.

Given the sales data for the 12 months ending June 2013 was assembled in the same manner, from the same systems, we considered all sales data submitted could be reasonably linked to the management reports that are relied upon for the purposes of the audited financial statements.

Customs and Border Protection import database

In relation to RFG's exports sales of the goods, we also compared the export sales data submitted in its REQ to the data in the Customs and Border Protection import database. We considered that volumes and values reconciled to a reasonable degree.

4.2.1 **Completeness and relevance of sales - conclusion**

On the basis of the verification discussed above, we were satisfied that the export sales and domestic sales listings submitted by RFG (as amended) are complete and accurate. Tests of accuracy have been addressed with reference to links to source documents (discussed below for export sales and later in this report for domestic sales).

4.3 Verification of export sales to source documents

Prior to visit we requested that RFG provide supporting documents for seven shipments to Australia selected by the Commission. These seven shipments represented about 24% of the volume of exports to Australia during the investigation period.

During the verification visit RFG provided source document bundles for each of these shipments containing the:

- purchase order
- RFG commercial invoice

- packing list
- bank statement showing proof of payment to RFG
- bill of lading
- ocean freight tax invoice, for CFR shipments
- handling charges tax invoice
- RFG tax invoice

These document bundles form **confidential attachment EXP 4.**

4.3.1 Invoice number

The export sales spreadsheet listed invoice numbers for each shipment. During the visit we noted that the invoice number in the spreadsheet did not match the invoice number on the commercial invoice. RFG explained that the invoice number in the export sales spreadsheet is a SYSPRO invoice number and that matches the tax invoice whereas the invoice number on the commercial invoice is generated by EXPRILLO.

RFG further explained that export instructions including the generation of commercial invoices for export sales are processed in EXPRILLO. These export invoices will have a line for each product. RFG advised that its accounting system, SYSPRO that operates by each line item having a unique invoice number does not interface directly with EXPRILLO.

RFG provided us with copies of “RFI-SI check sheets” for each of the selected transactions that included the customer name, customer reference, sales order number, vessel and voyage, booking reference and SYSPRO invoice number (**confidential attachment EXP 5**). Using the data on the check sheet we were able to link the commercial invoice and tax invoice and match invoice number in the export sales spreadsheet.

4.3.2 Sales volume and value

We were able to reconcile sales volume in cases and sales value in AUD, using the commercial invoices and packing lists to the figures in the export sales spreadsheet.

With regard to payment we confirmed that payments matched the invoiced amounts. We noted however those payments for all of the selected transactions were made at about [redacted] days after B/L date despite the payments terms on commercial invoices for GAF and Metcash stating that payment terms are [redacted] days from B/L.

Notwithstanding the delayed payments for GAF and Metcash invoices, we noted that the credit terms quoted on the invoices were [redacted] days. We have no reason to believe that RFG’s export price reflects anything other than the quoted credit terms; hence the quoted terms have formed the basis of export credit terms adjustments discussed later in this report.

4.3.3 Ocean freight

RFG provided line by line data for the cost of ocean freight for all CFR sales listed within its export sales spreadsheet.

At the meeting we selected two CFR shipments and were provided with invoices from the shipping company and proof of payment. We were able to reconcile the payment and match the amount on the invoices with ocean freight amount in the export sales spreadsheet (**confidential attachment EXP 6**). In doing so we were able to follow the RFG allocations of ocean freight to canned peaches, which were based on the number of common cases.

4.3.4 **Inland freight and port charges**

The export sales spreadsheet listed line by line inland transport expenses. RFG stated that these were the expenses incurred in transporting the goods from the factory to the local port and loading them onto ships.

At Section E to its REQ, RFG listed a FOB breakdown by full container load (FCL) for the period April 2012 to March 2013 and the period April 2013 to March 2014. The breakdown included cartage from to the port, terminal handling charges, cargo dues, B/L documentation fees and container service charges.

At the visit RFG explained that the inland transport costs in the export sales spreadsheet were calculated by allocating the total charges on the basis of common cases (noting shipment included other goods). As mentioned in section 4.3 above, invoices for ocean freight and handling charges were included in the source document bundles (refer confidential attachment EXP3). We were able to match the amounts on the invoices with the figures listed in the export sales spreadsheet.

At the meeting we selected two CFR shipments and were provided with invoices from the transportation and logistics companies and proof of payment (confidential attachment EXP 6). In each case we were able to match payment to the selected invoices.

We examined the invoices provided and were satisfied that the invoiced amounts for cartage from the warehouse to the port as well as the port charges were representative of the cartage costs used by RFG in its FOB breakdown calculations.

4.3.5 **Export sales – conclusion**

We have examined the documentation provided by RFG to support the data in the revised export sales spreadsheet including the allocation methodology for ocean freight and inland transport. We found that the RFG invoice details reconciled and the ocean freight and inland transport allocations were as explained by RFG.

On the basis of our downwards verification to source documents we are satisfied that the data in the export sales spreadsheet is accurate.

4.4 Forward orders

RFG has contracted the supply of canned peaches to Coles and Metcash for shipment up until February 2014. In its REQ RFG provided details for each buyer of volumes, values and product of balances as at the end of June 2013.

4.5 The exporter

For all export sales during the investigation period, we consider RFG to be the exporter of canned peaches as RFG:

- is the manufacturer of the goods;
- owned the goods at the time prior to export;
- is listed as the supplier on the bill of lading
- invoices the importer for the goods;
- arranges and pays the inland transport costs from the place of manufacture to the port of export;
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the port of export;
- for CFR transactions, arranges and pays for the associated freight costs incurred in shipping the goods to the port of import;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia;
- sent the good for export to Australia and was aware of the identity of the purchaser of the goods; and
- received payment for the goods from the importer.

4.6 The importer

Coles:

We consider that for export sales of peach products to Australia in the investigation period, Coles was the beneficial owner of the goods at the time of importation. We noted that Coles:

- negotiates directly with RFG for the supply of goods and enters into binding legal contracts pursuant to negotiated terms;
- is named as the consignee on the bill of lading; and
- is the beneficial owner of the goods at the time of their arrival in Australia.

We consider Coles to be the importer.

Metcash

We consider that for export sales of peach products to Australia in the investigation period, Metcash was the beneficial owner of the goods at the time of importation. We noted that Metcash:

- negotiates directly with RFG for the supply of goods and enters into binding legal contracts pursuant to negotiated terms;
- is named as the consignee on the bill of lading; and
- is the beneficial owner of the goods at the time of their arrival in Australia.

We consider Metcash to be the importer.

GAF

We consider that for export sales of peach products to Australia in the investigation period, GAF was the beneficial owner of the goods at the time of importation. We noted that GAF:

- negotiates directly with RFG for the supply of goods and enters into binding legal contracts pursuant to negotiated terms;
- is named as the consignee on the bill of lading; and
- is the beneficial owner of the goods at the time of their arrival in Australia. .

We consider GAF to be the importer.

4.7 Arms length

In respect of export sales to Australia during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all export sales to Australia during the investigation period were arms length transactions.

4.8 Export price – preliminary assessment

We consider that:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporter; and
- the purchases of the goods by the importer were arms length transactions

In relation to exports by RFG to GAF, Metcash and Coles we recommend that the export price be determined under subsection 269TAB(1)(a), as the price paid by the importer less transport and other costs arising after exportation.

The weighted average quarterly free-on-board (FOB) export prices in South African Rand per can are summarised in the table below:

WA FOB (ZAR)/KG

Product Code	Q 1	Q 2	Q 3	Q 4
3044GASB00	[redacted]			
3044GHSB20				[redacted]
3044L	[redacted]			
3044MCNF10	[redacted]	[redacted]	[redacted]	[redacted]
3244MCBG10		[redacted]	[redacted]	[redacted]

Details of the export price calculations are at **confidential appendix 1.**

5 COST TO MAKE & SELL

5.1 General

In its REQ, RFG provided cost to make and sell (CTMS) spreadsheets for domestic and Australian sales of 825g canned peaches in syrup. During the visit, RFG also provided similar data for 410g canned peaches in syrup – this followed our request for such data which we sought to provide us a means for measuring profitability on like goods in case we needed to construct normal values for the 825g products.

RFG explained that the cost data as originally submitted was based on standards that had not been adjusted for price and usage variances. We explained that to use the CTMS data for testing the profitability of domestic sales, or as a basis for constructed normal value, we required the costs to be actuals. RFG agreed to adjust the CTMS data to reflect variances for the relevant period (investigation period) and it provided amended CTMS data including variances, which became the basis of our verification exercise.

The amended CTMS data is at **confidential appendix 2**.

The detailed CTMS data was presented in accordance with the following broad categories:

- Materials costs (fruit, sugar, chemicals, cans/lid, cartons, labels);
- Direct labour (production and labelling);
- Warehouse spoils;
- Manufacturing overheads;
- Other production costs (including machine rental for peach cutting machine);
- Other labelling costs;
- Selling costs;
- Administration costs; and
- Delivery expenses.

RFG explained that the selling costs in the RFG domestic CTMS spreadsheets are actually a unit cost calculation of the various 'trade terms' that represent deductions from the invoiced domestic selling price. This amount should not be taken into account where unit CTMS is compared with the net invoice price <u>after</u> terms.

RFG also explained that the unit cost calculations for delivery expenses in the CTMS spreadsheets were based on the amounts determined for delivery costs in the transactional data supplied for domestic sales. The verification of those expenses is discussed in the domestic sales section of this report.

5.2 Examination of the standard production costs

Given the RFG unit costs of production are based on a standard costing system, we sought firstly to establish confidence in the standard costing assumptions and calculations. In particular, we wanted to gain satisfaction that the RFG calculations for production cost standards were done in a manner that provided for reasonable cost calculations for the 825g canned peach product relative to other products. For example, we wanted to be sure the cost of fruit was assigned to the 825g peach product in a manner that did not understate (or overstate) the costs particular to that product. To this end, we asked specifically for a demonstration of how the fruit costs are allocated to each finished product line, and how joint costs and by-products are treated for costing purposes.

RFG provided a package of information supporting the standard cost calculations for its canned peach products, which is at **confidential attachment CTMS 1**. RFG explained a document called the “Peach pack plan”, which showed the budgeted yields from fresh peach purchases. This document indicated that approximately [redacted]% (by mass) will be suitable for canning (regarded as primary), [redacted]% will be used for puree and the balance ([redacted]%) goes to waste.

RFG then explained a document called the “Packout for peach 2013” and demonstrated how the cost of fruit (R[redacted]/Tonne landed, or R[redacted]/Tonne price to farmer) is determined for various canned products. RFG explained that the cost assigned to the puree proportion is based on an amount per tonne it would have to pay if it purchased puree (R[redacted]/Tonne landed). It was evident from the document that once this notional cost of puree was deducted from the total budgeted cost for peaches the remaining cost pool was assigned completely to the primary canned product. No costs were assigned to the waste. This provided for a cost of fruit for canning at R[redacted]/kilogram (puree was effectively assigned R[redacted]/kg).

Again with reference to the “Packout for Peach 2013” document, RFG demonstrated how the budgeted cost of fruit was apportioned to each different product line using the relevant factor for peach fruit content, for each can size. In the case of 825g cans, this factor is [redacted] (consistent with specification for drained mass of [redacted]%). This provides for a budgeted cost of fruit of [redacted] per 825g can (i.e. R[redacted] x [redacted] [actual cost of fruit in kilograms x actual factor consistent with specification of drained mass]), which matches the standard cost for fruit shown in the CTMS data submitted.

RFG explained further supporting documents in relation to the costs for sugar, labour and machine rental. As was the case for the evidence supporting the standard cost calculations for fruit, these further documents contained calculations that assigned sugar, labour and machine rental costs to the various canned peach product lines. In each case the resulting budgeted unit amount for 825g canned peaches in syrup was consistent with the CTMS data submitted and the calculation methodology seemed reasonable.

RFG also provided bills of materials (BOMs) for the brite can and labelled can products in relation to product codes 3042, 3044, and 3244. We noted that the data explained above was consistent with the corresponding cost elements shown within the BOM’s.

Having regard to the documents at CTMS 1, and the discussion above, we consider the RFG standards costs are based upon the records normally kept by the exporter, and that the assignment of production costs to the 825g canned peaches in syrup is reasonable. However, it remains important to take account of price and usage variances in order to arrive at reasonable amounts for the actual costs of production. The variances are discussed below.

5.3 Applying the variances

RFG used its Production Variance reports for the FY2011/12 and the YTD 30 June 2013 to identify price and usage variances to apply to the standard CTM unit costs submitted. A copy of this report for YTD 30 June 2013 is at **confidential attachment CTMS 2**.

Using these reports, RFG identified certain variances that are specific to peaches, those being the costs of peach fruit; machine rental – peaches; and direct production labour for peaches; and it applied these to the corresponding standard unit cost components in the CTMS spreadsheets. RFG then calculated a variance for the remaining production cost categories and applied this to the total of all other standard production costs.

In applying the variances for peach fruit, RFG applied only the usage variance to domestic costs, while it applied a price and usage variance to the export costs. RFG's rationale here was that the price variances on fruit purchased can only arise from circumstances where peach prices paid are adjusted in part because of export transactions sold at rates of exchange that vary from the position taken on rates when the peach price is initially contracted for the season. Further discussion on the peach prices paid to farmers is contained later in this report.

The net effect of applying the variances for the investigation period was to increase ([redacted]%) the unit CTM for the quarter July 2012 to September 2012, and to decrease ([redacted]%) the unit CTM for the subsequent three quarters in the investigation period.

5.4 Verification of production costs to the audited financial statements

We sought to link the actual total production costs on the YTD 30 June 2013 Production Variance report for the Fruit Plant (used above for application of the variances) to the Income Statement for the Fruit Plant. Taking account of the transition from cost of manufacturing to cost of sales, RFG demonstrated this link using SYSPRO. The link can then be made through the respective Income Statements for Fruit Plant; Canning Division and then to RFG Pty Ltd. Having regard to the same links between the cost of sales for the financial year ending September 2012, compiled on the same basis, the RFG Income Statement was aligned (with minor discrepancy) to the audited financial statements for September 2012.

We also sought to link the unit CTM amounts for 825g peaches to management reports and audited financial statements. RFG considered this would be difficult to achieve on a direct and accurate basis. We explained the relevance of this exercise was primarily to do with gaining satisfaction that the costs submitted are complete and relevant – and such that we have included all relevant costs and excluded all irrelevant costs.

We also explained that before relying upon the exporters CTMS data it is important to establish that the records being relied upon are kept in accordance with the generally accepted accounting principles of the country of export. Linking the data to audited financial statements contributes significantly to achieving this verification goal.

RFG provided detailed Income Statements for two categories – peaches (excluding 8oz and A10); and all products. RFG produced the CTM data from its SYSPRO package, although it also made manual calculations for some cost items to apportion those costs (on the basis of common cartons) to "peaches". RFG then multiplied its actual unit CTMS by the production volumes of 825 and 410 g peaches and arrived at total actual costs that were reasonably consistent with the total cost to make reported in the Income Statement for "peaches".

5.5 Verification of production costs to source documents

5.5.1 **Materials**

We chose to follow the cost information for fruit and cans back to source documents.

RFG explained the way in which peaches were purchased from farmers. RFG advised that:

- Contracts are established between RFG and farmers for the supply of fruit for the forthcoming season;
- The contracts establish the terms and conditions of the sale, including a pricing formula that is a function of an agreed price, a grading assumption, and an adjustment for the FOB selling price achieved by RFG on exports. The latter provision gives rise to price adjustments resulting from exchange rate fluctuations applicable to currency exchange on export sales;
- [redacted]% of the payment for fruit is paid "upfront". We noted in the example provided that payment was made by RFG in early February 2013 for fruit delivery in late December 2012.
- The balance is paid by October, after pricing adjustments are calculated, such that the farmers share the ups and downs (relative to the assumptions at the time of contract) arising from the export prices achieved by RFG.

RFG provided a copy of a standard peach farmer contract, which contained details of all the terms and conditions. In addition to the key considerations outlined above it also provided for delivery schedules; bonuses for late season fruit; tolerances for small fruit; and prices for juice grade fruit.

RFG also provided copies of a "Peaches intake" document and related payment details to a farmer for peach fruit delivery in December 2012. The calculations of invoice value, and the payment were consistent with the contract rates (as amended in November 2012 due to favourable currency exchange outcomes affecting RFG's price for finished goods). We also noted that the payment amount was in relation only to the [redacted]% [percentage of the final cost of fruit] upfront settlement.

In addition, we noted the amended rate (based on 100% grading) of R[redacted] /Tonne price paid to farmer matched the amount used in the standard costing pack at CTMS 1.

Copies of the source documents supporting the cost of fruit are at **confidential attachment CTMS 3**.

In terms of the cost of cans, RFG provided a Production Variance report for YTD 30 June 2013 (in the same format as CTMS 2). It also provided a copy of a document showing transaction values for ledger in relation to the usage of cans in that month, and the amount matched the actual cost shown in the production variance report as actual costs.

RFG also provided evidence of purchases from its sole supplier of cans in the form of an invoice, purchase order, delivery note, and payment details. We noted the unit costs of cans shown on these documents matched the unit amount used in the standard costing model.

All of the supporting documents for the cost of cans are contained **at confidential attachment CTMS 4.**

5.5.2 **Labour costs, machine rental and manufacturing overheads**

In terms of production labour costs (not including labelling labour), we note that the document pack at CTMS 1 contains details of the labour rates (permanent and non-permanent staff), shift hours, overtime factors, various labour on-costs and labour cost calculations. The documents support a unit calculation of the labour cost for 825g canned peaches that is consistent with the standard unit cost shown in the CTMS data.

Similarly, the document pack at CTMS 1 also contains calculations of the machine rental cost based on the number of machines allocated to the three categories of deciduous fruit – apricots, peaches and pears. The rates are different for each fruit, and the cost calculations also include an exchange rate assumption because the charges are in USD. The unit amount for 825g canned peaches that is calculated from this data matches the standard unit costs shown in the CTMS data.

In relation to the manufacturing overheads, RFG provided spreadsheets (Production qty.xls) showing its detailed calculations. The calculations take account of a component of direct overheads and an allocation of indirect overheads based on production volumes. Copies of the Fruit Plant Income Statement and a screen shot from the ‘cube viewer’ that displays the SYSPRO data, each supporting the cost pools allocated are at **confidential attachment CTMS 5**.

5.6 General and administration expenses

RFG explained that it had allocated certain head office overheads (for shared services such as creditors, debtors, IT, HR, Finance), and commercial and management expenses to the 825g canned peach CTMS data. These were labelled as administration costs in the CTMS spreadsheet.

In the case of the commercial and management overheads, these can be identified on the Income Statement for the Canning Division. RFG calculated such expenses as a percentage of cost of sales for that Division, and then used that percentage figure as the basis for an allocation of these expenses to 825g canned peaches in the CTMS spreadsheet. The calculation is shown in the amended CTMS spreadsheet at confidential appendix 2.

Copies of the Income Statements at the management reporting levels of RFG, Canning Division, and Fruit Plant (Tulbagh) are at **confidential attachment CTMS 6**. The Income

Statements were provided in relation to RFG's FY 2011, FY 2012, the Investigation period, and the 9 months to June 2013.

In the case of head office overheads, these expenses can be identified in the RFG Income Statement. RFG calculated such expenses as a percentage of cost of sales at that management reporting level, and then used that percentage figure as the basis for an allocation of these expenses to 825g canned peaches in the CTMS spreadsheet. The calculation is shown in the amended CTMS spreadsheet at confidential appendix 2.

We noted the total head office overheads and commercial and management overheads, measured as a percentage of cost of sales, for the investigation period was [redacted]%.

5.7 Interest expenses

Interest expenses were not initially allocated to the CTMS for 825g canned peaches, as submitted by RFG. These expenses can be identified on the RFG management reports. RFG calculated these expenses (net of interest income) to be [redacted]% of turnover. For the purposes of adding an amount for net interest expenses to the CTMS data, we converted the measure to be a percentage of cost of sales, which for the investigation period was [redacted]%. The CTMS data at confidential appendix 2 has been amended to include an amount for net interest expenses.

5.8 Costs to make and sell – preliminary assessment

We have verified RFG's costs to make and sell data for 825g canned peaches with reference to audited financial statements and to source documents. In doing so, we formed the view that such data was based on the exporter's records which were in accordance with the generally accepted accounting principles of South Africa, and reasonably reflected the production costs, and the administrative, general and selling costs, of RFG[1]. As a result, we are satisfied that the information provided is complete, relevant and accurate.

We consider that these costs to make and sell are suitable for:

- determining a constructed normal value under section 269TAC(2)(c); and
- assessing ordinary course of trade under section 269TAAD.

The verified unit CTMS calculations for RFG's 825g canned peaches are contained in **confidential appendix 2**.

[1] Customs Regulations 180 and 181 provide for such requirements. The audited financial statements for RFG included the following statement from the Auditors: "In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Rhodes Food Group (Proprietary) Limited as at 30 September 2012, and its consolidated and separate financial performance and its consolidated an separate cash flows for the year ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PUBLIC RECORD

6 DOMESTIC SALES

6.1 General

RFG explained that it's domestic sales includes sales to retail, wholesale, out of home (food services) and Africa (neighbouring states and other African countries). However, it confirmed that for the purposes of the REQ, it submitted only those sales of like goods sold in South Africa.

RFG advised that Shoprite Checkers is RFG's largest domestic customer representing [redacted]% of total company sales for the 11 month period ending August 2013. RFG stated that the Shoprite stores serve the low end of the market whereas Checkers serves the high end. RFG stated that there has been no volume growth for canned peaches in the last few years and that the only way to grow RFG's sales volume is to increase market share.

RFG explained that the domestic market is extremely competitive. Koo, the leading and biggest brand in the country, is owned by Tiger. In terms of pricing the Koo label is the market's premium product of choice grade canned fruit, followed by the Rhodes label and then the house brand labels. RFG commented that it pegs its prices below Koo and if Koo drops its price RFG follows.

RFG noted that the majority of its fruit sales occur in the period October through to December. RFG normally sells out of stock at this time and rarely carries over stock to the next year.

As mentioned in the "Like goods sold domestically by RFG" section above (refer 3.4) RFG submitted that domestic product codes 3042SH and 3042HB are the most comparable sales of like goods. As can be seen in the table below [redacted]% of product codes 3042SH and 3042HB are sold to Shoprite Checkers.

Retailer	3042HB	3042SH	Kgs	%
Shoprite Checkers	[redacted]			
Other				
Grand Total				

In its response to the REQ, RFG provided a domestic sales spreadsheet listing each domestic sale of canned peaches (standard, choice, slices, halves, syrup, juice, 825g and 410g) made during the investigation period. We noted that all sales of these products were to retailers.

The spreadsheet included line-by-line information relating to:

- customer
- level of trade
- grade
- packing size

- product code
- invoice number and date
- order number
- delivery terms
- payment terms
- sales quantity in cases
- gross invoice value
- discounts
- net invoice value
- terms (Co-op, damages, trade terms, Free stock)
- inland transport

We sought to verify the domestic sales data contained within the domestic sales spreadsheet during our meetings with RFG. As mentioned is section 4.2, prior to the visit RFG provided us with a revised domestic sales spreadsheet that removed the erroneous inclusion of some African sales (i.e. outside of South Africa), refer **confidential attachment DOM 1**. For further discussion of the verification process refer to sections 6.2 and 6.3

6.1.1 Domestic sales process

RFG described its domestic sales process, with respect to Shoprite Checkers, as follows:

- The Shoprite Checkers distribution centre monitors stock levels and when stocks reach a certain level an order is generated through the electronic data interface (EDI) portal for either direct supply or to transport by a third party;
- Upon receipt of the order, details are logged into RFG's system at the factory and a booking slot is made for delivery to the Shoprite distribution centre;
- At the RFG warehouse goods are loaded onto a rented pallet (RFG rental is for about a day as on delivery to the customer the pallet rental is transferred to the customer account);
- Once on the pallet the product is shrink wrapped (in the same way as exports) and loaded onto the truck for delivery
- Transport to Shoprite Checkers is by a third party logistical supplier, TFD Network Africa (Pty) Limited (TFD).
- Upon receipt of the goods Shoprite Checkers marks up receipts and accepts on the invoice; and
- RFG forwards a statement to Shoprite Checkers at the end of the month.

6.1.2 Levels of trade

RFG advised that the level of trade for all domestic sales of the goods under investigation is retail.

6.1.3 Delivery terms

RFG stated that the delivery terms for all domestic sales are delivered into store.

6.1.4 **Payment terms**

RFG informed that the payment terms for domestic sales are [redacted] days after statement. Statements are issued at the end of the month of delivery and RFG considered this to be the equivalent of an average of [redacted] days credit terms.

6.1.5 **Rebates, discounts and commissions**

Terms

RFG explained that it makes a general terms of trade agreement with its customers which covers every product supplied including the specification for house brand or branded product, rebates paid for branded product, quality assurance rebate for house brand product.

RFG advised of the following "terms" of sale that apply to its domestic customers:

- **Co-op** – advertising spend agreed with the customer during the year;
- **Damages** – cost of damaged product uplifted from the trade;
- **Trade terms** – the terms of trade agreed with customers which covers rebates, settlement discounts, variable advertising spend and growth incentives; and.
- **Free stock** – advertising costs where RFG provides free stock.

Discounts

We have examined the domestic sales listing and note that during the investigation period the discounts applicable to 3042SH and 3042HB ranged from [redacted]% to [redacted]%.

Commission

RFG stated that it makes an agency agreement with its merchandisers that look after the product in the stores. As an example RFG noted that the commission paid with regard to Shoprite for private label (standard grade) is [redacted]% and the commission for branded label (choice grade) is [redacted]%.

We have noted that in the agency agreement provided as part of the REQ the commission payable on private label products, except for baked beans is [redacted]%.

6.2 Verification of sales to audited financial statements

Our verification of export and domestic sales to the audited financial statements is explained in section 4.2 above.

6.3 Verification of sales to source documents

Prior to the visit we selected 10 domestic sales transactions, including two credit transactions, for detailed verification. Seven of these transactions were for sales to Shoprite Checkers. For each transaction we asked RFG to provide:

- purchase order;
- order confirmation;
- commercial invoice;
- evidence of payment;

- inland freight invoice and evidence of payment; and
- discount and rebate source documents.

The domestic sales documents are at **confidential attachment DOM 2**.

6.3.1 Sales volume and value

We were able to reconcile sales volume in cases and sales value in ZAR using the commercial invoices and packing lists to the figures in the domestic sales spreadsheet.

6.3.2 Discounts

Six of the selected transactions included a discount of either [redacted]% or [redacted]%. We were able to match the discount listed in the domestic sales spreadsheet to the discount amount on the invoice. We were also able to trace the payments for these sales and match the amount paid to the invoice amount net of the discount.

6.3.3 Payment terms

Payment terms for domestic sales are [redacted] days after statement. As mentioned above RFG advised that statements are issued at the end of the month of delivery.

During the visit we requested RFG provide payment details for the 7 selected transactions that were for sales to Shoprite Checkers, refer **confidential attachment DOM 3**. We have reviewed the payment details and noted that payments for 4 selected invoices were exactly as per the terms whereas the payments for the remaining 3 invoices were between [redacted] to [redacted] days after the end of the month of delivery.

Notwithstanding the delayed payments for some of the Shoprite Checkers, we noted that the settlement terms quoted on the tax invoices were [redacted] days. We have no reason to believe that RFG's domestic price reflects anything other than the quoted settlement terms; hence the quoted terms have formed the basis of domestic credit terms adjustments discussed later in this report.

6.3.4 Trading terms

RFG explained that it maintains full stock responsibility and records trading terms expenses under selling expenses in its management accounts. For the purpose of the domestic sales spreadsheet, RFG itemised co-op, damages, trade terms and free stock for each transaction.

Coop

We have reviewed the domestic sales spreadsheet and note that there were no Co-op fees applicable to the goods under investigation.

Damages

RFG advised that historically, damages account for less than [redacted]% of gross sales revenue, for the total business however RFG noted that the damages claim for Shoprite is [redacted]%.

To support this figure of [redacted]% RFG provided us with table listing damages and total sales for Shoprite Checkers for the 12 month period ending June 2013, refer **confidential attachment DOM 4.**

We have noted in the domestic sales spreadsheet, in relation to product codes 3042SH and 3042 HB the damages figure for each line is [redacted]% of the net sales value.

Trade terms

RFG advised that the trade terms applicable to Shoprite Checkers Housebrand is [redacted]%. To support these figures RFG provided us with a copy of the Shoprite Checkers trading terms agreements for 2011, 2102 and 2013, refer **confidential attachment DOM 5**.

RFG explained that [redacted]% of this figure comprised the following monthly off statement rebates: total range basic rebate [redacted]%; settlement terms [redacted]%; and advertising [redacted]%. It stated that the remaining [redacted]% comprised an annual Housebrand basic rebate [redacted]% and monthly rebates for data-sharing [redacted]% and quality assurance [redacted]%.

RFG explained that to give effect to the [redacted]% off-statement rebates (as explained above) this is deducted from the monthly amount owed by customers. We noted in the payment evidence provided at confidential attachment Dom 3 that [redacted]% of the total invoice values was being deducted, and that the bank payment details accord with the net amount after deduction of the [redacted]%.

To support the [redacted]% figure RFG provided us with a Shoprite Checkers invoice, dated 10.01.2013 requesting a trade terms payment for the period 12/12. RFG provided us with source documentation to show how the Housebrand basic rebate, data sharing and quality assurance rebates were calculated, refer **confidential attachment DOM 6.**

We have noted in the domestic sales spreadsheet, in relation to product codes 3042SH and 3042 HB, the amount for trading terms is equal to [redacted]% of the net sales value.

Free stock

We have reviewed the domestic sales spreadsheet and note that there is no free stock for product codes 3042SH and 3042HB,

6.3.5 **Inland transport**

Delivery terms for all domestic sales are delivery into store and RFG provided transport invoices for each of the selected.

RFG stated it cannot calculate an amount for domestic inland freight particular to any given transaction because (1) large customers such as Shoprite have many locations of varying distances from the fruit plant; and (2) almost all deliveries comprise mixtures of products. Accordingly, RFG explained that it assesses domestic freight as a percentage of net revenue based on its knowledge of domestic freight costs by customers / by region, and an average determined by customer group (eg. Shoprite Checkers).

RFG provided a distribution matrix for all African countries, refer **confidential attachment DOM 7,** which indicated the rates for South Africa ranged between [redacted]% and [redacted]% of turnover. RFG stated that the average freight rate historically assigned to

Shoprite/Checkers is [redacted]%, which it explained as an average of the location-specific rates for Shoprite. We noted that the amount used to calculate inland freight in the domestic sales spreadsheet for product codes 3042SH and 3042HB sales was [redacted]%, whereas the range used across all domestic sales in the investigation period was between [redacted]% and [redacted]%. We consider that RFG's approach to allocating domestic inland freight costs to the sales of like goods was reasonable.

6.3.6 **Commission**

We have examined the domestic spreadsheet and noted that the commission for product codes 3042SH and 3042HB is [redacted]%, which is consistent with the agency agreement provided in support of the RFG REQ.

6.3.7 **Domestic sales – conclusion**

We have examined the documentation provided by RFG to support the data in the domestic sales spreadsheet including the allocation methodology for Co-op, damages, trade terms, free stock and inland transport. We found that the RFG invoice details reconciled and the "terms" and inland transport allocations were as explained by RFG.

On the basis of our downwards verification to source documents we are satisfied that the data in the domestic sales spreadsheet is accurate.

With regards to our upwards verification to the management reports and the audited financial statements we are confident about the completeness and relevance of the data in the domestic sales listing.

6.4 Arms length

In respect of domestic sales during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all domestic sales during the investigation period were arms length transactions.

6.5 Ordinary course of trade and sufficiency of volume tests

We compared RFG's unit domestic selling price for each transaction to the fully absorbed CTMS of the relevant can size in the quarter of the sale. We found domestic sales at a loss to be in substantial quantities (greater than 20% by volume for the investigation period) for all of the most comparable product codes for 825g canned peaches, standard grade, in slices or halves, in syrup (2042HB, 2042SH, 3042HB, 3042SH).

We conducted a similar test in relation to 410g canned peaches, standard grade, in slices or halves, in syrup (8061HB, 8061SH, 8062HB, 8061SH) and again found the domestic sales at a loss to be in substantial quantities (greater than 20% by volume for the investigation period) for all of these product codes.

We then tested whether those sales at a loss were recoverable, by comparing the unit selling prices to the relevant and corresponding weighted average CTMS for the investigation period. The sales that were profitable, and those loss making sales that were recoverable, have been regarded as sold in the ordinary course of trade.

The volume of sales of like goods sold domestically by RFG in the investigation period that were made in in the ordinary course of trade was found to be as follows:

	Volume of sales in the ordinary course of trade (Kilos)	Volume of export sales (Kilos)	Volume of domestic sales of like goods in the ordinary course of trade as a percentage of export volume
825g canned peaches, standard grade, halves and slices, in syrup	[redacted]	[redacted]	[redacted]
410g canned peaches, standard grade, halves and slices, in syrup	[redacted]	[redacted]	[redacted]
Total like goods	[redacted]	[redacted]	[redacted]

The volume of domestic sales of 825g canned peaches, standard grade, in halves and slices, in syrup, sold in the ordinary course of trade was considerably less than 5% of the export volume. Accordingly, we find this to be a low volume (refer sections 269TAC(2)(a)(i) and 269TAC(14) of the Act), making such domestic sales unsuitable for use as normal value in terms of 269TAC(1) of the Act.

The domestic sales of 410g canned peaches, standard grade, in halves and slices, in syrup, sold in the ordinary course of trade was greater than 5% of the export volume. These sales, together with the sales of 825g canned peaches standard grade, in halves or slices, in syrup, sold in the ordinary course of trade do not represent a low volume of domestic sales. Therefore we consider these combined 410g and 825g sales are, a suitable basis for normal value – see further discussion in the Normal Value section of this report.

The calculations of substantial quantities and ordinary course of trade are at **confidential appendices 3 and 4**.

6.6 Profit on sales made in the ordinary course of trade

We calculated profit rates applicable to domestic sales of like goods that were made in the ordinary course of trade in the investigation period. These are discussed further in the context of a constructed normal value, later in this report. The profit rates are contained in the following table:

	Profit rate for those sales made in the ordinary course of trade – measured as a percentage of net sales revenue	Profit rate for those sales made in the ordinary course of trade – inverted to be a mark-up on full CTMS
825g canned peaches, standard grade, halves and slices, in syrup	[redacted]	[redacted]
410g canned peaches, standard grade, halves and slices, in syrup	[redacted]	[redacted]
Total like goods	[redacted]	[redacted]

The calculations of profits achieved on domestic sales of like goods made in the ordinary course of trade are also at **confidential appendix 5**.

7 THIRD COUNTRY SALES

RFG stated that only choice grade products are exported to third countries as opposed to the standard grade exported to Australia.

In its REQ, RFG provided a summary of sales quantities and values to third countries. The table indicated that sales to these third countries are 410g can size, standard grade only.

As the sales of like goods to third countries were not of the model considered most comparable to the goods exported to Australia, we did not undertake verification of the third country data.

We also considered that we were in possession of enough verified information to calculate normal values using domestic sales data, or by using a construction method.

8 ADJUSTMENTS

To ensure proper comparison of normal values with export prices we considered the following adjustments to domestic selling prices.

8.1 Inland Freight

In the domestic sales section of this report, the verification of amounts for domestic inland freight were discussed, and we concluded that the amounts recorded in respect of the domestic sales transactions were relevant and reliable.

Similarly, in the export sales section of this report we discussed the verification of inland transport from the fruit plant to the Cape Town port. It should be noted that within the calculation of an amount labelled inland freight, RFG also took account of other export related charges. Specifically, the charges included in addition to the inland transport from the fruit plant to port were terminal handling charges, cargo dues, B/L documentation fees and container service charges.

In order to ensure normal values are comparable with export prices, we consider that a downward adjustment to domestic selling prices is required for domestic inland freight, and an upward adjustment is required to arrive at a normal value that takes account of the export inland freight and other associated export charges.

8.1 Credit terms

As discussed earlier, we verified that the domestic credit terms were effectively [redacted] days from invoice, whereas the export credit terms were, depending on the customer, [redacted] days or [redacted] days.

RFG provided information pertaining to the prime lending rate for the investigation period, which was generally 8.5%. We noted that the majority of borrowing listed in the RFG audited financial statements were at “prime minus [redacted]%”. Hence we used an interest rate of [redacted]% for the purposes of the credit term adjustments. A copy of the information provided by RFG on the prime lending rate in the investigation period is at **confidential attachment ADJ 1**.

In order to ensure normal values are comparable with export prices, we consider it is appropriate to make a downward adjustment to domestic selling prices for domestic credit terms, and an upward adjustment is required to arrive at a normal value that takes account of export credit terms.

8.2 Domestic Commissions

As discussed in the verification of domestic sales, a commission of [redacted]% applied to the sale of the most comparable like goods. We consider it is reasonable to expect that this is an expense that is taken into account when setting price and it therefore represents terms/conditions that affect domestic price differently to export price.

In order to ensure normal values are comparable with export prices, we consider it is appropriate to make a downward adjustment to domestic selling prices for the amount of domestic commission.

8.3 Specification adjustment

RFG's domestic sales of its 410g canned peaches, standard grade, in slices and halves, in syrup, are considered to be sales of like goods, i.e. like to the 825g canned peaches exported to Australia. As discussed in the following section of this report, such sales of the 410g canned peaches that were in the ordinary course of trade are a suitable basis, along with certain sales of 825g cans, for normal value calculations.

However, to effectively compare the prices of 410g and 825g products, all prices were converted to amounts per kilogram. A comparison of unit prices per kilogram showed that prices of 410g cans were consistently higher than for 825g cans sold domestically by RFG in the investigation period.

Accordingly, in all transactions that involved sales of 410g canned peaches, standard grade, in slices and halves, in syrup, we considered a downwards adjustment was warranted to ensure the adjusted price is properly comparable with the export price of the 825g product exported to Australia. Specifically, we based the amount of the adjustment (ZAR [redacted]/kg) on the weighted average difference between RFG's domestic selling prices of 410g and 825g canned peaches, standard grade, in slices and halves, in syrup, which was verified for the investigation period.

9 NORMAL VALUE

As discussed above, the volume of RFG's domestic sales of 825g canned peaches, standard grade, in slices and halves, in syrup, that were sold in the ordinary course of trade was of a low volume (as defined) in the investigation period. Accordingly, RFG's domestic sales of this product group in isolation are not considered to be a suitable basis for normal value.

We also considered using RFG's domestic sales of 410g canned peaches, standard grade, in slices and halves, in syrup, that were sold in the ordinary course of trade, noting the volume of such sales was not a low volume (as defined). Furthermore, we noted that when combined with the domestic sales of 825g canned peaches, standard grade, in slices and halves, in syrup, that were sold in the ordinary course of trade, the total volume of suitable domestic sales measured (by mass) was approximately [redacted]% of the export volume in the investigation period. We therefore considered it was appropriate to establish normal value under s. 269TAC(1) of the Act, using domestic sales of like goods. Specifically we relied upon RFG's domestic sales of 410g canned peaches, and 825g canned peaches, standard grade, in slices and halves, in syrup, that were sold in the ordinary course of trade.

To ensure these domestic selling prices for like goods (calculated quarterly) are properly comparable to export prices, we consider the normal values should incorporate adjustments for the matters discussed above in the Adjustments section of this report

Our calculations of normal value are at **confidential appendix 6**.

10 DUMPING MARGIN

We compared the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the hole of that period and found that the goods exported to Australia were dumped at a margin of **1.2 per cent**.

The dumping margin calculations are at **confidential appendix 7**.

11 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export Price calculations
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Substantial quantities (20%) test
Confidential Appendix 4	Ordinary course of trade calculations
Confidential Appendix 5	Profit calculations
Confidential Appendix 6	Constructed normal value calculations
Confidential Appendix 7	Dumping margin calculations
Confidential Attachment GEN 1	Product codes and characteristics
Confidential Attachment GEN 2	Rhodes Food Group overview
Confidential Attachment GEN 3	Revised turnover summary
Confidential Attachment GEN 4	Verification to audited accounts supporting documents
Confidential Attachment EXP 1	Agreement with Coles
Confidential Attachment EXP 2	Agreement with Metcash
Confidential Attachment EXP 3	Revised export sales spreadsheet
Confidential Attachment EXP 4	Export sales document bundles
Confidential Attachment EXP 5	RFI-SI check sheets
Confidential Attachment EXP 6	Ocean and inland freight invoices plus payment evidence
Confidential Attachment CTMS 1	Standard cost calculation package
Confidential Attachment CTMS 2	Production variance report
Confidential Attachment CTMS 3	Cost of fruit
Confidential Attachment CTMS 4	Cost of cans
Confidential Attachment CTMS 5	Cost pools allocated
Confidential Attachment CTMS 6	Income statements – management level

Confidential Attachment DOM 1	Revised domestic sales spreadsheet
Confidential Attachment DOM 2	Domestic sales document bundles
Confidential Attachment DOM 3	Domestic sales evidence of payment
Confidential Attachment DOM 4	Damages supporting documents
Confidential Attachment DOM 5	Trading terms invoice
Confidential Attachment DOM 6	Trade terms supporting documents
Confidential Attachment DOM 7	Domestic freight and warehousing
Confidential Attachment ADJ 1	Evidence of prime-lending rate