



# Review of injury and causation analysis



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# Summary

## Scope of review and key questions addressed

Frontier Economics was engaged to assist the Anti-Dumping Commission's (**ADC**) reinvestigation of REP 654, as requested by the Anti-Dumping Review Panel (**ADRP**). The ADRP accepted the application by SPC Operations Pty Ltd (**SPC**) for review of the Minister's decision and required the ADC to reinvestigate its finding in REP 654 that it was not satisfied that dumping and subsidisation had caused, or were causing, material injury to the Australian industry.

The ADRP's concerns focused on the adequacy of the ADC's injury and causation analysis. In particular, the ADRP sought further consideration of:

- whether any injury caused by dumping and subsidisation were material,
- the relationship between the dumping margins, undercutting and materiality, and
- whether the treatment of other factors such as increased costs, domestic competition and consumer preferences adequately supported the ADC's conclusion.

Our analysis in this report examines and extends the ADC's injury and causation analysis in REP 654, focusing on whether injury caused by dumping and subsidisation can be distinguished from injury caused by other factors. Where the data available to us have allowed, we identify how the injury and causation analysis can be extended to further test the finding that is the subject of the reinvestigation.

The report is provided to assist the ADC in preparing its reinvestigation report for the ADRP but is not a substitute for the ADC's reinvestigation report.

## Overall assessment of REP 654's injury and causation analysis

Overall, our view is that REP 654 adopted a reasonable and evidence-based approach to a difficult injury and causation question, noting that the ADC:

- Considered a broad range of injury indicators and did not treat injury coinciding with dumped or subsidised imports as enough, by itself, to establish causation.
- Considered the main potential channels of injury, including price effects, volume effects and consequential financial indicators.
- Also considered other possible causes of injury, including higher costs, domestic competition, consumer preferences and the continuing competitiveness of Italian imports.

## Further analysis of injury and causation

### The counterfactual used to separate causes of injury

Injury and causation are difficult to establish in this case due to a number of events affecting prices, costs and volumes occurring simultaneously. To separate injury caused by dumping and subsidisation from injury caused by other factors, the ADC needs to consider what would likely have happened in the market in the absence of dumping and subsidisation. That comparison is a counterfactual. In REP 654 the counterfactual is present but implicit, and is reflected most clearly in the remedied price analysis, which, in effect, quantifies the extent to which Italian imports would still have undercut Australian prices absent dumping and subsidisation.



In our opinion, the appropriate comparator is a market in which Italian imports remain but the dumping and subsidy margins are removed, so that imports are priced at undumped levels and other factors are held at their observed values. That is the comparator the remedied price analysis already applies. A market without Italian imports is not the appropriate comparator, because it would attribute to dumping the effect of fair Italian competition.

### **Price effects**

On prices, the ADC's revised calculations indicate that the dumping and subsidy margins account for around 3 percentage points of a price gap of 22 to 24 per cent, and the remedied price analysis leaves a residual gap between domestic and import prices of 9.4 to 20.4 percentage points. Because a dumping margin sets an upper bound on the possible price effect, most of the undercutting reflects factors other than dumping, though a small price effect could still be material to volumes in a price-sensitive market. The remedied price analysis identifies some dumping-related price effects but does not by itself establish whether they were material in the context of the domestic industry's returns; we set out how the ADC might assess this using the information it holds on injury and SPC's profits.

### **Volume effects**

On volumes, domestic industry volumes fell over the injury period, by around 24 per cent, while total market demand was flat and Italian import volumes rose. What drove that fall is not clear from the data. The dumping and subsidy margins are small, and the wholesale price evidence indicates that SPC's prices fell relative to import prices between October 2020 and around February 2023, before staying at about the same relative level during the investigation period. That pattern may help explain some earlier volume movements, but it provides less support for a price-led switching mechanism from SPC to imports during the earlier part of the injury period, because SPC's relative price position improved over that period. It also provides limited support for a continuing volume-displacement mechanism during the investigation period. Data limitations preclude a fully specified "change in volume due to dumping" causation analysis, which would require more frequent and consistent data on prices, volumes, costs, promotions, product mix, customer mix and retailer behaviour than are available. Having considered whether changes in relative prices supported dumping-induced switching, we do not find strong evidence that the volume losses during the investigation period were attributable to dumping, which suggests the impact of dumping is best measured through the remedied price analysis.

### **Other factors**

On other factors, our further analysis of the domestic-competition explanation helps distinguish SPC-specific injury from injury to the Australian industry as a whole. The Woolworths scan data indicates strong substitution between Ardmona (SPC brand) and Leggo's (Simplot brand) following Simplot's entry, even though Simplot was present for only 5 months of the 12-month investigation period. As with the ADC's original analysis, data limitations mean the treatment of other factors offers guidance rather than a complete explanation. Beyond the entry of Simplot, we were not able to identify the specific factors that drove the fall in domestic volumes, noting that many of the identified factors that favour sales of Italian tomatoes were likely to have been similar over the injury period and the investigation period.

### **Size of the injury attributable to dumping and subsidisation**

On the size of any injury attributable to dumping and subsidisation, SPC was loss-making in three of the four years of the injury period, and we estimate the effect of dumping and subsidisation on its result at around [confidential - estimated effect] on sales of around [confidential - sales value] in the investigation period. SAFCOL, the other Australian producer for which data is available, also appears to have reported a net loss in the investigation period,



though that data is unverified. Measured against the normal year-to-year variation in SPC's returns, the size of the total injury and the effect on SPC's viability, an effect of this size is small. Much of the deterioration in SPC's returns also occurred in the year to September 2023, before the investigation period for which dumping margins were calculated, which makes attribution to dumping harder.

### **Overall conclusion on the reinvestigation question**

We find that the price-related injury attributable to dumping and subsidisation was small relative to the normal variation in SPC's returns and did not change SPC's loss-making position, even though accounted for a moderate share of SPC's accounting losses. These conclusions should be read in light of the limitations identified in this report, including gaps in the available data, unverified material from producers other than SPC, the constraints of the Woolworths scan data, the limits of the statistical analysis, and the diagnostic rather than definitive nature of the attribution analysis.



# 1 Introduction and scope of work

## 1.1 Background to the engagement

The Anti-Dumping Commission is the Australian Government statutory agency established under the *Customs Act 1901* to administer Australia's anti-dumping system. One of its functions is to investigate allegations that imported goods are dumped or subsidised and to make recommendations to the relevant Minister on whether trade remedy measures should be imposed. The Minister then makes the final decision on whether measures should be applied under the *Customs Tariff (Anti-Dumping) Act 1975*.

In REP 654<sup>1</sup>, the Commissioner of the ADC found that dumping and subsidisation had occurred in relation to certain prepared or preserved tomatoes exported from Italy, and that SPC and the Australian industry had experienced injury across a range of indicators. However, the Commissioner was not satisfied that the dumping and subsidisation had caused, or were causing, material injury to the Australian industry. The Minister accepted the ADC's recommendations and decided not to apply anti-dumping measures.

The Anti-Dumping Review Panel is a separate statutory body that conducts merits review of certain decisions made by the Minister following an application from an interested party. In conducting a review, the ADRP may require the Commissioner to reinvestigate a specified finding under section 269ZZL of the *Customs Act 1901*.

SPC applied to the ADRP for review of the Minister's decision not to apply anti-dumping measures. The ADRP accepted SPC's application and required the Commissioner to reinvestigate the finding that the Commissioner was not satisfied that dumping and subsidisation had been causing, or were the cause of, material injury to the Australian industry.

## 1.2 Scope of this report

Against that background, the ADC has engaged Frontier Economics to assist with additional economic analysis of the injury and causation questions in REP 654 that are the subject of the ADRP's reinvestigation request, including the treatment of key assumptions and evidentiary gaps.

This report is directed to the finding that the ADRP has required the Commissioner to reinvestigate, namely whether dumping and subsidisation have caused, or are causing, material injury to the Australian industry. It assesses the injury and causation analysis in REP 654 and, where the available data allows, identifies how that analysis could be extended to further test that finding.

This report is confined to REP 654 and to the matters the ADRP has required to be reinvestigated. It does not assess the ADC's injury and causation practice generally, and it does not treat REP 654 as representative of the ADC's approach in other cases. This report does not itself constitute, or substitute for, the ADC's reinvestigation report to the ADRP. Rather, it assists the ADC's reinvestigation of the finding identified by the ADRP.

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<sup>1</sup> Anti-Dumping Commission, *Report No 654 Alleged Dumping Of Tomatoes, Prepared Or Preserved Exported from Italy and Alleged Subsidisation Of Tomatoes, Prepared Or Preserved Exported From Italy*, 27 January 2026.



## 1.3 Documents and materials reviewed

In conducting our analysis, Frontier Economics has reviewed the following documents:

- REP 654 and the Statement of Essential Facts.
- The letter from the ADRP to the Minister requesting reinvestigation.
- The ADC's confidential information mapping document for reinvestigation 654, which identifies the confidential data and case-file materials relevant to the injury assessment.
- The main confidential attachments to REP 654, including Australian market data from SPC and Safcol (no Simplot data was provided), exporter price information, economic condition analysis, price undercutting analysis, supermarket pricing evidence, CTM comparisons and the SPC brand survey.
- Relevant SPC application materials, Australian industry questionnaire responses, importer and exporter questionnaire responses, verification reports and work programs, and submissions on the Statement of Essential Facts.
- The model control code structure used to compare goods and prices in the Australian market.

## 1.4 Structure of the report

The remainder of this report is structured as follows:

- Section 2 introduces the legal framework for assessing injury and causation. It then summarises the ADC's decision in REP 654, the way REP 654 framed the investigation and the injury and causation questions, and the subsequent ADRP reinvestigation request.
- Section 3 assesses the ADC's treatment of price and volume causation, including the remedied price analysis, the treatment of volume loss, and the possible role of relative-price and volume-response testing.
- Section 4 considers the ADC's treatment of other factors that may have contributed to the injury observed.
- Section 5 considers factors relevant to determining material injury, including the size of any injury attributable to dumping or subsidisation, including price-related, volume-related and consequential injury, against benchmarks drawn from the Ministerial Direction.
- Section 6 sets out our findings on the matters that are the subject of the reinvestigation.
- Appendix A sets out regression results on the Ardmona and Leggo's data.



## 2 Legal framework and the ADC's decision

### 2.1 Relevant requirements under the Customs Act 1901

The relevant statutory framework is in Part XVB of the *Customs Act 1901* (**the Act**).

For present purposes, the central question is whether dumped and/or subsidised imports from Italy have caused, or are causing, material injury to the Australian industry producing like goods. Section 269TAE sets out the matters to which regard may be had in assessing injury and causation, including the volume and price effects of the imports and the consequent impact on the domestic industry. It also requires consideration of injury caused by factors other than the dumped or subsidised imports, so that such injury is not attributed to dumping or subsidisation.

The statutory test is not confined to whether injury exists, but whether there is a sufficient causal connection between the alleged dumping and the injury relied upon. Further detail is set out in the statutory provisions and in the ADC's treatment of injury and causation in Chapters 8 and 9 of REP 654.

### 2.2 Ministerial Direction on Material Injury 2012

*The Ministerial Direction on Material Injury 2012* (**Direction**) provides important guidance on the application of the statutory test.<sup>2</sup> In particular, the Direction makes clear that:

- Dumping or subsidisation need not be the sole cause of injury, but the injury attributable to dumping or subsidisation must be material in degree.
- Material injury is injury that is not immaterial, insubstantial or insignificant, and that the assessment is necessarily fact specific.
- The injury must be greater than that likely to occur in the normal ebb and flow of business.
- Identification of material injury must be based on facts, and not on assertions unsupported by facts.
- There is no threshold amount that is capable of general application. A material injury assessment involves a range of factors considered together, and no one or several of those factors can necessarily give decisive guidance.
- The relevant economic factors are those referenced at subsection 269TAE(3) of the Customs Act. They include the quantity of goods produced, the value of sales or forward orders, the level of profits, employment and wages, the terms and conditions of employment, and investment in the industry.
- Material injury may be found where dumping or subsidisation has slowed the rate of an industry's growth without causing it to contract, or where an industry loses market share in a growing market without a decline in profits. A loss of market share cannot alone be decisive. It is to be considered together with a range of relevant injury indicators.
- No minimum standard is to be used to determine whether dumped or subsidised imports hold a sufficient share of the Australian market to cause material injury. The Direction

<sup>2</sup> Available at: [https://www.industry.gov.au/sites/default/files/2019-5/acd\\_ministerial\\_direction\\_on\\_material\\_injury.pdf](https://www.industry.gov.au/sites/default/files/2019-5/acd_ministerial_direction_on_material_injury.pdf)



nonetheless recognises that materiality may be difficult to demonstrate where that share is small.

The Direction also contemplates that an industry weakened by other events may suffer material injury from a level of dumping that might not otherwise have that effect.

The absence of a general threshold does not mean that materiality is unstructured. The Direction supplies two reference points that can be applied to the evidence. The first is the ebb and flow benchmark, which asks whether the injury attributable to dumping exceeds the ordinary variation the industry would experience in any event. The second is the direction that the s 269TAE(3) factors be weighed together, which means no single indicator, including market share, decides the question on its own. We return to how these reference points are operationalised in section 5.5.

## 2.3 The Dumping and Subsidy Manual

The ADC also publishes a Dumping and Subsidy Manual, which explains the practices the ADC uses in administering the anti-dumping and countervailing system and aims to promote a consistent approach. It includes the ADC's approach to injury and causation.

The Manual is guidance describing the ADC's practice. It is not a legislative instrument and does not displace the requirements of Part XVB of the Act. It is nonetheless the principal published statement of how the ADC approaches these questions, and interested parties rely on it. Where this report considers the approach taken in REP 654, the Manual is a relevant reference point alongside the statutory test and the Ministerial Direction.

The Manual also describes how the ADC ordinarily examines causation. The ADC generally looks for a "coincidence" between the dumped or subsidised imports and the injury said to flow from them. Where no coincidence is found, or a coincidence analysis is not possible, the Manual contemplates that the ADC may accept an alternative analytical method. A "but for" analysis is one such method. Any alternative method must be evidence based. Consistent with WTO jurisprudence, it also requires a compelling explanation as to why causation exists despite the absence of coincidence.

That sequencing matters for what follows. Where this report discusses counterfactual or "but for" reasoning, it does so as a way of testing and explaining the causation analysis. It is not put forward as a substitute for the coincidence analysis the Manual describes.

## 2.4 Case context and analytical framing in REP 654

This section briefly summarises how REP 654 framed the investigation and the injury and causation questions. In broad terms, REP 654 first identified the goods under consideration and the relevant Australian industry, then assessed whether dumping and/or subsidisation occurred, whether the Australian industry suffered injury, and whether that injury was caused by dumping and/or subsidisation rather than by other factors.

### 2.4.1 Alleged dumping conduct

An investigation by the ADC was initiated following the application lodged by SPC.

The applicant's claim was that exporters from Italy exported prepared or preserved tomatoes into Australia at dumped and/or subsidised prices during the investigation period of 1 October 2023 to 30 September 2024.



### 2.4.2 Like goods and relevant product characteristics

The ADC found that locally produced goods are 'like' to the goods that are the subject of the application, as they compete directly in the same market and are either identical to or close substitutes for the imported products.

These goods are Tomatoes (peeled or unpeeled) prepared or preserved otherwise than by vinegar or acetic acid, either whole or in pieces (including diced, chopped or crushed) with or without other ingredients (including vegetables, herbs or spices) in packs not exceeding 1.14 litres in volume (prepared or preserved tomatoes), exported from Italy.<sup>3</sup>

### 2.4.3 Affected market or industry

The affected market or industry is the Australian industry producing like goods. The ADC found that the Australian industry is comprised of SPC, Simplot Australia Pty Ltd (Simplot) and Safcol Australia Pty Ltd (Safcol).

### 2.4.4 Investigation period and injury analysis period

The investigation period for assessing dumping was 1 October 2023 to 30 September 2024. The injury examination period is from 1 October 2020.

### 2.4.5 Injury measures claimed

The applicant SPC claimed the following injury measures:

- Volume injury (by way of lost sales volume and lost market share);
- Price injury (by way of price suppression and price depression);
- Loss of profits and profitability;
- Lower revenue;
- Reduced return on investment (**ROI**); and
- Reduced capacity utilisation.

### 2.4.6 Causation question addressed in REP 654

The causation question is whether dumping and/or subsidisation of the goods under investigation caused material injury to the Australian industry as opposed to injury arising from other factors. The ADC considered a broad range of other injury factors (Section 9.8 of REP 654). The specified factors that were identified as causes of injury included:

- The competitive advantage of Italian imports over Australia produced like goods, even after accounting for dumping and/or subsidisation;
- An increase in raw material costs and higher production costs for the Australian industry;
- An increase in domestic Australian competition; and
- A preference by some consumers for Italian products over Australian products, based on flavour preferences and origin.

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<sup>3</sup> REP 654, p. 43.



## 2.5 Summary of the findings in REP 654

Overall, the ADC found that, during the investigation period:

- Dumping occurred with margins ranging from 2.2% to 11.1%, accounting for 91% of exports;
- Subsidisation was non-negligible for non-cooperative exporters at a margin of 1.6%, accounting for 18% of exports. Subsidisation was negligible for all other exporters;
- SPC injury coincided with the export of dumped and/or subsidised goods from Italy in the form of volume injury, price injury, loss of profits and profitability, lower revenue, reduced ROI and reduced capacity utilisation;
- Dumping and/or subsidisation did not amount to material injury to the Australian industry; and
- The presence of other injury factors meant that the Commissioner was not satisfied that the dumping and/or subsidisation caused material injury.

## 2.6 The ADRP's review decision and subsequent events

### Summary of the ADRP's reinvestigation request

The ADRP accepted SPC's application for review of the Minister's decision in relation to prepared or preserved tomatoes exported from Italy. It requested that the ADC reinvestigate the finding in REP 654 that the ADC was not satisfied that dumping and subsidisation had been causing, or were the cause of, material injury to the Australian industry.

### Issues identified by the ADRP

The ADRP's reasons focused on the adequacy of the ADC's injury and causation analysis. In particular, it requested further consideration of whether the injury caused by dumping and subsidisation was material, and whether the ADC's reliance on other factors adequately supported the conclusion that material injury was caused by factors other than dumping or subsidisation.

The ADRP identified several matters for reinvestigation, including the treatment of additional injury caused by dumping, the relationship between dumping margins, undercutting and materiality, and the treatment of other potential causal factors such as increased costs, domestic competition and consumer preferences.

### Reinvestigation by the ADC

Following the ADRP's request, the ADC commenced a reinvestigation of the relevant findings in REP 654. The ADC has indicated that it will publish a preliminary reinvestigation report, invite interested parties to make submissions on the ADC's preliminary findings, and then provide a reinvestigation report to the ADRP. The ADC will provide its reinvestigation report by 6 November 2026.



## 3 Injury and causation: price and volume channels

The ADC's reinvestigation will make a finding as to whether it is satisfied that dumping and subsidisation was the cause of material injury to the Australian industry. This chapter assesses injury experienced by the Australian industry and the extent to which it was caused by dumping and subsidisation, working through the two channels by which dumped imports affect a domestic producer, being prices and volumes.

Section 3.1 first sets out the empirical evidence on SPC's and the importers' prices and volumes over the injury and investigation periods, which establishes what the causation analysis has to explain.

Section 3.2 identifies the categories of injury the ADC considered and how they connect to the causation question.

Section 3.3 sets out a framework for separating injury caused by dumping from injury caused by other factors, and explains why that framework matters when several factors moved at the same time.

Sections 3.4 and 3.5 apply the framework to prices and to volumes in turn. Other injury factors are then examined in Section 4 and Section 5 addresses factors relevant to determining whether any dumping-related injury was material.

### 3.1 Empirical evidence on injury

In this section, we briefly summarise the empirical material in REP 654 and include some further data available to us, before the following sections consider what it implies for causation.

#### 3.1.1 Evidence presented in REP 654

REP 654 presents its empirical evidence on the Australian producers and market in chapter 8, which assesses the economic condition of the industry over the injury period from 1 October 2020.<sup>4</sup>

The ADC relied mainly on verified data from SPC, the largest Australian producer, supplemented by less detailed and unverified data for Safcol and by import data from the ABF database.<sup>5</sup> It reported sales volume and market share for SPC and for the Australian industry as a whole,<sup>6</sup> SPC's selling prices against its costs,<sup>7</sup> and SPC's revenue, return on investment and capacity utilisation.<sup>8</sup> The figures are reported as indices relative to the first year of the injury period rather than as levels.

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<sup>4</sup> REP 654, pp. 96–101.

<sup>5</sup> REP 654, pp. 96–97.

<sup>6</sup> REP 654, pp. 97–98.

<sup>7</sup> REP 654, pp. 98–100.

<sup>8</sup> REP 654, p. 101.



### 3.1.2 Overview of price and volume data

The price and volume channels for injury are the focus of this section. SPC's revenue, return on investment and capacity utilisation are further examined in Section 5.

#### High-level data reported in REP 654

The price index data shown in Table 10 of REP 654 indicated that:

- Over the injury period (Oct 2020-Sep 2024), wholesale prices of both SPC and Italian imports increased by around the same amount (21-22%).
- Over the investigation period (Oct 2023-Sep 2024), wholesale SPC prices increased while Italian import prices fell.

With respect to volumes, Table 9 of REP 654 reports that:

- The total market demand was flat (growth close to zero) over the injury period.
- Australian industry demand fell by around 13% over the injury period and 0% over the investigation period.
- Italian imports increased by 10% over the injury period and 22% in the investigation period.

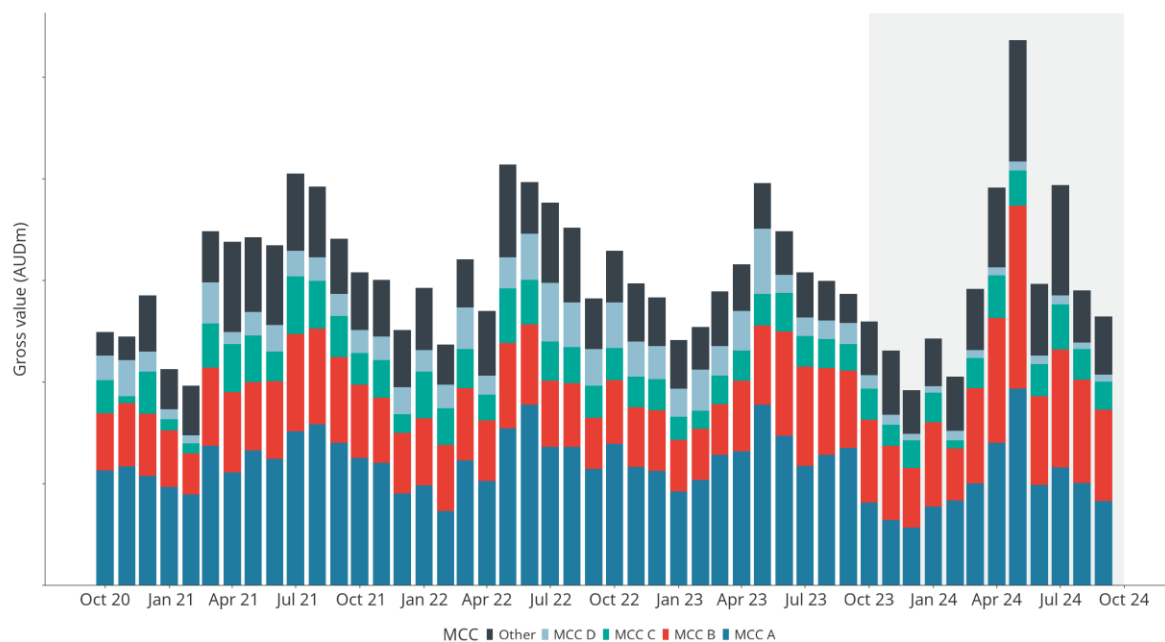
Corrections to ADC data<sup>9</sup> now indicate that the actual market growth was almost exactly zero, and the fall in Australian industry volumes was actually 24% rather than 13% over the injury period, and 13% over the investigation period (rather than 0%).

#### SPC's transaction-level data

Further data supplied to the ADC by SPC covering the entire injury analysis period provides additional insights on revenue, prices and volumes. Figure 1 shows SPC's monthly gross value by MCC. The grey shaded area highlights the investigation period. The chart shows significant variation in gross values across model control codes (MCCs)<sup>10</sup> with [confidential - MCC A] (dark blue) and [confidential - MCC B] (red) generating the most gross value. We will consequently focus our analysis of prices and volumes on these two MCCs.

<sup>9</sup> This reflects changes to recorded Simplot quantities.

<sup>10</sup> The ADC undertakes model matching using a MCC structure to identify key characteristics used to compare models of the goods exported to Australia and the like goods sold domestically in the country of export.

**Figure 1: SPC monthly gross value by MCC**

Source: Frontier Economics analysis

Figure 2 shows SPC's quarterly sales volume (blue, left-axis) and price (red, right-axis) for the two highest gross-value MCCs. Price is the volume-weighted average price across all customers, calculated as the gross value divided by volume within each quarter.

Regarding prices:

- Prices for [confidential - MCC A] remained relatively stable for most of the pre-investigation period, before increasing sharply immediately prior to the investigation period. Prices then declined and stabilised during the investigation period.
- Prices for [confidential - MCC B] increased gradually over time with a more pronounced rise during the investigation period. Volumes were volatile throughout the pre-investigation period and investigation period and exhibit some evidence of seasonality.

On volumes:

- Volumes for [confidential - MCC A] declined during the investigation period compared with the preceding three years in the injury analysis period.
- Volumes for [confidential - MCC B] were little changed over the injury and investigation periods.



**Figure 2: SPC quarterly sales volume (left) and price (right) by MCC**

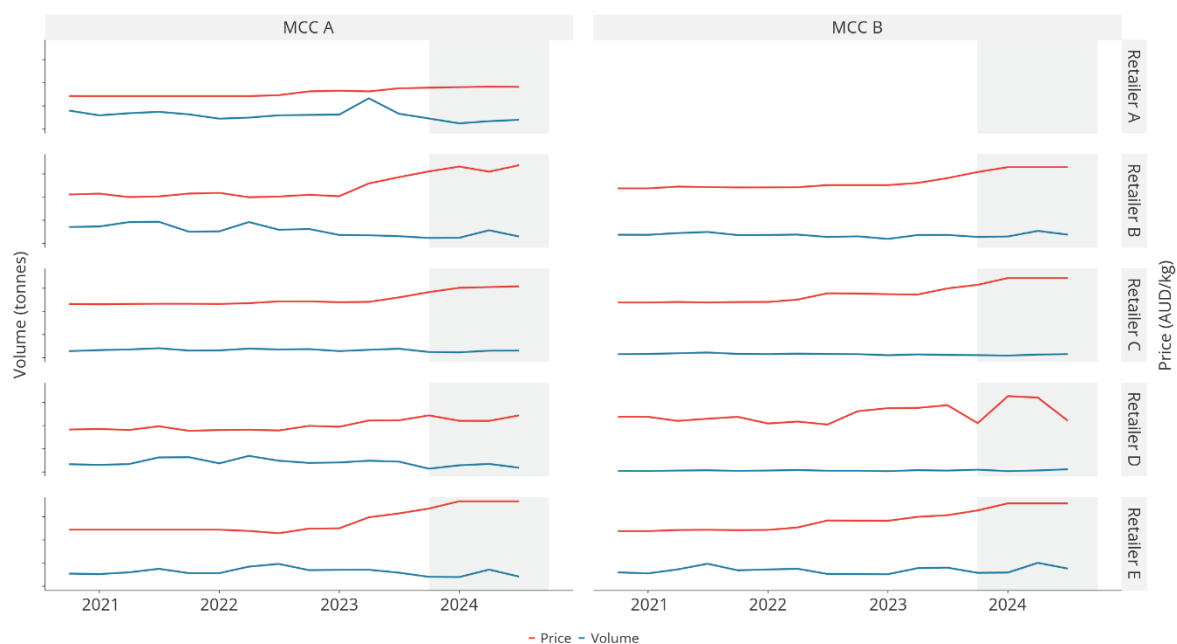


Source: Frontier Economics analysis

Figure 3 shows SPC's quarterly sales volume (blue, left-axis) and price (red, right-axis) for the two highest gross-value MCCs by customer. Price is the volume-weighted average price calculated as the gross value divided by volume within each quarter. The shaded area is indicative of the investigation period. The trends are broadly consistent with those observed in Figure 2. Prices generally increased over the pre-investigation period for customers within both MCCs, with the most pronounced increase occurring just before the investigation period. The chart also shows some evidence of seasonal variation in volumes for customer E, B, A and D while volumes for customer C remain fairly flat.



**Figure 3: SPC quarterly sales volume (left) and price (right) by MCC and customer**

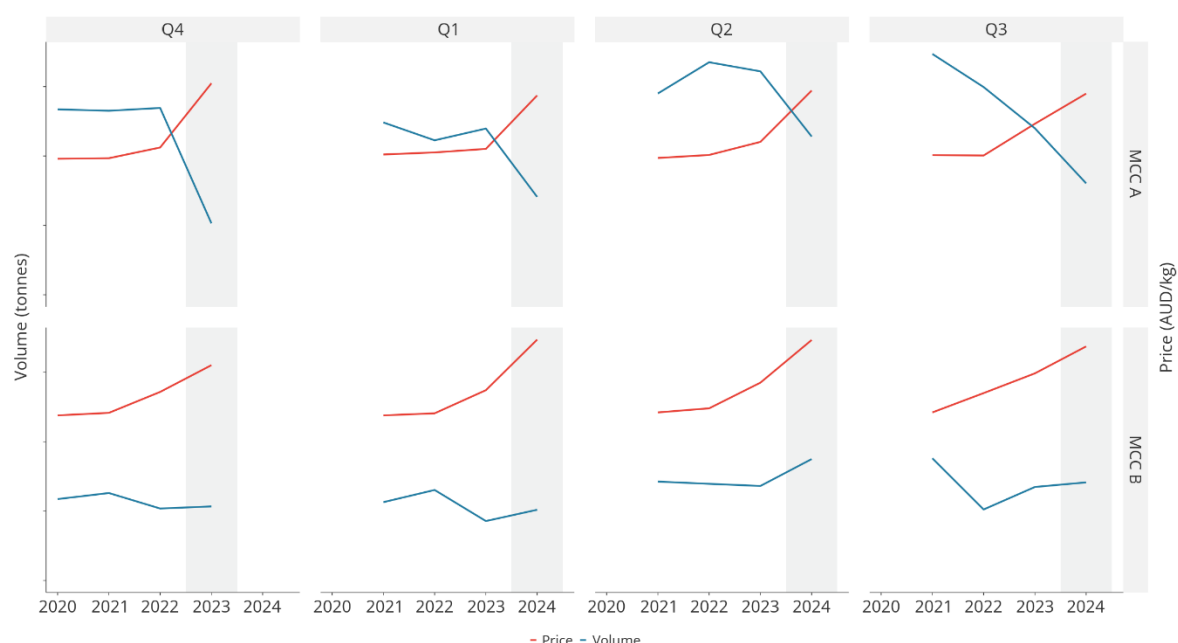


Source: Frontier Economics analysis

Figure 4 shows SPC's sales volume (blue, left) and prices (red, right) for the two highest gross-value MCCs by quarter, comparing year on year. Price is the volume-weighted average price across all customers, calculated as the gross value divided by volume within each quarter. The shaded area is indicative of the investigation period. Part of the quarterly variation appears to be due to seasonality (related to either production, consumption, or both) with volumes generally higher in Q2 and Q3 relative to Q1 and Q4.



**Figure 4: SPC sales volume (left) and price (right) by quarter, compared year on year**



Source: Frontier Economics analysis

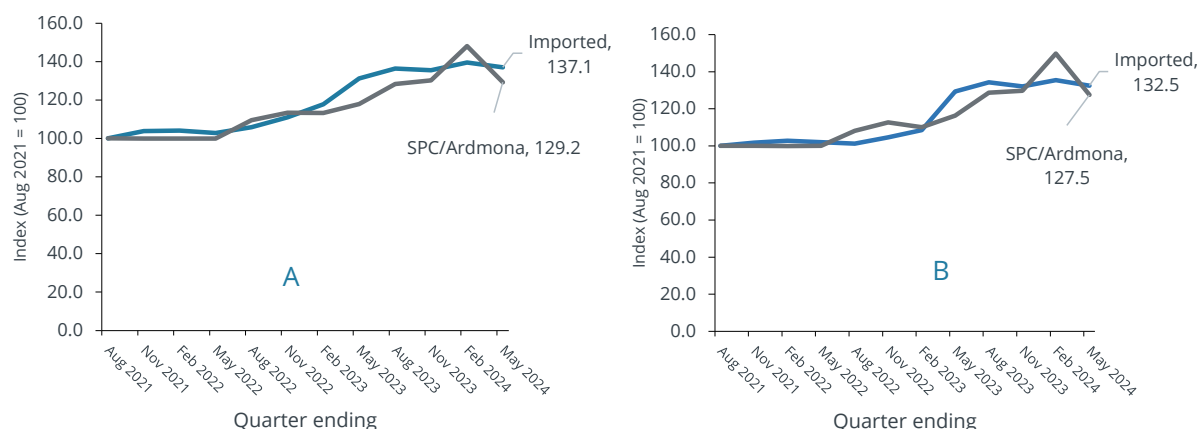
### Retail prices

The preceding data analyses wholesale prices. In our view, it is also helpful to understand how these prices translated to retail prices, as this is what ultimately drives volumes for a consumer product such as tomatoes. The ADC has already observed in REP 654 that retail prices for Italian goods significantly undercut prices for like goods produced by Australian industry<sup>11</sup>, and we also see this pattern through the injury period. For the analysis of injury, we would also like to understand how prices have changed over time to isolate the specific effects of dumping during the investigation period. As shown in Figure 5, supermarket scan data provided by SPC for a subset of the injury period and investigation period<sup>12</sup> highlights that changes in prices since the start of the injury analysis period were very similar across major retailers, with volume-weighted price indexes indicating price increases of 27-29% for SPC/Ardmona brands and 32-37% for imported brands.<sup>13</sup> Although the time series does not completely overlap with the wholesale price data, the retail data also does not show reductions in imported prices from October 2023 to May 2024 (data within the investigation period).

<sup>11</sup> See e.g. REP 654, p. 107.

<sup>12</sup> Confidential Attachment A-10. The data includes volume data from May 2020 and price data from August 2021.

<sup>13</sup> Volume weights are a moving annual total (MAT) for the last observation (May 2024).

**Figure 5: Retail prices at major supermarkets, volume-weighted index**

Source: Confidential Attachment A-10

**Table 1: Volume data at customer A and B**

| Retailer                    | Origin      | MAT to 16/05/21 | MAT to 15/05/22 | MAT to 14/05/23 | MAT to 12/05/24 |
|-----------------------------|-------------|-----------------|-----------------|-----------------|-----------------|
| [confidential - customer A] | Imported    | 100             | 104             | 102             | 109             |
| [confidential - customer A] | SPC/Ardmona | 100             | 93              | 78              | 52              |
| [confidential - customer B] | Imported    | 100             | 101             | 96              | 108             |
| [confidential - customer B] | SPC/Ardmona | 100             | 108             | 102             | 65              |

Source: Confidential Attachment A-10

Notes: MAT = moving annual total

From the same data source, Table 1 shows volume indices for Australian and imported canned tomatoes at customer A and B, each set to 100 in the moving annual total to May 2021 and tracked to May 2024. Imported volumes at both retailers were grew slightly over the period, ending at 108 to 109, while Australian volumes fell sharply in the final year to 52 at [confidential - customer A] and 65 at [confidential - customer B].

### What the data show and the implications for injury and causation analysis

The movements in prices and volumes across wholesale and retail levels highlight the complexity of the required analysis. These data sometimes show different trends but do not obviously point to lower import prices as a single cause of declining volumes in the Australian industry:

The evidence is clear that volumes moved against the domestic industry: total market demand was flat, Australian industry volumes fell, and Italian import volumes rose by around 10 per cent over the injury period and 22 per cent over the investigation period.



The pricing evidence in REP 654 suggested that, over the injury period as a whole, SPC's wholesale prices and Italian import prices rose by a similar amount, with clearer divergence during the investigation period.

The ADC's extended ABF-based analysis indicates a more nuanced pattern: SPC's prices fell relative to import prices between October 2020 and around February 2023, before staying at about the same relative level during the investigation period.<sup>14</sup>

At retail, imported brands rose in price by more than SPC and Ardmona, not less, over the subset of the investigation period for which data are available.

Because prices, import volumes, domestic competition and the dumping finding all moved over the same period, the data alone do not immediately show which of them drove the change in SPC's injury indicators. That sets the context for the questions this report addresses: whether dumping caused injury through prices, whether it caused additional injury through volumes, how far other factors such as Simplot's entry or other market changes explain the shift, and the factors relevant to determining whether any injury attributable to dumping was material.

## 3.2 Measures of injury considered

### 3.2.1 The ADC identified the main categories of injury

The ADC considered a broad range of injury indicators in REP 654. Its analysis covered

- volume effects, including sales volumes and market share;
- price effects, including price depression, price suppression and undercutting; and
- consequential financial indicators, including revenue, profit and profitability, return on investment and capacity utilisation.

In that sense, REP 654 did not confine the injury assessment to a narrow price comparison, but addressed the main categories of injury that would ordinarily be relevant in an anti-dumping investigation.

### 3.2.2 Linking the injury factors to the causation conclusion

As we understand the ADRP, the main limitation of REP 654 is not that the ADC failed to identify the relevant injury factors, but that the reinvestigation can more clearly explain some of the links between those factors and the causation conclusion.

REP 654 found injury across several indicators, but then needed to explain which aspects of that injury were attributable to dumping and subsidisation and which were attributable to other factors. This is the point at which the analysis becomes more contestable, particularly given that the same evidence on price pressure, lost sales and reduced profitability can be consistent with more than one causal explanation.

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<sup>14</sup> The Commission's analysis of the confidential ABF data is supplied in the Preliminary Reinvestigation Report, September 2026.



### 3.3 Use of counterfactuals (“but for”)

#### 3.3.1 The counterfactual in REP 654 is implicit rather than stated

Injury and causation are difficult to establish in this case. To separate injury caused by dumping and subsidisation from injury caused by other factors, the ADC needs to consider what would likely have happened in the market absent dumping and subsidisation, a comparison known as a counterfactual. REP 654 appears to ask whether, absent dumping and subsidisation, Italian imports would still have undercut Australian industry prices and continued to place pressure on the Australian industry. That is a relevant counterfactual that goes to what would have happened “but for” the dumping, and it is reflected most clearly in the remedied price analysis. It is useful to distinguish between two different counterfactuals here. The ADC commented that a counterfactual with an analysis of the position ‘if dumped and/or subsidised imports from Italy did not compete in the Australian market’ would be ‘only an estimate of little probative value’ (REP 654, p 141). But that is a full counterfactual, with the imports removed altogether. It does not displace the narrower counterfactual relevant to causation, removing only the dumping and subsidy margins, which is what the remedied price analysis does in substance.

#### 3.3.2 Coincidence analysis rests on an unstated baseline counterfactual

We do not suggest that a specified counterfactual should be the starting point for a causation analysis. The Manual’s ordering, under which a coincidence analysis comes first and a but for method arises where coincidence cannot be established, reflects the Commission’s current practice and we adopt it here. Our point concerns how a coincidence analysis is best supported where market conditions are not stable. A coincidence analysis infers causation from the co-movement of dumped import volumes and prices with the injury indicators, using the observed earlier period as the baseline. That baseline is itself a counterfactual, but an unstated one. It is a reliable comparator only if nothing else material changed over the same period.

Where little else is changing, that assumption is reasonable, and the coincidence method is both simpler and less dependent on assumptions. Chapter 22.2 of the Manual treats a but for method as an alternate, available where no coincidence has been found or a coincidence analysis has not been possible, and requires it to be evidence based and supported by a compelling explanation. The Manual separately requires that injury caused by other factors not be attributed to dumping or subsidisation, reflecting subsection 269TAE(2A). Under the coincidence method that exclusion is applied after the causal inference has been drawn.

#### 3.3.3 Several factors moved at the same time in this case

This investigation had several factors moving at the same time. REP 654 highlights that Simplot entered the market in May 2024, eight months into the investigation period, raw material and production costs rose, consumer preferences were in issue, and Italian producers held a structural cost advantage that would have persisted without any dumping. In those circumstances the observed baseline reflects all of those influences, and the assumption that nothing else material changed does not hold.

#### 3.3.4 A counterfactual effectively accounts for other factors

When used, a counterfactual should explicitly state what is assumed and hold other factors at their observed values, and the residual is the effect attributable to them. The remedied price analysis in REP 654 is a counterfactual of this kind, as only the dumping and subsidisation are removed, and in this case it operated to support the causation analysis.



The Manual's requirement that any alternate method be evidence based is important. The practical implication is if more factors are moving, the more useful it is to state the comparator explicitly, and the more carefully the basis for that comparator should be set out. Used in this way a counterfactual can strengthen a coincidence analysis or identify why it is not appropriate.

### 3.3.5 Prices and volumes are the two channels examined below

The two sections which follow are organised around prices and volumes. Dumped and subsidised imports affect an Australian industry through two direct channels, being the prices at which the industry sells and the volumes it sells. The Manual puts it in those terms, noting that causation may be established in volume or price effects. The remaining injury indicators, including revenue, profitability, return on investment and capacity utilisation, follow from prices and volumes rather than operating as separate causal channels. Specifying the counterfactual therefore reduces to two questions. What would SPC's prices have been absent the dumping and subsidisation, and what would its volumes have been? Section 3.4 addresses the first and section 3.5 the second. Section 5.7 returns to the consequential indicators.

## 3.4 But for prices and the remedied price analysis

### 3.4.1 What the remedied price analysis does

The ADC's remedied price analysis attempts to identify the extent to which observed price undercutting, and therefore injury, is attributable specifically to dumping and subsidisation rather than to other sources of cost advantage. In REP 654, the ADC increased Italian export prices by the applicable dumping and subsidy margins and then compared those remedied prices with Australian industry prices across product tiers.

### 3.4.2 The analysis is a useful step in isolating dumping-related undercutting

On its face, the remedied price analysis is a useful analytical step. It reflects the core causation question, namely whether the injury would materially diminish if the dumping and/or subsidisation were removed. It also provides a practical way of separating the component of the price gap associated with dumping from the residual gap that may instead reflect structural cost differences, economies of scale, product characteristics, procurement dynamics or other non-dumping factors.

The remedied price analysis also helps test whether SPC's inability to recover higher costs through higher prices was caused by dumping, or whether it would have remained part of SPC's cost-driven injury even if the dumping and subsidy margins were removed.

### 3.4.3 The analysis is not a complete causal framework

That said, the remedied price analysis is not a complete causal framework. The fact that remedied prices continue to undercut Australian prices does not, by itself, establish that dumping made no material contribution to injury. Rather, in this case, it shows that a significant part of the competitive disadvantage faced by the Australian industry would remain even if dumping were removed.

The key analytical question is whether the reduction in undercutting achieved by remedying dumping is itself material in the context of a price-sensitive market and an already weakened domestic industry. In our view, the ADC was right to use the remedied price analysis as part of its



assessment, but we also note that REP 654 does not fully explain how the measured reduction in undercutting translates, or fails to translate, into a conclusion on material injury. A more complete approach would link the remedied price comparison more explicitly to likely changes in sales volumes, margins or profitability, even if only qualitatively.

### 3.4.4 The counterfactual is better stated before the remedied price test is applied

For that reason, some of the counterfactual discussion fits naturally after the remedied price analysis. The remedied price exercise is the clearest practical expression of the ADC's implicit counterfactual, because it asks what the price comparison would look like if the dumping and subsidy components were removed. However, at the level of analytical framework, the counterfactual is better stated explicitly before the remedied price test is applied.

## 3.5 But for volumes and the treatment of volume loss

### 3.5.1 ADC identified volume injury and relevant other factors

The ADC expressly considered volume injury. In section 9.5 of REP 654, it identified lost sales volume and reduced market share for SPC during the investigation period, and recognised that those outcomes coincided with the presence of dumped and subsidised imports from Italy. The ADC also considered, in section 9.8, a range of other factors that may have contributed to those outcomes, including the competitive advantage of Italian imports, higher raw material and production costs for the Australian industry, increased domestic competition and consumer preferences for Italian products.

In our view, that framing was appropriate. Those other factors were clearly relevant to the causation analysis and provided plausible explanations for at least part of the decline in SPC's volumes and market share. The point is not that the ADC should have disregarded those factors, or assumed that volume injury was caused by dumping merely because volume injury and dumped imports occurred at the same time. Rather, the issue is that the reinvestigation can more clearly:

- tested the transmission mechanism by which dumping-related price effects were said either to have caused, or not caused, the observed loss of volume; and
- provided a conclusion as to its view on the likely proportion of volume injury that was caused by dumping as opposed to other factors.

### 3.5.2 Volume injury causation depends on a plausible price mechanism

The ADC found that over the **injury** period, there was:

- a 28% loss of volume by SPC and
- a 24% loss of volume to the total domestic industry.<sup>15</sup>

Those figures indicate that SPC's volumes fell materially over the injury period, while the total Australian industry experienced a smaller decline, implying that at least some SPC volume may have shifted to other Australian producers.

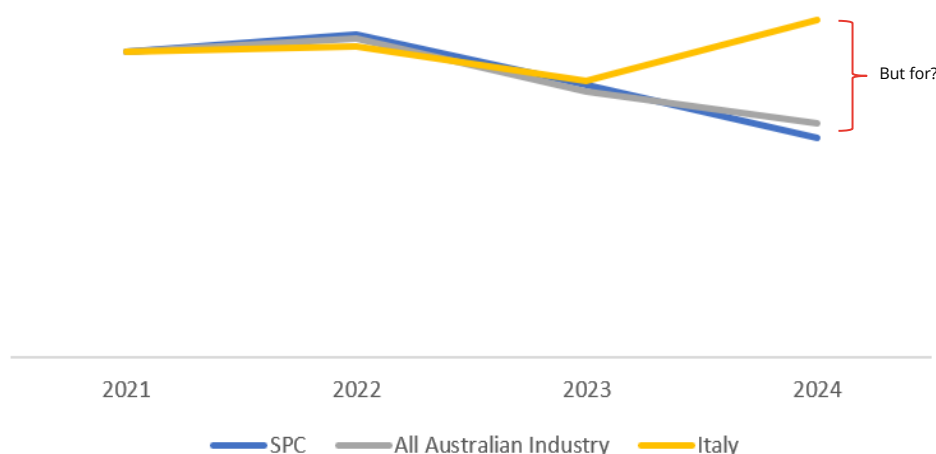
<sup>15</sup> Using corrected data for Simplot. In REP 654, this was reported as 13%.



At the same time, the ADC's evidence also suggests that Italian importers appear to have performed better again (Figure 6). The volume changes are consistent with more than one possible causal explanation. SPC's volume loss may reflect:

- domestic substitution to competitors,
- displacement by Italian-origin imports, and
- broader changes in demand, product mix or retailer ranging decisions.

**Figure 6: Change in Australian market sales volumes, injury analysis period**



Source: Anti-Dumping Commission, REP 654 (Figure 22).

In combination with findings on dumping, these findings support a presumption that SPC experienced injury, but that there would be a risk in finding that dumping caused the injury as there had been some substitution to other Australian producers.

From here, it is only possible to say more with a counterfactual volume analysis; that is, how did actual volumes compare with volumes that would have arisen without the dumping?

Where the data permitted, that counterfactual could in principle be estimated using a fully specified econometric volume model. Such a model would seek to estimate whether SPC's volumes, or domestic industry volumes more broadly, would have differed absent dumping-related price effects. As further discussed in Box 1, however, that type of model would require sufficient observations, independent movement in relative prices, and information on other drivers of volume. If those conditions cannot be met, the more practical approach is to use relative-price and volume evidence as diagnostic tests of whether the proposed volume transmission mechanism is consistent with the data (and to combine these observations with more qualitative analysis).

#### **Box 1: What a fully specified volume regression would test**

A fully specified volume regression would seek to estimate whether SPC's volumes, or domestic industry volumes more broadly, would have differed absent dumping-related price effects. In principle, the model would produce a counterfactual volume for the



investigation period, allowing any estimated volume loss to be converted into margin or profit terms.

Such a model would need to test the relationship between domestic volumes and relative import prices while controlling for other observable drivers of volume, including customer mix, product mix, seasonality, promotions, ranging decisions, product availability, domestic competitor activity and changes in demand.

The practical challenge is that the model would need to satisfy three conditions:

- it would need to separate relative-price effects from other drivers of SPC and domestic industry volumes;
- it would need to address the possibility that prices and volumes are jointly determined, rather than assuming observed correlations reflect causation; and
- its results would need to be identified from independent variation in relative prices.

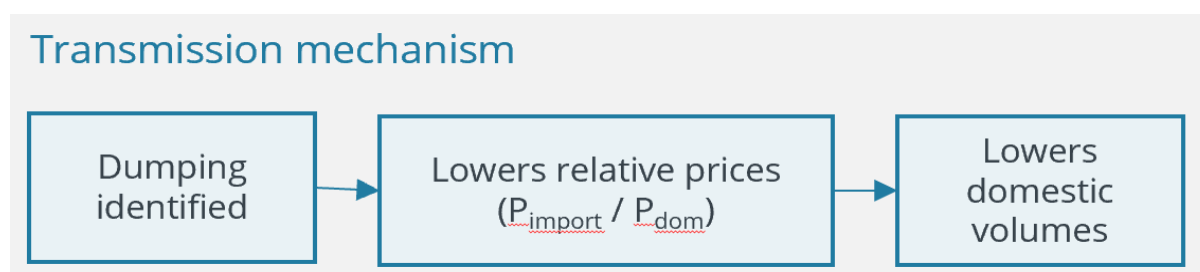
Where those conditions are not met, the model should not be treated as a complete attribution exercise. Its more useful role is as a diagnostic check on whether the evidence is consistent with a dumping-related volume mechanism, to be read alongside the qualitative evidence on pricing, product mix, customer behaviour and alternative explanations.

*Source: Frontier Economics*

In our view, a useful starting point for that analysis is to examine whether **relative prices** were moving in a way that made a volume-displacement effect commercially plausible.

If dumped imports caused SPC to lose sales, the expected mechanism is that the relative price of imported product improved compared with the domestic product, inducing customers to switch away from SPC or constraining SPC's ability to retain volume without reducing price. That mechanism depends less on whether import prices and domestic prices moved up or down in absolute terms, and more on whether the price gap, or price ratio, between them changed in a meaningful way (Figure 7).

**Figure 7: The injury transmission mechanism to volumes**



*Source: Frontier Economics*

For example, if import prices and domestic prices moved broadly together over time, with the relative price of imports remaining approximately stable, that would imply little variation in the main variable that would explain switching from domestic product to imports. A claim that dumping caused material volume loss would then require further support, because the observed



loss of volume may be more readily explained by factors that affect demand, product preference, domestic competition or SPC's own cost and pricing position. Conversely, if the relative price of imports improved materially during the relevant period, and that movement coincided with declining SPC volumes or market share, that would provide evidence more consistent with a dumping-related volume transmission mechanism.

In applying this test, it is important to distinguish the longer-period injury period evidence from the investigation-period evidence. The ADC's extended ABF-based analysis indicates that the relative price of imports increased between October 2020 and around February 2023, meaning SPC became cheaper relative to imports over that period. If the relative price of imports was then broadly flat during the investigation period, after that point, the evidence is less consistent with a continuing volume-displacement mechanism in which imports gained volume because they became progressively cheaper relative to SPC. The evidence during the investigation period, does not provide strong support for attributing volume loss to dumping through a widening import price advantage.

This point is closely related to the ADC's discussion of price undercutting in section 9.4.2 of REP 654. That section correctly recognises that the extent to which lower import prices affect the domestic industry depends on how customers respond to relative price differences. Box 2 explains why that response should be understood at the brand or origin level, not only at the level of total category demand.

#### **Box 2: Price elasticity and volume injury**

Section 9.4.2 of REP 654 correctly considered that price elasticity is relevant to assessing whether price undercutting by dumped imports could have caused volume injury. However, it is important to distinguish between the price elasticity of demand for the product category as a whole and the elasticity of substitution between competing brands or origins. Overall demand for prepared or preserved tomatoes may be relatively insensitive to price, but switching between SPC, other domestic brands and Italian imports may be much more responsive to small relative price differences.

If customers regard imported and domestic products as close substitutes, a relatively small dumping-related price advantage, including one of around four per cent, may cause a materially larger loss of volume for a domestic brand. For that reason, an aggregate view of price responsiveness may understate the potential injury caused by dumping. However, we would also expect higher elasticities to be associated with greater price matching – that is, rather than accept the volume decline, a firm would rationally lower prices to match the dumped price.

*Source: Frontier Economics*

### **3.5.3 Relative-price testing could distinguish volume displacement from price suppression**

The type of testing we recommend need not require a fully specified econometric model. As a relatively straightforward test, we can compare trends in the ratio of import prices to domestic prices: If domestic prices moved almost one-for-one with import prices, that may point more naturally to a price suppression mechanism, in which import prices constrain domestic prices. On the other hand, a widening relative price gap could indicate a separate volume-displacement mechanism. We now consider this kind of analysis further using the data available to us.



### 3.5.4 Application to the available relative price data

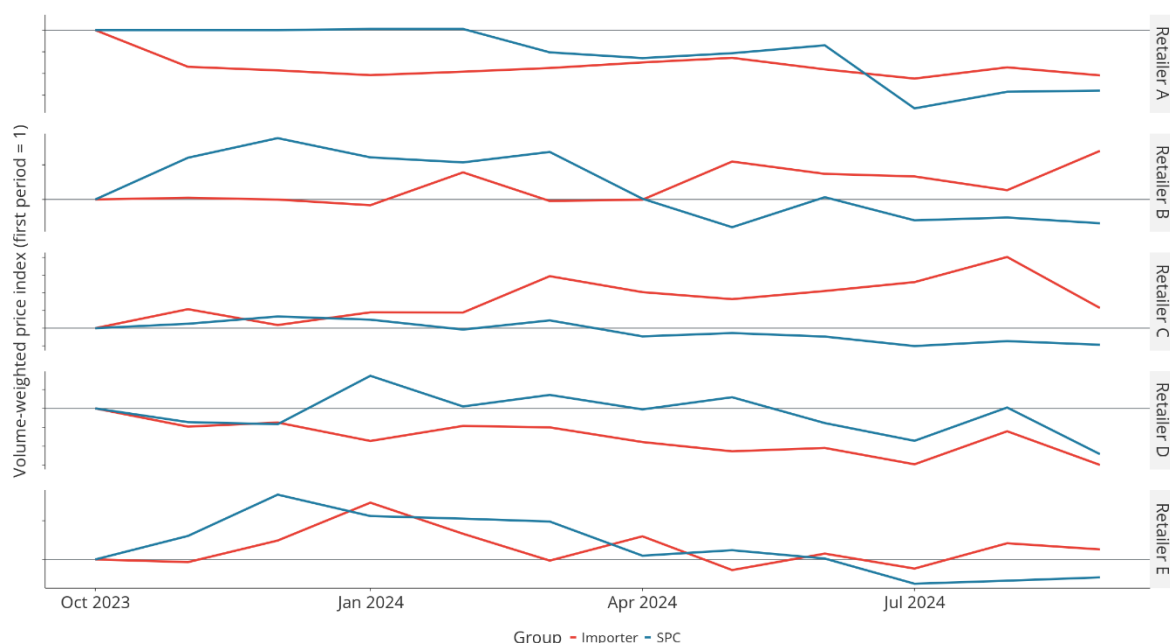
The preceding sections explain why relative-price variation is central to distinguishing volume displacement from price suppression. We now apply that diagnostic to the available SPC and importer pricing data. This section tests whether the available price evidence supports a distinct volume-displacement mechanism, rather than only a more general price-pressure or price-suppression mechanism. We first examine relative price variation, by which we mean how prices of SPC products vary compared with those of dumped imports over the investigation period.

#### SPC and import prices moved together

Specifically, Figure 8 shows the price indices (volume weighted) for SPC and the importers, separated by customer (customers A, B, C, D and E). The chart shows that SPC and importer price indices for [confidential - customers B, D and E] generally move together over time during the investigation period. This analysis is based on SPC and importer data available to us for the investigation period and by customer. The ADC's extended ABF-based analysis covers a longer period and may show a different trend at a more aggregated level. The two analyses therefore address related but not identical questions: the customer-level evidence tests whether relative prices changed during the investigation period in a way consistent with dumping-related volume displacement, while the extended ABF evidence is more relevant to longer-term price trends over the injury period.

This relationship is less apparent for [confidential - customer A] and [confidential - customer C] where the series exhibit greater short-term divergence.

**Figure 8: Growth index of volume weighted price by customer (Oct 2023 = 1)**



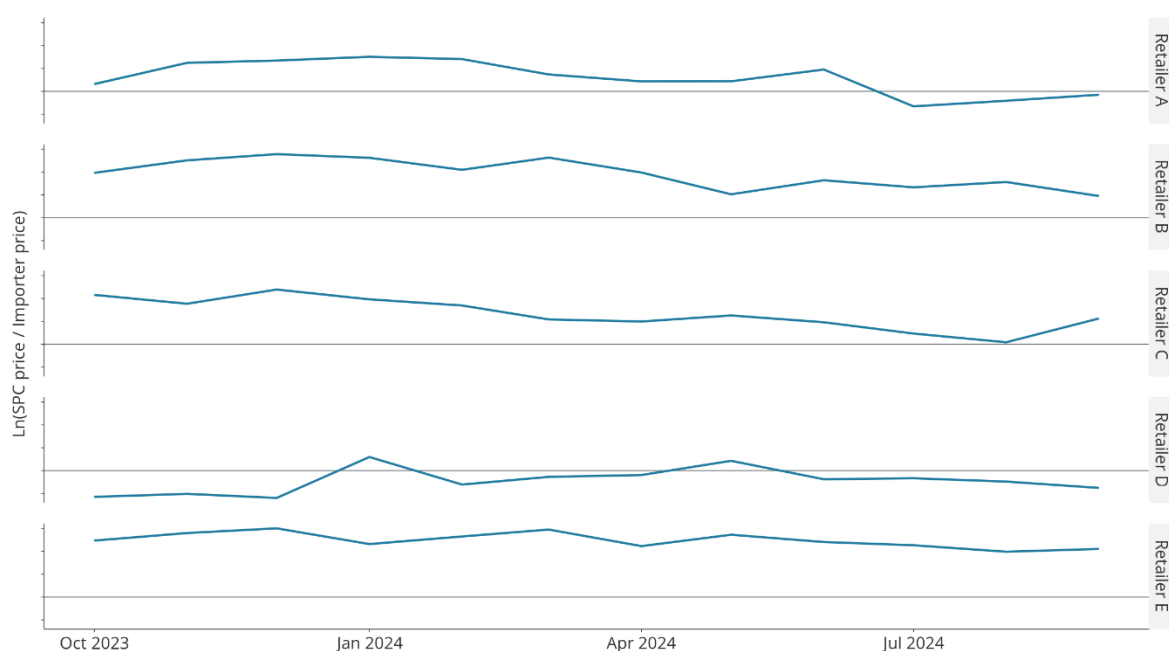
Source: Frontier Economics analysis of SPC and importer data



### The relative price gap was broadly stable

Figure 9 provides a more direct test of the same issue by measuring the relative price differential between SPC and the importers in log terms. Expressing the ratio in log terms is useful because changes in the measure can be interpreted approximately as percentage changes in the SPC price relative to the import price, making it easier to assess whether the relative price signal changed materially over time. While importers consistently priced below SPC across customer groups (as indicated by the series being greater than 0), the magnitude of that discount remained relatively stable over the investigation period. This suggests that price pressure from imports did not intensify materially over the investigation period, which limits the support for a separate volume injury mechanism driven by a widening relative price gap during that period.

**Figure 9: Relative price differential between importers and SPC in log terms by customer**



Source: Frontier Economics analysis of SPC and Importer data

### Direct regression was inconclusive

The analysis can be extended by regressing SPC's prices directly on importer prices. This can provide a measure of the strength of the relationship, including its statistical significance.<sup>16</sup> To assess this relationship, we tested a range of models including the MCC examined, lag relationships between importer and SPC prices, the functional form (levels and logarithms) and the treatment of customers and seasonality, including interactions between them.

Across these specifications, we were unable to identify a robust and statistically significant relationship between SPC's prices and importer prices once controls for customers and seasonality were included. While some specifications suggested a relationship between the two series, the estimated effects were generally sensitive to model specification and were not

<sup>16</sup> That is, how likely it is that we are estimating the true relationship as opposed to statistical "noise" in the data.



consistently statistically significant.<sup>17</sup> While the results were ultimately inconclusive, this may reflect the limited amount of available data rather than the absence of a relationship.

### 3.5.5 If changes in relative prices closely track, other causes of volume injury become more persuasive

The customer-level investigation-period relative-price analysis above indicates that the price signal needed to support a distinct volume-displacement mechanism during the investigation period was weak, because importer and SPC prices moved broadly together and the relative price gap did not appear to materially widen in favour of imports over that period. This also appears consistent with the ADC's extended ABF-based analysis.

On that reasoning, dumping-related harm in this market is more likely to present as price pressure than as a distinct volume effect. That is not proof that no volume was lost, and we treat it as evidence that weakens the volume-displacement mechanism, not as evidence that excludes it. The other factors identified in section 9.8 of REP 654, and in particular Simplot's entry, provide a competing explanation for (part of) the observed volume decline. We now turn to these other factors in Section 4.

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<sup>17</sup> A key challenge in the analysis is the limited amount of available data, being limited to the 12 months of the investigation year, particularly once the sample is segmented by MCC and customer group. However, this level of disaggregation is important. Prices differ materially across products, and not all MCCs contain observations for both SPC and the relevant importers. Aggregating across MCCs would therefore risk conflating product-specific pricing dynamics and could introduce bias into the results.

Similarly, controlling for customer groups and seasonality is important given the evidence that both factors have a material influence on pricing outcomes. Omitting these controls would likely produce spurious results, with any apparent relationship between SPC and importer prices reflecting differences in product mix, customer mix, or seasonal pricing patterns rather than a genuine pricing relationship.



## 4 Other injury factors

### 4.1 The ADC considered other potential causes of injury

As we understand it, Section 269TAE(2A) requires that injury caused by other factors not be attributed to dumped or subsidised imports, and REP 654 appropriately considered a range of such factors, including competitive advantages enjoyed by Italian producers, higher domestic raw material and production costs, increased domestic competition and consumer preferences for Italian products. Those are all factors that could, in principle, affect the Australian industry's performance independently of dumping.

### 4.2 Other factors need to explain changes in injury, not only background conditions

The reinvestigation should consider how changes in the injury factors would need to occur in order to explain the particular injury observed in the investigation period.

If a factor is relatively stable over the injury period, it may explain the background level of competitive pressure faced by the domestic industry, but it does not necessarily explain a further deterioration in the industry's condition during the investigation period. To explain a "new" loss of sales, market share or profitability, there would ordinarily need to be some change in the operation or intensity of that factor over the relevant period.

#### Consumer preferences illustrate the need for evidence of change over time

Consumer preferences provide a useful example. REP 654 refers to a preference by some consumers for Italian tomatoes because of flavour and origin. That may well be correct, and it may help explain why Italian products had a strong and persistent position in the Australian market. However, to use that factor as an explanation for additional volume loss in the investigation period, it would be useful to identify whether there was evidence that those preferences intensified, became more commercially important, or were expressed differently in purchasing behaviour during the relevant period. Absent such evidence, consumer preference is better understood as part of the market context already reflected in the domestic industry's baseline competitive position, rather than as a sufficient separate explanation for the deterioration in SPC's sales and market share during the investigation period.

#### The same timing issue applies to other asserted causes

That same logic applies more broadly to several of the other factors relied upon by the ADC. If Italian producers had a structural competitive advantage arising from economies of scale or lower costs, that advantage may explain why Italian imports were generally competitive in the Australian market. But to explain a worsening of SPC's position in the investigation period, the analysis would ideally identify whether that competitive advantage had increased, whether it had become more commercially significant, or whether some feature of the market caused it to have a greater effect during the relevant period. Similarly, if domestic raw material costs were higher, that may explain pressure on SPC's margins, but the causation analysis is stronger if it identifies when those costs increased, by how much, and whether the timing of those increases aligns with the deterioration in the injury indicators.



## Higher raw material costs and injury

The ADC also treated increases in raw material and production costs as a relevant other factor. That was appropriate because higher costs can injure the domestic industry independently of dumping. If SPC absorbed those costs, the likely effect would be lower margins and profitability. If SPC attempted to recover them through higher prices, the possible effect would be reduced volumes.

The causation issue is whether that cost-driven injury should be attributed to dumping. In principle, it should not be. Dumping becomes relevant only to the extent that it changed SPC's ability to respond to higher costs, for example by preventing SPC from recovering costs through higher prices when it otherwise could have done so.

The analysis should therefore distinguish between:

- injury caused directly by higher costs;
- injury caused by SPC's own commercial response to those costs; and
- any incremental price suppression or margin loss caused by dumping.

In our view, the remedied price analysis provides a practical way to test that distinction. It asks whether Italian imports would still have undercut SPC's prices after removing the dumping and subsidy margins, while leaving SPC's higher cost position as observed. If Italian imports would still have constrained SPC's pricing on that basis – as was found to be the case – then SPC's inability to recover higher costs is not an additional dumping-related loss. It remains part of the injury caused by SPC's higher cost position and other non-dumping market conditions.

## The analysis should distinguish market context from incremental causes of injury

In our view, the reinvestigation can more clearly distinguish between factors that describe the background conditions of competition in the market and factors that changed in a way capable of explaining incremental injury during the investigation period. A stable background feature of the market may help explain why the domestic industry was exposed to competitive pressure, but it does not necessarily explain why injury materially worsened at a particular point in time.

## 4.3 Simplot (Leggo's) entry was highly relevant to separating SPC-specific injury from industry-wide injury

### 4.3.1 Simplot's entry provides a direct domestic-competition explanation

The ADC's analysis of Simplot is particularly important in this context. REP 654 identified Simplot's entry into the Australian market, through the Leggo's brand, as a relevant aspect of increased domestic competition. At face value, that is a highly relevant factor. If SPC's volumes fell by more than total Australian industry volumes, that implies that at least part of SPC's volume loss may have been offset by volumes gained by another domestic producer. That pattern would create a clear risk that injury specific to SPC could be misattributed to dumped imports, rather than being properly identified as a redistribution of sales within the Australian industry.

This point is significant because the statutory question concerns material injury to the Australian industry, not merely injury to SPC in isolation, even though SPC was the largest industry participant and its data were appropriately treated as central to the analysis. If SPC lost sales to another Australian producer, that would not have the same significance for industry-wide volume injury as a loss of sales to dumped imports. It may still affect SPC's profitability, capacity



utilisation and revenue, but it would need to be treated carefully in the causation analysis so that injury caused by domestic competition is not attributed to dumping.

### 4.3.2 The Simplot evidence was helpful but incomplete

The ADC's treatment of this issue was a useful step, but it was subject to important limitations. Simplot did not participate in the investigation and did not provide a full Australian industry questionnaire response (i.e. wholesale data). The ADC therefore relied on other available information, including Woolworths retail scan data provided by Calispa after SEF 654, although it noted that this information had not been verified and related to downstream retail sales rather than wholesale sales between Australian producers and their customers. Its focal items are the Ardmona (SPC's brand) and Leggo's (Simplot's brand) products, and references to Ardmona and Leggo's in the analysis below are to those branded products.

Those limitations mean that the Simplot evidence could not be treated as a complete or precise measure of industry-wide substitution, but it was still probative of a potential domestic-competition mechanism. A further limitation concerns timing: Simplot competed through the Leggo's brand for only about five months of the twelve-month investigation period, so, consistent with the ADRP's observation at paragraph 31, the actual volumes over that window are the relevant data point, and comparisons drawn across the full period or on an annualised basis would overstate the domestic-competition effect.

### 4.3.3 The use of the Woolworths data

The causation question can be further assessed using the Woolworths' data, and the reinvestigation can go further than the explicit use of the analysis set out in Figures 29, 30, 31 and 32 of REP 654. Those figures showed several relevant features of the Woolworths data:

- Ardmona's weekly sales volumes<sup>18</sup> for 400g cans<sup>19</sup> fell after Leggo's entered the market;
- Ardmona's weekly volumes<sup>20</sup> were lower than in the corresponding weeks of the previous year after Leggo's entry;
- Calispa's submission suggested that later periods in which Ardmona exceeded prior-year volumes were associated with Ardmona discounting; and
- Ardmona retail prices reduced before and around Leggo's entry.

The ADC said the Woolworths data was significant because it showed Ardmona sales fell after Leggo's entered the market, while Leggo's sales increased, supporting the conclusion that increased domestic competition contributed to SPC's injury.

### Sales values vs physical volumes

In the course of our review of REP 654, we identified that Calispa, and in turn the ADC, incorrectly interpreted sales data as physical sales volumes rather than as sales revenues. That resulted in (i) overstating both the sales volumes for Ardmona and Leggo's and (ii) presented an inaccurate picture of changes in volumes and changes in sales value can reflect changes in price. In the following analysis, we make the necessary adjustments (dividing sales values by unit prices to derive quantities), which highlights that:

<sup>18</sup> Note that Calispa and the ADC actually presented sales values rather than sales volumes.

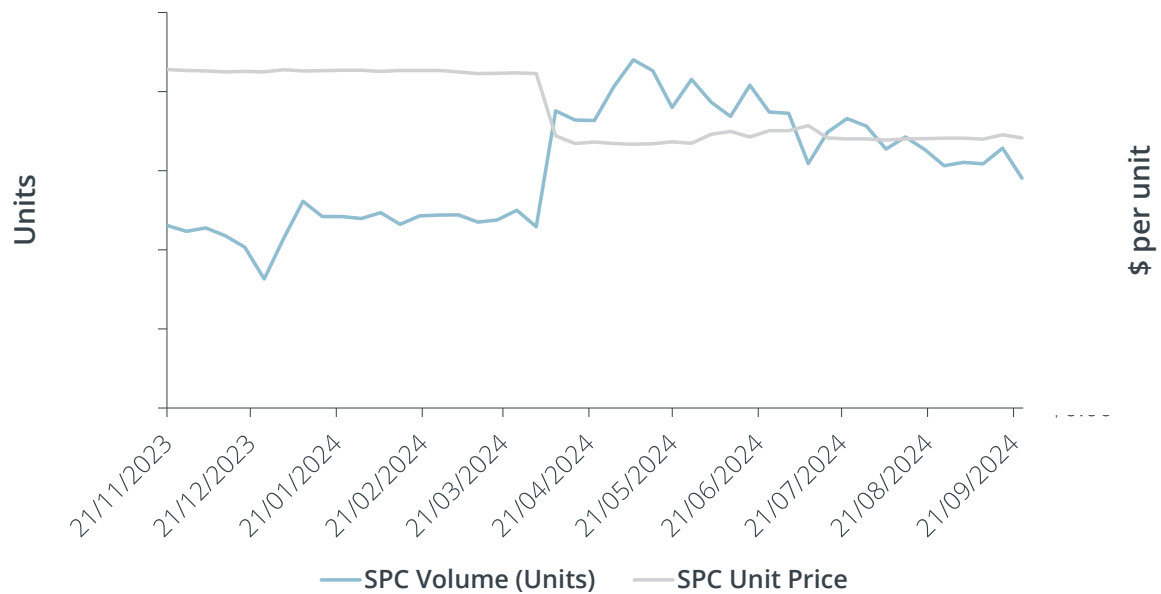
<sup>19</sup> This was confirmed in the reinvestigation.

<sup>20</sup> As above.



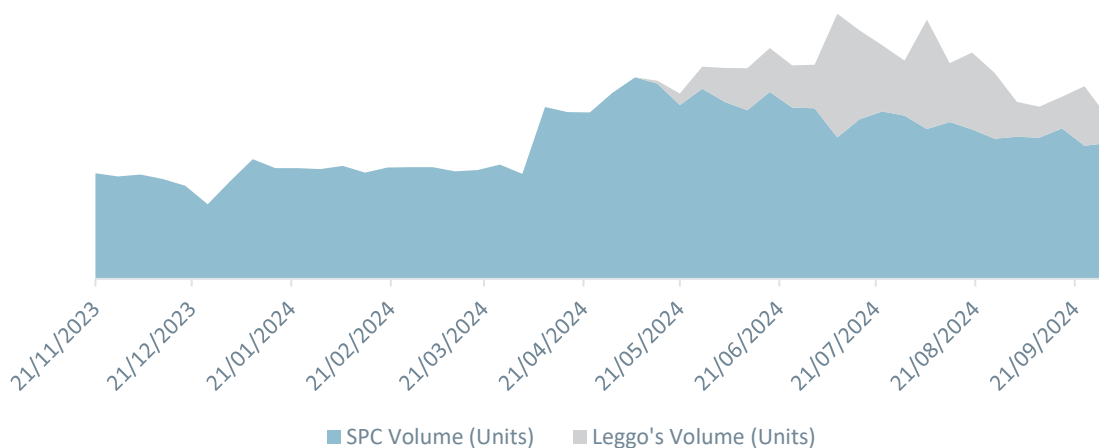
- Ardmona's sales volumes at Woolworths increased over the investigation period as a whole, with the pre-Leggo's increase primarily driven by a reduction in Ardmona's unit price, although Ardmona's volumes declined after Leggo's entry (Figure 10); and
- After Leggo's entry (the last 5 months of the investigation period), total volumes for Ardmona and Leggo's increased, with additional Leggo's volumes being more than sufficient to cover the decline in Ardmona sales (Figure 11).

**Figure 10: SPC volumes and unit prices**



Source: Frontier Economics

**Figure 11: Sales volumes during the investigation period, Woolworths**



Source: Frontier Economics



### Relative Ardmona and Leggo's prices help explain Woolworths volume patterns

Simple correlations of prices and quantities highlight the basic economic relationships between the products. Own price-volume correlations for Ardmona and for Leggo's are very high – lower prices appear to drive increased volumes ([confidential - correlation coefficients]). The cross-price-effects also have the expected signs, with higher prices of Ardmona (Leggo's) increasing volumes of Leggo's (Ardmona).

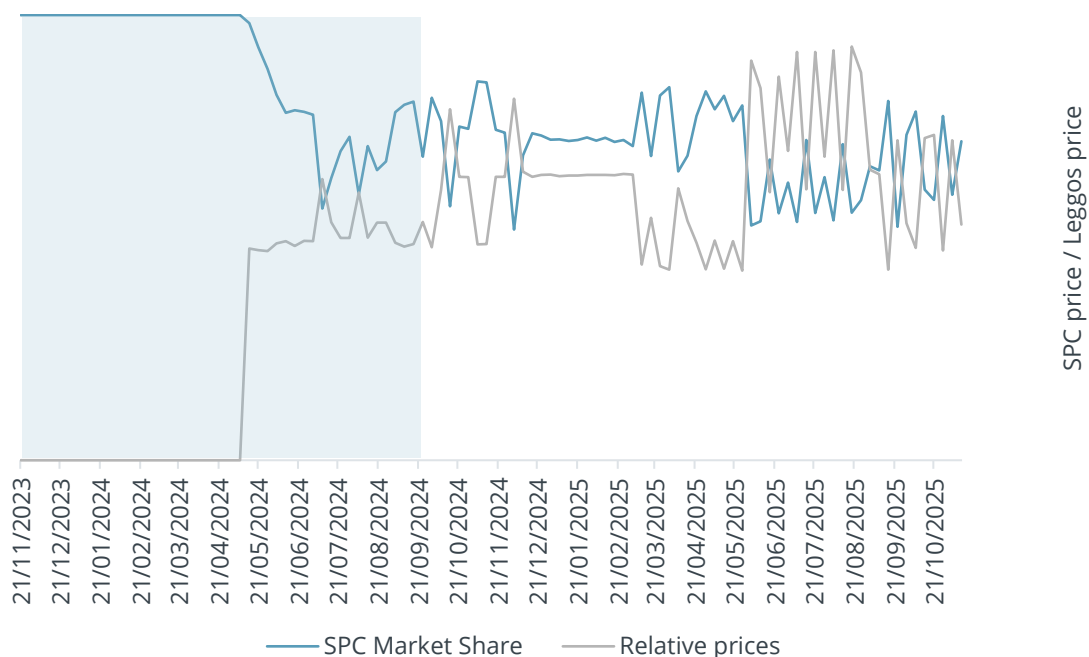
**Table 2: Correlation matrix for SPC and Leggo's, full data period**

|                                   | [confidential - product A] volume | [confidential - product A] price | [confidential - product B] volume | [confidential - product B] price |
|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| [confidential - product A] volume | 1.00                              |                                  |                                   |                                  |
| [confidential - product A] price  | [confidential ]                   | 1.00                             |                                   |                                  |
| [confidential - product B] volume | [confidential ]                   | [confidential ]                  | 1.00                              |                                  |
| [confidential - product B] price  | [confidential ]                   | [confidential ]                  | [confidential ]                   | 1.00                             |

Source: Frontier Economics analysis of supplied Woolworths data

For further reference, we have also recalculated the change in volume shares, and mapped this to relative prices (Ardmona price / Leggo's price). This is shown as Figure 12. This highlights the very strong relationship between relative prices and Ardmona's domestic market share at Woolworths, including during the investigation period (highlighted in blue).

**Figure 12: Ardmona domestic market shares and relative prices (SPC / Leggos)**





Source: Frontier Economics

Further testing of the Woolworths data indicates a clear negative relationship between Ardmona's volumes and Ardmona's price relative to Leggo's. In simple terms, Ardmona tended to sell lower volumes when its products became more expensive relative to Leggo's, and higher volumes when that relative price position improved, and these relationships were quantitatively strong.

That relationship is consistent with the qualitative evidence that Leggo's entry created a direct domestic competitive constraint on Ardmona at Woolworths. It also supports the broader point that brand-level substitution can be significant in this market. Customers appear to have been responsive to relative price differences between Ardmona and Leggo's, rather than only to the overall price of the product category.

A log-log price-volume specification provides a useful way to express this relationship.<sup>21</sup> On that basis, over the investigation period, when Leggo's was actually competing, a 10 per cent increase in Ardmona's price relative to Leggo's is associated with an estimated reduction in Ardmona volumes of around [confidential] per cent. Estimated over the longer full period, which is likely to produce a more statistically reliable result, the response is larger, at around [confidential] per cent.

#### **The analysis supports domestic competition as a factor, but not a complete explanation**

Taken together, the ADC's analysis with our adjustments was consistent with Simplot's entry and relative pricing being relevant to Ardmona's performance at Woolworths during the roughly five months of the investigation period in which Leggo's was actually competing, which is the window over which the relevant volume comparison should be made. In our view, the (revised) Simplot evidence supports the ADC's conclusion that increased domestic competition was a relevant other factor. Volume falls for Ardmona using the Woolworths data appear closely tied to Simplot's entry.

However, the results should not be interpreted as a complete explanation for SPC's volume loss. They are based on retail data for Woolworths and relate to sales only for Ardmona and Leggo's. That is relevant because the ADC also noted that total Australian-sourced sales declined while Italian imports increased by 22%<sup>22</sup>, so Simplot's entry cannot be treated as a complete explanation for SPC's volume loss if the counterfactual was that growth of the domestic industry would track the growth of the total domestic market. The key question is whether SPC's lost volumes were reallocated within the Australian industry, captured by Italian-origin products in a growing market, or explained by both effects.

## **4.4 Testing whether each other injury factor changed materially**

In our view, the reinvestigation can test each major alternative factor by asking two questions:

- First, was the factor relevant in principle?
- Second, was there evidence that it changed over the relevant period in a way that could explain the observed injury?

For example, in the case of consumer preferences, that might involve evidence of changing retail mix, changed purchasing patterns, stronger premiums for Italian-labelled products, or some

<sup>21</sup> See regression results in Appendix A.

<sup>22</sup> REP 654, section 9.8.3, p. 129.



other shift in demand toward Italian origin. In the absence of that type of evidence, consumer preference may be better understood as part of the market context within which dumping occurred, rather than as a sufficient separate explanation for the deterioration in SPC's sales and market share during the investigation period.

The reinvestigation should apply a similar discipline both factor by factor and cumulatively. Even if no single other factor explains the observed injury, the combined operation of stable competitive advantage, cost pressure, domestic competition and consumer preferences may still explain the observed outcomes, but (as also suggested by the ADRP) the cumulative conclusion should be stated and supported rather than assumed.



## 5 Factors relevant to determining material injury

### 5.1 Approach in REP 654

The ADC concluded that SPC and the Australian industry experienced injury across the main indicators considered earlier in this report, including sales volume, market share, prices, profitability, revenue, return on investment and capacity utilisation. However, the ADC was not satisfied that the dumping and subsidisation of Italian imports had caused, or were causing, material injury to the Australian industry. Its conclusion rested on the view that much of the observed injury was more readily explained by the other factors discussed in this chapter, including the continuing competitive advantage of Italian imports even after remedying the dumping and subsidy margins, higher domestic production costs, increased domestic competition and consumer preferences for Italian products.

In our view, that reasoning addressed the causation question, but the reinvestigation can draw a clearer distinction between two related propositions:

- first, whether any injury was causally related to dumping and/or subsidisation; and
- secondly, whether the injury so caused was material.

### 5.2 Guidance from the Ministerial Direction

The *Ministerial Direction*, the key issues from which are reproduced in the Dumping and Subsidy Manual at section 4.2, states that the injury caused by dumping or subsidisation must be material in degree, must be greater than the normal ebb and flow of business, and that injury caused by other factors must not be attributed to dumping or subsidisation. Dumping or subsidisation need not be the sole cause of injury.

Neither the Direction nor the Manual prescribes an order of analysis, but in our view these requirements are most usefully applied as a sequential inquiry. Applied here, that means the analysis should first identify the injury properly attributable to dumping or subsidisation after excluding other causes, and then assess whether that residual dumping-related injury is material.

### 5.3 From non-negligible injury to material injury

The ADRP asks that the reinvestigation provide reasoned analysis regarding the relationship between the finding that the injury was not negligible and the finding that it was not material, and asks that the analysis address the guidance that no threshold amount has general application.

As we understand it, in REP 654 the Commissioner was not satisfied that the injury caused by exports from Italy was negligible, and so did not terminate the investigation under subsections 269TDA(13) and (14). The Commissioner was also not satisfied that the dumping and subsidisation caused material injury. Our analysis is directed to assisting the Commissioner to reinvestigate the latter question.



## 5.4 What the level of the dumping margins implies

REP 654 records dumping margins of 2.2 per cent for Mutti, 3.0 per cent for IMCA, 3.6 per cent for residual exporters, 5.5 per cent for De Clemente and 11.1 per cent for uncooperative exporters, with a negative margin of 8.8 per cent for La Doria. Subsidy margins were negligible for all exporters other than non-cooperative entities. Chapter 9.3 characterises the margins only as above negligible levels. The reinvestigation request asks what weight that observation carried in the materiality conclusion.

In our view, there are two relevant points from the dumping margins:

1. First, a dumping margin sets an upper bound on the price effect of dumping rather than measuring the effect itself. Adding back a margin of 3 per cent to an import price would only be expected to increase domestic prices by at most 3 per cent, and this is the basis for the remedied price analysis. The extent to which the remedied price feeds through to SPC's price depends on whether SPC can raise its own selling price to retailers by a corresponding amount. Because SPC sells to a small number of large retailers, those buyers have bargaining power and may resist part of any such increase, so SPC may recover less than the full margin in its wholesale prices. Some pass-through into SPC's wholesale prices would nonetheless be expected. The effect on SPC's prices, and in turn on its volumes and profitability, is therefore likely to be smaller than the dumping margin itself.
2. Second, margin size cannot be decisive on its own, in either direction. The Ministerial Direction states that no threshold amount has general application. A small margin in a price-sensitive market with thin processing margins can produce a material effect. A larger margin in a market where the imported and domestic goods are weak substitutes may not. What matters in this case is the margin relative to the price gap it is said to explain. Information supplied to us by the ADC indicates that across all tiers over the investigation period, Italian export prices were 76 to 78 per cent of the Australian industry price, so they undercut by between 22 and 24 per cent. The weighted average dumping and subsidy margin adds 3 per cent to the Italian price, leaving a remedied gap. On the ADC's own figures, dumping and subsidisation therefore account for around 3 percentage points of a 22 to 24 percentage point price gap. That comparison does not resolve materiality by itself, but it does establish the order of magnitude in issue.

## 5.5 Price-related injury and materiality

### 5.5.1 Concepts of materiality and three benchmarks

The remedied price analysis discussed in section 3.4 appears to have identified some price-related injury to SPC from dumping and subsidisation. This section sets out factors relevant to determining whether that price-related injury, considered after excluding injury caused by other factors, was material. REP 654 explains why other factors accounted for much of the observed injury, but it is less explicit on whether the remaining dumping-related price injury was itself more than immaterial, insubstantial or insignificant.

Materiality is ultimately a matter of judgement for the ADC in light of the requirements of the Ministerial Direction. In our view, that judgement can be assisted by testing the estimated dumping-related effect against three benchmarks. The benchmarks are intended to give practical content to the Ministerial Direction, discussed in section 2.2, which does not prescribe a threshold and makes clear that the assessment is fact specific. The benchmarks below are our interpretation, developed in light of the specific circumstances and evidence of this case, and not



intended as generally applicable thresholds or precedents for the assessment of material injury in other investigations.

**Table 3: Possible benchmarks for assessing the materiality of dumping-related injury**

| Benchmark                            | Element it addresses                                                                                                                                                                                                       | Requirement in the Ministerial Direction                                                                                                           |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Normal variation in returns       | Is the estimated dumping-related effect material compared with the ordinary range of variation in profits, margins, volumes, return on investment and market share, measured at a frequency suited to a seasonal industry? | Injury must be more than immaterial, insubstantial or insignificant, and greater than that likely to occur in the normal ebb and flow of business. |
| 2. Share of total injury             | What proportion of the total deterioration observed over the injury analysis period is attributable to dumping and subsidisation?                                                                                          | Dumping or subsidisation need not be the sole cause of injury. The portion attributable to it must itself be material in degree.                   |
| 3. Effect on viability and condition | Did the effect turn profits into losses, deepen existing losses, or materially reduce return on investment or capacity utilisation?                                                                                        | An industry weakened by other events may suffer material injury from a level of dumping that might not otherwise have that effect.                 |

Source: Frontier Economics

Three points of application are worth drawing out.

- On the first benchmark, we suggest that the comparison should be made at a frequency suited to the industry, and the estimated dumping-related effect is isolated from other causes before it is applied. The ordinary range of variation used as the yardstick reflects fluctuations from causes other than dumping. In practice, this range is estimated from historical returns that may themselves contain some dumping, so it is used as a practical proxy. The benchmark does not treat dumping as part of ordinary variation. It asks whether the isolated dumping effect is large or small relative to the variation the business ordinarily experiences.
- On the second benchmark, the estimated effect can be expressed either against the total deterioration recorded in the investigation period or the injury examination period.
- The third benchmark highlights that an examination of existing circumstances of firms in the industry is also relevant.

## 5.5.2 Application of the benchmarks to SPC's returns

The materiality test concerns injury to the Australian industry as a whole, not to SPC alone. In practice the returns analysis emphasises SPC, because it is the largest Australian producer and the producer for which verified sales and cost data are available. As we understand it, Simplot did not provide returns data and SAFCOL provided revised data (from that documented in REP 654) on sales and costs but this was not subject to verification.



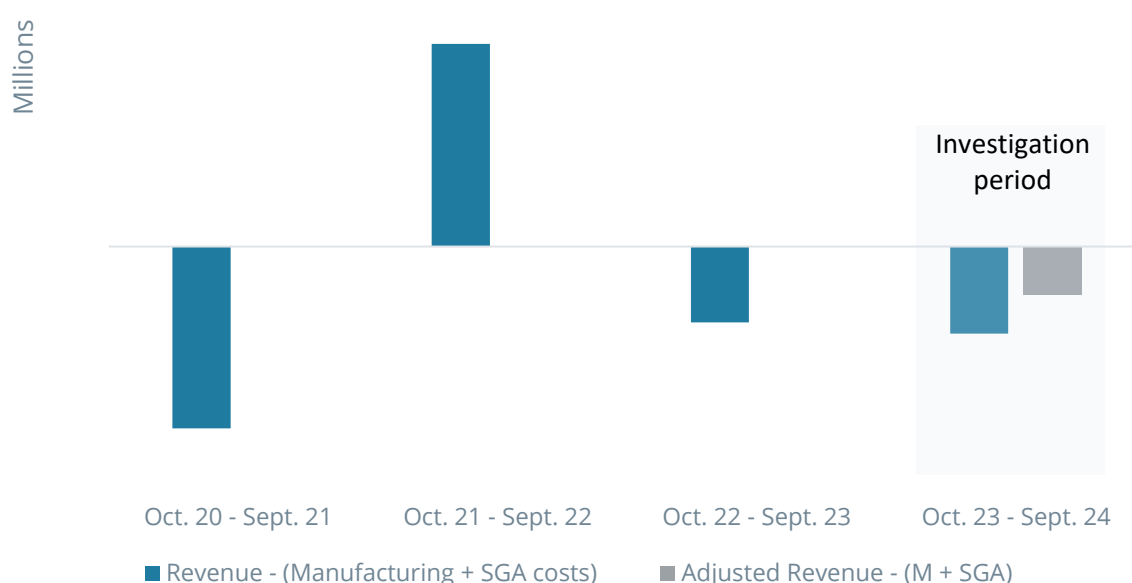
The ADC has available to it sales and cost data from SPC covering the injury and investigation periods.<sup>23</sup> We have used the data to estimate the returns to SPC's production and sales of the like goods (CTMS data for 425g and 825g cans combined).

For the purposes of our analysis, we focus on an accounting measure of profit, being revenue less cost of goods sold and sales, distribution and general administration costs.<sup>24</sup>

We also note that while the accounting returns data is available quarterly, figures shown at that frequency include large movements between positive and negative outcomes. That variation largely reflects the concentration of tomato processing in a short seasonal window and significant changes in inventory, so quarterly outcomes move for reasons unrelated to dumping. Against that background, the effect of a remedied price adjustment is relatively small. We therefore aggregate the data into years (Figure 13) (Oct-Sep year).

Figure 13 reports SPC's annual results for the four years to September. Those four years span the injury examination period, which began on 1 October 2020. We also include an estimate of profits if the 3% counterfactual price margin were fully passed through to prices received by SPC – this provides the estimate of returns without dumping or subsidisation.

**Figure 13: Estimates of annual accounting profits**



Source: Frontier Economics analysis of A6.1, CTMS domestic 425\_825adj, and A.7.

On the accounting measure, SPC was loss-making in three of the four years of the injury examination period. The estimated effect of dumping and subsidisation on SPC's result is around

<sup>23</sup> Appendix A6.1.

<sup>24</sup> This measure does not reflect the opportunity cost of the capital SPC employs. In our view, it would be preferable to estimate an economic measure of profits, which would account for a return on assets or capital employed. Economic measures account for a producer needing to earn a return on the capital it employs to fund the ongoing operations and investments in the business, and so accounting returns will understate the true costs of business operation (and overstate profits). However, calculating assets or capital employed is complex where assets are used to manufacture a number of different goods. We note that SPC did provide an estimate of 'return on investment' for like goods, calculated as EBITDA/Sales (Appendix 7). However, return on sales measures have no specific link to economic returns, and are primarily useful for cross-firm or over-time comparisons of returns.



[confidential - estimated effect] (on sales of around [confidential - sales value] in the investigation period). Against the three benchmarks, the effect is small relative to the normal variation in SPC's returns, accounts for a moderate share of SPC's losses, and does not change SPC's loss into a profit (discussed in Table 4).

**Table 4: Materiality benchmarks applied to SPC's accounting returns**

| Benchmark                            | Result on the accounting measure                                                                                                                                       | Bearing on materiality                                                                                                                                                                 |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Normal variation in returns       | Annual changes in profit were [confidential] (2021 to 2022), [confidential] (2022 to 2023) and [confidential] (2023 to 2024).                                          | The [confidential - estimated effect] effect is relatively small compared to changes in earlier years, i.e. the effect appears to sit inside SPC's ordinary range of annual variation. |
| 2. Share of total injury             | [confidential - estimated effect] is around 27% of the [confidential] in cumulative accounting losses over the injury period and 45% of the investigation period loss. | The effect is a moderate share on either denominator.                                                                                                                                  |
| 3. Effect on viability and condition | Remedying the margins reduces the investigation period loss from [confidential] to [confidential].                                                                     | The effect does not turn the loss into a profit; SPC would have been loss-making regardless.                                                                                           |

Source: Frontier Economics

Taken together, our view is that, on the accounting measure, the estimated effect is small on two of the three benchmarks, and would be smaller again relative to SPC's losses once allowance is made for a key economic cost omitted from that measure: the opportunity cost of capital.<sup>25</sup>

With respect to the data provided by SAFCOL, on the available figures it appears to have reported a net loss during the investigation period. This is consistent with the loss-making result for SPC and indicates that the difficult trading conditions extended beyond SPC to another Australian producer. Because the SAFCOL data was revised and has not been verified, we treat this as indicative and subject to confirmation by the ADC.

### 5.5.3 The timing of the deterioration in SPC's returns

A final point concerns the timing of the deterioration. The injury examination period runs from 1 October 2020, but dumping margins were calculated only for the investigation period of 1

<sup>25</sup> Noting the caveats we express earlier, we can use like-good asset values from Appendix A7 to obtain a return on assets of [confidential] during the investigation period. When adjusted for the remedied price that return would increase to [confidential]. Both figures are well below the cost of funds for SPC, which in our judgement would be in the range of 8-14%.



October 2023 to 30 September 2024. On the annual figures in Figure 13, the deterioration was not spread evenly across the injury examination period. SPC's profits deteriorated in the year October 2022 to September 2023, and then declined marginally in the year to September 2024. Most of the deterioration on which the injury case rests therefore occurred in the year to September 2023, before the period for which dumping was measured.

The evidence on SPC's returns indicates a mismatch between the injury and the evidence of dumping. The available data does not establish the level of dumping in the year in which the deterioration actually occurred. Within the investigation period itself, SPC's result was close to flat, so the year in which dumping was measured is not the year in which the industry's position deteriorated. The timing gap adds to the difficulty of attributing the observed injury to dumping, over and above the materiality benchmarks set out above.

## 5.6 Significance of volume-related injury

On the evidence available to us, our analysis does not provide strong evidence of a separate source of volume-related injury caused by dumping, as distinct from other factors. The pricing analysis indicates that import and domestic prices moved closely enough together that there was limited change in the relative price signal that would ordinarily drive switching from SPC to imported products. In those circumstances, any volume loss operating through this transmission channel is likely to have been small. Put another way, while dumping and subsidisation may have contributed to price pressure, the available pricing evidence does not suggest a distinct volume effect of more than a small size, once the effects of other factors are considered.

## 5.7 Do other indicators show a separate dumping-related effect?

On injury indicators other than profit, REP 654 chapter 9.7 records that the Commissioner was satisfied SPC experienced injury in the form of lower revenue, reduced return on investment and reduced capacity utilisation (p.118). Indicators such as revenue, profitability, return on investment and capacity utilisation are important evidence of the condition of the industry, but they are largely consequential indicators. They are most naturally affected by dumping if dumping causes lower prices, lower volumes, or both. In our view, they should therefore be considered in light of the price and volume pathways discussed above, rather than treated as providing a separate indicator in their own right.

On the analysis above, the available evidence provides limited support for treating the consequential injury indicators as reflecting a distinct dumping-related effect, separate from the price and volume mechanisms already considered. The remedied price analysis suggests some dumping-related price effect, while the available relative-price evidence provides only limited support for a separate dumping-related volume-displacement mechanism.

At the same time, the increase in Italian import volumes during the investigation period is not fully or readily explained by the alternative factors considered in REP 654. The better conclusion is therefore not that the consequential indicators are wholly unrelated to dumping or subsidisation, but that the present evidence does not provide a strong basis for attributing those indicators to dumping, as distinct from the combined effects of price pressure, domestic competition, higher costs, consumer preferences and the continuing competitiveness of Italian imports.



## 6 Findings

The findings below set out Frontier Economics' independent conclusions on the causation and non-attribution issues addressed in this report, and on the economic considerations relevant to the ADC's assessment of materiality. They are provided to assist the ADC's reinvestigation of REP 654 and should be read consistently with the scope of this report: they do not constitute, or substitute for, the ADC's reinvestigation report to the ADRP. They should also be read in light of the limitations identified in this report, including gaps in the available data, unverified material from producers other than SPC, the constraints of the Woolworths scan data, the limits of the statistical analysis, and the diagnostic rather than definitive nature of the attribution analysis. These limitations are set out where they arise and are not repeated at each finding below.

### 6.1 Price-related causation and injury

- REP 654 characterises the dumping margins only as above negligible levels but it is helpful to explain what weight that should carry in the materiality conclusion. On the ADC's figures at chapter 9.9.1, the weighted average dumping and subsidy margin accounts for around 3 percentage points of a price gap of 22 to 24 per cent. The significance of this is that dumping and subsidisation explain only a small part of the price gap. A dumping margin sets an upper bound on the price effect, not the effect itself, and the effect on SPC's own prices is smaller again once substitution between the goods and retail pass-through are taken into account.
- The remedied price analysis in section 3.4 shows that removing the margins leaves a gap of 9.4 to 20.4 percentage points (REP 654, p.140), so most of the undercutting reflects factors other than dumping, though a small price effect could still be material to volumes in a price-sensitive market. On that basis, and against the three benchmarks set out in section 5.5, the price-related injury attributable to dumping was small.

### 6.2 Volume-related causation and injury

- Domestic industry volumes fell over the injury period, by around 24 per cent, while total market demand was flat and Italian import volumes rose. What drove that fall is not clear from the data: the dumping and subsidy margins are small and the prices of domestic and imported goods moved together, so neither points to dumping as the main cause of the volume loss. We have sought to determine whether there is additional volume injury (to the price-related injury), but on the evidence available to us we do not find strong evidence of additional volume injury caused by dumping. The available data do not appear to support a complete formal model of additional volume-related injury and causation. In particular, estimating volume effects would require sufficiently frequent and consistent data on prices, volumes, costs, promotions, product mix, customer mix, retailer ranging decisions and other variables that may affect switching between brands or origins. Such data cannot readily be obtained.
- In addition, there are particular "identification" challenges for more empirical analysis. If import and domestic prices moved broadly together, or if major changes such as Simplot's entry occurred at the same time as changes in SPC's volumes, it becomes difficult to isolate the independent effect of dumping-related price changes.
- It is possible to further consider whether changes in relative import and domestic prices support a further volume injury channel. Our analysis of SPC and importer prices shows that imports were consistently priced below SPC, but the relative price gap did not widen



materially over the investigation period, and SPC prices largely moved with importer prices (although on a less than proportionate basis). The relative price signals that would ordinarily drive switching from SPC to imported products were therefore weak, limiting the support for a volume effect separate from price pressure. Our conclusion on volume-related injury in section 5.6 reflects the domestic and importer sales and volume data available to us.

### 6.3 Other factors and non-attribution

- In REP 654 the ADC considered other potential causes of injury, including higher domestic costs, increased domestic competition, consumer preferences and the continuing competitiveness of Italian imports. The main challenge for the reinvestigation is to determine whether changes in these variables likely caused injury as opposed to being relevant background factors.
- The ADC identified Simplot's entry during the investigation period as a relevant domestic-competition factor. This was important, because it helped distinguish SPC-specific injury from injury to the Australian industry as a whole. We find that the Simplot evidence is probative but is also incomplete. Our further analysis confirms that the available Woolworths data indicates strong substitution between SPC and Leggo's, and that part of SPC's sales decline after Leggo's entry appears consistent with substitution to Leggo's rather than dumping.

### 6.4 The materiality of injury

- The conclusion on whether any dumping-related injury is material is ultimately a matter for the ADC's reinvestigation report and requires the exercise of judgement. Our role was to identify the economic considerations that may assist the ADC in making that judgement.
- On the analysis in section 5 relating to SPC's profits, we consider three materiality benchmarks – relative to yearly variations, the size of total injury, and material changes to economic conditions. On balance, the injury due to dumping and/or subsidisation were small relative to yearly variation in SPC's returns and did not change SPC's loss-making position, although it accounted for a moderate share of SPC's total losses.
- The timing of the observed deterioration in SPC's returns is a further constraint. Much of the deterioration on which an injury case rests occurred in the year to September 2023, before the investigation period for which dumping margins were calculated. Because dumping is measured only in that later period, the evidence does not clearly establish the level of dumping in the year the deterioration actually occurred, which makes attribution to dumping harder.

## A Regression results on SPC/Leggo's data

This appendix reports a simple regression estimated on weekly Ardmona and Leggo's price and volume data. Its purpose is to test how responsive Ardmona's sales volumes were to changes in Ardmona's price relative to Leggo's price. That question is relevant to section 4.3, which considers whether Simplot's entry through Leggo's provides a domestic-competition explanation for part of SPC's volume decline.

The specification regresses the natural logarithm of Ardmona's weekly volume on the natural logarithm of the ratio of Ardmona's price to Leggo's price. In a log-log form the estimated coefficient on relative price can be read directly as an elasticity, that is, the percentage change in Ardmona volume associated with a one per cent change in relative price. The regression is estimated over the two windows shown in the table below.

**Table 5: Price elasticity of SPC volume with respect to the SPC and Leggo's relative price**

| LOG-LOG REGRESSION: Price Elasticity of Demand                                                                                             |                                  |                                              |                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------|------------------------------------------------------------------------------|
| $\ln(\text{Ardmona Volume}) = \beta_0 + \beta_1 \times \ln(\text{Relative Price}) \rightarrow \beta_1 = \text{Price Elasticity of Demand}$ |                                  |                                              |                                                                              |
| Statistic                                                                                                                                  | Full Period<br>(May'24 - Nov'25) | Investigation<br>Period<br>(May'24 - Sep'24) | Interpretation                                                               |
| Observations<br>(n)                                                                                                                        | 79                               | 20                                           | Number of weeks with valid price data                                        |
| Elasticity ( $\beta_1$ )                                                                                                                   | [confidential]                   | [confidential]                               | % change in Ardmona volume for 1% increase in relative price                 |
| Intercept ( $\beta_0$ )                                                                                                                    | [confidential]                   | [confidential]                               | $\ln(\text{Ardmona Volume})$ when relative price = 1 ( $\ln(1) = 0$ )        |
| R-squared ( $R^2$ )                                                                                                                        | [confidential]                   | [confidential]                               | Proportion of $\ln(\text{Volume})$ variance explained by $\ln(\text{Price})$ |
| Std Error of Estimate                                                                                                                      | 0.220                            | 0.093                                        | Average deviation of actual from predicted $\ln(\text{Volume})$              |
| T-statistic (elasticity)                                                                                                                   | -11.53                           | -2.99                                        | Measures statistical reliability of elasticity estimate                      |
| P-value (elasticity)                                                                                                                       | 0.000                            | 0.008                                        | Probability that elasticity = 0 (no relationship)                            |
|                                                                                                                                            | Highly Significant               | Highly Significant                           |                                                                              |
| Significance                                                                                                                               | (p<0.01)                         | (p<0.01)                                     | Statistical conclusion based on p-value                                      |

Source: Frontier Economics analysis of Ardmona and Leggo's price and volume data

Over the full period the estimated elasticity is [confidential] and it is significant at the one per cent level. A one per cent increase in Ardmona's price relative to Leggo's is associated with a [confidential] per cent fall in Ardmona's volume. Demand for Ardmona is therefore elastic with respect to the Ardmona and Leggo's relative price, which indicates that customers switched



readily between the two domestic brands. The relative price term explains [confidential] per cent of the variation in Ardmona's volume over this window.

Over the shorter investigation period window the estimated elasticity is [confidential], again significant at the one per cent level ( $t = -2.99$ ), but based on only 20 observations. The lower coefficient and the lower R-squared of [confidential] per cent are consistent with the volatility that accompanied Leggo's entry and with the smaller number of observations available.

Two points follow for the analysis in the body of this report. First, Ardmona's volumes were materially responsive to relative price movements against a domestic competitor. That supports treating Simplot's entry as a substantive explanation for part of SPC's volume decline, rather than as a background market condition. Second, the responsiveness estimated here is to the Ardmona and Leggo's relative price, not to the price of Italian imports. The result does not measure any volume effect of dumped imports and we do not use it for that purpose.

The regression is a diagnostic rather than a full attribution model. It contains a single explanatory variable and no controls for product mix, seasonality, retailer ranging decisions or total category demand. Prices and volumes are also likely to be jointly determined, so the estimated elasticity should not be read as a causal parameter. The results are best read alongside the qualitative evidence on domestic competition in section 4.3.

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