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The Director, Operations One
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Dear Mr Bracic

ANTI-DUMPING INVESTIGATION INTO PREPARED AND PRESERVED TOMATO PRODUCTS

Introduction

This submission has been prepared in response to Anti-dumping commission's evaluation of the market situation in Italy.

1. The SEF states on page 27 ' *Commission is of the view that a 'market situation' refers to the presence of factors or composite factors which collectively operate to cause a degree of distortion in the market that renders arms' length transactions in the ordinary course of trade in that market unsuitable for use in determining normal value.*
2. SEF further states on page 33 that 'commission found that the 'evidence available to the commission in the circumstances of the investigation is not sufficient to support a finding that these payments operate in a manner which distorts the competitive market conditions...'
3. SPCA is of the view that there is enough publically available information to suggest that significant amount of payments are being received by the Tomato industry in Italy and that these are significant enough to cause a degree of distortion in the market. Please find attached Gain report from 2011.
4. According to the information provided in the Gain report , calculations for the market distortion effect can be derived as below

SUBSIDY CALCULATION			
SPS value		€ 183.00	
Hectares		67,586	
SPS per hectare		€ 2,707.7	
SPS per tonne		€ 38.7	70
Yield ratio		€ 59.5	65%
Base price		€ 88.00	
% received		44%	
SPS per 400g can	Euro	€ 0.02	
SPS per 400g can	Aud	\$ 0.03	0.74 2011 act
Est. FOB price		\$ 0.34	Based on ABS
SPS per 400g can	Aud	9%	

5. Up to 44% of the raw tonne price being influenced by the SPS is significant enough to distort the market pricing. The Gain report contradicts the second paragraph under 6.5.2 where it is concluded that “payments are no longer paid in relation to the cultivation of tomato crops specifically.”
6. ADC’s analysis of comparing the prices to Australian prices is not sufficient to establish if the market is not distorted by government support.

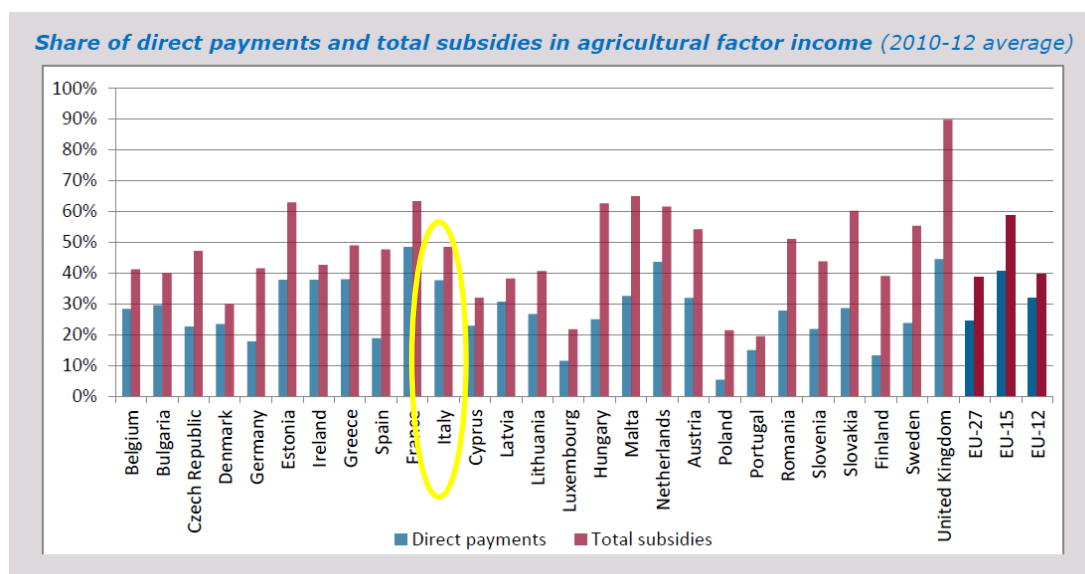
In addition to above, this level of impact on the total price of the can raises the question of whether the normal value needs to be calculated with reference to raw tomato price free of distortions due to the SPS.

If above payments were not in place; the prices of the raw tomatoes would have been even higher than current, possibly higher than the benchmarked Australian prices.

7. In addition to above, *attached Gain report highlights that*
 - a. ‘75% of the subsidy goes to 15% of the farmers’
 - b. Euro 183 M in EU aid will only benefit 1000 companies
 - c. 75% of the Italian tomato production comes from large companies
8. This suggests that the ADC analysis, at aggregate level, is not sufficient to establish if the payments did not cause a distortion in the prices and the cost of the products across.
9. These circumstances were examined in Minister for Small Business, Construction and Customs v La Doria di Diodata Ferraioli .This case was summarised in the Market Situation Discussion Paper (ADC website):

The Court held in that case that the Anti-Dumping Authority, and ultimately the Minister, had to make a practical factual judgement based on evidence, about the true nature and consequence of the production aid payments on the domestic selling prices of canned tomatoes in Italy. The Court held that it was a matter for the Authority to determine whether the payment of the production aid distorted domestic selling prices to the extent that canned tomatoes were being consistently sold at prices below the production and selling costs of the canners. The Authority came to the conclusion that it was, and that therefore the domestic sales in Italy were not suitable for use in assessing normal value as provided for in s 269TAC(2)(a)(ii). The Court held that this was the correct procedure to follow.

10. It is recognised by impartial observers that the production aid payment scheme has in effect been replaced by the SPS (albeit the SPS is not based on production, but payments are still made to growers, now directly, and the aggregate payments under the SPS are the same or exceed the replaced production scheme)



Sources: CAP expenditure: European Commission, DG Agriculture and Rural Development (Financial Report). GDP: Eurostat. Annual expenditure in 2011 constant prices.

After considering the above comments the Commission must review its finding on page 33 of the SEF.

'On this basis, in absence of positive evidence to the contrary, the evidence indicates that any payments provided directly to tomato growers in Italy are benefitting the growers in isolation and are not transferred to processors in the form of lower prices.'

12. However the evidence also suggests that if it were not for the SPS payments, then the growers would have had to increase their prices significantly to processors. Therefore the processors are benefiting because of the SPS and its impact on prices.

Conclusion

Based on the Gain report, SPCA is concerned that information has not been provided to the Commission or has only partially been provided.

The ADC should consider if this has significantly affected its analysis and if so request the Minister to extend the time to complete the Final Report.

Regards
Shalini Valecha



THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 12/16/2011

GAIN Report Number: IT1159

Italy

Post: Rome

Italy Tomatoes and Products Report 2011

Report Categories:

Tomatoes and Products

Approved By:

Jim Dever

Prepared By:

Alessandra De Luca

Report Highlights:

Italy is the world's third largest tomato producer and produces tomatoes throughout the year. Italy is forecast to produce 6 million metric tons (MMT) of tomatoes in MY 2011/12, of which 1 MMT will be consumed fresh and the remaining 5 MMT will be processed. Italy is a major exporter of processed tomato concentrate.

General Information:

According to World Processing Tomato Council (WPTC) data, the United States and China account for more than 50 percent of world tomato production (approximately 42 million tons). Italy's tomato production in MY 2010/11 was 5.5 million MT, ranking as the world's third largest producer. Generally, conditions in Italy allow for production of tomatoes throughout the year. However, the bulk of the processing takes place between the months of July and December. The cultivation of processed tomatoes is possible in many parts of Italy, but mainly in the regions of Puglia, Emilia-Romagna, and Campania. Growing conditions vary substantially between the different regions.

In the south, water is plentiful, but expensive to use. Many farms utilize drip systems or sprinklers. Farm sizes range from ten hectares to several hundred hectares. Growers have set up cooperatives, which are part of larger producer organizations, whose main task is to make joint offers, sign contracts with processing firms, supply seeds, fertilizers and other treatments, and own harvesters. Production in the north is completely mechanized and hybrids are predominantly used. The majority of the plantings are plug-seeding transplants. Direct seeding is rare and only used for the cultivation of paste tomatoes, which are sown with precision, machines using coated seeds. For peeling tomatoes, the acreage is planted with plug seedlings. Tomatoes for paste are all machine harvested, but those for the production of canned tomatoes are mostly harvested manually.

The Italian tomato processing industry produces passata, sauces, and pastes and, as in the United States, is entirely separate from the fresh-market industry. Specific characteristics differentiate the two types of tomatoes: fresh market varieties are juicier and harvested prior to being ripe, while processing varieties contain higher percentages of solids, are vine ripened, and typically have a thicker skin. Processed tomatoes are mainly produced on a contractual basis, with individual agreements between farmers and the industry. Each year producer associations and the Italian processing industry agree to a national fixed price. During MY2011/12, the fixed price was €88 per ton, which was an €18 per ton increase from the previous year.

Production

MY 2012/13 Italian tomato production is forecast at 6 MMT, of which 1 MMT will be fresh tomato and 5 MMT of tomatoes for processing. MY 2011/12 cultivated area for processed tomatoes was 67,586 hectares (Ha.), a 14.6 percent decrease from MY 2010/11. Despite a decrease in cultivated area, this year's harvest was good due to favorable weather conditions even though industry sources estimate a slight decrease in yields to around 70 MT/ha.

Consumption

Six out of ten Italian families have changed eating habits due to significant food price increases. According to ISTAT, the average Italian family spent €467 per month on food in 2010--a 1.2 percent increase from 2009. In 2010, Italian consumption of fruit and vegetables fell by almost 3.4 percent compared to 2009. Italians consume about 1 MMT of fresh tomatoes. Although Italians consume the

bulk of tomatoes as processed products, fresh tomato consumption is expanding along with consumption of other fresh produce. One of Europe's leading fruit and vegetable processors, Conserve Italia Group, is expanding their business in the fresh-cut sector.

Trade

Italy is both a major exporter and importer of tomato products, primarily because there is a tremendous amount of intra-industry trade. Italy imports a substantial quantity as inputs for further processing. After the United States China is a major source for these imports. Most of the tomato product Italy imports are reprocessed and re-exported. The 2004 labeling regulations (see discussion under Policy section), intended to favor domestic Italian production by identifying the source of the input tomato; have not resulted in any significant reduction of imports from China or elsewhere.

Italy is one of the world's leading exporters of processed tomato products, and in order to meet both domestic consumption requirements and a stable export demand, has increased imports. China's emergence as a high-volume, low-cost producer is being felt as traditional exporters are being displaced in global markets. Interestingly, China's largest paste market is Italy. Italy's fresh tomato sector in MY 2010/11 was valued at €116 million. Most of Italy's tomato exports are within the EU. In MY 2010/11, Italy imported 97,000 MT of tomatoes, a 27 percent decrease compared to 2009.

Italian Exports of Fresh Tomatoes

('000 MT)	2009	2010	Jan-Jul 2010	Jan-Jul 2011
EU	87	122	82	68
Germany	30	41	25	20
United Kingdom	9	12	7	6
Netherlands	6	10	8	5
France	5	9	6	4
Romania	3	7	5	6
Slovenia	6	6	4	4
Poland	3	5	3	3
Denmark	2	4	3	3
Austria	15	19	13	12
Extra EU	6	7	5	5
Switzerland	4	5	3	3
World	93	129	86	73

Source: Global Trade Atlas -GTA

Italian Imports of Fresh Tomatoes

			Jan-Jul	Jan-Jul
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('000 MT)	2009	2010	2010	2011
EU	118	87	50	74
Netherlands	49	40	21	22
Spain	31	21	14	32
France	22	13	8	13
Germany	10	9	5	5
Extra EU	14	10	8	6
World	132	97	58	80
Israel	8	7	6	5

Source: Global Trade Atlas –GTA

Italian Exports of Prepared Tomatoes

('000 MT)	2009	2010	Jan-Jul 2010	Jan-Jul 2011
EU	1,017	1,161	665	707
Germany	332	374	215	220
United Kingdom	259	309	176	178
France	149	153	92	99
Extra EU	571	625	363	368
United States	79	93	51	56
Japan	88	91	35	56
Australia	50	65	41	56
Belgium	53	63	35	56
Netherlands	59	63	35	40
Switzerland	37	39	22	22
Libya	38	36	0	0
World	1,588	1,785	1,028	1,075

Source: Global Trade Atlas -GTA

Italian Imports of Prepared Tomatoes

('000 MT)	2009	2010	Jan-Jul 2010	Jan-Jul 2011
EU	28	32	13	16
Spain	14	21	10	9
France	2	6	2	2
Greece	11	3	0	3

Extra EU	157	147	82	90
China	82	115	66	68
United States	70	31	16	20
World	184	179	95	105

Source: Global Trade Atlas -GTA

Policy

Italy does not provide any national subsidies (other than EU Single Payment Scheme) for processing-tomato producers. MY 2011/12 was the first year the complete decoupling for processing-tomato support entered into force after a three-year transitional period during which partial decoupling (50%) was applied. The Italian tomato SPS budget is estimated at €183 million per year for the next three years. Approximately 75 percent of the aid will be delivered to 15 percent of the Italian farmers.

The tomato processing industry has recently agreed on a price with farmers in both the north and south of Italy for the MY 2011/12 crop. This price was set significantly higher than the previous year in order to balance the EU support “loss.” In order to remain competitive in international markets, Italian processors need to lower processing costs and direct production towards higher value added products. According to industry estimates, the €183 million in EU aid will only benefit approximately 1000 Italian companies. In Italy, about 6 thousand farms are eligible to receive decoupled aid. Seventy-five percent of Italian tomato production comes from large companies. This means that those companies that should receive the aid do not. In 2004, Italy implemented a labeling requirement in hopes of offsetting the growing increase of foreign imports.